



**Byblos Bank S.A.L**

**Highlights of the Board of Directors' report on  
the Audited Consolidated Financial Statements  
as at 31/12/2015  
to the General Assembly held on the 26-Apr-2016**

# Lebanon Key Economic Indicators

## Economic Activity

- Real GDP growth is forecast at about 0.5% in 2015, compared to growth rates of 1.7% in 2014, 1.4% in each of 2012 and 2013, 0.9% in 2011 and 8% in 2010.
- The results of the Byblos Bank/AUB Consumer Confidence Index show that the index averaged 39.5 in the third quarter of 2015, nearly unchanged from the second quarter of the year, and decreased by 6.7% to an average of 36.9 in the fourth quarter of 2015. The index posted an average monthly value of 38.2 during the second half of 2015, a decrease of 0.9% from the first half of 2015. Public malaise and street protests, as well as the ongoing political stalemate in the country have weighed on sentiment during the second half of 2015.
- The Byblos Bank/AUB Consumer Confidence Index posted a monthly average of 38.4 in 2015, reflecting an increase of 12.4% from an average of 34.1 in 2014. However, the average monthly score of 2015 constitutes a decline of 60.3% from the peak of 96.7 registered in 2009. It was also 30.5% lower than the index's monthly trend average score of 55.2 since July 2007.
- The Byblos Bank/AUB Expectations Index (EI) posted higher values than the Present Situation Index (PSI) during 2015. Indeed, the EI posted a monthly average of 40.9 in 2015, while the PSI averaged 34.6 last year.
- The EI average monthly score increased by 23.6% in 2015, while the PSI average monthly result regressed by 3.2% year-on-year. However, the EI's average monthly score in 2015 constitutes a drop of 63% from the peak of 110.4 registered in 2009. It was also 31.7% lower than the index's trend average score of 59.8 since the index's inception. Further, the PSI's average monthly score in 2015 constitutes a decline of 54.6% from the peak of 76.1 registered in 2009. It was also 28.2% lower than the index's trend average score of 48.2 since the start of the index's calculation in July 2007.

## Inflation

- The Central Administration of Statistics' Consumer Price Index declined by 3.8% in the first 11 months of 2015 from the same period of 2014. Also, the CPI decreased by 3.9% in November 2015 from November 2014. The decline in the CPI is mainly attributed to the drop

in global oil prices, the decline in the price of base metals, the strengthening of the US dollar, the decrease in telecom tariffs, and to a slowdown in local demand for goods & services.

## Real Sectors

- The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, averaged 274.8 in the first 10 months of 2015, up 1.1% from 271.7 in the same period of 2014. Also, the indicator averaged 275.8 in the 12 months ending October 2015, compared to 275 in the 12 months ending September 2015 and 272 in the 12 months ending October 2014. As a result, the average coincident indicator grew by 1.4% year-on-year.
- The Purchasing Managers' Index (PMI) for Lebanon posted a monthly average of 47.3 in the fourth quarter of 2015, down from 48.4 in the preceding quarter, indicating a rate of contraction in private sector activity. The PMI's average monthly score was 48.4 in 2015, constituting an increase of 1.7% from 47.6 in 2014. The PMI remained below the 50 mark, which reflects weak business conditions in the Lebanese private sector.

## Tourism Sector

- The number of incoming tourists to Lebanon totaled 1.39 million in the first 11 months of 2015, constituting an increase of 14.1% from 1.22 million tourists in the same period of 2014 but a drop of 30.8% from two million tourists in the first 11 months of 2010.
- The average occupancy rate at hotels in Beirut was 56% in the first 11 months of 2015, up from 51% in the same period of 2014, but was below the average rate of 62.8% in 14 Arab markets. The occupancy rate at Beirut hotels was the fifth lowest in the region during the covered period. The average rate per room at Beirut hotels was \$175 in the first 11 months of 2015, up by 2% year-on-year, while revenues per available room were \$99 in Beirut in the first 11 months of 2015, up from \$89 in the same period of 2014. The improvement in the occupancy rate at hotels in Beirut is linked to the rise in the number of tourist arrivals.
- Total spending by tourists in Lebanon increased by 2% in 2015. Spending by visitors from Qatar increased by 21% in 2015, followed by those from the United States (+18%), Jordan (+14%), the UAE (+12%) and Saudi Arabia (+5%); while spending by visitors from Syria

contracted by 23%, followed by those from Kuwait (-16%), Nigeria (-9%), Egypt (-4%), France (-3%) and Iraq (-1%). In parallel, total spending by tourists in Lebanon decreased by 9% year-on-year in the fourth quarter of 2015.

- The number of airport passengers (arrivals, departures, transit) totaled 6.6 million in the first 11 months of 2015, constituting a rise of 10.5% from the same period last year. The total number of arriving passengers rose by 9.6% year-on-year to 3.2 million in the first 11 months of 2015, compared to increases of 5.9% in the same period of 2014 and of 4.4% in the first 11 months of 2013.

## Real Estate Sector

- The Byblos Bank Real Estate Demand Index averaged 43.3 points in 2015, constituting an increase of 7.1% from a record low of 35.6 points in 2014. Still, the index's average monthly score for 2015 reached the second-lowest annual value since its inception in July 2007. The average monthly score of 2015 constitutes a decline of 60% from the peak of 108 registered in 2010. It was also 33.1% lower than the index's trend average score of 64.7 since the index inception.
- The number of real estate transactions totaled 56,637 in the first 11 months of 2015, constituting a decrease of 11.1% from 63,725 deals in the same period of 2014 and compared to a rise of 2.8% in the first 11 months of 2014. Also, the aggregate value of real estate transactions reached \$7.1 billion in the first 11 months of 2015, a drop of 11.7% from \$8.1 billion in the same period of 2014.
- The Orders of Engineers & Architects of Beirut and of Tripoli issued 15,108 new construction permits in 2015, constituting a decrease of 9.3% from 16,663 permits in 2014 and relative to a drop of 0.4% in 2014. The surface area of granted construction permits in 2015 reached 12.3 million square meters, constituting a drop of 8.9% from the preceding year and compared to a rise of 4.8% in 2014.

## Fiscal Situation

- The fiscal deficit reached \$2.61 billion in the first nine months of 2015 and widened by 17.4% from the same period of 2014, the latest available figures. The deficit was equivalent to 26.5% of total budget and Treasury expenditures compared to 21.9% of overall spending in

the first nine months of 2014. The fiscal deficit is projected to widen from 6.4% of GDP in 2014 to 7.6% of GDP in 2015.

- The primary fiscal balance posted a surplus of \$672.3 million, or 6.8% of spending, in the first nine months of 2015, and narrowed by 22.4% from a surplus of \$866.6 million, or 8.6% of total expenditures, in the same period of 2014.
- Lebanon's gross public debt reached \$70.4 billion at the end of November 2015, constituting a rise of 5.8% from the end of 2014 and an increase of 5.7% from \$66.6 billion at end-November 2014. The public debt level is projected at 140.1% of GDP in 2015, up from 138.1% of GDP in 2014.

### External Sector

- Lebanon's balance of payments posted a deficit of \$2.98 billion in the first 11 months of 2015 compared to a deficit of \$1.3 billion in the same period of 2014. The cumulative deficit over the first 11 months of 2015 was caused by a deficit of \$3.24 billion in the net foreign assets of banks and financial institutions that was partly offset by a surplus of \$255.6 million in those of the Central Bank.
- Expatriates' remittance inflows to Lebanon are estimated at \$7.5bn in 2015, which would constitute an increase of 0.7% from \$7.45bn in 2014, and compared to inflows of \$7.86bn in 2013 and of \$6.73bn in 2012.
- Aggregate imports decreased by 14% to \$16.2 billion in the first 11 months of 2015, while the value of total exports regressed by 11% to \$2.7 billion. As such, the trade deficit narrowed by 14.5% year-on-year to \$13.5 billion. The decline in imports reflects mainly the drop in the global prices of imported oil & mineral fuels and base metals, as well as the strengthening of the US dollar.
- China was the main source of imports to Lebanon with \$1.9 billion or 11.8% of total imports in the first 11 months of 2015, followed by Italy with \$1.2 billion (7.3%) and Germany with \$1.1 billion (6.9%). Saudi Arabia was the main export destination of Lebanese merchandise with \$325.1 million or 12% of total exports in the first 11 months of 2015, followed by the UAE with \$288.1 million (10.6%), Iraq with \$201 million (7.4%) and Syria with \$193.1 million (7.1%).

## Monetary Sector

- The Central Bank's interim balance sheet totaled \$90.9 billion at the end of 2015, constituting a decline of 0.8% from \$91.6 billion at the end of September and an increase of 6.1% from \$85.7 billion at the end of 2014. Assets in foreign currency reached \$37.1 billion at the end of 2015, reflecting decreases of 3% from \$38.2 billion at end-September and of 2% from \$37.9 billion at end-2014. As a result, assets in foreign currency regressed by \$771 million in 2015. In comparison, the Central Bank's assets in foreign currency increased by \$1.63 billion in 2011, by \$3.5 billion in 2012 and by \$2.6 billion in 2014, while they declined by \$445.1 million in 2013. In parallel, the Central Bank's gross foreign reserves totaled \$32.25 billion at the end of October 2015, the latest available figure.

In parallel, the value of the Central Bank's gold reserves contracted by 5% from the end of September 2015 and by 10.1% year-on-year to \$9.85bn, due to lower global gold prices. The value of gold reserves reached a peak of \$16.7 billion at the end of August 2011. Further, deposits of the financial sector reached \$74.3 billion at the end of 2015 and grew by \$6.8bn, or 10.1%, from end-2014.

- The value of cleared checks reached \$63.6 billion in the first 11 months of 2015, constituting a decrease of 6.9% from the same period of 2014, and compared to increases of 3.4% in the first 11 months of 2014 and of 1.6% in the same period of 2013. The dollarization rate of cleared checks decreased from 75.8% in the first 11 months of 2014 to 73.3% in the same period of 2015. Also, the value of returned checks in domestic and foreign currency dropped by 2.2% year-on-year to \$1.4 billion in the first 11 months of 2015, relative to increases of 1.6% in the same period of 2014 and 2.4% in the first 11 months of 2013.

## Banking Sector

- The total assets of commercial banks operating in Lebanon reached \$183.2 billion at the end of November 2015, constituting an increase of 4.3% from the end of 2014 and a rise of 6.4% from end-November 2014.
- Private sector deposits totaled \$149.8 billion at the end of November 2015, increasing by 3.7% from the end of 2014 and by 4.9% from a year earlier. In nominal terms, deposits from the private sector rose by \$5.38 billion in the first 11 months of 2015 relative to an increase of \$6.54 billion in the same period of 2014. Non-resident deposits reached \$31

billion and grew by 2.2% from end-2014 and by 4.3% from a year earlier. Resident private sector deposits increased by \$4.7 billion in the covered period, while non-resident deposits grew by \$662.7 million. The dollarization rate of deposits reached 64.6% at the end of November, down from 65.7% a year earlier.

- Loans to the private sector totaled \$53.2 billion at the end of November 2015, constituting increases of 4.6% from the end of 2014 and of 5.4% from a year earlier. Lending to the resident private sector totaled \$47.5 billion, up by 4.6% from the end of 2014 and by 5.3% from the end of November 2014; while credit to the non-resident private sector reached \$5.8 billion and rose by 4.2% from end-2014 and by 5.9% from the end of November 2014. Total credit to the private sector increased by \$2.3 billion in the first 11 months of 2015 relative to a rise of \$3.1 billion in the same period of 2014. The dollarization rate in private sector lending regressed to 74.5% at the end of November 2015 from 75.6% a year earlier.
- The ratio of total private sector loans-to-deposits was 35.5% at end-November 2015 relative to 35.4% a year earlier.
- The aggregate net profits of the Alpha Group of banks reached \$1.5 billion in the first nine months of 2015, constituting an increase of 9.7% from net earnings of \$1.37 billion in the same period of 2014. The Alpha Group consists of 14 banks with deposits in excess of \$2 billion each. Total net operating income grew by 6.4% year-on-year to \$3.9 billion, with aggregate net interest income rising by 6.4% to \$2.6 billion and net fees & commissions increasing by 2.7% to \$653.1 million. The banks' return on average assets was 1.01% on an annualized basis in September 2015, nearly unchanged from 1% in September 2014; while their return on average equity was 11.52% on an annualized basis in September, almost unchanged to 11.53% in September 2014. The banks' gross doubtful loans-to-gross loans ratio rose from 5.54% at end-September 2014 to 5.79% at the end of September 2015.
- Net wealth per capita in Lebanon stood at \$20,718 at the end of June 2015, down 0.9% from \$20,910 at end-June 2014 and compared to a peak of \$23,480 at the end of 2010. Lebanon's net wealth per capita was the 48th highest among 174 countries and jurisdictions, and the seventh highest among 19 Arab countries at the end of June 2015. The aggregate net wealth of Lebanese citizens at the end of June 2015 was the 72nd highest globally and the 11th highest in the Arab world.

## Sovereign Ratings

- In December 2015, Fitch Ratings affirmed Lebanon's long-term foreign and local currency Issuer Default Ratings (IDR) and short-term foreign currency IDR at 'B'. It also affirmed at 'B' the ratings on Lebanon's senior unsecured foreign and local currency bonds, and maintained the outlook on the long-term IDRs at 'negative'. Further, it affirmed the Country Ceiling at 'B'. But the Credit Default Swap Implied Ratings, an indicator or risk appetite by foreign investors, show that Lebanon's sovereign debt is considered by the market to have a 'B' risk level, which is one notch higher than the Fitch rating as at January 18, 2016.
- In October 2015, Capital Intelligence affirmed at 'B' Lebanon's long and short-term foreign and local currency sovereign ratings, and revised from 'stable' to 'negative' the outlook on the country's long-term ratings.
- In September 2015, Standard & Poor's affirmed Lebanon's long- and short-term foreign and local currency sovereign credit ratings at 'B-/B' and revised its outlook to 'negative' from 'stable' on the long-term ratings. But the Credit Default Swap Market's Derived Signals, an indicator or risk appetite by foreign investors, show that at Lebanon's sovereign debt is considered by the market to have a 'BB-' risk level, which is three notches better than the S&P rating as at January 15, 2016.

## Risk Metrics

- The five-year credit default swap (CDS) spread on Lebanon's Eurobonds reached 410.95 basis points at the end of 2015, widening by 46.7 bps from 364.23 bps at the end of 2014. The CDS spread on Lebanon's debt, averaged 374.94 bps in full year 2015 relative to 360.6 bps in 2014, which implies a market perception of higher risk for a government default.

## Business Environment

- Lebanon ranked in 101<sup>st</sup> place out of 140 countries worldwide and in 11<sup>th</sup> place among 13 Arab countries on the World Economic Forum's Global Competitiveness Index for 2015-16. It also came in sixth place among 21 countries on the Fraser Institute's 2015 annual Index of Economic Freedom in the Arab World. Further, Lebanon ranked in 123<sup>rd</sup> place among 189 countries and jurisdictions worldwide and in 10<sup>th</sup> place among 21 Arab countries and territories on the World Bank's 2016 Ease of Doing Business survey.

## Key Performance Indicators as at 31 December 2015

USD Million	Dec-14	Dec-15	Growth Dec-15/Dec-14 Volume	%
Total Assets	19,035	19,869	834	4.4%
Total Deposits	15,715	16,637	922	5.9%
Total Net Loan Portfolio	4,728	4,932	204	4.3%
Total NPL	257	239	(18)	-7.0%
Total Equity	1,963	1,989	27	1.4%
Total Lebanese Sovereign Exposure	6,442	6,888	446	6.9%
<i>Out of which Treasury Bills</i>	3,844	4,034	190	4.9%
<i>Out of which Central Bank CDs</i>	2,598	2,854	256	9.8%
Total Loans / Assets	24.84%	24.82%		
Total Loans / Deposits	30.08%	29.64%		
Total NPL / Total Loans	5.04%	4.60%		
Total Provision to NPL *	120.67%	109.73%		
Coverage Ratio of non-performing loans **	82.40%	73.22%		
Leverage ratio	9.70 x	9.99 x		
Basle III Capital Adequacy Ratio	16.7%	17.3%		
Number of Employees	2,531	2,544	13	0.5%
<i>Out of which insurance companies employees</i>	137	136	(1)	-0.7%
Number of Branches	102	105	3	2.9%
Total Loans/Number of Staff	1.9	1.9		
Total Deposits/Number of Staff	6.2	6.5		
Total Assets/Number of Staff	7.5	7.8		
Net Income/Number of Staff	0.07	0.06		
Total Loans/Number of Branches	46.4	47.0		
Total Deposits/Number of Branches	154.1	158.4		
Total Assets/Number of Branches	186.6	189.2		
Net Income/Number of Branches	1.7	1.5		

USD Million	Dec-14	Dec-15	Growth Dec-15/Dec-14 Volume	%
Total Net Profit	175.5	161.5	(14.0)	-8.0%
Provision for doubtful loans (Specific & General)	48.4	28.6	(19.8)	-41.0%
Provisions for Central Bank of Erbil / Central Bank of Sudan		23.6	23.6	
Recoveries	20.0	19.4	(0.6)	-2.8%
Total Corporate Taxes	44.6	35.2	(9.4)	-21.1%

Return on Assets ROA	0.94%	0.84%		
Return on Common Equity ROCE	11.07%	9.42%		
Net Interest Margin	1.35%	1.41%		
Net Interest Spread	0.98%	1.03%		
Earning per Share EPS (common) in LBP	363.2	319.2		
Price Earning P\E (common)	6.64	7.60		
Market Price to Book Value	0.73	0.72		
Book Value per Share in USD	2.20	2.24		

General Expenses	215.5	227.9	12.5	5.8%
Salaries and related staff expenses	125.0	119.9	(5.1)	-4.1%
Operational Expenses	73.8	78.4	4.6	6.3%
Provisions for Law Suit and Risks & Charges		13.9	13.9	
Depreciation	16.6	15.7	(0.9)	-5.7%
Cost-to-Income	46.67%	49.94%		
Operating expenses / Assets	1.15%	1.18%		

\* Provisions including specific, general, collective and reserved interests

\*\* Provisions include only specific and reserved interest on non-performing loans

## Growth

- Total assets amounted to LBP 29,952 billion (USD 19,869 million) at the end of Dec-2015 increasing by 4.4% (+LBP 1,258 billion/+ USD 834 million) compared to 2014.
- Cash and due from banks (including central bank) amounted to LBP 10,952 billion (USD 7,265 million) at the end of Dec-2015 increasing by 5.8% (+LBP 596 billion/+USD 395 million) from the end of Dec-2014.
- Total financial instruments amounted to LBP 10,915 billion (USD 7,239 million) at the end of Dec-2015 compared to LBP 10,521 billion (USD 6,979 million) at the end of Dec-2014,thus increasing by 3.7%.
  - Lebanese sovereign exposure (Lebanese Government instruments and Central Bank CDs) increased by 6.9% (+ LBP 672 billion/ +USD 446 million) during 2015 to reach LBP 10,383 billion (USD 6,888 million) at the end of Dec-2015 representing 34.7% of total assets higher than the 33.8% at the end of Dec-2014.

- Net loan portfolio amounted to LBP 7,435 billion (USD 4,932 million) at the end of Dec-2015 increasing by 4.3% compared to 2014.

The distribution of the gross loan portfolio by economic sector as the end of Dec-2015 was as follow:

Industry	14.1%
Services	10.9%
Trade	24.0%
Real Estate	3.8%
Contracting	9.1%
Agriculture	1.9%
Others	2.3%
Retail	33.9%
-Housing	18.2%
-Personal	9.1%
-Car	2.6%
-Credit Cards	1.2%
-Kafalat	1.6%
-Business	1.1%
-Others	0.1%

- Total non-performing loans amounted to LBP 360 billion (USD 239 million) at the end of Dec-2015 representing 4.6% of total loans compared to 9.0% at the end of Dec-2014 and covered by specific provisions, general provisions, and reserved interest by 109.7% at the end of Dec-2015 compared to 120.7% at the end of Dec-2014.
- Total customers' deposits amounted to LBP 25,080 billion (USD 16,637 million) at the end of Dec-2015 increasing by 5.9% (+LBP 1,390 billion/+USD 922 million) compared to 2014.
- Total equity amounted to LBP 2,999 billion (USD 1,989 million) at the end of Dec-2015 slightly increasing by 1.4% (+LBP 40 billion/+USD 27 million).

## **Profitability**

- Net income amounted to LBP 243,4 billion (USD 161.5 million) in 2015 decreasing by 8.0% compared to 2014.
- ROA amounted to 0.84% at the end of Dec-2015 compared to 0.94% at the end of Dec-2014.
- ROCE amounted to 9.42% at the end of Dec-2015 compared to 11.07% at the end of Dec-2014.
- Net interest income amounted to LBP 399 billion (USD 265 million) in 2015 increasing by 7.5% compared to 2014.
  - Interest Income amounted to LBP 1,502 billion (USD 996 million) in 2015 compared to LBP 1,421 billion (USD 943 million) in 2014 increasing by 5.7%.
  - Interest Paid amounted to LBP 1,103 billion (USD 732 million) in 2015 compared to LBP 1,050 billion (USD 696 million) in 2014 increasing by 5.1%.
- Net Interest Spread reached 1.03% at the end of Dec-2015 compared to 0.98% at the end of Dec-2014.
- Net specific provisions allocated in 2015 amounted to LBP 39.6 billion (USD 26.3 million), in addition to provision allocated for both central bank of Erbil and the central bank of Sudan in the amount of LBP 35.6 billion (USD 23.6 million), while general and collective provisions allocated in 2015 amounted to LBP 3.4 billion (USD 2.3 million), and recoveries amounted to LBP 29.2 billion (USD 19.4 million).
- Net commissions amounted to LBP 122.0 billion (USD 80.9 million) in 2015 compared to LBP 135.9 billion (USD 90.1 million) in 2014, therefore decreasing by 10.2%.
- Net profit from financial operations (realized and unrealized) amounted to LBP 147.4 billion (USD 97.8 million) in 2015 compared to LBP 170.3 billion (USD 113.0 million) in 2014 decreasing by 12.9%.

- General expenses increased by 5.8% ( +LBP 18.8 billion/+USD 12.5 million) and amounted to LBP 344 billion (USD 227.9 million) in 2015.
  - Salaries and staff expenses decreased by 4.1% (-LBP 7.7 billion/-USD 5.1 million) and amounted to LBP 180.8 billion (USD 119.9 million) in 2015.
  - Other operating expenses increased by 6.3% (+LBP 7.0 billion/+USD 4.6 million) and amounted to LBP 118.2 billion (USD 78.4 million) in 2015.
  - Provisions for Law Suit and Risks & Charges amounted to LBP 20.9 billion (USD 13.9 million) in 2015 compared to nil in 2014.
- Cost-to-income ratio amounted to 49.9% in 2015 compared to 46.7% in 2014.

<b>Profits Appropriation</b>	LBP Million
Net income for 2015 (unconsolidated)	213,098
Legal Reserve	(21,499)
Reserves for General Banking Risks	(27,982)
Reserves for Retail Loans portfolio	(2,468)
Reserves for Capital Increase	(1,663)
Net Reserves for Foreclosed Properties	(1,770)
Unrealized Loss on Portfolio Held at Fair Value through PL	(79)
Retained Earnings 2014	7,402
<b>Total Profits Available for Appropriation</b>	<b>165,039</b>
Preferred Shares 2008 (8 US\$ per share (CV Lbp 12,112 ) (Lbp 11,506.4 net of 5% distribution tax)	(24,224)
Preferred Shares 2009 (8 US\$ per share (CV Lbp 12,112 ) (Lbp 11,506.4 net of 5% distribution tax)	(24,224)
Common Shares @ 200 Lbp (Lbp 190 net of 5% distribution tax)	(113,103)
Retained Earnings 2015	3,488
<b>Total</b>	<b>165,039</b>

**Semaan Bassil**

**Chairman - General Manager**  
**23 March 2016**