

LEBANON THIS WEEK

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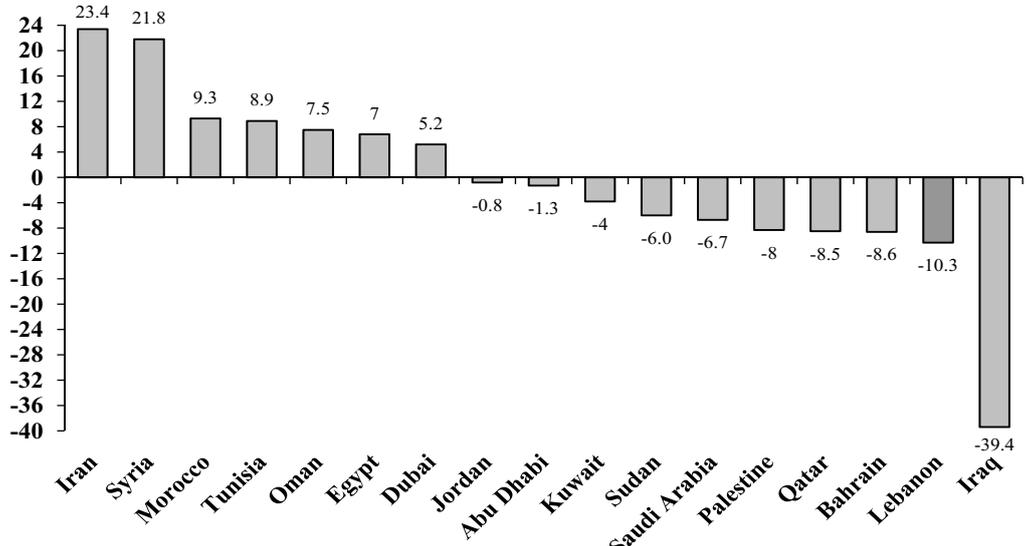
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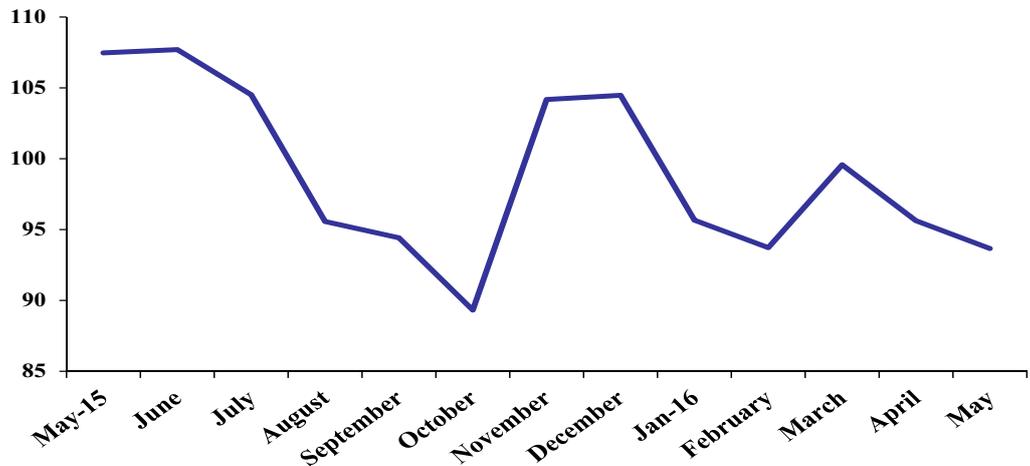
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Charts of the Week

Performance of MENA Stock Markets in the First Five Months of 2016 (% change)



Performance of the Beirut Stock Exchange*



* Capital Markets Authority Value Weighted Index end of month values

Source: Local Stock Markets, Dow Jones Indices, Capital Markets Authority, Byblos Bank

Quote to Note

"The U.S. dollar peg continues to support investor confidence and serve the economy well."

The International Monetary Fund, on the impact of the Central Bank's monetary policy

Number of the Week

40: Number of times since May 2014 that the Lebanese Parliament convened and failed to elect a President

Lebanon in the News

\$m (unless otherwise mentioned)	2015	Mar 2015	Dec 2015	Jan 2016	Feb 2016	Mar 2016	% Change*
Exports	2,952	257	236	186	228	220	(14.40)
Imports	18,069	1,509	1,841	1,494	1,377	1,750	15.97
Trade Balance	(15,117)	(1,252)	(1,605)	(1,308)	(1,149)	(1,530)	22.20
Balance of Payments	(3,354)	(417)	(372)	(719)	363	(228)	(45.32)
Checks Cleared in LBP	18,714	1,579	1,709	1,709	1,538	1,609	1.89
Checks Cleared in FC	50,845	4,322	4,265	4,065	3,988	3,983	(7.84)
Total Checks Cleared	69,559	5,901	5,974	5,774	5,526	5,592	(5.24)
Budget Deficit/Surplus	(3,952)	(506.29)	(711.58)	(214.00)	(513.56)	(713.34)	40.90
Primary Balance	724.40	(22.84)	(338.61)	32.08	(276.67)	(156.28)	584.20
Airport Passengers***	7,241,463	478,284	616,249	546,609	442,212	534,954	11.85

\$bn (unless otherwise mentioned)	2015	Mar 2015	Dec 2015	Jan 2016	Feb 2016	Mar 2016	% Change*
BdL FX Reserves	30.64	34.53	30.64	31.64	31.42	30.37	(12.05)
<i>In months of Imports</i>	<i>20.35</i>	<i>22.88</i>	<i>16.64</i>	<i>21.18</i>	<i>22.82</i>	<i>17.35</i>	<i>(24.16)</i>
Public Debt	70.31	69.44	70.31	70.62	71.22	71.04	2.31
Bank Assets	185.99	176.95	185.99	186.20	186.59	187.66	6.05
Bank Deposits (Private Sector)	151.59	145.46	151.59	151.50	151.42	152.44	4.80
Bank Loans to Private Sector	54.22	51.14	54.22	54.39	54.56	55.06	7.65
Money Supply M2	52.15	49.44	52.15	52.24	52.29	52.52	6.23
Money Supply M3	123.62	118.06	123.62	123.26	123.49	124.51	5.47
LBP Lending Rate (%)	7.45	6.94	7.45	8.28	8.18	8.62	168bps
LBP Deposit Rate (%)	5.56	5.57	5.56	5.52	5.57	5.59	2bps
USD Lending Rate (%)	7.06	7.16	7.06	7.34	7.31	7.36	20bps
USD Deposit Rate (%)	3.17	3.12	3.17	3.22	3.22	3.27	15bps
Consumer Price Index**	(3.75)	(3.38)	(3.40)	(3.16)	(2.94)	(3.57)	(19bps)

* 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, Central Administration of Statistics, Byblos Research

Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization	Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Audi GDR	6.00	0.00	500,259	6.24%	Mar 2017	9.00	103.38	4.57
Audi Listed	6.00	1.69	70,655	21.68%	Nov 2018	5.15	100.13	5.09
Solidere "A"	9.84	0.51	56,485	8.89%	May 2019	6.00	101.50	5.44
Byblos Common	1.64	1.23	42,784	5.33%	Mar 2020	6.38	102.25	5.70
BLOM GDR	10.25	(0.49)	22,908	6.85%	Apr 2021	8.25	109.50	5.96
BLOM Listed	9.96	0.10	20,198	19.36%	Oct 2022	6.10	99.50	6.20
Solidere "B"	9.88	(1.10)	13,043	5.80%	Jun 2025	6.25	98.13	6.53
Byblos Pref. 08	100.20	0.10	490	1.81%	Nov 2026	6.60	99.75	6.63
Byblos Pref. 09	101.00	0.80	70	1.83%	Feb 2030	6.65	98.25	6.85
HOLCIM	14.46	0.00	0	2.55%	Nov 2035	7.05	100.13	7.04

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

Source: Byblos Bank Capital Markets

	May 30- June 3	May 23-27	% Change	May 2016	May 2015	% Change
Total Shares Traded	893,394	514,875	73.52	4,411,792	3,514,330	25.54
Total Value Traded	\$7,792,338	\$3,595,769	116.71	\$32,584,901	\$40,077,612	(18.70)
Market Capitalization	\$11.06bn	\$11.01bn	0.46	\$11.06bn	\$11.57bn	(4.43)

Source: Beirut Stock Exchange (BSE)



Economic outlook dependent on geopolitical developments

The World Bank indicated that the prevailing geopolitical risks in the Middle East & North Africa region represent a challenge for the Lebanese economy due to the latter's dependence on capital inflows, including remittances, that mostly originate from the region. It noted that the economy's dependence on Lebanese expatriates to finance the country's internal and external imbalances exposes Lebanon to economic and political developments beyond its influence. It indicated that concerns over regional conditions and potential spillovers to Lebanon persist, despite a significant improvement in domestic security conditions since the start of 2015. However, it noted that the deterioration in Lebanon's domestic political environment has more than offset the improvement in security conditions, which has further weighed on economic activity and reduced real GDP growth from 1.8% in 2014 to 1.5% in 2015. It projected real GDP growth to slightly accelerate to 1.8% 2016 but to remain below its potential due to the domestic political deadlock, the emerging negative effects from the prolonged period of low global oil prices, and the ongoing Syrian conflict.

The Bank indicated that the decline in global oil prices has so far had a net positive effect on the Lebanese economy, as it reduced the import bill and Treasury transfers to the state-owned and money-losing Electricité du Liban (EdL). But it expected the prolonged period of low oil prices to lead to a drop in remittance inflows to Lebanon and a decline in exports of Lebanese services to GCC countries due to spending cuts in these economies from lower hydrocarbon revenues. It said that the trend would further weigh on Lebanon's balance of payments, which is already under pressure from lower capital inflows. It considered that this would represent a challenge, given that the Lebanese economy is structurally and heavily dependent on capital inflows to finance its current account deficit. It noted that capital inflows to Lebanon have been on a downward trend over the past four years and contracted by 25.4% in 2015. It added that the real estate and tourism sectors, which have usually attracted most of foreign capital flows, have become a less attractive destination for FDI.

Further, the Bank considered that lower remittance inflows would weigh on consumption and growth in the country. It conducted a simulation that shows that a drop of 20 percentage points in the growth rate of remittance inflows to Lebanon in 2016 would reduce private consumption by 2.4 percentage points of GDP this year. In turn, it estimated that lower consumption growth would reduce real GDP growth in 2016 by 2.04 percentage points, given that private consumption accounts from about 85% of GDP. Also, it estimated that under a scenario, which assumes the possibility of a mass termination of Lebanese expatriates in Gulf Cooperation Council countries, Lebanon's real GDP growth would contract by 2.1 percentage points in 2016 and by an additional 0.7 percentage points in 2017 and 0.3 percentage points in 2018. Also, Lebanon's fiscal balance would widen by 0.3 percentage points of GDP this year and by 0.5 percentage points of GDP and 0.3 percentage points of GDP in 2017 and 2018, respectively. In addition, the public debt level would rise by 6.7 percentage points of GDP in 2016, by 9 percentage points of GDP next year and by 7.2 percentage points of GDP in 2018. Further, the Bank indicated that Lebanon's current account deficit would widen by one percentage point of GDP in 2016 and by 0.8 percentage points of GDP and 0.5 percentage points of GDP in 2017 and 2018, respectively. It added foreign currency reserve coverage would drop by 0.7 months of imports this year, as well as by 0.8 months of imports in each of 2017 and 2018.

Moody's affirms Lebanon's sovereign ratings

Moody's Investors Service affirmed at 'B2' Lebanon's government debt and issuer ratings and kept the outlook on the ratings at 'negative'. It also maintained the country's local-currency bond and deposit ceilings at 'Ba2', its long-term foreign currency bond ceiling at 'Ba3' and its long-term foreign currency deposit ceiling at 'B2'.

The agency attributed the ratings' affirmation to Lebanon's fiscal resilience and strong liquidity position, despite the ongoing political vacuum and subdued economic activity. It added that the Lebanese economy and banking sector continue to grow despite domestic and economic shocks. It said that real GDP growth has remained positive despite the prevailing conditions, and projected it at 1.7% in 2016. It noted that the Central Bank's gross foreign currency reserves of \$38.4bn at the end of March 2016, and its gold reserves of about \$11.4bn, support the sovereign ratings by reinforcing confidence in the exchange rate peg and the financial system, despite weak public finances. Further, the agency pointed out that Lebanese banks continue to be willing and able to fund the government's financing needs and to roll over government debt, given their high level of deposits. It noted that the banking sector benefits from continued deposit inflows, which, along with remittance inflows, constitute credit strengths to the sovereign. It added that investor confidence has remained solid despite political instability, as deposit inflows continue to grow and the dollarization rate of deposits remains stable. In addition, it indicated that the government's debt structure has improved, as a relatively long maturity of 4.5 years on government securities has reduced the government's borrowing needs and has provided some protection against future increases in global interest rates.

In parallel, Moody's indicated that the 'negative' outlook on the sovereign ratings reflects the downside risks from the delay in implementing reforms to narrow the fiscal deficit, such as the Parliament ratifying a budget, reforming the subsidy system and generating new revenues. Also, it noted that the 'negative' outlook takes into account the increased risk to the country's financing capacity as a result of a slowdown in deposit growth, a wide current account deficit and elevated political and geopolitical risks. It expected fiscal pressures to persist, given the lack of consensus on fiscal policy measures. It cautioned that the fiscal deficit would widen and the public debt level would increase in the absence of reforms, which would increase the pressure on the banking system. It added that liquidity could deteriorate in the next few years in case of a significant slowdown in deposit growth, which would impact the government's ability to fund its deficit and the banking sector's ability to finance the private sector. The agency indicated that it would revise the outlook to 'stable' in the event of a more stable policy environment that would help implement fiscal reforms and reduce the fiscal deficit, or if the country's large external imbalances narrow significantly.

Fiscal deficit widens by 36% to \$1.4bn in first quarter of 2016, equivalent to 37% of expenditures

Figures released by the Finance Ministry show that the fiscal deficit reached \$1.44bn in the first quarter of 2016 and widened by 35.7% from \$1.1bn in the same quarter of 2015. The deficit was equivalent to 37.2% of total budget and Treasury expenditures compared to 33.8% of overall spending in the first quarter of 2015. Government expenditures reached \$3.87bn and increased by 23.1% from the same quarter last year, while revenues grew by 16.7% annually to \$2.43bn. As such, the widening of the deficit reflects a rise of \$726.5m in overall expenditures that was partly offset by an increase of \$347.7m in total revenues during the first quarter of 2016. Tax receipts grew by 9.1% year-on-year to \$1.67bn, of which 31.7%, or \$528.2m, were in VAT receipts that increased by 6.9% year-on-year. Tax revenues accounted for 74.2% of budgetary revenues and for 68.5% of total Treasury and budgetary receipts. The distribution of other tax revenues shows that receipts from taxes on income, profits & capital gains grew by 9.5% year-on-year to \$434.5m in the first quarter of 2016; revenues from customs increased by 4.2% to \$322m; receipts from property taxes rose by 24.6% to \$246.1m; revenues from taxes on goods & services grew by 6.4% to \$57.6m; while receipts from stamp fees improved by 5.1% to \$77.5m.

The distribution of income tax shows that receipts from the tax on interest deposits accounted for 31% of total income tax receipts in the first quarter of 2016, followed by taxes on profits with 30.5%, taxes on wages & salaries with 30.3%, and the capital gains tax with 5.6%. Receipts from taxes on profits grew by 11%, those from taxes on wages & salaries improved by 9.6%, revenues from the tax on interest deposits increased by 9.5% and those from capital gains rose by 2.7% in the first quarter of 2016. Also, the distribution of property taxes shows that revenues from real estate registration fees rose by 16.7% to \$126.9m in the first quarter of the year, while receipts from built property taxes increased by 38.2% to \$91.3m and revenues from the inheritance tax grew by 23% to \$27.9m. Further, non-tax receipts grew by 32% to \$579.2m, driven by a 38% growth in revenues generated from government properties that reached \$394.2m. Receipts from telecom services increased by 44.2% to \$347.5m and accounted for 88.2% of income from government properties and for 60% of non-tax budgetary revenues. Overall, budgetary revenues, which include tax and non-tax revenues, increased by 14.2% to \$2.2bn in the covered quarter.

In parallel, the increase in government expenditures is mainly due to transfers to municipalities as they grew from \$73m in the first quarter of 2015 to \$502.1m in the first quarter of 2016. Also, budgetary expenditures rose by 11.8% to \$3.16bn in the first quarter of 2016, and included \$152.3m in transfers to Electricité du Liban that fell by 51.7% year-on-year and \$798.5m in outlays from previous years that rose by 40.6% year-on-year. Further, debt servicing totaled \$1bn in the first quarter of 2016 and increased by 12.6% from the same quarter last year. It accounted for 26.9% of total expenditures and for 33% of budgetary spending, while it absorbed 42.8% of overall revenues and 46.3% of budgetary receipts. Interest payments on Lebanese pound-denominated debt grew by 14.6% to \$765m in the first quarter of the year, while debt servicing on foreign currency debt grew by 9.7% to \$246.2m. Also, the repayment of principal on foreign debt, including concessional loans earmarked for project financing, regressed by 9.7% to \$28.9m in the first quarter of 2016. Excluding debt servicing, the primary budget balance posted a surplus of \$129.2m in the first quarter of 2016, or 4.1% of budgetary expenditures, and widened by 96.7% from a surplus of \$65.7m, or 2.3% of budgetary spending, in the same quarter of 2015. The overall primary balance posted a deficit of \$400.9m, or 10.4% of spending, in the first quarter of 2016, and widened by about 2.9 times from a deficit of \$138m, or 4.4% of total expenditures, in the same quarter of 2015.

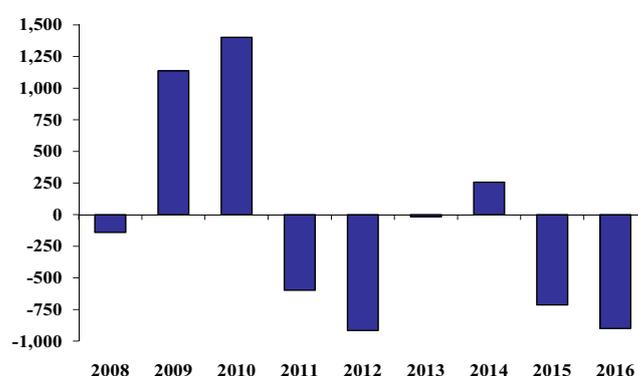
Comparative Fiscal Results in First Quarter of the Year			
	2015	2016	Change
	(US\$m)	(US\$m)	(%)
Budget revenues	1,966	2,245	14.2
Tax revenues	1,527	1,666	9.1
Non-tax revenues	439	579	32.0
<i>of which Telecom revenues</i>	241	348	44.2
Budget expenditures	2,824	3,156	11.8
Budget Surplus/Deficit	(858)	(911)	6.1
<i>In % of budget expenditures</i>	<i>(30.4%)</i>	<i>(28.9%)</i>	
Budget Primary Surplus	66	129	96.7
<i>In % of budget expenditures</i>	<i>2.3%</i>	<i>4.1%</i>	
Treasury Receipts	119	187	57.5
Treasury Expenditures	323	717	122.4
Total Revenues	2,084	2,432	16.7
Total Expenditures	3,147	3,873	23.1
Total Deficit	(1,062)	(1,441)	35.7
<i>In % of total expenditures</i>	<i>(24.3%)</i>	<i>(26.8%)</i>	
Total Primary Surplus/Deficit	(138)	(401)	190.4
<i>In % of total expenditures</i>	<i>(4.4%)</i>	<i>(10.4%)</i>	

Source: Ministry of Finance, Byblos Research

Balance of payments posts deficit of \$899m in first four months of 2016

Central Bank figures show that Lebanon's balance of payments posted a deficit of \$899.1m in the first four months of 2016 compared to a deficit of \$714.2m in the same period of 2015. The balance of payments posted a deficit of \$254.9m in April 2016 compared to a deficit of \$287.9m in March and a surplus of \$136m in April 2015. The April 2016 deficit was caused by a decrease of \$494.9m in the net foreign assets of the Central Bank, and was partially offset by a rise of \$240m in those of banks and financial institutions. The cumulative deficit over the first four months of 2016 was caused by a decrease of \$902m in the net foreign assets of the Central Bank, and was partially offset by an increase of \$2.9m in those of banks and financial institutions. The balance of payments posted surpluses of \$7.9bn in 2009 and \$3.3bn in 2010, and deficits of \$2bn in 2011, \$1.5bn in 2012, \$1.1bn in 2013, \$1.4bn in 2014 and \$3.4bn in 2015.

Balance of Payments* (US\$m)



*in the first four months of each year

Source: Central Bank of Lebanon

Barclays maintains Lebanon's external debt at 'Neutral'

Barclays Capital maintained its recommendation on Lebanon's external debt at 'Neutral' in its emerging markets (EM) credit portfolio. The EM credit portfolio is a model portfolio based on the Barclays EM US dollar Sovereign Debt Index. Lebanon's external debt recommendation of 'Neutral' placed it in the same category as Argentina, Brazil, Croatia, Egypt, Pakistan, Uruguay and Venezuela. Further, Lebanon's external debt posted a total return of 3.4% in the first five months of 2016, relative to 3.1% in the first five months of 2015 and 3.2% in full year 2015. The total return of Lebanon's external debt was the eighth highest among 13 issuers in the Europe, the Middle East & Africa (EMEA) region and the fifth lowest among the 26 emerging markets included in Barclays' portfolio of EM sovereign debt. Lebanon underperformed the EMEA returns of 4% and the overall emerging markets returns of 6.7% over the covered period. Also, Barclays reduced Lebanon's weight allocation in the portfolio from 3.8% at end-2015 to 3.4% at the beginning of June 2016. Lebanese Eurobonds accounted for 9.2% of the portfolio's allocation for the EMEA region, down from 9.7% at the end of 2015. Lebanon's index allocation was the fourth highest among 13 issuers in the EMEA and the ninth highest among 26 sovereigns in the portfolio in June 2016.

In addition, the option-adjusted spread (OAS) on Lebanese Eurobonds widened from 438 basis points (bps) at end-2015 to 463 bps at the end of May 2016, compared to 272 bps for the EMEA markets and 350 bps for emerging markets. It was the third widest in the EMEA region and the eighth widest in the portfolio. The OAS measures the spread between the rate of fixed-income security and the risk-free rate of return that is adjusted to account for an embedded option. In other words, the OAS is the compensation that an investor receives for assuming a variety of risks, net of the cost of any embedded options.

In parallel, S&P Global Ratings indicated that it has assigned its 'B-' long-term issue ratings to the Eurobonds issued by the Republic of Lebanon on May 27, 2016, in line with the sovereign ratings. It added that the bonds are related to the purchase or early redemption and cancellation of local currency Treasury bills held by the Central Bank of Lebanon into US\$2 billion worth of Eurobonds. The bonds were issued in three series of \$500m 6.25% notes due in 2022, \$500m 6.40% notes due in 2023, and \$1bn 6.85% notes due in 2029.

Value of cleared checks nearly unchanged, returned checks down 13% in first four months of 2016

The value of cleared checks reached \$22.5bn in the first four months of 2016, constituting a marginal decrease of 0.5% from \$22.6bn in the same period of 2015, and compared to a drop of 6.1% in the first four months of 2015 and an increase of 2.3% in the same period of 2014. The value of cleared checks in Lebanese pounds grew by 9.7% annually to the equivalent of \$6.6bn, while the value of cleared checks in US dollars declined by 4.2% to \$16bn in the first four months of 2016. The dollarization rate of cleared checks decreased to 70.9% from 73.6% in the first four months of 2015. Further, there were 4.1 million cleared checks in the first four months of 2016, up by 0.8% from the same period last year.

In parallel, the value of returned checks in domestic and foreign currency was \$466m in the first four months of 2016 compared to \$533m in the same period of 2015 and \$469m in the first four months of 2014. This constituted a drop of 12.6% year-on-year in the first four months of 2016 relative to an increase of 13.6% in the same period of 2015 and a decline of 4.5% in the first four months of 2014. Also, there were 74,700 returned checks in the covered period, down by 8.9% from 82,000 checks in the first four months of 2015.

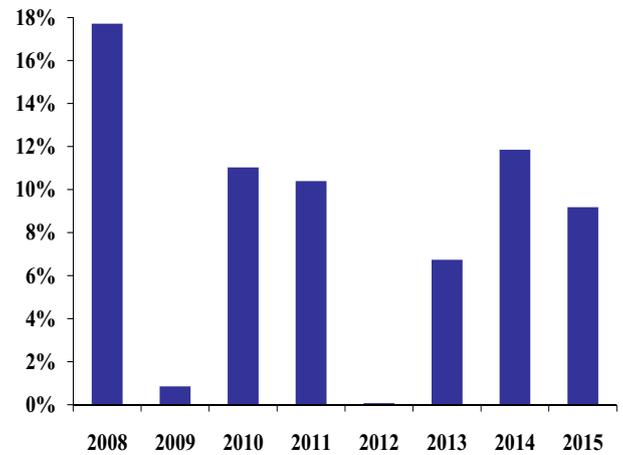


Payment cards reach 2.8 million at the end of 2015, ATMs total 1,707

Figures released by the Central Bank show that the number of payment cards issued in Lebanon reached 2,754,657 cards at the end 2015, constituting an increase of 7.9% from the end of September 2015 and a rise of 13.2% from the end of 2014. Cards held by residents accounted for 97.2% of total cards issued in Lebanon at end-2015. The distribution of payment cards by type shows that debit cards with residents reached 1,341,519 and accounted for 48.7% of the total, followed by prepaid cards with residents at 633,442 (23%), credit cards with residents at 555,923 (20.2%), charge cards with residents at 146,266 (5.3%), debit cards held by non-residents at 47,871 (1.7%), credit cards held by non-residents at 14,115 (0.5%), charge cards held by non-residents at 8,342 and prepaid cards held by non-residents at 7,179 (0.3% each). Further, the aggregate number of points-of-sales accepting payment cards reached 38,916 at the end of 2015, constituting a decrease of 2% quarter-on-quarter and an increase of 3.6% on an annual basis.

In parallel, the number of ATMs across Lebanon totaled 1,707 at the end of 2015, constituting an increase of 1.3% from end-September 2015 and a rise of 6.5% from end-2014. The Greater Beirut area had 698 ATMs at end-2015, equivalent to 40.9% of the total, followed by Mount Lebanon with 551 ATMs (32.3%), the North with 172 ATMs (10.1%), the South with 133 ATMs (7.8%), the Bekaa with 123 ATMs (7.2%) and Nabatieh with 30 ATMs (1.8%).

Annual Growth in the Number of Credit Cards Held by Residents (%)



Source: Central Bank of Lebanon, Byblos Research

Construction and public works activity regresses year-on-year in fourth quarter of 2015

The Central Bank's quarterly business survey shows that construction activity regressed during the fourth quarter of 2015 from the preceding quarter, with the balance of opinions standing at -33 compared to -20 in the third quarter and to -23 in the fourth quarter of 2014. The balance of opinions indicates that construction activity was the lowest in Beirut & Mount Lebanon at -42, followed by the South (-38), the Bekaa region (-33) and the North (-16). The business survey reflects the opinions of enterprise managers about the evolution of their businesses, in order to depict the trend of a number of key economic variables. The balance of opinions for public works stood at -28 in the fourth quarter of 2015, compared to -14 in the preceding quarter and to -27 in the fourth quarter of 2014. Opinions about the level of public works were the lowest in the South at -40, followed by the North (-38), Beirut & Mount Lebanon (-36) and the Bekaa region (+3).

In parallel, the balance of opinions for the portfolio of projects was -39 in the fourth quarter of 2015 relative to -34 in the third quarter of 2015 and to -36 in the fourth quarter of 2014. The balance of opinions for the portfolio of projects was the lowest in Beirut & Mount Lebanon at -46, followed by the North (-37), the South (-31) and the Bekaa region (-29). Also, the balance of opinions for general construction activity was -36 in the fourth quarter of 2015, compared to -25 in the preceding quarter and to -22 in the fourth quarter of 2014. Further, the balance of opinions for construction costs reached -23 in the covered quarter compared to -17 in the preceding quarter and to +16 in the fourth quarter of 2014. The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in a particular indicator and the proportion of those who reported a decline in the same indicator.

Construction and Public Work Activity: evolution of opinions				
Aggregate results	Q4-12	Q4-13	Q4-14	Q4-15
General activity	-21	-20	-23	-33
Construction	-19	-20	-22	-36
Public work	-14	-16	-27	-28
Portfolio of projects	-25	-14	-36	-39
Construction costs	31	18	16	-23
Investments (% of yes)	39%	35%	36%	37%

Source: Central Bank Business Survey for Fourth Quarter 2015



Commercial banks' assets reach \$188bn at the end of April 2016

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$187.9bn at the end of April 2016, constituting an increase of 1% from the end of 2015 and a rise of 4.8% from end-April 2015. Loans extended to the private sector totaled \$55.2bn at the end of April 2016, reflecting a growth of 1.8% from the end of 2015 and an increase of 7.3% from end-April 2015. Loans to the resident private sector totaled \$48.7bn and grew by 1.4% from the end of 2015 and by 6% year-on-year; while credit to the non-resident private sector reached \$6.48bn, and expanded by 4.8% from end-2015 and by 19.1% from end-April 2015. In nominal terms, credit to the private sector rose by \$975m in the first four months of 2016 relative to a growth of \$526m in the same period of 2015. Lending to the resident private sector grew by \$678.6m in the first four months of 2016 relative to an increase of \$621m in the same period of 2015, while credit to the non-resident private sector expanded by \$296m in the first four months of the year compared to a decrease of \$95m in the same period of 2015. In addition, claims on non-resident banks reached \$10.6bn at the end of April 2016, down by 8.1% from the end of 2015 and by 16.8% from a year earlier. In parallel, claims on the public sector stood at \$38.25bn at the end of April, up by 1.2% from end-2015 and down by 0.6% from end-April 2015. The dollarization rate in private sector lending regressed to 74.6% at the end of April 2016 from 75.2% a year earlier. Further, the average lending rate in Lebanese pounds was 8.4% in April 2016, while the same average in US dollars stood at 7.17%.

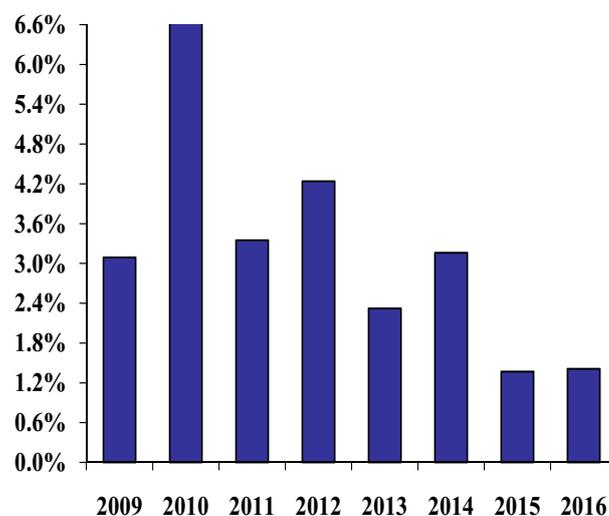
In parallel, private sector deposits totaled \$152.9bn at the end of April 2016, constituting an increase of 0.9% from the end of 2015 and of 3.7% from end-April 2015. Deposits in Lebanese pounds reached \$53.9bn, growing by 1.3% from end-2015 and by 5.4% from a year earlier; while deposits in foreign currencies totaled \$99bn, constituting a rise of 0.7% from the end of 2015 and an increase of 2.8% from end-April 2015. Aggregate non-resident deposits reached \$31.7bn at the end of April and declined by 0.4% from end-2015, while they grew by 1.5% from a year earlier. In nominal terms, total private sector deposits regressed by \$88.9m in January and by \$80.9m in February, while they grew by \$1bn in March and by \$486.2m in April 2016. In comparison, they declined by \$274m in January, and increased by \$577.8m in February, by \$731.7m in March and by \$2bn in April 2015. As such, total private sector deposits rose by \$1.34bn in the first four months of 2016 compared to an increase of \$3.1bn in the same period of 2015. Resident private sector deposits grew by \$1.48bn in the first four months of 2016 relative to a rise of \$2.12bn in the same period of 2015, while non-resident deposits regressed by \$134.7m in the first four months of the year compared to a rise of \$947.3m in the first four months of 2015. Further, deposits of non-resident banks reached \$6.3bn at the end of April 2016, down by 3.5% from end-2015 and up by 3% from a year earlier.

The dollarization rate of deposits reached 64.7% at the end of April 2016, down from 65.3% a year earlier. Further, the average deposit rate in Lebanese pounds was 5.6% in April 2016, while the same rate in US dollars was 3.29%. 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 26% at end-April 2016, relative to 24.9% at the end of April 2015. The ratio of total private sector loans-to-deposits was 36.1% relative to 34.9% a year earlier. The banks' aggregate capital base stood at \$17.1bn, up by 2.52% from end-2015 and by 6% from \$16.1bn at end-April 2015.

Stock market index down 10% in first five months of 2016

Figures released by the Beirut Stock Exchange (BSE) indicate that the trading volume reached 41.4 million shares in the first five months of 2016, constituting an increase of 5.2% from 39.35 million shares traded in the same period of 2015; while aggregate turnover amounted to \$371.1m, up by 23.5% from a turnover of \$300.4m in the first five months of 2015. Market capitalization regressed by 4.4% from the end of May 2015 to \$11.06bn, with banking stocks accounting for 82.1% of the total, followed by real estate shares (14.8%), industrial firms (2.8%) and trading stocks (0.3%). The market liquidity ratio was 3.4% in the covered period compared to 2.6% in the first five months of 2015. Banking stocks accounted for 91.5% of aggregate trading volume in the first five months of the year, followed by real estate equities with 8.3% and industrial shares with 0.1%. Also, banking stocks represented 90.6% of the aggregate value of shares traded, followed by real estate equities with 9.2% and industrial stocks with 0.2%. The average daily traded volume for the period was 418,193 shares for an average daily value of \$3.75m. The figures reflect an increase of 4.1% in volume and a rise of 22.3% in value year-on-year. In parallel, the Capital Markets Authority's Market Value-Weighted Index for stocks traded on the BSE decreased by 10.4% in the first five months of 2016, while the Capital Markets Authority's Banks Market Value-Weighted Index regressed by a marginal 0.2%.

Resident Private Sector Lending Growth* (% Change)



* in the first four months of each year

Source: Association of Banks in Lebanon, Byblos Research

NECB and Banque de L'Industrie et du Travail complete merger

Near East Commercial Bank sal (NECB) and Banque de L'Industrie et du Travail sal announced that they have completed their merger to form a new entity named Saradar Bank sal. The merger was initially announced in July 2014. The new bank will offer a range of financial services in the fields of private, commercial, and retail banking. It will have a total of 19 branches across Lebanon that consist of Banque de L'Industrie et du Travail's 13 branches and NECB's six branches. Mr. Mario Saradar has assumed the role of Chairman and Chief Executive Officer of the new entity, and Mr. Fouad El Khazen became the Honorary Chairman of the new bank. Further, the Central Bank withdrew NECB's license following the completion of the merger.

Saradar Bank indicated that its assets currently amount to \$1.56bn and that it has an equity base of over \$195.3m. Its current shareholders consist of Saradar Partners Holding sal with a 30.81% stake, followed by Sté Al Bustania sal with a 19.71% share, the Wiederkehr Group Holding sal with a 12.62% stake, Shammass Economic Institute sal with a 12.04% share, Saifi Invest Holding sal with an 11.32% stake, Mr. Carlos Ghosn with a 4.58% share, Ms. Beatrice Wiederkehr with a 2.36% stake, Ms. Myrna Bustani with a 2.03% share, Sheikh Jamil El-Khazen and Ms. Laura El-Khazen Lahoud with a 1.96% stake each, while other investors hold the remaining 0.6%.

Balance sheet of financial institutions down 8% in the first quarter of 2016

Figures released by the Central Bank show that the consolidated balance sheet of financial institutions in Lebanon reached LBP2,382bn, or \$1.58bn at the end of March 2016, constituting a decrease of 8.2% from end-2015 and of 4.9% from end-March 2015. On the assets side, financial institutions' cash and bank deposits totaled \$603.8m at the end of March 2016, constituting a drop of 4.9% from end-2015 and a marginal decrease of 0.1% from a year earlier. Claims on the private sector reached \$834.3m at end-March 2016, reflecting a decline of 11.8% from end-2015 and an increase of 18.7% from a year earlier. Also, investments in government securities totaled \$148.5m as at the end of March 2016, constituting a marginal increase of 0.2% from end-2015 and a decrease of 60% from end-March 2015.

In parallel, liabilities to the private sector totaled \$322.2m at the end of March 2016, down by 26% from end-2015 but up by 41.8% from end-March 2015; while those to the financial sector reached \$669.2m at end-March 2016, representing a decrease of 4.7% from end-2015 and of 23.6% from a year earlier. Further, the aggregate capital accounts of financial institutions reached \$464.6m at the end of March 2016, reflecting an increase of 0.7% from end-2015 and of 3.1% from end-March 2015. There were 52 financial institutions with a total of 72 branches operating in Lebanon as at the end of 2015.

Automotive firm raises funds through securitization

Bassoul-Heneiné sal, one of the leading car dealers in Lebanon, raised \$6.8m through securitizing an \$8m portfolio of auto loans. The portfolio includes receivables from car rental companies, corporate companies and retail clients. The securitization investment fund, Cylinder 3 SIF, issued \$6.8m in senior Class A Notes with an expected weighted average life of 3.75 years and a fixed annual interest rate of 7%, as well as a \$1.2m subordinated Class B Note that was subscribed in full by Bassoul-Heneiné. The structure provides protection to the Class A Noteholders under several credit enhancements, including the subordination of the Class B Note and cash reserve. In addition, the deal offers a three-year revolving period during which additional eligible assets could be financed through the same structure. Further, senior Class A Notes and the subordinated Class B Note are expected to mature in October 2020 and October 2021, respectively. The deal was structured, arranged and managed by BSEC, a wholly-owned subsidiary of Banque BEMO sal. The deal represents the third time that Bassoul-Heneiné taps the securitization market.

Established in 1951, Bassoul-Heneiné is one of the leading dealers of European vehicles and high-end cars in Lebanon. It is the exclusive distributor of BMW, Reunault, Dacia, MINI, Rolls-Royce and BMW Motorrad. It accounted for 9.9% of new cars sold in Lebanon during the first four months of 2016, and ranks among the top five car importers and distributors in the country.

Fransabank disburses dividends for 2015

Fransabank sal announced that its Ordinary General Assembly held on May 23, 2016 approved the distribution of dividends on its preferred shares for 2015. The bank paid gross dividends of \$13.5 per share, or the equivalence of LBP20,351 per share, for the holders of Series "B" and Series "C" Preferred Shares. Also, the bank disbursed \$13 per share (LBP19,598) for the holders of Series "D" Preferred Shares. Further, it allocated a gross dividend payment of about \$0.15 per share (LBP223) to the holders of Series "E" Preferred Shares, as the \$13.5 per share dividend was adjusted on a pro-rata basis to reflect the four-day period between the shares' issuance on December 28, 2015 and the end of 2015. Fransabank paid the dividends on June 2, 2016 net of a 5% withholding tax, as the bank reimbursed the holders of Preferred Shares for the difference between the 10% withholding rate and the rate for which the shares would have been taxed if they were listed on the Beirut Stock Exchange. The bank's share capital currently consists of 21,500,000 common shares, 425,000 Series "B" Preferred Shares, 375,000 Series "C" Preferred Shares, 425,000 Series "D" Preferred Shares and 525,000 Series "E" Preferred Shares.



Banque Libano-Française's net earnings down 26% to \$26m in first quarter of 2016

Banque Libano-Française sal, one of Lebanon's top 14 banks, announced unaudited consolidated net profits of \$25.8m in the first quarter of 2016, constituting a decrease of 25.9% from the same quarter last year. Net operating income decreased by 10% year-on-year to \$61m in the first quarter of the year, with net interest income increasing by 7% to \$40.6m and net fees & commissions receipts declining by 15.7% year-on-year to \$9m. Non-interest income accounted for 23% of total income, down from 37.8% in the same quarter last year; with net fees & commissions representing 64% of non-interest earnings, relative to 41.1% in the first quarter of 2015. Further, the bank's interest margin was 1.69% in the first quarter of 2016 relative to 1.58% in the same quarter last year; while its spread reached 1.64% in the first quarter of 2016, up from 1.53% in the same quarter of 2015. Total operating expenditures increased by 5.5% to \$30.6m, with staff expenses rising by 5.2% to \$19.1m. Also, the bank's return on average assets regressed to 0.89% in March 2016 on an annualized basis from 1.25% in March 2015; while its return on average equity decreased to 9.26% on an annualized basis from 13.75% in March 2015. The cost-to-income ratio increased to 49.59% in the first quarter of the year from 42.05% in the same quarter of 2015.

In parallel, total assets reached \$11.6bn at end-March 2016, constituting an increase of 0.4% from end-2015 and a rise of 4.6% from a year earlier. Loans & advances to customers, excluding those to related parties, regressed by 0.7% from end-2015 and rose by 3.5% from a year earlier to \$4.1bn. Also, customer deposits, excluding those from related parties, totaled \$9.6bn at the end of March 2016, and grew by 0.3% from end-2015 and by 4% from a year earlier. The loans-to-deposits ratio decreased to 42.35% at end-March 2016 from 42.62% a year earlier. In parallel, the bank's shareholder equity rose by 2.6% from the end of 2015 to \$1.13bn at end-March 2016.

Chedid Capital acquires majority stake in UAE-based insurance firm

Chedid Capital sal (Holding), along with Dubai-based investors, announced the acquisition of a 75% stake in the UAE-based Al Manara Insurance Services Co Ltd for an undisclosed amount. Al Manara Insurance Services offers a variety of insurance products and services that include health, motor, engineering, marine, fire and property insurance. The acquisition is part of the Chedid Capital's expansion and consolidation plan in Europe, the Middle East and Africa by 2017.

Founded in 2006, Chedid Capital manages separate strategic business units such as reinsurance brokerage, direct insurance brokerage services, insurance risk bearing and consultancy services. It currently has operations in Cyprus, Saudi Arabia, Lebanon, Mauritius, Morocco, Qatar, Turkey, the UAE and the United Kingdom, while it offers services and solutions to clients in more than 45 countries.

Emirates Lebanon Bank's net profits at \$9m in 2015

Emirates Lebanon Bank sal posted audited consolidated net profits of \$8.9m in 2015, constituting an increase of 29.8% from \$6.9m in 2014. Net operating income increased by 3.6% to \$38.8m, with net interest income regressing by 0.3% to \$29.6m and net fees & commission income increasing by 2.5% to \$7.9m. Further, gross operating expenditures declined by 3.7% to \$22m in 2015, with staff expenses dropping by 7.6% to \$13.5m and administrative expenditures rising by 1.6% to \$6m. The cost-to-income ratio was 56.5% in 2015, down from 59% a year earlier. The bank's return on assets was 0.6% in 2015, relative to 0.46% in the preceding year; while its return on equity improved from 2.54% in 2014 to 3.23% last year.

In parallel, the bank's aggregate assets reached \$1.51bn at the end of 2015, constituting a rise of 0.8% from a year earlier; while loans & advances to customers, excluding loans to related parties, increased by 4.1% year-on-year to \$609m. Also, customer deposits totaled \$1.17bn at end-2015, constituting an increase of 2.4% from end-2014. The bank's shareholders' equity grew by 2.1% year-on-year to \$276.3m at end-2015. The shareholders of Emirates Lebanon Bank sal are Bank of Sharjah PSC that has an 80% stake and EL Capital FZC that holds a 20% share.



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	June 2014	May 2015	June 2015	Change**	Risk Level
Political Risk Rating	52.0	55.0	54.5	▼	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	63.5	63.25	▼	Moderate

MENA Average*	June 2014	May 2015	June 2015	Change**	Risk Level
Political Risk Rating	57.7	57.3	57.4	▲	High
Financial Risk Rating	40.3	39.6	39.3	▲	Low
Economic Risk Rating	35.8	33.1	31.9	▲	Moderate
Composite Risk Rating	66.9	65.0	64.3	▲	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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