

LEBANON THIS WEEK

In This Issue

Economic Indicators.....1
Capital Markets.....1
Lebanon in the News.....2

Lebanon's net wealth per adult at \$30,730, two-thirds of population have net wealth below \$10,000

Remittance inflows to Lebanon down 2% to \$3.6bn in first half of 2016

Tourist arrivals up 11% in 2016

Lebanon ranks 47th in emerging markets, last in Arab world in terms of logistics infrastructure

Decline in government's borrowing needs to reduce pressure on banking sector

Airport passengers down 1% in January 2017

Coincident Indicator up 4.5% year-on-year in first 11 months of 2016

Lebanon ranks 102nd globally, second among Arab countries on democracy index

Corporate Highlights7

Stock market index up 4% in January 2017

Aggregate net profits of listed banks up 12% in 2016

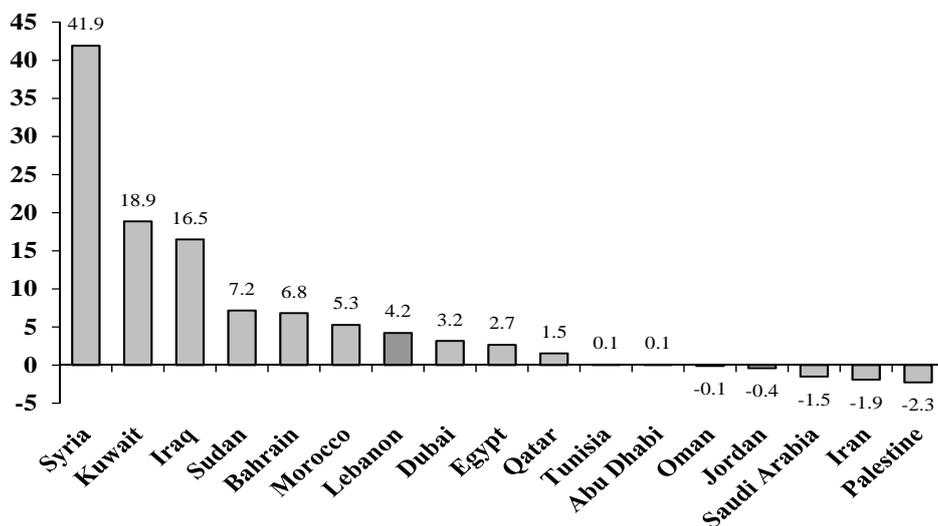
Nasco Insurance Group acquires Lebanese insurance company

Net profits of health insurance branch up 85% to \$18.6m in 2015, claims down 2.5% to \$312.5m

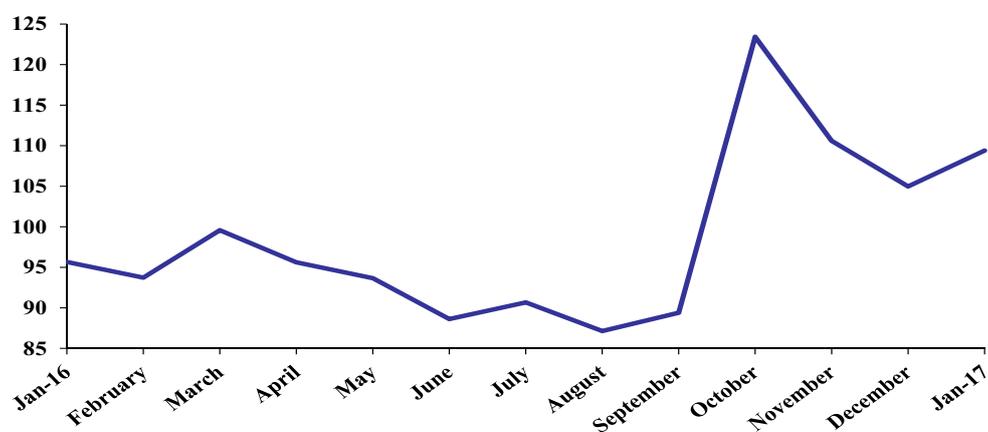
Ratio Highlights.....9
Risk Outlook9
Ratings & Outlook.....9

Charts of the Week

Performance of MENA Stock Markets in January 2017 (% change)



Performance of the Beirut Stock Exchange*



* Capital Markets Authority Value Weighted Index end of month values

Source: Local Stock Markets, Dow Jones Indices, Capital Markets Authority, Byblos Bank

Quote to Note

"Fiscal data are reported with long and increasing lags; national accounts compilation suffers from serious shortcomings; and balance of payments statistics are subject to frequent and sizable revisions."

The International Monetary Fund, on the deterioration of data provision in Lebanon

Number of the Week

1.54%: The spread between the weighted average cost of funds and the weighted return on the uses of funds in US dollars at commercial banks in Lebanon as at end-2016, according to the Association of Banks in Lebanon

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	11.30	3.67	365,900	19.52%
Solidere "A"	10.37	5.17	183,125	8.33%
BLOM GDR	12.01	2.21	103,300	7.13%
Solidere "B"	9.82	(4.38)	83,074	5.13%
Audi GDR	6.88	0.44	81,674	6.63%
Byblos Common	1.73	1.17	50,031	7.86%
Audi Listed	6.97	3.41	28,576	22.39%
HOLCIM	10.28	0.00	4,545	1.61%
Byblos Pref. 08	102.10	(0.10)	2,250	1.64%
Byblos Pref. 09	103.60	0.00	-	1.66%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Mar 2017	9.00	100.80	2.36
Nov 2018	5.15	100.38	4.92
May 2019	6.00	101.50	5.29
Mar 2020	6.38	102.25	5.57
Apr 2021	8.25	108.63	5.89
Oct 2022	6.10	99.25	6.26
Jun 2025	6.25	97.50	6.64
Nov 2026	6.60	98.63	5.00
Feb 2030	6.65	97.63	6.00
Nov 2035	7.05	99.50	7.10

Source: Byblos Bank Capital Markets

	Jan 30 - Feb 3	Jan 23-27	% Change	January 2017	January 2016	% Change
Total Shares Traded	4,046,473	2,317,292	74.6	7,195,986	4,478,596	60.7
Total Value Traded	\$19,734,732	\$22,193,410	-11.1	\$46,829,082	\$38,492,918	21.7
Market Capitalization	\$12.45bn	\$12.19bn	2.10	\$12.21bn	\$11.09bn	10.1

Source: Beirut Stock Exchange (BSE)



Lebanon's net wealth per adult at \$30,730, two-thirds of population have net wealth below \$10,000

Global investment bank Credit Suisse estimated the net wealth per adult in Lebanon at \$30,730 at the end of June 2016, down 2% from \$31,366 at end-June 2015 and relative to a peak of \$35,946 at the end of 2007. Lebanon's net wealth per adult was the 50th highest among 174 countries globally, the fourth highest among 49 upper middle-income countries (UMICs) and the seventh highest among 19 Arab countries at end-June 2016. Credit Suisse defines the net wealth per adult as the sum of a person's marketable value of financial and non-financial assets, less aggregate personal debt, with non-financial assets consisting mainly of real estate holdings. It provided annual data for the period between 2000 and 2014, and semi-annual figures for 2015 and 2016.

Globally, the net wealth per adult in Lebanon was higher than the wealth per adult in Libya (\$28,828), Peru (\$26,292) and Slovakia (\$24,992), and lower than that in Mauritius (\$34,549), Hungary (\$33,893) and Costa Rica (\$30,747) among countries with a GDP of \$10bn or more. It was lower than only in Turkmenistan (\$50,230), Mauritius and Costa Rica among UMICs. Regionally, net wealth per adult in Lebanon was lower than the wealth per adult in Qatar (\$161,666), the UAE (\$151,098), Kuwait (\$119,038), Oman (\$52,664), Bahrain (\$50,609) and Saudi Arabia (\$40,555).

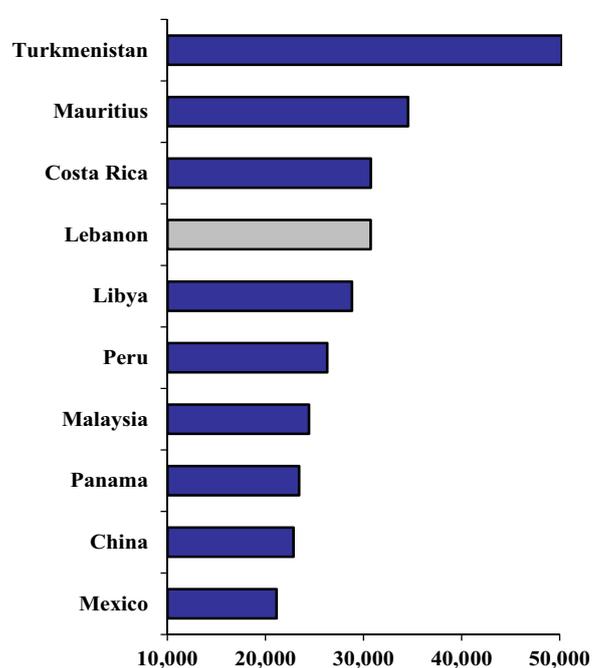
The value of financial assets per adult in Lebanon stood at \$22,305 at the end of June 2016, down by 0.6% from \$22,434 a year earlier and compared to a peak of \$24,690 at the end of 2007. It grew at a CAGR of 3.8% from \$13,276 at the end of 2000 to \$22,234 at the end of 2014. Lebanon's financial wealth per adult was the 41st highest globally at end-June 2016, the highest among UMICs and the sixth highest among Arab countries. Globally, the value of financial assets per adult in Lebanon was higher than in Saudi Arabia (\$20,578), Hungary (\$17,754) and Latvia (\$16,723), and lower than in Slovenia (\$25,359), the Czech Republic (\$24,038) and Oman (\$23,070). Regionally, it was lower than the financial wealth per adult in Qatar (\$99,616), the UAE (\$87,267), Kuwait (\$60,271), Bahrain (\$32,648) and Oman.

Also, the value of non-financial assets per adult in Lebanon reached a peak of \$22,413 at the end of June 2016, up 4% from \$21,547 a year earlier. It grew at a CAGR of 4.1% from \$11,971 at the end of 2000 to \$21,030 at the end of 2014. Lebanon's non-financial assets per adult were the 52nd highest globally, the seventh highest among UMICs and the eighth highest among Arab countries at end-June 2016. Globally, they were higher than the non-financial assets per adult in Mexico (\$19,813), Hungary (\$19,723) and Slovakia (\$17,979), and lower than those of Estonia (\$24,432), Libya (\$23,725) and Costa Rica (\$23,561). They were lower than the non-financial assets per adult in Turkmenistan (\$42,401), Peru (\$24,599), Mauritius (\$24,521), Libya (\$23,725) and Costa Rica among UMICs. Regionally, they were lower than non-financial assets per adult in the UAE (\$113,222), Kuwait (\$83,944), Qatar (\$83,687), Bahrain (\$36,885), Oman (\$35,202), Saudi Arabia (\$27,121) and Libya.

Further, the debt per adult in Lebanon reached a peak of \$13,987 at the end of June 2016, up by 10.9% from \$12,616 a year earlier. It grew at a CAGR of 7.1% from \$4,552 at the end of 2000 to \$11,928 at the end of 2014. It was the 35th highest globally, the highest among UMICs and the fifth highest among Arab countries at end-June 2016. Globally, it was higher than that in Estonia (\$11,631), Chile (\$8,384) and Slovenia (\$8,212), and lower than that in Portugal (\$20,669), Bahrain (\$18,924) and Greece (\$16,120). Regionally, it was lower than that in the UAE (\$49,391), Kuwait (\$25,177), Qatar (\$21,638) and Bahrain.

In parallel, Credit Suisse indicated that 67.3% of Lebanese adults had a net wealth below \$10,000 as at the end of June 2016, 29.7% had a net wealth between \$10,000 and \$100,000, 2.8% of Lebanese adults had an aggregate net wealth between \$100,000 and \$1m, and 0.3% of Lebanese adults have a total net wealth that exceeds \$1m.

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



Source: Credit Suisse, Byblos Research

Remittance inflows to Lebanon down 2% to \$3.6bn in first half of 2016

Figures released by the Central Bank of Lebanon show that expatriates' remittance inflows to Lebanon totaled \$3.6bn in the first half of 2016, constituting a decrease of 1.9% from \$3.7bn in the same period of 2015. Remittance inflows to Lebanon reached \$1.85bn in the first quarter of 2016 and \$1.76bn in the second quarter of last year. The results show that the inflows were unchanged in the first quarter of 2016 from the first quarter of 2015, and dropped by 3.7% in the second quarter of 2016 from the same period of the previous year. The decrease in remittance inflows to Lebanon in the first half of 2016 constituted the first decline since the first half of 2011. But remittance inflows to Lebanon in the first half of 2016 were at their fourth highest semi-annual level between 2002 and 2016. The Central Bank figures are the only official data on remittance flows to and from Lebanon.

Remittance inflows to the country averaged of \$3.56bn during the first half of each year between 2008 and 2016, and reached a high of \$3.79bn in the first half of 2008. Overall, remittance inflows to Lebanon grew at a compound annual growth rate (CAGR) of -0.6% between the first half of 2008 and the same period of 2016 and at a CAGR of 2.3% between the first half of 2011 and the same period of 2015.

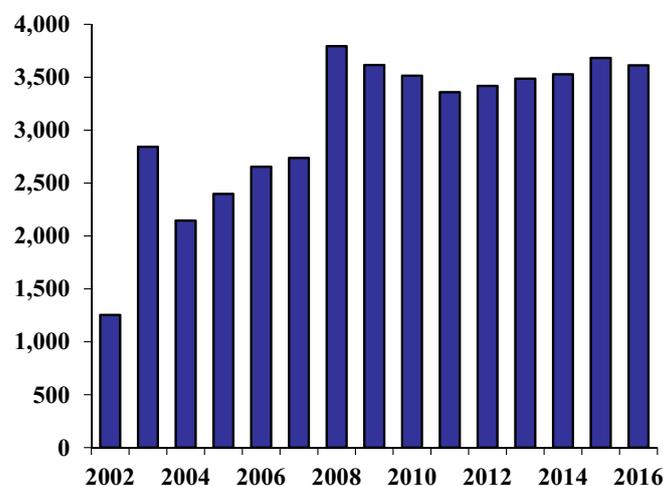
In parallel, remittance outflows from Lebanon amounted to \$2bn in the first half of 2016, up by 16.2% from \$1.73bn in the same period of 2015. Remittance outflows totaled \$0.98bn in the first quarter of 2016 and \$1.02bn in the second quarter of last year. They averaged \$2.2bn during the first half of each year between 2008 and 2016, with a high of \$2.57bn in the first half of 2013. As such, net remittance inflows to Lebanon reached \$1.6bn during the first half of 2016, the third highest level since 2002, but represented a decline of 18% from \$1.95bn in the same period of 2015.

Tourist arrivals up 11% in 2016

The number of incoming visitors to Lebanon totaled 1,688,357 in 2016, constituting an increase of 11.2% from 1,517,927 tourists in the same period of 2015, and a drop of 22.1% from 2,167,989 visitors in 2010. Also, the number of incoming visitors reached 141,537 in December 2016, up by 14.5% from 123,587 in December 2015. Visitors from European countries accounted for 33.4% of the total in 2016, followed by visitors from Arab economies with 31%, the Americas with 17.6%, Asia with 7.4%, Africa with 6.1% and Oceania with 4.4%. Also, tourists from Iraq accounted for 14% of total visitors in the covered period, followed by visitors from the U.S. (9.1%), France (8.6%), Canada (5.9%), Germany (5.2%), Jordan (5.1%), Egypt (4.9%) and the United Kingdom (3.7%).

In parallel, the number of visitors from Oceania rose by 25.6% in 2016, followed by visitors from African countries (+21.1%), the Americas (+12.4%), Europe (+11.7%), the Arab region (+8.8%) and Asia (+2.5%). On a country basis, the number of tourists from Venezuela surged by 24.9% year-on-year in 2016, followed by visitors from Iraq (+23.2%), Sweden (+22%), Turkey (+21.2%), Germany (+17%), the U.S. (+13.6%), Brazil (+11.5%), Jordan (+11.2%), Egypt (+10.3%), Canada (+9.6%), France (+8.6%) and the United Kingdom (+7.6%). In contrast, the number of visitors from the UAE fell by 74.3%, followed by those from Kuwait (-19.7%) and Saudi Arabia (-15.6%).

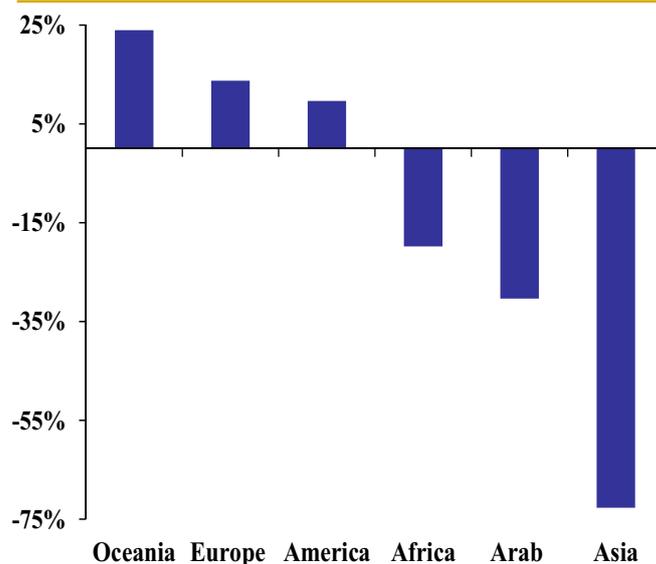
Remittance Inflows to Lebanon* (\$m)



* In the first half of each year

Source: Central Bank, Byblos Research

Change in the Number of Tourist Arrivals from Main Sources in 2016*



* from 2015

Source: Ministry of Tourism, Byblos Research

Lebanon ranks 47th in emerging markets, last in Arab world in terms of logistics infrastructure

Transport Intelligence, an analysis and research firm for the logistics industry, ranked Lebanon in 47th place among 50 emerging markets (EM) on its 2017 Agility Emerging Markets Logistics Index. Also, Lebanon came in last place among 13 Arab countries and in 20th place among 21 upper middle-income countries (UMICs) included in the survey. In comparison, Lebanon came in 44th place globally, in 13th place regionally and in 20th place among UMICs in the 2016 survey. Based on the same set of countries in the 2016 and 2017 surveys, Lebanon's global rank fell by three spots from the previous survey, while its UMIC and regional ranks were unchanged from the 2016 survey.

The index ranks emerging markets based on the size of their economy, business conditions, infrastructure and other factors that make them attractive for logistics firms, air cargo carriers, shipping lines, freight forwarders and distribution companies. The index is a weighted average of three sub-indices that are Market Size & Growth Attractiveness with a weight of 50%, Market Compatibility with a weight of 25% and Market Connectedness with a 25% weight. A higher score reflects a better performance on the index.

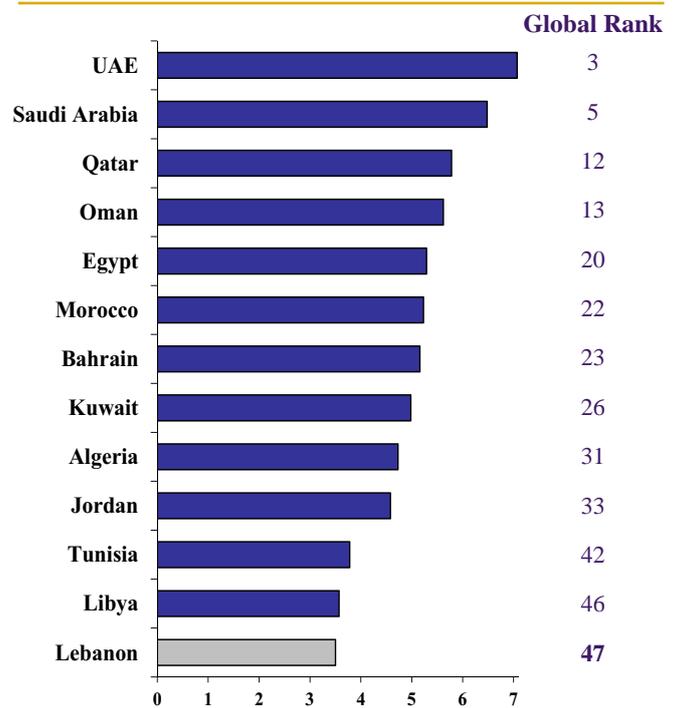
Lebanon has a more developed logistics infrastructure than only Myanmar, Angola and Mozambique among EM countries. It received a score of 3.5 points, down 3.3% from a score of 3.62 points on the 2016 index. Lebanon's score was lower than the EM average score of 5 points, the UMIC's average of 5.11 points and the Arab average of 5.06 points. It was also lower than the Gulf Cooperation Council (GCC) countries' average score of 5.85 points and that of non-GCC Arab countries of 4.38 points.

Lebanon ranked in last place among EMs on the Market Size & Growth Attractiveness Sub-Index, which reflects a country's economic output, projected real GDP growth rate, financial stability, and population size. Further, Lebanon ranked ahead of the Philippines, Peru and Ukraine, and came behind Cambodia, Indonesia and Bangladesh on the Market Compatibility Sub-Index. This category assesses markets based on their accessibility, business regulations, level of foreign direct investment, market risks, security threats, and the level of potential demand for logistics services. Lebanon ranked ahead of only Peru, Thailand, South Africa, Venezuela, Angola, Colombia and Libya among UMICs; while it came ahead of only Tunisia, Egypt and Libya among Arab countries.

Finally, Lebanon ranked ahead of Cambodia, Mozambique and Venezuela, and came behind Tanzania, Tunisia and the Philippines on the Market Connectedness Sub-Index, which assesses a country's domestic and international transport infrastructure and how well they are connected. Lebanon ranked ahead of only Venezuela and Angola among UMICs and came in last place regionally.

In parallel, Transport Intelligence's survey of 801 professionals in the logistics industry, which it conducted between August and November 2016, shows that Lebanon has the 18th lowest potential to become a logistics hub among emerging economies. Also, respondents ranked Syria as the market with the lowest potential.

**Agility Emerging Markets Logistics Index for 2017
Scores & Rankings of Arab Countries**



Source: Transport Intelligence, Byblos Research

Components of the 2017 Agility Emerging Markets Logistics Index

	EM Rank	Arab Rank	UMICs Rank	Lebanon Score	EM Avg Score	Arab Avg Score	UMICs Avg Score
Market Size & Growth Attractiveness	50	13	21	2.71	5.00	4.41	5.24
Market Compatibility	32	10	14	4.37	5.01	5.84	4.86
Market Connectedness	43	13	19	3.97	4.99	5.41	5.13

Source: Transport Intelligence, Byblos Research

Decline in government's borrowing needs to reduce pressure on banking sector

In its Financial System Stability Assessment for Lebanon, the International Monetary Fund indicated that the stable exchange rate peg to the US dollar, the sustained remittance and deposits inflows from Lebanese expatriates, and an adequate crisis management framework have helped preserve confidence in the financial system during periods of political and economic instability. But it considered that macroeconomic and financial vulnerabilities have increased in recent years.

The Fund highlighted five key risks facing the Lebanese financial system. First, it cautioned that a prolonged period of domestic political tension that discourages investment and delays the implementation of reforms, as well as an intensification of the Syrian conflict, would lead to a slowdown in deposit inflows. Under these conditions, it considered that the banks' asset quality and profitability would deteriorate because of increased credit losses and provisioning needs. Also, it noted that the materialization of fiscal pressure under these conditions could increase risks to debt sustainability and concerns about the sovereign's creditworthiness. Second, it estimated that financial market volatility as a result of geopolitical tensions, a reevaluation of emerging market fundamentals, or revised market expectations about the exit from unconventional monetary policies in advanced economies, could make it difficult for Lebanese banks to attract funding at stable and affordable rates. It added that this would challenge the banks' capacity to attract deposits and to finance the economy at sustainable levels.

Third, the IMF estimated that about 90% of the banking sector's loan portfolio is exposed to the real estate sector, either directly through housing loans and lending to real estate developers and contractors, or indirectly as collateral for commercial loans. It said that non-performing loans (NPLs) ratios for mortgages are low at 1.6%, due in part to subsidized lending rates, but it noted that loans to real estate developers show signs of more distress as a result of the rising stocks of unsold property and the decline in the prices of luxury apartments. Overall, it considered that NPLs are well provisioned with a loan-loss reserves coverage of 86% at end-June 2016, but noted that tighter loan classification and provisioning rules could raise reported NPLs and reduce coverage ratios. It estimated that a correction in real estate prices would increase expected credit losses and reduce the value of the collateral, which would result in higher provisioning needs at banks.

Fourth, the Fund pointed out that a reassessment of the country's risk through a downgrade of Lebanon's sovereign ratings, or a deceleration in deposit inflows, could increase sovereign yields, raise borrowing costs for banks and increase lending rates. Also, it noted that a sovereign downgrade would raise the risk weights on foreign currency-denominated debt and, in turn, increase regulatory capital requirements. It added that these developments would weigh on the financing of the sovereign and the banks, as well as on the currency peg. Fifth, it considered that a deterioration in the fiscal position from the delay in the implementation of reforms, or from populist measures, would increase the banks' exposure to the sovereign, crowd out the private sector, and put upward pressure on interest rates.

The IMF indicated that the Central Bank plays a critical role in sustaining confidence, especially in the banking system, by preserving the pegged exchange rate, purchasing government debt instruments, maintaining interest rates at moderate levels, keeping foreign assets at high levels, providing economic stimulus and addressing weak banks. It said that these policies have helped contain systemic risks, but it considered that these policies face limitations in the absence of fiscal adjustment. It noted that the Central Bank's intervention in the foreign exchange and debt markets, as well as its stimulus measures, have expanded the Central Bank's balance sheet and imply the creation of new reserve money. It added that the implementation of structural and fiscal reforms would help reduce the burden born by the Central Bank, as well as help strengthen the Central Bank's balance sheet and reduce the reliance on deposit inflows to cover the government's financing needs.

Airport passengers down 1% in January 2017

Figures released by the Hariri International Airport (HIA) show that there were 539,089 airport passengers (arrivals, departures and transit) in January 2017, constituting a decrease of 1.4% from 546,609 passengers in January 2016. The number of arriving passengers grew by 1.4% year-on-year to 246,492 in January 2017, compared to an increase of 7.8% in the same month of last year and to a rise of 12.7% in January 2015. In contrast, the number of departing passengers decreased by 2.1% year-on-year to 292,136 in January 2017, relative to a rise of 8.4% in January of last year and to an increase of 10.4% in January 2015. In parallel, the airport's aircraft activity regressed by 7.1% year-on-year to 5,324 take-offs and landings in January 2017 compared to a growth of 12.2% in January 2016 and to an increase of 3.4% in the same month of 2015. In addition, the HIA processed 5,622 metric tons of freight in January 2017 that consisted of 3,946 tons of import freight and 1,675 tons of export freight. Middle East Airlines had 1,988 flights in January 2017 and accounted for 37.3% of HIA's total aircraft activity.

Coincident Indicator up 4.5% year-on-year in first 11 months of 2016

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 311.2 points in November 2016 compared to 287.1 in October 2016 and 293.1 in November 2015. The Coincident Indicator, an average of 8 weighted economic indicators, increased by 8.4% month-on-month and by 6.2% year-on-year in November 2016. The indicator averaged 288.9 in the first 11 months of 2016, up 4.5% from 276.5 in the same period of 2015. Also, the indicator averaged 290.1 in the 12 months ending November 2016, compared to 288.6 in the 12-month period ending October 2016 and 277.8 in the 12 months ending November 2015. As a result, the 12-month average coincident indicator rose by 0.5% month-on-month and by 4.4% year-on-year. In parallel, the indicator improved 18 times and regressed six times on a monthly basis in the month of November since 1993. It averaged 249.5 points in 2010, 255.7 points in 2011, 256.6 points in 2012, 264.7 points in 2013, 273.2 points in 2014 and 278.6 points in 2015.

Lebanon ranks 102nd globally, second among Arab countries on democracy index

The Economist Intelligence Unit's 2016 Democracy Index ranked Lebanon in 102nd place among 167 countries worldwide and in second place among 20 Arab countries. Lebanon's global and regional ranks were unchanged from the 2015 index; while the country ranked in 98th place globally and in second place among Arab countries on the 2014 index. The index measures 60 indicators that are grouped in five categories, which are Electoral Processes & Pluralism, Civil Liberties, the Functioning of Government, Political Participation, and Political Culture. Each category is rated on a scale from zero to 10, with the overall index calculated as a simple average of the five sub-indices. The survey also placed countries in four categories of political freedoms that are full democracies, flawed democracies, hybrid regimes and authoritarian regimes.

Globally, Lebanon has the same level of democracy as Nepal, has a more democratic system than Nicaragua, Morocco and Burkina Faso, but is considered to be less democratic than Bhutan, Thailand and Bosnia & Herzegovina. Lebanon received a score of 4.86 points, below the global average of 5.52 points. Lebanon's score was unchanged from the 2015 survey, while it declined by 5.1% from 5.12 points in the 2014 survey. Lebanon was one of four Arab political systems in the region, which include Morocco, Palestine and Iraq, to be in the "Hybrid Regimes" category, while Tunisia was the only Arab country to qualify as a "Flawed Democracy", and the rest of the Arab countries were classified as having "Authoritarian" regimes.

Lebanon tied with Burkina Faso and Mozambique, ranked ahead of Kenya and Singapore, and came behind Nicaragua and Thailand on the Electoral Process & Pluralism Sub-Index, which measures the degree of freedom, fairness and transparency of elections, while it trailed only Tunisia and Morocco among Arab countries.

Further, Lebanon tied with Fiji, Georgia, Liberia, Malaysia and Nepal, ranked ahead of Sierra Leone and Venezuela, and came behind Armenia and Sri Lanka on the Civil Liberties Sub-Index. Lebanon trailed only Tunisia among Arab countries.

Also, Lebanon tied with Azerbaijan, Djibouti, Eritrea, Kazakhstan, Mozambique and Palestine, ranked ahead of Zimbabwe and Sierra Leone, and came behind Algeria and Gabon on the Functioning of Government Sub-Index. It also tied with Djibouti and Palestine, and ranked ahead of only Sudan, Iraq, Libya, Syria and Yemen in the region.

Finally, Lebanon tied with 33 other countries that include Bulgaria, Colombia, Ecuador, Kazakhstan, Mexico, Paraguay, Poland and Venezuela on the Political Culture Sub-Index. Regionally, Lebanon tied with Bahrain, Iraq, Jordan, Kuwait, Palestine, Oman and Syria, ranked ahead of Egypt and Mauritania, and came behind and Algeria and the UAE in this category.

EIU Democracy Index for 2016 Arab Countries Rankings & Scores

	Score	Arab Rank	Global Rank
Tunisia	6.40	1	69
Lebanon	4.86	2	102
Morocco	4.77	3	105
Palestine	4.49	4	110
Iraq	4.08	5	114
Mauritania	3.96	6	117
Jordan	3.96	6	117
Kuwait	3.85	8	121
Algeria	3.56	9	126
Egypt	3.31	10	133
Qatar	3.18	11	135
Oman	3.04	12	141
Djibouti	2.83	13	145
Bahrain	2.79	14	146
UAE	2.75	15	147
Sudan	2.37	16	151
Libya	2.25	17	155
Yemen	2.07	18	156
Saudi Arabia	1.93	19	159
Syria	1.43	20	166

Source: EIU, Byblos Research

Components of the 2016 Democracy Index for Lebanon

	Global Rank	Arab Rank	UMICs Rank	Lebanon Score	Global Average Score	Arab Average Score	UMICs Average Score
Political Participation	11	1	2	7.78	5.12	4.17	5.25
Civil Liberties	95	2	26	5.59	6.03	3.25	5.86
Electoral Process & Pluralism	107	3	31	4.42	5.93	2.09	5.77
Political Culture	113	10	25	4.38	5.62	4.69	5.02
Functioning of Government	141	13	40	2.14	4.91	2.78	4.54

Source: Economist Intelligence Unit, Byblos Research

Stock market index up 4% in January 2017

Figures released by the Beirut Stock Exchange (BSE) indicate that trading volume reached 7,195,986 shares in January 2017, constituting an increase of 60.7% from 4,478,596 million shares traded in the same month of 2016; while aggregate turnover amounted to \$46.8m, up by 21.7% from a turnover of \$38.5m in January 2016. Market capitalization grew by 10.1% from the end of January 2016 to \$12.2bn, with banking stocks accounting for 84.4% of the total, followed by real estate shares (13.5%), industrial firms (1.8%) and trading stocks (0.3%). The market liquidity ratio was 0.4% in January 2017 compared to 0.3% in January 2016. Trading stocks accounted for 43.5% of the aggregate trading volume in the covered month, followed by real estate equities with 33.2%, banking stocks for 22.3% and industrial shares with 1%. Also, real estate equities represented 48.9% of the aggregate value of shares traded, followed by banking stocks with 29.9%, trading stocks with 20.5% and industrial stocks with 0.7%. The average daily traded volume for the month was 359,799 shares for an average daily value of \$2.3m. The figures reflect an increase of 52.6% in volume and a rise of 15.6% in value year-on-year. In parallel, the Capital Markets Authority's Market Value-Weighted Index for stocks traded on the BSE increased by 4.2% in January 2017, while the CMA's Banks Market Value-Weighted Index rose by 15.5% in the covered month.

Aggregate net profits of listed banks up 12% in 2016

Financial results issued by the six banks listed on the Beirut Stock Exchange show that their aggregate net profits reached \$1.36bn in 2016, constituting an increase of 12% from net earnings of \$1.2bn in 2015. The banks' unaudited net profits reached \$309m in the first quarter, \$335m in the second quarter, \$352.1m in the third quarter and \$362.4m in the fourth quarter of 2016. Further, the banks' aggregate pre-tax profits grew by 39% to \$2.03bn in 2016. The aggregate net interest income of the six banks totaled \$2.35bn in 2016, up by 6.6% from \$2.21bn in 2015; while their receipts from net fees & commissions increased by 2.1 times to \$1.23bn. The total operating income of the listed banks reached \$4.8bn in 2016 and grew by 47.1% from \$3.3bn in 2015. The banks' collective cost-to-income ratio regressed from 49.4% in 2015 to 39.6% in 2016.

In parallel, the aggregate assets of the publicly-listed banks grew by 4.2% from end-2015 to \$119.5bn at the end of 2016; while total loans, including those to related parties, expanded by 0.5% to \$37bn. Also, total deposits, including those from related parties, improved by 1.2% from end-2015 to \$96.6bn at end-2016. In parallel, the banks' aggregate shareholders' equity increased by 11.7% from end-2015 to \$11.6bn at the end of 2016.

The six banks' aggregate loans-to-deposits ratio stood at 38.3% at the end of 2016, nearly unchanged from 38.6% at end-2015. BLOM Bank had the lowest loans-to-deposits ratio at 28.9% at end-2016 compared to 28.7% at end-2015; followed by Byblos Bank with a ratio of 30.3% relative to 29.6%; Bank of Beirut with 37.9%, up from 34.9% at end-2015; BLC Bank with 39.4% compared to 41.6% a year earlier; Banque BEMO with 47.5% compared to 49.9% and Bank Audi with 48.2% at end-2016, down from 50.2% at end-2015.

Results of Listed Banks in 2016						
	Audi	BLOM	Byblos	BoB	BEMO	BLC
Net Profits (\$m)	470.11	463.31	165.3	198.62	15.75	45.2
% Change*	16.6%	14.6%	2.4%	6.4%	21.8%	2.5%
Total Assets (\$bn)	44.4	29.53	20.83	17.21	1.76	5.75
% Change**	5.2%	1.5%	4.8%	6.6%	8.5%	0.1%
Loans (\$bn)	17.34	7.16	5.18	4.77	0.69	1.85
% Change**	-2.9%	-0.5%	5.0%	12.3%	2.2%	-3.1%
Deposits (\$bn)	35.96	24.81	17.10	12.61	1.45	4.69
% Change**	1.0%	-1.1%	2.8%	3.4%	7.4%	2.4%

Source: Banks' financial statements, Byblos Research

Nasco Insurance Group acquires Lebanese insurance company

Nasco Insurance Group announced that it has acquired in December 2016 a 93.9% stake in Al Ittihad al Watani sal (L'Union Nationale), a Lebanese insurance company, for \$17.5m. In addition, Nasco covered accumulated losses of \$10m at L'Union Nationale following the acquisition. The deal is part of the group's plan to consolidate its underwriting activity in the UAE, given L'Union Nationale's operations in Abu Dhabi.

Founded in 1961, Nasco Insurance Group owns Bankers Assurance sal, the fourth largest insurer by premium in Lebanon, and is active in underwriting, insurance & reinsurance brokerage, as well as third-party medical administration across the MENA region, Africa and France through 21 companies. The group's premium transactions currently exceed \$1.5bn. Nasco indicated that L'Union Nationale would operate independently from Bankers Assurance.

Established in 1947, L'Union Nationale is active in the non-life and life segments in Lebanon and started its operation in the UAE as of July 2011. *Al-Bayan* magazine's annual survey of the insurance sector in Lebanon ranked L'Union Nationale in 30th and 28th place in 2015 in terms of non-life and life premiums, respectively. The firm's non-life premiums dropped by 15.5% to \$7.6m in 2015, while the firm's life premiums totaled \$0.7m, down 18% from 2014. It had a 0.7% share of the non-life market and a 0.1% share of the local life market in 2015. In December 2016, A.M. Best placed under review with positive implications L'Union Nationale's Financial Strength Rating of 'C' and its Long-Term Issuer Credit Rating of 'ccc+', which reflects the potential financial and operational benefits that the insurer could derive as a member of the Nasco Insurance Group. There were 51 insurers operating in Lebanon at the end of 2015.

Net profits of health insurance branch up 85% to \$18.6m in 2015, claims down 2.5% to \$312.5m

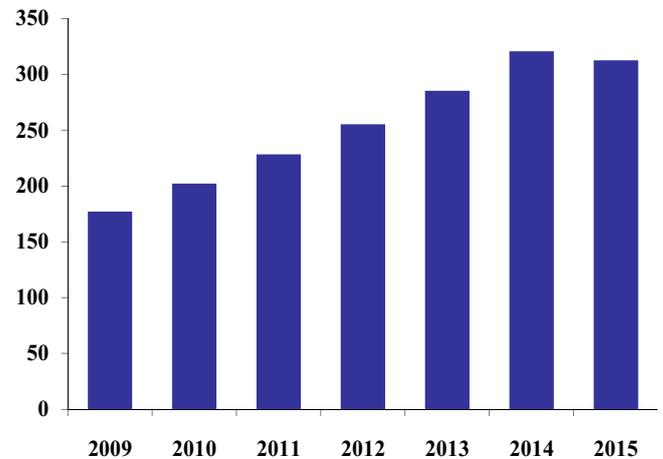
Figures released by the Insurance Control Commission (ICC) show that the aggregate net profits of insurance companies active in the health insurance segment in Lebanon reached \$18.6m in 2015, constituting an increase of 84.9% from \$10.1m in 2014. The medical insurance segment posted a net profit margin of 4.2% in 2015 compared to a ratio of 2.3% in 2014 and relative to a profit margin of 10.7% for the insurance sector. Health insurance was the largest segment of the non-life branches in 2015, with 710,453 people covered by the various medical plans that were offered through 39 health insurers in the market.

Further, gross written premiums from the health insurance category grew by 2.3% to \$445m in 2015 and accounted for 29.2% of the sector's aggregate premiums. The 'group' health segment's written premiums reached \$252.2m and accounted for 56.7% the medical branch's aggregate premiums, while those of the 'individual' health segment totaled \$192.7m and accounted for 43.3% of the total. The medical insurance market is heavily concentrated, as the top five companies underwrote 54.6% of health premiums for individuals and 62% for groups in 2015. MEDGULF led all insurers in the health insurance branch with premiums of \$66.4m in 2015 and accounted for 14.9% of the branch's aggregate premiums, followed by Bankers with \$48.1m (10.8%), Continental Trust with \$44.5m (10%), AXA Middle East with \$41.2m (9.3%) and Allianz SNA with \$35.1m (7.9%).

In parallel, paid claims totaled \$312.5m in 2015, constituting a drop of 2.5% from \$320.5m in 2014. Gross claims paid from the 'group' segment reached \$210m and accounted for 67.2% of aggregate health claims in 2015, while those of the 'individual' segment totaled \$102.5m and represented 32.8% of the total in the same year. The sector paid 1,034,365 claims in 2015, constituting an increase of 10.8% from 933,742 claims in 2014.

In parallel, the loss ratio, or the ratio of claims incurred to earned gross premiums, of the 'individual' health segment was 57.4% in 2015; the commission ratio, or the ratio of acquisition cost to earned gross premiums, reached 18.3%; the expense ratio, or the ratio of other general expenses to earned gross premiums, was 13.4%; and the reinsurance ratio, or the ratio of net reinsurance income to earned gross premiums, reached 1.9% in 2015. As such, the average technical combined loss ratio, which is the aggregate ratio of the above four ratios, reached 91.1% in 2015. Further, the loss ratio of the 'group' medical insurance segment was 83.9% in 2015, the commission ratio reached 6.3%, the expense ratio was 11.9%, and the reinsurance ratio reached 0.1% in 2015. As such, the average combined loss ratio reached 102.2% in 2015.

Paid Health Insurance Claims (US\$m)



Source: Insurance Control Commission, 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	217
Public Debt in Local Currency / GDP	81.9	84.6	89.6	645
Gross Public Debt / GDP	133.1	137.6	143.8	862
Total Gross External Debt / GDP**	170.0	174.7	176.6	190
Trade Balance / GDP	(34.4)	(29.5)	(30.0)	47
Exports / Imports	16.2	16.6	16.1	(49)
Fiscal Revenues / GDP	21.8	18.7	19.6	118
Fiscal Expenditures / GDP	27.9	26.5	28.2	218
Fiscal Balance / GDP	(6.1)	(7.7)	(8.6)	99
Primary Balance / GDP	2.6	1.4	1.4	1
Gross Foreign Currency Reserves / M2	66.5	58.7	62.7	394
M3 / GDP	235.4	241.9	250.0	1230
Commercial Banks Assets / GDP	351.4	364.0	392.5	3483
Private Sector Deposits / GDP	288.9	296.6	307.7	1618
Private Sector Loans / GDP	101.8	106.1	109.2	495
Private Sector Deposits Dollarization Rate	65.7	64.9	65.0	10
Private Sector Lending Dollarization Rate	75.6	74.8	73.6	(123)

* Change in basis 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	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



Economic Research & Analysis Department
Byblos Bank Group
P.O. Box 11-5605
Beirut – Lebanon
Tel: (961) 1 338 100
Fax: (961) 1 217 774
E-mail: research@byblosbank.com.lb
www.byblosbank.com

Lebanon This Week is a research document that is owned and published by Byblos Bank sal. The contents of this publication, including all intellectual property, trademarks, logos, design and text, are the exclusive property of Byblos Bank sal, and are protected pursuant to copyright and trademark laws. No material from Lebanon This Week may be modified, copied, reproduced, repackaged, republished, circulated, transmitted, redistributed or resold directly or indirectly, in whole or in any part, without the prior written authorization of Byblos Bank sal.

The information and opinions contained in this document have been compiled from or arrived at in good faith from sources deemed reliable. Neither Byblos Bank sal, nor any of its subsidiaries or affiliates or parent company will make any representation or warranty to the accuracy or completeness of the information contained herein.

Neither the information nor any opinion expressed in this publication constitutes an offer or a recommendation to buy or sell any assets or securities, or to provide investment advice. This research report is prepared for general circulation and is circulated for general information only. Byblos Bank sal accepts no liability of any kind for any loss resulting from the use of this publication or any materials contained herein.

The consequences of any action taken on the basis of information contained herein are solely the responsibility of the person or organization that may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies that may be discussed in this report and should understand that statements regarding future prospects may not be realized.

BYBLOS BANK GROUP

LEBANON

Byblos Bank S.A.L
Achrafieh - Beirut
Elias Sarkis Avenue - Byblos Bank Tower
P.O.Box: 11-5605 Riad El Solh - Beirut 1107 2811- Lebanon
Phone: (+ 961) 1 335200
Fax: (+ 961) 1 339436

SYRIA

Byblos Bank Syria S.A.
Damascus Head Office
Al Chaalan - Amine Loutfi Hafez Street
P.O.Box: 5424 Damascus - Syria
Phone: (+ 963) 11 9292 - 3348240/1/2/3/4
Fax: (+ 963) 11 3348205
E-mail: byblosbanksyria@byblosbank.com

IRAQ

Erbil Branch, Kurdistan, Iraq
Street 60, Near Sports Stadium
P.O.Box: 34 - 0383 Erbil - Iraq
Phone: (+ 964) 66 2233457/8/9 - 2560017/9
E-mail: erbilbranch@byblosbank.com.lb

Sulaymaniyah Branch, Kurdistan, Iraq
Salem street, Kurdistan Mall - Sulaymaniyah
Phone: (+ 964) 773 042 1010 / (+ 964) 773 041 1010

Baghdad Branch, Iraq
Al Karrada - Salman Faeq Street
Al Wahda District, No. 904/14, Facing Al Shuruk Building
P.O.Box: 3085 Badalat Al Olwiya - Iraq
Phone: (+ 964) 770 6527807 / (+ 964) 780 9133031/2
E-mail: baghdadbranch@byblosbank.com.lb

Basra Branch, Iraq
Intersection of July 14th, Manawi Basha Street, Al Basra - Iraq
Phone: (+ 964) 770 4931900 / (+ 964) 770 4931919
E-mail: basrabranch@byblosbank.com.lb

UNITED ARAB EMIRATES

Byblos Bank Abu Dhabi Representative Office
Intersection of Muroor and Electra Streets
P.O.Box: 73893 Abu Dhabi - UAE
Phone: (+ 971) 2 6336050 - 2 6336400
Fax: (+ 971) 2 6338400
E-mail: abudhabirepoffice@byblosbank.com.lb

ARMENIA

Byblos Bank Armenia CJSC
18/3 Amiryan Street - Area 0002
Yerevan - Republic of Armenia
Phone: (+ 374) 10 530362 Fax: (+ 374) 10 535296
E-mail: infoarm@byblosbank.com

CYPRUS

Limassol Branch
1, Archbishop Kyprianou Street, Loucaides Building
P.O.Box 50218
3602 Limassol - Cyprus
Phone: (+ 357) 25 341433/4/5 Fax: (+ 357) 25 367139
E-mail: byblosbankcyprus@byblosbank.com.lb

BELGIUM

Byblos Bank Europe S.A.
Brussels Head Office
Rue Montoyer 10
Bte. 3, 1000 Brussels - Belgium
Phone: (+ 32) 2 551 00 20
Fax: (+ 32) 2 513 05 26
E-mail: byblos.europe@byblosbankeur.com

UNITED KINGDOM

Byblos Bank Europe S.A., London Branch
Berkeley Square House
Berkeley Square
GB - London W1J 6BS - United Kingdom
Phone: (+ 44) 20 7518 8100
Fax: (+ 44) 20 7518 8129
E-mail: byblos.london@byblosbankeur.com

FRANCE

Byblos Bank Europe S.A., Paris Branch
15 Rue Lord Byron
F- 75008 Paris - France
Phone: (+33) 1 45 63 10 01
Fax: (+33) 1 45 61 15 77
E-mail: byblos.europe@byblosbankeur.com

SUDAN

Byblos Bank Africa
Khartoum Head Office
Intersection of Mac Nimer and Baladiyya Streets
P.O.Box: 8121 - Khartoum - Sudan
Phone: (+ 249) 1 56 552 222
Fax: (+ 249) 1 56 552 220
E-mail: byblosbankafrica@byblosbank.com

NIGERIA

Byblos Bank Nigeria Representative Office
161C Rafu Taylor Close - Off Idejo Street
Victoria Island, Lagos - Nigeria
Phone: (+ 234) 706 112 5800
(+ 234) 808 839 9122
E-mail: nigeriarepresentativeoffice@byblosbank.com.lb

DEMOCRATIC REPUBLIC OF CONGO

Byblos Bank RDC S.A.R.L
Avenue du Marché No. 4
Kinshasa-Gombe, Democratic Republic of Congo
Phone: (+ 243) 81 7070701
(+ 243) 99 1009001
E-mail: byblosbankrdc@byblosbank.com

ADIR INSURANCE

Dora Highway - Aya Commercial Center
P.O.Box: 90-1446
Jdeidet El Metn - 1202 2119 Lebanon
Phone: (+ 961) 1 256290
Fax: (+ 961) 1 256293