

## LEBANON THIS WEEK

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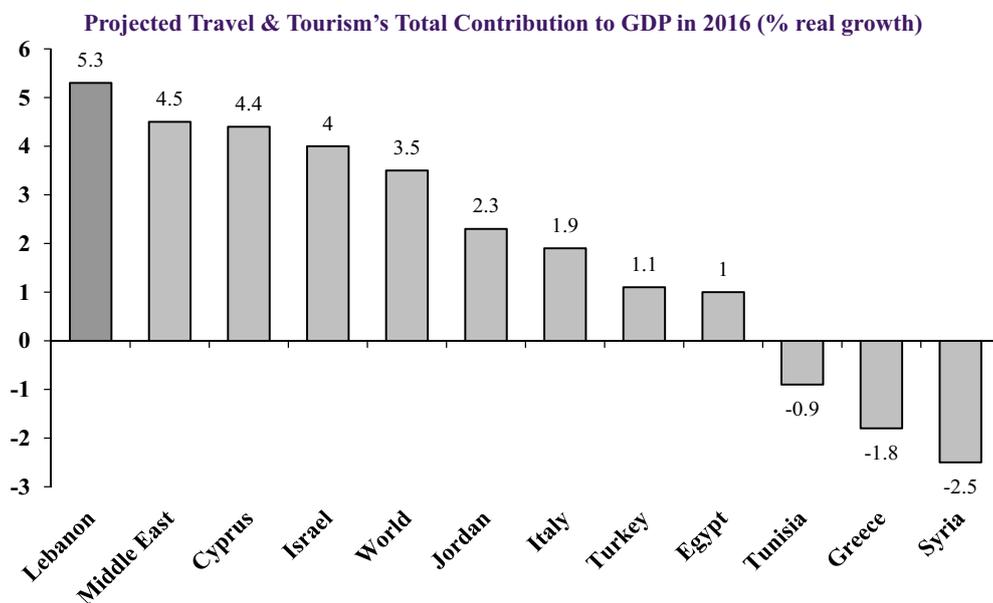
Moody's affirms Allianz ratings, outlook 'stable'

BBAC's net earnings at \$44.5m in 2015

Bank Audi's dividend payout ratio at 45.3% for 2015

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### Charts of the Week



Source: World Travel & Tourism Council, Byblos Bank

### Quote to Note

"The financial situation of the electricity sector is undermining the sustainability of public finances and limiting the capacity of Electricité du Liban to improve electricity supply to households and industry."

*The World Bank, on the urgent need to restructure the electricity sector in Lebanon*

### Number of the Week

**\$31.6bn:** The Central Bank's gross foreign currency reserves at the end of January 2016

## Lebanon in the News

\$m (unless otherwise mentioned)	2014	Dec 2014	Sep 2015	Oct 2015	Nov 2015	Dec 2015	% Change*
Exports	3,313	268	243	261	222	236	(11.94)
Imports	20,494	1,649	1,434	1,467	1,539	1,841	11.64
Trade Balance	(17,181)	(1,381)	(1,191)	(1,206)	(1,317)	(1,605)	16.22
Balance of Payments	(1,408)	(116)	(122)	(396)	(816)	(372)	220.7
Checks Cleared in LBP	18,143	1,599	1,587	1,700	1,507	1,709	6.89
Checks Cleared in FC	56,348	4,692	4,151	4,552	3,987	4,265	(9.10)
Total Checks Cleared	74,491	6,291	5,738	6,252	5,494	5,974	(5.04)
Budget Deficit/Surplus	(3,073)	(48.82)	(619.44)	10.56	(643.40)	(711.58)	1357.7
Primary Balance	1,307	281.94	(121.58)	486.02	(95.30)	(338.61)	-
Airport Passengers***	6,567,647	573,229	750,290	575,660	501,204	616,249	7.50

\$bn (unless otherwise mentioned)	2014	Dec 2014	Sep 2015	Oct 2015	Nov 2015	Dec 2015	% Change*
BdL FX Reserves	32.40	32.40	32.02	33.25	31.77	30.64	(5.45)
<i>In months of Imports</i>	<i>18.97</i>	<i>19.65</i>	<i>22.33</i>	<i>22.67</i>	<i>20.64</i>	<i>16.64</i>	<i>(15.31)</i>
Public Debt	66.57	66.57	68.72	69.05	70.44	70.31	5.62
Bank Assets	175.70	175.70	181.34	182.27	183.18	185.99	5.86
Bank Deposits (Private Sector)	144.43	144.43	149.11	149.36	149.81	151.59	4.96
Bank Loans to Private Sector	50.90	50.90	52.61	52.99	53.22	54.22	6.53
Money Supply M2	48.69	48.69	51.54	51.64	51.75	52.15	7.11
Money Supply M3	117.68	117.68	122.08	122.05	122.45	123.62	5.05
LBP Lending Rate (%)	7.49	7.49	7.08	7.13	6.93	7.45	(4bps)
LBP Deposit Rate (%)	5.56	5.56	5.57	5.67	5.56	5.56	-
USD Lending Rate (%)	6.97	6.97	7.19	7.05	7.15	7.06	9bps
USD Deposit Rate (%)	3.07	3.07	3.14	3.20	3.17	3.17	10bps
Consumer Price Index**	0.59	(1.66)	(0.64)	0.41	(0.17)	1.40	-

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

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

Note: bps i.e. basis points

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

## Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization
Audi GDR	6.00	(0.83)	155,327	6.07%
BLOM Listed	10.30	0.00	44,100	19.48%
Solidere "A"	9.98	(0.60)	43,557	8.78%
Byblos Common	1.70	0.00	31,754	5.38%
BLOM GDR	10.80	(0.92)	28,150	7.02%
Solidere "B"	10.00	0.30	17,874	5.72%
Audi Listed	6.25	4.17	750	21.98%
Byblos Pref. 08	102.50	0.89	450	1.80%
HOLCIM	14.36	0.00	0	2.47%
Byblos Pref. 09	101.40	0.00	0	1.78%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Mar 2017	9.000	103.76	4.86
Nov 2018	5.150	99.88	5.20
May 2019	6.000	100.88	5.69
Mar 2020	6.375	101.50	5.94
Apr 2021	8.250	109.00	6.14
Oct 2022	6.100	98.88	6.31
Jun 2025	6.250	97.50	6.62
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

	April 5-8	Mar 29-April 1	% Change	March 2016	March 2015	% Change
<b>Total Shares Traded</b>	325,462	316,897	2.70	24,416,630	10,015,512	143.79
<b>Total Value Traded</b>	\$2,767,934	\$2,408,580	14.92	\$222,416,319	\$74,663,509	197.89
<b>Market Capitalization</b>	\$11.37bn	\$11.28bn	0.75	\$11.34bn	\$11.94bn	(5.06)

Source: Beirut Stock Exchange (BSE)



### Cost of mobile broadband in Lebanon is 61st lowest globally, eighth lowest among Arab countries

The International Telecommunication Union (ITU) indicated that the cost of postpaid mobile-broadband services in Lebanon was \$11 per month in 2014, which is equivalent to 1.34% of the country's gross national income (GNI) per capita. The cost covers a minimum of 500 Megabytes of mobile-broadband services that are used through handheld devices such as a mobile phones or tablets. It constituted the 61st lowest cost among 164 countries, the 12th lowest among 44 upper middle-income countries (UMICs) and the eighth lowest among 14 Arab countries. It was lower than the global average of 6.5% of GNI per capita, the UMICs' average of 2.2% of GNI per capita and the Arab average of 4.1% of GNI per capita. Finland has the least expensive postpaid handset-based mobile-broadband in the world at 0.1% of GNI per capita, and Qatar has the cheapest service among Arab countries at 0.23% of GNI per capita.

In addition, the cost of prepaid mobile-broadband for a minimum of 500 MB in Lebanon was \$11 per month, equivalent to 1.34% of its GNI per capita. It is the 60th least expensive globally, the 12th least costly among UMICs and the seventh lowest among Arab countries. It was less expensive than the global average of 6.7% of GNI per capita, the UMICs' average of 2.2% of GNI per capita and the Arab average of 4.7% of GNI per capita. Norway has the least expensive postpaid handset-based mobile-broadband in the world at 0.1% of GNI per capita, and Qatar has the cheapest service among Arab countries at 0.3% of GNI per capita.

Further, the cost of prepaid computer-based mobile-broadband services in Lebanon was \$20.9 per month, which is equivalent to 2.54% of the country's GNI per capita. The cost covers a minimum of one Gigabyte of mobile broadband that is used through a computer. It was the 72nd least expensive globally, the 18th least expensive among UMICs and the 11th least expensive regionally. It was lower than the global average of 11.4% of GNI per capita, the UMICs' average of 4.2% of GNI per capita and the Arab average of 5% of GNI per capita. Austria has the least expensive prepaid computer-based mobile-broadband in the world at 0.16% of GNI per capita and Qatar has the cheapest service among Arab countries at 0.38% of GNI per capita per month.

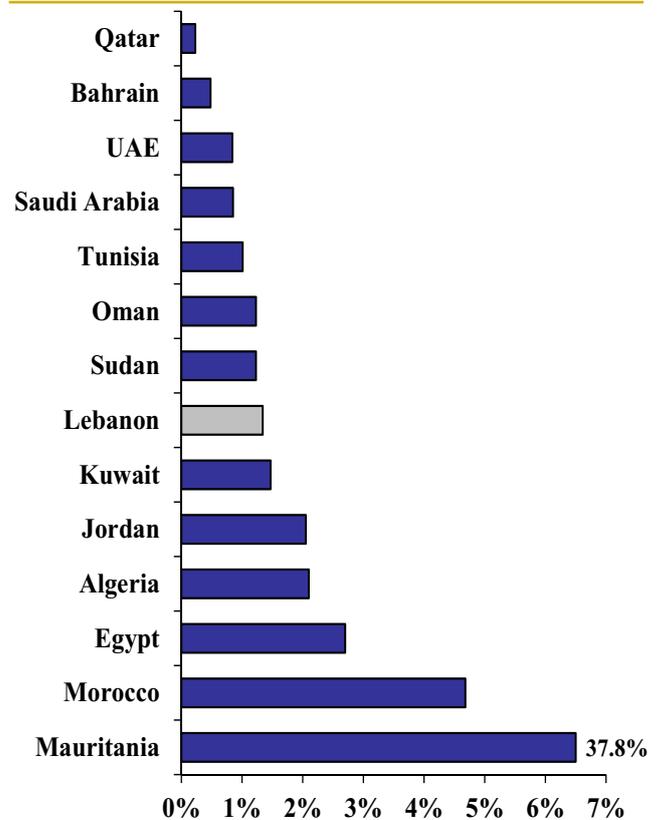
In parallel, the cost of fixed broadband for a minimum of one GB in Lebanon was \$17.51 per month in 2014, equivalent to 2.13% of the country's GNI per capita. It was the 70th lowest price globally, the 15th lowest among UMICs and the ninth lowest among Arab countries. It was lower than the global average of 47.4% of GNI per capita, the UMICs' average of 5.5% of GNI per capita and the Arab average of 5.6% of GNI per capita. In comparison, Kuwait has the least expensive fixed broadband in the world at 0.29% of GNI per capita.

### Airport passengers up 11% in first quarter of 2016

Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures, transit) totaled 1,523,775 in the first quarter of 2016, constituting a rise of 10.8% from 1,374,825 passengers in the same quarter last year. The total number of arriving passengers rose by 11.1% year-on-year to 735,977 in the first quarter of 2016, compared to an increase of 11.9% in the same quarter of 2015 and to a decrease of 6.2% in the first quarter of 2014. Also, the number of departing passengers rose by 10.4% year-on-year to 782,299 in the first quarter of 2016, relative to an increase of 7.1% in the same quarter of 2015 and to a drop of 10% in the first quarter of 2014.

In parallel, the airport's aircraft activity rose by 11% year-on-year to 16,056 take-offs and landings in the first quarter of 2016, compared to an increase of 3% in the first quarter last year and to a decrease of 0.9% in the same quarter of 2014. In addition, the HIA processed 18,664 metric tons of freight in the first quarter of 2016 that consisted of 12,609 tons of import freight and 6,055 tons of export freight. In parallel, Middle East Airlines had 5,587 flights in the first quarter of 2016 and accounted for 34.8% of total aircraft movement at the HIA.

### Cost of postpaid handset-based mobile-broadband for a minimum of 500 Megabytes (% of GNI)



Source: International Telecommunication Union, Byblos Research

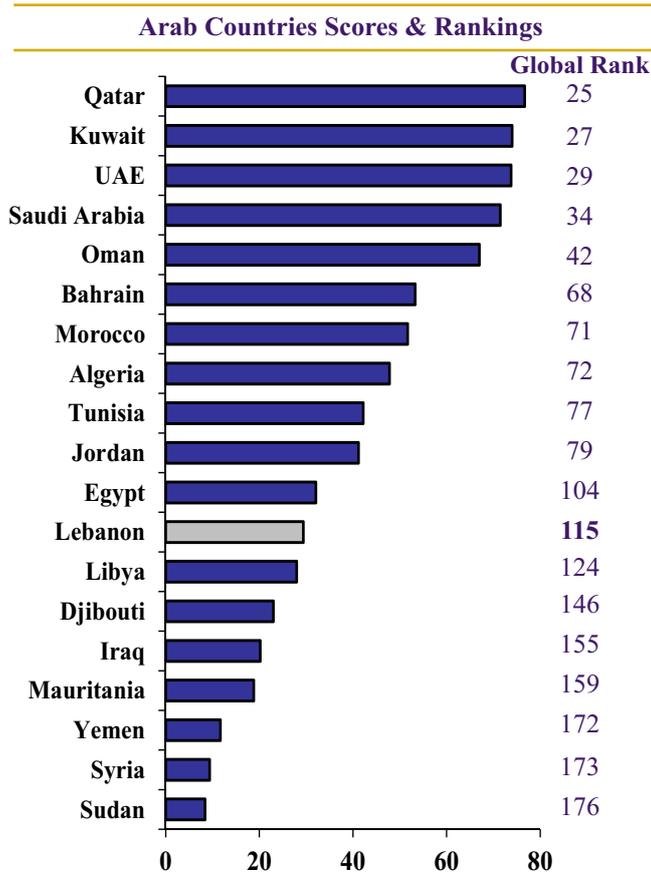
### Lebanon ranks 115th globally, 12th in Arab region in credit ratings

In its semi-annual survey on Country Credit, *Institutional Investor* magazine ranked Lebanon in 115th place among 179 countries worldwide, in 35th place among 45 upper middle-income countries (UMICs) and in 12th place among 19 Arab countries in the March 2016 survey. In comparison, Lebanon ranked in 111th place globally and in 12th place regionally in the September 2015 survey. As such, Lebanon's rank regressed by four spots from the September 2015 survey, constituting the 30th steepest decrease globally, the eighth largest drop among UMICs and the second steepest decline among Arab countries. Lebanon ranked in 108th place globally and in 12th place among Arab countries in the March 2015 survey.

The survey rates the creditworthiness of countries on a scale of zero to 100, with 100 representing countries with the lowest chance of credit default. The ratings are based on input provided by senior economists and sovereign risk analysts at leading global banks and money management and securities firms.

On a global basis, Lebanon's creditworthiness was better than that of Iran, Ecuador and Bosnia & Herzegovina, and was weaker than that of Bangladesh, Cambodia and Papua New Guinea among economies with a GDP of \$10bn or more. Lebanon ranked ahead of Iran, Ecuador and Bosnia & Herzegovina, and came behind Angola, Jamaica and Mongolia among UMICs.

Lebanon received a score of 29.4 points compared to 28.9 points in September 2015 and 30 points in March 2015. As such, its score rose by 1.7% from September 2015, the sixth largest increase regionally. Also, Lebanon's score regressed by 2% from March 2015, constituting the third smallest drop among Arab countries. In comparison, the global average rating score increased by 1.4%, the UMICs' average score rose by 2.5% and the average score of Arab countries regressed by 0.9% from the September 2015. Lebanon's score was below the global average of 44.7 points, the UMICs' average of 43.9 points, the Arab average of 41.1 points and the GCC countries' average of 69.4 points, but it came above the non-GCC countries' average score of 28 points. The rankings of 12 Arab countries regressed, three improved and four were unchanged, while the scores of nine countries decreased and 10 improved from the September 2015 survey. Switzerland is the country with the best creditworthiness in the world, while Somalia has the highest probability of default worldwide.



Source: *Institutional Investor* - March 2016, *Byblos Research*

### Gross public debt at \$71.2bn at end-February 2016

Lebanon's gross public debt reached \$71.2bn at the end of February 2016, constituting an increase of 1.3% from \$70.3bn at the end of 2015 and a rise of 2.8% from \$69.2bn at end-February 2015. In nominal terms, the gross public debt grew by \$889.6m in the first two months of 2016, relative to an increase of \$2.7bn in the same period of 2015. Domestic debt totaled \$44bn at end-February 2016, growing by 1.7% from end-2015 and by 5.6% from end-February 2015; while debt in foreign currency stood at \$27.2bn, constituting an increase of 0.5% from end-2015 and a decline of 1.3% from a year earlier. Local currency debt accounted for 61.8% of gross public debt at the end of February 2016 compared to 60.2% a year earlier, while foreign currency-denominated debt represented the balance of 38.2% relative to 39.8% at end-February 2015. The weighted interest rate on outstanding Treasury bills was 6.93% and that on Eurobonds was 6.41% in February 2016. Further, the weighted life on Eurobonds was 6.15 years, while that on Treasury bills was 1,213 days.

Commercial banks held 44.4% of the Lebanese pound-denominated public debt at the end of February 2016 compared to 50.4% a year earlier. They were followed by the Central Bank with 38.8%, up from 32.7% at end-February 2015; while public agencies, financial institutions and the public accounted for 16.7% of local debt, nearly unchanged from a year earlier. Also, Eurobond holders 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%. 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.

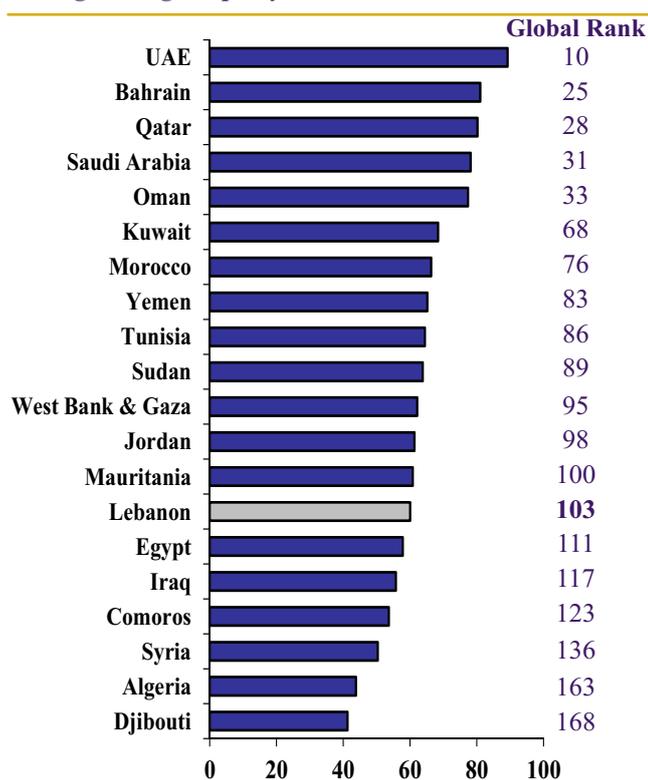


### Finance Ministry launches electronic real estate services

The General Directorate of Land Registry and Cadastre at the Ministry of Finance launched three new electronic services that allow individuals, local and international investors, as well as all involved parties to access the title deed register, track real estate transactions and determine the fees that they would have to pay for a specific transaction. The ministry said that the General Directorate has launched a reform plan that aims to develop the real estate registry. Also, it indicated that it aims to directly communicate with notaries, mainly to prevent fraud in the sales and power of attorney contracts. It noted that it plans to establish a one-stop shop to conduct real estate transactions.

The World Bank Group's Doing Business 2016 ranked Lebanon in 103rd place among 189 countries and jurisdictions worldwide and in 14th place among 20 Arab countries and territories on the Registering Property indicator. The survey shows that registering a property in Lebanon takes 34 days and costs 5.9% of the value of the property compared to an average of 31.2 days and 5.6% of the property value in Arab countries, and to an average of 21.8 days and 4.2% of the property value in OECD economies. Entrepreneurs need eight steps to register a property in Lebanon compared to an average of 5.4 procedures in Arab countries, and 4.7 steps in OECD economies. The World Bank noted that, in 2015, Lebanon made transferring property more complex by increasing the time required for property registration. The General Directorate hopes that the introduction of the three electronic services would improve Lebanon's performance on the upcoming edition of the Doing Business survey.

### Registering Property Indicator for Arab Countries



Source: World Bank Group, Byblos Research

### Mixed impact of low oil prices on Lebanese economy and public finances due to domestic factors

Moody's Investors Service considered that the impact on Lebanon of an extended period of low oil prices would be mixed. It projected Lebanon's real GDP growth to accelerate from 1.8% in 2015 to 2.5% in 2016 and 3% in 2017, relative to an average growth rate of 2.7% in 2016 and 3.6% in 2017 for the five oil-importing economies in the Middle East & North Africa (MENA) that the agency rates. The agency attributed the subdued level of economic activity in Lebanon this year to the spillovers of the Syrian conflict and to domestic political tensions, which are more likely to have an adverse impact on tourism revenues and investment activity than low oil prices. It considered that the election of a President could unlock a series of reforms and strengthen confidence and economic activity.

Further, Moody's estimated that Lebanese expatriates in Gulf Cooperation Council (GCC) countries account for more than one third of total remittance inflows to Lebanon and contribute to a significant share of deposits in the banking system. As a result, it noted that remittance inflows support the country's economic activity, while non-resident deposits finance Lebanon's wide current account deficit. However, it considered that the fall in global oil prices and increased geopolitical tensions in the region could negatively affect remittance inflows to Lebanon from GCC countries. It noted that if workers' remittances, grants and foreign investment from GCC countries decelerate, they could mitigate the benefits of lower oil prices on Lebanon. It projected total remittance outflows from GCC countries to decline by about 1.4% to 2% annually, but it noted that remittance inflows to oil-importers in the MENA region have historically been less volatile than oil prices and have usually recovered rapidly.

In addition, Moody's expected Lebanon's current account balance to benefit the most among the five Arab oil-importing economies from the low oil price environment. It projected the country's current account deficit to narrow by about 5.5 percentage points between 2013 and 2016, but that it would remain the widest among rated oil-importers in the region. In parallel, the agency projected Lebanon's fiscal deficit at about 8% to 9% of GDP during the 2016-17 period due to the expanding public-sector wage bill, elevated debt servicing cost, and a low tax base. It noted that the deficit would remain wide despite the decline in Treasury transfers to the state-owned Electricité du Liban from lower hydrocarbon prices. It indicated that the lack of political consensus have blocked key fiscal reforms, including passing budget laws and reforming the electricity and telecommunication sector. It considered that Lebanon's divisive political environment is keeping fiscal pressures elevated.

Finally, Moody's indicated that Lebanon's strong foreign currency buffers, which cover more than 12 months of imports, provide crucial support for the currency's peg to the US dollar, despite sizable fiscal and external imbalances. But it noted that weaker financial transfers from GCC countries and subdued FDI inflows could weigh on the country's balance of payments.



### Lebanon's external debt posts 15th lowest return in emerging markets, fourth lowest in the Middle East & Africa

Figures issued by Merrill Lynch indicate that Lebanon's external debt posted a return of 1.57% in the first quarter of 2016, constituting the 10th lowest return among 40 markets in the Central & Eastern Europe and the Middle East & Africa (CEEMEA) region, as well as the 15th lowest return among 70 emerging markets included in Merrill Lynch's External Debt EM Sovereign Index. Lebanon underperformed the overall emerging markets' return of 4.48% during the covered period. Further, Lebanon's external debt posted the fourth lowest return among 23 countries in the Middle East & Africa region in the covered period, ahead of only Angola (+1.46%), Tunisia (+0.56%) and Bahrain (+0.35%).

In parallel, Lebanon's external debt posted returns of 0.68% in March 2016, constituting the seventh lowest return in the CEEMEA region and the 12th lowest return in emerging markets during the covered month. Lebanon underperformed the emerging markets' return of 2.56% in March 2016. Further, Lebanon's external debt posted the second lowest return in the Middle East & Africa region in March 2016, ahead of Israel (-0.11%). It underperformed Zambia (+11.24%), Iraq (+9.95%), Cameroon (+7.52%), Ghana (+6.28%), the Ivory Coast (+5.22%), Angola (+5.02%), Jordan (+4.28%), Gabon (+3.46%), South Africa (+3.33%), Nigeria (+3.2%), Turkey (+3.02%), Kenya (+2.91%), Egypt (+2.86%), Senegal (+2.81%), Rwanda (+2.34%), Namibia (+2.29%), Bahrain (+1.15%), the UAE (+1.11%), Morocco (+1.1%), Qatar (+1.07%) and Tunisia (+0.7%).

Merrill Lynch indicated that the spread on Lebanese Eurobonds ended March 2016 at 500 basis points compared to 427 basis points at end-March 2015, constituting the 19th widest spread in the CEEMEA region and the 27th widest among emerging markets. It was wider than the emerging markets' overall spread of 334 basis points at the end of March 2016. Lebanon has a weight of 3.1% on Merrill Lynch's External Debt EM Sovereign Index, the fourth largest weight in the CEEMEA universe and the ninth largest among emerging economies. Lebanon accounted for 5.7% of allocations in the CEEMEA region.

### Value of cleared checks up 2%, returned checks down 21% in first two months of 2016

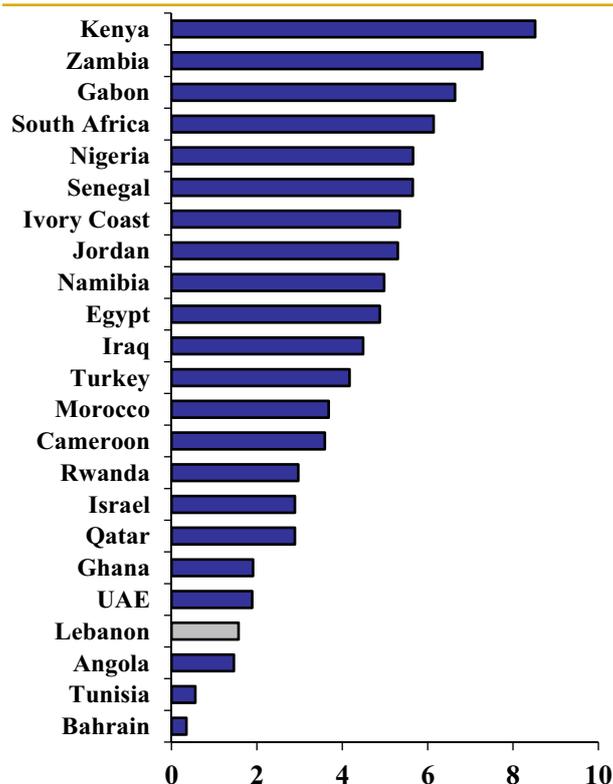
The value of cleared checks reached \$11.3bn in the first two months of 2016, constituting an increase of 2.2% from \$11.1bn in the same period of 2015, and compared to a drop of 7.6% in the first two months of 2015 and a rise of 3.9% in the same period of 2014. The value of cleared checks in Lebanese pounds increased by 14.2% annually to the equivalent of \$3.2bn, while the value of cleared checks in US dollars declined by 1.9% to \$8.1bn in the first two months of 2016. The dollarization rate of cleared checks decreased to 71.3% from 74.3% in the first two months of 2015.

Also, the value of returned checks in domestic and foreign currency dropped by 21.2% year-on-year to \$234m in the first two months of 2016 relative to an increase of 28% in the same period of 2015 and a decrease of 3.3% in the first two months of 2014. In parallel, there were two million cleared checks in the first two months of 2016, up by 1.1% from the same period last year. Also, there were 36,300 returned checks in the covered period, down by 14.2% from 42,300 in the first two months of 2015.

### Coincident Indicator up 3.5% year-on-year in January 2016

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 279.4 points in January 2016 compared to 302.3 in December 2015 and 269.9 in January 2015. The Coincident Indicator, an average of 8 weighted economic indicators, declined by 7.6% month-on-month and increased by 3.5% year-on-year in January 2016. The indicator averaged 279.4 in the 12 months ending January 2016, compared to 278.6 in the 12 months ending December 2015 and 272.3 in the 12 months ending January 2015. As a result, the average coincident indicator increased by 0.3% month-on-month and by 2.6% year-on-year. In parallel, the indicator improved 11 times and regressed 12 times on a monthly basis in the month of January since 1994. It averaged 249.5 in 2010, 255.7 in 2011, 256.6 points in 2012, 264.7 points in 2013, 273.2 points in 2014 and 278.6 in 2015.

External Debt Performance in the Middle East & Africa in First Quarter of 2016 (%)



Source: Merrill Lynch, Byblos Research

### Tourist spending in Lebanon down 12% annually in first quarter of 2016

Figures issued by Global Blue, the VAT refund operator for international shoppers, show that total spending by tourists in Lebanon decreased by 12% year-on-year in the first quarter of 2016. Visitors from the UAE accounted for 15% of total tourist expenditures in the covered quarter, followed by visitors from Saudi Arabia with 14%, Egypt with 7%, Kuwait and France with 6% each, Syria and Jordan with 5% each, Qatar and Nigeria with 4% each, and Iraq and the United States with 3% each. Visitors from other countries accounted for the remaining 30%. Spending by visitors from Syria increased by 11% year-on-year in the first quarter of 2016, followed by those from Jordan (+6%) and France (+3%). In contrast, spending by visitors from Iraq contracted by 27% year-on-year, followed by those from Saudi Arabia (-23%), the United States (-22%), Kuwait (-16%), Egypt (-12%), the UAE (-10%), and Qatar and Nigeria (-3% each).

In parallel, Beirut attracted 79% of total spending in the first quarter of the year, followed by the Metn area with 15%, the Baabda district with 3% and the Keserwan region with 2%. Fashion & clothing accounted for 70% of total expenditures in the first quarter of 2016, followed by watches & jewelry with 17%, home & garden products with 4%, spending at department stores with 3%, and souvenirs & gifts and consumer electronics & household appliances with 1% each. Expenditures on souvenirs & gifts regressed by 33% from the first quarter of 2015, followed by spending on consumer electronics & household appliances (-25%), fashion & clothing (-13%), spending at department stores (-10%), on home & garden products (-6%) and on watches & jewelry (-3%).

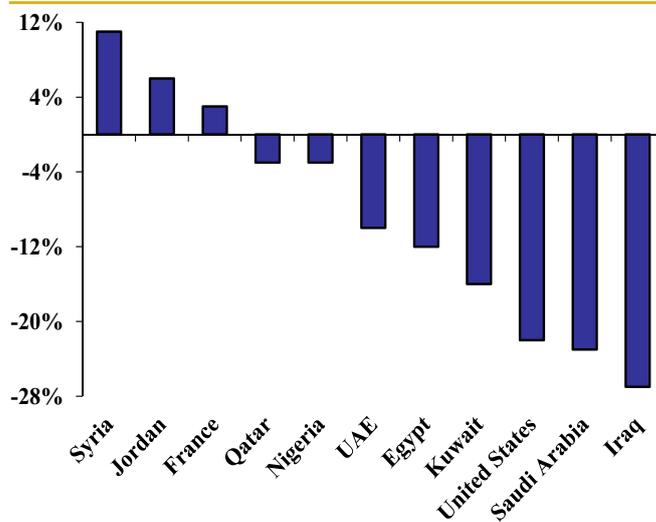
Also, the total number of refund transactions by visitors decreased by 9% in the first quarter of 2016 from the same quarter last year. The total number of refund transactions by visitors from the United States increased by 13% year-on-year in the first quarter of 2016, followed by those from Jordan (+11%), Syria (+7%) and France (+1%). In contrast, the number of refund transactions by visitors from Saudi Arabia decreased by 24% from the first quarter of 2015, followed by those from Kuwait (-19%), Iraq (-13%), Nigeria (-11%), Egypt (-5%), Qatar (-3%) and the UAE (-2%).

### Industrial exports down 6% to \$3bn in 2015

Figures released by the Ministry of Industry show that industrial exports totaled \$3bn in 2015, constituting a decrease of 6.2% from \$3.15bn in 2014. Industrial exports reached \$727.2m in the first quarter, \$812.9m in the second quarter, \$709.4m in the third quarter and \$706.3m in the fourth quarter of 2015. Also, industrial exports totaled \$231.1m in December 2015, up by 5.1% from \$219.9m in the preceding month and down by 11.1% from \$260.1m in December 2014. Exports of machinery & mechanical appliances totaled \$685.7m and accounted for 23.2% of aggregate industrial exports in 2015, followed by chemical products with \$544.5m (18.4%), prepared foodstuffs with \$497.2m (16.8%), base metals with \$318.4m (10.8%), and pearls, precious or semi-precious stones with \$182m (6.2%). Arab countries were the destination of 56.6% of Lebanese industrial exports during 2015, followed by European economies with 14.5%, African countries with 12.7%, Asian economies with 10.6%, countries in the Americas with 4.4% and countries in Oceania with 0.5%. On a country basis, Saudi Arabia was the main destination of Lebanese industrial exports and accounted for 13.4% of the total in 2015, followed by the UAE with 10.6%, Iraq with 9.1%, Syria with 6.7% and Jordan with 3.5%. In the fourth quarter of 2015, 21 African countries, 17 Arab states, 16 European economies, nine 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 44 European economies, 42 African countries, 30 countries in the Americas, 29 Asian countries, 19 Arab economies and seven markets in Oceania during the fourth quarter of 2015.

In parallel, industrial imports reached \$243.4m in 2015, down by 9.5% from \$269.1m in 2014. Italy was the main source of such imports and accounted for 21.4% of the total in 2015, followed by China with 20.8% and Germany with 18.4%. Further, imports of industrial equipment and machinery reached \$18.7m in December 2015, decreasing by 9.6% from the same month of 2014. China was the main source of imports of industrial equipment in December and accounted for 26% of the total, followed by Italy with 22.1% and Germany with 14.8%.

**Total Spending by Visitors in First Quarter of 2016  
(% change from first quarter of 2015)**



Source: Global Blue, Byblos Research

### Commercial banks' assets reach \$187bn at the end of February 2016

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$186.6bn at the end of February 2016, constituting an increase of 0.3% from the end of 2015 and a rise of 5.7% from end-February 2015. Loans extended to the private sector reached \$54.6bn at the end of February 2016, reflecting a growth of 0.6% from the end of 2015 and an increase of 7.8% from end-February 2015. Loans to the resident private sector totaled \$48.2bn and grew by 0.3% from the end of 2015 and by 6.2% year-on-year; while credit to the non-resident private sector reached \$6.4bn, and expanded by 2.9% from end-2015 and by 21.7% from end-February 2015. In nominal terms, credit to the private sector rose by \$333m in the first two months of 2016 relative to a contraction of \$301.2m in the first two months of 2015. Lending to the resident private sector grew by \$156m in the first two months of 2016 relative to an increase of \$4.6m in the same period of 2015, while credit to the non-resident private sector expanded by \$177.1m in the first two months of 2016 compared to a decrease of \$306.5m in the same period of 2015. In addition, claims on non-resident banks reached \$10.6bn at the end of February 2016, down by 7.9% from the end of 2015 and by 8.6% from a year earlier. In parallel, claims on the public sector stood at \$38.3bn at the end of February, up by 1.3% from end-2015 and down by 1% from end-February 2015. The dollarization rate in private sector lending regressed to 74.8% at the end of February 2016 from 75.2% a year earlier. Further, the average lending rate in Lebanese pounds was 8.18% in February 2016, while the same average in US dollars stood at 7.31%.

In parallel, private sector deposits totaled \$151.4bn at the end of February 2016, nearly unchanged from the end of 2015, and rose by 4.6% from end-February 2016. Deposits in Lebanese pounds reached \$53.5bn, growing by 0.4% from end-2015 and by 6.8% from a year earlier; while deposits in foreign currency totaled \$98bn, constituting a decline of 0.4% from the end of 2015 and an increase by 3.5% from end-February 2015. Aggregate non-resident deposits reached \$31.7bn at the end of February and declined by 0.5% from end-2015, while they grew by 4.3% from a year earlier. In nominal terms, total private sector deposits regressed by \$88.9m in January and by \$80.9m in February 2016. In comparison, they declined by \$274m in January and increased by \$577.8m in February 2015. As such, total private sector deposits dropped by \$169.8m in the first two months of 2016 compared to an increase of \$303.8m in the same period of 2015. Resident private sector deposits regressed by \$13.9m in the first two months of 2016 relative to an increase of \$203.6m in the same period of 2015; while non-resident deposits regressed by \$155.9m in the first two months of this year compared to a rise of \$100.2m in the first two months of 2015. Further, deposits of non-resident banks reached \$6.6bn at the end of February 2016, and increased by 0.3% from end-2015 and by 9.1% from a year earlier.

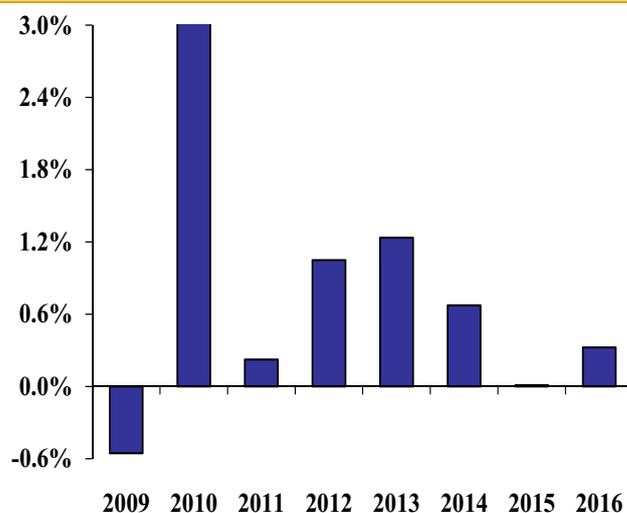
The dollarization rate of deposits reached 64.7% at the end of February 2016, down from 65.4% a year earlier. Further, the average deposit rate in Lebanese pounds was 5.57% in February 2016, while the same rate in US dollars was 3.22%. In addition, the ratio of private sector loans-to-deposits in foreign currency stood at 41.6%, well below the Central Bank's limit of 70% and compared to 40.2% a year earlier. In comparison, the same ratio in Lebanese pounds was 25.8% at end-February 2016, up from 25.1% at the end of February 2015. The ratio of total private sector loans-to-deposits was 36% relative to 35% a year earlier. The banks' aggregate capital base stood at \$16.7bn, nearly unchanged from end-2015, and constituting an increase of 6% from \$15.7bn at end-February 2015.

### Central Bank bans prepaid cards

The Central Bank of Lebanon issued Intermediate Circular 415 on March 24, 2016, which amends Basic Circular 63 dated June 10, 1999, about ATMs and credit and charge cards. The circular prohibited banks and institutions that issue credit and charge cards from issuing and promoting prepaid cards. It indicated that banks and institutions that have issued prepaid cards prior to March 24, 2016 can no longer refill these cards. It added that banks and institutions have until the end of September 2016 to regularize their positions regarding these cards.

The ban of prepaid cards is due, in part, to the fact that it is not possible to identify the end user of these cards. Also, the decision will affect Syrian refugees who receive food and aid allowances through prepaid cards. In October 2013, the World Food Program (WFP) started providing eligible Syrian refugees with MasterCard prepaid cards that are filled at the beginning of each month with \$27 each and that can be used in about 400 shops across the country. The WFP indicated that around 600,000 Syrian refugees currently receive aid through such cards. Also, the Central Bank's decision to ban prepaid cards would affect corporates that pay their employees through prepaid cards and that are issued in collaboration with local banks.

### Resident Private Sector Lending Growth\* (% Change)



\* in the first two months of each year

Source: Association of Banks in Lebanon, Byblos Research

### **Kafalat loan guarantees up 24% to \$24.3m in first quarter of 2016**

Figures released by the Kafalat Corporation show that loans extended to small- and medium-size companies under the guarantee of Kafalat reached \$24.3m in the first quarter of 2016, constituting an increase of 24.3% from \$19.6m in the same quarter of 2015. Kafalat provided 172 loan guarantees in the covered quarter, up by 20.3% from 143 guarantees in the first quarter of 2015. The average loan size reached \$141,301 compared to \$136,739 in the first quarter of 2015. Mount Lebanon accounted for 37.8% of the total number of guarantees, followed by the Bekaa with 27.9%, the North with 12.2%, the South with 9.3%, Nabatieh with 7.6% and Beirut with 5.2%. Also, the agricultural sector accounted for 48.3% of the total number of guarantees in the first quarter of 2016, followed by the industrial sector with 30.2%, tourism with 15.7%, specialized technologies with 4.1% and handicraft with 1.7%. Kafalat is a state-sponsored organization that provides financial guarantees for loans of up to \$400,000 earmarked for the setup and expansion of small- and medium-size companies in productive sectors. It guarantees up to 75% of the loan amount and a similar percentage of the interest that accrues during the grace period. It also guarantees up to 90% of the loan amount for innovative start-ups and a similar percentage of the interest that accrues during the grace period.

### **Moody's affirms Allianz ratings, outlook 'stable'**

Moody's Investors Service affirmed Germany-based insurance group Allianz SE's Insurer Financial Strength (IFS) rating and debt ratings at 'Aa3', with a 'stable' outlook on the ratings. The group fully owns Allianz-SNA, one of Lebanon's largest insurance firms.

The agency attributed its decision to the group's very strong franchise and business diversification, despite headwinds from high guarantees in a prolonged low interest rate environment. It expected Allianz to maintain very good capitalization and operating profitability, with continued very strong financial flexibility, even though the low interest rate environment would constrain the profitability of the group's life insurance business. It added that Allianz has high concentration risks related to Italy, which has some negative impact on the group's overall credit profile. However, Moody's noted that the group's very strong geographic and business diversification helps offset the interest rate-related pressures on the German life insurance business. It added that Allianz generated 48% of its operating profits in 2015 from the non-life segment, 32% from the life & health segments and 20% from asset management.

*Al-Bayan* magazine's annual survey of the insurance sector in Lebanon ranked Allianz SNA in third and sixth place in 2015 in terms of life and non-life premiums, respectively. The firm's life premiums amounted to \$63.4m at the end of 2015, constituting a rise of 9% from a year earlier; while its non-life premiums increased by 4.4% year-on-year to \$60.5m. It had a 13.5% share of the local life market and a 5.7% share of the non-life market.

### **BBAC's net earnings at \$44.5m in 2015**

BBAC Bank sal, one of Lebanon's top 10 banks, announced unaudited consolidated net profits of \$44.5m in 2015, nearly unchanged from 2014. Net operating income increased by 3.8% to \$126.9m in 2015, with net interest income increasing by 2.6% to \$85.3m and net fees & commissions receipts rising by 12.1% to \$24.8m. Non-interest income accounted for 35.5% of total income, up from 31.5% a year earlier; with net fees & commissions representing 52.9% of non-interest earnings, down from 57.8% in 2014. Further, the bank's interest margin was 1.53% in 2015 compared to 1.62% a year earlier; while its spread reached 1.48% relative to 1.57% in 2014. Total operating expenditures increased by 4.8% to \$71.5m, with staff expenses decreasing by 1.9% to \$40.2m. Also, the bank's return on average assets was 0.77% in 2015 relative to 0.84% in 2014, while its return on average equity decreased to 9.62% on an annualized basis from 10.35% in 2014. The bank's cost-to-income ratio was 54.1% in 2015, down from 56.2% in 2014.

In parallel, total assets reached \$6.1bn at the end of 2015, constituting an increase of 11.5% from a year earlier. Loans & advances to customers, excluding those to related parties, grew by 11.5% from end-2014 to \$1.6bn. Also, customer deposits, excluding those from related parties, totaled \$5.2bn at end-2015 and increased by 12% from end-2014. The loans-to-deposits ratio was 30.7% at end-2015 relative to 31% a year earlier. In parallel, the bank's total shareholders' equity rose by 7.2% from end-2014 to \$478.3m at the end of 2015.

### **Bank Audi's dividend payout ratio at 45.3% for 2015**

Bank Audi sal, one of Lebanon's listed banks, announced that its Ordinary General Assembly held on April 8, 2016 approved the distribution of dividends for 2015. The bank will distribute gross dividends of \$182.8m to the holders of common shares and preferred shares, equivalent to a total dividend payout ratio of 45.3%. This compares to a total dividend payout ratio of 54.4% for 2013 and 54.3% for 2014. The bearers of common shares will receive a gross amount of \$159.9m, equivalent to LBP603 (\$0.4) per share. Also, the bank will pay a gross dividend of \$6 per share to each of the holders of Preferred Shares Series F and Preferred Shares Series G; while it will disburse \$6.5 per share to the holders of Preferred Shares Series H. The dividends on preferred and common shares will be paid starting April 14, 2016 net of a 5% withholding tax. The bank posted audited consolidated net profits of \$403.1m in 2015.

## Ratio Highlights

(in % unless specified)	2013	2014	2015	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	18.8	(322)
Fiscal Expenditures / GDP	28.9	28.3	26.6	(167)
Fiscal Balance / GDP	(8.9)	(6.2)	(7.8)	(154)
Primary Balance / GDP	(0.5)	2.6	1.4	(122)
Gross Foreign Currency Reserves / M2	69.5	66.5	58.7	(780)
M3 / GDP	235.4	238.4	243.0	462
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



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**Economic Research & Analysis Department**  
**Byblos Bank Group**  
**P.O. Box 11-5605**  
**Beirut – Lebanon**  
**Tel: (961) 1 338 100**  
**Fax: (961) 1 217 774**  
**E-mail: [research@byblosbank.com.lb](mailto:research@byblosbank.com.lb)**  
**[www.byblosbank.com](http://www.byblosbank.com)**

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# BYBLOS BANK GROUP

## LEBANON

---

Byblos Bank S.A.L  
Achrafieh - Beirut  
Elias Sarkis Avenue - Byblos Bank Tower  
P.O.Box: 11-5605 Riad El Solh - Beirut 1107 2811- Lebanon  
Phone: (+ 961) 1 335200  
Fax: (+ 961) 1 339436

## SYRIA

---

Byblos Bank Syria S.A.  
Damascus Head Office  
Al Chaalan - Amine Loutfi Hafez Street  
P.O.Box: 5424 Damascus - Syria  
Phone: (+ 963) 11 9292 - 3348240/1/2/3/4  
Fax: (+ 963) 11 3348205  
E-mail: byblosbanksyria@byblosbank.com

## IRAQ

---

Erbil Branch, Kurdistan, Iraq  
Street 60, Near Sports Stadium  
P.O.Box: 34 - 0383 Erbil - Iraq  
Phone: (+ 964) 66 2233457/8/9 - 2560017/9  
E-mail: erbilbranch@byblosbank.com.lb

Baghdad Branch, Iraq  
Al Karrada - Salman Faeq Street  
Al Wahda District, No. 904/14, Facing Al Shuruk Building  
P.O.Box: 3085 Badalat Al Olwiya - Iraq  
Phone: (+ 964) 770 6527807 / (+ 964) 780 9133031/2  
E-mail: baghdadbranch@byblosbank.com.lb

Basra Branch, Iraq  
Intersection of July 14th, Manawi Basha Street, Al Basra - Iraq  
Phone: (+ 964) 770 4931900 / (+ 964) 770 4931919  
E-mail: basrabranch@byblosbank.com.lb

## UNITED ARAB EMIRATES

---

Byblos Bank Abu Dhabi Representative Office  
Intersection of Muroor and Electra Streets  
P.O.Box: 73893 Abu Dhabi - UAE  
Phone: (+ 971) 2 6336050 - 2 6336400  
Fax: (+ 971) 2 6338400  
E-mail: abudhabirepoffice@byblosbank.com.lb

## ARMENIA

---

Byblos Bank Armenia CJSC  
18/3 Amiryan Street - Area 0002  
Yerevan - Republic of Armenia  
Phone: (+ 374) 10 530362  
Fax: (+ 374) 10 535296  
E-mail: infoarm@byblosbank.com

## CYPRUS

---

Limassol Branch  
1, Archbishop Kyprianou Street, Loucaides Building  
P.O.Box 50218  
3602 Limassol - Cyprus  
Phone: (+ 357) 25 341433/4/5  
Fax: (+ 357) 25 367139  
E-mail: byblosbankcyprus@byblosbank.com.lb

## BELGIUM

---

Byblos Bank Europe S.A.  
Brussels Head Office  
Rue Montoyer 10  
Bte. 3, 1000 Brussels - Belgium  
Phone: (+ 32) 2 551 00 20  
Fax: (+ 32) 2 513 05 26  
E-mail: byblos.europe@byblosbankeur.com

## UNITED KINGDOM

---

Byblos Bank Europe S.A., London Branch  
Berkeley Square House  
Berkeley Square  
GB - London W1J 6BS - United Kingdom  
Phone: (+ 44) 20 7518 8100  
Fax: (+ 44) 20 7518 8129  
E-mail: byblos.london@byblosbankeur.com

## FRANCE

---

Byblos Bank Europe S.A., Paris Branch  
15 Rue Lord Byron  
F- 75008 Paris - France  
Phone: (+33) 1 45 63 10 01  
Fax: (+33) 1 45 61 15 77  
E-mail: byblos.europe@byblosbankeur.com

## SUDAN

---

Byblos Bank Africa  
Khartoum Head Office  
Intersection of Mac Nimer and Baladiyya Streets  
P.O.Box: 8121 - Khartoum - Sudan  
Phone: (+ 249) 1 56 552 222  
Fax: (+ 249) 1 56 552 220  
E-mail: byblosbankafrica@byblosbank.com

## NIGERIA

---

Byblos Bank Nigeria Representative Office  
161C Rafu Taylor Close - Off Idejo Street  
Victoria Island, Lagos - Nigeria  
Phone: (+ 234) 706 112 5800  
(+ 234) 808 839 9122  
E-mail: nigeriarepresentativeoffice@byblosbank.com.lb

## DEMOCRATIC REPUBLIC OF CONGO

---

Byblos Bank RDC S.A.R.L  
Avenue du Marché No. 4  
Kinshasa-Gombe, Democratic Republic of Congo  
Phone: (+ 243) 81 7070701  
(+ 243) 99 1009001  
E-mail: byblosbankrdc@byblosbank.com

## ADIR INSURANCE

---

Dora Highway - Aya Commercial Center  
P.O.Box: 90-1446  
Jdeidet El Metn - 1202 2119 Lebanon  
Phone: (+ 961) 1 256290  
Fax: (+ 961) 1 256293