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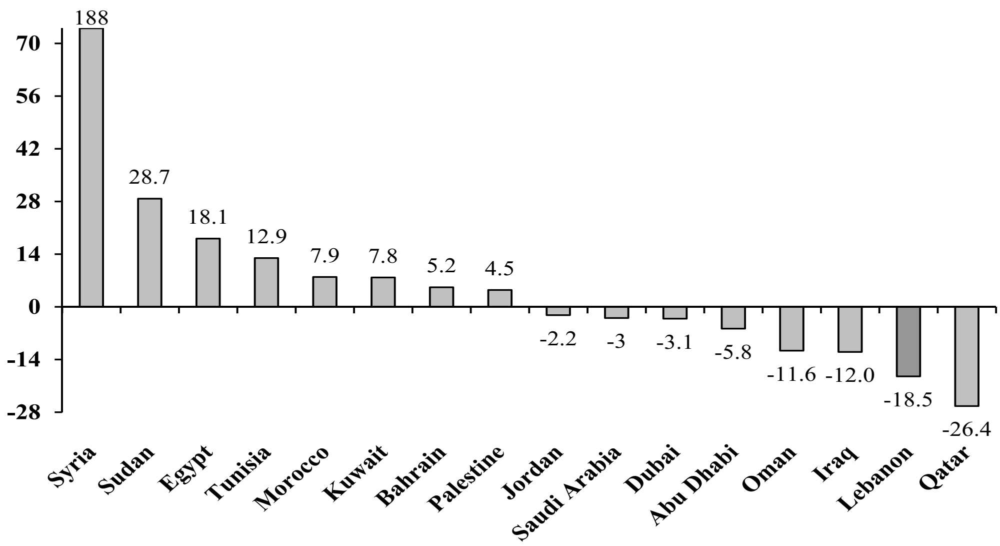
BYBLOS BANK SAL
Economic Research & Analysis Department

LEBANON THIS WEEK

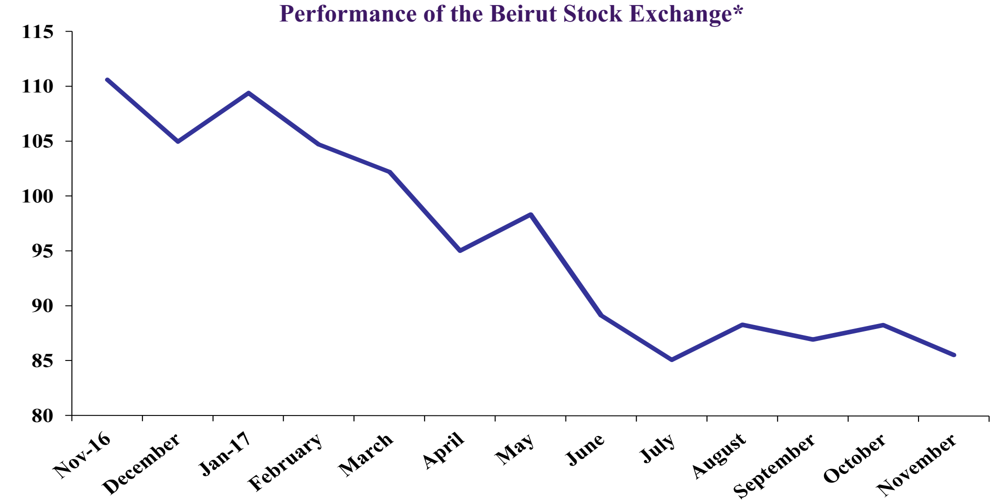
In This Issue

Charts of the Week

Performance of Arab Stock Markets in First 11 Months of 2017 (% change)



Performance of the Beirut Stock Exchange*



**Capital Markets Authority Value Weighted Index end of month values*
Source: Local Stock Markets, Capital Markets Authority, Byblos Bank

Quote to Note

"The banking system still attracts sufficient deposits to fund the government's borrowing, while ensuring credit growth to the private sector."

Fitch Ratings, on the stabilizing role of the Lebanese banking sector

Number of the Week

92,810: Number of Lebanese expatriates who registered to vote in the upcoming parliamentary elections, according to the Ministry of Foreign Affairs & Emigrants

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"	8.02	1.26	97,059	7.39%
Solidere "B"	7.95	1.53	60,701	4.76%
BLOM GDR	11.49	2.04	57,246	7.82%
BLOM Listed	11.06	1.47	30,875	21.90%
HOLCIM	14.66	(2.27)	15,712	2.64%
Audi GDR	5.60	1.82	7,100	6.19%
Audi Listed	5.50	0.00	3,570	20.25%
Byblos Common	1.60	0.00	-	8.33%
Byblos Pref. 09	102.00	0.00	-	1.88%
Byblos Pref. 08	101.30	0.00	-	1.87%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Dec 2017	4.00	99.95	4.67
Nov 2018	5.15	98.63	6.68
May 2019	6.00	98.75	6.91
Mar 2020	6.38	98.25	7.22
Oct 2022	6.10	95.25	7.28
Jun 2025	6.25	93.13	7.46
Nov 2026	6.60	94.00	7.53
Feb 2030	6.65	92.00	7.67
Apr 2031	7.00	94.00	7.73
Nov 2035	7.05	92.50	7.84

Source: Byblos Bank Capital Markets

	Nov 27-Dec 1	Nov 20-24	% Change	November 2017	November 2016	% Change
Total shares traded	283,463	1,106,255	(74.4)	3,450,710	6,376,852	(45.9)
Total value traded	$3,087,739	$20,520,678	(85)	$43,641,250	$48,997,196	(10.9)
Market capitalization	$10.86bn	$10.78bn	0.68	$10.87bn	$11.95bn	(9)

Source: Beirut Stock Exchange (BSE)

Lebanon ranks 113th worldwide, 13th among Arab economies in ease of paying taxes

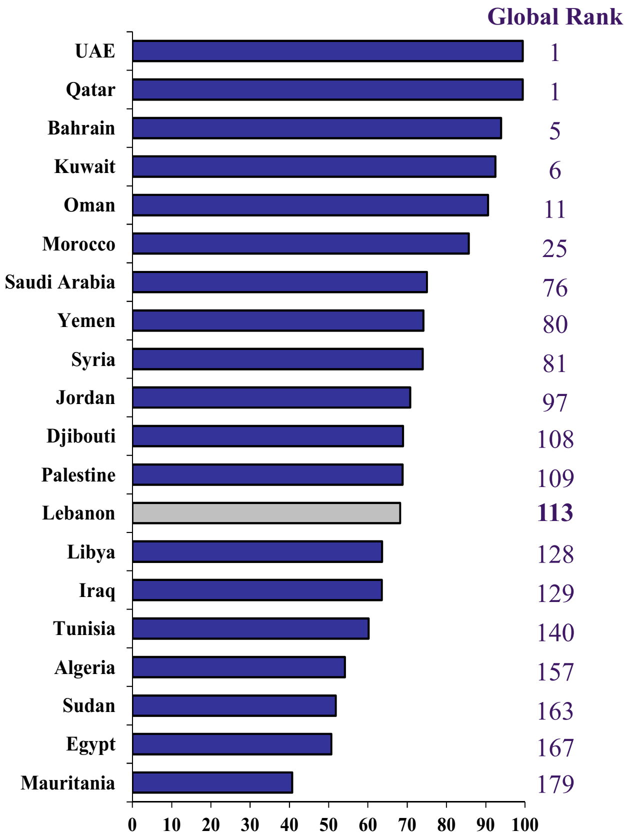
The PricewaterhouseCoopers/World Bank Group Index of Paying Taxes for 2018 ranked Lebanon in 113th place among 189 countries and jurisdictions worldwide and in 13th place among 20 Arab economies included in the survey. Also, Lebanon ranked in 27th place among 51 upper middle-income countries (UMICs) included in the survey. PwC and the World Bank enhanced the methodology to calculate some of the sub-indicators of the index this year, which prevents a year-on-year comparison.

The index measures the direct impact on a medium-size firm of the mandatory taxes and contributions it has to pay, and reflects the government-mandated tax burden that a standard business incurs. The index has four sub-indicators that consist of the number of tax payments incurred by a business, the total time to comply, the total tax rate as a percentage of commercial profits, and the processes that might take place after a firm files a tax return. Taxes include corporate, labor and other sub-categories.

Also, the ease of paying taxes rankings are based on the distance to frontier (DTF) score, instead of a simple percentile distribution. The DTF measures how far economies have progressed towards the best performer around the world on each sub-indicator, rather than simply looking at how they compare to other economies. The DTF scores range from zero to 100, with a score of 100 representing the "frontier", or the best performer. Lebanon's DTF score reached 68.21 in the 2018 survey.

Globally, it is easier for companies in Lebanon to pay taxes than firms in Indonesia, Mexico and Ghana, but it is more difficult than firms in Uruguay, Palestine and Italy among economies with a GDP of $10bn or more. Also, it is easier for Lebanese companies to pay their taxes than firms in Mexico, Peru and Jamaica, and more difficult than firms in Bulgaria, Croatia and Belarus among UMICs.

Ease of Paying Taxes in 2018
DTF Scores & Rankings of Arab Countries



Source: PricewaterhouseCoopers, World Bank, Byblos Research

The survey shows that a medium-size Lebanese firm pays its corporate income taxes once a year, performs 12 labor tax payments per year, and pays all of its other mandatory taxes seven times a year. In comparison, businesses in non-GCC Arab countries pay corporate taxes 1.7 times per year, labor taxes 11.3 times and other mandatory taxes 12.1 times per year, relative to global averages of 2.9 times, 9.1 times and 12.2 times per year, respectively.

Further, a standard Lebanese firm needs 100 hours per year to process its labor taxes; 40 hours to prepare, file and pay its corporate income tax; and 41 hours to process its consumption taxes. In comparison, it takes a medium-size firm in non-GCC Arab countries 112 hours to prepare, file and pay its corporate income taxes; 98.6 hours for its labor taxes and 56.5 hours for its consumption taxes, relative to the worldwide averages of 61 hours, 88 hours and 95 hours, respectively.

Also, the corporate income tax rate for a medium-size Lebanese business represents 6.1% of its commercial profits, the labor tax rate is equivalent to 23.8% of its profits, and the non-corporate and non-labor tax rates represent 0.4% of corporate profits. In comparison, the tax rate as a percentage of commercial profits in a standard firm in non-GCC Arab countries is 14.2% for corporate tax, 18.6% for labor tax and 9% for other taxes, relative to global averages of 16.6%, 16.5% and 8.5%, respectively.

Finally, it would take a medium-size Lebanese firm 47 hours to comply with a VAT refund, 43.6 weeks to obtain a VAT refund and 23 hours to comply with a corporate income tax audit, compared to global averages of 18.4 hours, 27.8 weeks and 16 hours, respectively.

Components of the 2018 Paying Taxes Index for Lebanon

	Global Rank	Arab Rank	UMICs Rank	Lebanon Score	Global Average	Arab Average	UMICs Average
Number of Tax Payments	92	13	14	20.0	24.0	20.2	21.9
Time to Comply*	73	13	14	181.0	240.2	201.8	308.8
Total tax Rate**	50	10	16	30.3	40.5	34.0	40.4
Post-Filing Index***	152	10	42	27.5	59.5	47.9	55.7

**Measured in hours **As a percentage of commercial profits ***As distance to frontier*

Source: PricewaterhouseCoopers, World Bank, Byblos Research

Occupancy rate at Beirut hotels at 66%, room yields up 22% in first 10 months of 2017

EY's benchmark survey of the hotel sector in the Middle East indicated that the average occupancy rate at hotels in Beirut was 65.8% in the first 10 months of 2017, up from 58.5% in the same period of 2016 and compared to an average rate of 61.9% in 14 Arab markets included in the survey. The occupancy rate at Beirut hotels was the seventh highest in the region in the first 10 months of 2017, while it was the sixth lowest in the same period of 2016. Also, the occupancy rate at hotels in Beirut rose by 7.3 percentage points year-on-year, constituting the largest increase among the 14 Arab markets. In comparison, the average occupancy rate in Arab markets grew by 0.9 percentage points year-on-year in the covered period. Occupancy rates at Beirut hotels were 56.7% in January, 66.7% in February, 62% in March, 68.8% in April, 70% in May, 45.3% in June, 74.9% in July, 68.7% in August, 74.1% in September and 68.3% in October 2017. In comparison, occupancy rates at Beirut hotels were 55.7% in January, 57% in February, 51.1% in March, 55.6% in April, 66.8% in May, 44.1% in June, 65.3% in July, 63% in August, 71.5% in September and 54.8% in October 2016.

Hotel Sector Performance in First 10 Months of 2017

	Occupancy Rate (%)	RevPAR (US$)	RevPAR % change
Jeddah	66.9	185	(13.8)
Dubai	76.2	179	(5.9)
Madina	50.7	158	13.9
Riyadh	61.5	135	(7.8)
Ras Al Khaimah	73.1	111	(1.2)
Muscat	67.8	108	(8.7)
Kuwait City	48.0	108	8.5
Doha	59.3	105	(11.5)
Beirut	**65.8**	**101**	**21.9**
Manama	50.4	100	(7.0)
Makkah	54.5	91	(17.1)
Abu Dhabi	75.7	86	(4.9)
Amman	49.4	72	(10.7)
Cairo City	67.3	57	95.0

Source: EY, Byblos Research

The average rate per room at Beirut hotels was $154 in the first 10 months of 2017, ranking the capital's hotels as the fifth least expensive in the region relative to Cairo ($85), Abu Dhabi ($113), Amman ($145) and Ras Al Khaimah ($151). The average rate per room at Beirut hotels increased by 8.3% year-on-year in the covered period. Beirut, along with Cairo and Makkah, were the only markets to post an increase in their average rate per room in the covered period. The average rate per room in Beirut came below the regional average of $186.9 that regressed by 3.3% from the same period of 2016.

Further, revenues per available room (RevPAR) were $101 in Beirut in the first 10 months of 2017, up from $83 in the same period of 2016. They were the sixth lowest in the region relative to Cairo ($57), Amman ($72), Abu Dhabi ($86), Riyadh ($91) and Manama ($100). However, Beirut's RevPAR grew by 22% year-on-year and posted the second highest increase among Arab markets behind Cairo (+95%). Beirut posted RevPARs of $82 in January, $91 in February, $86 in March, $102 in April, $101 in May, $73 in June, $127 in July, $111 in August, $123 in September and $101 in October 2017. In comparison, RevPARs at hotels in Beirut was $79 in each of January and February, $68 in March, $72 in April, $95 in May, $55 in June, $97 in July, $91 in August, $107 in September and $75 in October 2016. Makkah posted the highest average rate per room in the region at $311, while Jeddah posted the highest RevPAR at $185 and Dubai posted the highest occupancy rate at 76.2% in the first 10 months of 2017.

Number of new construction permits down 3% in first 10 months of 2017

The Orders of Engineers & Architects of Beirut and of Tripoli issued 14,009 new construction permits in the first 10 months of 2017, down by 3.3% from 14,485 permits in the same period of 2016. In comparison, new construction permits increased by 15.2% in the first 10 months of 2016. Mount Lebanon accounted for 35.1% of newly-issued construction permits in the first 10 months of 2017, followed by the South with 17.7%, the North with 17.2%, the Nabatieh area with 13.2%, the Bekaa region with 9.2% and Beirut with 4.3%. The remaining 3.3% 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 10,370,124 square meters (sqm) in the first 10 months of 2017, constituting an increase of 2.2% from 10,144,759 sqm in the same period of 2016. In comparison, the surface area of granted construction permits decreased by 1.3% year-on-year in the first 10 months of 2016. Mount Lebanon accounted for 4,165,956 sqm, or 40.2% of the total, in the covered period. The North followed with 1,868,667 sqm (18%), then the South with 1,379,681 sqm (13.3%), the Bekaa region with 970,986 sqm (9.4%), the Nabatieh area with 856,901 sqm (8.3%) and Beirut with 596,193 sqm (5.7%). The remaining 531,740 sqm, or 5.1% 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.

Also, the surface area of new construction permits issued for the North grew by 34% year-on-year in the first 10 months of 2017, while it rose by 29.7% for Beirut. In contrast, the surface area of new construction permits issued for Nabatieh decreased by 16.1%, followed by the South (-6.9%), the Bekaa (-5.1%) and Mount Lebanon (-3.6%). Also, the surface area of granted construction permits for regions located outside northern Lebanon increased by 19.7% year-on-year in the covered period. In parallel, cement deliveries totaled 3.8 million tons in the first nine months of 2017, constituting a decrease of 2.2% from 3.9 million tons in the same period of 2016, and relative to a rise of 7.1% in the first nine months of 2016.

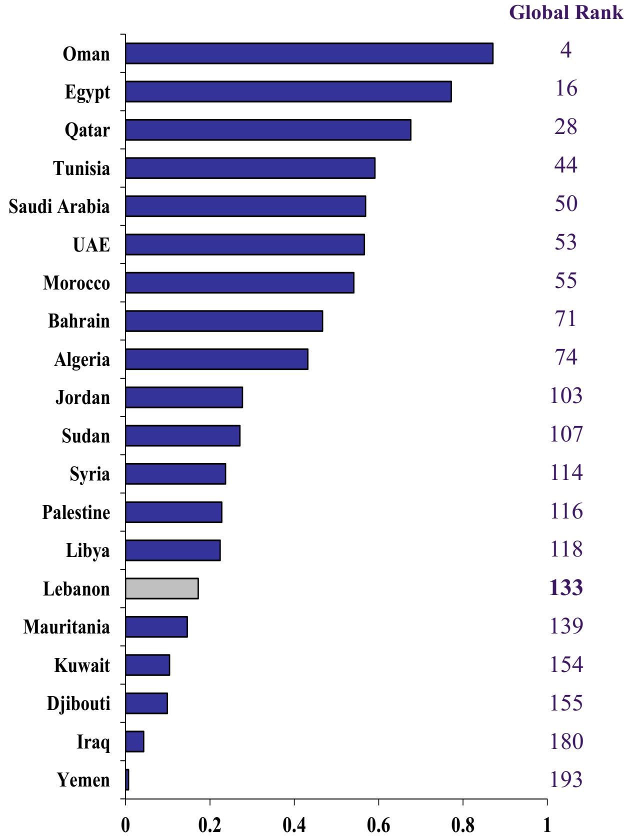
Banque du Liban issues preventive measures to address financial cybercrimes

Banque du Liban (BdL) issued on November 28, 2017 Basic Circular 144 about the preventive measures that banks and financial institutions operating in Lebanon must take against financial cybercrime operations. The circular requested banks and financial institutions to prepare and implement all the administrative, technical and legal policies and procedures to prevent cybercrime attempts.

First, it stipulated that banks and financial institutions should analyze and assess the risks of potential cybercrime operations, and should continuously follow up on the latest developments in the Information Technology (IT) security field. Second, it said that financial entities must allocate the necessary funds to set up IT security systems, and must buy insurance contracts that cover losses emanating from financial cybercrimes. Third, it requested banks and financial institutions to prepare cybercrime protection plans, such as incident response plans, business continuity plans and immediate intervention plans, among others, as well as to create a specialized team to address cybercrime issues. Also, it said that banks must raise awareness campaigns to inform employees and clients about preventive actions they can take to protect themselves from financial cybercrimes. It noted that financial entities must be vigilant and cautious when assigning external contractors for tasks related to IT systems, and have to make sure that these contractors do not subcontract these tasks to less trustworthy secondary contractors.

Fourth, the circular indicated that banks and financial institutions must adopt at least two procedures to authenticate the identity of external users and their right to access the IT system. It added that financial entities should utilize a safe coding technique to prevent the loss or exploitation of significant databases. It said that banks and financial institutions must apply strict rules to the filtering of incoming emails, and must secure the devices put at the disposal of employees for external use. Fifth, it noted that banks and financial institutions must carry out tests to identify weaknesses in the network that make it vulnerable to potential hacking. It also requested banks to monitor the network and databases in order to verify their safety and to detect any unusual or illicit activity.

Global Cybersecurity Index for 2017
Arab Countries Scores & Rankings



Source: International Telecommunication Union, Byblos Research

In addition, the circular pointed out that banks must abide by BdL's guidelines about protection from email-related cybercrimes. It stipulated that banks must set up specific internal policies and procedures to deal with money transfer requests received through electronic means, such as emails or electronic banking. It noted that the contracts signed with customers should include specific clauses that identify means other than emails to contact clients, such as phone calls, in order to verify that the money transfer requests received electronically are authentic. It added that banks and financial institutions should exchange information about financial cybercrimes with the concerned internal and external entities such as correspondent banks and the Special Investigation Commission at BdL.

Lebanon came in 133rd place among 194 countries worldwide and in 15th place among 20 Arab countries on the International Telecommunication Union's 2017 Global Cybersecurity Index (GCI). The GCI assesses a country's commitment to cybersecurity in order to help it identify areas that need improvement. Cybersecurity consists of the set of technologies, processes, and practices designed to protect networks, devices, programs, and electronic data from attacks, damages, or unauthorized access.

Energy Ministry concludes negotiations with oil & gas consortium

The Ministry of Energy & Water announced that it concluded negotiations about technical and commercial issues with the consortium that submitted bids for offshore oil & gas exploration and production in Lebanon. The consortium consists of three international companies that are France’s Total, Italy’s Eni International BV and Russia’s JSC Novatek. The consortium submitted one bid for Block 4 and another bid for Block 9, which are outside the disputed zone with Israel.

The ministry pointed out that the Council of Ministers will study the outcome of the negotiations and has the authority to sign the exploration and production agreements (EPA) with the selected companies. The EPA is an agreement between the government and prequalified oil companies that provides the petroleum right holders the exclusive rights to explore, develop and produce oil and gas in Lebanon’s offshore Exclusive Economic Zone.

Banque du Liban's foreign assets up 3% to $42bn in first 11 months of 2017

Banque du Liban's (BdL) interim balance sheet totaled $118bn at the end of November 2017, constituting an increase of 15.3% from $102.3bn at end-2016 and a rise of 14.6% from $103bn at the end of November 2016. Assets in foreign currency reached $41.9bn at the end of November 2017, representing a growth of 2.9% from $40.7bn at end-2016 and an increase of 4% from $40.3bn at the end of November 2016. However, assets in foreign currency regressed by $800.4m in the first two weeks of November and by $784.8m in the second half of the month, leading to a decline of $1.6bn, or 3.6%, from the end of October. Assets in foreign currency rose by $335.2m in January, by $362.2m in February, by $2.3bn in June, by $1.1bn in July, by $711.7m in August and by $1.2bn in September, while they declined by $1.3bn in March, by $829.6m in April, by $481.1m in May, by $545.5m in October and by $1.6bn in November 2017. This resulted in an aggregate increase of $1.19bn in the first 11 months of 2017. In comparison, BdL's assets in foreign currency increased by $3.17bn in the first 11 months of 2016 and regressed by $50.7m in the same period of 2015.

In parallel, the value of gold reserves at BdL increased by 11.5% from the end of 2016 and by 9.2% year-on-year to $11.9bn. The value of gold reserves reached a peak of $16.7bn at the end of August 2011. Also, the securities portfolio of the BdL grew by 4.8% year-on-year to $27.2bn at end-November 2017. Further, deposits of the financial sector reached $95bn at the end of November 2017 and increased by $10.8bn, or by 12.8%, from the end of 2016, while they grew by $11.7bn, or 14% from end-November 2016. In comparison, public sector deposits of BdL totaled $5.4bn at the end of November 2017 and decreased by $118.5m or 2.1% from end-2016, while they regressed by $272m or 4.8% year-on-year.

Value of cleared checks nearly unchanged, returned checks down 6% in first 10 months of 2017

The value of cleared checks reached $56.4bn in the first 10 months of 2017, constituting a marginal decrease of 0.4% from $56.6bn in the same period of 2016. In comparison, the value of cleared checks regressed by 2.5% in the first 10 months of 2016 and by 7.1% in the same period of 2015. The value of cleared checks in Lebanese pounds grew by 8.2% year-on-year to the equivalent of $17.7bn in the first 10 months of 2017, while the value of cleared checks in US dollars declined by 3.9% to $38.8bn in the covered period. The dollarization rate of cleared checks regressed from 71.2% in the first 10 months of 2016 to 68.7% in the same period of 2017. Further, there were 10.1 million cleared checks in the first 10 months of 2017, down by 1.3% from 10.3 million in the same period last year.

In parallel, the value of returned checks in domestic and foreign currency was $1.17bn in the first 10 months of 2017 compared to $1.23bn in the same period of 2016 and $1.29bn in the first 10 months of 2015. This constituted a decrease of 5.5% year-on-year in the first 10 months of 2017 relative to a drop of 4.1% in the same period of 2016 and an increase of 0.5% in the first 10 months of 2015. Also, there were 190,512 returned checks in the covered period, down by a marginal 0.4% from 189,700 returned checks in the first 10 months of 2016.

Industrial exports down by 3.4% to $1.7bn in first eight months of 2017

Figures released by the Ministry of Industry show that industrial exports totaled $1.65bn in the first eight months of 2017, constituting a decrease of 3.4% from $1.71bn in the same period of 2016. Industrial exports reached $227m in August 2017, up by 5.2% from $215.7m in the preceding month and down by 2.5% from $233m in August 2016. Exports of machinery & mechanical appliances totaled $331.1m and accounted for 20% of aggregate industrial exports in the first eight months of 2017, followed by prepared foodstuffs & tobacco with $316.5m (19.1%), chemical products with $273.6m (16.5%), base metals with $220.2m (13.3%), paper & paperboard with $102.3m (6.2%), plastics & rubber with $99.8m (6%), and pearls & precious or semi-precious stones & metals with $88.6m (5.4%). Arab countries were the destination of 55.5% of Lebanese industrial exports in the first eight months of 2017, followed by European economies with 14.1%, Asian economies with 12%, African countries with 11.1%, countries in the Americas with 5.4% and markets in Oceania with 0.6%. On a country basis, Saudi Arabia was the main destination of Lebanese industrial exports and accounted for 10.3% of the total in the first eight months of 2017, followed by the UAE with 10%, Iraq with 9.3%, Syria with 8.2%, Turkey with 4.7% and Jordan with 3.7%. In August 2017, 11 Arab states, 10 European economies, eight African countries, five Asian economies, two countries in the Americas and one country in Oceania imported $1m or more each in Lebanese industrial products.

In parallel, imports of industrial equipment and machinery reached $164m in the first eight months of 2017, down by 1.7% from $166.8m in the same period of 2016. China was the main source of such imports and accounted for 23.8% of the total in the first eight months of 2017, followed by Italy with 20.3% and Germany with 15.4%. Further, imports of industrial equipment and machinery amounted to $27m in August 2017, up by 42.1% from $19m in the same month of 2016. China was the main source of such imports with $8.9m and accounted for 32.9% of the total in the covered month, followed by Germany with $3.7m (13.7%) and Italy with $3.4m (12.4%).

Corporate Highlights

Stock market activity down 18.5% in first 11 months of 2017

Figures released by the Beirut Stock Exchange (BSE) indicate that trading volume reached 75,059,974 shares in the first 11 months of 2017, constituting a decrease of 26.9% from 102,660,421 shares traded in the same period of 2016; while aggregate turnover amounted to $645.9m, down by 24% from a turnover of $850.2m in the first 11 months of 2016. Market capitalization dropped by 9% from the end of November 2016 to $10.87bn, with banking stocks accounting for 84.6% of the total, followed by real estate shares (12.3%), industrial firms (2.8%) and trading stocks (0.3%). The market liquidity ratio was 5.9% in the covered period compared to 7.1% in the first 11 months of 2016.

Banking stocks accounted for 60% of the aggregate trading volume in the first 11 months of the year, followed by real estate equities with 35.1%, the stocks of trading firms with 4.2% and industrial shares with 0.7%. Also, banking stocks represented 63.5% of the aggregate value of traded shares, followed by real estate equities with 34.3%, the shares of trading firms with 1.5% and industrial stocks with 0.7%. The average daily traded volume for the period was 338,108 shares for an average daily value of $2.9m. The figures reflect year-on-year decreases of 26.6% and 23.7% in volume and in value, respectively. In parallel, the Capital Markets Authority's Market Value-Weighted Index for stocks traded on the BSE regressed by 18.5% in the first 11 months of 2017, while the CMA's Banks Market Value-Weighted Index declined by 1.9% in the covered period.

UK Lebanon Tech Hub to receive support in coming three years

The accelerator UK Lebanon Tech Hub (UKLTH) indicated that Banque du Liban (BdL) and the United Kingdom government extended their commitment to support the international accelerator program for an additional three years, following the program's strong performance since its inception. The UKLTH noted that it created 1,370 direct and indirect jobs and generated $26m in revenues at Lebanese companies it hosted during its three years of operations. Further, the program hosted 78 Lebanon-based startups that raised more than $36m, six of which originated in London, Dubai, Paris and Seattle.

Launched in 2015, the UKLTH is a joint initiative between BdL and the United Kingdom government. It aims to support the growth of the knowledge economy in Lebanon through the development of technology companies in the country, and to create opportunities for Lebanese talent to access international markets.

In February 2017, the UKLTH launched a center for international applied research collaboration. The initiative, which is backed by EUR2.5m in funding from the United Kingdom government, aims to commercialize research conducted by Lebanese universities and industry players, in partnership with British educational institutions. The research center launched applied research collaborations covering health technologies, such as devices that monitor blood sugar and those that detect early signs of breast cancer.

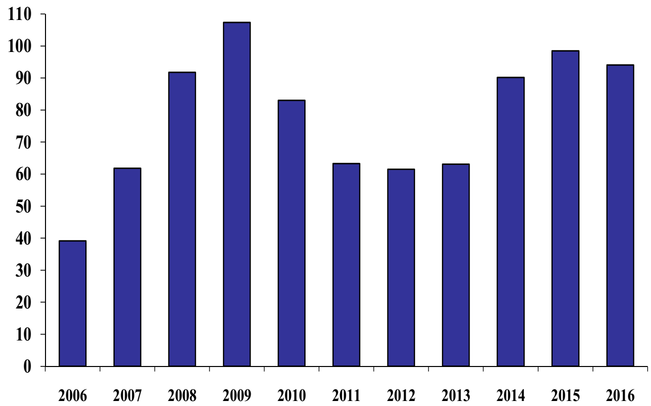
Middle East Airlines to acquire five new airbus planes in 2019

National flag carrier Middle East Airlines (MEA) announced that it is planning to acquire five new Airbus 321 planes by the third quarter of 2019, in an effort to gradually expand its fleet. MEA currently has 18 Airbus planes that cover 28 destinations. It also indicated that it plans to start direct flights to Madrid in 2018.

In early November 2017, Banque du Liban's (BdL) Governor Riad Salamé announced that MEA is planning to list 25% of the its shares on the Beirut Stock Exchange (BSE), following the privatization of the BSE and the launch of the electronic trading platform for securities and equities. The listing of the shares would require the approval of the Lebanese government, and would allow the private sector to own a stake in the company.

Founded in 1945, MEA is 99% owned by BdL and is part of the global airline alliance SkyTeam. MEA had 21,219 flights in the first 10 months of 2017, which is equivalent to 243.5 flights per week. In addition, MEA's freight volume totaled 21,413 tons in the first 10 months of the year. MEA's operating revenues reached $672m in 2016, down by 9% from $738.8m in the preceding year. The airline's posted cumulative net profits of $976m during the 2002-2016 period, compared to cumulative net losses of $726m during the 1975-2001 period.

MEA Net Profits (US$m)



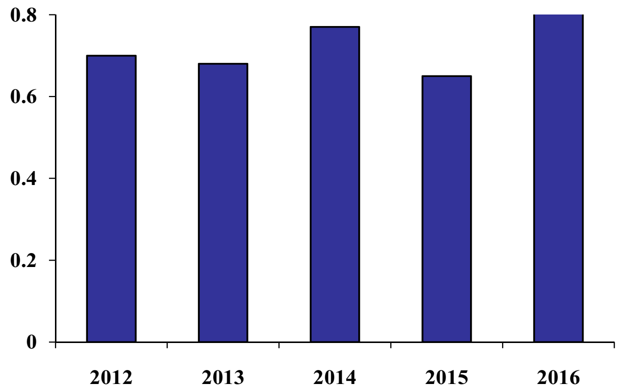
Source: Middle East Airlines, Byblos Research

Corporate Highlights

Net earnings of mid-sized banks up 46% in 2016

The consolidated net profits of the Beta Group of banks totaled $171.5m in 2016, constituting an increase of 45.9% from net earnings of $117.6m in 2015. The Beta Group consists of banks with deposits of $500m to $2bn each. Aggregate net gains on financial assets at fair value jumped by 291% year-on-year to $110.3m in 2016, with net interest income from financial assets rising by 73.3% to $14.8m and net profits on foreign exchange declining by 15.2% to $13.8m. Also, net gains on financial investments grew by 441.2% year-on-year to $69.8m in 2016. The banks' aggregate net operating income rose by 22.3% to $581.3m in 2016, with aggregate net interest income increasing by 1.5% to $335.6m and net fees & commissions receipts growing by 18.7% to $114m year-on-year. Non-interest income accounted for 48.2% of total income in 2016, up from 30.1% in the preceding year. The banks' interest spread was to 1.83% in 2016 compared to 1.86% in the preceding year. Also, the banks' total operating expenditures rose by 10.6% to $358m in 2016, with staff expenses growing by 12.7% to $191.5m and administrative & other operating expenses increasing by 9.2% to $140.4m. Further, the cost-to-income ratio reached 53% in 2016 relative to 66.7% in 2015. The banks' return on average assets increased to 0.9% in 2016 from 0.65% in 2015, while their return on average equity grew from 7.52% in 2015 to 9.85% in 2016.

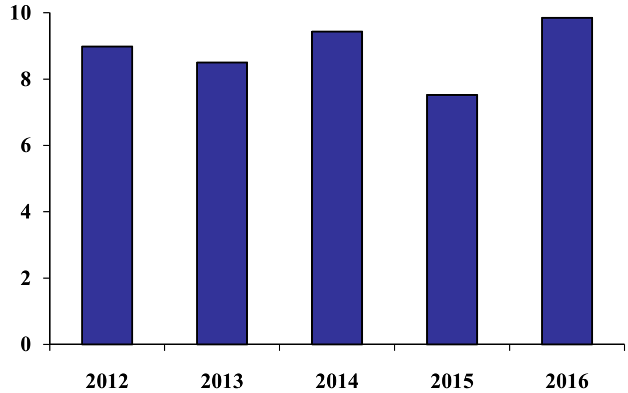
Return on Average Assets (%)



Source: Bankdata

In parallel, the banks' aggregate assets reached $19.6bn at the end of 2016, constituting an increase of 4.9% from end-2015. Loans accounted for 38% of total assets at end-2016, followed by portfolio securities with 31% and liquid assets with 27%. Further, total loans & advances to customers increased by 6.7% from end-2015 to $7.3bn. Corporate loans accounted for 50.2% of total net lending to customers at the end of 2016, followed by lending to small- and medium-sized enterprises with 18% of the total, mortgages with 12.3%, and retail loans with 9.7%. Also, customer deposits reached $15.9bn at the end of 2016 and grew by 3.5% from a year earlier.

Return on Average Equity (%)



Source: Bankdata

The banks' loans-to-deposits ratio increased from 44.7% at the end of 2015 to 45.7% at end-2016. The loans-to-deposits ratio in local currency was 38.2% at end-2016 compared to 31.6% at end-2015, while the ratio in foreign currency was 49.9% at the end of 2016 relative to 51.9% a year earlier. Further, the primary liquidity-to-assets ratio was nearly unchanged at 26.7% at end-2016. The banks' gross doubtful loans-to-gross loans ratio was 8.4% at end-2016 relative to 8.3% a year earlier. Also, loan-loss reserves on doubtful loans were 73.2% of gross doubtful loans at the end of 2016 compared to a ratio of 77.8% at end-2015. The banks' capital adequacy ratio stood at 14.72% at the end of 2016, nearly unchanged from 14.7 % at end-2015, according to Basel III criteria.

Food & beverage cluster opens in Ashrafieh

Venture Group launched its fourth food & beverage (F&B) cluster located in the Ashrafieh area of Beirut. Named Restos St. Nicolas, the cluster is a joint venture between Lebanon-based companies Sabbagha Development and Venture Group. The $7m project is built on a 1,700 square meter land plot and consists of five restaurants and a five-story underground parking.

Restos St. Nicolas constitutes the fourth food cluster concept developed by Venture Group, following the inception of Uruguay Street in Downtown Beirut, The Village in Dbayeh North of Beirut and The Backyard in the Hazmieh suburb of Beirut. Established in 2004, Venture Group is a development and consulting company that specializes in the fields of leisure, tourism and real estate. Sabbagha Development is a real estate and land-development company with a portfolio of commercial & retail and luxury residential projects.

Corporate Highlights

MBA program at AUB among top 200 business schools worldwide

The QS Global MBA Rankings for 2018 shows that the Master of Business Administration (MBA) program at the American University of Beirut's (AUB) Suliman S. Olayan School of Business (OSB) came in the 151-200 range among 232 ranked business schools worldwide. The MBA program at AUB, along with that of the American University of Dubai, were the only MBA programs in the Arab region to be included in the survey. The MBA program at the American University of Dubai came in the 201+ range among the ranked MBA programs worldwide.

The rankings are based on a weighted average of five indicators that are that are employability (40%), entrepreneurship and alumni outcomes (15%), return on investment (20%), thought leadership (15%) and class & faculty diversity (10%). The data for the survey was collected by early 2017 based on three surveys that are the QS Global Employer Survey, the QS Global Academic Survey, as well as a survey completed by each business school, which includes information on the salary of graduates and class profiles. Also, 232 programs were selected out of 250 analyzed programs to be included in the 2018 survey.

S&P downgrades ratings of parent company of MedGulf Lebanon

S&P Global Ratings downgraded from 'BBB' to 'BBB-' the long-term counterparty credit and insurer financial strength ratings of the Bahrain-based Mediterranean & Gulf Insurance & Reinsurance Co. (MedGulf Bahrain). Also, it removed the ratings from CreditWatch Negative and assigned a 'negative' outlook on the ratings. MedGulf Bahrain is the parent company of MedGulf Lebanon sal, which is the largest insurer in the Lebanese market in the non-life segment.

The agency attributed the downgrades to a deterioration in the competitive position and industry and country risk profiles of the Bahraini group's subsidiaries, including its major affiliate in Saudi Arabia MedgGulf KSA that contributed 82% of the group's consolidated gross premiums in 2016. It noted that MedGulf KSA's weak solvency position and significant operating losses in recent years have prompted the management to eliminate large but underperforming contracts and to reduce business volumes, leading to a substantial decline in the company's market share. It considered that MedGulf KSA's less-than-satisfactory position constitutes a key risk to MedGulf Bahrain's overall performance. It added that the Saudi Arabian affiliate currently operates at solvency levels that are significantly below the local regulatory minimum. In parallel, S&P indicated that MedGulf KSA is in need of significant additional capital to meet regulatory requirements, but that it remains unclear how it will raise the additional solvency capital, and to what extent MedGulf Bahrain may or may not be able to support the firm.

Further, it said that the group's subsidiary operations in Bahrain, Lebanon, Jordan, Qatar, the UAE, Egypt and the United Kingdom are either relatively modest in size, or are underperforming, or both. It considered that the group's competitive position is satisfactory compared to regional norms, but is only adequate when measured against global standards of scale and performance. Also, it expected MedGulf Bahrain to grow successfully in markets where it has recently launched its businesses, such as Egypt and the UAE. It also anticipated the group's industry and country risk levels to increase only moderately. In addition, S&P indicated that the capital adequacy and earnings of MedGulf Bahrain and its subsidiaries continue to be stable. It said that the group's liquidity metrics remain strong, while its financial flexibility, or ability to raise additional cash or capital relative to potential needs, is adequate.

Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked MedGulf Lebanon sal in first and 10th place in 2016 in terms of non-life and life premiums, respectively. The company's non-life premiums amounted to $102.5m at the end of 2016, and grew by 2.4% from the preceding year; while its life premiums dropped by 9% year-on-year to $13.3m. It had a 9.4% share of the local non-life market and a 2.6% share of the life market in 2016.

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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