

LEBANON THIS WEEK

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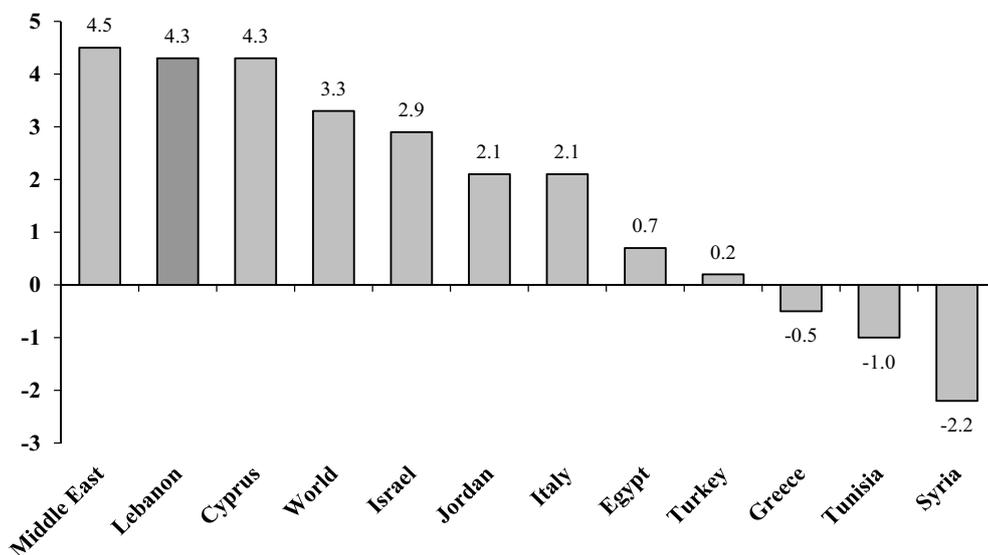
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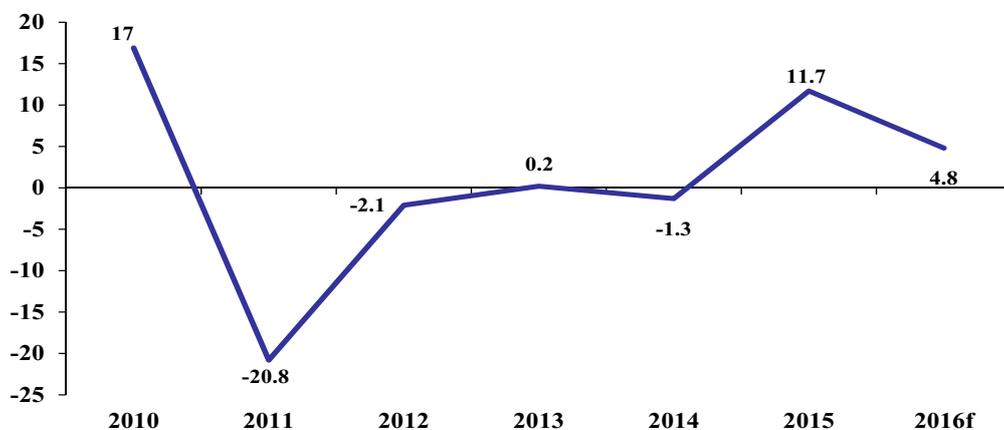
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Charts of the Week

Projected Travel & Tourism's Direct Contribution to GDP in 2016 (% real growth)



Travel & Tourism's Direct Contribution to GDP in Lebanon (% real growth)



Source: World Travel & Tourism Council, Byblos Bank

Quote to Note

"Infrastructure bottlenecks in energy, water, transportation, and telecommunications are limiting Lebanon's competitiveness and growth potential."

The Institute of International Finance, on the urgent need for structural reforms to upgrade Lebanon's infrastructure

Number of the Week

47%: Percentage of young Lebanese who do not think that there are good job opportunities in Lebanon, according to the 2016 ASDA'A Burson-Marsteller Arab Youth Survey

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 |
|---------------------------|-----------------|-----------|--------------|---------------------------------|
| Byblos Common | 1.69 | (0.59) | 239,446 | 5.40% |
| Solidere "A" | 10.00 | 0.20 | 178,539 | 8.89% |
| BLOM Listed | 10.61 | 3.01 | 120,925 | 20.28% |
| Audi Listed | 5.85 | (6.40) | 90,654 | 20.79% |
| Solidere "B" | 9.90 | (1.00) | 85,221 | 5.72% |
| Audi GDR | 5.81 | (3.17) | 72,561 | 5.94% |
| BLOM GDR | 10.94 | 1.30 | 52,471 | 7.19% |
| HOLCIM | 14.25 | (0.77) | 6,264 | 2.47% |
| Byblos Pref. 09 | 103.10 | 1.68 | 2,055 | 1.83% |
| Byblos Pref. 08 | 102.50 | 0.00 | 1,567 | 1.82% |

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

| Sovereign Eurobonds | Coupon % | Mid Price \$ | Mid Yield % |
|---------------------|----------|--------------|-------------|
| Mar 2017 | 9.00 | 103.70 | 4.83 |
| Nov 2018 | 5.15 | 100.13 | 5.10 |
| May 2019 | 6.00 | 101.00 | 5.64 |
| Mar 2020 | 6.38 | 101.50 | 5.94 |
| Apr 2021 | 8.25 | 109.13 | 6.10 |
| Oct 2022 | 6.10 | 98.88 | 6.32 |
| Jun 2025 | 6.25 | 97.50 | 6.62 |
| Nov 2026 | 6.60 | 98.75 | 6.77 |
| Feb 2030 | 6.65 | 97.75 | 6.90 |
| Nov 2035 | 7.05 | 99.88 | 7.06 |

Source: Byblos Bank Capital Markets

| | April 11-15 | April 5-8 | % Change | March 2016 | March 2015 | % Change |
|------------------------------|-------------|-------------|----------|---------------|--------------|----------|
| Total Shares Traded | 894,528 | 325,462 | 174.85 | 24,416,630 | 10,015,512 | 143.79 |
| Total Value Traded | \$8,383,809 | \$2,767,934 | 202.89 | \$222,416,319 | \$74,663,509 | 197.89 |
| Market Capitalization | \$11.25bn | \$11.37bn | (1.06) | \$11.34bn | \$11.94bn | (5.06) |

Source: Beirut Stock Exchange (BSE)



Expatriates' remittances to Lebanon revised downwards to \$7.2bn in 2015, 11th highest among developing economies

The World Bank revised downward its estimate of expatriates' remittance inflows to Lebanon to \$7.16bn in 2015 from an estimate of \$7.5bn in October 2015. Also, it reduced its figure for remittance inflows to Lebanon to \$7.4bn in 2014 from \$7.45bn earlier, while it revised upwards its estimate for such inflows to \$8.08bn in 2013 from \$7.86bn previously. In addition, it lowered its figures for remittance flows to the country to \$6.67bn in 2012 from an earlier estimate of \$6.73bn.

As a result, remittance inflows to Lebanon decreased by 3.3% in 2015, following a drop of 8.4% in 2014 and an increase of 21.2% in 2013. Lebanon posted the second steepest contraction among the 15 largest recipients of remittances in developing economies in 2015, behind only Morocco (-7.3%). In comparison, remittance inflows to developing countries grew by a marginal 0.4%, and those to upper middle-income countries (UMICs) improved by 0.3%, while inflows to Arab countries regressed by 0.9% in 2015.

Further, Lebanon was the 16th largest recipient of remittances in the world and the 11th largest among developing economies in 2015. Also, it was the second largest recipient of remittances among 16 Arab countries and the third largest among 49 UMICs.

Globally, Lebanon received more remittances than Russia (\$7.1bn), the United States (\$7.09bn) and Sri Lanka (\$7bn), and less than Indonesia (\$9.63bn), Italy (\$9.58bn) and Belgium (\$8.84bn). It was a larger recipient of remittances than Sri Lanka, Nepal (\$6.98bn) and Guatemala (\$6.61bn), and a smaller recipient than Bangladesh (\$15.36bn), Vietnam (\$13.2bn) and Indonesia among developing economies. Also, remittance inflows to Lebanon were lower than inflows to Egypt (\$19.71bn) among Arab countries, and less than flows to China (\$63.94bn) and Mexico (\$24.79bn) among UMICs.

Remittance inflows to Lebanon accounted for 1.2% of the global flow of remittances in 2015, compared to 1.3% in 2014 and 1.4% in 2013. They represented 1.7% of aggregate remittances to developing economies in 2015, unchanged from the preceding year and down from 1.9% in 2013; while they accounted for 14.2% of remittance inflows to Arab countries in 2015 relative to 14.6% in 2014 and 16.5% in 2013. Further, they represented 4.7% of remittance flows to UMICs in 2015, down from 4.9% in 2014 and 5.5% in 2013.

Further, expatriates' remittances to Lebanon were equivalent to 14% of GDP in 2015, the 19th highest such ratio in the world. The flow of expatriates' remittances to Lebanon relative to the size of its economy becomes the seventh highest globally among economies with a GDP of \$10bn or more. Also, the inflows were the second largest among Arab economies, behind only the West Bank & Gaza (17% of GDP). Expatriates' remittances to Lebanon were equivalent to 14.8% of GDP in 2014 and 17% of GDP in 2013. The World Bank estimated remittance inflows to Arab countries at \$50.3bn in 2015, equivalent to 2.4% of the region's GDP.

In parallel, the World Bank estimated that Saudi Arabia was the source of 20.2% of remittance inflows to Lebanon, in 2015, followed by the United States (16%), Australia (11.8%), Germany (10.9%), Canada (10.7%), France (5.7%), the UAE (3.2%), Sweden (3.1%), the United Kingdom (2.1%) and Denmark (1.6%). As such, the 10 countries were the source of 85.6% of remittance inflows to Lebanon last year.

Revenues through the Port of Beirut up 15% to \$39m in the first two months of 2016

Figures released by the Port of Beirut show that the port's overall revenues were \$38.9m in the first two months of 2016, constituting an increase of 15% from \$33.8m in the same period of 2015. The Port of Beirut handled an aggregate freight of 1.3 million tons in the first two months of 2016, up by 17.4% from 1.1 million tons in the same period in 2015. Imported freight amounted to 1.2 million tons in the covered period and accounted for 89.4% of the aggregate freight, while the remaining 142,000 tons, or 10.6%, consisted of export cargo. A total of 313 ships docked at the port in the covered period compared to 263 vessels in the first two months of 2015.

In parallel, revenues generated through the Port of Tripoli reached \$3m in the first two months of 2016, constituting a rise of 46.2% from \$2m in the same period of 2015. The Port of Tripoli handled an aggregate weight of 378,392 tons of freight in the covered period, representing an increase of 77% from 213,780 tons in the same period of 2015. Imported freight amounted to 263,781 tons and accounted for 69.7% of the total, while the remaining 114,611 tons, or 30.3% of the total, were export cargo. A total of 131 vessels docked at the port in the first two months of 2016, constituting a rise of 67.9% from 78 ships in the same period of 2015.

Top 15 Recipients of Remittance Inflows in Developing Economies in 2015

| Country | US\$bn | Growth | |
|----------------|--------------|--------------|--------------|
| | | Rate | % of GDP |
| India | 68,910 | -2.1% | 3.3% |
| China | 63,938 | 2.6% | 0.6% |
| Philippines | 28,483 | 4.4% | 9.8% |
| Mexico | 24,792 | 1.3% | 2.2% |
| Nigeria | 20,658 | -0.8% | 4.2% |
| Egypt | 19,710 | 0.7% | 6.0% |
| Pakistan | 19,255 | 12.8% | 7.1% |
| Bangladesh | 15,359 | 2.5% | 7.5% |
| Vietnam | 13,200 | 10.0% | 6.9% |
| Indonesia | 9,631 | 12.6% | 1.1% |
| Lebanon | 7,163 | -3.3% | 14.0% |
| Sri Lanka | 6,999 | -0.5% | 8.5% |
| Nepal | 6,976 | 21.0% | 32.7% |
| Guatemala | 6,608 | 13.2% | 10.3% |
| Morocco | 6,418 | -7.3% | 6.2% |

Source: World Bank, IMF, Byblos Research

Lebanon ranks 123rd globally, 14th in MENA region in country risk

In its quarterly survey of the country risk level in 186 countries, the Euromoney Group ranked Lebanon in 123rd place worldwide and in 14th place among 22 countries in the Middle East & North Africa (MENA) region in the first quarter of 2016. Also, Lebanon came in 38th place among 50 upper middle-income countries (UMICs) included in the survey. Lebanon's global rank regressed by one spot from 122nd place in the fourth quarter of 2015 and by three spots from 120th place in the first quarter of 2015. Lebanon's regional rank has not changed since the fourth quarter of 2013. The survey evaluates individual country risk by assigning a weighting to six categories that cover Political Risks, Economic Performance, Access to Bank Finance & Capital Markets, Debt Indicators, Credit Ratings, and Structural Assessments.

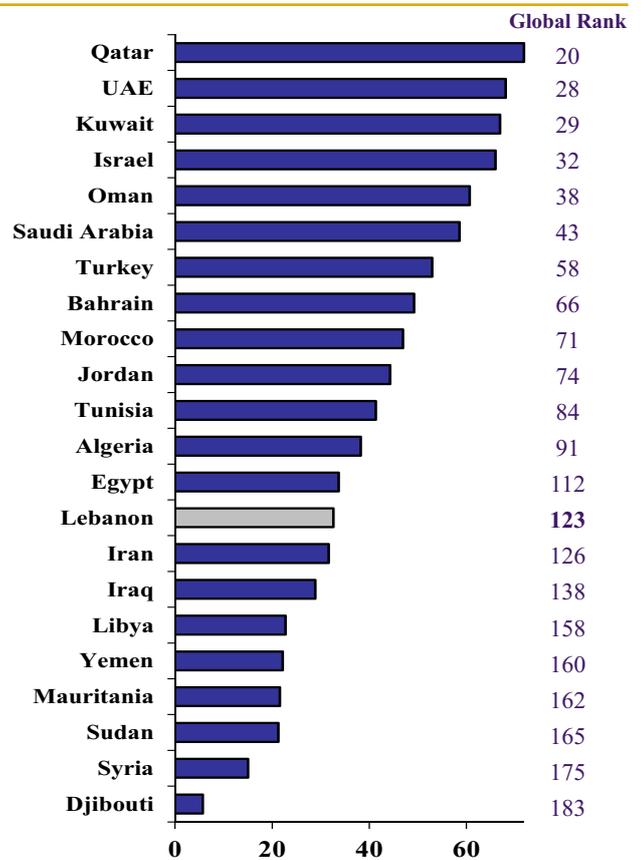
Globally, Lebanon had a lower country risk level than Iran, Papua New Guinea and Bangladesh, and a higher risk level than Greece, Jamaica and Mozambique among economies with a GDP of \$10bn or more. It also ranked ahead of Iran and behind Jamaica among UMICs. Lebanon's global rank regressed by one spot quarter-on-quarter on each of the Credit Ratings and Political Risks categories, while it improved by one spot on the Economic Performance category. In contrast, Lebanon's rank was unchanged from the preceding quarter on the Debt Indicators category, the Structural Assessments factor and the Access to Bank Finance & Capital Markets category.

In parallel, Lebanon received a score of 32.6 points, almost unchanged from 32.52 points in the fourth quarter of 2015 and constituting a marginal decrease of 0.3% from 32.7 points in the first quarter of 2015. Lebanon's score came below the global average score of 42.8 points, the UMICs' average of 39.7 points and the MENA average of 40.9 points. Also, its score came below the Arab average of 39.5 points and the Gulf Cooperation Council (GCC) countries' average score of 62.6 points, but was above the average score of non-GCC Arab countries of 28.8 points.

Lebanon's score increased by 0.6% quarter-on-quarter on the Political Risks category. Its score on the Economic Performance, Structural Assessments, Debt Indicators, Credit Ratings and Access to Bank Finance & Capital Market categories was unchanged from the fourth quarter of 2015.

Lebanon ranked ahead of Cameroon and behind Guatemala globally, while it came ahead of Mauritania and behind Algeria regionally on the Political Risks category. Also, it ranked ahead of Angola and behind Myanmar worldwide, and came ahead of Libya and behind Iraq regionally in terms of Economic Performance. Further, Lebanon came ahead of Morocco and behind Panama globally, and ranked ahead of Morocco and behind Bahrain regionally on the Structural Assessment category. Finally, Lebanon ranked ahead of Cambodia and behind Albania globally, and came ahead of Iraq and behind Jordan regionally on the Debt Indicators category.

MENA Countries Rankings & Scores in First Quarter of 2016



Source: Euromoney, Byblos Research

Country Risk Indicators for Lebanon - First Quarter 2016

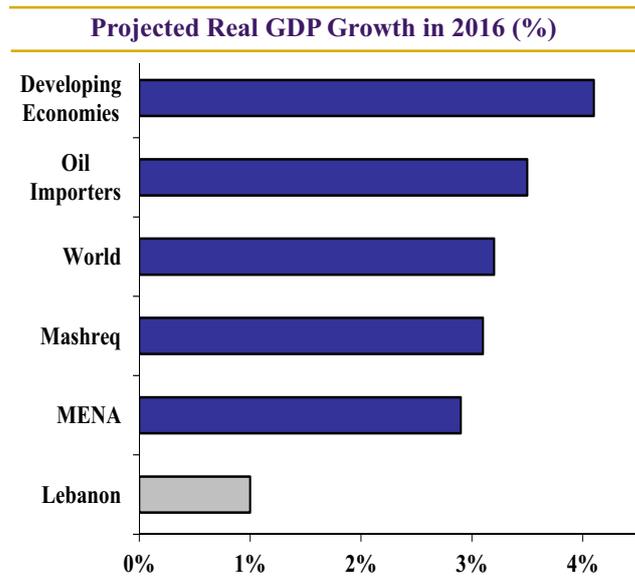
| | Weighting (%) | Score | MENA Rank | Global Rank | MENA Avg Score | Global Avg Score |
|---|---------------|-------|-----------|-------------|----------------|------------------|
| Political Risk | 30 | 10.32 | 14 | 131 | 12.16 | 13.74 |
| Economic Performance | 30 | 12.41 | 14 | 114 | 13.34 | 13.38 |
| Structural Assessments | 10 | 5.09 | 9 | 66 | 4.35 | 4.03 |
| Debt Indicators | 10 | 2.27 | 16 | 164 | 4.47 | 4.71 |
| Credit Rating | 10 | 1.04 | 12 | 114 | 2.99 | 3.12 |
| Access to Bank Finance & Capital Market | 10 | 1.50 | 15 | 122 | 3.63 | 3.80 |

Source: Euromoney, Byblos Research



IMF projects real GDP growth in Lebanon at 1% in 2016, eighth slowest growth rate in emerging economies

The International Monetary Fund projected Lebanon's real GDP growth at 1% in 2016, down from a forecast of 2.5% in October 2015. In comparison, it forecast real GDP growth rates of 2.9% for the MENA region, of 3.5% for the region's oil-importing economies and of 3.1% for the Mashreq economies; as well as growth rates of 4.1% in emerging & developing economies and of 3.2% for the global economy in 2016. Lebanon's projected growth rate in 2016 would make it the second slowest-growing economy among 18 MENA countries with positive economic growth, faster than only Yemen (0.7%). Lebanon would also be the 11th slowest-growing economy in the world in 2016 and the eighth slowest-growing economy among emerging & developing economies when excluding contracting economies. In parallel, the Fund projected Lebanon's GDP per capita to increase from \$11,237 at the end of 2015 to \$11,484 in 2016. It forecast the average inflation rate in Lebanon at -0.7% in 2016 relative to 5.5% for the MENA region, 5.8% for oil-importing economies and 8.2% for the Mashreq region. Lebanon's projected average inflation rate would be the lowest in the MENA region this year. Lebanon's inflation rate averaged 1.9% in 2014 and -3.7% in 2015.



Source: International Monetary Fund, April 2016

Also, the IMF projected Lebanon's fiscal deficit to narrow from 8.9% of GDP in 2015 to 7.8% of GDP in 2016, with public revenues at 19.5% of GDP this year relative to 19.6% of GDP in 2015, and public spending at 27.3% of GDP in 2016, down from 28.5% of GDP in 2015. Further, it forecast the primary budget surplus to increase from 0.4% of GDP in 2015 to 2.2% of GDP in 2016. But the improvement in the fiscal deficit and the primary balance would not put the public debt on a downward trend, as the Fund expected the public debt level to increase from 139.1% of GDP in 2015 to 142.6% of GDP in 2016.

Further, the Fund projected Lebanon's current account deficit to narrow from 25% of GDP in 2015 to 21.3% of GDP in 2016, compared to deficits of 7.5% of GDP for the MENA region, 4.5% of GDP for oil-importing economies and 7.3% of GDP for the Mashreq countries. Lebanon's current account deficit for 2016 would be the ninth widest globally, while it would be the fourth widest in the MENA region, narrower than the deficits in Libya (-48.7% of GDP), Oman (-25.1%) and Djibouti (-23.4% of GDP).

In parallel, the IMF reduced from 2% to 1% its estimate for Lebanon's real GDP growth rate for 2015. In comparison, it estimated real GDP growth rates at 2.3% for the MENA region, at 3.8% for the region's oil-importing economies and at 3.9% for the Mashreq economies last year. Lebanon's growth rate in 2015 makes it the third slowest-growing economy among 16 MENA countries with positive economic growth, faster than only Kuwait (0.9%) and Tunisia (0.8%). Lebanon was also the 18th slowest-growing economy in the world in 2015 and was the eighth slowest-growing economy among emerging & developing markets when excluding contracting economies.

Lebanon to establish four industrial zones

The Ministry of Industry announced the start of the feasibility studies for the development of four pilot industrial zones in the country and expected the studies to be completed by October 2016. The project, which is funded by the Italian government, aims to assist the Lebanese government to develop industrial zones in Baalbek, Terbol and Qousaya in the Bekaa area, and Jleilyeh in the Chouf district. The project aims to help address business infrastructure problems, attract investment, and facilitate the growth of local small- and medium-sized enterprises (SMEs). India-based Mahindra Group secured the tender for the preparation of a master plan that details the infrastructure and investments needed for each zone. The Italian government granted EUR0.5m to finance the plan and feasibility studies. The United Nations Industrial Development Organization (UNIDO) and the Ministry of Industry launched the project in January 2016.

UNIDO will work in close cooperation with the Ministry of Industry and the Association of Lebanese Industrialists to assist in preparing the studies. The total cost of the project has not yet been determined but the Italian government proposed a soft loan of EUR7m to finance part of the project. The project is part of the new UNIDO Country Program for Lebanon for the 2015-18 period that aims to expand industrial production with a special focus on industrial zone development, energy efficiency for industrial SMEs, and support for food safety practices in the agro-industrial sector.



Finance Ministry announces managers for Eurobond issuance

The Ministry of Finance announced that it mandated Byblos Bank sal, BLOM Bank sal and Deutsche Bank AG as lead managers to arrange the offering of up to \$1bn in a dual-tranche Eurobond under the Lebanese Republic's Global Medium Term Note Program. The proceeds of the issuance will be used to finance a \$600m Eurobond that matures in April 2016 and a \$400m bond that is due in May 2016. The ministry indicated that the first tranche will consist of an eight-year Eurobond that matures in April 2024, with yields expected to range between 6.6% and 6.75%, while the second series will consist of a 15-year Eurobond that matures in April 2031 with yields anticipated to range between 6.95% and 7.1%. It added that the yields on the new Eurobonds are subject to market conditions and investor appetite. The ministry did not disclose the size of each tranche and said that the offer will be closed by April 22, 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. 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. Foreign currency-denominated debt accounted 38.2% of gross public debt at end-February 2016 relative to 39.8% a year earlier.

In November 2015, the Lebanese Republic issued a \$1.6bn triple-tranche Eurobond under the Republic of Lebanon's Global Medium Term Note Program. The first series consisted of a nine-year \$500m Eurobond that matures in November 2024 and that carries an annual coupon rate of 6.25%. The second series was a 13-year \$500m Eurobond that matures in November 2028 and that carries an annual coupon rate of 6.65%, while the third series consisted of a 20-year \$600m Eurobond that matures in November 2035 and that carries an annual coupon rate of 7.05%.

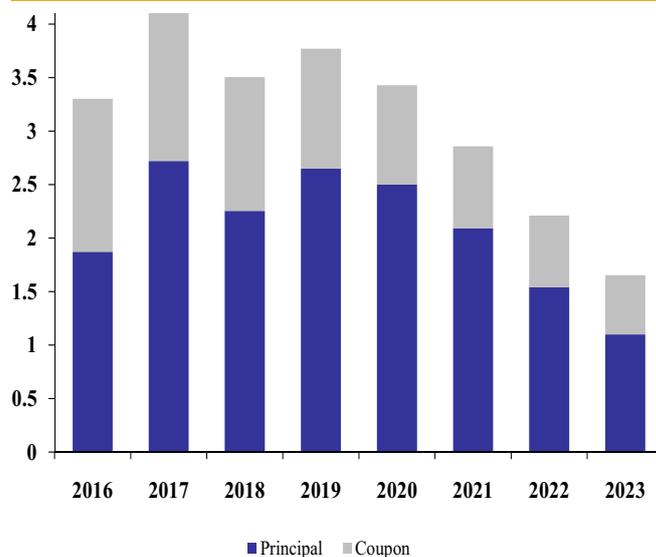
Political deadlock limiting economic activity

The World Bank reduced its estimate for Lebanon's real GDP growth to 1.5% in 2015 from 2% previously, due to a sharp unanticipated decline in economic activity in the third quarter of the year. It noted that tourism activity improved last year, while the Central Bank's \$1bn stimulus package supported lending to the private sector. In contrast, it said that the real estate sector continues to be a drag on the economy. The Bank projected real GDP growth to slightly accelerate to 1.8% in 2016, as it considered that economic conditions would remain subdued as long as the political deadlock persists. It indicated that geopolitical and security conditions would significantly affect Lebanon's medium-term economic prospects. As such, it forecast Lebanon's real GDP to grow by an annual average of 2.5% over the medium term, as long as the Syrian conflict persists and its spillovers to Lebanon remain contained. It considered that the Lebanese economy would reach its growth potential once the Syrian war is resolved in a way that does not compromise Lebanon's structure and stability.

The Bank pointed out that key risks to the Lebanese economy include political risks and the indirect negative impact of sustained low global oil prices. It said that low oil prices have had so far a net positive impact on the Lebanese economy through higher private consumption, a stronger fiscal balance and contained deterioration in the balance of payments. However, it noted that the adverse impact of sustained low oil prices on Gulf Cooperation Council countries would be negative, as it would lower remittance and capital inflows from GCC countries to Lebanon. Further, the Bank said that spillovers from the Syrian conflict continue to be Lebanon's main challenge. It noted that the political paralysis has made the three main branches of government either vacant, idle or ineffective. It added that Lebanese citizens are increasingly bearing the consequences of failed governance through a marked deterioration in government services, such as electricity and water supply, and waste management.

In parallel, the Bank projected Lebanon's fiscal deficit at 7.4% of GDP in 2016, nearly unchanged from 7.3% of GDP in 2015, while it forecast the current account deficit to narrow from 23.2% of GDP in 2015 to 21.3% of GDP in 2016. It noted that the current account deficit narrowed by 3.5 percentage points of GDP in 2015 due to a lower imports bill. But it noted that the decline in capital inflows has offset the narrowing of the deficit and has adversely affected Lebanon's net foreign assets position. As such, it noted that the country's official gross foreign currency reserves fell by 5.4% to \$30.6bn in 2015. Further, it forecast Lebanon's inflation rate to shift from -3.7% in 2015 to 1.5% in 2016. It noted that the deflationary trend last year increased the debt level by 3.1 percentage points of GDP to 148.7% of GDP in 2015.

Redemption Profile of Lebanese Eurobonds (US\$b)

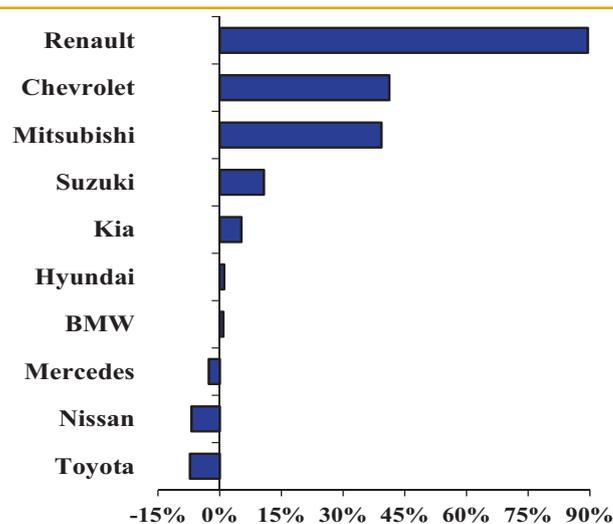


Source: Ministry of Finance, Byblos Research

New car sales up 6% in first quarter of 2016

Figures released by the Association of Automobile Importers in Lebanon (AIA) show that dealers sold 7,990 new passenger cars in the first quarter of 2016, constituting an increase of 5.9% from 7,542 cars sold in the same quarter of 2015. Japanese automobiles accounted for 37.9% of total sales in the first quarter of 2016, followed by Korean cars with a 33.5% share, European automobiles (23%), American vehicles (5.3%) and Chinese cars (0.3%). The sales of new American vehicles increased by 18.5% year-on-year in the covered quarter, sales of European automobiles rose by 11.5%, sales of Korean cars improved by 4.2% and sales of Japanese cars grew by 3.8%; while the number of Chinese cars sold dropped by 49% year-on-year. Kia is the leading brand in the Lebanese market with 1,611 vehicles sold in the first quarter of 2016, followed by Toyota with 1,206 in new car sales, Hyundai (1,051), Nissan (692), Renault (432) and Suzuki (351). In parallel, 600 new commercial vehicles, were sold in the first quarter of 2016, up by 18.6% from 506 vehicles sold in the same quarter of 2015. Overall, car dealers sold 8,590 new passenger automobiles and commercial vehicles in the first quarter of 2016, constituting a rise of 6.7% from 8,048 cars sold in the same period of 2015. The AIA indicated that, even though the sale of new cars increased in the first quarter of 2016, 90% of new cars sold were small-engine automobiles with a low selling price.

Sales of Top 10 Car Brands in first quarter of 2016
(% change*)



* from the same quarter of 2015

Source: AIA, Byblos Research

In parallel, the number of new vehicles sold by Lebanon's top five distributors reached 5,795 in the first quarter of 2016 and accounted for 67.5% of new car sales. NATCO sal sold 1,611 vehicles, equivalent to 18.8% of the total, followed by Boustany United Machineries sal with 1,352 vehicles (15.7%), Century Motor Co. sal with 1,072 (12.5%), Bassoul Heneiné sal with 913 (10.6%) and Rasamny Younis Motor Co. sal with 847 (9.9%).

Top five freight forwarders' import activity up 3% in the first two months of 2016, exports up 41%

Figures released by the Port of Beirut show that overall import shipping operations by the top five freight forwarders through the port reached 49,772 20-foot equivalent units (TEUs) in the first two months of 2016, constituting an increase of 2.7% from 48,461 TEUs in the same period of 2015. The five freight forwarders accounted for 88.1% of imports to the Lebanese market and for 61% of the total import freight forwarding market during the covered period. Mediterranean Shipping Company (MSC) handled 17,181 TEUs in imports in the first two months of 2016, equivalent to a 21.1% share of the total freight forwarding import market. It was followed by Metz Group with 9,888 TEUs (12.1%), Sealine Group with 9,096 TEUs (11.2%), Merit Shipping with 8,404 TEUs (10.3%), and Gezairy Transport with 5,203 TEUs (6.4%). Further, Gezairy Transport registered the highest growth in import shipping among the top five freight forwarders at 55% year-on-year, while Merit Shipping posted the steepest decline at 28%.

In parallel, export shipping operations by the top five freight forwarders through the Port of Beirut reached 12,636 TEUs in the first two months of 2016, constituting an increase of 40.7% from 8,979 TEUs in the same period of 2015. The five freight forwarders accounted for 98.4% of exported Lebanese cargo and for 14.8% of the total export freight forwarding market in the first two months of 2016. Merit Shipping handled 6,246 TEUs of freight in the covered period, equivalent to 48.7% of the Lebanese cargo export market. It was followed by Sealine Group with 2,817 TEUs (21.9%), Metz Group with 2,056 TEUs (16%), MSC with 939 TEUs (7.3%) and Gezairy Transport with 578 TEUs (4.5%). Further, Merit Shipping registered the highest growth in export shipping among the top five freight forwarders at 126.4% year-on-year, while Metz Group posted the only decline at 9.2%.

BLOM Bank's dividend payout ratio at 45% for 2015

BLOM Bank sal announced that its Ordinary General Assembly held on April 14, 2016 approved the distribution of dividends for 2015. The bank will distribute \$181.45m in gross dividends to the holders of common shares, preferred shares and global depository receipts (GDRs), which is equivalent to a payout ratio of 44.8%. The bearers of common shares and GDRs will receive LBP1,250 (\$0.83) per share and the holders of the 2011 Preferred Shares will receive \$0.7 (LBP1,055) per share, net of a 5% withholding tax. Dividends on preferred shares will be paid starting on April 20, those on common shares starting on April 21, and dividends on GDRs starting on May 2, 2016. BLOM Bank posted unaudited consolidated net profits of \$404.7m in 2015.



Foreign investments of financial sector at \$5.3bn at end-June 2015, commercial banks account for 70% of long-term debt securities and for 34% of equity investments

Figures issued by the Central Bank show that the net investment portfolio of Lebanese banks and financial institutions in foreign debt and equity securities totaled \$5.29bn at the end of June 2015, constituting decreases of 16.7% from \$6.35bn at end-2014 and of 15.7% from \$6.28bn at end-June 2014. Investments in long-term debt securities reached \$3.2bn at the end of June 2015 and accounted for 60.3% of the total, followed by investments in equities at \$2bn (37.8%) and short-term debt securities at \$100.7m (1.9%). According to the Central Bank, the figures cover the net assets of resident banks and financial institutions in foreign tradable debt and equity instruments. They help provide a clearer picture about the flow of funds from Lebanon and, therefore, about the balance of payments.

Commercial banks' net portfolio in long-term debt securities totaled \$2.25bn and accounted for 70.4% of aggregate investments in such securities at the end of June 2015. The figure includes banks' investments for their own account, on behalf of their clients and on a custodial basis. The net portfolio in long-term debt securities of medium- and long-term banks followed with \$718.8m (22.5%), insurance firms with \$159.2m (5%) and financial institutions with \$66.2m (2.1%). In parallel, commercial banks represented 89.3% of investments in short-term debt securities, followed by medium- and long-term banks with 10.3% and insurance companies with 0.3%. Further, medium- and long-term banks' net assets in equities reached \$1.2bn and accounted for 39.7% of total investments in such securities. They were followed by commercial banks with \$1bn (34.3%), financial institutions with \$539m (17.9%), insurance companies with \$231m (7.7%) and financial intermediaries with \$12.2m (0.4%).

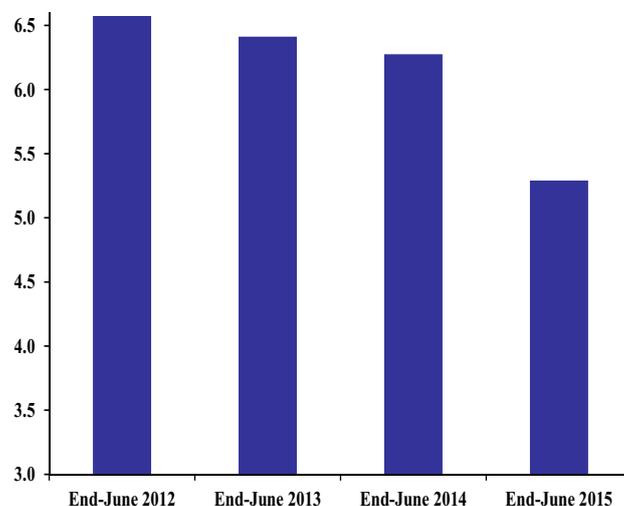
The distribution of investments by destination shows that the United States was the leading recipient of equity investments by banks and financial institutions operating in Lebanon with \$1.1bn or 36.5% of the total at end-June 2015. Bahrain followed with equity investments worth \$408.3m (13.6%), then Jordan with \$181.4m (6%), Saudi Arabia with \$178.6m (5.9%) and Luxembourg with \$175.1m (5.8%), while other countries accounted for the remaining 32.1% of total equity investments. In parallel, the United States represented \$980.6m or 20.4% of investments in long-term debt securities, followed by the United Kingdom with \$813.5m (16.9%), France with \$484.5m (10.1%), the UAE with \$260.3m and the Cayman Islands with \$257.6m (5.4% each), while other countries accounted for the remaining 41.9%. Further, the United Kingdom accounted for 43.9% of investments in short-term debt securities, followed by the UAE (19.2%), Switzerland (10%), the United States (8%) and Australia (5.5%), while other countries represented the remaining balance of 13.5%.

First National Bank's net income at \$35m in 2015

First National Bank, one of Lebanon's top 14 banks, announced unaudited consolidated net profits of \$35m in 2015, constituting an increase of 20.5% from \$29.1m in 2014. Net operating income rose by 11.3% year-on-year to \$93.5m, with net interest income decreasing by 8.5% to \$41.6m and net fees & commissions receipts rising by 60.3% to \$13.4m. Non-interest income accounted for 25.6% of total income, down from 29% in 2014, with net fees & commissions representing 54% of non-interest earnings in 2015, up from 31.8% in the preceding year. Further, the bank's interest margin improved to 1.86% in 2015 from 1.78% in 2014; while its net spread rose from 1.72% in 2014 to 1.79% in 2015. Total operating expenditures increased by 5.4% to \$53.6m, with staff expenses growing by 3.5% to \$31.9m. The bank's return on average assets was 0.87% in 2015 relative to 0.78% in 2014, while its return on average equity was 10.18% compared to 10.75% in 2014. The bank's cost-to-income ratio regressed from 56.1% in 2014 to 55.4% in 2015.

In parallel, total assets reached \$4.1bn at the end of 2015, constituting an increase of 5% from a year earlier. Loans & advances to customers, excluding those to related parties, regressed by 0.4% from end-2014 to \$890.5m. Also, customer deposits, excluding those from related parties, totaled \$3.2bn at end-2015 and increased by 0.6% from end-2014. The loans-to-deposits ratio was 28.6% at end-2015 relative to 28.1% a year earlier. Further, shareholders' equity rose by 36.4% from end-2014 to \$397.1m at the end of 2015.

Foreign Investments of Financial Sector (US\$bn)



Source: Central Bank, Byblos Research

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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