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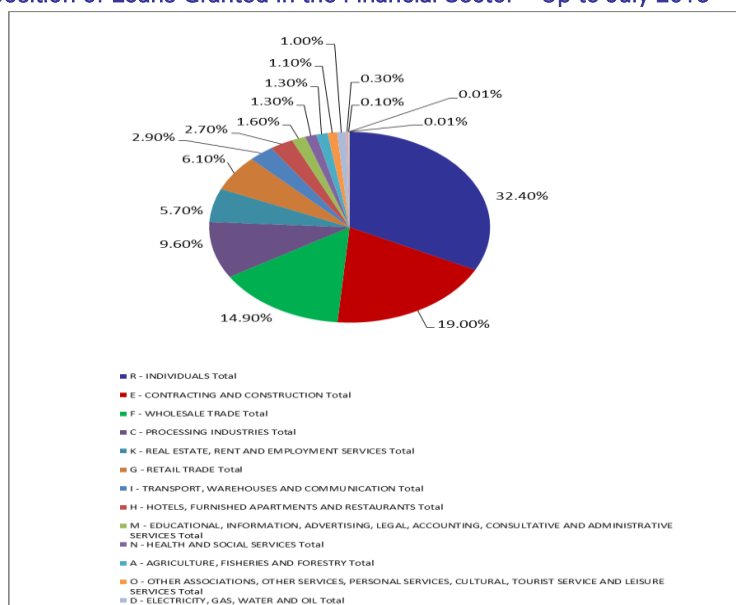
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In his book "The Great Divide", Nobel Prize winner Joseph Stiglitz highlights the idea that in the period leading up to the 2008 financial crisis, large banks lost sight of their main function of financial intermediation: connecting lenders and borrowers. In Lebanon, commercial banks have managed to remain true to that goal all while navigating the good times and the bad times the country has been through.

Seeking bank loans is the most attractive financing vehicle for individuals and companies alike in Lebanon. With the absence of developed capital markets in Lebanon, businesses, which are mostly family businesses, borrow from banks instead of issuing stocks or bonds. Businesses also favor bank financing because it would protect them from the risks of capital dilution as it would unshackle them from the mandatory publishing of financial statements at regular intervals. As for individuals, bank financing is their only option for accessing additional funds especially in times when the economy is sluggish. It is then no wonder that Central Bank figures show that the total value of loans granted in the financial sector grew by 2.4% since year-start to \$59.32B by July 2016 and represented 114% of 2016' estimated GDP.

The sectorial composition of all the loans granted in Lebanon has been assuming the same structure since at least 2013. Up to July 2016, the value of individual loans was the highest with a share of 32.4% in total loans and a share of 37% of 2016's estimated GDP and that is what compelled the Central Bank of Lebanon to issue tighter regulations regarding retail loans in [circular #369](#) back in 2014. Contracting and construction loans come in second with a share of 19% for contracting and construction followed by 14.9% for wholesale trade, 9.6% for processing industries, 5.7% for real estate, rent and employment services, 6.1% for retail trade, 2.9% for transport, warehouses and communication and 2.7% for Hotels, furnished apartments and restaurants.

Sectorial Composition of Loans Granted in the Financial Sector – Up to July 2016

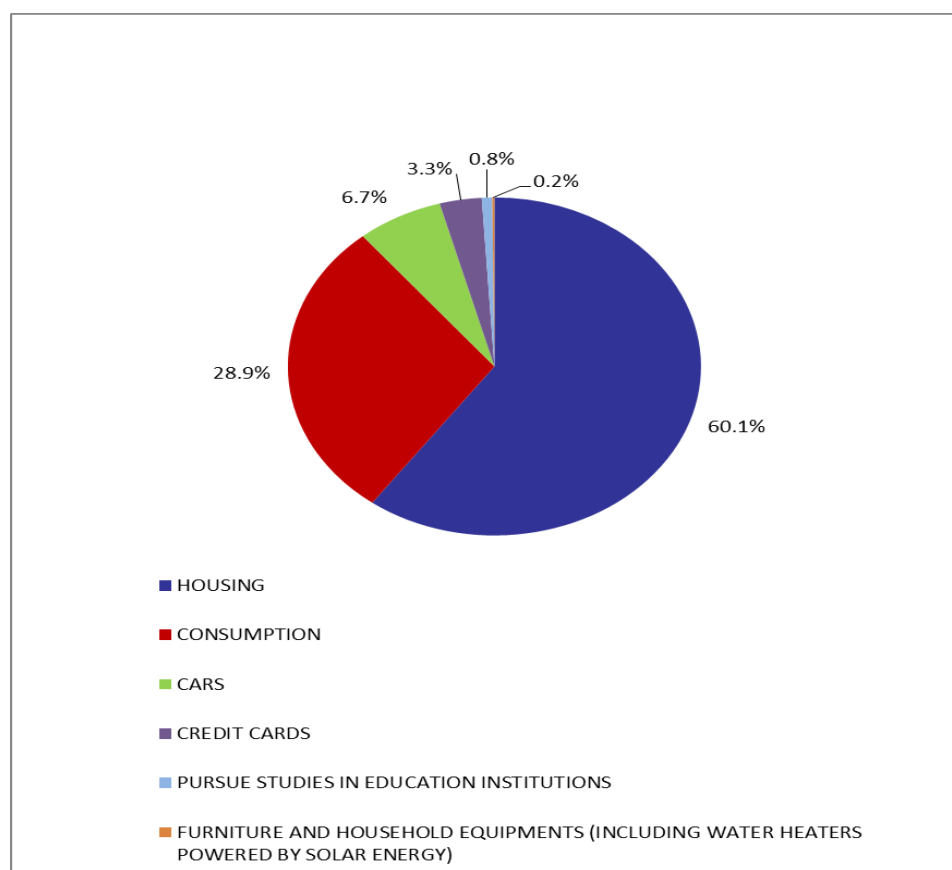


Source: Banque du Liban

Individual Loans

Total individual loans grew by 7% year-to-date to \$19.21B. The value of housing loans constitutes more than half the value of total individual loans and grew by 5.7% year-to-date to \$11.54B by July 2016. As for consumption loans, they represent the second biggest share in total individual loans of 28.9% and they grew by 14.1% to \$5.56B by July 2016. Car loans come in next with a stake of 6.7% in total individual loans but were the only category of individual loans to have dropped by 4.5% since year-start to \$1.29B up to July 2016. With the Central Bank of Lebanon imposing a 25% down-payment on all car loans and with demand for cars already slumping due to the overall poor economic conditions, the activity in the car sector has been subdued. Credit card loans accounted for 3.3% of total individual loans and grew by 0.6% year-to-date to reach a total of \$633M up to July 2016. As for loans to pursue studies in educational institutions, they accounted for 0.8% of total individual loans and also grew by 4.7% since year start to reach \$157M.

Composition of Individual Loans – Up to July 2016

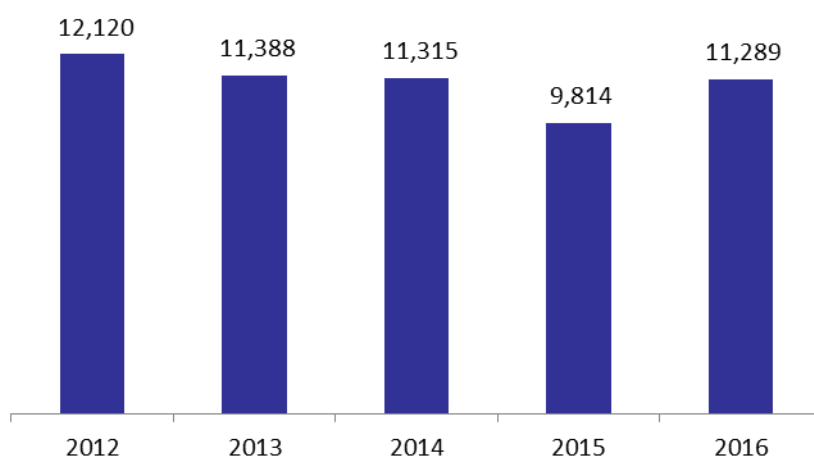


Source: Banque du Liban

Contracting and Construction Loans

In 2016, construction activity recovered from a low base in previous years and that was mirrored by the loans granted to that sector. It is worth mentioning that what the construction sector is witnessing is more of an adjustment than a recovery. In the residential segment specifically, newly constructed projects have adjusted to the fact that market demand is now directed towards smaller unit. The Construction Area Authorized by Permits therefore fell from 8.22M sqm by August 2015 to 7.93M sqm by August 2016. According to the Central Bank, contracting and construction loans represented the second largest bulk of loans in total loans granted in the sector with a share of 18.7% up to July 2016. The value of contracting and construction loans grew by 3.9% since year-start and reached \$11.26B up to July 2016. Loans for residential and commercial contractors, with respective shares of 3.8% and 5.9% in total contracting and construction loans grew by 12.1% and 4.9% year-to-date to reach \$2.48B and \$3.56B up to July 2016. In addition, loans for building materials saw a 0.5% year-to-date uptick to \$309M in the first seven months of 2016.

Number of Issued Construction Permits by August



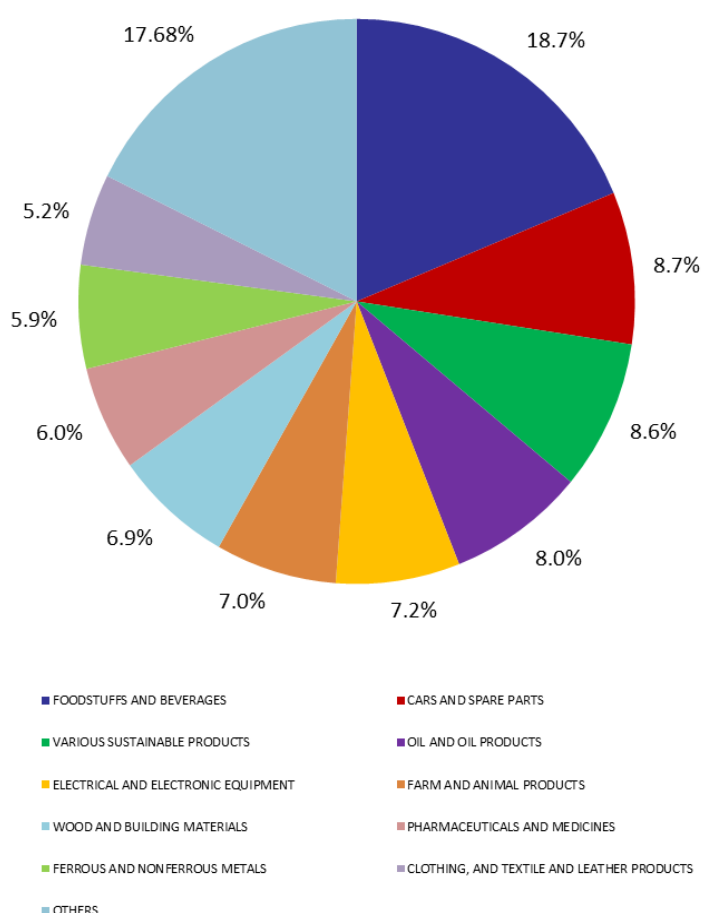
Source: Orders of Engineers in Beirut & Tripoli

However, the breakdown of construction loans by type shows that loans for large construction projects, which require substantial investments, actually dropped since the beginning of the year. It's normal to witness such a trend in a context where real GDP has been growing at rates between 1% and 2% for the past six years. In more details, loans for the construction of stadiums, sport centers and tourism complexes fell by 1% to \$90M, loans for the construction of factories and laboratories declined by 1.6% since year start to \$46M and loans for the construction of slaughterhouses, mills and plants slid by 9.8% year-to-date to \$16M up to July 2016.

Wholesale Trade Loans

Wholesale trade loans represent the third largest value in overall loans with a share of 14.9%. In total wholesale trade loans, food and beverages account for 18.7% but they however dropped by 3.8% since year start to reach \$1.66B by July 2016. This drop is also aligned with the 1.6% year-to-date drop in loans granted to food stores and that totaled \$265M up to July 2016. Due to the drop in oil prices, the value of loans related to oil and oil products, accounting for 8% of total wholesale trade loans, dropped by 12.1% since year start to reach \$705M by July 2016.

Composition of Wholesale Trade Loans – Up to July 2016



Source: Banque du Liban

Every sector in the Lebanese economy, regardless of its contribution to GDP, benefits from bank financing within a secure and well-built structure. Based on Bank Data figures, the banking sector is highly liquid with a net primary liquidity as a percentage of deposits at 30.69% at end December 2015. The ratio of doubtful loans to gross loans dropped from 6.55% in 2014 to 6.3% in 2015, the lowest level in the past ten years.

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