

# LEBANON THIS WEEK

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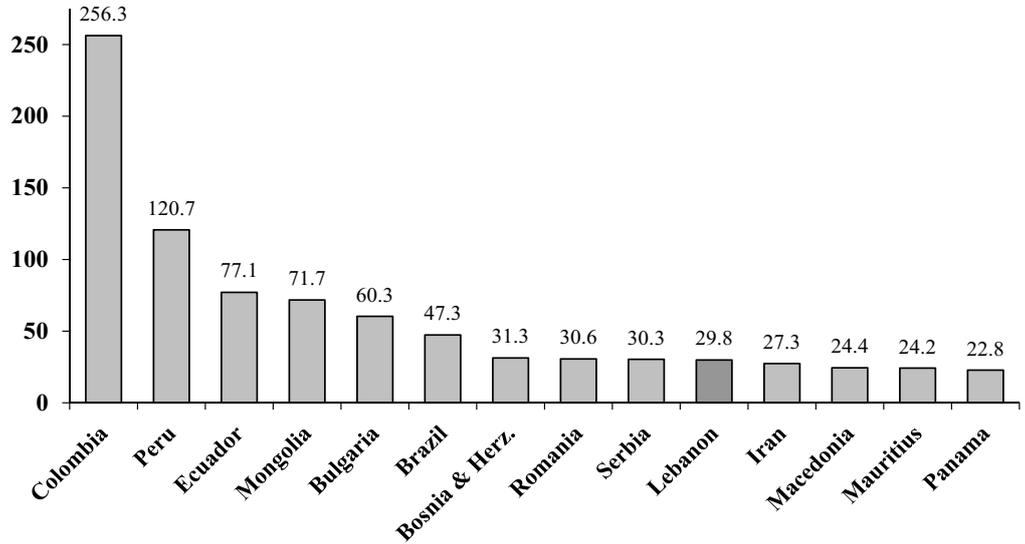
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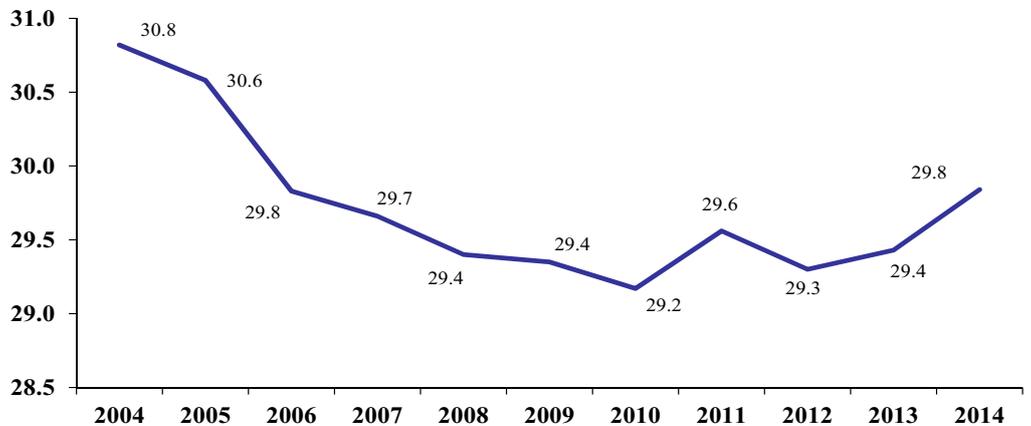
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## Charts of the Week

**Commercial Banks' Branch Penetration Rate in Select Upper Middle-Income Countries in 2014**  
(number of branches per 100,000 adults)



**Commercial Banks' Branch Penetration Rate in Lebanon**  
(number of branches per 100,000 adults)



Source: International Monetary Fund, Byblos Bank

## Quote to Note

"Pass a long-overdue credible budget."

*The International Monetary Fund, on a key decision that Lebanese authorities need to take to support fiscal management and debt sustainability*

## Number of the Week

**33:** Number of the times the Lebanese Parliament convened and failed to elect a President

## Lebanon in the News

\$m (unless otherwise mentioned)	2014	Sep 2014	June 2015	July 2015	Aug 2015	Sep 2015	% Change*
Exports	3,313	282	281	218	219	243	(13.83)
Imports	20,494	1,671	1,690	1,527	1,479	1,434	(14.18)
Trade Balance	(17,181)	(1,389)	(1,409)	(1,309)	(1,260)	(1,191)	(14.25)
Balance of Payments	(1,408)	131	(794)	2	(332)	(122)	-
Checks Cleared in LBP	18,143	1,553	1,593	1,484	1,597	1,587	2.18
Checks Cleared in FC	56,348	4,852	4,504	3,979	4,294	4,151	(14.45)
Total Checks Cleared	74,491	6,405	6,097	5,463	5,891	5,738	(10.42)
Budget Deficit/Surplus	(3,073)	(564.21)	(64.56)	(72.97)	(131.05)	(619.44)	9.79
Primary Balance	1,307	(84.64)	289.34	198.84	119.82	(121.58)	43.65
Airport Passengers***	6,567,647	640,698	594,221	791,162	893,708	750,290	17.11

\$bn (unless otherwise mentioned)	2014	Sep 2014	June 2015	July 2015	Aug 2015	Sep 2015	% Change*
BdL FX Reserves	32.40	32.34	34.11	33.65	32.77	32.02	(0.97)
<i>In months of Imports</i>	<i>18.97</i>	<i>19.35</i>	<i>20.18</i>	<i>22.04</i>	<i>22.15</i>	<i>22.33</i>	<i>15.40</i>
Public Debt	66.58	66.00	69.02	69.19	68.89	68.72	4.12
Net Public Debt	57.31	55.92	59.46	59.56	59.91	60.40	8.02
Bank Assets	175.70	171.34	180.08	179.91	181.62	181.34	5.84
Bank Deposits (Private Sector)	144.43	142.02	148.58	148.39	149.63	149.11	4.99
Bank Loans to Private Sector	50.90	49.95	51.74	52.06	52.41	52.61	5.33
Money Supply M2	48.69	47.90	50.59	50.74	51.08	51.54	7.61
Money Supply M3	117.68	116.07	120.46	120.82	121.52	122.08	5.18
LBP Lending Rate (%)	7.49	7.08	7.12	6.90	6.89	7.08	-
LBP Deposit Rate (%)	5.56	5.51	5.51	5.58	5.61	5.57	6bps
USD Lending Rate (%)	6.97	6.94	7.03	7.09	7.12	7.19	25bps
USD Deposit Rate (%)	3.07	3.04	3.16	3.17	3.19	3.14	10bps
Consumer Price Index**	0.59	1.24	(0.38)	(1.11)	1.02	(0.64)	-

\* Year-on-Year \*\* Year-on-Year percentage change

\*\*\*includes arrivals, departures, transit

Note: bps i.e. basis points

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

## Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization
Audi GDR	6.06	0.17	1,204,502	6.34%
Audi Listed	6.06	1.00	342,426	21.82%
BLOM Listed	9.41	0.11	213,395	18.22%
Byblos Common	1.61	(1.83)	180,751	5.21%
Solidere "A"	10.21	(2.39)	29,048	9.20%
BLOM GDR	9.73	0.10	28,380	6.48%
Solidere "B"	10.44	0.97	13,911	6.11%
Byblos Pref. 09	100.60	0.00	0	1.81%
HOLCIM	14.60	0.00	0	2.57%
Byblos Pref. 08	101.50	0.00	0	1.83%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Jan 2016	8.500	100.00	8.20
Mar 2017	9.000	105.19	4.65
Nov 2018	5.150	100.00	5.15
May 2019	6.000	100.75	5.75
Mar 2020	6.375	101.50	5.96
Apr 2021	8.250	109.60	6.10
Oct 2022	6.100	98.75	6.33
Jun 2025	6.250	97.75	6.57
Nov 2026	6.600	98.88	6.75
Feb 2030	6.650	97.88	6.89

Source: Byblos Bank Capital Markets

	Dec 14-18	Dec 7-11	% Change	November 2015	November 2014	% Change
<b>Total Shares Traded</b>	2,052,473	726,316	182.59	5,993,797	3,438,292	74.32
<b>Total Value Traded</b>	\$13,008,966	\$5,882,299	121.15	\$57,995,042	\$25,146,027	130.63
<b>Market Capitalization</b>	\$11.1bn	\$11.1bn	0.01	\$11.19bn	\$11.29bn	(0.91)

Source: Beirut Stock Exchange (BSE)



### Lebanon has 67th highest level of human development globally, seventh highest among Arab countries

The United Nations ranked Lebanon in 67th place among 188 countries worldwide and in seventh place among 20 Arab countries on its Human Development Index (HDI) for 2014. Lebanon's global rank regressed by one spot from the 2013 index, while its regional rank was unchanged year-on-year. Also, Lebanon ranked in 11th place among 50 upper middle-income countries (UMICs) included in the 2014 index. The HDI measures the average of a country in three basic dimensions of human development that are longevity, education and income. The United Nations considered that Lebanon has a 'high-level' of human development, unchanged from the preceding year. Further, Lebanon was one of 56 countries worldwide that have a 'high-level' of human development. Norway had the highest level of human development globally, while Niger had the lowest level.

Lebanon received a score of 0.769 points on the HDI in 2014 compared to a score of 0.768 points in 2013, 0.761 points in each of 2012 and 2011, and 0.756 points in 2010. Its score came above the global average of 0.711 points, the Arab states' average of 0.686 points and the average score of 0.744 points for countries that have a 'high-level' of human development. On a global basis, Lebanon had the same level of human development as Cuba, while it had a higher level than Costa Rica, Iran and Venezuela, and a lower level of human development than the Seychelles, Trinidad & Tobago and Serbia. Also, Lebanon had the same level of human development as Cuba, a higher level than Costa Rica and Iran, and a lower level of development than Mauritius and Serbia among UMICs. Figures on individual components of the index, such as life expectancy, mean years of schooling and expected years of schooling show that Lebanon's results per category continue to be higher than corresponding global and Arab averages.

In parallel, Lebanon ranked in 78th place among 156 countries globally and in seventh place among 18 Arab countries on the Gender Inequality Index (GII), which measures gender-based disadvantages in reproductive health, empowerment and the labor market. Lebanon also ranked in 22nd place among 43 UMICs included in the index. The GII's scores range from zero to one, with smaller scores indicating lower levels of inequalities. Lebanon received a score of 0.385 points on the GII, better than the global and Arab averages of 0.449 points and 0.537 points, respectively, but worse than the average score of 0.31 points in countries that have a 'high-level' of human development.

In terms of demographic trends, the United Nations projected Lebanon's young-age dependency ratio at 27.1% in 2015, which is the ratio of Lebanese aged 14 years or younger to those in the 15 to 64 year-old bracket. In comparison, it forecast the young age dependency ratio at 28.7% in countries that have a 'high-level' of human development, at 39.6% worldwide and at 50.8% in Arab countries. Further, it projected Lebanon's old-age dependency ratio at 12.3% in 2015, which is the ratio of Lebanese who are 65 years or older to those in the 15 to 64 year-old bracket. In comparison, it forecast the old age dependency ratio at 13% in countries that have a 'high-level' of human development, at 12.5% globally and at 6.8% in Arab countries.

#### Human Development Index 2014

	Arab Rank	Global Rank	Category
Qatar	1	32	Very High
Saudi Arabia	2	39	Very High
UAE	3	41	Very High
Bahrain	4	45	Very High
Kuwait	5	48	Very High
Oman	6	52	High
<b>Lebanon</b>	<b>7</b>	<b>67</b>	<b>High</b>
Jordan	8	80	High
Algeria	9	83	High
Libya	10	94	High
Tunisia	11	96	High
Egypt	12	108	Medium
Palestine	13	113	Medium
Iraq	14	121	Medium
Morocco	15	126	Medium
Syria	16	134	Medium
Mauritania	17	156	Medium
Yemen	18	160	Low
Sudan	19	167	Low
Djibouti	20	168	Low

\*Level of human development

Source: UNDP, Byblos Research

#### Components of the 2014 Human Development Index

	Life expectancy at birth (years)	Mean years of schooling (years)	Expected years of schooling (years)	GNI per capita* (US\$)
Lebanon	79.5	7.9	13.8	16,509
Arab states	70.6	6.4	12.0	15,722
World	71.5	7.9	12.2	14,301

\*At 2011 Purchasing Power Parity rate

Source: UNDP, Byblos Research



### Cost of sending remittances from the U.S. unchanged in fourth quarter of 2015

Figures issued by the World Bank show that the cost of sending \$500 in remittances from the United States to Lebanon reached 5.91% in the fourth quarter of 2015, unchanged from the third quarter of 2015 and constituting an increase from 5.26% in the fourth quarter of 2014. The cost includes the transaction fee and exchange rate margin, and represents the average cost of transferring money through commercial banks and money transfer operators (MTOs). In nominal terms, the cost of sending \$500 from the U.S. to Lebanon was \$29.55 in the third and fourth quarters of 2015. Lebanon is the sixth most expensive destination for sending \$500 from the U.S. among 31 countries with available data. The World Bank indicated that the average cost of sending \$500 in remittances from the United States through commercial banks to Lebanon was 8.5% and the average cost through MTOs was 4.18% in the fourth quarter of 2015.

Further, the cost of sending remittances from Canada to Lebanon reached 7.45% in the fourth quarter of 2015 for a transfer of CAD500, relative to 8.46% in the third quarter of 2015 and 7.88% in the fourth quarter of 2014. In nominal terms, the cost of sending CAD500 from Canada to Lebanon was CAD37.27 in the fourth quarter of 2015 relative to CAD42.28 in the preceding quarter. Lebanon is the third most expensive destination for sending CAD500 from Canada among 12 countries with available data.

Also, the cost of sending remittances from Australia to Lebanon was 7.65% in the fourth quarter of 2015 compared to 7.47% in the third quarter and 6.88% in the fourth quarter of 2014. The cost of sending AUD500 from Australia to Lebanon was AUD38.24 in the fourth quarter of 2015 relative to AUD37.36 in the previous quarter. Lebanon is the sixth most expensive destination for sending AUD500 from Australia among 14 countries with available data.

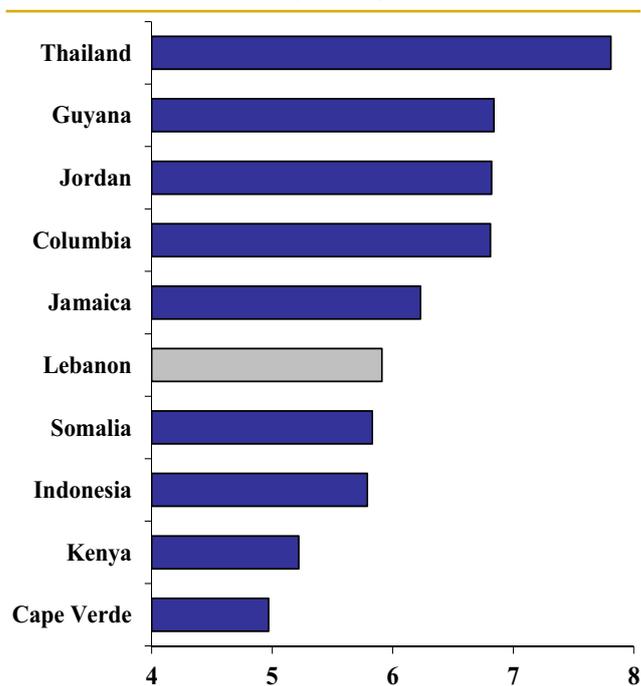
In parallel, the cost of sending remittances from Germany to Lebanon reached 7.11% in the fourth quarter of 2015 for a transfer of EUR345, down from 7.14% in the preceding quarter and 8.1% in the fourth quarter of 2014. In nominal terms, the cost of sending EUR345 from Germany to Lebanon was EUR24.53 in the fourth quarter of 2015 relative to EUR24.65 in the previous quarter. Lebanon is the most expensive destination for sending EUR345 from Germany among 13 countries with available data.

### Lebanon becomes EBRD shareholder

The shareholders of the European Bank for Reconstruction and Development (EBRD) approved Lebanon's request to become a shareholder of the Bank. Lebanon applied for membership in the EBRD in July 2015 and intends to become a recipient of EBRD loans at a later stage. Lebanese authorities indicated that the Bank's support would play an important role in developing sustainable economic growth in the country by strengthening key economic sectors and by contributing to reforms. The EBRD currently has 66 shareholders that include 64 countries, in addition to the European Union and the European Investment Bank. Egypt and Morocco became shareholders in 1991, while Tunisia and Jordan joined in 2011. The EBRD has extended a cumulative EUR1.1bn in loans to Egypt as at September 2015 to finance 26 projects the country. In addition, it has lent EUR570.4m to finance 20 projects in Morocco, and EUR423m to finance 19 projects in Jordan. Also, it has extended EUR295m in loans to Tunisia to finance 20 projects in the country as at end-September 2015.

Established in 1991, the EBRD aims to support market economies and promote the private sector. The Bank has so far allocated more than EUR3bn to 83 projects across the southern and eastern Mediterranean region. It earmarked the funds towards the development of natural resources, financial institutions, agribusiness, manufacturing and services as well as infrastructure projects such as power, municipal water and wastewater, and to upgrade transport services.

Costliest Destinations of Remittances from the United States\*



\*Cost of sending \$500 from the U.S.

Source: World Bank, Byblos Research

### Lebanon ranks sixth in Arab world in economic freedom

The Fraser Institute's 2015 annual Index of Economic Freedom in the Arab World ranked Lebanon in sixth place among 21 countries included in the survey. In comparison, Lebanon came in seventh place in the 2014 survey, in fifth place in the 2013 survey and in fourth place in each of the 2011 and 2012 indices. The index measures the degree of economic freedom in each country based on 39 variables that are distributed into five broad factors of economic freedom. The factors measure the Size of Government, the Legal Structure & Security of Property Rights, Access to Sound Money, Freedom to Trade Internationally, and the Regulation of Credit, Labor & Business. Economic freedom is measured on a scale from zero to 10 where a higher value indicates a greater degree of economic freedom.

Lebanon received a score of 7.7 points, compared to scores of 7.6 points in the 2014 survey and of 7.7 points in each of the 2011, 2012 and 2013 surveys. Lebanon's score was higher than the Arab average of 6.9 points and the average score of 6.5 points in non-GCC Arab countries, while it came below the average score of 7.8 points in GCC economies. The report anticipated that the state of economic freedom in Lebanon would not change significantly in the 2016 survey.

Lebanon ranked second, behind only Sudan, on the Size of Government category, which measures the extent that a country relies on individual choice and markets, rather than on the political process, to allocate resources and goods & services. Also, Lebanon came in fifth place, along with Djibouti, Jordan, Kuwait and Oman, and ranked ahead of Palestine, Bahrain, the UAE and Qatar on the Access to Sound Money category. This category measures the ease of using other currencies via domestic and foreign bank accounts.

In parallel, Lebanon tied with Yemen in 11th place, and came behind Saudi Arabia, Oman, Kuwait, the UAE, Qatar, Tunisia, Morocco, Jordan, Bahrain and Palestine on the Legal Structure & Security of Property Rights category. This category measures the government's effectiveness in protecting property rights. Also, Lebanon tied with Iraq in 15th place, and ranked ahead of only Tunisia, Morocco, Somalia, Algeria, Sudan and Syria on the Freedom to Trade Internationally category. The category measures the impact of tariffs, exchange rates distortion, and exchange rate and capital controls on international trade. Further, Lebanon came in second place, behind only Bahrain, in terms of the Regulation of Credit, Labor & Business. The category measures the restrictions that the regulatory burden imposes on the credit, labor and product markets.

The Fraser Institute is a Canada-based independent think tank whose mission is to study and measure the impact of competitive markets and government intervention on the welfare of individuals.

### Airport passengers up 10% in first 11 months of 2015

Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures, transit) totaled 6,625,214 in the first 11 months of 2015, constituting a rise of 10.5% from the same period last year. The total number of arriving passengers rose by 9.6% year-on-year to 3,203,223 in the first 11 months of 2015, compared to increases of 5.9% in the same period of 2014 and of 4.4% in the first 11 months of 2013. Also, the number of departing passengers rose by 10.7% year-on-year to 3,388,155 in the first 11 months of 2015, relative to increases of 2.7% in the same period of 2014 and of 7.4% in the first 11 months of 2013.

In parallel, the airport's aircraft activity rose by 6.5% year-on-year to 62,851 take-offs and landings in the first 11 months of 2015, compared to an increase of 2.3% in the first 11 months of last year and a decrease of 0.8% in the same period of 2013. In parallel, the HIA processed 83,822 metric tons of cargo in the first 11 months of 2015 that consisted of 83,381 tons of freight and 441 tons of mail.

Index of Arab Economic Freedom for 2015		
	Score	Rank
UAE	8.2	1
Jordan	8.1	2
Bahrain	8.0	3
Kuwait	7.8	4
Qatar	7.8	4
<b>Lebanon</b>	<b>7.7</b>	<b>6</b>
Oman	7.6	7
Palestine	7.4	8
Saudi Arabia	7.3	9
Yemen	7.3	9
Egypt	6.8	11
Tunisia	6.7	12
Djibouti	6.6	13
Comoros	6.5	14
Morocco	6.5	14
Iraq	6.2	16
Mauritania	6.1	17
Libya	6.0	18
Sudan	5.9	19
Algeria	5.6	20
Syria	5.1	21

Source: Fraser Institute, Byblos Research

Lebanon's Rankings & Scores by Category		
Category	Rank	Score
Size of Government	2	8.5
Access to Sound Money	5	9.3
Regulation of Credit, Labor & Business	2	8.2
Freedom to Trade Internationally	15	6.2
Legal Structure & Security of Property Rights	11	6.1

Source: Fraser Institute, Byblos Research

### Economy Ministry signs MoU with anti-corruption organization

The Ministry of Economy & Trade signed on December 9, 2015 a Memorandum of Understanding (MoU) with advocacy organization Sakker el Dekkéné, in an attempt to fight corruption and enhance transparency at the ministry. The ministry aims to cooperate with civil society to detect corruption practices at the Economy Ministry and related public institutions, as well as to train its employees to be fight and report corruption. The MoU stipulates that Sakker el Dekkéné would conduct an internal survey that assesses the level of institutional, managerial and individual integrity at the ministry. It would also conduct an external survey that evaluates the experience of individuals and firms that have dealt with the ministry. In addition, it would review and assess all the procedures adopted in the ministry. Subsequently, Sakker el Dekkéné will propose measures to fight corruption, will monitor their execution and will assess the results. Based on the outcome, it will decide whether to grant the ministry an Integrity Compliance Certificate. Sakker el Dekkéné indicated that it has started meeting with the staff at the Ministry of Economy to get qualitative input and fine-tune its assessment methodology. It pointed out that it will set a general mechanism from the Integrity Compliance Certificate that can be applied to other interested ministries and institutions in Lebanon.

### Public Health Ministry launches new quality classification mechanism for food outlets

The Ministry of Public Health announced a new quality classification mechanism that assesses the hygiene and food safety measures at restaurants in Lebanon. The grading system allocates scores to restaurants on a scale from zero percent to 100%, with 100% representing the highest level of quality. Food outlets that receive a grade of 90% or above would earn a "Gold" certification, and restaurants that are assigned a grade between 80% and 89% receive a "Silver" certificate; while outlets that score below 80% are not granted a certification. The first phase of the program has only covered restaurants in Beirut, but the ministry indicated that it will gradually cover more restaurants in other parts of the country. The results show that 84 out of about 341 surveyed restaurants in Beirut, or 24.6% of the total, received a "Gold" certification; while 35 food outlets, or 10% of the total, were granted a "Silver" certificate. The ministry indicated that it will put the certificate at the entrance of each rated restaurant. It noted that it surveyed restaurants in Beirut that have a smoking section and that meet its standards. It added that it will visit the restaurants that were granted a certificate every three months at least, and that it would downgrade the ratings in case of non-compliance, or would even withdraw the certificate if an outlet's rating falls below 80%.

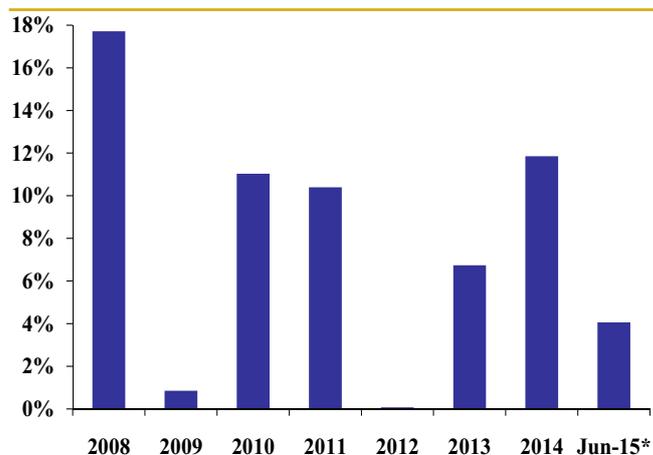
The ministry's grading system for the quality of restaurants in Lebanon is based on six pillars that include "receiving and preparing food", "food preparation areas", "chefs and line cooks", "cleaning and sanitizing", "sanitizing areas and dressing rooms" and "basic sanitation". Each pillar is segmented into one to six sub-pillars, where each sub-pillar includes a checklist that is graded from zero to two points. A restaurant would receive two points if it meets the full requirements of any given sub-category, while it would receive one point if it partially meets the criteria, and would not get any points if it does not meet any of the requirements. The initiative is conducted in collaboration with the Syndicate of Hotel Owners in Lebanon, the Syndicate of Owners of Restaurants, Cafés, Night-clubs & Pastries in Lebanon, as well as with the Union of Tourism Establishments in Lebanon. The initiative is part of the ministry's food safety campaign that it launched in November 2014.

### Payment cards reach 2.6 million at end-June 2015, ATMs total 1,658

Figures released by the Central Bank show that the number of payment cards issued in Lebanon reached 2,577,810 cards at the end of June 2015, constituting an increase of 6% from the end of 2014 and a rise of 9.2% from the end of June 2014. Cards held by residents accounted for 97.2% of total cards issued in Lebanon at end June-2015. The distribution of payment cards by type shows that debit cards with residents reached 1,237,616 and accounted for 48% of the total, followed by prepaid cards with resident at 594,167 (23%), credit cards with residents at 529,809 (20.6%), charge cards with residents at 143,990 (5.6%), debit cards held by non-residents at 44,590 (1.7%), credit cards held by non-residents at 12,922 (0.5%), charge cards held by non-residents at 8,034 and prepaid cards held by non-residents at 6,682 (0.3% each).

Further, the aggregate number of points-of-sales accepting payment cards reached 39,101 at the end of June 2015, and increased by 2.3% on a quarterly basis and by 7.9% on an annual basis. In parallel, the number of ATMs across Lebanon totaled 1,658 at the end of June 2015, constituting a rise of 3.4% from the end of 2014 and an increase of 8.7% from the end of June 2014. The Greater Beirut area had 688 ATMs at end-June 2015, equivalent to 41.5% of the total, followed by Mount Lebanon with 530 ATMs (32%), the North with 163 ATMs (9.8%), the South with 126 ATMs (7.6%), the Bekaa with 122 ATMs (7.4%) and Nabatieh with 29 ATMs (1.7%).

### Growth in the Number of Credit Cards Held by Residents



\*from end-2014

Source: Central Bank of Lebanon, Byblos Research

### Results of poverty survey mitigated by weak data collection

The Central Administration of Statistics' (CAS) 2011-12 Household Budget Survey shows that about one million persons residing in Lebanon had a level of consumption that is lower than \$3,137 per capita per year during the 2011-12 period, which is considered to be below the annual poverty line. As such, it noted that 27% of Lebanon's residents lived below the annual poverty line during the covered period.

The CAS indicated that it encountered several problems during data collection that negatively affected the quality of the obtained data. First, it noted that it planned to complete the survey in 12 weeks but needed over one year to finish it, which has increased the effect of seasonality. Second, it said that the non-response rate was 43%, which reduced the sample size from 4,805 households to 2,746. It admitted that this has resulted in an over representation of the poorer households in the sample. The survey was implemented with technical assistance from the World Bank, and the CAS and World Bank staff adjusted the data to mitigate the impact of the non-response bias. The survey's fieldwork was conducted between September 2011 and November 2012, and covered a sample size of 2,746 households across Lebanon.

According to the survey's results, the poorest 20% of the population consume about 8% of aggregate consumption in Lebanon, while the wealthiest 20% consume about 40% of the total. The survey indicated that the poverty rate in the Bekaa was 38%, followed by the North (36%), the South (31%), Nabatieh (25%), Mount Lebanon (22%) and Beirut (16%). It added that Mount Lebanon hosts 342,815 persons who live below the poverty line, or 33.1% of total persons living in poverty across Lebanon; followed by the North with 287,950 (27.8%), the Bekaa with 169,711 (16.4%), the South with 117,723 (11.4%), Beirut with 59,024 (5.7%) and Nabatieh with 57,581 (5.6%). In addition, it noted that about 7% of surveyed households have non-Lebanese heads, with the poverty rate for this group reaching 55% compared to 26% for households headed by Lebanese citizens. It noted that 61% of residents with some tertiary education are employed, while 31% of those who have not achieved a primary education have a job.

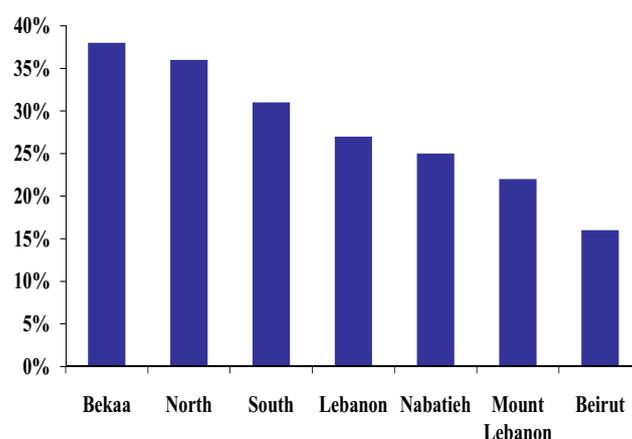
In parallel, the survey revealed that the poverty rate is at 40% for adult residents who work in the agricultural sector, followed by a rate of 38% for workers in construction, 33% in mining & manufacturing, 29% in transport & communication, 25% in trade, 17% in services, 16% in education, health & public administration, and 7% in the financial sector. In addition, the survey showed that adult residents who are employed on a daily or weekly basis have a poverty level of 47%, followed by 28% for the self-employed, 19% for those residents who are paid on a monthly basis and 14% for employers. Further, the survey noted that 45% of adults were in the labor market, while 51% of individuals were inactive during the covered period. It added that the education, health & public administration sector employed 24% of residents, followed by trade (22%), services (21%), mining & manufacturing (12%), construction (7%), transport & communication (6%), agriculture (4%), and financial intermediation (3%). It indicated that the unemployment rate stood at 9% during the 2011-12 period.

### New industrial licenses up 38% in first half of 2015

The Ministry of Industry issued 357 new licenses for industrial establishments in the first half of 2015, constituting an increase of 38.4% from 258 licenses in the same period of 2014. The ministry granted 59 licenses in January, 48 licenses in February, 23 licenses in March, 97 licenses in April, 50 licenses in May and 80 licenses in June 2015. Construction licenses accounted for 37.8% of issued licenses in the first half of 2015, followed by investment licenses with 21.8% and construction & investment licenses with 15.4%. Mount Lebanon had 198 new licenses in the first half of 2015, or 55.5% of the total, followed by the Bekaa with 61 licenses (17.1%), the North with 32 licenses (9%), the South with 31 licenses (8.7%), Nabatieh with 24 licenses (6.7%) and Beirut with 11 licenses (3.1%).

Also, the food processing sector accounted for 104 licenses or 29.1% of the total; followed by construction materials with 62 licenses (17.4%); the chemicals industry with 38 licenses (10.6%); metal products & electrical appliances with 26 licenses (7.3%); mining & quarrying products with 22 licenses (6.2%); rubber & plastics with 20 licenses (5.6%); the furniture & wood sector with 17 licenses (4.8%); and the publishing, printing & media industry with 12 licenses (3.4%).

Poverty Rates across Regions (%)



Source: Central Administration of Statistics

### Construction and public work activity deteriorates in second quarter of 2015

The Central Bank's quarterly business survey shows that construction activity regressed during the second quarter of 2015, as the balance of opinions stood at -36, compared to -31 in the preceding quarter and to -22 in the same quarter of 2014. The balance of opinions indicates that construction activity was the lowest in the Bekaa region at -58, followed by Beirut & Mount Lebanon (-34), the South (-31) and the North (-22). The business survey reflects the opinions of enterprise managers about the evolution of their businesses, in order to depict the trend of a number of key economic variables. The balance of opinions for public works stood at -42 in the second quarter of 2015, compared to -37 in the preceding quarter and to -24 in the second quarter of 2014. Opinions about the level of public works were the lowest in the Bekaa region at -67, followed by the North (-61), Beirut & Mount Lebanon (-26) and the South (zero).

In parallel, the balance of opinions for the portfolio of projects was -24 in the second quarter of 2015 relative to -37 in the first quarter and to -24 in the same quarter of 2014. The balance of opinions about the portfolio of projects was the lowest in the South at -37, followed by Beirut & Mount Lebanon (-36), the North (-32) and the Bekaa (+15). Also, the balance of opinions for general construction activity was -31 in the second quarter of 2015, compared to -29 in the preceding quarter and to -18 in the second quarter of 2014. Further, the balance of opinions for construction costs reached +8 in the covered quarter compared to +26 in the preceding quarter and to +29 in the second quarter of 2014. The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in a particular indicator and the proportion of those who reported a decline in the same indicator.

Construction and Public Work Activity: Evolution of Opinions				
Aggregate results	Q2-12	Q2-13	Q2-14	Q2-15
General activity	-10	-11	-22	-36
Construction	-5	-12	-18	-31
Public work	-22	-3	-24	-42
Portfolio of projects	-7	-6	-24	-24
Construction costs	+37	+37	+29	+8
Investments (% of yes)	37%	33%	38%	40%

Source: Central Bank Business Survey for Second Quarter 2015

### Treasury transfers to Electricité du Liban down 47% to \$386m in first four months of 2015

Figures released by the Finance Ministry show that Treasury transfers to Electricité du Liban (EdL) totaled \$386.4m in the first four months of 2015, constituting a drop of 47.2% from \$731.8m in the same period last year. The ministry indicated that transfers to EdL for 2015 are calculated on a cash basis, as it also adjusted the 2014 figures for comparative reasons. The ministry said that reimbursements to the Kuwait Petroleum Corporation (KPC) and to the Algerian energy conglomerate Sonatrach totaled \$378.9m, or 98% of transfers in the covered quarter, while EdL's debt servicing represented the balance of \$7.6m, or 2% of the total. It attributed the decline in transfers to a decrease of \$344.7m, or 47.6%, in payments to KPC and Sonatrach during the covered period as well as to a drop of \$0.7m, or 8.2%, in debt servicing.

The ministry said that the decline in payments to KPC and Sonatrach reflects a 49.2% year-on-year decrease in oil prices at the time the oil contracts were executed and a 9.5% drop in the quantity of imported fuel oil, which were partly offset by a 0.4% rise in the quantity of imported gasoil. Also, it pointed out that EdL contributed 2.2% of the repayments to the two oil suppliers in the first four months of 2015, unchanged from the same period of 2014. EdL transfers accounted for 11.9% of primary expenditures in the first four months of the year compared to 23.7% in the same period of 2014. They constituted the third largest expenditures item after debt servicing and salaries & wages in overall fiscal spending. EdL transfers were equivalent to 5.1% of GDP in 2012, and to 4.3% of GDP in each of 2013 and 2014.

### **Fitch Ratings affirms banks' ratings, outlook 'negative'**

Fitch Ratings affirmed at 'B' the long-term Issuer Default Rating (IDR) of Byblos Bank and Bank Audi and kept the outlook on the ratings at 'negative'. It also maintained the two banks' Viability Ratings at 'b'. It said that the 'negative' outlook mirrors the outlook on the sovereign ratings. The agency indicated that the two banks' long-term IDRs are driven by their intrinsic strength. It said that the ratings are limited by the sovereign ratings due to the banks' substantial holdings of government debt and of Certificates of Deposit issued by the Central Bank. It noted that the ratings take into account the banks' strong domestic franchise, experienced management and resilient deposit base, in addition to Byblos Bank's solid liquidity and Bank Audi's increasing international diversification and adequate liquidity profile. It considered that both banks' capitalization is weak, mainly due to their large holdings of sovereign debt. The agency indicated that it is unlikely to upgrade the banks' ratings in the short- to medium-term, given their key role in financing the sovereign, which would keep their exposure to the sovereign elevated. It said that it would downgrade the banks' ratings in the event of a prolonged weakening of the operating environment in case it affects depositor confidence, and if asset quality significantly deteriorates and reduces the banks' capital base.

Further, the agency pointed out that the Lebanese authorities would have a high willingness to support the two banks in case of need, given their systemic importance to the banking sector and to the economy as a whole. But it noted that the authorities' ability to provide such support cannot be relied upon. It added that the authorities could face difficulties in providing system-wide support for the banking sector, including to Byblos Bank and Bank Audi, if needed.

### **Venture capital fund announces 12 investments**

The Beirut-based venture capital fund Berytech Fund II announced 12 new investments for an aggregate amount of more than \$20m. The fund indicated that it committed up to \$4m to Instabeat, a device mounted on swimming goggles that tracks swimmers' heart rate through a cloud-based Smartphone application. It also earmarked up to \$2.5m in Loop, a service provider proposing an electrical scooter sharing scheme; and up to \$2m in CCCC, a cloud computing and IP based telephony global provider. Also, the fund committed up to \$2m in each of Cinemoz, an Arabic video on demand platform; in Et3arraf, a matrimonial centric matchmaking platform for the Arab world; in Mobinets, a mobile networks and operators company; and in online women magazine Ounousa.

In addition, the fund committed up to \$1.5m to Element^N, a technology firm specialized in mobile and web-based e-business technology and solutions; up to \$0.9m in Slighter, a smart lighter whose goal is to help users stop smoking; and up to \$0.5m in Appdater, a real time news aggregator in the Middle East & North Africa region. It further earmarked up to \$0.6m in Atbaki, a food recipe centered platform; and up to \$0.3m in YallaPlay, an online gaming application with a strong artificial intelligence component.

The \$51m Berytech Fund II's objective is to invest in small and medium-sized Lebanese enterprises covering the fields of Information & Communication Technology (ICT), digital content, fashion, renewable energies and industrial design. The fund raised money from major banks in Lebanon, to invest in the knowledge economy sector, in line with Circular 331 issued by the Central Bank.

### **Creditbank to raise capital to \$106m**

The Extraordinary General Assembly of Creditbank sal that was held in October 2015 approved the increase of the bank's capital from LBP80.23bn, equivalent to \$53.2m, to LBP159.62bn or \$105.9m. The capital increase will be conducted through an internal transfer from the bank's free reserves and through the issuance of 106,780 new common shares. The issue price if the new shares is LBP211,768 per share, of which LBP50,000 (\$33.16) is par value and the remaining LBP161,768 constitutes the issue premium. Holders of current shares have the priority to subscribe to the new shares in a proportion equivalent to the percentage of shares they currently own. The subscription period started on December 17 and will last until December 28, 2015.

Creditbank posted unaudited consolidated net profits of \$28.3m in the first nine months of 2015. Its assets reached \$3.22bn at the end of September 2015; while loans & advances to customers, excluding loans & advances to related parties, stood at \$1.65bn at the end of September. Also, customer deposits, excluding deposits from related parties, totaled \$2.7bn at end-September 2015.

### **Ciment de Sibling to pay dividends for 2012, 2013 and 2014**

Ciment de Sibling sal, Lebanon's third largest cement producer, announced that its Exceptional Ordinary General Assembly held on November 20, 2015 approved the distribution of accumulated dividends to its shareholders for 2012, 2013 and 2014. The company decided to pay gross dividends of LBP450, or \$0.3 per share, to its common shareholders. It started distributing the dividends on December 1, 2015, net of a 10% withholding tax. The company paid gross dividends of LBP233, or \$0.15 per share, to its common shareholders in June 2015.

Ciment de Sibling's total assets reached \$182.7m at the end of 2014, constituting a rise of 10.8% from \$164.9m at end-2013. The firm's current assets reached \$96.7m, of which \$44.9m were in cash and \$36m were in inventory. Property, plant and equipment dropped by 7.1% from end-2013 to \$80.5m at the end of 2014. In parallel, the firm's short-term liabilities rose by 11.9% to \$30.6m at end-2014, while its long-term liabilities declined by 8.4% year-on-year to \$11.5m. Ciment de Sibling's current ratio, which is a measure of the company's ability to meet its short-term obligations, reached 3.17 times at the end of 2014 compared to 2.64 times at end-2013. Shareholders' equity rose by 12.5% from end-2013 to \$140.7m at the end of 2014.

### **Fitch affirms Allianz ratings at 'AA-', outlook 'stable'**

Fitch Ratings affirmed Germany-based insurance group Allianz SE's Insurer Financial Strength (IFS) rating at 'AA' and long-term Issuer Default Rating (IDR) at 'AA-', with a 'stable' outlook on the ratings. It also affirmed the IFS ratings of the main Allianz subsidiaries at 'AA' with a 'stable' outlook. The group fully owns Allianz SNA, one of Lebanon's largest insurance firms.

The agency indicated that the ratings are supported by the group's strong technical profitability, very strong consolidated capital position, broad diversification by geography and by product, and solid business position in its key markets. It added that the group's ratings benefit from an investment mix of sound credit quality. But it noted that these supportive factors for the ratings are partly offset by the currently reduced profitability in the group's asset management subsidiary, PIMCO, and by the challenging medium-term outlook for some of its life markets.

It considered that the subdued outlook for economic growth in the Eurozone, low interest rates and a possible re-intensification of the peripheral Eurozone debt crisis create a challenging operating environment. Fitch expected Allianz's sound underwriting profitability from the non-life business to be partly offset by the decline in earnings from asset management. The group is active in both the non-life and life segments, as well as in asset management.

Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked Allianz SNA in third and sixth place in 2014 in terms of life and non-life premiums, respectively. The firm's life premiums amounted to \$58.2m at the end of 2014, constituting a rise of 4.5% from a year earlier; while non-life premiums increased by 4.5% year-on-year to \$57.9m. It had a 13.1% share of the local life market and a 5.6% share of the non-life market.

### **Fransabank issues preferred shares**

Fransabank sal increased its capital by issuing 525,000 Series E Preferred Shares for a total issuance of \$105m. The issue price is \$200 per share, of which LBP20,000 (\$13.26) is par value and the remaining \$186.7 constitute the issue premium. The newly-issued preferred shares carry an annual dividend rate of 6.75% of the issue price, and are redeemable, non-cumulative and perpetual. The bank has the option to call the shares within 90 days after the Ordinary General Assembly meets in 2021 to approve the financials for fiscal year 2020, and annually thereafter, at a premium callable price of \$207 per share plus any declared but unpaid dividends. The new shares will not be listed on the Beirut Stock Exchange, in line with previous issuances. The issuance increased the bank's capital by LBP10.5bn, from LBP454.5bn, or \$301.5m, to LBP465bn or \$308.5m. The bank's Extraordinary General Assembly approved the capital increase on October 21, 2015. The bank's share capital currently consists of 21,500,000 common shares, 425,000 Preferred Shares Series B, 375,000 Preferred Shares Series C, 425,000 Preferred Shares Series D and 525,000 Preferred Shares Series E.

Fransabank posted unaudited consolidated net profits of \$121.3m in the first nine months of 2015. Its assets reached \$19.5bn at end-September 2015; while loans & advances to customers, excluding loans & advances to related parties, rose by 1.2% from end-2014 to \$5.9bn at the end September. Also, customer deposits, excluding deposits from related parties, totaled \$14.84bn at end-2014, up by 5.2% from end-2014.

## Ratio Highlights

(in % unless specified)	2013	2014	2015f	Change*
Nominal GDP (\$bn)	46.1	48.2	49.8	
Public Debt in Foreign Currency / GDP	56.7	53.1	55.2	205
Public Debt in Local Currency / GDP	81.0	85.0	85.0	(1)
Gross Public Debt / GDP	137.7	138.1	140.1	204
Total Gross External Debt / GDP**	163.8	165.1	162.4	(270)
Trade Balance / GDP	(37.5)	(35.6)	(33.5)	217
Exports / Imports	18.5	16.2	15.3	(83)
Fiscal Revenues / GDP	20.4	22.6	20.9	(161)
Fiscal Expenditures / GDP	29.6	28.9	28.5	(43)
Fiscal Balance / GDP	(9.2)	(6.4)	(7.6)	(118)
Primary Balance / GDP	(0.5)	2.7	2.1	(61)
Gross Foreign Currency Reserves / M2	69.5	66.5	66.8	30
M3 / GDP	241.0	244.1	246.9	284
Commercial Banks Assets / GDP	357.4	364.4	368.8	435
Private Sector Deposits / GDP	295.4	299.6	303.2	367
Private Sector Loans / GDP	102.7	105.6	107.2	161
Private Sector Deposits Dollarization Rate	66.1	65.7	64.6	(109)
Private Sector Lending Dollarization Rate	76.5	75.6	74.6	(92)

\* Change in basis points 14/15

\*\*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 2014	Jan 2015	Feb 2015	Change**	Risk Level
Political Risk Rating	52.0	53.5	54.5	▼	High
Financial Risk Rating	38.0	39.0	39.0	▼	Low
Economic Risk Rating	27.0	33.0	33.0	▼	Moderate
Composite Risk Rating	58.5	62.8	63.3	▼	Moderate

MENA Average*	Feb 2014	Jan 2015	Feb 2015	Change**	Risk Level
Political Risk Rating	58.1	57.8	57.9	▲	High
Financial Risk Rating	40.7	40.1	40.1	▲	Very Low
Economic Risk Rating	35.5	35.1	34.8	▲	Moderate
Composite Risk Rating	67.1	66.5	66.4	▲	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	Negative	B		Negative
Standard & Poor's	B-	B	Negative	B-	B	Negative
Capital Intelligence	B	B	Negative	B	B	Negative

Source: Rating agencies

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

Source: Rating agencies

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