

## LEBANON THIS WEEK

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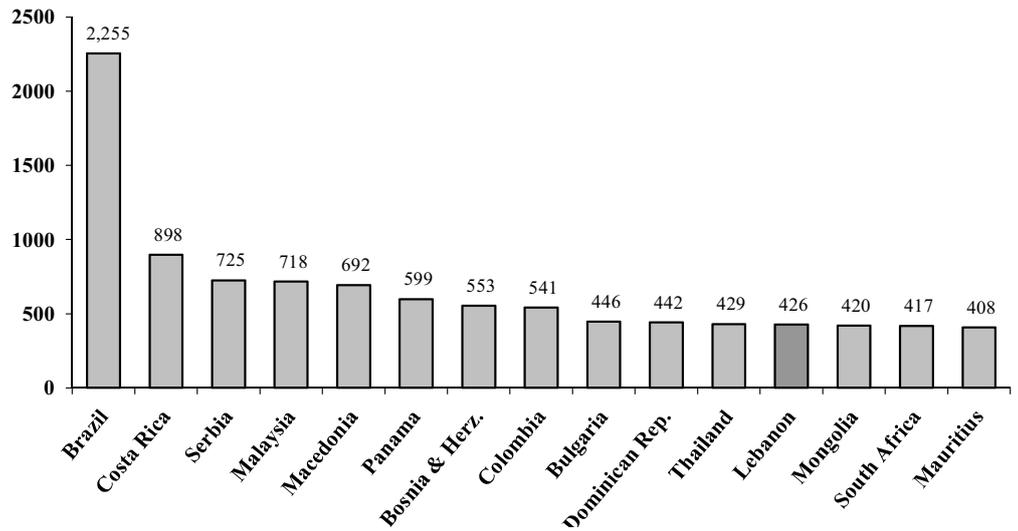
IBL's net income at \$38m in first half of 2016

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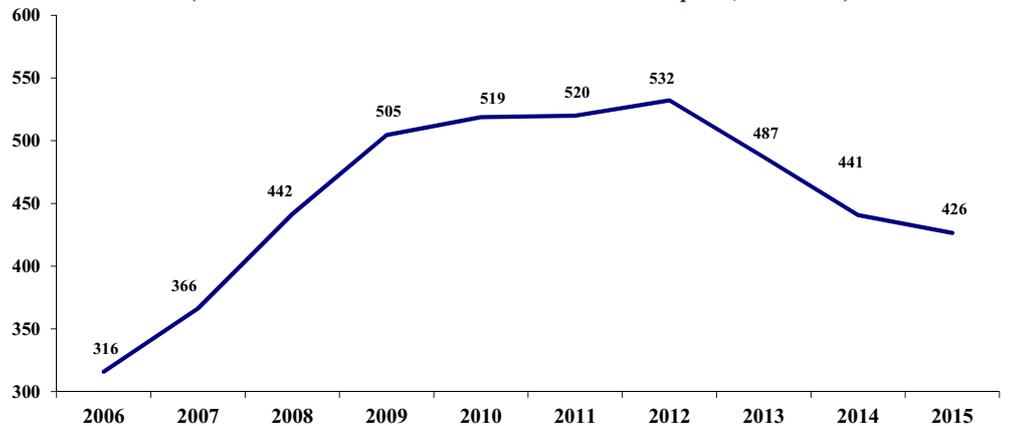
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### Charts of the Week

**Penetration Rate of Loan Accounts in Select Upper Middle-Income Countries in 2015\***  
(Number of loan accounts at commercial banks per 1,000 adults)



**Penetration Rate of Loan Accounts in Lebanon**  
(Number of loan accounts at commercial banks per 1,000 adults)



\*excluding economies with a GDP of \$10bn or less  
Source: International Monetary Fund, Byblos Research

### Quote to Note

"There is little scope for increased spending, given the weakness of state revenues, large public-sector wage bill and high debt service."

*The International Monetary Fund, on the need to implement fiscal reforms in Lebanon*

### Number of the Week

**32%:** Percentage of respondents in the 18 to 24-year old age bracket who do not know if there are good job opportunities in Lebanon, according to the ASDA'A Burson-Marsteller 2106 Arab Youth Survey

## Lebanon in the News

\$m (unless otherwise mentioned)	2015	Jun 2015	Mar 2016	Apr 2016	May 2016	Jun 2016	% Change*
Exports	2,952	281	220	237	237	274	(2.49)
Imports	18,069	1,690	1,750	1,610	1,629	1,533	(9.29)
Trade Balance	(15,117)	(1,409)	(1,530)	(1,373)	(1,392)	(1,259)	(10.65)
Balance of Payments	(3,354)	(794)	(288)	(225)	(862)	(13)	(98.36)
Checks Cleared in LBP	18,714	1,593	1,609	1,698	1,591	1,577	(1.00)
Checks Cleared in FC	50,845	4,504	3,983	3,959	4,018	4,076	(9.50)
Total Checks Cleared	69,559	6,097	5,592	5,657	5,609	5,653	(7.28)
Budget Deficit/Surplus	(3,952)	(64.56)	(713.34)	(192.17)	(40.18)	(263.20)	307.7
Primary Balance	724.40	289.34	(156.28)	249.64	542.95	103.48	(64.24)
Airport Passengers***	7,241,463	594,221	534,954	557,763	618,581	572,461	(3.66)

\$bn (unless otherwise mentioned)	2015	Jun 2015	Mar 2016	Apr 2016	May 2016	Jun 2016	% Change*
BdL Gross FX Reserves	30.64	34.11	30.37	31.16	32.03	33.20	(2.68)
<i>In months of Imports</i>	<i>20.35</i>	<i>20.18</i>	<i>17.35</i>	<i>19.36</i>	<i>19.66</i>	<i>21.65</i>	<i>7.29</i>
Public Debt	70.31	69.03	71.05	71.68	71.49	72.89	5.59
Bank Assets	185.99	180.08	187.66	187.92	188.63	190.36	5.70
Bank Deposits (Private Sector)	151.59	148.58	152.44	152.93	153.89	154.66	4.09
Bank Loans to Private Sector	54.22	51.74	55.06	55.20	55.52	55.88	8.00
Money Supply M2	52.15	50.59	52.52	52.79	52.98	53.25	5.25
Money Supply M3	123.62	120.44	124.51	125.11	125.65	126.38	4.94
LBP Lending Rate (%)****	7.45	7.12	8.62	8.40	8.53	8.31	-
LBP Deposit Rate (%)	5.56	5.51	5.59	5.60	5.58	5.56	5bps
USD Lending Rate (%)	7.06	7.03	7.36	7.17	7.29	7.20	17bps
USD Deposit Rate (%)	3.17	3.16	3.27	3.29	3.26	3.31	15bps
Consumer Price Index**	(3.75)	(3.37)	(3.57)	(2.35)	(2.45)	(0.98)	239bps

\* Year-on-Year \*\* Year-on-Year percentage change \*\*\*includes arrivals, departures, transit

\*\*\*\* Starting January 2016, lending rates in Lebanese pounds are reported before any subsidy or facility from reserve requirements according to Intermediate Circular No 389, and as such they are not comparable year-on-year

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
BLOM Listed	10.10	1.00	1,109,105	18.56%
Solidere "A"	11.47	19.35	782,234	9.80%
Solidere "B"	11.58	20.63	377,508	6.43%
BLOM GDR	10.30	0.78	199,677	6.50%
Byblos Common	1.64	(1.20)	48,010	5.04%
Audi Listed	6.20	(0.64)	37,686	21.18%
Audi GDR	6.20	(0.80)	20,320	6.09%
HOLCIM	15.87	10.44	6,903	2.65%
Byblos Pref. 08	101.10	0.10	3,415	1.73%
Byblos Pref. 09	101.40	0.30	3,100	1.73%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Mar 2017	9.00	101.25	5.78
Nov 2018	5.15	99.25	5.63
May 2019	6.00	100.50	5.79
Mar 2020	6.38	101.13	6.00
Apr 2021	8.25	108.50	6.05
Oct 2022	6.10	99.00	6.31
Jun 2025	6.25	97.00	6.71
Nov 2026	6.60	98.50	5.00
Feb 2030	6.65	97.38	6.00
Nov 2035	7.05	100.00	7.05

Source: Byblos Bank Capital Markets

	Oct 17-21	Oct 10-14	% Change	September 2016	September 2015	% Change
<b>Total Shares Traded</b>	2,691,863	134,790	1897.1	17,493,508	10,044,627	74.16
<b>Total Value Traded</b>	\$30,040,412	\$1,308,950	2195	\$129,513,460	\$96,050,554	34.84
<b>Market Capitalization</b>	\$11.70bn	\$11.25bn	4.05	\$11.11bn	\$11.02bn	0.83

Source: Beirut Stock Exchange (BSE)



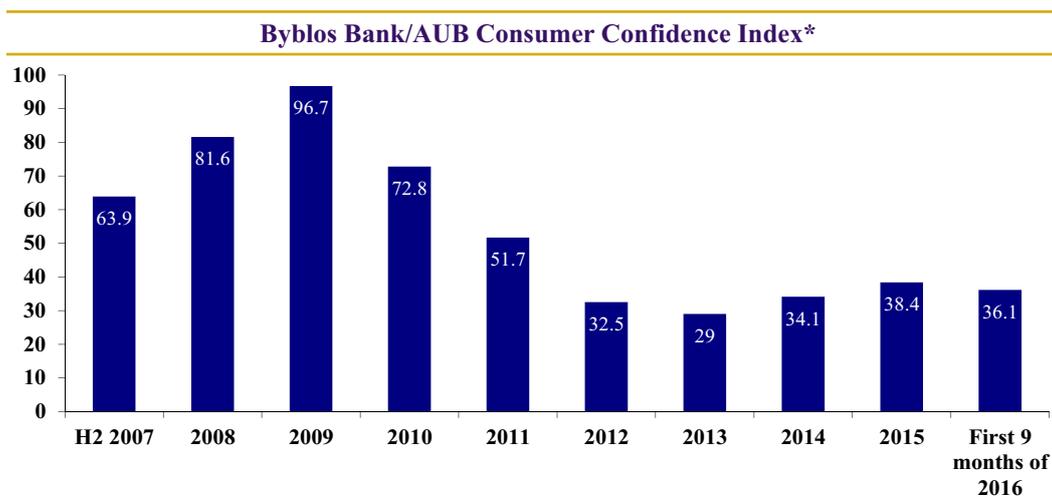
### Consumer confidence in Lebanon stagnates in third quarter of 2016

The level of consumer confidence in Lebanon was nearly unchanged in the third quarter of 2016 from the preceding quarter, as reflected by the results of the Byblos Bank/AUB Consumer Confidence Index. The Index averaged 36.4 points in the third quarter of 2016 and increased by 0.6% from 36.1 in the second quarter of 2016, but it regressed by 8% from 39.5 in the third quarter of 2015. In addition, the Byblos Bank/AUB Present Situation Index averaged 36.3 in the third quarter of 2016 and grew by 6.2% from the preceding quarter, while the Byblos Bank/AUB Expectations Index averaged 36.4 and regressed by 2.8% from the second quarter of 2016. The stagnation in confidence during the third quarter of 2016 was reflected in the answers of consumers to the Index's survey questions, as 77.6% of surveyed Lebanese in the covered period considered that their personal financial situation is "worse off" than it was six months earlier and 17.2% stated that their financial situation remained the same. In contrast, only 5.3% of them said that their financial situation is "better off" than it was six months earlier.

The prevailing status-quo on the political and economic fronts in the country caused the level of consumer confidence to remain at low levels in the third quarter of 2016. In fact, the repeated failure of the Lebanese Parliament to elect a President, the prevailing uncertainties about holding parliamentary elections and the paralyzed decision-making process within public institutions are factors that continued to weigh on consumer sentiment. Overall, household sentiment remained at low levels, as the Byblos Bank/AUB Consumer Confidence Index's average monthly score for the third quarter of 2016 constituted a decline of 65.7% from the quarterly peak of 105.8 registered in the fourth quarter of 2008 and a drop of 62.4% from the annual peak score of 96.7 reached in full year 2009. Also, the third-quarter results reflect a decrease of 32.2% from the index's monthly trend average score of 53.6 since July 2007. The third-quarter results continue to demonstrate that Lebanese consumers need to see concrete evidence and tangible solutions that improve their economic well-being in order for their outlook to pick up.

The results of the Byblos Bank/AUB Consumer Confidence Index for the third quarter of 2016 show that female consumers had a relatively higher level of confidence than their male counterparts; while consumers in the 40 to 49 year-old bracket posted the highest confidence level relative to citizens in other age brackets during the covered quarter. 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, private sector employees were more confident than the self-employed, housewives, students, public sector employees and the unemployed. In addition, households in Mount Lebanon posted the highest confidence level across administrative districts, or *mohafaza*, in the third quarter of the year, followed by households in Beirut, the North, the South and the Bekaa. Finally, Christian consumers were more optimistic than their counterparts from 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



### **Capital Intelligence affirms sovereign ratings at 'B', outlook 'negative'**

Capital Intelligence Ratings affirmed at 'B' Lebanon's long- and short-term foreign and local currency sovereign ratings, and kept the 'negative' outlook on the long-term ratings. It said that Lebanon's ratings and 'negative' outlook reflect the prevailing high level of geopolitical risks, which are weighing on economic activity and are increasing the country's vulnerabilities. It indicated that the highly polarized domestic political situation has prevented the ratification of key legislation and the implementation of fiscal reforms. However, it noted that there has been some progress towards ending the political stalemate, with the main political parties appearing to have reached an agreement on electing a President and forming a new government.

Further, the agency estimated that economic activity has picked up in the first half of 2016 and expected real GDP to grow by 1.7% this year. It did not expect a strong rebound in the economy's traditional growth drivers, such as tourism, real estate and construction, given the current circumstances. It considered that the economy's short- to medium-term outlook continues to be unfavorable and to depend on domestic political developments and the geopolitical situation in the region.

It noted that the country's public finances remain weak, and forecast the fiscal deficit to widen from 7.3% of GDP in 2015 to 8.1% of GDP in 2016. It mainly attributed the widening of the deficit to higher spending, especially on Treasury transfers to municipalities, as well as the absence of any fiscal consolidation measures.

In parallel, Capital Intelligence expected the government's gross financing requirements to exceed 33% of GDP in 2017. It indicated that Lebanon's refinancing risks are elevated, adding that the government's reliance on the domestic banking system to finance most of its needs in local and foreign currency makes the economy vulnerable to a shock that would adversely affect the risk appetite of local banks or the confidence of depositors. However, it considered that the government's gross financing needs are manageable in the short-term in the absence of such a shock, given the soundness of the banking system and the continued growth of bank deposits. It added that the government could draw from its deposits and borrow from the Central Bank in case of a funding gap over the short term, but it considered that these sources of financing are not sustainable over the long run.

The agency indicated that the ratings are supported by the country's adequate international liquidity, especially its foreign currency reserves, which constitute a buffer against external economic shocks. It noted that foreign currency reserves and other liquid foreign assets stood at \$38.4bn at the end of July 2016, equivalent to about 80% of GDP, and fully cover the country's very high external financing needs. It added that the high level of external financing needs reflects the elevated external debt that is equivalent to about 252% of current account receipts. It noted that deposits from the Lebanese Diaspora are the main source of funds to cover the current account deficit and indirectly allow the government to finance its fiscal deficit. It said that non-resident deposit inflows have remained stable during previous periods of political instability and have continued to grow in the first half of 2016 despite rising regional political turmoil.

### **Utilized credits by private sector at \$62bn at end-March 2016, advances against real estate account for 36% of total**

Figures issued by the Central Bank show that utilized credits by the private sector from commercial banks and financial institutions totaled \$62.33bn at the end of March 2016, constituting an increase of 1.3% from \$61.54bn at the end of 2015 and a rise of 8% from \$57.8bn at end-March 2015. The distribution of credits by type shows that advances against real estate totaled \$22.2bn and accounted for 35.6% of total private sector utilized credits at the end of March 2016. They were followed by overdrafts with \$17.7bn (28.4%), advances against personal guarantees with \$11.4bn (18.3%), advances against cash collateral or bank guarantees with \$7.36bn (11.8%), advances against other real guarantees with \$2.5bn (4%) and advances against financial values with \$1.12bn (1.8%). Trade & services accounted for \$20.6bn or 33% of utilized credits at the end of March 2016, followed by personal credit with \$18.4bn (29.5%), construction with \$11bn (17.7%), industry with \$6.4bn (10.3%), financial intermediaries with \$3.6bn (5.8%) and agriculture with \$724.9m (1.2%), while other sectors accounted for the remaining \$1.61bn (2.6%).

Also, the distribution of utilized credits in trade & services shows that wholesale trade accounted for 42.3% of overall trade & services credits, followed by real estate services with 20.3%, retail with 17.2%, transport & storage with 7.7%, hotels & restaurants with 7.6% and educational services with 4.9%. Personal credits accounted for 84.4% of loan beneficiaries, followed by trade & services with 10.6% of beneficiaries, industry with 2.9%, construction with 1.4%, agriculture with 1% and financial intermediaries with 0.6%, while other sectors attracted the remaining 3.5%.

The aggregate number of total loan beneficiaries grew by 0.7% from end-2015 to 574,078; while 73.2% of beneficiaries had loans ranging from LBP5m to LBP100m by the end of March 2016. Beirut and its suburbs accounted for 76.3% of bank credits and for 54.6% of beneficiaries. Mount Lebanon followed with 11.8% of credits and 17.8% of beneficiaries, South Lebanon with 4.7% of credits and 9.8% of beneficiaries, North Lebanon with 4.1% of credits and 10.8% of beneficiaries, and the Bekaa with 3.1% of credits and 7.1% of beneficiaries. In parallel, the off-balance sheet liabilities of banks and financial institutions totaled \$103.8bn at the end of March 2016 and grew by 0.7% from \$103bn at end-2015. They included endorsement & guarantees at \$96.3bn, or 92.8% of the total, followed by letters of undertaking at \$2.8bn (2.7%) and commitments on notes at \$2.36bn (2.3%).



### Lebanon ranks 130th globally, 10th in Arab world in Government Effectiveness

The World Bank's annual World Governance Indicators for 2015 show that Lebanon's score regressed on five out of six governance indicators included in the survey and improved on only one indicator, reflecting a weak level of governance in Lebanon. Also, Lebanon's rankings regressed on three indicators and improved on two, while it was unchanged on one governance indicator. The indicators cover 211 countries and territories and are rated on a scale of -2.5 to +2.5, with higher values corresponding to better governance outcomes.

Lebanon ranked in 130th place worldwide and in 10th place among 20 Arab countries in terms of Government Effectiveness. The indicator evaluates the quality of public services and the degree of their independence from political pressure, as well as the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. Lebanon's rank regressed by six spots globally, while it was unchanged regionally year-on-year. Globally, Lebanon had a more effective government than Belarus, Uganda and Laos and a less effective one than Mongolia, Senegal and Ecuador among countries with a GDP of \$10bn or more. The results show that Lebanon's score posted the 33rd steepest decrease globally, and that 62% of countries and territories in the world have a better score than Lebanon on this dimension of governance.

### Government Effectiveness Rankings & Scores in 2015

	Score	Arab Rank	Global Rank
UAE	1.54	1	18
Qatar	1.00	2	44
Bahrain	0.57	3	57
Saudi Arabia	0.21	4	83
Jordan	0.14	5	86
Oman	0.09	6	93
Kuwait	-0.02	7	99
Morocco	-0.06	8	104
Tunisia	-0.10	9	107
<b>Lebanon</b>	<b>-0.47</b>	<b>10</b>	<b>130</b>
West Bank/Gaza	-0.50	11	135
Algeria	-0.51	12	136
Egypt	-0.76	13	163
Djibouti	-0.96	14	175
Mauritania	-1.03	15	180
Iraq	-1.27	16	190
Sudan	-1.48	17	196
Syria	-1.63	18	203
Yemen	-1.64	19	204
Libya	-1.70	20	205

Source: World Bank, Byblos Research

In parallel, Lebanon ranked in 172nd place globally and in 14th place regionally on the Control of Corruption category, which measures the level of corruption in each country. Lebanon's rank improved by nine places worldwide and by one spot among Arab countries from the previous year. Globally, Lebanon had a lower level of corruption than Myanmar, Paraguay and Ukraine, and a higher level than Russia, Nicaragua and Bangladesh. Regionally, Lebanon had a lower level of corruption than Mauritania, Iraq, Yemen, Sudan, Syria and Libya. The results show that 82% of countries and territories in the world had a better score than Lebanon on this dimension of governance.

Further, Lebanon ranked in 118th place globally and in 10th place among Arab countries in terms of Regulatory Quality, which assesses market-friendly policies and laws that allow and promote private sector development. Lebanon's rank regressed by four spots and was unchanged among Arab countries from the previous year. Globally, Lebanon ranked ahead of Kenya, Mongolia and Burkina Faso, and came behind Azerbaijan, Paraguay and China. Regionally, the regulatory quality in Lebanon was better than in Tunisia, Djibouti and Egypt, while it was worse than in Saudi Arabia, Kuwait and Morocco. The results show that 56% of countries and territories in the world have a better score than Lebanon on this dimension of governance.

Also, Lebanon ranked in 158th place globally and in 12th place regionally on the Rule of Law category, a measure of the extent that citizens have confidence in the rules of society and abide by them, as well as the likelihood of crime and violence. Lebanon's rank improved by one place both globally and regionally from the preceding year. Globally, Lebanon ranked ahead of Belarus, Pakistan and Ukraine, while it came behind Russia, Laos and Mali among economies with a GDP of \$10bn or more. Regionally, Lebanon came ahead of Mauritania, Algeria, Djibouti, Sudan, Yemen, Syria, Iraq and Libya. The results show that 75% of countries and territories in the world have a better score than Lebanon on this dimension of governance.

### Lebanon's Rankings and Scores on Governance Indicators for 2015

	Global Rank	Change in Rank	Arab Rank	Lebanon Score	Change in Score	Arab Avg Score
Voice & Accountability	141	▼	2	-0.48	▼	-1.07
Political Stability	196	-	14	-1.72	▼	-1.03
Government Effectiveness	130	▼	10	-0.47	▼	-0.43
Regulatory Quality	118	▼	10	-0.28	▼	-0.44
Rule of Law	158	▲	12	-0.79	▼	-0.41
Control of Corruption	172	▲	14	-0.88	▲	-0.48

Source: World Bank, Byblos Research



### Occupancy rate at Beirut hotels at 58%, room yields down 17% in first nine months of 2016

EY's benchmark survey of the hotel sector in the Middle East indicated that the average occupancy rate at hotels in Beirut was 58% in the first nine months of 2016, unchanged from the same period of 2015 and compared to an average rate of 60.7% in 14 Arab markets included in the survey. The occupancy rate at Beirut hotels was the sixth lowest in the region in the first nine months of 2016, similar to its rank in the same period of 2015. The average occupancy rate in Arab markets fell by 1.8 percentage points year-on-year in the first nine months of 2016. Occupancy rates at Beirut hotels were 53% in January, 57% in February, 51% in March, 55% in April, 66% in May, 44% in June, 63% in July, 63% in August and 70% in September 2016. In comparison, occupancy rates were 50% in January, 56% in February, 56% in March, 58% in April, 64% in May, 58% in June, 58% in July, 64% in August and 55% in September 2015.

The average rate per room at Beirut hotels was \$138 in the first nine months of 2016, ranking the capital's hotels as the third least expensive in the region relative to Abu Dhabi (\$121) and Cairo (\$129). The average rate per room at Beirut hotels regressed by 16.7% year-on-year and constituted the steepest drop among all markets in the region. The average rate per room in Beirut came below the regional average of \$202.3 that decreased by 3.1% from the same period of 2015.

Further, revenues per available room (RevPAR) were \$81 in Beirut in the first nine months of 2016, down from \$97 in the same period of 2015 and were the second lowest in the region, ahead of only Amman (\$79). Beirut's RevPAR decreased by 16.6% year-on-year and posted the fourth steepest decline among Arab markets. Beirut posted RevPARs of \$79 in January, \$78 in February, \$68 in March, \$72 in April, \$94 in May, \$55 in June, \$92 in July, \$88 in August and \$102 in September 2016, compared to \$92 in January, \$91 in February, \$90 in March, \$97 in April, \$108 in May, \$89 in June, \$111 in July, \$103 in August and \$92 in September 2015. Jeddah posted the highest average rate per room in the region at \$295 and the highest RevPAR at \$224, while Dubai posted the highest occupancy rate at 79% in the first nine months of 2016.

### Parliament ratifies new borrowing in foreign currency

The Lebanese Parliament ratified on October 19, 2016 a law that allows the government to issue up to \$3bn in foreign-currency denominated debt in 2017. The Parliament had to raise the ceiling on foreign currency borrowing because the government's financing needs in foreign currency exceed the amount it can legally issue. The Parliament had to repeatedly raise the ceiling because the government reached its limit on borrowing in foreign currency. In November 2014, Parliament approved a similar law that allows the government to issue up to \$2.5bn in Eurobonds, and in November 2015, it ratified a law that allows the issuance of up to \$3bn.

Lebanon's gross public debt reached \$74bn at the end of August 2016, constituting an increase of 5.3% from \$70.3bn at end-2015 and a growth of 7.5% from \$68.9bn at the end of August 2015. In nominal terms, the gross public debt grew by \$3.7bn in the first eight months of 2016 relative to an increase of \$2.3bn in the same period of 2015. Debt denominated in Lebanese pounds totaled \$45bn at end-August 2016, growing by 4% from the end of 2015 and by 5.2% from end-August 2015; while debt denominated in foreign currency stood at \$29bn, constituting a rise of 7.4% from end-2015 and an increase of 11.2% from a year earlier. Foreign currency-denominated debt represented 39.3% of gross public debt at the end of August 2016.

### Food & beverage and furniture sectors account for 55% of industrial firms in Lebanon

The Directory of Exports & Industrial Firms in Lebanon indicates that there were 4,197 industrial companies operating in Lebanon at the end of 2015. The sectoral distribution of companies shows that 970 firms, or 23.1% of the total, operate in the food and beverage sector, followed by 544 companies in the furniture segment, 502 firms in paper & printing (12%), 417 companies in metal products excluding transport equipment (9.9%), 410 firms in non-mineral mining products (9.8%), 397 industrial units in the machinery and electrical appliances sector (9.5%), and 379 firms in leather products and footwear (9%).

Mount Lebanon accounted for 2,471 industrial firms at the end of 2015, equivalent to 58.9% of the total. North Lebanon followed with 444 companies or 10.6% of the total, then Beirut with 436 firms (10.4%), South Lebanon with 331 factories (7.9%), the Bekaa region with 323 companies (7.7%), the Nabatieh district with 108 firms (2.6%), the Baalbak-Hermel region with 64 factories (1.5%) and the Akkar district with 20 companies (0.5%). The industrial sector accounts for about 7.5% of GDP and employs 25% of Lebanon's labor force. The survey was conducted by the Industrial Directory Company and covered firms that employ eight workers or more.

### Hotel Sector Performance in First Nine Months of 2016

	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Jeddah	76	224	(1.5)
Dubai	79	188	(7.2)
Madina	63	154	(12.2)
Makkah	49	144	(7.0)
Doha	61	132	(18.4)
Muscat	62	117	(11.4)
Ras Al Khaimah	71.7	113	13.5
Riyadh	56	109	(18.3)
Manama	49	100	(4.8)
Kuwait City	37	100	(17.6)
Abu Dhabi	76	92	(16.0)
Cairo	63	82	51.8
<b>Beirut</b>	<b>58</b>	<b>81</b>	<b>(16.6)</b>
Amman	49	79	(10.7)

Source: EY, Byblos Research

### Funds disbursed or committed at \$1.22bn at end-August 2016

Figures issued by the United Nations shows that funds that have been disbursed or committed from official donors to Lebanon for 2016, as part of the Lebanon Crisis Response Plan 2015-16 (LCRP), reached \$1.22bn as at the end of August 2016. The U.S. disbursed or committed about \$316m to Lebanon for 2016, equivalent to 26% of aggregate fund disbursements and commitments, followed by Germany with \$267.5m (21.9%), the European Union with \$183.85m (15.1%), the United Kingdom with \$138.5m (11.4%) and Japan with \$48.7m (4%). In parallel, the total committed funds from official donors to Lebanon for years beyond 2016 reached \$512.5m as of August 2016, with the United Kingdom representing 37.6% of the total, followed by Germany (21.4%), the Netherlands (15.5%), the U.S. (15.4%), and Italy (8.5%). Also, donor funds carried over from 2015 totaled \$344.7m, of which 77.2% were reported by UN agencies and NGOs; while the remaining 22.8% were pooled funds arrangements, such as the Humanitarian Pooled Fund-Lebanon, among others. The "committed resources" refer to a strong obligation expressed in writing by the donor and backed by the necessary funds to provide specified assistance to a recipient country or a multilateral organization.

In parallel, the contributions of donors by sector reached \$979.3m year-to-August 2016. The distribution of funds by sector shows that \$214.7m were allocated to food security, which is equivalent to 21.9% of total allocations; followed by education with \$207.3m (21.2%), basic assistance with \$160.9m (16.4%), and energy & water with \$90.5m and healthcare with \$89.7m (9.2% each).

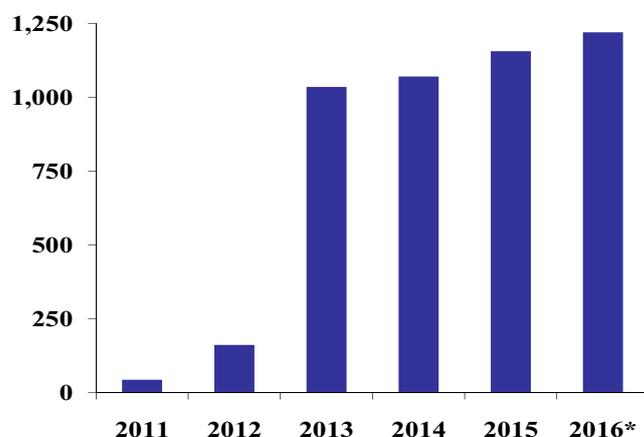
In addition, donors earmarked a total of \$1.1bn for Lebanon as part of the London Conference pledges. The figure does not reflect resources that have been earmarked by LCRP partners at the regional level, which will be allocated by the respective implementing partners according to needs. The EU earmarked \$291.8m or 27% of total pledges, followed by Germany with \$249.1m (23%), the U.S. with \$207.1m (19.1%), and the United Kingdom with \$143.3m (13.2%).

### Consumer Price Index down 2% in first nine months of 2016

The Central Administration of Statistics' Consumer Price Index regressed by 1.8% year on-year in the first nine months of 2016. Also, the CPI increased by 1.03% in September 2016 from September 2015. The prices of clothing & footwear increased by 12.1% year-on-year in September 2016, followed by actual rents (+7.5%), imputed rents (+3.5%), those at restaurants & hotels (+2.4%), recreation & entertainment (+2.3%), the cost of education and miscellaneous goods & services (+1.5% each), the prices of furnishings & household equipment (+0.9%) and the prices of alcoholic beverages & tobacco (+0.8%). The distribution of actual rent shows that old rents grew by 14.6% annually in September 2016, while new rents increased by 2.7% from the same month of 2015. In contrast, the price of water, electricity, gas & other fuels regressed by 2.5% year-on-year in the first nine months of the year, followed by transportation costs (-1.2%), the price of food & non-alcoholic beverages (-1.1%), healthcare costs (-1%) and communication costs (-0.1%).

Further, the CPI increased by 1.5% in September 2016 from the preceding month, relative to a month-on-month decrease of 0.8% in August 2016. Prices of clothing & footwear grew by 9.5% month-on-month, followed by actual rents (+3.4%), transportation costs (+2.2%), the prices of water, electricity, gas & other fuels (+1.9%), the cost of furnishings & household equipment (+1.3%), the price of food & non-alcoholic beverages (+0.9%), imputed rents (+0.4%), prices of alcoholic beverages & tobacco (+0.3%), recreation & entertainment costs (+0.2%). In contrast, prices at restaurants & hotels and healthcare costs declined by 0.2% from the preceding month. Further, the cost of education and miscellaneous goods & services as well as communication costs were unchanged month-on-month in September 2016. The CPI increased by 2.2% month-on-month in Beirut, by 1.8% in the Bekaa, by 1.5% in the South, by 1.4% in Mount Lebanon and by 1.2% in each of Nabatieh and the North. In parallel, the Fuel Price Index rose by 4.7% month-on-month in September 2016, while the Education Price Index was nearly unchanged from the preceding month.

Donor Contribution to Lebanon (US\$m)



\*As of end-August 2016

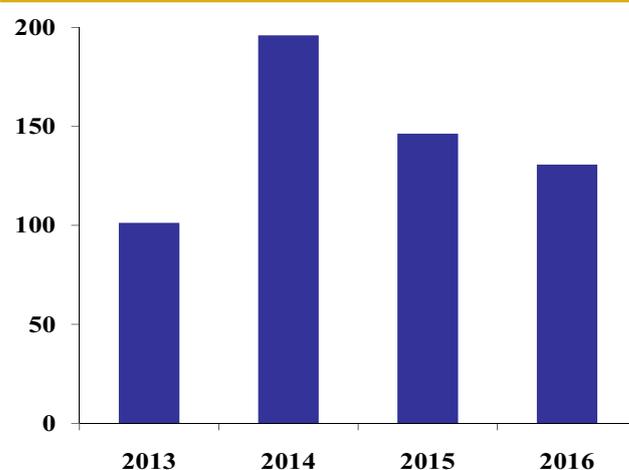
Source: United Nations, Byblos Research

### Subsidized interest loans down 11% to \$131m in first quarter of 2016

Figures released by the Central Bank show that the amount of subsidized interest loans to productive sectors in Lebanon totaled \$130.7m in the first quarter of 2016, constituting a decline of 10.7% from \$146.4m in the same quarter of 2015. The industrial sector benefited from \$112.9m in subsidized interest loans, equivalent to 57.3% of the total, followed by tourism with \$52.9m (26.8%) and agriculture with \$31.3m (15.9%). Subsidized medium & long-term loans by the Central Bank amounted to \$155.9m in the first quarter of 2016, equivalent to 79.1% of the total. The industrial sector accounted for 59.8% of subsidized medium & long-term loans, followed by tourism with 27.3% and agriculture with 12.9%. The program was established in the first quarter of 1997 and consists of a 5% to 7% subsidy on the interest charged on loans extended to productive sectors.

Also, subsidized interest loans guaranteed by the Kafalat Corporation reached \$37.7m, or 19.1% of the total, in the first quarter of 2016. The industrial sector received 42.4% of Kafalat-backed subsidies, followed by the agricultural sector with 30% and the tourism sector with 27.6%. Kafalat provides financial guarantees for loans of up to \$400,000 for small and medium-sized enterprises in productive sectors. In addition, subsidized interest loans granted by leasing companies amounted to \$2.4m in the first quarter of 2016, or 1.8% of the total, and were extended in full to the industrial sector. The cumulative amount of subsidized interest loans to productive sectors in Lebanon totaled \$6.7bn between 1997 and March 2016.

Subsidized Interest Loans\* (US\$m)



\*in the first quarter of each year

Source: Central Bank, Byblos Research

### Decline in construction and public works activity slows down in first quarter of 2016

The Central Bank's quarterly business survey shows that the prevailing decline in construction activity slowed down in the first quarter of 2016 from the preceding quarter, with the balance of opinions standing at -24 compared to -33 in the fourth quarter of 2015 and to -31 in the first quarter of 2015. The balance of opinions indicates that construction activity was the lowest in the North at -40, followed by Beirut & Mount Lebanon (-33), the South region (-13) and the Bekaa (+9). 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 -7 in the first quarter of 2016, compared to -28 in the preceding quarter and to -37 in the first quarter of 2015. Opinions about the level of public works were the lowest in the North at -40, followed by Beirut & Mount Lebanon (-15), the South region (+20) and the Bekaa region (+37).

In parallel, the balance of opinions for the portfolio of projects was -25 in the first quarter of 2016 relative to -39 in the preceding quarter and to -37 in the first quarter of 2015. The balance of opinions for the portfolio of projects was the lowest in the North at -40, followed by Beirut & Mount Lebanon (-35), the South (-25) and the Bekaa region (+12). Also, the balance of opinions for general construction activity was -23 in the first quarter of 2016, compared to -36 in the preceding quarter and to -29 in the first quarter of 2015. Further, the balance of opinions for construction costs reached -2 in the covered quarter compared to -23 in the preceding quarter and to +26 in the first quarter of 2015. 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 Works Activity: evolution of opinions

Aggregate results	Q1-13	Q1-14	Q1-15	Q1-16
General activity	-24	-14	-31	-24
Construction	-23	-14	-29	-23
Public works	-27	-19	-37	-7
Portfolio of projects	-19	-20	-37	-25
Construction costs	31	19	26	-2
Investments (% of yes)	38%	32%	37%	36%

Source: Central Bank Business Survey for First Quarter 2016



### **ESFD guaranteed 456 loans in first nine months of 2016**

The Economic & Social Fund for Development (ESFD) indicated that it guaranteed 456 loans for a total of LBP13.2bn, or \$8.8m, to small- and medium-sized enterprises in the first nine months of 2016. The ESFD guaranteed 127 loans for an aggregate value of LBP3.7bn, or \$2.45m, in the first quarter, 177 projects for a total value of LBP4.8bn (\$3.18m), in the second quarter and 152 loans for an aggregate value of LBP4.7bn (\$3.12m), in the third quarter of 2016. Overall, the ESFD guaranteed 9,280 loans for an aggregate value of LBP165.3bn (\$109.7m), between 2003 and September 2016. Mount Lebanon accounted for 28.7% of the total number of loans guaranteed by the ESFD between 2003 and September 2016, followed by Nabatieh (22.6%), the North (17.8%), the South (13.5%), the Bekaa (12.6%) and Beirut (4.8%). The ESFD claims that it has helped create 7,306 new jobs since 2003. It added that it has guaranteed 3,607 loans, or 38.9% of the total, to the services sector; followed by the trade sector with 3,342 loans (36%); the industrial sector with 1,368 loans (14.7%) and the agricultural sector with 963 loans (10.4%).

The ESFD guarantees 50% of the loan principal and accrued interest for 120 days. It supports 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.

### **Compensation of public-sector personnel down 5% in January 2016, absorbs 26% of fiscal spending**

Figures issued by the Ministry of Finance show that the compensation of public-sector personnel totaled \$341m in January 2016, constituting a decrease of 5.2% from \$359.5m in January 2015. Salaries, wages and related benefits accounted for 68.1% of the total in January 2016, followed by retirement benefits (28.6%), end-of-service indemnities (2.5%) and transfers to public institutions to cover salaries (0.8%). The decrease in the compensation of public-sector personnel reflects an annual decline in salaries, wages and related benefits which was partly offset by an increase in retirement benefits and transfers to public institutions to cover salaries. The compensation of public-sector personnel represented the largest component of total budgetary primary spending and accounted for 49% of such expenditures in January 2016 compared to 59% in January 2015. The compensation of public-sector personnel absorbed 26% of total fiscal spending in January 2016, down from 36% in January 2015.

In parallel, salaries, wages and related benefits paid to public-sector employees amounted to \$232.2m in January 2016, constituting a decrease of 9.8% from \$257.4m in January 2015. This category includes basic salaries, employment benefits, allowances, contributions to civil servants' cooperatives, as well as contributions to other mutual funds providing health insurance for specific categories of civil servants, mainly civil and religious judges, and employees at the Parliament. Salaries and benefits of military personnel reached \$137.3m and accounted for 59.1% of salaries, wages and related benefits paid in the public sector in January 2016. They were followed by educational personnel with \$49.8m (21.4% of the total), civil staff with \$27.2m (11.7%), the government's contribution to the employees' cooperative with \$13.3m (5.7%) and customs employees with \$2m (0.9%). Also, the Lebanese Army's salaries totaled \$83.6m in January 2016 and represented 60.9% of military personnel's salaries and benefits. The salaries of the Internal Security Forces followed with \$39.8m (29%), those of the General Security Forces with \$10m (7.2%) and the State Security Forces with \$4.6m (3.4%).

The overall decrease in salaries, wages and related benefits paid to public-sector employees reflects a contraction of \$55.1m in allowances, which was partly offset by an increase of \$18.6m in other payments, such as bonuses, given to non-military bodies, and a rise of \$9.3m in basic salaries and wages. Overall, basic salaries grew by 5.2% year-on-year to \$187.7m in January 2016 and other payments disbursed to non-military bodies increased by 5.7 times to \$22.6m. In contrast, allowances decreased by 91.2% to \$5.3m in January 2016, while employment benefits were unchanged year-on-year.

### Stock market activity posts fourth lowest performance in third quarter of 2016

Figures released by the Arab Federation of Exchanges indicate that market activity on the Beirut Stock Exchange (BSE) improved by 0.52% in the third quarter of 2016 from the previous quarter, constituting the fourth lowest performance among 16 Arab equity markets. Also, the BSE outperformed the Arab equity markets (-0.06%) in the covered period, while it underperformed the emerging equity markets (+8.32%) and global equity markets (+4.79%).

The Beirut bourse posted higher returns than the Abu Dhabi Securities Exchange (-0.47%), the Muscat Securities Market (-0.88%) and the Saudi Stock Exchange (-13.49%) in the covered quarter; while it underperformed the Egyptian Exchange (+13.52%), the Khartoum Stock Exchange (+8.01%), the Casablanca Stock Exchange (+5.61%), the Qatar Stock Exchange (+5.57%), the Dubai Financial Market (+4.93%), the Iraq Stock Exchange (+3.99%), the Palestine Exchange (+2.94%), the Damascus Securities Exchange (+2.89%), the Bahrain Bourse (+2.83%), the Amman Stock Exchange (+1.39%), the Tunis Bourse (+0.98%) and the Boursa Kuwait (+0.63%).

In parallel, the market capitalization of the BSE reached \$11.1bn at the end of the third quarter of 2016 and accounted for 1.09% of the aggregate market capitalization of Arab stock markets. It was higher than the market capitalization of the Tunis Bourse (\$8.4bn), the Iraq Stock Exchange (\$7bn), the Palestine Exchange (\$3.3bn), the Khartoum Stock Exchange (\$2.4bn) and the Damascus Securities Exchange (\$137.1m); while it came lower than that of the Saudi Stock Exchange (\$353.4bn), the Qatar Stock Exchange (\$153.6bn), the Abu Dhabi Securities Exchange (\$120.5bn), the Dubai Financial Markets (\$91.1bn), the Boursa Kuwait (\$80.9bn), the Casablanca Stock Exchange (\$52.1bn), the Egyptian Exchange (\$46.3bn), the Muscat Securities Market (\$45bn), the Amman Stock Exchange (\$23.7bn) and the Bahrain Bourse (\$18.1bn).

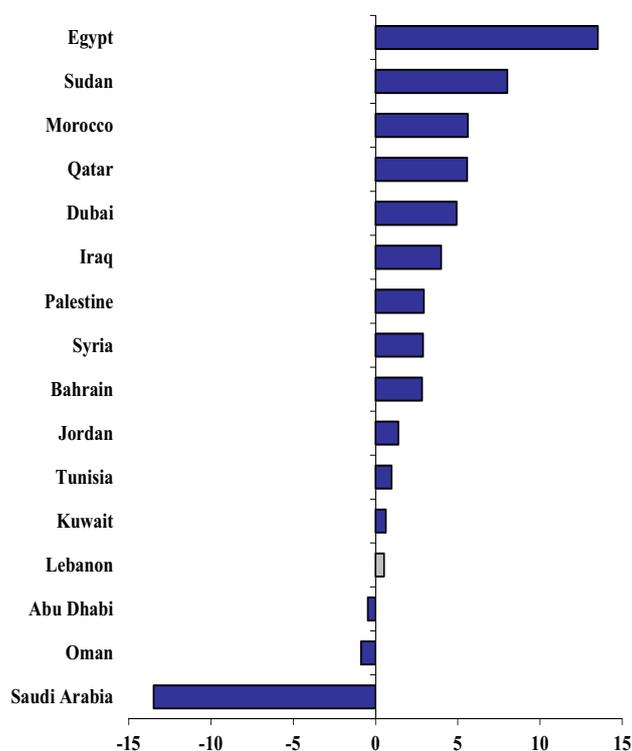
Further, the value of shares traded on the BSE totaled \$238m in the third quarter of 2016 and accounted for 0.4% of the total value of shares traded on Arab equity markets. It was higher than the turnover of the Tunis Stock Exchange (\$97.8m), the Palestine Exchange (\$96.8m), the Bahrain Bourse (\$83.1m), the Iraq Stock Exchange (\$54.6m), the Khartoum Stock Exchange (\$3m) and the Damascus Securities Exchange (\$0.75m); while it came lower than the turnover of the Saudi Stock Exchange (\$45.1bn), the Dubai Financial Market (\$5.9bn), the Qatar Stock Exchange (\$4.6bn), the Egyptian Exchange (\$3.8bn), the Abu Dhabi Securities Exchange (\$2.4bn), the Boursa Kuwait (\$1.2bn), the Casablanca Stock Exchange (\$721m), the Amman Stock Exchange (\$602m) and the Muscat Securities Market (\$435.6m).

### BBAC increases capital through issuance of preferred shares

BBAC sal, one of Lebanon's top 14 banks in terms of assets, increased its capital from LBP157bn, equivalent to \$104.2m, to LBP162.18bn or \$107.6m, through the issuance of 5,000,000 Series "C" Preferred Shares. The shares have an issue price of \$10 per share, of which LBP1,033 is par value and the remaining \$9.3 constitutes the issue premium. The Series "C" Preferred Shares are non-cumulative, redeemable and perpetual, and they carry an annual dividend rate of 7% of the issue price, with the annual payment contingent on the availability of sufficient declared net profits. The Series "C" shares are not listed on the Beirut Stock Exchange, in line with previous issuances. As such, the dividends are subject to a 10% withholding tax. BBAC has the option to call the shares within 60 days after the Ordinary General Assembly meets to approve the bank's financials for fiscal year 2021, and every year thereafter, at a callable price of \$10 per share plus any declared but unpaid dividends. Following the issuance, the bank's share capital would consist of 157,000,000 shares that include 144,000,000 common shares, 8,000,000 Series "B" Preferred Shares and 5,000,000 Series "C" Preferred Shares.

BBAC posted unaudited consolidated net profits of \$31.8m in the first half of 2016, up by 14.9% from \$27.7m in the same period of 2015. Its assets reached \$6.3bn at end-June 2016; while net loans & advances to customers, excluding loans & advances to related parties, increased by 3.5% from end-2015 to \$1.7bn at the end of June 2016. Also, customer deposits, excluding deposits from related parties, totaled \$5.4bn at end-June, up by 3.7% from the end of 2015.

**Performance of Arab Stock Markets in the Third Quarter of 2016 (% change)**



Source: Arab Federation of Exchanges

### **IBL's net income at \$38m in first half of 2016**

IBL sal, one of Lebanon's top 14 banks in terms of assets, announced unaudited consolidated net profits of \$38.4m in the first half of 2016, constituting an increase of 10.7% from \$34.7m in the same period last year. Net operating income grew by 17.6% year-on-year to \$72.9m in the first half of the year, with net interest income increasing by 99.6% to \$38.8m and net fees & commissions receipts rising by 4.5% year-on-year to \$2.6m. Non-interest income accounted for 16.4% of total income, up from 14.02% in the same period last year; with net fees & commissions representing 18.52% of non-interest earnings relative to 27.67% in the first half of 2015. Further, the bank's interest margin was 2.49% in the first half of 2016 relative to 2.13% in the same period last year; while its spread reached 2.46% in the first half of 2016 compared to 2.11% in the same period of 2015. Total operating expenditures increased by 11.4% to \$24.6m, with staff expenses growing by 7.2% to \$12.4m and general & administrative expenses expanding by 19.7% to \$10.7m. Also, the bank's return on average assets was 1.31% on an annualized basis in June 2016, unchanged from a year earlier; while its return on average equity was 17.5% on an annualized basis compared to 18.3% in June 2015. The cost-to-income ratio decreased to 28.47% in the first half of the year from 34.08% in the same period of 2015.

In parallel, the bank's total assets reached \$6.1bn at end-June 2016, constituting an increase of 7% from end-2015 and a rise of 13.8% from a year earlier. Loans & advances to customers, excluding those to related parties, fell by 4.3% from end-2015 and increased by 6.3% from a year earlier to \$1.05bn. Also, customer deposits, excluding those from related parties, totaled \$5.3bn at the end of June 2016, and grew by 3.9% from end-2015 and by 9.3% from a year earlier. The loans-to-deposits ratio decreased to 19.98% at end-June 2016 from 20.56% a year earlier. In parallel, the bank's shareholders' equity rose by 9% from the end of 2015 to \$456.4m at end-June 2016.

### **UFA's net income down 53% to \$1.4m in 2015**

UFA Assurances sal announced audited net profits of \$1.4m in 2015, constituting a decrease of 52.6% from \$2.9m in 2014. Its audited balance sheet shows total assets of \$36m at the end of 2015, up by 5.2% from \$34.2m at end-2014. On the assets side, general company investments reached \$19.8m and increased by 1% from a year earlier. They included \$2.2m in cash & cash equivalents, \$1.6m in variable income investments, \$1m in fixed income investments and \$0.5m in land and real estate investments. They also included \$11.4m in blocked bank deposits and deposits with maturity of more than three months, of which \$5.8m, or 50.7%, were blocked in favor of the Economy Ministry as guarantees. Also, the reinsurance's share in technical reserves for the life category regressed by 23.1% to \$0.2m in 2015, while that for the non-life segment declined by 29.3% to \$2.3m last year.

On the liabilities side, technical reserves for the life segment increased by 2.7% to \$0.7m in 2015, while technical reserves for the non-life segment reached \$14.7m at end-2015 and grew by 3.7% from a year earlier. Non-life technical reserves included unearned premium reserves of \$10.5m that rose by 3.6%, outstanding claims reserves of \$2.4m that grew by 3.3% and \$0.9m in reserves incurred but not reported that decreased by 1.6% year-on-year. Provisions for risks and charges reached \$1.1m and increased by 1.8% from a year earlier. Further, the firm's shareholders' equity totaled \$15.2m at end-2015 and grew by 9.8% from the preceding year.

*Al-Bayan* magazine's annual survey of the insurance sector in Lebanon ranked UFA in 18th and 25th place in 2015 in terms of non-life and life premiums, respectively. The firm's non-life premiums rose by 18.5% to \$17.1m in 2015, while its life premiums amounted to \$0.9m and increased by 29.4% from 2014. It had a 1.6% share of the local non-life market and a 0.2% share of the life market in 2015.

## Ratio Highlights

(in % unless specified)	2013	2014	2015	Change*
Nominal GDP (\$bn)	47.2	49.4	50.9	
Public Debt in Foreign Currency / GDP	55.3	51.9	53.2	134
Public Debt in Local Currency / GDP	79.1	83.0	85.0	203
Gross Public Debt / GDP	134.4	134.8	138.2	337
Total Gross External Debt / GDP**	163.8	165.1	162.4	(270)
Trade Balance / GDP	(36.6)	(34.8)	(29.7)	512
Exports / Imports	18.5	16.2	16.6	41
Fiscal Revenues / GDP	19.9	22.0	18.8	(322)
Fiscal Expenditures / GDP	28.9	28.3	26.6	(167)
Fiscal Balance / GDP	(8.9)	(6.2)	(7.8)	(154)
Primary Balance / GDP	(0.5)	2.6	1.4	(122)
Gross Foreign Currency Reserves / M2	69.5	66.5	58.7	(780)
M3 / GDP	235.4	238.4	243.0	462
Commercial Banks Assets / GDP	349.0	355.9	365.6	968
Private Sector Deposits / GDP	288.4	292.6	298.0	540
Private Sector Loans / GDP	100.3	103.1	106.6	348
Private Sector Deposits Dollarization Rate	66.1	65.7	64.9	(83)
Private Sector Lending Dollarization Rate	76.5	75.6	74.8	(73)

\* Change in basis points 14/15

\*\*Includes portion of public debt owed to non-residents, liabilities to non-resident banks, non-resident deposits (estimated by the IMF), Bank for International Settlements' claims on Lebanese non-banks

Source: Association of Banks in Lebanon, Institute of International Finance, International Monetary Fund, World Bank, Byblos Research Estimates & Calculations  
Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

## Risk Metrics

Lebanon	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	Stable	B-	B	Stable
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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