

LEBANON THIS WEEK

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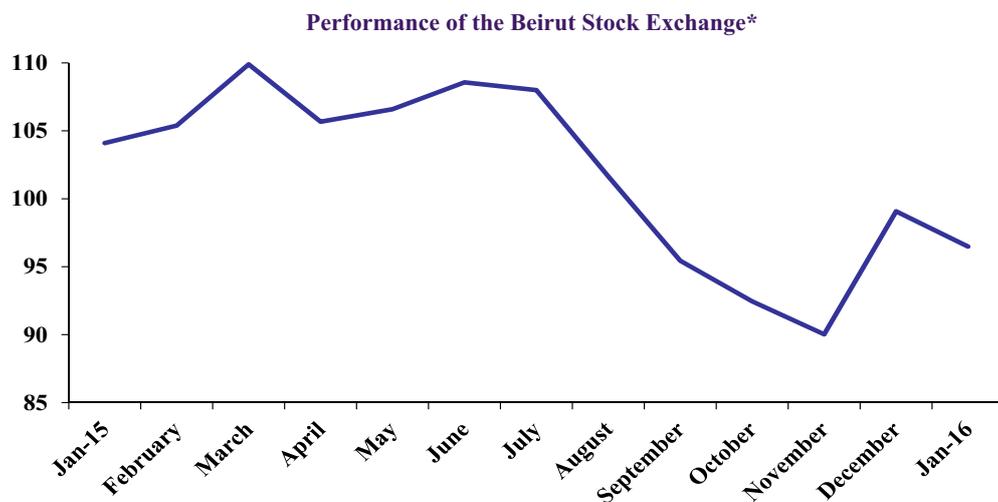
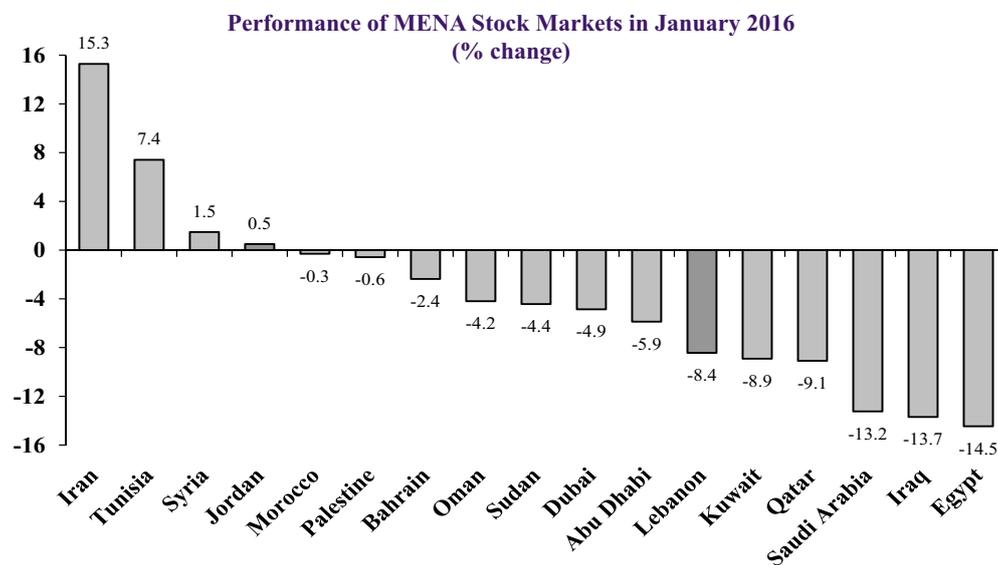
Insurance premiums up 2% year-on-year to \$1.15bn in first nine months of 2015, claims and benefits up 7% to \$606m

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Charts of the Week



* Banque du Liban Market Value Weighted Index average monthly values
Source: Local Stock Markets, Dow Jones Indices, Capital Markets Authority, Byblos Bank

Quote to Note

"Any strong rebound in growth toward the 2007-2010 levels will hinge on regional stability and the government's ability to implement key structural reforms."

Standard & Poor's, on the requirements for an increase in economic activity in Lebanon

Number of the Week

1.1%: Foregone per capita average income growth in Lebanon from the spillovers of the Syrian conflict, according to the World Bank

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
Solidere "B"	10.47	3.66	910,274	6.11%
Solidere "A"	10.15	(0.39)	712,314	9.11%
BLOM GDR	9.80	1.55	189,420	6.50%
Audi GDR	6.10	0.00	63,324	6.36%
Byblos Common	1.64	0.61	37,923	5.29%
Audi Listed	6.10	0.33	28,990	21.89%
BLOM Listed	9.40	0.00	25,438	18.14%
HOLCIM	14.41	(0.07)	420	2.52%
Byblos Pref. 08	101.00	0.00	15	1.81%
Byblos Pref. 09	101.00	0.00	0	1.81%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Mar 2017	9.000	104.40	4.92
Nov 2018	5.150	99.75	5.25
May 2019	6.000	100.50	5.83
Mar 2020	6.375	100.75	6.16
Apr 2021	8.250	107.50	6.52
Oct 2022	6.100	97.75	6.52
Jun 2025	6.250	96.50	6.76
Nov 2026	6.600	97.50	6.93
Feb 2030	6.650	96.00	7.10
Nov 2035	7.050	99.25	7.12

Source: Byblos Bank Capital Markets

	Feb 1-5	Jan 25-29	% Change	January 2016	January 2015	% Change
Total Shares Traded	2,241,867	1,672,782	34.02	4,478,596	2,924,443	53.14
Total Value Traded	\$23,764,058	\$11,226,227	111.68	\$38,492,918	\$18,796,462	104.79
Market Capitalization	\$11.14bn	\$11.09bn	0.47	\$11.09bn	\$11.25bn	(1.46)

Source: Beirut Stock Exchange (BSE)



Consumer confidence in Lebanon stagnates in second half of 2015

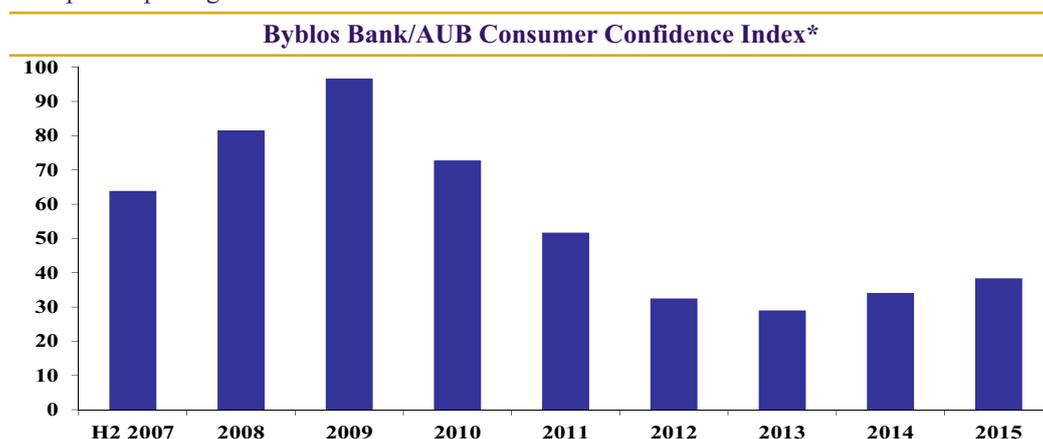
The level of consumer confidence in Lebanon deteriorated slightly in the second half of 2015, as reflected by the results of the Byblos Bank/AUB Consumer Confidence Index for the third and fourth quarters of the year. The Index declined by 5% month-on-month in July, grew by 12% in August, fell by 13% in September and by 1% in October, while it improved by 3.4% in November and regressed by 7.2% in December 2015. The Index averaged 39.5 points in the third quarter, nearly unchanged from the second quarter of 2015, and decreased by 6.7% to an average of 36.9 in the fourth quarter of 2015. The deterioration in the fourth quarter of 2015 was reflected in the answers of consumers to the Index's survey questions, as only 2.5% of the surveyed Lebanese in the fourth quarter said that their financial situation is "better off" than it was six months earlier, the lowest such quarterly percentage since the Index's inception in July 2007. In contrast, 78.2% of the surveyed Lebanese said that their financial situation is "worse off" than it was six months earlier, and 19.3% stated that their financial situation remained the same. Overall, the results of the second half of 2015 constitute a drop of 60.8% from the Index's peak level reached in the first half of 2009 and a decrease of 30.8% from the monthly trend average since 2007.

Political and security issues continued to be the main reasons for the low level of consumer confidence in the country, while socioeconomic developments also took their toll on household sentiment in the second half of 2015. The repeated failure of the Lebanese Parliament to elect a President and the paralyzed decision-making process within public institutions, which has reached the Council of Ministers, kept household confidence at low levels. On the socioeconomic level, the outbreak of the waste management crisis in July 2015 had a significant impact on consumer sentiment, as it highlighted the inability of the government and political parties to properly manage and deliver basic public services. In contrast, generally stable security conditions across the country, the ongoing countrywide crackdown on suspected terrorists by security forces, and the continued dialogue between various political parties prevented consumer sentiment from deteriorating further during the second half of 2015. Also, the positive impact on households' budgets from the drop in local gasoline retail prices and the fading away of imported inflation gave some reprieve to wary consumers.

The Byblos Bank/AUB Expectations Index posted higher values than the Present Situation Index during each of the last six months of 2015. But the results do not reflect a reversal of trends or a shift in households' attitudes, as only 7.6% of Lebanese polled in the fourth quarter of 2015 expected their financial conditions to improve in the coming six months, while 69% of them believed that their financial situation will deteriorate.

In parallel, the results of the Byblos Bank/AUB Consumer Confidence Index for the second half of 2015 show that female consumers had a relatively higher level of confidence than their male counterparts; while consumers in the 21 to 29 year-old bracket posted a higher level of confidence than citizens in other age brackets during the covered period. Also, households with an income of \$2,500 or more per month continued to have a higher level of confidence than those earning less. Moreover, students had a higher level of confidence than housewives, private sector employees, the self-employed, the unemployed and public sector employees, in the second half of 2015. In addition, consumers in the South posted the highest confidence level across administrative districts, or *mohafaza*, in the second half of the year, followed by consumers in Mount Lebanon, the North, the Bekaa and Beirut. Further, Christian consumers had a higher level of confidence than those from other religious affiliations during the covered period, followed by Shiite, Sunni, and Druze consumers.

The Byblos Bank/AUB Consumer Confidence Index is a measure of the sentiment and expectations of Lebanese consumers towards the economy and their own financial situation. The Index is compiled, implemented and analyzed in line with international best practices and according to criteria from leading consumer confidence indices worldwide. It is composed of two sub-indices, the Byblos Bank/AUB Present Situation Index and the Byblos Bank/AUB Expectations Index. The first sub-Index covers the current economic and financial conditions of Lebanese consumers, and the second one addresses their outlook over the coming six months. The Index has been calculated on a monthly basis since July 2007, with January 2009 as its base month. It is based on a nationally representative survey of 1,200 face-to-face interviews with adult males and females living throughout Lebanon. The monthly field survey is conducted by Statistics Lebanon, a market research and opinion-polling firm.



* Monthly average Index for the period

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

Advertising spending in Lebanon flat at \$190m in 2015

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 \$190m in 2015, nearly unchanged from \$189m in 2014. In comparison, advertising expenditures grew by 1.9% in each of 2013 and 2014, rose by 4.5% in 2012, contracted by 3% in 2011, and posted increases of 15.4% in 2010 and 18.5% in 2009.

Television attracted \$83m or 43.7% of advertising expenditures, followed by outdoor billboards with \$43m (22.6%), newspapers with \$25m (13.2%), radio with \$16m (8.4%), magazines with \$11m (5.8%), online with \$10m (5.3%) and cinemas with \$2m (1.1%). Spending on online advertising rose by 43% last year, radio ads grew by 6.7% and TV ads improved by 3.8%; while advertising expenditures on magazine ads regressed by 15.4%, newspaper ads contracted by 10.7% and outdoor billboards declined by 2.3% year-on-year. Spending on ads at cinemas was unchanged from 2014.

Procter & Gamble was the biggest corporate spender on advertising in Lebanon, followed by Solvid, Nestlé, BankMed, Banque Libano-Française, Mondelez International, Jane Nassar, Lebanese Arab Credit, Salameh Co. and Zain. Procter & Gamble was the largest spender on TV ads last year, Majid Al Futaim was the biggest client of outdoor billboard ads, BankMed spent the most on press ads, Yokohama was the biggest spender on radio ads, and Coca-Cola Company was the largest spender on cinema ads.

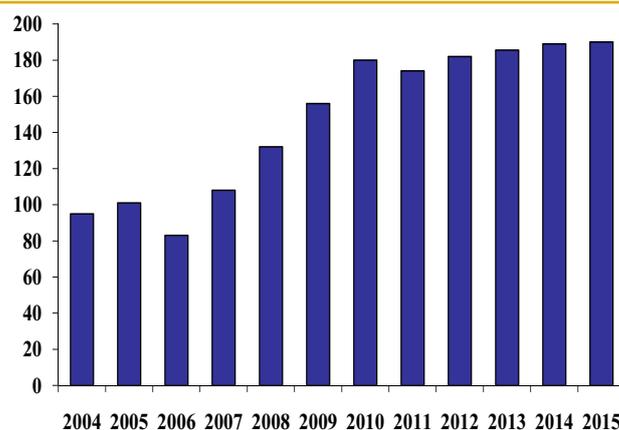
Further, BankMed was the top advertised brand in all media, followed by Banque Libano-Française, Pampers, Jane Nassar, Lebanese Arab Credit, Salameh Co., Buzz, Touch, Arial and Moukarzel. BankMed was the top advertised brand on television and in the printed press in 2015, Touch was the most frequently promoted brand on out-of-home advertising, Yokohama was the top advertised brand on radio, and Coca-Cola was the most frequently promoted brand in cinemas.

According to Ipsos, monitored advertising expenditures in Lebanon rose by 4% to \$1.65bn in 2015. The survey indicated that the discrepancy between monitored rates and actual figures continues, as monitored rates are 8.7 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. It noted that monitored ad spending on TV is 16 times larger than actual spending, followed by outdoor billboards with a 4.1 ratio, magazines with a 3.6 ratio, radio with a 3.4 ratio, newspapers at two times and cinemas with a ratio of 1.5 times.

Balance of payments posts deficit of \$3.4bn in 2015

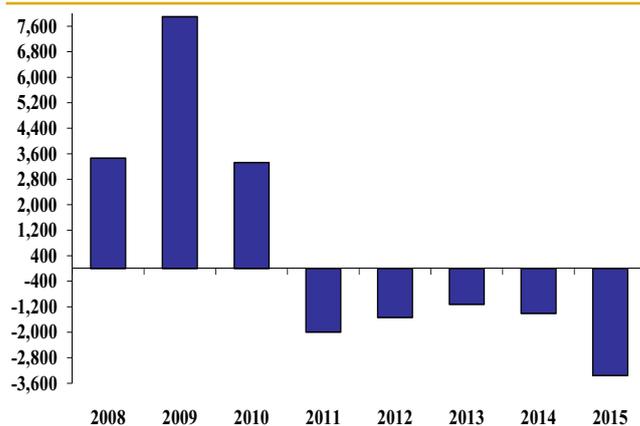
Central Bank figures show that Lebanon's balance of payments posted a deficit of \$3.35bn in 2015 compared to a deficit of \$1.4bn in 2014. The balance of payments posted a deficit of \$372.4m in December 2015 compared to deficits of \$815.7m in November 2015 and of \$115.5m in December 2014. The December 2015 deficit was caused by a drop of \$729m in the net foreign assets of the Central Bank, and was partially offset by an increase of \$356.6m in those of banks and financial institutions. The cumulative deficit in 2015 was caused by decreases of \$2.88bn in the net foreign assets of banks and financial institutions, and of \$473.4m in those of the Central Bank. 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 and \$1.1bn in 2013. The balance of payments' deficit was equivalent to 6.7% of GDP in 2015, relative to 2.9% of GDP in 2014 and 2.4% of GDP in 2013.

Real Advertising Expenditures in Lebanon (\$m)



Source: ArabAd, Byblos Research

Balance of Payments (US\$m)



Source: Central Bank of Lebanon

Value of cleared checks down 7%, returned checks down 5% in 2015

The value of cleared checks reached \$69.6bn in 2015, constituting a decrease of 6.8% from 2014, and compared to increases of 3.1% in 2014 and 1.9% in 2013. The value of cleared checks in Lebanese pounds rose by 3% to the equivalent of \$18.7bn, while the value of cleared checks in US dollars declined by 9.9% to \$50.8bn in 2015. The dollarization rate of cleared checks regressed from 75.7% in 2014 to 73.1% in 2015. Also, the value of returned checks in domestic and foreign currency dropped by 4.7% to \$1.5bn in 2015, relative to increases of 3.9% in 2014 and 3.1% in 2013. In parallel, there were 12.5 million cleared checks in 2015, down by 3.7% from 2014. Also, there were 234,900 returned checks last year, down by 8.5% from 256,600 in 2014.

Lebanon ranks 98th globally, ninth among Arab countries on economic freedom, economy remains "mostly unfree"

The Heritage Foundation/*Wall Street Journal* Index of Economic Freedom for 2016, a broad indicator of economic freedom in 178 countries, ranked Lebanon in 98th place worldwide and in ninth place among 14 Arab countries. Lebanon came in 29th place among 46 upper middle-income countries (UMICs) included in the survey. In parallel, Lebanon ranked in 94th place among 178 countries globally and in ninth place among 15 Arab countries in the 2015 index. Lebanon's global rank regressed by three spots from the 2015 index based on the same set of countries in both surveys. The index evaluates individual economies on the basis of 10 equally-weighted broad factors of economic freedom. Scores range between zero and 100, with 100 reflecting the most free economy.

Globally, Lebanon has a higher level of economic freedom than Indonesia, Mongolia and Uganda, and its economy is less free than Azerbaijan, Côte d'Ivoire and Sri Lanka among economies with a GDP of \$10bn or more. It also has a higher level of economic freedom than Mongolia, Gabon and Bosnia & Herzegovina; and a lower level than Paraguay, the Dominican Republic and Azerbaijan among UMICs. Lebanon's level of economic freedom came at 59.5% in 2016 relative to 59.3% in 2015. Lebanon saw declines in its freedom from corruption, as well as in its financial and labor freedoms, which were offset by improvements in the control of government spending, as well as in its monetary and business freedoms. Lebanon's 2016 score was below the global level of economic freedom of 60.7%, the UMICs' level of 60.4% and the Arab level of 62.3%.

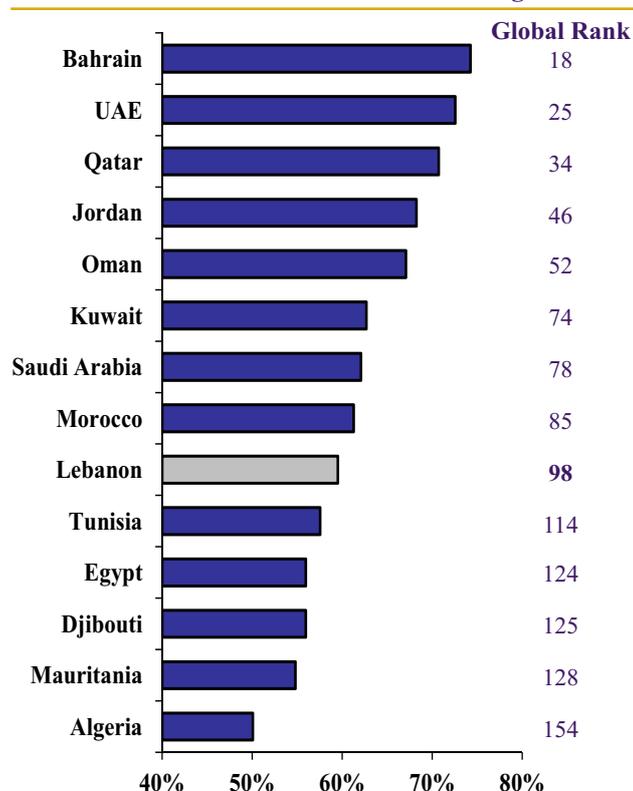
The survey maintained Lebanon's economic freedom status in the "mostly unfree" category for the fourth consecutive year. Lebanon was downgraded in the 2013 survey from the "moderately free" category.

The survey indicated that regulatory inefficiency and uncertainty, political instability and ongoing security threats continue to undermine private-sector activity and development in Lebanon. It added that government bureaucracy and the lack of transparency create an unfavorable environment for investors. Also, it said that systemic weaknesses persist in the protection of property rights and effective enforcement of anti-corruption measures, while the judiciary remains vulnerable to political influence.

Lebanon ranked ahead of Bolivia and behind Iran globally, while it came ahead of only five Arab countries 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 18 countries that include Greece and the Philippines on the Investment Freedom Sub-Index, which is an assessment of the free flow of investment capital, as well as of restrictions imposed on investment. Regionally, it came behind Bahrain, Jordan, Morocco, Oman and Djibouti.

Further, Lebanon ranked ahead of Singapore and behind Afghanistan globally, while it came ahead of seven Arab countries on the Fiscal Freedom Sub-Index, which measures the tax burden of government. Further, Lebanon tied with 17 countries that include China and Russia on the Property Rights Sub-Index, while it came ahead of only Libya and Syria among Arab countries.

**Index of Economic Freedom 2016
Arab Countries Scores & Rankings**



Source: Heritage Foundation 2016, Byblos Research

Economic Freedom in Lebanon by Category

	Arab Rank	Global Rank	Lebanon Score	Change in Long-Term Score*	Arab Avg	Global Avg
Business Freedom	14	120	59.1%	▲	63.7%	64.1%
Trade Freedom	8	96	75.8%	↔	71.4%	75.6%
Fiscal Freedom	9	25	91.3%	↔	89.3%	77.4%
Government Spending	3	65	75.7%	▲	60.7%	62.5%
Monetary Freedom	4	71	79.0%	▲	72.0%	75.3%
Investment Freedom	6	83	60.0%	↔	45.9%	55.8%
Financial Freedom	7	72	50.0%	▼	48.1%	48.6%
Property Rights	14	140	20.0%	↔	36.8%	42.0%
Freedom from Corruption	14	142	27.0%	▼	36.9%	42.6%
Labor Freedom	12	107	57.3%	▼	60.4%	59.7%

* year-on-year; **Change in score from 1996 in percentage points

Source: Heritage Foundation 2016, Byblos Research

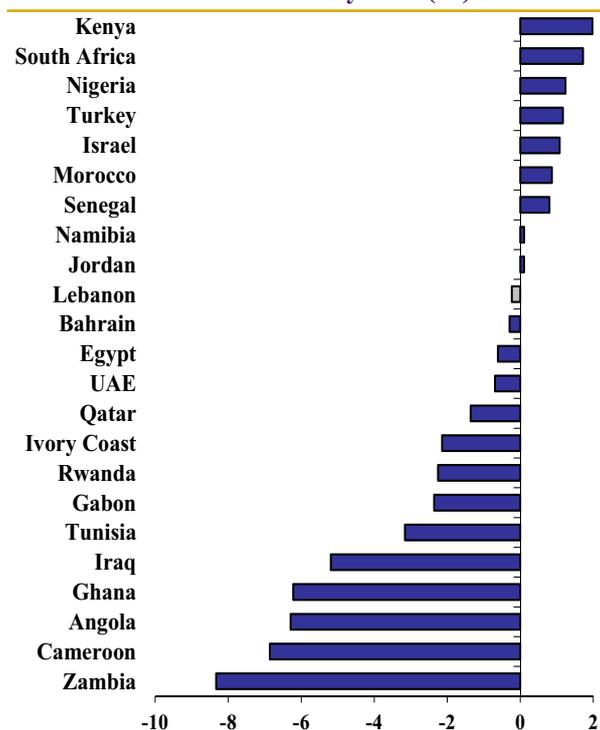
Lebanon's external debt posts 28th lowest return in emerging markets, 10th highest in the Middle East & Africa

Figures issued by Merrill Lynch indicate that Lebanon's external debt posted returns of -0.23% in January 2016, constituting the 17th lowest return among 40 markets in the Central & Eastern Europe and the Middle East & Africa (CEEMEA) region, as well as the 28th lowest return among 70 emerging markets included in Merrill Lynch's External Debt EM Sovereign Index. Lebanon underperformed the overall emerging markets return of 0.23% in the covered month.

Further, Lebanon's external debt posted the 10th highest return among 23 countries in the Middle East & Africa region in January 2016. It outperformed Bahrain (-0.29%), Egypt (-0.61%), the UAE (-0.69%), Qatar (-1.36%), the Ivory Coast (-2.14%), Rwanda (-2.25%), Gabon (-2.36%), Tunisia (-3.16%), Iraq (-5.19%), Ghana (-6.22%), Angola (-6.29%), Cameroon (-6.86%) and Zambia (-8.33%); while it underperformed Kenya (+1.98%), South Africa (+1.72%), Nigeria (+1.24%), Turkey (+1.17%), Israel (+1.08%), Morocco (+0.87%), Senegal (+0.8%), Jordan and Namibia (+0.11% each).

Merrill Lynch indicated that the spread on Lebanese Eurobonds ended January 2016 at 499 basis points, compared to 437 basis points at end-January 2015, constituting the 20th widest spread in the CEEMEA region and the 30th widest among emerging markets. It was wider than the emerging markets' overall spread of 368 basis points at the end of January 2016. Lebanon has a weight of 3.44% on Merrill Lynch's External Debt EM Sovereign Index, the fourth largest weight in the CEEMEA universe and the eighth biggest among emerging economies. Lebanon accounted for 6.2% of allocations in the CEEMEA region.

External Debt Performance in the Middle East & Africa in January 2016 (%)



Source: Merrill Lynch, Byblos Research

Lebanon and Iran to expand economic cooperation and bilateral trade

The Ministry of Economy & Trade (MoET) signed a preliminary a preferential trade agreement (PTA) framework with Iran's Ministry of Economic Affairs & Finance. The PTA framework sets the base to liberalize trade and increase the exchange of products and services between the two countries. The PTA is expected to be finalized and signed within six months once the two countries agree on the list of goods eligible for preferential treatment. In addition, the two ministries signed a Memorandum of Understanding to cooperate on in the field of sports.

In parallel, the MoET highlighted several areas for future bilateral cooperation. It said that Lebanon has the ability to contribute to the development of Iran's banking sector, especially in the fields of global financial security and risk management. In addition, Lebanon can benefit from Iran's expertise in developing its industrial parks and take advantage of special privileges in duty-free zones in Iran. Also, the ministry would like to see an increase in the exports of Lebanese agricultural products to Iran, especially citrus fruits and bananas, while minimizing custom barriers and giving Lebanon special facilities in this area. The ministry added that Lebanon can assist Iran in the development of its tourism and franchising sectors. Also, the MoET emphasized the need to create Lebanese-Iranian committees to offer the necessary support to businessmen in both countries and to provide legal advice on cross-border relations. It added that both countries can benefit from the protection of intellectual property rights through the development of laws and regulations, and from the exchange of expertise in the power sector. Finally, the ministry added that both countries can strengthen their cooperation in the specialized exhibitions sector.

Lebanon to establish three industrial zones

The United Nations Industrial Development Organization (UNIDO) and the Ministry of Industry launched a new project to develop three industrial zones in the country. The project, which will be funded by the Italian government, aims to assist the Lebanese government to develop industrial zones in Baalbek, Terbol in the Zahlé area, and Joun in the Chouf district to help address business infrastructure problems, attract investment, and facilitate the growth of local small- and medium-sized enterprises (SMEs).

The Italian government granted EUR0.5m to UNIDO to prepare the master plan and feasibility studies for the three designated areas. UNIDO will work in close cooperation with the Ministry of Industry and the Association of Lebanese Industrialists to prepare the studies, which are expected to be completed within one year. The total cost of the project has not yet been determined but the Italian government proposed a soft loan of EUR7m to finance the project. The project is part of the new UNIDO Country Program for Lebanon for the 2015-18 period that aims to expand industrial production with a special focus on industrial zone development, energy efficiency for industrial SMEs, and support for food safety practices in the agro-industrial sector.

Commercial banks' assets reach \$186bn at the end of 2015, equivalent to 374% of GDP

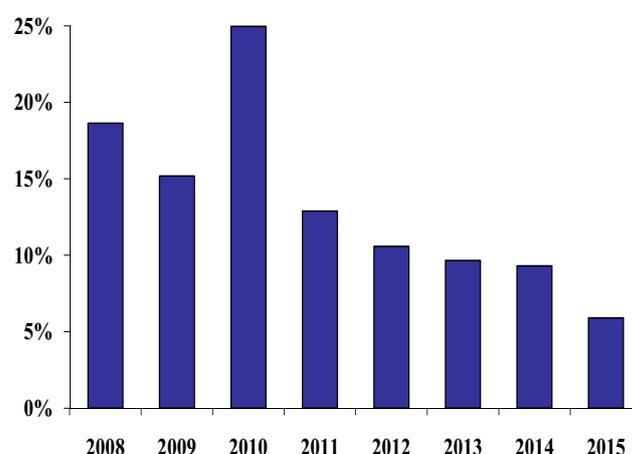
The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$186bn at the end of 2015, constituting an increase of 5.9% from \$175.7bn at end-2014. The banking sector's assets were equivalent to 373.7% of GDP in 2015 relative to 364.4% in 2014. Loans extended to the private sector reached \$54.2bn at the end of 2015, and increased by 6.5% from a year earlier. Lending to the private sector was equivalent to 109% of GDP in 2015 relative to 105.6% in 2014. Loans to the resident private sector totaled \$48bn, or 96.5% of GDP, up by 5.9% from the end of 2014; while credit to the non-resident private sector reached \$6.2bn and rose by 11.7% from end-2014. In nominal terms, credit to the private sector rose by \$3.3bn in 2015 relative to an increase of \$3.5bn in 2014. Lending to the resident private sector grew by \$2.7bn in 2015 relative to a rise of \$3.9bn in 2014; while credit to the non-resident private sector increased by \$648.1m last year compared to a drop of \$347m in 2014. In addition, claims on non-resident banks was \$11.6bn at the end of 2015, down by 5% from the end of 2014. In parallel, claims on the public sector stood at \$37.8bn at the end of 2015, up by 1.2% from a year earlier. The dollarization rate in private sector lending regressed to 74.8% at the end of 2015 from 75.6% a year earlier. The average lending rate in Lebanese pounds was 7.45% in December 2015, down from 7.49% in the same month of 2014, while the same average in US dollars was 7.06% relative to 6.97% in December 2014.

In parallel, private sector deposits totaled \$151.6bn at the end of 2015 and grew by 5% from the end of 2014. Deposits from the private sector were equivalent to 304.6% of GDP last year relative to 299.6% of GDP in 2014. Deposits in Lebanese pounds reached \$53.2bn and rose by 7.5% from end-2014; while deposits in foreign currency totaled \$98.3bn, up by 3.6% from a year earlier. Aggregate non-resident deposits reached \$31.9bn at end-2015 and grew by 5.1% from a year earlier. Non-resident foreign currency deposits totaled \$27.4bn at the end of 2015 and increased by 3.7% from end-2014. Total private sector deposits regressed by \$274m in January, by \$188.4m in July and by \$514.1m in September, while they increased by \$577.8m in February, by \$731.7m in March, by \$2bn in April, by \$393.4m in May, by \$690m in June, by \$1.2bn in August, by \$240.8m in October, by \$450.4m in November and by \$1.78bn in December 2015. As such, total private sector deposits grew by \$7.16bn in 2015 compared to an increase of \$8.22bn in 2014. Resident private sector deposits rose by \$5.6bn last year relative to a growth of \$6.4bn in 2014; while non-resident deposits grew by \$1.6bn in 2015 compared to a rise of \$1.8bn in 2014.

In parallel, deposits of non-resident banks reached \$6.5bn at the end of 2015, and increased by 12.2% from a year earlier. The dollarization rate of deposits reached 64.9% at the end of 2015, down from 65.7% a year earlier. Further, the average deposit rate in Lebanese pounds was 5.56% in December 2015, unchanged from the same month of 2014, while the same rate in US dollars was 3.17% relative to 3.07% in December 2014.

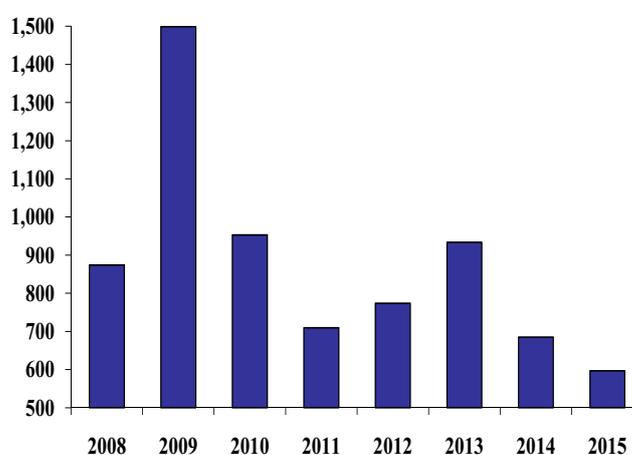
The ratio of private sector loans-to-deposits in foreign currency stood at 41.3%, well below the Central Bank's limit of 70% and compared to 40.5% a year earlier. In parallel, the same ratio in Lebanese pounds was 25.6% at end-2015, up from 25.1% at the end of 2014. The ratio of total private sector loans-to-deposits was 35.8% relative to 35.2% a year earlier. The banks' aggregate capital base stood at \$16.7bn, up by 6% from \$15.7bn at end-2014.

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

Standard & Poor's says rated banks have adequate liquidity

In its annual assessment of the three Lebanese banks that it rates, Standard & Poor's indicated that the ratings on BLOM Bank sal reflect the bank's "adequate" business position, "moderate" capital & earnings, "moderate" 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 government. It cautioned that a sustained low-growth environment in Lebanon would affect the three banks' profitability over the short- to medium-term.

S&P pointed out that the "adequate" business position of BLOM Bank is supported by its stable customer franchise, as well as by its good management and revenue generation. It considered that the bank's earnings diversification is low, and that its revenues are consistently shaped by the yield on the sovereign bonds. It expected domestic activities to be the main driver of BLOM Bank's asset and revenue growth over the medium-term, given the difficult political and economic environment in the region. In parallel, it considered that BankMed's "adequate" business position reflects its improved business stability since 2005, the gradual diversification of its earnings from retail banking and foreign expansion, and its sound management. It added that the bank's sovereign exposure has gradually shifted from Treasury bonds towards certificates of deposits issued by the Central Bank. Further, it said that Bank Audi's "strong" business position largely reflects its ability to build a resilient, balanced and diversified revenues base, both domestically and abroad. It expected BankMed and Bank Audi's operations in Turkey to support their asset and revenue growth.

S&P said that BLOM Bank's "moderate" capital & earnings reflect the agency's expectations that the risk-adjusted capital ratio would remain above 5% over the next 12 to 18 months. It cautioned that the bank's capital & earnings could weaken in the event of a higher-than-expected increase in risk assets or cost of risk. It added that BLOM Bank's pre-provision profitability is sound, which would enable it to absorb higher provisioning in case of need. 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 would be at between 4.5% and 4.6% at Bank Audi over the next 12 to 18 months. It anticipated Bank Audi's Turkish operations to support its internal capital generation capacity.

Further, S&P said that the three banks' risk position is "moderate" due to their high exposure to the Lebanese sovereign. It noted that BLOM Bank's exposure to the sovereign was about 2.5 times its common shareholders' equity and that of Bank Audi stood at about 1.76 times at the end of 2014, while BankMed's exposure reached 3.6 times its common shareholders' equity at the end of June 2015. 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 "moderate" despite their high liquidity ratios, given that government debt instruments and certificates of deposits issued by the Central Bank account for a big share of the banks' liquid assets, and the banks' ability to liquidate these instruments could be uncertain during stress periods.

BLC Bank's net profits at \$44m in 2015

BLC Bank sal, one of Lebanon's listed banks, announced unaudited consolidated net profits of \$44.1m in 2015, nearly unchanged from net earnings of \$44m in 2014. The bank's unaudited net profits reached \$11.5m in the first quarter, \$11.6m in the second quarter, \$9.6m in the third quarter and \$11.3m in the fourth quarter of 2015. Net interest income decreased by 5.3% to \$124.1m, while net fees & commissions' receipts regressed by 4.8% to \$18.1m in 2015. Net financial revenues after impairment charge for credit losses reached \$131.2m in 2015, reflecting a rise of 8.9% from \$120.4m in 2014. Total operating expenses decreased by 0.5% in 2015 to \$85.5m, with staff expenses declining by 1.6% year-on-year to \$51.3m and administrative expenditures regressing by 1% to \$28.4m. The bank's cost-to-income ratio was 55.1% in 2015 relative to 54.5% in 2014. BLC Bank's return on assets was 0.77% in 2015 relative to 0.82% in 2014; while its return on equity was 8.8% last year, down from 9.2% in 2014.

Total assets reached \$5.74bn at the end of 2015, constituting an increase of 6.7% from \$5.38bn at end-2014; while loans & advances to customers decreased by 1.7% to \$1.9bn at end-2015. Customer deposits rose by 6.8% from end-2014 to \$4.58bn at the end of 2015. The loan-to-deposit ratio regressed from 45.2% at the end of 2014 to 41.6% at end-2015. In parallel, shareholders' equity rose by 5.3% year-on-year to \$502.9m at the end of 2015.



Insurance premiums up 2% year-on-year to \$1.15bn in first nine months of 2015, claims and benefits up 7% to \$606m

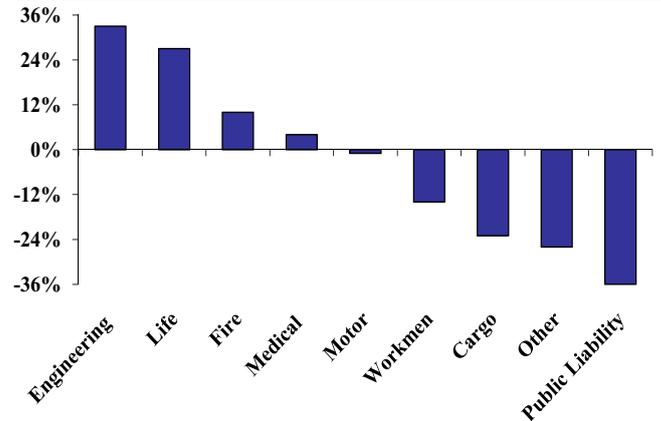
Figures released by the Association of Insurance Companies in Lebanon (ACAL) indicate that insurance premiums generated in Lebanon totaled \$1.15bn in the first nine months of 2015, constituting an increase of 1.7% from \$1.13bn in the same period of 2014.

Medical insurance premiums reached \$352.4m in the first nine months of the year and accounted for 30.7% of the sector's aggregate premiums. They were followed by life premiums with \$335.9m (29.2%), motor premiums with \$254.2m (22.1%), fire premiums with \$88.8m (7.7%), workmen compensation with \$40.3m (3.5%), cargo premiums with \$27.7m (2.4%), public liability premiums with \$13.4m (1.2%) and engineering premiums with \$7.4m (0.6%); while premiums from other categories totaled \$29.7m and accounted for 2.6% of the total. Engineering premiums grew by 31% annually in the first nine months of 2015, motor, fire and life premiums increased by 4% each, and medical premiums improved by 1%. In contrast, compensation from other categories contracted by 18%, cargo premiums declined by 15%, public liability premiums regressed by 4% and workmen compensation decreased by 2%.

In parallel, ACAL indicated that total benefits and claims paid by insurance companies stood at \$606.4m in the first nine months of 2015, constituting a rise of 6.8% from \$567.8m in the same period of 2014. Benefits and claims paid for non-life categories totaled \$425.3m, unchanged year-on-year, while claims disbursed for the life category amounted to \$181.1m and grew by 26.8% from the same period of 2014. Medical claims accounted for 38.6% of total payments in the first nine months of 2015, followed by life claims (29.9%), motor claims (21.6%), workmen's claims (3.6%), fire claims (3.3%), cargo claims (1%), public liability claims (0.7%) and engineering claims (0.4%); while claims from other categories accounted for 0.9% of the total. Engineering claims surged by 33% year-on-year in the first nine months of 2015, life claims rose by 27%, fire claims increased by 10% and medical claims grew by 4%; while public liability claims dropped by 36% year-on-year, claims from other categories decreased by 26%, cargo claims regressed by 23%, workmen claims declined by 14% and motor claims dropped by 1%.

Further, unit-linked policies accounted for 60.8% of total life premiums and for 18.5% of the total number of life contracts in the first nine months of 2015, while life protection plans represented 39.2% of total life premiums and 81.5% of the total number of life contracts in the covered period. ACAL noted that medical insurance premiums covering Lebanese citizens rose by 1% year-on-year to \$342.5m in the first nine months of 2015, while medical insurance premiums covering expatriates grew by 5% year-on-year to \$9.8m. Finally, it indicated that non-compulsory motor insurance premiums increased by 3% year-on-year to \$214.1m, while compulsory motor insurance premiums improved by 9% to \$40.1m in the first nine months of 2015.

Change in Paid Claims in First Nine Months of 2015



Source: ACAL, Byblos Research

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	373.7	930
Private Sector Deposits / GDP	295.4	299.6	304.6	503
Private Sector Loans / GDP	102.7	105.6	109.0	338
Private Sector Deposits Dollarization Rate	66.1	65.7	64.9	(83)
Private Sector Lending Dollarization Rate	76.5	75.6	74.8	(73)

* 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	Apr 2014	Mar 2015	Apr 2015	Change**	Risk Level
Political Risk Rating	52.0	54.5	55.0	▼	High
Financial Risk Rating	38.0	39.0	39.0	▼	Low
Economic Risk Rating	27.0	33.0	33.0	▼	Moderate
Composite Risk Rating	58.5	63.25	63.5	▼	Moderate

MENA Average*	Apr 2014	Mar 2015	Apr 2015	Change**	Risk Level
Political Risk Rating	58.0	57.9	57.2	▲	High
Financial Risk Rating	40.4	39.6	39.4	▲	Low
Economic Risk Rating	35.7	34.4	33.9	▲	Moderate
Composite Risk Rating	67.0	65.9	65.3	▲	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

Source: Moody's Investors Services



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