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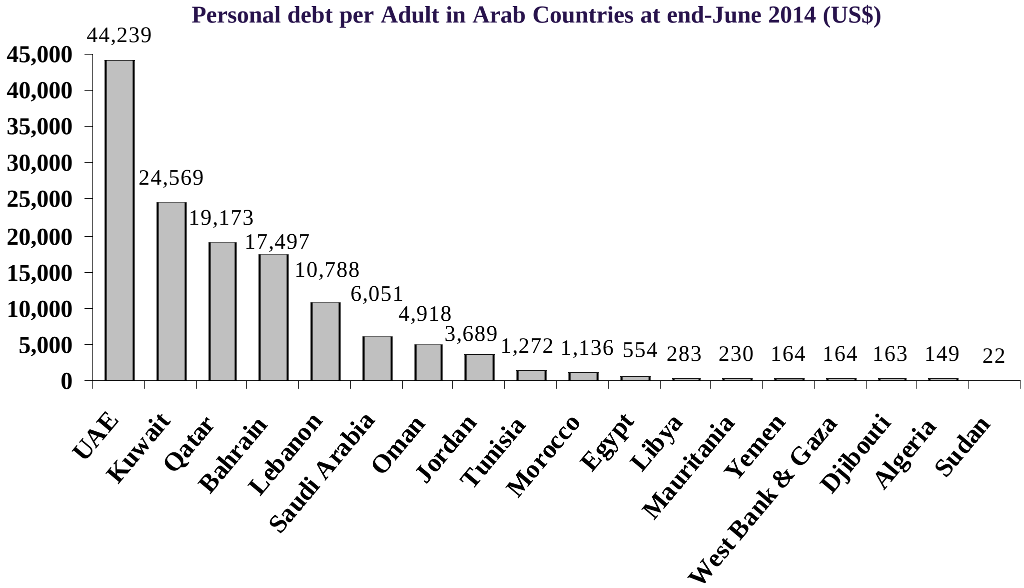
BYBLOS BANK SAL
Economic Research & Analysis Department

LEBANON THIS WEEK

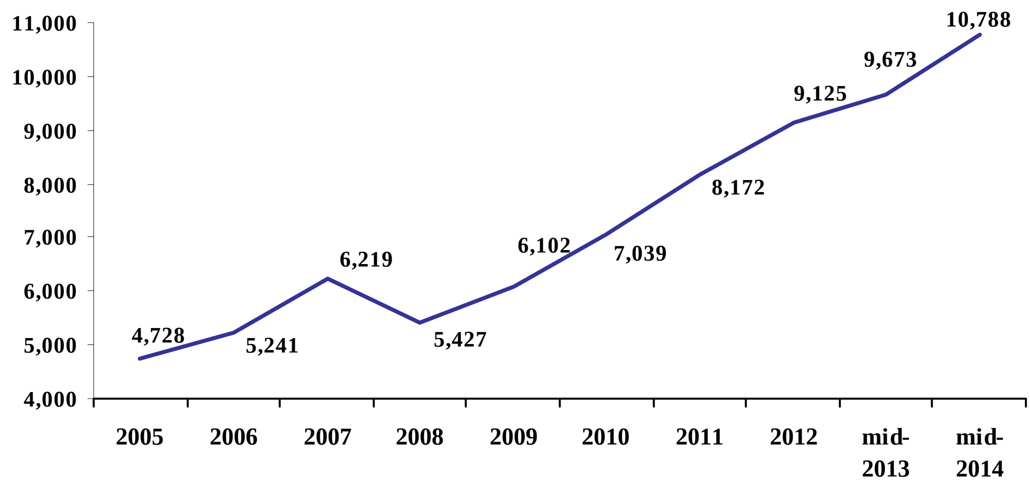
In This Issue

Charts of the Week

Personal debt per Adult in Arab Countries at end-June 2014 (US$)



Personal debt per Adult in Lebanon (US$)



Source: Credit Suisse, Byblos Bank

Quote to Note

"Lebanon's adequate banking supervision has been vital through political upheavals to sustain depositors' confidence, capture steady flows of deposits, and keep the government's financing engines running."

Standard & Poor's, on the performance of the banking sector's supervisory authorities

Number of the Week

20: Number of times the Lebanese Parliament convened and failed to elect a President

Lebanon in the News

$m *(unless otherwise mentioned)*	2013	Nov 13	Aug 14	Sep 14	Oct 14	Nov 14	% Change*
Exports	3,936	263	285	282	279	248	(5.70)
Imports	21,228	1,772	2,120	1,671	1,724	1,393	(21.39)
Trade Balance	(17,292)	(1,509)	(1,835)	(1,389)	(1,445)	(1,145)	(24.12)
Balance of Payments	(1,128)	(192)	(564)	131	(566)	(424)	120.83
Checks Cleared in LBP	17,047	1,451	1,558	1,553	1,587	1,415	(2.49)
Checks Cleared in FC	55,321	4,584	4,973	4,852	4,730	4,367	(4.73)
Total Checks Cleared	72,368	6,035	6,531	6,405	6,317	5,782	(4.19)
Budget Deficit/Surplus	(4,220)	(463.41)	(318.75)	(564.21)	(216.28)	(585.95)	(26.44)
Primary Balance	(239.68)	2.97	(141.93)	(84.64)	258.98	(100.54)	-
Airport Passengers	6,265,470	407,869	814,800	640,546	549,726	427,403	4.79

$bn *(unless otherwise mentioned)*	2013	Nov 13	Aug 14	Sep 14	Oct 14	Nov 14	% Change*
BdL FX Reserves	31.71	31.78	33.09	32.34	33.09	33.87	6.58
In months of Imports	*17.65*	*17.93*	*15.61*	*19.35*	*19.19*	*24.32*	*35.58*
Public Debt	63.46	63.26	65.86	65.97	66.21	66.64	5.34
Net Public Debt	53.18	52.75	55.59	55.89	56.23	56.71	7.51
Bank Assets	164.82	161.92	170.33	171.34	171.27	172.21	6.36
Bank Deposits (Private Sector)	136.21	133.15	141.52	142.02	142.04	142.74	7.20
Bank Loans to Private Sector	47.38	46.81	49.74	49.95	50.10	50.51	7.90
Money Supply M2	45.60	45.05	47.48	47.90	47.82	48.07	6.70
Money Supply M3	111.16	109.34	115.62	116.07	116.02	116.47	6.52
LBP Lending Rate (%)	7.29	7.01	7.21	7.08	7.29	6.96	(5bps)
LBP Deposit Rate (%)	5.44	5.47	5.51	5.51	5.58	5.55	8bps
USD Lending Rate (%)	6.88	6.88	6.96	6.94	6.95	7.01	13bps
USD Deposit Rate (%)	2.95	2.97	3.13	3.04	3.12	3.10	13bps
Consumer Price Index**	3.89	4.96	0.81	1.24	(0.27)	0.48	-

** Year-on-Year*
*** Year-on-Year percentage change*
Note: bps i.e. basis point
Source: Association of Banks in Lebanon, Banque du Liban, Byblos Research

Capital Markets

Most Traded Stocks on BSE	Last Price ($)	% Change*	Total Volume	Weight in Market Capitalization
Solidere "A"	11.80	3.15	114,037	9.94%
Solidere "B"	11.66	2.64	48,908	6.39%
Byblos Common	1.68	(1.18)	72,666	5.09%
Byblos Pref. 08	102.20	0.00	4,100	1.72%
Byblos Pref. 09	102.40	0.20	4,168	1.73%
BLOM GDR	10.00	0.00	20,000	6.23%
BLOM Listed	9.16	0.11	1,535,440	16.60%
Audi GDR	7.00	(3.05)	6,500	6.86%
Audi Listed	6.75	0.00	17,677	22.74%
HOLCIM	15.00	0.00	192	2.47%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Apr 2015	10.000	100.90	1.43
Jan 2016	8.500	102.88	4.94
Mar 2017	9.000	108.50	4.53
Nov 2018	5.150	100.50	5.00
May 2019	6.000	102.50	5.32
Mar 2020	6.375	103.50	5.56
Apr 2021	8.250	112.50	5.78
Oct 2022	6.100	101.50	5.85
Jun 2025	6.250	100.50	6.18
Nov 2026	6.600	102.50	6.29

Source: Byblos Bank Capital Markets

	Mar 9-13	Mar 2-6	% Change	Feb 2015	Feb 2014	% Change
Total Shares Traded	1,827,034	270,355	575.79	21,880,303	6,037,763	262.39
Total Value Traded	$17,331,819	$1,681,489	930.74	$156,374,053	$43,140,999	262.47
Market Capitalization	$11.87bn	$11.84bn	0.25	$11.77bn	$11.30bn	4.21

Source: Beirut Stock Exchange (BSE)

Lebanon in the News

Beirut ranks 181st worldwide, 15th in MENA region in quality of living

The 2015 Mercer survey on the quality of living around the world ranked Beirut as the 181st most desirable city for overall living standards among 230 cities worldwide and in 15th place among 24 cities in the Middle East & North Africa (MENA) region. Also, Beirut ranked in 49th place among 58 cities in Upper-Middle Income Countries (UMICs) included in the survey. Beirut ranked in 173rd place among 223 cities globally in the 2014 survey. Based on the 220 cities that were included in both the 2010 and 2015 surveys, Beirut came in 171st place globally in 2015, similar to its rank in the 2010 survey. It was among 30 cities whose rank was unchanged between 2010 and 2015, while the rank of 79 cities declined and that of 111 cities improved during the five-year period.

The study evaluates the cities on the basis of 39 key quality-of-living determinants grouped in 10 categories that include political, economic and socio-cultural factors, in addition to healthcare & sanitation, schools & education, public services & transportation, recreation, consumer goods, housing, and the natural environment.

On a global basis, the quality of living in Beirut was better than that in Cotonou in Benin, Yerevan in Armenia and Banjul in Gambia; and less appealing than that in Maputo in Mozambique, Caracas in Venezuela and Tirana in Albania. Also, Beirut's quality of living was better than only Algiers, Djibouti, Teheran, Tripoli, Damascus, Nouakchott, Sana'a, Khartoum and Baghdad among MENA countries.

Vienna has the highest overall quality of living in the world and Dubai remains the best city for quality of living in the MENA region; while the survey considered Baghdad to be the world's least appealing city. Mercer conducts the survey annually to help multinational companies assess international hardship allowances for their expatriate workers. It collected the data for the survey between September and November 2014 and has regularly updated it to take account of changing circumstances. Mercer is a global consulting firm in human resources and related financial advice, products and services.

Quality of Living Rankings in 2015

City	MENA Rank	Global Rank	Change in Rank*
Dubai	1	74	+1
Abu Dhabi	2	77	+6
Muscat	3	104	-
Doha	4	108	+6
Tunis	5	113	-15
Rabat	6	116	-
Amman	7	122	+5
Istanbul	7	122	-6
Kuwait City	9	125	+1
Casablanca	10	128	-2
Manama	11	130	-14
Riyadh	12	163	+4
Jeddah	13	166	+2
Cairo	14	170	-34
Beirut	**15**	**181**	**-**
Algiers	16	187	+4
Djibouti	17	188	-3
Tehran	18	203	-11
Tripoli	19	216	-40
Damascus	20	220	-38
Nouakchott	21	221	+2
Sana'a	22	225	-1
Khartoum	23	227	-
Baghdad	24	230	-

**between 2010 and 2015*
Source: Mercer 2015, Byblos Research

Utilized credits by private sector at $57bn at end-September 2014, advances against real estate account for 34% of total

Figures issued by the Central Bank show that utilized credits by the private sector from commercial banks and financial institutions totaled $56.5bn at the end of September 2014, constituting an increase of 6.7% from $52.9bn at end-2013. The distribution of credits by type show that advances against real estate totaled $19.1bn and accounted for 33.8% of total private sector utilized credits at the end of September 2014. They were followed by overdrafts with $15.9bn (28.1%), advances against personal guarantees with $10.5bn (18.6%), advances against cash collateral or bank guarantees with $6.9bn (12.2%), advances against other real guarantees with $2.8bn (5%), and advances against financial values with $1.3bn (2.3%).

Trade & services accounted for $19.4bn or 34.3% of utilized credits at end-September 2014, followed by personal credits with $16.1bn (28.5%), construction with $9.5bn (16.8%), industry with $6.3bn (11.1%), financial intermediaries with $3.2bn (5.6%) and agriculture with $653.5m (1.2%), while other sectors accounted for the remaining $1.5bn (2.6%). Also, the distribution of utilized credits in trade & services shows that wholesale trade accounted for 43.3% of overall trade & services credits, followed by real estate services with 21%, retail with 16.2%, hotels & restaurants with 8.7%, transport & storage with 7.2%, and educational services with 3.5%.

Personal credits attracted 76.2% of loan beneficiaries, followed by trade & services with 12.9% of beneficiaries, industry with 3.5%, construction with 1.7%, agriculture with 1%, and financial intermediaries with 0.7%, while other sectors attracted the remaining 4.1%. The aggregate number of loan beneficiaries grew by 7.2% year-on-year to 494,700, while 75.7% of beneficiaries had loans ranging from LBP5m to LBP100m by the end of September 2014. Beirut and its suburbs accounted for 77.1% of bank credits and for 54.6% of beneficiaries. It was followed by Mount Lebanon with 11.3% of credits and 17.6% of beneficiaries; South Lebanon with 4.5% of credits and 9.8% of beneficiaries; North Lebanon with 4% of credits and 10.8% of beneficiaries; and the Bekaa with 3.1% of credits and 7.2% of beneficiaries.

In parallel, the off-balance sheet liabilities of banks and financial institutions totaled $96.3bn at the end of September 2014, reflecting a rise of 7.4% from $89.7bn at the end of 2013. They included endorsement & guarantees of $87.1bn, or 90.4% of the total, followed by letters of undertaking of $3bn (3.1%) and forward operations of $2.2bn (2.3%).

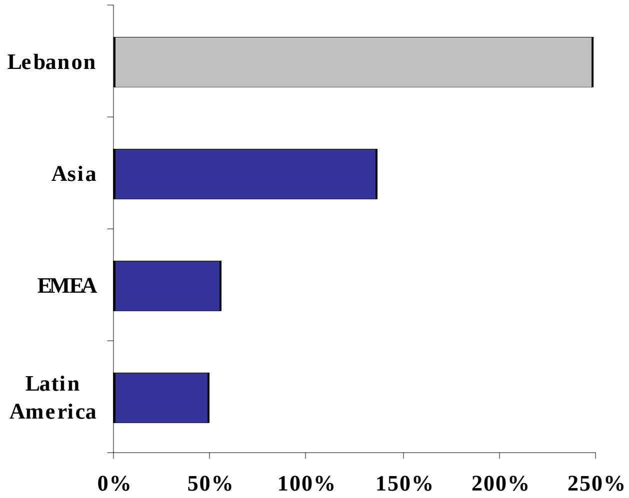
Lebanon in the news

Lebanon's banking sector indicators favorable compared to emerging markets

Merrill Lynch estimated credit to the resident private sector in Lebanon to be equivalent to 94.3% of GDP at the end of 2014, higher than the Emerging Europe, the Middle East & Africa region's (EEMEA) ratio of 47.1% of GDP and Latin America's ratio of 38% of GDP, but lower than Asia's ratio of 123% of GDP. Lebanon has the ninth highest credit-to-GDP ratio among 57 emerging markets, the second highest such ratio in the EEMEA region and the highest ratio among 12 Arab countries included in the survey. Also, Merrill Lynch estimated the non-performing loans ratio (NPL) in the Lebanese banking sector at 4%, lower than the EEMEA's NPL ratio of 5.8%, and compared to NPL ratios of 2.9% for Latin America and 1.9% for Asia. The Lebanese banking sector has the 26th lowest NPL ratio among 52 banking sectors, the 11th lowest ratio in the EEMEA region and the fifth lowest among Arab countries.

Further, Merrill Lynch estimated money supply in Lebanon to be equivalent to 248% of GDP, significantly higher than Asia's ratio of 135.5% of GDP, the EEMEA's ratio of 54.6% of GDP and Latin America's rate of 49.1% of GDP. Also, Lebanon has the second highest level of money supply relative to its GDP among 57 emerging markets, behind only Hong Kong where money supply is equivalent to 490% of GDP.

Money Supply at end-2014 (% of GDP)



Source: Merrill Lynch, Byblos Research

In parallel, Merrill Lynch noted that foreign claims reported to the Bank of International Settlement (BIS) against Lebanese banks are equivalent to 2.3% of GDP compared to 1.8% of GDP for the EEMEA region and 1.6% of GDP in Latin America, and lower than Asia's ratio of 5.1% of GDP. The Lebanese banking sector has the 27th highest ratio of foreign claims of BIS-reporting banks among 56 banking sectors, the 17th highest ratio in the EEMEA region and the seventh highest in the Arab world. Further, Merrill Lynch estimated the annual private sector credit growth in Lebanon at 9.1% based on the year-on-year three-month moving average, which is higher than the EEMEA's rate of 8.6%, but lower than Latin America's growth rate of 13.9% and Asia's rate of 10.6%. As such, Lebanon had the 28th highest level of annual private sector credit growth among 53 emerging markets, the 15th highest in the EEMEA region and the sixth highest rate among Arab countries.

Merrill Lynch indicated that the capital-to-assets ratio of the Lebanese banking sector stood at 7.6%, compared to the EEMEA's ratio of 11.5%, Latin America's ratio of 10.4% and Asia's ratio of 8.8%. Also, it estimated the capital adequacy ratio of the Lebanese banking sector at 13%, relative to the EEMEA's ratio of 17%, Latin America's ratio of 14.4% and Asia's ratio of 15.6%.

Association of Banks amends reference rates on US dollar and Lebanese pound lending

The Association of Banks in Lebanon (ABL) recommended to its member banks to increase the Beirut Reference Rate (BRR) in US dollars to 6.12% in April 2015 from 6.08% currently. The rate, considered as the reference rate for lending in foreign currency, replaced the London Inter-Bank Offering Rate (LIBOR) in 2009 as the ABL considered that the LIBOR no longer accurately reflects the cost of funding and lending in Lebanon. Additionally, the ABL recommended to its member banks to increase the BRR in Lebanese pounds to 8.69% in April from the current rate of 8.67%. The BRR in US dollars and Lebanese pounds were adopted in March and May 2009, respectively. The ABL considers that the BRR does not replace the Beirut Prime Lending Rate in each currency, but constitutes the basis to calculate the prime rate after adding the cost of liquidity and refinancing, credit risks and the profitability of banks to the prime lending rate.

Airport passengers up 8.5% in first two months of 2015

Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures, transit) totaled 896,540 in the first two months of 2015, constituting a rise of 8.5% from the same period last year. The total number of arriving passengers increased by 10.2% year-on-year to 419,369 in the first two months of 2015, compared to an annual drop of 5.3% in the same period of 2014 and a rise of 8% in the first two months of 2013. Also, the number of departing passengers rose by 7% year-on-year to 475,057 in the first two months of 2015 relative to a decline of 5.9% in the same period of 2014 and an increase of 10.4% in the first two months of 2013.

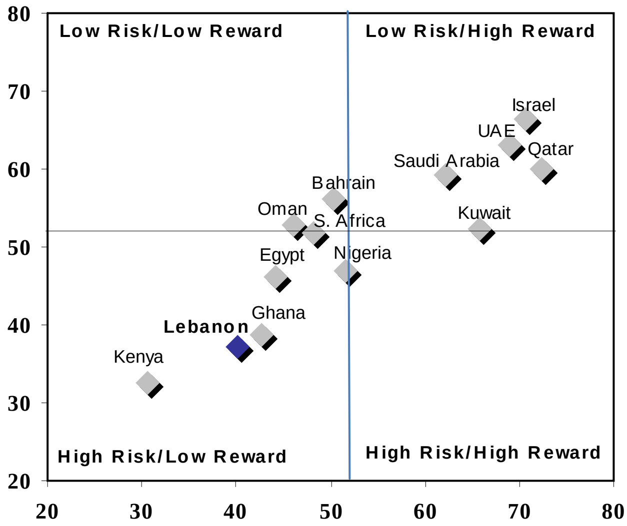
In parallel, the airport's aircraft movements rose by 3% year-on-year to 9,534 take-offs and landings in the first two months of 2015, compared to a marginal rise of 0.6% in the first two months of last year and a drop of 5.6% in the same period of 2013. The HIA processed 11,632 metric tons of cargo in the first two months of 2015 that consisted of 11,545 tons of freight and 87.4 tons of mail.

Weak IPR protection and regional instability affecting IT sector

BMI Research ranked Lebanon in 12th place among 13 countries in the Middle East and Africa (ME&A) region on its Information Technology (IT) Risks/Rewards Ratings (RRR) for the second quarter of 2015. Lebanon's rank remained unchanged from the preceding quarter and from the second quarter of 2014. Lebanon received a score of 39.2 points, higher than its score of 37.2 points in the first quarter of 2015 and lower than its score of 43.6 points in the second quarter of 2014.

The RRR is a weighted average of the 'Rewards' sub-rating that has a weight of 70% and the 'Risks' sub-rating that has a weight of 30%. The sub-ratings cover risks and rewards on the industry and country levels. The 'Rewards' sub-rating evaluates the size and the growth potential of a country's IT market, as well as the country's broader economic and socio-demographic characteristics that impact the development of the IT industry. It is a composite of the Industry Rewards category that has a weight of 65% and the Country Rewards category with a weight of 35%. The 'Risks' sub-rating assesses specific threats to the IT sector as well as risks related to the domestic political and economic profile that could affect the realization of expected returns in the IT industry. It is the weighted average of the Industry Risks category with a weight of 40% and the Country Risks category with 60%. Ratings are on a scale from zero to 100, with a score of 100 reflecting the highest rating.

Middle East & Africa Risk/Reward Matrix Q1 2015



Source: BMI Research, Byblos Research

BMI ranked Lebanon in last place on the Industry Rewards category, reflecting its small market size. Lebanon received a score of 26.7 points on this category, up from a score of 25 points in the preceding quarter and down from a score of 36.7 points in the same quarter of 2014. Also, Lebanon's score was considerably lower than the ME&A's average of 47.3 points. BMI indicated that spillovers from the deterioration of the security conditions in the Middle East have negatively affected investment inflows to the IT sector in Lebanon, and resulted in a weak industry rewards score. Further, Lebanon came in last place on the Industry Risks category in the second quarter of 2015 and received a score of 20 points compared to the regional average of 48.8 points. Lebanon's score remained unchanged from the preceding quarter and from the second quarter of 2014. BMI noted that the weak protection of intellectual property rights remains a key risk in the Industry Risks category, given the high software piracy rates in Lebanon.

In parallel, Lebanon came in eighth place on the Country Rewards category, ahead of South Africa, Ghana, Nigeria, Egypt and Kenya. Lebanon received a score of 65 points on this category, slightly higher than the region's average score of 64.6 points. Lebanon's score was unchanged from the first quarter of 2015 and from the second quarter of 2014. Also, Lebanon came in ninth place on the Country Risks category, better than Nigeria, Egypt, Ghana and Kenya. It received a score of 48.5 points higher than the ME&A's average of 52.5 points. Lebanon's score increased from 41.5 points in the previous quarter and from 47.5 points in the second quarter of 2014.

Council of Ministers appoints two new members to Banking Control Commission

The Council of Ministers appointed two new members to the Banking Control Commission of Lebanon (BCCL) and renewed the term of three others upon the expiration of the BCCL's current term. The new members are Mr. Samir Hammoud who will serve as the BCCL's Chairman, and Mr. Joseph Sarkis as member. The commission's new term starts on March 17, 2015. The law stipulates that the Chairman should be a specialist in banking, finance, or a university academic. Also, one member should be nominated by the Association of Banks in Lebanon; a member nominated by the National Deposit Guarantee Institution; and two members must have the appropriate professional background.

Established in 1967, the BCCL's function is to supervise banks, financial institutions, money dealers, brokerage firms and leasing companies. It evaluates the financial soundness of regulated entities through on-site and off-site reviews. It currently has a staff of 131 persons, including 104 examiners. The BCCL performs its supervisory functions as an independent body, but in close coordination with the Governor of the Central Bank of Lebanon who has the legal prerogative to ask for all reports of the Commission. Further, the BCCL has the right to impose corrective and remedial measures on individual banking institutions if necessary.

Lebanon in the News

Number of new construction permits down 29% in January 2015, surface area down 20%

The Order of Engineers & Architects of Beirut & Tripoli issued 972 new construction permits in January 2015, constituting a decrease of 29.1% from 1,371 permits in the same month of 2014 and relative to a 21.1% rise in January 2014. Mount Lebanon accounted for 42.8% of the number of newly issued construction permits in January 2015, followed by South Lebanon with 17.7%, Nabatieh with 13.6%, the North with 9.8%, Beirut with 7.5% and the Bekaa with 7%. The remaining 1.6% represent permits issued by the Order of Engineers & Architects of Tripoli for regions outside northern Lebanon.

Further, the surface area of construction permits granted in January 2015 reached 842,248 square meters (sqm), constituting a drop of 20% from the same month of 2014 and compared to a rise of 39.2% in January 2014, and a decrease of 19.8% in the same month of 2013. Mount Lebanon accounted for 387,307 sqm or 46% of total construction permits in the covered month. It was followed by the South with 109,229 sqm (13%), the North with 100,260 sqm (11.9%), Nabatieh with 83,636 sqm (9.9%), Beirut with 73,075 sqm (8.7%) and the Bekaa with 63,736 sqm (7.6%). The remaining 25,005 sqm, or 3%, reflects the surface area of permits that were issued by the Order of Engineers & Architects of Tripoli for regions outside northern Lebanon.

Public-sector salaries and benefits up by 2% in first eight months of 2014

Figures issued by the Ministry of Finance show that salaries, wages and related benefits paid to public-sector employees totaled $1.9bn in the first eight months of 2014, constituting an increase of 2.4% from the same period of 2013. They represented the largest component of total primary spending and accounted for 30% of such expenditures in the first eight months of 2014, compared to a share of 28% in the same period of 2013. The figures include basic salaries, indemnities, allowances, contributions to civil servants' cooperatives, as well as contributions to other mutual funds providing health insurance for specific categories of civil servants, mainly judges, religious judges and employees at the Parliament. The payments exclude retirement and end-of-service indemnities, as well as salaries, wages and benefits of employees at public institutions. Salaries and benefits of military personnel reached $1.2bn and accounted for 63.1% of the total, followed by personnel in public education with $395.4m (20.8%), civil staff with $199m (10.5%), government contribution to the employees' cooperative with $92.2m (4.8%) and customs employees with $16.6m (0.9%). The distribution of salaries and benefits of military personnel shows that the Lebanese Army's salaries totaled $742.3m in the first eight months of 2014 and represented 61.8% of the military personnel's salaries and benefits. They were followed by salaries of the Internal Security Forces with $360.2m (30%), General Security Forces with $75.6m (6.3%) and State Security Forces with $22.6m (1.9%).

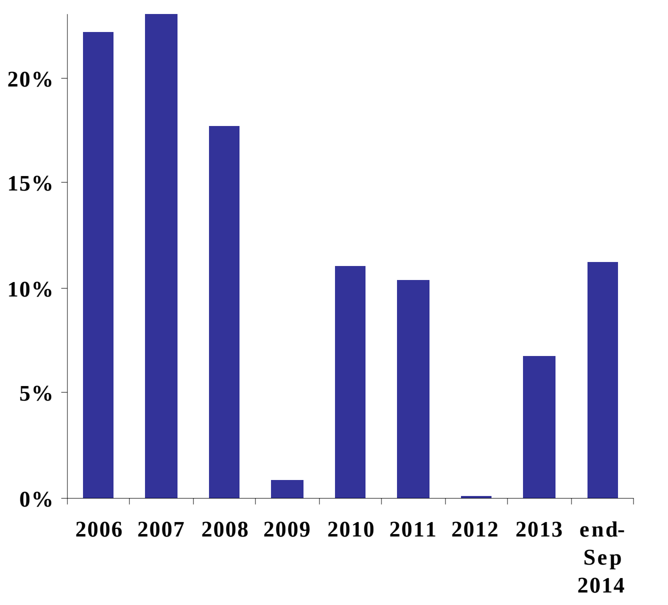
The overall increase in salaries, wages and related benefits paid to public-sector employees reflects a $41.1m rise in basic salaries and a $23.9m expansion in other payments. They were offset in part by a $13.9m decline in allowances and a $4m drop in indemnities. The rise in basic salaries reflects a $45.1m increase in the basic salaries of military personnel and a $3.3m growth in the basic salaries of the public education sector, which were offset in part by a $6.6m decrease in payments to civil service personnel. Overall, basic salaries grew by 3% year-on-year to $1.4bn in the first eight months of 2014 and other expenses increased by 25% to $119.4m; while allowances dropped by 5.1% to $256.7m and indemnities fell by 4.1% to $92.2m.

Payment cards reach 2.39 million, ATMs total 1,569 at end-September 2014

Figures released by the Central Bank show that the number of payment cards issued in Lebanon reached 2,389,538 cards at the end of September 2014, constituting a 1.2% increase from the end of June 2014 and a 20.7% rise from the end of September 2013. Resident cardholders accounted for 97.2% of total cards issued in Lebanon at end-September 2014. The distribution of payment cards by type shows that debit cards with residents totaled 1,176,213 and accounted for 49.2% of the total, followed by credit cards with residents at 506,283 (21.2%), resident prepaid cards at 467,978 (19.6%), charge cards with residents at 172,162 (7.2%), non-resident debit cards at 41,939 (1.8%), non-resident credit cards at 10,603 (0.4%), non-resident charge cards at 9,169 (0.4%), and non-resident prepaid cards at 5,191 (0.2%). Further, the aggregate number of points-of-sales accepting payment cards reached 36,778 at the end of September 2014, increasing by 1.5% on a quarterly basis and by 3.5% on an annual basis.

In parallel, the number of ATMs totaled 1,569 machines at the end of September 2014, constituting a rise of 2.8% from end-June and an increase of 5.3% from the end of September 2013. The Greater Beirut area had 659 ATMs at the end of September 2014, equivalent to 42% of the total, followed by Mount Lebanon with 483 ATMs (30.8%), the North with 156 ATMs (9.9%), the South with 127 ATMs (8.1%), the Bekaa with 117 ATMs (7.5%) and Nabatieh with 27 ATMs (1.7%).

Growth in the Number of Credit Cards Held by Residents



Source: Banque du Liban, Byblos Research

Commercial activity improves from low base in third quarter of 2014

The Central Bank's quarterly business survey of opinions shows that the volume of commercial sales increased during the third quarter of 2014 with the balance of opinion standing at +8, constituting the first positive value since the third quarter of 2010. In comparison, the balance of opinions about the volume of commercial sales stood at -8 in the second quarter of 2014 and -11 during the third quarter of 2013. The business survey reflects the opinions of enterprise managers about their business activity in order to depict the evolution of a number of key economic variables. The balance of opinions was the lowest in Beirut & Mount Lebanon at -12, followed by the Bekaa (+4), the North (+36) and the South (+49). The survey shows that the balance of opinions for the sales volume of food items was +15 in the third quarter of 2014 relative to +14 in the preceding quarter and to +8 in the same quarter of 2013.

The balance of opinions about the sales of inter-industrial goods was +16 in the third quarter compared to -17 in the preceding quarter and to -9 in the third quarter of 2013. It was -1 for non-food products, relative to -17 in the second quarter of 2014 and to -21 in the third quarter of 2013. Also, the balance of opinions for inventory levels in all commercial sub-sectors was +4 in the third quarter of 2014 compared to +1 in the preceding quarter and to -3 in the third quarter of 2013. Opinions about the level of inventories were the highest in the North where they reached +8, followed by Beirut & Mount Lebanon (+5), the Bekaa (+3) and the South (-11). The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in an indicator and the proportion of those who reported a decline in the same indicator.

Commercial Activity: year-on-year evolution of opinions

Aggregate results	**Q3-11**	**Q3-12**	**Q3-13**	**Q3-14**
Sales volume	-12	-6	-11	8
Number of employees	0	-2	-6	4
Inventories of finished goods	4	-4	-3	4
Q3-14 Regional results	**Beirut / Mount Lebanon**	**North**	**South**	**Bekaa**
Sales volume	-12	36	49	4
Inventories of finished goods	5	8	-11	3

Source: Central Bank business survey for third quarter of 2014

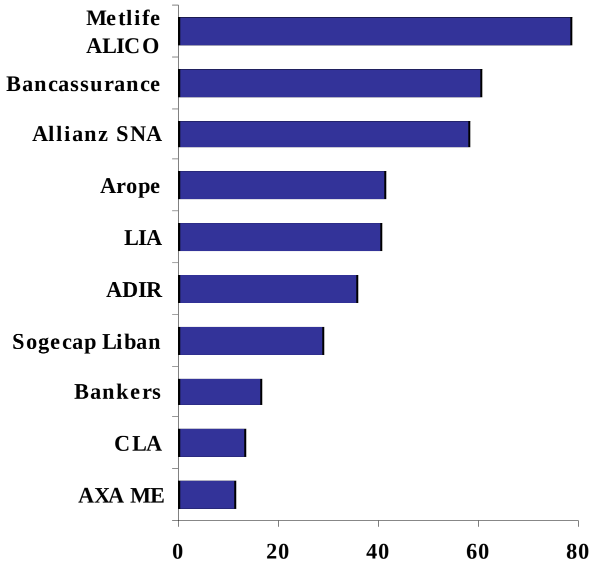
Corporate Highlights

Life premiums post 5.5% rise to $444m in 2014

The annual survey by *Al-Bayan* magazine of the insurance sector in Lebanon indicates that total life premiums generated in the Lebanese market reached $443.7m in 2014, constituting an increase of 5.5% from $420.5m in 2013 and compared to annual increases of 7.4% and 5.9% in 2013 and 2012, respectively. Life premiums generated in the Lebanese market totaled $391.6m in 2012, $369.8m in 2011, and $355.8m in 2010.

Metlife ALICO maintained its market lead with $78.4m in life premiums, equivalent to a 17.7% market share in 2014, nearly unchanged from 17.8% in 2013, and down from 18.7% in 2012 and 19.5% in 2011. It was followed by Bancassurance with $60.6m (13.6%), Allianz SNA with $58.2m (13.1%), AROPE with $41.1m (9.3%), and LIA with $40.3m (9.1%) as the top 5 firms among 34 life insurance providers operating in Lebanon. Trust Compass registered the highest jump in the rankings from 2013, moving from 22nd to 18th place with premiums of $2.8m in 2014. A total of 21 providers of life insurance posted increases in their life premiums last year, with one firm posting a three-digit growth rate, nine had double-digit growth rates, while 11 companies posted single-digit growth. Also, 10 firms saw a decline in their life premiums, while the premiums of three firms were unchanged. Further, eight of the top 10 life insurers posted increases in their premiums.

Life Premiums of the Top 10 Insurers in 2014 (US$m)



Source: Al-Bayan, Byblos Research

Byblos Bank's insurance affiliate ADIR registered a 5.3% rise in life premiums, posting the sixth best performance among the top 10 providers of life insurance and the fourth best performance among providers that are majority-owned by banks. In parallel, AROPE posted a 5.5% drop in its premiums, constituting the steepest fall among the top 10 firms, followed by LIA with a 2.6% decline. The composition of the top 10 insurers changed from 2013 with AXA ME replacing MEDGULF in 10th place. The rankings of six out of the top 10 firms were unchanged from 2013. Bankers improved by two spots to eighth place, Bancassurance rose by one spot to second place, while Allianz SNA regressed by one spot to third place. The survey shows that the top 10 life insurers in Lebanon accounted for 86.5% of the life insurance market, while the top 20 firms generated 97.6% of life premiums in 2014. The top 5 life insurers in Lebanon accounted for 62.8% of the market in 2014 compared to 64.2% in 2013 and 65% in 2012. Their aggregate premiums reached $278.5m in 2014 compared to $269.7m in the preceding year and $254.3m in 2012.

Further, *Al-Bayan's* survey shows that overall life and non-life premiums rose by 5.3% to $1.48bn in 2014, compared to a growth rate of 6.1% in 2013, with life premiums accounting for 30% of the total. The top 10 insurers in Lebanon accounted for 66.2% of the combined life and non-life markets, while the top 20 firms represented 86% of aggregate premiums in 2014. MEDGULF led all insurers with $123.9m in total premiums in 2014, followed by Bankers with premiums of $122.9m and Allianz SNA with $116.1m.

Kafalat loan guarantees down 45% to $10m in first two months of 2015

Figures released by the Kafalat Corporation show that loans extended to small- and medium-size companies under the guarantee of Kafalat reached $10.2m in the first two months of 2015, constituting a decline of 44.9% from $18.5m in the same period of 2014. Kafalat provided 86 loan guarantees year-to-February 2015, down 36.8% from 136 in the same period of 2014. The average loan size reached $118,335 compared to $135,800 in the same period of 2014. Mount Lebanon accounted for 45.4% of the total number of guarantees, followed by the Bekaa with 18.6%, the South with 12.8%, the North with 11.6%, Nabatieh with 9.3% and Beirut with 2.3%. The agricultural sector accounted for 47.7% of the total number of guarantees, followed by the industrial sector with 33.7%, tourism with 9.3%, handicraft with 7% and specialized technologies with 2.3%. Kafalat is a state-sponsored organization that provides financial guarantees for loans of up to $400,000 earmarked for the setup 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.

Corporate Highlights

New car sales down 7% in first two months of 2015

Figures released by the Association of Automobile Importers in Lebanon (AIA) indicate that 4,579 new passenger cars were sold in the first two months of 2015, constituting a drop of 7.1% from 4,930 cars sold in the same period of 2014. It added that 2,143 new passenger cars were sold in February 2015, reflecting a decrease of 12% from 2,436 vehicles in the previous month. Japanese cars accounted for 38.1% of total sales in the first two months of 2015, followed by Korean cars with a 33.4% share, European automobiles with 23.2%, American vehicles with 4.6% and Chinese cars with 0.7%. The number of Japanese cars sold rose by 52% year-on-year; while the number of American cars vehicles declined by 24.8% from the same period last year, sales of Chinese cars dropped by 23.7%, European car sales declined by 10% and those of Korean cars regressed by 6.6%. Kia is the leading brand in the Lebanese market with 799 cars sold in the first two months of 2015, followed by Toyota with 715 cars sold, Hyundai (595), Nissan (541), Suzuki (220), BMW (162) and Renault (151). In parallel, 310 new commercial vehicles were sold in the first two months of 2015, down by 17.6% from 376 vehicles in the same month last year.

The AIA attributed the drop in the sale of new passenger cars to the Central Bank's decision to impose a minimum down payment of 25% of the car value for consumers seeking an auto loan, as well as to the challenging domestic economic, political and security conditions. It indicated that the number of registered new and imported used cars sold in February 2015 dropped by 14% from January 2015. The number of registered new and imported cars during the first two months of 2015 regressed by 9% from the same period of 2014 and by 11% from the first two months of 2013. It said that the luxury car segment accounted for only 3.5% of total new registered cars. It reiterated that about 90% of new cars sold were small-engine automobiles that cost $15,000 or less each.

The number of new vehicles sold by the country's top five distributors reached 3,250 in the first two months of 2015 and accounted for 66.5% of new vehicles' total sales. NATCO sal sold 799 vehicles, equivalent to 16.3% of the total, followed by Boustany United Machineries sal with 759 vehicles (15.5%), Century Motor Co. sal with 609 (12.5%), Rasamny Younis Motor Co. sal with 604 (12.4%) and Bassoul Heneine sal with 479 (9.8%).

A.M. Best downgrades rating of Union Nationale

Insurance rating agency A.M. Best downgraded the issuer credit rating (ICR) of Al Ittihad Al Watani (L'Union Nationale) General Insurance Company for the Near East sal to 'bb' from 'bb+' and affirmed its financial strength rating (FSR) at 'B' (fair). It maintained the 'negative' outlook on the company's ICR, while it revised the outlook to 'negative' from 'stable' on the FSR. It attributed the downgrade to the deterioration of the company's operating performance in recent years, which has weakened its risk-adjusted capitalization. It added that the firm's business profile has been on a downward trend since 2012, while its risk management capability has been unchanged. It noted that the 'negative' outlook is driven by the uncertainty about the company's business strategy and operating performance. It said that the ratings also take into consideration Lebanon's challenging operating environment.

The agency indicated that L'Union Nationale's risk-adjusted capitalization remains under pressure despite the increase in its capital and surplus to LBP68.9bn, or $46.2m, in 2013 from LBP38.8bn or $25.8m in 2012, following a capital injection and the revaluation of fixed assets. It added that the firm posted a net loss of LBP4.4bn or $3m in 2013 due to the poor underwriting performance in Lebanon and the adverse claims developments from the company's Kuwaiti operations, even though the firm posted sound technical results in the UAE. A.M. Best indicated that L'Union Nationale improved its underwriting performance in 2014, which it estimated to have resulted in a marginal profit last year. It expected the company's underwriting performance to remain constrained due to intense competition in its key markets of the UAE and Lebanon.

Established in 1947, L'Union Nationale is active in the non-life and life segments in Lebanon. *Al-Bayan* magazine's annual survey of the insurance sector in Lebanon ranked Union Nationale in 23rd and 26th place in 2014 in terms of non-life and life premiums, respectively. The firm's non-life premiums dropped by 19.1% to $8.9m in 2014, while the firm’s life premiums amounted to $0.84m, constituting a rise of 5% from the preceding year. It had a 0.9% share of the non-life market and a 0.2% share of the local life market.

Ratio Highlights

(in % unless specified)	2012	2013	2014	Change*
Nominal GDP ($bn)	43.3	46.2	48.2	
Public Debt in Foreign Currency / GDP	56.3	56.6	53.1	(346)
Public Debt in Local Currency / GDP	76.9	80.9	85.0	413
Gross Public Debt / GDP	133.2	137.4	138.1	68
Total Gross External Debt / GDP**	166.8	168.7	173.1	440
Trade Balance / GDP	(38.8)	(37.4)	(35.6)	178
Exports / Imports	21.1	18.5	16.2	(238)
Fiscal Revenues / GDP	22.1	18.5	20.8	40
Fiscal Expenditures / GDP	30.7	29.3	29.3	-
Fiscal Balance / GDP	(8.6)	(9.0)	(8.5)	50
Primary Balance / GDP	(0.3)	(0.5)	1.4	-
Gross Foreign Currency Reserves / M2	69.4	69.5	66.5	(299)
M3 / GDP	240.2	240.6	244.1	354
Commercial Banks Assets / GDP	350.8	356.8	364.5	776
Private Sector Deposits / GDP	288.7	294.8	299.6	482
Private Sector Loans / GDP	100.4	102.6	105.6	304
Private Sector Deposits Dollarization Rate	64.8	66.1	65.7	(43)
Private Sector Lending Dollarization Rate	77.6	76.5	75.6	(98)

** Change in basis points 13/14*
***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, International Monetary Fund, Institute of International Finance, Byblos Research Estimates & Calculations
Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

Risk Outlook

Lebanon	Apr 2013	Mar 2014	Apr 2014	Change*	Risk Level
Political Risk Rating	53.0	52.0	52.0	▲	High
Financial Risk Rating	35.0	38.0	38.0	▼	Low
Economic Risk Rating	34.0	27.0	27.0	▲	High
Composite Risk Rating	61.0	58.5	58.5	▲	High

Regional Average	Apr 2013	Mar 2014	Apr 2014	Change*	Risk Level
Political Risk Rating	58.6	58.3	58.3	▲	High
Financial Risk Rating	41.5	40.5	40.7	▲	Very Low
Economic Risk Rating	36.3	35.9	36.1	▲	Low
Composite Risk Rating	68.2	67.3	67.5	▲	Moderate

**year-on-year change in risk*
Source: The PRS Group, Byblos Research
Note: Political & Composite Risk Ratings range from 0 to 100 (where 100 indicates the lowest risk)
Financial & Economic Risk ratings range from 0 to 50 (where 50 indicates the lowest risk)

Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's	B2	NP	Negative	B2		Negative
Fitch Ratings	B	B	Negative	B		Negative
Standard & Poor’s	B-	B	Stable	B-	B	Stable
Capital Intelligence	B	B	Stable	B	B	Stable

Source: Rating agencies

Banking Ratings	Banks' Financial Strength	Banking Sector Risk	Outlook
Moody's	E+		Negative
EIU		CCC	

Source: Rating agencies

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