

## LEBANON THIS WEEK

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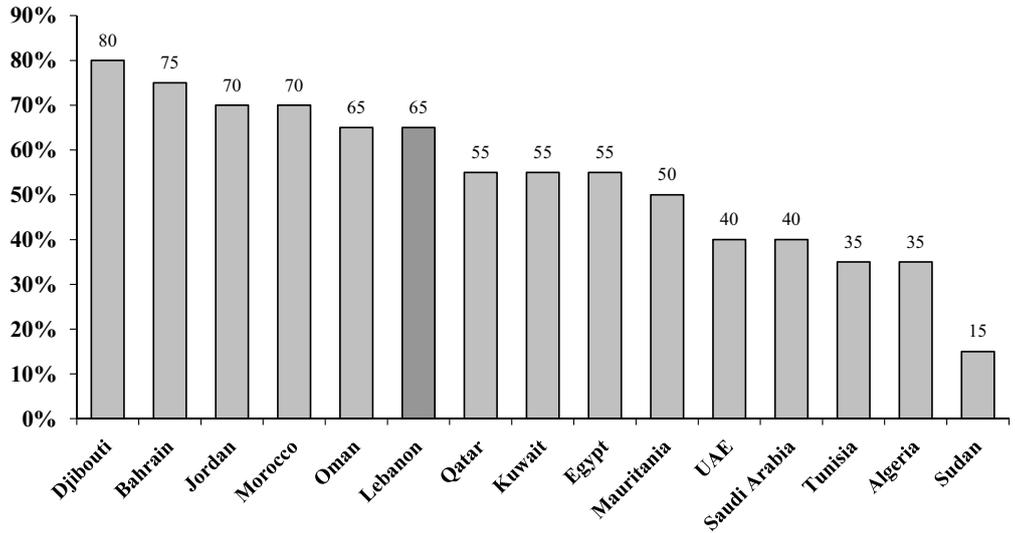
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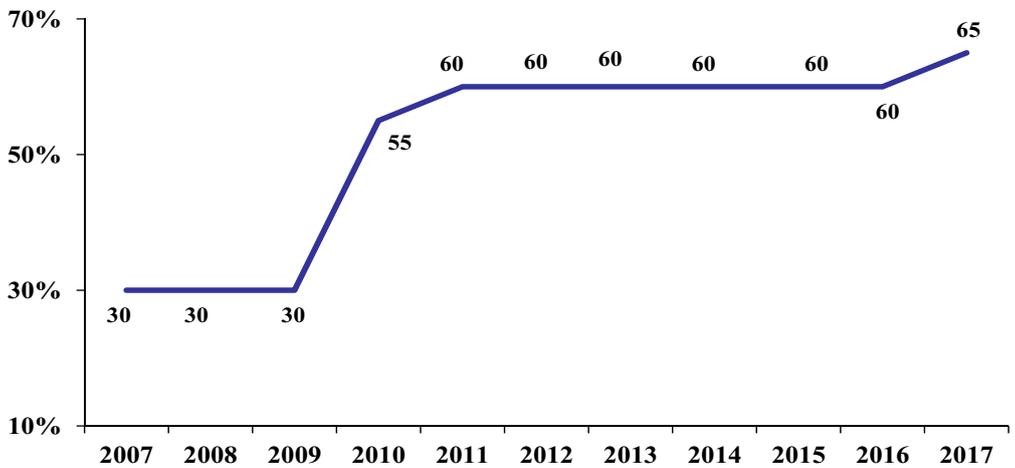
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### Charts of the Week

Investment Freedom Index in Arab Countries for 2017



Investment Freedom Index for Lebanon



Source: Heritage Foundation/Wall Street Journal 2017 Index of Economic Freedom, Byblos Research

### Quote to Note

"Capital markets make a marginal contribution to financing the Lebanese economy."

*The International Monetary Fund, on the need to develop the equity and bond markets in Lebanon*

### Number of the Week

**21%:** Increase in the demand for hospitalization in Lebanon between 2010 and 2015, according to the Ministry of Public Health

## Lebanon in the News

\$m (unless otherwise mentioned)	2015	Dec 2015	Sep 2016	Oct 2016	Nov 2016	Dec 2016	% Change*
Exports	2,952	236	254	257	247	244	3.4
Imports	18,069	1,841	1,448	1,479	1,450	1,536	(16.6)
Trade Balance	(15,117)	(1,605)	(1,194)	(1,222)	(1,203)	(1,292)	(19.5)
Balance of Payments	(3,354)	(372)	189	(680)	453	910	-
Checks Cleared in LBP	18,714	1,709	1,722	1,780	1,684	1,879	10.0
Checks Cleared in FC	50,845	4,265	4,054	4,216	3,968	3,880	(9.0)
Total Checks Cleared	69,559	5,974	5,776	5,996	5,652	5,759	(3.6)
Budget Deficit/Surplus	(3,952)	(711.58)	-	-	-	-	-
Primary Balance	724.40	(338.61)	-	-	-	-	-
Airport Passengers***	7,240,397	616,258	819,886	554,122	555,931	598,009	(3.0)

\$bn (unless otherwise mentioned)	2015	Dec 2015	Sep 2016	Oct 2016	Nov 2016	Dec 2016	% Change*
BdL Gross FX Reserves	30.64	30.64	34.17	34.74	34.38	34.03	11.06
<i>In months of Imports</i>	<i>20.35</i>	<i>16.64</i>	<i>23.60</i>	<i>23.49</i>	<i>23.71</i>	<i>22.15</i>	<i>33.1</i>
Public Debt	70.33	70.33	74.73	74.52	74.55	74.89	6.48
Bank Assets	185.99	185.99	198.07	199.67	200.95	204.3	9.85
Bank Deposits (Private Sector)	151.59	151.59	158.15	157.66	159.19	162.5	7.20
Bank Loans to Private Sector	54.22	54.22	56.65	56.69	56.49	57.18	5.45
Money Supply M2	52.15	52.15	54.17	53.83	54.12	54.68	4.84
Money Supply M3	123.62	123.62	129.12	128.74	130.04	132.8	7.42
LBP Lending Rate (%)****	7.45	7.45	8.44	8.35	8.26	8.23	78bps
LBP Deposit Rate (%)	5.56	5.56	5.58	5.53	5.54	5.56	-
USD Lending Rate (%)	7.06	7.06	7.20	7.06	7.16	7.35	29bps
USD Deposit Rate (%)	3.17	3.17	3.43	3.43	3.48	3.52	35bps
Consumer Price Index**	(3.75)	(3.40)	1.03	1.13	1.78	3.14	-

\* Year-on-Year \*\* Year-on-Year percentage change \*\*\*includes arrivals, departures, transit

\*\*\*\* Starting January 2016, lending rates in Lebanese pounds are reported before any subsidy or facility from reserve requirements according to Intermediate Circular No 389, and as such they are not comparable year-on-year

Note: bps i.e. basis points

Source: Association of Banks in Lebanon, Banque du Liban, Ministry of Finance, Central Administration of Statistics, Byblos Research

## Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization
BLOM Listed	11.65	1.30	354,577	20.28%
Solidere "A"	9.47	1.18	108,864	7.67%
BLOM GDR	12.49	2.80	48,655	7.47%
Solidere "B"	9.41	(0.42)	44,765	4.95%
Audi Listed	6.75	0.00	36,849	21.84%
HOLCIM	11.47	(5.21)	5,226	1.81%
Audi GDR	6.70	(0.15)	5,000	6.50%
Byblos Common	1.72	0.00	788	7.87%
Byblos Pref. 09	105.50	0.00	-	1.71%
Byblos Pref. 08	102.10	0.00	-	1.65%

Source: Beirut Stock Exchange (BSE); \*Week-on-week

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Mar 2017	9.00	100.38	3.65
Nov 2018	5.15	101.13	4.46
May 2019	6.00	102.13	4.98
Mar 2020	6.38	102.88	5.34
Apr 2021	8.25	109.75	5.57
Oct 2022	6.10	100.13	6.07
Jun 2025	6.25	97.75	6.61
Nov 2026	6.60	99.50	5.00
Feb 2030	6.65	98.50	6.00
Nov 2035	7.05	99.75	7.07

Source: Byblos Bank Capital Markets

	Feb 20-24	Feb 13-17	% Change	January 2017	January 2016	% Change
<b>Total Shares Traded</b>	614,324	762,748	(15.5)	7,195,986	4,478,596	60.7
<b>Total Value Traded</b>	\$6,880,641	\$3,909,273	76.0	\$46,829,082	\$38,492,918	21.7
<b>Market Capitalization</b>	\$12.35bn	\$12.30bn	0.43	\$12.21bn	\$11.09bn	10.1

Source: Beirut Stock Exchange (BSE)



## Beirut is 11th most expensive city in the world for expatriate housing

EuroCost International's annual survey on house rental prices for 2017 ranked Beirut in 11th place globally, unchanged from its 2016 rank and compared to ninth place in 2015, 10th place in 2014, seventh place in 2013, eighth place in 2012, 10th place in each of 2011 and 2010 and 28th place in 2009. Beirut remained the most expensive city in the Middle East for expatriate housing in the 2017 survey, unchanged since the 2010 survey. The survey evaluates the average rental cost of two- and three-bedroom apartments for expatriates, and converts the average rent per location to euros. It said that the data reflects the local rental market for expatriates and, therefore, differs from the rental market for the local population in terms of price level and evolution.

The survey considered Beirut to be more expensive than Washington, Doha and Los Angeles, and less costly than Geneva, Moscow and Singapore. Beirut and Doha were the only cities from the Middle East among the 20 most expensive cities globally in terms of expatriate housing. Doha was the second most expensive Middle Eastern city and ranked in 13th place worldwide, while Abu Dhabi, Dubai and Riyadh were the third, fourth and fifth most expensive cities for expatriate housing in the Middle East region, and ranked globally in 21st, 22nd and 30th place, respectively. Beirut's rank remained unchanged year-on-year, constituting, along with New York, Luanda in Angola, San Francisco, Doha and Sydney the only cities with unchanged ranks among the top 20 most expensive locations worldwide, while the ranks of seven cities increased and those of seven cities regressed from the 2016 survey.

Hong Kong is the world's most expensive rental city for expatriates; London has the highest house rental prices among European cities; New York is the most expensive city for expatriate housing in the Americas; while Luanda has the highest rents for expatriates in Africa.

EuroCost International added that the locations selected for the survey are residential areas frequented by expatriates. It noted that it only includes residential units that are of high quality, as multinationals are aware that housing is a crucial component of expatriates' comfort and satisfaction and, therefore, seriously take into consideration their staff's living conditions.

## Consumer Price Index up 5% in January 2017

The Central Administration of Statistics' Consumer Price Index increased by 4.7% year on-year in January 2017 compared to a decline of 3.2% in the same month of 2016. The cost of water, electricity, gas & other fuels grew by 18.4% year-on-year in January 2017, followed by the prices of clothing & footwear (+15.6%), transportation costs (+7.9%), actual rents (+7.6%), imputed rents (+4.6%), recreation & entertainment costs (+3.5%), the cost of education (+2.7%), prices at restaurants & hotels (+1.7%), miscellaneous goods & services (+1.5%), prices of furnishings & household equipment (+1.1%), communication costs (+0.9%) and the prices of alcoholic beverages & tobacco (+0.5%). The distribution of actual rents shows that old rents grew by 13.5% annually in January 2017, while new rents increased by 3.6% from the same month of 2016. In contrast, healthcare costs regressed by 1%, while the prices of food & non-alcoholic beverages were nearly unchanged year-on-year in January 2017.

Further, the CPI fell by 0.5% in January 2017 from the preceding month, relative to a month-on-month increase of 0.6% in December 2016. Prices of water, electricity, gas & other fuels increased by 3% month-on-month in January 2017, followed by transportation costs (+2.1%), prices of furnishings & household equipment (+1.2%), miscellaneous goods & services (+1%), the prices of food & non-alcoholic beverages and communication costs (+0.7% each) and prices at restaurants & hotels (+0.3%). In contrast, the prices of clothing & footwear regressed by 12.9% month-on-month in January 2017, followed by recreation & entertainment costs (-0.9%), the cost of education (-0.7%), actual rents (-0.6%), imputed rents (-0.4%), the prices of alcoholic beverages & tobacco (-0.3%) and healthcare costs (-0.1%). The CPI increased by 3.5% month-on-month in the Bekaa and by 0.8% in the North, while it regressed by 2.4% in the South, by 1.2% in Mount Lebanon, by 1% in Beirut and by 0.5% in Nabatieh. In parallel, the Fuel Price Index grew by 5.9% month-on-month in January 2017, while the Education Price Index decreased by 0.75% from the preceding month.

## Coincident Indicator up 4% in 2016

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 291.8 points in December 2016 compared to 311.2 points in November 2016 and 302.3 points in December 2015. The Coincident Indicator, an average of 8 weighted economic indicators, decreased by 6.2% month-on-month and by 3.5% year-on-year in December 2016. Also, the indicator averaged 289.2 points in 2016 compared to 290.1 in the 12 months ending November 2016 and to 278.6 points in 2015. As a result, the 12-month average coincident indicator fell by a marginal 0.3% month-on-month and grew by 3.8% year-on-year. In parallel, the indicator improved 13 times and regressed 11 times on a monthly basis in the month of December since 1993. It averaged 249.5 points in 2010, 255.7 points in 2011, 256.6 points in 2012, 264.7 points in 2013 and 273.2 points in 2014.

## Ranking of Most Expensive Rental Cities

	2017	2016
Hong Kong	1	2
Tokyo	2	3
London	3	1
New York	4	4
Luanda	5	5
San Francisco	6	6
Juba	7	10
Geneva	8	7
Moscow	9	8
Singapore	10	9
<b>Beirut</b>	<b>11</b>	<b>11</b>
Washington, DC	12	14
Doha	13	13
Los Angeles	14	18
Shanghai	15	12
Sydney	16	16
Osaka	17	23
Zurich	18	15
Mumbai	19	17
Miami	20	24

Source: EuroCost International, Byblos Research

### **E-cards are main source of income for two thirds of Syrians in Lebanon**

The World Food Program (WFP) indicated that it assisted 644,109 registered Syrian refugees in Lebanon through e-cards and 19,575 Palestinian refugees from Syria with cash transfers in the fourth quarter of 2016. The WFP provides food assistance to vulnerable Syrian refugees registered with the United Nations High Commissioner for Refugees through electronic cards (e-cards) and Palestinian refugees from Syria through cash transfers in partnership with the United Nations Relief and Works Agency. The WFP pointed out that it has an e-card system as its primary form of food assistance for Syrians in Lebanon who cannot meet their basic food needs. E-cards are filled each month with \$27 per person and can be used to buy food in any of the 500 contracted outlets across Lebanon.

The WFP noted that food assistance through e-cards was the main source of income for 67% of WFP-assisted households in the fourth quarter of 2016, followed by income from unskilled labor as the secondary source at 32%. It said that WFP-assisted Syrian households have spent on average \$548 per month in the fourth quarter of 2016, or \$134 per capita; while non-assisted households spent an average of \$528 per month, equivalent to \$95 per capita. It indicated that WFP-assisted households' spending on food accounted for 49% of their total expenditures in the fourth quarter of 2016, followed by spending on rent (18%) and on healthcare (11%).

The WFP said that debt is a burden for most Syrian refugee households. It noted that the non-assisted households reported an average debt level of \$1,022 per household, relative to an average debt level of \$760 per WFP-assisted households. It pointed out that WFP-assisted Syrian refugee households were on average 2.4 months behind rent payments, while non-assisted households were about 2.7 months behind schedule.

The WFP launched the Food Security Outcome Monitoring program (FSOM) in 2016 to measure food security trends among recipients and non-recipients of food assistance on a quarterly basis. The WFP and its partners interviewed 582 displaced Syrian households in November 2016, of which 325 were being assisted by the WFP and 257 were not. The FSOM questionnaire included close-ended questions to evaluate food security, expenditures and processes.

### **Number of real estate transactions up 1% in January 2017, transactions by foreigners up 12%**

Figures released by the Ministry of Finance indicate that there were 4,350 real estate transactions in January 2017, constituting an increase of 1.3% from 4,295 deals in the same month of 2016. In comparison, the number of real estate transactions rose by 21% year-on-year in January 2016, while it fell by 28.4% in January 2015. There were 865 real estate transactions in the Baabda area in January 2017, representing 19.9% of the total. The North followed with 753 transactions (17.3%), then the Zahlé region with 536 transactions (12.3%), the Keserwan area with 487 transactions (11.2%), the Metn district with 468 transactions (10.8%), the South with 455 transactions (10.5%), Nabatieh with 382 transactions (8.8%) and Beirut with 279 transactions (6.4%).

Also, the aggregate value of real estate transactions reached \$570.8m in January 2017 and increased by 8.8% from \$524.8m in the same month of 2016. In comparison, the value of real estate deals was nearly unchanged in January 2016 compared to the same month of 2015, while it decreased by 31.6% year-on-year in January 2015. The value of real estate transactions in Beirut reached \$153.7m and accounted for 26.9% of the total in January 2017. The Baabda district followed with \$125m (21.9%), then the Metn region with \$96.2m (16.9%), the Keserwan area with \$67.3m (11.8%), the North with \$45.2m (7.9%), the South with \$33.4m (5.9%), the Zahlé area with \$20.4m (3.6%) and Nabatieh with \$17m (3%).

In parallel, the average value per real estate transaction was \$131,227 in January 2017, up by 7.4% from an average value of \$122,192 in January 2016 and relative to \$147,797 in the same month of 2015. Further, there were 85 real estate transactions executed by foreigners in January 2017, reflecting an increase of 11.8% from 76 deals in January 2016, and compared to an annual decrease of 14.6% in January 2016 and a rise of 32.8% in the same month of 2015. The number of real estate transactions by foreigners accounted for 2% of total real estate deals in January 2017 compared to 1.8% of deals in the same month of 2016 and to 2.5% of deals in January 2015. In parallel, 29.4% of the real estate transactions executed by foreigners were in the Baabda district in January 2017, followed by the Metn region (20%), Zahlé (14.1%), the Keserwan area (12.9%), Beirut and the South (10.6% each) and the North (2.4%).

### **Launch of technical assistance program to support municipalities**

The U.S. Agency for International Development (USAID) launched a two-year technical assistance program for 38 Lebanese municipalities and unions of municipalities. The \$15m project provides tailored technical assistance to municipalities and civil society organizations in order to strengthen their internal systems and business operations. It also supports networks of local organizations to advocate for issues of public interest. The program is part of the Building Alliances for Local Advancement, Development and Investment CAP (BALADI CAP) that is funded by the USAID.

The Municipal Technical Assistance Program provides technical assistance to help municipalities improve their internal financial management and governance structures through better organizational development, financial management, public outreach, information and communication technology, and disaster management. The program also supports selected Lebanese municipalities in managing the complex environment created by the influx of Syrian refugees into local communities. The U.S. has provided over \$75m in the past 10 years to support Lebanese municipalities build the essential foundations for strong local government and to address the needs of local communities.



### **Direct and indirect power consumption by displaced Syrians at 486 MW**

A study conducted by the United Nations Development Program (UNDP) and the Ministry of Energy & Water estimated direct and indirect power consumption by displaced Syrians at 486 megawatts (MW). It noted that Lebanon continues to face persistent challenges in the energy sector, as the gap between electricity generation and consumption continues to increase yearly. The ministry claimed that this gap is leading to outages of at least three hours per day in Beirut and up to 12 hours per day outside of Beirut, despite efforts to improve power generation through the rehabilitation of power generation plants and renting power generation barges. It added that Electricité du Liban (EdL) generated 61% of electricity consumption in Lebanon.

The study indicated that the power consumption of displaced Syrians in informal and formal settlements in Lebanon reached 447 MW, or 91.9% of the aggregate consumption by displaced Syrians. Further, it said that indirect additional power consumption of municipalities to operate water pumps for longer hours to cater water demand of displaced Syrians reached 36.3 MW, or 7.5% of the total additional demand. Also, the additional indirect power consumption of public schools hosting displaced Syrian students totaled 2.7 MW or 0.6% of aggregate additional consumption. It claimed that the increased power consumption has resulted in the further deterioration of the electricity network.

The study also stressed on proper measures that need to be taken to alleviate the negative impact of the additional power generation on EdL. It pointed out that the rehabilitation of the ageing power plants and the construction of new ones by the Ministry of Energy & Water are underway, but are not sufficient to cover the surge in electricity demand. It also noted that the Lebanese government has committed to ensure that renewable energy would account for 12% of total power generation by 2020, but is far from reaching its target. It said that short-term priorities include encouraging the use of energy saving bulbs and solar water heaters in residences; while medium-term priorities consist of street lighting retrofit, high or low pressure sodium lamps, and decentralized solutions that use renewable energy sources, such as hydropower, biomass, biogas, wind power, solar power and geothermal power in electric power distribution systems.

### **Opened letters of credits at \$5.7bn for imports and \$1.7bn for exports in 2016**

Figures issued by the Central Bank indicate that the value of letters of credits (LCs) opened to finance imports to Lebanon totaled \$5.7bn in 2016, constituting an increase of 9.8% from \$5.2bn in 2015. The value of LCs opened to finance imports to Lebanon reached \$1.17bn in the first quarter, \$1.06bn in the second quarter, \$1.44bn in the third quarter and \$2.1bn in the fourth quarter of 2016. Further, utilized credits for imports totaled \$5.3bn last year, up by 4% from \$5.1bn in 2015. They reached \$1.13bn in the first quarter, \$1.17bn in the second quarter, \$1.21bn in the third quarter and \$1.8bn in the fourth quarter of 2016. They accounted for 93% of opened LCs in 2016 compared to a 98.1% share in the preceding year. Also, outstanding import credits amounted to \$11.7bn in 2016 and grew by 4.7% from \$11.2bn in 2015. In addition, the aggregate value of inward bills for collection reached \$1.18bn in 2016, constituting a decrease of 14.8% from \$1.4bn in 2015. The value of inward bills for collection totaled \$284.7m in the first quarter, \$333.2m in the second quarter, \$260m in the third quarter and \$306.1m in the fourth quarter of 2016. Outstanding bills for collection reached \$145.7m at the end of 2016 relative to \$143.3m at end-2015.

In parallel, the value of documentary letters of credits opened to finance exports from Lebanon reached \$1.7bn in 2016, constituting a decrease of 29.2% from \$2.4bn in 2015. It totaled \$374.5m in the first quarter, \$508.3m in the second quarter, \$365.7m in the third quarter and \$479.9m in the fourth quarter of 2016. Further, utilized credits for exports reached \$1.84bn last year, down by 28.4% from \$2.6bn of used credits in 2015. They totaled \$443.4m in the first quarter, \$505.3m in the second quarter, \$407.6m in the third quarter and \$480.4m in the fourth quarter of 2016. Outstanding export credits reached \$8.6bn in 2016, down by 34.8% from \$13.2bn in the preceding year. The aggregate value of outward bills for collection amounted to \$1.5bn in 2016, constituting a decline of 9% from \$1.67bn in 2015. They reached \$337.8m in the first quarter, \$365.8m in the second quarter, \$405.4m in the third quarter and \$406.4m in the fourth quarter of 2016. The outstanding value of outward bills for collection reached \$721.1m at end-2016 relative to \$583.6m a year earlier.

### **Revenues through Port of Beirut at \$244m in 2016**

Figures released by the Port of Beirut show that the port's overall revenues reached \$244.1m in 2016, nearly unchanged from \$243.95m in 2015. The Port of Beirut handled 8.77 million tons of freight in 2016, up by 6.7% from 8.2 million tons in the preceding year. Imported freight amounted to 7.7 million tons last year and accounted for 88.2% of aggregate freight, while the remaining 1.03 million tons, or 11.8%, consisted of export cargo. A total of 2,014 ships docked at the port in 2016 compared to 1,807 vessels in 2015.

In parallel, revenues generated through the Port of Tripoli reached \$14.5m in 2016, constituting an increase of 3% from \$14.1m in 2015. The Port of Tripoli handled 1.92 million tons of freight last year, up by 1.6% from 1.89 million tons in 2015. Imported freight amounted to 1.53 million tons and accounted for 79.6% of the total, while the remaining 391,188 tons, or 20.4% of the total, were export cargo. A total of 814 vessels docked at the Port of Tripoli in 2016, constituting a drop of 5.8% from 864 ships in 2015.



## Total non-life premiums up 3% to \$1.1bn in 2016

The annual survey by *Al-Bayan* magazine of the insurance sector in Lebanon shows that total non-life premiums generated by 45 insurance companies reached \$1.09bn in 2016, constituting an increase of 3% from \$1.06bn in 2015, and compared to growth rates of 2.4% in 2015 and 5.3% in 2014. Non-life premiums totaled \$928.6m in 2012, \$983m in 2013 and \$1.03bn in 2014. MedGulf ranked in first place with \$102.5m in non-life premiums in 2016, followed by Bankers with \$99.6m, AXA Middle East with \$80.8m, Libano-Suisse with \$73.8m and Fidelity with \$68.2m. Byblos Bank's insurance affiliate ADIR ranked in 17th place with \$22m in non-life premiums in 2016, while it came in 15th place with \$20.9m in non-life premiums in 2015. The ranks of Burgan, LCI and ATI improved by three spots each to 26th, 36th and 41st place, respectively, and registered the highest jump in the rankings among the 45 providers of non-life insurance operating in Lebanon. Burgan's non-life premiums grew from \$7.6m in 2015 to \$8.5m last year, those of LCI increased from \$2.6m in 2015 to \$4.3m in 2016, while ATI's non-life premiums increased from \$850,000 in 2015 to \$990,000 in 2016.

There were three advances and three declines in the rankings of the top 20 insurers in Lebanon, while the rankings of the other 14 insurers were unchanged. The composition and the rankings of the top 10 insurers were unchanged from 2015. In addition, nine out of the top 10 insurers posted increases in their non-life premiums, while the non-life premiums of AXA Middle East regressed by 1.3% from 2015. The top 10 insurers accounted for 64.5% of the non-life insurance market in 2016 relative to 64.8% in 2015 and 66.7% in 2014; while the top 20 insurers represented 87% of premiums compared to 86% in 2015 and 85.8% in 2014. The aggregate non-life premiums of the top 10 insurers reached \$704.2m in 2016 compared to \$686.7m in 2015 and \$689.8m in 2014.

## Balance sheet of financial institutions down 18% in 2016

Figures released by the Central Bank show that the consolidated balance sheet of financial institutions in Lebanon reached LBP2.1bn, or \$1.41bn at the end of 2016, constituting a decrease of 18.1% from \$1.7bn at end-2015 and compared to an increase of 2.7% in 2015. On the assets side, financial institutions' cash and bank deposits totaled \$573.3m at the end of 2016, constituting a drop of 9.7% from a year earlier and relative to a rise of 9.7% in 2015. Claims on the private sector reached \$726.3m at end-2016 and decreased by 23.2% from end-2015. Also, investments in government securities totaled \$136.7m at the end of 2016, constituting a decline of 7.8% from end-2015 and relative to a drop of 60% in 2015.

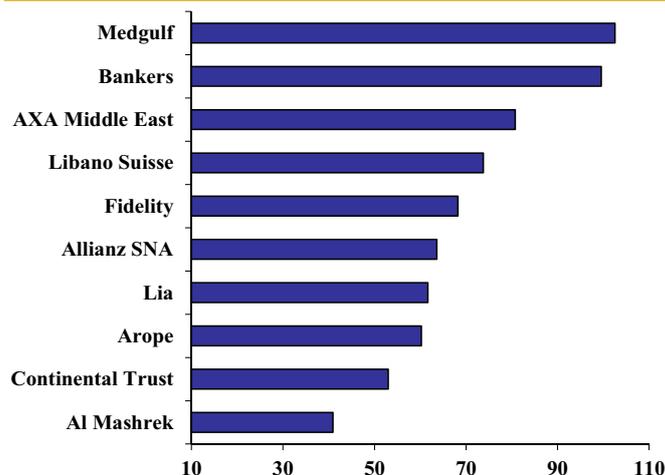
In parallel, liabilities to the private sector totaled \$220m at the end of 2016, constituting a decrease of 49.4% from end-2015 and compared to an increase of 67.5% in 2015; while liabilities to the financial sector reached \$576m at end-2016, representing a drop of 18% from end-2015 and relative to a decrease of 19.7% in 2015. Further, the aggregate capital accounts of financial institutions amounted to \$468.5m at the end of 2016, constituting an increase of 1.5% from end-2015. There were 51 financial institutions with a total of 72 branches operating in Lebanon as at the end of June 2016.

## First National Bank's net earnings at \$41m in 2016

First National Bank, one of Lebanon's top 14 banks in terms of assets, announced unaudited consolidated net profits of \$40.8m in 2016, up by 16.3% from net earnings of \$35.1m in 2015. Net operating income grew by 15% year-on-year to \$107.4m in 2016, with net interest income rising by 14.3% to \$46.9m and net fees & commissions receipts increasing by 2.3% year-on-year to \$9.4m. Total operating expenditures increased annually by 13.2% to \$60.2m in 2016, with staff expenses growing by 11.6% to \$35.7m and administrative & other operating expenditures expanding by 16.6% to \$21.4m in 2016. Also, the bank's return on average assets was 0.95% in 2016 on an annualized basis relative to 0.87% in 2015; while its return on average equity was 9.9% on an annualized basis compared to 10.18% in 2015. The bank's cost-to-income ratio stood at 55.8% in 2016, relative to 55.5% in 2015.

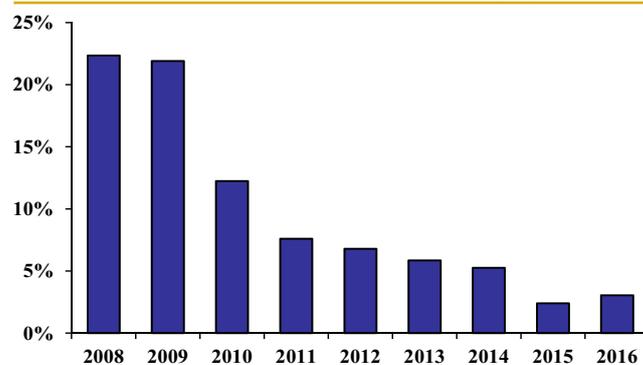
In parallel, total assets reached \$4.5bn at end-2016, constituting an increase of 9.2% from \$4.1bn a year earlier, while loans & advances to customers, excluding those to related parties, grew by 8.8% from end-2015 to \$970.7m. Also, customer deposits, excluding those from related parties, totaled \$3.44bn at end-2016 and rose by 8.9% from a year earlier. The loans-to-deposits ratio regressed to 28.5% at end-2016 from 28.7% at end-2015. Further, the bank's shareholders' equity rose by 7.1% from end-2015 to \$425.3m at end-2016.

## Non-Life Premiums of the Top 10 Insurers in 2016 (\$m)



Source: *Al-Bayan, Byblos Research*

## Growth in Non-Life Premiums (%)



Source: *Al-Bayan, Byblos Research*

### Net profits of Syrian affiliates of Lebanese banks up 45% in 2016 due to unrealized foreign exchange gains on structural positions

Preliminary financial results issued by the affiliates of seven Lebanese banks operating in Syria show that their aggregate net profits reached SYP54.5bn in 2016, constituting an increase of 44.9% from net earnings of SYP37.6bn in 2015. In US dollar terms, the seven banks generated net profits of \$118.4m in 2016 relative to net earnings of \$158.7m in 2015. The banks' financial results reflect the depreciation of the Syrian pound on the official market, as it was trading at an average rate of SYP460.3 against the US dollar in 2016 compared to an average rate of SYP237 in 2015. Also, the official exchange rate was SYP498.6 per dollar at the end of 2016 relative to SYP313.1 at the end of 2015. As such, the value of assets and liabilities in foreign currency becomes distorted when converted and reported in Syrian pounds. In addition, the reported net profits include the unrealized net foreign exchange gains on structural positions. The profits of Bank Audi Syria increased by SYP5.3bn, followed by a rise of SYP4.8bn in those of Fransabank Syria, a growth of SYP3.7bn in the income of Banque BEMO Saudi Fransi, an improvement of SYP1.43bn in the profits of Bank Al-Sharq, the affiliate of Banque Libano-Française, an increase of SYP1.37bn in those of Bank of Syria & Overseas and a growth of SYP382.5m in the income of Byblos Bank Syria. In contrast, the earnings of Syria Gulf Bank, the affiliate of First National Bank, decreased by SYP136.2m in 2016.

In parallel, the banks' aggregate assets reached SYP820.9bn at the end of 2016 and increased by 27.8% from SYP642.3bn at end-2015. In US dollar terms, the assets of the seven banks declined by 19.7% from \$2.05bn at end-2015 to \$1.65bn at the end of 2016. The rise in the value of assets in local currency was due to a 36.6% increase in the assets of Banque BEMO Saudi Fransi (+SYP62.9bn), a 36.4% improvement in those of Bank of Syria & Overseas (+SYP52.1bn), a 31.1% rise in the assets of Fransabank Syria (+SYP27.8bn), a 28.8% growth in those of Bank Audi Syria (+SYP23.5bn), a 22.8% increase in the assets of Syria Gulf Bank (+SYP10.8bn), a 3.4% improvement in those of Bank Al-Sharq (+SYP1.2bn) and a 0.4% expansion in the assets of Byblos Bank Syria (+SYP272.5m). In contrast, the significant decrease in US dollar figures is due to the substantial depreciation of the Syrian pound. In parallel, the aggregate shareholders' equity of the seven banks reached SYP143.1bn at end-2016, constituting an increase of 62.5% from SYP88.1bn at end-2015; while in US dollar terms, the banks' shareholders' equity rose by 2% from end-2015 to \$287.1m at end-2016. The seven banks have yet to publish their detailed financial results for 2016.

#### Results of Affiliates of Lebanese Banks in Syria for 2016 (in US\$)

	Banque BEMO Saudi Fransi	Bank of Syria & Overseas	Fransabank Syria	Bank Audi Syria	Byblos Bank Syria	Syria Gulf Bank	Bank Al-Sharq
Net Profits	\$22.5m	\$16.9m	\$24.8m	\$24.7m	\$15.0m	\$2.0m	\$12.5m
Total Assets	\$471.0m	\$391.5m	\$235.0m	\$211.0m	\$148.3m	\$117.3m	\$72.5m
Shareholder's Equity	\$56.7m	\$43.9m	\$51.3m	\$55.4m	\$42.9m	\$8.2m	\$28.7m

Source: Banks' financial statements

### Launch of new initiative to support agri-tech

The British government announced a £2.5m, equivalent to \$3.2m, in funding to the UK Lebanon Tech Hub to finance the activities of the new International Research Centre (IRC) in Lebanon. The IRC is a platform that will fund and manage research and development projects over a period of three years, by connecting local partners with international ones. It aims to act as a bridge between the knowledge capabilities at Lebanese universities and the global technology industry, in partnership with British universities. It also intends to position Lebanon as a research and development hub in the Middle East.

The IRC will serve as a portal for multinational and local companies to conduct applied research and develop new solutions in agri-tech areas through a collaborative environment. The IRC's first project is currently underway, in collaboration between the Lebanese University and the Geneva-based CERN European Laboratory for Particle Physics, among others. The project aims to produce the world's first fiber optic sensors system to measure parameters such as temperature, humidity, concentration of pesticides, fertilizers and enzymes in the soil of cultivated fields. The project aims to create a more efficient irrigation system that will cut the cost of watering fields from \$500 per hectare to under \$80 per hectare.

The UK Lebanon Tech Hub is a joint initiative between Banque du Liban and the United Kingdom government through the British Embassy in Beirut. It aims to support the growth of the knowledge economy in Lebanon through the development of technology companies in the country and create opportunities for Lebanese talent to access international markets.

### **Import activity of top five freight forwarders up 4% in 2016, exports almost unchanged**

Figures released by the Port of Beirut show that overall import shipping operations by the top five freight forwarders through the port reached 358,561 20-foot equivalent units (TEUs) in 2016, constituting an increase of 3.6% from 346,150 TEUs in 2015. The top five freight forwarders accounted for 88.4% of imports to the Lebanese market and for 63.7% of the total import freight forwarding market during 2016. Mediterranean Shipping Company (MSC) handled 110,387 TEUs in imports in 2016, equivalent to a 19.6% share of the total freight forwarding import market. Metz Group followed with 69,729 TEUs (12.4%), then Merit Shipping with 66,527 TEUs (11.8%), Sealine Group with 65,026 TEUs (11.6%) and Gezairy Transport with 46,892 TEUs (8.3%). Further, Gezairy Transport registered a year-on-year increase of 53.7% in import shipping volume, the highest among the top five freight forwarders, while Sealine Group posted the steepest decline at -13.9%.

In parallel, export shipping operations by the top five freight forwarders through the Port of Beirut reached 89,030 TEUs in 2016, almost unchanged from 89,197 TEUs in 2015. The top five freight forwarders accounted for 96.2% of exported Lebanese cargo and for 15.8% of the total export freight forwarding market in 2016. Merit Shipping handled 43,553 TEUs of freight last year, equivalent to 47.1% of the Lebanese cargo export market. Metz Group followed with 20,302 TEUs (21.9%), then Sealine Group with 16,776 TEUs (18.1%), MSC with 4,444 TEUs (4.8%) and Gezairy Transport with 3,955 TEUs (4.3%). Further, Merit Shipping registered a year-on-year rise of 25.7% in export shipping volume, while Sealine Group posted the steepest decline at -21.5%.

### **IBL Bank exercises call option on preferred shares and issues common shares**

IBL Bank sal, one of Lebanon's top 14 banks in terms of assets, redeemed and cancelled 500,000 Series '2' Preferred Shares. Concurrently, the bank covered the LBP3.75bn (\$2.5m) deficit in the capital account from the redemption through the issuance of 500,000 new common shares at a par value of LBP7,500 (\$5) per share. The bank cancelled its Series '2' Preferred Shares on February 21, 2017 and distributed common shares gratis to existing shareholders, while it covered the cost of the newly-issued shares through an internal transfer from its reserves account to its capital account. The bank's share capital currently consists of 20,000,000 common shares, with total equity of about \$455m.

IBL Bank posted unaudited consolidated net profits of \$59.4m in the first nine months of 2016, up by 12.3% from \$52.9m in the same period of 2015. Its assets reached \$6.51bn at end-September 2016; while net loans & advances to customers, excluding loans & advances to related parties, decreased by 7% from end-2015 to \$1.02bn at the end of September 2016. Also, customer deposits, excluding deposits from related parties, totaled \$5.4bn at end-September, up by 6.6% from the end of 2015.

## Ratio Highlights

(in % unless specified)	2014	2015	2016e	Change*
Nominal GDP (\$bn)	50.0	51.1	52.0	
Public Debt in Foreign Currency / GDP	51.2	53.0	54.2	1.26
Public Debt in Local Currency / GDP	81.9	84.6	89.6	4.98
Gross Public Debt / GDP	133.1	137.6	144.0	6.42
Total Gross External Debt / GDP**	170.0	174.7	176.6	1.90
Trade Balance / GDP	(34.4)	(29.5)	(30.0)	(0.47)
Exports / Imports	16.2	16.6	16.1	(0.49)
Fiscal Revenues / GDP	21.8	18.7	19.6	0.86
Fiscal Expenditures / GDP	27.9	26.5	28.2	1.72
Fiscal Balance / GDP	(6.1)	(7.7)	(8.6)	(0.86)
Primary Balance / GDP	2.6	1.4	1.4	0.00
Gross Foreign Currency Reserves / M2	66.5	58.7	62.7	3.94
M3 / GDP	235.4	241.9	250.0	8.11
Commercial Banks Assets / GDP	351.4	364.0	392.9	28.9
Private Sector Deposits / GDP	288.9	296.6	312.5	15.8
Private Sector Loans / GDP	101.8	106.1	108.7	3.85
Private Sector Deposits Dollarization Rate	65.7	64.9	65.0	0.10
Private Sector Lending Dollarization Rate	75.6	74.8	73.6	(1.23)

\*Change in percentage points 15/16

\*\*Includes portion of public debt owed to non-residents, liabilities to non-resident banks, non-resident deposits (estimated by the IMF), Bank for International Settlements' claims on Lebanese non-banks

Source: Association of Banks in Lebanon, Institute of International Finance, International Monetary Fund, World Bank, Byblos Research Estimates & Calculations  
Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

## Risk Metrics

Lebanon	Feb 2015	Jan 2016	Feb 2016	Change**	Risk Level
Political Risk Rating	54.5	54.5	54.5	↔	High
Financial Risk Rating	39.0	36.5	36.5	▲	Low
Economic Risk Rating	33.0	30.5	30.5	▲	Moderate
Composite Risk Rating	63.25	60.75	60.75	▲	Moderate

MENA Average*	Feb 2015	Jan 2016	Feb 2016	Change**	Risk Level
Political Risk Rating	57.9	57.7	57.7	▲	High
Financial Risk Rating	40.1	39.7	40.2	▼	Very Low
Economic Risk Rating	34.8	30.3	31.0	▲	Moderate
Composite Risk Rating	66.4	63.8	64.4	▲	Moderate

\*excluding Lebanon

\*\*year-on-year change in risk

Source: The PRS Group, Byblos Research

Note: Political & Composite Risk Ratings range from 0 to 100 (where 100 indicates the lowest risk)

Financial & Economic Risk ratings range from 0 to 50 (where 50 indicates the lowest risk)

## Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's	B2	NP	Negative	B2		Negative
Fitch Ratings	B-	B	Stable	B-		Stable
Standard & Poor's	B-	B	Stable	B-	B	Stable
Capital Intelligence	B	B	Negative	B	B	Negative

Source: Rating agencies

Banking Ratings	Banks' Financial Strength	Banking Sector Risk	Outlook
Moody's	E+		Negative



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