

LEBANON THIS WEEK

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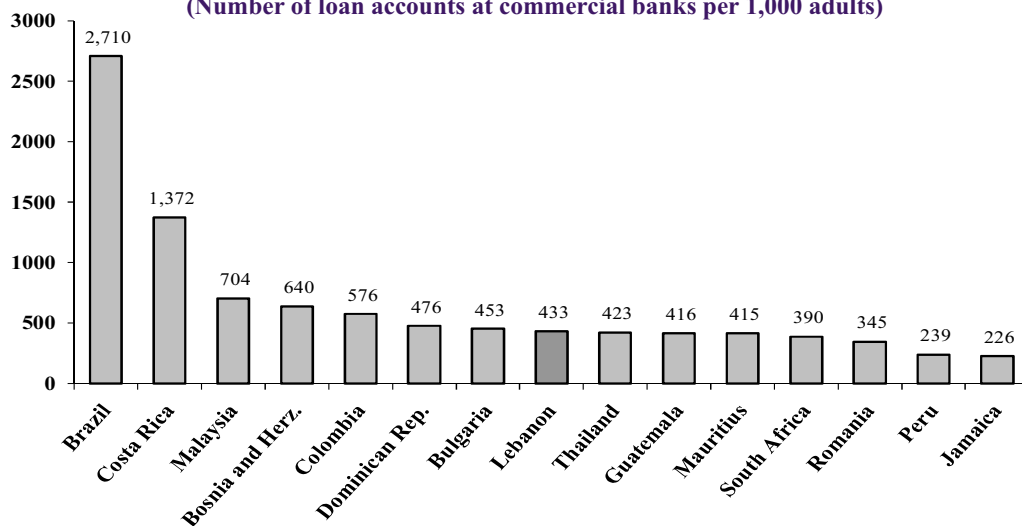
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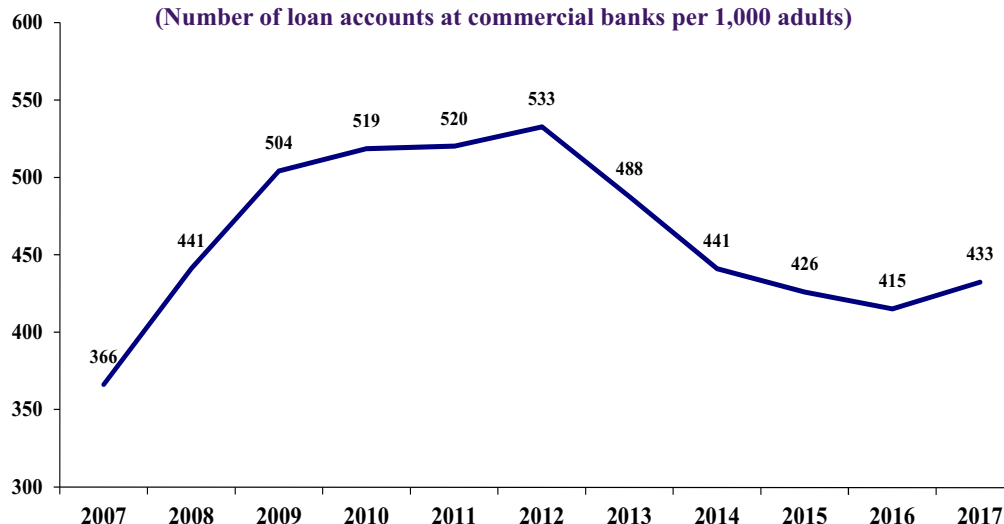
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Charts of the Week

Top 15 UMICs* in terms of Loan Accounts Penetration Rates in 2017
(Number of loan accounts at commercial banks per 1,000 adults)



Penetration Rate of Loan Accounts in Lebanon
(Number of loan accounts at commercial banks per 1,000 adults)



*Upper Middle-Income Countries excluding economies with a GDP of \$10bn or less
Source: International Monetary Fund, Byblos Research

Quote to Note

"We could see positive momentum building in Lebanon's fundamental story in the coming 6 to 12 months."

Global investment bank Goldman Sachs on Lebanon's economic prospects, in case of improved domestic political stability and progress on the economic agenda

Number of the Week

59.1%: Byblos Bank's ratio of net primary liquidity in foreign currency to deposits in foreign currency at the end of 2017, compared to the ratio of 40.7% for the top 15 Lebanese banks, according to Bankdata Financial Services

Lebanon in the News

\$m (unless otherwise mentioned)	2017	Aug 2017	May 2018	Jun 2018	Jul 2018	Aug 2018	% Change*
Exports	2,844	251	254	215	218	229	(8.86)
Imports	19,582	1,685	1,591	1,616	2,318	1,820	7.98
Trade Balance	(16,738)	(1,435)	(1,337)	(1,401)	(2,100)	(1,591)	10.93
Balance of Payments	(156)	368	1,204	(639)	(549)	(408)	-
Checks Cleared in LBP	21,677	1,869	1,725	1,680	1,878	1,777	(4.90)
Checks Cleared in FC	46,578	4,100	3,841	3,471	3,953	3,662	(10.68)
Total Checks Cleared	68,255	5,969	5,566	5,151	5,831	5,439	(8.87)
Budget Deficit/Surplus	(3,300.82)	(513.46)	-	-	-	-	-
Budget Primary Balance	1,882.86	(192.78)	-	-	-	-	-
Airport Passengers***	8,235,845	1,067,441	598,602	762,041	1,022,467	1,159,811	8.65

\$bn (unless otherwise mentioned)	2017	Aug 2017	May 2018	Jun 2018	Jul 2018	Aug 2018	% Change*
BdL FX Reserves	35.80	34.03	34.64	33.14	34.21	33.92	(0.31)
In months of Imports	18.57	20.19	21.77	20.51	14.76	18.64	(7.68)
Public Debt	79.53	77.29	82.51	82.95	82.90	83.69	8.30
Bank Assets	219.86	209.39	232.29	234.60	236.31	238.46	13.88
Bank Deposits (Private Sector)	168.66	169.15	172.38	173.32	173.01	173.22	2.41
Bank Loans to Private Sector	59.69	58.19	59.45	59.56	59.22	59.40	2.09
Money Supply M2	52.51	55.52	53.77	53.98	53.58	53.21	(4.16)
Money Supply M3	138.60	139.20	140.49	141.29	140.85	141.04	1.32
LBP Lending Rate (%)****	8.09	8.10	8.65	8.82	8.66	8.81	71bps
LBP Deposit Rate (%)	6.41	5.55	6.71	6.72	6.94	7.03	148bps
USD Lending Rate (%)	7.67	7.29	7.87	7.93	7.96	8.12	83bps
USD Deposit Rate (%)	3.89	3.63	4.11	4.09	4.14	4.20	57bps
Consumer Price Index**	4.4	5.1	6.5	7.6	7.6	6.7	160bps

* 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	Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Audi GDR	4.99	(0.20)	412,500	6.21%	Nov 2018	5.15	99.75	11.82
Solidere "A"	6.88	(1.99)	218,658	7.14%	May 2019	6.00	98.50	8.80
BLOM GDR	9.60	3.78	38,060	7.36%	Mar 2020	6.38	96.00	9.57
Byblos Common	1.41	0.71	34,661	8.27%	Oct 2022	6.10	87.00	10.20
Solidere "B"	6.80	(2.72)	32,371	4.59%	Jun 2025	6.25	81.25	10.21
BLOM Listed	9.25	0.00	27,000	20.64%	Nov 2026	6.60	80.38	10.23
Audi Listed	4.90	0.20	11,000	20.33%	Feb 2030	6.65	77.25	10.06
HOLCIM	16.16	(9.97)	3,360	3.27%	Apr 2031	7.00	77.75	10.19
Byblos Pref. 08	70.00	0.00	3,196	1.45%	Nov 2035	7.05	77.25	9.83
Byblos Pref. 09	75.00	0.00	-	1.56%	Mar 2037	7.25	77.75	9.90

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

Source: Byblos Bank Capital Markets

	Oct 22-26	Oct 15-19	% Change	September 2018	September 2017	% Change
Total shares traded	791,818	824,941	(4.0)	3,153,549	7,527,126	(58.1)
Total value traded	\$4,877,078	\$6,809,693	(28.4)	\$25,051,528	\$49,770,271	(49.7)
Market capitalization	\$9.64bn	\$9.81bn	(1.75)	\$9.68bn	\$11.36bn	(14.7)

Source: Beirut Stock Exchange (BSE)



Lebanon ranks 101st globally, 11th in Arab region in country risk in third quarter of 2018

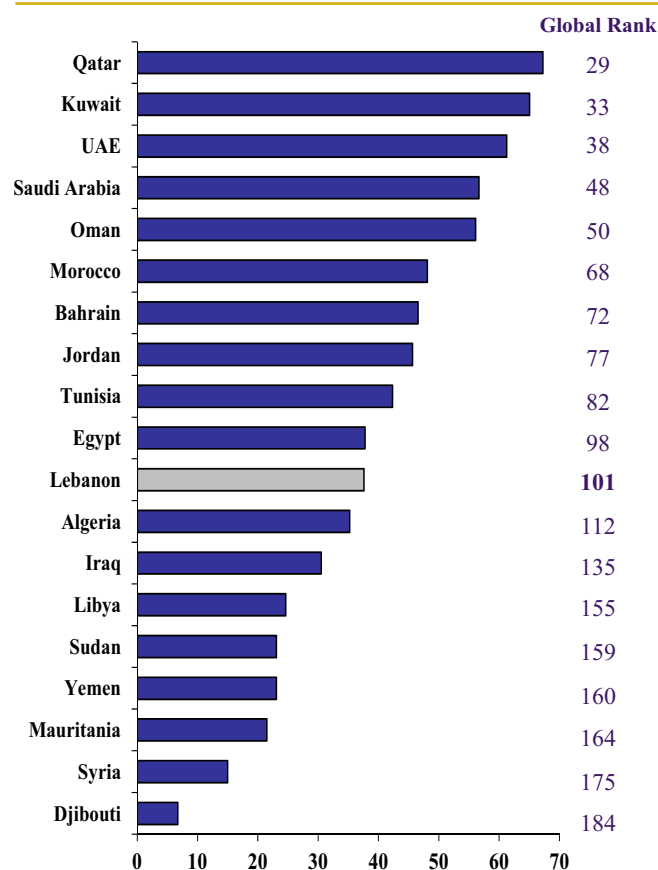
In its quarterly survey of the country risk level in 186 countries, the Euromoney Group ranked Lebanon in 101st place worldwide and in 11th place among 19 Arab countries in the third quarter of 2018. Also, Lebanon came in 29th place among 53 upper middle-income countries (UMICs) included in the survey. Lebanon's global and regional ranks were unchanged from the second quarter of 2018. The survey evaluates individual country risk by assigning a weighting to six categories that cover Political Risks, Economic Performance, Access to Bank Finance & Capital Markets, Debt Indicators, Credit Ratings, and Structural Assessment. A higher score reflects a lower country risk level.

Globally, Lebanon had a lower country risk level than Kenya, Ecuador and Angola, and a higher risk level than Gabon, Egypt and the Dominican Republic among economies with a GDP of \$10bn or more. It also ranked ahead of Ecuador and Jamaica, and came behind Gabon and the Dominican Republic among UMICs. Lebanon's global rank improved by one spot on the Structural Assessment category in the third quarter of 2018, while it was unchanged on the Credit Ratings, Political Risks, Economic Performance, Debt Indicators, and the Access to Bank Finance & Capital Markets categories.

Lebanon received a score of 37.6 points in the third quarter of 2018, unchanged from the preceding quarter. Lebanon's score came below the global average score of 43.2 points and the average score of 38.8 points for UMICs and of 39.2 for Arab countries. Also, its score was lower than the Gulf Cooperation Council (GCC) countries' average score of 58.8 points, but it came above the average score of non-GCC Arab countries of 30.1 points. Further, Lebanon's score was nearly unchanged on the Political Risks, Economic Performance, Structural Assessment, Debt Indicators, Credit Ratings and the Access to Bank Finance & Capital Market categories in the third quarter of 2018.

In parallel, Lebanon ranked ahead of Bangladesh and behind Mongolia worldwide, and came ahead of Egypt and behind Iraq regionally in terms of Economic Performance. Also, it came ahead of Argentina and behind South Africa globally, and ranked ahead of Jordan and behind Morocco in the Arab region on the Structural Assessment category. Further, Lebanon ranked ahead of Oman and behind the UAE and Qatar globally and regionally on the Access to Bank Finance & Capital Markets category. Finally, it ranked ahead of Mongolia and behind Venezuela globally, and came ahead of Iraq and behind Mauritania regionally on the Debt Indicators category.

**Country Risk in Arab World in Third Quarter of 2018
Scores & Rankings of Arab Countries**



Source: Euromoney Group, Byblos Research

Country Risk Indicators for Lebanon - Third Quarter of 2018

	Weighting (%)	Score	Arab Rank	Global Rank	Arab Ave Score	Global Ave Score
Political Risk	30	10.18	12	132	11.64	13.73
Economic Performance	30	12.42	12	115	12.74	13.43
Structural Assessments	10	4.90	8	72	4.12	4.08
Debt Indicators	10	2.50	16	171	3.79	4.67
Credit Rating	10	0.63	11	120	2.47	3.06
Access to Bank Finance & Capital Market	10	7.00	3	33	4.41	4.25

Source: Euromoney Group, Byblos Research

Coincident Indicator up 2% year-on-year in first eight months of 2018

Banque du Liban's Coincident Indicator, an index of economic activity in Lebanon, reached 296.6 points in August 2018 compared to 306.7 in July 2018 and 302 in August 2017. The Coincident Indicator, an average of 8 weighted economic indicators, decreased by 3.3% month-on-month and by 1.8% year-on-year in August 2018. The indicator averaged 309.2 in the first eight months of 2018, up by 1.8% from 303.9 in the same period of 2017. Also, the indicator averaged 309.4 in the 12 months ending August 2018, compared to 309.9 in the 12-month period ending July 2018 and to 300.6 in the 12 months ending August 2017. As a result, the 12-month average coincident indicator was nearly unchanged month-on-month, while it grew by 2.9% year-on-year. In parallel, the indicator improved 13 times and regressed 13 times on a monthly basis in the month of July 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, 289.5 points in 2016 and 305.9 points in 2017.

Launch of preparatory phase for the expansion of Beirut-Rafic Hariri International Airport

The Lebanese Government launched the preparatory phase for the expansion of the Beirut-Rafic Hariri International Airport, which consists of the preparation of financial, technical and legal feasibility studies for the project. The airport's expansion, which is one of several transportation projects under the Capital Investment Program (CIP), aims to improve the airport's ability to cope with traffic growth, as the number of passengers utilizing the airport has exceeded its capacity. The CIP is the \$23bn capital expenditures plan that the Council of Ministers approved on March 21 to upgrade the country's infrastructure. The CIP estimates the overall cost of the airport's expansion project at \$500m, which will be spent to develop a new terminal and its concourse for six million passengers, to upgrade the existing airport infrastructure, to improve access roads to the airport, and to develop non-aeronautical revenues in order to financially sustain the project.

According to the CIP, the project will be implemented through the public-private partnership Law 48 that the Lebanese Parliament enacted in 2017. The government will undertake a tendering process by the end of 2019 and will award a contract to a private company by June 2020, which will be responsible for financing, building, operating and maintaining the new terminal. In May 2018, the Higher Council for Privatization signed an agreement with the International Finance Corporation, the private sector arm of the World Bank Group, to act as a transaction advisor for the implementation of the project.

Figures released by the Beirut-Rafic Hariri International Airport show that 6,851,775 passengers utilized the airport (arrivals, departures and transit) in the first nine months of 2018, constituting an increase of 7.1% from 6,399,347 passengers in the same period of 2017. In parallel, the airport's aircraft activity expanded by 3.5% annually to 56,527 take-offs and landings in the first nine months of 2018.

Consumer Price Index up 6.3% in first nine months of 2018

The Central Administration of Statistics' Consumer Price Index increased by 6.3% year on-year in the first nine months of 2018 compared to a growth of 4.3% in the same period of 2017. The CPI increased by 6.5% in September 2018 from the same month of 2017. The prices of clothing & footwear grew by 21.4% year-on-year in September 2018, followed by the prices of water, electricity, gas & other fuels (+13.9%), transportation costs (+8.8%), actual rents (+6.1%), recreation & entertainment costs (+5.9%), the prices of food & non-alcoholic beverages (+5.3%), the cost of education (+4.1%), imputed rents (+4%), prices at restaurants & hotels (+3.1%), healthcare costs (+2.6%), miscellaneous goods & services costs (+2.2%), the prices of furnishings & household equipment (+2.1%), the prices of alcoholic beverages & tobacco (+2%), and communication costs (+0.9%). The distribution of actual rents shows that old rents grew by 10.6% annually in September 2018, while new rents increased by 3% year-on-year.

Further, the CPI grew by 0.4% in September 2018 from the preceding month compared to a month-on-month increase of 0.2% in August 2018. The prices of clothing & footwear increased by 8% month-on-month in September 2018, followed by the cost of water, electricity, gas & other fuels (+0.7%), the prices of furnishings & household equipment (+0.5%), the cost of food & non-alcoholic beverages and imputed rents (+0.3% each), and actual rents and the prices of alcoholic beverages & tobacco (+0.1% each). In contrast, healthcare costs decreased by 1.1% month-on-month in September 2018, followed by transportation costs (-0.5%), the cost of recreation & entertainment (-0.2%), and communication costs and miscellaneous goods & services (-0.1%). The cost of education and prices at restaurants & hotels were unchanged in the covered month. The CPI increased by 1.2% month-on-month in September 2018 in the North, by 0.6% in the Bekaa, by 0.4% in the South, by 0.3% in each of Nabatieh and Beirut, and by 0.2% in Mount Lebanon. In parallel, the Fuel Price Index increased by 1.2% month-on-month in September 2018, while the Education Price Index was unchanged from August.

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

The Orders of Engineers & Architects of Beirut and of Tripoli issued 10,356 new construction permits in the first nine months of 2018, down by 13.3% from 11,938 permits in the same period of 2017. In comparison, new construction permits declined by 7.8% year-on-year in the first nine months of 2017. Mount Lebanon accounted for 38.6% of newly-issued construction permits in the covered period, followed by the South with 19.6%, the Nabatieh area with 13.2%, the North with 12.3%, the Bekaa region with 9.6% and Beirut with 5%. The remaining 1.8% 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 7,001,055 square meters (sqm) in the first nine months of 2018, constituting a decrease of 23% from 9,092,087 sqm in the same period of 2017 and relative to 9,076,109 sqm in the first nine months of 2016. Mount Lebanon accounted for 2,792,598 sqm, or 39.9% of the total, in the covered period. The North followed with 1,175,008 sqm (16.8%), then the South with 1,138,579 sqm (16.3%), the Bekaa region with 688,302 sqm (9.8%), the Nabatieh area with 622,836 sqm (8.9%) and Beirut with 283,936 sqm (4.1%). The remaining 299,796 sqm, or 4.3% 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 43.5% year-on-year in the first nine months of 2018, followed by surface areas in Mount Lebanon (-27.1%), the North (-21.8%), the Bekaa region (-20.7%), the Nabatieh area (-17%) and the South (-6.3%). Also, the surface area of granted construction permits for regions located outside northern Lebanon fell by 29.5% year-on-year in the covered period. In parallel, cement deliveries totaled 3.2 million tons in the first eight months of 2018, constituting a decline of 4.7% from 3.4 million tons in the same period of 2017, and relative to a decrease of 1.3% in the first eight months of 2017.

Parliamentary committee issues recommendations to restructure the public administration

The Lebanese Parliament's National Economy, Trade, Industry & Planning Committee issued three recommendations to improve the productivity of the public sector. First, the committee recommended that the Central Inspection Board, which monitors the activities of the public administration, should assess the current structure of state agencies by conducting a comprehensive survey to determine the number of existing workers and employees in the public administration, and to classify them by departments and by positions.

Second, the committee asked Parliament to enact a law that allows the restructuring of the public administration, specifically to modernize it and redefine the job description of each position, given that the current job description system in the public sector dates back to 1959. It called for the review of 86 bodies, agencies, authorities and councils that operate in parallel to the public administration, in order to eliminate or merge some of them, as well as to establish new ones such as the Civil Aviation Authority.

Third, the committee endorsed the Central Inspection Board's recommendation to develop a system that evaluates government services. It noted that an electronic system connected to the Central Inspection Board should be installed in each administration and department, which would allow the evaluation of the quality of public services.

ESFD guaranteed 293 loans in first nine months of 2018

The Economic & Social Fund for Development (ESFD) indicated that it guaranteed 293 loans for a total of LBP7.37bn, or \$4.9m, to small- and medium-sized enterprises in the first nine months of 2018. The ESFD guaranteed 114 loans for an aggregate value of LBP2.8bn, or \$1.9m, in the first quarter, 103 projects for a total value of LBP2.78bn (\$1.8m) in the second quarter, and 76 projects for an aggregate value of LBP1.77bn (\$1.2bn) in the third quarter of 2018. Overall, the ESFD guaranteed 10,235 loans for an aggregate value of LBP191bn, or \$126.7m, between 2003 and September 2018. Mount Lebanon accounted for 29.6% 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 4,002 loans, or 39.1% of the total, to the services sector, followed by trade with 3,699 loans (36.1%), the industry with 1,492 loans (14.6%) and agriculture with 1,038 loans (10.2%). It claims that it has helped create 8,814 new jobs since 2003.

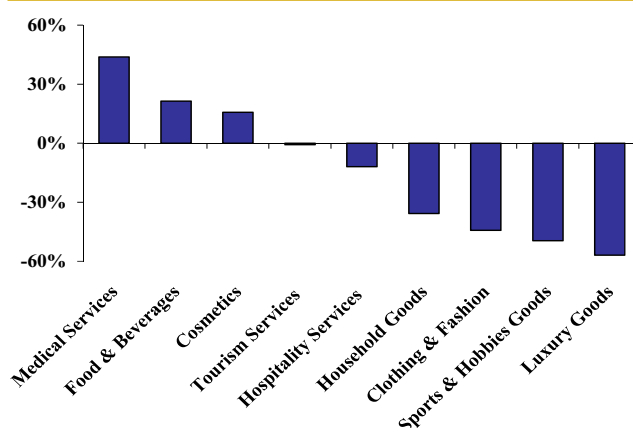
The ESFD guarantees 50% of the loan principal and accrued interest for 120 days. It provides, through financial intermediaries, financial and technical support to small and medium-sized enterprises in order to finance projects in poor regions of the country. The ESFD was established in November 2000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

Retail activity indicator down 9.5% in first half of 2018

Figures released by the Lebanese Franchise Association (LFA) show that the LFA's Retail Sales Indicator of consumer goods & services in Lebanon declined by 9.5% in the first half of 2018 from the second half of 2017, and increased by 0.9% from the first half of 2017. Also, the indicator regressed by 13.1% from 2012, which is the base year that the LFA uses to calculate its indicator.

The consumer goods covered by the indicator are fashion & clothing, cosmetics, household goods, sports & hobbies, luxury items, and food & beverages. The indicator for the food & beverages category grew by 27.8% in the first half of 2018 from the same period last year, and increased by 2.7% for household goods in the covered period. In contrast, the sales indicator for the sports & hobbies goods regressed by 11.7% year-on-year, followed by fashion & clothing (-10.7%), luxury items (-9.85%), and cosmetics (-4.6%). Further, the retail sales indicators for four out of six categories of consumer goods were lower than their base year level by margins from 35.7% to 57%.

**Performance of the Retail Sales Indicator Categories
(% change compared to base year 2012)**



Source: Lebanese Franchise Association, QuantAnalysts

In parallel, the consumer services segment consists of hospitality, tourism, and medical services. The retail sales indicator for medical services increased by 6.1% in the first half of 2018 from the same period last year, while it regressed by 5.2% for hospitality services and by 0.8% for tourism services during the covered period. Also, the retail sales indicator for hospitality services decreased by 12% from its 2012 base year level, while the indicator for tourism services regressed by 0.8%.

The Lebanese Franchise Association and the Chamber of Commerce, Industry & Agriculture of Beirut and Mount Lebanon launched the Retail Activity Indicators in 2015. The indicators are based on data collected from shopping malls in the Beirut and Mount Lebanon areas, on a retail enterprise survey, and on data from payment system operators. QuantAnalysts sarl, a research and consulting firm, compiled the data and developed the indicators. The firm said that the 66-month time series of retail sales indicators for the nine categories of consumer goods and services were seasonally adjusted.

Lebanon's banking sector indicators favorable compared to emerging markets

Bank of America Merrill Lynch estimated credit to the resident private sector in Lebanon to be equivalent to 104.2% of GDP at the end of June 2018, which is higher than the ratio of 102.2% in Asia, and significantly higher than the Emerging Europe, the Middle East & Africa region's (EEMEA) ratio of 43.7% of GDP and Latin America's ratio of 41.5% of GDP. Lebanon has the fifth highest credit-to-GDP ratio among 66 emerging markets with available figures, the highest such ratio among 52 economies in the EEMEA region and among 12 Arab countries included in the survey.

In addition, it estimated the non-performing loans (NPLs) ratio in the Lebanese banking sector at 5.4%, lower than the EEMEA's NPLs ratio of 7.8%, and compared to NPLs ratios of 2.8% for Latin America and of 1.7% for Asia. The Lebanese banking sector, along with the Armenian banking system, has the 25th lowest NPLs ratio among 47 banking sectors, the 13th lowest such ratio among 34 economies in the EEMEA region and the second lowest among three Arab countries with available figures.

Further, Bank of America Merrill Lynch estimated money supply in Lebanon to be equivalent to 266.1% of GDP at end-June 2018, significantly higher than Asia's ratio of 132.6% of GDP, the EEMEA's ratio of 51.2% of GDP and Latin America's ratio of 48.8% of GDP. Also, Lebanon has the highest level of money supply relative to its GDP among 67 emerging markets.

In parallel, it noted that foreign claims reported to the Bank for International Settlements (BIS) against Lebanese banks are equivalent to 4.3% of Lebanon's GDP, compared to a ratio of 3.4% of GDP for Asia, of 1.8% of GDP in Latin America and of 0.9% of GDP for the EEMEA region. The Lebanese banking sector has the 10th highest ratio of foreign claims of BIS-reporting banks among 68 banking sectors, the seventh highest ratio among 53 economies in the EEMEA region and the fourth highest among 13 Arab countries.

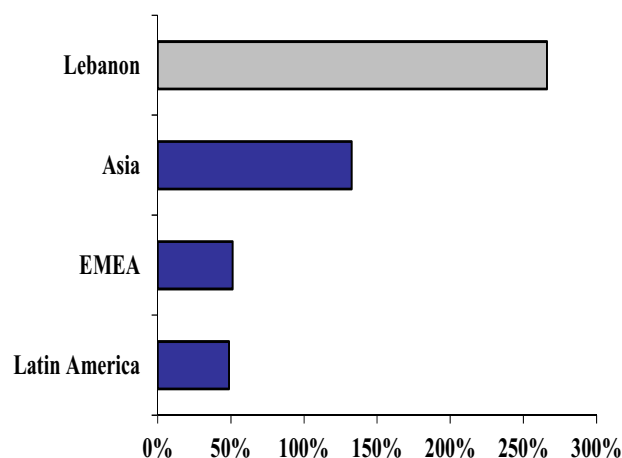
Further, Bank of America Merrill Lynch estimated the annual private sector credit growth in Lebanon at 5.8% based on the year-on-year three-month moving average, which is higher than the EEMEA's growth rate of 5.6%, and lower than Asia's rate of 7.6% and Latin America's growth rate of 8.9%. As such, Lebanon had the 33rd highest level of annual private sector credit growth among 63 emerging markets, the 23rd highest among 49 economies in the EEMEA region and the eighth highest rate among 12 Arab countries.

Treasury transfers to Electricité du Liban up 44% to \$522m in first four months of 2018

Figures released by the Ministry of Finance show that Treasury transfers to Electricité du Liban (EdL) totaled \$521.7m in the first four months of 2018, constituting an increase of 44.1% from \$362m in the same period of 2017. The ministry said that reimbursements to the Kuwait Petroleum Corporation (KPC) and to the Algerian energy conglomerate Sonatrach totaled \$505.2m, or 96.8% of transfers, in the covered period. It added that transfers to Electricity Syria stood at \$12.7m, or 2.4% of total transfers, while EdL's debt servicing represented the balance of \$3.9m, or 0.7% of the total. It attributed the rise in transfers mainly to an increase of \$147.9m, or 41.4%, in payments to KPC and Sonatrach in the first four months of 2018. In contrast, debt servicing decreased by \$0.8m or 16.7%, in the first four months of 2018.

The ministry said that the rise in payments to KPC and Sonatrach was due to a 29% year-on-year increase in oil prices at the time the oil contracts were executed, and an expansion of 22.1% in the quantity of imported fuel oil, as well as to an increase of 6.7% in the quantity of imported gas. Also, it pointed out that EdL contributed 0.4% of the repayments to the two oil suppliers in the first four months of 2018, down from 2.8% in the same period of 2017. Treasury transfers to EdL accounted for 12.5% of budgetary primary expenditures in the first four months of 2018 compared to 11.8% in the same period of 2017. They constituted the third largest expenditures item after public sector salaries & wages and debt servicing in overall fiscal spending. Treasury transfers to EdL were equivalent to 5.1% of GDP in 2012, 4.4% of GDP in 2013, 4.3% of GDP in 2014, 2.3% of GDP in 2015, 1.8% of GDP in 2016, and 2.5% of GDP in 2017.

Money Supply at end-June 2018 (% of GDP)



Source: Bank of America Merrill Lynch, Byblos Research

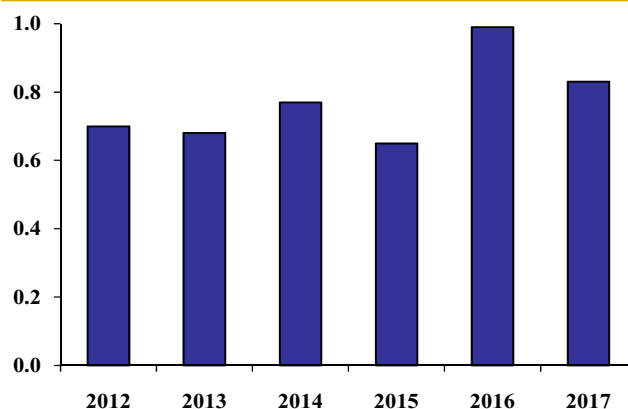
Net earnings of mid-sized banks down 9% to \$152m in 2017

The consolidated net profits of the Beta Group of banks totaled \$152.3m in 2017, constituting a decrease of 9% from net earnings of \$167.3m in 2016. The Beta Group consists of banks with deposits of \$500m to \$2bn each. Aggregate net gains on financial assets at fair value fell by 74% year-on-year to \$29.4m in 2017, with net interest income from financial assets declining by 26.2% to \$4.8m and net profits on foreign exchange increasing by 5.3% to \$10.4m. Also, net gains on financial investments decreased by 23.2% year-on-year to \$42.5m in 2017. The banks' aggregate net operating income declined by 4.3% to \$488m in 2017, with aggregate net interest income increasing by 8.5% to \$321.1m and net fees & commissions receipts growing by 1% to \$97.5m year-on-year. Non-interest income accounted for 36.6% of total income in 2017, down from 47.9% in the preceding year. The banks' interest spread was 1.78% in 2017 compared to 1.8% in 2016. Also, the banks' total operating expenditures rose by 4% to \$308.3m in 2017, with staff expenses growing by 4.6% to \$160.5m and administrative & other operating expenses increasing by 3.2% to \$123m. Further, the cost-to-income ratio reached 60% in 2017 relative to 51.1% in 2016. The banks' return on average assets decreased from 0.99% in 2016 to 0.83% in 2017, while their return on average equity declined from 10.97% in 2016 to 8.7% in 2017.

In parallel, the banks' aggregate assets reached \$19.3bn at the end of 2017, constituting an increase of 12.2% from end-2016. Loans accounted for 36% of total assets at end-2017, followed by liquid assets with 31% and portfolio securities with 28%. Further, net loans increased by 8.1% to \$7bn at end-2017. Corporate loans accounted for 42.5% of total net lending at the end of 2017, followed by lending to small- and medium-sized enterprises with 23.9% of the total, loans secured by commercial real estate with 14%, housing loans with 11.1%, and other retail loans with 6.2%.

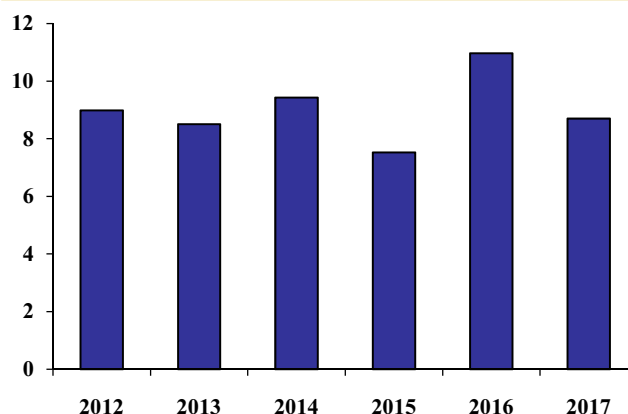
Aggregate customer deposits reached \$14.8bn at the end of 2017 and grew by 6.1% from a year earlier. The banks' loans-to-deposits ratio increased from 45.57% at the end of 2016 to 46.5% at end-2017. The loans-to-deposits ratio in local currency was 45.39% at end-2017 compared to 40.34% at end-2016, while the ratio in foreign currency was 47.1% at the end of 2017 relative to 48.63% a year earlier. Further, the primary liquidity-to-assets ratio increased from 26.6% at end-2016 to 31.5% at end-2017. The banks' gross doubtful loans-to-gross loans ratio was 8.24% at end-2017 relative to 8.58% a year earlier. Also, loan-loss reserves on doubtful loans were 76.46% of gross doubtful loans at the end of 2017 compared to a ratio of 75.95% at end-2016. The banks' capital adequacy ratio stood at 16.15% at the end of 2017, up from 15.27% at end-2016, according to Basel III criteria.

Return on Average Assets (%)



Source: Bankdata Financial Services

Return on Average Equity (%)



Source: Bankdata Financial Services



Lebanon & Gulf Bank's net earnings at \$13.5m in first half of 2018

Lebanon & Gulf Bank (LGB) sal, one of Lebanon's top 15 banks in terms of deposits, announced unaudited consolidated net profits of \$13.5m in the first half of 2018, constituting a decrease of 42.1% from net earnings of \$23.2m in the same period of 2017. Net operating income regressed by 33.1% year-on-year to \$33.1m in the first half of 2018, partly due to a shift from net gains of \$32m on financial investments in the first half of 2017 to net losses of \$1m in the first half of 2018, while net interest income improved by 28.3% to \$26.1m and net fees & commissions receipts increased by 1.55% to \$4.5m. Non-interest income accounted for 19.8% of total income in the first half of 2018, down from 66.2% in the same period last year; with net fees & commissions representing 70.3% of non-interest earnings relative to 11.2% in the first half of 2017.

Further, the bank's interest margin was 1.07% in the first half of 2018 relative to 1% in the same period last year; while its spread reached 1.05% in the covered period compared to 0.97% in the first half of 2017. Total operating expenditures grew by 2.7% year-on-year to \$18.1m in the first half of 2018, with staff expenses increasing by 1.8% to \$10.7m and administrative & other operating expenditures expanding by 3.4% to \$6m. Also, the bank's return on average assets was 0.54% in June 2018 on an annualized basis relative to 1.11% in June 2017, while its return on average equity reached 7% on an annualized basis compared to 13% in June 2017. The bank's cost-to-income ratio increased from 29.3% in the first half of 2017 to 55.5% in the same period of 2018.

In parallel, total assets reached \$5.3bn at the end of June 2018, up by 12.4% from end-2017, while loans & advances to customers, excluding those to related parties, regressed by 2.6% from end-2017 to \$1.3bn. Also, customer deposits, excluding those from related parties, totaled \$4.1bn at end-June 2018 and grew by 5.3% from the end of 2017. The loans-to-deposits ratio stood at 32.2% at the end of June 2018 compared to 38.5% at end-June 2017. Further, the bank's shareholders' equity reached \$387.9m at end-June 2018, up by 1.1% from end-2017.

Group of investors acquire Mövenpick Hotel

Kingdom Holding Company, a publicly listed company based in Riyadh, reportedly sold through its subsidiary Kingdom Hotel Investment Group 95% of the Mövenpick Hotel & Resort in the Raouché area of Beirut for over \$110m to a group of Saudi and Lebanese investors. The hotel will continue to operate under the same management.

The \$143m Mövenpick Hotel & Resort was inaugurated in July 2002. It is a five-star hotel facility and beach resort with 293 rooms, 72 chalets, 1,010 cabins, six restaurants, convention and banqueting halls, retail space for 35 shops, and a health spa. The project has four swimming pools and a marina that can host and service 140 boats. Part of the Mövenpick's financing was through a \$46-million credit facility with limited recourse, constituting the debt component of the \$143m project. Eight Lebanese banks took part in the syndicated loan, which was for seven years and carried a rate of Libor plus 6%.

In early 2018, Kingdom Hotel Investment Group sold its share in the Four Seasons Hotel in Beirut to a group of investors for between \$100m and \$115m.

Liberty Insurance posts net losses of \$0.2m in 2017

Liberty Insurance sal announced audited net losses of \$0.2m in 2017 compared to net losses of \$0.4m in 2016. Its audited balance sheet shows total assets of \$40.2m at the end of 2017, constituting an increase of 11.2% from \$36.1m at end-2016. On the assets side, general company investments reached \$18.6m and increased by 13.2% from a year earlier. They included \$13.2m in land & real estate investments, and \$3m in cash and cash equivalents. Also, the firm blocked \$2.4m as term deposits and deposits with maturity of more than three months in favor of the Ministry of Economy & Trade as guarantees. Further, the reinsurance's share in technical reserves for the non-life category increased by 7% to \$4.1m in 2017.

On the liabilities side, technical reserves for the non-life category reached \$29m at end-2017 and increased by 4.5% from a year earlier. Non-life technical reserves included incurred but not enough reported reserves of \$18.7m that increased by 14.8% year-on-year, unearned premium reserves of \$6.1m that decreased by 31.7%, and outstanding claims reserves of \$2.6m that grew by 101.4% year-on-year. Provisions for risks and charges reached \$50,807 and declined by 3.4% from the previous year. Also, the firm's shareholders' equity totaled \$2.8m at end-2017, up by 176.2% from \$1m a year earlier.

Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked Liberty in 21st in 2017 in terms of non-life premiums. The firm's non-life premiums amounted to \$13.6m, constituting a decrease of 28.6% year-on-year. It had a 1.2% share of the local non-life market in 2017.

Ratio Highlights

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

*Change in percentage points 16/17

**Includes portion of public debt owed to non-residents, liabilities to non-resident banks, non-resident deposits (estimated by the IMF), Bank for International Settlements' claims on Lebanese non-banks

Source: Association of Banks in Lebanon, Institute of International Finance, International Monetary Fund, World Bank, Byblos Research Estimates & Calculations

Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

Risk Metrics

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

MENA Average*	Dec 2016	Nov 2017	Dec 2017	Change**	Risk Level
Political Risk Rating	57.6	58.0	58.2	▼	High
Financial Risk Rating	38.3	38.5	38.5	▼	Low
Economic Risk Rating	29.6	31.0	30.9	▼	Moderate
Composite Risk Rating	62.8	63.8	63.9	▼	Moderate

*excluding Lebanon

**year-on-year change in risk

Source: The PRS Group, Byblos Research

Note: Political & Composite Risk Ratings range from 0 to 100 (where 100 indicates the lowest risk)

Financial & Economic Risk ratings range from 0 to 50 (where 50 indicates the lowest risk)

Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's	B3	NP	Stable	B3		Stable
Fitch Ratings	B-	B	Stable	B-		Stable
Standard & Poor's	B-	B	Stable	B-	B	Stable
Capital Intelligence Ratings	B	B	Stable	B	B	Stable

Source: Rating agencies

Banking Ratings	Outlook
Moody's	Stable

Source: Moody's Investor Services



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