

LEBANON THIS WEEK

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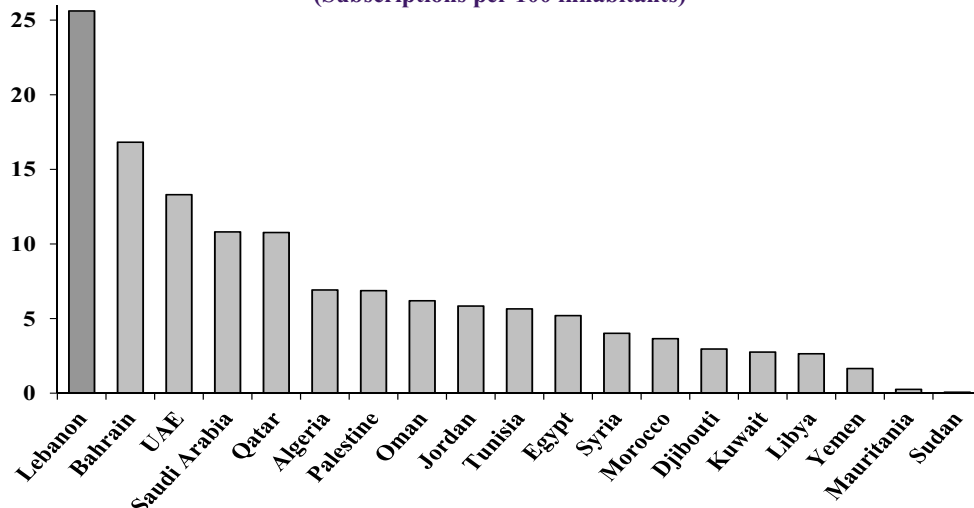
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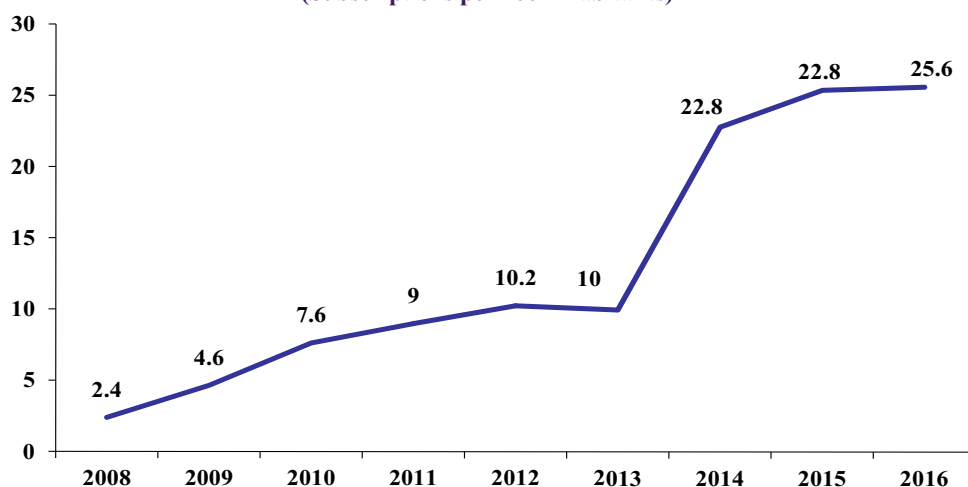
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Charts of the Week

Fixed Broadband Penetration Rates among Arab Countries at the end of 2016
(Subscriptions per 100 inhabitants)



Fixed Broadband Penetration Rates in Lebanon
(Subscriptions per 100 inhabitants)



Source: International Telecommunication Union, Byblos Bank

Quote to Note

“Fiscal adjustment should include significant improvement in tax compliance.”

The Institute of International Finance, on the need to fight tax evasion in Lebanon to increase public revenues, rather than just relying on tax increases

Number of the Week

1.4%: Percentage of GDP in additional tax revenues to the Treasury in 2017 from the taxes that commercial banks in Lebanon paid on their revenues from financial swap operations conducted with Banque du Liban in 2016

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
Byblos Common	1.60	0.00	491,921	7.93%
Solidere "A"	8.01	(2.08)	53,618	7.02%
BLOM Listed	11.60	0.87	42,200	21.85%
Solidere "B"	7.77	(5.24)	26,066	4.42%
BLOM GDR	12.70	0.40	16,901	8.22%
Audi GDR	6.00	0.00	8,320	6.30%
Audi Listed	5.95	0.00	5,550	20.84%
Byblos Pref. 08	102.00	0.99	4,000	1.79%
Byblos Pref. 09	102.00	0.00	3,899	1.79%
HOLCIM	12.51	0.00	-	2.14%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Dec 2017	4.00	99.84	4.53
Nov 2018	5.15	100.75	4.47
May 2019	6.00	101.50	5.05
Mar 2020	6.38	102.25	5.39
Oct 2022	6.10	99.50	6.22
Jun 2025	6.25	97.88	6.60
Nov 2026	6.60	99.38	6.69
Feb 2030	6.65	97.25	6.98
Apr 2031	7.00	99.25	7.09
Nov 2035	7.05	98.00	7.25

Source: Byblos Bank Capital Markets

	Sept 11-15	Sept 5-7	% Change	August 2017	August 2016	% Change
Total shares traded	684,258	264,944	158.3	8,062,990	8,672,726	(7.03)
Total value traded	\$3,915,230	\$3,149,936	24.3	\$68,311,180	\$86,998,154	(21.5)
Market capitalization	\$11.41bn	\$11.43bn	(0.16)	\$11.47bn	\$10.98bn	4.4

Source: Beirut Stock Exchange (BSE)



IMF reiterates support for exchange rate stability, calls for structural reforms to stimulate growth

The International Monetary Fund anticipated economic activity in Lebanon to remain subdued in 2017 despite the improvement in the political climate since the last quarter of 2016. It considered that Lebanon's external imbalances continue to be large and that its public finances are weak amid a wide fiscal deficit and a public debt level that reached 148% of GDP at the end of 2016. It noted that Lebanon's economic conditions are challenging and that the country's near-term prospects continue to be affected by regional spillovers. It added that the recently-approved adjustment to the public-sector salary scale will significantly increase public spending.

In parallel, the IMF pointed out that the Lebanese economy has repeatedly managed to weather significant shocks. However, it considered that putting the economy on a sustainable growth path and reversing the increase in the public debt level are crucial to maintaining confidence. It called on authorities to implement a front-loaded fiscal adjustment, mainly by increasing tax compliance, fighting tax evasion and reducing transfers to the state-owned Electricité du Liban. It encouraged the Parliament to ratify a budget that contains reliable fiscal adjustment measures, as this would send a strong signal about the authorities' commitment to reduce the public debt and improve public finances, and would support confidence. In addition, it called on authorities to implement structural reforms to upgrade the business environment in order to promote sustainable growth. It also encouraged the government to improve its institutional framework before undertaking large investment projects, and to assess the risks and potential fiscal costs arising from any public-private partnership projects.

In parallel, the Fund stressed that the pound's peg to the US dollar is an appropriate nominal anchor. It noted that Banque du Liban (BdL) could use interest rates as a tool to attract deposits in case of a deceleration in deposit inflows, following the end of its recent financial engineering operations. Also, it called on the BdL to continue to monitor and mitigate risks in the banking sector.

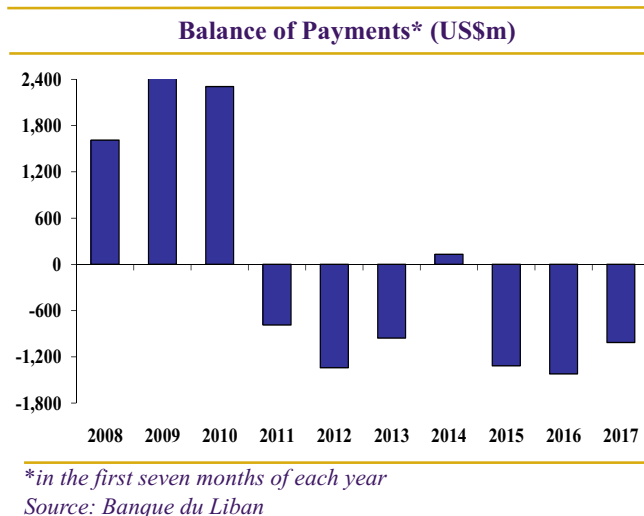
Merrill Lynch upgrades its recommendation on Lebanese Eurobonds to 'OverWeight'

Merrill Lynch upgraded its recommendation on Lebanon's external debt from 'MarketWeight' to 'OverWeight' in its emerging markets bonds portfolio. It said that Lebanon's external debt has recently become undervalued due to technical factors following Banque du Liban's (BdL) liquidity operations. It noted that the BdL is providing incentives to Lebanese banks to deposit funds in foreign currency at the Bank, which would support its gross foreign currency reserves. It added that local banks have sourced part of their foreign currency funds from the sale of Eurobonds in their portfolios, which has created buying opportunities in the market. It pointed out that Lebanese Eurobonds have underperformed the Merrill Lynch's External Debt EM Sovereign Index by about 100 basis points since April, but it expected this trend to reverse once local banks complete their Eurobonds sales. It noted that BdL's liquidity operations could last about one more month, but it said that their effect is already priced in. It considered that potential progress in the fourth quarter of 2017 on the hydrocarbon sector law and on the bids for the first licensing round for offshore oil and gas exploration and production could be structurally positive for Lebanon's creditworthiness. Merrill Lynch downgraded its recommendation on Lebanon's external debt from 'MarketWeight' to 'UnderWeight' in April 2016, and upgraded it back to 'MarketWeight' in July 2016, where it remained until the current upgrade.

In parallel, Merrill Lynch did not expect Lebanon's average credit rating to be downgraded to below 'B-'. It said that downside risks consist of a significant intensification of regional and domestic political tensions, a widening of the fiscal and external deficits in case of a higher-than-anticipated rise in global oil prices, and a slowdown in non-resident deposit inflows.

Balance of payments posts deficit of \$1bn in first seven months of 2017

Figures issued by Banque du Liban (BdL) show that Lebanon's balance of payments posted a deficit of \$1bn in the first seven months of 2017 compared to a deficit of \$1.4bn in the same period of 2016. The balance of payments posted a surplus of \$100.2m in July 2017 compared to deficit of \$758m in June 2017 and a surplus of \$352.1m in July 2016. The July 2017 surplus was caused by a rise of \$1.57bn in the BdL's net foreign assets, which was partly offset by a decrease of \$1.47bn in those of banks and financial institutions. The cumulative deficit over the first seven months of 2017 was caused by a decline of \$2.24bn in the net foreign assets of banks and financial institutions, which was partly offset by an increase of \$1.22bn in those of the BdL. The balance of payments posted surpluses of \$7.9bn in 2009, \$3.3bn in 2010 and \$1.2bn in 2016, and deficits of \$2bn in 2011, \$1.5bn in 2012, \$1.1bn in 2013, \$1.4bn in 2014 and \$3.4bn in 2015.



Lebanon's banking sector indicators favorable compared to emerging markets

Merrill Lynch estimated credit to the resident private sector in Lebanon to be equivalent to 97.6% of GDP at the end of June 2017, which is significantly higher than Latin America's ratio of 47.1% of GDP and the Emerging Europe, the Middle East & Africa region's (EEMEA) ratio of 42.4% of GDP, but lower than Asia's ratio of 99.4% of GDP. Lebanon has the eighth highest credit-to-GDP ratio among 68 emerging markets, the third highest such ratio among 53 economies in the EEMEA region and the second highest ratio among 13 Arab countries included in the survey.

In addition, Merrill Lynch estimated the non-performing loans ratio (NPLs) in the Lebanese banking sector at 4.9%, lower than the EEMEA's NPLs ratio of 7.2%, and compared to NPLs ratios of 2.7% for Latin America and of 1.7% for Asia. The Lebanese banking sector, along with the Lithuanian banking industry, has the 22nd lowest NPLs ratio among 47 banking sectors, the 10th lowest ratio among 34 economies in the EEMEA region and the second lowest among Arab countries with available figures.

Further, Merrill Lynch estimated money supply in Lebanon to be equivalent to 256% of GDP at end-June 2017, significantly higher than Asia's ratio of 126.2% of GDP, Latin America's ratio of 71.3% of GDP and the EEMEA's ratio of 49.8% of GDP. Also, Lebanon has the second highest level of money supply relative to its GDP among 68 emerging markets.

In parallel, Merrill Lynch noted that foreign claims reported to the Bank for International Settlements (BIS) against Lebanese banks are equivalent to 2.5% of Lebanon's GDP, higher than the ratio of 1.3% of GDP for the EEMEA region and of 2% of GDP for Latin America, and compared to 3.1% of GDP for Asia. The Lebanese banking sector has the 20th highest ratio of foreign claims of BIS-reporting banks among 68 banking sectors, the 12th highest ratio in the EEMEA region and the fifth highest in the Arab world.

Further, Merrill Lynch estimated the annual private sector credit growth in Lebanon at 5.7% based on the year-on-year three-month moving average, which is similar to the EEMEA's rate, but is higher than Latin America's growth rate of 4.9% and lower than Asia's growth rate of 6.7%. As such, Lebanon, along with Malaysia, had the 33rd lowest level of annual private sector credit growth among 65 emerging markets, the 26th highest among 51 economies in the EEMEA region and the sixth lowest rate among 13 Arab countries. In parallel, the survey indicated that the Lebanese banking sector's capital-to-risk weighted assets ratio stood at 14.5%, lower than Asia's ratio of 15.6% and Latin America's ratio of 15.9%, and compared to the EEMEA's ratio of 17.2%.

Governor Salamé is among best central bank governors in the world

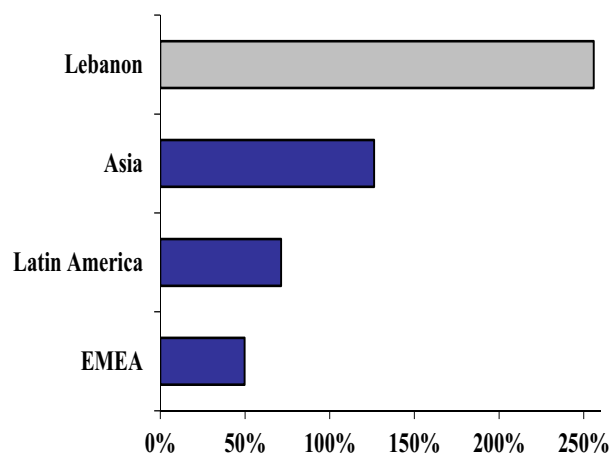
Global Finance magazine's Central Banker Report Cards for 2017 indicated that Banque du Liban's Governor Riad Salamé received an 'A' rating based on his success in areas such as inflation control, economic growth goals, currency stability and interest rate management. Eight other central bank governors received the same rating, who are the central bank governors of Australia, Honduras, Morocco, Paraguay, Russia, Taiwan, the United States and Israel.

The Central Banker Report Cards rated 83 central bank governors worldwide on a scale of A' to 'F', with a grade of 'A' representing an excellent performance in achieving economic stability. The magazine pointed out that Governor Salamé outperformed 11 of the 12 other central bank governors in the Arab region who were included in this year's report. Governor Salamé's rank was similar to that of the governor of Bank Al-Maghrib, but was higher than that of the governor of the Central Bank of Jordan who earned an 'A-' rating, the central bank governors of Egypt, Kuwait, Saudi Arabia and the UAE who each received a 'B+' grade, the central bank governors of Qatar, Oman and Tunisia who each earned a 'B' rating, the governor of Banque d'Algérie who received a 'B-' grade, the Governor of the Central Bank of Bahrain who earned a 'C' rating, and the Governor of the Central Bank of Iraq who earned a 'D' grade.

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

The Association of Banks in Lebanon (ABL) recommended to its member banks to increase the Beirut Reference Rate (BRR) in US dollars to 6.82% in October 2017 from 6.74% in September 2017. The rate, considered as the reference rate for lending in foreign currency, replaced the London Interbank Offered Rate (LIBOR) in 2009, as the ABL decided that the LIBOR does not reflect the cost of funding and lending in Lebanon. In addition, the ABL recommended to its member banks to raise the BRR in Lebanese pounds to 8.68% in October 2017 from the September 2017 rate of 8.61%. The BRR in US dollars and Lebanese pounds were adopted in March and May 2009, respectively. The ABL considers that the BRR does not replace the Beirut Prime Lending Rate in each currency, but constitutes the basis to calculate the prime rate after adding to the prime lending rate the cost of liquidity and refinancing, credit risk and the profitability of banks.

Money Supply at end-June 2017 (% of GDP)



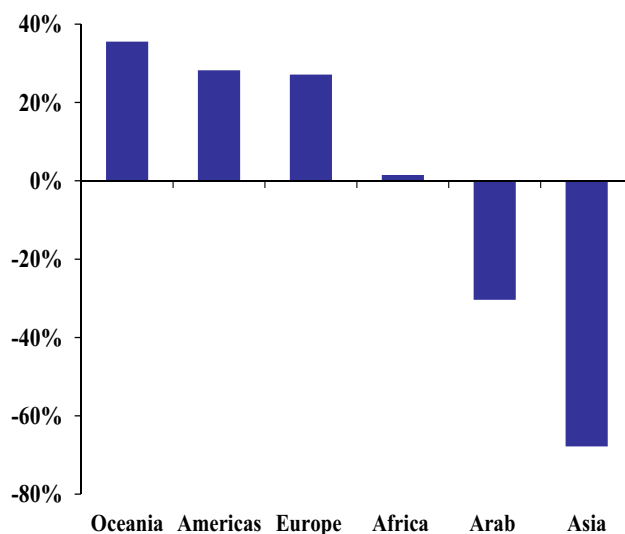
Source: Merrill Lynch, Byblos Research

Tourist arrivals up 13% in first eight months of 2017

The number of incoming visitors to Lebanon totaled 1,287,382 in the first eight months of 2017, constituting an increase of 13.1% from 1,138,050 tourists in the same period of 2016 and a decline of 13.7% from 1,492,133 visitors in the first eight months of 2010. Also, the number of incoming visitors reached 213,656 in August 2017, up by 17.2% from 182,237 in August 2016 and by 28.6% from 166,132 in August 2010. Visitors from European countries accounted for 33.9% of the total in the first eight months of 2017, followed by those from Arab economies with 30.5%, the Americas with 18.5%, Asia with 7.1%, Africa with 5.7% and Oceania with 4.2%. Further, tourists from Iraq accounted for 12.3% of total visitors in the covered period, followed by visitors from the U.S. (9.7%), France (8.8%), Canada (6.1%), Germany (5.3%), Jordan (4.8%), Egypt (4.2%), Saudi Arabia (3.8%) and the United Kingdom (3.6%).

In parallel, the number of visitors from the Arab region increased by 16.4% year-on-year in the first eight months of 2017, followed by those from Europe and from Oceania (+12.9% each), the Americas (+11.7%), Asia (+9.6%) and African countries (+6.8%). On a country basis, the number of tourists from Kuwait and Saudi Arabia doubled year-on-year each in the first eight months of 2017, followed by visitors from Brazil (+25.9%), Turkey (+21.2%), France (+12.3%), the U.S. (+12.1%), Germany (+11.7%), Italy and Sweden (+11.3% each), Canada and the United Kingdom (+9.7% each), Jordan (+7%), Iraq (+3.2%) and Egypt (+0.5%). In contrast, the number of visitors from the UAE fell by 7.2% and arrivals from Venezuela regressed by 4.2% year-on-year.

Change in the Number of Tourist Arrivals from Main Sources in First Eight Months of 2017*



*from the same period of 2010

Source: Ministry of Tourism, Byblos Research

Banque du Liban affirms policy of exchange and interest rates stability

In the monthly meeting between Banque du Liban (BdL), the Banking Control Commission of Lebanon (BCC) and the Association of Banks in Lebanon (ABL), Governor Riad Salamé indicated that the International Monetary Fund welcomed the prevailing monetary stability in Lebanon, while it urged the government to address the wide fiscal deficit because of the risks it entails. He added that the Fund expressed its readiness to support the government in case it decided to implement large infrastructure projects under the newly ratified public-private partnership law. Further, Governor Salamé pointed out that the three rating agencies S&P Global Ratings, Moody's Investors Services and Fitch Ratings maintain a 'stable' outlook on Lebanon's sovereign ratings, mainly due to Lebanon's perfect track record of debt repayment and to the resumption of the proper functioning of the government.

Further, Governor Salamé indicated that the BdL rebuked a report that was issued recently about the financial sector in Lebanon, as he considered that it is targeted to large depositors and aimed to damage the country's monetary stability. He noted that the BdL responded by publishing facts and figures about the current monetary situation in order to deliver a clearer and more transparent picture of the real situation. He reiterated that the BdL is maintaining its policy of exchange rate stability, and has the adequate tools and measures to preserve the stability of exchange and interest rates, which would support economic activity and improve public finances by controlling debt servicing costs. He noted that the BdL will continue to maintain its current policies to attract funds in foreign currency from banks that have liquidity surpluses.

In parallel, the ABL asked the BdL to exempt the affiliates of Lebanese banks in Iraq from the first article of Basic Circular 62 that prohibits the affiliates of Lebanese banks abroad from subscribing to sovereign debt issued by host countries that are rated below 'BBB', except for bonds issued in local currencies. It requested the BdL to allow the affiliates of Lebanese banks in Iraq to subscribe to Iraqi Eurobond issuances in an amount equivalent to the capital that they deposited at the Central Bank of Iraq. It added that all foreign banks operating in Iraq will double their minimum capital requirement to \$50m by the end of 2017.

In this context, the BdL and BCC indicated that it is necessary for banks to abide by the limits and rules that regulate their foreign operations, such as not using their foreign currency liquidity to expand their foreign investments. Also, Governor Salamé cautioned that banks should monitor their reputational risks, and should continue to comply with the global standards for anti-money laundering and combating the financing of terrorism, specifically in Iraq.

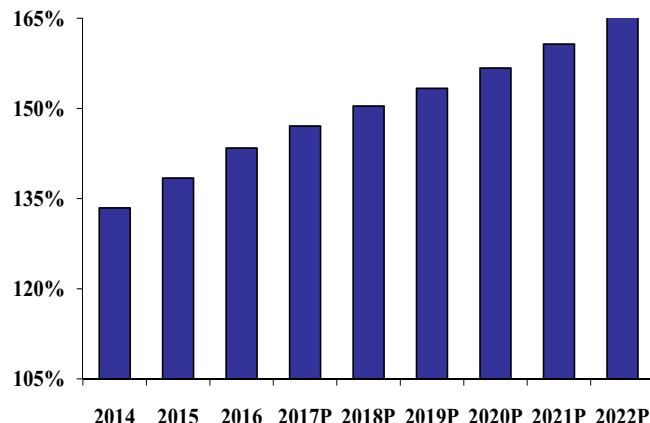
Finally, the ABL had previously submitted to Governor Salamé the input of the ABL's Governance Committee on a BdL draft circular about the Succession Plan for Board Members at banks in the country. The BdL took into consideration the amendments made to the circular by the ABL, which prompted the latter to immediately approve the newly-modified version of the circular.



Gross public debt at \$77bn at end-July 2017

Lebanon's gross public debt reached \$76.9bn at the end of July 2017, constituting an increase of 2.7% from \$74.9bn at the end of 2016 and a rise of 4.8% from \$73.4bn at end-July 2016. In nominal terms, the gross public debt grew by \$2bn in the first seven months of 2017 relative to an increase of \$3.05bn in the same period of 2016. Debt denominated in Lebanese pounds totaled \$47.2bn at end-July 2017, up by 0.8% from the end of 2016 and by 6.3% from end-July 2016; while debt denominated in foreign currency stood at \$29.7bn, constituting a growth of 5.7% from end-2016 and an increase of 2.4% from a year earlier. Local currency debt accounted for 61.4% of the gross public debt at the end of July 2017 compared to 60.5% a year earlier, while foreign currency-denominated debt represented the balance of 38.6% relative to 39.5% at end-July 2016. The weighted interest rate on outstanding Treasury bills was 6.91% and that on Eurobonds was 6.4% in July 2017. Further, the weighted life on Eurobonds was 6.9 years, while that on Treasury bills was 1,336 days.

Lebanon's Gross Public Debt (% of GDP)



Source: International Monetary Fund

Commercial banks held 45% of the public debt as at end-July 2017 relative to 49.8% of the total at the end of July 2016. Banque du Liban (BdL) held 45.8% of the Lebanese pound-denominated public debt at the end of July 2017 relative to 44.9% a year earlier, while commercial banks held 38.7% of the local debt compared to 38.6% at end-July 2016. Also, public agencies, financial institutions and the public held 15.5% of the local debt at end-July 2017, down from 16.5% a year earlier. Further, holders of Eurobonds and special T-bills in foreign currencies accounted for 92.6% of foreign currency-denominated debt holders at the end of July 2017, followed by multilateral institutions with 4.3% and foreign governments with 3.1%. In addition, the net public debt, which excludes public sector deposits at the BdL and at commercial banks from overall debt figures, grew by 4.8% annually to \$66.6bn at end-July 2017. Further, the gross market debt accounted for about 62% of the total public debt. Gross market debt is the total public debt less the portfolios of the BdL, the National Social Security Fund, bilateral and multilateral loans, as well as Paris II related debt.

In parallel, S&P Global Ratings rates Lebanon's long-term foreign and local currency sovereign credit ratings at 'B-'. But the agency's Credit Default Swap Market Derived Signal Score, an indicator of risk appetite by foreign investors, shows that Lebanon's sovereign debt is considered by the market to have a 'B' risk level as at September 14, 2017, which is one notch higher than the S&P rating.

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

Figures released by the Association of Automobile Importers in Lebanon show that dealers sold 25,363 new passenger cars in the first eight months of 2017, constituting a decline of 0.8% from 25,562 cars sold in the same period of 2016. Consumers purchased 2,420 new cars in January, 2,562 vehicles in February, 3,136 automobiles in March, 2,536 cars in April, 3,182 vehicles in May, 4,362 automobiles in June, 3,690 cars in July and 3,475 vehicles in August 2017.

Japanese cars accounted for 36.8% of total sales in the first eight months of 2017, followed by Korean vehicles with a 33.9% share, European automobiles (20%), American cars (8%) and Chinese vehicles (1.3%). The sales of new Chinese cars jumped by 89.1% and the demand for American vehicles grew by 24.8% year-on-year in the first eight months of 2017; while the number of Korean automobiles sold dropped by 4%, the sales of Japanese vehicles fell by 3.1% and the number of European cars sold decreased by 1.9% year-on-year.

Kia is the leading brand in the Lebanese market with 5,300 vehicles sold in the first eight months of 2017, followed by Hyundai with 3,274 new cars sold, Toyota (3,008), Nissan (2,311), Suzuki (1,315), Chevrolet (1,252) and Renault (1,245). In parallel, 1,930 new commercial vehicles were sold in the first eight months of 2017, up by 7.7% from 1,792 commercial vehicles purchased in the same period of 2016. Overall, car dealers sold 27,293 new passenger automobiles and commercial vehicles in the first eight months of 2017, nearly unchanged from 27,354 vehicles sold in the same period of 2016.

In parallel, the number of new vehicles sold by Lebanon's top five distributors reached 18,076 in the first eight months of 2017 and accounted for 66.2% of new car sales. NATCO sal sold 5,304 vehicles, equivalent to 19.4% of the total, followed by Rasamny Younis Motor Co. sal with 3,799 cars (13.9%), Boustany United Machineries sal with 3,366 automobiles and Century Motor Co. sal with 3,352 vehicles (12.3% each), and Bassoul Heneiné sal with 2,255 cars (8.3%).

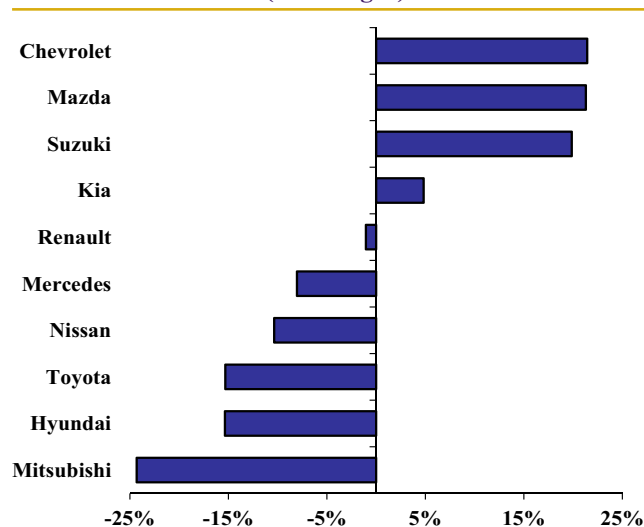
EFG Hermes sells 5.6% stake in local bank in first half of 2017

Regional investment bank EFG Hermes indicated that it has continued to divest its remaining stake in Crédit Libanais sal (CL) in the first half of 2017. It announced that it divested 2% of CL's shares in the first quarter of 2017 and another 3.6% of the total in the second quarter of the year, which resulted in the offloading of 1,316,308 shares in CL, or 5.6% of CL's total shares, in the first half of 2017 at a price of \$33 per share. The recent sale is part of the second phase of an agreement signed in 2016 between EFG Hermes and Crédit Libanais Investment Bank sal (CLIB), a wholly-owned subsidiary of the bank, to sell EFG's remaining holdings of 5,506,134 shares in CL on a best effort basis at a gross price of \$33 per share. EFG indicated that it also sold during 2016 an 8.5% stake in CL as part of the second phase of the deal.

As such, EFG Hermes' stake in the bank stood at 2,213,761 shares at the end of June 2017, equivalent to 9.46% of the bank's shares. EFG pointed out that its remaining stake in the bank is classified as "assets held for sale" on its consolidated balance sheet at end-June 2017 at a value of EGP1.32bn, or the equivalent of \$72.9m based on the prevailing market exchange rate. In the first phase of the agreement, EFG Hermes sold 9,408,749 shares, or a 40.2% stake in the bank, to a consortium of Lebanese and Arab investors.

In 2010, EFG Hermes purchased a 63.74% controlling stake in CL, or 14,914,883 shares for a total of \$577.8m. After the completion of the two-part deal, the company would have sold its entire stake in CL for about \$492m. Crédit Libanais sal posted unaudited net profits of \$37.8m in the first half of 2017. The bank's return on average assets was 0.7% and its return on average equity was 9.54% in June 2017 on an annualized basis. Also, the bank's cost-to-income ratio was 55.4% in the first half of 2017. Its total assets reached \$10.83bn, while net loans and advances to customers stood at \$3.3bn at the end of June-2017. The bank's deposits, including those from related parties, totaled \$8.9bn at end-June 2017.

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



* year-on-year

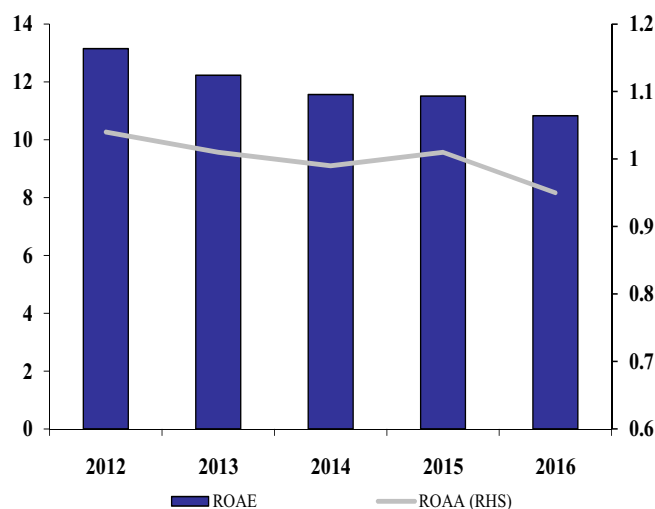
Source: ALA, Byblos Research

Aggregate net profits of banks operating in Lebanon up 2% to \$1.9bn in 2016, profitability metrics decline

Figures issued by the Association of Banks in Lebanon show that the aggregate net profits of banks operating in Lebanon reached \$1.9bn in 2016, constituting an increase of 1.9% from net earnings of \$1.86bn in 2015. Further, the banks' aggregate pre-tax profits grew by 8.8% to \$2.4bn in 2016. The banks' revenues totaled \$12.9bn in 2016, up by 12.1% from \$11.5bn in 2015, with interest income increasing by 7.7% to \$10.6bn and net fees & commission income and other operating receipts rising by 41.4% to \$2.36bn. Overall, the net interest income of banks operating in Lebanon totaled \$3.4bn in 2016, up by 6.1% from \$3.2bn in the previous year. Also, the net operating income of the banks reached \$5.6bn in 2016 and grew by 20% from \$4.7bn in 2015.

In parallel, total expenditures grew by 14.1% to \$11bn, with interest expense rising by 8.4% to \$7.2bn, general investment expenditures growing by 58.3% to \$1.52bn, personnel costs increasing by 8.4% to \$1.46bn and tax payments jumping by 44.5% to \$514.8m. In parallel, the banks' total operating expenditures reached \$3.15bn last year, constituting a rise of 28% from \$2.46bn in 2015. Further, the return on average assets (ROAA) of banks operating in Lebanon was 0.95% in 2016 relative to 1% in 2015, while their return on average equity (ROAE) was 10.8% in 2016 compared to 11.5% in 2015.

Profitability Metrics of Banks Operating in Lebanon (%)



Source: Association of Banks in Lebanon, Byblos Research

Ciments Blancs' net income down 32% to \$1.7m in first half of 2017

Société Libanaise des Ciments Blancs sal, an affiliate of Holcim (Liban) sal, declared net profits of \$1.7m in the first half of 2017, constituting a decrease of 31.8% from net earnings of \$2.5m in the same period last year. The company generated total sales of \$6.4m in the first half of this year compared to \$6.7m in the same period of 2016, while the firm's gross profit margin reached 35.6% in the first half of 2017 relative to 49.4% in the same period of 2016.

Further, Ciments Blancs' assets reached \$24.6m at the end of June 2017, nearly unchanged from \$24.5m at end-2016. The firm's current ratio, which is a measure of the company's ability to meet its short-term obligations, was 4.28x at the end of June 2017, compared to 2.07x at the end of 2016 and to 1.18x at end-June 2016.

In parallel, Ciments Blancs' shareholders' equity reached \$20.7m at end-June 2017, up by 8.9% from \$19m at the end of 2016. The firm's debt-to-equity ratio was 18.9% at end-June 2017 relative to 29.4% at the end of 2016 and to 37.6% at end-2015. The company produces and sells white cement. The price of Ciments Blancs' bearer shares closed at \$3.85 on September 15, 2017, up by 18.5% from \$3.25 at the end of 2016, while the price of Ciments Blancs' nominal shares closed at \$1.82 on September 15, up by 15.9% from \$1.57 at end-2015.

Kafalat loan guarantees down 25.5% to \$48m in first eight months of 2017

Figures released by the Kafalat Corporation show that loans extended to small- and medium-sized enterprises (SMEs) under the guarantee of Kafalat reached \$47.8m in the first eight months of 2017, constituting a decrease of 25.5% from \$64.2m in the same period of 2016. Kafalat provided 397 loan guarantees in the covered period, down by 16.4% from 475 guarantees in the first eight months of 2016. The average loan size reached \$120,463 in the first eight months of 2017 compared to \$135,212 in the same period of 2016. Mount Lebanon accounted for 40.8% of the total number of guarantees, followed by the Bekaa with 20.2%, the South with 13.9%, the North and Nabatieh with 9.8% each, and Beirut with 5.5%. Also, the agricultural sector accounted for 42.8% of the total number of guarantees in the first eight months of 2017, followed by the industrial sector with 33%, tourism with 19.4%, handicraft with 3% and specialized technologies with 1.8%.

Kafalat is a state-sponsored organization that provides financial guarantees for loans of up to \$430,000 earmarked for the setup and expansion of SMEs in productive sectors. It guarantees up to 75% of the loan amount and a similar percentage of the accrued interest. It also guarantees up to 90% of the loan amount for innovative start-ups and a similar percentage of the accrued interest. Interest rate subsidies are financed by the Ministry of Finance and administered by Banque du Liban. The National Institute for the Guarantee of Deposits holds a 75% stake in Kafalat, while the remaining 25% is held by 50 Lebanese banks.

Top five freight forwarders' import activity up 2% in first seven months of 2017, export activity down 0.5%

Figures released by the Port of Beirut show that overall import shipping operations by the top five freight forwarders through the port reached 211,733 20-foot equivalent units (TEUs) in the first seven months of 2017, constituting an increase of 1.9% from 207,747 TEUs in the same period of 2016. The five freight forwarders accounted for 86.5% of imports to the Lebanese market and for 58.7% of the total import freight forwarding market in the covered period. Mediterranean Shipping Company (MSC) handled 66,889 TEUs in imports in the first seven months of 2017, equivalent to an 18.5% share of the total freight forwarding import market. Merit Shipping followed with 42,350 TEUs (11.7%), then Sealine Group with 38,281 TEUs (10.6%), Metz Group with 34,533 TEUs (9.6%) and Gezairy Transport with 29,720 TEUs (8.2%). Further, Gezairy Transport registered a 21.2% year-on-year increase in import shipping, the highest growth rate among the top five freight forwarders, while Metz Group posted a decline of 16.6%, the steepest in the first seven months of the year.

In parallel, export shipping operations by the top five freight forwarders through the Port of Beirut reached 47,304 TEUs in the first seven months of 2017, constituting a decrease of 0.5% from 47,556 TEUs in the same period last year. The five freight forwarders accounted for 87.6% of exported Lebanese cargo and for 13.4% of the total export freight forwarding market in the covered period. Merit Shipping handled 24,105 TEUs of freight in the first seven months of 2017, equivalent to 44.6% of the Lebanese cargo export market. Metz Group followed with 9,124 TEUs (16.9%), then Sealine Group with 8,387 TEUs (15.5%), MSC with 3,091 TEUs (5.7%) and Gezairy Transport with 2,597 TEUs (4.8%). Further, Gezairy Transport posted a 22.8% year-on-year increase in export shipping, the highest growth rate among the top five freight forwarders, while Sealine Group posted a decline of 20.6%, the steepest decrease in the covered period.

Al Mashrek Insurance's net losses at \$2.1m in 2016

Al Mashrek Insurance & Reinsurance sal announced audited net losses of \$2.1m in 2016 compared to net losses of \$2m in 2015. Its audited balance sheet shows total assets of \$66.6m at the end of 2016, constituting an increase of 0.9% from \$66m at end-2015. On the assets side, general company investments reached \$31.3m and increased by 10.2% from a year earlier. They included \$18.3m in land and real estate investments, \$0.9m in investments in subsidiaries and associates, and \$3m in cash and cash equivalents. They also included \$4.9m in blocked bank deposits and deposits with maturity of more than three months, of which \$4.5m were blocked in favor of the Ministry of Economy & Trade as guarantees. Also, the reinsurance's share in technical reserves for the non-life category increased by 9.3% to \$5.5m in 2015, while that for the life segment increased by 42% year-on-year to \$0.6m. On the liabilities side, technical reserves for the non-life category reached \$32m at end-2016 and decreased by 0.9% from a year earlier, while technical reserves for the life segment increased by 2.1 times year-on-year to \$4.9m. Non-life technical reserves included unearned premium reserves of \$18.6m that dropped by 4% and outstanding claims reserves of \$7.9m that decreased by 4.7% year-on-year. Provisions for risks and charges reached \$1.2m and rose by 4.6% from the previous year. Also, the firm's shareholders' equity totaled \$10.9m at end-2016, down by 31.7% from \$15.9m a year earlier.

Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked Al Mashrek in 10th and 22nd places in 2016 in terms of non-life and life premiums, respectively. The firm's non-life premiums amounted to \$40.9m, constituting an increase of 4.2% year-on-year; while its life premiums reached \$1.6m, down 6.1% from the previous year. It had a 3.7% share of the local non-life market and a 0.3% 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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