BLOM BANK SAL

CONSOLIDATED
FINANCIAL STATEMENTS

31 DECEMBER 2014

EY
Building a better working world

Ernst & Young p.c.c.
Commerce & Finance Building
1st Floor, Kantari, Beirut
P.O. Box: 11-1639, Riad el Solh
Beirut - 1107 2090, Lebanon
Tel: +961 1 760 800
Fax: +961 1 760 822/3
beirut@lb.ey.com
ey.com/mena
C.R. 61

SG SEMAAN, GHOLAM & CO.

Semaan, Gholam & Co.
Gholam Building, Sioufi Street
Beirut
P.O.Box: 11-0558, Riad el Solh
Beirut - 1107 2050, Lebanon
Tel: (01) 323676
Fax: (01) 204142
siman@inco.com.lb
C.R. 90

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BLOM BANK SAL

We have audited the accompanying consolidated financial statements of BLOM Bank SAL (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young
Ernst & Young

Semaan, Gholam & Co.

20 March 2015
Beirut, Lebanon

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2014

	Notes	*2014* *LL million*	*2013* *LL million*
Interest and similar income	7	**2,165,229**	2,015,256
Interest and similar expense	8	**(1,313,692)**	(1,218,898)
Net interest income		**851,537**	796,358
Fee and commission income		**259,624**	222,905
Fee and commission expense		**(42,422)**	(38,618)
Net fee and commission income	9	**217,202**	184,287
Net gain from financial instruments at fair value through profit or loss	10	**101,157**	136,946
Net gain from derecogniton of financial assets at amortized cost	11	**40,441**	70,277
Revenue from financial assets at fair value through other comprehensive income	25	**1,460**	290
Other operating income	12	**18,770**	18,215
Total operating income		**1,230,567**	1,206,373
Net credit losses	13	**(62,207)**	(106,541)
Write-back of provision on other financial assets		**-**	1,317
Net operating income		**1,168,360**	1,101,149
Personnel expenses	14	**(288,284)**	(264,108)
Other operating expenses	15	**(169,273)**	(151,044)
Depreciation of property and equipment	26	**(31,057)**	(30,227)
Amortization of intangible assets	27	**(1,609)**	(1,681)
Total operating expenses		**(490,223)**	(447,060)
Operating profit		**678,137**	654,089
Net gain on disposal of fixed assets		**558**	256
Profit before tax		**678,695**	654,345
Income tax expense	16	**(128,796)**	(123,045)
Profit for the year		**549,899**	531,300
Attributable to:			
Equity holders of the parent		**532,859**	520,763
Non-controlling interests		**17,040**	10,537
		549,899	531,300
		LL	*LL*
Basic/diluted earnings per share attributable to equity holders of the parent for the year	17	**2,416**	2,377

The accompanying notes 1 to 52 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2014

	2014 *LL million*	*2013* *LL million*
Profit for the year	**549,899**	531,300
Other comprehensive loss to be reclassified to consolidated income statement in subsequent periods:		
Exchange differences on translation of foreign operations	**(51,376)**	(94,751)
Other comprehensive gain not to be reclassified to consolidated income statement in subsequent periods:		
Net unrealized gain from financial assets at fair value through other comprehensive income	**498**	406
Other comprehensive loss for the year	**(50,878)**	(94,345)
Total comprehensive income for the year	**499,021**	436,955
Attributable to:		
Equity holders of the parent	**494,232**	458,671
Non-controlling interests	**4,789**	(21,716)
	499,021	436,955

The accompanying notes 1 to 52 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	Notes	*2014* *LL million*	*2013* *LL million*
Assets			
Cash and balances with central banks	18	**13,150,549**	9,847,077
Due from banks and financial institutions	19	**4,574,988**	4,423,450
Loans to banks and financial institutions	20	**95,288**	103,758
Derivative financial instruments	21	**109,234**	62,611
Financial assets at fair value through profit or loss	22	**792,580**	944,261
Net loans and advances to customers at amortized cost	23	**10,383,611**	9,536,401
Net loans and advances to related parties at amortized cost	46	**32,679**	28,422
Debtors by acceptances		**141,170**	88,202
Financial assets at amortized cost	24	**12,035,929**	13,613,542
Financial assets at fair value through other comprehensive income	25	**7,305**	6,450
Property and equipment	26	**619,625**	536,036
Intangible assets	27	**2,490**	2,941
Assets obtained in settlement of debt	28	**19,889**	23,514
Other assets	29	**154,227**	148,596
Goodwill	30	**52,214**	53,833
Total assets		**42,171,778**	39,419,094
Liabilities and equity			
Liabilities			
Due to central banks	31	**384,895**	108,590
Repurchase agreements	31	**-**	36,396
Due to banks and financial institutions	32	**641,301**	786,036
Derivative financial instruments	21	**92,621**	71,340
Financial liabilities at fair value through profit or loss	33	**-**	3,032
Customers' deposits at amortized cost	34	**35,998,926**	33,873,830
Deposits from related parties at amortized cost	46	**189,913**	151,042
Engagements by acceptances		**141,170**	88,202
Other liabilities	35	**772,496**	618,869
Provisions for risks and charges	36	**147,378**	140,911
Total liabilities		**38,368,700**	35,878,248
Equity			
Share capital - common shares	37	**258,000**	258,000
Share capital - preferred shares	37	**24,000**	24,000
Share premium on common shares	37	**374,059**	374,059
Share premium on preferred shares	37	**277,500**	277,500
Non distributable reserves	38	**922,217**	812,269
Distributable reserves	39	**488,109**	449,463
Treasury shares	40	**(165,020)**	(87,199)
Retained earnings	41	**1,115,464**	917,522
Revaluation reserve of real estate	42	**14,727**	14,727
Change in fair value of financial assets at fair value through other comprehensive income	43	**498**	-
Foreign currency translation reserve		**(138,560)**	(99,095)
Profit for the year		**532,859**	520,763
Equity attributable to equity holders of parent		**3,703,853**	3,462,009
Non-controlling interests		**99,225**	78,837
Total equity		**3,803,078**	3,540,846
Total liabilities and equity		**42,171,778**	39,419,094

The consolidated financial statements were authorized for issue in accordance with a resolution of the board of directors on 20 March 2015 by:

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

The accompanying notes 1 to 52 form part of these consolidated financial statements.

BLOM Bank SAL

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

2014

	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 2014	258,000	24,000	374,059	277,500	812,269	449,463	(87,199)	917,522	14,727	-	(99,095)	520,763	3,462,009	78,837	3,540,846
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	532,859	532,859	17,040	549,899
Other comprehensive loss	-	-	-	-	-	-	-	-	-	498	(39,125)	-	(38,627)	(12,251)	(50,878)
Total comprehensive income	-	-	-	-	-	-	-	-	-	498	(39,125)	532,859	494,232	4,789	499,021
Appropriation of 2013 profits	-	-	-	-	104,976	38,642	-	198,517	-	-	-	(342,135)	-	-	-
Dividends distributions (note 45)	-	-	-	-	-	-	-	-	-	-	-	(178,630)	(178,630)	-	(178,630)
Adjustments related to change in ownership in subsidiaries	-	-	-	-	1	4	-	(3)	-	-	-	2	4	(9)	(5)
Purchase of treasury shares (note 40)	-	-	-	-	-	-	(130,757)	-	-	-	-	-	(130,757)	-	(130,757)
Sale of treasury shares (note 40)	-	-	-	-	-	-	52,936	-	-	-	-	-	52,936	-	52,936
Net gain on sale of treasury shares (note 40)	-	-	-	-	4,971	-	-	-	-	-	-	-	4,971	-	4,971
Non-controlling interest share in capital increase of a subsidiary company	-	-	-	-	-	-	-	-	-	-	-	-	-	16,076	16,076
Non-controlling interest from dividends distributions in a subsidiary company	-	-	-	-	-	-	-	-	-	-	-	-	-	(87)	(87)
Other adjustments	-	-	-	-	-	-	-	(572)	-	-	(340)	-	(912)	(381)	(1,293)
Balance at 31 December 2014	**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**

2013

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

The accompanying notes 1 to 52 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

31 December 2014

	Notes	2014 LL million	2013 LL million
OPERATING ACTIVITIES			
Profit for the year before income tax		**678,695**	654,345
Adjustments for:			
Depreciation of property and equipment	26	**31,057**	30,227
Amortization of intangible assets	27	**1,609**	1,681
Gain on disposal of property and equipment		**(558)**	(256)
Provision for loans and advances to customers, net	13	**62,207**	106,541
Provision for impairment of assets obtained in settlement of debt	28	**1,749**	331
Write-back of provision on other financial assets	24&29	**-**	(1,317)
Provision (write back) for placements with other banks	19	**537**	(4,466)
Net provision for risks and charges		**55,731**	65,874
Loss on disposal of assets obtained in settlement of debt		**149**	149
Net gain from sale of financial assets at amortized cost	11	**(40,441)**	(70,277)
Unrealized fair value gains on financial assets at fair value through profit or loss	10	**(21,890)**	(45,190)
Adjustment relating to prior years		**(912)**	(10,082)
		767,933	727,560
Changes in operating assets and liabilities:			
Balances with central banks		**(2,726,106)**	(2,028,865)
Due from banks and financial institutions		**(357,807)**	928,199
Loans to banks and financial institutions		**8,470**	10,852
Derivative financial instruments – debit		**(46,623)**	(25,529)
Financial assets at fair value through profit or loss		**173,571**	(51,704)
Net loans and advances to customers at amortized cost		**(909,417)**	(572,655)
Net loans and advances to related parties at amortized cost		**(4,257)**	(12,225)
Other assets		**(5,631)**	82
Due to banks and financial institutions		**27,194**	(16,663)
Derivative financial instruments – credit		**21,281**	18,846
Financial liabilities at fair value through profit or loss		**(3,032)**	(19,021)
Customers' deposits at amortized cost		**2,125,096**	1,223,999
Deposits from related parties at amortized cost		**38,871**	(26,334)
Other liabilities		**153,171**	(1,215)
Cash (used in) from operations		**(737,286)**	155,327
Taxes paid		**(124,852)**	(95,191)
Provisions for risks and charges paid		**(45,594)**	(32,228)
Net cash (used in) from operating activities		**(907,732)**	27,908
INVESTING ACTIVITIES			
Financial assets at amortized cost		**1,618,054**	765,600
Financial assets at fair value through other comprehensive income		**(357)**	(86)
Assets obtained in settlement of debt		**1,074**	1,237
Purchase of property and equipment	26	**(146,175)**	(119,860)
Purchase of intangible assets	27	**(1,218)**	(1,041)
Transfer of property and equipment and intangible assets	26&27	**16,758**	-
Cash proceeds from the sale of property and equipment and intangible assets		**3,315**	14,533
Acquisition of a subsidiary		**(5)**	(986)
Net cash from investing activities		**1,491,446**	659,397
FINANCING ACTIVITIES			
Purchase of treasury shares, net		**(77,821)**	(19,897)
Net gain on sale of treasury shares		**4,971**	1,176
Non-controlling interests		**15,608**	7,075
Dividends paid	45	**(178,630)**	(163,357)
Net cash used in financing activities		**(235,872)**	(175,003)
Effect of exchange rate changes		**(44,188)**	(64,385)
Increase in cash and cash equivalents		**303,654**	447,917
Cash and cash equivalents at 1 January		**5,567,941**	5,120,024
Cash and cash equivalents at 31 December	44	**5,871,595**	5,567,941
Operational cash flows from interest and dividends			
Interest paid		**(1,310,943)**	(1,202,426)
Interest received		**2,186,724**	2,030,380
Dividends received		**5,888**	1,717

1 CORPORATE INFORMATION

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

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

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

2 ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

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

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

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

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

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2014. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

2 ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation (continued)

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

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

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

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

2.3 Changes in accounting policies and disclosures

New and amended standards and interpretations
The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2014.

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

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)
These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 *Consolidated Financial Statements* and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32
These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively.

Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required.

IFRIC 21 *Levies*
IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21.

2 ACCOUNTING POLICIES (continued)

2.3 Changes in accounting policy and disclosures (continued)

Annual Improvements *2010-2012 Cycle*
In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 *Fair Value Measurement*. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at 1 January 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial.

Annual Improvements *2011-2013 Cycle*
In the 2011-2013 annual improvements cycle, the IASB issued four amendments to four standards, which included an amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The amendment to IFRS 1 is effective immediately and, thus, for periods beginning at 1 January 2014, and clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements.

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

2.4 Standards issued but not yet effective

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

IFRS 14 *Regulatory Deferral Accounts*
IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the consolidated income statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer, this standard would not apply.

Amendments to IAS 19 *Defined Benefit Plans: Employee Contributions*
IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014.

Annual improvements *2010-2012 Cycle*
These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 2 *Share-based Payment*
This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied

2 ACCOUNTING POLICIES (continued)

2.4 Standards issued but not yet effective (continued)

IFRS 3 *Business Combinations*
The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

IFRS 8 *Operating Segments*
The amendments are applied retrospectively and clarifies that:

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

IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*
The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

IAS 24 *Related Party Disclosures*
The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual improvements *2011-2013 Cycle*
These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

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

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

IFRS 13 *Fair Value Measurement*
The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

IAS 40 *Investment Property*
The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

IFRS 15 *Revenue from Contracts with Customers*
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

2 ACCOUNTING POLICIES (continued)

2.4 Standards issued but not yet effective (continued)

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

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

Amendments to IAS 27: *Equity Method in Separate Financial Statements*
The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

2.5 Summary of significant accounting policies

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

(i) Transactions and balances
Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction.

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

(i) Transactions and balances (continued)

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

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.

(ii) Group companies

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

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

Financial instruments – classification and measurement

(i) Date of recognition

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

(ii) Classification and measurement of financial instruments

a. Financial assets

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

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

Financial assets at amortized cost

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Financial instruments – classification and measurement (continued)

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

a. Financial assets (continued)

Financial assets at amortized cost (continued)
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 derecognition of financial assets at amortized cost" in the consolidated income statement.

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

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

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

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

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

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 fair value through profit or loss (continued)

Equity instruments at fair value through profit or loss (continued)
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 amortised cost or fair value.

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

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

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

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

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 2014, financial liabilities designated at fair value through profit or loss by the Group consist of certain customers' deposits. Financial liabilities designated at amortized cost consist of due to central banks, repurchase agreements, due to banks and financial institutions, and customers' and related parties' deposits.

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

c. Derivatives recorded at fair value through profit or loss
The Group uses derivatives such as futures, currency swaps, forward foreign exchange contracts and equity swaps and options.

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

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.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Financial instruments – classification and measurement (continued)

(iv) Reclassification of financial assets

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

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

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

Derecognition of financial assets and financial liabilities

(i) Financial assets

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

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

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.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

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

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

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

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

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

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.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

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

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

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

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

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

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.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

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

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

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

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Hedge accounting (continued)

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

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

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

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

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

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.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Recognition of income and expenses (continued)

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

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

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

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

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

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

Fee income from providing transaction services
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.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

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

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.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Business combinations and goodwill (continued)

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

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

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

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

Intangible assets

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

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

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

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

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.

Financial guarantees

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

Provisions for risks and charges

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

Employees' end-of-service benefits

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

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.

(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.

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

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

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

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

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

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

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

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.

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Judgments (continued)

Business model

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

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

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

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

Contractual cash flows of financial assets

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

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

The Group considers that it controls Bank of Syria and Overseas SA even though it owns less than 50% of the voting rights (31 December 2013: 49% ownership). This is because the Group obtained control on 1 January 2004, by virtue of agreement with other investors, over Bank of Syria and Overseas SA, and consequently, the financial statements of Bank of Syria and Overseas SA have been consolidated with those of the Group.

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

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

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

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.

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Estimates and assumptions (continued)

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).

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 2014 %	*31 December 2013* %
BLOM Bank France SA	France	Banking activities	**99.998**	99.998
BLOM Bank (Switzerland) SA	Switzerland	Banking activities	**99.998**	99.998
BLOMInvest Bank SAL	Lebanon	Banking activities	**99.925**	99.925
BLOM Development Bank SAL	Lebanon	Islamic banking activities	**99.921**	99.900
Bank of Syria and Overseas SA	Syria	Banking activities	**49.000**	49.000
Arope Insurance SAL	Lebanon	Insurance activities	**88.979**	88.973
Syria International Insurance (Arope Syria) SA	Syria	Insurance activities	**42.703**	42.701
BLOM Bank Egypt SAE	Egypt	Banking activities	**99.419**	99.419
BLOM Egypt Securities SAE	Egypt	Brokerage activities	**99.644**	99.644
BLOMInvest – Saudi Arabia	Saudi Arabia	Financial institution	**59.963**	59.963
BLOM Bank Qatar LLC	Qatar	Banking activities	**99.750**	99.750
Arope Life Insurance Egypt SAE	Egypt	Insurance activities	**91.068**	91.063
Arope Insurance of Properties and Responsibilities Egypt SAE	Egypt	Insurance activities	**93.156**	93.152
Syria and Overseas Company for Financial Services	Syria	Brokerage activities	**48.962**	48.962
BLOM Securities	Jordan	Financial institution	**100.000**	100.000

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:

	2014	*2013*
	%	*%*
Name		
Bank of Syria and Overseas SA	**51.000**	51.000
BlomInvest – Saudi Arabia	**40.037**	40.037
Arope Insurance SAL	**11.021**	11.027

Accumulated balances of material non-controlling interests

	2014	*2013*
	LL million	*LL million*
Bank of Syria and Overseas SA	**29,757**	30,425
BlomInvest – Saudi Arabia	**42,773**	23,002
Arope Insurance SAL	**17,492**	14,886

Profit allocated to material non-controlling interests:

	2014	*2013*
	LL million	*LL million*
Bank of Syria and Overseas SA	**9,058**	930
BlomInvest – Saudi Arabia	**4,109**	6,207
Arope Insurance SAL	**2,614**	2,549

Other comprehensive loss allocated to material non-controlling interests:

	2014	*2013*
	LL million	*LL million*
Bank of Syria and Overseas SA	**(9,725)**	(25,360)
BlomInvest – Saudi Arabia	**(25)**	(1)
Arope Insurance SAL	-	-

The summarized financial information of these subsidiaries are 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*	
	2014	*2013*	*2014*	*2013*	*2014*	*2013*
	LL million	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*
Net interest income	**7,289**	11,578	**536**	605	**13,065**	10,532
Net fee and commission income	**5,246**	6,406	**13,312**	6,335	**34,134**	30,460
Net gain from financial instruments at fair value through profit or loss	**20,721**	29,498	**3,805**	11,835	**885**	974
Net gain from derecogniton of financial assets at amortized cost	-	638	**68**	-	-	-
Other operating income	**36**	256	-	3,015	**800**	3,545
Total operating income	**33,292**	48,376	**17,721**	21,790	**48,884**	45,511
Net credit losses	**(1,535)**	(32,552)	-	-	**(743)**	(651)
Write-back of provision on other financial assets	-	328	-	-	-	-
Total operating expenses	**(13,997)**	(14,328)	**(6,496)**	(5,854)	**(22,390)**	(19,670)
Net gain (loss) on disposal of other assets	-	(1)	**1**	-	**2**	-
Profit before tax	**17,760**	1,823	**11,226**	15,936	**25,753**	25,190
Income tax expense	-	-	**(964)**	(432)	**(2,035)**	(2,071)
Profit for the year	**17,760**	1,823	**10,262**	15,504	**23,718**	23,119
Attributable to non-controlling interests	**9,058**	930	**4,109**	6,207	**2,614**	2,549

5 MATERIAL PARTLY-OWNED SUBSIDIARIES (continued)

Summarized statement of financial position

	Bank of Syria and Overseas SA		*BlomInvest – Saudi Arabia*		*Arope Insurance SAL*	
	2014	*2013*	***2014***	*2013*	***2014***	*2013*
	LL million	*LL million*	***LL million***	*LL million*	***LL million***	*LL million*
ASSETS						
Cash and balances with banks	**155,936**	145,178	**-**	1	**61**	33
Due from banks and financial institutions	**318,242**	353,764	**41,999**	21,524	**305,632**	283,373
Due from head office and sister banks	**236,601**	299,774	**-**	688	**20,426**	16,758
Financial assets at fair value through profit or loss	**-**	-	**75,384**	63,463	**8,279**	7,206
Net loans and advances at amortized cost	**53,038**	101,084	**-**	-	**20,226**	18,309
Financial assets at amortized cost	**12,249**	30,654	**9,646**	14,590	**18,677**	8,560
Investments in subsidiaries and associates	**1,570**	2,163	**-**	-	**46,651**	46,651
Property and equipment	**15,489**	21,288	**11,138**	798	**23,082**	22,886
Intangible assets	**387**	587	**62**	12	**-**	-
Other assets	**8,157**	8,799	**13,197**	16,947	**66,019**	69,091
TOTAL ASSETS	**801,669**	963,291	**151,426**	118,023	**509,053**	472,867
LIABILITIES						
Due to banks and financial institutions	**3,352**	2,201	**-**	-	**-**	-
Due to head office and sister banks	**167,551**	220,353	**1,036**	16,448	**-**	-
Customers' deposits at amortized cost	**545,683**	654,961	**-**	-	**-**	-
Deposits from related parties at amortized cost	**4,879**	6,546	**-**	-	**-**	-
Engagements by acceptances	**-**	-	**-**	-	**-**	-
Other liabilities	**5,825**	6,764	**43,156**	43,824	**307,722**	295,894
Provisions for risks and charges	**16,031**	12,810	**309**	261	**42,614**	41,974
TOTAL LIABILITIES	**743,321**	903,635	**44,501**	60,533	**350,336**	337,868
TOTAL SHAREHOLDERS' EQUITY	**58,348**	59,656	**106,925**	57,490	**158,717**	134,999
Attributable to non-controlling interests	***29,757***	*30,425*	***42,773***	*23,002*	***17,492***	*14,886*
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**801,669**	963,291	**151,426**	118,023	**509,053**	472,867

Summarized cash flow information

	Bank of Syria and Overseas SA		*BlomInvest – Saudi Arabia*		*Arope Insurance SAL*	
	2014	*2013*	***2014***	*2013*	***2014***	*2013*
	LL million	*LL million*	***LL million***	*LL million*	***LL million***	*LL million*
Operating	**(85,506)**	(141,214)	**(9,217)**	(5,014)	**20,710**	26,650
Investing	**23,103**	170,119	**(5,585)**	(68)	**(11,820)**	(16,048)
Financing	**-**	-	**40,200**	18,089	**-**	-
	(62,403)	28,905	**25,398**	13,007	**8,890**	10,602

6 SEGMENTAL INFORMATION

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

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

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

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

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

6 SEGMENTAL INFORMATION (continued)

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

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

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

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

Profit for the year information

	2014					
	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	469,945	163,110	216,294	2,188	-	851,537
Net fee and commission income	36,545	38,484	66,869	51,970	23,334	217,202
Net gain from financial instruments at fair value through profit or loss	71,927	-	29,230	-	-	101,157
Net gain from derecognition of financial assets at amortized cost	40,441	-	-	-	-	40,441
Revenue from financial assets at fair value through other comprehensive income	1,460	-	-	-	-	1,460
Other operating income	-	720	18,050	-	-	18,770
Net credit losses	(537)	(29,242)	(32,428)	-	-	(62,207)
Net operating income	619,781	173,072	298,015	54,158	23,334	1,168,360
Extracts of results						
Depreciation and amortization						(32,666)
Segment loss						
Unallocated income						558
Unallocated expenses						(457,557)
Income tax expense						(128,796)
Profit for the year						549,899

	2013					
	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	447,116	163,053	183,514	2,675	-	796,358
Net fee and commission income	36,479	41,554	53,614	35,405	17,235	184,287
Net gain from financial instruments at fair value through profit or loss	102,952	-	33,994	-	-	136,946
Net gain from derecognition of financial assets at amortized cost	70,277	-	-	-	-	70,277
Revenue from financial assets at fair value through other comprehensive income	290	-	-	-	-	290
Other operating income	-	-	18,215	-	-	18,215
Net credit losses	4,466	(82,639)	(28,368)	-	-	(106,541)
Write-back of provision on other financial assets	1,317	-	-	-	-	1,317
Net operating income	662,897	121,968	260,969	38,080	17,235	1,101,149
Extracts of results						
Depreciation and amortization						(31,908)
Segment loss						
Unallocated income						256
Unallocated expenses						(415,152)
Income tax expense						(123,045)
Profit for the year						531,300

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

6 SEGMENTAL INFORMATION (continued)

Financial position information

	2014					
	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	**30,765,873**	**6,345,189**	**4,050,424**	**163,114**	**847,178**	**42,171,778**
Total liabilities	**27,880,386**	**5,750,083**	**3,670,541**	**170,673**	**897,017**	**38,368,700**

	2013					
	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	29,001,149	5,894,459	3,639,623	118,943	764,920	39,419,094
Total liabilities	26,348,407	5,355,292	3,306,706	108,063	759,780	35,878,248

(**) 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.

	2014		
	Domestic LL million	**International LL million**	**Total LL million**
Total operating income	**976,652**	**253,915**	**1,230,567**
Net credit losses	**(62,687)**	**480**	**(62,207)**
Net operating income[1]	**913,965**	**254,395**	**1,168,360**
Non-current assets[2]	**388,399**	**305,819**	**694,218**

	2013		
	Domestic LL million	International LL million	Total LL million
Total operating income	952,905	253,468	1,206,373
Net credit losses	(46,021)	(60,520)	(106,541)
Write-back of provision on other financial assets	-	1,317	1,317
Net operating income[1]	906,884	194,265	1,101,149
Non-current assets[2]	342,311	274,013	616,324

[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

	2014 LL million	2013 LL million
Interest income on debt instruments at amortized cost	**889,599**	960,427
Deposits and similar accounts with banks and financial institutions	**558,380**	407,619
Loans and advances to customers at amortized cost	**716,138**	646,003
Loans and advances to related parties at amortized cost	**1,112**	1,207
	2,165,229	2,015,256

8 INTEREST AND SIMILAR EXPENSE

	2014 *LL million*	*2013* *LL million*
Deposits and similar accounts from banks and financial institutions	**14,994**	15,026
Deposits from customers and other credit balances	**1,289,343**	1,195,709
Deposits from related parties at amortized cost	**9,355**	8,163
	1,313,692	1,218,898

9 NET FEE AND COMMISSION INCOME

	2014 *LL million*	*2013* *LL million*
Fee and commission income		
Trade finance	**25,814**	24,863
Credit related fees and commissions	**29,203**	31,842
Asset management and private banking	**54,098**	36,893
Electronic banking	**48,309**	34,378
General banking income	**44,961**	41,722
Commission on insurance related activities	**38,418**	31,842
Trust and fiduciary activities	**982**	919
Other services	**17,839**	20,446
	259,624	222,905
Fee and commission expense:		
Correspondents' accounts	**(42,422)**	(38,618)
	217,202	184,287

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

	2014 *LL million*	*2013* *LL million*
Interest and similar income from debt instruments and other financial assets at fair value though profit or loss:		
- Governmental debt securities	**9,023**	8,971
- Corporate debt securities	**8,265**	11,718
	17,288	20,689
Interest expense on liabilities at fair value through profit or loss	**-**	(350)
Gain from sale of debt instruments and other financial assets at fair value through profit or loss:		
- Governmental debt securities	**459**	314
- Corporate debt securities	**5,417**	860
- Funds	**449**	2,036
	6,325	3,210

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

	2014 *LL million*	*2013* *LL million*
Unrealized gain from revaluation of debt instruments and other financial assets at fair value through profit or loss:		
- Government debt securities	**150**	(438)
- Corporate debt securities	**8,036**	22,065
- Funds	**2,038**	3,457
	10,224	25,084
Net gain from debt instruments and other financial assets at fair value through profit or loss	**33,837**	48,633
Net gain from equity instruments at fair value through profit or loss:		
- Unrealized gain from revaluation	**11,666**	20,106
- Dividend income	**4,428**	1,427
- Gain from sale	**4,509**	6,082
Net gain from equity instruments at fair value through profit or loss	**20,603**	27,615
Foreign exchange	**46,717**	60,698
	101,157	136,946

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

11 NET GAIN FROM DERECOGNITION OF FINANCIAL ASSETS AT AMORTIZED COST

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

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

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

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

	2013		
	Gains *LL million*	*(Losses)* *LL million*	*Total* *LL million*
Lebanese sovereign and Central Bank of Lebanon			
Certificates of deposit	70,232	-	70,232
Treasury bills and bonds	6	-	6
	70,238	-	70,238
Other sovereign:			
Treasury bills and bonds	39	-	39
	70,277	-	70,277

12 OTHER OPERATING INCOME

	2014 ***LL million***	*2013* *LL million*
Net gain from sale of assets obtained in settlement of debt	**3**	-
Write back of provisions for risks and charges (note 36)	**720**	4,681
Others	**18,047**	13,534
	18,770	18,215

13 NET CREDIT LOSSES

	2014 ***LL million***	*2013* *LL million*
Provision for sundry debtors	-	(177)
Provision for loans and advances:		
Commercial loans (note 23)	**(94,333)**	(117,765)
Consumer loans (note 23)	**(43,472)**	(38,139)
Provision for doubtful banks (note 19)	**(537)**	-
Commitment by signature (note 36)	**(4,776)**	(14,412)
	(143,118)	(170,316)
Write-back of provisions for loans and advances:		
Commercial loans (note 23)	**59,403**	26,736
Consumer loans (note 23)	**11,044**	9,772
Unrealized interest (note 23)	**7,025**	14,282
Recoveries from loans reflected as off-financial position (note 23)	**2,667**	8,445
Recoveries from doubtful banks (note 19)	-	4,466
Recoveries from sundry debtors (note 29)	**235**	251
Recoveries from commitment by signature (note 36)	**537**	-
	80,911	63,952
	(62,207)	(106,541)

14 PERSONNEL EXPENSES

	2014 *LL million*	*2013* *LL million*
Salaries and related charges	**140,689**	134,370
Social security contributions	**27,330**	25,029
Provisions for retirement benefits obligation (note 36)	**10,800**	10,060
Additional allowances	**40,937**	33,267
Bonuses	**68,528**	61,382
	288,284	264,108

15 OTHER OPERATING EXPENSES

	2014 *LL million*	*2013* *LL million*
Marketing and advertising	**13,160**	13,931
Professional fees	**15,790**	16,540
Maintenance and repairs	**16,352**	15,226
Provision for guarantee of deposits	**14,008**	13,165
Provision for risks and charges (note 36 (i))	**8,751**	10,399
Provision on impairment of assets taken in settlement of debt (note 28)	**1,749**	331
Rent and related charges	**11,561**	10,011
Postage and telecommunications	**10,406**	9,765
Stationary and printings	**9,557**	7,296
Fiscal stamps	**6,514**	6,254
Electricity and fuel	**6,883**	6,832
Taxes and fees	**8,159**	5,093
Travel expenses	**4,643**	3,954
Board of directors' attendance fees	**1,873**	1,713
Insurance	**1,293**	1,250
Others	**38,574**	29,284
	169,273	151,044

16 INCOME TAX EXPENSE

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

16 INCOME TAX EXPENSE (continued)

Reconciliation of total tax charge
The relationship between taxable profit and accounting profit is as follow:

	2014 *LL million*	*2013* *LL million*
Profit before income tax	**678,695**	654,345
Less: Results of the subsidiary insurance company located in Lebanon(*)	**(25,753)**	(25,190)
Accounting profit before income tax	**652,942**	629,155
Add:		
Provisions non tax deductible	**22,608**	77,276
Unrealized losses from revaluation of debt instruments and other financial assets at fair value through profit or loss	**-**	842
Other non tax deductible charges	**59,535**	52,935
	735,085	760,208
Less:		
Unrealized gains from revaluation of debt instruments and other financial assets at fair value through profit or loss	**(15,689)**	(21,720)
Realized gain from disposal of financial assets at fair value through profit or loss already subject to income tax	**(1,660)**	(207)
Dividends received and previously subject to income tax	**(239)**	(319)
Remunerations already taxed	**(14,150)**	(13,799)
4% of a subsidiary's capital eligible to be tax deductible	**(400)**	(400)
Unrealized gain on difference of exchange	**(17,864)**	(26,995)
Write-back of provisions previously subject to income tax	**(47,488)**	(4,994)
Net gain on disposal of fixed assets	**(2,071)**	(289)
Non taxable income	**(36,798)**	(33,327)
Write-back of provision on other financial assets	**-**	(328)
Taxable profit	**598,726**	657,830
Effective income tax rate	**18.98%**	18.80%
Income tax expense in the consolidated income statement	**128,796**	123,045

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

17 EARNINGS PER SHARE

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

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

		2014	*2013*
Net profit for the year	*LL million*	**549,899**	531,300
Less: Proposed dividends on preferred shares	*LL million*	**(21,105)**	(21,105)
Non-controlling interests	*LL million*	**(17,040)**	(10,537)
Net profit attributable to ordinary equity holders of the parent	*LL million*	**511,754**	499,658
Weighted average number of ordinary shares for basic earnings per share		**211,781,220**	210,170,530
Basic earnings per share	*LL*	**2,416**	2,377

17 EARNINGS PER SHARE (continued)

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

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

18 CASH AND BALANCES WITH CENTRAL BANKS

	2014 ***LL million***	*2013* *LL million*
Cash on hand	**218,933**	207,627
Current accounts with Central Banks	**1,890,196**	1,637,372
Deposits with the Central Banks	**11,041,420**	8,002,078
	13,150,549	9,847,077

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 519,381 million at 31 December 2014 (2013: LL 430,046 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$ 1,885,681 thousands (equivalent to LL 2,843 billion) as at 31 December 2014 (2013: US$ 1,776,340 thousands equivalent to LL 2,678 billion).

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

19 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2014 ***LL million***	*2013* *LL million*
Current accounts		
Current accounts	**1,151,982**	1,006,783
Time deposits		
Time deposits	**3,423,006**	3,416,667
Doubtful accounts with banks	**2,078**	1,521
Less: Impairment allowance for doubtful accounts with banks	**(1,732)**	(1,232)
Less: Unrealized interest for doubtful accounts with banks	**(346)**	(289)
	3,423,006	3,416,667
	4,574,988	4,423,450

19 DUE FROM BANKS AND FINANCIAL INSTITUTIONS (continued)

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

	2014 *LL million*	*2013* *LL million*
Balance at 1 January	**1,521**	20,980
Charge for the year (note 13)	**537**	-
Provision for unrealized interest	**58**	-
Recovery of provision (note 13)	-	(4,466)
Provision written off	-	(15,051)
Foreign exchange difference	**(38)**	58
Balance at 31 December	**2,078**	1,521

20 LOANS TO BANKS AND FINANCIAL INSTITUTIONS

	2014 *LL million*	*2013* *LL million*
Loans to banks and financial institutions	**94,599**	103,095
Accrued interest receivable	**689**	663
Balance at 31 December	**95,288**	103,758

21 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

The Group has positions in the following types of derivatives:

	2014			*2013*		
	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	**77,791**	**68,488**	**5,004,388**	43,111	48,711	2,034,942
Forward foreign exchange contracts	**19,655**	**17,492**	**3,941,200**	18,121	17,610	3,610,454
Futures on commodities	**6,641**	**6,641**	**503,240**	1,379	1,379	350,158
	104,087	**92,621**	**9,448,828**	62,611	67,700	5,995,554
Derivatives used as fair value hedges						
Currency swaps	-	-	**50,582**	-	-	47,066
Hedge of net investment in foreign operations						
Forward foreign exchange contracts	**5,147**	-	**197,882**	-	3,640	223,876
	109,234	**92,621**	**9,697,292**	62,611	71,340	6,266,496

21 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

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

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

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

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

Hedge of net investment in foreign operations
Forward foreign exchange contracts (to sell Euros and buy US Dollars) designated as a hedge of the Group's net investment in its French subsidiary, and is being used to hedge the Group's investment exposure to foreign exchange risk on this investment amounting to Euro 107,904 thousand (2013: same). The notional amount of these contracts amounted to Euro 107,904 thousand (LL 197,882 million) as at 31 December 2014 (2013: LL 223,876 million). The forward foreign exchange contracts were revalued as of 31 December 2014 and resulted in unrealized gain of LL 5,147 million (2013: unrealized loss of LL 3,640 million). The contracts mature on 4 March 2015 at the latest.

22 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2014 ***LL million***	*2013* *LL million*
Equity instruments at fair value through profit or loss	**153,233**	143,096
Debt and other instruments at fair value through profit or loss	**639,347**	801,165
	792,580	944,261

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

	2014 ***LL million***	*2013* *LL million*
Quoted equity securities at fair value through profit or loss	**140,280**	131,289
Unquoted equity securities at fair value through profit or loss	**12,953**	11,807
Quoted government debt securities	**2,294**	18,535
Unquoted government debt securities	**114,158**	93,067
Quoted corporate debt securities	**434,836**	618,987
Unquoted corporate debt securities	**1,695**	-
Funds	**86,364**	70,576
	792,580	944,261

23 NET LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST

	2014 ***LL million***	*2013* *LL million*
Commercial loans	**6,700,829**	6,352,129
Consumer loans (*)	**4,130,448**	3,718,464
	10,831,277	10,070,593
Less:		
Individual impairment allowances	**(244,916)**	(308,618)
Collective impairment allowances	**(127,331)**	(155,035)
Unrealized interest	**(75,419)**	(70,539)
	10,383,611	9,536,401

(*) Included under consumer loans as at 31 December 2014, an amount of LL 2,308,230 million (31 December 2013: LL 1,980,473 million) representing housing loans.

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

	2014 ***Commercial loans*** ***LL million***	*2013* *Commercial loans* *LL million*
Balance at 1 January	**70,539**	56,181
Add:		
Unrealized interest for the year	**47,148**	37,640
Foreign exchange difference	**(1,907)**	(5,106)
	115,780	88,715
Less:		
Recoveries of unrealized interest (note 13)	**(7,025)**	(14,282)
Amounts written-off	**(7,521)**	(758)
Transferred to off-financial position	**(25,815)**	(3,136)
Balance at 31 December	**75,419**	70,539
Unrealized interest on substandard loans	**13,302**	9,969
Unrealized interest on doubtful loans	**62,117**	60,570
	75,419	70,539

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

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

	2014			2013		
	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	380,280	83,373	463,653	309,517	62,890	372,407
Add:						
Charge for the year	94,333	43,472	137,805	117,765	38,139	155,904
Foreign exchange difference	(9,934)	(2,621)	(12,555)	(17,066)	(4,436)	(21,502)
Reclassification	52	(52)	-	(411)	411	-
	464,731	124,172	588,903	409,805	97,004	506,809
Less:						
Provisions written-off	(2,788)	(258)	(3,046)	(2,329)	(3,859)	(6,188)
Write-back of provisions	(59,403)	(11,044)	(70,447)	(26,736)	(9,772)	(36,508)
Provision transferred to off financial position	(117,474)	(25,689)	(143,163)	(460)	-	(460)
	(179,665)	(36,991)	(216,656)	(29,525)	(13,631)	(43,156)
Balance at 31 December	285,066	87,181	372,247	380,280	83,373	463,653
Individual impairment	192,962	51,954	244,916	259,375	49,243	308,618
Collective impairment	92,104	35,227	127,331	120,905	34,130	155,035
	285,066	87,181	372,247	380,280	83,373	463,653
Gross amount of loans individually determined to be impaired	406,507	75,758	482,265	393,249	100,953	494,202

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 294,551 million as of 31 December 2014 (2013: LL 119,806 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 351,873 million as of 31 December 2014 (LL 257,011 million as of 31 December 2013). The collateral consists of cash, securities, letters of guarantee and properties.

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

	2014 LL million	2013 LL million
Balance at 1 January	119,806	137,300
Add:		
Unrealized interest for the year	9,797	9,954
Provision and unrealized interest transferred from the statement of financial position	168,978	3,596
	298,581	150,850
Less:		
Provisions written-back (note 13)	(2,667)	(8,445)
Amounts written-off	(40)	(18,938)
Foreign exchange difference	(1,323)	(3,661)
	(4,030)	(31,044)
Balance at 31 December	294,551	119,806

24 FINANCIAL ASSETS AT AMORTIZED COST

	2014 *LL million*	*2013* *LL million*
Quoted:		
Government debt securities	**2,438,324**	2,596,656
Corporate debt securities	**971,315**	842,741
	3,409,639	3,439,397
Unquoted:		
Government debt securities	**5,690,727**	4,882,190
Corporate debt securities	**83,926**	95,715
Certificates of deposit – Central Banks	**2,360,242**	4,780,317
Certificates of deposit – Commercial banks and financial institutions	**491,395**	415,923
	8,626,290	10,174,145
	12,035,929	13,613,542

The movement in the impairment allowances during the year was as follows:

	2014 *LL million*	*2013* *LL million*
Balance at 1 January	**608**	937
Write back during the year	**-**	(329)
Balance at 31 December	**608**	608

25 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2014 *LL million*	*2013* *LL million*
Equity securities	**3,579**	3,609
Funds	**3,726**	2,841
	7,305	6,450

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

	2014			*2013*		
	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	**3,579**	**18**	**1,407**	3,609	4	273
Funds	**3,726**	**1,162**	**53**	2,841	678	17
	7,305	**1,180**	**1,460**	6,450	682	290

Dividend income amounted to 1,460 million for the year ended 31 December 2014 (2013: LL 290 million) and resulted from equity instruments and funds held at year end (2013: same).

26 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 2014	402,099	6,164	281,335	88,467	778,065
Additions	26,242	2,204	23,557	94,172	146,175
Disposals	(2,638)	(1,387)	(7,439)	-	(11,464)
Transfers	20,295	118	18,116	(55,421)	(16,892)
Translation difference	(10,819)	(105)	(6,216)	(1,527)	(18,667)
At 31 December 2014	435,179	6,994	309,353	125,691	877,217
Depreciation					
At 1 January 2014	62,476	4,048	175,505	-	242,029
Charge for the year	8,759	1,049	21,249	-	31,057
Relating to disposals	(1,046)	(1,385)	(6,276)	-	(8,707)
Translation difference	(1,798)	(78)	(4,911)	-	(6,787)
At 31 December 2014	68,391	3,634	185,567	-	257,592
Net carrying value					
At 31 December 2014	**366,788**	**3,360**	**123,786**	**125,691**	**619,625**

	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 2013	376,629	6,468	272,405	74,945	730,447
Additions	27,298	702	24,258	67,602	119,860
Disposals	(14,159)	(650)	(9,980)	-	(24,789)
Transfers	39,559	27	12,093	(52,034)	(355)
Translation difference	(27,228)	(383)	(17,441)	(2,046)	(47,098)
At 31 December 2013	402,099	6,164	281,335	88,467	778,065
Depreciation					
At 1 January 2013	58,152	3,885	176,318	-	238,355
Charge for the year	7,884	1,077	21,266	-	30,227
Relating to disposals	-	(647)	(9,865)	-	(10,512)
Translation difference	(3,560)	(267)	(12,214)	-	(16,041)
At 31 December 2013	62,476	4,048	175,505	-	242,029
Net carrying value					
At 31 December 2013	339,623	2,116	105,830	88,467	536,036

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

27 INTANGIBLE ASSETS

	Software development LL million	*Key money LL million*	*Advances on acquisition of intangible assets LL million*	*Total LL million*
Cost				
At 1 January 2014	14,467	4,849	22	19,338
Additions	1,120	-	98	1,218
Transfers	190	-	(56)	134
Translation difference	(555)	(510)	(3)	(1,068)
At 31 December 2014	15,222	4,339	61	19,622
Amortization				
At 1 January 2014	12,360	4,037	-	16,397
Charge for the year	1,515	94	-	1,609
Translation difference	(508)	(366)	-	(874)
At 31 December 2014	13,367	3,765	-	17,132
Net carrying value				
At 31 December 2014	**1,855**	**574**	**61**	**2,490**

	Software development LL million	*Key money LL million*	*Advances on acquisition of intangible assets LL million*	*Total LL million*
Cost				
At 1 January 2013	13,779	5,311	29	19,119
Additions	735	266	40	1,041
Transfers	355	-	-	355
Translation difference	(402)	(728)	(47)	(1,177)
At 31 December 2013	14,467	4,849	22	19,338
Amortization				
At 1 January 2013	11,046	4,208	-	15,254
Charge for the year	1,631	50	-	1,681
Translation difference	(317)	(221)	-	(538)
At 31 December 2013	12,360	4,037	-	16,397
Net carrying value				
At 31 December 2013	2,107	812	22	2,941

28 ASSETS OBTAINED IN SETTLEMENT OF DEBT

	2014 *LL million*	*2013* *LL million*
Cost		
At 1 January	**26,630**	30,252
Additions	**2,631**	633
Disposals	**(3,854)**	(2,019)
Translation difference	**(653)**	(2,236)
At 31 December	**24,754**	26,630
Impairment		
At 1 January	**(3,116)**	(2,785)
Charge for the year (note 15)	**(1,749)**	(331)
At 31 December	**(4,865)**	(3,116)
Net carrying value		
At 31 December	**19,889**	23,514

29 OTHER ASSETS

	2014 *LL million*	*2013* *LL million*
Reinsurer's share of technical reserves	**43,206**	45,483
Prepaid expenses	**19,942**	19,187
Compulsory deposits (i)	**13,074**	13,651
Sundry debtors (ii)	**21,311**	10,694
Other revenues to be collected	**4,432**	5,020
Customers' transactions between head office and branches	**6,336**	3,143
Precious metals and stamps	**1,181**	1,047
Other assets	**44,745**	50,371
	154,227	148,596

(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:

	2014 *LL million*	*2013* *LL million*
BLOMInvest Bank SAL	**1,500**	1,500
Bank of Syria and Overseas SA	**6,918**	7,534
BLOM Development Bank SAL	**4,500**	4,500
BLOM Bank France	**102**	63
BLOM Securities	**54**	54
	13,074	13,651

29 OTHER ASSETS (continued)

(ii) Sundry debtors

	2014 *LL million*	*2013* *LL million*
Sundry debtors	**22,725**	12,379
Less: Provision against sundry debtors	**(1,414)**	(1,685)
	21,311	10,694

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

	2014 *LL million*	*2013* *LL million*
Balance at 1 January	**1,685**	2,749
Charge for the year	**-**	177
Write-back of provision on other assets	**-**	(988)
Write-back of provisions (note 13)	**(235)**	(251)
Provision written-off	**(36)**	-
Translation difference	**-**	(2)
Balance at 31 December	**1,414**	1,685

30 GOODWILL

	2014 *LL million*	*2013* *LL million*
Cost:		
At 1 January	**53,833**	60,208
Translation difference	**(1,619)**	(6,375)
At 31 December	**52,214**	53,833

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

	2014 *LL million*	*2013* *LL million*
Corporate and retail banking (BLOM Bank Egypt SAE)	**50,233**	51,720
Asset management and private banking (BLOM Bank (Switzerland) SA)	**1,211**	1,342
Financial Services (BLOM Securities)	**770**	771
	52,214	53,833

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

30 GOODWILL (continued)

Key assumptions used in value in use calculations (continued)

	2014 %	*2013* %
Discount rate	**15**	15
Projected growth rate (average during the first 5 years)	**5**	5
Projected growth rate beyond the five year period	**3**	0

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

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

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

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

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

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

31 DUE TO CENTRAL BANKS AND REPURCHASE AGREEMENTS

	2014 *LL million*	*2013* *LL million*
Loan due to Central Bank of Lebanon	**372,252**	104,405
Loan due to Central Bank of Jordan	**9,781**	3,874
Accrued interest payable	**2,862**	311
Balance at 31 December	**384,895**	108,590

Following the Central Bank of Lebanon Intermediate Circulars No. 313, 318 and 382 issued on 14 January 2013, 28 February 2013 and 10 December 2014 respectively, the Central Bank of Lebanon offered the commercial banks facilities up to a ceiling of LL 5,100 billion to be granted to customers and with a time limit ending on 15 November 2015. 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 2014. As of 31 December 2014, the Group obtained facilities amounting to LL 372,252 million (31 December 2013: LL 104,405 million).

On 8 December 2013, the Group signed a repurchase agreement through its branch in Jordan with the Central Bank of Jordan whereas the Bank will sell and repurchase treasury bills amounting to JOD (000) 17,100 (equivalent to LL 36,415 million) on 5 January 2014. The net amount received by the Group from the repurchase agreement amounted to JOD (000) 17,050 (equivalent to LL 36,310 million) after the deduction of accrued interest calculated based on an interest rate of 3.75%. Accrued interest on the repurchase agreement amounted to JOD (000) 40 (equivalent to LL 86 million) for the year ended 31 December 2013.

32 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	2014	2013
	LL million	*LL million*
Current accounts	**386,288**	376,362
Time deposits	**255,013**	409,674
	641,301	786,036

33 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2014	2013
	LL million	*LL million*
Customers' time deposits	**-**	3,032

At 31 December 2014, the derivative contracts' fair value related to customers' deposits at fair value through profit or loss was nil (2013: same).

34 CUSTOMERS' DEPOSITS AT AMORTIZED COST

	2014	2013
	LL million	*LL million*
Customers' deposits at amortized cost:		
Sight deposits	**5,127,319**	4,857,223
Time deposits	**16,703,605**	15,760,403
Saving accounts	**12,162,748**	11,499,052
Credit accounts and deposits against debit accounts	**1,960,704**	1,726,914
Margins on letters of credit	**44,550**	30,238
	35,998,926	33,873,830

Customers' deposits include coded deposit accounts in BLOM Bank SAL and BLOMInvest Bank SAL amounting to LL 66,563 million as of 31 December 2014 (2013: LL 86,353 million).

35 OTHER LIABILITIES

	2014	2013
	LL million	*LL million*
Unearned premiums and liability related to insurance contracts	**297,857**	283,264
Sundry creditors	**213,311**	104,174
Current tax liabilities	**75,654**	75,198
Accrued expenses	**57,933**	62,470
Transactions pending between branches	**77,393**	48,950
Complementary taxes due related to a subsidiary bank (i)	**27,222**	22,231
Other taxes due	**17,064**	16,359
Dividends payable	**331**	377
Other liabilities	**5,731**	5,846
	772,496	618,869

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

36 PROVISIONS FOR RISKS AND CHARGES

	2014 *LL million*	*2013* *LL million*
Provision for risks and charges (i)	**26,290**	25,871
Provision for outstanding claims and IBNR reserves related to subsidiary-insurance companies	**40,150**	44,298
Retirement benefits obligation (ii)	**65,930**	58,700
Provision on commitment by signature (iii)	**13,853**	10,985
Other provisions	**1,155**	1,057
	147,378	140,911

(i) Provision for risks and charges

	2014 *LL million*	*2013* *LL million*
Balance at 1 January	**25,871**	22,812
Charge for the year (note 15)	**8,751**	10,399
Provisions paid during the year	**(6,502)**	(67)
Provisions written-back during the year (note 12)	**(720)**	(4,681)
Recoveries	**(6)**	(1,456)
Exchange difference	**(1,104)**	(1,136)
Balance at 31 December	**26,290**	25,871

(ii) Retirement benefits obligation

	2014 *LL million*	*2013* *LL million*
Balance at 1 January	**58,700**	52,997
Charge for the year (note 14)	**10,800**	10,060
Benefits paid	**(3,548)**	(3,426)
Exchange difference	**(22)**	(931)
Balance at 31 December	**65,930**	58,700

(iii) Provision on commitment by signature

	2014 *LL million*	*2013* *LL million*
Balance at 1 January	**10,985**	-
Charge for the year (note 13)	**4,776**	14,412
Provisions written-back during the year (note 13)	**(537)**	-
Provisions written-off	**-**	(2,847)
Exchange difference	**(1,371)**	(580)
Balance at 31 December	**13,853**	10,985

37 SHARE CAPITAL AND PREMIUMS

	2014 Share capital LL million	2014 Share premium LL million	2013 Share capital LL million	2013 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 2014 (31 December 2013: the same)	**258,000**	**374,059**	258,000	374,059

	2014 Share capital LL million	2014 Share premium LL million	2013 Share capital LL million	2013 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 2014 (31 December 2013: 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.

38 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 2013	251,572	341,194	58,324	58,220	709,310
Appropriation of 2012 profits	53,874	46,572	1,233	102	101,781
Adjustments related to change in ownership in subsidiaries	-	2	-	-	2
Net gain on sale of treasury shares	-	-	1,176	-	1,176
At 31 December 2013	305,446	387,768	60,733	58,322	812,269
Appropriation of 2013 profits	48,503	48,429	7,996	48	104,976
Adjustments related to change in ownership in subsidiaries	-	1	-	-	1
Net gain on sale of treasury shares	-	-	4,971	-	4,971
At 31 December 2014	**353,949**	**436,198**	**73,700**	**58,370**	**922,217**

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 1.25 percent of these risks at the end of year ten (2017) and 2 percent at the end of year twenty (2027). This reserve is part of the Group's equity and cannot be distributed as dividends.

The appropriation in 2014 from the profits of the year 2013 amounted to LL 48,503 million (2013: LL 53,874 million).

38 NON DISTRIBUTABLE RESERVES (continued)

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

During 2014, the Group appropriated LL 48,429 million from 2013 profits to the legal reserve in accordance with the General Assembly of Shareholders' resolution (2013: LL 46,572 million).

Reserve for increase of share capital
The balance amounting to LL 73,700 million (2013: LL 60,733 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:

	2014 ***LL million***	*2013* *LL million*
Recoveries of provisions for doubtful debts	**49,941**	41,945
Revaluation reserves for fixed assets sold	**668**	668
Gain on sale of treasury shares	**22,989**	18,018
Transfer from other reserves	**102**	102
	73,700	60,733

Other reserves
Other reserves consist of non-distributable reserves of subsidiaries appropriated from retained earnings as required by the laws applicable in the countries in which they operate. During 2014, the Group transferred an amount of LL 48 million from retained earnings to other reserves (2013: LL 102 million).

39 DISTRIBUTABLE RESERVES

	2014 ***LL million***	*2013* *LL million*
General reserves	**488,109**	449,463

General reserves
The Group appropriates general reserves from its retained earnings to strengthen its equity. This reserve amounting to LL 488,109 million (2013: LL 449,463 million) is available for dividend distribution.

40 TREASURY SHARES

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

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

40 TREASURY SHARES (continued)

	2013	
	No. of common shares	*Amount LL million*
At 1 January	5,646,917	67,302
Purchase of treasury shares	3,253,121	41,152
Sale of treasury shares	(1,778,872)	(21,255)
At 31 December	7,121,166	87,199

The treasury shares represent 3,861,253 Global Depositary Receipts (GDR) and 8,778,251 ordinary shares owned by the Group as at 31 December 2014 (2013: 5,543,769 Global Depository Receipts (GDR) and 1,577,397 ordinary shares). The market value of one GDR and one ordinary share were USD 9.8 and USD 8.8 respectively as of 31 December 2014 (2013: USD 8.8 and USD 8.25 respectively).

The Group realized a gain of LL 4,971 million from the sale of treasury shares during the year 2014 (2013: gain of LL 1,176 million). Gains and losses are reflected in the "Non distributable reserves".

41 RETAINED EARNINGS

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

	2014 ***LL million***	*2013* *LL million*
Group's share of accumulated unrealized gain on revaluation of structural position of subsidiary bank	**37,900**	23,289
Unrealized gain on financial assets at fair value through profit or loss	**68,820**	82,704
	106,720	105,993

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

42 REVALUATION RESERVE OF REAL ESTATE

	2014 ***LL million***	*2013* *LL million*
Revaluation reserve accepted in Tier II capital	**14,727**	14,727

43 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:

	2014 ***LL million***	*2013* *LL million*
At 1 January	-	(406)
Net changes in fair values during the year	**498**	406
Balance at 31 December	**498**	-

44 CASH AND CASH EQUIVALENTS

	2014 LL million	2013 LL million
Cash and balances with central banks	**2,652,992**	2,335,618
Deposits with banks and financial institutions (whose original maturities are less than 3 months)	**3,763,424**	3,969,156
	6,416,416	6,304,774
Less:		
Due to central banks	**(23,563)**	(7,250)
Repurchase agreements	-	(36,396)
Due to banks and financial institutions (whose original maturities are less than 3 months)	**(521,258)**	(693,187)
	5,871,595	5,567,941

45 DIVIDENDS DECLARED AND PAID

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

	2014		
	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	**210,033,222**	**750**	**157,525**
			178,630

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

According to the resolution of the General Assembly meeting held on 15 April 2013, the following dividends were declared and paid, from the 2012 profits.

	2013		
	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	210,743,502	675	142,252
			163,357

The dividends on common shares, declared on 15 April 2013, were paid net of the treasury shares as of that date.

46 RELATED PARTY TRANSACTIONS

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

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

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

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

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

31 December 2014:

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

31 December 2013:

	Key management personnel Outstanding balance LL million	*Other related parties* Outstanding balance LL million	*Total* Outstanding balance LL million
Deposits	139,226	11,816	151,042
Net loans and advances	13,246	15,176	28,422
Guarantees given	2,611	94	2,705

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

	2014		
	Key management personnel LL million	***Other related parties*** LL million	***Total*** LL million
Interest paid on deposits	**8,463**	**892**	**9,355**
Interest received from net loans and advances	**494**	**618**	**1,112**
Accounting services' revenues	**-**	**19**	**19**

	2013		
	Key management personnel LL million	*Other related parties* LL million	*Total* LL million
Interest paid on deposits	7,633	530	8,163
Interest received from net loans and advances	387	820	1,207
Accounting services' revenues	-	238	238

46 RELATED PARTY TRANSACTIONS (continued)

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

	2014	*2013*
	LL million	*LL million*
Short-term benefits	**44,742**	41,620
Post-employment benefits (charge for the year)	**1,687**	1,685

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

47 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.

		2014	
	Banks ***LL million***	***Customers*** ***LL million***	***Total*** ***LL million***
Guarantees issued	**36,001**	**767,816**	**803,817**
Commitments			
Documentary credits	**176,528**	**-**	**176,528**
Loan commitments	**-**	**1,809,236**	**1,809,236**
Of which revocable	**-**	***1,528,209***	***1,528,209***
Of which irrevocable	**-**	***281,027***	***281,027***
Other commitments	**1,092,802**	**50,352**	**1,143,154**
	1,305,331	**2,627,404**	**3,932,735**

		2013	
	Banks *LL million*	*Customers* *LL million*	*Total* *LL million*
Guarantees issued	31,928	691,420	723,348
Commitments			
Documentary credits	134,261	-	134,261
Loan commitments	-	1,821,387	1,821,387
Of which revocable	-	*1,506,416*	*1,506,416*
Of which irrevocable	-	*314,971*	*314,971*
Other commitments	919,175	43,286	962,461
	1,085,364	2,556,093	3,641,457

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.

47 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS (continued)

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

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

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

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

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

	2014 ***LL million***	*2013* *LL million*
Capital commitments		
Property and equipment	**32,787**	18,253
Operating lease commitments – Group as lessee		
Future minimum lease payments under operating leases:		
During one year	**2,116**	1,843
More than 1 year and less than five years	**7,465**	6,526
More than five years	**5,330**	6,029
Total operating lease commitments at the consolidated statement of financial position date	**14,911**	14,398

Other commitments and contingencies
During 2013, the Bank's books in Lebanon were reviewed by the tax authorities for the years 2008 to 2011 inclusive. The outcome of this review resulted in additional taxes and penalties amounting to LL 2,503 million that were settled in 2014. The Bank's books in Lebanon remain subject to the review by the tax authorities for the years 2012 to 2014 (inclusive).

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

47 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS (continued)

Other commitments and contingencies (continued)
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.

For the past years, Syria, has been witnessing a period of political and civil unrest together with adverse events which can affect the economic environment of future periods. As part of its collective provisioning process, management performs stress tests on the loan portfolio exposed to the Syrian market risks and, as a result, the necessary provisions are booked. The Group's management continues to monitor and decrease its loan portfolio and evaluate the impact of these events on a regular basis.

48 ASSETS HELD IN CUSTODY AND UNDER ADMINISTRATION

	2014 ***LL million***	*2013* *LL million*
Assets held in custody and under administration	**10,787,376**	8,321,550

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.

49 FAIR VALUE OF THE FINANCIAL INSTRUMENTS

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

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

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

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

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

49 FAIR VALUE OF THE FINANCIAL INSTRUMENTS (continued)

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

	2014			
		Valuation techniques		
	Quoted market price Level 1 LL million	*Observable inputs Level 2 LL million*	*Unobservable inputs Level 3 LL million*	*Total LL million*
Financial assets:				
Derivative financial instruments:				
Currency options	-	77,791	-	77,791
Forward foreign exchange contracts	-	19,655	-	19,655
Futures on commodities	-	6,641	-	6,641
Forward foreign exchange contracts used for hedging purposes	-	5,147	-	5,147
Financial assets at fair value through profit or loss:				
Unquoted equity securities	-	12,953	-	12,953
Quoted equity securities	140,280	-	-	140,280
Unquoted governmental debt securities	-	114,158	-	114,158
Quoted governmental debt securities	2,294	-	-	2,294
Unquoted corporate debt securities	-	1,695	-	1,695
Quoted corporate debt securities	434,836	-	-	434,836
Funds	-	86,364	-	86,364
Financial assets at fair value through other comprehensive income:				
Unquoted equity securities	-	3,579	-	3,579
Funds	-	3,726	-	3,726
Financial liabilities:				
Derivative financial instruments:				
Currency options	-	68,488	-	68,488
Forward foreign exchange contracts	-	17,492	-	17,492
Futures on commodities	-	6,641	-	6,641

	2013			
		Valuation techniques		
	Quoted market price Level 1 LL million	*Observable inputs Level 2 LL million*	*Unobservable inputs Level 3 LL million*	*Total LL million*
Financial assets:				
Derivative financial instruments:				
Currency options	-	43,111	-	43,111
Forward foreign exchange contracts	-	18,121	-	18,121
Futures on commodities	-	1,379	-	1,379
Financial assets at fair value through profit or loss:				
Unquoted equity securities	-	11,807	-	11,807
Quoted equity securities	131,289	-	-	131,289
Unquoted governmental debt securities	-	93,067	-	93,067
Quoted governmental debt securities	18,535	-	-	18,535
Quoted corporate debt securities	618,987	-	-	618,987
Funds	-	70,576	-	70,576
Financial assets at fair value through other comprehensive income:				
Unquoted equity securities	-	3,609	-	3,609
Funds	-	2,841	-	2,841
Financial liabilities:				
Derivative financial instruments:				
Currency options	-	48,711	-	48,711
Forward foreign exchange contracts	-	17,610	-	17,610
Futures on commodities	-	1,379	-	1,379
Forward foreign exchange contracts used for hedging purposes	-	3,640	-	3,640

There were no transfers between levels during 2014 (2013: the same).

49 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 deposits 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:

	2014		*2013*	
	Carrying value LL million	***Fair value LL million***	*Carrying value LL million*	*Fair value LL million*
Financial assets				
Cash and balances with central banks	**13,150,549**	**13,848,010**	9,847,077	10,019,765
Due from banks and financial institutions	**4,574,988**	**4,574,785**	4,423,450	4,423,385
Loans to banks and financial institutions	**95,288**	**100,939**	103,758	112,137
Net loans and advances to customers at amortized cost	**10,383,611**	**10,427,398**	9,536,401	9,582,493
Net loans and advances to related parties at amortized cost	**32,679**	**32,904**	28,422	28,601
Debtors by acceptances	**141,170**	**141,170**	88,202	88,202
Financial assets at amortized cost	**12,035,929**	**12,301,799**	13,613,542	13,717,832
Government debt securities	***8,129,051***	***8,272,801***	*7,478,846*	*7,510,849*
Certificates of deposit – Central Banks	***2,360,242***	***2,435,310***	*4,780,317*	*4,836,015*
Corporate debt securities	***1,055,241***	***1,104,109***	*938,456*	*973,275*
Certificates of deposit – Commercial banks and financial institutions	***491,395***	***489,579***	*415,923*	*397,693*
Financial liabilities				
Due to central banks	**384,895**	**252,836**	108,590	66,268
Repurchase agreements	**-**	**-**	36,396	36,396
Due to banks and financial institutions	**641,301**	**641,303**	786,036	786,037
Customers' deposits at amortized cost	**35,998,926**	**36,068,165**	33,873,830	33,954,008
Deposits from related parties at amortized cost	**189,913**	**191,128**	151,042	151,314
Engagements by acceptances	**141,170**	**141,170**	88,202	88,202

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.

49 FAIR VALUE OF THE FINANCIAL INSTRUMENTS (continued)

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

Government bonds, certificates of deposits 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 2014 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.

	2014			
		Valuation techniques		
	Quoted market price Level 1 LL million	*Observable inputs Level 2 LL million*	*Unobservable inputs Level 3 LL million*	*Total LL million*
Assets for which fair values are disclosed:				
Cash and balances with central banks	218,933	13,629,077	-	13,848,010
Due from banks and financial institutions	-	4,574,785	-	4,574,785
Loans to banks and financial institutions	-	100,939	-	100,939
Net loans and advances to customers at amortized cost	-	-	10,427,398	10,427,398
Net loans and advances to related parties at amortized cost	-	-	32,904	32,904
Financial assets at amortized cost:				
Government debt securities	2,489,210	5,783,591	-	8,272,801
Certificates of deposit - Central Banks	-	2,435,310	-	2,435,310
Corporate debt securities	1,020,209	83,900	-	1,104,109
Certificates of deposit - Commercial banks and financial institutions	-	489,579	-	489,579
Liabilities for which fair values are disclosed:				
Due to central banks	-	252,836	-	252,836
Due to banks and financial institutions	-	641,303	-	641,303
Customers' deposits at amortized cost	-	36,068,165	-	36,068,165
Deposits from related parties at amortized cost	-	191,128	-	191,128

	2013			
		Valuation techniques		
	Quoted market price Level 1 LL million	*Observable inputs Level 2 LL million*	*Unobservable inputs Level 3 LL million*	*Total LL million*
Assets for which fair values are disclosed:				
Cash and balances with central banks	207,627	9,812,138	-	10,019,765
Due from banks and financial institutions	-	4,423,385	-	4,423,385
Loans to banks and financial institutions	-	112,137		112,137
Net loans and advances to customers at amortized cost	-	-	9,582,493	9,582,493
Net loans and advances to related parties at amortized cost	-	-	28,601	28,601
Financial assets at amortized cost:				
Government debt securities	2,505,738	5,005,111	-	7,510,849
Certificates of deposit - Central Banks	-	4,836,015	-	4,836,015
Corporate debt securities	914,161	59,114	-	973,275
Certificates of deposit - Commercial banks and financial institutions	-	397,693	-	397,693
Liabilities for which fair values are disclosed:				
Due to central banks	-	66,268	-	66,268
Repurchase agreements	-	36,396	-	36,396
Due to banks and financial institutions	-	786,037	-	786,037
Customers' deposits at amortized cost	-	33,954,008	-	33,954,008
Deposits from related parties at amortized cost	-	151,314	-	151,314

50 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:

	2014		
	Less than one year LL million	*More than one year LL million*	*Total LL million*
ASSETS			
Cash and balances with central banks	3,041,097	10,109,452	13,150,549
Due from banks and financial institutions	4,527,287	47,701	4,574,988
Loans to banks and financial institutions	52,516	42,772	95,288
Derivative financial instruments	109,234	-	109,234
Financial assets at fair value through profit or loss	200,393	592,187	792,580
Net loans and advances to customers at amortized cost	7,910,541	2,473,070	10,383,611
Net loans and advances to related parties at amortized cost	23,220	9,459	32,679
Debtors by acceptances	137,662	3,508	141,170
Financial assets at amortized cost	2,041,590	9,994,339	12,035,929
Financial assets at fair value through other comprehensive income	-	7,305	7,305
Property and equipment	-	619,625	619,625
Intangible assets	-	2,490	2,490
Assets obtained in settlement of debt	-	19,889	19,889
Other assets	125,077	29,150	154,227
Goodwill	-	52,214	52,214
TOTAL ASSETS	18,168,617	24,003,161	42,171,778
LIABILITIES			
Due to central banks	38,021	346,874	384,895
Due to banks and financial institutions	641,301	-	641,301
Derivative financial instruments	92,621	-	92,621
Customers' deposits at amortized cost	35,367,742	631,184	35,998,926
Deposits from related parties at amortized cost	189,913	-	189,913
Engagements by acceptances	137,662	3,508	141,170
Other liabilities	663,085	109,411	772,496
Provisions for risks and charges	70,817	76,561	147,378
TOTAL LIABILITIES	37,201,162	1,167,538	38,368,700
NET	(19,032,545)	22,835,623	3,803,078

	2013		
	Less than one year LL million	*More than one year LL million*	*Total LL million*
ASSETS			
Cash and balances with central banks	2,454,022	7,393,055	9,847,077
Due from banks and financial institutions	4,335,053	88,397	4,423,450
Loans to banks and financial institutions	52,471	51,287	103,758
Derivative financial instruments	62,611	-	62,611
Financial assets at fair value through profit or loss	6,747	937,514	944,261
Net loans and advances to customers at amortized cost	6,745,307	2,791,094	9,536,401
Net loans and advances to related parties at amortized cost	20,055	8,367	28,422
Debtors by acceptances	84,442	3,760	88,202
Financial assets at amortized cost	1,815,299	11,798,243	13,613,542
Financial assets at fair value through other comprehensive income	-	6,450	6,450
Property and equipment	-	536,036	536,036
Intangible assets	-	2,941	2,941
Assets obtained in settlement of debt	-	23,514	23,514
Other assets	108,735	39,861	148,596
Goodwill	-	53,833	53,833
TOTAL ASSETS	15,684,742	23,734,352	39,419,094
LIABILITIES			
Due to central banks	11,248	97,342	108,590
Repurchase agreements	36,396	-	36,396
Due to banks and financial institutions	786,036	-	786,036
Derivative financial instruments	71,340	-	71,340
Financial liabilities at fair value through profit or loss	3,032	-	3,032
Customers' deposits at amortized cost	33,016,144	857,686	33,873,830
Deposits from related parties at amortized cost	151,042	-	151,042
Engagements by acceptances	84,442	3,760	88,202
Other liabilities	504,369	114,500	618,869
Provisions for risks and charges	31,417	109,494	140,911
TOTAL LIABILITIES	34,695,466	1,182,782	35,878,248
NET	(19,010,724)	22,551,570	3,540,846

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

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

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

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

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

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

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

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

51 RISK MANAGEMENT (continued)

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

51-1 Credit risk

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

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

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

The debt securities included in investments are mainly sovereign risk and standard grade securities. For details of the composition of the net loans and advances refer to note 23. Information on credit risk relating to derivative instruments is provided in note 21 and for commitments and contingencies in note 47. The information on the Group's net maximum exposure by economic sectors is given in note (A) below.

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

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

The Group applies the BDL risk rating classifications in addition to an internal rating system for its corporate and Small and Medium Enterprises (SMEs), which is managed by an independent unit, provides a rating based on client and transaction level. 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 loans related to these 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. 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 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 will be gradually extended to all group entities over time.

51 RISK MANAGEMENT (continued)

51-1 Credit risk (continued)

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

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

A- Analysis of risk concentration

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

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

51 RISK MANAGEMENT (continued)

51-1 Credit risk (continued)

A- Analysis of risk concentration (continued)

	2013		
	Domestic LL million	*International LL million*	*Total LL million*
Financial assets			
Balances with central banks	8,263,908	1,375,542	9,639,450
Due from banks and financial institutions	521,347	3,902,103	4,423,450
Loans to banks and financial institutions	51,865	51,893	103,758
Derivative financial instruments	43,308	19,303	62,611
Financial assets at fair value through profit or loss	57,932	886,329	944,261
- Government debt securities	*31,040*	*80,562*	*111,602*
- Corporate debt securities	*799*	*618,188*	*618,987*
- Funds	*10,811*	*59,765*	*70,576*
- Shares	*15,282*	*127,814*	*143,096*
Net loans and advances to customers at amortized cost	6,756,530	2,779,871	9,536,401
- Commercial loans	*3,920,457*	*1,980,853*	*5,901,310*
- Consumer loans	*2,836,073*	*799,018*	*3,635,091*
Net loans and advances to related parties at amortized cost	17,992	10,430	28,422
Debtors by acceptances	55,515	32,687	88,202
Financial assets at amortized cost	11,134,977	2,478,565	13,613,542
- Government debt securities	*5,951,654*	*1,527,192*	*7,478,846*
- Corporate debt securities	*37,730*	*900,726*	*938,456*
- Certificates of deposit – Central Banks	*4,780,317*	*-*	*4,780,317*
- Certificates of deposit – Commercial banks and financial institutions	*365,276*	*50,647*	*415,923*
Financial assets at fair value through other comprehensive income	-	6,450	6,450
Total credit exposure	26,903,374	11,543,173	38,446,547

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.

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

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

51 RISK MANAGEMENT (continued)

51-1 Credit risk (continued)

A- Analysis of risk concentration (continued)

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

	2013						
	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	9,639,450	-	-	-	-	-	9,639,450
Due from banks and financial institutions	4,423,450	-	70,000	-	-	-	4,353,450
Loans to banks and financial institutions	103,758	-	-	-	51,865	-	51,893
Derivative financial instruments	62,611	-	-	-	-	-	62,611
Financial assets at fair value through profit or loss	944,261	-	-	-	-	-	944,261
Net loans and advances to customers at amortized cost:	9,536,401	1,384,362	153,369	92,943	4,294,441	2,272,415	1,338,871
Commercial loans	*5,901,310*	*1,341,655*	*153,369*	*92,943*	*2,228,702*	*919,161*	*1,165,480*
Consumer loans	*3,635,091*	*42,707*	-	-	*2,065,739*	*1,353,254*	*173,391*
	24,709,931	1,384,362	223,369	92,943	4,346,306	2,272,415	16,390,536
Net loans and advances to related parties at amortized cost	28,422	5,265	-	-	11,614	-	11,543
Debtors by acceptances	88,202	-	-	-	-	-	88,202
Financial assets at amortized cost	13,613,542	-	-	-	-	-	13,613,542
	38,440,097	1,389,627	223,369	92,943	4,357,920	2,272,415	30,103,823
Guarantees received from banks, financial institutions and customers							
Utilized collateral		1,389,627	223,369	92,943	4,357,920	2,272,415	8,336,274
Surplus of collateral before undrawn credit lines		425,514	586,456	6,231	1,940,757	4,997,684	7,956,642
		1,815,141	809,825	99,174	6,298,677	7,270,099	16,292,916

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LL 1,821,387 million as at 31 December 2013.

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.

51 RISK MANAGEMENT (continued)

51-1 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.

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

	2013					
	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	9,639,450	-	-	-	-	9,639,450
Due from banks and financial institutions	-	4,423,450	-	-	1,521	4,424,971
Loans to banks and financial institutions	-	103,758	-	-	-	103,758
Derivative financial instruments	-	62,611	-	-	-	62,611
Financial assets at fair value through profit or loss	111,602	689,563	-	-	-	801,165
- Government debt securities	*111,602*	-	-	-	-	*111,602*
- Corporate debt securities	-	*618,987*	-	-	-	*618,987*
- Funds	-	*70,576*	-	-	-	*70,576*
Net loans and advances to customers at amortized cost	-	8,970,576	409,228	196,587	494,202	10,070,593
- Commercial loans	-	*5,558,338*	*203,955*	*196,587*	*393,249*	*6,352,129*
- Consumer loans	-	*3,412,238*	*205,273*	-	*100,953*	*3,718,464*
Net loans and advances to related parties at amortized cost	-	28,422	-	-	-	28,422
Financial assets at amortized cost	12,259,163	1,354,379	-	-	-	13,613,542
- Government debt securities	*7,478,846*	-	-	-	-	*7,478,846*
- Corporate debt securities	-	*938,456*	-	-	-	*938,456*
- Certificates of deposit – Central Banks	*4,780,317*	-	-	-	-	*4,780,317*
- Certificates of deposit – Commercial banks and financial institutions	-	*415,923*	-	-	-	*415,923*
Total	22,010,215	15,632,759	409,228	196,587	495,723	38,744,512

51 RISK MANAGEMENT (continued)

51-1 Credit risk (continued)

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

	2014				
	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	**101,280**	**7,326**	**27,896**	**31,608**	**168,110**
Consumer loans	**118,180**	**51,963**	**16,529**	**489**	**187,161**
	219,460	**59,289**	**44,425**	**32,097**	**355,271**

	2013				
	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	121,751	13,464	35,789	32,951	203,955
Consumer loans	138,476	50,204	15,011	1,582	205,273
	260,227	63,668	50,800	34,533	409,228

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

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

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

	2014 LL million	*2013 LL million*
Commercial loans	**79,125**	20,880

51-2 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.

51 RISK MANAGEMENT (continued)

51-2 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 deposits 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 **Loans to deposit ratios**		*2014* *%*	*2013* *%*
	Year-end	**28.78%**	28.11
	Maximum	**29.38%**	28.11
	Minimum	**28.30%**	27.15
	Average	**28.81%**	27.75

51-2-1 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 2014					
	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	2,755,302	323,637	517,292	6,003,596	7,595,382	17,195,209
Due from banks and financial institutions	3,485,255	577,979	465,819	47,701	-	4,576,754
Loans to banks and financial institutions	484	641	53,666	30,910	18,295	103,996
Derivative financial instruments	43,961	63,899	1,374	-	-	109,234
Financial assets at fair value through profit or loss	4,350	20,432	188,027	436,372	166,111	815,292
Net loans and advances to customers at amortized cost	3,309,369	1,407,776	3,504,980	2,222,343	775,110	11,219,578
Net loans and advances to related parties at amortized cost	23,393	391	1,674	5,158	7,566	38,182
Debtors by acceptances	50,407	82,962	4,294	3,379	128	141,170
Financial assets at amortized cost	344,198	543,531	1,946,406	7,698,250	5,311,854	15,844,239
Financial assets at fair value through other comprehensive income	-	-	-	-	7,305	7,305
Total undiscounted financial assets	10,016,719	3,021,248	6,683,532	16,447,709	13,881,751	50,050,959
Financial liabilities						
Due to central banks	10,923	13,473	16,850	137,103	223,962	402,311
Due to banks and financial institutions	597,080	27,728	16,731	-	-	641,539
Derivative financial instruments	34,778	56,469	1,374	-	-	92,621
Customers' deposits at amortized cost	26,464,554	5,671,844	3,396,652	660,160	45,359	36,238,569
Deposits from related parties at amortized cost	35,093	141,751	14,673	-	-	191,517
Engagements by acceptances	50,407	82,845	4,411	3,379	128	141,170
Total undiscounted financial liabilities	27,192,835	5,994,110	3,450,691	800,642	269,449	37,707,727
Net undiscounted financial assets / (liabilities)	(17,176,116)	(2,972,862)	3,232,841	15,647,067	13,612,302	12,343,232

51 RISK MANAGEMENT (continued)

51-2 Liquidity risk and funding management (continued)

51-2-1 Analysis of financial assets and liabilities by remaining contractual maturities (continued)

	31 December 2013					
	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	2,166,561	185,284	470,399	4,914,728	4,699,230	12,436,202
Due from banks and financial institutions	3,785,737	349,747	201,359	88,550	-	4,425,393
Loans to banks and financial institutions	485	714	54,306	12,289	52,552	120,346
Derivative financial instruments	23,069	15,704	23,838	-	-	62,611
Financial assets at fair value through profit or loss	4,880	4,498	13,556	796,940	164,652	984,526
Net loans and advances to customers at amortized cost	2,984,429	1,220,447	2,845,126	2,580,649	816,897	10,447,548
Net loans and advances to related parties at amortized cost	20,143	294	1,271	4,002	7,190	32,900
Debtors by acceptances	24,111	53,994	6,337	3,112	648	88,202
Financial assets at amortized cost	285,113	554,830	1,861,615	9,509,859	5,564,120	17,775,537
Financial assets at fair value through other comprehensive income	-	-	-	991	5,458	6,449
Total undiscounted financial assets	9,294,528	2,385,512	5,477,807	17,911,120	11,310,747	46,379,714
Financial liabilities						
Due to central banks	2,585	4,916	4,693	27,531	74,032	113,757
Repurchase agreements	36,396	-	-	-	-	36,396
Due to banks and financial institutions	631,096	112,664	42,547	-	-	786,307
Derivative financial instruments	31,044	16,459	23,838	-	-	71,341
Financial liabilities at fair value through profit or loss	5	9	3,074	-	-	3,088
Customers' deposits at amortized cost	21,962,453	8,244,960	2,979,557	922,901	4,774	34,114,645
Deposits from related parties at amortized cost	147,488	3,354	571	-	-	151,413
Engagements by acceptances	24,111	53,994	6,337	3,112	648	88,202
Total undiscounted financial liabilities	22,835,178	8,436,356	3,060,617	953,544	79,454	35,365,149
Net undiscounted financial assets / (liabilities)	(13,540,650)	(6,050,844)	2,417,190	16,957,576	11,231,293	11,014,565

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.

	2014					
	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	**803,817**	**-**	**-**	**-**	**-**	**803,817**
Documentary credits	**-**	**176,528**	**-**	**-**	**-**	**176,528**
Other commitments	**-**	**67,244**	**-**	**-**	**-**	**67,244**
Total	**803,817**	**243,772**	**-**	**-**	**-**	**1,047,589**

	2013					
	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	723,348	-	-	-	-	723,348
Documentary credits	-	134,261	-	-	-	134,261
Other commitments	-	58,329	-	-	-	58,329
Total	723,348	192,590	-	-	-	915,938

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

51 RISK MANAGEMENT (continued)

51-3 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.

51-3-1 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.

2014 **Currency**	***Increase in basis points***	***Sensitivity of net interest income LL million***
Lebanese Lira	**+0.5%**	**(17,545)**
United States Dollar	**+0.5%**	**6,995**
Euro	**+0.25%**	**(1,889)**
Others	**+0.25%**	**1,266**

2013 Currency	*Increase in basis points*	*Sensitivity of net interest income LL million*
Lebanese Lira	+0.5%	(15,660)
United States Dollar	+0.5%	4,673
Euro	+0.25%	(458)
Others	+0.25%	1,312

An equivalent decrease would have resulted in an equivalent but opposite impact for the years ended 31 December 2014 and 31 December 2013.

51 RISK MANAGEMENT (continued)

51-3 Market risk (continued)

51-3-1 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:

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

2013	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	2,008,157	1,230,709	197,103	263,813	1,059,908	3,115,183	1,972,204	9,847,077
Due from banks and financial institutions	2,619,650	501,128	200,741	63,132	24,958	-	1,013,841	4,423,450
Loans to banks and financial institutions	-	11,800	91,295	-	-	-	663	103,758
Derivative financial instruments	-	-	-	-	-	-	62,611	62,611
Financial assets at fair value through profit or loss	394,862	201,641	1,205	93,250	21,058	14,794	217,451	944,261
Net loans and advances to customers at amortized cost	3,731,445	1,540,094	2,050,376	902,170	914,028	114,591	283,697	9,536,401
Net loans and advances to related parties at amortized cost	23,885	2,498	42	38	-	1,959	-	28,422
Debtors by acceptances	-	-	-	-	-	-	88,202	88,202
Financial assets at amortized cost	308,552	450,266	1,104,564	1,695,175	5,290,806	4,573,575	190,604	13,613,542
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	6,450	6,450
TOTAL ASSETS	9,086,551	3,938,136	3,645,326	3,017,578	7,310,758	7,820,102	3,835,723	38,654,174
LIABILITIES								
Due to central banks	-	6,939	3,998	5,735	18,308	73,299	311	108,590
Repurchase agreements	36,310	-	-	-	-	-	86	36,396
Due to banks and financial institutions	254,042	112,312	41,724	-	-	-	377,958	786,036
Derivative financial instruments	-	-	-	-	-	-	71,340	71,340
Financial liabilities at fair value through profit or loss	-	-	3,032	-	-	-	-	3,032
Customers' deposits at amortized cost	22,055,039	3,377,571	2,679,266	314,025	254,803	4,149	5,188,977	33,873,830
Deposits from related parties at amortized cost	134,805	724	26	-	-	-	15,487	151,042
Engagements by acceptances	-	-	-	-	-	-	88,202	88,202
Other liabilities	-	79,772	-	-	-	-	539,097	618,869
TOTAL LIABILITIES	22,480,196	3,577,318	2,728,046	319,760	273,111	77,448	6,281,458	35,737,337
Total interest rate sensitivity gap	(13,393,645)	360,818	917,280	2,697,818	7,037,647	7,742,654	(2,445,735)	2,916,837

51 RISK MANAGEMENT (continued)

51-3 Market risk (continued)

51-3-2 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:

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

		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	3,490,010	3,570,902	1,546,631	1,239,534	6,357,067	9,847,077
Due from banks and financial institutions	110,198	2,702,036	647,563	963,653	4,313,252	4,423,450
Loans to banks and financial institutions	51,865	37,357	14,536	-	51,893	103,758
Derivative financial instruments	43,308	11,339	1,809	6,155	19,303	62,611
Financial assets at fair value through profit or loss	27,993	665,091	7,872	243,305	916,268	944,261
Net loans and advances to customers at amortized cost	1,860,415	5,288,167	462,732	1,925,087	7,675,986	9,536,401
Net loans and advances to related parties at amortized cost	2,522	15,185	1,103	9,612	25,900	28,422
Debtors by acceptances	-	60,025	22,116	6,061	88,202	88,202
Financial assets at amortized cost	5,808,960	6,226,813	104,251	1,473,518	7,804,582	13,613,542
Financial assets at fair value through other comprehensive income	-	648	31	5,771	6,450	6,450
Property and equipment	338,883	23,573	3,299	170,281	197,153	536,036
Intangible assets	586	74	213	2,068	2,355	2,941
Assets obtained in settlement of debt	(1,898)	4,742	-	20,670	25,412	23,514
Other assets	61,593	30,777	7,515	48,711	87,003	148,596
Goodwill	-	-	-	53,833	53,833	53,833
TOTAL ASSETS	11,794,435	18,636,729	2,819,671	6,168,259	27,624,659	39,419,094
LIABILITIES						
Due to central banks	104,703	-	-	3,887	3,887	108,590
Repurchase agreements	-	-	-	36,396	36,396	36,396
Due to banks and financial institutions	2,030	380,253	245,991	157,762	784,006	786,036
Derivative financial instruments	46,590	13,911	57	10,782	24,750	71,340
Financial liabilities at fair value through profit or loss	-	-	-	3,032	3,032	3,032
Customers' deposits at amortized cost	9,584,695	17,886,052	2,221,989	4,181,094	24,289,135	33,873,830
Deposits from related parties at amortized cost	97,294	42,378	5,684	5,686	53,748	151,042
Engagements by acceptances	-	60,025	22,116	6,061	88,202	88,202
Other liabilities	250,814	235,190	22,663	110,202	368,055	618,869
Provisions for risks and charges	82,989	14,916	1,807	41,199	57,922	140,911
Total liabilities	10,169,115	18,632,725	2,520,307	4,556,101	25,709,133	35,878,248
NET EXPOSURE	1,625,320	4,004	299,364	1,612,158	1,915,526	3,540,846

51 RISK MANAGEMENT (continued)

51-3 Market risk (continued)

51-3-2 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 % 2014*	*Effect on profit before tax 2014 LL million*	*Change in currency rate % 2013*	*Effect on profit before tax 2013 LL million*
USD	± 1%	3,232	± 1%	3,718
EUR	± 3%	2,197	± 3%	822

51-3-3 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 2014 would have increased other comprehensive income by LL 179 million and net income by LL 7,662 million (2013: LL 180 million and LL 7,155 million respectively). An equivalent decrease would have resulted in an equivalent but opposite impact.

51-3-4 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.

51-4 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.

52 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:

52 CAPITAL MANAGEMENT (continued)

	Common Tier 1 capital ratio	Tier 1 capital ratio	Total capital ratio
Year ended 31 December 2013	6.0 %	8.5 %	10.5 %
Year ended 31 December 2014	7.0 %	9.5 %	11.5 %
Year ended 31 December 2015	8.0 %	10.0 %	12.0 %

	2014 ***LL million***	*2013* *LL million*
Risk weighted assets:		
Credit risk	**17,292,857**	16,422,593
Market risk	**854,196**	1,061,537
Operational risk	**2,140,857**	2,015,349
Total risk weighted assets	**20,287,910**	19,499,479

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*	
	2014 ***LL million***	*2013* *LL million*	***2014*** ***LL million***	*2013* *LL million*
Tier 1 Capital	**3,129,586**	2,904,163	**3,434,396**	**3,246,290**
Of which: Common Tier 1	***2,822,570***	*2,592,322*	***3,123,898***	***2,934,451***
Tier 2 Capital	**15,928**	17,406	**21,130**	**18,345**
Total Capital	**3,145,514**	2,921,570	**3,455,526**	**3,264,635**

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*	
	2014	*2013*	***2014***	*2013*
Capital adequacy – Common Tier 1	**13.91%**	13.29%	**15.40%**	15.05%
Capital adequacy - Tier 1	**15.43%**	14.89%	**16.93%**	16.65%
Capital adequacy -Total Capital	**15.50%**	14.98%	**17.03%**	16.74%

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.