

LEBANON THIS WEEK

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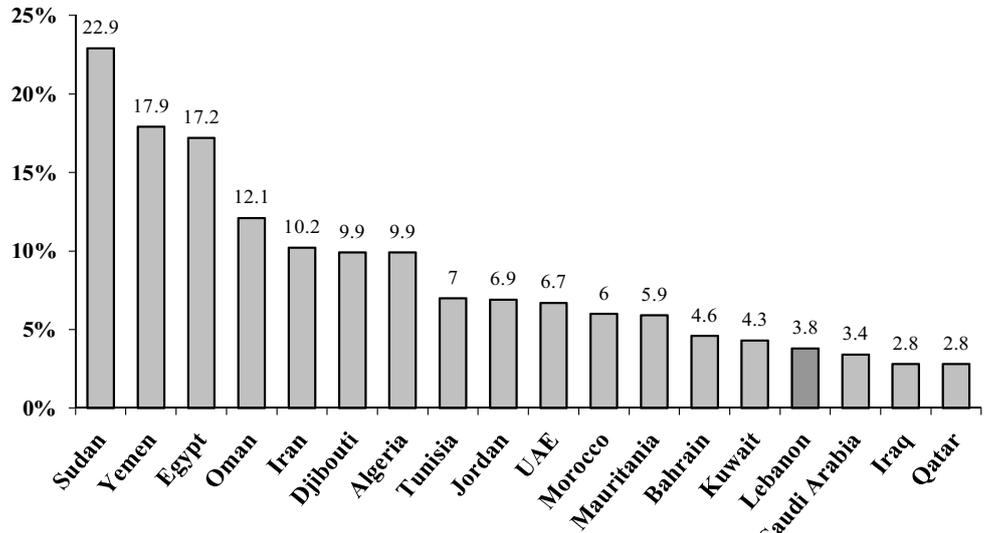
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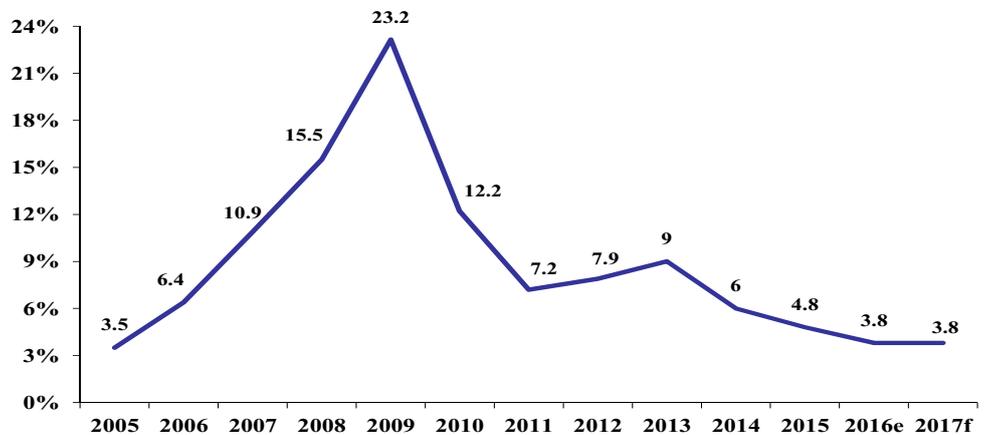
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Charts of the Week

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



Broad Money Growth in Lebanon (%)



* Source: International Monetary Fund - October 2016, Byblos Research

Quote to Note

"The formation of a national unity government would improve market sentiment."

The Institute of International Finance, on the impact of announcing a new Lebanese Cabinet

Number of the Week

126: Lebanon's rank out of 138 countries on the transparency of the government's policy-making, according to the World Economic Forum's Global Competitiveness Index for 2016-17

Lebanon in the News

\$m (unless otherwise mentioned)	2015	Aug 2015	May 2016	Jun 2016	Jul 2016	Aug 2016	% Change*
Exports	2,952	219	237	280	247	340	55.25
Imports	18,069	1,479	1,629	1,533	1,447	1,951	31.91
Trade Balance	(15,117)	(1,260)	(1,392)	(1,253)	(1,200)	(1,611)	27.86
Balance of Payments	(3,354)	(332)	(862)	(13)	352	1,788	-
Checks Cleared in LBP	18,714	1,597	1,591	1,577	1,490	1,616	1.16
Checks Cleared in FC	50,845	4,294	4,018	4,076	3,748	4,205	(2.07)
Total Checks Cleared	69,559	5,891	5,609	5,653	5,238	5,821	(1.20)
Budget Deficit/Surplus	(3,952)	(131.05)	(40.18)	(263.20)	(49.46)	(542.16)	313.71
Primary Balance	724.40	119.82	542.95	103.48	172.32	(262.41)	-
Airport Passengers***	7,241,463	893,708	618,581	572,461	892,417	917,286	2.64

\$bn (unless otherwise mentioned)	2015	Aug 2015	May 2016	Jun 2016	Jul 2016	Aug 2016	% Change*
BdL Gross FX Reserves	30.64	32.77	32.03	33.20	32.70	35.67	8.86
<i>In months of Imports</i>	20.35	22.15	19.66	21.65	22.60	18.28	(17.48)
Public Debt	70.31	68.89	71.49	72.90	73.39	74.05	7.48
Bank Assets	185.99	181.62	188.63	190.36	190.93	195.77	7.79
Bank Deposits (Private Sector)	151.59	149.63	153.89	154.66	155.07	157.09	4.99
Bank Loans to Private Sector	54.22	52.41	55.52	55.88	56.07	56.38	7.57
Money Supply M2	52.15	51.08	52.98	53.25	53.31	54.00	5.71
Money Supply M3	123.62	121.52	125.65	126.38	126.63	128.15	5.46
LBP Lending Rate (%)****	7.45	6.89	8.53	8.31	8.32	8.29	140bps
LBP Deposit Rate (%)	5.56	5.61	5.58	5.56	5.57	5.56	(5bps)
USD Lending Rate (%)	7.06	7.12	7.29	7.20	7.25	7.28	16bps
USD Deposit Rate (%)	3.17	3.19	3.26	3.31	3.30	3.39	20bps
Consumer Price Index**	(3.75)	(4.60)	(2.45)	(0.98)	(0.48)	(0.79)	381bps

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

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

Note: bps i.e. basis points

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

Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization
BLOM Listed	10.20	0.89	457,805	18.17%
Solidere "A"	11.49	0.35	184,697	9.52%
Solidere "B"	11.31	(0.79)	116,836	6.09%
Audi GDR	7.00	6.06	45,480	6.96%
BLOM GDR	10.80	1.89	24,000	6.61%
Audi Listed	6.75	3.85	10,175	22.36%
Byblos Common	1.69	1.20	8,341	7.92%
Byblos Pref. 09	102.00	0.49	1,310	1.69%
HOLCIM	13.53	(2.45)	106	2.19%
Byblos Pref. 08	101.30	0.10	100	1.68%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Mar 2017	9.00	101.00	5.64
Nov 2018	5.15	98.25	6.11
May 2019	6.00	99.27	6.33
Mar 2020	6.38	99.75	6.46
Apr 2021	8.25	105.50	6.77
Oct 2022	6.10	96.25	6.89
Jun 2025	6.25	93.75	7.24
Nov 2026	6.60	93.00	5.00
Feb 2030	6.65	92.00	6.00
Nov 2035	7.05	93.50	7.71

Source: Byblos Bank Capital Markets

	Nov 21-25	Nov 14-18	% Change	October 2016	October 2015	% Change
Total Shares Traded	879,281	2,743,665	(68.0)	22,970,630	3,521,768	552.3
Total Value Traded	\$9,591,678	\$16,146,551	(40.6)	\$169,756,567	\$28,446,467	496.8
Market Capitalization	\$12.07bn	\$11.88bn	1.57	\$11.87bn	\$10.89bn	9.0

Source: Beirut Stock Exchange (BSE)



Total private net wealth in Lebanon at \$94.4bn, 69th highest worldwide and 11th highest in the Arab world

Global investment bank Credit Suisse estimated the aggregate net wealth of Lebanese citizens at \$94.4bn at the end of June 2016, constituting a decline of 0.5% from \$94.9bn a year earlier. Lebanon's total private net wealth peaked at \$99.9bn at the end of 2010 and regressed to \$92.5bn at the end of 2011, then it gradually rose to about \$95bn at the end of June 2015. The aggregate net wealth of Lebanese citizens at the end of June 2016 was the 69th highest among 174 countries and jurisdictions globally, and the 11th highest among 19 Arab countries. It was also the 20th highest among 49 upper middle-income countries (UMICs) included in the survey.

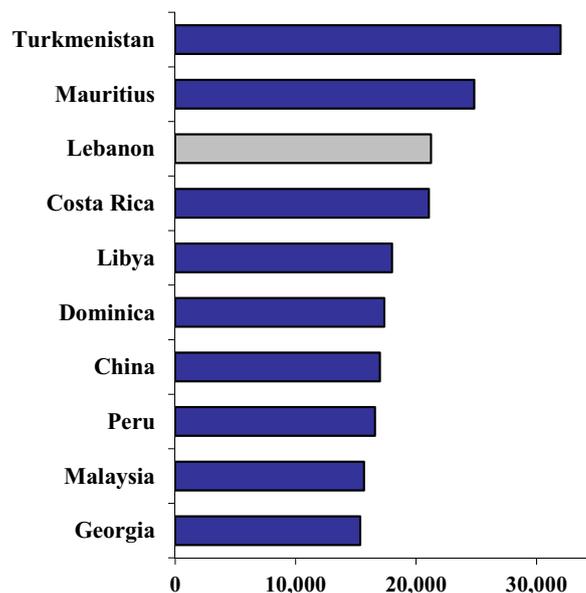
Credit Suisse defined a country's net wealth as the sum of its population's marketable value of financial and non-financial assets less its aggregate personal debt, with non-financial assets consisting mainly of real estate holdings. It excluded a country's stock of human capital as well as its stock of public assets and liabilities, such as the public debt. The investment bank provided annual data for the period between 2000 and 2014, and semi-annual figures for each of 2015 and 2016.

Globally, Lebanon's total net wealth was higher than the wealth of Uruguay (\$89.7bn), Bulgaria (\$87.3bn) and Azerbaijan (\$86.3bn), and lower than the wealth of Oman (\$105.3bn), Costa Rica (\$105bn) and Slovenia (\$95.3bn). It was higher than that of Bulgaria, Azerbaijan and Venezuela (\$84.4bn), and lower than that of Libya (\$129.9bn), Ecuador (\$125.9bn) and Costa Rica among UMICs. Regionally, it was higher than the net wealth of Jordan (\$63.7bn), Yemen (\$63.6bn), Bahrain (\$30.9bn), Sudan (\$27.4bn), Syria (\$25.8bn), the West Bank & Gaza (\$15.4bn), Mauritania (\$3.8bn) and Djibouti (\$2.2bn).

Lebanon's net wealth accounted for 0.04% of the global net wealth, for 0.3% of the UMICs' total net wealth and for 2.9% of the Arab region's cumulative net wealth at end-June 2016. American citizens had the world's highest aggregate net wealth at \$84.8 trillion, while citizens of Saudi Arabia accumulated \$725.2bn at the end of June 2016, the highest level in the Arab world. The total net wealth in Lebanon included \$68.5bn in financial wealth at the end of June 2016, which rose by 1% year-on-year; \$68.8bn in non-financial wealth that grew by 5.6% from a year earlier, and \$43bn in personal debt that rose by 12.6% from end-June 2015.

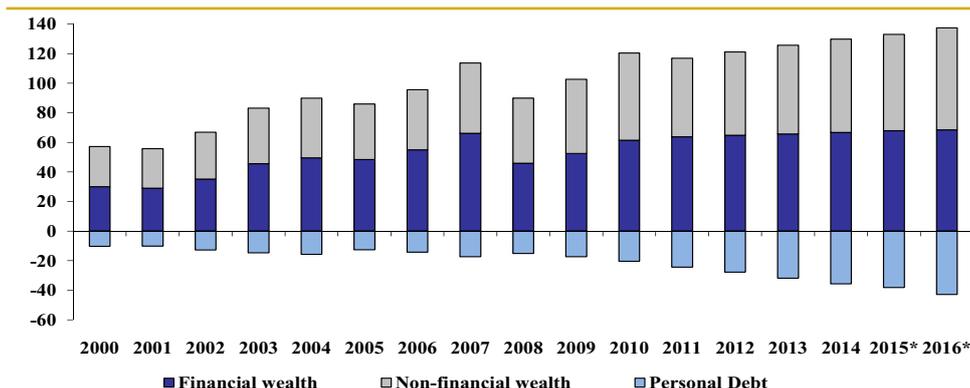
Further, net wealth per capita in Lebanon stood at \$21,245 at the end of June 2016, down by 1.2% from \$21,513 at end-June 2015 and compared to a peak of \$23,480 at the end of 2010. Lebanon's net wealth per capita was the 48th highest globally, the third highest among UMICs and the seventh highest among Arab countries at the end of June 2016. Globally, Lebanon's net wealth per capita at end-June 2016 was higher than the wealth per capita of Costa Rica (\$21,061), Slovakia (\$19,947) and Poland (\$19,761), and lower than that of Hungary (\$27,152), Uruguay (\$26,102) and Saudi Arabia (\$24,835). It was also lower than the wealth per capita of Turkmenistan (\$32,000) and Mauritius (\$24,836) among UMICs. Regionally, it was lower than the net wealth per capita of Qatar (\$128,405), the UAE (\$113,871), Kuwait (\$84,583), Bahrain (\$34,726), Oman (\$32,629) and Saudi Arabia. Switzerland has the world's highest net wealth per capita at \$448,758, while Qatar is the wealthiest Arab country on a per capita basis.

Countries with Highest Net Wealth per Capita in UMICs



Source: Credit Suisse, Byblos Research

Wealth in Lebanon (\$bn)



*at the end of June of each year

Source: Credit Suisse, Byblos Research

Beirut has second most expensive retail rent in Arab world

Property consultants Cushman & Wakefield's 2016 survey of the world's most expensive rents for retail space ranked Beirut as the 44th most expensive retail location among 71 cities worldwide, the fourth most expensive city among 16 cities in the Middle East & Africa (ME&A) region, and the second most expensive among six Arab cities. Each city is represented by its most expensive retail street. Beirut's global rank rose by four spots from 48th place in the 2015 survey, constituting the third biggest jump in rank worldwide, similar to Luxembourg City and behind Amman (+15 spots) and Sofia in Bulgaria (+5 spots). In addition, Beirut's rank among cities in the ME&A region increased by two spots from sixth place in last year's survey.

The study evaluated retail rental prices between June 2015 and June 2016 in over 462 locations in 71 countries around the world. In previous surveys, Cushman & Wakefield included both key shopping centers and main retail streets locations in its coverage, but it limited its coverage to main retail streets since the 2015 survey.

On a global basis, the rent of retail space in Beirut is more expensive than in Doha in Qatar, Saint Peter Port in the Channel Islands and Zagreb in Croatia, and is less costly than in Belgrade in Serbia, Bogota in Colombia and Mexico City in Mexico. The most expensive retail rental location in Beirut is Hamra Street at €900.1 per square meter (sqm) per year, or around \$1,000 per sqm.

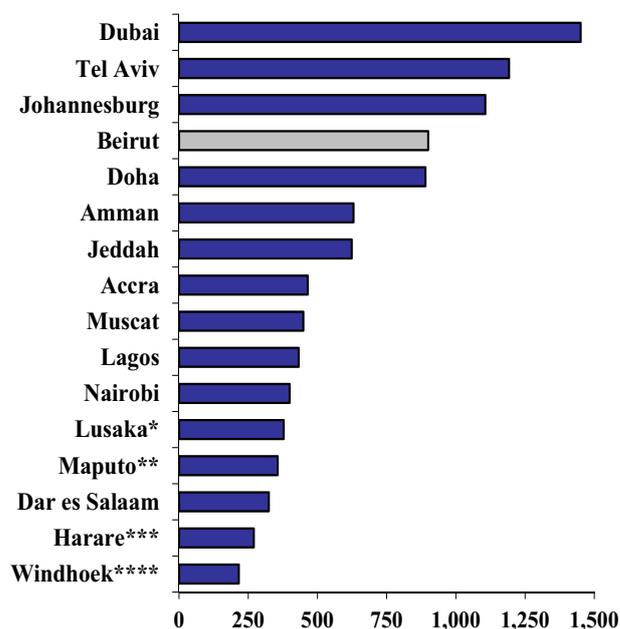
In parallel, when including all the 40 surveyed locations in the ME&A region, Verdun Street and Kaslik Street follow Hamra Street in second place with yearly retail rents of \$750 per sqm each. Rents at Hamra Street rose by 17.6% in the 12 months ending June 2016, while rents in Verdun Street and Kaslik Street regressed year-on-year by 21.1% and 11.8% respectively. Retail rents increased at 14 locations in the ME&A region, while they declined in 12 locations and were unchanged in 14 locations. New York's Upper Fifth Avenue remained the world's most expensive retail location at €29,066 per sqm per year.

Consumer Price Index down 1.5% in first 10 months of 2016

The Central Administration of Statistics' Consumer Price Index regressed by 1.5% year on-year in the first 10 months of 2016 compared to a decline of 3.8% in first 10 months of 2015. Also, the CPI increased by 1.1% in October 2016 from October 2015. Actual rents grew by 7.6% year-on-year in October 2016, followed by the prices of clothing & footwear (+6.3%), recreation & entertainment costs (+4.1%), imputed rents (+3.9%), the cost of education (+3.5%), prices at restaurants & hotels (+2.4%), miscellaneous goods & services (+1.5%), transportation costs and prices of alcoholic beverages & tobacco (+1% each), and those of furnishings & household equipment (+0.9%). The distribution of actual rents shows that old rents grew by 14.6% annually in October 2016, while new rents increased by 2.9% from the same month of 2015. In contrast, the prices of water, electricity, gas & other fuels regressed by 1.6% year-on-year in the first 10 months of the year, followed by the prices of food & non-alcoholic beverages (-1.6%), healthcare costs (-0.8%) and communication costs (-0.1%).

Further, the CPI grew by 0.9% in October 2016 from the preceding month, relative to a month-on-month increase of 1.5% in September 2016. Prices of clothing & footwear increased by 4.7% month-on-month, followed by the cost of education (+3.5%), the prices of water, electricity, gas & other fuels (+1.6%), transportation costs (+1.3%), recreation & entertainment costs (+1.2%), imputed rents (+0.4%), prices of food & non-alcoholic beverages (+0.3%), miscellaneous goods & services, actual rents, furnishings & household equipment and alcoholic beverages & tobacco (+0.2% each), and prices at restaurants & hotels (+0.04%). In contrast, healthcare costs regressed by 0.1% from the preceding month, while communication costs were unchanged month-on-month in October 2016. The CPI increased by 1.6% month-on-month in each of the Bekaa and Nabatieh, by 1.2% in the North, by 1% in the South, by 0.7% in Mount Lebanon and by 0.5% in Beirut. In parallel, the Fuel Price Index grew by 3.8% month-on-month in October 2016, while the Education Price Index increased by 3.6% from the preceding month.

Most Expensive Retail Locations in Middle East & Africa (€ per square meter per year)



*Zambia; **Mozambique; ***Zimbabwe, ****Namibia

Source: Cushman & Wakefield 2016, Byblos Research

Fiscal deficit widens by 27% to \$2.5bn in first eight months of 2016, equivalent to 27% of expenditures

Figures released by the Finance Ministry show that the fiscal deficit reached \$2.5bn in the first eight months of 2016 and widened by 27.1% from \$2bn in the same period of 2015. The deficit was equivalent to 26.9% of total budget and Treasury expenditures compared to 23.1% in the first eight months of 2015. Government expenditures reached \$9.4bn and increased by 9.5% from the same period last year, while revenues grew by 4.1% annually to \$6.9bn. As such, the widening of the deficit reflects a rise of \$812.3m in overall expenditures that was partly offset by an increase of \$272.7m in total revenues during the first eight months of 2016.

On the revenues side, tax receipts grew by 1.4% year-on-year to \$5bn, of which 29.7%, or \$1.5bn, were in VAT receipts that increased by 2% year-on-year. Tax receipts accounted for 77.6% of budgetary revenues and for 72.4% of total Treasury and budgetary receipts. The distribution of other tax revenues shows that receipts from taxes on income, profits & capital gains grew by 1.9% year-on-year to \$1.6bn in the first eight months of 2016; revenues from customs increased by 2.7% to \$922.3m; receipts from property taxes improved by 2.5% to \$532.1m; while revenues from taxes on goods & services regressed by 3.7% to \$252.1m and receipts from stamp fees declined by 5.8% to \$211.8m.

The distribution of income tax receipts shows that the tax on profits accounted for 45% of income tax revenues in the first eight months of 2016, followed by taxes on wages & salaries with 22.6%, the tax on interest deposits with 21.3% and the capital gains tax with 9.3%. Receipts from taxes on wages & salaries grew by 5.2% in the covered period, those from taxes on profits increased by 2.3% and revenues from the capital gains tax improved by 0.7%, while receipts from the tax on interest deposits were nearly unchanged in the first eight months of 2016. Also, the distribution of property taxes shows that revenues from real estate registration fees increased by 3.7% to \$335.4m in the first eight months of the year, receipts from the built property tax improved by 0.5% to \$126.8m and revenues from the inheritance tax grew by 0.8% to \$70m. Further, non-tax budgetary receipts increased by 4.7% year-on-year to \$1.4bn. They mainly included \$995.7m in revenues generated from government properties that rose by 4.9% year-on-year, as well as \$338.2m in receipts generated from administrative fees and charges that decreased by 1% year-on-year. Receipts from telecommunications services increased by 5.5% to \$797.5m and accounted for 80.1% of income from government properties and for 55.4% of non-tax budgetary revenues.

On the expenditures side, budgetary spending, which includes general expenditures and debt servicing, increased by 7.2% to \$8.2bn in the first eight months of 2016. General budgetary spending grew by 8.2% to \$5.2bn, and included \$894.5m in outlays from previous years that rose by 38.8% year-on-year, as well as \$521.2m in transfers to Electricité du Liban that declined by 33.8% year-on-year, among others. Also, debt servicing totaled \$2.9bn in the first eight months of 2016 and grew by 5.4% from the same period last year. Debt servicing accounted for 31.2% of total expenditures and for 36% of budgetary spending, while it absorbed 42.7% of overall revenues and 45.7% of budgetary receipts. Interest payments on Lebanese pound-denominated debt grew by 8.8% to \$1.9bn in the first eight months of the year, while debt servicing on foreign currency debt rose by 1.3% to \$935.8m. Also, the repayment of principal on foreign debt, including concessional loans earmarked for project financing, regressed by 9.4% to \$124.4m in the first eight months of 2016. The primary budget balance posted a surplus of \$1.2bn in the first eight months of 2016, or 14.7% of budgetary expenditures, relative to a surplus of \$1.5bn, or 19.2% of budgetary spending, in the same period of 2015. The overall primary balance posted a surplus of \$405.1m, or 4.3% of spending, compared to a surplus of \$793.9m, or 9.2% of total expenditures, in the first eight months of 2015.

Comparative Fiscal Results in First Eight Months of the Year			
	2015	2016	Change
	(US\$m)	(US\$m)	(%)
Budget revenues	6,283	6,417	2.1
Tax revenues	4,909	4,978	1.4
Non-tax revenues	1,374	1,438	4.7
<i>of which Telecom revenues</i>	756	798	5.5
Budget expenditures	7,607	8,152	7.2
Budget Surplus/Deficit	(1,323)	(1,736)	31.2
<i>In % of budget expenditures</i>	<i>(17.4%)</i>	<i>(21.3%)</i>	
Budget Primary Surplus	1,459	1,197	-17.9
<i>In % of budget expenditures</i>	<i>19.2%</i>	<i>14.7%</i>	
Treasury Receipts	320	460	43.6
Treasury Expenditures	985	1,252	27.1
Total Revenues	6,604	6,876	4.1
Total Expenditures	8,592	9,404	9.5
Total Deficit	(1,989)	(2,528)	27.1
<i>In % of total expenditures</i>	<i>(23.1%)</i>	<i>(26.9%)</i>	
Total Primary Surplus/Deficit	794	405	-49.0
<i>In % of total expenditures</i>	<i>9.2%</i>	<i>4.3%</i>	

Source: Ministry of Finance, Byblos Research

Industrial exports down 16% to \$1.9bn in first nine months of 2016

Figures released by the Ministry of Industry show that industrial exports totaled \$1.9bn in the first nine months of 2016, constituting a decrease of 15.7% from \$2.2bn in the first nine months of 2015. Industrial exports reached \$184.3m in September 2016, down by 21% from \$233m in the preceding month and by 24% from \$242.5m in September 2015. The fluctuation in industrial exports over the first nine months of the year was due to the increasing cost and challenges faced by land and maritime exporters, as well as to lower demand from Lebanon's key export markets.

Exports of machinery & mechanical appliances totaled \$462.8m and accounted for 24.4% of aggregate industrial exports in the first nine months of 2016, followed by prepared foodstuffs with \$337.7m (17.8%), chemical products with \$328.4m (17.3%), base metals with \$181.3m (9.6%), and plastics & articles with \$104.2m (5.5%). Arab countries were the destination of 55.8% of Lebanese industrial exports during the first nine months of 2016, followed by European economies with 16.3%, African countries with 12.8%, Asian economies with 9.2%, countries in the Americas with 4.2%, and markets in Oceania with 0.5%. On a country basis, Saudi Arabia was the main destination of Lebanese industrial exports and accounted for 12.9% of the total in the first nine months of 2016, followed by the UAE with 10.3%, Iraq with 9.4%, Syria with 6.6% and Jordan with 3.7%. In September 2016, 11 Arab states, 11 European economies, seven African countries, three Asian economies, three countries in the Americas and one market in Oceania imported \$1m or more each in industrial products from Lebanon. Overall, Lebanon exported its industrial products to 45 European economies, 43 African countries, 28 Asian economies, 25 countries in the Americas, 19 Arab economies and four markets in Oceania in September 2016.

In parallel, industrial imports reached \$183.1m in the first nine months of 2016, down by 3.3% from \$189.3m in the first nine months of 2015. Italy was the main source of such imports and accounted for 21.5% of the total in the first nine months of 2016, followed by China with 21.3% and Germany with 13.1%. Further, imports of industrial equipment and machinery reached \$16.2m in September 2016, decreasing by 17.3% from the same month of 2015. China was the main source of imports of industrial equipment in September and accounted for 25.7% of the total, followed by Germany with 14% and Italy with 13.2%.

Revenues through Port of Beirut at \$185m in first nine months of 2016

Figures released by the Port of Beirut show that the port's overall revenues reached \$184.5m in the first nine months of 2016, constituting an increase of 1.7% from \$181.5m in the same period of 2015. The Port of Beirut handled 6.6 million tons of freight in the first nine months of 2016, up by 8.8% from 6.1 million tons in the same period of 2015. Imported freight amounted to 5.88 million tons in the covered period and accounted for 88.6% of aggregate freight, while the remaining 753,000 tons, or 11.4%, consisted of export cargo. A total of 1,552 ships docked at the port in the first nine months of the year compared to 1,327 vessels in the same period of 2015.

In parallel, revenues generated through the Port of Tripoli reached \$11m in the first nine months of 2016, constituting an increase of 9.4% from \$10.1m in the same period of 2015. The Port of Tripoli handled 1.37 million tons of freight in the covered period, up by 4.1% from 1.31 million tons in the same period of 2015. Imported freight amounted to 1.08 million tons and accounted for 79.2% of the total, while the remaining 283,880 tons, or 20.8% of the total, were export cargo. A total of 601 vessels docked at the Port of Tripoli in the first nine months of 2016, constituting a drop of 5.9% from 639 ships in the same period of 2015.

Italy extends €75m in loans to support development projects in Lebanon

The Council for Development and Reconstruction signed a framework agreement with the Italian government that extends €75m in soft loans to Lebanon to finance infrastructure and socio-economic development projects in Lebanon. The agreement is part of Italy's commitments at the 2007 international conference for support to Lebanon, known as Paris III. The loans will mature in 17 years and will not carry an interest rate during a five-year grace period. The projects aim to develop new infrastructure in Lebanon, to meet socio-economic needs, to foster sustainable agro-food activities and to protect the environment.

The framework agreement, once ratified, would consist of a €50m credit facility to complete the construction of sewage treatment plants in the towns of Bakhoun in the Minieh-Danniyeh district, in Bint Jbeil and Hasbaya in the Nabatieh governorate, and in Hermel in the Bekaa governorate. Also, an €8m credit facility will be allocated to develop eco-cultural tourism; €7m will be earmarked to finance the first phase of development of the industrial zones in Baalbek, Terbol in the Zahlé area, and Joun in the Chouf district; and €10m will go towards the sustainable socio-economic development of Lebanese coastal communities. The Council for Development and Reconstruction noted that it prepared these projects in coordination with the concerned ministries, and the detailed implementation of these projects will be submitted to the Lebanese Cabinet once completed. It added that the majority of the projects are still at the stage of feasibility studies and are expected to be launched within a year.

Lebanon ranks 67th worldwide, eighth among Arab economies in ease of paying taxes

The PricewaterhouseCoopers/World Bank Group Index of Paying Taxes for 2017 ranked Lebanon in 67th place among 189 countries and jurisdictions worldwide and in eighth place among 20 Arab economies included in the survey. Lebanon also ranked in 16th place among 52 upper middle-income countries (UMICs) included in the survey.

The index measures a medium-size firm's mandatory taxes and contributions that have a direct impact on its income, and reflects the government-mandated tax burden that a standard business incurs. PwC and the World Bank updated the methodology of the 2017 index to include a fourth sub-indicator, which is the Post-Filing Sub-Index that measures certain processes that might take place after a firm files a tax return. The other three sub-indicators cover the number of tax payments incurred by a business, the total time to comply and the total tax rate as a percentage of commercial profits. Taxes include corporate, labor and other sub-categories.

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 77.17 in the 2017 survey.

Globally, it is easier for companies in Lebanon to pay taxes than firms in Saudi Arabia, Japan and Namibia, but it is more difficult than firms in France, Greece and Belgium among economies with a GDP of \$10bn or more. Also, it is easier for Lebanese companies to pay their taxes than firms in Namibia, Serbia and Jordan, and more difficult than firms in Kazakhstan, Malaysia and Costa Rica among UMICs.

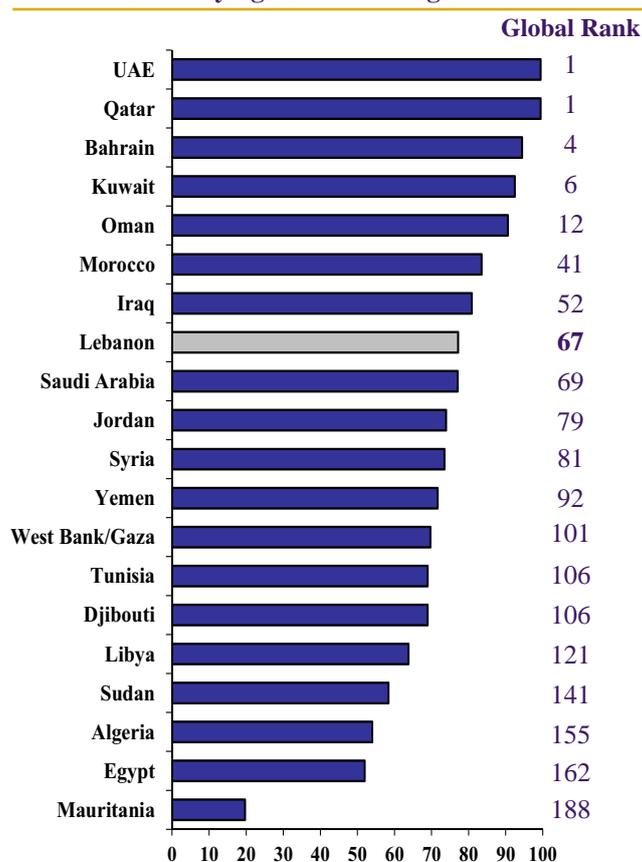
The survey shows that a medium-size Lebanese firm pays its corporate income taxes once a year, performs 12 labor tax payments per year, and pays all of its other mandatory taxes seven times a year. In comparison, businesses in non-GCC Arab countries pay corporate taxes 1.7 times per year, labor taxes 12.14 times and other mandatory taxes 12.07 times per year, relative to global averages of 3.1 times, 9.7 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 119.3 hours to prepare, file and pay its corporate income taxes; 102.4 hours for its labor taxes and 83.4 hours for its consumption taxes, relative to worldwide averages of 65 hours, 90 hours and 96 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 14.4% for corporate tax, 18.3% for labor tax and 9.5% for other taxes, relative to global averages of 16.3%, 16.3% and 8%, respectively.

Finally, it would take a medium-size Lebanese firm 45 hours to comply with a VAT refund, 27.4 weeks to obtain a VAT refund and seven hours to comply with a corporate income tax audit, compared to global averages of 14.2 hours, 21.6 weeks and 16.7 hours, respectively.

Ease of Paying Taxes Rankings for 2017



Source: PricewaterhouseCoopers, World Bank, Byblos Research

Components of the 2017 Paying Taxes Index for Lebanon

	Global Rank	Arab Rank	UMICs Rank	Lebanon Score	Global Average	Arab Average	UMICs Average
Number of Tax Payments	84	11	28	20	25	20.7	21.1
Time to Comply*	72	12	18	181	251	229.2	311.5
Total tax Rate**	49	10	15	30.3	40.6	33.8	41.4
Post-Filing Index***	90	7	22	63.3	61.2	59.5	57.8

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

Source: PricewaterhouseCoopers, World Bank, Byblos Research

Net profits of top 14 banks up 10% to \$1.6bn in first nine months of 2016, profitability metrics improve

The unaudited consolidated net profits of the Alpha Group of banks reached \$1.64bn in the first nine months of 2016, constituting an increase of 9.7% from net earnings of \$1.5bn in the same period of 2015. The Alpha Group consists of 14 banks with deposits in excess of \$2bn each. Total net operating income grew by 24.1% to \$4.76bn, with aggregate net interest income rising by 8.6% to \$2.81bn and net fees & commissions jumping by 96.6% to \$1.28bn. Also, net gains on financial assets at fair value grew by 11.8% year-on-year to \$491.7m in the first nine months of 2016. Non-interest income accounted for 40.6% of total income in the first nine months of 2016, up from 31.7% in the same period last year; with net fees & commissions representing 61.6% of non-interest income, up from 50% in the first nine months of 2015. Also, the net interest spread improved to 1.94% in the first nine months of 2016 from 1.9% in the same period last year. In parallel, total operating expenditures grew by 20.8% year-on-year to \$2.5bn in the covered period, with staff expenses rising by 10.4% to \$1.3bn and administrative & other operating expenses increasing by 22.6% to \$909.5m. Further, the cost-to-income ratio was 48.4% in the first nine months of this year, down from 49.9% in the same period of 2015. The banks' return on average assets was 1.17% in September 2016 on an annualized basis relative to 1% in September 2015; while their return on average equity was 13.05% in September 2016 compared to 11.3% in September 2015.

The Alpha Group of banks' total assets reached \$214.2bn at the end of September 2016, constituting an increase of 5.1% from end-2015 and a rise of 7.3% from end-September 2015. Net loans & advances to customers totaled \$66bn and expanded by 4.8% from end-2015; while credit extended to related parties regressed by 4% to \$773.4m at end-September 2016. Customer deposits totaled \$169.9bn at the end of September 2016, reflecting a rise of 3.2% from end-2015; while deposits from related parties grew by 0.3% to \$3.7bn at end-September 2016. The banks' shareholders' equity reached \$19.3bn at the end of September 2016 and increased by 6.1% from end-2015.

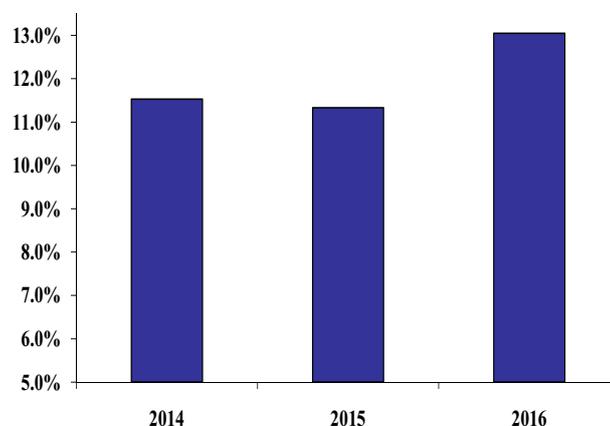
In parallel, the banks' loans-to-deposits ratio increased from 37% at the end of September 2015 to 38.5% at end-September 2016. The loans-to-deposits ratio in local currency was 24.1% compared to 22.4% at end-September 2015, while that in foreign currency was 44.7% at the end of September 2016 relative to 43.3% a year earlier. Further, the primary liquidity-to-assets ratio was 32.7% at the end of September 2016, up from 31.4% at end-September 2015. The banks' gross doubtful loans-to-gross loans ratio regressed from 5.79% at end-September 2015 to 5.72% at the end of September 2016. Also, the loan-loss reserves on doubtful loans covered 74.4% of gross doubtful loans at end-September 2016, down from a coverage of 76.3% a year earlier. Further, the ratio of collective provisions-to-net loans increased from 1.16% at the end of September 2015 to 1.27% at the end of September 2016.

Balance sheet of financial institutions down 4% in first nine months of 2016

Figures released by the Central Bank show that the consolidated balance sheet of financial institutions in Lebanon reached LBP2.5bn, or \$1.65bn at the end of September 2016, constituting a decrease of 3.9% from the end of 2015 and an increase of 1% from end-September 2015. On the assets side, financial institutions' cash and bank deposits totaled \$623.6m at the end of September 2016, constituting a drop of 1.8% from end-2015 and a decline of 2.8% from a year earlier. Claims on the private sector reached \$898.1m at end-September 2016, reflecting a decrease of 5% from end-2015 and an increase of 4.9% from a year earlier. Also, investments in government securities totaled \$134.5m at the end of September 2016, constituting a decline of 9.2% from end-2015 and a drop of 8.1% from end-September 2015.

In parallel, liabilities to the private sector totaled \$356.6m at the end of September 2016, constituting a decrease of 18% from end-2015 and a rise of 4.4% from end-September 2015; while those to the financial sector reached \$664.1m at end-September 2016, representing a drop of 5.5% from end-2015 and a decline of 7.2% from a year earlier. Further, the aggregate capital accounts of financial institutions amounted to \$488.6m at the end of September 2016, constituting an increase of 5.9% from end-2015 and a rise of 6.7% from end-September 2015. There were 51 financial institutions with a total of 71 branches operating in Lebanon as at the end of March 2016.

Return on Average Equity*



*in the first nine months of each year

Source: Bankdata Financial Services, Byblos Research

Support for Lebanese startups to enter new markets

The UK Lebanon Tech Hub (UKLTH) signed a partnership agreement with 1776, a global incubator and seed fund, to assist the UKLTH-based fastest-growing Lebanese technology startups enter new markets, mainly Gulf Cooperation Council countries. The partnership provides startups with access to 1776's global digital platform, which includes learning resources and a global network of mentors and investors, as well as a working space at the 1776 Dubai campus.

Under the agreement, the UKLTH and 1776 will jointly select Lebanese startups for a three-month acceleration program at the campus of 1776 in Dubai. The selection of firms is based on their scalable business model and sectoral focus in educational technology, financial technology, and digital health, as well as on their readiness to enter international markets, among other selection factors. The UKLTH noted that three startups have already been chosen to join the accelerator program in Dubai. They are Kamkalima, a web-based platform for schools that helps teachers create assignments in Arabic; RIEGO, a solar-powered agricultural irrigation device; and Artscoops, an online art platform that offers buyers the opportunity to purchase contemporary art.

The Washington DC-based incubator 1776 is a public-benefit corporation that identifies and funds high-growth startups that focus on solving society's most fundamental challenges in the education, energy, financial services and transportation sectors. It also serves startups and institutions worldwide through its innovation curriculum, mentorship and programs. Incubator 1776 is the first international technology incubator to set-up a direct presence in the Middle East and North Africa region.

The UKLTH is a joint initiative by the Central Bank of Lebanon and the United Kingdom government through the British Embassy in Beirut that aims to support the development of the knowledge economy in Lebanon. The UKLTH was established as a result of Intermediate Circular 331 that the Central Bank issued in August 2013.

IM capital launches mentorship program for entrepreneurs in Lebanon

Insure & Match (IM) Capital launched the Confideo Venture Mentoring (Confideo VM) program to assist entrepreneurs in Lebanon to expand their business and attract additional capital. The program allows entrepreneurs to receive advice and guidance from a team of mentors with proven skills and experience. It also provides assistance with concept development, team formation, initial operations and access to funding, among other services. The Confideo VM program falls under the Middle East and North Africa Investment Initiative (MENA II) funded by the United States Agency for International Development (USAID), and is co-funded by the World Bank through the Early Stage Innovation Financing initiative in Lebanon.

The initiative is based on the model used by the Massachusetts Institute of Technology Venture Mentoring Service (MIT VMS). The model consists of implementing best practices in selecting and retaining highly qualified and committed volunteer mentors; using strict guiding principles to provide objective input to entrepreneurs; and a long-term mentorship commitment to entrepreneurs and their ventures, among others.

IM Capital is a fully-owned subsidiary of the Berytech Foundation that provides matching capital, equity guarantees as well as technical assistance and support to a broad range of entrepreneurs. It provides technical assistance to qualified early stage businesses and enables Qualified Early Stage Investors to identify successful investment strategies and to continue investing in early stage businesses.

First National Bank's net earnings at \$28m in first nine months of 2016

First National Bank sal, one of Lebanon's top 14 banks, announced unaudited consolidated net profits of \$27.9m in the first nine months of 2016, up by 29.2% from the same period of 2015. Net operating income grew by 13.1% year-on-year to \$77.4m in the first nine months of 2016, with net interest income increasing by 9.8% to \$34.2m and net fees & commissions receipts dropping by 6.3% year-on-year to \$7.9m. Non-interest income accounted for 22.65% of total income in the first nine months of 2016, down from 22.8% in the same period last year; while net fees & commissions decreased to 44.95% of non-interest earnings from 53.97% in the first nine months of 2015. Further, the bank's interest margin was 1.99% in the first nine months of 2016 relative to 1.85% in the same period last year; while its interest spread was 1.91% in the covered period, up from 1.77% in the first nine months of 2015. Total operating expenditures increased by 3.6% year-on-year to \$44.7m in the first nine months of 2016, with staff expenses rising by 5% to \$27.3m and administrative & other operating expenditures nearly unchanged at \$15.2m. Also, the bank's return on average assets increased to 0.89% in September 2016 on an annualized basis from 0.72% in September 2015; while its return on average equity grew to 9.15% on an annualized basis from 8.93% in September 2015. The cost-to-income ratio declined to 57.66% in the first nine months of 2016 from 63.06% in the same period last year.

In parallel, total assets reached \$4.27bn at end-September 2016, constituting an increase of 3.5% from end-2015 and a rise of 6.1% from a year earlier. Loans & advances to customers, excluding those to related parties, grew by 9.5% from end-2015 and by 4.3% from a year earlier to \$976.8m. Also, customer deposits, excluding those from related parties, totaled \$3.32bn at the end of September 2016 and increased by 5.1% from end-2015 and by 4.2% from a year earlier. The loans-to-deposits ratio rose to 29.85% at end-September 2016 from 28.8% a year earlier. In parallel, the bank's shareholders' equity rose by 4.5% from the end of 2015 to \$415.2m at end-September 2016.



Ratio Highlights

(in % unless specified)	2013	2014	2015	Change*
Nominal GDP (\$bn)	47.7	50.0	51.1	
Public Debt in Foreign Currency / GDP	54.8	51.2	53.0	176
Public Debt in Local Currency / GDP	78.3	81.9	84.6	271
Gross Public Debt / GDP	133.1	133.1	137.6	447
Total Gross External Debt / GDP**	167.1	170.0	174.7	470
Trade Balance / GDP	(36.3)	(34.4)	(29.5)	481
Exports / Imports	18.5	16.2	16.6	41
Fiscal Revenues / GDP	19.7	21.8	18.7	(302)
Fiscal Expenditures / GDP	28.6	27.9	26.5	(143)
Fiscal Balance / GDP	(8.8)	(6.1)	(7.7)	(159)
Primary Balance / GDP	(0.5)	2.6	1.4	(120)
Gross Foreign Currency Reserves / M2	69.5	66.5	58.7	(780)
M3 / GDP	233.0	235.4	241.9	657
Commercial Banks Assets / GDP	345.5	351.4	364.0	1258
Private Sector Deposits / GDP	285.5	288.9	296.6	779
Private Sector Loans / GDP	99.3	101.8	106.1	432
Private Sector Deposits Dollarization Rate	66.1	65.7	64.9	(83)
Private Sector Lending Dollarization Rate	76.5	75.6	74.8	(73)

* Change in basis points 14/15

**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	Oct 2014	Sep 2015	Oct 2015	Change**	Risk Level
Political Risk Rating	52.0	54.5	54.5	▼	High
Financial Risk Rating	38.0	39.0	39.0	▼	Low
Economic Risk Rating	27.0	33.0	33.0	▼	Moderate
Composite Risk Rating	58.5	63.25	63.25	▼	Moderate

MENA Average*	Oct 2014	Sep 2015	Oct 2015	Change**	Risk Level
Political Risk Rating	57.1	57.6	57.7	▼	High
Financial Risk Rating	40.6	39.2	39.3	▲	Low
Economic Risk Rating	35.6	31.3	31.2	▲	Moderate
Composite Risk Rating	66.6	64.0	64.1	▲	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	B2	NP	Negative	B2		Negative
Fitch Ratings	B-	B	Stable	B-		Stable
Standard & Poor's	B-	B	Stable	B-	B	Stable
Capital Intelligence	B	B	Negative	B	B	Negative

Source: Rating agencies

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



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