

LEBANON THIS WEEK

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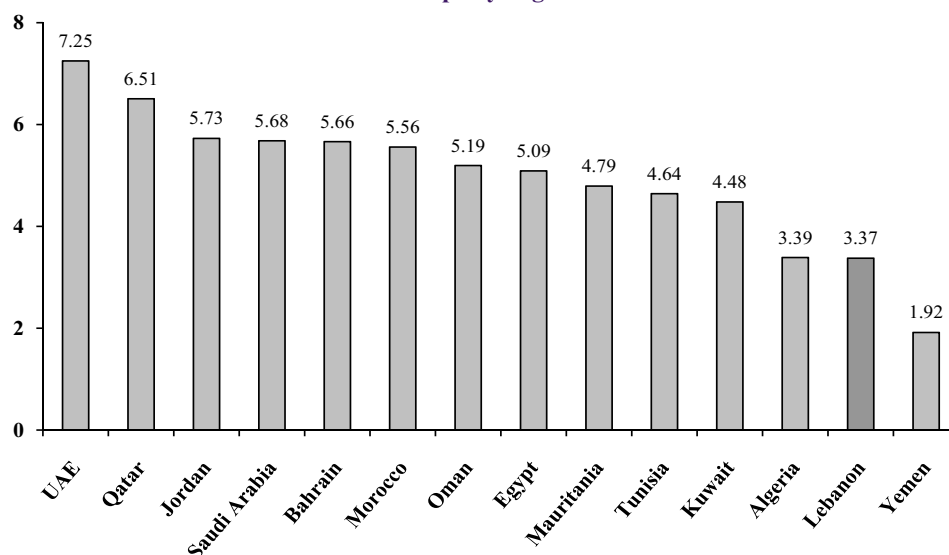
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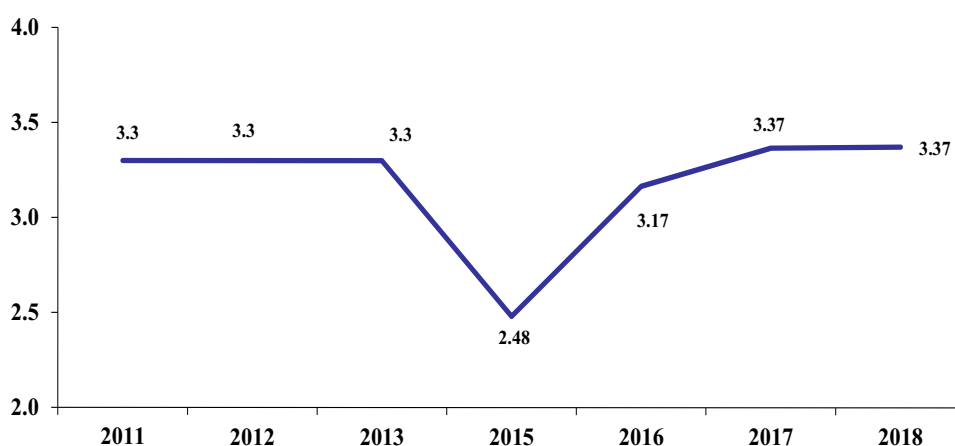
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Charts of the Week

Protection of Intellectual Property Rights in Arab Countries in 2018



Evolution of Intellectual Property Rights' Protection in Lebanon



* a higher score reflects a higher level of IPR protection

Source: International Property Rights Index, Byblos Bank

Quote to Note

"We could raise our ratings if Lebanon's policy-making framework becomes more effective, boosting economic activity significantly, and improving the fiscal and external imbalances."

S&P Global Rating, on a key factor that would trigger an upgrade of Lebanon's sovereign ratings

Number of the Week

\$23bn: Outstanding amount of certificates of deposits issued by Banque du Liban as at end-June 2018, according to the Association of Banks in Lebanon

Lebanon in the News

\$m (unless otherwise mentioned)	2017	Apr 2017	Jan 2018	Feb 2018	Mar 2018	Apr 2018	% Change*
Exports	2,844	235	283	248	283	256	8.94
Imports	23,130	1,467	1,705	1,436	1,669	1,564	6.61
Trade Balance	(20,286)	(1,232)	(1,422)	(1,188)	(1,386)	(1,308)	6.17
Balance of Payments	(156)	(321)	237	(80)	(355)	(557)	73.52
Checks Cleared in LBP	21,677	1,644	1,733	1,686	1,876	1,698	3.27
Checks Cleared in FC	46,578	3,693	3,973	3,480	3,866	3,606	(2.36)
Total Checks Cleared	68,255	5,337	5,706	5,166	5,742	5,304	(0.62)
Budget Deficit/Surplus	(3,300.82)	(131.85)	(318.96)	(407.93)	(934.62)	(35.21)	(73.30)
Budget Primary Balance	1,882.86	309.55	(46.38)	(145.03)	(364.17)	407.15	31.53
Airport Passengers***	8,235,845	720,843	597,768	504,974	626,074	730,739	1.37

\$bn (unless otherwise mentioned)	2017	Apr 2017	Jan 2018	Feb 2018	Mar 2018	Apr 2018	% Change*
BdL FX Reserves	35.80	33.53	35.25	34.39	34.28	34.74	3.62
In months of Imports	18.57	22.85	20.67	23.95	20.54	22.21	(2.81)
Public Debt	79.52	76.94	80.39	81.54	81.87	81.75	6.25
Bank Assets	219.86	206.13	219.86	223.07	224.57	226.30	9.79
Bank Deposits (Private Sector)	168.66	165.49	169.14	170.45	171.18	171.41	3.58
Bank Loans to Private Sector	59.69	57.05	59.02	59.03	59.03	59.02	3.45
Money Supply M2	52.48	54.86	52.88	53.44	53.65	53.53	(2.43)
Money Supply M3	138.38	135.74	138.62	139.34	139.74	140.04	3.16
LBP Lending Rate (%)****	8.09	8.33	8.56	8.67	8.95	8.99	66bps
LBP Deposit Rate (%)	6.41	5.54	6.53	6.51	6.64	6.64	110bps
USD Lending Rate (%)	7.67	7.22	7.74	7.90	7.89	7.82	60bps
USD Deposit Rate (%)	3.89	3.62	3.91	3.96	4.04	4.10	48bps
Consumer Price Index**	4.4	4.4	5.6	5.2	5.4	5.8	135.7bps

* 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	9.20	(1.39)	649,916	20.13%
Solidere "A"	6.53	(4.25)	60,403	6.64%
BLOM GDR	9.06	(2.69)	39,150	6.81%
Byblos Common	1.40	(0.71)	34,700	8.06%
Solidere "B"	6.45	(4.59)	19,448	4.27%
Audi Listed	5.05	(0.98)	8,835	20.54%
Audi GDR	5.15	0.00	2,000	6.28%
HOLCIM	16.99	0.00	-	3.37%
Byblos Pref. 08	78.60	0.00	-	1.60%
Byblos Pref. 09	86.00	0.00	-	1.75%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Nov 2018	5.15	99.75	6.51
May 2019	6.00	98.25	8.63
Mar 2020	6.38	95.75	9.49
Oct 2022	6.10	86.38	10.28
Jun 2025	6.25	79.25	10.63
Nov 2026	6.60	78.13	10.66
Feb 2030	6.65	74.50	10.53
Apr 2031	7.00	75.38	10.58
Nov 2035	7.05	74.38	10.25
Mar 2037	7.25	74.75	10.34

Source: Byblos Bank Capital Markets

	Sep 3-7	Aug 27-31	% Change	August 2018	August 2017	% Change
Total shares traded	838,452	245,715	241.2	1,642,595	8,062,990	(79.6)
Total value traded	\$7,849,188	\$2,274,100	245.2	\$13,996,770	\$68,311,180	(79.5)
Market capitalization	\$9.83bn	\$9.96bn	(1.33)	\$9.96bn	\$11.74bn	(13.2)

Source: Beirut Stock Exchange (BSE)



Insurance premiums up 2% to \$868m in first half of 2018, claims down 6% to \$447m

Figures released by the Association of Insurance Companies in Lebanon (ACAL) indicate that insurance premiums generated in Lebanon totaled \$868m in the first half of 2018, constituting an increase of 2.4% from \$847.6m in the same period of 2017. Premiums reached \$478.2m in the first quarter and \$389.8m in the second quarter of the year.

Medical insurance premiums totaled \$293.7m in the first half of 2018 and accounted for 33.8% of the sector's aggregate premiums. Life insurance premiums followed with \$244.7m (28.2%), then motor insurance premiums with \$189.8m (21.9%), fire insurance premiums with \$59.3m (6.8%), workmen compensation premiums with \$28.4m (3.3%), cargo insurance premiums with \$17.6m (2%), public liability premiums with \$10.1m (1.2%), engineering insurance premiums with \$3.7m (0.4%), while premiums from other categories amounted to \$20.8m and accounted for 2.4% of the total.

ACAL noted that medical insurance premiums covering Lebanese citizens grew by 1% to \$286.6m in the first half of 2018, while premiums covering Lebanese expatriates decreased by 6% year-on-year to \$7m. Also, non-compulsory motor premiums increased by 1% to \$151.7m in the first half of 2018, while compulsory motor premiums grew by 27% year-on-year to \$38.1m. Further, motor and public liability premiums grew by 6% each in the first half of 2018, posting the largest increases among all categories, followed by cargo insurance (+4%), life insurance (+3%) and medical insurance premiums (+1%). In contrast, engineering premiums decreased by 31% and workmen compensation premiums declined by 2%, while fire premiums were unchanged year-on-year in the covered period.

Further, ACAL indicated that total benefits and claims paid by insurance companies stood at \$446.5m in the first half of 2018, constituting a decline of 6.4% from \$477.2m in the same period of 2017. Benefits and claims reached \$214.3m in the first quarter and \$232.2m in the second quarter of 2018. Benefits and claims paid for the non-life categories totaled \$326.4m in the first half of 2018, constituting an increase of 9.2% from \$299m in the same period of last year, while claims disbursed for the life insurance category amounted to \$120.1m and declined by 32.6% from \$178.2m in the same period of 2017.

Medical insurance claims accounted for 39.4% of total claim payments in the first half of 2018, followed by life insurance claims (27%), motor insurance claims (22.5%), fire insurance claims (4.2%), workmen compensation claims (3.3%), cargo insurance claims (1.2%), public liability claims (0.6%), and engineering insurance claims (0.3%). Fire and public liability claims surged by 58% each in the first half of 2018, cargo insurance claims expanded by 48%, medical claims rose by 13%, and motor and workmen compensation claims increased by 3% each year-on-year. In contrast, engineering insurance claims declined by 65% in the covered period, life insurance claims fell by 33%, while claims related to other categories decreased by 31% year-on-year. In parallel, protection with savings policies accounted for 60.1% of total life insurance premiums and for 23.4% of the number of life insurance contracts in the first half of 2018, while life protection plans represented 39.9% of life insurance premiums and 76.6% of the number of life contracts during the covered period.

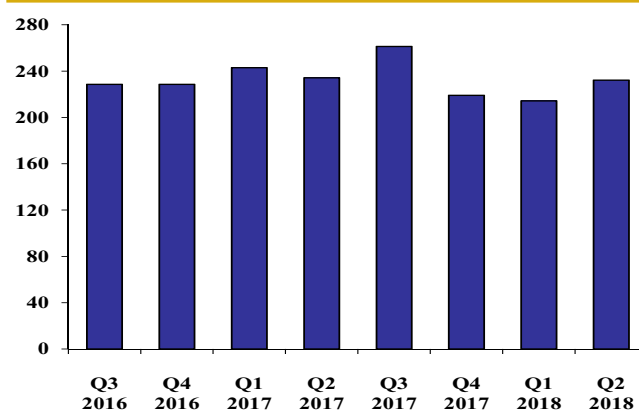
Number of new construction permits down 13% in first seven months of 2018

The Orders of Engineers & Architects of Beirut and of Tripoli issued 8,267 new construction permits in the first seven months of 2018, down by 12.7% from 9,467 permits in the same period of 2017. In comparison, new construction permits declined by 3.6% year-on-year in the first seven months of 2017. Mount Lebanon accounted for 39.4% of newly-issued construction permits in the covered period, followed by the South with 19.3%, the Nabatieh area with 12.9%, the North with 12.2%, the Bekaa region with 9.2% and Beirut with 5.1%. The remaining 2% were permits issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon.

Further, the surface area of granted construction permits reached 5,693,998 square meters (sqm) in the first seven months of 2018, constituting a decrease of 20.1% from 7,129,549 sqm in the same period of 2017. In comparison, the surface area of granted construction permits increased marginally by 0.4% year-on-year in the first seven months of 2017. Mount Lebanon accounted for 2,292,457 sqm, or 40.3% of the total, in the covered period. The North followed with 1,003,193 sqm (17.6%), then the South with 885,684 sqm (15.6%), the Bekaa region with 556,665 sqm (9.8%), the Nabatieh area with 506,785 sqm (8.9%) and Beirut with 199,922 sqm (3.5%). The remaining 249,292 sqm, or 4.4% of the total, represent the surface area of permits that were issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon.

The surface area of new construction permits issued for Beirut dropped by 57.3% year-on-year in the first seven months of 2018, followed by surface areas in Mount Lebanon (-23.3%), the Bekaa region (-18.7%), the North (-14.9%), the Nabatieh area (-12.2%) and the South (-7%). Also, the surface area of granted construction permits for regions located outside northern Lebanon fell by 11.3% year-on-year in the covered period. In parallel, cement deliveries totaled 2.3 million tons in the first half of 2018, constituting a decline of 3.4% from 2.39 million tons in the same period of 2017, and relative to a drop of 3.7% in the first half of 2017.

Paid Claims (US\$m)



Source: ACAL, Byblos Research

Airport passengers up 8% in first eight months of 2018

Figures released by the Beirut-Rafic Hariri International Airport (HIA) show that 6,002,476 passengers utilized the airport (arrivals, departures and transit) in the first eight months of 2018, constituting an increase of 8.4% from 5,537,519 passengers in the same period of 2017. The number of arriving passengers grew by 8.9% year-on-year to 3,055,577 in the first eight months of 2018, compared to an increase of 9.5% in the same period last year and to a rise of 7.7% in the first eight months of 2016. Also, the number of departing passengers grew by 7.9% year-on-year to 2,943,832 in the first eight months of 2018, relative to an increase of 8.5% in the same period last year and to an increase of 4.5% in the first eight months of 2016. On a monthly basis, the number of arriving passengers reached 525,155 in August 2018, down by 7% from the previous month, but up by 6.6% from August 2017, while the number of departing passengers stood at 634,223 in August of this year, up by 38.6% from July 2018 and by 10.6% from August 2017. Also, the number of arriving passengers totaled nearly 1.1 million passengers in July and August 2018, up by 7.4% from the same period last year, while the number of departing passengers reached about 1.1 million passengers in the same period of 2018, up by 6.4% year-on-year.

In parallel, the airport's aircraft activity expanded by 4.3% annually to 49,715 take-offs and landings in the first eight months of 2018, compared to an increase of 0.6% in the same period of 2017 and to a growth of 5.4% in the first eight months of 2016. In addition, the HIA processed 64,523 metric tons of freight in the covered period that consisted of 37,896 tons of import freight and 26,627 tons of export freight. Middle East Airlines had 17,198 flights in the first eight months of 2018 and accounted for 34.6% of HIA's total aircraft activity.

Term deposits account for 89% of customer deposits at end-June 2018

Figures issued by Banque du Liban about the distribution of bank deposits at commercial banks in Lebanon show that term deposits were the preferred type of account for resident and non-resident depositors in Lebanese pounds and in foreign currency at the end of June 2018. Term deposits in all currencies reached \$164.8bn at end-June 2018, constituting an increase of 1.4% from \$162.5bn at end-2017. They accounted for 88.8% of total deposits in Lebanese pounds and foreign currency at end-June 2018 relative to a 90% share at end-2017.

Resident private-sector term deposits in foreign currency totaled \$76.6bn and accounted for 41.3% of total deposits at the end of June 2018. Resident private-sector term deposits in Lebanese pounds followed with \$45.7bn (24.6%), then non-resident term deposits with \$33.2bn (17.9%), term deposits of the non-resident financial sector with \$5.8bn (3.1%), public-sector term deposits in Lebanese pounds with \$3.4bn (1.9%), and public-sector term deposits in foreign currency with \$140.4m (0.1%).

In parallel, resident private-sector demand deposits in foreign currency amounted to \$9.9bn and represented 5.3% of total deposits at the end of June 2018. Resident private-sector demand deposits in Lebanese pounds followed with \$4.4bn (2.4%), then non-resident demand deposits with \$3.6bn (1.9%), demand deposits of the non-resident financial sector with \$2.5bn (1.3%), public-sector demand deposits in Lebanese pounds with \$311.7m (0.2%), and public-sector demand deposits in foreign currency with \$135.3m (0.1%).

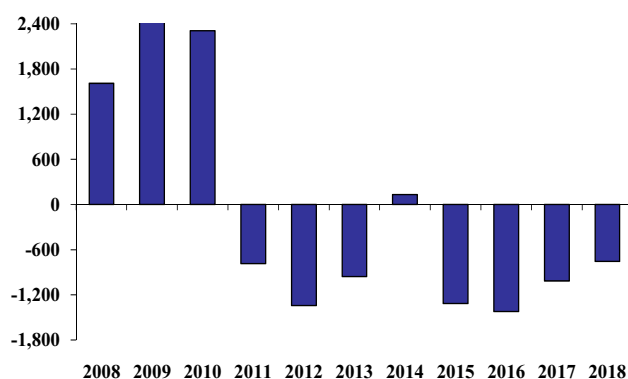
Beirut and its suburbs attracted 68.1% of private sector deposits and 47.3% of depositors at the end of March 2018, the latest available figures. Mount Lebanon followed with 14.4% of deposits and 18.7% of beneficiaries, then South Lebanon with 6.8% of deposits and 12.8% of depositors, North Lebanon with 6% of deposits and 12.3% of beneficiaries, and the Bekaa with 4.7% of deposits and 9% of depositors.

Balance of payments posts deficit of \$757m in first seven months of 2018

Figures issued by Banque du Liban (BdL) show that Lebanon's balance of payments posted a deficit of \$757.2m in the first seven months of 2018 compared to a deficit of \$1bn in the same period of 2017. The balance of payments posted a deficit of \$548.9m in July 2018 compared to a deficit of \$638.5m in June 2018 and a deficit of \$100.2m in July 2017. The July 2018 deficit was caused by a decrease of \$807.3m in the net foreign assets of banks and financial institutions, which was partly offset by an increase of \$258.5m in those of BdL. The cumulative deficit in the first seven months of 2018 was caused by a decrease of \$3.2bn in the net foreign assets of banks and financial institutions, which was partly offset by an increase of \$2.5bn in those of 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, \$3.4bn in 2015 and \$155.7m in 2017. The balance of payments posted a deficit equivalent to 0.3% of GDP in 2017, relative to a surplus equivalent to 2.5% of GDP in 2016 and deficits of 6.8% of GDP in 2015 and 2.9% of GDP in 2014.

Balance of Payments* (US\$m)



*in the first seven months of each year

Source: Banque du Liban

Opened letters of credit at \$3.2bn for imports and \$1.6bn for exports in first half of 2018

Figures released by Banque du Liban indicate that the value of letters of credit (LCs) opened to finance imports to Lebanon totaled \$3.18bn in the first half of 2018, nearly unchanged from \$3.17bn in the same period of 2017. Further, utilized credits for imports reached \$2.73bn in the first half of the year, down by 21% from \$3.46bn in the same period last year, and accounted for 86% of opened LCs for imports in the first half of 2018. Also, outstanding import credits stood at \$1.15bn at the end of June 2018 compared to \$1.1bn at end-June 2017. Further, the aggregate value of inward bills for collection reached \$508m in the first half of the year, constituting a decline of 36% from \$793.6m in the first half of 2017. The outstanding value of inward bills for collection reached \$59.5m at the end of June 2018 relative to \$67.9m at end-June 2017.

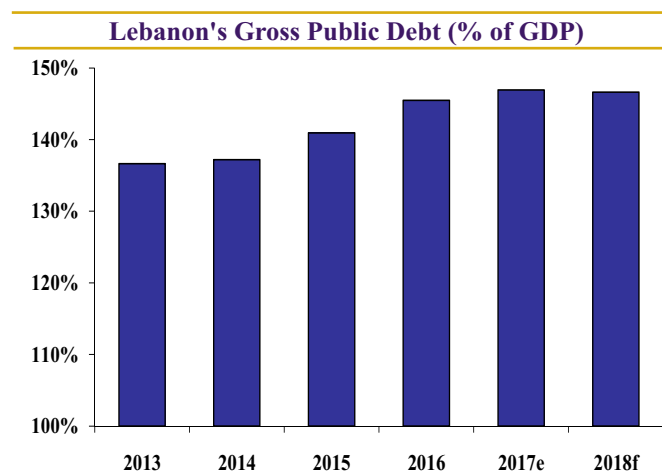
In parallel, the value of documentary letters of credit opened to finance exports from Lebanon reached \$1.58bn in the first half of 2018, down by 12% from \$1.79bn in the same period of 2017. Further, utilized credits for exports reached \$1.38bn in the covered period, down by 4.3% from \$1.44bn of used credits in the first six months of 2017, and accounted for 87.5% of opened LCs for exports in the first half of 2018. Also, outstanding export credits stood at \$813.3m at the end of June 2018 compared to \$880m at end-June 2017. In addition, the aggregate value of outward bills for collection amounted to \$724.1m in the first half of the year, constituting an increase of 1.2% from \$715.8m in the same period of 2017. The outstanding value of outward bills for collection reached \$416.4m at the end of June 2018 relative to \$439.3m at end-June 2017.

Gross public debt at \$83bn at end-June 2018

Lebanon's gross public debt reached \$82.95bn at the end of June 2018, constituting an increase of 4.3% from \$79.5bn at the end of 2017 and a rise of 8.5% from \$76.5bn at end-June 2017. In nominal terms, the gross public debt grew by \$3.4bn in the first half of 2018 relative to an increase of \$1.6bn in the same period of 2017. Debt denominated in Lebanese pounds totaled \$47.8bn at end-June 2018, down by 2.6% from the end of 2017 and up by 2.2% from end-June 2017; while debt denominated in foreign currency stood at \$35.1bn, constituting a growth of 15.5% from end-2017 and an increase of 18.3% from end-June 2017. In May 2018, the Finance Ministry issued \$5.5bn in Lebanese Eurobonds and exchanged them with LBP8,250bn worth of Lebanese pound-denominated Treasury bills from Banque du Liban's (BdL) portfolio in order to reduce the cost of debt servicing, which explains the growth in foreign-currency debt. Local currency debt accounted for 57.7% of the gross public debt at the end of June 2018 compared to 61.2% a year earlier, while foreign currency-denominated debt represented the balance of 42.3% relative to 38.8% at end-June 2017. The weighted interest rate on outstanding Treasury bills was 6.41% and that on Eurobonds was 6.73% in June 2018. Further, the weighted life on Eurobonds was 7.95 years, while it was 1,475 days on Treasury bills.

Commercial banks held 40% of the public debt as at end-June 2018 relative to 47% of the total at end-June 2017. BdL held 48% of the Lebanese pound-denominated public debt at the end of June 2018 relative to 41.6% a year earlier, while commercial banks held 36.6% of the local debt compared to 43% at end-June 2017. Also, public agencies, financial institutions and the public held 15.4% of the local debt at end-June 2018 relative to 15.5% a year earlier. Further, holders of Eurobonds and special T-bills in foreign currencies accounted for 93.9% of foreign currency-denominated debt holders at the end of June 2018, followed by multilateral institutions with 3.8% and foreign governments with 2.3%. In addition, the net public debt, which excludes public sector deposits at the BdL and at commercial banks from overall debt figures, grew by 8.3% annually to \$72.2bn at end-June 2018. Further, the gross market debt accounted for about 57.1% 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 September 6, 2018, which is similar to the S&P sovereign rating.



Source: Institute of International Finance

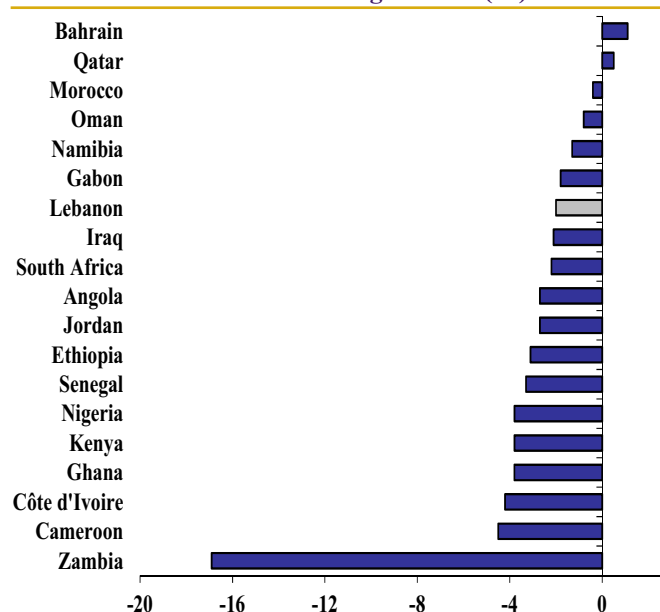
External bonds post seventh highest return in Middle East & Africa in August 2018

Figures issued by Citi Research indicate that Lebanon's external sovereign debt posted a return of -2% in August 2018, constituting, along with Russia, the 36 highest return among 58 emerging markets included in the Citi EM Sovereign Bond Index. Also, Lebanon's sovereign debt posted the seventh highest return among 19 countries in the Middle East & Africa region in the covered month. Lebanon's sovereign debt return was lower than returns in Bahrain (1.1%), Qatar (0.5%), Morocco (-0.4%), Oman (-0.8%), Namibia (-1.3%) and Gabon (-1.8%) in August 2018. Lebanon underperformed the emerging markets' return of -1.9%, but outperformed the 'B'-rated sovereigns' return of -4.7% and the speculative grade sovereigns' return of -4.4% during the covered month.

Further, Lebanon's sovereign debt posted a return of -7.3% in the first eight months of 2018, constituting the eighth lowest return in emerging markets during the covered period. Also, Lebanon's sovereign debt posted the fourth lowest return among 19 countries in the Middle East & Africa region in the first eight months of 2018. Lebanon's sovereign debt return was higher than returns in Zambia (-28.2%), Senegal (-9.2%) and Cameroon (-9.1%) in the covered period.

Lebanon underperformed the overall emerging markets' return of -5.1%, but outperformed the speculative grade sovereigns' return of -8.9% and the 'B'-rated sovereigns' return of -9.5% during the first eight months of 2018.

External Sovereign Debt Performance in the Middle East & Africa in August 2018 (%)



Source: Citi Research, Byblos Research

Industrial activity slows down in first quarter of 2018

Banque du Liban's quarterly survey of the opinions of business managers shows that the balance of opinions about industrial production was -17 in the first quarter of 2018, unchanged from the fourth quarter of 2017 and compared to -11 in the first quarter of 2017. The balance of opinions was the highest in the North at zero, followed by Beirut & Mount Lebanon (-11), the Bekaa (-27) and the South (-55). The business survey reflects the opinions of managers of industrial enterprises about their businesses, in order to depict the evolution of a number of key economic variables. The balance of opinions about overall demand for industrial goods stood at -21 in the first quarter of 2018 compared to -19 in the preceding quarter and to -12 in the first quarter of 2017. The balance of opinions about demand for industrial goods was zero in the North, followed by Beirut & Mount Lebanon (-13), the Bekaa (-38) and the South (-50).

In parallel, the balance of opinions for the volume of investments in the industrial sector stood at -12 in the first quarter of 2018 compared to -7 in the fourth quarter of 2017 and at -9 in the first quarter of 2017. The balance of opinions about the volume of investments was zero in the North, followed by the Bekaa (-3), Beirut & Mount Lebanon (-6) and the South (-77). Also, the balance of opinions for foreign demand of industrial goods stood at -16 during the first quarter of 2018 compared to -11 in the previous quarter and to -20 in the first quarter of 2017. The balance of opinions for foreign demand of industrial goods was zero in the North, followed by the Bekaa (-9), Beirut & Mount Lebanon (-14) and the South (-63). The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in a particular indicator and the proportion of those who reported a decline in the same indicator.

Industrial Activity: Evolution of Opinions				
Aggregate results	Q1-15	Q1-16	Q1-17	Q1-18
Production	-15	-8	-11	-17
Total demand	-20	-15	-12	-21
Foreign demand	-20	-20	-20	-16
Volume of investments	-14	-9	-9	-12
Inventories of finished goods	-15	-11	-13	-6
Inventories of raw material	-10	-12	-7	-9
Registered orders	-21	-14	-18	-22

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

Fiscal deficit at \$1.9bn in first four months of 2018, equivalent to 33% of expenditures

Figures released by the Finance Ministry show that the fiscal deficit reached \$1.9bn in the first four months of 2018 compared to a deficit of \$844.7m in the same period of 2017. The deficit was equivalent to 33.4% of total budget and Treasury expenditures compared to 18.6% of spending in the same period last year. Government expenditures reached \$5.7bn and rose by 26.4% from the first four months of 2017, while revenues grew by 3.4% year-on-year to \$3.8bn. As such, the widening of the deficit reflects a rise of \$1.2bn in overall expenditures that was partly offset by an increase of \$126.7m in total revenues in the covered period. The growth in spending is mainly due to an increase of \$862.2m in general budgetary expenditures as well as a rise of \$311.6m in transfers to municipalities in the covered period.

On the revenues side, tax receipts grew by 6.5% year-on-year to \$2.8bn in the first four months of 2018, of which 34.2%, or \$964.3m, were in VAT receipts that increased by 8.7% year-on-year. Tax receipts accounted for 81.5% of budgetary revenues and for 74% of total Treasury and budgetary receipts. The distribution of other tax revenues shows that receipts from taxes on income, profits & capital gains grew by 21.7% to \$845.6m in the first four months of 2018; revenues from customs regressed by 3% to \$434.4m; receipts from property taxes dropped by 19.4% to \$298.4m; while receipts from stamp fees expanded by 18.6% to \$145.7m and revenues from taxes on goods & services increased by 5.7% to \$130.5m.

The distribution of income tax receipts shows that the tax on interest deposits accounted for 39.7% of income tax revenues in the first four months of 2018, followed by taxes on wages & salaries with 34.1%, the tax on profits with 18.8% and the capital gains tax with 5.6%. Receipts from the tax on interest deposits surged by 64.6% and revenues from taxes on wages & salaries rose by 14.6%, while receipts from taxes on capital gains decreased by 15.5% and revenues from taxes on profits regressed by 2% in the covered period. Also, the distribution of property taxes shows that revenues from real estate registration fees fell by 22.3% to \$160.7m in the first four months of 2018, receipts from the built property tax regressed by 7.8% to \$113.3m and revenues from the inheritance tax dropped by 39.8% to \$24.3m. Further, non-tax budgetary receipts decreased by 23.5% year-on-year to \$638m. They mainly included \$346.3m in revenues generated from government properties that fell by 39% year-on-year, as well as \$224.6m in receipts generated from administrative fees and charges that grew by a marginal 0.3% year-on-year. Receipts from telecommunication services dropped by 30.8% to \$252m. They accounted for 72.8% of income from government properties and for 39.5% of non-tax budgetary revenues in the covered period. The Finance Ministry did not disclose the reason for the decline in telecom receipts.

On the expenditures side, budgetary spending, which includes general expenditures and debt servicing, increased by 22.3% to \$5.2bn in the first four months of 2018. General budgetary spending grew by 31.4% year-on-year to \$3.6bn, and included \$1bn in outlays from previous years that rose by 31.7% year-on-year and \$521.7m in transfers to Electricité du Liban that surged by 44.1% annually, among other general spending items. Also, debt servicing totaled \$1.55m in the first four months of 2018 and grew by 5.3% from the same period of 2017. Debt servicing accounted for 27% of total expenditures and for 30% of budgetary spending, while it absorbed 40.6% of overall revenues and 44.8% of budgetary receipts. Interest payments on Lebanese pound-denominated debt grew by 6.6% to \$1.1bn in the first four months of 2018, while debt servicing on foreign currency debt increased by 2.8% to \$418.1m. Further, Treasury transfers surged by 80.5% to \$571.5m in the covered period, as transfers to municipalities grew from \$57.2m in the first four months of 2017 to \$368.8m in the same period of this year. The primary budget balance posted a deficit of \$148.4m in the first four months of 2018, or 2.9% of budgetary expenditures, while the overall primary balance posted a deficit of \$365.2m, or 6.4% of spending.

Fiscal Results in First Four Months of each Year			
	2017 (US\$m)	2018 (US\$m)	Change (%)
Budget Revenues	3,480	3,457	(0.7%)
Tax Revenues	2,647	2,819	6.5%
Non-Tax Revenues	834	638	(23.5%)
of which Telecom revenues	364	252	(30.8%)
Budget Expenditures	4,213	5,154	22.3%
Budget Surplus/Deficit	(733)	(1,697)	131.5%
<i>In % of budget expenditures</i>	<i>(17.4%)</i>	<i>(32.9%)</i>	
Budget Primary Surplus	737	(148)	(120.1%)
<i>In % of budget expenditures</i>	<i>17.5%</i>	<i>(2.9%)</i>	
Treasury Receipts	205	355	73.3%
Treasury Expenditures	317	572	80.5%
Total Revenues	3,685	3,812	3.4%
Total Expenditures	4,530	5,725	26.4%
Total Deficit	(845)	(1,914)	126.5%
<i>In % of total expenditures</i>	<i>(18.6%)</i>	<i>(33.4%)</i>	
Total Primary Surplus/Deficit	625.1	(365.2)	(158.4%)
<i>In % of total expenditures</i>	<i>13.8%</i>	<i>(6.4%)</i>	

Source: Ministry of Finance, Byblos Research



Government spending on education at \$1.2bn annually

A study by the World Bank indicated that the Lebanese government's expenditures on the public education system averaged \$1.2bn annually in the 2013-15 period, which is equivalent to 2% of GDP and 6.3% of total government spending per year. But it noted that only 30% of students in Lebanon attend public schools and that about 40% of public school teachers do not have a university degree.

It added that the government allocated an annual average of \$949.6m during the covered period, or around 80% of the total, to the Ministry of Education & Higher Education (MEHE), which mainly uses the funds to pay the salaries of civil servants; while authorities earmarked the remaining \$262m for the construction of public schools and on tuition subsidies for civil servants who enroll their children in private schools. Civil servants consist of permanent teachers at public schools, administrative staff working at MEHE and its regional offices, and other non-teaching staff at schools such as directors, librarians, laboratory technicians, and others.

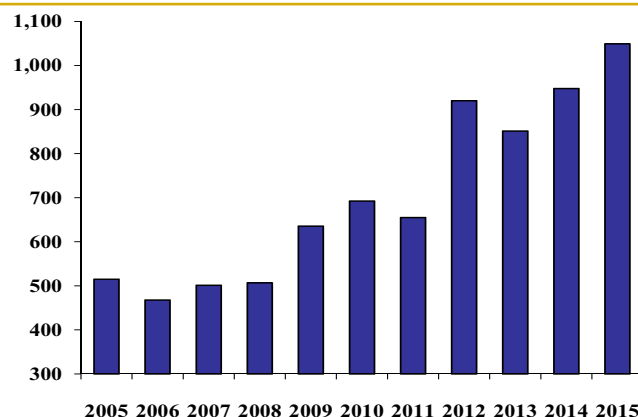
Further, the distribution of expenditures shows that the MEHE spent 46.3% of its budget on primary education in the 2013-15 period, 23.6% on the General Directorate for Higher Education, 15.5% on secondary education, 9.2% on the General Directorate for Technical & Vocational Training, and 5% on general administration. The survey pointed out that the majority of the ministry's funds were earmarked to pay the salaries of civil servants in most stages of education in the covered period. In fact, salaries accounted for 63% of total expenditures allocated for primary education, for 81.3% of funds earmarked to secondary education, and for 99.5% of spending on higher education.

In addition, the World Bank estimated government spending per student at \$2,058 in the public primary education system, \$2,367 in the secondary education segment, and \$2,558 in the public tertiary education system. Also, government spending on teachers' salaries was \$1,586 per student in the primary education system, which is higher than in Turkey (\$1,368) and Hungary (\$1,229), but lower than in Poland (\$2,247) and France (\$1,735). It noted that the salary cost of permanent teachers per student in primary and secondary education is in line with the average of OECD countries, and that there is one civil servant teacher for each 12 students in Lebanon.

The survey noted that each contractual teacher spends between 10 and 19 hours per week teaching, while a civil servant teacher spends between 10 and 15 hours per year at work. Further, civil servant teachers work on average 380 hours per year, while contractual and civil servant teachers work only 430 hours annually. In comparison, a teacher's average annual working time is 771 hours per year in OECD countries. According to the World Bank, significantly low workload levels, along with high teacher salary per student, put tremendous pressure on the expenditures of the Lebanese government.

In parallel, the World Bank indicated that the government's direct spending on education is equivalent to 2% of GDP annually, which is low relative to other countries in the Middle East & North Africa region. However, it estimated that spending on the education system reaches 4% of GDP when including subsidies to private schools of 0.4% of GDP and out-of-pocket expenditures of 1.45% of GDP, which is in line with other MENA countries.

Ministry of Education & Higher Education Expenditures (US\$m)



Source: World Bank, Ministry of Finance

Banking sector assets at \$236bn at end-July 2018

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets stood at \$236.3bn at the end of July 2018, constituting an increase of 7.5% from the end of 2017 and an expansion of 13.4% from end-July 2017. Loans extended to the private sector reached \$59.2bn at the end of July 2018, declining by 0.8% from end-2017 and growing by 1.8% from a year earlier. Loans to the resident private sector totaled \$52.7bn, constituting a decrease of 1.7% from the end of 2017 and a marginal increase of 0.4% year-on-year; while credit to the non-resident private sector reached \$6.5bn at end-July 2018 and grew by 7.2% from end-2017 and by 15.2% from a year earlier. In nominal terms, credit to the private sector regressed by \$469.7m in the first seven months of 2018, as lending to the resident private sector contracted by \$904.5m and credit to the non-resident private sector grew by \$434.8m in the covered period. The dollarization rate in private sector lending regressed from 69.4% at end-July 2017 to 67.3% at end-July 2018.

In addition, claims on non-resident banks reached \$9.8bn at the end of July 2018 and declined by \$1.5bn, or 13.5%, from the end of 2017 and by \$346.9m, or 3.4%, from a year earlier. Also, claims on the public sector stood at \$33.3bn at end-July 2018, up by 4.2% from end-2017, mainly due to Banque du Liban's sale to banks of about \$3bn in Eurobonds from its portfolio. Still, banks' claims on the public sector regressed by 3.7% from end-July 2017. The average lending rate in Lebanese pounds was 8.66% in July 2018 compared to 8.33% a year earlier, while the same rate in US dollars was 7.96% relative to 7.25% in July 2017. Further, the deposits of commercial banks at Banque du Liban totaled \$120bn at the end of July 2018, constituting an increase of 29.5% from a year earlier.

In parallel, total private sector deposits reached \$173bn at the end of July 2018, increasing by 2.6% from the end of 2017 and by 2.7% from a year earlier. Deposits in Lebanese pounds reached the equivalent of \$54.5bn at end-July 2018, up by 3.2% from end-2017 but down by 2.3% from end-July 2017; while deposits in foreign currency totaled \$118.5bn, and grew by 2.3% from end-2017 and by 5.2% from \$112.6bn a year earlier. Resident deposits totaled \$136.4bn at the end of July 2018, increasing by 2.2% from the end of 2017 and by 2.1% from end-July 2017. Also, non-resident deposits reached \$36.6bn at end-July 2018, up by 4.2% from end-2017 and by 5.4% from \$34.8bn a year earlier. In nominal terms, private sector deposits grew by \$475.4m in January, by \$1.31bn in February, by \$727.3m in March, by \$229.2m in April, by \$975.8m in May and by \$934.5m in June, while they regressed by \$305m in July 2018. As such, aggregate private sector deposits expanded by \$4.35bn in the first seven months of 2018 relative to an increase of \$5.9bn in the same period of 2017, with deposits in Lebanese pounds growing by \$1.14bn and foreign-currency deposits increasing by \$1.75bn. The dollarization rate of private sector deposits was 68.5% at the end of July 2018, relative to 68.7% at end-2017, and compared to 66.9% a year earlier.

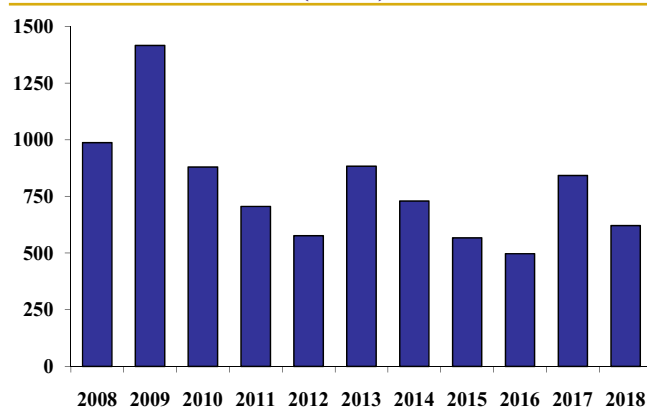
In parallel, deposits of non-resident banks reached \$8.4bn at the end of July 2018 and increased by 12.1% from end-2017 and by 25.7% from end-July 2017. Further, the average deposit rate in Lebanese pounds was 6.94% in July 2018 compared to 5.56% a year earlier, while the same rate in US dollars was 4.14% relative to 3.64% in July 2017. The ratio of private sector loans-to-deposits in foreign currency stood at 33.6% at the end of July 2018, well below Banque du Liban's limit of 70% and compared to 35.8% a year earlier. The same ratio in Lebanese pounds was 35.5% at end-July 2018 relative to 31.9% at the end of July 2017. As such, the total private sector loans-to-deposits ratio reached 34.2%, down from 34.5% at end-July 2017. The banks' aggregate capital base stood at \$20.1bn at end-July 2018, up by 7.1% from \$18.8bn a year earlier.

SGBL approves redemption of preferred shares

Société Générale de Banque au Liban (SGBL) sal approved the voluntary redemption of 12,500 Series 2012 Preferred Shares at a premium call price of \$10,125 per share. The Series 2012 Preferred Shares were issued in March 2013, carried an annual dividend rate of 7% per share of the issue price and were redeemable, non-cumulative and perpetual. The share capital of SGBL consists of 56,535 common shares, 12,500 preferred shares Series 2012, 15,000 preferred shares Series 2013 and 10,000 preferred shares Series 2015.

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.

Average Monthly Growth of Private Sector Deposits* (US\$m)



*in the first seven months of each year

Source: Banque du Liban, Byblos Research

Syrian affiliates of Lebanese banks post profits of \$5.8m in first half of 2018

Financial results issued by the affiliates of seven Lebanese banks operating in Syria show that their aggregate net profits reached SYP2.53bn in the first half of 2018, constituting a drop of 30% from net earnings of SYP3.6bn in the same period of 2017. The deterioration in the banks' net earnings is due in part to the appreciation of the Syrian pound from an average of SYP517.4 against the US dollar in the first half of 2017 to an average of SYP436 per US dollar in the first half of 2018, which resulted in unrealized foreign exchange losses on the banks' structural positions of SYP8.4m in the covered period, relative to unrealized foreign exchange gains on structural positions of SYP159.4m in the same period of 2017. In US dollar terms, the net profits of the seven banks reached \$5.8m relative to net earnings of \$7m in the same period of 2017. The aggregate net income of the seven banks becomes SYP2.54bn, or \$5.82m, in the first half of 2018 when excluding foreign exchange losses on structural positions, relative to earnings of SYP3.45bn, or \$6.7m, in the same period of 2017. The earnings of Bank Al-Sharq, the affiliate of Banque Libano-Française sal, grew by SYP177.7m and those of Bank Audi Syria increased by SYP47.6m in the first half of 2018. In contrast, the earnings of Bank of Syria & Overseas dropped by SYP1.3bn in the covered period, the income of Banque BEMO Saudi Fransi decreased by SYP266.9m and the profits of Fransabank Syria regressed by SYP252.3m. In parallel, Syria Gulf Bank, the affiliate of First National Bank sal incurred losses of SYP253.2m in the first half of 2018 relative to losses of SYP1.1bn in the same period last year, while the income of Byblos Bank Syria shifted from profits of SYP114m in the first half of 2017 to losses of SYP206.1m in the covered period.

The net interest income of the seven banks totaled SYP6.5bn in the first half of 2018, down by 8.4% from SYP7.1bn in the same period of 2017; while their net fees & commission receipts dropped by 5.9% year-on-year to SYP2.1bn. In US dollar terms, the banks' net interest income totaled \$14.8m in the first half of 2018, up by 8.7% year-on-year; while their net fees & commission income stood at \$4.7m, up by 11.7% from \$4.2m in the same period of 2017. The seven banks' total operating income totaled SYP10.1bn in the covered period, constituting a decrease of 4.5% from SYP10.6bn in the first half of 2017, while their total operating expenses reached SYP6.7bn in the covered period, up by 21.8% from the first half of 2017. In US dollar terms, the seven banks' operating income totaled \$23.2m in the first half of 2018, and grew by 13.4% from operating profits of \$20.4m in the same period of 2017; while their operating expenses stood at \$15.4m, up by 44.5% from \$10.6m in the first half of 2017. The banks' operating income is nearly unchanged at SYP10.1bn in the first half of 2018 when excluding foreign exchange gains on structural positions, relative to SYP10.4bn in the same half of 2017.

In parallel, the banks' aggregate assets reached SYP857.2bn at the end of June 2018 and increased by 5.7% from SYP810.7bn at end-2017. In US dollar terms, the assets of the seven banks stood at \$2bn at the end of June 2018 relative to \$1.86bn at the end of 2017, amid a stable exchange rate of SYP436 per US dollar between the end of 2017 and the end of June 2018. Also, the banks' total loans reached SYP149bn at end-June 2018, constituting a rise of 35.7% from SYP109.8bn at the end of 2017. In US dollar terms, the aggregate loans of the seven banks stood at \$341.8m at the end of June 2018 compared to \$251.8m at end-2017.

Further, the banks' customer deposits totaled SYP574.8bn at the end of June 2018, increasing by 11% from SYP517.6bn from end-2017. In US dollar terms, customer deposits at the seven banks reached \$1.32bn at the end of June 2018 relative to \$1.19bn at the end of 2017. The ratio of the banks' loans-to-customer deposits stood at 25.9% at the end of June 2018 relative to 21.2% at end-2017. Also, the aggregate shareholders' equity of the banks reached SYP133bn, or \$305.1m, at the end of June 2018, relative to SYP130.8bn, or \$299.9m, at end-2017.

Results of Affiliates of Lebanese Banks in Syria in First Half of 2018 (\$USm)

	Banque BEMO Saudi Fransi	Bank of Syria & Overseas	Bank Audi Syria	Fransabank Syria	Byblos Bank Syria	Syria Gulf Bank	Bank Al-Sharq
Net Profits	3.0	2.2	0.8	0.1	(0.5)	0.7	(0.6)
Total Assets	626.4	401.8	258.2	247.1	180.9	142.0	109.7
% Change*	8.8%	-2.4%	0.8%	2.9%	16.7%	35.1%	-4.9%
Loans	129.6	16.9	27.7	61.0	42.5	49.3	14.8
% Change*	31.7%	86.6%	22.5%	25.8%	24.1%	96.1%	6.7%
Customer Deposits	509.7	241.6	134.9	129.0	120.9	96.8	85.5
% Change*	11.7%	0.9%	5.5%	12.9%	24.8%	51.6%	-3.8%

*Change from end-2017

Source: Banks' financial statements

Subscriptions in domestic investment funds at \$791m at end-2017

The Capital Markets Authority (CMA) indicated that there were 23 local collective investment schemes (CIS) in 2017, constituting an increase of 15% from 20 CIS in 2016. According to the CMA, a CIS is "an arrangement including a mutual fund or investment company that enables a number of investors to pool their assets for professional management and diversification of risk."

The aggregate amount of subscriptions in local funds totaled \$791m at the end of 2017, down by 6.6% from \$846.7m at end-2016. The breakdown of subscriptions by type of investments shows that 74.9% were in securities funds, 17.2% in money markets, 6.4% in fixed income funds, 1% in bonds & stocks, and 0.6% in mixed allocation funds.

The geographical distribution of investments by domestic CIS shows that 78.3% of the funds invested in the Middle East last year, 17.4% had global investments, and 4.3% invested in the United States. Also, the breakdown of CIS by type of investments showed that 11 funds invested in securities, six funds in fixed income, three funds in money markets, two funds in bonds & stocks, while one fund had a mixed allocation. There were 5,422 subscribers in CIS funds last year, nearly unchanged from 5,441 in 2016.

In parallel, the CMA indicated that the number of foreign CIS, which are marketed in Lebanon by financial institutions and financial intermediary institutions, totaled 504 funds 2017, up by 7% from 471 funds in 2016. The breakdown of foreign CIS by type of investments showed that 293 funds invested in equities, followed by 113 funds in fixed income, 34 funds in mixed allocations, 27 funds in securities, 16 funds in alternatives and six funds in hedge funds; while the remaining funds invested in commodities, real estate and in money markets, among others. Further, the aggregate amount of subscriptions in foreign funds amounted to \$900m at the end of 2017, nearly unchanged from \$902.5m at end-2016. The breakdown of subscriptions by type of investments indicates that 64.9% were in securities funds, 11.1% in fixed income funds, 9.2% in hedge funds, 7.7% in mixed allocation funds, 5.1% in equity funds and 1.5% in alternatives. There were 3,757 subscribers in CIS foreign funds last year, down by 4.6% from 3,940 in 2016.

Fidelity's net income at \$7.5m in 2017

Fidelity Assurance & Reinsurance Co. sal announced audited net profits of \$7.5m in 2017 compared to \$2.2m in 2016. Its audited balance sheet shows total assets of \$116.1m at the end of 2017, up by 26.1% from \$92.1m at end-2016. On the assets side, general company investments totaled \$53.3m and increased by 26.2% from end-2016. They included \$8.3m in cash & cash equivalents, \$1.7m in variable income investments and \$1m in land and real estate investments. They also included \$42.1m in blocked bank deposits and deposits with maturity of more than three months, of which \$2.1m, or 5%, were blocked in favor of the Economy Ministry as guarantees. Also, the reinsurance's share in technical reserves for the life category dropped by 32.5% to \$0.7m, while that for the non-life segment reached \$12m in 2017 compared to \$2.7m in 2016.

On the liabilities side, technical reserves for the life segment decreased by 4.1% to \$11.6m, while technical reserves for the non-life segment reached \$52.3m at end-2017 and increased by 9.4% from a year earlier. Non-life technical reserves included unearned premium reserves of \$34m that rose by 14.7% year-on-year, outstanding claims reserves of \$12.6m that grew by 7.5%, and \$0.9m in reserves incurred but not reported that increased by 13.9% year-on-year. Provisions for risks and charges reached \$0.9m and remained unchanged from a year earlier. Further, the firm's shareholders' equity totaled \$26.9m at the end of 2017 and grew by 38.8% from end-2016.

Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked Fidelity Assurance & Reinsurance Co. sal in fifth and 15th place in 2017 in terms of non-life and life premiums, respectively. The firm's non-life premiums grew by 3.8% to \$70.8m in 2017, while its life premiums amounted to \$5.3m and increased by 11.3% from 2016. It had a 6.3% share of the local non-life market and a 1% share of the life market.

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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