



Byblos Bank S.A.L

**Highlights of the Board of Directors' report on
the Audited Consolidated Financial Statements**

as at 31/12/2017

**to the General Assembly of Byblos Bank shareholders
held on 20/04/2018**

Key Performance Indicators as at 31 December 2017

USD Millions	Dec-16	Dec-17	Growth Dec- Volume	Dec- %
Total Assets	20,768	22,661	1,893	9.1%
Total Deposits	17,102	18,002	900	5.3%
Total Net Loan Portfolio	5,179	5,449	270	5.2%
Total NPL	199	229	30	14.9%
Total Equity	2,083	2,160	77	3.7%
Total Lebanese Sovereign Exposure	6,773	5,443	(1,330)	-19.6%
<i>Out of which Treasury Bills</i>	3,515	3,297	(218)	-6.2%
<i>Out of which Central Bank CDs</i>	3,257	2,146	(1,112)	-34.1%
Total Loans / Assets	24.9%	24.0%		
Total Loans / Deposits	30.3%	30.3%		
Total NPL / Total Loans	3.7%	4.1%		
Total Provision to NPL *	94.9%	82.6%		
Coverage Ratio of non-performing loans **	68.7%	60.9%		
Leverage ratio	9.97 x	10.49 x		
Basle III Capital Adequacy Ratio	18.8%	17.3%		

Number of Employees ***	2,347	2,485	138	5.9%
<i>Out of which insurance companies employees</i>	140	151	11	7.9%
Number of Branches	97	98	1	1.0%

Total Loans/Number of Staff	2.2	2.2		
Total Deposits/Number of Staff	7.3	7.2		
Total Assets/Number of Staff	8.8	9.1		
Net Income/Number of Staff	0.07	0.07		

Total Loans/Number of Branches	53.4	55.6		
Total Deposits/Number of Branches	176.3	183.7		
Total Assets/Number of Branches	214.1	231.2		
Net Income/Number of Branches	1.7	1.7		

LBP Billion	Dec-16	Dec-17	Growth Dec- Volume	Dec- %
Total Net Profit	165	170	5	2.9%
Provision for doubtful loans (Specific & Collective)	7	30	24	349.9%
Provisions for Central Bank of Erbil / Central Bank of Sudan	(1)	-	1	-100.0%
Recoveries	12	18	6	52.8%
Total Corporate Taxes	67	35	(32)	-48.0%

Return on Assets ROA	0.82%	0.78%		
Return on Common Equity ROCE	9.21%	9.35%		
Net Interest Margin	1.42%	1.43%		
Net Interest Spread	1.03%	1.02%		
Earning per Share EPS (common) in LBP	327.2	355.1		
Price Earning P\E (common)	7.83	6.79		
Market Price to Book Value	0.69	0.62		
Book Value per Share in LBP	2.45	2.57		

General Expenses	227	230	3	1.3%
<i>Salaries and related staff expenses</i>	130	136	7	5.0%
<i>Operational Expenses</i>	82	79	(3)	-3.3%
<i>Depreciation</i>	15	14	(1)	-5.7%
Impairment of Goodwill	8	-	(8)	
Provision for risks and charges	92	6	(85)	
Loss from deconsolidating foreign entities	124	-	(124)	
Cost-to-Income ***	33.50%	50.68%		
Operating expenses / Assets	1.12%	1.06%		

* Provisions including specific, collective and reserved interests

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

*** Will reach 51.0% at end Dec-2016 if we exclude the exceptional gains from SWAP operations with the Central Bank

Deconsolidation of Byblos Bank Syria & Byblos Bank Africa at end 2016

Byblos Bank Syria, which is 59.87% owned by the Group, as well as Byblos Bank Africa, which is 56.86%, are operating since more than 5 years in difficult environments where there is war, conflicts, sanctions, limited foreign currencies, as well as local currency sharp devaluation, and which are expected to continue for the foreseeable future, effective 31 December 2016, we concluded that we no longer met the accounting criteria for consolidation of our Syrian and Sudanese subsidiary due to a loss of control, and therefore we deconsolidated them both as of 31 December 2016.

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

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

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

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

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

Growth

- Total assets amounted to LBP 34,162 billion (USD 22,661 million) at the end of Dec-2017 increasing by 9.1% (+LBP 2,854 billion/+ USD 1,893 million) compared to 2016.
- Cash and due from banks (including central bank) amounted to LBP 16,650 billion (USD 11,045 million) at the end of Dec-2017 increasing by 34.9% (+LBP 4,311 billion/+USD 2,859 million) from the end of Dec-2016.
- Total financial instruments amounted to LBP 8,520 billion (USD 5,652 million) at the end of Dec-2017 compared to LBP 10,532 billion (USD 6,986 million) at the end of Dec-2016, thus decreasing by 19.1%.
 - Lebanese sovereign exposure (Lebanese Government instruments and Central Bank CDs) decreased by 19.6% (- LBP 2,005 billion/ - USD 1,330 million) during 2017 to reach LBP 8,205 billion (USD 5,443 million) at the end of Dec-2017 representing 24% of total assets lower than the 32.6% at the end of Dec-2016.
- Net loan portfolio amounted to LBP 8,215 billion (USD 5,449 million) at the end of Dec-2017 increasing by 5.2% compared to 2016.

The distribution of the gross loan portfolio by economic sector as the end of Dec-2017 was as follow:

Loans by economic sector	Percentage
Industry	12.6%
Services	11.4%
Trade	23.0%
Construction/Real Estate	14.5%
Agriculture	1.4%
Others	0.8%
Retail	36.5%
- <i>Housing</i>	20.2%
- <i>Personal</i>	10.2%
- <i>Car</i>	2.1%
- <i>Credit Cards</i>	1.3%
- <i>Kafalat</i>	1.1%
- <i>Business</i>	1.4%
- <i>Others</i>	0.2%

- Total non-performing loans amounted to LBP 345 billion (USD 229 million) at the end of Dec-2017 representing 4.0% of total loans compared to 3.7% at the end of Dec-2016 and covered by specific provisions, collective provisions, and reserved interest by 82.6% at the end of Dec-2017 compared to 94.9% at the end of Dec-2016.
- Total customers' deposits amounted to LBP 27,139 billion (USD 18,002 million) at the end of Dec-2017 increasing by 5.3% (+LBP 1,357 billion/+USD 900 million) compared to 2016.
- Total equity amounted to LBP 3,256 billion (USD 2,160 million) at the end of Dec-2017 increasing by 3.7% (+LBP 116 billion/+USD 77 million).

Profitability

- Net income amounted to LBP 256.5 billion (USD 170.1 million) in 2017 increasing by 2.9% compared to 2016.
- ROA amounted to 0.78% at the end of Dec-2017 compared to 0.82% at the end of Dec-2016.
- ROCE amounted to 9.35% at the end of Dec-2017 compared to 9.21% at the end of Dec-2016.
- Net interest income amounted to LBP 458.9 billion (USD 304.4 million) in 2017 increasing by 8.0% compared to 2016.
 - Interest Income amounted to LBP 1,735 billion (USD 1,150.9 million) in 2017 compared to LBP 1,601 billion (USD 1,062.1 million) in 2016 increasing by 8.4%.
 - Interest Paid amounted to LBP 1,276 billion (USD 846.4 million) in 2017 compared to LBP 1,176 billion (USD 780.2 million) in 2016 increasing by 8.5%.
- Net Interest Spread reached 1.02% at the end of Dec-2017 compared to 1.03% at the end of Dec-2016.
- Net specific provisions allocated in 2017 amounted to LBP 41.8 billion (USD 27.8 million). The bank recovered LBP 26.7 billion (USD 17.7 million). General and collective provisions in 2017 amounted to LBP 3.7 billion (USD 2.5 million).
- Net commissions amounted to LBP 135 billion (USD 89.6 million) in 2017 compared to LBP 121.6 billion (USD 80.7 million) in 2016, therefore increasing by 11%.
- Net profit from financial operations (realized and unrealized) amounted to LBP 56.5 billion (USD 37.5 million) in 2017 compared to LBP 446.9 billion (USD 296.5 million) in 2016 decreasing by 87.4%.
- General expenses increased by 1.3% (+LBP 4.5 billion/+USD 3 million) and amounted to LBP 346.6 billion (USD 229.9 million) in 2017.

- Salaries and staff expenses increased by 5.0% (+LBP 9.8 billion/+USD 6.5 million) and amounted to LBP 205.6 billion (USD 136.4 million) in 2017.
 - Other operating expenses decreased by 3.3% (-LBP 4.1 billion/-USD 2.7 million) and amounted to LBP 119.8 billion (USD 79.4 million) in 2017.
- Cost-to-income ratio amounted to 50.68% in 2017 compared to 33.50% in 2016. If we exclude the exceptional gains from SWAP operations with the Central Bank in Dec-2016, cost to income ratio will reach 51.0%.

Income Appropriation – December 2017

Byblos Bank SAL	<u>Net Income</u> <u>available for distribution</u> in L.L Million	<u>Net Income</u> <u>not available for distribution</u> in L.L Million	<u>Total</u> in L.L Million
Income Appropriation Proposal	208,756	3,736	212,492
Byblos Bank Un-consolidated Profits			
Less:			
Appropriation to the required reserves			
Appropriation to legal reserve	(21,551)		(21,551)
Appropriation to Reserves for General Banking Risks	(19,241)		(19,241)
Appropriation to Reserves for capital increase - gain on disposal of foreclosed properties as per Banking Control Commission circular no.173		(3,736)	(3,736)
Appropriation to Reserves for Foreclosed Properties	(2,588)		(2,588)
	165,376		165,376
Less:			
Dividends for Preferred Shares 2008-2009 series - 8 US\$ per share (CV L.L. 12,120) (L.L. 10,908 net of 10% distribution tax))	(48,480)		(48,480)
	116,896		116,896
Add:			
Retained earnings as of 31-Dec-2017	3,003	6,472	9,475
Unrealized Loss on Portfolio Held at Fair Value through PL	91	(91)	
	119,990	6,381	126,371
Less:			
Dividends for common shares (L.L. 212 per share, L.L. 190.8 net of 10% distribution tax)	(119,889)		(119,889)
Retained earnings 2017	101	6,381	6,482

Semaan Bassil

Chairman – General Manager

20 April 2018