BYBLOS BANK

ANNUAL REPORT 2017

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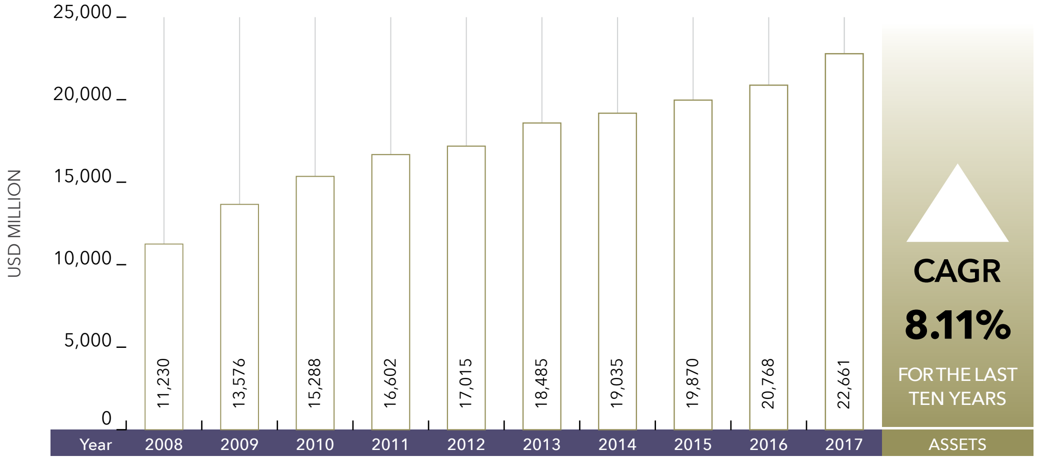

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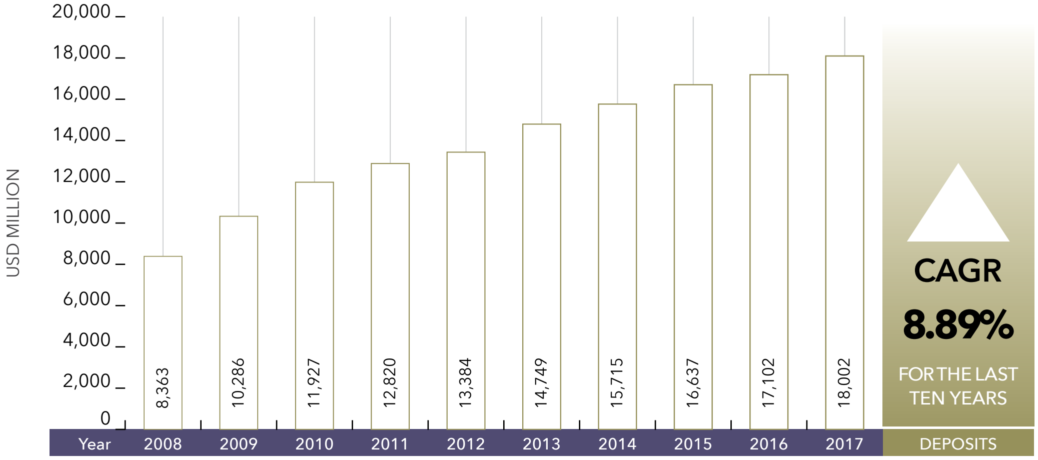

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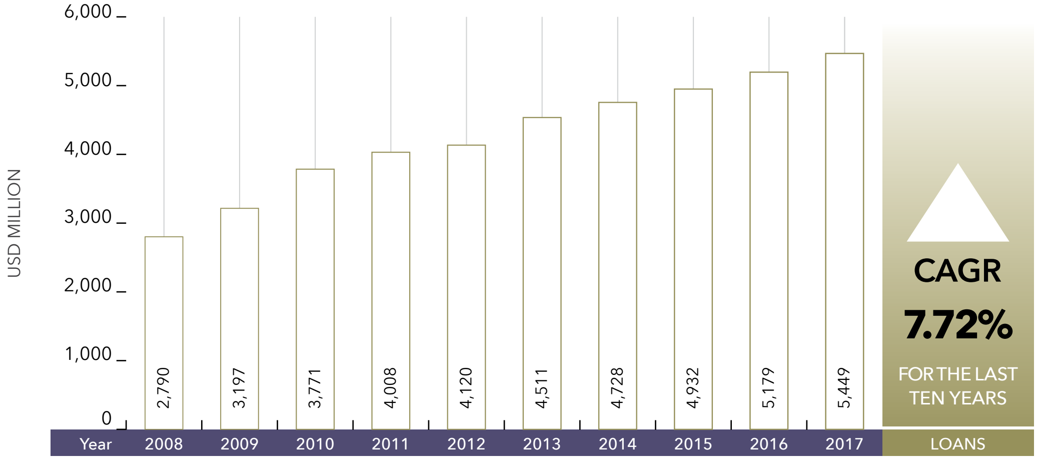

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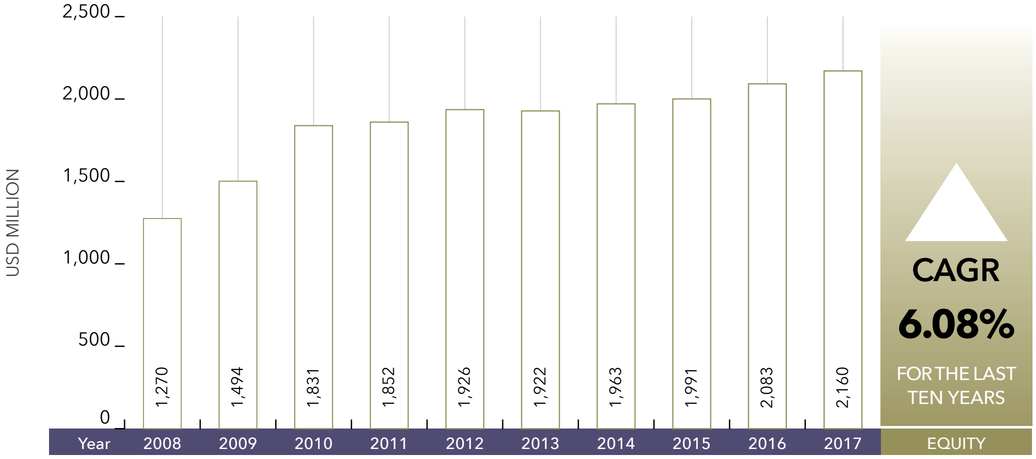

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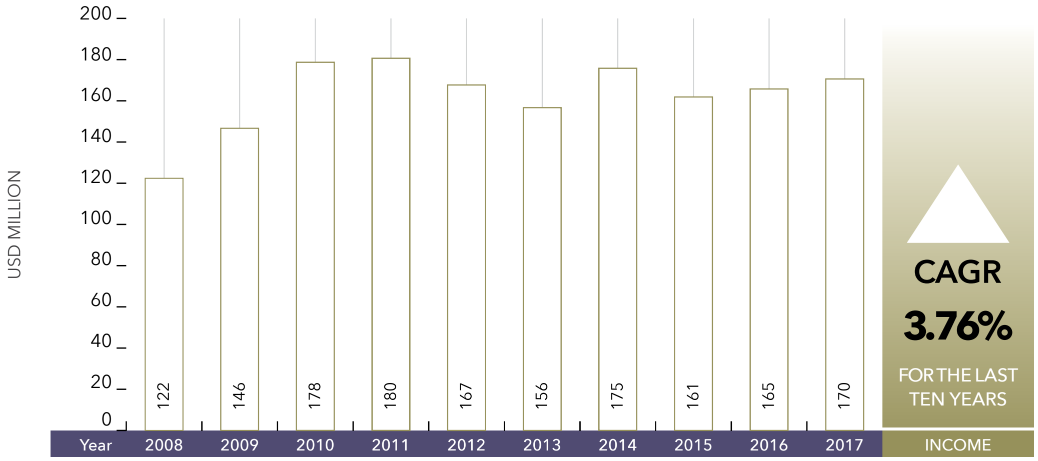

BYBLOS BANK S.A.L.

ANNUAL REPORT 2017

MESSAGE FROM THE CHAIRMAN

MESSAGE FROM THE CHAIRMAN

Dear Stakeholders,

Byblos Bank posted satisfactory net profits of USD 170.1 million in 2017, registering an adequate increase of 2.9% over 2016. This performance reflects the continuously risk-averse appetite set by the Board of Directors for several years now. Moreover, high liquidity levels were maintained, and the Bank's sovereign exposure was managed proactively in order to mitigate, among others, the risk of interest rate fluctuations.

As a result, short-term foreign currency liquidity – in the form of short-term placements with higher-than-investment-grade institutions – stood at more than 16% of foreign currency deposits at year-end, surpassing both internal and international benchmarks. In addition, Byblos Bank continued to post a Basel III Capital Adequacy Ratio above 17% at end-2017, easily exceeding the regulatory requirement of 14%. On the loan portfolio side, the Bank continued to maintain adequate provisioning during the year, and to proactively monitor potential risks across the Group.

In the context of these and other conservative measures, net customers' loans grew by 5.2% to USD 5.4 billion, and customers' deposits increased by 5.3% to reach USD 18.0 billion, while the Bank's net loans-to-assets ratio remained at a low level of 24%. The net interest margin improved slightly, from 1.42% to 1.44%, largely due to better interest rate management despite the increased pressure on the cost of customers' deposits. The return on average common equity and return on average assets stood at 9.35% and 0.78%, respectively.

Byblos Bank also continued its deconsolidation of certain foreign banking subsidiaries, taking steps to finalize its exit from the Democratic Republic of the Congo, which will take effect during 2018. This followed similar moves in 2016, when the Bank deconsolidated its subsidiaries in both Sudan and Syria, declaring its investments impaired. Other international banking subsidiaries and their branches – whose contribution to net income improved markedly during 2017 – were strengthened with new teams and systems with an eye on finding prudent ways to further increase geographical diversification.

On the domestic front, the Bank has been increasing the use of technology in the back office, and especially in relation to customer interactions, in order to reinforce client loyalty and satisfaction, contain operating costs, and improve productivity, all over the long term.

Going forward, the impact of the double taxation on banks, which will take full effect during 2018, is expected to affect the banking sector's profitability. However, the Bank sincerely hopes that the results of the recent parliamentary elections – the first in nine years – have sufficiently altered Lebanon's political dynamics to break up the logjam over how to address the country's dire economic and financial problems. Coupled with the stated determination of some politicians to institute real reforms, especially those associated with loans and grants recently pledged by international donors and lending institutions, this new landscape offers the potential to break with the inertia of the past. Byblos Bank believes strongly that this opportunity should not be missed.

Everyone at Byblos Bank – our management and staff, our Board of Directors, our customers, and our shareholders – has had to be highly resilient in face of the difficult times our country has been going through. That resilience, driven by great patience and a shared hope for a better Lebanon, has been a crucial factor in maintaining the stability and steady growth of the Bank's activities. For that, you all have my most gracious thanks.

Sincerely,

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

BYBLOS BANK S.A.L.

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THE LEBANESE ECONOMY IN 2017

ECONOMIC ACTIVITY

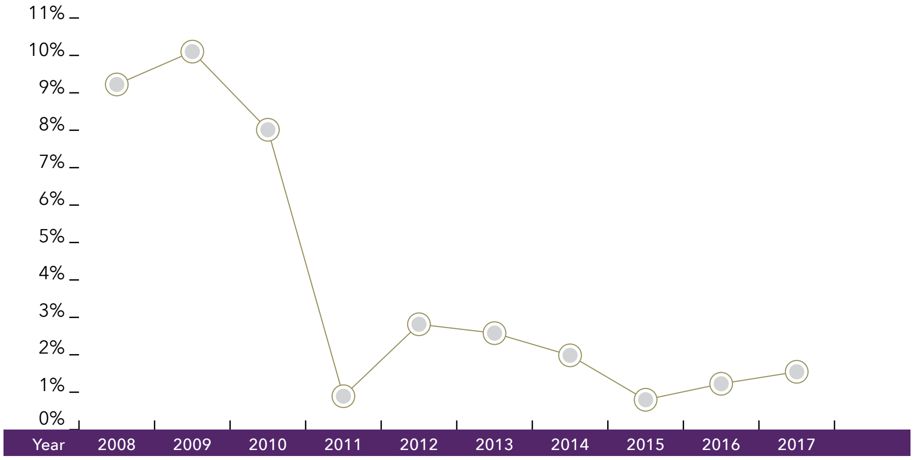
The year 2017 started with improved prospects for the Lebanese economy, following the election of General Michel Aoun as President in October 2016, the swift nomination of Mr. Saad Hariri as Prime Minister in November, and the formation of a government of national unity in December of the same year. The positive political developments during the fourth quarter of 2016 ended a presidential vacuum and an institutional paralysis that started in May 2014, and improved the prospects for policy-making.

However, the optimistic outlook was short-lived, mainly due to consumers' widespread disappointment about the misplaced priorities of the government. In fact, Lebanese households had high expectations that the government would put the priorities and needs of citizens, such as improving their quality of living and economic well-being, at the top of its agenda. Instead, the authorities raised taxes on consumption, income, and profits, and increased fees on a large number of public services to help finance increases in the salaries and pensions of public sector workers and retirees, which weighed on consumer confidence as well as on the already stretched budgets of households.

Still, policy-making improved during the year: in January 2017, the Council of Ministers approved the long-delayed decrees relating to the exploration of Lebanon's offshore oil and gas resources; in June, Parliament ratified a new parliamentary electoral law but delayed the elections until May 2018; in September, Parliament endorsed the Petroleum Tax Law; in October, Lebanon concluded its first licensing round for offshore oil and gas exploration and production; and also in October, Parliament ratified the 2017 Budget Law, the country's first budget since 2005. More importantly, in May 2017, the Council of Ministers renewed the mandate of Banque du Liban (BDL) Governor Riad Salamé for a fifth consecutive six-year term. The renewal of Governor Salamé's term reinforced confidence in the stability of the currency and in the banking system and, therefore, in overall economic and social stability.

Lebanon's political scene took an unexpected turn of events with the sudden resignation of Prime Minister Saad Hariri on 4 November 2017. However, the monetary and financial markets' reaction to this short-lived political event was contained and was in line with previous episodes of political instability.

REAL GDP GROWTH IN LEBANON (%)



Source: National Accounts, Byblos Bank Economic Research and Analysis Department

In parallel, the Lebanese economy benefited from a USD 1 billion stimulus package from the BDL in 2017, which supported activity in several key sectors, especially real estate. This constituted the BDL's fifth consecutive package since 2013. Also, the estimated inflows of about USD 7.2 billion in remittances from Lebanese expatriates in 2017, equivalent to USD 1,600 per capita, sustained household spending for day-to-day needs. However, the inadequate investment climate and business environment prevented a rebound in economic activity, despite the political settlement. In fact, the World Economic Forum's 2017-18 Global Competitiveness Index shows that 77% of ranked countries have a more competitive economy than Lebanon does, while the World Bank Group's Doing Business 2018 survey indicates that 70% of countries around the world have a better business climate than Lebanon. Overall, the economy performed at a sub-par level in 2017, as it expanded by 1.6% in real terms in 2017 compared to a real GDP growth rate of 1.2% in 2016.

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 58.4 in 2017, increasing by 47.1% from 2016 and constituting the fourth annual expansion since 2009. However, the increase of the Index was from a low base, as the outcome for 2016 was the fifth lowest since the Index's inception in July 2007. Further, most of the increase of the Index occurred during the first quarter, as the Index regressed in nine out of 12 months of the year. In fact, the Index rose by 16% in the first quarter of 2017, regressed by 6.3% in the second quarter, grew by 6.6% in the third quarter, and expanded by 5.9% in the fourth quarter of 2017.

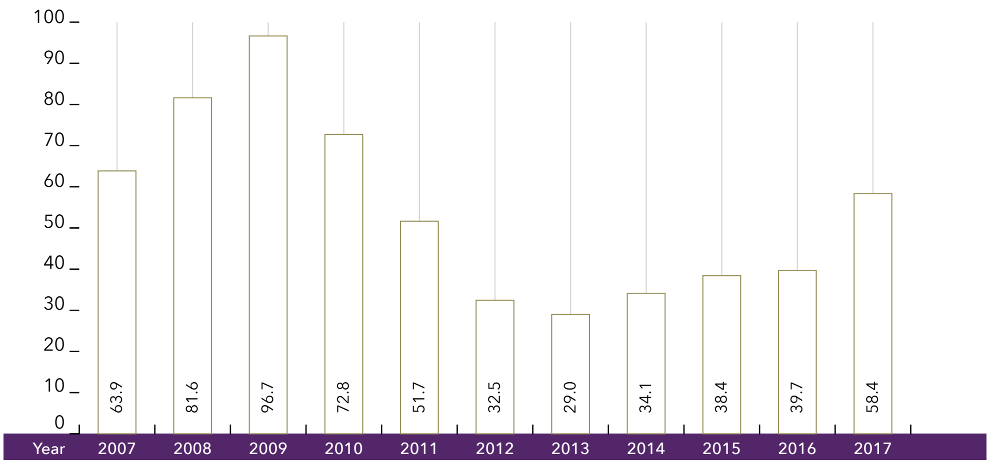
The fading momentum in household sentiment was mainly due to the diverging priorities of the government and the private sector. Further, the negative impact of the tax measures on sentiment has been a lot more significant than any potential positive impact of the public sector wage increase. In fact, the positive impact of the wage increase on household sentiment was limited to public sector employees, as the value of the Byblos Bank/AUB Consumer Confidence Index for this segment of the population jumped by 72% in July, when the Parliament endorsed the raise, while it contracted across the remaining segments of the population. In addition, public sector employees posted the highest level of confidence among all segments of the population during the second half of the year.

Household sentiment was affected in the fourth quarter of the year by the sudden resignation of Prime Minister Saad Hariri in early November. The shock resignation triggered a political crisis that reverberated across Lebanon, as the massive flow of rumors about the circumstances and consequences of the resignation weighed on consumer confidence in the first three weeks of the month and risked a significant slide of the Index. But the resolution of the crisis toward the end of November 2017, as well as Lebanon's renewed commitment to the "dissociation policy" from regional conflicts, eased the political crisis and economic uncertainties that prevailed during the month and supported household sentiment during the final quarter of 2017.

Despite the resolution of the political crisis, the results of the Index's survey continued to reflect the prevailing skepticism of Lebanese households, as only 11% of Lebanese polled in the fourth quarter of 2017 expected their financial conditions to improve in the coming six months, while 63% of them believed that their financial situations would deteriorate. Also, the level of consumer sentiment in 2017 remained 40% lower than the Index's peak year of 2009, even though it was 8% higher than the Index's monthly trend average since July 2007.

Further, the Byblos Bank/AUB Expectations Index posted higher values than the Present Situation Index in each month of 2017. However, the spread between the two indices quickly narrowed from 17.8 in January 2017 to 7.7 in February and ended the first quarter at 4.7, the second quarter at 3.6, the third quarter at 0.8, and the fourth quarter of 2017 at 3.8. The narrowing of the spread throughout the year reflects consumers' reduced optimism about the future.

BYBLOS BANK/AUB CONSUMER CONFIDENCE INDEX



Source: Byblos Bank Economic Research and Analysis Department, based on surveys conducted by Statistics Lebanon

In parallel, the BDL's Coincident Indicator, a proxy for overall economic activity in Lebanon, increased by 5.6% in 2017, which still reflects slow economic activity. Further, the Purchasing Managers' Index for Lebanon (PMI), which measures the performance of the private sector, averaged 46.6 points in 2017, up by 2% from an average of 45.7 in 2016. Lebanon's PMI remained below the 50-point mark, which means that activity continued to decline last year, but the increase in the Index's value shows that activity declined at a slightly slower pace than in the preceding year. The PMI averaged 47.4 in the first quarter of 2017, the highest quarterly value during the year, and gradually declined afterward to 46.7 in the second quarter, 46.2 in the third quarter, and 46 in the fourth quarter of 2017.

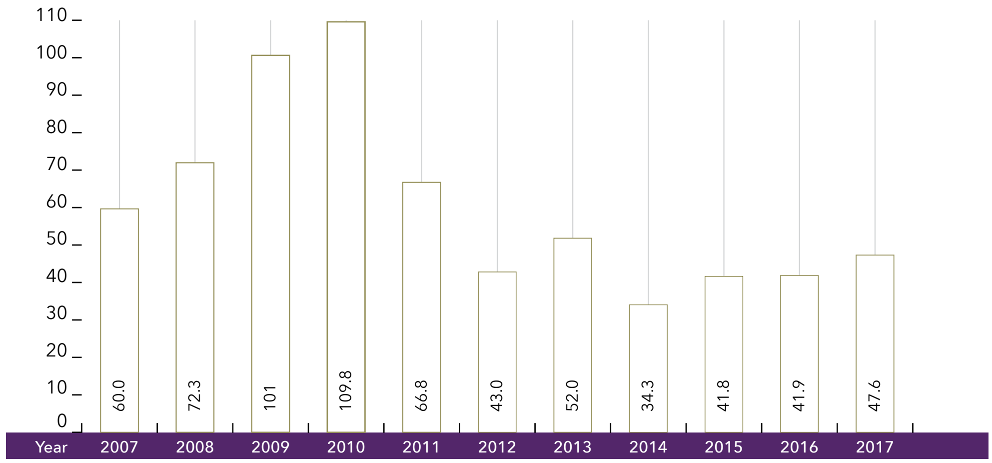
REAL ESTATE SECTOR

The real estate market, which contributes nearly 14% of economic output in Lebanon, continued to be affected by adverse domestic and external conditions in 2017. The number of construction permits issued by the Orders of Engineers and Architects of Beirut and of Tripoli decreased by 9% in 2017, with the surface area of permits regressing by 4% year-on-year.

On the demand side, the amount of housing loans outstanding reached USD 13.1 billion at the end of 2017, up from USD 12 billion a year earlier, as the BDL's stumulus packages continued to support new housing loans that banks extended during the year. However, most of the demand for mortgages was in a specific segment of the market that consists of small-size apartments, with this demand generated from limited-income citizens who meet the requirements for subsidized loans from the Public Corporation for Housing.

Further, the Byblos Bank Real Estate Demand Index, which reflects the intentions of the Lebanese to buy or build a home, posted an average monthly value of 47.6 in 2017, constituting an increase of 13.7% from a low base of 41.9 in 2016. The value of the Index regressed in three out of the four quarters in 2017. In fact, accommodative policies of low interest rates on mortgages in Lebanon, the renewal of BDL Governor Riad Salamé's term that increased confidence in the stability of the currency, and relative political stability constituted factors that may have supported the near-term plans of potential buyers in the second quarter of last year. However, these positive factors were in part offset by the authorities' decision to increase various taxes and fees on a sluggish real estate sector. The increase in taxes and fees negatively affected Lebanese residents' disposable income and purchasing power, impacted their already-stretched budgets, and raised real estate transaction costs. These measures have weighed on demand in the sector as the intentions of potential buyers require a conducive environment to translate into actual sales. Overall, the average monthly score of 2017 constituted a decline of 56.7% from the peak of 109.8 registered in 2010 and was 22% lower than the monthly trend average score of 61 since the start of the Index calculation in July 2007.

BYBLOS BANK REAL ESTATE DEMAND INDEX



Source: Byblos Bank Economic Research and Analysis Department, based on surveys conducted by Statistics Lebanon

TOURISM SECTOR

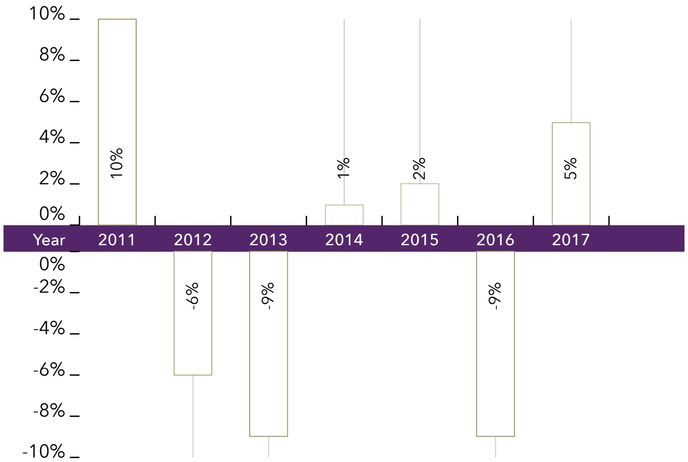
The tourism sector, which used to be a main driver of economic activity in the country, started to show some recovery signs in 2017 amid a better political environment and due to initiatives from the Ministry of Tourism. The number of incoming visitors to Lebanon totaled 1.86 million in 2017, increasing by 10% from 1.69 million tourists in 2016 but constituting a decline of 14.4% from the peak of 2.17 million visitors in 2010.

The composition of visitors to Lebanon in 2017 was broadly similar to that in 2016, as the number of European visitors accounted for 34.4% of the total and continued to surpass the number of Arab tourists (30.2%). Visitors from the Americas accounted for 17.6% of total tourists, followed by visitors from Asia (7.4%), Africa (5.9%), and Oceania (4.4%). The number of visitors from European countries increased by 13.3% in 2017, followed by visitors from the Americas (+10.3%), Oceania (+9.2%), Asia (+8.9%), the Arab region (+7.3%), and Africa (+5.9%). On a country basis, visitors from Iraq accounted for 12.2% of total visitors in 2017, followed by visitors from the United States (9.2%), France (8.9%), Canada (5.8%), Germany (5.2%), Jordan (4.9%), and Egypt (4.4%).

Further, the number of incoming visitors from the Gulf Cooperation Council (GCC) countries reached 125,802 in 2017 and accounted for 6.8% of Lebanon's total tourist arrivals in 2017, up from 5% in 2016 but down from 18% in 2010.

In parallel, the value of VAT refunds claimed by visitors in Lebanon increased by 5.5% in 2017 following a decrease of 9% in 2016, supported by the rise in the number of incoming visitors from GCC countries. In fact, visitors from Saudi Arabia accounted for 14% of total VAT refunds claimed in 2017; followed by visitors from the UAE with 12%; Kuwait with 7%; Syria with 6%; Egypt, France, and Jordan with 5% each; and Canada, Qatar, and the United States with 4% each. Spending by visitors from Syria grew by 32.1% in 2017, followed by spending by tourists from Kuwait (+28.5%), Saudi Arabia (+15.4%), the United States (+10.6%), Qatar (+7.2%), and France (+3.4%). In contrast, spending by visitors from Egypt decreased by 18.5% last year, followed by spending by tourists from the UAE (-9%), Canada (-0.8%) and Jordan (-0.5%).

YEARLY CHANGE IN TOURIST SPENDING*



Source: Global Blue

* Based on the change in VAT refunds

The improved political conditions in the country and the presence of tourists from GCC countries, although limited, positively affected the performance of the hospitality sector. The average occupancy rate at hotels in Beirut increased from 59.4% in 2016 to 63.7% in 2017, and was above the average rate of 62.2% in 14 main Arab markets. The average occupancy rate at Beirut hotels was the sixth highest in the region last year, while it was the sixth lowest in 2016. The average rate per room at Beirut hotels was USD 151 in 2017, ranking the capital's hotels as the fourth least expensive in the region. The average rate per room at Beirut hotels increased by 6.9% year-on-year. Further, revenues per available room reached USD 96 in Beirut in 2017, increasing by 14.5% year-on-year.

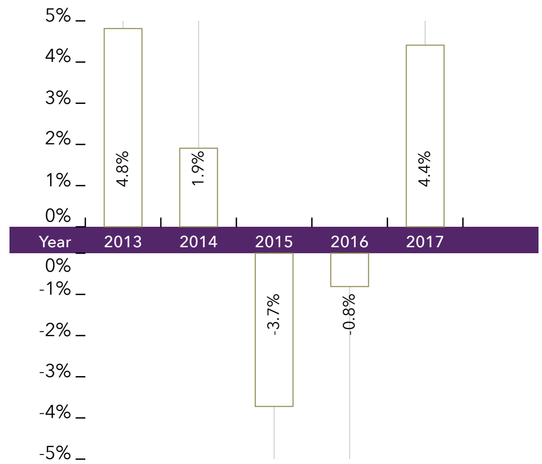
Still, the Lebanese hospitality sector has a long way to recover to pre-2011 levels. The World Travel & Tourism Council (WTTC) estimated that the travel and tourism industry had a direct contribution to economic activity equivalent to 6.5% of GDP in 2017, relative to 7% of GDP in 2016, and down from more than 10% of GDP in 2010. Also, the WTTC indicated that the industry's direct and indirect impact was equivalent to 18.4% of overall economic activity in Lebanon last year, compared to more than 35% of GDP in 2010. The sector's overall contribution to GDP declined by 0.9% in real terms in 2017, relative to a year-on-year contraction of 2.7% in 2016.

In May 2017, the Ministry of Tourism launched the Visit Lebanon 2017 initiative, which is a forum to promote Lebanon as a tourism destination to foreign companies in the tourism sector. The initiative consisted of inviting 150 tour operators, event organizers, and incentive houses from countries in Asia, Europe, the Middle East, North Africa, North America, and South America to Lebanon to meet with local players. Visiting companies had the opportunity to evaluate the country's tourism infrastructure, hotel industry, touristic sites, and prevailing prices, and to explore the possibility of offering packages to attract foreign visitors to the country.

INFLATION

The Consumer Price Index increased by 4.4% in 2017 compared to declines of 0.8% in 2016 and 3.7% in 2015, according to the Central Administration of Statistics. The increase in prices was across the board and was due mainly to the local transmission of the rise in global oil prices, the weakening of the US Dollar against major currencies, and the market's anticipation of the increase in public sector wages. The CPI increased by 1.1% month-on-month in August 2017, the month that followed the ratification of the public sector salary increase and the tax law, and by 1.4% in October 2017, the month during which Parliament ratified the revised version of the tax law. This shows that the authorities' decisions contributed to inflationary pressures last year.

INFLATION RATE IN LEBANON (%)



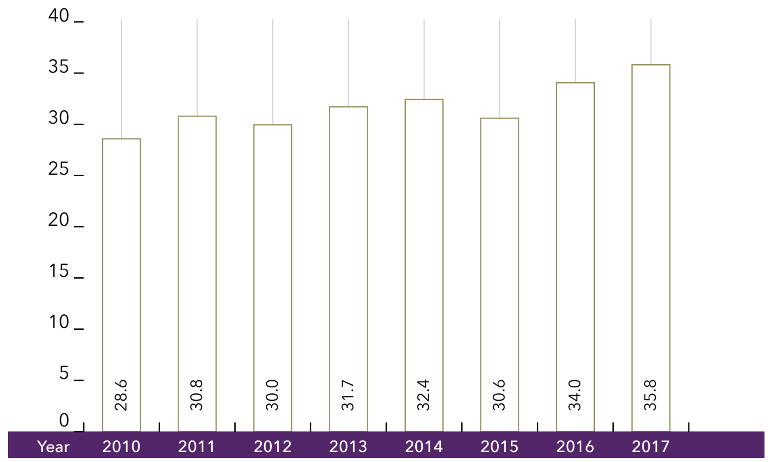
Source: Central Administration of Statistics

MONETARY POLICY

The BDL continued its policies of maintaining the stability of the exchange rate, of preserving economic and monetary stability, and of safeguarding the soundness of the banking sector throughout 2017. As such, the BDL deemed it necessary to conduct special financial operations with the Ministry of Finance and commercial banks last year to help attract foreign currency deposits, accumulate foreign currency reserves, support the balance of payments, and address mismatches in commercial banks' balance sheets. The volume of the BDL's swap operations with commercial banks totaled about USD 10 billion in 2017 compared to nearly USD 15 billion in 2016. Following the 2017 swap operations, the BDL's gross foreign currency reserves reached a record high of USD 36.77 billion at the end of October 2017, increasing by USD 2.74 billion, or 8.1%, from USD 34 billion at end-2016.

The BDL's efforts in the first 10 months of 2017 were offset in part by deposit outflows that were triggered by the November 2017 political crisis. In fact, total deposits at commercial banks decreased by USD 2.6 billion in November, and foreign currency reserves at the BDL declined by USD 1.1 billion. However, capital flights were reversed in December, with the banks' stock of deposits rising by USD 1.86 billion during the month. Also, the November political crisis did not lead to significant pressure on either the currency peg to the US Dollar or the stability of the Lebanese Pound. In this context, foreign currency reserves ended the year at USD 35.81 billion, equivalent to 68.2% of money supply (M2) and to about 14 months' worth of next year's imports, well above the four-month reference for emerging markets.

GROSS FOREIGN CURRENCY RESERVES (USD Billion)



Source: Banque du Liban

In addition, the BDL's overall assets in foreign currency increased by USD 1.3 billion to reach USD 42 billion at the end of 2017. Further, the value of the BDL's gold reserves reached USD 12 billion at the end of 2017, constituting a rise of 11.7% from end-2016, due to a recovery in global gold prices. The BDL's combined assets in gold and foreign currencies were equivalent to about 102.8% of GDP at the end of 2017.

In parallel, broad money supply (M3) grew by 4.2% in 2017, down from growth rates of 7.4% in 2016, 5.1% in 2015, 5.9% in 2014, and 6.9% in 2013, while money supply (M2) declined by 4% in 2017, compared to increases of 4.8% in 2016, 7.1% in 2015, 6.8% in 2014, and 5.6% in 2013.

Further, the interbank rate in Lebanese Pounds, which was stable at between 3% and 4% from September 2015 to October 2017, surged to more than 120% during the month of November because of shortages of liquidity in Lebanese Pounds at some banks following the resignation of Prime Minister Hariri. In fact, these banks needed local currency to convert into US Dollars in order to meet clients' needs. However, the interbank rate regressed to 15% at the end of November before returning to 4% at the end of 2017. The repo rate was unchanged at 10% throughout the year.

In addition, some banks offered higher interest rates on deposits in Lebanese pounds in order to attract funding in local currency to counterbalance their liquidity shortages, as an alternative to borrowing from the interbank market. As such, the average deposit rate in Lebanese Pounds, which was stable at between 5.51% and 5.57% in the first 10 months of 2017, increased to 5.88% in November and reached 6.41% at the end of 2017. The same rate in US Dollars gradually increased during the year, from 3.5% at the end of 2016 to 3.65% in September 2017, 3.72% in October, 3.8% in November, and 3.89% at the end of 2017. What started as an increase in interest rates because of liquidity shortages in November became the norm, as other banks followed and offered higher interest rates on deposits in Lebanese Pounds to avoid deposit flights to competing banks.

EXTERNAL SECTOR

The balance of payments posted a deficit of USD 155.7 million in 2017, following a surplus of USD 1.2 billion in 2016, constituting the sixth annual deficit since 2011. The 2017 deficit reflected a decline of USD 1.77 billion in the net foreign assets of banks and financial institutions, which was partly offset by an increase of USD 1.61 billion in those of the BDL. Also, the current account deficit is estimated at 19.8% of GDP in 2017, unchanged from 2016.

The trade deficit reached USD 16.7 billion in 2017, widening by 3.7% year-on-year, as the value of imported goods increased by 2.4% to USD 19.6 billion and the value of exports decreased by 4.5% to USD 2.8 billion. The rise in imports mainly reflects an increase of USD 142.6 million, or 3.4%, in the value of imported oil and mineral fuels to USD 4.3 billion in 2017, and an increase of USD 320.5 million, or 2.1%, in the value of non-hydrocarbon imports to USD 15.3 billion in 2017.

The value of imported chemical products reached USD 2.1 billion in 2017, increasing by 5.2% year-on-year. Imports of machinery and mechanical appliances followed at USD 1.93 billion (+2.9%); vehicles, aircraft, vessels, and associated transportation at USD 1.88 billion (+6.2%); prepared foodstuff at USD 1.4 billion (-2.3%); and base metals at USD 1.3 billion (+8.7%).

Further, the drop in exports in 2017 was driven mainly by a decline of USD 242.3 million, or 29.3%, in jewelry exports, which was partially offset by growth of USD 87.1 million, or 34.4%, in the value of exported base metals and by an increase of USD 29 million, or 2.5 times, in the value of exported mineral products in 2017.

In parallel, non-resident capital inflows to Lebanon are estimated at USD 6.82 billion in 2017, down by 7.1% from USD 7.34 billion in 2016, and compared to flows of USD 3.46 billion in 2015. They were equivalent to 13% of GDP in 2017 relative to 14.8% of GDP in 2016 and 7% of GDP in 2015. The decrease in non-resident net private capital inflows to Lebanon last year reflects mainly an estimated drop of USD 562.3 million, or 33.4%, in the inflows of portfolio investments and a decline of USD 81.2 million, or 2.7%, in other investment flows, which were partly offset by an estimated increase of USD 119.4 million, or 4.6%, in foreign direct investments.

PUBLIC FINANCES

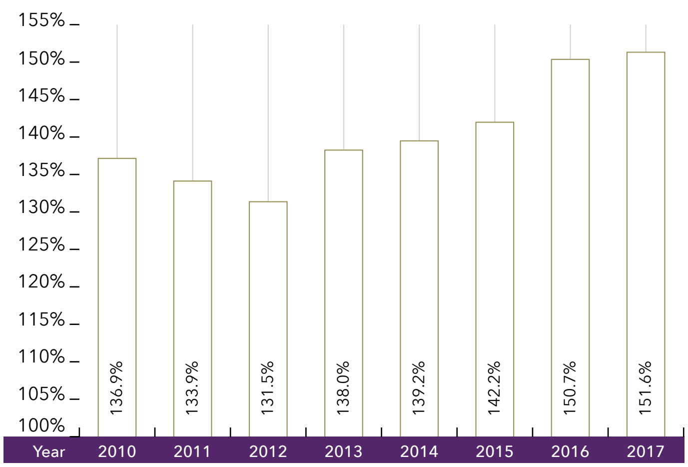
Lebanon's public finance imbalances persisted in 2017, even though the fiscal deficit narrowed from 9.9% of GDP in 2016 to 7.2% of GDP in 2017. The narrowing of the deficit was mainly due to one-off revenues and the normalization of spending following the 2016 municipal and mayoral elections, rather than to fundamental fiscal changes.

Budgetary spending, which includes public personnel cost, debt servicing, and transfers to EDL, increased from 26% of GDP in 2016 to 26.8% of GDP in 2017. Debt servicing stood at 9.9% of GDP in 2017, nearly unchanged from the previous year. Also, public personnel cost, which includes salaries, wages, transfers to public institutions to cover salaries, end-of-service indemnities, and retirement benefits, is estimated to have reached at least the equivalent of 9.6% of GDP in 2017, compared to 9.8% of GDP in 2016. Further, transfers to the state-owned and money-losing EDL were equivalent to 2.5% of GDP, up from 1.9% of GDP in 2016. Public personnel cost was the fastest-growing component of budgetary spending over the past seven years, as it expanded by an estimated CAGR of 6% during the 2010-2017 period compared to growth of 3.3% for debt servicing, and a CAGR of 1.6% for Treasury transfers to EDL.

In addition, Treasury transfers to municipalities declined from 2.1% of GDP in 2016 to 0.8% of GDP in 2017 following spending related to municipal and mayoral elections in 2016. As such, overall public spending, which consists of budgetary spending and Treasury transactions, decreased from 29.9% of GDP in 2016 to 29.3% of GDP in 2017.

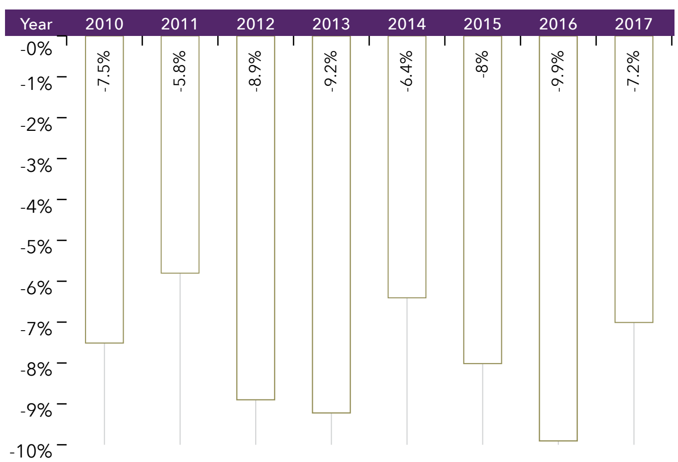
In parallel, public revenues increased from 20% of GDP in 2016 to 22.2% of GDP in 2017. Tax revenues were equivalent to 15.7% of GDP last year, up from 14.1% of GDP in 2016, mainly because banks paid income tax on the one-off revenues they generated from the swap operations that they conducted with the BDL in 2016. Indeed, income tax receipts rose from 4% of GDP in 2016 to 5.3% of GDP in 2017, while receipts from the value-added tax were equivalent to 4.4% of GDP in 2017, nearly unchanged from 4.3% of GDP in 2016. In addition, non-tax receipts represented 4.9% of GDP in 2017, up from 4.5% of GDP in the preceding year, while Treasury revenues were equivalent to 1.6% of GDP last year relative to 1.3% of GDP in 2016.

GROSS PUBLIC DEBT (% of GDP)



Source: Ministry of Finance, Central Admnistration of Statistics, Institute of International Finance

FISCAL DEFICIT (% of GDP)



Source: Ministry of Finance, Central Admnistration of Statistics, Institute of International Finance

Further, Lebanon's primary budget posted a surplus of 2.7% of GDP in 2017 following a balanced primary budget in 2016.

The improvement in the fiscal balance was not enough to prevent an increase in Lebanon's debt level from 150.7% of GDP in 2016 to 151.6% of GDP in 2017. The gross public debt reached USD 79.5 billion at the end of 2017, constituting an increase of 6.2% from end-2016 and compared to rises of 6.5% in 2016 and of 5.6% in 2015. The gross public debt grew by USD 4.62 billion in 2017 relative to increases of USD 4.56 billion in 2016, USD 3.75 billion in 2015, and USD 3.1 billion in 2014. Debt denominated in local currency expanded by 5% to the equivalent of USD 49.1 billion, while debt in foreign currency grew by 8.1% to USD 30.4 billion at the end of 2017. Foreign currency-denominated debt represented 38.2% of gross public debt at the end of 2017 relative to 37.5% a year earlier.

The BDL held 48% of the Lebanese Pound-denominated public debt at the end of 2017 compared to 42.7% a year earlier. Commercial banks followed with 37.5%, down from 42% at end-2016, while public agencies, financial institutions, and the public held the remaining 14.5%. Also, Eurobond holders and holders of special Treasury bills in foreign currencies accounted for 92.7% of the foreign-currency denominated debt, followed by multilateral institutions with 4.4% and foreign governments with 2.9%. Commercial banks held about 50% of Lebanon's Eurobonds at the end of 2017, while the BDL is estimated to hold at least 6% of total Eurobonds following the USD 1.7 billion swap operation with the Ministry of Finance in November 2017. In parallel, the gross market debt accounted for about 59% 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-related debt.

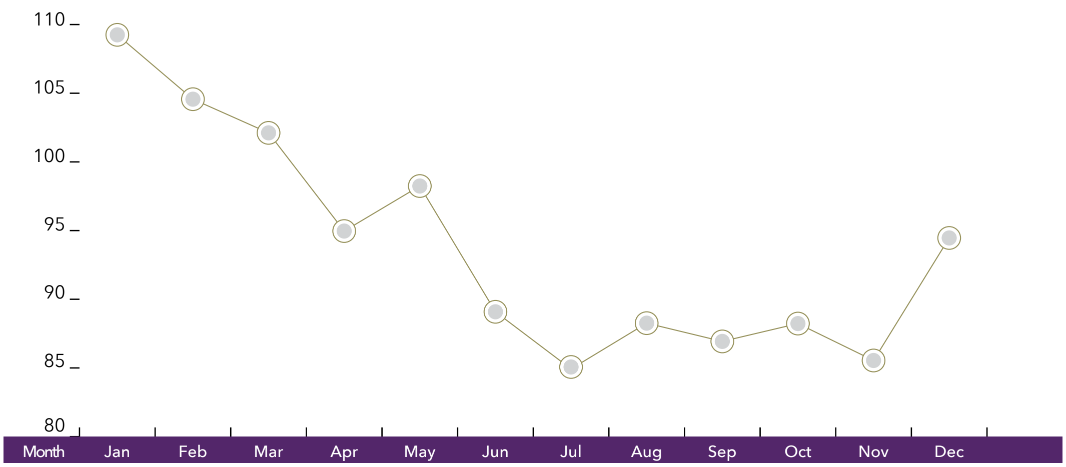
CAPITAL MARKETS

EQUITIES

The Beirut stock market continued to suffer from low liquidity and a lack of interest from privately held and family-owned firms in listing their shares. Total trading volume on the Beirut Stock Exchange (BSE) reached 87 million shares in 2017, constituting a decline of 27.8% from 120.5 million shares in 2016, while aggregate turnover amounted to USD 762.1 million, down by 21.6% from a turnover of USD 971.6 million in 2016. Market capitalization regressed by 3.6% from the end of 2016 to USD 11.47 billion, with banking stocks accounting for 85.6% of the total, followed by real estate shares (11.5%), industrial firms (2.6%), and trading stocks (0.3%). The market liquidity ratio was 6.6% compared to 8.2% in 2016. Further, market capitalization was equivalent to 21.9% of GDP in 2017, the fifth lowest level among 15 Arab markets, and accounted for about 1% of the aggregate market capitalization of Arab equity markets at end-2017.

Banking stocks accounted for 59.8% of the aggregate trading volume in 2017, followed by real estate equities with 35.5%, the stocks of trading firms with 3.6%, and industrial shares with 1.1%. Also, banking stocks represented 63.3% of the aggregate value of traded shares, followed by real estate equities with 34%, industrial stocks with 1.4%, and shares of trading firms with 1.3%. The average daily traded volume for 2017 was 359,460 shares for an average daily value of USD 3.1 million. The figures reflect year-on-year decreases of 27.2% and 20.9%, respectively, in volume and value. In parallel, the Capital Markets Authority's Market Value-Weighted Index for stocks traded on the BSE regressed by 9.9% in 2017, while its Banks Market Value-Weighted Index improved by 15.6% last year.

MARKET VALUE-WEIGHTED STOCK INDEX (2017)



Source: Capital Markets Authority

FIXED INCOME

Lebanon's external debt posted a return of 5.64% in 2017, constituting the seventh lowest return among 43 markets in the Central and Eastern Europe, Middle East and Africa region, as well as the 13th lowest return among 75 emerging markets, according to Intercontinental Exchange's External Debt EM Sovereign Index. Lebanon underperformed the overall emerging markets return of 8.96% during 2017 and posted the fifth lowest return among 25 countries in the Middle East and Africa region, due to domestic and external factors.

Further, in its valuation of the sovereign credit of 56 emerging markets, global investment bank Goldman Sachs indicated in December 2017 that Lebanon's Eurobonds are "undervalued". Lebanese Eurobonds were the only "undervalued" bonds among 'B'-rated sovereigns included in Goldman Sachs' universe.

The Ministry of Finance issued a total of USD 4.7 billion in Eurobonds in 2017.

In March 2017, the Ministry of Finance issued a USD 3 billion triple-tranche Eurobond under the Republic of Lebanon's Global Medium Term Note Program to refinance debt maturing in 2017. The first series consisted of a 10-year USD 1.25 billion Eurobond that matures in March 2027 and carries an annual coupon rate of 6.85%, the second series was a 15-year USD 1 billion Eurobond that matures in March 2032 and carries an annual coupon rate of 7%, and the third series consisted of a 20-year USD 750 million Eurobond that matures in March 2037 and carries an annual coupon rate of 7.25%. The proceeds of the issuance were mainly used to replace a USD 1.5 billion Eurobond that matured on 20 March 2017 and to cover principal payments of other foreign-currency debt that matured during the year.

The final order book totaled USD 17.8 billion, with 214 orders across the three tranches. According to the Ministry of Finance, local investors – including commercial banks, investment banks, and insurance companies – subscribed to 80% of the issuance, while foreign investors, including foreign banks and financial institutions, subscribed to the balance of 20% across the three tranches.

In November 2017, the Ministry of Finance issued USD 1.7 billion in Eurobonds that it exchanged with LBP 2,563 billion worth of Lebanese Pound-denominated Treasury bonds from the BDL portfolio. The newly issued Eurobonds consisted of a USD 1 billion tranche that matures in 2031 with a coupon rate of 7.15% and another USD 700 million tranche due in 2028 with a coupon rate of 7%. The November 2017 swap helped lengthen the average debt maturity without increasing the amount of the public debt stock or the BDL's share of the public debt. In addition, the swap provided the BDL additional monetary tools in order to manage liquidity in the market.

RISK METRICS

Spreads on five-year credit default swaps (CDSs) for Lebanon ended 2017 at 522.2 basis points (bps), up from 491.9 bps at the end of 2016. The spreads narrowed during the first nine months of 2017, as they averaged 486.7 bps in the first quarter, 442.4 bps in the second quarter, and 372 bps in the third quarter of the year. In fact, the spreads were 492 bps on 2 January 2017, then narrowed to 472.1 bps at the end of March and 371.6 bps at end-June, and stood at 374 bps at the end of September 2017. They were relatively stable in October 2017, but started to widen in November following the political shock that the resignation of Prime Minister Hariri generated. As such, Lebanon's CDS spreads jumped to 514.1 bps on 7 November 2017 from 376.7 the preceding day, and ranged between 514 bps and 554.6 bps from 7 November until the end of December. Overall, Lebanon's CDS spreads averaged 465.1 bps during the fourth quarter of 2017.

Rating agencies expressed concern during the year about fiscal and external imbalances in Lebanon, but they remained confident in the strength and stability of the banking sector. In August 2017, Moody's Investors Service downgraded Lebanon's long-term issuer ratings from 'B2' to 'B3' and changed the outlook from 'negative' to 'stable'. The downgrade aligned Moody's ratings with those of S&P Global Ratings and Fitch Ratings. Moody's also lowered the foreign currency deposit ceiling from 'B2' to 'B3' and the foreign currency bond ceiling from 'ba3' to 'B1', while it kept the short-term foreign currency deposit ceiling at 'NP'. In addition, it downgraded Lebanon's senior unsecured Medium Term Note Program from '(P)B2' to '(P)B3'. Further, it maintained Lebanon's local-currency bond and deposit ceilings at 'Ba2'. The agency attributed the downgrades to the increase in the country's public debt level since 2011 due to the wide fiscal deficits. In parallel, Moody's indicated that the 'stable' outlook reflects the political consensus reached at the end of 2016 and the return to a fully functioning government. It added that Lebanon has a strong track record of servicing its debt under stressed conditions, and that its external buffers have continued to improve in recent years. Also, it noted that substantial financial inflows, especially foreign currency deposits, continue to more than offset the current account deficit and to strengthen the BDL's foreign currency reserves.

In September 2017, S&P Global Ratings affirmed Lebanon's short- and long-term local and foreign currency sovereign credit ratings at 'B/B-', and maintained a 'stable' outlook on the ratings. It indicated that the 'stable' outlook reflects its expectations that deposit inflows to the financial system will remain sufficient to support the government's borrowing requirements and the country's external deficit over the next 12 months. It considered that the ratings are supported by Lebanon's external profile, as the country's liquid external assets, which consist of foreign currency reserves and the assets of the financial sector held abroad, exceed its external debt.

In September 2017, Fitch Ratings affirmed Lebanon's long-term local and foreign currency Issuer Default Ratings (IDRs) at 'B-' and maintained the 'stable' outlook on the ratings. It also affirmed the Country Ceiling and the ratings on Lebanon's senior unsecured local and foreign currency bonds at 'B-', and maintained the short-term local and foreign currency IDRs at 'B'. The agency indicated that the ratings are supported by Lebanon's strong external liquidity and resilient banking sector, as well as by other structural strengths, such as the country's GDP per capita and broader human development indicators that are well above similarly rated peers and that are more in line with the median of 'BBB'-rated sovereigns. In contrast, it said that the ratings are constrained by elevated political and security risks, weak public finances, and slow economic activity. It considered that the domestic political and policy-making environments have improved since the presidential election in October 2016 and the formation of a new government in December of that year.

In October 2017, Capital Intelligence Ratings affirmed at 'B' Lebanon's short- and long-term local and foreign currency sovereign ratings, and maintained the 'stable' outlook on the long-term ratings. It attributed the affirmation of the ratings to the relative decline of domestic political risks following the end of the political deadlock that lasted more than two years, and the endorsement of an electoral law that paved the way for parliamentary elections in May 2018. Also, it noted that policy-making has improved with the Parliament's ratification of the 2017 budget, the first since 2005. It added that the ratings' affirmation takes into account the country's stable buffer of foreign currency reserves that provides adequate coverage to the external debt. In April 2017, Capital Intelligence Ratings revised the outlook on the long-term ratings from 'negative' to 'stable' due to the stabilization of the domestic political climate and improvements in the policy-making environment.

In parallel, S&P Global Ratings' Credit Default Swap (CDS) Market Derived Signal Score, an indicator of risk appetite by foreign investors, shows that the market considered Lebanon's sovereign debt to have a lower risk level than the risk associated with the S&P sovereign rating throughout most of 2017. The CDS Market Derived Signal Score fluctuated between 'B' and 'B+' in the year to 18 October 2017, which are one notch and two notches, respectively, above the S&P sovereign rating, and has been on par with the sovereign rating since 19 October. As such, even during the elevated political uncertainty in November, market perception did not deteriorate beyond the risk level captured by the sovereign rating.

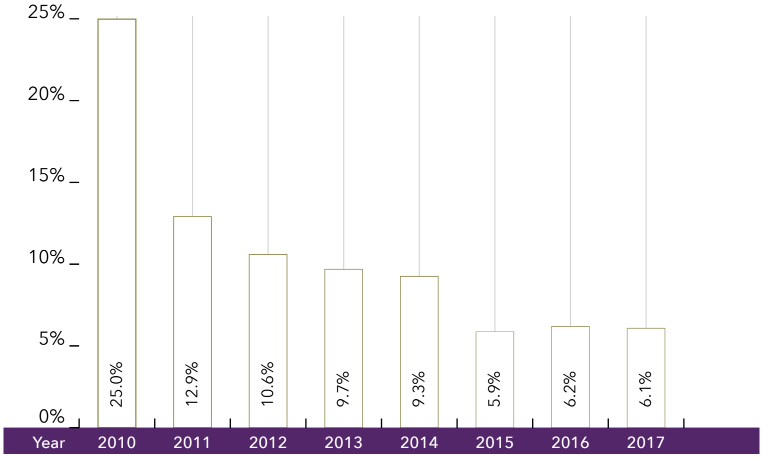
BANKING SECTOR

The banking sector faced a challenging operating environment in 2017 due to several converging factors, including slow economic activity in Lebanon, higher and arbitrary taxes, tighter margins, and fewer lending opportunities domestically and in the banks' main foreign markets, as well as the elevated borrowing needs of the Lebanese government. Still, the sector remained solid, profitable, liquid, and able to meet the financing needs of the private and public sectors.

The aggregate assets of commercial banks reached USD 220 billion at the end of 2017, constituting an increase of 7.6% from end-2016 and relative to increases of 10% in 2016 and 5.9% in 2015. The sector's assets were equivalent to 419.1% 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 60.3 billion at the end of 2017 and accounted for 27.4% of total assets. They increased by USD 3.1 billion, or 5.5%, from end-2016 relative to a rise of USD 3 billion, or 5.5%, in 2016. Lending to the resident private sector grew by USD 3.1 billion in 2017 relative to a rise of USD 3 billion in 2016, while credit to the non-resident private sector was unchanged year-on-year at USD 6.15 billion compared to a decrease of USD 39.8 million in 2016. As such, credit to the resident private sector was equivalent to 103.3% of GDP in 2017. The dollarization rate in private sector lending reached 71% at end-2017, down from 72.6% a year earlier. The average lending rate in Lebanese Pounds was 8.09% at end-2017, while the same rate in US Dollars was 7.67%.

RESIDENT PRIVATE SECTOR LENDING GROWTH (% Change)

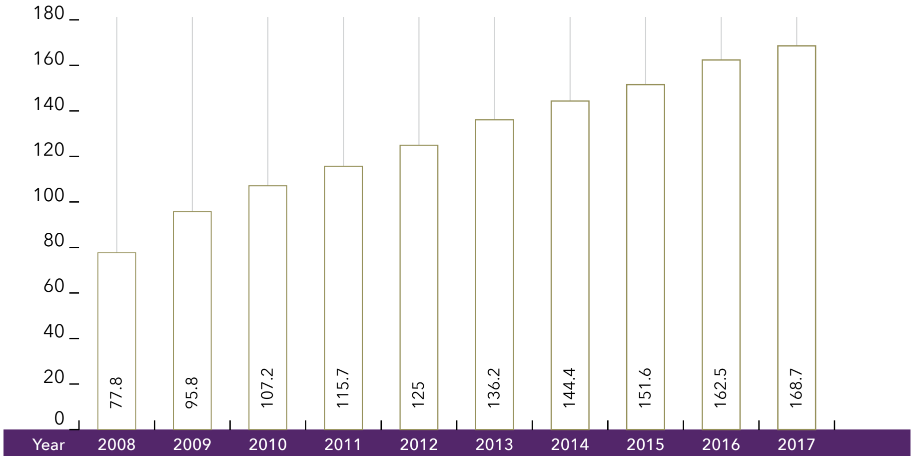


Source: Association of Banks in Lebanon, Byblos Bank Economic Research and Analysis Department

Further, claims on the public sector stood at USD 31.9 billion, down by 8% year-on-year, and accounted for about 14.5% of the banking sector's total assets. Further, commercial banks' deposits at the BDL totaled USD 103.4 billion at end-2017, reflecting an increase of 15.8% from a year earlier, and accounted for about 47% 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 168.7 billion at the end of 2017, constituting an increase of USD 6.2 billion, or 3.8%, from end-2016, relative to growth of USD 10.9 billion, or 7.2%, in 2016. Private sector deposits increased by USD 5.2 billion in the first half of 2017 and by USD 933 million in the second half of the year. The growth in the banks' deposits decelerated as a result of outflows in November 2017. In fact, deposits decreased by USD 2.6 billion in November, with deposits in local currency decreasing by the equivalent of USD 2.9 billion and deposits in foreign currency growing by USD 333.4 million. However, deposit outflows reversed the following month as the stock of deposits rose by USD 1.86 billion in December, with foreign currency deposits growing by USD 1.6 billion. The November political crisis constituted another episode of political volatility during which deposits at Lebanese banks proved to be resilient.

PRIVATE SECTOR DEPOSITS (USD Billion)



Source: Association of Banks in Lebanon, Byblos Bank Economic Research and Analysis Department

Private sector deposits were equivalent to 321.5% of GDP in 2017, one of the highest such ratios in the world. Deposits in Lebanese Pounds reached USD 52.8 billion, down by 5% from end-2016 and compared to an increase of 4.3% in 2016, while deposits in foreign currencies totaled USD 115.9 billion, constituting a rise of 8.4% from end-2016 and relative to an increase of 8.8% in 2016.

Non-resident foreign currency deposits totaled USD 30.9 billion at end-2017, increasing by 4.9% from end-2016 relative to a rise of 7.3% in 2016. The dollarization rate of deposits reached 68.7% at end-2017, up from 65.8% a year earlier, with most of the increase in the dollarization rate occurring in the fourth quarter of last year. In parallel, deposits of non-resident banks reached USD 7.5 billion, and rose by 19.1% from end-2016.

The ratio of private sector loans to deposits in foreign currencies stood at 36.9% at end-2017, well below the BDL's limit of 70%, and compared to 38.8% a year earlier. In parallel, the same ratio in Lebanese Pounds was 33.2% at the end of 2017, up from 28.2% at end-2016. The ratio of total private sector loans to deposits was 35.8% at the end of 2017, relative to 35.2% a year earlier. The banks' capital base stood at USD 19.1 billion at the end of 2017, up by 4.9% from a year earlier, with core capital growing by 5% to USD 17.9 billion.

In parallel, the unaudited consolidated net profits of the top 15 banks by deposits reached USD 2.4 billion in 2017, constituting an increase of 6% from net earnings of USD 2.3 billion in 2016. Net operating income regressed by 9.6% year-on-year to USD 5.9 billion, with aggregate net interest income rising by 6.1% to USD 4 billion and net fees and commissions declining by 42.5% to USD 893.6 million. In addition, net gains on financial assets at fair value decreased by 50.8% to USD 596.3 million in 2017. Non-interest income accounted for 34.3% of total income in 2017, down from 46.4% in the preceding year, with net fees and commissions representing 39.6% of non-interest income compared to 43.9% in 2016. Also, the cost-to-income ratio was 47.65% in 2017, up from 43.2% in 2016. Further, the banks' return on average assets was 1.06% in 2017 relative to 1.07% in the preceding year, while their return on average equity was 11.4% in 2017 compared to 11.6% in 2016.

THE GLOBAL AND REGIONAL ECONOMIES IN 2017

Global economic activity improved in 2017, mainly due to a rebound in global investment amid favorable lending conditions and higher private consumption, as well as improved business sentiment in both advanced and emerging economies. The global economy grew by a real rate of 3.8% in 2017 relative to 3.2% in 2016. Economic growth increased in advanced economies from 1.7% in 2016 to 2.3% last year, and emerging markets and developing economies posted a real GDP growth rate of 4.8% in 2017, higher than the previous year's rate of 4.4%. Economic activity accelerated in most regions around the world, while it decelerated in the Middle East and North Africa (MENA) region and continued to be subdued in Sub-Saharan Africa (SSA).

The economies of the MENA and 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 low oil price environment since mid-2014 has had a material impact on economic activity, public finances, and the business environment in the two regions.

However, oil prices started to recover in the second half of 2017, as they averaged USD 52.70 per barrel (p/b) in the first six months of 2017 and rose to an average of USD 56.80 p/b in the second half of the year. Overall, oil prices averaged USD 54.80 p/b in 2017, up from USD 45.10 p/b in 2016, while they closed at USD 66.90 p/b at the end of 2017 compared to USD 56.80 p/b a year earlier. The high compliance of oil producers – including both members and non-members of the Organization of Petroleum Exporting Countries (OPEC) – to previously agreed production cuts supported oil prices throughout the year. Other supporting factors included political tensions in the Middle East; sporadic supply disruptions in Angola, Iraq, Libya, and Nigeria; a weaker US Dollar; and higher global demand. Oil producers first reached the OPEC deal in November 2016 and extended it in May 2017 until March 2018. OPEC members decided in November 2017 to further extend their oil production cuts until the end of 2018.

Economic growth in the MENA region decelerated from 4.9% in 2016 to 2.2% in 2017, as the impact of the OPEC deal on hydrocarbon output and geopolitical tensions in the region have more than offset the modest pickup in activity among oil importers in the MENA region.

Real GDP in GCC countries contracted by 0.2% in 2017, following a growth rate of 2.1% in 2016, due to subdued activity in the hydrocarbon sector. In fact, hydrocarbon output contracted by 2.8% in 2017 relative to a growth rate of 2.9% in the preceding year because the oil deal between OPEC and non-OPEC members restrained output. The weak performance of the hydrocarbon sector in GCC countries outweighed the ongoing recovery of the non-oil economy across most member countries of the GCC. As such, activity in the non-hydrocarbon sector expanded by 1.8% last year, compared to a growth rate of 1.6% in 2016.

Further, real GDP growth in non-GCC oil exporters, which include Algeria, Iran, Iraq, Libya, and Yemen, regressed from 9.3% in 2016 to 3.9% in 2017. Hydrocarbon output growth decelerated from 39.3% in 2016 to 3.3% in 2017, mainly due to the normalization of output in Iran and Iraq, after Iran's oil production surged in 2016 following the nuclear deal in January 2016. In parallel, non-hydrocarbon sector activity in non-GCC oil exporters expanded by 3.5% in 2017 compared to flat growth in 2016.

In contrast, the real GDP growth rate of the MENA oil-importing economies slightly improved from 3.3% in 2016 to 3.7% in 2017, mostly because of improved activity in Morocco amid higher agricultural production. However, economic activity in oil-importing economies remained subdued and constrained by structural weaknesses, such as weak public finances and challenging operating environments.

In parallel, the modest recovery in global oil prices, along with fiscal consolidation efforts, have relatively eased the pressure on the fiscal and external balances of oil-exporting economies in the MENA region in 2017. The fiscal deficit of the region's oil exporters is estimated to have narrowed from 10.6% of GDP in 2016 to 5.2% of GDP in 2017, while their current account balance shifted from a deficit of 3.6% of GDP in 2016 to a surplus of 1.2% of GDP last year. The GCC countries' aggregate fiscal deficit is estimated at 5.5% of GDP in 2017, and their aggregate current account surplus at 2.1% of GDP last year. The debt level in GCC countries slightly rose from 21.2% of GDP in 2016 to 25.4% of GDP in 2017, but remained at manageable levels across most oil exporters, except for Bahrain, where it reached 90.3% of GDP.

Also, the aggregate fiscal deficit of the MENA region's oil importers reached 7.2% of GDP last year, while their current account deficit stood at 8.1% of GDP in 2017. Despite improvements in the fiscal positions across most oil importers, public debt levels remained elevated in several countries, exceeding 90% of GDP in Egypt, Lebanon, and Sudan.

In parallel, economic growth in SSA countries accelerated from a 20-year-low rate of 1.4% in 2016 to 2.8% in 2017, mostly because of higher commodity prices. But the recovery in activity across countries has been fragile, uneven, and below the region's potential.

The SSA region's eight oil-exporting economies posted a modest recovery in activity amid relatively higher oil prices and improved output because of reduced disruption to oil production. As such, the aggregate real GDP in SSA's oil exporters registered a growth rate of 1.9% in 2017, up from 0.4% in 2016. But non-hydrocarbon sector activity in the SSA region's oil-exporting economies continued to be weak amid structural bottlenecks and a challenging business environment.

Further, real GDP growth in the member countries of the West African Economic and Monetary Union reached 6.5% in 2017, nearly unchanged from 6.6% in 2016, despite lower cocoa prices, while economies in East Africa posted strong growth despite both the low cocoa prices and drought. Also, economic activity rebounded in the SSA's metal-exporting economies amid improved output and prices, higher investments, and better agricultural output.

The SSA region's aggregate current account deficit narrowed in 2017, mostly because of higher commodity prices. Still, the median deficit stood at 6% of GDP last year. Also, the median level of foreign currency reserves in SSA countries increased from 3.4 months of imports in 2016 to 3.6 months of imports in 2017, reflecting higher oil prices, fiscal consolidation, and easier access to international capital markets. However, the median level of foreign currency reserves was below the peak of 3.9 months' worth of imports reached in 2014, and several SSA countries maintained their reserves below the benchmark of three months of import cover.

In parallel, the aggregate fiscal deficit of SSA countries slightly widened from 4.6% of GDP in 2016 to 5% of GDP in 2017. But fiscal performance varied across SSA countries, as it deteriorated in Angola and Nigeria, which outweighed the narrowing of the deficit in other oil-producing economies. The median debt ratio in the SSA region increased from 51.6% of GDP in 2016 to 53.4% of GDP in 2017 amid high debt servicing costs and subdued economic activity. The SSA region's debt dynamics are vulnerable to fiscal slippages, subdued growth rates, exchange rate depreciations, and tighter financial conditions. Further, the pressure on exchange rates eased in oil-exporting economies due to higher oil export receipts, which helped stabilize the region's average inflation rate at 11%.

ANNUAL REPORT 2017

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 expanded its network to 88 branches (as at 31 July 2018) spread evenly across Lebanon. The Group also has expanded to several other countries, including Armenia, Belgium, Cyprus, 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

Adonis Insurance and Reinsurance Co. S.A.L. (ADIR) was established in 1983 as a subsidiary of Byblos Bank. 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 timely claim settlement. ADIR provides a comprehensive range of standard and tailored insurance solutions to both individual and institutional clients, including life, fire, general accident, and medical coverage, among other products. In 2001, Natixis Assurances – France, 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 and financial 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.

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, Homs, Tartous, and Lattakia, 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. 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.

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.
(Deconsolidated in 2016)

2005
Opening of a Representative Office in Abu Dhabi, UAE.
Opening of Byblos Bank Syria S.A.
(Deconsolidated in 2016)

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. (Divested in 2018)

2016
Acquisition of Banque Pharaon & 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.

ANNUAL REPORT 2017

YEAR IN REVIEW

OPERATIONS

CORPORATE SOCIAL RESPONSIBILITY

CORPORATE GOVERNANCE

OPERATIONS

Byblos Bank's traditional focus on stability proved its worth once again in 2017, allowing the Bank to achieve surprisingly strong results despite another year of adverse conditions. Even when the usual mix of side-effects from local and regional factors was punctuated by a sudden domestic political shock near the end of the year, our high-liquidity strategy proved a more than adequate shield.

LOOKING OUT FOR CONSUMERS

The Consumer Banking Division was active on many fronts in 2017 as we continued to integrate new technologies, get more of our clients onto our digital platforms, and build our long-term market share by serving a wider range of customers and customer segments.

We also maintained our status as a leading innovator in the Lebanese and MENA banking sectors. In December 2017, we transformed an old-fashioned branch of Banque Pharaon & Chiha (acquired in 2016) into our first Counterless Branch. Furthermore, we are preparing to launch our first Satellite Branch, which will open this year near the American University of Beirut's Main Gate. These new facilities offer greater convenience and flexibility for Byblos Bank clients.

In addition, we continued to update our domestic branch network, already one of the biggest in the country, with new technologies, and to modernize and freshen up their interiors. We also shifted some of them to better strategic locations that allow easier access for customers. Branch staff members also joined their Customer Service colleagues in encouraging more customers to take advantage of our various technological tools, from Smart ATMs and Internet Banking to our trendsetting Mobile Banking Application and ByblosPay, the first Mobile Payment App in Lebanon, the Levant, and North Africa.

Another achievement in 2017 was the successful campaign to update Customer Information Files (CIFs) more regularly, a crucial step toward getting the most out of the new Customer Relationship Management solution adopted at the branch level the previous year. CIFs are crucial to identifying customer needs and how to meet them, so the updating drive has been retained as a core objective for 2018 as well.

This process has been combined with an emphasis on gaining and retaining new customers, specifically in the 18-24 age bracket. Recent years have seen the Bank reach out to youth in several ways, including campus visits; building a presence on Facebook, Instagram, and Snapchat; and The Makers Account, which confers exclusive advantages on the younger generation. As a sign of how seriously Byblos Bank takes the youth market, our campaign for The Makers Account even won the Pikasso D'Or Grand Prix Award for Best Outdoor Campaign in 2017.

The large numbers of Lebanese working abroad have always constituted a natural market for Byblos Bank, and the Division paid special attention to this population in 2017 with a comprehensive Expat Housing Loan campaign titled "There's No Place Like Home". The campaign not only enjoyed commercial success, but also garnered worldwide attention when it earned no fewer than seven prizes at the 2017 Midas Awards, the only industry event that recognizes excellence in financial advertising on a global scale.

The past year also saw us playing a vital role in helping small- and medium-sized enterprises (SMEs), in many ways the lifeblood of the national economy, to navigate the very same conditions that have put pressure on the banking sector. Once again, this was in keeping with a long and proud tradition of Byblos Bank nurturing the entrepreneurial spirit that the Lebanese bring wherever they go, helping to generate jobs, growth, and prosperity. Over the course of the Bank's history, it has provided almost LBP 3 trillion in credit for SMEs in Lebanon, and our offering also includes a long list of advisory and other services that are especially valuable in periods of economic instability.

One of Byblos Bank's greatest strengths has always been its attention to learning about its customers. Banking is all about transactions, but in order to provide the best possible products and services to the right clients at the right times and places, we need our relationships to be more than transactional. Many of the Bank's employees have roles in building and maintaining the trust and respect required for closer – and more productive – associations, but members of our Customer Service team have a constant presence. Always available to carry out the instructions, answer the questions, and/or ease the concerns of our customers, they provide the kind of attention and support that keeps relationships strong and healthy.

To help them in their mission and honor its commitment to transparency and easy access to information, the Bank also completed a major overhaul of its website in 2017, including a complete re-design that provides more seamless navigation from virtually any device. The content was also updated and reorganized, making it easier to find clear information about all of our products and services, make comparisons between similar offerings, run simulations, and access multiple avenues of communication and feedback through quick links to Customer Service, Investor Relations, our CSR strategy, and requests for support.

LOOKING OUT FOR COMPANIES

Larger companies also faced significant headwinds in 2017, and the Commercial Banking Division was there for them, sharing its experience and expertise to help clients ride out the storm. For decades, Byblos Bank has been a catalyst in the development of Lebanon's highly resilient private sector, which always finds a way to emerge from crisis stronger than it was before. There is no magic formula for this kind of resilience, but it certainly helps that Lebanese businesses have been ready, willing, and able to expand their operations to places like Africa, Europe, and the Middle East – and that Byblos Bank has helped so many of them to get there.

Even in the age of globalization, doing business across borders carries many special requirements, particularly in emerging markets that are often at the mercy of things like poor communications and other services, weak governance and regulation, and political instability. Byblos Bank specializes in overcoming such obstacles, providing solutions that help our customers safeguard their investments, grow their businesses, and provide livelihoods for employees and their families.

The Division is proud of this record, and we still do the things that made it possible. Product development is an ongoing process to ensure that our customers have the tools they need to handle changing circumstances, and our services are backed by teams of specialized professionals whose long experience in particular areas – including key sectors such as manufacturing, trade, real estate, construction, and project finance – makes them very valuable for our business clients. In line with Byblos Bank's strategy of putting technology at the service of clients, the launch of Corporate Internet Banking in both Lebanon and Iraq in 2017 offered a wide range of big, medium, and small companies more convenience, better control of their accounts, and better customer experiences.

In 2017, we also added to Byblos Bank's extensive credentials as a trusted partner for multilateral financial institutions, signing three agreements that will help us lend further support for Lebanese companies. In July we entered into a fourth Global Loan Agreement with the European Investment Bank (EIB) which will make some EUR 100 million (about USD 125 million) in credit available for SMEs in Lebanon. In the following month, the Bank also signed a USD 20 million deal with the SANAD Fund for Micro, Small and Medium Enterprises, a Luxembourg-based development lender, and a USD 25 million deal with the Green for Growth Fund (GGF) a Luxembourg-based investment fund specialized in the financing of Energy Efficiency and Renewable Energy projects, adding even more capability to support local businesses, including the very smallest. For many of the Bank's commercial customers, access to the aforementioned capabilities – and the dedication that makes them possible – has never been more necessary. Several of the markets in which we operate have been hit by a series of shocks in recent years, including lower prices for the commodities they export, widespread socioeconomic crises, and even war. Many of these conditions and/or their repercussions are expected to persist throughout 2018, but the Commercial Banking Division – like Byblos Bank as a whole – has been there and done that. The validity of our conservative approach to growth targets was proved yet again in 2017, and even though we have systems and practices in place that protect our market share and preserve our asset quality, we also never stop revisiting these issues to see how we can do better. Most importantly, we will continue to assist our clients in coping with their challenges – and to help them plan for more favorable times ahead.

Our Private Banking operation also performed well under pressure in 2017, maintaining the amount of assets under its management, achieving a fair return on its portfolio despite considerable headwinds, and providing liquidity for Byblos Bank bonds, preferred shares, and common shares. In addition, the Private Banking team instituted new rules as per a request from the Capital Markets Authority, and updated all of its Customer Information Files to meet both Common Reporting Standard procedures and the requirements of the USA's Foreign Account Tax Compliance Act.

CAPITAL MARKETS: A STEADY HAND

The Treasury and Capital Markets team faced regional and local challenges in 2017, not least the continuing conflict in Syria and the full-blown political crisis that gripped Lebanon following the prime minister's resignation in November. Nonetheless, and thanks to the same conservative philosophy that typifies how Byblos Bank does business, we not only maintained our leading position in the marketplace but also preserved the interests of all our stakeholders.

On the treasury side, Byblos Bank once again played its perennial role as liquidity provider, especially at the interbank level of the LBP money markets and even at the peak of the political crisis. In the global capital markets, our skilled traders extended their record of world-class professionalism in executing orders, helping our clients manage their holdings of bonds, equities, and derivatives. We also maintained our brokerage and market-making roles on the Beirut Stock Exchange. The Bank also held a significant share of the markets for Lebanese Government Eurobonds and Treasury Bills. In addition, we provided highly effective hedging tools to help our corporate clients dealing in commodities and foreign exchange.

MILESTONE: 10 YEARS OF RELIABLE DATA FOR EVERYONE

July 2017 saw the Group Economic Research and Analysis Department mark its 10th anniversary by publishing the 500th editions of its flagship publications, "Lebanon This Week" and the "Country Risk Weekly Bulletin". Since its inception, the Department has been dedicated to disseminating reliable information about the Lebanese economy to all stakeholders, from customers, investors, and businesspeople to policymakers, diplomats, and the media. This activity also includes the compilation and analysis of a Consumer Confidence Index and a Real Estate Demand Index, both of which have become trusted bellwethers in a market that often lacks transparency and reliable data. By providing information that is objective, balanced, and scientific, the Bank empowers its clients to make better-informed decisions – and renders a valuable service for the Lebanese economy as a whole.

OVERSEAS OVERHAUL

The Foreign Banking Units Division continued to consolidate and strengthen the performance of our international banks in 2017. These efforts led to a 73% increase in profits generated by foreign entities and a 45% rise in their total assets.

In line with the newly adopted strategic guidelines, Byblos Bank continues the repositioning of its international presence. Following the deconsolidation of two foreign entities at end-2016, the Bank has decided to discontinue its presence in the Democratic Republic of the Congo by selling its majority stake to its local partners.

By the same token, foreign entities witnessed significant changes in key managerial positions as Byblos Bank underwent a global rotation of senior expatriate managers, as well as the recruitment of seasoned bankers and business developers. The fresh impetus brought by the new team already has begun to further improve performance, efficiency, and profitability at various foreign entities.

On another level, several projects were launched to introduce new products and services at foreign units to help them enter new market segments, which will increase business and improve profitability while diversifying sources of income. Byblos Bank also continues to explore and study an array of potential markets for future expansion, all part of its continuous search for profit-generating investments within acceptable risk and diversification criteria.

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. These improvements will involve additional tailoring of the various business models operated by our foreign entities, mainly to ensure that they fit with conditions prevailing in the markets where we operate. This will make our international presence more responsive to changes in the economic environment, and more profitable in the medium and long terms, while consistently complying with local requirements and international limitations.

LOOKING OUT FOR EMPLOYEES

WE VALUE OUR PEOPLE AND HELP THEM SUCCEED

In line with Bank-wide strategic goals, Group Human Resources continued in 2017 to employ effective methodologies to drive talent acquisition and development, facilitate career growth, and design appropriate levels of employee benefits. Several HR initiatives optimized the efficiency of human capital management and offered solid support for the Bank's performance and continuous development.

TALENT ACQUISITION

HR has a robust recruitment and selection strategy that focuses not just on attracting the most qualified candidates, based on a set of skills and competencies in line with business requirements, but also on long-term planning to ensure future flows of talent. The Bank has built a pool of candidates from all levels of seniority, including existing employees, interns, university graduates recruited through job fairs, and online applicants, as well as experienced candidates identified via different sources, and all prospective recruits are treated equally.

In 2017, Byblos Bank strived to maximize the efficiency of its internship program, in part by making it more hands-on. This makes the tradeoff better for both sides: they do more things for us, and we give them more relevant skills and experience. In addition to offering a structured and well-defined internship experience, Byblos Bank also conducted a competition among interns during summer 2017. This initiative provided about 150 interns from distinguished universities with real-life experience in working toward specific objectives, and helped them attain operational understanding of the banking sector.

Furthermore, Byblos Bank participated in more than a dozen job fairs at leading universities during the year, with a focus on The Makers Account to highlight the Bank's emphasis on the needs and aspirations of youth. All told, the Bank recruited approximately 270 employees – equally split between men and women – in 2017, helping to supply the Bank's need for talent to keep up with business needs, both inside and outside Lebanon.

TALENT DEVELOPMENT

At the level of career management, Byblos Bank seeks to continuously develop its employees in order to exceed performance objectives and deliver superior business results by maintaining sustainable improvements in methods and processes.

To this end, the Bank has adopted the Balanced Scorecard system, which links individual performance indicators to the Bank's overall objectives in order to ensure a fair, transparent, and performance-based management culture that supports both the Bank's business goals and the development of its employees.

Moreover, Byblos Bank seeks at all times to be a workplace that promotes high performers and grants all employees a chance to grow. We do this by facilitating personal and professional development through a variety of career programs and learning opportunities.

On another level, Byblos Bank strives to instill and sustain engagement among its employees by ensuring a steady flow of motivational initiatives (opinion surveys, sporting activities, holiday events, etc.). In 2017, HR also carried out a detailed analysis of the findings from the Employee Engagement Survey, allowing us to develop responsive action plans, tailored to individual entities or parts thereof, to enhance engagement and motivation among staff.

On the learning and development front, HR continued to provide employee development opportunities by holding well-defined training sessions across all job categories and ushering recipients into new areas of sharing knowledge and acquiring education.

By combining learning with practice, HR has reinforced its training systems to encompass both in-house programs and those delivered by external partners, emphasizing a mix of topics tailored to meet behavioral and technical development needs. It has also worked toward reshaping the Bank's training academy, Byblos Way, by leveraging in-house professional resources to provide technical instruction. In 2017, Byblos Way enhanced its Virtual Branch simulation tool, which provides new recruits with real-life cases to help them secure some of the necessary knowledge and practice before they start their career journeys.

As part of the Bank's constant pursuit to improve its work culture, in 2017 we continued to follow the culture-building initiative by cascading Grid methodology to a significant number of employees reporting to mid-level managers. With most managers having already been exposed to the Grid concept, the extension to more employees will further boost transparent communication and enhance interpersonal relationships among team members.

EMPLOYEE BENEFITS

Byblos Bank is committed to investing in employees' benefits with a view to supporting their needs and nurturing their welfare. HR works diligently to anticipate future opportunities and challenges in order to serve employees in a way that best meets their expectations.

In keeping with this philosophy, the Bank rewards employees for their efforts by offering a competitive pay structure, performance-based bonuses, and a variety of valuable benefit programs, including life insurance, comprehensive medical coverage, and access to exclusive banking products and special features.

In addition, Group Human Resources is working with Ernst & Young, a multinational professional services firm, to develop an even more wide-ranging incentive scheme. Based on clear and well-defined criteria, this new system will enable us to reward performance even more accurately, encouraging personal accountability while ensuring that all employees are evaluated on an equal basis.

160 Civil Society Groups

108 Schools and Universities

62 Municipalities

2017 SUPPORTED PARTNERS

19 Clubs

14 Professional Orders

TOTAL 363

FINANCIAL LITERACY

'Faker Maliyan'
Launched in 2015

120
episodes covering topics of personal finance, financial planning, banking, and the economy

1,950
installments aired* after LBCI's evening news broadcast and during late-night news bulletins

450,000
people reached on average per day

** As at 31 July 2018*

MoneySmart Boot Camps
Launched in 2017

4	boot camps
5	trainers
8	speakers
9	Byblos Bank volunteers
13	summer interns
128	instruction hours
219	participants aged 18-25

‘Reghem Kel Chi’
Launched in 2015

1,065
episodes aired* during MTV’s flagship evening news broadcast, with re-plays in the morning and afternoon news programs

200,000
people reached on average per day

Countless
good vibes and nationwide exposure for local start-ups, NGOs, municipalities, and individuals creating, helping, leading, providing, and achieving Despite It All

** As at 31 July 2018*

COMMUNITY

Jbeil Christmas Decoration
2014-2017

4 Christmas trees decorated in grand style

3 Christmas trees named among the best in the world

100s of businesses created and/or sustained

10,000s of visitors attracted

CORPORATE SOCIAL RESPONSIBILITY

PHOTOGRAPHY

Byblos Bank Award
Launched in 2012

6	winners named
6	expert mentoring programs for winners
6	catalogs and media campaigns for winners
6	solo exhibitions of winners' works
65	finalists
500+	photographers applying
3,500	photos submitted

Photomed
2014-2017

4	years of bringing the best Mediterranean photography to Lebanon
4	Master Photographer exhibitions
8	portfolio readings
14	workshops
17	exhibitions of Mediterranean photography
21	Lebanese photographers exhibited

ENVIRONMENT

Byblos Bank Bio-Corridor
Launched in 2013

2	isolated forests brought together
2,000+	volunteers recruited
6,720	seedlings of different species planted
10,980	cedar seedlings planted
150,000	square meters of habitat reforested

CORPORATE GOVERNANCE

THE CATALYST FOR HOW WE DO BUSINESS

Byblos Bank has long practiced a very conservative style of banking that prioritizes long-term performance over short-term gains. The strategy relies on a rigorous system of governance that leaves nothing to chance: the Bank always complies fully with all applicable local and international rules and regulations, and always adopts the latest best practices that help keep us in compliance. In some cases our own internal standards are more stringent than the regulatory ones, and even when tougher requirements are promulgated, our market-leading liquidity helps meet them with ease – often years ahead of time.

The resulting financial solidity has been the foundation for all of Byblos Bank's success. For decades this solidity has allowed the Bank to keep growing steadily while making sure it has the resources to cope with the unexpected. Even amid the repeated shocks that have rocked Lebanon and some of our other markets in recent years, our systems and procedures have been more than up to the task. Our financial strength increases every year, and we continue to play a leading role in the marketplace.

The continuing success of our governance structures and methods also relies on the ability to act proactively, so we constantly re-examine our policies, structures, and methods to make sure they remain fit for purpose despite changing circumstances. This aspect also is integrated into our training schedule, which provides for regular update sessions so that management and staff are always aware of any new standards and understand the requirements to meet them.

Attention to detail is also responsible for another pillar of Byblos Bank's success: reliable information is the lifeblood of both good decisions and good reputations, so we invest heavily in ensuring that we provide only the highest-quality data, particularly for our shareholders. Here too we actively follow and consistently implement all updates to international best practice, helping us to generate information that is accurate, complete, and timely. This policy and the results it produces have made Byblos Bank a model for other banks in the markets we serve, and this reputation is of enormous value for everyone from clients and employees to shareholders and business partners.

This disciplined, professional approach also renders another service to the Bank and all of its stakeholders: insulation against the effects of money laundering, the financing of terrorism, tax evasion, sanctions violations, and other nefarious activities. Such activities pose severe reputational threats to any financial institution, and prevention is the only surefire protection. Accordingly, we follow the highest standards and give our staff all the training, tools, and other forms of support they need to keep detecting and blocking potential violations before they occur. We also keep our organizational structures and procedures up to date by implementing new supervisory directives with all possible speed, and we cooperate fully with regulatory authorities to uncover and report suspicious activities.

Byblos Bank's governance model is based on recommendations from the Basel Committee on Banking Supervision, guidelines published by the Financial Action Task Force, all relevant national regulations, and the constantly evolving body of international best practice. In keeping with this by-the-book approach, the Bank has developed a world-class toolbox of compliance policies, procedures, and systems, all helping us to meet our obligations to help identify and block money laundering, terrorism financing, sanctions violations, and other illicit activities. Operating such a comprehensive system relies on a variety of standing policies and procedures, among them:

- 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 that is judged to be unusual or suspicious, and, when appropriate, filing a case with the relevant local authorities;

- Providing 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 USA's Foreign Account Tax Compliance Act (FATCA) and the Common Reporting Standard adopted by the Organization for Economic Cooperation and Development.

Byblos Bank's commitment to compliance also extends across borders, which means that wherever we do business, we do so under the aegis of the same principles. To ensure that all aspects of our compliance program are implemented without exception, the Group employs a vigorous oversight regime covering all of its activities. Under this regime, each branch has its own compliance officer and each subsidiary has its own local Compliance Department, all under the direction of Group AML and Legal Compliance at Byblos Bank Headquarters. In addition to these safeguards, the Head of Group Compliance has direct access to each of Senior Management, the Board of Directors, and the Central Bank of Lebanon's Special Investigation Commission.

The diligence with which we develop and implement our compliance policies and practices stems from the Group's full institutional embrace of exacting governance as the most necessary feature of modern risk management strategy.

Accordingly, Byblos Bank employs the most up-to-date systems, technologies, and processes to manage all types of risks for all of the Group's business lines, and we do so at the individual, portfolio, and aggregate levels. These are supplemented, too, by tried and tested methods to protect client information, adherence to the highest ethical standards for all of our business activities, and an unshakeable commitment to ensuring complete transparency regarding risk disclosure to Senior Management, the Board of Directors, regulators, ratings agencies, and other interested parties.

World-class governance has been a catalyst for all that Byblos Bank has accomplished in its rise from small local lender to respected international player, including consistently solid returns, market-leading financial stability, and a reputation for decency and credibility. That reputation means real value for all of our stakeholders, and while we constantly update the tools and techniques used to maintain and even expand it, we will always stand by the principles that got us here.

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 and Byblos Bank Armenia. In addition, serves as Chairman of the Board of Directors and General Manager of Byblos Invest Holding Luxembourg. Is a former four-time Chairman of the Board of the Association of Banks in Lebanon.

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 and serves as a Member of the Board Compliance Committee. Also is 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. Decorated as Officer of the Order of the Crown by H.M. King Philippe of Belgium in August 2017.

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.

BOARD OF DIRECTORS MEMBER PROFILES

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, is a current or former holder of banking directorships in 10 countries, and was named Chairman of Ulster Bank in Ireland in July 2017. 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 Committee.

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 and the Board Risk Committee.

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. Also serves as the Chairman of the Board Compliance Committee.

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 Committee and the Board Compliance Committee.

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. Also serves as a Member of the Board Remuneration, Nomination and Corporate Governance Committee.

BOARD OF DIRECTORS COMMITTEES

AUDIT COMMITTEE

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

RISK COMMITTEE

Chairman	Mr. Des S. O'Shea
Members	Mr. Yves R. Jacquot
	Mr. Ahmad T. Tabbara

REMUNERATION, NOMINATION AND CORPORATE GOVERNANCE COMMITTEE

Chairman	Mr. Alain C. Tohmé
Members	Mr. Faisal M. Ali El Tabsh
	Mr. Bassam A. Nassar

COMPLIANCE COMMITTEE

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

REMUNERATION POLICY AND PRACTICES

Byblos Bank aims to build an engaged and empowered community in which employees receive fair compensation based on their performance results. To achieve this, the Bank has put in place a comprehensive Remuneration Policy, including clear criteria and covering all categories of rewards, in order to strengthen the organization and contribute continuously to the development and retention of its skilled employees.

The Board of Directors has approved the Remuneration Policy, taking into account the Bank's overall practices, corporate governance principles, and risk management policies and processes. This policy also reflects the Bank's culture, which promotes a cooperative and dynamic workplace with highly engaged employees.

The Remuneration Policy follows a strategy that is fairer, more responsive, and more accurately reflects merit, tying salaries and rewards more closely with employees' job positions and performance outcomes. In order to link variable rewards to performance outcomes, the Bank has adopted the "Balanced Scorecard" system, which aligns employees' performance with the Bank's overall objectives to ensure a transparent, unbiased, and performance-based incentive scheme.

The standard Byblos Bank compensation package consists of basic salary, performance-based variable pay, medical insurance, and allowances for education, transportation, and food, among others. Each entity of the Group must adhere to the minimum standards set out in the Remuneration Policy, along with its own policies, market conditions, and legal regulations in the country(ies) where it operates.

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 2017 amounting to LBP 205.6 billion (or approximately USD 136.4 million). The Annual Report also discloses all salaries, bonuses, profit-sharing, attendance fees, and other short-term benefits to key management personnel, which for 2017 amounted to LBP 19.9 billion (or approximately USD 13.2 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
	John Massaad	Head of Group Technology Services

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
	Selim Stephan	DGM, Head of Foreign Banking Units
	Alain Wanna	DGM, Head of Group Financial Markets and Financial Institutions
	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

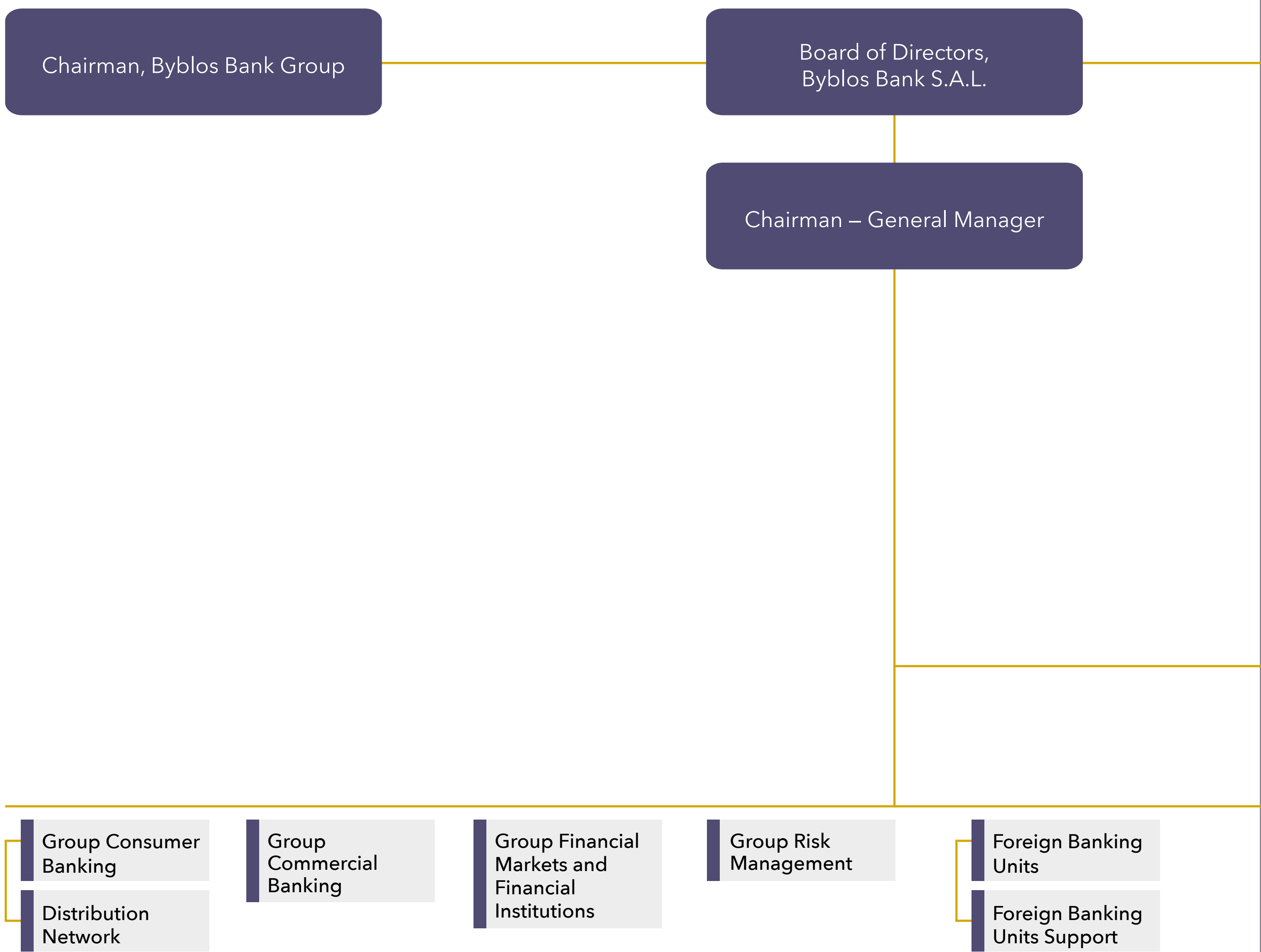
INFORMATION SECURITY COMMITTEE

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
	Ziad El Zoghbi	Head of Group Finance and Administration
	John Massaad	Head of Group Technology Services

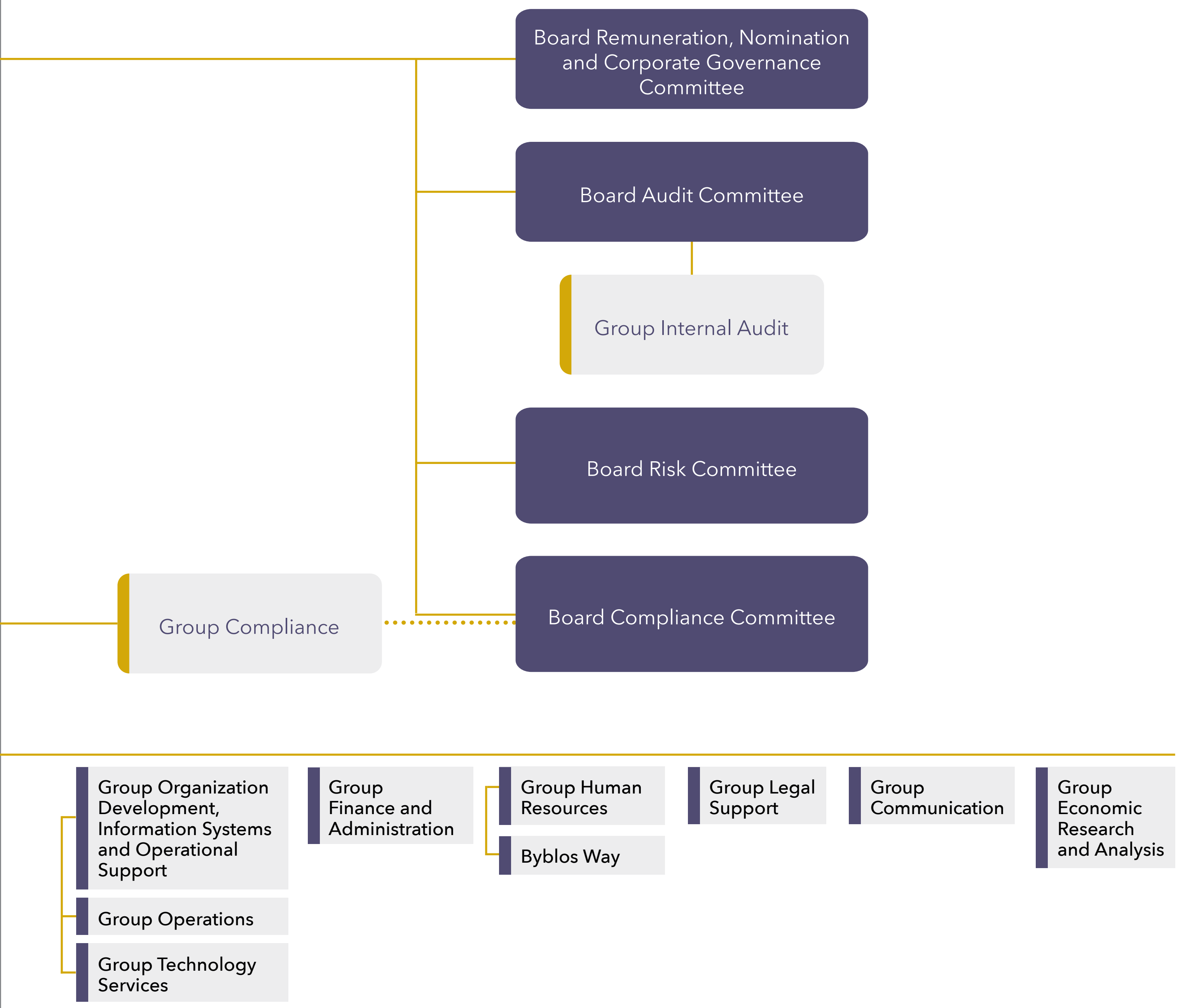
PURCHASING COMMITTEE

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	Head of Group Organization Development, Information Systems and Operational Support
	Antoine Keldany	Head of Administration

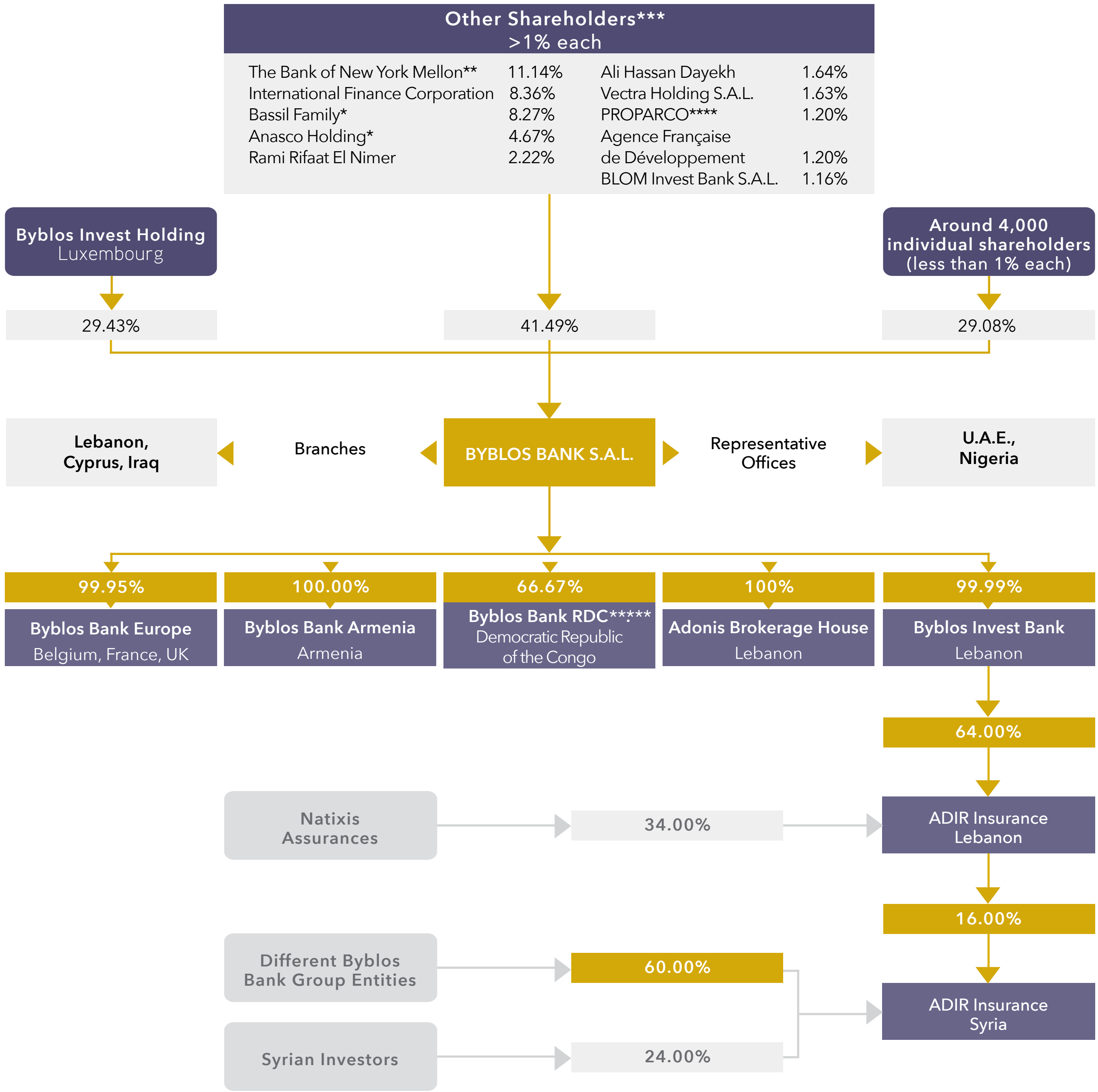
ORGANIZATIONAL CHART



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 2017.
**** Société de Promotion et de Participation pour la Coopération Economique.
***** Divested in 2018.

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REVIEW OF FINANCIAL PERFORMANCE

KEY FINANCIAL DATA

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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CONSOLIDATED FINANCIAL STATEMENTS

KEY FINANCIAL DATA

	2008	2009	2010
Total assets	11,230	13,576	15,288
Customers' deposits	8,363	10,286	11,927
Net advances to customers	2,790	3,197	3,771
Cash and due from banks (1)	4,708	6,179	7,802
Total equity	1,270	1,494	1,831
Net book value (2)	699	827	1,124
Net income	122.0	145.6	177.7
Number of domestic branches	76	75	77
Number of foreign branches and subsidiaries (3)	17	19	23
Number of ATMs (4)	114	133	149
Number of employees (4)	2,362	2,433	2,719
Market Shares (5)			
Market share in assets	9.88%	9.80%	9.97%
Market share in customers' loans	8.71%	8.51%	8.05%
Market share in customers' deposits	9.48%	9.41%	9.51%
Share Data			
Book value per share in USD (6)	1.65	1.95	1.99
Earnings per common share in USD (6)	0.21	0.26	0.27
Earnings per priority share in USD (6)	0.24	0.29	0.30
Net dividend per common share in USD (7)	0.10	0.13	0.13
Net dividend per priority share in USD (7) (8)	0.13	0.16	0.16
Dividend payout ratio	57.10%	58.71%	63.80%
Profitability			
Return on average assets	1.18%	1.17%	1.23%
Return on average common equity	14.56%	15.00%	14.03%
Leverage multiplier	10.46	10.48	9.38
Interest on earning assets	6.97%	6.38%	5.84%
Funding cost	4.99%	4.65%	4.21%
Spread	1.98%	1.73%	1.63%
Net interest margin	2.39%	2.17%	2.04%
Cost-to-income	47.38%	46.28%	45.54%
Operating-expenses-to-average-assets	1.77%	1.42%	1.47%
Capital Adequacy			
Capital-to-assets	11.31%	11.01%	11.97%
Capital adequacy (9)	12.61%	12.62%	14.75%
Liquidity			
Net advances/assets	24.85%	23.55%	24.67%
Net advances/customers' deposits	33.37%	31.08%	31.62%
Customers' deposits/total resources	74.47%	75.77%	78.01%
Liquid assets	70.69%	72.42%	71.85%
Assets Quality			
Loan loss provisions (10)/customers' loans	4.19%	3.64%	3.45%
Non-performing loans/customers' loans	3.36%	2.63%	2.38%
Loan loss provisions (10)/non-performing loans	115.64%	134.10%	144.46%
1 USD =	LBP 1,507.5	LBP 1,507.5	LBP 1,507.5
Number of shares	423,136,280	423,136,280	565,515,040

(1) Includes CDs issued by the Central Bank.
(2) Excludes subordinated loans, preferred shares, and minority interest.
(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 Sulaymaniah in Iraq, and Limassol in Cyprus.
(4) Includes employees and ATMs 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 SAL in Baghdad, Basra, Erbil, and Sulaymaniah in Iraq, and Limassol in Cyprus.
(5) Market share is based on all commercial and investment banks operating in Lebanon.

2011	2012	2013	2014	2015	2016	2017
16,602	17,015	18,485	19,035	19,870	20,768	22,661
12,820	13,384	14,749	15,715	16,637	17,102	18,002
4,008	4,120	4,511	4,728	4,932	5,179	5,449
9,001	8,917	9,298	9,468	10,119	11,443	13,190
1,852	1,926	1,922	1,963	1,991	2,083	2,160
1,148	1,181	1,204	1,246	1,271	1,384	1,456
179.7	167.3	156.2	175.5	161.5	165.3	170.1
78	77	76	78	80	86	86
24	25	25	24	25	11	11
165	168	186	203	219	203	222
2,716	2,572	2,526	2,531	2,544	2,347	2,485
10.27%	9.91%	10.00%	9.90%	9.88%	9.51%	9.34%
8.00%	8.15%	8.43%	8.27%	8.19%	8.27%	8.23%
9.66%	9.59%	9.89%	10.01%	10.15%	9.81%	9.86%
2.03	2.09	2.13	2.20	2.25	2.45	2.57
0.25	0.23	0.21	0.24	0.21	0.22	0.24
0.13	0.13	0.13	0.13	0.13	0.13	0.13
59.62%	64.04%	68.61%	61.07%	66.36%	64.82%	65.66%
1.13%	1.00%	0.88%	0.94%	0.83%	0.81%	0.78%
12.29%	11.28%	9.80%	11.07%	9.48%	9.21%	9.35%
10.07	10.29	11.21	11.28	11.59	11.51	12.06
5.50%	5.25%	5.08%	5.19%	5.27%	5.36%	5.44%
4.00%	3.98%	4.04%	4.19%	4.21%	4.32%	4.40%
1.49%	1.27%	1.04%	1.00%	1.05%	1.05%	1.04%
1.88%	1.64%	1.40%	1.36%	1.40%	1.42%	1.44%
43.65%	45.89%	46.24%	46.57%	46.84%	33.50%	50.82%
1.29%	1.28%	1.18%	1.15%	1.17%	1.12%	1.06%
11.16%	11.32%	10.40%	10.31%	10.02%	10.03%	9.53%
14.60%	16.74%	16.04%	16.65%	17.69%	18.80%	17.80%
24.14%	24.21%	24.40%	24.84%	24.82%	24.94%	24.05%
31.26%	30.78%	30.59%	30.08%	29.64%	30.29%	30.27%
77.22%	78.66%	79.79%	82.56%	83.73%	82.35%	79.44%
72.48%	72.56%	72.16%	72.29%	72.54%	72.66%	73.27%
4.04%	5.30%	5.82%	6.11%	5.01%	3.56%	3.41%
3.02%	5.28%	4.85%	5.05%	4.56%	3.68%	4.02%
132.77%	99.62%	119.77%	120.67%	109.73%	94.88%	82.59%
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) Based on the number of shares outstanding at the end of the period.
(7) Net of income tax (5% before 2017 and 10% in 2017).
(8) 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.
(9) 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.
(10) Includes specific and collective provisions, as well as reserved interest.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

This statement should be considered part of the Annual Report of Byblos Bank for the year 2017, and should be read in conjunction, specifically, with the responsibilities of the auditors set out in their report on pages 88 and 91.

The Bank's directors are responsible for the preparation of the Annual Report, which is prepared according to International Accounting Standards (IAS), as established by the International Accounting Standards Board (IASB). Under Article 4 of the IAS Regulation and as permitted by relevant legislation, the directors have elected to prepare company accounts on an annual basis and as per IASB procedures. In so doing, the directors understand that they are required to:

- Choose appropriate accounting policies and apply these in a consistent manner;
- Where necessary, make estimates and judgments that are reasonable and prudent; and
- Issue a statement indicating whether the relevant accounting standards have been followed, subject where appropriate to any meaningful departures disclosed and explained in the accounts.

It is the responsibility of the directors to maintain proper accounting records which provide timely and reasonably accurate financial position of the Group, and which enable the directors to ensure that the Annual Report complies with the applicable standards, laws, and regulations. It also is the directors' responsibility to protect the Group's assets, and therefore to take all reasonable steps to prevent and detect acts of fraud or other irregularities.

With the foregoing in mind, the directors of Byblos Bank confirm that, to the best of their knowledge:

- The Financial Statements contained in the Annual Report, prepared in accordance with International Financial Reporting Standards, provide a fair and accurate presentation of the assets, liabilities, financial position, and profits of the Group and the undertakings included in the consolidation taken as a whole; and
- The Strategic Report and the Directors' Report (including the Business Review) incorporate a fair review of the Group's development, performance position, and undertakings included in the consolidation taken as a whole, and a description of the main risks and uncertainties to be considered.

The directors are of the opinion that the Annual Report and Accounts for the year-ended 31 December 2017, taken as a whole, are fair, balanced, and understandable, and provide the information required for shareholders to gauge the Group's position, performance, business model, and strategy.

Mr. Semaan F. Bassil
Chairman – General Manager

Mr. Ziad El-Zoghbi
Head of Finance and Administration

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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 2017, the Bank had 2,485 employees, 86 branches in Lebanon, one branch in Cyprus, and four in Iraq (Erbil, Baghdad, Basra and Sulaymaniah). 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 (Amiryan 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.

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.

Therefore the Group does not include the assets and liabilities of Byblos Bank Syria and Byblos Bank Africa in its consolidated balance sheet as at 31 December 2016 and 2017, and their results in its consolidated income statement for the year 2017. However, the results of both subsidiaries are included in the Group's income statement for the year 2016.

The following analysis covers the performance of the Bank during the fiscal year 2017 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 (ISA) and issued a qualified opinion.

The discussion and analysis starts with a summary of recent developments during 2017 and non-recurring items during 2016, followed by a detailed analysis of the Bank's financial conditions, profitability, asset quality, credit risk, and dividend distribution, and an overview of the Bank's ratings.

OVERVIEW OF THE BANK

RECENT DEVELOPMENTS DURING 2017

NOVEMBER 2017 CRISIS

Lebanon's political scene took an unexpected turn of events with the sudden resignation of Prime Minister Saad Hariri on 4 November 2017. The shock resignation triggered a political crisis that reverberated across Lebanon, with the massive flow of rumors about the circumstances and consequences of the resignation creating increased uncertainty in the country. However, the monetary and financial markets' reaction to this short-lived political event was contained and was in line with previous episodes of political instability. The main effects of the crisis were on:

1. Customers' Deposits: Deposits of the private non-financial sector increased by 3.8% during 2017, relative to growth of 7.2% in 2016. Private sector deposits increased by USD 5.2 billion in the first half of 2017 and by USD 933 million in the second half of the year. The growth in the banks' deposits decelerated as a result of outflows in November. In fact, deposits decreased by USD 2.6 billion in November, with deposits in local currency decreasing by the equivalent of USD 2.9 billion and deposits in foreign currency growing by USD 333.4 million. However, deposit outflows reversed the following month as the stock of deposits rose by USD 1.9 billion in December, with foreign currency deposits growing by USD 1.6 billion. The November political crisis constituted another episode of political volatility during which deposits at Lebanese banks proved to be resilient.

2. Interbank Rates: The interbank rate in Lebanese Pounds, which was stable at between 3% and 4% from end-2015 to October 2017, surged to more than 120% during the month of November 2017 because of shortages of liquidity in Lebanese Pounds at some banks following the resignation of Prime Minister Hariri. In fact, these banks needed local currency to convert into US Dollars in order to meet clients' needs. However, the interbank rate regressed to 15% at the end of November before returning to 4% at the end of 2017.

3. Interest Rates on Customers' Deposits: Some banks offered higher interest rates on deposits in Lebanese Pounds in order to attract funding in local currency to counterbalance their liquidity shortages, as an alternative to borrowing from the interbank market. As such, the average deposit rate in Lebanese Pounds, which was stable at between 5.51% and 5.57% in the first 10 months of 2017, increased to 5.88% in November and reached 6.41% at the end of 2017. The same rate in US Dollars gradually increased during the year, from 3.5% at the end of 2016 to 3.65% in September 2017, 3.72% in October, 3.8% in November, and 3.89% at the end of 2017. What started as an increase in interest rates because of liquidity shortages in November became the norm, as other banks followed and offered higher interest rates on deposits in Lebanese Pounds to avoid deposits moving to competing banks.

NEW TAX LAW RATIFIED BY THE LEBANESE PARLIAMENT

The Lebanese Parliament ratified Law No. 64, dated 20 October 2017 (published in the Official Gazette on 26 October 2017) introducing new tax measures and amending several tax articles to fund the increase of the minimum wages and the cost of living for the public sector.

Some tax measures affecting the Lebanese banking sector were as follows:

- The corporate tax rate increased from 15% to 17%;
- The capital gains tax rate increased from 10% to 15%;
- The abolition of the interest tax deduction clause related to investments in TBs and CDs, which are now subject to 7% tax, directly deducted from interest income; and
- The withholding tax on dividends of listed companies increased from 5% to 10%.

OVERVIEW OF THE BANK

NON-RECURRING ITEMS DURING 2016

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 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 investments in Syria and Sudan (c)	(144,447)
Less: Partial impairment losses on investments 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 relation with previous bookings that are non-deductible.
(f) Booked under other liabilities as deferred revenues net of deferred tax.

ASSETS

ASSETS EVOLUTION

Total assets of the Group recorded an increase of 9.1% during the year 2017 to reach LBP 34,162 billion (USD 22,661 million) at the end of December 2017 compared to an increase of 4.5% during the year 2016, and compared to an increase of 6.6% in the Alpha Group of top Lebanese banks. Consequently, the Group's market share in the Alpha Group by total assets stood at 9.73% at the end of 31 December 2017 compared to 9.51% at the end of 31 December 2016.

The main increase in assets was from cash and balances with the Central Bank, which grew by 37% (+ LBP 3,249 billion or + USD 2.2 billion) and from due from banks and financial institutions, which increased by 48% (+ LBP 1,271 billion or + USD 843 million). This was partly offset by the decrease in debt instruments held at amortized cost by 21% (- LBP 1,998 billion or - USD 1.3 billion).

The increase in assets was funded by the increase in customers' deposits by 5.3% (+ LBP 1,342 billion or + USD 890 million) and the increase in due from Central Banks by 414% (+ LBP 1,107 billion or + USD 735 million).

This increase in Central Bank placements and Central Bank borrowings was the result of the Bank's participation in the BDL's financial engineering transactions summarized below:

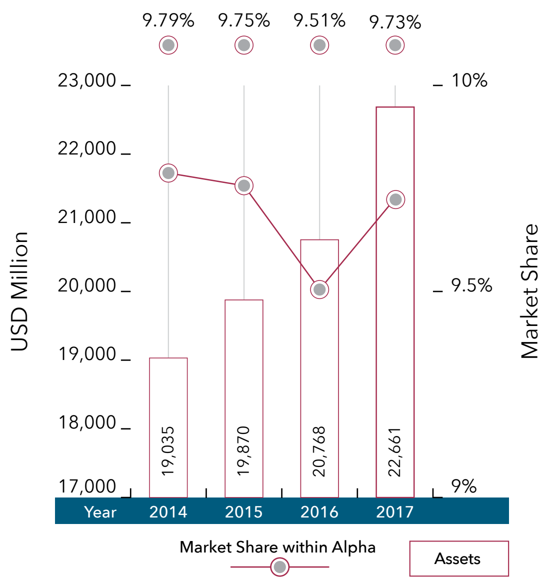
- First financial engineering transaction (between June 2017 and August 2017): The Central Bank gave Lebanese banks against long-term USD placements placed with it, the opportunity to discount short-term Lebanese Pound instruments (Treasury Bills and CDs) and invest the proceeds in long-term deposits with the Central Bank at enhanced rates (differential of 1% over the yield curve on the Lebanese Pound).

- Exchange transactions of August 2017, which allowed banks in Lebanon to benefit from LBP facilities at 2% against placing long-term Foreign Currency term deposits at the Central Bank of Lebanon with a minimum maturity of 5 years, and up to 10 years , provided the proceeds are used to purchase Lebanese Pound-denominated Treasury bills with similar maturities from the primary or the secondary market.

During the period between 31 December 2014 and 31 December 2017, total assets of the Group grew at an average annual compounded rate of 6.0% compared to growth of 6.2% in the Alpha Group, and which was reflected in the Bank's market share by total assets, which slightly decreased from 9.79% at the end of December 2014 to 9.73% at the end of December 2017.

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

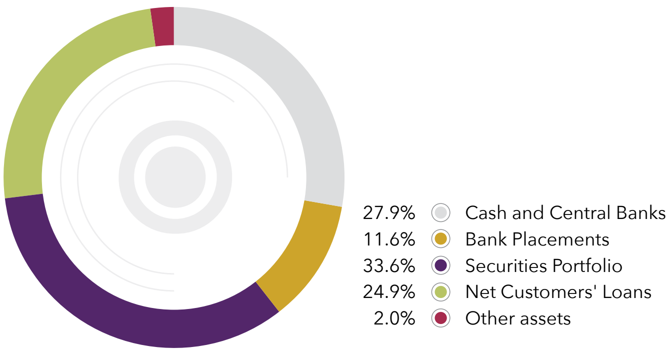
Evolution of Total Assets During Last Four Years



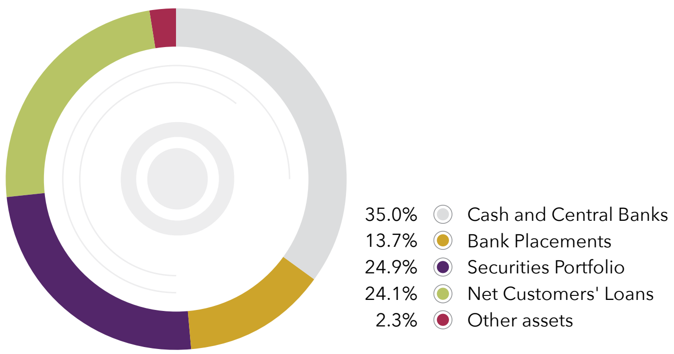
ASSET BREAKDOWN

The charts below show the composition of the Group's assets as at 31 December 2016 and 31 December 2017:

Breakdown of Assets 2016



Breakdown of Assets 2017

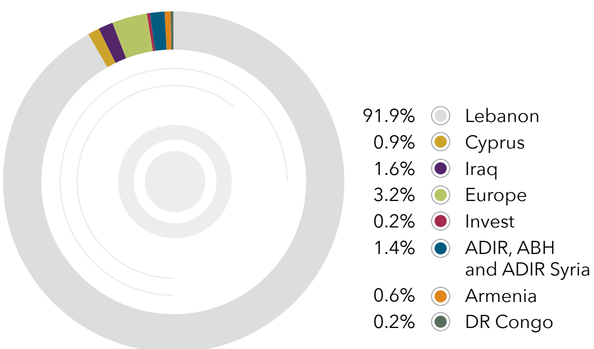


As mentioned in the Assets Evolution section above, the Bank's participation in the BDL's financial engineering transactions increased the share of Cash and Central Banks from 27.9% to 35% following the Bank's long-term placements with the Central Bank.

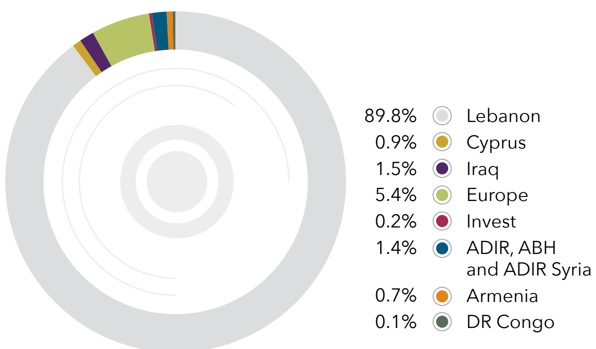
ASSET SPLIT IN THE GROUP

The following pie charts show the breakdown of assets in the Byblos Bank Group as at 31 December 2016 and 31 December 2017:

Assets Split in Group 2016



Assets Split in Group 2017



As illustrated above, total assets of international subsidiary banks and branches represented 8.1% of total assets as at 31 December 2016, compared to 10.3% at the end of the year 2017. It is worth mentioning that Byblos Bank Africa and Byblos Bank Syria were deconsolidated as at end-December 2016, thus their exclusion from consolidated assets.

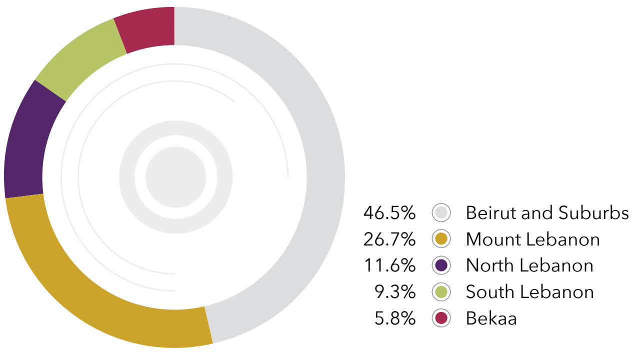
GEOGRAPHICAL DISTRIBUTION OF BRANCHES

Byblos Bank's branch network stood at 86 branches inside Lebanon at the end of 2017, representing 8.1% 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 2017 compared to just 19.3% in the Lebanese banking sector, and represented 11.2% 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 2017 compared to 53.5% in the Lebanese banking sector, and represented 7.0% of total branches operating in Beirut and its suburbs.

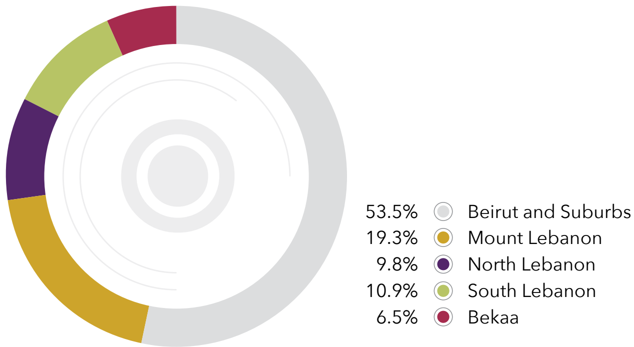
The ten branches located in the North of Lebanon represented 11.6% of total Byblos Bank branches compared to 9.8% in the Lebanese banking sector, and represented 9.6% of total branches of the Lebanese banking sector operating in North Lebanon. In South Lebanon (eight branches) and the Bekaa Valley (five 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 6.5%, 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 2017:

Branches Distribution (Byblos Bank Dec. 2017)



Branches Distribution (Sector Dec. 2017)

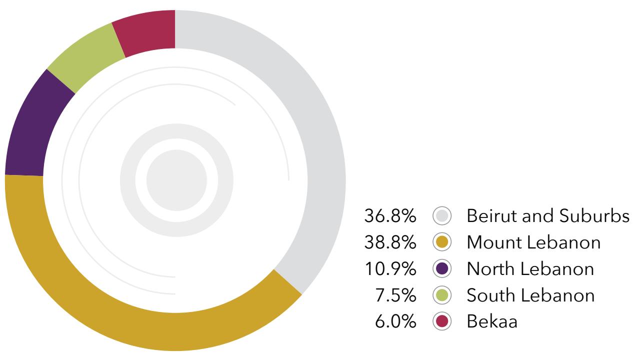


At the end of 2017, Byblos Bank Group's presence abroad consisted of Limassol in Cyprus; Erbil, Baghdad, Basra, and Sulaymaniyah in Iraq (branches of Byblos Bank S.A.L.); Brussels, London, and Paris through our subsidiary Byblos Bank Europe S.A.; Amiryan and Komitas through our subsidiary Byblos Bank Armenia; and Kinshasa-Gombe through our subsidiary Byblos Bank RDC.

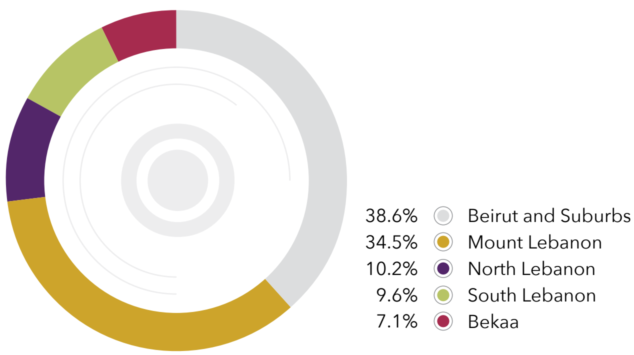
Byblos Bank Africa, with one branch in Khartoum (Sudan), and Byblos Bank Syria S.A., with 10 branches in Abou Roummaneh, Aleppo, Homs, Lattakia, Mazzeh, Tartous, Hama, Abbassiyeen, Hosh Blass, and Swaidaa, were deconsolidated from the Group at end-December 2017.

GEOGRAPHICAL DISTRIBUTION OF AUTOMATED TELLER MACHINES (ATMs)

Geographical Distribution of ATMs (Byblos Bank Dec. 2017)



Geographical Distribution of ATMs (Sector Dec. 2017)



FINANCIAL INSTRUMENT PORTFOLIO

The Group'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 Group's securities portfolio by type of instrument and currency as at 31 December 2015, 2016, and 2017:

As at 31 December	2015		2016		2017	
	LBP Million	%	LBP Million	%	LBP Million	%
Lebanese and other governmental treasury bills and bonds						
Lebanese treasury bills in LBP	3,825,509	35.0	3,175,980	30.2	2,694,421	31.6
Lebanese and other governmental bonds in foreign currencies	2,380,578	21.8	2,261,682	21.5	2,444,103	28.7
Bonds and financial assets with fixed income						
Corporate bonds	236,677	2.2	8,625	0.1	6,425	0.1
Corporate certificates of deposit in foreign currencies	33,186	0.3	33,229	0.3	0	0.0
Central Bank certificates of deposit in LBP and foreign currencies	4,302,143	39.4	4,910,614	46.6	3,234,592	38.0
Shares, securities and financial assets with variable income in LBP and foreign currencies	137,576	1.3	141,370	1.3	140,386	1.6
Total	**10,915,671**	**100**	**10,531,500**	**100**	**8,519,927**	**100**

The Group'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 Group'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 Group 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.

- **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 Group's investment securities portfolio, by classification, as at 31 December 2015, 2016, and 2017:

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**
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		65,824	**5,437,663**
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		87	**33,228**
Total by category	**40,065**	**734,380**	**9,494,393**	**101,305**	**161,357**	**10,531,500**

As at 31 December 2017 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			3,172,753		61,839	**3,234,592**
Lebanese and other governmental treasury bills and bonds		217,121	4,855,836		65,567	**5,138,524**
Bonds and financial assets with fixed income		2,486	3,898		41	**6,425**
Shares, securities and financial instruments with variable income	31,834			108,552		**140,386**
Corporate certificates of deposit						**0**
Total by category	**31,834**	**219,607**	**8,032,487**	**108,552**	**127,447**	**8,519,927**

As per the tables above, 95.7% of the financial instruments are classified under debt instruments at amortized cost as at 31 December 2017. Lebanese and other governmental treasury bills and bonds (in both LBP and foreign currencies) increased, as a percentage of the Bank's total securities portfolio, to 60.3% as at 31 December 2017, compared to 51.6% as at 31 December 2016 and 56.9% as at 31 December 2015. Investments in Central Bank certificates of deposit (in both LBP and foreign currencies) decreased to 38.0% of the Bank's portfolio as at 31 December 2017, as compared to 46.6% at 31 December 2016 and 39.4% as at 31 December 2015. Corporate bonds represented 0.1% of the total portfolio as at 31 December 2017 and as at 31 December 2016 compared to 2.2% as at 31 December 2015.

Moreover as is evident in the tables above, the Group's securities portfolio has been on a decreasing trend since 2015, where the total portfolio stood at LBP 10,916 billion (USD 7,241 million) as at end-2015, to reach LBP 10,532 billion (USD 6,986 million) as at end-2016 and LBP 8,520 billion (USD 5,652 million) as at end-2017.

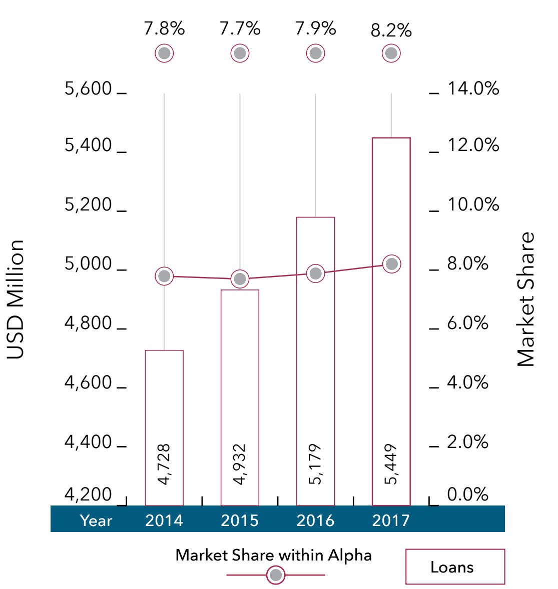
CUSTOMERS' LOANS

Customers' loans net of provisions (specific and collective) and reserved interest grew by 5.2% during the year 2017 to reach LBP 8,215 billion (USD 5,449 million) at the end of 31 December 2017, compared to growth of 5% in 2016, and compared to growth of 1.7% 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 8.2% at the end of 31 December 2017, up from 7.9% at the end of 31 December 2016.

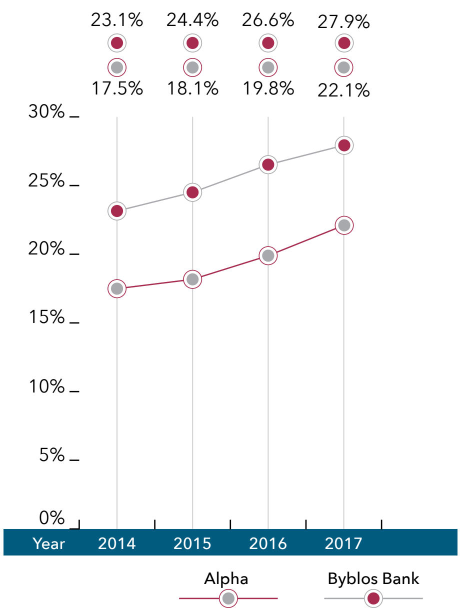
During the period between 31 December 2014 and 31 December 2017, net customers' loans increased at an average annual compounded rate of 4.8% compared to growth of 3.3% in the Alpha Group. Consequently, the Bank's market share of net customer advances increased from 7.8% at the end of 31 December 2014 to reach 8.2% at the end of 31 December 2017.

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

Evolution of Customers' Loans During Last Four Years

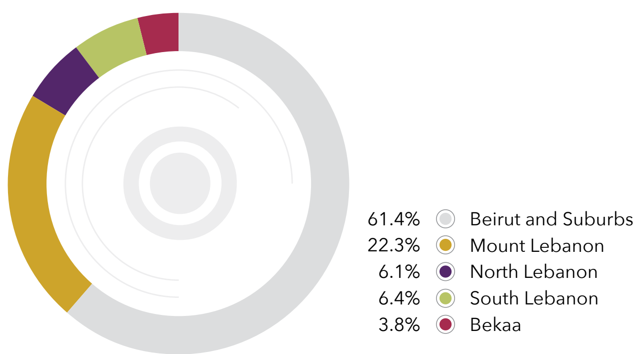


LBP Customers' Loans/Total Loans (Byblos Bank vs. Sector)

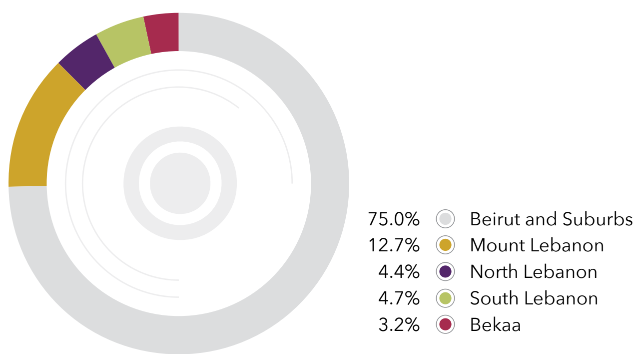


CUSTOMERS' LOANS GEOGRAPHICAL DISTRIBUTION

Customers' Loans Distribution (Byblos Bank Dec. 2017)

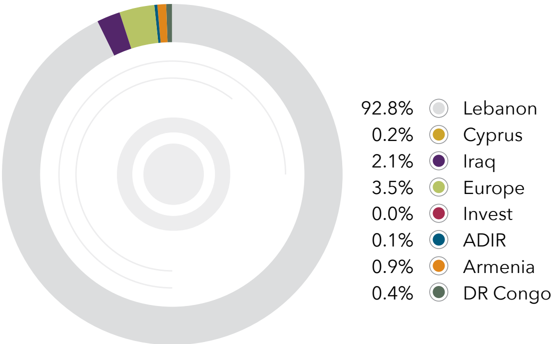


Customers' Loans Distribution (Sector Dec. 2017)

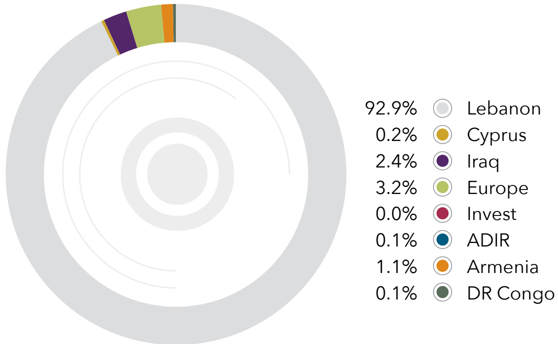


CUSTOMERS' LOANS SPLIT IN BYBLOS BANK GROUP

Customers' Loans Split in Group 2016



Customers' Loans Split in Group 2017



LOAN BREAKDOWN BY NATURE OF BORROWER (*)

	Dec. 2015			Dec. 2016			Dec. 2017		
	LBP Million	USD 000's	% of total	LBP Million	USD 000's	% of total	LBP Million	USD 000's	% of total
Corporate	3,121,687	2,070,771	39.5%	3,264,610	2,165,579	40.0%	3,302,775	2,190,896	38.5%
International	1,212,156	804,084	15.3%	1,026,138	680,689	12.6%	1,086,409	720,669	12.7%
Middle Market	470,143	311,869	6.0%	509,961	338,283	6.2%	550,626	365,258	6.4%
Retail	2,677,614	1,776,195	33.9%	2,911,848	1,931,574	35.7%	3,127,154	2,074,397	36.5%
Syndication	99,461	65,977	1.3%	103,055	68,362	1.3%	106,000	70,315	1.2%
Cash collateral	182,824	121,276	2.3%	191,514	127,041	2.3%	204,167	135,434	2.4%
Small business	92,521	61,374	1.2%	108,757	72,144	1.3%	129,688	86,029	1.5%
Others	43,125	28,607	0.5%	48,564	32,215	0.6%	68,969	45,751	0.8%
Total	**7,899,531**	**5,240,153**	**100.0%**	**8,164,447**	**5,415,885**	**100.0%**	**8,575,788**	**5,688,748**	**100.0%**

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

During 2017, Byblos Bank's gross loan portfolio increased by 5.0% (+LBP 411 billion) to reach LBP 8,576 billion (USD 5,689 million) at the end of 31 December 2017 compared to an increase of 3.4% in 2016.

COMMERCIAL LOAN PORTFOLIO

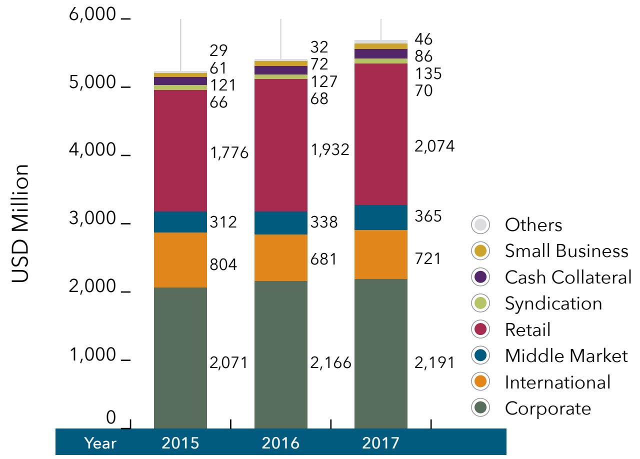
- The corporate loan portfolio increased by 1.2% (+LBP 38 billion or USD 25 million) during the year 2017 to reach LBP 3,303 billion (USD 2,191 million) at the end of 31 December 2017, compared to an increase of 4.6% (+LBP 143 billion or USD 95 million) in 2016. Corporate loans represented 38.5% of the gross loan portfolio at the end of December 2017, compared to 40.0% at the end of December 2016.

- The international loan portfolio increased by 5.9% (+LBP 60 billion or USD 40 million) during the year 2017 to reach LBP 1,086 billion (USD 721 million) at the end of December 2017, compared to a decrease of 15.3% (-LBP 186 billion or USD 123 million) in 2016. International loans represented 12.7% of the gross loan portfolio at the end of December 2017 compared to 12.6% at the end of December 2016.

- The middle market loan portfolio increased by 8.0% (+LBP 41 billion or USD 27 million) during the year 2017 to reach LBP 551 billion (USD 365 million) at the end of 31 December 2017, representing 6.4% of the gross loan portfolio.

- Total exposure to syndicated loans increased by 2.9% during the year 2017 and reached LBP 106 billion (USD 70 million) at the end of 2017 compared to LBP 103 billion (USD 68 million) at the end of December 2016, representing 1.2% of the gross loan portfolio and similar to the figure at the end of December 2017.

The chart below shows the breakdown of the loan portfolio by nature of borrower for the years 2015, 2016, and 2017:

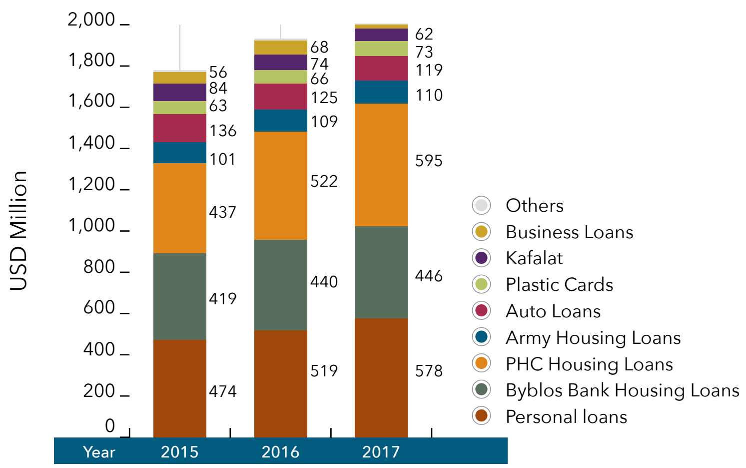


RETAIL LOAN PORTFOLIO

	Dec. 2015			Dec. 2016			Dec. 2017		
	LBP Million	USD 000's	% of total	LBP Million	USD 000's	% of total	LBP Million	USD 000's	% of total
Personal Loans	715,216	474,438	26.7%	782,615	519,148	26.9%	871,145	577,874	27.9%
Byblos Bank Housing	631,959	419,210	23.6%	662,711	439,609	22.8%	671,609	445,512	21.5%
PHC Housing Loans	658,748	436,980	24.6%	787,647	522,486	27.0%	897,328	595,242	28.7%
Army Housing Loans	151,523	100,513	5.7%	164,667	109,232	5.7%	165,470	109,765	5.3%
Auto Loans	205,296	136,183	7.7%	189,028	125,392	6.5%	178,641	118,501	5.7%
Plastic Cards	95,125	63,101	3.6%	98,996	65,669	3.4%	109,622	72,718	3.5%
Kafalat	126,961	84,220	4.7%	110,886	73,556	3.8%	92,949	61,658	3.0%
Business Loans	84,497	56,051	3.2%	102,078	67,713	3.5%	122,417	81,205	3.9%
Others	8,289	5,499	0.3%	13,220	8,769	0.5%	17,973	11,922	0.6%
Total Retail	**2,677,614**	**1,776,195**	**100.0%**	**2,911,848**	**1,931,574**	**100.0%**	**3,127,154**	**2,074,397**	**100.0%**

In line with the Bank's strategy to maintain Byblos Bank's leadership in retail, the retail loan portfolio increased from LBP 2,912 billion (USD 1,932 million) as of 31 December 2016 to LBP 3,127 billion (USD 2,074 million) as of 31 December 2017, recording growth of 7.4%. The main increase in retail loans was the result of the increase in housing loans, whose outstanding portfolios increased between 2016 and 2017 from USD 1,071 million to USD 1,151 million, an increase of 7.4%. Personal loans also increased by 11.3% (+LBP 89 billion or USD 59 million) during the year 2017 to reach LBP 871 billion (USD 578 million) at the end of 31 December 2017. Business loans and plastic cards increased, respectively, by 19.9% (+LBP 20 billion or USD 13 million) and 10.7% (+LBP 11 billion or USD 7 million). However, these improvements were partially offset by the decrease in auto loans by 5.5% (-LBP 10 billion or USD 7 million) and the decrease in Kafalat loans by 16.2% (-LBP 18 billion or USD 12 million) during 2017.

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

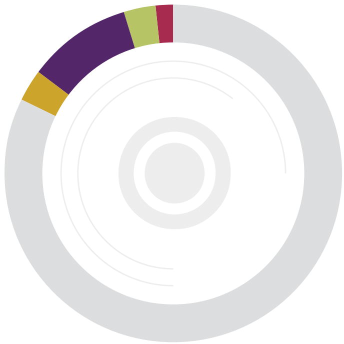


LIABILITIES

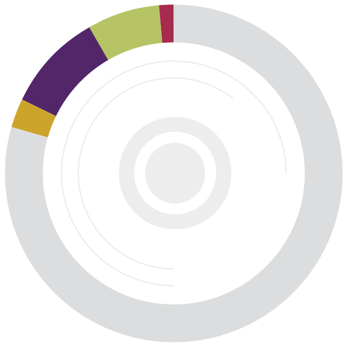
LIABILITIES BREAKDOWN

Customers' deposits represent the major source of funds with a share of 79.4% at the end of 2017, compared to a share of 82.3% at the end of 2016:

Breakdown of Liabilities 2016



Breakdown of Liabilities 2017

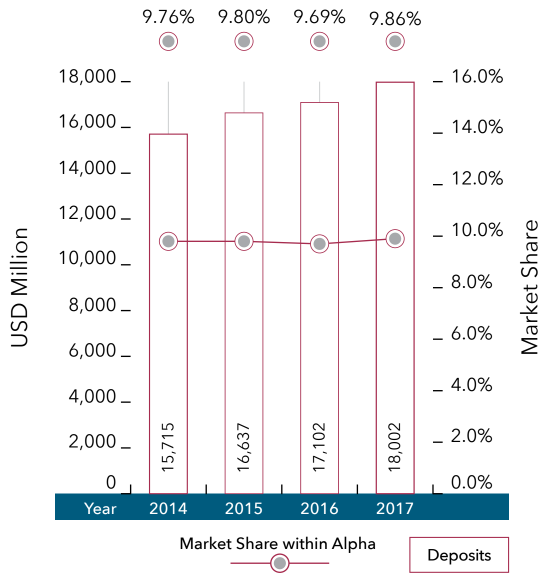


CUSTOMERS' DEPOSITS

Customers' deposits recorded an increase of 5.3% during 2017 despite the crisis following the resignation of Prime Minister Saad Hariri in November 2017, to reach LBP 27,139 billion (USD 18,002 million) at the end of December 2017 compared to an increase 2.8% during 2016, and compared to an increase of 3.5% in the Lebanese Alpha Group. Consequently, the Group's market share of total customers' deposits in the Alpha Group of banks slightly increased to 9.86% at the end of 2017 compared to 9.69% at the end of the previous year. During the period between 31 December 2014 and 31 December 2017, the Group's customers' deposits grew at an annual average compounded growth rate of 4.6% compared to growth of 4.3% for the Alpha Group. Consequently, the Group's market share slightly increased from 9.76% as at 31 December 2014 to 9.86% as at 31 December 2017.

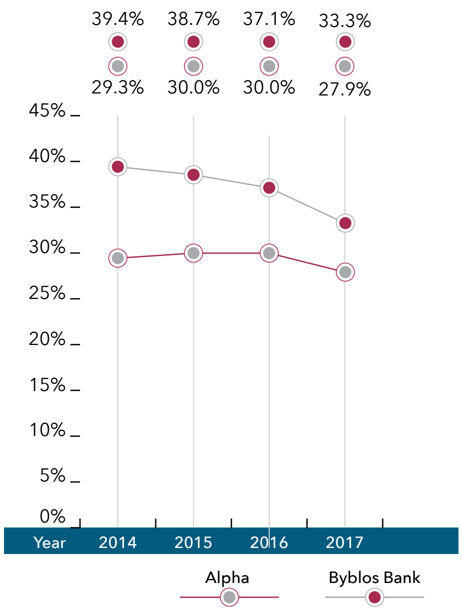
The chart below shows the evolution of customers' deposits over the last four years:

Evolution of Customers' Deposits During Last Four Years



CUSTOMERS' DEPOSITS CURRENCY STRUCTURE

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



The dollarization rate was slightly impacted by the crisis following the resignation of Prime Minister Hariri in November 2017, and by the subsequent prevailing uncertainty in the country. Therefore, customers' deposits denominated in LBP decreased gradually between 2014 and 2017; from 39.4% in 2013 to 33.3% in 2017, while they slightly decreased in the sector from 29.3% in 2014 to 27.9% in 2017. Compared to the Lebanese banking sector, Byblos Bank has a higher deposit base denominated in LBP as compared to 27.9% in the Alpha Group of banks as at the end of December 2017; however, the gap is gradually closing.

CUSTOMERS' DEPOSITS BY TYPE OF ACCOUNT

The following table shows the distribution of the Group's customers' deposits by type of account as at 31 December 2015, 2016 and 2017:

As at 31 December	2015		2016		2017	
	LBP Million	% of total	LBP Million	% of total	LBP Million	% of total
Current accounts	3,245,552	12.9	3,244,752	12.6	3,474,416	12.8
Term deposits	20,176,288	80.4	20,891,474	81.0	21,896,171	80.7
Blocked accounts	1,114,643	4.4	1,151,475	4.5	1,241,692	4.6
Related parties' accounts	420,613	1.7	363,416	1.4	377,670	1.4
Accrued interest	123,051	0.5	130,544	0.5	148,557	0.5
Total	**25,080,147**	**100**	**25,781,661**	**100**	**27,138,506**	**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 80.7% of total customers' deposits at the end of December 2017, as compared to 81.0% as at 31 December 2016, and to 80.4% as at 31 December 2015.

MATURITY PROFILE OF CUSTOMERS' DEPOSITS

The following table shows the distribution of the Bank's customers' deposits by maturity profile as at 31 December 2015, 2016, and 2017:

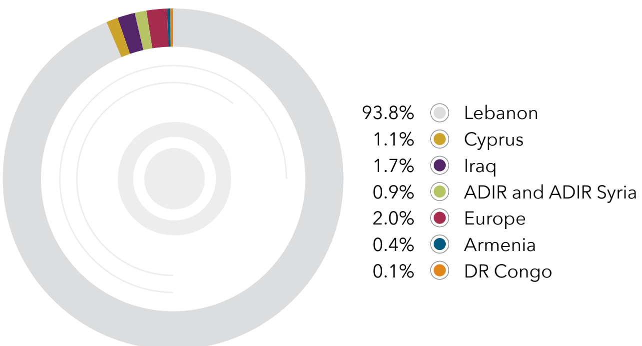
As at 31 December	2015		2016		2017	
	LBP Million	% of total	LBP Million	% of total	LBP Million	% of total
Less than 3 months	17,339,518	69.1	17,061,103	66.2	17,118,305	63.1
3 months to 1 year	4,749,685	18.9	5,169,248	20.1	6,984,764	25.7
1 year to 5 years	2,739,638	10.9	3,173,320	12.3	2,686,624	9.9
Over 5 years	251,306	1.0	377,990	1.5	348,813	1.3
Total	**25,080,147**	**100**	**25,781,661**	**100**	**27,138,506**	**100**

Almost all of the Bank's customers' deposits are short-term, with deposits having a remaining maturity of less than one year representing 88.8% and 86.2% of total customers' deposits as at 31 December 2017 and 31 December 2016, respectively.

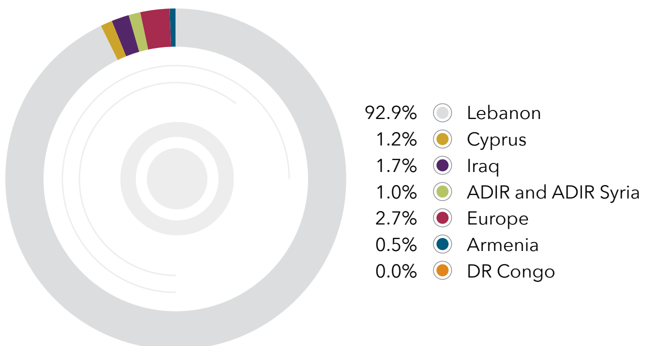
CUSTOMERS' DEPOSITS SPLIT IN BYBLOS BANK GROUP

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

Deposits Split in Group 2016

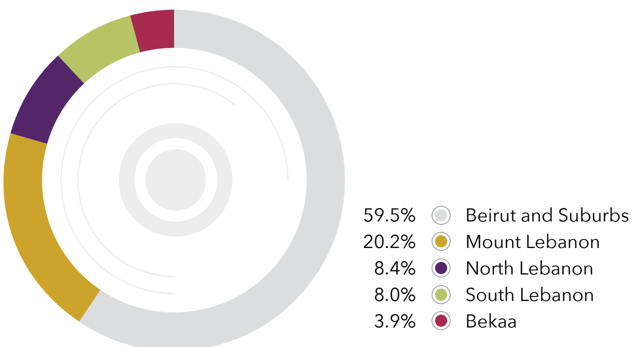


Deposits Split in Group 2017

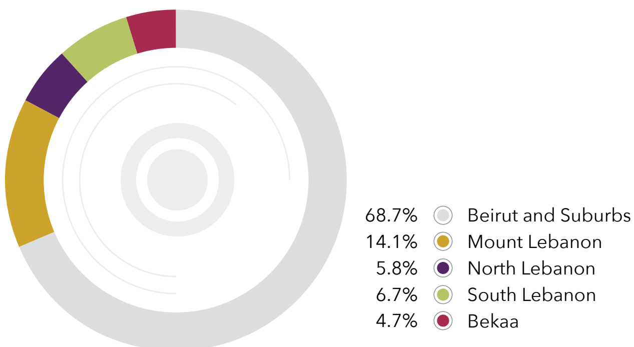


GEOGRAPHICAL DISTRIBUTION OF CUSTOMERS' DEPOSITS

Customers' Deposits Distribution (Byblos Bank Dec. 2017)



Customers' Deposits Distribution (Sector Dec. 2017)



The geographical distribution of the Group'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 59.5% of total customers' deposits in the Group compared to 68.7% 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 Group's customers' deposits compared to 14.1% in the Lebanese banking sector; customers' deposits in branches located in North Lebanon (11.6% of total branches) represented 8.4% of the Group'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 8.0% compared to 6.7% in the Lebanese banking sector. In the Bekaa Valley, the Group's customers' deposits are less concentrated than in the Lebanese banking sector, with 3.9% of the Group's total customers' deposits located in the Bekaa (5.8% of total branches) compared to 4.7% 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 2015, 2016, and 2017, respectively:

In USD 000's	**2015**	**2016**	**2017**
Central Bank of Lebanon	69,992	218,179	236,304
International Finance Corporation (IFC)	3,076	1,923	1,152
Arab Trade Finance Program	23,079	18,862	21,482
European Investment Bank	109,119	86,439	125,676
Govco Incorporated NY	42,143	36,500	30,857
Agence Française pour le Développement	29,328	21,618	19,138
Standard Chartered Bank	-	22,473	27,423
Green for Growth Fund - Southeast Europe	-	-	25,000
SANAD Fund for MSME	-	-	20,000
SMBC - DIFC BRANCH	-	-	15,790
National Mortgage Company	-	-	2,435
Home for Youth Credit Company	-	-	76
Citibank	750	-	-
Convertible subordinated loans	276,882	278,716	280,594
Byblos Eurobonds and Convertible Loans	295,323	294,575	300,866
Total Long Term Sources of Funds	**849,691**	**979,284**	**1,106,793**

All of these borrowings will enable the Bank to offer its commercial borrowers competitive pricing in the market, and reduce its interest and liquidity gaps.

PROFITABILITY

LBP Million	2015	2016	2017	Growth (Vol.)	Growth (%)
Net interest income	399,228	424,958	459,117	34,159	8.0%
Net allocation to provisions	(12,288)	7,347	(18,870)	(26,217)	(356.8%)
Net provisions on foreign central banks	(35,620)	1,578	0	(1,578)	(100.0%)
Net commission income	121,951	121,607	135,024	13,417	11.0%
Net profits on financial operations	145,853	446,922	56,308	(390,614)	(87.4%)
Impairment losses on financial investments	0	(49,676)	0	49,676	(100.0%)
Other operating income	20,935	27,803	31,573	3,770	13.6%
Total Operating Income (Before Provisions and Impairment)	**687,967**	**1,021,290**	**682,022**	**(339,268)**	**(33.2%)**
Total Operating Income (After Provisions and Impairment)	**640,059**	**980,539**	**663,152**	**(317,387)**	**(32.4%)**
Operating expenses	(298,585)	(319,609)	(325,361)	(5,752)	1.8%
Depreciation and Amortization	(23,625)	(22,538)	(21,246)	1,292	(5.7%)
Provisions for risks and charges	(21,394)	(138,132)	(9,528)	128,604	(93.1%)
Impairment on goodwill	0	(12,427)	0	12,427	(100.0%)
Foreign currency translation losses on deconsolidation of subsidiaries	0	(137,890)	0	137,890	(100.0%)
Non-operating income	65	11	1,853	1,842	16745.5%
Taxes	(53,083)	(100,719)	(52,415)	48,304	(48.0%)
Net Income	**243,437**	**249,235**	**256,454**	**7,219**	**2.9%**
Bank's Share	228,185	232,672	248,539		
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 shares	179,705	184,192	200,059		
Weighted average number of common shares during the period	563,022,405	562,891,539	563,322,218		
Earnings per common share	319.18	327.22	355.14		

Net income for the year 2017 amounted to LBP 256,454 million (USD 170.1 million), recording an increase of 2.9% (+LBP 7,219 million or USD 4.8 million) compared to LBP 249,235 million (USD 165.3 million) for the year 2016. Return on average assets (ROA) stood at 0.78% at the end of December 2017 compared to 0.81% at the end of December 2016. In addition, return on average common equity (ROCE) stood at 9.35% at the end of December 2017 compared to 9.21% at the end of December 2016. Earnings per common share based on the weighted average number of shares stood at LBP 355.14 (USD 0.236) in 2017 compared to LBP 327.22 (USD 0.217) in 2016.

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

- Byblos Bank Europe's net income for the year 2017 amounted to LBP 9,393 million (USD 6.2 million) compared to LBP 4,509 million (USD 3.0 million) for the year 2016.

- Byblos Invest Bank's net income stood at LBP 6,326 million (USD 4.2 million) at the end of 2017 compared to LBP 4,830 million (USD 3.2 million) for the year 2016.

- Byblos Bank Armenia's net gain stood at LBP 2,029 million (USD 1.3 million) at the end of 2017 compared to a net loss of LBP 491 million (- USD 0.3 million) for the year 2016.

- Byblos Bank RDC's net loss stood at LBP 1,233 million (- USD 0.8 million) at the end of 2017 compared with to a net loss of LBP 616 million (- USD 0.4 million) for the year 2016.

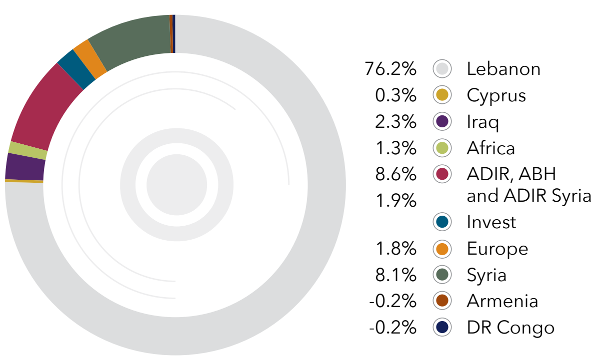
- Net income of the insurance companies – Adonis Insurance and Reinsurance S.A.L. (ADIR), Adonis Insurance and Reinsurance Syria (ADIR Syria), and Adonis Brokerage House (ABH) – for the year 2017 amounted to LBP 24,278 million (USD 16.1 million) compared to LBP 21,325 million (USD 14.1 million) for the year 2016.

- Byblos Bank Africa's net income for the year 2016 amounted to LBP 3,150 million (USD 2.1 million). It should be noted that Byblos Bank Africa was deconsolidated as at end-2016; therefore its net income for the year 2017 is not included in consolidated profits for the same period.

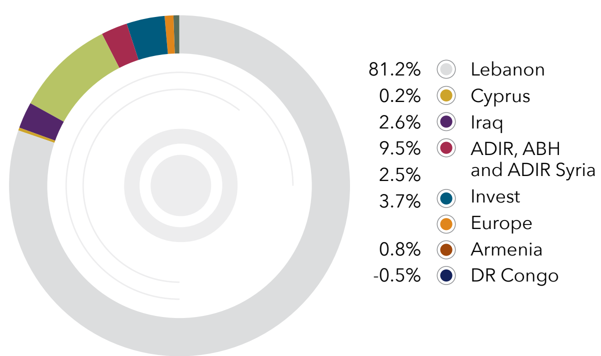
- Byblos Bank Syria's net income stood at LBP 20,077 million (USD 13.3 million) at the end of 2016 (out of which USD 20.4 million from an unrealized gain on a structural foreign exchange position held in Byblos Bank Syria due to the devaluation of the Syrian currency by 54% during the year 2016). It should be noted that Byblos Bank Syria was deconsolidated as at end-2016; therefore its net income for the year 2017 is not 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 2016 and 2017:

Net Income Split in Group 2016 (*)



Net Income Split in Group 2017 (*)



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

NET INTEREST INCOME

Net interest income before provisions for the year 2017 amounted to LBP 459,117 million (USD 304.6 million), recording an increase of 8.0% (+LBP 34,159 million or USD 22.7 million) compared to an increase of 6.4% during 2016, when they stood at LBP 424,958 million (USD 281.9 million). Consequently, the net interest margin stood at 1.44% at the end of 2017 compared to 1.42% at the end of 2016.

The increase in net interest income was mainly due to better management of the Bank's liquidity and investments, as well as improved control of its cost of funds.

	2016			2017		
	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*	16,251,758	690,541	4.25%	18,567,050	851,942	4.59%
Securities	155,859	4,095	2.63%	24,139	527	2.18%
Loans	7,621,452	516,403	6.78%	8,011,502	530,670	6.62%
Treasury bills	5,821,875	390,042	6.70%	5,288,093	351,972	6.66%
Total Interest-Earning Assets	**29,850,944**	**1,601,081**	**5.36%**	**31,890,784**	**1,735,111**	**5.44%**
Premises and equipment	293,762	0	0.00%	304,361	0	0.00%
Other non-interest-bearing assets	486,555	0	0.00%	540,015	0	0.00%
Total Average Assets	**30,631,262**	**1,601,081**	**5.23%**	**32,735,160**	**1,735,111**	**5.30%**
LIABILITIES						
Customers' deposits	25,430,904	1,084,272	4.26%	26,460,084	1,170,885	4.43%
Subordinated loans	418,782	31,480	7.52%	421,580	31,696	7.52%
Eurobonds	444,635	31,069	6.99%	448,814	31,805	7.09%
Interest-bearing deposits due to banks	951,778	29,303	3.08%	1,694,371	41,608	2.46%
Total Interest-Bearing Liabilities	**27,246,099**	**1,176,124**	**4.32%**	**29,024,848**	**1,275,994**	**4.40%**
Other liabilities	733,723	0	0.00%	934,282	0	0.00%
Shareholders' equity	2,651,439	0	0.00%	2,776,030	0	0.00%
Total Average Liabilities and Equity	**30,631,262**	**1,176,124**	**3.84%**	**32,735,160**	**1,275,994**	**3.90%**
Net Interest Spread (a)			**1.05%**			**1.04%**
Net Interest Spread (b)			**1.39%**			**1.40%**
Net Interest Margin			**1.42%**			**1.44%**
Interest Earning-Assets/Interest-Bearing Liabilities			**1.10**			**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.

PROVISIONS ALLOCATED

During the year 2017, the Group allocated net provisions (specific and collective) for performing and doubtful loans and for foreign central banks of LBP 18,870 million (USD 12.5 million) for the year 2017, while recovering provisions for LBP 8,925 million (USD 5.9 million) for the year 2016.

The Bank allocated specific and collective provisions for performing and doubtful loans in the amount of LBP 45,454 million (USD 30.2 million) during the year 2017 as compared to LBP 29,737 million (USD 19.7 million) last year. The collective provisions alone for the amount of USD 2.5 million were booked as follows: USD 1.1 million in Byblos Lebanon, USD 1.1 million in Byblos Europe, USD 0.2 million in Byblos Iraq, and USD 0.1 million in Byblos RDC, as compared to USD 3.5 million allocated during the same period of last year on the Group level.

No recovery has been done yet on the provisions taken in 2015 against the Bank's 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 in the amount of USD 17.1 million in Byblos Bank Lebanon, USD 0.3 million in Byblos Bank Armenia, USD 0.1 million in Byblos Bank Iraq, and USD 0.1 million in Byblos Bank RDC.

Coverage of non-performing loans by specific and collective provisions and reserved interest stood at 82.6% as at 31 December 2017, as compared to 94.9% as at 31 December 2016. Additional details on coverage of non-performing loans will be discussed in the section on asset quality.

LBP Million	2015	2016	2017
Specific and Collective Provisions set up during the year:			
Doubtful Debts	36,363	29,736	45,454
Central Bank of Iraq - Kurdistan and Central Bank of Sudan	35,620		
Writeoffs	137	53	115
Total Provisions Allocated	**72,120**	**29,789**	**45,569**
Specific and Collective Provisions written back during the year:			
Loans recovered or upgraded	(17,730)	(33,466)	(23,994)
Unrealized interest on loans and advances to customers	(4,911)	(3,670)	(2,705)
Doubtful banks and financial institutions accounts		(1,578)	
Total Provisions Recoveries	**(22,641)**	**(38,714)**	**(26,699)**
Net Provisions Allocated	**49,479**	**(8,925)**	**18,870**

NON INTEREST INCOME

LBP Million	2015	2016	2017	Growth (Vol.)	Growth (%)
Commissions on documentary credits and acceptances	**22,513**	**19,728**	**28,228**	**8,500**	**43.1%**
*out of which in Lebanon**	11,040	8,800	9,576	776	8.8%
out of which in Byblos Bank Europe	10,600	10,056	18,596	8,540	84.9%
out of which in Byblos Bank Africa	620	630	0	(630)	(100.0%)
out of which in Byblos Bank Syria	161	97	0	(97)	(100.0%)
out of which in Byblos Bank Armenia	0	4	0	(4)	(100.0%)
out of which in Byblos Bank DRC	92	141	56	(85)	(60.3%)
Commissions on letters of guarantee	**15,857**	**13,584**	**11,551**	**(2,033)**	**(15.0%)**
*out of which in Lebanon**	13,818	12,176	10,792	(1,384)	(11.4%)
out of which in Byblos Bank Europe	954	718	609	(109)	(15.2%)
out of which in Byblos Bank Africa	281	131	0	(131)	(100.0%)
out of which in Byblos Bank Syria	480	296	0	(296)	(100.0%)
out of which in Byblos Bank Armenia	0	16	2	(14)	(87.5%)
out of which in Byblos Bank DRC	324	247	148	(99)	(40.1%)
Securities Income (realized and unrealized)	81,488	389,303	29,423	(359,880)	(92.4%)
out of which exceptional revenues from special swap operations with the Central Bank	0	402,238	0	(402,238)	(100.0%)
Dividends received	4,956	5,049	5,293	244	4.8%
Foreign exchange income	59,409	52,570	21,592	(30,978)	(58.9%)
Other commissions on banking services	83,581	88,295	95,245	6,950	7.9%
Total Non-Interest Income (Net)**	**267,804**	**568,529**	**191,332**	**(377,197)**	**(66.3%)**

(*) 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 2017 amounted to LBP 191,332 million (USD 126.9 million), recording a decrease of 66.3% (-LBP 377.2 billion/-USD 250.2 million) as compared to LBP 568,529 million (USD 377.1 million) for the same period of last year.

- Realized and unrealized gains on the securities portfolio for the year 2017 amounted to LBP 29,423 million (USD 19.5 million), recording a considerable decrease of 92.4% as compared to a gain of LBP 389,303 million (USD 258.2 million) last year. This was due to the exceptional non-recurring revenues of LBP 351,000 million (USD 232.8 million) during 2016 generated from the special swap operations with the Central Bank of Lebanon mentioned earlier ("Non-recurring items during 2016" section).

- Commissions on documentary credits and acceptances for the year 2017 amounted to LBP 28,228 million (USD 18.7 million), recording an increase of 43.1% as compared to LBP 19,728 million (USD 13.1 million) in 2016. This comes in line with the strategy of Byblos Bank Europe to target trade finance operations in different countries.

- Commissions on letters of guarantee for the year 2017 amounted to LBP 11,551 (USD 7.7 million), recording a decrease of 15% as compared to LBP 13,584 (USD 9 million) in 2016.

- Gains on foreign exchange trading for the year 2017 amounted to LBP 21,592 million (USD 14.3 million), as compared to LBP 52,570 million (USD 34.9 million) in 2016, mainly due to the unrealized gain on a structural foreign exchange position held in Byblos Bank Syria (deconsolidated at end-2016) during the year 2016, which amounted to USD 20.4 million.

OPERATING EXPENSES

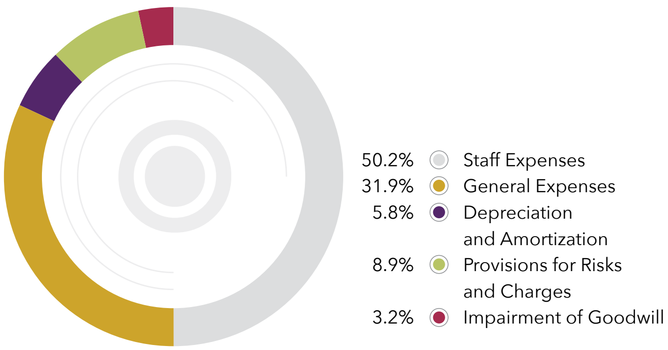
LBP Million	2015	2016	2017	Growth (vol.)	Growth (%)
Staff expenses	180,792	195,787	205,603	9,816	5.0%
General expenses	117,793	124,741	121,190	-3,551	-2.8%
Depreciation and amortization	23,625	22,539	21,246	-1,293	-5.7%
Total Operating Expenses (a)	**322,210**	**343,066**	**348,038**	**4,972**	**1.4%**
Provisions for risks and charges	21,394	34,733	8,098	-26,635	-76.7%
Impairment of goodwill		12,427		-12,427	-100.0%
Total Operating Expenses (b)	**343,604**	**390,226**	**356,136**	**-34,090**	**-8.7%**

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

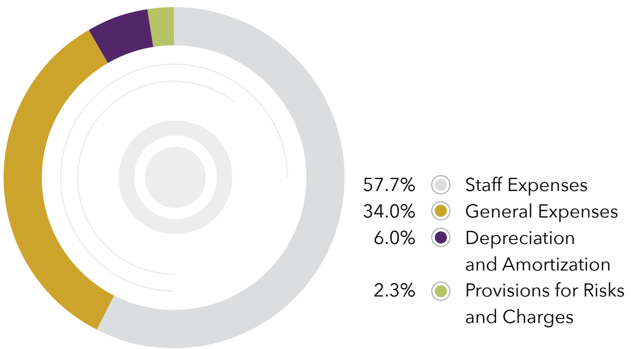
Operating expenses (excluding provisions for risks and charges) for the year 2017 amounted to LBP 348,038 million (USD 230.9 million), recording an increase of 1.4% (+LBP 4,972 million) as compared to LBP 343,066 million (USD 227.6 million) in 2016. However, the cost-to-income ratio increased to 50.8% in 2017 compared to 33.5% in 2016 due to the exceptional gains from the swap operations with the Central Bank last year. In 2017, the Bank allocated provisions for risks and charges in the amount of LBP 8,098 million (USD 5.4 million) compared to LBP 34,733 million (USD 23.0 million) in 2016.

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

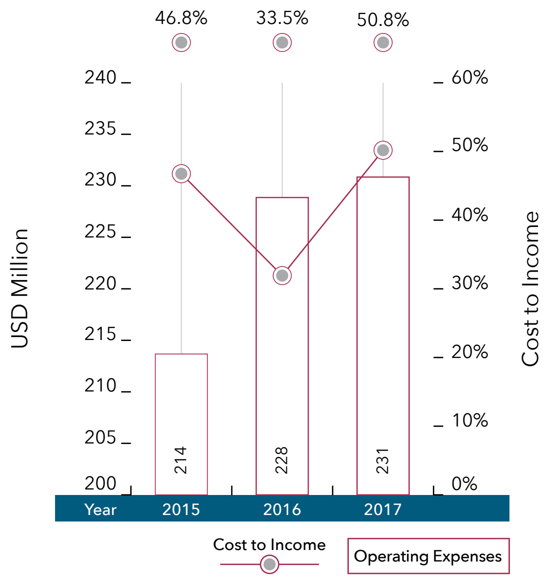
Breakdown of Operating Expenses 2016



Breakdown of Operating Expenses 2017



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



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 2017, 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.

IFRS 9 Standard

The International Accounting Standards Board (IASB) had released the final version of the IFRS 9 in July 2014, with the due date for implementation set at 1 January 2018. On 7 November 2017, the Banque du Liban (BDL) issued Circular 143 regarding the implementation of International Financial Reporting Standard No. 9 (IFRS 9). The Banking Control Commission of Lebanon (BCC) had subsequently, on 28 December 2017, issued Circular 293 to advise the IFRS 9 application framework for Lebanese banks.

One of the main features of the standard is the Impairment part. It replaces the IAS 39 incurred loss regime with the Expected Credit Loss (ECL) regime for loan loss provision. According to IFRS 9 ECL, all assets held on a bank's financial position and those off-financial position items that carry a credit risk are subject to an ECL provision based on a measurement of their probability of default (PD) and their estimated loss in the event of default (LGD). Byblos Bank has documented its IFRS 9 ECL policy to apply the standard and follow the national regulator's guidance, starting with the financial statements at 31 December 2017. Fulfilling IFRS 9 ECL involves a set of governance actions, definitions and measurements. In brief:

(i) **Governance:** Board and senior management have oversight and validation roles of the IFRS 9 policy, ECL measurements, and impact on capital; Finance is responsible for the data extraction, accuracy, and overall IFRS 9 ECL reporting process; the Business must agree on staging rules; Risk Management handles the development and validation of the risk parameters (PD, LDG, and Exposure At Default [EAD]).

(ii) **Staging definitions:** Stage 1 exposures for no significant increase in Credit Risk (SICR) are assigned a 12-month PD and ECL; Stages 2 and 3 exposures with significant increase in credit risk are assigned a lifetime PD and ECL; Stage 3 includes the impaired exposures that deserve a specific ECL provision. Staging is a function of loan quality and changes thereto based on loan classification, internal rating and scoring, days in arrears, and PD values.

(iii) ECL measurement: the standard requires the ECL provision to be unbiased (neither conservative nor optimistic) and forward-looking. The Bank calculated EAD by measuring the exposure of cash flows after the reporting date, including repayments of principal and interest, and expected draw-downs on committed facilities. The Bank used the Basel 2 Standardized Approach's Credit Conversion Factors (CCF) to predict expected draw-downs on off financial position and committed facilities. Bid and performance bonds were excluded because they do not carry financial commitments. The Bank had to review its rating and scoring models to come up with unbiased, point-in-time, and forward-looking PD values for Corporate and Retail exposures. The Bank applied LGD estimates based on historical observations of recoveries or expert judgment, while considering expected cash flows from available collateral and guarantees. The Bank will review LGD to meet the standard's unbiased and forward-looking conditions. Sovereign and Bank exposures and Debt instruments were applied an ECL based on external rating agencies' estimates of PD and LGD.

The IFRS 9 ECL process is initiated quarterly among the concerned parties to assess any shift in loan staging and generate a timely and updated ECL provision report that will be reviewed by the Bank's executive management and Board.
The tables below show the breakdown of the Group's loan portfolio (gross and net) over the last three years:

As at 31 December	2015		2016		2017	
GROSS BALANCES (1)	LBP Million	% of total	LBP Million	% of total	LBP Million	% of total
Regular	6,693,599	84.7	7,057,686	86.4	7,376,932	86.0
Follow-up	532,387	6.7	537,211	6.6	537,698	6.3
Follow-up and regularization	307,181	3.9	199,065	2.4	259,054	3.0
Substandard loans	6,380	0.1	69,985	0.9	56,967	0.7
Doubtful loans	181,388	2.3	199,812	2.4	272,070	3.2
Bad loans	178,595	2.3	100,689	1.2	73,067	0.9
Total	**7,899,530**	**100.0**	**8,164,448**	**100.0**	**8,575,788**	**100.0**

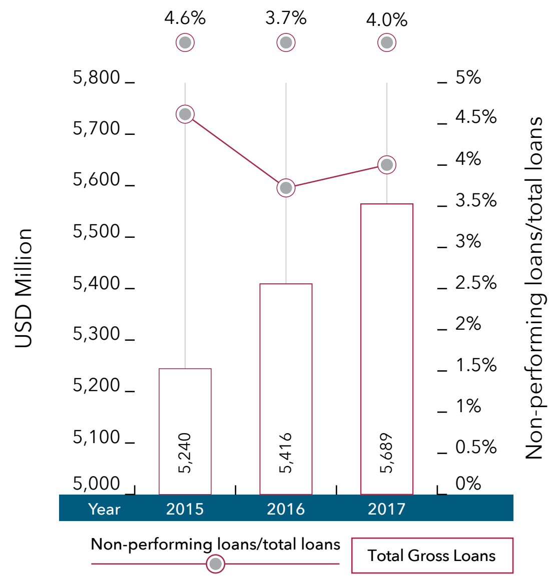
As at 31 December	2015		2016		2017	
NET BALANCES (1 and 2)	LBP Million	% of total	LBP Million	% of total	LBP Million	% of total
Regular	6,693,599	87.669	7,057,686	88.8	7,376,932	88.3
Follow-up	532,387	6.973	537,211	6.8	537,698	6.4
Follow-up and regularization	307,181	4.023	199,065	2.5	259,054	3.1
Substandard loans	5,540	0.073	64,228	0.8	49,455	0.6
Doubtful loans	96,414	1.263	94,016	1.2	135,102	1.6
Bad loans	0	0.000	0	0.0	0	0.0
Total	**7,635,121**	**100.000**	**7,952,206**	**100.0**	**8,358,241**	**100.0**

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

PROVISIONING AND COVERAGE RATIOS

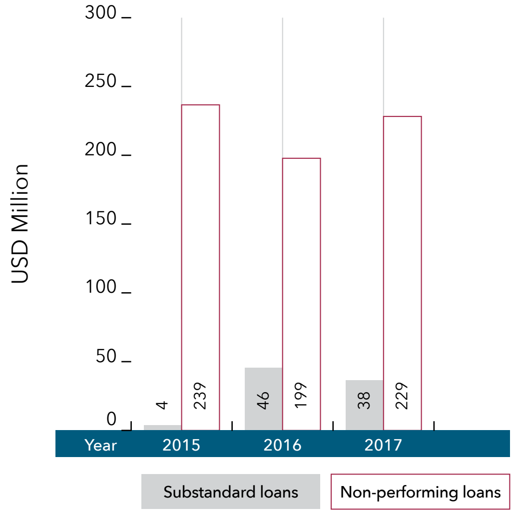
LBP Million	Dec. 2015	Dec. 2016	Dec. 2017
Substandard loans	6,380	69,985	56,967
Non-performing loans	359,983	300,501	345,137
Total Classified Loans	**366,363**	**370,486**	**402,104**
Specific provisions for loan losses	183,738	158,278	164,545
General provisions and collective provisions	131,448	78,643	75,006
out of which general and collective provisions for retail	10,896	11,913	13,541
Reserved interest (sub-standard loans)	840	5,757	7,512
Reserved interest (non-performing loans)	79,832	48,207	45,490
Total Provisions and Cash Collateral	**395,857**	**290,884**	**292,553**
Substandard loans/total loans	0.08%	0.86%	0.66%
Non-performing loans/total loans	4.56%	3.68%	4.02%
Total classified/total loans	4.64%	4.54%	4.69%
Total provisions/total loans	5.01%	3.56%	3.41%
Non-performing loans provisions/Non-performing loans (*)	109.73%	94.88%	82.59%
Non-performing loans provisions/Non-performing loans (**)	106.71%	90.92%	78.66%
Total provisions/Total classified loans (*)	108.05%	78.51%	72.76%
Specific provisions and reserved interest/NPL	73.22%	68.71%	60.86%

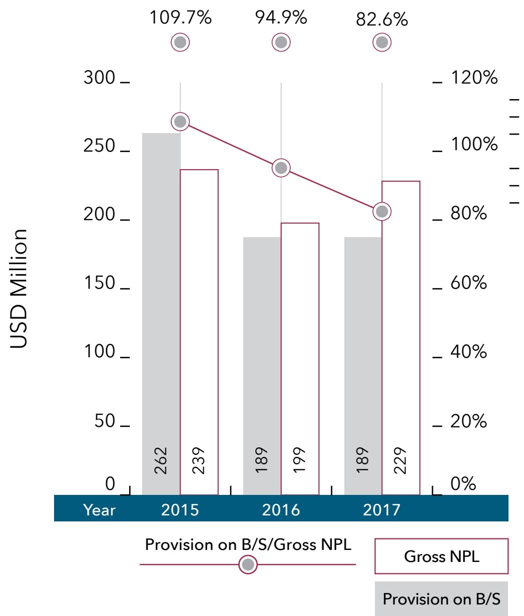
** Includes specific, general and collective provisions, reserved interest.*
*** Excluding general provisions for retail loans.*



Total classified loans (substandard, doubtful, and bad) amounted to LBP 402,104 million (USD 246 million) at the end of December 2017, representing 4.7% of the total loan portfolio, compared to LBP 370,486 million (USD 246 million), representing 4.5% of the total loan portfolio, at the end of 31 December 2016. Total non-performing loans (doubtful and bad) amounted to LBP 345,137 million (USD 229 million) as at 31 December 2017, representing 4.0% of the total loan portfolio, up from 3.7% at the end of 31 December 2016. 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 271,500 million (USD 180 million), covering up to 78.7% of total non-performing loans as at 31 December 2017 compared to 90.9% at the end of 31 December 2016.

Substandard loans amounted to LBP 56,967 million (USD 37.8 million) at the end of 31 December 2017, representing 0.66% of the total loan portfolio compared to LBP 69,986 million (USD 46.4 million) and 0.86%, respectively, at the end of 31 December 2016.





LIQUIDITY

Liquid Assets to Total Assets	Dec. 2015	Dec. 2016	Dec. 2017
Cash and Central Banks	**38.52%**	**43.53%**	**44.50%**
out of which certificates of deposit	14.36%	15.68%	9.47%
Lebanese and Other Governmental Securities	**20.72%**	**17.37%**	**15.04%**
Bonds and fixed-income securities	0.90%	0.13%	0.02%
Banks and financial institutions	12.40%	11.48%	13.67%
Total Liquidity	**72.54%**	**72.51%**	**73.22%**

Liquid Assets to Customers' Deposits	Dec. 2015	Dec. 2016	Dec. 2017
Cash and Central Banks	**46.01%**	**52.86%**	**56.01%**
out of which certificates of deposit	17.15%	19.05%	11.92%
Lebanese and Other Governmental Securities	**24.75%**	**21.09%**	**18.93%**
Bonds and fixed-income securities	1.08%	0.16%	0.02%
Banks and financial institutions	14.81%	13.94%	17.20%
Total Liquidity	**86.64%**	**88.06%**	**92.17%**

As shown above, the Group maintained a high level of liquid assets to meet foreseeable liability maturity requirements. As at 31 December 2017, 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 73.2% of total assets and 92.2% of customers' deposits compared to 72.5% and 88.1%, respectively, as at 31 December 2016.

CAPITAL

As of 31 December 2017, the Group'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 Group 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 2017 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 through the listing to increase liquidity through the listing of Global Depository Shares and to promote further transparency for investors. According to the London Stock Exchange, Byblos Bank was the first Lebanese company to list on the London Stock Exchange in 12 years and the first bank to list on the LSE in 2009, showing resilience despite the then-ongoing global financial crisis.

CAPITAL ADEQUACY RATIO

As a consolidated group, the Total Capital Ratio stood at 17.8% as at 31 December 2017, with the Tier 1 Capital and Common Equity Tier One (CET1) ratios coming in at 14.6% and 11.2%, 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 14.2%, 11.7%, and 8.9% respectively.

BYBLOS BANK GROUP BASEL III (*) CAPITAL RATIOS

	31 December		
(LBP Million except ratios)	**2015**	**2016**	**2017**
Common equity ratio (CET1)	10.8%	11.3%	11.2%
Tier 1 capital ratio	14.7%	15.0%	14.6%
Total capital adequacy ratio	17.7%	18.8%	17.8%
Common equity	1,678,744	1,846,499	1,949,894
Tier 1 capital	2,278,722	2,443,015	2,546,085
Tier 2 capital	466,551	615,089	554,831
Total capital base	2,745,273	3,058,104	3,100,916
Total risk-weighted assets (RWA)	**15,517,339**	**16,269,178**	**17,416,358**
Credit risk RWA	13,980,192	14,916,222	16,034,470
Market risk RWA	452,988	273,970	277,827
Operational risk RWA	1,084,159	1,078,986	1,104,061

(*) 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.

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 2017, as measured against established regulatory ratios and timetables to meet the requirements of Basel III.

Timetables 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 set 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 6.68% at 31 December 2017.

In addition to measuring the capital requirements under Pillar 1, 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 2017 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 line managers' 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.

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
2017	**1.7600**	**1.5200**	**212.00**	**0.1406**

(*) Before taxes at a rate of 5% until new rate of 10% for 2017.

At its Annual General Assembly held on 20 April 2018, the Bank's shareholders approved the distribution of dividends out of the Bank's net income for the year ended 31 December 2017 (before taxes of 10%) of LBP 212 (USD 0.1406) per common share and USD 8 per Series 2008 and Series 2009 Preferred Share. Total dividends paid in respect of 2017 represented 65.7% of net income for that year.

THE BANK'S RATINGS

The political situation in Lebanon during 2017 remained fragile. 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 8 December 2017, 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 mentioned that Byblos Bank's ratings remain constrained by the sovereign rating. It said that the 'stable' outlook mirrors the one of the sovereign rating.

Fitch also said that the ratings take into account the Bank's competent and stable management's having a strong experience in the banking industry, its strong domestic franchise underpinned by good distribution capabilities, and a strong brand that supports revenue generation and deposit collection. It mentioned that Byblos Bank's balance sheet is very liquid. It considered that the Bank has weak capitalization, mainly due to its large exposure to the Lebanese sovereign and the BDL. It considered Byblos Bank's profitability to be structurally low compared to 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 materially 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 18 January 2018, Moody's Investors Service affirmed the long-term deposit ratings of Byblos Bank at 'B3', on par with the Bank's baseline credit assessment. It kept the 'stable' outlook on the long-term deposit ratings. Also, it affirmed the long-term national scale ratings of Byblos Bank at 'A3.lb/LB-2' and the Bank's Not Prime short-term deposit ratings. This reflects the limited impact of the change in the Moody's Macro Profile for Lebanon on the Bank's financial profiles, which is already constrained by Lebanon's B3 sovereign rating.

The agency indicated that the Bank's ratings reflect the Bank's high exposure to the Lebanese sovereign, its modest capitalization, and the weak operating environment. 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. It also said that the Bank's large collective provisions provide a buffer against potential loan quality deterioration.

ANNUAL REPORT 2017

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 2017, 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 2017 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 35 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 36 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). This caused us to qualify our audit opinion on the consolidated financial statements relating to the year ended 31 December 2016.

During 2017, the Group transferred an amount of LL 40,000 million from "Deferred revenues" within "Other liabilities" to "Provisions for risks and charges".

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 2017 and 31 December 2016 would have decreased by LL 229,162 million, through a decrease in "Deferred revenues" (reflected under "Other liabilities") by LL 86,682 million as at 31 December 2017 and LL 126,682 million as at 31 December 2016, and a decrease in "Provisions for risks and charges" by LL 142,480 million as at 31 December 2017 and LL 102,480 million as at 31 December 2016; and

- Total equity as at 31 December 2017 and 31 December 2016 would have increased by LL 229,162 million.

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Basis for Qualified Opinion (continued)

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the year ended 31 December 2017. In addition to the matter described in the "*Basis for Qualified Opinion*" section of our report, we have determined the matter described below to be the key audit matter to be communicated in our report. This matter was 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 this matter. Our description of how our audit addressed this 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 this matter. 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 matter below, provide the basis for our qualified audit opinion on the accompanying consolidated financial statements.

Key Audit Matter	How our audit addresses the Key Audit Matter
Impairment of Loans and Advances	
Due to the inherently judgmental 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. Note 24 to the consolidated financial statements provides details relating to the impairment of loans and advances.	These risks 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.

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Other Information Included in the Group's 2017 Annual Report
Other information consists of the information included in the Group's 2017 Annual Report other than the consolidated financial statements and our auditors' report thereon. Management is responsible for the other information. The Group's 2017 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.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

- 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 Walid Nakfour for Ernst & Young and Antoine Gholam for BDO, Semaan, Gholam & Co.

Ernst & Young

BDO, Semaan, Gholam & Co.

23 March 2018
Beirut, Lebanon

CONSOLIDATED INCOME STATEMENT

LBP Million	Notes	2017	2016
Interest and similar income	8	1,702,286	1,545,922
Interest and similar expense	9	(1,275,994)	(1,176,124)
NET INTEREST INCOME		**426,292**	**369,798**
Fee and commission income	10	147,162	134,122
Fee and commission expense	10	(12,138)	(12,515)
NET FEE AND COMMISSION INCOME	10	**135,024**	**121,607**
Net gain from financial instruments at fair value through profit or loss	11	48,456	79,970
Net gain from sale of financial assets at amortized cost	12	36,232	417,699
Dividend income from financial assets at fair value through other comprehensive income	26	4,445	4,413
Other operating income	13	31,573	27,803
TOTAL OPERATING INCOME		**682,022**	**1,021,290**
Net credit (losses) gains	14	(18,870)	8,925
Impairment losses on financial investments	2	-	(49,676)
NET OPERATING INCOME		**663,152**	**980,539**
Personnel expenses	15	(205,603)	(195,787)
Other operating expenses	16	(129,287)	(159,474)
Depreciation of property and equipment	27	(21,133)	(22,425)
Amortization of intangible assets	28	(113)	(113)
Impairment of goodwill	5	-	(12,427)
TOTAL OPERATING EXPENSES		**(356,136)**	**(390,226)**
OPERATING PROFIT		**307,016**	**590,313**
Provisions for risks and charges	36	-	(102,480)
Foreign currency translation losses on deconsolidation of subsidiaries	2	-	(137,890)
Net gain on disposal of property and equipment		1,853	11
PROFIT BEFORE TAX		**308,869**	**349,954**
Income tax expense	17	(52,415)	(100,719)
PROFIT FOR THE YEAR		**256,454**	**249,235**
Attributable to:			
Equity holders of the parent		248,539	232,672
Non-controlling interests		7,915	16,563
		256,454	**249,235**
Earnings per share		**LBP**	**LBP**
Equity holders of the parent:			
Basic earnings per share	18	355.14	327.22
Diluted earnings per share	18	333.57	310.18

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

LBP Million	Notes	2017	2016
PROFIT FOR THE YEAR		**256,454**	**249,235**
OTHER COMPREHENSIVE INCOME (LOSS)			
Items to be reclassified to the income statement in subsequent periods:			
Exchange difference on translation of foreign operations		15,661	(68,161)
Net other comprehensive gain (loss) to be reclassified to the income statement in subsequent periods		**15,661**	**(68,161)**
Items not to be reclassified to the income statement in subsequent periods:			
Net unrealized gain (loss) from financial assets at fair value through other comprehensive income	43	6,026	(1,306)
Income tax effect	43	(1,445)	194
		4,581	**(1,112)**
Re-measurement gains (losses) on defined-benefit plans	36 (a)	2,164	(99)
Net other comprehensive income (loss) not to be reclassified to the income statement in subsequent periods		**6,745**	**(1,211)**
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX		**22,406**	**(69,372)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**278,860**	**179,863**
Attributable to:			
Equity holders of the parent		270,778	190,591
Non-controlling interests		8,082	(10,728)
		278,860	**179,863**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

LBP Million	Notes	2017	2016
ASSETS			
Cash and balances with central banks	19	11,966,804	8,717,615
Due from banks and financial institutions	20	3,928,586	2,657,429
Loans to banks and financial institutions and reverse repurchase agreements	21	754,394	964,066
Derivative financial instruments	22	2,790	4,420
Financial assets at fair value through profit or loss	23	256,025	789,172
Net loans and advances to customers at amortized cost	24	8,192,985	7,787,275
Net loans and advances to related parties at amortized cost	45	22,030	20,714
Debtors by acceptances		354,023	223,883
Financial assets at amortized cost	25	8,155,350	9,641,023
Financial assets at fair value through other comprehensive income	26	108,552	101,305
Property and equipment	27	273,437	247,095
Intangible assets	28	267	380
Assets obtained in settlement of debt	29	44,891	43,299
Other assets	30	102,073	110,438
TOTAL ASSETS		**34,162,207**	**31,308,114**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

LBP Million	Notes	2017	2016
LIABILITIES AND EQUITY			
Liabilities			
Due to central banks	31	1,374,837	267,494
Due to banks and financial institutions	32	972,315	774,095
Derivative financial instruments	22	3,544	2,106
Customers' deposits at amortized cost	33	26,757,716	25,415,634
Deposits from related parties at amortized cost	45	380,790	366,027
Debt issued and other borrowed funds	34	453,556	444,072
Engagements by acceptances		354,023	223,883
Other liabilities	35	258,870	374,911
Provisions for risks and charges	36	350,936	300,292
Subordinated debt	37	422,995	420,165
TOTAL LIABILITIES		**31,329,582**	**28,588,679**
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital – common shares	38	684,273	684,273
Share capital – preferred shares	38	4,840	4,840
Share premium – common shares	38	229,014	229,014
Share premium – preferred shares	38	591,083	591,083
Non-distributable reserves	39	924,812	843,320
Distributable reserves	40	110,616	103,246
Treasury shares	41	(6,002)	(5,161)
Retained earnings		52,282	67,518
Revaluation reserve of real estate	42	5,689	5,689
Change in fair value of financial assets at fair value through other comprehensive income	43	(4,538)	(9,081)
Net results of the financial period – profit		248,539	232,672
Foreign currency translation reserve		(49,847)	(65,341)
		2,790,761	**2,682,072**
NON-CONTROLLING INTERESTS		**41,864**	**37,363**
TOTAL EQUITY		**2,832,625**	**2,719,435**
TOTAL LIABILITIES AND EQUITY		**34,162,207**	**31,308,114**

The consolidated financial statements were authorized for issue in accordance with the resolution of the Board of Directors on 23 March 2018 by:

Mr. Semaan F. Bassil
Chairman – General Manager

Mr. Ziad El-Zoghbi
Head of Finance and Administration

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent					
LBP Million	Common shares	Preferred shares	Share premium – common shares	Share premium – preferred shares	Non-distributable reserves	Distributable reserves
Balance at 1 January 2017	684,273	4,840	229,014	591,083	843,320	103,246
Profit for the year	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	-
Transfer to retained earnings	-	-	-	-	-	-
Appropriations from retained earnings	-	-	-	-	81,492	7,370
Dividends paid to non-controlling interests	-	-	-	-	-	-
Equity dividends paid (note 52)	-	-	-	-	-	-
Translation difference	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-
Balance at 31 December 2017	**684,273**	**4,840**	**229,014**	**591,083**	**924,812**	**110,616**
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 52)	-	-	-	-	-	-
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**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

BYBLOS BANK S.A.L.
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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**
(5,161)	67,518	5,689	(9,081)	232,672	(65,341)	2,682,072	37,363	**2,719,435**
-	-		-	248,539	-	248,539	7,915	**256,454**
-	2,164	-	4,581	-	15,494	22,239	167	**22,406**
-	2,164	-	4,581	248,539	15,494	270,778	8,082	**278,860**
-	232,672	-	-	(232,672)	-	-	-	**-**
-	(88,862)	-	-	-	-	-	-	**-**
-	-	-	-	-	-	-	(3,581)	**(3,581)**
-	(161,137)	-	-	-	-	(161,137)	-	**(161,137)**
-	(73)	-	(38)	-	-	(111)	-	**(111)**
(841)	-	-	-	-	-	(841)	-	**(841)**
(6,002)	**52,282**	**5,689**	**(4,538)**	**248,539**	**(49,847)**	**2,790,761**	**41,864**	**2,832,625**
(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**

CONSOLIDATED STATEMENT OF CASH FLOWS

LBP Million	Notes	2017	2016
OPERATING ACTIVITIES			
Profit before tax		308,869	349,954
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation and amortization	27 & 28	21,246	22,538
Provision (write-back of provision) for loans and advances and direct writeoffs, net	14	18,870	(7,347)
Write-back of provision for balances with central banks, net	14	-	(1,578)
Gain on disposal of property and equipment		(1,853)	(11)
Gain on disposal of assets obtained in settlement of debt	13	(3,202)	(4,093)
Provisions for risks and charges, net		17,953	154,612
Unrealized fair value losses on financial instruments at fair value through profit or loss		703	3,727
Realized gains from financial assets		(30,217)	(397,821)
Derivative financial instruments		3,068	(2,953)
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		**335,437**	**317,021**
CHANGES IN OPERATING ASSETS AND LIABILITIES			
Due from central banks		(2,664,426)	(1,563,261)
Due to central banks		596,650	226,518
Due from banks and financial institutions		54,695	(2,832)
Financial assets at fair value through profit or loss		526,338	(516,138)
Due to banks and financial institutions		16,186	61,285
Net loans and advances to customers and related parties		(425,896)	(316,469)
Assets obtained in settlement of debt	29	(4,546)	(2,836)
Proceeds from sale of assets obtained in settlement of debt		6,156	5,679
Other assets		8,365	(17,397)
Customers' and related parties' deposits		1,356,845	516,361
Other liabilities		(11,748)	223,967
Cash used in operations		**(205,944)**	**(1,068,102)**
Provision for risks and charges paid	36	(5,091)	(3,487)
Taxation paid		(116,708)	(54,374)
Net cash used in operating activities		**(327,743)**	**(1,125,963)**

CONSOLIDATED STATEMENT OF CASH FLOWS

LBP Million	Notes	2017	2016
INVESTING ACTIVITIES			
Financial assets at amortized cost		1,521,996	1,499,210
Financial assets at fair value through other comprehensive income		(2,704)	(1,096)
Loans to banks and financial institutions and reverse repurchase agreements		44,178	420,841
Purchase of property and equipment	27	(49,484)	(35,011)
Proceeds from sale of property and equipment		3,969	377
Net cash outflow from deconsolidation of subsidiaries	2	-	(132,565)
Acquisition of a subsidiary, net of cash acquired	5	-	(83,599)
Net cash from investing activities		**1,517,955**	**1,668,157**
FINANCING ACTIVITIES			
Debts issued and other borrowed funds		9,484	(1,127)
Subordinated debt		2,830	2,765
Treasury shares		(841)	1,528
Dividends paid to equity holders of the parent	52	(161,137)	(161,060)
Dividends paid to non-controlling interests		(3,581)	(3,153)
Acquisition of additional non-controlling interests	5	-	(1,861)
Net cash used in financing activities		**(153,245)**	**(162,908)**
INCREASE IN CASH AND CASH EQUIVALENTS		**1,036,967**	**379,286**
Net effect of foreign exchange		15,427	(58,374)
Cash and cash equivalents at 1 January		5,087,112	4,766,200
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**44**	**6,139,506**	**5,087,112**
Operational cash flows from interest and dividends			
Interest paid		(1,258,322)	(1,168,296)
Interest received		1,735,080	1,566,523
Dividend received		5,293	5,049

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.

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 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 2017. Control is achieved when the Group is exposed to, 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.

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 amount 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. Since March 2011, Syria has witnessed an extremely violent and crippling civil war between the regime and various opposition groups in different parts of the country. The war has turned into a humanitarian disaster, resulting in Syria being ranked number one on the list of the most dangerous countries in the world. In addition, this has led several international bodies and countries (e.g. the European Union and the United States) 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, having been shut off from the international payment and settlement systems, as well as 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 controls, interest rate controls, and foreign currency credit facilities controls, have added to the limitations already existing on the significant activities of banks, preventing further 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 also have significantly impacted the Group's ability to attend the meetings and make and execute key operational and financial decisions regarding its Syrian operations.

As a result of these factors, which are expected to continue for the foreseeable future, effective 31 December 2016, the Group concluded that it no longer met the accounting criteria for consolidation of its Syrian subsidiary due to a loss of control, and therefore it deconsolidated its Syrian subsidiary effective as of 31 December 2016. The Group determined the fair value of its investment in its 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 since 1 January 2017, the Group no longer includes 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 its 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 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 an 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 its Sudanese subsidiary due to a loss of control, and therefore it deconsolidated its Sudanese subsidiary effective as of 31 December 2016. The Group 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 no longer includes 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 its 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 2017.

AMENDMENTS TO IAS 7 STATEMENT OF CASH FLOWS: DISCLOSURE INITIATIVE

The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

AMENDMENTS TO IAS 12 INCOME TAXES: RECOGNITION OF DEFERRED TAX ASSETS FOR UNRECOGNIZED LOSSES

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amounts. The Group has applied the amendments retrospectively. However, their application has no material effect on the Group's financial position and performance.

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Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture, or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. These amendments do not have any impact on the Group.

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 replaces IAS 39 Financial Instruments and all previous versions of IFRS 9 (2009, 2010 and 2013). The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The new version, IFRS 9 (2014), is effective for annual periods beginning on or after 1 January 2018. The Group plans to adopt the new standard on the required effective date along with the provisions of Central Bank of Lebanon Basic Circular 143 and Banking Control Commission (BCC) Circular 293.

In accordance with the transition provisions of IFRS 9 (2014), the Group will apply this standard retrospectively. The changes in measures arising on initial application will be incorporated through an adjustment to opening retained earnings or reserves (as applicable) as at 1 January 2018.

Estimated impact of the adoption of IFRS 9 on the opening equity at 1 January 2018:

Based on assessments undertaken to date, the expected increase in impairment allowances when measured in accordance with IFRS 9's expected credit losses model (see II below) compared to IAS 39's incurred loss model is estimated at approximately LBP 93 billion, which is already covered by the Group's excess provisions disclosed in note 36. Accordingly, there will be no impact on the Group's equity from the adoption of the IFRS 9 impairment requirements.

The above assessment is preliminary because not all transition work has been finalized. The actual impact of adopting IFRS 9 on 1 January 2018 may change because:

- IFRS 9 will require the Group to revise its accounting processes and internal controls, and these changes are not yet complete;
- Although parallel runs were carried out in the second half of 2017, the new systems and associated controls in place have not been operational for a more extended period;
- The Group has not finalized the testing and assessment of control over its new IT systems and changes to its governance framework;
- The Group is refining and finalizing its models for ECL calculations; and
- The new accounting policies, assumptions, judgments, and estimation techniques employed are subject to change until the Group finalizes its first financial statements that include the date of initial application.

I. Classification and measurement

The Group has early adopted classification and measurement requirements as issued in IFRS 9 (2009) and IFRS 9 (2010). In the July 2014 publication of IFRS 9, the new measurement category FVOCI was introduced for financial assets that satisfy the contractual cash flow characteristics (SPPI test). This category is aimed at the portfolio of debt instruments for which amortized cost information, as well as fair value information, is relevant and useful. This will be the case if these assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets.

At the date of application of IFRS 9 (2014), the Group reassessed the classification and measurement category for all financial assets debt instruments that satisfy the contractual cash flow characteristics (SPPI test) and classified them within the category that was consistent with the business model for managing these financial assets on the basis of facts and circumstances that existed at that date.

The classification and measurement requirements for financial assets that are equity instruments, or are debt instruments that do not meet the contractual cash flow characteristics (SPPI test), and financial liabilities remain unchanged from previous versions of IFRS 9.

The Group does not expect a material impact on the classification of either the Group's financial assets or their carrying values.

II. Impairment

The standard introduces a new single model for the measurement of impairment losses on all financial assets, including loans and debt securities measured at amortized cost or at fair value through OCI. The IFRS 9 expected credit loss (ECL) model replaces the current model of IAS 39.

The ECL model contains a three-stage approach, which is based on the change in credit quality of financial assets since initial recognition. The ECL model is forward-looking and requires the use of reasonable and supportable forecasts of future economic conditions in the determination of significant increases in credit risk and the measurement of ECL.

Stage 1
A 12-month ECL applies to all financial assets that have not experienced a significant increase in credit risk (SICR) since origination and are not credit-impaired. The ECL will be computed using a factor that represents the Probability of Default (PD) occurring over the next 12 months.

Stage 2
Under Stage 2, where there has been a significant increase in credit risk since initial recognition but the financial instruments are not considered credit-impaired, an amount equal to the default probability weighted lifetime ECL will be recorded. Provisions are expected to be higher in this stage because of an increase in risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1.

Stage 3
Under Stage 3, where there is objective evidence of impairment at the reporting date, these financial instruments will be classified as credit-impaired and an amount equal to the lifetime ECL will be recorded for the financial assets.

KEY CONSIDERATIONS
Some of the key concepts in IFRS 9 that have the most significant impact and require a high level of judgment, as considered by the Group while determining the impact assessment, are:

Assessment of Significant Increase in Credit Risk
The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Group compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Group's existing risk management processes.

Our assessment of significant increases in credit risk will be performed at least quarterly for each individual exposure based on three factors. If any of the following factors indicates that a significant increase in credit risk has occurred, the instrument will be moved from Stage 1 to Stage 2:

(1) We have established thresholds for significant increases in credit risk based on movement in PDs relative to initial recognition;

(2) Additional qualitative reviews will be performed to assess the staging results and make adjustments, as necessary, to better reflect the positions which have significantly increased in risk; and

(3) IFRS 9 contains a rebuttable presumption that instruments which are 30 days past due have experienced a significant increase in credit risk. Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired as at the reporting date. The determination of credit impairment under IFRS 9 will be similar to the individual assessment of financial assets for objective evidence of impairment under IAS 39.

Macroeconomic Factors, Forward-Looking Information (FLI), and Multiple Scenarios
The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk must consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information will require significant judgment.

PD, Loss Given Default (LGD), and Exposure At Default (EAD) inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modeled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. Each macroeconomic scenario used in our expected credit loss calculation will have forecasts of the relevant macroeconomic variables.

Our estimation of expected credit losses in Stage 1 and Stage 2 will be a discounted probability-weighted estimate that considers a minimum of three future macroeconomic scenarios.

Our base-case scenario will be based on macroeconomic forecasts published by our internal economics group. Upside and downside scenarios will be set relative to our base-case scenario based on reasonably possible alternative macroeconomic conditions. Scenario design, including the identification of additional downside scenarios, will occur on at least an annual basis, and more frequently if conditions warrant.

Scenarios will be probability-weighted according to our best estimate of their relative likelihood based on historical frequency and current trends and conditions. Probability weights will be updated on a quarterly basis. All scenarios considered will be applied to all portfolios subject to expected credit losses with the same probabilities.

Definition of default

The definition of default used in the measurement of expected credit losses and the assessment to determine movement between stages will be consistent with the definition of default used for internal credit risk management purposes. IFRS 9 does not define default, but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due.

Expected Life

When measuring ECL, the Group must consider the maximum contractual period over which the Bank is exposed to credit risk. All contractual terms should be considered when determining the expected life, including prepayment options and extension and rollover options. For certain revolving credit facilities that do not have fixed maturities, the expected life is estimated based on the period over which the Group is exposed to credit risk and where the credit losses would not be mitigated by management actions.

Governance

In addition to the existing risk management framework, we have established an internal committee to provide oversight of the IFRS 9 implementation. The committee is comprised of senior representatives from Finance and Risk Management and will be responsible for reviewing and approving staging of financial assets and other key inputs and assumptions used in our expected credit loss estimates. It also assesses the appropriateness of the overall allowance to be provided for Expected Credit Losses.

The expected impact on the Group's statement of financial position and equity is discussed above.

III. Hedge accounting

IFRS 9 also incorporates new hedge accounting rules that intend to align hedge accounting with risk management practices. IFRS 9 does not cover guidance on macro hedge accounting as IASB is working on it as a separate project. IFRS 9 includes an accounting policy choice to defer the adoption of IFRS 9 hedge accounting and to continue with IAS 39 hedge accounting. The Group, however, has elected to adopt the new hedge accounting provisions of IFRS 9.

The Group does not have hedging relationships.

IV. Financial instruments: disclosures (IFRS 7)

The Group will be amending the disclosures for 2018 to include more extensive qualitative and quantitative disclosures relating to IFRS 9, such as new classification categories, the three-stage impairment model, new hedge accounting requirements, and transition provisions.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and amended in April 2016, and establishes a five-step model to account for 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. Retrospective application, either full or modified, is required for annual periods beginning on or after 1 January 2018, 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.

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 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.

2.5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOREIGN CURRENCY TRANSLATION

The consolidated financial statements are presented in Lebanese Pounds (LBP), 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 are 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.

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 method (EIR), less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortization is included in "Interest and similar income" in the consolidated income statement.
The losses arising from impairment are recognized in the consolidated income statement in "Net credit losses".

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

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

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

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

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.

(ii) Equity instruments at fair value through profit or loss

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

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

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

FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

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

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

b. FINANCIAL LIABILITIES

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

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

- financial liabilities at fair value through profit or loss (including derivatives);
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies; and
- financial guarantee contracts and commitments to provide loan at below-market interest rates, 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 the 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.

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:

- the hybrid contract contains a host that is not an asset within the scope of IFRS 9;
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- 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 such cases, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

(ii) Financial liabilities

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

REPURCHASE AND REVERSE REPURCHASE AGREEMENTS

Securities sold under agreements to repurchase at a specified future date are not derecognized from the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership. The corresponding cash received is recognized in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest, as a liability within "Due to banks and financial institutions", reflecting the transaction's economic 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 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 interests.

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 operations.

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

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

IMPAIRMENT OF FINANCIAL ASSETS

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

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

(i) Financial assets carried at amortized cost

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

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

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future writeoff is later recovered, the recovery is credited to "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 loan continues to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

(iii) Collateral repossessed

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

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

HEDGE ACCOUNTING

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

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

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item, both at inception and at each quarter-end on an ongoing basis. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125% and are expected to achieve such offset in future periods. Hedge ineffectiveness is recognized in the consolidated income statement in "Net gain (loss) from financial instruments at fair value through profit or loss". For situations where the 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, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognized when the hedged forecast transaction is ultimately recognized in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the consolidated income statement.

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

LEASING

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

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

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

RECOGNITION OF INCOME AND EXPENSES

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and that 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 effective interest rate (EIR), which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

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

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

(ii) Fee and commission income
The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following 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, they are deferred and recognized over those future periods.

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

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

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

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

CASH AND CASH EQUIVALENTS

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

PROPERTY AND EQUIPMENT

Property and equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the property and equipment if the recognition criteria are met. When significant parts of property and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the consolidated income statement as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the corresponding 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, 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 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 or 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 neither exceeds its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated income statement.

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

FINANCIAL GUARANTEES

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees, and acceptances. Financial guarantees are initially recognized in the financial statements (within "Other liabilities") at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognized less, when appropriate, cumulative amortization recognized in the consolidated income statement, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

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

PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

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

Re-measurements, 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; and
- 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; and
- 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.

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 on the amounts recognized in the financial statements:

GOING CONCERN

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

BUSINESS MODEL

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

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

- management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- how management evaluates the performance of the portfolio;
- whether management's strategy focuses on earning contractual interest revenues;
- the degree of frequency of any expected asset sales;
- the reason for any asset sales; and
- whether 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. Violent and crippling civil war, international sanctions, and the lack of exchangeability between the Syrian and Sudanese Pounds on the one hand and the US Dollar on 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 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 considerations and assumptions summarized previously 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 prices indices, country risk, and the performance of different individual groups).

DEFERRED TAX ASSETS

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

PENSION OBLIGATIONS

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

4. GROUP INFORMATION

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

Subsidiary	Percentage of ownership 2017 %	2016 %	Principal activity	Country of incorporation
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. These investments are accounted for at fair value through other comprehensive income and are fully provided for.

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 for the year ended 31 December 2016 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 ended 31 December 2016 would have increased by LBP 2,491 million.

The fair value of the identifiable assets and liabilities acquired arising as at 30 April 2016, the date of acquisition, was:

LBP Million	Fair value recognized on acquisition
ASSETS	
Cash and balances with central banks	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 35)	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:

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 2017, the unrecorded losses incurred by Banque Pharaon & Chiha S.A.L. as a result of the above amounted to LBP 6,229 million (2016: LBP 5,247 million) and were paid from the escrow account. The remaining balance of the escrow account, amounting to LBP 4,776 million (2016: LBP 5,758 million) (note 35), will be released to the sellers during the year 2018 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% 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% 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.

6. MATERIAL PARTLY OWNED SUBSIDIARIES

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

Proportion of equity interests held by non-controlling interests:

Name	2017 %	2016 %
Byblos Bank Africa (*)	43.14	43.14
Adonis Insurance and Reinsurance Co. (ADIR) S.A.L.	36.00	36.00
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 statement for 2017:

LBP Million	Adonis Insurance and Reinsurance Co. (ADIR) S.A.L.
Net interest income	11,504
Net fee and commission income	4,636
Net gain from financial instruments at fair value through profit or loss	406
Other operating income	21,002
Total operating expenses	(12,765)
Income tax expense	(2,067)
Profit for the year	**22,716**
Attributable to non-controlling interests	**8,178**
Dividends paid to non-controlling interests	**3,219**

Summarized income statement for 2016:

LBP Million	Adonis Insurance and Reinsurance Co. (ADIR) S.A.L.	Byblos Bank Africa	Byblos Bank Syria S.A.
Net interest income	10,613	4,807	1,989
Net fee and commission income	3,084	877	939
Net gain from financial instruments at fair value through profit or loss	143	213	30,937
Other operating income	19,415	128	90
Net credit gains	-	1,010	4,044
Total operating expenses	(11,651)	(2,988)	(16,926)
Income tax expense	(1,737)	(897)	(996)
Profit for the year	**19,867**	**3,150**	**20,077**
Attributable to non-controlling interests	**7,152**	**1,359**	**8,057**
Dividends paid to non-controlling interests	**3,148**	**-**	**-**

Summarized statement of financial position as at 31 December 2017 and 2016:

LBP Million	Adonis Insurance and Reinsurance Co. (ADIR) S.A.L. 2017	Adonis Insurance and Reinsurance Co. (ADIR) S.A.L. 2016
Cash and balances with central banks	12	6
Due from banks and financial institutions	37,117	27,179
Balances with Parent and Group entities	165,276	153,055
Financial assets at fair value through profit or loss	37,811	37,085
Net loans and advances at amortized cost	5,182	4,875
Financial assets at amortized cost	186,848	156,694
Property and equipment	2,267	2,612
Other assets	62,672	56,297
Deposits at amortized cost	(272,925)	(234,383)
Other liabilities	(129,669)	(121,614)
Total Equity	**94,591**	**81,806**
Attributable to non-controlling interests	**34,053**	**29,491**

Summarized cash flow information for the year ended 31 December 2017:

LBP Million	Adonis Insurance and Reinsurance Co. (ADIR) S.A.L.
Operating	29,257
Investing	(18,217)
Financing	(4,640)
Net increase in cash and cash equivalents	**6,400**

Summarized cash flow information for the year ended 31 December 2016:

LBP Million	Adonis Insurance and Reinsurance Co. (ADIR) S.A.L.	Byblos Bank Africa	Byblos Bank Syria S.A.
Operating	14,274	3,611	1,223
Investing	(8,502)	(11,123)	4,406
Financing	(5,161)	(6,420)	-
Net increase (decrease) in cash and cash equivalents	**611**	**(13,932)**	**5,629**

7. SEGMENT INFORMATION

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

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

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

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

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

Interest income is reported net as management primarily relies on net interest revenue as 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:

PROFIT FOR THE YEAR INFORMATION

2017 LBP Million	**Retail banking**	**Corporate banking**	**Treasury and capital markets**	**Other[1]**	**Total**
Net interest income (expense)	165,463	130,531	132,646	(2,348)	**426,292**
Net fee and commission income	62,536	60,646	2,179	9,663	**135,024**
Net gain from financial instruments at fair value through profit or loss	-	-	48,456	-	**48,456**
Net gain from sale of financial assets at amortized cost	-	-	36,232	-	**36,232**
Dividend income from financial assets at fair value through other comprehensive income	-	-	4,445	-	**4,445**
Other operating income	-	-	-	31,573	**31,573**
Net credit losses	(6,070)	(12,800)	-	-	**(18,870)**
Net operating income	**221,929**	**178,377**	**223,958**	**38,888**	**663,152**

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**

[1] *Other includes all non-banking activities.*

FINANCIAL POSITION INFORMATION

2017 LBP Million	Retail banking	Corporate banking	Treasury and capital markets	Other[1]	Total
Total assets	**2,935,563**	**5,633,475**	**25,172,501**	**420,668**	**34,162,207**
Total liabilities	**25,674,063**	**1,464,443**	**3,227,247**	**963,829**	**31,329,582**

2016 LBP Million	Retail banking	Corporate banking	Treasury and capital markets	Other[1]	Total
Total assets	**2,712,947**	**5,318,924**	**22,875,030**	**401,213**	**31,308,114**
Total liabilities	**24,303,619**	**1,478,042**	**1,907,931**	**899,087**	**28,588,679**

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.

2017 LBP Million	Lebanon	Europe	Other	Total
Total operating income	598,492	51,866	31,664	682,022
Net credit losses	(15,039)	(3,630)	(201)	(18,870)
Net operating income[2]	**583,453**	**48,236**	**31,463**	**663,152**
Non-current assets[3]	**282,983**	**8,525**	**27,087**	**318,595**

2017 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**

[1] *Other includes all non-banking activities.*

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

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

8. INTEREST AND SIMILAR INCOME

LBP Million	2017	2016
Balances with central banks	532,532	326,669
Due from banks and financial institutions	46,468	16,243
Loans to banks and financial institutions and reverse repurchase agreements	21,053	26,181
Loans and advances to customers at amortized cost	529,214	514,775
Loans and advances to related parties at amortized cost	1,457	1,628
Financial assets at amortized cost	571,562	660,426
	1,702,286	**1,545,922**

9. INTEREST AND SIMILAR EXPENSE

LBP Million	2017	2016
Due to central banks	19,549	3,167
Due to banks and financial institutions	22,058	26,136
Customers' deposits at amortized cost	1,152,239	1,066,168
Deposits from related parties at amortized cost	18,646	18,104
Debt issued and other borrowed funds	31,806	31,069
Subordinated debt	31,696	31,480
	1,275,994	**1,176,124**

10. NET FEE AND COMMISSION INCOME

LBP Million	2017	2016
FEE AND COMMISSION INCOME		
Loans and advances	25,418	24,873
Letters of guarantee	11,551	13,584
Acceptances	7,206	5,094
Letters of credit	21,022	14,634
Credit cards	19,985	17,933
Domiciled bills	2,465	2,524
Checks for collection	2,911	3,081
Maintenance of accounts	16,383	13,829
Transfers	10,222	8,621
Safe rental	1,171	1,210
Portfolio commission	2,203	2,989
Commission on insurance-related activities	10,952	9,474
Refund of banking services	12,043	12,958
Other commissions	3,630	3,318
	147,162	**134,122**
Fee and commission expense	**(12,138)**	**(12,515)**
Net fee and commission income	**135,024**	**121,607**

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

LBP Million	2017	2016
Interest and similar income from debt instruments		
Lebanese treasury bills	23,216	27,125
Certificates of deposit issued by the Central Bank of Lebanon	9,412	27,991
Foreign governmental debt securities	-	26
Other debt securities	197	18
	32,825	**55,160**
(Loss) Gain from sale of debt instruments		
Lebanese treasury bills	(2,857)	(2,722)
Certificates of deposit issued by the Central Bank of Lebanon	(3,908)	(17,519)
Foreign governmental debt securities	-	120
Other debt securities	22	39
	(6,743)	**(20,082)**
Unrealized (loss) gain from revaluation of debt instruments		
Lebanese treasury bills	(3,723)	1,061
Certificates of deposit issued by the Central Bank of Lebanon	-	(6,809)
Other debt securities	(19)	214
	(3,742)	**(5,534)**
Net gain from debt instruments	**22,340**	**29,544**
Equity instruments		
Gain from sale	637	204
Unrealized gain from revaluation	3,039	1,807
Dividend income	848	636
Net gain from equity instruments	**4,524**	**2,647**
Unrealized gain from revaluation of structural position of a subsidiary	-	30,662
Foreign exchange	21,592	21,908
Fair value of put options on non-controlling interests	-	(4,791)
	48,456	**79,970**

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

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:

2017 LBP Million	**Gains**	**Losses**	**Net**
Lebanese treasury bills	22,576	(591)	21,985
Certificates of deposit issued by the Central Bank of Lebanon	12,943	-	12,943
Foreign governmental debt securities	1,304	-	1,304
	36,823	**(591)**	**36,232**

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**

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 values. These transactions were available to banks provided that they were 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.

13. OTHER OPERATING INCOME

LBP Million	2017	2016
Net gain from sale of assets obtained in settlement of debt	3,202	4,093
Rental income from assets obtained in settlement of debt	734	963
Write-back of provisions for risks and charges (note 36 (b))	4,711	3,073
Other operating income from insurance related activities	18,838	16,901
Others	4,088	2,773
	31,573	**27,803**

14. NET CREDIT (LOSSES) GAINS

LBP Million	2017	2016
Charge for the year:		
Loans and advances to customers at amortized cost (note 24)	(45,454)	(29,736)
Bad debts written off	(115)	(53)
	(45,569)	**(29,789)**
Recoveries during the year:		
Loans and advances to customers (note 24)	23,994	33,466
Balances with central banks (note 19)	-	1,578
Unrealized interest on loans and advances to customers (note 24)	2,705	3,670
	26,699	**38,714**
	(18,870)	**8,925**

15. PERSONNEL EXPENSES

LBP Million	2017	2016
Salaries and related charges	155,288	152,816
Social security contributions	20,738	20,635
Bonuses	22,777	15,051
Provision for end-of-service benefits (note 36 (a))	6,800	7,285
	205,603	**195,787**

16. OTHER OPERATING EXPENSES

LBP Million	2017	2016
Taxes on interest	3,546	3,299
Taxes and duties	7,172	6,790
Contribution to deposit guarantee fund	12,728	12,601
Rent and related charges	7,021	6,898
Professional fees	10,721	15,209
Telecommunications and postage expenses	7,216	7,457
Board of Directors attendance fees	1,191	956
Maintenance and repairs	16,762	16,673
Electricity and fuel	5,518	5,839
Travel and entertainment	3,257	3,452
Publicity and advertising	15,132	14,948
Subscriptions	4,487	5,665
Legal expenses	4,539	4,342
Insurance	1,210	1,691
Guarding fees	2,496	2,366
Printings and stationery	2,973	3,293
Donations	2,837	2,460
Provisions for risks and charges (note 36 (b))	8,098	34,733
Others	12,383	10,802
	129,287	**159,474**

17. INCOME TAX EXPENSE

The components of income tax expense for the years ended 31 December 2017 and 2016 are as follows:

LBP Million	2017	2016
Current income tax expense	50,108	89,846
Deferred tax related to origination and reversal of temporary differences	-	956
Other taxes	2,307	9,917
	52,415	**100,719**

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	2017	2016
Profit before tax	308,869	349,954
Income tax at Lebanese tax rate	47,448	52,493
Impact of increase resulting from:		
Different tax rates	435	5,156
Non-deductible expenses	4,648	39,585
	5,083	**44,741**
Impact of decrease resulting from:		
Revenues previously subject to tax	(2,423)	(2,789)
Unrealized gain from revaluation of structural position of a subsidiary	-	(4,599)
	(2,423)	**(7,388)**
Income tax	**50,108**	**89,846**
Effective income tax rate	**16.22%**	**25.67%**

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

LBP Million	2017	2016
Balance at 1 January	96,028	26,822
Charge for the year	52,415	99,763
Deferred taxes related to deferred revenues (note 35)	-	22,402
Acquisition of a subsidiary	-	2,783
Deconsolidation of subsidiaries	-	(1,368)
	148,443	**150,402**
Less taxes paid:		
Current year tax liability (*)	(21,929)	(29,498)
Prior years tax liabilities	(94,779)	(24,876)
	(116,708)	**(54,374)**
Balance at 31 December (note 35 (a))	**31,735**	**96,028**

(*) 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:

2017 LBP Million	Deferred tax assets	Deferred tax liabilities
Fair value of financial instruments	137	5,807

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

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:

LBP Million	2017	2016
Weighted average number of common shares outstanding during the year (*)	563,322,218	562,891,539

LBP Million	2017	2016
Net profit attributable to equity holders of the parent	248,539	232,672
(Less): proposed dividends to preferred shares	(48,480)	(48,480)
Net profit attributable to equity holders of the parent	**200,059**	**184,192**
Basic earnings per share in LBP	**355.14**	**327.22**

(*) 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.

DILUTED EARNINGS PER SHARE

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

LBP Million	2017	2016
Weighted average number of ordinary shares for basic earnings per share	563,322,218	562,891,539
Effect of dilution:		
Convertible subordinated debt	117,200,000	117,200,000
Weighted average number of ordinary shares adjusted for the effect of dilution	**680,522,218**	**680,091,539**

LBP Million	2017	2016
Net profit attributable to equity holders of the parent	200,059	184,192
Interest on convertible debt	31,696	31,480
Less: income tax	(4,754)	(4,722)
Net profit attributable to equity holders of the parent adjusted for the effect of convertible debt	**227,001**	**210,950**
Diluted earnings per share in LBP	**333.57**	**310.18**

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.

19. CASH AND BALANCES WITH CENTRAL BANKS

LBP Million	2017	2016
Cash on hand	248,598	249,425
Balances with the Central Bank of Lebanon:		
- Current accounts	274,211	446,310
- Time deposits	11,038,716	7,707,705
	11,312,927	**8,154,015**
Balances with central banks in other countries:		
- Current accounts	318,107	221,651
- Time deposits	443	38,845
- Provision for balances with central banks in other countries (a)	(31,533)	(31,561)
	287,017	**228,935**
Accrued interest receivable	118,262	85,240
	11,966,804	**8,717,615**

(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	2017	2016
At 1 January	31,561	35,445
Write-back during the year (note 14)	-	(1,578)
Foreign exchange	(28)	(2,306)
At 31 December	**31,533**	**31,561**

Provision for balances with central banks in other countries represents provision amounting to LBP 31,533 million as at 31 December 2017 (2016: LBP 31,561 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 2,719,320 million and LBP 2,763,003 million, respectively, as at 31 December 2017 (2016: LBP 2,650,875 million and LBP 2,703,653 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 2017, obligatory reserve requirements for banks operating in foreign countries and the related covering time deposits, current accounts, and cash on hand amounted to LBP 47,061 million (2016: LBP 47,240 million).

20. DUE FROM BANKS AND FINANCIAL INSTITUTIONS

LBP Million	2017	2016
Banks:		
- Current accounts	1,140,179	784,522
- Time deposits	2,780,678	1,868,039
- Accrued interest receivable	3,454	1,442
- Doubtful bank accounts	1,919	1,718
- Provision for doubtful bank accounts	(1,919)	(1,718)
	3,924,311	**2,654,003**
Financial institutions:		
- Current accounts	3,640	2,312
	3,640	**2,312**
Registered exchange companies:		
- Current accounts	70	243
- Doubtful exchange companies accounts	-	2,306
- Provision for doubtful exchange companies accounts	-	(2,306)
	70	**243**
Brokerage companies:		
- Current accounts	565	871
	565	**871**
	3,928,586	**2,657,429**

Doubtful banks and registered exchange companies

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

	2017			2016		
LBP Million	Banks	Registered exchange companies	Total	Banks	Registered exchange companies	Total
Balance at 1 January	1,718	2,306	4,024	1,766	1,922	3,688
Acquisition of a subsidiary	-	-	-	-	384	384
Exchange difference	201	-	201	(48)	-	(48)
Transferred to off financial position	-	(2,306)	(2,306)	-	-	-
Balance at 31 December	**1,919**	**-**	**1,919**	**1,718**	**2,306**	**4,024**

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

LBP Million	2017	2016
Loans to banks and financial institutions	117,729	94,191
Accrued interest receivable	731	781
	118,460	**94,972**
Discounted acceptances	215,099	108,915
Interest received in advance	(1,325)	(533)
	213,774	**108,382**
Reverse repurchase agreements	419,459	760,411
Accrued interest receivable	2,701	301
	422,160	**760,712**
	754,394	**964,066**

Reverse repurchase agreements held by the Group as at 31 December 2017 and 2016 comprise the following:

31 December 2017	Balance (000)	Balance LBP Million	Average interest rate %	Collateral type	Collateral value LBP Million
LBP	**240,489,000**	**240,489**	**3.59**	**BDL CDs**	**228,000**
USD	**97,997**	**147,731**	**3.52**	**BDL CDs**	**150,750**
AMD	**10,044,595**	**31,239**	**6.00**	**Armenian TBs**	**31,829**

31 December 2016	Balance (000)	Balance LBP Million	Average interest rate %	Collateral type	Collateral value LBP Million
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**

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

As of 31 December 2017, the Group had Certificates of Deposit issued by the Central Bank of Lebanon with total nominal amounts of USD 100 million and LBP 228,000 million and Armenian Treasury Bills issued by the Armenian government with a total nominal amount of AMD (000) 10,234,433 bought from financial institutions under the agreement to resell them during the first half of 2018 (2016: Certificates of Deposit issued by the Central Bank of Lebanon with total nominal amounts 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).

Net interest income on the reverse repurchase agreements amounted to LBP 14,229 million for the year ended 31 December 2017 (31 December 2016: LBP 18,208 million).

22. DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index, and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year-end and are indicative of neither market risk nor 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.

	2017			2016		
LBP Million	Assets	Liabilities	Notional amount	Assets	Liabilities	Notional amount
Held for trading						
Currency swaps	1,522	1,937	260,345	1,958	938	194,933
Forward foreign exchange contracts	1,268	1,607	244,451	2,462	1,168	115,601
	2,790	**3,544**	**504,796**	**4,420**	**2,106**	**310,534**

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.

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

LBP Million	2017	2016
Quoted		
Lebanese treasury bills – Eurobonds	71,426	24,032
Debt securities issued by banks and financial institutions	2,494	2,513
Equity securities	31,834	40,065
	105,754	**66,610**
Unquoted		
Lebanese treasury bills – denominated in LBP	150,271	293,990
Certificates of deposit issued by the Central Bank of Lebanon denominated in LBP	-	428,572
	150,271	**722,562**
	256,025	**789,172**

24. NET LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST

LBP Million	2017	2016
Commercial loans	5,448,570	5,253,773
Consumer loans	3,036,968	2,824,387
	8,485,538	**8,078,160**
Less:		
- Individual impairment allowances	(164,545)	(158,278)
- Collective impairment allowances	(75,006)	(78,643)
- Unrealized interest	(53,002)	(53,964)
	8,192,985	**7,787,275**

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 214,368 million as of 31 December 2017 (2016: LBP 167,558 million).

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

2017 LBP Million	**Commercial loans**	**Consumer loans**	**Total**
Balance at 1 January	**51,089**	**2,875**	**53,964**
Add (less):			
- Unrealized interest for the year	19,502	1,638	21,140
- Transfer from off financial position	1,251	-	1,251
- Transfer to off financial position	(20,729)	-	(20,729)
- Recoveries (note 14)	(2,682)	(23)	(2,705)
- Amounts written off	(176)	(522)	(698)
- Difference of exchange	778	1	779
Balance at 31 December	**49,033**	**3,969**	**53,002**

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**

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

2017 LBP Million	Commercial loans	Consumer loans	Total
Balance at 1 January	**61,626**	**96,652**	**158,278**
Add (less):			
- Charge for the year (note 14)	23,152	18,562	41,714
- Amounts written off	(792)	(459)	(1,251)
- Recoveries (note 14)	(1,836)	(14,957)	(16,793)
- Transfer to off financial position	(13,976)	(5,062)	(19,038)
- Transfer from/to collective impairment allowances	1,460	(3)	1,457
- Difference of exchange	139	39	178
Balance at 31 December	**69,773**	**94,772**	**164,545**
Gross amount of loans individually determined to be impaired	**243,251**	**158,853**	**402,104**

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 to 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**

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

2017 LBP Million	**Commercial loans**	**Consumer loans**	**Total**
Balance at 1 January	**66,730**	**11,913**	**78,643**
Add (less):			
- Charge for the year (note 14)	2,114	1,626	3,740
- Recoveries (note 14)	(7,201)	-	(7,201)
- Transfer from/to individual impairment allowances	(1,460)	3	(1,457)
- Difference of exchange	1,281	-	1,281
Balance at 31 December	**61,464**	**13,542**	**75,006**

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 36)	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**

25. FINANCIAL ASSETS AT AMORTIZED COST

LBP Million	2017	2016
Quoted		
Lebanese treasury bills – Eurobonds	2,204,944	2,099,538
Foreign governmental debt securities	167,733	138,113
Debt securities issued by banks and financial institutions	3,931	5,477
Corporate bonds	-	635
	2,376,608	**2,243,763**
Unquoted		
Lebanese treasury bills – denominated in LBP	1,808,188	2,657,946
Lebanese treasury bills – denominated in LBP, given as collateral (*)	735,962	224,044
Certificates of deposit issued by the Central Bank of Lebanon denominated in LBP	1,736,194	2,525,812
Certificates of deposit issued by the Central Bank of Lebanon EuroCDs	1,498,398	1,956,230
Certificates of deposit issued by banks and financial institutions	-	33,228
	5,778,742	**7,397,260**
	8,155,350	**9,641,023**

(*) This balance represents Lebanese treasury bills pledged as collateral against loans obtained from the Central Bank of Lebanon (note 31).

26. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

LBP Million	2017	2016
Quoted shares	47,452	44,388
Unquoted shares	61,100	56,917
	108,552	**101,305**

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

	2017			2016		
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.	32,162	26,974	94	29,213	24,025	548
Intra Investment Company S.A.L.	17,591	4,567	-	17,591	4,567	-
Interbank Payment Network (IPN) S.A.L.	1,363	360	-	1,363	360	-
Arab Trade Financing Program	2,118	626	-	2,118	626	-
Impact Fund	2,685	-	-	2,237	-	-
Others	5,181	346	2,373	4,395	333	-
Quoted shares:						
Jordan Ahli Bank	47,452	(32,962)	1,978	44,388	(36,026)	3,865
	108,552	**(89)**	**4,445**	**101,305**	**(6,115)**	**4,413**

Dividend income amounted to LBP 4,445 million for the year ended 31 December 2017 (2016: LBP 4,413 million) and resulted from equity instruments held at year-end (2016: the same).

27. PROPERTY AND EQUIPMENT

2017 LBP Million	**Buildings**	**Motor vehicles**	**Furniture and equipment**	**Deposits**	**Advance payments**	**Total**
Cost:						
At 1 January 2017	248,016	2,788	243,616	688	12,604	507,712
Additions	16,479	389	19,403	2	13,211	49,484
Transfers	16,977	47	1,111	-	(18,135)	-
Disposals	(2,395)	(163)	(7,602)	-	-	(10,160)
Foreign exchange difference	(127)	(55)	511	17	-	346
At 31 December 2017	**278,950**	**3,006**	**257,039**	**707**	**7,680**	**547,382**
Depreciation:						
At 1 January 2017	60,587	2,047	197,983	-	-	260,617
Depreciation during the year	4,545	312	16,276	-	-	21,133
Related to disposals	(754)	(163)	(7,127)	-	-	(8,044)
Foreign exchange difference	(49)	(38)	326	-	-	239
At 31 December 2017	**64,329**	**2,158**	**207,458**	**-**	**-**	**273,945**
Net carrying value:						
At 31 December 2017	**214,621**	**848**	**49,581**	**707**	**7,680**	**273,437**

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**

The cost of buildings at 31 December 2017 and 2016 includes the revaluation differences of properties valued during prior years in accordance with Law 282 dated 30 December 1993, and approved by the Central Committee of the Bank of Lebanon.

Revaluation differences on property and equipment reflected as revaluation reserve of real estate in equity amounted to LBP 5,689 million as at 31 December 2017 (2016: the same) (note 42).

28. INTANGIBLE ASSETS

LBP Million	2017	2016
Cost:		
At 1 January and 31 December	2,303	2,303
Accumulated amortization:		
At 1 January	1,923	1,810
Amortization expense for the year	113	113
At 31 December	**2,036**	**1,923**
Net carrying value:		
At 31 December	**267**	**380**

29. ASSETS OBTAINED IN SETTLEMENT OF DEBT

LBP Million	2017	2016
Cost:		
At 1 January	48,458	47,165
Additions	4,546	2,836
Disposals	(2,954)	(1,543)
At 31 December	**50,050**	**48,458**
Impairment:		
At 1 January and 31 December	(5,159)	(5,159)
Net carrying value:		
At 31 December	**44,891**	**43,299**

Advance payments received in connection with future sale transactions for the above assets amounted to LBP 885 million as of 31 December 2017 (2016: LBP 373 million) (note 35).

30. OTHER ASSETS

LBP Million		2017	2016
Obligatory deposits	a	2,250	2,250
Other assets	b	99,686	107,595
Deferred tax assets (note 17)		137	593
		102,073	**110,438**

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

b) Other assets comprise the following:

LBP Million	2017	2016
Prepaid rent	3,074	3,140
Printings and stationery	3,820	3,415
Credit card balances due from customers	15,685	27,307
Insurance premiums receivable	4,526	4,365
Reinsurers' share of technical reserves of subsidiary insurance companies	48,898	41,025
Receivables from the National Social Security Fund	12,442	12,361
Other debit balances	11,241	15,982
	99,686	**107,595**

31. DUE TO CENTRAL BANKS

LBP Million	2017	2016
Current accounts	1,109	2,163
Loans due to the Central Bank of Lebanon	858,203	261,277
Loans due to the Central Bank of Angola	507,079	-
Loans due to the Central Bank of Armenia	2,110	2,150
Accrued interest payable	6,336	1,904
	1,374,837	**267,494**

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 197,240 million as of 31 December 2017 (2016: LBP 111,145 million).
- 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 at amortized cost as of 31 December 2017 and 2016 (note 25).
- 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 65,509 million as at 31 December 2017 (2016: netted by a discount of LBP 72,255 million) and are secured by the pledge of Lebanese treasury bills amounting to LBP 221,000 million included under financial assets at amortized cost as of 31 December 2017 and 2016 (note 25).
- During 2017, the Group obtained 10 loans from the Central Bank of Lebanon amounting to LBP 504,085 million and having maturities ranging between the years 2022 and 2027. These loans are secured by the pledge of Lebanese treasury bills amounting to LBP 504,085 million included under financial assets at amortized cost as of 31 December 2017 (note 25).

Loans due to the Central Bank of Angola

- During 2017, the Group obtained eight loans from the Central Bank of Angola denominated in US Dollars amounting to LBP 507,079 million and maturing during the first quarter of the year 2018. These loans were granted to cover the letters of credit issued by the Group in the framework of the essential goods importation program sponsored by the Angolan government.

32. DUE TO BANKS AND FINANCIAL INSTITUTIONS

LBP Million	2017	2016
Banks:		
- Current accounts	135,930	111,924
- Term loans	253,950	164,177
- Time deposits	169,111	168,332
- Cash margins	193,912	153,710
- Accrued interest payable	2,848	2,001
	755,751	**600,144**
Financial institutions:		
- Current accounts	6,275	7,118
- Term loans	180,095	121,786
- Time deposits	21,610	38,473
- Accrued interest payable	1,937	1,449
	209,917	**168,826**

LBP Million	2017	2016
Registered exchange companies:		
- Current accounts	362	462
- Time deposits	6,212	4,558
- Accrued interest payable	43	15
	6,617	**5,035**
Brokerage institutions:		
- Current accounts	30	90
	972,315	**774,095**

33. CUSTOMERS' DEPOSITS AT AMORTIZED COST

LBP Million	2017	2016
Current accounts	3,474,417	3,244,752
Term deposits	21,896,171	20,891,474
Cash margins	1,241,692	1,151,475
Accrued interest payable	145,436	127,933
	26,757,716	**25,415,634**

34. DEBT ISSUED AND OTHER BORROWED FUNDS

	Maturity	Interest rate %	2017 LBP Million	2016 LBP Million
Bonds (*)				
Issue 2011	24 June 2021	7.00	443,404	443,456
Accrued interest payable			616	616
			444,020	**444,072**
Debt issued				
Issue 2017	19 January 2021	7.50	9,334	-
Accrued interest payable			202	-
			9,536	**-**
			453,556	**444,072**

(*) 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.

35. OTHER LIABILITIES

LBP Million	2017	2016
Accrued expenses	41,280	31,216
Fixed-asset suppliers	245	624
Unearned commission and interest	6,387	5,903
Cash margins related to companies under establishment	1,525	1,663
Insurance premiums received in advance	2,798	3,841
Payables to the National Social Security Fund	1,610	2,065
Advance payments linked to assets obtained in settlement of debt (note 29)	885	373
Current tax liability (a)	45,376	108,591
Deferred tax liability (note 17)	5,807	4,323
Put options on non-controlling interests	4,791	4,791
Amounts to be incurred upon acquisition of a subsidiary (note 5)	24,953	44,083
Escrow account (note 5)	4,776	5,758
Deferred revenues (b)	86,682	126,682
Other creditors	31,755	34,998
	258,870	**374,911**

(a) Current tax liability

LBP Million	2017	2016
Income tax due (note 17)	31,735	96,028
Withholding tax on salaries	2,257	2,210
Withholding tax on interest earned by customers	8,662	6,913
Value added tax	227	527
Other taxes	2,495	2,913
	45,376	**108,591**

(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 36), the impairment losses on subsidiaries and goodwill recorded in accordance with IAS 36 and IFRS 3, respectively, and the shortage needed to comply with the capital adequacy requirements. Lebanese banks may further recognize up to 70% of the remaining balance of the gain realized net of tax in the income statement as non-distributable profits to be appropriated to reserves for capital increase, qualifying for inclusion within regulatory Common Equity Tier 1.

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). During 2017, the Group transferred an amount of LBP 40,000 million (net of tax) from “Deferred revenues” to “Provisions for risks and charges” (note 36). The amount recorded as “Deferred revenues” qualifies for inclusion within regulatory Tier 2 Capital in accordance with the provisions of the circular.

36. PROVISIONS FOR RISKS AND CHARGES

LBP Million	2017	2016
Technical reserves of insurance subsidiaries	108,060	99,914
Employees’ end-of-service benefits (a)	48,864	49,189
Other provisions (b)	194,012	151,189
	350,936	**300,292**

(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	2017	2016
Balance at 1 January	**49,189**	**45,754**
Costs charged to the income statement (note 15):		
Service costs	3,681	4,360
Net interest	3,119	2,925
	6,800	**7,285**
Re-measurement losses (gains) in other comprehensive income:		
Experience adjustments	(2,164)	99
	(2,164)	**99**
Acquisition of a subsidiary	-	1,349
Deconsolidation of subsidiaries	-	(753)
End-of-service benefits paid during the year	(5,091)	(3,487)
Foreign exchange	130	(1,058)
Balance at 31 December	**48,864**	**49,189**

Defined-benefit plans in Lebanon constitute more than 95% of the Group's retirement obligation. The principal assumptions used in determining the end-of-service benefit obligations of these plans are shown below:

	2017	2016
Economic assumptions		
Discount rate	8.0%	8.0%
Future salary increase	5.5%	5.5%
Future expected return on contributions	5.0%	5.0%
Bonus	Last 2 years average as a % of basic	Last 2 years average 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 2017 and 2016 is shown below:

	Discount rate		Future salary increase		Future expected return on contributions	
LBP Million	Increase	Decrease	Increase	Decrease	Increase	Decrease
Impact on defined-benefit obligations						
2017	(1,435)	1,541	3,069	(2,909)	(1,466)	1,419
2016	(1,397)	1,501	2,984	(2,830)	(1,425)	1,377

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	2017	2016
Provisions to comply with Central Bank of Lebanon Intermediate Circular No. 439 (note 35) (*)	142,480	102,480
Provisions for contingencies	42,661	34,563
Provisions for legal claims	4,523	4,523
Other	4,348	9,623
	194,012	**151,189**

(*) 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. During 2017, the Group transferred an amount of LBP 40,000 million (net of tax) from "Deferred revenues" to "Provisions for risks and charges" (note 35).

Movement in other provisions during the year was as follows:

LBP Million	2017	2016
At 1 January	151,189	42,345
Charge for the year	8,098	137,213
Write-back during the year (note 13)	(4,711)	(3,073)
Transfer to collective provisions on loans and advances (note 24)	-	(1,532)
Transfer from "Deferred revenues" (note 35)	40,000	-
Acquisition of a subsidiary	-	1,410
Deconsolidation of subsidiaries	-	(23,848)
Foreign exchange	(564)	(1,326)
At 31 December	**194,012**	**151,189**

37. SUBORDINATED DEBT

LBP Million	2017	2016
Nominal value	441,544	441,692
Unamortized discount	(18,712)	(21,690)
Accrued interest payable	163	163
	422,995	**420,165**

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.

The convertible subordinated loan was recorded at issuance as follows:

LBP Million	
Nominal value of convertible bonds	441,544
Equity component	(31,618)
Liability component	**409,926**

The equity component of the convertible subordinated loan is recorded in equity under "non-distributable reserves" (note 39).

38. SHARE CAPITAL

	2017			2016		
	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**
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 (2016: 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.

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	2017 No. of shares	2016 No. of shares
Ordinary shares	Beirut	502,087,540	502,135,490
Global Depository Receipts (*)	London SEAQ and Beirut	1,268,550	1,267,591
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.

39. 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 2017	286,956	68,420	31,618	298,583	157,743	843,320
Appropriation from retained earnings	24,142	49,564	-	-	7,786	81,492
Balance at 31 December 2017	**311,098**	**117,984**	**31,618**	**298,583**	**165,529**	**924,812**
Balance at 1 January 2016	271,877	65,105	31,618	271,570	175,714	815,884
Appropriations from retained earnings	23,158	3,433	-	27,982	7,249	61,822
Transfer to retained earnings due to deconsolidation	(1,881)	-	-	-	(6,569)	(8,450)
Net loss on sale of treasury shares	-	(118)	-	-	-	(118)
Translation difference	(6,198)	-	-	(969)	(18,651)	(25,818)
Balance at 31 December 2016	**286,956**	**68,420**	**31,618**	**298,583**	**157,743**	**843,320**

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. These reserves cannot be distributed as dividends.

During 2017, the Group appropriated LBP 24,142 million from 2016 profits to the legal reserve (2016: LBP 23,158 million from 2015 profits).

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	2017	2016
Reserve equivalent to gain on sale of assets acquired in settlement of debt	36,439	32,339
Reserve against gains realized from deferred revenues	43,130	-
Reserve equivalent to provisions recovered	9,737	9,737
Reserve against assets obtained in settlement of debt	19,183	16,849
Reserve against realized gain from liquidation of fixed position	8,870	8,870
Others	625	625
	117,984	**68,420**

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). This reserve cannot be distributed as dividends.

The appropriation in 2016 from the profits of the year 2015 amounted to LBP 27,982 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 2017, the Group transferred an amount of LBP 4,657 million from retained earnings to other reserves in this respect (2016: LBP 4,781 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. During 2017, the General Assembly Meeting of the Bank allocated an amount of LBP 3,129 million as a reserve for retail loans (2016: LBP 2,468 million).
- As of 31 December 2017, "Other reserves" include reserves of LBP 106,040 million maintained by the subsidiary Byblos Bank Europe to meet several legal limits and requirements (2016: LBP 89,368 million).

40. DISTRIBUTABLE RESERVES

LBP Million	2017	2016
General reserves	109,590	102,220
Other capital reserves	1,026	1,026
	110,616	**103,246**

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	2017	2016
At 1 January	102,220	93,789
Appropriation from retained earnings	7,370	5,629
Acquisition of additional non-controlling interests	-	(1,861)
Reversal of put options on non-controlling interests	-	4,663
At 31 December	**109,590**	**102,220**

Other capital reserves

LBP Million	2017	2016
Premium on capital increase of Byblos Bank Armenia C.J.S.C.	1,026	1,026

41. TREASURY SHARES

Movement of treasury shares recognized in the statement of financial position for the years 2017 and 2016 was as follows:

	Common shares		Global Depository Receipts	
YEAR ENDED 31 DECEMBER 2017	No. of shares	Amount USD (000)	No. of shares	Amount USD (000)
At 1 January 2017	1,532,182	2,686	8,941	738
Acquisitions of treasury shares	383,423	648	250	19
Sales of treasury shares	(62,500)	(109)	-	-
At 31 December 2017	**1,853,105**	**3,225**	**9,191**	**757**
Total treasury shares in LBP million				**6,002**

	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**

42. REVALUATION RESERVE OF REAL ESTATE

LBP Million	2017	2016
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**

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

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

LBP Million	2017	2016
At 1 January	(9,081)	(7,961)
Net changes in fair values during the year	6,026	(1,306)
Net changes in deferred taxes	(1,445)	194
Difference on exchange	(38)	(8)
Balance at 31 December	**(4,538)**	**(9,081)**

44. CASH AND CASH EQUIVALENTS

LBP Million	2017	2016
Cash and balances with central banks	2,672,001	2,087,238
Due from banks and financial institutions	3,894,191	2,568,339
Loans to banks and financial institutions and reverse repurchase agreements	684,852	850,346
	7,251,044	**5,505,923**
Less: Due to central banks	(516,350)	(5,657)
Less: Due to banks and financial institutions	(595,188)	(413,154)
Cash and cash equivalents at 31 December	**6,139,506**	**5,087,112**

45. 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.

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

	31 December 2017			31 December 2016		
LBP Million	Key management personnel	Other	Total	Key management personnel	Other	Total
Due from banks and financial institutions	-	15,095	**15,095**	-	31,227	**31,227**
Loans to banks and financial institutions	-	-	**-**	-	13,339	**13,339**
Loans and advances	7,992	14,038	**22,030**	6,577	14,137	**20,714**
Due to banks and financial institutions	-	93,493	**93,493**	-	93,383	**93,383**
Deposits	107,988	272,802	**380,790**	104,431	261,596	**366,027**
Debt issued and other borrowed funds	973	10,307	**11,280**	977	977	**1,954**
Subordinated debt	360	8,710	**9,070**	368	17,756	**18,124**
Guarantees received	6,587	5,305	**11,892**	6,796	11,467	**18,263**
Guarantees given	77	729	**806**	80	423	**503**
Commitments (including acceptances)	2,812	1,603	**4,415**	1,835	2,199	**4,034**

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

	31 December 2017			31 December 2016		
LBP Million	Key management personnel	Other	Total	Key management personnel	Other	Total
Interest income on due from banks and financial institutions	-	32	**32**	-	429	**429**
Interest income on loans to banks and financial institutions	-	242	**242**	-	18	**18**
Interest income on loans and advances	419	1,038	**1,457**	342	1,286	**1,628**
Interest expense on deposits	6,124	12,522	**18,646**	6,781	11,323	**18,104**
Interest expense on due to banks and financial institutions	-	1,566	**1,566**	-	1,459	**1,459**
Interest expense on debt issued and other borrowed funds	68	805	**873**	68	68	**136**
Interest expense on subordinated debt	23	560	**583**	24	1,141	**1,165**
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 of up to USD 50 million. As at 31 December 2017, guarantees issued by the IFC amounted to LBP 18,013 million (2016: LBP 27,677 million).

COMPENSATION OF THE KEY MANAGEMENT PERSONNEL OF THE GROUP

LBP Million	2017	2016
Short-term benefits[1]	19,921	12,774

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

46. 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.

2017 LBP Million	Banks	Customers	Total
Guarantees and contingent liabilities			
Financial guarantees	-	208,735	**208,735**
Other guarantees	152,940	779,968	**932,908**
	152,940	**988,703**	**1,141,643**
Commitments			
Documentary credits	352,327	425,887	**778,214**
Loan commitments	-	2,141,250	**2,141,250**
	352,327	**2,567,137**	**2,919,464**

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**

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 2017 and 2016, 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 2,747 million as of 31 December 2017 (2016: LBP 3,952 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.

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

LBP Million	2017	2016
Within one year	4,346	3,546
After one year but not more than five years	12,371	9,333
More than five years	10,577	9,977
	27,294	**22,856**

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 2014 are currently being reviewed by the Department of Income Tax, the outcome of which cannot be presently determined. Fiscal years 2015 to 2017 remain 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.

47. ASSETS HELD IN CUSTODY AND UNDER ADMINISTRATION

LBP Million	2017	2016
Assets held in custody and under administration	3,073,423	3,068,782

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.

48. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

QUOTED MARKET PRICES – LEVEL 1

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

VALUATION TECHNIQUE USING OBSERVABLE INPUTS – LEVEL 2

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

VALUATION TECHNIQUE USING SIGNIFICANT UNOBSERVABLE INPUTS – LEVEL 3

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

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

		Valuation techniques		
2017	**Quoted market price**	**Observable inputs**	**Unobservable inputs**	
LBP Million	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS				
Derivative financial instruments:				
Currency swaps	-	1,522	-	**1,522**
Forward foreign exchange contracts	-	1,268	-	**1,268**
Financial assets at fair value through profit or loss:				
Lebanese treasury bills	71,426	150,271	-	**221,697**
Debt securities issued by banks and financial institutions	2,494	-	-	**2,494**
Equity securities	31,834	-	-	**31,834**
Financial assets at fair value through other comprehensive income	47,452	-	61,100	**108,552**
LIABILITIES				
Derivative financial instruments:				
Currency swaps	-	1,937	-	**1,937**
Forward foreign exchange contracts	-	1,607	-	**1,607**

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**

There were no transfers between levels during 2017 (2016: the same).

ASSETS AND LIABILITIES CARRIED AT FAIR VALUE USING A VALUATION TECHNIQUE WITH SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2)

DERIVATIVES

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

GOVERNMENT BONDS, CERTIFICATES OF DEPOSIT, AND OTHER DEBT SECURITIES

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

ASSETS AND LIABILITIES CARRIED AT FAIR VALUE USING A VALUATION TECHNIQUE WITH SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)

EQUITY SHARES OF NON-LISTED ENTITIES

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

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

LBP Million	2017	2016
Balance at 1 January	56,917	53,666
Additions	1,221	2,133
Deconsolidation of subsidiaries	-	(578)
Re-measurement recognized in other comprehensive income	2,962	1,696
	61,100	**56,917**

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.

	2017		2016	
LBP Million	Fair value	Carrying value	Fair value	Carrying value
FINANCIAL ASSETS				
Cash and balances with central banks	11,966,804	11,966,804	8,717,615	8,717,615
Due from banks and financial institutions	3,928,586	3,928,586	2,657,429	2,657,429
Loans to banks and financial institutions and reverse repurchase agreements	754,381	754,394	963,963	964,066
Net loans and advances to customers at amortized cost	8,193,358	8,192,985	7,787,138	7,787,275
Net loans and advances to related parties at amortized cost	22,030	22,030	20,714	20,714
Financial assets at amortized cost				
Lebanese treasury bills	4,707,143	4,749,094	4,958,618	4,981,528
Certificates of deposit issued by the Central Bank of Lebanon	3,287,258	3,234,592	4,535,221	4,482,042
Foreign governmental debt securities	172,163	167,733	142,680	138,113
Debt securities issued by banks and financial institutions	3,931	3,931	5,336	5,477
Corporate bonds	-	-	635	635
Certificates of deposit issued by banks and financial institutions	-	-	33,267	33,228
FINANCIAL LIABILITIES				
Due to central banks	1,374,837	1,374,837	267,494	267,494
Due to banks and financial institutions	972,315	972,315	774,095	774,095
Customers' deposits at amortized cost	26,812,215	26,757,716	25,488,342	25,415,634
Deposits from related parties at amortized cost	386,795	380,790	372,577	366,027
Debt issued and other borrowed funds	450,164	453,556	442,941	444,072
Subordinated debt	402,644	422,995	409,989	420,165

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

DEPOSITS WITH BANKS AND LOANS AND ADVANCES TO BANKS

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

GOVERNMENT BONDS, CERTIFICATES OF DEPOSIT, AND OTHER DEBT SECURITIES

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

LOANS AND ADVANCES TO CUSTOMERS

For the purpose of this disclosure, in many cases, the fair value disclosed approximates carrying value because these advances are short-term in nature or have interest rates that re-price frequently. The fair value of loans and advances to customers with long-term maturities is estimated using discounted cash flows by applying current rates for new loans granted during 2017 with similar characteristics.

DEPOSITS FROM BANKS AND CUSTOMERS

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

DEBT ISSUED AND OTHER BORROWED FUNDS AND SUBORDINATED DEBT

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

2017	Valuation techniques			
	Quoted market price	Observable inputs	Unobservable inputs	
LBP Million	Level 1	Level 2	Level 3	Total
ASSETS FOR WHICH FAIR VALUES ARE DISCLOSED				
Cash and balances with central banks	248,598	11,718,206	-	**11,966,804**
Due from banks and financial institutions	-	3,928,586	-	**3,928,586**
Loans to banks and financial institutions and reverse repurchase agreements	-	754,381	-	**754,381**
Net loans and advances to customers at amortized cost	-	-	8,193,358	**8,193,358**
Net loans and advances to related parties at amortized cost	-	-	22,030	**22,030**
Financial assets at amortized cost:				
Lebanese treasury bills	2,145,082	2,562,061	-	**4,707,143**
Certificates of deposit issued by the Central Bank of Lebanon	-	3,287,258	-	**3,287,258**
Foreign governmental debt securities	172,163	-	-	**172,163**
Debt securities issued by banks and financial institutions	3,931	-	-	**3,931**
LIABILITIES FOR WHICH FAIR VALUES ARE DISCLOSED				
Due to central banks	-	1,374,837	-	**1,374,837**
Due to banks and financial institutions	-	972,315	-	**972,315**
Customers' deposits at amortized cost	-	26,812,215	-	**26,812,215**
Deposits from related parties at amortized cost	-	386,795	-	**386,795**
Debt issued and other borrowed funds	-	450,164	-	**450,164**
Subordinated debt	-	402,644	-	**402,644**

2016	Valuation techniques			
	Quoted market price	Observable inputs	Unobservable inputs	
LBP Million	Level 1	Level 2	Level 3	Total
ASSETS FOR WHICH FAIR VALUES ARE DISCLOSED				
Cash and balances with central banks	249,425	8,468,190	-	**8,717,615**
Due from banks and financial institutions	-	2,657,429	-	**2,657,429**
Loans to banks and financial institutions and reverse repurchase agreements	-	963,963	-	**963,963**
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	2,913,083	-	**4,958,618**
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	-	267,494	-	**267,494**
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**

49. RISK MANAGEMENT

49.1. 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 four committees to assist in carrying out its responsibilities:

Risk Committee: 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 define 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. It provides oversight of Senior Management's activities in managing the capital adequacy, credit, market, liquidity, and operational risks of the Group. It also oversees the process and outcome of the annual Internal Capital Adequacy Assessment Process (ICAAP), IFRS 9 and Recovery Planning. In addition, it discusses and approves risk policies.

Anti-Money Laundering and Compliance Committee: established according to BDL Basic Circular No. 83 dated 18 May 2001, the committee's mission is to ensure the Bank's compliance with anti-money laundering laws and regulations (namely Law No. 318 dated 20 April 2001 and BDL Circular No. 83 dated 18 May 2001) and all amendments thereto. The committee has oversight responsibility over the Bank's compliance program (consisting of a set of policies, procedures, resources, and systems) for detecting and preventing all forms of money laundering as well as preventing any of the Group's entities from being misused by individuals or organizations to circumvent or violate local and international sanctions laws and regulations.

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 the Foreign Banking Unit.

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 risk policies, risk measurement tools such as rating and scoring, and risk-based processes, including stress testing, economic capital, and risk-based profitability. It also oversees the risk reports prepared and the framework and results relating to various processes (such as ICAAP, IFRS 9 Impairment, and Recovery Planning) before submission to the Board.

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 Management Committee's mission is to provide oversight for the Group's operational risk function, the processes and the systems developed to assess, monitor, and mitigate operational risks. The mission of the Compliance and Anti-Money Laundering Committee is to ensure that the Group is in compliance with anti-money laundering laws and internationally administered sanctions laws; and to oversee implementation of the Group's Know Your Customer (KYC) and sanctions 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 using 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, 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, the 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 on Banking Supervision in the Core Principles for Effective Banking Supervision document (September 2012) and the Basel Capital Accord texts (Basel 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 objectives 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 III, 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.

Moreover, risk management is engaged in preparing the Recovery Plan process, basing the analysis on plausible and extreme, idiosyncratic, and systemic stress scenarios, assessing their impact on key performance/risk indicators, and considering the menu of available recovery options. Risk management has been cooperating with Finance in managing the IFRS 9 expected credit loss (ECL) process and the calculation of the expected credit loss provision. The Bank underwent an extensive consultancy to get an evaluation of its readiness to meet the ECL requirements, including a review of the Probability of Default (PD) and Loss Given Default (LGD) to reach forward-looking point-in-time parameters. The Bank is also employing internal capabilities to develop predictive PD and LGD models for its Retail and Housing portfolios.

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 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 Pillars I and II risks faced by the Group. The department is split into three main functions:

Credit Risk Policies and Analytics is responsible for drafting necessary credit risk policies and implementing risk measurement tools, such as retail scoring and commercial rating. The team also is responsible for the preparation and reporting of Basel III regulatory CAR reports, the development of stress testing scenarios, and the write-up of risk reports and ICAAP documents. These units are in charge of the Recovery Plan and IFRS 9 ECL processes. They also handle the measurement of PD (probability of default), LGD (loss given default) and EAD (expected at default).

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 reports on breaches to Senior Management and the Board of Directors.

Operational Risk Management 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 business owners to focus on 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 (KRI) 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.

RISK MANAGEMENT FRAMEWORK

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

Business Line Accountability: business lines are accountable for managing the risks associated with their activities and establish tolerances for risk taking. The 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. This 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, which are approved by the Board and put in place by the risk management function in cooperation with the business lines. Monitoring of individual risks is handled upon the initiation and renewal of the risk through a clear decision-making process documented in a written procedure.

49.2. 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, 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.

The Commercial Banking Division handles commercial lending, overseeing 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 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 of the origination units. Every non-retail lending transaction is subject to a thorough risk assessment by the credit risk analysis team prior to being submitted to the appropriate approving authority.

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

LOAN FOLLOW-UP AND MONITORING

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

Outstanding loans are subject as well to constant monitoring by the GRM Division based on a series of reports. The aim of such monitoring is to ensure problem recognition, and to follow up with prompt and remedial management of identified deteriorations in borrowers' financial positions, the value of their collateral, and the sector/industry in which they operate. 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's experiencing financial difficulty;.
- It becomes probable that the customer will enter bankruptcy or other financial reorganization; and
- Observable data suggesting 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 portfolio. 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 along 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.

Concurrently with 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.

Effective 1 January 2018, the Bank also has been implementing the IASB's International Financial Reporting Standard No. 9 Expected Credit Loss model, in line with BDL Circular No. 143 dated 7 November 2017 and BCC Circular No. 293 dated 28 December 2017. The Bank has put in place the IFRS 9 policy to clarify how it intends to apply the standard, and established the necessary governance for that purpose. Fulfilling IFRS 9 ECL requires:

- defining the different stages determined by the standard: Stage 1 exposures (for no significant increase in credit risk) and Stages 2 and 3 (for significant increases in credit risk);
- validating and calibrating the risk parameters: PD, LGD, and exposure;
- setting a calculation methodology;
- preparing and extracting the data; and
- reviewing ECL calculation and its impact on the Bank's capital.

Finance and GRM are cooperating in managing the IFRS 9 project.

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 make payments on their behalf and enter 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.

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.

2017 LBP Million	**Maximum exposure**	**Cash**	**Securities**	**Letters of credit/ guarantees**	**Real estate**	**Net credit exposure**
Balances with central banks	11,718,206	-	-	-	-	11,718,206
Due from banks and financial institutions	3,928,586	(638)	-	-	-	3,927,948
Loans to banks and financial institutions and reverse repurchase agreements	754,394	(60,480)	(406,970)	-	-	286,944
Derivative financial instruments	2,790	-	-	-	-	2,790
Financial assets at fair value through profit or loss	224,191	-	-	-	-	224,191
Net loans and advances to customers at amortized cost:						
Commercial loans	5,268,300	(655,571)	(92,405)	(3,421)	(1,078,861)	3,438,042
Consumer loans	2,924,685	(365,977)	(20)	(192)	(1,591,876)	966,620
Net loans and advances to related parties at amortized cost	22,030	(5,258)	-	-	(3,103)	13,669
Financial assets at amortized cost	8,155,350	-	-	-	-	8,155,350
	32,998,532	**(1,087,924)**	**(499,395)**	**(3,613)**	**(2,673,840)**	**28,733,760**
Financial guarantees	208,735	(13,012)	-	-	-	195,723
Documentary credits (including acceptances)	1,132,237	(15,766)	-	-	-	1,116,471
	34,339,504	**(1,116,702)**	**(499,395)**	**(3,613)**	**(2,673,840)**	**30,045,954**
Utilized collateral		(1,116,702)	(499,395)	(3,613)	(2,673,840)	
Surplus of collateral before undrawn credit lines		(319,318)	(323,426)	(52,632)	(2,206,622)	
Guarantees received from banks, financial institutions and customers		**(1,436,020)**	**(822,821)**	**(56,245)**	**(4,880,462)**	

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LBP 2,141,250 million as at 31 December 2017.

2016 LBP Million	**Maximum exposure**	**Cash**	**Securities**	**Letters of credit/ guarantees**	**Real estate**	**Net credit exposure**
Balances with central banks	8,468,190	-	-	-	-	8,468,190
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)	(743,178)	-	-	197,413
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	9,641,023	-	-	-	-	9,641,023
	30,292,224	**(897,517)**	**(914,461)**	**(22,034)**	**(2,505,621)**	**25,952,591**
Financial guarantees	217,934	(28,698)	-	-	-	189,236
Documentary credits (including acceptances)	569,565	(31,307)	-	-	-	538,258
	31,079,723	**(957,522)**	**(914,461)**	**(22,034)**	**(2,505,621)**	**26,680,085**
Utilized collateral		(957,522)	(914,461)	(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)**	**(1,467,899)**	**(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.

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 in the preceding tables represent the fair value of the securities.

Letters of credit/guarantees

The Group holds, in some cases, guarantees, letters of credit, and similar instruments from banks and financial institutions which enable it to claim settlement in the event of default on the part of a counterparty. The balances shown in the preceding tables represent the notional amount of these types of guarantees held by the Group.

Real estate (commercial and residential)

The Group holds, in some cases, a first-degree mortgage over residential property (for housing loans) or commercial property (for commercial loans). The value shown in the preceding tables reflects the fair value of the property limited to the related mortgaged amount.

Other

In addition to the foregoing, 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 preceding tables.

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.

2017 LBP Million	Neither past due nor impaired High grade	 Standard grade	Past due but not impaired	Individually impaired	Total
Balances with central banks	11,590,723	133,441	-	25,575	**11,749,739**
Due from banks and financial institutions	3,175,841	752,745	-	1,919	**3,930,505**
Loans to banks and financial institutions and reverse repurchase agreements	521,151	233,243	-	-	**754,394**
Derivative financial instruments	2,790	-	-	-	**2,790**
Financial assets at fair value through profit or loss:					
Lebanese Treasury bills	221,697	-	-	-	**221,697**
Debt securities issued by banks and financial institutions	2,494	-	-	-	**2,494**
Net loans and advances to customers at amortized cost:					
Commercial loans	5,003,300	156,125	45,894	243,251	**5,448,570**
Consumer loans	2,649,104	29,218	199,793	158,853	**3,036,968**
Net loans and advances to related parties at amortized cost	22,030	-	-	-	**22,030**
Debtors by acceptances	319,148	34,875	-	-	**354,023**
Financial assets at amortized cost:					
Lebanese treasury bills	4,749,094	-	-	-	**4,749,094**
Certificates of deposit issued by the Central Bank of Lebanon	3,234,592	-	-	-	**3,234,592**
Foreign governmental debt securities	75,169	92,564	-	-	**167,733**
Debt securities issued by banks and financial institutions	3,931	-	-	-	**3,931**
	31,571,064	**1,432,211**	**245,687**	**429,598**	**33,678,560**

2016 LBP Million	Neither past due nor impaired High grade	 Standard grade	Past due but not impaired	Individually impaired	Total
Balances with central banks	8,306,723	161,987	-	31,041	**8,499,751**
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**
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	4,981,528	-	-	-	**4,981,528**
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**
	29,099,838	**1,069,913**	**267,275**	**405,551**	**30,842,577**

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

2017 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	14,769	3,833	27,292	45,894
Consumer loans	192,997	2,423	4,373	199,793
	207,766	**6,256**	**31,665**	**245,687**

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**

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.

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 No. 58, are as follows:

2017 LBP Million	**Gross balance**	**Unrealized interest**	**Impairment allowances**	**Net balance**
Regular	7,286,683	-	-	7,286,683
Follow-up	537,698	-	-	537,698
Follow-up and regularization	259,053	-	-	259,053
Substandard	56,967	(7,512)	-	49,455
Doubtful	272,070	(36,716)	(100,252)	135,102
Bad	73,067	(8,774)	(64,293)	-
	8,485,538	**(53,002)**	**(164,545)**	**8,267,991**
Collective impairment	(75,006)	-	-	(75,006)
	8,410,532	**(53,002)**	**(164,545)**	**8,192,985**

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**

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	2017	2016
Commercial loans	44,785	75,890

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 2017 was LBP 95,605 million (2016: LBP 121,630 million) before taking account of collateral or other credit enhancements and LBP 95,605 million (2016: 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.

GEOGRAPHIC ANALYSIS

2017 LBP Million	**Lebanon**	**Europe**	**Others**	**Total**
Balances with central banks	11,431,189	125,157	161,860	**11,718,206**
Due from banks and financial institutions	91,562	2,462,733	1,374,291	**3,928,586**
Loans to banks and financial institutions and reverse repurchase agreements	398,614	169,193	186,587	**754,394**
Derivative financial instruments	530	1,385	875	**2,790**
Financial assets at fair value through profit or loss:				
Lebanese treasury bills	221,697	-	-	**221,697**
Debt securities issued by banks and financial institutions	-	777	1,717	**2,494**
Net loans and advances to customers at amortized cost:				
Commercial loans	4,557,803	165,467	545,030	**5,268,300**
Consumer loans	2,769,798	43,936	110,951	**2,924,685**
Net loans and advances to related parties at amortized cost	21,253	666	111	**22,030**
Debtors by acceptances	290,018	6,374	57,631	**354,023**
Financial assets at amortized cost:				
Lebanese treasury bills	4,749,094	-	-	**4,749,094**
Certificates of deposit issued by the Central Bank of Lebanon	3,234,592	-	-	**3,234,592**
Foreign governmental debt securities	-	154,338	13,395	**167,733**
Debt securities issued by banks and financial institutions	-	3,931	-	**3,931**
	27,766,150	**3,133,957**	**2,452,448**	**33,352,555**

2016 LBP Million	Lebanon	Europe	Others	Total
Balances with central banks	8,239,246	70,120	158,824	**8,468,190**
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**
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	550,853	**5,074,328**
Consumer loans	2,576,999	42,708	93,240	**2,712,947**
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	4,981,528	-	-	**4,981,528**
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**
	26,458,088	**1,407,186**	**2,650,833**	**30,516,107**

49.3. 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 regards to liquidity risk management is centered on a conservative approach, whereby the 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.

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

Loans to deposits	2017	2016
Year-end	30.27%	30.29%
Maximum	30.27%	30.29%
Minimum	29.48%	29.19%
Average	29.79%	29.69%

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 2017 and 2016, 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.

2017 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	1,671,084	1,021,605	810,141	5,423,911	8,364,685	**17,291,426**
Due from banks and financial institutions	3,189,937	706,832	13,493	17,986	2,916	**3,931,164**
Loans to banks and financial institutions and reverse repurchase agreements	607,254	77,923	53,897	16,328	-	**755,402**
Derivative financial instruments	2,557	210	23	-	-	**2,790**
Financial assets at fair value through profit or loss	426	10,117	159,366	21,160	123,514	**314,583**
Net loans and advances to customers at amortized cost	3,260,509	583,515	1,242,948	2,465,023	1,644,251	**9,196,246**
Net loans and advances to related parties at amortized cost	7,973	2,343	595	2,993	8,428	**22,332**
Debtors by acceptances	106,542	115,326	114,041	18,114	-	**354,023**
Financial assets at amortized cost	75,681	287,730	882,664	5,059,642	4,542,780	**10,848,497**
Financial assets at fair value through other comprehensive income	-	-	-	-	108,552	**108,552**
Total undiscounted financial assets	**8,921,963**	**2,805,601**	**3,277,168**	**13,025,157**	**14,795,126**	**42,825,015**
FINANCIAL LIABILITIES						
Due to central banks	209,696	307,855	27,682	536,102	400,704	**1,482,039**
Due to banks and financial institutions	492,581	104,374	90,227	214,233	132,372	**1,033,787**
Derivative financial instruments	3,206	283	55	-	-	**3,544**
Customers' deposits at amortized cost	13,870,804	3,542,345	6,784,127	2,918,964	415,287	**27,531,527**
Deposits from related parties at amortized cost	85,905	15,629	267,602	44,730	5,990	**419,856**
Debt issued and other borrowed funds	-	-	31,658	522,548	-	**554,206**
Engagements by acceptances	106,542	115,326	114,041	18,114	-	**354,023**
Subordinated debt	-	7,349	21,966	539,845	-	**569,160**
Total undiscounted financial liabilities	**14,768,734**	**4,093,161**	**7,337,358**	**4,794,536**	**954,353**	**31,948,142**
Net undiscounted financial assets/(liabilities)	**(5,846,771)**	**(1,287,560)**	**(4,060,190)**	**8,230,621**	**13,840,773**	**10,876,873**

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	1,485,985	544,930	1,173,883	3,702,866	4,954,806	**11,862,470**
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**
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	1,179,880	5,261,401	5,433,352	**12,558,360**
Financial assets at fair value through other comprehensive income	-	-	-	-	101,305	**101,305**
Total undiscounted financial assets	**7,827,950**	**2,403,816**	**3,966,668**	**11,468,402**	**12,295,467**	**37,962,303**
FINANCIAL LIABILITIES						
Due to central banks	3,923	1,781	12,701	79,562	216,980	**314,947**
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	**14,523,879**	**3,411,286**	**5,715,696**	**4,185,195**	**1,199,760**	**29,035,816**
Net undiscounted financial assets/(liabilities)	**(6,695,929)**	**(1,007,470)**	**(1,749,028)**	**7,283,207**	**11,095,707**	**8,926,487**

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 on which it can be drawn down.

2017 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	-	-	26,765	181,970	-	**208,735**
Documentary credits	102,927	422,903	247,846	4,538	-	**778,214**
Commitments to lend	2,141,250	-	-	-	-	**2,141,250**
	2,244,177	**422,903**	**274,611**	**186,508**	**-**	**3,128,199**

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**

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

49.4. MARKET RISK

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

Market risk governance has been defined in the Security Investment Policy, which defines the roles and responsibilities of the key stakeholders of market risk management, including the Board, the Assets and Liabilities Committee (ALCO), 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 on net interest income (Earnings perspective) and capital (Economic Value perspective). The Bank has revised its interest rate risk policy to set new internal gap limits for local and foreign currencies.

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 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.

		2017	2016
Currency	**Increase in basis points**	**Effect on net interest income LBP Million**	**Effect on net interest income LBP Million**
LBP	50 basis point	(19,561)	(20,705)
USD	50 basis point	792	1,165
EUR	50 basis point	(559)	(1,170)

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

2017 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	**799,418**	**957,263**	**250,000**	**3,101,434**	**5,924,515**	**934,174**	**11,966,804**
Due from banks and financial institutions	**2,043,683**	**704,265**	**14,524**	**17,986**	**220**	**1,147,908**	**3,928,586**
Loans to banks and financial institutions and reverse repurchase agreements	**606,381**	**77,916**	**53,337**	16,328	**-**	**432**	**754,394**
Derivative financial instruments	**-**	**-**	**-**	**-**	**-**	**2,790**	**2,790**
Financial assets at fair value through profit or loss	**-**	**-**	**-**	**-**	**-**	**256,025**	**256,025**
Net loans and advances to customers at amortized cost	3,304,400	780,152	2,422,575	1,218,836	250,662	216,360	**8,192,985**
Net loans and advances to related parties at amortized cost	14,110	813	-	-	7,093	14	**22,030**
Debtors by acceptances	-	-	-	-	-	354,023	**354,023**
Financial assets at amortized cost	22,257	197,634	519,774	3,418,480	3,877,096	120,109	**8,155,350**
Financial assets at fair value through other comprehensive income	-	-	-	-	-	108,552	**108,552**
Total	**6,790,249**	**2,718,043**	**3,260,210**	**7,773,064**	**10,059,586**	**3,140,387**	**33,741,539**
LIABILITIES							
Due to central banks	205,747	305,298	14,007	468,890	373,449	7,446	**1,374,837**
Due to banks and financial institutions	333,917	101,348	72,798	176,486	121,953	165,813	**972,315**
Derivative financial instruments	-	-	-	-	-	3,544	**3,544**
Customers' deposits at amortized cost	10,878,370	3,414,944	6,487,675	2,892,252	348,210	2,736,265	**26,757,716**
Deposits from related parties at amortized cost	77,609	13,540	241,571	25,630	565	21,875	**380,790**
Debt issued and other borrowed funds	-	-	-	443,404	9,335	817	**453,556**
Engagements by acceptances	-	-	-	-	-	354,023	**354,023**
Subordinated debt	-	-	-	422,832	-	163	**422,995**
Total	**11,495,643**	**3,835,130**	**6,816,051**	**4,429,494**	**853,512**	**3,289,946**	**30,719,776**
Total interest sensitivity gap	**(4,705,394)**	**(1,117,087)**	**(3,555,841)**	**3,343,570**	**9,206,074**	**(149,559)**	**3,021,763**

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**	**971,066**	**8,717,615**
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**
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	3,540,539	4,730,203	137,181	**9,641,023**
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**	**3,200,338**	**30,906,902**
LIABILITIES							
Due to central banks	431	1,780	7,982	55,250	197,984	4,067	**267,494**
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	**11,626,953**	**3,220,597**	**5,167,175**	**3,790,238**	**1,062,447**	**3,046,066**	**27,193,476**
Total interest sensitivity gap	**(5,730,695)**	**(1,011,350)**	**(1,141,516)**	**3,256,868**	**7,465,847**	**154,272**	**2,993,426**

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.

Following is the consolidated statement of financial position as of 31 December 2017 detailed in Lebanese Pounds (LBP) and foreign currencies, translated into LBP.

2017 LBP Million	**Local currency**	**Foreign currencies**	**Total**
ASSETS			
Cash and balances with central banks	4,202,817	7,763,987	**11,966,804**
Due from banks and financial institutions	39,756	3,888,830	**3,928,586**
Loans to banks and financial institutions and reverse repurchase agreements	240,594	513,800	**754,394**
Derivative financial instruments	2,144	646	**2,790**
Financial assets at fair value through profit or loss	150,271	105,754	**256,025**
Net loans and advances to customers at amortized cost	2,290,455	5,902,530	**8,192,985**
Net loans and advances to related parties at amortized cost	3,831	18,199	**22,030**
Debtors by acceptances	-	354,023	**354,023**
Financial assets at amortized cost	4,280,345	3,875,005	**8,155,350**
Financial assets at fair value through other comprehensive income	34,419	74,133	**108,552**
Property and equipment	240,026	33,411	**273,437**
Intangible assets	267	-	**267**
Assets obtained in settlement of debt	(8,222)	53,113	**44,891**
Other assets	87,602	14,471	**102,073**
TOTAL ASSETS	**11,564,305**	**22,597,902**	**34,162,207**
LIABILITIES AND EQUITY			
Due to central banks	863,058	511,779	**1,374,837**
Due to banks and financial institutions	8,575	963,740	**972,315**
Derivative financial instruments	2,956	588	**3,544**
Customers' deposits at amortized cost	9,031,051	17,726,665	**26,757,716**
Deposits from related parties at amortized cost	16,034	364,756	**380,790**
Debt issued and other borrowed funds	-	453,556	**453,556**
Engagement by acceptances	-	354,023	**354,023**
Other liabilities	209,727	49,143	**258,870**
Provisions for risks and charges	340,988	9,948	**350,936**
Subordinated debt	-	422,995	**422,995**
TOTAL LIABILITIES	**10,472,389**	**20,857,193**	**31,329,582**

2017 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	525,332	399,480	**924,812**
Distributable reserves	92,586	18,030	**110,616**
Treasury shares	-	(6,002)	**(6,002)**
Retained earnings	(88,237)	140,519	**52,282**
Revaluation reserve of real estate	5,689	-	**5,689**
Change in fair value of financial assets at fair value through other comprehensive income	22,989	(27,527)	**(4,538)**
Net results of the financial period – profit	206,273	42,266	**248,539**
Foreign currency translation reserves	(49,847)	-	**(49,847)**
NON-CONTROLLING INTERESTS	**34,108**	**7,756**	**41,864**
TOTAL EQUITY	**1,438,006**	**1,394,619**	**2,832,625**
TOTAL LIABILITIES AND EQUITY	**11,910,395**	**22,251,812**	**34,162,207**

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	2,556,060	6,161,555	**8,717,615**
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**
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	5,407,802	4,233,221	**9,641,023**
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	**11,426,065**	**19,882,049**	**31,308,114**
LIABILITIES AND EQUITY			
Due to central banks	265,075	2,419	**267,494**
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	243,623	131,288	**374,911**
Provisions for risks and charges	287,041	13,251	**300,292**
Subordinated debt	-	420,165	**420,165**
TOTAL LIABILITIES	**10,390,797**	**18,197,882**	**28,588,679**

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	**11,717,232**	**19,590,882**	**31,308,114**

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.

	2017			2016		
Currency	Change in exchange rate	**Effect on profit before tax**	**Effect on equity**	Change in exchange rate	**Effect on profit before tax**	**Effect on equity**
USD	+1	135	-	+1	191	-
EUR	+1	10	1,521	+1	(2)	1,261

EQUITY PRICE RISK

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the level of equity indices and individual stocks. Equity price risk exposure arises from equity securities classified at fair value through profit or loss and at fair value through other comprehensive income. A 5% increase in the value of the Group's equities at 31 December 2017 would have increased other comprehensive income by LBP 2,373 million and net income by LBP 1,592 million (2016: LBP 2,219 million and LBP 2,003 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.

49.5 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, 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, 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 help track and timely resolve deficiencies. This tool is subject to a proactive approach to minimize operational risk losses. This is reflected in the operational risk assessment of new products/activities/systems, protective information security and Business Continuity Planning, granular risk analysis for its operating/existing activities, and continuous awareness sessions.

Operational risk events are classified in accordance with Basel standards and include significant incidents that may impact the Group's profits and reputations for further mitigation and avoidance. As to key risk indicators, they are being 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 oversees the business continuity of essential business services 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, and general liability, as well as Directors' and officers' liability.

50. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

	Less than 12 months				Over 12 months			
2017 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	**1,666,714**	**1,005,287**	**293,503**	**2,965,504**	**3,102,319**	**5,898,981**	**9,001,300**	**11,966,804**
Due from banks and financial institutions	**3,188,591**	**705,600**	**13,493**	**3,907,684**	**17,986**	**2,916**	**20,902**	**3,928,586**
Loans to banks and financial institutions and reverse repurchase agreements	**607,023**	**77,829**	**53,214**	**738,066**	**16,328**	**-**	**16,328**	**754,394**
Derivative financial instruments	**2,557**	**210**	**23**	**2,790**	**-**	**-**	**-**	**2,790**
Financial assets at fair value through profit or loss	**196**	**3,892**	**153,915**	**158,003**	**4,717**	**93,305**	**98,022**	**256,025**
Net loans and advances to customers at amortized cost	3,234,684	535,481	1,068,519	4,838,684	1,993,612	1,360,689	3,354,301	**8,192,985**
Net loans and advances to related parties at amortized cost	9,436	2,257	383	12,076	2,193	7,761	9,954	**22,030**
Debtors by acceptances	106,542	115,326	114,041	335,909	18,114	-	18,114	**354,023**
Financial assets at amortized cost	43,710	218,734	507,223	769,667	3,487,902	3,897,781	7,385,683	**8,155,350**
Financial assets at fair value through other comprehensive income	-	-	-	-	-	108,552	108,552	**108,552**
Property and equipment	-	-	-	-	-	273,437	273,437	**273,437**
Intangible assets	-	-	-	-	-	267	267	**267**
Assets obtained in settlement of debt	-	-	-	-	-	44,891	44,891	**44,891**
Other assets	5,402	-	76,457	81,859	-	20,214	20,214	**102,073**
TOTAL ASSETS	**8,864,855**	**2,664,616**	**2,280,771**	**13,810,242**	**8,643,171**	**11,708,794**	**20,351,965**	**34,162,207**

2017 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	209,530	306,820	16,148	532,498	468,890	373,449	842,339	**1,374,837**
Due to banks and financial institutions	492,049	103,139	80,071	675,259	175,976	121,080	297,056	**972,315**
Derivative financial instruments	3,206	283	55	3,544	-	-	-	**3,544**
Customers' deposits at amortized cost	13,568,253	3,451,766	6,728,455	23,748,474	2,660,994	348,248	3,009,242	**26,757,716**
Deposits from related parties at amortized cost	84,703	13,583	256,309	354,595	25,630	565	26,195	**380,790**
Debt issued and other borrowed funds	-	202	615	817	452,739	-	452,739	**453,556**
Engagements by acceptances	106,542	115,326	114,041	335,909	18,114	-	18,114	**354,023**
Other liabilities	43,273	1,515	77,722	122,510	102,252	34,108	136,360	**258,870**
Provisions for risks and charges	-	-	-	-	-	350,936	350,936	**350,936**
Subordinated debt	-	163	-	163	422,832	-	422,832	**422,995**
TOTAL LIABILITIES	**14,507,556**	**3,992,797**	**7,273,416**	**25,773,769**	**4,327,427**	**1,228,386**	**5,555,813**	**31,329,582**
NET	**(5,642,701)**	**(1,328,181)**	**(4,992,645)**	**(11,963,527)**	**4,315,744**	**10,480,408**	**14,796,152**	**2,832,625**

2016 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
ASSETS								
Cash and balances with central banks	**1,482,459**	**539,302**	**876,281**	**2,898,042**	**2,304,412**	**3,515,161**	**5,819,573**	**8,717,615**
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**
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	736,975	1,290,268	3,604,589	4,746,166	8,350,755	**9,641,023**
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	**7,779,329**	**2,237,440**	**3,125,567**	**13,142,336**	**7,963,036**	**10,202,742**	**18,165,778**	**31,308,114**

2016 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	2,586	1,785	8,569	12,940	56,571	197,983	254,554	**267,494**
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	140,699	211,424	126,682	36,805	163,487	**374,911**
Provisions for risks and charges	-	-	-	-	-	300,292	300,292	**300,292**
Subordinated debt	-	163	408	571	-	419,594	419,594	**420,165**
TOTAL LIABILITIES	**14,342,031**	**3,357,419**	**5,557,964**	**23,257,414**	**3,932,129**	**1,399,136**	**5,331,265**	**28,588,679**
NET	**(6,562,702)**	**(1,119,979)**	**(2,432,397)**	**(10,115,078)**	**4,030,907**	**8,803,606**	**12,834,513**	**2,719,435**

51. 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 related to minimum Capital Adequacy Ratios (CARs). These ratios are 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 Equity Tier 1 capital ratio	Tier 1 capital ratio	Total CAR
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 2017 and 2016, risk-weighted assets are as follows:

LBP Million	2017	2016
Risk-weighted assets	17,416,358	16,269,178

REGULATORY CAPITAL

At 31 December 2017 and 2016, regulatory capital consists of the following:

	Excluding profit for the year		Including profit for the year less proposed dividends	
LBP Million	2017	2016	2017	2016
Common Equity Tier 1 capital	1,862,906	1,777,561	1,949,894	1,848,682
Additional Tier 1 capital	596,191	596,516	596,191	596,516
Tier 2 capital	554,831	615,089	554,831	615,089
Total capital	**3,013,928**	**2,989,166**	**3,100,916**	**3,060,287**

CAPITAL ADEQUACY RATIO

As of 31 December 2017 and 2016, the capital adequacy ratios are as follows:

	Excluding profit for the year		Including profit for the year less proposed dividends	
	2017	2016	2016	2015
Common Equity Tier 1 capital ratio	10.70%	10.93%	11.20%	11.36%
Total Tier 1 capital ratio	14.12%	14.59%	14.62%	15.03%
Total capital ratio	**17.31%**	**18.37%**	**17.80%**	**18.81%**

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.

52. DIVIDENDS PAID AND PROPOSED

LBP Million	2017	2016
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	(414)	(491)
	161,137	**161,060**
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**

53. COMPARATIVE INFORMATION

- Provisions for contingencies have been reclassified from “Income tax expense” to “Other operating expenses” in the consolidated statement of income. Comparative amounts of LBP 14,000 million have been reclassified accordingly.
- Provisions for contingencies have been reclassified from “Other liabilities” to “Provisions for risks and charges” in the consolidated statement of financial position. Comparative amounts of LBP 24,902 million have been reclassified accordingly.
- Balances with the Central Bank of Lebanon have been reclassified from “Due to central banks” to “Cash and balances with central banks” in the consolidated statement of financial position. Comparative amounts of LBP 65,477 million have been reclassified accordingly.
- Lebanese treasury bills have been reclassified from “Financial assets given as collateral” to “Financial assets at amortized cost” in the consolidated statement of financial position. Comparative amounts of LBP 224,044 million have been reclassified accordingly.

RESOLUTIONS OF THE ANNUAL ORDINARY GENERAL ASSEMBLY

Held on 20 April 2018

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 the consolidated and stand-alone income statements of the fiscal year 2017.

SECOND RESOLUTION

The Ordinary General Assembly decides to allocate the non-consolidated profits (in LBP million) of the fiscal year 2017, as suggested by the Board of Directors, as follows :

2017 Non Consolidated Net Income	212,492
Less:	
Appropriation to the required reserves:	
Appropriation to Legal Reserves	(21,551)
Appropriation to Reserves for General Banking Risks	(19,241)
Appropriation to Reserves for Capital Increase – gains on disposal of foreclosed properties as per Banking Control Commission Circular No. 173	(3,736)
Appropriation to Reserves for Foreclosed Properties	(2,588)
Less:	
Dividends – Preferred Shares Series 2008	(24,240)
Dividends – Preferred Shares Series 2009	(24,240)
Dividends – Common Shares	(119,889)
Add:	
Retained Earnings 2016	9,475
Retained Earnings 2017	**6,482**
of which distributable	101

THIRD RESOLUTION

The Ordinary General Assembly approves the discharge of the Chairman and Board members for their duties during the fiscal year 2017.

FOURTH RESOLUTION

The Ordinary General Assembly decides to elect the following persons as members of the Bank's Board of Directors for a term of office of three years ending on the date of the Annual Ordinary General Assembly meeting that will consider the financial statements of the fiscal year 2020:
Dr. François Bassil, Semaan Bassil, Bassam Nassar, Faisal Al Tabsh, Ahmad Tabbara, Alain Tohmé, Dr. Henry Azzam, Baron Guy Quaden, Des O'Shea and Yves Jacquot.

Held on 20 April 2018

FIFTH 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 2017 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 approves the agreement concluded between the Bank and the companies to which some Board members belong as described in the special reports of the Board of Directors and the Statutory Auditors.

2. To grant the special authorization set forth in article /152/ of the Code of Money and Credit and in article /158/ of the Code of Commerce for the fiscal year 2018 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.

SIXTH RESOLUTION

The Ordinary General Assembly approves to set annual lump-sum emoluments for the members of the Board of Directors at 400 million Lebanese Pounds for the year 2018, 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.

SEVENTH 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-General Manager of Byblos Bank S.A.L. on such conditions as described in the special report, and to grant them for 2018 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 2017 as mentioned in the Board of Directors special report and approves as well to pay them the amounts mentioned in the same report for 2018.

The Ordinary General Assembly approves the fees paid to the members and chairmen of the Board Audit, Board Risk, Board Compliance and Board Remuneration, Nomination and Corporate Governance Committees for 2017, and approves that said members and chairmen receive fees for the fiscal year 2018 as mentioned in the Board of Directors Special Report.

EIGHTH RESOLUTION

The Ordinary General Assembly decides to appoint BDO Semaan Gholam & Co. and Ernst & Young as auditors for the fiscal years 2018, 2019, and 2020.

NINTH RESOLUTION

The Ordinary General Assembly decides to set the fees of the External Auditors for the fiscal year 2018 at 1,325 million Lebanese Pounds for auditing and reviewing the stand-alone and consolidated financial statements.

BYBLOS BANK S.A.L.

ANNUAL REPORT 2017 | DIRECTORY

PRIMARY CORRESPONDENT BANKS
GROUP ADDRESSES

PRIMARY CORRESPONDENT BANKS

COUNTRY	CITY	BANK NAME
Belgium	Brussels	Byblos Bank Europe S.A., KBC Bank NV
Canada	Toronto	Bank of Montreal
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

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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

- Aramoun Branch
- 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

- Abdel 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

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 Mosbeh 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
Zalka/Amaret Chalhoub Branch

Metn 2 Regional Management

Aya/Dora Branch
Bourj Hammoud Branch
Dekwaneh Branch
Dora 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
Bliss Satellite 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
Tyre 2 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, Lagos, 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

ACKNOWLEDGMENTS

CONCEPT
Byblos Bank – Group Communication Department

DESIGN AND LAYOUT
www.circle.agency

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Byblos Printing S.A.L.

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