BYBLOS BANK

ANNUAL REPORT 2013

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BYBLOS BANK S.A.L. ANNUAL REPORT 2016

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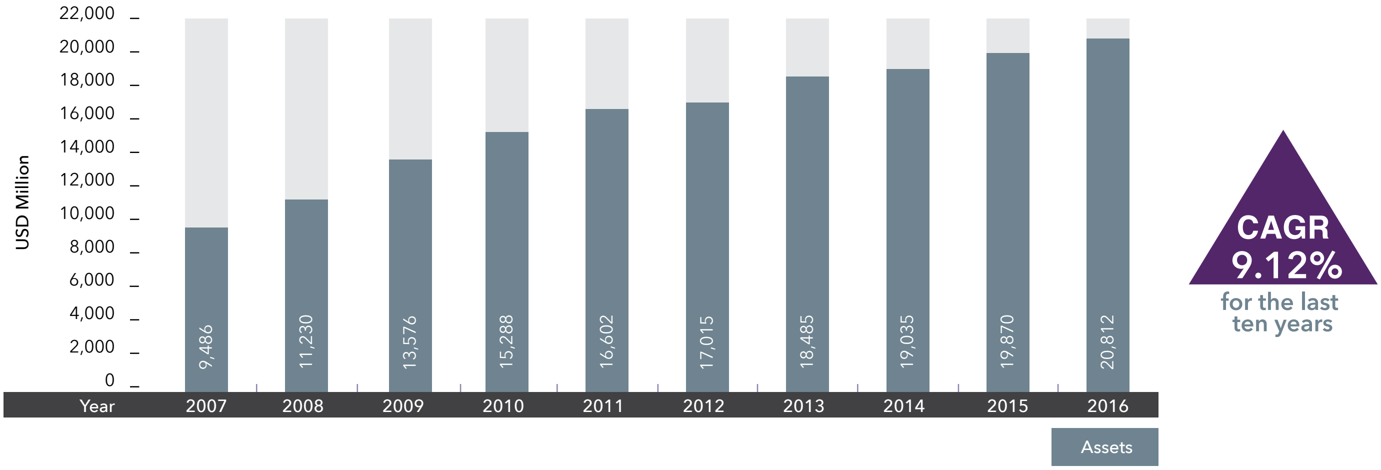

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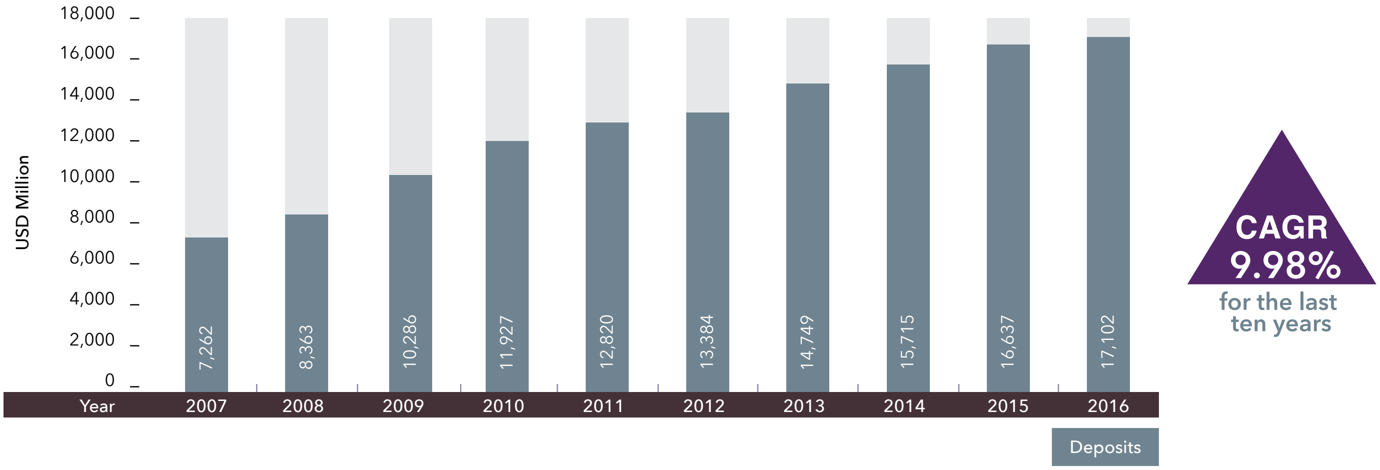

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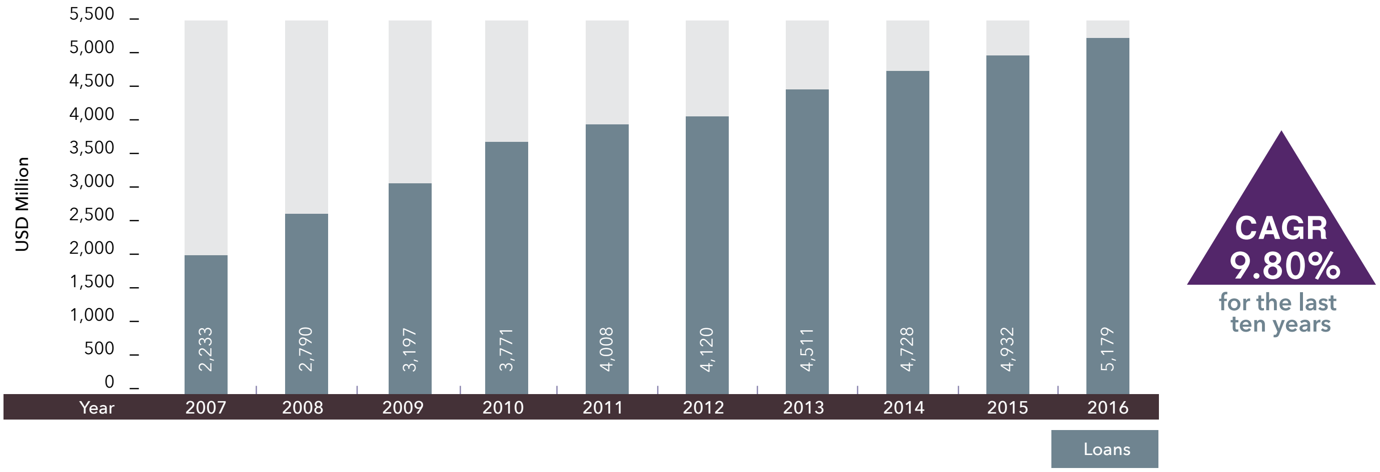

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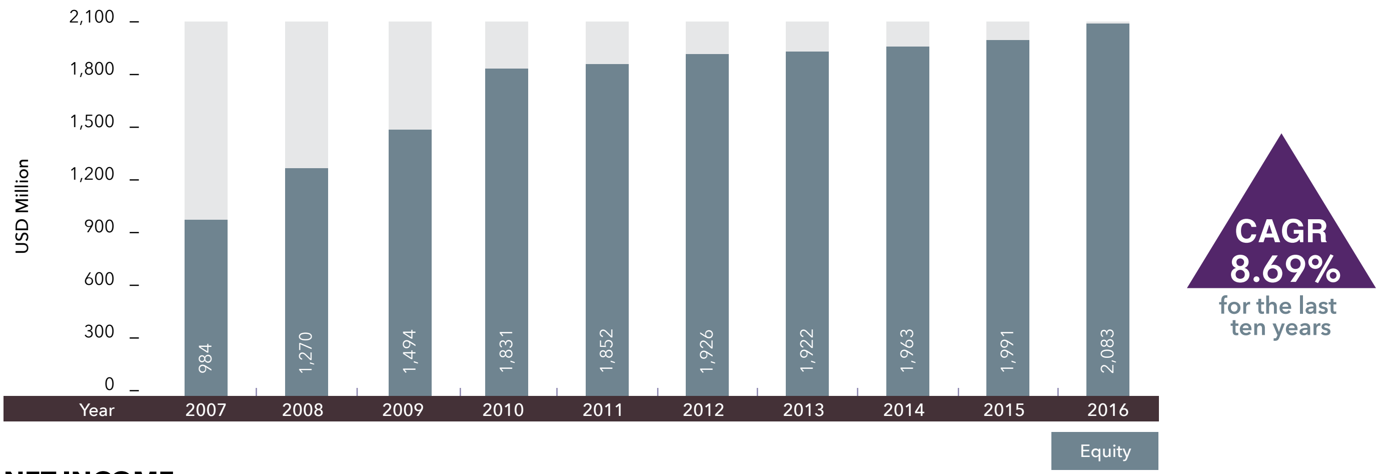

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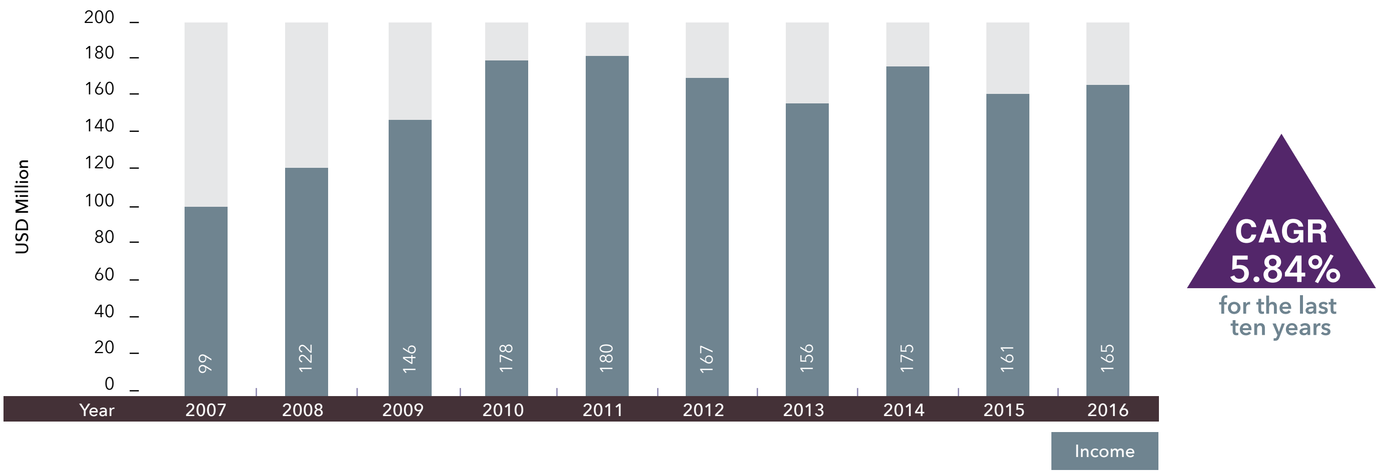


A MESSAGE FROM THE CHAIRMAN

Dear Stakeholders,

Byblos Bank posted satisfactory net profits of USD 165.3 million in 2016, an increase of 2.4% over 2015. This performance is directly aligned with the risk appetite mandated by the Board of Directors, whose priority has been to focus on bolstering the Bank's financial strength as a safeguard against unstable environments at the local, regional, and global levels.

This strategy resulted in several achievements in 2016. For one thing, the Bank increased its immediate foreign currency liquidity – in the form of short-term placements with higher-than-investment-grade institutions – to 16.6% of foreign currency deposits, easily surpassing both internal and international benchmarks. For another, Byblos Bank posted a Basel III Capital Adequacy Ratio above 18% at end-2016, easily exceeding the regulatory requirement of just 14%. In addition, the Bank successfully maintained loan quality and ensured adequate provisioning during the year, all while continuing our policy of closely monitoring potential risk across the Group. Last but not least, as at end-2016, Byblos Bank was fully compliant with the provisioning requirements of IFRS 9, well ahead of the 2018 regulatory deadline.

In the context of these and other conservative steps, net customers' loans grew by 5% to USD 5.2 billion, and customers' deposits added 2.8% to reach USD 17.1 billion, while the Bank maintained a low loans-to-assets ratio of 24.9%, and slightly improved its net interest margin from 1.40% to 1.42%, largely due to better interest rate management.

At the same time, the Bank faced difficult choices with regard to its subsidiaries in Syria and Sudan. Informed by our strong focus on long-term financial strength, and in the face of continuing instability in some of the emerging markets where we operate, as well as mounting international sanctions in some areas, the Bank has decided to deconsolidate their results and fully impair its investments in them, effective 31 December 2016.

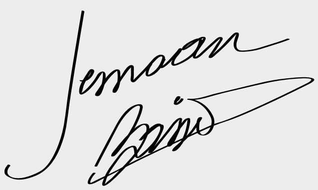
In the coming year, we expect to see improving economic and political conditions in our home market of Lebanon. And we will be ready to capitalize on them: the Bank has spent the past few years carrying out a variety of internal projects aimed at sharpening our business-development activities and increasing staff productivity, measures that leave us well-positioned to profit from expanding economic activity.

A MESSAGE FROM THE CHAIRMAN

As ever, I feel compelled to point out that the satisfactory results achieved in 2016 – amid challenging conditions and a risk-averse approach – were the result of a team effort by an active and attentive Board, able and exacting management, and faithful and committed employees across the Byblos Bank Group. Their combined dedication and proficiency ensured that the Bank could keep advancing the interests of its shareholders by bolstering both its assets and its capital base despite numerous external obstacles. In addition, the same professionalism allowed us to maintain and fairly compensate an appropriately sized workforce, and to extend our long record of being a good neighbor in the communities where we operate.

These and other achievements honor a proud tradition of establishing sensible priorities, crafting the right strategies to address them, and empowering our management and staff to implement these strategies with maximum efficiency. In this, all of us are guided by the same timeless common-sense values and long-term vision that have enabled Byblos Bank to keep growing despite even the most challenging circumstances. To all members of Byblos Bank management and staff who have contributed to this admirable record, and helped lay the groundwork for more success in the coming years, I express my sincerest thanks and my deepest respect.

Sincerely,



Semaan Bassil
Chairman - General Manager
Byblos Bank S.A.L.

THE LEBANESE ECONOMY IN 2016

ECONOMIC ACTIVITY

Economic activity in Lebanon remained below potential in 2016, in line with the previous five years. The domestic political deadlock, the high level of political polarization, the presidential vacuum, paralyzed decision-making within public institutions, and the crisis with Saudi Arabia and other member countries of the Gulf Cooperation Council (GCC) weighed on economic activity and on consumer and investor sentiment throughout most of the year. 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. Positive political developments in the fourth quarter of 2016 supported consumer confidence during the last three months of the year, but their impact came too late during the year to affect economic growth.

The Lebanese economy benefited from a USD 1 billion stimulus package from the Banque du Liban (BDL) in 2016, which supported activity in several key sectors, especially real estate. This constituted the BDL's fourth consecutive package since 2013. Also, the estimated inflows of USD 7.3 billion in remittances from Lebanese expatriates in 2016, equivalent to 14.1% 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 income of households and supported consumption during the year.

Still, the economy performed at a sub-par level in 2016, as private consumption grew by a real rate of 2.9%, public consumption increased by 6%, and gross fixed capital formation expanded by 0.6% during the year. Also, exports of goods and services contracted by 2.3% in real terms, while imports of goods and services grew by 2.6% in 2016. As such, the economy expanded by 1.4% in real terms in 2016 compared to a real GDP growth rate of 0.8% in 2015.

REAL SECTORS

Household sentiment is a key indicator of the trends in economic activity in Lebanon, given that private expenditures represent about 87% of overall spending in the economy. The Byblos Bank/AUB Consumer Confidence Index averaged 39.7 in 2016, increasing by 3.5% from 2015 and constituting the third annual expansion since 2009. The increase in consumer sentiment in 2016 was due mainly to the positive political developments in the fourth quarter of the year and to low-base effects. The election of General Michel Aoun as President in October, the swift nomination of Mr. Saad Hariri as Prime Minister in November, and the formation of a government of national unity in December ended the 30-month presidential vacuum in the country, restored the proper functioning of the government and Parliament, and supported confidence. In fact, the Index averaged 50.4 in the fourth quarter of 2016 and improved by 39% from 36.4 in the third quarter of the year. The fourth-quarter results were the highest in 21 quarters and the 17th highest since the start of the Index calculation in July 2007, while the quarter-on-quarter growth rate was the highest since the second quarter of 2008. However, the increase in confidence does not necessarily denote a reversal of trends, as the level of consumer sentiment in 2016 remained 59% lower than the Index's peak year of 2009 and 26% below the Index's monthly trend average since July 2007.

The Byblos Bank/AUB Expectations Index posted higher values than the Present Situation Index in eight out of the 12 months of 2016. However, only 8.6% of Lebanese polled in the fourth quarter of 2016 expected their financial conditions to improve in the coming six months, while 67% of them believed that their financial situation would deteriorate. In parallel, the BDL's Coincident Indicator, a proxy for overall economic activity in Lebanon, increased by 3.8% in 2016, which still reflects slow economic activity.

REAL ESTATE SECTOR

The real estate market, which contributes nearly 14% of economic output in Lebanon, was affected by the economic slowdown in the country in 2016. The surface area of construction permits for new buildings decreased by 11.2% in 2016, with the surface area of construction permits for new residential buildings regressing by 10.8% and the surface areas for new commercial buildings declining by 15% from the previous year. In parallel, the outstanding amount of housing loans reached USD 11.93 billion at the end of 2016 compared to USD 11.92 billion a year earlier, as new housing loans extended during the year continued to be supported by the BDL's stimulus package.

The Byblos Bank Real Estate Demand Index posted an average monthly value of 41.9 points in 2016, nearly unchanged from 41.8 points in 2015. The average monthly score of 2016 constituted a decline of 62% from the peak of 109.8 registered in 2010. It was also 33% lower than the monthly trend average score of 62.4 since the start of the Index calculation in July 2007. But the Index would have posted lower results for the year if it were not for the positive political developments that materialized during the fourth quarter of 2016. As such, the political breakthrough supported household sentiment, which helped the Index improve by 17.5% quarter-on-quarter to 46.5 points in the fourth quarter of 2016. However, the impact of these positive political developments on housing demand will remain limited if they are not accompanied by additional measures to stimulate demand.

TOURISM SECTOR

The tourism sector, which used to be a main driver of economic activity in the country, continued to post subdued activity in 2016. The World Travel & Tourism Council estimated that the travel and tourism industry had a direct contribution to economic activity equivalent to 7% of GDP in 2016, down from more than 10% of GDP in 2010, while the industry's direct and indirect impact was equivalent to 19.4% of overall economic activity in Lebanon last year. The sector's overall contribution to GDP increased by 2.7% in real terms in 2016.

THE LEBANESE ECONOMY IN 2016

The number of incoming visitors to Lebanon totaled 1.69 million in 2016, an increase of 11.2% from about 1.52 million tourists in 2015, but it still constituted a decline of 22% from the peak of 2.17 million visitors in 2010. The change in the composition of visitors to Lebanon affected tourism activity and revenues last year, as the number of European visitors accounted for 33.4% of the total and surpassed the number of Arab tourists (31% of the total), while incoming visitors from the six GCC countries accounted for 5% of Lebanon's total tourist arrivals in 2016, down from 18% in 2010.

Also, visitors from the Americas accounted for 17.6% of total tourists, followed by visitors from Asia (7.4%), Africa (6.1%), and Oceania (4.4%). On a country basis, visitors from Iraq accounted for 14% of total visitors in 2016, followed by visitors from the United States (9.1%), France (8.6%), Canada (5.9%), Germany (5.2%), Jordan (5.1%), and Egypt (4.9%).

The number of visitors from countries in Oceania increased by 25.6% in 2016, followed by visitors from African countries (+21.1%), the Americas (+12.4%), Europe (+11.7%), the Arab region (+8.8%), and Asia (+2.5%). In parallel, the number of incoming visitors from the GCC region reached 84,400 in 2016, down by 19.3% from 2015 and by 78% from 383,983 GCC tourists in 2010.

In parallel, the value of VAT refunds claimed by visitors in Lebanon decreased by 9% in 2016. Visitors from the UAE accounted for 14% of total tourist expenditures in 2016; followed by visitors from Saudi Arabia with 13%; Kuwait and Egypt with 6% each; Syria, Jordan, and France with 5% each; Qatar and the United States with 4% each; Nigeria with 3%; and Iraq with 2%. Spending by visitors from Iraq dropped by 18% in 2016, followed by expenditures by visitors from Saudi Arabia (-17%), Egypt (-16%), Qatar (-15%), the UAE (-10%), Jordan and Nigeria (-9% each), Kuwait (-8%), France (-7%), and the United States (-2%), while spending by visitors from Syria increased by 2% last year.

As a result, the change in the composition of visitors affected the performance of the hospitality sector, as the increase in the number of visitors did not translate into an improvement in revenues for the sector, given that hotels had to offer heavily discounted packages to non-GCC Arab nationals to entice them to visit Lebanon. The average occupancy rate at hotels in Beirut was 59% in 2016, almost unchanged from 58% in 2015 and compared to an average rate of 60.9% in 14 main Arab markets. The average occupancy rate at Beirut hotels was the sixth lowest in the region in 2016, similar to its rank in 2015. The average rate per room at Beirut hotels was USD 138 in 2016, ranking the capital's hotels as the second least expensive in the region. The average rate per room at Beirut hotels regressed by 15% year-on-year and posted the second steepest drop among all markets in the region. Further, revenues per available room reached USD 82 in Beirut in 2016, decreasing by 13.5% year-on-year, the fifth steepest decline among Arab markets.

INFLATION

The Consumer Price Index contracted by 0.8% in 2016 compared to a decline of 3.7% in 2015, according to the Central Administration of Statistics. The CPI regressed marginally by 0.3% in 2016 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, the strengthening of the US Dollar, the decrease in telecom tariffs in September 2016, and a slowdown in local demand for goods and services. Also, the figures denote the waning impact of imported inflation.

MONETARY POLICY

Throughout 2016, the BDL continued its policy of maintaining the stability of the exchange rate, of preserving economic and monetary stability, and of safeguarding the soundness of the banking sector. As such, the BDL deemed it necessary to conduct special financial operations with the Ministry of Finance and commercial banks in the second half of 2016 amid a sustained deficit in the balance of payments, a decrease in foreign currency reserves, and a slowdown in non-resident bank deposits at the start of the year.

First, in May 2016, the BDL exchanged LBP 3,000 billion worth of LBP-denominated Treasury bonds from its portfolio with Eurobonds worth USD 2 billion issued by the Ministry of Finance, and then sold the Eurobonds to commercial banks. Second, it started issuing Certificates of Deposit in US Dollars that totaled USD 12.5 billion by the end of the year, and that it sold to banks. Commercial banks financed the purchases by sourcing most of the funds from abroad, which attracted foreign currency deposits, increased the BDL's foreign currency reverses, and reversed the deficit in the balance of payments for the year. Third, the BDL bought back the equivalent of USD 12.5 billion in Lebanese Pound-denominated Treasury bills from the commercial banks' portfolios at a zero discount rate.

Following these swap operations, the BDL's gross foreign currency reserves reached USD 34 billion at the end of 2016, increasing by USD 3.4 billion, or 11.1%, from USD 30.64 billion a year earlier. They were equivalent to 62.2% 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 BDL's overall assets in foreign currency increased by USD 3.6 billion in 2016 to reach USD 40.7 billion at the end of the year.

Further, the value of the BDL's gold reserves reached USD 10.7 billion at the end of 2016, constituting a rise of 8.7% from end-2015, mainly due to a recovery in global gold prices. The BDL's combined assets in gold and foreign currencies were equivalent to about 99% of GDP at the end of 2016.

In parallel, broad money supply (M3) grew by 7.4% in 2016, accelerating from growth rates of 5.1% in 2015, 5.9% in 2014, and 6.9% in 2013, while money supply (M2) increased by 4.8%

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year-on-year, decelerating from rises of 7.1% in 2015, 6.8% in 2014, and 5.6% in 2013. Also, the interbank rate in Lebanese Pounds was nearly unchanged year-on-year at 3% at the end of 2016, while the repo rate was fixed at 10% throughout the year.

EXTERNAL SECTOR

The balance of payments posted a surplus of USD 1.2 billion in 2016, constituting the first annual surplus since 2010. The 2016 surplus was mainly due to the BDL's financial engineering operations, which attracted capital inflows. The 2016 surplus reflected an increase of USD 3.87 billion in the net foreign assets of the BDL, which was partly offset by a decrease of USD 2.63 billion in those of banks and financial institutions. Also, the current account deficit is estimated to have widened from 16% of GDP in 2015 to 17.2% in 2016.

The trade deficit reached USD 15.7 billion in 2016, widening by 4.1% year-on-year, as the value of imported goods increased by 3.5% to USD 18.7 billion and the value of exports expanded by a marginal 0.8% to USD 3 billion. The rise in imports mainly reflects an increase of USD 306 million, or 8.9%, in the value of imported oil and mineral fuels to USD 3.74 billion in 2016. The growth in imported oil and mineral fuels was due to higher fuel imports by Electricité du Liban (EDL) during the year, as non-EDL fuel imports contracted last year. The value of oil and mineral fuels accounted for 20% of total imports in 2016 compared to a share of 19% in 2015. In parallel, the value of non-hydrocarbon imports grew by 2.3% to USD 15 billion. The value of imported jewelry increased by USD 433.2 million, or 52.7%, to USD 1.3 billion in 2016, and that of chemical products rose by USD 85.6 million, or 4.4%, to USD 2 billion, while the value of machinery and mechanical appliances contracted by USD 113.8 million, or 5.7%, to USD 1.9 billion in 2016.

Further, the marginal increase in exports in 2016 was driven mainly by a rise of USD 394.3 million, or 91%, in jewelry exports, which offset the decline of other main export products. In fact, exports of chemical products decreased by USD 106.4 million to USD 411 million, exports of machinery and mechanical appliances regressed by USD 80.2 million to USD 413.8 million, those of base metals contracted by USD 60.5 million to USD 313.7 million, and exports of prepared foodstuffs decreased by USD 37.2 million to USD 482.7 million in 2016.

PUBLIC FINANCES

Lebanon's public finance imbalances persisted in 2016, with the fiscal deficit widening to 9.5% of GDP from 7.7% of GDP in 2015. The public sector continued to expand, with public expenditures increasing from 26.5% of GDP in 2015 to 28.6% of GDP in 2016. Public personnel cost, which includes salaries, wages, transfers to public institutions to cover salaries, end-of-service indemnities, and retirement benefits, reached the equivalent of 9.4% of GDP in 2016, up from 9.2% of GDP in 2015. Also, debt servicing represented 9.5% of GDP relative to 9.2% of GDP in the previous year, and transfers to the state-owned and money-losing EDL reached 1.8% of GDP, down from 2.2% of GDP in 2015.

In addition, Treasury transfers to municipalities increased from 1.2% of GDP in 2015 to 2% of GDP in 2016, in order to finance the municipal and mayoral elections that took place in May 2016. Public personnel cost was the fastest-growing component of budgetary spending over the past six years, as it expanded by a CAGR of 6.5% during the 2010-2016 period compared to growth of 3% for debt servicing, and a CAGR of -4% for Treasury transfers to EDL.

In parallel, public revenues increased from 18.7% of GDP in 2015 to 19.1% of GDP in 2016. Tax revenues were equivalent to about 13.5% of GDP last year, nearly unchanged from 13.4% of GDP in 2015; non-tax receipts represented 4.3% of GDP in 2016, unchanged from the preceding year; and Treasury revenues were equivalent to 1.2% of GDP last year relative to 1% of GDP in 2015.

The widening fiscal deficit led Lebanon's public debt level to grow from 137.7% of GDP in 2015 to 144.1% in 2016, constituting the ratio's fourth consecutive annual increase. The gross public debt reached USD 74.9 billion at the end of 2016, constituting an increase of 6.5% from end-2015 and compared to increases of 5.6% in 2015 and 4.9% in 2014. The gross public debt grew by USD 4.56 billion in 2016 relative to increases of USD 3.75 billion in 2015 and USD 3.1 billion in 2014. Debt denominated in local currency increased by 8.2% to the equivalent of USD 46.8 billion, while debt in foreign currency grew by 3.8% to USD 28.1 billion at the end of 2016. Foreign currency-denominated debt represented 37.5% of gross public debt at the end of 2016 relative to 38.5% a year earlier.

Commercial banks held about 47% of the total public debt at the end of 2016, down from 53% at end-2015, followed by the BDL with nearly 34% relative to about 26.5% a year earlier; the general public, resident public, and non-bank financial institutions with 11%, bilateral and multilateral loans with 3%; and others with 5% of the total. The BDL accounted for 42.7% of the Lebanese Pound-denominated public debt at the end of 2016 compared to 37.3% a year earlier. Commercial banks followed with 41.9%, down from 45.8% at end-2015, while public agencies, financial institutions, and the public held the remaining 15.3%. Also, Eurobond holders and special Treasury bills in foreign currencies accounted for 92.9% of the foreign-currency denominated debt, followed by multilateral institutions with 3.7%, foreign governments with 3.2%, and Paris II loans with 0.2%. In parallel, the gross market debt accounted for about 61% of total public debt. Gross market debt is the total public debt less the portfolios of the BDL, the National Social Security Fund, bilateral and multilateral loans, and Paris II- as well as 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 120.5 million shares in 2016, constituting an increase of 61.4% from 74.6 million shares in 2015, while aggregate turnover amounted to USD 971.6 million, up by 54.5% from a

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turnover of USD 629 million in 2015. The increase in trading activity was boosted by several block trades during the year. However, the Capital Markets Authority Market Value-Weighted Index improved by just 0.5% in 2016. Market capitalization grew by 6.1% from the end of 2015 to USD 11.9 billion, with banking stocks accounting for 83.1% of the total, followed by real estate shares (14.5%), industrial firms (2.1%), and trading stocks (0.3%). The market liquidity ratio was 8.2% compared to 5.6% in 2015. Further, market capitalization was equivalent to 23% of GDP in 2016, the fifth lowest level among 14 Arab markets, and accounted for about 1% of the aggregate market capitalization of Arab equity markets at end-2016.

Bank stocks accounted for 92.2% of the aggregate trading volume in 2016, followed by real estate equities with 7.6% and industrial shares with 0.2%. Also, banking stocks accounted for 89.6% of the aggregate value of shares traded, followed by real estate stocks with 10.1% and industrial stocks with 0.3%. The average daily traded volume for 2016 was 493,739 shares for an average daily value of USD 4 million. The figures reflect increases of 59.4% in volume and 52.6% in value year-on-year. In parallel, the Capital Markets Authority Banks Market Value-Weighted Index rose by 13.6% last year.

FIXED INCOME

Lebanon's external debt posted a return of 4.93% in 2016, constituting the 13th lowest return among 43 markets in the Central and Eastern Europe, Middle East and Africa (CEEMEA) region, as well as the 24th lowest return among 75 emerging markets, according to the Merrill Lynch External Debt EM Sovereign Bond Index. Lebanon underperformed the overall emerging markets' return of 8.19% during 2016 and posted the eighth lowest return among 26 countries in the Middle East and Africa region.

The Ministry of Finance issued a total of USD 3.4 billion in Eurobonds in 2016.

In January 2016, the Ministry of Finance issued USD 431.7 million in Eurobonds in the context of a Purchase Agreement with the BDL.

In April 2016, the Lebanese Republic issued a USD 1 billion dual-tranche Eurobond under the Republic of Lebanon's Global Medium Term Note Program to cover part of the government's debt service payments for the year. The first series consisted of an eight-year, USD 700 million Eurobond that matures on 22 April 2024 and carries an annual coupon rate of 6.65%, while the second series consisted of a 15-year USD 300 million Eurobond that is due on 22 April 2031 and carries an annual coupon rate of 7%. Local investors, including commercial banks, investment banks, and insurance companies, subscribed to 91% of the issuance, while foreign investors, including European funds, subscribed to the balance of 9%.

In May 2016, the BDL exchanged Lebanese Pound-denominated Treasury bonds from its portfolio with USD 2 billion worth of Eurobonds issued by the Ministry of Finance. The first series of the newly issued bonds consisted of a six-year USD 500 million Eurobond that matures in 2022 and carries an annual coupon rate of 6.25%, the second series consisted of a seven-year USD 500 million Eurobond that is due in 2023 and carries an annual coupon rate of 6.4%, and the third series consisted of a 13-year USD 1 billion Eurobond that matures in 2029 and carries an annual coupon rate of 6.85%. The May 2016 swap helped reduce the average interest rate from 7.53% on the local-currency bonds to 6.59% on the newly issued bonds. It also lengthened the average debt maturity from 7.92 years for local-currency bonds to 9.89 years for the Eurobonds, without increasing the value of the public debt stock or the BDL's share of the public debt. In addition, the swap provided additional monetary tools to the BDL in order to manage liquidity in the market.

RISK METRICS

Spreads on five-year credit default swaps (CDSs) for Lebanon ended 2016 at 491.9 basis points (bps), up from 411 bps at the end of 2015. The spreads were stable during the first nine months of 2016, as they averaged 448.6 bps in the first quarter, 456.4 bps in the second quarter, and 459.6 bps in the third quarter of the year. However, Lebanon's CDS spreads widened to an average of 485.1 bps during the fourth quarter of 2016.

Rating agencies expressed concern during the year about persisting political risks and fiscal imbalances, but they remained confident in the strength and stability of the banking sector. In July 2016, Fitch Ratings downgraded Lebanon's long-term foreign and local currency Issuer Default Ratings (IDRs) from 'B' to 'B-' and revised the outlook from 'negative' to 'stable'. It also lowered the Country Ceiling and the ratings on Lebanon's senior unsecured foreign and local currency bonds from 'B' to 'B-', while affirming the short-term foreign and local currency IDRs at 'B'. The agency attributed the downgrades to the increase in political risks from the ongoing conflict in Syria, as well as to the country's weak public finances and low economic performance. It pointed out that the ratings are supported by Lebanon's strong external liquidity and resilient banking sector, the government's perfect track record of public debt repayment, and other structural strengths, such as the high income levels and human development indicators.

In September 2016, S&P Global Ratings 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 from 'negative' to 'stable'. It attributed the outlook revision to its expectations that deposit inflows to the Lebanese banking sector would remain resilient, which would support the government's borrowing requirements and the country's external financing needs. It reiterated that the government's dependence on domestic banks and on the BDL to finance its needs is a structural weakness, but it considered this dependence to be a crucial support for the ratings.

In October 2016, Capital Intelligence affirmed Lebanon's long- and short-term foreign and local currency sovereign ratings at 'B', and kept the 'negative' outlook on the long-term ratings. It said that Lebanon's ratings and 'negative' outlook reflect the

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prevailing high level of geopolitical risks, which are weighing on economic activity and are increasing the country's vulnerabilities. It indicated that the ratings are supported by the country's adequate international liquidity, especially its foreign currency reserves, which constitute a buffer against external economic shocks.

BANKING SECTOR

The banking sector continued to face a challenging operating environment in 2016 due to several converging factors that include slow economic activity in Lebanon, domestic and regional political uncertainties, the Syrian conflict and its spillovers onto Lebanon, tighter margins, fewer lending opportunities domestically and in their main foreign markets, low global interest rates, and the elevated borrowing needs of the Lebanese government. Still, the sector remained solid, profitable, highly liquid, and able to meet the financing needs of the private and public sectors.

The aggregate assets of commercial banks reached USD 204.3 billion at the end of 2016, constituting an increase of 10% from end-2015 and relative to increases of 6% in 2015 and 6.6% in 2014. The sector's assets were equivalent to 393% 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 57.2 billion at the end of 2016 and increased by USD 3 billion, or 5.5%, from end-2015 relative to a rise of USD 3.3 billion, or 6.5%, in 2015. Lending to the resident private sector grew by USD 3 billion in 2016 relative to a rise of USD 2.7 billion in 2015, while credit to the non-resident private sector regressed by USD 39.8 million last year compared to an increase of USD 648.1 million in 2015. As such, credit to the resident private sector was equivalent to 98.2% of GDP in 2016. The dollarization rate in private sector lending reached 72.6% at end-2016, down from 74.8% a year earlier. The average lending rate in Lebanese Pounds was 8.23% at end-2016, while the same rate in US Dollars was 7.35%. Further, claims on the public sector stood at USD 34.7 billion, down by 8.1% year-on-year, and accounted for about 17% of the banking sector's total assets. However, commercial banks' deposits at the BDL totaled USD 89.3 billion at end-2016, reflecting an increase of 26.6% from a year earlier, and accounted for about 43.7% 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 162.5 billion at the end of 2016, rising by USD 10.9 billion, or 7.2%, from end-2015, relative to an increase of USD 7.2 billion, or 5%, in 2015. Private sector deposits increased by USD 7.9 billion in the second half of 2016, equivalent to 72% of the total rise in deposits last year, due in large part to the BDL swap operations. Private sector deposits were equivalent to 312.7% of GDP, one of the highest such ratios in the world. Deposits in Lebanese Pounds reached USD 55.5 billion, up 4.3% from end-2015 and compared to an increase of 7.5% in 2015, while deposits in foreign currencies totaled USD 107 billion, a rise of 8.8% from end-2015 and relative to an increase of 3.6% in 2015.

Non-resident foreign currency deposits totaled USD 29.4 billion at end-2016, increasing by 7.3% from end-2015 relative to a rise of 3.7% in 2015. The dollarization rate of deposits reached 65.8% at end-2016, up from 64.9% a year earlier. The average deposit rate in Lebanese Pounds was 5.56% at end-2016, unchanged from end-2015. The same rate in US Dollars was 3.52% at end-2016 compared to 3.17% a year earlier. In parallel, deposits of non-resident banks reached USD 9.5 billion, and rose 44.7% from end-2015.

The ratio of private sector loans to deposits in foreign currencies stood at 38.8% at end-2016, well below the BDL's limit of 70%, and compared to 41.3% a year earlier. In parallel, the same ratio in Lebanese Pounds was 28.2% at the end of 2016, up from 25.6% at end-2015. The ratio of total private sector loans to deposits was 35.2% at the end of 2016, compared to 35.8% a year earlier. The banks' capital base stood at USD 18.2 billion at the end of 2016, up by 9.4% from a year earlier, with core capital growing by 10.1% to USD 17 billion.

In parallel, the unaudited consolidated net profits of the top 14 banks by deposits reached USD 2.3 billion in 2016, constituting an increase of 11.9% from net earnings of USD 2 billion in 2015. Net operating income increased by 29.2% year-on-year to USD 6.7 billion, with aggregate net interest income rising by 8% to USD 3.8 billion and net fees and commissions expanding by 75.5% to USD 1.5 billion. In addition, net gains on financial assets at fair value grew by 59% to USD 1.06 billion in 2016. Non-interest income accounted for 44.3% of total income in 2016, up from 33.2% in the preceding year, with net fees and commissions representing 47.7% of non-interest income compared to 46.7% in 2015. Also, the cost-to-income ratio was 47.7% in 2016, down from 48.7% in 2015. Further, the banks' return on average assets was 1.08% in 2016, slightly up from 1.02% in the preceding year, while their return on average equity was 11.8% in 2016 compared to 11.5% in 2015.

THE GLOBAL AND REGIONAL ECONOMIES IN 2016

Global economic activity was subdued in 2016 due to the economic slowdown in advanced economies and stable growth in emerging and developing economies. The United Kingdom's vote in June 2016 to leave the European Union, as well as weaker-than-expected economic activity in the United States in the first half of 2016, affected global growth. The global economy grew by a real rate of 3.1% in 2016, nearly unchanged from 3.2% in 2015, while economic growth slowed down in advanced economies to 1.7% last year from 2.1% in 2015. Emerging markets and developing economies posted a real GDP growth rate of 4.1% in 2016, similar to their growth rate in the preceding year, as recessions in countries such as Russia, Brazil, and Nigeria offset strong economic activity in Emerging Asia.

THE LEBANESE ECONOMY IN 2016

Overall economic activity in emerging markets and developing economies has been affected by the slowdown in advanced economies, the rebalancing in China, the adjustment to low commodity prices, and an uncertain external environment.

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 GCC economies 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. In fact, oil exporters in the MENA region have lost about USD 435 billion in oil revenues since 2014 due to the 55% drop in global oil prices during the 2014-16 period. The decline in oil prices weighed on the public finances of oil exporters and somewhat alleviated the pressure on the public finances of oil-importing economies.

Economic growth in the MENA region was moderate at 2.9% in 2016 amid the drop in oil prices and the ongoing regional conflicts. Economic activity in oil-exporting Arab countries accelerated from a real growth rate of 2.5% in 2015 to 2.9% in 2016 due to a recovery in activity in non-GCC oil exporters, while the real GDP growth rate of oil-importing Arab economies was 2.8% in 2016 compared to 3.6% in 2015. Further, GCC economies posted a real GDP growth rate of 1.9% in 2016 relative to a growth rate of 3.5% in 2015. Their hydrocarbon output grew by 2.5% in 2016 compared to a growth rate of 3.4% in the preceding year, while activity in the non-hydrocarbon sector expanded by 1.5% last year, down from 3.9% in 2015. Also, economic activity in the MENA region's non-GCC oil exporters, such as Algeria, Iran, Iraq, Libya, and Yemen, accelerated from 0.6% in 2015 to 4.7% in 2016, supported by the lifting of economic sanctions on Iran and the recovery of economic activity in Libya and Iraq.

The aggregate fiscal deficit of the region's oil exporters narrowed from 9.2% of GDP in 2015 to 7.9% of GDP in 2016, while their aggregate current account deficit widened from 3.6% of GDP in 2015 to 4.6% of GDP last year. Governments in the GCC region have implemented fiscal reforms, mainly by reducing capital spending and cutting fuel subsidies, to adjust to the low oil price environment. As such, the GCC countries aggregate fiscal deficit narrowed from 8.6% of GDP in 2015 to 8.1% of GDP in 2016, while their aggregate current account deficit widened from 1.7% of GDP in 2015 to 3.2% of GDP last year. Further, the aggregate gross foreign assets of GCC countries regressed from USD 2.79 trillion at the end of 2015 to USD 2.72 trillion at the end of 2016. In parallel, the aggregate fiscal deficit of the region's oil importers widened slightly from 8.7% of GDP in 2015 to 9.3% of GDP last year, as declining remittances and investment flows from GCC countries have partly offset the benefits of low oil prices on these economies. Also, the aggregate current account deficit of the Arab oil-importing economies widened from 5.5% of GDP in 2015 to 6.6% of GDP in 2016.

In parallel, economic growth in SSA decelerated from 3.4% in 2015 to 1.4% in 2016, the lowest growth rate in more than 20 years, due to the impact of low commodity prices and the resulting policy adjustments, as well as due to domestic challenges, infrastructure constraints, and a less supportive global economic environment.

The SSA region's eight oil-exporting countries, especially Angola and Nigeria, were affected significantly by the continued weakness in hydrocarbon prices. As such, aggregate real GDP in SSA oil exporters contracted by 1.7% in 2016 following a growth rate of 2.6% in 2015. Also, other commodity exporters, such as Ghana and the Democratic Republic of the Congo, were hit by declines in the prices of their key export products. In fact, real GDP growth in SSA commodity exporters, excluding oil exporters, decelerated from 2.5% in 2015 to 2.1% in 2016. In contrast, most SSA countries that are not dependent on commodity exports performed relatively better, as they benefited from the low oil price environment, strong capital investment, and an improved business climate. Growth in these countries reached 5.6% last year relative to a growth rate of 6.5% in 2015. Further, the region's low-income countries grew by 4.7% last year relative to 5.6% in 2015, while growth in middle-income economies slowed to 0.4% in 2016 from 2.7% in the preceding year.

The aggregate fiscal deficit of SSA countries, including grants, widened from 4.3% of GDP in 2015 to 4.6% of GDP in 2016, and their current account deficit narrowed from 5.9% of GDP to 4.5% of GDP last year. Also, the aggregate foreign currency reserves of SSA economies decreased from 5.4 months' worth of imports of goods and services in 2015 to about 4.6 months of import coverage in 2016.

In parallel, policy adjustment in several SSA countries that were affected by the drop in commodity prices has been slow, and has led to the accumulation of arrears and the monetization of fiscal deficits, which increased their public debt levels. As a result, the aggregate public debt level in SSA rose from 37.1% of GDP in 2015 to 41.1% of GDP in 2016.

Further, oil-exporting economies with flexible exchange rates have allowed their currencies to depreciate against the US Dollar, but not enough to balance the currency markets and eliminate the parallel exchange rates. The Angolan Kwanza and the Nigerian Naira depreciated on the official market by 36.1% and 30.9%, respectively, against the US Dollar in 2016, following depreciations of 22.1% for the kwanza and 20% for the naira in 2015. Also, the currency depreciations have been accompanied by capital restrictions in many of the affected economies. In addition, exchange rate movements have not been limited to oil-exporting countries, as the currencies in Ghana and South Africa, among others, have depreciated due to domestic vulnerabilities and rising risk aversion among foreign investors.

BYBLOS BANK S.A.L. ANNUAL REPORT 2016

PROFILE OF THE GROUP

PROFILE OF THE GROUP

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 decades of consistent growth, Byblos Bank now has an extensive network of 86 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, 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 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.

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. During 2016, Byblos Bank Armenia increased its capital to AMD 30 billion (equivalent to USD 60 million,) and simultaneously Byblos Bank S.A.L. acquired the shares of the European Bank for Reconstruction and Development and the OPEC Fund for International Development to become once again the sole shareholder of Byblos Bank Armenia. Byblos Bank Armenia continues to address local needs through two 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

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

OPERATIONS AND GOVERNANCE

YEAR IN REVIEW

GETTING THE JOB DONE TODAY AND PREPARING FOR TOMORROW

PRUDENT STRATEGY RISES ABOVE CONTINUING REGIONAL UNCERTAINTY

Byblos Bank maintained its long record of overcoming obstacles in 2016, using its proven management style and resilient business model as shields against the effects of challenging conditions at home and abroad. Although Lebanon and other crucial markets continued to be affected by a variety of economic, political, and social crises, including a sixth year of civil war in neighboring Syria, the Bank turned in another year of satisfactory results.

At the same time, we also stood by our longstanding practice of constantly implementing incremental changes that keep Byblos Bank in the vanguard of regional financial institutions. These included careful tending to our capital and liquidity positions, improvements to our already rigorous risk management systems, and process upgrades that increased efficiency while reducing costs.

PRIORITIZING THE NEEDS OF OUR CUSTOMERS

TECHNOLOGY MAKES ALL THE DIFFERENCE

The past year was an exceptionally busy one for the Consumer Banking Division, with much of the focus on new technologies, attracting new clients from various segments, notably 18-24-year-olds, and improvements to our domestic branch network. We also relied heavily on our Customer Service staff to provide the 24/7 care that keeps our clientele in the loop about the latest products and services.

One of the biggest moves of the year came in November, when we introduced ByblosPay, the first Mobile Payment Application in Lebanon, the Levant and North Africa. The App allows holders of Byblos Bank Visa credit cards to use their Android mobile phones as proxies for their physical cards, allowing secure contactless payments and purchases at merchants, hotels, restaurants, and other points of sale. This achievement resulted from a cooperative effort among Byblos Bank, Visa, and two Lebanese companies: CSCBank, which specializes in all forms of electronic payments; and FOO, a mobile application lab.

Byblos Bank also set another national standard in 2016, becoming the first bank in Lebanon to provide Instant Issuance of debit cards across its entire branch network. Among other advantages, this means that with a single visit to a branch, a customer can open an account, take delivery of his or her debit card, and start using our trendsetting Mobile Banking Application.

As part of our policy of staying close to our clients, we also improved our Bank-wide Customer Relationship Management (CRM) capabilities and activated a new CRM solution at the branch level. These achievements will help both Customer Service and Branch staff to better understand – and meet – the needs of our clientele.

We also continued to automate our interactions with our network of car dealers registered to receive applications for Byblos Bank Auto Loans. This process is built around providing these dealers with Asra3App, a mobile application specially developed to allow them to both perform onsite simulations and instantly relay applications with all related documents, giving the Bank a significant competitive advantage in this crucial market.

In order to compound the impact of these and other technological advances, the Bank also stepped up its efforts to encourage more customers to avail themselves of the benefits deriving from alternative channels. Both Branch and Customer Service staff are part of this campaign, focusing on building customer awareness of – and comfort with – such non-traditional tools as ATMs and Smart ATMs, the Mobile Banking App (including new same-currency and different-currency transfers to other Byblos Bank account-holders), and the recently introduced Corporate Internet Banking platform for business clients.

We also continued our program of upgrading and renovating branches, giving them stronger branding and greater appeal to current and future customers. The branch network expanded, too, with five new locations – including the integration of Banque Pharaon & Chiha branches.

In addition, the Bank targeted particular market segments in order to expand and rejuvenate its customer base. The centerpiece of this has been The Makers Account, which offers exclusive benefits to 18-24-year-olds, a rapidly growing segment. As part of our efforts to court youth, we also established Facebook, Instagram, and Snapchat pages, and Bank representatives participated in numerous campus events at several key institutions.

The Bank also was successful in consolidating its status as Lebanon's leading provider of home loans by making extensive use of our Government Housing Loan program to secure a market share in excess of 20% of all new loans granted by Lebanese banks in 2016.

On the retail business level, Byblos Bank continued its long record of close engagement with small- and medium-sized enterprises (SMEs). Over the course of our history, we have extended more than LBP 2.5 trillion worth of credit to SMEs, providing crucial support to this proven source of business activity, sustainable economic growth, and employment opportunities for the Lebanese people.

All of the foregoing was made possible by our dedicated Customer Service Team, which provided tangible support for the Bank's strategy across the board, including reminders for clients to keep their payments up to date. This was essential in helping us to retain one of the Lebanese banking sector's lowest loss ratios, all while striving to achieve the planned increase in sales. Our new credit-scoring tool was a significant contribution to this effort, and we worked on improving customer satisfaction by monitoring feedback through several platforms, including our call center, social media, and digital channels.

YEAR IN REVIEW

COMMERCIAL BANKING

A LONG-TERM PARTNER FOR BUSINESS

The Commercial Banking Division worked overtime in 2016, applying the expertise gained from long experience to the task of helping our clients cope with challenging local, regional, and global circumstances. This continues a time-honored tradition at Byblos Bank, which has been an essential partner for Lebanon's famously resilient private sector – in good times and in bad – for generations. As Lebanese companies have expanded their operations in Lebanon and then to multiple countries in Africa, Europe, and the Middle East, so has Byblos Bank provided the solutions to help them meet the financial requirements of doing business under difficult conditions, in emerging markets, and across multiple borders.

This relationship has been made possible by our continuing devotion to innovative product development, our commitment to providing world-class services, and our practice of using dedicated teams of experienced professionals to deliver unparalleled value to our clients. From contracting and real estate to manufacturing, trade, and project finance, these specialized teams know our customers and the industries in which they do business, allowing them to share unique insights and impactful advice.

With several of the markets in which the Group has a presence experiencing economic downturns caused by years of factors like lower commodity prices, socioeconomic crises, and even armed conflict in some cases, the Commercial Banking Division's input has never been more crucial for our customers' bottom lines. Going forward, the forecast is that adverse circumstances will persist in 2017, but the Division is up to the challenge: we will continue our conservative approach to growth targets while taking steps to preserve market share, maintain asset quality, and keep helping our customers to both ride out the current storm and prepare for brighter days in the future.

This stance has served the Bank and its clients well in recent years, helping us and them alike to limit the effect of various impediments to business. We expect many of the same obstacles in 2017 – and to keep helping our customers shore up their positions until the time comes when we and they can pivot to more positive growth strategies.

CAPITAL MARKETS

A STABILIZING ROLE IN UNCERTAIN TIMES

Challenging conditions continued to prevail on local and international markets in 2016, but our Treasury and Capital Markets teams were up the task, preserving the interests of the Bank, its customers, and other stakeholders by putting its resources and expertise to good use. On the local side, Byblos Bank was able to maintain profitability by taking advantage of the debt swaps offered by the Banque du Liban, its significant market share on the Beirut Stock Exchange, its strong support for other banks in the Lebanese Pound money markets, and its status as a key source of liquidity in the market for Lebanese Eurobonds. On the international side, we continued to offer our usual professional brokerage services for equities and fixed income, and to provide effective hedging tools on the commodities and foreign exchange markets for our corporate clients.

FOREIGN BANKING UNITS

ADAPTING TO CHANGING BUSINESS ENVIRONMENTS

Much of the global economy remained in the grip of an ongoing slowdown in 2016, and numerous adverse events affected several of the countries in which Byblos Bank operates. In response, the Foreign Banking Units Division intensified its scrutiny of all overseas subsidiaries. As part of this effort, the Division revisited both the business model and the business plan of each foreign entity, taking into consideration the changes in the overall business environment as well as the challenges and opportunities in individual markets.

This review was conducted according to best practice and the highest standards of risk management, and in strict compliance with all local and international rules and regulations pertaining to countries where we have a presence, resulting in several moves aimed at ensuring that the Group derives maximum benefit from its international presence. Chief among these were capital increases in two of our most promising markets, namely Armenia and Iraq, in order to meet new regulatory requirements and further expand our presence.

Going forward, the Foreign Banking Units Division will continue to supervise and oversee Byblos Bank's presence outside Lebanon, focusing on effectiveness and efficiency improvements that will yield enhanced profitability for the Group. This will involve additional tailoring of different business models to fit conditions prevailing in different markets where we operate, making our international presence more responsive to changes in the economic environment, more resilient in the face of adverse conditions, and more profitable in the medium and long terms.

HUMAN RESOURCES

INVESTING IN THE TALENTS OF OUR PEOPLE

The Human Resources Division had a very active year in 2016. In an effort to further develop our management and staff members, more investment was put in training, development, and career initiatives. A variety of projects were undertaken in order to enhance corporate culture and employee engagement. These achievements include:

YEAR IN REVIEW

- Scorecards for all positions at Byblos Bank. The Balanced Scorecard system is designed to more closely align individual Key Performance Indicators (KPIs) with the Bank's overall objectives and to foster a culture of high performance;
- Leadership training: All senior and mid-level managers were introduced to the GRID methodology by attending intensive workshops, aiming to improve relations among team members and create a culture of cooperation, integrity, and candor;
- HR collaborated with Korn Ferry (Hay Group), a global management advisory firm, to conduct an Employee Engagement Survey. The outcome helped Senior Management identify measures by which we can make our workplace healthier and more supportive, and set an action plan accordingly;
- HR continued to prioritize internal recruitment by ensuring sufficient opportunities for promotion and lateral moves for employees, and offering them opportunities to grow on the personal and professional levels. As part of this strategy, a new managerial position was created in some branches, and filled internally by promoted employees. In addition, 12% of our employee population was promoted during 2016. Our aim is to foster motivation by ensuring that qualified employees feel they have strong career paths. Since 2014, HR has held career development meetings with more than a quarter of our staff;

In addition to the foregoing, and in line with Byblos Bank's strategic objectives (including continuous growth at both the local and international levels), HR also continued to refine its recruitment and selection strategy in order to ensure that our talent pipeline carries an appropriate mix of applicants. Our participation in job fairs, forums, and other events enabled us to attract sufficient numbers of qualified applicants for both entry-level positions and internships. We also recruited a number of experienced and specialized professionals, all while ensuring opportunities for internal candidates to grow within the Bank.

In 2016, 189 new employees (including staff from the recently acquired Banque Pharaon & Chiha) were offered career opportunities within Byblos Bank branches and departments. Their distribution was evenly split among men and women, with 71% being fresh graduates.

Byblos Bank provides an extensive range of benefits (full medical coverage, life insurance, etc.) to support employees' personal needs. We also undertake regular and comprehensive benchmarking exercises to ensure that our pay structure is competitive in the marketplace.

Following the implementation of the Balanced Scorecard system, in 2017 an incentive scheme will be developed to directly link variable rewards to performance outcomes.

CORPORATE SOCIAL RESPONSIBILITY

FINANCIAL LITERACY: HELPING LEBANESE HELP THEMSELVES

The Bank continued to develop its Financial Literacy Program (FLP) in 2016, reaching out to consumers across the country and laying the groundwork for more to come. This engagement took place via several channels, including "Fakker Maliyan" ("Thinking Financially"), a daily two-minute segment on LBCI Television that gives viewers a better grasp of basic financial, economic, and banking terms and concepts. We also laid the groundwork to intensify our initiatives in 2017, which will see the introduction of in-depth financial literacy seminars for youth.

EDUCATION: BUILDING FOR TOMORROW(S)

Throughout the year, Byblos Bank maintained its practice of working with Lebanese universities to ensure that students have access to both academic and non-academic activities that help them improve their skills. We also followed our long-time strategy of providing donations to fund the construction of new facilities that contribute to the betterment of education in our country. The headliner in 2016 was the completion of the new Faculty of Medicine and Medical Sciences building at Holy Spirit University of Kaslik (USEK), which was made possible by a USD 4 million grant from the Bank and will be inaugurated in 2017. Previous campus improvements funded by the Bank have included the Byblos Bank Art Gallery at the American University of Beirut (AUB), the François Bassil Auditorium at Université St. Joseph, the Melkan Bassil Building at the Lebanese American University, and assistance with the construction and establishment of a dealing room at Notre-Dame University.

PHOTOGRAPHY: SNAPSHOTS FROM A BUSY YEAR

Established in 2012, Byblos Bank's Photography Program is aimed at supporting emerging Lebanese photographers and helping them find a place in the market for their work. This is achieved by carrying out initiatives that put the spotlight on their talents and give them access to the media, gallerists, collectors, and other influential players in the field. The Bank organized and/or supported several such events in 2016, including:

- In January and February, Byblos Bank's support helped bring Photomed, a widely acclaimed celebration of Mediterranean photography, to Lebanon for the third year in a row. In parallel, the Bank also opened its headquarters to host "Méditerranée", an exhibition of works by the late Edouard Boubat, universally recognized as one of the great masters of French Humanist photography before his passing in 1999. In addition, this was the second year running in which Byblos Bank worked with Photomed to develop a special Lebanese program for the event. The 2016 version saw five respected local galleries display works by several emerging Lebanese photographers, including Myriam Boulos, winner of the 2014 Byblos Bank Award for Photography.

YEAR IN REVIEW

- In April, we hosted the first solo exhibition by Carmen Yahchouchy, winner of the 2015 Byblos Bank Award, at our Headquarters in Ashrafieh. "Beyond Sacrifice" consisted of 17 striking photographs of Lebanese women who never married, imposing a variety of hardships in a society still governed by traditional views about female roles, especially regarding family.
- The exhibition was complemented by a roundtable focusing on the definition of documentary photography, the place of the artist therein, and how this sub-genre has evolved over the years.
- In July, we held a special workshop, in collaboration with BEIRUT ART FAIR (BAF), to help mark the fifth anniversary of the Byblos Bank Award for Photography. All finalists of the four previous years were invited to take part, with renowned Franco-Algerian artist Halida Boughriet selecting five participants based on the portfolios they submitted – Myriam Boulos, Ghaleb Cabbabé, Tarek Haddad, Lama Mattar, and Carmen Yahchouchy. The end-product of this exercise was an exhibition called "New World/Nouveau Monde", which revolved around the themes of Change, Evolution, Breakthrough, and the Indescribable, and took place at BAF in September.
- In September, we organized the fifth edition of the Byblos Bank Award for Photography, once again in cooperation with BAF. From around 100 contestants, 2016 jury President Fariba Farshad, Co-Founder and Director of Photo London, selected 10 finalists whose works were prominently displayed by the Byblos Bank stand at the fair. Eventually the high-profile jurors settled on Elsn Lahoud, whose "Ehtiyat" ("Military Reserve") series highlighted the experiences of the last generation of young men who were drafted into the Lebanese Armed Forces before the abolition of mandatory conscription. As with previous laureates, Lahoud received a specially designed package of professional advice and support, including his first solo exhibition, personal mentoring under award-winning Lebanese photographer Serge Najjar, hosting of the exhibition at Byblos Bank Headquarters, and comprehensive promotion through a personal catalog and a full media campaign.
- Throughout 2016, we also continued to pursue our outreach goals with Purple Lens by Byblos Bank, a Facebook page dedicated to furthering our Photography Program by engaging with photography lovers, promoting the work of Lebanese photographers, and providing exposure for Byblos Bank Award finalists.

ENVIRONMENT: RESTORING LEBANON'S CHERISHED CEDARS

Throughout the year, works were under way at the Byblos Bank Shouf Reserve Bio-Corridor to ensure that the right conditions are in place to maintain and expand a stand of 10,000 trees connecting two local ecosystems. The Bank also participated in a new campaign to plant cedars at the reserve in collaboration with Lebanese Reforestation Initiative and the Shouf Biosphere Reserve. Under this banner, a signature event was held on 6 November, when about 2,500 volunteers planted some 5,000 saplings and formed a human chain to help familiarize them and the general public with the impact of climate change on cedars and the importance of the Bio-Corridor.

Year-long efforts also included the continuing implementation of our Bgreen initiative, which is aimed at reducing the environmental impact of Byblos Bank Headquarters. Bgreen includes specific and measurable actions to save energy and water, reduce the use of paper, and recycle both paper and plastic bottles. The initiative was expanded in the wake of Lebanon's waste crisis, with all floors receiving water dispensers that have further reduced the number of plastic bottles and paper cups used by employees.

In addition, the Bank helped encourage recycling in Jbeil by supplying schools in the region with waste-sorting bins.

COMMUNITY: SENDING OUT POSITIVE VIBES

Byblos Bank has grown up alongside Lebanon for more than six decades, witnessing first-hand how this country and its people always find a way to persevere in the face of myriad challenges. We now recognize that spirit with "Reghem Kel Chi" ("Despite It All"), a daily segment that airs before the evening news on MTV, and 2016 was its first full year. Launched in September 2015, "Reghem Kel Chi" pays tribute to the many accomplishments, initiatives and other positive impacts contributed by Lebanese from all walks of life as their country passes through difficult times. As at end-2016, the segment had singled out for praise no less than 487 Lebanese entities, including individuals, NGOs, schools, universities, and certain municipalities and other public institutions for their contributions to the greater good.

Once again, we sponsored a spectacular Byblos Christmas Tree in the town of Jbeil that caught the interest of both domestic and international media outlets. For the third year in a row, the tree attracted tourists from inside and outside Lebanon, and helped drive a fundraising campaign that allowed participants to donate USD 1 to help fund the treatment of a needy child suffering from severe epilepsy by sending an SMS from their mobile phones. The campaign raised some USD 38,000, and in May 2017, the child underwent a specialized surgical procedure.

The Bank also worked to spread holiday cheer and encourage tolerance in Tripoli, which has experienced repeated bouts of controversy and even armed conflict in recent years, by sponsoring the northern city's first-ever Christmas Village, which was held at the Rashid Karameh International Exhibition Center.

Throughout the year, the Bank extended its practice of helping various NGOs carry out their good works in the community by taking part in a variety of fundraising events.

YEAR IN REVIEW

ADVOCACY

A VOICE FOR COMMON SENSE

Byblos Bank is one of Lebanon's largest financial institutions, giving it not only the ability to influence decision-making processes across the private and public sectors, but also the duty to exert this influence in a responsible manner. The Bank has always recognized the seriousness of this responsibility, considering it an opportunity to support sustainable policies and practices across the board. We play this role on several levels. First, it is the Bank's business to help households meet their financial needs, support the expansion of Lebanese companies of all sizes, and invest in innovative private sector firms, and we voice approval for responsible policies and practices that tend to encourage these and other proven drivers of economic growth and all the benefits that follow. Second, the Bank actively participates in general and specific discourses about public finances and other pressing economic policy issues. Our goal at all times is to help bring about change that improves both the daily lives and the long-term aspirations of Lebanese citizens.

We continue to advocate measures aimed at improving public service delivery and upgrading Lebanon's infrastructure, but without adding undue burdens on the already cash-strapped state. For instance, we have regularly called for an overhaul of the electricity sector, for upgrades to the country's road network, for higher-performance and lower-cost telecommunications services, and for improved efficiency within the public administration, among other items. Furthermore, we have supported the implementation of these reforms through Public-Private Partnerships to avoid exacerbating the national debt. In addition, the Bank has consistently pressured political actors to address administrative reforms, tackle corruption, fight tax evasion and reduce wasteful spending, among other issues. More broadly, the Bank has been a strong advocate of improving Lebanon's investment climate and business environment in order to reduce the operating costs on the private sector and to raise the economy's competitiveness; it also advocates raising the standard of living of Lebanese households by avoiding tax increases, addressing the costs of healthcare and education, finding a permanent and sustainable solution to the waste management issue, protecting the environment, and supporting the development of rural areas.

In parallel, the Bank is an avid proponent of transparency at all levels, especially the corporate and economic ones. As such, the Bank has developed two indices that have increased the transparency of the Lebanese economy. In fact, the Byblos Bank/AUB Consumer Confidence Index and the Byblos Bank Real Estate Demand Index have filled gaps in the provision of reliable statistics about vital sectors of the economy. This, in turn, has provided much-needed tools for domestic and foreign stakeholders that follow the economy, as well as vital data for fact-based decision-making at the public policy and private sector levels. In addition, the Bank's weekly economic research publications provide all stakeholders with clear, factual, transparent, and objective overviews about economic and financial developments in Lebanon, as well as in other markets of interest.

The Bank raised these and other issues on multiple occasions during the year, making the case for far-reaching reforms to re-energize the Lebanese economy. While highlighting the strong support extended to the private sector by Lebanon's banking industry, Byblos Bank has stressed that the banks could only accomplish so much without a political decision about tackling various obstacles to growth.

The improved political environment made possible by the election of a new president, the swift designation of a prime minister and the formation of a national unity government was not enough, the Bank argued, calling for political actors to seize the moment to agree on long-overdue reforms that would make the country more business-friendly and modernize its capital markets.

CORPORATE GOVERNANCE

BOUNDLESS FAITH IN THE HIGHEST STANDARDS

If experience is any guide, the key to successfully navigating adverse conditions is to always be prepared. Byblos Bank has built an enviable record by scrupulously adhering to world-class governance practices that help us ensure full compliance with all relevant regulations and standards, both local and international, and we often meet or exceed such requirements long before we have to. In fact, our business model revolves around these principles, and the proof is in the performance: despite years of local and regional crises, the Bank has managed to keep improving its financial strength while continuing to play a prominent role in the marketplace.

We also act proactively to make sure our activities remain on solid foundations, and constantly reassess our own policies and procedures for their effectiveness in maintaining full compliance. This approach extends to our training practices, which focus on regular updates that help keep our staff informed about the latest regulatory standards and how to fulfill them.

Alongside these efforts, we also place heavy emphasis on the reliability of the information we provide, especially to our shareholders. We rely on the very latest permutations of best practice to ensure that all financial and other data generated by Byblos Bank are precise, comprehensive, and up to date. One result of this is that the Bank enjoys an excellent reputation for honesty and transparency, a very valuable endorsement of the policies and practices that have made the Bank a model for its peers. Both this reputational asset and the principles on which it has been built are of tremendous value for all of our stakeholders, including customers, employees, shareholders, and the partners with whom we do business.

This level of professionalism helps to protect the Bank – and everyone with a stake in its continuing success – against the various threats posed by money laundering, terrorism financing, and other violations that can undermine the positions of banks and other financial institutions. Adopting the highest standards and giving our staff the tools they need to follow them is our

YEAR IN REVIEW

best defense against persons and entities seeking to exploit the Bank for their own purposes, whether their goal is to evade taxes, launder money generated from questionable sources or activities, violate international sanctions, and/or get around any other applicable laws or regulations. Most importantly, this is an ongoing job: would-be violators never stop trying to get around the rules, so Byblos Bank never stops looking for new ways to stop them. Our organizational structures and procedures have been designed with this purpose in mind; we implement supervisory initiatives as quickly as possible, and we actively cooperate with regulators to identify and report suspicious transactions and other questionable activities.

Our model integrates recommendations from the Basel Committee on Banking Supervision, guidelines developed by the Financial Action Task Force, all applicable local regulations, and international best practice. As such, we employ a comprehensive array of compliance policies, procedures, and systems, all aimed at honoring our commitment to help detect and defeat all forms of money laundering, terrorism financing, sanctions violations, and other illegitimate activities. This strengthens our ability to do business according to the loftiest principles in each and every market where we operate. In practice, this involves numerous standing policies and procedures:

- Carrying out due diligence before commencing a relationship with a prospective new customer, including: verifying his or her identity and source(s) of funds, ensuring the legitimacy of said source(s), identifying any third party(ies) who may actually control the funds in question, understanding the customer's business model, and ascertaining the intended purpose(s) of a business relationship. The Group's standing policy is that under no circumstances will we offer one-time services to "walk-in" customers who do not maintain a relationship with the Bank;
- Prohibiting or limiting the establishment of accounts for particular types of relationships, including shell banks, non-face-to-face customers, money services businesses (MSBs), numbered or bearer accounts, and online casinos or other gambling sites;
- Employing a risk-based approach when deciding whether or not to accept a new business relationship, with emphasis on the prospective client's background, location, nature of business activity, and the type(s) of products and/or services in question. As a matter of policy, the Group automatically denies access to its services whenever due diligence reveals any factual inconsistency;
- Conducting enhanced due diligence and intensified monitoring for any customer whose circumstances are judged to indicate a higher-than-average risk for money laundering, including (but not limited to) individuals and entities considered politically or financially exposed;
- Constant monitoring of accounts for transaction patterns that deviate from expected activity, or from behavior considered normal for a customer or category of customers;
- Screening customer data and transaction details against sanctions programs implemented by local authorities, foreign government agencies, and/or international organizations (OFAC, United Nations, European Union, etc.) to ensure that any individuals, entities, countries, vessels, and/or goods and services associated with any transaction are in full compliance;
- Reporting to the Group AML and Legal Compliance Department regarding any transaction to be unusual or suspicious, and when appropriate, filing a case with the relevant local authorities;
- Provide ongoing training for all staff members, with particular emphasis on processes and techniques relating to anti-money laundering measures and combating the financing of terrorism, and ensuring full awareness of the Group's obligations under various sanctions regimes and international taxation rules, specifically the US government's Foreign Account Tax Compliance Act (FATCA) and the Common Reporting Standard adopted by the Organization for Economic Cooperation and Development.

To ensure that these and other elements of our compliance program are implemented without exception, the Group relies on a vigorous oversight regime governing all of its activities. As part of this system, a compliance officer is assigned to each branch and a local Compliance Department is empowered for each subsidiary, all under the aegis of the Group AML and Legal Compliance Department at Byblos Bank Headquarters. In addition to these safeguards, the Head of Group Compliance enjoys direct access to each of Senior Management, the Board of Directors, and the Central Bank of Lebanon's Special Investigation Commission.

All of our compliance policies and practices are products of the Group's full institutional commitment to exacting governance as the most essential component of modern risk management strategy. Consequently, we make use of the very latest techniques and systems to control all types of risks for all business lines, and we do so at the individual, portfolio, and aggregate levels. This is backed by proven methods to protect client information, maintenance of the highest ethical standards for all of our business activities, and a commitment to providing full transparency regarding risk disclosure to Senior Management, the Board of Directors, regulators, ratings agencies, and other interested parties.

This approach has made Byblos Bank what it is today, enabling it to consistently deliver solid returns, constantly strengthen its financial position, and steadily earn a reputation for reliability and professionalism. The measures we take to implement this approach evolve over time as we find new ways to fulfill our responsibilities, but the principles that guide us remain very much in place, as does our unflinching commitment to honor them.

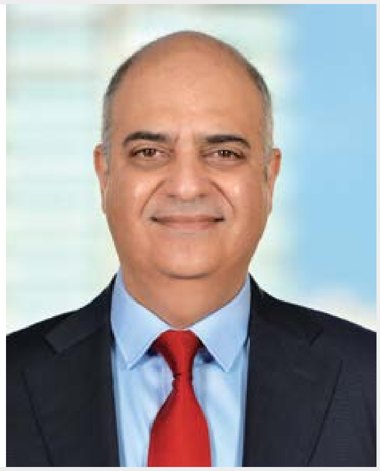
BOARD OF DIRECTORS MEMBER PROFILES

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.

Resigned from the Board of Directors of Byblos Bank Syria effective 28 June 2017.

MR. SEMAAN F. BASSIL*
CHAIRMAN - GENERAL MANAGER OF BYBLOS BANK S.A.L.



Lebanese, born in 1965. Holder of a Bachelor of Arts in Business, with a minor in Finance, from Boston University in the US and a Master's Degree in Business Administration and Management 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 - General Manager in July 2015. Also is Chairman of the Board of Byblos Bank Syria**, Chairman - General Manager of Byblos Invest Bank S.A.L., Vice-Chairman of the Board of Byblos Bank Africa, and a Member of the Board of Byblos Bank Europe.

**Serves as a Member of the Board Compliance Committee since 2017.*
***Resigned from the Board of Directors of Byblos Bank Syria effective 28 June 2017.*

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 a Member of the Lebanese Parliament since 2009, and has held three Cabinet portfolios: Energy and Water Resources, Tourism, and Environment. Is an entrepreneur at the helm of several companies in Lebanon and the Gulf. Was a Member of the Board of Directors of Byblos Bank S.A.L. from 2006 to 2016, and served as a Member of the Board Risk, Compliance, Anti-Money-Laundering and Combating the Financing of Terrorism Committee**, and of the Board Remuneration, Nomination and Corporate Governance Committee. Also served as a Member of the Board of Directors of Byblos Bank Armenia.

**Resigned from the Board of Directors of Byblos Bank S.A.L. effective 2 December 2016.*
***Renamed as Board Risk Committee on 31 March 2017.*

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. Also serves as the Chairman of the Board Risk, Compliance, Anti-Money-Laundering and Combating the Financing of Terrorism Committee*.

**Renamed as Board Risk Committee on 31 March 2017.*

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. Also serves as a Member of the Board Audit Committee.

**Serves as a Member of the Board Risk Committee since 2017.*

BOARD OF DIRECTORS MEMBER PROFILES

MR. BASSAM A. NASSAR
DIRECTOR

Lebanese, born in 1965. Holder of a Diploma in Economics from the London School of Economics and is a graduate of the Executive Education Program at Harvard Business School. 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 Board Audit Committee and the Board Remuneration, Nomination and Corporate Governance Committee. 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 both the Board Audit Committee and the Board Remuneration, Nomination and Corporate Governance Committee. Is also Chairman of the Board of Byblos Bank Armenia, 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.

Serves as Chairman of the Board Compliance Committee since 2017.

BOARD OF DIRECTORS MEMBER PROFILES

MR. AHMAD T. TABBARA*

DIRECTOR

Lebanese, born in 1940. Holder of a Bachelor's Degree and an MBA in Finance 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 Board Risk, Compliance, Anti-Money-Laundering and Combating the Financing of Terrorism Committee**.

**Serves as a Member of the Board Compliance Committee since 2017.*
***Renamed as Board Risk Committee on 31 March 2017.*

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.

**Serves as a Member of the Board Remuneration, Nomination, and Corporate Governance Committee since 2017.*

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[1]

Chairman	Mr. Des S. O'Shea
Members	H.E. Mr. Arthur G. Nazarian[2]
	Mr. Ahmad T. Tabbara

REMUNERATION, NOMINATION AND CORPORATE GOVERNANCE COMMITTEE

Chairman	Mr. Alain C. Tohmé
Members	H.E. Mr. Arthur G. Nazarian[3]
	Mr. Bassam A. Nassar

COMPLIANCE COMMITTEE[4]

Chairman	Dr. Henry T. Azzam
Members	Mr. Semaan F. Bassil
	Mr. Ahmad T. Tabbara

[1] *Renamed as Board Risk Committee on 31 March 2017.*

[2] *Resigned from the Board of Directors of Byblos Bank S.A.L. effective 2 December 2016 and replaced on the Board Risk, Compliance, Anti-Money Laundering and Combating the Financing of Terrorism Committee renamed Board Risk Committee on 31 March 2017 by Mr. Yves R. Jacquot on 31 January 2017.*

[3] *Resigned from the Board of Directors of Byblos Bank S.A.L. effective 2 December 2016 and replaced on the Board Remuneration, Nomination and Corporate Governance Committee by Mr. Faisal M. Ali El Tabsh on 31 January 2017.*

[4] *Created by the Board of Directors on 31 March 2017.*

REMUNERATION POLICY AND PRACTICES

Byblos Bank strives at all time to ensure that its remuneration strategy is competitive in the marketplace and fairly rewards its employees based on performance outcomes. The Bank has developed a Remuneration Policy, which has been ratified by the Board of Directors, to attract, develop, and retain high-performing employees.

The overall objective of the Remuneration Policy is to set and abide by Group-wide practices that are clear, coherent, and consistent with the Bank's corporate governance principles and its ability to honor its financial commitments. Compensation and benefits items also contribute to employee satisfaction, a collegial and productive workplace, and the maintenance of staffing levels and staffing costs commensurate with the Bank's business goals, including its risk management policies and processes.

The Remuneration Policy ensures fairness among employees by offering competitive salaries and benefits based on an employee's position and job performance. The aim of the Balanced Scorecard project initiated by the Bank in 2016 is to align objectives with performance in order to ensure an effective reward scheme.

At all times, the compensation and benefits packages extended to Group employees must include a base salary, a formula for calculating performance-based bonuses, and a combination of medical insurance, educational allowances, and/or other benefits. In addition, while each Group entity has policies in keeping with market conditions and legal/regulatory requirements in the country(ies) where it operates, its core pay and benefits offerings must meet minimums established by the Remuneration Policy.

At present, Byblos Bank offers no stock-related compensation. In addition, the Bank uses no arrangements that use payment deferrals or "claw-backs", except as and when these may be necessitated by applicable laws or regulations. All Personnel Expenses are disclosed in the Annual Report for each year, as per the terms of both the International Financial Reporting Standards (IFRS) and Article 158 of the Lebanese Code of Commerce, with the total for 2016 amounting to LBP 195.8 billion (or approximately USD 130.5 million). The Annual Report also discloses all salaries, bonuses, profit-sharing, attendance fees, and other short-term benefits to key management personnel, which for 2016 amounted to LBP 12.8 billion (or approximately USD 8.5 million).

MANAGEMENT COMMITTEES

EXECUTIVE COMMITTEE

President	Semaan Bassil	Chairman - General Manager
Vice President	Alain Wanna	DGM[1], Head of Group Financial Markets and Financial Institutions
Members	Joumana Chelala	DGM, Head of Group Consumer Banking
	Marwan Moharram	DGM, Head of Group Risk Management and Head of Group Compliance
	Fadi Nassar	DGM, Head of Group Commercial Banking
	Selim Stephan	DGM, Head of Foreign Banking Units

CENTRAL CREDIT COMMITTEE

President	Semaan Bassil	Chairman - General Manager
Vice President	Marwan Moharram	DGM, Head of Group Risk Management and Head of Group Compliance
Members	Joumana Chelala	DGM, Head of Group Consumer Banking
	Fadi Nassar	DGM, Head of Group Commercial Banking
	Selim Stephan	DGM, Head of Foreign Banking Units
	Alain Wanna	DGM, Head of Group Financial Markets and Financial Institutions
	Fouad Ferneiné	Head of Corporate Banking

INTERNAL AUDIT MANAGEMENT COMMITTEE

President	Fadi Abou Abdallah	Head of Group Internal Audit
Vice President	Marwan Moharram	DGM, Head of Group Risk Management and Head of Group Compliance
Members	Semaan Bassil	Chairman - General Manager
	Joumana Chelala	DGM, Head of Group Consumer Banking
	Joseph Nasr	AGM[2], Head of Distribution Network
	Ziad El Zoghbi	Head of Group Finance and Administration

ASSETS AND LIABILITIES COMMITTEE

President	Alain Wanna	DGM, Head of Group Financial Markets and Financial Institutions
Vice President	Fadi Nassar	DGM, Head of Group Commercial Banking
Members	Semaan Bassil	Chairman - General Manager
	Joumana Chelala	DGM, Head of Group Consumer Banking
	Marwan Moharram	DGM, Head of Group Risk Management and Head of Group Compliance
	Selim Stephan	DGM, Head of Foreign Banking Units
	Ziad El Zoghbi	Head of Group Finance and Administration

[1] *DGM – Deputy General Manager.* [2] *AGM – Assistant General Manager.*

MANAGEMENT COMMITTEES

BANKING TECHNOLOGY COMMITTEE

President	Raffoul Raffoul	AGM, Head of Group Organization Development, Information Systems and Operational Support
Vice President	Ziad El Zoghbi	Head of Group Finance and Administration
Members	Semaan Bassil	Chairman - General Manager
	Joumana Chelala	DGM, Head of Group Consumer Banking
	Marwan Moharram	DGM, Head of Group Risk Management and Head of Group Compliance
	Fadi Nassar	DGM, Head of Group Commercial Banking
	Selim Stephan	DGM, Head of Foreign Banking Units
	Walid Kazan	AGM, Head of Foreign Banking Units Support
	Elie Bassil	Head of Group Banking Technology

HUMAN RESOURCES COMMITTEE

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

RISK MANAGEMENT COMMITTEE

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

MANAGEMENT COMMITTEES

INTERNATIONAL COMMITTEE

President	Semaan Bassil	Chairman - General Manager
Vice President	Selim Stephan	DGM, Head of Foreign Banking Units
Members	Alain Wanna	DGM, Head of Group Financial Markets and Financial Institutions
	Joumana Chelala	DGM, Head of Group Consumer Banking
	Marwan Moharram	DGM, Head of Group Risk Management and Head of Group Compliance
	Fadi Nassar	DGM, Head of Group Commercial Banking
	Walid Kazan	AGM, Head of Foreign Banking Units Support
	Raffoul Raffoul	AGM, Head of Group Organization Development, Information Systems and Operational Support
	Ziad El Zoghbi	Head of Group Finance and Administration

COMPLIANCE AND ANTI-MONEY-LAUNDERING COMMITTEE

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

LOAN RECOVERY COMMITTEE

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

MANAGEMENT COMMITTEES

OPERATIONAL RISK COMMITTEE

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

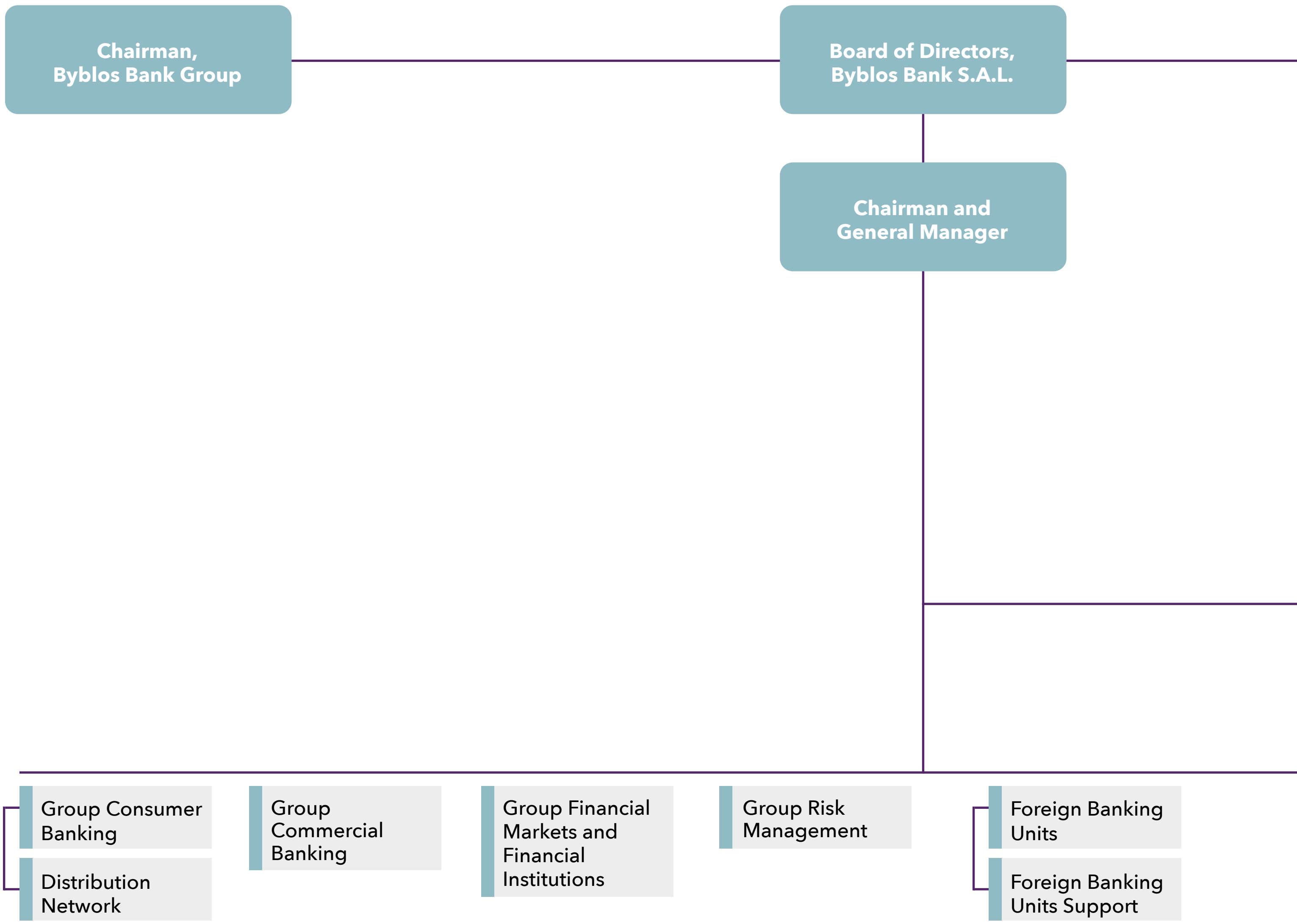
INFORMATION SECURITY COMMITTEE

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

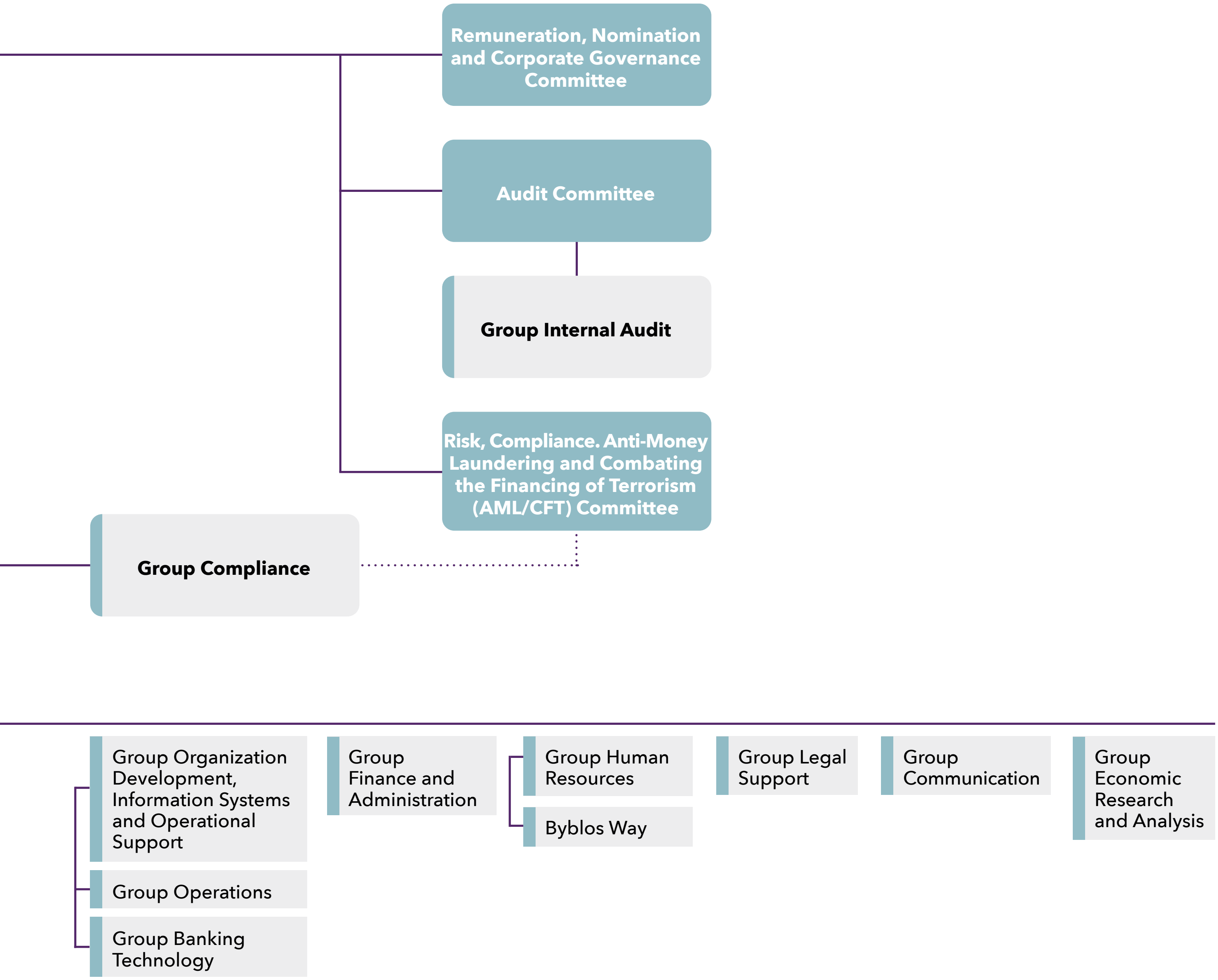
PURCHASING COMMITTEE

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

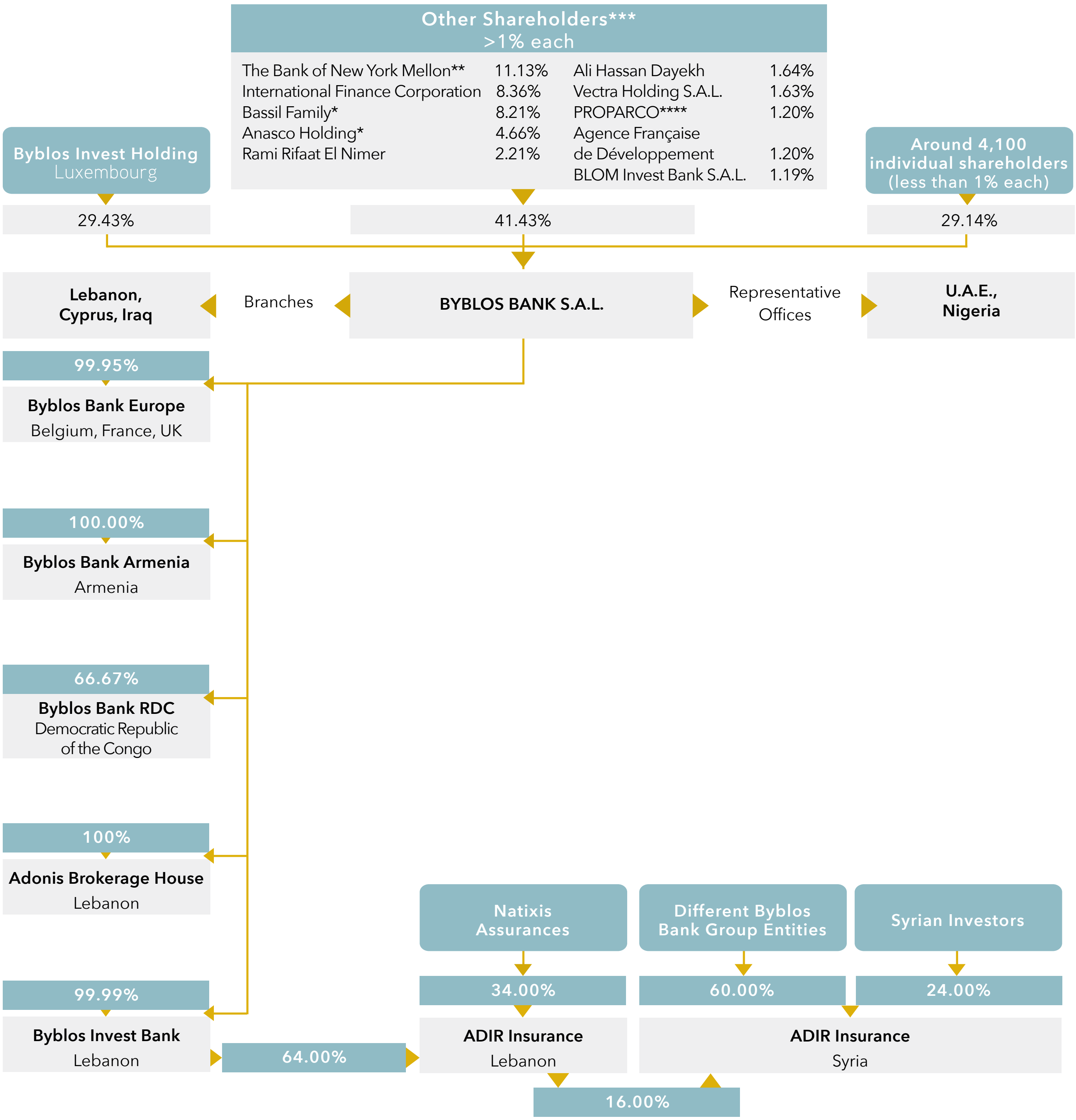
ORGANIZATIONAL CHART



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 2016.*

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

PERFORMANCE REVIEW

KEY FINANCIAL DATA

	2007	2008	2009
Total assets	9,486	11,230	13,576
Customers' deposits	7,262	8,363	10,286
Net advances to customers	2,233	2,790	3,197
Cash and due from banks (1)	3,884	4,708	6,179
Total equity	984	1,270	1,494
Net book value (2)	613	699	827
Net income	99.2	122.0	145.6
Number of domestic branches	73	76	75
Number of foreign branches and subsidiaries (3)	16	17	19
Number of ATMs	109	114	133
Number of employees	2,101	2,362	2,433
Market Shares (4)			
Market share in assets	9.67%	9.88%	9.80%
Market share in customers' loans	8.78%	8.71%	8.51%
Market share in customers' deposits	9.55%	9.48%	9.41%
Share Data			
Book value per share in USD (5)	1.49	1.65	1.95
Earnings per common share in USD (5)	0.18	0.21	0.26
Earnings per priority share in USD (5)	0.22	0.24	0.29
Net dividend per common share in USD (6)	0.10	0.10	0.13
Net dividend per priority share in USD (6) (7)	0.13	0.13	0.16
Dividend payout ratio	62.17%	57.10%	58.71%
Profitability			
Return on average assets	1.12%	1.18%	1.17%
Return on average common equity	13.84%	14.56%	15.00%
Leverage multiplier	12.41	10.46	10.48
Interest on earning assets	7.29%	6.97%	6.38%
Funding cost	5.64%	4.99%	4.65%
Spread	1.65%	1.98%	1.73%
Net interest margin	2.10%	2.39%	2.17%
Cost-to-income	51.81%	47.38%	46.28%
Operating-expenses-to-average-assets	1.49%	1.77%	1.42%
Capital Adequacy			
Capital-to-assets	10.37%	11.31%	11.01%
Capital adequacy (8)	11.23%	12.61%	12.62%
Liquidity			
Net advances/assets	23.54%	24.85%	23.55%
Net advances/customers' deposits	30.75%	33.37%	31.08%
Customers' deposits/total resources	76.56%	74.47%	75.77%
Liquid assets	71.63%	70.69%	72.42%
Assets Quality			
Loan loss provisions (9)/customers' loans	5.40%	4.19%	3.64%
Non-performing loans/customers' loans	4.66%	3.36%	2.63%
Loan loss provisions (9)/non-performing loans	107.51%	115.64%	134.10%
1 USD =	LBP 1,507.5	LBP 1,507.5	LBP 1,507.5
Number of shares	411,047,446	423,136,280	423,136,280

(1) Includes CDs issued by the Central Bank.
(2) Excludes subordinated loans.
(3) Includes branches of Byblos Bank Europe, Byblos Bank Armenia, Byblos Bank RDC, Byblos Bank Africa (until end-2015), Byblos Bank Syria (until end-2015), and branches of Byblos Bank S.A.L. in Baghdad, Basra, Erbil, and Sulaymaniyah in Iraq, and 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

2010	2011	2012	2013	2014	2015	2016
15,288	16,602	17,015	18,485	19,035	19,870	20,812
11,927	12,820	13,384	14,749	15,715	16,637	17,102
3,771	4,008	4,120	4,511	4,728	4,932	5,179
7,802	9,001	8,917	9,298	9,468	10,119	11,486
1,831	1,852	1,926	1,922	1,963	1,991	2,083
1,124	1,148	1,181	1,204	1,246	1,271	1,384
177.7	179.7	167.3	156.2	175.5	161.5	165.3
77	78	77	76	78	80	86
23	24	25	25	24	25	11
149	165	168	186	203	219	234
2,719	2,716	2,572	2,526	2,531	2,544	2,347
9.97%	10.27%	9.91%	10.00%	9.90%	9.88%	9.51%
8.05%	8.00%	8.15%	8.43%	8.27%	8.19%	8.27%
9.51%	9.66%	9.59%	9.89%	10.01%	10.15%	9.81%
1.99	2.03	2.09	2.13	2.20	2.25	2.45
0.27	0.25	0.23	0.21	0.24	0.21	0.22
0.30						
0.13	0.13	0.13	0.13	0.13	0.13	0.13
0.16						
63.80%	59.62%	64.04%	68.61%	61.07%	66.36%	64.82%
1.23%	1.13%	1.00%	0.88%	0.94%	0.83%	0.81%
14.03%	12.29%	11.28%	9.80%	11.07%	9.48%	9.21%
9.38	10.07	10.29	11.21	11.28	11.59	11.54
5.84%	5.50%	5.25%	5.08%	5.19%	5.27%	5.36%
4.21%	4.00%	3.98%	4.04%	4.19%	4.21%	4.31%
1.63%	1.49%	1.27%	1.04%	1.00%	1.05%	1.05%
2.04%	1.88%	1.64%	1.40%	1.36%	1.40%	1.42%
45.54%	43.65%	45.89%	46.24%	46.57%	46.84%	33.59%
1.47%	1.29%	1.28%	1.18%	1.15%	1.17%	1.12%
11.97%	11.16%	11.32%	10.40%	10.31%	10.02%	10.01%
14.75%	14.60%	16.74%	16.04%	17.00%	17.69%	18.80%
24.67%	24.14%	24.21%	24.40%	24.84%	24.82%	24.89%
31.62%	31.26%	30.78%	30.59%	30.08%	29.64%	30.29%
78.01%	77.22%	78.66%	79.79%	82.56%	83.73%	82.18%
71.85%	72.48%	72.56%	72.16%	72.29%	72.54%	72.66%
3.45%	4.04%	5.30%	5.82%	6.11%	5.01%	3.56%
2.38%	3.02%	5.28%	4.85%	5.05%	4.56%	3.68%
144.46%	132.77%	99.62%	119.77%	120.67%	109.73%	94.88%
LBP 1,507.5	LBP 1,507.5	LBP 1,507.5	LBP 1,507.5	LBP 1,507.5	LBP 1,507.5	LBP 1,507.5
565,515,040	565,515,040	565,515,040	565,515,040	565,515,040	565,515,040	565,515,040

(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 and effective BDL circular starting December 2007, and Basel III and effective BDL circular starting December 2011.
(9) Includes specific and collective provisions, as well as reserved interest.

BYBLOS BANK S.A.L. ANNUAL REPORT 2016

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 2016, the Bank had 2,347 employees, 86 branches in Lebanon, one branch in Cyprus, and four in Iraq (Erbil, Baghdad, Basra and Suleimania). 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 Armenia C.J.S.C., the Bank's 100% owned subsidiary, had two branches in Yerevan (Amirian 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.

On 30 April 2016, Byblos Bank completed the acquisition of 100% of the shares of Banque Pharaon & Chiha. This acquisition is aligned with its long-term strategy of consolidating its robust customer deposit base. With five branches, 100 employees, 30,000 accounts, and deposits of USD 242 million as at end-2015, this is a small acquisition for Byblos Bank, but Banque Pharaon & Chiha's special place in the history of Lebanon's financial services industry, and its status as the oldest bank in Lebanon (founded in 1876), makes it highly symbolic.

It is worth mentioning that as at end-December 2016, Byblos Bank deconsolidated and wrote off its investments in Byblos Bank Africa, the Bank's 56.86% owned subsidiary with one branch in Khartoum, and in Byblos Bank Syria S.A., the Bank's 59.87% owned subsidiary, with four branches in Damascus (Abou Roummaneh, Mazzeh, Hosh Blass, and Abbassiyeen), and one branch in each of Aleppo, Homs, Lattakia, Tartous, Hama, and Swaidaa.

It also is worth noting that in April 2016, Byblos Bank Armenia C.J.S.C. carried out a capital increase in which only Byblos Bank S.A.L. participated, with the latter increasing its shareholding from 65% to 88.06%. Moreover, in June and July 2016, the European Bank for Reconstruction and Development (EBRD) and the OPEC Fund for International Development (OFID) exercised their respective put options granted by Byblos Bank S.A.L., which resulted in the Group increasing its ownership interest in Byblos Bank Armenia C.J.S.C. to 100%.

The following analysis covers the performance of the Bank during the fiscal year 2016 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 consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS). The joint auditors – Ernst & Young and BDO, Semaan, Gholam & Co. – performed their audit in compliance with International Standards on Auditing and issued a qualified opinion.

The discussion and analysis starts with a summary of recent developments and non-recurring items, followed by a detailed analysis of the Bank's financial conditions, profitability, asset quality, credit risk, dividend distribution, and an overview of the Bank's ratings.

OVERVIEW OF THE BANK

RECENT DEVELOPMENTS AND NON-RECURRING ITEMS

In an effort to increase its foreign currency reserves, the BDL carried out financial engineering transactions during 2016 that can be summarized as follows:

1. The BDL swapped Lebanese Pound Treasury Bills held in its portfolio with US Dollar Lebanese Eurobonds issued by the Ministry of Finance for an amount of USD 2 billion.
2. The BDL sold to Lebanese commercial banks the USD 2 billion in Lebanese Eurobonds recently acquired in addition to newly issued Certificates of Deposit in US Dollars.
3. To stimulate and incentivize banks to buy the USD Lebanese Eurobonds and Certificates of Deposit from the BDL, an equivalent amount of LBP-denominated Treasury Bills and/or Certificates of Deposit was purchased from banks by the BDL with the following conditions:
    - Discount rate of 0%.
    - Banks have the right to choose the LBP-denominated Treasury Bills and/or Certificates of Deposit to be sold.
    - Capital gains made to be split equally between the banks and the BDL.

Byblos Bank achieved LBP 500,084 million (USD 331.7 million) of exceptional non-recurring revenues as a result of its participation in the exchange transactions offered by the BDL. These exceptional gains were used as detailed below and abiding by the newly issued BDL Intermediate Circular No. 446, which regulates the way these gains should be divided:

LBP Million	2016
Exceptional gains on BDL transactions	**500,084**
1. Exceptional gains realized in the income statement (a)	**351,000**
Less: Excess collective impairment allowances (b)	(102,480)
Less: Full impairment losses on investment in Syria and Sudan (c)	(144,447)
Less: Partial impairment losses on investment in Armenia	(8,359)
Less: Impairment of subsidiaries on consolidation level	(36,000)
Less: Impairment of goodwill on BPC (d)	(12,427)
Less: Exceptional tax charge from non-tax-deductible expenses (e)	(47,287)
Residual in the income statement	**0**
2. Exceptional gains not recognized in the income statement (f)	**149,084**
of which related taxes (f)	22,402

(a) Represents exceptional gains arising from the BDL special swap transactions in 2016.
(b) Represents additional collective provisions taken as per BDL Circulars No. 446 and No. 439, and corresponding to 2% of risk-weighted loans and advances to customers.
(c) Represents writeoff of investments in Byblos Bank Syria (LBP 112 billion) and Byblos Bank Africa (LBP 32.4 billion).
(d) Represents impairment of goodwill in Banque Pharaon & Chiha S.A.L.
(e) Represents the exceptional tax in relations to previous bookings that are non-deductible.
(f) Booked under other liabilities as deferred revenues net of deferred tax.

MANAGEMENT DISCUSSION AND ANALYSIS

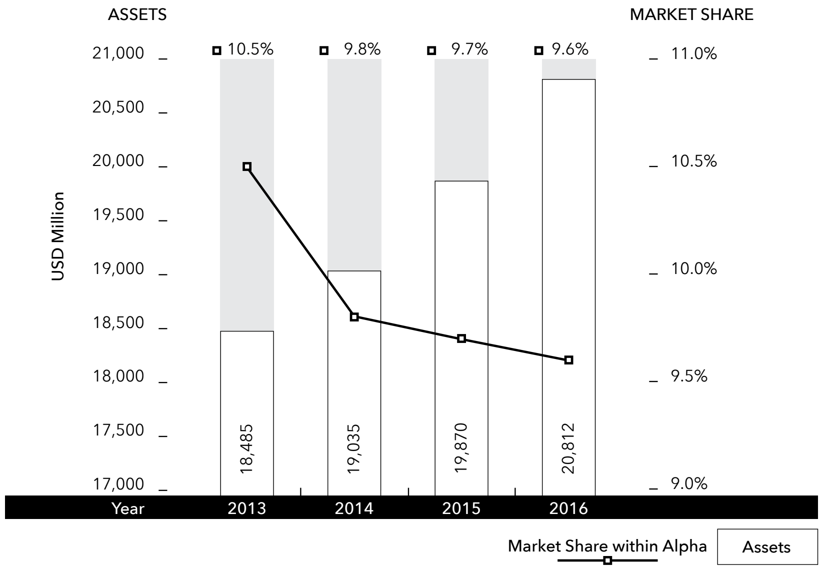
ASSETS

ASSETS EVOLUTION

Total assets of the Bank recorded an increase of 4.7% during the year 2016 to reach LBP 31,374 billion (USD 20,812 million) at the end of December 2016 compared to an increase of 4.4% during the year 2015, and compared to an increase of 6.5% in the Alpha Group of top Lebanese banks. Consequently, the Bank's market share in the Alpha Group by total assets stood at 9.59% at the end of 31 December 2016 compared to 9.75% at the end of 31 December 2015.

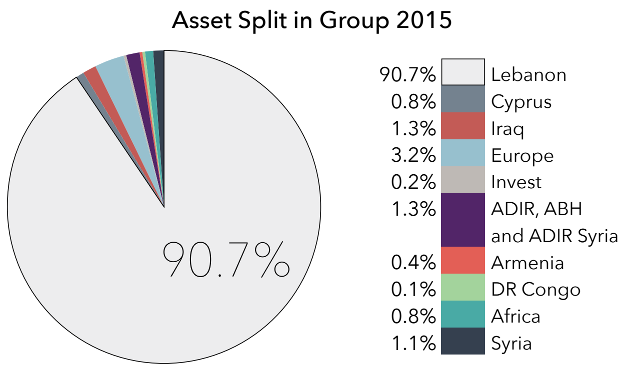
During the period between 31 December 2013 and 31 December 2016, total assets of the Bank grew at an average annual compounded rate of 4.0% compared to growth of 7.2% in the Alpha Group, and which was reflected in the Bank's market share by total assets, which decreased from 10.48% at the end of December 2012 to 9.59% at the end of December 2016.

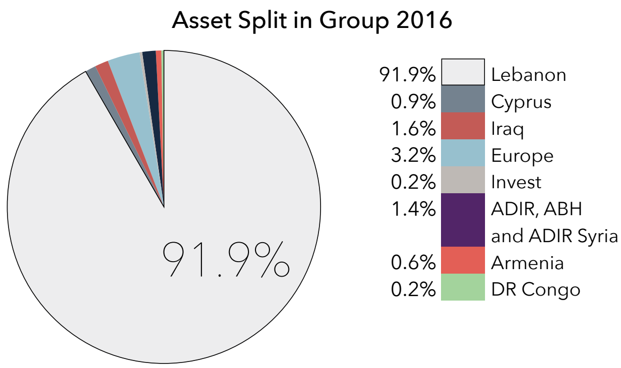
The bar-chart below shows the evolution of total assets and market share during the last four years:



ASSET SPLIT IN THE GROUP

The following pie charts show the breakdown of assets in the Byblos Bank Group as at 31 December 2015 and 31 December 2016:





(*) Byblos Bank Syria and Byblos Bank Africa were deconsolidated at the end of 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

As illustrated above, total assets of international subsidiary banks and branches represented 8.1% of total assets as at 31 December 2016, lower than 9.3% at the end of the previous year. This results mainly from the deconsolidation of Byblos Bank Africa and Byblos Bank Syria as at end-December 2016, and thus their exclusion from consolidated assets.

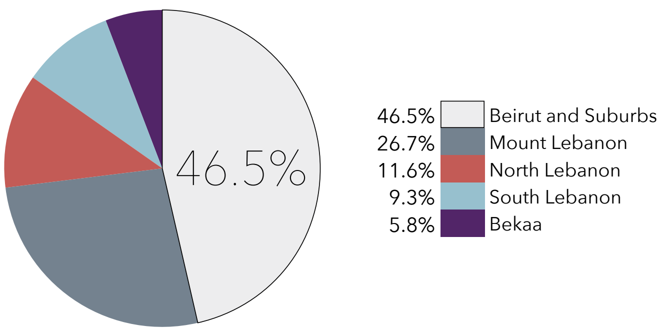
Geographical Distribution of Branches

Byblos Bank's branch network reached 86 branches inside Lebanon at the end of 2016, representing 8.2% 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 23, represented 26.7% of total Byblos Bank branches at the end of December 2016 compared to just 19.2% in the Lebanese banking sector, and represented 11.4% of total branches in the Lebanese banking sector operating in Mount Lebanon. On the other hand, branches located in Beirut and its suburbs, numbering 40, represented 46.5% of total Byblos Bank branches at the end of December 2016 compared to 53.7% in the Lebanese banking sector, and represented 7.1% of total branches operating in Beirut and its suburbs.

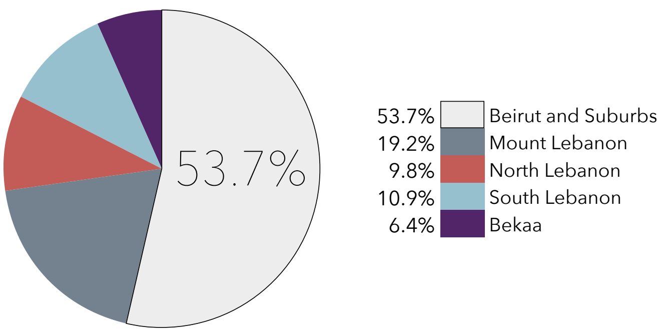
The ten branches located in the North of Lebanon represented 11.6% of total Byblos Bank branches compared to 9.8% in the Lebanese banking sector, and represented 9.8% of total branches of the Lebanese banking sector operating in North Lebanon. In South Lebanon (eight branches) and the Bekaa Valley (five branches), Byblos Bank's presence was slightly lower than in the Lebanese banking sector, with Byblos Bank branches located in the South and the Bekaa representing 9.3% and 5.8% of total Byblos Bank branches, respectively, compared to 10.9% and 6.4%, 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 2016:

Branches Distribution (Byblos Bank Dec. 2016)



Branches Distribution (Sector Dec. 2016)



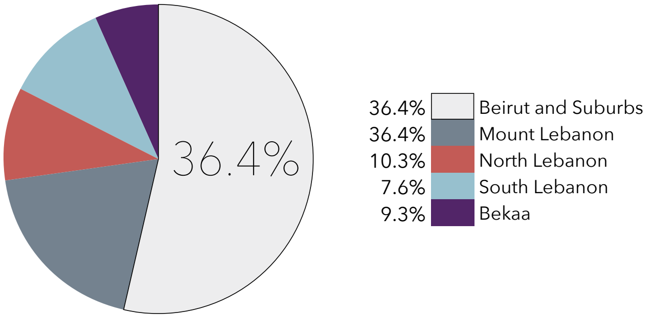
At the end of 2016, Byblos Bank Group's presence abroad consisted of Limassol in Cyprus; Erbil, Baghdad, Basra, and Suleimania in Iraq (branches of Byblos Bank S.A.L.); Brussels, London, and Paris through our subsidiary Byblos Bank Europe S.A.; Malatia, Amirian and Komitas through our subsidiary Byblos Bank Armenia; and Kinshasa-Gombe through our subsidiary Byblos Bank RDC.

Byblos Bank Africa, with one branch in Khartoum (Sudan), and Byblos Bank Syria S.A., with 10 branches in Abou Roummaneh, Aleppo, Homs, Lattakia, Mazzeh, Tartous, Hama, Abbassiyeen, Hosh Blass, and Swaidaa, were deconsolidated from the Group at end-December 2016.

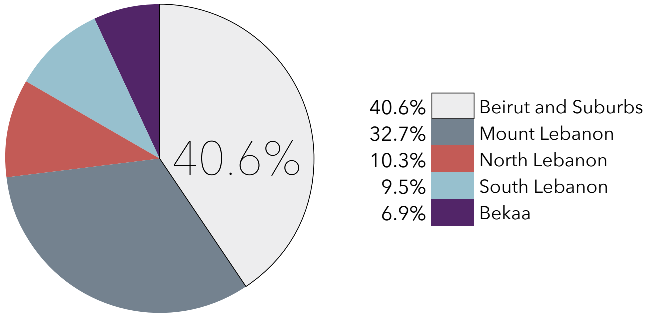
MANAGEMENT DISCUSSION AND ANALYSIS

Geographical Distribution of Automated Teller Machines (ATMs)

Geographical Distribution of ATMs (Byblos Bank Dec. 2016)



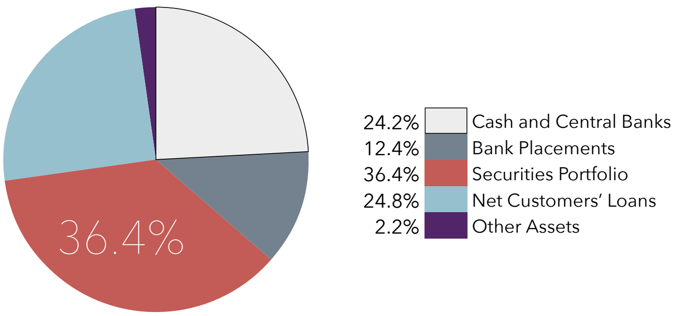
Geographical Distribution of ATMs (Sector Dec. 2016)



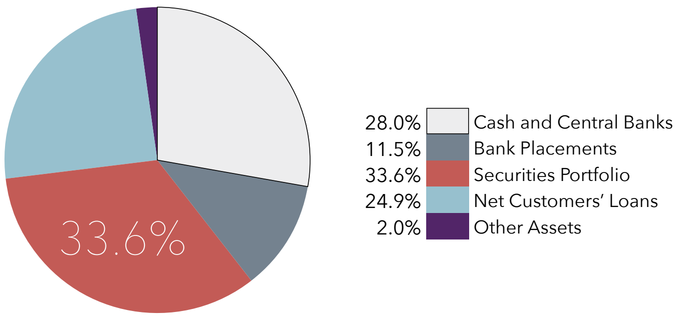
ASSET BREAKDOWN

The charts below show the composition of the Bank's assets as at 31 December 2015 and 31 December 2016:

Breakdown of Assets 2015



Breakdown of Assets 2016



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 2014, 2015, and 2016:

As at 31 December	2014		2015		2016	
	LBP Million	%	LBP Million	%	LBP Million	%
Lebanese and other governmental treasury bills and bonds						
Lebanese treasury bills in LBP	3,237,470	30.8	3,825,510	35.0	3,175,980	30.2
Lebanese and other governmental bonds in foreign currencies	2,692,128	25.6	2,380,579	21.8	2,261,682	21.5
Bonds and financial assets with fixed income						
Corporate bonds	509,044	4.8	236,677	2.2	8,625	0.1
Corporate certificates of deposit in foreign currencies	33,147	0.3	33,186	0.3	33,229	0.3
Central Bank certificates of deposit in LBP and foreign currencies	3,916,550	37.2	4,302,143	39.4	4,910,614	46.6
Shares, securities and financial assets with variable income in LBP and foreign currencies	134,660	1.3	137,576	1.3	141,370	1.3
Collective Provisions	(1,574)	0.0	0	0.0	0	0.0
Total	**10,521,425**	**100**	**10,915,671**	**100**	**10,531,500**	**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 2014, 2015, and 2016:

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		5,775	**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**	**144,032**	**10,521,425**

MANAGEMENT DISCUSSION AND ANALYSIS

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			101,907		**137,576**
Corporate certificates of deposit			33,099		88	**33,187**
Collective provisions						**-**
Total by category	**35,669**	**255,909**	**10,360,114**	**101,907**	**162,072**	**10,915,671**

As at 31 December 2016 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		420,908	4,394,488		95,218	**4,910,614**
Lebanese and other governmental treasury bills and bonds		310,966	5,060,873		65,823	**5,437,662**
Bonds and financial assets with fixed income		2,505	5,891		229	**8,625**
Shares, securities and financial instruments with variable income	40,065			101,305		**141,370**
Corporate certificates of deposit			33,141		88	**33,229**
Collective provisions						**-**
Total by category	**40,065**	**734,380**	**9,494,393**	**101,305**	**161,357**	**10,531,500**

As per the tables above, 91.6% of the financial instruments are classified under debt instruments at amortized cost as at 31 December 2016. Lebanese and other governmental treasury bills and bonds (in both LBP and foreign currencies) decreased, as a percentage of the Bank's total securities portfolio, to 51.6% as at 31 December 2016, compared to 56.9% as at 31 December 2015 and 56.4% as at 31 December 2014. Investments in Central Bank certificates of deposit (in both LBP and foreign currencies) represented 46.6% of the Bank's portfolio as at 31 December 2016, as compared to 39.4% of the Bank's portfolio as at 31 December 2015 and 37.2% as at 31 December 2014. Corporate bonds represented 0.1% of the total portfolio as at 31 December 2016 compared to 2.2% as at 31 December 2015 and 4.8% as at 31 December 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

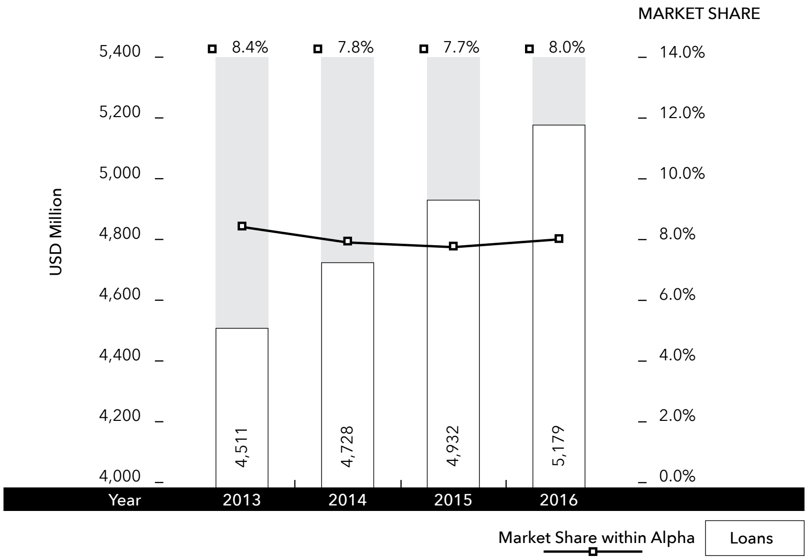
CUSTOMERS' LOANS*

Customers' loans net of provisions (specific and collective) and reserved interest grew by 5% during the year 2016 to reach LBP 7,808 billion (USD 5,179 million) at the end of 31 December 2016, compared to growth of 4.3% in 2015, and compared to growth of 2.2% in the Alpha Group of top Lebanese banks. The higher growth in the Bank's net customers' loans in comparison with the Alpha Group banks led to a slight increase in the Bank's market share of net customers' loans to 8% at the end of 31 December 2016, up from 7.7% at the end of 31 December 2015.

During the period between 31 December 2013 and 31 December 2016, net customers' loans increased at an average annual compounded rate of 4.7% compared to growth of 6.4% in the Alpha Group. Consequently, the Bank's market share of net customer advances dropped from 8.4% at the end of 31 December 2013 to reach 8% at the end of 31 December 2016.

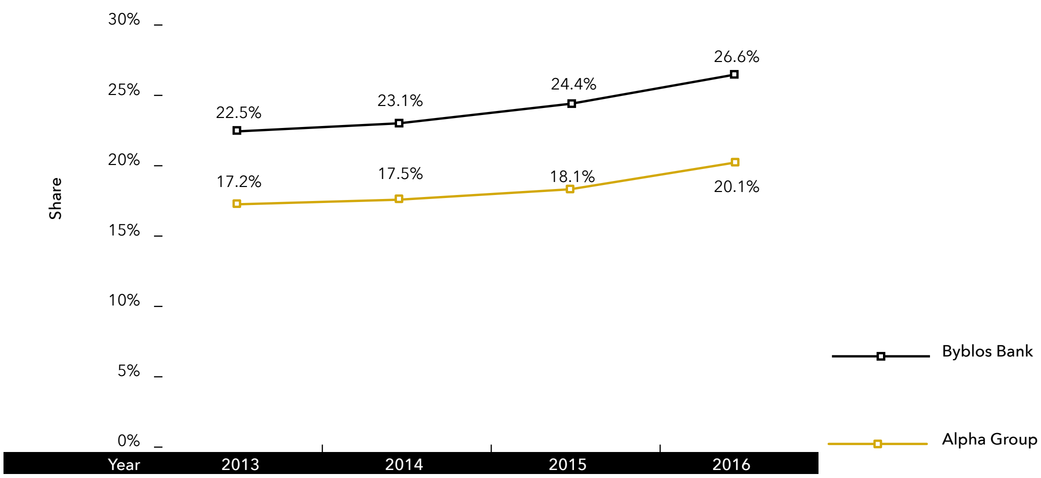
The chart below shows the evolution of net customers' loans and their market shares over the last four years:

Evolution of Customers' Loans during the Last Four Years



Customers' Loans Currency Structure

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

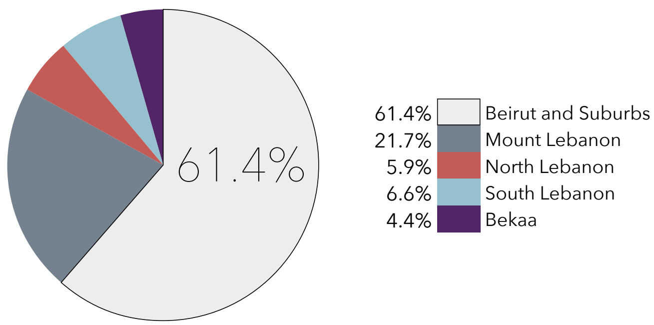


(*) including related parties balances.

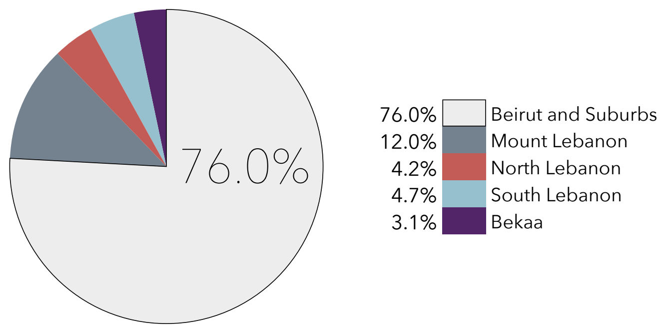
MANAGEMENT DISCUSSION AND ANALYSIS

Customers' Loans Geographical Distribution

Byblos Bank Dec. 2016

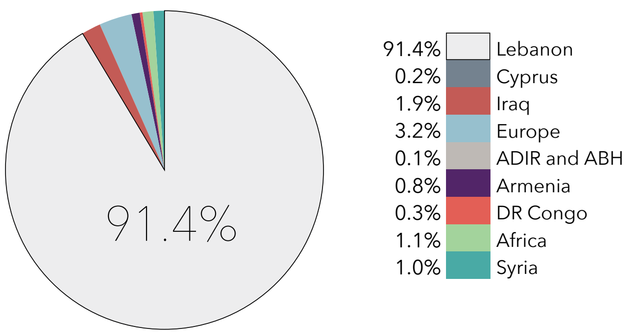


Sector Dec. 2016

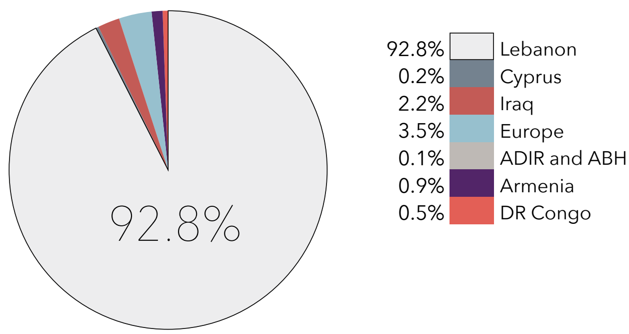


Customers' Loans Split in Byblos Bank Group

Loans Split in Group 2015



Loans Split in Group 2016*



(*) Byblos Bank Syria and Byblos Bank Africa were deconsolidated at the end of 2016.

Loan Breakdown by Nature of Borrower*

	Dec. 2014			Dec. 2015			Dec. 2016		
	LBP Million	USD 000's	% of total	LBP Million	USD 000's	% of total	LBP Million	USD 000's	% of total
Corporate	3,080,445	2,043,413	40.2%	3,121,687	2,070,771	39.5%	3,264,074	2,165,223	40.0%
International	1,298,425	861,310	16.9%	1,212,156	804,084	15.3%	1,026,673	681,044	12.6%
Middle Market	456,513	302,828	6.0%	470,143	311,869	6.0%	509,961	338,282	6.2%
Retail	2,476,683	1,642,907	32.3%	2,677,614	1,776,195	33.9%	2,911,849	1,931,575	35.7%
Syndication	39,555	26,239	0.5%	99,461	65,978	1.3%	103,055	68,361	1.3%
Cash collateral	159,555	105,841	2.1%	182,824	121,276	2.3%	191,514	127,041	2.3%
Small business	80,795	53,595	1.1%	92,521	61,374	1.2%	108,757	72,144	1.3%
Others	77,002	51,079	1.0%	43,125	28,607	0.5%	48,564	32,215	0.6%
Total	**7,668,972**	**5,087,212**	**100.0%**	**7,899,531**	**5,240,153**	**100.0%**	**8,164,448**	**5,415,886**	**100.0%**

(*) Excluding accrued interest receivable and interest received in advance.

MANAGEMENT DISCUSSION AND ANALYSIS

During 2016, Byblos Bank's gross loan portfolio increased by 3.0% (+LBP 265 billion) to reach LBP 8,164 billion (USD 5,416 million) at the end of 31 December 2016 compared to an increase of 3.0% in 2015.

Commercial Loan Portfolio

- The corporate loan portfolio increased by 4.6% (+LBP 142 billion or USD 94 million) during the year 2016 to reach LBP 3,264 billion (USD 2,165 million) at the end of December 2016, compared to an increase of 1.3% (+LBP 41 billion or USD 27 million) in 2015. Corporate loans represented 40.0% of the gross loan portfolio at the end of December 2016, compared to 39.5% at the end of December 2015.

- The international loan portfolio decreased by 15.3% (-LBP 185 billion or USD 123 million) during the year 2016 to reach LBP 1,027 billion (USD 681 million) at the end of December 2016, compared to a decrease of 6.6% (-LBP 86 billion or USD 57 million) in 2015. International loans represented 12.6% of the gross loan portfolio at the end of December 2016 compared to 15.3% at the end of December 2015.

- The middle market loan portfolio increased by 8.5% (+LBP 40 billion or USD 26 million) during the year 2016 to reach LBP 510 billion (USD 338 million) at the end of 31 December 2016, representing 6.2% of the gross loan portfolio.

- Total exposure to syndicated loans increased by 3.6% during the year 2016 and reached LBP 103 billion (USD 68 million) at the end of 2016 compared to LBP 99 billion (USD 66 million) at the end of December 2015, representing 1.3% of the gross loan portfolio and similar to the figure at the end of December 2015.

The chart below shows the breakdown of the loan portfolio by nature of borrower for the years 2014, 2015, and 2016:

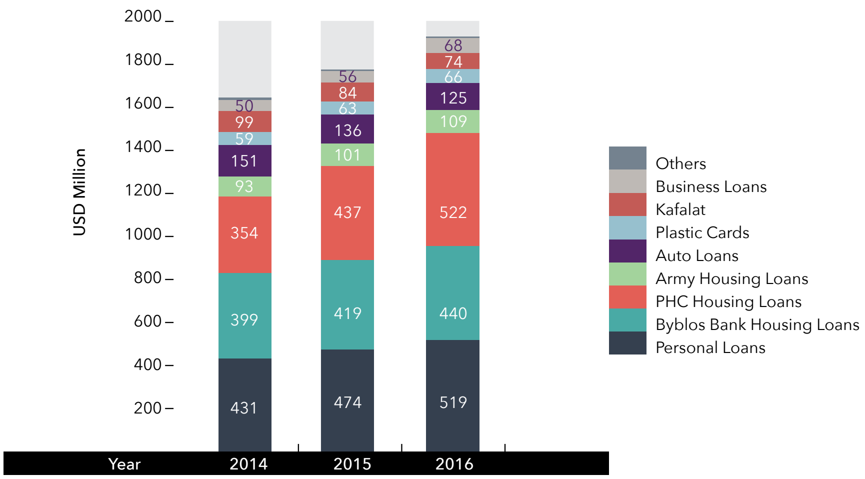
MANAGEMENT DISCUSSION AND ANALYSIS

Retail Loan Portfolio

	Dec. 2014			Dec. 2015			Dec. 2016		
	LBP Million	USD 000's	% of total	LBP Million	USD 000's	% of total	LBP Million	USD 000's	% of total
Personal Loans	649,913	431,120	26.2%	715,216	474,438	26.7%	782,615	519,148	26.9%
Byblos Housing Loans	601,953	399,305	24.3%	631,958	419,210	23.6%	662,711	439,609	22.8%
PHC Housing Loans	533,599	353,963	21.5%	658,748	436,980	24.6%	787,647	522,485	27.0%
Army Housing Loans	140,670	93,314	5.7%	151,523	100,513	5.7%	164,667	109,232	5.7%
Auto Loans	227,000	150,580	9.2%	205,296	136,183	7.7%	189,028	125,392	6.5%
Plastic Cards	88,444	58,669	3.6%	95,125	63,101	3.5%	98,996	65,669	3.4%
Kafalat	148,579	98,560	6.0%	126,961	84,219	4.7%	110,886	73,556	3.8%
Business Loans	75,701	50,216	3.1%	84,496	56,051	3.2%	102,078	67,714	3.5%
Others	10,824	7,180	0.4%	8,291	5,500	0.3%	13,221	8,770	0.4%
Total Retail	**2,476,683**	**1,642,907**	**100.0%**	**2,677,614**	**1,776,195**	**100.0%**	**2,911,849**	**1,931,575**	**100.0%**

In line with the Bank's strategy to maintain Byblos Bank's leadership in retail, the retail loan portfolio increased from LBP 2,678 billion (USD 1,776 million) as of 31 December 2015 to LBP 2,912 billion (USD 1,932 million) as of 31 December 2016, recording growth of 8.7%. The main increase in retail loans was the result of the increase in housing loans, whose outstanding portfolios increased between 2015 and 2016 from USD 957 million to USD 1,071 million, an increase of 12.0%. Personal loans also increased by 9.4% (+LBP 67 billion or USD 45 million) during the year 2016 to reach LBP 783 billion (USD 519 million) at the end of 31 December 2016. However, the improvement in housing and personal loans was partially offset by the decrease in auto loans by 7.9% (-LBP 16 billion or USD 11 million) and the decrease in Kafalat loans by 12.7% (-LBP 16 billion or USD 11 million) during 2016.

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

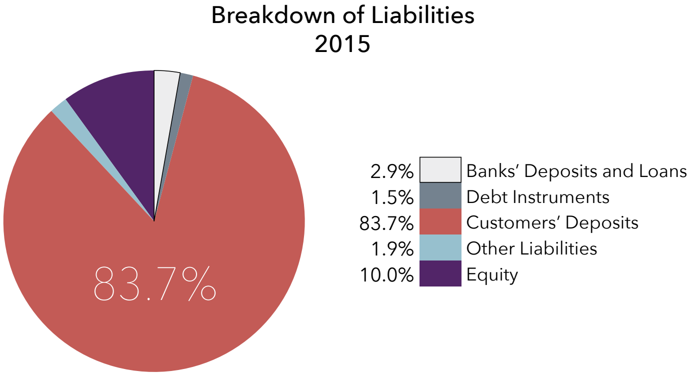


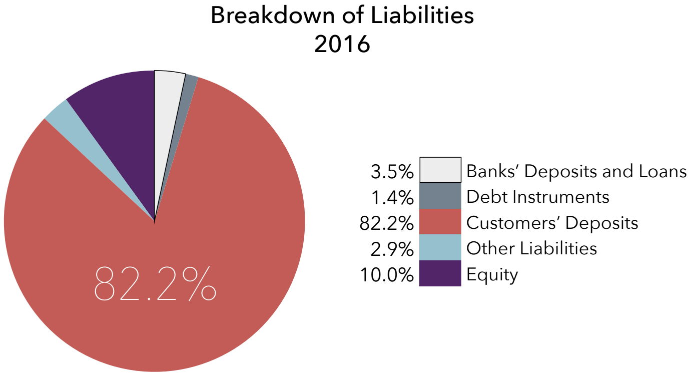
MANAGEMENT DISCUSSION AND ANALYSIS

LIABILITIES

LIABILITIES BREAKDOWN

Customers' deposits represent the major source of funds with a share of 82.2% at the end of 2016, compared to a share of 83.7% at the end of 2015:



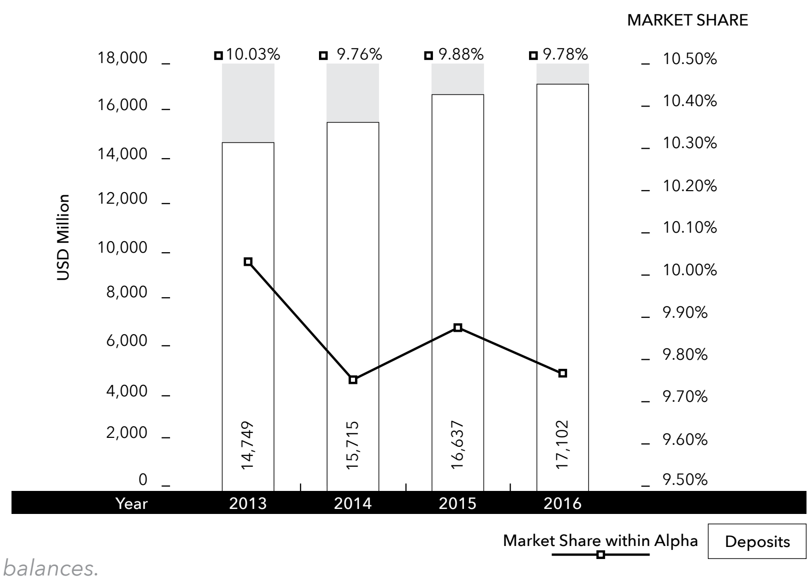


CUSTOMERS' DEPOSITS*

Customers' deposits recorded an increase of 2.8% during 2016 to reach LBP 25,782 billion (USD 17,102 million) at the end of December 2016 compared to an increase of 5.9% during 2015, and compared to an increase of 3.9% in the Lebanese Alpha Group. Consequently, the Bank's market share of total customers' deposits in the Alpha Group of banks slightly decreased to 9.78% at the end of 2016 compared to 9.88% at the end of the previous year. During the period between 31 December 2013 and 31 December 2016, the Bank's customers' deposits grew at an annual average compounded growth rate of 5.1% compared to growth of 5.9% for the Alpha Group. Consequently, the Bank's market share decreased from 10.03% as at 31 December 2013 to 9.78% as at 31 December 2016.

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

Evolution of Customers' Deposits During the Last Four Years

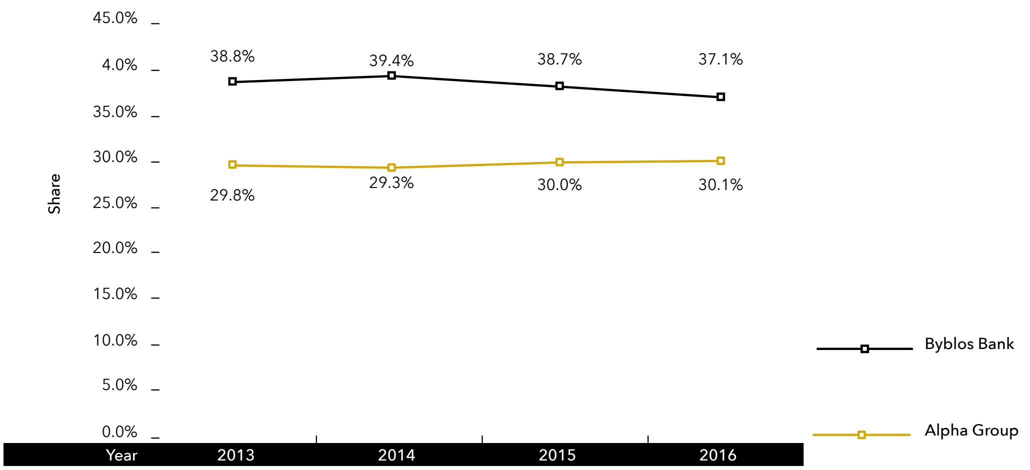


(*) including related parties balances.

MANAGEMENT DISCUSSION AND ANALYSIS

Customers' Deposits Currency Structure

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



The dollarization rate was not impacted by the economic situation in Lebanon, the regional turbulence, or their consequences on the country. Therefore, customers' deposits denominated in LBP remained almost unchanged between 2013 and 2016, with a slight decrease from 38.8% in 2013 to 37.1% in 2016, while they slightly increased in the sector from 29.8% in 2013 to 30.1% 2016. Compared to the Lebanese banking sector, Byblos Bank has a higher deposit base denominated in LBP as compared to 30.1% in the Alpha Group of banks as at the end of December 2016.

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 2014, 2015 and 2016:

As at 31 December	2014		2015		2016	
	LBP Million	% of total	LBP Million	% of total	LBP Million	% of total
Current accounts	3,264,135	13.8	3,245,552	12.9	3,244,752	12.6
Term deposits	18,986,964	80.2	20,176,288	80.5	20,891,474	81.0
Blocked accounts	1,004,709	4.2	1,114,643	4.4	1,151,475	4.5
Related parties' accounts	311,970	1.3	420,613	1.7	363,416	1.4
Accrued interest	122,824	0.5	123,051	0.5	130,544	0.5
Total	**23,690,602**	**100**	**25,080,147**	**100**	**25,781,661**	**100**

The composition of customers' deposits stood almost stable throughout the last three years, during which time they were comprised mostly of term deposits, which consisted of 81.0% of total customers' deposits at the end of December 2016, as compared to 80.5% as at 31 December 2015, and to 80.2% as at 31 December 2014.

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 2014, 2015 and 2016:

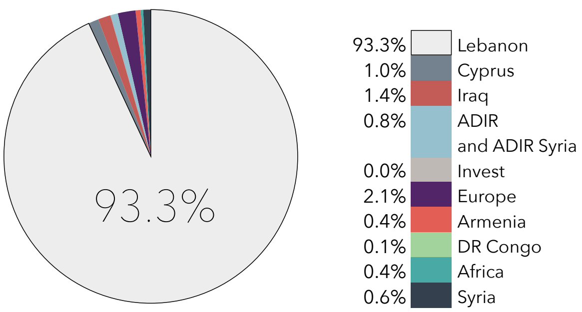
As at 31 December	2014		2015		2016	
	LBP Million	% of total	LBP Million	% of total	LBP Million	% of total
Less than 3 months	16,726,883	70.6	17,339,518	69.2	17,061,103	66.2
3 months to 1 year	4,925,149	20.8	4,749,685	18.9	5,169,248	20.0
1 year to 5 years	1,969,328	8.3	2,739,638	10.9	3,173,320	12.3
Over 5 years	69,242	0.3	251,306	1.0	377,990	1.5
Total	**23,690,602**	**100**	**25,080,147**	**100**	**25,781,661**	**100**

Almost all of the Bank's customers' deposits are short-term, with deposits having a remaining maturity of less than one year representing 86.2% and 88.1% of total customers' deposits as at 31 December 2016 and 31 December 2015, respectively.

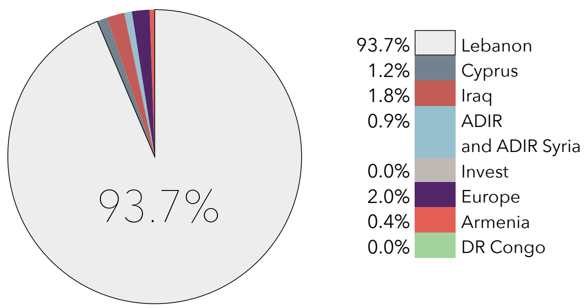
Customers' Deposits Split in the Byblos Bank Group

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

Deposits Split in Group 2015



Deposits Split in Group 2016*

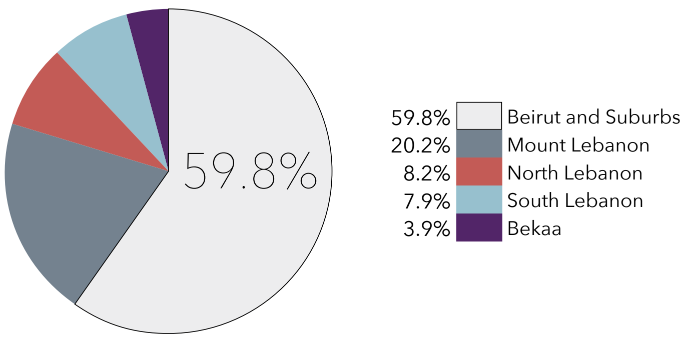


(*) Byblos Bank Syria and Byblos Bank Africa were deconsolidated at the end of 2016.

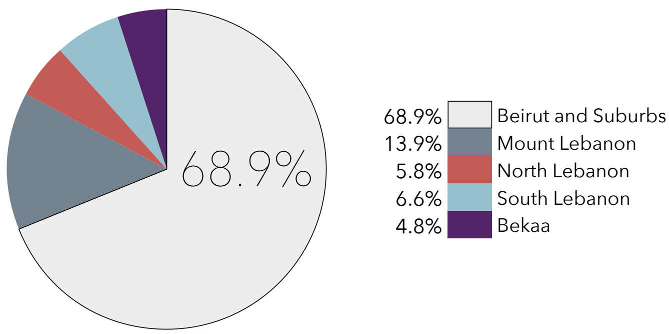
MANAGEMENT DISCUSSION AND ANALYSIS

Geographical Distribution of Customers' Deposits

Byblos Bank Dec. 2016



Sector Dec. 2016



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 (46.5% of total branches) representing 59.8% 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 (26.7% of total branches) represented 20.2% of the Bank's customers' deposits compared to 13.9% in the Lebanese banking sector; customers' deposits in branches located in North Lebanon (11.6% of total branches) represented 8.2% of the Bank's customers' deposits, higher than 5.8% in the Lebanese banking sector. In the South (9.3% of total branches), Byblos Bank's customers' deposits concentration was 7.8% 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 4.0% of the Bank's total customers' deposits located in the Bekaa (5.8% of total branches) compared to 4.8% 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 2014, 2015, and 2016, respectively:

In USD 000's	2014	2015	2016
Central Bank of Lebanon	40,995	69,992	218,178
International Finance Corporation (IFC)	3,462	3,076	1,923
Arab Trade Finance Program	15,694	23,079	18,862
PROPARCO	384	0	0
OPEC Fund for International Development	1,833	0	0
European Investment Bank	100,150	109,118	86,439
Govco Incorporated NY	47,786	42,143	36,500
Agence Française pour le Développement	40,490	29,328	21,618
Standard Chartered Bank	0	0	22,473
European Bank for Reconstruction and Development	714	0	0
Citibank	1,750	750	0
Convertible subordinated loans	275,012	276,882	278,716
Byblos Bank Eurobond	295,447	295,323	294,575
Total Long-Term Sources of Funds	**823,717**	**849,691**	**979,284**

MANAGEMENT DISCUSSION AND ANALYSIS

PROFITABILITY

LBP Million	2014	2015	2016	Growth (Vol.)	Growth (%)
Net interest income	371,336	399,227	424,958	25,731	6.4%
Net allocation to provisions	(42,915)	(12,289)	7,347	19,635	(159.8%)
Provisions on foreign central banks	0	(35,620)	1,577	37,198	(104.4%)
Net commission income	135,865	121,951	121,607	(344)	(0.3%)
Net profits on financial operations	166,856	145,854	446,923	301,068	206.4%
Impairment losses on financial investments	3,487	0	(49,676)	(49,676)	-
Other operating income	21,859	20,936	27,803	6,867	32.8%
Total Operating Income (Before Provisions and Impairment)	**695,915**	**687,967**	**1,021,290**	**333,322**	**48.5%**
Total Operating Income (After Provisions and Impairment)	**656,488**	**640,059**	**980,539**	**340,480**	**53.2%**
Operating expenses	(299,013)	(298,585)	(320,528)	(21,942)	7.3%
Depreciation and Amortization	(25,041)	(23,625)	(22,538)	1,086	(4.6%)
Provisions for risks and charges	(645)	(21,394)	(123,213)	(101,819)	475.9%
Impairment on goodwill	0	0	(12,427)	(12,427)	-
Foreign currency translation losses on deconsolidation of subsidiaries	0	0	(137,890)	(137,890)	-
Non-operating income	20	65	11	(54)	(83.0%)
Taxes	(67,277)	(53,083)	(114,719)	(61,636)	116.1%
Net Income	**264,532**	**243,437**	**249,235**	**5,797**	**2.4%**
Bank's Share	252,792	228,185	232,672		
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	204,312	179,705	184,192		
Weighted average number of common shares during the period	562,510,901	563,022,405	562,891,539		
Earnings per common share	363.21	319.18	327.22		

Net income for the year 2016 amounted to LBP 249,235 million (USD 165.3 million), recording an increase of 2.4% (+LBP 5,797 million or USD 3.8 million) compared to 243,437 million (USD 161.5 million) for the year 2015. Return on average assets (ROA) stood at 0.81% at the end of December 2016 compared to 0.83% at the end of December 2015. In addition, return on average common equity (ROCE) stood at 9.21% compared to 9.48% at the end of December 2015. Earnings per common share based on the weighted average number of shares stood at LBP 327.22 (USD 0.217) in 2016 compared to LBP 319.18 (USD 0.212) in 2015.

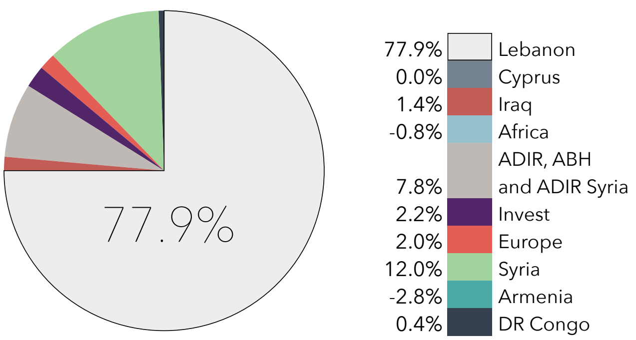
MANAGEMENT DISCUSSION AND ANALYSIS

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

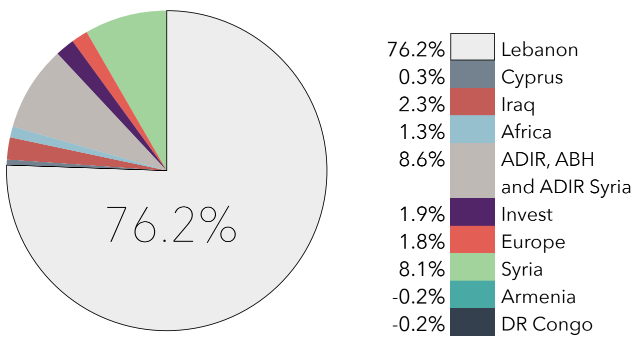
- Byblos Bank Europe's net income for the year 2016 amounted to LBP 4,509 million (USD 3.0 million) compared to LBP 4,787 million (USD 3.2 million) for the year 2015.
- Byblos Invest Bank's net income stood at LBP 4,830 million (+USD 3.2 million) at the end of 2016 compared to LBP 5,255 million (+USD 3.5 million) for the year 2015.
- Byblos Bank Armenia's net loss stood at LBP 491 million (-USD 0.3 million) at the end of 2016 compared to a net loss of LBP 6,797 million (-USD 4.5 million) for the year 2015.
- Byblos Bank RDC's net loss stood at LBP 616 million (-USD 0.4 million) at the end of 2016 compared to a net gain of LBP 872 million (USD 0.6 million) for the year 2015.
- 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 2016 amounted to LBP 21,325 million (USD 14.1 million) compared to LBP 18,964 million (USD 12.6 million) for the year 2015.
- Byblos Bank Africa's net income for the year 2016 amounted to LBP 3,150 million (USD 2.1 million) compared to a loss of LBP 1,848 million (- USD 1.2 million) for the year 2015. It should be noted that Byblos Bank Africa was deconsolidated as at end-2016; therefore its net income for the year 2016 is included in consolidated profits for the same period.
- Byblos Bank Syria's net income stood at LBP 20,077 million (USD 13.3 million) at the end of 2016 (out of which USD 20.4 million from unrealized gain on a structural foreign exchange position held in Byblos Bank Syria due to the devaluation of the Syrian currency by 54% during the year 2016) compared to 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). It should be noted that Byblos Bank Syria was deconsolidated as at end-2016; therefore its net income for the year 2016 is included in consolidated profits for the same period.

The pie charts below show the contribution of the Bank's subsidiaries to consolidated income between the years 2015 and 2016:

Net Income Split in Group 2015



Net Income Split in Group 2016*



(*) Byblos Bank Syria and Byblos Bank Africa were deconsoliadted at the end of 2016, thus their net income will be excluded starting 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

NET INTEREST INCOME

Net interest income before provisions for the year 2016 amounted to LBP 424,958 million (USD 281.9 million), recording an increase of 6.4% (+LBP 25,731 million or USD 17.1 million) compared to an increase of 7.5% during 2015, when it stood at LBP 399,227 million (USD 264.8 million). Consequently, the net interest margin stood at 1.42% at the end of 2016 compared to 1.40% at the end of 2015.

	2015			2016		
	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*	14,763,060	605,241	4.10%	16,284,497	690,541	4.24%
Securities	405,241	13,329	3.29%	155,859	4,095	2.63%
Loans	7,281,056	495,466	6.80%	7,621,452	516,403	6.78%
Treasury bills	6,067,843	387,962	6.39%	5,821,875	390,043	6.70%
Total Interest-Earning Assets	**28,517,200**	**1,501,998**	**5.27%**	**29,883,683**	**1,601,082**	**5.36%**
Premises and equipment	285,093	0	0.00%	293,762	0	0.00%
Other non-interest-bearing assets	522,181	0	0.00%	486,555	0	0.00%
Total Average Assets	**29,324,474**	**1,501,998**	**5.12%**	**30,664,000**	**1,601,081**	**5.22%**
LIABILITIES						
Customers' deposits	24,385,375	1,016,362	4.17%	25,430,904	1,084,272	4.26%
Subordinated loans	415,990	31,231	7.51%	418,782	31,480	7.52%
Eurobonds	445,293	31,124	6.99%	444,636	31,069	6.99%
Interest-bearing deposits due to banks	917,297	24,054	2.62%	984,516	29,303	2.98%
Total Interest-Bearing Liabilities	**26,163,955**	**1,102,771**	**4.21%**	**27,278,838**	**1,176,124**	**4.31%**
Other liabilities	596,822	0	0.00%	733,723	0	0.00%
Shareholders' equity	2,563,697	0	0.00%	2,651,439	0	0.00%
Total Average Liabilities and Equity	**29,324,474**	**1,102,771**	**3.76%**	**30,664,000**	**1,176,124**	**3.84%**
Net Interest Spread (a)			**1.05%**			**1.05%**
Net Interest Spread (b)			**1.36%**			**1.39%**
Net Interest Margin			**1.40%**			**1.42%**
Interest Earning-Assets/Interest-Bearing Liabilities			**1.09**			**1.10**

(*) Includes central bank deposits.
(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

During the year 2016, the Bank recovered provisions (specific and collective) allocated for performing and doubtful loans and for foreign central banks of LBP 8,925 million (USD 5.9 million) for the year 2016, while allocating provisions of LBP 49,480 million (USD 32.8 million) for the year 2015.

The Bank allocated specific and collective provisions for performing and doubtful loans in the amount of LBP 29,737 million (USD 19.7 million) during the year 2016 as compared to LBP 36,363 million (USD 24.1 million) last year. The collective provisions alone for the amount of USD 3.5 million were booked as follow: USD 0.7 million in Byblos Lebanon, USD 0.4 million in Byblos Africa, USD 0.9 million in Byblos Europe, USD 1.3 million in Byblos Syria, and USD 0.1 million in Byblos RDC, as compared to USD 2.3 million allocated during the same period of last year on the Group level.

Moreover, the Bank recovered provisions that were taken last year against its exposure at the Central Bank of Sudan for USD 1 million (USD 2.5 million based on average exchange rate in 2015). No recovery has been done yet on the provisions taken last year against its exposure at 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).

Furthermore, the Bank recovered provisions for the amount of USD 19.8 million in Byblos Bank Lebanon and USD 4.7 million in Byblos Bank Syria.

Coverage of non-performing loans by specific and collective provisions and reserved interest stood at 94.9% as at 31 December 2016, as compared to 109.7% as at 31 December 2015. Additional details on coverage of non-performing loans will be discussed in the section on asset quality.

LBP Million	2014	2015	2016
Specific and collective provisions set up during the year			
Performing and doubtful debts	74,568	36,363	29,737
Central Bank of Iraq – Kurdistan and Central Bank of Sudan		35,620	
Writeoffs	178	138	53
Total Provisions Allocated	**74,746**	**72,121**	**29,790**
Specific and collective provisions written back during the year:			
Loans recovered or upgraded	(25,128)	(17,730)	(33,467)
Unrealized interest on loans and advances to customers	(6,257)	(4,911)	(3,670)
Doubtful banks and financial institutions accounts	(446)		(1,578)
Total Provisions Recoveries	**(31,831)**	**(22,641)**	**(38,715)**
Net Provisions Allocated	**42,915**	**49,480**	**(8,925)**

MANAGEMENT DISCUSSION AND ANALYSIS

NON-INTEREST INCOME

LBP Million	2014	2015	2016	Growth (Vol.)	Growth (%)
Commissions on documentary credits and acceptances	**37,135**	**22,513**	**19,728**	**(2,785)**	**(12.4%)**
*out of which in Lebanon**	13,363	11,040	8,800	(2,240)	(20.3%)
out of which in Byblos Bank Europe	19,512	10,600	10,056	(543)	(5.1%)
out of which in Byblos Bank Africa	3,955	620	630	10	1.7%
out of which in Byblos Bank Syria	170	161	97	(64)	(39.6%)
out of which in Byblos Bank Armenia	0	0	4	4	-
out of which in Byblos Bank RDC	135	92	141	48	52.5%
Commissions on letters of guarantee	**15,861**	**15,857**	**13,584**	**(2,274)**	**(14.3%)**
*out of which in Lebanon**	13,825	13,818	12,175	(1,643)	(11.9%)
out of which in Byblos Bank Europe	812	954	718	(236)	(24.7%)
out of which in Byblos Bank Africa	383	281	132	(149)	(53.2%)
out of which in Byblos Bank Syria	598	480	296	(184)	(38.3%)
out of which in Byblos Bank Armenia	0	0	16	16	-
out of which in Byblos Bank RDC	243	324	247	(77)	(23.8%)
Securities income (realized and unrealized)	113,611	81,491	389,304	307,813	377.7%
out of which exceptional revenues from special swap operations with the Central Bank	0	0	402,238	402,238	-
Dividends received	3,293	4,955	5,049	94	1.9%
Foreign exchange income	49,952	59,409	52,570	(6,839)	(11.5%)
Other commissions on banking services	82,869	83,580	88,294	4,714	5.6%
Total Non-Interest Income (Net)**	**302,721**	**267,805**	**568,529**	**300,724**	**112.3%**

** 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 2016 amounted to LBP 568,529 million (USD 377.1 million), recording an increase of 112.3% (+LBP 300.7 billion/+USD 199.5 million) as compared to LBP 267,805 million (USD 177.6 million) for the same period of last year.

- Realized and unrealized gains on the securities portfolio for the year 2016 amounted to LBP 389,304 million (USD 258.2 million), recording a considerable increase of 377.7% as compared to a gain of LBP 81,491 million (USD 54.1 million) in 2015. This was due to the exceptional non-recurring revenues of LBP 351,000 million (USD 232.8 million) generated from the special swap operations with the Central Bank of Lebanon mentioned earlier ("Recent developments and non-recurring items" section).

- Commissions on documentary credits and acceptances for the year 2016 amounted to LBP 19,728 million (USD 13.1 million), recording a decrease of 12.4% as compared to LBP 22,513 million (USD 14.9 million) in 2015. This was mainly due to the slowing down in major economies, the drop in commodity prices, and the devaluation of some foreign currencies.

- Commissions on letters of guarantee for the year 2016 amounted to LBP 13,584 (USD 9 million), recording a decrease of 14.3% as compared to LBP 15,857 (USD 10.5 million) in 2015.

- Gains on foreign exchange trading for the year 2016 amounted to LBP 52,570 million (USD 34.9 million), as compared to LBP 59,409 million (USD 39.4 million) in 2015, mainly due to the unrealized gain on a structural foreign exchange position held in Byblos Bank Syria, which amounted to USD 20.4 million during the year 2016 compared to USD 23.6 million during the year 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

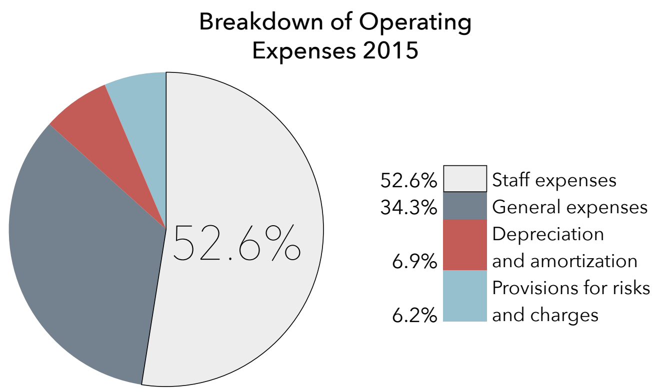
OPERATING EXPENSES

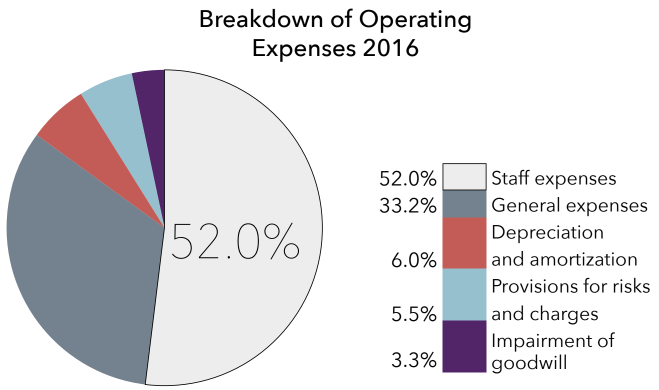
LBP Million	2014	2015	2016	Growth (vol.)	Growth (%)
Staff expenses	188,500	180,792	195,787	14,995	8.3%
General expenses	110,513	117,793	124,740	6,947	5.9%
Depreciation and amortization	25,040	23,625	22,539	(1,086)	(4.6%)
Total Operating Expenses (a)	**324,053**	**322,210**	**343,066**	**20,856**	**6.5%**
Provisions for risks and charges	645	21,394	20,733	(661)	(3.1%)
Impairment of goodwill			12,427	12,427	-
Total Operating Expenses (b)	**324,698**	**343,604**	**376,226**	**32,622**	**9.5%**

(a) Excluding provisions for risks and charges.
(b) Including provisions for risks and charges.

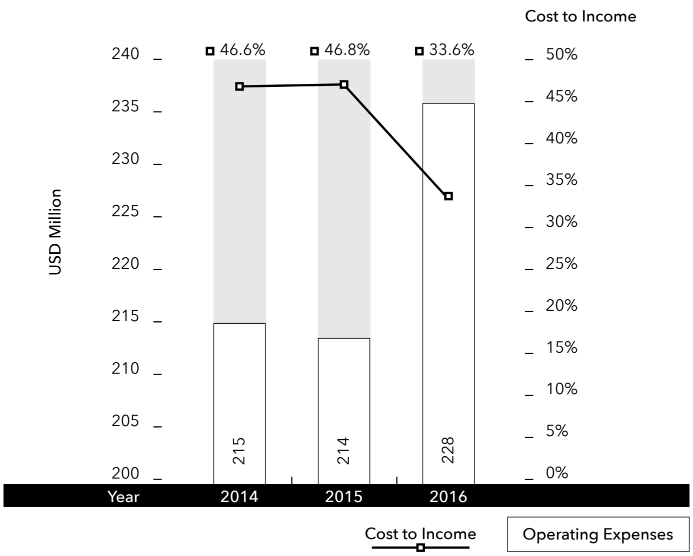
Operating expenses (excluding provisions for risks and charges) for the year 2016 amounted to LBP 343,066 million (USD 227.6 million), recording an increase of 6.5% (+LBP 20,856 million) as compared to LBP 322,210 million (USD 213.7 million) in 2015. However, the cost-to-income ratio decreased to 33.6% in 2016 compared to 46.8% in 2015 due to the exceptional gains from the swap operations with the Central Bank. In 2016, the Bank allocated provisions for risks and charges in the amount of LBP 20,733 million (USD 13.8 million) compared to LBP 21,394 million (USD 14.2 million) in 2015.

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





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



MANAGEMENT DISCUSSION AND ANALYSIS

ASSET 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 2016, 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.

On 24 December 2014, the Banque du Liban (BDL) issued Intermediate Circular No. 383 regarding new standards for allocating provisioning against retail and housing loans based on delinquency brackets. The said circular also requires both a general provision and a general reserve to be allocated as percentages of the Bank's outstanding loan portfolio. As of 31 December 2016, Byblos Bank was in full compliance with the provisioning and reserve requirements of BDL 383..

For commercial loans, the Group reviews its 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.

PREPARATIONS TO IMPLEMENT IFRS 9 IMPAIRMENT MODULE

In line with BCC Memo 18/2015 of 13 August 2015, the Bank has established the necessary internal governance by setting up a steering committee and a working group to implement the International Accounting Standards Board's (IASB's) new International Financial Reporting Standard (IFRS) 9 Impairment module, also known as Expected Credit Loss (ECL). The memo stipulates the national adoption of the standard effective 1 January 2018. The Bank has already communicated to the BCC its approach regarding the implementation of the standard.

After the global financial crisis of 2007-2009, accounting standards organizations concluded that pre-crisis provisioning regimes were too little, too late, and that there was a need to revise the prevailing incurred loss model. In July 2014, the IASB set forth the expected credit loss model, which converges with the Basel III recommendations on provisioning against credit risk. As per the new model, banks are required to hold provisions against their credit assets from the inception of the loan or instrument in their books and throughout its life under a dynamic measurement approach, which constitutes a major change from the previous incurred loss regime, in which provision allocation takes place only when the loan becomes impaired.

The development of the new ECL process falls under the Finance and Risk Management functions at the Bank. The project consists of defining and setting the rules for the following key components:

Staging assessment. The new standard introduces three stages for categorizing credit assets based on creditworthiness, with Stage 1 for low credit risk assets, Stage 2 for high credit risk but not impaired assets, and Stage 3 for impaired assets. The Bank is required to define the conditions for transition between stages, in either direction, in the event of changes in the borrower or loan creditworthiness.

Exposure. Under IFRS 9, exposure is defined by the discounted cash flows of principal and interests. Banks may use a simpler definition of exposure as EAD (exposure at default) as per the Basel II Standardized Approach.

Discounting and effective interest rate (EIR). Banks are required to use the effective interest rate that is the loan applied rate to discount cash flows.

Default and PD (probability of default). Banks may use the Basel Committee's default definition. Default usually occurs when borrowers show consistent delays of more than 90 days in honoring their repayments. In addition to monitoring loan performance, banks use market data and their own judgment to determine loan classification and impairment. To fulfill IFRS 9's ECL measurement requirements, banks have to develop point-in-time (PIT) PD models to reflect current default risk status, diverging from Basel's through-the-cycle models. Maintaining PD models entails having in place robust credit ratings and scoring systems. Banks may use external rating agencies' ratings and PD information for low data portfolios such as sovereigns and banks.

Loss given default (LGD). Banks must read their workout loss for defaulted loans. LGD is dependent on collateral and guarantees available against the loan, and also on economic factors (loss is higher when the economy is down) and the bank's workout process.

Forward-looking macroeconomic scenarios. IFRS 9 requires banks to predict future provisions, and the common practice is to have three forward-looking macroeconomic scenarios attached to probability of occurrence for current, downturn,

MANAGEMENT DISCUSSION AND ANALYSIS

and upturn expectations. Ideally, banks should apply an economic model to predict the values of PD, LGD, and ECL using forecasted macroeconomic indicators (change in GDP, interest rates, unemployment rates, real estate indicators).

Reporting and disclosure. Banks must disclose their ECL methodologies, results, and staging shifts on at least an annual basis.

ECL IS MEASURED BY THE PRODUCT OF PD, LGD, AND EXPOSURE

Byblos Bank has developed an action plan to fulfill the requirements of IFRS 9 and is closely following its implementation. By the end of 2017, the Bank expects to have an IFRS 9 policy ready for rollout in 2018.

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

As at 31 December	2014		2015		2016	
GROSS BALANCES (1)	LBP Million	% of total	LBP Million	% of total	LBP Million	% of total
Regular	6,352,924	82.8	6,693,599	84.7	7,057,686	86.4
Follow-up	531,051	6.9	532,387	6.7	537,211	6.6
Follow-up and regularization	367,369	4.8	307,181	3.9	199,065	2.4
Substandard loans	30,618	0.4	6,380	0.1	69,986	0.9
Doubtful loans	138,013	1.8	181,389	2.3	199,811	2.5
Bad loans	248,997	3.3	178,595	2.3	100,689	1.2
Total	**7,668,972**	**100.0**	**7,899,531**	**100.0**	**8,164,448**	**100.0**

As at 31 December	2014		2015		2016	
NET BALANCES (1 and 2)	LBP Million	% of total	LBP Million	% of total	LBP Million	% of total
Regular	6,352,924	86.5	6,693,599	87.7	7,057,686	88.7
Follow-up	531,051	7.2	532,387	7.0	537,211	6.8
Follow-up and regularization	367,369	5.0	307,181	4.0	199,065	2.5
Substandard loans	29,358	0.4	5,540	0.1	64,229	0.8
Doubtful loans	68,129	0.9	96,414	1.2	94,015	1.2
Bad loans	0	0.0	0	0.0	0	0.0
Total	**7,348,831**	**100.0**	**7,635,121**	**100.0**	**7,952,206**	**100.0**

(1) Excluding accrued interest received and interest received in advance.
(2) Net of specific provisions and reserved interest.

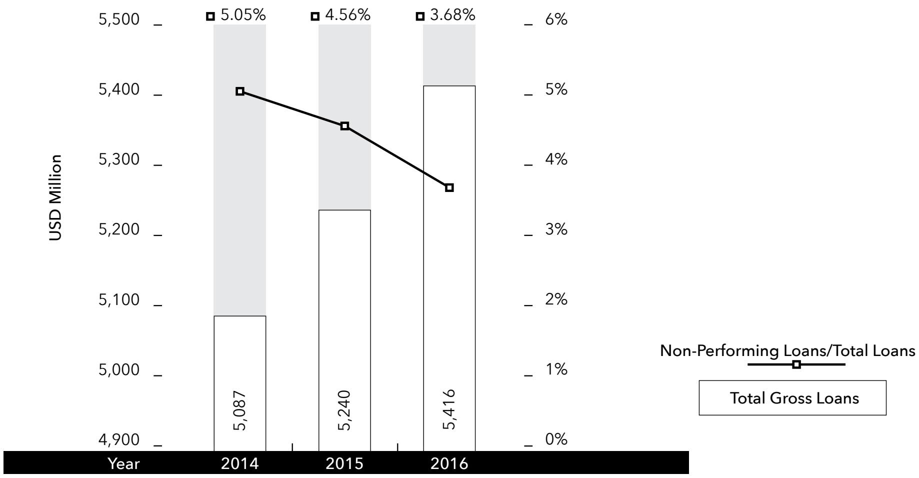
MANAGEMENT DISCUSSION AND ANALYSIS

Provisioning and Coverage Ratios

LBP Million	Dec. 2014	Dec. 2015	Dec. 2016
Substandard loans	30,618	6,380	69,986
Non-performing loans	387,011	359,983	300,500
Total Classified Loans	**417,629**	**366,364**	**370,486**
Specific provisions for loan losses	222,680	183,738	158,278
General provisions and collective provisions	148,135	131,448	78,643
out of which general and collective provisions for retail	10,891	10,896	11,913
Reserved interest (sub-standard loans)	1,260	840	5,757
Reserved interest (non-performing loans)	96,201	79,832	48,207
Total Provisions and Cash Collateral	**468,276**	**395,857**	**290,884**
Substandard loans/total loans	0.40%	0.08%	0.86%
Non-performing loans/total loans	5.05%	4.56%	3.68%
Total classified/total loans	5.45%	4.64%	4.54%
Total provisions/total loans	6.11%	5.01%	3.56%
Non-performing loans provisions/Non-performing loans (*)	120.67%	109.73%	94.88%
Non-performing loans provisions/Non-performing loans (**)	117.86%	106.71%	90.92%
Total provisions/Total classified loans (*)	112.13%	108.05%	78.51%
Specific provisions and reserved interest/NPL	82.40%	73.22%	68.71%

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

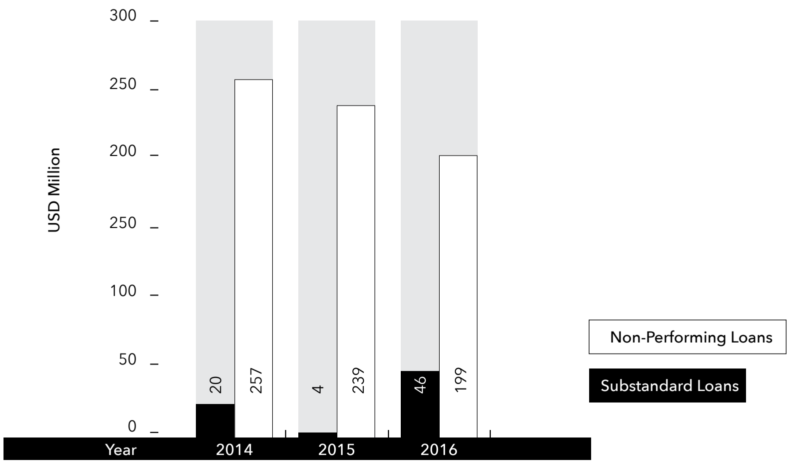
MANAGEMENT DISCUSSION AND ANALYSIS



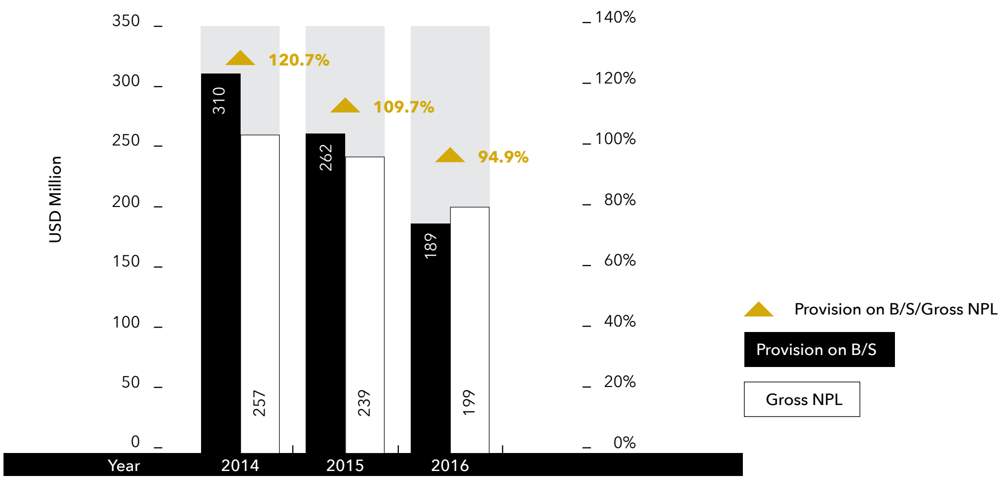
Total classified loans (substandard, doubtful, and bad) amounted to LBP 370,486 million (USD 246 million) at the end of December 2016, representing 4.5% of the total loan portfolio, compared to LBP 366,364 million (USD 243 million), representing 4.6% of the total loan portfolio, at the end of December 2015. Total non-performing loans (doubtful and bad) amounted to LBP 300,500 million (USD 199 million) as at 31 December 2016, representing 3.7% of the total loan portfolio, down from 4.6% as at 31 December 2015. 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 273,215 million (USD 181 million), covering up to 90.9% of total non-performing loans as at 31 December 2016 compared to 106.7% at the end of December 2015.

Substandard loans amounted to LBP 69,986 million (USD 46.4 million) at the end of December 2016, representing 0.86% of the total loan portfolio compared to LBP 6,380 million (USD 4.2 million) and 0.08%, respectively, at the end of 31 December 2015.

Classified Loans



MANAGEMENT DISCUSSION AND ANALYSIS



LIQUIDITY

Liquid Assets to Total Assets	Dec. 14	Dec. 15	Dec. 16
Cash and Central Banks	**38.21%**	**38.52%**	**43.65%**
out of which certificates of deposit	13.65%	14.36%	15.65%
Lebanese and Other Governmental Securities	**20.66%**	**20.72%**	**17.33%**
Bonds and fixed-income securities	1.88%	0.90%	0.13%
Banks and financial institutions	11.52%	12.40%	11.46%
Total Liquidity	**72.29%**	**72.54%**	**72.57%**

Liquid Assets to Customers' Deposits	Dec-14	Dec-15	Dec-16
Cash and Central Banks	**46.29%**	**46.01%**	**53.11%**
out of which certificates of deposit	16.53%	17.15%	19.05%
Lebanese and Other Governmental Securities	**25.03%**	**24.75%**	**21.09%**
Bonds and fixed-income securities	2.28%	1.08%	0.16%
Banks and financial institutions	13.96%	14.81%	13.94%
Total Liquidity	**87.56%**	**86.64%**	**88.31%**

As shown above, the Bank maintained a high level of liquid assets to meet foreseeable liability maturity requirements. As at 31 December 2016, liquid assets (comprised of cash, reserves and placements with central banks, Central Bank certificates of deposit, Lebanese Government securities, placements with banks, and other fixed-income securities) represented 72.6% of total assets and 88.3% of customers' deposits compared to 72.5% and 86.6% respectively as at 31 December 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL

As of 31 December 2016, 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% of the Bank's common shares (it represented 11% of the Bank's common shares as at end-December 2016 following the capital increase of the Bank in 2010). The Bank of New York Mellon acts as the depository bank for the issue. The Bank aimed 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 18.8% as at 31 December 2016, with the Tier 1 Capital and Common Equity Tier One (CET1) ratios coming in at 15.0% and 11.3%, respectively (see table below). These ratios are measured according to Basel III requirements and BDL Intermediate 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 15.0%, 11.9%, and 9.0% respectively.

BYBLOS BANK GROUP BASEL III (*) CAPITAL RATIOS

	31 December		
(LBP Million except ratios)	2014	2015	2016
Common equity ratio (CET1)	10.3%	10.8%	11.3%
Tier 1 capital ratio	14.1%	14.7%	15.0%
Total capital adequacy ratio	17.0%	17.7%	18.8%
Common equity	1,623,386	1,678,744	1,846,499
Tier 1 capital	2,224,966	2,278,722	2,443,015
Tier 2 capital	463,616	466,551	615,089
Total capital base	2,688,582	2,745,273	3,058,104
Total risk-weighted assets (RWA)	**15,815,521**	**15,517,339**	**16,269,178**
Credit risk RWA	14,467,658	13,980,192	14,916,221
Market risk RWA	242,529	452,988	273,970
Operational risk RWA	1,105,334	1,084,159	1,078,986

(*) 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) timetables for compliance with Basel III ratios. It shows that Byblos Bank operates at comfortable solvency levels as of 31 December 2016, 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 BDL timetable				BCBS
	31 Dec. 2015	**31 Dec. 2016**	**31 Dec. 2017**	**31 Dec. 2018(*)**	**1 Jan. 2019(*)**
CET1 Ratio	8%	8.5%	9%	10%	7%
Tier 1 Ratio	10%	11%	12%	13%	8.5%
Total Capital Ratio	**12%**	**14%**	**14.5%**	**15%**	**10.5%**

(*) Minimum BDL ratios are based on Intermediate Circular 436 (dated 30 September 2016)/Basic Circular 44, which sets new floors for capital ratios of 10%, 13%, and 15%, respectively, to be gradually reached by 31 December 2018. The target ratios include a Capital Conservation Buffer of 4.5%.
(**) BCBS target ratios at 1 January 2019 include a Capital Conservation Buffer of 2.5%.

The BCBS has additionally set the Leverage Ratio as a non-risk-based capital measurement formed by Tier 1 Capital 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. Byblos Bank's Leverage Ratio reached 6.6% at 31 December 2016.

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 under the scenario of a 200-basis-point increase in interest rates, as set prudentially in its internal policies.

Moreover, the Bank performs stress-test scenarios and sensitivity analyses at least annually upon the preparation of its Internal Capital Adequacy Assessment Process (ICAAP) document, which is thoroughly discussed and challenged by the management and the Board. Stress tests include incorporating IFRS 9 ECL (expected credit loss) measurements, higher sovereign and credit portfolio risks, interest rate risks, and funding outflows to assess the impact of more severe conditions on the Bank's capital in the medium term, after embedding the forecasted business needs. Stress tests performed in 2016 showed that the Bank's solvency remains adequate even under severe scenarios.

As for liquidity risk, the Bank maintains consistently high foreign currency liquidity with prime international banks following its conservative liquidity risk appetite. The Bank performs liquidity stress tests using conservative risk factors under the Liquidity Coverage Ratio (LCR), separately for LBP and foreign currency LCR, as well as in measuring the Net Stable Funding Ratio (NSFR).

Additionally, and to complement the measurement of the operational risk capital charge under the Basic Indicator Approach (BIA) of Basel II, a Bank-wide scenarios analysis is performed, encompassing high operational risk areas based on business lines' judgment, the internal loss database, and including the operating environment risks, as well as emerging risks (e.g. cyber-security). The outcome of the stress scenarios led to an aggregate capital charge for operational risks lower than that allocated under the BIA approach, signaling that no additional capital is needed against operational risks.

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*	
	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
2016	**1.7200**	**1.6000**	**200.00**	**0.1327**

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

At its Annual General Assembly held on 28 April 2017, the Bank's shareholders approved the distribution of dividends out of the Bank's net income for the year ended 31 December 2016 (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 2016 represented 64.8% of net income for that year.

MANAGEMENT DISCUSSION AND ANALYSIS

THE BANK'S RATINGS

The political situation in Lebanon remains fragile, despite some progress having been made on the domestic political landscape following the election of a president in November 2016 after almost three years of the office's being empty. Moreover, spillover risks from Syria and other regions with geopolitical tensions affecting Lebanon remains quite high. Any political risk event in the region threatening stability within Lebanon could adversely affect the banking system's deposit growth, the pegged exchange rate, and/or the refinancing of the public sector debt.

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

On 12 December 2016, Fitch Ratings affirmed at 'B-' the long-term Issuer Default Rating (IDR) of Byblos Bank with a 'stable' outlook. It also maintained the Bank's Viability Ratings at 'b-'. It said that the 'stable' outlook mirrors the one of the sovereign rating.

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 large holdings of Lebanese sovereign debt, higher cost of funds, and somewhat lower profitability than peers. It said that it would downgrade the Bank's ratings in the event that the sovereign rating were downgraded, if there were a prolonged weakening of the operating environment that would affect depositor confidence, or 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. It noted, however, 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 30 May 2017, 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/LB-1' and assigned the counterparty risk assessment at 'B1(cr)/Not-Prime(cr)'.

The agency indicated that the Bank's baseline credit assessment rating of 'b2' reflects the Bank's exposure to Lebanon's weak operating environment; its large holdings of B2-rated Lebanese sovereign securities; its modest 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 June 2017, Capital Intelligence affirmed Byblos Bank's Financial Strength Rating (FSR) at 'BBB-' and revised the Outlook to 'Stable' from 'Negative'. It also affirmed the Bank's long- and short-term foreign currency ratings at 'B'. It maintained the Support Level at '3', given the high likelihood of official liquidity support in case of need. It noted that the Bank's ratings continue to be restrained by Lebanon's sovereign ratings.

The agency pointed out that Byblos Bank's ratings are supported by its strong and improved capital adequacy, sound asset quality, comfortable liquidity level, and good domestic franchise. Significant exposure to sovereign and country risk, as well as low economic growth in Lebanon, remain constraining factors.

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 compares favorably with the sector average. At the same time, loan loss reserve coverage, together with other broader asset quality measures – such as Past Due but Not Impaired Loans less than 90 days overdue and renegotiated loans – remained very sound and among the best in the sector.

It indicated that the Bank's decrease in operating profitability is mainly from the ongoing pressure on the already thin net interest margin, which reflects a higher share of local currency business and lower interest rate mismatching.

It also said that Byblos Bank's capital adequacy remains strong and among the best in the sector, providing an additional buffer against rising credit risks.

BYBLOS BANK S.A.L. ANNUAL REPORT 2016

CONSOLIDATED FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF BYBLOS BANK SAL

Qualified Opinion

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

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

Basis for Qualified Opinion

As disclosed in note 36 to the consolidated financial statements, during 2016, the Group did not recognize in the consolidated income statement an amount of LL 126,682 million in gains realized from certain transactions on financial instruments with the Central Bank of Lebanon. The Group recognized this amount under "Deferred revenues" within "Other liabilities" in compliance with Central Bank of Lebanon's Intermediate Circular number 446 dated 30 December 2016. Furthermore, as disclosed in note 37 to the consolidated financial statements, the Group recorded excess provisions amounting to LL 102,480 million under "Provisions for risks and charges" in order to comply with the provisioning requirements of Central Bank of Lebanon's Intermediate Circular number 439 dated 8 November 2016. The Group's accounting for the above-mentioned transactions departs from the requirements of International Financial Reporting Standards (IFRSs). Had the Group properly accounted for these transactions, events and conditions, in accordance with International Financial Reporting Standards, the effects on the consolidated financial statements would have been as follows:

- Net income for the year ended 31 December 2016 would have increased by LL 229,162 million through an increase in "Net gain from financial instruments at fair value through profit or loss" by LL 108,392 million, an increase in "Net gain from sale of financial assets at amortized cost" by LL 40,692 million, a decrease in "Provisions for risks and charges" by LL 102,480 million and an increase in "Income tax expense" by LL 22,402 million;
- Total liabilities as at 31 December 2016 would have decreased by LL 229,162 million, through a decrease in "Deferred revenues" (reflected under "Other liabilities") by LL 126,682 million and a decrease in "Provisions for risks and charges" by LL 102,480 million; and
- Equity as at 31 December 2016 would have increased, through an increase in net income, by LL 229,162 million.

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

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

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

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

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

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

Key Audit Matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the year ended 31 December 2016. In addition to the matter described in the *"Basis for Qualified Opinion"* section of our report, we have determined the matters described below to be the key audit matters to be communicated in our report. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

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

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Key Audit Matters (continued)

Impairment of Loans and Advances (continued)
The risks outlined above were addressed by us as follows:

- For corporate customers, we tested the key controls over the credit grading process, to assess if the risk grades allocated to the counterparties were appropriate. We then performed detailed credit assessment of all loans in excess of a defined threshold and loans in excess of a lower threshold in the watch list category and impaired category together with a selection of other loans.

- Where impairment allowance was calculated on a collective basis for performing corporate loans, we tested the completeness and accuracy of the underlying loan information used in the impairment model by agreeing details to the Group's source systems as well as re-performing the calculation of the modelled impairment allowances. For the key assumptions in the model, we assessed whether those assumptions were appropriate in the circumstances.

- For consumer loans, specific and collective impairment allowances are calculated using a simple model, which are based on a percentage of repayments due but not yet paid. We understood and critically assessed the model used and checked that no undue changes had been made in model parameters and assumptions. We tested the completeness and accuracy of data from underlying systems that is used in this model. We also re-performed the calculation of the modelled impairment allowance.

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

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

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

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

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

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

AUDITORS' REPORT

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Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

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

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

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

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

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

Ernst & Young

BDO, Semaan, Gholam & Co.

31 March 2017
Beirut, Lebanon

CONSOLIDATED INCOME STATEMENT

LBP Million	Notes	2016	2015
Interest and similar income	8	1,545,922	1,489,087
Interest and similar expense	9	(1,176,124)	(1,102,771)
NET INTEREST INCOME		**369,798**	**386,316**
Fee and commission income	10	134,122	134,515
Fee and commission expense	10	(12,515)	(12,564)
NET FEE AND COMMISSION INCOME	10	**121,607**	**121,951**
Net gain from financial instruments at fair value through profit or loss	11	79,970	67,443
Net gain from sale of financial assets at amortized cost	12	417,699	86,939
Dividend income from financial assets at fair value through other comprehensive income	27	4,413	4,383
Other operating income	13	27,803	20,935
TOTAL OPERATING INCOME		**1,021,290**	**687,967**
Net credit gains (losses)	14	8,925	(47,908)
Impairment losses on financial investments	2	(49,676)	-
NET OPERATING INCOME		**980,539**	**640,059**
Personnel expenses	15	(195,787)	(180,792)
Other operating expenses	16	(145,474)	(139,187)
Depreciation of property and equipment	28	(22,425)	(23,466)
Amortization of intangible assets	29	(113)	(159)
Impairment of goodwill	5	(12,427)	-
TOTAL OPERATING EXPENSES		**(376,226)**	**(343,604)**
OPERATING PROFIT		**604,313**	**296,455**
Provisions for risks and charges	37	(102,480)	-
Foreign currency translation losses on deconsolidation of subsidiaries	2	(137,890)	-
Net gain on disposal of property and equipment		11	65
PROFIT BEFORE TAX		**363,954**	**296,520**
Income tax expense	17	(114,719)	(53,083)
PROFIT FOR THE YEAR		**249,235**	**243,437**
Attributable to:			
Equity holders of the parent		232,672	228,185
Non-controlling interests		16,563	15,252
		249,235	**243,437**
Earnings per share		**LBP**	**LBP**
Equity shareholders of the parent:			
Basic earnings per share	18	327.22	319.18
Diluted earnings per share	18	310.18	303.21

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

LBP Million	Notes	2016	2015
PROFIT FOR THE YEAR		**249,235**	**243,437**
OTHER COMPREHENSIVE INCOME (LOSS)			
Items to be reclassified to the income statement in subsequent periods:			
Exchange difference on translation of foreign operations		(68,161)	(41,114)
Net other comprehensive loss to be reclassified to the income statement in subsequent periods		**(68,161)**	**(41,114)**
Items not to be reclassified to the income statement in subsequent periods:			
Net unrealized loss from financial assets at fair value through other comprehensive income	44	(1,306)	(503)
Income tax effect	44	194	75
		(1,112)	**(428)**
Re-measurement (losses) gains on defined-benefit plans	37 (a)	(99)	474
Net other comprehensive (loss) income not to be reclassified to the income statement in subsequent periods		**(1,211)**	**46**
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		**(69,372)**	**(41,068)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**179,863**	**202,369**
Attributable to:			
Equity holders of the parent		190,591	198,746
Non-controlling interests		(10,728)	3,623
		179,863	**202,369**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

LBP Million	Notes	2016	2015
ASSETS			
Cash and balances with central banks	19	8,783,092	7,236,237
Due from banks and financial institutions	20	2,657,429	2,518,365
Loans to banks and financial institutions and reverse repurchase agreements	21	964,066	1,197,047
Financial assets given as collateral	22	224,044	1,405
Derivative financial instruments	23	4,420	1,844
Financial assets at fair value through profit or loss	24	789,172	295,845
Net loans and advances to customers at amortized cost	25	7,787,275	7,399,641
Net loans and advances to related parties at amortized cost	46	20,714	35,275
Debtors by acceptances		223,883	244,705
Financial assets at amortized cost	26	9,416,979	10,516,514
Financial assets at fair value through other comprehensive income	27	101,305	101,907
Property and equipment	28	247,095	255,125
Intangible assets	29	380	493
Assets obtained in settlement of debt	30	43,299	42,006
Other assets	31	110,438	108,001
TOTAL ASSETS		**31,373,591**	**29,954,410**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

LBP Million	Notes	2016	2015
LIABILITIES AND EQUITY			
Liabilities			
Due to central banks	32	332,971	117,412
Due to banks and financial institutions	33	774,095	744,554
Derivative financial instruments	23	2,106	2,445
Customers' deposits at amortized cost	34	25,415,634	24,654,398
Deposits from related parties at amortized cost	46	366,027	425,749
Debt issued and other borrowed funds	35	444,072	445,199
Engagements by acceptances		223,883	244,705
Other liabilities	36	399,813	147,567
Provisions for risks and charges	37	275,390	171,538
Subordinated debt	38	420,165	417,400
TOTAL LIABILITIES		**28,654,156**	**27,370,967**
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	843,320	815,884
Distributable reserves	41	103,246	99,211
Treasury shares	42	(5,161)	(6,807)
Retained earnings		67,518	61,832
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	(9,081)	(7,961)
Net results of the financial period – profit		232,672	228,185
Foreign currency translation reserve		(65,341)	(193,842)
		2,682,072	**2,511,401**
NON-CONTROLLING INTERESTS		**37,363**	**72,042**
TOTAL EQUITY		**2,719,435**	**2,583,443**
TOTAL LIABILITIES AND EQUITY		**31,373,591**	**29,954,410**

The consolidated financial statements were authorized for issue in accordance with the resolution of the Board of Directors on 31 March 2017 by:

Mr. Semaan F. Bassil
Chairman – General Manager

Mr. Ziad El-Zoghbi
Head of Finance and Administration

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

LBP Million	Common shares	Preferred shares	Share premium – common shares	Share premium – preferred shares	Non-distributable reserves	Distributable reserves
	Attributable to equity holders of the parent					
Balance at 1 January 2016	684,273	4,840	229,014	591,083	815,884	99,211
Profit for the year	-	-	-	-	-	-
Other comprehensive loss	-	-	-	-	-	-
Total comprehensive income (loss)	-	-	-	-	-	-
Transfer to retained earnings	-	-	-	-	-	-
Transfer to retained earnings due to deconsolidation	-	-	-	-	(8,450)	(1,123)
Appropriation from retained earnings	-	-	-	-	61,822	5,629
Dividends paid to non-controlling interests	-	-	-	-	-	-
Equity dividends paid (note 53)	-	-	-	-	-	-
Translation difference	-	-	-	-	(25,818)	(3,273)
Treasury shares	-	-	-	-	(118)	-
Reversal of put options on non-controlling interests due to deconsolidation	-	-	-	-	-	4,663
Deconsolidation of subsidiaries (note 2)	-	-	-	-	-	-
Acquisition of additional non-controlling interests (note 5)	-	-	-	-	-	(1,861)
Balance at 31 December 2016	**684,273**	**4,840**	**229,014**	**591,083**	**843,320**	**103,246**
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	-	-	-	-	-	-
Appropriation from retained earnings	-	-	-	-	67,037	3,178
Dividends paid to non-controlling interests	-	-	-	-	-	-
Equity dividends paid (note 53)	-	-	-	-	-	-
Translation difference	-	-	-	-	(20)	-
Treasury shares	-	-	-	-	(12)	-
Fair value adjustment for put options on non-controlling interests	-	-	-	-	-	90
Balance at 31 December 2015	**684,273**	**4,840**	**229,014**	**591,083**	**815,884**	**99,211**

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**
(6,807)	61,832	5,689	(7,961)	228,185	(193,842)	2,511,401	72,042	**2,583,443**
-	-		-	232,672	-	232,672	16,563	**249,235**
-	(99)	-	(1,112)	-	(40,870)	(42,081)	(27,291)	**(69,372)**
-	(99)	-	(1,112)	232,672	(40,870)	190,591	(10,728)	**179,863**
-	228,185	-	-	(228,185)	-	-	-	**-**
-	9,573	-	-	-	-	-	-	**-**
-	(67,451)	-	-	-	-	-	-	**-**
-	-	-	-	-	-	-	(3,153)	**(3,153)**
-	(161,060)	-	-	-	-	(161,060)	-	**(161,060)**
-	(3,462)	-	(8)	-	31,481	(1,080)	-	**(1,080)**
1,646	-	-	-	-	-	1,528	-	**1,528**
-	-	-	-	-	-	4,663	13,600	**18,263**
-	-	-	-	-	137,890	137,890	(34,398)	**103,492**
-	-	-	-	-	-	(1,861)	-	**(1,861)**
(5,161)	**67,518**	**5,689**	**(9,081)**	**232,672**	**(65,341)**	**2,682,072**	**37,363**	**2,719,435**
(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**

CONSOLIDATED STATEMENT OF CASH FLOWS

LBP Million	Notes	2016	2015
OPERATING ACTIVITIES			
Profit before tax		363,954	296,520
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation and amortization	28 & 29	22,538	23,625
(Write-back of provision) provision for loans and advances and direct writeoffs, net	14	(7,347)	13,859
(Write-back of provision) provision for balances with central banks, net	14	(1,578)	35,620
Write-back of provision for financial assets at amortized cost, net	14	-	(1,571)
Gain on disposal of property and equipment		(11)	(65)
Gain on disposal of assets obtained in settlement of debt	13	(4,093)	(856)
Provisions for risks and charges, net		129,710	29,066
Unrealized fair value losses on financial instruments at fair value through profit or loss		3,727	5,200
Realized gains from financial assets		(397,821)	(86,688)
Derivative financial instruments		(2,953)	1,889
Impairment losses on financial investments	2	49,676	-
Impairment of goodwill	5	12,427	-
Foreign currency translation losses on deconsolidation of subsidiaries	2	137,890	-
Operating profit before working capital changes		**306,119**	**316,599**
CHANGES IN OPERATING ASSETS AND LIABILITIES			
Due from central banks		(1,563,261)	(508,137)
Due to central banks		226,518	42,483
Due from banks and financial institutions		(2,832)	6,866
Financial assets given as collateral		(222,639)	5,600
Financial assets at fair value through profit or loss		(516,138)	(145,714)
Due to banks and financial institutions		61,285	(37,252)
Net loans and advances to customers and related parties		(316,469)	(321,579)
Assets obtained in settlement of debt	30	(2,836)	(5,784)
Proceeds from sale of assets obtained in settlement of debt		5,679	1,311
Other assets		(17,397)	(4,898)
Customers' and related parties' deposits		516,361	1,389,545
Other liabilities		234,869	417
Cash (used in) from operations		**(1,290,741)**	**739,457**
Provision for risks and charges paid	37	(3,487)	(3,325)
Taxation paid		(54,374)	(65,042)
Net cash (used in) from operating activities		**(1,348,602)**	**671,090**

CONSOLIDATED STATEMENT OF CASH FLOWS

LBP Million	Notes	2016	2015
INVESTING ACTIVITIES			
Financial assets at amortized cost		1,721,849	(167,885)
Financial assets at fair value through other comprehensive income		(1,096)	(3,715)
Loans to banks and financial institutions and reverse repurchase agreements		420,841	(386,418)
Purchase of property and equipment	28	(35,011)	(45,972)
Proceeds from sale of property and equipment		377	233
Net cash outflow from deconsolidation of subsidiaries	2	(132,565)	-
Acquisition of a subsidiary, net of cash acquired	5	(83,599)	-
Net cash from (used in) investing activities		**1,890,796**	**(603,757)**
FINANCING ACTIVITIES			
Debts issued and other borrowed funds		(1,127)	(188)
Subordinated debt		2,765	2,820
Treasury shares		1,528	(394)
Dividends paid to equity holders of the parent	53	(161,060)	(161,103)
Dividends paid to non-controlling interests		(3,153)	(5,508)
Acquisition of additional non-controlling interests	5	(1,861)	-
Net cash used in financing activities		**(162,908)**	**(164,373)**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**379,286**	**(97,040)**
Net effect of foreign exchange		(58,374)	(33,572)
Cash and cash equivalents at 1 January		4,766,200	4,896,812
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**45**	**5,087,112**	**4,766,200**
Operational cash flows from interest and dividends			
Interest paid		(1,168,296)	(1,102,999)
Interest received		1,566,523	1,474,227
Dividends received		5,049	4,956

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, the Democratic Republic of the Congo, and Armenia). Further information on the Group's structure is provided in note 4.

Effective 31 December 2016, the Group deconsolidated Byblos Bank Syria S.A. and Byblos Bank Africa since they no longer meet the accounting criteria for consolidation.

2. ACCOUNTING POLICIES

2.1. BASIS OF PREPARATION

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

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

2.2. BASIS OF CONSOLIDATION

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 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 were 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 related assets (including goodwill), liabilities, non-controlling interest, and other components of equity, while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value at the date of loss of control.

DECONSOLIDATION OF THE SUBSIDIARY BYBLOS BANK SYRIA

The subsidiary Byblos Bank Syria, which is 59.87% owned by the Group, is engaged in commercial banking activities, mainly deposit taking and loan granting, in Syria. Beginning in March 2011, Syria has witnessed an extremely violent and crippling civil war between the regime and various opposition groups in different parts of the country. The war has turned into a humanitarian disaster, resulting in Syria's being ranked number one on the list of the most dangerous countries in the world. In addition, this has led several international bodies and countries (e.g. the European Union [EU] and the United States of America [USA]) to set and implement several sanctions and restrictions on dealing with Syria.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

The deconsolidation of the subsidiary resulted in the recognition of a negative impact on the consolidated income statement for the year 2016 in the amount of LBP 144,504 million, which includes:

- Negative impact of LBP 107,282 million deriving from losses from the translation into Lebanese Pounds of the financial statements of the subsidiary previously recognized under equity and reclassified to the consolidated income statement; and
- Negative impact of LBP 37,222 million due to the full writeoff of the net assets of the subsidiary.

Cash and cash equivalents of the subsidiary Byblos Bank Syria upon deconsolidation amounted to LBP 95,783 million.

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

DECONSOLIDATION OF THE SUBSIDIARY BYBLOS BANK AFRICA

The subsidiary Byblos Bank Africa, which is 56.86% owned by the Group, is engaged in commercial banking activities, mainly deposit taking and loan granting, in Sudan. Sudan, one of the largest and most geographically diverse states in Africa, gained independence on 1 January 1956. Since then, the country has experienced alternating forms of democratic and authoritarian governments. Cross-border violence, political instability, poor infrastructure, weak property rights, and corruption have led several international bodies and countries (e.g. the EU and the USA) to set and implement several sanctions and restrictions on dealing with Sudan. In addition, the business environment of the country has been trapped by business regulations that inhibit registration and a rigid labor market that discourages formal hiring, and Sudan has been ranked as a "repressed" economy by the Heritage Foundation.

The Sudanese Pound has lost at least 84% of its value against the US Dollar since 2011, when South Sudan seceded, taking with it three-quarters of the country's oil output, the main source of foreign currency used to support the Sudanese Pound and to pay for food and other imports. Low foreign exchange reserves resulted in illiquid foreign currency markets and other-than-temporary lack of exchangeability between the Sudanese Pound and the US Dollar. The official exchange rate was 100% below the parallel black market rate.

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

The deconsolidation of the subsidiary resulted in the recognition of a negative impact on the consolidated income statement for the year 2016 in the amount of LBP 43,062 million, which includes:

- Negative impact of LBP 30,608 million deriving from losses from the translation into Lebanese Pounds of the financial statements of the subsidiary previously recognized under equity and reclassified to the consolidated income statement; and
- Negative impact of LBP 12,454 million due to the full writeoff of the net assets of the subsidiary.

Cash and cash equivalents of the subsidiary Byblos Bank Africa upon deconsolidation amounted to LBP 36,782 million.

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

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 2016.

IFRS 14 REGULATORY DEFERRAL ACCOUNTS

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 Business Combinations principles for business combination 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 if 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 do not have any impact on the Group as there has been no interest acquired in a joint operation during the year.

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

The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a 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 do not have any impact on the Group has not used a revenue-based method to depreciate its non-current assets.

AMENDMENTS TO IAS 16 AND IAS 41 AGRICULTURE: BEARER PLANTS

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41 Agriculture. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 and measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact on the Group as the Group does not have any bearer plants.

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. First-time adopters of IFRS electing to use the equity method in their separate financial statements 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 do not have any impact on the Group's consolidated financial statements.

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 amendments clarify 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. These amendments must be applied prospectively. These amendments do not have any 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. 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 amendment.
(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.

These amendments do not have any impact on the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 on 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. This amendment does not have any impact on the Group.

IAS 34 INTERIM FINANCIAL REPORTING
The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively. This amendment does not have any impact on the Group.

AMENDMENTS TO IAS 1 DISCLOSURE INITIATIVE
The amendments to IAS 1 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; and
- 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 do not 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 Consolidated Financial Statements. 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 Investments in Associates and Joint Ventures 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 do not have any impact on the Group as the Group does not apply the consolidation exception.

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 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

IFRS 16 LEASES
The IASB issued the new standard for accounting for leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognize most leases on their balance sheets as lease liabilities, with the corresponding right-of-use assets. Lessees must apply a single model for all recognized leases, but will have the option not to recognize "short term" leases and leases of "low-value" assets. Generally, the profit or loss recognition pattern for recognized leases will be similar to today's finance lease accounting, with interest and depreciation expense recognized separately in the consolidated statement of profit or loss. Early application is permitted, provided the new revenue standard, IFRS 15, is applied on the same date. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2019, with early adoption permitted. The Group is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date.

IAS 12 INCOME TAXES
The amendments clarify the following recognition of a deferred tax asset if the loss is unrealized is allowed, if certain conditions are met, and that the bottom line of the tax return is not the 'future taxable profit' for the recognition test. The IASB amendments clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value. The current approach of using the expected bottom line on the tax return – i.e. future taxable income less tax-deductible expenses – will no longer be appropriate; instead, the taxable income before the deduction will be used, to avoid double counting. 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 IAS 12 and plans to adopt the new standard on the required effective date.

IAS 7 STATEMENT OF CASH FLOWS
The amendments issued introduce additional disclosure requirements intended to address investors' concerns as currently they are not able to understand the management of an entity's financing activities, require disclosure of information enabling users to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes, do not prescribe a specific format for disclosures but indicates that we can fulfill the requirement by providing a reconciliation between opening and closing balances for liabilities arising from financing activities, and are also applicable to financial assets that hedge liabilities arising from financing activities. 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 IAS 7 and plans to adopt the new standard on the required effective date.

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. The Group uses the direct method of consolidation.

(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).

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 timeframe 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 (EIR) method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the 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".

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 those related to financial assets designated at fair value upon initial recognition separately 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 those related to financial assets designated at fair value upon initial recognition separately from those mandatorily measured at fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(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; or
- 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 the 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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' deposits, 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the EIR. When the counterparty has the right to sell or 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, 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.

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 operation.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

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.

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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 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, or 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 of whether 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.

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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 on 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 two categories:

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

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

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

Fee income from providing transaction services

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

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 the central banks, deposits with banks and financial institutions, and deposits due to banks and financial institutions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 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.

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

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 derecognition 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. 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".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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, comprising 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.

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 other comprehensive income are also recognized in other comprehensive income and not in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

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;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- the degree of frequency of any expected asset sales;
- the reason for any asset sales; and
- whether sold assets 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.

DECONSOLIDATION OF BYBLOS BANK SYRIA AND BYBLOS BANK AFRICA as at 31 December 2016

The Group proceeded with the deconsolidation of the subsidiaries Byblos Bank Syria and Byblos Bank Africa, effective as of 31 December 2016. The decision to proceed with the deconsolidation was mainly due to the loss of control over the subsidiaries and the Group's inability to direct the relevant activities of the subsidiaries. The violent and crippling civil war, the international sanctions, the lack of exchangeability between the Syrian and Sudanese Pounds from one side and the US Dollar from the other, combined with other restrictive regulations, have limited the Group's ability to effectively manage the subsidiaries. Given this scenario, which is expected to endure for the foreseeable future, it was considered that the requisite conditions of IFRS 10 have not been met in order for an accounting control to be carried out on the subsidiaries. Therefore, the deconsolidation of the subsidiaries was proceeded with. Given the complexity of the Syrian and Sudanese scenarios, the previously summarized considerations and assumptions inevitably relied on complex and subjective assessments and estimates based on historical experience, and are considered reasonable and realistic in the circumstances. These assessments and assumptions resulted in significant overall effects on the consolidated financial statements of the Group. Please refer to note 2, "Deconsolidation of the subsidiary Byblos Bank Syria" and "Deconsolidation of the subsidiary Byblos Bank Africa" for more details on these effects.

ESTIMATES AND ASSUMPTIONS

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, 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).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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
	2016 %	2015 %		
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.	100.00	65.00	Commercial Banking	Armenia
Adonis Insurance and Reinsurance (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

(*) Effective 31 December 2016, the Group deconsolidated Byblos Bank Syria S.A. and Byblos Bank Africa since they no longer met the accounting criteria for consolidation.

5. BUSINESS COMBINATIONS

Acquisition of ownership interest in Banque Pharaon & Chiha S.A.L.

During 2016, the Group acquired 100% of the voting shares of Banque Pharaon & Chiha S.A.L., an unlisted bank operating in Lebanon, for a total consideration of LBP 148,732 million. Banque Pharaon & Chiha S.A.L. was engaged in providing a wide range of banking services to its customers through its Head Office and branches located in Lebanon. The acquisition was accounted for under the acquisition method. The consolidated financial statements include the results of Banque Pharaon & Chiha S.A.L. for the six-month period from 30 April 2016, the acquisition date, until 31 October 2016, when the assets and liabilities of Banque Pharaon & Chiha S.A.L. were merged with the assets and liabilities of Byblos Bank S.A.L.. From 30 April 2016, the date of acquisition, until 31 October 2016, Banque Pharaon & Chiha S.A.L. contributed LBP 2,524 million to the consolidated net profit of the Group. If the acquisition had taken place at the beginning of the year 2016, consolidated net income for the year would have increased by LBP 2,491 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The fair value of the identifiable assets and liabilities acquired arising as at 30 April 2016, the date of acquisition of Banque Pharaon & Chiha S.A.L., was:

LBP Million	Fair value recognized on acquisition
ASSETS	
Cash and balances with central bank	90,604
Due from banks and financial institutions	27,139
Financial assets at fair value through profit or loss	794
Net loans and advances to customers at amortized cost	135,165
Debtors by acceptances	1,228
Financial assets at amortized cost	206,564
Property and equipment	520
Assets obtained in settlement of debt	47
Other assets	2,030
	464,091
LIABILITIES	
Deposits from customers at amortized cost	(307,863)
Deposits from related parties at amortized cost	(37,899)
Engagements by acceptances	(1,228)
Other liabilities	(7,734)
Provisions for risks and charges	(2,138)
	(356,862)
Total identifiable net assets	**107,229**
Acquisition percentage	%100
Fair value of net assets acquired	(107,229)
Consideration paid	148,732
Excess fair value of soft loan (*)	(73,159)
Additional expenses to be incurred upon acquisition (note 36)	44,083
Goodwill arising on acquisition	**12,427**

(*) On 20 October 2016, the Central Bank of Lebanon approved the merger of the assets and liabilities of Banque Pharaon & Chiha S.A.L. and, in this respect, granted the Group two loans with favorable terms compared to the market. In accordance with the Central Bank of Lebanon's approval, the difference between the fair value of the loans and the proceeds received, amounting to LBP 73,159 million, should be allocated by the Group to cover the expected costs that will be incurred as a result of the merger. As at 31 December 2016, the Group allocated the excess received against the following costs:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

LBP Million	
Impairment of goodwill	29,076
Credit losses	27,094
Employees' indemnities	16,989
Total	**73,159**

During 2016, the Group wrote off the remaining carrying amount of goodwill amounting to LBP 12,427 million in the consolidated statement of income.

Out of the total consideration paid, an amount of LBP 11,005 million was deposited in an escrow account, the purpose of which is to indemnify the Group from losses incurred by Banque Pharaon & Chiha S.A.L. as a result of unrecorded or undisclosed liabilities, shortfall of provisions for loans and advances to customers, and court cases brought against Banque Pharaon & Chiha S.A.L. before the closing date of 30 April 2016. As at 31 December 2016, the unrecorded losses incurred by Banque Pharaon & Chiha S.A.L. as a result of the above amounted to LBP 5,247 million and were paid from the escrow account. The remaining balance of the escrow account, amounting to LBP 5,758 million (note 36), will be released to the sellers during the year 2017 unless additional unforeseen liabilities relating to the period before the closing date are incurred by Banque Pharaon & Chiha S.A.L.

Transaction costs of LBP 1,610 million were expensed and included in "Other operating expenses" in the consolidated statement of income.

LBP Million	
Cash paid	(148,732)
Net cash acquired with the subsidiary	65,133
Net cash outflow	**(83,599)**

Capital increase in Byblos Bank Armenia C.J.S.C.
On 8 April 2016, the Extraordinary General Assembly meeting of Byblos Bank Armenia C.J.S.C. resolved to increase Byblos Bank Armenia C.J.S.C.'s capital by an amount of LBP 49,629 million in which the Group fully participated. As a result of this capital increase, the Group's ownership interest increased from 65.00% to 88.06%.

Acquisition of EBRD share in Byblos Bank Armenia C.J.S.C.
Effective 24 June 2016, the European Bank for Reconstruction and Development (EBRD), holders of 8.53% of non-controlling interests of the subsidiary Byblos Bank Armenia C.J.S.C., exercised the put option granted by Byblos Bank S.A.L., which resulted in the Group acquiring an additional 8.53% interest in the voting shares of Byblos Bank Armenia C.J.S.C., increasing its ownership interest to 96.59%. A cash consideration of LBP 6,130 million was paid to the non-controlling interest shareholders. The carrying value of the additional interest acquired was LBP 4,800 million. As the Group accounts for such put options through partial recognition of non-controlling interests, this transaction did not have an impact on non-controlling interests in equity. The difference between the cash consideration paid to non-controlling shareholders and the carrying value of additional interest acquired, amounting to LBP 1,330 million, is recognized within equity.

Acquisition of OFID share in Byblos Bank Armenia C.J.S.C.
Effective 20 July 2016, the OPEC Fund for International Development (OFID), holders of the remaining 3.41% of non-controlling interests of the subsidiary Byblos Bank Armenia C.J.S.C., exercised the put option granted by Byblos Bank S.A.L., which resulted in the Group acquiring an additional 3.41% interest in the voting shares of Byblos Bank Armenia C.J.S.C., increasing its ownership interest to 100%. A cash consideration of LBP 2,452 million was paid to the non-controlling interest shareholders. The carrying value of the additional interest acquired was LBP 1,921 million. As the Group accounts for such put options through partial recognition of non-controlling interests, this transaction did not have an impact on non-controlling interests in equity. The difference between the cash consideration paid to non-controlling shareholders and the carrying value of additional interest acquired, amounting to LBP 531, million is recognized within equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. MATERIAL PARTLY OWNED SUBSIDIARIES

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

PROPORTION OF EQUITY INTERESTS HELD BY NON-CONTROLLING INTERESTS:

Name	2016 %	2015 %
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
Byblos Bank Syria S.A. (*)	40.13	40.13

(*) Effective 31 December 2016, the Group deconsolidated Byblos Bank Syria S.A. and Byblos Bank Africa since they no longer met the accounting criteria for consolidation.

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

SUMMARIZED INCOME STATEMENTS FOR 2016:

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	4,807	10,613	4,385	1,989
Net fee and commission income	877	3,084	168	939
Net gain from financial instruments at fair value through profit or loss	213	143	238	30,937
Other operating income	128	19,415	13	90
Net credit (losses) income	1,010	-	(2,135)	4,044
Total operating expenses	(2,988)	(11,651)	(3,160)	(16,926)
Income tax expense	(897)	(1,737)	-	(996)
Profit (loss) for the year	**3,150**	**19,867**	**(491)**	**20,077**
Attributable to non-controlling interests	**1,359**	**7,152**	**-**	**8,057**
Dividends paid to non-controlling interests	**-**	**3,148**	**-**	**-**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SUMMARIZED INCOME STATEMENTS 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) gains	(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 STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2016:

LBP Million	Adonis Insurance and Reinsurance Co. (ADIR) S.A.L.	Byblos Bank Armenia C.J.S.C.
Cash and balances with central banks	6	43,097
Due from banks and financial institutions	27,179	12,220
Balances with Parent and Group entities	153,055	1,290
Financial assets at fair value through profit or loss	37,085	-
Net loans and advances at amortized cost	4,875	69,125
Financial assets at amortized cost	156,694	64,470
Property and equipment	2,612	2,917
Other assets	56,297	4,491
Due to banks	-	(8,637)
Deposits at amortized cost	(234,383)	(91,544)
Other liabilities	(121,614)	(31,834)
Total equity	**81,806**	**65,595**
Attributable to non-controlling interests	**29,491**	**-**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SUMMARIZED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2015:

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

SUMMARIZED CASH FLOW INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2016:

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	3,611	14,274	(61,534)	1,223
Investing	(11,123)	(8,502)	(21)	4,406
Financing	(6,420)	(5,161)	72,351	-
Net increase (decrease) in cash and cash equivalent	**(13,932)**	**611**	**10,796**	**5,629**

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 equivalents	**(12,234)**	**(10,600)**	**20,219**	**(40,808)**

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, funds transfers, foreign exchange, and other branch-related services.

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

TREASURY 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 a performance measure, not the gross income and expense amounts.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PROFIT FOR THE YEAR INFORMATION

2016 LBP Million	Retail banking	Corporate banking	Treasury and capital markets	Other[1]	Total
Net interest income (expense)	193,029	123,550	54,034	(815)	**369,798**
Net fee and commission income	58,370	57,368	574	5,295	**121,607**
Net gain from financial instruments at fair value through profit or loss	-	-	79,970	-	**79,970**
Net gain from sale of financial assets at amortized cost	-	-	417,699	-	**417,699**
Dividend income from financial assets at fair value through other comprehensive income	-	-	4,413	-	**4,413**
Other operating income	-	-	-	27,803	**27,803**
Net credit (losses) gains	(12,143)	19,490	1,578	-	**8,925**
Impairment losses on financial investments	-	-	-	(49,676)	**(49,676)**
Net operating income	**239,256**	**200,408**	**558,268**	**(17,393)**	**980,539**

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**
Dividend income 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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL POSITION INFORMATION

2016 LBP Million	Retail banking	Corporate banking	Treasury and capital markets	Other[1]	Total
Total assets	**2,712,947**	**5,318,924**	**22,940,507**	**401,213**	**31,373,591**
Total liabilities	**24,303,619**	**1,478,042**	**1,973,408**	**899,087**	**28,654,156**

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**

[1] Other includes all non-banking activities.

GEOGRAPHIC INFORMATION

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

2016 LBP Million	Lebanon	Europe	Other	Total
Total operating income	916,303	37,899	67,088	1,021,290
Net credit gains (losses)	7,302	(3,345)	4,968	8,925
Impairment losses on financial investments	(49,676)	-	-	(49,676)
Net operating income[2]	**873,929**	**34,554**	**72,056**	**980,539**
Non-current assets[3]	**261,783**	**9,614**	**19,377**	**290,774**

2015 LBP Million	Lebanon	Europe	Other	Total
Total operating income	565,601	36,438	85,928	687,967
Net credit losses	(37,849)	(6,273)	(3,786)	(47,908)
Net operating income[2]	**527,752**	**30,165**	**82,142**	**640,059**
Non-current assets[3]	**245,234**	**10,360**	**42,030**	**297,624**

[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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. INTEREST AND SIMILAR INCOME

LBP Million	2016	2015
Balances with central banks	326,669	263,832
Due from banks and financial institutions	16,243	9,053
Loans to banks and financial institutions and reverse repurchase agreements	26,181	36,220
Financial assets given as collateral	2,329	191
Loans and advances to customers at amortized cost	514,775	493,597
Loans and advances to related parties at amortized cost	1,628	1,869
Financial assets at amortized cost	658,097	684,325
	1,545,922	**1,489,087**

9. INTEREST AND SIMILAR EXPENSE

LBP Million	2016	2015
Due to central banks	3,167	2,152
Due to banks and financial institutions	26,136	21,902
Customers' deposits at amortized cost	1,066,168	1,000,647
Deposits from related parties at amortized cost	18,104	15,715
Debt issued and other borrowed funds	31,069	31,124
Subordinated debt	31,480	31,231
	1,176,124	**1,102,771**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. NET FEE AND COMMISSION INCOME

LBP Million	2016	2015
Fee and commission income		
Loans and advances	24,873	23,513
Letters of guarantee	13,584	15,857
Acceptances	5,094	5,996
Letters of credit	14,634	16,517
Credit cards	17,933	15,571
Domiciled bills	2,524	2,503
Checks for collection	3,081	2,904
Maintenance of accounts	13,829	13,048
Transfers	8,621	8,973
Safe rental	1,210	1,168
Portfolio commission	2,989	2,934
Commission on insurance-related activities	9,474	9,124
Refund of banking services	12,958	12,206
Other commissions	3,318	4,201
	134,122	**134,515**
Fee and commission expense	**(12,515)**	**(12,564)**
Net fee and commission income	**121,607**	**121,951**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

LBP Million	2016	2015
Interest and similar income from debt instruments		
Lebanese treasury bills	27,125	11,350
Certificates of deposit issued by the Central Bank of Lebanon	27,991	1,479
Foreign governmental debt securities	26	4
Other debt securities	18	79
	55,160	**12,912**
(Loss) Gain from sale of debt instruments		
Lebanese treasury bills	(2,722)	1,821
Certificates of deposit issued by the Central Bank of Lebanon	(17,519)	274
Foreign governmental debt securities	120	(35)
Other debt securities	39	160
	(20,082)	**2,220**
Unrealized (loss) gain from revaluation of debt instruments		
Lebanese treasury bills	1,061	(6,145)
Certificates of deposit issued by the Central Bank of Lebanon	(6,809)	(175)
Foreign governmental debt securities	-	38
Other debt securities	214	127
	(5,534)	**(6,155)**
Net gain from debt instruments	**29,544**	**8,977**
Equity instruments		
Gain (Loss) from sale	204	(2,471)
Unrealized gain from revaluation	1,807	955
Dividend income	636	573
Net gain (loss) from equity instruments	**2,647**	**(943)**
Unrealized gain from revaluation of structural position of a subsidiary	30,662	35,547
Foreign exchange	21,908	23,862
Fair value of put options on non-controlling interests	(4,791)	-
	79,970	**67,443**

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:

2016 LBP Million	**Gains**	**Losses**	**Net**
Lebanese treasury bills	286,220	(6,757)	279,463
Certificates of deposit issued by the Central Bank of Lebanon	136,003	-	136,003
Foreign governmental debt securities	828	-	828
Other debt securities	1,493	(88)	1,405
	424,544	**(6,845)**	**417,699**

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**

During 2016, the Central Bank of Lebanon bought from the Group long-term treasury bills and certificates of deposit denominated in Lebanese Pounds at prices significantly exceeding their fair value. These transactions were available to banks provided that they are able to reinvest an amount equivalent to the nominal value of the sold instruments in Eurobonds issued by the Lebanese Republic or certificates of deposit issued by the Central Bank of Lebanon denominated in US Dollars and purchased at their fair values. The gains arising from such trades amounted to LBP 271,699 million from the Lebanese Treasury bills portfolio and LBP 130,539 million from the certificates of deposit portfolio.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. OTHER OPERATING INCOME

LBP Million	2016	2015
Net gain from sale of assets obtained in settlement of debt	4,093	856
Rental income from assets obtained in settlement of debt	963	1,118
Write-back of provisions for risks and charges (note 37 (b))	3,073	-
Other operating income from insurance-related activities	16,901	15,141
Other	2,773	3,820
	27,803	**20,935**

14. NET CREDIT GAINS (LOSSES)

LBP Million	2016	2015
Charge for the year		
Loans and advances to customers at amortized cost (note 25)	(29,736)	(36,363)
Balances with central banks (note 19)	-	(35,620)
Bad debts written off	(53)	(137)
	(29,789)	**(72,120)**
Recoveries during the year:		
Loans and advances to customers (note 25)	33,466	17,730
Balances with central banks (note 19)	1,578	-
Unrealized interest on loans and advances to customers (note 25)	3,670	4,911
Financial assets at amortized cost	-	1,571
	38,714	**24,212**
	8,925	**(47,908)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. PERSONNEL EXPENSES

LBP Million	2016	2015
Salaries and related charges	152,816	144,703
Social security contributions	20,635	17,853
Bonuses	15,051	14,831
Provision for end-of-service benefits (note 37 (a))	7,285	3,405
	195,787	**180,792**

16. OTHER OPERATING EXPENSES

LBP Million	2016	2015
Taxes on interest	3,299	3,384
Taxes and duties	6,790	8,568
Contribution to deposit guarantee fund	12,601	11,913
Rent and related charges	6,898	6,433
Professional fees	15,209	11,237
Telecommunications and postage expenses	7,457	7,639
Board of Directors attendance fees	956	1,020
Maintenance and repairs	16,673	15,532
Electricity and fuel	5,839	5,878
Travel and entertainment	3,452	3,750
Publicity and advertising	14,948	12,828
Subscriptions	5,665	3,837
Legal expenses	4,342	3,997
Insurance	1,691	1,699
Guarding fees	2,366	2,175
Printings and stationery	3,293	3,111
Donations	2,460	3,370
Provisions for risks and charges (note 37 (b))	20,733	21,394
Others	10,802	11,422
	145,474	**139,187**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. INCOME TAX EXPENSE

The components of income tax expense for the years ended 31 December 2016 and 2015 are as follows:

LBP Million	2016	2015
Current income tax expense	103,846	48,041
Deferred tax related to origination and reversal of temporary differences	956	536
Other taxes	9,917	4,506
	114,719	**53,083**

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	2016	2015
Profit before tax	**363,954**	**296,520**
Income tax at Lebanese tax rate 15%	**54,593**	**44,478**
Impact of increase resulting from:		
Different tax rates	5,156	3,915
Non-deductible expenses	51,485	6,820
	56,641	**10,735**
Impact of decrease resulting from:		
Revenues previously subject to tax	(2,789)	(1,838)
Unrealized gain from revaluation of structural position of a subsidiary	(4,599)	(5,334)
	(7,388)	**(7,172)**
Income tax	**103,846**	**48,041**
Effective income tax rate	**28.53%**	**16.20%**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

LBP Million	2016	2015
Balance at 1 January	37,724	50,219
Charge for the year	113,763	52,547
Deferred taxes related to deferred revenues (note 36)	22,402	-
Acquisition of a subsidiary	2,783	-
Deconsolidation of subsidiaries	(1,368)	-
	175,304	**102,766**
Less taxes paid:		
Current year tax liability*	(29,498)	(26,384)
Prior years tax liabilities	(24,876)	(38,658)
	(54,374)	**(65,042)**
Balance at 31 December (note 36 (a))	**120,930**	**37,724**

(*) 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:

2016 LBP Million	Deferred tax assets	Deferred tax liabilities
Fair value of financial instruments	593	4,323

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**

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:

	2016	2015
Weighted average number of common shares outstanding during the year (*)	562,891,539	563,022,405

LBP Million	2016	2015
Net profit attributable to equity holders of the parent	232,672	228,185
(Less): proposed dividends to preferred shares	(48,480)	(48,480)
Net profit attributable to equity holders of the parent	**184,192**	**179,705**
Basic earnings per share in LBP	**327.22**	**319.18**

(*) 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:

	2016	2015
Weighted average number of ordinary shares for basic earnings per share	562,891,539	563,022,405
Effect of dilution:		
Convertible subordinated debt	117,200,000	117,200,000
Weighted average number of ordinary shares adjusted for the effect of dilution	**680,091,539**	**680,222,405**

LBP Million	2016	2015
Net profit attributable to equity holders of the parent	184,192	179,705
Interest on convertible debt	31,480	31,231
Less: income tax	(4,722)	(4,685)
Net profit attributable to equity holders of the parent adjusted for the effect of convertible debt	210,950	206,251
Diluted earnings per share in LBP	**310.18**	**303.21**

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	2016	2015
Cash on hand	249,425	260,252
Balances with the Central Bank of Lebanon:		
Current accounts	511,787	706,950
Time deposits	7,707,705	5,965,933
	8,219,492	**6,672,883**
Balances with central banks in other countries:		
Current accounts	221,651	273,834
Time deposits	38,845	15,482
Provision for balances with central banks in other countries (a)	(31,561)	(35,445)
	228,935	**253,871**
Accrued interest receivable	85,240	49,231
	8,783,092	**7,236,237**

(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	2016	2015
At 1 January	35,445	-
Charge for the year (note 14)	-	35,620
Write-back during the year (note 14)	(1,578)	-
Foreign exchange	(2,306)	(175)
At 31 December	**31,561**	**35,445**

Provision for balances with central banks in other countries represents provision amounting to LBP 31,561 million as at 31 December 2016 (2015: LBP 31,546 million) 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 with the Central Bank of Lebanon amounted to LBP 2,650,875 million and LBP 2,661,708 million respectively as at 31 December 2016 (2015: LBP 2,610,080 million and LBP 2,823,076 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 2016, obligatory reserve requirements for banks operating in foreign countries and the related covering time deposits, current accounts, and cash on hand amounted to LBP 47,240 million (2015: LBP 106,711 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. DUE FROM BANKS AND FINANCIAL INSTITUTIONS

LBP Million	2016	2015
Banks		
Current accounts	784,522	767,301
Time deposits	1,868,039	1,739,756
Accrued interest receivable	1,442	1,013
Doubtful bank accounts	1,718	1,766
Provision for doubtful bank accounts	(1,718)	(1,766)
	2,654,003	**2,508,070**
Financial institutions:		
Current accounts	**2,312**	**2,305**
Registered exchange companies:		
Current accounts	243	6,740
Doubtful exchange companies accounts	2,306	1,922
Provision for doubtful exchange companies accounts	(2,306)	(1,922)
	243	**6,740**
Brokerage companies:		
Current accounts	**871**	**1,250**
	2,657,429	**2,518,365**

DOUBTFUL BANKS AND REGISTERED EXCHANGE COMPANIES

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

	2016			2015		
LBP Million	Banks	Registered exchange companies	Total	Banks	Registered exchange companies	**Total**
Balance at 1 January	1,766	1,922	3,688	2,038	1,922	3,960
Acquisition of a subsidiary	-	384	384	-	-	-
Exchange difference	(48)	-	(48)	(272)	-	(272)
Balance at 31 December	**1,718**	**2,306**	**4,024**	**1,766**	**1,922**	**3,688**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

LBP Million	2016	2015
Loans to banks and financial institutions	94,191	167,932
Accrued interest receivable	781	805
	94,972	**168,737**
Discounted acceptances	108,915	91,738
Interest received in advance	(533)	(304)
	108,382	**91,434**
Reverse repurchase agreements	760,411	932,500
Accrued interest receivable	301	4,376
	760,712	**936,876**
	964,066	**1,197,047**

Reverse repurchase agreements held by the Group as at 31 December 2016 and 2015 comprise the following:

	Balance (000)	Balance LBP Million	Average interest rate %	Collateral type	Collateral value LBP Million
31 December 2016					
LBP	**300,636,000**	**300,636**	**3.24**	**BDL CDs**	**285,000**
USD	**301,060**	**453,847**	**1.43**	**BDL CDs**	**452,250**
AMD	**1,899,980**	**5,928**	**5.75**	**Armenian TBs**	**6,180**
31 December 2015					
USD	**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 record a separate asset under reverse repurchase agreement reflecting the transaction's economic substance as a loan by the Group.

As of 31 December 2016, the Group had certificates of deposit issued by the Central Bank of Lebanon with a total nominal amount of USD 300 million and LBP 285,000 million and Armenian Treasury Bills issued by the Armenian government with a total nominal amount of AMD (000) 1,980,896 bought from financial institutions under the agreement to resell them during the first half of 2017 (2015: 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).

Net interest income on the reverse repurchase agreements amounted to LBP 18,208 million for the year ended 31 December 2016 (31 December 2015: LBP 22,573 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. FINANCIAL ASSETS GIVEN AS COLLATERAL

LBP Million	2016	2015
Treasury bills mortgaged in favor of the Central Bank of Lebanon, at amortized cost	222,387	1,387
Accrued interest receivable	1,657	18
	224,044	**1,405**

The balance represents treasury bills pledged as collateral for loans obtained from the Central Bank of Lebanon (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 indicative of neither the market risk, nor the credit risk.

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

	2016			2015		
LBP Million	Assets	Liabilities	Notional amount	Assets	Liabilities	Notional amount
Held for trading						
Currency swaps	1,958	938	194,933	314	392	170,982
Forward foreign exchange contracts	2,462	1,168	115,601	1,530	2,053	236,326
	4,420	**2,106**	**310,534**	**1,844**	**2,445**	**407,308**

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	2016	2015
Quoted		
Lebanese treasury bills – Eurobonds	24,032	216,656
Debt securities issued by banks and financial institutions	2,513	2,440
Equity securities	40,065	35,669
	66,610	**254,765**
Unquoted		
Lebanese treasury bills – denominated in LBP	293,990	10,348
Certificates of deposit issued by the Central Bank of Lebanon – denominated in LBP	428,572	27,714
Corporate bonds	-	3,018
	722,562	**41,080**
	789,172	**295,845**

25. NET LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST

LBP Million	2016	2015
Commercial loans	5,253,773	5,197,877
Consumer loans	2,824,387	2,597,621
	8,078,160	**7,795,498**
Less		
Individual impairment allowances	(158,278)	(183,738)
Collective impairment allowances	(78,643)	(131,448)
Unrealized interest	(53,964)	(80,671)
	7,787,275	**7,399,641**

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 167,558 million as of 31 December 2016 (2015: LBP 118,539 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2016 LBP Million	Commercial loans	Consumer loans	Total
Balance at 1 January	**79,172**	**1,499**	**80,671**
Add (less):			
Unrealized interest for the year	24,122	2,033	**26,155**
Transfer from off financial position	206	1	**207**
Transfer to off financial position	(30,552)	-	**(30,552)**
Recoveries (note 14)	(3,160)	(510)	**(3,670)**
Amounts written off	(7,222)	(41)	**(7,263)**
Acquisition of a subsidiary	12,612	-	**12,612**
Deconsolidation of subsidiaries	(17,713)	(85)	**(17,798)**
Difference of exchange	(6,376)	(22)	**(6,398)**
Balance at 31 December	**51,089**	**2,875**	**53,964**

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**
Transfer from off financial position	661	-	**661**
Transfer 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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2016 LBP Million	Commercial loans	Consumer loans	Total
Balance at 1 January	97,435	86,303	**183,738**
Add (less)			
Charge for the year (note 14)	5,717	18,768	**24,485**
Amounts written off	(2,530)	(380)	**(2,910)**
Recoveries (note 14)	(6,622)	(7,184)	**(13,806)**
Transfer to off financial position	(14,524)	-	**(14,524)**
Transfer from collective impairment allowances	(1,432)	(8)	**(1,440)**
Acquisition of a subsidiary	9,224	-	**9,224**
Deconsolidation of subsidiaries	(19,336)	(600)	**(19,936)**
Difference of exchange	(6,306)	(247)	**(6,553)**
Balance at 31 December	**61,626**	**96,652**	**158,278**
Gross amount of loans individually determined to be impaired	**225,317**	**145,169**	**370,486**

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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2016 LBP Million	Commercial loans	Consumer loans	Total
Balance at 1 January	120,551	10,897	**131,448**
Add (less):			
Charge for the year (note 14)	4,235	1,016	**5,251**
Recoveries (note 14)	(19,660)	-	**(19,660)**
Transfer from individual impairment allowances	1,432	8	**1,440**
Transfer from provisions for risks and charges (note 37)	1,532	-	**1,532**
Acquisition of a subsidiary	798	19	**817**
Deconsolidation of subsidiaries	(21,430)	(26)	**(21,456)**
Difference of exchange	(20,728)	(1)	**(20,729)**
Balance at 31 December	**66,730**	**11,913**	**78,643**

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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. FINANCIAL ASSETS AT AMORTIZED COST

LBP Million	2016	2015
Quoted		
Lebanese treasury bills – Eurobonds	2,099,538	2,038,651
Foreign governmental debt securities	138,113	125,272
Debt securities issued by banks and financial institutions	5,477	225,215
Corporate bonds	635	5,788
	2,243,763	**2,394,926**
Unquoted		
Lebanese treasury bills – denominated in LBP	2,657,946	3,813,756
Certificates of deposit issued by the Central Bank of Lebanon – denominated in LBP	2,525,812	3,503,859
Certificates of deposit issued by the Central Bank of Lebanon – EuroCDs	1,956,230	770,570
Corporate bonds	-	216
Certificates of deposit issued by banks and financial institutions	33,228	33,187
	7,173,216	**8,121,588**
	9,416,979	**10,516,514**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

LBP Million	2016	2015
Quoted shares	44,388	48,241
Unquoted shares	56,917	53,666
	101,305	**101,907**

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

	2016			2015		
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.	29,213	24,025	548	26,647	21,459	462
Intra Investment Company S.A.L.	17,591	4,567	-	17,591	4,567	-
Interbank Payment Network (IPN) S.A.L.	1,363	360	-	1,360	357	51
Arab Trade Financing Program	2,118	626	-	2,118	626	-
Impact Fund	2,237	-	-	1,569	-	-
Others	4,395	333	-	4,381	355	-
Quoted shares:						
Jordan Ahli Bank	44,388	(36,026)	3,865	48,241	(32,173)	3,870
	101,305	**(6,115)**	**4,413**	**101,907**	**(4,809)**	**4,383**

Dividend income amounted to LBP 4,413 million for the year ended 31 December 2016 (2015: LBP 4,383 million) and resulted from equity instruments held at year end (2015: the same).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28. PROPERTY AND EQUIPMENT

2016 LBP Million	Buildings	Motor vehicles	Furniture and equipment	Deposits	Advance payments	Total
Cost:						
At 1 January 2016	265,139	3,135	236,161	687	4,131	**509,253**
Additions	7,083	227	18,091	68	9,542	**35,011**
Transfers	-	-	1,009	(59)	(950)	**-**
Disposals	-	(76)	(949)	-	-	**(1,025)**
Foreign exchange difference	(13,649)	(285)	(5,548)	(8)	-	**(19,490)**
Deconsolidation of subsidiaries	(10,557)	(213)	(5,148)	-	(119)	**(16,037)**
At 31 December 2016	**248,016**	**2,788**	**243,616**	**688**	**12,604**	**507,712**
Depreciation:						
At 1 January 2016	59,894	2,270	191,964	-	-	**254,128**
Depreciation during the year	6,438	297	15,690	-	-	**22,425**
Related to disposals	-	(76)	(583)	-	-	**(659)**
Foreign exchange difference	(3,287)	(304)	(5,032)	-	-	**(8,623)**
Deconsolidation of subsidiaries	(2,458)	(140)	(4,056)	-	-	**(6,654)**
At 31 December 2016	**60,587**	**2,047**	**197,983**	**-**	**-**	**260,617**
Net carrying value:						
At 31 December 2016	**187,429**	**741**	**45,633**	**688**	**12,604**	**247,095**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**

The cost of buildings at 31 December 2016 and 2015 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 Central 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 2016 (2015: the same) (note 43).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29. INTANGIBLE ASSETS

LBP Million	2016	2015
Cost:		
At 1 January and 31 December	2,303	2,303
Accumulated amortization:		
At 1 January	1,810	1,651
Amortization expense for the year	113	159
At 31 December	**1,923**	**1,810**
Net carrying value:		
At 31 December	**380**	**493**

30. ASSETS OBTAINED IN SETTLEMENT OF DEBT

LBP Million	2016	2015
Cost:		
At 1 January	47,165	41,836
Additions	2,836	5,784
Disposals	(1,543)	(455)
At 31 December	**48,458**	**47,165**
Impairment:		
At 1 January and 31 December	(5,159)	(5,159)
Net carrying value:		
At 31 December	**43,299**	**42,006**

Advance payments received in connection with future sale transactions for the above assets amounted to LBP 373 million as of 31 December 2016 (2015: LBP 3,442 million) (note 36).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. OTHER ASSETS

LBP Million		2016	2015
Obligatory deposits	(a)	2,250	15,365
Other assets	(b)	107,595	88,730
Deferred tax assets (note 17)		593	3,906
		110,438	**108,001**

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 consist of the following:

LBP Million	2016	2015
Prepaid rent	3,140	3,270
Printings and stationery	3,415	3,279
Credit card balances due from customers	27,307	17,611
Insurance premiums receivable	4,365	3,301
Reinsurers' share of technical reserves of subsidiary insurance companies	41,025	37,025
Receivables from the National Social Security Fund	12,361	11,487
Other debit balances	15,982	12,757
	107,595	**88,730**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. DUE TO CENTRAL BANKS

LBP Million	2016	2015
Current accounts	2,163	5,297
Time deposits	-	6,245
Loans due to the Central Bank of Lebanon	326,754	103,515
Loan due to the Central Bank of Armenia	2,150	1,997
Accrued interest payable	1,904	358
	332,971	**117,412**

LOANS DUE TO THE CENTRAL BANK OF LEBANON:

- The Group signed a credit agreement with the Central Bank of Lebanon based on the provisions of Decision No. 6116, dated 7 March 1996, relating to the facilities which can be granted by the Central Bank of Lebanon to banks. The balance amounted to LBP 176,622 million as of 31 December 2016 (2015: LBP 102,128 million). The Bank pledged as collateral against this balance certificates of representation signed by the Bank's customers.

- During 2010, the Group 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 2016 (2015: the same) (note 22).

- During 2016, the Group obtained two loans from the Central Bank of Lebanon to finance the merger of the assets and liabilities of Banque Pharaon & Chiha S.A.L. These loans were originally granted in the amount of LBP 221,000 million netted by a discount of LBP 72,255 million as at 31 December 2016 (2015: nil) and are secured by the pledge of Lebanese Treasury bills amounting to LBP 221,000 million included under financial assets given as collateral as of 31 December 2016 (note 22).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. DUE TO BANKS AND FINANCIAL INSTITUTIONS

LBP Million	2016	2015
Banks:		
Current accounts	111,924	81,537
Term loans	164,177	165,484
Time deposits	168,332	223,777
Cash margins	153,710	82,810
Accrued interest payable	2,001	3,131
	600,144	**556,739**
Financial institutions:		
Current accounts	7,118	3,644
Term loans	121,786	149,286
Time deposits	38,473	21,750
Accrued interest payable	1,449	1,518
	168,826	**176,198**
Registered exchange companies:		
Current accounts	462	2,975
Time deposits	4,558	7,024
Accrued interest payable	15	19
	5,035	**10,018**
Brokerage institutions:		
Current accounts	90	102
Time deposits	-	1,488
Accrued interest payable	-	9
	90	**1,599**
	774,095	**744,554**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34. CUSTOMERS' DEPOSITS AT AMORTIZED COST

LBP Million	2016	2015
Current accounts	3,244,752	3,241,519
Term deposits	20,891,474	20,176,288
Cash margins	1,151,475	1,114,643
Accrued interest payable	127,933	121,948
	25,415,634	**24,654,398**

35. DEBT ISSUED AND OTHER BORROWED FUNDS

	Maturity	Interest rate %	2016 LBP Million	2015 LBP Million
Bonds (*)				
Issue 2011	24/06/2021	7.00	443,456	444,583
Accrued interest payable			616	616
			444,072	**445,199**

(*) 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	2016	2015
Accrued expenses	31,216	29,015
Fixed-asset suppliers	624	607
Unearned commission and interest	5,903	5,274
Cash margins related to companies under establishment	1,663	2,220
Insurance premiums received in advance	3,841	3,222
Payables to the National Social Security Fund	2,065	1,851
Advance payments linked to assets obtained in settlement of debt (note 30)	373	3,442
Current tax liability (a)	133,493	50,771
Deferred tax liability (note 17)	4,323	3,273
Put options on non-controlling interests	4,791	18,263
Amounts to be incurred upon acquisition (note 5)	44,083	-
Escrow account (note 5)	5,758	-
Deferred revenues (b)	126,682	-
Other creditors	34,998	29,629
	399,813	**147,567**

(a) Current tax liability

LBP Million	2016	2015
Income tax due (note 17)	120,930	37,724
Withholding tax on salaries	2,210	3,095
Withholding tax on interest earned by customers	6,913	6,717
Value added tax	527	396
Other taxes	2,913	2,839
	133,493	**50,771**

(b) Deferred revenues

During 2016, the Central Bank of Lebanon issued Intermediate Circular No. 446 dated 30 December 2016, relating to the gain realized by banks from certain financial transactions with the Central Bank of Lebanon, consisting of the sale of financial instruments denominated in Lebanese Pounds and the purchase of financial instruments denominated in US Dollars. In accordance with the provisions of this circular, banks should recognize in the income statement only part of the gain net of tax, capped to the extent of the losses recorded to comply with recent regulatory provisioning requirements (refer to note 37), the impairment losses on subsidiaries, and goodwill recorded in accordance with IAS 36 and IFRS 3, respectively, and the shortage needed to comply with the capital adequacy requirements. Lebanese banks may further recognize up to 70% of the remaining balance of the gain realized net of tax in the income statement as non-distributable profits to be appropriated to reserves for capital increase, qualifying for inclusion within regulatory Tier I Common Equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Group did not recognize, in its consolidated income statement, LBP 126,682 million (net of tax) in gains realized from certain financial transactions with the Central Bank of Lebanon. The related taxes amounting to LBP 22,402 million were recorded directly in current tax liability (refer to note 17). The amount recorded as deferred revenues qualifies for inclusion within regulatory Tier 2 Capital in accordance with the provisions of the circular.

37. PROVISIONS FOR RISKS AND CHARGES

LBP Million	2016	2015
Technical reserves of insurance subsidiaries	99,914	94,341
Employees' end-of-service benefits (a)	49,189	45,754
Other provisions (b)	126,287	31,443
	275,390	**171,538**

(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	2016	2015
Balance at 1 January	45,754	46,320
Costs charged to the income statement (note 15):		
Service costs	4,360	4,442
Past service costs	-	(4,522)
Net interest	2,925	3,485
	7,285	**3,405**
Re-measurement losses (gains) in other comprehensive income:		
Experience adjustments	99	(474)
	99	**(474)**
Acquisition of a subsidiary	1,349	-
Deconsolidation of subsidiaries	(753)	-
End-of-service benefits paid during the year	(3,487)	(3,325)
Foreign exchange	(1,058)	(172)
Balance at 31 December	**49,189**	**45,754**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	2016	2015
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 2016 and 2015 is shown as 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						
2016	(1,397)	1,501	2,984	(2,830)	(1,425)	1,377
2015	(1,246)	1,338	2,647	(2,509)	(1,276)	1,236

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	2016	2015
Excess provisions (note 36) (*)	102,480	-
Provision for contingencies	9,661	15,720
Provision for legal claims	4,523	10,254
Other	9,623	5,469
	126,287	**31,443**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(*) During November 2016, the Central Bank of Lebanon issued Intermediate Circular No. 439, which required banks operating in Lebanon to constitute collective provisions equivalent to 2% of consolidated risk-weighted loans and advances to customers. As such, provisions for risks and charges as at 31 December 2016 include an amount of LBP 102,480 million in excess of the provisioning requirements of IAS 39 (2015: nil).

Movement in other provisions during the year was as follows:

LBP Million	2016	2015
At 1 January	31,443	9,035
Charge for the year	123,213	21,394
Acquisition of a subsidiary	1,410	-
Write-back during the year (note 13)	(3,073)	-
Transfer to collective provisions on loans and advances (note 25)	(1,532)	-
Deconsolidation of subsidiaries	(23,848)	-
Foreign exchange	(1,326)	1,014
At 31 December	**126,287**	**31,443**

38. SUBORDINATED DEBT

LBP Million	2016	2015
Nominal value	441,692	441,692
Unamortized discount	(21,690)	(24,455)
Accrued interest payable	163	163
	420,165	**417,400**

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 in subordinated notes convertible into Byblos Bank S.A.L. shares or 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:	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) were 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

	2016			2015		
	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 (2015: 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.

LISTING OF SHARES

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

LBP Million	**Stock exchange**	**2016** No. of shares	**2015** No. of shares
Ordinary shares	Beirut	502,135,490	502,605,340
Global Depository Receipts (*)	London SEAQ and Beirut	1,267,591	1,258,194
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 2016	271,877	65,105	31,618	271,570	175,714	**815,884**
Appropriation from retained earnings	23,158	3,433	-	27,982	7,249	**61,822**
Transfer to retained earnings	(1,881)	-	-	-	(6,569)	**(8,450)**
Net loss on sale of treasury shares	-	(118)	-	-	-	**(118)**
Translation difference	(10,504)	-	-	(969)	(14,345)	**(25,818)**
Balance at 31 December 2016	**282,650**	**68,420**	**31,618**	**298,583**	**162,049**	**843,320**
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**

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 2016, the Group appropriated LBP 23,158 million from 2015 profits to the legal reserve (2015: LBP 24,511 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	2016	2015
Reserve equivalent to gain on sale of assets acquired in settlement of debt	32,339	30,676
Reserve equivalent to provisions recovered	9,737	9,737
Reserve against assets obtained in settlement of debt	16,849	15,079
Reserve against realized gain from liquidation of fixed position	8,870	8,870
Others	625	743
	68,420	**65,105**

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 2016 from the profits of the year 2015 amounted to LBP 27,982 million (2015: LBP 28,596 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 2016, the Group transferred an amount of LBP 4,781 million from retained earnings to other reserves in this respect (2015: LBP 9,039 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. During 2016, the General Assembly Meeting of the Bank allocated an amount of LBP 2,468 million as a reserve for retail loans (2015: LBP 2,695 million).
- As of 31 December 2016, "Other reserves" include reserves of LBP 89,368 million maintained by the subsidiary Byblos Bank Europe to meet several legal limits and requirements (2015: LBP 87,451 million).

41. DISTRIBUTABLE RESERVES

LBP Million	2016	2015
General reserves	102,220	93,789
Other capital reserves	1,026	5,422
	103,246	**99,211**

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	2016	2015
At 1 January	93,789	90,521
Appropriation from retained earnings	5,629	2,047
Acquisition of additional non-controlling interests	(1,861)	-
Reversal of put options on non-controlling interests	4,663	-
Impact from derecognition of non-controlling interests	-	90
Reclassification from non-distributable reserves	-	1,131
At 31 December	**102,220**	**93,789**

OTHER CAPITAL RESERVES

LBP Million	2016	2015
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
	1,026	**5,422**

42. TREASURY SHARES

Movement of treasury shares recognized in the statement of financial position for the years 2016 and 2015 was as follows:

	Common shares		Global Depository Receipts	
YEAR ENDED 31 DECEMBER 2016	No. of shares	Amount USD (000)	No. of shares	Amount USD (000)
At 1 January 2016	2,151,237	3,797	8,690	718
Acquisitions of treasury shares	296,757	494	251	20
Sales of treasury shares	(915,812)	(1,605)	-	-
At 31 December 2016	**1,532,182**	**2,686**	**8,941**	**738**
Total treasury shares in LBP million				**5,161**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2015	Common shares		Global Depository Receipts	
	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**

43. REVALUATION RESERVE OF REAL ESTATE

LBP Million	2016	2015
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	2016	2015
At 1 January	(7,961)	(7,533)
Net changes in fair values during the year	(1,306)	(503)
Net changes in deferred taxes	194	75
Difference on exchange	(8)	-
Balance at 31 December	**(9,081)**	**(7,961)**

45. CASH AND CASH EQUIVALENTS

LBP Million	2016	2015
Cash and balances with central banks	2,087,238	2,129,121
Due from banks and financial institutions	2,568,339	2,410,574
Loans to banks and financial institutions and reverse repurchase agreements	850,346	662,486
	5,505,923	**5,202,181**
Less: Due to central banks	(5,657)	(13,723)
Less: Due to banks and financial institutions	(413,154)	(422,258)
Cash and cash equivalents at 31 December	**5,087,112**	**4,766,200**

46. RELATED PARTY TRANSACTIONS

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

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

Key management personnel are defined as those persons having authority and responsibility for planning, directing, and controlling the activities of the 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 consolidated statement of financial position are as follows as of 31 December:

	31 December 2016			31 December 2015		
LBP Million	Key management personnel	Other	Total	Key management personnel	Other	Total
Due from banks and financial institutions	-	31,227	**31,227**	-	1,803	**1,803**
Loans and advances	6,577	14,137	**20,714**	5,948	29,327	**35,275**
Due to banks and financial institutions	-	93,383	**93,383**	-	44,489	**44,489**
Deposits	104,431	261,596	**366,027**	142,183	283,566	**425,749**
Debt issued and other borrowed funds	977	977	**1,954**	985	985	**1,970**
Subordinated debt	368	17,756	**18,124**	377	18,165	**18,542**
Guarantees received	6,796	5,276	**12,072**	6,062	12,910	**18,972**
Guarantees given	80	423	**503**	80	28	**108**
Commitments (including acceptances)	1,835	2,199	**4,034**	1,403	6,451	**7,854**

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

	31 December 2016			31 December 2015		
LBP Million	Key management personnel	Other	Total	Key management personnel	Other	Total
Interest income on due from banks and financial institutions	-	429	**429**	-	-	**-**
Interest income on loans and advances	342	1,286	**1,628**	319	1,550	**1,869**
Interest expense on deposits	6,781	11,323	**18,104**	8,677	7,038	**15,715**
Interest expense on due to banks and financial institutions	-	1,459	**1,459**	-	1,580	**1,580**
Interest expense on debt issued and other borrowed funds	68	68	**136**	69	69	**138**
Interest expense on subordinated debt	24	1,141	**1,165**	25	1,167	**1,192**
Rent expense	-	544	**544**	-	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 up to USD 50 million. As at 31 December 2016, guarantees issued by the IFC amounted to LBP 27,677 million (2015: LBP 1,639 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

COMPENSATION OF THE KEY MANAGEMENT PERSONNEL OF THE GROUP

LBP Million	2016	2015
Short-term benefits[1]	12,774	11,984

[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.

2016 LBP Million	Banks	Customers	Total
Guarantees and contingent liabilities			
Financial guarantees	-	217,934	**217,934**
Other guarantees	176,854	819,799	**996,653**
	176,854	**1,037,733**	**1,214,587**
Commitments			
Documentary credits	159,909	185,773	**345,682**
Loan commitments	-	2,979,622	**2,979,622**
	159,909	**3,165,395**	**3,325,304**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**

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 2016 and 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 3,952 million as of 31 December 2016 (2015: LBP 6,057 million).

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 has been 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	2016	2015
Within one year	3,546	3,217
After one year but not more than five years	9,333	10,581
More than five years	9,977	11,491
	22,856	**25,289**

OTHER CONTINGENCIES

Certain areas of Lebanese tax legislation are subject to different interpretations in respect of the taxability of certain types of financial transactions and activities. Fiscal years from 2012 to 2015 are currently being reviewed by the Department of Income Tax, the outcome of which cannot be presently determined. Fiscal year 2016 remains open to review by the tax 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	2016	2015
Assets held in custody and under administration	3,068,782	3,120,838

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 that other market participants would use in their valuations, including interest rate yield curve, exchange rates, volatilities, and prepayment and defaults rates.

VALUATION TECHNIQUE USING SIGNIFICANT UNOBSERVABLE INPUTS – LEVEL 3

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2016	Valuation techniques			
	Quoted market price	Observable inputs	Unobservable inputs	
LBP Million	Level 1	Level 2	Level 3	Total
ASSETS				
Derivative financial instruments				
Currency swaps	-	1,958	-	**1,958**
Forward foreign exchange contracts	-	2,462	-	**2,462**
Financial assets at fair value through profit or loss:				
Lebanese treasury bills	24,032	293,990	-	**318,022**
Certificates of deposit issued by the Central Bank of Lebanon	-	428,572	-	**428,572**
Debt securities issued by banks and financial institutions	2,513	-	-	**2,513**
Equity securities	40,065	-	-	**40,065**
Financial assets at fair value through other comprehensive income	44,388	-	56,917	**101,305**
LIABILITIES				
Derivative financial instruments:				
Currency swaps	-	938	-	**938**
Forward foreign exchange contracts	-	1,168	-	**1,168**

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				
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**

There were no transfers between levels during 2016 (2015: 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 has 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	2016	2015
Balance at 1 January	53,666	47,732
Additions	2,133	3,715
Deconsolidation of subsidiaries	(578)	-
Re-measurement recognized in other comprehensive income	1,696	2,219
	56,917	**53,666**

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.

	2016		2015	
LBP Million	Fair value	Carrying value	Fair value	Carrying value
FINANCIAL ASSETS				
Cash and balances with central banks	8,783,092	8,783,092	7,236,237	7,236,237
Due from banks and financial institutions	2,657,429	2,657,429	2,518,365	2,518,365
Loans to banks and financial institutions and reverse repurchase agreements	963,963	964,066	1,197,149	1,197,047
Financial assets given as collateral	225,168	224,044	1,399	1,405
Net loans and advances to customers at amortized cost	7,787,138	7,787,275	7,397,801	7,399,641
Net loans and advances to related parties at amortized cost	20,714	20,714	35,275	35,275
Financial assets at amortized cost				
Lebanese treasury bills	4,733,450	4,757,484	5,861,920	5,852,407
Certificates of deposit issued by the Central Bank of Lebanon	4,535,221	4,482,042	4,350,572	4,274,429
Foreign governmental debt securities	142,680	138,113	130,537	125,272
Debt securities issued by banks and financial institutions	5,336	5,477	225,708	225,215
Corporate bonds	635	635	6,065	6,004
Certificates of deposit issued by banks and financial institutions	33,267	33,228	33,096	33,187
FINANCIAL LIABILITIES				
Due to central banks	332,971	332,971	117,412	117,412
Due to banks and financial institutions	774,095	774,095	744,554	744,554
Customers' deposits at amortized cost	25,488,342	25,415,634	24,718,163	24,654,398
Deposits from related parties at amortized cost	372,577	366,027	430,493	425,749
Debt issued and other borrowed funds	442,941	444,072	447,460	445,199
Subordinated debt	409,989	420,165	417,400	417,400

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 the 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 values 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 2016 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 values 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

2016 LBP Million	Quoted market price Level 1	Valuation techniques Observable inputs Level 2	Valuation techniques Unobservable inputs Level 3	Total
ASSETS FOR WHICH FAIR VALUES ARE DISCLOSED				
Cash and balances with central banks	249,425	8,533,667	-	**8,783,092**
Due from banks and financial institutions	-	2,657,429	-	**2,657,429**
Loans to banks and financial institutions and reverse repurchase agreement	-	963,963	-	**963,963**
Financial assets given as collateral	-	225,168	-	**225,168**
Net loans and advances to customers at amortized cost	-	-	7,787,138	**7,787,138**
Net loans and advances to related parties at amortized cost	-	-	20,714	**20,714**
Financial assets at amortized cost:				
Lebanese treasury bills	2,045,535	2,687,915	-	**4,733,450**
Certificates of deposit issued by the Central Bank of Lebanon	-	4,535,221	-	**4,535,221**
Foreign governmental debt securities	142,680	-	-	**142,680**
Debt securities issued by banks and financial institutions	5,336	-	-	**5,336**
Corporate bonds	419	216	-	**635**
Certificates of deposit issued by banks and financial institutions	-	33,267	-	**33,267**
LIABILITIES FOR WHICH FAIR VALUES ARE DISCLOSED				
Due to central banks	-	332,971	-	**332,971**
Due to banks and financial institutions	-	774,095	-	**774,095**
Customers' deposits at amortized cost	-	25,488,342	-	**25,488,342**
Deposits from related parties at amortized cost	-	372,577	-	**372,577**
Debt issued and other borrowed funds	-	442,941	-	**442,941**
Subordinated debt	-	409,989	-	**409,989**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2015	Quoted market price	Valuation techniques		
		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	-	24,718,163	-	**24,718,163**
Deposits from related parties at amortized cost	-	430,493	-	**430,493**
Debt issued and other borrowed funds	-	447,460	-	**447,460**
Subordinated debt	-	417,400	-	**417,400**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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, interest rate 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 three 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.

Remuneration, Nomination and Corporate Governance Committee: ensures that the Group has coherent remuneration policies and practices, and that proper succession plans for Board members and senior managers are in place. It is also responsible for making sure that corporate governance principles and the code of conduct are well established at the Group to warrant the confidence of shareholders, investors, and other stakeholders.

The above Board Committees are composed of mostly independent, non-executive members, satisfying the applicable best practice requirements. In addition, the Board delegates its day-to-day risk management activities to 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 – General Manager, 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, the Head of the Group Risk Management Division, and the Head of Foreign Banking Units.

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, FX, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Group also has 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, and 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 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 where weaknesses are identified, that 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

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. Mild and severe stress scenarios and sensitivity analysis are undertaken within ICAAP to assess the sufficiency of capital and liquidity in sustaining the Group's operations and business plans in the medium term.

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 I and II 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), ECL (expected credit loss) and UL (unexpected loss). The units under this function develop and support risk-based profitability measurements, risk measurement tools (retail scoring and commercial rating), and risk-related policies.

Asset-Liability and Market Risk Management 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, foreign exchange and securities investment positions, stress tests, and report on breaches to Senior Management and the Board of Directors.

Operational Risk Management (ORM) is responsible for establishing the necessary framework for identifying, measuring, and managing operational risk across the Group. The ORM Unit has established the necessary tools enabling it to derive the risk profile of the Group, starting with spreading the risk culture through regular training, supporting operational risk events reporting and a loss database, conducting operational risk scenarios with the business owners to focus on the high-risk areas and the exposure to capital in a way that supplements the assessment of the regulatory capital charge, and developing a Key Risk Indicator program to establish KRIs that monitor the Group's exposure to key risks. The ORM Unit also facilitates the risk and control assessment (RCA) for the Group's main processes and new products/activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 the 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.

Analytical Level Risk Management: encompasses the 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 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 deriving 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 *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.

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 spotted 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:

- 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 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.

The Group has an established policy to measure and allocate provisions against both incurred losses and the expected credit losses (ECL) that are inherent to the portfolio. The framework covers the impaired and non-impaired credit portfolios. A specific provision is allocated against impaired loans based on the net present value of estimated future cash flows, while abiding by a minimum provision rate based on days in arrears, to ensure that impaired loans are sufficiently covered at all times, regardless of collateral. A collective provision is allocated against non-impaired loans following the use of credit risk rating and scoring systems alongside the measurement of credit components (PD [probability of default], LGD [loss given default], and EAD [exposure at default]), leading to a measurement of ECL against the non-impaired loans. The Group has put in place an action plan to enhance its credit analytics setup to meet the new IFRS 9 impairment standard. Concurrently to its internal credit risk measurement and provision allocation framework, the Group is in full compliance with BDL Circular No. 81 and BCCL Circular No. 280 regarding the allocation of specific and collective provisions and general reserves against loans.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

2016 LBP Million	**Maximum exposure**	**Cash**	**Securities**	**Letters of credit/ guarantees**	**Real estate**	**Net credit exposure**
Balances with central banks	8,533,667	-	-	-	-	8,533,667
Due from banks and financial institutions	2,657,429	(585)	-	-	-	2,656,844
Loans to banks and financial institutions and reverse repurchase agreements	964,066	(23,475)	-	-	-	940,591
Financial assets given as collateral	224,044	-	-	-	-	224,044
Derivative financial instruments	4,420	-	-	-	-	4,420
Financial assets at fair value through profit or loss	749,107	-	-	-	-	749,107
Net loans and advances to customers at amortized cost:						
Commercial loans	5,074,328	(551,117)	(171,283)	(21,708)	(1,032,087)	3,298,133
Consumer loans	2,712,947	(317,054)	-	(326)	(1,470,178)	925,389
Net loans and advances to related parties at amortized cost	20,714	(5,286)	-	-	(3,356)	12,072
Financial assets at amortized cost	9,416,979	-	-	-	-	9,416,979
	30,357,701	**(897,517)**	**(171,283)**	**(22,034)**	**(2,505,621)**	**26,761,246**
Financial guarantees	217,934	(28,698)	-	-	-	189,236
Documentary credits (including acceptances)	569,565	(31,307)	-	-	-	538,258
	31,145,200	**(957,522)**	**(171,283)**	**(22,034)**	**(2,505,621)**	**27,488,740**
Utilized collateral		(957,522)	(171,283)	(22,034)	(2,505,621)	
Surplus of collateral before undrawn credit lines		(349,543)	(553,438)	(57,220)	(1,976,340)	
Guarantees received from banks, financial institutions and customers		**(1,307,065)**	**(724,721)**	**(79,254)**	**(4,481,961)**	

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LBP 2,979,622 million as at 31 December 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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)	(810,712)	3,339,202
Consumer loans	2,498,922	(276,694)	-	-	(1,124,460)	1,097,768
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)**	**(1,937,946)**	**25,903,206**
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)**	**(1,939,463)**	**26,669,562**
Utilized collateral		(890,367)	(211,463)	(34,723)	(1,939,463)	
Surplus of collateral before undrawn credit lines		(316,126)	(398,624)	(70,137)	(2,077,197)	
Guarantees received from banks, financial institutions and customers		**(1,206,493)**	**(610,087)**	**(104,860)**	**(4,016,660)**	

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.

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:
In some cases, the Group holds 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):
In some cases, the Group holds 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.

2016	Neither past due nor impaired				
LBP Million	High grade	Standard grade	Past due but not impaired	Individually impaired	Total
Balances with central banks	8,372,200	161,987	-	31,041	**8,565,228**
Due from banks and financial institutions	2,195,741	461,688	-	4,024	**2,661,453**
Loans to banks and financial institutions and reverse repurchase agreements	799,221	164,845	-	-	**964,066**
Financial assets given as collateral	224,044	-	-	-	**224,044**
Derivative financial instruments	4,420	-	-	-	**4,420**
Financial assets at fair value through profit or loss:					
Lebanese Treasury bills	318,022	-	-	-	**318,022**
Certificates of deposit issued by the Central Bank of Lebanon	428,572	-	-	-	**428,572**
Debt securities issued by banks and financial institutions	2,513	-	-	-	**2,513**
Net loans and advances to customers at amortized cost:					
Commercial loans	4,831,212	129,872	67,372	225,317	**5,253,773**
Consumer loans	2,460,500	18,815	199,903	145,169	**2,824,387**
Net loans and advances to related parties at amortized cost	20,714	-	-	-	**20,714**
Debtors by acceptances	193,801	30,082	-	-	**223,883**
Financial assets at amortized cost:					
Lebanese treasury bills	4,757,484	-	-	-	**4,757,484**
Certificates of deposit issued by the Central Bank of Lebanon	4,482,042	-	-	-	**4,482,042**
Foreign governmental debt securities	65,684	72,429	-	-	**138,113**
Debt securities issued by banks and financial institutions	5,477	-	-	-	**5,477**
Corporate bonds	635	-	-	-	**635**
Certificates of deposit issued by banks and financial institutions	3,033	30,195	-	-	**33,228**
	29,165,315	**1,069,913**	**267,275**	**405,551**	**30,908,054**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 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	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

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

2016 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	27,474	22,486	17,412	67,372
Consumer loans	194,922	1,897	3,084	199,903
	222,396	**24,383**	**20,496**	**267,275**

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	171,735	1,879	2,514	**176,128**
	199,878	**38,108**	**23,097**	**261,083**

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:

2016 LBP Million	**Gross balance**	**Unrealized interest**	**Impairment allowances**	**Net balance**
Regular	6,970,892	-	-	6,970,892
Follow-up	539,426	-	-	539,426
Follow-up and regularization	197,356	-	-	197,356
Substandard	69,985	(5,757)	-	64,228
Doubtful	199,812	(24,801)	(80,995)	94,016
Bad	100,689	(23,406)	(77,283)	-
	8,078,160	**(53,964)**	**(158,278)**	**7,865,918**
Collective impairment	(78,643)	-	-	(78,643)
	7,999,517	**(53,964)**	**(158,278)**	**7,787,275**

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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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	2016	2015
Commercial loans	31,517	78,445

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 2016 was LBP 121,630 million (2015: LBP 128,850 million) before taking account of collateral or other credit enhancements and nil (2015: nil) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GEOGRAPHIC ANALYSIS

2016 LBP Million	**Lebanon**	**Europe**	**Others**	**Total**
Balances with central banks	8,304,723	70,120	158,824	**8,533,667**
Due from banks and financial institutions	63,684	913,078	1,680,667	**2,657,429**
Loans to banks and financial institutions and reverse repurchase agreements	780,495	48,103	135,468	**964,066**
Financial assets given as collateral	224,044	-	-	**224,044**
Derivative financial instruments	1,935	920	1,565	**4,420**
Financial assets at fair value through profit or loss:				
Lebanese treasury bills	318,022	-	-	**318,022**
Certificates of deposit issued by the Central Bank of Lebanon	428,572	-	-	**428,572**
Debt securities issued by banks and financial institutions	-	787	1,726	**2,513**
Net loans and advances to customers at amortized cost				
Commercial loans	4,339,119	184,356	550,852	**5,074,327**
Consumer loans	2,576,999	42,708	93,241	**2,712,948**
Net loans and advances to related parties at amortized cost	19,554	577	583	**20,714**
Debtors by acceptances	193,664	2,312	27,907	**223,883**
Financial assets at amortized cost:				
Lebanese treasury bills	4,757,484	-	-	**4,757,484**
Certificates of deposit issued by the Central Bank of Lebanon	4,482,042	-	-	**4,482,042**
Foreign governmental debt securities	-	138,113	-	**138,113**
Debt securities issued by banks and financial institutions	-	5,477	-	**5,477**
Corporate bonds	-	635	-	**635**
Certificates of deposit issued by banks and financial institutions	33,228	-	-	**33,228**
	26,523,565	**1,407,186**	**2,650,833**	**30,581,584**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2015 LBP Million	Lebanon	Europe	Others	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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

50.3 LIQUIDITY RISK AND FUNDING MANAGEMENT

Liquidity risk is the risk that the Group, though solvent, either does not have sufficient financial resources available to enable it to meet its obligations when they fall due, or can secure them only at an excessive cost. The Group's policy with regard to liquidity risk management is centered on a conservative approach, whereby liquidity is managed strongly in normal times and adequate liquidity buffers are maintained, in a way that enables the Group to withstand a prolonged period of liquidity stress.

Net immediate cash and near cash in foreign currencies are held at sight in prime international banks to keep Net Immediate Liquidity above the tolerance level defined by the Board of Directors at all times.

In September 2015, the Group updated its Liquidity Risk Policy to include Liquidity Standards such as the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), based on Basel III and its own conservative assumptions. The LCR is kept well above the established internal minimum, ensuring that the Group maintains High Quality Liquid Assets (HQLAs), both in local and foreign currencies, which allow the Group to cover more than %100 of a potentially stressed net outflow in a liquidity crisis based on severe internal estimates and haircuts. The NSFR is designed to ensure that long-term assets are funded with at least a minimum amount of stable resources in relation to their liquidity characteristics.

Moreover, the policy defined a set of Early Warning Indicators (EWIs) along with other liquidity ratios and monitoring tools that are continuously screened by Senior Management and the Board of Directors.

The Group stresses the importance of customers' deposits as 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.

	2016	2015
Loans to deposits		
Year-end	30.29%	29.64%
Maximum	30.29%	29.92%
Minimum	29.19%	29.26%
Average	29.69%	29.52%

ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY REMAINING CONTRACTUAL MATURITIES

The table below summarizes the maturity profile of the Group's financial assets and liabilities at 31 December 2016 and 2015 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

2016 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	1,551,462	544,930	1,173,883	3,702,866	4,954,806	**11,927,947**
Due from banks and financial institutions	2,048,400	521,382	80,257	9,596	203	**2,659,838**
Loans to banks and financial institutions and reverse repurchase agreements	796,338	54,350	97,578	17,995	-	**966,261**
Financial assets given as collateral	-	-	17,392	64,161	236,652	**318,205**
Derivative financial instruments	2,859	369	1,192	-	-	**4,420**
Financial assets at fair value through profit or loss	74,447	178,433	215,023	306,310	54,253	**828,466**
Net loans and advances to customers at amortized cost	3,223,783	456,343	1,154,824	2,156,188	1,744,180	**8,735,318**
Net loans and advances to related parties at amortized cost	11,534	627	923	1,530	7,368	**21,982**
Debtors by acceptances	60,943	87,316	63,108	12,516	-	**223,883**
Financial assets at amortized cost	123,661	560,066	1,162,488	5,197,240	5,196,700	**12,240,155**
Financial assets at fair value through other comprehensive income	-	-	-	-	101,305	**101,305**
Total undiscounted financial assets	**7,893,427**	**2,403,816**	**3,966,668**	**11,468,402**	**12,295,467**	**38,027,780**
FINANCIAL LIABILITIES						
Due to central banks	4,173	2,817	17,343	110,460	245,631	**380,424**
Due to banks and financial institutions	341,787	76,087	181,465	139,956	72,775	**812,070**
Derivative financial instruments	1,606	69	431	-	-	**2,106**
Customers' deposits at amortized cost	13,976,802	3,232,429	5,188,030	3,251,312	454,281	**26,102,854**
Deposits from related parties at amortized cost	138,818	6,347	216,932	32,589	8,416	**403,102**
Debt issued and other borrowed funds	-	-	31,658	554,257	-	**585,915**
Engagements by acceptances	60,943	87,316	63,108	12,516	-	**223,883**
Subordinated debt	-	7,257	21,371	115,003	447,308	**590,939**
Total undiscounted financial liabilities	**14,524,129**	**3,412,322**	**5,720,338**	**4,216,093**	**1,228,411**	**29,101,293**
Net undiscounted financial assets/(liabilities)	**(6,630,702)**	**(1,008,506)**	**(1,753,670)**	**7,252,309**	**11,067,056**	**8,926,487**

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	14,040,264	3,075,092	4,831,504	3,023,720	292,080	**25,262,660**
Deposits from related parties at amortized cost	288,210	19,208	100,932	42,224	5,152	**455,726**
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

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.

2016 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	-	68	114,711	103,093	62	**217,934**
Documentary credits	20,212	166,831	145,585	13,054	-	**345,682**
Commitments to lend	2,979,622	-	-	-	-	**2,979,622**
	2,999,834	**166,899**	**260,296**	**116,147**	**62**	**3,543,238**

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**

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.

The 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 keeps the management of the portfolio within the bounds of good banking practices, satisfies the Group's liquidity needs, and ensures 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 increase and decrease of market interest rates and assessing their impact(s) on net interest income (Earnings perspective) and capital (Economic Value perspective). In 2015, the Bank 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 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.

		2016	2015
Currency	**Increase In basis points**	**Effect on net interest income LBP Million**	**Effect on net interest income LBP Million**
LBP	50 basis point	(20,705)	(22,793)
USD	50 basis point	1,165	1,326
EUR	50 basis point	(1,170)	(516)

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:

2016 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	538,665	527,625	829,125	2,304,412	3,546,722	1,036,543	**8,783,092**
Due from banks and financial institutions	1,258,325	519,850	79,746	9,915	203	789,390	**2,657,429**
Loans to banks and financial institutions and reverse repurchase agreements	795,622	54,237	95,962	17,696	-	549	**964,066**
Financial assets given as collateral	-	-	-	1,387	221,000	1,657	**224,044**
Derivative financial instruments	-	-	-	-	-	4,420	**4,420**
Financial assets at fair value through profit or loss	-	-	-	-	-	789,172	**789,172**
Net loans and advances to customers at amortized cost	3,212,058	694,235	2,277,152	1,174,183	246,275	183,372	**7,787,275**
Net loans and advances to related parties at amortized cost	11,807	1,277	2,378	361	4,891	-	**20,714**
Debtors by acceptances	-	-	-	-	-	223,883	**223,883**
Financial assets at amortized cost	79,781	412,023	741,296	3,539,152	4,509,203	135,524	**9,416,979**
Financial assets at fair value through other comprehensive income	-	-	-	-	-	101,305	**101,305**
Total	**5,896,258**	**2,209,247**	**4,025,659**	**7,047,106**	**8,528,294**	**3,265,815**	**30,972,379**
LIABILITIES							
Due to central banks	681	2,816	12,626	86,148	226,633	4,067	**332,971**
Due to banks and financial institutions	258,830	73,379	132,771	119,584	66,472	123,059	**774,095**
Derivative financial instruments	-	-	-	-	-	2,106	**2,106**
Customers' deposits at amortized cost	11,262,765	3,136,856	4,808,987	3,158,236	376,972	2,671,818	**25,415,634**
Deposits from related parties at amortized cost	104,927	8,582	217,435	13,712	1,018	20,353	**366,027**
Debt issued and other borrowed funds	-	-	-	443,456	-	616	**444,072**
Engagements by acceptances	-	-	-	-	-	223,883	**223,883**
Subordinated debt	-	-	-	-	420,001	164	**420,165**
Total	**11,627,203**	**3,221,633**	**5,171,819**	**3,821,136**	**1,091,096**	**3,046,066**	**27,978,953**
Total interest sensitivity gap	**(5,730,945)**	**(1,012,386)**	**(1,146,160)**	**3,225,970**	**7,437,198**	**219,749**	**2,993,426**

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	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	11,167,392	2,997,348	4,651,259	2,696,558	248,893	2,892,948	**24,654,398**
Deposits from related parties at amortized cost	257,194	17,623	93,725	25,548	890	30,769	**425,749**
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	**11,646,996**	**3,082,657**	**4,865,830**	**2,917,821**	**1,237,292**	**3,301,266**	**27,051,862**
Total interest sensitivity gap	**(5,697,739)**	**(1,661,219)**	**(249,926)**	**4,575,132**	**5,924,214**	**(393,539)**	**2,496,923**

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 2016 detailed in Lebanese Pounds (LBP) and foreign currencies, translated into LBP.

2016 LBP Million	Local currency	Foreign currencies	Total
ASSETS			
Cash and balances with central banks	2,621,537	6,161,555	**8,783,092**
Due from banks and financial institutions	33,547	2,623,882	**2,657,429**
Loans to banks and financial institutions and reverse repurchase agreements	301,530	662,536	**964,066**
Financial assets given as collateral	224,044	-	**224,044**
Derivative financial instruments	3,943	477	**4,420**
Financial assets at fair value through profit or loss	722,562	66,610	**789,172**
Net loans and advances to customers at amortized cost	2,071,913	5,715,362	**7,787,275**
Net loans and advances to related parties at amortized cost	2,189	18,525	**20,714**
Debtors by acceptances	-	223,883	**223,883**
Financial assets at amortized cost	5,183,758	4,233,221	**9,416,979**
Financial assets at fair value through other comprehensive income	31,470	69,835	**101,305**
Property and equipment	222,156	24,939	**247,095**
Intangible assets	380	-	**380**
Assets obtained in settlement of debt	(8,393)	51,692	**43,299**
Other assets	80,906	29,532	**110,438**
TOTAL ASSETS	**11,491,542**	**19,882,049**	**31,373,591**
LIABILITIES AND EQUITY			
Due to central banks	330,552	2,419	**332,971**
Due to banks and financial institutions	29,369	744,726	**774,095**
Derivative financial instruments	1,561	545	**2,106**
Customers' deposits at amortized cost	9,491,880	15,923,754	**25,415,634**
Deposits from related parties at amortized cost	72,248	293,779	**366,027**
Debt issued and other borrowed funds	-	444,072	**444,072**
Engagement by acceptances	-	223,883	**223,883**
Other liabilities	268,525	131,288	**399,813**
Provisions for risks and charges	262,139	13,251	**275,390**
Subordinated debt	-	420,165	**420,165**
TOTAL LIABILITIES	**10,456,274**	**18,197,882**	**28,654,156**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2016 LBP Million	Local currency	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	451,800	391,520	**843,320**
Distributable reserves	84,175	19,071	**103,246**
Treasury shares	-	(5,161)	**(5,161)**
Retained earnings	68,067	(549)	**67,518**
Revaluation reserve of real estate	5,689	-	**5,689**
Change in fair value of financial assets at fair value through other comprehensive income	21,027	(30,108)	**(9,081)**
Net results of the financial period – profit	42,408	190,264	**232,672**
Foreign currency translation reserves	(65,341)	-	**(65,341)**
NON-CONTROLLING INTERESTS	29,497	7,866	**37,363**
TOTAL EQUITY	**1,326,435**	**1,393,000**	**2,719,435**
TOTAL LIABILITIES AND EQUITY	**11,782,709**	**19,590,882**	**31,373,591**

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 currency	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	9,616,252	15,038,146	**24,654,398**
Deposits from related parties at amortized cost	101,929	323,820	**425,749**
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 currency	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**

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 exchange 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.

		2016		2015	
Currency	Change in exchange rate	**Effect on profit before tax**	**Effect on equity**	**Effect on profit before tax**	**Effect on equity**
USD	+1	191	-	671	-
EUR	+1	(2)	1,261	37	1,285

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 levels 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% increase in the value of the Group's equities at 31 December 2016 would have increased other comprehensive income by LBP 2,219 million and net income by LBP 2,003 million (2015: LBP 2,412 million and LBP 1,783 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, or 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, and/or lead to financial losses.

To reduce operational risk, the Group has developed an Operational Risk Management framework with the objective of ensuring that within the component of the framework is a set of core operational risk policies designed to ensure that operational risk has proper governance, and that it is maintained at an acceptable level with a controlled and sound operating environment. The operational risk publications and guidelines have been placed on the Bank's intranet site for quick access and referrals. The critical operational risk issues are handled by a separate Operational Risk Committee whose meetings are attended by business lines' Senior Managers, 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 event reporting and loss database management, and Key Risk Indicators (KRIs). The RCA is performed 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 timely resolve deficiencies. 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 KRIs, they are established to facilitate the operational risk monitoring in a forward-looking manner with pre-defined escalation triggers. The Group gives particular attention to preventive 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, whereby the former is set to oversee the business continuity of essential business service during unforeseen events, mainly business disruption 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, 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			
2016 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	1,547,936	539,302	876,281	2,963,519	2,304,412	3,515,161	5,819,573	**8,783,092**
Due from banks and financial institutions	2,047,873	520,466	79,291	2,647,630	9,596	203	9,799	**2,657,429**
Loans to banks and financial institutions and reverse repurchase agreements	796,152	54,194	96,024	946,370	17,696	-	17,696	**964,066**
Financial assets given as collateral	-	-	1,652	1,652	1,387	221,005	222,392	**224,044**
Derivative financial instruments	2,859	369	1,192	4,420	-	-	-	**4,420**
Financial assets at fair value through profit or loss	73,403	165,524	197,599	436,526	298,952	53,694	352,646	**789,172**
Net loans and advances to customers at amortized cost	3,200,519	411,629	993,245	4,605,393	1,714,221	1,467,661	3,181,882	**7,787,275**
Net loans and advances to related parties at amortized cost	11,530	602	811	12,943	1,054	6,717	7,771	**20,714**
Debtors by acceptances	60,943	87,316	63,108	211,367	12,516	-	12,516	**223,883**
Financial assets at amortized cost	95,255	458,038	735,323	1,288,616	3,603,202	4,525,161	8,128,363	**9,416,979**
Financial assets at fair value through other comprehensive income	-	-	-	-	-	101,305	101,305	**101,305**
Property and equipment	-	-	-	-	-	247,095	247,095	**247,095**
Intangible assets	-	-	-	-	-	380	380	**380**
Assets obtained in settlement of debt	-	-	-	-	-	43,299	43,299	**43,299**
Other assets	8,336	-	81,041	89,377	-	21,061	21,061	**110,438**
TOTAL ASSETS	**7,844,806**	**2,237,440**	**3,125,567**	**13,207,813**	**7,963,036**	**10,202,742**	**18,165,778**	**31,373,591**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2016 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	2,836	2,821	13,212	18,869	87,469	226,633	314,102	**332,971**
Due to banks and financial institutions	339,376	73,778	174,885	588,039	119,584	66,472	186,056	**774,095**
Derivative financial instruments	1,606	69	431	2,106	-	-	-	**2,106**
Customers' deposits at amortized cost	13,746,913	3,170,698	4,961,442	21,879,053	3,159,608	376,973	3,536,581	**25,415,634**
Deposits from related parties at amortized cost	138,461	5,031	207,806	351,298	13,712	1,017	14,729	**366,027**
Debt issued and other borrowed funds	-	-	616	616	443,456	-	443,456	**444,072**
Engagements by acceptances	60,943	87,316	63,108	211,367	12,516	-	12,516	**223,883**
Other liabilities	52,146	18,579	165,601	236,326	126,682	36,805	163,487	**399,813**
Provisions for risks and charges	-	-	-	-	-	275,390	275,390	**275,390**
Subordinated debt	-	163	408	571	-	419,594	419,594	**420,165**
TOTAL LIABILITIES	**14,342,281**	**3,358,455**	**5,587,509**	**23,288,245**	**3,963,027**	**1,402,884**	**5,365,911**	**28,654,156**
NET	**(6,497,475)**	**(1,121,015)**	**(2,461,942)**	**(10,080,432)**	**4,000,009**	**8,799,858**	**12,799,867**	**2,719,435**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2015 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	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

2015 LBP Million	Less than 12 months Up to 1 month	1 to 3 months	3 months to 1 year	Total	Over 12 months 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	14,011,945	3,022,276	4,655,746	21,689,967	2,714,026	250,405	2,964,431	**24,654,398**
Deposits from related parties at amortized cost	287,590	17,707	93,939	399,236	25,613	900	26,513	**425,749**
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

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.

During 2016, the Central Bank of Lebanon issued Intermediary Circular No. 436, by which it amended Basic Circular No. 44 relating to minimum Capital Adequacy Ratios (CAR). These ratios are set to increase gradually between December 2016 and December 2018 to reach 10.0%, 13.0%, and 15.0% for Common Equity Tier 1 (CET1), Tier 1, and Total CAR, respectively, in 2018, including a capital conservation buffer of 4.5% in 2018. The following table shows the applicable regulatory capital ratios from end-2015 to end-2018:

%	Common Tier 1 capital ratio	Tier 1 capital ratio	Total capital ratio
Year ended 31 December 2015 (*)	8.0%	10.0%	12.0%
Year ended 31 December 2016 (*)	8.5%	11.0%	14.0%
Year ended 31 December 2017 (*)	9.0%	12.0%	14.5%
Year ended 31 December 2018 (*)	10.0%	13.0%	15.0%

(*) Includes Capital Conservation Buffer (CCB). This CCB, which will reach 4.5% of risk-weighted assets by end-2018, must be met through Common Equity Tier 1 capital.

RISK-WEIGHTED ASSETS

As of 31 December 2016 and 2015, risk-weighted assets are as follows:

LBP Million	2016	2015
Risk-weighted assets	**16,269,178**	**15,517,339**

REGULATORY CAPITAL

As at 31 December 2016 and 2015, regulatory capital consists of the following:

	Excluding profit for the year		Including profit for the year less proposed dividends	
LBP Million	2016	2015	2016	2015
Common Equity Tier 1 capital	1,775,378	1,625,342	1,846,499	1,678,744
Additional Tier 1 capital	596,516	599,978	596,516	599,978
Tier 2 capital	615,089	466,551	615,089	466,551
Total capital	**2,986,983**	**2,691,871**	**3,058,104**	**2,745,273**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CAPITAL ADEQUACY RATIO

As of 31 December 2016 and 2015, capital adequacy ratio is as follows:

	Excluding profit for the year		Including profit for the year less proposed dividends	
	2016	**2015**	**2016**	**2015**
Common Equity Tier 1 capital ratio	10.91%	10.47%	11.35%	10.82%
Total Tier 1 capital ratio	14.58%	14.34%	15.02%	14.69%
Total capital ratio	**18.36%**	**17.35%**	**18.80%**	**17.69%**

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	**2016**	**2015**
Dividends paid during the year		
Equity dividends on ordinary shares: LBP 200 per share	113,103	113,103
Distributions to preferred shares – 2008 series: USD 8.00 per share	24,224	24,224
Distributions to preferred shares – 2009 series: USD 8.00 per share	24,224	24,224
	161,551	**161,551**
Less: dividends on treasury shares	(491)	(448)
	161,060	**161,103**
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 preferred shares – 2008 series: USD 8.00 per share	24,224	24,224
Distributions to preferred shares – 2009 series: USD 8.00 per share	24,224	24,224
	161,551	**161,551**

54. COMPARATIVE INFORMATION

Certain deposits to related parties have been reclassified from "Customers' deposits at amortized cost" to "Deposits from related parties at amortized cost" in the consolidated statement of financial position. Comparative amounts of LBP 4,033 million have been reclassified accordingly.

HELD ON 28 APRIL 2017

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 2016.

SECOND RESOLUTION

The Ordinary General Assembly decides to allocate the non-consolidated profits (in LBP million) of the fiscal year 2016, as suggested by the Board of Directors, as follows:

2016 Non Consolidated Net Income	233,851
Less:	
Appropriation to the required reserves:	
Appropriation to Legal Reserves	(23,642)
Appropriation to Reserves for Capital Increase as per Central Bank Circular No. 446	(43,130)
Appropriation to Reserves for Capital Increase – gains on disposal of foreclosed properties as per Banking Control Commission Circular No. 173	(4,100)
Appropriation to Reserves for Foreclosed Properties	(2,334)
Appropriation to General Reserve for Retail Loan Portfolio as per Banking Control Commission Circular No. 280	(3,129)
Less:	
Dividends – Preferred Shares Series 2008	(24,224)
Dividends – Preferred Shares Series 2009	(24,224)
Dividends – Common Shares	(113,103)
Add:	
Retained Earnings 2015	10,930
Retained Earnings 2016	**6,896**
of which distributable	2,588

THIRD RESOLUTION

The Ordinary General Assembly decides to grant discharge to the Chairman and Board members for their duties during the fiscal year 2016.

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:

1. To approve the credits effectively used during the year 2016 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 to which some Board members belong, as shown in the special reports of the Board of Directors and the Statutory auditors.

2. 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 2017 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.

3. 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 440 million Lebanese Pounds for the year 2017, 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 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 2017 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 2016, as mentioned in the Board of Directors special report, and approves as well to pay them the amounts mentioned in the same report for 2017.

The Ordinary General Assembly approves the fees paid to the members and chairmen of the Board Audit and Risk committees for 2016 and approves that said members and chairmen, and members of the Board Compliance Committee and the Board Remuneration, Nomination and Corporate Governance Committee, receive fees for the fiscal year 2017 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 2017, at 1,250 million Lebanese Pounds for auditing and reviewing the stand-alone and consolidated financial statements.

BYBLOS BANK S.A.L.

ANNUAL REPORT 2016

DIRECTORY

PRIMARY CORRESPONDENT BANKS

Country	City	Bank Name
Australia	Sydney	Westpac Banking Corporation
Belgium	Brussels	Byblos Bank Europe S.A., KBC Bank NV
Denmark	Copenhagen	Danske Bank A/S
France	Paris	Société Générale, Natixis S.A.
Germany	Frankfurt	Commerzbank AG, Deutsche Bank AG
Italy	Milan	UniCredit SpA, Intesa Sanpaolo SpA
Japan	Tokyo	Sumitomo Mitsui Banking Corporation
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 AG
Turkey	Istanbul	Yapi Ve Kredi Bankasi AS
UAE	Dubai	Emirates NBD PJSC, MashreqBank PSC
UK	London	Barclays Bank PLC, Standard Chartered Bank
USA	New York	The Bank of New York Mellon, Citibank NA, Standard Chartered Bank

GROUP ADDRESSES

Head Office:

BYBLOS BANK HEADQUARTERS

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Lebanon

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Fax:	(+961) 1 334554
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Cable:	BYBLOBANK
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
Aley Branch
Baabda Branch
Badaro Branch
Furn El Chebbak Branch
Hazmieh Branch
Sin El Fil 1 Branch

Batroun and Koura Regional Management

Batroun Branch
Bechmezzine Branch
Chekka Branch
Kousba Branch
Zghorta Branch

Beirut 1 Regional Management

Chiyah Branch
Choueifat Branch
Deir El Kamar Branch
Ghobeiry Branch
Haret Hreik Branch
Jnah Branch
Kabrchmoun Branch
Verdun Branch
Verdun Moussaitbeh Branch

Beirut 2 Regional Management

Abd El Wahab El Inglizi Branch
Ashrafieh Geitawi Branch
Ashrafieh Gemmayzeh Branch
Ashrafieh Sioufi Branch
Ashrafieh St. Nicolas Branch
Ashrafieh Tabaris Branch
Place de l'Etoile Branch

GROUP ADDRESSES

Bekaa Regional Management

Bar Elias Branch
Jdita Branch
Jeb Jannine Branch
Ras El Metn Branch
Zahleh 1 Branch
Zahleh 2 Branch

Jbeil Regional Management

Amchit Branch
Jbeil 1 Branch
Jbeil 2 Branch
Mastita/Blat Branch
Okaybeh Branch
Tabarja/Kfaryassine Branch

Keserwan Regional Management

Adma Branch
Haret Sakhr Branch
Jounieh Branch
Kaslik Branch
Kfarhbab Branch
Reyfoun Branch
Zouk Branch
Zouk Mkayel Branch

Main Branch Regional Management

Ashrafieh Sassine Branch

Metn 1 Regional Management

Antelias 1 Branch
Antelias 2 Branch
Baabdat Branch
Dbayeh Branch
Elyssar/Mazraat Yachouh Branch
Jal El Dib Branch
Mtayleb Branch

Metn 2 Regional Management

Aya/Dora Branch
Bourj Hammoud Branch
Dekwaneh Branch
Dora Branch
Dora Mar Youssef Branch
Jdeideh 1 Branch
Jdeideh 2 Branch
Mansourieh Branch
Sin El Fil 2 Branch

North Regional Management

Halba Branch
Kobayat Branch
Tripoli Boulevard Branch
Tripoli Mina Branch
Tripoli Tall Branch

Ras Beirut Regional Management

Bechara Al Khoury Branch
Bliss Branch
Clemenceau Branch
Hamra Branch
Hamra Sadat Branch
Istiklal Branch
Mar Elias Branch
Mazraa 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 Armenia C.J.S.C. with branches in Amiryan and Komitas

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

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
United Arab Emirates
Iraq
Nigeria
Democratic Republic of the Congo

WWW.BYBLOSBANK.COM