

## LEBANON THIS WEEK

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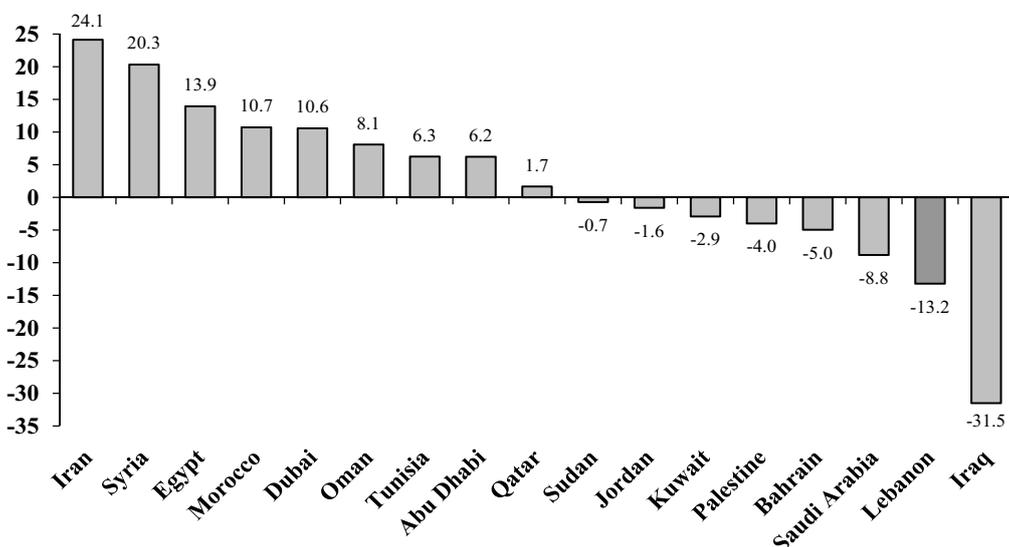
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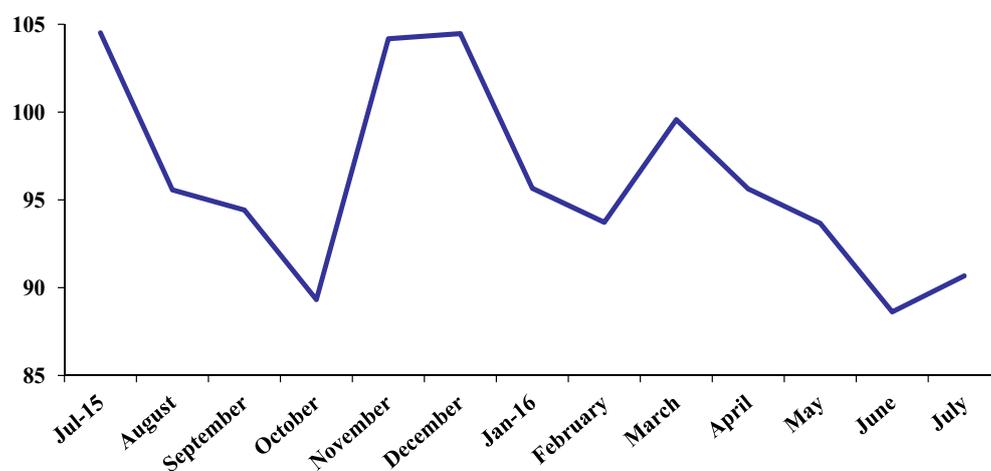
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### Charts of the Week

Performance of MENA Stock Markets in the First Seven 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 weakness of the statistical system is widespread and impedes economic analysis at the macroeconomic and sectoral levels."

*The World Bank, on the need to upgrade Lebanon's statistical capacity*

### Number of the Week

**\$2.56bn:** Increase in the the Central Bank of Lebanon's gross foreign currency reserves in the first half of 2016

## Lebanon in the News

<b>\$m</b> (unless otherwise mentioned)	<b>2015</b>	<b>Mar 2015</b>	<b>Dec 2015</b>	<b>Jan 2016</b>	<b>Feb 2016</b>	<b>Mar 2016</b>	<b>% Change*</b>
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

<b>\$bn</b> (unless otherwise mentioned)	<b>2015</b>	<b>Mar 2015</b>	<b>Dec 2015</b>	<b>Jan 2016</b>	<b>Feb 2016</b>	<b>Mar 2016</b>	<b>% Change*</b>
BdL Gross 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

<b>Most Traded Stocks on BSE</b>	<b>Last Price (\$)</b>	<b>% Change*</b>	<b>Total Volume</b>	<b>Weight in Market Capitalization</b>	<b>Sovereign Eurobonds</b>	<b>Coupon %</b>	<b>Mid Price \$</b>	<b>Mid Yield %</b>
BLOM GDR	10.04	(0.10)	75,614	6.70%	Mar 2017	9.00	103.13	3.95
Solidere "A"	9.56	0.00	75,257	8.64%	Nov 2018	5.15	99.88	5.21
Byblos Common	1.65	1.85	50,527	5.36%	May 2019	6.00	101.25	5.51
Audi Listed	6.10	(1.45)	15,000	22.03%	Mar 2020	6.38	101.50	5.91
Solidere "B"	9.31	(2.92)	12,223	5.47%	Apr 2021	8.25	108.75	6.08
Audi GDR	6.22	0.32	3,200	6.46%	Oct 2022	6.10	99.50	6.20
BLOM Listed	10.04	0.90	2,974	19.50%	Jun 2025	6.25	97.00	6.71
Byblos Pref. 08	100.20	0.10	2,533	1.81%	Nov 2026	6.60	98.50	6.80
Byblos Pref. 09	100.10	0.00	1,928	1.81%	Feb 2030	6.65	97.50	6.94
HOLCIM	14.10	0.00	-	2.49%	Nov 2035	7.05	99.25	7.12

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

Source: Byblos Bank Capital Markets

	<b>August 1-5</b>	<b>July 25-29</b>	<b>% Change</b>	<b>July 2016</b>	<b>July 2015</b>	<b>% Change</b>
<b>Total Shares Traded</b>	252,654	418,222	(39.59)	2,886,513	3,371,034	(14.37)
<b>Total Value Traded</b>	\$2,408,275	\$4,386,353	(45.1)	\$18,444,372	\$28,058,062	(34.26)
<b>Market Capitalization</b>	\$11.07bn	\$11.08bn	(0.15)	\$11.08bn	\$11.44bn	(3.11)

Source: Beirut Stock Exchange (BSE)

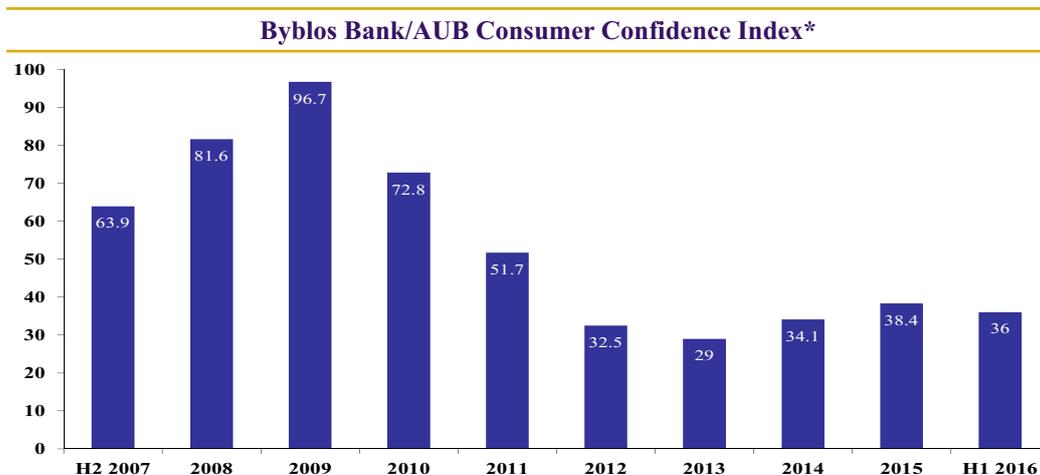
### Consumer confidence in Lebanon stagnates in second quarter of 2016

The level of consumer confidence in Lebanon was nearly unchanged in the second quarter of 2016, as reflected by the results of the Byblos Bank/AUB Consumer Confidence Index. The Index improved by 5.3% in each of April and May, while it regressed by 1% in June 2016. Overall, the Index averaged 36.1 points in the second quarter of 2016 and increased by 0.6% from 35.9 in the first quarter of the year. In addition, the Byblos Bank/AUB Present Situation Index averaged 34.2 in the second quarter of 2016 and grew by 4.1% from the preceding quarter, while the Byblos Bank/AUB Expectations Index averaged 37.4 and regressed by 1.4% from the first quarter of 2016. The stagnation in confidence during the second quarter of 2016 was reflected in the answers of consumers to the Index's survey questions, as 78% of surveyed Lebanese in the covered period considered that their personal financial situation is "worse off" than it was six months earlier and 17.6% stated that their financial situation remained the same. In contrast, only 4.4% of them said that their financial situation is "better off" than it was six months earlier.

The municipal and mayoral elections that took place in May had a positive impact on sentiment. In fact, the anticipation of Lebanese citizens that the elections would take place within the constitutional deadline led the Byblos Bank/AUB Present Situation Index to rise by 8% and the Byblos Bank/AUB Expectations Index to increase by 4% in April 2016. Also, the elections represented the first opportunity in six years for Lebanese citizens to exercise their constitutional right to choose their representatives, which gave them a sense of empowerment as well as hope for better governance at the local level. As such, the Present Situation Index grew by 4% and the Expectations Index jumped by 6% in May. But security breaches in the Bekaa and Beirut, and the resulting concerns about spillovers on the Lebanese economy ahead of the summer season, contributed to dragging down the Expectations Index by 8% in June. Overall, household sentiment remained at low levels, as the Byblos Bank/AUB Consumer Confidence Index's average monthly score for the second quarter of 2016 constituted a decline of 66% from the peak of 105.8 registered in the fourth quarter of 2008 and a decrease of 33.2% from the index's trend monthly average score of 54.1 since July 2007.

The results of the Byblos Bank/AUB Consumer Confidence Index for the second quarter of 2016 show that female consumers had a relatively higher level of confidence than their male counterparts; while consumers in the 21 to 29 year-old bracket were more optimistic than older citizens. Also, households with an income of \$2,500 or more per month continued to have a higher level of confidence than those earning less. Further, students were more confident than private sector employees, housewives, the self-employed, public sector employees and the unemployed. In addition, consumers in Mount Lebanon posted the highest confidence level across administrative districts, or mohafaza, in the second quarter of the year, followed by consumers in consumers in Beirut, the South, the North and the Bekaa. Finally, Christian consumers were more optimistic than that of other religious affiliations during the covered quarter, followed by Sunni, Druze and Shiite consumers.

The Byblos Bank/AUB Consumer Confidence Index is a measure of the sentiment and expectations of Lebanese consumers toward the economy and their own financial situation. The index is compiled, implemented and analyzed in line with international best practices and according to criteria from leading consumer confidence indices worldwide. It is composed of two sub-indices, the Byblos Bank/AUB Present Situation Index and the Byblos Bank/AUB Expectations Index. The Byblos Bank Economic Research & Analysis Department has been calculating the index on a monthly basis since July 2007, with January 2009 as its base month. The index is based on a face-to-face monthly survey of a nationally representative sample of 1,200 males and females living throughout Lebanon. The monthly field survey is conducted by Statistics Lebanon Ltd, a market research and opinion-polling firm.



\* Monthly average Index for the period

Source: Byblos Bank Economic Research & Analysis Department, based on surveys conducted by Statistics Lebanon

### Lebanon ranks 73rd globally, eighth among Arab countries in electronic government

The United Nations' E-Government Development Index for 2016 ranked Lebanon in 73rd place among 193 countries worldwide and in eighth place among 19 Arab countries. Lebanon also came in 17th place among 52 upper middle-income countries (UMICs) included in the survey. Lebanon's global rank improved by 16 spots from 89th place in the 2014 survey, while its regional rank rose by three spots from 11th place in the previous survey.

The index is a benchmark that provides a numerical ranking about the development of electronic government across member states of the United Nations. It is a composite indicator that measures the willingness and capacity of national administrations to use information and communication technology to deliver public services. The index is a weighted average of three sub-indices that reflect the most important dimensions of e-government, which are the Online Service Index, the Telecommunication Infrastructure Index and the Human Capital Index. A country's overall score ranges between zero and one, with a higher score reflecting a higher level of development for electronic government.

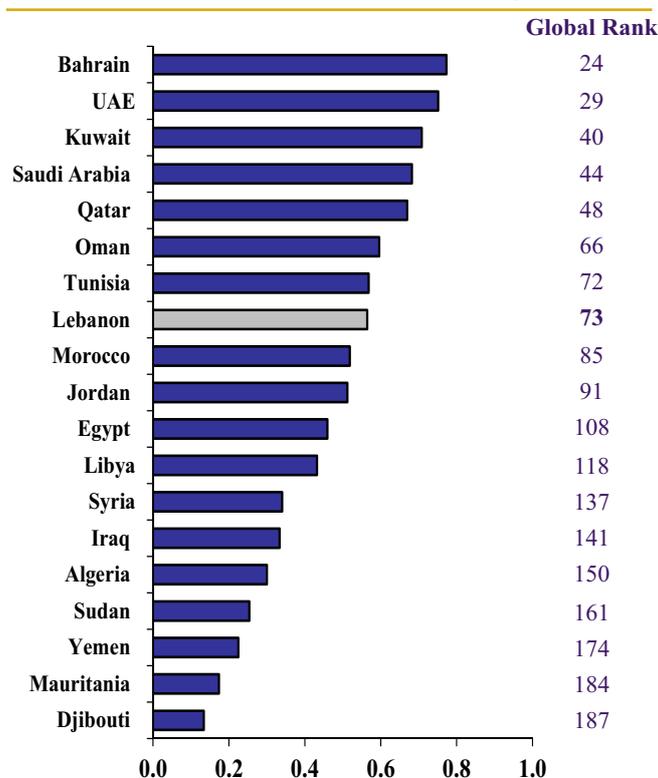
Globally, Lebanon has a more developed e-government system than Ecuador, Romania and South Africa, and a less advanced one than Trinidad & Tobago, the Philippines and Tunisia among economies with a GDP of \$10bn or more. It ranked ahead of Ecuador and behind Tunisia among UMICs. Lebanon received a score of 0.5646 points on the overall index, constituting an increase of 13.3% from 0.4982 points in the 2014 survey, the 10th highest improvement globally. Also, Lebanon's score was higher than the global average of 0.4922 points, the UMICs' average of 0.5068 points and the Arab average of 0.4735 points. Lebanon's score was lower than the Gulf Cooperation Council (GCC) countries' average score of 0.6969 points, but higher than the average score of non-GCC Arab countries of 0.3704 points. The United Kingdom is the world's leader in e-government, while Somalia came last globally.

In parallel, Lebanon tied with Mongolia, ranked ahead of the Dominican Republic and came behind Ethiopia on the Online Service Sub-Index. This category assesses a country's national websites, including the national statistics portal, the e-services portal and the e-participation portal; as well as the websites of the ministries of education, environment, finance, health, labor and social services. Also, Lebanon tied with Mongolia, ranked ahead of the Dominican Republic and came behind Thailand among UMICs, while it ranked ahead of Egypt and came behind Oman among Arab countries.

Further, Lebanon ranked ahead of Azerbaijan and came behind Cyprus globally on the Telecommunications Infrastructure Sub-Index. This category includes five indicators that cover Internet users per 100 inhabitants, the number of main fixed telephone lines per 100 inhabitants, mobile phone penetration rates, the number of wireless broadband subscriptions per 100 inhabitants and fixed broadband penetration rates. Lebanon ranked ahead of Azerbaijan and came behind Brazil among UMICs, while it ranked ahead of Libya and behind Oman regionally.

Finally, Lebanon came ahead of Macedonia and ranked behind Thailand globally and among UMICs on the Human Capital Sub-Index. This category reflects the adult literacy rate, the combined primary, secondary and tertiary school gross enrolment ratios, the expected years of schooling and the average years of schooling. Lebanon ranked ahead of Oman and behind Bahrain in the Arab world.

**E-government Development Index for 2016  
Arab Countries Scores & Rankings**



Source: United Nations, Byblos Research

**Components of 2016 E-Government Development Index for Lebanon**

Sub-Index	Global Rank	Change in Rank*	Arab Score	UMICs Score	Lebanon Score	Global Average Score	Arab Average Rank	UMICs Average Rank
Online Service	83	+14	9	22	0.5145	0.4647	0.4481	0.4523
Telecom Infrastructure	63	+11	7	8	0.4911	0.3730	0.3832	0.3656
Human Capital	96	-19	7	29	0.6882	0.6466	0.5890	0.7023

\*change in global rank from 2014; (+) reflects an improvement in rank

Source: United Nations, Byblos Research

### Lebanon's external debt posts eighth lowest return in emerging markets, third lowest in the Middle East & Africa

Figures issued by Merrill Lynch indicate that Lebanon's external debt posted a return of 3.8% in the first seven months of 2016, constituting the fourth lowest return among 42 markets in the Central & Eastern Europe and the Middle East & Africa (CEEMEA) region, as well as the eighth lowest return among 73 emerging markets included in Merrill Lynch's External Debt EM Sovereign Index. Lebanon underperformed the overall emerging markets' return of 10.68% during the covered period. Further, Lebanon's external debt posted the third lowest return among 25 countries in the Middle East & Africa region in the first seven months of the year.

Also, Lebanon's external debt posted a return of 1.18% in July 2016, constituting the 16th lowest return in the CEEMEA region and the 23rd lowest in emerging markets during the covered month. Lebanon underperformed the emerging markets' return of 1.47% in July 2016.

Further, Lebanon's external debt posted the eighth lowest return in the Middle East & Africa region in July 2016, better than Nigeria (+1.13%), the UAE (+1.07%), Qatar (+0.55%), Israel (+0.37%), Iraq (-0.82%), Turkey (-2.76%) and Angola (-2.78%). It underperformed Egypt (+6.02%), Cameroon (+5.22%), Gabon (+4.82%), Tunisia (+4.37%), the Ivory Coast (+3.32%), Oman (+3.29%), Morocco (+3.02%), Kenya (+2.73%), Jordan (+2.56%), Namibia (+2.46%), Rwanda (+2.45%), Senegal (+2.36%), Ghana (+2.13%), Zambia (+2.08%), South Africa (+2.02%), Mozambique (+1.87%) and Bahrain (+1.65%).

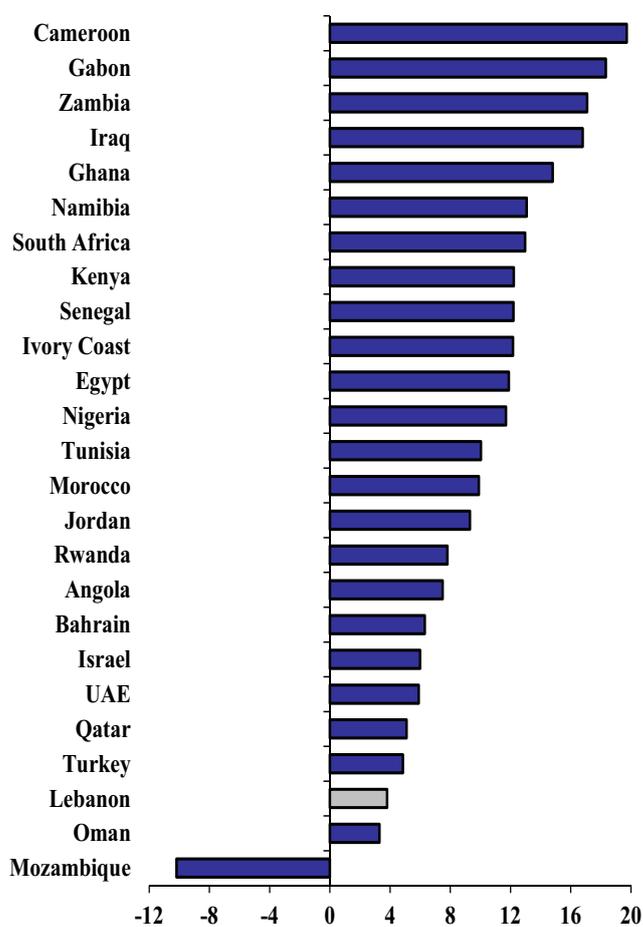
In parallel, Merrill Lynch indicated that the option-adjusted spread on Lebanese Eurobonds was 521 basis points at the end of July 2016 compared to 391 basis points a year earlier, constituting the 15th widest spread in the CEEMEA region and the 21st widest among emerging markets. It was wider than the emerging markets' overall spread of 324 basis points at the end of July 2016. Lebanon has a weight of 2.85% on Merrill Lynch's External Debt EM Sovereign Index, the fifth largest weight in the CEEMEA universe and the 11th largest among emerging economies. Lebanon accounted for 5.6% of allocations in the CEEMEA region.

### ESFD guaranteed 304 loans in first half of 2016

The Economic & Social Fund for Development (ESFD) indicated that it guaranteed 304 loans for a total of LBP8.5bn, or \$5.6m, to small- and medium-sized enterprises in the first half of 2016. The ESFD guaranteed 127 loans for an aggregate value of LBP3.7bn, or \$2.45m, in the first quarter, and 177 projects for a total value of LBP4.8bn, or \$3.18m, in the second quarter of 2016. Overall, the ESFD guaranteed 9,128 loans for an aggregate value of LBP160.6bn, or \$106.5m, between 2003 and June 2016. Mount Lebanon accounted for 28.4% of the total number of loans guaranteed by the ESFD, followed by Nabatieh (22.7%), the North (17.9%), the South (13.5%), the Bekaa (12.7%) and Beirut (4.8%) since 2003. The ESFD claims that it has helped create 7,087 new jobs since 2003. It added that it has guaranteed 3,541 loans, or 38.8% of the total, to the services sector, followed by the trade sector with 3,289 loans (36%), the industrial sector with 1,351 loans (14.8%) and the agricultural sector with 947 loans (10.4%).

The ESFD guarantees 50% of the loan principal and accrued interest for 120 days. It provides financial and technical support to small- and medium-sized enterprises, through financial intermediaries, to finance projects in poor regions of the country. The ESFD was established in November 2000 based on the signing of a financing agreement between the European Commission and the Lebanese Government through the Council for Development & Reconstruction. The ESFD is funded by the European Union and the Lebanese government.

### External Debt Performance in the Middle East & Africa in First Seven Months of 2016 (%)

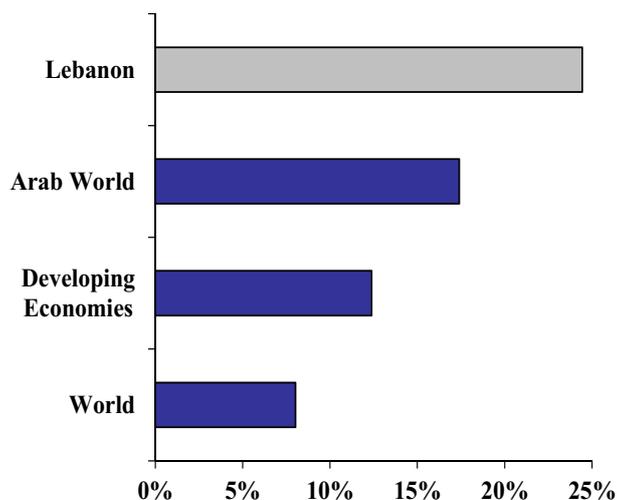


Source: Merrill Lynch, Byblos Research

## Growth of broadband penetration in Lebanon outperforms Arab and developing economies

Figures released by the International Telecommunication Union (ITU) indicate that Lebanon ranked in 56th place among 204 countries at the end of 2015 in terms of fixed broadband penetration, which is the number of subscriptions to the service per 100 inhabitants. Lebanon's global rank dropped by three spots from 2014 based on the same number of countries year-on-year. Lebanon came in first place among 19 Arab countries and ranked in second place among 51 upper middle-income countries (UMICs) included in the survey. Lebanon's rank was unchanged in the Arab world and among UMICs from the preceding year. Lebanon had 22.76 fixed broadband subscriptions per 100 inhabitants in 2015, nearly unchanged from 22.8 subscriptions in 2014. Lebanon's fixed broadband penetration rate was higher than the global average of 11.2 subscriptions per 100 inhabitants, the developing economies' average of 7.4 subscriptions per 100 inhabitants and the Arab world average of 4.2 subscriptions per 100 inhabitants. Also, fixed broadband penetration in Lebanon grew by a compound annual growth rate (CAGR) of 24.4% during the 2010-15 period compared to a CAGR of 12.4% for developing economies and of 17.4% for Arab countries during the covered period. On a global basis, Lebanon had a higher fixed broadband penetration rate than Bulgaria, Cyprus and Trinidad & Tobago, and a lower rate than Italy, Slovakia and Croatia among economies with a GDP of \$10bn or more. Also, Lebanon came behind only Belarus among UMICs.

**CAGR of Broadband Penetration in 2010-15 (%)**



Source: ITU, Byblos Research

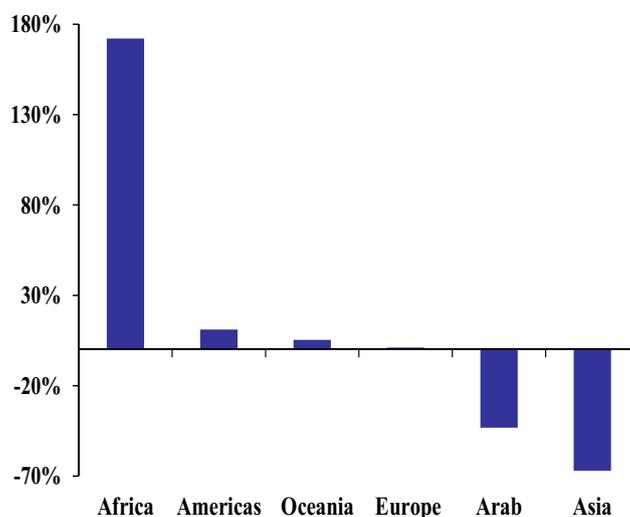
In parallel, Lebanon ranked in 52nd place among 205 countries at the end of 2015 in terms of Internet penetration, which represents the number of Internet users per 100 inhabitants. Lebanon's global rank dropped by five spots year-on-year. Lebanon also ranked in sixth place among 20 Arab countries and in second position among 51 UMICs. Lebanon had 74 Internet users per 100 inhabitants in 2015, constituting a growth of 1.4% from 73 Internet users per 100 inhabitants in 2014. Lebanon's Internet penetration rate came above the global average of 43.8 users per 100 inhabitants, the Arab average of 39 users and the developing economies' average of 36.7 users. Also, Internet users in Lebanon grew by a CAGR of 11.1% during the 2010-15 period compared to a CAGR of 11.8% for developing economies and 10.5% for Arab countries during the covered period. On a global basis, Lebanon had a higher Internet penetration rate than Russia, Slovenia and Kazakhstan, and a lower rate than Azerbaijan, the U.S. and Oman among economies with a GDP of \$10bn or more. Also, Lebanon had a lower penetration rate than only Azerbaijan among UMICs, while it trailed Bahrain, Qatar, the UAE, Kuwait and Oman among Arab countries.

## Tourist arrivals up 8% in first half of 2016

The number of incoming tourists to Lebanon totaled 723,105 in the first half of 2016, constituting an increase of 7.7% from 671,398 tourists in the same period of 2015, and a drop of 25% from 964,067 tourists in the first half of 2010. Visitors from European countries accounted for 33% of total visitors in the first half of 2016, followed by visitors from Arab economies with 30.2%, the Americas with 17.9%, Asia with 8.3%, Africa with 6.7% and Oceania with 3.8%. Also, tourists from Iraq accounted for 13.7% of total visitors in the covered period, followed by visitors from the U.S. with 9.2%, France with 8.4%, Canada with 6.2%, Jordan and Egypt with 5.1% each, Germany with 4.5% and the United Kingdom with 3.7%.

In parallel, the number of visitors from African countries increased by 29.6% year-on-year in the first half of 2016, followed by visitors from Oceania (+16.2%), the Americas (+12.7%), Europe (+10.2%), and the Arab region (+0.5%); while the number of visitors from Asian countries regressed by 0.6% from the same period of 2015. On a country basis, the number of tourists from Iraq surged by 20.6% year-on-year in the first half of 2016, followed by visitors from Venezuela (+18%), Germany (+16.7%), Sweden (+16.1%), Brazil (+14.2%), the U.S. (+14.1%), Canada (+10.3%), the United Kingdom (+8.6%), France (+8.1%), Turkey (+6.8%), Egypt (+4.3%), Jordan (+2.7%) and Italy (+2.5%). In contrast, the number of visitors from the UAE declined by 64.4% annually, followed by those from Kuwait (-41.1%) and Saudi Arabia (-37.7%).

**Change in the Number of Tourist Arrivals from Main Sources in First Half of 2016\***



\*from the same period of 2010

Source: Ministry of Tourism, Byblos Research

### Two thirds of Lebanese entrepreneurs are satisfied with local talent

A survey of entrepreneurs conducted by Wamda Research Lab shows that 98% of surveyed entrepreneurs in Lebanon hire talent located in the country. Entrepreneurs in Lebanon follow the same pattern as most surveyed entrepreneurs in the Middle East & North Africa region who hire from the country where their main office is located, with the UAE being the exception, as 51% of its entrepreneurs resort to sourcing skilled workers from abroad. The survey covered a sample of 963 entrepreneurs in Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Palestine, Saudi Arabia, Tunisia and the UAE. The survey was conducted online between November 2014 and January 2015, and covered 164 entrepreneurs who have their company located in Lebanon. The Wamda Research Lab is the research arm of Wamda, a platform of programs and networks that aims to support entrepreneurship ecosystems across the MENA region.

Further, 15% of entrepreneurs in the MENA region consider that Lebanon has the most talented labor pool, similar to Egypt. In comparison, 17% of MENA entrepreneurs believe that Jordan hosts the most talented employees, 11% of them said that it is the UAE and 8% cited Palestine. In addition, 34% of MENA entrepreneurs in the arts & creative industries and 36% of entrepreneurs in marketing & public relations consider that the most talented employees are in Lebanon, the highest percentages among Arab countries. Also, 28% of MENA entrepreneurs in e-commerce consider that Lebanon has the most talented work force, the second highest share in the region behind Jordan (32%). Further, 20% of MENA entrepreneurs in online services and 18% of those in software development & services said that Lebanon hosts the most talented employees, the fourth highest share in the Arab world. Further, the survey showed that 69% of entrepreneurs in Lebanon are satisfied with the available talent locally, the third highest share behind Palestine and Tunisia (73% each).

In addition, the survey shows that 27% of entrepreneurs in Lebanon offer salaries between \$1,000 and \$1,499 per month, 26% pay between \$1,500 and \$1,999, 12% remunerate between \$2,000 and \$2,499, and 11% offer monthly salaries between \$2,500 and \$3,499. In comparison, 52% of entrepreneurs in the MENA region pay salaries ranging between \$250 to \$1,000. The survey indicated that entrepreneurs in Lebanon and GCC countries pay higher-than-industry average salaries. It added that more than 80% of start-ups in Lebanon offer salaries above the IT industry minimum level and 28% of entrepreneurs offer wages above average salaries. Further, 20% of entrepreneurs in Lebanon offer equity in their firms to their employees, similar to the share of entrepreneurs in Egypt and lower than that in the UAE (36%), Jordan and Morocco (25% each), and Palestine (23%).

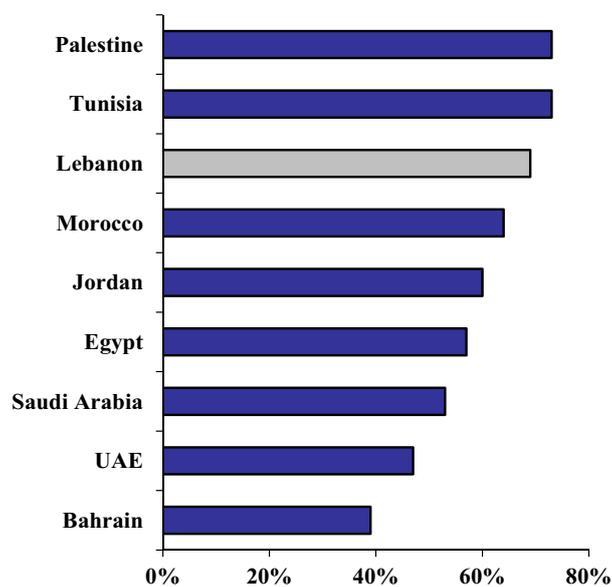
In parallel, 43% of entrepreneurs in Lebanon said that identifying the right skills or expertise is the main challenge to hiring new employees, followed by identifying the right personality (31%), finding talented persons who will commit to long term employment (27%), identifying the right level of experience or seniority (26%), finding persons who are interested in working for a startup (21%), negotiating a reasonable salary with new hires (9%) and having good human resource staff or processes (2%).

In addition, 41% of entrepreneurs in Lebanon indicated that motivation is the most difficult soft skill to identify in job applicants, followed by the ability to work independently (39%) and time management (31%). In terms of hard skills, 29% of entrepreneurs in Lebanon said that software programming is the most difficult skill, followed by sales (28%) and business development (24%).

### Airport passengers up 7% in first seven months of 2016

Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures and transit) totaled 4,164,997 in the first seven months of 2016, constituting an increase of 6.7% from 3,903,425 passengers in the same period last year. The number of arriving passengers grew by 7.9% year-on-year to 2,157,240 in the first seven months of 2016, compared to an increase of 9.7% in the same period of 2015 and to a rise of 5.2% in the first seven months of 2014. Also, the number of departing passengers grew by 5.7% year-on-year to 2,001,108 in the first seven months of 2016, relative to an increase of 9.3% in the same period of 2015 and to a drop of 4.5% in the first seven months of 2014. In parallel, the airport's aircraft activity grew by 6.2% year-on-year to 40,080 take-offs and landings in the first seven months of 2016, compared to an increase of 5.3% in the first seven months of last year and to a marginal rise of 0.7% in the same period of 2014. In addition, the HIA processed 49,607 metric tons of freight in the first seven months of 2016 that consisted of 29,751 tons of import freight and 19,856 tons of export freight. Middle East Airlines had 13,719 flights in the first seven months of 2016 and accounted for 34.2% of HIA's total aircraft activity.

### Entrepreneurs who are Satisfied with Local Talent (% of respondents)



Source: Wamda Research Lab, Byblos Research

### ADIR's financial strength rating upgraded to 'A+', net profits up 14% in 2015

Insurance rating agency i.e. Muhanna & co Rating Services upgraded the Financial Strength Rating of Adonis Insurance & Reinsurance Co. sal (ADIR), a subsidiary of the Byblos Bank Group, from 'A' to 'A+'. It attributed the upgrade to the decrease in the company's underwriting exposure. It noted that ADIR's financial strength is supported by its good level of underwriting exposure, but is constrained by its level of underwriting profitability. It noted that the firm's level of underwriting exposure, which is measured by the ratio of net premiums over total equity, was 59.8% in 2015, lower than the market average of 80% and reflecting the good capital position of the insurer in the market.

The agency indicated that Adir's liquidity ratio was 82.1% in 2015 relative to 81.9% in 2014; while its reserves reached \$152.1m at the end of 2015, up by 25.4% from \$121.3m at end-2014. Also, the company's retention rate, which is the ratio of net premium written over gross premium written, increased from 79.9% in 2014 to 81.5% in 2015 and was higher than the market average rate of 78%. Further, ADIR's ratio of net premium receivables-to-gross direct premium reached 8% in 2015, nearly unchanged from 2014, reflecting the company's good collection of receivables in the market.

ADIR posted net profits of \$11.6m in 2015, constituting an increase of 13.7% from \$10.2m in 2014. Its gross premiums reached \$34.4m in 2015, up by 7.8% from \$31.9m in 2014, while its claims totaled \$8.5m in 2015 compared to \$9.6m in 2014. The firm's shareholders' equity reached \$46.9m at the end of 2015, up 16.5% from \$40.3m at end-2014; while its return on equity was 26.1% in 2015 relative to 26.8% in 2014.

### Kafalat loan guarantees up 17% to \$59m in first seven months of 2016

Figures released by the Kafalat Corporation show that loans extended to small- and medium-size companies under the guarantee of Kafalat reached \$58.5m in the first seven months of 2016, constituting an increase of 17.1% from \$49.9m in the same period of 2015. Kafalat provided 421 loan guarantees in the covered period, up by 17.6% from 358 guarantees in the first seven months of 2015. The average loan size reached \$138,890 compared to \$139,518 in the first seven months of 2015. Mount Lebanon accounted for 42.3% of the total number of guarantees, followed by the Bekaa with 24%, the North with 12.8%, the South with 10.2%, Nabatieh with 6.4% and Beirut with 4.3%. Also, the agricultural sector accounted for 47.3% of the total number of guarantees in the first seven months of 2016, followed by the industrial sector with 28.5%, tourism with 19%, specialized technologies with 2.9% and handicraft with 2.4%. Kafalat is a state-sponsored organization that provides financial guarantees for loans of up to \$400,000 earmarked for the set-up 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.

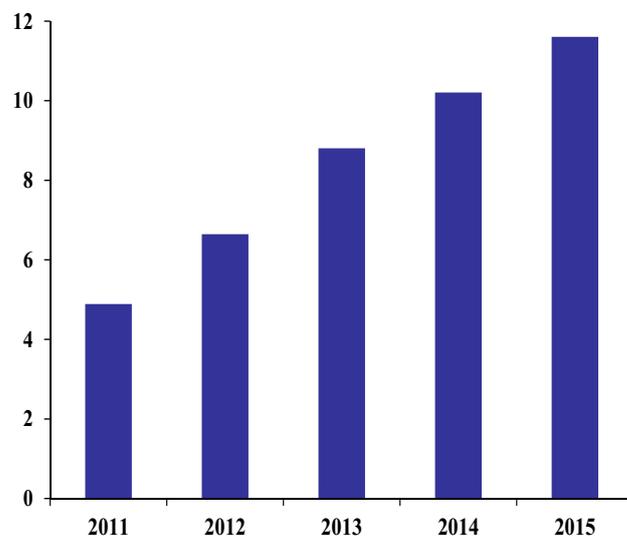
### Consortium wins 10-year contract to operate vehicle inspection centers in Lebanon

A consortium that consists of Société Générale de Surveillance, Autospect, Securitest, SGS tecnos, and Autosécurité-France won a 10-year contract for a total \$440.1m or about \$44m per year, to renovate, modernize and operate the four motor vehicle inspection centers located in Hadath, Saida, Tripoli and Zahlé. The contract of the current operator, Saudi Fal, expired at the end of 2012, but it has been renewed several times since then.

The consortium will also be in charge of designing, building and equipping eight new vehicle inspection centers in Baalbek, Byblos, Kuweikhat-Akkar, Nabatieh, Rashaya, Shouf, Tripoli and Tyr. The land plots will be offered by the municipalities, while the government will expropriate any private lots required to establish the centers. The term of the Build Operate Transfer contract is non-renewable, but the contract may be renewed in case of uncontrollable circumstances.

The annual return to the Treasury from car registration or road-usage (*mécanique*) fees is expected to remain fixed at \$4.7m. But the profits and operational costs of the new operator may vary, which could lead to a change in the "*mécanique*" fees paid by citizens. The mechanical inspection of cars and vehicles in Lebanon was established in 2004 to check vehicles' roadworthiness for conformity to technical standards and norms set by the Ministry of Interior.

ADIR Net Profits (US\$m)



Source: ADIR, Byblos Research

### Ten Lebanese banks among Top 1000 banks in the world

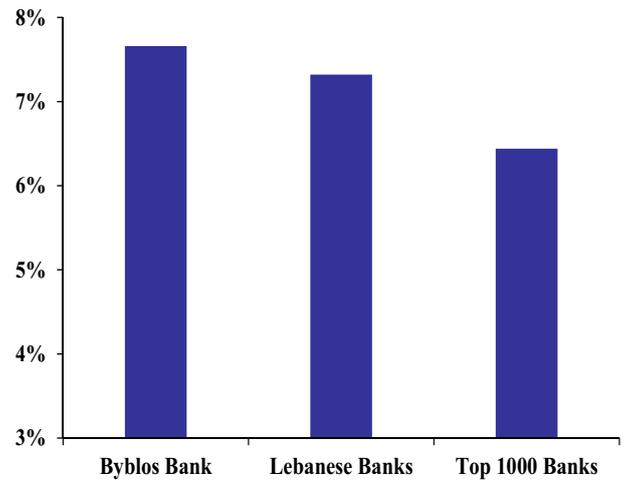
In its 2016 survey of the Top 1000 World Banks, *The Banker* magazine included 10 Lebanese commercial banks on its list, up from nine banks in last year's survey and from eight banks in the 2014 survey. The list included BBAC sal for the first time this year, while none of the 10 Lebanese banks ranked among the top 25 banks in the Middle East in the 2016 survey, in line with previous surveys. The rankings are based on the banks' Tier One capital in US dollars as at year-end 2015. *The Banker* uses the disclosed Tier One capital for banks that began implementing the Basel III framework, as the latter clarified the rules about capital calculations that previously varied across banks and jurisdictions. *The Banker* tracks banks in more than 190 jurisdictions that represent 90% of the world's total banking assets.

The aggregate Tier One capital of the 10 Lebanese banks reached \$13.7bn at the end of 2015 and grew by 4.6% from \$13.1bn at end-2014. In comparison, the Tier One capital of the top 1000 banks increased by 2.8% year-on-year, while that of the banks in the Middle East rose by 13.3%. Byblos Bank's Tier One capital-to-assets ratio reached 7.7% at the end of 2015, outperforming the 10 Lebanese banks' combined Tier One capital-to-assets ratio of 7.3% and the Top 1000 banks' aggregate ratio of 6.4%. In addition, Byblos Bank's Capital Ratio Adequacy (CAR), a measure of the Bank's financial strength, reached 17.69% at the end of 2015, the highest such ratio among Lebanese banks included in the 2016 survey.

Bank Audi's Tier One capital was \$2.56bn at the end of 2015 and accounted for 18.7% of the aggregate Tier One capital of the 10 Lebanese banks included in the 2016 survey. It was followed by BLOM Bank with \$2.43bn or 17.8% of the total, Fransabank with \$1.54bn (11.2%), Byblos Bank with \$1.52bn (11.1%), BankMed with \$1.3bn (9.5%), Bank of Beirut with \$1.22bn (8.9%), Société Générale de Banque au Liban with \$1bn (7.6%), Banque Libano-Française with \$980.9m (7.2%), Crédit Libanais with \$674.3m (4.9%), and BBAC with \$435m (3.2%). Bank Audi ranked in 350th place globally, in terms of Tier One capital, followed by BLOM Bank (364th), Fransabank (521st), Byblos Bank (526th), BankMed (573rd), Bank of Beirut (594th), Société Générale de Banque au Liban (659th), Banque Libano-Française (676th), Crédit Libanais (828th), and BBAC (975th).

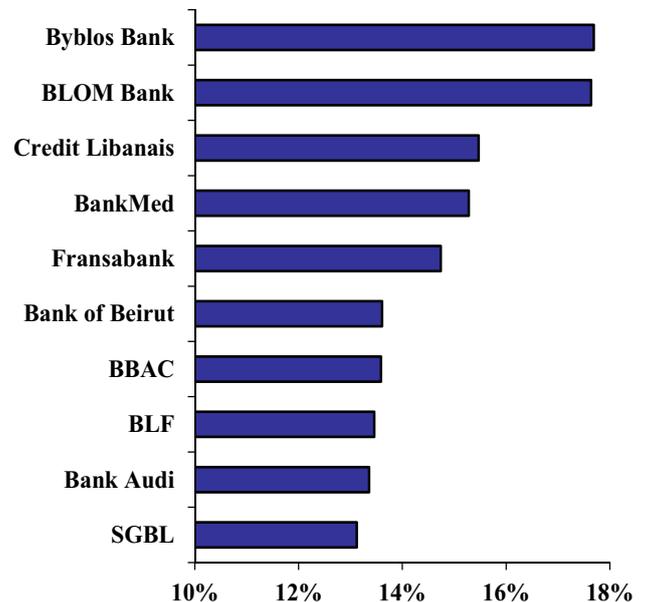
Further, the cumulative pre-tax profits of the 10 Lebanese banks reached \$2.28bn in 2015, up by 8.7% from the preceding year, and compared to a contraction of 1.8% in the gross earnings of the Top 1000 banks. The ratio of pre-tax profits-to-Tier One capital of the Lebanese banks reached 16.7% in 2015, up from 16% a year earlier, compared to 13.71% for the Top 1000 banks. The 10 Lebanese banks accounted for 0.19% of the Tier One capital of the Top 1000 banks, for 0.17% of their total assets and for 0.2% of their aggregate pre-tax profits. They also accounted for 4.5% of the Tier One capital of banks in the Middle East, for 6.6% of their total assets and for 5.3% of their aggregate pre-tax profits.

Tier One Capital-to-Assets Ratio at end-2015 (%)



Source: *The Banker Magazine*, *Byblos Research*

Capital Adequacy Ratio at end-2015 (%)



Source: *The Banker Magazine*

## 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	Oct 2014	Sep 2015	Oct 2015	Change**	Risk Level
Political Risk Rating	52.0	54.5	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	63.25	63.25	▼	Moderate

MENA Average*	Oct 2014	Sep 2015	Oct 2015	Change**	Risk Level
Political Risk Rating	57.1	57.6	57.7	▼	High
Financial Risk Rating	40.6	39.2	39.3	▲	Low
Economic Risk Rating	35.6	31.3	31.2	▲	Moderate
Composite Risk Rating	66.6	64.0	64.1	▲	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	Stable	B-		Stable
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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