BYBLOS BANK

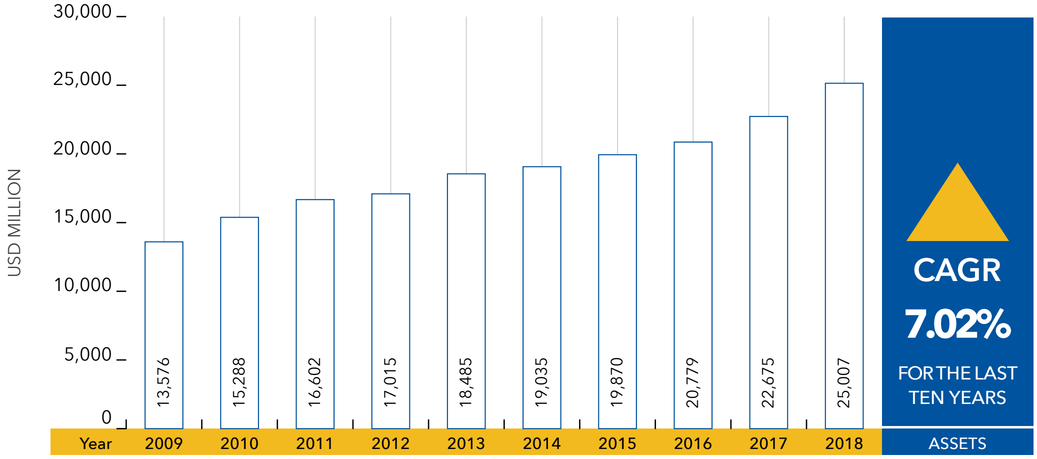
ANNUAL REPORT 2018

TABLE OF CONTENTS

FINANCIAL HIGHLIGHTS

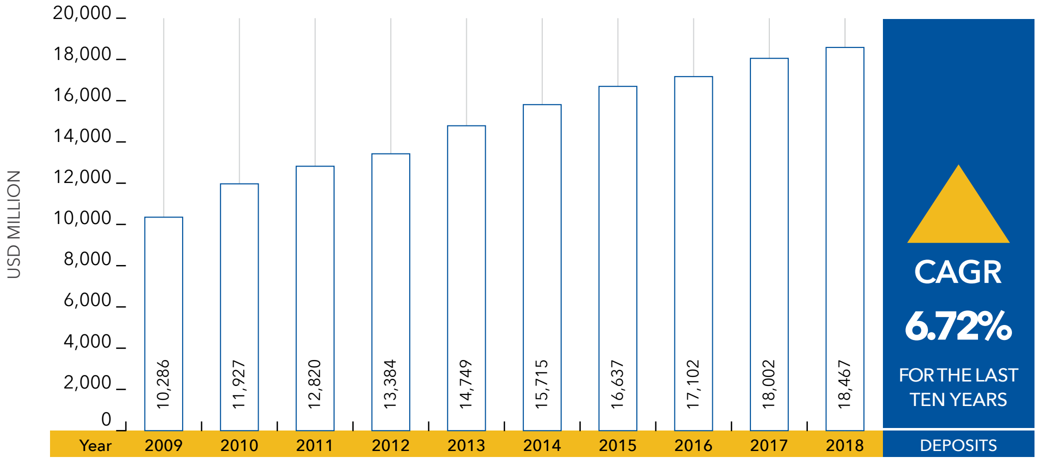
TOTAL ASSETS

Evolution of Total Assets During Last Ten Years



CUSTOMERS' DEPOSITS

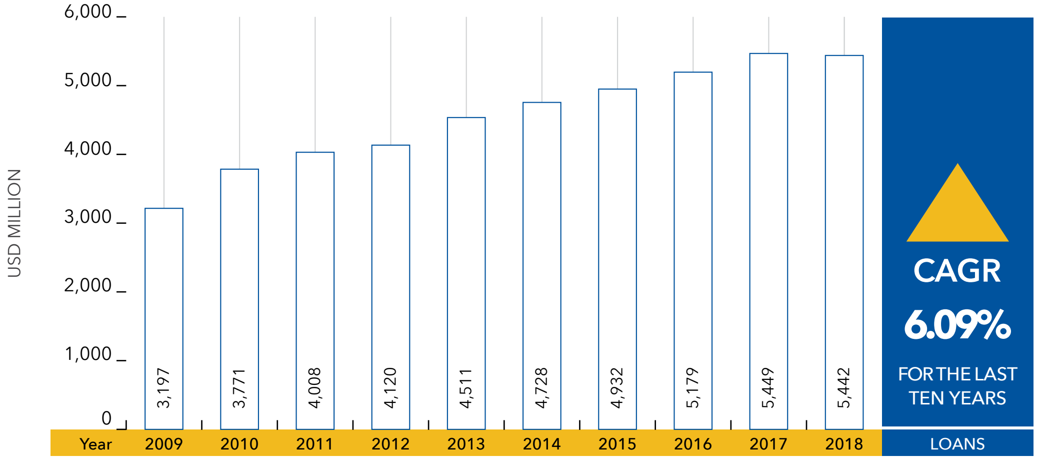
Evolution of Customers' Deposits During Last Ten Years



FINANCIAL HIGHLIGHTS

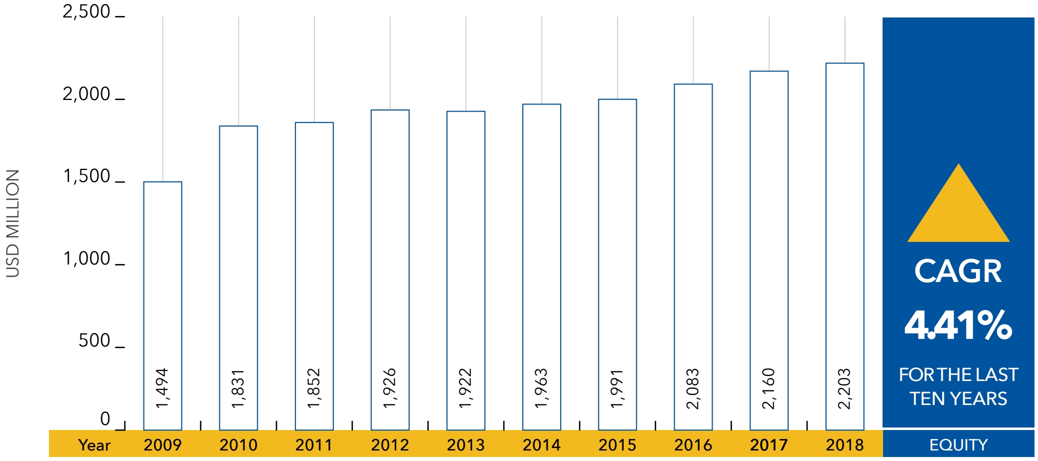
CUSTOMERS' LOANS

Evolution of Customers' Loans During Last Ten Years



TOTAL EQUITY*

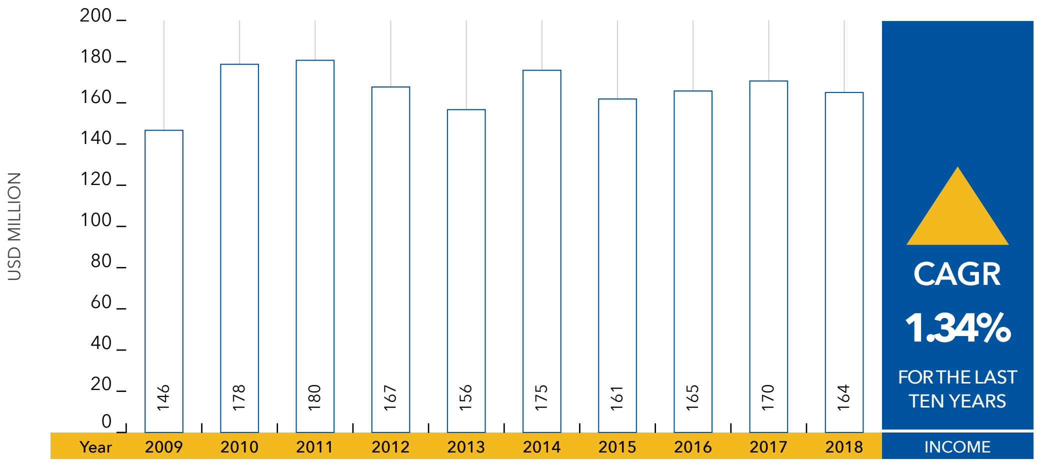
Evolution of Total Equity During Last Ten Years



** including subordinated loans*

NET INCOME

Evolution of Net Income During Last Ten Years



BYBLOS BANK S.A.L.

ANNUAL REPORT 2018

MESSAGE FROM THE CHAIRMAN

MESSAGE FROM THE CHAIRMAN

Dear Stakeholders,

Byblos Bank posted satisfactory net income of USD 164.1 million in 2018, registering a slight decrease of 3.5% from 2017. This performance reflects the prudent policy mandated 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 16.51% 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 18% at end-2018, easily exceeding the regulatory requirement of 15%. 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 stood unchanged at USD 5.4 billion, while customers' deposits increased by 2.6% to reach USD 18.5 billion, and the Bank's net loans-to-assets ratio remained at a low level of 21.8%. The net interest margin improved slightly, from 1.48% to 1.49%, largely due to better interest rate management despite both the increased cost of customers' deposits, and the significant opportunity cost in maintaining high liquidity levels.

Byblos Bank also continued the consolidation of its foreign banking subsidiaries' activities. This included streamlining several processes, outsourcing whenever possible, recruiting new talent, re-prioritizing markets and customer segments, and working to further diversify – by both geographical region and economic sector – our loan mix and sources of funding. Overall, the foreign banking subsidiaries represented a greater share of the Group's consolidated results in 2018 than in 2017 as follows: the share of loans rose to 8.6% from 7.0%, while the share of deposits rose to 6.7% from 6.1%, and that of net income rose to 8.6% from 6.8%.

On the domestic front, the Bank has continued to increase the use of technology in the back office, and especially in relation to client interactions, in order to reinforce customer loyalty and satisfaction, contain operating costs, and improve productivity, all over the long term. The negative impact of the double taxation on banks, which has taken full effect in 2018, has been limited thanks to sound management of our net interest margin and overall operating costs, and despite the allocation of higher provisioning for possible loan losses.

The Bank's management, its staff, and its Board, as well as its key shareholders, continue to look at the positive prospects in Lebanon. They also have been working together to ensure that the Bank has the necessary resources in place to derive full benefit from the coming recovery and the long-awaited introduction of necessary reforms. That resilience, driven by great patience for a better Lebanon, has been a crucial factor in maintaining the stability and steady growth of the Bank's activities. For that, all of you who have been partners in this achievement have my most gracious thanks.

Sincerely,

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

BYBLOS BANK S.A.L.

ANNUAL REPORT 2018

THE LEBANESE ECONOMY IN 2018

ECONOMIC POLICY

The year 2018 started with cautious optimism about the prospects of the Lebanese economy, given ongoing preparations for three international conferences to support Lebanon, as well as for the long-delayed parliamentary elections scheduled for May 2018. The Rome conference aimed to support the Lebanese Army; the Conférence économique pour le développement, par les réformes et avec les entreprises (CEDRE) in Paris was in support of the economy; and the Brussels conference focused on helping Lebanon to cope with the presence of a large number of Syrian refugees. CEDRE, which took place on 6 April 2018, yielded some USD 11.2 billion in pledges from the international community in order to finance infrastructure projects that the Lebanese government included in its USD 22.9 billion Capital Investment Program.

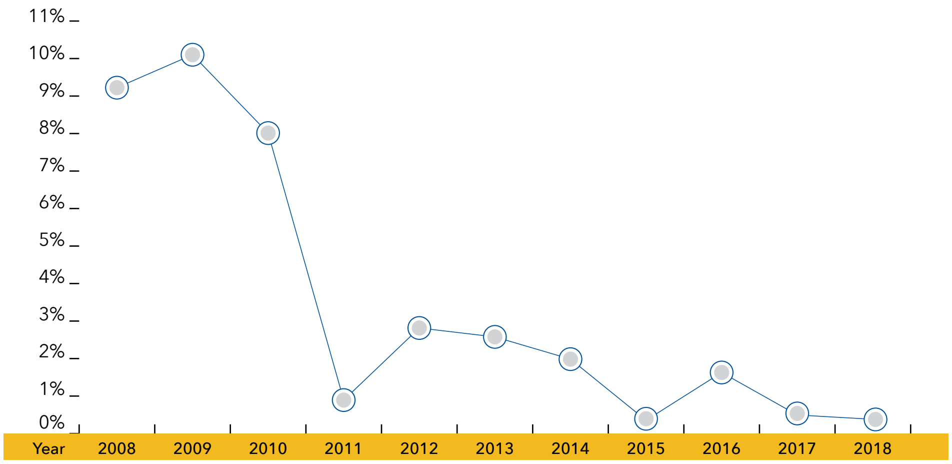
The main events that significantly improved sentiment in the country last year were the successful holding of parliamentary elections, followed by the swift designation of Prime Minister Saad Hariri to form a new government. The elections represented the first opportunity in nine years for Lebanese citizens to exercise their constitutional right to choose their representatives in Parliament, which gave them a sense of empowerment and fueled expectations for better governance at the national level.

However, the post-elections euphoria gradually faded in the second half of 2018 due to long delays in the formation of a new government, as well as to the diverging priorities of the government and the private sector. Also, the implementation of tax increases on consumption, income, and profits, as well as the hike in fees on a large number of administrative transactions (all of which Parliament enacted in October 2017 and which went into effect toward the end of 2017), took their toll on consumption and investment patterns throughout the year. The tax increases led to a massive redistribution of income from the private sector and households to the bloated and inefficient public sector, while the inflationary pressure that persisted throughout 2018 reduced households' purchasing power. This, combined with the uncertainties related to the government's formation, weighed on household and investor sentiment, and on overall economic activity. In addition, Lebanon continued to suffer from an inadequate investment climate and business environment. Further, the continuing presence of more than 1 million Syrian refugees in Lebanon caused heavy pressure on the country's infrastructure, although this alone did not justify the deterioration in the quality of public-service delivery throughout the year.

Political bickering and the constitutional restrictions on the caretaker government further weighed on economic activity and paralyzed policymaking in the country. The resulting delays in reforms led not only to opportunity costs for Lebanon, especially in terms of unlocking the CEDRE-related funds, but also exacerbated risk perceptions about the country at a time when emerging markets already were suffering from an unfavorable external financing environment. In fact, the rise in US interest rates and the global strengthening of the US Dollar triggered capital outflows from emerging markets that led to increases in regional interest rates. However, the Banque du Liban (BDL) took pre-emptive measures which, in cooperation with commercial banks, successfully weathered the challenges throughout 2018. In addition, rumors and scare tactics that had been circulating since the summer, mostly about purportedly impending collapses of the Lebanese economy and the national currency, did not generate panic among citizens.

Nonetheless, while the BDL managed to maintain monetary and financial stability, the lack of any economic planning and the political paralysis took their toll on economic activity. The growth forecast at the start of the year was about 2% for 2018, but downward revisions led to an estimated growth rate of about 0.4%. The subdued growth came despite a USD 1 billion stimulus package from the BDL for 2018, strong remittance inflows of about USD 7.2 billion, and a successful tourism season.

REAL GDP GROWTH IN LEBANON (%)



Source: National Accounts, Institute of International Finance, Byblos Bank Economic Research and Analysis Department

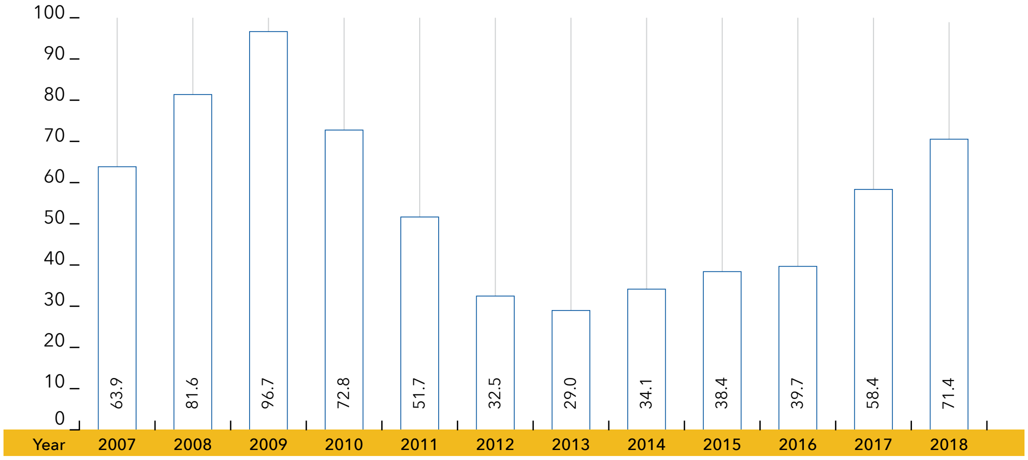
REAL SECTORS

Household sentiment is a key indicator of trends in economic activity in Lebanon, given that private expenditures represent about 87.5% of overall spending in the economy. The Byblos Bank/AUB Consumer Confidence Index averaged 71.4 in 2018, increasing by 22.4% from 58.4 in 2017 and constituting the fifth annual expansion since 2009. However, the increase of the Index came from a low base, as the outcome for 2017 was the seventh lowest since the Index's inception in July 2007. Further, most of the Index's rise occurred during the second quarter, driven by the successful parliamentary elections and the swift nomination of Mr. Hariri to form a new government, which both took place in May 2018. In fact, the Index regressed in eight out of 12 months during the year, as it declined by 1.6% in the first quarter of 2018, rose by 22% in the second quarter, grew by 1.5% in the third quarter, and was almost unchanged in the fourth quarter of 2018.

The results of the parliamentary elections raised the expectations of Lebanese households that the new Parliament and, by extension, the new government, would take measures that would improve their quality of living and economic well-being. However, the lengthy delays and procrastination in the formation of a new Cabinet, the rising cost of living, worsening economic conditions, and elevated inflation rates led to the stagnation of consumer sentiment during the third and fourth quarters of the year, sapping any momentum in confidence generated by the elections.

Further, the Byblos Bank/AUB Expectations Index posted higher values than the Present Situation Index in each month of 2018. However, the spread between the two indices remained narrow in the first four months of the year, before widening significantly in May 2018 as a reflection of the impact of the parliamentary elections on citizens' expectations. The spread then narrowed sharply in June as the post-elections euphoria subsided. Even though consumers were more optimistic about their future conditions than their current situation, the fluctuations of the spread throughout the year reflected consumers' high skepticism about the future.

BYBLOS BANK/AUB CONSUMER CONFIDENCE INDEX



Source: Byblos Bank Economic Research and Analysis Department

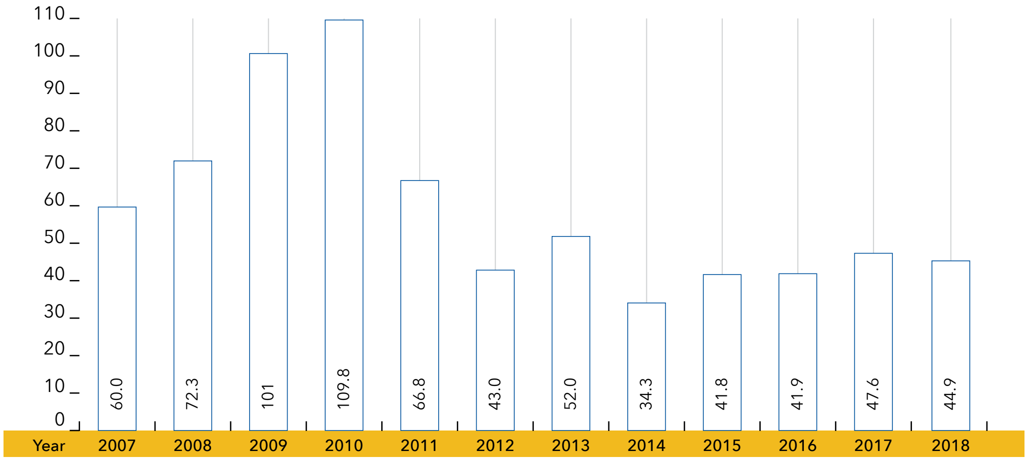
REAL ESTATE SECTOR

The real estate market, which contributes nearly 15.4% of economic output in Lebanon, continued to be affected by adverse conditions in 2018. The number of construction permits issued by the Orders of Engineers and Architects in Beirut and Tripoli decreased by 13% in 2018, with the surface area of granted construction permits regressing by 23% from 2017.

On the demand side, the amount of housing loans outstanding reached USD 13 billion at the end of September 2018, as per the latest available figures, compared to USD 12.93 billion a year earlier. The stagnation in the amount of housing loans was due in part to the rapid exhaustion of the BDL's interest rate subsidies on mortgages early in the year, which was caused by the spike in demand generated from the massive increase in the public sector's wages and salaries. Most of the demand for mortgages has been for small-size apartments, and came from limited-income individuals 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 resident Lebanese to buy or build a home, decreased by 5.7% in 2018. The value of the Index regressed in three out of the four quarters in 2018. In fact, the suspension of subsidized housing loans reduced local demand and negatively affected citizens' home-buying decisions in the first quarter of the year. The Index improved in the second quarter of 2018, mainly due to the announcement in April by the ministries of Finance and of Social Affairs that the government intended to allocate LBP 1,100 billion for subsidized housing loans, which raised expectations that affordable mortgages for limited-income citizens would resume. Also, the increase in the Index in the third quarter of the year followed the Lebanese Parliament's vote in September to allocate LBP 100 billion for similar subsidies, which once again raised expectations that subsidized mortgages would resume. However, the relevant authorities did not make any concrete progress on either initiative, which depressed sentiment in the fourth quarter. Overall, the Index's average monthly score in 2018 constituted a decline of 59% from the peak registered in 2010 and was 24.7% lower than the average monthly score since calculation of the Index began in July 2007.

BYBLOS BANK REAL ESTATE DEMAND INDEX



Source: Byblos Bank Economic Research and Analysis Department

TOURISM

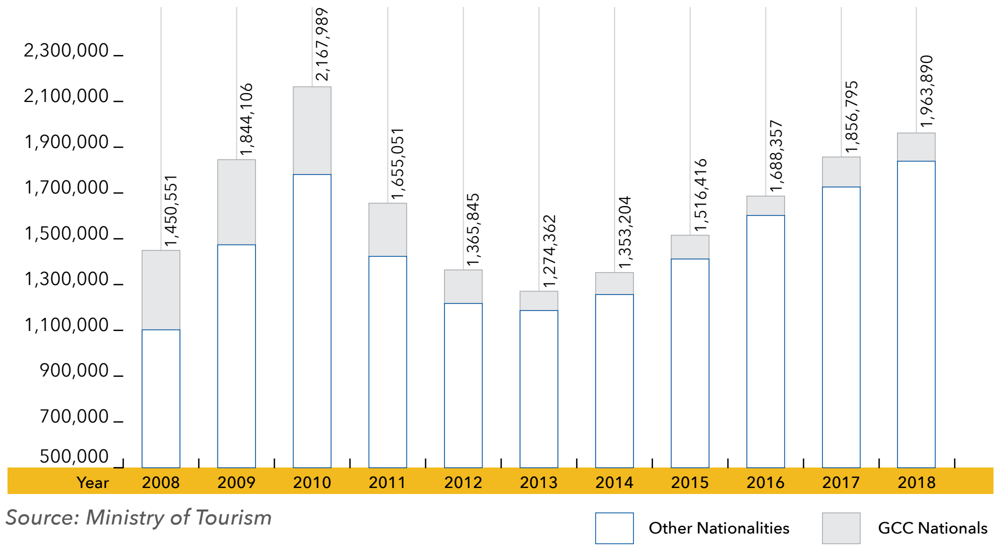
The tourism sector, which has been underperforming in recent years but which used to be a main driver of economic activity in Lebanon, improved slightly in 2018 following initiatives by the Ministry of Tourism and stakeholders in the private sector, which aimed to boost tourist numbers and spending. In addition, the favorable timeline of religious holidays during the summer season, such as Eid al-Fitr in early June and Eid al-Adha in August, along with stable security conditions, supported tourist arrivals in the third quarter of the year. Also, favorable weather conditions helped expand winter-related tourism in the country toward the end of 2018. And in May, for the second year in a row, the Ministry of Tourism held the Visit Lebanon International Forum, a platform to promote Lebanon as a tourist destination to foreign companies in the sector.

The number of incoming visitors to Lebanon totaled 1.96 million in 2018, increasing by 5.8% from 1.86 million in 2017 but constituting a decline of 9.4% from the peak of 2.17 million visitors in 2010. Tourist arrivals in the third quarter of 2018 were the third highest quarterly arrivals for the entire 2008-18 period, while arrivals in December 2018 were the highest for that month since December 2008.

The increase in the number of tourist arrivals in 2018 did not significantly alter the composition of visitors from the previous year, as the number of European visitors accounted for 36% of the total and continued to surpass the number of Arab tourists (28.6%). Visitors from the Americas accounted for 18.2% of total tourists in 2018, followed by visitors from Asia (7.2%), Africa (5.5%), and Oceania (4.5%). In fact, most of the increase in the number of tourists is attributed to visitors from European countries and the Americas. The number of visitors from European countries increased by 10.4% in 2018, followed by visitors from the Americas (+9.2%), Oceania (+7.1%), Asia (+3%), and the Arab region (+0.2%), while the number of visitors from Africa regressed by 0.6%.

Further, the number of incoming visitors from Gulf Cooperation Council (GCC) countries reached 128,212 in 2018, accounting for 6.5% of Lebanon's total tourist arrivals, compared to 6.8% in 2017 and to 17.7% in 2010. The number of incoming visitors from GCC countries decreased year-on-year, except for the number of visitors from Qatar, which nearly doubled from a low base in 2017.

TOURIST ARRIVALS

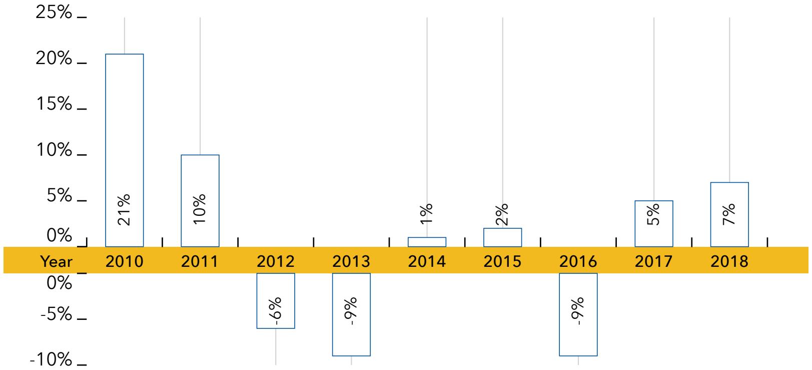


Source: Ministry of Tourism

In parallel, spending by tourists in Lebanon grew by 6.5% in 2018 following a rise of 5.5% in 2017. But the increase in tourist receipts was below expectations, given the still modest number of GCC nationals who visited Lebanon in 2018. In fact, visitors from Saudi Arabia accounted for 12% of total spending in 2018 compared to a share of 14% in 2017; followed by visitors from the UAE with 11% relative to 12% in 2017; Syria with 10%; Kuwait with 7%; Qatar with 6%; Egypt with 5%; France, Jordan, and the United States with 4% each; and Canada with 3%

Spending by visitors from Syria increased by 64.7% in 2018, followed by spending by tourists from Qatar (+60.5%), Egypt (+25.9%), Kuwait (+13.8%), and the United States (+7.1%). In contrast, spending by visitors from Canada decreased by 20.6% in 2018, followed by spending by tourists from Saudi Arabia (-15.1%), Jordan (-5.5%), the UAE (-3.8%), and France (-2.2%).

YEARLY CHANGE IN TOURIST SPENDING*



Source: Global Blue

* Based on the change in VAT refunds

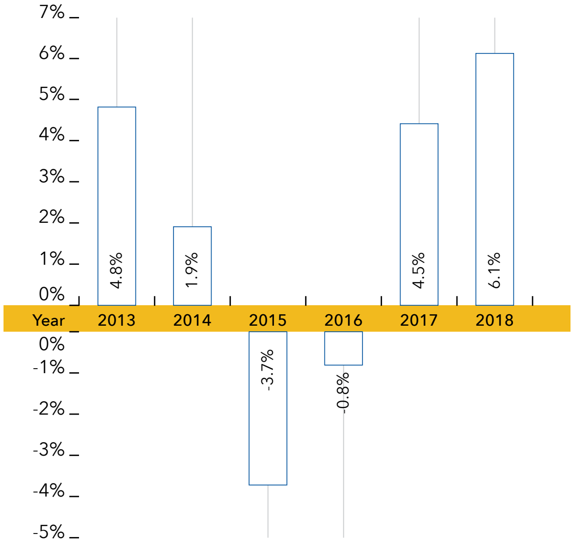
According to the Ernst & Young Middle East Hotel Benchmark Survey, the average occupancy rate at hotels in Beirut was 65.1% in 2018, relative to 63.7% in 2017, the fifth highest among 14 main Arab markets last year. The average rate per room at Beirut hotels increased by 2.3% year-on-year to USD 188; and revenues per available room reached USD 122 in Beirut compared to USD 117 in 2017.

INFLATION

The Consumer Price Index (CPI) increased by 6.1% in 2018, compared to growth of 4.5% in 2017, according to the Central Administration of Statistics. All components of the CPI increased, especially the prices of clothing and footwear, food and non-alcoholic beverages, as well as those of water, electricity, gas, and other fuels, and transportation costs.

Inflationary pressure intensified in 2018 due to several factors, including the sharp increase in public-sector wages and the increase in tax on consumption. Inflationary pressure also reflected higher global commodity and food prices, despite the strengthening of the US Dollar in the second half of 2018, which put pressure on imported inflation.

INFLATION RATE IN LEBANON (%)



Source: Central Administration of Statistics

MONETARY POLICY

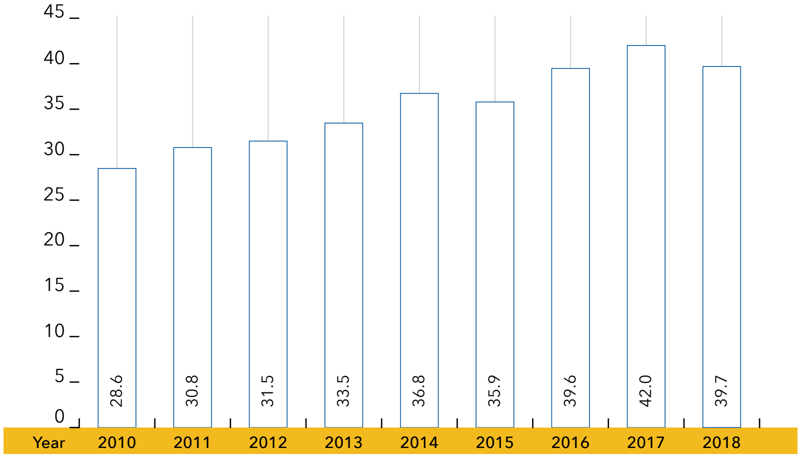
The BDL continued its policies of maintaining the stability of the exchange rate, preserving economic and monetary stability, and safeguarding the soundness of the banking sector throughout 2018. As such, the BDL determined it was necessary to conduct special financial operations with the Ministry of Finance and commercial banks amid the lengthy delay in forming a new government, detrimental rumors about monetary stability, the government's increasing financing needs, rising geopolitical tensions, and unfavorable external conditions for emerging markets. The BDL's operations aimed to attract long-term foreign currency deposits, to preserve its stock of assets in foreign currency, as well as to cover the government's foreign currency refinancing and debt servicing needs.

The BDL's foreign assets reached a record high of USD 45.3 billion at the end of May, which along with its gold reserves, amounting to about USD 12 billion at the time, constituted a strong buffer to preserve monetary stability. However, foreign assets gradually decreased amid external and local pressures, and ended October at USD 43.2 billion. The BDL indicated that it settled a total of USD 2.6 billion in debt between 1 November and 15 December 2018, including principal and coupons on maturing Eurobonds, as well as several external loans and letters of credit. This contributed to a decline in the BDL's foreign assets to USD 40.9 billion at end-November and to USD 39.7 billion at year-end.

Overall, the BDL's assets in foreign currency declined by USD 2.4 billion in 2018, while the value of its gold reserves regressed by USD 192.4 million to USD 11.8 billion. The BDL's combined assets in gold and foreign currencies were equivalent to about 92% of GDP at the end of the year. Lebanon held 286.8 tons of gold at the end of 2018, giving it the 18th largest gold stock in the world as well as the second largest among Arab countries.

Also, the BDL's gross foreign currency reserves reached USD 32.5 billion at the end of 2018, constituting a decrease of 9.2% from the end of 2017. They were equivalent to 64% of money supply (M2) at the end of 2018 and to about 14 months' worth of next year's expected imports, well above the four-month reference for emerging markets.

GROSS ASSETS IN FOREIGN CURRENCY (USD Billion)



Source: Banque du Liban

Further, while the interbank rate in Lebanese Pounds ended each month of the year at between 4% and 5% in 2018, the end-of-month values masked significant fluctuations that occurred throughout the fourth quarter of the year. During this period, shortages of liquidity in Lebanese Pounds at some banks led the interbank rate to peak at about 75% on 14 December. The repo rate was unchanged at 10% throughout 2018.

In addition, competition persisted among local banks to attract deposits in local and foreign currencies alike. The prevailing conditions, along with the government's elevated financing needs, as well as higher global and regional interest rates, led to an increase in the interest rates on deposits in both local and foreign currencies. As such, the weighted interest rate on deposits in Lebanese Pounds increased from 6.41% in December 2017 to 8.3% in December 2018, while the weighted interest rate on US Dollar deposits gradually increased from 3.89% in December 2017 to 5.15% in December 2018.

EXTERNAL SECTOR

The net foreign assets of the financial sector, a proxy for Lebanon's balance of payments, decreased by USD 4.8 billion in 2018 compared to a drop of USD 115.7 million in 2017. The decline in 2018 was caused by a decrease of USD 2.5 billion in the net foreign assets of banks and financial institutions and by a contraction of USD 2.3 billion in those of the BDL. The decline in the net foreign assets of the financial sector in 2018 was due to the fact that the BDL settled a total of USD 2.6 billion in external obligations on behalf of the government between 1 November and 15 December 2018, as well as to limited deposit outflows in October. The current account deficit is forecast at about USD 12 billion, or 21% of GDP, in 2018, similar to the 2017 deficit.

The trade deficit reached USD 17 billion in 2018, widening by 1.7% year-on-year, as the value of imported goods increased by 2% to USD 20 billion and the value of exports grew by 3.8% to USD 3 billion. The rise in imports was mainly due to an increase of USD 529.9 million, or 3.5%, in the value of non-hydrocarbon imports to USD 15.8 billion in 2018. It was offset in part by a decrease of USD 132.6 million, or 3.1%, in the value of imported oil and mineral fuels to USD 4.2 billion in 2018. Imports were equivalent to 35.6% of GDP and exports to 5.3% of GDP in 2018, leading to a trade deficit of 30.4% of GDP.

In parallel, the inflows of expatriates' remittances to Lebanon are estimated at USD 7.2 billion in 2018, constituting an increase of 2.2% from USD 7.1 billion in 2017. Further, remittance inflows to Lebanon were equivalent to 12.8% of GDP in 2018, compared to 13.3% of GDP in 2017. In addition, remittance outflows from Lebanon are estimated at USD 4.74 billion, or 8.4% of GDP, in 2018, up by 6.6% from USD 4.45 billion in 2017. As such, net remittance inflows to Lebanon reached USD 2.47 billion in 2018, constituting a decrease of 5.2% from USD 2.6 billion in 2017. They were equivalent to 4.4% of GDP in 2018.

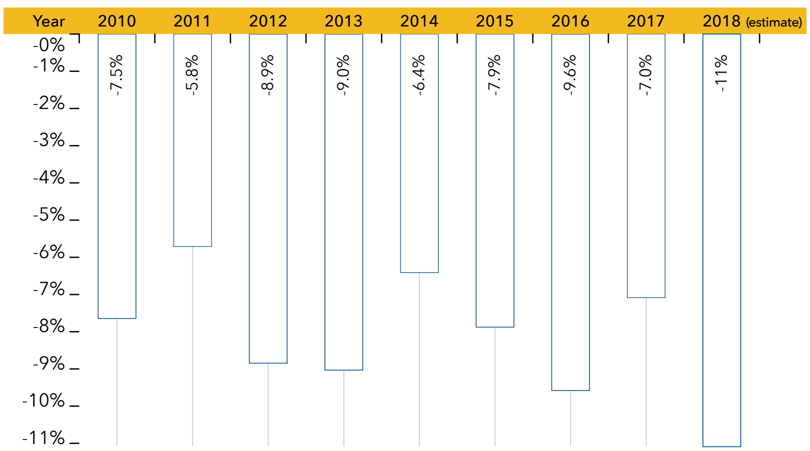
PUBLIC FINANCES

Lebanon's public finance imbalances worsened in 2018, mostly due to the increase in the compensation of public-sector personnel amid subdued growth in public revenues. Other spending items that contributed to the rise in public expenditures include Treasury transfers to municipalities and to the state-owned and money-losing Electricité du Liban (EDL), as well as debt servicing costs. As such, the fiscal deficit is estimated to have widened from USD 3.8 billion, or 7% of GDP, to about USD 6.3 billion, or 11% of GDP, in 2018.

Public expenditures increased by about 20% in 2018. The increases in wages, salaries, benefits, and pension payments, which the Lebanese Parliament enacted in July 2017, expanded the public sector's personnel cost by more than 25% in the first nine months of 2018, the latest available figures, and represented about 37% of total fiscal spending. In addition, debt servicing accounted for about 30% of total expenditures, and transfers to EDL represented nearly 9% of the total.

In parallel, public revenues increased by a low-single digit growth rate, even though the rises in taxes and fees went into effect at the start of 2018 and were supposed to offset the increases in wages and salaries. The modest increase in revenues was mostly due to the resulting subdued economic activity, tax evasion, and poor revenue mobilization.

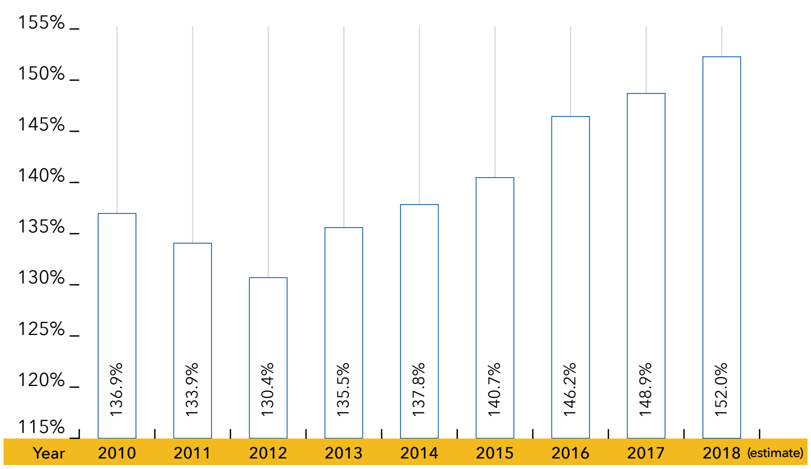
FISCAL BALANCE (% of GDP)



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

The widening of the fiscal deficit also exacerbated Lebanon's debt dynamics. The public debt level is estimated to have increased from 149% of GDP in 2017 to about 152% of GDP in 2018. Commercial banks held nearly 40% of the gross public debt, followed by the BDL with around 38%, foreign investors with nearly 11%, and non-bank Lebanese financial institutions with about 9%, while bilateral and multilateral loans represented around 2% of the debt stock. Foreign currency-denominated debt accounted for 39% of the gross public debt, with the banking sector, including the BDL, holding more than 70% of Lebanon's Eurobonds. The structure of the public debt shows that the BDL held about 50% of the Lebanese Pound-denominated public debt, followed by commercial banks with about 35%, and public agencies, financial institutions, and the public with about 15%.

GROSS PUBLIC DEBT (% of GDP)



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

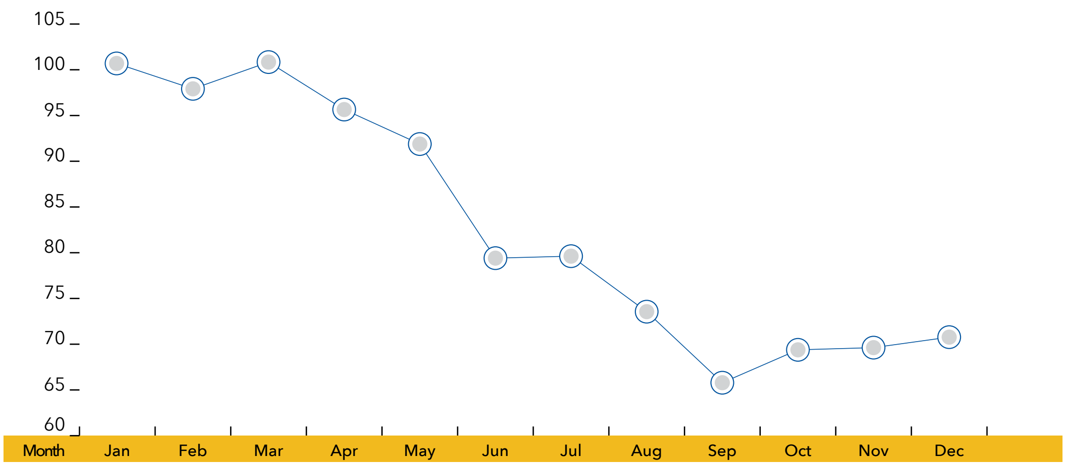
CAPITAL MARKETS

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. In addition, stock prices declined in 2018, mainly due to an increase of 100% in the tax rate on dividend distribution, which prompted a wave of selling by shareholders. Total trading volume on the Beirut Stock Exchange (BSE) reached 90.1 million shares in 2018, constituting an increase of 3.6% from 87 million shares traded in 2017, while aggregate turnover amounted to USD 635 million, down by 16.7% from a turnover of USD 762.1 million in 2017. Market capitalization regressed by 15.7% from the end of 2017 to USD 9.68 billion, with banking stocks accounting for 84.2% of total market capitalization, followed by real estate shares (12.1%), industrial firms (3.4%), and trading stocks (0.4%). The market liquidity ratio was 6.6% in 2018, unchanged from 2017. Further, market capitalization was equivalent to 17.3% of GDP in 2018, the fourth lowest level among 14 Arab markets, and accounted for about 0.8% of the aggregate market capitalization of Arab equity markets at the end of the year.

Banking stocks accounted for 77.5% of the aggregate trading volume in 2018, followed by real estate equities with 20.1%, industrial shares with 2.1%, and trading stocks with 0.3%. Also, banking stocks represented 74% of the aggregate value of traded shares, followed by real estate equities with 21.6%, industrial stocks with 4.2%, and shares of trading firms with 0.1%. The average daily traded volume for 2018 was 375,457 shares for an average daily value of USD 2.6 million. The figures show an increase of 4.5% in the average volume and a decline of 16% in the average value of traded shares in 2018. In parallel, the Capital Markets Authority's Market Value-Weighted Index for stocks traded on the BSE dropped by 25.1% in 2018, while its Banks Market Value-Weighted Index regressed by 27%.

MARKET VALUE-WEIGHTED STOCK INDEX (2018)



Source: Capital Markets Authority

FIXED INCOME

Lebanon's external debt posted a return of -5.62% in 2018, constituting the 12th lowest return among 44 markets in the Central and Eastern Europe, Middle East and Africa region, as well as the 17th lowest return among 77 emerging markets, according to Intercontinental Exchange's External Debt EM Sovereign Index. Lebanon underperformed the overall emerging markets return of -3.6% during 2018, and posted the 11th lowest return among 27 countries in the Middle East and Africa region, due to domestic and external factors.

The Ministry of Finance issued a total of USD 5.5 billion in Eurobonds in 2018. In May 2018, the ministry issued a USD 5.5 billion four-tranche Eurobond that it swapped with LBP 8,250 billion worth of Lebanese Pound-denominated Treasury bills from the BDL's portfolio. The first tranche consisted of reopening and increasing by USD 1 billion an existing bond that matures in March 2028 and carries a coupon of 8%, while the second consisted of reopening and increasing by USD 1.5 billion an existing bond that matures in November 2031 and carries a coupon of 8.1%. The third tranche consisted of issuing a 15-year USD 1.5 billion Eurobond that matures in May 2033 and carries a coupon of 8.2%, while the fourth consisted of an 18-year USD 1.5 billion Eurobond that matures in May 2034 and carries a coupon of 8.25%. The proceeds of the issuance were mainly used to cover the ministry's refinancing needs and debt servicing in foreign currency until the end of 2018. Also, the swap operation helped the BDL strengthen its assets in foreign currency through the acquisition of the Eurobonds.

In parallel, in early December 2018, the Ministry of Finance reached an agreement with the BDL and the Association of Banks in Lebanon to issue new sovereign debt in local currency at market rates. The agreement aimed to encourage commercial banks to subscribe to Treasury bonds, while the BDL would subscribe to additional issuances in case of need. In fact, there were diverging viewpoints between commercial banks and the BDL on one side, and the Ministry of Finance on the other, about the rates on new sovereign debt instruments issued in local currency. The offered rates by the government prior to the agreement did not reflect the increase in the interest rates that banks paid on deposits, which discouraged the banking system from subscribing to sovereign debt issuances in local currency. As such, in December 2018 the Finance Ministry issued LBP 1,002 billion in 10-year LBP Treasury bonds that carry a coupon rate of 10%, as well as LBP 1,202 billion in 15-year LBP Treasury bonds at a coupon rate of 10.5%. Prior to the agreement, the most recent issuance of 10-year Treasury bonds carried a coupon rate of 7.46%.

RISK METRICS

According to Intercontinental Exchange's Credit Market Analysis, spreads on five-year credit default swaps (CDSs) for Lebanon ended 2018 at 774.46 basis points (bps), up from 521.21 bps at the end of 2017. The spreads narrowed to 442.4 bps at end-March 2018 in the run-up to the CEDRE conference that was held on 6 April in Paris. But they started increasing afterward and ended June at 721 bps, reflecting the normalization of global interest rates and its impact on foreign investors' appetite for emerging-markets fixed income securities, including Lebanese Eurobonds. Lebanon's CDS spreads slightly narrowed to 656 bps at the end of August 2018, but jumped to 839.25 bps on 17 September amid delays in the formation of a new government and unfavorable external conditions for emerging markets. They narrowed afterward, reaching 685.72 bps at the end of September 2018.

However, the spreads widened again to 774.46 bps at the end of the year due to foreign investors' increased risk perception of Lebanese Eurobonds amid the delays in the formation of the new government, repeated local negative rumors about the Lebanese economy and the national currency, and rising geopolitical tensions, as well as the normalization of global interest rates.

The adverse impact of domestic political uncertainties on policymaking, the worsening of fiscal and external imbalances, as well as the effect of higher global and regional interest rates on deposit inflows, affected the outlook on the sovereign ratings, even though rating agencies remained confident in the currency peg to the US Dollar and in the strength of the banking sector. As a result, in December 2018 Fitch Ratings affirmed Lebanon's long-term foreign and local currency Issuer Default Ratings at 'B-', but revised the outlook on the ratings from 'stable' to 'negative'. In the same month, Moody's Investors Service affirmed Lebanon's issuer rating at 'B3' and revised the outlook from 'stable' to 'negative'. Also, Capital Intelligence Ratings affirmed at 'B' Lebanon's long- and short-term foreign and local currency sovereign ratings, and revised the outlook from 'stable' to 'negative' on the long-term ratings. S&P Global Ratings was the only rating agency that kept its 'stable' outlook on Lebanon's long-term sovereign ratings. In August 2018, the agency affirmed Lebanon's long- and short-term foreign and local currency sovereign credit ratings at 'B-/B', with a 'stable' outlook.

BANKING SECTOR

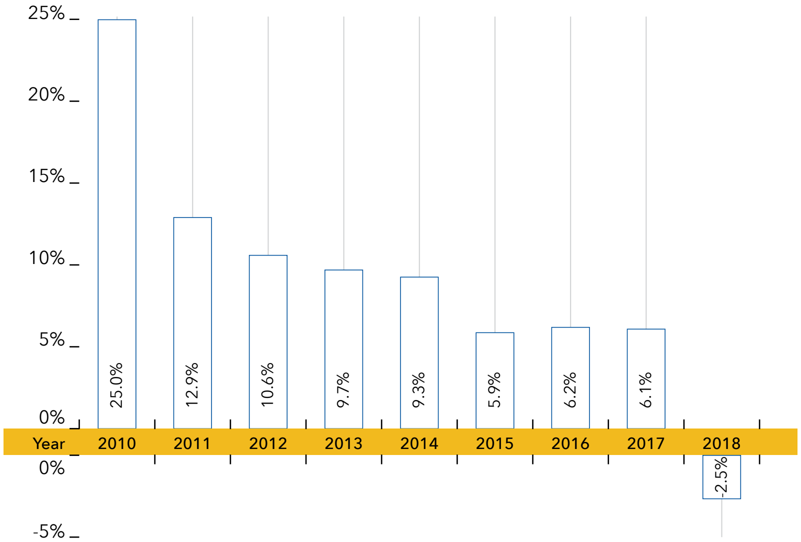
The banking sector faced a challenging operating environment in 2018 due to several converging factors, including slow economic activity in Lebanon, higher and arbitrary taxes that included the double taxation of the banks' income, tighter margins, and fewer lending opportunities domestically, as well 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. 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.

The aggregate assets of commercial banks in Lebanon reached USD 249.5 billion at the end of 2018, constituting an increase of 13.5% from end-2017. The sector's assets were equivalent to about 445% of GDP, one of the highest such ratios in the world.

Loans to the private sector reached USD 59.4 billion, or nearly 106% of GDP, at the end of 2018, constituting a decline of 0.5% from end-2017 and accounting for 23.8% of total assets. Loans to the resident private sector totaled USD 52.3 billion, down by 2.5% from the end of 2017, while credit to the non-resident private sector reached USD 7.1 billion at end-2018, up by 17.2% from a year earlier. In nominal terms, credit to the private sector regressed by USD 300 million in 2018, as lending to the resident private sector contracted by USD 1.3 billion and credit to the non-resident private sector grew by USD 1 billion during the year. The decline in lending to the private sector was due to the limited lending opportunities in the local market, the increase in interest rates that discouraged customer demand for credit, some companies reducing their credit exposure, as well as to the banks' risk aversion amid the challenging economic environment in the country. In fact, subdued activity in the country weighed on companies' cash flow and reduced their ability to service credit facilities.

The dollarization rate in private sector lending rose from 68.6% at end-2017 to 69.2% at end-2018. The average lending rate in Lebanese Pounds was 9.97% in December 2018 compared to 8.09% a year earlier, while the same rate in US Dollars was 8.57% relative to 7.67% in December 2017.

RESIDENT PRIVATE SECTOR LENDING GROWTH (% Change)



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

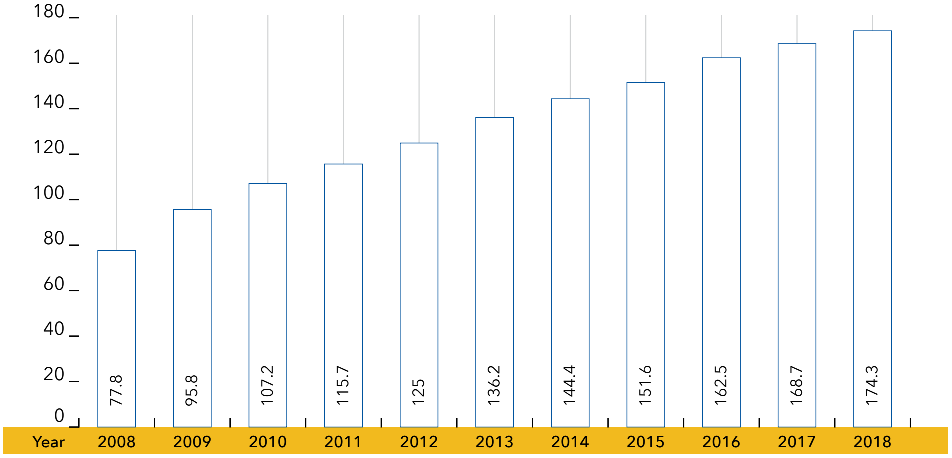
Further, claims on the public sector stood at USD 33.6 billion at end-2018, up by 5.2% from a year earlier, and accounted for 13.5% of the banking sector's total assets. Also, commercial banks' deposits at the BDL totaled USD 130.2 billion at end-2018, increasing by 26% from a year earlier due to the BDL's financial operations with commercial banks, and accounting for 52.2% of the sector's aggregate assets. In addition, the BDL's operations helped absorb the market liquidity in Lebanese Pounds in order to prevent any potential speculation against the local currency. In parallel, the banks' immediate liquidity, which includes claims on non-resident financial institutions and deposits with non-resident central banks, stood at USD 13 billion at the end of 2018, up by 5.1% from end-2017 and constituting an important buffer in foreign currency that Lebanese banks could tap in case of need.

The political deadlock that prevailed in the second half of 2018 constituted another episode of uncertainties that demonstrated the resilience of bank deposits. The stability of deposits reflects the increased efforts by the BDL and domestic banks to attract foreign currency deposits, counter the negative rumors about the imminent collapse of the currency and the economy, as well as address the conversion of deposits to US Dollars and the outflows of deposits from the banking sector.

In fact, deposits of the private sector totaled USD 174.3 billion at the end of 2018, and increased by USD 5.62 billion, or 3.3%, from end-2017, relative to growth of USD 6.17 billion, or 3.8%, in 2017.

Private sector deposits were equivalent to 311% of GDP in 2018, one of the highest such ratios in the world. Deposits in Lebanese Pounds reached the equivalent of USD 51.2 billion, down by 2.9% from end-2017, while deposits in foreign currencies totaled USD 123.1 billion, constituting a rise of 6.2% from end-2017. The decrease in Lebanese Pound deposits was mostly due to delays in forming a new government and to detrimental rumors that affected depositors' confidence. However, non-resident deposits totaled USD 37.7 billion at the end of 2018, increasing by 7.3% from end-2017 and reflecting sustained confidence among Lebanese expatriates in the country's banking system.

PRIVATE SECTOR DEPOSITS (USD Billion)



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

The dollarization rate of deposits reached 70.6% at the end of 2018 relative to 68.7% at end-2017, with most of the increase occurring in the last quarter of 2018 amid increased political uncertainty. In parallel, deposits of non-resident financial institutions reached USD 9.3 billion at the end of 2018, an increase of 23.8% from end-2017.

The Lebanese banking sector maintained a high level of liquidity in 2018, as the ratio of private sector loans to deposits in foreign currencies stood at 33.4% at the end of 2018, well below the BDL's limit of 70%, and compared to 35.3% a year earlier. In parallel, the same ratio in Lebanese Pounds was 35.7% at end-2018 relative to 35.5% at the end of 2017. As such, the total private sector loans-to-deposits ratio reached 34.1% at end-2018, down from 35.4% at end-2017. Further, the banks' aggregate capital base stood at USD 20.2 billion at the end of 2018, up by 5.4% from a year earlier, with core capital growing by 4.7% year-on-year to USD 18.7 billion.

THE GLOBAL AND REGIONAL ECONOMIES IN 2018

Several factors affected the global economy in 2018, including fluctuations in commodity prices, trade tensions between the United States and China, the normalization of monetary policy in advanced economies, capital outflows from emerging markets, and persistent geopolitical risks.

The global economy grew by a real rate of 3.7% in 2018, nearly unchanged from 3.8% in 2017. Economic growth in advanced economies is estimated at 2.3% in 2018 compared to 2.4% in 2017, but economic performance diverged between the United States and the Eurozone. In fact, the United States' real GDP growth accelerated from 2.2% in 2017 to 2.9% in 2018, while growth in the Eurozone decelerated from 2.4% in 2017 to 1.8% last year. In addition, emerging markets posted a real GDP growth rate of 4.6% in 2018, nearly unchanged from the previous year's rate of 4.7%. The stagnation in emerging markets growth was due to the fact that the positive impact of higher oil prices on some of these economies was offset by the adverse impact of tighter global financing conditions, geopolitical tensions, higher import bills, and/or country-specific factors in other emerging markets.

In addition, economic activity in most emerging markets regions in 2018 has been broadly in line with their performance in 2017, including in the Middle East and North Africa (MENA) and Sub-Saharan Africa (SSA) regions. 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.

Economic growth in the MENA region accelerated modestly from 1.8% in 2017 to 2% in 2018, supported by improvements in activity in both oil-importing and oil-exporting countries.

Real GDP in GCC countries shifted from a contraction of 0.4% in 2017 to an expansion of 2.4% in 2018, driven by a recovery in the hydrocarbon sector, as well as by the implementation of public investment projects. In fact, hydrocarbon output grew by 2.1% in 2018 following a contraction of 3.2% in 2017, due to the easing of production restrictions by oil producers both inside and outside the Organization of Petroleum Exporting Countries in June 2018. Activity in the non-hydrocarbon sector expanded by 2.7% last year, compared to a growth rate of 1.9% in 2017, supported by a recovery in the non-oil economy across most GCC countries, except Bahrain, as well as by spillovers from higher hydrocarbon output that eased the pressure for fiscal consolidation.

Further, real GDP growth in non-GCC oil exporters, which include Algeria, Iran, Iraq, Libya, and Yemen, regressed from 3% in 2017 to 0.3% in 2018, mainly due to the re-imposition of US sanctions on Iran. Hydrocarbon output growth decelerated from 1.6% in 2017 to 0.1% in 2018 as a result of lower output from Iran. In parallel, non-hydrocarbon sector activity in non-GCC oil exporters increased by 1.7% in 2018 relative to a growth rate of 3% in 2017, mainly because of the slowdown in the Iranian economy.

In contrast, the real GDP growth rate of the MENA's oil-importing economies slightly improved from 3.5% in 2017 to 3.8% in 2018, mostly driven by strong activity in Egypt, the largest economy in this group. Overall, activity in oil-importing economies was constrained by structural weaknesses, such as weak public finances, challenging operating environments, and, more recently, an unfavorable external environment.

In parallel, the recovery in global oil prices in 2018 improved the fiscal and external balances of oil-exporting economies in the MENA region. The aggregate fiscal deficit of the region's oil exporters narrowed from 5.1% of GDP in 2017 to 1.6% of GDP in 2018, while the current account surplus widened from 1.6% of GDP in 2017 to 4.7% of GDP last year. The GCC countries' aggregate fiscal deficit was 0.9% of GDP in 2018 and their aggregate current account surplus reached 7.4% of GDP last year. The level of government debt in GCC countries grew slightly from 25.5% of GDP in 2017 to 25.9% of GDP in 2018, but remained at manageable levels across most oil exporters, except for Bahrain, where it reached 88% of GDP.

Also, the aggregate fiscal deficit of the MENA region's oil importers was nearly unchanged at 6.9% of GDP last year, while their current account deficit stood at 7.3% of GDP in 2018. Public debt levels remained elevated in several oil-importing economies and exceeded 90% of GDP in Egypt, Jordan, Lebanon, Mauritania, and Sudan.

In parallel, economic growth in SSA countries accelerated from 2.7% in 2017 to 3.1% in 2018, mostly because of higher commodity prices. But the recovery in activity across countries continued to be fragile, uneven, and below the region's potential amid subdued growth in Angola, Nigeria, and South Africa, SSA's largest economies. In addition, the external environment became more challenging for SSA economies in 2018, with a moderation in global trade, tighter financing conditions, and a stronger US Dollar. Also, higher hydrocarbon prices positively affected hydrocarbon exporters in the SSA region, while exporters of metals and agricultural products have been adversely affected by lower prices.

Economic performance significantly varied among SSA countries last year. The SSA region's eight oil-exporting economies recovered modestly amid higher oil prices and output. As such, the aggregate real GDP in SSA's oil-exporting economies registered a growth rate of 1.6% in 2018, up from 0.2% in 2017. Further, non-resource-intensive countries continued to post strong growth of about 6% last year, supported by agricultural production, robust domestic consumption, and elevated public investment. In addition, real GDP growth in the member countries of the West African Economic and Monetary Union reached 6.4% in 2018 compared to 6.8% in 2017, while economies in East Africa posted strong growth amid a recovery in agricultural production following the droughts of 2017.

The SSA region's aggregate current account deficit widened in 2018, as the current account balance improved in oil-exporting countries, amid higher oil prices and subdued growth in imports, while it deteriorated in other states due to weaker exports or higher imports. The median current account deficit in the SSA region was 6.2% of GDP in 2018 compared to 5.8% of GDP in 2017. Also, the median level of foreign currency reserves in SSA countries remained at a low level of 3.3 months' worth of imports in 2018, nearly unchanged from 3.4 months in 2017.

In parallel, the median fiscal deficit of SSA countries slightly narrowed from 3.8% of GDP in 2017 to 3.5% of GDP in 2018, as the fiscal balance improved in most of SSA's oil-exporting economies, except in Nigeria, where tax collection continued to be low and public investment increased. Also, the fiscal balance deteriorated in other resource-intensive countries, while it was unchanged in non-resource-intensive countries. In addition, the median public debt ratio in the SSA region improved from 52.9% of GDP in 2017 to 50.4% of GDP in 2018. Further, higher borrowing costs in 2018, along with the slowdown in capital inflows, have made it more difficult for SSA economies to cover their external financing needs. In addition, the SSA region's debt dynamics remain vulnerable to fiscal slippages, subdued growth rates, exchange rate depreciations, and tighter global financing conditions.

BYBLOS BANK S.A.L.

ANNUAL REPORT 2018

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

PROFILE OF THE GROUP

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 regulatory 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
Byblos Bank S.A.L. becomes first Lebanese bank to gain access to Iraqi market.

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 Lebanon's oldest bank, Banque Pharaon & Chiha, established in 1876.

ANNUAL REPORT 2018

YEAR IN REVIEW

OPERATIONS

COMPLIANCE

CORPORATE SOCIAL RESPONSIBILITY

Byblos Bank stayed very much on course in 2018, posting adequate results despite very difficult conditions in its home market – and continuing the kinds of common-sense policies that have allowed it to overcome similar challenges for several years now. Local economic conditions continued to hamper growth across all sectors, and political dysfunction prevented any meaningful progress on the reforms required to restore consumer and investor confidence, but Byblos Bank fared better than most: our profits held relatively steady, and we also kept our financial stability at world-class levels, thereby protecting the interests of our employees, our customers, our investors, and other stakeholders.

CONSUMER BANKING

Standing by the customers who have stood by us

At Byblos Bank, we strive not just to expect the unexpected, but also to be prepared for it – and to help our customers cope with whatever comes at them, as well. Extended periods of low growth can strictly limit the ability of any individual or organization to generate more revenues, making it more important than ever to control costs. The more we protect our bottom line, the more we can empower our customers and their families to do the same, which, in turn, allows them to bring us more business.

The Consumer Banking Division has long embraced this philosophy, and the current phase has only caused it to redouble its efforts in this regard. Accordingly, the Division overseas a continuous search for improvements to processes and products that save money and time (which can be just as valuable) for both the Bank and its clients. As consumer needs evolve, we work to ensure that our products and services never stop getting better, faster, easier to access, more transparent, and more cost-effective.

In parallel with this strategy of never-ending improvement, the Division also continues to build out the digital infrastructure required to keep pace with the technological advances that mark so much of modern banking. This confers a long list of advantages on our clients, including more ways to monitor and control their finances from virtually anywhere, reducing the need for physical visits to Byblos Bank branches, and enhancing the overall customer experience.

Perhaps the best thing about technology is that apart from enabling both vital complements and viable alternatives to our branch network, it also can make that network and other conventional channels more efficient, so they can do more with less and be more responsive to the changing needs and circumstances of our customers. The past year has seen Byblos Bank establish several concrete examples of this versatility, including its first two Satellite Branches (in Hamra and Ashrafieh) and two more Counterless Branches (in Clemenceau and Hazmieh) to follow the original in Sin El Fil. Both feature comprehensive suites of fully automated banking services, which allow customers to get more face time with their personal bankers. A similar approach is being applied at traditional branches as well: broader and smarter use of technology allows clients to process more of their own day-to-day transactions, which frees up branch staff for more productive customer interactions.

This focus on making better use of time has come at a particularly opportune moment, mainly because so many people have been adversely affected by the stagnant economy. Our clients have not been immune to such conditions, but in many cases the Bank has been able to help relieve the pressure by working together with customers with strong payment histories to find solutions based on their needs. Here again, technology leads to better outcomes by giving staff members more time to keep track of customers' situations.

Obviously, branches are not the only places where digitization had a positive impact for our customers in 2018. In fact, much of Byblos Bank's reputation for pioneering the use of technology and otherwise modernizations in Lebanon's banking sector stems directly from the Consumer Banking Division. This tradition was added to by numerous developments in the past year, including:

- E-statements at your fingertips: we upgraded the Byblos Bank Mobile Banking Application so that customers can now generate an E-statement of accounts, in PDF format, from within the App and save it to their device or send it by email;
- Transfers and payments now available in EUR: another Mobile Banking upgrade allows our clients to make transfers and payments – in EUR – between their EUR accounts and their LBP or USD accounts during foreign-exchange trading hours, currently set from 8:00 am to 5:00 pm, Monday to Friday;
- For even Happier Couples: our new Wedding Portal, accessible through both Mobile Banking and ByblosBank.com, allows any customer to use their card to make gift payments to the newlyweds from wherever they happen to be;
- Improved access for the visually impaired: we introduced new features that make it easier for the visually impaired to use Byblos Bank's ground-breaking Mobile Banking Application;
- New Push Notification Service (PNS) for Mobile Banking App users: with support for images, videos, and deep-linking, PNS gives Byblos Bank yet more ways to stay in contact with its customers;
- Instant Issuance of credit cards: all Byblos Bank branches gained the ability to instantly issue credit cards – both Visa and Mastercard brands – in 2018, following a similar step with debit cards in 2016. The convenience of being able to receive and activate a new credit card so easily has been a huge hit among our customers, resulting in significantly improved customer experience and satisfaction;
- New Retail Business Segment: the new segment targets retail business clients with a full selection of tools – including Cash Management, Points of Sale, eCommerce, Cards, and many other products that address their particular needs;
- New Business Process Management (BPM) software for Auto Loans goes live at all branches: BPM automates all of the processes relating to Auto Loans, including document management and safeguarding, credit scoring, Debt Burden Ratio (DBR) calculation, and file processing, among others.

The effect of the system is to streamline the process, shifting both speed and efficiency into higher gears, and further improvements are already in the pipeline;

- USD 20 million in extra financing made available for Lebanese business: under its 2017 agreement with the SANAD Fund for Micro, Small, and Medium Enterprises (a Luxembourg-based development lender), Byblos Bank was able to extend an additional USD 10 million in Small Business Loans and Kafalat Loans, as well as a further USD 10 million to Middle Market borrowers;
- Launching of second phase collection program for Public Corporation for Housing (PCH): Byblos Bank was the first bank to collaborate with the PHC to automate the collection of second phase payments from clients, helping the state housing agency to better manage and control its cash flow.

COMMERCIAL BANKING

Helping our partners to ride out the storm

The economic slowdown continued throughout 2018, affecting businesses throughout Lebanon and across sectors. Despite the difficult operating environment and the tightening of its credit underwriting policies, the Commercial Banking Division continued its support for its clients via numerous measures, helping them to ride out the storm. In many respects, Byblos Bank's emergence as a market leader has paralleled the remarkable journey of Lebanon's business community: through good times and bad alike, our experience and expertise have been helping Lebanese companies to reach their goal for generations.

Lebanese history has regularly heaped enormous challenges on the country's economy, but Lebanese business always manages to come back stronger. And for some involved in international trade or other commercial activities outside the country, the experience has actually given them a clear competitive advantage in markets which exhibit red tape, difficult legal environments, weak infrastructure, and political instability. Byblos Bank has actively worked to acquire a full set of competencies that can help any company make the most of its business, including cross-border activities.

Apart from world-class products and services – which are reviewed constantly to make sure they meet the needs of our customers and the demands of the markets in which they operate – our approach also features teams of professionals specialized in key sectors like manufacturing, trade, real estate, construction, and project finance.

The Division's support for Lebanese companies has always been key, and in 2018 we continued to do so in a number of different ways, including:

- Signing of a fifth Global Loan Agreement with the European Investment Bank EIB), which will make some EUR 200 million in credit available for SMEs and mid-cap companies in Lebanon operating in numerous sectors, among them education, energy, healthcare, industry, information technology, services, telecommunications, tourism, and various other knowledge-based industries. The agreement is one of several with the EIB since 2005, yet another indicator of the confidence placed in Byblos Bank by multilateral financial institutions;
- On-lending to SMEs some EUR 100 million in EIB funds and USD 20 million in SANAD funds, under agreements signed in in 2017, as well as supporting environmentally responsible energy conservation projects via the USD 25 million deal signed with the Green for Growth Fund (GGF) in 2017;
- Being selected as one of the five intermediate banks to on-lend Lebanon Energy Efficiency & Renewable Energy Finance Facility (LEEREFF) Facility of EUR 80 million with interest rates subsidies provided by BDL and free technical assistance provided by an international team of engineers, financed by the European Union. LEEREFF is a dedicated credit line for companies who wish to invest in sustainable energy including renewable energy, energy efficiency and green building (commercial).
- Providing our clients with a full range of trade finance products, including Letters of Credit (L/C), their confirmation, Letters of Guarantee, Discounts of L/Cs, Post-financing of L/Cs, and post-export trade loans at competitive rates supported by our correspondent banks; and
- Continuing to upgrade Corporate Internet Banking, including the addition of new features and expansion of its rollout.

CAPITAL MARKETS

An indispensable player

On the Treasury and Capital Markets side, many of the same conditions that contributed to instability in 2017 remained unchanged in 2018, and some actually grew worse. This resulted in downward pressure on several fronts, but the Bank's conservative approach meant that we were fully prepared to protect both our market share and the interests of our customers.

Byblos Bank continued its traditional role as liquidity provider, particularly in the LBP interbank market, exerting a stabilizing influence on the Lebanese economy. We also lived up to our reputation for strong across-the-board liquidity by meeting all of our clients' hard-currency needs, and this despite a series of rumors and exaggerations that spooked the currency markets in the latter part of 2018. In addition, our Capital Markets traders continued to provide full brokerage services to help our clients manage their portfolios of bonds, equities, and derivatives, whether on the local market or international ones. We also provided our usual highly effective hedging tools, helping our customers to manage their holdings of commodities and foreign exchange.

PRIVATE BANKING

Making the best of a difficult year

The past year carried considerable challenges for our Private Banking clients, including not just deteriorating political and economic situations in Lebanon, but also a global market downturn in the second half. Despite these hurdles, Byblos

Bank was able to retain its market position in all of the most important categories – clients, assets under management, and profitability.

Although there was no sharp outflow of capital, the value of our clients' securities portfolios was diminished by the rout in both local and international equities, as well as local bonds; this was offset by a marked increase in client deposits.

The Private Banking Department also laid the groundwork for significant increases in its capabilities and competitiveness by beginning to implement a restructuring plan. Several steps toward these goals were taken in 2018, including the recruitment of new talent, the adoption of specialized computer software, and a remodeling of the Department's offices.

ECONOMIC RESEARCH

Milestone for a crucial service to the Bank – and to the country

January 2018 saw the Byblos Bank Group celebrate "10 Years of Excellence in Economic Research". The milestone constituted the celebration of a vision, not just of a technical achievement. As such, the Group celebrated the vision of the Group's Chairman, and of the Bank's Board of Directors and Management to invest in a long-term project that has yielded concrete results, not just for Byblos Bank but for the Lebanese economy. Indeed, a key mission of the Economic Research and Analysis Department at Byblos Bank is to contribute to the economic debate in Lebanon and to raise the transparency level of the Lebanese economy through a series of indices and weekly research publications whose readership has rapidly increased, locally and abroad, especially among the Lebanese Diaspora. As a result, these resources now guide businesses, investors, and policymakers because they deliver reliable facts and figures that help them make sound decisions.

FOREIGN BANKING UNITS

Retooled, revamped, resurgent

The Foreign Banking Units Division started 2018 in the midst of an overhaul of foreign entities that began in 2017; it ended the year with those subsidiaries having posted their best collective results in a decade. Net income generated by consolidated foreign entities was 20% higher than in 2017, and this despite the challenging environments in which we operate and all while maintaining the highest standards of internal controls, as well as strict compliance with local regulations and international requirements.

The reorganization continued throughout 2018, with the Division taking a holistic view of Byblos Bank's foreign operations. Each entity's overall needs, performance, and environment were thoroughly examined, helping the Division to address decisive aspects such as key employees, new products, and geographical expansion plans. Following the rotation of senior expatriate managers in 2017, we followed up in 2018 by reinforcing key teams at all entities, giving them the assets they need to meet the challenging targets that have been set.

Byblos Bank Europe was particularly active during 2018, carrying out an ambitious reorganization aimed at tailoring BBE's capabilities to its future business plans. This included the acquisition of a larger and more modern facility to house BBE's headquarters in Brussels, as well as the recruitment of new talent to fill recently created positions. In turn, these and other moves supported the introduction of new services aimed at tapping new market segments, improving both business and profitability while diversifying our sources of income.

New products and services for our entities in Armenia and Cyprus were also developed during 2018, with introduction scheduled for the current year. In addition, we continue to develop our geographical exposure: two new branches will open in Armenia during 2019, a new location is planned for Iraq the following year, and work is ongoing to move our Cyprus operation into new premises.

In support of these and other undertakings, the Division also continued to manage interactions between the foreign entities and Headquarters in Lebanon, as per its agreements with each. We conducted numerous field visits to branches, representative offices, and subsidiaries in 2018, all part of efforts to a) ensure continuity in key positions in the event of lengthy absences; b) define, prevent, and/or resolve pending issues; c) enhance processes to deliver improved service; and d) keep staff members abreast of all new procedures and practices.

Going forward, the Foreign Banking Units Division will continue its oversight and supervision of Byblos Bank's presence outside Lebanon, focusing on effectiveness and efficiency improvements that will yield enhanced profitability for the Group.

HUMAN RESOURCES

Managing our most important assets

Group Human Resources is committed to promoting leadership and expertise that ensure quality and excellence built on Byblos Bank's core values. HR strictly observes corporate policies and initiatives in fulfilling its responsibilities for talent management, employee learning and training, recruitment, compensation, and employee engagement, with the purpose of helping the Bank to achieve its business objectives.

TALENT ACQUISITION

In line with its policy of building and maintaining a pool of candidates from all levels of seniority and expertise, HR worked diligently in 2018 to enhance its talent acquisition processes. HR employs multiple tactics to identify, attract, and hire the best talent with the necessary competencies, from leveraging the Bank's online channels to collaborating with universities and their alumni.

Byblos Bank's talent acquisition mission also revolves around providing hands-on experience to university students through its comprehensive Internship Program. Interns are exposed to the banking industry, regulations and operations, and get to acquire interpersonal skills and competencies, such as communication, negotiation, and customer service, which help them succeed in their future career paths. During summer 2018, more than 120 interns from various universities had the opportunity to put these competencies into practice in real-life situations at our branches, and to actively participate in our Best Performing Intern Competition. At the end of the internship season, the Bank held a ceremony at its Headquarters, during which the winners were rewarded with prizes from Byblos Bank's card loyalty program.

HR also rolled out its new Onboarding Program, which enhances employee experience and engagement by providing additional support and follow-up to all new recruits, from their joining date until confirmation.

Overall, HR successfully recruited more than 120 new employees – evenly split between women and men – in 2018, helping divisions and branches to meet their staffing needs with the right mix of talents and aptitudes. We were even more active on the level of existing employees, managing more than 420 lateral and upward movements by matching our internal vacancies with each individual's skills and career development progress.

TALENT MANAGEMENT

HR boosted several of the Bank's key Performance Management processes in 2018, including the Balanced Scorecard approach, which ties corporate business goals with employees' individual ones. The upgrade consisted of a full review of the Scorecards for all positions, which were then updated on the system, making the process more accurate, more unbiased, and more transparent in its linking of job performance with career and other rewards.

Group Human Resources continued to use dedicated assessment centers to identify best-fit employees for specific positions. We also regularly update our pool of high-potential employees in order to further develop their skills and competencies, as well as to prepare them for advancement into more challenging roles at the Bank.

In addition, Byblos Bank works continuously to keep its employees fully engaged by offering both formal and informal opportunities for them to express themselves, participate in the Bank's internal activities and events, and lend support for communities and NGOs. In 2019, HR also plans to carry out a more developed version of the Employee Engagement Survey to enhance employee experiences at the Bank.

The Bank also seeks to instill a well-balanced work culture in all employees, so in 2018 we conducted a Culture Survey based on the Grid methodology adopted in recent years. The results will tell HR a lot about employees' suggestions and perceptions on such matters, helping us tailor action plans to boost transparent communication and enhance interpersonal relationships among team members.

LEARNING AND DEVELOPMENT

Byblos Bank is a big believer in having strong learning and development programs in the workplace to expand the skills and knowledge base of all employees, which improves performance, enhances engagement, and helps the Bank maintain its competitive position in the market. For this purpose, our ByblosWay Training Academy continues to tailor comprehensive programs, facilitated by highly qualified internal trainers from different departments, to cover all employees' functional training needs.

In addition, HR always strives to keep pace with the rapid development of technology. In 2018, this policy was demonstrated by adoption of a new e-learning tool, the Temenos Learning Center Engine (or TLC), as an alternative mechanism for classroom training on system-related subjects. This allowed the Bank to shift some types of training from conventional live training sessions to a more flexible and versatile learning system. In this regard, ByblosWay launched technical trainings via TLC for the automation of processes, starting with the new Business Process Management software, and developed the required learning paths to cover all of the new features of the core banking system upgrade scheduled to be introduced in 2019.

EMPLOYEE BENEFITS

Byblos Bank understands that in today's demanding market, a substantial benefit package is crucial to attracting and retaining the best available talent. Hence, we continually leverage our benefits and compensation mechanisms to improve the welfare and satisfaction of our employees.

The Bank rewards employees for their efforts by providing 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. Among the highlights in 2018 was an increase in the education allowances for employees, underscoring both our commitment to our employees' wellbeing and our belief in the importance of education.

Also in 2018, HR began the rollout of a wide-ranging incentive scheme that is tightly linked to performance and encourages commitment to increase productivity in achieving objectives. In addition, we are in the process of upgrading the Payroll System so that it can be smoothly integrated with the Human Resources Management System (PeopleSoft).

In addition to these and other business activities, 2018 also saw HR start designing a new sustainability initiative that will help the Bank and its employees to play larger roles in the battle against climate change. The initiative, which is being designed in coordination with CarPolo, a community-based mobile application that facilitates carpooling, will help more employees to share the ride to work. When the plan goes live in 2019, Byblos Bank will therefore be contributing to reducing the number of cars on the road, lowering greenhouse gas emissions and other forms of air pollution.

COMPLIANCE

During 2018, Group Compliance maintained its focus on implementing and supporting the Bank's compliance program, mitigating the risks of non-compliance with laws and regulations in any of the jurisdictions in which the Bank operates. Byblos Bank's commitment to compliance extends across all of the Bank's activities, branches, and subsidiaries without exception. The diligence with which we design and conduct our compliance policies and practices stems from our determination to align our standards with international industry practices as implemented by our correspondent banks.

Accordingly, Byblos Bank employs the most up-to-date systems and processes to identify and block money laundering, terrorism financing, sanctions violations, and other illicit activities. In keeping with this by-the-book approach, the Bank has developed a world-class armory of compliance policies, procedures, and systems. Operating such a comprehensive system relies on a variety of standing policies and procedures, including:

- Clear strategies set at the Board of Directors level, and oversight exercised by its senior management;
- A robust compliance culture, based on a combination of corporate values, individual attitudes and competencies, and high levels of integrity, commitment and determination to abide by the Bank's vision, mission, strategy, policies and procedures;
- Strict onboarding requirements, including carrying out due diligence and employing a risk-based approach when deciding whether or not to accept a new business relationship. Furthermore, the Bank's policies restrict the establishment of accounts for certain customer profiles deemed to be high-risk, and under no circumstances will we offer one-time services to "walk-in" customers who do not maintain a relationship with the Bank;
- Constant monitoring of accounts for transaction patterns that deviate from expected activity, or from behavior considered normal for a customer or category of customers, and raising cases of unusual or suspicious transactions with the relevant local authorities;
- 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; and
- Intensive year-round training for the Bank's staff, with particular emphasis on techniques relating to anti-money laundering measures, and ensuring full awareness of the Group's obligations under various sanctions regimes and international taxation rules.

FINANCIAL LITERACY

'Fakker Maliyan'
Launched in 2015

4 main topics:
financial planning, banking, growing a business, and understanding the economy

120
episodes

2,464
installments aired* after LBCI's evening news broadcast and during late-night news bulletins

450,000
people reached on average per day

** As at 30 April 2019*

MoneySmart Boot Camps
Launched in 2017

8
boot camps held in Beirut, Saida, the Shouf, Tripoli, Tyre, and Zahle

12
Byblos Bank volunteers

18
speakers

300
instruction hours

565
participants aged 18-25

PHOTOGRAPHY

Byblos Bank Award
Launched in 2012

7
winners named and rewarded with expert mentoring programs

7
solo exhibitions of winners' works at Byblos Bank Headquarters, all backed by special catalogs and media campaigns

7
juries of world-famous authorities on photography

75
finalists exhibited at BEIRUT ART FAIR

600+
photographers applying

4,000+
photos submitted

'On Photography in Lebanon'
Released in 2018

1st
of a kind book about the history of photography in Lebanon, published by Kaph Books

40
high-caliber contributors

380
photographs produced between the end of the 19th century and 2018

ENVIRONMENT

Byblos Bank/Shouf Biosphere Reserve Bio-Corridor
Launched in 2013

2
isolated forests brought together

4
parties working together: USAID, the Lebanese Reforestation Initiative, the Shouf Biosphere Reserve, and Byblos Bank, with the support of local communities and municipalities

10,720
seedlings of other native species planted

14,980
cedar seedlings planted

440,000
square meters of habitat reforested

COMMUNITY

'Reghem Kel Chi'
Launched in 2015

1,946
episodes aired* during MTV's flagship evening news broadcast, with re-plays during the morning and afternoon news programs

225,000
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 30 April 2019*

'Min 3inna'
Launched in 2018

96
episodes of "From Our Regions" aired* during Al Jadeed's main evening news broadcast, with re-plays during the afternoon news program

96
small projects carried out in less high-profile regions of Lebanon, then highlighted for all to see

335,000
people reached on average per day

** As at 30 April 2019*

Local Support

3
Hospitals

4
Professional Orders

25
Clubs

35
Municipalities

100
Schools and Universities

212
Civil Society Groups

2nd
revitalization project, following completion of renovation works on Jbeil Souks Façades

30
buildings brought back to life on Batroun's main street

35
residential units

137
commercial spaces
(shops, offices, clinics, etc.)

Dr. François Bassil Medical Building at Holy Spirit University of Kaslik
Inaugurated in 2018

EDUCATION

HERITAGE

Renovation of Batroun Souks Façades
Launched in 2018

5th
major contribution by the Bank to development of academic facilities in Lebanon, following donations for the construction of new buildings at Notre-Dame University (1999), Semaan Melkan Bassil Hall at the Lebanese American University's Jbeil campus (1999), AUB Byblos Bank Art Gallery at American University of Beirut (2009), and Dr. François Bassil Auditorium at Saint Joseph University's Innovation and Sports Campus (2011)

50+
new medical graduates on average every year

ANNUAL REPORT 2018

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE STRUCTURE

In keeping with the best practices of modern corporate governance, the primary responsibility of the Board of Directors ("the Board") of Byblos Bank S.A.L. ("the Bank") is to maximize long-term share value and transparency for the Bank's shareholders. The Board monitors the performance of the Bank and its senior management, and provides advice and counsel to senior management. The Board also supervises the activities of those subsidiaries in which the Bank owns, directly or indirectly, the majority of the capital, the majority of the voting rights, and/or the majority of the power of management. Together, the Bank and these subsidiaries form the Byblos Bank Group.

More specifically, the Board oversees Enterprise Risk Management and the Corporate Governance Structure; reviews, at least annually, the Bank's long-term strategy; approves its business plan and operating budget; reviews and monitors the processes, controls, and procedures in place to maintain the integrity of the Bank's accounting and financial records and statements; ensures proper succession planning for directors and key executives in order to secure the continuity of business activities; considers the performance of the Chairman – General Manager; and assesses, collectively and individually, the performance of the Board and its committees.

Driven by its commitment to keep pace with the evolution of modern corporate governance practices and regulations, in 2017 the Bank adopted an updated version of its Corporate Governance Guidelines, which describe the principles and practices that the Board should follow in carrying out its responsibilities. These Guidelines supplement the Bank's bylaws, as well as various resolutions and policies previously adopted. The Board reviews these guidelines and their annexes at least once a year, allowing it to make relevant, necessary, and/or otherwise appropriate changes. As part of its review, the Board may also compare current practices to the expectations of shareholders.

GOVERNANCE FRAMEWORK

The Bank is governed by a Board of Directors consisting of up to 12 members (currently 10 members). This number is determined, from time to time, by the Board based on several factors, including: (a) resignations, retirements, and the availability of appropriate, qualified candidates; (b) ensuring that the Board has a sufficient number of directors to facilitate active discussions and collective decision-making; (c) ensuring that the Board has a sufficient number of directors to fulfill committee assignments, and to provide an appropriate mix of continuity, diversity, experience, and skills for the Board and its committees to perform their responsibilities in light of regulatory requirements and current business needs; and (d) commitments made to add directors to the Board in connection with mergers and acquisitions.

The Board has established a Board Audit Committee, a Board Risk Committee, a Board Compliance Committee, and a Board Remuneration, Nomination and Corporate Governance Committee to assist in fulfilling its functions. The scope of work of the Board committees covers the Bank and all its branches and affiliates in Lebanon and abroad.

The mission of the Board Audit Committee is to assist the Board in (i) the oversight of the Bank's financial reporting and internal controls related to finance and accounting; (ii) the appointment, compensation, and oversight of the independence and performance of the Bank's independent auditors; (iii) the oversight of the Bank's internal audit functions and audit plans; (iv) the review and approval of Related Person Transactions; and (v) the review and approval of the policies of the Bank.

The mission of the Board Risk Committee is to assist the Board in (i) determining the Risk Management Appetite of the Bank and ensuring that the Bank is operating within the approved Risk Appetite; (ii) monitoring the risk profile for all types of risks; (iii) reviewing the Bank's risk policies; and (iv) conducting and/or authorizing investigations into any matter within its scope and responsibilities.

The mission of the Board Compliance Committee is to assist the Board in (i) fighting money laundering and terrorist financing, understanding the related risks, and making the appropriate decisions in this regard; (ii) protecting the Bank from other compliance-related risks; and (iii) overseeing the Bank's compliance with applicable laws, policies, and regulations where failure of compliance may result in material financial losses and/or damage to the Bank's reputation.

The mission of the Board Remuneration, Nomination and Corporate Governance Committee is to assist the Board in (i) reviewing and approving the Bank's general compensation policy; (ii) providing overall guidance for the Bank's executive compensation and benefit programs; (iii) identifying and making recommendations, in conjunction with the Chairman – General Manager, to the Board regarding candidates for service as directors, members of Board committees, or members of senior management; and (iv) overseeing the Bank's corporate governance practices.

The mission of the Executive Committee, acting under the supervision of the Chairman – General Manager, is to assist the Board by (i) ensuring the execution of all strategic directives stipulated by the Board; (ii) proposing new strategic projects and plans to the Board; and (iii) promoting management practices that comply with the Bank's core values.

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 and Byblos Invest Holding Luxembourg. 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, 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

Byblos Bank seeks to continuously attract, engage, and retain the qualified human capital required to achieve the Bank's short-, medium-, and long-term business objectives. In light of this purpose, Byblos Bank has designed its Remuneration Policy to correlate operational performance with all types of rewards, while also taking into account the development and wellbeing of all employees.

The Board of Directors has approved the Remuneration Policy with regard to the Bank's compensation system, which continues to be in line with prevailing market practices, applicable principles of corporate governance, and the policies and processes of sound risk management. Through the Remuneration Policy, management promotes a work environment that is motivating, sustainable, and focused on ensuring that the performance and development of our employees are in lockstep with the Bank's business goals, its corporate values, and the role it seeks to play in the communities it serves.

The Remuneration Policy follows a strategy designed for fairness, responsiveness, and accurate reflections of merit, tying salaries, bonuses, and other rewards ever-more closely with employees' job positions and performance outcomes. In order to link variable rewards to performance outcomes, the Bank has adopted a balanced scorecard for each position, which aligns employee performance with the Bank's overall objectives – and makes sure that the distribution of these rewards is transparent, unbiased, and performance-based.

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

The Bank discloses its personnel expenses 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 2018 amounting to LBP 211.3 billion (or approximately USD 140.2 million). The Annual Report also discloses all salaries, bonuses, profit-sharing, attendance fees, and other short-term benefits to key management personnel, which for 2018 amounted to LBP 21.6 billion (or approximately USD 14.3 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	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
	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

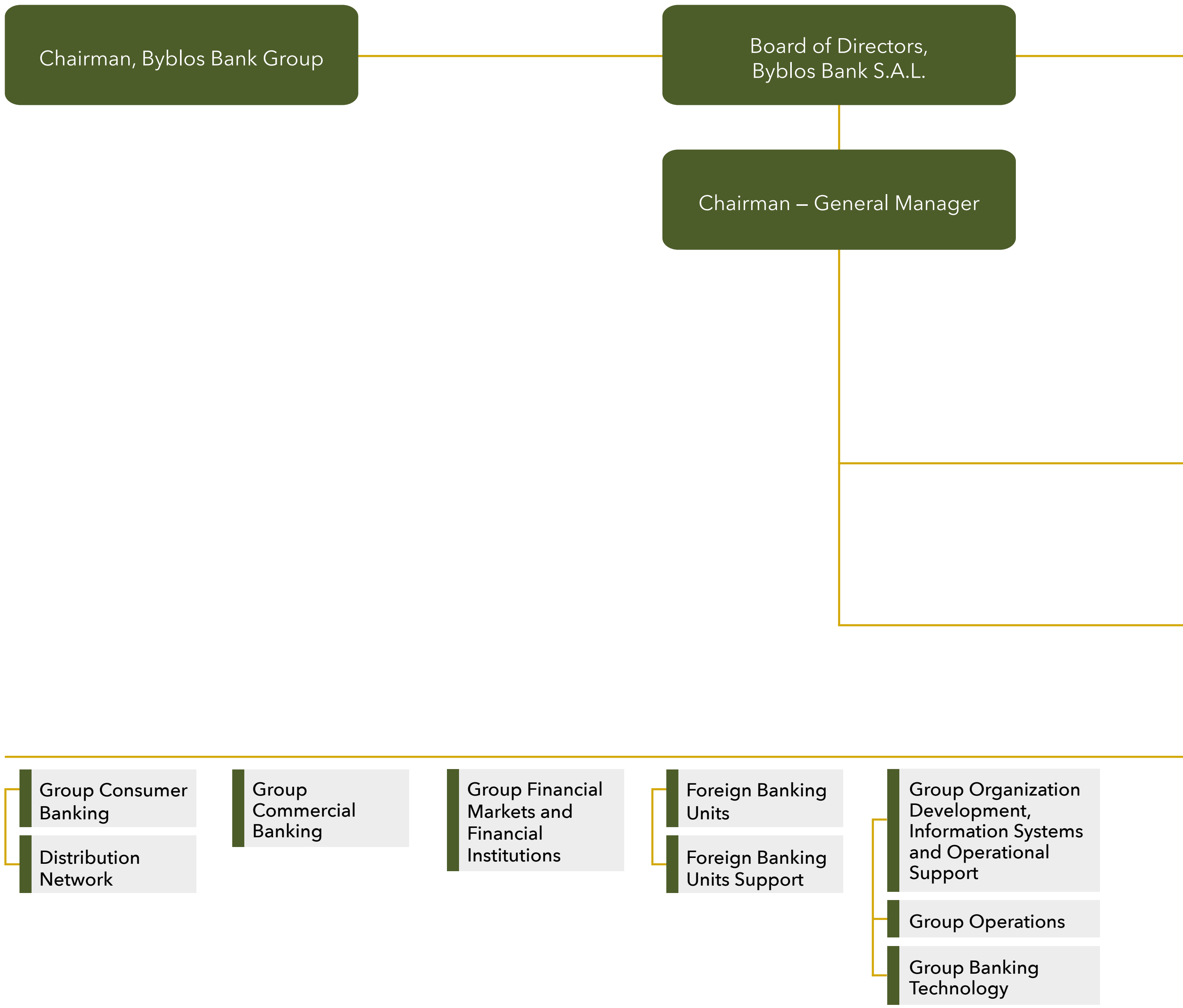
INFORMATION SECURITY COMMITTEE

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

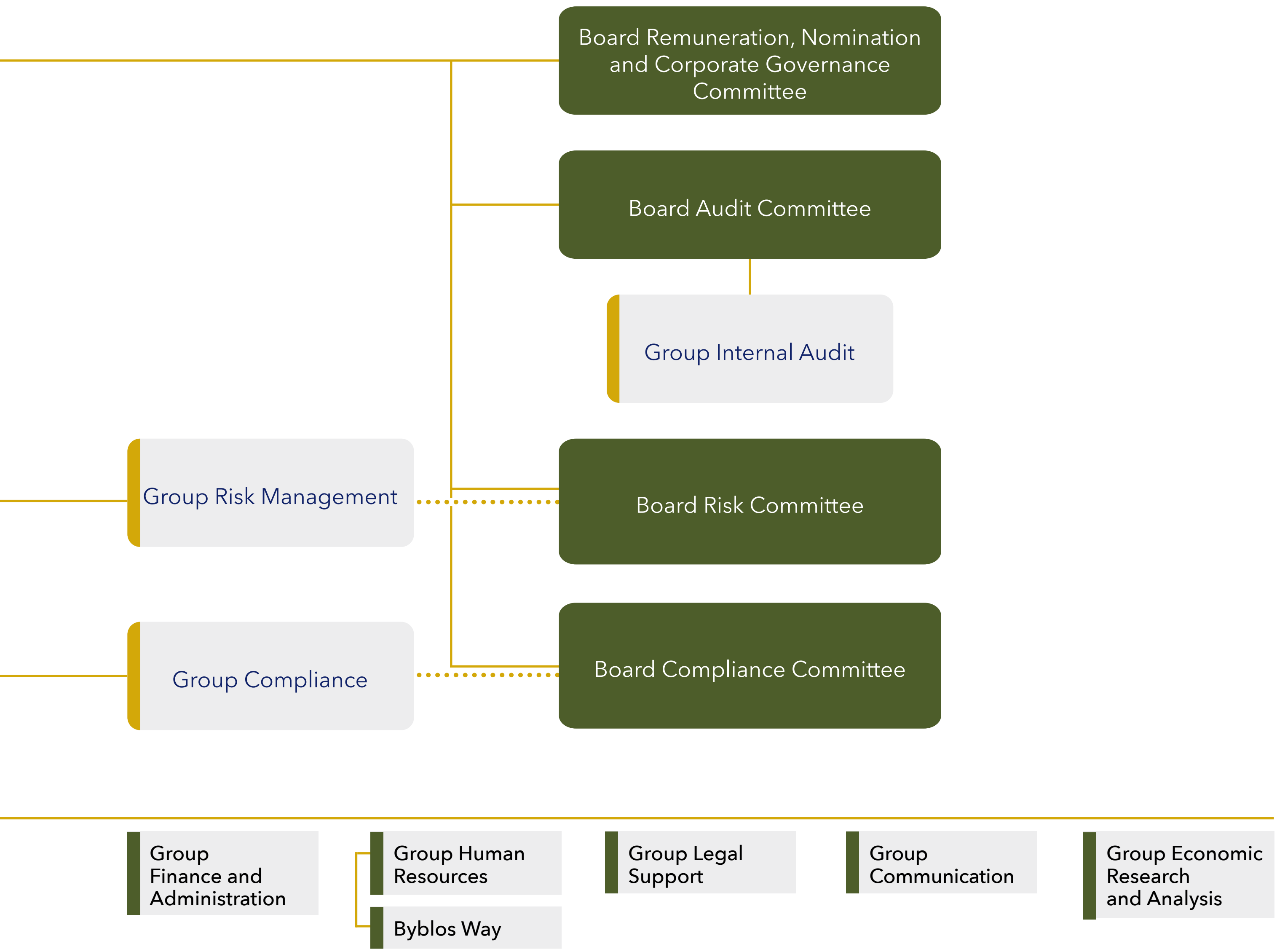
PURCHASING COMMITTEE

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

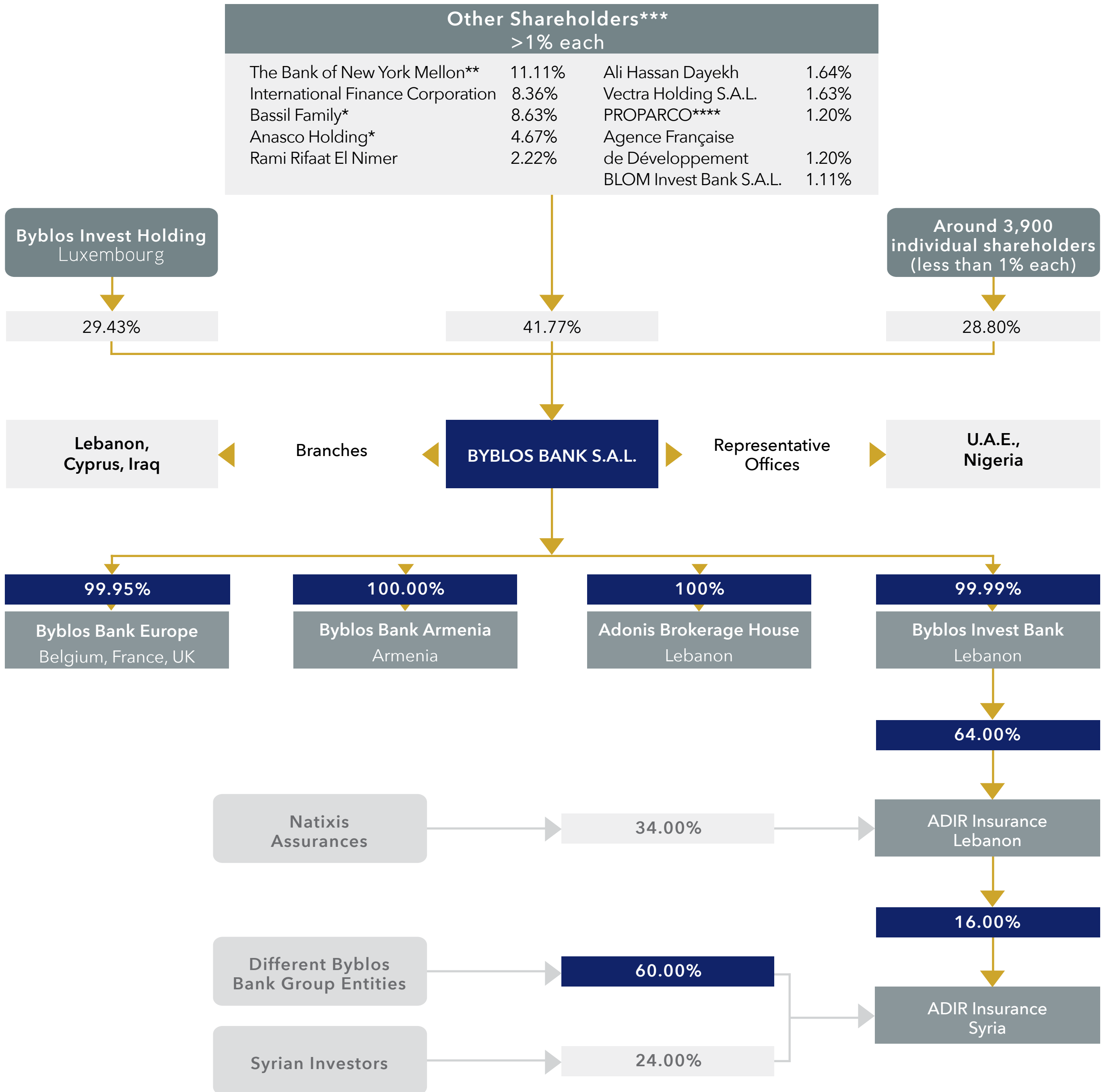
ORGANIZATIONAL CHART



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

ANNUAL REPORT 2018

REVIEW OF FINANCIAL PERFORMANCE

KEY FINANCIAL DATA

	2009	2010	2011	2012	2013
Total assets	13,576	15,288	16,602	17,015	18,485
Customers' deposits	10,286	11,927	12,820	13,384	14,749
Net advances to customers	3,197	3,771	4,008	4,120	4,511
Cash and due from banks (1)	6,179	7,802	9,001	8,917	9,298
Total equity	1,494	1,831	1,852	1,926	1,922
Net book value (2)	827	1,124	1,148	1,181	1,204
Net income	145.6	177.7	179.7	167.3	156.2
Number of domestic branches	75	77	78	77	76
Number of foreign branches and subsidiaries (3)	19	23	24	25	25
Number of ATMs (4)	133	149	165	168	186
Number of employees (4)	2,433	2,719	2,716	2,572	2,526
Market Shares (5)					
Market share in assets	9.80%	9.97%	10.27%	9.91%	10.00%
Market share in customers' loans	8.51%	8.05%	8.00%	8.15%	8.43%
Market share in customers' deposits	9.41%	9.51%	9.66%	9.59%	9.89%
Share Data					
Book value per share in USD (6)	1.95	1.99	2.03	2.09	2.13
Earnings per common share in USD (6)	0.26	0.27	0.25	0.23	0.21
Earnings per priority share in USD (6)	0.29	0.30	-		
Net dividend per common share in USD (7)	0.13	0.13	-	0.13	0.13
Net dividend per priority share in USD (7) (8)	0.16	0.16	0.16		
Dividend payout ratio	58.71%	63.80%	59.62%	64.04%	68.61%
Profitability					
Return on average assets	1.17%	1.23%	1.13%	1.00%	0.88%
Return on average common equity	15.00%	14.03%	12.29%	11.28%	9.80%
Leverage multiplier	10.48	9.38	10.07	10.29	11.21
Interest on earning assets	6.45%	5.91%	5.57%	5.32%	5.15%
Funding cost	4.63%	4.21%	4.00%	3.98%	4.04%
Spread	1.82%	1.70%	1.57%	1.34%	1.11%
Net interest margin	2.25%	2.11%	1.95%	1.72%	1.48%
Cost to income	46.28%	45.54%	43.65%	45.89%	46.24%
Operating expenses to average assets	1.42%	1.47%	1.29%	1.28%	1.18%
Capital Adequacy					
Capital to assets	11.01%	11.97%	11.16%	11.32%	10.40%
Capital adequacy (9)	12.62%	14.75%	14.60%	16.74%	16.04%
Liquidity					
Net advances/assets	23.55%	24.67%	24.14%	24.21%	24.40%
Net advances/customers' deposits	31.08%	31.62%	31.26%	30.78%	30.59%
Customers' deposits/total resources	75.77%	78.01%	77.22%	78.66%	79.79%
Liquid assets	72.42%	71.85%	72.48%	72.56%	72.16%
Assets Quality					
Loan loss provisions (10)/customers' loans	3.64%	3.45%	4.04%	5.30%	5.82%
Non-performing loans/customers' loans	2.63%	2.38%	3.02%	5.28%	4.85%
Loan loss provisions (10)/non-performing loans	134.10%	144.46%	132.77%	99.62%	119.77%
1 USD =	LBP 1,507.5	LBP 1,507.5	LBP 1,507.5	LBP 1,507.5	LBP 1,507.5
Number of shares	423,136,280	565,515,040	565,515,040	565,515,040	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 Sulaymaniyah 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 S.A.L. in Baghdad, Basra, Erbil, and Sulaymaniyah in Iraq and Limassol in Cyprus.
(5) Market Share is based on all commercial and investment banks operating in Lebanon.
(6) Based on the number of shares outstanding at the end of the period.

KEY FINANCIAL DATA

	2014	2015	2016	2017	2018	CAGR
Total assets	19,035	19,870	20,779	22,675	25,007	6.2%
Customers' deposits	15,715	16,637	17,102	18,002	18,467	4.6%
Net advances to customers	4,728	4,932	5,179	5,449	5,442	3.8%
Cash and due from banks (1)	9,468	10,119	11,443	13,190	15,647	11.0%
Total equity	1,963	1,991	2,083	2,160	2,203	2.8%
Net book value (2)	1,246	1,271	1,384	1,456	1,499	4.5%
Net income	175.5	161.5	165.3	170.1	164.1	1.0%
Number of domestic branches	78	80	86	86	92	3.9%
Number of foreign branches and subsidiaries (3)	24	25	11	11	10	-16.7%
Number of ATMs (4)	203	219	203	222	242	5.4%
Number of employees (4)	2,531	2,544	2,347	2,485	2,455	-0.6%
Market Shares (5)						
Market share in assets	9.90%	9.88%	9.51%	9.34%	9.16%	-1.7%
Market share in customers' loans	8.27%	8.19%	8.27%	8.24%	8.20%	-0.6%
Market share in customers' deposits	10.01%	10.15%	9.81%	9.87%	9.74%	-0.3%
Share Data						
Book value per share in USD (6)	2.20	2.25	2.45	2.57	2.65	4.5%
Earnings per common share in USD (6)	0.24	0.21	0.22	0.24	0.22	1.5%
Earnings per priority share in USD (6)						
Net dividend per common share in USD (7)	0.13	0.13	0.13	0.13	0.13	0.1%
Net dividend per priority share in USD (7) (8)						
Dividend payout ratio	61.07%	66.36%	64.82%	65.64%	68.04%	
Profitability						
Return on average assets	0.94%	0.83%	0.81%	0.78%	0.69%	
Return on average common equity	11.07%	9.48%	9.21%	9.35%	8.55%	
Leverage multiplier	11.28	11.59	11.52	12.07	13.02	
Interest on earning assets	5.26%	5.33%	5.43%	5.49%	5.90%	
Funding cost	4.19%	4.21%	4.32%	4.40%	4.81%	
Spread	1.07%	1.12%	1.11%	1.09%	1.10%	
Net interest margin	1.43%	1.47%	1.49%	1.48%	1.49%	
Cost to income	46.57%	46.84%	33.50%	50.98%	49.93%	
Operating expenses to average assets	1.15%	1.17%	1.12%	1.04%	0.97%	
Capital Adequacy						
Capital to assets	10.31%	10.02%	10.02%	9.52%	8.81%	
Capital adequacy (9)	16.65%	17.69%	18.80%	17.77%	18.20%	
Liquidity						
Net advances/assets	24.84%	24.82%	24.93%	24.03%	21.76%	
Net advances/customers' deposits	30.08%	29.64%	30.29%	30.27%	29.47%	
Customers' deposits/total resources	82.56%	83.73%	82.31%	79.39%	73.85%	
Liquid assets	72.29%	72.54%	72.66%	73.27%	75.60%	
Assets Quality						
Loan loss provisions (10)/customers' loans	6.11%	5.01%	3.56%	3.41%	NA	
Non-performing loans/customers' loans	5.05%	4.56%	3.68%	4.02%	3.93%	
Loan loss provisions (10)/non-performing loans	120.67%	109.73%	94.88%	82.59%	NA	
1 USD =	LBP 1,507.5	LBP 1,507.5	LBP 1,507.5	LBP 1,507.5	LBP 1,507.5	
Number of shares	565,515,040	565,515,040	565,515,040	565,515,040	565,515,040	

(7) Net of income tax (5% before 2017 and 10% starting 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.

(9) Capital adequacy is calculated based on Basel II and applicable BDL circular(s) starting Dec-07 and Basel III and applicable BDL circular(s) starting Dec-11.

(10) Includes specific and collective provisions, as well as reserved interest. Not applicable to year 2018 after the application of IFRS9 noting that credit-impaired loans coverage (allowance for ECL Stage 3) reached 57.56% as at end December 2018 compared to 54.10% as at end December 2017.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The present statement should be considered part of Byblos Bank's Annual Report for the year 2018, and should be read in conjunction, specifically, with the responsibilities of the auditors set out in their report on pages 91 to 94.

The Bank's directors are responsible for the preparation of the Annual Report, which is done according to the International Financial Reporting Standards (IFRS), 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 and present financial statements, which form the core of the Annual Report, on an annual basis and as per IASB procedures. In so doing, the directors understand and accept that they are required to:

- Select 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 directors' responsibility to maintain proper accounting records that contain reasonably accurate measures of the Group's financial position at any given time, and which allow the directors to ensure that the Annual Report complies with all 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 aforementioned responsibilities in mind, the directors of Byblos Bank hereby confirm that, to the best of their knowledge:

- The Financial Statements contained in Byblos Bank's Annual Report for 2018 were compiled in accordance with International Financial Reporting Standards, and provide a fair and accurate picture of the assets, liabilities, financial position, and profits of the Group, as well as the undertakings included in the consolidation take as whole; and
- The Management Discussions and Analysis incorporate an honest appraisal of the Group's development, performance, and position, of the undertakings included in the consolidation taken as a whole, as well as a description of the primary risks and uncertainties to be considered.

The directors are of the opinion that the Annual Report and Statements of Accounts for the year 2018, 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

ANNUAL REPORT 2018

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 2018, the Bank had 2,455 employees, 92 branches in Lebanon, one branch in Cyprus (Limassol), 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 (Amirian and Komitas). 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 in May 2018, Byblos Bank divested its ownership in Byblos Bank RDC S.A.R.L., the Bank's 66.67% owned subsidiary, having one branch in Kinshasa-Gombe, Democratic Republic of the Congo.

The following analysis covers the performance of the Bank during the fiscal year 2018 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 2018, followed by a detailed analysis of the Bank's financial conditions, liquidity, profitability, asset quality, credit risk, and dividend distribution, as well as an overview of the Bank's ratings.

RECENT DEVELOPMENTS DURING 2018

Uncertainties related to the formation of a new government in Lebanon, the lack of reforms, higher taxes and fees, and worsening public finances, as well as inadequate business and investment climates, weighed on economic activity in 2018. They also worsened risk perceptions about Lebanon amid higher global and regional interest rates.

Moreover, in October 2017 the Lebanese government introduced new tax measures and amended several tax articles to fund the public sector wage increase, negatively affecting the profits of banks during 2018.

Faced with alarmist rumors about the supposedly imminent collapse of Lebanon's currency and economy, both the BDL and domestic banks had to increase their efforts to attract foreign currency deposits, limit and reverse outflows of deposits from the banking sector, and address the conversion of LBP deposits to US Dollars. In this regard, the BDL continued its special financial operations with commercial banks, which are designed to attract long-term foreign currency deposits, preserve its stock of assets in foreign currencies, help finance the import bill, and cover the government's debt servicing needs. The BDL's operations also helped absorb market liquidity in Lebanese Pounds in order to prevent any potential speculation against the local currency, expanding the banks' deposits at the BDL by USD 26.8 billion to USD 130 billion as at end-2018.

Despite the challenging domestic and external conditions, the banking sector's deposits continued to increase, albeit at a slower pace and mostly in US Dollars. Private sector deposits increased by USD 5.6 billion, or by 3.3%, in 2018, compared to a rise of USD 6.2 billion, or 3.8%, in 2017. Deposits in foreign currencies rose by USD 7.2 billion, or 6.2%, in 2018, while deposits in Lebanese Pounds decreased by USD 1.55 billion, or 2.9%, in 2018, mostly due to delays in forming a new government and negative rumors that affected depositors' confidence. However, Lebanese expatriates continued to have confidence in the country's banking system, as non-resident deposits increased by USD 2.6 billion, or 7.3% in 2018, the highest such increase since 2013. Furthermore, the climate of uncertainty led to an increase in the dollarization rate of private sector deposits to 70.6% at the end of 2018, up from 68.7% at end-2017.

The interbank rate in Lebanese Pounds was broadly stable, at between 4% and 5%, in the first nine months of the year. However, beginning in October shortages of liquidity in Lebanese Pounds at some banks led the interbank rate to fluctuate, briefly spiking to about 75% in mid-December.

In addition, interest rates on deposits increased amid the competition among local banks to attract deposits in local and foreign currencies, the government's elevated financing needs, and higher global and regional interest rates. As such, the weighted interest rate on deposits in Lebanese Pounds

OVERVIEW OF THE BANK

gradually increased from 6.41% in December 2017 to 8.3% in December 2018, while the rate on US Dollar deposits gradually increased from 3.89% in December 2017 to 5.15% in December 2018.

In parallel, lending to the private sector was negatively affected by limited lending opportunities in the local market, the banks' risk aversion amid the challenging domestic environment, and the rise in interest rates that discouraged customer demand for credit. Also, subdued economic activity in the country weighed on companies' cash flows and reduced their ability to service credit facilities, which made banks more reluctant to lend. In addition, the BDL's interest rate subsidies on mortgages for 2018 were rapidly exhausted early in the year, mostly due to the spike in demand generated by the massive increase in the public sector's wages and salaries. The prevailing conditions in 2018 resulted in a decline of USD 1.3 billion, or 2.5%, in loans to the resident private sector. In contrast, non-resident loans increased by USD 1 billion, or 17.2%, in 2018. The dollarization rate in private sector lending grew from 68.6% at end-2017 to 69.2% at the end of 2018.

FINANCIAL CONDITIONS

ASSETS

ASSET EVOLUTION

Total assets of the Group recorded an increase of 10.3% during the year 2018 to reach LBP 37,698 billion (USD 25,007 million) at the end of December 2018, compared to an increase of 9.1% during the year 2017, and compared to an increase of 11.3% in the Alpha Group of top Lebanese banks. Consequently, the Group's market share by total assets in the Alpha Group stood at 9.56% at the end of 31 December 2018 compared to 9.64% at the end of 31 December 2017.

The main increase in assets was from cash and balances with the Central Bank, which grew by 36.4% (+LBP 4,357 billion/+ USD 2.9 billion). This was partly offset by the decrease in due from banks and financial institutions by 9.7% (-LBP 455 billion/- USD 302 million) and the decrease in the securities portfolio by 5.0% (- LBP 423 billion/- USD 281 million). The increase in assets was funded by the increase in due to Central Banks by 182% (+ LBP 2,496 billion/+ USD 1.7 billion) and the increase in customer deposits by 2.6% (+ LBP 701 billion/+ USD 465 million).

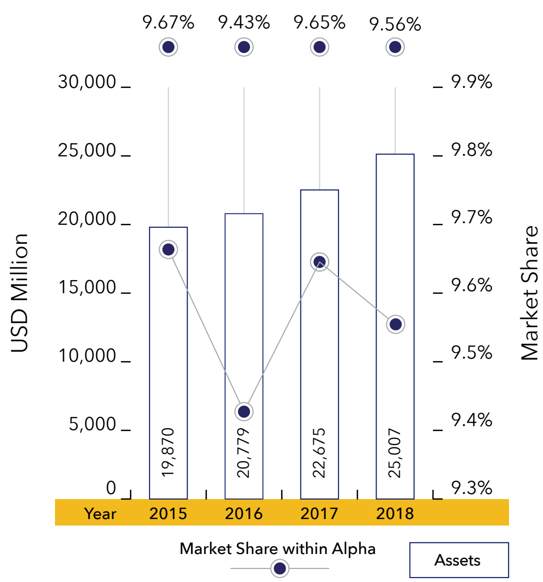
This increase in Central Bank placements and Central Bank borrowings was the result of the Bank's participation in the BDL's financial engineering transactions, mainly repurchase agreement transactions whereby Byblos Bank invested long-term US Dollar placements with the Central Bank, funded either from its own liquidity, the sale of USD financial instruments, or a combination of both.

Against these deposits, the Central Bank granted Byblos Bank advances in Lebanese Pounds for an amount equivalent to 1.25 times the "US Dollar amount" converted into Lebanese Pounds, which proceeds were deposited as collateral in LBP, either with the Central Bank into new Lebanese Pound ten-year pledged deposits or with Lebanese Pound long-term Treasury Bills.

During the period between 31 December 2015 and 31 December 2018, total assets of the Group grew at an average annual compounded rate of 8.0% compared to growth of 8.4% in the Alpha Group, and which was reflected in the Bank's market share by total assets, which slightly decreases from 9.67% at the end of December 2015 to 9.56% at the end of December 2018.

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

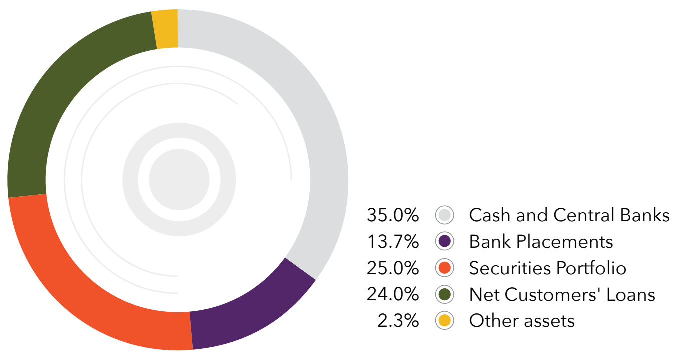
Evolution of Total Assets During Last Four Years



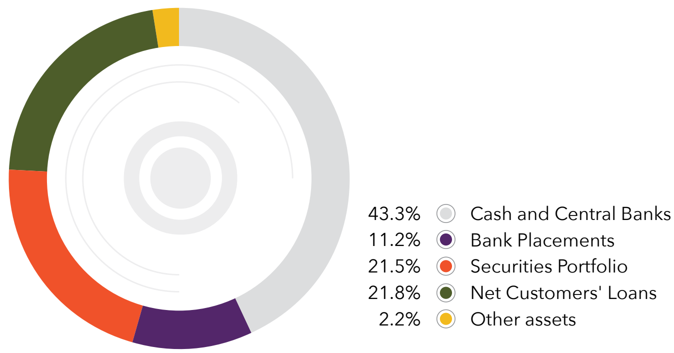
ASSET BREAKDOWN

The charts below show the composition of the Group's assets as at 31 December 2017 and 31 December 2018:

Breakdown of Assets 2017



Breakdown of Assets 2018

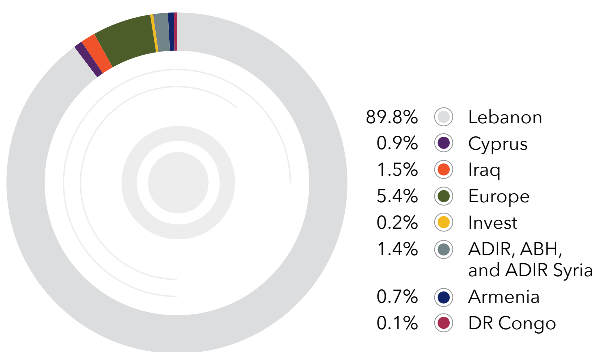


As mentioned in the "Asset evolution" section above, the Bank's participation in the BDL's financial engineering transactions increased the share of Cash and Central Banks from 35% to 43.3% following the Bank's long-term placements with the Central Bank.

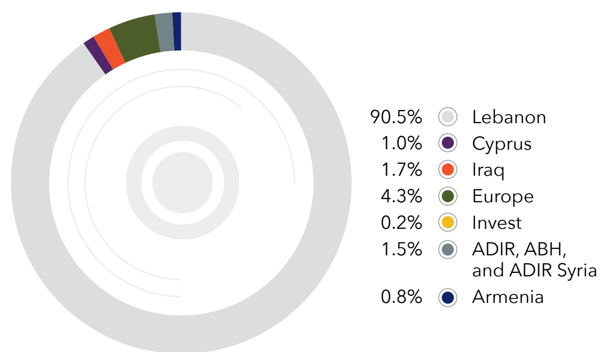
ASSET SPLIT IN THE GROUP

The following charts show the breakdown of assets in the Byblos Bank Group as at 31 December 2017 and 31 December 2018:

Assets Split in Group 2017



Assets Split in Group 2018*



(*) Byblos Bank RDC was divested in May 2018.

As illustrated above, total assets of international subsidiary banks and branches represented 7.8% at the end of the year 2018, compared to 8.6% of total assets as at 31 December 2017.

PRIMARY LIQUIDITY

Byblos Bank's primary liquidity is composed of cash, placements with the Central Bank of Lebanon (including obligatory reserves and both short- and long-term placements but excluding long-term placements held as collateral against repurchase agreement transactions), placements with other central banks, placements with banks and financial institutions, and loans to banks and financial institutions.

As shown below, the Group maintained a high level of liquid assets to meet expected liability maturity requirements. As at 31 December 2018, liquid assets represented 65.4% of customers' deposits compared to 61.4% and 47.9%, respectively, as at 31 December 2017 and 31 December 2016.

As at 31 December	2016	2017	2018
LIQUID ASSETS (LBP Million)			
Cash and Central Bank (*)	8,717,615	11,966,804	13,990,027
out of which cash	249,425	248,598	342,744
out of which obligatory reserves	2,699,441	2,766,381	3,013,951
Banks and Financial Institutions	3,621,495	4,682,980	4,228,385
out of which loans to banks	964,066	754,394	363,633
Total Liquidity	12,339,110	16,649,784	18,218,412
Total Liquidity to customers' deposits	**47.86%**	**61.35%**	**65.44%**

(*) Excluding long-term placements with the Central Bank held as collateral against repurchase agreement transactions.

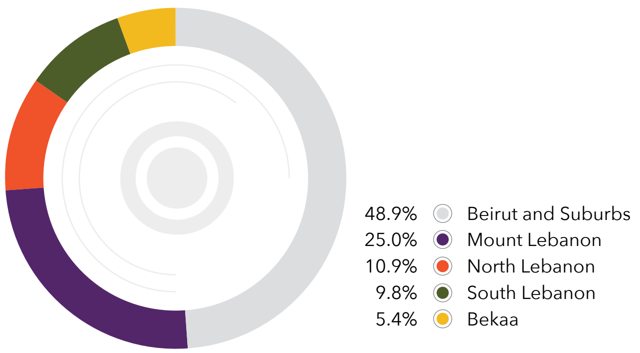
GEOGRAPHICAL DISTRIBUTION OF BRANCHES

Byblos Bank's branch network stood at 92 branches inside Lebanon at the end of 2018, representing 8.0% 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 25% of total Byblos Bank branches at the end of December 2018 compared to just 19.6% in the Lebanese banking sector, and represented 11% of total branches in the Lebanese banking sector operating in Mount Lebanon. On the other hand, branches located in Beirut and its suburbs, numbering 45, represented 48.9% of total Byblos Bank branches at the end of December 2018 compared to 52.6% in the Lebanese banking sector, and represented 8.0% of total branches operating in Beirut and its suburbs.

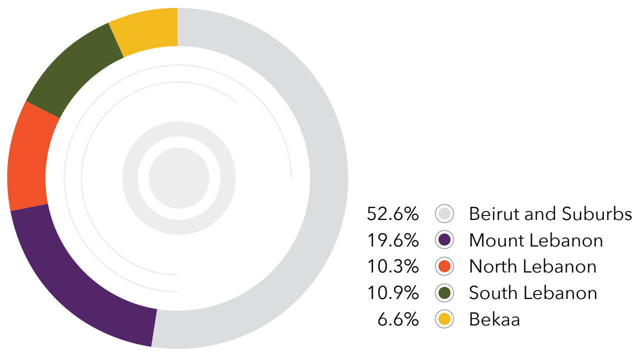
The ten branches located in the North of Lebanon represented 10.9% of total Byblos Bank branches compared to 10.3% in the Lebanese banking sector, and represented 9.1% of total branches of the Lebanese banking sector operating in North Lebanon. In South Lebanon (nine branches) and the Bekaa Valley (five 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 9.8% and 5.4% of total Byblos Bank branches, respectively, compared to 10.9% and 6.6%, respectively, in the Lebanese banking sector.

The charts below show the geographical distribution of Byblos Bank branches in Lebanon as compared to the Lebanese banking sector as at 31 December 2018:

Geographical Distribution of Branches (Byblos Bank Dec. 2018)



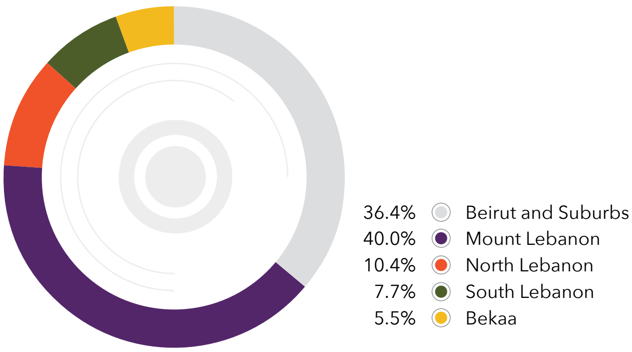
Geographical Distribution of Branches (Sector Dec. 2018)



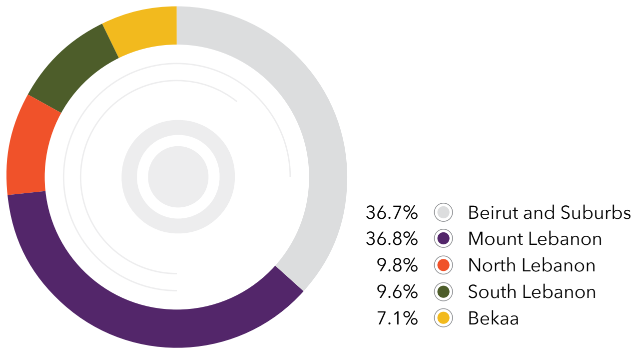
At the end of 2018, Byblos Bank Group's presence abroad consisted of Limassol in Cyprus; Erbil, Baghdad, Basra, and Sulaymaniyah in Iraq (branches of Byblos Bank S.A.L.); Brussels, London, and Paris through our subsidiary Byblos Bank Europe S.A.; and Amiryan and Komitas through our subsidiary Byblos Bank Armenia.

GEOGRAPHICAL DISTRIBUTION OF AUTOMATED TELLER MACHINES (ATMS)

Geographical Distribution of ATMs (Byblos Bank Dec. 2018)



Geographical Distribution of ATMs (Sector Dec. 2018)



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 2016, 2017, and 2018:

As at 31 December	2016		2017		2018	
	LBP Million	%	LBP Million	%	LBP Million	%
Lebanese and other governmental treasury bills and bonds						
Lebanese Treasury Bills in LBP	3,175,980	30.1	2,694,421	31.5	2,698,847	33.3
Lebanese and other governmental bonds in foreign currencies	2,261,682	21.4	2,444,103	28.6	2,203,300	27.2
Bonds and financial assets with fixed income						
Corporate bonds	8,625	0.1	6,425	0.1	7,182	0.1
Corporate certificates of deposit in foreign currencies	33,229	0.3	0	0.0	3,051	0.0
Central Bank certificates of deposit in LBP and foreign currencies	4,910,614	46.6	3,234,592	37.9	3,035,723	37.5
Shares, securities and financial assets with variable income in LBP and foreign currencies	157,780	1.5	160,003	1.9	147,093	1.9
Total	**10,547,910**	**100**	**8,539,544**	**100**	**8,095,196**	**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 timeframe 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.

The following tables set forth a breakdown of the Group's investment securities portfolio, by classification, as at 31 December 2016, 2017, and 2018:

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	61,945			95,835		**157,780**
Corporate certificates of deposit			33,141		87	**33,228**
Total by category	**61,945**	**734,379**	**9,494,393**	**95,835**	**161,358**	**10,547,910**

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	58,126			101,877		**160,003**
Corporate certificates of deposit						**0**
Total by category	**58,126**	**219,607**	**8,032,487**	**101,877**	**127,447**	**8,539,544**

As at 31 December 2018 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	Debt instruments at fair value through OCI	Equity instruments at fair value through OCI	Accrued interest	Total
Central Bank certificates of deposit			2,964,364			71,359	**3,035,723**
Lebanese and other governmental treasury bills and bonds		31,163	4,666,587	131,731		72,666	**4,902,147**
Bonds and financial assets with fixed income			756	6,359		67	**7,182**
Shares, securities, and financial instruments with variable income	58,877				88,216		**147,093**
Corporate certificates of deposit			3,015			36	**3,051**
Total by category	**58,877**	**31,163**	**7,634,722**	**138,090**	**88,216**	**144,128**	**8,095,196**

As per the tables above, as at 31 December 2018, 96.0% of the financial instruments were classified under debt instruments at amortized cost. As a percentage of the Bank's total securities portfolio, Lebanese and other governmental treasury bills and bonds (in both LBP and foreign currencies) was stable at 60.6% as at 31 December 2018, compared to 60.3% as at 31 December 2017 and up from 51.6% as at 31 December 2016. Investments in Central Bank certificates of deposit (in both LBP and foreign currencies) reached 37.5% of the Bank's portfolio as at 31 December 2018, similar to 38% as at 31 December 2017 and down from 46.6% as at 31 December 2016, noting that investments with the Central Bank has shifted to long-term placements following the financial engineering transactions mentioned before. Corporate bonds represented 0.1% of the total portfolio for each of the past three years.

Moreover, as can be seen in the tables above, the Group's securities portfolio has been on a decreasing trend since end-2016, when the total portfolio stood at LBP 10,548 billion (USD 6,997 million), falling to LBP 8,540 billion (USD 5,664 million) as at end-2017 and LBP 8,095 billion (USD 5,370 million) at end-2018.

CUSTOMERS' LOANS

Customers' loans net of allowances for expected credit losses decreased slightly, by 0.1%, during the year 2018 to reach LBP 8,203 billion (USD 5,442 million) at the end of 31 December 2018, compared to growth of 5.2% in 2017, and compared to a decrease of 4.6% in the Alpha Group.
This decrease in loans is affected by limited lending opportunities in the market due to many facts:

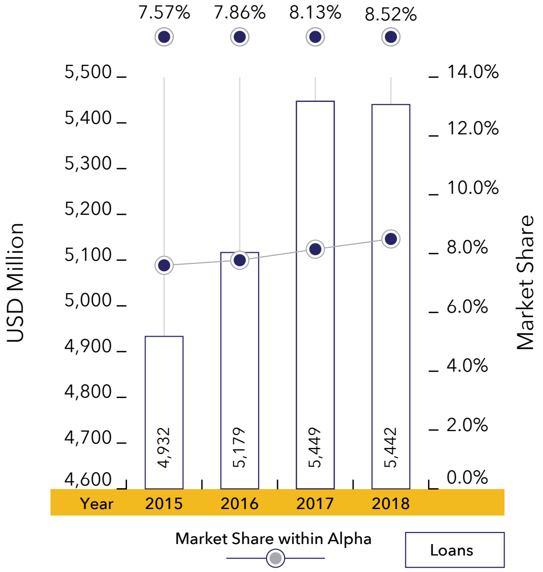
- The hike in lending prices, which discouraged customers' demand for credit, following the increase in deposit rates prompted by the political and economic crises in the country, as well as by higher global and regional interest rates.
- The fact that the Central Bank's interest rate subsidies on mortgages for 2018 were rapidly exhausted early in the year.
- The difficult economic situation affecting Lebanese companies and their ability to repay debt, making banks more reluctant to lend.

The lower decrease 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 8.52% as at 31 December 2018, up from 8.13% as at 31 December 2017.

During the period between 31 December 2015 and 31 December 2018, net customers' loans increased at an average annual compounded rate of 3.3% compared to growth of 0.7% in the Alpha Group. Consequently, the Bank's market share of net customer advances increased from 7.57% as at 31 December 2015 to 8.52% as at 31 December 2018.

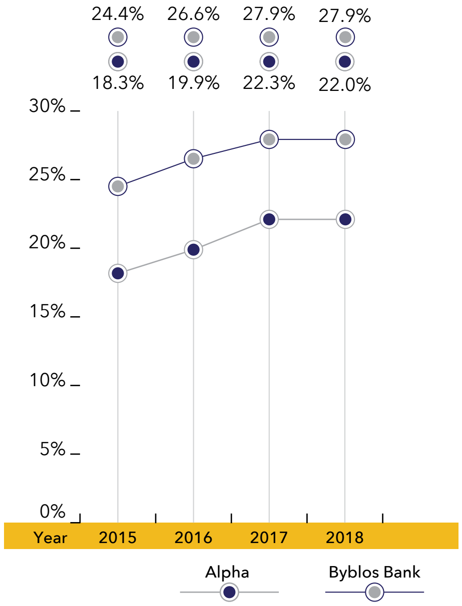
The chart below shows the evolution of net customers' loans and their market shares over the last four years:

Evolution of Customers' Loans During Last Four Years



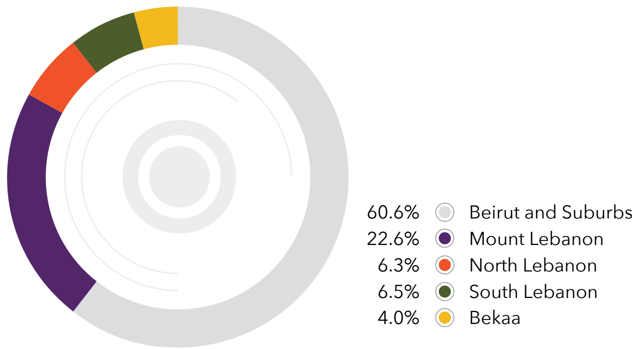
CUSTOMERS' LOANS CURRENCY STRUCTURE

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

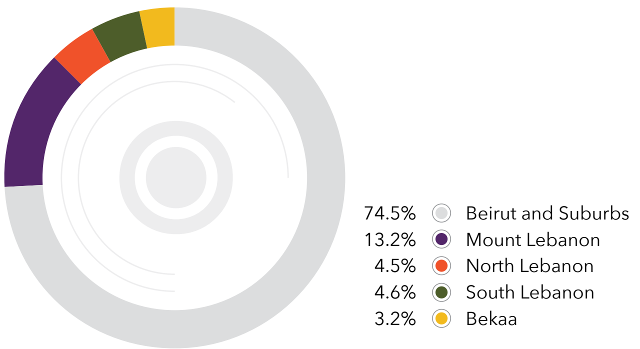


CUSTOMERS' LOANS GEOGRAPHICAL DISTRIBUTION

Customers' Loans Distribution (Byblos Bank Dec. 2018)

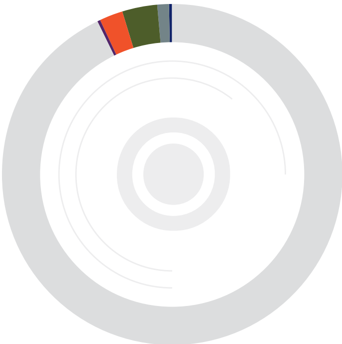


Customers' Loans Distribution (Sector Dec. 2018)

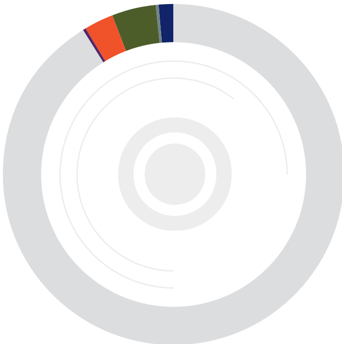


CUSTOMERS' LOANS SPLIT IN BYBLOS BANK GROUP

Customers' Loans Split in Group 2017



Customers' Loans Split in Group 2018*



(*) Byblos Bank RDC was divested in May 2018

LOAN BREAKDOWN BY NATURE OF BORROWER (*)

	Dec. 2016			Dec. 2017			Dec. 2018		
	LBP Million	USD 000's	% of total	LBP Million	USD 000's	% of total	LBP Million	USD 000's	% of total
Corporate	3,264,610	2,165,579	40.0%	3,302,775	2,190,896	38.5%	3,114,995	2,066,332	36.3%
International	1,026,138	680,689	12.6%	1,086,409	720,669	12.7%	1,253,775	831,692	14.6%
Middle Market	509,961	338,283	6.2%	550,626	365,258	6.4%	508,382	337,235	5.9%
Retail	2,911,848	1,931,574	35.7%	3,127,154	2,074,397	36.5%	3,185,346	2,112,999	37.1%
Syndication	103,055	68,362	1.3%	106,000	70,315	1.2%	134,295	89,085	1.6%
Cash collateral	191,514	127,041	2.3%	204,167	135,434	2.4%	190,087	126,094	2.2%
Small business	108,757	72,144	1.3%	129,688	86,029	1.5%	153,463	101,800	1.8%
Others	48,564	32,215	0.6%	68,969	45,751	0.8%	41,968	27,839	0.5%
Total	**8,164,447**	**5,415,885**	**100.0%**	**8,575,788**	**5,688,748**	**100.0%**	**8,582,311**	**5,693,076**	**100.0%**

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

During 2018, Byblos Bank's gross loan portfolio slightly increased, by 0.1% (+LBP 6.5 billion), to reach LBP 8,582 billion (USD 5,693 million) at the end of December 2018 compared to an increase of 5% in 2017 due to reasons mentioned above.

COMMERCIAL LOAN PORTFOLIO

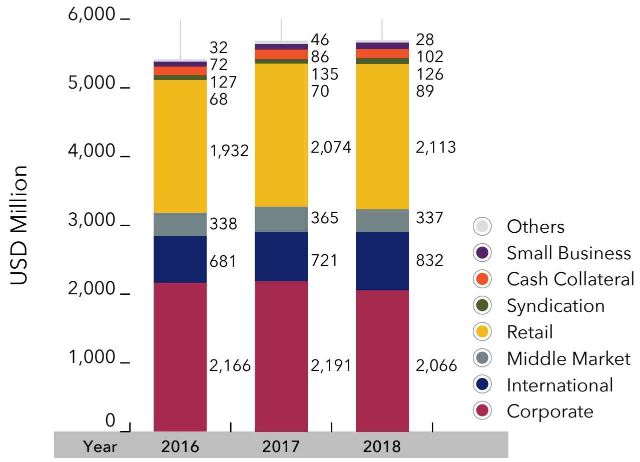
- The corporate loan portfolio decreased by 5.7% (-LBP 188 billion or -USD 125 million) during the year 2018 to reach LBP 3,115 billion (USD 2,066 million) at the end of December 2018, compared to an increase of 1.2% (+LBP 38 billion or +USD 25 million) during the year 2017. Corporate loans represented 36.3% of the gross loan portfolio at the end of December 2018, compared to 38.5% at the end of December 2017.

- The international loan portfolio increased by 15.4% (+LBP 167 billion or +USD 111 million) during the year 2018 to reach LBP 1,254 billion (USD 832 million) at the end of December 2018, compared to an increase of 5.9% (+LBP 60 billion or +USD 40 million) in 2017. International loans represented 14.6% of the gross loan portfolio at the end of December 2018 compared to 12.7% at the end of December 2017.

- The middle market loan portfolio decreased by 7.7% (-LBP 42 billion or -USD 28 million) during the year 2018 to reach LBP 508 billion (USD 337 million) at the end of December 2018, representing 5.9% of the gross loan portfolio compared to 6.4% at the end of December 2017.

- Total exposure to syndicated loans increased by 26.7% during the year 2018 to reach LBP 134 billion (USD 89 million) at the end of 2018 compared to LBP 106 billion (USD 70 million) at the end of December 2017, representing 1.6% of the gross loan portfolio at the end of December 2018 compared to 1.2% at the end of December 2017.

The chart below shows the breakdown of the loan portfolio by nature of borrower for the years 2016, 2017, and 2018:

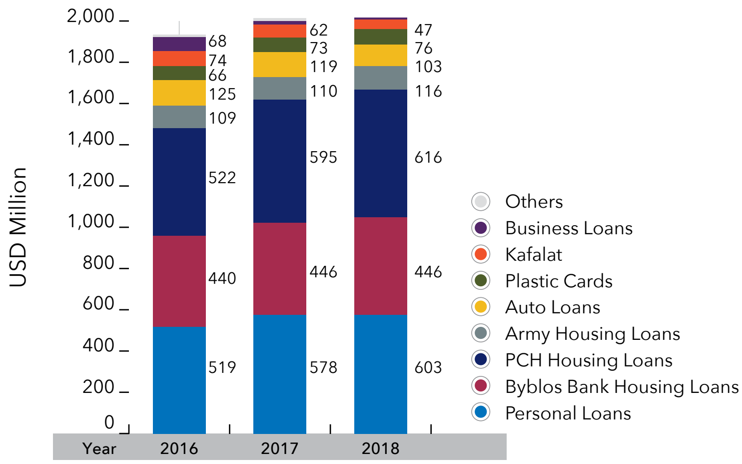


RETAIL LOAN PORTFOLIO

	Dec. 2016			Dec. 2017			Dec. 2018		
	LBP Million	USD 000's	% of total	LBP Million	USD 000's	% of total	LBP Million	USD 000's	% of total
Personal Loans	782,615	519,148	26.9%	871,145	577,874	27.9%	908,560	602,693	28.5%
Byblos Bank Housing Loans	662,711	439,609	22.8%	671,609	445,512	21.5%	672,288	445,962	21.1%
PCH Housing Loans	787,647	522,486	27.0%	897,328	595,242	28.7%	928,543	615,949	29.2%
Army Housing Loans	164,667	109,232	5.7%	165,470	109,765	5.3%	174,316	115,632	5.5%
Auto Loans	189,028	125,392	6.5%	178,641	118,501	5.7%	155,815	103,360	4.9%
Plastic Cards	98,996	65,669	3.4%	109,622	72,718	3.5%	114,481	75,941	3.6%
Kafalat	110,886	73,556	3.8%	92,949	61,658	3.0%	71,363	47,339	2.2%
Business Loans	102,078	67,713	3.5%	122,417	81,205	3.9%	147,074	97,562	4.6%
Others	13,220	8,769	0.5%	17,973	11,922	0.6%	12,906	8,561	0.4%
Total Retail	**2,911,848**	**1,931,574**	**100.0%**	**3,127,154**	**2,074,397**	**100.0%**	**3,185,346**	**2,112,999**	**100.0%**

The retail loan portfolio achieved only modest growth due to the sector-wide factors described above, in particular the freeze in the Central Bank's interest rate subsidies on mortgages. The portfolio increased from LBP 3,127 billion (USD 2,074 million) as at 31 December 2017 to LBP 3,185 billion (USD 2,113 million) as at 31 December 2018, representing growth of 1.9% compared to 7.4% in 2017. Housing loans, which represented the largest increase in 2017 at +USD 79 million, or (+7.4%) saw more restrained growth of 2.3% (+LBP 41 billion or USD 27 million) during the year 2018, reaching LBP 1,775 billion (USD 1.2 billion) at the end of 31 December 2018. Personal loans increased by 4.3% (+LBP 37 billion or +USD 25 million) during 2018 to reach LBP 909 billion (USD 603 million) at the end of December 2018 compared to growth of 11.3% (+LBP 89 billion or +USD 59 million) at end-2017. Business loans and plastic cards increased by 20.1% (+LBP 25 billion or +USD 16 million) and 4.4% (+LBP 5 billion or +USD 3 million), respectively. However, these improvements were partially offset by a decrease of 12.8% (-LBP 23 billion or -USD 15 million) in auto loans and a decrease of 23.2% (-LBP 22 billion or -USD 14 million) in Kafalat loans during 2018.

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

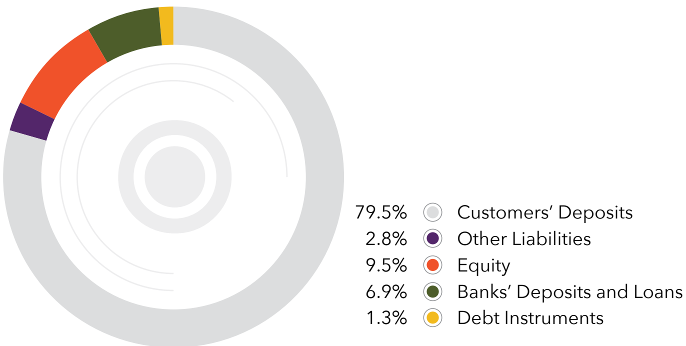


LIABILITIES

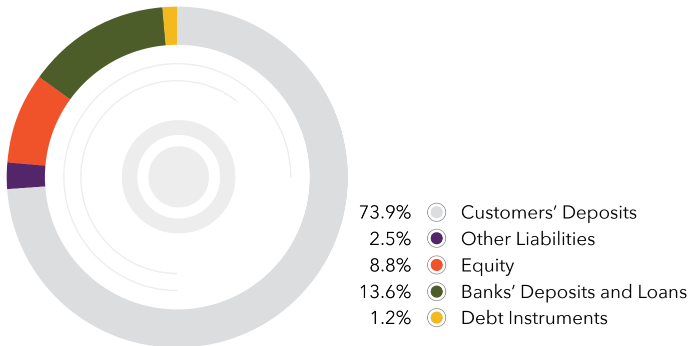
LIABILITIES BREAKDOWN

Customers' deposits represented the major source of funds with a share of 73.9% at the end of 2018, compared to a share of 79.5% at the end of 2017:

Breakdown of Liabilities 2017



Breakdown of Liabilities 2018

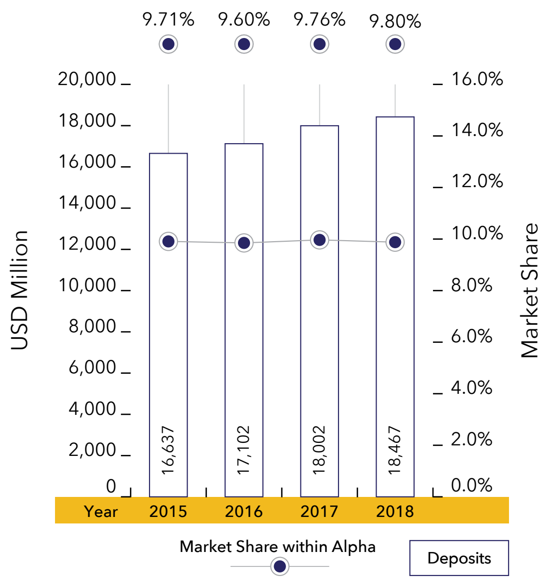


CUSTOMERS' DEPOSITS

Customers' deposits recorded an increase of 2.6% despite the challenging domestic and external conditions in 2018, reaching LBP 27,839 billion (USD 18,467 million) at the end of December 2018 compared to an increase of 5.3% during 2017, and compared to an increase of 2.1% in the Alpha Group. Consequently, the Byblos Bank's market share of total customers' deposits in the Alpha Group increased slightly to 9.80% at the end of 2018 compared to 9.76% at the end of the previous year. During the period between 31 December 2015 and 31 December 2018, the Bank's customers' deposits grew at an annual average compounded growth rate of 3.5% compared to growth of 3.2% for the Alpha Group. Over the same period, Byblos Bank's market share saw a marginal increase, from 9.71% as at 31 December 2015 to 9.80% as at 31 December 2018.

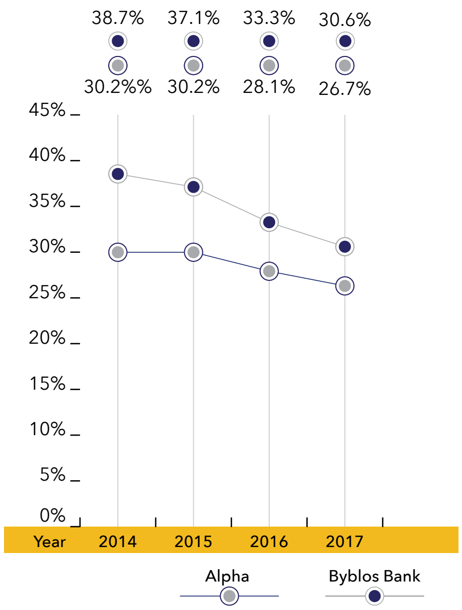
The chart below shows the evolution of customers' deposits over the last four years:

Evolution of Customers' Deposits During Last Four Years



CUSTOMERS' DEPOSITS CURRENCY STRUCTURE

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



Long delays in forming a new government and negative rumors that affected depositors' confidence in the Lebanese Pound eventually triggered significant conversions of customers' deposits from Lebanese Pounds to US Dollars, which affected the dollarization rate in the country.

Customers' deposits denominated in LBP decreased gradually between 2015 and 2018, from 38.7% in 2015 to 30.6% in 2018, while they decreased in the sector from 30.2% in 2015 to 26.7% in 2018. Compared to the Lebanese banking sector, Byblos Bank has a higher deposit base denominated in LBP; 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 2016, 2017, and 2018:

As at 31 December	2016		2017		2018	
	LBP Million	% of total	LBP Million	% of total	LBP Million	% of total
Current accounts	3,244,752	12.6	3,474,416	12.8	3,564,335	12.8
Term deposits	20,891,474	81.0	21,896,171	80.7	22,387,664	80.4
Blocked accounts	1,151,475	4.5	1,241,692	4.6	1,285,137	4.6
Related parties' accounts	363,416	1.4	377,670	1.4	418,775	1.5
Accrued interest	130,544	0.5	148,557	0.5	183,403	0.7
Total	**25,781,661**	**100**	**27,138,506**	**100**	**27,839,314**	**100**

The composition of customers' deposits has remained almost unchanged over the last three years, during which time they consisted mostly of term deposits, which accounted for 80.4% of total customers' deposits at the end of December 2018, as compared to 80.7% as at 31 December 2017, and to 81.0% as at 31 December 2016.

MATURITY PROFILE OF CUSTOMERS' DEPOSITS

The following table shows the distribution of the Bank's customers' deposits by maturity profile as at 31 December 2016, 2017, and 2018:

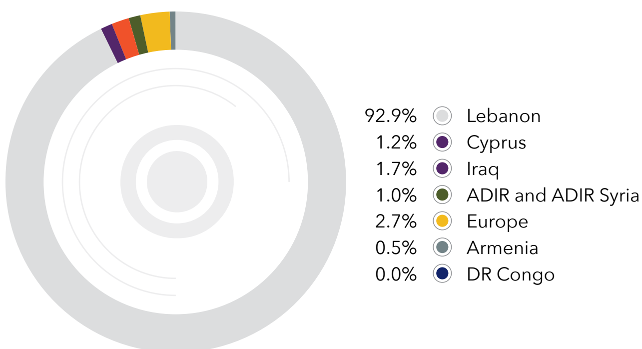
As at 31 December	2016		2017		2018	
	LBP Million	% of total	LBP Million	% of total	LBP Million	% of total
Less than 3 months	17,061,103	66.2	17,118,305	63.1	17,446,573	62.7
3 months to 1 year	5,169,248	20.0	6,984,764	25.7	7,395,027	26.5
1 year to 5 years	3,173,320	12.3	2,686,624	9.9	2,719,439	9.8
Over 5 years	377,990	1.5	348,813	1.3	278,275	1.0
Total	**25,781,661**	**100**	**27,138,506**	**100**	**27,839,314**	**100**

Almost all of the Bank's customers' deposits are short-term, with deposits having a remaining maturity of less than one year representing 89.2% and 88.8% of total customers' deposits as at 31 December 2018 and 31 December 2017, respectively.

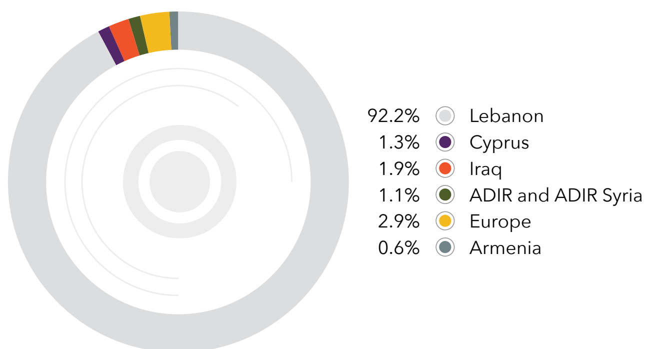
CUSTOMERS' DEPOSITS SPLIT IN BYBLOS BANK GROUP

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

Deposits Split in Group 2017



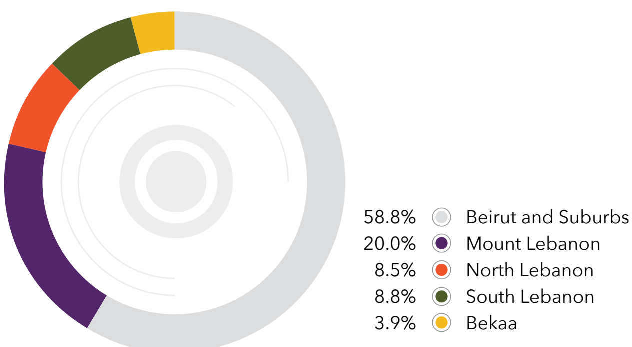
Deposits Split in Group 2018*



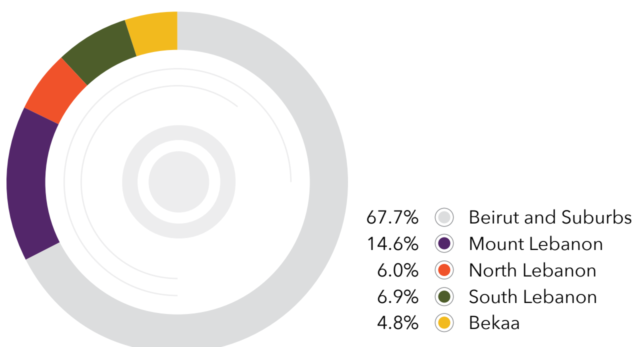
(*) Byblos Bank RDC was divested in May 2018

GEOGRAPHICAL DISTRIBUTION OF CUSTOMERS' DEPOSITS

Geographical Distribution of Customers' Deposits (Byblos Bank Dec. 2018)



Geographical Distribution of Customers' Deposits (Sector Dec. 2018)



The geographical distribution of the Group's customers' deposits is largely in line with the geographical distribution of its branches, with customers' deposits in branches located in Beirut and its suburbs (48.9% of total branches) representing 58.8% of total customers' deposits in the Group compared to 67.7% in the Lebanese banking sector. On the other hand, customers' deposits in branches located in Mount Lebanon (25.0% of total branches) represented 20.0% of the Group's customers' deposits compared to 14.6% in the Lebanese banking sector; customers' deposits in branches located in North Lebanon (10.9% of total branches) represented 8.5% of the Group's customers' deposits, higher than 6.0% in the Lebanese banking sector. In the South (9.8% of total branches), Byblos Bank's customers' deposits concentration was 8.8% compared to 6.9% 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 (5.4% of total branches) compared to 4.8% in the Lebanese banking sector.

LONG-TERM SOURCES OF FUNDS

As a part of its strategy to match its longer-term loan portfolio with longer-term funding sources, the Bank has tapped into several types of long-term funding resources. The following table shows the breakdown of the Bank's long-term sources of funding as at 31 December 2016, 2017, and 2018, respectively:

In USD 000's	2016	2017	2018
Central Bank of Lebanon	218,179	236,304	499,961
Byblos Bank Eurobonds	294,575	300,866	299,370
Convertible subordinated loans	278,716	280,594	282,864
European Investment Bank	86,439	125,676	161,287
Standard Chartered Bank	22,473	27,423	28,997
Arab Trade Finance Program	18,862	21,482	27,304
Govco Incorporated NY	36,500	30,857	25,214
Green for Growth Fund – Southeast Europe	-	25,000	25,000
Sanad Fund for MSME	-	20,000	20,000
Agence Française de Développement	21,618	19,138	15,460
Citibank	-	-	11,802
First Abu Dhabi Bank P.J.S.C.	-	-	10,735
SMBC – DIFC BRANCH	-	15,790	6,974
International Bank for Reconstruction and Development	-	-	2,250
National Mortgage Company	-	2,435	1,814
International Finance Corporation (IFC)	1,923	1,152	390
Home for Youth Credit Company	-	76	123
Total Long-Term Sources of Funds	**979,285**	**1,106,793**	**1,419,545**

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

PROFITABILITY

LBP Million	2016	2017	2018	Growth (Vol.)	Growth (%)
Net interest income	424,958	455,915	591,747	135,832	29.8%
Less: taxes on interest	0	(3,519)	(93,291)	(89,772)	2551.1%
Net interest income (net of taxes on interest)	424,958	452,396	498,456	46,060	10.2%
Net allocation to provisions	7,347	(18,933)	(43,141)	(24,208)	127.9%
Net provisions on foreign central banks	1,578	-	28,971	28,971	-
Net commission income	121,607	133,712	145,063	11,351	8.5%
Net profits on financial operations	446,922	55,031	15,191	(39,840)	(72.4%)
Impairment losses on financial investments	(49,676)	-	-	-	-
Other operating income	27,803	29,492	42,659	13,167	44.6%
Total Operating Income (Before Provisions and Impairment)	**1,021,290**	**670,631**	**701,369**	**30,738**	**4.6%**
Total Operating Income (After Provisions and Impairment)	**980,539**	**651,698**	**687,199**	**35,501**	**5.4%**
Operating expenses	(319,609)	(320,882)	(330,092)	(9,210)	2.9%
Depreciation and amortization	(22,538)	(21,014)	(20,069)	945	(4.5%)
Provisions for risks and charges	(138,132)	(9,528)	(29,677)	(20,149)	211.5%
Impairment on goodwill	(12,427)	-	-	-	-
Foreign currency translation losses on deconsolidation of subsidiaries	(137,890)	-	-	-	-
Gain (Loss) from discontinued operations	-	4,612	(2,472)	(7,084)	(153.6%)
Non-operating income	11	-	-	-	-
Taxes	(100,719)	(48,433)	(57,495)	(9,062)	18.7%
Net Income	**249,235**	**256,453**	**247,394**	**(9,059)**	**(3.5%)**
Bank's share	232,672	248,539	238,941		
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	184,192	200,059	190,461		
Weighted average number of common shares during the period	562,891,539	563,322,218	563,252,414		
Earnings per common share	327.22	355.14	338.14		

Net income for the year 2018 amounted to LBP 247,394 million (USD 164.1 million), recording a decrease of 3.5% (-LBP 9,059 million or -USD 6.0 million) compared to LBP 256,453 million (USD 170.1 million) for the year 2017. Return on average assets (ROA) stood at 0.69% at the end of December 2018 compared to 0.78% at the end of December 2017. In addition, return on average common equity (ROCE) stood at 8.55% at the end of December 2018 compared to 9.35% at the end of December 2017. Earnings per common share based on the weighted average number of shares stood at LBP 338.14 (USD 0.224) in 2018 compared to LBP 355.14 (USD 0.236) in 2017.

The main external events affecting the profitability of the Bank were as follows:

1. The Lebanese Parliament ratified new legislation, Law No. 64, in October 2017, introducing new tax measures to fund the increase of the minimum wages and the cost of living allowances for the public sector. This had a huge impact on net interest income, lowering it by LBP 93,291 million (USD 62 million) during 2018 compared to just LBP 3,519 million (USD 2.3 million) during 2017.

2. As mentioned earlier, market sentiments following political and economic unrest in Lebanon, the rise in US interest rates, and the global strengthening of the US Dollar triggered an outflow of customers' deposits out of the country, as well as significant conversions of customers' deposits from Lebanese Pounds to US Dollars. This led to a huge increase in the average annual cost of deposits for both Byblos Bank (+ 63 basis points between the year 2017 and the year 2018) and the entire Lebanese banking sector.

3. Following the implementation of IFRS 9, new Expected Credit Losses (ECL) provisions for an amount of USD 8.4 million were booked in the income statement (discussed in detail in the "Asset quality" section).

4. Financial engineering transactions with the Central Bank – consisting of long-term placements with the Central Bank, as well as repurchase agreement transactions with increased yields on some financial instruments – partly compensated for the increasing cost of deposits and the effect of taxes on interest income.

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

- Byblos Bank Europe's net income for the year 2018 amounted to LBP 11,603 million (USD 7.7 million) compared to LBP 9,393 million (USD 6.2 million) for the year 2017.
- Byblos Invest Bank's net income stood at LBP 8,672 million (USD 5.8 million) at the end of 2018 compared to LBP 6,326 million (USD 4.2 million) for the year 2017.
- Byblos Bank Armenia's net income stood at LBP 3,849 million (USD 2.6 million) at the end of 2018 compared to net income of LBP 2,029 million (USD 1.3 million) for the year 2017.
- Byblos Bank RDC's net loss stood at LBP 938 million (USD 0.6 million) for the first five months of 2018 (as it was divested in May 2018) compared to a net loss of LBP 1,233 million (USD 0.8 million) for the year 2017. As mentioned earlier, Byblos Bank RDC was divested in May 2018 and the total loss from discontinued operations reached LBP 2,472 million (USD 1.6 million) compared to a gain last year of LBP 4,612 million (USD 3.0 million). The gain in 2017 was related to reversal of provisions constituted in Byblos Bank RDC against the reconstitution of its capital following the devaluation of the currency in the Democratic Republic of the Congo.
- 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 2018 amounted to LBP 25,557 million (USD 17.0 million) compared to LBP 24,278 million (USD 16.1 million) for the year 2017.

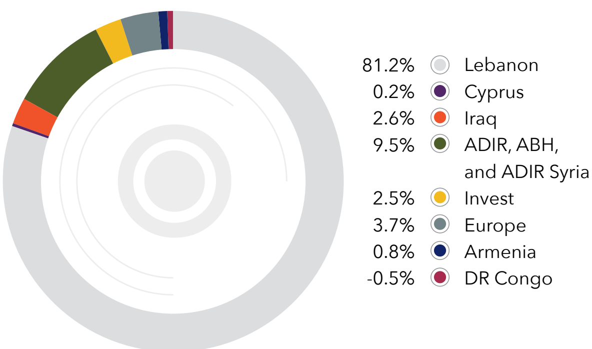
It is worth mentioning that during 2016, and following several financial engineering transactions carried out with the Central Bank of Lebanon, Byblos Bank posted LBP 500,084 million (USD 331.7 million) in exceptional non-recurring revenues as a result of its participation in the exchange transactions offered. These exceptional gains were used as detailed below, in abidance with 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 investment in Armenia	(8,359)
Less: Impairment of subsidiaries on consolidation level	(36,000)
Less: Impairment of goodwill on Banque Pharaon & Chiha	(12,427)
Less: Exceptional tax charge from non-tax deductible expenses (d)	(47,287)
Residual in the income statement	0
2. Exceptional gains not recognized in the income statement (e)	**149,084**
of which related taxes	22,402

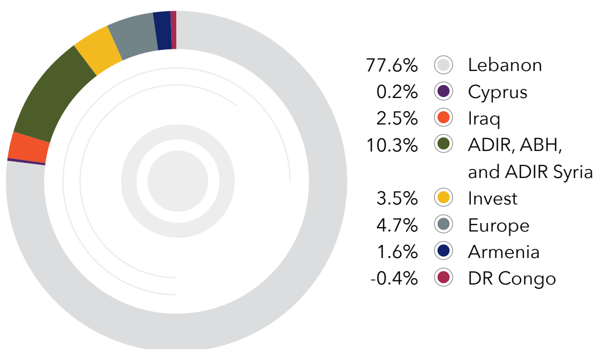
(a) Represents exceptional gains arising from the BDL's special swap transactions in 2016.
(b) Represents additional collective provisions taken as per BDL Circulars No. 446 and No. 439, and corresponding to 2% of risk-weighted loans and advances to customers.
(c) Represents writeoff of investments in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

The charts below show the contribution of the Bank's subsidiaries to consolidated income for the years 2017 and 2018:

Net Income Split in Group 2017



Net Income Split in Group 2018



NET INTEREST INCOME

Net interest income before provisions and net of taxes on interest for the year 2018 amounted to LBP 498,456 million (USD 330.7 million), recording an increase of 10.2% (+LBP 46,060 million or +USD 30.6 million) compared to an increase of 6.5% during 2017, when it stood at LBP 452,396 million (USD 300.1 million). Consequently, the net interest margin stood at 1.49% at the end of 2018 compared to 1.48% at the end of 2017.

The increase in net interest income was mainly due to better management of the Bank's liquidity and investments, compensated for the hike in the cost of deposits and the new taxes on interest.

	2017			2018		
	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*	18,567,050	850,224	4.58%	21,736,303	1,128,776	5.19%
Securities	24,139	527	2.18%	8,329	321	3.85%
Loans**	8,011,502	548,526	6.85%	8,209,087	611,601	7.45%
Treasury bills	5,288,093	350,163	6.62%	5,020,336	324,159	6.46%
Total Interest-Earning Assets	**31,890,784**	**1,749,440**	**5.49%**	**34,974,055**	**2,064,857**	**5.90%**
Total earning assets	31,890,784	1,749,440	5.49%	34,974,055	2,064,857	5.90%
Premises and equipment	304,362	0	0.00%	329,635	0	0.00%
Other non-interest-bearing assets	558,028	0	0.00%	636,137	0	0.00%
Total Average Assets	**32,753,174**	**1,749,440**	**5.34%**	**35,939,827**	**2,064,857**	**5.75%**
LIABILITIES						
Customers' deposits	26,460,084	1,170,853	4.42%	27,488,910	1,390,847	5.06%
Subordinated loans	421,580	31,696	7.52%	424,707	31,848	7.50%
Eurobonds	448,814	31,805	7.09%	452,428	31,796	7.03%
Interest-bearing deposits due to banks	1,694,370	41,606	2.46%	3,741,872	89,455	2.39%
Total Interest-Bearing Liabilities	**29,024,848**	**1,275,960**	**4.40%**	**32,107,917**	**1,543,946**	**4.81%**
Other liabilities	952,296	0	0.00%	968,043	0	0.00%
Shareholders' equity	2,776,030	0	0.00%	2,863,867	0	0.00%
Total Average Liabilities and Equity	**32,735,174**	**1,275,960**	**3.90%**	**35,939,827**	**1,543,946**	**4.30%**
Net Interest Spread (a)			**1.09%**			**1.10%**
Net Interest Spread (b)			**1.45%**			**1.45%**
Net Interest Margin			**1.48%**			**1.49%**
Interest Earning-Assets/Interest-Bearing Liabilities			**1.10**			**1.09**

(*) includes Central Bank Certificates of Deposit.
(**) including interest received on highest debit balance.
(a) Average return on interest-earning assets – average cost of interest-bearing liabilities.
(b) Average return on assets – average cost of liabilities and equity.

PROVISIONS ALLOCATED

During the year 2018, the Group allocated net impairment losses on financial assets of LBP 14,170 million (USD 9.4 million) compared to LBP 18,933 million (USD 12.6 million) for the year 2017.

The Bank allocated expected credit losses provisions for performing and doubtful loans in the amount of LBP 63,244 million (USD 42.0 million) during 2018 as compared to LBP 45,326 million (USD 30.1 million) the previous year.

It is worth noting that the Central Bank of Iraq – Kurdistan started repaying its exposure in 2018 and ended up reimbursing USD 19.2 million out of the USD 21 million total exposure. Therefore, for accounting presentation purposes, in 2018, expected credit losses provisions equal to the repayment of USD 19.2 million were released and an almost identical amount was constituted under provisions for risks and charges.

Coverage of credit-impaired loans by expected credit losses impairment allowances (Stage 3) stood at 57.6% as at 31 December 2018, as compared to 54.1% as at 31 December 2017. Additional details on coverage of non-performing loans will be discussed in the section on asset quality.

LBP Million	2016	2017	2018
New and increased impairment allowances:			
Balances with central banks			7,390
Due from banks and financial institutions			2,897
Loans to banks and financial institutions and reverse repurchase agreements			105
Loans and advances to customers at amortized cost	29,736	45,326	63,244
Loans and advances to related parties at amortized cost			15
Bad debts written off	53	102	-
Financial assets at amortized cost			1,787
Financial assets at fair value through other comprehensive income			284
Financial guarantees and other commitments			889
Total Provisions Allocated	**29,789**	**45,428**	**76,611**
Recoveries:			
Balances with central banks			(29,024)*
Due from banks and financial institutions	(1,578)		(78)
Loans to banks and financial institutions and reverse repurchase agreements			(25)
Loans and advances to customers at amortized cost	(37,136)	(26,495)	(30,266)
Financial assets at amortized cost			(3,006)
Financial guarantees and other commitments			(42)
Total Provisions Recovered	**(38,714)**	**(26,495)**	**(62,441)**
Net Provisions Allocated (Recovered)	**(8,925)**	**18,933**	**14,170**

(*) Out of which LBP 28,971 million (USD 19.2 million) recovered against the Central Bank of Iraq – Kurdistan.

NON-INTEREST INCOME

LBP Million	2016	2017	2018	Growth (Vol.)	Growth (%)
Commissions on documentary credits and acceptances	**19,727**	**28,171**	**31,595**	**3,424**	**12.2%**
out of which in Lebanon	7,781	9,100	9,644	544	6.0%
out of which in Byblos Bank Europe	10,056	18,596	21,489	2,893	15.6%
out of which in Byblos Bank Iraq	980	461	445	(16)	(3.3%)
out of which in Byblos Bank Cyprus	38	14	17	3	21.4%
out of which in Byblos Bank Armenia	4	0	0	0	-
out of which in Byblos Bank Africa	630	0	0	0	-
out of which in Byblos Bank Syria	97	0	0	0	-
out of which in Byblos Bank RDC	141	0	0	0	-
Commissions on letters of guarantee	**13,583**	**11,403**	**13,338**	**1,935**	**17.0%**
out of which in Lebanon	10,748	9,917	10,923	1,006	10.1%
out of which in Byblos Bank Europe	718	609	800	191	31.4%
out of which in Byblos Bank Iraq	1,370	820	1,523	703	85.7%
out of which in Byblos Bank Cyprus	57	55	65	10	18.2%
out of which in Byblos Bank Armenia	16	2	27	25	1250.0%
out of which in Byblos Bank Africa	131	0	0	0	-
out of which in Byblos Bank Syria	296	0	0	0	-
out of which in Byblos Bank RDC	247	0	0	0	-
Securities Income (Expense) (realized and unrealized)	389,303	28,146	(9,374)	(37,520)	(133.3%)
out of which exceptional revenues from special swap operations with BDL	402,238	0	0	0	-
Dividends received	5,049	5,293	3,323	(1,970)	(37.2%)
Foreign exchange income	52,570	21,592	21,243	(349)	(1.6%)
Other commissions on banking services	88,297	94,138	100,129	5,991	6.4%
Total Non-Interest Income (Net)**	**568,529**	**188,743**	**160,255**	**(28,488)**	**(15.1%)**

(*) Byblos Bank Syria and Byblos Bank Africa were deconsolidated as at end-December 2016, while Byblos Bank RDC was divested in May 2018 (profit and loss figures for 2017 and 2018 show in "profit (loss) for discontinued operations").
(**) Net commissions, plus net trading income, plus net gain or loss on financial assets.

Non-interest income for the year 2018 amounted to LBP 160,255 million (USD 106.3 million), a decrease of 15.1% (-LBP 28.5 billion/-USD 18.9 million) as compared to LBP 188,743 million (USD 125.2 million) for the previous year.

- Realized and unrealized losses on the securities portfolio for the year 2018 amounted to LBP 9,374 million (USD 6.2 million), recording a considerable decrease of 133.3% as compared to a gain of LBP 28,146 million (USD 18.7 million) in 2017.
- Commissions on documentary credits and acceptances for the year 2018 amounted to LBP 31,596 million (USD 21.0 million), recording an increase of 12.2% as compared to LBP 28,171 million (USD 18.7 million) in 2017. This comes in line with Byblos Bank Europe's strategy of targeting trade finance operations in new markets.
- Commissions on letters of guarantee for the year 2018 amounted to LBP 13,338 million (USD 8.8 million), recording an increase of 17% as compared to LBP 11,403 million (USD 7.6 million) in 2017.
- Gains on foreign exchange trading for the year 2018 amounted to LBP 21,243 million (USD 14.1 million), as compared to LBP 21,592 million (USD 14.3 million) in 2017.

As mentioned above in the "Profitability" section, during 2016, realized and unrealized gains on the securities portfolio were strongly affected by exceptional non-recurring revenues of LBP 351,000 million (USD 232.8 million) generated by the special swap operations with the Central Bank of Lebanon. As for the foreign exchange income amounting to LBP 52,570 million (USD 34.9 million) during the year 2016, this was mainly due to the unrealized gain on a structural foreign exchange position held in Byblos Bank Syria (deconsolidated at end-2016), which amounted to USD 20.4 million.

OPERATING EXPENSES

LBP Million	2016	2017	2018	Growth (vol.)	Growth (%)
Staff expenses	195,786	203,013	211,334	8,321	4.1%
General expenses	124,741	117,869	118,758	889	0.8%
Depreciation and amortization	22,539	21,014	20,069	(945)	-4.5%
Total Operating Expenses (a)	**343,066**	**341,896**	**350,161**	**8,265**	**2.4%**
Provisions for risks and charges	34,733	9,528	29,677	20,149	211.5%
Impairment of goodwill	12,427	-	-	-	-
Total Operating Expenses (b)	**390,226**	**351,424**	**379,838**	**28,414**	**8.1%**

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

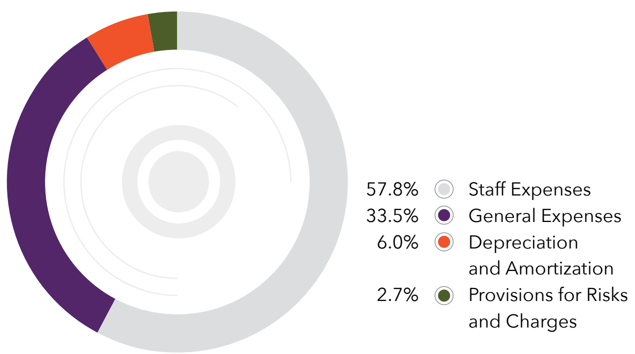
Operating expenses (excluding provisions for risks and charges) for the year 2018 amounted to LBP 350,161 million (USD 232.3 million), an increase of 2.4% (+LBP 8,265 million) as compared to LBP 341,896 million (USD 226.8 million) in 2017. Therefore, the cost-to-income ratio dropped to 49.93% in 2018 compared to 50.98% in 2017.

Operating expenses to average assets also dropped to 0.97% in 2018 compared to 1.04% in 2017.

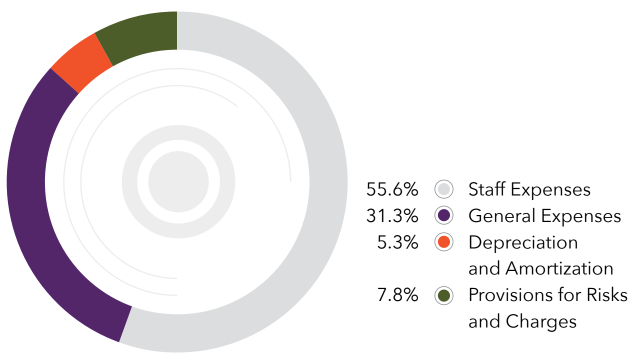
It is worth mentioning that during 2016, due to the exceptional gains from the swap operations with the Central Bank amounting to LBP 351,000 million (USD 232.8 million), the cost-to-income ratio for that year went down to 33.5%.

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

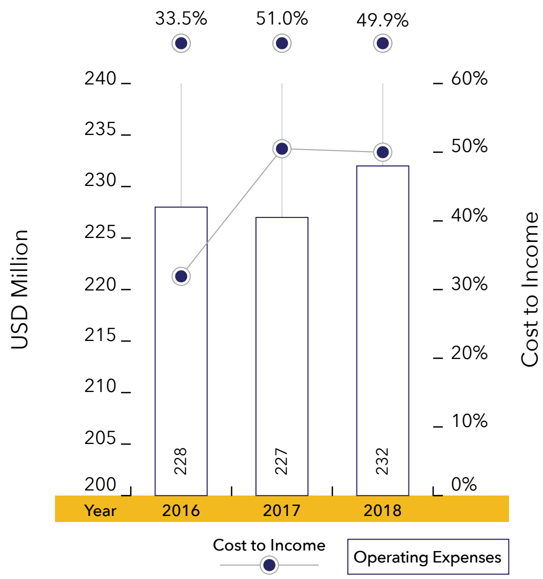
Breakdown of Operating Expenses 2017



Breakdown of Operating Expenses 2018



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 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 credit quality assessment. The Bank believes that, as at 31 December 2018, it was in compliance with all related requirements. Reports to the Central Bank and the Banking Control Commission (BCC) are made in accordance with the Central Bank classifications.

IFRS 9 Standard

The International Accounting Standards Board (IASB) released the final version of the IFRS 9 (International Financial Reporting Standard No. 9) in July 2014, with the due date for implementation set at 1 January 2018. On 7 November 2017, the BDL issued Circular 143 regarding the implementation of IFRS 9. Subsequently, on 28 December 2017, the BCC 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: The Board and senior management have oversight and validation roles for the IFRS 9 policy, ECL measurements, and impact on capital; the Finance Department is responsible for the data extraction, accuracy, and overall IFRS 9 ECL reporting process; the Business must agree on staging rules; the Risk Management Department handles the development and validation of the risk parameters (PD, LDG, and Exposure At Default [EAD]). The Economic Research and Analysis Department provides the economic outlook and the forecasted macroeconomic indicators, such as GDP growth rates, for the coming five years, following three scenarios of baseline, optimistic, and pessimistic assumptions and their associated weights, to enable deriving of point-in-time (PIT) and forward-looking PD scales.

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 SICR are assigned a lifetime PD and ECL; Stage 3 includes those impaired exposures that merit a specific ECL provision. Staging is a function of loan quality and changes thereto, based on loan classification, internal and external (where applicable) ratings, days in arrears, and PD values.

The table below depicts the parallel between loan classification and staging, following BDL Circular 143. When credit risk increases and the loan/borrower is classified 3 (follow-up and remedial), it must be reported under Stage 2 and receives a lifetime ECL based on loan maturity. When the loan/borrower is classified as impaired (substandard, doubtful, or loss), it is reported under Stage 3, and its ECL will be equal to expected LGD.

IFRS 9 ECL Staging following BDL classification (BDL Circular 143, BCC Circular 293)

LBP Million	Regulatory classification system	IFRS 9 ECL Staging and Treatment	
Regular (1)	Borrower/Loan Features: Regular loan and documentation, updated financial statements, above-average capacity to repay the loan, delays are exceptional or excesses over limit not exceeding 30 days or 10%	Stage 1	12-month ECL
Follow-up (2)	Missing documentation, outdated financial statements, past dues for 31-60 days, excess over limit for 31-60 days or more than 10%		
Follow-up and regularization (3)	Financial and or managerial problems, shortage of liquidity and cash flows, losses, depleted equity due to losses, deteriorated market conditions, inability to repay the loan, past dues for up to 90 days, rescheduled loan, the borrower is substandard at other banks	Stage 2 (Significant increase in credit risk but not impaired)	Lifetime ECL
Substandard (4)	Inability to repay the loan from the business cash flows, past dues for 91-180 days, inability to repay rescheduled loans for more than 60 days	Stage 3 (Impaired loans)	Lifetime ECL
Doubtful (5)	Past dues for more than 180 days		
Bad (6)	No identified repayment source, bankruptcy		

iii) ECL measurement – ECL calculations are based on four key components:

- **Probability of Default (PD):** PD is an estimate of the likelihood of default over a given time horizon. To determine own PDs that are reflective of its portfolio's inherent credit risks, in early 2018 the Bank concluded a PD model validation and calibration for its Corporate portfolio with a professional consulting firm. The consultancy resulted in a reviewed through-the-cycle (TTC) PD scale grounded in the Bank's default history of plus 10 years. We adjusted the model to account for a low-default, low-data portfolio. The Bank then derived point-in-time (PIT) and forward-looking PDs based on macroeconomic assumptions. On the Retail level, the Bank developed a PD model based on the survival rate approach. Sovereign and Bank exposures and Debt Instruments were applied an ECL based on the Bank's judgment and external rating agencies' estimates of PD and LGD.

- **Loss Given Default (LGD):** LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the Bank would expect to receive, including from any collateral. LGD calculation is based on the economic loss, including time value of money of recoveries, and legal and administrative costs. The Bank calculated workout LGDs for Corporate and Retail borrowers by gathering historical recoveries at loan and borrower level. Final LGDs encompassed historically observed LGDs adjusted for conservatism.

- **Exposure at Default (EAD):** 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 items, like documentary credits and guarantees, and committed facilities.

- **Discount Rate:** This is used to discount an expected loss to a present value at the reporting date, using the effective interest rate (EIR) at initial recognition.

During 2018, the Bank generated ECL results – for individual entities as well as at the Group level – on a semi-annual basis for December 2017, June 2018, and December 2018.

Regulatory ECL (BDL 512)

In December 2018, the BDL released Intermediate Circular 512, which introduced an amendment to the Capital Adequacy Framework laid down in Circular 44. BDL 512 established a regulatory ECL framework with the objectives of ensuring minimum ECL provisioning across banks and standardizing the accounting treatment of provisions. The circular mandated different treatments for Stages 1 and 2 loans, on the one hand, and Stage 3 loans on the other. Stages 1 and 2 loans are subject to ECL percentages by asset class (see table below), while ECL provisions for Stage 3 loans must be 45%. Banks compare their IFRS 9 ECL provisions to the regulatory ECL provisions for all stages combined. Any shortfall is deducted from Common Equity. On the other hand, the circular allowed the incorporation of Stage 1 ECL provisions in Tier 2 Capital, subject to certain capping levels.

Regulatory ECL% (BDL 512, Annex 6)	
Stages 1 and 2 loans	
Placements with BDL in LBP, placements with other central banks in respective national currencies, Lebanese treasury bills, foreign treasury bills in respective national currencies	0%
Placements with BDL in foreign currencies	0.10%
Lebanese Eurobonds	0.72%
Treasury bills in foreign currencies issued by countries rated BBB or above	0.03%
Treasury bills in foreign currencies issued by countries rate below BBB or Unrated	0.72%
Banks rated BBB or above	0.15%
Banks rated below BBB or Unrated	0.72%
Corporate	0.72%
Small and medium enterprises (SMEs)	0.60%
Retail and Housing loans	0.35%
Stage 3 loans	
Max of [45%; available Stage-3 provision]	

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

As at 31 December	2016		2017		2018	
GROSS BALANCES (1)	LBP Million	% of total	LBP Million	% of total	LBP Million	% of total
Regular	7,057,686	86.4	7,376,932	86.0	6,950,557	81.0
Follow-up	537,211	6.6	537,698	6.3	776,975	9.1
Follow-up and regularization	199,065	2.4	259,054	3.0	454,468	5.3
Substandard loans	69,985	0.9	56,967	0.7	62,552	0.6
Doubtful loans	199,812	2.5	272,070	3.1	255,836	3.0
Bad loans	100,689	1.2	73,067	0.9	81,863	1.0
Total	**8,164,448**	**100.0**	**8,575,788**	**100.0**	**8,582,251**	**100.0**

As at 31 December	2016		2017		2018	
NET BALANCES (1 and 2)	LBP Million	% of total	LBP Million	% of total	LBP Million	% of total
Regular	7,057,686	88.8	7,376,932	88.3	6,950,557	83.2
Follow-up	537,211	6.8	537,698	6.4	776,975	9.3
Follow-up and regularization	199,065	2.5	259,054	3.1	454,468	5.4
Substandard loans	64,228	0.8	49,455	0.6	51,193	0.6
Doubtful loans	94,016	1.1	135,102	1.6	118,398	1.5
Bad loans	0	0.0	0	0.0	0	0.0
Total	**7,952,206**	**100.0**	**8,358,241**	**100.0**	**8,351,591**	**100.0**

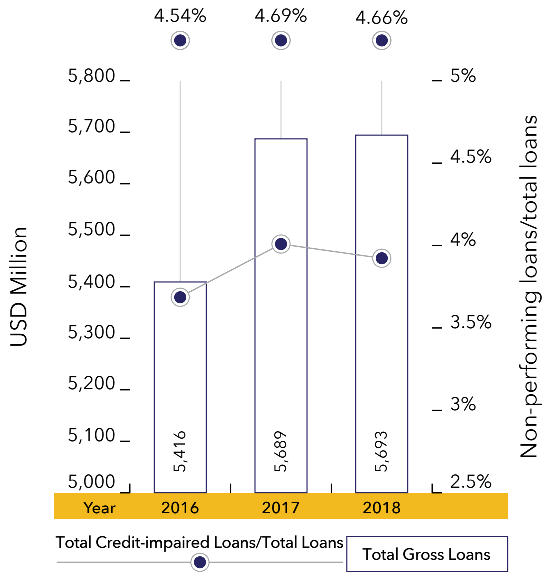
(1) Excluding accrued interest receivable and interest received in advance.
(2) Net of specific provisions and reserved interest.

PROVISIONING AND COVERAGE RATIOS

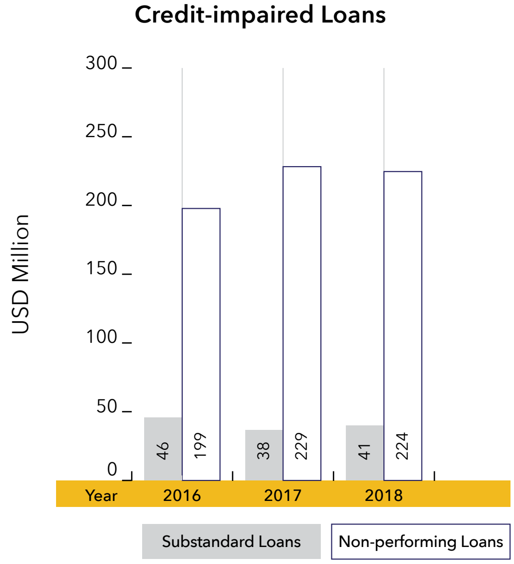
LBP Million	Dec. 2016	Dec. 2017
Substandard loans	69,985	56,967
Non-performing loans	300,501	345,137
Total Classified Loans	**370,486**	**402,104**
Specific provisions for loan losses	158,278	164,545
General provisions and collective provisions	78,643	75,006
out of which general and collective provisions for retail	*11,913*	*13,541*
Reserved interest (sub-standard loans)	5,757	7,512
Reserved interest (non-performing loans)	48,207	45,491
Total Provisions and Cash Collateral	**290,884**	**292,553**
Substandard loans/total loans	0.86%	0.66%
Non-performing loans/total loans	3.68%	4.02%
Total classified/total loans	4.54%	4.69%
Total provisions/total loans	3.56%	3.41%
Non-performing loans provisions/Non-performing loans (*)	94.88%	82.59%
Non-performing loans provisions/Non-performing loans (**)	90.92%	78.66%
Total provisions/Total classified loans (*)	78.51%	72.76%
Specific provisions and reserved interest/Non-performing loans	68.71%	60.86%

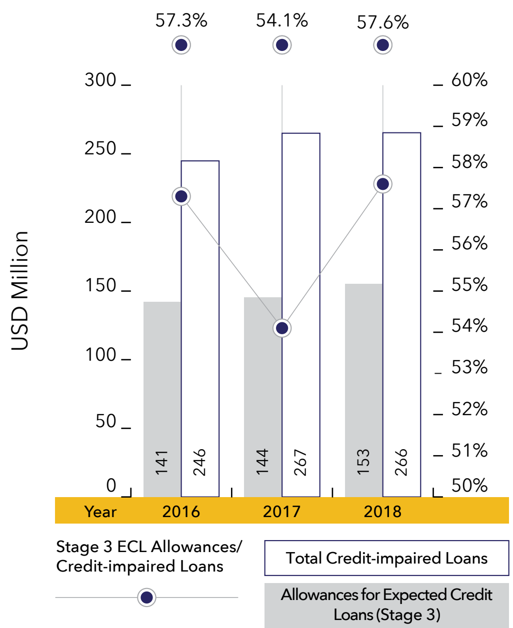
(*) Includes specific, general, and collective provisions, reserved interest.
(**) Excluding general provisions for retail loans.

LBP Million	Dec. 2018
Substandard loans	62,552
Non-performing loans	337,699
Total Credit-impaired Loans	**400,251**
Allowance for Expected Credit Losses (ECL) Stage 3	230,378
Allowance for Expected Credit Losses (ECL) Stages 1 and 2	80,567
Total Allowances for Expected Credit Losses	**310,945**
Credit-impaired Loans/Gross Loans	4.66%
Net Credit-impaired Loans/Gross Loans	1.98%
Credit-impaired Loans coverage (allowance for ECL Stage 3)	57.56%



Total credit-impaired loans (substandard, doubtful, and bad) amounted to LBP 400,251 million (USD 265.5 million) at the end of December 2018, representing 4.66% of the total loan portfolio, compared to LBP 402,104 million (USD 267 million), representing 4.69% of the total loan portfolio, at the end of December 2017. Total non-performing loans (doubtful and bad) amounted to LBP 337,699 million (USD 224 million) as at 31 December 2018, representing 3.93% of the total loan portfolio, up from 4.02% at the end of December 2017. Allowances for expected credit losses (Stage 3) amounted to LBP 230,378 million (USD 152.8 million), covering up to 57.56% of total credit-impaired loans as at 31 December 2018 compared to 54.10% at the end of December 2017.





CAPITAL

As at 31 December 2018, the Group's share capital was 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 (LSE) representing at the time 26% of the Bank's common shares (it represented 11% of the Bank's common shares as at end-December 2018 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 of Global Depository Shares to increase liquidity 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, Byblos Bank's Total Capital Ratio stood at 18.2% as at 31 December 2018, 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%, 11.4%, and 8.8% respectively.

BYBLOS BANK GROUP BASEL III (*) CAPITAL RATIOS

	31 December		
(LBP Million except ratios)	**2016**	**2017**	**2018**
Common equity ratio	11.3%	11.2%	11.2%
Tier 1 capital ratio	15.0%	14.6%	14.6%
Total capital adequacy ratio	18.8%	17.8%	18.2%
Common equity	1,846,499	1,943,108	2,011,186
Tier 1 capital	2,443,015	2,539,299	2,607,124
Tier 2 capital	615,089	554,831	643,258
Total capital base	3,058,104	3,094,130	3,250,382
Total risk-weighted assets (RWA)	**16,269,178**	**17,416,358**	**17,873,010**
Credit risk RWA	14,916,222	16,034,470	16,249,879
Market risk RWA	273,970	277,827	468,638
Operational risk RWA	1,078,986	1,104,061	1,154,493

(*) 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.

BASEL III CAR RATIOS IN LEBANON COMPARED WITH BASEL COMMITTEE ON BANKING SUPERVISION (BCBS) TARGET RATIOS AND DEADLINES (BDL BASIC CIRCULAR 44)

Basel III minimum CAR ratios/Deadline	**BDL**	**BCBS**
	31 Dec. 2018(*)	**1 Jan. 2019(**)**
CET1 Ratio	10%	7%
Tier 1 Ratio	13%	8.5%
Total Capital Ratio	**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 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 set the minimum ratio at 3%, with effective disclosure date in January 2015. Byblos Bank's Tier 1 Leverage Ratio reached 6.12% at 31 December 2018.

In addition to measuring the capital requirements under Pillar 1, the Bank performs stress-test scenarios and sensitivity analysis on a quarterly basis and within the preparation of its Internal Capital Adequacy Assessment Process (ICAAP) document, which is thoroughly discussed and challenged by senior management and the Board. Stress tests include incorporating IFRS 9 ECL measurements, higher sovereign and credit portfolio risks, interest rate risks, and funding outflow assumptions 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 2018 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, in line with its conservative liquidity risk appetite. Moreover, 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).

In addition, 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 both high operational risk areas based on business line managers' judgment and 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
2018	**1.6800**	**1.3500**	**212.00**	**0.1406**

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

At its Annual General Assembly held on 17 April 2019, the Bank's shareholders approved the distribution of dividends out of the Bank's net income for the year ended 31 December 2018 (before taxes of 10%) of LBP 212 (USD 0.1406) per common share and USD 8 per Series 2008 or Series 2009 Preferred Share. Total dividends paid in respect of 2018 represented 68.1% of net income for that year.

THE BANK'S RATINGS

The political situation in Lebanon during 2018 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.

In December 2018, Fitch Ratings affirmed at 'B-' Lebanon's long-term foreign and local currency Issuer Default Ratings, and revised the outlook on the ratings from 'stable' to 'negative'. In January 2019, Moody's Investors Service downgraded Lebanon's issuer rating from 'B3' to 'Caa1', and revised the outlook on the rating from 'negative' to 'stable'. Also, in March 2019, S&P Global Ratings affirmed Lebanon's long- and short-term foreign and local currency sovereign credit ratings at 'B-/B', and revised the outlook on the long-term ratings from 'stable' to 'negative'. As a result, the three main rating agencies made the same changes on the ratings and outlook of rated banks in Lebanon.

As for Byblos Bank:

In December 2018, Fitch Ratings affirmed at 'B-' Byblos Bank's long-term Issuer Default Rating (IDR) with a 'negative' outlook. It also maintained the Bank's Viability Ratings at 'b-'. In fact, Byblos Bank's ratings are capped by the Lebanese sovereign rating (B-/Negative) due to the Bank's exposure to the sovereign and the BDL, and to the difficult operating environment, as per Fitch Ratings.

The rating agency said that the ratings take into account Byblos Bank's competent and stable management and management's relevant experience, as well the Bank's strong domestic franchise, with a domestic market share of about 10% by assets, which supports revenue generation and deposit collection. It mentioned that Byblos Bank's balance sheet is very liquid with a low loans-to-deposits ratio. 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 because the balance sheet is largely composed of low-yielding liquid assets. It mentioned that the Bank has a resilient loan quality, while problem loan generation is considered very low. 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. Conversely, a sovereign upgrade or a very significant reduction in Lebanese sovereign debt exposure relative to capital could lead to an upgrade. Fitch views the latter as unlikely given the vital role that Byblos Bank plays in financing the sovereign.

Furthermore, the agency pointed out that, given the low sovereign rating, the Lebanese authorities cannot be relied on support the Bank in case of need. It added that the authorities would face difficulties in providing system-wide support for the banking sector, including to Byblos Bank, if needed.

On 25 January 2019, Moody's Investors Service downgraded the long-term deposit ratings of Byblos Bank to 'Caa1', on par with the Bank's baseline credit assessment. It kept the 'stable' outlook on the long-term deposit ratings.

The agency indicated that the Bank's ratings reflect the Bank's high exposure to the Lebanese sovereign, its modest capitalization in light of its high concentration of sovereign securities, and the very weak operating environment. Conversely, the ratings also 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 funding structure. Nevertheless, it mentioned that a sustained slowdown in either deposit inflows or capital outflows remains the key downside risk for all Lebanese banks and the sovereign.

ANNUAL REPORT 2018

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 2018, 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 2018 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 notes 35 and 36 to the consolidated financial statements, due to regulatory requirements enacted since 2016, the Group carried excess provisions of LL 229,162 million (the "excess provisions") as at 31 December 2017. This caused us to qualify our opinion on the consolidated financial statements relating to previous years affected by these regulatory requirements as these transactions constitute a departure from International Financial Reporting Standards (IFRS). Our audit opinion for the current year is also qualified due to the effect of these prior years transactions on the consolidated financial statements as at 31 December 2018. As disclosed in note 2.3 and in accordance with regulatory instructions, the Group used an amount of LL 65,394 million from the excess provisions to provide for additional amounts resulting from the first-time adoption of IFRS 9 Expected Credit Losses (ECL) model on 1 January 2018, instead of recognizing the impact within opening "Retained earnings" (as required by IFRS). The remaining excess provisions, net of reversals of LL 8,274 million recorded under "Other operating income", amounted to LL 155,494 million as at 31 December 2018 and were classified under "Other liabilities".

Accordingly, "Profit for the year" 2018 is overstated by LL 8,274 million, and "Other liabilities" are overstated and "Total equity" is understated by LL 155,494 million as at 31 December 2018 (2017: "Other liabilities" and "Provisions for risks and charges" were overstated by LL 86,682 million and LL 142,480 million respectively, and "Total equity" was understated by LL 229,162 million).

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

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 for the year ended 31 December 2018. 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.

Allowances for expected credit losses

Refer to note 2.5 of the consolidated financial statements for a description of the accounting policy and note 49.2 for analysis of credit risk.

Due to the inherently judgmental nature of the computation of expected credit losses ("ECL") for financial assets, there is a risk that the amount of ECL may be misstated. On adoption, the Group has applied the requirements of IFRS 9 retrospectively without restating the comparatives.

The key areas of judgement include:

1. The identification of exposure with a significant deterioration in credit quality.
2. Assumptions used in the ECL model such as financial condition of counterparty, expected future cash flows, forward looking macroeconomic factors etc.
3. The need to apply additional overlays to reflect current or future external factors that might not be captured by the expected credit loss model.

How the matter was addressed during our audit:

We performed the following procedures:

1. We assessed the modelling techniques and methodology against the requirements of IFRS 9.
2. We tested the data, both current and historical, used in determining the ECL.
3. We tested the expected credit loss models including build, validation and governance of models.
4. We tested the material modelling assumptions in addition to any overlays.
5. We examined a sample of exposures and performed procedures to determine whether significant increase in credit risk had been identified on a timely basis.
6. We re-performed the ECL computation for sample of credit facilities.
7. We assessed the adequacy of disclosures in the consolidated financial statements.

Other Information Included in the Group's 2018 Annual Report

Other information consists of the information included in the Group's 2018 Annual Report other than the consolidated financial statements and our auditors' report thereon. Management is responsible for the other information. The Group's 2018 Annual Report is expected to be made available to us after the date of this auditors' report.

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Other Information Included in the Group's 2018 Annual Report (continued)
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.

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

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

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

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

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

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

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

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

Ernst & Young

BDO, Semaan, Gholam & Co.

22 March 2019
Beirut, Lebanon

CONSOLIDATED INCOME STATEMENT

LBP Million	Notes	2018	2017 Restated (*)
CONTINUING OPERATIONS			
Interest and similar income	7	2,038,692	1,695,793
Interest and similar expense	8	(1,543,946)	(1,275,960)
NET INTEREST INCOME		**494,746**	**419,833**
Fee and commission income	9	157,483	145,644
Fee and commission expense	9	(12,420)	(11,932)
NET FEE AND COMMISSION INCOME	9	**145,063**	**133,712**
Net gain from financial assets at fair value through profit or loss	10	16,451	46,918
Net (loss) gain from sale of financial assets at amortized cost	11	(3,119)	36,232
Revenues from financial assets at fair value through other comprehensive income	26	5,569	4,445
Other operating income	12	42,539	28,235
TOTAL OPERATING INCOME		**701,249**	**669,375**
Net impairment loss on financial assets	13	(14,170)	(18,933)
NET OPERATING INCOME		**687,079**	**650,442**
Personnel expenses	14	(211,334)	(203,013)
Other operating expenses	15	(148,435)	(127,397)
Depreciation of property and equipment	27	(19,955)	(20,901)
Amortization of intangible assets	28	(114)	(113)
TOTAL OPERATING EXPENSES		**(379,838)**	**(351,424)**
OPERATING PROFIT		**307,241**	**299,018**
Net gain from disposal of property and equipment		120	1,257
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		**307,361**	**300,275**
Income tax expense	16	(57,495)	(48,433)
PROFIT AFTER TAX FROM CONTINUING OPERATIONS		**249,866**	**251,842**
DISCONTINUED OPERATIONS			
(Loss) profit from discontinued operations, net of tax	17	(2,472)	4,612
PROFIT FOR THE YEAR		**247,394**	**256,454**
Attributable to:			
Equity holders of the parent		**238,940**	**248,539**
Profit for the year from continuing operations		241,099	245,464
(Loss) profit for the year from discontinued operations		(2,159)	3,075
Non-controlling interests		**8,454**	**7,915**
Profit for the year from continuing operations		8,767	6,378
(Loss) profit for the year from discontinued operations		(313)	1,537
		247,394	**256,454**

CONSOLIDATED INCOME STATEMENT

LBP Million	Note	2018	2017
			Restated (*)
Earnings per share		**LBP**	LBP
Equity holders of the parent:			
Basic earnings per share	18	338.14	355.14
Diluted earnings per share	18	318.75	333.57
Earnings per share from continuing operations			
Equity holders of the parent:			
Basic earnings per share from continuing operations		341.98	349.68
Diluted earnings per share from continuing operations		321.92	329.05

(*) Restated for the effect of separate presentations of profit from discontinued operations and earnings per share information.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

LBP Million	Notes	2018	2017
Profit for the year from continuing operations		**249,866**	**251,842**
(Loss) profit for the year from discontinued operations		**(2,472)**	**4,612**
PROFIT FOR THE YEAR		**247,394**	**256,454**
OTHER COMPREHENSIVE INCOME			
Items to be reclassified to the income statement in subsequent periods:			
Net unrealized loss from debt instruments at fair value through other comprehensive income		(1,225)	-
Income tax effect		269	-
		(956)	**-**
Exchange difference on translation of foreign operations		(7,363)	15,661
Net other comprehensive (loss) income to be reclassified to the income statement in subsequent periods		(8,319)	15,661
Items not to be reclassified to the income statement in subsequent periods:			
Net unrealized (loss) gain from equity instruments at fair value through other comprehensive income		(14,626)	6,026
Income tax effect		1,956	(1,445)
		(12,670)	**4,581**
Re-measurement gains on defined-benefit plans	36 (a)	15,975	2,164
Net other comprehensive income not to be reclassified to the income statement in subsequent periods		**3,305**	**6,745**
OTHER COMPREHENSIVE (LOSS) INCOME FOR THE YEAR, NET OF TAX		**(5,014)**	**22,406**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**242,380**	**278,860**
Attributable to:			
Equity holders of the parent		235,104	270,778
Non-controlling interests		7,276	8,082
		242,380	**278,860**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

LBP Million	Notes	2018	2017
ASSETS			
Cash and balances with central banks	19	16,324,122	11,966,804
Due from banks and financial institutions	20	3,864,751	3,928,586
Loans to banks and financial institutions and reverse repurchase agreements	21	363,633	754,394
Derivative financial instruments	22	1,899	2,790
Financial assets at fair value through profit or loss	23	90,490	282,317
Net loans and advances to customers at amortized cost	24	8,178,229	8,192,985
Net loans and advances to related parties at amortized cost	45	24,931	22,030
Debtors by acceptances		362,091	354,023
Financial assets at amortized cost	25	7,776,276	8,155,350
Financial assets at fair value through other comprehensive income	26	228,429	101,877
Property and equipment	27	289,537	273,437
Intangible assets	28	153	267
Assets obtained in settlement of debt	29	51,405	44,891
Other assets	30	141,882	102,073
TOTAL ASSETS		**37,697,828**	**34,181,824**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

LBP Million	Notes	2018	2017
LIABILITIES AND EQUITY			
Liabilities			
Due to central banks	31	3,870,523	1,374,837
Due to banks and financial institutions	32	1,266,070	972,315
Derivative financial instruments	22	1,802	3,544
Customers' deposits at amortized cost	33	27,418,142	26,757,716
Deposits from related parties at amortized cost	45	421,172	380,790
Debt issued and other borrowed funds	34	451,301	453,556
Engagements by acceptances		362,091	354,023
Other liabilities	35	354,777	278,487
Provisions for risks and charges	36	230,423	350,936
Subordinated debt	37	426,418	422,995
TOTAL LIABILITIES		**34,802,719**	**31,349,199**
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	982,040	924,812
Distributable reserves	40	116,652	110,616
Treasury shares	41	(7,105)	(6,002)
Retained earnings		77,050	52,282
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	(15,462)	(4,538)
Net results of the financial period		238,940	248,539
Foreign currency translation reserve		(50,603)	(49,847)
		2,856,411	**2,790,761**
NON-CONTROLLING INTERESTS		**38,698**	**41,864**
TOTAL EQUITY		**2,895,109**	**2,832,625**
TOTAL LIABILITIES AND EQUITY		**37,697,828**	**34,181,824**

The consolidated financial statements were authorized for issue in accordance with the resolution of the Board of Directors on 22 March 2019 by:

Mr. Semaan F. Bassil
Chairman – General Manager

Mr. Ziad El-Zoghbi
Head of Finance and Administration

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

LBP Million	Attributable to equity holders of the parent							
	Common shares	Preferred shares	Share premium – common shares	Share premium – preferred shares	Non-distributable reserves	Distributable reserves	Treasury shares	Retained earnings
Balance at 1 January 2018	684,273	4,840	229,014	591,083	924,812	110,616	(6,002)	52,282
Impact of adopting IFRS 9 at 1 January 2018 (note 2)	-	-	-	-	-	-	-	(2,497)
Restated balance at 1 January 2018	684,273	4,840	229,014	591,083	924,812	110,616	(6,002)	49,785
Profit for the year	-	-	-	-	-	-	-	-
Other comprehensive income (loss)	-	-	-	-	-	-	-	15,975
Total comprehensive income (loss)	-	-	-	-	-	-	-	15,975
Transfer to retained earnings	-	-	-	-	-	(2,497)	-	2,497
Appropriations of 2017 profits	-	-	-	-	57,228	8,533	-	182,778
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-
Equity dividends paid (note 52)	-	-	-	-	-	-	-	(167,908)
Disposal of a subsidiary	-	-	-	-	-	-	-	(6,025)
Translation difference	-	-	-	-	-	-	-	(52)
Treasury shares	-	-	-	-	-	-	(1,103)	-
Balance at 31 December 2018	**684,273**	**4,840**	**229,014**	**591,083**	**982,040**	**116,652**	**(7,105)**	**77,050**
Balance at 1 January 2017	684,273	4,840	229,014	591,083	843,320	103,246	(5,161)	67,518
Profit for the year	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	-	2,164
Total comprehensive income	-	-	-	-	-	-	-	2,164
Appropriations of 2016 profits	-	-	-	-	81,492	7,370	-	143,810
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-
Equity dividends paid (note 52)	-	-	-	-	-	-	-	(161,137)
Translation difference	-	-	-	-	-	-	-	(73)
Treasury shares	-	-	-	-	-	-	(841)	-
Balance at 31 December 2017	**684,273**	**4,840**	**229,014**	**591,083**	**924,812**	**110,616**	**(6,002)**	**52,282**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

LBP Million	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
Balance at 1 January 2018	5,689	(4,538)	248,539	(49,847)	2,790,761	41,864	2,832,625
Impact of adopting IFRS 9 at 1 January 2018 (note 2)	-	1,564	-	-	(933)	(1,408)	(2,341)
Restated balance at 1 January 2018	5,689	(2,974)	248,539	(49,847)	2,789,828	40,456	2,830,284
Profit for the year	-	-	238,940	-	238,940	8,454	247,394
Other comprehensive income (loss)	-	(12,550)	-	(7,261)	(3,836)	(1,178)	(5,014)
Total comprehensive income (loss)	-	(12,550)	238,940	(7,261)	235,104	7,276	242,380
Transfer to retained earnings	-	-	-	-	-	-	-
Appropriations of 2017 profits	-	-	(248,539)	-	-	-	-
Dividends paid to non-controlling interests	-	-	-	-	-	(4,164)	(4,164)
Equity dividends paid (note 52)	-	-	-	-	(167,908)	-	(167,908)
Disposal of a subsidiary	-	-	-	6,505	480	(4,870)	(4,390)
Translation difference	-	62	-	-	10	-	10
Treasury shares	-	-	-	-	(1,103)	-	(1,103)
Balance at 31 December 2018	**5,689**	**(15,462)**	**238,940**	**(50,603)**	**2,856,411**	**38,698**	**2,895,109**
Balance at 1 January 2017	5,689	(9,081)	232,672	(65,341)	2,682,072	37,363	2,719,435
Profit for the year	-	-	248,539	-	248,539	7,915	256,454
Other comprehensive income	-	4,581	-	15,494	22,239	167	22,406
Total comprehensive income	-	4,581	248,539	15,494	270,778	8,082	278,860
Appropriations of 2016 profits	-	-	(232,672)	-	-	-	-
Dividends paid to non-controlling interests	-	-	-	-	-	(3,581)	(3,581)
Equity dividends paid (note 52)	-	-	-	-	(161,137)	-	(161,137)
Translation difference	-	(38)	-	-	(111)	-	(111)
Treasury shares	-	-	-	-	(841)	-	(841)
Balance at 31 December 2017	**5,689**	**(4,538)**	**248,539**	**(49,847)**	**2,790,761**	**41,864**	**2,832,625**

CONSOLIDATED STATEMENT OF CASH FLOWS

LBP Million	Notes	2018	2017
OPERATING ACTIVITIES			
Profit before tax from continuing operations		307,361	300,275
(Loss) profit before tax from discontinued operations		(2,472)	4,612
Profit before tax		304,889	304,887
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation and amortization	27 & 28	20,069	21,014
Net impairment loss on financial assets	13	14,170	18,933
Gain on disposal of property and equipment		(120)	(1,257)
Gain on disposal of assets obtained in settlement of debt	12	(45)	(3,202)
Provisions for risks and charges, net		(17,787)	17,953
Unrealized fair value losses on financial instruments at fair value through profit or loss		7,044	703
Realized gains from financial assets		(17,239)	(30,217)
Loss on disposal of discontinued operations		2,472	-
Foreign currency translation losses on disposal of subsidiary, net		(4,390)	-
Derivative financial instruments		(851)	3,068
Operating profit before working capital changes		**308,212**	**331,882**
CHANGES IN OPERATING ASSETS AND LIABILITIES			
Due from central banks		(3,740,210)	(2,664,426)
Due to central banks		2,987,821	596,650
Due from banks and financial institutions		(56,493)	54,695
Financial assets at fair value through profit or loss		183,237	526,338
Due to banks and financial institutions		124,456	16,186
Net loans and advances to customers and related parties		(22,851)	(425,896)
Assets obtained in settlement of debt	29	(8,205)	(4,546)
Proceeds from sale of assets obtained in settlement of debt		1,736	6,156
Other assets		(40,136)	8,365
Customers' and related parties' deposits		702,480	1,356,845
Other liabilities		(18,581)	(8,193)
Cash from used in operations		**421,466**	**(205,944)**
Provision for risks and charges paid	36	(28,095)	(5,091)
Taxation paid		(31,828)	(116,708)
Net cash from (used in) operating activities		**361,543**	**(327,743)**

CONSOLIDATED STATEMENT OF CASH FLOWS

LBP Million	Notes	2018	2017
INVESTING ACTIVITIES			
Financial assets at amortized cost		396,744	1,521,996
Financial assets at fair value through other comprehensive income		(124,502)	(2,704)
Loans to banks and financial institutions and reverse repurchase agreements		(85,019)	44,178
Purchase of property and equipment	27	(38,584)	(49,484)
Proceeds from sale of property and equipment		3,098	3,969
Proceeds from sale of discontinued operations	17	12,060	-
Net cash from investing activities		**163,797**	**1,517,955**
FINANCING ACTIVITIES			
Debts issued and other borrowed funds		(2,255)	9,484
Subordinated debt		3,423	2,830
Treasury shares		(1,103)	(841)
Dividends paid to equity holders of the parent	52	(167,908)	(161,137)
Dividends paid to non-controlling interests		(4,164)	(3,581)
Net cash used in financing activities		**(172,007)**	**(153,245)**
INCREASE IN CASH AND CASH EQUIVALENTS		**353,333**	**1,036,967**
Net foreign exchange difference in respect of cash and cash equivalents		(7,269)	15,427
Cash and cash equivalents at 1 January		6,139,506	5,087,112
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	44	**6,485,570**	**6,139,506**
Operational cash flows from interest and dividends			
Interest paid		(1,497,607)	(1,258,322)
Interest received		1,958,437	1,735,080
Dividends received		3,323	5,293

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Byblos Bank S.A.L. ("the Bank"), a Lebanese joint stock company, was incorporated in 1961 and registered under No. 14150 at the commercial registry of Beirut and under No. 39 on the banks' list 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 subsidiaries (collectively "the Group"), provides a wide range of banking and insurance services, through its headquarters and branches in Lebanon and its presence in Europe, Middle East, and Africa. Further information on the Group's structure is provided in note 4.

2. ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared on a historical cost basis except for: a) the restatement of certain tangible real estate properties in Lebanon according to the provisions of Law 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 (FVOCI).

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 where otherwise indicated.

STATEMENT OF COMPLIANCE

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

PRESENTATION OF FINANCIAL STATEMENTS

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

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position only 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 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

Generally, there is a presumption that a majority of voting rights results in control. However, under individual circumstances, the Group may still exercise control with less than 50% shareholding, or may not be able to exercise control even with ownership over 50% of an entity's shares. When assessing whether it has power over an investee and therefore controls the variability of its returns, the Group considers all relevant facts and circumstances, including:
- The purpose and design of the investee;
- The relevant activities, 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 amounting arising from: a) an allocation of the profit or loss for the year; b) a share of changes in appropriate reserves; and c) dividends declared before the end of the reporting period. At the end of each reporting period, the non-controlling interest is then derecognized as if it were acquired at that date. The liability is recognized at the end of the reporting period at its fair value, and any difference between the amount of non-controlling interest derecognized and this liability is accounted for within equity.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interests, 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.

2.3 NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2018. The nature and the impact of each amendment is described below:

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 adopted the new standard on the required effective date, along with the provisions of Central Bank of Lebanon Basic Circular No. 143 and Banking Control Commission Circular No. 293.

The Group has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9 (2014). Therefore, the comparative information for 2017 is reported under IFRS 9 (2009, 2010, and 2013) and under IAS 39 impairment requirements and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 (2014) have been recognized directly in retained earnings or reserves (as applicable) as at 1 January 2018 and are disclosed in V. below.

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 "fair value through other comprehensive income" 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 and fair value information are relevant and useful. A debt financial asset is measured at fair value through OCI if:

- It is held in a business model whose objective is achieved by both holding assets to collect contractual cash flows and selling the assets; and
- It satisfies the contractual cash flow characteristics (SPPI test).

At the date of application of IFRS 9 (2014), the Group reassessed the classification and measurement category for all financial assets and debt instruments that satisfy the contractual cash flow characteristics (SPPI test), and classified them within the category 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 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's classification of its financial assets and liabilities is explained in Note 2.5. The impact on the classification of the Group's financial assets and their carrying values and equity is discussed in V. below.

II. Expected Credit Losses

The adoption of IFRS 9 has fundamentally changed the Group's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at fair value through profit or loss (FVPL), together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next 12 months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECL over the life of the asset.

Details of the Group's impairment method are disclosed in Note 2.5. The impact of the adoption of IFRS 9 impairment provisions on the Group's financial assets and their carrying values and equity is discussed in V. below.

III. IFRS 7 disclosures

IFRS 7 Financial Instruments: Disclosures, which was updated to reflect the differences between IFRS 9 and IAS 39, was also adopted by the Group, together with IFRS 9, for the year beginning 1 January 2018. Changes include transition disclosures as shown in V. below, and detailed qualitative and quantitative information about the ECL calculations such as assumptions and inputs used.

IV. Hedge accounting

The Group has early adopted hedge accounting requirements as issued in IFRS 9 (2013). These requirements were first published in November 2013 and remained unchanged in the July 2014 publication of IFRS 9, except to reflect the addition of the FVOCI measurement category to IFRS 9.

There is no impact on the consolidated financial statements as the Group does not have hedged items measured at FVOCI.

V. Transition

In accordance with the transition provisions of IFRS 9 (2014), the Group applied this standard retrospectively. The following tables set out the impact of adopting IFRS 9 (2014) on the consolidated statement of financial position and on retained earnings, including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's ECLs.

Except for the financial statement captions listed in the below table, there have been no changes in the carrying amounts of assets and liabilities on application of IFRS 9 (2014) as at 1 January 2018.

	Classification under IFRS 9 (2010)			Re-measurement		Classification under IFRS 9 (2014)	
	(31 December 2017)					(1 January 2018)	
LBP Million	Category	Amount	Reclassification	ECL	Other	Category	Amount
FINANCIAL ASSETS							
Cash and balances with central banks	Amortized cost	11,966,804	-	(26,407)	-	Amortized cost	11,940,397
Due from banks and financial institutions	Amortized cost	3,928,586	-	(768)	-	Amortized cost	3,927,818
Loans to banks and financial institutions and reverse repurchase agreements	Amortized cost	754,394	-	(89)	-	Amortized cost	754,305
Financial assets at fair value through profit or loss	FVPL	282,317	(152,834)	-	-	FVPL	129,483
Loans and advances to customers at amortized cost	Amortized cost	8,192,985	-	(10,826)	-	Amortized cost	8,182,159
Loans and advances to related parties at amortized cost	Amortized cost	22,030	-	(44)	-	Amortized cost	21,986
Financial assets at amortized cost	Amortized cost	8,155,350	(372,004)	(26,560)	-	Amortized cost	7,756,786
Financial assets at fair value through other comprehensive income	FVOCI	101,877	524,838	(140)	1,564	FVOCI	628,139
			-	**(64,834)**	**1,564**		
NON-FINANCIAL LIABILITIES							
Provisions for ECL on financial guarantees and commitments	Off balance sheet	4,061,107	-	(4,465)	-	Off balance sheet	4,056,642
Total impact of adoption of IFRS 9 (2014)			-	(69,299)	1,564		
Less: amount covered by excess provisions available on 1 January 2018			-	65,394	-		
NET IMPACT ON EQUITY			**-**	**(3,905)**	**1,564**		

The increase in impairment allowances when measured in accordance with IFRS 9's expected credit losses model compared to IAS 39's incurred loss model amounts to LBP 69,299 million, and was covered partly by the Group's excess provisions (note 36). Accordingly, the impact on the Group's equity from the adoption of the IFRS 9 impairment requirements amounted to LBP 3,905 million, out of which the share of non-controlling interests amounted to LBP 1,408 million.

Total adjustments related to classification and measurements other than impairment increases opening change in fair value of financial assets at fair value through other comprehensive income reserve by LBP 1,564 million.

The following table reconciles the aggregate opening loan loss provision allowances under IAS 39 and provisions for loan commitments and financial guarantee contracts, in accordance with IAS 37 *Provisions for Contingent Liabilities and Contingent Assets*, to the ECL allowance under IFRS 9.

LBP Million	Impairment allowance under IAS 39/IAS 37 at 31 December 2017	Re-measurement	ECLs under IFRS 9 at 1 January 2018
Impairment allowance for			
Balances with central banks	31,533	26,407	57,940
Due from banks and financial institutions	1,919	768	2,687
Loans to banks and financial institutions and reverse repurchase agreements	-	89	89
Loans and advances to customers at amortized cost	292,553	10,826	303,379
Loans and advances to related parties at amortized cost	-	44	44
Financial assets at amortized cost	-	26,560	26,560
Financial assets at fair value through other comprehensive income	-	140	140
	326,005	**64,834**	**390,839**
Financial guarantees and other commitments	-	4,465	4,465
	326,005	**69,299**	**395,304**

IFRS 15 Revenue from contracts with customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue, and related Interpretations, and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard 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 standard requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances, when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. There were no significant impacts from the adoption of IFRS 15 on the consolidated financial statements of the Group.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. These amendments did not have a significant impact on the Group's consolidated financial statements.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense, or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the entity must determine a date of transaction for each payment or receipt of advance consideration. This Interpretation does not have any material impact on the Group's consolidated financial statements.

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

Certain new standards, amendments to standards, and interpretations are not yet effective for the year ended 31 December 2018, with the Group not opting for early adoption. These have therefore not been applied in preparing these consolidated financial statements. The most significant of these new standards, amendments, and interpretations are as follows:

IFRS 16 Leases

IFRS 16 was issued in January 2016 and replaces IAS 17 *Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation, and disclosure of leases, and requires lessees to account for all leases under a single on balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of "low-value" assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees also will be required to re-measure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, or a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

The Group is currently assessing the impact of adopting IFRS 16 and expects an increase in its assets and liabilities, with no material impact on its retained earnings.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

IFRIC 23 clarifies the application of IAS 12 to accounting for income tax treatments that have yet to be accepted by tax authorities, in scenarios where it may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept an entity's tax treatment. The effective date is 1 January 2019. The Group is currently assessing the impact of IFRIC 23 and does not expect it to have a material impact on the Group's financial statements.

IAS 12 – Income Taxes Amendments to IAS 12

As part of the Annual Improvements to IFRS Standards 2015-2017 Cycle, the IASB amended IAS 12 in order to clarify the accounting treatment of the income tax consequences of dividends. Effective from 1 January 2019, the tax consequences of all payments on financial instruments that are classified as equity for accounting purposes, where those payments are considered to be a distribution of profit, will be included in, and will reduce, the income statement tax charge. The Group does not expect the adoption of this improvement to have a significant impact on the Group's financial statements.

IAS 19 – Employee Benefits Amendments to IAS 19

The IASB issued amendments to the guidance in IAS 19 Employee Benefits in connection with accounting for plan amendments, curtailments, and settlements. The amendments must be applied to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019. Adoption of the amendments is not expected to have a significant impact on the Group's financial statements.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Foreign currency translation

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

(i) Transactions and balances

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

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

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

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

(ii) Initial measurement of financial instruments
Financial instruments are initially measured at their fair value, plus or minus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument. In the cases of financial instrument measured at fair value, with the change in fair value being recognized in profit or loss, the transaction costs are recognized as revenue or expense when the instrument is initially recognized.

When the fair value of financial instruments at initial recognition differs from the transaction price, the Group accounts for the Day 1 profit or loss, as described below.

(iii) Day 1 Profit or Loss
When the transaction price differs from the fair value at origination and the fair value is based on a valuation technique using only observable inputs in market transactions, 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 based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognized in the consolidated income statement when the inputs become observable, or when the instrument is derecognized.

FINANCIAL ASSETS – CLASSIFICATION AND MEASUREMENT

On initial recognition, financial assets are classified as measured at amortized cost, fair value through other comprehensive income, or fair value through profit or loss on the basis of two criteria:
(i) The business model within which financial assets are measured; and
(ii) Their contractual cash flow characteristics (whether the cash flows represent "solely payments of principal and interest" (SPPI).

Financial assets are measured at amortized cost if they are held within a business model whose objective is to hold assets to collect contractual cash flows, and their contractual cash flows represent SPPI.

Financial assets are measured at fair value through other comprehensive income if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and their contractual cash flows represent SPPI.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at fair value through profit or loss.

On initial recognition, the Group may 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. The Group is required to disclose such financial assets separately from those mandatorily measured at fair value.

Business Model
The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. Generally, a business model is a matter of fact which can be evidenced by the way business is managed and how information is provided to management.

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios, and is based on observable factors such as:
- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;

- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- The expected frequency, value, and timing of sales are also important aspects of the Group's assessment.

The business model assessment is based on reasonably expected scenarios without taking "worst case" or "stress case" scenarios into account.

The Group'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 Group needs to assess whether and how such sales are consistent with an objective of collecting contractual cash flows. If the objective of the Group's business model for managing those financial assets changes, the Group is required to reclassify financial assets.

The SPPI Test

As a second step of its classification process, the Group assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

"Principal" for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgment and considers relevant factors such as the currency in which the financial asset is denominated and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at fair value through profit or loss.

Financial Assets at Amortized Cost

Balances with Central Banks, Due from Banks and Financial Institutions, Loans to Banks and Financial Institutions and Reverse Repurchase Agreements, and Loans and Advances to Customers and Related Parties – at Amortized Cost

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 are subsequently measured at amortized cost using the effective interest rate (EIR), less expected credit losses. 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 impairment losses on financial assets". Gains and losses arising from the derecognition of financial assets measured at amortized cost are reflected under "net gain on sale of financial assets at amortized cost" in the consolidated income statement.

Financial Assets at Fair Value through Other Comprehensive Income

These financial assets are initially recognized at cost, this 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 are subsequently measured at fair value, with gains and losses arising due to changes in fair value recognized in other comprehensive income. Interest income and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost. The ECL calculation for debt instruments at fair value through other comprehensive income is explained below. Where the Group holds more than one investment in the same security, they are deemed to be disposed of on a first-in, first-out basis. On derecognition, cumulative gains or losses previously recognized in other comprehensive income are reclassified from other comprehensive income to profit or loss.

Equity Instruments at Fair Value through Other Comprehensive Income

Upon initial recognition, the Group can elect to irrevocably classify some of its investments in equity instruments at fair value through other comprehensive income when they are not held for trading. Such classification is determined on an instrument-by-instrument basis.

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

Dividends on these investments are recognized under "revenue from financial assets at fair value through other comprehensive income" in the consolidated income statement when the Group's right to receive payment of dividend is established in accordance with IFRS 15: "Revenue from contracts with customers" unless the dividends clearly represent a recovery of part of the cost of the investment. Equity instruments at fair value through other comprehensive income are not subject to an impairment assessment.

Financial Assets at Fair Value through Profit or Loss

Included in this category are those debt instruments that do not meet the conditions in "financial assets at amortized cost" and "financial assets through other comprehensive income" above, debt instruments designated at fair value through profit or loss upon initial recognition, and equity instruments at fair value through profit or loss. Management only designates a financial asset at fair value through profit or loss upon initial recognition when the designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring assets or recognizing gains and losses on them on different bases.

Debt Instruments at Fair Value through Profit or Loss and Loans and Advances at Fair Value

These financial assets are recorded in the consolidated statement of financial position at fair value. Transaction costs directly attributable to the acquisition of the instrument are recognized as revenue or expense when the instrument is initially recognized. Changes in fair value and interest income are recorded under "net gain on financial assets at fair value through profit or loss" in the consolidated income statement. Gains and losses arising from the derecognition of debt instruments and other financial assets at fair value through profit or loss are also reflected under "net gain on financial assets at fair value through profit or loss" in the consolidated income statement, showing those related to financial assets designated at fair value upon initial recognition separately from those mandatorily measured at fair value.

Equity Instruments at Fair Value through Profit or Loss

Investments in equity instruments are classified at fair value through profit or loss, unless the Group designates at initial recognition an investment that is not held for trading as at fair value through other comprehensive income. These financial assets are recorded in the consolidated statement of financial position at fair value. Changes in fair value and dividend income are recorded under "net gain on financial assets at fair value through profit or loss" in the consolidated income statement. Gains and losses arising from the derecognition of equity instruments at fair value through profit or loss are also reflected under "net gain from financial assets at fair value through profit or loss" in the consolidated income statement.

FINANCIAL LIABILITIES (OTHER THAN FINANCIAL GUARANTEES, LETTERS OF CREDIT, AND LOAN COMMITMENTS) – CLASSIFICATION AND MEASUREMENT

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 EIR 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
- Contingent consideration recognized in a business combination in accordance with IFRS 3.

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

- Doing so results in more relevant information, because it either eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases;
- A group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Group's Key Management Personnel; or
- A group of financial liabilities contains one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivatives is prohibited.

Financial liabilities at fair value through profit or loss are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in profit or loss, with the exception of movements in fair value of liabilities designated through profit or loss due to changes in the Group's own credit risk. Such changes in fair value are 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 do not get recycled to the consolidated income statement.

Interest incurred on financial liabilities designated at fair value through profit or loss is accrued in interest expense using the EIR, taking into account any discount/premium and qualifying transaction costs being an integral part of instrument.

Debt Issued and Other Borrowed Funds

Financial instruments issued by the Group, which are not designated at fair value through profit or loss, are classified 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 EIR 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 EIR method.

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

Due to Central Banks, Banks and Financial Institutions, and Customers' and Related Parties' Deposits

After initial measurement, due to central banks, banks and financial institutions, and customers' and related parties' deposits are measured at amortized cost less amounts repaid using the EIR 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 EIR method. Customer deposits which are linked to the performance of indices or commodities are subsequently measured at fair value through profit or loss.

DERIVATIVES RECORDED AT FAIR VALUE THROUGH PROFIT OR LOSS

A derivative is a financial instrument or other contract with all three of the following characteristics:

a) Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (aka the "underlying");

b)It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and

c) It is settled at a future date.

The Group enters into derivative transactions with various counterparties. These include interest rate swaps, futures, credit derivatives, 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. The notional amount and fair value of such derivatives are disclosed separately in the notes. Changes in the fair value of derivatives are recognized in "net gain on financial assets at fair value through profit or loss" in the consolidated income statement, unless hedge accounting is applied, which is discussed in under "hedge accounting policy" below.

EMBEDDED DERIVATIVES

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

An embedded derivative is separated from the host and accounted for as a derivative if, and only if:

a) The hybrid contract contains a host that is not an asset within the scope of IFRS 9;

b) The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host;

c) A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

d) The hybrid contract is not measured at fair value with changes in fair value recognized in profit or loss.

FINANCIAL GUARANTEES, LETTERS OF CREDIT, AND UNDRAWN LOAN COMMITMENTS

The Bank issues financial guarantees, letters of credit, and loan commitments. Financial guarantees are initially recognized in the consolidated financial statements at fair value, this 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 cumulative amortization recognized in the consolidated income statement, and an ECL provision. The premium received is recognized in the income statement in "Net fees and commission income" on a straight line basis over the life of the guarantee.

Undrawn loan commitments and letters of credit are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of ECL requirements.

The nominal contractual value of financial guarantees, letters of credit, and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the statement of financial position. The nominal values of these instruments, together with the corresponding ECLs, are disclosed in the notes.

The Group occasionally issues loan commitments at below-market interest rates drawdown. Such commitments are subsequently measured at the higher of the amount of the ECL allowance and the amount initially recognized less, when appropriate, the cumulative amount of income recognized.

RECLASSIFICATION OF FINANCIAL ASSETS

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

If financial assets are reclassified, the reclassification is applied prospectively from the reclassification date, which is the first day of the first reporting period following the change in business model that results in the reclassification of financial assets. Any previously 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

FINANCIAL ASSETS

(i) Derecognition due to substantial modification of terms and conditions

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- Fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- Other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, the objective of the modification is usually to maximize recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, it first considers whether a portion of the asset should be written off before the modification takes place (see below).

If the modification of a financial asset measured at amortized cost or fair value through other comprehensive income does not result in derecognition of the financial asset, the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognizes the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortized over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the EIR method.

(ii) Derecognition other than for substantial modification

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 financial asset have expired. The Group also derecognizes the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Group has transferred the financial asset if, and only if, either:

- The Group has transferred its contractual rights to receive cash flows from the financial asset; or
- The Group retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows, in full and without material delay, to a third party under a "pass-through" arrangement.

Pass-through arrangements are transactions whereby the Group retains the contractual rights to receive the cash flows of a financial asset (the "original asset"), but assumes a contractual obligation to pay those cash flows to one or more entities (the "eventual recipients"), when all of the following three conditions are met:

- The Group has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates;
- The Group cannot sell or pledge the original asset other than as security to the eventual recipients; and
- The Group has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Group is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients

A transfer only qualifies for derecognition if 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.

The Group considers control to be transferred if, and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Group has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognized only to the extent of the Group's continuing involvement, in which case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Group would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

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 as "other operating income" or "other operating expenses".

If the modification of a financial liability is not accounted for as derecognition, the amortized cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate, and the resulting gain or loss is recognized in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognized as an adjustment to the carrying amount of the liability and amortized over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

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 consideration received (cash collateral provided) 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 under repurchase agreements", reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the EIR method. 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 given as collateral".

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 (cash collateral provided), including accrued interest, is recorded in the consolidated statement of financial position within "Loans to banks and financial institutions and reverse repurchase agreements", reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in "net interest income" and is accrued over the life of the agreement using the EIR. If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within "financial liabilities at fair value through profit or loss" and measured at fair value, with any gains or losses included, in "net gain on financial instruments at fair value through profit or loss" in the consolidated income statement.

IMPAIRMENT OF FINANCIAL ASSETS (POLICY APPLICABLE FROM 1 JANUARY 2018)

(i) Overview of the ECL Principles

As described in Note 2.3, the adoption of IFRS 9 has fundamentally changed the Group's loan loss impairment method by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. From 1 January 2018, the Group has been recording the allowance for expected credit losses for all loans and other financial assets not held at fair value through profit or loss, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of lifetime ECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

(ii) Measurement of ECLs

The Group measures ECLs based on three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR, as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- Financial guarantee contracts: the expected payments to reimburse the holder less any amount that the Group expects to recover.

The key inputs into the measurements of ECL are:

- PD: The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio;
- EAD: The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments;
- LGD: The Loss Given Default is an estimate of the loss arising in the event that a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

These parameters are generally derived from statistical models and other historical data. Forward-looking information is incorporated in ECL measurements.

The Group measures ECLs using a three-stage approach based on the extent of credit deterioration since origination:

- Stage 1: Where there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument, an amount equal to 12m ECL is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, probability of default corresponding to remaining term to maturity is used;
- Stage 2: When a financial instrument experiences a SICR subsequent to origination but is not considered to be impaired, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument; and
- Stage 3: Financial instruments that are considered to be impaired are included in this stage similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

(iii) Forborne and modified loans

The Group sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or otherwise enforcing collection of collateral. The Group considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Forbearance may involve extending the payment arrangements and/or the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Group's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

From 1 January 2018, when a loan has been renegotiated or modified but not derecognized, the Group also reassesses whether there has been a significant increase in credit risk. The Group also considers whether the assets should be classified as Stage 3. Once an asset has been classified as forborne, it will remain forborne for a minimum 24-month probation period. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities have to be considered performing;
- The probation period of two years has passed from the date the forborne contract was considered performing;
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period; and
- The customer does not have any contracts that are more than 30 days past due.

If modifications are substantial, the loan is derecognized, as explained above.

(iv) Debt Instruments at Fair Value through Other Comprehensive Income

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is recycled to profit or loss upon derecognition of the asset(s).

(v) Collateral repossessed

The Group's accounting policy under IFRS 9 remains the same as it was under IAS 39. 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 appropriated for capital increase" in the following financial year.

(vi) Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortized cost, debt financial assets carried at fair value through other comprehensive income, and finance lease receivables are credit-impaired (referred to as "Stage 3 financial assets"). A financial asset is "credit impaired" when one or more events that have detrimental impact(s) on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- The disappearance of an active market for a security because of financial difficulties.

(vii) Writeoffs

The Group's accounting policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off, either partially or in their entirety, only when the Group has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to "Net impairment losses on financial assets".

IMPAIRMENT OF FINANCIAL ASSETS (POLICY APPLICABLE BEFORE 1 JANUARY 2018)

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 or have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has or have 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.

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.

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.

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.

FAIR VALUE MEASUREMENT

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

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

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

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

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

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

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 a 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 that 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%-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 in which 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). If the hedged item is derecognized, the unamortized fair value adjustment is recognized immediately in the consolidated income statement.

(ii) Cash flow hedges

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

When the hedged cash flow affects the consolidated income statement, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the consolidated income statement. When the forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income are removed from the reserve and included in the initial cost of the asset or liability.

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

Within its risk management and hedging strategies, the Group differentiates between micro and macro cash flow hedging strategies as set out in the following subsections:

Micro Fair Value Hedges

Micro cash flow hedge relationships relate to distinctly identifiable assets or liabilities hedged by one or more hedging instruments.

The Group's micro cash flow hedges consist principally of cross-currency swaps that are used to protect against exposures to variability in future interest and principal cash flows on its issued floating-rate euro notes due to changes in interest rate risk and/or foreign currency risk. The hedging ratio is established by matching the notional of the derivatives against the principal of the hedged issued foreign currency debt.

Macro Fair Value Hedges

It is the Group's strategy to apply macro cash flow hedge accounting to minimize the variability in future interest cash flows on non-trading variable-rate financial assets and liabilities and to keep fluctuations within its established limits. The amounts and timing of future hedged cash flows represent both the interest and the principal based on contractual terms with adjustments for expected defaults, and/or prepayments based on the Group's projected consolidated balance sheet, including forecasted transactions. The hedged items are designated as the gross asset or liability positions allocated to time buckets based on projected re-pricing and interest profiles. The Group aims to set the hedging ratio at 100% by matching the notional of the designated hedged items to the notional amount of the corresponding interest rate swaps used as the hedging instruments. The hedge accounting relationship is reviewed on a monthly basis and the hedging instruments and hedged items are de-designated and re-designated, if necessary, based on the effectiveness test results and changes in the hedged exposure.

(iii) Hedge of a net investment

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

LEASING

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

Group as a lessee

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

Group as a lessor

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

RECOGNITION OF INCOME AND EXPENSES

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

(i) Interest and similar income and expense

The effective interest rate

Interest income and expense are recognized in the income statement, applying the EIR method for all financial instruments measured at amortized cost, financial instruments designated at fair value through profit or loss, and interest-bearing financial assets measured at fair value through other comprehensive income.

The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortized cost of a financial liability. When calculating the EIR for financial instruments other than those purchased or originated credit impaired (POCI), an entity shall take into account all the contractual terms of the financial instrument (e.g., prepayment, extension, call, and similar options) but shall not consider the expected credit losses. For POCI financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows and expected credit losses.

The calculation includes all fees and points paid or received between parties to the contract which are integral parts of the effective interest rate, transaction costs, and all other premiums or discounts.

Interest income and interest expense

The effective interest rate of a financial asset or a financial liability is calculated on initial recognition of the financial asset or financial liability. In determining interest income and expense, the EIR is applied to the gross carrying amount of the financial asset (unless the asset is credit-impaired) or the amortized cost of a financial liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating-rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortization of the hedge adjustment begins.

The calculation includes all fees and points paid or received between parties to the contract which are integral parts of the effective interest rate, transaction costs, and all other premiums or discounts, unless the financial instrument is measured at fair value, with the change in fair value being recognized in profit or loss. In those cases, the fees are recognized as revenue or expense when the instrument is initially recognized.

When a financial asset becomes credit-impaired after initial recognition, interest income is determined by applying the EIR to the net amortized cost of the instrument. If the financial asset cures and is no longer credit-impaired, the Group reverts to calculating interest income on a gross basis. Furthermore, for financial assets that were credit-impaired on initial recognition, interest is determined by applying a credit-adjusted EIR to the amortized cost of the instrument. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Presentation

Interest income, calculated using the EIR method and presented in the statement of profit or loss and other comprehensive income, includes:

- Interest on financial assets at amortized cost;
- Interest on debt instruments measured at fair value through other comprehensive income;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

Interest expense presented in the statement of profit or loss and other comprehensive income includes:

- financial liabilities measured at amortized cost; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense.

Interest income and expense on financial instruments measured at fair value through profit or loss are presented under “Net gain on financial assets at fair value through profit or loss” in the consolidated income statement.

(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 commissions, as well as 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

Net income from financial instruments at fair value through profit or loss comprises gains and losses related to trading assets and liabilities, non-trading derivatives held for risk management purposes that do not form part of qualifying hedging relationships, financial assets and financial liabilities designated as at fair value through profit or loss, and non-trading assets mandatorily measured at fair value through profit or loss. The line item includes fair value changes, interest, dividends, and foreign exchange differences.

(v) Insurance revenue

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

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

CASH AND CASH EQUIVALENTS

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

PROPERTY AND EQUIPMENT

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

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

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

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

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

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

BUSINESS COMBINATIONS AND GOODWILL

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group makes an acquisition meeting the definition of a business under IFRS 3, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic 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, this 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 groups 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 CGU 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 CGU retained.

INTANGIBLE ASSETS

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

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

The useful lives of intangible assets are assessed to be either finite of indefinite. Intangible assets with finite lives are amortized over their useful economic lives. 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 CGU 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.

NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Non-current assets held for sale are measured at the lower of their carrying amount and fair value, less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition, management has committed to the sale, and the sale is expected to have been completed within one year from the date of classification.

A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale, and: a) represents a separate major line of business or geographical area of operations; b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or c) is a subsidiary acquired exclusively with a view to resale.

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

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

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

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;
- Net interest expense or income.

PROVISIONS FOR RISKS AND CHARGES

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

TAXES

Taxes are provided for in accordance with regulations and laws that are effective in the countries where the Group operates.

(i) Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

(ii) Deferred tax

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

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- In respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

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

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

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

TREASURY SHARES

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

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

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

ASSETS HELD IN CUSTODY AND UNDER ADMINISTRATION

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

DIVIDENDS ON ORDINARY SHARES

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

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

CUSTOMERS' ACCEPTANCES

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

Segment reporting

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

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates, and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities.

Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

JUDGMENTS

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect in the amounts recognized in the financial statements:

Going concern

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

Business model

In making an assessment whether a business model's objective is to hold assets in order to collect contractual cash flows, the Group considers at which level of its business activities such assessment should be made. Generally, a business model is a matter of fact which can be evidenced by the way business is managed and how information is 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 maturities of the assets, terms that change the amount and timing of cash flows, and whether the contractual terms contain leverage.

Deferred tax assets

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

ESTIMATES AND ASSUMPTIONS

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

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in 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 values of financial instruments.

Impairment Losses on Financial Instruments (Applicable after 1 January 2018)

The measurement of impairment losses across all categories of financial assets requires judgment, in particular the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgments and estimates include:

- The Group's internal credit grading model, which assigns PDs to the individual grades;
- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs; and
- Selection of forward-looking macroeconomic scenarios, and their probability weightings, to derive the economic inputs into the ECL models.

It has been the Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

Impairment losses on loans and advances (Applicable before 1 January 2018)

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 date (including levels of unemployment, real estate price indices, country risk, and the performance of different individual groups).

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 2018 %	2017 %	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.	63.95	63.95	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 Armenia C.J.S.C.	100.00	100.00	Commercial Banking	Armenia
Adonis Insurance and Reinsurance (ADIR) Syria	76.00	76.00	Insurance	Syria
Byblos Bank RDC S.A.R.L.	-	66.67	Banking activities	Democratic Republic of the Congo

5. MATERIAL PARTLY OWNED SUBSIDIARIES

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

Proportion of equity interests held by non-controlling interests:

Name	2018 %	2017 %
Adonis Insurance and Reinsurance Co. (ADIR) S.A.L.	36.05	36.05

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

Summarized income statement for the year ended 31 December:

	Adonis Insurance and Reinsurance Co. (ADIR) S.A.L.	
LBP Million	2018	2017
Net interest income	14,133	11,504
Net fee and commission income	5,031	4,636
Net (loss) gain from financial assets at fair value through profit or loss	(59)	406
Other operating income	19,404	21,002
Total operating expenses	(12,972)	(12,765)
Income tax expense	(1,540)	(2,067)
Profit for the year	**23,997**	**22,716**
Attributable to non-controlling interests	**8,651**	**8,189**
Dividends paid to non-controlling interests	**4,086**	**3,219**

Summarized statement of financial position as at 31 December:

	Adonis Insurance and Reinsurance Co. (ADIR) S.A.L.	
LBP Million	2018	2017
Cash and balances with central banks	39	12
Due from banks and financial institutions	29,569	37,117
Balances with Parent and Group entities	206,575	165,276
Financial assets at fair value through profit or loss	26,940	37,811
Net loans and advances at amortized cost	6,921	5,182
Financial assets at amortized cost	183,787	186,848
Financial assets at fair value through other comprehensive income	14,380	-
Property and equipment	2,067	2,267
Other assets	83,946	62,672
Deposits at amortized cost	(297,222)	(272,925)
Other liabilities	(156,652)	(129,669)
Total equity	**100,350**	**94,591**
Attributable to non-controlling interests	**36,176**	**34,100**

Summarized cash flow information for the year ended 31 December:

	Adonis Insurance and Reinsurance Co. (ADIR) S.A.L.	
LBP Million	2018	2017
Operating	29,828	29,257
Investing	16,751	(18,217)
Financing	(7,203)	(4,640)
Net increase in cash and cash equivalents	**39,376**	**6,400**

6. 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

2018 LBP Million	Retail banking	Corporate banking	Treasury and capital markets	Other[1]	Total
Net interest income	224,231	130,279	138,442	1,794	**494,746**
Net fee and commission income	68,987	63,593	4,643	7,840	**145,063**
Net gain from financial assets at fair value through profit or loss	-	-	16,451	-	**16,451**
Net gain from sale of financial assets at amortized cost	-	-	(3,119)	-	**(3,119)**
Revenues from financial assets at fair value through other comprehensive income	-	-	5,569	-	**5,569**
Other operating income	-	-	-	42,539	**42,539**
Net impairment (loss) gain on financial assets	(6,648)	(27,192)	19,670	-	**(14,170)**
Net operating income	**286,570**	**166,680**	**181,656**	**52,173**	**687,079**

2017 LBP Million	Retail banking	Corporate banking	Treasury and capital markets	Other[1]	Total
Net interest income	165,463	127,590	129,128	(2,348)	**419,833**
Net fee and commission income	62,536	59,334	2,179	9,663	**133,712**
Net gain from financial assets at fair value through profit or loss	-	-	46,918	-	**46,918**
Net gain from sale of financial assets at amortized cost	-	-	36,232	-	**36,232**
Revenues from financial assets at fair value through other comprehensive income	-	-	4,445	-	**4,445**
Other operating income	-	-	-	28,235	**28,235**
Net impairment loss on financial assets	(6,070)	(12,863)	-	-	**(18,933)**
Net operating income	**221,929**	**174,061**	**218,902**	**35,550**	**650,442**

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

FINANCIAL POSITION INFORMATION

2018 LBP Million	Retail banking	Corporate banking	Treasury and capital markets	Other[1]	Total
Total assets	**2,998,211**	**5,567,040**	**28,649,601**	**482,976**	**37,697,828**
Total liabilities	**26,425,680**	**1,413,633**	**6,016,115**	**947,291**	**34,802,719**

2017 LBP Million	Retail banking	Corporate banking	Treasury and capital markets	Other[1]	Total
Total assets	**2,935,563**	**5,633,475**	**25,192,118**	**420,668**	**34,181,824**
Total liabilities	**25,674,063**	**1,464,443**	**3,246,864**	**963,829**	**31,349,199**

[1] Other includes all non-banking activities.

GEOGRAPHIC INFORMATION

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

2018 LBP Million	Lebanon	Europe	Other	Total
Total operating income	612,691	61,267	27,291	**701,249**
Net impairment loss on financial assets	(6,998)	(2,617)	(4,555)	**(14,170)**
Net operating income[2]	**605,693**	**58,650**	**22,736**	**687,079**
Non-current assets[3]	**299,355**	**10,281**	**31,459**	**341,095**

2017 LBP Million	Lebanon	Europe	Other	Total
Total operating income	594,712	51,866	22,797	**669,375**
Net impairment loss on financial assets	(15,039)	(3,630)	(264)	**(18,933)**
Net operating income[2]	**579,673**	**48,236**	**22,533**	**650,442**
Non-current assets[3]	**282,983**	**8,525**	**27,087**	**318,595**

[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 12 months after the reporting date.

7. INTEREST AND SIMILAR INCOME

INTEREST AND SIMILAR INCOME

LBP Million	2018	2017
Balances with central banks	885,533	532,532
Due from banks and financial institutions	73,198	46,468
Loans to banks and financial institutions and reverse repurchase agreements	22,813	21,053
Loans and advances to customers at amortized cost	587,603	526,239
Loans and advances to related parties at amortized cost	1,543	1,457
Financial assets at amortized cost	542,882	571,562
Debt instruments at fair value through other comprehensive income	18,411	-
	2,131,983	**1,699,311**

TAX ON INTEREST

LBP Million	2018	2017
Balances with central banks	(64,920)	-
Financial assets at amortized cost	(27,538)	(3,518)
Debt instruments at fair value through other comprehensive income	(726)	-
Due from banks and financial institutions	(85)	-
Loans to banks and financial institutions and reverse repurchase agreements	(22)	-
	(93,291)	(3,518)
Interest and similar income, net of tax	**2,038,692**	**1,695,793**

8. INTEREST AND SIMILAR EXPENSE

LBP Million	2018	2017
Due to central banks	57,881	19,547
Due to banks and financial institutions	31,574	22,058
Customers' deposits at amortized cost	1,369,487	1,152,207
Deposits from related parties at amortized cost	21,360	18,646
Debt issued and other borrowed funds	31,796	31,806
Subordinated debt	31,848	31,696
	1,543,946	**1,275,960**

9. NET FEE AND COMMISSION INCOME

LBP Million	2018	2017
FEE AND COMMISSION INCOME		
Loans and advances	26,086	25,214
Letters of guarantee	13,338	11,403
Acceptances	8,360	7,206
Letters of credit	23,235	20,966
Credit cards	22,455	19,919
Domiciled bills	2,411	2,322
Checks for collection	2,906	2,901
Maintenance of accounts	16,654	16,296
Transfers	10,290	9,658
Safe rental	1,138	1,171
Portfolio commission	2,845	2,203
Commission on insurance-related activities	11,111	10,952
Refund of banking services	13,085	11,933
Other commissions	3,569	3,500
	157,483	**145,644**
Fee and commission expense	**(12,420)**	**(11,932)**
Net fee and commission income	**145,063**	**133,712**

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

LBP Million	2018	2017
Interest and similar income from debt instruments		
Lebanese treasury bills	3,709	22,954
Certificates of deposit issued by the Central Bank of Lebanon	-	9,412
Debt securities issued by banks and financial institutions	1	197
	3,710	**32,563**
(Loss) Gain from sale of debt instruments		
Lebanese treasury bills	(1,568)	(2,857)
Certificates of deposit issued by the Central Bank of Lebanon	-	(3,908)
Debt securities issued by banks and financial institutions	36	22
	(1,532)	**(6,743)**
Unrealized (loss) gain from revaluation of debt instruments		
Lebanese treasury bills	(1,636)	(3,723)
Debt securities issued by banks and financial institutions	-	(19)
	(1,636)	**(3,742)**
Net gain from debt instruments	**542**	**22,078**
Equity instruments		
(Loss) gain from sale	(14)	637
Unrealized (loss) gain from revaluation	(5,408)	3,039
Dividend income	88	848
Net (loss) gain from equity instruments	**(5,334)**	**4,524**
Foreign exchange (*)	21,243	20,316
	16,451	**46,918**

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

11. 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 Central Bank of Lebanon; or
- Currency risk management as a result of change in the currency base of deposits.

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

2018 LBP Million	**Gains**	**Losses**	**Net**
Lebanese treasury bills	-	(2,558)	(2,558)
Certificates of deposit issued by the Central Bank of Lebanon	-	(561)	(561)
	-	**(3,119)**	**(3,119)**

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**

12. OTHER OPERATING INCOME

LBP Million	**2018**	**2017**
Income from insurance-related activities	16,485	18,838
Claims approved by reinsurers (note 30)	10,553	-
Write-back of provisions for risks and charges (note 36 (b))	8,274	1,484
Rental income from assets obtained in settlement of debt	571	624
Net gain from sale of assets obtained in settlement of debt	45	3,202
Others	6,611	4,087
	42,539	**28,235**

13. NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

LBP Million	2018	2017
New and increased impairment allowances:		
Balances with central banks	7,390	-
Due from banks and financial institutions	2,897	-
Loans to banks and financial institutions and reverse repurchase agreements	105	-
Loans and advances to customers at amortized cost	63,244	45,326
Loans and advances to related parties at amortized cost	15	-
Bad debts written off	-	102
Financial assets at amortized cost	1,787	-
Financial assets at fair value through other comprehensive income	284	-
Financial guarantees and other commitments	889	-
	76,611	**45,428**
Recoveries:		
Balances with central banks	(29,024)	-
Due from banks and financial institutions	(78)	-
Loans to banks and financial institutions and reverse repurchase agreements	(25)	-
Loans and advances to customers at amortized cost	(30,266)	(26,495)
Financial assets at amortized cost	(3,006)	-
Financial guarantees and other commitments	(42)	-
	(62,441)	**(26,495)**
	14,170	**18,933**

14. PERSONNEL EXPENSES

LBP Million	2018	2017
Salaries and other related benefits	160,137	153,051
Social security contributions	20,412	20,570
Bonuses	20,733	22,777
Provision for employees' end-of-service benefits (note 36 (a))	10,052	6,615
	211,334	**203,013**

15. OTHER OPERATING EXPENSES

LBP Million	2018	2017
Taxes on interest	4,648	3,546
Taxes and duties	8,262	7,129
Contribution to deposit guarantee fund	13,350	12,728
Rent and related charges	7,016	6,777
Professional fees	10,013	10,436
Telecommunications and postage expenses	6,978	7,058
Board of Directors attendance fees	1,340	1,180
Maintenance and repairs	17,459	16,612
Electricity and fuel	5,140	5,451
Travel and entertainment	2,786	3,005
Publicity and advertising	14,401	15,132
Subscriptions	4,459	4,479
Legal expenses	2,499	4,475
Insurance	1,013	1,035
Guarding fees	2,348	2,447
Printings and stationery	2,509	2,852
Donations	2,936	2,690
Provisions for risks and charges (note 36 (b))	27,971	8,098
Others	13,307	12,267
	148,435	**127,397**

16. INCOME TAX EXPENSE

The components of income tax expense for the years ended 31 December 2018 and 2017 are as follows:

LBP Million	2018	2017
Current income tax expense	57,382	47,508
Other taxes	113	925
	57,495	**48,433**

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	2018	2017
Profit before tax	307,361	300,275
At Lebanon's statutory tax rate	52,251	46,128
Impact of increase resulting from:		
Different tax rates	1,574	435
Non-deductible expenses	7,316	3,368
	8,890	**3,803**
Impact of decrease resulting from:		
Revenues previously subject to tax	(3,759)	(2,423)
	(3,759)	**(2,423)**
Income tax	**57,382**	**47,508**
Effective income tax rate	**18.67%**	**15.82%**

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

LBP Million	2018	2017
Balance at 1 January	31,735	96,028
Charge for the year	57,495	48,433
Discontinued operations	-	202
	89,230	**144,663**
Less taxes paid:		
Current year tax liability (*)	-	(18,149)
Prior years tax liabilities	(31,828)	(94,779)
	(31,828)	**(112,928)**
Balance at 31 December (note 35 (a))	**57,402**	**31,735**

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

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

2018 LBP Million	**Deferred tax assets**	**Deferred tax liabilities**
Fair value of financial instruments	882	3,169

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

17. LOSS FROM DISCONTINUED OPERATIONS

During 2018, the Group fully disposed of its investment in Byblos Bank RDC S.A.R.L. to third parties for a total consideration of USD 8 million (equivalent to LBP 12,060 million).

The disposal of this subsidiary resulted in a loss from discontinued operations amounting to LBP 2,472 million, representing the loss on interest disposed of, and which was recorded under "(loss) profit from discontinued operations, net of tax" in the consolidated income statement.

The net (losses) profits from discontinued operations are as follows:

LBP Million	**2018**	**2017**
Interest and similar income	54	2,975
Interest and similar expense	-	(34)
Net interest income	54	2,941
Fee and commission income	134	1,518
Fee and commission expense	-	(206)
Net fee and commission income	134	1,312
Other operating income	544	5,210
Total operating income	732	9,463
Net impairment (loss) gain on financial assets	(28)	63
Net operating income	**704**	**9,526**
Total operating expenses	(1,642)	(4,712)
Operating (loss) profit	**(938)**	**4,814**
Loss on derecognition of discontinued operations	(1,534)	-
Tax attributable to operating profit	-	(202)
(Loss) profit for the year from discontinued operations	(2,472)	4,612
Cash inflow from sale:		
Total consideration received	**12,060**	-

LBP Million	2018	2017
Earnings per share:		
Basic earnings per share	(3.84)	5.46
Diluted earnings per share	(3.17)	4.52

The net cash flows from discontinued operations are as follows:

LBP Million	2018	2017
Operating activities	3,439	3,080
Investing activities	63	1,723
Financing activities	(94)	3,845
Net cash inflows	**3,408**	**8,648**

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	2018	2017
Weighted average number of common shares outstanding during the year (*)	563,252,414	563,322,218

LBP Million	2018	2017
Net profit attributable to equity holders of the parent	238,940	248,539
(Less): proposed dividends to preferred shares	(48,480)	(48,480)
Net profit attributable to equity holders of the parent	**190,460**	**200,059**
Basic earnings per share in LBP	**338.14**	**355.14**

(*) 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	2018	2017
Weighted average number of ordinary shares for basic earnings per share	563,252,414	563,322,218
Effect of dilution:		
Convertible subordinated debt	117,200,000	117,200,000
Weighted average number of ordinary shares adjusted for the effect of dilution	**680,452,414**	**680,522,218**

LBP Million	2018	2017
Net profit attributable to equity holders of the parent	190,460	200,059
Interest on convertible debt	31,848	31,696
Less: income tax	(5,414)	(4,754)
Net profit attributable to equity holders of the parent adjusted for the effect of convertible debt	**216,894**	**227,001**
Diluted earnings per share in LBP	**318.75**	**333.57**

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	2018	2017
Cash on hand	342,744	248,598
Balances with the Central Bank of Lebanon:		
- Current accounts	367,179	274,211
- Time deposits	15,132,903	11,038,716
	15,500,082	**11,312,927**
Balances with central banks in other countries:		
- Current accounts	327,519	318,107
- Time deposits	468	443
	327,987	**318,550**
Accrued interest receivable	189,637	118,262
	16,360,450	**11,998,337**
Less: Allowance for expected credit losses/Impairment allowance	(36,328)	(31,533)
	16,324,122	**11,966,804**

Included under time deposits with the Central Bank of Lebanon is an amount of LBP 2,334,095 million as at 31 December 2018 representing balances pledged against loans obtained from the Central Bank of Lebanon (2017: nil) (note 31).

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 2,920,277 million and LBP 2,972,575 million respectively as at 31 December 2018 (2017: LBP 2,719,320 million and LBP 2,763,003 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 2018, obligatory reserve requirements for banks operating in foreign countries and the related covering time deposits, current accounts, and cash on hand amounted to LBP 93,674 million (2017: LBP 47,061 million).

Provision for balances with Central Banks in other countries represents provision amounting to LBP 2,562 million as at 31 December 2018 (2017: LBP 31,533 million) against balances held with the Central Bank of Iraq – Kurdistan.

20. DUE FROM BANKS AND FINANCIAL INSTITUTIONS

LBP Million	2018	2017
Current accounts	991,732	1,146,373
Time deposits	2,874,064	2,780,678
Accrued interest receivable	4,428	3,454
	3,870,224	**3,930,505**
Less: Allowance for expected credit losses/Impairment allowance	(5,473)	(1,919)
	3,864,751	**3,928,586**

Doubtful balances with banks and financial institutions and the related provisions and unrealized interest which fulfill certain requirements have been transferred to off financial position accounts. The gross amount of these balances amounted to LBP 2,409 million as of 31 December 2018 (2017: the same).

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

LBP Million	2018	2017
Loans to banks and financial institutions	178,490	117,729
Accrued interest receivable	1,160	731
	179,650	**118,460**
Discounted acceptances	169,260	215,099
Interest received in advance	(2,723)	(1,325)
	166,537	**213,774**
Reverse repurchase agreements	17,597	419,459
Accrued interest receivable	17	2,701
	17,614	**422,160**
	363,801	**754,394**
Less: Allowance for expected credit losses/Impairment allowance	(168)	-
	363,633	**754,394**

Reverse repurchase agreements held by the Group as at 31 December 2018 and 2017 comprise the following:

31 December 2018	Balance (000)	Balance LBP Million	Average interest rate %	Collateral type	Collateral value LBP Million
AMD	**5,640,150**	**17,597**	**5.94**	**Armenian TBs**	**17,607**

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**

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 agreement reflecting the transaction's economic substance as a loan by the Group.

As at 31 December 2018, the Group had Armenian Treasury Bills issued by the Armenian government with a total nominal amount of AMD (000) 5,643,111 bought from financial institutions under the agreement to resell them during the first half of 2019 (2017: Certificates of Deposit issued by the Central Bank of Lebanon with a total nominal amount 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).

Net interest income on the reverse repurchase agreements amounted to LBP 10,449 million for the year ended 31 December 2018 (31 December 2017: LBP 14,229 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 the year-end and are indicative of neither the market risk nor the credit risk.

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

	2018			2017		
LBP Million	**Assets**	**Liabilities**	**Notional amount**	**Assets**	**Liabilities**	**Notional amount**
Held for trading						
Currency swaps	444	391	180,051	1,522	1,937	260,345
Forward foreign exchange contracts	1,455	1,411	154,210	1,268	1,607	244,451
	1,899	**1,802**	**334,261**	**2,790**	**3,544**	**504,796**

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	2018	2017
Quoted		
Lebanese treasury bills – Eurobonds	29,624	71,426
Debt securities issued by banks and financial institutions	-	2,494
Equity securities	39,637	31,834
	69,261	**105,754**
Unquoted		
Lebanese treasury bills – denominated in LBP	1,990	150,271
Equity securities	19,239	26,292
	21,229	**176,563**
	90,490	**282,317**

Effective 1 January 2018, upon adoption of IFRS 9, financial assets at fair value through profit or loss with a carrying amount of LBP 152,834 million were reclassified to financial assets at fair value through other comprehensive income (Note 2 and 26).

24. NET LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST

LBP Million	2018	2017
Commercial loans	5,400,376	5,448,570
Consumer loans	3,088,798	3,036,968
	8,489,174	**8,485,538**
Less: Allowance for expected credit losses/Impairment allowance	(310,945)	(292,553)
	8,178,229	**8,192,985**

The table for the movement in allowences for expected credit losses and advances to customers at amortised cost under IFRS 9 is presented in the Credit Risk section (Note 49.2)

An analysis of the allowance for impairment losses under IAS 39 for loans and advances, by class, for the year ended 31 December 2017 is as follows:

2017 LBP Million	**Commercial loans**	**Consumer loans**	**Total**
Balance at 1 January	179,445	111,440	290,885
Add (less):			
- Charge for the year (note 13)	25,138	20,188	45,326
- Unrealized interest for the year	19,502	1,638	21,140
- Recoveries (note 13)	(11,515)	(14,980)	(26,495)
- Transfer to off financial position	(33,454)	(5,062)	(38,516)
- Amounts written off	(956)	(981)	(1,937)
- Discontinued operations	(81)	-	(81)
- Difference of exchange	2,191	40	2,231
Balance at 31 December	**180,270**	**112,283**	**292,553**
Individual impairment	118,806	98,741	217,547
Collective impairment	61,464	13,542	75,006
	180,270	**112,283**	**292,553**
Gross amount of loans individually determined to be impaired	**243,251**	**158,853**	**402,104**

Bad loans and related provisions and unrealized interest which fulfill certain requirements have been transferred to off financial position accounts. The gross balance of these loans amounted to LL 238,775 million as of 31 December 2018 (2017: LL 214,368 million).

25. FINANCIAL ASSETS AT AMORTIZED COST

LBP Million	2018	2017
Quoted		
Lebanese treasury bills – Eurobonds	1,973,028	2,204,944
Foreign governmental debt securities	85,617	167,733
Debt securities issued by banks and financial institutions	776	3,931
	2,059,421	**2,376,608**
Unquoted		
Lebanese treasury bills – denominated in LBP	1,439,721	1,808,188
Lebanese treasury bills – denominated in LBP, given as collateral (*)	1,257,136	735,962
Certificates of deposit issued by the Central Bank of Lebanon denominated in LBP	1,675,946	1,736,194
Certificates of deposit issued by the Central Bank of Lebanon EuroCDs	1,366,224	1,498,398
Certificates of deposit issued by banks and financial institutions	3,051	-
	5,742,078	**5,778,742**
	7,801,499	**8,155,350**
Less: Allowance for expected credit losses/Impairment allowance	(25,223)	-
	7,776,276	**8,155,350**

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

Effective 1 January 2018, upon adoption of IFRS 9, financial assets at amortized cost with a carrying amount of LBP 372,004 million were reclassified to financial assets at fair value through other comprehensive income (Note 2 and 26).

26. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

LBP Million	2018	2017
Quoted		
Lebanese treasury bills – Eurobonds	42,919	-
Foreign governmental debt securities	90,884	-
Debt securities issued by banks and financial institutions	6,410	-
Equity securities	44,664	47,452
	184,877	**47,452**
Unquoted		
Equity securities	43,552	54,425
	228,429	**101,877**

DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME:

During the year 2018, total adjustments related to the reclassification and measurements other than impairment consisted mainly of the reclassification of financial assets held at amortized cost and at fair value through profit or loss to debt instruments at fair value through other comprehensive income, amounting to LBP 524,838 million.

EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME:

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

	2018			2017		
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.	20,336	15,148	571	32,162	26,974	94
Intra Investment Company S.A.L.	17,591	4,567	583	17,591	4,567	-
Interbank Payment Network (IPN) S.A.L.	1,411	408	50	1,363	360	-
Arab Trade Financing Program	2,118	626	-	2,118	626	-
Others	2,096	281	-	1,191	346	2,373
Quoted shares:						
Jordan Ahli Bank	44,664	(35,750)	2,031	47,452	(32,962)	1,978
	88,216	**(14,720)**	**3,235**	**101,877**	**(89)**	**4,445**

Dividend income amounted to LBP 3,235 million for the year ended 31 December 2018 (2017: LBP 4,445 million) and resulted from equity instruments held at year-end (2017: the same).

Gains from disposal of debt instruments held at fair value through other comprehensive income amounted to LBP 2,334 million for the year ended 31 December 2018 (2017: nil).

27. PROPERTY AND EQUIPMENT

2018 LBP Million	**Buildings**	**Motor vehicles**	**Furniture and equipment**	**Deposits**	**Advance payments**	**Total**
Cost:						
At 1 January 2018	278,950	3,006	257,039	707	7,680	**547,382**
Additions	12,358	30	22,786	41	3,369	**38,584**
Transfers	-	-	2,552	-	(2,552)	**-**
Disposals	(2,749)	-	(463)	-	-	**(3,212)**
Foreign exchange difference	10	-	(379)	-	-	**(369)**
Disposal of a subsidiary	-	(176)	(1,263)	-	-	**(1,439)**
At 31 December 2018	**288,569**	**2,860**	**280,272**	**748**	**8,497**	**580,946**
Depreciation:						
At 1 January 2018	64,329	2,158	207,458	-	-	**273,945**
Depreciation during the year	4,778	295	14,882	-	-	**19,955**
Related to disposals	-	-	(460)	-	-	**(460)**
Foreign exchange difference	2	-	(624)	-	-	**(622)**
Disposal of a subsidiary	-	(146)	(1,263)	-	-	**(1,409)**
At 31 December 2018	**69,109**	**2,307**	**219,993**	**-**	**-**	**291,409**
Net carrying value:						
At 31 December 2018	**219,460**	**553**	**60,279**	**748**	**8,497**	**289,537**

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	16,044	-	-	**20,901**
Depreciation related to discontinued operations	-	-	232	-	-	**232**
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**

The cost of buildings at 31 December 2018 and 2017 includes the revaluation differences of properties valued during prior years in accordance with Law 282, dated 30 December 1993, and approved by the Central Committee of the Central Bank of Lebanon.

Revaluation differences on property and equipment reflected as revaluation reserve of real estate in equity amounted to LBP 5,689 million as at 31 December 2018 (2017: the same) (note 42).

28. INTANGIBLE ASSETS

LBP Million	2018	2017
Cost:		
At 1 January and 31 December	2,303	2,303
Accumulated amortization:		
At 1 January	2,036	1,923
Amortization expense for the year	114	113
At 31 December	**2,150**	**2,036**
Net carrying value:		
At 31 December	**153**	**267**

29. ASSETS OBTAINED IN SETTLEMENT OF DEBT

LBP Million	2018	2017
Cost:		
At 1 January	50,050	48,458
Additions	8,205	4,546
Disposals	(284)	(2,954)
Transfers	(1,407)	-
At 31 December	**56,564**	**50,050**
Impairment:		
At 1 January and 31 December	(5,159)	(5,159)
Net carrying value:		
At 31 December	**51,405**	**44,891**

Advance payments received in connection with future sale transactions for the above assets amounted to LBP 375 million as of 31 December 2018 (2017: LBP 885 million) (note 35).

30. OTHER ASSETS

LBP Million		2018	2017
Obligatory deposits	a	2,250	2,250
Other assets	b	138,750	99,686
Deferred tax assets (note 16)		882	137
		141,882	**102,073**

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

b) Other assets consist of the following:

LBP Million	2018	2017
Prepaid expenses	4,296	3,592
Prepaid insurance	1,739	1,518
Prepaid maintenance	2,339	1,799
Printings and stationery	4,533	3,820
Electronic cards and regularization accounts	18,050	15,685
Insurance premiums receivable	6,547	4,526
Reinsurers' share of technical reserves of subsidiary insurance companies	69,149	48,898
Hospitalization and medical care under collection	12,894	12,442
Receivable balance related to approved claims by reinsurers (note 12)	10,553	-
Other debit balances	8,650	7,406
	138,750	**99,686**

31. DUE TO CENTRAL BANKS

LBP Million	2018	2017
Current accounts	575	1,109
Loans due to the Central Bank of Lebanon	3,844,785	858,203
Loans due to the Central Bank of Armenia	3,204	2,110
Time deposits placed by the Central Bank of Angola	5,567	507,079
Accrued interest payable	16,392	6,336
	3,870,523	**1,374,837**

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 332,608 million as of 31 December 2018 (2017: LBP 197,240 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 2018 and 2017 (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 58,239 million as at 31 December 2018 (2017: netted by a discount of LBP 65,509 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 2018 and 2017 (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 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 2018 and 2017 (note 25).
- During 2018, the Group obtained 31 loans from the Central Bank of Lebanon amounting to LBP 2,843,943 million and having maturities ranging between 2023 and 2028. These loans are secured by the pledge of Lebanese treasury bills amounting to LBP 509,848 million included under financial assets at amortized cost as of 31 December 2018 (note 25) and the pledge of time deposits held with the Central Bank of Lebanon amounting to LBP 2,334,095 million as of 31 December 2018 (note 19).

LOANS DUE TO THE CENTRAL BANK OF ANGOLA:

- During 2017, the Central Bank of Angola placed time deposits with the Group denominated in US Dollars, amounting to LBP 507,079 million, and maturing during the first quarter of 2018. These deposits were placed to cover the letters of credit issued by the Group in the framework of the essential goods importation program sponsored by the Angolan government. Time deposits placed by the Central Bank of Angola amounted to LBP 5,567 million as at 31 December 2018.

32. DUE TO BANKS AND FINANCIAL INSTITUTIONS

LBP Million	**2018**	**2017**
- Current accounts	173,235	142,597
- Term loans	507,127	434,045
- Time deposits	415,886	196,933
- Cash margins	163,374	193,912
- Accrued interest payable	6,448	4,828
	1,266,070	**972,315**

33. CUSTOMERS' DEPOSITS AT AMORTIZED COST

LBP Million	2018	2017
Current accounts	3,564,335	3,474,417
Term deposits	22,387,664	21,896,171
Cash margins	1,285,137	1,241,692
Accrued interest payable	181,006	145,436
	27,418,142	**26,757,716**

34. DEBT ISSUED AND OTHER BORROWED FUNDS

	Maturity	Interest rate %	2018 LBP Million	2017 LBP Million
Bonds (*)				
Issue 2011	24 June 2021	7.00	441,125	443,404
Accrued interest payable			616	616
			441,741	**444,020**
Debt issued				
Issue 2017	19 January 2021	7.50	9,358	9,334
Accrued interest payable			202	202
			9,560	**9,536**
			451,301	**453,556**

(*) 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	2018	2017
Accrued expenses	43,263	41,280
Fixed-asset suppliers	182	245
Unearned commission and interest	6,198	6,387
Cash margins related to companies under establishment	1,432	1,525
Insurance premiums received in advance	2,908	2,798
Payables to the National Social Security Fund	2,237	1,610
Advance payments linked to assets obtained in settlement of debt (note 29)	375	885
Current tax liability (a)	75,780	45,376
Deferred tax liability (note 16)	3,169	5,807
Put options on non-controlling interests	4,791	4,791
Deferred provision for Banque Pharaon & Chiha S.A.L. loan portfolio	10,723	24,953
Escrow account upon acquisition of Banque Pharaon & Chiha S.A.L.	4,776	4,776
Deferred revenues (b)	155,494	86,682
Other creditors	43,449	51,372
	354,777	**278,487**

(a) Current tax liability

LBP Million	2018	2017
Income tax due (note 16)	57,402	31,735
Withholding tax on salaries	2,343	2,257
Withholding tax on interest earned by customers	12,117	8,662
Value added tax	503	227
Other taxes	3,415	2,495
	75,780	**45,376**

(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 (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.

As at 31 December 2017, the Group carried an amount of LBP 86,682 million (net of tax) in gains realized from certain financial transactions with the Central Bank of Lebanon that it did not recognize in the consolidated income statement for the year ended 31 December 2016. During 2018, the Group transferred the remaining amount of LBP 68,812 million from "Provisions for risks and charges" to "Deferred revenues" (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	2018	2017
Technical reserves of insurance subsidiaries	132,260	108,060
Employees' end-of-service benefits (a)	38,655	48,864
Other provisions (b)	59,508	194,012
	230,423	**350,936**

(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 (NSSF). 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 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	2018	2017
Balance at 1 January	**48,864**	**49,189**
Costs charged to the income statement (note 14):		
Service costs	6,877	3,496
Net interest	3,175	3,119
	10,052	**6,615**
Discontinued operations:		
Service costs	-	185
	-	**185**
Re-measurement gains in other comprehensive income:		
Experience adjustments	(15,975)	(2,164)
	(15,975)	**(2,164)**
Disposal of a subsidiary	(381)	-
End-of-service benefits paid during the year	(3,843)	(5,091)
Foreign exchange	(62)	130
Balance at 31 December	**38,655**	**48,864**

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:

	2018	2017
Economic assumptions		
Discount rate	8.0%	8.0%
Future salary increase	3.0%	5.5%
Future expected return on contributions	5.0%	5.0%
Bonus	Last two years average as a % of basic	Last two 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% for NSSF and 4.0% for WCA	2.0% for NSSF and 2.0% for WCA

A quantitative sensitivity analysis as a result of an increase/decrease of 50 basis points in the significant assumptions as at 31 December 2018 and 2017 is shown below:

	Discount rate		Future salary increase	
LBP Million	Increase	Decrease	Increase	Decrease
Impact on defined-benefit obligations				
2018	(930)	995	2,274	(2,158)
2017	(1,435)	1,541	3,069	(2,909)

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	2018	2017
Provisions to comply with Central Bank of Lebanon Intermediate Circular No. 439 (note 35) (*)	-	142,480
Provisions for contingencies	50,213	47,184
Provisions for ECL on financial guarantees and commitments	5,289	-
Other	4,006	4,348
	59,508	**194,012**

(*) 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 2017 include an amount of LBP 142,480 million in excess of the provisioning requirements of IAS 39. During 2018, the Group utilized part of this provision to cover an amount of LBP 65,394 million resulting from the impact of first-time adoption of the IFRS 9 Expected Credit Loss (ECL) model on 1 January 2018. In addition, the Group released an amount of LBP 8,274 million from "Provisions for risks and charges" to "Other operating income" and transferred the remaining amount of LBP 68,812 million from "Provisions for risks and charges" to "Deferred revenues" (note 35).

Movement in other provisions during the year was as follows:

LBP Million	2018	2017
At 1 January	194,012	151,189
Charge for the year (note 15)	27,971	8,098
Write-back during the year (note 12)	(8,274)	(1,484)
Discontinued operations	-	(3,227)
Transfer to ECL allowances on financial assets (note 2.3)	(65,394)	-
Provisions for ECL on financial guarantees and commitments	5,289	-
Transfer from/to "Deferred revenues" (note 35)	(68,812)	40,000
Paid during the year	(24,252)	-
Foreign Exchange	(1,032)	(564)
At 31 December	**59,508**	**194,012**

37. SUBORDINATED DEBT

LBP Million	2018	2017
Nominal value	441,678	441,544
Unamortized discount	(15,505)	(18,712)
Accrued interest payable	245	163
	426,418	**422,995**

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	441,678
Equity component	(31,618)
Liability component	**410,060**

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

38. SHARE CAPITAL

	2018			2017		
	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 (2017: 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	2018 No. of shares	2017 No. of shares
Ordinary shares	Beirut	502,237,540	502,087,540
Global Depository Receipts (*)	London SEAQ and Beirut	1,265,550	1,268,550
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	General reserve	Reserves for capital increase	Equity component of convertible subordinated debt	Reserve for general banking risks	Other reserves	Total
Balance at 1 January 2018	311,098	-	117,984	31,618	298,583	165,529	924,812
Appropriations from retained earnings	22,226	-	6,307	-	19,241	9,454	57,228
Transfers	-	326,116	-	-	(317,824)	(8,292)	-
Balance at 31 December 2018	**333,324**	**326,116**	**124,291**	**31,618**	**-**	**166,691**	**982,040**
Balance at 1 January 2017	286,956	-	68,420	31,618	298,583	157,743	843,320
Appropriations 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**

Legal reserve

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

During 2018, the Group appropriated LBP 22,226 million from 2017 profits to the legal reserve (2017: LBP 24,142 million from 2016 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	2018	2017
Reserve equivalent to gain on sale of assets acquired in settlement of debt	40,158	36,439
Reserve against gains realized from deferred revenues	43,130	43,130
Reserve equivalent to provisions recovered	9,737	9,737
Reserve against assets obtained in settlement of debt	21,771	19,183
Reserve against realized gain from liquidation of fixed position	8,870	8,870
Others	625	625
	124,291	**117,984**

General reserves

According to Central Bank of Lebanon Basic Circular No. 143, Banks in Lebanon are required to transfer, to General Reserves, the balance of Reserves for General Banking Risks and General Reserves for Loans and Advances previously appropriated, in line with the requirements of Decision 7129 and decision 7776, respectively. This reserve is part of the Group's equity and is not available for distribution.

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 2018, the Group transferred an amount of LBP 9,454 million from retained earnings to other reserves in this respect (2017: LBP 7,786 million).
- As at 31 December 2018, "Other reserves" include reserves of LBP 110,406 million maintained by the subsidiary Byblos Bank Europe to meet several legal limits and requirements (2017: LBP 106,040 million).

40. DISTRIBUTABLE RESERVES

LBP Million	2018	2017
General reserves	115,626	109,590
Other capital reserves	1,026	1,026
	116,652	**110,616**

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	2018	2017
At 1 January	109,590	102,220
Appropriation from retained earnings	8,533	7,370
Transfers to retained earnings	(2,497)	-
At 31 December	**115,626**	**109,590**

Other capital reserves

LBP Million	2018	2017
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 2018 and 2017 was as follows:

	Common shares		Global Depository Receipts	
YEAR ENDED 31 DECEMBER 2018	No. of shares	Amount USD (000)	No. of shares	Amount USD (000)
At 1 January 2018	1,853,105	3,225	9,191	757
Acquisitions of treasury shares	446,014	634	2,021	152
Sales of treasury shares	(36,100)	(51)	(40)	(3)
At 31 December 2018	**2,263,019**	**3,808**	**11,172**	**906**
Total treasury shares in LBP million				**7,105**

	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**

42. REVALUATION RESERVE OF REAL ESTATE

LBP Million	2018	2017
Revaluation reserve accepted in Tier 2 capital	1,978	1,978
Revaluation reserve not accepted in Tier 2 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	2018	2017
At 1 January	(4,538)	(9,081)
Impact of adopting IFRS 9 at 1 January 2018	1,564	-
Net changes in fair values during the year	(14,775)	6,026
Net changes in deferred taxes	2,225	(1,445)
Difference on exchange	62	(38)
Balance at 31 December	**(15,462)**	**(4,538)**

44. CASH AND CASH EQUIVALENTS

LBP Million	2018	2017
Cash and balances with central banks	3,270,373	2,672,001
Due from banks and financial institutions	3,794,748	3,894,191
Loans to banks and financial institutions and reverse repurchase agreements	209,152	684,852
	7,274,273	**7,251,044**
Less: Due to central banks	(24,215)	(516,350)
Less: Due to banks and financial institutions	(764,488)	(595,188)
Cash and cash equivalents at 31 December	**6,485,570**	**6,139,506**

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.

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.

Loans to related parties were a) made in the ordinary course of business; b) 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 were as follows as of 31 December:

	31 December 2018			31 December 2017		
LBP Million	Key management personnel	Other	Total	Key management personnel	Other	Total
Due from banks and financial institutions	-	155,623	**155,623**	-	15,095	**15,095**
Loans and advances	8,806	16,125	**24,931**	7,992	14,038	**22,030**
Due to banks and financial institutions	-	100,214	**100,214**	-	93,493	**93,493**
Deposits	114,999	306,173	**421,172**	107,988	272,802	**380,790**
Debt issued and other borrowed funds	887	10,449	**11,336**	973	10,307	**11,280**
Subordinated debt	314	7,781	**8,095**	360	8,710	**9,070**
Guarantees received	8,245	5,304	**13,549**	6,587	5,305	**11,892**
Guarantees given	205	166	**371**	77	729	**806**
Commitments (including acceptances)	3,232	1,997	**5,229**	2,812	1,603	**4,415**

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

	31 December 2018			31 December 2017		
LBP Million	Key management personnel	Other	Total	Key management personnel	Other	Total
Interest income on loans and advances	545	998	**1,543**	419	1,038	**1,457**
Interest expense on deposits	6,609	14,751	**21,360**	6,124	12,522	**18,646**
Interest expense on due to banks and financial institutions	-	3,410	**3,410**	-	1,566	**1,566**
Interest expense on debt issued and other borrowed funds	62	856	**918**	68	805	**873**
Interest expense on subordinated debt	20	500	**520**	23	560	**583**
Rent expense	-	600	**600**	-	600	**600**

In addition to the above, the Group entered into an agreement with the International Finance Corporation (IFC), a shareholder, 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 2018, guarantees issued by the IFC amounted to LBP 45,085 million (2017: LBP 18,013 million).

Compensation of the Key Management Personnel of the Group

LBP Million	2018	2017
Short-term benefits[1]	21,637	19,921

[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.

2018 LBP Million	**Banks**	**Customers**	**Total**
Guarantees and contingent liabilities			
Financial guarantees	-	238,700	238,700
Other guarantees	149,384	822,475	971,859
	149,384	**1,061,175**	**1,210,559**
Commitments			
Documentary credits	306,148	422,798	728,946
Loan commitments	-	2,198,843	2,198,843
	306,148	**2,621,641**	**2,927,789**

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**

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

The Group invested in funds pursuant to the provisions of Decision No. 6116 dated 7 March 1996 of the Centrak Bank of Lebanon. In accordance with this resolution, the Group can benefit from facilities granted by the Central Bank of Lebanon to be invested in startup companies, incubators, and accelerators whose objects are restricted to supporting the development, success, and growth of startup companies in Lebanon or companies whose objects are restricted to investing venture capital in startup companies in Lebanon. These investments have resulted in future commitments on the Group of LBP 6,571 million as of 31 December 2018 (2017: LBP 10,989 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.

OPERATING LEASES – GROUP AS LESSEE

The Group has entered into commercial leases on premises. These leases have an average life of between five and 10 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	2018	2017
Within one year	4,029	4,346
After one year but not more than five years	12,310	12,371
More than five years	10,185	10,577
	26,524	**27,294**

OTHER COMMITMENTS AND CONTINGENCIES

Certain areas of Lebanese tax legislation and the tax legislation where the subsidiaries operate are subject to different interpretations in respect of the taxability of certain types of financial transactions and activities. The Bank's books in Lebanon remain subject to the review of the tax authorities for the period from 1 January 2015 to 31 December 2018 and the review of the National Social Security Fund (NSSF) for the period from 1 November 2014 to 31 December 2018. In addition, the subsidiaries' books and records are subject to review by the tax and social security authorities in the countries in which they operate. Management believes that adequate provisions have been recorded against possible review results, to the extent that they can be reliably estimated.

47. ASSETS HELD IN CUSTODY AND UNDER ADMINISTRATION

LBP Million	2018	2017
Assets held in custody and under administration	2,569,033	3,073,423

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 dates and may be different from the amounts which will actually be paid on the maturity or settlement date 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 default 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		
2018	**Quoted market price**	**Observable inputs**	**Unobservable inputs**	
LBP Million	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS				
Derivative financial instruments:				
Currency swaps	-	444	-	**444**
Forward foreign exchange contracts	-	1,455	-	**1,455**
Financial assets at fair value through profit or loss:				
Lebanese treasury bills	29,624	1,990	-	**31,614**
Equity securities	39,637	-	19,239	**58,876**
Financial assets at fair value through other comprehensive income:				
Lebanese treasury bills	42,919	-	-	**42,919**
Foreign governmental debt securities	90,884	-	-	**90,884**
Debt securities issued by banks and financial institutions	6,410	-	-	**6,410**
Equity securities	44,664	-	43,552	**88,216**
LIABILITIES				
Derivative financial instruments:				
Currency swaps	-	391	-	**391**
Forward foreign exchange contracts	-	1,411	-	**1,411**

2017 LBP Million	Valuation techniques Quoted market price Level 1	Observable inputs Level 2	Unobservable inputs 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	-	26,292	**58,126**
Financial assets at fair value through other comprehensive income	47,452	-	54,425	**101,877**
LIABILITIES				
Derivative financial instruments:				
Currency swaps	-	1,937	-	**1,937**
Forward foreign exchange contracts	-	1,607	-	**1,607**

There were no transfers between levels during 2018 (2017: 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 using observable market inputs, comprising interest rates and yield curves, implied volatilities, and credit spreads. The Group does not have Level 3 government bonds, certificates of deposit, or other debt instruments.

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

EQUITY SHARES OF NON-LISTED ENTITIES

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

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

LBP Million	2018	2017
Balance at 1 January	54,425	51,447
Additions	1,003	16
Re-measurement recognized in other comprehensive income	(11,876)	2,962
	43,552	**54,425**

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.

	2018		2017	
LBP Million	Fair value	Carrying value	Fair value	Carrying value
FINANCIAL ASSETS				
Cash and balances with central banks	16,324,122	16,324,122	11,966,804	11,966,804
Due from banks and financial institutions	3,864,751	3,864,751	3,928,586	3,928,586
Loans to banks and financial institutions and reverse repurchase agreements	363,763	363,633	754,381	754,394
Net loans and advances to customers at amortized cost	8,158,943	8,178,229	8,193,358	8,192,985
Net loans and advances to related parties at amortized cost	24,931	24,931	22,030	22,030
Financial assets at amortized cost				
Lebanese treasury bills	4,397,961	4,651,184	4,707,143	4,749,094
Certificates of deposit issued by the Central Bank of Lebanon	3,095,621	3,035,723	3,287,258	3,234,592
Foreign governmental debt securities	88,220	85,577	172,163	167,733
Debt securities issued by banks and financial institutions	798	776	3,931	3,931
Certificates of deposit issued by banks and financial institutions	2,765	3,016	-	-
FINANCIAL LIABILITIES				
Due to central banks	3,870,523	3,870,523	1,374,837	1,374,837
Due to banks and financial institutions	1,266,070	1,266,070	972,315	972,315
Customers' deposits at amortized cost	27,365,114	27,418,142	26,812,215	26,757,716
Deposits from related parties at amortized cost	421,008	421,172	386,795	380,790
Debt issued and other borrowed funds	408,337	451,301	450,164	453,556
Subordinated debt	350,666	426,418	402,644	422,995

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

DEPOSITS WITH BANKS AND LOANS AND ADVANCES TO BANKS

For the purpose of this disclosure, there is minimal difference between the fair value and the 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 with discounted cash flow valuation models using observable market inputs, comprising interest rates and yield curves, implied volatilities, and credit spreads. The Group does not have Level 3 government bonds, certificates of deposit, and other debt instruments.

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 2018 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.

2018	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	342,744	15,981,378	-	**16,324,122**
Due from banks and financial institutions	-	3,864,751	-	**3,864,751**
Loans to banks and financial institutions and reverse repurchase agreements	-	363,763	-	**363,763**
Net loans and advances to customers at amortized cost	-	-	8,158,943	**8,158,943**
Net loans and advances to related parties at amortized cost	-	-	24,931	**24,931**
Financial assets at amortized cost:				
Lebanese treasury bills	1,690,556	2,707,405	-	**4,397,961**
Certificates of deposit issued by the Central Bank of Lebanon	-	3,095,621	-	**3,095,621**
Foreign governmental debt securities	88,220	-	-	**88,220**
Debt securities issued by banks and financial institutions	798	-	-	**798**
Certificates of deposit issued by banks and financial institutions	-	2,765	-	**2,765**
LIABILITIES FOR WHICH FAIR VALUES ARE DISCLOSED				
Due to central banks	-	3,870,523	-	**3,870,523**
Due to banks and financial institutions	-	1,266,070	-	**1,266,070**
Customers' deposits at amortized cost	-	27,365,114	-	**27,365,114**
Deposits from related parties at amortized cost	-	421,008	-	**421,008**
Debt issued and other borrowed funds	-	408,337	-	**408,337**
Subordinated debt	-	350,666	-	**350,666**

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**

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 the identification, measurement, monitoring, and controlling of 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, interest rate, 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 also 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 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 mostly of independent, non-executive members satisfying the applicable best practice requirements. In addition, the Board delegates its day-to-day risk management activities to 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 Units Division.

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

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

Risk Committee (Management): 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 III projects. The committee discusses and approves the 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 processes (such as ICAAP, IFRS 9, 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 Committee's mission is to provide oversight for the Group's operational risk function, including 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 bringing a systematic, disciplined, and risk-based approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Its role within the Group is to ensure that adequate internal controls are maintained, and, where weaknesses are identified, that they are reported to Senior Management and the Audit Committee, along with recommendations for improvement. The GIA assesses all new products and procedures, as well as 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, with the Central Bank and Banking Control Commission requirements, with Board of Directors and management directives, and with implemented policies and procedures.

RISK MANAGEMENT

The Group's risk management function follows the prudential rules and regulations set forth by the Basel Committee in the Core Principles for Effective Banking Supervision document (September 2012) and Basel Capital Accord texts (Basel III) to measure and assess the risks identified under Pillars 1 and 2, i.e., the credit, operational, and market risks, as well as the interest rate risk in the banking book, the liquidity risk, and credit concentration.

With regard to Basel recommendations relating to best practices in risk management and its objective of capital measurement and capital adequacy, the Group adopts a phased approach to take more sophisticated steps toward credit risk and make use of internal ratings-based methodology – or the "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 analyses 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, Group 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 went through an extensive consultancy to get an evaluation of its readiness in meeting the ECL requirements, including a review of the Probability of Default (PD) and Loss Given Default (LGD) data to reach point-in-time, forward-looking parameters. The Bank is also employing internal capabilities to develop predictive PD and LGD models for the Retail and Housing portfolios.

The overall responsibility for the monitoring and analytical management of risk is effectively assigned to the Group Risk Management Division (GRM). The GRM reports to the Chairman – 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 Pillar 1 and Pillar 2 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 systems, and their associated credit risk components in terms of PD (probability of default), LGD (loss given default) and EAD (exposure at default). 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.

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, and 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 risk awareness through regular training, supporting operational risk event reporting and a loss database, conducting operational risk scenarios with the business owners to focus on the high-risk areas and the exposure to capital in a way that supplements the assessment of the regulatory capital charge, and developing a Key Risk Indicator program to establish KRIs that monitor the Group's exposure to key risks. The ORM Unit also facilitates the risk and control assessment (RCA) for the Group's main processes and new products/activities.

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 are developed based on the following:

Business Line Accountability: Business lines are accountable for managing the risks associated with their activities and establishing tolerances for risk taking. 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 risk management activities, 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. Credit risk appetite and limits are set at the Group level by the Board and are cascaded to the Group's various entities, which in turn formulate their own limits in line with the Group's risk appetite. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

Credit risk is monitored by the Credit Risk Department of the Group's independent Risk Controlling Unit. It is their responsibility to review and manage credit risk, including environmental and social risks, for all types of counterparties. The Credit Risk Department consists of line credit risk managers, who are responsible for their business lines and managing specific portfolios and experts who support both the line credit risk manager and the business with tools like credit risk systems, policies, models, and reporting.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established through the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process aims to allow the Group to assess the potential loss as a result of the risks to which it is exposed, and take corrective actions.

The Group has also established an authorization structure for the approval and renewal of credit facilities. Credit officers and credit committees are responsible for the approval of facilities up to the limits assigned to them, which depend on the size of the exposure and the obligor's creditworthiness, as measured by its internal rating. Once approved, facilities are disbursed when all the requirements set by the relevant approval authority(ies) have been met and all the documents intended as security have been obtained and verified by the Credit Administration function.

49.2.1 IMPAIRMENT ASSESSMENT

The references below show where the Group's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the Summary of significant accounting policies.

Definition of default and cure

The Group considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations when:

- The borrower is unlikely to pay its credit obligations to the Group in full without recourse by the Group to actions such as realizing security (if any is held);
- The borrower is more than 90 days past due on any material credit obligation to the Group. Overdrafts are considered past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- It is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Group considers indicators that are:

- Qualitative: e.g. breaches of covenant;
- Quantitative: e.g. overdue status or non-payment on another obligation of the same issuer to the Group; and
- Based on both data developed internally and data obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The definition of default largely aligns with that applied by the Group for regulatory capital purposes.

As part of a qualitative assessment of whether a customer is in default, the Group carefully considers whether the events listed above should result in treating the customer as defaulted, and therefore assessed as Stage 3 for ECL calculations, or whether Stage 2 would be more appropriate.

It is the Group's policy to consider a financial instrument "cured", and therefore re-classified out of Stage 3, when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset, once cured, as Stage 2 or Stage 1 depends on the updated credit grade at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition. The Group's criterion for "cure" for ECL purposes is less stringent than the 24-month requirement for forbearance, which is explained in the Summary of significant accounting policies.

The Group's internal rating and PD estimation process

The Group's independent Credit Risk Department operates its internal rating models. The Bank runs separate models for its key portfolios in which its customers are rated in 1 to 7 performing bands using internal grades with "+" and "-" modifiers. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilize supplemental external information that could affect the borrower's behavior. The Group's Corporate rating model was reviewed during a validation and calibration consultancy that led to the creation, in early 2018, of a new rating and PD scale. The analysis was based on the Bank's historical default history, whereby the central default tendency was adjusted with conservatism to account for a low default and data portfolio. The final through-the-cycle (TTC) PD scale was mapped to Moody's Corporate default scale. TTC PDs are then adjusted for IFRS 9 ECL calculations to incorporate point-in-time (PIT) and forward-looking information, and the IFRS 9 Stage classification of the exposure. This is repeated for each economic scenario as appropriate.

Treasury, trading, and interbank relationships

The Group's treasury, trading, and interbank relationships and counterparties comprise Lebanese and other sovereign institutions, financial services institutions, banks, brokers/dealers, exchanges, and clearing houses. For these relationships, the Group's Credit Risk Department analyzes publicly available information such as financial information and other external data, e.g., available external ratings published by international rating agencies such as Moody's, Standard and Poor's, and Fitch, and assigns the external rating, as shown in the table below.

Corporate and small business lending

For corporate and investment banking loans, the borrowers are assessed by specialized credit risk employees of the Group. The credit risk assessment is based on a credit rating model that takes into account various historical, current, and forward-looking information, such as:

- Historical financial information, together with forecasts and budgets prepared by the client. This financial information includes realized and expected results, leverage ratios, liquidity ratios, and any other relevant ratios in order to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention;
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analysts' reports, publicly traded bond or press releases and articles.
- Any macroeconomic or geopolitical information, e.g., GDP growth, relevant for the specific industry and/or geographical segments where the client operates; and
- Any other objectively supportable information on the quality and abilities of the client's management relevant to the company's performance.

The complexity and granularity of the rating techniques vary based on the exposure of the Group and the complexity and size of the customer. Some of the less complex small business loans are rated within the Group's models for retail products.

Consumer lending and retail mortgages

Consumer lending comprises unsecured and secured personal loans, secured auto loans, credit cards, and overdrafts. These products, along with retail mortgages and some of the less complex small business lending, are scored by an automated scorecard tool primarily driven by days past due. Other key inputs into the models are:

- Consumer lending products: use of limits and volatility thereof, GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness, and expected interest re-pricing; and
- Retail mortgages: GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness, and expected interest re-pricing.

The Bank's credit rating risk

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

(i) External ratings from approved credit rating agencies for governments and central banks, financial institutions, and financial assets.

(ii) Internal rating models that take into account both financial and non-financial information such as management quality, operating environment, and company standing. These internal rating models include a Corporate model, a SME model, and a Contracting model. The Bank developed in 2018 a new Real Estate model.

(iii) Internally developed scorecards to assess the creditworthiness of retail borrowers in an objective manner and streamline the decision making process.

(iv) Supervisory ratings, comprising six main categories: a) Regular includes borrowers demonstrating good to excellent financial conditions, risk factors, and capacity to repay. These loans demonstrate regular and timely payment of dues, adequacy of cash flows, timely presentation of financial statements, and sufficient collateral/guarantee when required. b) Follow-up represents a lack of documentation related to a borrower's activity, an inconsistency between facilities' type and related conditions. c) Follow-up and regularization includes creditworthy borrowers requiring close monitoring without being impaired. These loans might be showing weaknesses; insufficient or inadequate cash flows; highly leveraged; deterioration in economic sector or country where the facility is used; loan rescheduling more than once since initiation; or excess utilization above limit. d) Substandard loans include borrowers with incapacity to repay from identified cash flows. Also included under this category are those with recurrent late payments and/or financial difficulties. e) Doubtful loans are those for which full repayment is questionable even after liquidation of collateral. It also includes loans stagnating for over 6 months and debtors who are unable to repay restructured loans. Finally, f) Bad loans are those with no or little expected inflows from business or assets. This category also includes borrowers with significant delays and deemed insolvent.

Sovereign:

INTERNAL RATING GRADE	MOODY'S RATING
PERFORMING	Aaa, Aa, A, Baa Ba B
NON-PERFORMING	Caa-C Investment Grade Speculative Grade All Rated

Banks and financial institutions:

INTERNAL RATING GRADE	S&P RATING
PERFORMING	AAA, AA, A BBB, BB, B
NON-PERFORMING	CCC/C

Commercial loans:

Score-cut	Rank	Moody's alphanumeric	Rating scale
100	1	Aaa	**1**
100	2	Aa1	**2+**
100	3	Aa2	**2**
100	4	Aa3	**2-**
100	5	A1	**3+**
100	6	A2	**3**
100	7	A3	**3-**
94.08	8	Baa1	**4+**
86.74	9	Baa2	**4**
78.42	10	Baa3	**4-**
70.47	11	Ba1	**5+**
63.19	12	Ba2	**5**
52.23	13	Ba3	**5-**
43.02	14	B1	**6+**
32.71	15	B2	**6**
21.89	16	B3	**6-**
12.03	17	Caa1	**7+**
8.59	18	Caa2	**7**
4.01	19	Caa3	**7-**

Consumer loans:

The Bank calculates PD for consumer loans at account level by estimating the survival probability based on behavioral and other account characteristics.

INTERNAL RATING GRADE	INTERNAL RATING DESCRIPTION	SUPERVISORY RATING	STAGE
Performing			
0 days past due	High	Regular	1
1 to 30 days past due	Standard	Regular	1
31 to 60 days past due	Past due but not impaired	Follow-up	2
61 to 90 days past due	Past due but not impaired	Follow-up and regularization	2
Non-performing (*)			
91 to 180 days past due	Individually impaired	Substandard	3
181 days to 360 days past due	Individually impaired	Doubtful	3
more than 360 days past due	Individually impaired	Bad	3

(*) Housing loans that are more than 180 days past due are classified as non-performing and are assigned as Stage 3.

Exposure at Default

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortization. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

Loss Given Default

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD based on the history of recovery rates of claims against defaulted counterparties. It is estimated based on the counterparty, collateral type and coverage, recovery costs of any collateral that is integral to the financial asset, and other criteria. For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data.

Significant increase in credit risk

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition. The Bank considers an exposure to have significantly increased in credit risk by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

For determining whether there has been a significant increase in credit risk, the Bank uses a quantitative test based on movement in ORR of the counterparty (which reflects the movement of the PD).

The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne. In certain cases, the Bank may also consider that events explained in "Definition of default and cure" are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

When estimating ECLs on a collective basis for a group of similar assets (as set out in "Grouping financial assets measured on a collective basis"), the Bank applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:
• the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
• the criteria do not align with the point in time when an asset becomes 30 days past due;
• the average time between the identification of a significant increase in credit risk and default appears reasonable;
• exposures are not generally transferred directly from 12mECL measurement to credit-impaired; and
• there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

Expected Life

With the exception of credit cards and other revolving facilities, the maximum period for which credit losses are determined is the contractual life of a financial instrument, unless the Group has the legal right to call it earlier. With respect to credit cards and other revolving facilities, the Group does not limit its exposure to credit losses to the contractual notice period, but instead calculates ECL over a period that reflects the Group's expectations of the customer's behavior, its likelihood of default, and the Group's future risk mitigation procedures, which could include reducing or cancelling the facilities.

Forward-looking Information

The Group incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Group formulates three economic scenarios: a baseline, which is the median scenario assigned with a certain probability of occurring, and two less likely scenarios, one optimistic and one pessimistic, each assigned a specific probability of occurring. The baseline scenario is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The Group relies on economists within its Research Department for the forecast of these three scenarios, including the weight attributable to each scenario. The scenario weightings are determined by an expert credit judgment. Scenario design and probability weights are updated at least annually (if required).

The Group has identified GDP growth as the key driver of ECL, among others, and, using an analysis of historical data, has estimated relationships between macroeconomic variables and credit losses:

Key driver	ECL Scenario	Assigned Probabilities %	2019 %	2020 %	2021 %	2022 %	2023 %
GDP growth	Optimistic	30	**2.0**	**2.7**	**4.0**	**4.7**	**5.0**
	Baseline	40	**1.6**	**1.9**	**2.7**	**3.0**	**3.0**
	Pessimistic	30	**0.8**	**1.0**	**1.0**	**1.0**	**1.0**

49.2.2 OVERVIEW OF MODIFIED AND FORBORNE LOANS

From 1 January 2018

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention, and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value in accordance with the accounting policy set out in the Summary of significant accounting policies above.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:
• its remaining lifetime PD at the reporting date based on the modified terms; with
• the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognized and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Group renegotiates loans to customers in financial difficulties (referred to as "forbearance activities") to maximize collection opportunities and minimize the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor has made all reasonable efforts to pay under the original contractual terms, and the debtor is expected to be able to meet the revised terms. The revised terms usually include extending the maturity, changing the timing of interest payments, and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk, and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

From a risk management point of view, once an asset is forborne or modified, the Group's special department for distressed assets continues to monitor the exposure until it is completely and ultimately derecognized.

The table below includes Stage 2 and 3 assets that were modified and, therefore, treated as forborne during the year.

LBP Million	2018
Amortized costs of financial assets modified during the year	60,770

There are no previously modified financial assets for which loss allowance has changed to 12mECL measurement as at 31 December 2018. There are no previously modified financial assets for which loss allowance had changed to 12mECL measurement and reverted to LTECL as at 31 December 2018.

Before 1 January 2018

Restructuring activity aims to manage customer relationships, maximise 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
Commercial loans	44,785

49.2.3 FINANCIAL ASSETS AND ECLS BY STAGE

The tables below present an analysis of financial assets at amortized cost by gross exposure and impairment allowance by stage allocation as at 31 December 2018 and 1 January 2018. The Group does not hold any material purchased or originated credit-impaired assets as at year-end.

	Gross exposure			
LBP Million	Stage 1	Stage 2	Stage 3	Total
31 December 2018				
Balances with central banks	16,350,093	7,795	2,562	**16,360,450**
Due from banks and financial institutions	3,866,614	1,769	1,841	**3,870,224**
Loans to banks and financial institutions and reverse repurchase agreements	351,599	12,202	-	**363,801**
Net loans and advances to customers at amortized cost	7,397,025	691,898	400,251	**8,489,174**
Net loans and advances to related parties at amortized cost	22,186	2,804	-	**24,990**
Financial assets at amortized cost	7,801,499	-	-	**7,801,499**
Financial guarantees and other commitments	3,968,614	169,734	-	**4,138,348**
Total	**39,757,630**	**886,202**	**404,654**	**41,048,486**

LBP Million	Impairment allowance Stage 1	Stage 2	Stage 3	Total	Net exposure
31 December 2018					
Balances with central banks	(33,561)	(205)	(2,562)	**(36,328)**	16,324,122
Due from banks and financial institutions	(3,368)	(264)	(1,841)	**(5,473)**	3,864,751
Loans to banks and financial institutions and reverse repurchase agreements	(159)	(9)	-	**(168)**	363,633
Net loans and advances to customers at amortized cost	(62,125)	(18,442)	(230,378)	**(310,945)**	8,178,229
Net loans and advances to related parties at amortized cost	(35)	(24)	-	**(59)**	24,931
Financial assets at amortized cost	(25,223)	-	-	**(25,223)**	7,776,276
Financial guarantees and other commitments	(4,732)	(557)	-	**(5,289)**	4,133,059
Total	**(129,203)**	**(19,501)**	**(234,781)**	**(383,485)**	**40,665,001**

LBP Million	Gross exposure Stage 1	Stage 2	Stage 3	Total
1 January 2018				
Balances with central banks	11,960,688	6,116	31,533	**11,998,337**
Due from banks and financial institutions	3,927,801	785	1,919	**3,930,505**
Loans to banks and financial institutions and reverse repurchase agreements	746,963	7,431	-	**754,394**
Net loans and advances to customers at amortized cost	7,665,713	417,722	402,103	**8,485,538**
Net loans and advances to related parties at amortized cost	19,531	2,499	-	**22,030**
Financial assets at amortized cost	8,155,350	-	-	**8,155,350**
Financial guarantees and other commitments	3,897,012	164,095	-	**4,061,107**
Total	**36,373,058**	**598,648**	**435,555**	**37,407,261**

LBP Million	Impairment allowance				
	Stage 1	Stage 2	Stage 3	Total	Net exposure
1 January 2018					
Balances with central banks	(26,402)	(5)	(31,533)	**(57,940)**	11,940,397
Due from banks and financial institutions	(768)	-	(1,919)	**(2,687)**	3,927,818
Loans to banks and financial institutions and reverse repurchase agreements	(55)	(34)	-	**(89)**	754,305
Net loans and advances to customers at amortized cost	(67,478)	(18,354)	(217,547)	**(303,379)**	8,182,159
Net loans and advances to related parties at amortized cost	(44)	-	-	**(44)**	21,986
Financial assets at amortized cost	(26,560)	-	-	**(26,560)**	8,128,790
Financial guarantees and other commitments	(4,389)	(76)	-	**(4,465)**	4,056,642
Total	**(125,696)**	**(18,469)**	**(250,999)**	**(395,164)**	**37,012,097**

The following table represents a reconciliation of the opening to the closing balance of impairment allowances of loans and advances at amortized cost:

LBP Million	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2018	75,006	-	217,547	**292,553**
Effect of IFRS 9 adoption (note 2.3)	(7,528)	18,354	-	**10,826**
Amended balance as of 1 January 2018	67,478	18,354	217,547	**303,379**
Charge for the year (note 13)	3,799	4,126	55,319	**63,244**
Write-offs	-	-	(25,854)	**(25,854)**
Other movements	-	-	26,960	**26,960**
Recoveries (note 13)	(8,400)	(3,978)	(17,888)	**(30,266)**
Transfer to off-financial position	-	-	(24,707)	**(24,707)**
Foreign exchange difference	(752)	(60)	(999)	**(1,811)**
Balance at 31 December 2018	**62,125**	**18,442**	**230,378**	**310,945**

49.2.4 ANALYSIS OF RISK CONCENTRATIONS

The Group's concentrations of risk are managed by client/counterparty, geographical region, and industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2018 was LBP 94,332 million (2017: LBP 95,605 million) before taking into account collateral or other credit enhancements and LBP 39,400 million (2017: LBP 95,605 million) net of such protection.

Geographical location analysis

The Group controls credit risk by closely monitoring credit of its assets exposures by geographic location. The distribution of financial assets by geographic region as of 31 December was as follows:

2018 LBP Million	Lebanon	Europe	Other	Total
Balances with central banks	15,657,267	137,410	186,701	**15,981,378**
Due from banks and financial institutions	230,314	2,282,663	1,351,774	**3,864,751**
Loans to banks and financial institutions and reverse repurchase agreements	18,771	137,522	207,340	**363,633**
Derivative financial instruments	232	1,532	135	**1,899**
Financial assets at fair value through profit or loss:				
Lebanese treasury bills	31,614	-	-	**31,614**
Debt securities issued by banks and financial institutions	-	-	-	**-**
Net loans and advances to customers at amortized cost				
Commercial	4,366,370	233,983	588,694	**5,189,047**
Consumer	2,802,181	49,051	137,950	**2,989,182**
Net loans and advances to related parties at amortized cost	24,266	653	12	**24,931**
Debtors by acceptances	280,785	7,354	73,952	**362,091**
Financial assets at amortized cost				
Lebanese treasury bills	4,651,184	-	-	**4,651,184**
Certificates of deposit issued by the Central Bank of Lebanon	3,035,723	-	-	**3,035,723**
Foreign governmental debt securities	-	72,104	13,473	**85,577**
Debt securities issued by banks and financial institutions	-	776	-	**776**
Certificates of deposit issued by banks and financial institutions	3,016	-	-	**3,016**
Financial assets at fair value through other comprehensive income:				
Lebanese treasury bills	42,919	-	-	**42,919**
Foreign governmental debt securities	-	90,884	-	**90,884**
Debt securities issued by banks and financial institutions	-	6,410	-	**6,410**
	31,144,642	**3,020,342**	**2,560,031**	**36,725,015**

2017 LBP Million	Lebanon	Europe	Other	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	4,557,803	165,467	545,030	**5,268,300**
Consumer	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**
Certificates of deposit issued by banks and financial institutions	-	-	-	**-**
Financial assets at fair value through other comprehensive income:				
Lebanese treasury bills	-	-	-	**-**
Foreign governmental debt securities	-	-	-	**-**
Debt securities issued by banks and financial institutions	-	-	-	**-**
	27,766,150	**3,133,957**	**2,452,448**	**33,352,555**

Industrial analysis

The Group controls credit risk by closely monitoring credit of its assets exposures by industry sector. The distribution of financial assets by industry sector as at 31 December was as follows:

2018 LBP Million	Financial services and brokerage	Government	Consumers	Retail and wholesale	Construction and materials
Balances with central banks					
Central Bank of Lebanon	-	15,653,704	-	-	-
Other central banks	-	327,674	-	-	-
Due from banks and financial institutions	3,864,751	-	-	-	-
Loans to banks and financial institutions and reverse repurchase agreements	363,633	-	-	-	-
Derivative financial instruments	1,899	-	-	-	-
Financial assets at fair value through profit or loss	-	31,614	-	-	-
Net loans and advances to customers at amortized cost					
Commercial	-	-	-	1,768,078	1,121,444
Consumer	-	-	2,989,182	-	-
Net loans and advances to related parties at amortized cost					
Commercial	-	-	-	4,012	12,082
Consumer	-	-	8,837	-	-
Debtors by acceptances	61,159	-	-	179,623	7,566
Financial assets at amortized cost					
Lebanese treasury bills	-	4,651,184	-	-	-
Certificates of deposit issued by the Central Bank of Lebanon	-	3,035,723	-	-	-
Foreign governmental debt securities	-	85,577	-	-	-
Debt securities issued by banks and financial institutions	776	-	-	-	-
Certificates of deposit issued by banks and financial institutions	3,016	-	-	-	-
Financial assets at fair value through other comprehensive income					
Lebanese treasury bills	-	42,919	-	-	-
Foreign governmental debt securities	-	90,884	-	-	-
Debt securities issued by banks and financial institutions	6,410	-	-	-	-
	4,301,644	**23,919,279**	**2,998,019**	**1,951,713**	**1,141,092**

2018 LBP Million	Manufacturing	Energy and petroleum	Services and utilities	Agriculture	Total
Balances with central banks					
Central Bank of Lebanon	-	-	-	-	**15,653,704**
Other central banks	-	-	-	-	**327,674**
Due from banks and financial institutions	-	-	-	-	**3,864,751**
Loans to banks and financial institutions and reverse repurchase agreements	-	-	-	-	**363,633**
Derivative financial instruments	-	-	-	-	**1,899**
Financial assets at fair value through profit or loss	-	-	-	-	**31,614**
Net loans and advances to customers at amortized cost					
Commercial	1,177,648	-	994,862	127,015	**5,189,047**
Consumer	-	-	-	-	**2,989,182**
Net loans and advances to related parties at amortized cost					
Commercial	-	-	-	-	**16,094**
Consumer	-	-	-	-	**8,837**
Debtors by acceptances	77,284	848	25,646	9,965	**362,091**
Financial assets at amortized cost					
Lebanese treasury bills	-	-	-	-	**4,651,184**
Certificates of deposit issued by the Central Bank of Lebanon	-	-	-	-	**3,035,723**
Foreign governmental debt securities	-	-	-	-	**85,577**
Debt securities issued by banks and financial institutions	-	-	-	-	**776**
Certificates of deposit issued by banks and financial institutions	-	-	-	-	**3,016**
Financial assets at fair value through other comprehensive income					
Lebanese treasury bills	-	-	-	-	**42,919**
Foreign governmental debt securities	-	-	-	-	**90,884**
Debt securities issued by banks and financial institutions	-	-	-	-	**6,410**
	1,254,932	**848**	**1,020,508**	**136,980**	**36,725,015**

2017 LBP Million	**Financial services and brokerage**	**Government**	**Consumers**	**Retail and wholesale**	**Construction and materials**
Balances with central banks					
Central Bank of Lebanon	-	11,431,188	-	-	-
Other central banks	-	287,018	-	-	-
Due from banks and financial institutions	3,928,586	-	-	-	-
Loans to banks and financial institutions and reverse repurchase agreements	754,394	-	-	-	-
Derivative financial instruments	2,790	-	-	-	-
Financial assets at fair value through profit or loss	2,494	221,697	-	-	-
Net loans and advances to customers at amortized cost					
Commercial	-	-	-	1,968,031	1,194,155
Consumer	-	-	2,924,685	-	-
Net loans and advances to related parties at amortized cost					
Commercial	-	-	-	3,480	7,002
Consumer	-	-	11,542	-	-
Debtors by acceptances	36,436	-	-	220,401	8,806
Financial assets at amortized cost					
Lebanese treasury bills	-	4,749,094	-	-	-
Certificates of deposit issued by the Central Bank of Lebanon	-	3,234,592	-	-	-
Foreign governmental debt securities	-	167,733	-	-	-
Debt securities issued by banks and financial institutions	3,931	-	-	-	-
	4,728,631	**20,091,322**	**2,936,227**	**2,191,912**	**1,209,963**

2017 LBP Million	Manufacturing	Energy and petroleum	Services and utilities	Agriculture	Total
Balances with central banks					
Central Bank of Lebanon	-	-	-	-	**11,431,188**
Other central banks	-	-	-	-	**287,018**
Due from banks and financial institutions	-	-	-	-	**3,928,586**
Loans to banks and financial institutions and reverse repurchase agreements	-	-	-	-	**754,394**
Derivative financial instruments	-	-	-	-	**2,790**
Financial assets at fair value through profit or loss	-	-	-	-	**224,191**
Net loans and advances to customers at amortized cost					
Commercial	1,054,665	-	940,105	111,344	**5,268,300**
Consumer	-	-	-	-	**2,924,685**
Net loans and advances to related parties at amortized cost					
Commercial	-	-	6	-	**10,488**
Consumer	-	-	-	-	**11,542**
Debtors by acceptances	67,496	-	20,072	812	**354,023**
Financial assets at amortized cost					
Lebanese treasury bills	-	-	-	-	**4,749,094**
Certificates of deposit issued by the Central Bank of Lebanon	-	-	-	-	**3,234,592**
Foreign governmental debt securities	-	-	-	-	**167,733**
Debt securities issued by banks and financial institutions	-	-	-	-	**3,931**
	1,122,161	**-**	**960,183**	**112,156**	**33,352,555**

49.2.5 CREDIT QUALITY PER CLASS OF FINANCIAL ASSET

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:

2018 LBP Million	Neither past due nor impaired		Past due but not impaired	Individually impaired	Total
	High grade	Standard grade			
Balances with central banks	15,823,443	191,701	-	2,562	**16,017,706**
Due from banks and financial institutions	3,261,646	606,737	-	1,841	**3,870,224**
Loans to banks and financial institutions and reverse repurchase agreements	136,484	227,317	-	-	**363,801**
Derivative financial instruments	1,899	-	-	-	**1,899**
Financial assets at fair value through profit or loss:					
Lebanese Treasury bills	31,614	-	-	-	**31,614**
Net loans and advances to customers at amortized cost:					
Commercial loans	4,774,738	325,666	55,548	244,424	**5,400,376**
Consumer loans	2,700,826	45,531	186,615	155,826	**3,088,798**
Net loans and advances to related parties at amortized cost	24,990	-	-	-	**24,990**
Debtors by acceptances	288,138	73,953	-	-	**362,091**
Financial assets at amortized cost:					
Lebanese treasury bills	4,669,885	-	-	-	**4,669,885**
Certificates of deposit issued by the Central Bank of Lebanon	3,042,170	-	-	-	**3,042,170**
Foreign governmental debt securities	6,421	79,196	-	-	**85,617**
Debt securities issued by banks and financial institutions	776	-	-	-	**776**
Certificates of deposit issued by banks and financial institutions	3,051	-	-	-	**3,051**
Financial assets at fair value through other comprehensive income:					
Lebanese treasury bills	42,919	-	-	-	**42,919**
Debt securities issued by banks and financial institutions	6,410	-	-	-	**6,410**
Foreign governmental debt securities	90,884	-	-	-	**90,884**
	34,906,294	**1,550,101**	**242,163**	**404,653**	**37,103,211**

2017 LBP Million	**Neither past due nor impaired**				
	High grade	**Standard grade**	**Past due but not impaired**	**Individually impaired**	**Total**
Balances with central banks	11,584,765	133,441	-	31,533	**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**
	31,565,106	**1,432,211**	**245,687**	**435,556**	**33,678,560**

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

2018 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	14,391	10,538	30,619	55,548
Consumer loans	181,299	1,920	3,396	186,615
	195,690	**12,458**	**34,015**	**242,163**

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**

The classifications of loans and advances to customers at amortized cost, in accordance with the ratings of the Central Bank of Lebanon, were as follows:

2018 LBP Million	Gross balance	ECL Stage 3	Net balance
Regular	6,857,480	-	6,857,480
Follow-up	776,975	-	776,975
Follow-up and regularization	454,468	-	454,468
Substandard	62,552	(11,359)	51,193
Doubtful	255,836	(137,156)	118,680
Bad	81,863	(81,863)	-
	8,489,174	**(230,378)**	**8,258,796**
ECL Stages 1 and 2	(80,567)	-	(80,567)
	8,408,607	**(230,378)**	**8,178,229**

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**

49.2.6 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.

2018 LBP Million	Maximum exposure	Cash	Securities	Letters of credit/ guarantees	Real estate	Net credit exposure
Balances with central banks	15,981,378	-	-	-	-	**15,981,378**
Due from banks and financial institutions	3,864,751	-	-	-	-	**3,864,751**
Loans to banks and financial institutions and reverse repurchase agreements	363,633	(11,234)	(17,614)	-	-	**334,785**
Derivative financial instruments	1,899	-	-	-	-	**1,899**
Financial assets at fair value through profit or loss	31,614	-	-	-	-	**31,614**
Net loans and advances to customers at amortized cost:						
Commercial loans	5,189,047	(624,503)	(101,744)	(31,591)	(1,246,304)	**3,184,905**
Consumer loans	2,989,182	(433,392)	(414)	(45)	(1,665,234)	**890,097**
Net loans and advances to related parties at amortized cost	24,931	(6,452)	-	-	(3,445)	**15,034**
Financial assets at amortized cost	7,776,276	-	-	-	-	**7,776,276**
Financial assets at fair value through other comprehensive income	140,213	-	-	-	-	**140,213**
	36,362,924	**(1,075,581)**	**(119,772)**	**(31,636)**	**(2,914,983)**	**32,220,952**
Financial guarantees	238,700	(13,050)	-	-	-	**225,650**
Documentary credits (including acceptances)	1,091,037	(20,795)	-	-	-	**1,070,242**
	37,692,661	**(1,109,426)**	**(119,772)**	**(31,636)**	**(2,914,983)**	**33,516,844**
Utilized collateral		(1,109,426)	(119,772)	(31,636)	(2,914,983)	
Surplus of collateral before undrawn credit lines		(343,846)	(280,886)	(53,854)	(3,110,275)	
Guarantees received from banks, financial institutions, and customers		**(1,453,272)**	**(400,658)**	**(85,490)**	**(6,025,258)**	

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LBP 2,198,843 million as at 31 December 2018.

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.

49.2.7 COLLATERAL AND OTHER CREDIT ENHANCEMENTS

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

Management monitors the market value of collateral on a regular basis and requests additional collateral in accordance with the underlying agreement when deemed necessary.

The main types of collateral obtained are as follows:

- Securities: the balances shown 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 the counterparty. The balances shown in the preceding tables represent the notional amounts of these types of guarantees held by the Group;

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

- Netting agreements: the Group makes use of master netting agreements, as well as other arrangements not eligible for netting, under IAS 32 Financial Instruments: Presentation with its counterparties. Such arrangements provide for single net settlement of all financial instruments covered by the agreements in the event of default on any one contract. Although these master netting arrangements do not normally result in an offset of balance sheet assets and liabilities (as the conditions for offsetting under IAS 32 may not apply), they nevertheless reduce the Group's exposure to credit risk, as shown in the tables on the following pages. Although master netting arrangements may significantly reduce credit risk, it should be noted that the credit risk is eliminated only to the extent of amounts due to the same counterparty.

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

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 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 in order to keep Net Immediate Liquidity above the defined tolerance level 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 Liquidity Risk Policy defines 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	2018	2017
Year-end	29.47%	30.27%
Maximum	30.60%	30.27%
Minimum	29.47%	29.48%
Average	30.06%	29.79%

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 2018 and 2017 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.

2018 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	1,908,522	1,410,690	1,170,533	6,719,985	13,607,940	**24,817,670**
Due from banks and financial institutions	3,521,505	277,611	56,642	13,375	1,419	**3,870,552**
Loans to banks and financial institutions and reverse repurchase agreements	125,689	83,938	129,824	26,600	-	**366,051**
Derivative financial instruments	1,899	-	-	-	-	**1,899**
Financial assets at fair value through profit or loss	23	167	2,430	14,938	96,816	**114,374**
Net loans and advances to customers at amortized cost	3,599,878	460,598	1,164,767	2,454,112	1,564,488	**9,243,843**
Net loans and advances to related parties at amortized cost	9,219	752	3,091	3,812	9,994	**26,868**
Debtors by acceptances	143,992	141,506	62,714	13,879	-	**362,091**
Financial assets at amortized cost	30,261	83,087	686,396	5,889,298	3,928,802	**10,617,844**
Financial assets at fair value through other comprehensive income	45	219	10,166	59,322	183,104	**252,856**
Total undiscounted financial assets	**9,341,033**	**2,458,568**	**3,286,563**	**15,195,321**	**19,392,563**	**49,674,048**
FINANCIAL LIABILITIES						
Due to central banks	13,712	12,697	90,673	1,327,034	3,011,070	**4,455,186**
Due to banks and financial institutions	611,828	134,992	156,810	273,858	148,538	**1,326,026**
Derivative financial instruments	1,802	-	-	-	-	**1,802**
Customers' deposits at amortized cost	13,124,581	4,127,166	7,451,013	3,129,282	323,665	**28,155,707**
Deposits from related parties at amortized cost	359,841	11,835	16,861	60,339	8,855	**457,731**
Debt issued and other borrowed funds	-	-	31,658	488,611	-	**520,269**
Engagements by acceptances	143,992	141,506	62,714	13,879	-	**362,091**
Subordinated debt	-	7,349	22,210	524,199	-	**553,758**
Total undiscounted financial liabilities	**14,255,756**	**4,435,545**	**7,831,939**	**5,817,202**	**3,492,128**	**35,832,570**
Net undiscounted financial assets/(liabilities)	**(4,914,723)**	**(1,976,977)**	**(4,545,376)**	**9,378,119**	**15,900,435**	**13,841,478**

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	149,806	**340,875**
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	-	-	-	-	101,877	**101,877**
Total undiscounted financial assets	**8,921,963**	**2,805,601**	**3,277,168**	**13,025,157**	**14,814,743**	**42,844,632**
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**	**13,860,390**	**10,896,490**

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.

2018 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	-	-	19,760	218,395	545	**238,700**
Documentary credits	66,108	339,681	284,020	39,137	-	**728,946**
Commitments to lend	2,198,843	-	-	-	-	**2,198,843**
	2,264,951	**339,681**	**303,780**	**257,532**	**545**	**3,166,489**

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**

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 Group's Security Investment Policy, which also 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 through 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 Group has revised the interest rate risk policy to set new internal gap limits for local currency 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 the floating-rate financial assets and financial liabilities and on the reinvestment or refunding of fixed-rated financial assets and liabilities at the assumed rates. The change in interest income is calculated over a one-year period. The impact also incorporates the fact that some monetary items do not immediately respond to changes in interest rates and are not passed through in full, reflecting "sticky" interest rate behavior. The pass-through rate and lag in response time are estimated based on historical statistical analysis and are reflected in the outcome.

		2018	2017
Currency	**Increase in basis points**	**Effect on net interest income LBP Million**	**Effect on net interest income LBP Million**
LBP	50 basis point	(17,776)	(19,561)
USD	50 basis point	(2,634)	792
EUR	50 basis point	(1,134)	(559)

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

2018 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	818,243	1,334,138	292,455	2,909,361	9,677,346	1,292,579	**16,324,122**
Due from banks and financial institutions	2,526,294	276,139	57,183	13,374	644	991,117	**3,864,751**
Loans to banks and financial institutions and reverse repurchase agreements	125,439	82,912	129,896	25,370	-	16	**363,633**
Derivative financial instruments	-	-	-	-	-	1,899	**1,899**
Financial assets at fair value through profit or loss	-	-	-	5,066	26,096	59,328	**90,490**
Net loans and advances to customers at amortized cost	3,644,722	601,137	2,117,900	1,274,457	261,839	278,174	**8,178,229**
Net loans and advances to related parties at amortized cost	14,240	942	838	1,905	94	6,912	**24,931**
Debtors by acceptances	-	-	-	-	-	362,091	**362,091**
Financial assets at amortized cost	2,972	23,626	355,959	4,181,196	3,128,812	83,711	**7,776,276**
Financial assets at fair value through other comprehensive income	45	219	7,100	48,059	84,566	88,440	**228,429**
Total	**7,131,955**	**2,319,113**	**2,961,331**	**8,458,788**	**13,179,397**	**3,164,267**	**37,214,851**
LIABILITIES							
Due to central banks	13,518	6,651	21,651	1,050,562	2,774,792	3,349	**3,870,523**
Due to banks and financial institutions	337,650	130,050	233,639	205,672	135,974	223,085	**1,266,070**
Derivative financial instruments	-	-	-	-	-	1,802	**1,802**
Customers' deposits at amortized cost	10,911,101	3,979,827	6,463,779	2,937,015	278,434	2,847,986	**27,418,142**
Deposits from related parties at amortized cost	352,742	11,341	3,282	34,968	-	18,839	**421,172**
Debt issued and other borrowed funds	-	-	-	450,482	-	819	**451,301**
Engagements by acceptances	-	-	-	-	-	362,091	**362,091**
Subordinated debt	-	-	-	426,173	-	245	**426,418**
Total	**11,615,011**	**4,127,869**	**6,722,351**	**5,104,872**	**3,189,200**	**3,458,216**	**34,217,519**
Total interest sensitivity gap	**(4,483,056)**	**(1,808,756)**	**(3,761,020)**	**3,353,916**	**9,990,197**	**(293,949)**	**2,997,332**

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	-	-	-	-	-	282,317	**282,317**
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	-	-	-	-	-	101,877	**101,877**
Total	**6,790,249**	**2,718,043**	**3,260,210**	**7,773,064**	**10,059,586**	**3,160,004**	**33,761,156**
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**	**(129,942)**	**3,041,380**

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 positions by currency are monitored constantly in order to ensure that they are maintained within established limits.

Following is the consolidated statement of financial position as of 31 December 2018 detailed in LBP and foreign currencies, translated into LBP.

2018 LBP Million	**Local currency**	**Foreign currencies**	**Total**
ASSETS			
Cash and balances with central banks	7,153,327	9,170,795	**16,324,122**
Due from banks and financial institutions	185,687	3,679,064	**3,864,751**
Loans to banks and financial institutions and reverse repurchase agreements	-	363,633	**363,633**
Derivative financial instruments	742	1,157	**1,899**
Financial assets at fair value through profit or loss	1,990	88,500	**90,490**
Net loans and advances to customers at amortized cost	2,280,252	5,897,977	**8,178,229**
Net loans and advances to related parties at amortized cost	4,545	20,386	**24,931**
Debtors by acceptances	-	362,091	**362,091**
Financial assets at amortized cost	4,371,188	3,405,088	**7,776,276**
Financial assets at fair value through other comprehensive income	22,612	205,817	**228,429**
Property and equipment	250,650	38,887	**289,537**
Intangible assets	153	-	**153**
Assets obtained in settlement of debt	(7,977)	59,382	**51,405**
Other assets	120,757	21,125	**141,882**
TOTAL ASSETS	**14,383,926**	**23,313,902**	**37,697,828**
LIABILITIES AND EQUITY			
Due to central banks	3,841,004	29,519	**3,870,523**
Due to banks and financial institutions	13,892	1,252,178	**1,266,070**
Derivative financial instruments	685	1,117	**1,802**
Customers' deposits at amortized cost	8,500,620	18,917,522	**27,418,142**
Deposits from related parties at amortized cost	16,897	404,275	**421,172**
Debt issued and other borrowed funds	-	451,301	**451,301**
Engagement by acceptances	-	362,091	**362,091**
Other liabilities	293,130	61,647	**354,777**
Provisions for risks and charges	128,077	102,346	**230,423**
Subordinated debt	-	426,418	**426,418**
TOTAL LIABILITIES	**12,794,305**	**22,008,414**	**34,802,719**

2018 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	619,264	362,776	**982,040**
Distributable reserves	98,622	18,030	**116,652**
Treasury shares	-	(7,105)	**(7,105)**
Retained earnings	77,064	(14)	**77,050**
Revaluation reserve of real estate	5,689	-	**5,689**
Change in fair value of financial assets at fair value through other comprehensive income	13,181	(28,643)	**(15,462)**
Net results of the financial period – profit	198,289	40,651	**238,940**
Foreign currency translation reserves	(50,603)	-	**(50,603)**
NON-CONTROLLING INTERESTS	**36,184**	**2,514**	**38,698**
TOTAL EQUITY	**1,686,803**	**1,208,306**	**2,895,109**
TOTAL LIABILITIES AND EQUITY	**14,481,108**	**23,216,720**	**37,697,828**

Following is the consolidated statement of financial position as of 31 December 2017 detailed in 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	132,046	**282,317**
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	67,458	**101,877**
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**	**22,617,519**	**34,181,824**
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	68,760	**278,487**
Provisions for risks and charges	340,988	9,948	**350,936**
Subordinated debt	-	422,995	**422,995**
TOTAL LIABILITIES	**10,472,389**	**20,876,810**	**31,349,199**

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**	**22,271,429**	**34,181,824**

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.

	2018			2017		
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	377	-	+1	135	-
EUR	+1	6	1,562	+1	10	1,521

EQUITY PRICE RISK

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

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

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 2018 would have increased other comprehensive income by LBP 2,233 million and net income by LBP 1,982 million (2017: LBP 2,373 million and LBP 1,592 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, 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 components 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 were placed on the Bank's intranet site for quick access and referrals. The critical operational risk issues are handled by a separate Operational Risk Committee whose meetings are attended by business lines' Senior Managers, including the Chief Risk Officer and the General Manager.

The framework for managing and controlling operational risks encompasses various tools including Risk and Control Assessment (RCA), operational risk event reporting and loss database management, and key risk indicators (KRIs). The RCA is performed by each business and support unit to identify key operational risks and assess the degree of effectiveness of internal controls. Inadequate controls are subject to action plans that will help track deficiencies and resolve them in a timely fashion. This tool is subject to a proactive approach to minimize operational risk loss. This is reflected in the operational risk assessment of new products/activities/systems, protective information security and Business Continuity Planning, granular risk analysis for its operating/existing activities, and continuous awareness sessions.

Operational risk events are classified in accordance with Basel standards and include significant incidents that may impact the Group's profits and reputations for further mitigation and avoidance. As to key risk indicators, they are 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 service during unforeseen events, mainly business disruption and system failures events – with enterprise-wide impact – along with natural disasters and terrorism/ vandalism events. As to the latter, the Group purchases Group-wide insurance policies to mitigate significant losses. These policies cover fraud, property damage, and general liability, as well as Director's 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.

2018 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	1,889,914	1,380,459	371,000	3,641,373	2,909,605	9,773,144	12,682,749	**16,324,122**
Due from banks and financial institutions	3,518,064	276,684	56,017	3,850,765	13,374	612	13,986	**3,864,751**
Loans to banks and financial institutions and reverse repurchase agreements	125,614	83,538	129,111	338,263	25,370	-	25,370	**363,633**
Derivative financial instruments	1,899	-	-	1,899	-	-	-	**1,899**
Financial assets at fair value through profit or loss	19	94	337	450	5,066	84,974	90,040	**90,490**
Net loans and advances to customers at amortized cost	3,570,020	405,291	978,133	4,953,444	1,958,179	1,266,606	3,224,785	**8,178,229**
Net loans and advances to related parties at amortized cost	9,189	649	2,826	12,664	2,942	9,325	12,267	**24,931**
Debtors by acceptances	143,992	141,506	62,714	348,212	13,879	-	13,879	**362,091**
Financial assets at amortized cost	13,981	56,005	349,596	419,582	4,239,365	3,117,329	7,356,694	**7,776,276**
Financial assets at fair value through other comprehensive income	45	219	7,528	7,792	48,769	171,868	220,637	**228,429**
Property and equipment	-	-	-	-	-	289,537	289,537	**289,537**
Intangible assets	-	-	-	-	-	153	153	**153**
Assets obtained in settlement of debt	-	-	-	-	-	51,405	51,405	**51,405**
Other assets	7,914	-	131,718	139,632	-	2,250	2,250	**141,882**
TOTAL ASSETS	**9,280,651**	**2,344,445**	**2,088,980**	**13,714,076**	**9,216,549**	**14,767,203**	**23,983,752**	**37,697,828**

2018 LBP Million	Less than 12 months				Over 12 months			
	Up to 1 month	1 to 3 months	3 months to 1 year	Total	1 to 5 years	Over 5 years	Total	TOTAL
LIABILITIES								
Due to central banks	13,595	10,620	33,924	58,139	1,044,206	2,768,178	3,812,384	**3,870,523**
Due to banks and financial institutions	625,858	138,629	143,243	907,730	223,377	134,963	358,340	**1,266,070**
Derivative financial instruments	1,802	-	-	1,802	-	-	-	**1,802**
Customers' deposits at amortized cost	13,044,282	4,024,936	7,386,590	24,455,808	2,684,058	278,276	2,962,334	**27,418,142**
Deposits from related parties at amortized cost	367,855	9,500	8,437	385,792	35,380	-	35,380	**421,172**
Debt issued and other borrowed funds	-	203	616	819	450,482	-	450,482	**451,301**
Engagements by acceptances	143,992	141,506	62,714	348,212	13,879	-	13,879	**362,091**
Other liabilities	61,620	-	136,429	198,049	156,728	-	156,728	**354,777**
Provisions for risks and charges	-	-	-	-	-	230,423	230,423	**230,423**
Subordinated debt	-	245	-	245	426,173	-	426,173	**426,418**
TOTAL LIABILITIES	**14,259,004**	**4,325,639**	**7,771,953**	**26,356,596**	**5,034,283**	**3,411,840**	**8,446,123**	**34,802,719**
NET	**(4,978,353)**	**(1,981,194)**	**(5,682,973)**	**(12,642,520)**	**4,182,266**	**11,355,363**	**15,537,629**	**2,895,109**

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
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	119,597	124,314	**282,317**
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	-	-	-	-	-	101,877	101,877	**101,877**
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**	**11,728,411**	**20,371,582**	**34,181,824**

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	53,725	155,977	**278,487**
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**	**1,248,003**	**5,575,430**	**31,349,199**
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**

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 risks.

During 2016, the Central Bank of Lebanon issued Intermediate Circular No. 436 by which it amended Basic Circular 44 relating to minimum Capital Adequacy Ratios (CAR). These ratios were 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 the end of 2018, must be met through Common Equity Tier 1 capital.

RISK-WEIGHTED ASSETS

As of 31 December 2018 and 2017, risk-weighted assets were as follows:

LBP Million	2018	2017
Risk-weighted assets	17,873,010	17,416,358

REGULATORY CAPITAL

At 31 December 2018 and 2017, regulatory capital consisted of the following:

	Excluding profit for the year		Including profit for the year less proposed dividends	
LBP Million	2018	2017	2018	2017
Common Equity Tier 1 capital	1,940,583	1,862,906	2,011,186	1,943,108
Additional Tier 1 capital	595,938	596,191	595,938	596,191
Tier 2 capital	643,258	554,831	643,258	554,831
Total capital	**3,179,779**	**3,013,928**	**3,250,382**	**3,094,130**

CAPITAL ADEQUACY RATIO

As of 31 December 2018 and 2017, the capital adequacy ratios were as follows:

	Excluding profit for the year		Including profit for the year less proposed dividends	
	2018	2017	2018	2017
Common Equity Tier 1 capital ratio	10.86%	10.70%	11.25%	11.16%
Total Tier 1 capital ratio	14.19%	14.12%	14.59%	14.58%
Total capital ratio	**17.79%**	**17.31%**	**18.19%**	**17.77%**

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; they are under the constant scrutiny of the Board.

52. DIVIDENDS PAID AND PROPOSED

LBP Million	2018	2017
Dividends paid during the year		
Equity dividends on ordinary shares: LBP 212 per share (2017: LBP 200 per share)	119,889	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
	168,337	**161,551**
Less: dividends on treasury shares	(429)	(414)
	167,908	**161,137**
Proposed for approval at Annual General Assembly (not recognized as a liability as at 31 December)		
Equity dividends on ordinary shares: LBP 212 per share	119,889	119,889
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
	168,337	**168,337**

53. COMPARATIVE INFORMATION

- Financial assets have been reclassified from "Financial assets at fair value through other comprehensive income" to "Financial assets at fair value through profit or loss". Comparative amounts of LBP 26,292 million have been reclassified accordingly.
- Other creditors have been reclassified from "Financial assets at fair value through other comprehensive income" to "Other liabilities". Comparative amounts of LBP 19,617 million have been reclassified accordingly.

RESOLUTIONS OF THE ANNUAL ORDINARY GENERAL ASSEMBLY

Held on 17 April 2019

FIRST RESOLUTION

After hearing the general and special reports of the Auditors and the Board of Directors and after taking note of the opinions of the holders of the 2008 and 2009 preferred shares through their representatives, the Ordinary General Assembly approves the Board's general and special reports and all the elements of the consolidated and stand-alone balance sheets, as well as the consolidated and stand-alone income statements for fiscal year 2018.

SECOND RESOLUTION

After taking note of the opinion of the holders of the 2008 and 2009 preferred shares through their representatives, the Ordinary General Assembly approves the allocation of the 2018 results, as suggested by the Board of Directors, as follows:

2018 Non-Consolidated Net income	206,775
Less:	
Appropriation to the required reserves:	
Appropriation to Legal Reserves	(20,959)
Appropriation to Reserves for capital increase – gains on disposal of foreclosed properties as per Banking Control Commission No. 173	(48)
Appropriation to Reserves for foreclosed properties	(3,326)
Transfer to General Reserves (non-distributable) the amount written back of deferred liabilities against IFRS 9 ECL provision constitution as per BDL Circular 143	(8,274)
Less:	
Dividends – Preferred Shares Series 2008	(24,256)
Dividends – Preferred Shares Series 2009	(24,256)
Dividends – Common Shares	(119,889)
Add:	
Retained Earnings 2017	22,960
Retained Earnings 2018	**28,727**
of which distributable	28,708

THIRD RESOLUTION

After taking note of the opinions of the holders of the 2008 and 2009 preferred shares through their representatives, the General Assembly approves the discharge of the Chairman and the Board members for their duties during the fiscal year 2018.

Held on 17 April 2019

FOURTH RESOLUTION

After reviewing the special reports of each of the Auditors and the Board of Directors and after taking note of the opinions of the holders of the 2008 and 2009 preferred shares through their representatives, the General Assembly decides:

1. To approve the credits effectively used during 2018 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 Auditors and the Board of Directors; and to approve the agreements concluded between the Bank and the companies some Board members belong to, as described in the special reports of the Auditors and the Board of Directors attached to the present minutes.

2. To grant the authorization set forth in Article 152 of the Code of Money and Credit and Article 158 of the Code of Commerce for the fiscal year 2019 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 described in the Board's special report which is an integral part of the present minutes.

3. To grant the special authorization set forth in Article 159 of the Code of Commerce in order to entitle the Board members to the chairmanship or Board membership in other companies having similar business.

FIFTH RESOLUTION

After taking note of the opinions of the holders of the 2008 and 2009 preferred shares through their representatives, the General Assembly approves to set annual lump-sum emoluments for the Board members for 2018 at /400/ Million LBP, to be equally distributed to Board members, each one of them being entitled to /10/ Million LBP as attendance fees for each meeting with a maximum of /40/ Million LBP per year.

SIXTH RESOLUTION

4. After taking note of the opinions of the holders of the 2008 and 2009 preferred shares through their representatives, the General Assembly approves the business terms relative to each of Dr. Francois 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 2019 the authorization mentioned in Article 152 of the Code of Money and Credit and Article 158 of the Code of Commerce.

5. After taking note of the opinions of the 2008 and 2009 preferred shares holders through their representatives, the General Assembly approves the salaries and other benefits paid to the senior officers of the Bank for 2018, as mentioned in the special report, and approves as well to pay them the amounts mentioned in the same report for 2019.

6. After taking note of the opinions of the holders of 2008 and 2009 preferred shares through their representatives, the 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 2018 and approves that said members and chairmen receive fees for the fiscal year 2019 as mentioned in the above-mentioned Board special report.

SEVENTH RESOLUTION

After taking note of the opinions of the holders of the 2008 and 2009 preferred shares through their representatives, and upon the proposal of the Board Audit Committee, the General Assembly decides to set the fees of BDO, Semaan, Gholam & Co. and Ernst & Young as auditors for the fiscal year 2019 at /1,395,000,000/ LBP for auditing and reviewing the stand-alone and consolidated financial statements.

BYBLOS BANK S.A.L.

ANNUAL REPORT 2018 | 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	Abu Dhabi	First Abu Dhabi Bank P.J.S.C.
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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SWIFT:	BYBALBBX
Forex:	(+961) 1 335255
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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
- Hadat Branch
- Hazmieh Branch
- Hazmieh 2 Branch (Counterless)
- 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
- Saydeh Satellite 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 (Counterless)

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 (Counterless)
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 1 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

BYBLOS BANK S.A.L.

CONCEPT
Byblos Bank – Group Communication Department

DESIGN AND LAYOUT
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