

LEBANON THIS WEEK

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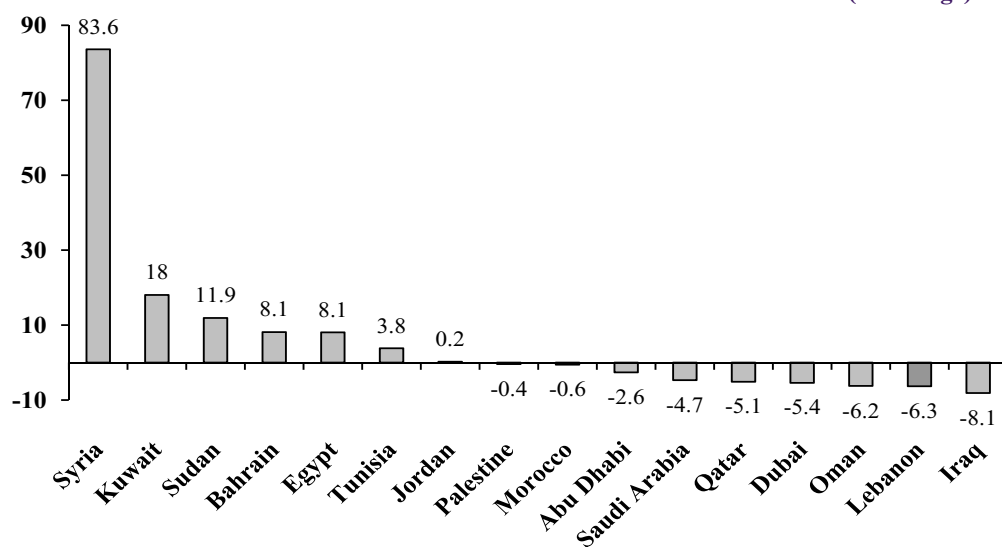
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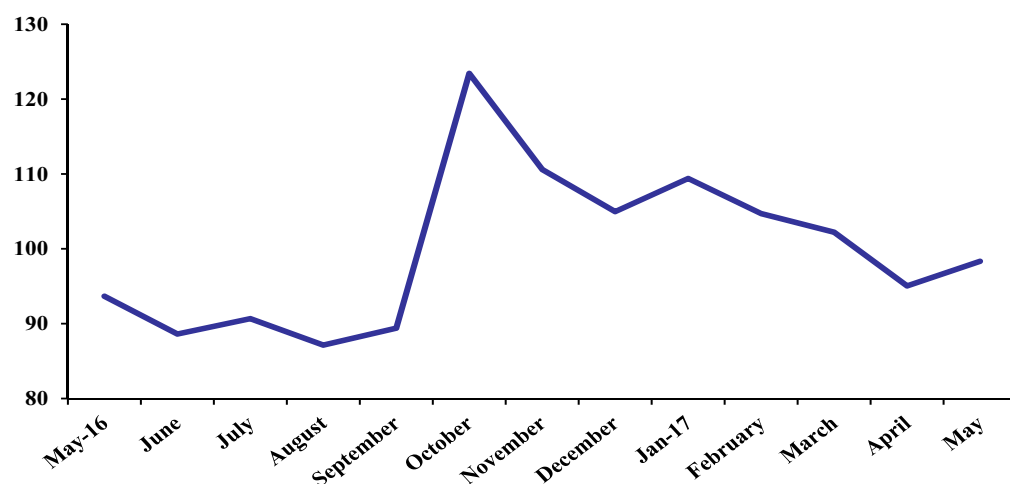
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Charts of the Week

Performance of Arab Stock Markets in the First Five 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 lack of investment in infrastructure and the absence of economic reforms since 2011 have weakened the country's competitiveness."

Moody's Investor Services, on the factors that are preventing the Lebanese economy from posting higher growth rates

Number of the Week

\$868m: Amount that the World Food Program has directly injected in the Lebanese economy since 2012 through cash-based interventions, according the United Nations

Lebanon in the News

\$m (unless otherwise mentioned)	2015	Dec 2015	Sep 2016	Oct 2016	Nov 2016	Dec 2016	% Change*
Exports	2,952	236	254	257	247	244	3.4
Imports	18,069	1,841	1,448	1,479	1,450	1,536	(16.6)
Trade Balance	(15,117)	(1,605)	(1,194)	(1,222)	(1,203)	(1,292)	(19.5)
Balance of Payments	(3,354)	(372)	189	(680)	453	910	-
Checks Cleared in LBP	18,714	1,709	1,722	1,780	1,684	1,879	10.0
Checks Cleared in FC	50,845	4,265	4,054	4,216	3,968	3,880	(9.0)
Total Checks Cleared	69,559	5,974	5,776	5,996	5,652	5,759	(3.6)
Budget Deficit/Surplus	(3,952)	(711.58)	(548.00)	(163.91)	(706.12)	(513.35)	(27.86)
Primary Balance	724.40	(338.61)	(29.21)	281.60	(40.58)	(111.56)	(67.05)
Airport Passengers***	7,240,397	616,258	819,886	554,122	555,931	598,009	(3.0)

\$bn (unless otherwise mentioned)	2015	Dec 2015	Sep 2016	Oct 2016	Nov 2016	Dec 2016	% Change*
BdL Gross FX Reserves	30.64	30.64	34.17	34.74	34.38	34.03	11.06
<i>In months of Imports</i>	<i>20.35</i>	<i>16.64</i>	<i>23.60</i>	<i>23.49</i>	<i>23.71</i>	<i>22.15</i>	<i>33.1</i>
Public Debt	70.33	70.33	74.73	74.52	74.55	74.89	6.48
Bank Assets	185.99	185.99	198.07	199.67	200.95	204.3	9.85
Bank Deposits (Private Sector)	151.59	151.59	158.15	157.66	159.19	162.5	7.20
Bank Loans to Private Sector	54.22	54.22	56.65	56.69	56.49	57.18	5.45
Money Supply M2	52.15	52.15	54.17	53.83	54.12	54.68	4.84
Money Supply M3	123.62	123.62	129.12	128.74	130.04	132.8	7.42
LBP Lending Rate (%)****	7.45	7.45	8.44	8.35	8.26	8.23	78bps
LBP Deposit Rate (%)	5.56	5.56	5.58	5.53	5.54	5.56	-
USD Lending Rate (%)	7.06	7.06	7.20	7.06	7.16	7.35	29bps
USD Deposit Rate (%)	3.17	3.17	3.43	3.43	3.48	3.52	35bps
Consumer Price Index**	(3.75)	(3.40)	1.03	1.13	1.78	3.14	-

* 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
Byblos Common	1.66	3.11	761,271	8.05%
Solidere "A"	9.04	1.01	154,817	7.75%
Audi Listed	6.00	(0.17)	96,926	20.56%
BLOM Listed	10.90	0.93	96,064	20.09%
BLOM GDR	11.85	0.42	90,924	7.51%
Audi GDR	6.20	1.64	59,977	6.37%
Solidere "B"	8.97	3.22	44,280	5.00%
Byblos Pref. 09	100.70	(1.27)	3,204	1.73%
HOLCIM	12.10	(2.10)	207	2.02%
Byblos Pref. 08	101.50	0.00	-	1.74%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Dec 2017	4.00	99.75	4.76
Nov 2018	5.15	100.75	4.61
May 2019	6.00	101.75	5.06
Mar 2020	6.38	102.50	5.39
Oct 2022	6.10	101.25	5.83
Jun 2025	6.25	99.13	6.39
Nov 2026	6.60	100.25	6.56
Feb 2030	6.65	99.00	6.77
Apr 2031	7.00	100.25	6.97
Nov 2035	7.05	100.25	7.03

Source: Byblos Bank Capital Markets

	May 29-June 2	May 22-26	% Change	May 2017	May 2016	% Change
Total shares traded	1,347,842	7,721,537	(82.5)	18,564,676	4,411,792	320.8
Total value traded	\$7,635,885	\$77,923,123	(90.2)	\$157,326,100	\$32,584,901	382.8
Market capitalization	\$11.66bn	\$11.58bn	0.70	\$11.72bn	\$11.06bn	6.1

Source: Beirut Stock Exchange (BSE)



Remittance inflows to Lebanon up 2% to \$7.6bn in 2016, outflows nearly unchanged at \$3.7bn

Figures released by Banque du Liban show that expatriates' remittance inflows to Lebanon totaled \$7.62bn in 2016, constituting an increase of 1.8% from \$7.48bn in 2015. Remittance inflows to the country averaged \$6.25bn annually between 2002 and 2016, but they increased from an annual average of \$4.8bn during the 2002-07 period to a yearly average of \$7.23bn between 2008 and 2016. Remittance inflows to Lebanon in 2016 reached their highest level during the 2002-16 period, with a low of \$2.54bn in 2002. Banque du Liban's figures are the only official data on remittance flows to and from Lebanon.

Also, the increase in remittance inflows to Lebanon in 2016 constituted the third annual rise since 2009, as such inflows grew by 13.4% in 2013 and by 4% in 2015, but regressed by 8.8% in 2010, by 0.2% in 2011, by 3% in 2012 and by 5% in 2014. Overall, remittance inflows to Lebanon grew at a compound annual growth rate (CAGR) of 8.1% during the 2002-16 period, while they increased by a CAGR of 17.8% between 2002 and 2007 and a CAGR of 0.7% during the 2008-16 period.

Remittance inflows to Lebanon totaled \$1.85bn in the first quarter of 2016, \$1.75bn in the second quarter, \$1.9bn in the third quarter and \$2.1bn in the fourth quarter of last year. The results reflect a drop of 2.6% in the first quarter from the preceding quarter, a decline of 5.1% in the second quarter, an increase of 8.8% in the third quarter and a jump of 10.5% in the fourth quarter in 2016.

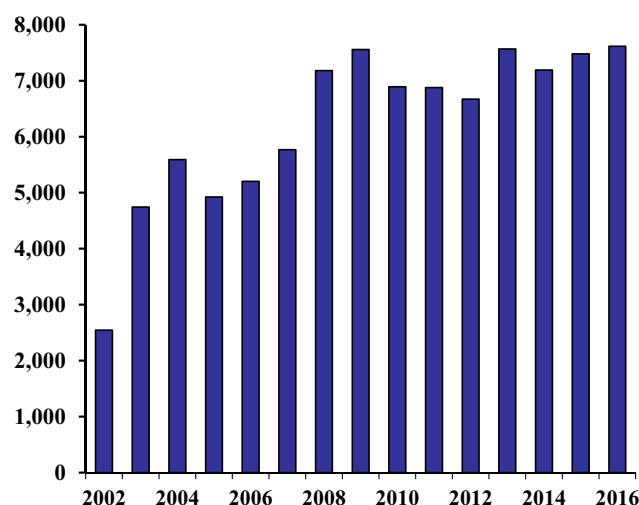
Further, remittance inflows to Lebanon were equivalent to 14.7% of GDP in 2016 compared to 17.2% of GDP in 2011 and 23.9% of GDP in 2006. Aggregate remittance inflows to Lebanon were equivalent to 18.2% of GDP between 2002 and 2016, while they were equivalent to 22.5% of GDP during the 2002-07 period and to 16.7% of GDP between 2008 and 2016.

In parallel, remittance outflows from Lebanon amounted to \$3.68bn in 2016, nearly unchanged from \$3.67bn in 2015, and constituted their third lowest level since 2007. They averaged \$3.5bn annually during the 2002-07 period and \$4.5bn yearly between 2008 and 2016, with a low of \$2.5bn in 2002 and a high of \$5.75bn in 2009.

Further, remittance outflows from Lebanon were equivalent to 7.1% of GDP in 2016, their lowest level on record, compared to a peak of 20.7% of GDP in 2003. Aggregate remittance outflows from Lebanon were equivalent to 11.9% of GDP between 2002 and 2016, while they were equivalent to 16.6% of GDP during the 2002-07 period and to 10.3% of GDP between 2008 and 2016.

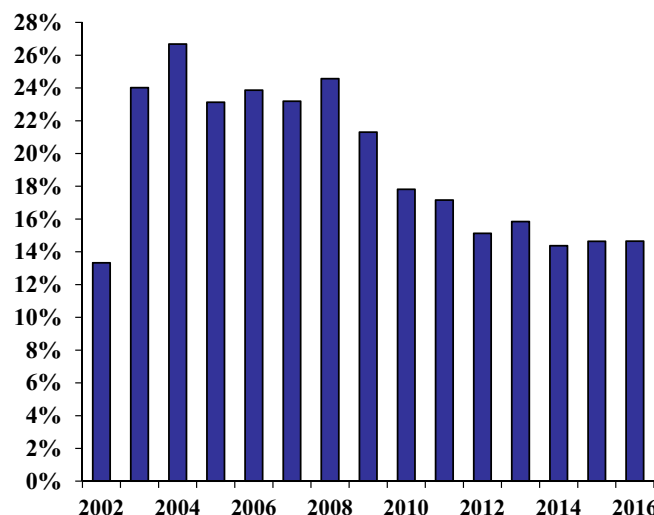
As such, net remittance inflows to Lebanon reached \$3.9bn in 2016, their highest level on record, and constituted an increase of 3.4% from \$3.8bn in 2015. They were equivalent to 7.6% of GDP in 2016, the fourth highest level during the 2002-16 period after 8.1% of GDP in 2006, 11.3% of GDP in 2007 and 9.6% of GDP in 2008.

Remittance Inflows to Lebanon (\$m)



Source: Banque du Liban, Byblos Research

Remittance Inflows to Lebanon (% of GDP)



Source: Banque du Liban, IIF, Byblos Research

Balance of payments posts surplus of \$234m in first four months of 2017

Figures issued by Banque du Liban show that Lebanon's balance of payments posted a surplus of \$233.9m in the first four months of 2017 compared to a deficit of \$899.1m in the same period of 2016. The balance of payments posted a deficit of \$320.9m in April 2017 compared to a surplus of \$46.3m in March 2017 and to a deficit of \$254.9m in April 2016. The April 2017 deficit was caused by a decrease of \$883.5m in the net foreign assets of Banque du Liban, which was partly offset by a rise of \$562.6m in those of banks and financial institutions. The cumulative surplus over the first four months of 2017 was caused by an increase of \$1.67bn in the net foreign assets of banks and financial institutions that was partly offset by a decrease of \$1.44bn in those of Banque du Liban. The balance of payments posted surpluses of \$7.9bn in 2009, \$3.3bn in 2010 and \$1.2bn in 2016, and deficits of \$2bn in 2011, \$1.5bn in 2012, \$1.1bn in 2013, \$1.4bn in 2014 and \$3.4bn in 2015.

Lebanon has eighth highest penetration rate of active Twitter users in Arab world

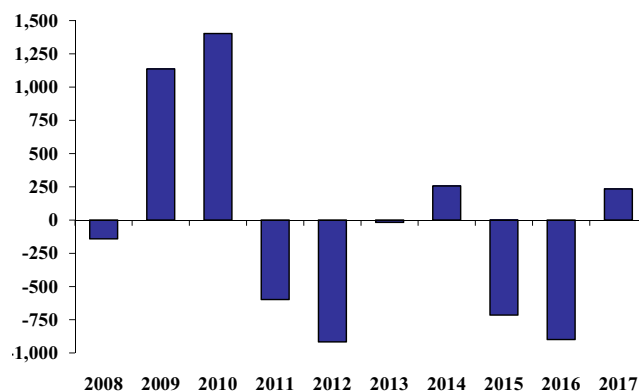
Figures compiled by the Dubai-based Mohammed bin Rashid School of Government indicate that the penetration rate of active Twitter users in Lebanon, or the number of Twitter users who log into their accounts at least once a month relative to the total population, reached 2.8% as at March 2016, the latest available figures. As such, Lebanon had the eighth highest penetration rate of active Twitter users among 22 Arab countries, behind Bahrain (12.9%), Kuwait (12.6%), Qatar (9.1%), the UAE (8.7%), Saudi Arabia (8.1%), Palestine (6.4%) and Oman (4.6%).

Further, the number of active Twitter users in Lebanon regressed by 8,000 users, or by 4%, between March 2014 and March 2016, and constituted the only such decrease in the Arab region during the covered period. The number of active Twitter users in Lebanon accounted for 2% of the total in the Arab world as at March 2016. In addition, the figures show that 58% of active Twitter users in Lebanon were males, while 42% of users were females. In comparison, female users accounted for 32.4% of total active Twitter users in the Arab region.

In parallel, active Twitter users in Lebanon produced 15.7 million tweets per month as at March 2016 and accounted for 1.9% of the aggregate number of tweets issued by users in Arab countries. The number of tweets produced per month in Lebanon was the 11th highest in the region, behind Saudi Arabia (274 million tweets), Egypt (151.9 million tweets), Algeria (70.8 million tweets), the UAE (69.2 million tweets), Kuwait (65.8 million tweets), Palestine (31.4 million tweets), Syria (23.4 million tweets), Iraq (21.8 million tweets), Qatar (19.8 million tweets) and Bahrain (16.7 million tweets).

In addition, active Twitter users in Lebanon produced an average of three tweets per day as at March 2016, constituting, along with Bahrain, the fourth highest average number of daily tweets among Arab countries. In comparison, Twitter users in Kuwait produced an average of 4.2 tweets per day, followed by those in Saudi Arabia (3.4 tweets per day) and Palestine (3.3 tweets per day). In addition, the figures reveal that 76% of active Twitter users in Lebanon tweet through their mobile phones, while 11.8% tweet from their desktops or laptops.

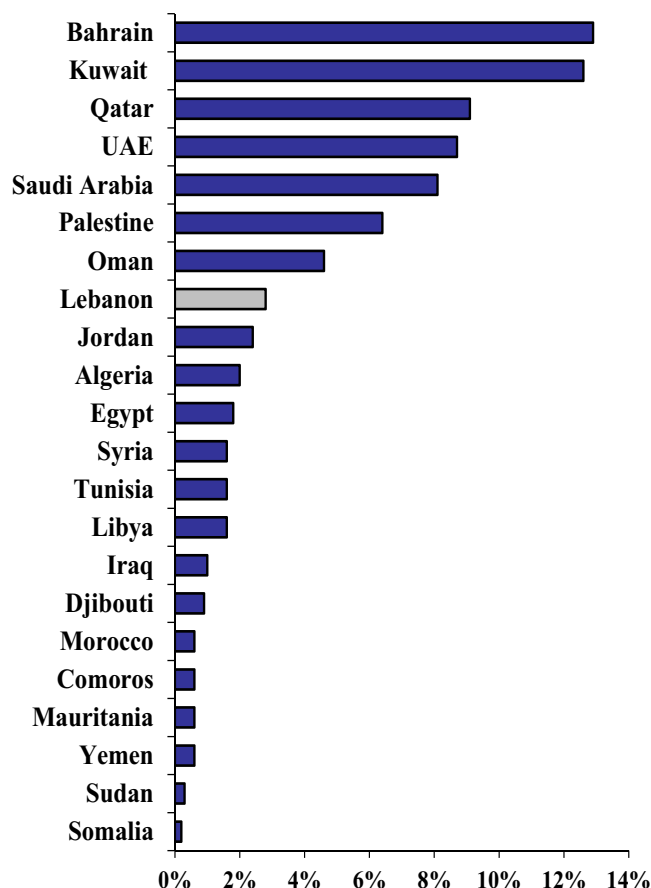
Balance of Payments* (US\$m)



*in the first four months of each year

Source: Banque du Liban

Twitter Penetration Rate in Arab Countries
(% of Population)



Source: Mohammed bin Rashid School of Government, Byblos Research

Trade deficit widens by 1% to \$5.4bn in first four months of 2017

The total value of imports reached \$6.4bn in the first four months of 2017, constituting an increase of 2.1% from the same period of 2016; while the aggregate value of exports grew by 11% to reach \$965.3m in the covered period. As such, the trade deficit widened by 0.7% to \$5.4bn in the first four months of 2017 due to an increase of \$132.7m in imports, which was partly offset by a \$95.4m growth in exports. The rise in imports mainly reflects an increase of \$106.6m, or 36.3%, in the value of imported jewelry; a growth of \$54m, or 14.5%, in the value of imported base metals; a rise of \$42.3m, or 13.3%, in the value of imported vegetable products; an increase of \$41.7m, or 8%, in the value of imported vehicles, aircraft and vessels; and a growth of \$40m, or 9.1%, in the value of imported prepared foodstuff in the first four months of 2017. The value of imported oil & mineral fuels decreased by \$172m, or 11%, to \$1.4bn in the first four months of 2017 and accounted for 22% of total imports in the covered period, compared to a share of 25.2% in the first four months of 2016. In addition, the increase in exports reflects mainly a growth of \$75.2m, or 50.2%, in the value of jewelry exports in the first four months of the year; a rise of \$24.7m, or 427.5%, in the value of exported mineral products; and an increase of \$17.3m, or 19.7%, in the value of base metals exports. Further, the coverage ratio was 15.2% in the first four months of 2017 compared to 14% in the same period of 2016, while it reached 16.7% in April 2017 relative to 14.6% in the same month of 2016.

In volume terms, imports reached 6.3 million tons in the first four months of 2017 compared to 6.1 million tons in the same period last year, while exports jumped by 37% annually to 659,702 tons in the covered period. Imports of oil & mineral fuels grew by 5.1% year-on-year to 3.4 million tons, while non-hydrocarbon imports increased by 2.1% annually to 2.9 million tons. Also, imported oil & mineral fuels accounted for 54% of total imports in the first four months of 2017 relative to a 53.2% share in the same period last year.

Lebanon's main non-hydrocarbon imports were chemical products that reached \$690m in the first four months of 2017 and accounted for 10.8% of the total. They were followed by machinery & mechanical appliances at \$604.6m (9.5%), vehicles, aircraft & vessels at \$564.8m (8.9%), base metals at \$426.3m (6.7%), jewelry at \$400.2m (6.3%) and vegetable products at \$361.4m (5.7%). In parallel, the Port of Beirut was the entry point for 70.6% of Lebanon's merchandise imports in the first four months of 2017, followed by the Hariri International Airport (19.2%), the Port of Tripoli (7.1%), the Port of Saida (2.2%), the Arida crossing point (0.5%), the Masnaa crossing point (0.3%) and the Tyre crossing point (0.1%)

China was the main source of imports with \$573m, or 9% of the total, in the first four months of 2017, followed by Greece with \$513.1m (8.1%), Italy with \$475m (7.5%), the United States with \$399m (6.3%), Germany with \$393.1m (6.2%) and Russia with \$321.6m (5.1%). Imports from Greece grew by two times year-on-year in the first four months of 2017, imported goods from Russia increased by 13.6%, those from Germany rose by 12.5% and imports from Italy improved by 1%; while imported goods from the United States decreased by 18.4% and those from China fell by 13% year-on-year.

In parallel, Lebanon's main exports were jewelry at \$225m in the first four months of 2017 and accounted for 23.3% of the total. They were followed by prepared foodstuff at \$155.6m (16.1%), machinery & mechanical appliances at \$108.3m (11.2%), chemical products at \$105.8m (11%), base metals at \$105.1m (10.9%), vegetable products at \$48.8m (5.1%), paper products at \$45.5m (4.7%) and plastics & rubber at \$43.8m (4.5%). The Port of Beirut was the exit point for 47.8% of Lebanon's total exports in the first four months of 2017, followed by the Hariri International Airport (33.1%), the Port of Tripoli (8%), the Masnaa crossing point (4.8%), the Arida crossing point (4.6%) and the Abboudieh crossing point and Port of Saida (0.9% each). Re-exports totaled \$227.4m in the first four months of 2017 compared to \$156.5m in the same period of 2016.

South Africa was the main export destination of Lebanese merchandise with \$130.2m, or 13.5% of total exports in the first four months of 2017, followed by Syria with \$100.1m (10.4%), the UAE with \$84.1m (8.7%), Saudi Arabia with \$79.9m (8.3%), Switzerland with \$53.3m and Iraq with \$53.2m (5.5% each). Exports to Switzerland jumped by 4.7 times in the first four months of 2017, exports to Syria expanded by 1.8 times, those to South Africa increased by 1.3 times, exports to the UAE improved by 5.2% and those to Iraq grew by 0.6%, while exports to Saudi Arabia decreased by 22.3%.

Italy provides grant to support environmental sustainability

The Italian Ministry of Environment and Protection of Land and Sea provided a EUR5m grant to Lebanon. The grant aims to support entities that are committed to implementing energy efficiency and renewable energy projects in Lebanon through the National Energy Efficiency and Renewable Energy Action (NEEREA). The amount would be used to cover 10% of loans that are extended to finance projects under the NEEREA, provided that 60% or more of the value of a project is spent on products and services from small- and medium-sized Italian enterprises. The Lebanese Center for Energy Conservation (LCEC), which is an affiliate of the Lebanese Ministry of Energy & Water, would decide if a project is eligible for the grant.

In parallel, the Lebanese Government issued decree 167 on February 23, 2017, which is based on Environmental Law 444, and that aims to promote environmental sustainability in the country. The decree reduces the income tax for entities that are committed to environmentally-friendly products and practices, such as waste and pollution management practices. It also reduces customs duty on the imports of machines, supplies, as well as other products that are used for waste treatment and to prevent or minimize pollution. The decree will come into effect in 2018. The LCEC indicated that the Ministry of Environment and the Ministry of Finance need to develop a special procedure to implement the tax reductions.



Banque du Liban supports industrial exports

Banque du Liban (BdL) issued Intermediate Circular 462 on May 23, 2017 that amends Basic Circular 84 issued on June 2, 2001 about the reserve requirements of commercial banks. The amendment consisted of adding a new clause to the original circular. The clause stipulates that banks can reduce their reserve requirements by 100% from Lebanese pound-denominated loans extended to finance the working capital of licensed industrial companies in Lebanon. The lifting of reserve requirements aims to support Lebanese manufacturers in exporting their products. It noted that companies should meet several conditions.

First, the clause indicates that in order to qualify, an industrial firm should export locally-manufactured products. Second, it states that the reduction in reserve requirements does not cover lending to industrial firms in the mining sector or that deal with any other extracted materials such as rocks, sand, gravel, cement, or petroleum resources. Third, it stipulates that qualified manufacturers should have exported at least 50% of its output during one of the past three years.

Fourth, the clause indicates that the loan should be extended for a period of up to three years, while it must not exceed LBP3bn, or \$2m. Also, the loan amount must not exceed 60% of the highest annual value of exports registered during the previous three years. In case the firm did not export at least half of its output, but has demonstrated its capacity to do so, then the value of the loan should not exceed 30% of the anticipated exports in the year during which the loan was approved. Fifth, the clause states that interest rates, commissions, fees and all other expenses related to the loan should not exceed 3% of the loan value annually. Sixth, it indicated that manufacturers that are eligible for such loans should not be benefiting from similar loans, such as those provided under the Arab Trade Financing Program (ATFP).

Construction and public works activity improves in third quarter of 2016

Banque du Liban's quarterly business survey shows that construction activity improved in relative terms in the third quarter of 2016 from the preceding quarter, with the balance of opinions standing at -13 compared to -40 in the second quarter of 2016 and to -25 in the third quarter of 2015. The balance of opinions indicates that construction activity was the lowest in the Bekaa at -29, followed by Beirut & Mount Lebanon (-28), the South (+18) and the North (+20). The business survey reflects the opinions of enterprise managers about the evolution of their businesses, in order to depict the trend of a number of key economic variables. The balance of opinions for public works stood at -14 in the third quarter of 2016 compared to -37 in the preceding quarter and to -14 in the third quarter of 2015. Opinions about the level of public works were the lowest in the Bekaa region at -26, followed by Beirut & Mount Lebanon (-23), the South (zero) and the North (+24).

In parallel, the balance of opinions for the portfolio of projects was -27 in the third quarter of 2016 relative to -38 in the second quarter of 2016 and to -34 in the third quarter of 2015. The balance of opinions for the portfolio of projects was the lowest in Beirut & Mount Lebanon at -32, followed by the North (-26), the Bekaa (-24) and the South (-6). Also, the balance of opinions for general construction activity was -10 in the third quarter of 2016, compared to -42 in the preceding quarter and to -20 in the third quarter of 2015. Further, the balance of opinions for construction costs reached +7 in the covered quarter down from -5 in the second quarter of 2016 and compared to -17 in the third quarter of 2015. The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in a particular indicator and the proportion of those who reported a decline in the same indicator.

Construction and Public Work Activity: evolution of opinions				
Aggregate results	Q3-13	Q3-14	Q3-15	Q3-16
General activity	-8	-5	-20	-10
Construction	-6	-7	-25	-13
Public work	-8	-9	-14	-14
Portfolio of projects	-12	-22	-34	-27
Construction costs	30	31	-17	+7
Investments (% of yes)	36%	42%	32%	35%

Source: Banque du Liban Business Survey for Third Quarter of 2016

Byblos Bank's ratings reflect strong liquidity and favorable funding structure

Moody's Investors Service indicated that Byblos Bank's 'B2' long-term deposit ratings reflect the Bank's strong liquidity profile, stable deposit-based funding structure, and established domestic market position as one of the largest banks in the Lebanese banking sector. It added that the ratings incorporate the Bank's exposure to the Lebanese sovereign and to the domestic operating environment. It noted that the 'negative' outlook on the Bank's long-term deposit ratings is in line with the outlook on the Lebanese sovereign and is restricted by the sovereign ceiling. As such, it said that it could change the outlook on the Bank's ratings to 'stable' when the operating environment in the country or the government's credit profile improves.

Further, Moody's indicated that Byblos Bank's Tier One capital ratio rose from 14.8% at the end of 2015 to 15% at end-2016, which is significantly above the minimum regulatory ratio of 11%. It said that customer deposits funded 81% of the Bank's assets as of the end of March 2017, which reduces its reliance on market funding. It considered that the Bank's stable funding base and adequate liquidity buffers are a source of strength and support its ratings. It added that the Bank's liquid assets are high at 42% of total assets as of March 2017 and include cash, deposits with banks and central banks, but exclude securities. It noted that the Bank's placements with international banks are equivalent to around 11.5% of its total assets at end-2016, which is significantly better than the average of 6% for the sector. In addition, Moody's considered that there is a high likelihood of government support for the Bank's rated deposits, in case of need, which reflects the Bank's large market share of deposits in Lebanon and its importance to the country's national payment system. It added that the Bank's long- and short-term national scale ratings of 'A1.lb' and 'LB-1', respectively, reflect its strong creditworthiness in the Lebanese credit environment.

In parallel, the agency indicated that the Bank used the revenues that it generated in 2016 from Banque du Liban's financial swap operations to improve its buffers and loss-absorption capacity. It added that the Bank used these revenues to bolster its balance sheet, as it booked provisions related to the expected effect of the implementation of international accounting standard IFRS9 in 2018, while at the same time it de-consolidated its subsidiaries in Sudan and Syria. As such, it noted that these revenues did not ultimately affect the Bank's bottom line.

Stock market index down by 6% in first five months of 2017

Figures released by the Beirut Stock Exchange (BSE) indicate that trading volume reached 37,130,048 shares in the first five months of 2017, constituting a decrease of 10.3% from 41,401,139 shares traded in the same period of 2016; while aggregate turnover amounted to \$300.8m, down by 19% from a turnover of \$371.1m in the first five months of 2016. Market capitalization grew by 6.1% from the end of May 2016 to \$11.7bn, with banking stocks accounting for 84.8% of the total, followed by real estate shares (12.6%), industrial firms (2.3%) and trading stocks (0.3%). The market liquidity ratio was 2.6% in the covered period compared to 3.4% in the first five months of 2016. Banking stocks accounted for 78.1% of the aggregate trading volume in the first five months of the year, followed by real estate equities with 13.1%, trading stocks for 8.4% and industrial shares with 0.4%. Also, banking stocks represented 81.5% of the aggregate value of shares traded, followed by real estate equities with 14.9%, trading stocks with 3.2% and industrial stocks with 0.4%. The average daily traded volume for the period was 371,300 shares for an average daily value of \$3m. The figures reflect year-on-year decreases of 11.2% and 19.8% 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 6.3% in the first five months of 2017, while the CMA's Banks Market Value-Weighted Index improved by 8.2% in the covered period.

First National Bank's net earnings down 4% to \$7.1m in first quarter of 2017

First National Bank sal, one of Lebanon's top 14 banks in terms of assets, announced unaudited consolidated net profits of \$7.1m in the first quarter of 2017, constituting a decline of 3.9% from net earnings of \$7.4m in same period of 2016. Net operating income grew by 1.1% year-on-year to \$23.6m in first quarter of the year, with net interest income rising by 13.1% to \$12.8m and net fees & commissions receipts decreasing by 24.1% to \$1.9m. Non-interest income accounted for 16.7% of total income in the first quarter of 2017, down from 17.4% in the same period last year; with net fees & commissions representing 47.4% of non-interest earnings relative to 60.9% in the first quarter of 2016. Further, the bank's interest margin was 1.84% in the first quarter of 2017 relative to 1.93% in the same period last year; while its spread reached 1.75% relative to 1.85% in the same period of 2016. Total operating expenditures increased by 1.8% to \$14.7m year-on-year in first quarter of 2017, with staff expenses decreasing by 0.9% to \$9m and administrative & other operating expenditures growing by 4.9% to \$4.9m. Also, the bank's return on average assets regressed to 0.63% in March 2017 on an annualized basis from 0.71% in March 2016; while its return on average equity declined to 6.6% on an annualized basis from 7.33% in March 2016. The bank's cost-to-income ratio stood at 62.4% in the first quarter of 2017, nearly unchanged from 62.2% in the same period of 2016.

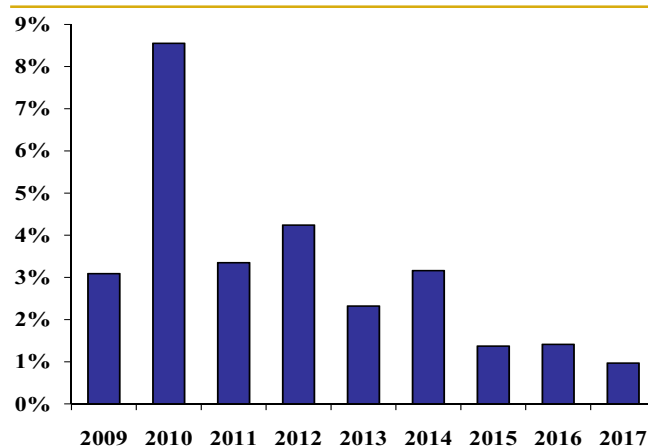
In parallel, total assets reached \$4.5bn at the end of March 2017, nearly unchanged from end-2016, while loans & advances to customers, excluding those to related parties, grew by 2.2% from end-2016 to \$992.1m. Also, customer deposits, excluding those from related parties, totaled \$3.5bn at end-March 2017 and increased by 1% from the end of 2016. The loans-to-deposits ratio regressed to 28.8% at end-March 2017 from 29.1% at end-March 2016. Further, the bank's shareholders' equity rose by 2.7% from end-2016 to \$436.2m at the end of March 2017.



Commercial banks' assets reach \$206bn at the end of April 2017

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$206.1bn at the end of April 2017, constituting an increase of 0.9% from the end of 2016 and a growth of 9.7% from end-April 2016. Loans extended to the private sector totaled \$57.6bn at the end of April 2017, up by 0.7% from end-2016 and by 4.3% from a year earlier. Loans to the resident private sector totaled \$51.5bn, constituting an increase of 1% from end-2016 and a rise of 5.8% year-on-year; while credit to the non-resident private sector reached \$6.05bn at end-April 2017 and regressed by 1.4% from end-2016 and by 6.5% from a year earlier. In nominal terms, credit to the private sector grew by \$406m in the first four months of 2017 relative to an increase of \$974.5m in the same period of 2016. Lending to the resident private sector increased by \$493.5m in the first four months of 2017 relative to a growth of \$678.6m in the same period of 2016, while credit to the non-resident private sector regressed by \$88.2m in the first four months of the year compared to an increase of \$296m in the same period of 2016. The dollarization rate in private sector lending regressed to 71.5% at end-April 2017 from 74.6% a year earlier.

**Resident Private Sector Lending Growth*
(% Change)**



* in the first four months of each year

Source: Association of Banks in Lebanon, Byblos Research

In addition, claims on non-resident banks reached \$13.9bn at the end of April 2017 and grew by 23.5% from \$11.24bn at the end of 2016, while claims on the public sector stood at \$37.4bn at end-April 2017, up by 7.7% from end-2016. The average lending rate in Lebanese pounds was 8.33% in April 2017, while the same rate in US dollars stood at 7.22%. Further, the deposits of commercial banks at Banque du Liban totaled \$85.4bn at end-April 2017, constituting a decline of 4.4% from end-2016 and an increase of 19% from a year earlier.

In parallel, private sector deposits totaled \$165.5bn at the end of April 2017, increasing by 1.8% from the end of 2016 and by 8.2% from a year earlier. Deposits in Lebanese pounds reached \$55.6bn at end-April 2017 and grew by a marginal 0.2% from end-2016 and by 3.2% year-on-year; while deposits in foreign currencies totaled \$109.8bn and increased by 2.7% from end-2016 and by 11% from end-April 2016. Aggregate non-resident deposits reached \$34.55bn at the end of April 2017, up by 1.7% from end-2016 and by 8.9% from a year earlier. In nominal terms, private sector deposits grew by \$239.5m in January, by \$1.12bn in February, by \$492.9m in March and by \$1.13bn in April 2017. As such, total private sector deposits rose by \$3bn in the first four months of 2017 compared to an increase of \$1.34bn in the same period of 2016. Resident private sector deposits grew by \$2.4bn in the first four months of 2017 relative to an increase of \$1.48bn in the same period of 2016, while non-resident deposits rose by \$593m in the first four months of the year compared to a contraction of \$134.7m in the same period of 2016. Further, foreign-currency deposits grew by \$2.9bn in the first four months of 2017 relative to an increase of \$648.8m in the same period of 2016.

In parallel, deposits of non-resident banks reached \$6.38bn at the end of April 2017 and increased by 1.5% from end-2016 and by 0.9% from a year earlier. The dollarization rate of deposits was 66.4% at the end of April 2017 relative to 66.1% at end-March 2017 and compared to 64.7% a year earlier. Further, the average deposit rate in Lebanese pounds was 5.54% in April 2017 compared to 5.6% a year earlier, while the same rate in US dollars was 3.62% relative to 3.29% in April 2016.

The ratio of private sector loans-to-deposits in foreign currency stood at 37.5%, well below Banque du Liban's limit of 70% and compared to 41.6% a year earlier. The same ratio in Lebanese pounds was 29.5% at end-April 2017 relative to 26% at the end of April 2016. As such, the ratio of total private sector loans-to-deposits reached 34.8%, down from 36.1% at end-April 2016. The banks' aggregate capital base stood at \$18.7bn at end-April 2017, up by 2.8% from \$18.2bn at the end of 2016.

Net profits of top 14 banks up 2% to \$518.5m in first quarter of 2017, ROAA at 0.95% and ROAE at 10.14%

The unaudited consolidated net profits of the Alpha Group of banks reached \$518.5m in the first quarter of 2017, constituting an increase of 1.6% from net earnings of \$510.1m in the same quarter of 2016. The Alpha Group consists of 14 banks with deposits in excess of \$2bn each. Total net operating income grew by a marginal 0.5% year-on-year to \$1.33bn, with aggregate net interest income increasing by 5.5% to \$959.3m and net fees & commissions expanding by 2.6% to \$220.5m. In addition, net gains on financial assets at fair value fell by 39.5% year-on-year to \$104.5m in the first quarter of 2017, with net interest income from financial assets dropping by 13.7% to \$63.1m and net profits on foreign exchange declining by 52.6% to \$36.2m. Also, net gains on financial investments decreased by 88.4% year-on-year to \$15.4m in the first quarter of the year.

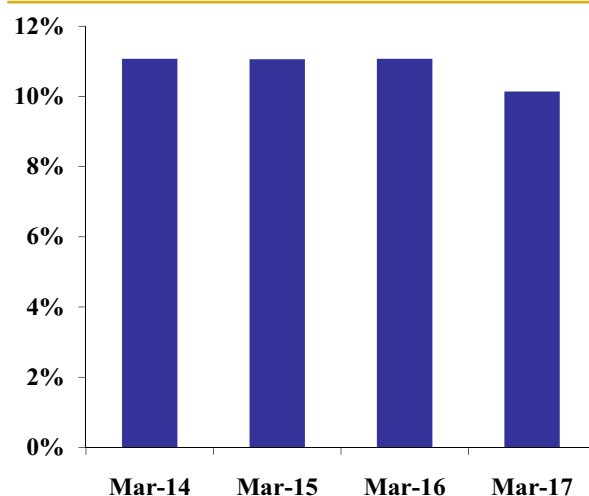
Non-interest income accounted for 25.8% of total income in the first quarter of 2017, down from 33.3% in the same quarter last year; with net fees & commissions representing 62% of non-interest income, up from 43.8% in the first quarter of 2016. Also, the net interest spread regressed to 1.88% in the first quarter from 1.93% in the same quarter last year.

In parallel, total operating expenditures were nearly unchanged at \$703.5m in the first quarter of 2017, with staff expenses decreasing by 1.6% to \$399.5m and administrative & other operating expenses increasing by 4.2% to \$254.9m. Further, the cost-to-income ratio was 51.05% in the first quarter of this year, up from 47.7% in the same quarter of 2016. The banks' return on average assets was 0.95% in March 2017 on an annualized basis relative to 1% in March 2016; while their return on average equity was 10.14% in March 2017 on an annualized basis compared to 11.07% in March 2016.

The banks' total assets reached \$218.78bn at the end of March 2017, constituting an increase of 0.9% from end-2016 relative to a rise of 7.5% from end-March 2016. Net loans & advances to customers totaled \$63.9bn, down by 0.6% from end-2016; while credit extended to related parties regressed by 11.9% to \$729.1m at end-March 2017. Customer deposits totaled \$172.5bn at the end of March 2017, reflecting a growth of 0.9% from end-2016; while deposits from related parties regressed by 5.2 % to \$3.65bn at end-March 2017. The banks' shareholders equity reached \$20.54bn at the end of March 2017 and increased by 0.9% from end-2016.

In parallel, the banks' loans-to-deposits ratio decreased from 38.4% at the end of March 2016 to 36.7% at end-March 2017. The loans-to-deposits ratio in local currency was 25.3% compared to 23% at end-March 2016, while the ratio in foreign currency was 41.6% at the end of March 2017 relative to 45.2% a year earlier. Further, the primary liquidity-to-assets ratio was 35.3% at the end of March 2017, up from 30.6% at end-March 2016. In addition, the banks' gross doubtful loans-to-gross loans ratio declined from 5.62% at end-March 2016 to 5.45% at the end of March 2017. Also, the loan-loss reserves on doubtful loans covered 73.5% of gross doubtful loans at end-March 2017, down from a coverage of 73.7% a year earlier. Further, the ratio of collective provisions-to-net loans increased from 1.18% at the end of March 2016 to 1.55% at the end of March 2017.

Return on Average Equity of Top 14 Banks*



*on an annualized basis

Source: Bankdata Financial Services, Byblos Research



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	June 2015	May 2016	June 2016	Change**	Risk Level
Political Risk Rating	54.5	55.5	55	▼	High
Financial Risk Rating	39.0	36.5	36.5	▲	Low
Economic Risk Rating	33.0	30.5	30.5	▲	Moderate
Composite Risk Rating	63.25	61.25	61.0	▲	Moderate

MENA Average*	June 2015	May 2016	June 2016	Change**	Risk Level
Political Risk Rating	57.4	57.6	57.6	▼	High
Financial Risk Rating	39.3	39.4	39.2	▲	Low
Economic Risk Rating	31.9	30.5	30.0	▲	Moderate
Composite Risk Rating	64.3	63.7	63.4	▲	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	Stable	B	B	Stable

Source: Rating agencies

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



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