

LEBANON THIS WEEK

In This Issue

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

Demand for housing improves in fourth quarter of 2016

Association of Banks amends reference rate on US dollar and Lebanese pound lending

Deep structural reforms to raise growth rate to 5.5% annually in 2017-20

Country's financing outlook dependent on improved political environment

Fitch Ratings affirms Lebanon's sovereign ratings at 'B-', outlook 'stable'

Balance of payments posts surplus of \$1.2bn in 2016

Merrill Lynch maintains Lebanon's external debt at Marketweight, Eurobonds post 10th highest return in EMs

Industrial exports down 15% to \$2.3bn in first 11 months of 2016

Gross public debt at \$75bn at end-2016

World Bank approves \$200m financing for road network upgrade

Lebanon ranks 131st globally, second in Arab world in political freedoms

Corporate Highlights8

Commercial banks' assets reach \$204bn at end-2016, equivalent to 393% of GDP

Banks' loss absorption capacity improves

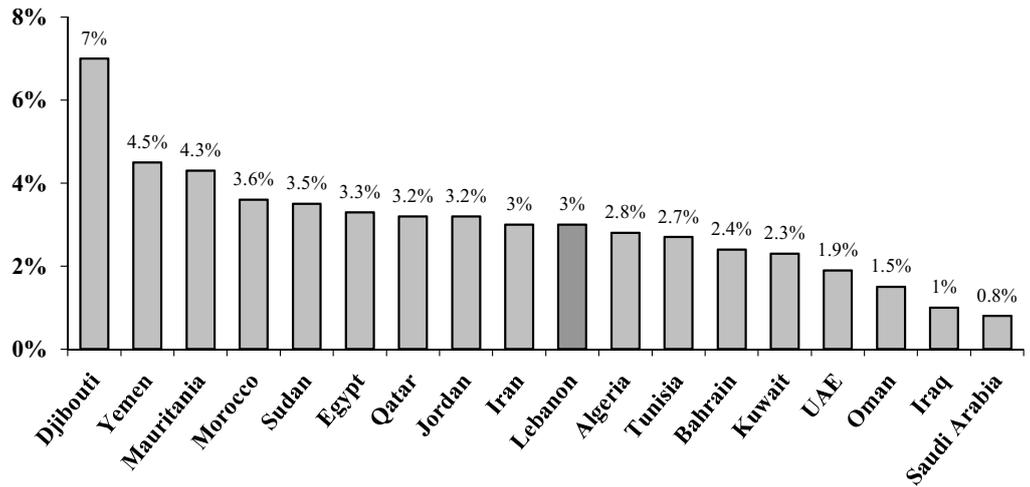
Kharafi Group sells stake in car dealership RYMCO

BLC Bank absorbs assets and liabilities of BLC Invest

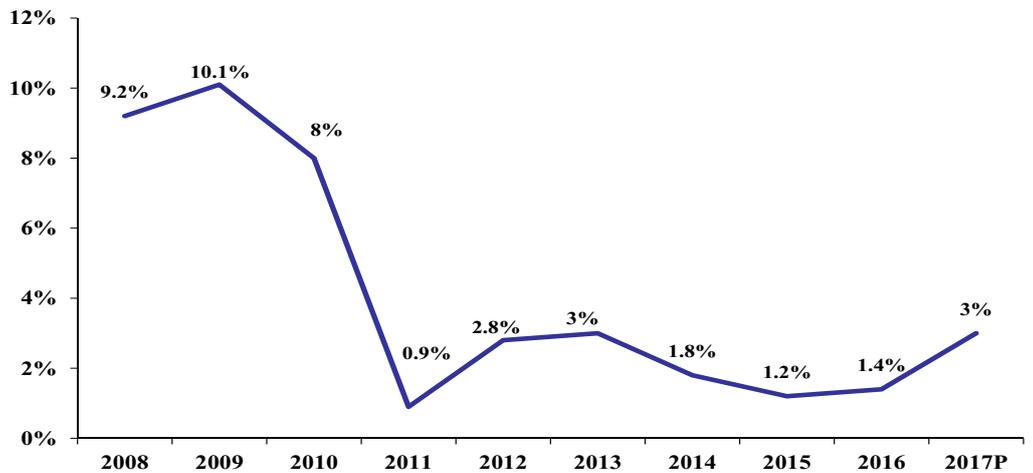
Ratio Highlights.....10
Risk Outlook10
Ratings & Outlook.....10

Charts of the Week

Projected Non-Oil Real GDP Growth Rates of MENA Countries in 2017 (%)



Estimated Real GDP Growth Rates in Lebanon (%)



Source: Institute of International Finance, International Monetary Fund, Byblos Bank

Quote to Note

"There cannot be enduring and inclusive growth without structural reforms."

The International Monetary Fund, on the need to improve the investment climate and the business environment in order to improve the growth prospects of the Lebanese economy

Number of the Week

9%: Increase in the number of hospital beds in Lebanon between 2011 and 2015, according to the Ministry of Public Health

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	11.20	(0.88)	251,509	19.71%
BLOM GDR	11.84	(1.42)	180,890	7.16%
Byblos Common	1.75	1.16	155,417	8.10%
Audi Listed	6.70	(3.87)	106,811	21.92%
Solidere "A"	9.51	(8.29)	61,716	7.78%
Solidere "B"	9.69	(1.32)	33,221	5.15%
Audi GDR	6.88	0.00	13,072	6.75%
Byblos Pref. 09	101.40	(2.12)	7,250	1.66%
Byblos Pref. 08	102.10	0.00	1,050	1.67%
HOLCIM	10.28	0.00	-	1.64%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Mar 2017	9.00	100.50	3.97
Nov 2018	5.15	100.63	4.77
May 2019	6.00	101.75	5.17
Mar 2020	6.38	102.38	5.52
Apr 2021	8.25	109.00	5.78
Oct 2022	6.10	101.13	6.07
Jun 2025	6.25	97.75	6.60
Nov 2026	6.60	99.25	6.70
Feb 2030	6.65	98.13	6.87
Nov 2035	7.05	99.50	7.10

Source: Byblos Bank Capital Markets

	Feb 6-10	Jan 30 - Feb 3	% Change	January 2017	January 2016	% Change
Total Shares Traded	831,516	4,046,473	(79.5)	7,195,986	4,478,596	60.7
Total Value Traded	\$9,824,966	\$19,734,732	(50.2)	\$46,829,082	\$38,492,918	21.7
Market Capitalization	\$12.22bn	\$12.45bn	(1.82)	\$12.21bn	\$11.09bn	10.1

Source: Beirut Stock Exchange (BSE)



Demand for housing improves in fourth quarter of 2016

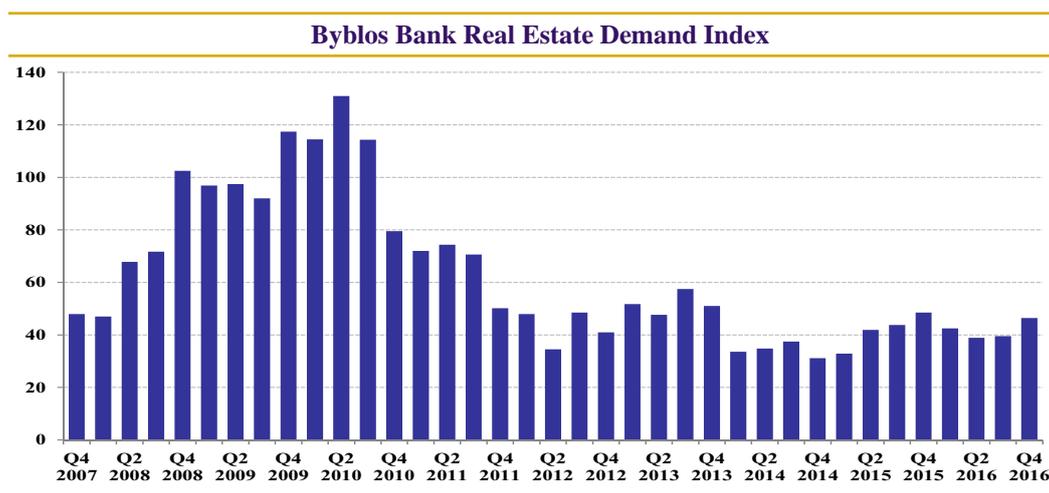
Demand for residential real estate in Lebanon improved in the fourth quarter of 2016, as reflected by the results of the Byblos Bank Real Estate Demand Index. The Index averaged 46.5 points in the fourth quarter of 2016, constituting an increase of 17.5% from 39.5 points in the third quarter of 2016 and a decline of 4.3% from 48.5 points in the fourth quarter of 2015. The positive political developments that materialized during the fourth quarter of 2016 supported household sentiment and caused the Index to improve from the preceding quarter. Still, the results constitute the 13th lowest level in 38 quarterly readings.

The Index increased from a very low base, as the average monthly score of the fourth quarter of 2016 represents a decrease of 64.5% from the peak of 131 points registered in the second quarter of 2010 and a drop of 57.7% from the annual peak of 109.8 points posted in 2010. Also, it is 25.5% lower than the Index's monthly trend average score of 62.4 points since the Index's inception in July 2007. In addition, the Index posted a monthly average of 41.9 points in 2016, nearly unchanged from 41.8 points in 2015.

In parallel, the answers of respondents to the Index's survey questions in the fourth quarter of 2016 show that 5.3% of Lebanese residents had plans to either buy or build a residential property in the coming six months, relative to 4.5% of residents in the third quarter of 2016 and 5.5% of residents in the fourth quarter of 2015 who had similar plans. In comparison, 7% of residents in Lebanon, on average, had plans to buy or build a residential property in the country between July 2007 and December 2016, with this share peaking at nearly 15% in the second quarter of 2010.

Demand for housing in the fourth quarter of 2016 was the highest in Mount Lebanon, as 5.7% of its residents had plans to build or buy a house in the coming six months compared to 5.4% in the preceding quarter. The North followed with 5.6% of its residents intending to build or buy a house in the coming six months relative to 3.1% in the third quarter; while 4.8% of residents in the Bekaa had plans to build or buy a house, up from 4.5% in the preceding quarter. In addition, 4.8% of residents in Beirut intended to buy a residential unit, relative to 5% in the preceding quarter, while 4.6% of residents in the South had plans to build or buy a house, up from 3.5% in the preceding quarter.

The Byblos Bank Real Estate Demand Index is a measure of local demand for residential units and houses in Lebanon. The Index is compiled, implemented and analyzed in line with international best practices and according to criteria from leading indices worldwide. The Index is based on a face-to-face monthly survey of a nationally representative sample of 1,200 males and females living throughout Lebanon, whereby residents are asked about their plans to buy or build a house in the coming six months. The data segregates the Index based on age, gender, income, profession, administrative district, and religious affiliation. The Byblos Bank Economic Research & Analysis Department has been calculating the Index on a monthly basis since July 2007, with November 2009 as its base month. The survey has a margin of error of $\pm 2.83\%$, a confidence level of 95% and a response distribution of 50%. The monthly field survey is conducted by Statistics Lebanon Ltd, a market research and opinion-polling firm.



Source: Byblos Bank Economic Research & Analysis Department, based on surveys conducted by Statistics Lebanon

Association of Banks amends reference rate on US dollar and Lebanese pound lending

The Association of Banks in Lebanon (ABL) recommended to its member banks to increase the Beirut Reference Rate (BRR) in US dollars to 6.67% in March 2017 from 6.59% in February 2017. The rate, considered as the reference rate for lending in foreign currency, replaced the London Interbank Offered Rate (LIBOR) in 2009, as the ABL decided that the LIBOR does not reflect the cost of funding and lending in Lebanon. Additionally, the ABL recommended to its member banks to increase the BRR in Lebanese pounds to 8.67% in March 2017 from the February 2017 rate of 8.65%. The BRR in US dollars and Lebanese pounds were adopted in March and May 2009, respectively. The ABL considers that the BRR does not replace the Beirut Prime Lending Rate in each currency, but constitutes the basis to calculate the prime rate after adding to the prime lending rate the cost of liquidity and refinancing, credit risk and the profitability of banks.

Deep structural reforms to raise growth rate to 5.5% annually in 2017-20

The Institute of International Finance projected Lebanon's real GDP growth rate to accelerate from an estimated 1.4% in 2016 to 3% in 2017, as it considered that the recent presidential elections and the formation of a national unity government could lead to a modest recovery in private investment and in exports of goods and services. It added that ties with the member countries of the Gulf Cooperation Council (GCC) have recently improved, but it noted that the latter did not take concrete steps yet to lift the travel ban on their nationals to Lebanon. As such, it did not expect an immediate recovery in tourism activity, one of Lebanon's main growth drivers. It pointed out that downside risks to the outlook include delays in the implementation of structural reforms, political bickering and the postponement of the parliamentary elections that are expected to be held in May 2017, as well as the reemergence of another waste management crisis that could derail the recovery of the tourism sector. The IIF projected Lebanon's real GDP growth to average about 4% annually during the 2017-20 based on current trends, but it expected the annual average growth rate to accelerate to about 5.5% during the same period in case authorities implement deeper reforms.

In parallel, the IIF forecast Lebanon's fiscal deficit to narrow from 8.2% of GDP in 2016 to 7.8% of GDP in 2017. But it noted that the narrowing of the deficit is insufficient to put the public debt on a downward path. It projected the debt level to increase from 143.4% of GDP in 2016 to 147.4% of GDP in 2017. It said that a rise in spending on infrastructure projects in Lebanon would support economic activity, but it considered that there is limited scope for such an increase, given the government's weak revenues, large public-sector wage bill, and high debt servicing cost. It indicated that authorities need to implement fiscal consolidation measures and reduce the debt level in order to ease the financing pressure on the Central Bank and decrease the reliance on deposit inflows to cover the government's financing needs.

The IIF pointed out that macroeconomic risks from Lebanon's very high debt level are somewhat alleviated by the Central Bank's considerable foreign assets and by the support from the highly liquid banking system. It expected deposit growth to moderately accelerate in 2017 and 2018 in case the improvement in the domestic political and security conditions persists, and if the fighting in Syria de-escalates. It noted that high interest rates in Lebanon, the stable exchange rate and remittance inflows would help attract adequate deposit inflows that would sustain macroeconomic and financial stability. It expected authorities to maintain the currency peg to the US dollar, as the peg is critical to preserve confidence and to service and refinance the government's external debt. It considered that the current interest rate spreads in Lebanon are sufficiently wide to attract adequate non-resident deposits from Lebanese expatriates. It said that the Central Bank could raise interest rates, but it noted that the increase would be smaller than the anticipated 75 basis points increase in the U.S. policy rate in 2017.

Lebanon's Main Economic Indicators					
	2014	2015	2016	2017	2018
Real GDP growth (%)	1.8	1.2	1.4	3.0	3.5
CPI inflation, average (%)	1.9	(3.8)	(0.8)	2.3	2.8
Fiscal balance, % of GDP	(6.2)	(7.8)	(8.2)	(7.8)	(7)
Government debt, % of GDP	133.1	137.7	143.4	147.4	144.9
Current account balance, % of GDP	(23.3)	(16)	(17.2)	(16.2)	(15)
Official reserves, \$bn	39.5	38.8	40.5	41.0	42.5
Nominal GDP, \$bn	50.0	51.1	52.0	53.4	57.1

Source: Institute of International Finance, February 2017

Country's financing outlook dependent on improved political environment

Citi considered that the recent improvement in the Lebanese political environment is cyclical, as it is driven by a temporary convergence of interests among rival domestic factions and their external allies. It added that the relative stabilization of the situation in Syria could provide a more permanent and positive catalyst for political stability and sentiment in Lebanon. It noted that the stabilization of security conditions in some areas of Syria constitutes a major economic opportunity for Lebanon through the reconstruction and development efforts in these areas.

According to Citi, a significant improvement in Lebanon's political environment is critical to the country's financing outlook. It noted that deposit inflows to Lebanon decelerated in recent years due in part to the prevailing political uncertainties, and that the slowdown in deposit inflows was reversed in recent months after Banque du Liban (BdL) conducted financial swap transactions. As such, it considered that it is unclear yet whether the rebound in deposit inflows will be permanent.

Citi indicated that factors other than the political environment have contributed to the slowdown in deposit inflows, including a subdued global economic outlook. It pointed out that deposit inflows could slow down in coming months, which may constitute potential downside risks to Eurobond investors. It added that some deposits that were attracted to finance the BdL's transactions could be repatriated once they mature. It noted that this could prompt the BdL to conduct a second round of financial swap operations or to significantly increase interest rates to attract deposits.



Fitch Ratings affirms Lebanon's sovereign ratings at 'B-', outlook 'stable'

Fitch Ratings affirmed at 'B-' Lebanon's long-term foreign and local currency Issuer Default Ratings (IDR) and maintained the 'stable' outlook on the ratings. It also affirmed at 'B-' the ratings on Lebanon's senior unsecured foreign currency bonds and Country Ceiling, while it kept at 'B' the short-term foreign and local currency IDRs.

The agency indicated that the sovereign ratings are supported by Lebanon's strong external liquidity, resilient banking sector, as well as by other structural strengths, such as the country's GDP per capita and broader human development indicators that are well above similarly-rated peers and are more in line with the median of 'BBB'-rated sovereigns. In contrast, it pointed out that the ratings are constrained by elevated political and security risks, public finance imbalances and slow economic performance. It considered that the presidential election in October 2016, after more than a two-year vacuum, has restored political stability and constitutes an important step towards a potential improvement in political effectiveness.

Fitch pointed out that Lebanon's growth prospects have improved, as it considered that the positive political developments would improve government effectiveness and would strengthen confidence, which, in turn, would support deposit and lending growth. It estimated the fiscal deficit to have widened to 8.1% of GDP in 2016 and expected wide deficits to persist in coming years due to the lack of fiscal reforms, elevated current spending and subdued economic activity. Also, it estimated the public debt level at 144.2% of GDP in 2016, the third highest level among Fitch-rated sovereigns. It expected the debt stock to further increase during the 2017-18 period based on current fiscal trends.

The agency indicated that the banking system is still attracting enough deposits to simultaneously meet the government's financing needs and extend loans to the private sector. It indicated that Banque du Liban (BdL) conducted financial engineering operations worth \$13bn in 2016 in order to address the decline in its foreign currency reserves and the slowdown in deposit growth in the banking sector, as the latter reached a low of 3.7% year-on-year in April 2016. It considered that the swap operations had mixed results. It said that the BdL's operations increased its foreign currency reserves and accelerated the growth of non-resident deposits, as some banks offered attractive packages for foreign currency deposits. The operations also increased liquidity in Lebanese pounds and are expected to support the banks' capitalization ratios. However, Fitch pointed out that the swap operations have increased the size and complexity of the BdL's balance sheet, while it noted that the carry costs associated with these transactions imply that the BdL will incur further losses. It indicated that the BdL has been incurring annual losses on its operations in foreign currency and its capital position has been deteriorating, as it receives minimum returns on its foreign currency reserves and pays higher rates to attract deposits in US dollars.

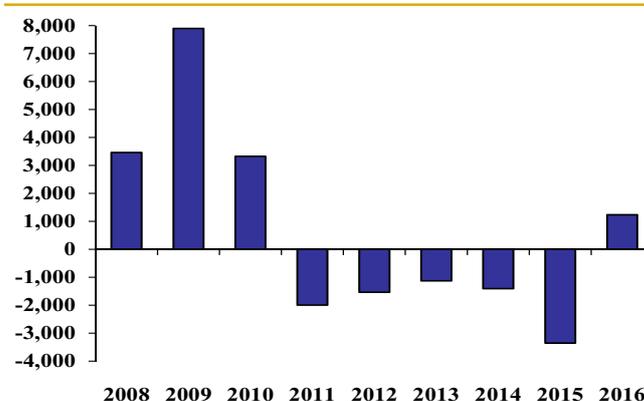
In parallel, the agency indicated that Lebanon has strong external liquidity buffers despite the wide current account deficit that it estimated at 17.8% of GDP in 2016. It noted that the BdL's gross foreign currency reserves increased by 8.2% year-on-year to \$34.4bn at the end of November 2016. It added that the dollarization rate of deposits stands at about 65% and has remained broadly stable since the start of the Syrian conflict in 2011. In addition, it said that the government has a perfect track record of public debt repayment.

Fitch noted that upside and downside risks to the ratings are balanced. It indicated that growing confidence in the sustainability of the domestic political situation, a sustained de-escalation of the Syrian conflict and an improvement in public debt dynamics would lead to positive rating actions.

Balance of payments posts surplus of \$1.2bn in 2016

Figures issued by the Central Bank show that Lebanon's balance of payments posted a surplus of \$1.2bn in 2016 compared to a deficit of \$3.35bn in 2015, and representing the first annual surplus since 2010. The balance of payments posted a surplus of \$909.8m in December 2016 compared to a surplus of \$453m in November 2016 and a deficit of \$372.4m in December 2015. The December 2016 surplus was caused by an increase of \$1.14bn in the net foreign assets of banks and financial institutions, which was partly offset by a decrease of \$234.3m in those of the Central Bank. The cumulative surplus in 2016 was caused by an increase of \$3.87bn in the net foreign assets of the Central Bank, which was partly offset by a decrease of \$2.63bn in those of banks and financial institutions. The balance of payments posted surpluses of \$7.9bn in 2009 and \$3.3bn in 2010, and deficits of \$2bn in 2011, \$1.5bn in 2012, \$1.1bn in 2013, and \$1.4bn in 2014. The balance of payments' surplus was equivalent to 2.6% of GDP in 2016, while the balance of payments' deficit was equivalent to 3% of GDP in 2014 and 8% of GDP in 2015.

Balance of Payments (US\$m)



Source: Central Bank of Lebanon

Merrill Lynch maintains Lebanon's external debt at Marketweight, Eurobonds post 10th highest return in EMs

Figures issued by Merrill Lynch indicate that Lebanon's external debt posted a return of 2.48% in January 2017, constituting the second highest return among 43 markets in the Central & Eastern Europe and the Middle East & Africa (CEEMEA) region, as well as the 10th highest return among 75 emerging markets included in Merrill Lynch's External Debt EM Sovereign Index. Lebanon outperformed the overall emerging markets' return of 1.3% in the covered month.

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

Further, Lebanon's external debt posted the second highest return among 26 countries in the Middle East & Africa region in January 2017, behind Kenya (+2.58%). It outperformed Zambia (+1.75%), Namibia (+1.74%), Egypt (+1.72%), Tunisia (+1.62%), South Africa (+1.61%), Morocco (+1.49%), Saudi Arabia (+1.39%), Qatar (+1.26%), Bahrain (+1.24%), the UAE (+1.08%), Turkey (+0.96%), Nigeria (+0.94%), Cameroon (+0.91%), Jordan (+0.81%), Rwanda (+0.69%), Israel (+0.62%), Iraq (+0.5%), the Ivory Coast (+0.29%), Angola (+0.25%), Ghana (+0.01%), Oman (-0.23%), Senegal (-0.42%), Gabon (-0.52%) and Mozambique (-10.42%).

In parallel, Merrill Lynch indicated that the option-adjusted spread on Lebanese Eurobonds was 433 basis points at the end of January 2017 compared to 499 basis points at end-January 2016, constituting the 15th widest spread in the CEEMEA region and the 23rd widest among emerging markets. The spread on Lebanese Eurobonds was wider than the emerging markets' overall spread of 293 basis points at the end of January 2017. Lebanon has a weight of 2.67% 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 5.1% of allocations in the CEEMEA region.

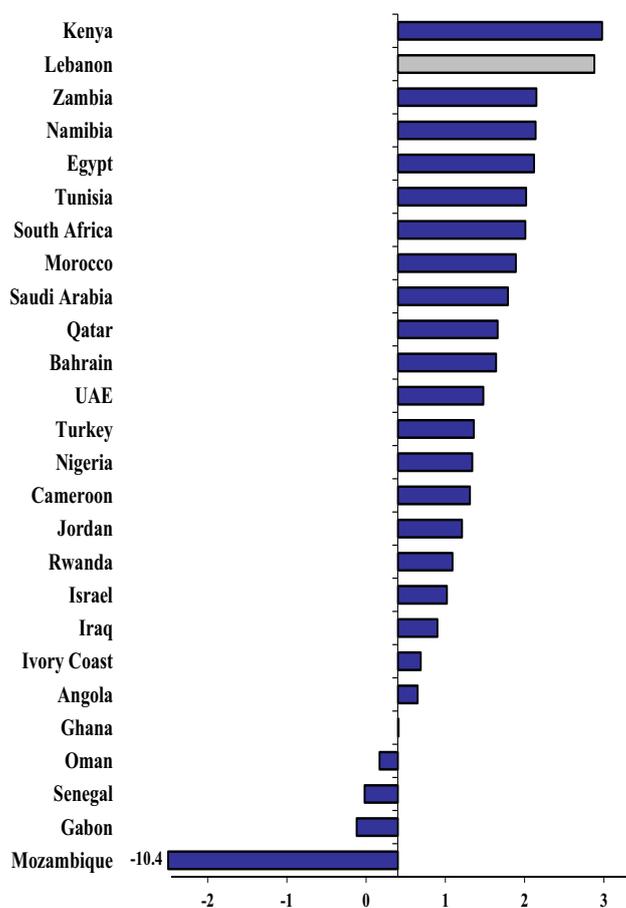
Industrial exports down 15% to \$2.3bn in first 11 months of 2016

Figures released by the Ministry of Industry show that industrial exports totaled \$2.3bn in the first 11 months of 2016, constituting a decrease of 15.2% from \$2.7bn in the first 11 months of 2015. Industrial exports reached \$193.7m in November 2016, down by 12% from \$220m in the preceding month and down by 11.9% from \$219.9m in November 2015.

Exports of machinery & mechanical appliances totaled \$544.7m and accounted for 23.6% of aggregate industrial exports in the first 11 months of 2016, followed by prepared foodstuffs with \$417.9m (18.1%), chemical products with \$398.2m (17.2%), base metals with \$228.8m (9.9%), and plastics & articles with \$130.1m (5.6%). Arab countries were the destination of 55.5% of Lebanese industrial exports during the first 11 months of 2016, followed by European economies with 16.2%, African countries with 12.8%, Asian economies with 9.6%, countries in the Americas with 4.3%, and markets in Oceania with 0.5%. On a country basis, Saudi Arabia was the main destination of Lebanese industrial exports and accounted for 12.3% of the total in the first 11 months of 2016, followed by the UAE with 10%, Iraq with 9%, Syria with 7.2% and Jordan with 3.8%. In November 2016, 12 Arab states, 10 European economies, 10 African countries, five Asian economies, two countries in the Americas and one market in Oceania imported \$1m or more each in industrial products from Lebanon.

In parallel, industrial imports reached \$217.6m in the first 11 months of 2016, down by 3.2% from \$224.7m in the first 11 months of 2015. China and Italy were the main sources of such imports and accounted for 21% each of the total in the first 11 months of 2016, followed by Germany with 14.5% and Turkey with 6.4%. Further, imports of industrial equipment and machinery reached \$20m in November 2016, increasing by 5.8% from the same month of 2015. Germany was the main source of imports of industrial equipment to Lebanon in November and accounted for 28.8% of the total, followed by Italy with 20.2% and China with 14.5%.

External Debt Performance in the Middle East & Africa in January 2017 (%)



Source: Merrill Lynch, Byblos Research

Gross public debt at \$75bn at end-2016

Lebanon's gross public debt reached \$74.9bn at the end of 2016, constituting an increase of 6.5% from \$70.3bn at end-2015 and compared to increases of 5.6% in 2015, 4.9% in 2014, 10.1% in 2013, 7.5% in 2012, 2% in 2011 and 3% in 2010. In nominal terms, the gross public debt grew by \$4.56bn in 2016 relative to increases of \$3.75bn in 2015, \$3.1bn in 2014, \$5.8bn in 2013, \$4bn in 2012, \$1.1bn in 2011 and \$1.5bn in 2010.

Debt denominated in Lebanese pounds totaled \$46.8bn at the end of 2016, growing by 8.2% from end-2015; while debt denominated in foreign currency stood at \$28.1bn, constituting a rise of 3.8% from end-2015. Local currency debt accounted for 62.5% of the gross public debt at the end of 2016 compared to 61.5% a year earlier, while foreign currency denominated debt represented the balance of 37.5% relative to 38.5% at end-2015. The weighted interest rate on outstanding Treasury bills was 6.92% and that on Eurobonds was 6.46% in December 2016. Further, the weighted life on Eurobonds was 6.19 years, while that on Treasury bills was 1,269 days.

The Central Bank held 42.7% of the Lebanese pound-denominated public debt at the end of 2016, up from 37.3% a year earlier; followed by commercial banks with 41.9% of the local debt, down from 45.8% at end-2015. Also, public agencies, financial institutions and the public held 15.3% of local debt at end-2016, down from 16.9% a year earlier. In parallel, Eurobond holders and special T-bills in foreign currencies accounted for 92.9% of foreign-currency denominated debt at the end of 2016, followed by multilateral institutions with 3.7%, foreign governments with 3.2% and Paris II loans with 0.2%. Also, the gross market debt accounted for about 61% of the total public debt. Gross market debt is the total public debt less the portfolios of the Central Bank, the National Social Security Fund, bilateral and multilateral loans, as well as Paris II and Paris III related debt.

In parallel, S&P Global Ratings rates Lebanon's long- and short-term foreign currency sovereign credit ratings at 'B-'. But the Market-Based Credit Default Swap Implied Ratings, an indicator of risk appetite by foreign investors, show that Lebanon's sovereign debt is considered by the market to have a 'B' risk level, which is one notch higher than S&P's rating for Lebanon as at February 9, 2017.

World Bank approves \$200m financing for road network upgrade

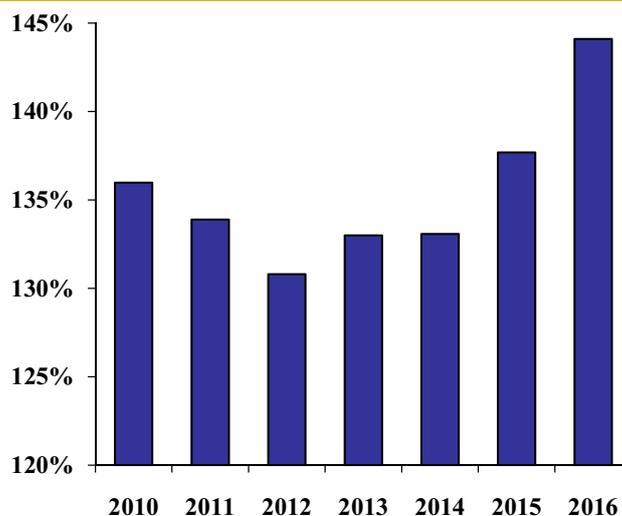
The World Bank Group approved \$200m to finance the Roads and Employment Project in Lebanon that aims to upgrade the country's road network and create employment opportunities. The funds consist of a loan of \$154.6m that has a seven-year grace period and that will be repaid over 32.5 years, and a grant of \$45.4m from the World Bank's Concessional Financing Facility. The funds will be used to repair around 500 kilometers of primary, secondary and tertiary roads, mainly in rural areas. The works include asphalt overlays, drainage work, slope stabilization and roadside improvements, among others.

The project is part of the first phase of the Lebanese government's five-year \$510m plan to upgrade the country's road network. The first phase of the plan would cost \$300m and is expected to be executed in three to five years. It consists of the rehabilitation and maintenance of existing road networks, including the improvement of road safety systems, the purchase of equipment for emergency road works, and capacity building to improve the management and efficiency of the road network. The World Bank indicated that a visual survey of about 6,000 kilometers of primary, secondary and tertiary roads in Lebanon is currently ongoing to identify the segments in most need of rehabilitation. The Council for Development and Reconstruction is mandated to implement and monitor the project.

Lebanon's road network consists of a total of about 21,705 kilometers, with the main network consisting of about 6,380 kilometers of mostly paved roads. The World Bank indicated that the road network in Lebanon is in poor condition due to years of underinvestment and inefficient spending. The Ministry of Public Works & Transport estimates that about 15% of the main network is in good condition, 50% is in fair condition, and 35% is in poor condition. The World Economic Forum's 2016-17 Global Competitiveness Index ranks Lebanon in 124th place out of 138 countries on the quality of its roads.

The World Bank's current commitment to Lebanon in grants, loans and other concessional financing reached \$1.3bn following the approval of the Roads and Employment Project.

Gross Public Debt (% of GDP)



Source: Association of Banks in Lebanon, Institute of International Finance, Byblos Research

Lebanon ranks 131st globally, second in Arab world in political freedoms

In its annual survey on political freedoms in 195 countries, non-profit organization Freedom House ranked Lebanon in 131st place worldwide and in second place among 19 Arab countries in 2016. Lebanon came in 132nd place globally and in second regionally in the 2015 survey. The survey rates each country on political rights and civil liberties on a scale of one to seven, with one representing the highest degree of freedom and seven the lowest level. The combined average of each country's ratings determines an overall status of 'Free', 'Partly Free', or 'Not Free'.

Globally, Lebanon had the same level of political freedoms as Armenia, Mali, Morocco, Nicaragua, Pakistan and Turkey. It ranked ahead of nine tied countries that include Jordan, Kyrgyzstan and Zimbabwe; and came behind 13 tied countries that include Côte d'Ivoire, Kenya and Singapore. Lebanon came in the 'Partly Free' category, unchanged since 2005, when it was upgraded from the 'Not Free' category. Also, Lebanon's freedom rating was unchanged at 4.5 points, below the global average of 3.4 points, but better than the Arab rating of 5.6 points.

Lebanon tied with 14 countries that include Armenia, Jordan and Morocco, and came immediately behind 16 tied countries such as Bangladesh and Turkey on the Political Rights Sub-Index, which reflects the citizens' ability to participate freely in the political process. It tied with Jordan, Iraq, Kuwait and Morocco and trailed only Tunisia in the Arab region. Lebanon's level of Political Rights reached 5 points, better than the Arab level of 5.8 points.

Also, Lebanon tied with 27 countries that include Ecuador, Sri Lanka and Zambia, and ranked behind 26 tied countries like Columbia, India and the Philippines on the Civil Liberties Sub-Index. This category reflects the freedoms of expression and belief, associational and organizational rights, the rule of law, and personal autonomy. Lebanon ranked second in the Arab region on this category behind Tunisia. Lebanon's level of civil liberties reached 4 points, worst than the global average of 3.3 points, but better than the Arab level of 5.4 points.

The survey classified 87 countries in the "Free" category accounting for 45% of the total; followed by 59 countries in the "Partly Free" category (30%), and 49 countries in the "Not Free" category (25%). It also concluded that 39% of the global population lives under political systems that are Free, whereas 25% are in systems that are Partly Free and 36% lives under political systems that are Not Free.

Arab Countries' Scores & Rankings

Country	Score	Arab Rank	Global Rank	Category
Tunisia	2.0	1	58	Free
Lebanon	4.5	2	131	Partly Free
Morocco	4.5	2	131	Partly Free
Jordan	5.0	4	138	Partly Free
Kuwait	5.0	4	138	Partly Free
Algeria	5.5	6	147	Not Free
Djibouti	5.5	6	147	Not Free
Egypt	5.5	6	147	Not Free
Iraq	5.5	6	147	Not Free
Mauritania	5.5	6	147	Not Free
Oman	5.5	6	147	Not Free
Qatar	5.5	6	147	Not Free
UAE	6.0	13	160	Not Free
Bahrain	6.5	14	171	Not Free
Libya	6.5	14	171	Not Free
Yemen	6.5	14	171	Not Free
Saudi Arabia	7.0	17	185	Not Free
Sudan	7.0	17	185	Not Free
Syria	7.0	17	185	Not Free

Source: Freedom House, Byblos Research

Commercial banks' assets reach \$204bn at end-2016, equivalent to 393% of GDP

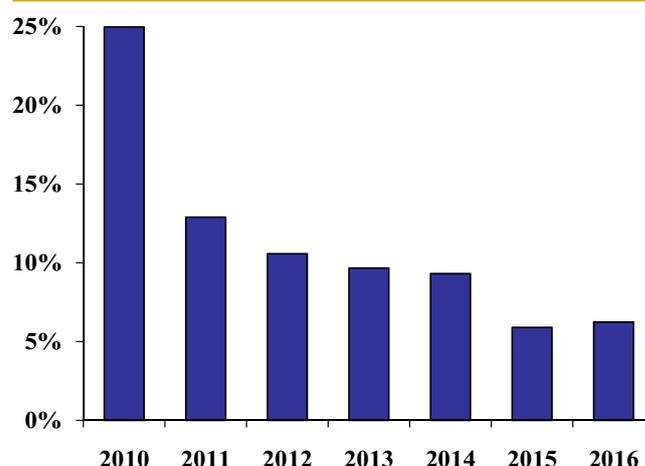
The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$204.3bn at the end of 2016, constituting an increase of 9.9% from the end of 2015. The banking sector's assets were equivalent to 393% of GDP in 2016 relative to 364% in 2015. Loans extended to the private sector totaled \$57.2bn at the end of 2016, reflecting an increase of 5.5% from a year earlier. Lending to the private sector was equivalent to 110% of GDP in 2016 relative to 106.2% of GDP in 2015. Loans to the resident private sector totaled \$51bn, up by 6.2% from the end of 2015, and were equivalent to 98.2% of GDP last year compared to 94.1% of GDP in 2015. Also, credit to the non-resident private sector reached \$6.14bn, and regressed by 0.6% year-on-year. In nominal terms, credit to the private sector increased by \$3bn in 2016 relative to a growth of \$3.3bn in 2015. Lending to the resident private sector grew by \$3bn in 2016 relative to an increase of \$2.7bn in 2015, while credit to the non-resident private sector regressed by \$39.8m in 2016 compared to an increase of \$648.1m in 2015. The dollarization rate in private sector lending regressed to 72.6% at the end of 2016 from 74.8% a year earlier. In addition, claims on non-resident banks reached \$11.2bn at the end of 2016, down by 2.7% from the end of 2015, while claims on the public sector stood at \$34.7bn at the end of 2016, down by 8.1% from end-2015. The average lending rate in Lebanese pounds was 8.23% in December 2016, while the same rate in US dollars stood at 7.35%. Further, the deposits of commercial banks at the Central Bank totaled \$89.3bn at the end of 2016, constituting a jump of 26.6% from a year earlier.

In parallel, private sector deposits totaled \$162.5bn at the end of 2016, constituting an increase of 7.2% from end-2015. Private sector deposits were equivalent to 312.7% of GDP last year relative to 296.8% of GDP in 2015. Deposits in Lebanese pounds reached \$55.5bn at end-2016 and grew by 4.3% year-on-year; while deposits in foreign currencies totaled \$107bn and increased by 8.8% from the end of 2015. Aggregate non-resident deposits reached \$34bn at the end of 2016 and expanded by 6.6% from end-2015. In nominal terms, private sector deposits grew by \$856.4m in the first quarter, by \$2.2bn in the second quarter, by \$3.5bn in the third quarter and by \$4.35bn in the fourth quarter of 2016. As such, total private sector deposits rose by \$10.9bn in 2016 compared to an increase of \$7.2bn in 2015. Resident private sector deposits grew by \$8.8bn in 2016 relative to a rise of \$5.6bn in 2015, while non-resident deposits jumped by \$2.1bn in 2016 compared to an increase of \$1.56bn in 2015.

In parallel, deposits of non-resident banks reached \$9.5bn at the end of 2016, and increased by 44.7% from end-2015. The dollarization rate of deposits was 65.8% at the end of 2016 relative to 64.9% a year earlier. Further, the average deposit rate in Lebanese pounds was 5.56% in December 2016, unchanged from year earlier, while the same rate in US dollars was 3.52% relative to 3.17% in December 2015.

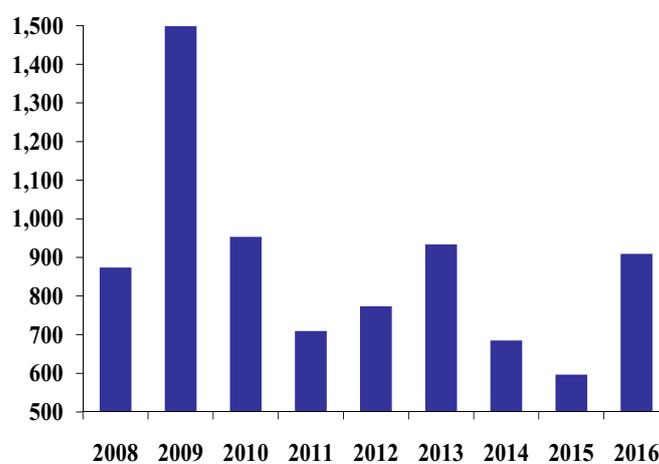
The ratio of private sector loans-to-deposits in foreign currency stood at 38.8%, well below the Central Bank's limit of 70% and compared to 41.3% a year earlier. The same ratio in Lebanese pounds was 28.2% at end-2016 relative to 25.6% at the end of 2015. The ratio of total private sector loans-to-deposits was 35.2%, up from 35.8% at end-2015. The banks' aggregate capital base stood at \$18.2bn at the end of 2016, up by 9.4% from \$16.7bn at end-2015.

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



Source: Association of Banks in Lebanon, Byblos Research

**Average Monthly Growth of
Private Sector Deposits (US\$m)**



Source: Association of Banks in Lebanon, Byblos Research

Banks' loss absorption capacity improves

Moody's Investors Service indicated that three banks it rates in Lebanon have used all the proceeds they generated from their participation in Banque du Liban's (BdL) financial swap operations to strengthen their balance sheets, which is credit positive for the rated banks amid elevated risks.

It said that the BdL asked commercial banks in Lebanon to use the proceeds they have generated from their participation in its financial swap operations to book collective provisions equivalent to 2% of risk-weighted loans, as well as to cover any shortfalls from the implementation of the IFRS9 accounting standard and the new capital requirements that are due for 2018. In addition, it noted that the BdL requested all banks to cover the goodwill generated from mergers and acquisitions and the losses that resulted from currency depreciation on the banks' participation in foreign operations. Also, it pointed out that, in case the surplus of funds at banks exceeds the amount they need to meet the previously mentioned requirements, banks can release up to 70% of the excess amount, while the remaining 30% will be under deferred liabilities that are part of Tier Two capital. The released amount can be recognized as non-distributable reserves eligible as Common Equity Tier One capital. The agency considered that the BdL's requirements have increased commercial banks' loss absorption capacity in light of high and increasing sovereign, lending and interest rate risks amid a challenging operating environment.

However, Moody's indicated that the BdL's operations have increased the Lebanese banks' already high exposure to the sovereign, extended the average life of their sovereign holdings, and reduced the banks' liquidity held abroad. It estimated the banking sector's overall exposure to the government and the BdL at 5.9 times its Tier One capital at the end of November, up from 5.4 times at the end of April 2016. It added that the banks' foreign assets, which are mostly in the form of placements at foreign banks, declined by \$1.9bn during the same period. Further, it pointed out that banks increased the interest rates on US dollars deposits to a weighted average of 3.48% in November from 3.26% in May 2016 in order to attract additional inflows. It noted that customer deposits grew by \$5.3bn between May and November 2016, bringing total deposits to more than 300% of GDP, one of the highest ratios globally. In addition, it said that some banks offered large immediate returns on very large dollar deposits, but it noted that these deposits could exit the Lebanese banking sector once they mature because of their opportunistic nature.

The agency indicated that the BdL bought the equivalent of \$13bn in Lebanese sovereign debt instrument from banks at a premium, while commercial banks purchased Eurobonds from the BdL's portfolio and Certificates of Deposits issued by the BdL. It estimated that the banks financed the operations through new foreign currency deposits (\$5bn), the sale of Lebanese sovereign Eurobonds (\$2.2bn), by drawing down their interbank deposits (\$1.4bn) and through foreign assets such as the sale of foreign securities (\$0.5bn).

Kharafi Group sells stake in car dealership RYMCO

The Kuwait-based Mohamad Abed El Mohsen El Kharafi & Sons Co. sold a total of 3,133,066 Class B shares in Rasamny Younis Motor Co. sal (RYMCO) to Shift Holding sal, a local holding company owned by Mr. Fayez Rasamny. The shares that were previously owned by Kharafi group represent 28.7% of RYMCO's total shares outstanding, and were sold at \$3.07 per share for a total value of \$9.6m. Following the deal, Shift Holding sal owns 38.07% of RYMCO.

Established in 1957, RYMCO is the exclusive distributor of Nissan, Infiniti and GMC brands in Lebanon. RYMCO accounted for 12.4% of new cars sold in Lebanon in 2016 and is the fourth largest importer and distributor of cars in the country. RYMCO declared standalone non-consolidated net profits of \$2.7m in the first half of 2016, down by 16.2% from \$3.2m in the same period last year. The firm's standalone sales revenues (net of discounts) totaled \$111.6m, constituting a decrease of 1.2% year-on-year; while sales net of expenses, or 'garage income', increased by 3.1% to \$2.4m. The firm's standalone assets reached \$196.5m at end-June 2016, constituting a rise of 22.5% from \$160.5m a year earlier. In parallel, RYMCO's shareholder's equity totaled \$52m at end-June 2016, constituting a rise of 3.7% from the same period last year. RYMCO is the only car retailer listed on the Beirut bourse. Its share price closed at \$3.25 on February 10, 2017, unchanged from end-2016.

BLC Bank absorbs assets and liabilities of BLC Invest

The Exceptional Ordinary General Assembly of BLC Bank sal held on January 27, 2017 approved the merger through absorption of the assets, rights, obligations and liabilities of BLC Invest sal. The bank pointed out that the merger would not terminate its investment banking activities, and that all the services offered by BLC Invest will now be offered through BLC Bank. The Central Bank of Lebanon approved the merger on November 30, 2016.

BLC Bank declared consolidated net profits of \$45.2m in 2016. Its aggregate assets reached \$5.75bn at the end of 2016, with loans & advances to customers at \$1.85bn. Also, the bank's customer deposits totaled \$4.69bn as at the end of 2016. BLC Bank's share price closed at \$0.99 on February 10, 2017, unchanged from end-2016. BLC Bank is part of the Fransabank Group.

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	125.7
Public Debt in Local Currency / GDP	81.9	84.6	89.6	498.1
Gross Public Debt / GDP	133.1	137.6	144.0	641.6
Total Gross External Debt / GDP**	170.0	174.7	176.6	190
Trade Balance / GDP	(34.4)	(29.5)	(30.0)	(46.7)
Exports / Imports	16.2	16.6	16.1	(49.4)
Fiscal Revenues / GDP	21.8	18.7	19.6	0.9
Fiscal Expenditures / GDP	27.9	26.5	28.2	1.7
Fiscal Balance / GDP	(6.1)	(7.7)	(8.6)	(0.9)
Primary Balance / GDP	2.6	1.4	1.4	0.0
Gross Foreign Currency Reserves / M2	66.5	58.7	62.7	394.3
M3 / GDP	235.4	241.9	250.0	811
Commercial Banks Assets / GDP	351.4	364.0	392.9	2893
Private Sector Deposits / GDP	288.9	296.6	312.5	1585
Private Sector Loans / GDP	101.8	106.1	108.7	258
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	Jan 2015	Dec 2015	Jan 2016	Change**	Risk Level
Political Risk Rating	53.5	54.5	54.5	▼	High
Financial Risk Rating	39.0	36.5	36.5	▲	Low
Economic Risk Rating	33.0	30.5	30.5	▲	Moderate
Composite Risk Rating	62.75	60.75	60.75	▲	Moderate

MENA Average*	Jan 2015	Dec 2015	Jan 2016	Change**	Risk Level
Political Risk Rating	57.8	57.7	57.7	▲	High
Financial Risk Rating	40.1	39.6	39.7	▲	Low
Economic Risk Rating	35.1	30.2	30.3	▲	Moderate
Composite Risk Rating	66.5	63.8	63.8	▲	Moderate

*excluding Lebanon

**year-on-year change in risk

Source: The PRS Group, Byblos Research

Note: Political & Composite Risk Ratings range from 0 to 100 (where 100 indicates the lowest risk)

Financial & Economic Risk ratings range from 0 to 50 (where 50 indicates the lowest risk)

Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's	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