

LEBANON THIS WEEK

In This Issue

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

Advertising spending in Lebanon down by 8.4% to \$174m in 2016

Lebanon ranks 137th globally, 11th among Arab countries on economic freedom, economy remains "mostly unfree"

Lebanon's banking sector indicators favorable compared to emerging markets

Improving tax compliance and lifting exemptions to increase VAT receipts by 4% of GDP

Markets await concrete measures to reduce risk perception

Central Bank encourages commercial banks to subscribe to upcoming Eurobond issue

Lebanon ranks in 90th place globally, 12th place in MENA region on factors for sustained growth

Corporate Highlights7

New car sales nearly unchanged in January 2017

Central Bank of Iraq assigns ratings to banks

Kafalat loan guarantees down 33% to \$5.3m in January 2017

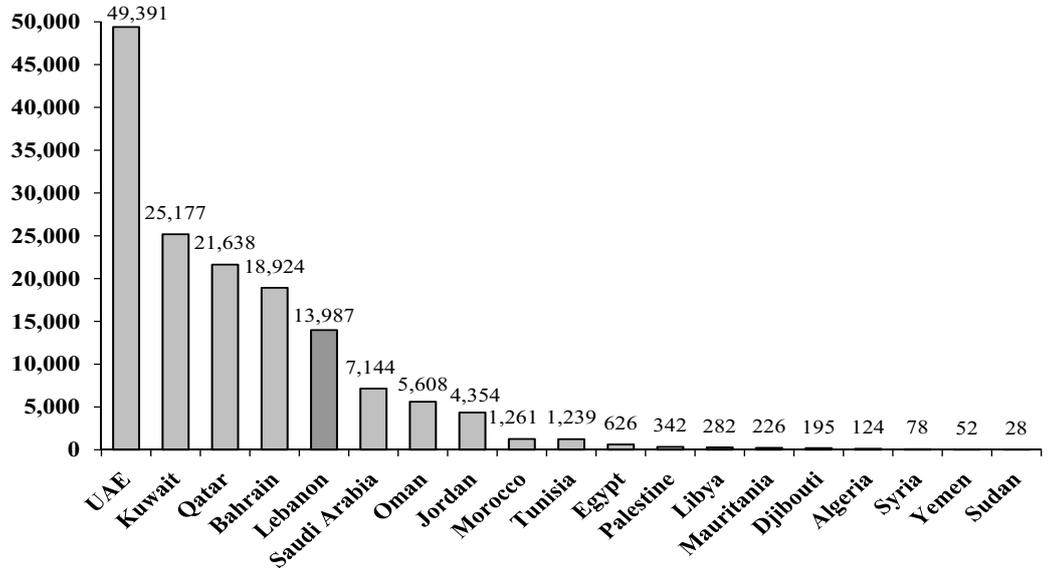
S&P says rated banks have adequate liquidity

Gross premiums of motor insurance segment up 4% to \$350m in 2015

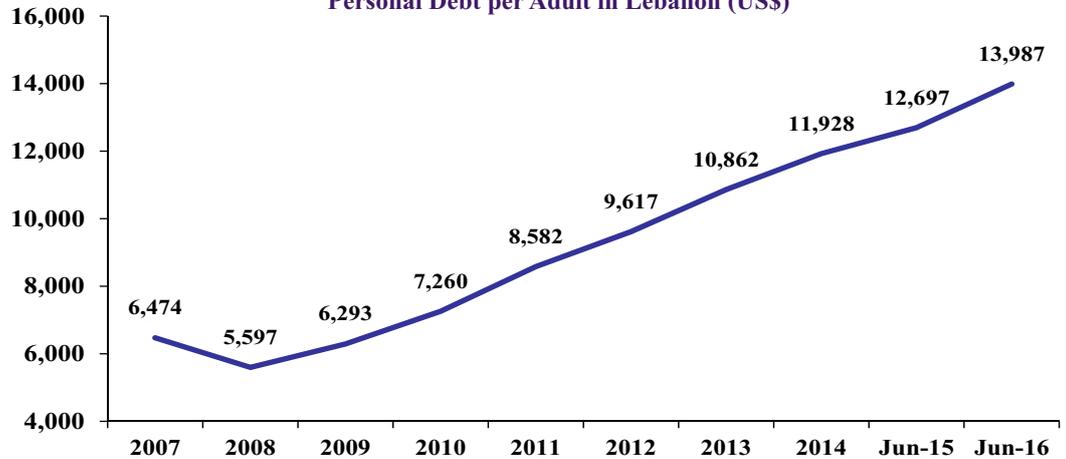
Ratio Highlights.....10
Risk Outlook10
Ratings & Outlook.....10

Charts of the Week

Personal Debt per Adult in Arab Countries at end-June 2016 (US\$)



Personal Debt per Adult in Lebanon (US\$)



Source: Credit Suisse, Byblos Bank

Quote to Note

"The electricity sector has not only been widely identified as Lebanon's most pressing bottleneck, but it also remains a major drain on the budget."

The International Monetary Fund, on the longstanding need to reform the electricity sector

Number of the Week

22%: Percentage of Lebanese who have confidence in the honesty of elections, according to an opinion poll conducted by global polling firm Gallup in 2016

Lebanon in the News

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

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

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

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

Note: bps i.e. basis points

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

Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization
Byblos Common	1.72	(1.71)	426,825	7.91%
Solidere "A"	9.36	(1.58)	129,011	7.61%
Audi Listed	6.75	0.75	50,000	21.94%
BLOM GDR	12.15	2.62	46,970	7.30%
Audi GDR	6.71	(2.47)	31,400	6.54%
Solidere "B"	9.45	(2.48)	13,135	4.99%
BLOM Listed	11.50	2.68	4,000	20.10%
HOLCIM	12.10	17.70	3,045	1.92%
Byblos Pref. 09	105.50	4.04	192	1.72%
Byblos Pref. 08	102.10	0.00	-	1.66%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Mar 2017	9.00	100.43	3.40
Nov 2018	5.15	101.13	4.46
May 2019	6.00	102.00	5.04
Mar 2020	6.38	102.75	5.38
Apr 2021	8.25	109.38	5.67
Oct 2022	6.10	100.13	6.07
Jun 2025	6.25	97.75	6.60
Nov 2026	6.60	99.13	5.00
Feb 2030	6.65	98.25	6.00
Nov 2035	7.05	99.75	7.07

Source: Byblos Bank Capital Markets

	Feb 13-17	Feb 6-10	% Change	January 2017	January 2016	% Change
Total Shares Traded	762,748	831,516	(12.6)	7,195,986	4,478,596	60.7
Total Value Traded	\$3,909,273	\$9,824,966	(60.2)	\$46,829,082	\$38,492,918	21.7
Market Capitalization	\$12.30bn	\$12.22bn	0.68	\$12.21bn	\$11.09bn	10.1

Source: Beirut Stock Exchange (BSE)



Advertising spending in Lebanon down by 8.4% to \$174m in 2016

The annual survey of the advertising market in the Arab world by *ArabAd* magazine and research firm Ipsos shows that real advertising expenditures in Lebanon totaled \$174.1m in 2016, constituting a decline of 8.4% from \$190m in 2015. In comparison, advertising expenditures grew by 18.5% in 2009 and by 15.4% in 2010, while they contracted by 3% in 2011, rose by 4.5% in 2012, increased by 1.9% in each of 2013 and 2014, and were unchanged in 2015.

Television attracted \$80m or 46% of real advertising expenditures, followed by outdoor billboards with \$35.5m (20.4%), newspapers with \$20m (11.5%), radio and online with \$14m each (8% each), magazines with \$9m (5.2%), and cinemas with \$1.6m (0.9%). Spending on online advertising jumped by 40% last year, while expenditures on newspaper ads and at cinemas fell each by 20% year-on-year, those on magazine ads dropped by 18.2%, spending on outdoor billboards declined by 17.4%, outlays on radio advertising decreased by 12.5% and expenditures on TV ads regressed by 3.6%.

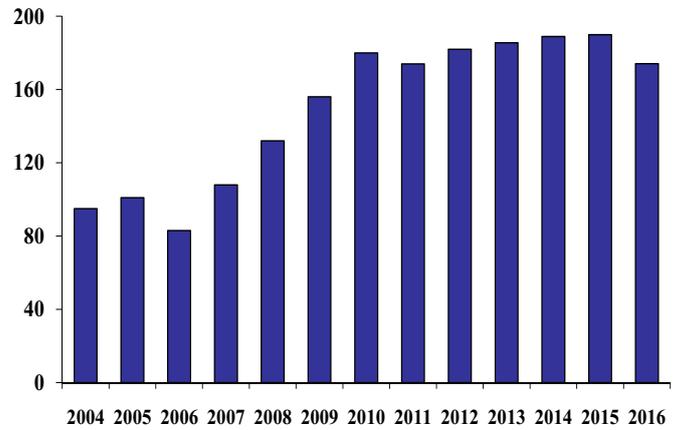
Procter & Gamble was the biggest corporate spender on advertising in Lebanon, followed by Solvid, Nestlé, L'Oréal, Banque Libano-Française, IBL Bank, BankMed, Lauder's, Byblos Bank and XXL. Procter & Gamble was also the largest spender on TV ads last year, Samsung was the biggest client of outdoor billboard advertising, BankMed was the largest spender on press ads, Bridgestone was the biggest client on radio ads, and Coca-Cola Company was the largest spender on cinema ads. Byblos Bank was the fourth biggest corporate spender on outdoor billboard advertising and the 10th largest spender on press ads.

Further, Beirut Beer was the top advertised brand in all media, followed by Buzz, Banque Libano-Française, IBL Bank, BankMed, Lauder's, Byblos Bank, XXL, Moukarzel and Super Star Medicines. Beirut Beer was the top advertised brand on television, BankMed was the most frequently promoted brand in the printed press, Samsung was the top advertised brand on billboard advertising, Bridgestone was the most frequently promoted brand on radio, and Coca-Cola was the top advertised brand in cinemas. Byblos Bank was the second most advertised brand on outdoor billboards, the seventh most promoted brand in the printed press and the 10th most advertised brand on TV.

According to Ipsos, monitored advertising expenditures in Lebanon increased by 4.2% to \$1.72bn in 2016. The survey indicated that the discrepancy between monitored rates and actual figures continues, as monitored rates are 9.9 times larger than real advertising expenditures. It attributed this trend to big client discounts, inflated rate cards, big barter deals, as well as to a lack of transparency in the industry in reporting earnings.

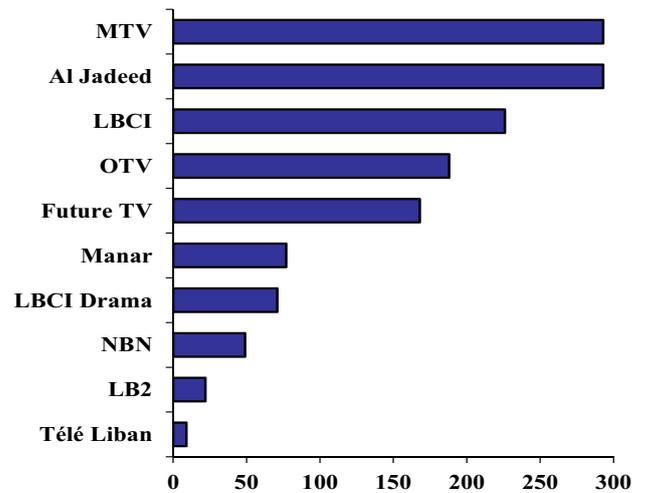
The survey noted that monitored advertising spending on TV is 17.5 times larger than actual expenditures, followed by outdoor billboards with a 5.4 ratio, magazines with a 3.9 ratio, radio with a 3.4 ratio, newspapers at 2.1 times and cinemas with a ratio of 1.4 times. MTV was the biggest recipient of advertising expenditures among television stations with \$293m in 2016, *Al Waseet* led all newspapers with \$8m, *Elle Orient* was the leading foreign language monthly periodical with \$3m, and *Snob* was the number one Arabic monthly magazine with \$1m. Also, Sawt El Ghad was the leading musical radio station with \$7m in ad outlays and Sawt Loubnan was the top news radio station with \$3m, while Pikasso was the leading outdoor billboard network with \$41m.

Real Advertising Expenditures in Lebanon (US\$m)



Source: ArabAd, Ipsos, Byblos Research

Top 10 TV Stations in terms of Monitored Advertising Expenditures in Lebanon in 2016 (US\$m)



Source: ArabAd, Ipsos

Lebanon ranks 137th globally, 11th among Arab countries on economic freedom, economy remains "mostly unfree"

The Heritage Foundation/*Wall Street Journal* Index of Economic Freedom for 2017, a broad indicator of economic freedom in 180 countries, ranked Lebanon in 137th place worldwide and in 11th place among 15 Arab countries. Lebanon came in 37th place among 49 upper middle-income countries (UMICs) included in the survey. In parallel, Lebanon ranked in 98th place among 178 countries globally and in ninth place among 14 Arab countries on the 2016 index. Lebanon's global rank regressed by 39 spots from the 2016 index based on the same set of countries in both surveys, constituting the sixth steepest decline globally.

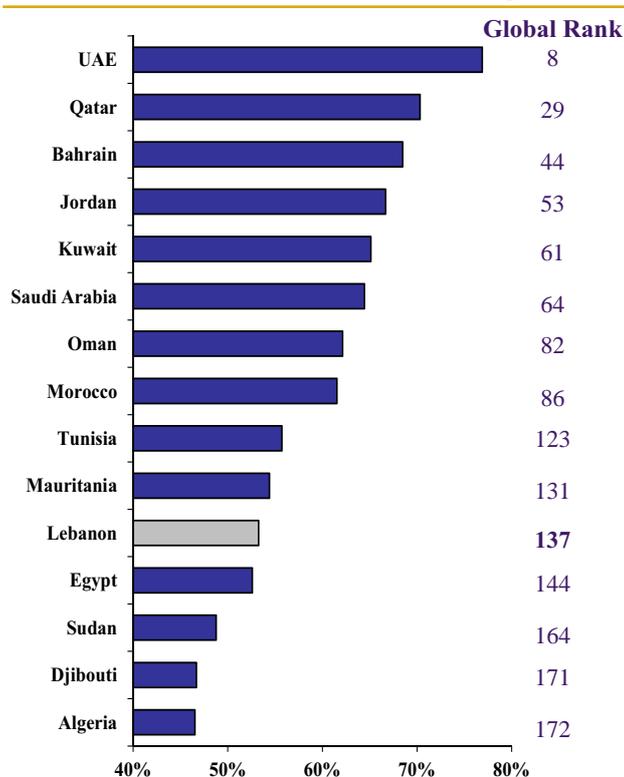
The index evaluates individual economies on the basis of 12 equally-weighted broad factors of economic freedom divided into four pillars that are the rule of law, government size, regulatory efficiency and market openness. A country's score ranges between zero and 100, with 100 reflecting the most free economy.

Globally, Lebanon has a higher level of economic freedom than Brazil, Pakistan and Ethiopia, and a lower level than Mongolia, Laos and Kenya among economies with a GDP of \$10bn or more. It also has a higher level of economic freedom than Brazil, Iran and Argentina, and a lower level than Belarus, China and Russia among UMICs. Lebanon's level of economic freedom reached 53.3% in 2017 relative to 59.5% in 2016.

Lebanon saw substantial declines in its government integrity, as well as in its business and labor freedoms, which affected its rank and score on the index. In contrast, Lebanon's performance improved on the property rights, trade and investment freedoms; while it was nearly unchanged on the monetary freedom, as well as on the control of government spending and the tax burden sub-indices. Lebanon's 2017 score was below the global level of economic freedom of 60.9%, the UMICs' level of 60% and the Arab level of 59.8%. The survey maintained Lebanon's economic freedom status in the "mostly unfree" category for the fifth consecutive year. Lebanon was downgraded in the 2013 survey from the "moderately free" category.

Lebanon ranked ahead of Yemen and behind Djibouti globally, while it came ahead of only Yemen regionally on the Business Freedom Sub-Index, which reflects the ability to create, operate and close an enterprise. This category also measures the extent that the regulatory and infrastructure environments constrain the efficient operation of businesses. Also, Lebanon tied with Algeria, came ahead of Indonesia and behind Sudan globally, while it came ahead of only Morocco regionally on the Labor Freedom Sub-Index, which assesses the legal and regulatory framework of a country's labor market. Further, Lebanon came ahead of Bangladesh and behind Chad on the Government Integrity Sub-Index, while it came ahead of only Iraq, Sudan and Yemen among Arab countries. This category assesses the extent of government intervention in economic activity and the degree of corruption that follows.

**Index of Economic Freedom 2017
Arab Countries Scores & Rankings**



Source: Heritage Foundation 2017, Byblos Research

Economic Freedom in Lebanon by Category

	Arab Rank	Global Rank	Lebanon Score	Change in Score*	Long-Term Trend**	Arab Avge***	Global Avge***
Property Rights	10	115	43.8%	↑	-6.2	45.3%	52.2%
Judicial Effectiveness	12	145	25.3%	n/a	n/a	39.2%	44.4%
Government Integrity	16	171	23.3%	↓	+13.3	37.3%	42.4%
Tax Burden	8	20	91.8%	↑	-6.2	89.4%	77.7%
Government Spending	3	63	76.1%	↑	-3.8	61.8%	65.5%
Fiscal Health	18	179	0.0%	n/a	n/a	47.6%	68.9%
Business Freedom	18	152	51.5%	↓	-18.5	64.7%	64.8%
Labor Freedom	18	141	49.5%	↓	-9.7	59.0%	59.4%
Monetary Freedom	7	86	78.4%	↓	+12	74.8%	76.7%
Trade Freedom	2	57	84.4%	↑	+9.4	73.2%	76.4%
Investment Freedom	5	73	65.0%	↑	+15	53.7%	59.7%
Financial Freedom	8	70	50.0%	↔	-20	50.7%	48.9%

*year-on-year; ** Change in score from 1996 in percentage points; ***Averages include all figures above 0%

Source: Heritage Foundation 2017, Byblos Research



Lebanon's banking sector indicators favorable compared to emerging markets

Merrill Lynch estimated credit to the resident private sector in Lebanon to be equivalent to 94.6% of GDP at the end of 2016, higher than the Emerging Europe, the Middle East & Africa region's (EEMEA) ratio of 49.6% of GDP and Latin America's ratio of 40% of GDP, but lower than Asia's ratio of 135.1% of GDP. Lebanon has the 11th highest credit-to-GDP ratio among 56 emerging markets, the third highest such ratio in the EEMEA region and the second highest ratio among 12 Arab countries included in the survey.

In addition, Merrill Lynch estimated the non-performing loans ratio (NPL) in the Lebanese banking sector at 4.5%, lower than the EEMEA's NPL ratio of 7.1%, and compared to NPL ratios of 2.3% for Latin America and 1.7% for Asia. The Lebanese banking sector has the 27th lowest NPL ratio among 52 banking sectors, the 12th lowest ratio in the EEMEA region and the sixth lowest among Arab countries.

Further, Merrill Lynch estimated money supply in Lebanon to be equivalent to 246.3% of GDP at end-2016, significantly higher than Asia's ratio of 136.3% of GDP, Latin America's ratio of 77% of GDP and the EEMEA's ratio of 58.8% of GDP. Also, Lebanon has the third highest level of money supply relative to its GDP among 56 emerging markets, behind only Hong Kong where money supply is equivalent to 509.9% of GDP and Taiwan (247% of GDP).

In parallel, Merrill Lynch noted that foreign claims reported to the Bank for International Settlements (BIS) against Lebanese banks are equivalent to 2.1% of GDP, similar to that in Latin America and compared to 1.6% of GDP in the EEMEA region, and 3.5% of GDP in Asia. The Lebanese banking sector has the 23rd highest ratio of foreign claims of BIS-reporting banks among 56 banking sectors, the 12th highest ratio in the EEMEA region and the sixth highest in the Arab world.

Further, Merrill Lynch estimated the annual private sector credit growth in Lebanon at 6.7% based on the year-on-year three-month moving average, which is higher than Asia's growth rate of 4.9%, but lower than Latin America's rate of 9.8% and the EEMEA's rate of 6.9%. As such, Lebanon had the 23rd lowest level of annual private sector credit growth among 54 emerging markets, the 16th lowest in the EEMEA region and the third lowest rate among 12 Arab countries. In parallel, the survey indicated that the Lebanese banking sector's capital-to-risk weighted assets ratio stood at 15.1%, similar to Latin America's ratio and compared to the EEMEA's and Asia's ratio of 16.6% each.

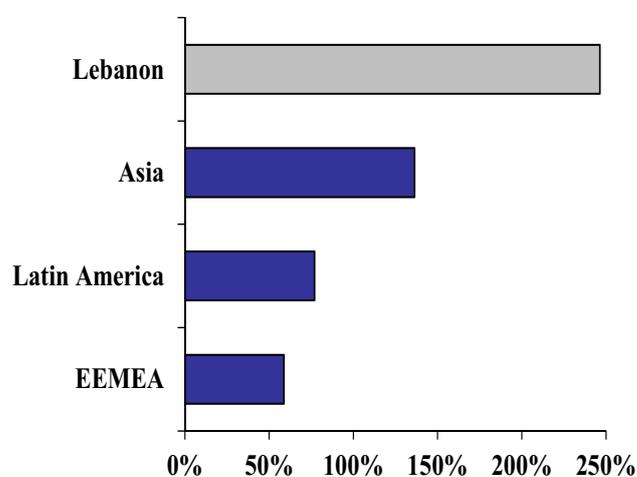
Improving tax compliance and lifting exemptions to increase VAT receipts by 4% of GDP

The International Monetary Fund estimated the value-added tax gap in Lebanon at 7.4% of GDP in 2013 relative to 7.1% of GDP in 2012 and 6.1% of GDP in 2009. It defined the VAT gap as the difference between revenues collected and the potential receipts that could have been collected during a particular year. It added that potential receipts reflect the revenues that could have been collected under prevailing economic conditions in case of full compliance, and with all final consumption being taxed at the standard VAT rate. It noted that the VAT gap is a composite of two components that are the compliance gap and the policy gap.

The IMF estimated the compliance gap in Lebanon at 3.3% of GDP in 2013, up from about 3% of GDP annually between 2009 and 2012. It noted that the compliance gap is the difference between actual and potential collection given the current policy framework. It said that 90% of the compliance gap comes from VAT that is not declared or assessed as due. Further, it estimated the policy gap in Lebanon at 4% of GDP in 2013, unchanged from the preceding year and compared to 3.1% of GDP in 2009. It said that the policy gap is the difference between the potential revenues under the current policy framework and the potential receipts given the overall potential base of the VAT at the standard rate. It attributed most of the policy gap to tax exemptions. Overall, it pointed out that the policy gap accounted for about 54% of the overall VAT gap in 2013, up from 51% in 2009.

The Fund considered that narrowing compliance and policy gaps in Lebanon would increase VAT receipts and, in turn, tax revenues, based on the current VAT rate. It indicated that VAT receipts declined from 5.6% of GDP in 2010 to 4.1% of GDP in 2015 due to the difficult regional and domestic political environment, as well as because of significant VAT exemptions that were introduced in recent years. As such, it estimated that VAT receipts could rise by about 4% of GDP if authorities remove tax exemptions, streamline deductions and refunds, and gradually improve tax compliance under the current VAT rate of 10%. Under these conditions, it expected the primary budget surplus to increase from 1.1% of GDP to 5.2% of GDP over the next five years, the fiscal deficit to narrow from 8.1% of GDP to 5.6% of GDP and the public debt level to stabilize at about 150% of GDP by 2021.

Money Supply at end-2016 (% of GDP)



Source: Merrill Lynch, Byblos Research

Markets await concrete measures to reduce risk perception

Moody's Investors Service indicated that Lebanon's five-year sovereign Expected Default Frequency (EDF) reached 1.83% on February 10, 2017, unchanged from the end of 2016 and relative to 1.23% on February 10, 2016. Moody's sovereign EDF measures forward-looking probabilities of default that are extracted from credit default swap (CDS) spreads. The agency noted that Lebanon's five-year sovereign EDF has been gradually rising from 0.98% at the start of 2016, and peaked at 2.03% on January 6, 2017. It pointed out that Lebanon's latest EDF figure reflects an implied sovereign rating of 'B2', which is aligned with the agency's current rating for Lebanon.

Lebanon's five-year sovereign EDF on February 10, 2017 was the sixth highest among 71 sovereigns with available figures, lower than Venezuela (16.06%), Greece (4.25%), Iraq (3.14%), Ukraine (2.91%) and Nigeria (1.84%). In comparison, Lebanon's five-year sovereign EDF was 1.23% on February 10, 2016, the seventh highest globally. Lebanon's five-year sovereign EDF rose by 60 basis points between February 10, 2016 and February 10, 2017, constituting the second largest increase among the 71 covered countries behind El Salvador (+72 basis points).

Further, Lebanon's one-year sovereign EDF was 0.35% on February 10, 2017 and compared to 0.38% at the end of 2016 and 0.21% a year earlier. It was the seventh highest among the 71 covered countries on February 10, 2017, while it was the ninth highest a year earlier. Lebanon's one-year sovereign EDF rose by 14 basis points year-on-year, the third largest increase globally behind El Salvador (+24 basis points) and Guatemala (+16 basis points).

Central Bank encourages commercial banks to subscribe to upcoming Eurobond issue

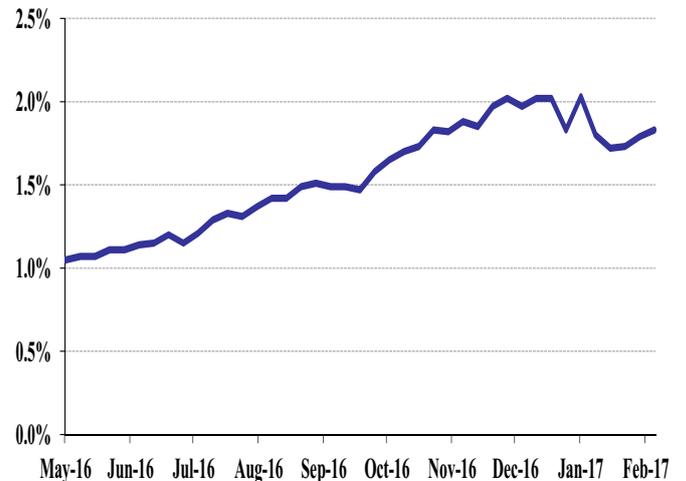
In the monthly meeting between the Central Bank and the Association of Banks in Lebanon (ABL), Governor Riad Salamé indicated that interest rates and the exchange rate in Lebanon were stable in 2016 and that private sector deposits at commercial banks grew by \$11bn, or by more than 7% last year. He added that banks built provisions equivalent to 2% of their loan portfolio, were able to meet the new capital adequacy minimum requirement of 15% under Basel III, and will comply with the IFRS9 accounting standards that will come into effect in 2018. In addition, he noted that the Central Bank took measures related to the management of the banks' liquidity in foreign currency at their foreign affiliates. He expected monetary and financial stability in Lebanon to persist in 2017, adding that the Bank's efforts will be directed toward more lending to small- and medium-sized enterprises, which, in turn, would support the economy. Further, he informed the ABL of the Central Bank's decision to free additional reserve requirements, which would reduce interest rates to promote mortgages and support economic activity.

In parallel, Governor Salamé called on commercial banks to support the upcoming sovereign Eurobond issue, while taking into account their current liquidity levels in foreign currency. He informed the ABL that the Central Bank would facilitate the exchange of certificates of deposits in foreign currency issued by the Bank into cash, in order to help them subscribe to the new Eurobond. He added that foreign investors are likely to subscribe to the upcoming issue or to buy sovereign debt instruments issued by the Lebanese government.

In parallel, the ABL indicated that the 2017 draft budget proposes new taxes or intends to increase existing ones, which would weigh on the economy and on households. The 2017 draft budget intends to raise the corporate income tax rate from 15% to 17%, and to increase the tax on the banks' revenues from their fixed-income portfolio from 5% to 7%.

The ABL raised three points about the 2017 budget proposal that directly concern the banking sector. First, it noted that the budget intends to tax revenues from the fixed-income portfolio a second time as part of the overall tax on profits, even though banks include these revenues on a net basis after deducting the tax on interest. Second, the ABL pointed out that the double taxation would discriminate against banks as it would significantly increase their income tax rate, while it would keep the tax rate on non-bank companies at 17%. Third, it considered that this tax suggestion would discriminate among banks, as the income tax rate for banks would vary between 17% and 76%, depending on the size of their portfolio of sovereign debt instruments. It noted that this would discourage banks from subscribing to issuances in Lebanese pound. Overall, it cautioned that the implementation of tax measures in the 2017 draft budget would increase systemic risks.

Lebanon's Five-Year Sovereign Expected Default Frequency



Source: Moody's Investors Service, Byblos Research

Lebanon ranks in 90th place globally, 12th place in MENA region on factors for sustained growth

KPMG International ranked Lebanon in 90th place among 181 countries worldwide and in 12th place among 22 countries in the Middle East & North Africa (MENA) region on its Variables for Sustained Growth (VSG) Index for 2016. Also, Lebanon came in 29th place among 50 upper middle-income countries (UMICs) included in the survey. Lebanon's global and regional ranks were unchanged from the 2015 survey.

The VSG Index is a composite of 21 indicators that have a significant impact on the productivity of a country's labor and capital stock and, in turn, on its long-term economic growth and wealth. The indicators are grouped into five pillars that are Macroeconomic Stability, Openness to Catch Up in Best Practice, Infrastructure Quality, Human Capital, and Strength of Public Institutions. The index gives each country a score between zero and 10, with a higher score reflecting higher productivity.

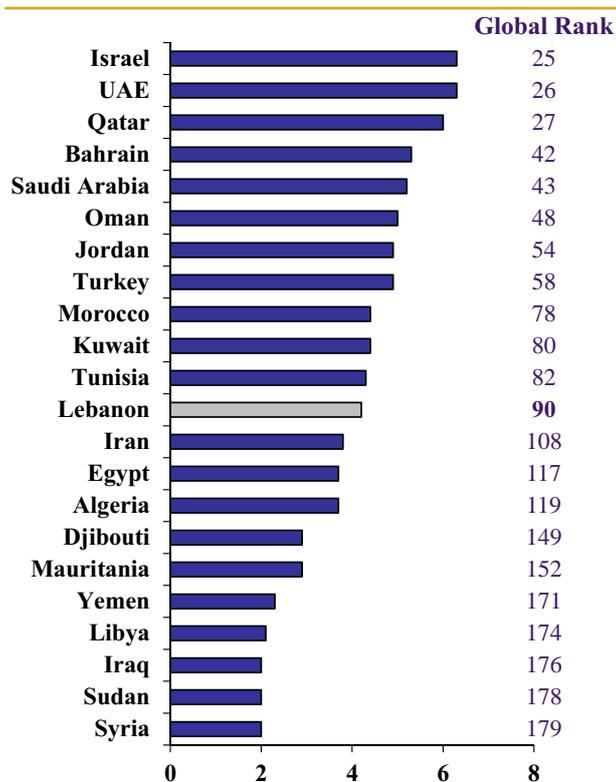
Globally, Lebanon had a higher productivity level of labor and capital than Peru, Armenia and the Dominican Republic, and a lower productivity level than Columbia, Albania and Indonesia among economies with a GDP of \$10bn or more. Lebanon ranked ahead of Peru, the Dominican Republic and Brazil, and came behind Azerbaijan, Columbia and Albania among UMICs. Lebanon received a score of 4.2 points on the 2016 index, constituting a decrease of 4.5% from 4.4 points in the 2015 survey. Lebanon's score was similar to the UMICs' average score, lower than the global average of 4.4 points, and higher than the MENA average score of 4 points.

Lebanon tied with Ecuador, Macedonia and Russia, while it ranked ahead of Oman and came behind Azerbaijan globally on the Infrastructure Quality Pillar. This category measures the quality of transport infrastructure, technology readiness and the availability of financial services. Lebanon came behind the UAE, Israel, Qatar, Bahrain, Turkey and Saudi Arabia in the MENA region on this pillar.

Also, Lebanon tied with Belarus, Bosnia & Herzegovina, the Czech Republic, Iran, Panama and Peru on the Human Capital Pillar. This category assesses the average years of schooling, the estimated rate of return on education, as well as the life expectancy in a country. Lebanon ranked ahead of Ecuador and behind Colombia among UMICs; while it came behind Israel, Turkey, Qatar, the UAE, Oman and Jordan in the MENA region.

Further, Lebanon tied with Argentina, Belarus, Burkina Faso, Cameroon, Gabon, Honduras, Mali and Nepal on the Strength of Public Institutions Pillar. This category evaluates the regulatory quality, judicial independence, transparency of government policy-making, government effectiveness, corruption level and business rights. Lebanon came ahead of Algeria, Djibouti, Mauritania, Iraq, Yemen, Sudan, Syria and Libya among MENA countries.

Variables For Sustained Growth for 2016
MENA Countries Scores & Rankings



Source: KPMG, Byblos Research

Variables For Sustained Growth Index in Lebanon

	Global Rank	MENA Rank	UMICs Rank	Lebanon Score	Global Avg Score	MENA Avg Score	UMICs Avg Score
Macroeconomic Stability	179	21	50	0.5	5.5	5.1	5.6
Openness to Catch Up with Best Practice	25	2	6	7.8	4.2	3.3	4.4
Infrastructure Quality	57	7	11	4.2	3.6	3.2	3.3
Human Capital	64	7	19	4.7	4.3	4.2	4.3
Strength of Public Institutions	121	14	35	4.0	4.9	4.6	4.5

Source: KPMG, Byblos Research



New car sales nearly unchanged in January 2017

Figures released by the Association of Automobile Importers in Lebanon show that dealers sold 2,420 new passenger cars in January 2017, nearly unchanged from 2,411 cars sold in the same month of 2016.

Japanese automobiles accounted for 39% of total sales in January 2017, followed by Korean cars with a 30.3% share, European automobiles (20.9%), American vehicles (9.3%) and Chinese cars (0.6%). The sales of new Chinese cars grew by 75% year-on-year in January 2017, demand for American vehicles increased by 68.4%, the number of Korean cars sold grew by 3.8% and sales of Japanese cars rose by 0.6%; while the number of European cars sold dropped by 19.3% year-on-year in January 2017.

Kia is the leading brand in the Lebanese market with 417 vehicles sold in January 2017, followed by Hyundai with 313 in new car sales, Toyota (302), Nissan (250), Suzuki (150), Chevrolet (115) and Renault (95). In parallel, 151 new commercial vehicles were sold in January 2017, down by 18.8% from 186 commercial vehicles purchased in the same month of 2016. Overall, car dealers sold 2,571 new passenger automobiles and commercial vehicles in January 2017, down by 1% from 2,597 cars sold in the same month of 2016.

In parallel, the number of new vehicles sold by Lebanon's top five distributors reached 1,662 in January 2017 and accounted for 64.6% of new car sales. NATCO sal sold 417 vehicles, equivalent to 16.2% of the total, followed by Rasamny Younis Motor Co. sal with 389 cars (15.1%), Boustany United Machineries sal with 332 automobiles (12.9%), Century Motor Co. sal with 319 vehicles (12.4%), and Bassoul Heneiné sal with 205 vehicles (8%).

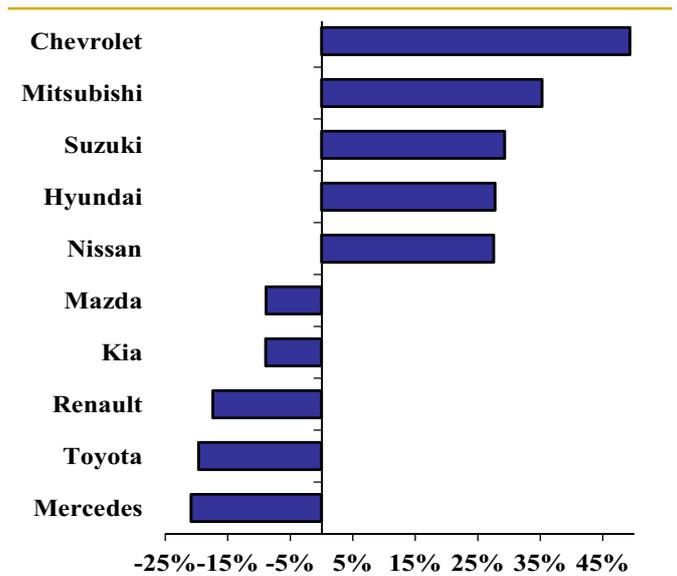
Central Bank of Iraq assigns ratings to banks

The Central Bank of Iraq (CBI) issued ratings for banks and money transfer operators (MTOs) operating in Iraq following the introduction of the electronic system for dollar distribution as well as the principles and standards for foreign currency purchases by the banks and MTOs. The CBI has published so far the ratings of 39 local and foreign banks that have participated in foreign currency auctions since January 2, 2017. It also published the ratings of at least 17 MTOs.

The CBI evaluated banks and MTOs based on the standards for foreign currency purchases, and rated them based on seven criteria that have weights ranging from zero to 100 points. The ratings are based on a weighted average of the seven criteria that are the banks' efficiency and ability in fulfilling the CBI standards, dealing with external correspondent banks, fulfilling clients' requests, commitment to foreign currency auction window instructions, disclosure of balances to correspondent banks, the number of lawsuits against the bank, and contracting with international auditing companies. The ratings range from 'A' to 'E', with an 'A' rating representing the bank or MTO with the highest score on these criteria. Banks with less than 17% of the points set for a criteria have to address this issue within three months of the rating issuance, or the CBI will suspend them from the currency auctions; while higher rated banks will receive a higher share in foreign currency auctions.

The ratings' distribution showed that 40% of the covered banks are rated 'B', 27.5% of rated banks belong to the 'C' segment, 20% are in the 'A' range, 5% belong to the 'D' segment and another 5% are in the 'E' category. The CBI assigned an 'A' rating to BankMed and BBAC, a 'B' rating to Byblos Bank, Banque Libano-Française and Middle East & Africa Bank, and a 'C' rating to Fransabank. The CBI did not rate the remaining Lebanese banks operating in Iraq because they did not participate in the auctions.

Sales of Top 10 Car Brands in January 2017 (% change*)



* year-on-year

Source: AIA, Byblos Research

Kafalat loan guarantees down 33% to \$5.3m in January 2017

Figures released by the Kafalat Corporation show that loans extended to small- and medium-size companies under the guarantee of Kafalat reached \$5.3m in January 2017, constituting a decrease of 32.6% from \$7.9m in January 2016. Kafalat provided 47 loan guarantees in the covered month, down by 13% from 54 guarantees in January 2016. The average loan size reached \$113,630 in January 2017 compared to \$146,777 in the same month of 2016. Mount Lebanon accounted for 42.6% of the total number of guarantees, followed by the Bekaa with 19.2%, Beirut with 12.8%, the South with 10.6%, the North with 8.5% and Nabatieh with 6.4%. Also, the agricultural sector accounted for 42.6% of the total number of guarantees in January 2017, followed by the industrial sector with 25.5%, tourism with 23.4%, specialized technologies with 6.4% and handicraft with 2.1%.

Kafalat is a state-sponsored organization that provides financial guarantees for loans of up to \$400,000 earmarked for the setup and expansion of small- and medium-size companies in productive sectors. It guarantees up to 75% of the loan amount and a similar percentage of the interest that accrues during the grace period. It also guarantees up to 90% of the loan amount for innovative start-ups and a similar percentage of the interest that accrues during the grace period.

S&P says rated banks have adequate liquidity

In its annual assessment of the three Lebanese banks that it rates, S&P Global Ratings indicated that the ratings on BLOM Bank sal reflect the bank's "adequate" business position, "moderate" capital & earnings, "adequate" risk position, "average" funding and "adequate" liquidity; while those on BankMed sal reflect its "adequate" business position, "weak" capital & earnings, "moderate" risk position, "average" funding and "adequate" liquidity. It added that the ratings on Bank Audi sal reflect the bank's "strong" business position, "weak" capital & earnings, "moderate" risk position, "average" funding and "adequate" liquidity. The agency indicated that the three banks' asset allocation strategy is constrained by their ongoing financing of the Lebanese sovereign.

S&P pointed out that the "adequate" business position of BLOM Bank is supported by its stable customer franchise, as well as by its sound management and revenue generation. It expected domestic activities to be the main driver of BLOM Bank's asset and revenue growth in the medium term, given the current difficult political and economic environment in the Arab region. It noted that the bank's solid expansion abroad has diversified its risk and earnings away from domestic economic risks, which has improved the bank's earnings diversification.

In parallel, it considered that BankMed's "adequate" business position reflects its improved business stability since 2005, improved diversification of its earnings streams, its sound management, and revenue generation. It added that the bank's sovereign exposure has gradually shifted from lower-yielding Treasury bonds towards certificates of deposits issued by the Central Bank. The agency noted that BankMed's large domestic sovereign exposure partly masks the geographical diversification of its commercial lending activity.

S&P indicated that BLOM Bank's "moderate" capital & earnings reflect the agency's expectations that the risk-adjusted capital ratio would remain just below 5% over the next 12 to 18 months compared to 4.5% at end-2015. It said that the bank's capitalization is supported by the one-off gains resulting from the financial swap transactions with the Central Bank. It indicated that BLOM Bank's pre-provision profitability remains sound, which would enable it to absorb higher provisioning in case of need. The agency expected BLOM Bank and BankMed's cost of risk to pick up in the coming months, mainly due to the prevailing domestic economic challenges. It indicated that Bank Audi and BankMed's "weak" capital & earnings reflect the agency's expectations that the risk-adjusted capital ratio would remain under 4% at BankMed and at about 4.5% at Bank Audi over the next 12 to 18 months.

Further, S&P said that BLOM Bank's "adequate" risk position and Bank Audi and BankMed's "moderate" risk position reflect their high exposure to the Lebanese sovereign, including the certificates of deposit issued by the Central Bank. It anticipated that regional and domestic operating conditions would continue to test the three banks' asset quality.

In parallel, the agency pointed out that the banks' liquidity is "adequate" despite their high liquidity ratios, given that government debt instruments and certificates of deposits issued by the Central Bank account for a large share of the banks' liquid assets, while the liquidity of these instruments could prove uncertain during stress periods.

Gross premiums of motor insurance segment up 4% to \$350m in 2015

Figures released by the Insurance Control Commission (ICC) show that gross written premiums in the motor insurance segment grew by 3.9% to \$349.7m in 2015. The 'Non-Compulsory Motor' line accounted for 82.7% of the category's aggregate premiums and the 'Compulsory Motor' line represented 17.3% of the total. The motor insurance segment was the second-largest category in the non-life insurance category in 2015 with a 32.8% share of total non-life premiums, behind the health insurance segment.

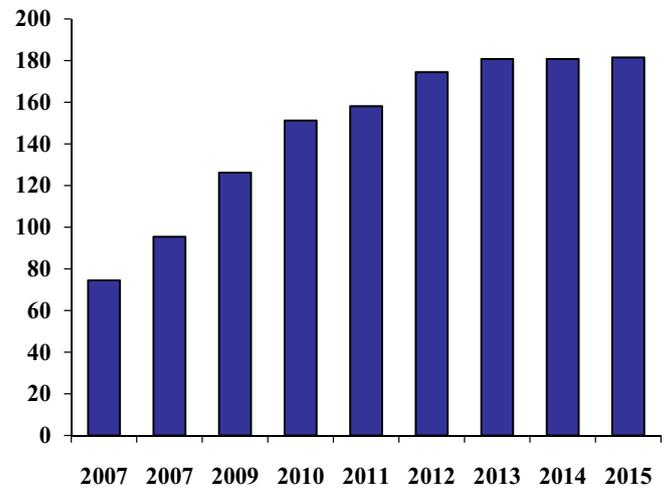
The written premiums in the 'Non-Compulsory Motor' line increased by 3.2% to \$289.2m in 2015, with the top five companies generating premiums equivalent to 38.6% of the segment's total premiums. Paid claims in the 'Non-Compulsory Motor' line regressed by a marginal 0.4% to \$164.2m in 2015 and the number of claims fell by 9% to 385,031 in 2015. In parallel, the 'Non-Compulsory Motor' line posted a net gain of \$15.3m in 2015, 5.4 times higher than the \$2.8m in profits in 2014.

The loss ratio of the 'Third Party Liability' segment of the 'Non-Compulsory Motor' line, or the ratio of claims incurred to earned gross premiums, was 62.2% in 2015; the commission ratio, or the ratio of acquisition cost to earned gross premiums, reached 29.5%; the expense ratio, or the ratio of other general expenses to earned gross premiums, was 16.1%; and the reinsurance ratio, or the ratio of net reinsurance income to earned gross premiums, reached 2.2% in 2015. As such, the average technical combined loss ratio, which is the aggregate of the above four ratios, reached 109.8% in 2015 relative to 107.8% in 2014.

In parallel, the loss ratio of the 'Own Damage and Other Complimentary Risks' segment of the 'Non-Compulsory Motor' line was 56%, the commission ratio reached 25.5%, the expense ratio was 15.4% and the reinsurance ratio reached 2.1% in 2015. As such, the average combined loss ratio for the section was 98.8% in 2015 compared to 102.4% in 2014.

Further, the written premiums in the 'Compulsory Motor' line rose by 7.1% to \$60.5m in 2015, with the top five companies generating premiums equivalent to about 52.4% of the line's total premiums. Paid claims in the 'Compulsory Motor' section increased by 8.4% to \$17.3m in 2015, with the number of claims decreasing by 8.8% to 6,734 in 2015. The loss ratio of the 'Compulsory Motor' line was 52.3%, the commission ratio reached 41.1%, the expense ratio was 12.8% and the reinsurance ratio reached -3% in 2015. As such, the average combined loss ratio for the line reached 103.1% in 2015, down from 108.8% in 2014. Also, the 'Compulsory Motor' line posted losses of \$1.6m in 2015, relative to losses of \$4m in 2014.

Motor Insurance Paid Claims (US\$m)



Source: Insurance Control Commission

Ratio Highlights

(in % unless specified)	2014	2015	2016e	Change*
Nominal GDP (\$bn)	50.0	51.1	52.0	
Public Debt in Foreign Currency / GDP	51.2	53.0	54.2	1.26
Public Debt in Local Currency / GDP	81.9	84.6	89.6	4.98
Gross Public Debt / GDP	133.1	137.6	144.0	6.42
Total Gross External Debt / GDP**	170.0	174.7	176.6	1.90
Trade Balance / GDP	(34.4)	(29.5)	(30.0)	(0.47)
Exports / Imports	16.2	16.6	16.1	(0.49)
Fiscal Revenues / GDP	21.8	18.7	19.6	0.86
Fiscal Expenditures / GDP	27.9	26.5	28.2	1.72
Fiscal Balance / GDP	(6.1)	(7.7)	(8.6)	(0.86)
Primary Balance / GDP	2.6	1.4	1.4	0.00
Gross Foreign Currency Reserves / M2	66.5	58.7	62.7	3.94
M3 / GDP	235.4	241.9	250.0	8.11
Commercial Banks Assets / GDP	351.4	364.0	392.9	28.9
Private Sector Deposits / GDP	288.9	296.6	312.5	15.8
Private Sector Loans / GDP	101.8	106.1	108.7	3.85
Private Sector Deposits Dollarization Rate	65.7	64.9	65.0	0.10
Private Sector Lending Dollarization Rate	75.6	74.8	73.6	(1.23)

*Change in percentage points 15/16

**Includes portion of public debt owed to non-residents, liabilities to non-resident banks, non-resident deposits (estimated by the IMF), Bank for International Settlements' claims on Lebanese non-banks

Source: Association of Banks in Lebanon, Institute of International Finance, International Monetary Fund, World Bank, Byblos Research Estimates & Calculations
Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

Risk Metrics

Lebanon	Feb 2015	Jan 2016	Feb 2016	Change**	Risk Level
Political Risk Rating	54.5	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	63.25	60.75	60.75	▲	Moderate

MENA Average*	Feb 2015	Jan 2016	Feb 2016	Change**	Risk Level
Political Risk Rating	57.9	57.7	57.7	▲	High
Financial Risk Rating	40.1	39.7	40.2	▼	Very Low
Economic Risk Rating	34.8	30.3	31.0	▲	Moderate
Composite Risk Rating	66.4	63.8	64.4	▲	Moderate

*excluding Lebanon

**year-on-year change in risk

Source: The PRS Group, Byblos Research

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

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

Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's	B2	NP	Negative	B2		Negative
Fitch Ratings	B-	B	Stable	B-		Stable
Standard & Poor's	B-	B	Stable	B-	B	Stable
Capital Intelligence	B	B	Negative	B	B	Negative

Source: Rating agencies

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



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