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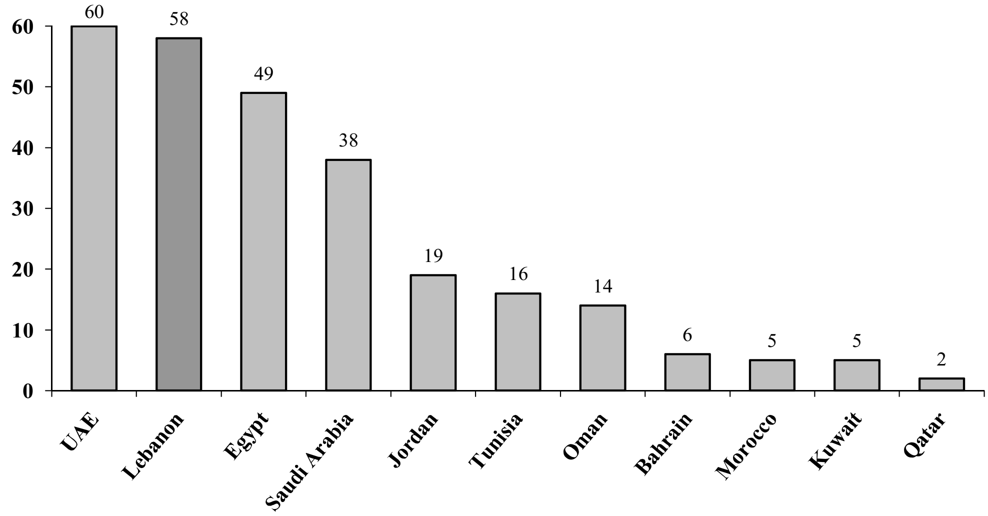
LEBANON THIS WEEK

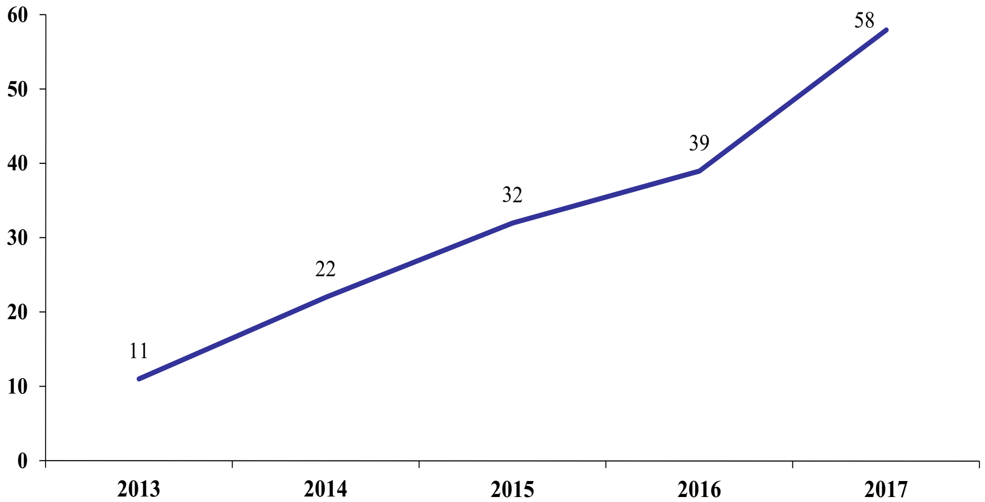
In This Issue

Charts of the Week

Number of Investments by MENA-based Funds in Technology Startups in Arab countries in 2017



Number of Investments by MENA-based Funds in Technology Startups in Lebanon



Source: ArabNet, Byblos Bank

Quote to Note

"We cannot want your success more than you want it."

H.E. Mr. Hugo Shorter, Ambassador of the United Kingdom to Lebanon, on the need for Lebanese authorities to seize existing opportunities from the international support to Lebanon

Number of the Week

54: Lebanon’s rank in terms of insurance density in 2017, or premiums per capita, according to global reinsurer Swiss Re

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
BLOM Listed	10.21	0.10	335,350	21.29%
Solidere "A"	7.23	0.14	88,158	7.01%
Audi Listed	5.08	1.40	45,956	19.69%
Byblos Common	1.41	(2.08)	32,500	7.73%
BLOM GDR	10.50	0.96	23,630	7.52%
Audi GDR	5.31	(3.45)	12,960	6.18%
Solidere "B"	7.27	2.11	12,950	4.58%
HOLCIM	15.00	(6.43)	11,324	2.84%
Byblos Pref. 08	87.00	(4.40)	2,344	1.69%
Byblos Pref. 09	90.00	(0.99)	1,956	1.75%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Nov 2018	5.15	99.63	6.35
May 2019	6.00	99.25	6.94
Mar 2020	6.38	97.25	8.21
Oct 2022	6.10	88.48	9.49
Jun 2025	6.25	83.00	9.69
Nov 2026	6.60	82.88	9.63
Feb 2030	6.65	79.38	9.64
Apr 2031	7.00	81.00	9.62
Nov 2035	7.05	79.75	9.45
Mar 2037	7.25	81.00	9.43

Source: Byblos Bank Capital Markets

	Jul 16-20	Jul 9-13	% Change	June 2018	June 2017	% Change
Total shares traded	591,049	747,459	(20.9)	5,778,738	4,057,384	42.4
Total value traded	$6,339,989	$8,762,489	(27.6)	$39,079,304	$45,447,025	(14.0)
Market capitalization	$10.31bn	$10.33bn	(0.22)	$10.43bn	$11.57bn	(9.8)

Source: Beirut Stock Exchange (BSE)

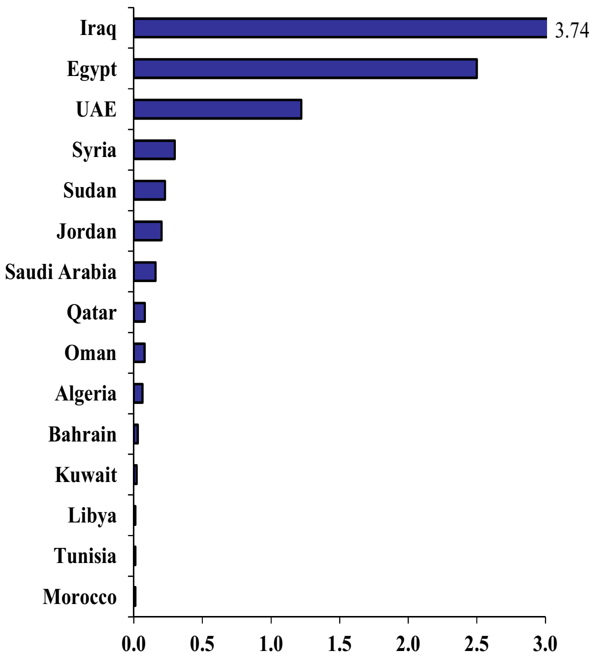
Lebanese Greenfield foreign direct investment in Arab countries at $9bn between 2003 and 2017, Iraq attracts 43% of the total

Figures compiled by fDi Markets show that the cumulative amount of Lebanese Greenfield foreign direct investment (FDI) in Arab countries totaled $8.7bn between 2003 and 2017. Lebanon was the seventh largest source of inter-Arab Greenfield FDI among 19 Arab countries during the covered period, behind the UAE ($164.8bn), Kuwait ($40.2bn), Bahrain ($38.8bn), Qatar ($31.2bn), Saudi Arabia ($28.1bn) and Egypt ($13.8bn). The amount of outward Greenfield FDI from Lebanon to Arab countries accounted for 2.6% of total inter-Arab Greenfield FDI between 2003 and 2017.

The FDI figures cover cross-border Greenfield projects that lead to the direct creation of jobs and capital investment. They include joint ventures when these transactions lead to a new physical Greenfield operation, but exclude mergers and acquisitions and other equity investments. fDi Markets is a database that tracks cross-border Greenfield investments across the world, and is owned by the Financial Times Group.

Iraq was the main destination of Greenfield FDI from Lebanon with $3.74bn or 43.3% of the total during the 2003-17 period, followed by Egypt with $2.5bn (28.9%), the UAE with $1.22bn (14.1%), Syria with $298.2m (3.4%), Sudan with $228.1m (2.6%), Jordan with $202.8m (2.3%), Saudi Arabia with $158.4m (1.8%), Qatar with $80m and Oman with $79m (0.9% each), Algeria with $62.7m (0.7%), Bahrain with $28.3m (0.3%), Kuwait with $21.5m (0.2%), as well as Libya and Tunisia with $11m each and Morocco with $10.8m (0.1% each).

Greenfield FDI Outflows from Lebanon to Arab Countries* (US$bn)



**between 2003 and 2017*
Source: fDi Markets, Byblos Research

The hydrocarbon sector in Arab countries attracted $3bn in Greenfield FDI from Lebanon, or 34.7% of the total, between 2003 and 2017. The food & tobacco industries followed with $2.66bn (30.7%), then the real estate sector with $1.22bn (14.1%), the financial services industry with $1.18bn (13.6%), the information technology sector with $171.7m (2%), the telecommunications industry with $150m and the textiles sector with $146.1m (1.7% each), while other sectors attracted $126.5m, or 1.5% of the total.

In parallel, there were 144 Lebanese Greenfield FDI projects in Arab countries between 2003 and 2017. The UAE was the destination of 30 Greenfield FDI projects from Lebanon, or 20.8% of the total, followed by Egypt with 19 projects (13.2%), Iraq with 18 projects (12.5%), Syria with 17 projects (11.8%), Jordan with 16 projects (11.1%), Saudi Arabia with 10 projects (6.9%), Qatar with seven projects (4.9%), Algeria with six projects (4.2%), Kuwait and Sudan with five projects each (3.5% each), Bahrain and Oman with four projects each (2.8% each), and Libya, Morocco and Tunisia with one project each (0.7% each). Further, the number of Lebanese Greenfield FDI projects in Arab countries accounted for 5.3% of inter-Arab Greenfield FDI projects during the covered period. Overall, Egypt, Iraq and the UAE were the recipients of 46.5% of the number of Lebanese FDI projects in Arab countries and of 86.2% of their value.

ESFD guaranteed 217 loans in first half of 2018

The Economic & Social Fund for Development (ESFD) indicated that it guaranteed 217 loans for a total of LBP5.6bn, or $3.7m, to small- and medium-sized enterprises in the first half of 2018. The ESFD guaranteed 114 loans for an aggregate value of LBP2.8bn, or $1.9m, in the first quarter and 103 projects for a total value of LBP2.78bn, or $1.8m, in the second quarter of 2018. Overall, the ESFD guaranteed 10,158 loans for an aggregate value of LBP189.4bn, or $125.6m, between 2003 and June 2018. Mount Lebanon accounted for 29.5% of the total number of loans guaranteed by the ESFD since 2003, followed by Nabatieh (21.7%), the North (17.7%), the South (13.5%), the Bekaa (12.7%) and Beirut (4.8%). The ESFD has guaranteed 3,969 loans, or 39.1% of the total, to the services sector, followed by trade with 3,664 loans (36.1%), the industry with 1,487 loans (14.6%) and agriculture with 1,038 loans (10.2%). It claims that it has helped create 8,667 new jobs since 2003.

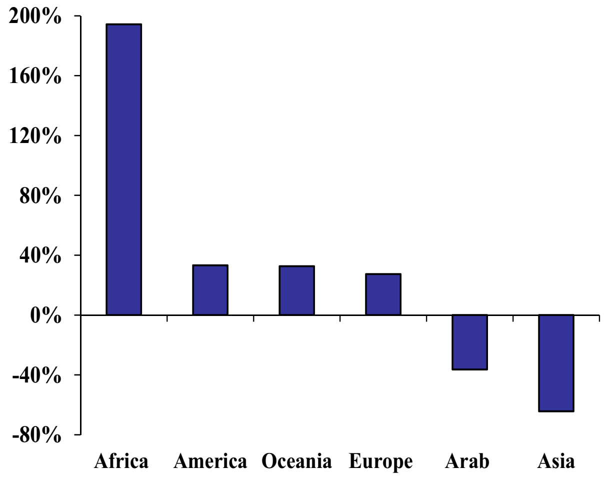
The ESFD guarantees 50% of the loan principal and accrued interest for 120 days. It provides financial and technical support to small and medium-sized enterprises, through financial intermediaries, to finance projects in poor regions of the country. The ESFD was established in November 2000 based on 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.

Tourist arrivals up 3% in first half of 2018

The number of incoming visitors to Lebanon totaled 853,087 in the first half of 2018, constituting an increase of 3.3% from 826,129 tourists in the same period of 2017 and a drop of 11.5% from 964,067 visitors in the first six months of 2010, the record year for tourism activity in Lebanon. Also, the number of incoming visitors reached 196,643 in June 2018, up by 45.8% from 134,859 visitors in May 2018 and by 11.5% from 176,288 tourists in June 2017. Visitors from Europe accounted for 35.2% of the total in the first half of 2018, followed by those from Arab countries with 28.7%, the Americas with 18.2%, Asia with 7.6%, Africa with 6.2% and Oceania with 4.1%. Further, tourists from Iraq accounted for 11.4% of total visitors in the covered period, followed by visitors from the U.S. (9.7%), France (9%), Canada (5.9%), Egypt and Germany (4.8% each), Jordan (4.7%), England (3.7%), Saudi Arabia (2.7%) and Sweden (2.2%).

In parallel, the number of visitors from Oceania increased by 13% year-on-year in the first half of 2018, followed by those from Europe (+12%), the Americas (+8%) and Africa (+3.3%), while the number of visitors from the Arab region regressed by 7.7% and the number of tourists from Asia declined by 3% year-on-year. On a country basis, the number of tourists from France grew by 15.5% annually in the covered period, followed by visitors from Brazil (+14.7%), Sweden (+13.2%), Egypt and Germany (+12.2% each), the U.S. (+10.2%), Turkey (+9.6%), Italy (+9.2%), England (+7.6%), Canada (+3.9%) and Jordan (+1.5%). In contrast, the number of visitors from the UAE dropped by 32.2% year-on-year in the first half of 2018, followed by visitors from Saudi Arabia (-21.1%), Iraq (-14.8%), Kuwait (-14%) and Venezuela (-0.7%).

Change in the Number of Tourist Arrivals from Main Sources in First Half of 2018*



**from same period of 2010*
Source: Ministry of Tourism, Byblos Research

Lebanon's external debt posts fifth lowest return in emerging markets in first half of 2018

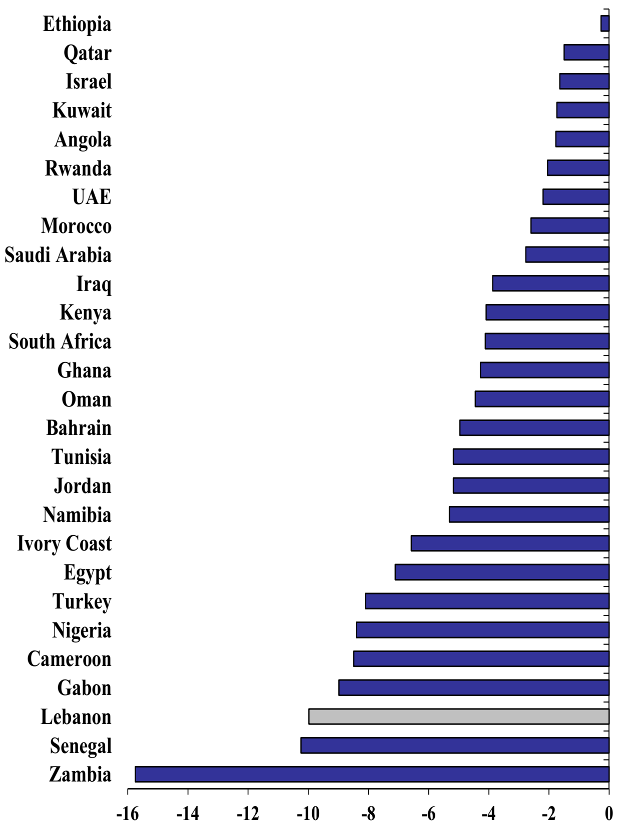
Figures issued by Intercontinental Exchange, Inc. (ICE) indicate that Lebanon's external debt posted a return of -9.98% in the first half of 2018, constituting the third lowest return among 44 markets in the Central & Eastern Europe and the Middle East & Africa (CEEMEA) region, as well as the fifth lowest return among 75 emerging markets included in ICE's External Debt EM Sovereign Index. Lebanon underperformed the overall emerging markets' return of -4.84% during the covered period. Also, Lebanon's external debt posted the third lowest return among 27 countries in the Middle East & Africa region in the first half of the year.

Further, Lebanon's external debt posted a return of -5.19% in June 2018, constituting the second lowest return in the CEEMEA region, and the third lowest in emerging markets during the covered month. Lebanon underperformed the emerging markets' return of -0.97% in June 2018. It also posted the second lowest return in the Middle East & Africa region during the covered month.

In parallel, ICE indicated that the option-adjusted spread on Lebanese Eurobonds was 747 basis points at the end of June 2018 compared to 426 basis points at end-June 2017. The spread on Lebanese Eurobonds was the second widest in the CEEMEA region and the fourth widest among emerging markets. It was wider than the emerging markets' overall spread of 283 basis points at the end of June 2018.

Lebanon has a weight of 2.36% 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 4.2% of allocations in the CEEMEA region.

External Debt Performance in the Middle East & Africa in First Half of 2018 (%)



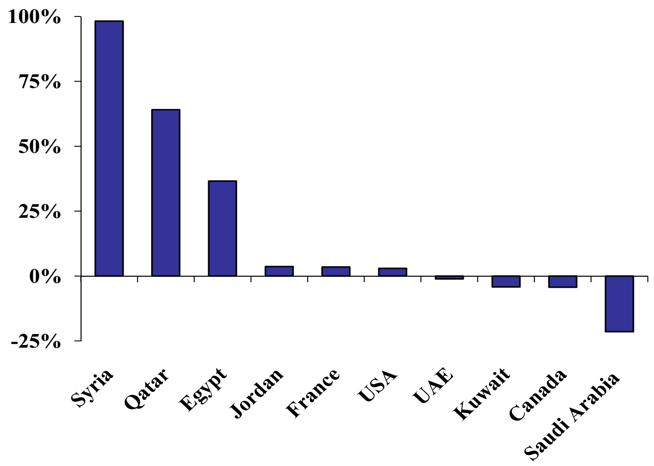
Source: ICE, Byblos Research

Tourist spending up 5% in first half of 2018

Figures issued by Global Blue, the VAT refund operator for international shoppers, show that total spending by visitors in Lebanon increased by 5% in the first half of 2018 compared to a growth of 6% in the first half of 2017. Spending by tourists in Lebanon decreased by 0.1% in January, by 5.3% in February and by 0.7% in May, while it increased by 10.8% in March, by 1.6% in April and by 36.5% in June 2018.

Visitors from Saudi Arabia and the UAE accounted each for 11% of total tourist expenditures in the first half of 2018, followed by visitors from Syria with 10%, Kuwait with 7%, Egypt with 6%, France, Jordan and Qatar with 5% each, the United States with 4%, and Canada with 3%; while visitors from other countries accounted for the remaining 33%. Spending by visitors from Syria grew by 98.2% year-on-year in the covered period, followed by expenditures by tourists from Qatar (+64.1%), Egypt (+36.6%), Jordan (+3.7%), France (+3.5%) and the United States (+3%). In contrast, spending by visitors from Saudi Arabia decreased by 21.4% in the first half of 2018, followed by spending by tourists from Canada (-4.3%), Kuwait (-4.2%) and the UAE (-1.1%).

Total Spending by Source in First Half of 2018 (% change from first half of 2017)



Source: Global Blue, Byblos Research

Further, Beirut attracted 81% of aggregate expenditures in the covered period, followed by the Metn area with 13%, the Baabda district with 3% and the Keserwan region with 2%. The Beirut Central District attracted 54% of tourist expenditures, followed by Ashrafieh (10%), Verdun (9%), Dbayeh (5%), Jal el Dib and Mina El Hosn (4% each), Hamra (3%), Hazmieh and Sin el Fil (2% each) and Jounieh (1%); while other locations accounted for the remaining 6% of total expenditures during the first half of 2018.

In parallel, fashion & clothing accounted for 66% of total expenditures in the first half of 2018, followed by watches & jewelry with 19%, and spending at department stores and for home & garden products with 4% each, while other categories accounted for the remaining 7%. Expenditures on watches & jewelry rose by 24.5% in the first half of the year and spending at department stores increased by 20.4%, while outlays on home & garden products decreased by 4.1% and spending on fashion & clothing regressed by 0.5% year-on-year.

Also, the total number of refund transactions by visitors grew by 5% in the first half of 2018, similar to the annual growth in the first half of 2017. The number of refund transactions increased by 5.1% in January, by 14.3% in March and by 44% in June, while it decreased by 4.2% in February, by 5% in April and by 7.8% in May 2018. Visitors from Saudi Arabia and Syria each accounted for 12% of total refund transactions in the first half of 2018, followed by those from the UAE (11%), Egypt (9%), Kuwait (6%), Jordan (5%), France and Qatar (4% each), the United States (3%) and Canada (2%), while other countries accounted for the remaining 32%. In parallel, the number of refund transactions by visitors from Syria jumped by 54.8% in the covered period, followed by visitors from Egypt (+30.5%), Qatar (+11.5%), France (+6.7%), Jordan (+4%), the UAE (+2.9%), and the United States (+2.5%). In contrast, the number of refund transactions by visitors from Saudi Arabia decreased by 12.2%, followed by those from Kuwait (-7.2%).

In addition, fashion & clothing accounted for 73% of the number of refund transactions by visitors in the first half of 2018, followed by the number of refunds at department stores with 9%, home & garden products (3%) and watches & jewelry (2%). Also, the number of refunds for other categories represented the remaining 13%. Further, Beirut accounted for 72% of total refunds by visitors in the covered period, followed by the Metn area with 19%, the Baabda district with 6% and the Keserwan region with 2%. Also, the Beirut Central District attracted 30% of total refund transactions by visitors in the first half of 2018, followed by Ashrafieh and Verdun (17% each), Dbayeh (11%), Hazmieh (6%), Hamra (4%), Jal el Dib (3%), Mina El Hosn (2%) and Sin el Fil (1%), while other cities attracted the remaining 9% of total refund transactions in the covered period.

Revenues through Port of Beirut up 6% to $104m in first five months of 2018

Figures released by the Port of Beirut show that the port's overall revenues reached $104.2m in the first five months of 2018, constituting an increase of 5.6% from $98.7m in the same period of 2017. The Port of Beirut handled 3.3 million tons of freight in the covered period, down by 7.3% from 3.6 million tons in the same period of 2017. Imported freight amounted to 3 million tons in the first five months of 2018 and accounted for 88.4% of the total, while the remaining 378,000 tons, or 11.6%, consisted of export cargo. A total of 759 ships docked at the port in the covered period compared to 784 vessels in the first five months of 2017.

In parallel, revenues generated through the Port of Tripoli reached $6.7m in the first five months of 2018, constituting a decrease of 8.8% from $7.4m in the same period of 2017. The Port of Tripoli handled 691,723 tons of freight in the covered period, constituting a decrease of 19.5% from 859,268 tons in the first five months of 2017. Imported freight amounted to 562,157 tons and accounted for 81.3% of the total, while the remaining 129,566 tons, or 18.7%, were export cargo. A total of 259 vessels docked at the port in the first five months of 2018, constituting a drop of 26.4% from 352 ships in the same period of 2017.

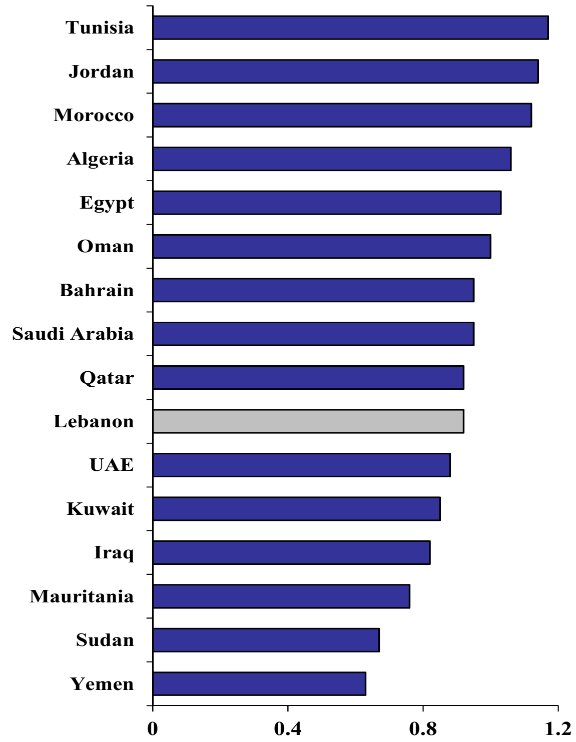
Lebanon ranks 96th globally, 11th among Arab countries in terms of well-being

The Boston Consulting Group's (BCG) 2018 Sustainable Economic Development Assessment (SEDA) ranked Lebanon in 96th place among 152 countries globally and in 11th place among 16 Arab countries in terms of well-being. It also ranked Lebanon in 33rd place among 40 upper middle-income countries (UMICs) included in the survey. Lebanon ranked in 99th place globally and in 11th place in the Arab world in the 2017 survey.

The SEDA measures a country's current level of overall well-being through 10 dimensions grouped into three fundamental elements that consist of Economics, Investments and Sustainability. The Economics element includes income, economic stability and employment; while the Investments element covers the quality of education, healthcare and infrastructure. Also, the Sustainability element covers the income equality, civil society, governance, and environmental dimensions. The survey assigns a score to each country from zero to 100, with 100 reflecting the highest level of well-being.

Globally, Lebanon has a higher level of well-being than Bolivia, the Philippines and Botswana, and a lower level than Paraguay, Morocco and Algeria among economies with a GDP of $10bn or more. Also, Lebanon's level of well-being was higher than that of Egypt, Iraq, Yemen, Mauritania and Sudan among Arab countries. Lebanon received a score of 44.8 points, lower than the global median score of 48.5 points, the UMICs' median of 50.5 points and the Arab region's median score of 47.25 points. Also, Lebanon's score was lower than the Gulf Cooperation Council (GCC) countries' median of 64.8 points, while it was higher than the median score of 44 points for non-GCC Arab countries. In parallel, Lebanon's score fell by 1.5 points between the 2009 and 2018 surveys, which shows a decline in the country's well-being. Globally, Ukraine, Cyprus, the Bahamas, Greece, Venezuela and Yemen were the only countries to post a steeper deterioration than Lebanon in their well-being.

Wealth-to-Well-Being Coefficient in Arab Countries



Source: Boston Consulting Group, Byblos Research

Further, the BCG provided the wealth-to-well-being coefficient, which compares a country's SEDA score of well-being with the potential score of well-being in relation to the country's gross national income (GNI) per capita. As such, the coefficient provides an indicator of how well a country has converted its wealth into well-being for its population. Lebanon's coefficient came at 0.92 points, which means that Lebanon has delivered a lower level of well-being than what would be expected given its GNI per capita level. Countries with a coefficient of one are generating well-being to their population in line with what would be expected given their income levels. Countries with a coefficient greater than one deliver higher levels of well-being to their society than would be expected given their GNI, while counties with a coefficient below one deliver a level of well-being to the population lower than would be expected given their wealth levels. Lebanon's coefficient is the 41st lowest globally, the sixth lowest among UMICs and the eighth lowest among Arab countries. Globally, Lebanon's coefficient of conversion of wealth is similar to that of Bangladesh, Italy, Kenya, Qatar and the United Kingdom.

Nine Lebanese banks among Top 1000 banks in the world

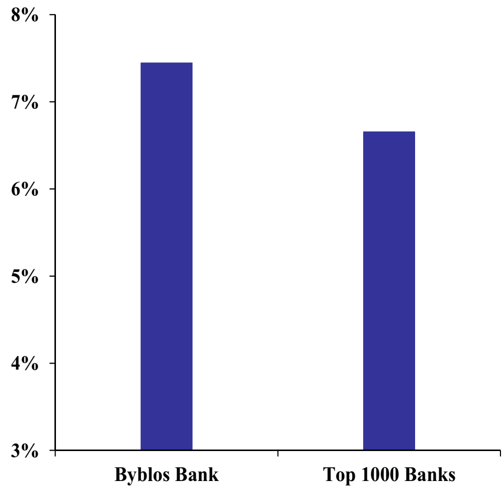
In its 2018 survey of the Top 1000 banks in the world, *The Banker* magazine included nine Lebanese commercial banks on its list, down from 10 banks in the 2017 survey. None of the nine Lebanese banks ranked among the top 25 banks in the Middle East in the 2018 survey, in line with previous surveys. The rankings are based on the banks' Tier One capital in US dollars at year-end 2017. *The Banker* uses the disclosed Tier One capital for banks that began implementing the Basel III framework, as the latter clarified the rules about capital calculations that previously varied across banks and jurisdictions.

The aggregate Tier One capital of the nine Lebanese banks reached $15.12bn at the end of 2017 and grew by 6.1% from $14.26bn at end-2016. In comparison, the Tier One capital of the Top 1000 banks increased by 11.7% year-on-year, while that of banks in the Middle East rose by 6.2%. Byblos Bank's Tier One capital-to-assets ratio was 7.45% at the end of 2017, outperforming the Top 1000 banks' aggregate ratio of 6.7%. In addition, Byblos Bank's Capital Adequacy Ratio (CAR), a measure of the Bank's financial strength, reached 17.8% at the end of 2017, the second highest such ratio among Lebanese banks included in the 2018 survey and compared to the average CAR of 16.5% of the eight Lebanese banks with available CAR figures.

Further, the cumulative pre-tax profits of the nine Lebanese banks reached $2.54bn in 2017, down by 3.4% from $2.62bn the preceding year, compared to a rise of 15.6% in the gross earnings of the Top 1000 banks and an increase of 5.3% in the pre-tax income for banks in the Middle East. Also, the ratio of pre-tax profits-to-Tier One capital of the Lebanese banks reached 16.8% in 2017, down from 18.4% a year earlier, and relative to 13.5% for the Top 1000 banks and 13% for banks in the Middle East. In addition, the nine Lebanese banks accounted for 4.6% of the Tier One capital of banks in the Middle East, for 6.8% of their total assets and for 5.8% of their aggregate per-tax profits. They also represented 0.18% of the Tier One capital of the Top 1000 banks, for 0.16% of their total assets and for 0.2% of their aggregate pre-tax profits.

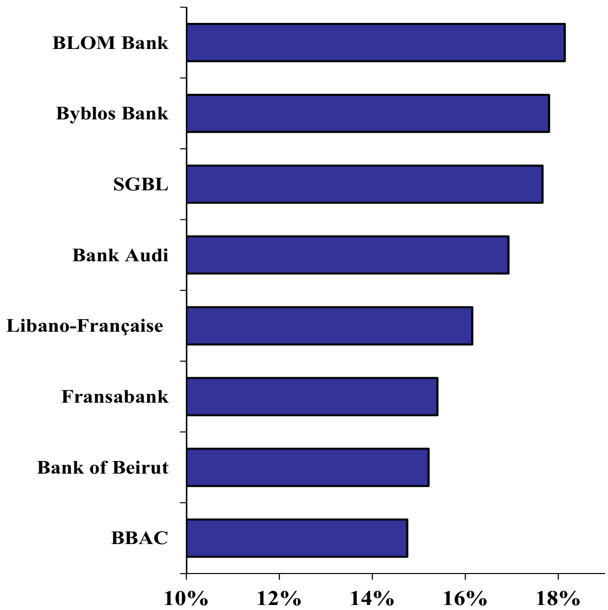
Bank Audi's Tier One capital was $3.53bn at the end of 2017 and accounted for 23.4% of the aggregate Tier One capital of the nine Lebanese banks included in the 2018 survey. BLOM Bank followed with $2.66bn or 17.6% of the total, then Société Générale de Banque au Liban with $1.71bn (11.3%), Byblos Bank with $1.69bn (11.2%), Fransabank with $1.67bn (11%), Bank of Beirut with $1.48bn (9.8%), Banque Libano-Française with $1.1bn (7.3%), Crédit Libanais with $722m (4.8%) and BBAC with $564m (3.7%). Bank Audi ranked in 314th place globally, in terms of Tier One capital, followed by BLOM Bank (376th), Société Générale de Banque au Liban (532nd), Byblos Bank (536th), Fransabank (545th), Bank of Beirut (585th), Banque Libano-Française (692nd), Crédit Libanais (849th) and BBAC (940th). The rankings of three out of the nine Lebanese banks included in the survey improved in the 2018 survey, while those of the remaining six banks regressed year-on-year.

Tier One Capital-to-Assets Ratio at end-2017 (%)



Source: The Banker Magazine, Byblos Research

Capital Adequacy Ratio at end-2017 (%)



Source: The Banker Magazine

Kafalat loan guarantees down 24% to $29m in first half of 2018

Figures released by the Kafalat Corporation show that loans extended to small- and medium-sized enterprises (SMEs) under the guarantee of Kafalat reached $28.8m in the first half of 2018, constituting a decrease of 24.4% from $38.1m in the same period of 2017. Kafalat provided 223 loan guarantees in the covered period, down by 28.1% from 310 guarantees in the first half of 2017. The average loan size was $129,094 in the first half of 2018 compared to $122,805 in the same period of 2017. Mount Lebanon accounted for 43.5% of the total number of guarantees, followed by the Bekaa with 17%, the North with 10.8%, the Nabatieh region with 10%, and Beirut and the South with 9.4% each. Also, the industrial sector accounted for 37.7% of the total number of guarantees in the first six months of 2018, followed by the agricultural sector with 36.3%, tourism with 21.5%, specialized technologies with 2.7% and handicraft 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 down 10% in first five months of 2018, export activity down 18%

Figures released by the Port of Beirut show that overall import shipping operations by the top five freight forwarders through the port reached 137,222 20-foot equivalent units (TEUs) in the first five months of 2018, constituting a decrease of 10.1% from 152,625 TEUs in the same period of 2017. The five freight forwarders accounted for 78.8% of imports to the Lebanese market and for 53.4% of the total import freight forwarding market in the first five months of 2018. Mediterranean Shipping Company (MSC) handled 51,127 TEUs in imports in the covered period, equivalent to a 20% share of the total freight forwarding import market. Merit Shipping followed with 29,904 TEUs (11.6%), then Sealine Group with 22,499 TEUs (8.8%), Metz Group with 18,464 TEUs (7.2%) and Tourism & Shipping with 15,228 TEUs (6%). Further, Tourism & Shipping registered a year-on-year increase of 183.3% in import shipping in the covered period, the highest growth among the top five freight forwarders, while Gezairy Transport posted a decline of 42.8%, the steepest drop in the first five months of 2018.

In parallel, export shipping operations by the top five freight forwarders through the Port of Beirut reached 28,221 TEUs in the first five months of 2018, constituting a decrease of 18.4% from 34,583 TEUs in the same period of 2017. The five freight forwarders accounted for 81.1% of exported Lebanese cargo and for 11% of the total export freight forwarding market in the first five months of 2018. Merit Shipping handled 12,752 TEUs of freight in the covered period, equivalent to 36.7% of the Lebanese cargo export market. Sealine Group followed with 5,045 TEUs (14.5%), then Metz Group with 4,900 TEUs (14.1%), MSC Shipping with 3,180 TEUs (8.8%) and Tourism & Shipping with 2,344 (6.7%). Further, Tourism & Shipping posted a year-on-year increase of 126.3% in export shipping in the covered period, the highest rise among the top five freight forwarders, while Merit Shipping posted a decrease of 32%, the steepest decline among the top five freight forwarders.

SGBL completes acquisition of three European financial entities

Société Générale de Banque au Liban (SGBL) sal announced that it completed the acquisition of Banque Richelieu France, Banque Richelieu Monaco and Richelieu Gestion. The finalization of the acquisition followed SGBL's announcement in December 2017 that it signed an agreement with the KBL European Private Bankers Group to acquire the entities as part of its international development strategy. Prior to the acquisition, Banque Richelieu France operated under KBL Richelieu Banque Privée, Banque Richelieu Monaco was known as KBL Monaco Private Bankers, and Richelieu Gestion was formerly known as KBL Richelieu Gestion. The acquisition was completed following the approval of Banque du Liban, the European Central Bank and the French Prudential Supervision and Resolution Authority. The three companies, which have an aggregate of $3.6bn in assets under management, will operate under a new entity named Compagnie Financière Richelieu that is fully owned by SGBL.

SGBL sal posted unaudited consolidated net profits of $42m in the first quarter of 2018, nearly unchanged from the same period of 2017. Its total assets reached $22.3bn at the end of March 2018, up by 3.5% from $21.6bn at end-2017, while loans & advances to customers, excluding those to related parties, increased by 1.5% from end-2017 to $4.9bn. Also, customer deposits, excluding those from related parties, totaled $17.1bn at end-March 2018 and increased by 4.4% from the end of 2017.

BankMed approves dividend payments for 2017

BankMed sal announced that its Ordinary General Assembly held on June 28, 2018 approved the distribution of dividends to holders of preferred shares for 2017. The bank will pay a gross dividend of $6.5 (LBP9,798.8) per share to holders of Preferred Shares Series 3 and $4 (LBP6,030) per share to holders of Preferred Shares Series 4. The bank will start to disburse dividends on July 23, 2018 net of a 10% withholding tax. BankMed currently has 1,500,000 Preferred Shares Series 3 and 2,600,000 Preferred Shares Series 4 outstanding.

BankMed posted unaudited consolidated net profits of $120.7m in 2017, down by 7.2% from 2016. Total assets increased by 3.5% to $16.65bn at the end of 2017, with loans & advances to customers, excluding loans & advances to related parties, decreasing by 8.5% year-on-year to $4.3bn. Also, customer deposits, excluding deposits from related parties, totaled $12.8bn at the end of 2017, up by 9.1% from a year earlier.

Allianz SNA's net profits up 30% to $9.2m in 2017

Allianz SNA sal announced audited net profits of $9.2m in 2017, constituting an increase of 30.2% from net earnings of $7.1m in 2016. Its audited balance sheet shows total assets of $521m at the end of 2017, up by 6% from $492m at end-2016. On the assets side, general company investments totaled $404.2m and grew by 4% from a year earlier. They included $296m in fixed income investments that expanded by 3% year-on-year, $33.6m in policy loans that increased by 7.5%, $17.3m in cash and cash equivalents that rose by 31.6% and $6.3m in mutual funds that improved by 10.3% from a year earlier. Also, $46.2m were in blocked bank deposits and deposits with maturity of more than three months, of which $2.1m were blocked in favor of the Ministry of Economy as guarantees.

Unit-linked contracts investments totaled $34.91m at end-2017 and grew by 16.3% from $30m a year earlier. Further, the reinsurance share in technical reserves for the non-life category rose by 14% to $11.5m in 2017, while that for the life category increased by 22% to $2.7m last year.

On the liabilities side, technical reserves for the life segment grew by 3.7% to $339.2m in 2017, while technical reserves for the non-life category reached $50.5m at end-2017 and increased by 10% from a year earlier. Non-life technical reserves included outstanding claims reserves of $24.1m that grew by 9.5% year-on-year, unearned premium reserves of $18.1m that increased by 15.1%, $3.7m in premium deficiency reserves that were unchanged year-on-year, and $2.8m in reserves incurred but not reported that dropped by 2.7% from a year earlier. Provisions for risks and charges reached $1.9m in 2017 and improved by 9% from the previous year. Also, the firm's shareholders' equity totaled $64.3m at end-2017, up by 8.7% from a year earlier.

Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked Allianz SNA in third and fourth places in 2017 in terms of life and non-life premiums, respectively. The firm's life premiums reached $70.1m and non-life premiums amounted to $71.3m, up by 3.8% and 13.5%, respectively. It had a 13.4% share of the life market and a 6.4% share of the local non-life market in 2017. Overall, Allianz SNA ranked in first place in terms of life and non-life premiums in 2017, and had an 8.6% market share.

BBAC's net earnings at $12.5m in first quarter of 2018

BBAC sal, one of Lebanon's top 15 banks in terms of deposits, announced unaudited consolidated net profits of $12.5m in the first quarter of 2018, constituting a drop of 12.4% from net earnings of $14.3m in the same quarter of 2017. Net operating income regressed by 2.6% year-on-year to $35.5m in the covered quarter, with net interest income unchanged at $25.8m and net fees & commissions receipts rising by 7.6% to $7.3m. Non-interest income accounted for 26.1% of total income in the first quarter of 2018, down from 31.2% in the same quarter last year; with net fees & commissions representing 80.5% of non-interest earnings relative to 58.3% in the first quarter of 2017.

Further, the bank's interest margin was 1.51% in the first quarter of 2018 relative to 1.62% in the same quarter last year; while its spread reached 1.46% in the covered quarter compared to 1.57% in the first quarter of 2017. Total operating expenditures grew by 16.1% to $23m year-on-year in the first quarter of 2018, with staff expenses decreasing by 12.7% to $9.6m and administrative & other operating expenditures growing by 61.3% to $12.1m. Also, the bank's return on average assets was 0.71% in March 2018 on an annualized basis relative to 0.87% in March 2017, while its return on average equity reached 8.11% on an annualized basis compared to 9.95% in March 2017. The bank's cost-to-income ratio increased from 52.9% in the first quarter of 2017 to 65.9% in the same quarter of 2018.

In parallel, total assets reached $7.2bn at the end of March 2018, up by 3.3% from end-2017, while loans & advances to customers, excluding those to related parties, regressed by 0.4% from end-2017 to $1.75bn. Also, customer deposits, excluding those from related parties, totaled $5.9bn at end-March 2018 and increased by 0.9% from the end of 2017. The loans-to-deposits ratio stood at 29.1% at the end of March 2018, compared to 29.25% at end-March 2017. Further, the bank's shareholders' equity reached $623.5m at end-March 2018, up by 1.9% from end-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	Outlook
Moody's	Stable

Source: Moody's Investor Services

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