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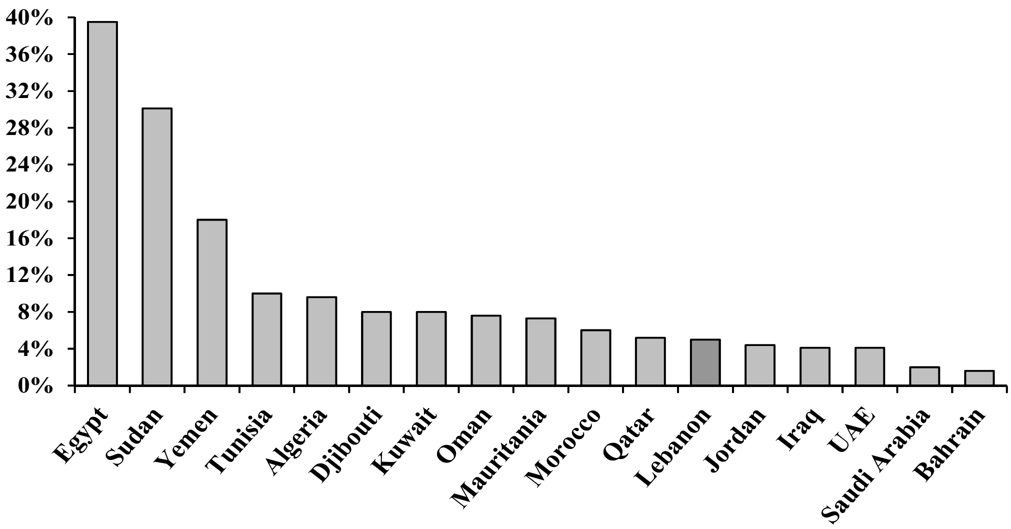
Economic Research & Analysis Department

LEBANON THIS WEEK

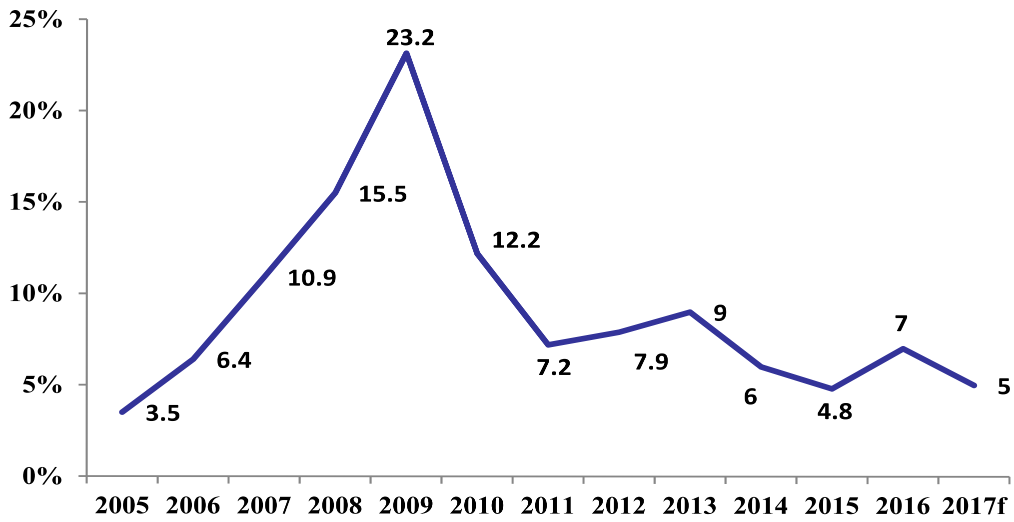
In This Issue

Charts of the Week

Projected Broad Money Growth in Arab Countries in 2017 (%)



Broad Money Growth in Lebanon (%)



Source: International Monetary Fund - October 2017, Byblos Bank

Quote to Note

"Lebanon's financial sector has weathered periods of extreme strain in the past."

Moody's Investors Service, on the ability of the Lebanese banking system to face periods of political instability

Number of the Week

1: Byblos Bank's rank among the top 14 banks in Lebanon in terms of primary liquidity in foreign currency, according to the 2017 Bilanbanques report

Lebanon in the News

$m *(unless otherwise mentioned)*	2016	Jun 2016	Mar 2017	Apr 2017	May 2017	Jun 2017	% Change*
Exports	2,977	280	275	235	240	230	(17.96)
Imports	18,705	1,533	1,699	1,414	1,559	1,454	(5.15)
Trade Balance	(15,728)	(1,253)	(1,425)	(1,178)	(1,320)	(1,224)	(2.29)
Balance of Payments	1,238	(13)	46	(321)	(592)	(758)	5730.77
Checks Cleared in LBP	19,892	1,577	1,981	1,643	1,769	1,681	6.59
Checks Cleared in FC	48,160	4,076	4,198	3,693	3,904	3,882	(4.76)
Total Checks Cleared	68,052	5,653	6,179	5,336	5,673	5,563	(1.59)
Budget Deficit/Surplus	(3,667.15)	(168.55)	(477.46)	(131.85)	550.56	(496.83)	194.76
Primary Balance	1,297.65	198.14	58.51	309.55	1,192.83	(71.52)	-
Airport Passengers***	7,610,231	572,461	518,443	720,843	601,253	652,852	14.04

$bn *(unless otherwise mentioned)*	2016	Jun 2016	Mar 2017	Apr 2017	May 2017	Jun 2017	% Change*
BdL FX Reserves	34.03	33.20	33.91	33.53	32.75	33.89	2.08
In months of Imports	21.83	21.65	19.96	23.72	21.00	23.31	7.63
Public Debt	74.89	72.90	77.18	76.93	76.72	76.45	4.87
Bank Assets	204.31	190.36	205.76	206.13	206.89	208.16	9.35
Bank Deposits (Private Sector)	162.50	154.66	164.35	165.49	166.14	167.73	8.45
Bank Loans to Private Sector	57.18	55.88	57.18	57.59	57.87	58.42	4.54
Money Supply M2	54.68	53.25	54.75	54.79	54.73	55.12	3.52
Money Supply M3	132.80	126.38	134.27	135.24	136.11	137.51	8.80
LBP Lending Rate (%)****	8.23	8.31	8.43	8.33	8.48	8.39	8bps
LBP Deposit Rate (%)	5.56	5.56	5.57	5.54	5.57	5.51	(5bps)
USD Lending Rate (%)	7.35	7.20	7.32	7.22	7.36	7.27	7bps
USD Deposit Rate (%)	3.52	3.31	3.53	3.62	3.62	3.58	27bps
Consumer Price Index**	(0.80)	(1.00)	5.10	4.40	4.30	3.50	-

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

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

Note: bps i.e. basis points

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

Capital Markets

Most Traded Stocks on BSE	Last Price ($)	% Change*	Total Volume	Weight in Market Capitalization
Solidere "A"	7.92	6.45	424,165	7.34%
Byblos Common	1.60	4.58	196,169	8.39%
Solidere "B"	7.83	4.96	168,806	4.72%
BLOM GDR	11.26	2.64	108,800	7.72%
BLOM Listed	10.90	0.46	38,795	21.73%
Audi Listed	5.50	0.00	21,000	20.39%
Audi GDR	5.50	(3.51)	5,979	6.12%
HOLCIM	15.00	3.45	5,070	2.71%
Byblos Pref. 09	102.00	(0.10)	1,111	1.89%
Byblos Pref. 08	101.30	(0.20)	1,000	1.88%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Dec 2017	4.00	99.93	4.69
Nov 2018	5.15	98.75	6.52
May 2019	6.00	98.88	6.81
Mar 2020	6.38	98.75	6.97
Oct 2022	6.10	96.38	7.00
Jun 2025	6.25	94.00	7.30
Nov 2026	6.60	94.88	7.39
Feb 2030	6.65	93.13	7.52
Apr 2031	7.00	95.25	7.57
Nov 2035	7.05	94.25	7.64

Source: Byblos Bank Capital Markets

	Nov 20-24	Nov 13-17	% Change	October 2017	October 2016	% Change
Total shares traded	1,106,255	1,068,070	3.6	8,915,465	22,970,630	(61.2)
Total value traded	$20,520,678	$8,882,450	131	$78,667,175	$169,756,567	(53.7)
Market capitalization	$10.78bn	$10.66bn	1.2	$11.27bn	$11.87bn	(5)

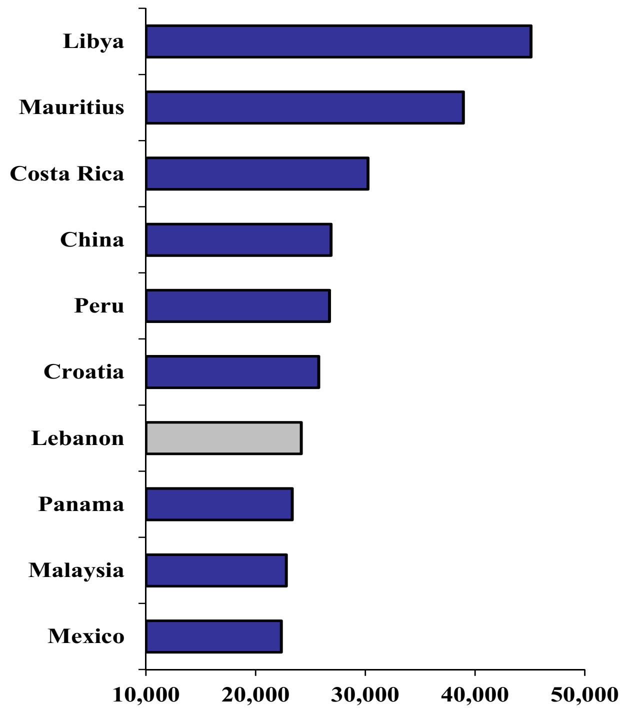
Source: Beirut Stock Exchange (BSE)

Lebanon's net wealth per adult at $24,161 at end-June 2017

Global investment bank Credit Suisse estimated the net wealth per adult in Lebanon at $24,161 at the end of June 2017, down 0.4% from $24,267 at end-June 2016 and relative to a peak of $37,111 at the end of 2007. Lebanon's net wealth per adult is the 56th highest among 171 countries globally, the seventh highest among 49 upper middle-income countries (UMICs) and the eighth highest among 19 Arab countries at end-June 2017. Credit Suisse defines the net wealth per adult as the sum of a person's marketable value of financial and non-financial assets, less aggregate personal debt, with non-financial assets consisting mainly of real estate holdings. It provided annual data for the period between 2000 and 2015, and semi-annual figures for 2016 and 2017.

Globally, the net wealth per adult in Lebanon is higher than the wealth per adult in Panama ($23,340), Malaysia ($22,804) and Mexico ($22,346), and lower than that in China ($26,872), Peru ($26,729) and Croatia ($25,756) among countries with a GDP of $10bn or more. It is lower than in Libya ($45,103), Mauritius ($38,937), Costa Rica ($30,240), China, Peru and Croatia among UMICs. Regionally, net wealth per adult in Lebanon is lower than the wealth per adult in Qatar ($102,517), Kuwait ($97,304), the UAE ($78,803), Libya ($45,103), Saudi Arabia ($35,042), Oman ($34,592) and Bahrain ($30,803).

Net Wealth Per Adult in Top 10 UMICs (US$)



Source: Credit Suisse, Byblos Research
***excluding economies with a GDP of less than $10bn*

The value of financial assets per adult in Lebanon stood at $17,453 at the end of June 2017, almost unchanged from $17,470 a year earlier and compared to a peak of $25,490 at the end of 2007. Lebanon's financial wealth per adult was the 46th highest globally at end-June 2017, the second highest among UMICs, behind only Mauritius ($18,458), and the sixth highest among Arab countries. Globally, the value of financial assets per adult in Lebanon was higher than in Croatia ($17,018), South Africa ($16,952) and Poland ($16,436), and lower than in Lithuania ($18,072), Saudi Arabia ($17,657) and Slovakia ($17,631). Regionally, it was lower than the financial wealth per adult in Qatar ($62,239), Kuwait ($49,897), the UAE ($45,355), Bahrain ($19,901) and Saudi Arabia.

Also, the value of non-financial assets per adult in Lebanon reached a peak of $18,293 at the end of June 2017, up by 4.2% from $17,550 a year earlier. Lebanon's non-financial assets per adult were the 55th highest globally and the eighth highest among UMICs and Arab countries at end-June 2017. Globally, they were higher than the non-financial assets per adult in Poland ($18,182), Colombia ($17,318) and Argentina ($17,133), and lower than those of Hungary ($22,230), Mexico ($20,367) and Slovakia ($19,197). Also, they were lower than the non-financial assets per adult in Libya ($37,119), Mauritius ($27,623), Peru ($25,008), Costa Rica ($23,173) and Mexico among UMICs. Regionally, they were lower than non-financial assets per adult in Kuwait ($67,478), the UAE ($60,491), Qatar ($54,159), Libya ($37,119), Saudi Arabia ($23,653), Oman ($23,485) and Bahrain ($22,999).

Further, the debt per adult in Lebanon reached a peak of $11,584 at the end of June 2017, up by 7.7% from $10,752 a year earlier. It was the 36th highest globally, the highest among UMICs and the fifth highest among Arab countries at end-June 2017. Globally, it was higher than the debt per adult in Chile ($9,012), Slovakia ($8,986) and the Czech Republic ($8,932), and lower than that in Qatar ($13,881), Estonia ($12,282) and Bahrain ($12,097). Regionally, it was lower than the debt per adult in the UAE ($27,043), Kuwait ($20,071), Qatar and Bahrain.

In parallel, Credit Suisse indicated that 69% of Lebanese adults had a net wealth below $10,000 as at the end of June 2017, 28.5% had a net wealth between $10,000 and $100,000, 2.3% of Lebanese adults had an aggregate net wealth between $100,000 and $1m, and 0.2% of Lebanese adults have a total net wealth that exceeds $1m.

Association of Banks amends reference rate on Lebanese pound lending

The Association of Banks in Lebanon (ABL) recommended to its member banks to increase the Beirut Reference Rate (BRR) in Lebanese pounds to 10.65% from 8.65% previously starting in December 2017. In parallel, the ABL maintained the BRR in US dollars at 6.83%. The rate, considered as the reference rate for lending in foreign currency, replaced the London Interbank Offered Rate (LIBOR) in 2009, as the ABL decided that the LIBOR does not reflect the cost of funding and lending in Lebanon. The BRR in US dollars and Lebanese pounds were adopted in March and May 2009, respectively. The ABL considers that the BRR does not replace the Beirut Prime Lending Rate in each currency, but constitutes the basis to calculate the prime rate after adding to the prime lending rate the cost of liquidity and refinancing, credit risk and the profitability of banks.

Banque du Liban retains full capacity to maintain stability of financial markets

In the monthly meeting between Banque du Liban (BdL), the Banking Control Commission of Lebanon (BCCL) and the Association of Banks in Lebanon (ABL), Governor Riad Salamé indicated that BdL continues to maintain stability in the foreign currency market and that it has the full capacity to preserve the peg of the Lebanese pound to the US dollar. Governor Salamé and the ABL said that the level of capital outflows from Lebanon has been negligible since the sudden resignation of Prime Minister Saad Hariri on November 4.

Further, Governor Salamé indicated that BdL will not conduct repurchase agreements on Treasury bonds with commercial banks, given that such agreements have been suspended since 2005-06. He noted that Lebanese banks have extended more than 80% of their credit facilities in Lebanese pounds since late 2016, which has created a duration gap, or a maturity mismatch between lending and deposit maturities in Lebanese pounds.

In parallel, he pointed out that BdL is prepared to bear the additional cost of higher interest rates that the banks may incur, in case depositors maintain their funds in Lebanese pounds until maturity for a minimum period of three months. He added that banks can coordinate with the Financial Operations Department at the BdL to agree on the mechanism for the BdL's contribution to the additional cost of interest incurred by each bank. He encouraged banks to widen the interest spreads between Lebanese pound- and US dollar-denominated deposits, and stressed that branch managers have a key role to encourage customers to keep their deposits in Lebanese pounds.

Further, Governor Salamé indicated that BdL's Central Council will review in its upcoming session the penalties and procedures stipulated in the circulars that are related to exceeding the operational foreign currency positions, as well as to dealing appropriately with such occurrences. He said that this would allow the banks to take open and temporary currency positions in order to maintain stability in the foreign currency market.

In parallel, Governor Salamé agreed to form a joint committee between the BdL, the ABL and the BCCL in order to clarify, regulate and ensure the proper compliance and implementation of international accounting standard IFRS9 at the banks.

Further, the ABL said that the affiliates of Lebanese banks in Syria and Iraq are facing challenges in raising their capital by the end of 2017, given that this would increase the risk of currency outflows, heighten the risk of converting these currencies into local currencies, and would constitute a violation of international sanctions. The ABL called on BdL to communicate with monetary authorities in Syria and Iraq to postpone the implementation of the new capital requirements, given the banks' challenging operating environment.

Ministry of Finance clarifies tax-related measures

The Ministry of Finance issued to companies several notifications related to the application of Law 66, or the budget 2017 law, as well as to Law 64, or the new tax law. The first notification is about the extension period for tax objections on past due tax adjustments made by the Ministry of Finance. The ministry stated that a tax-paying entity that has been notified by the ministry of a tax adjustment since January 1, 2009 and that did not pay all the due taxes and penalties by November 7, 2017, or did not object to the tax adjustment within the legal period of two months, or whose tax objection was refused by the ministry or by the tax claims committee, can submit a new tax objection to the ministry or to the tax claims committee before January 8, 2018, if the taxpayer settles 25% of the due taxes and penalties before submitting the new tax objection.

Second, the ministry notified tax-paying entities that converting a legal entity from a partnership or SARL format to an SAL entity will be free of any tax, if the conversion is done at the par value of the shares and if the shareholding structure remains the same. It added that any change in the shareholding structure within a period of two years from the conversion date will subject the company to a revaluation of its shares and to a capital gain tax of 15% on the revaluation variance, in addition to penalties.

Third, the ministry informed tax-paying entities that the increase in the corporate income tax rate from 15% to 17% went into effect on October 27, 2017. It noted that the profits generated until October 26, 2017 remain subject to the previous rate of 15%, while profits generated after this date will be subject to the new tax rate. As such, it asked companies to segregate their profits before and after the October 26, 2017 date in order to calculate their income tax in their annual tax return.

Fourth, the ministry indicated that companies can conduct an exceptional revaluation of fixed assets for one time only before November 7, 2018. It noted that this revaluation does not apply to real estate companies, to companies holding properties available for sale in their current assets, and to taxpayers that benefit or used to benefit from an income tax exemption. It added that the ministry has the right to refuse the request for revaluation, and that the variance resulting from this exceptional revaluation is subject to a 5% tax that should be paid along with the request for approval.

Ministry of Finance swaps Eurobonds with Treasury bills from Banque du Liban's portfolio

The Ministry of Finance indicated that it swapped $1.7bn in Eurobonds with LBP2,562bn worth of Lebanese pound-denominated Treasury bills from Banque du Liban's portfolio. The ministry indicated that the redeemed Treasury bills were issued between 2011 and 2017 and had maturity dates ranging from 2018 to 2025, with around 2,000bn, or 78.1% of the total, maturing over the next two years. It added that the newly-issued Eurobonds consist of a $1bn tranche maturing in 2031 with a coupon rate of 7.15% and another $700m tranche due in 2028 with a coupon rate of 7%. It also pointed out that the coupon rates on the Eurobonds are comparable to the yields on the Lebanese Eurobonds traded in international markets.

The ministry indicated that the swap operation extended the maturity of 2% of the public debt stock by an average of 10.27 years, while the debt composition will consist of 40% in foreign currency bonds and 60% in local currency debt. In parallel, the swap operation will help the BdL strengthen its assets in foreign currency through the acquisition of the Eurobonds, which would, in turn, support its liquidity management strategy. In May 2016, the Ministry of Finance swapped $2bn in Eurobonds with the equivalent in Lebanese pound-denominated Treasury bills from the BdL's portfolio.

Consumer Price Index up 4% in first 10 months of 2017

The Central Administration of Statistics' Consumer Price Index increased by 4.4% year on-year in the first 10 months of 2017 compared to a decline of 1.5% in the same period of 2016. The CPI increased by 4.6% in October 2017 from the same month of 2016. The prices of clothing & footwear grew by 15.8% year-on-year in October 2017, followed by the cost of water, electricity, gas & other fuels (+8.7%), the prices of alcoholic beverages & tobacco (+7.2%), actual rents (+5.4%), the cost of furnishings & household equipment (+4.7%), the prices of food & non-alcoholic beverages (+4.5%), transportation costs (+4.4%), prices at restaurants & hotels (+3.9%), imputed rents (+3.7%), recreation & entertainment costs (+3.2%), miscellaneous goods & services (+3.1%), the cost of education (+3%), healthcare costs (+2.8%) and communication costs (+0.7%). The distribution of actual rents shows that new rents increased by 3.4% annually in October 2017, while old rents grew by 7.9% from the same month of 2016.

Further, the CPI grew by 1.4% in October 2017 from the preceding month, following an increase of 0.6% in September 2017. The prices of clothing & footwear grew by 14.8%, followed by the cost of education (+3.8%), actual rents (+2%), prices at restaurants & hotels (+0.9%), the cost of water, electricity, gas & other fuels (+0.8%), imputed rents, the prices of alcoholic beverages & tobacco, the cost of food & non-alcoholic beverages and transportation costs (+0.3% each), and recreation & entertainment costs and miscellaneous goods & services (+0.1% each) month-on-month in October 2017. In contrast, the prices of furnishings & household equipment regressed by a marginal 0.2% month-on-month in October 2017, while healthcare costs and communication costs were unchanged in the covered month. The CPI grew by 2.3% month-on-month in the North in October 2017, by 1.3% in Mount Lebanon, by 1% in each of Beirut and Nabatieh, by 0.9% in the South and by 0.8% in the Bekaa. In parallel, the Education Price Index and the Fuel Price Index increased by 3.4% and 1.9% respectively in October 2017.

Independent board members crucial for development of corporate governance in Lebanon

A survey conducted by the Economic and Corporate Governance Center (GOVERN), in partnership with the Institute for Finance and Governance, on corporate governance practices in Lebanon indicated that 40% of respondents believe that their company's governance framework is comprehensive and is regularly updated. In parallel, 32% of surveyed participants pointed out that their firm has not yet established a corporate governance code, while around 25% of respondents consider that their company's corporate governance framework is in line with international best practices. The distribution of firms that participated in the survey shows that 40% are industrial companies, 29% are financial firms, while the remaining 31% are trade and services corporates. Also, the majority of respondents are either the Chief Executive Officer (CEO) or a board member of the firm.

Further, 61% of respondents consider that the lack of awareness about the benefits of corporate governance is the most significant obstacle to implementing good governance practices in Lebanon. In parallel, about 50% of surveyed participants believe that the new generation of company owners is responsible for changes in their companies' governance framework, while only 19% of respondents consider that the availability of training on corporate governance practices has improved the governance framework in Lebanon.

Also, the survey pointed out that the Board of Directors' independence and effectiveness are crucial for the development of governance practices in Lebanon. As such, 60% respondents believe that the increased presence of independent directors on the board resulted in the development of the Lebanese corporate governance framework in the past five years. In addition, about 50% of surveyed firms said that the majority of the members of their board's Audit Committee consist of non-executive or independent directors, in line with international practices, which reflects progress in the independence of board committees in Lebanon. Also, 45% of surveyed participants pointed out that family-controlled boards of directors are the main barrier to a board's effectiveness, leading to an unfavorable governance culture.

Based in Paris, GOVERN is an advisory and research institute that specializes in economic and corporate governance in emerging markets. The Institute for Finance and Governance, which was established by Banque du Liban and managed by the ESA Business School, aims to promote governance in Lebanon through facilitating the implementation of appropriate governance policies in the Lebanese private sector.

Banque du Liban details implementation of international accounting standard IFRS9

Banque du Liban (BdL) issued Basic Circular 143 on October 19, 2017 about the implementation of the International Financial Reporting Standard (IFRS9). The new standard includes requirements for the classification and measurement of financial assets and liabilities, an expected credit loss model that replaces the incurred loss impairment model used previously under International Accounting Standard (IAS 39). BdL asked banks and financial institutions operating in Lebanon are requested to implement the IFRS9 related to 'Financial Instruments' and the amendments to IFRS7 related to 'Financial Instruments Disclosures' starting January 1, 2018. It requested banks and financial institutions to implement the new standard on their consolidated and/or standalone financial statements.

First, the circular stipulates that banks and financial institutions will have to prepare business models in accordance with the requirements of the IFRS9 that reflect the banks' strategies in managing financial assets and securing cash flows. It said that banks should classify their financial assets as those measured at an amortized cost and those measured at fair value. When assets are measured at fair value, gains and losses are either recognized entirely as profits or losses, or recognized as other comprehensive income.

Second, it stated that banks must sell financial instruments according to two business models. The first model consists of holding the financial asset to collect the contractual cash flows and to sell financial instruments, while the other model consists of solely trading in financial instruments. The circular added that banks can sell financial instruments at an amortized cost, but it noted that these operations are exceptional and non-recurring, and should meet all of the conditions and requirements of the IFRS9. It said that banks and financial institutions must sell their financial assets according to market regulations and at prevailing market prices.

Third, the circular stipulated that banks will have to adopt a new expected credit loss (ECL) impairment model, which will result in earlier recognition of losses compared to IAS39. It said that banks will have to set aside provisions for expected credit losses from financial assets and off-balance sheet financial liabilities. It added that the provisions reflect the credit risk emanating from these assets and liabilities, as well as the significant increase in credit risk since their initial recognition. Further, it stipulated that banks and financial institutions have to calculate their expected credit losses based on both forward-looking and historical information, in order to determine whether a significant increase in credit risk has occurred. It added that the forward-looking assessment is based on calculating the Probability of Default (PD) and the Loss Given Default (LGD).

Fourth, the circular indicated that banks and financial institutions must set aside provisions against ECLs in the same currency in which the financial assets and off-balance sheet financial liabilities are denominated. It added that, banks and financial institutions can deduct the provisions against ECLs from their general reserves, or from specific Lebanese pound-denominated reserves that the banks must create before the end of 2017 or from other reserves set aside for the IFRS9 requirements. The circular indicated that, in case accumulated provisions by the end of 2017 are less than the value of the expected credit losses, banks will have to compensate the difference by drawing down their general reserves. It added that, in case the accumulated provisions are higher than the value of expected credit losses, banks will have to register the excess amount in a general provision account that could be used for two purposes. The banks could use the excess amount to create additional provisions and manage future impairments, or can transfer the excess amount to the income statement in the form of free reserves to be incorporated in their general reserves.

Fifth, the circular stated that banks and financial entities must transfer their retained earnings, their reserves against various banking risks and their reserves on retail and non-retail loan portfolios to their non-redistributable general reserves before the end of 2017. It said that banks are prohibited from converting any of the above-mentioned transfers into foreign currency.

Food tech startups in Lebanon account for 6% of food tech startups in MENA region

Figures released by ArabNet, a hub for Arab digital professionals and entrepreneurs, show that there were six food delivery startups in Lebanon during the 2015-17 period, representing 6% of total food tech startups in the Middle East & North Africa (MENA) region. Food delivery startups provide services that include delivery of groceries, of restaurant meals, of home-cooked meals and of healthy meal plans. In comparison, there were 33 food tech startups in the UAE, followed by Egypt (12 firms), Kuwait (11 companies), Morocco (8 startups), Qatar (7 companies) and Bahrain, Jordan and Oman (5 startups each) during the same period.

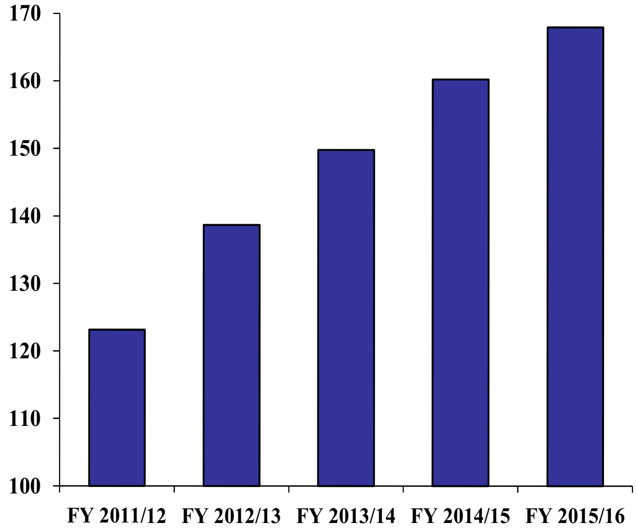
In parallel, there was one restaurant tech startup in Lebanon in the 2012-17 period, which accounts for 7% of total restaurant tech startups in the MENA region. Restaurant tech startups provide information to consumers about various restaurants, as well as details about menus and prices offered at the restaurants. In comparison, there were three restaurant tech startups in each of the UAE and Qatar, followed by Bahrain, Kuwait and Morocco (two startups each), and Jordan and Oman (one company each)

Further, there is one food subscription startup in Lebanon to date, which accounts for 9% of online catering startups in the MENA region. Food subscription startups provide subscription-based services, including the delivery of pre-packaged and pre-measured meal kits. In comparison, there are nine such startups in the UAE, followed by one startup in each of Bahrain and Kuwait.

Economic impact of LAU on Lebanese economy at $897m in FY2015/16

A study conducted by the Department of Institutional Research and Assessment at the Lebanese American University (LAU) indicated that the total economic impact of LAU on the Lebanese economy stood at around LBP1,352bn, or $897m, for the fiscal year that ended in August 2016. The study defines "economic impact" as the direct, indirect and induced economic contributions of LAU to the growth of the Lebanese economy. Further, the study only accounts for the economic impact of LAU's Beirut and Byblos campuses in FY2015/16. As such, the assessment does not cover the economic contributions of the university's Continuing Education Program, its academic center in New York, and the LAU Medical Center-Rizk Hospital.

LAU's Operational Expenditures (US$m)



**fiscal year ending in August of each year*
Source: Lebanese American University

The study noted that LAU contributes in four main ways to the local economy, which are the university as an income generator, as a leading employer, as a consumer of goods and services, and as a supplier of construction and renovation projects. The report claims that LAU's direct economic contribution to the Lebanese economy consisted of generating $113.2m in labor income, producing $491m in economic output and creating 3,102 job opportunities. However, the university's total contribution to the local economy also takes into account the indirect impact of the jobs, salaries and sales generated by the businesses from which LAU directly purchases its goods and services, as well as the induced impact of the jobs, salaries and sales generated from the household spending of LAU employees. Consequently, the indirect and induced impacts constitute the multiplier effect, and account for the contribution of each dollar directly spent in the economy in terms of indirect and induced output, or additional spending. In this context, LAU generated $194m in aggregate labor income and created a total of 8,095 employment opportunities. As such, LAU's total economic contribution to Lebanese economic activity stood at $835m in FY2015/16.

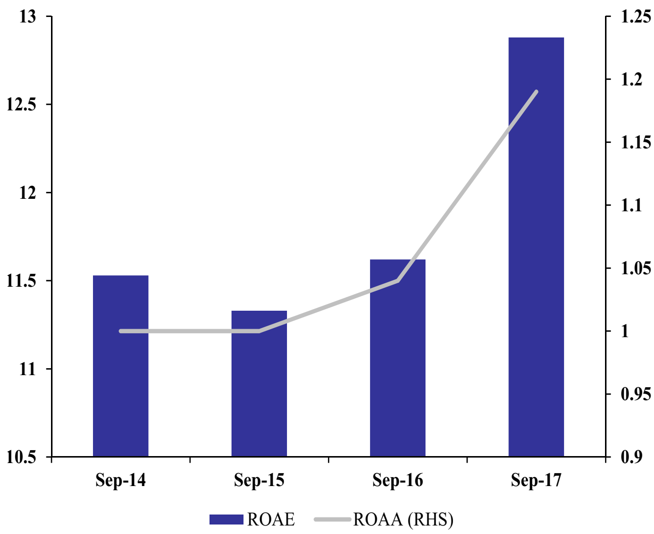
Also, the report covers out-of-country students, or students who have completed their high school education in other countries, but chose LAU for their tertiary education. The total impact of LAU's out-of-country students on the Lebanese economy was reflected in 1,475 jobs created, $15.3m in labor income generated and $61.8m in total economic output in FY2015/16.

In parallel, the study pointed out that LAU's Beirut campus contributed a total of $463.6m to the Lebanese economy through $109m in labor income and 5,144 employment opportunities, while the university's Byblos campus contributed a total of $433m to the local market through $100.3m in wages and 4,426 jobs created. As such, LAU's aggregate expenditures and out-of-country student spending led to a total of 9,570 employment opportunities, $209m in labor income, and $897m in positive contribution to the Lebanese economy in FY2015/16.

Net profits of top 14 banks up 21% to $2bn in first nine months of 2017, ROAA at 1.2% and ROAE at 12.9%

The unaudited consolidated net profits of the Alpha Group of banks reached $1.98bn in the first nine months of 2017, constituting a rise of 21.4% from net earnings of $1.63bn in the same period of 2016. The significant growth in the banks' net profits mainly reflects a year-on-year increase of $93.1m in net interest income and a drop of $270.4m in total operating expenses in the covered period. The Alpha Group consists of 14 banks with deposits in excess of $2bn each. Total net operating income regressed by 6.2% year-on-year to $4.42bn, with aggregate net interest income increasing by 3.3% to $2.91bn and net fees & commissions declining by 49.5% to $646.1m. In addition, net gains on financial assets at fair value increased by 13.4% year-on-year to $562.3m in the first nine months of 2017, with net interest income from financial assets dropping by 1.2% to $217.7m and net profits on foreign exchange declining by 40.2% to $94.5m. Also, net gains on financial investments decreased by 43.8% year-on-year to $239m in the first nine months of 2017. Non-interest income accounted for 35.5% of total income in the first nine months of 2017, down from 38.3% in the same period last year; with net fees & commissions representing 37.6% of non-interest income, down from 67.9% in the first nine months of 2016. Also, the net interest spread regressed to 1.88% in the first nine months of 2017 from 1.94% in the first nine months last year.

Profitability Metrics of Top 14 Banks* (%)



**on an annualized basis*
Source: Bankdata Financial Services, Byblos Research

In parallel, total operating expenditures decreased by 11.1% to $2.17bn year-on-year in the first nine months of 2017, with staff expenses declining by 3% to $1.24bn and administrative & other operating expenses decreasing by 10.6% to $789.5m. Further, the cost-to-income ratio was 44.9% in the first nine months of this year, down from 49.7% in the first nine months of 2016. The banks' return on average assets was 1.19% in September 2017 on an annualized basis relative to 1.04% in September 2016; while their return on average equity was 12.88% in September 2017 on an annualized basis compared to 11.62% in September 2016.

The banks' total assets reached $227bn at the end of September 2017, constituting an increase of 4.8% from end-2016 and a rise of 6% from end-September 2016. Net loans & advances to customers totaled $65.8bn, up by 2.9% from end-2016 and down by 0.3% from the end of September 2016; while credit extended to related parties regressed by 22% from end-2016 to $640.1m at the end of September 2017. Customer deposits totaled $178bn at the end of September 2017, reflecting a growth of 4.1% from end-2016 year-on-year and of 4.8% from a year earlier; while deposits from related parties reached $3.8bn at end-September 2017, nearly unchanged from end-September 2016. The banks' shareholders equity reached $20.8bn at the end of September 2017 and increased by 2.8% from end-2016.

In parallel, the banks' loans-to-deposits ratio decreased from 38.5% at the September of 2016 to 36.6% at end-September 2017. The loans-to-deposits ratio in local currency was 27.2% compared to 24.1% at end-September 2016, while the ratio in foreign currency was 40.5% at the end of September 2017 relative to 44.7% a year earlier. Further, the primary liquidity-to-assets ratio was 39.1% at the end of September 2017, up from 32.7% at end-September 2016. In addition, the banks' gross doubtful loans-to-gross loans ratio increased from 5.72% at end-September 2016 to 5.99% at the end of September 2017. Also, the loan-loss reserves on doubtful loans covered 71.84% of gross doubtful loans at end-September 2017, down from a coverage of 74.43% a year earlier. Further, the ratio of collective provisions-to-net loans increased from 1.32% at the end of September 2016 to 1.71% at end-September 2017.

First National Bank's net earnings at $23m in first nine months of 2017

First National Bank sal, one of Lebanon's top 14 banks in terms of assets, announced unaudited consolidated net profits of $23m in the first nine months of 2017, constituting a decline of 17.5% from net earnings of $27.9m in same period of 2016. Net operating income fell by 5.6% year-on-year to $73m in first nine months of the year, with net interest income rising by 26.5% to $43.2m and net fees & commissions receipts declining by 23.6% to $6m. Non-interest income accounted for 15.8% of total income in the first nine months of 2017, down from 22.65% in the same period last year; with net fees & commissions representing 51.8% of non-interest earnings relative to 45% in the first nine months of 2016. Further, the bank's interest margin was 1.88% in the first nine months of 2017 relative to 1.99% in the same period last year; while its spread reached 1.79% relative to 1.91% in the same period of 2016. Total operating expenditures increased by 1.6% to $45.5m year-on-year in first nine months of 2017, with staff expenses growing by 1.5% to $27.7m and administrative & other operating expenditures decreasing by 0.6% to $15.1m. Also, the bank's return on average assets regressed to 0.66% in September 2017 on an annualized basis from 0.9% in September 2016, while its return on average equity declined to 7.14% on an annualized basis from 9.15% in September 2016. The bank's cost-to-income ratio stood at 61.7% in the first nine months of 2017, up from 57.7% in the same period of 2016.

In parallel, total assets reached $4.75bn at the end of September 2017, up by 5.7% from end-2016, while loans & advances to customers, excluding those to related parties, grew by 9.1% from end-2016 to $1.06bn. Also, customer deposits, excluding those from related parties, totaled $3.7bn at end-September 2017 and increased by 7.8% from the end of 2016. The loans-to-deposits ratio decreased to 28.7% at end-September 2017 from 29.9% at end-September 2016. Further, the bank's shareholders' equity reached $433.9m at the end of September 2017, up by 2.3% from end-2016.

CMA CGM posts net profits of $652m in first nine months of 2017

The Lebanese-owned and France-based container shipping firm CMA CGM declared consolidated net profit of $651.9m of in the first nine months of 2017 relative to net loss of $476.3m in the same period of 2016, due to a strong increase in shipping volumes and revenues. Net earnings totaled The firm's core earnings before interest and taxes (EBIT), excluding disposals and impairment charges, reached $1.3bn in the first nine months of 2017 relative to losses of $163.7m in the same period of 2016. Also, the company's revenues grew by 37.1% to $15.6bn in the first nine months of 2017, mainly due to a 38.3% growth in the company’s container shipping segment. In parallel, the firm's operating expenses increased by 24.2% to $14bn in the first nine months of 2017. CMA CGM indicated that it transported 14 million twenty-foot equivalent units (TEUs) in the first nine months of the year, up by 25% from 11.2 million TEUs in the same period of 2016.

Further, the firm's consolidated assets reached $19.7bn at the end of September 2017, up by 5.7% from end-2016, mainly due an increase in inventories and cash & cash equivalents. The value of its property and equipment rose by 5.4% from end-2016 to $9.8bn at the end of September 2017, with vessels accounting for $8.4bn or 85.4% of the total, followed by containers at $579.3m (5.9%), land and buildings at $496.6m (5%), and other properties and equipment at $364.8m (3.7%).

Also, CMA CGM's return on invested capital, which measures how well the company is using its money to generate returns, improved from -2.5% in the third quarter of 2016 to 10.4% in the third quarter of 2017. The company's gearing ratio, which measures financial leverage, decreased from 157% at end-September 2016 to 124% at the end of September 2017.

CMA CGM is the one of the largest container shipping company in the world and operates a fleet of 489 vessels, with a fleet capacity of 2.5 million TEUs that serves over 420 commercial ports. In October 2017, Moody's Investors Service affirmed CMA CGM's corporate family rating at 'B1', its probability of default rating at 'B1-PD' and its senior unsecured bond ratings at 'B3' The agency also revised the outlook on all the ratings from 'stable' to 'positive'.

Ratio Highlights

(in % unless specified)	2014	2015	2016e	Change*
Nominal GDP ($bn)	50.0	51.1	52.0	
Public Debt in Foreign Currency / GDP	51.2	53.0	54.2	1.26
Public Debt in Local Currency / GDP	81.9	84.6	89.6	4.98
Gross Public Debt / GDP	133.1	137.6	144.0	6.42
Total Gross External Debt / GDP**	170.0	174.7	176.6	1.90
Trade Balance / GDP	(34.4)	(29.5)	(30.0)	(0.47)
Exports / Imports	16.2	16.6	16.1	(0.49)
Fiscal Revenues / GDP	21.8	18.7	19.1	0.30
Fiscal Expenditures / GDP	27.9	26.5	28.6	2.1
Fiscal Balance / GDP	(6.1)	(7.7)	(9.5)	(1.8)
Primary Balance / GDP	2.6	1.4	0.04	(1.4)
Gross Foreign Currency Reserves / M2	66.5	58.7	62.7	3.94
M3 / GDP	235.4	241.9	250.0	8.11
Commercial Banks Assets / GDP	351.4	364.0	392.9	28.9
Private Sector Deposits / GDP	288.9	296.6	312.5	15.8
Private Sector Loans / GDP	101.8	106.1	108.7	3.85
Private Sector Deposits Dollarization Rate	65.7	64.9	65.0	0.10
Private Sector Lending Dollarization Rate	75.6	74.8	73.6	(1.23)

**Change in percentage points 15/16*
***Includes portion of public debt owed to non-residents, liabilities to non-resident banks, non-resident deposits (estimated by the IMF), Bank for International Settlements' claims on Lebanese non-banks*
Source: Association of Banks in Lebanon, Institute of International Finance, International Monetary Fund, World Bank, Byblos Research Estimates & Calculations
Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

Risk Metrics

Lebanon	Dec 2015	Nov 2016	Dec 2016	Change**	Risk Level
Political Risk Rating	54.5	54.5	55	▼	High
Financial Risk Rating	39.0	36.5	36.5	▲	Low
Economic Risk Rating	30.5	30.5	30.5	⧓	Moderate
Composite Risk Rating	60.75	60.75	61.0	▼	Moderate

MENA Average*	Dec 2015	Nov 2016	Dec 2016	Change**	Risk Level
Political Risk Rating	57.7	57.6	57.6	▲	High
Financial Risk Rating	39.6	38.1	38.3	▲	Low
Economic Risk Rating	30.2	29.6	29.6	▲	High
Composite Risk Rating	63.8	62.6	62.8	▲	Moderate

**excluding Lebanon*
***year-on-year change in risk*
Source: The PRS Group, Byblos Research
Note: Political & Composite Risk Ratings range from 0 to 100 (where 100 indicates the lowest risk)
Financial & Economic Risk ratings range from 0 to 50 (where 50 indicates the lowest risk)

Ratings & Outlook

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

Source: Rating agencies

Banking Ratings	Banks' Financial Strength	Banking Sector Risk	Outlook
Moody's	E+		Negative

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