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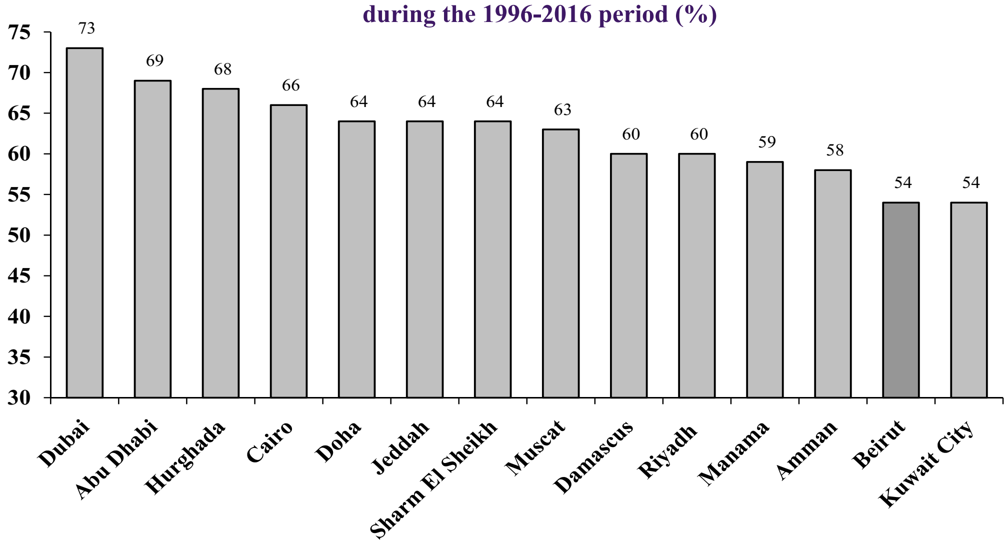
LEBANON THIS WEEK

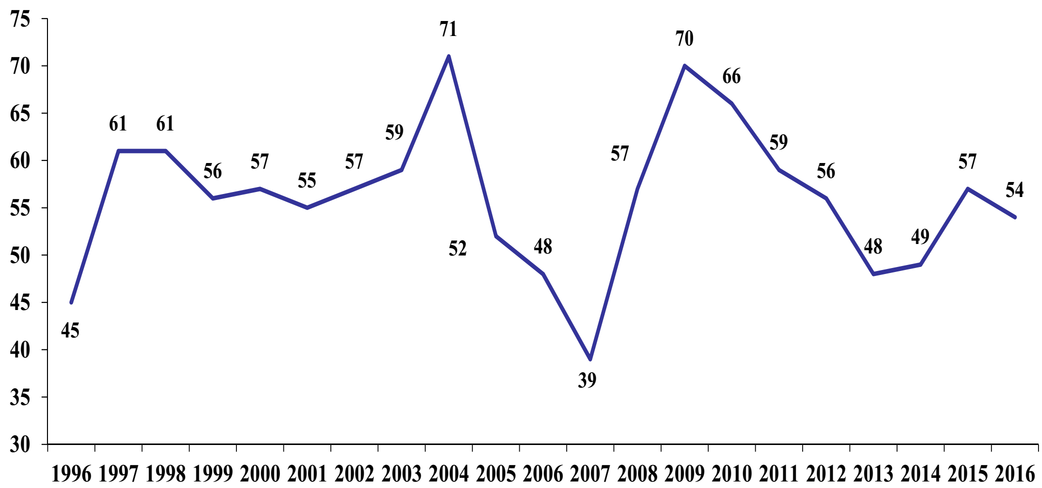
In This Issue

Charts of the Week

Average Annual Occupancy Rates at Hotels in Select Arab Cities during the 1996-2016 period (%)



Occupancy Rates at Hotels in Beirut (%)



Source: HVS, Byblos Bank

Quote to Note

"Administrative decentralization is essential to strengthen the delivery of sustainable services at the local level and encourage economic growth."

The World Bank, on the need to ratify the draft Decentralization Law of 2014

Number of the Week

$9.78bn: The deficit in Lebanon's external current account in 2016, according to Banque du Liban

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
In months of Imports	*20.35*	*16.64*	*23.60*	*23.49*	*23.71*	*22.15*	33.1
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
BLOM Listed	10.95	0.46	504,628	20.08%
BLOM GDR	11.90	0.42	314,243	7.50%
Audi Listed	6.20	3.33	128,586	21.14%
Byblos Common	1.62	(2.41)	118,755	7.81%
Solidere "A"	9.00	(0.44)	70,929	7.67%
Solidere "B"	8.95	(0.22)	38,606	4.96%
Audi GDR	6.25	0.81	12,873	6.39%
HOLCIM	11.65	(3.72)	1,397	1.94%
Byblos Pref. 09	100.70	0.00	1,000	1.72%
Byblos Pref. 08	101.50	0.00	-	1.73%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Dec 2017	4.00	99.63	5.28
Nov 2018	5.15	100.75	4.59
May 2019	6.00	101.75	5.04
Mar 2020	6.38	102.50	5.38
Oct 2022	6.10	101.50	5.77
Jun 2025	6.25	99.63	6.31
Nov 2026	6.60	101.25	6.42
Feb 2030	6.65	99.75	6.68
Apr 2031	7.00	101.13	6.87
Nov 2035	7.05	100.38	7.01

Source: Byblos Bank Capital Markets

	June 5-9	May 29-June 2	% Change	May 2017	May 2016	% Change
Total shares traded	1,223,171	1,347,842	(9.2)	18,564,676	4,411,792	320.8
Total value traded	$12,901,451	$7,635,885	69	$157,326,100	$32,584,901	382.8
Market capitalization	$11.73bn	$11.66bn	0.53	$11.72bn	$11.06bn	6.1

Source: Beirut Stock Exchange (BSE)

Foreign direct investment up 9% to $2.6bn in 2016, equivalent to 4.9% of GDP

Figures released by the United Nations Conference on Trade and Development (UNCTAD) show that foreign direct investment (FDI) in Lebanon totaled $2.56bn in 2016, constituting an increase of 9% from $2.35bn in 2015 and the second annual rise during the 2011-16 period. FDI inflows in 2016 were 19.4% below the annual average flows of $3.18bn during the 2009-15 period and came 41.4% lower than the peak of $4.38bn posted in 2009. Also, Lebanon was the fourth largest recipient of FDI among 19 Arab countries and among 13 countries in West Asia in 2016. It was also the 57th largest FDI recipient globally among 135 economies with a nominal GDP of $10bn or more, and when excluding tax haven islands.

The UNCTAD figures for Lebanon are based on the official figures issued by Banque du Liban. According to BdL's methodology, the sources of FDI figures in Lebanon consist of public sector data, various indicators that estimate non-resident real estate investments, banking sector statistics, as well as statistics from administrative records on the acquisition of real estate by foreigners.

Lebanon was one of eight Arab countries that registered an increase in FDI inflows in 2016. It posted the fourth largest FDI increase among 17 Arab countries with positive flows. In comparison, FDI inflows to Arab economies rose by 24% year-on-year, while FDI inflows to West Asia regressed by 2%, those to developing economies fell by 14.1% and global FDI flows decreased by 1.6%.

FDI inflows to Lebanon accounted for 8.3% of total FDI in Arab countries in 2016, down from a share of 9.5% in 2015. They also represented 9.2% of total flows to West Asia, 0.4% of FDI inflows to developing economies and 0.1% of global FDI in 2016.

Further, FDI inflows to Lebanon were equivalent to 4.9% of GDP in 2016, up from 4.6% of GDP in 2015 and compared to a peak of 15.6% of GDP in 2005. They were the third highest in the Arab world in 2016, behind Djibouti (8.4% of GDP) and Mauritania (5.8% of GDP). Also, FDI inflows to Lebanon as a percentage of GDP were the 27th highest in 2016 among countries with a nominal GDP of $10bn or more and when excluding tax haven islands.

In addition, FDI inflows to Lebanon were equivalent to 22.1% of gross fixed capital formation in 2016, their third lowest level since 1999, and compared to the annual average of 30.6% during the 2009-15 period and a peak of 74.2% registered in 2006. In comparison, FDI inflows were equivalent to 3.8% of gross fixed capital formation in West Asian economies, to 7.1% in developing economies and to 9.4% on a global basis in 2016.

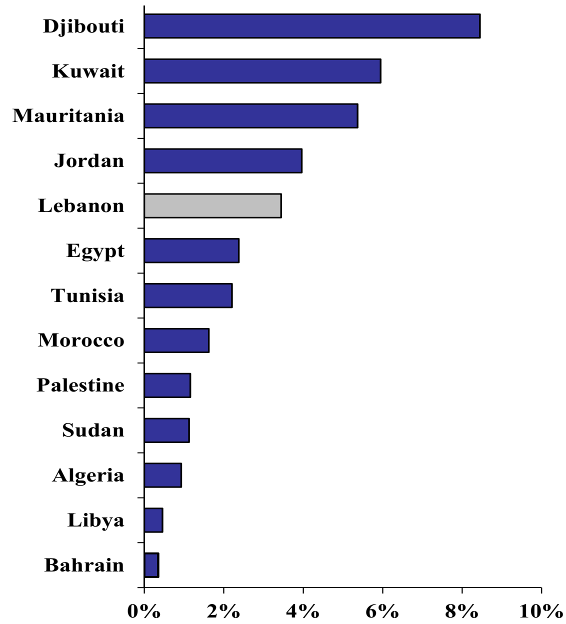
In parallel, FDI outflows from Lebanon totaled $773.2m in 2016, constituting an increase of 16.8% from $661.7m in 2015, and compared to the annual average of $1.1bn during the 2009-15 period and to a peak of $2bn registered in 2013. Lebanon was the fifth largest source of FDI outflows among Arab countries and the sixth largest in West Asia in 2016. Further, net FDI flows to Lebanon reached $1.8bn in 2016, the third highest level in the Arab world.

Foreign Direct Investment in Arab Countries ($m)

Country	2016	2015	Change (%)
UAE	8,986	8,795	2.2%
Egypt	8,107	6,925	17.1%
Saudi Arabia	7,453	8,141	(8.5%)
Lebanon	**2,564**	**2,353**	**9.0%**
Morocco	2,322	3,255	(28.7%)
Algeria	1,546	(584)	-
Jordan	1,539	1,600	(3.8%)
Sudan	1,064	1,728	(38.5%)
Tunisia	958	1,002	(4.4%)
Qatar	774	1,071	(27.7%)
Libya	493	726	(32.1%)
Bahrain	282	(797)	-
Kuwait	275	293	(6.4%)
Mauritania	272	502	(45.9%)
Palestine	269	103	161.3%
Djibouti	160	124	29.0%
Oman	142	(2,692)	-
Yemen	(561)	(15)	-
Iraq	(5,911)	(7,752)	-
Total	**30,730**	**24,778**	**24%**

Source: UNCTAD, Byblos Research

Net FDI inflows in Arab Countries in 2016 (% of GDP)



Source: UNCTAD, IMF, Byblos Research

Merrill Lynch maintains Lebanon's external debt at Marketweight, Eurobonds post 32nd highest return in EMs

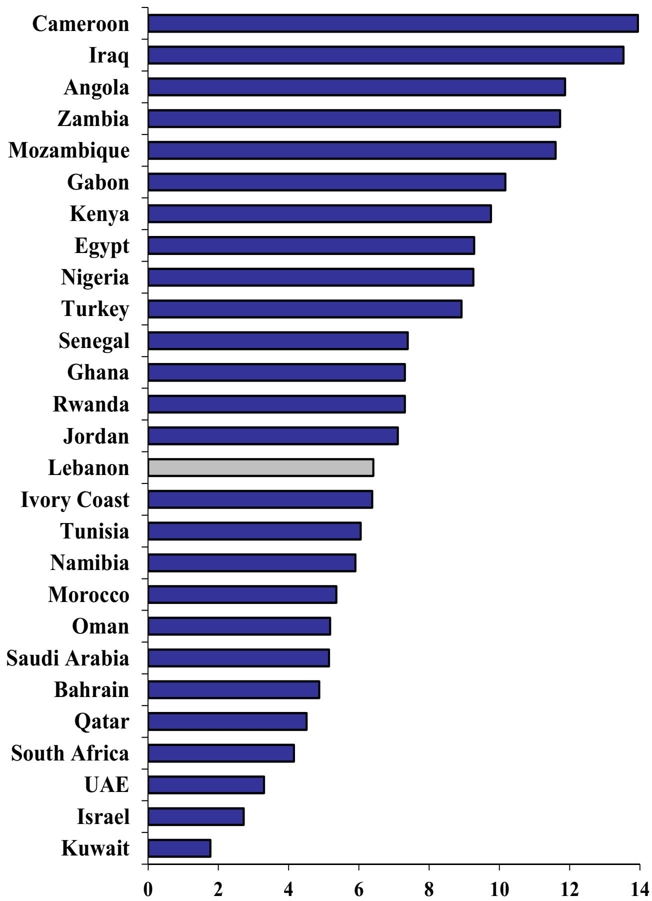
Figures issued by Merrill Lynch indicate that Lebanon's external debt posted a return of 6.41% in the first five months of 2017, constituting the 16th highest return among 44 markets in the Central & Eastern Europe and the Middle East & Africa (CEEMEA) region, as well as the 32nd highest return among 76 emerging markets included in Merrill Lynch's External Debt EM Sovereign Index. Lebanon outperformed the overall emerging markets' return of 5.84% during the covered period. Further, Lebanon's external debt posted the 15th highest return among 27 countries in the Middle East & Africa region in the first five months of the year, behind Cameroon (+13.94%), Iraq (+13.53%), Angola (+11.87%), Zambia (+11.73%), Mozambique (+11.6%), Gabon (+10.17%), Kenya (+9.76%), Egypt (+9.28%), Nigeria (+9.26%), Turkey (+8.92%), Senegal (+7.39%), Ghana and Rwanda (+7.31% each), and Jordan (+7.11%).

In parallel, Merrill Lynch maintained its recommendation for Lebanon's external debt at "Marketweight" in its emerging markets portfolio. It attributed its decision to the performance of Lebanese Eurobonds and to the positive bias in case structural reforms are implemented.

Further, Lebanon's external debt posted a return of -0.26% in May 2017, constituting the second lowest return in the CEEMEA region, better than only Tunisia (-0.27%), and the seventh lowest in emerging markets during the covered month. Lebanon underperformed the emerging markets' return of 0.7% in May 2017.

In parallel, Merrill Lynch indicated that the option-adjusted spread on Lebanese Eurobonds was 412 basis points at the end of May 2017 compared to 470 basis points at end-May 2016, and constituted the 10th widest spread in the CEEMEA region and the 18th widest among emerging markets. The spread on Lebanese Eurobonds was wider than the emerging markets' overall spread of 268 basis points at the end of May 2017.

External Debt Performance in the Middle East & Africa in First Five Months of 2017 (%)



Source: Merrill Lynch, Byblos Research

Lebanon has a weight of 2.81% on Merrill Lynch's External Debt EM Sovereign Index, the sixth largest weight in the CEEMEA universe and the 12th largest among emerging economies. Lebanon accounted for 5.3% of allocations in the CEEMEA region.

Government issues Treasury notes to pay arrears to private hospitals

The Ministry of Finance announced that it issued LBP120bn ($79.6m) worth of Treasury notes to cover the arrears owed to private hospitals in Lebanon for the 2000-2011 period as stipulated by Law 225 dated October 2012. The newly-issued notes have a five-year tenor and carry an annual coupon rate of 5.25% to be paid semi-annually. The issuance is also in line with the custody and paying agency agreement inked between MidClear sal and the Ministry of Finance.

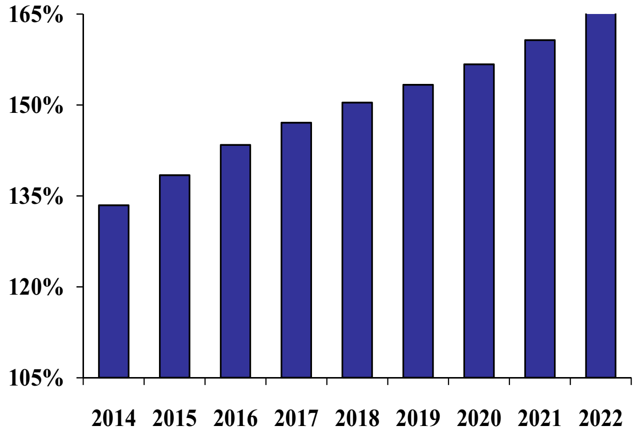
The Syndicate of Hospitals in Lebanon indicated in August 2016 that arrears due from the Lebanese government and various public institutions to private hospitals totaled more than LBP1,500bn, or about $1bn, for the period between 2012 and June 2016. The syndicate pointed out last year that the Lebanese government and its institutions owe LBP150bn ($99.5m) that were accumulated during the 2012-14 period and LBP130bn ($86m) that were amassed in 2015. It added that the Ministry of Public Health owed about LBP200bn ($133m) in arrears to private hospitals as of mid-2016. Further, the syndicate indicated that military and security institutions owed private hospitals around LBP400bn ($265.4m) as at the end of June 2016 and requested that the Ministry of Finance secure and settle these arrears. Further, it said that the National Social Security Fund owed about LBP600bn ($398m) to private hospitals in Lebanon as at the end of June 2016.

The Ministry of Public Health has contracts with private and public hospitals to cover the cost of medical treatment to uninsured patients, and allocates an annual budget for each hospital. The contracts stipulate that uninsured patients pay 15% of the bill at private hospitals and 5% of the bill at public hospitals, with the ministry reimbursing the balance.

Gross public debt at $77bn at end-April 2017

Lebanon's gross public debt reached $76.9bn at the end of April 2017, constituting an increase of 2.7% from $74.9bn at the end of 2016 and a rise of 7.3% from $71.7bn at end-April 2016. In nominal terms, the gross public debt grew by $2bn in the first four months of 2017 relative to an increase of $1.35bn in the same period of 2016. Debt denominated in Lebanese pounds totaled $47.1bn at end-April 2017, growing by 0.6% from the end of 2016 and by 6.9% from end-April 2016; while debt denominated in foreign currency stood at $29.9bn, constituting an increase of 6.3% from end-2016 and a rise of 8% from a year earlier. Local currency debt accounted for 61.2% of the gross public debt at the end of April 2017 compared to 61.4% a year earlier, while foreign currency denominated debt represented the balance of 38.8% relative to 38.6% at end-April 2016. The weighted interest rate on outstanding Treasury bills was 6.89% and that on Eurobonds was 6.38% in April 2017. Further, the weighted life on Eurobonds was 7.1 years, while that on Treasury bills was 1,328 days.

Lebanon's Gross Public Debt (% of GDP)



Source: International Monetary Fund, Byblos Research

Commercial banks held 48.6% of the public debt as at end-April 2017 relative to 53.4% of the total at the end of April 2016. Commercial banks held 45.4% of the Lebanese pound-denominated public debt at the end of April 2017 relative to 43.5% a year earlier, while Banque du Liban held 39.5% of the local debt compared to 40.3% at end-April 2016. Also, public agencies, financial institutions and the public held 15.2% of the local debt at end-April 2017, down from 16.2% a year earlier. Further, holders of Eurobonds and special T-bills in foreign currencies accounted for 92.8% of foreign currency-denominated debt holders at the end of April 2017, followed by multilateral institutions with 4% and foreign governments with 3.1%. In parallel, the gross market debt accounted for about 62% of the total public debt. Gross market debt is the total public debt less the portfolios of Banque du Liban, the National Social Security Fund, bilateral and multilateral loans, as well as Paris II related debt. In addition, the net public debt, which excludes public sector deposits at Banque du Liban and at commercial banks from overall debt figures, grew by 6.1% annually to $66.3bn at end-April 2017.

In parallel, S&P Global Ratings rates Lebanon's long-term foreign and local currency sovereign credit ratings at 'B-'. But the agency's Credit Default Swap Market Derived Signal Score, an indicator of risk appetite by foreign investors, shows that Lebanon's sovereign debt is considered by the market to have a 'B' risk level, which is one notch higher than the S&P rating as at June 8, 2017.

Government reduces rates of high-speed Internet services

The Lebanese Cabinet approved on June 7 a decree that reduces the monthly rates and fees on Internet services provided through fiber optic cables, as well as the rates on Digital Subscriber Line (DSL) Internet services. Specifically, the decree consists of decreasing the rates on Internet broadband services and those of E1 lines, which are high-speed digital links that connect the telephone switch of the end-user to that of the Ministry of Telecommunications and OGERO, Lebanon's state-owned telecom services provider.

The new decree lowers the monthly Internet bill of households and private institutions operating in Lebanon by 20% to up to 300%, depending on the Internet speed and data consumption bundles. The decision is in line with the strategy developed by the Telecommunications Ministry and OGERO that aims to reduce the cost of telecom services on businesses and households.

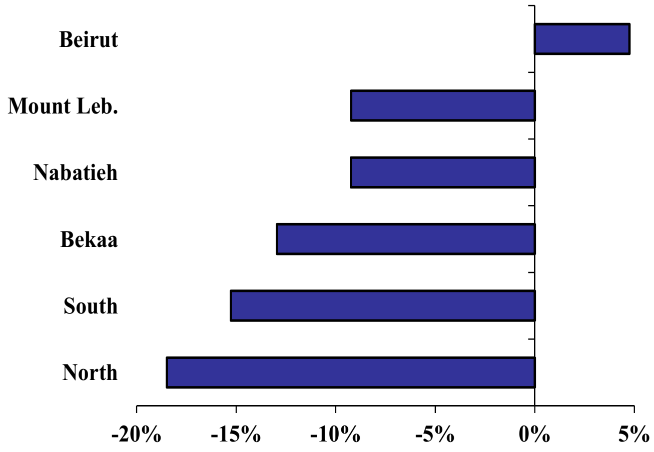
Also, the decree reduces the prices of E1 lines from LBP360,000 ($240) per month to a monthly rate starting from LBP100,000 ($66), constituting a price reduction of up to 300% per month. Also, the E1 line, which was previously available to the ministry, would become available to all Internet users, Internet service providers and data service providers.

In parallel, the Ministry of Telecommunications indicated that the successful completion of the fiber-optics network project, which has been suspended for over three years, would support Internet speed in Lebanon. The ministry declared in November 2016 that the installation of the fiber-optics network in Lebanon would cover 100% of the population by 2020. It indicated that key centers in different regions across Lebanon are currently connected through fiber optic cables and that it is currently in the process of connecting the cables to houses and big enterprises. The installation of the fiber optic cables is part of the five-year "Lebanon 2020 Digital Telecom Vision" project, which the ministry launched in July 2015 to develop the country's telecom infrastructure. The ministry said that the use of fiber optic cables, instead of copper cables, would reduce by 50% the quantity of cables needed to connect the same number of households.

Number of new construction permits down 6%, surface area down 5% in first four months of 2017

The Orders of Engineers & Architects of Beirut and of Tripoli issued 5,484 new construction permits in the first four months of 2017, constituting a decrease of 6.3% from 5,850 permits in the same period of 2016, relative to a rise of 26.5% in first four months of 2016. Mount Lebanon accounted for 35.8% of newly-issued construction permits in the first four months of 2017, followed by the South with 16.9%, Nabatieh with 13.6%, the North with 12.1%, the Bekaa with 9% and Beirut with 4.4%. The remaining 2.6% were permits issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon. The number of new construction permits issued for Beirut increased by 4.8% year-on-year in the first four months of 2017. In contrast, the number of new construction permits issued for the North regressed by 18.5%, followed by the South (-15.3%), the Bekaa (-12.9%), and Mount Lebanon and Nabatieh (-9.2% each), while permits issued for regions located outside northern Lebanon decreased by 11.9% year-on-year in the covered period.

Number of Construction Permits in First Four Months of 2017 (% change*)



** from the same period of 2016*
Source: Orders of Engineers & Architects of Beirut and Tripoli

Further, the surface area of granted construction permits reached 4,118,163 square meters (sqm) in the first four months of 2017, representing a drop of 5% from 4,334,227 sqm in the same period of 2016. In comparison, the surface area of granted construction permits increased by 14% year-on-year in the first four months of 2016. Mount Lebanon accounted for 1,696,080 sqm, or 41.2% of the total, in the covered period. The North followed with 656,100 sqm (15.9%), then the South with 541,027 sqm (13.1%), the Bekaa with 369,302 (9%), Nabatieh with 349,026 sqm (8.5%) and Beirut with 264,377 sqm (6.4%). The remaining 242,251 sqm, or 5.9% 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 construction permits issued for Beirut grew by 71% year-on-year in the first four months of 2017, while that for the North increased by 15.1%. In contrast, the surface area of construction permits issued for the South decreased by 18%, followed by Nabatieh (-16.6%), the Bekaa (-12.7%) and Mount Lebanon (-11.5%). Also, the surface area of granted construction permits for regions located outside northern Lebanon increased by 27% year-on-year in the first four months of 2017. In parallel, cement deliveries totaled 1.07 million tons in the first quarter of 2017, constituting a decrease of 0.8% from 1.08 million tons in the same quarter of 2016, and relative to a rise of 19.2% in the first quarter of 2016.

Compensation of public-sector personnel up 3% in first nine months of 2016, absorbs 34% of fiscal spending

Figures issued by the Ministry of Finance show that the compensation of public-sector personnel totaled $3.63bn in the first nine months of 2016, constituting an increase of 2.8% from $3.53bn in the same period of 2015. Salaries, wages and related benefits accounted for 65.6% of the total in the first nine months of 2016, followed by retirement benefits (24.6%), transfers to public institutions to cover salaries (5.1%) and end-of-service indemnities (4.7%). The rise in the compensation of public-sector personnel reflects a year-on-year increase in end-of-service indemnities (+7.5%), retirement benefits (+4.5%) and salaries, wages and related benefits (+2.7%). The increase was partly offset by a 7.6% decrease in transfers to public institutions to cover salaries, mainly to the Lebanese University. The compensation of public-sector personnel represented the largest component of total budgetary primary spending and accounted for 67% of such expenditures in the covered period, unchanged from the first nine months of 2015. The compensation of public-sector personnel absorbed 34% of fiscal spending in the first nine months of 2016 relative to 36% in the same period of 2015.

In parallel, salaries, wages and related benefits paid to public-sector employees amounted to $2.4bn in the first nine months of 2016, constituting an increase of 2.7% from $2.3bn in the same period last year. This category includes basic salaries, employment benefits, allowances, contributions to civil servants' cooperatives, as well as contributions to other mutual funds providing health insurance for specific categories of civil servants, mainly civil and religious judges, and employees at the Parliament. Salaries and benefits of military personnel reached $1.5bn and accounted for 62% of salaries, wages and related benefits paid to the public sector in the covered period. They were followed by educational personnel with $543.3m (22.8% of the total), civil staff with $224.2m (9.4%), the government's contribution to the employees' cooperative with $120.1m (5%) and customs employees with $15.9m (0.7%). Also, the Lebanese Army's salaries totaled $951.2m in the first nine months of 2016 and represented 64.4% of military personnel's salaries and benefits. The salaries of the Internal Security Forces followed with $402m (27.2%), those of the General Security Forces with $95.5m (6.5%) and the State Security Forces with $28.5m (1.9%).

The overall increase in salaries, wages and related benefits paid to public-sector employees reflects a growth of $126.7m in basic salaries and a rise of $2.7m in employment benefits, which were partly offset by a decrease of $45.1m in allowances and a drop of $19.2m in other payments such as bonuses given to non-military bodies. Overall, basic salaries grew by 7.6% year-on-year to $1.8bn in the first nine months of 2016 and employment benefits rose by 2.6% to $106.1m, while allowances regressed by 12.6% to $312.4m and other payments disbursed to non-military bodies declined by 10.6% to $162.5m in the first nine months of 2016.

Kafalat loan guarantees down 21% to $32m in first five months of 2017

Figures released by the Kafalat Corporation show that loans extended to small- and medium-sized enterprises (SMEs) under the guarantee of Kafalat reached $32m in the first five months of 2017, constituting a decrease of 20.7% from $40.4m in the same period of 2016. Kafalat provided 262 loan guarantees in the covered period, down by 9.3% from 289 guarantees in the first five months of 2016. The average loan size reached $122,210 in the first five months of 2017 compared to $139,760 in the same period of 2016. Mount Lebanon accounted for 43.1% of the total number of guarantees, followed by the Bekaa with 20.6%, the South with 14.1%, the North with 8.8%, Nabatieh with 7.6% and Beirut with 5.7%. Also, the agricultural sector accounted for 41.6% of the total number of guarantees in the first five months of 2017, followed by the industrial sector with 32.8%, tourism with 19.9%, handicraft with 3.4% and specialized technologies with 2.3%.

Kafalat is a state-sponsored organization that provides financial guarantees for loans of up to $430,000 earmarked for the setup and expansion of SMEs in productive sectors. It guarantees up to 75% of the loan amount and a similar percentage of the interest that accrues during the grace period. It also guarantees up to 90% of the loan amount for innovative start-ups and a similar percentage of the interest that accrues during the grace period. Interest rate subsidies are financed by the Ministry of Finance and administered by Banque du Liban. The National Institute for the Guarantee of Deposits holds a 75% stake in Kafalat, while the remaining 25% is held by 50 Lebanese banks.

BLOM Bank redeems and cancels preferred shares

BLOM Bank sal announced that it cancelled and redeemed 20 million Class 2011 Preferred Shares. The shares were issued in May 2011 at $10 per share and carried an annual dividend rate of 7% of the issue price. In parallel, the bank indicated that it intends to fully cover the LBP24bn ($15.9m) deficit in the capital account as a result of the redemption by increasing the book value of each of the outstanding shares from LBP1,200 to LBP1,500 per share.

BLOM Bank posted unaudited consolidated net profits of $112m in the first quarter of 2017, constituting an increase of 3.5% from the same quarter last year. Its assets reached $30.2bn at the end of March 2017, up by 2.1% from end-2016; while loans & advances to customers, excluding loans & advances to related parties stood at $7.1bn, nearly unchanged from end-2016. Also, customer deposits, excluding those from related parties, totaled $25.1bn at the end of March 2017 and grew by 2% from end-2016.

Lebanon & Gulf Bank's net profits down 32% to $6m in first quarter of 2017

Lebanon & Gulf Bank (LGB) sal, one of Lebanon's top 14 banks in terms of assets, announced unaudited consolidated net profits of $5.7m in the first quarter of 2017, constituting a decrease of 32% from $8.4m in the same period last year. Net operating income regressed by 12% year-on-year to $16.2m in the first quarter of the year, with net interest income dropping by 16.8% to $10.9m and net fees & commissions receipts increasing by 1% year-on-year to $2.5m. Non-interest income accounted for 32.3% of total income in the first quarter of 2017, up from 28.2% in the same period last year; with net fees & commissions representing 47.3% of non-interest earnings relative to 47.4% in the first quarter of 2016. Further, the bank's interest margin was 1.09% in the first quarter of 2017 relative to 1.47% in the same period last year, while its spread reached 1.06% relative to 1.43% in the same period of 2016. Total operating expenditures increased by 6.5% to $9.5m, with staff expenses increasing by 10.5% to $5.3m and administrative & other operating expenditures growing by 1.5% to $3.6m. Also, the bank's return on average assets decreased to 0.55% in March 2017 on an annualized basis from 0.92% in March 2016; while its return on average equity dropped to 6.56% on an annualized basis from 10.49% in March 2016. LGB’s cost-to-income ratio rose to 58.4% in the first quarter of the year from 48.5% in the same period of 2016.

In parallel, total assets reached $4.16bn at the end of March 2017, constituting an increase of 1.3% from $4.11bn at end-2016. Loans & advances to customers, excluding those to related parties, declined by 2.9% from end-2016 to $1.39bn. Also, customer deposits, excluding those from related parties, totaled $3.55bn at the end of March 2017, nearly unchanged from end-2016. The loans-to-deposits ratio regressed to 39.4% at end-March 2017 from 44.31% a year earlier. In parallel, the bank's shareholders' equity decreased by a marginal 0.3% from end-2016 to $349.3m at the end of March 2017.

Banque BEMO's dividend payout ratio at 36% for 2016

Banque BEMO sal, one of Lebanon’s listed banks, announced that its Ordinary General Assembly held on June 5, 2017 approved the distribution of dividends for 2016. The bank will allocate LBP8,599m, or $5.7m, in gross dividend payments to the holders of common and preferred shares, which is equivalent to a payout ratio of 36%. The bearers of common shares will receive a dividend of LBP80 ($0.05) per share and the holders of Preferred Shares Issuance of Year 2013 will receive a dividend of $7 (LBP10,553) per share. The dividends will be paid starting on June 22, 2017 net of a 5% withholding tax for publicly-listed shares and net of a 10% tax for shares that are not publicly listed.

Banque BEMO posted audited net profits of $15.8m in 2016, constituting an increase of 21.8% from 2015. Its assets reached $1.76bn at end-2016, and grew by 8.5% from end-2015; while loans & advances to customers, excluding loans & advances to related parties, totaled $688.5m at the end of 2016 and increased by 2.1% from a year earlier. Also, customer deposits, excluding those from related parties, reached $1.38bn at end-2016, up by 6.6% from the end of 2015.

Ciments Blancs' net income up 58% to $4.4m in 2016

Société Libanaise des Ciments Blancs sal, an affiliate of Holcim Liban sal, declared audited net profits of $4.4m in 2016, constituting an increase of 58.4% from net earnings of $2.8m in 2015. The company generated total sales of $12.2m last year compared to $12.8m in 2015. The firm's gross profit margin reached 47.5% in 2016 relative to 38.6% in 2015. Also, earnings attributable to the equity holders of the company increased from LBP464 ($0.3) per share in 2015 to LBP735 ($0.5) per share in 2016.

Ciments Blancs' assets totaled $24.5m at the end of 2016 and regressed by 1.9% from $25m at end-2015. The firm's current ratio, which is a measure of the company's ability to meet its short-term obligations, was 2.1x at the end of 2016 compared to 1.4x at end-2015. The company's total equity reached $18.96m at the end of 2016, up by 9.4% from $17.3m at end-2015. In parallel, the firm's return on average assets was 17.7% and its return on average equity reached 24% in 2016.

Net earnings of Fidus at $13.4m in 2016

Brokerage and advisory firm Fidus sal, an affiliate of Société Générale de Banque au Liban sal, announced audited consolidated net profits of $13.4m in 2016 relative to net earnings of $1.6m in 2015. Net operating income grew from $9.9m in 2015 to $24m in 2016, with net commission receipts expanding from $2.8m in 2015 to $18.35m last year and net interest income growing by 26.3% to $2.4m in 2016. Total operating expenditures reached $8.2m in 2016, constituting an increase of 3% from $8m in 2015, with staff expenses rising by 5.1% to $4.2m and administrative & other operating expenditures growing by 1.1% to $3.8m in 2016.

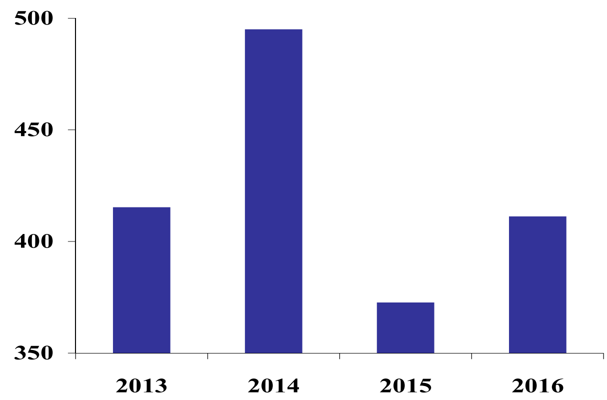
In parallel, the firm's total assets reached $199.5m at the end of 2016, constituting a decrease of 60% from $498m at end-2015. Also, customer deposits, excluding those from related parties, totaled $57m at the end of 2016, down by 78.7% from $267.6m at end-2015. Further, the firm's shareholders' equity increased from $9.4m at end-2015 to $22.8m at the end 2016.

Banque du Liban extends payment period of subsidized loans

Banque du Liban issued Intermediate Circular 465 on June 6, 2017 that amends Basic Circular 80 issued on January 2, 2001 about the subsidy of interests on loans granted to the industrial, tourism and agricultural sectors in Lebanon.

The circular extends the payment period of subsidized loans from 12 years to 19 years. It added that the extension would not affect the estimated value of the subsidy prior to the extension. Previously, the life of subsidized loans ranged between five and seven years, but the BdL extended the period to 10 years in 2013 and then to 12 years in 2015. The decision aims to reduce the loan installments by extending the loan's maturity. Private sector companies active in the tourism, industrial and handicraft sectors, as well as information technology companies, can benefit from the subsidies provided by the government in case they meet specific requirements.

Subsidized Loans* (US$m)



**in the first nine months of each year*
Source: Banque du Liban, Byblos Research

Banque du Liban's figures show that the amount of subsidized interest loans to productive sectors in Lebanon totaled $411.2m in the first nine months of 2016, constituting an increase of 10.3% from $372.7m in the same period of 2015. The industrial sector benefited from $223.3m in subsidized interest loans, equivalent to 54.3% of the total, followed by tourism with $130.5m (31.7%) and agriculture with $57.4m (14%). Subsidized medium & long-term loans by BdL amounted to $331.9m in the first nine months of 2016, equivalent to 80.7% of the total; subsidized interest loans guaranteed by the Kafalat Corporation reached $70.85m, or 17.2% of the total, and subsidized interest loans granted by leasing companies amounted to $8.5m in the first nine months of 2016, or 2.1% of the total. The cumulative amount of subsidized interest loans to productive sectors in Lebanon totaled $6.9bn between 1997 and September 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	July 2015	June 2016	July 2016	Change**	Risk Level
Political Risk Rating	54.5	55.0	55.0	▼	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	61.0	61.0	▲	Moderate

MENA Average*	July 2015	June 2016	July 2016	Change**	Risk Level
Political Risk Rating	57.5	57.6	57.5	↔	High
Financial Risk Rating	39.4	39.2	38.8	▲	Low
Economic Risk Rating	32.0	30.0	29.7	▲	High
Composite Risk Rating	64.5	63.4	63.0	▲	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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