

LEBANON THIS WEEK

In This Issue

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

IMF allocates 607 million in Special Drawing Rights to Lebanon

Banque du Liban modifies mechanism for buying foreign currency for subsidized imports

More than 40% of surveyed Lebanese in September 2020 expected real estate prices to increase in coming six months

Addressing structural challenges requires strong political will

Lebanon receives 6% of global humanitarian funding in 2020, third highest share in the world

Banque du Liban clarifies clauses in circular about cash operations

Amount of cleared checks down 26%, returned checks down 53% in seven months of 2021

Industrial exports down 28% to \$283m in first two months of 2021

Corporate Highlights7

Net profits of Syrian affiliates of Lebanese banks at SYP371bn in first half of 2021 on unrealized foreign exchange gains

Balance sheet of investment banks down 4% in first half of 2021

Banque BEMO lists 26.1 million shares on Beirut bourse

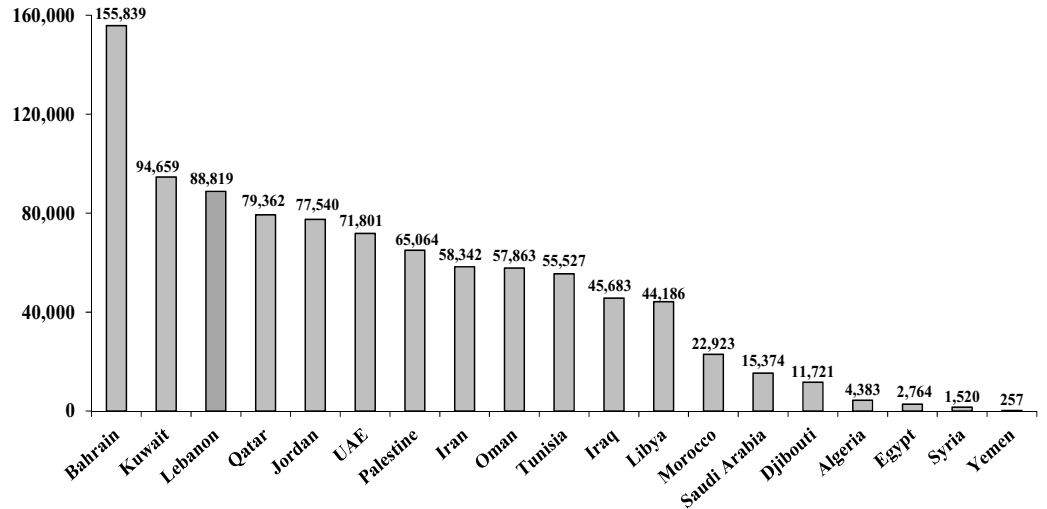
Ratio Highlights.....9

National Accounts, Prices and Exchange Rates9

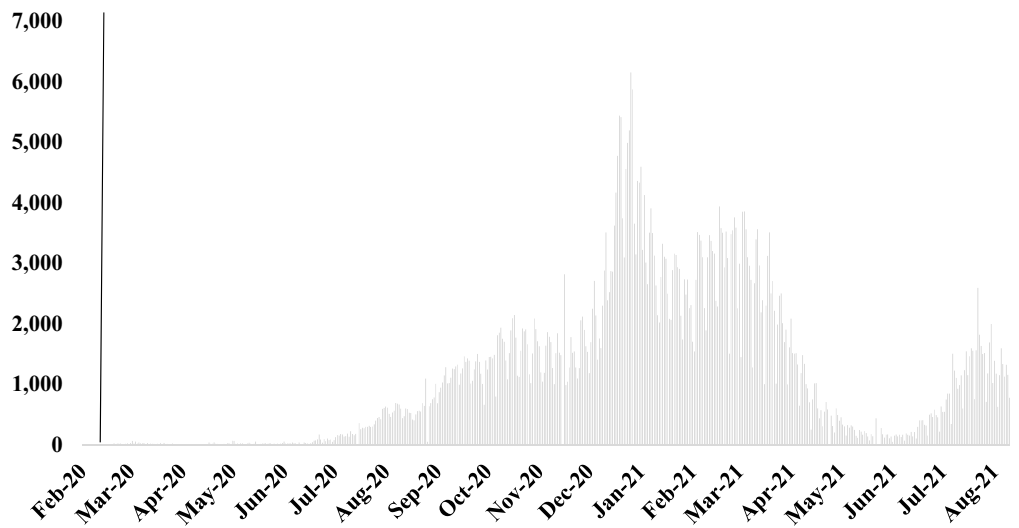
Ratings & Outlook.....9

Charts of the Week

Number of COVID-19 Cases per One Million Persons in MENA Countries*



Evolution of the Number of new COVID-19 Cases in Lebanon



*as of August 30, 2021

Source: World Bank Group, Byblos Bank

Quote to Note

"The Secretary General calls on all Lebanese political leaders to urgently form an effective government that can drive an ambitious and meaningful course for reforms to restore access to basic services, restore stability, promote sustainable development and inspire hope for a better future."

Mr. António Guterres, the United Nations' Secretary General, on the urgent need to form a credible and effective government

Number of the Week

33%: Percentage of gas stations in Lebanon that have a legal status, according to the Ministry of Interior & Municipalities

Lebanon in the News

\$m (unless otherwise mentioned)	2020	Jan-May 2020	Jan-May 2021	% Change*	May-20	Apr-21	May-21
Exports**	3,250	914	699	-23.6%	251	-	-
Imports**	10,078	2,931	3,329	13.6%	674	-	-
Trade Balance**	(6,828)	(2,017)	(2,631)	30.5%	(423)	-	-
Balance of Payments	(10,551)	(2,191)	(1,574)	-28.2%	(888)	(546)	(181)
Checks Cleared in LBP	19,937	7,748	7,481	-3.5%	1,105	1,719	1,611
Checks Cleared in FC	33,881	13,845	9,456	-31.7%	1,467	2,108	1,501
Total Checks Cleared	53,828	21,597	16,941	-21.6%	2,572	3,828	3,112
Fiscal Deficit/Surplus	(2,535)	(1,998)	-	-	(247)	-	-
Primary Balance	(1,136)	(716)	-	-	(120)	-	-
Airport Passengers	2,501,975	1,191,376	1,052,191	-11.7%	20,253	216,344	286,371
Consumer Price Index	84.9	28.6	138.0	10940	56.5	121.7	119.8

\$bn (unless otherwise mentioned)	Dec-20	May-20	Feb-21	Mar-21	Apr-21	May-21	% Change*
BdL FX Reserves	18.60	26.44	17.49	16.75	16.23	15.71	(40.6)
In months of Imports	15.10	39.24	16.94	-	-	-	-
Public Debt	95.59	93.15	96.83	-	-	-	-
Bank Assets	188.04	203.84	188.13	186.26	184.53	183.35	(10.1)
Bank Deposits (Private Sector)	139.14	146.30	138.85	136.95	136.02	135.11	(7.6)
Bank Loans to Private Sector	36.17	42.91	35.49	34.20	33.11	32.53	(24.2)
Money Supply M2	44.78	38.78	47.50	47.96	48.59	49.30	27.1
Money Supply M3	132.70	129.67	134.60	134.11	134.34	134.49	3.7
LBP Lending Rate (%)	7.77	8.45	7.59	8.02	8.00	7.86	(59)
LBP Deposit Rate (%)	2.64	4.63	2.11	1.96	2.01	1.85	(278)
USD Lending Rate (%)	6.73	7.90	6.92	7.14	6.88	6.61	(129)
USD Deposit Rate (%)	0.94	1.99	0.54	0.52	0.49	0.42	(157)

*year-on-year; **figures for the period reflect the first quarter of each year

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	Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Audi GDR	2.48	9.7%	74,971	2.8%	Oct 2022	6.10	12.25	321.94
Solidere "A"	33.35	(4.7%)	48,524	31.0%	Jan 2023	6.00	12.25	221.47
Solidere "B"	33.97	(1.3%)	33,259	20.5%	Apr 2024	6.65	12.25	97.47
BLOM GDR	3.47	9.8%	5,120	2.4%	Jun 2025	6.25	12.25	63.96
Byblos Common	0.93	0.0%	-	4.9%	Nov 2026	6.60	12.25	44.35
Audi Listed	2.40	(4.0%)	-	13.1%	Feb 2030	6.65	12.25	26.33
Byblos Pref. 09	38.38	0.0%	-	0.7%	Apr 2031	7.00	12.25	23.00
BLOM Listed	3.20	0.0%	-	6.4%	May 2033	8.20	12.12	18.85
HOLCIM	20.95	0.0%	-	3.8%	Nov 2035	7.05	12.50	15.22
Byblos Pref. 08	34.99	0.0%	-	0.7%	Mar 2037	7.25	12.87	13.61

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

Source: Refinitiv

	Aug 23-27	Aug 16-20	% Change	July 2021	July 2020	% Change
Total shares traded	162,124	273,330	(40.7)	1,814,751	2,315,343	(21.6)
Total value traded	\$3,005,896	\$3,476,840	(13.5)	\$30,622,302	\$29,362,347	4.0
Market capitalization	\$10.77bn	\$10.95bn	(1.67)	\$9.81bn	\$6.20bn	58.2

Source: Beirut Stock Exchange (BSE)



IMF allocates 607 million in Special Drawing Rights to Lebanon

The International Monetary Fund indicated that its allocation to Lebanon of 607.2 million in Special Drawing Rights (SDRs), equivalent to \$864m, became effective on August 23, 2021. It added that the SDRs would support the country's foreign currency reserves, as well as help address many of the urgent needs of the Lebanese people.

Further, it indicated that Lebanon's current holdings stand at 196.5 million SDRs and that the country's existing allocation is at about 193 million SDRs. As such, following the new SDRs allocation that came into effect in August 2021, Lebanon's cumulative allocation would reach 796 million SDRs, or about \$1.14bn as at August 30, 2021.

According to the IMF's latest available figures, one SDR was equal to US\$1.423 on August 30, 2021. Lebanon's quota at the IMF before the new allocations is 633.5 million SDRs, which is equivalent to 0.13% of total SDRs. This translates into 7,794 votes or 0.15 % of the total votes at the IMF. Lebanon's quota is divided into 507.04 million SDRs as part of the IMF's Holdings of Currency, while the remaining 126.46 million SDRs consist of the country's Reserve Tranche Position (RTP). The currency holdings are a country's quota payments and transactions with the IMF, while the RTP is a liquid claim on the IMF and is equal to a member's quota minus the IMF's holdings of the member's currency. The reserve tranche position is part of Lebanon's external reserves.

In parallel, the IMF considered that the allocation of the new SDRs is not going to resolve Lebanon's long-term structural and systemic problems, and urged the formation of a government in order to implement economic reforms. Also, it called on Lebanese authorities to use the SDRs responsibly and wisely, and to deploy them in a way that would optimize their benefits for the country and its people. It noted that the deployment of the SDRs is a sovereign decision of each country, but considered that the Lebanese people has the right to know how the SDRs will be utilized. As such, it called on domestic and international partners to help ensure the transparency and accountability of the deployment of Lebanon's new SDRs allocation.

The IMF announced on March 23, 2021 that it intends to allocate the equivalent of \$650bn in direct SDRs to its member countries, in order to support their foreign currency reserves and narrow their external funding gaps. The IMF created the SDR in 1969 as an international reserve asset to supplement other reserve assets of its member countries. SDRs are the IMF's unit of account that is pegged to a basket of currencies. It added that the countries' respective SDR allocations will be based on each member's quota at the IMF, and that member countries have the right to keep the SDRs or to convert them into the five leading global currencies, which are the US dollar, the Euro, the Japanese yen, the Chinese renminbi, and the British pound. It noted that the SDR allocation will not increase the debt level of its member countries. The allocation will be the largest on record, after the IMF earmarked \$250bn in SDRs in the wake of the global financial crisis in 2009.

Banque du Liban modifies mechanism for buying foreign currency for subsidized imports

Banque du Liban (BdL) issued Intermediate Circular 593 on August 26, 2021 that modifies Basic Circular 6116 about facilities that BdL can extend to commercial banks and financial institutions. The circular modifies BdL's financing mechanism for importers' access to foreign currency to finance the imports of hydrocarbons, wheat, pharmaceuticals, medical equipment, raw material used in the production of pharmaceuticals, and milk for babies who are one year old or younger. The modifications are based on the decisions that BdL's Central Council took on August 11 and August 23, 2021.

BdL had previously allowed importing companies to buy foreign currency from BdL to cover 90% of a firm's import bill for oil derivatives, and 85% of the import bill for the other products. It asked importers who want to benefit from this mechanism to place at commercial banks the amount in Lebanese pounds that they want BdL to convert to US dollars at the LBP 3,900 exchange rate for hydrocarbon products and at the official exchange rate of LBP1507.5 per dollar for the other products. Then banks will deposit the banknotes at BdL in exchange for the converted dollars.

Circular 593 asked the importers of gasoline, Diesel oil, and gas who want to benefit from BdL's facilities and purchase foreign currency to place at banks the equivalent amount of Lebanese pounds banknotes based on the exchange rate of BdL's Sayrafa electronic platform, instead of the LBP3,900 rate. It also asked the importers of wheat, pharmaceuticals, medical equipment, raw material used in the production of pharmaceuticals, and milk for babies who are one year old or younger who intend to purchase foreign currency from BdL to deposit at their bank the equivalent amount in Lebanese pound banknotes based on the official exchange rate of LBP1507.5 per dollar. Further, it requested banks to deposit the banknotes at BdL in exchange for the converted dollars.

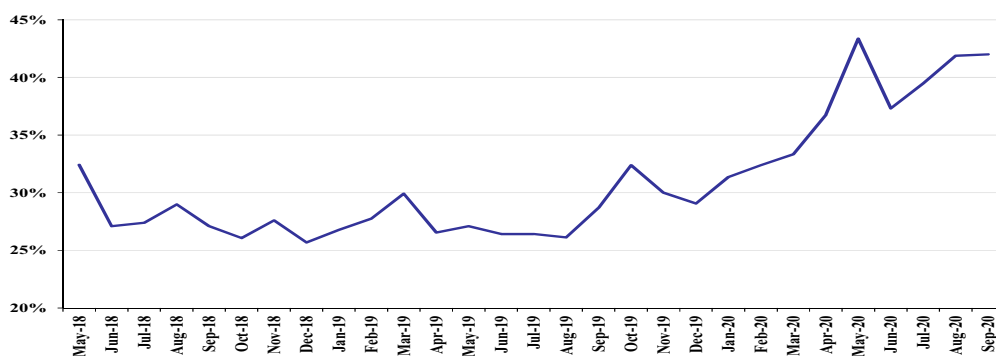
More than 40% of surveyed Lebanese in September 2020 expected real estate prices to increase in coming six months

The Byblos Bank survey about real estate price perception in Lebanon, which has a starting point of May 2018, shows that 41.1% of surveyed Lebanese in the third quarter of 2020 expected the prices of residential units or apartments across the country to increase in the following six months, the highest quarterly average since the start of the time series, compared to 39.2% of respondents who had the same opinion in the second quarter of 2020, as well as relative to 32.4% in the first quarter of 2020, 30.5% in the fourth quarter of 2019, and to an average of 27.2% per quarter between May 2018 and the third quarter of 2019.

The share of Lebanese who have expected an increase in residential real estate prices has been on an upward trend since September 2019. In fact, 27% of the survey's participants anticipated a rise in prices in the first eight months of 2019, with this share picking up to 30% between September and December 2019. Also, the share of Lebanese who believe that residential real estate prices would increase exceeded 30% consistently on a monthly basis since January 2020, reached a peak of 43.4% in May 2020 and stabilized at about 42% in September 2020. Further, the share of Lebanese who expected in September 2020 residential real estate prices to increase was significantly higher than the monthly average of 37.5% in the first three quarters of 2020, as well as to the monthly average of 28.1% for full year 2019, and to the average of 27.8% in the May to December 2018 period. In comparison, 34.4% of Lebanese in September 2020 anticipated real estate prices to stay the same in the following six months, while 23.6% projected a decrease in prices in the next six months.

The perception of Lebanese about the trajectory of residential real estate prices has been tilted towards an increase in prices, with the share of Lebanese who are anticipating a stagnation in prices regressing from nearly 50% in August 2019 to 42% at the end of 2019, 41% in March, 39% in June and 34.4% in September 2020, while the percentage of Lebanese who are expecting prices to decrease fluctuated between 22.4% and 29% between August 2019 and September 2020.

Share of Respondents Expecting an Increase in Real Estate Prices in Following Six Months

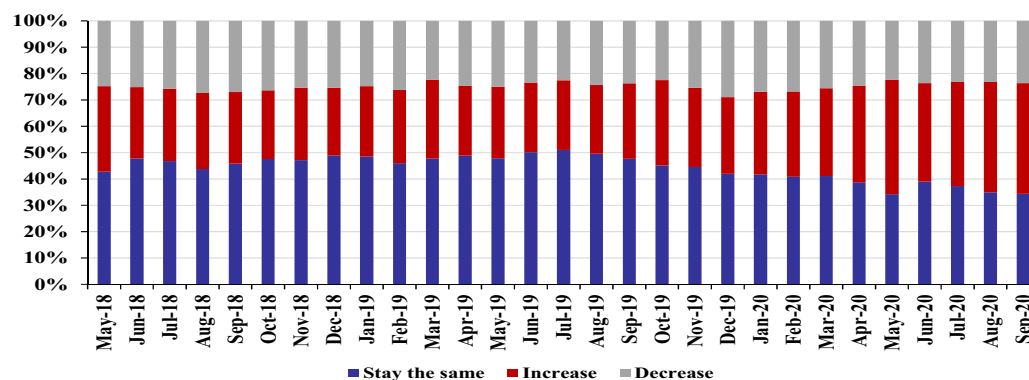


Source: Byblos Bank Economic Research & Analysis Department

The perception about higher real estate prices in Lebanon is due in large part to the rise in demand for residential real estate since the fourth quarter of 2019, after years of stagnation in demand. In fact, the migration of an increasing share of deposits from the banking sector to the real estate sector, as a result of the crisis that erupted in October 2019, triggered the increase in demand for residential units, and real estate in general, and raised expectations that this trend will continue as long as depositors will face challenges in withdrawing their funds from the banking sector. Further, the variation in asking prices for the same residential unit, depending on the method of payment, has inflated prices disproportionately, with sellers discounting their prices if the transaction is settled in cash in part or in full.

The survey is based on a face-to-face monthly survey of a nationally representative sample of 1,200 males and females living throughout Lebanon. The surveyed persons are asked about their expectations for the prices of residential units or apartments in the following six months. The Byblos Bank Economic Research & Analysis Department has been compiling the survey's monthly data since May 2018. 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.

Respondents' Perception about Real Estate Prices in Coming Six Months



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

Addressing structural challenges requires strong political will

S&P Global Ratings expected the Lebanese economy to face a fourth year of real GDP contraction in 2021, following an estimated decline in economic output of 25% last year, and contractions of 7.2% in 2019 and of 1.7% in 2018. It added that Lebanese political parties have been unable to form a government that has the authority to implement structural reforms, to begin the country's economic recovery, or to start negotiations with Eurobond holders on the debt restructuring process. It considered that addressing Lebanon's structural weaknesses will require strong political will and a shared vision across the political class, but it noted that there is little evidence about the willingness of political parties to develop a common vision.

It indicated that there are long-term constraints on Lebanon's institutional and economic profile, largely due to a fragmented political environment. It noted that persisting political dysfunction and weak governance in the public sector have negatively affected the confidence of depositors, weakened economic activity, and led to large scale protests since October 2019.

It said that the government decided in March 2020 to stop paying its foreign obligations and to service its commercial foreign currency debt on about \$31 billion in Eurobonds. It added that authorities did not make any progress on negotiating the debt's restructuring with investors or on obtaining funding support from official lenders, such as the International Monetary Fund (IMF), due to the absence of a government, as well as to disagreements between key political institutions on the causes and scope of the country's crisis and the path to the debt restructuring.

It stated that the debt restructuring process has to be accompanied by a strong commitment by authorities to implement structural economic, fiscal and monetary reforms, and by a policy anchor provided by an IMF program. It considered that restructuring the public debt will have significant repercussions on the financial system.

Further, it estimated that the peg of the Lebanese pound to the US dollar no longer reflects the economic realities in the country, but added that a new exchange rate regime should be implemented only after a government is formed, and along with broader economic reforms and debt restructuring.

In parallel, S&P indicated that its long-term foreign currency sovereign issuer credit of 'Selected Default' on Lebanon reflects the Lebanese government's decision to default on its foreign currency debt obligations in March 2020. It said that it would upgrade the rating upon the completion of the debt restructuring, and that the new the rating would reflect Lebanon's post-restructuring creditworthiness, and will take into consideration the resulting debt level and macroeconomic policy prospects. It added that its post-restructuring ratings tend to be in the 'CCC' or low 'B' categories, depending on the sovereign's new debt structure and capacity to service its debt.

Also, it said that it has long- and short-term local currency sovereign issuer credit ratings of 'CC' and 'C', respectively, on Lebanon with a negative outlook on the long-term rating. It said that the 'negative' outlook points to the agency's expectations that the government will likely restructure its local currency debt. It said that it could revise the outlook to 'stable' or upgrade the local currency ratings if it perceives that the likelihood of a distressed exchange of Lebanon's local currency commercial debt has decreased. It added that it could upgrade the ratings if Lebanon receives significant donor funding support, which would allow the government to implement immediate and transformative reforms, or if meaningful reforms led to sustained strong economic growth.

Lebanon receives 6% of global humanitarian funding in 2020, third highest share in the world

The Lebanon Crisis Observatory at the American University of Beirut's Issam Fares Institute for Public Policy and International Affairs (IFI) indicated that Lebanon received 5.8% of global humanitarian financial aid in 2020, constituting the third highest level of humanitarian aid globally, after Yemen with 8.1% and Syria with 9.6%, according to data from the United Nations Office for the Coordination of Humanitarian Affairs (OCHA). It indicated that the international community is increasingly directing most of the aid to Lebanon towards humanitarian programs and in response to emergencies, as a result of the prevailing political crisis and the absence of solutions and reforms. It added that Lebanon was the largest recipient of humanitarian funding on a per capita basis in 2020 at \$700 per person last year.

It stated that Lebanon received \$1.6bn in aid in 2020 through non-governmental organizations (NGOs), constituting a surge of 45.5%, or \$0.5bn, from \$1.1bn 2019. It added that 76.5% of the funds originated from the United States, the European Commission, and Germany. In parallel, it said that the humanitarian funding covered 86.8% of requested financial aid related to the COVID-19 pandemic, and 85% of emergency aid related the explosion at the Port of Beirut, while humanitarian funding covered 36.3% of the cost of the Syrian Refugee Crisis Response Program in Lebanon. It pointed out that three international organizations received 66% of the humanitarian funding in 2020, with the World Food Organization receiving 29.8% of the total, followed by the United Nations High Commissioner for Refugees (UNHCR) with 25.2%, and UNICEF with 10.9%.

It noted that these programs are implemented in certain sectors, such as the healthcare and the education sector, by international organizations and NGOs in cooperation with local authorities. It considered that humanitarian support will increase in the coming years in view of the challenges that many sectors such as the healthcare, the education and services sectors, are facing.

Banque du Liban clarifies clauses in circular about cash operations

Banque du Liban (BdL) indicated that Circular 159 allows banks to purchase foreign currency at the market rate of the Lebanese pound from clients who transfer money from abroad, only at the discretion of the client and if the latter decides to buy Lebanese pounds from the bank. It added that the circular does not compromise in any way the clients' freedom to utilize their "fresh money" as they deem appropriate, whether withdrawing the foreign currency deposit in cash, or benefiting from related bank services, including transferring funds abroad and utilizing payments cards in Lebanon and overseas.

BdL issued Basic Circular 159 on August 17, 2021 about exceptional measures related to restrictions on some operations of commercial banks. First, the circular prohibits banks from calculating any incoming transfers from abroad, or any foreign currency that they receive in cash from their clients or to their benefit, at more than their real value. The decision aims to stop what is known as the "multiplier" effect that some banks have implemented on foreign currency deposits in "fresh money". It exempted from this decision the "fresh money" deposits in foreign currency that clients use to settle their debt in full, on the condition that banks inform the Banking Control Commission of Lebanon (BCCL) of this settlement.

Second, the circular forbids banks from buying foreign currency from the parallel market. But it allows banks to purchase foreign currency at the market rate for clients who transfer money from abroad for medium and long-term investments, or to improve liquidity ratios, or to settle external obligations, on the condition that banks register the operation on BdL's Syarafa electronic platform. It also prohibited banks from buying or selling directly or indirectly checks in foreign currency for their own account.

Third, it asked banks to report to the BCCL by September 15, 2021 all the transactions related to the above operations that they may have conducted between the start of 2019 and the date of the issuance of this circular.

Amount of cleared checks down 26%, returned checks down 53% in seven months of 2021

The amount of cleared checks reached \$23.9bn in the first seven months of 2021, constituting a drop of 25.8% from \$32.2bn in the same period of 2020. In comparison, the amount of cleared checks decreased by 11% in the first seven months of 2020 and declined by 15.8% in the same period of 2019 from the corresponding periods of the preceding year. The dollar figures are converted at the official exchange rate of the Lebanese pound against the US dollar. The amount of cleared checks in Lebanese pounds reached the equivalent of \$11.1bn in the first seven months of 2021 and regressed by 2.7% from the same period last year, while the amount of cleared checks in foreign currencies was \$12.8bn and contracted by 38.5% in the covered period. Also, there were 2.16 million cleared checks in the first seven months of 2021, down by 39.6% from 3.58 million checks in the same period last year. The dollarization rate of cleared checks regressed from 64.7% in the first seven months of 2020 to 53.7% in the same period of 2021, while the number of checks denominated in foreign currencies accounted for 53.6% of total cleared checks in the covered period compared to 49.6% a year ago.

In addition, the amount of cleared checks totaled \$3.3bn in July 2021, constituting a contraction of 10.1% from \$3.7bn in the preceding month and a decrease of 43% from \$5.8bn in July 2020. Also, the amount of cleared checks in Lebanese pounds reached the equivalent of \$1.8bn in July 2021, as it increased by 6% from \$1.7bn in June 2021 and regressed by 1% from \$1.9bn in July 2020. Further, the amount of cleared checks in foreign currencies was \$1.5bn in July 2021, as it dipped by 24.6% from the previous month and dropped by 63% from July 2020. There were 276,802 cleared checks in July 2021 relative to 331,437 cleared checks in the preceding month and to 535,224 cleared checks in July 2020.

In parallel, the amount of returned checks in local and foreign currencies was \$307.1m in the first seven months of 2021 compared to \$646.8m in the same period of 2020 and to \$817.2m in the first seven months of 2019. This constituted a drop of 52.5% in the first seven months of 2021 relative to decreases of 21% and 7.6% in the first seven months of 2020 and 2019, respectively. The amount of returned checks in Lebanese pounds and in foreign currencies reached \$97.5m and \$209m, respectively, in the first seven months of 2021, and declined by 54% and 52% year-on-year, respectively. Also, there were 17,224 returned checks in the first seven months of 2021, down by 80% from 86,348 checks in the same period of 2020. The number of returned checks in foreign currencies reached 10,411 in the first seven months of 2021 and dropped by 77.4% from the first seven months of 2020, while the number of returned checks in Lebanese pounds totaled 6,813 and fell by 83% year-on-year.

Further, the amount of returned checks in domestic and foreign currencies stood at \$32.5m in July 2021 compared to \$46.4m in the previous month and to \$79m in July 2020. Also, there were 1,863 returned checks in July 2021, relative to 2,260 returned checks in June 2021 and to 6,677 checks in July 2020.

Industrial exports down 28% to \$283m in first two months of 2021

Figures released by the Ministry of Industry show that industrial exports totaled \$282.8m in the first two months of 2021, constituting a decline of 27.6% from \$390.6m in the same period of 2020. Industrial exports reached \$147m in February 2021, compared to \$135.7m in January 2021 and \$211.6m in February 2020.

Exports of base metals amounted to \$56.5m and the exports of prepared foodstuff & tobacco reached \$56.4m in the first two months of 2021, accounting for 20% each of aggregate industrial exports in the covered period. They were followed by the exports of machinery & electronic appliances with \$53.4m (19%), chemical products with \$41.6m (14.7%), plastics & rubber with \$15.3m (5.4%), miscellaneous products with \$9.5m (3.3%), and papers & paperboards with \$8.9m (3.2%). Arab countries were the destination of 47.7% of Lebanese industrial exports in the first two months of 2021, followed by European economies with 21.3%, African countries with 14.9%, Asian markets with 8.7%, countries in the Americas with 5.7%, and markets in Oceania with 1.2%.

On a country basis, Saudi Arabia was the main destination of Lebanese industrial exports and accounted for 9% of the total in the first two months of 2021, followed by the UAE with 7.2%, Egypt with 6.6%, Iraq with 6.4%, Qatar with 4.7%, South Korea with 3.8%, Spain with 3.7%, and the United States with 3.6%. In February 2021, 10 European economies, eight Arab countries, seven African countries, four Asian economies, three countries in the Americas and one economy in Oceania imported \$1m or more each of Lebanese industrial products.

In parallel, imports of industrial equipment and machinery reached \$12.8m in the first two months of 2021, constituting a decline of 35.7% from \$20m in the same period of 2020. China was the main source of such imports and accounted for 29.4% of the total in the covered period, followed by Italy with 15% and Germany with 12.2%. Further, imports of industrial equipment and machinery amounted to \$6.9m in February 2021, representing an increase of 16.8% from \$5.9m in January 2021 and a drop of 23% from \$9m in February 2020. China was the main source of such imports with \$2.3m and accounted for 33.3% of the total in the covered month, followed by Germany with \$1.02m (14.8%), and Italy with \$1m (14.7%).

Net profits of Syrian affiliates of Lebanese banks at SYP371bn in first half of 2021 on unrealized foreign exchange gains

Financial results issued by the affiliates of six Lebanese banks operating in Syria show that their aggregate net profits reached SYP371.35bn in the first half of 2021 relative to net earnings of SYP233.7bn in the same period of 2020. The improvement in the banks' net income is mainly due to the depreciation of the Syrian pound from SYP1,256 against the US dollar at the end of 2020 to SYP2,512 per US dollar at the end of June 2021, which resulted in unrealized foreign exchange gains of SYP318.6bn on the banks' structural positions in the first half of 2021 relative to profits of SYP202.6 in the same period of 2020. The aggregate net income of the six banks becomes SYP52.76bn in the covered period when excluding foreign exchange gains on structural positions, relative to earnings of SYP31.1bn in the first half of 2020.

The profits of Byblos Bank Syria rose by SYP29.7bn in the first half of 2021, followed by a surge of SYP26bn in the net income of Fransabank Syria, an expansion of SYP25bn in the earnings of Banque BEMO Saudi Fransi, an increase of SYP23.3bn in the earnings of Bank of Syria & Overseas, an uptick of SYP21.1bn in the net income of Syria Gulf Bank, the affiliate of First National Bank, and an improvement of SYP12.5bn in the profits of Bank Al-Sharq, the affiliate of Banque Libano-Française.

The net interest income of the six banks totaled SYP26.1bn in the first half 2021, up by 76.2% from SYP14.8bn in the same period of 2020; while their net fees & commission income rose by 5.2 times from the same period of 2020 to SYP34.4bn. The six banks' operating income rose by 1.7 times from SYP258.7bn in the first half of 2020 to SYP436.8bn in the same period of 2021; while their total operating expenses reached SYP62bn in the first half of 2021, up by 2.5 times from SYP24.4bn in the same period of 2020.

In parallel, the banks' aggregate assets reached SYP3.1bn at the end-June 2021 and increased by 73.4% from SYP1.8bn at end-2020. The rise in assets was due to an expansion of 108% in those of Syria Gulf Bank (+SYP263.2bn), a growth of 75.4% in the assets of Fransabank Syria (+SYP199bn), an uptick of 75.3% in the assets of Bank Al Sharq (+SYP104.5bn), a surge of 68% in the assets of Banque BEMO Saudi Fransi (+SYP445.2bn), a rise of 63.2% in those of Bank of Syria & Overseas (+SYP190bn), and an increase of 59.4% in the assets of Byblos Bank Syria (+SYP108.7bn).

Also, the banks' total loans reached SYP521.6bn at end-June 2021, constituting an increase of 86% from SYP280.7bn at the end of 2020. Further, the banks' customer deposits totaled SYP1.91bn at the end-June 2021, constituting a surge of 63% from SYP1.17bn at the end of 2020. The banks' loans-to-deposits ratio stood at 27.4% at the end-June 2021 relative to 24% at end-2020. In parallel, the aggregate shareholders' equity of the six banks reached SYP724.6bn at end-June 2021, constituting an increase of 105.5% from SYP352.6bn at end-2020.

Results of Affiliates of Lebanese Banks in Syria in First Half of 2021 (SYPbn)

	Banque BEMO Saudi Fransi	Syria Gulf Bank	Bank of Syria & Overseas	Fransabank Bank	Byblos Bank Syria	Bank Al-Sharq
Net Profits	68.53	52.51	59.25	74.88	79.44	36.74
Total Assets	1,100.6	507.4	491.1	463.1	291.7	243.5
% Change*	67.9%	107.8%	63.2%	75.4%	59.4%	75.3%
Loans	132.3	245.7	21.2	62.9	35.5	23.9
% Change*	36.3%	251.7%	92.4%	23.4%	17.5%	11.3%
Customer Deposits	861.8	230.3	317.6	222.8	122.9	151.8
% Change*	61.4%	105.7%	67.7%	55.1%	23.3%	65.9%

*Change from end-2020

Source: Banks' financial statements, Byblos Research

Balance sheet of investment banks down 4% in first half of 2021

Figures released by Banque du Liban (BdL) show that the consolidated balance sheet of investment banks in Lebanon reached LBP 6,589.3bn, or \$4.37bn based on the official exchange rate at the end of June 2021, constituting a decrease of 4.1% from LBP6,873.7bn, or \$4.56bn, at end-2020, and a decline of 12.4% from LBP7,524bn or \$5bn at the end of June 2020.

On the assets side, claims on resident customers reached \$1.33bn at end-June 2021, regressing by 3.3% in the first half of the year and by 12% from end-June 2020; while claims on non-resident customers totaled \$19.8m at the end of June 2021 and dropped by 51.3% from end-2020 and by 40.3% from a year earlier. In addition, claims on the resident financial sector reached \$554.2m at end-June 2021, decreasing by a marginal of 0.5% in the first half of the year and by 14.5% from the end of June 2020; while claims on the non-resident financial sector totaled \$53.2m at the end of June 2021, and fell by 41% from end-2020 and by 29.3% from a year earlier. Also, claims on the public sector amounted to \$4.3m at the end of June 2021, constituting a decline of 60.7% from end-2020 and an increase of 83.3% from a year earlier; while the securities portfolio, which includes Lebanese Treasury bills and Eurobonds, reached \$664.7m at end-June 2021, and declined by 19.2% from end-June 2020. In parallel, currency and deposits at BdL and at foreign central banks reached \$1.3bn at the end of June 2021, down by 4.4% in the first half of 2021 and by 12.2% from end-June 2020.

On the liabilities side, deposits of resident customers totaled \$1.18bn at the end of June 2021, constituting a decline of 5.8% in the first half of 2021 and a drop of 12.3% from a year earlier; while deposits of non-resident customers reached \$161.5m at the end of June 2021, and decreased by 21.2% and by 33.8% from the end of 2020 and from end-June 2020, respectively. In addition, liabilities to the resident financial sector amounted to \$95m at end-June 2021, down by 15.8% from end-2020; while those to the non-resident financial sector regressed by 28.2% in the first half of the year to \$137.8m. Also, public sector deposits stood at \$6.4m, while debt securities issued totaled \$12m at the end of June 2021 and were unchanged from end-2020. Further, the aggregate capital account of investment banks amounted to \$1.56bn at the end of June 2021, constituting an increase of 1.8% in the first half of the year and a decline of 11.6% from end-June 2020.

Banque BEMO lists 26.1 million shares on Beirut bourse

The Beirut Stock Exchange (BSE) approved the listing of 26.1 million of common shares of Banque Bemo sal. The bank already had 51.4 million shares listed on the Beirut bourse, but its Extraordinary General Assembly that was held on September 14, 2020 voted to list all of the bank's remaining common shares on the regulated financial markets. Accordingly, the bank will have 77.5 million common shares listed on the Beirut bourse, with trading in the newly listed shares starting on August 25, 2021. The price of Banque Bemo shares closed at \$1.2 per share on August 27, 2021, unchanged from the end of 2020.

The most recent figures released by Banque BEMO show unaudited consolidated net income of \$0.54m in the first nine months of 2020 compared to net profits of \$12.7m in the same period of 2019. The bank's net operating income decreased by 23.5% to \$30.6m in the first nine months of 2020, mainly due to the increase in provisions for expected net credit losses from \$2.2m in the first nine months of 2019 to \$17m in the same period of 2020. Also, its net interest income grew by 2.3% to \$34.5m, while net fee and commission income dropped by 22% annually to \$3.6m in the first nine months of 2020. Further, total operating expenditures increased by a marginal 0.9% to \$26m in the first nine months of 2020, with depreciation and amortization costs expanding by 40% to \$2.4m; while staff expenses expanded by 5.5% to \$13.6m, and administrative expenses grew by 24% to \$9.8m in the covered period.

In parallel, the bank's assets totaled \$2.2bn at the end of September 2020 and rose by 28.8% from \$1.7bn at end-2019, driven mainly by an increase of 110% in cash, compulsory reserves and deposits at central banks that reached \$1.3bn. Also, loans and advances to customers totaled \$417.6m at end-September 2020 and declined by 22% from \$534.5m a year earlier. Moreover, customer deposits totaled \$1.6bn at end-September 2020 and grew by 34.3% from \$1.2bn at the end of 2019. Further, the bank's total equity reached \$186.5m at the end of September 2020, up by 13.8% from \$163.8m at end-2019.

Ratio Highlights

(in % unless specified)	2018	2019	2020	Change*
Nominal GDP (\$bn)	55.0	51.3	33.4	(17.88)
Public Debt in Foreign Currency / GDP	60.6	63.0	55.8	(7.17)
Public Debt in Local Currency / GDP	93.4	108.1	92.2	(15.87)
Gross Public Debt / GDP	154.0	171.1	148.1	(23.04)
Trade Balance / GDP	(30.8)	(29.0)	(12.0)	16.93
Exports / Imports	14.8	19.4	31.3	11.95
Fiscal Revenues / GDP	20.9	20.7	15.8	(4.90)
Fiscal Expenditures / GDP	32.2	31.6	20.0	(11.60)
Fiscal Balance / GDP	(11.3)	(10.9)	(4.2)	6.70
Primary Balance / GDP	(1.1)	(0.5)	(1.0)	(0.47)
Gross Foreign Currency Reserves / M2	63.8	70.2	41.5	(28.63)
M3 / GDP	255.6	251.2	205.6	(45.67)
Commercial Banks Assets / GDP	451.3	404.8	291.3	(113.50)
Private Sector Deposits / GDP	315.3	296.6	215.5	(81.10)
Private Sector Loans / GDP	107.4	92.9	56.0	(36.91)
Private Sector Deposits Dollarization Rate	70.6	80.3	80.4	0.08
Private Sector Lending Dollarization Rate	69.2	68.7	59.6	(9.12)

*change in percentage points 20/19;

Source: Banque du Liban, Central Administration of Statistics, Institute of International Finance, Byblos Research Estimates & Calculations

Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

National Accounts, Prices and Exchange Rates

	2018	2019e	2020f
Nominal GDP (LBP trillion)	82.9	80.8	99.4
Nominal GDP (US\$ bn)	55.0	51.3	25.9
Real GDP growth, % change	-1.9	-6.7	-26.4
Private consumption	-1.3	-7.3	-23.4
Public consumption	6.7	2.5	-64.7
Gross fixed capital	-1.8	-11.1	-32.2
Exports of goods and services	0.5	-4.0	-31.6
Imports of goods and services	1.1	-4.9	-39.5
Consumer prices, %, average	6.1	2.9	85.2
Official exchange rate, average, LBP/US\$	1,507.5	1,507.5	1,507.5
Parallel exchange rate, average, LBP/US\$	n/a	1,620	5,528
Weighted average exchange rate LBP/US\$	1,507.5	1,575	3,853

Source: Institute of International Finance- December 2020

Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's Investors Service	C	NP	-	C		-
Fitch Ratings	RD	C	-	CC	C	-
S&P Global Ratings	SD	SD	-	CC	C	Negative
Capital Intelligence Ratings	SD	SD	-	C-	C	Negative

*for downgrade

**CreditWatch negative

Source: Rating agencies

Banking Sector Ratings

	Outlook
Moody's Investors Service	Negative

Source: Moody's Investors Service



Economic Research & Analysis Department
Byblos Bank Group
P.O. Box 11-5605
Beirut – Lebanon
Tel: (961) 1 338 100
Fax: (961) 1 217 774
E-mail: research@byblosbank.com.lb
www.byblosbank.com

Lebanon This Week is a research document that is owned and published by Byblos Bank sal. The contents of this publication, including all intellectual property, trademarks, logos, design and text, are the exclusive property of Byblos Bank sal, and are protected pursuant to copyright and trademark laws. No material from Lebanon This Week may be modified, copied, reproduced, repackaged, republished, circulated, transmitted, redistributed or resold directly or indirectly, in whole or in any part, without the prior written authorization of Byblos Bank sal.

The information and opinions contained in this document have been compiled from or arrived at in good faith from sources deemed reliable. Neither Byblos Bank sal, nor any of its subsidiaries or affiliates or parent company will make any representation or warranty to the accuracy or completeness of the information contained herein.

Neither the information nor any opinion expressed in this publication constitutes an offer or a recommendation to buy or sell any assets or securities, or to provide investment advice. This research report is prepared for general circulation and is circulated for general information only. Byblos Bank sal accepts no liability of any kind for any loss resulting from the use of this publication or any materials contained herein.

The consequences of any action taken on the basis of information contained herein are solely the responsibility of the person or organization that may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies that may be discussed in this report and should understand that statements regarding future prospects may not be realized.

BYBLOS BANK GROUP

LEBANON

Byblos Bank S.A.L
Achrafieh - Beirut
Elias Sarkis Avenue - Byblos Bank Tower
P.O.Box: 11-5605 Riad El Solh - Beirut 1107 2811- Lebanon
Phone: (+ 961) 1 335200
Fax: (+ 961) 1 339436

IRAQ

Erbil Branch, Kurdistan, Iraq
Street 60, Near Sports Stadium
P.O.Box: 34 - 0383 Erbil - Iraq
Phone: (+ 964) 66 2233457/8/9 - 2560017/9
E-mail: erbilbranch@byblosbank.com.lb

Sulaymaniyah Branch, Kurdistan, Iraq
Salem street, Kurdistan Mall - Sulaymaniyah
Phone: (+ 964) 773 042 1010 / (+ 964) 773 041 1010

Baghdad Branch, Iraq
Al Karrada - Salman Faeq Street
Al Wahda District, No. 904/14, Facing Al Shuruk Building
P.O.Box: 3085 Badalat Al Olwiya – Iraq
Phone: (+ 964) 770 6527807 / (+ 964) 780 9133031/2
E-mail: baghdadbranch@byblosbank.com.lb

Basra Branch, Iraq
Intersection of July 14th, Manawi Basha Street, Al Basra – Iraq
Phone: (+ 964) 770 4931900 / (+ 964) 770 4931919
E-mail: basrabranch@byblosbank.com.lb

UNITED ARAB EMIRATES

Byblos Bank Abu Dhabi Representative Office
Al Reem Island - Sky Tower - Office 2206
P.O.Box: 73893 Abu Dhabi - UAE
Phone: (+ 971) 2 6336050 - 2 6336400
Fax: (+ 971) 2 6338400
E-mail: abudhabirepoffice@byblosbank.com.lb

ARMENIA

Byblos Bank Armenia CJSC
18/3 Amiryan Street - Area 0002
Yerevan - Republic of Armenia
Phone: (+ 374) 10 530362 Fax: (+ 374) 10 535296
E-mail: infoarm@byblosbank.com

NIGERIA

Byblos Bank Nigeria Representative Office
161C Rafu Taylor Close - Off Idejo Street
Victoria Island, Lagos - Nigeria
Phone: (+ 234) 706 112 5800
(+ 234) 808 839 9122
E-mail: nigeriarepresentativeoffice@byblosbank.com.lb

BELGIUM

Byblos Bank Europe S.A.
Brussels Head Office
Boulevard Bischoffsheim 1-8
1000 Brussels
Phone: (+ 32) 2 551 00 20
Fax: (+ 32) 2 513 05 26
E-mail: byblos.europe@byblosbankeur.com

UNITED KINGDOM

Byblos Bank Europe S.A., London Branch
Berkeley Square House
Berkeley Square
GB - London W1J 6BS - United Kingdom
Phone: (+ 44) 20 7518 8100
Fax: (+ 44) 20 7518 8129
E-mail: byblos.london@byblosbankeur.com

FRANCE

Byblos Bank Europe S.A., Paris Branch
15 Rue Lord Byron
F- 75008 Paris - France
Phone: (+33) 1 45 63 10 01
Fax: (+33) 1 45 61 15 77
E-mail: byblos.europe@byblosbankeur.com

CYPRUS

Limassol Branch
256 Archbishop Makariou III Avenue, Eftapaton Court
3105 Limassol - Cyprus
Phone: (+ 357) 25 341433/4/5
Fax: (+ 357) 25 367139
E-mail: byblosbankcyprus@byblosbank.com.lb

ADIR INSURANCE

Dora Highway - Aya Commercial Center
P.O.Box: 90-1446
Jdeidet El Metn - 1202 2119 Lebanon
Phone: (+ 961) 1 256290
Fax: (+ 961) 1 256293