

LEBANON THIS WEEK

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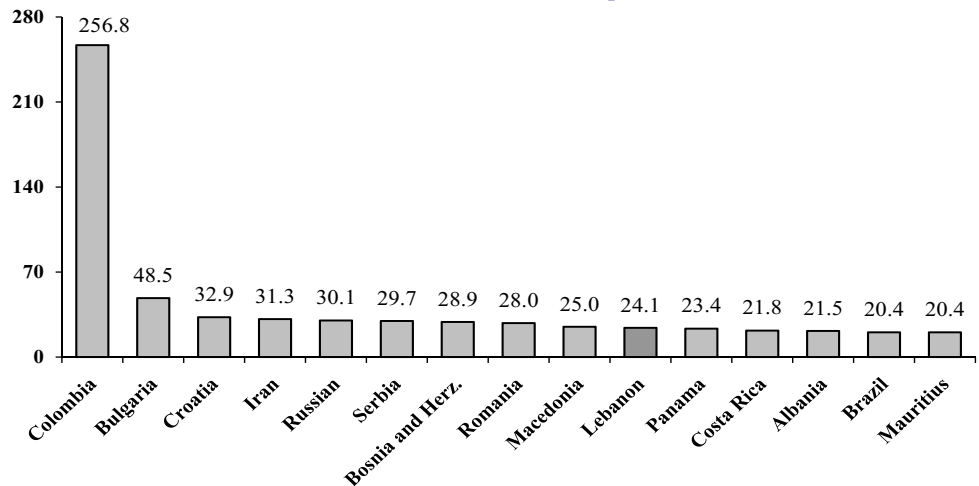
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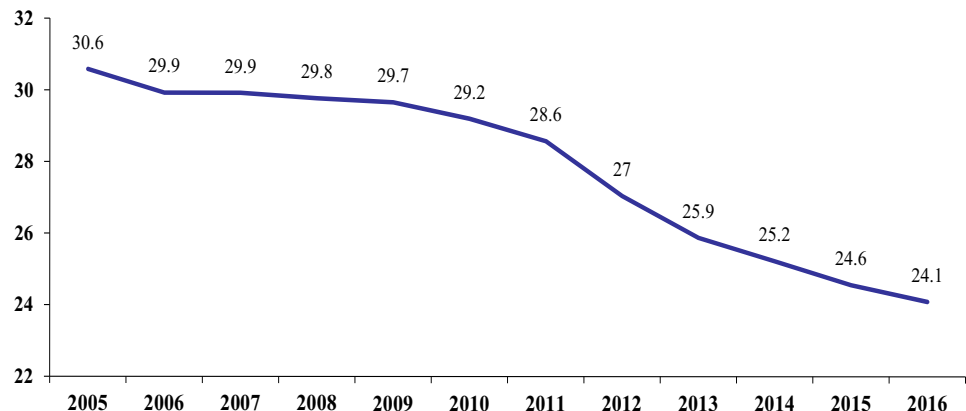
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Charts of the Week

Upper Middle-Income Countries with Highest Branch Penetration Rates at end-2016
(number of commercial banks' branches per 100,000 adults)



Commercial Banks' Branch Penetration Rates in Lebanon
(number of branches per 100,000 adults)



*excluding countries with a GDP of \$10bn or less

Source: International Monetary Fund, Byblos Bank

Quote to Note

“The institutional framework for managing public investments should be strengthened before the envisaged scaling up of public investment.”

The International Monetary Fund, on the need to upgrade Lebanese laws and institutions ahead of requesting large amounts to finance infrastructure projects

Number of the Week

1.89%: The spread between the weighted average cost of funds and the weighted return on the uses of funds in US dollars at commercial banks in Lebanon as at the end of November 2017, according to the Association of Banks in Lebanon

Lebanon in the News

\$m (unless otherwise mentioned)	2016	Sep 2016	Jun 2017	Jul 2017	Aug 2017	Sep 2017	% Change*
Exports	2,977	254	214	217	251	210	(17.58)
Imports	18,705	1,448	1,454	1,619	1,594	1,297	(10.44)
Trade Balance	(15,728)	(1,194)	(1,240)	(1,402)	(1,343)	(1,087)	(8.91)
Balance of Payments	1,238	189	(758)	100	368	457	142.29
Checks Cleared in LBP	19,892	1,722	1,681	1,845	1,869	1,475	(14.33)
Checks Cleared in FC	48,160	4,054	3,882	4,310	4,100	3,010	(25.75)
Total Checks Cleared	68,052	5,776	5,563	6,155	5,969	4,485	(22.35)
Budget Deficit/Surplus	(3,667.15)	(548)	(496.83)	31.76	(513.46)	(651.25)	18.84
Primary Balance	1,297.65	(29.21)	(71.52)	300.34	(192.77)	(145.72)	398.87
Airport Passengers***	7,610,231	819,886	652,852	975,003	1,067,441	861,828	5.12

\$bn (unless otherwise mentioned)	2016	Sep 2016	Jun 2017	Jul 2017	Aug 2017	Sep 2017	% Change*
BdL FX Reserves	34.03	34.17	33.89	33.04	34.03	35.06	2.60
In months of Imports	21.83	23.60	23.31	20.41	21.35	27.03	14.55
Public Debt	74.89	74.73	76.45	76.89	77.27	78.15	4.57
Bank Assets	204.31	198.10	208.16	208.48	209.39	213.42	7.74
Bank Deposits (Private Sector)	162.50	158.50	167.73	168.39	169.16	169.09	6.68
Bank Loans to Private Sector	57.18	56.65	58.42	58.61	58.67	58.93	4.02
Money Supply M2	54.68	54.68	55.12	55.02	55.59	55.50	1.50
Money Supply M3	132.80	129.12	137.51	138.01	138.92	138.87	7.56
LBP Lending Rate (%)****	8.23	8.44	8.39	8.33	8.10	8.31	(13bps)
LBP Deposit Rate (%)	5.56	5.58	5.51	5.56	5.55	5.53	(5bps)
USD Lending Rate (%)	7.35	7.20	7.27	7.25	7.29	7.53	33bps
USD Deposit Rate (%)	3.52	3.43	3.58	3.64	3.63	3.65	22bps
Consumer Price Index**	(0.80)	1.0	3.50	3.10	5.10	4.10	310bps

* Year-on-Year ** Year-on-Year percentage change ***includes arrivals, departures, transit

**** Starting January 2016, lending rates in Lebanese pounds are reported before any subsidy or facility from reserve requirements according to Intermediate Circular No 389, and as such they are not comparable year-on-year

Note: bps i.e. basis points

Source: Association of Banks in Lebanon, Banque du Liban, Ministry of Finance, Central Administration of Statistics, Byblos Research

Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization
Solidere "A"	8.09	1.13	281,796	6.93%
BLOM Listed	12.10	2.98	34,750	22.27%
Solidere "B"	8.18	0.86	33,026	4.55%
Audi GDR	5.95	3.12	25,000	6.11%
BLOM GDR	12.85	(0.39)	20,393	8.13%
HOLCIM	15.48	8.63	16,250	2.59%
Byblos Common	1.62	1.89	4,514	7.84%
Byblos Pref. 09	103.90	(0.95)	2,965	1.78%
Audi Listed	5.80	(3.17)	1,957	19.85%
Byblos Pref. 08	102.10	(2.67)	750	1.75%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Nov 2018	5.15	100.13	4.98
May 2019	6.00	100.88	5.30
Mar 2020	6.38	101.75	5.49
Oct 2022	6.10	100.13	6.07
Jun 2025	6.25	96.50	6.86
Nov 2026	6.60	98.00	6.90
Feb 2030	6.65	94.75	7.31
Apr 2031	7.00	96.50	7.42
Nov 2035	7.05	96.13	7.45
Mar 2037	7.25	96.38	7.61

Source: Byblos Bank Capital Markets

	Jan 15-19	Jan 8-12	% Change	December 2017	December 2016	% Change
Total shares traded	440,308	1,198,756	(63.3)	11,929,343	17,811,981	(33)
Total value traded	\$4,775,836	\$9,531,024	(49.9)	\$116,215,896	\$121,409,329	(4.3)
Market capitalization	\$11.68bn	\$11.62bn	0.74	\$11.47bn	\$11.90bn	(3.6)

Source: Beirut Stock Exchange (BSE)



Cost of living in Beirut is 299th highest in the world, third highest among Arab cities

The 2018 Cost of Living Index, produced by crowd-sourced global database Numbeo, ranked the cost of living in Beirut as the 299th highest among 540 cities around the world, as well as the third highest among 20 Arab cities and the highest among 104 cities in upper middle-income countries (UMICs). Based on the same set of cities included in the mid-2017 and January 2018 surveys, Beirut's rank changed from 269th place in the mid-year 2017 survey to 273rd place in the January 2018 survey, reflecting a relative decrease in the cost of living. The Cost of Living Index is a relative indicator of consumer goods price, including groceries, restaurants, transportation and utilities. Numbeo benchmarks the Index against New York City. It also issues a Rent Index, which is an estimation of apartment rents in a city compared to New York City rents. Numbeo relies on residents' inputs and uses data from official sources to compute the indices.

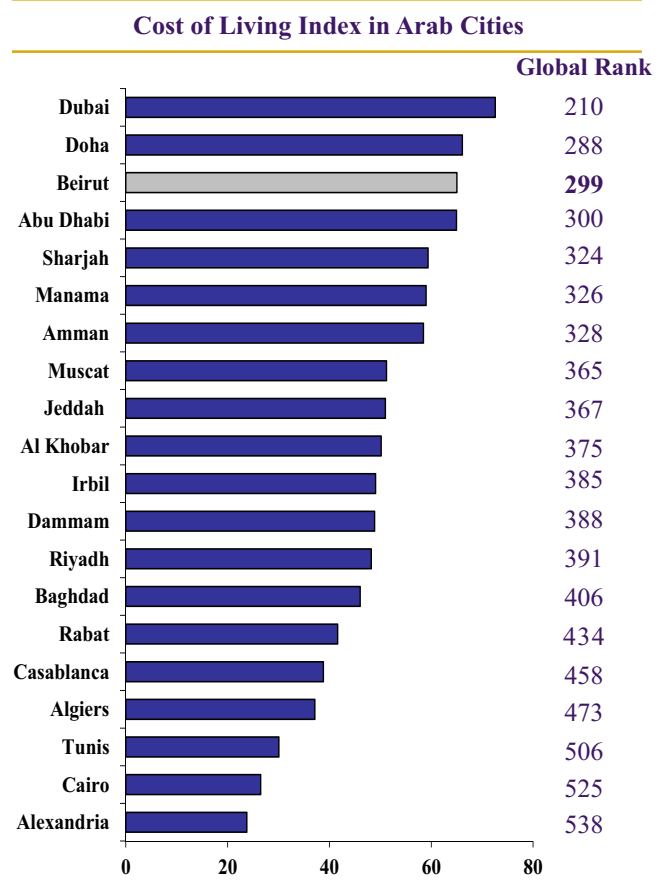
According to the Cost of Living Index, consumer goods in Beirut are more expensive than in Abu Dhabi, Thessaloniki in Greece and Pensacola, Florida in the U.S., while they are less costly than in Mobile, Alabama in the U.S., Hamilton in Canada and Louisville in the U.S. Hamilton in Bermuda ranked as the most expensive city in the world, while Thiruvananthapuram in India came as the least expensive city globally. Beirut received a score of 65 points, which means that prices in Beirut are 35% lower than those in New York City.

In parallel, the Rent Index ranked Beirut in 140th place globally, in fourth place among Arab cities, and in second place to Shanghai in China among cities in UMICs. Globally, renting an apartment in Beirut is more expensive than in Salt Lake City in the U.S., Stuttgart in Germany and Kelowna in Canada; while it is less expensive than in Rotterdam and Eindhoven in the Netherlands, and in Vienna.

Further, Dubai, Doha and Abu Dhabi are the only Arab cities that have more expensive rents than Beirut. San Francisco has the highest apartment rents in the world, while rent in Valenzuela in the Philippines is the lowest globally. Lebanon received a score of 35 points on the index, which means that rent in Lebanon is 65% less expensive than in New York City.

Also, the Groceries Index, which is an estimate of grocery prices in a city compared to New York City, ranked Beirut in 350th place globally, in seventh place among Arab cities and in 22nd place among cities in UMICs. Globally, groceries in Beirut are more expensive than in Kuala Lumpur in Malaysia, Prague in the Czech Republic and Funchal in Portugal; while they are cheaper than in Santiago in Chile, Windhoek in Namibia and Quito in Ecuador. In addition, groceries in Beirut are less costly than in Dubai, Doha, Manama, Abu Dhabi, Sharjah and Amman among Arab cities. Lebanon received a score of 47.5 points, which means that groceries in Beirut are 52.5% less expensive than they are in New York City.

Finally, the Restaurant Index, which compares the prices of meals and drinks at restaurants and pubs relative to New York City, ranked Beirut in 240th place globally, in second place among Arab cities and in first place among cities in UMICs. Globally, meals and drinks at restaurants and pubs in Beirut are more expensive than in Limassol in Cyprus, Harrisburg, Pennsylvania and Madison, Wisconsin in the U.S.; while they are cheaper than in Moncton in Canada, Larnaca in Cyprus and Darmstadt in Germany. Also, Dubai is the only Arab city with more expensive restaurants than Beirut. The Lebanese capital received a score of 66.6 points on the index, which means that prices at restaurants and pubs in Beirut are 33.4% less expensive than they are in New York City.



Source: Numbeo, Byblos Research

External debt posts 13th lowest return in emerging markets in 2017

Figures issued by Intercontinental Exchange, Inc. (ICE) indicate that Lebanon's external debt posted a return of 5.64% in 2017, constituting the seventh lowest return among 43 markets in the Central & Eastern Europe and the Middle East & Africa (CEEMEA) region, as well as the 13th lowest return among 75 emerging markets included in ICE's External Debt EM Sovereign Index. Lebanon underperformed the overall emerging markets' return of 8.96% last year. Also, Lebanon's external debt posted the fifth lowest return among 25 countries in the Middle East & Africa region in 2017, ahead of Israel (+5.03%), Oman (+4.96%), Qatar (+4.05%) and the UAE (+3.89%).

Further, Lebanon's external debt posted a return of 1.95% in December 2017, constituting the eighth highest return in the CEEMEA region, and the 11th highest in emerging markets during the covered month. Lebanon outperformed the emerging markets' return of 0.66% in December 2017. It also had the seventh highest return in the Middle East & Africa region in December 2017, behind Nigeria (+2.79%), Angola (+2.47%), Zambia (+2.36%), South Africa (+2.34%), Gabon (+2.17%) and Ghana (+2.04%).

In parallel, ICE indicated that the option-adjusted spread on Lebanese Eurobonds was 482 basis points at the end of 2017 compared to 480 basis points at end-2016. The spread on Lebanese Eurobonds was the widest in the CEEMEA region and the fourth widest among emerging markets. It was wider than the emerging markets' overall spread of 218 basis points at the end of December 2017.

Lebanon has a weight of 2.29% on ICE's External Debt EM Sovereign Index, the seventh largest weight in the CEEMEA universe and the 13th largest among emerging economies. Lebanon accounted for 4.3% of allocations in the CEEMEA region.

ESFD guaranteed 534 loans in 2017

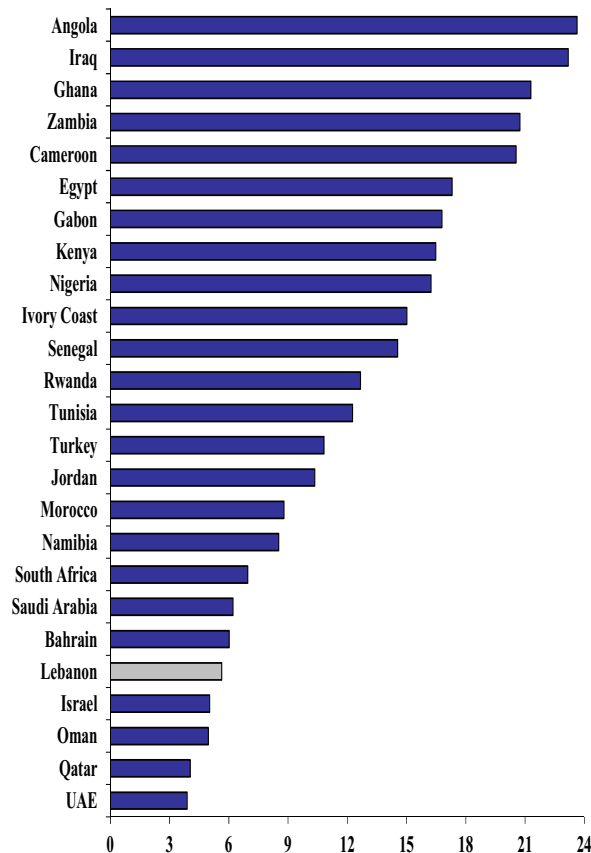
The Economic & Social Fund for Development (ESFD) indicated that it guaranteed 534 loans for a total of LBP14.5bn, or \$9.2m, to small- and medium-sized enterprises in 2017. The ESFD guaranteed 144 loans for an aggregate value of LBP3.7bn in the first quarter, 149 projects for LBP4.2bn in the second quarter, 113 loans for an aggregate LBP3.2bn in the third quarter and 128 projects for LBP3.4bn in the fourth quarter of 2017. Overall, the ESFD guaranteed 9,925 loans for an aggregate value of LBP183.3bn, or \$121.6m, between 2003 and 2017. Mount Lebanon accounted for 29.4% of the total number of loans guaranteed by the ESFD since 2003, followed by Nabatieh (22%), the North (17.7%), the South (13.5%), the Bekaa (12.6%) and Beirut (4.8%). The ESFD has guaranteed 3,859 loans, or 38.9% of the total, to the services sector, followed by the trade sector with 3,595 loans (36.2%), the industrial sector with 1,455 loans (14.7%) and the agricultural sector with 1,016 loans (10.2%). It claims that it has helped create 8,259 new jobs since 2003.

The ESFD guarantees 50% of the loan principal and accrued interest for 120 days. It provides financial and technical support to small and medium-sized enterprises, through financial intermediaries, to finance projects in poor regions of the country. The ESFD was established in November 2000 based on the signing of a financing agreement between the European Commission and the Lebanese government through the Council for Development & Reconstruction. The ESFD is funded by the European Union and the Lebanese government.

Coincident Indicator up 5.3% year-on-year in first 11 months of 2017

Banque du Liban's Coincident Indicator, an index of economic activity in Lebanon, reached 323.9 points in November 2017 compared to 306 in October 2017 and 311.6 in November 2016. The Coincident Indicator, an average of 8 weighted economic indicators, increased by 5.8% month-on-month and by 3.9% year-on-year in November 2017. The indicator averaged 304.7 in the first 11 months of 2017, up by 5.3% from 289.3 in the same period of 2016. Also, the indicator averaged 303.6 in the 12 months ending November 2017, compared to 302.7 in the 12-month period ending October 2017 and 290.4 in the 12 months ending November 2016. As a result, the 12-month average coincident indicator grew by 0.3% month-on-month and by 4.6% year-on-year. In parallel, the indicator improved 19 times and regressed six times on a monthly basis in the month of November since 1993. It averaged 249.5 points in 2010, 255.7 points in 2011, 256.6 points in 2012, 264.7 points in 2013, 273.2 points in 2014, 278.6 points in 2015 and 289.5 points in 2016.

External Debt Performance in the Middle East & Africa in 2017 (%)

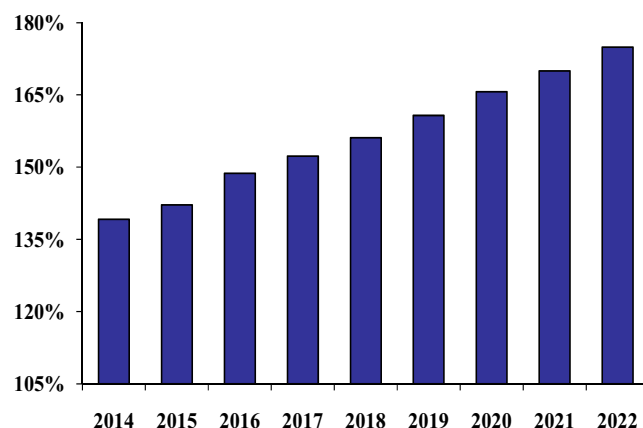


Source: ICE, Byblos Research

Gross public debt at \$79.4bn at end-November 2017

Lebanon's gross public debt reached \$79.4bn at the end of November 2017, constituting an increase of 6% from \$74.9bn at end-2016 and a rise of 6.5% from \$74.5bn at end-November 2016. In nominal terms, the gross public debt grew by \$4.5bn in the first 11 months of 2017 relative to an increase of \$4.2bn in the same period of 2016. Debt denominated in Lebanese pounds totaled \$48.9bn at end-November 2017, up by 4.6% from the end of 2016 and by 5.5% from end-November 2016; while debt denominated in foreign currency stood at \$30.4bn, constituting a growth of 8.2% from end-2016 and a rise of 8% from end-November 2016. Local currency debt accounted for 61.7% of the gross public debt at the end of November 2017 compared to 62.2% a year earlier, while foreign currency-denominated debt represented the balance of 38.3% relative to 37.8% at end-November 2016. The weighted interest rate on outstanding Treasury bills was 6.78% and that on Eurobonds was 6.48% in November 2017. Further, the weighted life on Eurobonds was 7.12 years, while that on Treasury bills was 1,387 days.

Lebanon's Gross Public Debt (% of GDP)



Source: International Monetary Fund

Commercial banks held 41.4% of the public debt as at end-November 2017 relative to 46.6% of the total at end-November 2016. Banque du Liban (BdL) held 47.4% of the Lebanese pound-denominated public debt at the end of November 2017 relative to 43.5% a year earlier, while commercial banks held 38.8% of the local debt compared to 40.9% at end-November 2016. Also, public agencies, financial institutions and the public held 15% of the local debt at end-November 2017, relative to 15.5% a year earlier. Further, holders of Eurobonds and special T-bills in foreign currencies accounted for 92.7% of foreign currency-denominated debt holders at the end of November 2017, followed by multilateral institutions with 4.4% and foreign governments with 2.8%. In addition, the net public debt, which excludes public sector deposits at the BdL and at commercial banks from overall debt figures, grew by 7.1% annually to \$69.8bn at end-November 2017. Further, the gross market debt accounted for about 58.2% 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-'. Also, 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 January 18, 2018, which is similar to the S&P rating.

BCCL asks banks to prepare their general strategy plan

The Banking Control Commission of Lebanon (BCCL) issued Circular 292 on December 28, 2017 about the general strategy and business plan of commercial banks. The circular asked banks to prepare their general strategy and business plan and submit them to the BCCL before the end of April 2018. It stipulated that the general strategy and business plan have to cover a three-year period at least, and must include the foreign subsidiaries of Lebanese banks. It said that the Board of Directors has to approve the bank's general strategy and updates, as well as to follow up on its implementation. It noted that the business plan, which would help implement a bank's general strategy, has to be based on reasonable risk assessment and assumptions about the economy, market and competition. It added that the banks should update their strategy at least once a year or when needed, and provide the BCCL with the new version before the end of each year.

The circular indicated that a bank's general strategy should include its anticipated expansion plans in Lebanon and abroad, as well as potential changes to its shareholders, Board of Directors and management, and any anticipated modification in Board Committees.

In parallel, the circular pointed out that the business plan should elaborate on the bank's business model, its competitive advantage relative to other banks, the products and services it offers, and its organizational structure. Also, it noted that the business plan should include any potential changes to the bank's administrative structure, anticipated increase in human capital, and expected training program for its staff. In addition, it said that the plan has to include new products and services that the bank intends to introduce in coming years, as well as sectors and markets that it plans to focus on.

In terms of risk management, the circular indicated that the bank has to elaborate on the risks that the bank is facing, on any expected changes to its risk profile, and on potential modifications to its risk management measures. In addition, it asked the banks to present their dividend distribution policy, as well as their targets for capital adequacy ratios, return on assets, return on equity, liquidity levels, financing needs, and measures to achieve these targets.

Fiscal deficit narrows by 36% to \$2bn in first nine months of 2017, equivalent to 19.2% of expenditures

Figures released by the Finance Ministry show that the fiscal deficit reached \$2bn in the first nine months of 2017 and narrowed by 36.4% from \$3.15bn in the same period of 2016. The deficit was equivalent to 19.2% of total budget and Treasury expenditures compared to 29.5% of total spending in the first nine months of 2016. Government expenditures reached \$10.4bn and decreased by 2.5% year-on-year, while revenues grew by 11.7% annually to \$8.4bn in the first nine months of 2017. As such, the narrowing of the deficit reflects an increase of \$880.3m in total revenues and a decline of \$266m in overall expenditures during the covered period. The rise in revenues is mainly due to an increase of \$629.7m in receipts from the tax on profits, as banks paid a one-off tax on the revenues that they generated from the swap operations that they conducted with Banque du Liban in 2016. The decline in spending mainly reflects a drop of 43.8%, or \$595.5m, in Treasury expenditures due to a decrease of 79.5%, or \$552.1m, in transfers to municipalities.

On the revenues side, tax receipts grew by 18.1% to \$6.4bn in the first nine months of 2017, of which 26.5%, or \$1.7bn, were in VAT receipts that increased by 6.8% year-on-year. Tax receipts accounted for 82% of budgetary revenues and for 76.4% of total Treasury and budgetary receipts in the covered period. The distribution of other tax revenues shows that receipts from taxes on income, profits & capital gains jumped by 43.8% year-on-year to \$2.43bn in the first nine months of 2017; receipts from customs increased by 1.6% to \$1.1bn; revenues from property taxes improved by 14.5% to \$690m; receipts from taxes on goods & services grew by 8.4% to \$301.8m, and revenues from stamp fees increased by 4.3% to \$241.7m.

The distribution of income tax receipts shows that the tax on profits accounted for 56% of income tax revenues in the first nine months of 2017, followed by the tax on interest deposits with 18.5%, taxes on wages & salaries with 16% and the capital gains tax with 8.3%. Revenues from taxes on profits jumped by 86.8% in the covered period, those from the capital gains tax grew by 24.3%, receipts from the tax on interest deposits improved by 10.2% and receipts from taxes on wages & salaries increased by 7.2%. Also, the distribution of property taxes shows that revenues from real estate registration fees increased by 19.3% to \$452.2m in the first nine months of the year and receipts from the built property tax improved by 12.4% to \$158m, while revenues from the inheritance tax declined by 3.4% to \$79.8m. Further, non-tax budgetary receipts decreased by 11.5% year-on-year to \$1.4bn in the first nine months of 2017. They mainly included \$838.1m in revenues generated from government properties that regressed by 24.1% year-on-year, as well as \$415m in receipts generated from administrative fees and charges that rose by 10.3% year-on-year. Receipts from telecommunications services decreased by 40.2% to \$530.7m, due to delays in transfers to the Treasury from the Telecommunications Ministry. They accounted for 63.3% of income from government properties and for 37.6% of non-tax budgetary revenues.

On the expenditures side, budgetary spending, which includes general expenditures and debt servicing, grew by 3.5% annually to \$9.6bn in the first nine months of 2017. General budgetary spending increased by 2.5% to \$6bn, and included \$895.3m in transfers to Electricité du Liban that jumped by 41.7% year-on-year, as well as \$774.5m in outlays from previous years that regressed by 13.6%, among others. Further, debt servicing totaled \$3.6bn in the first nine months of 2017 and grew by 5.2% year-on-year. Debt servicing accounted for 34.9% of total expenditures and for 37.7% of budgetary spending, while it absorbed 43.2% of overall revenues and 46.4% of budgetary receipts in the covered period. Interest payments on Lebanese pound-denominated debt grew by 5.2% year-on-year to \$2.4bn in the first nine months of the year and debt servicing on foreign currency debt increased by 6.4% to \$1.1bn. The primary budget balance posted a surplus of \$1.82bn, or 18.9% of budgetary expenditures, in the first nine months of 2017, while the overall primary balance posted a surplus of \$1.63bn, or 15.6% of spending.

Fiscal Results in First Nine Months of each Year			
	2016 (US\$m)	2017 (US\$m)	Change (%)
Budget revenues	7,031	7,832	11.4
Tax revenues	5,434	6,420	18.1
Non-tax revenues	1,569	1,412	-11.5
<i>of which Telecom revenues</i>	888	531	-40.2
Budget expenditures	9,314	9,644	3.5
Budget Surplus/Deficit	(2,284)	(1,812)	-20.7
<i>In % of budget expenditures</i>	<i>(24.5%)</i>	<i>(18.8%)</i>	
Budget Primary Surplus	1,168	1,820	55.8
<i>In % of budget expenditures</i>	<i>12.5%</i>	<i>18.9%</i>	
Treasury Receipts	494	573	16
Treasury Expenditures	1,360	765	-43.8
Total Revenues	7,525	8,405	11.7
Total Expenditures	10,675	10,409	-2.5
Total Deficit	(3,150)	(2,003)	-36.4
<i>In % of total expenditures</i>	<i>(29.5%)</i>	<i>(19.2%)</i>	
Total Primary Surplus/Deficit	302.4	1,629	438.7
<i>In % of total expenditures</i>	<i>2.8%</i>	<i>15.6%</i>	

Source: Ministry of Finance, Byblos Research

S&P Global Ratings maintains assessment of Lebanese banking sector

S&P Global Ratings maintained Lebanon's Banking Industry Country Risk Assessment (BICRA) in 'Group 9', its economic risk score at '10' and its industry risk score at '7'. The BICRA framework evaluates global banking systems based on economic and industry risks facing the banking sector, with 'Group 10' including the riskiest banking sectors. Other countries in BICRA's 'Group 9' include Argentina, Azerbaijan, Cambodia, Cyprus, El Salvador, Jamaica, Kenya, Papua New Guinea, Tunisia, Uzbekistan and Vietnam.

S&P indicated that Lebanon's economic risk score reflects its "extremely high risks" in each of its economic resilience and in credit risk in the economy, and its "high risk" in its economic imbalances. It noted that Lebanon's economic risks reflect the divisions among the country's political class, the high reliance on deposit and remittance inflows, and the high dollarization of the economy. It said that Lebanon's heightened security risks and political divisions, which are blocking long-term reforms and public investment, as well as regional uncertainties are preventing the economy from achieving its growth potential and are reducing domestic lending opportunities for banks.

Further, the agency considered that the exposure of Lebanese banks to the sovereign constitutes the key credit risk for the banks, as the latter continue to use large and resilient deposit inflows to subscribe to sovereign bonds. It said that this is allowing the government to finance its fiscal deficit, but is exposing banks to concentration risks. In addition, it anticipated asset quality in certain sectors to gradually deteriorate due to the prevailing conditions in the country. It said that challenges in the real estate and tourism sectors have resulted in several large restructurings, but without creating significant pressure on the banks' asset quality metrics due to high collateralization. It considered that banks are well-prepared to deal with a gradual deterioration in their asset quality metrics. It added that the loan-loss coverage ratio is adequate at about 120% of non-performing loans, and that the banks have accumulated substantial provisions from the revenues they generated from the swap transactions with Banque du Liban. The agency pointed out that the trend for economic risk in Lebanon is "stable". But it noted that risks related to the banks' exposure to the sovereign remain high, given the uncertainty of policy-makers' ability to address medium- and long-term macroeconomic reforms.

In parallel, S&P indicated that Lebanon's industry risk score reflects the country's "very high risks" in its system-wide funding, and "high risks" in its institutional framework and competitive dynamics. It said that Lebanon has an adequate track record of regulation and supervision, which, along with favorable interest rates, have supported the banks' ability to attract steady flows of deposits and, in turn, finance the government's needs. It added that the sector's competitive landscape is crowded, but is largely concentrated among 12 banks. Further, it noted that resilient retail deposits constitute the bulk of the banking sector's funding. But it added that the deterioration in domestic public finances and subdued growth prospects are increasing the banks' reliance on Lebanese expatriates for deposits in foreign currency. S&P pointed out that the trend for industry risk in Lebanon is "negative", given the increase in system-wide funding risks. It added that an increase in political and geopolitical risks could affect the sources of deposits for Lebanese banks, while subdued economic prospects could lead to a rise in the government's financing needs.

Average value per real estate transaction up 2.5% in 2017

Figures released by the Ministry of Finance indicate that there were 73,541 real estate transactions in 2017, constituting an increase of 14.5% from 64,248 deals in 2016. In comparison, the number of real estate deals grew by 1.4% year-on-year in 2016, while it decreased by 10.6% in 2015. There were 7,083 real estate transactions in December 2017, up by 14.6% from 6,182 deals in November 2017 and up by 9.4% from 6,474 deals in December 2016. Further, there were 15,421 real estate transactions in the Baabda area in 2017, representing 21% of the total. The North followed with 11,528 transactions (15.7%), then the Zahlé region with 8,501 deals (11.6%), the Metn district with 8,374 transactions (11.4%), the South with 7,912 deals (10.8%), the Keserwan area with 7,509 transactions (10.2%), the Nabatieh region with 6,699 deals (9.1%) and Beirut with 5,274 transactions (7.2%).

Also, the aggregate value of real estate transactions reached \$10bn in 2017 and increased by 17.4% from \$8.5bn in 2016. In comparison, the value of real estate deals increased by 5.9% in 2016, while it declined by 10.4% in 2015. The value of real estate transactions reached \$940.6m in December 2017, up by 9.5% from \$858.9bn in November 2017 and down by 5.3% from \$993m in December 2016. Further, the value of real estate transactions in Beirut reached \$2.7bn and accounted for 27.4% of the total in 2017. The Baabda district followed with \$2.1bn (21.2%), then the Metn region with \$1.8bn (18.2%), the Keserwan area with \$1bn (10.3%), the North with \$775m (7.8%), the South with \$738.4m (7.4%), the Zahlé area with \$392.2m (3.9%) and the Nabatieh region with \$293.4m (2.9%).

In parallel, the average value per real estate transaction was \$135,356 in 2017, up by 2.5% from \$132,016 in 2016 and relative to an average value of \$126,313 in 2015. Further, there were 1,364 real estate transactions executed by foreigners in 2017, up by 21.4% from 1,124 deals in 2016, and compared to an annual decrease of 19.4% in 2016 and a rise of 17.8% in 2015.

The number of real estate deals executed by foreigners accounted for 1.9% of total real estate transactions in 2017 compared to 1.7% of deals in 2016 and to 2.2% of deals 2015. Further, 28.3% of the real estate transactions executed by foreigners were in the Baabda district in 2017, followed by Beirut (15.8%), the South (15.7%), the Metn region (13.1%), the North (8.5%), Zahlé (8.4%), Keserwan (7.8%), and the Nabatieh region (2.4%).

Trade deficit at \$14.7bn in first 11 months of 2017

The total value of imports reached \$17.3bn in the first 11 months of 2017, constituting an increase of 0.8% from the same period of 2016; while the aggregate value of exports declined by 5% to reach \$2.6bn in the covered period. As such, the trade deficit slightly widened by 1.9% to \$14.7bn in the first 11 months of 2017 due to a year-on-year increase of \$135.6m in imports and a decrease of \$137.4m in exports.

The value of imported oil & mineral fuels reached \$3.38bn in the first 11 months of 2017 and accounted for 19.5% of total imports in the covered period, compared to a share of 20.4% in the first 11 months of 2016. In volume terms, imports of oil & mineral fuels decreased by 2.2% year-on-year to 8 million tons.

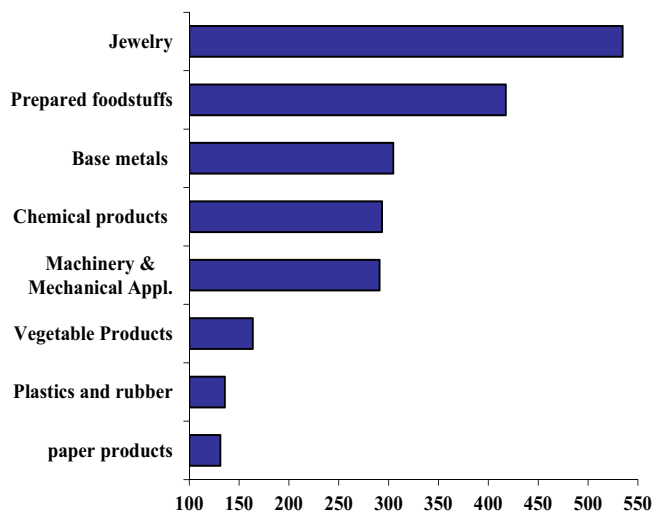
In addition, the drop in exports in the covered period mainly reflects a decline of \$246m, or 31.5%, in the value of exported jewelry, which was partly offset by a rise of \$80m, or 35.6%, in the value of exported base metals, and an increase of \$28.6m, or 2.6 times, in the value of exported mineral products. The coverage ratio was 15% in the first 11 months of 2017 compared to 15.9% in the same period of 2016.

In parallel, exports to Switzerland grew by 70.2% in the first 11 months of 2017, those to Turkey expanded by 62.6%, exports to Syria rose by 34.8%, exports to Iraq increased by 6.8% and exports to the UAE grew by 4.6%, while exports to South Africa decreased by 52% and those to Saudi Arabia declined by 11.4%. Re-exports totaled \$693.5m in the first 11 months of 2017 compared to \$465.1m in the same period of 2016. Also, the Port of Beirut was the exit point for 50.7% of Lebanon's total exports in the first 11 months of 2017, followed by the Hariri International Airport (31.6%), the Port of Tripoli (8%), the Masnaa crossing point (4.5%) and the Arida crossing point (3.6%).

Lebanon's main non-hydrocarbon imports were chemical products that reached \$1.94bn in the first 11 months of 2017 and increased by 3.9% year-on-year. Imports of machinery & mechanical appliances followed at \$1.77bn (+3.3%), then vehicles, aircraft & vessels at \$1.71bn (+7.1%), prepared foodstuff at \$1.26bn (-2.8%), base metals at \$1.17bn (+8.3%), jewelry at \$873.1m (-23.2%) and vegetable products at \$868.1m (+12.3%). The Port of Beirut was the entry point for 72% of Lebanon's merchandise imports in the first 11 months of 2017, followed by the Hariri International Airport (18.7%) and the Port of Tripoli (6.6%).

China was the main source of imports with \$1.7bn, or 10% of the total, in the first 11 months of 2017, followed by Italy with \$1.6bn (9.4%), Greece with \$1.26bn (7.3%), Germany with \$1.1bn (6.5%), the United States with \$1bn (6.1%) and Turkey with \$720.8m (4.2%). Imports from Greece grew by 33.6% year-on-year in the first 11 months of 2017, those from Italy improved by 28%, imported goods from Turkey increased by 21.8% and those from Germany grew by 5.3%, while imported goods from China decreased by 10.4% and those from the United States dropped by 4.1% year-on-year in the first 11 months of 2017.

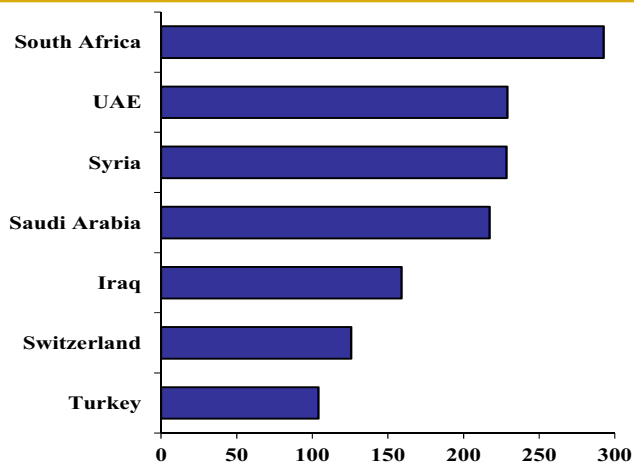
Main Lebanese Exports* (\$m)



*in the first 11 months of 2017

Source: Lebanese Customs Administration, Byblos Research

Main Destinations of Lebanese Exports* (\$m)



*in the first 11 months of 2017

Source: Lebanese Customs Administration, Byblos Research

Byblos Bank to deploy \$25m in support of energy efficient projects in Lebanon

Byblos Bank sal received a \$25m long-term senior loan from the Green for Growth Fund (GGF) in order to finance private-sector investments in energy efficiency projects in Lebanon. Byblos Bank sal will extend loans to finance industrial equipment upgrades, energy efficient buildings, commercial vehicle replacements, as well as energy service and supply companies. The agreement comes in line with Byblos Bank's strategy to build and sustain partnerships with international organizations, and to protect the environment through special banking products. The GGF credit line will complement the Bank's current credit facilities and increase its lending portfolio. Byblos Bank's net loans & advances to customers totaled \$5.3bn at the end of September 2017, up by 3.4% from \$5.1bn at end-September 2016, and accounted for about 8% of total lending to the private sector in Lebanon.

Established by the European Investment Bank and the German government's KfW Development Bank, the GGF is a public-private partnership that aims to reduce energy consumption and CO2 emissions. The GGF is a specialized fund to promote energy efficiency and renewable energy in the Middle East & North Africa (MENA) region and other areas. It provides medium to long-term financing for energy efficiency and renewable energy products or projects to commercial banks, micro-finance institutions, leasing companies, and other non-bank financial institutions committed to the same energy saving objectives. In turn, the financial institutions lend these funds to sub-borrowers such as households, household associations, small and medium enterprises, large business, municipalities, public sector entities and renewable energy projects.

Moody's affirms ratings on Byblos Bank and BLOM Bank

Moody's Investors Service affirmed at 'B3' the long-term deposit ratings of Byblos Bank and BLOM Bank, and at 'b3' their baseline credit assessments (BCAs). It also affirmed the national scale ratings of the banks at 'A3.lb/LB-2'. It maintained the 'stable' outlook on the banks' long-term deposit and national scale ratings. It attributed the ratings' affirmation to the resilience of the two banks' financial profiles. It noted that the banks' high direct exposure to the government, along with the concentration of their operations in the Lebanese market, make them vulnerable to the sovereign risk and constrain their BCAs at the sovereign level.

In parallel, the agency indicated that Byblos Bank's ratings reflect its established position in the domestic market as one of the largest banks in Lebanon, as well as its strong liquidity profile and stable deposit-based funding structure. It added that BLOM Bank's ratings reflect its strong domestic market position, profitability, adequate liquidity profile and stable deposit-based funding structure. It estimated Byblos Bank's shareholders' equity at 8% of its total assets at the end of September 2017, while it said that BLOM Bank's shareholders' equity reached 8.9% of its total assets at end-September. It noted that the banks' capital levels are moderate, given the challenging domestic operating environment and their high sovereign exposure.

Kafalat loan guarantees down 29% to \$66m in 2017

Figures released by the Kafalat Corporation show that loans extended to small- and medium-sized enterprises (SMEs) under the guarantee of Kafalat reached \$66.4m in 2017, constituting a decrease of 28.5% from \$93m in 2016. Kafalat provided 541 loan guarantees last year, down by 24% from 712 guarantees in 2016. The average loan size reached \$122,819 in 2017 compared to \$130,490 in 2016. Mount Lebanon accounted for 40.5% of the total number of guarantees in 2017, followed by the Bekaa with 19%, the South with 13.9%, Nabatieh with 9.8%, the North with 9.4% and Beirut with 7.4%. Also, the agricultural sector accounted for 38.8% of the total number of guarantees last year, followed by the industrial sector with 33.6%, tourism with 21.6%, handicraft with 4.3% and specialized technologies with 1.7%.

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.

Banque du Liban imposes restrictions on banks' insurance activity

Banque du Liban (BdL) issued Financial Announcement 921 on December 26, 2017 that prohibits commercial banks from conducting insurance and reinsurance activity, from advertising insurance products and/or allowing representatives of an insurance company to conduct their activities within the bank, in order to avoid the risk of being penalized. BdL attributed its decision to two main factors. First, it said that Article 152 of the Code of Money and Credit prohibits banks from engaging in any activity that is not related to the banking industry. Second, it noted that insurance regulations only allow certified parties to conduct insurance and reinsurance operations and to advertise such operations. In addition, it pointed out it received from the Insurance Control Commission a report showing that some banks are advertising insurance products.

Net profits of life insurance segment up 19% in 2016, claims paid to beneficiaries up 1%

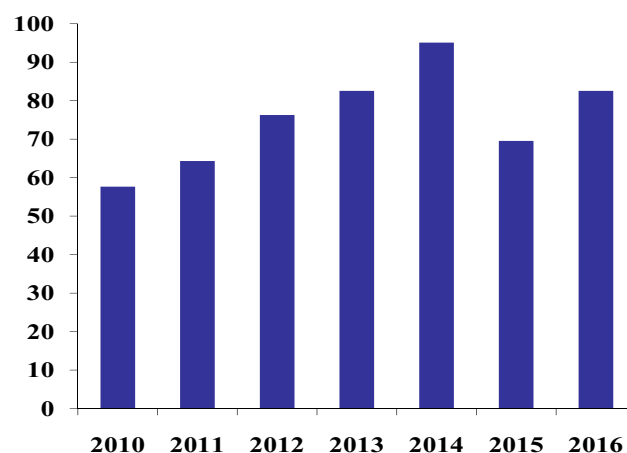
Figures released by the Insurance Control Commission (ICC) show that the aggregate net profits of 34 companies operating in the life insurance segment in Lebanon reached \$82.5m in 2016, constituting an increase of 18.7% from \$69.5m in 2015. Also, net income from the life segment posted a compound annual growth rate (CAGR) of 6.2% between 2010 and 2016. The "term life protection" category posted profits of \$55.6m in 2016, followed by the "life protection with unit-linked savings" category with \$18.4m and the "life protection with savings" category with \$8.5m. Bancassurance led all life insurers with \$16.5m in net profits in 2016 and accounted for 20% of the life segment's aggregate net earnings, followed by MetLife Alico with \$15.3m (18.6%), Sogecap with \$9.5m (11.5%), CLA with \$9.3m (11.3%), LIA with \$7.2m (8.7%) and ADIR with \$7.1m (8.6%).

Gross written premiums from the life segment, which include new business and renewals, increased by 5.1% to \$482.8m in 2016 relative to growth rates of 7.8% in 2015, 4.3% in 2014 and 7.5% in 2013. Also, gross premiums rose by a CAGR of 6.2% between 2010 and 2016. Gross written premiums from the "life protection with savings" category totaled \$177.5m and accounted for 36.4% of aggregate life insurance premiums, followed by the "term life protection" category with \$169.3m (34.7%), and the "life protection with unit-linked savings" category with \$141.1m (28.9%). Further, net premiums stood at \$458.6m, policy fees totaled \$17.5m, and the cost of policies reached \$11.7m in 2016.

In addition, the annualized premiums equivalent (APE), which is a standard market indicator used in the disclosures of insurance companies to financial markets, increased by 9.5% year-on-year to \$420.8m in 2016 relative to growth rates of 4.7% in 2015 and 3.3% in 2014. In terms of APE, MetLife Alico captured a market share of 20.4% among providers of life insurance in 2016, followed by Bancassurance with 15.4%, Allianz SNA (11.7%), LIA (10.3%) and Adir (10%).

In parallel, claims paid to beneficiaries totaled \$256.7m in 2016, up by 1.3% from \$253.5m in 2015. Also, paid claims increased by a CAGR of 22.3% during the 2010-16 period. In addition, insurance liabilities, which represent the amount that insurers set aside to cover future claims and related expenditures, increased by 6.3% in 2016 to \$2bn. 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.

Net Profits of the Life Insurance Segment (\$m)



Source: Insurance Control Commission, Byblos Research

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	Mar 2016	Feb 2017	Mar 2017	Change**	Risk Level
Political Risk Rating	54.5	56.5	56.5	▼	High
Financial Risk Rating	36.5	33.0	33.0	▲	Low
Economic Risk Rating	30.5	27.5	27.5	▲	Moderate
Composite Risk Rating	60.75	58.5	58.5	▲	High

MENA Average*	Mar 2016	Feb 2017	Mar 2017	Change**	Risk Level
Political Risk Rating	57.7	57.9	57.9	▼	High
Financial Risk Rating	40.0	38.3	38.4	▲	Low
Economic Risk Rating	31.6	29.6	29.6	▲	High
Composite Risk Rating	64.6	62.9	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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