

LEBANON THIS WEEK

In This Issue

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

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

Beirut ranks 180th worldwide, 16th in MENA region in quality of living

Consumer Price Index down 3% in January 2016

Value of real estate transactions at \$525m in January 2016

Occupancy rate at Beirut hotels at 53%, room yields down 14% in January 2016

Subsidized interest loans down 25% to \$373m in first nine months of 2015

Banking and finance sector offers best career growth opportunities in Lebanon

Fiscal outcome depends on reforms and political scenarios

Industrial exports down 6% to \$2.25bn in the first nine months of 2015

Utilized credits by private sector at \$60bn at end-September 2015, advances against real estate account for 35% of total

Corporate Highlights8

Balance sheet of financial institutions up 3% in 2015

Slow commercial activity in third quarter of 2015

A.M. Best downgrades ratings of Union Nationale

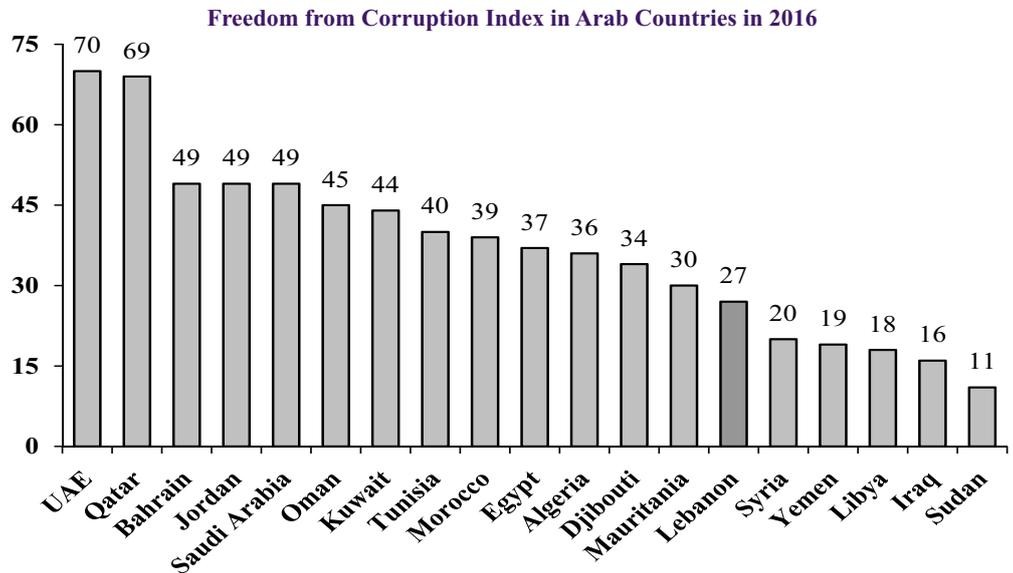
Net profits of life insurance segment up 15% in 2014, insurance liabilities increase by 8% to \$1.8bn

Ratio Highlights.....10

Risk Outlook10

Ratings & Outlook.....10

Charts of the Week



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

Quote to Note

"The solid depositor base and balance-sheet liquidity are strengths for Lebanese banks."

Fitch Ratings, on factors of stability for the Lebanese banking sector

Number of the Week

\$7.5bn: Expatriates' remittance inflows to Lebanon in 2015, according to estimates by 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
Byblos Common	1.64	0.00	433,335	5.29%
Solidere "A"	9.86	(3.71)	184,790	8.85%
Audi GDR	6.03	(1.95)	130,036	6.22%
Solidere "B"	10.09	(0.30)	97,342	5.89%
BLOM GDR	9.95	(0.40)	78,503	6.60%
HOLCIM	14.31	(0.35)	29,100	2.51%
Audi Listed	6.15	(0.97)	11,236	22.06%
BLOM Listed	9.60	0.00	798	18.52%
Byblos Pref. 09	101.40	0.40	500	1.82%
Byblos Pref. 08	101.10	0.10	100	1.81%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Mar 2017	9.000	104.15	4.92
Nov 2018	5.150	100.00	5.15
May 2019	6.000	100.50	5.82
Mar 2020	6.375	101.38	5.99
Apr 2021	8.250	108.38	6.31
Oct 2022	6.100	98.38	6.41
Jun 2025	6.250	97.38	6.63
Nov 2026	6.600	98.50	6.80
Feb 2030	6.650	97.75	6.90
Nov 2035	7.050	99.88	7.06

Source: Byblos Bank Capital Markets

	Feb 22-26	Feb 15-19	% Change	January 2016	January 2015	% Change
Total Shares Traded	970,340	842,866	(3.52)	4,478,596	2,924,443	53.14
Total Value Traded	\$6,073,043	\$4,657,449	(41.94)	\$38,492,918	\$18,796,462	104.79
Market Capitalization	\$11.14bn	\$11.22bn	0.37	\$11.09bn	\$11.25bn	(1.46)

Source: Beirut Stock Exchange (BSE)



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

KPMG International ranked Lebanon in 90th place among 181 countries worldwide and in 12th place among 22 countries in the Middle East & North Africa (MENA) region on its Variables for Sustained Growth (VSG) Index for 2015. Also, Lebanon came in 28th place among 47 upper middle-income countries (UMICs) included in the survey.

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

Globally, Lebanon had a better productivity of labor and capital than El Salvador, Peru and the Dominican Republic, and a lower productivity than Morocco, Belarus and Serbia among economies with a GDP of \$10bn or more. Lebanon ranked ahead of Peru, the Dominican Republic and Colombia, and came behind Tunisia, Belarus and Serbia among UMICs. Lebanon received a score of 4.4 points on the 2015 index, lower than the simple global average of 4.6 points and the UMIC's average of 4.5 points, but higher than the MENA average score of 4.3 points.

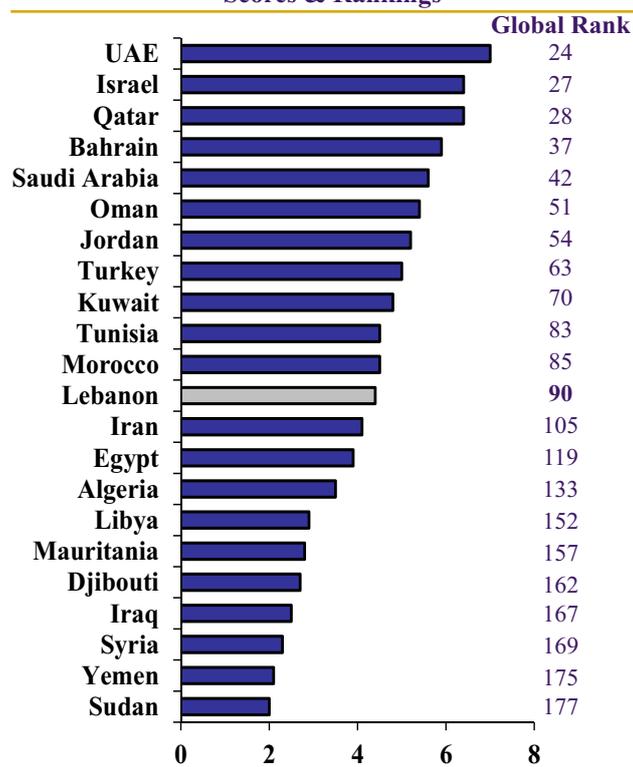
In parallel, Lebanon ranked ahead of Mongolia and behind Slovenia globally on the Openness to Catch Up in Best Practice Pillar, which measures a country's openness to trade and foreign direct investment. It also ranked behind only Malaysia, Bulgaria and Thailand among UMICs, while it only trailed the UAE regionally on this pillar.

Further, Lebanon had a similar performance than Costa Rica, Thailand and Ecuador, while it ranked ahead of Uruguay and behind Morocco globally on the Infrastructure Quality Pillar, which measures the quality of transport infrastructure, technology readiness and the availability of financial services. Lebanon came behind the UAE, Qatar, Bahrain, Israel, Oman, Kuwait, Saudi Arabia, Turkey and Morocco in the MENA region on this pillar.

Also, Lebanon tied with Uzbekistan, came ahead of Qatar and trailed Paraguay on the Human Capital Pillar, which assesses the average years of schooling, the estimated rate of return on education, as well as the life expectancy in a country. It ranked ahead of Colombia and behind China among UMICs; while it came behind Israel, Bahrain, Jordan, Libya, the UAE, Saudi Arabia and Iran in the region.

Finally, Lebanon had a similar performance than Russia, Albania, Belarus and Algeria, while it ranked ahead of Nepal and behind Ethiopia on the Strength of Public Institutions Pillar. This category assesses the regulatory quality, judicial independence, transparency of government policy-making, government effectiveness, corruption level and business rights. Lebanon had a similar performance than Albania, Algeria and Belarus, while it ranked ahead of Bosnia & Herzegovina and behind Gabon among UMICs. Also, it came ahead of only Algeria, Djibouti, Iraq, Mauritania, Yemen, Syria, Sudan and Libya among MENA countries. KPMG noted that the Strength of Public Institutions, especially government effectiveness, has the biggest impact on a country's productivity.

Variables For Sustained Growth in MENA region Scores & Rankings



Source: KPMG, Byblos Research

Variables For Sustained Growth Index in Lebanon

	Global Rank	MENA Rank	UMICs Rank	Lebanon Score	Global Avg Score	MENA Avg Score	UMICs Avg Score
Macroeconomic Stability	176	21	47	1.4	5.7	5.6	5.8
Openness to Catch Up in Best Practice	25	2	5	8.0	4.3	3.4	4.6
Infrastructure Quality	61	10	10	3.8	3.6	3.3	3.2
Human Capital	86	8	28	5.9	5.4	5.1	5.9
Strength of Public Institutions	122	14	36	4.0	4.9	4.5	4.6

Source: KPMG, Byblos Research



Beirut ranks 180th worldwide, 16th in MENA region in quality of living

The 2016 Mercer survey on the quality of living around the world ranked Beirut as the 180th most desirable city for overall living standards among 230 cities worldwide and in 16th place among 25 cities in the Middle East & North Africa (MENA) region. Also, Beirut ranked in 46th place among 55 cities in upper-middle income countries (UMICs) included in the survey. In comparison, Beirut ranked in 181st place among 230 cities globally in the 2015 survey. Based on the 221 cities that were included in both the 2010 and 2016 surveys, Beirut came in 171st place globally in 2016 and improved by one spot from 172nd place in the 2010 survey. It was among 114 cities whose rank improved, while the rank of 78 cities declined and that of 29 cities were unchanged during the six-year period.

The study evaluates the cities on the basis of 39 key quality-of-living determinants grouped in 10 categories that include political, economic and socio-cultural factors, in addition to healthcare & sanitation, schools & education, public services & transportation, recreation, consumer goods, housing, and the natural environment.

On a global basis, the quality of living in Beirut was better than in Cotonou in Benin, Yerevan in Armenia and Banjul in The Gambia; and less appealing than in Kiev in Ukraine, Maputo in Mozambique and Tirana in Albania. Also, Beirut's quality of living was higher than in Algiers, Minsk in Belarus and Havana in Cuba; and less appealing than in Tirana, Almaty in Kazakhstan and Jilin in China among UMICs.

Vienna has the highest quality of living in the world and Dubai remains the city with the highest living standards in the MENA region; while the survey considered Baghdad to be the world's least appealing city in terms of life quality. Mercer conducts the survey annually to help multinational companies assess international hardship allowances for their expatriate workers. It collected the data for the survey between September and November 2015 and regularly updates it to take into account the changing circumstances. Mercer is a global consulting firm in human resources and related financial advice, products and services.

Quality of Living Rankings in 2016			
City	MENA Rank	Global Rank	Change in Rank*
Dubai	1	75	+1
Abu Dhabi	2	81	+3
Tel Aviv	3	104	+2
Muscat	4	107	-3
Doha	5	110	+4
Tunis	6	113	-15
Rabat	7	116	-
Amman	8	120	+7
Istanbul	9	122	-6
Kuwait City	10	124	+2
Casablanca	11	126	-
Manama	12	133	-17
Riyadh	13	164	+3
Jeddah	14	165	+3
Cairo	15	171	-35
Beirut	16	180	+1
Algiers	17	187	+4
Djibouti	18	189	-4
Tehran	19	203	-11
Tripoli	20	216	-40
Nouakchott	21	220	+3
Damascus	22	224	-42
Khartoum	23	226	+1
Sana'a	24	228	-4
Baghdad	25	230	-

*between 2010 and 2016

Source: Mercer 2016, Byblos Research

Consumer Price Index down 3% in January 2016

The Central Administration of Statistics' Consumer Price Index declined by 2.8% in January 2016 from January 2015. The prices of water, electricity, gas & other fuels fell by 15.7% annually in January 2016, followed by healthcare costs (-6.3%), transportation costs (-3.1%), the cost of clothing & footwear (-2.6%), recreation & entertainment (-1.4%), communication costs (-0.8%) and prices of food & non-alcoholic beverages (-0.7%). In contrast, prices at restaurants & hotels grew by 2.1% year-on-year in January, followed by the cost of education (+1.5%), miscellaneous goods & services (+1.4%), imputed rents and actual rents (+1.3% each), the cost of furnishings & household equipment (+1.2%) and alcoholic beverages & tobacco (+0.6%). The distribution of actual rent shows that new rents grew by 1.4% year-on-year in January 2016, while old rents increased by 1.1% annually.

Further, the CPI regressed by 1.5% in January 2016 from the preceding month, relative to a month-on-month growth of 0.7% in December 2015. The cost of clothing & footwear regressed by 15.8% month-on-month, followed by the prices of water, electricity, gas & other fuels (-5%), transportation costs (-1.7%) and communication costs (-0.1%). In contrast, prices of food & non-alcoholic beverages grew by 1.4% from the preceding month, followed by prices at restaurants & hotels (+1.2%), prices of furnishings & household equipment (+0.9%), miscellaneous goods & services (+0.8%), prices of alcoholic beverages & tobacco (+0.2%) and the cost of recreation & entertainment cost (+0.1%). The cost of education, healthcare costs, imputed rents and actual rents were unchanged month-on-month in January 2016.

Value of real estate transactions at \$525m in January 2016

Figures released by the Ministry of Finance indicate that there were 4,295 real estate transactions in January 2016, constituting an increase of 21% from 3,551 deals in the same month of 2015. In comparison, the number of real estate transactions dropped by 28.4% year-on-year in January 2015 and rose by 8.9% in January 2014. Also, the aggregate value of real estate transactions reached \$524.8m in January 2016 and was nearly unchanged from January 2015. In comparison, the value of real estate deals totaled \$766.8m in January 2014 and \$480.4m in the same month of 2013.

In parallel, the average value per real estate transaction was \$122,192 in January 2016, down by 17.3% from an average value of \$147,797 in January 2015 and relative to \$154,633 in the same month of 2014. Further, there were 76 real estate transactions executed by foreigners in January 2016, reflecting a decrease of 14.6% from 89 deals in January 2015, and compared to an annual increase of 32.8% in January 2015 and a decrease of 14.1% in the same month of 2014. The number of real estate transactions by foreigners accounted for 1.8% of total real estate deals in January 2016 compared to 2.5% of total deals in January 2015 and 1.4% of total deals in January 2014.

Occupancy rate at Beirut hotels at 53%, room yields down 14% in January 2016

EY's benchmark survey of the hotel sector in the Middle East indicated that the average occupancy rate at hotels in Beirut was 53% in January 2016, up from 50% in January 2015 and compared to an average rate of 61% in 12 Arab markets included in the survey. The occupancy rate at Beirut hotels was the third lowest in the region in January 2016, while it was the fifth lowest in the same month of 2015. Amman and Kuwait posted the lowest occupancy rates of 37% and 39%, respectively, in the covered month. Also, the occupancy rate at hotels in Beirut rose by three percentage points year-on-year, constituting the fourth highest increase among the 12 Arab markets, and relative to an average drop of 0.3 percentage points for the region.

The average rate per room at Beirut hotels was \$147 in January 2016, ranking the capital's hotels as the third least expensive in the region, relative to Cairo (\$119) and Abu Dhabi (\$145). The average rate per room at Beirut hotels regressed by 19% year-on-year and posted the steepest drop among all markets in the region. The average rate per room in Beirut came below the regional average of \$201, which decreased by 2.8% from the same month of 2014.

Further, revenues per available room (RevPAR) were \$79 in Beirut in January 2016, down from \$92 in January 2015. They were the third lowest in the region, higher than Cairo (\$67) and Amman (\$58). Beirut's RevPAR decreased by 14.4% year-on-year and posted the fourth steepest decline among Arab markets, relative to contractions of 24.4% in Doha, 19.8% in Amman and 15% in Abu Dhabi. Further, Dubai posted the highest average rate per room in the region at \$300, the highest occupancy rate at 86.6% and the highest room yield at \$260 in January 2016.

Subsidized interest loans down 25% to \$373m in first nine months of 2015

Figures released by the Central Bank show that the amount of subsidized interest loans to productive sectors in Lebanon totaled \$372.7m in the first nine months of 2015, down by 24.7% from \$495.1m in the same period of 2014. The industrial sector benefited from \$239.6m in subsidized interest loans, equivalent to 64.3% of the total, followed by tourism with \$87.6m (23.5%) and agriculture with \$45.4m (12.2%). The cumulative amount of subsidized interest loans to productive sectors in Lebanon totaled \$6.4bn between 1997 and September 2015. Subsidized medium & long-term loans amounted to \$299.6m in the first nine months of 2015, equivalent to 80.4% of the total. The industrial sector accounted for 66.6% of subsidized medium & long-term loans, followed by tourism with 26.4% and agriculture with 7%. The program was established in the first quarter of 1997 and consists of a 5% to 7% subsidy on the interest charged on loans extended in foreign currency to productive sectors.

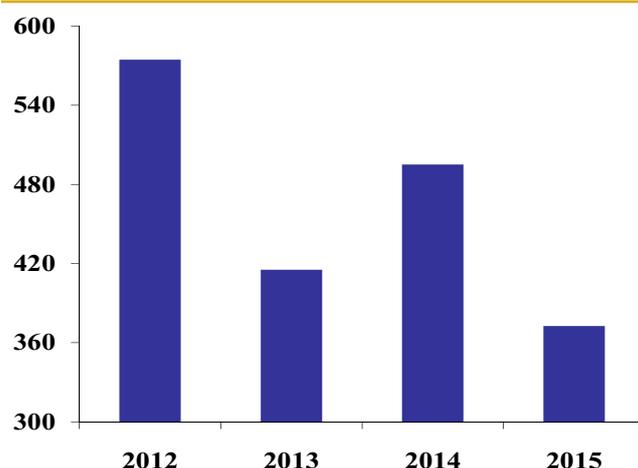
Also, subsidized interest loans guaranteed by the Kafalat Corporation totaled \$62.3m, or 16.7% of the total, in the first nine months of 2015. The industrial sector received 47.1% of Kafalat-backed subsidies, followed by the agriculture industry with 39.2% and the tourism sector with 13.7%. Kafalat provides financial guarantees for loans of up to \$400,000 for small and medium-sized enterprises in productive sectors. In parallel, subsidized interest loans granted by leasing companies totaled \$10.7m in the first nine months of 2015, or 2.9% of the total, and were extended in full to the industrial sector.

Hotel Sector Performance in January 2016

	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Dubai	86.6	260	(9.3)
Jeddah	65	159	(5.9)
Doha	67	155	(24.4)
Madina	70	153	17.5
Riyadh	61	125	(6.8)
Ras Al Khaimah	64.2	117	35.9
Abu Dhabi	79	116	(15.0)
Kuwait City	39	110	(9.0)
Manama	54	105	8.6
Beirut	53	79	(14.4)
Cairo	56	67	27.4
Amman	37	58	(19.8)

Source: EY, Byblos Research

Subsidized Interest Loans (US\$m)



* in the first nine months of each year

Source: Central Bank, Byblos Research

Banking and finance sector offers best career growth opportunities in Lebanon

A survey conducted by regional job portal Bayt.com and market research agency YouGov about top industries in the Middle East & North Africa region indicated that 32% of respondents in Lebanon said that the domestic banking & finance sector offers the best salary packages, including non-monetary benefits; followed by the local real estate and construction sectors (21% each); the healthcare, hospitality & entertainment sectors (18% each); oil, gas, petrochemicals & energy (17%) and advertising, marketing & public relation (16%). In comparison, 48% of respondents in the MENA region identified oil, gas, petrochemicals & energy as the sector that offers the best salary packages, followed by the banking & finance sector (22%), the armed forces (21%) and airline companies (20%).

Further, 35% of participants in Lebanon believe that the domestic banking & finance sector is the most attractive industry in terms of maintaining a work-life balance, followed by the public sector (26%), the education industry (25%) and the real estate sector (14%). In comparison, 29% of respondents in the MENA region identified the public sector as the most attractive for a work-life balance, followed by oil, gas, petrochemicals & energy (26%), the education and the banking & finance sectors (21% each) and the armed forces (14%).

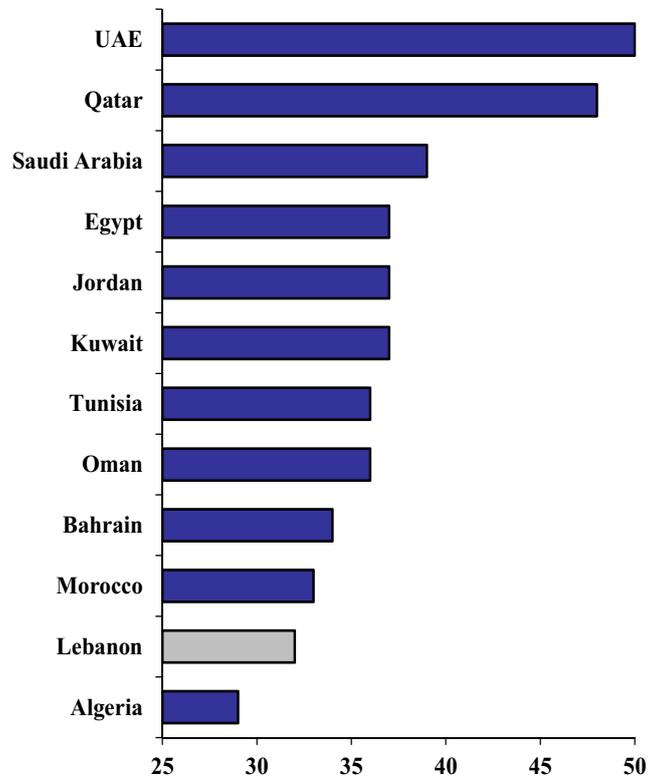
In addition, 35% of participants in Lebanon identified banking & finance as the industry that offers the best career growth opportunities, followed by advertising, marketing & public relation (23%), the manufacturing & engineering sector (21%) and the hospitality & entertainment sector (17%). In comparison, 37% of respondents in the MENA region said that oil, gas, petrochemicals & energy offer the best career growth opportunities, followed by the banking & finance sector (21%), the armed forces (20%), and the information technology sector and public sector (18% each).

In parallel, 59% of respondents in Lebanon are satisfied with the working hours in their sector, while 50% of participants said that they are content with their job security and work culture. Also, 45% of respondents in Lebanon are satisfied with their ability to maintain a work-life balance, 43% of adults are content with their training & development, 32% of participants are satisfied with their career growth prospects and 30% of respondents are content with their salary packages. In contrast, participants were most dissatisfied with their salary packages (56% of adults), followed by their career growth (47% of respondents), work-life balance (35% of participants), training & development (34% of adults), job security (30% of respondents), working hours (27% of participants) and work culture (25% of adults).

In comparison, 54% of participants in the MENA region are satisfied with the working hours in their industry, followed by the level of satisfaction with the work culture (49%), job security and work-life balance (44% each), training & development (41%), career growth (39%) and salary packages (32%). In contrast, participants in the MENA region were most dissatisfied with the salary packages in their respective industry (50%), followed by their career growth (43%), training & development (41%), job security (35%), work-life balance (34%), work culture (31%) and working hours (27%).

The survey was conducted between November 22 and December 8, 2015. Its results are based on online interviews with about 4,390 adults residing in Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, and the UAE.

Percentage of Respondents who are Satisfied with their Career Growth Prospects



Source: Bayt.com, Byblos Research

Fiscal outcome depends on reforms and political scenarios

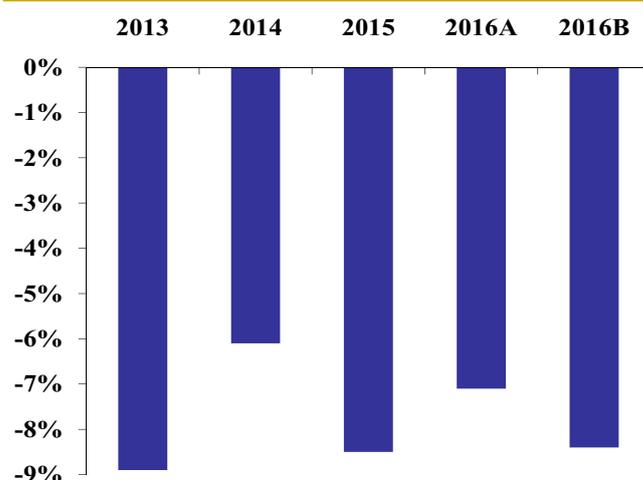
The Institute of International Finance considered that the Lebanese government needs to implement fiscal reforms in order to increase the primary budget surplus and reduce the public debt level, given the persistently low real GDP growth rates. It called for rebalancing public spending away from current expenditures and towards capital and social spending. It noted that fiscal adjustment measures should include combating tax evasion, selling non-performing state assets such as real estate holdings, increasing the excise tax on gasoline, enforcing fines on illegally-built seaside properties, raising the tobacco excise tax, and reforming the public pension system. It considered that authorities would not be able to implement most of these reforms in the prevailing difficult operating environment. But it noted that authorities could increase the excise tax on gasoline from 20 cents to 35 cents per liter, which would generate at least \$320m, or 0.7% of GDP, in additional revenues.

The IIF projected Lebanon's fiscal deficit, including grants, to narrow from an estimated 8.5% of GDP in 2015 to 7.1% of GDP in 2016 under a scenario whereby regional tensions ease, a President is elected in the first half of this year, ties between Lebanon and GCC countries improve, the funds allocated to Lebanon by the international community to deal with Syrian refugees exceed \$400m, and authorities impose an excise tax on gasoline. It attributed the narrowing of the deficit to a prospected increase of 8.7% in public revenues, compared to a rise of 2.1% in public expenditures. It anticipated that public revenues, including grants, would grow from 18.7% of GDP last year to 19.3% of GDP in 2016; while total expenditures would regress from 27.2% of GDP in 2015 to 26.5% of GDP.

Under this scenario, the IIF projected tax receipts to increase by 6.1% in 2016 to the equivalent of 12.8% of GDP, and for non-tax revenues to grow by 5.2% to 4.6% of GDP this year. Further, the IIF projected current expenditures to grow by 0.6% in 2016 to the equivalent of 24.7% of GDP, and for capital spending to expand by 29% to the equivalent of 1.8% of GDP. It anticipated public-sector wages and salaries to increase by 4.3% and to be equivalent to 9.3% of GDP in 2016, and for interest payments to grow by 5.6% to the equivalent of 8.8% of GDP, while it expected Treasury transfers to Electricité du Liban (EdL) to fall by 29.6% to the equivalent of 1.6% of GDP. As such, it noted that public-sector wages and salaries would account for 37.5% of total public expenditures in 2016, followed by debt servicing with 35.7% and EdL transfers with 6.5%, while capital expenditures would represent 7.2% of total spending. Under these circumstances, it projected the primary fiscal surplus to improve from 0.2% of GDP in 2015 to 1.7% of GDP in 2016, and for the public debt level to stabilize at 138.3% of GDP.

In parallel, the IIF anticipated that the fiscal deficit would remain at 8.5% of GDP in 2016 in case the ongoing political stalemate continues, tensions between Iran and Saudi Arabia persist, relations between Lebanon and GCC countries remain tense, and the funds allocated to Lebanon to deal with Syrian refugees are less than \$250m. Under this scenario, it forecast public revenues to increase by a marginal 0.3% to the equivalent of 18.2% of GDP, and for public expenditures to grow by 0.7% to 26.6% of GDP. It projected tax receipts to drop by 2.7% in 2016 to the equivalent of 11.9% of GDP, and for non-tax revenues to expand by 3% to 4.6% of GDP this year, mainly due to higher telecom transfers. It anticipated that, according to the current scenario, capital spending would expand by just 2.1% to 1.4% of GDP this year. As such, it projected the primary fiscal surplus to slightly improve to 0.6% of GDP in 2016 and for the public debt level to rise to 142.2% of GDP.

Fiscal Deficit (% of GDP)



Source: Institute of International Finance

Industrial exports down 6% to \$2.25bn in the first nine months of 2015

Figures released by the Ministry of Industry show that industrial exports totaled \$2.25bn in the first nine months of 2015, constituting a decrease of 5.8% from \$2.39bn in the same period of 2014. Industrial exports reached \$242.5m in September 2015, up by 3.9% from \$233.4m in the preceding month and down by 10% from \$269m in September 2014. Exports of machinery & mechanical appliances totaled \$527.4m and accounted for 23.5% of aggregate industrial exports in the first nine months of 2015, followed by chemical products with \$424.3m (19%), prepared foodstuffs with \$374.7m (16.7%), base metals with \$241.7m (10.7%), and pearls, precious or semi-precious stones with \$135.5m (6%). Arab countries were the destination of 56.8% of Lebanese industrial exports during the first nine months of 2015, followed by European economies with 14.2%, African countries with 12.4%, Asian economies with 11.1%, countries in the Americas with 4.2% and countries in Oceania with 0.5%. On a country basis, Saudi Arabia was the main destination of Lebanese industrial exports and accounted for 13.8% of the total in the covered period, followed by the UAE with 10.4%, Iraq with 9.6%, Syria with 6.5% and Jordan with 3.5%. In the third quarter of 2015, 17 African countries, 15 Arab states, 14 European economies, eight Asian countries, three economies in the Americas and one country in Oceania imported \$1m or more each in industrial products from Lebanon. Overall, Lebanon exported its industrial products to 42 European economies, 41 African countries, 29 Asian countries, 28 countries in the Americas, 19 Arab economies and six markets in Oceania over the third quarter of 2015.

In parallel, industrial imports reached \$189.3m in the first nine months of 2015, down by 11% from the same period of 2014. Italy was the main source of such imports and accounted for 21.8% of the total in the covered period, followed by China with 20.3% and Germany with 18.4%. Further, imports of industrial equipment and machinery reached \$13.8m in September 2015, decreasing by 28% year-on-year. China was the main source of imports of industrial equipment in September and accounted for 24.2% of the total, followed by Germany with 20% and Italy with 13.7%.

Utilized credits by private sector at \$60bn at end-September 2015, advances against real estate account for 35% of total

Figures issued by the Central Bank show that utilized credits by the private sector from commercial banks and financial institutions totaled \$59.7bn at the end of September 2015, constituting an increase of 5.6% from \$56.5bn at the end of September 2014. The distribution of credits by type shows that advances against real estate totaled \$20.9bn and accounted for 35.1% of total private sector utilized credits at the end of September 2015. They were followed by overdrafts with \$17bn (28.5%), advances against personal guarantees with \$11.1bn (18.6%), advances against cash collateral or bank guarantees with \$7bn (11.7%), advances against other real guarantees with \$2.5bn (4.2%) and advances against financial values with \$1.2bn (2%). Trade & services accounted for \$20.1bn or 33.7% of utilized credits at the end of September 2015, followed by personal credits with \$17.5bn (29.4%), construction with \$10.3bn (17.2%), industry with \$6.3bn (10.6%), financial intermediaries with \$3.3bn (5.5%) and agriculture with \$677.4m (1.1%), while other sectors accounted for the remaining \$1.5bn (2.5%).

Also, the distribution of utilized credits in trade & services shows that wholesale trade accounted for 42.7% of overall trade & services credits, followed by real estate services with 21%, retail with 17%, hotels & restaurants with 8%, transport & storage with 7.8% and educational services with 3.9%. Personal credits attracted 84.7% of loan beneficiaries, followed by trade & services with 10.6% of beneficiaries, industry with 3%, construction with 1.4%, agriculture with 1% and financial intermediaries with 0.6%, while other sectors attracted the remaining 3.5%. The aggregate number of loan beneficiaries grew by 13.8% year-on-year to 563,072, while 74.1% of beneficiaries had loans ranging from LBP5m to LBP100m by the end of September 2015. Beirut and its suburbs accounted for 76.7% of bank credits and for 54.3% of beneficiaries. It was followed by Mount Lebanon with 11.6% of credits and 17.7% of beneficiaries; South Lebanon with 4.5% of credits and 10% of beneficiaries; North Lebanon with 4.1% of credits and 10.8% of beneficiaries; and the Bekaa with 3.1% of credits and 7.2% of beneficiaries. In parallel, the off-balance sheet liabilities of banks and financial institutions totaled \$100.6bn at the end of September 2015, reflecting a rise of 4.4% from \$96.3bn a year earlier. They included endorsement & guarantees at \$92.9bn, or 92.4% of the total, followed by letters of undertaking at \$2.9bn (2.8%) and commitment on notes at \$2.3bn (2.3%).

Balance sheet of financial institutions up 3% in 2015

Figures released by the Central Bank show that the consolidated balance sheet of financial institutions in Lebanon reached LBP2,594bn, or \$1.72bn, at the end of 2015, constituting an increase of 2.7% from end-2014 and compared to a rise of 17.5% in 2014. On the assets side, financial institutions' cash and bank deposits totaled \$635m at the end of 2015, constituting an increase of 9.7% from a year earlier and relative to a rise of 2.8% in 2014. Claims on the private sector reached \$945.5m and increased by 27.4% from end-2014. Also, investments in government securities totaled \$148.2m as at end-2015, down by 60% from end-2014 and relative to an increase of 202.3% in 2014. In parallel, liabilities to the private sector totaled \$435m, up by 67.5% from the end of 2014 and compared to a rise of 66% in 2014; while those to the financial sector reached \$702.4m at the end of 2015, representing a decrease of 19.7% from a year earlier and relative to an increase of 4.9% in 2014. Further, the aggregate capital accounts of financial institutions reached \$461.4m at the end of 2015, reflecting an increase of 6.4% from the end of 2014. There were 52 financial institutions with a total of 71 branches operating in Lebanon as at end-September 2015.

Slow commercial activity in third quarter of 2015

The Central Bank's quarterly business survey of opinions shows that the volume of commercial sales increased quarter-on-quarter during the third quarter of 2015, with the balance of opinions standing at -2 compared to -12 during the preceding quarter, but regressed relative to +8 during the third quarter of 2014. The business survey reflects the opinions of enterprise managers about their business activity in order to depict the evolution of a number of key economic variables. The balance of opinions was the lowest in Beirut & Mount Lebanon at -13, followed by the North (-11), the South (+27) and the Bekaa (+28). The survey shows that the balance of opinions for the sales volume of food items was +6 in the third quarter of 2015 relative to zero in the preceding quarter and to +15 in the same quarter of 2014. The balance of opinions about the sales of non-food products was zero in the third quarter compared to -14 in the preceding quarter and to -1 in the third quarter of 2014; while it was -17 for inter-industrial goods, relative to -20 in the second quarter of 2015 and to +16 in the third quarter of 2014. Also, the balance of opinions for inventory levels in all commercial sub-sectors was -8 in the third quarter of 2015, unchanged from the preceding quarter and compared to +4 in the third quarter of 2014. Opinions about the level of inventories were the highest in the Bekaa as they reached +18, followed by Beirut & Mount Lebanon (-6), the South (-25) and the North (-26). The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in an indicator and the proportion of those who reported a decline in the same indicator.

Commercial Activity: year-on-year evolution of opinions				
Aggregate results	Q3-12	Q3-13	Q3-14	Q3-15
Sales volume	-6	-11	8	-2
Number of employees	-2	-6	4	-4
Inventories of finished goods	-4	-3	4	-8
Q3-15 Regional results	Beirut / Mount Lebanon	North	South	Bekaa
Sales volume	-13	-11	27	28
Inventories of finished goods	-6	-26	-25	18

Source: Central Bank business survey for third quarter of 2015

A.M. Best downgrades ratings of Union Nationale

Insurance rating agency A.M. Best downgraded the issuer credit rating (ICR) of Al Ittihad Al Watani (L'Union Nationale) General Insurance Company for the Near East sal from 'bb' to 'b'. It also downgraded the firm's financial strength rating (FSR) from 'B' (fair) to 'C++' (marginal), and kept the 'negative' outlook on the company's ratings. It attributed the downgrades to the significant weakening of the company's risk-adjusted capitalization, as well as to its continued poor operating performance and deteriorated liquidity. It noted that the 'negative' outlook reflects the uncertainty about the company's business strategy and operating performance.

The agency said that the firm's risk-adjusted capitalization decreased significantly at the end of 2014 following the decrease in the fair value of its investment property held for sale and the increase in the company's unearned premium reserves, in line with the new regulations in the UAE. It noted that the restatement of the firm's assets and liabilities has led to a significant drop in its shareholders' equity from LBP68.9bn, or \$45.7m, at end-2013 to LBP45.5bn, or \$30.2m, at end-June 2015. It added that the firm posted a net loss of LBP275.4m, or \$0.2m, in the first half of 2015, which added pressure on its capital position.

Further, A.M. Best indicated that L'Union Nationale's liquidity indicators deteriorated in the first half of 2015. It noted that its bank overdraft increased to LBP13.6bn, or \$9m, while the company posted a negative cash flow of LBP5.8bn, or \$3.8m, from operating activities in the covered period, compared to a positive cash flow of LBP2bn, or \$1.3m, in the first half of 2014. In addition, the agency pointed out that the insurer continues to face significant challenges, as it is contesting about KWD2.4m, or about \$8m in claims from the Ministry of Health in Kuwait, which were not provisioned in the company's accounts at the end of June 2015. It added that its operating environment continues to be characterized by the intense competition prevailing in its key markets of the UAE and Lebanon.

Established in 1947, L'Union Nationale is active in the non-life and life segments in Lebanon, the UAE and Kuwait. The latest available figures from *Al-Bayan* magazine's annual survey of the insurance sector in Lebanon show that the firm's non-life premiums dropped by 15.6% to \$7.6m in 2015. It had a 0.7% share of the local non-life insurance market in 2015 and ranked in 30th place. In parallel, the firm's life premiums amounted to \$0.84m in 2014, up by 5% from the previous year. It had a 0.2% share of the local life market in 2014.

Net profits of life insurance segment up 15% in 2014, insurance liabilities increase by 8% to \$1.8bn

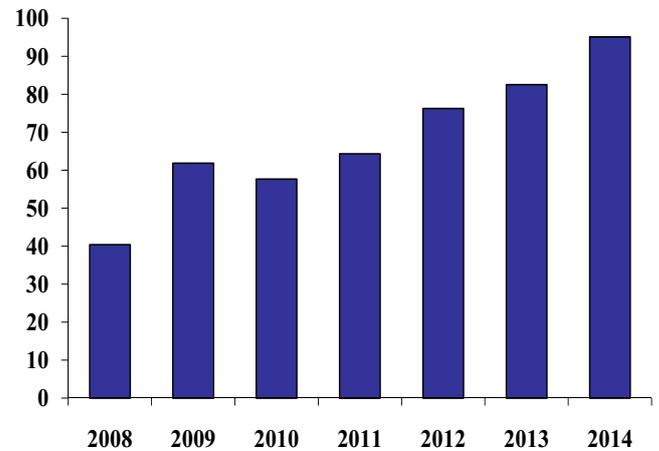
Figures released by the Insurance Control Commission (ICC) show that the aggregate net profits of 36 companies operating in the life insurance segment in Lebanon reached \$95.1m in 2014, constituting an increase of 15.3% from \$82.6m in 2013. Also, net income from the life segment posted a compound annual growth rate (CAGR) of 9% between 2009 and 2014. The 'term life protection' branch posted profits of \$82.2m in 2014, followed by the 'life protection with savings' branch with \$15.9m; while the 'life protection with unit-linked savings' branch posted net losses of \$3m. MetLife Alico led all life insurers with \$26.6m in net profits in 2014 and accounted for 27.9% of the life segment's aggregate net earnings, followed by Bancassurance with \$13.5m (14.1%), Sogecap with \$9.1m (9.5%), CLA with \$8.6m (9%), LIA with \$8.4m (8.8%) and ADIR with \$7.1m (7.5%).

Gross written premiums from the life segment, which include new business and renewals, grew by 4.3% to \$426.2m in 2014 relative to growth rates of 7.5% in 2013, 4.4% in 2012 and 8.4% in 2011. Also, gross premiums increased by a CAGR of 7.5% between 2009 and 2014. Gross written premiums from the 'term life protection' branch totaled \$171.3m and accounted for 39.6% of aggregate life insurance premiums, followed by the 'life protection with savings' branch with \$140.6m (32.5%), and the 'life protection with unit-linked savings' branch with \$120.2m (27.8%). Further, net premiums rose by 3.3% to \$403.7m, policy fees increased by 9.2% year-on-year to \$18.5m, and the cost of policies grew by 15.2% to \$9.9m in 2014.

In addition, the annualized premiums equivalent (APE), which is a standard market indicator used in disclosures of insurance companies to financial markets, grew by 3.3% year-on-year to \$367.3m in 2014 relative to growth rates of 6.5% in 2013 and 13.5% in 2012. In terms of APE, MetLife Alico captured a 21.7% market share among providers of life insurance in 2014, followed by Allianz SNA with 15.8%, Bancassurance (14.9%), ADIR (9.1%) and LIA (7.4%).

In parallel, claims paid to beneficiaries totaled \$197.2m in 2014, constituting a rise of 11.7% from \$176.6m in 2013. Also, paid claims increased by a CAGR of 13.2% during the 2009-14 period. In addition, insurance liabilities, which represent the amount that insurers set aside to cover future claims and related expenditures, increased by 8% in 2014 to \$1.82bn. The growth in insurance liabilities is mainly driven by savings plans and consequently is an indicator of the level of long-term savings generated in Lebanon in the life insurance business.

Net Profits from the Life Insurance Segment (\$m)



Source: Insurance Control Commission, Byblos Research

Ratio Highlights

(in % unless specified)	2013	2014	2015e	Change*
Nominal GDP (\$bn)	47.2	49.4	50.9	
Public Debt in Foreign Currency / GDP	55.3	51.9	53.2	134
Public Debt in Local Currency / GDP	79.1	83.0	85.0	203
Gross Public Debt / GDP	134.4	134.8	138.2	337
Total Gross External Debt / GDP**	163.8	165.1	162.4	(270)
Trade Balance / GDP	(36.6)	(34.8)	(29.7)	512
Exports / Imports	18.5	16.2	16.6	41
Fiscal Revenues / GDP	19.9	22.0	18.7	(334)
Fiscal Expenditures / GDP	28.9	28.3	27.2	(101)
Fiscal Balance / GDP	(8.9)	(6.2)	(8.5)	(228)
Primary Balance / GDP	(0.5)	2.6	0.2	(245)
Gross Foreign Currency Reserves / M2	69.5	66.5	66.8	30
M3 / GDP	235.4	238.4	241.6	316
Commercial Banks Assets / GDP	349.0	355.9	365.6	968
Private Sector Deposits / GDP	288.4	292.6	298.0	540
Private Sector Loans / GDP	100.3	103.1	106.6	348
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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