

## LEBANON THIS WEEK

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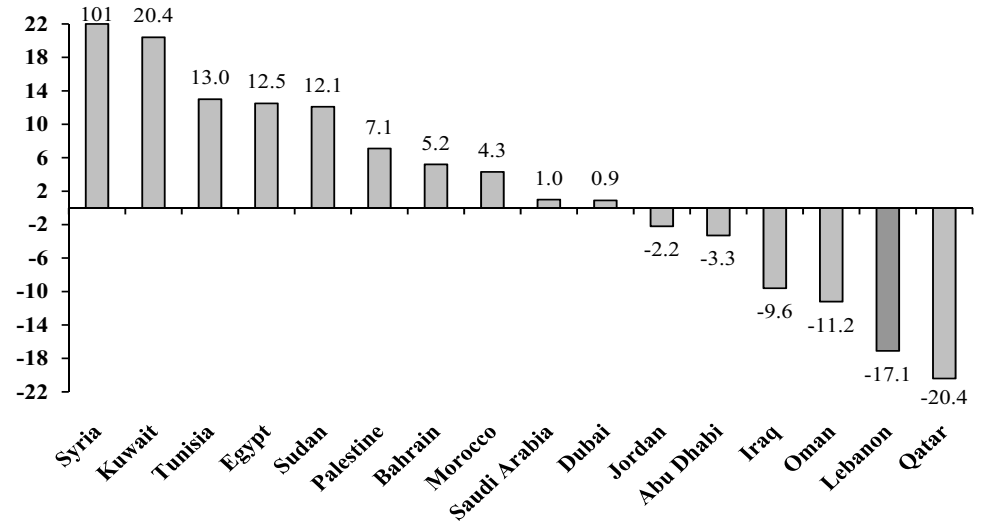
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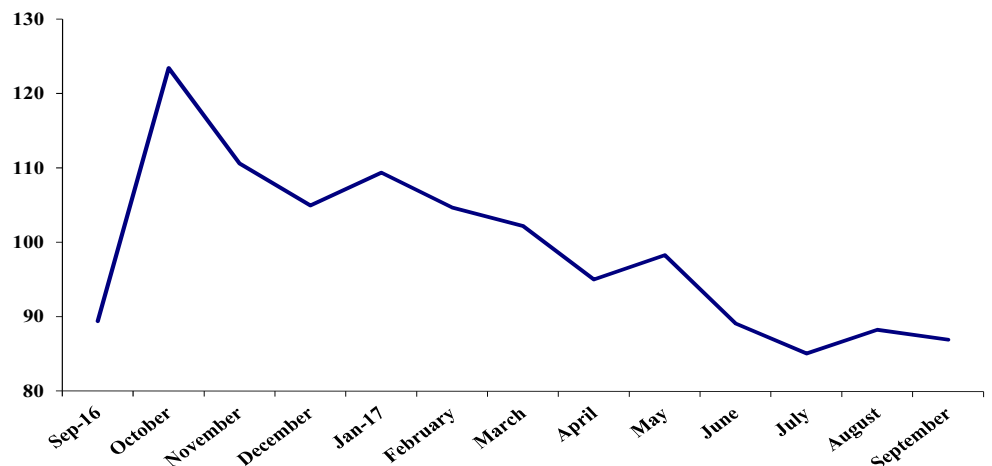
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### Charts of the Week

Performance of MENA Stock Markets in the First Nine Months of 2017 (% change)



Performance of the Beirut Stock Exchange\*



\*Capital Markets Authority Value Weighted Index end of month values  
Source: Local Stock Markets, Capital Markets Authority, Byblos Bank

### Quote to Note

“The exchange rate peg remains an appropriate nominal anchor.”

*The International Monetary Fund, on the importance of maintaining the peg of the Lebanese pound to the US dollar*

### Number of the Week

**\$4.5bn:** Aggregate profits generated by Banque du Liban that were transferred to the Ministry of Finance between 1993 and 2016, in compliance with Article 117 of the Code of Money and Credit

## 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 |
|---------------------------|-----------------|-----------|--------------|---------------------------------|
| Audi Listed               | 5.83            | (0.34)    | 5,318,768    | 20.52%                          |
| Solidere "A"              | 8.00            | 0.00      | 114,148      | 7.04%                           |
| BLOM Listed               | 11.50           | 0.88      | 40,953       | 21.77%                          |
| Solidere "B"              | 8.02            | 0.00      | 39,505       | 4.59%                           |
| HOLCIM                    | 13.01           | 4.00      | 23,163       | 2.24%                           |
| Byblos Common             | 1.60            | (0.62)    | 6,132        | 7.97%                           |
| Audi GDR                  | 5.90            | (1.67)    | 5,100        | 6.23%                           |
| BLOM GDR                  | 12.65           | 1.20      | 3,931        | 8.23%                           |
| Byblos Pref. 09           | 102.20          | 0.20      | 747          | 1.80%                           |
| Byblos Pref. 08           | 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     | 99.87        | 4.51        |
| Nov 2018            | 5.15     | 100.38       | 4.79        |
| May 2019            | 6.00     | 101.38       | 5.11        |
| Mar 2020            | 6.38     | 101.88       | 5.54        |
| Oct 2022            | 6.10     | 99.88        | 6.13        |
| Jun 2025            | 6.25     | 97.13        | 6.73        |
| Nov 2026            | 6.60     | 98.13        | 6.88        |
| Feb 2030            | 6.65     | 96.50        | 7.08        |
| Apr 2031            | 7.00     | 98.13        | 7.22        |
| Nov 2035            | 7.05     | 96.38        | 7.42        |

Source: Byblos Bank Capital Markets

|                       | Sept 25-29   | Sept 18-22  | % Change | September 2017 | September 2016 | % Change |
|-----------------------|--------------|-------------|----------|----------------|----------------|----------|
| Total shares traded   | 5,570,436    | 1,007,488   | 452.9    | 7,527,126      | 17,493,508     | (57)     |
| Total value traded    | \$34,198,267 | \$8,506,838 | 302      | \$49,770,271   | \$132,538,370  | (62.4)   |
| Market capitalization | \$11.36bn    | \$11.34bn   | 0.15     | \$11.36bn      | \$11.11bn      | 2.2      |

Source: Beirut Stock Exchange (BSE)



### Lebanon ranks 105th globally, 12th among Arab countries in terms of competitiveness

The World Economic Forum ranked Lebanon in 105th place among 137 countries globally and in 12th place among 14 Arab countries on its Global Competitiveness Index for 2017-18. Lebanon also ranked in 32nd place among 34 upper middle-income countries (UMICs) included in the survey. Based on the same set of countries included in each of the 2016-17 and 2017-18 surveys, Lebanon's global rank regressed by seven spots from the previous survey, which constituted, along with Cambodia, Laos and Qatar, the 12th steepest decline globally. In parallel, Lebanon's rank among Arab countries declined by one spot year-on-year.

The index measures the ability of a country and its enterprises to compete in global markets by assessing the country's institutions, infrastructure, macroeconomic environment, and education and healthcare systems. It also evaluates the country's capacity for innovation, its overall market efficiency, technological readiness, and the sophistication of domestic markets and business practices. The index is based on 12 pillars grouped into three sub-indices that are the Basic Requirements Sub-Index, the Efficiency Enhancers Sub-Index, and the Innovation & Sophistication Sub-Index. It scores countries on a scale from zero to seven, with seven representing the highest level of competitiveness.

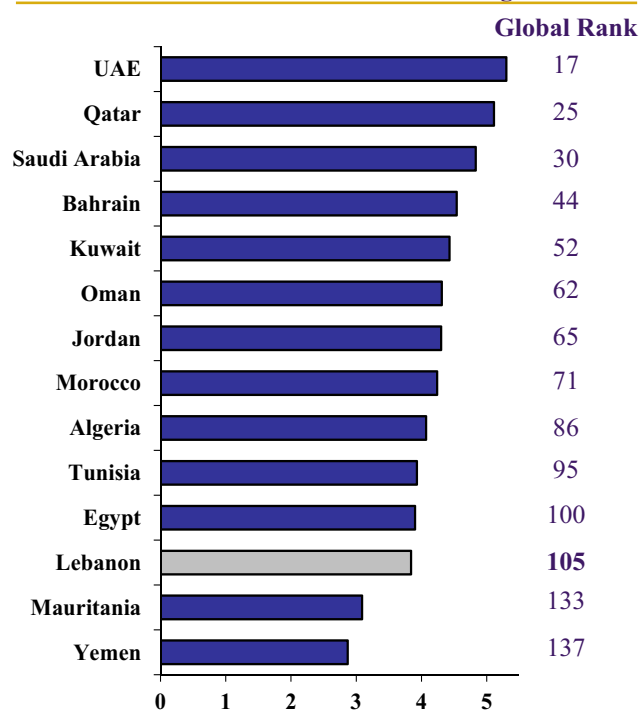
Globally, Lebanon has a more competitive economy than Senegal, Ethiopia and El Salvador, and is less competitive than Mongolia, Bosnia & Herzegovina and the Dominican Republic among economies with a GDP of \$10bn or more. Also, the Lebanese economy is more competitive than its counterparts in only Paraguay and Venezuela among UMICs; while it is more competitive than only Mauritania and Yemen in the Arab world. Lebanon received a score of 3.84 points, lower than the global average of 4.3 points, the UMICs' average of 4.26 points and the Arab average of 4.2 points. Also, Lebanon's score came lower than Gulf Cooperation Council (GCC) countries' average of 4.75 points, but higher than the average of non-GCC Arab countries of 3.78 points.

The World Economic Forum indicated that Lebanon has competitive advantages in healthcare, the quality of primary and higher education, the soundness of banks, the ease of access to loans, the availability of venture capital, the intensity of local competition, the corporate income tax level, the effect of taxation on incentives to work, business sophistication and the capacity to innovate. It noted, however, that Lebanon ranks poorly in terms of the quality of its physical infrastructure, macroeconomic stability and the institutional environment.

Lebanon ranked ahead of Madagascar and Zimbabwe and came behind Ghana and Zambia on the Basic Requirements Sub-Index, which covers institutions, infrastructure, the macroeconomic environment and health & primary education. Further, Lebanon came ahead of only Mauritania and Yemen among Arab countries on this category. In addition, Lebanon ranked ahead of Greece and Armenia, and came behind Brunei Darussalam and Georgia on the Efficiency Enhancers Sub-Index that covers higher education & training, the market efficiency of goods and labor, financial market development, technological readiness and market size. Lebanon came ahead of Morocco, Egypt, Tunisia, Algeria, Yemen and Mauritania in the Arab world. Finally, Lebanon ranked ahead of Jamaica and Cyprus, and came behind Chile and Mexico on the Innovation & Sophistication Sub-Index. Regionally, Lebanon ranked behind only the UAE, Qatar, Saudi Arabia, Bahrain and Jordan on this category.

In parallel, the results of the World Economic Forum's Executive Opinion Survey show that executives in Lebanon consider that government instability is the most problematic factor for doing business in the country, followed by corruption, inadequate infrastructure, inefficient government bureaucracy and policy instability.

**Global Competitiveness Index for 2017-18  
Arab Countries Scores & Rankings**



Source: World Economic Forum, Byblos Research

**Components of the 2017-18 Global Competitiveness Index for Lebanon**

|                             | Global Rank | Change in Global Rank* | Arab Rank | UMIC Rank | Lebanon Score | Global Avg Score | Arab Avg Score | UMIC Avg Score |
|-----------------------------|-------------|------------------------|-----------|-----------|---------------|------------------|----------------|----------------|
| Basic Requirement           | 119         | +2                     | 12        | 33        | 3.55          | 4.62             | 4.61           | 4.54           |
| Efficiency                  | 76          | -5                     | 8         | 22        | 4.05          | 4.19             | 4.03           | 4.16           |
| Innovation & Sophistication | 52          | -1                     | 6         | 11        | 3.82          | 3.85             | 3.67           | 3.63           |

\* change from the 2016-17 survey based on the same set of countries

Source: World Economic Forum, Byblos Research



### Slight deterioration in market risk perception

Moody's Investors Service indicated that Lebanon's five-year sovereign Expected Default Frequency (EDF) reached 2.25% on September 22, 2017 relative to 1.83% at the end of 2016 and 1.49% on September 22, 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 2.07% and a high of 2.27% since then. The agency pointed out that Lebanon's latest EDF figure reflects an implied sovereign rating of 'B3', which is aligned with its current rating for Lebanon.

Lebanon's five-year sovereign EDF on September 22, 2017 was the fourth highest among 70 sovereigns with available figures, and came lower than Venezuela (29.16%), Greece (2.4%) and Iraq (2.27%). In comparison, Lebanon's five-year sovereign EDF was 1.49% on September 22, 2016, the sixth highest globally. Lebanon's five-year sovereign EDF rose by 76 basis points between September 22, 2016 and September 22, 2017, constituting the third largest increase among the 70 covered countries, relative to Venezuela (+1,447 basis points) and El Salvador (+89 basis points).

Further, Lebanon's one-year sovereign EDF was 0.42% on September 22, 2017 compared to 0.38% at the end of 2016 and 0.29% a year earlier. It was the fifth highest among the 70 covered countries on September 22, 2017, while it was the sixth highest a year earlier. Lebanon's one-year sovereign EDF rose by 13 basis points year-on-year, the fourth largest increase globally behind Venezuela (+1,160 basis points), El Salvador (+38 basis points) and Guatemala (+21 basis points).

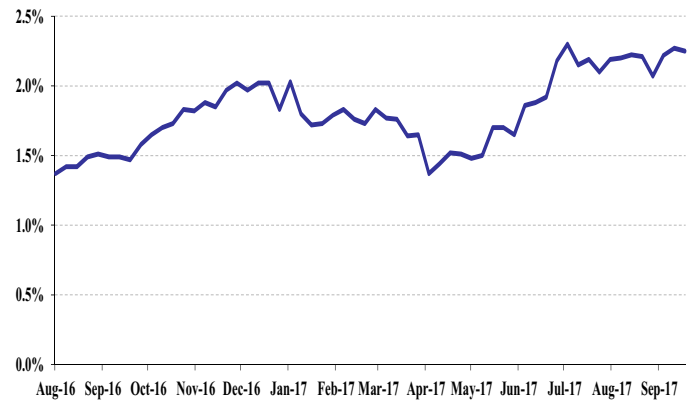
### Retail activity indicator up 3% in first half of 2017, down 14% since 2012

Figures released by the Lebanese Franchise Association (LFA) show that the LFA's Retail Sales Indicator of consumer goods & services in Lebanon increased by 3.1% in the first half of 2017 from the same period last year. The indicator declined by 12.2% in the first quarter of 2017 from the preceding quarter, but improved by 5.1% in the second quarter of 2017. Also, the indicator regressed by 13.9% from 2012, which is the base year that the LFA uses to calculate its indicator. The consumer goods covered by the indicator are clothing, cosmetics, household goods, sports & hobbies, luxury items, and food & beverages; while the consumer services segment consists of hospitality, tourism, and medical services.

The retail sales indicator for consumer goods shows that the indicator for the cosmetics category increased by 22.1% year-on-year in the first half of 2017, followed by the food & beverages category (+8.5%), household goods (+6.6%), sports & hobbies goods (+3.5%), while the sales indicator for luxury items regressed by 10.1% and that of fashion & clothing declined by 1.1%. The retail sales indicators for five out of six categories of consumer goods were lower than their base year level by margins ranging from 5% to 52.2%. In parallel, the retail sales indicator for consumer services shows that the retail sales indicator for hospitality services grew by 5.7% and that for medical services rose by 1.7% year-on-year in the first half of 2017, while the indicator for the sales of tourism services declined by 11.7%. Also, the retail sales indicator for hospitality services regressed by 7.1% from its 2012 base year level, the only category among consumer services to post a contraction in activity compared to its base level.

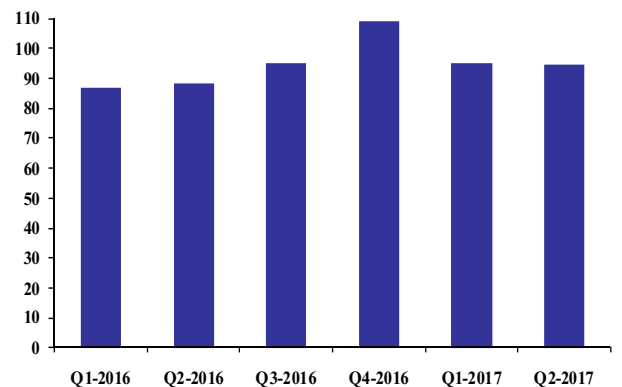
The Lebanese Franchise Association and the Chamber of Commerce, Industry & Agriculture of Beirut and Mount Lebanon launched the Retail Activity Indicators in 2015. The indicators are based on data collected from shopping malls in the Beirut and Mount Lebanon area, on a retail enterprise survey, and on data from payment system operators. QuantAnalysts sarl, a research and consulting firm, compiled the data and developed the indicators. The firm said that the 48-month time series of retail sales indicators for the nine categories of consumer goods and services were seasonally adjusted.

### Lebanon's Five-Year Sovereign Expected Default Frequency



Source: Moody's Investors Service, Byblos Research

### Sales of Food & Beverage Indicator



Source: Lebanese Franchise Association, QuantAnalysts

### Banque du Liban requests banks to create recovery plan to help them face potential challenges

Banque du Liban issued Basic Circular 141 on September 18, 2017, which details the mechanism of creating a business recovery plan for banks and financial institutions operating in Lebanon. The circular requested Lebanese banks to set up a business recovery plan that would allow them to stabilize their financial situation and help them face any future challenges in times of distress. It stipulated that the plan must be written and tailored to each bank's size, international presence and the complexity of its activities and operations. It added that the plan must be approved by the bank's board of directors and updated on a yearly basis.

Further, the circular stipulated that the recovery plan should consist of an internal governance mechanism, recovery plan indicators, stress tests and recovery options. It noted that an internal governance mechanism must designate the parties responsible for the development, management and implementation of the recovery plan, and should regulate the communication mechanism between the various parties concerned with the plan. Also, it indicated that the recovery plan indicators should reflect the bank's deviation from its business plan and must include quantitative and qualitative indicators such as the bank's financial soundness indicators, as well as those related to financial markets and economic conditions. It added that banks should identify the early warning signals that allow them to detect emerging risks, and should determine the maximum degree of stress that necessitates the mandatory implementation of the recovery plan. In parallel, the circular stipulated that banks should perform stress tests to determine their recovery options, including systemic, bank-specific and idiosyncratic scenarios, as well as assumptions that lead to the implementation of the recovery plan. It said that the recovery options identified for each scenario in the stress tests should prove feasible and capable of restoring the bank's financial position within a specified period of time. It added that banks should reveal the impact of each recovery option on their financial positions.

In parallel, the circular pointed out that banks should design the recovery plan for their domestic branches, as well as for their branches and subsidiaries abroad. It stipulated that banks must submit the plan to the Banking Control Commission (BCC) and notify the latter of any future amendments. It added that branches of foreign banks operating in Lebanon must also provide the BCC with their own recovery plan in collaboration with their head offices abroad. In turn, the BCC would review and evaluate the plans submitted by the banks, and would request them to execute the required amendments if necessary. The BCC will then issue the related executive directives for the recovery plan. Finally, the circular stipulated that banks are granted a period of six months, starting from the date of the circular's issuance, in order to set up their first recovery plan according to the requirements and regulations identified by the BCC.

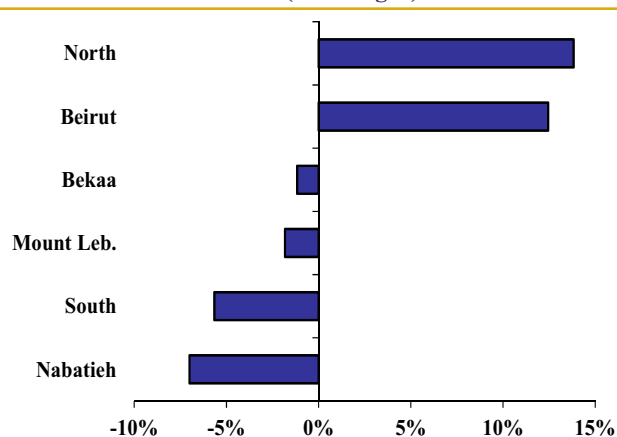
### Number of new construction permits nearly unchanged, surface area up 6% in first eight months of 2017

The Orders of Engineers & Architects of Beirut and of Tripoli issued 11,353 new construction permits in the first eight months of 2017, nearly unchanged from 11,329 permits in the same period of 2016, relative to a rise of 15.3% in first eight months of 2016. Mount Lebanon accounted for 35.5% of newly-issued construction permits in the first eight months of 2017, followed by the South with 17.5%, the North with 17.4%, Nabatieh with 12.9%, the Bekaa with 8.9% and Beirut with 4.5%. The remaining 3.3% were permits issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon.

Further, the surface area of granted construction permits reached 8,623,564 square meters (sqm) in the first eight months of 2017, constituting an increase of 6.2% from 8,122,416 sqm in the same period of 2016. In comparison, the surface area of granted construction permits decreased by 1.8% year-on-year in the first eight months of 2016. Mount Lebanon accounted for 3,533,977 sqm, or 41% of the total, in the covered period. The North followed with 1,550,727 sqm (18%), then the South with 1,092,901 sqm (12.7%), the Bekaa with 790,373 sqm (9.2%), Nabatieh with 681,596 sqm (7.9%) and Beirut with 484,130 sqm (5.6%). The remaining 489,860 sqm, or 5.7% of the total, represent the surface area of permits that were issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon.

Also, the surface area of construction permits issued for Beirut grew by 1.5 times year-on-year in the first eight months of 2017, while it rose by 40% for the North and was flat for Mount Lebanon. In contrast, the surface area of construction permits issued for Nabatieh decreased by 16.1%, followed by the South (-6.6%) and the Bekaa (-3.4%). Also, the surface area of granted construction permits for regions located outside northern Lebanon increased by 35.9% year-on-year in the first eight months of 2017. In parallel, cement deliveries totaled 2.86 million tons in the first seven months of 2017, constituting a decrease of 0.8% from 2.88 million tons in the same period of 2016, and relative to a rise of 7.3% in the first seven months of 2016.

Number of Construction Permits in First Eight Months of 2017 (% change\*)



\* from the same period of 2016

Source: Orders of Engineers & Architects of Beirut and Tripoli



### Lebanon ranks 135th globally, 10th in Arab world in Government Effectiveness

The World Bank's annual World Governance Indicators for 2016 show that Lebanon's score regressed on five out of six governance indicators included in the survey and improved on only one indicator, reflecting a weak level of governance in the country. Also, Lebanon's rankings regressed on four indicators and improved on two others. The indicators cover 214 countries and territories and are rated on a scale of -2.5 to +2.5, with higher values corresponding to better governance outcomes.

Lebanon ranked in 135th place worldwide and in 10th place among 20 Arab countries in terms of Government Effectiveness. The indicator evaluates the quality of public and civil services and the degree of their independence from political pressure, as well as the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. Lebanon's global rank regressed by three spots, while its regional rank improved by one spot year-on-year. Globally, Lebanon had a more effective government than Algeria, Burkina Faso and Tanzania, and a less effective one than Bosnia & Herzegovina, Senegal and Belarus among countries with a GDP of \$10bn or more. The results show that 64% of countries and territories in the world have a better score than Lebanon on this dimension of governance.

| Government Effectiveness Rankings & Scores in 2016 |               |           |             |
|--|---------------|-----------|-------------|
|  | Score         | Arab Rank | Global Rank |
| UAE  | 1.41          | 1         | 20          |
| Qatar  | 0.75          | 2         | 54          |
| Bahrain  | 0.32          | 3         | 72          |
| Saudi Arabia                                       | 0.24          | 4         | 77          |
| Oman   | 0.19          | 5         | 81          |
| Jordan   | 0.14          | 6         | 87          |
| Morocco  | (0.10)        | 7         | 103         |
| Kuwait   | (0.18)        | 8         | 112         |
| Tunisia  | (0.21)        | 9         | 115         |
| <b>Lebanon</b>                                     | <b>(0.53)</b> | <b>10</b> | <b>135</b>  |
| Algeria  | (0.54)        | 11        | 136         |
| West Bank/Gaza                                     | (0.62)        | 12        | 148         |
| Egypt  | (0.66)        | 13        | 151         |
| Mauritania   | (0.79)        | 14        | 165         |
| Djibouti   | (0.97)        | 15        | 174         |
| Iraq   | (1.26)        | 16        | 190         |
| Sudan  | (1.41)        | 17        | 194         |
| Yemen  | (1.82)        | 18        | 204         |
| Syria  | (1.82)        | 19        | 205         |
| Libya  | (1.89)        | 20        | 206         |

Source: World Bank, Byblos Research

In parallel, Lebanon ranked in 180th place globally and in 15th place regionally on the Control of Corruption category, which measures the level of corruption in each country. Lebanon's global rank regressed by 11 spots and its regional rank declined by one spot year-on-year. Globally, Lebanon had a lower level of corruption than Nigeria, Uganda and Cameroon, and a higher level than Kenya, Papua New Guinea and Laos. Regionally, Lebanon had a lower level of corruption than Iraq, Libya, Syria, Sudan and Yemen. The results show that 86% of countries and territories in the world had a better score than Lebanon on this dimension of governance.

Further, Lebanon ranked in 124th place globally and in 10th place among Arab countries in terms of Regulatory Quality, which assesses market-friendly policies and laws that enable and promote private sector development. Lebanon's rank regressed by six spots and was unchanged among Arab countries from the previous year. Globally, Lebanon ranked ahead of Côte d'Ivoire, Burkina Faso and Russia, and came behind Paraguay, Kenya and India on this indicator. Regionally, the regulatory quality in Lebanon was better than in Tunisia, Djibouti and Mauritania, while it was worse than in Jordan, Kuwait and Morocco. The results show that 59% of countries and territories in the world have a better score than Lebanon on this dimension of governance.

Also, Lebanon ranked in 170th place globally and in 14th place regionally on the Rule of Law category, a measure of the extent that citizens have confidence in the rules of society and abide by them, as well as the likelihood of crime and violence. Lebanon's rank regressed by five places globally and by two spots regionally from the preceding year. Globally, Lebanon ranked ahead of Myanmar, Mozambique and Cameroon, while it came behind Pakistan, Nepal and Algeria on this indicator. Regionally, Lebanon came ahead of Djibouti, Sudan, Yemen, Iraq, Libya and Syria. The results show that 81% of countries and territories in the world have a better score than Lebanon on this dimension of governance.

| Lebanon's Rankings and Scores on Governance Indicators for 2016 |             |                |           |               |                 |                |
|---|-------------|----------------|-----------|---------------|-----------------|----------------|
|   | Global Rank | Change in Rank | Arab Rank | Lebanon Score | Change in Score | Arab Avg Score |
| Voice & Accountability  | 140         | ▲              | 2         | -0.52         | ▼               | -1.11          |
| Political Stability   | 194         | ▲              | 14        | -1.56         | ▲               | -1.07          |
| Government Effectiveness  | 135         | ▼              | 10        | -0.53         | ▼               | -0.49          |
| Regulatory Quality  | 124         | ▼              | 10        | -0.34         | ▼               | -0.48          |
| Rule of Law   | 170         | ▼              | 14        | -0.86         | ▼               | -0.46          |
| Control of Corruption   | 180         | ▼              | 15        | -0.97         | ▼               | -0.46          |

Source: World Bank, Byblos Research

### Number of employees in banking sector up 18.4% between 2010 and 2016

Figures issued by the Association of Banks in Lebanon (ABL) show that there were 25,260 individuals employed at banks operating in Lebanon at the end of 2016, constituting an increase of 2.5% from 24,638 persons at end-2015 and a rise of 18.4% from 21,337 employees at the end of 2010. The ABL attributed the increase in employment in the banking sector to the opening of new branches, a diversification of services offered by banks, as well as the establishment and expansion of compliance units.

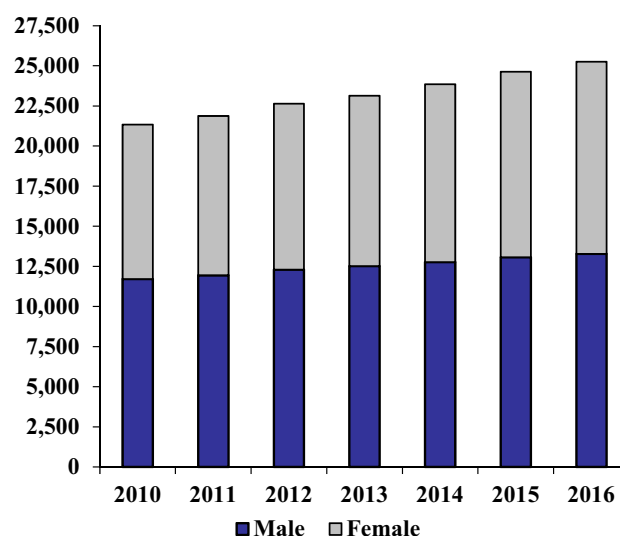
Also, there were 22,689 employees at Lebanese majority-owned commercial banks, or 89.8% of the total, followed by 1,064 workers at majority Arab-owned banks (4.2%), 799 persons employed at investments banks (3.2%), 409 individuals working at branches of Arab banks operating in Lebanon (1.6%) and 299 employees at branches of non-Arab banks operating in the country (1.2%).

In addition, there were 11,984 females employed at banks operating in Lebanon at end-2016, or 47.4% of the total number of employees, up from 45.1% at end-2010. Employees that are younger than 40 years old constituted 59.3% of the total workforce in the banking sector at the end of 2016 compared to 58.4% a year earlier, while employees in the 40 to 60 year-old bracket accounted for 35.1% of the total at end-2016 relative to 36.2% a year earlier. In parallel, employees that exceed the age of 60 constituted 5.6% of the sector's staff at end-2016.

Further, there were 19,593 university graduates working in the Lebanese banking sector at the end of 2016, equivalent to 77.6% of total employees, up from 76% at end-2015 and from 69.6% at end-2010. The sector recruited 879 university graduates in 2016, with females accounting for 59.5% of the total. Also, there were 3,351 employees at banks that have a high-school baccalaureate, or 13.3% of the total, at the end of 2016; while 2,316 bank employees, or 9.2% of the total, did not have a baccalaureate or a university degree.

In parallel, salaries and benefits of employees at banks operating in Lebanon reached LBP1,888bn, or \$1.25bn, in 2016, constituting an increase of 5.2% from the previous year, and equivalent to an average LBP74.7m, or \$49,580, per employee. In comparison, the average salary and benefits per employee stood at LBP72.9m (\$48,339) at the end of 2015, and LBP56.7m (\$37,605) per employee at end-2010. Salaries of employees accounted for 63.2% of total salaries and benefits in 2016, followed by end-of-service indemnities (12.1%), maternity & sickness allowances (4.8%), transportation allowances (2.5%), education allowances (2.4%) and family allowances (2%), while other benefits accounted for 18% of the total.

Number of Employees in the Banking Sector



Source: Association of Banks in Lebanon, Byblos Research

### Stock market activity down 17% in first nine months of 2017

Figures released by the Beirut Stock Exchange (BSE) indicate that trading volume reached 62,693,799 shares in the first nine months of 2017, constituting a decrease of 14.5% from 73,312,939 shares traded in the same period of 2016; while aggregate turnover amounted to \$523.6m, down by 17.1% from a turnover of \$631.5m in the first nine months of 2016. Market capitalization grew by 2.2% from the end of September 2016 to \$11.36bn, with banking stocks accounting for 85.6% of the total, followed by real estate shares (11.6%), industrial firms (2.5%) and trading stocks (0.3%). The market liquidity ratio was 4.6% in the covered period, compared to 5.7% in the first nine months of 2016.

Banking stocks accounted for 67.5% of the aggregate trading volume in the first nine months of the year, followed by real estate equities with 26.8%, the stocks of trading firms with 5% and industrial shares with 0.7%. Also, banking stocks represented 70.6% of the aggregate value of shares traded, followed by real estate equities with 27%, the shares of trading firms with 1.8% and industrial stocks with 0.6%. The average daily traded volume for the period was 348,299 shares for an average daily value of \$2.9m. The figures reflect year-on-year decreases of 13.5% and 16.2% in volume and in value, respectively. In parallel, the Capital Markets Authority's Market Value-Weighted Index for stocks traded on the BSE regressed by 17.1% in the first nine months of 2017, while the CMA's Banks Market Value-Weighted Index improved by 1.8% in the covered period.

### Middle East Airlines suspends flights to Erbil

National Flag carrier Middle East Airlines (MEA) announced that it suspended flights to and from Erbil International Airport in the Kurdistan Region of Iraq starting Friday September 29, due to the federal government of Iraq's decision to suspend international flights to airports in the Kurdistan Region. The Iraqi government's decision came in response to the Kurdistan Region's referendum that was conducted on September 25, 2017 and during which Kurds voted for independence from Iraq. MEA, which started serving Erbil International Airport in April 2010, operated one flight per day to and from the airport.

Lebanese investors are active in the Iraqi Kurdistan Region, as they accounted for about 16% of total investment in the region between August 2006 and mid-January 2016. Lebanese firms present in Iraqi Kurdistan operate in the tourism and hospitality sector, banking and insurance field, as well as in education, oil, real estate and construction, among others. According to the Association of Banks in Lebanon, there are eight Lebanese banks in the region that are Byblos Bank, Bank Audi BankMed, BBAC, BLOM Bank, Crédit Libanais, Fransabank, and IBL Bank as at the end of 2016.

### CMA CGM posts net profits of \$219m in second quarter of 2017

The Lebanese-owned and France-based container shipping firm CMA CGM declared consolidated net profits of \$219m in the second quarter of 2017 relative to net losses of \$129m in the same period of 2016, due to a strong increase in shipping volumes and revenues. The firm's core earnings before interest and taxes (EBIT), excluding disposals and impairment charges, reached \$472m in the second quarter of 2017 relative to losses of \$81m in the same period of 2016. Also, the company's revenues increased by 56.8% to \$5.6bn year-on-year in the second quarter of 2017.

CMA CGM indicated that it transported 4.7 million twenty-foot equivalent units (TEUs) in the second quarter of the year in the second quarter of 2017, up by 33.3% from 3.6 million TEUs in the same quarter of 2016, supported by the CMA CGM's takeover of Singapore-based container shipping company APL, as well as the impact of the launch of the Ocean Alliance, an operational shipping alliance. Also, CMA CGM's return on invested capital, which measures how well the company is using its money to generate returns, improved from -0.4% in the second quarter of 2016 to 5.2% in the second quarter of 2017. The company's gearing ratio, which measures financial leverage, decreased from 147% at end-June 2016 to 132% at the end of June 2017. CMA CGM is the one of the largest container shipping company in the world and operates a fleet of 462 vessels, with a fleet capacity of 2.4 million TEUs.

### MetLife's ratings affirmed, outlook 'stable'

Fitch Ratings affirmed at 'A' the long-term Issuer Default Rating (IDR) of insurance group MetLife, with a 'stable' outlook. It also affirmed the Insurer Financial Strength (IFS) rating of the company's main subsidiaries at 'AA-'. MetLife is a global provider of insurance, annuities and employee benefits programs and owns the American Life Insurance Company (ALICO) in 2010. MetLife Allico is the largest provider of life insurance products in Lebanon.

The agency indicated that the ratings on MetLife reflect the company's very strong business profile, which is supported by strong market positioning in several major insurance product lines and markets. Fitch also noted that the ratings are underpinned by the firm's strong balance sheet fundamentals, excellent financial flexibility and very strong brand name. It said that the ratings take into account MetLife's above average investment risk, lower operating profitability in 2015 and 2016, and continued macroeconomic challenges associated with the ongoing low global interest rate environment. Further, it pointed out that MetLife's balance sheet fundamentals reflect the company's strong risk-adjusted capitalization and favorable liquidity profile.

MetLife Allico announced audited net profits of \$25.2m in 2016. Its audited balance sheet for Lebanon shows total assets of \$549.7m at the end of 2016, down by 1.8% from a year earlier. *Al-Bayan* magazine's annual survey of the insurance sector in Lebanon ranked MetLife Allico in first and 11th place in 2016 in terms of life and non-life premiums, respectively. The firm's life premiums rose by 6.3% to \$87.3m in 2016, while its non-life premiums amounted to \$35.3m and increased by 11.3% from 2015. It had a 17.3% share of the local life market and a 3.2% share of the non-life market in 2016.



### **First National Bank's net earnings down 13% to \$7.1m in first half of 2017**

First National Bank sal, one of Lebanon's top 14 banks in terms of assets, announced unaudited consolidated net profits of \$13.6m in the first half of 2017, constituting a decline of 12.9% from net earnings of \$15.6m in same period of 2016. Net operating income fell by 2.9% year-on-year to \$47.1m in first half of the year, with net interest income rising by 17.2% to \$25.7m and net fees & commissions receipts remaining nearly unchanged at \$3.9m. Non-interest income accounted for 14.4% of total income in the first half of 2017, down from 18% in the same period last year; with net fees & commissions representing 57.2% of non-interest earnings relative to 44.7% in the first half of 2016. Further, the bank's interest margin was 1.88% in the first half of 2017 relative to 1.97% in the same period last year; while its spread reached 1.78% relative to 1.89% in the same period of 2016. Total operating expenditures increased by 1.7% to \$30.3m year-on-year in first half of 2017, with staff expenses remaining almost unchanged at \$18.3m and administrative & other operating expenditures growing by 2.3% to \$10.2m. Also, the bank's return on average assets regressed to 0.60% in June 2017 on an annualized basis from 0.74% in June 2016; while its return on average equity declined to 6.4% on an annualized basis from 7.9% in June 2016. The bank's cost-to-income ratio stood at 64% in the first half of 2017, up from 61.3% in the same period of 2016.

In parallel, total assets reached \$4.6bn at the end of June 2017, up by 1.9% from end-2016, while loans & advances to customers, excluding those to related parties, grew by 7.5% from end-2016 to \$1.04bn. Also, customer deposits, excluding those from related parties, totaled \$3.6bn at end-June 2017 and increased by 4.2% from the end of 2016. The loans-to-deposits ratio increased to 29.3% at end-June 2017 from 29.1% at end-June 2016. Further, the bank's shareholders' equity remained almost unchanged at \$423.8m at the end of June 2017.

### **UFA's net income down 58% to \$0.6m in 2016**

UFA Assurances sal announced audited net profits of \$0.6m in 2016, down by 58% from \$1.4m in 2015. Its audited balance sheet shows total assets of \$39.7m at the end of 2016, up by 10.3% from \$36m at end-2015. On the assets side, general company investments reached \$19.1m and declined by 3.5% from a year earlier. They included \$3.3m in cash & cash equivalents, \$3.1m in investments in subsidiaries and associates, \$1.6m in variable income investments, \$1m in fixed income investments and \$0.5m in land and real estate investments. They also included \$9.6m in blocked bank deposits and deposits with maturity of more than three months, of which \$5.9m, or 61.7%, were blocked in favor of the Economy Ministry as guarantees. Also, the reinsurance's share in technical reserves for the life category rose by 2.1 times to \$0.5m in 2016, while that for the non-life segment declined by 28.4% to \$1.7m last year.

On the liabilities side, technical reserves for the life segment increased by 31.2% to \$0.9m in 2016, while technical reserves for the non-life segment reached \$18.7m at end-2016 and grew by 27.8% from a year earlier. Non-life technical reserves included unearned premium reserves of \$13.5m that rose by 28.7%, outstanding claims reserves of \$2.5m that grew by 2.1%, while \$0.8m in reserves incurred but not reported that decreased by 5.8% year-on-year. Provisions for risks and charges reached \$1.1m and increased by 1.4% from a year earlier. Further, the firm's shareholders' equity totaled \$15.8m at end-2016 and grew by 3.7% from the preceding year.

*Al-Bayan* magazine's annual survey of the insurance sector in Lebanon ranked UFA in 16th and 28th place in 2016 in terms of non-life and life premiums, respectively. The firm's non-life premiums rose by 29.5% to \$22.1m in 2016, while its life premiums amounted to \$0.8m and dropped by 9.1% from 2015. It had a 2% share of the local non-life market and a 0.2% share of the 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               | Oct 2015 | Sep 2016 | Oct 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*         | Oct 2015 | Sep 2016 | Oct 2016 | Change** | Risk Level |
|-----------------------|----------|----------|----------|----------|------------|
| Political Risk Rating | 57.7     | 57.6     | 57.6     | ▲        | High       |
| Financial Risk Rating | 39.3     | 38.9     | 38.7     | ▲        | Low        |
| Economic Risk Rating  | 31.2     | 29.7     | 29.7     | ▲        | High       |
| Composite Risk Rating | 64.1     | 63.1     | 63.0     | ▲        | 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              | B3               | NP | Negative | B3             |    | Stable  |
| 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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