BYBLOS BANK

ANNUAL REPORT 2015

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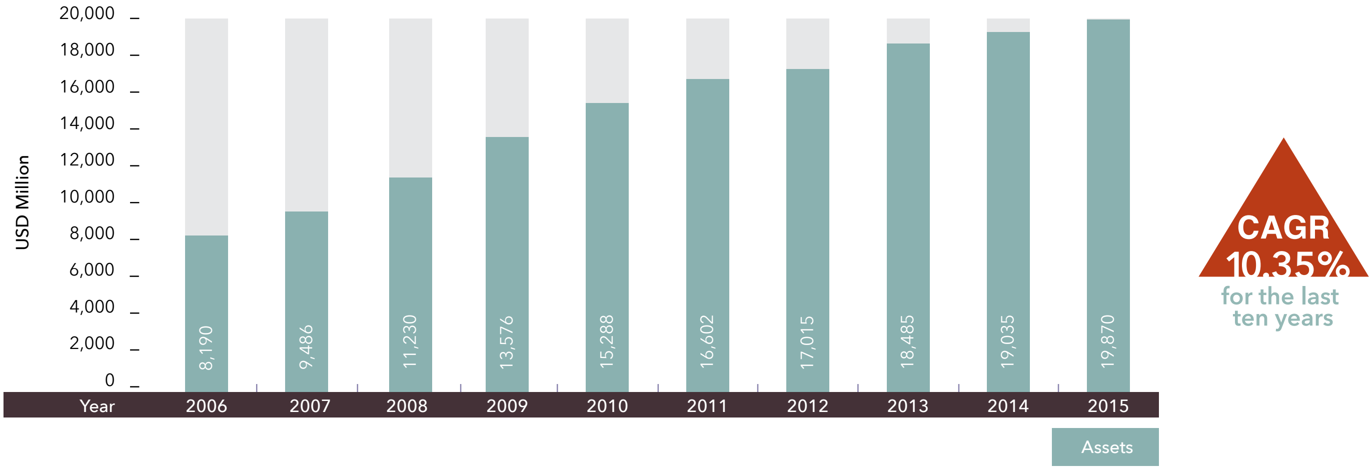

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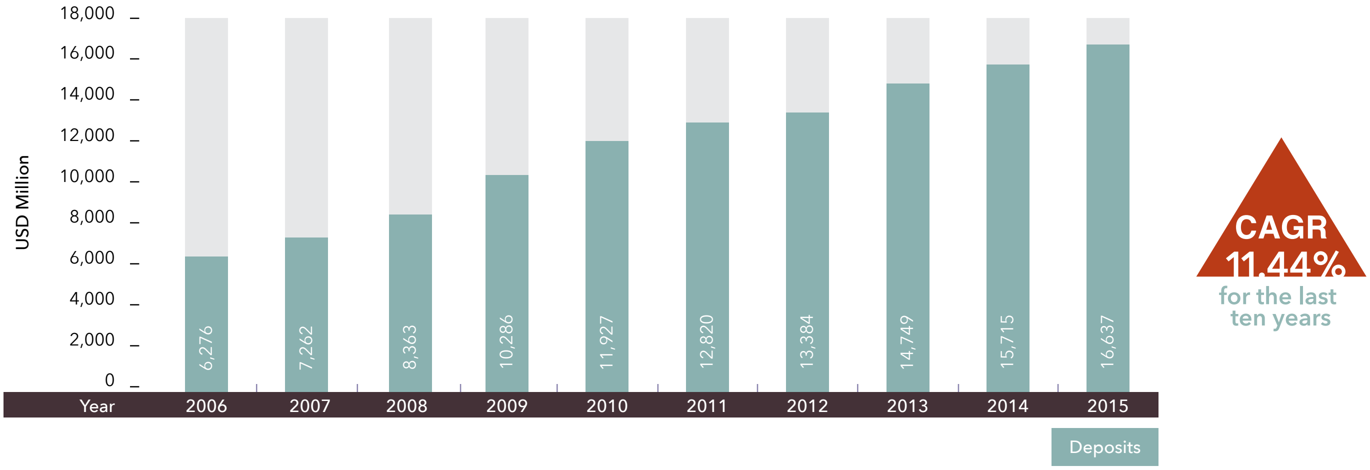

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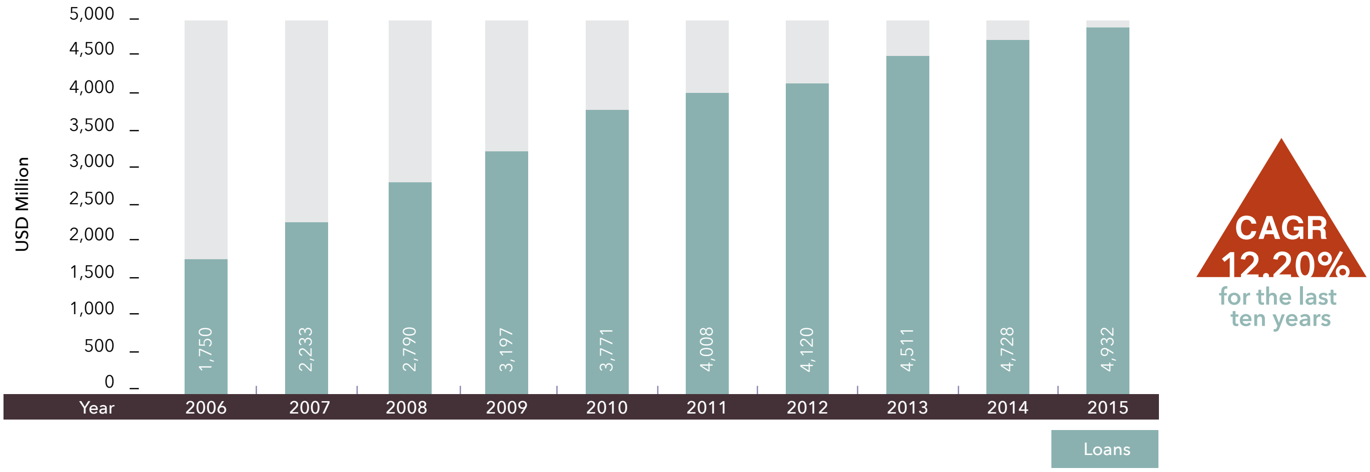

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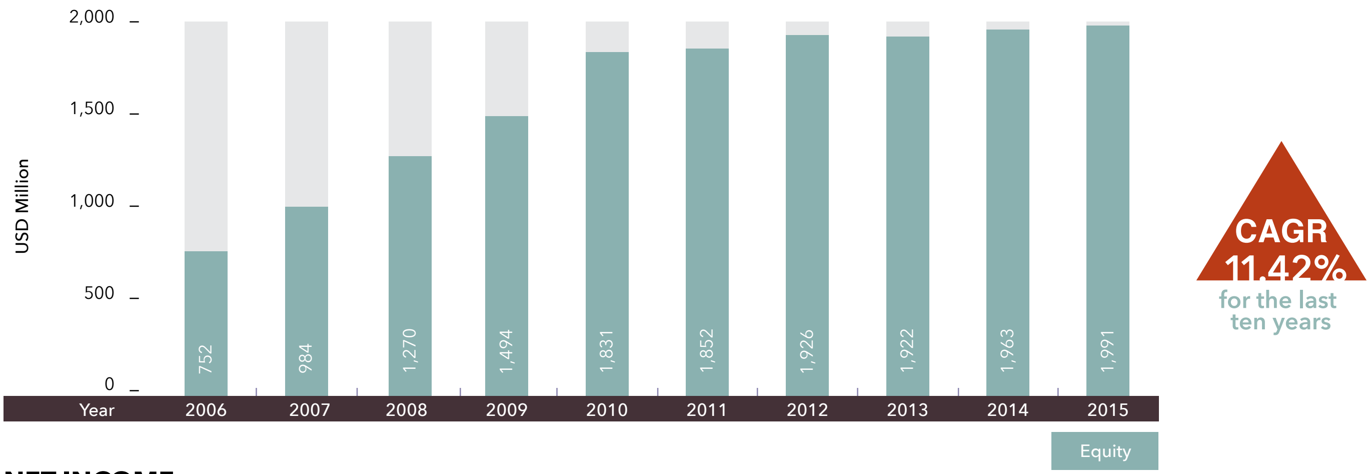

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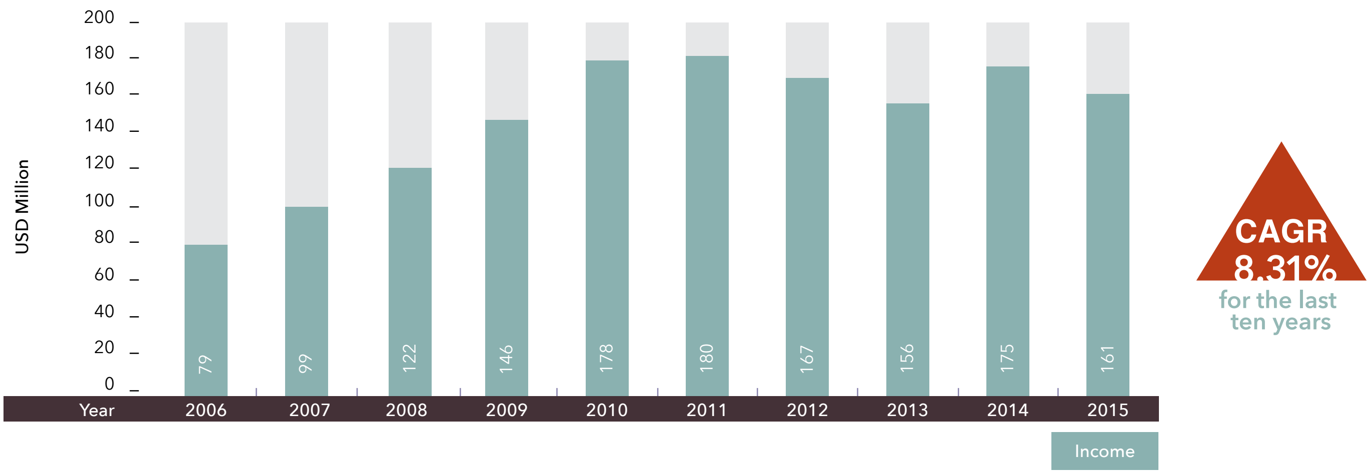

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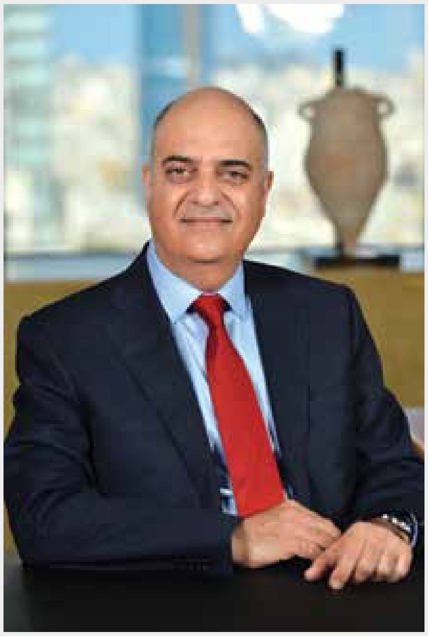

Dear Stakeholders,

Byblos Bank achieved adequate results in 2015. Even though lower than originally budgeted, these results reflect an intensification of our traditional risk-averse approach, a strategy backed up directly by the Board of Directors in order to further bolster the Bank's financial strength in an unstable environment. This led to the maintenance of immediate foreign currency liquidity, in the form of short-term placements with investment and above-investment-grade institutions, at levels exceeding both internal and international benchmarks. Indeed, Byblos Bank posted a Basel III Capital Adequacy Ratio of 17.7% at end-2015, versus a regulatory requirement of just 12%. The Bank also has been successful in maintaining loan quality and ensuring adequate provisioning levels, as well as strengthening the risk culture throughout the organization.

As a result of these and other measures, customers' loans and customers' deposits grew 4.3% and 5.9%, respectively, to USD 4.9 billion and USD 16.6 billion, while the Bank maintained a low loans-to-assets ratio of 24.8% and improved its net interest margin from 1.36% to 1.40%. Nonetheless, return on common equity stood at 9.42%, lower than the 11.07% recorded a year earlier, while our cost-to-income ratio remained at a good level, below 47% as in previous years.

Most of Byblos Bank's international operations are conducted in emerging markets, several of which have been destabilized to varying degrees by the "Arab Spring" that started at the close of 2010. As a result, the contribution of the international bank subsidiaries and branches to net income has been dropping steadily, from 11% that year to 4% in 2015, while the share of assets fell from 16% to 8% over the same period. Many of these countries are heavily dependent on commodity exports, so slumping prices have led to a variety of negative trends, including lower overall revenues, as well as significant currency devaluations and/or widespread socioeconomic disruption in certain cases.

Nevertheless, thanks to prudent risk management, close relationships with our clients, and in-depth knowledge of the markets in which we operate, the Bank has continued to find opportunities on a selective basis in these countries, a stance that will keep us ready to scale up when conditions improve.

A MESSAGE FROM THE CHAIRMAN

Looking forward, we do not expect 2016 to bring significant improvements to the economic and political situation in Lebanon, or to the overall environments in other markets where we operate. We anticipate, however, at least a partial recovery in international commodity prices, which would help alleviate socioeconomic disruptions in many of these countries. Byblos Bank has not been idle during the past few years of political instability and slow economic growth in the MENA region; on the contrary, we have embarked on numerous internal projects to drive improvements in business and human productivity, steps that will ensure an even stronger base when economic activity picks up.

In closing, it should be noted that our relatively good results amid challenging conditions in 2015 were made possible by an engaged Board of Directors, diligent management, and dedicated employees at every level of the Group. Their combined efforts allowed Byblos Bank to protect the interests of its shareholders by strengthening its assets and capital base in an unstable environment, all while maintaining a fairly compensated and adequately sized workforce, and continuing to act on the Bank's commitment to building the communities that it calls home.

These accomplishments follow a long tradition of setting clear priorities, meticulous planning, and professional implementation, all guided by the principles and vision that keep Byblos Bank on the right track despite temporary or even sustained headwinds. Those responsible for this performance – and therefore for the advantage it will give the Bank when markets recover – deserve both our admiration and our gratitude.

Sincerely,

Semaan F. Bassil
Chairman and General Manager
Byblos Bank S.A.L.

THE LEBANESE ECONOMY IN 2015

ECONOMIC ACTIVITY

Economic activity in Lebanon remained below potential in 2015, in line with the previous four years. The ongoing economic slowdown was due to lower private consumption, subdued investor sentiment and consumer confidence, the political deadlock and high level of political polarization, the presidential vacuum, paralyzed decision-making processes within public institutions, and random demonstrations and social unrest, in addition to the ongoing direct and indirect spillovers from the Syrian conflict. Also, the lack of any credible attempt at implementing reforms, the weak rule of law and the continued burden of the public sector on the private sector took their toll on economic activity.

The Lebanese economy benefited from the Central Bank's USD 1 billion stimulus package for 2015, as it supported activity in several key sectors. Also, the inflows of USD 7.5 billion in remittances from Lebanese expatriates in 2015, equivalent to 14.7% of GDP, sustained household spending for day-to-day needs. In addition, the pass-through effects of the steep drop in global oil prices and the muted inflationary environment raised the disposable incomes of households and supported economic activity during the year.

Still, the economy performed at a sub-par level in 2015, as private consumption grew by a real rate of 2.3%, public consumption expanded by 9.6%, and gross fixed capital contracted by 2.2% during the year. Also, exports of goods and services increased by 1.5%, while imports of goods and services grew by 3.5% in 2015. At the same time, capital inflows to Lebanon declined by 34% to USD 8.56 billion during the year. As such, the economy expanded by 1.4% in real terms in 2015 compared to a real GDP growth rate of 1.7% in 2014.

REAL SECTORS

The Central Bank's Coincident Indicator, a proxy for overall economic activity in Lebanon, averaged 278.6 in 2015 compared to 273.2 in 2014, and increased by 2% year-on-year, which reflects slow economic activity.

The Byblos Bank/AUB Consumer Confidence Index averaged 38.4 in 2015, reflecting a rise of 12.4% annually and constituting the second annual rise since 2009. The increase in consumer sentiment in 2015 is due in part to low-base effects and does not denote a reversal of trends, as the level of consumer sentiment in 2015 constitutes a decline of 60.3% from the Index's peak year of 2009 and a decrease of 30.5% from the Index's trend monthly average since July 2007. Indeed, the full-year results constituted the Index's fourth lowest annual level since its inception, and they remained consistent with the ongoing trend of low consumer sentiment in the country that has prevailed since the first quarter of 2012.

The repeated failure of the Lebanese Parliament to elect a President and the paralyzed decision-making processes within public institutions maintained household confidence at low levels. On the socioeconomic level, the outbreak of the waste management crisis in July 2015 had a significant impact on consumer sentiment, as it highlighted the inability of the government and political parties to properly manage and deliver basic public services.

In contrast, generally stable security conditions across the country, the ongoing countrywide crackdown on suspected terrorists by security forces, and the continued dialogue among various political parties supported sentiment during 2015. Also, the positive impact on households' budgets from the more than 30% drop in local retail gasoline prices and the fading away of imported inflation, as well as the acceleration of the Ministry of Public Health's food safety campaign, gave some respite to wary consumers.

The Byblos Bank/AUB Expectations Index posted higher values than the Present Situation Index in each month of 2015. The results do not reflect a reversal of trends or a shift in households' attitudes, however, as only 7.6% of Lebanese polled in the fourth quarter of 2015 expected their financial conditions to improve in the coming six months, while 69% of them believed that their financial situation would deteriorate. Political uncertainties dominated consumers' concerns during the year, but other persisting issues such as the inability of authorities to satisfy citizens' basic needs, decaying public services, the weak rule of law, job insecurity, and economic stagnation resonated strongly among consumers.

REAL ESTATE SECTOR

The real estate market, which contributes nearly 14% of economic output in the country, continued to be affected by the prevailing uncertainties and economic slowdown. In real terms, the number of property sales decreased by 10.5% in 2015, construction permits contracted by 8.8%, cement deliveries regressed by 8.6%, and the value of property sales declined by 7.5%, pointing to anemic activity in the sector. Also, housing loans reached USD10.7 billion at the end of 2015 and grew by 9.6% in 2015, constituting the slowest yearly growth rate since 2004.

The Byblos Bank Real Estate Demand Index posted an average monthly value of 43.3 points in 2015, constituting a decline of 60% from the peak of 108 registered in 2010. It was also 33.1% lower than the trend monthly average score of 64.7 since the Index's inception in July 2007. In addition, the Index reached its lowest monthly level on record in the first two months of 2015. The current real estate trend is part of a deep stagnation

THE LEBANESE ECONOMY IN 2015

period in the market that started in January 2014 and that is still ongoing. Overall, the Byblos Bank Real Estate Demand Index fell by 60% between the boom period, which stretched from May 2008 to August 2010, and the period of deep stagnation.

TOURISM SECTOR

The tourism sector, a main driver of economic activity in the country, recovered slightly in 2015. The number of incoming visitors to Lebanon totaled 1.52 million in 2015, reflecting an increase of 12.1% from about 1.35 million tourists in 2014, but it still constituted a decline of 30% from the peak of 2.17 million visitors in 2010. The increase in 2015 was mainly due to low-base effects and to Iraqi nationals escaping deteriorating security conditions in their country.

European tourists accounted for 33.3% of total visitors in 2015, followed by visitors from Arab countries (31.7%), the Americas (17.4%), Asia (8.1%), Africa (5.6%), and Oceania (3.9%). Also, visitors from Iraq accounted for 12.6% of total visitors in 2015, followed by visitors from the United States (8.9%), France (8.8%), Canada (6%), Jordan (5.1%), Egypt (5%), and Germany (4.9%). Further, incoming visitors from the six countries of the Gulf Cooperation Council (GCC) accounted for 6.9% of Lebanon's total tourist arrivals in 2015, down from 17.7% in 2010.

The number of visitors from African countries increased by 53.2% in 2015, followed by visitors from the Americas (+17.5%), Oceania (+17.3%), Europe (+12.9%), Asia (+7.7%), and the Arab region (+4.3%). In parallel, the number of incoming visitors from the GCC region reached 104,551 in 2015, up by 6.8% from 2014 but down by 72.7% from 383,983 GCC tourists in 2010. On a country basis, the number of tourists from Turkey surged by 30.4% in 2015, followed by visitors from the United States (+19%), England (+17.1%), Canada (+16.5%), Brazil (+12.8%), France (+11.2%) and Germany (+10.1%).

The hospitality sector continued to be affected by the modest tourism activity. The average occupancy rate at hotels in Beirut was 56% in 2015, compared to 52% in 2014 and to an average rate of 62.7% in 14 main Arab markets. The average occupancy rate at Beirut hotels was, along with Amman's, the fifth lowest in the region in 2015, while it was the fourth lowest in 2014. The average rate per room at Beirut hotels was USD 175 in 2015, ranking the capital's hotels as the fifth least expensive in the region. The average rate per room at Beirut hotels rose by 1.1% year-on-year and posted the seventh highest growth rate among all markets in the region. Further, revenues per available room reached USD 99 in Beirut in 2015 and increased by 8.8% year-on-year, the fifth highest increase among Arab markets.

Total spending by tourists in Lebanon increased by 2% in 2015. Visitors from Saudi Arabia accounted for 15% of total tourist expenditures in 2015, followed by visitors from the UAE with 14%, Kuwait and Egypt with 6% each, Jordan and France with 5% each, Qatar, Syria and the United States with 4% each, and Iraq and Nigeria with 3% each. Spending by visitors from Qatar increased by 21% in 2015, followed by those from the United States (+18%), Jordan (+14%), the UAE (+12%), and Saudi Arabia (+5%), while spending by visitors from Syria contracted by 23%, followed by those from Kuwait (-16%), Nigeria (-9%), Egypt (-4%), France (-3%) and Iraq (-1%).

INFLATION

The Consumer Price Index contracted by 3.7% in 2015 compared to an average inflation rate of 1.9% in 2014, according to the Central Administration of Statistics. The CPI regressed by 1.9% in 2015 when excluding telecommunication and transportation costs. The contraction in the CPI is mainly attributed to the local transmission of the drop in global oil prices, declines in the prices of base metals, the strengthening of the US Dollar, the decrease in telecom tariffs, and a slowdown in local demand for goods and services. Also, the figures denote the waning impact of imported inflation.

EXTERNAL SECTOR

The balance of payments posted a deficit of USD 3.35 billion in 2015, constituting the fifth consecutive annual deficit. The 2015 deficit was caused by a deficit of USD 2.88 billion in the net foreign assets of banks and financial institutions, and a deficit of USD 473.4 million in those of the Central Bank. The persistent deficit in the balance of payments reflects slowing capital inflows, due mainly to a decline in tourism, FDI and exports receipts. Also, the current account deficit narrowed from 26.2% of GDP in 2014 to 16.8% in 2015.

The trade deficit reached USD 15.1 billion in 2015 and narrowed by 12% year-on-year, as the value of imported goods decreased by 11.8% to USD 18.1 billion and the value of exported products fell by 11% to USD 3 billion. Imports declined due to subdued domestic demand, lower commodity prices, and a stronger US Dollar that reduced the import bill from the Eurozone and from other countries whose currencies weakened against the dollar. The value of imported oil and mineral fuels declined by USD 1.45 billion, or 29.6%, year-on-year, to USD 3.4 billion, while non-hydrocarbon imports regressed by 6.3% to USD 14.6 billion. Also, the value of imported base metals fell by USD 340.7 million, or 22.7%, to USD 1.16 billion in 2015, and those of machinery and mechanical appliances regressed by USD 195 million, or 8.9%, to USD 2 billion. The value of oil and mineral fuels accounted for 19% of total imports in 2015 compared to a share of 23.8% in 2014.

THE LEBANESE ECONOMY IN 2015

FISCAL SITUATION

Lebanon's public finance imbalances persisted in 2015, with the fiscal deficit widening to 7.8% of GDP from 6.2% in 2014. Public revenues regressed from 22.1% of GDP in 2014 to 18.8% of GDP in 2015. Tax revenues were equivalent to 13.5% of GDP last year, down from 14% in 2014, while non-tax revenues represented 4.3% of GDP in 2015 relative to 5.9% in the preceding year. Moreover, public expenditures decreased from 28.3% of GDP in 2014 to 26.6% of GDP in 2015, with salaries, wages and pensions accounting for 9.3% of GDP, debt servicing for 9.2% of GDP, transfers to the money-losing Electricité du Liban for 2.2% of GDP, and capital spending for 1.4% of GDP.

In parallel, Lebanon's public debt level grew from 134.8% of GDP in 2014 to 138.2% in 2015, constituting the ratio's fourth consecutive annual increase. The gross public debt reached USD 70.3 billion at the end of 2015, reflecting an increase of 5.6% from end-2014 and compared to increases of 4.9% in 2014 and 10% in 2013. The gross public debt grew by USD 3.7 billion in 2015 relative to increases of USD 3.1 billion in 2014 and USD 5.8 billion in 2013. Debt denominated in local currency rose by 5.6% to the equivalent of USD 43.2 billion, while debt in foreign currency grew by 5.7% to USD 27.1 billion at the end of the year. Foreign currency-denominated debt represented 38.5% of gross public debt at the end of 2015, unchanged from a year earlier.

Commercial banks held 54.4% of the total public debt at the end of 2015, down from 57% at end-2014. Commercial banks accounted for 45.8% of the Lebanese Pound-denominated public debt at the end of 2015 compared to 51% a year earlier. They were followed by the Central Bank with 37.3%, up from 32.2% at end-2014, while public agencies, financial institutions and the public held 17%. Also, Eurobond holders and special Treasury bills in foreign currencies accounted for 92.3% of the foreign-currency denominated debt, followed by foreign governments with 3.8% and multilateral institutions with 3.7%. In addition, commercial banks held 72.1% of total Eurobonds at the end of 2015, nearly unchanged from a year earlier. In parallel, the gross market debt accounted for about 65% of total public debt. Gross market debt is the total public debt less the portfolios of the Central Bank, the National Social Security Fund, bilateral and multilateral loans, as well as Paris II- and Paris III-related debt.

CAPITAL MARKETS

EQUITIES

The Beirut stock market continued to suffer from low liquidity and a lack of interest from privately held firms in listing their shares. Total trading volume on the Beirut Stock Exchange reached 74.6 million shares in 2015, constituting a decrease of 23% from 96.8 million shares in 2014, while aggregate turnover amounted to USD 629 million, down by 5% from a turnover of USD 661.4 million in the preceding year. As such, the Capital Markets Authority Market Value-Weighted Index regressed by 1.5% in 2015. Market capitalization was nearly unchanged from end-2014 at USD 11.2 billion, of which 80.6% was in banking stocks and 16.3% in real estate stocks. The market liquidity ratio was 5.6% compared to 5.9% in 2014. Further, market capitalization was equivalent to 23% of GDP, fifth lowest among 14 Arab markets, and accounted for about 1% of the aggregate market capitalization of Arab equity markets.

Bank stocks accounted for 89.1% of the aggregate trading volume in 2015, followed by real estate equities with 10.4%. Also, banking stocks accounted for 85.8% of the aggregate value of shares traded, followed by real estate stocks with 13.4%. The average daily traded volume for 2015 was 309,697 shares for an average daily value of USD 2.6 million. The figures reflect decreases of 21.3% in volume and 2.9% in value year-on-year. In parallel, the Capital Markets Authority Banks Market Value-Weighted Index increased by 1.3% last year.

FIXED INCOME

Lebanon's external debt posted a return of 2.91% in 2015, constituting the 11th highest return among 41 markets in the Central and Eastern Europe, Middle East and Africa (CEEMEA) region, as well as the 21st highest return among 73 emerging markets, according to the Merrill Lynch External Debt EM Sovereign Bond Index. Lebanon outperformed the overall emerging markets return of 0.84% during 2015 and posted the second highest return among 24 countries in the Middle East and Africa region.

In February 2015, the Lebanese Republic issued a USD 2.2 billion dual-tranche Eurobond under the Republic of Lebanon's Global Medium Term Note Program to cover part of the government's operating expenditures and debt service payments for the year. The first series consisted of a 15-year USD 1.4 billion Eurobond that matures in February 2030 and that carries an annual coupon rate of 6.65%, while the second series consisted of a 10-year USD 800 million Eurobond that matures in February 2025 and that carries an annual coupon rate of 6.2%. Commercial banks subscribed to about 64% of the issued amount, the Central Bank and non-bank local institutions subscribed to about 21%, and foreign investors acquired the remaining 15%.

THE LEBANESE ECONOMY IN 2015

Also, in November 2015 the Lebanese Republic issued a USD 1.6 billion triple-tranche Eurobond, also under the Republic of Lebanon's Global Medium Term Note Program. The new issuance consists of USD 1.28 billion in new cash to cover the government's debt service payments in foreign currencies for the second half of 2015, and USD 318 million in voluntary debt exchange of the USD 750 million Eurobond that matured on 19 January 2016. The first series consisted of a nine-year USD 500 million Eurobond that matures in November 2024 and carries an annual coupon rate of 6.25%. The second series was a 13-year USD 500 million Eurobond that matures in November 2028 and carries an annual coupon rate of 6.65%, while the third series consisted of a 20-year USD 600 million Eurobond that matures in November 2035 and that carries an annual coupon rate of 7.05%. In parallel, in November 2015 the Lebanese Parliament ratified a law that allows the government to issue up to USD 3 billion in foreign-currency debt to finance upcoming debt maturities in 2016.

RISK METRICS

Spreads on five-year credit default swaps (CDS) for Lebanon ended 2015 at 411 basis points (bps), up by 12.8% from 364.2 bps at the end of 2014. The spreads were stable during the first nine months of 2015, as they averaged 363.8 bps in the first quarter, 361 bps in the second quarter, and 364.5 bps in the third quarter of the year. However, Lebanon's CDS spreads widened significantly to an average of 410 bps during the fourth quarter of 2015.

Rating agencies expressed concern during the year about persisting political risks and fiscal imbalances, but they remained confident in the strength of the banking sector. On 11 December 2015, Fitch Ratings affirmed Lebanon's long-term foreign and local currency Issuer Default Ratings (IDR) and short-term foreign currency IDR at 'B'. It also affirmed at 'B' the ratings on Lebanon's senior unsecured foreign and local currency bonds, and maintained the outlook on the long-term IDRs at 'negative'. Further, it affirmed the Country Ceiling at 'B'. The agency indicated that Lebanon's sovereign ratings are constrained by political risks, as well as by the country's weak public finances and low economic performance. In contrast, it pointed out that the ratings are supported by Lebanon's strong external liquidity, resilient banking sector, and other structural strengths, such as the high income levels and human development indicators.

On 30 October 2015, Capital Intelligence affirmed at 'B' Lebanon's long- and short-term foreign and local currency sovereign ratings, and revised from 'stable' to 'negative' the outlook on the country's long-term ratings. It attributed the outlook revision to the country's deteriorating economic performance and weakening fiscal position, as well as to the difficult domestic and external political environments.

On 11 September 2015, Standard & Poor's affirmed Lebanon's long- and short-term foreign and local currency sovereign credit ratings at 'B-/B' and revised the outlook on the long-term ratings to 'negative' from 'stable'. It attributed the change in outlook to the negative impact on growth from domestic political uncertainties and regional instability. It added that the protracted political instability could further limit the ability of policymakers to implement medium- and long-term macroeconomic reforms. The agency did not expect the government to utilize the lower oil price environment, and the resulting fiscal space, to implement the structural reforms that would reduce fiscal vulnerabilities and promote longer-term economic growth.

MONETARY SITUATION

The Central Bank's gross foreign currency reserves reached USD 30.64 billion at the end of 2015, constituting a decrease of USD 1.77 billion, or 5.4%, from USD 32.4 billion a year earlier. They were equivalent to 58.7% of money supply (M2) and to about 14 months' worth of next year's imports, well above the four-month reference for emerging markets. In addition, the Central Bank's overall assets in foreign currency regressed by USD 1.1 billion in 2015 to reach USD 37.1 billion at the end of the year. The value of the Central Bank's gold reserves reached USD 9.85 billion at the end of 2015, constituting a decrease of 10.1% from end-2014 due to lower global gold prices. The Central Bank's combined assets in gold and foreign currencies were equivalent to about 92% of GDP at the end of 2015.

In parallel, broad money supply (M3) grew by 5.1% in 2015, decelerating from a growth rate of 5.9% in 2014 and from 7% in each of 2012 and 2013, while money supply (M2) increased by 7.1% year-on-year, accelerating from rises of 5.6% in 2013 and 6.8% in 2014. Also, the interbank rate in Lebanese Pounds increased from 2.75% at the end of 2014 to 3.25% at the end of 2015, while the repo rate was unchanged at 10% throughout the year.

THE LEBANESE ECONOMY IN 2015

BANKING SECTOR

The banking sector continued to face a challenging operating environment in 2015 due to several converging factors that included the slow economic activity in Lebanon, domestic and regional political uncertainties, the Syrian crisis and its direct spillovers onto Lebanon, tighter margins, fewer lending opportunities domestically and abroad, historic-low global interest rates, and the still-elevated borrowing needs of the Lebanese government.

The aggregate assets of commercial banks reached USD 186 billion at the end of 2015, constituting an increase of 5.9% from end-2014 and relative to increases of 6.6% in 2014 and 8.5% in 2013. The sector's assets were equivalent to 365.6% of GDP, one of the highest such ratios in the world, which reflects the continuing ability of the banking sector to meet the borrowing needs of both the private and public sectors, as well as to maintain high levels of liquidity and capitalization.

Loans to the private sector totaled USD 54.2 billion at the end of 2015 and increased by USD 3.33 billion, or 6.5% of GDP, from end-2014 relative to a rise of USD 3.5 billion, or 7.4%, in 2014. Lending to the resident private sector grew by USD 2.67 billion in 2015 relative to USD 3.86 billion in 2014, while credit to the non-resident private sector increased by USD 648.1 million last year compared to a decrease of USD 346.9 million in 2014. As such, credit to the resident private sector was equivalent to 92.6% of GDP in 2015. The dollarization rate in private sector lending reached 74.8% at end-2015, down from 75.6% a year earlier. The average lending rate in Lebanese Pounds was 7.45% in December 2015 compared to 7.49% a year earlier. The same rate in US Dollars averaged 7.06% in December 2015 relative to a rate of 6.97% in December 2014. Claims on the public sector stood at USD 37.8 billion, up by 1.2% year-on-year, and accounted for about 20% of the banking sector's total assets. Also, commercial banks' deposits at the Central Bank totaled USD 70.5 billion at end-2015, reflecting an increase of 11.1% from a year earlier, and accounted for about 38% of the sector's aggregate assets. Rating agencies continued to restrain the banks' ratings to the sovereign ceiling, citing the banks' elevated exposure to the sovereign as their most important risk factor.

Deposits of the private non-financial sector totaled USD 151.6 billion at the end of 2015, rising by USD 7.2 billion, or 5%, from end-2014, relative to an increase of USD 8.2 billion, or 6%, in 2014. Private sector deposits were equivalent to 298% of GDP, one of the highest such ratios in the world. Deposits in Lebanese Pounds reached USD 53.2 billion, up 7.5% from end-2014 and compared to an increase of 7.4% in 2014, while deposits in foreign currencies totaled USD 98.3 billion, a rise of 3.6% from end-2014 and relative to an increase of 5.4% in 2014. Non-resident foreign currency deposits totaled USD 27.4 billion at end-2015, increasing by 3.7% from end-2014 relative to a rise of 5.3% in 2014. The dollarization rate of deposits reached 64.9% at end-2015, down from 65.7% a year earlier. The average deposit rate in Lebanese Pounds was 5.56% in December 2015, unchanged from December 2014. The same rate in US Dollars averaged 3.17% in December 2015 compared to 3.07% a year earlier. In parallel, deposits of non-resident banks reached USD 6.5 billion, and rose 12.2% from end-2014.

The ratio of private sector loans to deposits in foreign currencies stood at 41.3% at end-2015, well below the Central Bank's limit of 70%, and compared to 40.5% a year earlier. In parallel, the same ratio in Lebanese Pounds was 25.6%, up from 25.1% at end-2014. The ratio of total private sector loans to deposits was 35.8% at the end of 2015, up from 35.2% a year earlier. The banks' capital base stood at USD 16.67 billion at the end of 2015, up by 6% from a year earlier, with core capital growing by 6.1% to USD 15.45 billion.

The aggregate net income of commercial banks operating in Lebanon was USD 1.88 billion in 2015, up by 11.2% from USD 1.69 billion in 2014. The banks' return on average assets was 1.04% in 2015 relative to 0.99% in 2014. In parallel, the sector's capital adequacy ratio stood at 14.43% as at June 2015, according to the latest available figures from the Central Bank, compared to 14.93% at end-2014. Also, the banks' consolidated doubtful loans reached 3.64% of total loans in 2015, relative to 3.6% in 2014, one of the lowest such ratios in the Middle East.

Unless there is a major breakthrough in the domestic political situation, the operating environment for Lebanese banks is likely to remain challenging over the short to medium term due to political instability, weak economic growth, and the slower performance of various economic sectors that are important to the banks' asset quality. However, the sector will remain solid, profitable, highly liquid, and able to meet the financing needs of the private and public sectors, as long as deposits continue to increase.

THE GLOBAL AND REGIONAL ECONOMIES IN 2015

Global economic activity was subdued in 2015 due to the economic slowdown in emerging and developing economies, while advanced economies continued their slow recovery. The global economy grew by a real rate of 3.1% in 2015 relative to 3.4% in 2014. Emerging markets and developing economies posted a real GDP growth rate of 4% in 2015 relative to a rate of 4.6% in 2014 due to low commodity prices, the slowdown and rebalancing of the Chinese economy, slower capital inflows, subdued global trade, pressure on certain currencies, and an increase in global financial market volatility.

Economic growth in advanced economies improved slightly to 1.9% last year from 1.8% in 2014, partly driven by lower oil prices and accommodative monetary policy. Most central banks in advanced countries, with the exception of the US Federal Reserve and the Bank of England, maintained their highly accommodative monetary policies. This divergence in monetary policy led to the strong appreciation of the US Dollar relative to other currencies, as the US Dollar Index appreciated by 9.3% in 2015.

The economies of the Middle East and North Africa (MENA) and Sub-Saharan Africa (SSA) regions are of particular significance to the Lebanese economy. This is due to Lebanon's strong trade and financial links with Gulf Arab markets in particular, as well as to the country's dependence on capital inflows from expatriates and the activity of Lebanese banks in the MENA and SSA regions. The drop in global oil prices and currency volatility had a material impact on economic activity and public finances in the two regions. Indeed, oil exporters in the MENA region lost more than USD 340 billion in oil revenues in 2015, equivalent to about 20% of their aggregate GDP, due to the 46% drop in global oil prices during the year. The drop in oil prices weighed on the public finances of oil exporters and somewhat alleviated pressure on the public finances of oil-importing economies.

Economic growth in the MENA region was moderate at 2.3% in 2015 amid declining oil prices, intensifying conflicts, and continued policy uncertainty. Economic activity in oil-exporting Arab countries decelerated from a real growth rate of 2.6% in 2014 to 1.8% in 2015, while the real GDP growth rate of oil-importing Arab economies was 3.8% in 2015 compared to 2.4% in 2014, but was still well below the historical average growth rate of about 5%. Further, the economies of the Gulf Cooperation Council (GCC) posted a real GDP growth rate of 3.3% in 2015 relative to a growth rate of 3.4% in 2014. Their hydrocarbon output grew by 2.9% in 2015 compared to a growth rate of 1.3% in the preceding year, while activity in the non-hydrocarbon sector expanded by 3.8% last year, down from 5.5% in 2014. Also, economic activity in the MENA region's non-GCC oil exporters such as Algeria, Iran, Iraq, Libya and Yemen, was nearly flat in 2015, compared to a growth rate of 1.7% in 2014, amid the steep drop in oil prices.

The drop in oil prices also weakened the external and fiscal balances of the MENA region's oil exporters. Indeed, the aggregate fiscal deficit of the region's oil exporters widened from 0.8% of GDP in 2014 to 12.7% of GDP in 2015, while their aggregate current account balance shifted from a surplus of 6.1% of GDP to a deficit of 4% of GDP last year. In particular, the fiscal balance of GCC countries shifted from a surplus of 2.9% of GDP in 2014 to a deficit of 13.2% of GDP in 2015, and their current account balance shifted from a surplus of 14.8% of GDP to a deficit of 0.2% of GDP in 2015. In parallel, the aggregate gross foreign currency reserves of GCC countries regressed from USD 900.7 billion at the end of 2014 to USD 815.6 billion at the end of 2015. In contrast, the sharp drop in oil prices provided relief for the region's oil importers, as their fiscal deficit narrowed from 9.7% of GDP in 2014 to 8.6% of GDP last year, while their current account deficit widened slightly from 5.7% of GDP to 5.9% of GDP in 2015.

In parallel, economic growth in Sub-Saharan Africa decelerated from 5% in 2014 to 3.5% in 2015, the lowest growth rate since 2009, due to low commodity prices, domestic challenges, and infrastructure constraints. The region's eight oil-exporting countries, especially Nigeria and Angola, were affected significantly by the continued weakness in oil prices. Aggregate real GDP growth in SSA oil exporters decelerated to 3.6% in 2015 from 5.9% in 2014, while growth in oil-importing countries slowed to 4% last year from 4.4% in 2014. Also, the region's low-income countries grew by 5.9% last year relative to 6.9% in 2014, while growth in middle-income economies slowed to 2.6% in 2015 from 2.7% in the preceding year.

The fiscal deficit, including grants, of SSA countries widened from 3.5% of GDP in 2014 to about 4.3% of GDP in 2015, and their current account deficit widened from 4.1% of GDP to about 5.7% of GDP in 2015. Also, foreign currency reserves of SSA economies decreased from 5.4 months of imports of goods and services in 2014 to about 4.8 months of import coverage in 2015.

Most SSA countries have seen their currencies depreciate against the US Dollar since October 2014, given the large terms-of-trade shocks and the appreciation of the dollar, in line with other emerging market and developing countries. This trend was most prevalent among oil exporters, as the Angolan Kwanza and the Nigerian Naira depreciated on the official market by 31.5% and 8.8%, respectively, against the US Dollar in 2015, and by about 23% and 39%, respectively, since oil prices began to drop in the middle of 2014. But exchange rate movements have not been limited to commodity-dependent countries. In fact, Ghana, South Africa, Tanzania, Uganda and Zambia have also experienced currency depreciations due to domestic vulnerabilities and the increasing risk aversion of foreign investors.

BYBLOS BANK S.A.L. ANNUAL REPORT 2015

PROFILE OF THE GROUP

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Our History

Established in Jbeil (Byblos), Lebanon, in 1950, the Byblos Bank Group is a leading financial institution focused on the domestic and selected overseas markets. After nearly six decades of consistent growth, Byblos Bank now has an extensive network of 80 branches spread evenly across Lebanon. The Group also has expanded to several other countries, including Armenia, Belgium, Cyprus, the Democratic Republic of the Congo, France, Iraq, Nigeria, Sudan, Syria, the United Arab Emirates, and the United Kingdom.

Our Mission

Byblos Bank is a leading financial institution present in markets where our capabilities create sustainable value for our customers, employees, shareholders and the communities we serve.

Our Vision

To be the bank of choice, with an international footprint, driven by innovative banking solutions and excellence in client service, delivered through the best people.

Our Major Lines of Business

- Consumer Banking
- Commercial Banking
- Correspondent Banking
- Financial Markets

Our Values

- Integrity
- Customer Focus
- Teamwork
- Performance

Our Subsidiaries

Adonis Insurance and Reinsurance Co. S.A.L. (ADIR), Partnership with Natixis Assurances – France

ADIR is a subsidiary of Byblos Bank established in 1983. The company combines financial stability with an ongoing quest for product innovation and an uncompromising commitment to its customers in terms of service, coverage, and proper handling of claims. ADIR provides a comprehensive range of standard and tailored insurance products to both individual and institutional clients, including life, fire, general accident and medical coverage, among others. In 2001, Natixis Assurances, one of the leading bancassurers in France and an affiliate of Banque Populaire et Caisse d'Epargne (BPCE), acquired a 34% stake in ADIR, with Byblos Bank retaining a controlling interest of 64%. The association with the French banking giant continues to facilitate the offering of bancassurance services to Byblos Bank customers in Lebanon and other selected markets where ADIR seeks to forge local partnerships.

Byblos Bank Europe S.A.

Founded in 1976, Byblos Bank Europe S.A. is headquartered in Brussels and has branches in London and Paris. Byblos Bank S.A.L. holds more than 99% of the shares in Byblos Bank Europe, which specializes in short-term trade finance for selected exporting companies in Europe and offers correspondent banking services in the Middle East and Africa. In addition, the Paris branch provides banking services to customers in French-speaking African countries, while the London branch serves clients in English-speaking countries on the same continent.

PROFILE OF THE GROUP

Byblos Bank Africa

After three decades of prosperous business in Sudan via local banks and a selected customer base, the Group established Byblos Bank Africa in 2003. Operating under Islamic Sharia'a, Byblos Bank Africa's main lines of business are commercial banking and correspondent banking. Following a capital increase in 2012, Byblos Bank S.A.L. remains the largest shareholder in Byblos Bank Africa (56.9%), followed by the OPEC Fund for International Development (17.5%) and the Islamic Corporation for the Development of the Private Sector (8.75%).

Byblos Invest Bank S.A.L.

Byblos Invest Bank was established in 2003 as a means of increasing medium- and long-term investment options for the Group's customers. Under Lebanese law and the regulations of the Central Bank and the Banking Control Commission, Byblos Invest Bank is a specialized institution: its main objectives are to allow customers to benefit from attractive interest rates on term deposits for periods longer than six months, and to provide medium- and long-term loans to new and expanding companies.

Byblos Bank Syria S.A.

Founded in 2005, Byblos Bank Syria has developed a wide range of commercial, corporate and retail banking services to meet the needs of clients in the Syrian market. In 2011, Byblos Bank Syria successfully completed a capital increase to 6.12 billion Syrian Pounds (SYP), equivalent to 12,240,000 shares. In May 2012, a 5:1 stock split was carried out, increasing the number of shares to 61,200,000 at SYP 100 per share. In 2015, Byblos Bank S.A.L. increased its ownership to 59.87% by acquiring all the shares of the OPEC Fund for International Development. The share of Syrian investors stood at 40.13%.

Adonis Insurance Company Syria S.A. (ADIR Syria)

In 2007, the Byblos Bank Group established Adonis Insurance Company Syria S.A. (ADIR Syria), a Syrian insurer with paid-up capital of USD 25 million. The main shareholders are Byblos Invest Bank S.A.L., Byblos Bank Syria S.A., and Adonis Insurance and Reinsurance Co. S.A.L. (ADIR), together with approximately 20 prominent Syrian businesspeople. The Company operates from its Head Office in Damascus, through offices in Aleppo and Homs, and through the branch network of Byblos Bank Syria. ADIR Syria provides a broad range of insurance products underwritten in a conservative and prudent way.

Byblos Bank Armenia C.J.S.C.

Following the 2007 acquisition of a 100% stake in International Trade Bank, the institution was renamed Byblos Bank Armenia and commenced operations in 2008 as the Group's fourth overseas subsidiary. Byblos Bank S.A.L. holds 65% of Byblos Bank Armenia's shares, while the European Bank for Reconstruction and Development (25%) and the OPEC Fund for International Development (10%) hold the remainder. Byblos Bank Armenia continues to address local needs through its three branches in the capital, Yerevan.

Byblos Bank RDC S.A.

On 27 March 2010, Byblos Bank S.A.L. participated in the capital increase of Solidaire Banque Internationale, a bank incorporated in the Democratic Republic of the Congo. Byblos Bank S.A.L. became the major shareholder, with 66.67% of the shares, and acquired management control. Renamed Byblos Bank RDC, the Bank operates as an independent subsidiary of the Byblos Bank Group, with its Head Office in Kinshasa and one branch in the capital's Gombe District. It provides mainly commercial lending, transfers and payments, letters of credit, letters of guarantee, and documentary collection services.

KEY DATES

Establishment of Société Commerciale et Agricole Byblos Bassil Frères & Co., engaged in natural silk and leather tanning and agricultural credit activities.	1950	
	1961	Company's name changed to Société Bancaire Agricole Byblos Bassil Frères & Co.
Company's name changed to Byblos Bank S.A.L. and registration with Central Bank of Lebanon.	1963	
	1976	Establishment of Byblos Bank Europe in Brussels (branches in Paris and London).
Establishment of Adonis Insurance and Reinsurance Co. S.A.L. (ADIR).	1983	
	1997	Acquisition of Banque Beyrouth pour le Commerce (BBC). Listing of 30% of Byblos Bank's shares on the Beirut Stock Exchange.
Full integration of the subsidiary in Europe as Byblos Bank Europe S.A.	1998	
	1999	Acquisition of Bank of Nova Scotia's Lebanon branch.
Acquisition of Wedge Bank Middle East's Lebanon branch. Acquisition of assets of ING Barings' Lebanon branch.	2000	
	2002	Acquisition of assets and liabilities of ABN AMRO Bank N.V.'s Lebanon branch.
Opening of Byblos Bank Africa in Khartoum, Sudan.	2003	
	2005	Opening of a Representative Office in Abu Dhabi, UAE. Opening of Byblos Bank Syria S.A.
Commencement of Byblos Bank S.A.L. operations in Erbil, Iraq.	2006	
	2007	Acquisition of 100% stake in Armenia's International Trade Bank, renamed Byblos Bank Armenia C.J.S.C. in 2008.
Opening of 75th branch of Byblos Bank S.A.L. in Lebanon. Acquisition of Unicredit Banca Di Roma's Lebanon branch.	2008	
	2009	Listing on the London Stock Exchange. Opening of a Representative Office in Lagos, Nigeria.
Acquisition of 66.7% stake in Solidaire Banque Internationale, a bank incorporated in the Democratic Republic of the Congo, now renamed as Byblos Bank RDC S.A.	2010	
	2016	Acquisition of Banque Pharaon and Chiha, Lebanon's oldest bank established in 1876.

OPERATIONS AND GOVERNANCE

YEAR IN REVIEW

ROCK-STEADY RESULTS IN A TURBULENT REGION

CONSERVATIVE APPROACH OVERCOMES LOCAL AND REGIONAL HEADWINDS – AGAIN

Byblos Bank achieved another year of satisfactory results in 2015, leveraging its durable business model and prudent management strategy to navigate continuing instability in Lebanon and other key markets. Despite a fifth year of political gridlock at home, a civil war raging in next-door Syria, and a regional slowdown caused by the collapse of oil prices, the Bank managed to post not just adequate profit levels, but also increases in several key measures, including customers' loans, customers' deposits, and total assets.

At the same time, we continued to bolster the foundations on which the steady returns of the future will be built. The Bank's capital, liquidity, and non-performing loan ratios continued to meet or beat all relevant national and international standards, and our commitment to continuous process improvements and other enhancements to service quality promise a loyal and growing clientele going forward.

CATERING TO THE CLIENT

A COMMITMENT TO EXCELLENCE

The Consumer Banking Division introduced a variety of new tools in 2015, empowering customers to gain better control over their finances while benefiting from maximum access, convenience, and flexibility. Alongside – and supported by – 24/7 customer service, these improvements helped both the Bank and its clients to focus on what each does best.

Some of the biggest changes during the year involved enhanced features for the Byblos Bank Mobile Banking Application launched in 2014, including rollout of an Android tablet version, instant settling of tuition fees for university students, and mobile access to new products and services like The Makers Account aimed at Lebanese youth, and Environmental Energy and Non-Energy Loans. These and other additions further expanded the Mobile Banking App's central role in Byblos Bank's campaign to give customers greater control over their own finances, saving them time and money, and freeing up branch staff to offer more advisory and other value-added services.

In parallel, the Bank also pressed on with a never-ending quest to steadily improve customer experiences, combining the latest technologies, continuous staff training, regular performance monitoring, and process simplifications to make sure we provide world-class service quality and never stop searching for new ways to meet our clients' expectations.

This ongoing mission to continually improve customer service and customer satisfaction has a major positive impact in other areas as well. In 2015 these included Byblos Bank's compliance effort regarding Central Bank of Lebanon Circular 134, which requires all banks in Lebanon to take a series of steps aimed at ensuring that all customers are treated equitably and transparently. Byblos Bank responded by updating several relevant policies and procedures (and by establishing the full-scale Financial Literacy Program described below), and branch staff were – and will remain – central to these undertakings as well. In addition to their customer service functions, they constitute Byblos Bank's front line in terms of compliance with local and international standards regarding issues such as money-laundering and the financing of terrorism. Accordingly, 2015 saw Byblos Bank devote even more resources to these tasks in terms of personnel, training, and proven processes based on international best practice.

Byblos Bank pioneered retail banking in Lebanon, and we still lead the way in terms of responsive product designs that cater to the needs of our customers. The headliner in 2015 was our launch of The Makers Account, which celebrates the aspirations of Lebanon's youth by offering a host of features and special deals to help them gain the new skills and new experiences they crave. Consumer Banking also took a proactive approach to the challenging conditions prevailing in several key markets, ramping up its Business Development activities by focusing on high net worth Lebanese living abroad, as well as other attractive niche segments.

These and myriad other aspects of the Bank's operations are tied together by the efforts of our Customer Service Team, which handles all manner of client requests 24 hours a day, seven days a week. Byblos Bank's business model is built on constantly improving the client's experience, so Customer Service employees and managers receive regular training and other forms of support, improving their ability to assist our clientele.

COMMERCIAL BANKING

IN THE BUSINESS OF BOOSTING BUSINESS

For decades Byblos Bank has expanded alongside the highly reputable and resilient companies that give Lebanon's private sector its dynamism, providing in-depth understanding on the financial requirements of various businesses in various regions. This has enabled our Commercial Banking Division to design and deliver products and services that are up to the challenges of both coping with local realities and meeting global standards.

The impact of these tools is further enhanced by our teams of highly trained and experienced professionals, each of whom specializes in one or more areas, from contracting and real estate to manufacturing, trade, and project finance. The continuous development of our talented teams has allowed the Bank to meet customers' expectations and provide valuable advice over the course of many years.

Looking ahead, the downward economic trends and political woes that have affected Lebanon and the region since 2011 are

YEAR IN REVIEW

continuing, and 2016 will not be different. We expect challenging market conditions to not only persist, but even to worsen as local and regional operating environments deteriorate further.

Faced with such adverse conditions, the Commercial Banking Division will continue to follow conservative policies with respect to growth targets while striving to preserve our market share and asset quality. This approach proved successful once again in 2015, enabling us to meet overall goals for the year. For 2016, Byblos Bank remains confident that our formula of long experience, sound policy, and dedicated teams will continue to give us an advantage in achieving our goals – as it has in the past.

CAPITAL MARKETS

HOLDING THE LINE IN TRYING TIMES

Byblos Bank's Capital Markets Team successfully overcame challenging overall conditions at the global and local levels in 2015, posting several key achievements in the process. We maintained a healthy market share of 18% on the Beirut Stock Exchange, continued to provide support for local banks in the Lebanese Pound money markets, and, despite significant volatility, remained a key source of liquidity on the Lebanese Eurobond market. All the while, the team also kept up its supply of effective hedging tools for its corporate clients on the commodities and foreign exchange markets, provided its usual professional brokerage services for both equities and fixed income, and introduced International Funds as a new investment option for retail and Private Banking clients.

INTERNATIONAL NETWORK

FLYING BYBLOS BANK'S BANNER ABROAD

In the face of political instability and economic slowdowns affecting much of the globe in general and several regions where we operate in particular, Byblos Bank continued to both consolidate its presence in most other countries in 2015, and selectively expand its business in Iraq by opening a new branch in Sulaymaniyah. As a major education and economic hub for Iraq's Kurdistan Region, the city has emerged as a bright spot in the country's difficult recovery from decades of war and isolation, so we are very proud to be the only Lebanese bank – indeed the only international bank from any other country – with a presence there.

On another level, the Bank integrated a considerable amount of operations among subsidiaries coping with especially difficult local economic conditions and/or sanctions in place that restrict dealings in some markets. This allowed us to minimize operational risks inherent in daily business, all while controlling our expenditures and making the most of our efficiency.

At the same time, the International Network Division continued to carry out its primary purpose of managing interactions between our foreign entities and Head Office in Lebanon, as per the Group Function and Service Level Agreements where applicable. As in the past, numerous field visits to branches, representative offices, and subsidiaries were conducted in 2015, all part of efforts to a) ensure continuity in key positions in the event of lengthy absences; b) define, prevent, and/or resolve issues as quickly as possible; c) enhance processes to deliver improved service; and d) keep staff members abreast of all new procedures and practices.

In 2016, the International Network Division will continue its mission of consolidation and efficiency improvements, increasing the profitability of our foreign entities and, by extension, their respective contributions to the Group. In addition, we will strive to continue our record of strong compliance with local regulations, full adherence to Byblos Bank procedures, and strict observance of international sanctions applying to some of the countries where we operate.

HUMAN RESOURCES

TAKING CARE OF THOSE WHO TAKE CARE OF OUR CLIENTS

Byblos Bank understands that its employees are its most precious asset, so the Human Resources Division never stops looking for better ways to strengthen the partnership, helping them reinforce their competencies and build successful careers. This approach has served the Bank well over the course of many years, and 2015 only saw more of the same, including:

- Choosing Hay Group to assist in setting a Bank-wide Balanced Scorecard, which determines the contributions of each division, department and employee to the overall strategy of the Bank by using a set of clear Key Performance Indicators (KPIs). This scorecard also reflects the interactivity among different departments/divisions and their synergies in delivering on the Bank's strategy with the aim of instilling a more performance-based culture.

- Implementation of the new Assessment and Development Center program by our certified and dedicated assessors. This process features highly trained professionals who work with both new and existing employees to assess their skills and competencies, ultimately leading to their personalized Development Plans. Assessors use multiple tools – including behavioral simulations, group exercises, presentations, role-playing, and a psychometric/personality questionnaire – to identify strengths and weaknesses and build an objective plan that allows employees to improve their skill-sets and accelerate their career development.

- Launching of a series of workshops, with Grid International, in order to identify a common thread of skills that will reinforce Byblos Bank's Core Values and enhance every aspect of the working culture by building a more collaborative and interdependent environment, improving both personal and

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team effectiveness, increasing motivation, and fostering greater accountability.

- Increasing the rates of internal recruitment and promotion to fill vacancies, thereby improving engagement and motivation for all members of the Byblos Bank Team.
- Launching Career Programs for potential future branch managers, training them for the position in a way that optimizes their performance and prepares them to deal with the challenges they will face.
- Adopting training courses for newly assigned and middle managers to help them better cope with the requirements of their jobs and manage their workloads and teams more effectively.
- Introducing a standardized process to handle underperformers, giving them a chance to regain career momentum by using a multi-level, multi-phase approach, each with specific KPIs and clear timeframes.
- Implementing new payroll mechanisms and procedures that further safeguard privacy and confidentiality for all employees.
- Securing an exclusive Group healthcare offer granting all second-class hospitalization beneficiaries (staff and their direct dependents) the option of upgrading to first class at a very competitive special rate.

CORPORATE SOCIAL RESPONSIBILITY

A FORCE FOR CULTURE, COMMUNITIES, AND CONSUMERS

Byblos Bank had a busy CSR calendar in 2015, devoting considerable resources to both developing our existing programs aimed at fostering human development and economic benefits, and the launching of a fully fledged Financial Literacy Program (FLP). These activities aim to share the Bank's success by partnering with individuals, organizations, and communities to further shared goals, including greater access to education, higher levels of financial awareness, broader appreciation of Lebanese culture, and stronger protections for the environment.

EDUCATION: INTRODUCING LEBANON'S FIRST FINANCIAL LITERACY PROGRAM

Byblos Bank knows that education is the single-most important determinant of most people's career and financial success, so we exert considerable effort to supporting schools and universities, expanding access to these institutions, and educating the public about banking and economics.

Studies indicate that large numbers of Lebanese have yet to plan for their future financial security, and many don't know where or how to start. And because greater financial awareness leads to an expanded potential for growth and development, in 2015 the Bank established its FLP in order to empower consumers by increasing their knowledge of banking and economic issues, enabling them to make better decisions about their finances. This program is aimed not just at current Byblos Bank customers, but also at the general public, working through popular mainstream media outlets to familiarize citizens with basic terms and concepts, how banking products work, how to compare features, how to make and abide by a budget, and how to select the savings and/or loan products that best suit their individual needs.

The FLP opened up two separate avenues to increased public awareness in 2015: in November, the Bank teamed up with *Al-Akhbar* newspaper to initiate "Nes W Finance", a weekly article offering insights and analysis on numerous aspects of economics and personal finance; and the following month, we started sponsoring "Fakker Maliyyan", a two-minute daily program on LBCI Television that familiarizes viewers with key terms and concepts.

Financial literacy is a logical extension of our ongoing Education work, including continuing support for various initiatives at most of Lebanon's schools and universities. In addition, 2015 saw the Bank successfully complete the University Loan Program, a four-year partnership with the AFD, the French government's overseas development agency, that enabled some 1,500 of Lebanon's best and brightest students to attend university by providing low-cost, long-term loans.

CULTURE: KEEPING THE FOCUS ON PHOTOGRAPHY AND HERITAGE

Byblos Bank works on several fronts to celebrate and incubate Lebanon's cultural production, increase awareness of treasures both new and old, and help standout artists to build viable careers.

Our Photography Program continued to fulfill its purpose in 2015, providing support for emerging Lebanese photographers, helping to develop a stronger market for their work, and placing them at the heart of that market. This mission is accomplished by using a variety of channels to promote photography in general, and to shed light on local talents and expose them to the media, gallerists, collectors, and experts in the field. As usual, 2015 featured several high-profile events, including:

- In January and February, the Bank helped bring PhotoMed, a celebrated festival of Mediterranean Photography, to Lebanon for the second year in a row. Byblos Bank Headquarters in Ashrafieh hosted "Mediterraneo", an exhibition by Italian master photographer Mimmo Jodice, giving visitors an opportunity to take in more than 60 black-and-white images produced by a genuine artistic icon. In addition to providing a platform for cultural exchange and offering art aficionados an opportunity to appreciate the works of world-renowned photographers, the Bank's status as PhotoMed's primary partner in Lebanon has enabled us to partner in the development of a special

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Lebanese program for the festival. In 2015, this led to two separate exhibitions featuring rare photographs taken in Lebanon during the late 19th and early 20th centuries, as well as a third event highlighting today's Beirut.

- In March, we sponsored an exhibition and book launch celebrating the 40th anniversary of the Faculty of Fine and Applied Arts at Holy Spirit University of Kaslik (USEK), which introduced Lebanon's first photography curriculum.

- In April, Byblos Bank Headquarters played host again, this time to "Nightshift", an exhibition by the winner of the 2014 Byblos Bank Award for Photography, Myriam Boulos. The event featured candid and striking photographs representing the nocturnal gatherings of Lebanese youth at defunct industrial spaces now repurposed as party zones filled with music and dancing.

- Ms. Boulos' exhibition was accompanied by a roundtable designed to give emerging photographers and photography enthusiasts a better understanding of photography as an art form and as a market. Entitled "From Production to Marketing of Photography", the discussion reviewed the historical development of the medium in Lebanon in order to provide perspective on the situation today and how to improve it.

- In May, the Bank sponsored a photography exhibition at the Saint Coeur School in Bauchrieh. This event featured works by students enrolled in the school's photography course, with the best images being retained as part of the facility's permanent décor. We also sponsored the 2016 calendar that resulted from the same initiative.

- In September, we held the fourth edition of the Byblos Bank Award for Photography in cooperation with Beirut Art Fair at the Beirut International Exhibition and Leisure Center (BIEL). The contest attracted over 1,000 submissions from more than 180 Lebanese photographers, attesting to the Award's rising prestige in the artistic community. In the end the judges awarded the prize to Carmen Yahchouchy for her haunting photographs of wives and mothers posing with guns that once belonged to husbands and sons killed during the Lebanese Civil War. Jury President Dimitri Beck, editor-in-chief of Paris-based *Polka* magazine, described the "touching and intimate series" as "a testimony on the memory and persistence of pain". Like her predecessors, Ms. Yahchouchy received an extensive package of recompenses for her achievement, including expert mentoring from renowned Lebanese photographer Roger Moukarzel and Beirut Art Fair, helping her to prepare for her first solo exhibition, to be held at Byblos Bank Headquarters and promoted with both a targeted media campaign and a personal catalog.

- Throughout the year, we continued to expand the audience for Purple Lens by Byblos Bank, a Facebook page dedicated to generating buzz for our Photography Program by promoting the work of Lebanese photographers, broadening exposure for Byblos Bank Award finalists, and engaging with photography enthusiasts. By end-2015, the page had more than 12,000 fans, signaling the growing public interest that has always been our goal.

Byblos Bank sees shared heritage can as a virtual glue that contributes to societal cohesion, an endless stream of opportunities to highlight Lebanon's rich culture and generate socioeconomic benefits. We therefore place great value in protecting, renovating, and showcasing the surviving monuments to Lebanon's unique history, leading to broader awareness of all the wonders that make our country what it is, what it has been, and what it could be tomorrow. In 2015 we continued to back initiatives on several fronts:

- Byblos Bank helped complete Phase II of the Jbeil Souks Renovation project with a USD 1 million donation that followed its initial USD 2 million grant for Phase I. In addition, we funded the construction of a fitting entrance to the historic city. All of these endeavors are particularly significant because in addition to preserving one of the oldest human settlements in the world, they also address the present and the future by providing an opportunity to accelerate economic activity and giving local residents a better chance to make a living and remain on the land of their ancestors.

- The Bank also sponsored a bilingual guide titled "Tout Savoir Byblos: Everything you ever wanted to know" and written by Camille Asmar and Claude Doumet-Serhal from the Lebanese British Friends of the National Museum. The volume features three suggested itineraries to help tourists and other visitors discover the city's unique cultural treasures, with detailed information on each.

- In addition, we continued to sponsor "Hayda Lebnen", a daily program on LBCI Television that puts the spotlight on Lebanon's immense repertoire of natural wonders and monuments to its storied past.

ENVIRONMENT: REFORESTATION AND REDUCING WASTE

There are few heavier responsibilities than that of the current generation to bequeath a cleaner, greener, and healthier planet to its successors. Byblos Bank embraced this duty early on, and its commitment to environmental protection has only grown over the years. Our contributions in this area include not just active support for worthy partners and projects, but also adoption of policies and practices that increase the sustainability of our own daily business activities:

- Throughout the year, work continued toward completion of the Byblos Bank Shouf Reserve Bio-Corridor, which will join and strengthen two separate ecosystems by revitalizing a relatively barren space between them. This is being accomplished by ensuring that surviving trees have the right conditions in which to recover, and by replacing dead ones with new saplings so that the corridor contains a total of 10,000 Cedars and other species.

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- We also forged ahead with implementation of our Bgreen initiative, a multi-faceted plan to lessen the environmental impact of Byblos Bank Headquarters in Ashrafieh. This process includes specific and measurable actions to conserve energy and water, reduce paper usage, and recycle paper and plastic bottles. The campaign also proved responsive to the garbage-removal crisis that gripped much of Lebanon in 2015: water dispensers were installed on every floor, radically reducing the number of bottles and cups used by employees for drinking water and many other hot and cold drinks.

OTHER ACTIVITIES

- In September, Byblos Bank finished renovating and equipping a building it owns and placed it at the disposition of the Justice Ministry to house the palace of justice in Jbeil. The aim of this endeavor is to facilitate and enhance the work of judicial authorities and public administration, empowering both to better serve the community.

- In May, Byblos Bank lent its support to Child's Week, an annual event organized by the Association for the Protection of Lebanese Children, for the 30th time.

- For the second year in a row, the Bank sponsored a spectacular Byblos Christmas Tree that drew attention from media outlets near and far, including Britain's *Guardian* newspaper, which named it one of the world's most impressive. The 2015 tree was also accompanied by a special mobile phone campaign that allowed visitors to donate USD 1 for every SMS, raising some USD 40,000 for four NGOs: the Society of St. Vincent de Paul, the Lebanese Red Cross, Child Circle, and the Maronite Charity Association of Jbeil.

- During the year, we also participated in fundraising events for a variety of NGOs, helping them to continue their good works in the community.

- In addition, the Bank supported Lebanon's increasingly lively theater scene by seizing opportunities to advertise in the programs that accompany so many plays and other stage productions.

ADVOCACY

FULLY ENGAGED IN SOCIOECONOMIC DISCOURSE

As a responsible institution of systemic importance to the Lebanese economy, Byblos Bank takes very seriously its role as a voice for sustainable policies and practices in the private and public sectors. This means not only making recommendations, but also investing in promising ventures that set positive examples for various business, financial, and political players. As part of this function, in 2015 the Bank once again helped frame important discussions about key issues affecting the overall welfare of Lebanon and its inhabitants.

We continued to call for a restructuring of the electricity sector in order to relieve the Treasury of the annual burden imposed by losses at state utility Electricité du Liban, upgrades for road and other transportation links, and ratification of a draft law on Public-Private Partnerships that would enable the private sector to get more involved in both the financing and the management of infrastructure projects.

The Bank also advocated reforms aimed at increasing the efficiency of public administration, along with other measures to consolidate public finances, including initiatives to fight tax evasion, improve the collection of taxes and other fees, diminish unnecessary spending, reduce waste and corruption, sell off non-performing real estate properties, and freeze recruitment for the civil service.

Looking toward the future, we believe that Lebanon has great potential as a regional hub for startups focused on the knowledge economy, and therefore an opportunity to both refashion the country's image and convince more of its skilled youth to stay in their homeland instead of emigrating. The Bank has translated this belief into action in numerous ways, including contributions to several funds designed to provide capital for promising startups, as well as support for separate efforts by the Central Bank of Lebanon.

CORPORATE GOVERNANCE

GOING BEYOND COMPLIANCE

Robust governance and cautious management have allowed Byblos Bank to fend off numerous local and regional crises in recent years, including continuing instability in much of the MENA region. Rather than responding by relaxing our standards, however, this experience has only reconfirmed our belief in the necessity of world-class governance and compliance measures.

As a result, the Bank continues to run a business model whose core principles include strict adherence with all local and international regulations. This approach includes continuous reassessment of and, as and when necessary, modification to our internal policies and procedures. It also includes specialized training for our employees, keeping them informed of evolving regulatory requirements and the best ways to apply them.

We also put heavy focus on the quality of the information we provide, and on how we communicate that information, especially to our shareholders. Byblos Bank goes to great lengths to ensure that all financial and other material data we provide are accurate, complete, and up to date. Over the years this commitment has earned the Bank an industry-wide reputation for transparency, a vote of confidence that imparts real-world value to all of our customers, investors, employees, business partners, and other stakeholders.

YEAR IN REVIEW

These practices are particularly helpful when it comes to shielding the Bank and its stakeholders against the possible consequences of money laundering, terrorism financing, and other crimes that affect financial institutions. Accordingly, the Byblos Group relies on a full package of measures and controls to prevent it from being exploited, whether by individuals or organizations seeking to defy international sanctions and/or otherwise violate or circumvent relevant laws and regulations. These include purpose-designed organizational policies, rapid implementation of supervisory initiatives, and close monitoring of our internal processes and procedures. In addition, the Bank complies with all Central Bank of Lebanon rules and guidelines regarding the establishment of a compliance function for identifying, monitoring, and reporting suspicious transactions and other activities.

As per Basel Committee recommendations, Financial Action Task Force guidelines, local regulations and international best practice standards, the Group maintains an across-the-board program of compliance policies, procedures and systems to fulfill its commitment to detecting and preventing all forms of money laundering, terrorism financing, sanctions breaching, and other related activities. This program follows strict principles applying to all jurisdictions where the Group has a presence, including:

- Conducting all necessary due diligence before beginning a relationship with a prospective client, including verifying his or her identity, ascertaining the legitimacy of sources of funds, identifying third parties who might actually control the disposition of those funds, understanding the customer's business model, and determining the intended purpose of the business relationship. Under Group policy, under no circumstances do we offer one-time services to "walk-in" customers not maintaining an account with us.

- Prohibiting or restricting the opening of accounts for certain types of relationships, such as shell banks, non-face-to-face customers, money services businesses (MSBs), numbered or bearer accounts, online casinos and other gambling websites, among others.

- Applying a risk-based approach when determining whether to accept or reject the initiation of a business relationship, one that considers factors such as the prospective customer's background, location, nature of business activity, and type(s) of banking products being solicited. The Group strictly denies access to its services whenever due diligence examinations of a customer reveal inconsistency in the facts.

- Conducting enhanced due diligence and increased transaction monitoring for customers believed to pose a higher-than-average risk for money laundering, including, but not limited to, those considered politically or financially exposed.

- Monitoring accounts for changes in transaction patterns that deviate from expected activity or behavior that would be considered normal for that particular customer or category of customers.

- Screening customer data and transaction details against sanctions programs administered by local authorities as well as foreign countries and organizations (such as OFAC, the United Nations, and the European Union, among others) to ensure that individuals, entities, countries, vessels, goods and services associated directly or indirectly with any transaction are in full compliance with those sanctions.

- Reporting to the Group Compliance AML and Regulatory Department on any transaction deemed to be unusual or suspicious, and, as and when appropriate, filing a case with the local authorities.

- Providing all staff with continuous training on anti-money laundering measures and techniques, and ensuring full awareness of the Group's obligations with regard to various sanctions programs.

The Group employs a vigorous oversight regime over its activities to ensure consistent adherence to all elements of its compliance program. This includes assigning a compliance officer to each branch and the presence of a local Compliance Department for each subsidiary, all under the supervision of a Group AML and Legal Compliance Department located at Byblos Bank Headquarters. In addition, the Head of Group Compliance has direct access to senior management, the Board of Directors, and the Central Bank of Lebanon's Special Investigation Commission.

These and other compliance activities stem from an unshakeable belief in stringent governance as the ultimate tool in modern risk management. Accordingly, we use state-of-the art procedures to control different types of risks, for all lines of business, at the individual, portfolio, and aggregate levels. We take great care to protect client information, maintain lofty ethics in all our business dealings, and provide fully transparent risk disclosure to the Board of Directors, senior management, regulators, ratings agencies, and other interested parties.

This belief has long enabled Byblos Bank to deliver solid returns, steadily improve its long-term financial position, and develop a sterling reputation. Having generated so much value with this approach and the self-improvement and other sound practices it encourages, we look forward to relying on the same good habits – and continuous refinements – for decades to come.

BOARD OF DIRECTORS MEMBER PROFILES

DR. FRANÇOIS S. BASSIL

CHAIRMAN OF BYBLOS BANK GROUP

Lebanese, born in 1934. Holder of a PhD in Law from Leuven University in Belgium. Has been working in the banking sector since 1962. Was a co-founder of Byblos Bank S.A.L., which he has helped transform into Lebanon's third-largest bank and where he held the positions of Chairman of the Board of Directors and General Manager from 1979 until July 2015, when he was elected Chairman of Byblos Bank Group. Is also Chairman of the Board of Directors of Byblos Bank Africa. Also sits on the Boards of Byblos Bank Europe, Byblos Bank Syria, and Byblos Bank Armenia. In addition, serves as Chairman of the Board of Directors and General Manager of Byblos Invest Holding Luxembourg. In June 2015 completed a fourth term as Chairman of the Board of the Association of Banks in Lebanon.

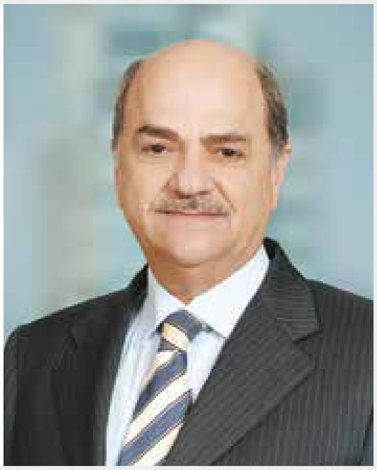
MR. SEMAAN F. BASSIL

CHAIRMAN AND GENERAL MANAGER OF BYBLOS BANK S.A.L.

Lebanese, born in 1965. Holder of a Bachelor's Degree from Boston University in the US and an MBA from Cambridge University in the UK. Has been working in the banking sector since 1990. Has been a Member of the Board of Directors of Byblos Bank S.A.L. since 1992. Was elected Vice-Chairman of the Board and General Manager in 2000 and Chairman and General Manager in July 2015. Also serves as Chairman of the Board of Byblos Bank Syria, Chairman and General Manager of Byblos Invest Bank S.A.L., Vice-Chairman of the Board of Byblos Bank Africa, and Member of the Board of Byblos Bank Europe.

H.E. MR. ARTHUR G. NAZARIAN

DIRECTOR



Lebanese, born in 1951. Holder of a Bachelor's Degree in Textile Engineering from Philadelphia University in the US. Has served as Lebanon's Minister of Energy and Water Resources since 2014, as a Member of the Lebanese Parliament since 2009, and is a former Minister of Tourism and of Environment. Is an entrepreneur at the helm of several companies in Lebanon and the Gulf. Has been a Member of the Board of Directors of Byblos Bank S.A.L. since 2006, and serves as a Member of the Risk, Compliance, Anti-Money-Laundering and Combating the Financing of Terrorism Committee, and of the Human Resources, Compensation, Remuneration, Nomination and Corporate Governance Committee, both of which are affiliated to the Board. Also serves as a Member of the Board of Directors of Byblos Bank Armenia.

BOARD OF DIRECTORS MEMBER PROFILES

BARON DR. GUY L. QUADEN
DIRECTOR

Belgian, born in 1945. Holder of a Master's Degree in Economics from La Sorbonne in France and of a PhD from Liège University in Belgium. Appointed in 1977 as Professor of Economic Policy at Liège University, where he later served as Dean of the Faculty of Economics and Management. Started his career in the banking sector in 1988 when he joined the Board of the National Bank of Belgium (the country's central bank), later serving as Governor (and as a Member of the Governing Council of the European Central Bank) from 1999 until 2011. Has produced numerous economic publications. Received the title of Baron from the King of Belgium and was decorated as an Officer of the Légion d'Honneur by the President of the French Republic. Has been a Member of the Board of Directors of Byblos Bank S.A.L. since 2012. Also sits on the Board of Byblos Bank Europe.

MR. DES S. O'SHEA
DIRECTOR

Irish, born in 1956. Holder of a Bachelor of Commerce Degree from University College Cork in Ireland, and qualified as a Chartered Accountant in 1980. Has been working in the banking industry since 1981, including eight years as Vice President of GE Capital ending in 2011, and is a current or former holder of banking directorships in 10 countries. Has been a Member of the Board of Directors of Byblos Bank S.A.L. since 2014.

MR. YVES R. JACQUOT
DIRECTOR

French, born in 1956. Holder of a BA from the École Supérieure des Sciences Économiques et Commerciales (ESSEC) in France. Has been working in the banking sector since 1980 and has held a variety of senior positions, including Deputy Director General of BRED Banque Populaire in France, and Director General of BRED's COFIBRED investment fund. Currently serves as First Vice President for International Development at National Bank of Canada Group, Deputy Director General of NBC's NATCAN International Investments, and as a member of the boards of ABA Bank in Cambodia and Afrasia Bank in Mauritius. Has been a member of the Board of Directors of Byblos Bank S.A.L. since May 2015 and serves as a member of the Audit Committee affiliated to the Board.

BOARD OF DIRECTORS MEMBER PROFILES

MR. BASSAM A. NASSAR
DIRECTOR

Lebanese, born in 1965. Pursued his higher studies at both the London School of Economics in the UK and Harvard Business School in the US. Is an entrepreneur with major holdings in a number of private companies in Nigeria. Has been a Member of the Board of Directors of Byblos Bank S.A.L. since 1992, and serves as a Member of the Audit Committee and the Human Resources, Compensation, Remuneration, Nomination and Corporate Governance Committee, both of which are affiliated to the Board. Also serves as Chairman of the Board of Byblos Bank Europe and as a Member of the Board of Byblos Invest Holding Luxembourg.

MR. ALAIN C. TOHMÉ
DIRECTOR

Lebanese, born in 1962. Holder of a Bachelor of Commerce Degree from University College Cork in Ireland and an MBA from Boston College in the US. Started working in the banking industry when he joined Byblos Bank Europe in 1985 before moving in 1997 to Byblos Bank S.A.L., where he assumed several positions, the most recent having been Deputy General Manager, until 2011. Has been a Member of the Board of Directors of Byblos Bank S.A.L. since 2011 and serves as Chairman of the Audit Committee and Member of the Human Resources, Compensation, Remuneration, Nomination and Corporate Governance Committee, both of which are affiliated to the Board. Is also Chairman of the Board of Byblos Bank Armenia, Vice-Chairman of the Board of Byblos Bank Syria, a Member of the Board of Byblos Bank RDC, and a Member of the Board of Byblos Invest Bank S.A.L.

DR. HENRY T. AZZAM
DIRECTOR

Lebanese, born in 1949. Holder of a PhD in Economics from the University of Southern California in the US. Has been working in the financial sector since 1981. Has assumed key positions with major financial companies in Lebanon and other parts of the Arab world, including Deutsche Bank Dubai. Is well-versed in the money and banking markets and has issued publications and articles revolving around the financial world. Has been a Member of the Board of Directors of Byblos Bank S.A.L. since 2012.

BOARD OF DIRECTORS MEMBER PROFILES

MR. AHMAD T. TABBARA

DIRECTOR

Lebanese, born in 1940. Holder of a Bachelor's Degree from the American University of Beirut. Worked as a consultant to former Prime Minister Salim el Hoss. Is an entrepreneur with shares in a number of family businesses and social initiatives, including the Toufic Tabbara Cultural Center. Has been a Member of the Board of Directors of Byblos Bank S.A.L. since 1999. Also serves as a Member of the Risk, Compliance, Anti-Money Laundering and Combating the Financing of Terrorism Committee affiliated to the Board.

MR. FAISAL M. ALI EL TABSH

DIRECTOR

Lebanese, born in 1948. Holder of a Master's Degree in Geology from the American University of Beirut. Is an entrepreneur and owner of M.A. Tabsh Company in Saudi Arabia. Has been a Member of the Board of Directors of Byblos Bank S.A.L. since 2000. Is also a Member of the Board of Byblos Invest Holding Luxembourg and Vice-Chairman of the Board of Byblos Bank Europe.

BOARD OF DIRECTORS COMMITTEES

AUDIT COMMITTEE

Chairman	Mr. Alain C. Tohmé
Members	Mr. Yves R. Jacquot
	Mr. Bassam A. Nassar

RISK, COMPLIANCE, ANTI-MONEY-LAUNDERING AND COMBATING THE FINANCING OF TERRORISM COMMITTEE

Chairman	Mr. Des S. O'Shea
Members	H.E. Mr. Arthur G. Nazarian
	Mr. Ahmad T. Tabbara

HUMAN RESOURCES, COMPENSATION, REMUNERATION, NOMINATION AND CORPORATE GOVERNANCE COMMITTEE

Chairman	Mr. Alain C. Tohmé
Members	H.E. Mr. Arthur G. Nazarian
	Mr. Bassam A. Nassar

MANAGEMENT COMMITTEES

EXECUTIVE COMMITTEE

President	François S. Bassil[1]	Chairman of Byblos Bank Group
Vice President	Semaan F. Bassil[2]	Chairman and General Manager
Members	Joumana Chelala	DGM[3], Head of Group Consumer Banking Division
	Marwan Moharram	DGM, Head of Group Risk Management Division
	Fadi Nassar	DGM, Head of Group Commercial Banking Division
	Alain Wanna	DGM, Head of Group Financial Markets and Financial Institutions Division

CENTRAL CREDIT COMMITTEE

President	Semaan F. Bassil	Chairman and General Manager
Vice President	Marwan Moharram	DGM, Head of Group Risk Management Division
Members	Joumana Chelala	DGM, Head of Group Consumer Banking Division
	Fadi Nassar	DGM, Head of Group Commercial Banking Division
	Alain Wanna	DGM, Head of Group Financial Markets and Financial Institutions Division
	Fouad Ferneiné	Head of Corporate Banking Department

INTERNAL AUDIT MANAGEMENT COMMITTEE

President	Fadi Abou Abdallah	Head of Group Internal Audit Division
Vice President	Marwan Moharram	DGM, Head of Group Risk Management Division
Members	Semaan F. Bassil	Chairman and General Manager
	Joumana Chelala	DGM, Head of Group Consumer Banking Division
	Joseph Nasr	AGM[4], Head of Distribution Network Division
	Ziad El Zoghbi	Head of Group Finance and Administration Division

ASSETS AND LIABILITIES COMMITTEE

President	Alain Wanna	DGM, Head of Group Financial Markets and Financial Institutions Division
Vice President	Fadi Nassar	DGM, Head of Group Commercial Banking Division
Members	Semaan F. Bassil	Chairman and General Manager
	Joumana Chelala	DGM, Head of Group Consumer Banking Division
	Marwan Moharram	DGM, Head of Group Risk Management Division
	Ziad El Zoghbi	Head of Group Finance and Administration Division

BANKING TECHNOLOGY COMMITTEE

President	Raffoul Raffoul	AGM, Head of Group Organization Development, Information Systems and Operational Support Division
Vice President	Ziad El Zoghbi	Head of Group Finance and Administration Division
Members	Semaan F. Bassil	Chairman and General Manager
	Joumana Chelala	DGM, Head of Group Consumer Banking Division
	Marwan Moharram	DGM, Head of Group Risk Management Division
	Fadi Nassar	DGM, Head of Group Commercial Banking Division
	Walid Kazan	AGM, Head of International Network Division
	Elie Bassil	Head of Group Banking Technology Division

[1] *Dr. François S. Bassil was elected Chairman of Byblos Bank Group on 25 July 2015.*
[2] *Mr. Semaan F. Bassil was elected Chairman and General Manager of Byblos Bank S.A.L. on 25 July 2015.*
[3] *DGM – Deputy General Manager.* [4] *AGM – Assistant General Manager.*

MANAGEMENT COMMITTEES

HUMAN RESOURCES COMMITTEE

President	Semaan F. Bassil	Chairman and General Manager
Vice President	Fadi Hayek	Head of Group Human Resources Division
Members	Joumana Chelala	DGM, Head of Group Consumer Banking Division
	Marwan Moharram	DGM, Head of Group Risk Management Division
	Fadi Nassar	DGM, Head of Group Commercial Banking Division
	Alain Wanna	DGM, Head of Group Financial Markets and Financial Institutions Division
	Raffoul Raffoul	AGM, Head of Group Organization Development, Information Systems and Operational Support Division

RISK MANAGEMENT COMMITTEE

President	Marwan Moharram	DGM, Head of Group Risk Management Division
Vice President	Alain Wanna	DGM, Head of Group Financial Markets and Financial Institutions Division
Members	Semaan F. Bassil	Chairman and General Manager
	Joumana Chelala	DGM, Head of Group Consumer Banking Division
	Fadi Nassar	DGM, Head of Group Commercial Banking Division
	Ziad El Zoghbi	Head of Group Finance and Administration Division
	Pascale Maksoud Dahrouge	Head of Group Financial and Operational Risk Management Department

INTERNATIONAL COMMITTEE

President	Semaan F. Bassil	Chairman and General Manager
Vice President	Alain Wanna	DGM, Head of Group Financial Markets and Financial Institutions Division
Members	Joumana Chelala	DGM, Head of Group Consumer Banking Division
	Marwan Moharram	DGM, Head of Group Risk Management Division
	Fadi Nassar	DGM, Head of Group Commercial Banking Division
	Walid Kazan	AGM, Head of International Network Division
	Raffoul Raffoul	AGM, Head of Group Organization Development, Information Systems and Operational Support Division
	Gilbert Zouein	AGM, Head of Group Products, Segments and Marketing Division
	Ziad El Zoghbi	Head of Group Finance and Administration Division

COMPLIANCE AND ANTI-MONEY-LAUNDERING COMMITTEE

President	Marwan Moharram	DGM, Head of Group Risk Management Division
Vice President	Joumana Chelala	DGM, Head of Consumer Banking Division
Members	Semaan F. Bassil	Chairman and General Manager
	Alain Wanna	DGM, Head of Group Financial Markets and Financial Institutions Division
	Walid Kazan	AGM, Head of International Network Division
	Joseph Nasr	AGM, Head of Distribution Network Division
	Fadi Abou Abdallah	Head of Group Internal Audit Division
	Paul Chammas	Head of Group Operations Division
	Sharif Hachem	Head of Group Anti-Money-Laundering and Regulatory Compliance Department

MANAGEMENT COMMITTEES

LOAN RECOVERY COMMITTEE

President	Marwan Moharram	DGM, Head of Group Risk Management Division
Vice President	Fadi Nassar	DGM, Head of Group Commercial Banking Division
Members	Semaan F. Bassil	Chairman and General Manager
	Joumana Chelala	DGM, Head of Group Consumer Banking Division
	Samir Hélou	Head of Loan Recovery Department

OPERATIONAL RISK COMMITTEE

President	Marwan Moharram	DGM, Head of Group Risk Management Division
Vice President	Raffoul Raffoul	Head of Group Organization Development, Information Systems and Operational Support Division
Members	Semaan F. Bassil	Chairman and General Manager
	Joumana Chelala	DGM, Head of Group Consumer Banking Division
	Joseph Nasr	AGM, Head of Distribution Network Division
	Paul Chammas	Head of Group Operations Division
	Ziad El Zoghbi	Head of Group Finance and Administration Division
	Pascale Maksoud Dahrouge	Head of Group Financial and Operational Risk Management Department

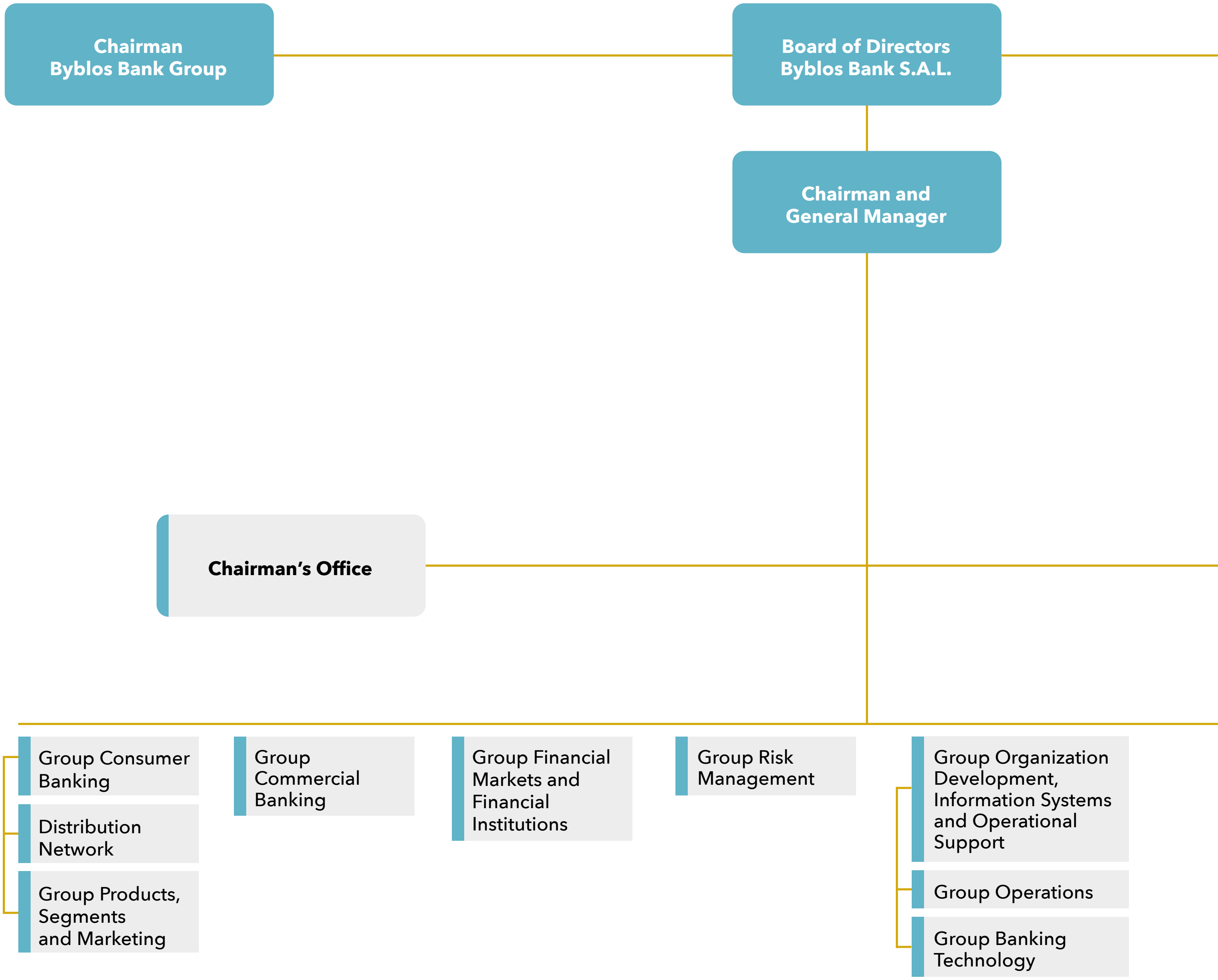
INFORMATION SECURITY COMMITTEE

President	Raffoul Raffoul	Head of Group Organization Development, Information Systems and Operational Support Division
Vice President	Marwan Moharram	DGM, Head of Group Risk Management Division
Members	Semaan F. Bassil	Chairman and General Manager
	Joumana Chelala	DGM, Head of Group Consumer Banking Division
	Fadi Nassar	DGM, Head of Group Commercial Banking Division
	Walid Kazan	AGM, Head of International Network Division
	Elie Bassil	Head of Group Banking Technology Division
	Ziad El Zoghbi	Head of Group Finance and Administration Division

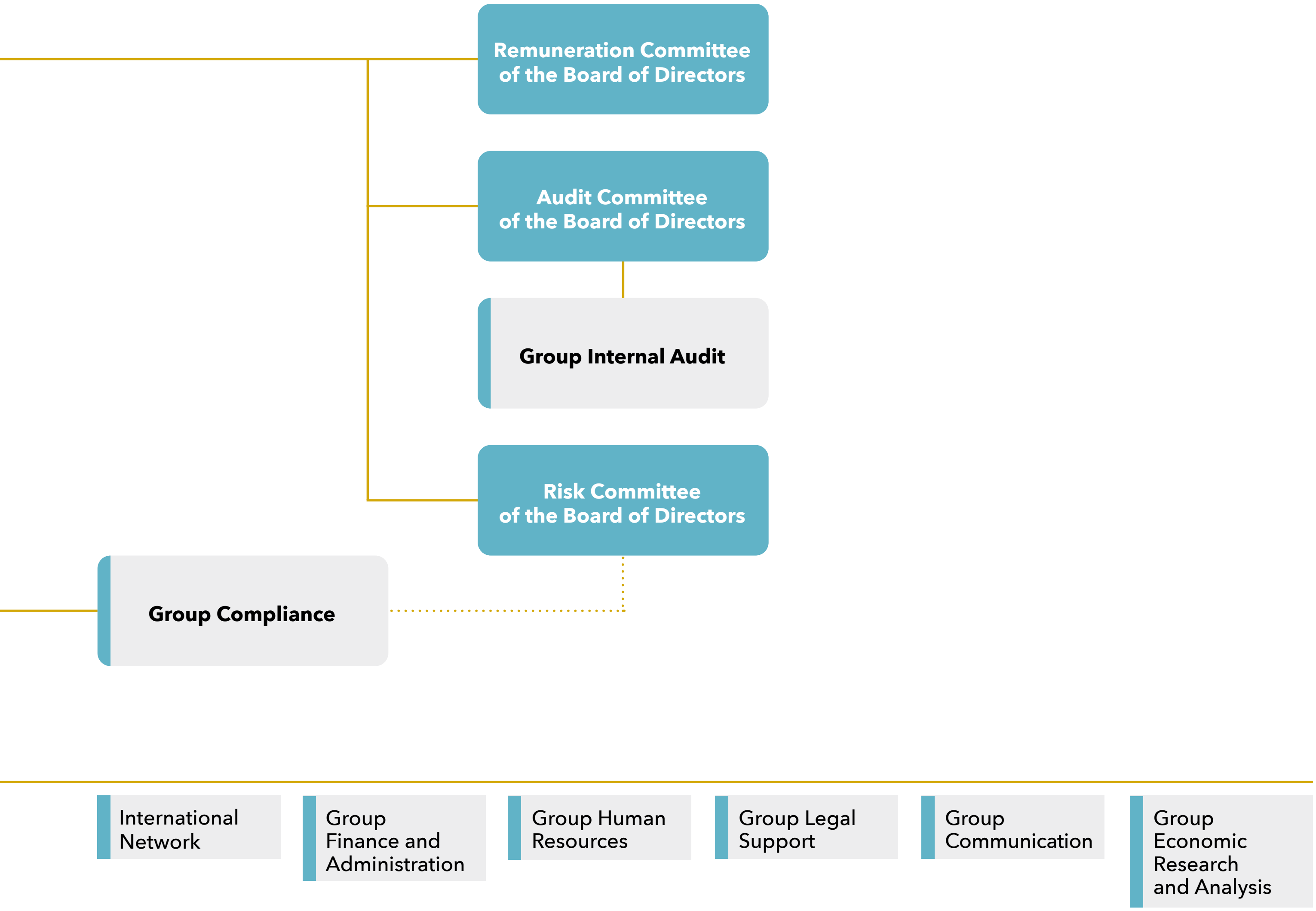
PURCHASING COMMITTEE

President	Ziad El Zoghbi	Head of Group Finance and Administration Division
Vice President	Joumana Chelala	DGM, Head of Group Consumer Banking Division
Members	Semaan F. Bassil	Chairman and General Manager
	Raffoul Raffoul	AGM, Head of Group Organization Development, Information Systems and Operational Support Division
	Antoine Keldany	Head of Administration Department

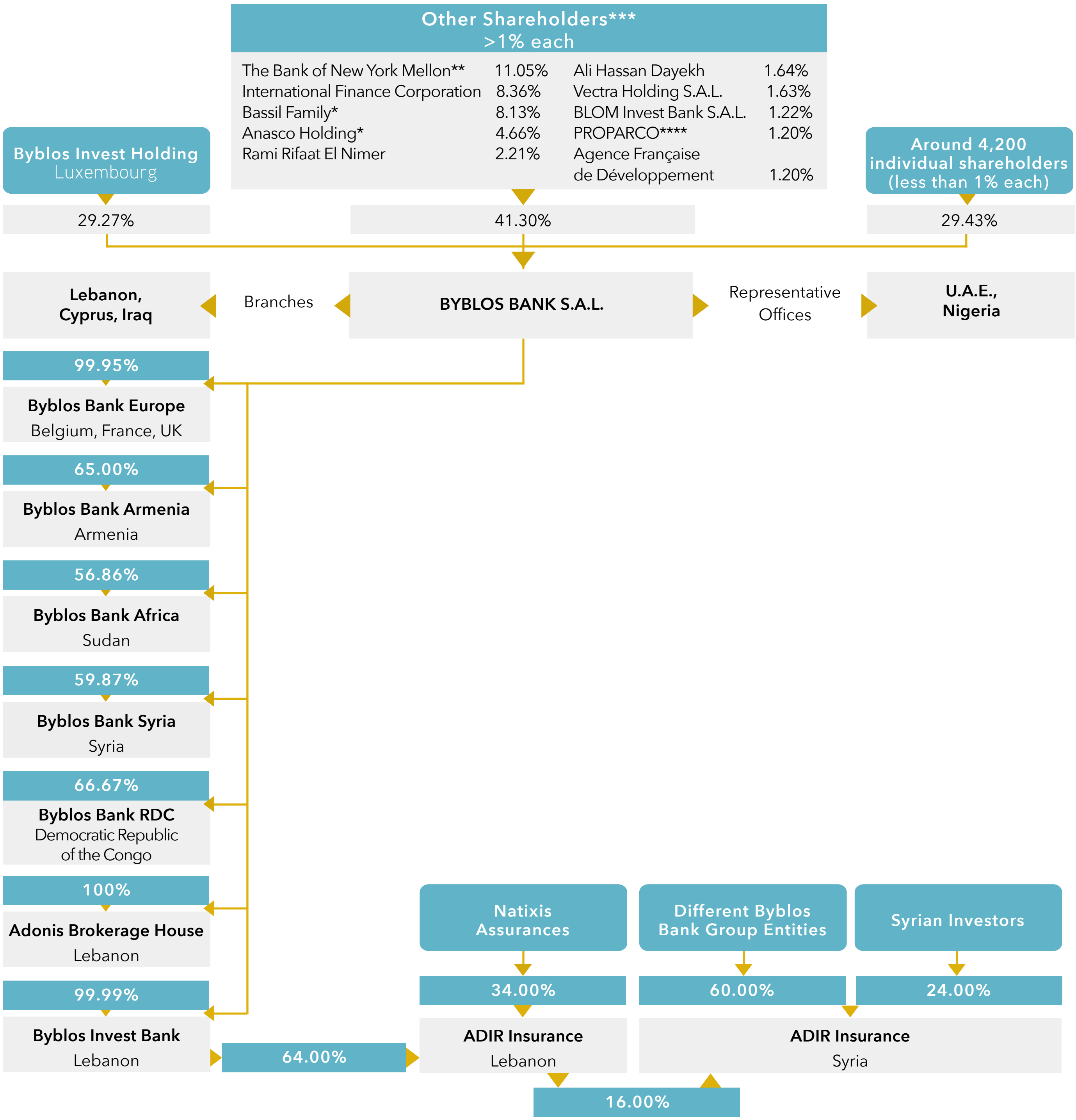
ORGANIZATIONAL CHART



ORGANIZATIONAL CHART



GROUP CHART



** Major shareholders in Byblos Invest Holding.*

*** The Bank of New York Mellon is the depository bank for the GDR program.*

**** Including preferred shares, as at 31 December 2015.*

***** Société de Promotion et de Participation pour la Coopération Economique.*

PERFORMANCE REVIEW

KEY FINANCIAL DATA

	2006	2007	2008
Total assets	8,190	9,486	11,230
Customers' deposits	6,276	7,262	8,363
Net advances to customers	1,750	2,233	2,790
Cash and due from banks (1)	3,234	3,884	4,708
Total equity	752	984	1,270
Net book value (2)	580	613	699
Net income	78.7	99.2	122.0
Number of domestic branches	73	73	76
Number of foreign branches and subsidiaries (3)	9	16	17
Number of ATMs	85	109	114
Number of employees	1,766	2,101	2,362
Market Shares (4)			
Market share in assets	9.30%	9.67%	9.88%
Market share in net advances to customers	8.35%	8.78%	8.71%
Market share in customers' deposits	9.42%	9.55%	9.48%
Share Data			
Book value per share in USD (5)	1.41	1.49	1.65
Earnings per common share in USD (5)	0.14	0.18	0.21
Earnings per priority share in USD (5)	0.17	0.22	0.24
Net dividend per common share in USD (6)	0.10	0.10	0.10
Net dividend per priority share in USD (6) (7)	0.13	0.13	0.13
Dividend payout ratio	78.32%	62.17%	57.10%
Profitability			
Return on average assets	1.00%	1.12%	1.18%
Return on average common equity	11.37%	13.84%	14.56%
Leverage multiplier	11.37	12.41	10.46
Interest on earning assets	7.16%	7.29%	6.97%
Funding cost	5.66%	5.64%	4.99%
Net interest spread	1.49%	1.65%	1.98%
Net interest margin	2.00%	2.10%	2.39%
Cost-to-income	53.41%	51.81%	47.38%
Operating expenses to average assets	1.42%	1.49%	1.77%
Capital Adequacy			
Capital to assets	9.18%	10.37%	11.31%
Capital adequacy (8)	20.17%	11.23%	12.61%
Liquidity			
Net advances to customers/total assets	21.36%	23.54%	24.85%
Net advances to customers/customers' deposits	27.88%	30.75%	33.37%
Customers' deposits/total resources	76.63%	76.56%	74.47%
Liquid assets	74.00%	71.63%	70.69%
Assets Quality			
Loan loss provisions (9)/customers' loans	8.73%	5.40%	4.19%
Non-performing loans/customers' loans	8.14%	4.66%	3.36%
Loan loss provision (9)/non-performing loans	100.88%	107.51%	115.64%

(1) Includes CDs issued by the Central Bank.
(2) Excludes subordinated loans.
(3) Includes branches of Byblos Bank Europe; Byblos Bank Africa; Byblos Bank Syria; Byblos Bank Armenia; Byblos Bank RDC; and Branches of Byblos Bank S.A.L. in Baghdad, Basra, Erbil, Sulaymaniyah in Iraq; and in Limassol in Cyprus.
(4) Market Share is based on all commercial and investment banks operating in Lebanon.
(5) Based on the number of shares outstanding at the end of the period.

Year ended 31 December (in USD million, except for per share data)

KEY FINANCIAL DATA

2009	2010	2011	2012	2013	2014	2015
13,576	15,288	16,602	17,015	18,485	19,035	19,870
10,286	11,927	12,820	13,384	14,749	15,715	16,637
3,197	3,771	4,008	4,120	4,511	4,728	4,932
6,179	7,802	9,001	8,917	9,298	9,468	10,141
1,494	1,831	1,852	1,926	1,922	1,963	1,991
827	1,124	1,148	1,181	1,204	1,246	1,271
145.6	177.7	179.7	167.3	156.2	175.5	161.5
75	77	78	77	76	78	80
19	23	24	25	25	24	25
133	149	165	168	186	203	219
2,433	2,719	2,716	2,572	2,526	2,531	2,544
9.80%	9.97%	10.27%	9.91%	10.00%	9.90%	9.88%
8.51%	8.05%	8.00%	8.15%	8.43%	8.27%	8.19%
9.41%	9.51%	9.66%	9.59%	9.89%	10.01%	10.15%
1.95	1.99	2.03	2.09	2.13	2.20	2.25
0.26	0.27	0.25	0.23	0.21	0.24	0.21
0.29	0.30					
0.13	0.13	0.13	0.13	0.13	0.13	0.13
0.16	0.16					
58.71%	63.80%	59.62%	64.04%	68.61%	61.07%	66.36%
1.17%	1.23%	1.13%	1.00%	0.88%	0.94%	0.83%
15.00%	14.03%	12.29%	11.28%	9.80%	11.07%	9.42%
10.48	9.38	10.07	10.29	11.21	11.28	11.59
6.38%	5.84%	5.50%	5.25%	5.08%	5.19%	5.27%
4.65%	4.21%	4.00%	3.98%	4.04%	4.19%	4.21%
1.73%	1.63%	1.49%	1.27%	1.04%	1.00%	1.05%
2.17%	2.04%	1.88%	1.64%	1.40%	1.36%	1.40%
46.28%	45.54%	43.65%	45.89%	46.24%	46.56%	46.84%
1.42%	1.47%	1.29%	1.28%	1.18%	1.15%	1.17%
11.01%	11.97%	11.16%	11.32%	10.40%	10.31%	10.02%
12.62%	14.75%	14.60%	16.74%	16.04%	16.65%	17.69%
23.55%	24.67%	24.14%	24.21%	24.40%	24.84%	24.82%
31.08%	31.62%	31.26%	30.78%	30.59%	30.08%	29.64%
75.77%	78.01%	77.22%	78.66%	79.79%	82.56%	83.73%
72.42%	71.85%	72.48%	72.56%	72.16%	72.29%	72.54%
3.64%	3.45%	4.04%	5.30%	5.82%	6.11%	5.01%
2.63%	2.38%	3.02%	5.28%	4.85%	5.05%	4.56%
134.10%	144.46%	132.77%	99.62%	119.77%	120.67%	109.73%

(6) Net of income tax (5%).
(7) Representing annual distribution for priority shares calculated at 4% of the nominal value in addition to dividend declared for common shares, noting that as of May 2011, priority shares were converted into common shares.

(8) Capital adequacy is calculated based on Basel II as of December 2007 and Basel III as of December 2011.
(9) Includes specific and collective provisions, as well as reserved interest.

BYBLOS BANK S.A.L. ANNUAL REPORT 2015

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW OF THE BANK

Byblos Bank is one of the leading banks in Lebanon, providing a full range of banking services through its extensive branch network. Through its overseas banking and other subsidiaries, the Bank also conducts a wide range of commercial banking and other financial activities in Europe and the Middle East and North Africa (MENA) region. As at 31 December 2015, the Bank had 2,544 employees, 80 branches in Lebanon, one branch in Limassol, Cyprus, and four in Iraq (Erbil, Baghdad, Basra and Sulaymaniyah). As at the same date, Byblos Bank Europe S.A., the Bank's 99.95% owned subsidiary, had its main branch in Brussels, one branch in London, and another in Paris; Byblos Bank Africa, the Bank's 56.86% owned subsidiary, had one branch in Khartoum; Byblos Bank Syria S.A., the Bank's 59.87% owned subsidiary, had four branches in Damascus (Abou Roummaneh, Mazzeh, Hosh Blass, and Abbassiyeen), and one branch in each of Aleppo, Homs, Lattakia, Tartous, Hama, and Swaidaa. Byblos Bank Armenia C.J.S.C., the Bank's 65% owned subsidiary, had three branches in Yerevan (Amiryan, Malatia and Komitas). Byblos Bank RDC S.A.R.L., the Bank's 66.67% owned subsidiary, had one branch in Kinshasa-Gombe, Democratic Republic of the Congo. The Bank also has a representative office in Abu Dhabi, United Arab Emirates, and another in Lagos, Nigeria, both of which are aimed at better servicing of the Lebanese Diaspora.

The following analysis covers the performance of the Bank during the fiscal year 2015 with a comparative with the previous years where the data are extracted from the consolidated audited financial statements of the Bank. Data for the sector are extracted from either the Banque du Liban (BDL) quarterly bulletin, or the Alpha Group report, which consists of banks having total deposits greater than USD 2 billion. The analysis starts with a detailed analysis of the Bank's growth, profitability, asset quality, credit risk, dividend distribution and finally an overview of the Bank's ratings.

GROWTH

ASSETS

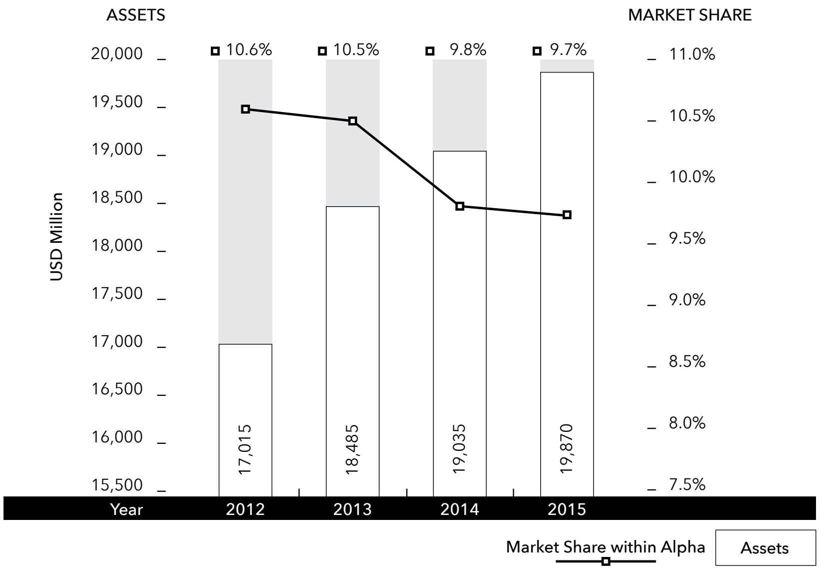
Total assets of the Bank recorded an increase of 4.4% during the year 2015 to reach LBP 29,954 billion (USD 19,870 million) at the end of December 2015 compared to an increase of 3.0% during the year 2014, and compared to an increase of 4.8% in the Alpha Group of top Lebanese banks. Consequently, the Bank's market share in the Alpha Group by total assets stood at 9.75% at the end of 31 December 2015 compared to 9.79% at the end of 31 December 2014.

During the period between 31 December 2012 and 31 December 2015, total assets of the Bank grew at an average annual compounded rate of 5.3% compared to growth of 8.4% in the Alpha Group, and which was reflected in the Bank's market share by total assets, which decreased from 10.62% at the end of December 2012 to 9.75% at the end of December 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

The bar-chart below shows the evolution of total assets and market share during the last four years:

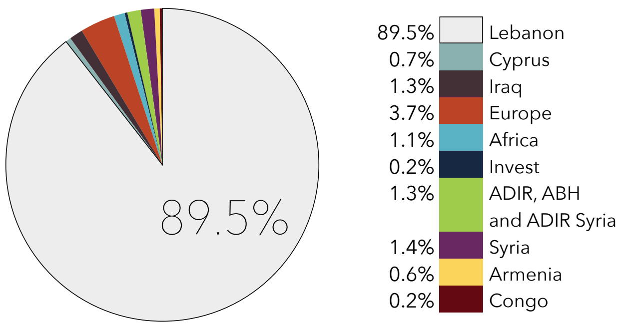
Evolution of Total Assets During the Last Four Years



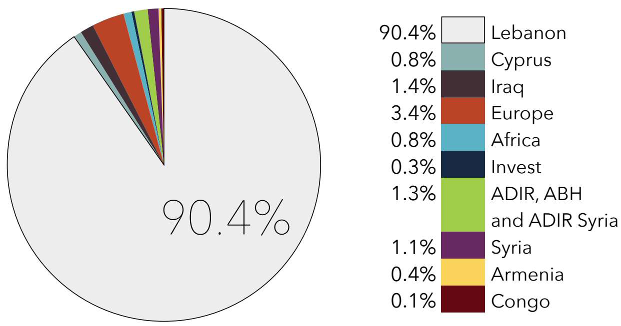
ASSET SPLIT IN THE GROUP

The following pie charts show the breakdown of assets in the Byblos Bank Group as at 31 December 2014 and 31 December 2015:

Asset Split in Group 2014



Asset Split in Group 2015



As illustrated above, total assets of international subsidiary banks and branches represented 9.6% of total assets as at 31 December 2015, lower than 10.5% at the end of the previous year.

MANAGEMENT DISCUSSION AND ANALYSIS

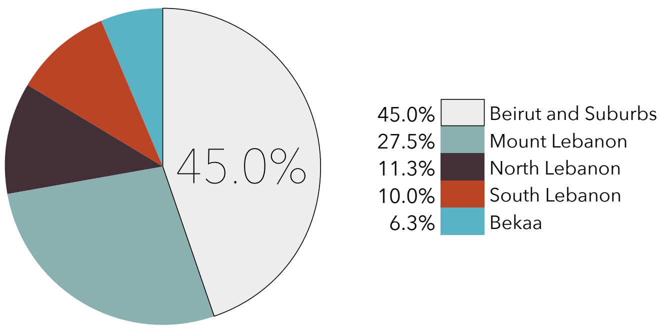
Geographical Distribution of Branches

Byblos Bank's branch network reached 80 branches inside Lebanon at the end of 2015, representing 7.7% of total branches in the Lebanese banking sector. Byblos Bank's branch presence is more concentrated in rural areas as compared to the distribution in the sector as a whole. Byblos Bank branches located in Mount Lebanon, numbering 22, represented 27.5% of total Byblos Bank branches at the end of December 2015 compared to just 19.2% in the Lebanese banking sector, and represented 11.1% of total branches in the Lebanese banking sector operating in Mount Lebanon. On the other hand, branches located in Beirut and its suburbs, 36 branches, represented 45% of total Byblos Bank branches at the end of December 2015 compared to 53.7% in the Lebanese banking sector, and represented 6.5% of total branches operating in Beirut and its suburbs.

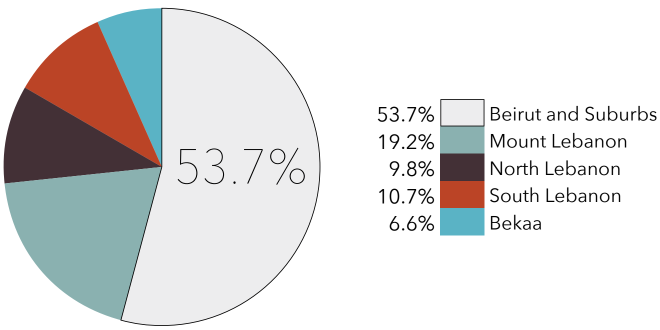
The nine branches located in the North of Lebanon represented 11.3% of total Byblos Bank branches compared to 9.8% in the Lebanese banking sector, and represented 8.9% of total branches of the Lebanese banking sector operating in North Lebanon. In South Lebanon (eight branches) and the Bekaa Valley (five branches), Byblos Bank's presence was almost identical to the Lebanese banking sector, with Byblos Bank branches located in the South and the Bekaa representing 10.0% and 6.3% of total Byblos Bank branches, respectively, compared to 10.7% and 6.6%, respectively, in the Lebanese banking sector.

The pie charts below show the geographical distribution of Byblos Bank branches in Lebanon as compared to the Lebanese banking sector as at 31 December 2015:

Branches distribution (Byblos Bank Dec. 2015)



Branches distribution (Sector Dec. 2015)

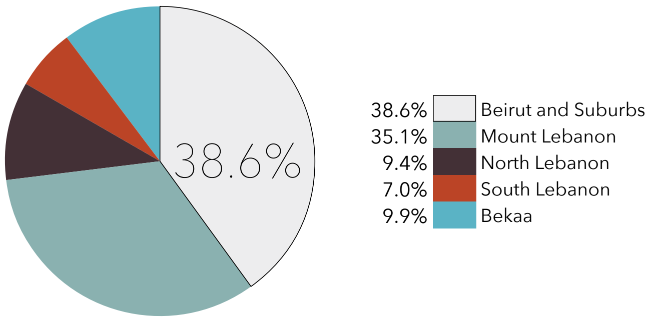


MANAGEMENT DISCUSSION AND ANALYSIS

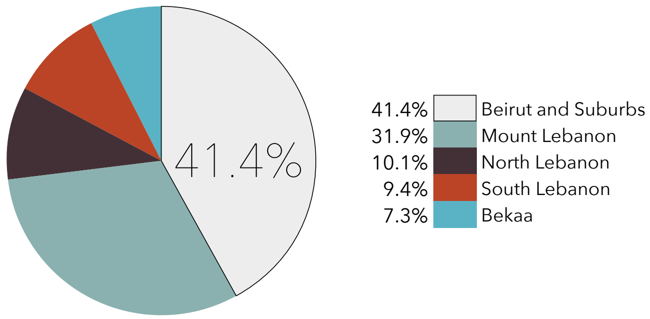
At the end of 2015, the Byblos Bank Group's presence abroad consisted of Cyprus; Erbil, Baghdad, Basra and Sulaymaniyah in Iraq (branches of Byblos Bank S.A.L.); Brussels, London, and Paris through our subsidiary Byblos Bank Europe S.A.; Khartoum through our subsidiary Byblos Bank Africa (Sudan); Abou Roummaneh, Aleppo, Homs, Lattakia, Mazzeh, Tartous, Hama, Abbassiyeen, Hosh Blass and Swaidaa through our subsidiary Byblos Bank Syria S.A.; Malatia, Amiryan and Komitas through our subsidiary Byblos Bank Armenia C.J.S.C.; and Kinshasa-Gombe through our subsidiary Byblos Bank RDC S.A.R.L.

Geographical Distribution of Automated Teller Machines (ATMs)

Geographical Distribution of ATMs (Byblos Bank Dec. 2015)



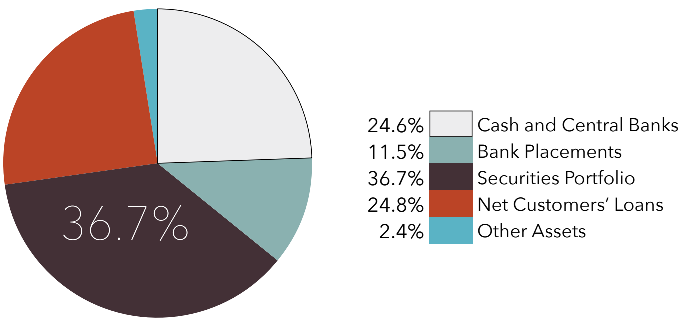
Geographical Distribution of ATMs (Sector Dec. 2015)



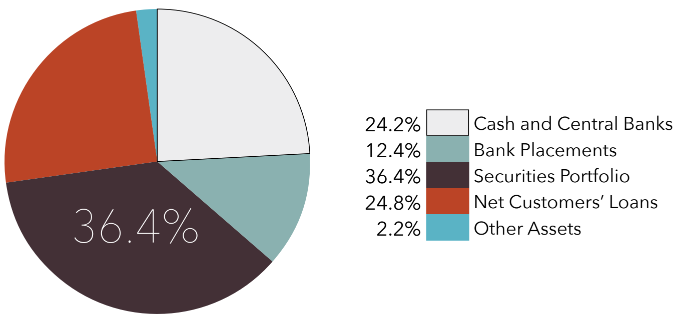
ASSET BREAKDOWN

The graphs below show the composition of the Bank's assets as at 31 December 2014 and 31 December 2015:

Breakdown of Assets 2014



Breakdown of Assets 2015



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL INSTRUMENTS PORTFOLIO

The Bank's investment portfolio includes Lebanese Treasury bills and other governmental bills, Central Bank certificates of deposit, certificates of deposit issued by banks and financial institutions, bonds and financial instruments with fixed income, and marketable securities and financial instruments with variable income.

The following table sets forth the breakdown of the Bank's securities portfolio by type of instrument and currency as at 31 December 2013, 2014 and 2015:

As at 31 December	2013		2014		2015	
	LBP Million	%	LBP Million	%	LBP Million	%
Lebanese and other governmental treasury bills and bonds						
Lebanese treasury bills in LBP	2,624,259	25.1	3,237,470	30.8	3,825,509	35.0
Lebanese and other governmental bonds in foreign currencies	2,802,672	26.8	2,692,128	25.6	2,380,578	21.8
Bonds and financial assets with fixed income						
Corporate bonds	635,339	6.1	509,044	4.8	236,677	2.2
Corporate certificates of deposit in foreign currencies	33,102	0.3	33,147	0.3	33,187	0.3
Central Bank certificates of deposit in LBP and foreign currencies	4,239,371	40.6	3,916,550	37.2	4,302,143	39.4
Shares, securities and financial assets with variable income in LBP and foreign currencies	119,859	1.1	134,660	1.3	137,576	1.3
Collective Provisions	(5,062)	0.0	(1,574)	0.0	0	0.0
Total	**10,449,540**	**100**	**10,521,425**	**100**	**10,915,671**	**100**

The Bank's portfolio of securities is classified as follows:

Investments by Classification

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

- DEBT INSTRUMENTS AT AMORTIZED COST
  Debt instruments are subsequently measured at amortized cost less any impairment loss (except for debt instruments that are designated at fair value through profit or loss upon initial recognition) if they meet the following two conditions:
  1. The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
  2. 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.

- DEBT INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS
  Included in this category are those debt instruments that do not meet the conditions in "*Debt instruments at amortized cost*" above, and debt instruments designated at fair value through profit or loss upon initial recognition.

- 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 (OCI).

- EQUITY INSTRUMENTS 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.

The following tables set forth a breakdown of the Bank's investment securities portfolio, by classification, as at 31 December 2013, 2014 and 2015:

As at 31 December 2013 LBP Million	Equity instruments at fair value through profit or loss	Debt instruments at fair value through profit or loss	Debt instruments at amortized cost	Equity instruments at fair value through OCI	Accrued interest	Total
Central Bank certificates of deposit		323	4,159,115		79,932	4,239,371
Lebanese and other governmental treasury bills and bonds		104,024	5,252,133		70,773	5,426,931
Bonds and financial assets with fixed income		19,066	608,696		7,577	635,339
Shares, securities and financial instruments with variable income	32,964			86,895		119,859
Corporate certificate of deposit			33,013		88	33,102
Collective Provisions			(5,062)			(5,062)
Total by category	**32,964**	**123,414**	**10,047,896**	**86,895**	**158,371**	**10,449,540**

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2014 LBP Million	Equity instruments at fair value through profit or loss	Debt instruments at fair value through profit or loss	Debt instruments at amortized cost	Equity instruments at fair value through OCI	Accrued interest	Total
Central Bank certificates of deposit		3,085	3,849,688		63,777	3,916,550
Lebanese and other governmental treasury bills and bonds		112,826	5,742,380		74,392	5,929,598
Bonds and financial assets with fixed income		2,057	501,212		5,776	509,044
Shares, securities and financial instruments with variable income	35,942			98,718		134,660
Corporate certificates of deposit			33,059		88	33,147
Collective Provisions			(1,574)			(1,574)
Total by category	**35,942**	**117,968**	**10,124,765**	**98,718**	**144,033**	**10,521,425**

As at 31 December 2015 LBP Million	Equity instruments at fair value through profit or loss	Debt instruments at fair value through profit or loss	Debt instruments at amortized cost	Equity instruments at fair value through OCI	Accrued interest	Total
Central Bank certificates of deposit		26,796	4,195,030		80,317	4,302,143
Lebanese and other governmental treasury bills and bonds		223,685	5,903,214		79,189	6,206,088
Bonds and financial assets with fixed income		5,428	228,771		2,478	236,677
Shares, securities and financial instruments with variable income	35,669			101,906		137,576
Corporate certificate of deposit			33,099		87	33,187
Collective Provisions						-
Total by category	**35,669**	**255,909**	**10,360,115**	**101,906**	**162,071**	**10,915,671**

As per the table above, 94.9% of the financial instruments are classified under debt instruments at amortized cost. Lebanese and other governmental treasury bills and bonds (in both LBP and foreign currencies) increased slightly, as a percentage of the Bank's total securities portfolio, to 56.9% as at 31 December 2015, compared to 56.4% as at 31 December 2014 and 51.9% as at 31 December 2013. Investments in Central Bank certificates of deposit (in both LBP and foreign currencies) represented 39.4% of the Bank's portfolio as at 31 December 2015, as compared to 37.2% as at 31 December 2014 and 40.6% as at 31 December 2013. Corporate bonds represented 2.2% of the total portfolio as at 31 December 2015 compared to 4.8% as at 31 December 2014 and 6.1% as at 31 December 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

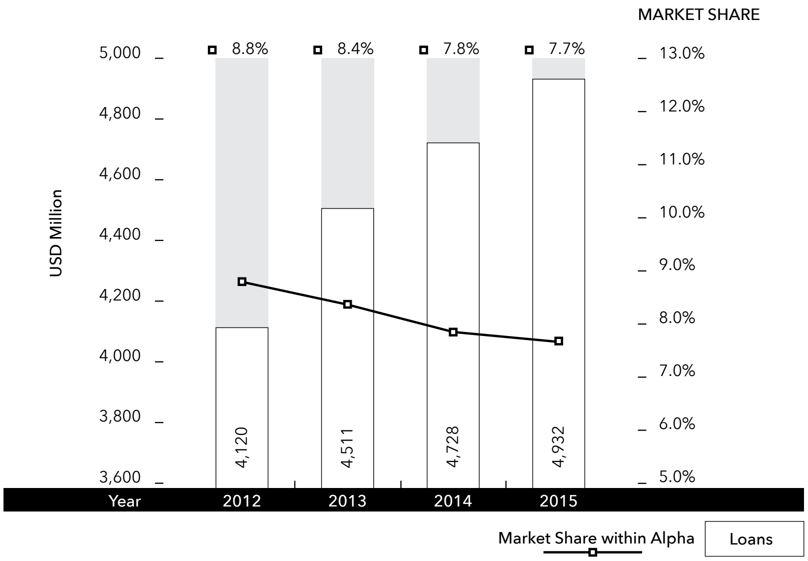
CUSTOMERS' LOANS

Customers' loans net of provisions (specific and collective) on doubtful loans and reserved interest on substandard and doubtful loans grew by 4.3% during the year 2015 to reach LBP 7,435 billion (USD 4,932 million) at the end of 31 December 2015, compared to growth of 4.8% in 2014, and compared to growth of 5.7% in the Alpha Group of top Lebanese banks. The lower growth in the Bank's net customers' loans in comparison with the Alpha Group banks led to a slight decrease in the Bank's market share of net customers' loans to 7.7% at the end of 31 December 2015, down from 7.8% at the end of 31 December 2014.

During the period between 31 December 2012 and 31 December 2015, net customers' loans increased at an average annual compounded rate of 6.2% compared to growth of 10.9% in the Alpha Group. Consequently, the Bank's market share of net customer advances dropped from 8.8% at the end of 31 December 2012 to 7.7% at the end of 31 December 2015.

The chart below shows the evolution of net customers' loans and their market shares over the last four years:

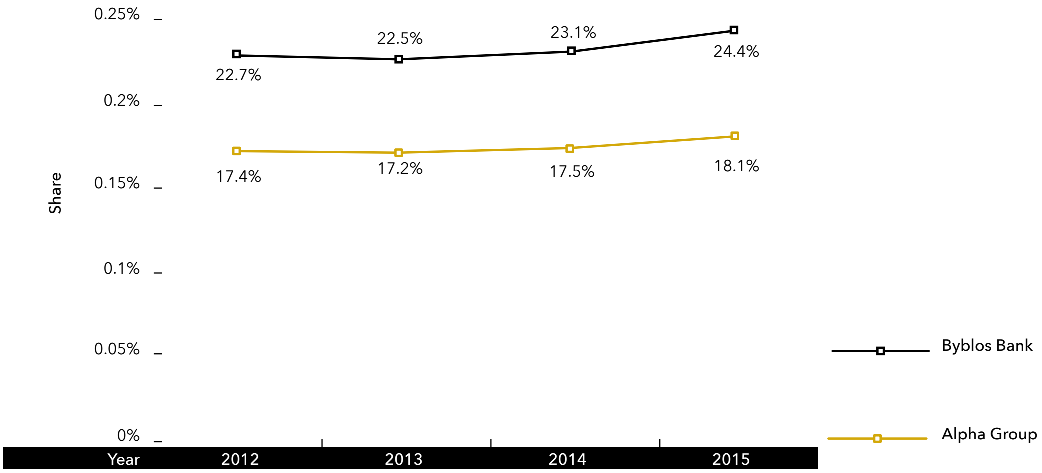
Evolution of Customers' Loans During the Last Four Years



MANAGEMENT DISCUSSION AND ANALYSIS

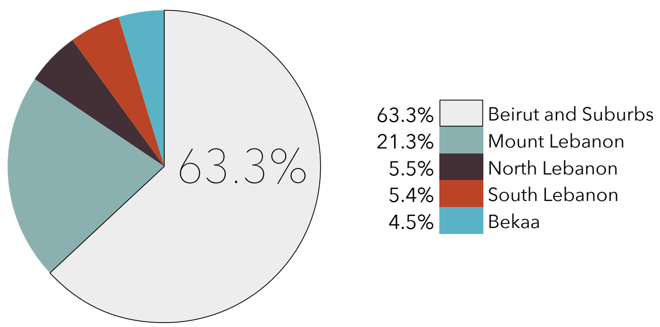
Customers' Loans Currency Structure

LBP Customers' Loans/Total Loans (Byblos Bank vs. Alpha Group)

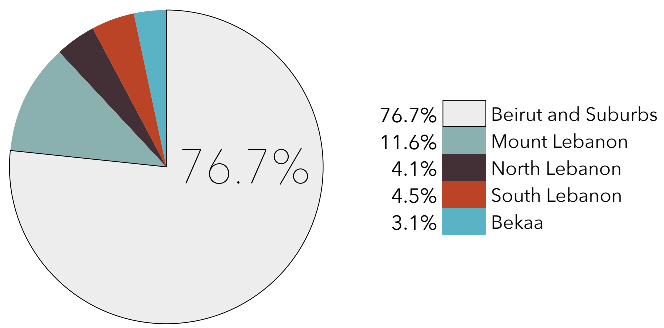


Customers' Loans Geographical Distribution

Byblos Bank Dec. 2015

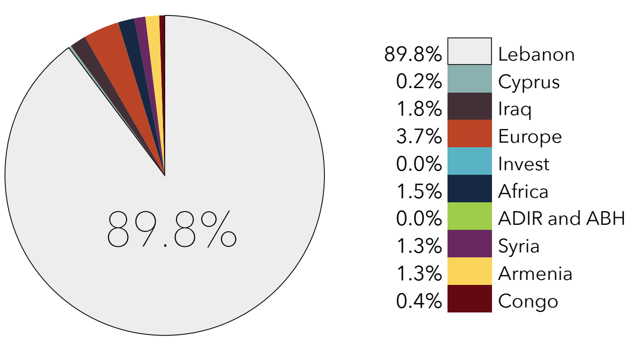


Sector Dec. 2015

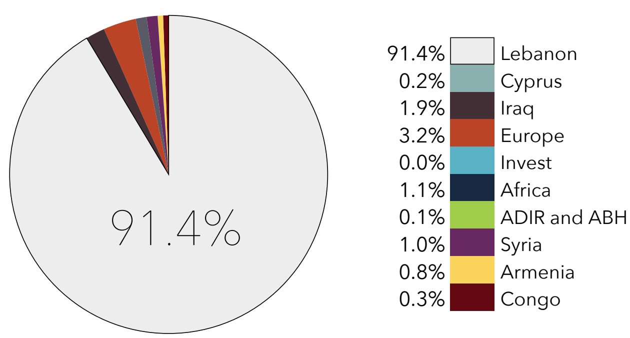


Customers' Loans Split in Byblos Bank Group

Loans Split in Group 2014



Loans Split in Group 2015



MANAGEMENT DISCUSSION AND ANALYSIS

Loan Breakdown by Nature of Borrower

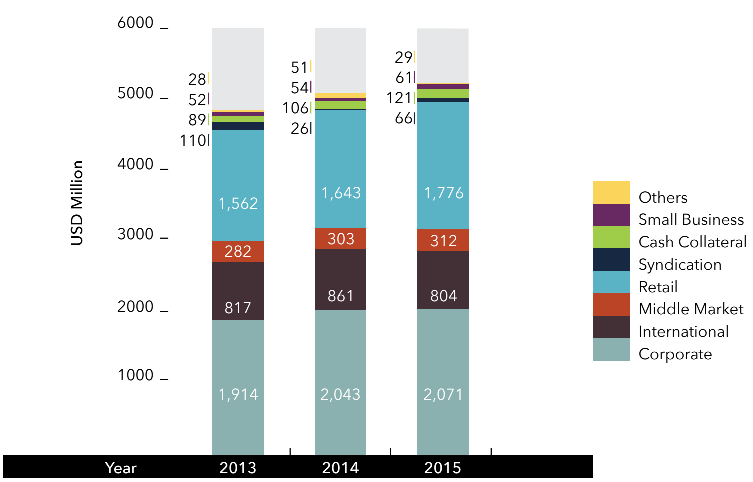
	Dec. 2013			Dec. 2014			Dec. 2015		
	LBP Million	USD 000's	% of total	LBP Million	USD 000's	% of total	LBP Million	USD 000's	% of total
Corporate	2,885,141	1,913,858	39.4%	3,080,445	2,043,413	40.2%	3,121,687	2,070,771	39.5%
International	1,231,481	816,903	16.8%	1,298,425	861,310	16.9%	1,212,156	804,084	15.3%
Middle Market	425,138	282,015	5.8%	456,513	302,828	6.0%	470,143	311,869	6.0%
Retail	2,354,049	1,561,558	32.2%	2,476,683	1,642,907	32.3%	2,677,614	1,776,195	33.9%
Syndication	166,183	110,237	2.3%	39,555	26,239	0.5%	99,461	65,978	1.3%
Cash collateral	134,795	89,416	1.8%	159,555	105,841	2.1%	182,824	121,276	2.3%
Small business	77,978	51,727	1.1%	80,795	53,595	1.1%	92,521	61,374	1.2%
Others	41,910	27,801	0.6%	77,002	51,079	1.0%	43,125	28,607	0.5%
Total	**7,316,674**	**4,853,515**	**100.0%**	**7,668,972**	**5,087,212**	**100.0%**	**7,899,531**	**5,240,153**	**100.0%**

During 2015, Byblos Bank's gross loan portfolio increased by 3.0% (+LBP 231 billion) to reach LBP 7,890 billion (USD 5,240 million) at the end of 31 December 2015 compared to an increase of 4.8% in 2014.

Commercial Loan Portfolio

- The corporate loan portfolio increased by 1.3% (+LBP 41 billion or USD 27 million) during the year 2015 to reach LBP 3,122 billion (USD 2,071 million) at the end of 31 December 2015, compared to an increase of 6.8% (+LBP 195 billion or USD 130 million) in 2014. Corporate loans represented 39.5% of the gross loan portfolio at the end of December 2015, compared to 40.2% at the end of December 2014.
- The international loan portfolio decreased by 6.6% (-LBP 86 billion or USD 57 million) during the year 2015 to reach LBP 1,212 billion (USD 804 million) at the end of December 2015, compared to an increase of 5.4% (+LBP 67 billion or USD 44 million) in 2014. International loans represented 15.3% of the gross loan portfolio compared to 16.9% at the end of December 2014.
- The middle market loan portfolio increased by 3.0% (+LBP 14 billion or USD 9 million) during the year 2015 to reach LBP 470 billion (USD 312 million) at the end of 31 December 2015, representing 6.0% of the gross loan portfolio.
- Total exposure to syndicated loans more than doubled during the year 2015 and reached LBP 99 billion (USD 66 million) at the end of 2015 compared to LBP 40 billion (USD 26 million) at the end of December 2014, representing 1.3% of the gross loan portfolio compared to 0.5% at the end of December 2014.

The chart below shows the breakdown of the loan portfolio by nature of borrower for the years 2013, 2014 and 2015:



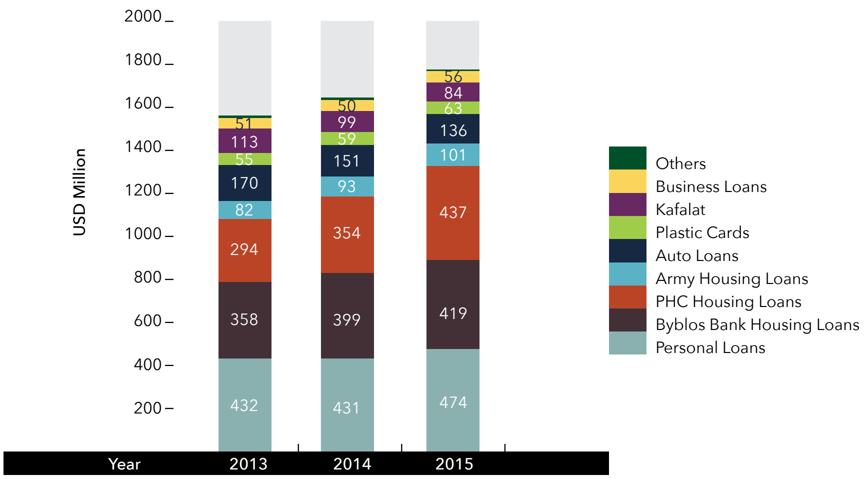
MANAGEMENT DISCUSSION AND ANALYSIS

Retail Loan Portfolio

	Dec. 2013			Dec. 2014			Dec. 2015		
	LBP Million	USD 000's	% of total	LBP Million	USD 000's	% of total	LBP Million	USD 000's	% of total
Personal Loans	650,579	431,561	27.6%	649,913	431,120	26.2%	715,216	474,438	26.7%
Byblos Housing Loans	540,030	358,229	22.9%	601,953	399,305	24.3%	631,959	419,210	23.6%
PHC Housing Loans	443,831	294,415	18.9%	533,599	353,963	21.5%	658,748	436,980	24.6%
Army Housing Loans	122,917	81,537	5.2%	140,670	93,314	5.7%	151,523	100,513	5.7%
Auto Loans	255,923	169,766	10.9%	227,000	150,580	9.2%	205,296	136,183	7.7%
Plastic Cards	82,964	55,034	3.5%	88,444	58,669	3.6%	95,125	63,101	3.6%
Kafalat	170,719	113,246	7.3%	148,579	98,560	6.0%	126,961	84,219	4.7%
Business Loans	76,357	50,651	3.2%	75,701	50,216	3.1%	84,497	56,051	3.2%
Others	10,731	7,118	0.5%	10,824	7,180	0.4%	8,291	5,500	0.3%
Total Retail	**2,354,049**	**1,561,558**	**100.0%**	**2,476,683**	**1,642,907**	**100.0%**	**2,677,614**	**1,776,195**	**100.0%**

In line with the Bank's strategy to maintain Byblos Bank's leadership in retail, the retail loan portfolio increased from LBP 2,477 billion (USD 1,643 million) as of 31 December 2014 to LBP 2,678 billion (USD 1,776 million) as of 31 December 2015, recording growth of 8.1%. The main increase in retail loans was the result of the increase in housing loans, whose outstanding portfolios increased between 2014 and 2015 from USD 847 million to USD 957 million, an increase of 13.0%. However, the improvement in housing loans was partially offset by the decrease in auto loans of 9.6% (-LBP 22 billion or USD 14 million) and the decrease in Kafalat loans by 14.6% (-LBP 22 billion or USD 14 million) during 2015.

The chart below shows the evolution of retail loans throughout the last three years:



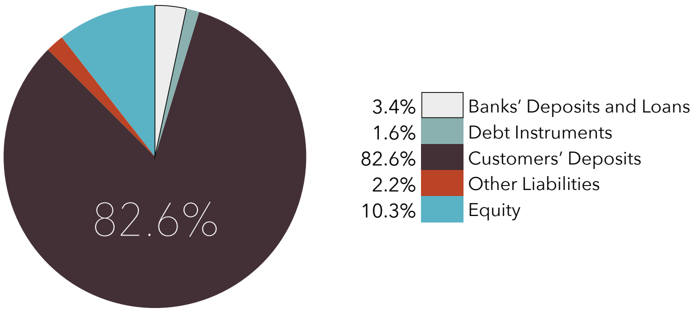
MANAGEMENT DISCUSSION AND ANALYSIS

LIABILITIES

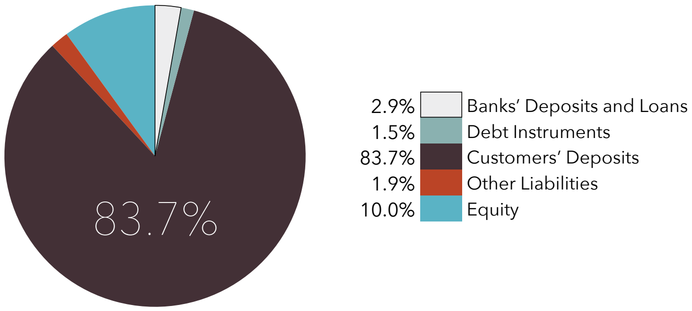
LIABILITIES BREAKDOWN

Customers' deposits represent the major source of funds with a share of 83.7% at the end of 2015, compared to a share of 82.6% at the end of 2014:

Breakdown of Liabilities 2014



Breakdown of Liabilities 2015

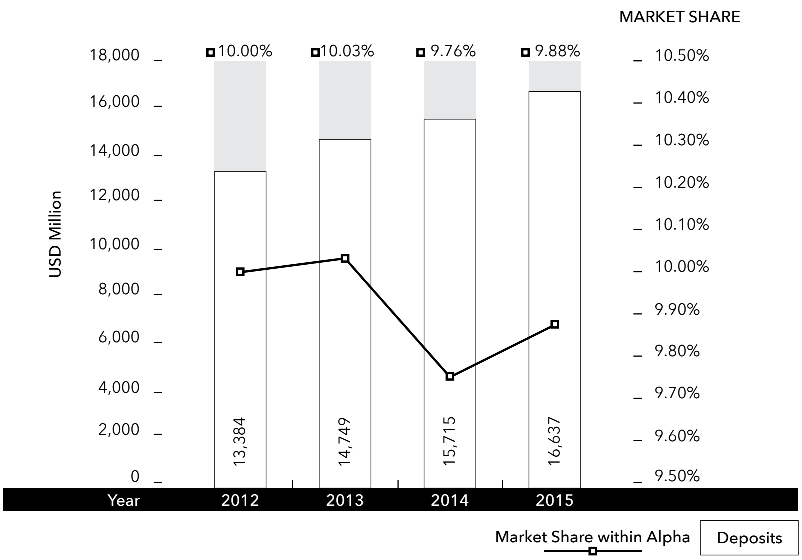


CUSTOMERS' DEPOSITS

Customers' deposits recorded an increase of 5.9% during 2015 to reach LBP 25,080 billion (USD 16,637 million) at the end of 31 December 2015 compared to an increase of 6.5% during 2014, and compared to an increase of 4.6% in the Lebanese Alpha Group. Consequently, the Bank's market share of total customers' deposits in the Alpha Group of banks slightly increased to 9.88% at the end of 2015 compared to 9.76% at the end of the previous year. During the period between 31 December 2012 and 31 December 2015, the Bank's customers' deposits grew at an annual average compounded growth rate of 7.5% compared to growth of 7.9% for the Alpha Group. Consequently, the Bank's market share decreased from 10% as at 31 December 2012 to 9.88% as at 31 December 2015.

The graph below shows the evolution of customers' deposits over the last four years:

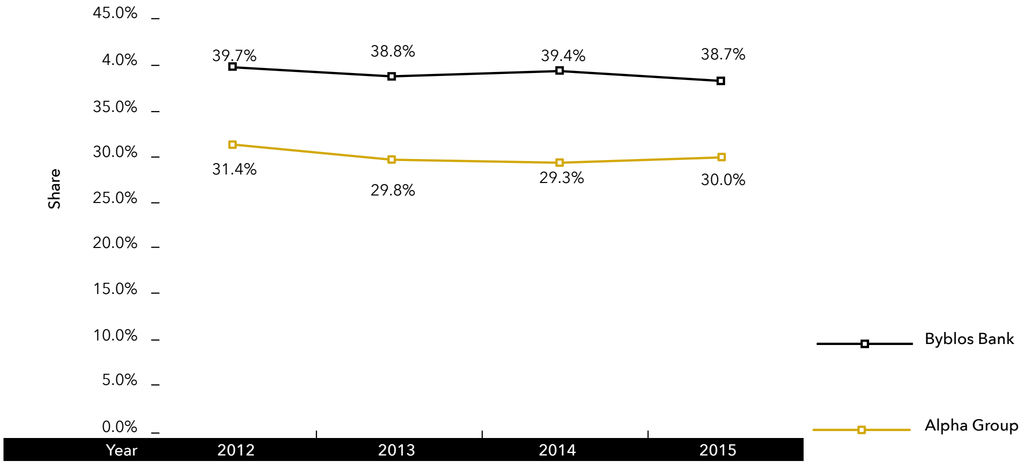
Evolution of Customers' Deposits During the Last Four Years



MANAGEMENT DISCUSSION AND ANALYSIS

Customers' Deposits Currency Structure

LBP Customers' Deposits/Total Deposits (Byblos Bank vs. Sector)



The dollarization rate was not impacted by either the economic and political tensions among different parties in Lebanon, or the regional turbulence and its consequences on the country. Therefore, customers' deposits denominated in LBP remained almost unchanged between 2012 and 2015, with a slight increase from 39.7% in 2012 to 38.7% in 2015, and stayed in line with the trend in the sector. Compared to the Lebanese banking sector, Byblos Bank has a higher deposit base denominated in LBP as compared to 30% in the Alpha Group of banks as at the end of December 2015.

Customers' Deposits by Type of Account

The following table shows the distribution of the Bank's customers' deposits by type of account as at 31 December 2013, 2014 and 2015:

As at 31 December	2013		2014		2015	
	LBP Million	% of total	LBP Million	% of total	LBP Million	% of total
Current accounts	3,353,030	15.1	3,264,135	13.8	3,245,552	12.9
Term deposits	17,458,400	78.5	18,986,964	80.1	20,176,288	80.4
Blocked accounts	1,044,999	4.7	1,004,709	4.2	1,114,643	4.4
Related parties' accounts	261,324	1.2	311,970	1.3	420,613	1.7
Accrued interest	116,909	0.5	122,825	0.5	123,051	0.5
Total	**22,234,662**	**100**	**23,690,602**	**100**	**25,080,147**	**100**

The composition of customers' deposits stood almost stable throughout the last three years, and were mostly composed of term deposits, which consisted of 80.4% of total customers' deposits at the end of December 2015, as compared to 80.1% as at 31 December 2014, and to 78.5% as at 31 December 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

Maturity Profile of Customers' Deposits

The following table shows the distribution of the Bank's customers' deposits by maturity profile as at 31 December 2013, 2014 and 2015:

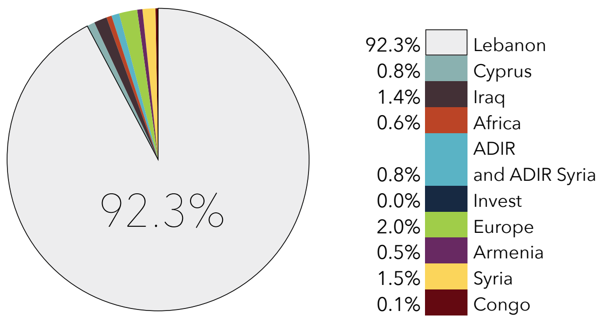
As at 31 December	2013		2014		2015	
	LBP Million	% of total	LBP Million	% of total	LBP Million	% of total
Less than 3 months	16,089,478	72.4	16,726,883	70.6	17,339,518	69.1
3 months to 1 year	4,282,229	19.3	4,925,149	20.8	4,749,685	18.9
1 year to 5 years	1,813,749	8.2	1,969,328	8.3	2,739,638	10.9
Over 5 years	49,205	0.2	69,243	0.3	251,306	1.0
Total	**22,234,661**	**100**	**23,690,602**	**100**	**25,080,147**	**100**

Almost all of the Bank's customers' deposits are short-term, with deposits having a remaining maturity of less than one year representing 88% and 91.4% of total customers' deposits as at 31 December 2015 and 31 December 2014, respectively.

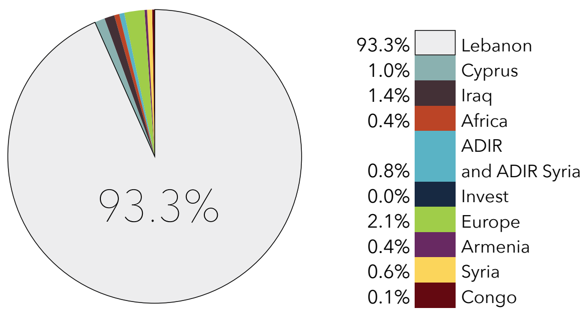
Customers' Deposits Split in the Byblos Bank Group

The pie charts below show the split of customers' deposits in the Byblos Bank Group:

Deposits Split in Group 2014



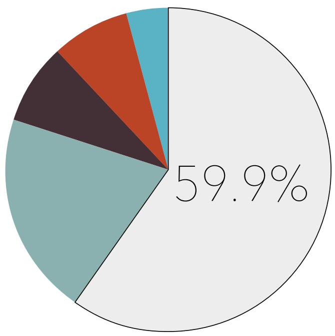
Deposits Split in Group 2015



MANAGEMENT DISCUSSION AND ANALYSIS

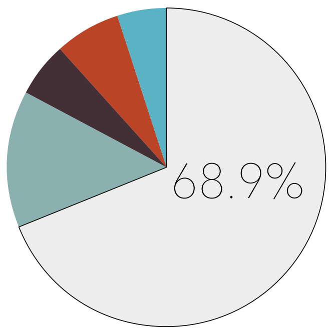
Geographical Distribution of Customers' Deposits

Byblos Bank Dec. 2015



59.9% Beirut and Suburbs
20.3% Mount Lebanon
8.1% North Lebanon
7.6% South Lebanon
4.1% Bekaa

Sector Dec. 2015



68.9% Beirut and Suburbs
13.9% Mount Lebanon
5.7% North Lebanon
6.6% South Lebanon
4.9% Bekaa

The geographical distribution of the Bank's customers' deposits is in line with the geographical distribution of its branches, with customers' deposits in branches located in Beirut and its suburbs (45% of total branches) representing 59.9% of total customers' deposits in the Bank compared to 68.9% in the Lebanese banking sector. On the other hand, customers' deposits in branches located in Mount Lebanon (27.5% of total branches) represented 20.3% of the Bank's customers' deposits compared to 13.9% in the Lebanese banking sector; customers' deposits in branches located in North Lebanon (11.3% of total branches) represented 8.1% of the Bank's customers' deposits, higher than 5.7% in the Lebanese banking sector. In the South (10% of total branches), Byblos Bank's customer deposit concentration was 7.6% compared to 6.6% in the Lebanese banking sector. In the Bekaa Valley, the Bank's customers' deposits are less concentrated than in the Lebanese banking sector, with 4.1% of the Bank's total customers' deposits located in the Bekaa (6.3% of total branches) compared to 4.9% in the Lebanese banking sector.

LONG-TERM SOURCES OF FUNDS

As a part of its strategy to match its longer-term loan portfolio with longer-term funding sources, the Bank has tapped into several types of long-term funding resources. The following table shows the breakdown of the Bank's long-term sources of funding as at 31 December 2013, 2014 and 2015, respectively:

In USD 000's	Dec. 2013	Dec. 2014	Dec. 2015
Central Bank of Lebanon	28,696	40,994	69,992
International Finance Corporation (IFC)	4,231	3,462	3,076
Arab Trade Finance Program	18,439	15,694	23,079
PROPARCO	1,753	384	0
OPEC Fund for International Development	4,500	1,833	0
European Investment Bank	105,503	100,150	109,119
Govco Incorporated NY	53,429	47,786	42,143
Agence Française pour le Développement	43,968	40,490	29,328
European Bank for Reconstruction and Development	2,143	714	0
European Fund for Southeast Europe (EFSE)	3,000	0	0
Citibank	3,167	1,750	750
Certificates of Deposit	40,450	0	0
Convertible subordinated loans	273,544	275,011	276,882
Byblos Bank Eurobond	295,522	295,447	295,323
Total Long-Term Sources of Funds	**878,344**	**823,717**	**849,691**

MANAGEMENT DISCUSSION AND ANALYSIS

PROFITABILITY

LBP Million	2013	2014	2015	Growth (Vol.)	Growth (%)
Net interest income	363,358	371,336	399,227	27,891	7.5%
Net allocation to provisions	(79,551)	(42,915)	(12,289)	(30,626)	(71.4%)
Provisions on foreign central banks	0	0	(35,620)	(35,620)	-
Net commission income	138,993	135,865	121,951	(13,914)	(10.2%)
Net profits on financial operations	149,590	166,856	145,854	(21,002)	(12.6%)
Impairment losses on financial investments	419	3,487	0	(3,487)	(100.0%)
Other operating income	23,563	21,879	20,936	(943)	(4.3%)
Total Operating Income (Before Provisions and Impairment)	**675,504**	**695,935**	**687,968**	**(7,967)**	**(1.1%)**
Total Operating Income (After Provisions and Impairment)	**596,373**	**656,507**	**640,060**	**(16,448)**	**(2.5%)**
Operating expenses	(284,997)	(299,013)	(298,586)	427	(0.1%)
Provisions for risks and charges	(4,190)	(645)	(21,394)	(20,749)	3216.9%
Depreciation and Amortization	(27,378)	(25,041)	(23,625)	1,416	(5.7%)
Non-operating income	0	0	65	65	-
Taxes	(44,359)	(67,277)	(53,083)	14,194	(21.1%)
Net Income	**235,449**	**264,532**	**243,437**	**(21,095)**	**(8.0%)**
Bank's Share	224,683	252,792	228,185		
Dividend on Preferred Shares (Series 2008)	(24,240)	(24,240)	(24,240)		
Dividend on Preferred Shares (Series 2009)	(24,240)	(24,240)	(24,240)		
Net income related to common and priority shares	176,203	204,312	179,705		
Weighted average number of common shares during the period	561,731,039	562,510,901	563,022,405		
Earnings per common share	313.68	363.21	319.18		

Net income for the year 2015 amounted to LBP 243,437 million (USD 161.5 million), recording a decrease of 8% (-LBP 21,095 million or USD 14 million) compared to 264,532 million (USD 175 million) for the year 2014. Return on average assets (ROA) stood at 0.83% at the end of December 2015 compared to 0.94% at the end of December 2014. In addition, return on average common equity (ROCE) stood at 9.42% compared to 11.07% at the end of December 2014. Earnings per common share based on the weighted average number of shares stood at LBP 319.18 (USD 0.212) in 2015 compared to LBP 363.21 (USD 0.241) in 2014.

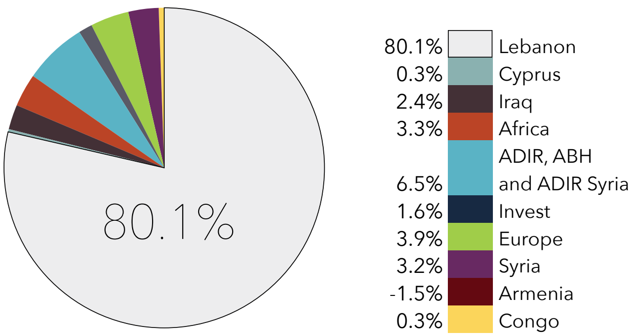
MANAGEMENT DISCUSSION AND ANALYSIS

The contribution of the Bank's subsidiaries to consolidated net income is presented below:

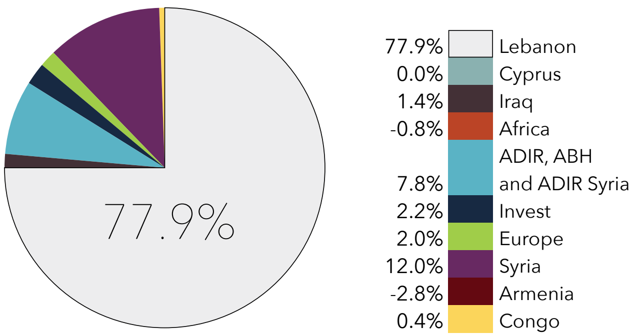
- Byblos Bank Africa's net loss for the year 2015 amounted to LBP 1,848 million (- USD 1.2 million) compared to a gain of LBP 8,650 million (USD 5.7 million) for the year 2014.
- Byblos Bank Europe's net income for the year 2015 amounted to LBP 4,787 million (USD 3.2 million) compared to LBP 10,278 million (USD 6.8 million) for the year 2014.
- Byblos Bank Syria's net income stood at LBP 29,154 million (USD 19.3 million) at the end of 2015 (out of which USD 23.6 million from unrealized gain on structural foreign exchange position held in Byblos Bank Syria due to the devaluation of the Syrian currency by 70% during the year 2015) compared to LBP 8,384 million (USD 5.6 million) for the year 2014.
- Byblos Invest Bank's net income stood at LBP 5,255 million (+USD 3.5 million) at the end of 2015 compared to LBP 4,298 million (+USD 2.9 million) for the year 2014.
- Byblos Bank Armenia's net loss stood at LBP 6,797 million (-USD 4.5 million) at the end of 2015 compared to a net loss of LBP 3,994 million (-USD 2.6 million) for the year 2014.
- The net income of the insurance companies – Adonis Insurance and Reinsurance S.A.L. (ADIR), Adonis Insurance and Reinsurance Syria (ADIR Syria), and Adonis Brokerage House (ABH) – for the year 2015 amounted to LBP 18,964 million (USD 12.6 million) compared to LBP 17,199 million (USD 11.4 million) for the year 2014.

The pie charts below show the contribution of the Bank's subsidiaries to consolidated income between the years 2014 and 2015:

Net Income Split in Group 2014



Net Income Split in Group 2015



MANAGEMENT DISCUSSION AND ANALYSIS

NET INTEREST INCOME

Net interest income before provisions for the year 2015 amounted to LBP 399,227 million (USD 264.8 million), recording an increase of 7.5% (+LBP 27,891 million or USD 18.5 million) compared to an increase of 1.0% during 2014, when it stood at LBP 371,336 million (USD 246.3 million). Consequently, the net interest margin stood at 1.40% at the end of 2015 compared to 1.36% at the end of 2014.

	2014			2015		
	Average balance LBP Million	Interest earned LBP Million	Average rate %	Average balance LBP Million	Interest earned LBP Million	Average rate %
ASSETS						
Interest-bearing deposits in other banks*	14,144,904	539,787	3.82%	14,779,653	605,241	4.10%
Securities	602,092	21,178	3.52%	388,647	13,329	3.43%
Loans	6,963,889	489,767	7.03%	7,281,056	495,466	6.80%
Treasury bills	5,678,171	370,141	6.52%	6,067,843	387,962	6.39%
Total Interest-Earning Assets	**27,389,056**	**1,420,873**	**5.19%**	**28,517,199**	**1,501,998**	**5.27%**
Premises and equipment	276,333	0	0.00%	285,093	0	0.00%
Other non-interest-bearing assets	615,014	0	0.00%	522,181	0	0.00%
Total average assets	**28,280,403**	**1,420,873**	**5.02%**	**29,324,474**	**1,501,998**	**5.12%**
LIABILITIES						
Customers' deposits	22,962,632	962,496	4.19%	24,385,375	1,016,362	4.17%
Subordinated loans	413,474	31,347	7.58%	415,990	31,231	7.51%
Eurobond	475,938	32,227	6.77%	445,293	31,124	6.99%
Interest-bearing deposits due to banks	1,206,950	23,467	1.94%	917,297	24,055	2.62%
Total Interest-Bearing liabilities	**25,058,993**	**1,049,537**	**4.19%**	**26,163,954**	**1,102,771**	**4.21%**
Other liabilities	706,641	0	0.00%	596,822	0	0.00%
Shareholders' equity	2,514,769	0	0.00%	2,563,697	0	0.00%
Total Average Liabilities and Equity	**28,280,403**	**1,049,537**	**3.71%**	**29,324,474**	**1,102,771**	**3.76%**
Net Interest Spread (a)			**1.00%**			**1.05%**
Net Interest Spread (b)			**1.31%**			**1.36%**
Net Interest Margin			**1.36%**			**1.40%**
Interest Earning-Assets/Interest-Bearing Liabilities			**1.09**			**1.09**

(a) Average return on interest-earning assets minus average cost of interest-bearing liabilities.
(b) Average return on assets minus average cost of liabilities and equity

MANAGEMENT DISCUSSION AND ANALYSIS

PROVISIONS ALLOCATED

Net provisions (specific and collective) allocated for doubtful loans and for foreign central banks increased by 15.3% (+LBP 6,565 million), reaching LBP 49,480 million (USD 32.8 million) for the year 2015, as compared to LBP 42,915 million (USD 28.5 million) for the year 2014.

The Bank allocated specific and collective provisions for doubtful loans in the amount of LBP 36,363 million (USD 24.1 million) during the year 2015 as compared to LBP 74,568 million (USD 49.5 million) last year. The collective provisions alone for the amount of USD 2.3 million were booked as follow: USD 0.9 million in Byblos Africa, USD 0.9 million in Byblos Europe and USD 0.4 million in Byblos Iraq as compared to USD 33.1 million allocated during the same period of last year on the group level. Moreover, the Bank allocated provisions against its exposure on the Central Bank of Iraq – Kurdistan for USD 21 million (of which USD 18.3 million booked in Byblos Lebanon and USD 2.7 million booked in Byblos Iraq), as well as against its exposure on the Central Bank of Sudan for USD 2.6 million booked in Byblos Africa. Furthermore, the Bank recovered provisions for the amount of USD 8.4 million in Byblos Bank Lebanon and USD 7.3 million in Byblos Bank Syria.

Coverage of non-performing loans by specific and collective provisions and reserved interest stood at 109.7% as at 31 December 2015, as compared to 120.7% as at 31 December 2014. Additional details on coverage of non-performing loans will be discussed in the section on asset quality.

LBP Million	2013	2014	2015
Specific and collective provisions set up during the year			
Doubtful debts	115,097	74,568	36,363
Central Bank of Iraq – Kurdistan and Central Bank of Sudan			35,620
Writeoffs	80	178	138
Total Provisions Allocated	**115,177**	**74,746**	**72,121**
Specific and collective provisions written back during the year:			
Loans recovered or upgraded	(25,566)	(25,128)	(17,730)
Unrealized interest on loans and advances to customers	(9,163)	(6,257)	(4,911)
Doubtful banks and financial institutions accounts	(897)	(446)	
Total Provisions Recoveries	**(35,626)**	**(31,831)**	**(22,641)**
Net Provisions Allocated	**79,551**	**42,915**	**49,480**

MANAGEMENT DISCUSSION AND ANALYSIS

NON-INTEREST INCOME

LBP Million	2013	2014	2015	Growth (Vol.)	Growth (%)
Commissions on documentary credits and acceptances	**41,142**	**37,135**	**22,513**	**(14,622)**	**(39.4%)**
*out of which in Lebanon**	14,589	13,363	11,040	(2,323)	(17.4%)
out of which in Byblos Bank Europe	20,867	19,511	10,600	(8,912)	(45.7%)
out of which in Byblos Bank Africa	5,345	3,955	620	(3,335)	(84.3%)
out of which in Byblos Bank Syria	214	170	161	(9)	(5.2%)
out of which in Byblos Bank DR Congo	127	135	92	(43)	(31.6%)
Commissions on letters of guarantee	**15,357**	**15,861**	**15,857**	**(4)**	**0.0%**
*out of which in Lebanon**	13,239	13,825	13,818	(7)	0.0%
out of which in Byblos Bank Europe	731	812	954	142	17.4%
out of which in Byblos Bank Africa	373	383	281	(103)	(26.8%)
out of which in Byblos Bank Syria	753	598	480	(118)	(19.7%)
out of which in Byblos Bank DR Congo	261	243	324	82	33.6%
Securities income (realized and unrealized)	80,927	113,611	81,491	(32,120)	(28.3%)
Dividends received	1,715	3,293	4,955	1,662	50.5%
Foreign exchange income	66,949	49,952	59,409	9,456	18.9%
Other commissions on banking services	82,493	82,869	83,580	712	0.9%
Total Non-Interest Income (Net)**	**288,583**	**302,721**	**267,805**	**(34,915)**	**(11.5%)**

** Lebanon includes Cyprus and Iraq.*
*** Net commissions, plus net trading income, plus net gain or loss on financial assets.*

Non-interest income for the year 2015 amounted to LBP 267,805 million (USD 177.6 million), recording a decrease of 11.5% (-LBP 34,915 million/-USD 23.2 million) as compared to LBP 302,721 million (USD 200.8 million) for the same period of last year.

- Commissions on documentary credits and acceptances for the year 2015 amounted to LBP 22,513 million (USD 14.9 million), recording a decrease of 39.4% as compared to LBP 37,135 million (USD 24.6 million) in 2014. Trade finance activities in 2015 represented 8.4% of total non-interest income, compared to 12.3% in 2014. This was mainly due to the slowdown in major economies, the drop in commodity prices and the devaluation of some foreign currency exchange rates.
- Commissions on letters of guarantee for the year 2015 amounted to LBP 15,857 (USD 10.5 million), virtually unchanged from LBP 15,861 (USD 10.5 million) in 2014.
- Realized and unrealized gain on the securities portfolio for the year 2015 amounted to LBP 81,491 million (USD 54.1 million), recording a considerable decrease of 28.3% as compared to a gain of LBP 113,611 million (USD 75.4 million) in 2014.
- Gains on foreign exchange trading for the year 2015 amounted to LBP 59,409 million (USD 39.4 million), as compared to LBP 49,952 million (USD 33.1 million) in 2014, mainly due to the unrealized gain on structural foreign exchange position held in Byblos Bank Syria, which amounted to USD 23.6 million during 2015 as compared to USD 16.8 million during 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING EXPENSES

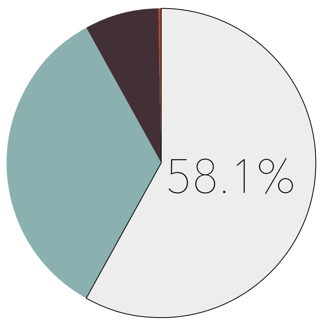
LBP Million	2013	2014	2015	Growth (vol.)	Growth (%)
Staff expenses	177,849	188,500	180,792	(7,708)	(4.1%)
General expenses	107,148	110,513	117,793	7,280	6.6%
Depreciation and Amortization	27,377	25,041	23,625	(1,416)	(5.7%)
Total Operating expenses (a)	**312,374**	**324,053**	**322,210**	**(1,844)**	**(0.6%)**
Provisions for risks and charges	4,190	645	21,394	20,749	3216.9%
Total Operating expenses (b)	**316,564**	**324,698**	**343,603**	**18,905**	**5.8%**

(a) excluding provisions for risks and charges
(b) including provisions for risks and charges

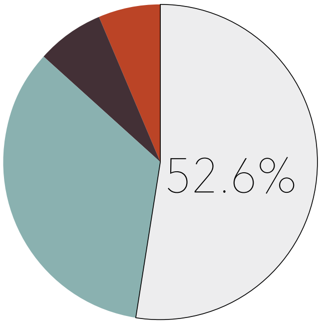
Operating expenses (excluding provisions for risks and charges) for the year 2015 amounted to LBP 322,210 million (USD 213.7 million), recording an increase of 0.6% (-LBP 1,844 million) as compared to LBP 324,053 million (USD 215.0 million) in 2014. Consequently, the cost-to-income ratio decreased to 46.8% in 2015 compared to 46.6% in 2014. In 2015, the Bank allocated provisions for risks and charges for LBP 20,749 million.

The pie charts below show the breakdown of operating expenses for the last two years.

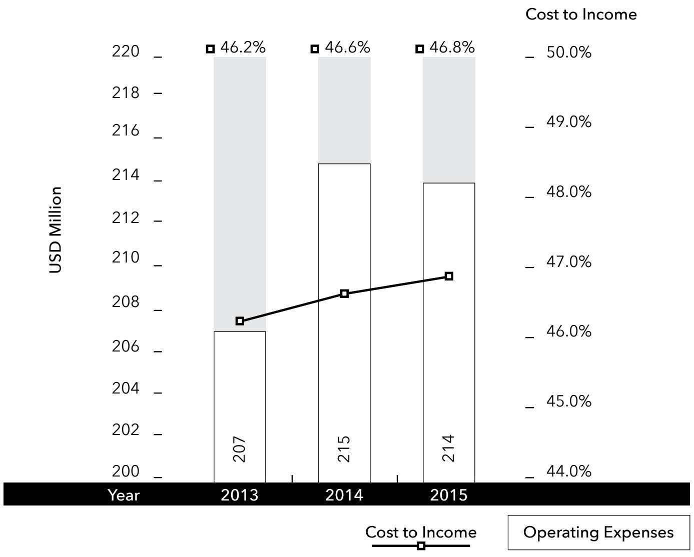
Breakdown of Operating Expenses 2014



Breakdown of Operating Expenses 2015



The graph below shows the evolution of operating expenses and the cost-to-income ratio over the last three years:



MANAGEMENT DISCUSSION AND ANALYSIS

ASSETS QUALITY

LOAN PORTFOLIO

Based on Circular 58 issued by the Banque du Liban (BDL), Lebanon's Central Bank, all banks and financial institutions operating in Lebanon have been required as of 2011 to classify loans according to six categories of risk: (i) regular accounts; (ii) follow-up accounts; (iii) follow-up and regularization accounts; (iv) substandard accounts; (v) doubtful accounts; and (vi) bad accounts.

Byblos Bank adopts the regulatory classification grading and also applies an internal rating system that incorporates and refines the requirements. The Bank believes that, as at 31 December 2014, it was in compliance with all related requirements. Reports to the Central Bank and the Banking Control Commission are made in accordance with the Central Bank classifications.

The Banking Control Commission of Lebanon issued Circular 280 dated 2 January 2015 to clarify the amendments introduced by the BDL to Circular 81 (Intermediary Circular 383 dated 24 December 2014) regarding new standards for granting retail and housing loans and new provisioning and reserve requirements. Circular 280 included the following changes:

1) **Retail and Housing Loans: New Loan Granting Standards**

Banks should abide by a debt-service coverage (DSC) ratio of 35% when granting retail loans and housing loans. They also must abide by a loan-to-value (LTV) ratio of 75% when granting housing loans and auto loans. The DSC ratio is total household monthly loan repayments to banks divided by household monthly income. When the same borrower is granted a housing loan and other loans, the DSC may reach 45% but the housing loan DSC must not exceed 35%

2) Retail and Housing Loans: New Loan Classification and Provision Requirements

The circular introduced collective provision rates for regular retail loans delinquent for 30 days or less of 1.5% to be reached progressively by end-2017 and starting with 0.25% in 2014. Another provision – reaching 25% for credit cards and 15% for auto loans – is required for the delinquency bracket of 31 days to 90 days. Loans showing delinquency between 91 days and 180 days are now assigned a specific provision of 40% (auto loans) or 50% (all other retail loans). Retail and housing loans are to be assigned full specific provision starting with one year of delinquency (credit cards and personal loans) and up to five years (housing loans).

3) Recognized Collateral and Guarantees

The following collateral and guarantees are recognized as offsetting a loan balance: cash; bank guarantee payable on first demand; Kafalat corporate guarantee.

4) Retail and Housing Reserve Requirements

On top of allocating collective provisions against the regular retail portfolio (up to 30 days' delinquency), banks were requested to allocate a general reserve denominated in LBP for 0.5% of the balance of the portfolio at end-2014, and then 0.5% annually for six years beginning in 2015. Housing loans, student loans and education loans are exempted from this treatment. The general reserve is eligible in CET1.

5) Commercial Loans: Treatment of Collective Provisions and General Reserve

i) Banks are required to conduct impairment tests on their non-impaired commercial loans based on IFRS standards, at least once every year, and to allocate corresponding collective provisions;

ii) Banks will gradually assign a general reserve, denominated in LBP, for up to 1.5% of the commercial portfolio to be reached by 31 December 2017, with the following minimum phase-in compliance: 0.25% booked in 2014, 0.5% in 2015, 1% in 2016, and 1.5% in 2017. Banks that have already booked a similar amount in collective provisions are exempted from this treatment.

Byblos Bank was in full compliance with BDL 383 and BCCL 280 provision requirements as of 31 December 2015, with comfortable collective provisions against the commercial portfolio comfortably exceeding the amount required by regulations. The Bank undertook the necessary changes in its retail and housing program loans to be in compliance with the new retail and housing loan granting conditions.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

The tables below show the breakdown of the Bank's loan portfolio (gross and net) over the last three years:

As at 31 December	2013		2014		2015	
GROSS BALANCES (1)	LBP Million	% of total	LBP Million	% of total	LBP Million	% of total
Regular	6,348,301	87.0	6,324,891	82.8	6,658,324	84.7
Follow-up	313,656	4.3	531,051	7.0	532,387	6.8
Follow-up and regularization	277,635	3.8	367,369	4.8	307,181	3.9
Substandard loans	3,486	0.0	30,618	0.4	6,380	0.1
Doubtful loans	124,545	1.7	138,013	1.8	181,388	2.3
Bad loans	230,489	3.2	248,997	3.3	178,595	2.3
Total	**7,298,112**	**100.0**	**7,640,939**	**100.0**	**7,864,256**	**100.0**

As at 31 December	2013		2014		2015	
NET BALANCES (1 and 2)	LBP Million	% of total	LBP Million	% of total	LBP Million	% of total
Regular	6,348,301	90.7	6,324,891	86.4	6,658,324	87.6
Follow-up	313,656	4.5	531,051	7.3	532,387	7.0
Follow-up and regularization	277,635	4.0	367,369	5.0	307,181	4.0
Substandard loans	2,569	0.0	29,358	0.4	5,540	0.1
Doubtful loans	60,494	0.9	68,129	0.9	96,414	1.3
Bad loans	0	0.0	0	0.0	0	0.0
Total	**7,002,655**	**100.0**	**7,320,797**	**100.0**	**7,599,846**	**100.0**

(1) Loans and advances to customers excluding related parties.
(2) Net of specific provisions and reserved interest.

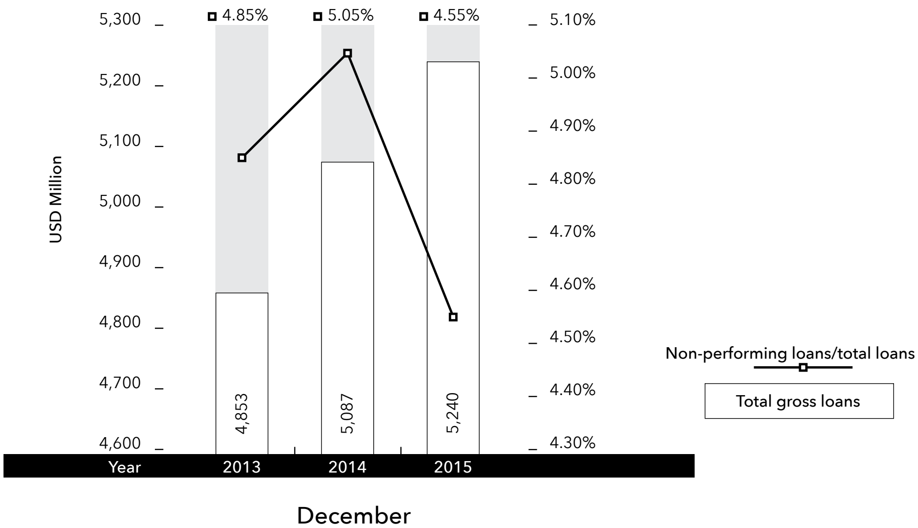
MANAGEMENT DISCUSSION AND ANALYSIS

Provisioning and Coverage Ratios

LBP Million	Dec. 2013	Dec. 2014	Dec. 2015
Substandard loans	3,486	30,618	6,380
Non-performing loans	355,034	387,011	359,983
Total Classified Loans	**358,520**	**417,629**	**366,364**
Specific provisions for loan losses	213,603	222,680	183,738
General provisions and collective provisions	130,669	148,135	131,448
out of which general and collective provisions for retail	32,290	10,891	10,896
Reserved interest (sub-standard loans)	917	1,260	840
Reserved interest (non-performing loans)	80,937	96,201	79,832
Total Provisions and Cash Collateral	**426,126**	**468,276**	**395,857**
Substandard loans/total loans	0.05%	0.40%	0.08%
Non-performing loans/total loans	4.85%	5.05%	4.56%
Total classified/total loans	4.90%	5.45%	4.64%
Total provisions/total loans	5.82%	6.11%	5.01%
NPL provisions/Non-performing loans (*)	119.77%	120.67%	109.73%
NPL provisions/Non-performing loans (**)	110.67%	117.86%	106.71%
Total provisions/Total classified loans (*)	118.86%	112.13%	108.05%
Specific provisions and reserved interest/NPL	82.96%	82.40%	73.22%

** Includes specific, general and collective provisions, reserved interest.*
*** Excluding general provisions for retail loans.*

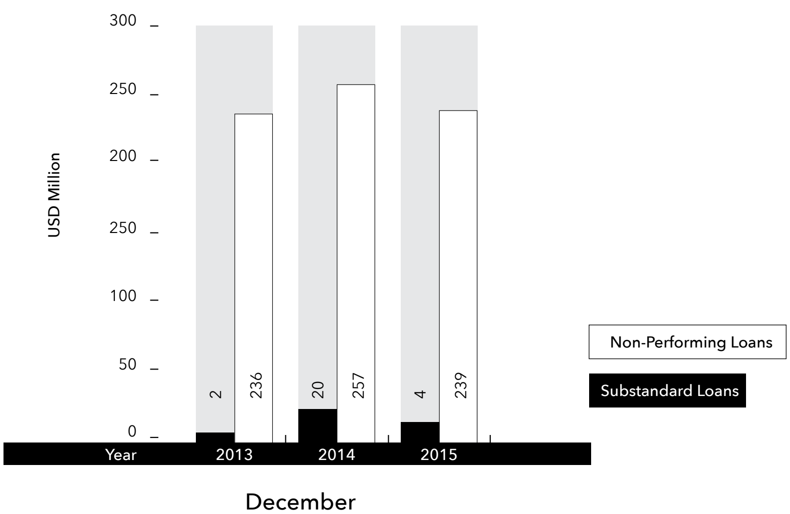
MANAGEMENT DISCUSSION AND ANALYSIS



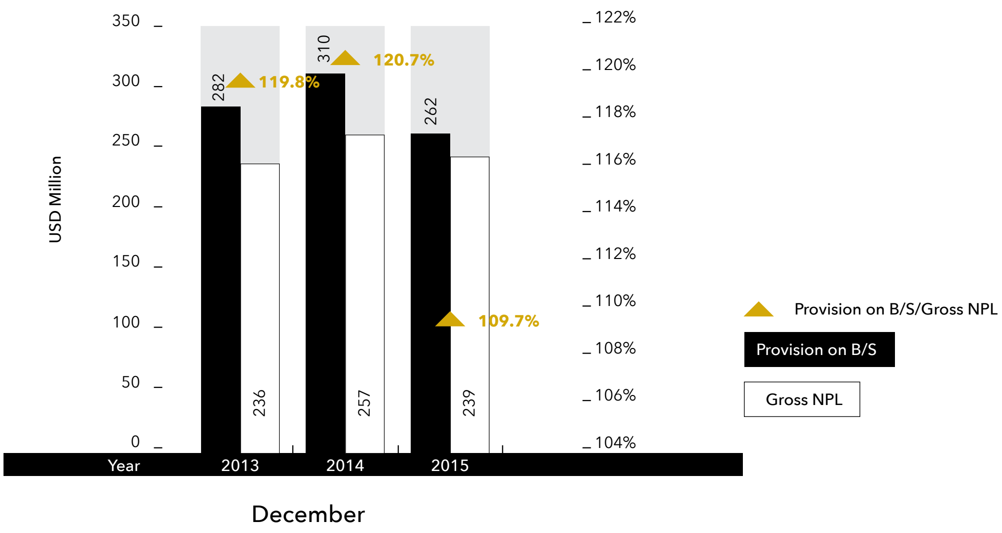
Total classified loans (substandard, doubtful, and bad) amounted to LBP 366,364 million (USD 243 million) at the end of 31 December 2015, representing 4.6% of the total loan portfolio compared to LBP 417,629 million (USD 277 million), representing 5.5% of the total loan portfolio, at the end of 31 December 2014. Total non-performing loans (doubtful and bad) amounted to LBP 359,983 million (USD 239 million) as at 31 December 2015, representing 4.6% of the total loan portfolio, down from 5.1% at the end of 31 December 2014. Specific, general and collective provisions (excluding general provisions for the retail loan portfolio), as well as reserved interest on non-performing loans, amounted to LBP 384,121 million (USD 255 million), covering up to 106.7% of total non-performing loans as at 31 December 2015 compared to 117.9% at the end of 31 December 2014.

Substandard loans amounted to LBP 6,380 million (USD 4.2 million) at the end of 31 December 2015, representing 0.08% of the total loan portfolio compared to LBP 30,618 million (USD 20.3 million) and 0.4%, respectively, at the end of 31 December 2014.

Classified Loans



MANAGEMENT DISCUSSION AND ANALYSIS



LIQUIDITY

Liquid Assets to Total Assets	Dec. 13	Dec. 14	Dec. 15
Cash and Central Banks	**36.06%**	**38.21%**	**38.63%**
out of which certificates of deposit	15.21%	13.65%	14.36%
Lebanese and Other Governmental Securities	**19.47%**	**20.66%**	**20.72%**
Bonds and fixed-income securities	2.38%	1.88%	0.79%
Banks and financial institutions	14.24%	11.52%	12.40%
Total Liquidity	**72.16%**	**72.29%**	**72.54%**

Liquid Assets to Customers' Deposits	Dec-13	Dec-14	Dec-15
Cash and Central Banks	**45.20%**	**46.29%**	**46.14%**
out of which certificates of deposit	19.07%	16.53%	17.15%
Lebanese and Other Governmental Securities	**24.41%**	**25.03%**	**24.75%**
Bonds and fixed-income securities	2.98%	2.28%	0.94%
Banks and financial institutions	17.85%	13.96%	14.81%
Total Liquidity	**90.43%**	**87.56%**	**86.64%**

As shown above, the Bank maintained a high level of liquid assets to meet foreseeable liability maturity requirements. As at 31 December 2015, liquid assets (comprised of cash, reserves and placements with central banks, Lebanese Government securities, placements with banks, and other fixed-income securities) represented 72.5% of total assets and 86.6% of customers' deposits compared to 72.3% and 87.6% respectively as at 31 December 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL

As of 31 December 2015, the Bank's share capital is LBP 689,113 million, consisting of (i) a single class of 565,515,040 Common Shares, with a par value LBP 1,210 per share, all of which are fully paid-up; (ii) 2,000,000 Preferred Shares, with a par value of LBP 1,210 per share, which were issued on 15 August 2008 at a price of, and may, subject to certain conditions, be redeemed by the Bank at, USD 100.00 per share, all of which are fully paid-up; (iii) 2,000,000 Preferred Shares, with a par value of LBP 1,210 per share, which were issued on 4 September 2009 at a price of USD 96.00 per share, and may, subject to certain conditions, be redeemed by the Bank at, USD 100.00 per share, all of which are fully paid-up.

On 19 February 2009, the Bank listed Global Depository Shares on the London Stock Exchange, representing at the time 26 per cent of the Bank's common shares (it represented 11 per cent of the Bank's common shares as at end December 2015 following the capital increase of the Bank in 2010). The Bank of New York Mellon acts as the depository bank of the issue. The Bank aimed through the listing to increase liquidity through the listing of Global Depository Shares and to promote further transparency for investors. According to the London Stock Exchange, Byblos Bank was the first Lebanese company to list on the London Stock Exchange in 12 years and the first Bank to list on the LSE in 2009, showing resilience despite the ongoing global financial crisis.

CAPITAL ADEQUACY RATIO

As a consolidated Group, Byblos Bank's Total Capital Ratio stood at 17.7% as at 31 December 2015, with the Tier 1 Capital and Common Equity Tier One (CET1) ratios coming in at 14.7% and 10.8%, respectively (see Table below). These ratios are measured according to Basel III requirements and BDL Intermediary Circular 358, dated 6 March 2014. The latter stipulates a lower risk weight applied to foreign currency-denominated claims on the BDL of 50% instead of 100% required under the Basel II Standardized Approach. Measured under a strict interpretation of the Basel III rules, the Total Capital, Tier 1 Capital and CET1 ratios would reach 14.8%, 12.3%, and 9.1%, respectively.

BYBLOS BANK GROUP BASEL III (*) CAPITAL RATIOS

	31 December		
(LBP Million except ratios)	2013	2014	2015
Common equity ratio (CET1)	9.5%	9.9%	10.8%
Tier 1 capital ratio	13.2%	13.7%	14.7%
Total capital adequacy ratio	16.0%	16.7%	17.7%
Common equity	1,534,004	1,568,435	1,678,744
Tier 1 capital	2,135,290	2,170,015	2,278,722
Tier 2 capital	464,967	463,616	466,551
Total capital base	2,600,257	2,633,631	2,745,273
Total risk-weighted assets (RWA)	**16,206,434**	**15,815,521**	**15,517,339**
Credit risk RWA	*14,758,060*	*14,467,658*	*13,980,192*
Market risk RWA	*304,905*	*242,529*	*452,988*
Operational risk RWA	*1,143,469*	*1,105,334*	*1,084,159*

(*) After applying a risk weight of 50% to foreign currency-denominated claims on the BDL for all years, instead of 100%, as per BDL Intermediate Circular 358.

MANAGEMENT DISCUSSION AND ANALYSIS

The table below shows the Lebanon and Basel Committee (BCBS) timetable for compliance with Basel III ratios. It shows that Byblos Bank operates at comfortable solvency levels as of 31 December 2015, as measured against established regulatory ratios and timetables to meet the requirements of Basel III.

Timetable to comply with Basel III CAR ratios in Lebanon compared with BCBS target ratios and deadlines (BDL Basic Circular 44):

Basel III minimum CAR ratios/Deadline	**Lebanon timetable**				**BCBS**
	31 Dec. 2012	**31 Dec. 2013**	**31 Dec. 2014**	**31 Dec. 2015(*)**	**1 Jan. 2019(*)**
CET1 Ratio	5%	6%	7%	8%	7%
Tier 1 Ratio	8%	8.5%	9.5%	10%	8.5%
Total Capital Ratio	**10%**	**10.5%**	**11.5%**	**12%**	**10.5%**

(*) Target ratios include a 2.5% capital conservation buffer but exclude any surcharge for systematically important financial institutions (SIFIs) or other countercyclical buffer.

As for the Leverage Ratio, it reached 6.7% at 31 December 2015 based on the BDL's definition. The BCBS has set the Leverage Ratio as a non-risk-based measurement formed by Tier 1 in the numerator divided by total assets plus off balance sheet items and committed lines in the denominator. The BCBS has set the minimum ratio at 3%, with effective disclosure date in January 2015.

In addition to measuring the capital requirements under Pillar 1, Byblos Bank has undertaken to estimate the supplementary capital charge that would be needed to cover the interest rate risk in the banking book and the credit concentration risk falling under Pillar 2. To perform these measurements, the Bank uses stress-test scenarios and other classical tools to estimate risk concentrations.

Moreover, the Bank has conducted stress-test scenarios to assess the impact on capital and liquidity of higher sovereign risks, increased portfolio defaults, and funding outflows, and has found both the capital buffer and the liquidity buffer to be at satisfactory levels.

MANAGEMENT DISCUSSION AND ANALYSIS

Dividend Distribution

The following table sets forth the high and low sale prices of Byblos Bank common shares, as reported on the Beirut Stock Exchange, and the cash dividends paid by the Bank on common shares with respect to the periods indicated.

Period	High	Low	Common Share Dividend[1]	
	USD	USD	LBP	USD
2000	2.3750	1.6250	250.00	0.1658
2001	1.7500	1.0625	250.00	0.1658
2002	1.7813	1.0625	236.84	0.1571
2003	2.0625	1.2500	157.89	0.1047
2004	1.8100	1.4500	157.89	0.1047
2005	2.7800	1.4500	157.89	0.1047
2006	4.0000	1.4500	157.89	0.1047
2007	2.6000	1.6500	157.89	0.1047
2008	3.2300	1.5800	157.89	0.1047
2009	2.1900	1.5800	200.00	0.1327
2010	2.3000	1.7000	200.00	0.1327
2011	2.0100	1.5500	200.00	0.1327
2012	1.7400	1.4700	200.00	0.1327
2013	1.7000	1.4700	200.00	0.1327
2014	1.7000	1.5500	200.00	0.1327
2015	**1.7600**	**1.4800**	**200.00**	**0.1327**

(1) Before taxes at a rate of 5%.

At its Annual General Assembly held on 26 April 2016, the Bank's shareholders approved the distribution of dividends out of the Bank's net income for the year ended 31 December 2015 (before taxes of 5%) of LBP 200 (USD 0.1327) per common share and USD 8 per Series 2008 and Series 2009 Preferred Share. Total dividends paid in respect of 2015 represented 66.4% of net income for that year.

MANAGEMENT DISCUSSION AND ANALYSIS

THE BANK'S RATINGS

The Lebanese economy was affected in 2015 by domestic political uncertainties, rising political polarization, growing spillovers from the Syrian conflict, and the weak rule of law, in addition to severe security breaches across the country, a vacuum at the Presidency level, and the lack of a fully functioning Parliament.

During the past few months, ratings agencies maintained their ratings on Byblos Bank.

On 15 December 2015, Fitch Ratings affirmed at 'B' the long-term Issuer Default Rating (IDR) of Byblos Bank with a 'negative' outlook. It also maintained the Bank's Viability Ratings at 'b'. It said that the 'negative' outlook mirrors the outlook on the sovereign ratings.

It said that the ratings take into account the Bank's strong domestic franchise, competent management and resilient deposit base, in addition to Byblos Bank's solid liquidity. It considered that the Bank has weak capitalization, mainly due to its large holdings of sovereign debt. It said that it would downgrade the Bank's ratings in the event of a prolonged weakening of the operating environment that would affect depositor confidence, and if asset quality significantly deteriorated and reduced the Bank's capital base.

Further, the agency pointed out that the Lebanese authorities would have a high willingness to support the Bank in case of need, given its systemic importance to the banking sector and to the economy as a whole. But it noted that the authorities' ability to provide such support cannot be relied on. It added that the authorities would face difficulties in providing system-wide support for the banking sector, including to Byblos Bank, if needed.

On 10 December 2015, Moody's Investors Service affirmed the long-term deposit ratings of Byblos Bank at 'B2' on par with the Bank's baseline credit assessment. It kept the 'negative' outlook on the long-term deposit ratings. Also, it affirmed the long-term national scale ratings of Byblos Bank at 'A1.lb'.

The agency indicated the Bank's baseline credit assessment rating of 'b2' reflects first of all the Bank's exposure to Lebanon's weak operating environment, its large holdings of B2-rated Lebanese sovereign securities; and its moderate capitalization and the agency's expectation of persistent asset quality pressure. Conversely, the ratings reflect the Bank's established domestic market position, as one of the four largest banks in Lebanon, as well as its strong liquidity profile and stable, predominantly retail deposit-based, funding structure.

In May 2016, Capital Intelligence affirmed Byblos Bank's long- and short-term foreign currency ratings at 'B' and 'B', respectively. It also affirmed the Bank's Financial Strength Rating (FSR) at 'BBB-'. It maintained the Support Level at '3', given the high likelihood of official support in case of need due to Byblos Bank's systemic importance. It said the outlook on all the ratings is 'negative' and noted that the ratings continue to be restrained by the sovereign ratings of Lebanon.

The agency pointed out that Byblos Bank's ratings are supported by its improved capital adequacy, sound asset quality, comfortable liquidity level and good domestic franchise. It said that the Bank has increased its customer deposits at a moderately high rate in 2015 despite strong competition, mainly due to its strong franchise. It indicated that Byblos Bank has good access to capital markets, which has allowed it to diversify its sources of funding a lot more significantly than many Lebanese banks. It said that the Bank's loan asset quality has improved and stands at a relatively good level. It indicated that the Bank's decrease in profitability, mainly from the decline in the net interest margin which reflects a higher share of local currency business and lower interest rate mismatching. The decrease in profitability was also affected by stepped-up provisioning. High dividend payouts have kept common equity capital nearly unchanged for the past three years. It pointed out that the Bank's ratings are constrained by factors such as exposure to the sovereign, country risk and slow economic growth. It noted that Byblos Bank follows a universal banking model, offers services in commercial and retail banking through one of the largest branch networks in Lebanon, and operates in 11 locations abroad.

BYBLOS BANK S.A.L. ANNUAL REPORT 2015

CONSOLIDATED FINANCIAL STATEMENTS

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AUDITORS' REPORT

Building a better working world

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BYBLOS BANK SAL

We have audited the accompanying consolidated financial statements of Byblos Bank 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 consolidated 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

BDO, Semaan, Gholam & Co.

24 March 2016
Beirut, Lebanon

CONSOLIDATED INCOME STATEMENT

LBP Million	Notes	2015	2014
Interest and similar income	8	1,489,087	1,413,234
Interest and similar expense	9	(1,102,771)	(1,049,537)
NET INTEREST INCOME		**386,316**	**363,697**
Fee and commission income	10	134,515	149,631
Fee and commission expense	10	(12,564)	(13,767)
NET FEE AND COMMISSION INCOME		**121,951**	**135,864**
Net gain from financial instruments at fair value through profit or loss	11	67,443	66,942
Net gain from sale of financial assets at amortized cost	12	86,939	104,818
Revenue from financial assets at fair value through other comprehensive income	27	4,383	2,736
Other operating income	13	20,935	21,859
TOTAL OPERATING INCOME		**687,967**	**695,916**
Net credit losses	14	(47,908)	(39,428)
NET OPERATING INCOME		**640,059**	**656,488**
Personnel expenses	15	(180,792)	(188,500)
Other operating expenses	16	(139,187)	(111,158)
Depreciation of property and equipment	28	(23,466)	(24,882)
Amortization of intangible assets	29	(159)	(159)
TOTAL OPERATING EXPENSES		**(343,604)**	**(324,699)**
OPERATING PROFIT		**296,455**	**331,789**
Net gain on disposal of property and equipment		65	20
PROFIT BEFORE TAX		**296,520**	**331,809**
Income tax expense	17	(53,083)	(67,277)
PROFIT FOR THE YEAR		**243,437**	**264,532**
Attributable to:			
Equity holders of the parent		228,185	252,792
Non-controlling interests		15,252	11,740
		243,437	**264,532**
Earnings per share		**LBP**	**LBP**
Equity shareholders of the parent:			
Basic earnings per share	18	319.18	363.21
Diluted earnings per share	18	303.21	339.79

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

LBP Million	Notes	2015	2014
PROFIT FOR THE YEAR		**243,437**	**264,532**
OTHER COMPREHENSIVE INCOME (LOSS)			
Items to be reclassified to the income statement in subsequent periods:			
Exchange difference on translation of foreign operations		**(41,114)**	**(47,460)**
Net other comprehensive loss to be reclassified to the income statement in subsequent periods		**(41,114)**	**(47,460)**
Items not to be reclassified to the income statement in subsequent periods:			
Net unrealized (loss) gain from financial assets at fair value through other comprehensive income		(503)	10,657
Income tax effect		75	(1,546)
		(428)	**9,111**
Re-measurement gains on defined-benefit plans	37 (a)	474	977
Net other comprehensive (loss) income not to be reclassified to the income statement in subsequent periods		**46**	**10,088**
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		**(41,068)**	**(37,372)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**202,369**	**227,160**
Attributable to:			
Equity holders of the parent		198,746	227,342
Non-controlling interests		3,623	(182)
		202,369	**227,160**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

LBP Million	Notes	2015	2014
ASSETS			
Cash and balances with central banks	19	7,236,237	7,048,785
Due from banks and financial institutions	20	2,518,365	2,913,279
Loans to banks and financial institutions and reverse repurchase agreements	21	1,197,047	393,712
Financial assets given as collateral	22	1,405	7,005
Derivative financial instruments	23	1,844	6,715
Financial assets at fair value through profit or loss	24	295,845	155,582
Net loans and advances to customers at amortized cost	25	7,399,641	7,099,163
Net loans and advances to related parties at amortized cost	47	35,275	28,033
Debtors by acceptances		244,705	302,939
Financial assets at amortized cost	26	10,516,514	10,260,119
Financial assets at fair value through other comprehensive income	27	101,907	98,718
Property and equipment	28	255,125	236,379
Intangible assets	29	493	652
Assets obtained in settlement of debt	30	42,006	36,677
Other assets	31	108,001	106,780
TOTAL ASSETS		**29,954,410**	**28,694,538**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

LBP Million	Notes	2015	2014
LIABILITIES AND EQUITY			
Liabilities			
Due to central banks	32	117,412	71,146
Due to banks and financial institutions	33	744,554	911,173
Derivative financial instruments	23	2,445	5,427
Customers' deposits at amortized cost	34	24,658,431	23,377,789
Deposits from related parties at amortized cost	47	421,716	312,813
Debt issued and other borrowed funds	35	445,199	445,387
Engagements by acceptances		244,705	302,939
Other liabilities	36	147,567	163,903
Provisions for risks and charges	37	171,538	145,429
Subordinated debt	38	417,400	414,580
TOTAL LIABILITIES		**27,370,967**	**26,150,586**
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital – common shares	39	684,273	684,273
Share capital – preferred shares	39	4,840	4,840
Share premium – common shares	39	229,014	229,014
Share premium – preferred shares	39	591,083	591,083
Non-distributable reserves	40	815,884	748,879
Distributable reserves	41	99,211	95,943
Treasury shares	42	(6,807)	(6,425)
Retained earnings		61,832	39,899
Revaluation reserve of real estate	43	5,689	5,689
Change in fair value of financial assets at fair value through other comprehensive income	44	(7,961)	(7,533)
Net results of the financial period – profit		228,185	252,792
Foreign currency translation reserve		(193,842)	(164,357)
		2,511,401	**2,474,097**
NON-CONTROLLING INTERESTS		**72,042**	**69,855**
TOTAL EQUITY		**2,583,443**	**2,543,952**
TOTAL LIABILITIES AND EQUITY		**29,954,410**	**28,694,538**

The consolidated financial statements were authorized for issue in accordance with the resolution of the Board of Directors on 23 March 2016 by:

Mr. Semaan F. Bassil
Chairman and General Manager

Mr. Ziad El-Zoghbi
Head of Group Finance and Administration

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent					
LBP Million	Common shares	Preferred shares	Share premium – common shares	Share premium – preferred shares	Non-distributable reserves	Distributable reserves
Balance at 1 January 2015	684,273	4,840	229,014	591,083	748,879	95,943
Profit for the year	-	-	-	-	-	-
Other comprehensive income (loss)	-	-	-	-	-	-
Total comprehensive income (loss)	-	-	-	-	-	-
Transfer to retained earnings	-	-	-	-	-	-
Transfer to reserves and premiums	-	-	-	-	67,037	3,178
Dividends paid – subsidiaries	-	-	-	-	-	-
Equity dividends paid (note 53)	-	-	-	-	-	-
Translation difference	-	-	-	-	(20)	-
Treasury shares (note 42)	-	-	-	-	(12)	-
Put options on non-controlling interests (note 6)	-	-	-	-	-	90
Balance at 31 December 2015	**684,273**	**4,840**	**229,014**	**591,083**	**815,884**	**99,211**
Balance at 1 January 2014	684,273	4,840	229,014	588,671	672,318	97,253
Profit for the year	-	-	-	-	-	-
Other comprehensive income (loss)	-	-	-	-	-	-
Total comprehensive income (loss)	-	-	-	-	-	-
Transfer to retained earnings	-	-	-	-	-	(7,000)
Transfer to reserves and premiums	-	-	-	2,412	76,764	4,691
Dividends paid – subsidiaries	-	-	-	-	-	-
Equity dividends paid (note 53)	-	-	-	-	-	-
Treasury shares (note 42)	-	-	-	-	(203)	-
Put options on non-controlling interests (note 6)	-	-	-	-	-	999
Acquisition of additional non-controlling interests (note 5)	-	-	-	-	-	-
Balance at 31 December 2014	**684,273**	**4,840**	**229,014**	**591,083**	**748,879**	**95,943**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Treasury shares	Retained earnings	Revaluation reserve of real estate	Change in fair value of financial assets at fair value through other comprehensive income	Net results of the financial period – profit	Foreign currency translation reserve	Total	Non-controlling interests	**Total**
(6,425)	39,899	5,689	(7,533)	252,792	(164,357)	2,474,097	69,855	**2,543,952**
-	-	-	-	228,185	-	228,185	15,252	**243,437**
-	474	-	(428)	-	(29,485)	(29,439)	(11,629)	**(41,068)**
-	474	-	(428)	228,185	(29,485)	198,746	3,623	**202,369**
-	252,792	-	-	(252,792)	-	-	-	**-**
-	(70,215)	-	-	-	-	-	-	**-**
-	-	-	-	-	-	-	(5,508)	**(5,508)**
-	(161,103)	-	-	-	-	(161,103)	-	**(161,103)**
-	(15)	-	-	-	-	(35)	-	**(35)**
(382)	-	-	-	-	-	(394)	-	**(394)**
-	-	-	-	-	-	90	4,072	**4,162**
(6,807)	**61,832**	**5,689**	**(7,961)**	**228,185**	**(193,842)**	**2,511,401**	**72,042**	**2,583,443**
(10,054)	52,118	5,689	(16,644)	224,683	(123,650)	2,408,511	77,075	**2,485,586**
-	-	-	-	252,792	-	252,792	11,740	**264,532**
-	977	-	9,111	-	(35,538)	(25,450)	(11,922)	**(37,372)**
-	**977**	-	**9,111**	**252,792**	**(35,538)**	**227,342**	**(182)**	**227,160**
-	231,683	-	-	(224,683)	-	-	-	**-**
-	(83,867)	-	-	-	-	-	-	**-**
-	-	-	-	-	-	-	(4,225)	**(4,225)**
-	(161,012)	-	-	-	-	(161,012)	-	**(161,012)**
3,629	-	-	-	-	-	3,426	-	**3,426**
-	-	-	-	-	-	999	2,571	**3,570**
-	-	-	-	-	(5,169)	(5,169)	(5,384)	**(10,553)**
(6,425)	**39,899**	**5,689**	**(7,533)**	**252,792**	**(164,357)**	**2,474,097**	**69,855**	**2,543,952**

CONSOLIDATED STATEMENT OF CASH FLOWS

LBP Million	Notes	2015	2014
OPERATING ACTIVITIES			
Profit before tax		296,520	331,809
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation and amortization	28 & 29	23,625	25,041
Provision for loans and advances and direct writeoffs, net	14	15,266	43,361
Provision for balances with central banks, net	14	35,620	-
Write-back of provision for other doubtful bank accounts, net	14	-	(446)
Write-back of provision for financial assets at amortized cost, net	14	(1,571)	(3,487)
Gain on disposal of property and equipment		(65)	(20)
Gain on disposal of assets obtained in settlement of debt	13	(856)	(2,190)
Provisions for risks and charges, net		29,066	10,957
Unrealized fair value losses (gains) on financial instruments at fair value through profit or loss		5,200	(4,574)
Realized gains from financial assets		(86,688)	(108,936)
Derivative financial instruments		1,889	(527)
Operating profit before working capital changes		**318,006**	**290,988**
CHANGES IN OPERATING ASSETS AND LIABILITIES			
Due from central banks		(508,137)	(969,530)
Due to central banks		42,483	17,911
Due from banks and financial institutions		6,866	(37,020)
Financial assets given as collateral		5,600	-
Financial assets at fair value through profit or loss		(145,714)	10,557
Due to banks and financial institutions		(37,252)	(76,022)
Net loans and advances to customers and related parties		(322,986)	(369,975)
Assets obtained in settlement of debt	30	(5,784)	(2,563)
Proceeds from sale of assets obtained in settlement of debt		1,311	4,455
Other assets		(4,898)	(6,648)
Customers' and related parties' deposits		1,389,545	1,455,940
Other liabilities		417	(36,796)
Cash from operations		**739,457**	**281,297**
Provision for risks and charges paid	37	(3,325)	(1,816)
Taxation paid		(65,042)	(56,494)
Net cash from operating activities		**671,090**	**222,987**

CONSOLIDATED STATEMENT OF CASH FLOWS

LBP Million	Notes	2015	2014
INVESTING ACTIVITIES			
Financial assets at amortized cost		(167,885)	46,379
Financial assets at fair value through other comprehensive income		(3,715)	(1,431)
Loans to banks and financial institutions and reserve purchase agreements		(386,418)	466,723
Purchase of property and equipment and intangible assets		(45,972)	(23,834)
Proceeds from sale of property and equipment		233	182
Net cash (used in) from investing activities		**(603,757)**	**488,019**
FINANCING ACTIVITIES			
Debts issued and other borrowed funds		(188)	(61,102)
Subordinated debt		2,820	2,212
Treasury shares		(394)	3,426
Dividends paid to equity holders of the parent		(161,103)	(161,012)
Dividends paid to non-controlling interests		(5,508)	(4,225)
Acquisition of additional non-controlling interests		-	(10,553)
Net cash used in financing activities		**(164,373)**	**(231,254)**
Net effect of foreign exchange		**(33,572)**	**(38,725)**
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(130,612)**	**441,027**
Cash and cash equivalents at 1 January		4,896,812	4,455,785
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**45**	**4,766,200**	**4,896,812**
OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS			
Interest paid		(1,102,999)	(1,043,104)
Interest received		1,474,227	1,415,702
Dividend received		4,956	3,293

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Byblos Bank S.A.L. ("the Bank"), a Lebanese joint stock company, was incorporated in 1961 and registered under No. 14150 at the commercial registry of Beirut and under No. 39 on the list of banks published by the Central Bank of Lebanon. The Bank's head office is located on Elias Sarkis Street in Ashrafieh, Beirut, Lebanon. The Bank's shares are listed on the Beirut Stock Exchange and London SEAQ.

The Bank, together with its affiliated banks and subsidiaries (collectively "the Group"), provides a wide range of banking and insurance services, through its headquarters and branches in Lebanon and nine locations abroad (Cyprus, Belgium, United Kingdom, France, Syria, Sudan, Iraq, Democratic Republic of Congo and Armenia). Further information on the Group's structure is provided in note 4.

2. ACCOUNTING POLICIES

2.1. BASIS OF PREPARATION

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

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

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

STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by 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 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 recognized amounts and there is an intention to settle on a net basis, or to realize 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.

2.2. BASIS OF CONSOLIDATION

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

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 reassesses 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

NON-CONTROLLING INTERESTS

Non-controlling interests 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 interests 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. Profits or losses attributable to non-controlling interests are reported in the consolidated income statement as profit or loss attributable to non-controlling interests. Losses applicable to the non-controlling interest in a subsidiary are allocated to the non-controlling interest even if doing so causes the non-controlling interest to have 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.

Put options granted to non-controlling interests give rise to a financial liability for the present value of the redemption amount. Non-controlling interest continues to be recognized within equity, with changes in the carrying amounting arising from: a) an allocation of the profit or loss for the year; b) a share of changes in appropriate reserves; and c) dividends declared before the end of the reporting period. At the end of each reporting period, the non-controlling interest is then derecognized as if it was acquired at that date. The liability is recognized at the end of the reporting period at its fair value, and any difference between the amount of non-controlling interest derecognized and this liability is accounted for within equity.

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:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interests
- Derecognizes the cumulative translation differences recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

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.

AMENDMENTS TO IAS 19 *DEFINED BENEFIT PLANS: EMPLOYEE CONTRIBUTIONS*
IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined-benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. This amendment is not relevant to the Group, since none of the Group entities has defined-benefit plans with contributions from employees or third parties.

ANNUAL IMPROVEMENTS 2010-2012 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 2 *SHARE-BASED PAYMENT*
This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As the Group does not have share-based payments, this amendment is not expected to have an impact on the Group's financial position, performance or disclosures.

IFRS 3 *BUSINESS COMBINATIONS*
The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable). This amendment is not expected to have an impact on the Group's financial position, performance or disclosures.

IFRS 8 *OPERATING SEGMENTS*
The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are "similar"; and
- 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.

This amendment is not expected to have an impact on the Group's financial position, performance or disclosures.

IAS 16 *PROPERTY, PLANT AND EQUIPMENT AND* ***IAS 38*** *INTANGIBLE ASSETS*
The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset. The Group did not record any revaluation adjustment during the current year.

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 to 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. The Group is not a joint arrangement and thus 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 (or IAS 39, as applicable). 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. This amendment is not expected to have a significant impact on the Group's financial position, performance or disclosures.

2.4. STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

IFRS 9 *FINANCIAL INSTRUMENTS*
In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments, 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. IFRS 9 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 will have an effect on measuring impairment

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 and plans to adopt the new standard on the required effective date.

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 recognized 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 recognizing 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 re-measured 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 on the Group.

AMENDMENTS TO IAS 16 AND IAS 38: CLARIFICATION OF ACCEPTABLE METHODS OF DEPRECIATION AND AMORTIZATION

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 amortize 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 on 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 their separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in their separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

AMENDMENTS TO IFRS 10 AND IAS 28: SALE OR CONTRIBUTION OF ASSETS BETWEEN AN INVESTOR AND ITS ASSOCIATE OR JOINT VENTURE

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognized in full. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. These amendments must be applied prospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

ANNUAL IMPROVEMENTS 2012-2014 CYCLE

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

IFRS 5 *NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS*

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively and is not expected to have a material impact on the Group.

IFRS 7 *FINANCIAL INSTRUMENTS: DISCLOSURES*

(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments. This amendment is not expected to have a material impact on the Group.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively and is not expected to have a material impact on the Group.

IAS 19 *EMPLOYEE BENEFITS*

The amendment clarifies that market depth of high-quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high-quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively and is not expected to have a material impact on the Group.

AMENDMENTS TO IAS 1 DISCLOSURE INITIATIVE

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

AMENDMENTS TO IFRS 10, IFRS 12 AND IAS 28 INVESTMENT ENTITIES: APPLYING THE CONSOLIDATION EXCEPTION

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

2.5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOREIGN CURRENCY TRANSLATION

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

(i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at the functional currency spot rate of exchange ruling at the date the transaction first qualifies for recognition.

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 (loss) from financial instruments at fair value through profit or loss" in the consolidated income statement.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

FINANCIAL INSTRUMENTS CLASSIFICATION AND MEASUREMENT

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

(ii) Classification and measurement of financial instruments

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

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

FINANCIAL ASSETS AT AMORTIZED COST

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

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

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

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

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

BALANCES WITH CENTRAL BANKS, DUE FROM BANKS AND FINANCIAL INSTITUTIONS, LOANS TO BANKS AND FINANCIAL INSTITUTIONS, AND LOANS AND ADVANCES TO CUSTOMERS AND RELATED PARTIES – AT AMORTIZED COST

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

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

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

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

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

FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

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

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

b. Financial liabilities
Liabilities are initially measured at fair value plus, in the case of a financial liability not at fair value through profit or loss, particular transaction costs. Liabilities are subsequently measured at amortized cost or fair value.

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

- financial liabilities at fair value through profit or loss (including derivatives);
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies; and
- 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 recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18 Revenue.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Debt issued and other borrowed funds and subordinated debt
Financial instruments issued by the Group, which are not designated at fair value through profit or loss, are classified as liabilities under "Debt issued and other borrowed funds", 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 are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate method.

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

c. Derivatives recorded at fair value through profit or loss
The Group uses derivatives such as 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 recognized in "Net gain (loss) from financial instruments 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 recognized in profit or loss.

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

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

If financial assets are reclassified, the reclassification is applied prospectively from the reclassification date, which is the first day of the first reporting period following the change in business model that results in the reclassification of financial assets. Any previously recognized 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 recognized in profit or loss. If a financial asset is reclassified so that it is measured at amortized cost, its fair value at the reclassification date becomes its new carrying amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DERECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

(i) Financial assets

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

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

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

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

(ii) Financial liabilities

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

REPURCHASE AND REVERSE REPURCHASE AGREEMENTS

Securities sold under agreements to repurchase at a specified future date are not derecognized from the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership. The corresponding cash received is recognized 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 and financial institutions", reflecting the transaction's economic substances as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the EIR. When the counterparty has the right to sell or re-pledge the securities, the Group reclassifies those securities in its statement of financial position to "Financial assets at fair value through profit or loss pledged as collateral" as appropriate.

Conversely, securities purchased under agreements to resell at a specified future date are not recognized in the consolidated statement of financial position. The consideration paid, including accrued interest, is recorded in the consolidated statement of financial position within "Due from 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 (loss) from financial instruments at fair value through profit or loss" in the consolidated income statement.

FAIR VALUE MEASUREMENT

The Group measures financial instruments, such as derivatives, and financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized cost are disclosed in the notes.

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

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

The principal or the most advantageous market must be accessible by the 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

The Group's management determines the policies and procedures for both recurring fair value measurement, such as unquoted financial assets, and for non-recurring measurement, such as assets held for distribution in discontinued operations.

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

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

IMPAIRMENT OF FINANCIAL ASSETS

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

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

(i) Financial assets carried at amortized cost

For financial assets carried at amortized cost, the 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, recognized are not included in a collective assessment of impairment.

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

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the 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 recognized; the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future writeoff is later recovered, the recovery is credited to the "Net credit losses" 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.

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

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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 realizable value.

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

HEDGE ACCOUNTING

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

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

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

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

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

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

When the hedged cash flow affects the consolidated income statement, the gain or loss on the hedging instrument is

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognized when the hedged forecast transaction is ultimately recognized in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the consolidated income statement.

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

LEASING

The determination of whether an arrangement is a lease or 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 recognized as an expense in the consolidated income statement on a straight line basis over the lease term. Contingent rentals payable are recognized 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 recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

RECOGNITION OF INCOME AND EXPENSES

Revenue is recognized 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 recognized.

(i) Interest and similar income and expense
For all financial instruments measured at amortized 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.

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

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

(ii) Fee and commission income
The 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 three categories:

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

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

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

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

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

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

(v) Insurance revenue
For the insurance subsidiaries, net premiums and accessories (gross premiums) are taken to income over the terms of the policies to which they relate using the pro rata temporis method for non-marine business and 25% of gross premiums for marine business. The unearned premiums reserve represents the portion of the gross premiums written relating to the unexpired period of coverage.

If the unearned premiums reserve is not considered adequate to cover future claims arising on these premiums, a premium deficiency reserve is created.

CASH AND CASH EQUIVALENTS

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

PROPERTY AND EQUIPMENT

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

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

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

Buildings	50 years
Office equipment and furniture	6.66-12.5 years
Computer equipment and software	3.33-5 years
General installations	5 years
Vehicles	4 years

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

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

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 interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 previously held equity interest in the acquiree is re-measured at 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 recognized 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 recognized 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 re-measured 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 recognized 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 reassesses 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 recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

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

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

INTANGIBLE ASSETS

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

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

The useful lives of intangible assets are assessed to be either finite of indefinite. Intangible assets with finite lives are amortized over the useful economic life. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated income statement.

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

Key money	10-15 years

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

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

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

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries, or other available fair value indicators.

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

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

FINANCIAL GUARANTEES

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized 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 recognized less, when appropriate, cumulative amortization recognized in the consolidated income statement, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in the consolidated income statement in "Net credit losses". The premium received is recognized in the consolidated income statement on a straight line basis over the life of the guarantee in "Net fee and commission income".

PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

The Group operates defined-benefit pension plans, which require contributions to be made to separately administered funds. The cost of providing benefits under the defined-benefit plans 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, comprised 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 recognized in profit or loss on the earlier of:

- The date of the plan amendment or curtailment; and
- The date that the Group recognizes restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined-benefit liability or asset. The Group recognizes 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; and
- Net interest expense or income.

PROVISIONS FOR RISKS AND CHARGES

Provisions are recognized 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.

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 by the reporting date.

(ii) Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

TREASURY SHARES

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

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

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

ASSETS HELD IN CUSTODY AND UNDER ADMINISTRATION

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

DIVIDENDS ON ORDINARY SHARES

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

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

CUSTOMERS' ACCEPTANCES

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

SEGMENT REPORTING

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

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 recognized in the financial statements:

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

Business model
In making an assessment whether a business model's objective is to hold assets in order to collect contractual cash flows, the Group considers at which level of its business activities such assessment should be made. Generally, a business model is a matter of fact which can be evidenced by the way business is managed and the information provided to management. However, in some circumstances it may not be clear whether a particular activity involves one business model with some infrequent asset sales or whether the anticipated sales indicate that there are two different business models.

In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows the Group considers:
- management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- how management evaluates the performance of the portfolio;
- whether management's strategy focuses on earning contractual interest revenues;
- the degree of frequency of any expected asset sales;
- the reason for any asset sales; and
- whether assets that are sold are held for an extended period of time relative to their contractual maturities.

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

ESTIMATES AND ASSUMPTIONS

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, which 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 are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer-dated derivatives and discount rates, prepayment rates and default rate assumptions for asset-backed securities. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Impairment losses on loans and advances
The Group reviews its individually significant loans and advances at each 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Pension obligations
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 subject to significant uncertainty.

4. GROUP INFORMATION

The consolidated financial statements of the Group comprise the financial statements of Byblos Bank S.A.L. and the following subsidiaries:

Subsidiary	Percentage of ownership		Principal activity	Country of incorporation
	2015 %	2014 %		
Byblos Bank Europe S.A.	99.95	99.95	Banking activities through its head office in Brussels (Belgium) and two branches in London and Paris	Belgium
Adonis Insurance and Reinsurance Co. (ADIR) S.A.L.	64.00	64.00	Insurance	Lebanon
Adonis Brokerage House S.A.L.	100.00	100.00	Insurance Brokerage	Lebanon
Byblos Invest Bank S.A.L.	99.99	99.99	Investment Banking	Lebanon
Byblos Bank Africa	56.86	56.86	Commercial Banking	Sudan
Byblos Bank Syria S.A.	59.87	59.87	Commercial Banking	Syria
Byblos Bank Armenia C.J.S.C.	65.00	65.00	Commercial Banking	Armenia
Adonis Insurance and Reinsurance Syria (ADIR Syria)	76.00	76.00	Insurance	Syria
Byblos Bank RDC S.A.R.L.	66.67	66.67	Banking activities	Democratic Republic of the Congo

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. BUSINESS COMBINATIONS

Acquisition of additional interest in Byblos Bank Syria S.A.
Effective 1 January 2014, the Group acquired an additional 7.5% interest in the voting shares of Byblos Bank Syria S.A., increasing its ownership interest to 59.87%. A cash consideration of LBP 10,553 million was paid to the non-controlling interest shareholders. The carrying value of the additional interest acquired was LBP 5,384 million. The following is a schedule of additional interest acquired in Byblos Bank Syria S.A.:

LBP Million	
Cash consideration paid to non-controlling shareholders	10,553
Carrying value of additional interest in Byblos Bank Syria S.A.	(5,384)
Difference recognized within equity	**5,169**

6. MATERIAL PARTLY OWNED SUBSIDIARIES

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

PROPORTION OF EQUITY INTERESTS HELD BY NON-CONTROLLING INTERESTS:

Name	2015 %	2014 %
Byblos Bank Africa	43.14	43.14
Adonis Insurance and Reinsurance Co. (ADIR) S.A.L.	36.00	36.00
Byblos Bank Armenia C.J.S.C.	35.00	35.00
Byblos Bank Syria S.A.	40.13	40.13

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

SUMMARIZED INCOME STATEMENT FOR 2015:

LBP Million	Byblos Bank Africa	Adonis Insurance and Reinsurance Co. (ADIR) S.A.L.	Byblos Bank Armenia C.J.S.C.	Byblos Bank Syria S.A.
Net interest income	9,824	9,749	1,637	3,626
Net fee and commission income	1,220	2,997	155	2,165
Net gain from financial instruments at fair value through profit or loss	509	-	215	36,783
Other operating income	339	17,999	42	109
Net credit (losses) income	(5,351)	-	(4,220)	6,116
Total operating expenses	(7,279)	(12,253)	(4,545)	(18,821)
Income tax expense	(1,111)	(967)	(81)	(824)
Profit (loss) for the year	**(1,849)**	**17,525**	**(6,797)**	**29,154**
Attributable to non-controlling interests	**(797)**	**6,309**	**(2,379)**	**11,700**
Dividends paid to non-controlling interests	**2,710**	**2,704**	**-**	**-**

SUMMARIZED INCOME STATEMENT FOR 2014:

LBP Million	Byblos Bank Africa	Adonis Insurance and Reinsurance Co. (ADIR) S.A.L.	Byblos Bank Armenia C.J.S.C.	Byblos Bank Syria S.A.
Net interest income (expense)	16,325	5,528	3,419	(709)
Net fee and commission income	5,074	2,383	156	2,493
Net gain from financial instruments at fair value through profit or loss	1,996	2,722	1,751	24,287
Other operating income	605	15,711	220	367
Net credit losses	(2,705)	(160)	(4,714)	(8,160)
Total operating expenses	(8,870)	(9,920)	(4,771)	(6,504)
Income tax expense	(3,775)	(873)	(55)	(3,389)
Profit (loss) for the year	**8,650**	**15,391**	**(3,994)**	**8,385**
Attributable to non-controlling interests	**3,732**	**5,541**	**(1,398)**	**3,365**
Dividends paid to non-controlling interests	**1,710**	**2,379**	**-**	**-**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SUMMARIZED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015:

LBP Million	Byblos Bank Africa	Adonis Insurance and Reinsurance Co. (ADIR) S.A.L.	Byblos Bank Armenia C.J.S.C.	Byblos Bank Syria S.A.
Cash and balances with central banks	74,367	9	29,801	54,791
Due from banks and financial institutions	4,963	31,485	16,493	87,712
Balances with Parent and Group entities	44,690	130,399	834	80,058
Financial assets at fair value through profit or loss	-	25,537	-	-
Net loans and advances at amortized cost	82,049	4,583	56,019	74,582
Financial assets at amortized cost	18,469	140,732	13,034	7,704
Property and equipment	15,127	2,985	3,165	4,858
Other assets	1,882	51,879	4,862	19,810
Due to banks	(34,991)	-	(9,559)	(40,047)
Due to Parent and Group entities	(41,021)	-	-	(60,618)
Deposits at amortized cost	(106,718)	(203,354)	(89,145)	(148,611)
Other liabilities	(12,544)	(113,543)	(8,405)	(15,529)
Total equity	**46,273**	**70,712**	**17,099**	**64,710**
Attributable to non-controlling interests	**11,864**	**25,492**	**-**	**25,968**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SUMMARIZED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014:

LBP Million	Byblos Bank Africa	Adonis Insurance and Reinsurance Co. (ADIR) S.A.L.	Byblos Bank Armenia C.J.S.C.	Byblos Bank Syria S.A.
Cash and balances with central banks	90,118	21	32,997	155,748
Due from banks and financial institutions	2,226	19,273	30,429	76,787
Balances with Parent and Group entities	49,651	140,584	539	36,108
Financial assets at fair value through profit or loss	-	25,429	-	-
Net loans and advances at amortized cost	107,396	1,816	90,138	95,143
Financial assets at amortized cost	35,442	103,988	9,677	15,376
Property and equipment	16,850	2,028	3,271	7,498
Other assets	17,314	48,373	1,502	27,263
Due to banks	(29,704)	-	(24,194)	(20,120)
Due to Parent and Group entities	(77,673)	-	(12,403)	-
Deposits at amortized cost	(132,614)	(176,685)	(107,265)	(331,836)
Other liabilities	(23,588)	(104,134)	(499)	(1,489)
Total equity	**55,418**	**60,693**	**24,192**	**60,478**
Attributable to non-controlling interests	**14,209**	**21,850**	**-**	**24,270**

Put options granted to the holders of non-controlling interests of the subsidiaries Byblos Bank Africa and Byblos Bank Armenia C.J.S.C. were estimated at fair values of LBP 11,543 million and LBP 6,720 million, respectively, as at 31 December 2015 (2014: LBP 13,213 million and LBP 9,212 million respectively) (note 36). These were recorded through partial recognition of non-controlling interests.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SUMMARIZED CASH FLOW INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2015:

LBP Million	Byblos Bank Africa	Adonis Insurance and Reinsurance Co. (ADIR) S.A.L.	Byblos Bank Armenia C.J.S.C.	Byblos Bank Syria S.A.
Operating	(4,977)	27,526	12,863	(47,718)
Investing	16,415	(34,676)	(76)	6,910
Financing	(23,672)	(3,450)	7,432	-
Net increase (decrease) in cash and cash equivalent	**(12,234)**	**(10,600)**	**20,219**	**(40,808)**

SUMMARIZED CASH FLOW INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2014:

LBP Million	Byblos Bank Africa	Adonis Insurance and Reinsurance Co. (ADIR) S.A.L.	Byblos Bank Armenia C.J.S.C.	Byblos Bank Syria S.A.
Operating	36,907	16,909	(18,368)	51,892
Investing	4,767	(13,017)	(365)	6,606
Financing	(37,323)	(2,852)	-	-
Net increase (decrease) in cash and cash equivalent	**4,351**	**1,040**	**(18,733)**	**58,498**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. SEGMENT INFORMATION

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

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

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

TREASURY AND CAPITAL MARKETS is mostly responsible for the liquidity management and market risk of the Group, as well as managing the Group's own portfolio of stocks, bonds and other financial instruments. In addition, this segment provides treasury and investment products and services to investors and other institutional customers.

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

Interest income is reported net as management primarily relies on net interest revenue as performance measure, not the gross income and expense amounts.

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

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

PROFIT FOR THE YEAR INFORMATION

2015 LBP Million	Retail banking	Corporate banking	Treasury and capital markets	Other[1]	Total
Net interest income	173,501	115,851	94,241	2,723	**386,316**
Net fee and commission income	57,376	59,139	497	4,939	**121,951**
Net gain from financial instruments at fair value through profit or loss	-	-	67,443	-	**67,443**
Net gain from sale of financial assets at amortized cost	-	-	86,939	-	**86,939**
Revenue from financial assets at fair value through other comprehensive income	-	-	4,383	-	**4,383**
Other operating income	-	-	-	20,935	**20,935**
Net credit (losses) gains	(14,061)	202	(34,049)	-	**(47,908)**
Net operating income	**216,816**	**175,192**	**219,454**	**28,597**	**640,059**

[1] Other includes all non-banking activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2014 LBP Million	Retail banking	Corporate banking	Treasury and capital markets	Other[1]	Total
Net interest income	186,799	114,430	58,476	3,992	**363,697**
Net fee and commission income	66,626	62,594	376	6,268	**135,864**
Net gain from financial instruments at fair value through profit or loss	-	-	66,942	-	**66,942**
Net gain from sale of financial assets at amortized cost	-	-	104,818	-	**104,818**
Revenue from financial assets at fair value through other comprehensive income	-	-	2,736	-	**2,736**
Other operating income	-	-	-	21,859	**21,859**
Net credit (losses) gains	(8,004)	(35,197)	3,773	-	**(39,428)**
Net operating income	**245,421**	**141,827**	**237,121**	**32,119**	**656,488**

FINANCIAL POSITION INFORMATION

2015 LBP Million	Retail banking	Corporate banking	Treasury and capital markets	Other[1]	Total
Total assets	**2,497,287**	**5,182,334**	**21,869,165**	**405,624**	**29,954,410**
Total liabilities	**23,711,127**	**1,369,021**	**1,727,010**	**563,809**	**27,370,967**

2014 LBP Million	Retail banking	Corporate banking	Treasury and capital markets	Other[1]	Total
Total assets	**2,418,690**	**5,011,446**	**20,883,916**	**380,486**	**28,694,538**
Total liabilities	**22,165,961**	**1,524,642**	**1,847,712**	**612,271**	**26,150,586**

[1] Other includes all non-banking activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GEOGRAPHIC INFORMATION

The Group operates in three geographical segments, Lebanon, Europe and Other. The following table shows the distribution of the Group's net operating income and non-current assets.

2015 LBP Million	Lebanon	Europe	Other	Total
Total operating income	565,601	34,327	88,039	**687,967**
Net credit losses	(37,849)	(5,630)	(4,429)	**(47,908)**
Net operating income[2]	**527,752**	**28,697**	**83,610**	**640,059**
Non-current assets[3]	**245,234**	**10,342**	**42,048**	**297,624**

2014 LBP Million	Lebanon	Europe	Other	Total
Total operating income	563,786	50,145	81,985	**695,916**
Net credit losses	(20,054)	(6,886)	(12,488)	**(39,428)**
Net operating income[2]	**543,732**	**43,259**	**69,497**	**656,488**
Non-current assets[3]	**222,089**	**7,400**	**44,219**	**273,708**

[2] Net operating income is attributed to the geographical segment on the basis of the location of the branch/subsidiary responsible for reporting the results or advancing the funds.

[3] Non-current assets consist of property and equipment, intangible assets, and certain other assets (other than financial instruments and deferred taxes) expected to be recovered in more than twelve months after the reporting date.

8. INTEREST AND SIMILAR INCOME

LBP Million	2015	2014
Balances with central banks	263,832	199,375
Due from banks and financial institutions	9,053	9,942
Loans to banks and financial institutions and reverse repurchase agreements	36,220	21,323
Financial assets given as collateral	191	477
Loans and advances to customers at amortized cost	493,597	488,449
Loans and advances to related parties at amortized cost	1,869	1,319
Financial assets at amortized cost	684,325	692,349
	1,489,087	**1,413,234**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. INTEREST AND SIMILAR EXPENSE

LBP Million	2015	2014
Due to central banks	2,152	986
Due to banks and financial institutions	21,902	22,481
Customers' deposits at amortized cost	1,000,647	949,321
Deposits from related parties at amortized cost	15,715	13,175
Debt issued and other borrowed funds	31,124	32,227
Subordinated debt	31,231	31,347
	1,102,771	**1,049,537**

10. NET FEE AND COMMISSION INCOME

LBP Million	2015	2014
Fee and commission income		
Loans and advances	23,513	23,618
Letters of guarantee	15,857	15,861
Acceptances	5,996	9,258
Letters of credit	16,517	27,867
Credit cards	15,571	14,207
Domiciled bills	2,503	2,554
Checks for collection	2,904	3,038
Maintenance of accounts	13,048	13,305
Transfers	8,973	9,797
Safe rental	1,168	1,116
Portfolio commission	2,934	3,808
Commission on insurance-related activities	9,124	8,210
Refund of banking services	12,206	12,316
Other commissions	4,201	4,676
	134,515	**149,631**
Fee and commission expense	**(12,564)**	**(13,767)**
Net fee and commission income	**121,951**	**135,864**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

LBP Million	2015	2014
Interest and similar income from debt instruments		
Lebanese treasury bills	11,350	6,802
Certificates of deposit issued by the Central Bank of Lebanon	1,479	10
Foreign governmental debt securities	4	231
Other debt securities	79	596
	12,912	**7,639**
Gain (loss) from sale of debt instruments		
Lebanese treasury bills	1,821	3,439
Certificates of deposit issued by the Central Bank of Lebanon	274	2
Foreign governmental debt securities	(35)	388
Other debt securities	160	76
	2,220	**3,905**
Unrealized (loss) gain from revaluation of debt instruments		
Lebanese treasury bills	(6,145)	1,490
Certificates of deposit issued by the Central Bank of Lebanon	(175)	16
Foreign governmental debt securities	38	(38)
Other debt securities	127	322
	(6,155)	**1,790**
Net gain from debt instruments	**8,977**	**13,334**
Equity instruments		
(Loss) gain from sale	(2,471)	213
Unrealized gain from revaluation	955	2,784
Dividend income	573	557
Net (loss) gain from equity instruments	**(943)**	**3,554**
Unrealized gain from revaluation of structural position of a subsidiary	35,547	23,758
Foreign exchange	23,862	26,296
	67,443	**66,942**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. NET GAIN FROM SALE OF FINANCIAL ASSETS AT AMORTIZED COST

The Group derecognizes some debt instruments classified at amortized cost due to the following reasons:
- Deterioration of the credit rating below the ceiling allowed in the Group's investment policy;
- Liquidity gap and yield management;
- Exchange of certificates of deposit by the Lebanese Central Bank;
- 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 LBP Million	**Gains**	**Losses**	**Net**
Lebanese treasury bills	22,311	(1)	22,310
Certificates of deposit issued by the Central Bank of Lebanon	58,551	-	58,551
Foreign governmental debt securities	19	-	19
Other debt securities	6,059	-	6,059
	86,940	**(1)**	**86,939**

2014 LBP Million	**Gains**	**Losses**	**Net**
Lebanese treasury bills	61,457	-	61,457
Certificates of deposit issued by the Central Bank of Lebanon	42,072	(632)	41,440
Foreign governmental debt securities	185	-	185
Other debt securities	1,736	-	1,736
	105,450	**(632)**	**104,818**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. OTHER OPERATING INCOME

LBP Million	2015	2014
Net gain from sale of assets obtained in settlement of debt	856	2,190
Rental income from assets obtained in settlement of debt	1,118	1,424
Write-back of provisions for risks and charges (note 37 (b))	-	751
Other operating income from insurance-related activities	15,141	12,891
Others	3,820	4,603
	20,935	**21,859**

14. NET CREDIT LOSSES

LBP Million	2015	2014
Charge for the year		
Loans and advances to customers at amortized cost (note 25)	36,363	74,568
Balances with central banks (note 19)	35,620	-
Financial assets at amortized cost (note 26)	-	513
Bad debts written off	137	178
	72,120	**75,259**
Recoveries during the year:		
Loans and advances to customers (note 25)	(17,730)	(25,128)
Unrealized interest on loans and advances to customers (note 25)	(4,911)	(6,257)
Financial assets at amortized cost (note 26)	(1,571)	(4,000)
Doubtful banks (note 20)	-	(446)
	(24,212)	**(35,831)**
	47,908	**39,428**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. PERSONNEL EXPENSES

LBP Million	2015	2014
Salaries and related charges	144,703	139,670
Social security contributions	17,853	19,401
Bonuses	14,831	20,883
Provision for end-of-service benefits (note 37 (a))	3,405	8,546
	180,792	**188,500**

16. OTHER OPERATING EXPENSES

LBP Million	2015	2014
Taxes on interest	3,384	3,508
Taxes and duties	8,568	6,546
Contribution to deposit guarantee fund	11,913	11,185
Rent and related charges	6,433	7,297
Professional fees	11,237	8,397
Telecommunications and postage expenses	7,639	8,339
Board of Directors attendance fees	1,020	998
Maintenance and repairs	15,532	15,358
Electricity and fuel	5,878	6,165
Travel and entertainment	3,750	3,601
Publicity and advertising	12,828	11,839
Subscriptions	3,837	4,876
Legal expenses	3,997	3,566
Insurance	1,699	1,869
Guarding fees	2,175	1,996
Printings and stationery	3,111	3,207
Provisions for risks and charges (note 37 (b))	21,394	645
Donations	3,370	3,228
Others	11,422	8,538
	139,187	**111,158**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. INCOME TAX EXPENSE

The components of income tax expense for the years ended 31 December 2015 and 2014 are as follows:

LBP Million	2015	2014
Current income tax expense	48,041	55,475
Deferred tax related to origination and reversal of temporary differences	536	2,839
Other taxes	4,506	8,963
	53,083	**67,277**

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

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

LBP Million	2015	2014
Profit before tax	**296,520**	**331,809**
Of which Lebanese banks	241,615	266,563
Of which insurance companies	19,950	22,524
Of which foreign banks	34,955	42,722
Income tax at Lebanese tax rate 15%	**44,478**	**49,771**
Impact of increase resulting from:		
Different tax rates	3,915	5,149
Non-deductible expenses	6,820	4,119
	10,735	**9,268**
Impact of decrease resulting from:		
Revenues previously subject to tax	(1,838)	-
Unrealized gain from revaluation of structural position of a subsidiary	(5,334)	(3,564)
	(7,172)	**(3,564)**
Income tax	**48,041**	**55,475**
Effective income tax rate	**16.20%**	**16.72%**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

LBP Million	2015	2014
Balance at 1 January	50,219	42,275
Charge for the year	52,547	64,438
	102,766	**106,713**
Less taxes paid:		
Current year tax liability*	(26,384)	(27,380)
Prior years tax liabilities	(38,658)	(29,114)
	(65,042)	**(56,494)**
Balance at 31 December (note 36 (a))	**37,724**	**50,219**

(*) 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 LBP Million	Deferred tax assets	Deferred tax liabilities
Fair value of financial instruments	-	3,273
Carried forward taxable losses of a subsidiary	3,906	-
	3,906	**3,273**

2014 LBP Million	Deferred tax assets	Deferred tax liabilities
Fair value of financial instruments	-	3,369
Carried forward taxable losses of a subsidiary	7,583	-
	7,583	**3,369**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. EARNINGS PER SHARE

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

Diluted earnings per share is calculated by dividing the net profit attributable to ordinary equity holders of the Group (after adjusting for interest on the convertible instruments net of tax) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would have been issued on the conversion of all the dilutive potential shares into ordinary shares.

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

	2015	2014
Weighted average number of common shares outstanding during the year (*)	563,022,405	562,510,901

LBP Million	2015	2014
Net profit attributable to equity holders of the parent	228,185	252,792
(Less): proposed dividends to preferred shares	(48,480)	(48,480)
Net profit attributable to equity holders of the parent	**179,705**	**204,312**
Basic earnings per share in LBP	**319.18**	**363.21**

(*) The weighted average number of ordinary shares adopted for the computation of basic earnings per share takes into account the weighted average number of treasury shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DILUTED EARNINGS PER SHARE

The following table shows the income and share data used in the diluted earnings per share calculation:

	2015	2014
Weighted average number of ordinary shares for basic earnings per share	563,022,405	562,510,901
Effect of dilution:		
Convertible subordinated debt	117,200,000	117,200,000
Weighted average number of ordinary shares adjusted for the effect of dilution	**680,222,405**	679,710,901

LBP Million	2015	2014
Net profit attributable to equity holders of the parent	179,705	204,312
Interest on convertible debt	31,231	31,347
Less: income tax	(4,685)	(4,702)
Net profit attributable to equity holders of the parent adjusted for the effect of convertible debt	206,251	230,957
Diluted earnings per share in LBP	**303.21**	**339.79**

There were no transactions involving ordinary shares or potential ordinary 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. CASH AND BALANCES WITH CENTRAL BANKS

LBP Million	2015	2014
Cash on hand	260,252	228,866
Balances with the Central Bank of Lebanon:		
Current accounts	706,950	637,817
Time deposits	5,965,933	5,710,490
	6,672,883	**6,348,307**
Balances with central banks in other countries:		
Current accounts	273,834	406,648
Time deposits	15,482	15,490
Provision for balances with central banks in other countries (a)	(35,445)	-
	253,871	**422,138**
Accrued interest receivable	49,231	49,474
	7,236,237	**7,048,785**

(a) PROVISION FOR BALANCES WITH CENTRAL BANKS IN OTHER COUNTRIES

Movement in the provision for balances with central banks in other countries during the year was as follows:

LBP Million	2015	2014
At 1 January	-	-
Charge for the year (note 14)	35,620	-
Foreign exchange	(175)	-
At 31 December	**35,445**	**-**

Included under “Provision for balances with central banks in other countries” is a provision amounting to LBP 31,686 million booked by the Group during the year ended 31 December 2015 against balances held with the Central Bank of Iraq – Kurdistan.

(b) OBLIGATORY RESERVES:

- In accordance with the Central Bank of Lebanon’s rules and regulations, 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 exempt 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. Obligatory reserve requirements for banks operating in Lebanon and the related covering time deposits and current accounts amounted to LBP 2,610,080 million and LBP 2,823,076 million respectively as at 31 December 2015 (2014: LBP 2,476,029 million and LBP 2,557,673 million respectively).

- Subsidiary banks and branches operating in foreign countries are also subject to obligatory reserve requirements determined based on the banking rules and regulations of the countries in which they operate. As of 31 December 2015, obligatory reserve requirements for banks operating in foreign countries and the related covering time deposits, current accounts and cash on hand amounted to LBP 106,711 million (2014: LBP 102,090 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. DUE FROM BANKS AND FINANCIAL INSTITUTIONS

LBP Million	2015	2014
Banks		
Current accounts	767,301	1,506,564
Time deposits	1,739,756	1,385,453
Accrued interest receivable	1,013	834
Doubtful bank accounts	1,766	2,038
Provision for doubtful bank accounts	(1,766)	(2,038)
	2,508,070	**2,892,851**
Financial institutions:		
Current accounts	**2,305**	**9,982**
Registered exchange companies:		
Current accounts	6,740	8,027
Doubtful exchange companies accounts	1,922	1,922
Provision for doubtful exchange companies accounts	(1,922)	(1,922)
	6,740	**8,027**
Brokerage companies:		
Current accounts	**1,250**	**2,419**
	2,518,365	**2,913,279**

DOUBTFUL BANKS AND REGISTERED EXCHANGE COMPANIES

Following is the movement in the provisions for doubtful banks and registered exchange companies during the year:

	2015			2014		
LBP Million	Banks	Registered exchange companies	Total	Banks	Registered exchange companies	Total
Balance at 1 January	2,038	1,922	3,960	2,377	2,259	**4,636**
Write-back (note 14)	-	-	-	(109)	(337)	**(446)**
Exchange difference	(272)	-	(272)	(230)	-	**(230)**
Balance at 31 December	**1,766**	**1,922**	**3,688**	**2,038**	**1,922**	**3,960**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. LOANS TO BANKS AND FINANCIAL INSTITUTIONS AND REVERSE REPURCHASE AGREEMENTS

LBP Million	2015	2014
Loans to banks and financial institutions	167,932	184,692
Accrued interest receivable	805	993
	168,737	**185,685**
Discounted acceptances	91,738	209,198
Interest received in advance	(304)	(1,171)
	91,434	**208,027**
Reverse repurchase agreements	932,500	-
Accrued interest receivable	4,376	-
	936,876	-
	1,197,047	**393,712**

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

Balance USD (000)	Balance LBP Million	Average interest rate %	Collateral type	Collateral value LBP Million
618,574	**932,500**	**2.61**	**BDL CDs**	**934,650**

The Group has a program to purchase securities under agreements to resell ("reverse repos"). The Group has an obligation to return the securities and the counterparty retains substantially all the risks and rewards of ownership. Consequently, the securities are not recognized by the Group, which instead records a separate asset under reverse repurchase agreements, reflecting the transaction's economic substance as a loan by the Group.

As of 31 December 2015, the Group had Certificates of Deposit issued by the Central Bank of Lebanon with a total nominal amount of USD 620 million bought from a financial institution under the agreement to resell them during the first half of 2016 (31 December 2014: nil).

Net interest income on the reverse repurchase agreements amounted to LBP 22,573 million for the year ended 31 December 2015 (31 December 2014: LBP 8,093 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. FINANCIAL ASSETS GIVEN AS COLLATERAL

LBP Million	2015	2014
Treasury bills mortgaged in favor of the Central Bank of Lebanon, at amortized cost	1,387	6,915
Accrued interest receivable	18	90
	1,405	**7,005**

The balance represents treasury bills pledged as collateral for loans obtained from the Central Bank of Lebanon during 2010 (note 32).

23. DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year-end and are neither indicative of 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.

	2015			2014		
LBP Million	Assets	Liabilities	Notional amount	Assets	Liabilities	Notional amount
Held for trading						
Currency swaps	314	392	170,982	167	155	315,869
Forward foreign exchange contracts	1,530	2,053	236,326	6,548	5,272	304,771
	1,844	**2,445**	**407,308**	**6,715**	**5,427**	**620,640**

FORWARDS

Forwards 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.

SWAPS

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate, or equity index.

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.

DERIVATIVE FINANCIAL INSTRUMENTS HELD OR ISSUED FOR TRADING PURPOSES

Most of the Group's derivative trading activities relate to deals with customers that are normally offset by transactions with other counterparties. Also included under this classification are any derivatives entered into for risk management purposes that do not meet the hedge accounting criteria.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

LBP Million	2015	2014
Quoted		
Lebanese treasury bills – Eurobonds	216,656	85,811
Foreign governmental debt securities	-	710
Debt securities issued by banks and financial institutions	2,440	2,068
Equity securities	35,669	35,942
	254,765	**124,531**
Unquoted		
Lebanese treasury bills – denominated in LBP	10,348	27,861
Certificates of deposit issued by the Central Bank of Lebanon – denominated in LBP	27,714	3,190
Corporate bonds	3,018	-
	41,080	**31,051**
	295,845	**155,582**

25. NET LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST

LBP Million	2015	2014
Commercial loans	5,197,877	5,173,799
Consumer loans	2,597,621	2,393,641
	7,795,498	**7,567,440**
Less		
Individual impairment allowances	(183,738)	(222,680)
Collective impairment allowances	(131,448)	(148,135)
Unrealized interest	(80,671)	(97,462)
	7,399,641	**7,099,163**

Bad loans and related provisions and unrealized interest which fulfill certain requirements have been transferred to off financial position accounts. The gross balance of these loans amounted to LBP 118,539 million as of 31 December 2015 (2014: LBP 57,528 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Movement of unrealized interest on substandard, doubtful, and bad loans during the year was as follows:

2015 LBP Million	Commercial loans	Consumer loans	Total
Balance at 1 January	97,217	245	**97,462**
Add (less)			
Unrealized interest for the year	23,207	1,623	**24,830**
Amounts transferred from off financial position	661	-	**661**
Amounts transferred to off financial position	(23,165)	-	**(23,165)**
Recoveries (note 14)	(4,751)	(160)	**(4,911)**
Amounts written off	(4,003)	(35)	**(4,038)**
Difference of exchange	(9,994)	(174)	**(10,168)**
Balance at 31 December	**79,172**	**1,499**	**80,671**

2014 LBP Million	Commercial loans	Consumer loans	Total
Balance at 1 January	81,565	289	**81,854**
Add (less)			
Unrealized interest for the year	30,850	35	**30,885**
Amounts transferred from off financial position	114	-	**114**
Recoveries (note 14)	(6,257)	-	**(6,257)**
Amounts written off	(3,714)	-	**(3,714)**
Difference of exchange	(5,341)	(79)	**(5,420)**
Balance at 31 December	**97,217**	**245**	**97,462**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Movement of the individual impairment allowances during the year was as follows:

2015 LBP Million	Commercial loans	Consumer loans	Total
Balance at 1 January	149,293	73,387	**222,680**
Add (less)			
Charge for the year (note 14)	11,450	21,463	**32,913**
Transfer from commercial to consumer	(64)	64	**-**
Amounts written off	(4,378)	(443)	**(4,821)**
Recoveries (note 14)	(10,639)	(7,091)	**(17,730)**
Transfer to off financial position	(40,978)	-	**(40,978)**
Transfer from collective impairment allowances	6,704	493	**7,197**
Difference of exchange	(13,953)	(1,570)	**(15,523)**
Balance at 31 December	**97,435**	**86,303**	**183,738**
Gross amount of loans individually determined to be impaired	**233,616**	**132,748**	**366,364**

2014 LBP Million	Commercial loans	Consumer loans	Total
Balance at 1 January	168,202	45,401	**213,603**
Add (less)			
Charge for the year (note 14)	16,428	8,316	**24,744**
Amounts written off	(1,685)	(42)	**(1,727)**
Recoveries (note 14)	(18,951)	(4,427)	**(23,378)**
Transfer from off financial position	592	-	**592**
Transfer from collective impairment allowances	(108)	25,377	**25,269**
Difference of exchange	(15,185)	(1,238)	**(16,423)**
Balance at 31 December	**149,293**	**73,387**	**222,680**
Gross amount of loans individually determined to be impaired	**312,251**	**105,382**	**417,633**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Movement of the collective impairment allowances during the year was as follows:

2015 LBP Million	**Commercial loans**	**Consumer loans**	**Total**
Balance at 1 January	137,278	10,857	**148,135**
Add (less):			
Charge for the year (note 14)	3,450	-	**3,450**
Transfer from commercial to consumer	(588)	588	**-**
Transfer to individual impairment allowances	(6,704)	(493)	**(7,197)**
Difference of exchange	(12,885)	(55)	**(12,940)**
Balance at 31 December	**120,551**	**10,897**	**131,448**

2014 LBP Million	**Commercial loans**	**Consumer loans**	**Total**
Balance at 1 January	98,413	32,256	**130,669**
Add (less)			
Charge for the year (note 14)	45,726	4,098	**49,824**
Amounts written off	(447)	-	**(447)**
Recoveries (note 14)	(1,750)	-	**(1,750)**
Transfer to individual impairment allowances	108	(25,377)	**(25,269)**
Difference of exchange	(4,772)	(120)	**(4,892)**
Balance at 31 December	**137,278**	**10,857**	**148,135**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. FINANCIAL ASSETS AT AMORTIZED COST

LBP Million	2015	2014
Quoted		
Lebanese treasury bills – Eurobonds	2,038,651	2,471,098
Foreign governmental debt securities	125,272	134,509
Debt securities issued by banks and financial institutions	225,215	500,975
Corporate bonds	5,788	5,792
Gross quoted financial assets at amortized cost	**2,394,926**	**3,112,374**
Provision for impairment	-	(1,574)
	2,394,926	**3,110,800**
Unquoted		
Lebanese treasury bills – denominated in LBP	3,813,756	3,202,602
Certificates of deposit issued by the Central Bank of Lebanon – denominated in LBP	3,503,859	3,900,838
Certificates of deposit issued by the Central Bank of Lebanon – EuroCDs	770,570	12,522
Corporate bonds	216	210
Certificates of deposit issued by banks and financial institutions	33,187	33,147
	8,121,588	**7,149,319**
	10,516,514	**10,260,119**

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

2015 LBP Million	Other debt securities	Total
Balance at 1 January	1,574	1,574
Write-back during the year (note 14)	(1,571)	(1,571)
Exchange difference	(3)	(3)
Balance at 31 December	-	-

2014 LBP Million	Other debt securities	Total
Balance at 1 January	5,062	5,062
Write-back during the year (note 14)	(4,000)	(4,000)
Charge for the year (note 14)	513	513
Exchange difference	(1)	(1)
Balance at 31 December	**1,574**	**1,574**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

LBP Million	2015	2014
Quoted shares	48,241	50,986
Unquoted shares	53,666	47,732
	101,907	**98,718**

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

	2015			2014		
LBP Million	Carrying amount	Cumulative fair value changes	Dividend income	Carrying amount	Cumulative fair value changes	Dividend income
Unquoted shares:						
Banque de l'Habitat S.A.L.	26,647	21,459	462	24,430	19,242	458
Intra Investment Company S.A.L.	17,591	4,567	-	17,591	4,567	-
Interbank Payment Network (IPN) S.A.L.	1,360	357	51	1,345	342	85
Arab Trade Financing Program	2,118	626	-	2,118	626	-
Liquidity Management Fund Bank	1,403	(28)	-	1,431	-	-
Impact Fund	1,569	-	-	-	-	-
Others	2,978	383	-	817	368	-
Quoted shares:						
Jordan Ahli Bank	48,241	(32,173)	3,870	50,986	(29,428)	2,193
	101,907	**(4,809)**	**4,383**	**98,718**	**(4,283)**	**2,736**

Dividend income amounted to LBP 4,383 million for the year ended 31 December 2015 (2014: LBP 2,736 million) and resulted from equity instruments held at year-end (2014: the same).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28. PROPERTY AND EQUIPMENT

2015 LBP Million	Buildings	Motor vehicles	Furniture and equipment	Deposits	Advance payments	Total
Cost:						
At 1 January 2015	243,194	2,689	223,789	703	1,546	**471,921**
Additions	25,661	636	16,770	-	2,905	**45,972**
Transfers	-	-	313	-	(313)	**-**
Disposals	-	(165)	(969)	-	-	**(1,134)**
Foreign exchange difference	(3,716)	(25)	(3,742)	(16)	(7)	**(7,506)**
At 31 December 2015	**265,139**	**3,135**	**236,161**	**687**	**4,131**	**509,253**
Depreciation:						
At 1 January 2015	54,569	2,390	178,583	-	-	**235,542**
Depreciation during the year	5,872	178	17,416	-	-	**23,466**
Related to disposals	-	(165)	(801)	-	-	**(966)**
Foreign exchange difference	(547)	(133)	(3,234)	-	-	**(3,914)**
At 31 December 2015	**59,894**	**2,270**	**191,964**	**-**	**-**	**254,128**
Net carrying value:						
At 31 December 2015	**205,245**	**865**	**44,197**	**687**	**4,131**	**255,125**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2014 LBP Million	Buildings	Motor vehicles	Furniture and equipment	Deposits	Advance payments	Total
Cost:						
At 1 January 2014	238,467	2,824	219,077	719	579	**461,666**
Additions	10,015	145	12,633	1	1,040	**23,834**
Transfers	-	-	70	3	(73)	**-**
Disposals	-	(157)	(3,897)	-	-	**(4,054)**
Foreign exchange difference	(5,288)	(123)	(4,094)	(20)	-	**(9,525)**
At 31 December 2014	**243,194**	**2,689**	**223,789**	**703**	**1,546**	**471,921**
Depreciation:						
At 1 January 2014	50,126	2,401	165,909	-	-	**218,436**
Depreciation during the year	5,036	185	19,661	-	-	**24,882**
Related to disposals	-	(83)	(3,809)	-	-	**(3,892)**
Foreign exchange difference	(593)	(113)	(3,178)	-	-	**(3,884)**
At 31 December 2014	**54,569**	**2,390**	**178,583**	**-**	**-**	**235,542**
Net carrying value:						
At 31 December 2014	**188,625**	**299**	**45,206**	**703**	**1,546**	**236,379**

The cost of buildings at 31 December 2015 and 2014 includes the revaluation differences of properties valued during prior years in accordance with Law 282 dated 30 December 1993, and approved by the Central Committee of the Bank of Lebanon.

Revaluation differences on property and equipment reflected as revaluation reserve of real estate in equity amounted to LBP 5,689 million as at 31 December 2015 (2014: the same) (note 43).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29. INTANGIBLE ASSETS

LBP Million	2015	2014
Cost:		
At 1 January and 31 December	2,303	2,303
Accumulated amortization:		
At 1 January	1,651	1,492
Amortization expense for the year	159	159
At 31 December	**1,810**	**1,651**
Net carrying value:		
At 31 December	**493**	**652**

30. ASSETS OBTAINED IN SETTLEMENT OF DEBT

LBP Million	2015	2014
Cost:		
At 1 January	41,836	41,538
Additions	5,784	2,563
Disposals	(455)	(2,265)
At 31 December	**47,165**	**41,836**
Impairment:		
At 1 January and 31 December	(5,159)	(5,159)
Net carrying value:		
At 31 December	**42,006**	**36,677**

Advance payments received in connection with future sale transactions for the above assets amounted to LBP 3,442 million as of 31 December 2015 (2014: LBP 2,220 million) (note 36).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. OTHER ASSETS

LBP Million		2015	2014
Obligatory deposits	(a)	15,365	16,047
Other assets	(b)	88,730	83,150
Deferred tax assets (note 17)		3,906	7,583
		108,001	**106,780**

a) Obligatory deposits consist of deposits at a percentage of the share capital of subsidiary banks that were blocked at incorporation as a guarantee with the authorities. These deposits shall be returned to the subsidiary banks without any interest upon liquidation of their activities.

b) Other assets comprise the following:

LBP Million	2015	2014
Prepaid rent	3,270	2,585
Printings and stationery	3,279	2,746
Credit card balances due from customers	17,611	17,558
Insurance premiums receivable	3,301	3,687
Reinsurers' share of technical reserves of subsidiary insurance companies	37,025	32,918
Receivables from the National Social Security Fund	11,487	8,672
Other debit balances	12,757	14,984
	88,730	**83,150**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. DUE TO CENTRAL BANKS

LBP Million	2015	2014
Current accounts	5,297	2,905
Time deposits	6,245	6,370
Loans due to the Central Bank of Lebanon	103,515	60,640
Loan due to the Central Bank of Armenia	1,997	1,160
Accrued interest payable	358	71
	117,412	**71,146**

LOANS DUE TO THE CENTRAL BANK OF LEBANON:

- The Bank 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 the Central Bank of Lebanon to banks. The balance amounted to LBP 102,128 million as of 31 December 2015 (2014: LBP 53,725 million). The Bank pledged as collateral against this balance certificates of representation signed by the Bank's customers.

- During 2010, the Bank obtained three loans from the Central Bank of Lebanon to finance customers affected by the July 2006 war. These loans were originally granted in the amount of LBP 8,810 million, out of which LBP 1,895 million matured during 2013 and LBP 5,528 million matured during 2015. These loans are secured by the pledge of Lebanese treasury bills amounting to LBP 1,387 million included under financial assets given as collateral as of 31 December 2015 (2014: LBP 6,915 million) (note 22).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. DUE TO BANKS AND FINANCIAL INSTITUTIONS

LBP Million	2015	2014
Banks:		
Current accounts	81,537	140,805
Term loans	165,484	164,164
Time deposits	223,777	247,892
Cash margins	82,810	141,994
Accrued interest payable	3,131	4,170
	556,739	**699,025**
Financial institutions:		
Current accounts	3,644	5,597
Term loans	149,286	167,107
Time deposits	21,750	29,871
Accrued interest payable	1,518	1,323
	176,198	**203,898**
Registered exchange companies:		
Current accounts	2,975	1,272
Time deposits	7,024	6,747
Accrued interest payable	19	7
	10,018	**8,026**
Brokerage institutions:		
Current accounts	102	224
Time deposits	1,488	-
Accrued interest payable	9	-
	1,599	**224**
	744,554	**911,173**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34. CUSTOMERS' DEPOSITS AT AMORTIZED COST

LBP Million	2015	2014
Current accounts	3,245,552	3,264,135
Term deposits	20,176,288	18,986,964
Cash margins	1,114,643	1,004,709
Accrued interest payable	121,948	121,981
	24,658,431	**23,377,789**

35. DEBT ISSUED AND OTHER BORROWED FUNDS

	Maturity	Interest rate %	2015 LBP Million	2014 LBP Million
Bonds (*)				
Issue 2011	24/06/2021	7.00	444,583	444,771
Accrued interest payable			616	616
			445,199	**445,387**

(*) The Bank has undertaken not to use any of the proceeds of the issue in Sudan, Syria or the Democratic Republic of the Congo. The Bank shall pay interest on the bonds without deduction or withholding for taxes. The bonds are redeemable, in whole or in part, at the option of the Bank at any time after the first anniversary of the issue date, in the event of changes in the Lebanese tax law that will result in taxes on interest on the bonds in excess of the current applicable tax rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36. OTHER LIABILITIES

LBP Million	2015	2014
Accrued expenses	29,015	36,854
Fixed-asset suppliers	607	674
Unearned commission and interest	5,274	5,531
Cash margins related to companies under establishment	2,220	1,653
Insurance premiums received in advance	3,222	2,735
Payables to the National Social Security Fund	1,851	1,989
Advance payments linked to assets obtained in settlement of debt (note 30)	3,442	2,220
Current tax liability (a)	50,771	63,996
Deferred tax liability (note 17)	3,273	3,369
Put options on non-controlling interests (note 6)	18,263	22,425
Other creditors	29,629	22,457
	147,567	**163,903**

(a) Current tax liability

LBP Million	2015	2014
Income tax due (note 17)	37,724	50,219
Withholding tax on salaries	3,095	2,026
Withholding tax on interest earned by customers	6,717	8,224
Value added tax	396	170
Other taxes	2,839	3,357
	50,771	**63,996**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37. PROVISIONS FOR RISKS AND CHARGES

LBP Million	2015	2014
Technical reserves of insurance subsidiaries	94,341	90,074
Employees' end-of-service benefits (a)	45,754	46,320
Other provisions (b)	31,443	9,035
	171,538	**145,429**

(a) Employees' end-of-service benefits

The Bank has two defined-benefit plans covering substantially all of its employees. The first requires contributions to be made to the National Social Security Fund. The entitlement to and level of these end-of-service benefits provided depends on the employees' length of service, the employees' salaries, contributions paid to the National Social Security Fund, and other requirements outlined in the Lebanese Labor Law. 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. End-of-service benefits for employees at foreign branches and subsidiaries are accrued for in accordance with the laws and regulations of the respective countries in which the branches and subsidiaries are located.

Movement in the provision for employees' end-of-service benefits during the year was as follows:

LBP Million	2015	2014
Balance at 1 January	46,320	40,606
Costs charged to the income statement (note 15):		
Service costs	4,442	5,324
Past service costs	(4,522)	-
Net interest	3,485	3,222
	3,405	**8,546**
Re-measurement (gains) losses in other comprehensive income:		
Experience adjustments	(474)	(977)
	(474)	**(977)**
End-of-service benefits paid during the year	(3,325)	(1,816)
Foreign exchange	(172)	(39)
Balance at 31 December	**45,754**	**46,320**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Defined-benefit plans in Lebanon constitute more than 85% of the Group's retirement obligation. The principal assumptions used in determining the end-of-service benefit obligations of these plans are shown below:

	2015	2014
Economic assumptions		
Discount rate	8.5%	8.5%
Future salary increase	5.5%	5.5%
Future expected return on contributions	5.0%	5.0%
Bonus	Last 2 years average	Last 2 years average
	as a % of basic	as a % of basic
Demographic assumptions		
Retirement age	Earliest of 64 or completion of 20 contribution years	Earliest of 64 or completion of 20 contribution years
Mortality rate	None	None
Turnover rate	2.0%	2.0%

A quantitative sensitivity analysis as a result of an increase/decrease of 50 basis points in the significant assumptions as at 31 December 2015 is shown below:

	Discount rate		Future salary increase		Future expected return on contributions	
LBP Million	Increase	Decrease	Increase	Decrease	Increase	Decrease
Impact on net defined benefit obligations						
2015	(1,246)	1,338	2,647	(2,509)	(1,276)	1,236
2014	(1,421)	1,531	2,763	(2,611)	(1,195)	1,154

The sensitivity analyses above have been determined based on a method that extrapolates the impact on net defined-benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

(b) Other provisions

LBP Million	2015	2014
Provision for contingencies	15,720	-
Provision for legal claims	10,254	4,523
Other	5,469	4,512
	31,443	**9,035**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Movement in other provisions during the year was as follows:

LBP Million	2015	2014
At 1 January	9,035	12,853
Charge for the year (note 16)	21,394	645
Write-back during the year (note 13)	-	(751)
Writeoff during the year	-	(2,641)
Foreign exchange	1,014	(1,071)
At 31 December	**31,443**	**9,035**

38. SUBORDINATED DEBT

LBP Million	2015	2014
Nominal value	441,692	441,520
Unamortized discount	(24,455)	(27,022)
Accrued interest payable	163	82
	417,400	**414,580**

On 21 December 2012, the Bank signed a USD 300 million subordinated loan agreement with an international financial institution, whereby the latter acted as an issuer of USD 300 million subordinated notes convertible into Byblos Bank S.A.L. shares or Global Depository Receipts (GDRs) according to the following terms:

Number of notes:	30,000
Note's issue price:	USD 10,000
Note's nominal value:	USD 10,000
Date of issue:	21 December 2012
Maturity:	On 21 December 2022, subject to the earlier conversion of these notes, in whole or in part, into Byblos Bank S.A.L. shares or GDRs at a price of USD 2.50 per share or USD 125 per GDR.
Interest rate:	Contractual interest rate of 6.5% payable semi-annually.
Rights of holders:	The noteholder has the right to convert all or a portion of the subordinated notes into Byblos Bank S.A.L. shares or GDRs at a conversion price of USD 2.50 per share or USD 125 per GDR.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The convertible subordinated loan (net of subordinated notes held by a consolidated subsidiary) was recorded at issuance as follows:

LBP Million	
Nominal value of convertible bonds	441,692
Equity component	(31,618)
Liability component	**410,074**

The equity component of the convertible subordinated loan is recorded in equity under "non-distributable reserves" (note 40).

39. SHARE CAPITAL

	2015			2014		
	No. of shares	Share capital LBP Million	Share premium LBP Million	No. of shares	Share capital LBP Million	Share premium LBP Million
Common shares	565,515,040	684,273	229,014	565,515,040	684,273	229,014
	565,515,040	**684,273**	**229,014**	**565,515,040**	**684,273**	**229,014**
Preferred shares						
Series 2008	2,000,000	2,420	295,154	2,000,000	2,420	295,154
Series 2009	2,000,000	2,420	295,929	2,000,000	2,420	295,929
	4,000,000	**4,840**	**591,083**	**4,000,000**	**4,840**	**591,083**

The capital of the Bank is divided into 569,515,040 shares of LBP 1,210, each fully paid (2014: the same).

PREFERRED SHARES

i) Series 2008 Preferred Shares

On 15 August 2008, and based on the decision of the Extraordinary General Assembly held on 18 July 2008, the Bank issued Series 2008 Preferred Shares according to the following terms:

Number of shares:	2,000,000
Share's issue price:	USD 100
Share's nominal value:	LBP 1,200
Issue premium:	USD (000) 195,790 (equivalent to LBP 295,154 million) calculated in USD as the difference between the total issue of USD (000) 200,000 and the total par value of the issue amounting to LBP 2,400 million and after deducting issuance commission for the issue amounting to USD (000) 2,618.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Benefits:	Non-cumulative annual dividends of USD 8.00 per share, subject to the availability of non-consolidated distributable net profits.
Repurchase right:	Redeemable (at a date subsequent to the approval of 2013 accounts by the general assembly) at the Bank's option at the issue price plus any declared but unpaid distributions for all the years preceding the year of the call, with the condition that at least 25% of the original number of the preferred shares are called each time.

In 2009, the par value of Series 2008 Preferred Shares was increased from LBP 1,200 to LBP 1,210.

ii) Series 2009 Preferred Shares

On 4 September 2009, and based on the decision of the Extraordinary General Assembly held on 1 August 2009, the Bank issued Series 2009 Preferred Shares according to the following terms:

Number of shares:	2,000,000
Share's issue price:	USD 96
Share's nominal value:	LBP 1,210
Issue premium:	USD (000) 188,313 (equivalent to LBP 283,881 million) calculated in USD as the difference between the total issue of USD (000) 192,000 and the total par value of the issue amounting to LBP 2,420 million and after deducting issuance commissions of USD (000) 2,082.
Benefits:	Non-cumulative annual dividends of USD 8.00 per share, subject to the availability of non-consolidated distributable net profits.
Repurchase right:	Redeemable (at a date subsequent to the approval of 2014 accounts by the general assembly) at the Bank's option at USD 100 plus any declared but unpaid distributions for all the years preceding the year of the call, with the condition that at least 25% of the original number of the preferred shares are called each time.

During 2014, the Bank transferred LBP 2,412 million from retained earnings to the share premium on Series 2009 Preferred Shares for the difference between the redemption price and the issue price.

LISTING OF SHARES

As of 31 December 2015 and 2014 the Bank's shares were listed as follows:

LBP Million	**Stock exchange**	**2015**	**2014**
Ordinary shares	Beirut	502,605,340	502,644,190
Global Depository Receipts (*)	London SEAQ and Beirut	1,258,194	1,257,417
Preferred shares	Beirut	4,000,000	4,000,000

(*) Global Depository Receipts (GDRs) can be issued at a ratio of 50 common shares per one GDR.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

40. NON-DISTRIBUTABLE RESERVES

LBP Million	Legal reserve	Reserves for capital increase	Equity component of convertible subordinated debt	Reserve for general banking risks	Other reserves	Total
Balance at 1 January 2015	247,366	61,790	31,618	244,125	163,980	**748,879**
Appropriation from retained earnings	24,511	3,327	-	28,596	11,734	**68,168**
Reclassification to distributable reserve	-	-	-	(1,131)	-	**(1,131)**
Net loss on sale of treasury shares	-	(12)	-	-	-	**(12)**
Translation difference	-	-	-	(20)	-	**(20)**
Balance at 31 December 2015	**271,877**	**65,105**	**31,618**	**271,570**	**175,714**	**815,884**
Balance at 1 January 2014	225,923	54,659	31,618	209,994	150,124	**672,318**
Appropriation from retained earnings	21,443	7,334	-	34,131	13,856	**76,764**
Net loss on sale of treasury shares	-	(203)	-	-	-	**(203)**
Balance at 31 December 2014	**247,366**	**61,790**	**31,618**	**244,125**	**163,980**	**748,879**

LEGAL RESERVE

According to the Lebanese Code of Commerce and to the Code of Money and Credit, the Bank is required to transfer 10% of its annual net profit to a legal reserve. In addition, subsidiaries and branches are also subject to legal reserve requirements based on the rules and regulations of the countries in which they operate. This reserve cannot be distributed as dividends.

During 2015, the Group appropriated LBP 24,511 million from 2014 profits to the legal reserve (2014: LBP 21,443 million).

RESERVES FOR CAPITAL INCREASE

This represents regulatory reserves constituted in accordance with circulars issued by the Central Bank of Lebanon and the Banking Control Commission. These reserves cannot be distributed as dividends and comprise the following:

LBP Million	2015	2014
Reserve equivalent to gain on sale of assets acquired in settlement of debt	30,676	29,595
Reserve equivalent to provisions recovered	9,737	9,737
Reserve against assets obtained in settlement of debt	15,079	12,833
Reserve against realized gain from liquidation of fixed position	8,870	8,870
Others	743	755
	65,105	**61,790**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

RESERVE FOR GENERAL BANKING RISKS

According to Central Bank of Lebanon regulations, banks are required to appropriate from their annual net profit a minimum of 0.2% and a maximum of 0.3% of total risk-weighted assets and off statement of financial position items based on rates specified by the Central Bank of Lebanon to cover general banking risks. The consolidated ratio should not be less than 1.25% of these risks at the end of year ten (2017) and 2% at the end of year twenty (2027). This reserve cannot be distributed as dividends.

The appropriation in 2015 from the profits of the year 2014 amounted to LBP 28,596 million (2014: LBP 34,131 million).

OTHER RESERVES

Other reserves consist of the following:

- During 2013, the Group transferred an amount of LBP 31,077 million from retained earnings to other reserves related to the subordinated debt.

- Non-distributable reserves of subsidiaries appropriated from retained earnings as required by the laws applicable in the countries in which they operate. During 2015, the Group transferred an amount of LBP 9,039 million from retained earnings to other reserves in this respect (2014: LBP 13,856 million).

- According to BCC Circular No. 280 dated 2 January 2015, banks are required to appropriate from their annual profit 0.5% of performing retail loans up to 30 days past due (with certain exemptions) as at 31 December 2014 with effect for the year 2015. Additionally, the Bank will appropriate an additional 0.5% every year until 2020. On 15 May 2015, the General Assembly Meeting of the Bank allocated an amount of LBP 2,695 million as a reserve for retail loans (2014: nil).

As of 31 December 2015, "Other reserves" include reserves of LBP 87,451 million maintained by the subsidiary Byblos Bank Europe to meet several legal limits and requirements (2014: LBP 87,932 million).

41. DISTRIBUTABLE RESERVES

LBP Million	2015	2014
General reserves	93,789	90,521
Other capital reserves	5,422	5,422
	99,211	**95,943**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GENERAL RESERVES

The Group appropriates general reserves from its retained earnings to strengthen its equity. The movement in general reserves during the year was as follows:

LBP Million	2015	2014
At 1 January	90,521	91,831
Appropriation to/from retained earnings	2,047	(2,309)
Impact from derecognition of non-controlling interests	90	999
Reclassification from non-distributable reserves	1,131	-
At 31 December	**93,789**	**90,521**

OTHER CAPITAL RESERVES

LBP Million	2015	2014
Premium on capital increase of Byblos Bank Armenia C.J.S.C.	1,026	1,026
Premium on capital increase of Byblos Bank Africa	4,396	4,396
	5,422	**5,422**

42. TREASURY SHARES

Movement of treasury shares recognized in the statement of financial position for the years 2015 and 2014 was as follows:

	Common shares		Global Depository Receipts	
YEAR ENDED 31 DECEMBER 2015	No. of shares	Amount USD (000)	No. of shares	Amount USD (000)
At 1 January 2015	2,047,426	3,652	7,273	610
Acquisitions of treasury shares	205,495	329	1,417	108
Sales of treasury shares	(101,684)	(184)	-	-
At 31 December 2015	**2,151,237**	**3,797**	**8,690**	**718**
Total treasury shares in LBP million				**6,807**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014	Common shares		Global Depository Receipts	
	No. of shares	Amount USD (000)	No. of shares	Amount USD (000)
At 1 January 2014	3,022,602	5,418	14,812	1,252
Acquisitions of treasury shares	88,940	143	2,061	155
Sales of treasury shares	(1,064,116)	(1,909)	(9,600)	(797)
At 31 December 2014	**2,047,426**	**3,652**	**7,273**	**610**
Total treasury shares in LBP million				**6,425**

43. REVALUATION RESERVE OF REAL ESTATE

LBP Million	2015	2014
Revaluation reserve accepted in Tier II capital	1,978	1,978
Revaluation reserve not accepted in Tier II capital	3,711	3,711
	5,689	**5,689**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

LBP Million	2015	2014
At 1 January	(7,533)	(16,644)
Net changes in fair values during the year	(526)	10,392
Net changes in deferred taxes	75	(1,546)
Difference on exchange	23	265
Balance at 31 December	**(7,961)**	**(7,533)**

45. CASH AND CASH EQUIVALENTS

LBP Million	2015	2014
Cash and balances with central banks	2,129,121	2,414,186
Due from banks and financial institutions	2,410,574	2,798,622
Loans to banks and financial institutions and reverse repurchase agreements	662,486	245,569
	5,202,181	**5,458,377**
Less: Due to banks and financial institutions	(422,258)	(551,625)
Less: Due to central banks	(13,723)	(9,940)
Cash and cash equivalents at 31 December	**4,766,200**	**4,896,812**

46. RELATED PARTY TRANSACTIONS

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

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

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Related party balances included in the Group's statement of financial position are as follows as of 31 December:

LBP Million	2015	2014
Due from banks and financial institutions	1,803	10,889
Loans to banks and financial institutions and reverse repurchase agreements	-	9,986
Loans and advances	35,275	28,033
Due to banks and financial institutions	44,489	62,001
Deposits	421,716	312,813
Debt issued and other borrowed funds	1,970	2,025
Subordinated debt	18,542	19,672
Guarantees received	18,972	15,627
Guarantees given	108	97
Commitments (including acceptances)	7,854	6,756

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

LBP Million	2015	2014
Interest income on loans to banks and financial institutions and reverse repurchase agreements	-	145
Interest income on loans	1,869	1,319
Interest expense on deposits	15,715	13,175
Interest expense on due to banks and financial institutions	1,580	2,139
Interest expense on debt issued and other borrowed funds	138	142
Interest expense on subordinated debt	1,192	1,265
Rent expense	544	544

In addition to the above, the Group entered into an agreement with the International Finance Corporation (IFC) whereby the latter makes available a non-committed trade finance guarantee facility to the Group of up to USD 50 million. As at 31 December 2015, guarantees issued by the IFC amounted to LBP 1,639 million (2014: LBP 66,953 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

COMPENSATION OF THE KEY MANAGEMENT PERSONNEL OF THE GROUP

LBP Million	2015	2014
Short-term benefits[1]	11,984	17,407

[1] Short-term benefits comprise salaries, bonuses, profit-sharing, attendance fees and other short-term benefits to key management personnel.

47. CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS

CREDIT-RELATED COMMITMENTS AND CONTINGENT LIABILITIES

To meet the financial needs of customers, the Group enters into various commitments, guarantees and other contingent liabilities, which are mainly credit-related instruments, including financial and other guarantees and commitments to extend credit. Even though these obligations may not be recognized on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the 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 LBP Million	Banks	Customers	Total
Guarantees and contingent liabilities			
Financial guarantees	-	205,966	**205,966**
Other guarantees	276,315	885,162	**1,161,477**
	276,315	**1,091,128**	**1,367,443**
Commitments			
Documentary credits	238,008	150,647	**388,655**
Loan commitments	-	2,355,807	**2,355,807**
	238,008	**2,506,454**	**2,744,462**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2014 LBP Million	Banks	Customers	Total
Guarantees and contingent liabilities			
Financial guarantees	-	185,758	**185,758**
Other guarantees	356,209	993,718	**1,349,927**
	356,209	**1,179,476**	**1,535,685**
Commitments			
Documentary credits	328,749	236,000	**564,749**
Loan commitments	-	2,354,802	**2,354,802**
	328,749	**2,590,802**	**2,919,551**

GUARANTEES

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

- Financial guarantees given to banks and financial institutions on behalf of customers to secure loans, overdrafts, and other banking facilities; and
- Other guarantees provided include mainly performance guarantees, advance payment guarantees and tender guarantees.

DOCUMENTARY CREDITS

Documentary credits commit the 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.

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 LBP 6,057 million as of 31 December 2015 (2014: none).

LEGAL CLAIMS

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Group has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss 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 financial loss to the Group.

LEASE ARRANGEMENTS

Operating leases – Group as lessee
The Group has entered into commercial leases on premises. These leases have an average life of between five and ten years. There are no restrictions placed upon the lessee by entering into these leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Future minimum lease payments under non-cancellable operating leases as at 31 December are as follows:

LBP Million	2015	2014
Within one year	3,217	3,084
After one year but not more than five years	10,581	9,212
More than five years	11,491	11,257
	25,289	**23,553**

OTHER CONTINGENCIES

Certain areas of Lebanese tax legislation are subject to different interpretations with respect to the taxability of certain types of financial transactions and activities. Fiscal years from 2012 to 2015 remain open to review by the authorities. Management believes that the effect of any such review will not have a material effect on the consolidated financial statements.

48. ASSETS HELD IN CUSTODY AND UNDER ADMINISTRATION

LBP Million	2015	2014
Assets held in custody and under administration	3,120,838	3,073,672

ASSETS HELD IN CUSTODY AND UNDER ADMINISTRATION

Custody is the safekeeping and servicing of securities and other financial assets on behalf of clients. Administration includes the provision of various support function activities, including the valuation of portfolios of securities and other financial assets on behalf of clients, which complements the custody business.

49. 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, and which 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FAIR VALUE MEASUREMENT HIERARCHY OF THE GROUP'S FINANCIAL ASSETS AND LIABILITIES CARRIED AT FAIR VALUE:

2015	Valuation techniques			
	Quoted market price	Observable inputs	Unobservable inputs	
LBP Million	Level 1	Level 2	Level 3	Total
ASSETS				
Derivative financial instruments				
Currency swaps	-	314	-	**314**
Forward foreign exchange contracts	-	1,530	-	**1,530**
Financial assets at fair value through profit or loss:				
Lebanese treasury bills	216,656	10,348	-	**227,004**
Certificates of deposit issued by the Central Bank of Lebanon	-	27,714	-	**27,714**
Debt securities issued by banks and financial institutions	2,440	-	-	**2,440**
Corporate bonds	-	3,018	-	**3,018**
Equity securities	35,669	-	-	**35,669**
Financial assets at fair value through other comprehensive income	48,241	-	53,666	**101,907**
LIABILITIES				
Derivative financial instruments:				
Currency swaps	-	392	-	**392**
Forward foreign exchange contracts	-	2,053	-	**2,053**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2014	Valuation techniques			
	Quoted market price	Observable inputs	Unobservable inputs	
LBP Million	Level 1	Level 2	Level 3	Total
ASSETS				
Derivative financial instruments				
Currency swaps	-	167	-	**167**
Forward foreign exchange contracts	-	6,548	-	**6,548**
Financial assets at fair value through profit or loss:				
Lebanese treasury bills	85,811	27,861	-	**113,672**
Certificates of deposit issued by the Central Bank of Lebanon	-	3,190	-	**3,190**
Debt securities issued by banks and financial institutions	2,068	-	-	**2,068**
Foreign governmental debt securities	710	-	-	**710**
Equity securities	35,942	-	-	**35,942**
Financial assets at fair value through other comprehensive income	50,986	-	47,732	**98,718**
LIABILITIES:				
Derivative financial instruments:				
Currency swaps	-	155	-	**155**
Forward foreign exchange contracts	-	5,272	-	**5,272**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 deposit and other debt securities

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

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.

RECONCILIATION OF FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS IN UNQUOTED EQUITY SHARES:

LBP Million	2015	2014
Balance at 1 January	47,732	43,490
Acquisitions	3,715	-
Re-measurement recognized in other comprehensive income	2,219	4,242
	53,666	**47,732**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

	2015		2014	
LBP Million	Fair value	Carrying value	Fair value	Carrying value
FINANCIAL ASSETS				
Cash and balances with central banks	7,236,237	7,236,237	7,048,785	7,048,785
Due from banks and financial institutions	2,518,365	2,518,365	2,913,279	2,913,279
Loans to banks and financial institutions and reverse repurchase agreements	1,197,149	1,197,047	394,072	393,712
Financial assets given as collateral	1,399	1,405	7,048	7,005
Net loans and advances to customers at amortized cost	7,397,801	7,399,641	7,096,291	7,099,163
Net loans and advances to related parties at amortized cost	35,275	35,275	28,033	28,033
Financial assets at amortized cost				
Lebanese treasury bills	5,861,920	5,852,407	5,714,885	5,673,700
Certificates of deposit issued by the Central Bank of Lebanon	4,350,572	4,274,429	3,952,369	3,913,360
Foreign governmental debt securities	130,537	125,272	140,834	134,509
Debt securities issued by banks and financial institutions	225,708	225,215	513,946	499,401
Corporate bonds	6,065	6,004	6,199	6,002
Certificates of deposit issued by banks and financial institutions	33,096	33,187	33,085	33,147
FINANCIAL LIABILITIES				
Due to central banks	117,412	117,412	71,146	71,146
Due to banks and financial institutions	744,554	744,554	911,175	911,173
Customers' deposits at amortized cost	24,722,196	24,658,431	23,445,040	23,377,789
Deposits from related parties at amortized cost	426,460	421,716	318,235	312,813
Debt issued and other borrowed funds	447,460	445,199	449,909	445,387
Subordinated debt	417,400	417,400	414,580	414,580

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

ASSETS AND LIABILITIES FOR WHICH FAIR VALUE IS DISCLOSED USING A VALUATION TECHNIQUE WITH SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) AND/OR SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)

Deposits with banks and loans and advances to banks

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

Government bonds, certificates of deposit and other debt securities

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

Loans and advances to customers

For the purpose of this disclosure, in many cases, the fair value disclosed approximates carrying value because these advances are short-term in nature or have interest rates that re-price frequently. The fair value of loans and advances to customers with long-term maturities is estimated using discounted cash flows by applying current rates for new loans granted during 2015 with similar characteristics.

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 characteristics.

Debt issued and other borrowed funds and subordinated debt

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2015	Valuation techniques			
	Quoted market price	Observable inputs	Unobservable inputs	
LBP Million	Level 1	Level 2	Level 3	Total
ASSETS FOR WHICH FAIR VALUES ARE DISCLOSED				
Cash and balances with central banks	260,252	6,975,985	-	**7,236,237**
Due from banks and financial institutions	-	2,518,365	-	**2,518,365**
Loans to banks and financial institutions and reverse repurchase agreement	-	1,197,149	-	**1,197,149**
Financial assets given as collateral	-	1,399	-	**1,399**
Net loans and advances to customers at amortized cost	-	-	7,397,801	**7,397,801**
Net loans and advances to related parties at amortized cost	-	-	35,275	**35,275**
Financial assets at amortized cost:				
Lebanese treasury bills	2,010,050	3,851,870	-	**5,861,920**
Certificates of deposit issued by the Central Bank of Lebanon	-	4,350,572	-	**4,350,572**
Foreign governmental debt securities	130,537	-	-	**130,537**
Debt securities issued by banks and financial institutions	225,708	-	-	**225,708**
Corporate bonds	5,849	216	-	**6,065**
Certificates of deposit issued by banks and financial institutions	-	33,096	-	**33,096**
LIABILITIES FOR WHICH FAIR VALUES ARE DISCLOSED				
Due to central banks	-	117,412	-	**117,412**
Due to banks and financial institutions	-	744,554	-	**744,554**
Customers' deposits at amortized cost	-	24,722,196	-	**24,722,196**
Deposits from related parties at amortized cost	-	426,460	-	**426,460**
Debt issued and other borrowed funds	-	447,460	-	**447,460**
Subordinated debt	-	417,400	-	**417,400**

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	Valuation techniques			
2014	**Quoted market price**	**Observable inputs**	**Unobservable inputs**	
LBP Million	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS FOR WHICH FAIR VALUES ARE DISCLOSED				
Cash and balances with central banks	228,866	6,819,919	-	**7,048,785**
Due from banks and financial institutions	-	2,913,279	-	**2,913,279**
Loans to banks and financial institutions and reverse repurchase agreement	-	394,072	-	**394,072**
Financial assets given as collateral	-	7,048	-	**7,048**
Net loans and advances to customers at amortized cost	-	-	7,096,291	**7,096,291**
Net loans and advances to related parties at amortized cost	-	-	28,033	**28,033**
Financial assets at amortized cost:				
Lebanese treasury bills	2,489,495	3,225,390	-	**5,714,885**
Certificates of deposit issued by the Central Bank of Lebanon	-	3,952,369	-	**3,952,369**
Foreign governmental debt securities	140,834	-	-	**140,834**
Debt securities issued by banks and financial institutions	513,946	-	-	**513,946**
Corporate bonds	5,989	210	-	**6,199**
Certificates of deposit issued by banks and financial institutions	-	33,085	-	**33,085**
LIABILITIES FOR WHICH FAIR VALUES ARE DISCLOSED				
Due to central banks	-	71,146	-	**71,146**
Due to banks and financial institutions	-	911,175	-	**911,175**
Customers' deposits at amortized cost	-	23,445,040	-	**23,445,040**
Deposits from related parties at amortized cost	-	318,235	-	**318,235**
Debt issued and other borrowed funds	-	449,909	-	**449,909**
Subordinated debt	-	414,580	-	**414,580**

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50. RISK MANAGEMENT

50.1. INTRODUCTION

Risk is inherent in the Group's activities, yet it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability, and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk. It is also subject to various operational risks.

The Group's risk management process involves identification, measurement, monitoring and controlling risks to ensure that:

- Individuals who take or manage risks clearly understand them;
- The organization's risk exposure is within the limits established by the Board of Directors ("the Board");
- Risk-taking decisions are in line with the business strategy and objectives set by the Board of Directors;
- The expected payoffs compensate for the risks taken;
- Risk-taking decisions are explicit and clear; and
- Sufficient capital is available to act as a buffer for risks taken.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. The Group's policy is to monitor those business risks through the Bank's strategic planning process.

GROUP RISK MANAGEMENT STRUCTURE

The Board of Directors is primarily responsible for establishing/approving the Group's strategic direction and approving the nature and levels of risk the Group is willing to take. The Board has established two committees to assist in carrying out its responsibilities:

Risk, Anti-Money Laundering and Compliance Committee (BRC): is primarily responsible for formulating the risk appetite statement for the Bank by establishing a comprehensive set of internal risk limits and other qualitative risk statements that clearly defines the amount of risk the Board is willing to take and those risks the Board wishes to avoid, and monitors compliance with the risk appetite statement. The BRC provides oversight of Senior Management's activities in managing capital adequacy, credit, market, liquidity, operational, Anti-Money Laundering, compliance, reputational and other risks of the Group. The BRC also oversees ICAAP and approves risk policies.

Audit Committee: monitors the Group's accounting practices and external reporting, and reviews the audit reports covering the Group's operations and takes appropriate actions/decisions.

The above Board Committees are composed mostly of independent/non-executive members satisfying the applicable best practice requirements. In addition, the Board delegates its day-to-day risk management activities to the Senior Management, through the following diverse committees that have been established:

Executive Committee: acts under the supervision of the Chairman to ensure execution of all strategic directives stipulated by the Board and to propose new strategic projects and plans to the Board. Membership is assigned to the Chairman, the Head of the Group Consumer Banking Division, the Head of the Group Financial Markets and Financial Institutions Division, the Head of the Group Commercial Banking Division, and the Head of the Group Risk Management Division.

Central Credit Committee (CCC): is the highest credit authority in the Group after the Board. Its mission is to review and approve high-value amount credit proposals. The internal lending limit is set at 10% of capital, which requires the joint approval of the Chairman and the CCC. Credit proposals exceeding the internal lending limit are referred to the Board (or any delegated committee) for approval. The CCC delegates approval authority for lower amount credit proposals to various sub-committees.

Assets and Liabilities Committee (ALCO): is responsible for managing the statement of financial position in compliance with the main objectives of the Group, in terms of growth, liquidity and interest income. Its role encompasses the review, approval and implementation of the Group's strategies regarding liquidity and interest rates, foreign exchange and trading activities through decisions on size and duration of mismatched positions and on pricing.

Risk Committee: is tasked with formulating and enforcing guidelines and standards with regard to capital adequacy and risk measurement and management. It also reviews reports and findings identified by Group Risk Management and issues related to the implementation of Basel II/Basel III projects. The Committee discusses and approves the risk policies, the risk measurement tools such as rating and scoring, and risk-based processes, including stress testing, economic capital, and risk-based profitability. It oversees the risk reports prepared and ICAAP framework before submission to the Board.

The Group also established two other committees concerned with risk management and compliance, these being the Operational Risk Management Committee and the Compliance and Anti-Money Laundering Committee. The Operational Risk Committee's mission is to provide oversight for the Group's operational risk function, the processes and the systems developed to assess, monitor and mitigate operational risks. The mission of the Compliance and Anti-Money Laundering Committee is to ensure that the Group is in compliance with

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anti-money laundering laws and internationally administered sanction laws; and to oversee implementation of the Group's Know-your-customer and sanction policies.

Group Internal Audit Division: The Group Internal Audit Division (GIA) is responsible for providing an independent, objective assurance and consulting activity designed to add value and improve the Group's operations. It helps the Group accomplish its objectives by bringing a systematic, disciplined, and risk-based approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Its role within the Group is to ensure that adequate internal controls are maintained and that, where weaknesses are identified, they are reported to Senior Management and the Audit Committee along with recommendations for improvement. The GIA assesses all new products and procedures and changes in systems, and reports its recommendations accordingly

The GIA also ensures that the Group is in compliance with the rules and regulations in different jurisdictions where the Group is operating, the Central Bank and Banking Control Commission requirements, Board of Directors and management directives, and implemented policies and procedures.

RISK MANAGEMENT – BASEL PERSPECTIVE

The Group's risk management function follows the prudential rules and regulations set forth by the Basel Committee in the Core Principles for Effective Banking Supervision document (September 2012) and Basel Capital Accord texts (Basel II/III) to measure and assess the risks identified under Pillars I and II, i.e., the credit, operational, and market risks, as well as the interest rate risk in the banking book, the liquidity risk, and credit concentration.

With regard to Basel recommendations relating to best practices in risk management and its objective of capital measurement and capital adequacy, the Group adopts a phased approach to take more sophisticated steps toward credit risk and make use of internal ratings-based methodology – or "IRB Approach" – to calculate expected credit loss and ultimately capital requirements for credit risk. In addition to the market risk capital charge, an explicit capital charge for operational risk is being accounted for.

As for addressing the capital management issue in the context of Basel II, the Group develops annually a comprehensive Internal Capital Adequacy Assessment Process (ICAAP) document, disclosing the risk appetite statement and covering all risks to which the Group is or may be exposed, as well as risk factors emanating from the environment in which it operates.

The overall responsibility for the monitoring and the analytical management of risk is effectively assigned to the Group Risk Management Division (GRM). The GRM reports to the Chairman and General Manager through the head of the GRM Division. Risk issues and reports are submitted to the Board regularly through the Board Risk, Anti-Money Laundering and Compliance Committee.

The GRM has a dedicated team, the Financial and Operational Risk Management Department, that fulfils the analytical part of risk management and is thereby in direct charge of identifying, measuring, monitoring and controlling Pillar 1 and 2 risks faced by the Group. The department is split into three main functions:

Risk Policies and Analytics is responsible for the preparation and reporting of Basel II regulatory CAR reports, the development of stress-testing scenarios, and the write-up of risk reports and ICAAP documents. It handles as well the measurement of PD (probability of default), LGD (loss given default), EL (expected credit loss) and UL (unexpected loss). The units under this function also develop and support risk-based profitability measurements, risk measurement tools (retail scoring and commercial rating), and risk-related policies.

Market and Asset-Liability Management Risk sets the firm-wide framework necessary for identification, measurement and management of market risk across the Group, including developing policies, procedures, and risk measurement methodologies. Market Risk is also in charge of monitoring the Group's limits regarding liquidity, interest rate risk and securities investment positions, stress tests and reports on breaches to Senior Management.

Operational Risk Management is responsible for establishing the necessary framework for identifying, measuring and managing operational risk across the Group, including clear definition of risks, developing ORM policies, and enhancing ORM programs and tools.

RISK MANAGEMENT FRAMEWORK

The Risk Management Framework is based on a set of principles adopted by the Board through the Risk Charter. These principles are reviewed annually or upon need in order to be aligned with changes related to the internal and external environments of the Group. The set of basic principles that governs the risk management framework of the Group are developed based on the following:

Business Line Accountability: Business lines are accountable for managing the risks associated with their activities and establishing tolerances for risk taking. This accountability exists notwithstanding the presence of any support functions dedicated to risk management activities.

Strategic Level Risk Management: encompasses the risk management functions performed by Senior Management and the Board. It includes defining the Group's risk appetite, formulating strategy and policies for managing risks, and establishing adequate systems and controls to ensure that the Group's aggregate risk profile is within acceptable tolerance levels.

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Analytical Level Risk Management: encompasses risk management, within the authority delegated by the Strategic Level to identify, measure, monitor and report the risks taken by the Group in a consistent manner across all business lines and operational units.

Tactical Level Risk Management: encompasses risk management activities performed by individuals who take risk on the Group's behalf, such as the front office and loan origination functions.

The Risk Charter is complemented by risk-specific policies and procedures enabling the unification of the risk culture and practice. Risk management is applied through the implementation of these risk policies/limits, which are approved by the Board and put in place by the risk management function in cooperation with the business lines. Monitoring of individual risks is handled upon the initiation and renewal of the risk through a clear decision-making process documented in a written procedure.

50.2. 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. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual borrowers and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

CREDIT INITIATION

Target markets and customers and product strategy are identified in the yearly business plan derived from the medium-term plan. They are submitted to and discussed with management and the Board by different business lines. The process of initiating and approving credit proposals is governed by the Group's Credit Policies and Procedures Manual (CPPM). The CPPM consolidates the principles for the credit origination and follow-up process based on early warning signals, and includes the credit committee approval authorities, the roles and responsibilities of credit personnel, the credit administration function, and the structuring of credit packages.

Commercial lending is handled by the Commercial Banking Division, which oversees the business origination related to corporate customers, middle market and international lending. The assessment of a credit request requires an evaluation of the borrower's creditworthiness through an in-depth analysis of a series of financial, management, business and market criteria translated into an overall credit risk rating. This assessment process is applicable to both new and existing clients.

The *Financial Institutions Department* is a separate business line that sets the strategy for banks' limits and manages the relationships with banks. The function is determined by liquidity targets and by profit generation through a dynamic yet diversified trade finance business.

The *Consumer Banking Division* is responsible for designing and implementing the strategy and documenting the program for consumer loans, housing loans, revolving credit cards, small business loans and Kafalat-guaranteed loans.

CREDIT APPROVAL

The review of credit proposals is assigned to the credit risk analysis team within the GRM Division, acting independently from the origination units. Every non-retail lending transaction is subject to a thorough risk assessment by the credit risk analysis team prior to being submitted to the appropriate approving authority.

The credit risk analysis team is organized into five departments, each servicing a different business segment (corporate, international, middle market, financial institutions and retail). In the case of retail lending, risk assessment occurs first at the level of the product design and is followed up with a post-approval review on a sampling basis. The primary function of the risk analysis team is to ensure that the extension of credit is consistent with the Group's risk acceptance criteria and the CPPM.

LOAN FOLLOW-UP AND MONITORING

Each business line manager who originated a loan remains vested with the responsibility of monitoring the exposure and reviewing the file on an annual basis or more frequently if needed. Annual reviews consist of a full update of the credit package and follow the same process as the initiation of the loan.

Outstanding loans are subject as well to constant monitoring by the GRM Division based on a series of reports. The aim of such monitoring is to ensure problem recognition, and to follow up on the prompt and remedial management of identified deteriorations in borrowers' financial positions, value of collateral and related sector/industry. Early warning signals are derived from a set of system-generated reports.

IMPAIRMENT ASSESSMENT

For accounting purposes, the Group uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognized when objective evidence of a specific loss event has been observed. Triggering events include the following:

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- Significant financial difficulty of the customer;
- A breach of contract such as a default of payment;
- Where the Group grants the customer a concession due to the customer's experiencing financial difficulty;
- It becomes probable that the customer will enter bankruptcy or other financial reorganization; and
- Observable data that suggests that there is a decrease in the estimated future cash flows related to the loans.

In measuring credit risk at a counterparty level, the Group reflects on three components – the "probability of default" (PD) by the client or counterparty on its contractual obligations; the Group's current exposure to the counterparty and its likely future development, from which the Group derives the "exposure at default" (EAD); and the likely recovery ratio on the defaulted obligations to give the "loss given default" (LGD).

INDIVIDUALLY ASSESSED ALLOWANCES

The Group determines the allowances appropriate for each individually significant loan or advance on an individual basis, including any overdue payments of interest, credit rating downgrades, or infringement of the original terms of the contract. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected payout should bankruptcy ensue, the availability of other financial support, the realizable value of collateral, and the timing of the expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

COLLECTIVELY ASSESSED ALLOWANCES

Allowances are assessed collectively for losses on loans and advances and for debt instruments at amortized cost that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans and advances and debt instruments at amortized cost that have been assessed individually and found not to be impaired.

The Group generally bases its analyses on historical experience. However, when there are significant market developments, regional and/or global, the Group includes macroeconomic factors within its assessments. These factors include, depending on the characteristics of the individual or collective assessment: unemployment rates, current levels of bad debts, changes in laws, changes in regulations, bankruptcy trends, and other consumer data. The Group may use the aforementioned factors as appropriate to adjust the impairment allowances.

Allowances are evaluated separately at each reporting date with each portfolio. The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in the individual loan assessments. The collective assessment takes account of data from the loan portfolio (such as historical losses on the portfolio, levels of arrears, credit utilization, loan-to-collateral ratios and expected receipts and recoveries once impaired). The approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance is also taken into consideration. Local management is responsible for deciding the length of this period, which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with overall Group policy.

Credit-related commitments and financial guarantees are assessed and provisions are made in a similar manner as for loans.

Derivative financial instruments
Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded on the statement of financial position.

With gross-settled derivatives, the Group is also exposed to a settlement risk, this being the risk that the Group honors its obligation but the counterparty fails to deliver the counter-value.

Credit-related commitments and financial guarantee risks
The Group makes available to its customers guarantees which may require that the Group makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Such commitments expose the Group to similar risks to loans and are mitigated by the same control processes and policies.

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ANALYSIS OF MAXIMUM EXPOSURE TO CREDIT RISK AND COLLATERAL AND OTHER CREDIT ENHANCEMENTS

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

2015 LBP Million	Maximum exposure	Cash	Securities	Letters of credit/ guarantees	Real estate	Net credit exposure
Balances with central banks	6,975,985	-	-	-	-	6,975,985
Due from banks and financial institutions	2,518,365	(562)	-	-	-	2,517,803
Loans to banks and financial institutions and reverse repurchase agreements	1,197,047	(23,669)	-	-	-	1,173,378
Financial assets given as collateral	1,405	-	-	-	-	1,405
Derivative financial instruments	1,844	-	-	-	-	1,844
Financial assets at fair value through profit or loss	260,176	-	-	-	-	260,176
Net loans and advances to customers at amortized cost:						
Commercial loans	4,900,719	(505,415)	(211,463)	(33,927)	(775,425)	3,374,489
Consumer loans	2,498,922	(276,694)	-	-	(1,115,883)	1,106,345
Net loans and advances to related parties at amortized cost	35,275	(12,574)	-	(796)	(2,774)	19,131
Financial assets at amortized cost	10,516,514	-	-	-	-	10,516,514
	28,906,252	**(818,914)**	**(211,463)**	**(34,723)**	**(1,894,082)**	**25,947,070**
Financial guarantees	205,966	(26,968)	-	-	-	178,998
Documentary credits (including acceptances)	633,360	(44,485)	-	-	(1,517)	587,358
	29,745,578	**(890,367)**	**(211,463)**	**(34,723)**	**(1,895,599)**	**26,713,426**
Utilized collateral		(890,367)	(211,463)	(34,723)	(1,895,599)	
Surplus of collateral before undrawn credit lines		(316,126)	(398,624)	(70,137)	(2,150,194)	
Guarantees received from banks, financial institutions and customers		**(1,206,493)**	**(610,087)**	**(104,860)**	**(4,045,793)**	

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LBP 2,355,807 million as at 31 December 2015.

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2014 LBP Million	**Maximum exposure**	**Cash**	**Securities**	**Letters of credit/ guarantees**	**Real estate**	**Net credit exposure**
Balances with central banks	6,819,919	-	-	-	-	6,819,919
Due from banks and financial institutions	2,913,279	(663)	-	-	-	2,912,616
Loans to banks and financial institutions and reverse repurchase agreements	393,712	(11,567)	-	-	-	382,145
Financial assets given as collateral	7,005	-	-	-	-	7,005
Derivative financial instruments	6,715	-	-	-	-	6,715
Financial assets at fair value through profit or loss	119,640	-	-	-	-	119,640
Net loans and advances to customers at amortized cost:						
Commercial loans	4,790,011	(401,070)	(117,793)	(87,106)	(935,135)	3,248,907
Consumer loans	2,309,152	(141,943)	-	-	(1,034,924)	1,132,285
Net loans and advances to related parties at amortized cost	28,033	(10,353)	-	-	(3,082)	14,598
Financial assets at amortized cost	10,260,119	-	-	-	-	10,260,119
	27,647,585	**(565,596)**	**(117,793)**	**(87,106)**	**(1,973,141)**	**24,903,949**
Financial guarantees	185,758	(17,539)	-	-	-	168,219
Documentary credits (including acceptances)	867,688	(62,973)	-	-	-	804,715
	28,701,031	**(646,108)**	**(117,793)**	**(87,106)**	**(1,973,141)**	**25,876,883**
Utilized collateral		(646,108)	(117,793)	(87,106)	(1,973,141)	
Surplus of collateral before undrawn credit lines		(506,549)	(327,231)	(37,048)	(1,825,198)	
Guarantees received from banks, financial institutions and customers		**(1,152,657)**	**(445,024)**	**(124,154)**	**(3,798,339)**	

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LBP 2,354,802 million as at 31 December 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

COLLATERAL AND OTHER CREDIT ENHANCEMENTS

The amount and type of collateral required depends on an assessment of the credit risk of the borrower. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. Management requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses. The main types of collateral obtained are as follows:

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

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.

Other:
In addition to the above, the Group also obtains from its clients proxy to mortgage a residential or commercial property, guarantees from parent companies for loans to their subsidiaries, personal guarantees for loans to companies owned by individuals, and assignments of proceeds and revenues, which are not reflected in the above table.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS

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

2015	Neither past due nor impaired				
LBP Million	High grade	Standard grade	Past due but not impaired	Individually impaired	Total
Balances with central banks	6,769,921	209,928	-	31,581	**7,011,430**
Due from banks and financial institutions	1,751,637	766,728	-	3,688	**2,522,053**
Loans to banks and financial institutions and reverse repurchase agreements	992,966	204,081	-	-	**1,197,047**
Financial assets given as collateral	1,405	-	-	-	**1,405**
Derivative financial instruments	1,844	-	-	-	**1,844**
Financial assets at fair value through profit or loss:					
Lebanese government bonds	227,004	-	-	-	**227,004**
Certificates of deposit issued by the Central Bank of Lebanon	27,714	-	-	-	**27,714**
Debt securities issued by banks and financial institutions	2,440	-	-	-	**2,440**
Corporate bonds	-	3,018	-	-	**3,018**
Net loans and advances to customers at amortized cost:					
Commercial loans	4,671,211	208,095	84,955	233,616	**5,197,877**
Consumer loans	2,265,098	23,647	176,128	132,748	**2,597,621**
Net loans and advances to related parties at amortized cost	35,275	-	-	-	**35,275**
Debtors by acceptances	234,953	9,752	-	-	**244,705**
Financial assets at amortized cost:					
Lebanese treasury bills	5,852,407	-	-	-	**5,852,407**
Certificates of deposit issued by the Central Bank of Lebanon	4,274,429	-	-	-	**4,274,429**
Foreign governmental debt securities	31,712	93,560	-	-	**125,272**
Debt securities issued by banks and financial institutions	174,448	50,767	-	-	**225,215**
Corporate bonds	5,033	971	-	-	**6,004**
Certificates of deposit issued by banks and financial institutions	-	33,187	-	-	**33,187**
	27,319,497	**1,603,734**	**261,083**	**401,633**	**29,585,947**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2014 LBP Million	Neither past due nor impaired High grade	 Standard grade	Past due but not impaired	Individually impaired	Total
Balances with central banks	6,436,888	383,031	-	-	6,819,919
Due from banks and financial institutions	2,623,543	289,736	-	3,960	2,917,239
Loans to banks and financial institutions and reverse repurchase agreements	86,022	307,690	-	-	393,712
Financial assets given as collateral	7,005	-	-	-	7,005
Derivative financial instruments	6,715	-	-	-	6,715
Financial assets at fair value through profit or loss:					
Lebanese treasury bills	113,672	-	-	-	113,672
Certificates of deposit issued by the Central Bank of Lebanon	3,190	-	-	-	3,190
Debt securities issued by banks and financial institutions	2,068	-	-	-	2,068
Corporate bonds	710	-	-	-	710
Net loans and advances to customers at amortized cost:					
Commercial loans	4,465,167	264,382	131,999	312,251	5,173,799
Consumer loans	2,093,810	22,310	172,139	105,382	2,393,641
Net loans and advances to related parties at amortized cost	28,033	-	-	-	28,033
Debtors by acceptances	292,101	10,838	-	-	302,939
Financial assets at amortized cost:					
Lebanese government bonds	5,673,700	-	-	-	5,673,700
Certificates of deposit issued by the Central Bank of Lebanon	3,913,360	-	-	-	3,913,360
Foreign governmental debt securities	39,850	94,659	-	-	134,509
Debt securities issued by banks and financial institutions	415,444	85,531	-	-	500,975
Corporate bonds	5,247	755	-	-	6,002
Certificates of deposit issued by banks and financial institutions	-	33,147	-	-	33,147
	26,206,525	**1,492,079**	**304,138**	**421,593**	**28,424,335**

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Aging analysis of past due but not impaired loans per class of financial assets:

2015 LBP Million	Less than 90 days	91 to 180 days	More than 181 days	Total
Loans and advances to customers at amortized cost:				
Commercial loans	28,143	36,229	20,583	**84,955**
Consumer loans	150,836	16,904	8,388	**176,128**
	178,979	**53,133**	**28,971**	**261,083**

2014 LBP Million	Less than 90 days	91 to 180 days	More than 181 days	Total
Loans and advances to customers at amortized cost:				
Commercial loans	59,243	42,885	29,871	**131,999**
Consumer loans	141,627	20,143	10,369	**172,139**
	200,870	**63,028**	**40,240**	**304,138**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

MAPPING TO EXTERNAL CREDIT RATING

	Financial assets	Loans and advances to customers	
	External credit rating	Supervisory rating	Characteristics
High grade	Lebanese Sovereign AAA to A-	Regular	Regular and timely payment of dues. Adequacy of cash flows. Timely financial statements. Sufficient collateral/guarantee (if required).
		Follow-up	Lack of documentation related to borrower's activity.
Standard grade	BBB+ and below unrated	Follow-up and regularization	Creditworthy borrower showing weaknesses; insufficient/inadequate cash flows; highly leveraged; deterioration in economic sector or country where the facility is used; conflict between partners or other lawsuits; loan rescheduling since initiation; excess utilization above limit.
Individually impaired	Impaired	Substandard	Signals of incapacity to repay from identified cash flows; full repayment supposes the liquidation of assets/ collateral; recurrent late payments; late interests; losses incurred for over three years.
		Doubtful	Full repayment is questioned even after asset liquidation; account stagnation and inability to repay restructured loans.
		Bad	No or little expected inflows from business or assets; borrower is unreachable; insolvency status.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The classification of loans and advances to customers and related parties at amortized cost, in accordance with the ratings of Central Bank of Lebanon Circular 58, are as follows:

2015 LBP Million	**Gross balance**	**Unrealized interest**	**Impairment allowances**	**Net balance**
Regular	6,589,000	-	-	6,589,000
Follow-up	534,207	-	-	534,207
Follow-up and regularization	305,928	-	-	305,928
Substandard	6,380	(840)	-	5,540
Doubtful	181,388	(13,226)	(71,748)	96,414
Bad	178,595	(66,605)	(111,990)	-
	7,795,498	**(80,671)**	**(183,738)**	**7,531,089**
Collective impairment	(131,448)	-	-	(131,448)
	7,664,050	**(80,671)**	**(183,738)**	**7,399,641**

2014 LBP Million	**Gross balance**	**Unrealized interest**	**Impairment allowances**	**Net balance**
Regular	6,251,227	-	-	6,251,227
Follow-up	532,598	-	-	532,598
Follow-up and regularization	365,982	-	-	365,982
Substandard	30,618	(1,260)	-	29,358
Doubtful	138,017	(13,661)	(56,223)	68,133
Bad	248,998	(82,541)	(166,457)	-
	7,567,440	**(97,462)**	**(222,680)**	**7,247,298**
Collective impairment	(148,135)	-	-	(148,135)
	7,419,305	**(97,462)**	**(222,680)**	**7,099,163**

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RENEGOTIATED LOANS

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

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

LBP Million	2015	2014
Commercial loans	84,692	94,362

ANALYSIS OF RISK CONCENTRATION

The Group's concentrations of risk are managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2015 was LBP 128,850 million (2014: LBP 98,570 million) before taking account of collateral or other credit enhancements and nil (2014: LBP 98,570 million) net of such protection.

The following tables show the maximum exposure to credit risk for the components of the statement of financial position, including derivatives, by geography of counterparty before the effect of mitigation through the use of netting and collateral agreements.

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GEOGRAPHIC ANALYSIS

2015 LBP Million	Lebanon	Europe	Other	Total
Balances with central banks	6,722,113	50,150	203,722	**6,975,985**
Due from banks and financial institutions	112,437	1,083,743	1,322,185	**2,518,365**
Loans to banks and financial institutions and reverse repurchase agreements	942,430	35,001	219,616	**1,197,047**
Financial assets given as collateral	1,405	-	-	**1,405**
Derivative financial instruments	1,140	342	362	**1,844**
Financial assets at fair value through profit or loss:				
Lebanese treasury bills	227,004	-	-	**227,004**
Certificates of deposit issued by the Central Bank of Lebanon	27,714	-	-	**27,714**
Debt securities issued by banks and financial institutions	-	757	1,683	**2,440**
Corporate bonds	-	-	3,018	**3,018**
Net loans and advances to customers at amortized cost				
Commercial loans	4,020,708	134,142	745,869	**4,900,719**
Consumer loans	2,361,369	42,842	94,711	**2,498,922**
Net loans and advances to related parties at amortized cost	33,981	291	1,003	**35,275**
Debtors by acceptances	203,734	9,944	31,027	**244,705**
Financial assets at amortized cost:				
Lebanese treasury bills	5,852,407	-	-	**5,852,407**
Certificates of deposit issued by the Central Bank of Lebanon	4,274,429	-	-	**4,274,429**
Foreign governmental debt securities	-	92,581	32,691	**125,272**
Debt securities issued by banks and financial institutions	-	73,096	152,119	**225,215**
Corporate bonds	-	907	5,097	**6,004**
Certificates of deposit issued by banks and financial institutions	33,187	-	-	**33,187**
	24,814,058	**1,523,796**	**2,813,103**	**29,150,957**

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2014 LBP Million	Lebanon	Europe	Other	Total
Balances with central banks	6,397,781	41,073	381,065	**6,819,919**
Due from banks and financial institutions	126,607	880,144	1,906,528	**2,913,279**
Loans to banks and financial institutions and reverse repurchase agreements	14,694	97,344	281,674	**393,712**
Financial assets given as collateral	7,005	-	-	**7,005**
Derivative financial instruments	4,401	2,252	62	**6,715**
Financial assets at fair value through profit or loss:				
Lebanese treasury bills	113,672	-	-	**113,672**
Certificates of deposit issued by the Central Bank of Lebanon	3,190	-	-	**3,190**
Debt securities issued by banks and financial institutions	-	385	1,683	**2,068**
Foreign governmental debt securities	-	-	710	**710**
Net loans and advances to customers at amortized cost				
Commercial loans	3,891,820	185,725	712,466	**4,790,011**
Consumer loans	2,168,812	48,025	92,315	**2,309,152**
Net loans and advances to related parties at amortized cost	24,175	568	3,290	**28,033**
Debtors by acceptances	215,144	1,827	85,968	**302,939**
Financial assets at amortized cost:				
Lebanese treasury bills	5,673,700	-	-	**5,673,700**
Certificates of deposit issued by the Central Bank of Lebanon	3,913,360	-	-	**3,913,360**
Foreign governmental debt securities	-	72,817	61,692	**134,509**
Debt securities issued by banks and financial institutions	-	190,004	309,397	**499,401**
Corporate bonds	-	914	5,088	**6,002**
Certificates of deposit issued by banks and financial institutions	33,147	-	-	**33,147**
	22,587,508	**1,521,078**	**3,841,938**	**27,950,524**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

50.3 LIQUIDITY RISK AND FUNDING MANAGEMENT

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

The Group maintains a portfolio of highly 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 a source of funds to finance its lending activities. This is monitored by using the loans-to-deposits ratio, which compares loans and advances to customers as a percentage of deposits from customers.

	2015	2014
Loans to deposits		
Year-end	29.64%	30.08%
Maximum	29.92%	30.68%
Minimum	29.26%	30.08%
Average	29.52%	30.34%

ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY REMAINING CONTRACTUAL MATURITIES

The following table summarizes the maturity profile of the Group's financial assets and liabilities at 31 December 2015 and 2014 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, 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 that are in line with the Group's deposit retention history.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2015 LBP Million	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
FINANCIAL ASSETS						
Cash and balances with central banks	1,817,126	305,626	1,018,598	2,638,117	3,364,411	**9,143,878**
Due from banks and financial institutions	2,212,285	198,783	99,400	8,247	203	**2,518,918**
Loans to banks and financial institutions and reverse repurchase agreements	569,080	94,147	531,673	11,240	-	**1,206,140**
Financial assets given as collateral	-	-	18	1,387	-	**1,405**
Derivative financial instruments	771	937	136	-	-	**1,844**
Financial assets at fair value through profit or loss	1,021	3,054	13,125	126,457	302,812	**446,469**
Net loans and advances to customers at amortized cost	3,195,437	496,741	1,225,752	1,871,122	1,369,959	**8,159,011**
Net loans and advances to related parties at amortized cost	19,682	1,403	6,370	1,678	7,418	**36,551**
Debtors by acceptances	94,542	74,217	75,946	-	-	**244,705**
Financial assets at amortized cost	178,996	217,533	1,443,336	6,561,231	5,267,321	**13,668,417**
Financial assets at fair value through other comprehensive income	-	-	-	-	101,907	**101,907**
Total undiscounted financial assets	**8,088,940**	**1,392,441**	**4,414,354**	**11,219,479**	**10,414,031**	**35,529,245**
FINANCIAL LIABILITIES						
Due to central banks	12,301	1,422	10,212	59,798	38,307	**122,040**
Due to banks and financial institutions	357,936	67,758	103,357	162,494	96,352	**787,897**
Derivative financial instruments	1,220	1,143	82	-	-	**2,445**
Customers' deposits at amortized cost	14,043,037	3,076,352	4,831,504	3,023,720	292,080	**25,266,693**
Deposits from related parties at amortized cost	285,437	17,948	100,932	42,224	5,152	**451,693**
Debt issued and other borrowed funds	-	-	31,658	126,630	460,412	**618,700**
Engagements by acceptances	94,542	74,217	75,946	-	-	**244,705**
Subordinated debt	-	7,421	21,453	114,921	498,395	**642,190**
Total undiscounted financial liabilities	**14,794,473**	**3,246,261**	**5,175,144**	**3,529,787**	**1,390,698**	**28,136,363**
Net undiscounted financial assets/(liabilities)	**(6,705,533)**	**(1,853,820)**	**(760,790)**	**7,689,692**	**9,023,333**	**7,392,882**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2014 LBP Million	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
FINANCIAL ASSETS						
Cash and balances with central banks	2,412,387	26,749	631,903	2,523,953	3,593,026	**9,188,018**
Due from banks and financial institutions	2,573,021	225,691	114,868	-	-	**2,913,580**
Loans to banks and financial institutions and reverse repurchase agreements	114,348	131,768	116,499	35,830	-	**398,445**
Financial assets given as collateral	-	-	7,005	-	-	**7,005**
Derivative financial instruments	3,914	768	2,033	-	-	**6,715**
Financial assets at fair value through profit or loss	219	1,277	6,502	50,771	143,903	**202,672**
Net loans and advances to customers at amortized cost	3,044,456	588,427	1,193,239	1,842,754	1,063,796	**7,732,672**
Net loans and advances to related parties at amortized cost	18,142	1,071	913	4,688	4,532	**29,346**
Debtors by acceptances	105,505	116,814	80,620	-	-	**302,939**
Financial assets at amortized cost	152,330	368,138	1,227,931	6,293,896	5,280,320	**13,322,615**
Financial assets at fair value through other comprehensive income	-	-	-	-	98,718	**98,718**
Total undiscounted financial assets	**8,424,322**	**1,460,703**	**3,381,513**	**10,751,892**	**10,184,295**	**34,202,725**
FINANCIAL LIABILITIES						
Due to central banks	9,394	547	10,739	34,554	18,247	**73,481**
Due to banks and financial institutions	374,240	182,403	128,338	188,316	77,872	**951,169**
Derivative financial instruments	4,150	327	950	-	-	**5,427**
Customers' deposits at amortized cost	13,724,877	2,823,203	5,084,265	2,182,138	74,048	**23,888,531**
Deposits from related parties at amortized cost	292,080	3,985	6,297	29,855	-	**332,217**
Debt issued and other borrowed funds	-	-	31,658	126,630	492,257	**650,545**
Engagements by acceptances	105,505	116,814	80,620	-	-	**302,939**
Subordinated debt	-	7,178	21,533	114,841	526,934	**670,486**
Total undiscounted financial liabilities	**14,510,246**	**3,134,457**	**5,364,400**	**2,676,334**	**1,189,358**	**26,874,795**
Net undiscounted financial assets/(liabilities)	**6,085,224**	**1,673,754**	**(1,982,887)**	**8,075,558**	**8,994,937**	**7,327,930**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

2015 LBP Million	**Less than 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**More than 5 years**	**Total**
Financial guarantees	824	-	109,205	95,874	63	**205,966**
Documentary credits	11,827	190,458	163,336	23,034	-	**388,655**
Commitments to lend	2,355,807	-	-	-	-	**2,355,807**
	2,368,458	**190,458**	**272,541**	**118,908**	**63**	**2,950,428**

2014 LBP Million	**Less than 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**More than 5 years**	**Total**
Financial guarantees	302	755	112,135	72,566	-	**185,758**
Documentary credits	36,488	249,786	262,180	16,295	-	**564,749**
Commitments to lend	2,354,802	-	-	-	-	**2,354,802**
	2,391,592	**250,541**	**374,315**	**88,861**	**-**	**3,105,309**

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

50.4. 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 variables such as interest rates, foreign exchange rates and equity prices.

Market risk governance has been defined in the Security Investment Policy, which defines the roles and responsibilities of the key stakeholders of market risk management, including the Board, the ALCO committee, the business lines and risk functions.

It is the responsibility of the ALCO to manage the Group's investment portfolio under the terms of the Security Investment Policy. While striving to maximize portfolio performance, the ALCO shall keep the management of the portfolio within the bounds of good banking practices, satisfy the Group's liquidity needs, and ensure compliance with both regulatory and internally set limits and requirements.

The Group Risk Management Division sets the framework necessary for identification, measurement and management of market risk.

INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect the fair values of financial instruments. The Group is exposed to interest rate risk as a result of mismatches of interest rate re-pricing of assets and liabilities. The Group manages the risk by matching the re-pricing of assets and liabilities through risk management strategies. Positions are monitored on a daily basis by management and, whenever possible, hedging strategies are used to ensure positions are maintained within established limits. The Group measures interest rate risk by applying varying scenarios of increased and decreased market interest rates and assessing their impact(s) on net interest income (Earnings perspective) and capital (Economic Value perspective). In 2015, the Bank has revised the interest rate risk policy to set new internal gap limits for local currency and foreign currencies. The Group has prudentially set an internal Pillar 2 capital charge against interest rate risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the profit or loss for a year, based on the floating rate financial assets and financial liabilities and on the reinvestment or refunding of fixed-rated financial assets and liabilities at the assumed rates. The change in interest income is calculated over a one-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 behavior. The pass-through rate and lag in response time are estimated based on historical statistical analysis and are reflected in the outcome.

		2015	2014
Currency	**Increase In basis points**	**Effect on net interest income LBP Million**	**Effect on net interest income LBP Million**
LBP	50 basis point	(22,793)	(20,492)
USD	50 basis point	1,326	159
EUR	50 basis point	(516)	(1,078)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2015 LBP Million	**Up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Non-interest-bearing items**	**Total**
ASSETS							
Cash and balances with central banks	593,939	278,888	759,431	1,732,125	2,607,941	1,263,913	**7,236,237**
Due from banks and financial institutions	1,426,515	198,624	98,799	8,247	203	785,977	**2,518,365**
Loans to banks and financial institutions and reverse repurchase agreements	564,883	93,613	523,453	10,221	-	4,877	**1,197,047**
Financial assets given as collateral	-	-	1,387	-	-	18	**1,405**
Derivative financial instruments	-	-	-	-	-	1,844	**1,844**
Financial assets at fair value through profit or loss	-	-	-	-	-	295,845	**295,845**
Net loans and advances to customers at amortized cost	3,209,766	714,202	2,230,013	1,001,021	193,876	50,763	**7,399,641**
Net loans and advances to related parties at amortized cost	19,660	1,346	6,088	1,272	6,801	108	**35,275**
Debtors by acceptances	-	-	-	-	-	244,705	**244,705**
Financial assets at amortized cost	134,494	134,765	996,733	4,740,067	4,352,685	157,770	**10,516,514**
Financial assets at fair value through other comprehensive income	-	-	-	-	-	101,907	**101,907**
Total	**5,949,257**	**1,421,438**	**4,615,904**	**7,492,953**	**7,161,506**	**2,907,727**	**29,548,785**
LIABILITIES							
Due to central banks	481	1,422	9,115	57,048	37,446	11,900	**117,412**
Due to banks and financial institutions	221,929	66,264	111,731	138,667	88,243	117,720	**744,554**
Derivative financial instruments	-	-	-	-	-	2,445	**2,445**
Customers' deposits at amortized cost	11,167,233	2,998,608	4,651,259	2,696,558	248,893	2,895,880	**24,658,431**
Deposits from related parties at amortized cost	282,421	16,363	93,725	25,548	890	2,769	**421,716**
Debt issued and other borrowed funds	-	-	-	-	444,583	616	**445,199**
Engagements by acceptances	-	-	-	-	-	244,705	**244,705**
Subordinated debt	-	-	-	-	417,237	163	**417,400**
Total	**11,672,064**	**3,082,657**	**4,865,830**	**2,917,821**	**1,237,292**	**3,276,198**	**27,051,862**
Total interest sensitivity gap	**(5,722,807)**	**(1,661,219)**	**(249,926)**	**4,575,132**	**5,924,214**	**(368,471)**	**2,496,923**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2014 LBP Million	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Non-interest-bearing items	Total
ASSETS							
Cash and balances with central banks	1,269,880	-	376,875	1,581,375	2,635,580	1,185,075	**7,048,785**
Due from banks and financial institutions	1,046,034	225,532	114,528	-	-	1,527,185	**2,913,279**
Loans to banks and financial institutions and reverse repurchase agreements	165,960	87,997	107,305	32,450	-	-	**393,712**
Financial assets given as collateral	-	-	6,915	-	-	90	**7,005**
Derivative financial instruments	-	-	-	-	-	6,715	**6,715**
Financial assets at fair value through profit or loss	-	-	-	-	-	155,582	**155,582**
Net loans and advances to customers at amortized cost	3,235,005	743,263	2,072,263	962,736	134,388	(48,492)	**7,099,163**
Net loans and advances to related parties at amortized cost	26,217	-	-	-	1,816	-	**28,033**
Debtors by acceptances	-	-	-	-	-	302,939	**302,939**
Financial assets at amortized cost	147,952	351,006	798,345	4,556,327	4,267,055	139,434	**10,260,119**
Financial assets at fair value through other comprehensive income	-	-	-	-	-	98,718	**98,718**
Total	**5,891,048**	**1,407,798**	**3,476,231**	**7,132,888**	**7,038,839**	**3,367,246**	**28,314,050**
LIABILITIES							
Due to central banks	32	1	5,697	8,712	47,357	9,347	**71,146**
Due to banks and financial institutions	186,596	176,569	99,805	134,151	160,657	153,395	**911,173**
Derivative financial instruments	-	-	-	-	-	5,427	**5,427**
Customers' deposits at amortized cost	10,975,572	2,737,367	4,874,817	1,944,739	68,655	2,776,639	**23,377,789**
Deposits from related parties at amortized cost	253,422	1,431	6,984	12,461	-	38,515	**312,813**
Debt issued and other borrowed funds	-	-	-	-	444,771	616	**445,387**
Engagements by acceptances	-	-	-	-	-	302,939	**302,939**
Subordinated debt	-	-	-	-	414,498	82	**414,580**
Total	**11,415,622**	**2,915,368**	**4,987,303**	**2,100,063**	**1,135,938**	**3,286,960**	**25,841,254**
Total interest sensitivity gap	**(5,524,574)**	**(1,507,570)**	**(1,511,072)**	**5,032,825**	**5,902,901**	**80,286**	**2,472,796**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 constantly to ensure they are maintained within established limits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Following is the consolidated statement of financial position as of 31 December 2015 detailed in Lebanese Pounds (LBP) and foreign currencies, translated into LBP.

2015 LBP Million	Local currencies	Foreign currencies	Total
ASSETS			
Cash and balances with central banks	1,606,601	5,629,636	**7,236,237**
Due from banks and financial institutions	39,443	2,478,922	**2,518,365**
Loans to banks and financial institutions and reverse repurchase agreements	2,333	1,194,714	**1,197,047**
Financial assets given as collateral	1,405	-	**1,405**
Derivative financial instruments	1,520	324	**1,844**
Financial assets at fair value through profit or loss	38,062	257,783	**295,845**
Net loans and advances to customers at amortized cost	1,815,180	5,584,461	**7,399,641**
Net loans and advances to related parties at amortized cost	2,220	33,055	**35,275**
Debtors by acceptances	100	244,605	**244,705**
Financial assets at amortized cost	7,317,616	3,198,898	**10,516,514**
Financial assets at fair value through other comprehensive income	28,891	73,016	**101,907**
Property and equipment	207,071	48,054	**255,125**
Intangible assets	493	-	**493**
Assets obtained in settlement of debt	(9,248)	51,254	**42,006**
Other assets	69,713	38,288	**108,001**
TOTAL ASSETS	**11,121,400**	**18,833,010**	**29,954,410**
LIABILITIES AND EQUITY			
Due to central banks	106,130	11,282	**117,412**
Due to banks and financial institutions	18,460	726,094	**744,554**
Derivative financial instruments	1,897	548	**2,445**
Customers' deposits at amortized cost	9,620,285	15,038,146	**24,658,431**
Deposits from related parties at amortized cost	97,896	323,820	**421,716**
Debt issued and other borrowed funds	-	445,199	**445,199**
Engagement by acceptances	100	244,605	**244,705**
Other liabilities	87,711	59,856	**147,567**
Provisions for risks and charges	144,945	26,593	**171,538**
Subordinated debt	-	417,400	**417,400**
TOTAL LIABILITIES	**10,077,424**	**17,293,543**	**27,370,967**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2015 LBP Million	Local currencies	Foreign currencies	Total
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital – common shares	684,273	-	**684,273**
Share capital – preferred shares	4,840	-	**4,840**
Share premium – common shares	-	229,014	**229,014**
Share premium – preferred shares	-	591,083	**591,083**
Non-distributable reserves	606,908	208,976	**815,884**
Distributable reserves	78,547	20,664	**99,211**
Treasury shares	-	(6,807)	**(6,807)**
Retained earnings	48,590	13,242	**61,832**
Revaluation reserve of real estate	5,689	-	**5,689**
Change in fair value of financial assets at fair value through other comprehensive income	18,863	(26,824)	**(7,961)**
Net results of the financial period – profit	210,125	18,060	**228,185**
Foreign currency translation reserves	(193,842)	-	**(193,842)**
NON-CONTROLLING INTERESTS	25,497	46,545	**72,042**
TOTAL EQUITY	**1,489,490**	**1,093,953**	**2,583,443**
TOTAL LIABILITIES AND EQUITY	**11,566,914**	**18,387,496**	**29,954,410**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Following is the consolidated statement of financial position as of 31 December 2014 detailed in Lebanese Pounds (LBP) and foreign currencies, translated into LBP.

2014 LBP Million	Local currencies	Foreign currencies	Total
ASSETS			
Cash and balances with central banks	1,558,455	5,490,330	**7,048,785**
Due from banks and financial institutions	41,233	2,872,046	**2,913,279**
Loans to banks and financial institutions and reverse repurchase agreements	3,852	389,860	**393,712**
Financial assets given as collateral	7,005	-	**7,005**
Derivative financial instruments	4,656	2,059	**6,715**
Financial assets at fair value through profit or loss	31,051	124,531	**155,582**
Net loans and advances to customers at amortized cost	1,643,551	5,455,612	**7,099,163**
Net loans and advances to related parties at amortized cost	2,335	25,698	**28,033**
Debtors by acceptances	-	302,939	**302,939**
Financial assets at amortized cost	7,103,440	3,156,679	**10,260,119**
Financial assets at fair value through other comprehensive income	26,309	72,409	**98,718**
Property and equipment	185,643	50,736	**236,379**
Intangible assets	652	-	**652**
Assets obtained in settlement of debt	(9,346)	46,023	**36,677**
Other assets	58,859	47,921	**106,780**
TOTAL ASSETS	**10,657,695**	**18,036,843**	**28,694,538**
LIABILITIES AND EQUITY			
Due to central banks	61,724	9,422	**71,146**
Due to banks and financial institutions	22,996	888,177	**911,173**
Derivative financial instruments	5,010	417	**5,427**
Customers' deposits at amortized cost	9,238,897	14,138,892	**23,377,789**
Deposits from related parties at amortized cost	85,003	227,810	**312,813**
Debt issued and other borrowed funds	-	445,387	**445,387**
Engagement by acceptances	-	302,939	**302,939**
Other liabilities	103,553	60,350	**163,903**
Provisions for risks and charges	133,146	12,283	**145,429**
Subordinated debt	-	414,580	**414,580**
TOTAL LIABILITIES	**9,650,329**	**16,500,257**	**26,150,586**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2014 LBP Million	Local currencies	Foreign currencies	Total
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital – common shares	684,273	-	**684,273**
Share capital – preferred shares	4,840	-	**4,840**
Share premium – common shares	-	229,014	**229,014**
Share premium – preferred shares	-	591,083	**591,083**
Non distributable reserves	563,839	185,040	**748,879**
Distributable reserves	76,482	19,461	**95,943**
Treasury shares	-	(6,425)	**(6,425)**
Retained earnings	38,137	1,762	**39,899**
Revaluation reserve of real estate	5,689	-	**5,689**
Change in fair value of financial assets at fair value through other comprehensive income	16,986	(24,519)	**(7,533)**
Net results of the financial period – profit	226,100	26,692	**252,792**
Foreign currency translation reserves	(164,357)	-	**(164,357)**
NON-CONTROLLING INTERESTS	21,886	47,969	**69,855**
TOTAL EQUITY	**1,473,875**	**1,070,077**	**2,543,952**
TOTAL LIABILITIES AND EQUITY	**11,124,204**	**17,570,334**	**28,694,538**

Group's sensitivity to currency exchange rates

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

		2015		2014	
Currency LBP Million	Change in currency rate **%**	**Effect on profit before tax**	**Effect on equity**	**Effect on profit before tax**	**Effect on equity**
USD	+1	671	-	826	-
EUR	+1	37	1,285	27	1,341
SYP	+1	-	714	-	718

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

EQUITY PRICE RISK

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the level of equity indices and individual stocks. Equity price risk exposure arises from equity securities classified at fair value through profit or loss and at fair value through other comprehensive income. A 5 percent increase in the value of the Group's equities at 31 December 2015 would have increased other comprehensive income by LBP 2,412 million and net income by LBP 1,783 million (2014: LBP 2,549 million and LBP 1,797 million respectively). An equivalent decrease would have resulted in an equivalent but opposite impact.

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 or later 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.

50.5. OPERATIONAL RISK

Operational risk is the risk of loss arising from inadequate or failed internal processes, people, systems, or from external events (including legal risks). When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial losses.

To reduce operational risk, the Group has developed an Operational Risk Management framework with the objective of ensuring that operational risks within the component of the framework is a set of core operational risk policies designed to ensure that operational risk has proper governance, and the it is maintained at an acceptable level with a controlled and sound operating environment. The operational risk publications and guidelines were placed on the Bank's intranet site for quick access and referrals. The critical operational risk issues were handled by a separate Operational Risk Committee, which meetings are attended by Senior Managers of business lines, including the Chief Risk Officer and the General Manager.

The framework for managing and controlling operational risks encompasses various tools, including Risk and Control Assessment (RCA), operational risk events and key risk indicators. The RCA is used by each business and support unit to identify key operational risks and assess the degree of effectiveness of internal controls. Inadequate controls are subject to action plans that will help track and resolve deficiencies in a timely fashion. This tool is subject to a proactive approach to minimize operational risk loss. This is reflected in the operational risk assessment of new products/activities/systems, protective information security and Business Continuity Planning, granular risk analysis for its operating/existing activities, and continuous awareness sessions.

Operational risk events are classified in accordance with Basel standards and include significant incidents that may impact the Group's profits and reputations for further mitigation and avoidance. As to key risk indicators, they are employed to facilitate the operational risk monitoring in a forward-looking manner with pre-defined escalation triggers. The Group gives particular attention to prevention measures when it comes to operational risk management and has established continuing training and awareness programs to fulfill them.

The Group's operational risk mitigation program involves both business continuity management and insurance management programs. The former oversees the business continuity of essential business service during unforeseen events mainly business disruptions and system failures events – with enterprise-wide impact – along with natural disasters and terrorism/vandalism events. As to the latter, the Group purchases Group-wide insurance policies to mitigate significant losses. These policies cover fraud, property damage, and general liability, and Directors' and Officers' liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

51. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

	Less than 12 months				Over 12 months			
2015 LBP Million	Up to 1 month	1 to 3 months	3 months to 1 year	Total	1 to 5 years	Over 5 years	Total	TOTAL
ASSETS								
Cash and balances with central banks	1,807,726	289,849	789,491	2,887,066	1,733,644	2,615,527	4,349,171	**7,236,237**
Due from banks and financial institutions	2,211,881	198,693	99,341	2,509,915	8,247	203	8,450	**2,518,365**
Loans to banks and financial institutions and reverse repurchase agreements	568,681	93,805	524,340	1,186,826	10,221	-	10,221	**1,197,047**
Financial assets given as collateral	-	-	18	18	1,387	-	1,387	**1,405**
Derivative financial instruments	771	937	136	1,844	-	-	-	**1,844**
Financial assets at fair value through profit or loss	903	2,092	1,519	4,514	63,174	228,157	291,331	**295,845**
Net loans and advances to customers at amortized cost	3,180,288	458,245	1,095,302	4,733,835	1,519,227	1,146,579	2,665,806	**7,399,641**
Net loans and advances to related parties at amortized cost	19,662	1,365	6,174	27,201	1,273	6,801	8,074	**35,275**
Debtors by acceptances	94,542	74,217	75,946	244,705	-	-	-	**244,705**
Financial assets at amortized cost	175,409	186,507	978,340	1,340,256	4,805,040	4,371,218	9,176,258	**10,516,514**
Financial assets at fair value through other comprehensive income	-	-	-	-	-	101,907	101,907	**101,907**
Property and equipment	-	-	-	-	-	255,125	255,125	**255,125**
Intangible assets	-	-	-	-	-	493	493	**493**
Assets obtained in settlement of debt	-	-	-	-	-	42,006	42,006	**42,006**
Other assets	23,164	176	65,663	89,003	11	18,987	18,998	**108,001**
TOTAL ASSETS	**8,083,027**	**1,305,886**	**3,636,270**	**13,025,183**	**8,142,224**	**8,787,003**	**16,929,227**	**29,954,410**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Less than 12 months				Over 12 months			
2015 LBP Million	**Up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**Total**	**1 to 5 years**	**Over 5 years**	**Total**	**TOTAL**
LIABILITIES								
Due to central banks	12,300	1,422	9,195	22,917	57,048	37,447	94,495	**117,412**
Due to banks and financial institutions	337,011	67,118	113,515	517,644	138,667	88,243	226,910	**744,554**
Derivative financial instruments	1,220	1,143	82	2,445	-	-	-	**2,445**
Customers' deposits at amortized cost	14,014,718	3,023,536	4,655,746	21,694,000	2,714,026	250,405	2,964,431	**24,658,431**
Deposits from related parties at amortized cost	284,817	16,447	93,939	395,203	25,613	900	26,513	**421,716**
Debt issued and other borrowed funds	-	-	615	615	-	444,584	444,584	**445,199**
Engagements by acceptances	94,542	74,217	75,946	244,705	-	-	-	**244,705**
Other liabilities	57,155	1,479	66,136	124,770	18,263	4,534	22,797	**147,567**
Provisions for risks and charges	-	-	-	-	-	171,538	171,538	**171,538**
Subordinated debt	-	163	-	163	-	417,237	417,237	**417,400**
TOTAL LIABILITIES	**14,801,763**	**3,185,525**	**5,015,174**	**23,002,462**	**2,953,617**	**1,414,888**	**4,368,505**	**27,370,967**
NET	**(6,718,736)**	**(1,879,639)**	**(1,378,904)**	**(9,977,279)**	**5,188,607**	**7,372,115**	**12,560,722**	**2,583,443**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2014 LBP Million	Less than 12 months				Over 12 months			
	Up to 1 month	1 to 3 months	3 months to 1 year	Total	1 to 5 years	Over 5 years	Total	TOTAL
ASSETS								
Cash and balances with central banks	2,403,232	10,953	407,122	2,821,307	1,583,336	2,644,142	4,227,478	**7,048,785**
Due from banks and financial institutions	2,572,980	225,641	114,658	2,913,279	-	-	-	**2,913,279**
Loans to banks and financial institutions and reverse repurchase agreements	114,299	131,270	115,693	361,262	32,450	-	32,450	**393,712**
Financial assets given as collateral	-	-	7,005	7,005	-	-	-	**7,005**
Derivative financial instruments	3,914	768	2,033	6,715	-	-	-	**6,715**
Financial assets at fair value through profit or loss	190	756	746	1,692	24,062	129,828	153,890	**155,582**
Net loans and advances to customers at amortized cost	3,031,407	552,847	1,084,448	4,668,702	1,562,682	867,779	2,430,461	**7,099,163**
Net loans and advances to related parties at amortized cost	18,127	1,020	813	19,960	4,244	3,829	8,073	**28,033**
Debtors by acceptances	105,505	116,814	80,620	302,939	-	-	-	**302,939**
Financial assets at amortized cost	173,758	389,994	811,538	1,375,290	4,578,409	4,306,420	8,884,829	**10,260,119**
Financial assets at fair value through other comprehensive income	-	-	-	-	-	98,718	98,718	**98,718**
Property and equipment	-	-	-	-	-	236,379	236,379	**236,379**
Intangible assets	-	-	-	-	-	652	652	**652**
Assets obtained in settlement of debt	-	-	-	-	-	36,677	36,677	**36,677**
Other assets	4,780	26	61,827	66,633	-	40,147	40,147	**106,780**
TOTAL ASSETS	**8,428,192**	**1,430,089**	**2,686,503**	**12,544,784**	**7,785,183**	**8,364,571**	**16,149,754**	**28,694,538**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2014 LBP Million	Less than 12 months				Over 12 months			
	Up to 1 month	1 to 3 months	3 months to 1 year	Total	1 to 5 years	Over 5 years	Total	TOTAL
LIABILITIES								
Due to central banks	9,394	546	10,226	20,166	33,358	17,622	50,980	**71,146**
Due to banks and financial institutions	370,047	181,578	120,623	672,248	166,351	72,574	238,925	**911,173**
Derivative financial instruments	4,150	327	950	5,427	-	-	-	**5,427**
Customers' deposits at amortized cost	13,667,419	2,766,219	4,918,081	21,351,719	1,956,827	69,243	2,026,070	**23,377,789**
Deposits from related parties at amortized cost	291,393	1,852	7,068	300,313	12,500	-	12,500	**312,813**
Debt issued and other borrowed funds	-	-	616	616	-	444,771	444,771	**445,387**
Engagements by acceptances	105,505	116,814	80,620	302,939	-	-	-	**302,939**
Other liabilities	50,898	1,652	85,078	137,628	22,439	3,836	26,275	**163,903**
Provisions for risks and charges	-	-	-	-	-	145,429	145,429	**145,429**
Subordinated debt	-	82	-	82	-	414,498	414,498	**414,580**
TOTAL LIABILITIES	**14,498,806**	**3,069,070**	**5,223,262**	**22,791,138**	**2,191,475**	**1,167,973**	**3,359,448**	**26,150,586**
Net	**(6,070,614)**	**(1,638,981)**	**(2,536,759)**	**(10,246,354)**	**5,593,708**	**7,196,598**	**12,790,306**	**2,543,952**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

52. CAPITAL

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

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

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

RISK-WEIGHTED ASSETS

As of 31 December 2015 and 2014, risk-weighted assets are as follows:

LBP Million	2015	2014
Risk-weighted assets	**15,522,429**	**15,810,239**

REGULATORY CAPITAL

As at 31 December 2015 and 2014, regulatory capital consists of the following:

	Excluding profit for the year		Including profit for the year less proposed dividends	
LBP Million	2015	2014	2015	2014
Common Tier 1 capital	1,627,304	1,568,174	1,693,938	1,659,415
Additional Tier 1 capital	599,978	601,580	599,978	601,580
Tier 2 capital	465,603	463,616	465,603	463,616
Total capital	**2,692,885**	**2,633,370**	**2,759,519**	**2,724,611**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CAPITAL ADEQUACY RATIO

As of 31 December 2015 and 2014, capital adequacy ratio is as follows:

	Excluding profit for the year		Including profit for the year less proposed dividends	
	2015	**2014**	**2015**	**2014**
Common Tier 1 capital	10.48%	9.92%	10.91%	10.50%
Total Tier 1 capital ratio	14.35%	13.72%	14.78%	14.30%
Total capital ratio	**17.35%**	**16.66%**	**17.78%**	**17.23%**

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

53. DIVIDENDS PAID AND PROPOSED

LBP Million	2015	2014
Dividends paid during the year		
Equity dividends on ordinary shares: LBP 200 per share	113,103	113,103
Distributions to Series 2008 Preferred Shares: USD 8.00 per share	24,224	24,224
Distributions to Series 2009 Preferred Shares: USD 8.00 per share	24,224	24,224
	161,551	**161,551**
Less: dividends on treasury shares	(448)	(539)
	161,103	**161,012**
Proposed for approval at Annual General Assembly (not recognized as a liability as at 31 December)		
Equity dividends on ordinary shares: LBP 200 per share	113,103	113,103
Distributions to Series 2008 Preferred Shares: USD 8.00 per share	24,224	24,224
Distributions to Series 2009 Preferred Shares: USD 8.00 per share	24,224	24,224
	161,551	**161,551**

54. EVENTS AFTER THE REPORTING PERIOD

During 2016, the Bank signed sale and purchase agreements to acquire no less than 75% of the voting shares of Banque Pharaon and Chiha S.A.L, an unlisted bank based in Lebanon, for a total consideration of USD 91 million. In addition, the Bank provided certain shareholders of Banque Pharaon and Chiha S.A.L. an option to subscribe to the capital increase that will be performed by the Bank for this purpose, in the amount equivalent to the overall consideration of USD 91 million, exercisable within six months from the date of the final registration of the transferred shares in the name of Byblos Bank S.A.L. in the records of Midclear S.A.L. The Bank has requested and is awaiting the approval of the Central Bank of Lebanon to be able to proceed with the completion of this transaction.

HELD ON 26 APRIL 2016

RESOLUTIONS OF THE ANNUAL ORDINARY GENERAL ASSEMBLY

FIRST RESOLUTION

The Ordinary General Assembly approves the Board of Directors' general and special reports and approves all the elements of the consolidated and stand-alone balance sheets and profit and loss accounts of the fiscal year 2015.

SECOND RESOLUTION

The Ordinary General Assembly decides to allocate the non-consolidated profits (in LBP million) of the fiscal year 2015, as suggested by the Board of Directors, as follows:

2015 Non-Consolidated Net Income	213,098
Legal Reserves	(21,499)
Reserves for General Banking Risks	(27,982)
Reserves for Retail Loan Portfolio	(2,468)
Reserves for Capital Increase	(1,663)
Net Reserves for Foreclosed Properties	(1,770)
Unrealized Losses on Portfolio Held at Fair Value through Profit or Loss	(79)
Retained Earnings 2014	7,402
Net Income Available for Appropriation	**165,039**
Dividends – Preferred Shares Series 2008	24,224
Dividends – Preferred Shares Series 2009	24,224
Dividends – Common Shares	113,103
Retained Earnings 2015	3,488

THIRD RESOLUTION

The Ordinary General Assembly decides to grant discharge to the Chairman and Board members for their duties during the fiscal year 2015.

FOURTH RESOLUTION

The Ordinary General Assembly decides on the following points, after reviewing the special reports of each of the Board of Directors and the Statutory Auditors:

- To approve the credits effectively used during the year 2015 by some Board members and/or main shareholders and/or senior officers at Byblos Bank S.A.L. and/or companies they belong to, as detailed in the reports of the Board of Directors and the Statutory Auditors.

  The Assembly also confirms the agreement concluded between the Bank and the companies some Board members belong to, as shown in the special reports of the Board of Directors and the Statutory Auditors.

- To grant the special authorization referred to in article /152/ of the Code of Money and Credit and in article /158/ of the Code of Commerce for the fiscal year 2016 to each Board member and/or main shareholders and/or senior officers at Byblos Bank S.A.L. and/or companies they belong to, as shown in the special report of the Board of Directors.

- To grant the special authorization referred to in article /159/ of the Code of Commerce to entitle members of the Board of Directors to the chairmanship of, or Board membership in, other companies having similar business.

FIFTH RESOLUTION

The Ordinary General Assembly approves to set annual lump-sum emoluments for the members of the Board of Directors at 480 million Lebanese Pounds for the year 2016, to be distributed equally among the members, each one of them being entitled to 10 million Lebanese Pounds as attendance fees for each meeting with a maximum of 40 million Lebanese Pounds per year.

SIXTH RESOLUTION

The Ordinary General Assembly approves the business terms relative to each of Dr. François S. Bassil in his capacity as Chairman of Byblos Bank Group and Mr. Semaan F. Bassil in his capacity as Chairman and General Manager of Byblos Bank S.A.L. on such conditions as described in the special report, and to grant them for 2016 the authorization mentioned in Article /152/ of the Code of Money and Credit and Article /158/ of the Code of Commerce.

The Ordinary General Assembly approves the salaries and other benefits paid to the senior officers of the Bank for the year 2015, as mentioned in the Board of Directors special report, and approves as well to pay them the amounts mentioned in the same report for 2016.

The Ordinary General Assembly approves the fees paid to the members and chairmen of the Board Audit and Risk committees for 2015 and approves that said members and chairmen receive fees for the fiscal year 2016, as mentioned in the Board of Directors Special Report.

SEVENTH RESOLUTION

The Ordinary General Assembly decides to set the fees of the External Auditors, Messrs. BDO Semaan Gholam & Co. and Messrs. Ernst & Young, for the fiscal year 2016 at 1,250 million Lebanese Pounds for auditing and reviewing the stand-alone and consolidated financial statements

BYBLOS BANK S.A.L. ANNUAL REPORT 2015

DIRECTORY

PRIMARY CORRESPONDENT BANKS

Country	City	Bank Name
Australia	Sydney	Westpac Banking Corporation
Belgium	Brussels	Byblos Bank Europe S.A.
Denmark	Copenhagen	Danske Bank A/S
France	Paris	Société Générale
Germany	Frankfurt	Commerzbank AG, Deutsche Bank AG
Italy	Milan	UniCredit SpA, Intesa Sanpaolo SpA
Japan	Tokyo	Sumitomo Mitsui Banking Corporation, The Bank of New York Mellon
KSA	Jeddah	The National Commercial Bank
Kuwait	Kuwait	National Bank of Kuwait SAK
Netherlands	Amsterdam	ABN AMRO Bank NV
Norway	Oslo	DnB NOR BANK ASA
Qatar	Doha	Qatar National Bank SAQ
Sweden	Stockholm	Skandinaviska Enskilda Banken AB
Switzerland	Zurich	Crédit Suisse
Turkey	Istanbul	Yapi Ve Kredi Bankasi AS
UAE	Dubai	Emirates NBD PJSC, MashreqBank PSC
UK	London	Barclays Bank PLC
USA	New York	The Bank of New York Mellon, Citibank NA

GROUP ADDRESSES

Head Office:

BYBLOS BANK HEADQUARTERS

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SWIFT:	BYBALBBX
Forex:	(+961) 1 335255
Website:	http://www.byblosbank.com
E-mail:	secretariat@byblosbank.com.lb

BYBLOS BANK S.A.L. BRANCHES IN LEBANON

To contact any of our branches in Lebanon, please call Customer Service at (+961) 1 205050.
You can locate our branches by visiting the Contact Us section on our website at www.byblosbank.com,
or by logging on to Byblos Bank's Mobile Banking Application.

Baabda Regional Management

- Ain El Remmaneh Branch
- Baabda Branch
- Badaro Branch
- Furn El Chebbak Branch
- Hazmieh Branch

Batroun and Koura Regional Management

- Batroun Branch
- Bechmezzine Branch
- Chekka Branch
- Kousba Branch
- Zghorta Branch

Beirut 1 Regional Management

- Chiyah Branch
- Choueifat Branch
- Ghobeiry Branch
- Haret Hreik Branch
- Jnah Branch
- Verdun Branch
- Verdun Moussaitbeh Branch

Beirut 2 Regional Management

- Ashrafieh Geitawi Branch
- Ashrafieh Gemmayzeh Branch
- Ashrafieh Sassine Branch
- Ashrafieh Sioufi Branch
- Ashrafieh St. Nicolas Branch
- Ashrafieh Tabaris Branch
- Place de l'Etoile Branch

GROUP ADDRESSES

Bekaa Regional Management

- Aley Branch
- Bar Elias Branch
- Deir El Kamar Branch
- Jdita Branch
- Jeb Jannine Branch
- Kabrchmoun Branch
- Ras El Metn Branch
- Zahleh 1 Branch
- Zahleh 2 Branch

Metn Regional Management

- Antelias 1 Branch
- Antelias 2 Branch
- Baabdat Branch
- Dbayeh Branch
- Elyssar/Mazraat Yachouh Branch
- Jal El Dib Branch
- Jdeideh 1 Branch
- Mansourieh Branch
- Rabieh Branch
- Sin El Fil Branch

Dora Regional Management

- Aya/Dora Branch
- Bourj Hammoud Branch
- Dekwaneh Branch
- Dora Branch
- Jdeideh 2 Branch

North Regional Management

- Halba Branch
- Kobayat Branch
- Tripoli Boulevard Branch
- Tripoli Mina Branch
- Tripoli Tall Branch

Jbeil Regional Management

- Amchit Branch
- Jbeil 1 Branch
- Jbeil 2 Branch
- Mastita/Blat Branch
- Okaybeh Branch

Ras Beirut Regional Management

- Bechara Al Khoury Branch
- Bliss Branch
- Hamra Branch
- Hamra Sadat Branch
- Istiklal Branch
- Mar Elias Branch
- Mazraa Branch

Keserwan Regional Management

- Adma Branch
- Haret Sakhr Branch
- Jounieh Branch
- Kaslik Branch
- Kfarhbab Branch
- Reyfoun Branch
- Tabarja/Kfaryassine Branch
- Zouk Branch

South Regional Management

- Bint Jbeil Branch
- Ghazieh Branch
- Hlaliyeh Branch
- Jezzine Branch
- Marjeyoun Branch
- Nabatieh Branch
- Saida Branch
- Tyre Branch

GROUP ADDRESSES

Addresses of all entities overseas are well detailed
on the Contact Us page of our website at www.byblosbank.com.

Branches Abroad

Baghdad Branch, Iraq

Basra Branch, Iraq

Erbil Branch, Iraq

Sulaymaniyah Branch, Iraq

Limassol Branch, Cyprus

Representative Offices Abroad

Abu Dhabi Representative Office, United Arab Emirates

Nigeria Representative Office, Nigeria

Insurance Companies

ADIR Insurance and Reinsurance Co. S.A.L., Lebanon

ADIR Insurance and Reinsurance Co. Syria S.A., Syria

Adonis Brokerage House S.A.L., Lebanon

Subsidiary Bank in Lebanon

Byblos Invest Bank S.A.L.

Subsidiary Banks Abroad

Byblos Bank Africa with a branch in Khartoum

Byblos Bank Armenia C.J.S.C. with branches in Amiryan, Komitas and Malatia

Byblos Bank Europe S.A. with branches in Belgium, France, and the United Kingdom

Byblos Bank RDC S.A. with a branch in Kinshasa-Gombe

Byblos Bank Syria S.A. with branches in Abou Roummaneh, Mazzeh, Abbasiyeen Square, Aleppo, Tartous, Lattakia, Hama, and Swaidaa

ACKNOWLEDGMENTS

CONCEPT
Byblos Bank – Group Communication Department

DESIGN AND LAYOUT
www.circle.agency

PRINTING
Anis Commercial Printing Press

BYBLOS BANK GROUP

Lebanon
Belgium
France
United Kingdom
Armenia
Cyprus
Sudan
Syria
United Arab Emirates
Iraq
Nigeria
Democratic Republic of the Congo

WWW.BYBLOSBANK.COM