

LEBANON THIS WEEK

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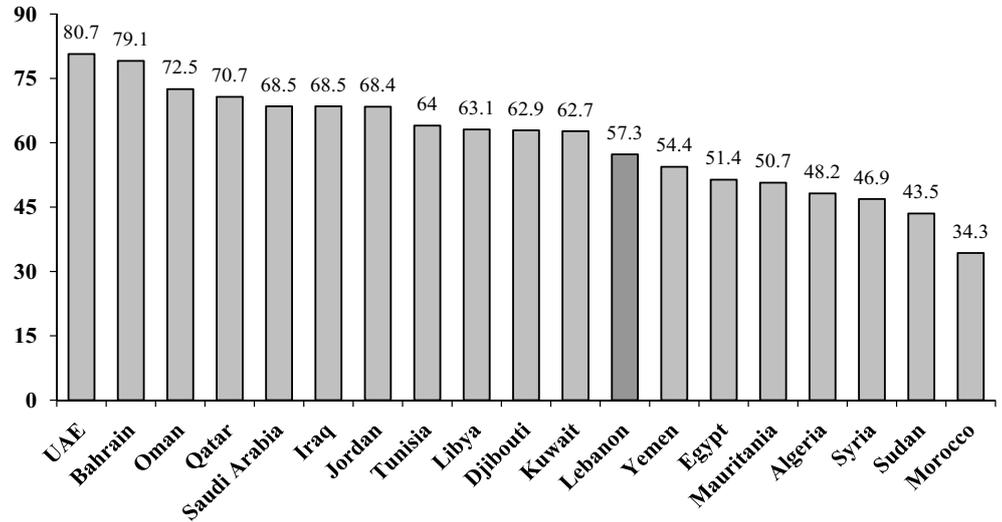
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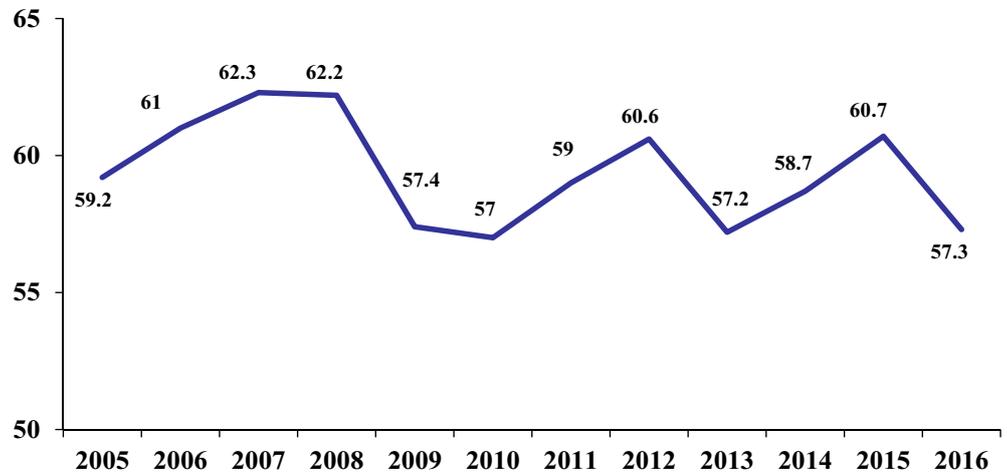
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Charts of the Week

Labor Freedom Index in Arab Countries in 2016



Labor Freedom Index for Lebanon



Source: Heritage Foundation/Wall Street Journal 2016 Index of Economic Freedom, Byblos Research

Quote to Note

"The tourism sector will continue to be an important economic driver, as long as the security situation does not deteriorate."

The United Nations, on the importance of political stability and proper security conditions for the Lebanese economy

Number of the Week

35: Number of 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
BLOM GDR	10.00	2.04	507,736	6.61%
Audi GDR	6.10	0.00	105,415	6.27%
BLOM Listed	9.60	2.13	80,000	18.46%
Byblos Common	1.65	0.61	69,071	5.30%
Audi Listed	6.17	1.15	29,065	22.06%
Solidere "A"	10.06	(0.89)	28,827	9.00%
Solidere "B"	10.00	(4.49)	18,023	5.81%
HOLCIM	14.35	(0.42)	1,008	2.50%
Byblos Pref. 08	101.0	0.00	0	1.81%
Byblos Pref. 09	101.0	0.00	0	1.81%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Mar 2017	9.000	104.25	4.95
Nov 2018	5.150	99.88	5.20
May 2019	6.000	100.50	5.83
Mar 2020	6.375	100.80	6.15
Apr 2021	8.250	107.50	6.51
Oct 2022	6.100	97.88	6.50
Jun 2025	6.250	96.75	6.72
Nov 2026	6.600	97.75	6.90
Feb 2030	6.650	96.50	7.05
Nov 2035	7.050	99.25	7.12

Source: Byblos Bank Capital Markets

	Feb 8-12	Feb 1-5	% Change	January 2016	January 2015	% Change
Total Shares Traded	873,645	2,241,867	(61.03)	4,478,596	2,924,443	53.14
Total Value Traded	\$8,021,160	\$23,764,058	(66.25)	\$38,492,918	\$18,796,462	104.79
Market Capitalization	\$11.18bn	\$11.14bn	0.38	\$11.09bn	\$11.25bn	(1.46)

Source: Beirut Stock Exchange (BSE)



Lebanon ranks in 64th place globally and eighth place regionally in terms of financial development

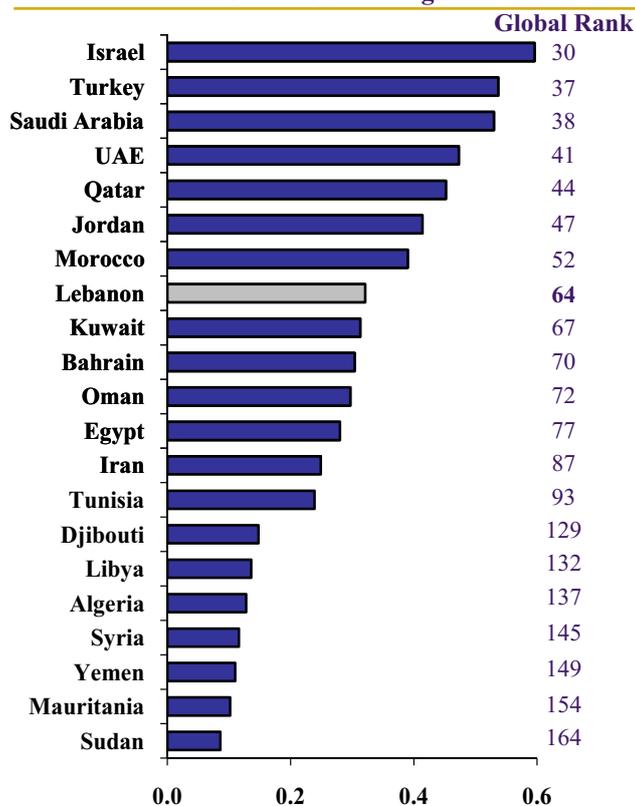
A Working Paper by the International Monetary Fund ranked Lebanon in 64th place among 183 countries worldwide and in eighth place among 21 countries in the Middle East & North Africa region (MENA) on its Financial Development Index. Lebanon also came in 15th place among 47 upper middle-income countries (UMICs) included in the survey. The index is composed of two sub-indices that are the Financial Institutions Sub-Index and the Financial Markets Sub-Index. The sub-indices evaluate the development level of a country's financial institutions and markets by assessing their depth, efficiency and access. The depth aspect reflects the size and liquidity of markets; the access category evaluates the ability of individuals and companies to access financial services; while the efficiency component measures the ability of institutions to provide financial services at a low cost. A country's overall score ranges between zero and 1, with a higher score reflecting a higher level of financial development.

Globally, Lebanon had a higher level of financial development than Argentina, Slovakia and Kuwait, and a lower level than Estonia, Trinidad & Tobago and Indonesia among economies with a GDP of \$10bn or more. It also ranked ahead of Kazakhstan, Costa Rica and Namibia, and came behind Bulgaria, Panama and Mongolia among UMICs. Lebanon received a score of 0.32 points on the overall index, higher than the global and the emerging markets' average scores of 0.23 points each, but lower than the advanced markets' average score of 0.57 points.

Globally, Lebanon ranked ahead of the Czech Republic, Morocco and Peru, while it came behind Slovakia, Estonia and Panama on the Financial Institutions Sub-Index. This category assesses the financial depth of banks, insurance companies, mutual funds and pension funds operating in a country as measured by the amount of private-sector credit, gross insurance premiums, mutual funds' assets and pension funds' assets relative to GDP. Also, it measures the access to banking services through the number of bank branches and ATMs per 100,000 adults. Further, it evaluates the banks' efficiency in intermediating savings to investment, their operational efficiency and their profitability. Lebanon's financial institutions are more developed than those of Peru and China, and less developed than those in Colombia and Panama among UMICs; while they are more developed than those in other Arab countries.

In parallel, Lebanon ranked ahead of Botswana, Latvia and Laos, while it came behind Estonia, Mongolia and Vietnam worldwide on the Financial Markets Sub-Index. This category assesses the depth of the equity and fixed income markets through the size of the stock market capitalization and the value of stocks traded relative to GDP, among other indicators, as well as investors' access to these markets and their efficiency. Lebanon's equity and fixed income markets are more developed than those of Botswana, Tunisia and Bulgaria, and less developed than those of Iran, Panama and Mongolia among UMICs. Also, they are more developed than those of Tunisia, Djibouti, Yemen, Mauritania, Algeria, Sudan, Libya and Syria in the MENA region.

**Financial Development Index in MENA countries
Scores & Rankings**



Source: International Monetary Fund, Byblos Research

Components of the Financial Development Index

	Global Rank	MENA Rank	UMICs Rank	Lebanon Score	Global Avg Score	Advanced Markets Avg Score	Emerging Markets Avg Score
Financial Institutions Sub-Index	52	2	12	0.54	0.31	0.66	0.30
Financial Institutions Depth	59	4	15	0.29	0.20	0.58	0.18
Financial Institutions Access	53	4	14	0.54	0.23	0.59	0.23
Financial Institutions Efficiency	21	6	4	0.69	0.48	0.64	0.47
Financial Markets Sub-Index	77	13	16	0.10	0.15	0.47	0.15
Financial Markets Depth	62	10	13	0.21	0.14	0.45	0.13
Financial Markets Access	84	13	21	0.03	0.15	0.47	0.16
Financial Markets Efficiency	74	13	17	0.04	0.15	0.45	0.16

Source: International Monetary Fund, Byblos Research



Most Lebanese not convinced the government is serious about fighting corruption

A survey conducted by the Qatar-based Arab Center for Research & Policy Studies indicated that 87% of Lebanese are not convinced that their government is serious about tackling corruption practices, while 13% of respondents believe that the Lebanese government is serious about fighting corruption. In comparison, 54% of respondents in the Arab world are convinced in their governments' sincerity in addressing corruption, while 44% of respondents in the region believe that their governments are not serious in fighting corruption. As such, the percentage of respondents in Lebanon who think that their government is not serious about tackling corruption is the highest among Arab countries covered in the survey.

The survey was conducted in 12 Arab countries through face-to-face interviews between May and September 2015 as part of the Arab Center for Research & Policy Studies' 2015 Arab Opinion Index. It covered a sample of 18,311 respondents in Algeria, Egypt, Iraq, Jordan, Kuwait, Lebanon, Morocco, Mauritania, Palestine, Saudi Arabia, Sudan and Tunisia.

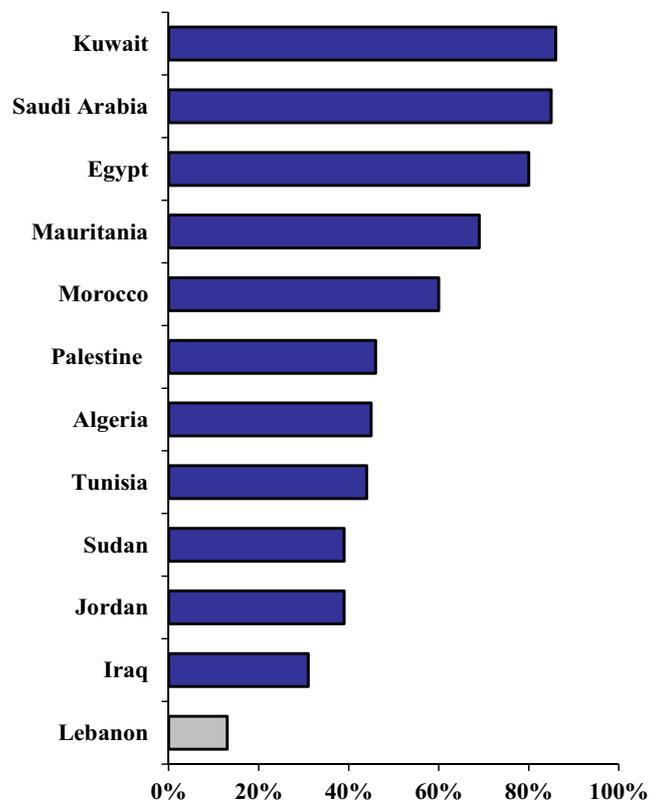
In parallel, the survey showed that 71% of Lebanese consider that the economic situation in Lebanon is 'very bad' and 24% thought it was 'bad' at the time of the survey, compared to 3% who believed it was 'good'. The trend improved from the 2014 survey when 77% of Lebanese respondents believed that the economic situation was 'very bad', while it regressed from the 2012/2013 survey when 55% of respondents said the economy was 'very bad'. Overall, 95% of Lebanese respondents said that the economic situation in Lebanon was 'bad' or 'very bad' at the time of the survey, compared to 99% of respondents in the 2014 survey and similar to that in the 2012/13 survey. The percentage of respondents in Lebanon who think that the current economic situation in the country is 'bad' or 'very bad' is the highest among 12 Arab economies covered in the survey, and is significantly higher than the 56% of respondents in the entire region who share similar views about their economies.

Details of law that regulates the transfer of funds across Lebanese borders

Law 42 that was ratified by Parliament on November 24, 2015 regulated the transfer of funds across Lebanese borders. The law covers holdings of cash in local and foreign currencies, as well as of commercial bonds, financial instruments, and all transferable instruments, such as payment orders, bearers shares, pre-paid cards and checks if the beneficiary is not defined or is anonymous. It noted that each person transferring through Lebanese borders in excess of \$15,000 or their equivalent in other foreign currency through any of the above means, whether by carrying them personally or in a luggage, by shipping them in a container, or by mailing them, should declare them to customs officials. It added that a person transferring any of the above type of funds in excess of \$15,000 outside the Lebanese borders can just disclose them to customs in accordance to a set of measures that will be determined within three months after the law comes into force.

Further, the law indicated that Lebanese customs have the right to search the persons carrying the funds, their luggage, or any other transport method in order to verify the accuracy of the declared or disclosed information. In case of false disclosure, or if a person refuses to declare or disclose the funds, or if authorities suspect that these funds are illicit, then customs authorities can ask for additional information, confiscate the funds and take the proper measures. Lebanese customs should also inform the Special Investigation Commission (SIC) against money laundering and terrorism financing when they confiscate the funds. In parallel, the law stipulates that Lebanese customs should establish a secured database that includes the disclosed or declared information, as well as other information related to the transfer of funds across Lebanese borders; while giving the SIC permission to access the database. The law indicated that Lebanese customs, in collaboration with the SIC, should draft all the required documents and forms within three months after the law comes into force.

Percentage of Respondents who Consider that their Government is Serious about Tackling Corruption



Source: Arab Center for Research & Policy Studies

Lebanese banking sector solid amid regional turmoil

Fitch Ratings indicated that it has a stable outlook on the Lebanese banking sector as it expected the banks' financial metrics to remain solid in 2016, despite the challenging operating environment. It expected economic activity in the country to remain subdued until conditions in Syria improve, but it noted that Lebanon benefits from relatively high levels of human development and GDP per capita.

In parallel, Fitch anticipated that the banks' profitability would remain acceptable in 2016 and that revenue generation would be stable but muted despite the political and economic uncertainties. It noted that net interest income is the largest revenue driver of banks and represents between 60% and 70% of their income. It said that banks that have a higher share of lending and deposits in US dollars would continue to benefit from stronger net interest margins. It added that business diversification outside Lebanon would support higher margins, but it noted that the Lebanese market still contributes more than half of the net profits at all Lebanese banks.

Further, the agency anticipated that the quality of the loan portfolios at Lebanese banks would likely remain resilient in 2016, despite the challenging operating environment, which would result in modest loan impairment charges. It considered that the Lebanese private sector is used to operate in challenging conditions. Still, it noted that certain sectors, such as tourism and real estate, are under pressure and did not rule out individual corporate impairments.

In parallel, Fitch expressed concerns about the banks' exposure to the sovereign as it noted that banks' holdings of sovereign debt instruments and Certificate of Deposits issued by the Central Bank, as well as reserve requirements at the Bank, account for about 60% of the sector's aggregate assets. It indicated that this large exposure reflects the banks' role in financing the fiscal deficit by channeling deposit inflows into the government bond market.

In addition, the agency considered that the banks' solid depositor base and liquidity constitute strengths for the Lebanese banking sector, with a loans-to-deposits ratio below 50%. It considered that deposits in Lebanese pounds are mostly placed as term deposits with the Central Bank, which reflects the limited demand for loans in Lebanese pounds and the low structural profitability of these loans. It noted that the banks' activity in US dollars captures a more dynamic part of the Lebanese economy, with loans equivalent to a higher share of deposits. Further, Fitch expected banks to maintain a common equity tier one ratio of about 10% in 2016, which is above the minimum regulatory ratio of 8%.

Stronger law on combating money laundering and terrorist financing

Law 44, which was ratified by Parliament on November 24, 2015, replaced Law 318 dated April 20, 2001 about the fighting against money laundering and terrorism financing activities. The new law expands the sources of illicit funds that were included in Law 318. Illicit funds are defined as any asset that resulted from conducting or participating in the growing, manufacturing or illicit trafficking of narcotic drugs and mental psychotropic pills; terrorism as defined in Lebanese laws; the financing of terrorism, terrorist acts and terrorism-related activities or the financing of terrorist organizations; and illegal arms trading. Also, illicit funds are defined as any asset that resulted from the kidnapping of persons; the exploitation and disclosure of confidential information; corruption, including bribery, theft, embezzlement and abuse of power; fraud, including fraudulent bankruptcies; the counterfeiting of money, credit cards, or any official document or commercial paper, including checks; smuggling of goods; sexual exploitation; human trafficking and smuggling of migrants; murder; counterfeiting of goods; breach of trust; environmental crimes; aviation and navigation piracy; blackmailing; and tax evasion.

The new law also broadened the definition of money laundering activity. It defined it as any act intended to conceal the real source of illicit funds or giving a false justification about the source, with full knowledge that the funds are generated illegally. Also, money laundering covers the act of transferring, converting, substituting or investing illicit funds in purchasing movable or immovable assets for the purpose of concealing the source of funds, or in an attempt to help a subject involved in the offence to evade responsibility. The law added that the crime of money laundering is considered as an independent offense and does not require a primary crime for conviction. In addition, Law 44 stipulated that any person who undertakes money-laundering operations, or intervenes or participates in such operations, will be punished by imprisonment for a period of three to seven years, and will have to pay a fine that does not exceed twice the amount of the laundered money.

The law indicated that banks, financial institutions, leasing companies and institutions that issue and promote charge or credit cards, or institutions that deal with electronic money transfers, along with financial intermediation institutions, collective investment schemes, and any institution subject to a license or to the supervision of the Central Bank, must abide by the following obligations and regulatory framework. These institutions need to conduct due diligence on their permanent clients in terms of identity verification based on official documents and reliable information. Also, they need to apply the same identity verification process to transient clients when the value of the client's operation or series of operations exceeds an amount determined by the Central Bank. They must also ascertain, through official documents, the identity and address of each client, and must keep for a period of no less than five years copies of these documents, as well as copies of the operation-related documents. In addition, they need to monitor specific signs that could point to potential transactions related to money laundering or terrorist financing. In parallel, the law stipulated that institutions that are not subject to the Banking Secrecy Law of 1956, including insurance companies, must keep special records about operations that exceed an amount determined by the Special Investigation Commission against money laundering and terrorism financing.

Majority of Lebanese are pessimistic about prospects in 2016

A survey conducted by global opinion polling and consulting firm Gallup on the level of hope in 68 countries worldwide shows that 49% of respondents in Lebanon believe that 2016 will be worse than the preceding year, compared to 52% of participants who were pessimistic about 2015 and 43% of respondents who shared similar views about 2014. In comparison, 16% of adults worldwide and 28% of adults in the Middle East & North Africa (MENA) region consider that 2016 will be worse than the preceding year. The share of Lebanese who are pessimistic about 2016 is the fourth highest worldwide, lower than only that in Iraq (56%), Italy (52%) and Greece (51%).

Further, the results show that 29% of survey participants in Lebanon are optimistic about 2016, up from 26% of Lebanese who had the same opinion about 2015, and similar to the optimism level for 2014. In comparison, 54% of adults worldwide and 43% of adults in the MENA region are optimistic about 2016. The share of Lebanese who are optimistic about 2016 is the 21st lowest worldwide, similar to the share of respondents in Iceland, Poland and Serbia. It is also the third lowest among 10 MENA countries included in the survey, higher than only that in the West Bank & Gaza (22%) and Iraq (21%). In addition, the survey noted that 20% of respondents in Lebanon expect 2016 to be similar to the preceding year, compared to 24% worldwide and 19% in the MENA region who shared similar views.

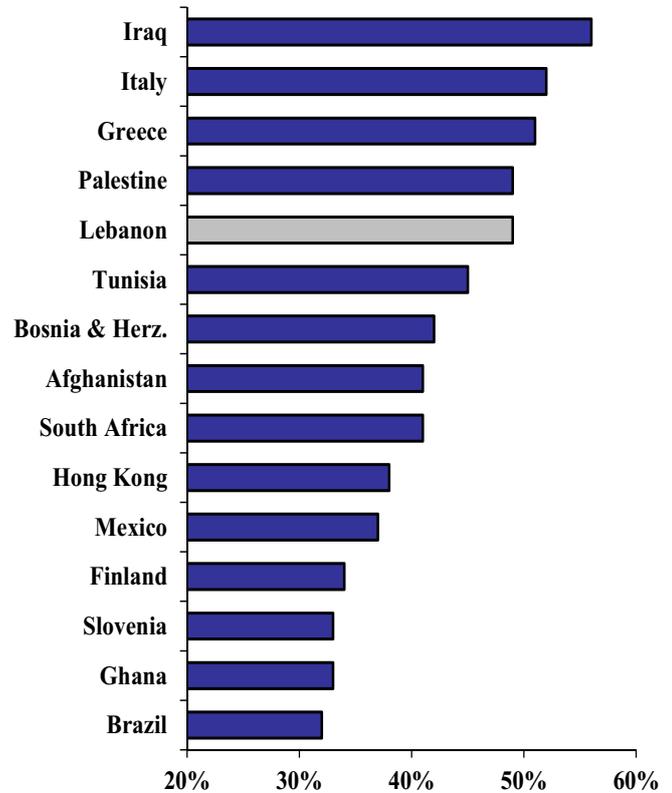
In parallel, the 2016 Gallup Happiness Index survey shows that 57% of adults in Lebanon feel happy about their lives compared to 66% of respondents globally and 55% of participants in the MENA region. The share of Lebanese who feel happy about their lives is the 35th highest worldwide and the fourth highest among MENA countries. In contrast, 23% of respondents in Lebanon feel unhappy about their lives, up from 20% of participants in 2014 and relative to 38% of adults 2013. In comparison, 10% of respondents globally and 14% of participants in MENA countries feel unhappy about their lives. The share of Lebanese who feel unhappy is the sixth highest worldwide and the fourth highest among MENA economies. The results of the survey are based on telephone and face-to-face interviews that Gallup conducted with around 1,000 adults from each country between September and December 2015.

Launch of solid waste treatment plant in Nabatieh

The Office of the Minister of State for Administrative Reform (OMSAR), the European Commission and the union of municipalities of Shkif-Nabatieh launched a new solid waste treatment plant in the village of Kfour in Nabatieh. The 10,000 square-meter plant is fully operational and is expected to reach its maximum capacity of 250 tons per day by March 2016. It aims to process 70% of the Nabatieh region's waste and to send only 30% to landfills. The plant sorts organic from non-organic waste. Organic waste is then composted and used for the production of fertilizers for the region, while non-organic waste is sent to other plants across Lebanon for recycling. Maintenance and operational charges, which are estimated at \$23 per ton, will be covered by a special fund at OMSAR and will gradually be transferred to the union of municipalities.

The European Union contributed EUR2m for the construction of the plant and the purchase of its equipment, while the municipalities' \$0.5m contribution was used for the purchase and excavation of the land. The plant is part of the European Union's "SWAM I" and "SWAM II" programs that aim to upgrade Lebanon's solid waste management capacity. The EUR35m programs are fully-funded by the European Union and are expected to be completed by 2020. Under the two programs, a total of seven new sanitary landfills will be built in the Bekaa, Nabatieh, North and South Lebanon regions, while an existing landfill in Zahlé will be expanded. Also, eight solid waste treatment plants will be established, which would sort, recycle or compost solid waste, as well as help dispose of medical waste. Further, disposal and collection equipment will be distributed to municipalities in the regions covered by the program. In addition, the program will provide long-term technical assistance to support the project's implementation and ensure the sustainability of its results.

Percentage of Respondents with the most Pessimistic Outlook for 2016



Source: Gallup

Net public debt at \$61.5bn at end-2015

Lebanon's gross public debt reached \$70.3bn at the end of 2015, constituting an increase of 5.6% from the end of 2014 and compared to increases of 4.9% in 2014, 10% in 2013, 7.5% in 2012, 2% in 2011 and 2.9% in 2010. In nominal terms, the gross public debt grew by \$3.7bn in 2015 relative to increases of \$3.1bn in 2014, \$5.8bn in 2013, \$4bn in 2012, \$1bn in 2011 and \$1.5bn in 2010.

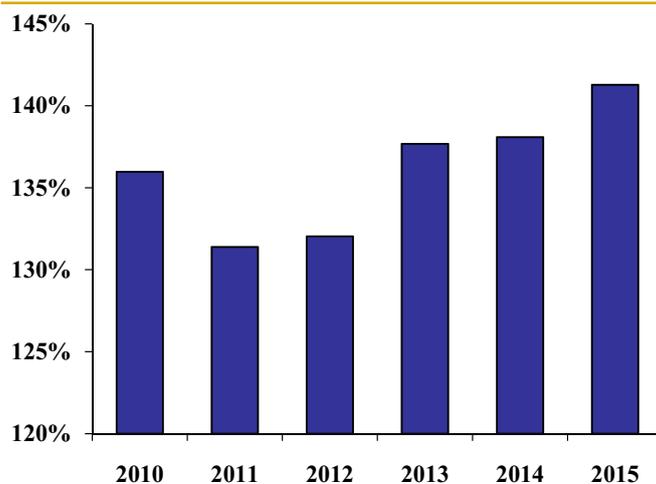
Domestic debt totaled \$43.2bn at the end of 2015, rising by 5.6% from end-2014 and relative to an increase of 9.7% in 2014; while debt in foreign currency stood at \$27.1bn, constituting an increase of 5.7% from a year earlier and compared to a drop of 1.9% in 2014. Local currency debt accounted for 61.5% of gross public debt while foreign currency-denominated debt represented the balance of 38.5% at the end of 2015, unchanged from a year earlier. The weighted interest rate on outstanding Treasury bills was 6.94% and that on Eurobonds was 6.44% in December 2015. Further, the weighted life on Eurobonds was 6.09 years, while that on Treasury bills was 1,222 days.

Commercial banks held about 54.4% of the total public debt at the end of 2015, down from 56.9% of the total at end-2014. Commercial banks held 45.8% of the Lebanese pound-denominated public debt at the end of 2015 compared to 51% a year earlier. They were followed by the Central Bank with 37.3%, up from 32.2% at end-2014; while public agencies, financial institutions and the public accounted for 16.9% of local debt, unchanged from a year earlier. Also, Eurobond holders, foreign private sector loans and special T-bills in foreign currencies accounted for 92.3% of foreign-currency denominated debt, followed by foreign governments with 3.8%, multilateral institutions with 3.7% and Paris II loans with 0.2%. Also, commercial banks held 72.1% of total Eurobonds at the end of 2015, nearly unchanged from a year earlier. The net public debt, which excludes public sector deposits at the Central Bank and at commercial banks from overall debt figures, grew by 7.4% to \$61.5bn at end-2015. In parallel, the gross market debt accounted for about 65% of total public debt. Gross market debt is the total public debt less the portfolios of the Central Bank, the National Social Security Fund, bilateral and multilateral loans, as well as Paris II and Paris III related debt.

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

The Association of Banks in Lebanon (ABL) recommended to its member banks to increase the Beirut Reference Rate (BRR) in US dollars to 6.21% starting in March 2016 from 6.19% in February. The rate, considered as the reference rate for lending in foreign currency, replaced the London Interbank Offered Rate (LIBOR) in 2009 as the ABL considered that the LIBOR no longer accurately reflects the cost of funding and lending in Lebanon. Additionally, the ABL recommended to its member banks to maintain the BRR in Lebanese pounds at 8.71% in March 2016. The BRR in US dollars and Lebanese pounds was adopted in March and May 2009, respectively. The ABL considers that the BRR does not replace the Beirut Prime Lending Rate in each currency, but constitutes the basis to calculate the prime rate after adding the cost of liquidity and refinancing, credit risks and the profitability of banks to the prime lending rate.

Gross Public Debt (% of GDP)



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

Net profits of insurance sector up 26% to \$141m in 2014

Figures released by the Insurance Control Commission (ICC) show that the declared net profits of 51 insurance companies operating in Lebanon reached \$141m in 2014, constituting an increase of 25.8% from \$112m in 2013. Further, the sector's net investment income totaled \$121.3m in 2014 and increased by 5.8% year-on-year.

Net income from the life category totaled \$95.1m in 2014 and increased by 15.3% year-on-year, while profits from the non-life category amounted to \$45.8m and rose by 55.3% annually. As such, net profits from the life category accounted for 67.5% of the sector's total profits and those from the non-life segment represented 32.5% of the total. In the non-life branch, the accidents category generated profits of \$11.4m, followed by fire insurance with \$11.2m, health insurance with \$10.1m, transportation with \$6.8m, civil liability with \$2m, contractors all risk (CAR) with \$1.6m and the credit segment with \$0.5m; while other segments posted net earnings of \$3.6m. In contrast, the motor segment generated losses of \$1.2m.

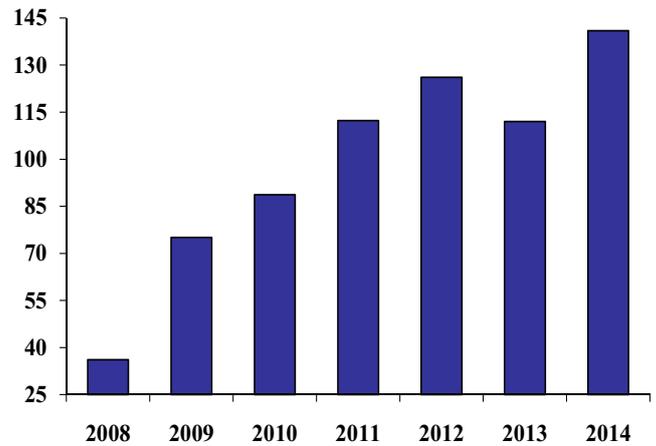
The profits generated by the accidents segment increased by 2.5 times in 2014, those by the CAR segment rose by 29.2%, profits from civil liability grew by 6% and those by the fire component increased by 1.8%; while income generated by other segments grew by 8.2% year-on-year. In contrast, profits generated by the motor segment dropped by 90.5%, followed by those from the health segment with a contraction of 21.3% and those from the transportation category with a 12.5% decrease. Also, the credit category shifted from net losses of \$0.04m in 2013 to net profits \$0.5m in 2014. In parallel, the sector's general expenditures totaled \$436.4m in 2014, constituting a rise of 2.7% from \$424.9m in 2013. They included \$216.5m in brokerage expenses that increased by 4.8% from 2013, and \$161.8m in administration costs that grew by 2.5% annually. Also, policyholders' dividends reached \$1.2m in 2014 and decreased by 69.3% from 2013; while net reinsurance expenditures totaled \$95.5m and increased by 17.3% year-on-year. In parallel, the sector's net premiums rose by 4.2% to \$1.1bn, policy fees increased by 9.1% year-on-year to \$227.1m, while the cost of policies regressed by 3% to \$91.8m in 2014. Further, paid claims reached \$763.3m in 2014 and grew by 4% from \$733.8m in 2013.

Lebanon attracts 45 investments in startups between 2013 and October 2015

Figures released by ArabNet, a hub for Arab digital professionals and entrepreneurs, show that MENA-based investment funds made 45 investments worth \$47.4m in technology startups in Lebanon between 2013 and October 2015, constituting the fifth highest number among 14 Arab countries and jurisdictions, in addition to the United States, Turkey, the United Kingdom and Japan. The number of investments in Lebanese technology startups was lower than that in Saudi Arabia that attracted 49 investments worth \$93.1m, Egypt with 52 deals (\$232.7m), Jordan with 63 investments (\$26.8m) and the UAE with 116 deals (\$183.4m) during the covered period. The value of investments in Lebanon accounted for 6.6% of total investments in the 18 covered markets during the covered period. ArabNet indicated that it surveyed three venture capital (VC) funds, two seed funds, one accelerator and one growth-stage VC fund in Lebanon. It noted that Lebanon does not have an active network of angel investors.

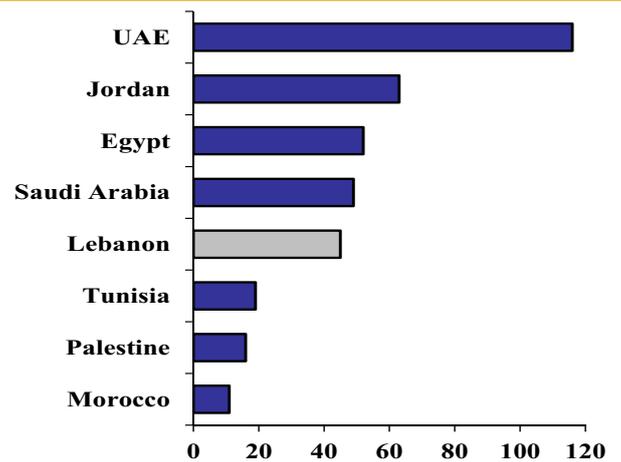
Further, MENA investors made 13 investments worth \$4.4m in technology startups in Lebanon in the first 10 months of 2015, the third highest number of deals in the 18 markets, relative to 35 deals in the UAE (\$38.6m) and 15 investments in Jordan (\$8.5m). The value of investments in Lebanon accounted for 3.5% of total investments in the 18 markets in the covered period. In comparison, Lebanon attracted 22 investments in full year 2014 worth \$36.5m, the fourth highest number of deals, as well as 10 deals in full year 2013 (\$6.5m), the fifth highest number of transactions among the covered markets. The value of investments in Lebanon accounted for 9.6% of total investments in the 18 markets in 2014 and for 3% of the total in 2013. ArabNet noted that the Banque du Liban's Intermediate Circular 331 has supported private equity activity in the country. Overall, Lebanon attracted 17% of the total number of investments among the top five markets, up from 10% in full year 2013 and 14% in full year 2014. The findings are based on data collected from 31 investors and accelerators in the UAE, Egypt, Lebanon, Jordan, Saudi Arabia, Morocco, Kuwait, Palestine, Tunisia and Bahrain.

Net Profit of the Insurance Sector (\$m)



Source: Insurance Control Commission, Byblos Research

Number of Investments by MENA Funds in Technology Startups*



* Between 2013 and October 2015

Source: ArabNet, Byblos Research

Ratio Highlights

(in % unless specified)	2013	2014	2015e	Change*
Nominal GDP (\$bn)	46.1	48.2	49.8	
Public Debt in Foreign Currency / GDP	56.7	53.1	54.4	128
Public Debt in Local Currency / GDP	81.0	85.0	86.9	194
Gross Public Debt / GDP	137.7	138.1	141.3	322
Total Gross External Debt / GDP**	163.8	165.1	162.4	(270)
Trade Balance / GDP	(37.5)	(35.6)	(30.3)	529
Exports / Imports	18.5	16.2	16.6	41
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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