

## LEBANON THIS WEEK

### In This Issue

Economic Indicators.....	1
Capital Markets.....	1
Lebanon in the News.....	2

Demand for housing improves in second quarter of 2017

Lebanon ranks 163rd globally, 17th among Arab countries in terms of broadband Internet speed

Opened letters of credit at \$3.2bn for imports and \$1.8bn for exports in first half of 2017

Gross public debt at \$76.5bn at end-June 2017

Slight deterioration in market risk perception

Banque du Liban clarifies implementation of Common Reporting Standard

NSSF to provide sickness and maternity insurance coverage for retired and disabled employees

Association of Banks amends reference rate on US dollar and Lebanese pound lending

Industrial exports down by 6% to \$1bn in first five months of 2017

### Corporate Highlights .....7

Byblos Bank signs \$20m loan agreement with SANAD to support SMEs in Lebanon

New car sales down 1% in first seven months of 2017

Top five freight forwarders' import activity up 2.5% in first half of 2017, export activity nearly unchanged

Ten Lebanese banks among Top 1000 banks in the world

Balance sheet of financial institutions up 8% in first half of 2017

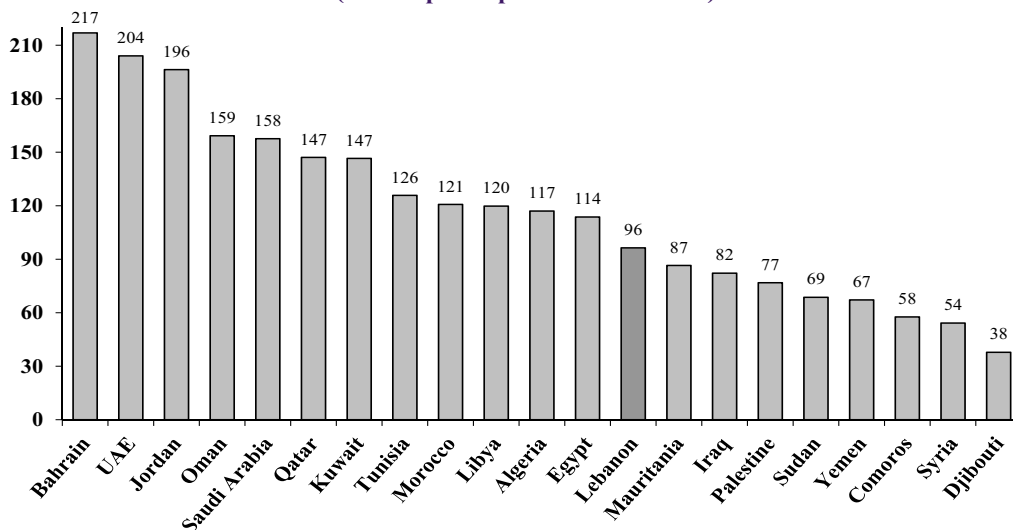
RYMCO to distribute dividends for 2016, payout ratio at 46%

Allianz SNA's net profits down 1% to \$7.1m in 2016

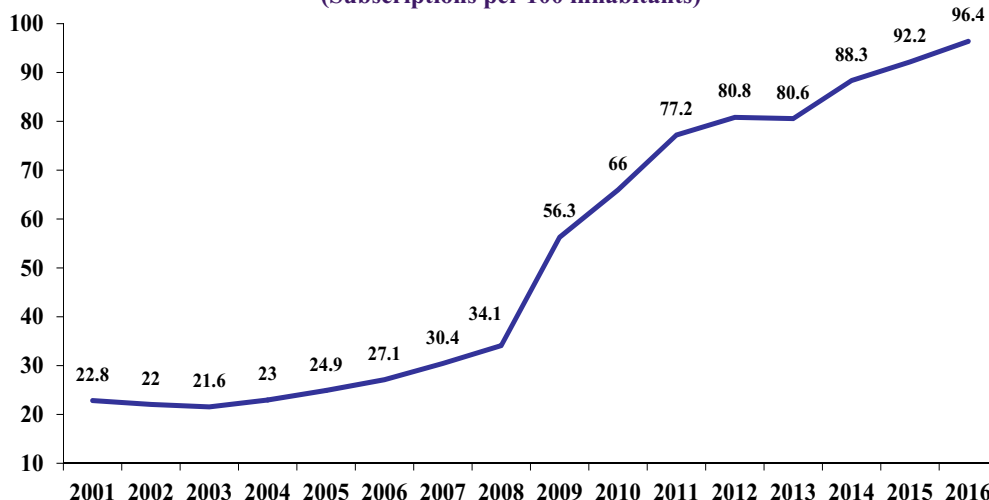
Ratio Highlights.....	10
Risk Outlook .....	10
Ratings & Outlook.....	10

### Charts of the Week

Mobile Cellular Penetration Rates among Arab Countries at end-2016  
(Subscriptions per 100 inhabitants)



Mobile Cellular Penetration Rates in Lebanon  
(Subscriptions per 100 inhabitants)



Source: International Telecommunication Union, Byblos Bank

### Quote to Note

“Real wages may go up by less than intended if the rise in nominal wages, combined with the tax hikes, creates inflationary pressures that erode spending power.”

*Citi, on the economic impact of the increase in public sector salaries and the accompanying tax hikes*

### Number of the Week

**61:** Lebanon's rank out of 127 countries in terms of knowledge & technology, according to the 2017 INSEAD/Cornell University/WIPO Global Innovation Index

## Lebanon in the News

\$m (unless otherwise mentioned)	2016	Feb 2016	Nov 2016	Dec 2016	Jan 2017	Feb 2017	% Change*
Exports	2,977	228	247	244	229	226	(0.88)
Imports	18,705	1,377	1,450	1,536	1,604	1,648	19.68
Trade Balance	(15,728)	(1,149)	(1,203)	(1,292)	(1,375)	(1,422)	23.76
Balance of Payments	1,238	363	453	910	167	342	(5.74)
Checks Cleared in LBP	19,892	1,538	1,684	1,879	1,733	1,676	8.97
Checks Cleared in FC	48,160	3,988	3,968	3,880	3,973	3,547	(11.06)
Total Checks Cleared	68,052	5,526	5,652	5,759	5,706	5,223	(5.48)
Budget Deficit/Surplus	(3,667.15)	(260.49)	(706.12)	(513.35)	330.43	(453.93)	74.26
Primary Balance	1,297.65	(23.60)	(40.58)	(111.56)	558.07	(189.09)	701.1
Airport Passengers***	7,610,231	442,212	555,931	598,009	539,089	462,605	4.61

\$bn (unless otherwise mentioned)	2016	Feb 2016	Nov 2016	Dec 2016	Jan 2017	Feb 2017	% Change*
BdL Gross FX Reserves	34.03	31.42	34.38	34.03	35.02	35.44	12.77
<i>In months of Imports</i>	21.83	22.82	23.71	22.15	21.83	21.50	(5.77)
Public Debt	74.89	71.22	74.55	74.89	76.17	76.13	6.89
Bank Assets	204.3	186.59	200.95	204.3	204.38	204.93	9.83
Bank Deposits (Private Sector)	162.5	151.42	159.19	162.5	162.73	163.86	8.22
Bank Loans to Private Sector	57.18	54.56	56.49	57.18	56.95	57.01	4.49
Money Supply M2	54.68	52.29	54.12	54.68	54.50	54.96	5.11
Money Supply M3	132.8	123.49	130.04	132.8	132.88	133.83	8.37
LBP Lending Rate (%)****	8.23	8.18	8.26	8.23	8.47	8.37	-
LBP Deposit Rate (%)	5.56	5.57	5.54	5.56	5.55	5.56	(1bps)
USD Lending Rate (%)	7.35	7.31	7.16	7.35	7.26	7.14	(17bps)
USD Deposit Rate (%)	3.52	3.22	3.48	3.52	3.52	3.57	35bps
Consumer Price Index**	(0.80)	(2.94)	1.78	3.14	4.68	4.93	-

\* 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
Solidere "A"	8.05	2.03	1,310,922	7.09%
Solidere "B"	7.78	0.65	435,252	4.46%
Byblos Common	1.62	(0.61)	90,000	8.07%
BLOM GDR	12.40	0.16	73,831	8.07%
Audi Listed	5.99	0.17	15,150	21.10%
BLOM Listed	11.30	(0.88)	3,630	21.41%
Audi GDR	6.00	0.00	690	6.34%
Byblos Pref. 08	101.00	0.00	55	1.78%
HOLCIM	11.70	0.00	-	2.01%
Byblos Pref. 09	102.00	0.00	-	1.80%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Dec 2017	4.00	99.75	4.67
Nov 2018	5.15	100.38	4.83
May 2019	6.00	100.88	5.46
Mar 2020	6.38	101.38	5.79
Oct 2022	6.10	99.13	6.30
Jun 2025	6.25	97.75	6.62
Nov 2026	6.60	99.13	6.73
Feb 2030	6.65	97.38	6.97
Apr 2031	7.00	99.50	7.06
Nov 2035	7.05	98.38	7.21

Source: Byblos Bank Capital Markets

	Aug 14-18	Aug 7-11	% Change	July 2017	July 2016	% Change
Total shares traded	1,936,220	1,209,777	60	5,916,251	2,886,513	105
Total value traded	\$16,232,830	\$10,734,170	51.2	\$59,216,017	\$18,444,372	221.1
Market capitalization	\$11.35bn	\$11.35bn	-	\$11.39bn	\$11.08bn	2.7

Source: Beirut Stock Exchange (BSE)



### Demand for housing improves in second quarter of 2017

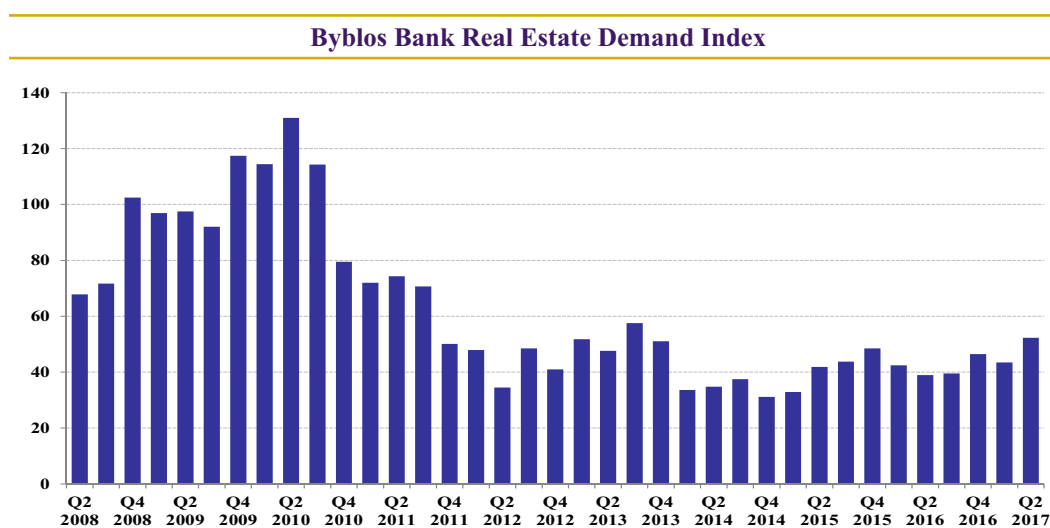
Demand for residential real estate in Lebanon improved in the second quarter of 2017, as reflected by the results of the Byblos Bank Real Estate Demand Index. The Index posted a monthly average of 52.3 points in the second quarter of 2017, constituting an increase of 20.2% from 43.5 points in the first quarter of the year and a rise of 34.3% from 38.9 points in the second quarter of 2016. The results for the second quarter constitute the 17th highest level in 40 quarterly readings.

The accommodative policies of low interest rates on mortgages in Lebanon, the renewal of the term of Banque du Liban's Governor Riad Salamé that increased confidence in the stability of the Lebanese pound, as well as the relative political stability in the country, are all factors that may have supported the near-term plans of potential real estate buyers. However, it is too early to see a trend in the rise of the Index, given that the increase is from a very low base. In fact, the Index's average monthly score in the second quarter of 2017 is still 60.1% lower than the peak of 131 points registered in the second quarter of 2010, and remains 52.4% below the annual peak of 109.8 points posted in 2010. Also, it is 15.2% lower than the Index's monthly trend average score of 61.7 points since the Index's inception in July 2007.

Further, the Index's results reflect the intentions of Lebanese to buy or build a house, but these intentions need a conducive environment to translate into actual sales, given that demand for housing in Lebanon remains primarily correlated to the levels of consumer confidence, political stability and economic activity. Further, the share of residents who had plans to buy or build a residential property in Lebanon gradually decreased from 7.5% in December 2016 to a low of 3.4% in March 2017, before improving to 7% in June. The fluctuations in the residents' intentions shows that demand for residential real estate has yet to stabilize.

In parallel, demand for housing in the second quarter of 2017 was the highest in Mount Lebanon, as 7.5% of its residents had plans to build or buy a house in the coming six months, compared to 5.8% in the preceding quarter. The North followed with 7.4% of its residents planning to build or buy a residential unit in the coming six months relative to 5.3% in the first quarter of 2017; while 6.4% of residents in Beirut had plans to buy an apartment, up from 4.4% in the preceding quarter. In addition, 3.2% of residents in the Bekaa intend to buy or build a house, down from 4.3% in the first quarter, while 2.4% of residents in the South had plans to build or buy a residential unit, down from 3.3% in the preceding quarter. In addition, real estate demand increased across all income brackets in the second quarter of the year.

The Byblos Bank Real Estate Demand Index is a measure of local demand for residential units and houses in Lebanon. The Index is compiled, implemented and analyzed in line with international best practices and according to criteria from leading indices worldwide. The Index is based on a face-to-face monthly survey of a nationally representative sample of 1,200 males and females living throughout Lebanon, whereby residents are asked about their plans to buy or build a house in the coming six months. The data segregates the Index based on age, gender, income, profession, administrative district, and religious affiliation. The Byblos Bank Economic Research & Analysis Department has been calculating the Index on a monthly basis since July 2007, with November 2009 as its base month. The survey has a margin of error of  $\pm 2.83\%$ , a confidence level of 95% and a response distribution of 50%. The monthly field survey is conducted by Statistics Lebanon Ltd, a market research and opinion-polling firm.



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

### Lebanon ranks 163rd globally, 17th among Arab countries in terms of broadband Internet speed

A report published by Cable.co.uk ranked Lebanon in 163rd place among 189 countries around the world and in 17th place among 20 countries in the Arab region in terms of broadband Internet speed in 2016. Lebanon also came in 41st place among 48 upper middle-income countries (UMICs) included in the survey. The data for the survey was collected by research group M-Lab, Google Open Source Research and Princeton University's PlanetLab. Cable.co.uk provides comparative information about different packages, deals, bundles and offers provided by broadband, television, phone and mobile service providers.

Globally, the average broadband Internet speed in Lebanon was faster than in Botswana, Angola and Kyrgyzstan, while it was slower than in Nicaragua, Algeria and Sudan. Also, the average broadband Internet speed in Lebanon was faster than only in Botswana, Angola, Guyana, Libya, Paraguay, Venezuela and Gabon among UMICs, while it was faster than in Libya, Syria and Yemen among Arab countries. The survey noted that it takes 15 hours and 55 minutes to download a 7.5 gigabyte (GB) high-definition video in Lebanon. In parallel, it takes three hours and 54 seconds to download a 7.5GB video in Morocco, the fastest rate among Arab countries, while it takes 48 minutes to download such a video in Romania, the fastest rate among UMICs.

Also, the average broadband Internet speed in Lebanon was 1.07 megabytes per second (mbps), which is below the simple average broadband Internet speed of 7.4 mbps worldwide, of 4.3 mbps for UMICs and of 2.1 mbps in Arab countries. Further, the country's broadband Internet speed lagged the Gulf Cooperation Council (GCC) countries' average of 3.2 mbps and the non-GCC Arab countries' average of 1.7 mbps.

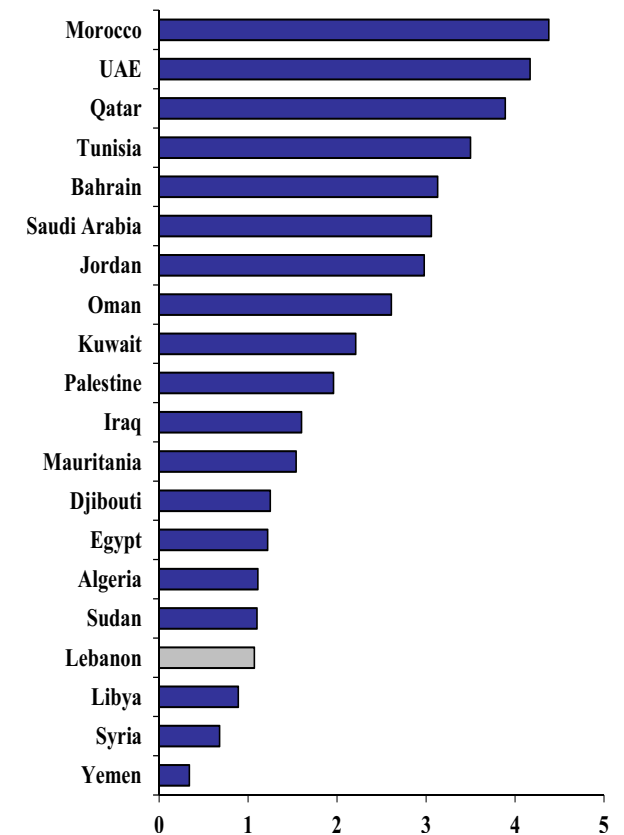
Singapore has the fastest broadband Internet speed among countries included in the survey with an average speed of 55.13 mbps, as the time required to download a 7.5GB video in the country stood at 18 minutes and 34 seconds. In contrast, Yemen has the slowest broadband Internet speed worldwide with an average speed of 0.34 mbps, as it takes two days, two hours, two minutes and 28 seconds to download a 7.5GB video in the country.

### Opened letters of credit at \$3.2bn for imports and \$1.8bn for exports in first half of 2017

Figures released by Banque du Liban indicate that the value of letters of credit (LCs) opened to finance imports to Lebanon totaled \$3.17bn in the first half of 2017, constituting an increase of 42.7% from \$2.22bn in the same period of 2016. Further, utilized credits for imports reached \$3.46bn in the first half of the year, up by 50% from \$2.31bn in the same period last year. Also, outstanding import credits amounted to \$7bn in the first half of 2017, up by 28.7% from the same period last year. Further, the aggregate value of inward bills for collection reached \$793.6m in the first half of the year, constituting a rise of 28.4% from \$618m in the first half of 2016. Outstanding bills for collection reached \$67.9m at the end of June 2017 relative to \$143.1m at end-June 2016.

In parallel, the value of documentary letters of credit opened to finance exports from Lebanon reached \$1.79bn in the first half of 2017, up by 103% from \$882.8m in the same period of 2016. Further, utilized credits for exports reached \$1.44bn in the covered period, up by 51.7% from \$948.7m of used credits in the first six months of 2016. Also, outstanding export credits reached \$5.55bn in the first half of 2017, constituting a rise of 23.7% from \$4.49bn in the same period last year. The aggregate value of outward bills for collection amounted to \$714.3m in the first half of the year, constituting an increase of 1.5% from \$703.6m in the same period of 2016. The outstanding value of outward bills for collection reached \$439.3m at end-June 2017 relative to \$663.5m a year earlier.

### Broadband Internet Speed in Arab countries in 2016 (mbps)

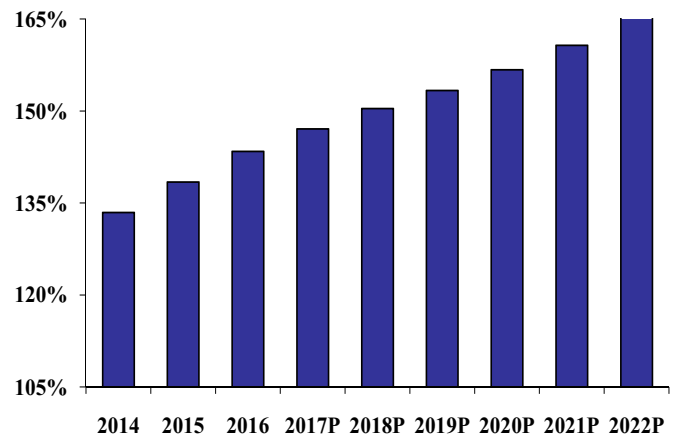


Source: Cable.co.uk, Byblos Research

### Gross public debt at \$76.5bn at end-June 2017

Lebanon's gross public debt reached \$76.46bn at the end of June 2017, constituting an increase of 2.1% from \$74.9bn at the end of 2016 and a rise of 4.9% from \$72.9bn at end-June 2016. In nominal terms, the gross public debt grew by \$1.57bn in the first half of 2017 relative to an increase of \$2.56bn in the same period of 2016. Debt denominated in Lebanese pounds totaled \$46.8bn at end-June 2017, nearly unchanged from the end of 2016 and up by 6.5% from end-June 2016; while debt denominated in foreign currency stood at \$29.7bn, constituting a growth of 5.5% from end-2016 and an increase of 2.5% from a year earlier. Local currency debt accounted for 61.2% of the gross public debt at the end of June 2017 compared to 60.3% a year earlier, while foreign currency-denominated debt represented the balance of 38.8% relative to 39.7% at end-June 2016. The weighted interest rate on outstanding Treasury bills was 6.91% and that on Eurobonds was 6.39% in June 2017. Further, the weighted life on Eurobonds was 6.97 years, while that on Treasury bills was 1,333 days.

Lebanon's Gross Public Debt (% of GDP)



Source: International Monetary Fund

Commercial banks held 47% of the public debt as at end-June 2017 relative to 51.4% of the total at the end of June 2016. Commercial banks held 42.9% of the Lebanese pound-denominated public debt at the end of June 2017 relative to 40.4% a year earlier, while Banque du Liban held 41.6% of the local debt compared to 43.1% at end-June 2016. Also, public agencies, financial institutions and the public held 15.5% of the local debt at end-June 2017, down from 16.5% a year earlier. Further, holders of Eurobonds and special T-bills in foreign currencies accounted for 92.6% of foreign currency-denominated debt holders at the end of June 2017, followed by multilateral institutions with 4.3% and foreign governments with 3%. In addition, the net public debt, which excludes public sector deposits at Banque du Liban and at commercial banks from overall debt figures, grew by 5.6% annually to \$66.7bn at end-June 2017. Further, the gross market debt accounted for about 62% of the total public debt. Gross market debt is the total public debt less the portfolios of Banque du Liban, the National Social Security Fund, bilateral and multilateral loans, as well as Paris II related debt.

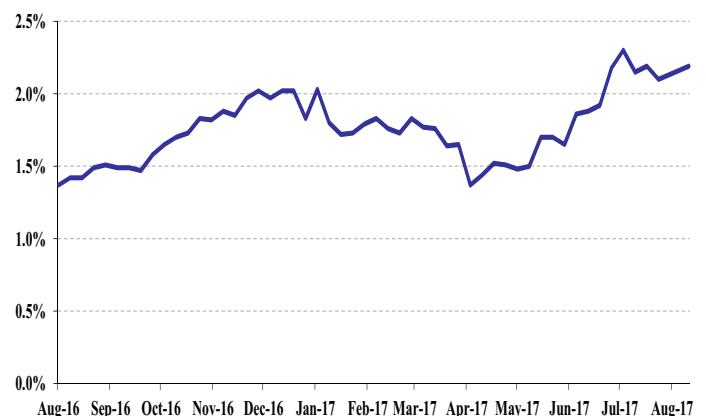
In parallel, S&P Global Ratings rates Lebanon's long-term foreign and local currency sovereign credit ratings at 'B-'. But the agency's Credit Default Swap Market Derived Signal Score, an indicator of risk appetite by foreign investors, shows that Lebanon's sovereign debt is considered by the market to have a 'B' risk level as at August 16, 2017, which is one notch higher than the S&P rating.

### Slight deterioration in market risk perception

Moody's Investors Service indicated that Lebanon's five-year sovereign Expected Default Frequency (EDF) reached 2.19% on August 4, 2017 relative to 1.83% at the end of 2016 and 1.33% on August 4, 2016. Moody's sovereign EDF measures forward-looking probabilities of sovereign default that are extracted from credit default swap (CDS) spreads. Lebanon's five-year sovereign EDF has been gradually rising from 0.98% at the start of 2016 and peaked at 2.3% on July 7, 2017. It fluctuated between a low of 2.1% and a high of 2.19% since then. The agency pointed out that Lebanon's latest EDF figure reflects an implied sovereign rating of 'B2', which is aligned with its current rating for Lebanon.

Lebanon's five-year sovereign EDF on August 4, 2017 was the fifth highest among 70 sovereigns with available figures, and came lower than Venezuela (21.65%), Greece (3.14%), Ukraine (2.85%) and Iraq (2.82%). In comparison, Lebanon's five-year sovereign EDF was 1.33% on August 4, 2016, the seventh highest globally. Lebanon's five-year sovereign EDF rose by 86 basis points between August 4, 2016 and August 4, 2017, constituting the third largest increase among the 70 covered countries, relative to Venezuela (+853 basis points) and El Salvador (+106 basis points).

Lebanon's Five-Year Sovereign Expected Default Frequency



Source: Moody's Investors Service, Byblos Research

Further, Lebanon's one-year sovereign EDF was 0.41% on August 4, 2017 compared to 0.38% at the end of 2016 and 0.25% a year earlier. It was the sixth highest among the 70 covered countries on August 4, 2017, while it was the seventh highest a year earlier. Lebanon's one-year sovereign EDF rose by 16 basis points year-on-year, the fourth largest increase globally behind Venezuela (+631 basis points), El Salvador (+40 basis points) and Guatemala (+21 basis points).





### **Banque du Liban clarifies implementation of Common Reporting Standard**

Banque du Liban (BdL) issued Intermediate Circular 139 on July 21, 2017 about the Common Reporting Standard (CRS), a standard for the automatic exchange of tax and financial information developed by the Organization for Economic Co-operation and Development (OECD) in 2014.

First, the circular stipulates that financial institutions in Lebanon should classify the financial accounts that they maintain as “high value” or “low value” accounts, as well as pre-existing or new accounts. It added that financial institutions should subsequently establish if the financial account is a “reportable” account, which is defined as an account held by one or more reportable persons or by a non-financial entity, with one or more controlling individuals identified as reportable persons. A reportable person is a person or entity that is a resident of one or more reportable jurisdictions, which are those that have agreed to take part in the automatic exchange of information under the CRS. The circular added that, once a financial institution determines that an account is reportable, it must submit to the Ministry of Finance the information about the account for 2017, and every year thereafter. Information on the account includes the account holder’s identity, the financial institution where the account is held, as well as information about any activity in the account.

Also, the circular mandates financial institutions to maintain records on all the steps that they have undertaken to comply with the CRS, such as the self-certification of an account holder, which consists of information about the account holder’s name, address, jurisdiction of residence, and tax identification number. It also stipulates that financial institutions should maintain records electronically, in accordance with the CRS. It noted BdL is the only regulatory body that is responsible for the implementation and monitoring of the circular. It added that BdL and the Special Investigation Commission (SIC) against money laundering and terrorism financing have the authority to request from financial institutions any information, as well as copies of any documents and records about a concerned party.

In May 2017, Lebanon signed the Common Reporting Standard Multilateral Competent Authority Agreement, which paves way to implement the automatic exchange of financial account information in September 2018. Lebanon joins 101 other countries worldwide, including Bahrain, Kuwait, Saudi Arabia and the UAE from the Arab world, that committed to implement the automatic exchange of financial account information.

### **NSSF to provide sickness and maternity insurance coverage for retired and disabled employees**

The Lebanese Parliament issued on February 16, 2017 Law no. 27 about extending healthcare coverage to employees that are covered by the National Social Security Fund (NSSF) after their retirement. The NSSF finalized on July 24, 2017 the executive rules that detail the mechanism and application of Law no. 27. The law will be applicable on private sector employees, permanent employees in the agricultural sector, employees of public institutions and independent offices that are not enrolled in the civil service, as well as certain foreigners working in Lebanon who are entitled to social security benefits.

The law will allow employees who are already enrolled in the Sickness & Maternity insurance branch of the NSSF to continue to benefit from such coverage after reaching the legal retirement age, which is between 60 and 64 years, or after becoming disabled, provided that they meet certain conditions. First, the insured employee must be above 60 years old and have permanently left work, or was permanently disabled to an extent that his productivity is reduced by at least 30%. Second, the beneficiary must have been enrolled in the Sickness & Maternity insurance branch at the NSSF for at least 20 years, and should not be benefiting from another insurance coverage. Third, the covered person must be residing in Lebanon. Also, the immediate family of the beneficiary, which consists of his spouse, children and parents, will be able to benefit from healthcare insurance after the beneficiary’s retirement, subject to certain conditions. However, employees who retired prior to February 16, 2017 will not benefit from such coverage.

Further, the implementation of Law no. 27 will require employers, employees and the government to pay additional social security contributions to the NSSF to fund the new insurance coverage. Social security contributions are calculated as a percentage of monthly salaries, including overtime, bonuses and fringe benefits, and are paid by the employee and the employers. The new insurance coverage will be funded by the employer, employee and the government through increasing the beneficiary’s total contributions to the Sickness & Maternity category by three percentage points. The employer’s contribution will increase by one percentage point, that of the covered employee would rise by another one percentage point, while the contribution of the government will increase by the remaining one percentage point. As such, an employee’s monthly contribution to the Sickness & Maternity category would rise from 2% of his/her earnings previously to 3%, while the employer’s contribution to the covered category would increase from 7% of the employee’s earnings to 8%. Also, the law will raise the ceiling of the employee’s monthly contributions to the Sickness & Maternity category from LBP50,000 per month to a maximum of LBP75,000 per month based on a salary cap set at LBP2.5m per month or about \$1,660 per month. Employees are required to pay the additional contributions starting in September 2017 on a retroactive basis from February 16, 2017.

Established in 1964, the NSSF provides insurance coverage to employees for sickness & maternity care, family allowances, end-of-service pensions, as well as work-related accidents and diseases. It mainly covers Lebanese citizens who are workers and employees in the private non-agricultural sector, permanent employees in the agricultural sector, employees of public institutions and independent offices who are not enrolled in the civil service and teachers in public schools, among other employees and workers. The latest available figures released by the NSSF indicate that there were about 620,656 Lebanese who are covered by the NSSF and about 1.4 million who benefit from its services as at end-September 2014. The government owes about \$1.2bn in arrears to the NSSF.

### **Association of Banks amends reference rate on US dollar and Lebanese pound lending**

The Association of Banks in Lebanon (ABL) recommended to its member banks to decrease the Beirut Reference Rate (BRR) in US dollars to 6.74% in September 2017 from 6.78% in August 2017. The rate, considered as the reference rate for lending in foreign currency, replaced the London Interbank Offered Rate (LIBOR) in 2009, as the ABL decided that the LIBOR does not reflect the cost of funding and lending in Lebanon. In addition, the ABL recommended to its member banks to reduce the BRR in Lebanese pounds to 8.61% in September 2017 from the August 2017 rate of 8.68%. The BRR in US dollars and Lebanese pounds were adopted in March and May 2009, respectively. The ABL considers that the BRR does not replace the Beirut Prime Lending Rate in each currency, but constitutes the basis to calculate the prime rate after adding to the prime lending rate the cost of liquidity and refinancing, credit risk and the profitability of banks.

### **Industrial exports down by 6% to \$1bn in first five months of 2017**

Figures released by the Ministry of Industry show that industrial exports totaled \$1bn in the first five months of 2017, constituting a decrease of 5.8% from \$1.1bn in the same period of 2016. Industrial exports reached \$205.9m in May 2017, down by 2.1% from \$210.4m in the preceding month and by 2.2% from \$210.6m in May 2016. Exports of prepared foodstuffs & tobacco totaled \$208.6m and accounted for 20.6% of aggregate industrial exports in the first five months of 2017, followed by machinery & mechanical appliances with \$199.4m (19.7%), chemical products with \$154.4m (15.2%), base metals with \$134m (13.2%), pearls & precious or semi-precious stones & metals with \$60.2m (5.9%), and plastics & rubber with \$58.2m (5.7%). Arab countries were the destination of 56% of Lebanese industrial exports in the first five months of 2017, followed by European economies with 15.1%, African countries with 10.9%, Asian economies with 9.7%, countries in the Americas with 6.5% and markets in Oceania with 0.7%. On a country basis, the UAE was the main destination of Lebanese industrial exports and accounted for 11% of the total in the first five months of 2017, followed by Saudi Arabia with 10.7%, Iraq with 9%, Syria with 7.7%, Turkey with 4.3% and Jordan with 4%. In May 2017, 13 Arab states, 10 European economies, seven African countries, four Asian economies, two countries in the Americas and one market in Oceania imported \$1m or more each in industrial products from Lebanon.

In parallel, imports of industrial equipment and machinery reached \$92.9m in the first five months of 2017, down by 16.3% from \$111m in the same period of 2016. Italy was the main source of such imports and accounted for 23.5% of the total in the first five months of 2017, followed by China with 20.4% and Germany with 16.2%. Further, imports of industrial equipment and machinery amounted to \$23.1m in May 2017, up by 12.3% from \$20.5m in the same month of 2016. Italy was the main source of such imports with \$4.9m and accounted for 21.4% of the total in the covered month, followed by China with \$4.3m (18.5%) and Germany with \$3.4m (15%).

### Byblos Bank signs \$20m loan agreement with SANAD to support SMEs in Lebanon

The Sanad Fund for micro-, small- and medium-sized enterprises (SANAD) extended a \$20m loan to Byblos Bank sal to finance small- and medium-sized enterprises (SME) in Lebanon. The loan aims to support SMEs that operate in various sectors in Lebanon, such as the trade, industry and services sectors, among others. SMEs could use the funds to finance their capital investments, as well as their fixed working capital. In July 2017, The European Investment Bank extended a €100m credit line to Byblos Bank sal to finance SMEs and mid-cap companies in Lebanon. Byblos Bank's net loans & advances to customers totaled \$5.26bn at the end of June 2017, up by 5.4% from \$5bn at end-June 2016.

Initiated by the KfW Development Bank and funded by the German Federal Ministry of Economic Cooperation & Development and the European Union, SANAD is an organization that aims to finance through lending institutions MSMEs as well as low-income households in Algeria, Egypt, Iraq, Jordan, Lebanon, Morocco, Palestine, Tunisia and Yemen. It also provides capacity building assistance to its partner institutions through its Technical Assistance Facility.

### New car sales down 1% in first seven months of 2017

Figures released by the Association of Automobile Importers in Lebanon show that dealers sold 21,888 new passenger cars in the first seven months of 2017, constituting a decline of 1.2% from 22,144 cars sold in the same period of 2016. Consumers purchased 2,420 new cars in January, 2,562 vehicles in February, 3,136 automobiles in March, 2,536 cars in April, 3,182 vehicles in May, 4,362 automobiles in June and 3,690 cars in July 2017.

Japanese cars accounted for 36.1% of total sales in the first seven months of 2017, followed by Korean vehicles with a 34.3% share, European automobiles (20.3%), American cars (8.2%) and Chinese vehicles (1.1%). The sales of new Chinese cars jumped by 63% and the demand for American vehicles grew by 28% year-on-year in the first seven months of 2017; while the number of Japanese automobiles sold dropped by 4.7%, the sales of Korean vehicles fell by 4.2% and the number of European cars sold decreased by 0.6% year-on-year.

Kia is the leading brand in the Lebanese market with 4,671 vehicles sold in the first seven months of 2017, followed by Hyundai with 2,803 new cars sold, Toyota (2,620), Nissan (1,959), Chevrolet (1,093), Renault (1,088) and Suzuki (1,042). In parallel, 1,671 new commercial vehicles were sold in the first seven months of 2017, up by 8.5% from 1,540 commercial vehicles purchased in the same period of 2016. Overall, car dealers sold 23,559 new passenger automobiles and commercial vehicles in the first seven months of 2017, constituting a decline of 0.5% from 23,684 vehicles sold in the same period of 2016.

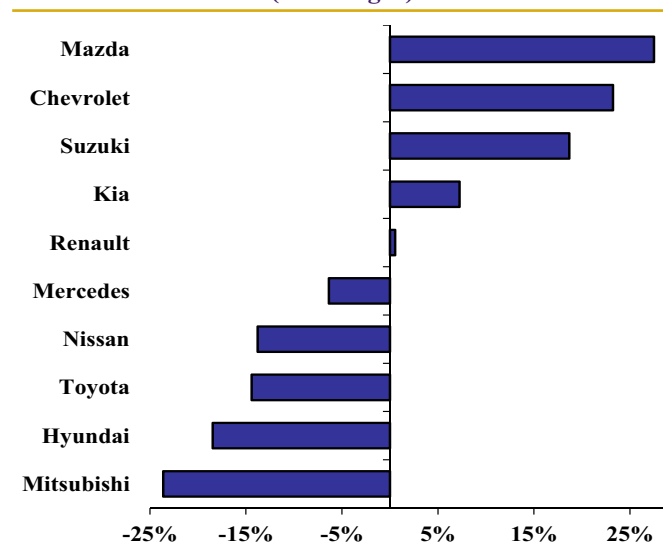
In parallel, the number of new vehicles sold by Lebanon's top five distributors reached 15,629 in the first seven months of 2017 and accounted for 66.3% of new car sales. NATCO sal sold 4,674 vehicles, equivalent to 19.8% of the total, followed by Rasamny Younis Motor Co. sal with 3,183 cars (13.5%), Boustany United Machineries sal with 2,938 automobiles (12.5%), Century Motor Co. sal with 2,874 vehicles (12.2%) and Bassoul Henein sal with 1,960 cars (8.3%).

### Top five freight forwarders' import activity up 2.5% in first half of 2017, export activity nearly unchanged

Figures released by the Port of Beirut show that overall import shipping operations by the top five freight forwarders through the port reached 183,165 20-foot equivalent units (TEUs) in the first half of 2017, constituting an increase of 2.5% from 178,612 TEUs in the same period of 2016. The five freight forwarders accounted for 87.5% of imports to the Lebanese market and for 59.5% of the total import freight forwarding market in the covered period. Mediterranean Shipping Company (MSC) handled 56,480 TEUs in imports in the first half of 2017, equivalent to a 18.3% share of the total freight forwarding import market. Merit Shipping followed with 35,730 TEUs (11.6%), then Sealine Group with 34,015 TEUs (11%), Metz Group with 30,313 TEUs (9.8%) and Gezairy Transport with 26,627 TEUs (8.6%). Further, Gezairy Transport registered a 29.7% year-on-year increase in import shipping, the highest growth rate among the top five freight forwarders, while Metz Group posted a decline of 15.7%, the steepest in the first half.

In parallel, export shipping operations by the top five freight forwarders through the Port of Beirut reached 41,073 TEUs in the first half of 2017, nearly unchanged from 41,124 TEUs in the same period last year. The five freight forwarders accounted for 88.5% of exported Lebanese cargo and for 13.5% of the total export freight forwarding market in the covered period. Merit Shipping handled 21,306 TEUs of freight in the first half of 2017, equivalent to 45.9% of the Lebanese cargo export market. Sealine Group followed with 7,733 TEUs (16.7%), then Metz Group with 6,963 TEUs (15%), MSC with 2,734 TEUs (5.9%) and Gezairy Transport with 2,337 TEUs (5%). Further, Gezairy Transport posted a 25.5% year-on-year increase in export shipping, the highest growth rate among the top five freight forwarders, while Metz Group posted a decline of 21.5%, the steepest in the covered period.

Sales of Top 10 Car Brands in First Seven Months of 2017  
(% change\*)



\* year-on-year

Source: AIA, Byblos Research



### Ten Lebanese banks among Top 1000 banks in the world

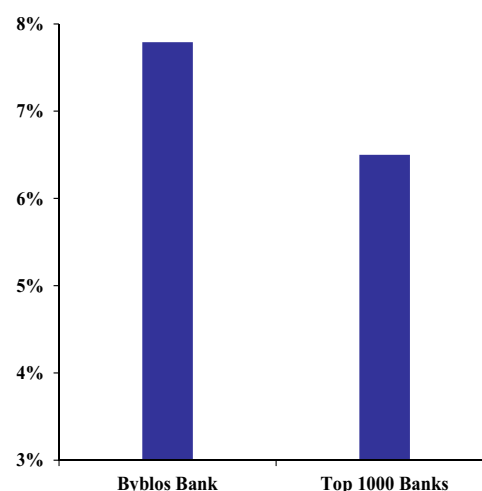
In its 2017 survey of the Top 1000 banks in the world, *The Banker* magazine included 10 Lebanese commercial banks on its list, unchanged from last year's survey and up from nine banks in the 2015 survey. None of the 10 Lebanese banks ranked among the top 25 banks in the Middle East in the 2017 survey, in line with previous surveys. The rankings are based on the banks' Tier One capital in US dollars as at year-end 2016. *The Banker* uses the disclosed Tier One capital for banks that began implementing the Basel III framework, as the latter clarified the rules about capital calculations that previously varied across banks and jurisdictions.

The aggregate Tier One capital of the 10 Lebanese banks reached \$15.57bn at the end of 2016 and grew by 13.6% from \$13.7bn at end-2015. In comparison, the Tier One capital of the Top 1000 banks increased by 3.9% year-on-year, while that of the covered banks in the Middle East rose by 3%. Byblos Bank's Tier One capital-to-assets ratio reached 7.79% at the end of 2016, outperforming the Top 1000 banks' aggregate ratio of 6.5%. In addition, Byblos Bank's Capital Adequacy Ratio (CAR), a measure of the Bank's financial strength, reached 18.8% at the end of 2016, the second highest such ratio among Lebanese banks included in the 2017 survey.

Further, the cumulative pre-tax profits of the 10 Lebanese banks reached \$2.78bn in 2016, up by 22% from the preceding year, compared to a contraction of 1.2% in the gross earnings of the Top 1000 banks and a decline of 4.4% in the income of Middle Eastern banks on the list. Also, the ratio of pre-tax profits-to-Tier One capital of the Lebanese banks reached 17.9% in 2016, up from 16.7% a year earlier, and relative to 13% for the Top 1000 banks and 13.2% for covered Middle Eastern banks. In addition, the 10 Lebanese banks accounted for 5% of the Tier One capital of banks in the Middle East, for 7.3% of their total assets and for 6.8% of their aggregate pre-tax profits. They also represented 0.21% of the Tier One capital of the Top 1000 banks, for 0.17% of their total assets and for 0.29% of their aggregate pre-tax profits.

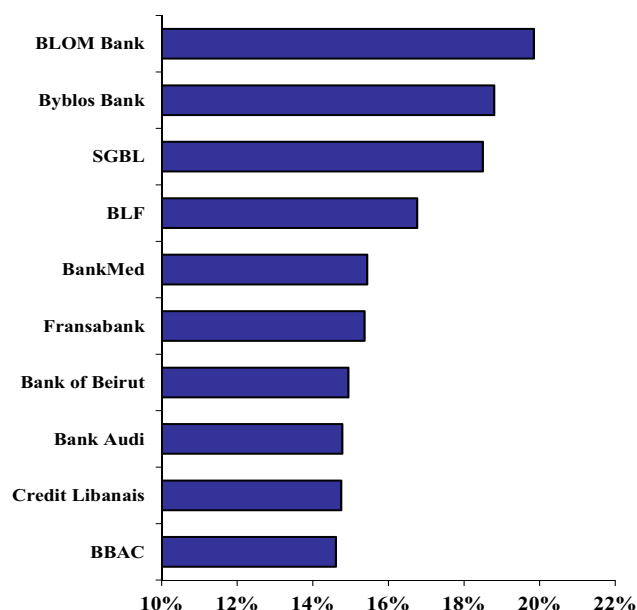
Bank Audi's Tier One capital was \$3.09bn at the end of 2016 and accounted for 19.8% of the aggregate Tier One capital of the 10 Lebanese banks included in the 2017 survey. BLOM Bank followed with \$2.62bn or 16.9% of the total, then Fransabank with \$1.69bn (10.9%), Byblos Bank with \$1.62bn (10.4%), Société Générale de Banque au Liban with \$1.57bn (10.1%), Bank of Beirut with \$1.42bn (9.1%), BankMed with \$1.31bn (8.4%), Banque Libano-Française with \$1.04bn (6.6%), Crédit Libanais with \$705m (4.5%) and BBAC with \$501m (3.2%). Bank Audi ranked in 321st place globally, in terms of Tier One capital, followed by BLOM Bank (363rd), Fransabank (501st), Byblos Bank (522nd), Société Générale de Banque au Liban (534th), Bank of Beirut (566th), BankMed (594th), Banque Libano-Française (685th), Crédit Libanais (832nd) and BBAC (957th). The rankings of seven out of the 10 Lebanese banks included in the survey improved year-on-year, with Byblos Bank's rank improving by four spots.

### Tier One Capital-to-Assets Ratio at end-2016 (%)



Source: *The Banker Magazine*, Byblos Research

### Capital Adequacy Ratio at end-2016 (%)



Source: *The Banker Magazine*

### **Balance sheet of financial institutions up 8% in first half of 2017**

Figures released by Banque du Liban show that the consolidated balance sheet of financial institutions in Lebanon reached LBP2,301bn, or \$1.53bn at the end of June 2017, constituting an increase of 8.3% from LBP2,125bn at end-2016 but a decrease of 2.9% from LBP2,370bn at end-June 2016. On the assets side, financial institutions' cash and bank deposits totaled \$526m at the end of June 2017, constituting a drop of 8.3% from the end of 2016 and a decline of 16.1% from a year earlier. Claims on the private sector reached \$712.3m at end-June 2017, reflecting a decrease of 1.9% from end-2016 and a decline of 12.2% from end-June 2016. Also, claims on the public sector totaled \$140.2m at the end of June 2017, constituting a growth of 2.6% from end-2016 and a drop of 2% from a year earlier.

In parallel, liabilities to the private sector totaled \$165.8m at the end of June 2017, constituting declines of 24.7% from end-2016 and of 42% from a year earlier; while liabilities to the financial sector reached \$563.8m at end-June 2017, representing a drop of 2.1% from end-2016 and a decline of 18.4% from end-June 2016. Further, the aggregate capital accounts of financial institutions amounted to \$493.1m at the end of June 2017, constituting increases of 5.3% from end-2016 and of 5.5% from a year earlier. There were 50 financial institutions with a total of 76 branches operating in Lebanon at the end of March 2017.

### **RYMCO to distribute dividends for 2016, payout ratio at 46%**

The Ordinary General Assembly of automobile dealer Rasamny Younis Motor Co. sal (RYMCO) held on August 4, 2017 approved the distribution of LBP4.4bn, or \$2.9m, in dividends to shareholders for 2016. The dividend distribution is equivalent to LBP161 (\$0.11) per common share and represents a 46.3% payout ratio. The dividends will be paid starting on January 12, 2018, net of a 5% withholding tax for publicly-listed shares and net of a 10% tax for those that are not publicly listed. The firm currently has 27,300,000 common shares, that include 10,920,000 shares listed on the Beirut Stock Exchange.

RYMCO posted audited consolidated net profits of \$6.3m in 2016, up 7.2% from net earnings of \$5.9m in 2015. The firm's consolidated assets reached \$211.7m at the end of 2016, nearly unchanged from a year earlier. The company's consolidated inventory, which mostly consists of cars and spare parts, was \$71.4m at end-2016, constituting a rise of 30.8% from \$54.6m at end-2015. The firm's shareholders' equity reached \$54.2m at the end of 2016 and increased by 3.1% from end-2015. RYMCO is the only car retailer listed on the Beirut bourse. Its share price closed at \$3.25 on August 18, 2017, unchanged from the end of 2016.

### **Allianz SNA's net profits down 1% to \$7.1m in 2016**

Allianz SNA sal announced audited net profits of \$7.1m in 2016, constituting a decrease of 1.2% from net earnings of \$7.2m in 2015. Its audited balance sheet shows total assets of \$495m at the end of 2016, reflecting a rise of 8.6% from \$455.6m at end-2015. On the assets side, general company investments totaled \$389m and grew by 6.8% from a year earlier. They included \$287.5m in fixed income investments that grew by 1.9% year-on-year, \$31.5m in policy loans that increased by 10.7%, \$13.2m in cash and cash equivalents that rose by 20% and \$5.7m in mutual funds that improved by 19.3% from a year earlier. Also, \$46.4m were in blocked bank deposits and deposits with maturity of more than three months, of which \$2.1m were blocked in favor of the Ministry of Economy as guarantees.

Unit-linked contracts investments totaled \$30m at end-2016 and grew by 20.7% from \$24.9m a year earlier. They included \$29.1m in cash & similar investments, \$0.6m in fixed income investments, \$0.2m of placements in mutual funds and \$90,570 in variable income investments. Fixed income investments rose by 30.2% and cash & similar investments grew by 20.7%, while variable income investments and unit-linked investments in mutual funds were nearly unchanged year-on-year. Further, the reinsurance share in technical reserves for the non-life category declined by 13.3% to \$10.1m in 2016, while that for the life category increased by 4.8% to \$2.2m last year.

On the liabilities side, technical reserves for the life segment grew by 8.2% to \$327.2m in 2016, while technical reserves for the non-life category reached \$45.9m at end-2016 and increased by 2% from a year earlier. Non-life technical reserves included outstanding claims reserves of \$24m that grew by 0.8% year-on-year, unearned premium reserves of \$15.7m that increased by 9.8%, \$3.7m in premium deficiency reserves that were unchanged year-on-year, and \$0.9m in reserves incurred but not reported that dropped by 56.3% from a year earlier. Provisions for risks and charges reached \$1.8m in 2016 and improved by 27.2% from the previous year. Also, the firm's shareholders' equity totaled \$59.2m at end-2016, up by 2.6% from a year earlier.

*Al-Bayan* magazine's annual survey of the insurance sector in Lebanon ranked Allianz SNA in third and sixth places in 2016 in terms of life and non-life premiums, respectively. The firm's life premiums reached \$67.5m and non-life premiums amounted to \$63.6m, up by 6.5% and 5.2%, respectively. It had a 13.4% share of the life market and a 5.8% share of the local non-life market in 2016.

## 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	19.1	0.30
Fiscal Expenditures / GDP	27.9	26.5	28.6	2.1
Fiscal Balance / GDP	(6.1)	(7.7)	(9.5)	(1.8)
Primary Balance / GDP	2.6	1.4	0.04	(1.4)
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	Aug 2015	July 2016	Aug 2016	Change**	Risk Level
Political Risk Rating	54.5	55.0	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	61.0	60.75	▲	Moderate

MENA Average*	Aug 2015	July 2016	Aug 2016	Change**	Risk Level
Political Risk Rating	57.6	57.5	57.4	▲	High
Financial Risk Rating	39.4	38.8	38.8	▲	Low
Economic Risk Rating	32.1	29.7	29.7	▲	High
Composite Risk Rating	64.5	63.0	62.9	▲	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	Stable	B	B	Stable

Source: Rating agencies

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



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