

The Lebanese Economy:

Stability Amid Regional Turmoil



Contents

| | | |
|-----------|-----------------------------|----|
| Section 1 | Disclaimer | 4 |
| Section 2 | Key Investment Highlights | 6 |
| Section 3 | New Issue Details & Pricing | 8 |
| Section 4 | The Lebanese Republic | 10 |
| Section 5 | Outlook for the Economy | 12 |
| Section 6 | Balance Sheet | 18 |
| Section 7 | Sovereign Debt Analysis | 20 |

Section 1

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Section 2

Key Investment Highlights



Key Investment Highlights

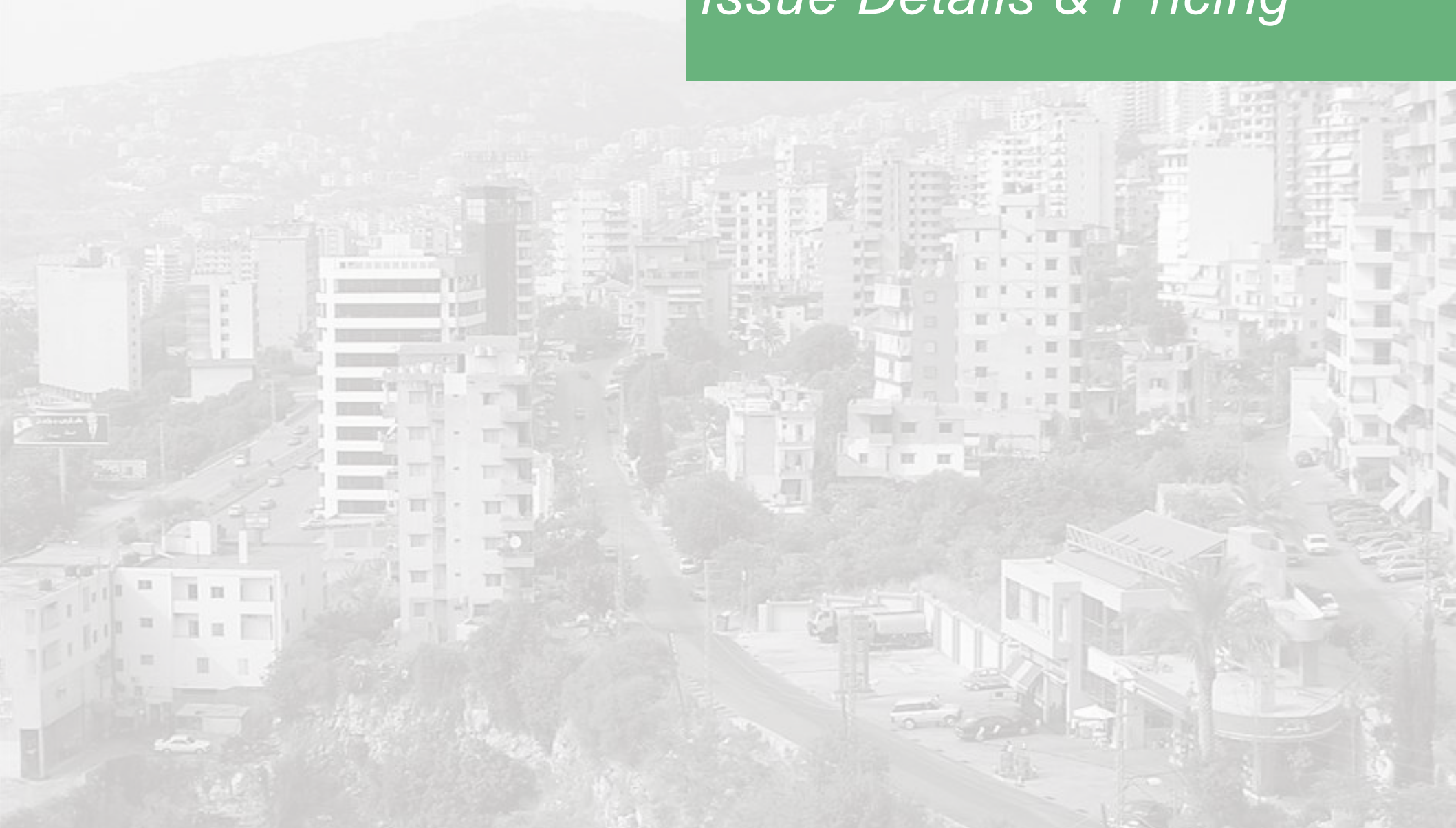
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| A Resilient Economy | <p>Driven by a well-educated entrepreneurial class and a sophisticated banking sector, Lebanon's economy has demonstrated its stability and absorptive capacity amid challenging political and economic conditions</p> <p>The economy grew at an average annual rate of 2% during 2014-2015, despite the turbulent regional geopolitics and challenging external economic environment</p> <p>During the 2008-2010 period of relative political calm, the economy grew by average annual rate of 9.1⁽¹⁾%</p> |
| Strong Banks Supervised by Skilled Regulators | <p>The banking system is key to the stability of Lebanon's public finances, and the banks are generally in sound financial health, well-capitalized and profitable</p> <p>The Banque du Liban has proven to be very effective in maintaining the stability of the exchange rate and of the overall monetary system, especially during the global financial crisis of 2008-2009</p> |
| Resilient Capital Flows | <p>Lebanon benefits from strong inflow of remittances that posted an annual average of USD 7.2 billion during the 2011-2015 period</p> <p>Resident and non-resident private sector deposits with commercial banks increased by USD 44.4 billion between 2011 and 2015 to reach USD 152 billion at the end of December 2015</p> |
| Stable Public Finances | <p>Periods of high economic growth have produced primary surpluses in 12 of the 15 years from 2000-2015. As a result, government debt, while large relative to GDP, is some 54 percentage points of GDP below its peak in 2006</p> <p>Funding government debt rests on a well-established, and crisis-tested bank-based system for channelling funds from savers at home and in the vast Lebanese Diaspora</p> |
| Comfortable External Liquidity | <p>Official foreign exchange reserves are ample relative to imports and short-term external debt</p> <p>Overall, Lebanon's external debt-servicing capacity has limited vulnerability to sudden shifts in global capital flows, despite its large current account deficit</p> |

(1) CAS

(2) World Bank Remittance Data April 2015

Section 3

Issue Details & Pricing



New Issue(s)

New Issue 1

| | |
|----------------------|--|
| Issuer: | The Lebanese Republic |
| Rating: | B2 / B- / B (Moody's / S&P / Fitch) negative outlook |
| Issue Type: | Fixed Rate Notes |
| Format: | Reg S |
| Tenors: | TBD |
| Currency: | USD |
| Listing: | Luxembourg |
| Settlement: | Euroclear / Clearstream |
| Governing Law: | New York |
| Joint Lead Managers: | BLOM Bank, Byblos Bank & Deutsche Bank |

New Issue 2

| | |
|----------------------|--|
| Issuer: | The Lebanese Republic |
| Rating: | B2 / B- / B (Moody's / S&P / Fitch) negative outlook |
| Issue Type: | Fixed Rate Notes |
| Format: | Reg S |
| Tenors: | TBD |
| Currency: | USD |
| Listing: | Luxembourg |
| Settlement: | Euroclear / Clearstream |
| Governing Law: | New York |
| Joint Lead Managers: | BLOM Bank, Byblos Bank & Deutsche Bank |

Section 4

The Lebanese Republic



The Lebanese Republic

| | |
|--|---|
| Ratings | Moody's: 'B2' (Negative) S&P: 'B-' (Negative) Fitch: B (Negative) |
| Nominal GDP 2015 (Projected) ¹ | USD 54.0 billion |
| Real GDP Growth 2014 (Estimated, 2015) ¹ | 2.0% |
| Inflation | 2015: (3.7%) 2016 IMF Forecast: 1.5% |
| Population | 4.5 million (permanent residents) |
| Exchange Rate | LL 1,507.5 per US\$ 1.00 |
| Total Area | 10,452 sq.km |

(1) IMF October 2015 WEO growth estimate

The background of the slide is a faded, grayscale photograph. It depicts a cityscape with a prominent mosque minaret on the right side. In the far background, there are large, rugged mountains covered in snow. The overall scene is hazy, suggesting a distant or elevated viewpoint.

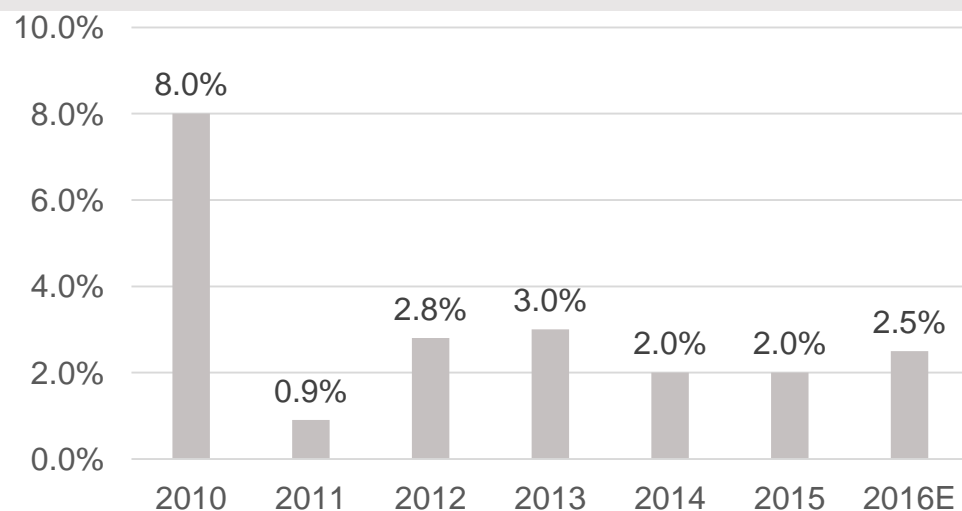
Section 5

Outlook for the Economy

Growth Underpinned by a Diversified Economy

Sustained Real GDP Growth (%)

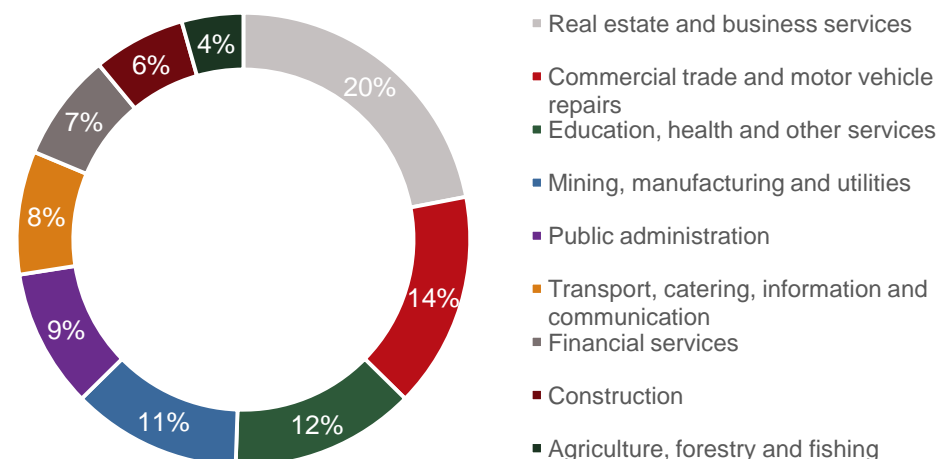
- Growth in Lebanon has averaged 2.1% over the period 2014-2015, despite turbulent regional politics and challenging external environment
- During a period of relative political calm, 2008-2010, the economy grew by average annual rate of 9.1%
- The economy continued to expand between 2011 and 2015 despite domestic instability and an increase in geopolitical risks in the region. The IMF estimates real GDP growth in 2014 at 2.0% and has projected growth of 2.0% in 2015 and 2.5% in 2016
- Periods of high economic growth have produced primary surpluses in 12 of the 15 years from 2000-2015



Sources: CAS, Lebanese National Accounts 2004-2013; figures in this table have been revised and may differ from previously published data
 (1) 2014 GDP is an estimate and uses IMF October 2015 WEO growth estimate

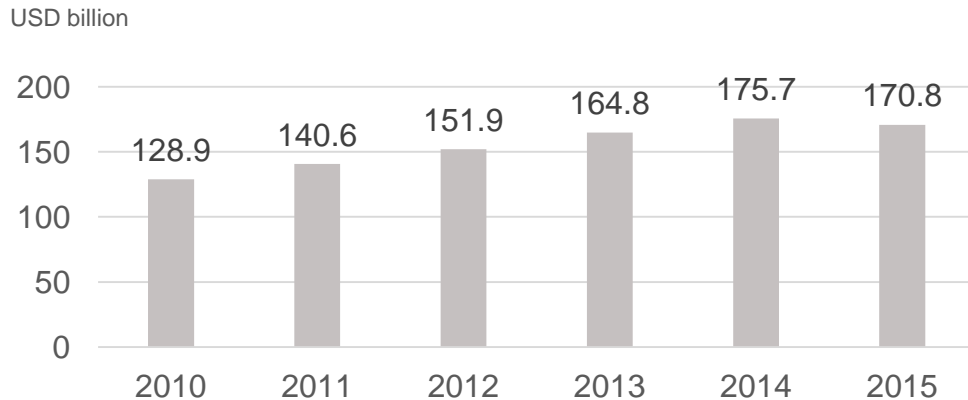
GDP Contribution by Sector

- The Lebanese economy is based primarily on a dynamic and diversified services sector that includes commerce, tourism, real estate, ICT, healthcare and financial services, among others
- In 2013, services accounted for approximately 70% of GDP

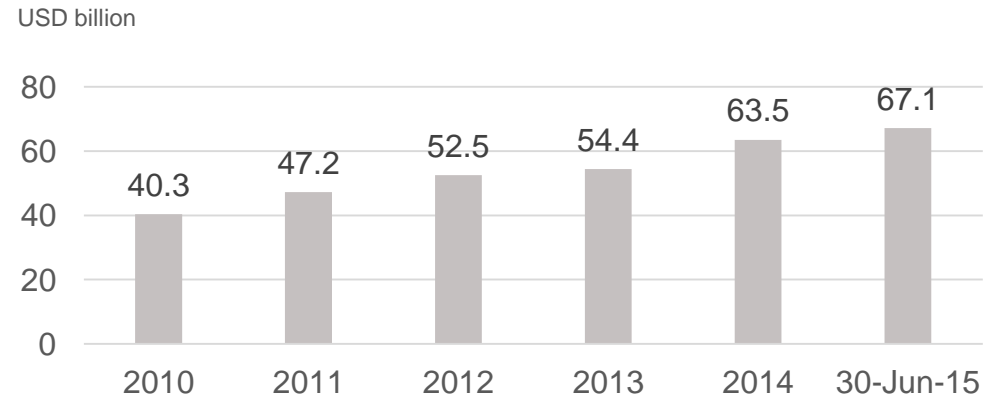


The Republic's Banking Sector

Commercial Banks' Total Assets: Continued Growth



Commercial Banks' Deposits with BDL: Demonstrated Resilience



- The Lebanese banking sector is well-regulated and supervised in conformity with international best practices and standards
- Confidence in banking sector allows deposits to continue to grow despite political uncertainties, as private sector deposits were equivalent to 281% of GDP at the end of 2015
- The Lebanese banking sector's assets were equivalent to 345% of GDP at the end of 2015, which demonstrates the capacity of the sector to finance the private and public sectors simultaneously, while supporting the Banque du Liban's capabilities through legal reserve requirements
- The net income of commercial banks operating in Lebanon was USD 1.88 billion in 2015, constituting an increase of 11% from 2014
- The sector is well capitalized and liquid, as its capital base grew by 6% to USD16.7 billion in 2015, while its private sector loans-to-deposits ratio was 35.8% at the end of 2015
- Lebanese banks have diversified their operations and products, and have entered new markets that include Egypt, Saudi Arabia, Syria, Jordan, Algeria, the United Arab Emirates, Bahrain, Qatar, Oman, Iraq, Armenia, Turkey, Romania, the Democratic Republic of Congo, The Gambia, and Australia. They also have a longstanding presence in France, Switzerland, the United Kingdom, Belgium and Cyprus, among others

Source: Banque du Liban

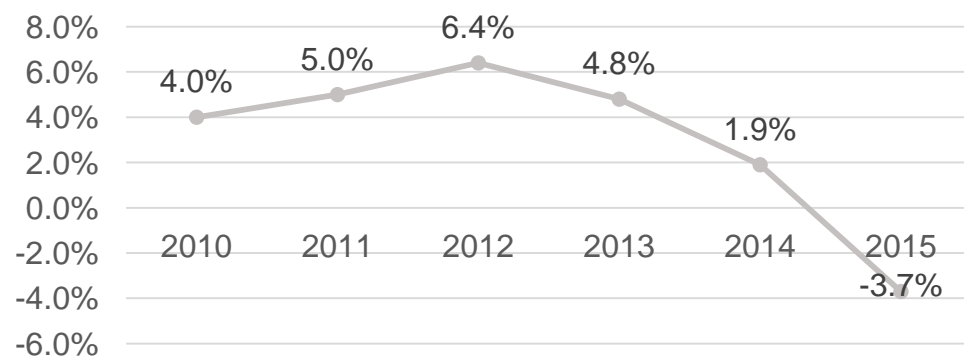
(1) Assets and Deposits converted to USD billions from LL billions based on the following exchange rate : 1,507.5 Lebanese Pounds per US dollar

Sound Monetary Environment

Low Inflationary Environment (%)

- The drop in inflation in 2015 was the result of the decrease in global oil and the resulting reduction in utility prices and lower transportation costs
- A decrease in telecommunication tariffs as a result of cost reduction measures introduced by the Ministry of Telecommunications also contributed to the decrease
- The average monthly Consumer Price Index declined by 3.7% in 2015

%, measured on a period-average basis



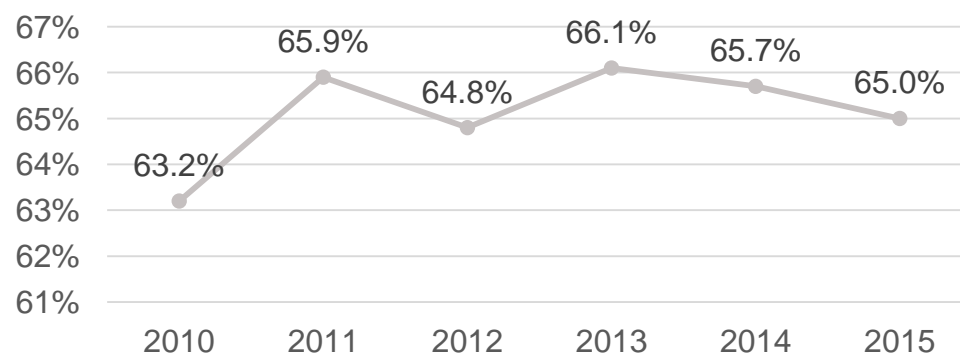
Source: CAS
(1) IMF preliminary projection

Prudent Oversight from Banque du Liban

- Banque du Liban's primary objectives are to safeguard the stability of the Lebanese pound, to promote monetary stability, and to contain inflation
- A stable peg of LL 1,507.5 to the USD dollar since 1999 is evidence of Banque du Liban's credible monetary policy
- Banque du Liban has amassed USD 31.6 billion in assets in foreign currency as at the end of January 2016
- Banque du Liban has supported economic activity through annual stimulus packages since 2013

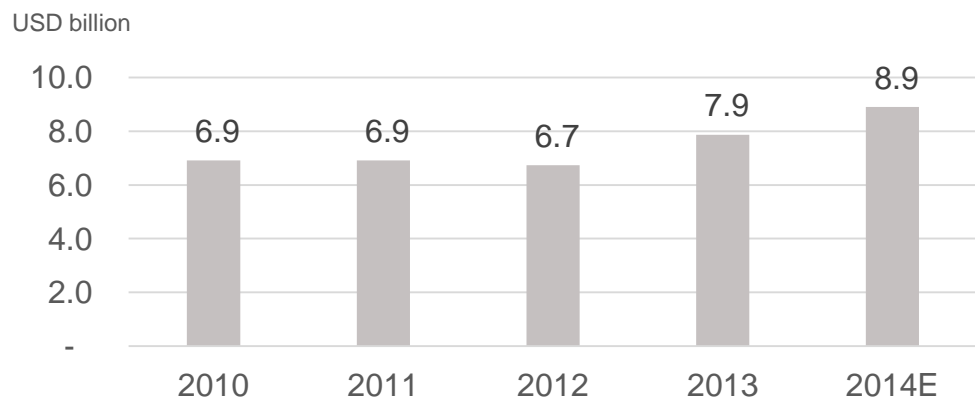
Stable Dollarization of the Economy

%, end of period

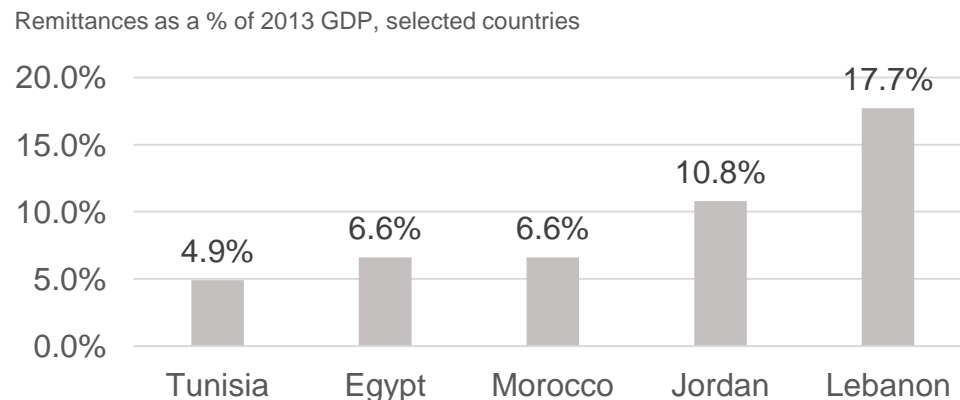


Support of Robust Inflows of Remittances and FDIs

Significant Levels Inflow of Remittances¹



The Highest Remittance Inflows Among Regional Peers¹



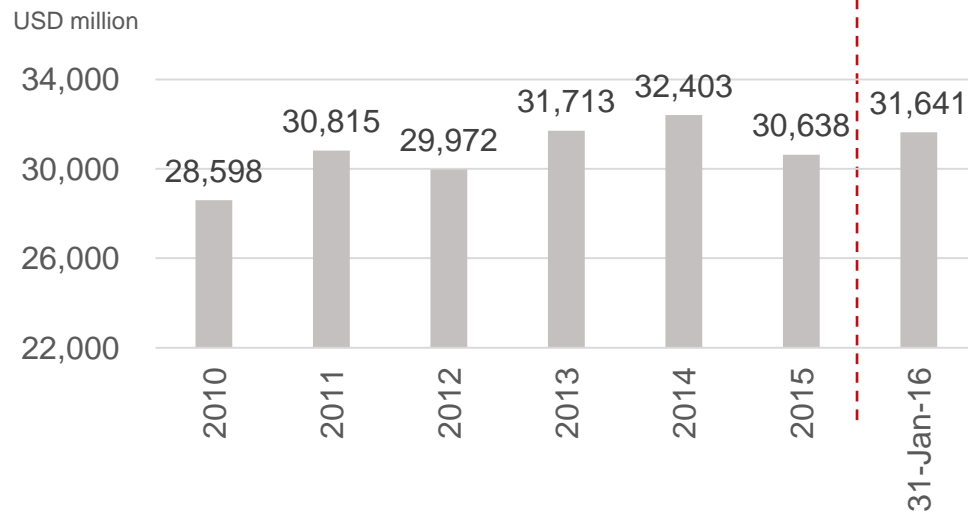
- Remittance inflows from Lebanese expatriates have supported day-to-day consumption needs of households and contributed to economic activity, as well as to the growth in bank deposits
- The level of remittance inflows to Lebanon has remained elevated throughout the years, with inflows averaging USD 7.2bn annually during the 2011-2015 period compared to USD 6.1bn annually during the 2005-2009 period
- Remittance inflows to Lebanon were equivalent to 13.8% of GDP in 2015, one of the highest levels among developing economies
- The stability of the Lebanese pound, a highly developed financial sector, the free flow of capital, and low inflation rates, as well as the success of Lebanese expatriates in host economies have contributed to the steady flow of remittances

Sources: Ministry of Finance; Banque du Liban; World Bank

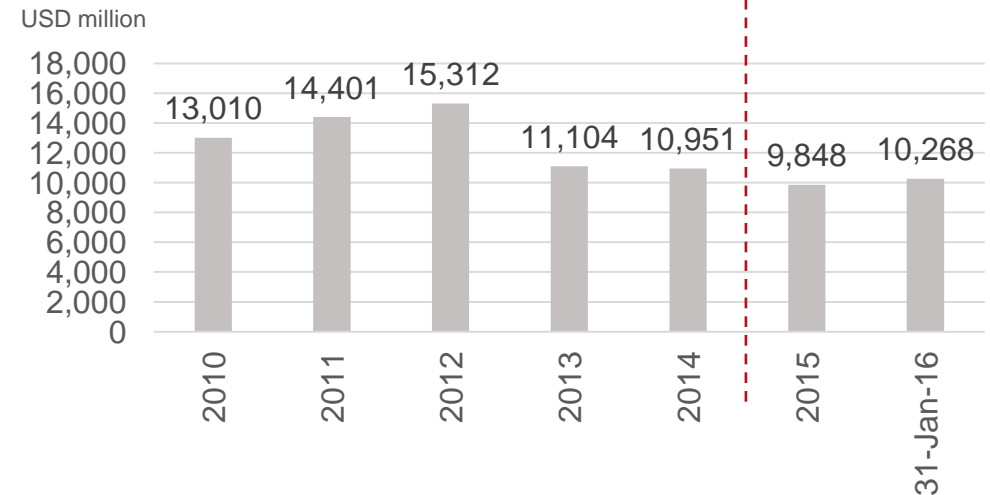
(1) World Bank Remittance Database April 2015 – World Bank uses a different methodology for remittances than calculated in Lebanon's Balance of Payments

Significant FX and Gold Reserves

Foreign Currency Reserves



Gold Reserves



- Banque du Liban's gross foreign currency reserves (excluding gold reserves) were USD 31.6bn and gold reserves were USD 10.3bn as at January 31, 2016
- Foreign currency reserves are generally placed by BDL outside the Republic with other central banks or with highly-rated international banks



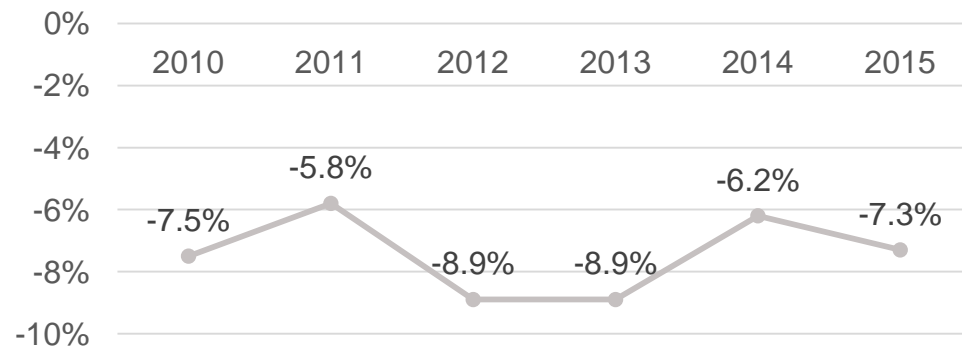
Section 6

Budget

Primary Budget Balance Remains in Surplus

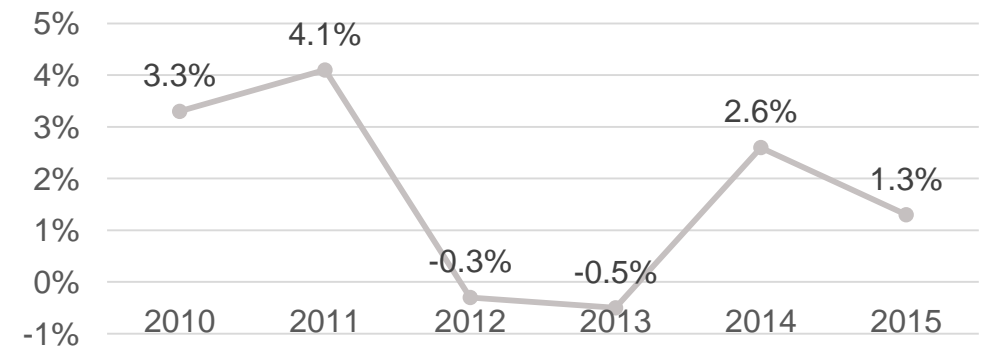
Fiscal Deficit

%, end of period



Primary Balance

%, end of period



- Lebanon's public finances have remained stable despite domestic and regional uncertainties, global market volatility, and the drop in global hydrocarbon prices
- Lebanon's fiscal deficit narrowed to 6.2% of GDP in 2014 due to one off factors
- The fiscal deficit reached 7.3% of GDP in 2015 and the primary balance posted a surplus of 1.3% of GDP in 2015
- Public expenditures regressed from 28.1% of GDP in 2014 to 25.1% of GDP in 2015
- The drop in global hydrocarbon prices has reduced the Treasury's transfers to the electricity utility Electricité du Liban by 45.8% in 2015, which helped contain the fiscal deficit and reduce public expenditure
- Reforms to the electricity sector would reduce Treasury transfers to EDL, which have historically accounted for 50% of the fiscal deficit

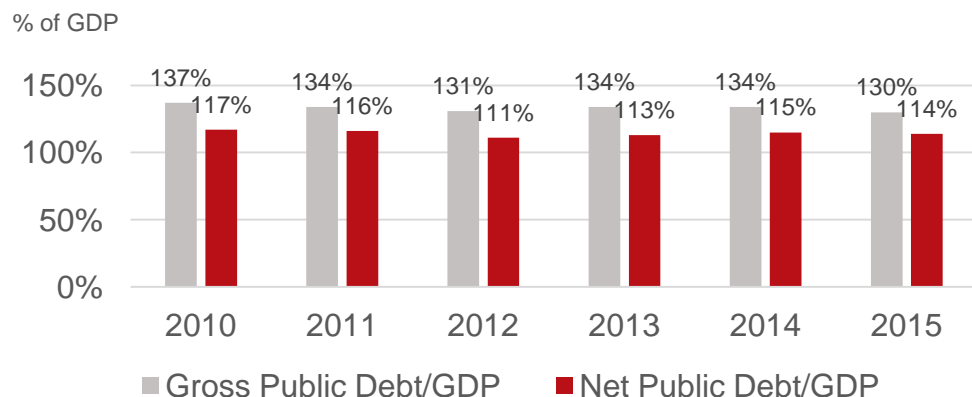


Section 7

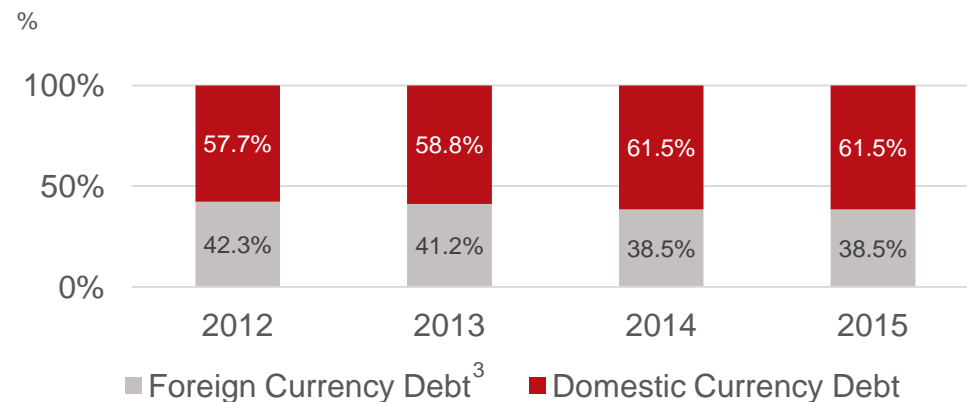
Sovereign Debt Analysis

Debt Remains High, But Stabilized

Stable Debt to GDP Ratio¹



Debt Composition



- Lebanon has a proven track record of servicing its debt obligations despite a challenging environment
- Lebanese banks play a key role in public finance stability, holding a major portion of public debt in local and foreign currencies.
- Foreign currency debt as a share of the total public debt is on a declining trend, as foreign currency-denominated debt accounted for only 38.5% of the gross public debt at the end of 2015
- The net public debt level has declined from 170% of GDP in 2006 to 114% in 2015
- The Ministry of Finance's debt management strategy aims to gradually extend debt maturities (in particular domestic debt) with the aim of lengthening the average time to maturity of the Republic's debt portfolio. It also aims to increase reliance on borrowing in foreign currency during 2014-16, principally to fund maturities and debt service on external debt

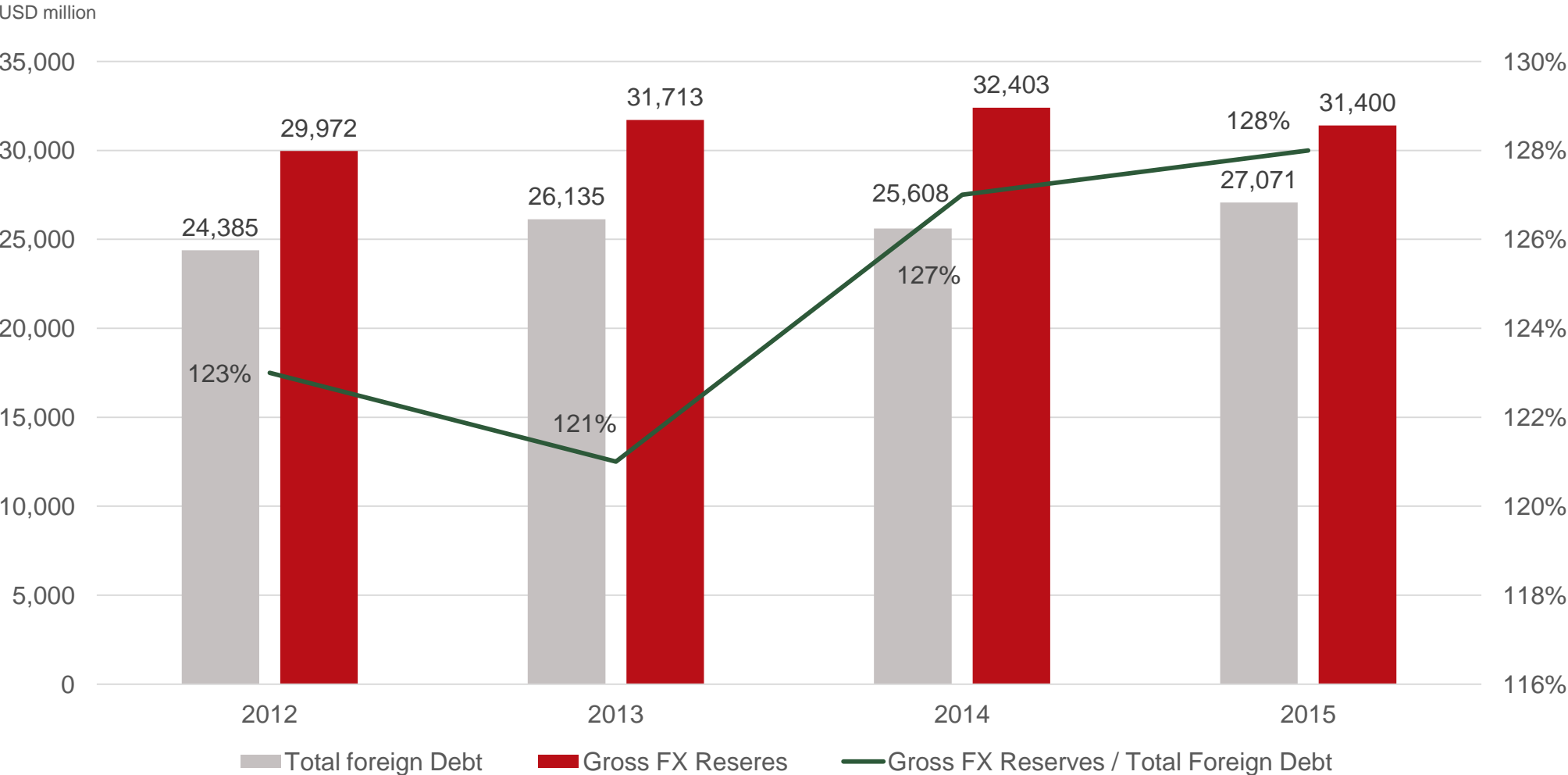
Sources: Ministry of Finance and BDL

¹ Figures have been revised and differ from previously published data

³ Debt figures differ from previously published figures due to the continuing implementation of the Debt Management and Financial Analysis System.

Repayment Risk Mitigated by Strong FX Reserves

● Lebanon's external debt liability is sufficiently covered by the Government's gross FX reserves



Source: Ministry of Finance; BDL
Certain figures differ from previously published data