

LEBANON THIS WEEK

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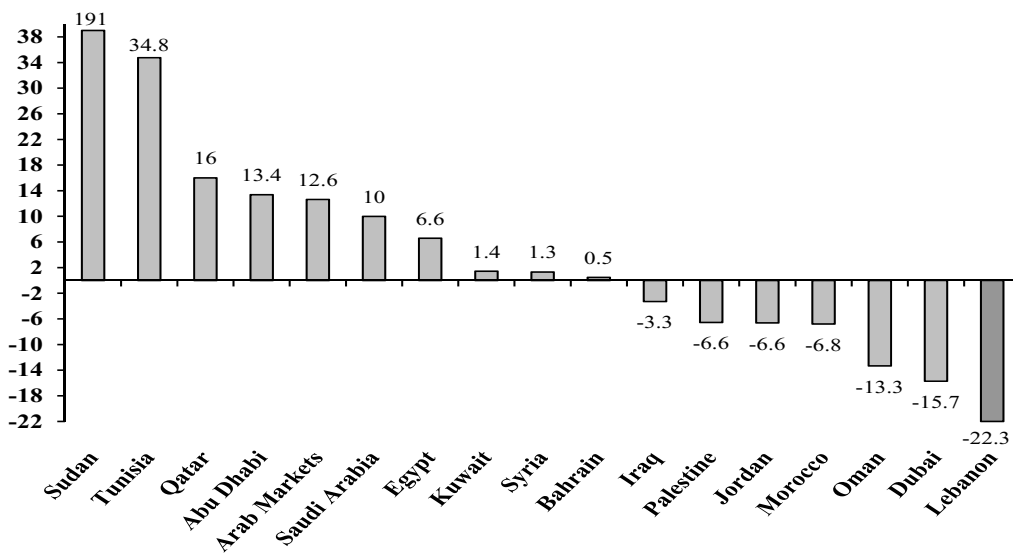
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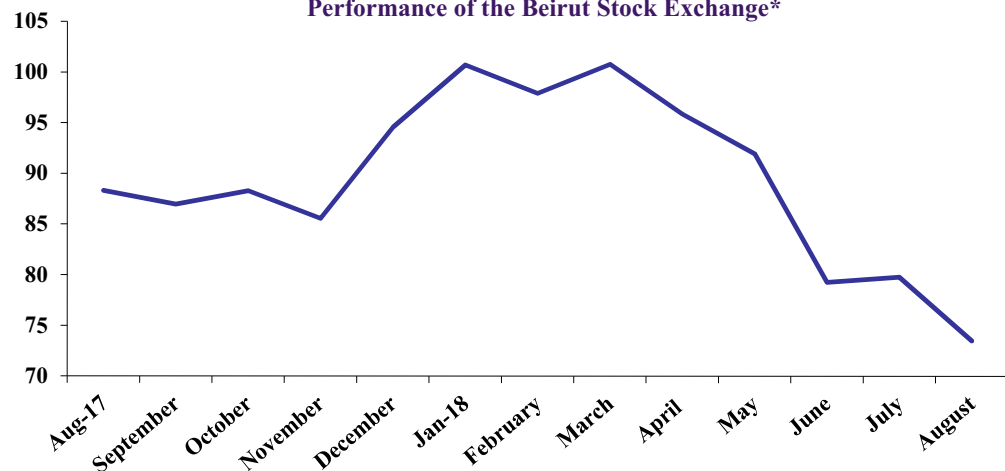
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Charts of the Week

Performance of Arab Stock Markets in First Eight Months of 2018 (% change)



Performance of the Beirut Stock Exchange*



*Capital Markets Authority Value Weighted Index end of month values

Source: Local Stock Markets, Capital Markets Authority, S&P Dow Jones Indices, Arab Federation of Exchanges, Byblos Bank

Quote to Note

"There are substantial shortcomings and material gaps in the dissemination of macro-economic data and reporting delays."

S&P Global Ratings, on the need to upgrade Lebanon's statistical system

Number of the Week

100: Number of days since Mr. Saad Hariri's designation as Prime Minister, as at August 31, 2018

Lebanon in the News

\$m (unless otherwise mentioned)	2017	Feb 2017	Nov 2017	Dec 2017	Jan 2018	Feb 2018	% Change*
Exports	2,844	226	229	251	283	248	9.73
Imports	23,130	1,648	1,726	2,278	1,705	1,436	-12.86
Trade Balance	(20,286)	(1,422)	(1,497)	(2,027)	(1,422)	(1,188)	-16.46
Balance of Payments	(156)	342	68	854	237	(80)	-123.32
Checks Cleared in LBP	21,677	1,676	1,880	2,131	1,733	1,686	0.59
Checks Cleared in FC	46,578	3,547	3,687	4,127	3,973	3,480	-1.89
Total Checks Cleared	68,255	5,223	5,567	6,258	5,706	5,166	-1.09
Budget Deficit/Surplus	(3,300.82)	(453.93)	(865.19)	(350.41)	(318.96)	(407.93)	-10.13
Budget Primary Balance	1,882.86	(189.09)	(119.74)	15.77	(46.38)	(145.03)	-23.30
Airport Passengers***	8,235,845	462,605	592,890	626,866	597,768	504,974	9.16

\$bn (unless otherwise mentioned)	2017	Feb 2017	Nov 2017	Dec 2017	Jan 2018	Feb 2018	% Change*
BdL FX Reserves	35.80	35.44	35.69	35.80	35.25	34.39	-2.97
In months of Imports	18.57	21.50	20.68	15.72	20.67	23.95	11.36
Public Debt	79.52	76.15	79.37	79.52	80.39	81.54	7.08
Bank Assets	219.86	204.93	216.21	219.86	219.86	223.07	8.85
Bank Deposits (Private Sector)	168.67	163.86	166.81	168.67	168.66	170.45	4.02
Bank Loans to Private Sector	60.32	56.49	59.55	60.32	59.69	59.03	4.49
Money Supply M2	52.48	54.96	51.96	52.48	52.88	53.44	-2.75
Money Supply M3	138.38	133.83	136.99	138.38	138.62	139.34	4.11
LBP Lending Rate (%)**	8.09	8.37	7.98	8.09	8.56	8.67	30bps
LBP Deposit Rate (%)	6.41	5.56	5.88	6.41	6.53	6.51	95bps
USD Lending Rate (%)	7.67	7.14	7.32	7.67	7.74	7.90	76bps
USD Deposit Rate (%)	3.89	3.57	3.80	3.89	3.91	3.96	39bps
Consumer Price Index**	4.40	4.90	4.80	5.00	5.60	5.20	30bps

* 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"	6.82	3.49	99,754	6.85%
BLOM GDR	9.31	(2.00)	63,863	6.91%
Solidere "B"	6.76	1.81	34,117	4.41%
Byblos Common	1.41	0.71	18,961	8.01%
Audi GDR	5.15	0.00	12,715	6.20%
BLOM Listed	9.33	(5.28)	5,500	20.14%
HOLCIM	16.99	2.35	4,315	3.33%
Byblos Pref. 08	78.60	(0.51)	1,770	1.58%
Audi Listed	5.10	0.00	-	20.47%
Byblos Pref. 09	86.00	0.00	-	1.73%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Nov 2018	5.15	99.63	7.05
May 2019	6.00	98.50	8.19
Mar 2020	6.38	96.38	8.99
Oct 2022	6.10	87.25	9.98
Jun 2025	6.25	80.50	10.32
Nov 2026	6.60	79.25	10.41
Feb 2030	6.65	75.75	10.30
Apr 2031	7.00	77.00	10.29
Nov 2035	7.05	76.13	9.98
Mar 2037	7.25	76.75	10.04

Source: Byblos Bank Capital Markets

	Aug 27-31	Aug 20-24	% Change	August 2018	August 2017	% Change
Total shares traded	245,715	328,528	(25.2)	1,642,595	8,062,990	(79.6)
Total value traded	\$2,274,100	\$2,102,322	8.2	\$13,996,770	\$68,311,180	(79.5)
Market capitalization	\$9.96bn	\$10.05bn	(0.87)	\$9.96bn	\$11.74bn	(13.2)

Source: Beirut Stock Exchange (BSE)



S&P affirms Lebanon's sovereign ratings, outlook 'stable'

S&P Global Ratings affirmed Lebanon's long- and short-term foreign and local currency sovereign credit ratings at 'B-/B', and maintained its 'stable' outlook on the ratings. It indicated that the 'stable' outlook reflects its expectations that deposit inflows to the financial system will remain sufficient to support the government's borrowing requirements and the country's external deficit over the next 12 months.

The agency pointed out that the government's debt-servicing capacity depends on the financial sector's willingness and ability to continue to subscribe to government securities. In turn, it noted that this depends mainly on non-resident deposit inflows and on financing from Banque du Liban. It considered that the government's reliance on the banking sector's willingness and ability to finance its needs, along with the divisive domestic political environment and regional tensions, constitute structural weaknesses that have constrained the ratings.

S&P considered that the ratings are supported by Lebanon's external profile, as the country's liquid external assets, which consist of foreign currency reserves and the assets of the financial sector held abroad, exceed its external debt. It expected Lebanon's liquid external assets to continue to exceed its external debt through 2021, but it noted that external financing needs are elevated. It anticipated non-resident deposit inflows, largely from the Lebanese Diaspora, to continue to support Lebanon's large fiscal and current account deficits, but to increase the country's external debt level. However, it considered that political uncertainty that would result from delays in the formation of a new government, along with high geopolitical risks, could weigh on investment and deposit growth.

In parallel, the agency projected Lebanon's real GDP growth rate to gradually rise from 1.4% in 2018 to 2.5% by 2021, supported by the government's Capital Investment Program (CIP) and the easing of tensions in Syria. It noted that policy uncertainty and the recently implemented tax measures are negatively affecting consumers as well as several economic sectors, including real estate and construction, and would likely weigh on investment in the country. Still, it anticipated public and private investment to increase, as it assumes a partial implementation of planned infrastructure projects under the CIP. It said that Lebanon mobilized about \$11bn in pledges at the CEDRE conference to finance infrastructure projects. But, it expected the disbursement of funds to be gradual, given that funding is contingent on the implementation of structural reforms, including the reduction of public finance imbalances. The agency added that Lebanon's growth prospects would improve in case the situation in Syria normalizes sooner than expected, which would open the trade route between Jordan and Syria and lead to reconstruction projects that support the exports of Lebanon's goods and services. It noted that its growth and fiscal forecasts for Lebanon exclude any potential oil & gas discoveries.

Further, S&P anticipated Lebanon's public finances and fiscal flexibility to remain constrained by structural expenditures, which include public sector wages and salaries, debt servicing cost and transfers to the state-owned Electricité du Liban. It expected a moderate increase in capital spending in support of the CIP. Also, it projected the net public debt level to grow from 137% of GDP in 2017 to 141.8% of GDP in 2018. It added that about 40% of the debt stock is denominated in foreign currency, but that non-residents hold less than 15% of the commercial debt. It cautioned that the public debt level would further increase in case public investment is scaled up without simultaneously implementing fiscal and structural reforms.

The agency expected remittance inflows and tourism to increase, especially from Lebanese expatriates in Gulf Cooperation Council countries, in case the domestic political situation normalizes following the formation of a new government, and amid relatively higher global oil prices. However, it anticipated that a higher import bill from a rebound in oil prices and the expected implementation of some investment projects will offset the rise in current account receipts. As such, it projected the current account deficit to remain wide and to average 21% of GDP annually during the 2018-21 period.

S&P indicated that it could upgrade Lebanon's sovereign ratings in case the country's policy-making framework becomes more predictable and effective, which would raise Lebanon's growth path above the current trajectory, improve fiscal and external imbalances and put public finances on a more sustainable path.

Value of cleared checks down 3%, returned checks up 6.5% in first seven months of 2018

The value of cleared checks reached \$38.7bn in the first seven months of 2018, constituting a decline of 2.9% from \$39.8bn in the same period of 2017. In comparison, the value of cleared checks grew by 2% in the first seven months of 2017 and regressed by 2.9% annually in the same period of 2016. The value of cleared checks in Lebanese pounds increased by 1.5% year-on-year to the equivalent of \$12.5bn in the first seven months of 2018, while the value of cleared checks in US dollars declined by 4.9% to \$26.2bn in the covered period. The dollarization rate of cleared checks regressed from 69.1% in the first seven months of 2017 to 67.7% in the same period of 2018. There were 6.91 million cleared checks in the first seven months of 2018, down by 3.3% from 7.1 million in the same period of 2017.

In parallel, the value of returned checks in domestic and foreign currency was \$885m in the first seven months of 2018 compared to \$830.7m in the same period of 2017 and \$854m in the first seven months of 2016. This constituted an increase of 6.5% year-on-year in the covered period relative to decreases of 2.7% in the same period of 2017 and of 7.1% in the first seven months of 2016. Also, there were 152,929 returned checks in the first seven months of 2018, up by 14.7% from 133,321 returned checks in the same period of 2017.



Occupancy rate at Beirut hotels at 61%, room yields down 3% in first seven months of 2018

EY's benchmark survey of the hotel sector in the Middle East indicated that the average occupancy rate at hotels in Beirut was 61% in the first seven months of 2018, down from 63.7% in the same period of 2017 and compared to an average rate of 64.6% in 14 Arab markets included in the survey. The occupancy rate at Beirut hotels was the sixth lowest in the region in the first seven months of 2018, while it was the eighth lowest in the same period of 2017. The occupancy rate at hotels in Beirut regressed by 2.7 percentage points year-on-year in the covered period, constituting the second steepest decrease among the 14 Arab markets, behind only Doha (-4.6 percentage points). In comparison, the average occupancy rate in Arab markets increased by 2.2% year-on-year in the first seven months of 2018. Occupancy rates at Beirut hotels were 49.1% in January, 61.3% in February, 63.5% in March, 68.5% in April, 50.9% in May, 60.9% in June and 73% in July 2018, compared to 56.3% in January, 68.3% in February, 63.1% in March, 70.6% in April, 69.5% in May, 44.1% in June and 74% in July 2017.

The average rate per room at Beirut hotels was \$185 in the first seven months of 2018, the fifth highest rate in the region relative to Jeddah (\$284), Dubai (\$232), Kuwait (\$193) and Manama (\$189). The average rate per room at Beirut hotels increased by 1.3% year-on-year in the covered period. The average rate per room in Beirut was higher than the regional average of \$171.9 that regressed by 2.4% from the first seven months of 2017.

Further, revenues per available room (RevPAR) were \$113 in Beirut in the first seven months of 2018, down from \$116 in the same period of 2017. They were the sixth highest in the region relative to Dubai (\$176), Jeddah (\$172), Madinah (\$129), Ras Al Khaimah (\$118) and Kuwait (\$114). Beirut's RevPAR decreased by 3% year-on-year and posted the third lowest decline behind Abu Dhabi (-1.4%) and Riyadh (-2.6%). Beirut posted RevPARs of \$74 in January, \$88 in February, \$110 in March, \$120 in April, \$89 in May, \$134 in June and \$144 in July 2018, compared to \$87 in January, \$99 in February, \$106 in March, \$127 in April, \$121 in May, \$92 in June and \$152 in July 2017. Abu Dhabi posted the highest occupancy rate at 79.4%, while Jeddah had the highest average rate per room in the region at \$284 and Dubai had the highest RevPAR at \$176 in the first seven months of 2018.

Number of real estate transactions down 17% in first seven months of 2018

Figures released by the Ministry of Finance indicate that there were 33,172 real estate transactions in the first seven months of 2018, constituting a decrease of 16.9% from 39,910 deals in the same period of 2017. In comparison, the number of real estate transactions grew by 15% year-on-year in the first seven months of 2017 and increased by 2.8% in the same period of 2016. There were 6,527 real estate transactions in the Baabda area in the first seven months of 2018, representing 19.7% of the total. The North followed with 5,214 deals (15.7%), then the Zahlé region with 4,217 transactions (12.7%), the South with 3,836 deals (11.6%), the Metn district with 3,732 transactions (11.3%), the Keserwan area with 3,229 deals (9.7%), the Nabatieh region with 3,035 transactions (9.1%), and Beirut with 2,458 deals (7.4%).

Also, the aggregate value of real estate transactions reached \$4.5bn in the first seven months of 2018 and decreased by 15.6% from \$5.4bn in the same period of 2017. In comparison, the value of real estate deals increased by 15.3% annually in the first seven months of 2017 and grew by 7% year-on-year in the same period of 2016. Further, the value of real estate transactions in Beirut reached \$1.3bn and accounted for 28.4% of the total in the first seven months of 2018. The Baabda district followed with \$863.5m (19%), then the Metn region with \$802.6m (17.7%), the Keserwan area with \$561m (12.3%), the South with \$336.4m (7.4%), the North with \$297.8m (6.6%), the Zahlé area with \$194m (4.3%) and the Nabatieh region with \$132.9m (2.9%).

In parallel, the average value per real estate transaction was \$137,000 in the first seven months of 2018, up by 1.5% from an average of \$134,988 in the same period of 2017 and relative to \$134,569 in the first seven months of 2016. Further, there were 672 real estate transactions executed by foreigners in the first seven months of 2018, down by 5% from 707 deals in the same period of 2017, and compared to 559 deals in the first seven months of 2016 and to 788 transactions in the same period of 2015. The number of real estate deals executed by foreigners accounted for 2% of total real estate transactions in the covered period compared to 1.8% of deals in the same period of 2017 and to 1.6% of deals in the first seven months of 2016. Further, 21.7% of the real estate transactions executed by foreigners were in the Baabda district in the first seven months of 2018, followed by Beirut (21.3%), the South (12.9%), the Metn region (11.9%), the Zahlé area (10.6%), the North (10%), the Keserwan area (8.9%) and the Nabatieh region (2.7%).

Hotel Sector Performance in First Seven Months of 2018

	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Dubai	76.1	176	(5.3)
Jeddah	60.5	172	8.4
Madina	69.5	129	(7.6)
Ras Al Khaimah	72.5	118	5.8
Kuwait City	59.2	114	3.6
Beirut	61.0	113	(3.0)
Makkah	62.3	106	(10.3)
Muscat	70.0	103	3.6
Manama	53.9	102	2.0
Riyadh	54.8	96	(2.6)
Doha	61.4	88	(14.5)
Abu Dhabi	79.4	80	(1.4)
Amman	53.7	73	(4.7)
Cairo City	70.0	72	20.2

Source: EY, Byblos Research

Italy provides grant for heat pump installations in Lebanon

The Italian Ministry of Environment and Protection of Land & Sea (IMELS) provided a EUR150,000 grant to cover 30% of the total cost of 30 heat pump installations in residential and commercial buildings in Lebanon. In parallel, the National Energy Efficiency and Renewable Energy Action (NEEREA) mechanism will allocate EUR350,000 in subsidized loans to cover the remaining 70% of the total cost of the initiative.

The initiative is part of the Heat Pump Project, which was established in December 2016 based on a technical agreement between the Lebanese Center for Energy Conservation (LCEC) and IMELS. The project aims to use targeted technology to offer a sustainable alternative for domestic hot water provision in high-rise buildings, and seeks to introduce pumps for the purpose of heating and cooling spaces. Specifically, it aims to establish a national testing laboratory; review and analyze existing European standards for product testing and adapt the standards to Lebanese conditions, provide financial incentives to establish domestic heat pump installations in buildings, as well as design an energy performance monitoring program, among other targets.

In December 2016, the IMELS provided a EUR5m grant to Lebanon to support entities that are committed to implementing energy efficiency and renewable energy projects in Lebanon through the NEEREA. Launched by Banque du Liban in November 2010, NEEREA is a mechanism that aims to finance green energy projects in Lebanon. The mechanism provides interest-free long-term loans to residential, commercial, non-profit and industrial users for energy efficiency and renewable energy projects at new and existing facilities.

UNICEF and DOT launch first impact sourcing platform in Lebanon

The United Nations Children's Fund (UNICEF) launched on July 12, 2018 the Bridge, Outsource, Transform (B.O.T.) platform in partnership with Digital Opportunity Trust Lebanon (DOT), to support income generation and employment opportunities for youth in Lebanon. Specifically, the B.O.T. platform, which is Lebanon's first impact sourcing platform, allows youth in Lebanon to find employment in the technology sector and at non-profit organizations, and to generate income and enhance their skills through their employment. Impact sourcing platforms assist those that have limited job prospects to find employment. The initiative is backed by funding from Germany and the Netherlands. According to DOT, prior to the official launch of the program, the B.O.T. has assisted 96 young people in finding job opportunities in Lebanon, which has helped them generate a total of \$57,000 in income. In this context, 53.2% of the persons who benefited from the program were from Beirut and Mount Lebanon, followed by the South (28.2%), the North (11.4%) and the Bekaa (7.2%). Also, 58% of those assisted in the program were females, while the remaining 42% were males.

DOT Lebanon offers programs in partnership with various national, international, and community-based organizations; mobilizes communities through technology and innovation; and develops digital entrepreneurship skills of youth in Lebanon. Established in 2002, the Digital Opportunity Trust is a Canada-based international social enterprise that delivers technology, entrepreneurship and leadership training programs to young entrepreneurs in seven countries, including Lebanon.

Construction activity regresses in first quarter of 2018

Banque du Liban's quarterly business survey of the opinions of business managers shows that general construction activity deteriorated year-on-year in the first quarter of 2018, with the balance of opinions standing at -45 compared to -39 in the first quarter of 2017. Also, general construction activity deteriorated quarter-on-quarter, as the balance of opinions was -40 in the fourth quarter of 2017. The business survey reflects the opinions of enterprise managers about the evolution of their businesses, in order to depict the trend of a number of key economic variables. The balance of opinions about construction activity was -44 in the covered quarter compared to -39 in the fourth quarter of 2017 and to -35 in the first quarter of 2017. The balance of opinions about construction activity was the highest in the North at -2, followed by the Bekaa (-37), Beirut & Mount Lebanon (-59) and the South (-93). Also, the balance of opinions about public works stood at -45 in the first quarter of 2018 compared to -31 in the preceding quarter and to -42 in the first quarter of 2017. Opinions about the level of public works were the highest in the North at +18, followed by the Bekaa (-55), Beirut & Mount Lebanon (-60) and the South (-80).

In parallel, the balance of opinions about the portfolio of projects was -39 in the first quarter of 2018 relative to -45 in the previous quarter and to -30 in the first quarter of 2017. The balance of opinions about the portfolio of projects was the highest in Beirut & Mount Lebanon and in the Bekaa at -35 each, followed by the North (-40) and the South (-68). Further, the balance of opinions about construction costs reached +1 in the covered quarter, unchanged from the previous quarter and from the first quarter of 2017. The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in a particular indicator and the proportion of those who reported a decline in the same indicator.

Construction and Public Work Activity: Evolution of Opinions				
Aggregate results	Q1-15	Q1-16	Q1-17	Q1-18
General activity	-31	-24	-39	-45
Construction	-29	-23	-35	-44
Public work	-37	-7	-42	-45
Portfolio of projects	-37	-25	-30	-39
Construction costs	26	-2	+1	+1
Investments (% of yes)	37%	36%	20%	26%

Source: Banque du Liban Business Survey for First Quarter of 2018

Ministry of Finance to start collecting lump-sum tax on corporates and individuals

The Ministry of Finance indicated that it will start collecting a new set of taxes imposed on the number of branches, including the head-quarter, of joint-stock companies and limited partnerships, as well as on the place of business for individual establishments (sole proprietorship) and for individuals engaged in commercial and industrial and/or freelance activities. The newly-enforced tax is based on a flat annual payment that is determined irrespective of the taxpayer's financial results. Joint-stock companies and "partnerships limited by share" will have to pay LBP2m or \$1,327 per branch, followed by limited liability companies and financial institutions with LBP750,000 or \$497.5 per branch, and limited partnerships or individual establishments with LBP550,000 or \$364.8 per branch. Also, individual taxpayers who pay a lump-sum income tax will be subject to a tax of LBP250,000 or \$165.8 per place of business, and individual taxpayers who settle their income tax based on estimated net profits will have to pay LBP50,000 or \$33.2 per place of business. The ministry's decision is based on Article 29 of law 173/2000, which was amended by Parliament in February 2017. The flat annual tax was part of the 2000 Budget Law but has not been implemented since then.

Industrial exports up 7% to \$1.1bn in first five months of 2018

Figures released by the Ministry of Industry show that industrial exports totaled \$1.1bn in the first five months of 2018, constituting an increase of 6.6% from \$1bn in the same period of 2017. Industrial exports reached \$222.8m in May 2018, down by 2.2% from \$227.8m in the preceding month, and up by 8.2% from \$205.9m in May 2017.

Exports of chemical products totaled \$206m and accounted for 19.1% of aggregate industrial exports in the first five months of 2018, followed by foodstuffs & tobacco with \$190m (17.6%), base metal exports with \$184.8m (17.1%), machinery & mechanical appliances with \$175.8m (16.3%), plastics & rubber with \$72.7m (6.7%) and paper & paperboard with \$55m (5.1%). Arab countries were the destination of 48.8% of Lebanese industrial exports in the first five months of 2018, followed by European economies with 20.8%, Asian countries with 11.6%, African economies with 10.7%, countries in the Americas with 6.9%, and markets in Oceania with 0.6%. On a country basis, the UAE was the main destination of Lebanese industrial exports and accounted for 8.8% of the total in the covered period, followed by Saudi Arabia with 8.5%, Iraq with 6.7%, Turkey with 6.3%, Syria with 5.5% and Qatar with 5.2%. In May 2018, 15 Arab states, 12 European economies, eight African countries, four Asian economies, three countries in the Americas, and one country in Oceania imported \$1m or more each of Lebanese industrial products.

In parallel, imports of industrial equipment and machinery reached \$127.2m in the first five months of 2018, up by 37% from \$93m in the same period of 2017. Italy was the main source of such imports and accounted for 41.2% of the total in the first five months of 2018, followed by Germany with 16% and China with 12.3%. Further, imports of industrial equipment and machinery amounted to \$25.2m in May 2018, up by 9.1% from \$23.1m in the same month of 2017. Italy was the main source of such imports with \$13.1m and accounted for 52% of the total in the covered month, followed by China with \$3.1m (12.2%) and Germany with \$1.8m (7.2%).

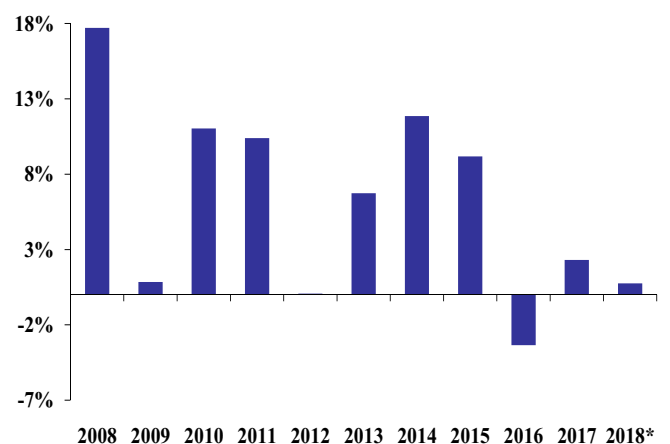
Payment cards reach 2.7 million at end-June 2018, ATMs total 1,928

Figures released by Banque du Liban show that the number of payment cards issued in Lebanon reached 2,686,275 cards at the end of June 2018, constituting an increase of 2% from end-2017 and of 5% from the end of June 2017. Cards held by residents accounted for 96.6% of total cards issued in Lebanon at end-June 2018. The distribution of payment cards by type shows that debit cards with residents reached 1,521,669 and accounted for 56.6% of the total, followed by credit cards with residents at 553,901 (20.6%), prepaid cards with residents at 428,106 (15.9%), charge cards with residents at 91,151 (3.4%), debit cards held by non-residents at 61,504 (2.3%), credit cards with non-residents at 21,208 (0.8%), charge cards held by non-residents at 7,283 (0.3%) and prepaid cards with non-residents at 1,453 (0.1%).

Further, the aggregate number of points-of-sales accepting payment cards reached 43,810 at the end of June 2018, constituting an increase of 3.1% from end-2017 and a rise of 8.8% year-on-year. As a result, there were 4.2 points-of-sales per square kilometer in Lebanon at the end of June 2018.

In parallel, the number of ATMs across Lebanon totaled 1,928 at the end of June 2018, constituting an increase of 1.4% from 1,902 at end-2017 and a growth of 4.7% from 1,841 a year earlier. The Greater Beirut area had 725 ATMs at end-June 2018, equivalent to 37.6% of the total; followed by Mount Lebanon with 696 ATMs (36.1%); the North with 191 ATMs (9.9%); the South with 152 ATMs (7.9%); the Bekaa with 132 ATMs (6.8%), and Nabatieh with 32 ATMs (1.7%). As such, there were 184 ATMs per 1,000 square kilometers in Lebanon at end-June 2018.

Growth in the Number of Credit Cards Held by Residents



*change in first half of 2018

Source: Banque du Liban, Byblos Research



Foreign investments of financial sector down 4.5% to \$4bn at end-2017

Figures issued by Banque du Liban show that the net investment portfolio of Lebanese banks and financial institutions in foreign debt and equity securities totaled \$3.96bn at the end of 2017, constituting a decline of 4.5% from \$4.15bn at the end of 2016. Investments in equities reached \$2bn at the end of 2017 and accounted for 50.6% of the total, followed by placements in long-term debt securities at \$1.92bn (48.6%), and investments in short-term debt securities at \$33.7m (0.9%). According to Banque du Liban, the figures cover the net assets of resident banks and financial institutions in foreign tradable debt and equity instruments. They help provide a clearer picture about the flow of funds from Lebanon and, therefore, about the balance of payments.

Commercial banks' net portfolio of long-term debt securities, including banks' investments for their own account, on behalf of their clients and on a custodial basis, totaled \$1.33bn and accounted for 69.2% of the financial sector's aggregate investments in such securities at the end of 2017. Medium- and long-term banks followed with \$333.2m (17.3%), then insurance companies with \$151m (7.8%) and financial institutions with \$109.1m (5.7%). In parallel, commercial banks represented 88% of investments in short-term debt securities, followed by insurance firms with 7.5%, medium- and long-term banks with 3.7%, and financial institutions with 1%. Further, commercial banks' investments in equities reached \$840m and accounted for 42% of the financial sector's investments in such securities at end-2017. Medium- and long-term banks followed with \$732.7m (36.6%), financial institutions with \$314.2m (15.7%), insurers with \$113.4m (5.7%) and financial intermediaries with \$3.7m (0.2%).

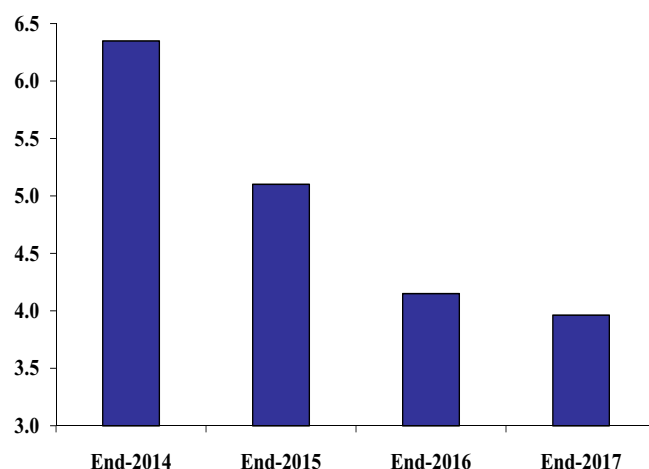
The distribution of investments by destination shows that the United States was the main recipient of equity investments of banks and financial institutions operating in Lebanon with \$660.7m, or 33% of the total, at the end of 2017. Bahrain followed with equity investments worth \$214m (10.7%), then France with \$202.5m (10.1%), Luxembourg with \$199.5m (10%) and Jordan with \$112.3m (5.6%), while other countries accounted for the remaining 30.7% of equity investments. In parallel, the United States received \$659.4m or 34.2% of investments in long-term debt securities, followed by the United Kingdom with \$301m (15.6%), France with \$188.4m (9.8%), the UAE with \$79.3m (4.1%) and Switzerland with \$68.5m (3.6%), while other countries accounted for the remaining 32.7%. Further, Australia was the recipient of 49.8% of investments by Lebanese banks and financial institutions in short-term debt securities, followed by the United States (19%), Argentina (18.1%), the United Kingdom (4.9%) and the European Union (2.8%), while other countries represented the remaining 5.7% of investments in short-term debt securities.

Stock market index down 22% in first eight months of 2018

Figures released by the Beirut Stock Exchange (BSE) indicate that the trading volume reached 62,326,585 shares in the first eight months of 2018, constituting an increase of 13% from 55,166,673 shares traded in the same period of 2017; while aggregate turnover amounted to \$462.6m, down by 2.4% from a turnover of \$473.8m in the first eight months of 2017. Market capitalization regressed by 13.2% from the end of August 2017 to \$9.96bn, with banking stocks accounting for 84.8% of the total, followed by real estate equities (11.3%), industrial shares (3.6%) and trading firms' equities (0.4%). The market liquidity ratio was 4.6% in the covered period compared to 4.1% in the first eight months of 2017.

Banking stocks accounted for 81.5% of the aggregate trading volume in the first eight months of 2018, followed by real estate equities with 16%, industrial shares with 2.2% and trading stocks with 0.4%. Also, banking stocks represented 77.6% of the aggregate value of shares traded, followed by real estate equities with 18.1%, industrial stocks with 4.1% and trading stocks with 0.2%. The average daily traded volume for the period was 391,991 shares for an average daily value of \$2.9m. The figures reflect a rise of 15.8% in average volume, while the average value was nearly unchanged year-on-year in the first eight months of the year. In parallel, the Capital Markets Authority's Market Value-Weighted Index for stocks traded on the BSE dropped by 22.3% in the first eight months of 2018, while the CMA's Banks Market Value-Weighted Index regressed by 19.7% in the covered period.

Foreign Investments of Financial Sector (US\$bn)



Source: Banque du Liban, Byblos Research

Net profits of life insurance category up 33% to \$110m in 2017, claims paid to beneficiaries up 18%

Figures released by the Insurance Control Commission (ICC) show that the aggregate net profits of 31 companies operating in the life insurance category in Lebanon reached \$109.9m in 2017, constituting an increase of 33.3% from \$82.4m in 2016. Also, net income from the life category posted a compound annual growth rate (CAGR) of 9.3% between 2011 and 2017. The "term life protection" segment posted profits of \$79.1m in 2017, followed by the "life protection with savings" segment with \$28m and the "life protection with unit-linked savings" segment with \$2.7m. Metlife Alico led all life insurers with \$27.8m in net profits in 2017 and accounted for 25.3% of the life category's aggregate net earnings, followed by Bancassurance with \$19.5m (17.8%), Sogecap with \$15.2m (13.9%), ADIR with \$10.6m (9.6%), CLA with \$10.3m (9.4%) and Allianz SNA with \$5.6m (5.1%).

Gross written premiums from the life category, which include new business and renewals, increased by 3.1% to \$497.6m in 2017 relative to growth rates of 5.1% in 2016, 7.8% in 2015, 4.3% in 2014 and 7.5% in 2013. Also, gross premiums rose by a CAGR of 5.3% between 2011 and 2017. Gross written premiums from the "life protection with savings" segment totaled \$186.6m and accounted for 37.5% of aggregate life insurance premiums, followed by the "term life protection" segment with \$168.9m (33.9%), and the "life protection with unit-linked savings" segment with \$142.2m (28.6%). Further, net premiums stood at \$471.7m, policy fees totaled \$19.1m, and the cost of policies reached \$13m in 2017.

In addition, the annualized premiums equivalent (APE) increased by 1% year-on-year to \$425.2m in 2017 relative to growth rates of 9.5% in 2016. The APE is a standard market indicator that is used for the comparison of life insurance revenue by normalizing policy premiums for different time periods into the equivalent of regular annual payments and that insurance companies use in their disclosures to financial markets. In terms of APE, MetLife Alico captured a market share of 20.6% among providers of life insurance in 2017, followed by Bancassurance with 16.2%, Allianz SNA (12%), ADIR (10.9%) and LIA (7.6%).

In parallel, claims paid to beneficiaries totaled \$303.5m in 2017, up by 18.2% from \$256.7m in 2016. Also, paid claims increased by a CAGR of 17.5% during the 2011-17 period. In addition, insurance liabilities, which represent the amount that insurers set aside to cover future claims and related expenditures, increased by 4.4% in 2017 to \$2.1bn. The growth in insurance liabilities is mainly driven by savings plans and, consequently, is an indicator of the level of long-term savings generated in the life insurance sector in Lebanon.

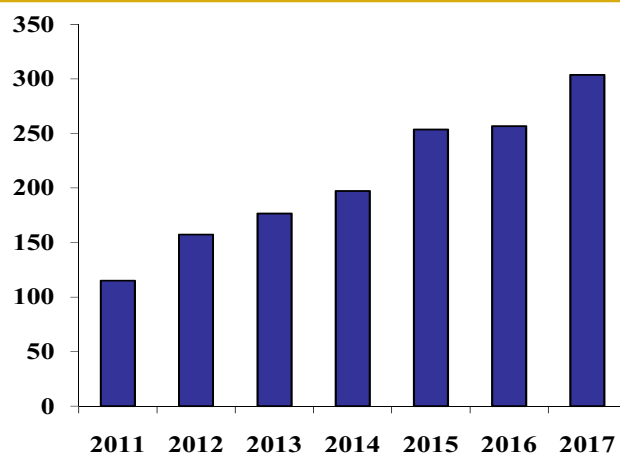
BankMed's net earnings at \$17m in first quarter of 2018

BankMed sal, one of Lebanon's top 15 banks in terms of deposits, announced unaudited consolidated net profits of \$17.2m in the first quarter of 2018, constituting a decline of 52.1% from net earnings of \$35.9m in the same quarter of 2017. Net operating income decreased by 18.7% year-on-year to \$90.5m in the covered quarter, with net interest income regressing by 17.7% to \$53.8m and net fees & commissions receipts decreasing by 4.6% to \$18.1m. Non-interest income accounted for 37.7% of total income in the first quarter of 2018, down from 41.4% in the same quarter last year; with net fees & commissions representing 55.2% of non-interest earnings relative to 39.1% in the first quarter of 2017.

Further, the bank's interest margin was 1.4% in the first quarter of 2018 relative to 1.83% in the same quarter last year; while its spread reached 1.27% in the covered quarter down from 1.68% in the first quarter of 2017. Total operating expenditures increased by 6.3% to \$71.4m year-on-year in the first quarter of 2018, with staff expenses rising by 12.6% to \$36.9m and administrative & other operating expenditures growing by 1.5% to \$30.4m. Also, the bank's return on average assets was 0.4% in March 2018 on an annualized basis relative to 0.87% in March 2017, while its return on average equity reached 4.3% on an annualized basis compared to 9.26% in March 2017. The bank's cost-to-income ratio rose from 57.2% in the first quarter of 2017 to 82% in the same quarter of 2018.

In parallel, total assets reached \$17.4bn at the end of March 2018, up by 4.5% from end-2017, while loans & advances to customers, excluding those to related parties, decreased by 2.1% from end-2017 to \$4.26bn. Also, customer deposits, excluding those from related parties, totaled \$12.79bn at end-March 2018, nearly unchanged from the end of 2017. The loans-to-deposits ratio stood at 33.4% at the end of March 2018 compared to 41.9% at end-March 2017. Further, the bank's shareholders' equity reached \$1.6bn at end-March 2018, nearly unchanged from the end of 2017.

Total Claims Paid for the Life Insurance Sector (\$m)



Source: Insurance Control Commission, Byblos Research

Bancassurance's net income at \$19.5m in 2017

Bancassurance sal, a life-insurance company jointly owned by Banque Libano-Française, Fransabank and BLC Bank, announced audited net profits of \$19.5m in 2017, constituting an increase of 18.1% from net earnings of \$16.5m in 2016. Its audited balance sheet shows total assets of \$409.4m at the end of 2017, up by 5.9% from \$386.5m at end-2016. On the assets side, general company investments reached \$403.9m and increased by 7.9% from a year earlier. They included \$281.6m in fixed income investments, \$10.8m in mutual funds, \$9.4m in variable income investments, and \$0.4m in cash and cash equivalents. They also included \$85.3m in blocked bank deposits and deposits with maturity of more than three months, of which \$995,025 were blocked in favor of the Ministry of Economy & Trade as guarantees. Also, unit-linked contract investments totaled \$1.1m at end-2017, constituting an increase of 18% from \$0.9m a year earlier. These investments were allocated in full to mutual funds. Also, the reinsurance's share in technical reserves for the life category decreased by 12.6% to \$1.2m in 2017.

On the liabilities side, technical reserves for the life segment reached \$341.7m at end-2017 and increased by 9.6% from a year earlier. They included unearned premium reserves of \$30.5m that grew by 5.8% from a year earlier, outstanding claims reserves of \$2.6m that increased by 2.4%, and \$0.5m in reserves incurred but not reported that regressed by 4.9% from end-2016. Provisions for risks and charges reached \$7m in 2017 and increased by 17.3% from the previous year. Also, the firm's shareholders' equity totaled \$57.5m at the end of 2017, up by 24.1% from \$46.3m at end-2016.

Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked Bancassurance sal in second place in 2017 in terms of life premiums. The firm's life premiums amounted to \$78.6m last year, up by 3.4% from \$76m in 2016. It had a 15.1% share of the life market in 2017.

Ratio Highlights

(in % unless specified)	2015	2016	2017e	Change*
Nominal GDP (\$bn)	49.5	49.7	52.5	
Public Debt in Foreign Currency / GDP	54.7	56.6	57.9	1.30
Public Debt in Local Currency / GDP	87.4	94.1	93.6	(0.54)
Gross Public Debt / GDP	142.1	150.7	151.5	0.76
Total Gross External Debt / GDP	175.8	183.9	185.6	1.70
Trade Balance / GDP	(31.6)	(32.5)	(31.9)	0.60
Exports / Imports	15.9	15.6	14.5	(1.04)
Fiscal Revenues / GDP	19.3	20.0	22.1	2.17
Fiscal Expenditures / GDP	27.3	29.9	29.3	(0.62)
Fiscal Balance / GDP	(8.0)	(9.9)	(7.2)	2.79
Primary Balance / GDP	1.5	0.0	2.7	2.68
Gross Foreign Currency Reserves / M2	58.7	62.2	68.2	5.98
M3 / GDP	249.7	267.2	263.6	(3.61)
Commercial Banks Assets / GDP	375.7	411.1	418.8	7.69
Private Sector Deposits / GDP	306.2	327.0	321.3	(5.69)
Private Sector Loans / GDP	109.5	115.0	114.9	(0.16)
Private Sector Deposits Dollarization Rate	64.9	65.8	68.7	2.88
Private Sector Lending Dollarization Rate	74.8	72.6	71.0	(1.61)

*Change in percentage points 16/17

**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	Dec 2016	Nov 2017	Dec 2017	Change**	Risk Level
Political Risk Rating	55	54.5	55	↔	High
Financial Risk Rating	36.5	33.0	33.0	▲	Moderate
Economic Risk Rating	30.5	27.5	28.5	▲	High
Composite Risk Rating	61.0	57.5	58.25	▲	High

MENA Average*	Dec 2016	Nov 2017	Dec 2017	Change**	Risk Level
Political Risk Rating	57.6	58.0	58.2	▼	High
Financial Risk Rating	38.3	38.5	38.5	▼	Low
Economic Risk Rating	29.6	31.0	30.9	▼	Moderate
Composite Risk Rating	62.8	63.8	63.9	▼	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	B3	NP	Stable	B3		Stable
Fitch Ratings	B-	B	Stable	B-		Stable
Standard & Poor's	B-	B	Stable	B-	B	Stable
Capital Intelligence Ratings	B	B	Stable	B	B	Stable

Source: Rating agencies

Banking Ratings

Banking Ratings	Outlook
Moody's	Stable

Source: Moody's Investor Services



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