

**BANK AUDI SAL**

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2015**



Building a better  
working world

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## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BANK AUDI SAL

We have audited the accompanying consolidated financial statements of Bank Audi SAL ("the Bank") and its subsidiaries (collectively "the Group"), which comprise the consolidated statement of financial position as at 31 December 2015 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

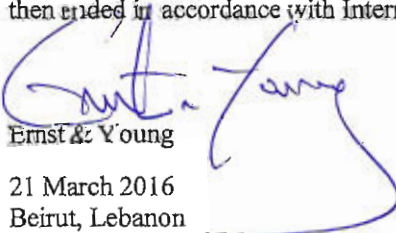
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable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

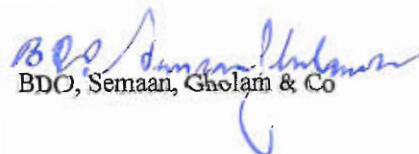
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements,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

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

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

  
Ernst & Young  
21 March 2016  
Beirut, Lebanon

  
BDO, Semaan, Gholam & Co

# Bank Audi SAL

## CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2015

	Notes	2015 LL million	2014 LL million
<b>CONTINUING OPERATIONS</b>			
Interest and similar income	5	3,771,447	3,401,120
Interest and similar expense	6	(2,307,795)	(2,150,881)
<b>Net Interest Income</b>		<u>1,463,652</u>	<u>1,250,239</u>
Fee and commission income	7	503,438	458,795
Fee and commission expense	8	(96,773)	(85,356)
<b>Net Fee and Commission Income</b>		<u>406,665</u>	<u>373,439</u>
Net gain on financial assets at fair value through profit or loss	9	73,397	52,189
Net gain on sale of financial assets at amortized cost	10	123,426	262,026
Revenues from financial assets at fair value through other comprehensive income	26	23,107	32,120
Share of profit of associates under equity method	27	3,307	373
Other operating income	11	33,370	23,307
<b>Total Operating Income</b>		<u>2,126,924</u>	<u>1,993,693</u>
Net credit losses	12	(200,009)	(209,748)
<b>Net Operating Income</b>		<u>1,926,915</u>	<u>1,783,945</u>
Personnel expenses	13	(630,131)	(632,571)
Other operating expenses	14	(418,378)	(374,789)
Depreciation of property and equipment	28	(74,413)	(64,674)
Amortisation of intangible assets	29	(28,827)	(23,602)
Impairment of goodwill	32	(5,457)	(3,015)
<b>Total Operating Expenses</b>		<u>(1,157,206)</u>	<u>(1,098,651)</u>
<b>Operating Profit</b>		<u>769,709</u>	<u>685,294</u>
Net (loss) gain on disposal of fixed assets		(794)	816
<b>Profit Before Tax From Continuing Operations</b>		<u>768,915</u>	<u>686,110</u>
Income tax	15	(161,188)	(158,025)
<b>Profit After Tax From Continuing Operations</b>		<u>607,727</u>	<u>528,085</u>
<b>DISCONTINUED OPERATIONS</b>			
Profit from discontinued operations, net of tax	16	-	40
<b>Profit for the period</b>		<u>607,727</u>	<u>528,125</u>
<b>Attributable to:</b>			
<b>Equity holders of the Bank:</b>			
Profit for the year from continuing operations		587,948	513,500
Profit for the year from discontinued operations		-	40
<b>Non-controlling interest:</b>		19,779	14,625
Profit for the year from continuing operations		19,779	14,625
		<u>607,727</u>	<u>528,125</u>
<b>Earnings per share:</b>			
		<i>LL</i>	<i>LL</i>
Basic and diluted earnings per share	17	1,387	1,297
Basic and diluted earnings per share from continuing operations	17	1,387	1,297

The attached notes 1 to 59 form part of these consolidated financial statements.

Bank Audi SAL

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

	Notes	2015 LL million	2014 LL million
<b>Profit for the year from continuing operations</b>		607,727	528,085
<b>Discontinued operations</b>		-	40
<b>Profit for the year</b>		<u>607,727</u>	<u>528,125</u>
<b>Other comprehensive income</b>			
<i>Items to be reclassified to the income statement in subsequent periods:</i>			
Exchange differences on translation of foreign operations		(330,337)	(174,327)
Net gain on hedge of net investments	21	124,318	6,580
	47	<u>(206,019)</u>	<u>(167,747)</u>
Effect of change in time value of hedging instruments	21	(53,500)	348
		<u>(259,519)</u>	<u>(167,399)</u>
<i>Items not to be reclassified to the income statement in subsequent periods:</i>			
Actuarial gain (loss) on defined benefits plans	39	9,157	(35)
Net deferred income taxes	15	(891)	521
	47	<u>8,266</u>	<u>486</u>
Net unrealized gain on financial assets at fair value through other comprehensive income		11,040	22,599
Net deferred income taxes	15	(1,161)	(2,211)
	47	<u>9,879</u>	<u>20,388</u>
Revaluation of lands and buildings	28	770	383,096
Net deferred income taxes	15	4,613	(49,332)
	47	<u>5,383</u>	<u>333,764</u>
		<u>23,528</u>	<u>354,638</u>
<b>Other comprehensive income for the year, net of tax</b>	47	<u>(235,991)</u>	<u>187,239</u>
<b>Total comprehensive income for the year, net of tax</b>		<u>371,736</u>	<u>715,364</u>
<b>Attributable to:</b>			
Equity holders of the Bank		373,959	713,319
Non-controlling interest		(2,223)	2,045
		<u>371,736</u>	<u>715,364</u>

The attached notes 1 to 59 form part of these consolidated financial statements.

# Bank Audi SAL

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

	Notes	2015 LL million	2014 LL million
<b>ASSETS</b>			
Cash and balances with central banks	18	13,754,922	13,247,387
Due from banks and financial institutions	19	2,704,157	3,608,892
Loans to banks and financial institutions and reverse repurchase agreements	20	2,585,553	2,928,743
Derivative financial instruments	21	265,863	197,127
Financial assets at fair value through profit or loss	22	383,722	516,822
Loans and advances to customers at amortized cost	23	26,812,807	25,775,338
Loans and advances to related parties at amortized cost	24	214,549	110,007
Debtors by acceptances		240,605	340,480
Financial assets at amortized cost	25	14,784,574	14,573,743
Financial assets at fair value through other comprehensive income	26	144,375	135,706
Investments in associates	27	13,989	27,762
Property and equipment	28	963,438	948,541
Intangible assets	29	101,364	92,652
Non current assets held for sale	30	72,779	18,510
Other assets	31	470,506	536,536
Goodwill	32	209,434	197,473
<b>TOTAL ASSETS</b>		<b>63,722,637</b>	<b>63,255,719</b>
<b>LIABILITIES</b>			
Due to central banks	33	569,856	438,385
Due to banks and financial institutions	34	2,259,247	1,695,351
Due to banks under repurchase agreements	33	81,318	90,443
Derivative financial instruments	21	131,199	116,303
Customers' deposits	35	52,990,507	53,413,209
Deposits from related parties	36	690,111	586,621
Debt issued and other borrowed funds	37	1,053,982	854,455
Engagements by acceptances		240,605	340,480
Other liabilities	38	578,000	519,980
Provisions for risks and charges	39	172,060	153,961
<b>TOTAL LIABILITIES</b>		<b>58,766,885</b>	<b>58,209,188</b>
<b>SHAREHOLDERS' EQUITY – GROUP SHARE</b>			
Share capital – common shares	40	661,985	659,586
Share capital – preferred shares	40	6,210	8,250
Issue premium – common shares	41	883,582	883,582
Issue premium – preferred shares	41	559,102	745,500
Warrants issued on subsidiary shares	40	17,145	17,195
Cash contribution to capital	42	72,586	72,586
Non-distributable reserves	43	1,179,216	1,050,579
Distributable reserves	44	642,865	616,976
Treasury shares	46	-	(4,929)
Retained earnings		675,524	599,388
Other components of equity	47	(390,195)	(178,943)
Result of the year		587,948	513,500
<b>NON-CONTROLLING INTEREST</b>	48	<b>59,784</b>	<b>63,261</b>
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>4,955,752</b>	<b>5,046,531</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>63,722,637</b>	<b>63,255,719</b>

The attached notes 1 to 59 form part of these consolidated financial statements.

# Bank Audi SAL

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2015

	Notes	2015 LL million	2014 LL million
<b>OPERATING ACTIVITIES</b>			
Profit before tax from continuing operations		768,915	686,110
Profit before tax from discontinued operations		-	40
Adjustments to reconcile profit before tax to net cash flows:			
<b>Non-cash:</b>			
Depreciation and amortisation	28 & 29	103,240	88,276
Impairment of assets acquired in settlement of debt	30	314	-
Net gain on financial instruments at amortised cost	10	(123,426)	(262,026)
Provisions for loans and advances	12	239,138	229,705
Provision for impairment of financial instruments	12	(433)	(699)
Recoveries of provision for loans and advances	12	(20,373)	(19,258)
Share of net profit of associates	27	(3,307)	(373)
Net gain on disposal of assets acquired in settlement of debt	11	(225)	(11,600)
Net loss (gain) on sale or disposal of fixed assets		794	(846)
Provision for risks and charges		48,026	38,140
Write back of provisions for risks and charges	11	(1,465)	(897)
Provision for end of service benefits	13	17,367	34,013
Write back of provision for end of service benefits	11	(11)	(239)
Impairment of goodwill	32	5,457	3,015
Gain on revaluation of associate	11	(7,161)	-
		<u>1,026,850</u>	<u>783,361</u>
<b>Working capital adjustments:</b>			
Balances with the Central Banks, banks and financial institutions maturing in more than 3 months		(3,755)	(5,830,497)
Change in derivatives and financial assets held for trading		25,760	31,932
Change in loans and advances to customers and related parties		(1,298,508)	(3,880,895)
Change in other assets		71,956	(247,787)
Change in deposits from customers and related parties		(319,213)	7,124,023
Change in other liabilities		90,045	(63,043)
Proceeds from sale of non-current assets held for sale		4,924	16,734
Cost of non current assets held for sale		(61,414)	(4,932)
Change in non controlling interest		(3,477)	298
		<u>(466,832)</u>	<u>(2,070,806)</u>
<b>Cash used in operations</b>		<u>(466,832)</u>	<u>(2,070,806)</u>
Provisions for risks and charges paid		(24,157)	(24,882)
End of service benefits paid		(8,313)	(17,607)
Taxation paid		(181,523)	(148,506)
<b>Net cash flows used in operating activities</b>		<u>(680,825)</u>	<u>(2,261,801)</u>
<b>INVESTING ACTIVITIES</b>			
Change in financial assets – other than trading		(81,162)	1,869,311
Purchase of property and equipment and intangibles	28 & 29	(170,736)	(112,019)
Change in investments under equity method and related loans		(377)	1,225
Cash collected from sale of property and equipment and intangibles		288	1,330
Acquisition of a subsidiary, net of cash acquired	3	(6,766)	-
<b>Net cash flows (used in) from investing activities</b>		<u>(258,753)</u>	<u>1,759,847</u>
<b>FINANCING ACTIVITIES</b>			
Subsidiary shares warrants	40	(50)	22,613
Issuance of common shares	40	-	426,820
Cancellation of preferred shares series "E"	40	(188,438)	-
Distribution of dividends	40	(286,556)	(249,906)
Treasury GDR and warrants transactions		4,929	76,334
Debt issued and other borrowed funds	37	199,527	317,354
<b>Net cash flows (used in) from financing activities</b>		<u>(270,588)</u>	<u>593,215</u>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>		<u>(1,210,166)</u>	<u>91,261</u>
<b>Net foreign exchange difference</b>		<u>(220,222)</u>	<u>(173,492)</u>
Cash and cash equivalents at 1 January		5,102,245	5,184,476
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	49	<u>3,671,857</u>	<u>5,102,245</u>
<b>Operational cash flows from interest and dividends</b>			
Interest paid		(2,336,000)	(2,103,459)
Interest received		3,810,962	3,232,999
Dividends received		23,430	32,393

The attached notes 1 to 59 form part of these consolidated financial statements.

# Bank Audi SAL

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	<i>Attributable to the equity holders of the Bank</i>												Non-controlling interest LL million	Total shareholders' equity LL million	
	Share capital - common shares LL million	Share capital - preferred shares LL million	Issue premium - common shares LL million	Issue premium - preferred shares LL million	Warrants issued on subsidiary shares LL million	Cash contribution to capital LL million	Non distributable reserves LL million	Distributable reserves LL million	Treasury shares LL million	Retained earnings LL million	Other components of equity LL million	Result of the year LL million			Total LL million
Balance at 1 January 2015	659,586	8,250	883,582	745,500	17,195	72,586	1,050,579	616,976	(4,929)	599,388	(178,943)	513,500	4,983,270	63,261	5,046,531
Net profits for the year	-	-	-	-	-	-	-	-	-	-	-	587,948	587,948	19,779	607,727
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	(213,989)	-	(213,989)	(22,002)	(235,991)
Total comprehensive income	-	-	-	-	-	-	-	-	-	-	(213,989)	587,948	373,959	(2,223)	371,736
Appropriation of 2014 profits	-	-	-	-	-	-	143,140	25,927	-	57,877	-	(226,944)	-	-	-
Increase in share nominal value	2,399	23	-	(23)	-	-	(2,399)	-	-	-	-	-	-	-	-
Distribution of dividends on ordinary shares	-	-	-	-	-	-	-	-	-	-	-	(240,766)	(240,766)	-	(240,766)
Distribution of dividends on preferred shares	-	-	-	-	-	-	-	-	-	-	-	(45,790)	(45,790)	-	(45,790)
Redemption of preferred shares "E"	-	(2,063)	-	(186,375)	-	-	-	-	-	-	-	(188,438)	-	(188,438)	
Entities under equity method	-	-	-	-	-	-	-	-	-	612	3,932	4,544	-	4,544	
Treasury shares transactions	-	-	-	-	-	-	-	-	4,929	-	-	4,929	-	4,929	
Warrants issued on subsidiary shares	-	-	-	-	(50)	-	-	(31)	-	-	-	(81)	-	(81)	
Non controlling interest share of reserves	-	-	-	-	-	-	(12,104)	(687)	-	18,737	-	5,946	(5,946)	-	
Non controlling interest share of capital	-	-	-	-	-	-	-	-	-	-	-	4,692	(4,692)	-	
Sale of financial assets at FVTOCI	-	-	-	-	-	-	-	-	-	4,764	(1,195)	3,569	-	3,569	
Entities acquired during the year	-	-	-	-	-	-	-	681	-	(6,903)	-	(6,222)	-	(6,222)	
Other movements	-	-	-	-	-	-	-	(1)	-	1,049	-	1,048	-	1,048	
Balance at 31 December 2015	661,985	6,210	883,582	559,102	17,145	72,586	1,179,216	642,865	-	675,524	(390,195)	587,948	4,895,968	59,784	4,955,752
Balance at 1 January 2014	454,324	6,495	659,206	747,255	-	72,586	959,545	589,523	(114,327)	441,400	(269,081)	454,621	4,001,547	62,963	4,064,510
Net profits for the year	-	-	-	-	-	-	-	-	-	-	-	513,500	513,500	14,625	528,125
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	199,819	-	199,819	(12,580)	187,239
Total comprehensive income	-	-	-	-	-	-	-	-	-	-	199,819	513,500	713,319	2,045	715,364
Appropriation of 2013 profits	-	-	-	-	-	-	105,168	23,372	-	76,175	-	(204,715)	-	-	
Capital increase	64,950	-	387,300	-	-	-	-	(2,817)	-	-	-	-	449,433	-	449,433
Increase in share nominal value	140,312	1,755	(140,312)	(1,755)	-	-	-	-	-	-	-	-	-	-	
Distribution of dividends on ordinary shares	-	-	-	-	-	-	-	-	-	-	-	(210,899)	(210,899)	-	(210,899)
Distribution of dividends on preferred shares	-	-	-	-	-	-	-	-	-	-	-	(39,007)	(39,007)	-	(39,007)
Entities under equity method	-	-	-	-	-	-	-	-	-	358	2,701	3,059	-	3,059	
Treasury share transactions	-	-	-	-	-	-	(22,942)	-	109,398	-	-	86,456	-	86,456	
Non controlling interest share of reserves	-	-	-	-	-	-	(28,616)	8,212	-	20,006	-	(398)	398	-	
Non controlling interest share of capital	-	-	-	-	-	-	-	-	-	-	-	(2,145)	(2,145)	-	
Sale of financial assets at FVTOCI	-	-	-	-	-	-	-	-	-	101,144	(112,382)	(11,238)	-	(11,238)	
Unrealised gain on foreign exchange	-	-	-	-	-	-	37,773	-	-	(37,773)	-	-	-	-	
Subsidiary shares warrants	-	-	(22,612)	-	26,004	-	(8,809)	-	-	(3,392)	-	-	-	-	
Warrants issued on subsidiary shares	-	-	-	-	-	-	-	(1,314)	-	-	-	(10,123)	-	(10,123)	
Transfer between reserves	-	-	-	-	-	-	(349)	-	-	349	-	-	-	-	
Other movements	-	-	-	-	-	-	-	-	-	1,121	-	1,121	-	1,121	
Balance at 31 December 2014	659,586	8,250	883,582	745,500	17,195	72,586	1,050,579	616,976	(4,929)	599,388	(178,943)	513,500	4,983,270	63,261	5,046,531

The attached notes 1 to 59 form part of these consolidated financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

**1 CORPORATE INFORMATION**

Bank Audi SAL (the Bank) is a Lebanese joint stock company registered since 1962 in Lebanon under No 11347 at the Register of Commerce and under No 56 on the Banks' list at the Bank of Lebanon ("BDL"). The Bank's head office is located in Bank Audi Plaza, Omar Daouk Street, Beirut, Lebanon. The Bank's shares are listed on the Beirut Stock Exchange and London SEAQ.

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

The consolidated financial statements were authorized for issue in accordance with the Board of Directors' resolution on 21 March 2016.

**2 ACCOUNTING POLICIES**

**2.1 Basis of preparation**

The consolidated financial statements have been prepared on a historical cost basis except for: a) the revaluation of land and buildings pursuant to the adoption of the revaluation model of IAS 16 for this asset class, and b) the measurement at fair value of derivative financial instruments, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income.

The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at 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) which is the Bank's functional currency and all values are rounded to the nearest million, except when otherwise indicated. Besides, the consolidated financial statements provide comparative information in respect of the previous period.

**Statement of compliance**

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

**Presentation of financial statements**

The Group presents its 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 one year after the statement of financial position date (non-current) is presented in the risk management 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. Only gross settlement mechanisms with features that eliminate or result in insignificant credit and liquidity risk and that process receivables and payables in a single settlement process or cycle would be, in effect, equivalent to net settlement. This is not generally the case with master netting agreements, therefore the related assets and liabilities are presented gross in the consolidated statement of financial position. Income and expense will not be offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group.

**2 ACCOUNTING POLICIES (continued)**

**2.2 Basis of consolidation**

The consolidated financial statements comprise the financial statements of Bank Audi SAL and its subsidiaries as at 31 December 2015.

**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 measures the non-controlling interest in the acquiree at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group makes an acquisition meeting the definition of a business under IFRS 3, 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, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the consolidated income statement. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled 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 interests, 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.

**Control and subsidiaries**

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

**2 ACCOUNTING POLICIES (continued)**

**2.2 Basis of consolidation (continued)**

**Control and subsidiaries (continued)**

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; and
- 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.

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.

Where the Group loses control of a subsidiary but retains an interest in it, then such interest is measured at fair value at the date that control is lost with the change in carrying amount recognised in profit or loss. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. As such, amounts previously recognised in other comprehensive income are transferred to consolidated income statement.

**Non-Controlling interest**

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

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

**2 ACCOUNTING POLICIES (continued)**

**2.2 Basis of consolidation (continued)**

**Investment in associates**

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associate are accounted for using the equity method. Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor separately tested for impairment.

The statement of profit or loss reflects the Group's share of the results of operations of the associates. Any change in other comprehensive income of those investees is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. Gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The financial statements of associates are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognises the loss in the consolidated income statement.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is transferred to consolidated income statement where appropriate. Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

**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 2015.

Although these new standards and amendments have been applied for the first time in 2015, they did not have a material impact on the annual consolidated financial statements of the Group. The nature and the impact of each new standard or amendment are described below:

2 ACCOUNTING POLICIES (continued)

2.3 Changes in accounting policies and disclosures (continued)

*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. It is not expected that this amendment would be relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions independent of years of service.

*Annual Improvements 2010-2012 Cycle*

With the exception of the improvement relating to IFRS 2 Share-based Payment applied to share-based payment transactions with a grant date on or after 1 July 2014, all other improvements are effective for accounting periods beginning on or after 1 July 2014. The Group has applied these improvements for the first time in these consolidated financial statements. They include:

*IFRS 2 Share-based Payments*

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions. The clarifications are consistent with how the Group has identified any performance and service conditions which are vesting conditions in previous periods. In addition, the Group had not granted any awards during the second half of 2014 and 2015. Thus, these amendments did not impact the Group's financial statements or accounting policies.

*IFRS 3 Business Combinations*

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39. This is consistent with the Group's current accounting policy and, thus, this amendment did not impact the Group's accounting policy.

*IFRS 8 Operating Segments*

The amendments are applied retrospectively and clarify 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 (e.g., sales and gross margins) used to assess whether the segments are 'similar'
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

The Group has not applied the aggregation criteria in IFRS 8.12. The Group presents segment assets which reconcile to total assets.

*IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets*

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. This amendment did not have any impact to the revaluation adjustments recorded by the Group.

**2 ACCOUNTING POLICIES (continued)**

**2.3 Changes in accounting policies and disclosures (continued)**

*IAS 24 Related Party Disclosures*

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment is not relevant for the Group as it does not receive any management services from other entities.

*Annual Improvements 2011-2013 Cycle*

These improvements are effective from 1 July 2014 and the Group has applied these amendments for the first time in these consolidated financial statements. 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

As such this amendment is not relevant for the Group and its subsidiaries.

*IFRS 13 Fair Value Measurement*

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9. The Group does not apply the portfolio exception in IFRS 13.

*IAS 40 Investment Property*

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or a business combination. In previous periods, the Group has relied on IFRS 3, not IAS 40, in determining whether an acquisition is of an asset or is a business acquisition. Thus, this amendment did not impact the accounting policy of the Group.

**2.4 Standards issued but not yet effective**

The standards and amendments 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 and amendments, if applicable, when they become effective.

***IFRS 9 (2014) Financial Instruments***

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments (IFRS 9 (2014)) which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. In prior years the Group has early adopted IFRS 9 (2011) which includes the requirements for the classification and measurement. In 2014, the Group early applied IFRS 9 (2013) which includes the classification and measurement as well as the hedge accounting requirements of the standard. IFRS 9 (2014) is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The adoption of IFRS 9 (2014) will have an effect on measuring impairment allowances and on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities. The Group is currently assessing the impact of IFRS 9 (2014) and plans to adopt the new standard on the required effective date.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

**2 ACCOUNTING POLICIES (continued)**

**2.4 Changes issued but not yet effective (continued)**

***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.

***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. 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 currencies**

The consolidated financial statements are presented in Lebanese Lira (LL) which is also the Bank's functional 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 on financial assets at fair value through profit or loss" in the consolidated income statement.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

**2 ACCOUNTING POLICIES (continued)****2.5 Summary of significant accounting policies (continued)****Foreign currencies (continued)****(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 the foreign currency translation reserve in 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 the exchange rate on the reporting date.

The table below presents the exchange rates of the currencies used to translate assets, liabilities and statement of income items of foreign branches and subsidiaries:

	2015		2014	
	Year-end rate	Average rate	Year-end rate	Average rate
	LL	LL	LL	LL
US Dollar	1,507.50	1,507.50	1,507.50	1,507.50
Euro	1,646.64	1,677.56	1,833.87	1,998.31
Swiss Franc	1,520.88	1,561.93	1,524.27	1,645.50
Syrian Lira	4.48	5.66	7.62	7.62
Turkish Lira	518.42	557.96	651.19	690.62
Jordanian Dinar	2,124.44	2,127.02	2,126.23	2,129.50
Egyptian Pound	192.53	195.99	210.84	212.95
Sudanese Pound	234.45	236.98	239.16	250.22
Saudi Riyal	401.58	401.79	401.68	401.89
Qatari Riyal	413.89	414.00	413.93	414.01

**Financial instruments –classification and measurement****(i) Date of recognition**

All financial assets and liabilities are initially recognised on the settlement date. 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 each entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Assets are initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs. Assets are subsequently measured at amortised cost or fair value.

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

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

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

***Financial assets at amortised cost***

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

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

These financial assets are initially recognised 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 amortised cost using the effective interest rate (EIR) method, less allowance for impairment. Amortised cost is calculated by taking into account any discount of premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortization is included in “Interest and similar income” in the income statement. The losses arising from impairment are recognised in the income statement in “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 amortised cost are reflected under “Net gain on sale of financial assets at amortised cost” in the consolidated income statement.

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

After initial measurement, “Balances with central banks”, “Due from banks and financial institutions”, and “Loans and advances to customers and related parties” are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised 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 amortisation is included in ‘Interest and similar income’ in the consolidated income statement. The losses arising from impairment are recognised 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 amortised 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 on financial assets 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 and other financial assets at fair value through profit or loss are also reflected under “net gain on financial assets at fair value through profit or loss” in the consolidated income statement showing separately, those related to financial assets designated at fair value upon initial recognition from those mandatorily measured at fair value.

**2 ACCOUNTING POLICIES (continued)**

**2.5 Summary of significant accounting policies (continued)**

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

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

***Equity instruments at fair value through profit or loss***

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

These financial assets are recorded in the consolidated statement of financial position at fair value. Changes in fair value and dividend income are recorded under “net gain on financial assets 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 assets 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 recognised 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 recognised under “Revenue from financial assets at fair value through other comprehensive income” in the consolidated income statement when the Group’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.

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 recognising the gains and losses on them on different bases; or
- a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Group's key management personnel.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

Financial instruments – classification and measurement (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 recognised 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.

*Debt issued and other borrowed funds and subordinated notes*

Financial instruments issued by the Group, which are not designated at fair value through profit or loss, are classified as liabilities where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, debt issued and other borrowings and subordinated notes are subsequently measured at amortised cost 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.

A compound financial instrument which contains both a liability and an equity component is separated at the issue date. A portion of the net proceeds of the instrument is allocated to the debt component on the date of issue based on its fair value (which is generally determined based on the quoted market prices for similar debt instruments). The equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the debt component. The value of any derivative features (such as a call option) embedded in the compound financial instrument other than the equity component is included in the debt component.

*Due to central banks, banks and financial institutions and customers' and related parties' deposits*

After initial measurement, 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. Customer deposits which are linked to the performance of indices or commodities are subsequently measured at fair value through profit or loss.

c. *Derivatives recorded at fair value through profit or loss*

The Group uses derivatives such as interest rate swaps and futures, credit default swaps, cross currency swaps, forward foreign exchange contracts and options on interest rates, foreign currencies and equities.

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 on financial assets at fair value through profit or loss" in the consolidated income statement.

An embedded derivative is 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

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

*(iii) Day 1 profit or loss*

When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the 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 recognised in the consolidated income statement when the inputs become observable, or when the instrument is derecognised.

*(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 and 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*

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the statement of financial position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in consolidated income statement.

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

**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 "Due to banks under repurchase agreements", reflecting the transaction's economic substance 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 statement of financial position to "Financial assets given as collateral".

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 "Loans to banks and financial institutions and reverse repurchase 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 on 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, and non-financial assets, namely land and building and building improvements, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in the notes.

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

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

The principal or the most advantageous market must be accessible by the 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, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

**Fair value measurement (continued)**

For assets and liabilities that are recognised in the 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.

Management determines the policies and procedures for both recurring and non-recurring fair value measurement. At each reporting date, management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, 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 statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

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

*(i) Financial assets at amortised cost*

For financial assets carried at amortised cost (such as due from banks and financial institutions, debt instruments at amortised cost, loans and advances to customers and related parties, the Group first assesses individually whether objective evidence of impairment exists 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, 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.

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

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

**Impairment of financial assets (continued)**

*(i) Financial assets at amortised cost (continued)*

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 future write-off is later recovered, the recovery is credited to the "Net credit losses" in the consolidated income statement.

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

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

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

*(ii) Renegotiated loans*

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

*(iii) Collateral repossessed*

The Group occasionally acquires properties in settlement of loans and advances. Upon initial recognition, those assets are measured at fair value as approved by the regulatory authorities. Subsequently these properties are measured at the lower of carrying value or net realisable 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 appropriated for capital increase" in the following financial year.

**Hedge accounting**

In order to manage particular risks, the Group applies hedge accounting for transactions which meet the specified criteria. The Group makes use of derivative instruments to manage exposures to foreign currency risk. The process starts with identifying the hedging instrument and hedged item and preparing hedge documentation detailing the risk management strategy and objective.

*Setting the risk management strategy and objectives*

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

**2 ACCOUNTING POLICIES (continued)****2.5 Summary of significant accounting policies (continued)****Hedge accounting (continued)***Setting the risk management strategy and objectives (continued)*

The risk management strategy is established at the level of executive management and identifies the risks to which the Group is exposed and whether and how the risk management activities should address those risks. The strategy is typically maintained for a relatively long period of time. However, it may include some flexibility to react to changes in circumstances. The risk management strategy is set out in general documentation and is cascaded down through policies containing more specific guidelines.

The Group sets risk management objectives at the level of individual hedging relationships and defines how a particular hedging instrument is designated to hedge a particular hedged item. As such, a risk management strategy would usually be supported by many risk management objectives.

*Qualifying hedging relationships*

The Group applies hedge accounting for qualifying hedging relationships. A hedging relationship qualifies for hedge accounting only if: (a) the hedging relationship consists only of eligible hedging instruments and eligible hedged items; (b) at the inception of the hedging relationship there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge, and (c) the hedging relationship meets all of the hedge effectiveness requirements.

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis in order to qualify for hedge accounting. The effectiveness test can be performed qualitatively or quantitatively. 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 semi-annually on an ongoing basis. A hedge is expected to be highly effective if:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item. However, that designation shall not reflect an imbalance between the weightings of the hedged item and the hedging instrument that would create hedge ineffectiveness that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting.

Hedge ineffectiveness is recognized in the consolidated income statement in "Net gain (loss) from financial instruments at fair value through profit or loss."

*(i) Fair value hedges*

For qualifying fair value hedges, the gain or loss on the hedging instrument is recognised in the consolidated income statement under "Net gain on financial assets at fair value through profit or loss" (or other comprehensive income, if the hedging instrument hedges an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income. Hedging gain or loss on the hedged item adjusts the carrying amount of the hedged item and is recognised in the consolidated income statement also under "Net gain on financial assets at fair value through profit or loss". If the hedged item is an equity instrument for which the Group has elected to present changes in fair value in other comprehensive income, those amounts remain in other comprehensive income.

*(ii) Cash flow hedges*

For qualifying cash flow hedge, a separate component of equity associated with the hedged item (cash flow hedge reserve) is adjusted to the lower of the following (in absolute amounts):

- a) the cumulative gain or loss on the hedging instrument from inception of the hedge; and
- b) the cumulative change in fair value (present value) of the hedged item from inception of the hedge.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

**Hedge accounting (continued)**

*(ii) Cash flow hedges (continued)*

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge (the portion that is offset by the change in the cash flow hedge reserve described above) shall be recognised in other comprehensive income. Any remaining gain or loss on the hedging instrument is hedge ineffectiveness that shall be recognised in the consolidated income statement. The amount that has been accumulated in the cash flow hedge reserve and associated with the hedged item is treated as follows:

- a) if a hedged forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the Group removes that amount from the cash flow hedge reserve and includes it directly in the initial cost or other carrying amount of the asset or the liability without affecting other comprehensive income.
- b) for cash flow hedges other than those covered by a), that amount is reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment in the same period or periods during which the hedged expected future cash flows affect profit or loss. However, if that amount is a loss and the Group expects that all or a portion of that loss will not be recovered in one or more future periods, it immediately reclassifies the amount that is not expected to be recovered into profit or loss as a reclassification adjustment.

*(iii) Hedge of net investments*

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

To enhance hedge effectiveness, the Group designates only the change in the intrinsic value as the hedging instrument when hedging a net investment in a foreign operation through financial derivatives. The time value of the derivatives is treated as costs of hedging to be deferred or amortized. The change in fair value of the time value of the option is recognized in other comprehensive income to the extent that it relates to the hedged item. The method used to reclassify the amounts from equity to consolidated income statement is determined by considering that the hedged item is time-period related since the Group seeks to hedge the currency risk during a period of time.

**Leases**

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

*Group as a lessee*

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

*Group as a lessor*

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

**Revenue recognition**

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

*(i) Interest and similar income and expense*

For all financial instruments measured at amortised cost, interest income or expense is recorded using the EIR, 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.

*(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 recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan be drawn down, the loan commitment fees are recognised 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 recognised on completion of the underlying transaction. Fee or components of fee that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

*(iii) Dividend income*

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

*(iv) Net gain on financial assets 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.

**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, and deposits due to banks and financial institutions.

**Property and equipment**

Property and equipment, except for land and buildings, 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. 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

**2 ACCOUNTING POLICIES (continued)****2.5 Summary of significant accounting policies (continued)****Property and equipment (continued)**

Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment losses recognised since the date of revaluation. Valuations are performed by internal or external valuers with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value.

A revaluation surplus is recorded in other comprehensive income and credited to the real estate revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in the statement of income, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

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

• Buildings	40-50 years
• Freehold Improvements	5-10 years
• Leasehold Improvements	5-10 years
• Motor vehicles	5-7 years
• Office equipment and computer hardware	5-10 years
• Office machinery and furniture	10 years

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. 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 included in the consolidated income statement when the asset is derecognised.

**Intangible fixed assets**

An intangible asset is recognised 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 accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or 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 are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement.

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 statement of profit or loss when the asset is derecognised.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

**Intangible fixed assets (continued)**

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:

- Computer software 5 years
- Key money 70 years

**Non-current assets held for sale and discontinued operations**

Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups 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.

In the consolidated statement of comprehensive income of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the statement of comprehensive income.

**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. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. 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, recent market transactions are taken into account. If no such transactions can be identified, 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 recognised in the consolidated income statement, unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

**2 ACCOUNTING POLICIES (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Impairment of non-financial assets (continued)**

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

**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.

**Pensions and other post-employment benefits**

The Group provides retirement benefits obligation to its employees under defined benefit plans which requires contributions to be made to separately administered funds. The cost of providing these benefits is determined using the projected unit credit method which involves making actuarial assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Those assumptions are unbiased and mutually compatible.

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest and the return on plan assets (excluding net interest), are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Group recognises restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under "Personnel expenses" in consolidated statement of income:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- Net interest expense or income

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

**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 statement of profit or loss. 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 statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries 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 recognised 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 utilised 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 recognised 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 utilised.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each statement of financial position date and are recognised 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 realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Current tax and deferred tax relating to items recognised directly in equity are also recognised in equity and not in the consolidated income statement.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

**2 ACCOUNTING POLICIES (continued)**

**2.5 Summary of significant accounting policies (continued)**

**Taxes (continued)**

*(ii) Deferred tax (continued)*

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.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

**Warrants issued on subsidiary shares**

The value of warrants issued on subsidiary shares is reported as part of Group share of equity and is based on the issuance date fair value. Subsequently the carrying amount of those warrants is reduced by the cost of warrants acquired pursuant to trading transactions. No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of those warrants.

**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.

**Treasury shares**

Own equity instruments of the Bank which are acquired by it or by any of its subsidiaries (treasury shares) are deducted from equity and accounted for at cost. Consideration paid or received on the purchase sale, issue or cancellation of the Bank's own equity instruments is recognised directly in equity. No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of the Bank'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 under management and 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 trust, under management or under custody or under administration, are not treated as assets of the Group and accordingly are recorded as off balance sheet items.

**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 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. The premium received is recognised in the consolidated income statement on a straight line basis over the life of the guarantee.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

2 ACCOUNTING POLICIES (continued)

2.5 Summary of significant accounting policies (continued)

**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 statement of financial position for the same amount.

2.6 Significant accounting judgements and estimates

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 financial statements:

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

The Group considers that it controls Bank Audi Syria SA even though it owns less than 50% of the voting rights. This is because the Group is the single largest shareholder of Bank Audi Syria SA with a 47% equity interest. The remaining 53% of the equity shares are held by many other shareholders, none of which individually hold more than 5% of the equity shares. There is no history of the other shareholders collaborating to exercise their votes collectively or to outvote the Group.

*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.

*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 financial statements continue to be prepared on the going concern basis.

**2 ACCOUNTING POLICIES (continued)**

**2.6 Significant accounting judgements and estimates (continued)**

**Estimates and assumptions**

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

*Fair value of financial instruments*

Where the fair values of financial assets and financial liabilities recorded on the 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 is 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. 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 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 data (including levels of unemployment, real estate price indices, country risk and the performance of different individual groups).

*Impairment of non-financial assets*

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognised by the Group.

*Deferred tax assets*

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

**2 ACCOUNTING POLICIES (continued)****2.6 Significant accounting judgements and estimates (continued)****Estimates and assumptions (continued)***Revaluation of property and equipment*

As of 31 December 2014, the Group carries its land and building and building improvements at fair value, with changes in fair value being recognised in other comprehensive income. The Group engaged independent valuation specialists to assess fair value as at 31 December 2014. Land and buildings were valued by reference to market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the property. Management believes that price levels did not change significantly since 31 December 2014.

*Pensions obligation*

The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are highly sensitive to changes in these assumptions.

**3 BUSINESS COMBINATIONS**

During September 2015, Bank Audi SAL acquired additional 33% of Capital B. Solutions (CBS) Ltd (“CBS”) with a total percentage of 70.5% for LL 10,944 million. CBS (previously “Capital Outsourcing Limited”) is a company limited by shares in accordance with Companies Law pursuant to DIFC Law No. 2 of 2009. The registered office of CBS is situated in the Dubai International Financial Center (DIFC). CBS is engaged in providing all information technology enabled services and data processing services, sale, exploitation and lease of all kind of information technology materials, telecommunications’ equipment as well as electrical and electronic supplies.

The fair value of the identifiable assets and liabilities acquired and goodwill arising as at the date of acquisition was:

	<i>Fair value recognised on acquisition LL million</i>	<i>Carrying value LL million</i>
Due from banks	4,178	4,178
Loans and advances	547	547
Property and equipment	1,707	1,707
Intangible assets	223	11,840
Other assets	13,300	13,300
	<u>19,955</u>	<u>31,572</u>
Due to banks	11,958	11,958
Other liabilities	13,707	13,707
Provision for risk and charges	960	960
	<u>26,625</u>	<u>26,625</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

**3 BUSINESS COMBINATION (continued)**

	<i>LL million</i>
Acquisition percentage	70.50%
Fair value of net assets	(4,703)
Goodwill arising on acquisition	28,084
<b>Cost of acquisition</b>	<b>23,381</b>
<b>Cash outflow on acquisition of the subsidiary:</b>	
Cash paid	(10,944)
Net cash acquired with the subsidiary	4,178
<b>Net cash outflow</b>	<b>(6,766)</b>

From the date of acquisition till year end 2015, CBS contributed to a gain of LL 97 million to the net profit of the Group. If the contribution had taken place at the beginning of the year 2015, the total net operating income for the year ended 2015, would have increased by LL 579 million.

**4 SEGMENT REPORTING**

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segments are evaluated based on net operating income. Income taxes and depreciation are managed on a group basis and are not allocated to operating segments.

Interest income is reported net, since management monitors net interest income not the gross income and expense amounts. Net interest income is allocated to the business segment based on the assumption that all positions are funded or invested via a central funding unit. An internal Funds Transfer Pricing (FTP) mechanism was implemented between operating segments.

The assets and liabilities that are reported in the segments are net from inter-segments' assets and liabilities since they constitute the basis of the management measures of the segments' assets and liabilities and the basis of the allocation of resources between segments.

**A) Business Segments**

The Group operates in four main business segments which are corporate and commercial banking, retail and personal banking, treasury and capital markets and group functions and head office.

**Corporate and Commercial Banking** Provides diverse products and services to the corporate and commercial customers including loans, deposits, trade finance, exchange of foreign currencies as well as all regular corporate and commercial banking activities.

**Retail and Personal Banking** Provides individual customers' deposits and consumer loans, overdrafts, credit cards, and funds transfer facilities, as well as all regular retail and private banking activities.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## 4 SEGMENT REPORTING (continued)

## A) Business Segments (continued)

**Treasury and Capital Markets**

Provides treasury services including transactions in money and capital markets for the Group's customers, manages investment and trading transactions (locally and internationally), and manages liquidity and market risks. This segment also offers investment banking and brokerage services and manages the Group's own portfolio of stocks, bonds, and other financial instruments.

**Group-Functions and Head Office**

Consists of capital and strategic investments, exceptional profits and losses as well as operating results of subsidiaries which offer non-banking services.

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

The following tables present net operating income information and financial position information.

## i) Net operating income information

	2015				
	Corporate and Commercial Banking LL million	Retail and Personal Banking LL million	Treasury and Capital Markets LL million	Group Functions and Head Office LL million	Total LL million
Net interest income	592,452	305,205	509,959	56,036	1,463,652
<b>Non interest income</b>					
Net fee and commission income	175,142	204,989	25,056	1,478	406,665
Foreign exchange operations	11,579	20,956	59,355	347	92,237
Financial operations	6,000	12,599	76,791	32,303	127,693
Share of profit of associates	-	-	-	3,307	3,307
Other operating income	774	8,510	8,383	15,703	33,370
<b>Total non interest income</b>	<b>193,495</b>	<b>247,054</b>	<b>169,585</b>	<b>53,138</b>	<b>663,272</b>
<b>Total operating income</b>	<b>785,947</b>	<b>552,259</b>	<b>679,544</b>	<b>109,174</b>	<b>2,126,924</b>
Net credit losses	(115,306)	(85,136)	433	-	(200,009)
<b>Net operating income</b>	<b>670,641</b>	<b>467,123</b>	<b>679,977</b>	<b>109,174</b>	<b>1,926,915</b>
	2014				
	Corporate and Commercial Banking LL million	Retail and Personal Banking LL million	Treasury and Capital Markets LL million	Group Functions and Head Office LL million	Total LL million
Net interest income	585,260	256,661	320,065	88,253	1,250,239
<b>Non interest income</b>					
Net fee and commission income	146,483	197,883	28,129	944	373,439
Foreign exchange operations	7,727	21,562	47,128	1,938	78,355
Financial operations	4,671	8,535	236,641	18,133	267,980
Share of profit of associates	-	-	-	373	373
Other operating income	34	4,078	488	18,707	23,307
<b>Total non interest income</b>	<b>158,915</b>	<b>232,058</b>	<b>312,386</b>	<b>40,095</b>	<b>743,454</b>
<b>Total operating income</b>	<b>744,175</b>	<b>488,719</b>	<b>632,451</b>	<b>128,348</b>	<b>1,993,693</b>
Net credit losses	(146,269)	(65,215)	1,736	-	(209,748)
<b>Net operating income</b>	<b>597,906</b>	<b>423,504</b>	<b>634,187</b>	<b>128,348</b>	<b>1,783,945</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

**4 SEGMENT REPORTING (continued)****A) Business Segments (continued)****ii) Financial position information**

	2015				
	<i>Corporate and Commercial Banking LL million</i>	<i>Retail and Personal Banking LL million</i>	<i>Treasury and Capital Markets LL million</i>	<i>Group Functions and Head Office LL million</i>	<i>Total LL million</i>
Investments in associates	-	-	-	13,989	13,989
Total assets	20,147,932	9,251,095	31,157,560	3,166,050	63,722,637
Total liabilities	13,332,995	38,749,015	3,873,157	2,811,718	58,766,885

	2014				
	<i>Corporate and Commercial Banking LL million</i>	<i>Retail and Personal Banking LL million</i>	<i>Treasury and Capital Markets LL million</i>	<i>Group Functions and Head Office LL million</i>	<i>Total LL million</i>
Investments in associates	-	-	-	27,762	27,762
Total assets	20,213,559	8,815,442	30,349,820	3,876,898	63,255,719
Total liabilities	13,592,789	38,085,813	2,828,261	3,702,325	58,209,188

Capital expenditures amounting to LL 168,079 million for the year 2015 (2014: LL 112,019) are allocated to the Group Functions and Head Office business segment.

**B) Geographical Segments**

The Group operates in three geographical segments, Lebanon, Middle East and North Africa and Turkey (MENAT) and Europe, as such, is subject to different risks and returns. The following tables show the distribution of the Groups' net external operating income, assets and liabilities allocated based on the location of the subsidiaries reporting the results or advancing the funds. Transactions between segments are carried at market prices and within pure trading conditions.

**i) Net operating income information**

	2015			
	<i>Lebanon LL million</i>	<i>MENAT LL million</i>	<i>Europe LL million</i>	<i>Total LL million</i>
Net interest income	598,379	812,836	52,437	1,463,652
<b>Non interest income</b>				
Net fee and commission income	159,021	189,748	57,896	406,665
Foreign exchange operations	20,110	58,560	13,567	92,237
Financial operations	218,970	(97,224)	5,947	127,693
Share of profit or loss of associates	247	3,060	-	3,307
Other operating income	13,645	14,274	5,451	33,370
<b>Total non interest income</b>	<b>411,993</b>	<b>168,418</b>	<b>82,861</b>	<b>663,272</b>
<b>Total external operating income</b>	<b>1,010,372</b>	<b>981,254</b>	<b>135,298</b>	<b>2,126,924</b>
Net credit losses	(29,780)	(169,893)	(336)	(200,009)
<b>Net external operating income</b>	<b>980,592</b>	<b>811,361</b>	<b>134,962</b>	<b>1,926,915</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

**4 SEGMENT REPORTING (continued)****B) Geographical Segments (continued)****i) Net operating income information (continued)**

	2014			
	Lebanon LL million	MENAT LL million	Europe LL million	Total LL million
Net interest income	566,493	628,801	54,945	1,250,239
Non interest income				
Net fee and commission income	159,615	159,922	53,902	373,439
Foreign exchange operations	20,029	41,246	17,080	78,355
Financial operations	270,157	(7,289)	5,112	267,980
Share of profit or loss of associates	14	359	-	373
Other operating income	17,942	2,425	2,940	23,307
Total non interest income	467,757	196,663	79,034	743,454
Total external operating income	1,034,250	825,464	133,979	1,993,693
Net credit losses	(89,963)	(117,496)	(2,289)	(209,748)
Net external operating income	944,287	707,968	131,690	1,783,945

**ii) Financial position information**

	2015			
	Lebanon LL million	MENAT LL million	Europe LL million	Total LL million
Capital expenditures	48,223	116,395	3,461	168,079
Investments in associates	10,420	3,569	-	13,989
Total assets	35,800,023	24,438,939	3,483,675	63,722,637
Total liabilities	31,378,529	24,139,804	3,248,552	58,766,885

	2014			
	Lebanon LL million	MENAT LL million	Europe LL million	Total LL million
Capital expenditures	42,682	67,784	1,553	112,019
Investments in associates	10,425	17,337	-	27,762
Total assets	35,646,768	24,381,211	3,227,740	63,255,719
Total liabilities	31,283,637	23,928,658	2,996,893	58,209,188

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

**5 INTEREST AND SIMILAR INCOME**

	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
Balances with central banks	424,234	322,143
Due from banks and financial institutions	63,078	40,839
Loans to banks and financial institutions and reverse repurchase agreements	147,329	86,092
Loans and advances to customers at amortised cost	2,078,136	1,893,577
Loans and advances to related parties at amortised cost	6,232	2,364
Financial assets classified at amortised cost	1,051,607	1,055,328
Other interest income	831	777
	<u>3,771,447</u>	<u>3,401,120</u>

The components of interest and similar income from loans and advances to customers at amortised cost are detailed as follows:

	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
Corporate and SME	1,522,417	1,426,137
Retail and personal banking	509,686	448,654
Public sector	46,033	18,786
	<u>2,078,136</u>	<u>1,893,577</u>

The components of interest and similar income from financial assets classified at amortised cost are detailed as follows:

	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
Lebanese sovereign and Central Bank of Lebanon	625,042	694,531
Other sovereign	408,952	339,602
Private sector and other securities	17,613	21,195
	<u>1,051,607</u>	<u>1,055,328</u>

**6 INTEREST AND SIMILAR EXPENSE**

	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
Due to central banks	4,585	5,295
Due to banks and financial institutions	46,186	37,866
Due to banks under repurchase agreements	6,727	11,323
Customers' deposits	2,146,839	2,012,919
Deposits from related parties	27,520	25,951
Debt issued and other borrowed funds (note 37)	75,938	57,527
	<u>2,307,795</u>	<u>2,150,881</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## 7 FEE AND COMMISSION INCOME

	2015 <i>LL million</i>	2014 <i>LL million</i>
Commercial banking income	76,073	72,422
Credit related fees and commissions	97,887	90,231
Brokerage and custody income	81,017	81,310
Trust and fiduciary activities	13,351	9,420
Trade finance income	64,603	63,955
Electronic banking	119,573	107,327
Corporate finance fees	32,270	18,554
Insurance brokerage income	12,916	10,018
Other fees and commissions	5,748	5,558
	<u>503,438</u>	<u>458,795</u>

## 8 FEE AND COMMISSION EXPENSE

	2015 <i>LL million</i>	2014 <i>LL million</i>
Commercial banking expenses	8,027	7,349
Brokerage and custody fees	13,601	11,936
Electronic banking	60,987	53,934
Corporate finance fees	266	1,645
Insurance brokerage fees	1,030	848
Other fees and commissions	12,862	9,644
	<u>96,773</u>	<u>85,356</u>

## 9 NET GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2015			2014		
	<i>Trading gain (loss) LL million</i>	<i>Interest income LL million</i>	<i>Total LL million</i>	<i>Trading gain (loss) LL million</i>	<i>Interest income LL million</i>	<i>Total LL million</i>
<b>a) Net gain on financial instruments</b>						
<i>Lebanese sovereign and Central Bank of Lebanon</i>						
Certificates of deposit	(1,479)	8,449	6,970	(95)	2,903	2,808
Treasury bills	77,179	10,897	88,076	3,449	4,116	7,565
Eurobonds	767	4,840	5,607	8,929	8,644	17,573
	<u>76,467</u>	<u>24,186</u>	<u>100,653</u>	<u>12,283</u>	<u>15,663</u>	<u>27,946</u>
<i>Other sovereign</i>						
Treasury bills	(2,347)	1,140	(1,207)	2,330	192	2,522
Eurobonds	92	4	96	72	16	88
	<u>(2,255)</u>	<u>1,144</u>	<u>(1,111)</u>	<u>2,402</u>	<u>208</u>	<u>2,610</u>
<i>Private sector and other securities</i>						
Banks and financial institutions debt instruments	802	27	829	1,313	21	1,334
Corporate debt instruments	89	731	820	68	2,791	2,859
Funds	(440)	-	(440)	3,301	-	3,301
Equity instruments	(686)	-	(686)	522	-	522
	<u>(235)</u>	<u>758</u>	<u>523</u>	<u>5,204</u>	<u>2,812</u>	<u>8,016</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

9 NET GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS  
(continued)

	2015			2014		
	Trading gain (loss) LL million	Interest income LL million	Total LL million	Trading gain (loss) LL million	Interest income LL million	Total LL million
<b>b) Other trading income</b>						
Foreign exchange	92,237	-	92,237	78,355	-	78,355
Currency swaps and forwards	(108,698)	-	(108,698)	(39,604)	-	(39,604)
Currency options	(21,204)	-	(21,204)	(33,198)	-	(33,198)
Credit derivatives	120	-	120	(52)	-	(52)
Other derivatives	10,554	-	10,554	7,843	-	7,843
Dividends	323	-	323	273	-	273
	(26,668)	-	(26,668)	13,617	-	13,617
	47,309	26,088	73,397	33,506	18,683	52,189

Trading gain on financial assets at fair value through profit or loss includes the results of trading in the above classes of securities, as well as the result of the change in their fair values.

Currency derivatives and forex includes gains and losses from spot transactions, forward and swap currency contracts, amortization of time value of options designated for hedging purposes and the revaluation of the daily open foreign currency positions.

For the year ended 31 December 2015, derivatives include a gain of LL 120 million (2014: loss of LL 52 million) representing the change in fair value of the credit default swaps related to the Lebanese sovereign risk and embedded in some of the Group's deposits as discussed in note 35 to these consolidated financial statements.

## 10 NET GAIN ON SALE OF FINANCIAL ASSETS AT AMORTISED COST

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

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

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

	2015			2014		
	Gains LL million	Losses LL million	Net LL million	Gains LL million	Losses LL million	Net LL million
<b>Lebanese sovereign and Central Bank of Lebanon</b>						
Certificates of deposit	83,438	(7,284)	76,154	74,974	(3,933)	71,041
Treasury bills	12,319	(1,397)	10,922	42,657	(24,271)	18,386
Eurobonds	36,201	(22,155)	14,046	165,851	(10,071)	155,780
	131,958	(30,836)	101,122	283,482	(38,275)	245,207
<b>Other sovereign</b>						
Treasury bills	21,490	(493)	20,997	15,443	(12)	15,431
Other governmental securities	450	(1)	449	-	-	-
Eurobonds	6	-	6	144	(3)	141
	21,946	(494)	21,452	15,587	(15)	15,572
<b>Private sector and other securities</b>						
Banks and financial institutions debt instruments	230	(5)	225	1,197	(28)	1,169
Corporate and other debt instruments	642	(15)	627	78	-	78
	872	(20)	852	1,275	(28)	1,247
	154,776	(31,350)	123,426	300,344	(38,318)	262,026

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**11 OTHER OPERATING INCOME**

	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
Profit sharing agreements (A)	349	3,519
Accruals written back	7,924	2,633
Income from disposal of assets acquired against debts	225	57
Release of provision for end of service benefits (note 39)	11	239
Release of provision for risks and charges (note 39)	1,465	897
Disposal of assets held for sale (B)	-	11,544
Revenue from non banking activities	9,957	-
Safe rental	1,662	1,638
Gain on revaluation of associate (C)	7,161	-
Other income	4,616	2,780
	<u>33,370</u>	<u>23,307</u>

(A) During 2011, the Group entered into profit sharing agreements under which it become entitled to 30% of CGI's profits for a period of 5 years ending during the second quarter of 2016 and 33% of Global Com Holding SAL profits up to 31 December 2016. The Group's share of these profits for the year 2015 amounted to LL 349 million (2014: LL 3,519 million).

(B) During 2013, the Group purchased 47,250 shares comprising 30% of the capital of Elite Insurance and Reinsurance Company for LL 4,983 million. Management completed the sale of this investment during 2014. The resulting gain amounting to LL 11,544 million was booked under "other operating income".

(C) Pursuant to the acquisition of additional 33% equity in Capital Banking Solutions Ltd during 2015 (note 3), the Group re-measured its non-controlling investment immediately before obtaining control which resulted in a gain of LL 7,161 million.

**12 NET CREDIT LOSSES**

	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
<b>Charges for the year</b>		
Loans and advances to customers at amortised cost (note 23)	239,132	227,026
Loans directly written off	6	2,679
	<u>239,138</u>	<u>229,705</u>
<b>Recoveries for the year – loans and advances to customers</b>		
Impairment allowance recovered (note 23)	(17,917)	(6,916)
Unrealized interest recovered (note 23)	(2,456)	(1,652)
Recoveries of debts previously written off (note 23)	(18,323)	(10,690)
<b>Other recoveries for the year</b>		
Impairment allowance recovered – financial instruments at amortised cost (note 25)	(433)	(699)
	<u>(39,129)</u>	<u>(19,957)</u>
	<u>200,009</u>	<u>209,748</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## 13 PERSONNEL EXPENSES

	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
Salaries and related benefits	511,155	503,882
Social security contributions	44,940	42,119
End of service benefits (note 39)	17,367	34,013
Transportation	18,192	19,287
Schooling	9,444	7,316
Medical expenses	5,959	5,054
Food and beverage	7,469	6,993
Training and seminars	7,130	6,557
Others	8,475	7,350
	<u>630,131</u>	<u>632,571</u>

## 14 OTHER OPERATING EXPENSES

	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
Operating leases	67,116	49,670
Professional fees	31,475	32,278
Board of Directors fees	6,121	5,388
Advertising fees	45,594	43,160
Taxes and similar disbursements	20,029	21,264
Outsourcing services	32,131	30,563
Premium for guarantee of deposits	23,710	21,932
Information technology	34,545	27,269
Donations and social aids	5,802	7,822
Provisions for risks and charges (note 39)	20,126	4,094
Travel and related expenses	17,142	15,674
Telephone and mail	14,645	15,026
Electricity, water and fuel	11,624	10,690
Maintenance	12,647	9,803
Insurance premiums	9,457	9,005
Facilities services	10,048	9,400
Subscription to communication services	9,897	9,080
Office supplies	7,406	7,816
Receptions and gifts	5,655	5,414
Electronic cards expenses	9,305	10,999
Regulatory charges	8,804	8,040
Documentation and miscellaneous subscriptions	2,664	2,546
Others	12,435	17,856
	<u>418,378</u>	<u>374,789</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## 15 INCOME TAX

The components of income tax expense for the year ended 31 December are detailed as follows:

	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
<b><i>Current tax</i></b>		
Current income tax	186,518	152,470
Adjustment in respect of current income tax of prior years	(5,687)	6,559
Other taxes treated as income tax	9,187	11,977
	<u>190,018</u>	<u>171,006</u>
<b><i>Deferred tax</i></b>		
Relating to origination and reversal of temporary differences	(28,830)	(12,981)
	<u>161,188</u>	<u>158,025</u>

The tax rates applicable to the parent and subsidiaries vary from 4.5% to 35% 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.

The components of operating profit before tax, and the differences between income tax expense reflected in the financial statements and the calculated amounts are shown in the table below:

	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
Operating profit before tax	768,915	686,110
Income tax	<u>167,101</u>	<u>157,196</u>
<b><i>Increase resulting from:</i></b>		
Non deductible expenses	31,105	12,567
Non deductible provisions	38,588	22,194
Unrealised losses on financial instruments	27,006	13,582
Unearned commissions	7,524	7,680
Other non deductibles	12,922	10,906
	<u>117,145</u>	<u>66,929</u>
<b><i>Decrease resulting from:</i></b>		
Revenues previously subject to tax	28,648	3,022
Provision recoveries previously subject to tax	34,730	29,730
Exempted revenues	5,661	22,017
Unrealized gains on financial instruments	21,754	6,281
Other deductibles	6,935	10,605
	<u>97,728</u>	<u>71,655</u>
<b>Income tax</b>	<u>186,518</u>	<u>152,470</u>
<b>Effective income tax rate</b>	<u>24.26 %</u>	<u>22.22%</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## 15 INCOME TAX (continued)

The movement of current tax liabilities during the year is as follows:

	2015 <i>LL million</i>	2014 <i>LL million</i>
Balance at 1 January	102,614	80,395
Charges for the year	190,018	171,006
Transfer from other components of equity	839	11,238
Transfer to tax regularisation accounts	(11,407)	(6,971)
Other transfers	(7,932)	(4,548)
	<u>171,518</u>	<u>170,725</u>
<i>Less taxes paid:</i>		
Current year tax liability*	134,860	101,331
Prior years tax liabilities	46,661	43,354
Foreign exchange difference	7,732	3,821
	<u>189,253</u>	<u>148,506</u>
Balance at 31 December	<u>84,879</u>	<u>102,614</u>

(\*) Represents taxes paid on interest received from treasury bills and central banks' certificates of deposit.

Deferred taxes recorded in the consolidated statement of financial position result from the following items:

	2015			
	<i>Deferred tax assets LL million</i>	<i>Deferred tax liabilities LL million</i>	<i>Income statement LL million</i>	<i>Other comprehensive income LL million</i>
Provisions	10,744	(2,044)	1,450	-
Impairment allowance for loans and advances	30,904	-	10,003	-
Financial instruments at FVTOCI	(3,336)	2,447	-	(1,161)
Difference in depreciation rates	(3,079)	4,789	(265)	-
Defined benefit obligation	2,432	(88)	-	(891)
Revaluation of real estate	-	42,637	-	4,613
Financial instruments at FVTPL	10,124	10,147	13,118	-
Other temporary differences	13,275	(24)	4,524	-
	<u>61,064</u>	<u>57,864</u>	<u>28,830</u>	<u>2,561</u>
	2014			
	<i>Deferred tax assets LL million</i>	<i>Deferred tax liabilities LL million</i>	<i>Income statement LL million</i>	<i>Other comprehensive income LL million</i>
Provisions	10,434	(2,316)	3,844	-
Impairment allowance for loans and advances	23,298	-	7,552	-
Financial instruments at FVTOCI	(2,606)	2,362	-	(2,211)
Carried forward taxable losses	7,401	-	(1,090)	-
Difference in depreciation rates	(3,418)	5,339	(2,102)	-
Defined benefit obligation	3,373	(76)	-	521
Revaluation of real estate	-	48,926	-	(49,332)
Financial instruments at FVTPL	1,422	-	3,692	-
Other temporary differences	3,821	-	1,085	-
	<u>43,725</u>	<u>54,235</u>	<u>12,981</u>	<u>(51,022)</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

**16 PROFIT FROM DISCONTINUED OPERATIONS**

On 26 July 2012, the directors of Banaudi Holding Limited, sole shareholder of Bank Audi SAM, decided to cease the activities of the subsidiary bank and to liquidate it and withdraw its banking license.

Bank Audi SAM, exercised banking activities in Monaco under banking license provided by local authorities. The cessation of activities involving surrender of operating license, restitution of the assets of the clients, transfer of credit in process and cancellation of all arrangements concluded with the external services providers were completed during 2014.

**17 EARNINGS PER SHARE**

Basic earnings per share is calculated by dividing the 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 Bank does not have arrangements that might result in dilutive shares. As such, diluted earnings per share was not separately calculated.

The following table shows the income and share data used to calculate basic earnings per share:

	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
Profit attributable to equity holders of the Bank	587,948	513,500
Less: dividends attributable to preferred shares	(34,484)	(45,790)
Profit available to holders of ordinary shares	<u>553,464</u>	<u>467,710</u>
Weighted average number of shares outstanding	399,006,205	360,485,035
Basic and diluted earnings per share	1,387	1,297

There were no transactions involving common shares or potential common shares between the reporting date and the date of the completion of these consolidated financial statements which would require the restatement of earnings per share.

**18. CASH AND BALANCES WITH CENTRAL BANKS**

	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
<i>Cash on hand</i>	361,802	353,479
<i>Central Bank of Lebanon</i>		
Current accounts	574,634	413,587
Time deposits	9,520,250	9,304,365
Accrued interest	122,441	123,035
	<u>10,217,325</u>	<u>9,840,987</u>
<i>Other Central Banks</i>		
Current accounts	813,919	1,042,351
Time deposits	2,357,635	2,010,161
Accrued interest	4,241	409
	<u>3,175,795</u>	<u>3,052,921</u>
	<u>13,754,922</u>	<u>13,247,387</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## 18 CASH AND BALANCES WITH CENTRAL BANKS (continued)

*Obligatory reserves:*

- In accordance with the regulations of the Central Bank of Lebanon, banks operating in Lebanon are required to deposit with the Central Bank of Lebanon an obligatory reserve calculated on the basis of 25% of sight commitments and 15% of term commitments denominated in Lebanese Pounds. This is not applicable for investment banks which are exempted from obligatory reserve requirements on commitments denominated in Lebanese Pounds. Additionally, all banks operating in Lebanon are required to deposit with the Central Bank of Lebanon interest-bearing placements representing 15% of total deposits in foreign currencies regardless of nature.
- Subsidiary banks operating in foreign countries are also subject to obligatory reserve requirements determined based on the banking regulations of the countries in which they operate.

The following table summarises the Group's placements in Central Banks available against the obligatory reserves as of 31 December:

	2015			2014		
	<i>Lebanese pounds</i> <i>LL million</i>	<i>Foreign currencies</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>	<i>Lebanese pounds</i> <i>LL million</i>	<i>Foreign currencies</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Central Bank of Lebanon						
Current accounts	354,793	-	354,793	213,956	-	213,956
Time deposits	64,222	3,525,410	3,589,632	74,993	3,522,350	3,597,343
	<u>419,015</u>	<u>3,525,410</u>	<u>3,944,425</u>	<u>288,949</u>	<u>3,522,350</u>	<u>3,811,299</u>
Other Central Bank						
Current accounts	-	491,072	491,072	-	424,806	424,806
Time deposits	-	2,226,173	2,226,173	-	1,724,079	1,724,079
	<u>-</u>	<u>2,717,245</u>	<u>2,717,245</u>	<u>-</u>	<u>2,148,885</u>	<u>2,148,885</u>
	<u>419,015</u>	<u>6,242,655</u>	<u>6,661,670</u>	<u>288,949</u>	<u>5,671,235</u>	<u>5,960,184</u>

## 19 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2015 <i>LL million</i>	2014 <i>LL million</i>
Current accounts	1,497,320	1,823,108
Time deposits	990,563	1,590,016
Checks for collection	166,034	150,546
Other amounts due	50,096	45,573
Accrued interest	1,034	544
Less: impairment allowance	(890)	(895)
	<u>2,704,157</u>	<u>3,608,892</u>

The movement of the impairment allowance was as follows:

	2015 <i>LL million</i>	2014 <i>LL million</i>
Balance at 1 January	895	901
Foreign exchange difference	(5)	(6)
Balance at 31 December	<u>890</u>	<u>895</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

**20 LOANS TO BANKS AND FINANCIAL INSTITUTIONS AND REVERSE REPURCHASE AGREEMENTS**

	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
Loans and advances	196,810	245,980
Reverse repurchase agreements	2,383,744	2,671,865
Accrued interest	4,999	10,898
	<u>2,585,553</u>	<u>2,928,743</u>

Reverse repurchase agreements held by the Group as of 31 December 2015 comprise the following:

<i>Local currency Million</i>	<i>Balance LL million</i>	<i>Average interest rate LL million</i>	<i>Collateral type LL million</i>	<i>Collateral value LL million</i>
US\$	278,959	2.85%	BDL CD	312,052
TRY	2,104,785	10.75%	Treasury Bills	2,104,785
	<u>2,383,744</u>			<u>2,416,837</u>

Reverse repurchase agreements held by the Group as of 31 December 2014 comprise the following:

<i>Local currency Million</i>	<i>Balance LL million</i>	<i>Average interest rate LL million</i>	<i>Collateral type LL million</i>	<i>Collateral value LL million</i>
US\$	1,216,455	5.29%	BDL CD	1,454,436
TRY	1,455,410	11.08%	Treasury Bills	1,455,410
	<u>2,671,865</u>			<u>2,909,846</u>

**21 DERIVATIVE FINANCIAL INSTRUMENTS**

The tables below show the positive and negative fair values of derivative financial instruments, together with the notional amounts analysed by the term to maturity. The notional amount 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 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.

**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.

**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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## 21 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

### Swaps

Swaps are contractual agreements between two parties to exchange movements in interest or foreign currency rates as well as the contracted upon amounts for currency swaps.

In a currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

A credit default swap (CDS) is a credit derivative between two counterparties, whereby they isolate the credit risk of at least one third party and trade it. Under the agreement, one party makes periodic payments to the other and receives the promise of a payoff if the third party defaults. The former party receives credit protection and is said to be the "buyer" while the other party provides credit protection and is said to be the "seller". The third party is known as the "reference entity".

The notional amount of credit default swaps represents the carrying value of certain time deposits held by the Group as of 31 December 2015 and 2014.

The Group has positions in the following types of derivatives:

31 December 2015	Positive fair value LL million	Negative fair value LL million	Notional amount LL million	Notional amount by term to maturity			
				Within 3 months LL million	3 to 12 months LL million	1 to 5 years LL million	Over 5 years LL million
<b>Derivatives held for trading</b>							
Forward foreign exchange contracts	16,579	10,138	1,398,617	1,148,637	249,796	184	-
Forward precious metals contracts	13	1	1,286	1,286	-	-	-
Currency swaps	31,463	59,464	5,503,849	4,443,734	828,118	231,997	-
Precious metals swaps	859	65	89,132	86,854	2,278	-	-
Currency options	38,275	45,634	5,489,799	3,652,178	1,787,289	50,332	-
Interest rate swaps	9,463	2,539	2,799,608	127,453	308,683	1,751,140	612,332
Interest rate options	-	-	236,663	-	-	-	236,663
Credit default swaps	2,578	-	2,325,642	236,427	2,089,215	-	-
Equity options	27,326	13,047	62,355	-	-	62,355	-
<b>Total</b>	<b>126,556</b>	<b>130,888</b>	<b>17,906,951</b>	<b>9,696,569</b>	<b>5,265,379</b>	<b>2,096,008</b>	<b>848,995</b>
<b>Derivatives held to hedge net investments in foreign operations</b>							
Currency swaps	5,072	311	222,913	-	222,913	-	-
Currency options	134,235	-	1,055,250	452,250	-	603,000	-
	<b>139,307</b>	<b>311</b>	<b>1,278,163</b>	<b>452,250</b>	<b>222,913</b>	<b>603,000</b>	<b>-</b>
<b>Derivatives held to hedge cash flow</b>							
Interest rate swaps	-	-	18,413	1,938	1,938	14,537	-
	-	-	18,413	1,938	1,938	14,537	-
	<b>265,863</b>	<b>131,199</b>	<b>19,203,527</b>	<b>10,150,757</b>	<b>5,490,230</b>	<b>2,713,545</b>	<b>848,995</b>

31 December 2014	Positive fair value LL million	Negative fair value LL million	Notional amount LL million	Notional amount by term to maturity			
				Within 3 months LL million	3 to 12 months LL million	1 to 5 years LL million	Over 5 years LL million
<b>Derivatives held for trading</b>							
Forward foreign exchange contracts	7,246	7,275	880,757	745,982	134,775	-	-
Forward precious metals contracts	31	22	3,893	3,893	-	-	-
Currency swaps	22,037	32,827	4,062,244	3,462,363	554,417	45,464	-
Precious metals swaps	1,865	716	106,174	104,031	2,143	-	-
Currency options	62,998	67,966	6,458,718	4,028,639	2,412,180	17,899	-
Interest rate swaps	5,209	2,851	1,714,013	8,660	169,710	1,389,914	145,729
Interest rate options	816	816	1,334,603	-	155,627	926,554	252,422
Credit default swaps	2,458	-	2,235,511	424,971	1,416,972	393,568	-
Equity options	11,504	3,709	30,038	-	-	30,038	-
<b>Total</b>	<b>114,164</b>	<b>116,182</b>	<b>16,825,951</b>	<b>8,778,539</b>	<b>4,845,824</b>	<b>2,803,437</b>	<b>398,151</b>
<b>Derivatives held to hedge net investments in foreign operations</b>							
Currency swaps	13,918	121	234,740	-	234,740	-	-
Currency options	69,045	-	904,500	301,500	-	603,000	-
	<b>82,963</b>	<b>121</b>	<b>1,139,240</b>	<b>301,500</b>	<b>234,740</b>	<b>603,000</b>	<b>-</b>
	<b>197,127</b>	<b>116,303</b>	<b>17,965,191</b>	<b>9,080,039</b>	<b>5,080,564</b>	<b>3,406,437</b>	<b>398,151</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 21 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

**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 risk management purposes which do not meet the IFRS 9 hedge accounting criteria.

**Derivative financial instruments held for hedging purposes**

The Group uses derivatives for hedging purposes in order to reduce its exposure to credit and market risks. This is achieved by hedging specific financial instruments, portfolios of fixed rate financial instruments and forecast transaction as well as strategic hedging against overall financial position exposures.

During 2015, the Group had US\$700 million of its net investment in Odea Bank SA hedged through currency option contracts. The notional amount of these contracts amounted to LL 1,055,250 million (US\$700 million) as of December 2015 and is comprised of US\$ 400 million hedged through capped calls and US\$ 300 million hedged through currency collars (2014: The notional amount of these contracts amounted to LL 904,500 million (US\$ 600 million) and is comprised of US\$ 400 million hedged through capped calls and US\$ 200 million hedged through currency collars). At 31 December 2015, the positive fair value of these contracts amounted to LL 134,235 million (US\$89 million) (2014: LL 69,045 million (US\$ 45.8 million)). The Bank designated only the intrinsic value of these options as the hedging instrument.

During 2015, the Group renewed its currency swap contracts designated to hedge the net investment in its subsidiaries in Cyprus, France, Kingdom of Saudi Arabia and Qatar. The notional amount of these contracts amounted to LL 222,913 million as of 31 December 2015 (2014: LL 234,740 million). The positive fair value of these contracts amounted to LL 5,072 million while the negative fair value contracts reached LL 311 million (2014: positive fair value of LL 13,918 million while the negative fair value LL 121 million) and was transferred to "Foreign currency translation reserve" in equity to offset results of translation of the net investment in those subsidiaries.

No ineffectiveness from hedges of net investments in foreign operations was recognized in profit or loss during the year.

Information pertaining to the effect of applying hedge accounting for hedged items and hedging instruments is summarized as follows:

31 December 2015	Hedging instrument	Hedged currency	Notional amount	Positive fair value	Negative fair value	Effect of change in time value recognised in OCI		Balances recognised in FCTR during 2015
						LL million	LL million	
						As of 31 December 2015	During 2015	
						LL million	LL million	LL million
Odea Bank SA - effect of foreign currency fluctuation within a predefined range	Capped Calls	TRY	603,000	130,204	-	(57,184)	(56,396)	99,278
Odea Bank SA - effect of extreme foreign currency fluctuation	Collars	TRY	452,250	4,031	-	4,032	2,896	12,953
Bank Audi France SA - effect of foreign currency fluctuation	Currency Swap	EUR	96,328	4,846	-	-	-	10,944
Banaudi Holding - effect of foreign currency fluctuation	Currency Swap	EUR	9,880	226	-	-	-	1,123
Audi Capital KSA - effect of foreign currency fluctuation	Currency Swap	SAR	41,645	-	189	-	-	13
Audi Qatar - effect of foreign currency fluctuation	Currency Swap	QAR	75,060	-	122	-	-	7
				139,307	311	(53,152)	(53,500)	124,318

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## 21 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

## Derivative financial instruments held for hedging purposes (continued)

Information pertaining to the effect of applying hedge accounting for hedged items and hedging instruments is summarized as follows:

31 December 2014	Hedging instrument	Hedged currency	Notional amount	Positive fair value	Negative fair value	Effect of change in time value recognised in OCI		Balances recognised in FCTR during 2014
						As of 31 December 2014	During 2014	
Hedged item	LL million	LL million	LL million	LL million	LL million	LL million	LL million	LL million
Odea Bank SA - effect of foreign currency fluctuation within a predefined range	Capped Calls	TRY	603,000	67,909	-	(788)	(788)	15,162
Odea Bank SA - effect of extreme foreign currency fluctuation	Collars	TRY	301,500	1,136	-	1,136	1,136	(23,829)
Bank Audi France SA - effect of foreign currency fluctuation	Currency Swap	EUR	107,281	12,556	-	-	-	14,081
Banaudi Holding - effect of foreign currency fluctuation	Currency Swap	EUR	11,003	1,340	-	-	-	1,445
Audi Capital KSA - effect of foreign currency fluctuation	Currency Swap	SAR	41,397	22	-	-	-	(288)
Audi Qatar - effect of foreign currency fluctuation	Currency Swap	QAR	75,059	-	121	-	-	9
				82,963	121	348	348	6,580

## 22 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2015 LL million	2014 LL million
<b>Lebanese sovereign and Central Bank of Lebanon</b>		
Certificates of deposit	109,520	98,008
Treasury bills	91,828	169,262
Eurobonds	51,684	128,710
	<b>253,032</b>	<b>395,980</b>
<b>Other sovereign</b>		
Treasury bills and bonds	12,863	1,158
Eurobonds	-	898
	<b>12,863</b>	<b>2,056</b>
<b>Private sector and other securities</b>		
Banks and financial institutions	36,351	48,574
Loans and advances to customers	22,185	12,043
Mutual funds	50,607	53,119
Equity instruments	8,684	5,050
	<b>117,827</b>	<b>118,786</b>
	<b>383,722</b>	<b>516,822</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

**22 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)**

The classification of the above instruments according to the type of interest is as follows:

	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
<b>Fixed interest</b>		
Lebanese sovereign and Central Bank of Lebanon	253,032	395,980
Other sovereign	12,812	1,990
Private sector and other securities	22,484	12,043
	<u>288,328</u>	<u>410,013</u>
<b>Variable interest</b>		
Other sovereign	51	66
<b>Non-interest bearing</b>		
Private sector and other securities	95,343	106,743
	<u>383,722</u>	<u>516,822</u>

**23 LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST**

	<i>2015</i>			
	<i>Corporate and SME LL million</i>	<i>Retail and personal banking LL million</i>	<i>Public sector LL million</i>	<i>Total LL million</i>
Overdraft accounts	3,447,513	963,106	63,646	4,474,265
Loans	16,839,664	5,724,685	376,595	22,940,944
Discounted bills and commercial paper	178,769	15,734	9,110	203,613
	<u>20,465,946</u>	<u>6,703,525</u>	<u>449,351</u>	<u>27,618,822</u>
Impairment allowance	(496,676)	(189,398)	(3,027)	(689,101)
Unrealized interest	(92,457)	(24,457)	-	(116,914)
	<u>19,876,813</u>	<u>6,489,670</u>	<u>446,324</u>	<u>26,812,807</u>
	<i>2014</i>			
	<i>Corporate and SME LL million</i>	<i>Retail and personal banking LL million</i>	<i>Public sector LL million</i>	<i>Total LL million</i>
Overdraft accounts	3,140,370	888,216	19,197	4,047,783
Loans	16,896,863	5,185,761	202,024	22,284,648
Discounted bills and commercial paper	221,784	8,366	7,431	237,581
	<u>20,259,017</u>	<u>6,082,343</u>	<u>228,652</u>	<u>26,570,012</u>
Impairment allowance	(508,371)	(168,252)	(2,709)	(679,332)
Unrealized interest	(87,646)	(27,696)	-	(115,342)
	<u>19,663,000</u>	<u>5,886,395</u>	<u>225,943</u>	<u>25,775,338</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

**23 LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST (continued)**

The breakdown and movement of the impairment allowance during the year are as follows:

	2015			<i>Total LL million</i>
	<i>Corporate and SME LL million</i>	<i>Retail and personal banking LL million</i>	<i>Public sector LL million</i>	
Balance at 1 January	508,371	168,252	2,709	679,332
<b>Add:</b>				
Charges for the year (note 12)	120,925	116,564	1,643	239,132
Transfers	1,569	(7,163)	(87)	(5,681)
<b>Less:</b>				
Recoveries (note 12)	(10,082)	(6,772)	(1,063)	(17,917)
Write offs	(80,232)	(66,362)	-	(146,594)
Foreign exchange difference	(43,875)	(15,121)	(175)	(59,171)
Balance at 31 December	496,676	189,398	3,027	689,101
Individual impairment	324,941	119,602	-	444,543
Collective impairment	171,735	69,796	3,027	244,558
	496,676	189,398	3,027	689,101
	2014			
	<i>Corporate and SME LL million</i>	<i>Retail and personal banking LL million</i>	<i>Public sector LL million</i>	<i>Total LL million</i>
Balance at 1 January	409,770	111,090	3,780	524,640
<b>Add:</b>				
Charges for the year (note 12)	151,304	75,722	-	227,026
Transfers	(20,479)	585	-	(19,894)
<b>Less:</b>				
Recoveries (note 12)	(3,404)	(2,542)	(970)	(6,916)
Write offs	(3,008)	(9,358)	-	(12,366)
Foreign exchange difference	(25,812)	(7,245)	(101)	(33,158)
Balance at 31 December	508,371	168,252	2,709	679,332
Individual impairment	349,749	119,539	610	469,898
Collective impairment	158,622	48,713	2,099	209,434
	508,371	168,252	2,709	679,332

The movement of unrealized interest during the year is as follows:

	2015		
	<i>Corporate and SME LL million</i>	<i>Retail and personal banking LL million</i>	<i>Total LL million</i>
Balance at 1 January	87,646	27,696	115,342
<b>Add:</b>			
Unrealized interest applied on non-performing loans	31,628	3,328	34,956
<b>Less:</b>			
Unrealized interest written off	(25,109)	(2,724)	(27,833)
Unrealized interest recovered (note 12)	(1,954)	(502)	(2,456)
Foreign exchange difference	246	(3,341)	(3,095)
Balance at 31 December	92,457	24,457	116,914

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

**23 LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST (continued)**

	2014		
	<i>Corporate and SME LL million</i>	<i>Retail and personal banking LL million</i>	<i>Total LL million</i>
Balance at 1 January	63,814	20,621	84,435
<i>Add:</i>			
Unrealized interest applied on non-performing loans	27,151	7,893	35,044
<i>Less:</i>			
Unrealized interest written off	(305)	(92)	(397)
Unrealized interest recovered (note 12)	(1,242)	(410)	(1,652)
Foreign exchange difference	(1,772)	(316)	(2,088)
Balance at 31 December	<u>87,646</u>	<u>27,696</u>	<u>115,342</u>

Bad loans and related provisions and unrealized interest which fulfil certain requirements have been transferred to off balance sheet accounts. The gross balance of these loans transferred during 2015 amounted to LL 34,327 million (2014: LL 13,676 million). Besides, amounts recovered from off balance sheet accounts during 2015 amounted to LL 18,323 million (2014: 10,690 million) (note 12).

**24 LOANS AND ADVANCES TO RELATED PARTIES AT AMORTISED COST**

	2015		
	<i>Corporate and SME LL million</i>	<i>Retail and personal banking LL million</i>	<i>Total LL million</i>
Overdraft accounts	31	134,891	134,922
Loans	17,157	62,470	79,627
	<u>17,188</u>	<u>197,361</u>	<u>214,549</u>
	2014		
	<i>Corporate and SME LL million</i>	<i>Retail and personal banking LL million</i>	<i>Total LL million</i>
Overdraft accounts	362	27,663	28,025
Loans	18,179	63,803	81,982
	<u>18,541</u>	<u>91,466</u>	<u>110,007</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## 25 FINANCIAL ASSETS AT AMORTISED COST

	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
<b>Lebanese sovereign and Central Bank of Lebanon</b>		
Certificates of deposit	5,614,622	4,481,896
Treasury bills	1,794,767	1,537,535
Eurobonds	2,959,183	3,699,108
	<u>10,368,572</u>	<u>9,718,539</u>
<b>Other sovereign</b>		
Treasury bills	3,425,347	3,706,404
Eurobonds	319,070	229,986
Other governmental securities	72,185	74,987
	<u>3,816,602</u>	<u>4,011,377</u>
<b>Private sector and other securities</b>		
Banks and financial institutions debt instruments	494,941	629,249
Corporate debt instruments	109,222	219,596
Loans related to investments in equity instruments	-	168
	<u>604,163</u>	<u>849,013</u>
	<u>14,789,337</u>	<u>14,578,929</u>
Less: impairment allowance	(4,763)	(5,186)
	<u>14,784,574</u>	<u>14,573,743</u>
The movement of the impairment allowance was as follows:		
Balance at 1 January	5,186	6,022
Recoveries (note 12)	(433)	(699)
Foreign exchange differences	10	(137)
	<u>4,763</u>	<u>5,186</u>
The classification of the above instruments according to the type of interest is as follows:		
	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
<b>Fixed interest</b>		
Lebanese sovereign and Central Bank of Lebanon	10,368,572	9,718,539
Other sovereign	3,651,726	3,812,007
Private sector and other securities	597,876	840,498
	<u>14,618,174</u>	<u>14,371,044</u>
<b>Variable interest</b>		
Private sector and other securities	1,524	3,329
Other sovereign	164,876	199,370
	<u>166,400</u>	<u>202,699</u>
	<u>14,784,574</u>	<u>14,573,743</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## 26 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The Group classified the following instruments in private sector securities at fair value through other comprehensive income as it holds them for strategic reasons.

The tables below list those equity instruments and dividends received as well as the changes in fair value net of applicable taxes:

	<i>2015</i>		
	<i>Fair value LL million</i>	<i>Cumulative changes in fair value LL million</i>	<i>Dividends LL million</i>
LIA Insurance SAL	39,013	6,132	2,347
Visa NC – Class “C”	30,265	22,253	96
Phoenicia – Aer Rianta Co. SAL	10,729	-	17,863
Banque de l’Habitat SAL	17,759	11,498	361
Solidere International Limited	7,003	(3,953)	-
Liban Lait SAL	5,232	-	-
Saraya Aqaba Real Estate Development	3,944	-	-
Master Card Inc Class B	5,734	4,874	19
BA Capital Holding PLC	3,015	-	-
Visa Europe Ltd	2,740	2,192	-
Kafa Holding SAL	2,049	-	-
Kafalat	2,508	1,740	-
International Payment Network SAL	1,469	697	55
Arab Trade Finance Program	1,723	126	10
Abdel Wahab 618 Holding SAL	1,203	-	-
Fransabank SAL	982	(203)	65
C-Mobile Group Holding Ltd	-	(10,867)	-
Other equity instruments	9,007	1,722	2,291
	<u>144,375</u>	<u>36,211</u>	<u>23,107</u>
	<i>2014</i>		
	<i>Fair value LL million</i>	<i>Cumulative changes in fair value LL million</i>	<i>Dividends LL million</i>
AZA Holding SAL	-	-	6,807
LIA Insurance SAL	38,239	5,134	3,042
Visa NC – Class “C”	25,270	17,995	141
Phoenicia – Aer Rianta Co. SAL	10,729	-	18,079
Banque de l’Habitat SAL	14,857	9,500	311
Solidere International Limited	6,009	(4,220)	-
Liban Lait SAL	5,232	-	-
Saraya Aqaba Real Estate Development	3,953	-	-
Master Card Inc Class B	5,000	4,244	25
Kafa Holding SAL	2,049	-	-
Kafalat	1,474	1,015	-
International Payment Network SAL	1,453	683	91
Arab Trade Finance Program	1,577	2	-
Abdel Wahab 618 Holding SAL	1,203	-	-
Fransabank SAL	959	(222)	60
C-Mobile Group Holding Ltd	1	(10,877)	-
Other equity instruments	17,701	4,273	3,564
	<u>135,706</u>	<u>27,527</u>	<u>32,120</u>

During 2014, the Group sold its investment in AZA Holding SAL for a total consideration of US\$ 94,708 thousands (equivalent to LL 142,773 million). The cumulative change in fair value upon the sale transaction amounted to LL 112,382 million (note 47) and was reclassified to retained earnings net of the effect of taxes amounting to LL 11,238 million which was booked under current tax liabilities.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 27 INVESTMENTS IN ASSOCIATES

	Country of incorporation	Activity	2015		2014		
			Ownership %	Carrying value LL million	Ownership %	Carrying value LL million	
<b>Investments</b>							
Assurex SAL	Lebanon	Insurance and reinsurance	23.82%	9,942	23.82%	9,738	
Syrian Arab for Insurance	Syria	Insurance and brokerage	36.00%	3,569	36.00%	3,873	
Pinpay SAL	Lebanon	Mobile payment services	37.04%	101	35.50%	687	
Capital B. Solutions (CBS) Ltd	UAE	IT Services		-	37.50%	4,324	
				<u>13,612</u>		<u>18,622</u>	
<b>Related loans</b>							
Pinpay SAL				377		-	
Capital B. Solutions (CBS) Ltd				-		9,140	
				<u>13,989</u>		<u>27,762</u>	

The Group's investments accounted for under the equity method are not listed on public exchanges. The following table illustrates the summarized financial information of these investments:

	2015			
	Assurex SAL LL million	Syrian Arab for Insurance LL million	Pinpay SAL LL million	Capital Banking Solutions Ltd LL million
<b>Associates' statement of financial position</b>				
Current assets	65,741	11,675	41	-
Non-current assets	35,545	19,788	1,596	-
Current liabilities	(56,757)	(2,644)	(435)	-
Non-current liabilities	(2,362)	(15,436)	(858)	-
Equity	<u>42,167</u>	<u>13,383</u>	<u>344</u>	<u>-</u>
	2014			
	Assurex SAL LL million	Syrian Arab for Insurance LL million	Pinpay SAL LL million	Capital Banking Solutions Ltd LL million
<b>Associates' statement of financial position</b>				
Current assets	66,112	13,485	440	18,292
Non-current assets	35,654	16,174	1,899	14,449
Current liabilities	(58,840)	(447)	(451)	(18,459)
Non-current liabilities	(2,647)	(17,168)	(33)	(9,930)
Equity	<u>40,279</u>	<u>12,044</u>	<u>1,855</u>	<u>4,352</u>

**Associates' operating results**

	31 December 2015 LL million	31 December 2014 LL million
Revenues	44,433	80,507
Operating expenses	(35,775)	(73,232)
Dividends received during the year	730	361
Share of profit for the year	<u>3,307</u>	<u>373</u>

Assurex SAL has contingent liabilities of LL 3,183 million of which LL 3,100 million relate to guarantees issued in accordance with regulatory requirements

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 28 PROPERTY AND EQUIPMENT

	Land LL million	Buildings and freehold improvements LL million	Leasehold improvements LL million	Motor vehicles LL million	Office equipment and computer hardware LL million	Office machinery and furniture LL million	Other LL million	Total LL million
<b>Cost or revaluation:</b>								
At 1 January 2015	182,267	572,342	146,883	3,104	189,656	107,047	8,745	1,210,044
Entities acquired during the year	-	-	1,661	-	3,016	629	-	5,306
Additions	317	50,475	24,876	878	36,863	7,461	106	120,976
Disposals	-	(1,223)	(5,067)	(308)	(707)	(503)	(9)	(7,817)
Revaluation**	-	770	-	-	-	-	-	770
Transfers	27,436	(28,209)	(197)	-	1,518	727	-	1,275
Foreign exchange difference	(501)	(16,470)	(15,227)	(193)	(11,590)	(5,185)	(26)	(49,192)
At 31 December 2015	209,519	577,685	152,929	3,481	218,756	110,176	8,816	1,281,362
<b>Depreciation:</b>								
At 1 January 2015	-	-	77,874	1,553	110,425	65,121	6,530	261,503
Entities acquired during the year	-	-	672	-	2,235	147	-	3,054
Depreciation during the year	-	19,714	18,535	441	27,368	8,240	115	74,413
Disposals	-	(1,212)	(4,237)	(293)	(587)	(407)	-	(6,736)
Transfers	-	(625)	(197)	-	311	511	-	-
Foreign exchange difference	-	(1,137)	(5,849)	(63)	(4,959)	(2,286)	(16)	(14,310)
At 31 December 2015	-	16,740	86,798	1,638	134,793	71,326	6,629	317,924
<b>Net book value:</b>								
At 31 December 2015	209,519	560,945	66,131	1,843	83,963	38,850	2,187	963,438

	Land LL million	Buildings and freehold improvements LL million	Leasehold improvements LL million	Motor vehicles LL million	Office equipment and computer hardware LL million	Office machinery and furniture LL million	Other LL million	Total LL million
<b>Cost or revaluation:</b>								
At 1 January 2014	69,754	439,320	132,998	2,704	173,418	104,626	9,670	932,490
Additions	75	19,544	20,699	751	26,578	5,912	2	73,561
Disposals	-	(4,479)	(336)	(219)	(5,770)	(589)	-	(11,393)
Revaluation**	112,598	270,498	-	-	-	-	-	383,096
Transfers*	-	(139,949)	-	-	-	-	-	(139,949)
Foreign exchange difference	(160)	(12,592)	(6,478)	(132)	(4,570)	(2,902)	(927)	(27,761)
At 31 December 2014	182,267	572,342	146,883	3,104	189,656	107,047	8,745	1,210,044
<b>Depreciation:</b>								
At 1 January 2014	-	133,361	61,607	1,343	94,380	58,845	7,118	356,654
Depreciation during the year	-	12,851	18,879	378	23,918	8,527	121	64,674
Disposals	-	(4,184)	(309)	(113)	(5,762)	(589)	-	(10,957)
Transfers*	-	(139,949)	-	-	-	-	-	(139,949)
Foreign exchange difference	-	(2,079)	(2,303)	(55)	(2,111)	(1,662)	(709)	(8,919)
At 31 December 2014	-	-	77,874	1,553	110,425	65,121	6,530	261,503
<b>Net book value:</b>								
At 31 December 2014	182,267	572,342	69,009	1,551	79,231	41,926	2,215	948,541

\* This transfer relates to the accumulated depreciation at 31 December 2014 that was eliminated against the gross carrying amount of the re-valued assets

\*\* Revaluation was recognised in other comprehensive income due to the change in accounting policy to the revaluation model

**Revaluation of land and buildings**

Pursuant to the decision of the Board of Directors held on 3 September 2014, the Group changed its accounting policy for measuring land and buildings and related improvements from the cost model to the revaluation model. Management determined that these constitute a single class of asset under IFRS 13, based on the nature, characteristics and risks of the property. These assets are classified under level 3 in the fair value hierarchy.

Fair value of the land and buildings and freehold improvements was determined using the market comparable method. This means that valuations performed by the valuers are based on market prices, significantly adjusted for differences in the nature, location or condition of the specific property. As at the date of revaluation, the properties' fair values are based on valuations carried out by independent valuers accredited by the local regulators in the countries in which the properties are situated.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 28 PROPERTY AND EQUIPMENT (continued)

*Significant unobservable valuation input*

Significant increase (decrease) in the fair value estimation within a range of 5% relative to the adopted fair value measurement would result in a higher (lower) value of revaluation recognized in other comprehensive income by LL 35,694 million before the effect of applicable taxes (2014: LL 35,751 million). The reconciliation of fair value between 1 January and 31 December is provided in the property and equipment table presented above.

The Group changed the accounting policy with respect to measurement of land and buildings and freehold improvements during 2014. If land and buildings and related improvements were measured using the cost model, the carrying amounts as of 31 December would have been as follows:

	2015	
	<i>Land</i>	<i>Buildings and freehold improvements</i>
	<i>LL million</i>	<i>LL million</i>
Cost	69,889	479,264
Accumulated depreciation	-	(150,182)
Net book value	69,889	329,082
	2014	
	<i>Land</i>	<i>Buildings and freehold improvements</i>
	<i>LL million</i>	<i>LL million</i>
Cost	69,669	441,793
Accumulated depreciation	-	(139,949)
Net book value	69,669	301,844

## 29 INTANGIBLE FIXED ASSETS

	<i>Key money</i>	<i>Computer software</i>	<i>Other</i>	<i>Total</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
<b>Cost:</b>				
At 1 January 2015	713	167,853	481	169,047
Entities acquired during the year	-	1,295	170	1,465
Additions	-	47,103	-	47,103
Transfers	-	254	-	254
Disposals	(13)	-	-	(13)
Foreign exchange difference	(288)	(14,179)	(51)	(14,518)
At 31 December 2015	412	202,326	600	203,338
<b>Amortization:</b>				
At 1 January 2015	102	76,119	174	76,395
Entities acquired during the year	-	966	94	1,060
Amortization during the year	7	28,759	61	28,827
Transfers	-	185	-	185
Disposals	(13)	-	-	(13)
Foreign exchange difference	(38)	(4,415)	(27)	(4,480)
At 31 December 2015	58	101,614	302	101,974
<b>Net book value:</b>				
At 31 December 2015	354	100,712	298	101,364

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## 29 INTANGIBLE FIXED ASSETS (continued)

	<i>Key money LL million</i>	<i>Computer software LL million</i>	<i>Other LL million</i>	<i>Total LL million</i>
<b>Cost:</b>				
At 1 January 2014	1,584	139,204	438	141,226
Additions	23	38,358	77	38,458
Transfers	(613)	-	-	(613)
Disposals	-	(4,195)	-	(4,195)
Foreign exchange difference	(281)	(5,514)	(34)	(5,829)
<b>At 31 December 2014</b>	<b>713</b>	<b>167,853</b>	<b>481</b>	<b>169,047</b>
<b>Amortization:</b>				
At 1 January 2014	118	58,731	118	58,967
Amortization during the year	13	23,520	69	23,602
Disposals	-	(4,068)	-	(4,068)
Foreign exchange difference	(29)	(2,064)	(13)	(2,106)
<b>At 31 December 2014</b>	<b>102</b>	<b>76,119</b>	<b>174</b>	<b>76,395</b>
<b>Net book value:</b>				
At 31 December 2014	611	91,734	307	92,652

## 30 NON CURRENT ASSETS HELD FOR SALE

The Group occasionally takes possession of properties in settlement of loans and advances. The Group is in the process of selling these properties and are as such included in non-current assets held for sale. Gains or losses on disposal and revaluation losses are recognized in the consolidated income statement for the year.

	<i>2015</i>			<i>2014</i>		
	<i>Properties acquired in settlement of debts LL million</i>	<i>Other disposal groups LL million</i>	<i>Total LL million</i>	<i>Properties acquired in settlement of debts LL million</i>	<i>Other disposal groups LL million</i>	<i>Total LL million</i>
<b>Cost:</b>						
At 1 January	19,095	-	19,095	14,991	4,983	19,974
Additions	63,178	-	63,178	4,932	-	4,932
Disposals	(4,699)	-	(4,699)	(149)	(4,983)	(5,132)
Foreign exchange difference	(2,259)	-	(2,259)	(679)	-	(679)
<b>At 31 December</b>	<b>75,315</b>	<b>-</b>	<b>75,315</b>	<b>19,095</b>	<b>-</b>	<b>19,095</b>
<b>Impairment:</b>						
At 1 January	585	-	585	656	-	656
Impairment for the year	314	-	314	-	-	-
Transfers	1,763	-	1,763	-	-	-
Foreign exchange difference	(126)	-	(126)	(71)	-	(71)
<b>At 31 December</b>	<b>2,536</b>	<b>-</b>	<b>2,536</b>	<b>585</b>	<b>-</b>	<b>585</b>
<b>Net book value:</b>						
At 31 December	72,779	-	72,779	18,510	-	18,510

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## 31 OTHER ASSETS

	2015 <i>LL million</i>	2014 <i>LL million</i>
Advances on acquisition of property and equipment	92,177	63,915
Advances on acquisition of intangible fixed assets	33,974	22,831
Prepaid charges	64,832	78,623
Electronic cards and regularization accounts	23,962	27,164
Receivables related to non-banking operations	25,975	6,913
Advances to staff	7,232	13,099
Hospitalization and medical care under collection	29,054	24,372
Advances on investments	58,256	59,548
Deferred tax assets (note 15)	61,064	43,725
Interest and commissions receivable	9,718	3,518
Funds management fees	2,971	2,560
Fiscal stamps, bullions and commemorative coins	2,512	3,273
Management and advisory fees receivable	2,466	2,140
Tax regularisation account	6,772	11,562
Due on sale of AZA Holding (note 26)	-	142,773
Other debtor accounts	49,541	30,520
	<b>470,506</b>	<b>536,536</b>

## 32 GOODWILL

	<i>Lebanon LL million</i>	<i>Switzerland LL million</i>	<i>Egypt LL million</i>	<i>UAE LL million</i>	<i>Sudan LL million</i>	<i>Total LL million</i>
Cost:						
At 1 January 2015	54,716	43,290	97,093	-	2,374	197,473
Entities acquired during the year	-	-	-	28,084	-	28,084
Impairment	-	-	(5,276)	-	(181)	(5,457)
Foreign exchange difference	-	(96)	(10,519)	-	(51)	(10,666)
At 31 December 2015	<b>54,716</b>	<b>43,194</b>	<b>81,298</b>	<b>28,084</b>	<b>2,142</b>	<b>209,434</b>
Cost:						
At 1 January 2014	54,716	48,005	105,913	-	2,510	211,144
Impairment	-	-	(3,015)	-	-	(3,015)
Foreign exchange difference	-	(4,715)	(5,805)	-	(136)	(10,656)
At 31 December 2014	<b>54,716</b>	<b>43,290</b>	<b>97,093</b>	<b>-</b>	<b>2,374</b>	<b>197,473</b>

For the purpose of impairment testing, goodwill is allocated to the Cash Generating Units (CGUs), which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes. The cost of equity assigned to an individual CGU and used to discount its future cash flows can have a significant effect on its valuation. The cost of equity percentage is generally derived from an appropriate capital asset pricing model, which itself depends on inputs reflecting a number of financial and economic variables including the risk rate in the country concerned and a premium to reflect the inherent risk of the business being evaluated.

Management judgment is required in estimating the future cash flows of the CGUs. These values are sensitive to cash flows projected for the periods for which detailed forecasts are available, and to assumptions regarding the term sustainable pattern of cash flows thereafter. While the acceptable range within which underlying assumptions can be applied is governed by the requirement for resulting forecasts to be compared with actual performance and verifiable economic data in future years, the cash flow forecasts necessarily and appropriately reflect management view of future business prospects.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

**32 GOODWILL (continued)**

The online brokerage CGU in Egypt (Arabeya Online and brokerage) is a separate legal entity performing brokerage activities to its customers and is reported under the Treasury and Capital Markets business segment and MENAT geographic segment. The recoverable amount of this CGU amounted to LL 19,640 million as at 31 December 2015, has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The projected cash flows have been updated to reflect the decreased level of activity. The discount rate applied to cash flow projections is 17% (2014:17%). As a result, an impairment loss on goodwill amounting to LL 5,276 million was recognised during the year ended 31 December 2015 (2014: LL 3,015 million).

The commercial banking CGU in Sudan is a separate legal entity performing Islamic banking activities to its customers and is reported under the Treasury and Capital Markets business segment and MENAT geographic segment. The recoverable amount of this CGU amounted to LL 77,058 million as at 31 December 2015, has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The projected cash flows have been updated to reflect the decreased level of activity. The discount rate applied to cash flow projections is 22% (2014: 22%) and cash flows beyond the five-year period are extrapolated using a 2% growth rate. As a result, an impairment loss on goodwill amounting to LL 181 million was recognised during the year ended 31 December 2015 (2014: none).

The following CGUs include in their carrying value goodwill that is a significant proportion of total goodwill reported by the Group. These CGUs do not carry on their statement of financial position any intangible assets with indefinite lives, other than goodwill. The following schedule shows the discount and terminal growth rates used for CGUs subject to impairment testing for which no impairment loss resulted for the year ended 31 December 2015.

	2015		2014	
	Discount rate %	Terminal growth rate %	Discount rate %	Terminal growth rate %
<b>Cash Generating Units</b>				
Commercial and Private Banking – Lebanon	16.00	2.00	16.00	2.00
Private Banking – Switzerland	10.00	2.00	10.00	2.00
Commercial Banking – Egypt	17.00	3.00	17.00	3.00

The key assumptions described above may change as economic and market conditions change. The Group estimates that reasonably possible changes in these assumptions are not expected to cause the recoverable amount of either unit to decline below the carrying amount.

**33 DUE TO CENTRAL BANKS**

	2015 LL million	2014 LL million
Subsidised loan	569,742	437,858
Accrued interest	114	527
	<b>569,856</b>	<b>438,385</b>
Repurchase agreements	81,318	90,443
	<b>651,174</b>	<b>528,828</b>

**Subsidised loans**

During 2013, the Group signed a credit agreement with the Central Bank of Lebanon based on the provisions of Decision no. 6116 dated 7 March 1996 relating to the facilities which can be granted by BDL to banks. The loan amounted to LL 538,471 million as of 31 December 2015 (2014: LL 305,246 million) and bears a 1% interest that is accrued and paid on a yearly basis. The loan is repaid on a monthly basis based on the utilized portion by the Bank's customers.

During 2009, the Group signed a credit agreement with the Central Bank of Lebanon based on the provisions of the same decision. The loan amounted to LL 31,271 million as of 31 December 2015 (LL 132,612 million as of 31 December 2014).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

**33 DUE TO CENTRAL BANKS (continued)**

Interest expense on these loans amounted to LL 4,585 million and LL 5,295 million for the years ended 31 December 2015 and 2014, respectively

**Repurchase agreements**

The Group entered into repurchase agreements by pledging Turkish treasury bills as collateral. The terms of these agreements are as follows:

	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
Central Banks	81,318	90,443
Carrying value of collateral	97,960	101,860
Interest expense	6,727	11,323
Annual interest rate	7.50%	8.25%
Maturity date	January 2016	January 2015

**34 DUE TO BANKS AND FINANCIAL INSTITUTIONS**

	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
Current accounts	168,297	261,033
Term loans	1,853,074	1,090,170
Time deposits	233,355	336,802
Accrued interest	4,521	7,346
	<u>2,259,247</u>	<u>1,695,351</u>

Included in term loans above, is an amount of LL 438,051 million (2014: LL 405,571 million) representing loans granted from various supranational entities for the purpose of financing small and medium size enterprises in the private sector with annual interest rates ranging from 1.42% to 5.68%.

The commitments arising from bank facilities received are disclosed in note 51 to these consolidated financial statements.

**35 CUSTOMERS' DEPOSITS**

	<i>2015</i>				<i>Total</i> <i>LL million</i>
	<i>Corporate and</i> <i>SME</i> <i>LL million</i>	<i>Retail and</i> <i>personal</i> <i>banking</i> <i>LL million</i>	<i>Public</i> <i>sector</i> <i>LL million</i>	<i>Other</i> <i>LL million</i>	
Sight deposits	2,331,310	5,633,462	110,865	10,982	8,086,619
Time deposits	12,412,013	22,510,675	266,027	2,837	35,191,552
Saving accounts	4,154	7,602,143	-	-	7,606,297
Certificates of deposits	86,482	1,289,374	-	-	1,375,856
Margins on LC's and LG's	196,968	59,248	2,172	-	258,388
Other margins	134,810	126,720	-	8,813	270,343
Other deposits	69,993	130,262	-	1,197	201,452
	<u>15,235,730</u>	<u>37,351,884</u>	<u>379,064</u>	<u>23,829</u>	<u>52,990,507</u>
Deposits pledged as collateral					<u>4,906,371</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## 35 CUSTOMERS' DEPOSITS (continued)

	2014				Total LL million
	Corporate and SME LL million	Retail and personal banking LL million	Public sector LL million	Other LL million	
Sight deposits	2,530,734	5,093,109	112,480	16,417	7,752,740
Time deposits	12,715,052	22,833,546	336,322	783	35,885,703
Saving accounts	4,703	7,753,670	-	-	7,758,373
Certificates of deposits	83,722	1,244,919	-	-	1,328,641
Margins on LC's and LG's	262,953	56,471	2,188	-	321,612
Other margins	57,816	176,232	-	-	234,048
Other deposits	45,124	86,968	-	-	132,092
	<u>15,700,104</u>	<u>37,244,915</u>	<u>450,990</u>	<u>17,200</u>	<u>53,413,209</u>
Deposits pledged as collateral					<u>4,372,324</u>

Sight deposits include balances of bullion amounting to LL 68,226 million (2014: LL 70,457 million) which were carried at fair value through profit or loss.

Time deposits include balances amounting to LL 2,325,642 million as at 31 December 2015 (2014: LL 2,235,511 million) whereby the principal is settled at maturity according to the full discretion of the Group either in cash or in Lebanese Government Eurobonds denominated in US Dollars and having the same nominal amount. As these deposits are linked to the credit risk of the Lebanese Republic, the Group separated the embedded derivative and accounted for it at fair value through profit or loss.

## 36 DEPOSITS FROM RELATED PARTIES

	2015		
	Corporate and SME LL million	Retail and personal banking LL million	Total LL million
Sight deposits	5,952	68,906	74,858
Time deposits	468,276	137,923	606,199
Saving accounts	-	551	551
Other deposits and margin accounts	6,233	2,270	8,503
	<u>480,461</u>	<u>209,650</u>	<u>690,111</u>
Deposits pledged as collateral			<u>185,521</u>

	2014		
	Corporate and SME LL million	Retail and personal banking LL million	Total LL million
Sight deposits	18,984	62,401	81,385
Time deposits	321,467	176,118	497,585
Saving accounts	-	887	887
Other deposits and margin accounts	6,459	305	6,764
	<u>346,910</u>	<u>239,711</u>	<u>586,621</u>
Deposits pledged as collateral			<u>65,212</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 37 DEBT ISSUED AND OTHER BORROWED FUNDS

	2015 <i>LL million</i>	2014 <i>LL million</i>
Subordinated loans	962,314	753,750
Issued bills	77,100	86,100
Accrued interests	14,568	14,605
	1,053,982	854,455

The Group signed subordinated loans agreements with a total nominal value of US\$ 638.35 during 2015, 2014 and 2013. The loans are subordinated, unsecured and subject to the following conditions:

Loan	Nominal amount	Maturity	Interest rate	Frequency
Loan 1	US\$ 350,000,000	16 October 2023	6.75%	Quarterly
Loan 2	US\$ 112,500,000	11 April 2024	6.55% + Libor 6m	Semi-annually
Loan 3	US\$ 37,500,000	11 April 2024	6.55% + Libor 6m	Semi-annually
Loan 4	US\$ 138,351,000	30 September 2024	6.50%	Semi-annually

The principal of the loans is to be repaid at maturity. Any principal amount of the loans prepaid may not be re-borrowed. Prepayment on the loans is applicable as follows:

**Loan 1:** the Group, at its sole discretion and after obtaining approval of the Central Bank of Lebanon, has the right to prepay all outstanding amounts (entirely and not partially) according to the following:

- First time, after five years from issuance and upon payment of interest thereafter.
- Without regard to the dates set above and according to the following:
  - At any time after one year from the date of issuance, in the event of amendments to local and international laws and regulations, the subordinated bonds cannot be computed within the private funds of the Group (Tier II);
  - At any time after one year from the date of issuance for reasons related to the amendment of Lebanese taxation laws;

**Loans 2**

**and 3:** the Group shall, on any interest payment date or not less than 30 days' prior written notice, have the right to prepay the entire outstanding principal amount of the Loan, in whole but not in part, together with accrued but unpaid interest thereon, and all other amounts payable, and subject to the approval of the Central Bank of Lebanon:

- in the event of a change in Lebanese law or regulation resulting in an increase in the withholding tax rate applicable to payments of interest on the loans to more than 5.00% above the rate in effect on the date of the disbursement. No penalty or premium shall be payable in connection with any prepayment following changes in taxation; or
- subject to the payment of a premium of 2.00% of the outstanding principal amount of the loans to be prepaid, at the option of the Group, on any interest payment date at any time after the fifth anniversary of the date on which the Loan is disbursed.

**Loan 4:** On October 21, 2014, Bank Audi SAL granted Odea Bank a subordinated loan in the amount of US\$ 150 million. This loan matures on 30 September 2024 and pays quarterly interest of 6.50%. During 2015, the Bank offered and sold certificates of participation relating to the US\$ 150 million subordinated loan, of which US\$ 138 million were sold to third parties. The certificates constitute pass-through obligations of Bank Audi SAL. Odea Bank shall repay the loan at maturity and may repay the loan in whole, but not in part (1) within one month from the fifth anniversary of the subordinated debt issuance date, or (2) due to changes in BRSA regulation if the loan ceases to be treated as Tier 2 capital under the applicable BRSA regulation.

Besides, during 2015 the Group issued bills denominated in Turkish Lira to domestic investors in the amount of LL 77,100 million. These bills mature on 28 February 2016 and pay semi-annual interest of 9.75%. During 2014, the Group had issued bills denominated in Turkish Lira to domestic investors in the amount of LL 86,100 million. These bills matured on 21 August 2015 and paid semi-annual interest of 9.75%.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

**38 OTHER LIABILITIES**

	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
Current tax liabilities (note 15)	84,879	102,614
Accrued expenses	132,185	123,938
Miscellaneous suppliers and other payables	32,322	33,655
Pledge balances of factoring clients	101,484	53,493
Operational taxes	52,765	52,884
Employee accrued benefits	8,641	8,394
Unearned commissions and premiums	58,261	56,854
Deferred tax liabilities (note 15)	57,864	54,235
Electronic cards and regularization accounts	10,030	15,598
Social security dues	5,295	4,845
Due to National Institute for Guarantee of Deposits	1,563	1,445
Other credit balances	32,711	12,025
	<u>578,000</u>	<u>519,980</u>

**39 PROVISIONS FOR RISKS AND CHARGES**

	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
Provisions for risks and charges	66,081	48,147
End of service benefits	105,979	105,814
	<u>172,060</u>	<u>153,961</u>

**a) Provisions for risks and charges**

	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
Provision for contingencies	23,824	18,986
Provision for legal claims	10,724	1,517
Provision for bonus	23,058	23,252
Other provisions	8,475	4,392
	<u>66,081</u>	<u>48,147</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## 39 PROVISIONS FOR RISKS AND CHARGES (continued)

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

	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
Balance at 1 January	48,147	42,035
<b>Add:</b>		
Charge for operating expenses (note 14)	20,126	4,094
Charge for loans written off	-	2,391
Charge for personnel expenses	27,897	31,655
Transfer from other liabilities	5,201	-
	<u>53,224</u>	<u>38,140</u>
<b>Less:</b>		
Paid during the year	24,155	24,882
Net provisions recoveries (note 11)	1,465	897
Transfer to other liabilities	-	2,843
Foreign exchange difference	9,670	3,406
	<u>35,290</u>	<u>32,028</u>
Balance at 31 December	<u>66,081</u>	<u>48,147</u>

**b) End of service benefits**

Banking entities operating in Lebanon have two defined benefit plans covering all their employees. The first requires contributions to be made to the National Social Security Fund whereby the entitlement to and level of these benefits depend on the employees' length of service, the employees' salaries and contributions paid to the fund among other requirements. Under the second plan, no contributions are required to be made, however a fixed end of service lump sum amount should be paid for long service employees. The entitlement to and level of these end of service benefits provided depends on the employees' length of service, the employees' salaries and other requirements outlined in the Workers' Collective Agreement. The first plan described above also applies to non-banking entities operating in Lebanon. Defined benefit plans for employees at foreign subsidiaries and branches are set in line with the laws and regulations of the respective countries in which these subsidiaries are located. The movement of provision for staff retirement benefit obligation is as follows:

	<i>2015</i>		
	<i>Lebanon</i> <i>LL million</i>	<i>Foreign countries</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Balance at 1 January 2015	86,351	19,463	105,814
Charge for the year (note 13)	14,169	3,198	17,367
Paid during the year	(4,976)	(3,121)	(8,097)
Actuarial (gain) loss on obligation	(13,979)	4,822	(9,157)
Entities acquired during the year	-	959	959
Provision released (note 11)	-	(11)	(11)
Advances paid	-	(216)	(216)
Foreign exchange difference	-	(680)	(680)
Balance at 31 December 2015	<u>81,565</u>	<u>24,414</u>	<u>105,979</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 39 PROVISIONS FOR RISKS AND CHARGES (continued)

## b) End of service benefits (continued)

	2014		
	Lebanon LL million	Foreign countries LL million	Total LL million
Balance at 1 January 2014	78,565	12,282	90,847
Charge for the year (note 13)	30,259	3,754	34,013
Paid during the year	(3,662)	(578)	(4,240)
Actuarial (gain) loss on obligation	(5,361)	5,396	35
Provision released (note 11)	(83)	(156)	(239)
Advances paid	(13,367)	-	(13,367)
Foreign exchange difference	-	(1,235)	(1,235)
Balance at 31 December 2014	86,351	19,463	105,814

The charge for the year is broken down as follows:

	2015 LL million	2014 LL million
Current service cost	8,407	7,661
Interest on obligation	8,960	6,688
Past service cost	-	19,664
	17,367	34,013

Defined benefit plans in Lebanon constitute more than 75% of the Group required obligation. The key assumptions used in the calculation of Lebanese retirement benefit obligation are as follows:

	2015	2014
<b>Economic assumptions</b>		
Discount rate (p.a.)	8.50%	8.50%
Salary increase (p.a.)	-	-
Employees	5.00%	6.00%
Senior managers	7.00%	8.00%
Expected annual rate of return on NSSF contributions	5.00%	5.00%
<b>Treatment of bonus</b>	3-year average as a % of basic	3-year average as a % of basic
<b>Demographic assumptions</b>		
Retirement age	Earliest of age 64 or completion of 20 contribution years	Earliest of age 64 or completion of 20 contribution years
Pre – termination mortality	None	None
Pre – termination turnover rates (age related with average of)	2.00% - 4.00%	2.00%- 4.00%

A quantitative sensitivity analysis for significant assumptions is shown as below:

	Discount rate		Future salary increase	
	% increase LL million	% decrease LL million	% increase LL million	% decrease LL million
Impact on net defined benefit obligation – 2015	(6,615)	6,957	4,526	(4,167)
Impact on net defined benefit obligation – 2014	(5,521)	6,235	4,729	(4,480)

The sensitivity analysis above was determined based on a method that extrapolates the impact on net defined benefit obligation as a result of 50 basis point changes in key assumptions occurring at the end of the reporting period.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 40 SHARE CAPITAL AND WARRANTS ISSUED ON SUBSIDIARY CAPITAL

## Share capital

The share capital of Bank Audi SAL as at 31 December is as follows:

	Stock exchange listing	2015		2014	
		Number of shares	LL million	Number of shares	LL million
Ordinary shares	Beirut	283,511,087	470,192	283,511,087	467,793
	London SEAQ and Beirut	116,238,117	191,793	116,238,117	191,793
Global depository receipts		399,749,204	661,985	399,749,204	659,586
Preferred shares series "E"	Beirut	-	-	1,250,000	2,063
Preferred shares series "F"	Beirut	1,500,000	2,484	1,500,000	2,475
Preferred shares series "G"	Beirut	1,500,000	2,484	1,500,000	2,475
Preferred shares series "H"	Beirut	750,000	1,242	750,000	1,237
		3,750,000	6,210	5,000,000	8,250
		403,499,204	668,195	404,749,204	667,836

1. The Extraordinary General Assembly of shareholders held on 26 August 2014 decided to increase the Bank's capital by LL 64,950 million through the issuance of 50,000,000 ordinary shares with a nominal value of LL 1,299 per share. This capital increase was divided into two issuances the first (40,000,000 shares) of which was reserved for the Bank shareholders of ordinary shares while the second (10,000,000 shares) was reserved for Bank shareholders and new investors. The issuance had the following terms:

- Number of shares: 50,000,000 (of which 11,018,762 were converted to GDRs)
- Share's issue price: US\$ 6
- Share's nominal value: LL 1,299 (later became LL 1,656 upon increasing the nominal value).
- Issue premium : Calculated in US\$ as the difference between US\$ 6 and the counter value of the par value per share based on the exchange rate at the underwriting dates.
- Benefits: Annual dividends starting from the year 2014 results inclusive.
- Warrants right: - 3 warrants per newly issued share exercisable in one month during the first semester of the year 2019. The warrant holder has the right to exchange it against share in Odea Bank AS by paying US\$ 0.95 per share

The Extraordinary General Assembly of shareholders held on 23 September 2014 validated and ratified the capital increases according to the aforementioned terms.

2. The Extraordinary General Assembly of shareholders held on 23 September 2014 decided to increase the Bank's capital by LL 142,067 million through the increase of nominal value per share from LL 1,299 to LL 1,650 by transferring the amount of LL 140,312 million from the Issue premium – common shares and LL 1,755 million from the Issue premium – preferred shares. The Extraordinary General Assembly of shareholders held on 4 December 2014 validated and ratified the capital increases according to the aforementioned terms.
3. In its meeting dated 9 June 2015, the Extraordinary General Assembly of shareholders decided to cancel the series "E" preferred shares totalling 1,250,000 shares which have a nominal value of LL 2,063 million and to simultaneously replenish the share capital accounts by transferring the same amount from general reserves. As a result and for the avoidance of decimals in the share nominal value, the Bank increased its capital up to LL 668,195 million, by transferring an amount of LL 2,399 million from reserves appropriated for capital increase and LL 23 million from the issue premium on preferred shares to share capital, so that the nominal value per share after the cancellation and capital increase amounted to LL 1,656. The Bank had issued preferred shares series "E" pursuant to the resolution of the extraordinary general assembly held on 2 March 2010, under the following terms:

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

**40 SHARE CAPITAL AND WARRANTS ISSUED ON SUBSIDIARY CAPITAL (continued)**

- Number of shares: 1,250,000
- Share's issue price: US\$ 100
- Share's nominal value: LL 1,225 (later became LL 1,650 upon increasing the nominal value)
- Issue premium : Calculated in US\$ as the difference between US\$ 100 and the counter value of the par value per share based on the exchange rate at the underwriting dates.
- Benefits: Annual dividends of US\$ 6 per share, non cumulative (for 2010 was set to USD 4 per share).
- Repurchase right: The Bank has the right to purchase the shares in 5 years after issuance, as well as to call them off by that date.

4. Pursuant to the resolution of the Extraordinary General Assembly of shareholders held on 10 April 2012, the Bank issued preferred shares series "F" under the following terms:

*Preferred shares series "F"*

- Number of shares: 1,500,000
- Share's issue price: US\$ 100
- Share's nominal value: LL 1,254 (later became LL 1,656 upon increasing the nominal value).
- Issue premium: Calculated in US\$ as the difference between US\$ 100 and the counter value of the par value per share based on the exchange rate at the underwriting dates.
- Benefits: Annual non cumulative dividends of US\$ 4 per share for the year 2012, and US\$ 6 for each subsequent year.
- Repurchase right: The Bank has the right to repurchase the shares in 5 years after issuance, as well as to call them off by that date.

The Extraordinary General Assembly of shareholders held on 22 June 2012 validated and ratified the capital increases according to the aforementioned terms.

5. Pursuant to the resolution of the Extraordinary General Assembly of shareholders held on 15 April 2013, the Bank issued 2,250,000 preferred shares divided into 1,500,000 series "G" preferred shares and 750,000 series "H" preferred shares with a nominal value of LL 1,299 under the following terms

*Preferred shares series "G"*

- Number of shares: 1,500,000
- Share's issue price: US\$ 100
- Share's nominal value: LL 1,299 (later became LL 1,656 upon increasing the nominal value)
- Issue premium : Calculated in US\$ as the difference between US\$ 100 and the counter value of the par value per share based on the exchange rate at the underwriting dates.
- Benefits: Annual non cumulative dividends of US\$ 4 per share for the year 2013, and US\$ 6 for each subsequent year.
- Repurchase right: The Bank has the right to repurchase the shares in 5 years after issuance, as well as to call them off by that date.

*Preferred shares series "H"*

- Number of shares: 750,000
- Share's issue price: US\$ 100
- Share's nominal value: LL 1,299 (later became LL 1,656 upon increasing the nominal value)
- Issue premium : Calculated in US\$ as the difference between US\$ 100 and the counter value of the par value per share based on the exchange rate at the underwriting dates.
- Benefits: Annual non cumulative dividends of US\$ 4.5 per share for the year 2013, and US\$ 6.5 for each subsequent year.
- Repurchase right: The Bank has the right to repurchase the shares in 7 years after issuance, as well as to call them off by that date.

The Extraordinary General Assembly of shareholders held on 21 June 2013 validated and ratified the capital increases according to the aforementioned terms for preferred shares series "G" and "H".

6. During 2014, Common Shares transferred to Global Depository Receipts amounted to 2,725,444

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## 40 SHARE CAPITAL AND WARRANTS ISSUED ON SUBSIDIARY CAPITAL (continued)

**Warrants issued on subsidiary shares**

As mentioned above, during 2014, and in conjunction with the capital increase held during that year, the Bank issued 172.5 million warrants entitling the holders, during the exercise period, to purchase Odea bank shares at an exercise price of US\$ 0.95 per share. The exercise period is expected to be the 30-day period commencing on 15 May 2019. The warrants are in registered form, detachable and freely tradable. Each warrant was valued at US\$ 0.1 upon issuance.

A warrant holder may exercise any or all of the warrants held during the exercise period. The shares to be made available for delivery by the Bank pursuant to the exercise of the warrants shall be fully paid and shall rank pari passu with shares of the same class in issue on the exercise date, including the right to participate in full in all dividends payable on or after the exercise date.

	2015		2014	
	<i>Number of warrants outstanding</i>	<i>Cost LL million</i>	<i>Number of warrants outstanding</i>	<i>Cost LL million</i>
Balance at 1 January	154,933,803	17,195	-	-
Issued during the year	-	-	172,500,000	26,004
Purchased during the year	(103,647)	(50)	(20,207,201)	(10,133)
Sold during the year	-	-	2,641,004	1,324
Balance at 31 December	<u>154,830,156</u>	<u>17,145</u>	<u>154,933,803</u>	<u>17,195</u>

**Paid dividends**

In accordance with the resolution of the general assembly of shareholders held on 07 April 2015 dividends were distributed as follows:

	2015		
	<i>Number of shares</i>	<i>Distribution per share LL</i>	<i>Total LL million</i>
Preferred shares series "E"	1,250,000	9,045	11,306
Preferred shares series "F"	1,500,000	9,045	13,568
Preferred shares series "G"	1,500,000	9,045	13,568
Preferred shares series "H"	750,000	9,798	7,348
Common shares and Global Depository Receipts	399,280,388	603	240,766
			<u>286,556</u>

In accordance with the resolution of the general assembly of shareholders held on 14 April 2014, dividends were distributed as follows:

	2014		
	<i>Number of shares</i>	<i>Distribution per share LL</i>	<i>Total LL million</i>
Preferred shares series "E"	1,250,000	9,045	11,306
Preferred shares series "F"	1,500,000	9,045	13,567
Preferred shares series "G"	1,500,000	6,030	9,045
Preferred shares series "H"	750,000	6,784	5,089
Common shares and Global Depository Receipts	349,749,204	603	210,899
			<u>249,906</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## 41 ISSUE PREMIUMS

	2015 <i>LL million</i>	2014 <i>LL million</i>
Issue premium – common shares	883,582	883,582
Issue premium – preferred shares	559,102	745,500
	<u>1,442,684</u>	<u>1,629,082</u>

The movements on the issue premiums are detailed as follows as at 31 December 2015 and 2014:

- The decrease in the issue premium of preferred shares for the year ended 31 December 2015 amounting to LL 186,398 million resulted from the redemption of 1,250,000 preferred shares series “E”.
- The increase in Issue premium – common shares for the year ended 31 December 2014 amounting to LL 387,300 million results from the issuance of 50,000,000 common shares pursuant to resolution of the extraordinary general assembly of shareholders dated 26 August 2014.
- Pursuant to the resolution of the extraordinary general assembly of shareholders dated 23 September 2014 related to the increase of the share nominal value from LL 1,299 to LL 1,650 the Bank transferred the amount of LL 140,312 million from the Issue premium – common shares and LL 1,755 million from the Issue premium – preferred shares to the share capital accounts of common and preferred shares.

## 42 CASH CONTRIBUTION TO CAPITAL

In previous years, agreements were entered between the Bank and its shareholders whereby the shareholders granted cash contributions to the Bank amounting to US\$ 48,150,000 (equivalent to LL 72,586 million) subject to the following conditions:

- These contributions will remain placed as a fixed deposit as long as the Bank performs banking activities;
- If the Bank incurs losses and has to reconstitute its capital, these contributions may be used to cover the losses if needed;
- The shareholders have the right to use these contributions to settle their share in any increase of capital;
- No interest is due on the above contributions;
- The above cash contributions are considered as part of Tier I capital for the purpose of determining the Bank’s capital adequacy ratio; and
- The right to these cash contributions is for the present and future shareholders of the Bank.

## 43 NON DISTRIBUTABLE RESERVES

	<i>Legal reserve LL million</i>	<i>Reserves appropriated for capital increase LL million</i>	<i>Gain on sale of treasury shares LL million</i>	<i>Reserve for general banking risks LL million</i>	<i>Unrealised gain on fair value through profit or loss LL million</i>	<i>Reserve for foreclosed assets LL million</i>	<i>Other reserves LL million</i>	<i>Total LL million</i>
Balance at 1 January 2015	445,767	53,330	140	497,961	21,464	6,865	25,052	1,050,579
Appropriation of 2014 profits	48,748	4,580	-	52,508	9,051	821	27,432	143,140
Increase in share nominal value	-	(2,399)	-	-	-	-	-	(2,399)
Non-controlling interest share of reserves	(150)	-	-	-	-	-	(11,954)	(12,104)
Balance at 31 December 2015	<u>494,365</u>	<u>55,511</u>	<u>140</u>	<u>550,469</u>	<u>30,515</u>	<u>7,686</u>	<u>40,530</u>	<u>1,179,216</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## 43 NON DISTRIBUTABLE RESERVES (continued)

	<i>Legal reserve LL million</i>	<i>Reserves appropriated for capital increase LL million</i>	<i>Gain on sale of treasury shares LL million</i>	<i>Reserve for general banking risks LL million</i>	<i>Unrealised gain on fair value through profit or loss LL million</i>	<i>Reserve for foreclosed assets LL million</i>	<i>Other reserves LL million</i>	<i>Total LL million</i>
Balance at 1 January 2014	390,517	53,217	23,082	449,440	21,430	6,329	15,530	959,545
Appropriation of 2013 profits	55,615	113	-	48,521	383	536	-	105,168
Treasury shares transactions	-	-	(22,942)	-	-	-	-	(22,942)
Non-controlling interest share of reserves	(365)	-	-	-	-	-	(28,251)	(28,616)
Unrealised foreign exchange gains	-	-	-	-	-	-	37,773	37,773
Transfers between reserves	-	-	-	-	(349)	-	-	(349)
Balance at 31 December 2014	<u>445,767</u>	<u>53,330</u>	<u>140</u>	<u>497,961</u>	<u>21,464</u>	<u>6,865</u>	<u>25,052</u>	<u>1,050,579</u>

**Legal reserve**

The Lebanese Commercial Law and the Bank's articles of association stipulate that 10% of the net annual profits be transferred to 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 is not available for dividend distribution.

The Bank and different subsidiaries transferred to legal reserve an amount of LL million 48,748 (2014: LL 55,615 million) as required by the laws applicable in the countries in which they operate.

**Reserves appropriated for capital increase**

The Group transferred LL 4,580 million from 2014 profits (2014: LL 113 million from 2013 profits) to reserves appropriated for capital increase. This amount represents the net gain on the disposal of fixed assets acquired in settlement of debt, in addition to reserves on recovered provisions for doubtful loans and debts previously written off, whenever recoveries exceed booked allowances.

**Gain on sale of treasury shares**

These gains arise from the Global Depository Receipts (GDRs) owned by the Group. Based on the applicable regulations, the Group does not have the right to distribute these gains.

**Reserve for unrealised revaluation gains on financial assets at fair value through profit or loss**

As per the Banking Control Commission circular No. 270 dated 19 September 2011, banks operating in Lebanon are required to appropriate in a special reserve from their annual net profits the value of gross unrealized profits on financial assets at fair value through profit or loss. This reserve is not available for dividend distribution until such profits are realized and released to general reserves.

**Reserves for general banking risks**

According to the Bank of Lebanon's regulations, banks are required to appropriate from their annual net profit a minimum of 0.2 percent and a maximum of 0.3 percent of total risk weighted assets and off-balance sheet accounts based on rates specified by the Central Bank of Lebanon to cover general banking risks. The consolidated ratio should not be less than 2 percent by the year 2017. This reserve is part of the Group's equity and is not available for distribution.

**Reserve for foreclosed assets**

The reserve for foreclosed assets represents appropriation against assets acquired in settlement of debt in accordance with the circulars of the Lebanese Banking Control Commission. Appropriations against assets acquired in settlement of debt shall be transferred to unrestricted reserves upon the disposal of the related assets.

**Other reserves**

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 should be appropriated in non-distributable reserve.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## 44 DISTRIBUTABLE RESERVES

	<i>General reserves</i> LL million	<i>Loss on sale of subsidiary warrants</i> LL million	<i>Cost of capital issued</i> LL million	<i>Total</i> LL million
Balance at 1 January 2015	622,950	(1,314)	(4,660)	616,976
Appropriation of 2014 profits	25,927	-	-	25,927
Entities acquired during the year	681	-	-	681
Non controlling interest share of reserves	(687)	-	-	(687)
Warrants issued on subsidiary shares	-	(31)	-	(31)
Other movement	-	-	(1)	(1)
Balance at 31 December 2015	<u>648,871</u>	<u>(1,345)</u>	<u>(4,661)</u>	<u>642,865</u>

	<i>General reserves</i> LL million	<i>Loss on sale of subsidiary warrants</i> LL million	<i>Cost of capital issued</i> LL million	<i>Total</i> LL million
Balance at 1 January 2014	591,366	-	(1,843)	589,523
Appropriation of 2013 profits	23,372	-	-	23,372
Non controlling interest share of reserves	8,212	-	-	8,212
Warrants issued on subsidiary shares	-	(1,314)	-	(1,314)
Issue of common shares	-	-	(2,817)	(2,817)
Balance at 31 December 2014	<u>622,950</u>	<u>(1,314)</u>	<u>(4,660)</u>	<u>616,976</u>

## 45 PROPOSED DIVIDENDS

In its meeting held on 21 March 2016, the Board of Directors of the Bank resolved to propose to the annual Ordinary General Assembly the distribution of dividends of LL 603 per common share and GDR. Proposed dividends related to preferred shares amounted to LL 34,484 million. These dividends are subject to the General Assembly's approval.

## 46 TREASURY SHARES

	2015		2014	
	<i>Number of GDRs</i>	<i>Cost LL million</i>	<i>Number of GDRs</i>	<i>Cost LL million</i>
Balance at 1 January	496,335	4,929	9,221,885	114,327
Purchase of treasury shares	881,194	8,242	514,973	5,112
Sale of treasury shares	(1,377,529)	(13,171)	(9,240,523)	(114,510)
Balance at 31 December	<u>-</u>	<u>-</u>	<u>496,335</u>	<u>4,929</u>

## 47 OTHER COMPONENTS OF EQUITY

	2015						
	<i>Real estate revaluation reserve</i> LL million	<i>Cumulative changes in fair value</i> LL million	<i>Foreign currency translation reserve</i> LL million	<i>Actuarial loss on defined benefit obligation</i> LL million	<i>Group share of associates' other comprehensive income</i> LL million	<i>Change in time value of hedging instruments</i> LL million	<i>Total</i> LL million
Balance at 1 January 2015	353,974	27,527	(552,183)	(13,155)	4,546	348	(178,943)
Other comprehensive income	5,383	9,879	(206,019)	8,266	-	(53,500)	(235,991)
Non-controlling interest share of reserves	45	-	21,957	-	-	-	22,002
Entities under equity method	-	-	3,932	-	-	-	3,932
Other movement	1,086	-	(383)	(703)	-	-	-
Sale of financial assets at FVTOCI	-	(1,195)	-	-	-	-	(1,195)
Balance at 31 December 2015	<u>360,488</u>	<u>36,211</u>	<u>(732,696)</u>	<u>(5,592)</u>	<u>4,546</u>	<u>(53,152)</u>	<u>(390,195)</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## 47 OTHER COMPONENTS OF EQUITY (continued)

	2014						Total LL million
	Real estate revaluation reserve LL million	Cumulative changes in fair value LL million	Foreign currency translation reserve LL million	Actuarial loss on defined benefit obligation LL million	Group share of associates' other comprehensive income LL million	Change in time value of hedging instruments LL million	
Balance at 1 January 2014	20,375	119,443	(399,804)	(13,641)	4,546	-	(269,081)
Other comprehensive income	333,764	20,388	(167,747)	486	-	348	187,239
Non-controlling interest share of reserves	(165)	78	12,667	-	-	-	12,580
Entities under equity method	-	-	2,701	-	-	-	2,701
Sale of financial assets at FVTOCI	-	(112,382)	-	-	-	-	(112,382)
Balance at 31 December 2014	353,974	27,527	(552,183)	(13,155)	4,546	348	(178,943)

**Real estate revaluation reserve**

Effective 31 December 2014, the Group made a voluntary change in its accounting policy for subsequent measurement of two classes of property and equipment being i) Land and ii) Building and building improvements from cost to revaluation model. The revaluation surplus amounted to LL 383,096 and was booked net of deferred taxes of LL 49,332 million. During 2015, the Group reversed LL 4,691 million out of the previously deferred taxes due to the change in applicable tax rates in Egypt.

During the year 1995, the Group revalued certain real estate properties based on the provisions of law number 282 dated 30 December 1993 and decree number 5451 dated 26 July 1994. The revaluation differences amounted to LL 16,600 million. Another LL 2,000 million relate to the revaluation of some of the Group's assets in 1994 and LL 1,775 million is due to the reclassification of real estate revaluation differences made during 2011 by the National Bank of Sudan.

**Cumulative changes in fair value**

The cumulative changes as at 31 December represent the fair value differences from the revaluation of financial assets measured at fair value through other comprehensive income. The movement during the year can be summarised as follows:

	Change in fair value LL million	Deferred tax LL million	Net LL million
Balance at 1 January 2015	32,495	(4,968)	27,527
Other comprehensive income	11,040	(1,161)	9,879
Non-controlling interest share of reserves	-	-	-
Adjustments	(136)	136	-
Sale of financial assets at FVTOCI	(1,405)	210	(1,195)
Balance at 31 December 2015	41,994	(5,783)	36,211
Balance at 1 January 2014	122,416	(2,973)	119,443
Other comprehensive income	22,599	(2,211)	20,388
Non-controlling interest share of reserves	78	-	78
Adjustments	(216)	216	-
Sale of financial assets at FVTOCI	(112,382)	-	(112,382)
Balance at 31 December 2014	32,495	(4,968)	27,527

**Change in the fair value of time value of hedging instruments**

IFRS 9 (2013) stipulates that the Group may separate the intrinsic value and the time value of a purchased option contract and designate only the change in the intrinsic value as the hedging instrument. The Group exercised this option with a view to enhance hedge effectiveness. The decrease in fair value of the time value of these options, to the extent that it relates to the hedged item, amounted to LL 75,458 million for the year ended 31 December 2015 (2014: LL 27,206 million) and was recognized in other comprehensive income and accumulated in this reserve account. Amortization of the time value at the date of designation in addition to other costs of hedging amounted to LL 21,958 million for the year ended 31 December 2015 (2014: LL 27,554 million).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## 48 NON-CONTROLLING INTEREST

	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
Capital	124,699	118,323
Capital reserves	68,056	55,265
Retained earnings	(20,672)	(14,876)
Profit for the year	19,779	14,625
Other components of equity	(132,078)	(110,076)
	<u>59,784</u>	<u>63,261</u>

## Material Partially Owned Subsidiaries

	<i>National Bank of Sudan</i>		<i>Bank Audi Syria S.A.</i>	
	<i>2015</i> %	<i>2014</i> %	<i>2015</i> %	<i>2014</i> %
Proportion of equity interests held by non-controlling interests	23.44%	23.44%	53%	53%

## Summarized statement of profit or loss

	<i>National Bank of Sudan</i>		<i>Bank Audi Syria S.A.</i>	
	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
Net interest income	4,749	5,444	7,308	7,250
Net fee and commission income	597	4,488	4,116	3,911
Net gain on financial assets at fair value through profit or loss	1,371	3,915	44,493	23,178
Net gain on sale of financial assets at amortized cost	-	-	-	(3)
Other operating income	893	268	27	33
<b>Total Operating Income</b>	<u>7,610</u>	<u>14,115</u>	<u>55,944</u>	<u>34,369</u>
Net credit gains (losses)	1,326	1,038	(711)	(2,640)
Total operating expenses	(2,967)	(4,145)	(20,976)	(9,320)
Non operating revenues (expenses)	2	-	25	24
<b>Profit Before Tax</b>	<u>5,971</u>	<u>11,008</u>	<u>34,282</u>	<u>22,433</u>
Income tax	(304)	(538)	-	-
<b>Profit for the period</b>	<u>5,667</u>	<u>10,470</u>	<u>34,282</u>	<u>22,433</u>
Attributable to non-controlling interests	<u>1,328</u>	<u>2,454</u>	<u>18,169</u>	<u>11,889</u>
Dividends paid to non-controlling interests	<u>1,357</u>	<u>1,970</u>	<u>-</u>	<u>-</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## 48 NON-CONTROLLING INTEREST (continued)

## Summarized statement of financial position

	<i>National Bank of Sudan</i>		<i>Bank Audi Syria S.A.</i>	
	2015 <i>LL million</i>	2014 <i>LL million</i>	2015 <i>LL million</i>	2014 <i>LL million</i>
<b>ASSETS</b>				
Cash and balances with central banks	26,682	39,713	87,562	196,950
Due from banks and financial institutions	4,848	21,288	68,872	9,425
Due from head office, sister, related banks and financial institution	62,633	50,603	134,132	110,866
Loans and advances to customers at amortized cost	103	201	61,672	137,132
Financial assets at amortized cost	30,181	31,029	-	18,827
Investment in subsidiaries and associates	-	-	1,433	2,437
Property and equipment	2,318	2,475	6,311	8,965
Intangible assets	252	256	563	661
Non current assets held for sale	-	-	165	703
Other assets	3,016	3,182	5,333	4,169
<b>TOTAL ASSETS</b>	<b>130,033</b>	<b>148,747</b>	<b>366,043</b>	<b>490,135</b>
<b>LIABILITIES</b>				
Due to banks and financial institutions	-	-	7,611	21,746
Due to head office, sister, related banks and financial institutions	-	4,257	62,619	63
Customers' deposits	33,136	45,157	198,598	375,961
Deposits from related parties	-	-	8,196	10,561
Other liabilities	3,426	3,379	5,963	2,690
Provisions for risks and charges	136	931	10,587	2,036
<b>TOTAL LIABILITIES</b>	<b>36,698</b>	<b>53,724</b>	<b>293,574</b>	<b>413,057</b>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>93,335</b>	<b>95,023</b>	<b>72,469</b>	<b>77,078</b>
<i>Of which: non-controlling interest</i>	<i>21,878</i>	<i>22,273</i>	<i>38,409</i>	<i>40,851</i>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>130,033</b>	<b>148,747</b>	<b>366,043</b>	<b>490,135</b>

## Summarized cash flow information

	Share of non-controlling interests			
	<i>National Bank of Sudan</i>		<i>Bank Audi Syria S.A.</i>	
	2015 <i>LL million</i>	2014 <i>LL million</i>	2015 <i>LL million</i>	2014 <i>LL million</i>
Operating activities	7,436	7,586	- 22,074	37,546
Investing activities	(321)	(328)	- 12,174	20,707
Financing activities	(1,533)	(1,564)	-	-
	<b>5,582</b>	<b>5,694</b>	<b>34,248</b>	<b>58,253</b>

## 49 CASH AND CASH EQUIVALENTS

	2015 <i>LL million</i>	2014 <i>LL million</i>
Cash and balances with Central Banks	1,391,150	1,521,054
Due from banks and financial institutions	2,625,705	3,431,465
Loans to banks and financial institutions and reverse repurchase agreements	2,563	1,455,858
Due to banks and financial institutions	(347,561)	(1,215,689)
Due to banks under repurchase agreements	-	(90,443)
	<b>3,671,857</b>	<b>5,102,245</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## 50 FAIR VALUE OF 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.

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

	2015			Total LL million
	Level 1 LL million	Level 2 LL million	Level 3 LL million	
<b>FINANCIAL ASSETS</b>				
Derivative financial instruments	64,201	197,630	4,032	265,863
<b>Financial assets at fair value through profit or loss</b>				
<i>Lebanese sovereign and central Bank of Lebanon</i>				
Central Bank's certificates of deposits	-	109,520	-	109,520
Treasury bills	-	91,828	-	91,828
Eurobonds	51,684	-	-	51,684
<i>Other sovereign</i>				
Treasury bills and bonds	12,863	-	-	12,863
<i>Private sector and other securities</i>				
Banks and financial institutions	36,051	300	-	36,351
Loans and advances to customers	-	22,185	-	22,185
Funds	7,438	27,480	15,689	50,607
Equity instruments	5,083	3,592	9	8,684
	<u>113,119</u>	<u>254,905</u>	<u>15,698</u>	<u>383,722</u>
<b>Financial assets designated at fair value through other comprehensive income</b>				
<i>Private sector and other securities</i>				
Equity instruments	1,040	68,490	74,845	144,375
	<u>178,360</u>	<u>521,025</u>	<u>94,575</u>	<u>793,960</u>
<b>FINANCIAL LIABILITIES</b>				
Derivative financial instruments	57,078	74,121	-	131,199
Customers deposits - sight	68,226	-	-	68,226
	<u>125,304</u>	<u>74,121</u>	<u>-</u>	<u>199,425</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## 50 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

	2014			Total LL million
	Level 1 LL million	Level 2 LL million	Level 3 LL million	
<b>FINANCIAL ASSETS</b>				
Derivative financial instruments	90,840	105,151	1,136	197,127
Financial assets at fair value through profit or loss				
<i>Lebanese sovereign and central Bank of Lebanon</i>				
Central Bank's certificates of deposits	-	98,008	-	98,008
Treasury bills	-	169,262	-	169,262
Eurobonds	128,710	-	-	128,710
<i>Other sovereign</i>				
Treasury bills and bonds	1,158	-	-	1,158
Eurobonds	898	-	-	898
<i>Private sector and other securities</i>				
Banks and financial institutions	48,574	-	-	48,574
Loans and advances to customers	-	12,043	-	12,043
Funds	16,675	34,258	2,186	53,119
Equity instruments	5,039	-	11	5,050
	<u>201,054</u>	<u>313,571</u>	<u>2,197</u>	<u>516,822</u>
Financial assets designated at fair value through other comprehensive income				
<i>Private sector and other securities</i>				
Equity instruments	1,182	56,746	77,778	135,706
	<u>293,076</u>	<u>475,468</u>	<u>81,111</u>	<u>849,655</u>
<b>FINANCIAL LIABILITIES</b>				
Derivative financial instruments	83,311	32,992	-	116,303
Customers deposits - sight	70,457	-	-	70,457
	<u>153,768</u>	<u>32,992</u>	<u>-</u>	<u>186,760</u>

The movement of items recurrently measured at fair value categorized within level 3 during the year is as follows:

	2015			Total LL million
	Financial instruments at fair value through profit or loss LL million	Financial instruments at fair value through other comprehensive income LL million	Derivative financial instruments LL million	
<b>FINANCIAL ASSETS</b>				
Balance at 1 January 2015	2,197	77,778	1,136	81,111
Re-measurement recognised in other comprehensive income	-	2,655	2,896	5,551
Purchases	13,501	2,781	-	16,282
Sales	-	(8,317)	-	(8,317)
Foreign exchange difference	-	(52)	-	(52)
Balance at 31 December 2015	<u>15,698</u>	<u>74,845</u>	<u>4,032</u>	<u>94,575</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## 50 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	2014			Total LL million
	<i>Financial instruments at fair value through profit or loss</i> LL million	<i>Financial instruments at fair value through other comprehensive income</i> LL million	<i>Derivative financial instruments</i> LL million	
FINANCIAL ASSETS				
Balance at 1 January 2014	2,191	83,964	-	86,155
Re-measurement recognised in other comprehensive income	-	(7,859)	1,136	(6,723)
Re-measurement recognised in the income statement	(5)	-	-	(5)
Purchases	11	3,646	-	3,657
Sales	-	(1,990)	-	(1,990)
Foreign exchange difference	-	17	-	17
Balance at 31 December 2014	2,197	77,778	1,136	81,111

**Assets and liabilities carried 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 and interest rate curves.

**Government bonds, certificates of deposits and other debt instruments**

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, commodity prices, implied volatilities, and credit spreads.

**Assets and liabilities carried at fair value using a valuation technique with significant unobservable inputs (Level 3)****Equity shares of non-listed entities**

The Group's strategic investments are generally classified at fair value through other comprehensive income and are not traded in active markets. These are investments in private companies, for which there is no or only limited sufficient recent information to determine fair value. The Group determined that cost adjusted to reflect the investee's financial position and results since initial recognition represents the best estimate of fair value.

**Derivatives**

Collars held by the Group for hedging purposes are valued using a valuation technique with significant unobservable inputs. The applied valuation technique uses a Monte Carlo simulation which require inputs that cannot be pinned down with precision, given the lack of sufficient liquidity in the US\$/TRY options markets and the Turkish lira yield curve, particularly beyond the shortest maturities. In addition, the valuation need to reflect the substantial volatility skew that exists between US\$ puts and US\$ calls with comparable deltas, and specifically the fact that the implied volatility of US\$ calls is substantially greater than that of US\$ puts, even when their deltas and tenures are equal.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## 50 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

**Comparison of carrying and fair values for financial assets and liabilities not held at fair value**

The fair values included in the table below were calculated for disclosure purposes only. The fair valuation techniques and assumptions described below relate only to the fair value of the 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 amortised cost as of 31 December 2015 is as follows:

	2015		
	<i>Fair value LL million</i>	<i>Book value LL million</i>	<i>Unrealized gain (loss) LL million</i>
<b>Financial assets</b>			
Cash and balances with central banks	13,754,999	13,754,922	77
Due from banks and financial institutions	2,704,226	2,704,157	69
Loans to banks and financial institutions and reverse repurchase agreements	2,585,713	2,585,553	160
Loans and advances to customers at amortised cost	27,060,363	26,812,807	247,556
Loans and advances to related parties at amortised cost	214,535	214,549	(14)
Financial assets at amortised cost	14,832,498	14,784,574	47,924
	<u>61,152,334</u>	<u>60,856,562</u>	<u>295,772</u>
<b>Financial liabilities</b>			
Due to central banks	569,856	569,856	-
Due to banks and financial institutions	2,277,657	2,259,247	(18,410)
Due to banks under repurchase agreements	81,318	81,318	-
Customers' deposits	52,948,432	52,922,281	(26,151)
Deposits from related parties	689,837	690,111	274
Debt issued and other borrowed funds	1,083,160	1,053,982	(29,178)
	<u>57,650,260</u>	<u>57,576,795</u>	<u>(73,465)</u>

The breakdown by major class of financial assets is as follows:

	2015		
	<i>Fair value LL million</i>	<i>Book value LL million</i>	<i>Unrealized gain (loss) LL million</i>
<b>Net loans and advances to customers at amortized cost</b>			
Corporate and SME	20,172,206	19,876,813	295,393
Retail and personal banking	6,441,754	6,489,670	(47,916)
Public Sector	446,403	446,324	79
	<u>27,060,363</u>	<u>26,812,807</u>	<u>247,556</u>
<b>Net loans and advances to related parties at amortized cost</b>			
Corporate and SME	17,183	17,188	(5)
Retail and personal banking	197,352	197,361	(9)
	<u>214,535</u>	<u>214,549</u>	<u>(14)</u>
<b>Financial assets at amortized cost</b>			
Lebanese sovereign and Central Bank	10,385,910	10,368,572	17,338
Other sovereign	3,845,189	3,816,602	28,587
Private sector and other securities	601,399	599,400	1,999
	<u>14,832,498</u>	<u>14,784,574</u>	<u>47,924</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## 50 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The fair value of financial instruments that are carried at amortised cost as of 31 December 2014 is as follows:

	2014		
	<i>Fair value</i> <i>LL million</i>	<i>Book value</i> <i>LL million</i>	<i>Unrealized gain (loss)</i> <i>LL million</i>
Financial assets			
Cash and balances with central banks	13,247,938	13,247,387	551
Due from banks and financial institutions	3,608,930	3,608,892	38
Loans to banks and financial institutions and reverse repurchase agreements	2,928,918	2,928,743	175
Loans and advances to customers at amortised cost	26,279,843	25,775,338	504,505
Loans and advances to related parties at amortised cost	110,076	110,007	69
Financial assets at amortised cost	14,644,739	14,573,743	70,996
	<u>60,820,444</u>	<u>60,244,110</u>	<u>576,334</u>
Financial liabilities			
Due to central banks	438,382	438,385	3
Due to banks and financial institutions	1,695,182	1,695,351	169
Due to banks under repurchase agreements	90,443	90,443	-
Customers' deposits	53,336,079	53,342,752	6,673
Deposits from related parties	586,660	586,621	(39)
Debt issued and other borrowed funds	854,573	854,455	(118)
	<u>57,001,319</u>	<u>57,008,007</u>	<u>6,688</u>

The breakdown by major class of financial assets is as follows:

	2014		
	<i>Fair value</i> <i>LL million</i>	<i>Book value</i> <i>LL million</i>	<i>Unrealized gain (loss)</i> <i>LL million</i>
Net loans and advances to customers at amortized cost			
Corporate and SME	20,165,205	19,663,000	502,205
Retail and personal banking	5,888,560	5,886,395	2,165
Public Sector	226,078	225,943	135
	<u>26,279,843</u>	<u>25,775,338</u>	<u>504,505</u>
Net loans and advances to related parties at amortized cost			
Corporate and SME	18,541	18,541	-
Retail and personal banking	91,535	91,466	69
	<u>110,076</u>	<u>110,007</u>	<u>69</u>
Financial assets at amortized cost			
Lebanese sovereign and Central Bank	9,802,889	9,718,539	84,350
Other sovereign	3,993,883	4,011,377	(17,494)
Private sector and other securities	847,967	843,827	4,140
	<u>14,644,739</u>	<u>14,573,743</u>	<u>70,996</u>

**Assets and liabilities for which fair value is disclosed using a valuation technique with significant observable inputs (Level 2) and / or significant unobservable inputs (Level 3)**

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

**Deposits with banks and loans and advances to banks**

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## 50 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Assets and liabilities for which fair value is disclosed using a valuation technique with significant observable inputs (Level 2) and / or significant unobservable inputs (Level 3) (continued)

*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 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.

*Debt issued and other borrowed funds*

Fair values are determined using discounted cash flows valuation models where the inputs used are estimated by comparison with quoted prices in an active market for similar instruments.

Fair value measurement hierarchy of the Group's financial assets and liabilities for which fair value is disclosed:

	2015			Total LL million
	Level 1 LL million	Level 2 LL million	Level 3 LL million	
<b>FINANCIAL ASSETS</b>				
Cash and balances with central banks	361,802	13,393,197	-	13,754,999
Due from banks and financial institutions	-	2,704,226	-	2,704,226
Loans to banks and financial institutions and reverse repurchase agreements	-	2,585,713	-	2,585,713
- Net loans & advances to customers	-	-	27,060,363	27,060,363
<i>Corporate and SME</i>	-	-	20,172,206	20,172,206
<i>Retail and Personal Banking</i>	-	-	6,441,754	6,441,754
<i>Public Sector</i>	-	-	446,403	446,403
Net loans & advances to related parties	-	-	214,535	214,535
<i>Corporate</i>	-	-	17,183	17,183
<i>Retail and Personal Banking</i>	-	-	197,352	197,352
Financial assets classified at amortized cost	3,936,183	10,885,032	11,283	14,832,498
<i>Lebanese sovereign and central bank</i>	2,934,698	7,451,212	-	10,385,910
<i>Other sovereign</i>	565,425	3,279,764	-	3,845,189
<i>Private sector and other securities</i>	436,060	154,056	11,283	601,399
	4,297,985	29,568,168	27,286,181	61,152,334
<b>FINANCIAL LIABILITIES</b>				
Due to central banks	-	569,856	-	569,856
Due to banks and financial institutions	-	2,277,657	-	2,277,657
Due to banks under repurchase agreements	-	81,318	-	81,318
Customers' deposits	-	52,948,432	-	52,948,432
Deposits from related parties	-	689,837	-	689,837
Debt issued and other borrowed funds	-	1,083,160	-	1,083,160
	-	57,650,260	-	57,650,260

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## 50 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	2014			Total LL million
	Level 1 LL million	Level 2 LL million	Level 3 LL million	
<b>FINANCIAL ASSETS</b>				
Cash and balances with central banks	353,479	12,894,459	-	13,247,938
Due from banks and financial institutions	-	3,608,930	-	3,608,930
Loans to banks and financial institutions and reverse repurchase agreements	-	2,928,918	-	2,928,918
Net loans & advances to customers	-	-	26,279,843	26,279,843
Corporate and SME	-	-	20,165,205	20,165,205
Retail and Personal Banking	-	-	5,888,560	5,888,560
Public Sector	-	-	226,078	226,078
Net loans & advances to related parties	-	-	110,076	110,076
Corporate and SME	-	-	18,541	18,541
Retail and Personal Banking	-	-	91,535	91,535
Financial assets classified at amortized cost	5,103,536	9,532,965	8,238	14,644,739
Lebanese sovereign and central bank	3,730,266	6,072,623	-	9,802,889
Other sovereign	646,846	3,347,037	-	3,993,883
Private sector and other securities	726,424	113,305	8,238	847,967
	<u>5,457,015</u>	<u>28,965,272</u>	<u>26,398,157</u>	<u>60,820,444</u>
<b>FINANCIAL LIABILITIES</b>				
Due to central banks	-	438,382	-	438,382
Due to banks and financial institutions	-	1,695,182	-	1,695,182
Due to banks under repurchase agreements	-	90,443	-	90,443
Customers' deposits	-	53,336,079	-	53,336,079
Deposits from related parties	-	586,660	-	586,660
Debt issued and other borrowed funds	-	854,573	-	854,573
	<u>-</u>	<u>57,001,319</u>	<u>-</u>	<u>57,001,319</u>

## 51 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 recognised on the 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.

	2015		
	Banks LL million	Customers LL million	Total LL million
<b>Guarantees and contingent liabilities</b>			
Financial guarantees	136,275	866,225	1,002,500
Other guarantees	95,688	1,676,852	1,772,540
	<u>231,963</u>	<u>2,543,077</u>	<u>2,775,040</u>
<b>Commitments</b>			
Documentary credits	-	548,320	548,320
Loan commitments	-	5,222,426	5,222,426
Of which revocable	-	4,394,707	4,394,707
Of which irrevocable	-	827,719	827,719
	<u>-</u>	<u>5,770,746</u>	<u>5,770,746</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

**51 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS**  
(continued)**Credit-related commitments and contingent liabilities (continued)**

	2014		
	<i>Banks</i> <i>LL million</i>	<i>Customers</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Guarantees and contingent liabilities			
Financial guarantees	293,015	969,283	1,262,298
Other guarantees	92,300	1,333,490	1,425,790
	385,315	2,302,773	2,688,088
Commitments			
Documentary credits	-	706,121	706,121
Loan commitments	-	4,615,772	4,615,772
<i>Of which revocable</i>	-	3,685,006	3,685,006
<i>Of which irrevocable</i>	-	930,766	930,766
	-	5,321,893	5,321,893
	-	5,321,893	5,321,893

**Guarantees**

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

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

**Documentary credits**

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

**Loan commitments**

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

Revocable loan commitments are those commitments that can be unconditionally cancelled at any time 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.

In addition to the above, the Group has issued letters of intent in the amount of LL 15,704,228 million as of 31 December 2015 (2014: LL 12,548,128 million). These letters of intent do not represent loan commitments on behalf of the Group.

**Investment commitments**

During 2015, the Group invested in funds pursuant to the provisions of Decision no. 6116 dated 7 March 1996. In accordance with this resolution, the Group can benefit from facilities granted by the Central Bank of Lebanon to be invested in startup companies, incubators and accelerators whose objects are restricted to supporting the development, success and growth of startup companies in Lebanon or companies whose objects are restricted to investing venture capital in startup companies in Lebanon. These investments have resulted in future commitments on the Group of LL 27,211 million as of 31 December 2015 (2014: none).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

**51 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS**  
(continued)**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.

**Operating lease and capital expenditure commitments**

	<i>2015</i>	<i>2014</i>
	<i>LL million</i>	<i>LL million</i>
Capital expenditure commitments	42,019	25,786
Operating lease commitments – Group as lessee	92,982	120,150
<i>Within one year</i>	19,410	23,923
<i>One to five years</i>	36,774	37,974
<i>More than five years</i>	36,798	58,253
	<u>135,001</u>	<u>145,936</u>

**Commitments resulting from credit facilities received**

The Group has the following commitments resulting from the credit facilities received from non-resident financial institutions:

- The net past due loans (after the deduction of provisions) should not exceed 5 percent of the net credit facilities granted
- The provision for past due loans which includes specific and collective provisions and unrealized interest should not fall below 70 percent of the past due loans
- The net doubtful loans should not exceed 20 percent of the tier 1 capital
- Sustaining a liquidity ratio exceeding 115 percent
- Sustaining a capital adequacy exceeding the minimum ratio as per the regulations applied by the Central Bank of Lebanon and the requirements of the Basel agreements to the extent it is applied by the Central Bank of Lebanon.

**Other commitments and contingencies**

Financial assets at amortized cost include Lebanese government treasury bills amounting to LL 31,519 million (2014: LL 133,759 million) pledged to the Central Bank of Lebanon against credit facilities. They also include Turkish treasury bills amounting to LL 97,960 million (2014: LL 101,860 million) pledged against repurchase agreements (note 33).

The Bank's books in Lebanon remain subject to the review of the tax authorities for the period from 1 January 2012 to 31 December 2013 and the review of the National Social Security Fund (NSSF) for the period from 30 September 2011 to 31 December 2013. 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**52 ASSETS UNDER MANAGEMENT**

Assets under management include client assets managed or deposited with the Group. For the most part, the clients decide how these assets are to be invested.

	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
Assets under management	12,592,036	12,967,978
Fiduciary assets	2,255,152	1,705,371
	<u>14,847,188</u>	<u>14,673,349</u>

**53 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 operational decisions, or one other party controls both. The definition includes subsidiaries, associates, key management personnel and their close family members, as well as entities controlled or jointly controlled by them.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. At the level of the Group, key management personnel include the the members of the Bank's Board of Directors and Group Executive Committee.

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:

	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
Loans and advances	214,549	110,007
<i>of which: granted to key management personnel</i>	<i>68,134</i>	<i>62,093</i>
Indirect facilities	5,587	6,238
Deposits	690,111	586,621
Cash collateral received against loans	185,521	65,212

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

	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
Interest income on loans	6,232	2,364
Interest expense on deposits	27,520	25,951

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## 53 RELATED PARTY TRANSACTIONS (continued)

*Subsidiaries*

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. The following table shows information related to the significant subsidiaries of the Bank.

	<i>Percentage of ownership</i>		<i>Country of incorporation</i>	<i>Principal activity</i>	<i>Functional currency</i>
	<i>2015</i>	<i>2014</i>			
Bank Audi (France) SA	100.00%	100.00%	France	Banking (Commercial)	EUR
Audi Investment Bank SAL	100.00%	100.00%	Lebanon	Banking (Investment)	LBP
Audi Private Bank SAL	100.00%	100.00%	Lebanon	Banking (Private)	LBP
Banque Audi (Suisse) SA	100.00%	100.00%	Switzerland	Banking (Private)	CHF
Bank Audi Syria SA *	47.00%	47.00%	Syria	Banking (Commercial)	SYP
National Bank of Sudan	76.56%	76.56%	Sudan	Banking (Commercial)	SDG
Bank Audi SAE	100.00%	100.00%	Egypt	Banking (Commercial)	EGP
Audi Capital (KSA)	99.99%	99.99%	Saudi Arabia	Financial Services	SAR
Bank Audi LLC Qatar	100.00%	100.00%	Qatar	Banking Services	QAR
Societe Libanaise de Factoring SAL	94.85%	94.85%	Lebanon	Factoring	LBP
ODEA Bank SA	100.00%	100.00%	Turkey	Banking (Commercial)	TRY
Infi Gamma Holding SAL	99.97%	99.97%	Lebanon	Investment	US\$
Audi Investments Holding SAL	100.00%	100.00%	Lebanon	Investment	US\$
Capital Banking Solutions Ltd	70.50%	-	UAE	IT services	US\$

\* Bank Audi SAL established Bank Audi Syria SA and retained de facto control over it.

*Associates*

The Group provides banking services to its associates and to entities under common directorships. As such, loans, overdrafts, interest and non-interest bearing deposits and current accounts are provided to these entities as well as other services. These transactions are conducted on the same terms as third-party transactions. Summarised financial information for the Group's associates is set out in note 27 to these financial statements.

*Key Management Personnel*

Total remuneration awarded to the members of the Bank's Board of Directors and Group Executive Committee represents the awards made to those 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.

	<i>2015</i>	<i>2014</i>
	<i>LL million</i>	<i>LL million</i>
Short-term benefits	46,990	49,182
Post-employment benefits	3,969	19,485

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

Provision for end of service benefits of key management personnel amounted to LL 23,485 million as of 31 December 2015 (2014: LL 23,742 million).

## 54 RISK MANAGEMENT

The Group is exposed to various types of risks, some of which are:

- Credit Risk: The risk of default or deterioration in the ability of a borrower to repay a loan.
- Market risk: The risk of loss in balance sheet and off-balance sheet positions arising from movements in market prices. Movements in market prices include changes in interest rates (including credit spreads), exchange rates and equity prices.
- Liquidity risk: The risk that the Group cannot meet its financial obligations when they come due in a timely manner and at reasonable cost.
- Operational risk: The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.
- Other risks faced by the Group include concentration risk, reputation risk, legal risk and business/strategic risk.

**54 RISK MANAGEMENT (continued)**

Risks are managed through a process of ongoing identification, measurement monitoring, mitigation and control and reporting to relevant stakeholders. The Group ensures that risk and rewards are properly balanced and in line with the risk appetite that is approved by the Board of Directors.

*Board of Directors*

The Board of Directors (the Board) is ultimately responsible for identifying and setting the level of acceptable risks to which the Group is exposed, and as such defines the risk appetite for the Group. In addition, the Board approves risk policies and procedures. Periodic reporting is made to the Board on existing and emerging risks in the Group. A number of Management committees and departments are also responsible for various levels of risk management, as set out below.

*Board Group Risk Committee*

The role of the Board's Group Risk Committee (BGRC) is to oversee the risk management framework and assess its effectiveness, review and recommend to the Board the group risk policies and risk appetite, monitor the group risk profile, review stress tests scenarios and results, and provide access for the Group Chief Risk Officer (CRO) to the Board. The BGRC meets at least every quarter in the presence of the Group CRO.

*Executive Committee*

The mandate of the Group Executive Committee is to support the Board in the implementation of its strategy, to support the Group CEO in the day-to-day management of the Group, and to develop and implement business policies for the Group and issue guidance for the Group within the strategy approved by the Board. The Executive Committee is involved in reviewing and submitting to the Board the risk policies and risk appetite.

*Asset Liability Committee*

The Asset Liability Committee (ALCO) is a Management committee responsible in part for managing market risk exposures, liquidity, funding needs and contingencies. It is the responsibility of this committee to set up strategies for managing market risk and liquidity exposures and ensuring that Treasury implements those strategies so that exposures are managed in a manner consistent with the risk policy and limits approved by the Board.

*Internal Audit*

All risk management processes are independently audited by the Internal Audit department at least annually. This includes the examination of both the adequacy and effectiveness of risk control procedures. Internal audit discusses the results of its assessments with Management and reports its findings and recommendations to the Audit Committee of the Board.

*Risk Management*

Risk Management is a function independent from business lines and headed by the Chief Risk Officer. The function has the responsibility to ensure that risks are properly identified, measured, monitored, controlled, and reported to heads of business lines, Senior Management, ALCO, the Board Risk Committee and the Board. In addition, the function works closely with Senior Management to ensure that proper controls are set in order to mitigate risks. The Risk Management function at the Group level has the responsibility of drafting risk policies and principles for adoption at the entity level. In addition, it is in charge of monitoring and aggregating risks across the Group.

**Risk Monitoring and Control**

The primary drivers behind monitoring and controlling risks are the Risk Appetite and Limits approved by the Board. These limits reflect the business strategy and market environment of the Group, as well as the level of risks that the Group is willing to accept.

Risk Appetite and Limits are formalized in a document which is reviewed by the Executive Committee and the Board Group Risk Committee and approved by the Board. This document comprises qualitative and quantitative statements of risk appetite that includes limits by asset quality and concentration.

Information independently compiled from all business lines and risk-taking units is examined and processed in order to identify and measure the risk profile. The results are reported and presented on a regular basis to Management and to the Board.

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**55 CREDIT RISK**

Credit risk is the risk that the Group will incur a loss because its customers or counterparties fail to discharge their contractual obligations. Credit risk appetite and limits are set at the Group level by the Board and are cascaded to the entities, which in turn formulate their own limits in line with the Group's risk appetite.

**Credit Limits**

The Group controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentration, and by monitoring exposures in relation to such limits. These limits include the following:

*Financial institutions*

Percentage floors and absolute limits are set on the Group's placements with highly rated financial institutions.

*Sovereign exposure and other financial instruments*

Limits are placed on sovereign exposures and other financial instruments according to their ratings.

*Loans and advances to customers*

The Group sets risk appetite per country, economic sector, tenure of the loan, rating, and group of obligors among others in order to limit undue risk concentrations.

**Credit Granting and Monitoring Processes**

The Group has set clearly established processes related to loan origination, documentation and maintenance of extensions of credits.

*Initiation*

Initiation of the credit facilities is done by the business originating function which is shared between branches and the Corporate and Commercial departments.

*Analysis*

Credit analysis is performed within the business originating function and is reviewed independently by the Credit review department, which in turn prepares a written risk opinion about the credit facilities and submits it to the respective credit committees.

*Approval*

Credit officers and credit committees are responsible for the approval of facilities up to the limit assigned to them. The Group has various levels of credit approving authorities, depending on the nature and limit of the requested facilities, namely:

- The Board of Directors
- The Executive Committee
- Other Credit Committees, depending on the limit and region.

Once approved by the Credit Committee, facilities are disbursed when all requirements set by the respective committee are met and documents intended as security are reviewed and verified by the Credit Administration function.

*Monitoring*

The Group maintains continuous monitoring of the quality of its portfolio. Timely reports are sent to the Executive Committee and to the Board detailing credit risk profile including follow-up accounts, large exposures, risk ratings and concentration by industry, geography and group of obligors.

*Recovery and Restructuring*

The Group assesses impaired loans by evaluating the exposure to loss, on a case by case basis. They are directly managed by the Recovery and Restructuring department which is responsible for formulating a workout strategy, in coordination with the Legal & Compliance department. Credit committees are responsible for approving these workout strategies.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

At 31 December 2015

**55 CREDIT RISK (continued)****Provisioning Policy**

As part of the conservative approach to sustain the quality of the Group's loan portfolio, an evaluation of loan loss provisions is made on a regular basis. As such, all adversely classified accounts are reviewed and the Recovery and Restructuring department makes recommendation for specific provisions against the accounts. These recommendations are submitted to the appropriate Committee for approval before they are implemented. In this regard, specific approval from the regulatory authority might be necessary depending on the regulatory environment of the concerned entity.

Besides, impairment is assessed on a collective basis for loans that are not individually impaired. The Group is in process of preparing for the adoption of IFRS 9, starting 1 January 2018 at a consolidated level as required by the Central Bank of Lebanon.

In the normal course of business, some loans may become unrecoverable. Such loans would then be required to be partially or fully written-off with proper approval when:

- All efforts to recover the bad debt have failed.
- The borrower's bankruptcy or inability to repay is established.
- Legal remedies have proved to be futile and/or cost prohibitive.

Requests for write-offs are to be submitted to the appropriate Committee for approval. Approved write-offs are notified to the Executive Committee and then to the Board.

**Derivative Financial Instruments**

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position. In the case of credit derivatives, the Group is also exposed to or protected from the risk of default of the underlying entity referred by the derivative.

**Management of Risk Concentration**

Credit concentrations arise when a number of counterparties are engaged in similar business 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 and other conditions.

In order to limit undue excessive concentrations of risk, the Group's Risk Appetite and Limits document includes specific guidelines and limits to maintain a diversified portfolio.

**Credit-Related Commitments Risks**

The Group makes available to its customers guarantees, which may require payments on their behalf. Such guarantees expose the Group to risks similar to balance sheet exposure and they are mitigated by the same control processes and policies.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## 55 CREDIT RISK (continued)

## 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 net exposure to credit risk.

	2015									
	Maximum exposure LL million	Cash collateral and margins LL million	Securities LL million	Guarantees received from banks and financial institutions LL million	Real estate LL million	Vehicles LL million	Other guarantees LL million	Netting agreements LL million	Net cred. exposur LL million	
Cash and balances with central banks	13,393,120	-	-	-	-	-	-	13,393,12		
Due from banks and financial institutions	2,704,157	-	-	-	-	-	-	2,704,15		
Loans to banks and financial institutions and reverse repurchase agreements	2,585,553	-	-	2,384,364	-	-	-	201,18		
Derivative financial instruments	263,285	-	-	-	-	-	-	263,28		
Financial assets at fair value through profit or loss	324,431	-	-	-	-	-	-	324,43		
Loans and advances to customers at amortised cost	26,812,807	3,489,488	983,989	140,889	7,523,830	544,741	4,468	13,500,67		
Corporate and SME	19,876,813	1,903,953	726,667	138,522	3,471,767	85,283	4,124	11,027,63		
Retail and personal banking	6,489,670	1,564,742	257,322	2,367	2,052,063	459,458	344	2,047,50		
Public sector	446,324	20,793	-	-	-	-	-	423,53		
Loans and advances to related parties at amortized cost	214,549	139,328	110	-	19,160	354	-	54,30		
Debtors by acceptances	240,605	17,579	-	41	828	-	-	218,79		
Financial assets at amortized cost	14,784,574	-	-	-	-	-	2,325,642	12,458,93		
Contingent liabilities	1,550,820	123,773	16,252	24,924	44,472	-	-	1,293,58		
Letters of credit	548,320	18,861	-	126	1,461	-	-	519,05		
Financial guarantee given to banks and financial institutions	136,275	-	-	-	-	-	-	136,27		
Financial guarantee given to customers	866,225	104,912	16,252	24,798	43,011	-	-	638,25		
Total	62,873,901	3,770,168	1,000,351	2,550,218	7,588,290	545,095	2,330,110	44,412,47		
Guarantees received from banks, financial institutions and customers										
Utilized collateral	3,770,168	3,770,168	1,000,351	2,550,218	7,588,290	545,095	677,190	16,131,31		
Surplus of collateral before undrawn credit lines	1,423,208	1,423,208	2,868,124	53,417	16,133,987	381,661	1,829,400	22,689,79		
	5,193,376	5,193,376	3,868,475	2,603,635	23,722,277	926,756	2,506,590	38,821,10		

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LL 5,222,426 million as at 31 December 2015.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## 55 CREDIT RISK (continued)

	2014								
	Maximum exposure LL million	Cash collateral and margins LL million	Securities LL million	Guarantees received from banks and financial institutions LL million	Real estate LL million	Vehicles LL million	Other guarantees LL million	Netting agreements LL million	Net cre expos. LL milli
Cash and balances with central banks	12,893,908	-	-	-	-	-	-	-	12,893,9
Due from banks and financial institutions	3,608,892	-	-	-	-	-	-	-	3,608,8
Loans to banks and financial institutions and reverse repurchase agreements	2,928,743	-	-	2,672,313	-	-	-	-	256,4
Derivative financial instruments	194,669	-	-	-	-	-	-	-	194,6
Financial assets at fair value through profit or loss	458,653	-	-	-	-	-	-	-	458,6
Loans and advances to customers at amortised cost	25,775,338	3,073,428	679,747	156,806	7,200,636	427,486	897,366	2,996	13,336,8
Corporate and SME	19,663,000	2,012,658	357,358	155,240	5,450,751	20,251	844,534	2,996	10,819,2
Retail and personal banking	5,886,395	1,058,409	322,389	1,566	1,749,885	407,235	52,546	-	2,294,3
Public sector	225,943	2,361	-	-	-	-	286	-	223,2
Loans and advances to related parties at amortized cost	110,007	37,863	119	-	12,472	629	70	-	58,8
Debtors by acceptances	340,480	17,934	-	2,882	4,212	-	3,644	-	311,8
Financial assets at amortized cost	14,573,743	-	-	-	-	-	-	2,235,511	12,338,2
Contingent liabilities	1,968,419	123,250	9,715	32,611	19,232	-	41,865	800	1,740,9
Letters of credit	706,121	32,606	-	8,737	982	-	6,701	-	657,0
Financial guarantees given to banks and financial institutions	293,015	-	-	-	-	-	-	-	293,0
Financial guarantee given to customers	969,283	90,644	9,715	23,874	18,250	-	35,164	800	790,8
Total	62,852,852	3,252,475	689,581	2,864,612	7,236,552	428,115	942,945	2,239,307	45,199,2
Guarantees received from banks, financial institutions and customers									
Utilized collateral		3,252,475	689,581	2,864,612	7,236,552	428,115	942,945		15,414,2
Surplus of collateral before undrawn credit lines		1,238,554	2,873,209	297,516	9,951,706	711,603	39,446		15,112,0
		4,491,029	3,562,790	3,162,128	17,188,258	1,139,718	982,391		30,526,3

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LL 4,615,772 million as at 31 December 2014.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

**55 CREDIT RISK (continued)****Analysis to maximum exposure to credit risk and collateral and other credit enhancements****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 on a regular basis and requests additional collateral in accordance with the underlying agreement when deemed necessary.

The main types of collateral obtained are as follows:

*Securities:* The balances shown above represent the fair value of the securities.

*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.

*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.

*Netting agreements:* The Group makes use of netting agreements where there is a legally enforceable right to offset in the event of counterparty default and where as a result there is a net exposure for credit risk. However, there is no intention to settle these balances on a net basis under normal circumstances, and they do not qualify for offset. The amounts above represent available netting agreements in the event of default of the counterparty.

This includes netting agreements for loans and advances to customers and financial assets at amortized cost. In addition, derivatives may also be settled net when there is a netting agreement in place providing for this in the event of default, reducing the Group's exposure to counterparties on derivative asset positions. The reduction in risk is the amount of liability held.

In addition to the above, the Group also obtains guarantees from parent companies for loans to their subsidiaries, personal guarantees for loans to companies owned by individuals, second degree mortgages, and assignments of insurance or bills proceeds and revenues, which are not reflected in the above table.

**Restructured 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.

	<i>2015</i> <i>LL million</i>	<i>2014</i> <i>LL million</i>
Corporate and SME	452,599	471,259
Retail and personal banking	19,244	58,060
	<u>471,843</u>	<u>529,319</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## 55 CREDIT RISK (continued)

**Credit Rating System**

The Group assesses the quality of its credit portfolio using the following credit rating methods:

- (i) External ratings from approved credit rating agencies for financial institutions and financial assets.
- (ii) Internal rating models that takes into account both financial as well as non financial such as information on management quality, operating environment and company standing. These internal rating models include a Corporate model, SME model, Project Finance and Individual model. The Group uses Facility Risk Rating (FRR) model to rate facilities based on the Obligor Risk Rating and collaterals.
- (iii) Internally developed retail scorecards to assess the creditworthiness of borrowers in an objective manner and streamline the decision making process.
- (iv) Supervisory ratings, comprising six main categories: (a) *Regular* includes borrowers demonstrating good to excellent financial condition, risk factors, and capacity to repay. These loans demonstrate regular and timely payment of dues, adequacy of cash flows, timely presentation of financial statements, and sufficient collateral / guarantee when required. (b) *Follow-up* represents a lack of documentation related to a borrower's activity, an inconsistency between facilities' type and related conditions. (c) *Follow-up and regularisation* includes credit worthy borrowers requiring close monitoring without being impaired. These loans might be showing weaknesses; insufficient or inadequate cash flows; highly leveraged; deterioration in economic sector or country where the facility is used; loan rescheduling more than once since initiation; or excess utilization above limit. (d) *Substandard* loans include borrowers with incapacity to repay from identified cash flows. Also included under this category are those with recurrent late payments and financial difficulties. (e) *Doubtful* loans where full repayment is questioned even after liquidation of collateral. It also includes loans stagnating for over 6 months and debtors who are unable to repay restructured loans. Finally, (f) *Bad* loans with no or little expected inflows from business or assets. This category also includes borrowers with significant delays and deemed insolvent.

**Credit Quality**

The table below shows the credit quality by asset class for all financial assets with credit risk, based on the past-due status and impaired / non-impaired classification. The amounts presented are gross of impairment allowances.

	2015				Total LL million
	Neither past due nor impaired LL million	Past due but not impaired LL million	Past due and impaired		
			Substandard LL million	Doubtful and bad LL million	
Cash and balances with central banks	13,393,120	-	-	-	13,393,120
Due from banks and financial institutions	2,703,717	-	-	1,330	2,705,047
Loans to banks and financial institutions and reverse repurchase agreements	2,585,553	-	-	-	2,585,553
Derivative financial instruments	263,285	-	-	-	263,285
Financial assets at fair value through profit or loss	324,431	-	-	-	324,431
Loans and advances to customers at amortised cost	26,177,539	566,299	57,420	817,564	27,618,822
Loans and advances to related parties at amortised cost	214,549	-	-	-	214,549
Financial assets at amortised cost	14,784,574	-	-	4,763	14,789,337
	<u>60,446,768</u>	<u>566,299</u>	<u>57,420</u>	<u>823,657</u>	<u>61,894,144</u>
<i>Loans and advances:</i>					
Corporate and SME	19,397,294	411,579	45,292	628,969	20,483,134
Retail and personal banking	6,545,443	154,720	12,128	188,595	6,900,886
Public sector	449,351	-	-	-	449,351
	<u>26,392,088</u>	<u>566,299</u>	<u>57,420</u>	<u>817,564</u>	<u>27,833,371</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## 55 CREDIT RISK (continued)

## Credit Quality (continued)

	2014				Total LL million
	Neither past due nor impaired LL million	Past due but not impaired LL million	Past due and impaired		
			Substandard LL million	Doubtful and bad LL million	
Cash and balances with central banks	12,893,908	-	-	-	12,893,908
Due from banks and financial institutions	3,608,461	-	-	1,326	3,609,787
Loans to banks and financial institutions and reverse repurchase agreements	2,928,743	-	-	-	2,928,743
Derivative financial instruments	194,669	-	-	-	194,669
Financial assets at fair value through profit or loss	458,653	-	-	-	458,653
Loans and advances to customers at amortised cost	25,341,768	406,572	7,892	813,780	26,570,012
Loans and advances to related parties at amortised cost	110,007	-	-	-	110,007
Financial assets at amortised cost	14,571,877	-	-	7,052	14,578,929
	<u>60,108,086</u>	<u>406,572</u>	<u>7,892</u>	<u>822,158</u>	<u>61,344,708</u>
<i>Loans and advances:</i>					
Corporate and SME	19,370,576	293,654	4,779	608,549	20,277,558
Retail and personal banking	5,853,921	112,918	3,113	203,857	6,173,809
Public sector	227,278	-	-	1,374	228,652
	<u>25,451,775</u>	<u>406,572</u>	<u>7,892</u>	<u>813,780</u>	<u>26,680,019</u>

The aging analysis of past due but not impaired loans and advances to customers at amortised cost as at 31 December are as follows:

	2015				Total LL million
	Less than 30 days LL million	31 to 60 days LL million	61 to 90 days LL million	More than 90 days LL million	
	Corporate and SME	54,031	33,608	50,524	
Retail and personal banking	109,859	29,187	7,324	8,350	154,720
	<u>163,890</u>	<u>62,795</u>	<u>57,848</u>	<u>281,766</u>	<u>566,299</u>
	2014				Total LL million
	Less than 30 days LL million	31 to 60 days LL million	61 to 90 days LL million	More than 90 days LL million	
	Corporate and SME	67,856	49,291	43,727	
Retail and personal banking	82,067	21,270	5,969	3,612	112,918
	<u>149,923</u>	<u>70,561</u>	<u>49,696</u>	<u>136,392</u>	<u>406,572</u>







Bank Audi SAL

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

55 CREDIT RISK (continued)

Industrial analysis

	2015								
	Financial services and brokerage LL million	Government LL million	Consumers LL million	Retail and whole sale LL million	Construction and materials LL million	Manufacturing and petroleum LL million	Services and utilities LL million	Agriculture LL million	Tot LL millic
Cash and balances with central banks	361,802	13,393,120	-	-	-	-	-	-	13,754,92
Due from banks and financial institutions	2,704,157	-	-	-	-	-	-	-	2,704,15
Loans to banks and financial institutions and reverse repurchase agreements	2,585,553	-	10,410	58,897	3,307	9,687	270	9	2,585,55
Derivative financial instruments	183,283	-	-	-	67	-	-	-	265,80
Financial assets at fair value through profit or loss	117,760	265,895	6,562,575	2,880,577	4,316,897	4,177,350	7,015,300	238,041	383,72
Loans and advances to customers at amortised cost	1,548,466	73,601	94,759	145,223	8,943	85	8,198	-	26,812,80
Loans and advances to related parties at amortised cost	102,564	-	-	-	5,313	64,407	4,714	4,159	214,54
Debtors by acceptances	16,789	-	-	-	-	36,663	12,444	3,045	240,60
Financial assets at amortized cost	547,248	14,185,174	-	-	522	580	21,250	-	14,784,57
Financial assets at fair value through other comprehensive income	122,023	-	-	-	-	-	-	-	144,37
	8,289,645	27,917,790	6,667,744	3,084,697	4,335,049	4,288,772	7,062,176	245,254	61,891,12

Bank Audi SAL

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
At 31 December 2015

55 CREDIT RISK (continued)

Industrial analysis (continued)

	2014								
	Financial services and brokerage LL million	Government LL million	Consumers LL million	Retail and whole sale LL million	Construction and materials LL million	Manufacturing and petroleum LL million	Services and utilities LL million	Agriculture LL million	Total LL million
Cash and balances with central banks	353,479	12,893,908	-	-	-	-	-	-	13,247,387
Due from banks and financial institutions	3,608,892	-	-	-	-	-	-	-	3,608,892
Loans to banks and financial institutions and reverse repurchase agreements	2,928,743	-	-	-	-	-	-	-	2,928,743
Derivative financial instruments	111,040	-	5,631	72,896	3,155	3,906	134	365	197,127
Financial assets at fair value through profit or loss	106,639	398,036	-	-	12,147	-	-	-	516,822
Loans and advances to customers at amortised cost	1,585,272	10,009	5,867,813	3,202,716	4,152,920	4,825,244	5,773,220	358,144	25,775,338
Loans and advances to related parties at amortised cost	-	-	89,959	-	11,307	-	8,741	-	110,007
Debtors by acceptances	46,571	-	589	193,370	6,841	87,785	5,038	286	340,480
Financial assets at amortized cost	789,751	13,729,916	-	-	-	32,474	21,602	-	14,573,743
Financial assets at fair value through other comprehensive income	106,673	-	-	41	2,699	2,867	23,426	-	135,706
	<u>9,637,060</u>	<u>27,031,869</u>	<u>5,963,992</u>	<u>3,469,023</u>	<u>4,189,069</u>	<u>4,952,276</u>	<u>5,832,161</u>	<u>358,795</u>	<u>61,434,245</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## 56 MARKET RISK

Market risk is defined as the potential loss in both on balance sheet and off-balance sheet positions resulting from movements in market risk factors such as foreign exchange rates, interest rates and equity prices.

The Market Risk unit's responsibilities are to identify, measure, report, and monitor all potential and actual market risks to which the Group is exposed. The purpose is to introduce transparency around the treasury, investment portfolio, and asset and liability risk profile through consistent and comprehensive risk measurements, aggregation, management and analysis. Policies are set and limits monitored in order to ensure the avoidance of large, unexpected losses and the consequent impact on the Group's safety and soundness.

Tools developed in-house by a centralized unit of specialists offer a holistic view of risk exposures and are customized to meet the requirements of all end users (Group Risk, Senior Management, Business Lines and Legal Compliance). Stress scenarios include the various manifestations of the credit crisis that are relevant to the Group's exposures, as well as scenarios related to the Group's environment.

**A. 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.

In addition to regulatory limits, the Board has set limits on positions by currency. These positions are monitored to ensure they are maintained within established limits.

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

	2015					Total LL million
	LL LL million	USD LL million	EUR LL million	TRY LL million	Other LL million	
<b>Assets</b>						
Cash and balances with central banks	1,209,050	10,514,772	881,593	274,547	874,960	13,754,922
Due from banks and financial institutions	81,117	1,431,375	574,675	3,277	613,713	2,704,157
Loans to banks and financial institutions and reverse repurchase agreements	36,410	379,788	63,950	2,105,405	-	2,585,553
Derivative financial instruments	-	175,383	27,787	39,488	23,205	265,863
Financial assets at fair value through profit or loss	201,347	109,305	5,916	12,863	54,291	383,722
Loans and advances to customers at amortised cost	1,931,674	12,846,464	3,647,756	4,796,340	3,590,573	26,812,807
Loans and advances to related parties at amortised cost	31,164	182,227	694	-	464	214,549
Debtors by acceptances	-	141,390	82,734	3,927	12,554	240,605
Financial assets at amortised cost	5,702,192	5,506,838	32,406	254,304	3,288,834	14,784,574
Financial assets at fair value through other comprehensive income	63,348	71,691	3,336	-	6,000	144,375
Investments in associates	10,043	-	-	-	3,946	13,989
Property and equipment	626,765	993	1,477	74,083	260,120	963,438
Intangible fixed assets	40,866	7	1,759	51,273	7,459	101,364
Non current assets held for sale	2,156	53,839	510	15,555	719	72,779
Other assets	12,640	244,012	22,859	72,573	118,422	470,506
Goodwill	-	90,916	3,111	-	115,407	209,434
<b>Total assets</b>	<b>9,948,772</b>	<b>31,749,000</b>	<b>5,350,563</b>	<b>7,703,635</b>	<b>8,970,667</b>	<b>63,722,637</b>
<b>Liabilities and shareholders' equity</b>						
Due to central banks	569,856	-	-	-	-	569,856
Due to banks and financial institutions	25,156	1,643,399	388,775	2,778	199,139	2,259,247
Due to banks under repurchase agreements	-	-	-	81,318	-	81,318
Derivative financial instruments	966	21,920	20,745	64,660	22,908	131,199
Customers' deposits	6,504,410	28,215,722	5,789,507	4,984,173	7,496,695	52,990,507
Deposits from related parties	104,837	527,597	9,235	5,214	43,228	690,111
Debt issued and other borrowed funds	-	973,629	-	80,353	-	1,053,982
Engagements by acceptances	-	141,390	82,734	3,927	12,554	240,605
Other liabilities	197,577	144,532	18,030	74,319	143,542	578,000
Provisions for risks and charges	91,606	1,193	6,532	25,641	47,088	172,060
Shareholders' equity	2,434,354	2,399,075	(54,040)	(297,384)	473,747	4,955,752
<b>Total liabilities and shareholders' equity</b>	<b>9,928,762</b>	<b>34,068,457</b>	<b>6,261,518</b>	<b>5,024,999</b>	<b>8,438,901</b>	<b>63,722,637</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## 56 MARKET RISK (continued)

## A. CURRENCY RISK (continued)

	2014					
	LL LL million	USD LL million	EUR LL million	TRY LL million	Other LL million	Total LL million
<b>Assets</b>						
Cash and balances with central banks	818,392	10,043,410	990,535	233,391	1,161,659	13,247,387
Due from banks and financial institutions	50,279	1,992,866	496,230	565,807	503,710	3,608,892
Loans to banks and financial institutions and reverse repurchase agreements	42,259	1,349,248	81,378	1,455,858	-	2,928,743
Derivative financial instruments	471	98,928	52,897	5,379	39,452	197,127
Financial assets at fair value through profit or loss	267,269	159,396	19,295	1,158	69,704	516,822
Loans and advances to customers at amortised cost	1,765,668	11,877,836	3,164,422	5,878,913	3,088,499	25,775,338
Loans and advances to related parties at amortised cost	30,281	75,776	1,293	-	2,657	110,007
Debtors by acceptances	-	268,144	54,569	3,855	13,912	340,480
Financial assets at amortised cost	5,972,159	4,703,012	66,753	316,156	3,515,663	14,573,743
Financial assets at fair value through other comprehensive income	67,163	58,965	559	-	9,019	135,706
Investments in associates	10,425	13,465	-	-	3,872	27,762
Property and equipment	622,202	691	1,145	76,163	248,340	948,541
Intangible fixed assets	48,231	172	511	37,406	6,332	92,652
Non current assets held for sale	1,125	11,333	568	3,995	1,489	18,510
Other assets	107,729	257,054	10,655	63,070	98,028	536,536
Goodwill	-	54,715	(427)	-	143,185	197,473
<b>Total assets</b>	<b>9,803,653</b>	<b>30,965,011</b>	<b>4,940,383</b>	<b>8,641,151</b>	<b>8,905,521</b>	<b>63,255,719</b>
<b>Liabilities and shareholders' equity</b>						
Due to central banks	438,385	-	-	-	-	438,385
Due to banks and financial institutions	38,526	1,033,170	286,686	32,893	304,076	1,695,351
Due to banks under repurchase agreements	-	-	-	90,443	-	90,443
Derivative financial instruments	1,160	32,415	43,515	12,932	26,281	116,303
Customers' deposits	6,672,921	27,753,416	5,111,923	6,219,782	7,655,167	53,413,209
Deposits from related parties	89,283	437,664	14,069	5,935	39,670	586,621
Debt issued and other borrowed funds	-	764,927	-	89,528	-	854,455
Engagements by acceptances	-	268,144	54,569	3,855	13,912	340,480
Other liabilities	167,328	100,677	13,545	88,664	149,766	519,980
Provisions for risks and charges	89,669	1,003	7,285	25,003	31,001	153,961
Shareholders' equity	2,560,405	2,388,428	(64,737)	(254,920)	417,355	5,046,531
<b>Total liabilities and shareholders' equity</b>	<b>10,057,677</b>	<b>32,779,844</b>	<b>5,466,855</b>	<b>6,314,115</b>	<b>8,637,228</b>	<b>63,255,719</b>

**The Group's Exposure to Currency Risk**

The Group is subject to currency risk on financial assets and liabilities that are listed in currencies other than the Lebanese Pounds. Most of these financial assets and liabilities are listed in US Dollars, Euros and Turkish Liras.

The table below shows the currencies to which the Group had significant exposure at 31 December on its non-trading monetary assets and liabilities and its forecast cash flows. The numbers represent the effect of a reasonably possible movement of the currency rate against the Lebanese Pound, with all other variables held constant, first on the income statement (due to the potential change in fair value of currency sensitive non-trading monetary assets and liabilities) and equity (due to the impact of currency translation gains/losses of consolidated subsidiaries and the change in fair value of currency swaps used to hedge net investment in foreign subsidiaries). A negative amount reflects a potential net reduction in income or equity, while a positive amount reflects a net potential increase.

Currency	Increase in currency rate %	2015		2014	
		Effect on profit before tax LL million	Effect on equity LL million	Effect on profit before tax LL million	Effect on equity LL million
USD	1%	(7,704)	6,438	(6,258)	10,308
EUR	1%	(130)	(10,652)	(624)	(6,479)
TRY	1%	-	17,778	1	14,685

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

56 MARKET RISK (continued)

A. CURRENCY RISK (continued)

**Hedging net investments**

A foreign currency exposure arises from net investments in subsidiaries that have a different functional currency from that of the Bank. The risk arises from the fluctuation in spot exchange rates between the functional currency of the subsidiaries and branches and the Bank's functional and presentation currency which causes the amount of the net investment to vary. Such a risk may have a significant impact on the Group's financial statements. In order to mitigate this risk, the Group has entered into foreign currency derivative contracts to enhance its risk profile and manage the effect of foreign currency translation.

a) Hedge of net investment in Odea Bank SA

*The hedged item*

During January 2014, the Bank decided to hedge US\$ 600 million component of its net investment in Odea Bank SA through currency option contracts, which was increased to US\$ 700 million in January 2015.

*The hedging instruments and hedged risk*

During January 2014, the Group entered in a series of capped calls deals with prime rated financial institutions for a total notional amount of US\$400 million. Each capped call deal comprises a combination of a long plain vanilla call option on US\$/TRY and a short exotic call option with a "knock in" feature, both legs having different strike prices. On average, and for all the deals, this strategy is translated in a protection against the upside of the US\$ against TRY triggered when US\$/TRY hits 2.26 and continues until it touches 3.23 which acts as a barrier. In case of this occurrence, the protection was capped at US\$/TRY of 2.89. During 2015, the Group extended the term of the hedging instruments to April 2018 and removed the "knock in" feature rendering the short call option a plain vanilla call with an average strike price of US\$/TRY 3.23.

For this strategy the hedged risk is the change in the US\$ / TRY spot exchange rate within the range of prices falling between strike price of the long call option and that of the short call. The risk is hedged from January 2014 to April 2018 where the deals mature and settle.

The remaining US\$300 million were hedged through zero-cost collars each comprising a combination of a long call option and a short put option maturing in one month and the strategy is automatically rolled-over for 36 month ending in January 2017. The roll-over strike prices of the calls and put depend on whether the spot rate has been trending up or down in the past month. The strikes of each collar may be set at either a "wide" range if the US\$ has been weakening, or a "narrow" range if US\$ has been strengthening.

This strategy hedges the changes in the US\$ / TRY spot exchange rate beyond the narrow range delimited by the strike price of the bought call option and the strike price of the sold put option. As such, it protects against significant variations of the TRY during the month but not against limited variations. The Group forgoes any profit on the net investment should the TRY price appreciate beyond the strike price of the written put. In return, however, maximum downside protection is assured. The risk is hedged from January 2014 to January 2017.

The Group designated only the change in the intrinsic value as the hedging instrument in both of the above strategies.

*Sources of ineffectiveness*

For the capped calls, since the hedge is effective over a range, ineffectiveness arises if the Turkish Lira exchange rate goes below the strike of the bought call option (where changes in foreign exchange position will not be offset by the hedge), or above the strike price of the sold call option (where part of the depreciation will not be captured). As for the collars, ineffectiveness exists when the US\$/TRY exchange rate ranges between the strike price of the bought call option and the strike price of the sold put option.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## 56 MARKET RISK (continued)

## A. CURRENCY RISK (continued)

## b) Hedge of net investment in other subsidiaries

During 2015, the Group renewed its currency swap contracts designated to hedge the net investment in its subsidiaries in Cyprus, France, Kingdom of Saudi Arabia and Qatar. The hedged risk is the risk of weakening EUR, SAR, and QAR exchange rate versus the US\$ that will result in changes in the value of the Group's net investment in its subsidiaries. The swaps are renewed on annual basis for a period of one year.

Hedged item	Hedging instrument	Hedged currency exposure	Currency swap notional amount LL million	Maturity date 31 December 2015	Forward price 31 December 2015	Maturity date 31 December 2014	Forward price 31 December 2014
Bank Audi France SA	Currency Swap	EUR	96,328	22 June 2016	1.1472	22 June 2015	1.3589
Banaudi Holding	Currency Swap	EUR	9,880	7 June 2016	1.1173	10 June 2015	1.3647
Audi Capital KSA	Currency Swap	SAR	41,645	9 June 2016	0.2652	9 June 2015	0.2666
Audi Qatar	Currency Swap	QAR	75,060	8 June 2016	0.2741	6 June 2015	0.2741

**Assessment of hedge effectiveness criteria**

The Group establishes that an economic relationship exists between the hedged item and the hedging instruments since the hedging instruments have fair value changes that offset the changes in the value of the net investment resulting from the hedged risk. The effect of credit risk does not dominate the value changes that result from that economic relationship. The analysis of the possible behaviour of the hedging relationship during its term indicates that it is expected to meet the risk management objective.

The hedge ratio is being designated based on actual amounts of the hedged item and hedging instrument. The notional amounts of the options and forward described above are on a par with the components of net investment hedged. Hence, the hedge ratio is 100%.

**B. INTEREST RATE RISK**

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair value of financial instruments. The Group is exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities. 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 table below shows the sensitivity of interest income and shareholders' equity to reasonably possible parallel changes in interest rates, all other variables being held constant.

The impact of interest rate changes on net interest income is due to assumed changes in interest paid and received on floating rate financial assets and liabilities and to the reinvestment or refunding of fixed rate financial assets and liabilities at the assumed rates. The result includes the effect of hedging instruments and assets and liabilities held at 31 December 2015 and 2014. The change in interest income is calculated over a 1-year period. The impact also incorporates the fact that some monetary items do not immediately respond to changes in interest rates and are not passed through in full, reflecting sticky interest rate behaviour. The pass-through rate and lag in response time are estimated based on historical statistical analysis and are reflected in the outcome.

There is no direct effect for the change in interest rates on equity pursuant to the early adoption of IFRS9 (2013) in 2014 whereby no debt instruments can be classified at fair value through other comprehensive income.

Besides, the effect on equity resulting from the discount rate applied to defined benefit plan obligations is disclosed in note 39 to these financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## 56 MARKET RISK (continued)

## B. INTEREST RATE RISK

## Interest Rate Sensitivity (continued)

The effect of any future associated hedges made by the Group is not accounted for. The sensitivity of equity was calculated for an increase in basis points whereby a similar decrease has an equal and offsetting effect.

		<i>Sensitivity of net interest income</i>			
		2015		2014	
	<i>Change in basis points</i>	<i>LL million Increase</i>	<i>LL million Decrease</i>	<i>LL million Increase</i>	<i>LL million Decrease</i>
LBP	± 100	(2,980)	2,980	(5,369)	5,369
USD	± 50	2,419	(2,419)	(1,242)	1,242
EUR	± 25	(6,029)	6,029	(4,780)	4,780

Bank Audi SAL

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

56 MARKET RISK (continued)

B. INTEREST RATE RISK (continued)

The Group's interest sensitivity position based on contractual repricing arrangements is shown in the table below. The expected repricing and maturity dates may differ significantly from the contractual dates particularly with regard to the maturity of customer demand deposits.

	2015							Total LL million
	Up to 1 month LL million	1 to 3 months LL million	3 months to 1 year LL million	Total less than 1 year LL million	1 to 5 years LL million	Over 5 years LL million	Total more than 1 year LL million	
<b>Assets</b>								
Cash and balances with central banks	2,700,427	1,911,311	677,214	5,288,952	4,071,758	1,506,750	5,578,508	2,887,462
Due from banks and financial institutions	2,078,575	282,715	15,049	2,376,339	-	-	-	327,818
Loans to banks and financial institutions and reverse repurchase agreements	2,199,988	296,332	78,305	2,574,625	-	5,929	5,929	4,999
Derivative financial instruments	33,890	33,561	28,677	96,128	140,584	1,316	141,900	27,835
Financial assets at fair value through profit or loss	53,543	31,596	96,978	182,117	50,150	88,929	139,079	62,526
Loans and advances to customers at amortized cost	7,407,549	7,003,035	6,282,562	20,693,146	4,683,553	1,222,978	5,906,531	213,130
Loans and advances to related parties at amortized cost	144,373	9,508	49,821	203,702	10,292	96	10,388	214,549
Debtors by acceptances	-	-	-	-	-	-	-	240,605
Financial assets at amortized cost	319,327	757,771	1,430,743	2,507,841	6,304,572	5,741,874	12,046,446	230,287
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	144,375
Investments in associates	-	-	375	375	-	-	-	13,989
Property and equipment	-	-	-	-	-	-	-	963,438
Intangible fixed assets	-	-	-	-	-	-	-	101,364
Non current assets held for sale	-	-	-	-	-	-	-	72,779
Other assets	-	-	-	-	-	-	-	470,506
Goodwill	-	-	-	-	-	-	-	209,434
<b>Total assets</b>	<b>14,937,672</b>	<b>10,325,829</b>	<b>8,659,724</b>	<b>33,923,225</b>	<b>15,260,909</b>	<b>8,567,872</b>	<b>23,828,781</b>	<b>5,970,631</b>
<b>Liabilities and shareholders equity</b>								
Due to central banks	23,202	6,681	55,098	84,981	185,579	299,183	484,762	113
Due to banks and financial institutions	342,630	215,856	1,072,420	1,630,906	403,838	203,708	607,546	20,795
Due to banks under repurchase agreements	81,261	-	-	81,261	-	-	-	57
Derivative financial instruments	37,912	38,169	32,299	108,380	8,432	790	9,222	13,597
Customers' deposits	32,305,059	11,593,660	6,486,224	50,384,943	1,328,212	19,754	1,347,966	1,257,598
Deposits from related parties	316,842	221,036	44,129	582,007	97,544	-	97,544	10,560
Debt issued & other borrowed funds	80,353	-	226,125	306,478	527,625	208,564	736,189	11,315
Engagements by acceptances	-	-	-	-	-	-	-	240,605
Other liabilities	-	-	-	-	-	-	-	578,000
Provisions for risks and charges	-	-	-	-	-	-	-	172,060
Shareholders' equity	-	-	-	-	-	-	-	4,955,752
<b>Total liabilities and shareholders' equity</b>	<b>33,187,259</b>	<b>12,075,402</b>	<b>7,916,295</b>	<b>53,178,956</b>	<b>2,551,230</b>	<b>731,999</b>	<b>3,283,229</b>	<b>7,260,452</b>
<b>Interest rate sensitivity gap</b>	<b>(18,249,587)</b>	<b>(1,749,573)</b>	<b>743,429</b>	<b>(19,255,731)</b>	<b>(6,546,052)</b>	<b>1,289,821</b>	<b>(1,289,821)</b>	<b>-</b>
<b>Cumulative gap</b>	<b>(18,249,587)</b>	<b>(19,999,160)</b>	<b>(19,255,731)</b>	<b>(19,255,731)</b>	<b>(19,255,731)</b>	<b>(19,255,731)</b>	<b>(19,255,731)</b>	<b>(19,255,731)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## 56 MARKET RISK (continued)

## B. INTEREST RATE RISK (continued)

	2014							Total LL million
	Up to 1 month LL million	1 to 3 months LL million	3 months to 1 year LL million	Total less than 1 year LL million	1 to 5 years LL million	Over 5 years LL million	Total more than 1 year LL million	
Assets								
Cash and balances with central banks	2,233,810	1,538,708	563,099	4,335,617	4,287,849	1,520,316	5,808,165	3,103,605
Due from banks and financial institutions	3,147,391	153,408	43,228	3,344,027	-	-	-	264,865
Loans to banks and financial institutions and reverse repurchase agreements	1,558,135	736,143	619,589	2,913,867	4,500	-	4,500	10,376
Derivative financial instruments	62,357	18,919	34,543	115,819	71,790	2,534	74,324	6,984
Financial assets at fair value through profit or loss	28,806	16,132	3,139	48,077	148,040	213,962	362,002	106,743
Loans and advances to customers at amortized cost	5,406,108	6,779,736	7,090,053	19,275,897	4,953,475	1,402,374	6,355,849	143,592
Loans and advances to related parties at amortized cost	48,886	1,243	48,180	98,309	2,398	168	2,566	110,007
Debtors by acceptances	-	-	-	-	-	-	-	340,480
Financial assets at amortized cost	363,726	746,041	2,030,423	3,140,190	7,001,988	4,239,474	11,241,462	192,091
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	135,706
Investments in associates	-	-	9,139	9,139	-	-	-	27,762
Property and equipment	-	-	-	-	-	-	-	18,623
Intangible fixed assets	-	-	-	-	-	-	-	948,541
Non current assets held for sale	-	-	-	-	-	-	-	92,652
Other assets	-	-	-	-	-	-	-	18,510
Goodwill	-	-	-	-	-	-	-	536,536
Total assets	12,849,219	9,990,330	10,441,393	33,280,942	16,470,040	7,378,828	23,848,868	6,125,909
Liabilities and shareholders equity								
Due to central banks	-	-	132,612	132,612	247	304,999	305,246	527
Due to banks and financial institutions	769,472	221,679	344,623	1,335,774	159,844	167,071	306,915	32,662
Due to banks under repurchase agreements	90,443	-	-	90,443	-	-	-	-
Derivative financial instruments	41,206	24,314	18,182	83,702	5,946	186	6,132	26,469
Customers' deposits	31,363,191	10,905,350	5,688,765	47,957,306	1,726,545	8,123	1,734,668	3,721,235
Deposits from related parties	248,061	91,513	43,808	383,382	129,133	-	129,133	74,106
Debt issued & other borrowed funds	-	89,528	226,125	315,653	527,625	-	527,625	11,177
Engagements by acceptances	-	-	-	-	-	-	-	340,480
Other liabilities	-	-	-	-	-	-	-	519,980
Provisions for risks and charges	-	-	-	-	-	-	-	153,961
Shareholders' equity	-	-	-	-	-	-	-	5,046,531
Total liabilities and shareholders' equity	32,512,373	11,332,384	6,454,115	50,298,872	2,549,340	480,379	3,029,719	9,922,128
Interest rate sensitivity gap	(19,663,154)	(1,342,054)	3,987,278	-	13,920,700	6,898,449	-	(3,801,219)
Cumulative gap	(19,663,154)	(21,005,208)	(17,017,930)	-	(3,097,230)	3,801,219	-	-

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**56 MARKET RISK (continued)****C. PREPAYMENT RISK**

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate mortgages 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.

**D. EQUITY PRICE RISK**

Equity price risk is the risk that the value of a portfolio will fall as a result of a change in stock prices. Risk factors underlying this type of market risk are a whole range of various equity (and index) prices corresponding to different markets (and currencies / maturities) in which the Group holds equity-related positions.

The Group sets tight limits on equity exposures and the types of equity instruments that traders are allowed to take positions in. Nevertheless, depending on the complexity of financial instruments, equity risk is measured in first cash terms, such as the market value of a stock /index position, and also in price sensitivities, such as sensitivity of the value of a portfolio to changes in the underlying asset price. These measures are applied to an individual position and/or to a portfolio of equities.

**57 LIQUIDITY RISK**

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 grade collateral which could be used to secure additional funding if required.

The Group maintains a portfolio of marketable and diverse assets that can be liquidated in the event of an unforeseen interruption of cash flow. As per applicable regulations, the Group must retain obligatory reserves with the central banks where the Group entities operate.

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.

The Group stresses the importance of customer deposits as source of funds to finance its lending activities. This is monitored by using the advances to deposits ratio, which compares loans and advances to customers as a percentage of client's deposits.

	<i>Loans to deposits</i>	
	<i>2015</i>	<i>2014</i>
	<i>%</i>	<i>%</i>
Year-end	50	47
Maximum	50	48
Minimum	46	46
Average	47	47

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 57 LIQUIDITY RISK (continued)

## Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarises 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.

The table does not reflect the expected cash flows indicated by the Group's deposit retention history.

	2015					
	Less than 1 month LL million	1 to 3 months LL million	3 to 12 months LL million	1 to 5 years LL million	Over 5 years LL million	Total LL million
<b>Financial assets</b>						
Cash and balances with central banks	5,078,809	415,554	1,262,969	7,083,328	1,861,021	15,701,681
Due from banks and financial institutions	2,408,081	282,515	15,059	-	-	2,705,655
Loans to banks and financial institutions and reverse repurchase agreements	2,395,737	19,310	146,313	23,398	25,968	2,610,726
Derivative financial instruments	9,141	25,336	63,247	154,699	13,440	265,863
Financial assets at fair value through profit or loss	54,294	10,690	106,229	91,360	115,734	378,307
Loans and advances to customers at amortised cost	5,180,284	1,610,046	5,727,474	10,016,629	4,929,910	27,464,343
Loans and advances to related parties at amortised cost	142,950	919	47,667	18,511	9,122	219,169
Debtors by acceptances	50,680	88,637	85,158	12,587	3,543	240,605
Financial assets at amortised cost	343,250	755,995	2,274,768	8,964,264	7,077,755	19,416,032
<b>Total financial assets</b>	<b>15,663,226</b>	<b>3,209,002</b>	<b>9,728,884</b>	<b>26,364,776</b>	<b>14,036,493</b>	<b>69,002,381</b>
<b>Financial liabilities</b>						
Due to central banks	23,201	6,681	24,288	235,299	317,108	606,577
Due to banks and financial institutions	1,049,939	116,859	571,842	316,571	229,904	2,285,115
Due to banks under repurchase agreements	81,318	-	146	-	-	81,464
Derivative financial instruments	5,676	30,218	59,652	27,956	7,697	131,199
Customers' deposits	35,651,597	10,573,761	5,867,911	1,632,683	25,618	53,751,570
Deposits from related parties	343,485	203,431	47,775	111,930	-	706,621
Debt issued and other borrowed funds	89,766	-	44,114	666,594	490,681	1,291,155
Engagements by acceptances	50,680	88,637	85,158	12,587	3,543	240,605
<b>Total financial liabilities</b>	<b>37,295,662</b>	<b>11,019,587</b>	<b>6,700,886</b>	<b>3,003,620</b>	<b>1,074,551</b>	<b>59,094,306</b>
	2014					
	Less than 1 month LL million	1 to 3 months LL million	3 to 12 months LL million	1 to 5 years LL million	Over 5 years LL million	Total LL million
<b>Financial assets</b>						
Cash and balances with central banks	4,556,486	485,798	809,890	7,621,841	1,971,682	15,445,697
Due from banks and financial institutions	3,409,914	162,641	36,481	-	-	3,609,036
Loans to banks and financial institutions and reverse repurchase agreements	1,508,289	639,715	827,902	39,488	85,245	3,100,639
Derivative financial instruments	71,441	18,816	31,491	72,845	2,534	197,127
Financial assets at fair value through profit or loss	115,599	17,882	13,082	193,350	290,796	630,709
Loans and advances to customers at amortised cost	4,420,238	1,322,284	4,156,357	10,609,108	5,845,959	26,353,946
Loans and advances to related parties at amortised cost	43,454	3,052	43,334	16,203	10,947	116,990
Debtors by acceptances	92,006	93,012	137,847	17,615	-	340,480
Financial assets at amortised cost	573,419	761,854	3,080,285	8,815,330	5,187,701	18,418,589
<b>Total financial assets</b>	<b>14,790,846</b>	<b>3,505,054</b>	<b>9,136,669</b>	<b>27,385,780</b>	<b>13,394,864</b>	<b>68,213,213</b>
<b>Financial liabilities</b>						
Due to central banks	988	2,903	121,815	148,840	186,972	461,518
Due to banks and financial institutions	542,510	120,970	550,918	431,547	83,003	1,728,948
Due to banks under repurchase agreements	90,443	-	-	-	-	90,443
Derivative financial instruments	67,281	24,332	17,897	5,756	1,037	116,303
Customers' deposits	35,386,643	10,620,289	6,026,270	1,974,347	11,211	54,018,760
Deposits from related parties	316,952	93,032	48,234	153,342	-	611,560
Debt issued and other borrowed funds	8,904	4,197	124,776	687,705	296,032	1,121,614
Engagements by acceptances	92,006	93,012	137,847	17,615	-	340,480
<b>Total financial liabilities</b>	<b>36,505,727</b>	<b>10,958,735</b>	<b>7,027,757</b>	<b>3,419,152</b>	<b>578,255</b>	<b>58,489,626</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 57 LIQUIDITY RISK (continued)

## Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities (continued)

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.

	2015					Total LL million
	On demand LL million	Less than 3 months LL million	3 to 12 months LL million	1 to 5 years LL million	More than 5 years LL million	
Financial guarantees	691,590	21,499	148,491	110,053	30,867	1,002,500
Other guarantees	609,147	137,708	864,407	135,052	26,226	1,772,540
Documentary credits	271,080	122,307	127,151	27,353	429	548,320
Loan commitments	3,176,026	49,295	833,777	1,090,790	72,538	5,222,426
	<u>4,747,843</u>	<u>330,809</u>	<u>1,973,826</u>	<u>1,363,248</u>	<u>130,060</u>	<u>8,545,786</u>

	2014					Total LL million
	On demand LL million	Less than 3 months LL million	3 to 12 months LL million	1 to 5 years LL million	More than 5 years LL million	
Financial guarantees	973,738	49,502	133,622	85,774	19,662	1,262,298
Other guarantees	521,858	34,731	518,481	339,670	11,050	1,425,790
Documentary credits	293,647	89,610	162,247	160,617	-	706,121
Loan commitments	3,201,857	31,528	737,403	644,984	-	4,615,772
	<u>4,991,100</u>	<u>205,371</u>	<u>1,551,753</u>	<u>1,231,045</u>	<u>30,712</u>	<u>8,009,981</u>

**Maturity analysis of assets and liabilities**

The table below summarizes the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the statement of financial position date to the contractual maturity date and do not take account of the effective maturities as indicated by the Group's deposit retention history and the availability of liquid funds. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 57 LIQUIDITY RISK – MATURITY PROFILE (continued)

The maturity profile of the assets and liabilities at 31 December 2015 is as follows:

	Less than 1 month LL million	1 to 3 months LL million	3 months to 1 year LL million	Total less than one year LL million	1 to 5 years LL million	Over 5 years LL million	Total more than one year LL million	Amount without maturity LL million	Total LL million
<b>Assets</b>									
Cash and balances with central banks	4,908,406	286,912	1,249,137	6,444,455	5,770,517	1,518,119	7,388,636	21,831	13,784,922
Due from banks and financial institutions	2,406,772	282,337	15,048	2,704,157	-	-	-	-	2,704,157
Loans to banks and financial institutions and reverse repurchase agreements	2,391,088	19,009	127,321	2,537,418	22,300	25,835	48,135	-	2,585,553
Derivative financial instruments	9,141	25,336	63,247	97,724	154,699	13,440	168,139	-	265,863
Financial assets at fair value through profit or loss	54,294	10,507	97,960	162,761	72,344	102,817	175,161	45,800	383,772
Loans and advances to customers at amortised cost	5,162,396	1,594,170	5,647,223	12,403,789	9,717,523	4,691,495	14,409,018	-	26,812,807
Loans and advances to related parties at amortised cost	142,946	846	47,164	190,956	16,223	7,370	23,593	-	214,549
Debtors by acceptances	50,680	88,637	85,158	224,475	12,587	3,543	16,130	-	240,605
Financial assets at amortised cost	274,931	689,138	1,607,634	2,571,703	5,743,173	-	12,212,871	-	14,784,574
Financial assets at fair value through other comprehensive income	-	-	375	375	-	-	-	144,375	144,375
Investments in associates	-	-	-	-	-	-	-	13,989	13,989
Property and Equipment	-	-	-	-	-	-	-	963,438	963,438
Intangible fixed assets	-	-	-	-	-	-	-	101,364	101,364
Non current assets held for sale	-	-	-	-	-	-	-	72,779	72,779
Other assets	74,313	3,552	6,924	84,789	19,923	72	19,995	365,722	470,506
Goodwill	-	-	-	-	-	-	-	209,434	209,434
<b>Total assets</b>	<b>15,474,967</b>	<b>3,000,444</b>	<b>8,947,191</b>	<b>27,422,602</b>	<b>22,255,814</b>	<b>12,105,864</b>	<b>34,361,678</b>	<b>1,938,357</b>	<b>63,722,637</b>
<b>Liabilities and shareholders equity</b>									
Due to central banks	2,138	6,816	24,250	33,204	225,631	311,021	536,652	-	569,856
Due to banks and financial institutions	1,049,552	115,417	564,555	1,729,524	301,341	228,382	529,723	-	2,259,247
Due to banks under repurchase agreements	81,318	-	-	81,318	-	-	-	-	81,318
Derivative financial instruments	5,676	30,218	59,652	95,546	27,956	7,697	35,653	-	131,199
Customers' deposits	35,524,104	10,485,249	5,609,339	51,619,292	1,349,418	21,797	1,371,215	-	52,990,507
Deposits from related parties	342,958	201,894	47,691	592,543	97,568	-	97,568	-	690,111
Debt issued and other borrowed funds	88,204	-	3,466	91,670	527,625	434,687	962,312	-	1,053,982
Engagements by acceptances	50,680	88,637	85,158	224,475	12,587	3,543	16,130	-	240,605
Other liabilities	241,216	21,347	157,191	419,754	6,227	10,128	16,355	141,891	578,000
Provision for risks and charges	-	-	-	-	-	-	-	172,060	172,060
Shareholders' equity	-	-	-	-	-	-	-	4,955,752	4,955,752
<b>Total liabilities and shareholders' equity</b>	<b>37,385,846</b>	<b>10,949,758</b>	<b>6,551,902</b>	<b>54,887,526</b>	<b>2,548,353</b>	<b>1,017,255</b>	<b>3,565,608</b>	<b>5,269,703</b>	<b>63,722,637</b>
<b>Liquidity gap</b>	<b>(21,910,879)</b>	<b>(7,949,134)</b>	<b>2,395,289</b>	<b>(27,464,724)</b>	<b>19,707,461</b>	<b>11,088,609</b>	<b>(3,331,346)</b>	<b>-</b>	<b>-</b>
<b>Cumulative gap</b>	<b>(21,910,879)</b>	<b>(29,860,013)</b>	<b>(27,464,724)</b>	<b>(7,757,263)</b>	<b>3,331,346</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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57 LIQUIDITY RISK – MATURITY PROFILE (continued)

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

	Less than 1 month LL million	1 to 3 months LL million	3 months to 1 year LL million	Total less than one year LL million	1 to 5 years LL million	Over 5 years LL million	Total more than one year LL million	Amount without maturity LL million	Total LL million
<b>Assets</b>									
Cash and balances with central banks	4,490,996	337,700	618,445	5,446,241	6,255,683	1,518,813	7,774,496	26,650	13,247,387
Due from banks and financial institutions	3,409,849	162,576	36,467	3,608,892	-	-	-	-	3,608,892
Loans to banks and financial institutions and reverse repurchase agreements	1,504,138	584,578	806,458	2,895,174	23,200	10,369	33,569	-	2,928,743
Derivative financial instruments	71,441	18,816	31,491	121,748	72,845	2,534	73,379	-	197,127
Financial assets at fair value through profit or loss	76,063	16,968	5,771	98,802	145,773	214,078	359,851	58,169	516,822
Loans and advances to customers at amortised cost	4,425,521	1,320,461	4,096,979	9,842,961	10,304,711	5,627,666	15,932,377	-	23,775,338
Loans and advances to related parties at amortised cost	57,149	3,002	35,257	95,408	7,431	14,599	14,599	-	110,007
Debtors by acceptances	92,006	93,012	137,847	322,865	17,615	-	17,615	-	340,480
Financial assets at amortised cost	412,167	659,184	2,390,863	3,462,214	6,563,337	4,548,192	11,111,329	-	14,573,743
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	135,706	135,706
Investments in associates	-	-	-	-	5,069	4,070	9,139	18,623	27,762
Property and Equipment	-	-	-	-	-	-	-	948,541	948,541
Intangible fixed assets	-	-	-	-	-	-	-	92,652	92,652
Non current assets held for sale	272,953	12,545	11,241	296,739	19,496	126	19,622	220,175	536,536
Other assets	-	-	-	-	-	-	-	197,473	197,473
Goodwill	-	-	-	-	-	-	-	-	-
<b>Total assets</b>	<b>14,811,383</b>	<b>3,208,842</b>	<b>8,170,819</b>	<b>26,191,044</b>	<b>23,415,160</b>	<b>11,933,016</b>	<b>35,348,176</b>	<b>1,716,499</b>	<b>63,255,715</b>
<b>Liabilities and shareholders equity</b>									
Due to central banks	987	2,903	116,879	120,769	139,248	178,368	317,616	-	438,385
Due to banks and financial institutions	532,703	112,920	541,487	1,187,110	428,635	79,266	507,901	340	1,695,351
Due to banks under repurchase agreements	90,443	-	-	90,443	-	-	-	-	90,443
Derivative financial instruments	67,281	24,332	17,897	109,510	5,756	1,037	6,793	-	116,303
Customers' deposits	35,188,560	10,518,970	5,961,665	51,669,195	1,735,890	8,124	1,744,014	-	53,413,209
Deposits from related parties	316,559	92,816	48,113	457,488	129,133	-	129,133	-	586,621
Debt issued and other borrowed funds	7,810	92,895	92,895	100,705	527,625	226,125	753,750	-	854,455
Engagements by acceptances	92,006	93,012	137,847	322,865	17,615	-	17,615	54,197	340,480
Other liabilities	286,382	35,926	140,634	462,942	2,841	-	2,841	153,961	519,980
Provision for risks and charges	-	-	-	-	-	-	-	-	-
Shareholders' equity	-	-	-	-	-	-	-	5,046,531	5,046,531
<b>Total liabilities and shareholders' equity</b>	<b>36,582,731</b>	<b>10,880,879</b>	<b>7,057,417</b>	<b>54,521,027</b>	<b>2,986,743</b>	<b>492,920</b>	<b>3,479,663</b>	<b>5,255,029</b>	<b>63,255,715</b>
<b>Liquidity gap</b>	<b>(21,771,348)</b>	<b>(7,672,037)</b>	<b>1,113,402</b>	<b>(28,329,983)</b>	<b>20,428,417</b>	<b>11,440,096</b>	<b>(3,538,530)</b>	<b>-</b>	<b>-</b>
<b>Cumulative gap</b>	<b>(21,771,348)</b>	<b>(29,443,385)</b>	<b>(28,329,983)</b>	<b>(28,329,983)</b>	<b>(7,901,566)</b>	<b>3,538,530</b>	<b>-</b>	<b>-</b>	<b>-</b>

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**58 OPERATIONAL RISK**

Operational risk is the risk of loss arising from system 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 operational risk management framework is implemented by an independent operational risk management team, in coordination with other essential elements of the Group's control framework such as Internal Audit or Corporate Information Security and Business Continuity.

Central to this framework are tried-and-tested principles such as redundancy of mission-critical systems, segregation of duties, strict authorization procedures, daily reconciliation, risk management responsibility at the operational level and the requirement to be able to price and value independently any proposed transaction.

Incidents are reported and analyzed in relation to a risk map originating from risk and control self assessments and which is used as a tool to follow up on outstanding issues and as the basis for reporting operational risk to management and to the Board.

Insurance coverage is used as an external mitigant and is commensurate with activity, both in terms of volume and characteristics

**59 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 to regulatory required capital derived by assigning risk weights to on- and off-balance sheet exposures depending on their relative risk.

To satisfy Basel III capital requirements, the Central Bank of Lebanon has set the minimum ratios of regulatory capital to risk-weighted assets to be achieved gradually by year-end 2015 as follows:

	<b>Common Tier 1 capital ratio</b>	<b>Tier 1 capital ratio</b>	<b>Total capital ratio</b>
Year ended 31 December 2015*	8.0%	10.0%	12.0%
Year ended 31 December 2014	7.0%	9.5%	11.5%

\*The above ratios apply to the year 2015 and subsequent years and include a Capital Conservation Buffer of 2.5% which must be through Common Equity Tier 1 capital.

	<i>2015</i>	<i>2014</i>
	<i>LL million</i>	<i>LL million</i>
<b>Risk weighted assets:</b>		
Credit risk	34,094,449	33,371,604
Market risk	700,170	679,624
Operational risk	2,966,760	2,680,287
Total risk weighted assets	<u>37,761,379</u>	<u>36,731,515</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## 59 CAPITAL MANAGEMENT (continued)

The regulatory capital as of 31 December is as follows:

	<i>Excluding net income for the year</i>		<i>Including net income for the year less proposed dividends</i>	
	<i>2015</i>	<i>2014</i>	<i>2015</i>	<i>2014</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Tier 1 Capital	<b>3,547,174</b>	3,758,215	<b>3,859,588</b>	3,984,876
<i>Of which: Common Tier 1</i>	<b>2,977,535</b>	2,998,878	<b>3,289,950</b>	3,225,538
Tier 2 Capital*	<b>1,185,534</b>	802,206	<b>1,185,534</b>	802,206
Total Capital	<b>4,732,708</b>	4,560,421	<b>5,045,122</b>	4,787,082

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

	<i>Excluding net income for the year</i>		<i>Including net income for the year less proposed dividends</i>	
	<i>2015</i>	<i>2014</i>	<i>2015</i>	<i>2014</i>
Capital adequacy – Common Tier 1	<b>7.89%</b>	8.16%	<b>8.71%</b>	8.78%
Capital adequacy - Tier 1	<b>9.39%</b>	10.23%	<b>10.22%</b>	10.85%
Capital adequacy -Total Capital*	<b>12.53%</b>	12.42%	<b>13.36%</b>	13.03%

(\*) Since the regulatory approvals for including the allowed effect of the asset revaluation in Tier 2 capital was obtained in 2015, the Tier 2 capital and total capital ratios as of 31 December 2014 do not include the effect of the revaluation surplus resulting from adopting the revaluation model for measuring land and buildings.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions, its business model and risk profile. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends payment to shareholders, return capital to shareholders or issue capital securities.