



LEBANON THIS WEEK

In This Issue

Economic Indicators.....1
Capital Markets.....1
Lebanon in the News.....2

Lebanon's sovereign ratings affirmed, outlook 'stable'

Lebanon ranks 136th globally, 13th in MENA region on corruption index

Lebanon's external debt posts 28th lowest return in emerging markets, ninth lowest in the Middle East & Africa

Balance of payments posts deficit of \$868m in first 10 months of 2014

Net public debt at \$56.2bn at end-October 2014

Environmental cost of Syrian refugees on the rise

UN suspends food assistance to Syrian refugees

Value of cleared checks up 4%, returned checks nearly unchanged in first 10 months of 2014

Slow construction and public work activity in first quarter of 2014

Corporate Highlights6

Commercial banks' assets reach \$171.3bn at end of October 2014

Fransabank to raise capital by issuing preferred shares

Foreign investments of financial sector at \$6.2bn at end-March 2014, commercial banks account for 68% of long-term debt securities and for 28% of equity investments

Central Bank circular clarifies foreign borrowing of banks and financial institutions

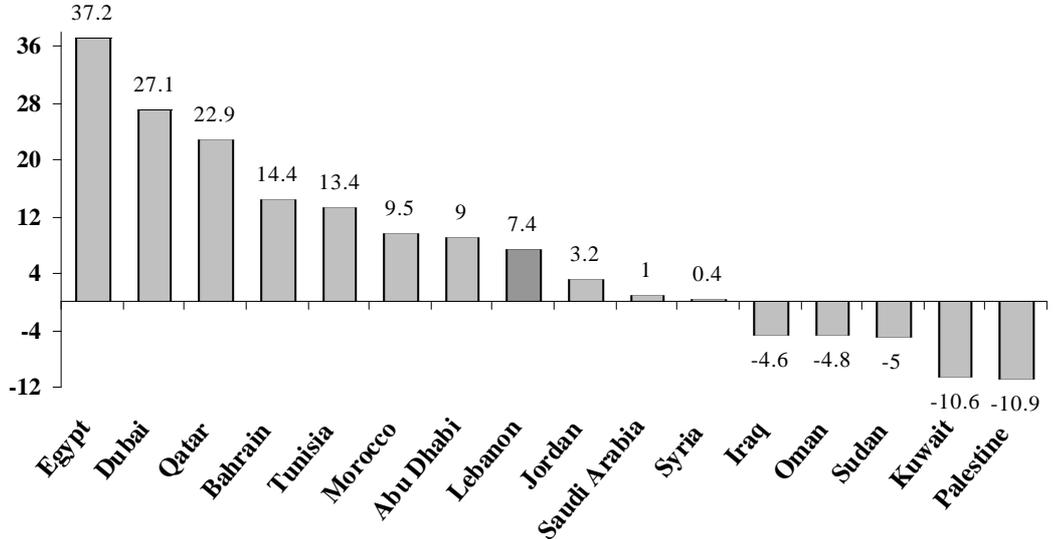
Net profits of fire insurance segment at \$12m, combined ratio at 90.5% in 2013

Banque Libano-Française's net income down 3% to \$74 in first nine months of 2014

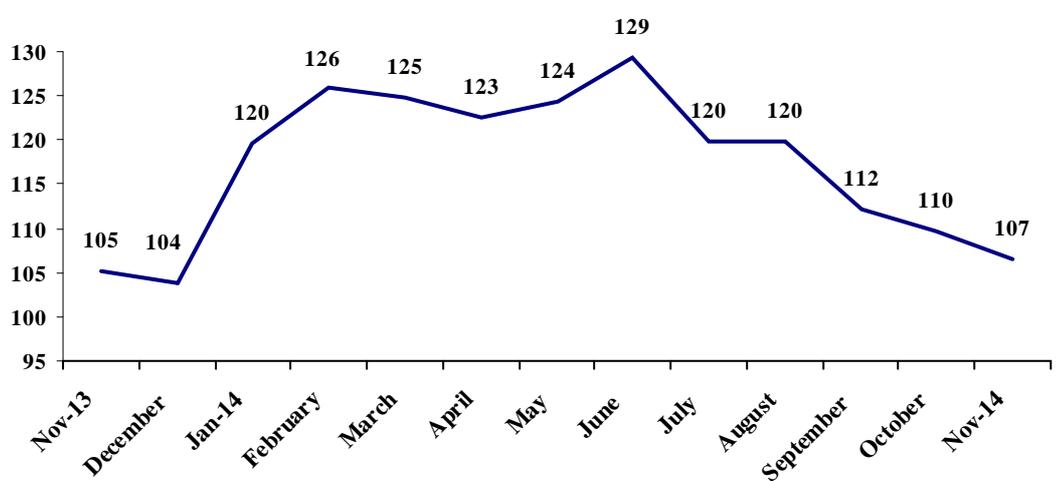
Ratio Highlights.....9
Risk Outlook9
Ratings & Outlook.....9

Charts of the Week

Performance of Arab Stock Markets in the First 11 Months of 2014 (% change)



Performance of the Beirut Stock Exchange*



*Banque du Liban Market Value Weighted Index

Source: Local Stock Markets, Dow Jones Indices, Banque du Liban, Byblos Bank

Quote to Note

"The stability of the sovereign risk profile rests on the robustness of the Lebanese banking sector and its ability to continue funding the government."

Citigroup, on the role of Lebanese banks in maintaining the country's economic, fiscal and monetary stability

Number of the Week

30%: The total tax rate of a medium size enterprise in Lebanon as a percentage of its commercial profits, according to the 2015 PricewaterhouseCoopers/World Bank Index of Paying Taxes

Economic Indicators

\$m (unless otherwise mentioned)	2013	June 13	Mar 14	April 14	May 14	June 14	% Change*
Exports	3,936	348	275	300	308	278	(20.11)
Imports	21,228	1,634	1,791	1,641	1,676	1,567	(4.10)
Trade Balance	(17,292)	(1,286)	(1,516)	(1,341)	(1,368)	(1,289)	0.23
Balance of Payments	(1,128)	(233)	139	(45)	520	(561)	140.77
Checks Cleared in LBP	17,047	1,444	1,520	1,447	1,619	1,518	5.12
Checks Cleared in FC	55,321	4,523	4,671	4,545	5,058	4,807	6.28
Total Checks Cleared	72,368	5,967	6,191	5,992	6,677	6,325	6.00
Budget Deficit/Surplus	(4,220)	(275.89)	(595.29)	(379.21)	(170.31)	(187.36)	(32.09)
Primary Balance	(239.68)	(23.19)	(128.1)	91.02	316.5	133.93	-
Airport Passengers	6,265,470	571,831	430,979	542,544	511,556	610,170	6.70
\$bn (unless otherwise mentioned)	2013	June 13	Mar 14	April 14	May 14	June 14	% Change*
BdL FX Reserves	31.71	31.72	33.63	33.71	33.26	33.85	6.72
<i>In months of Imports</i>	<i>17.65</i>	<i>19.41</i>	<i>18.78</i>	<i>20.54</i>	<i>19.84</i>	<i>21.60</i>	<i>11.28</i>
Public Debt	63.46	60.02	65.15	64.86	65.08	65.71	9.48
Net Public Debt	53.18	50.90	54.37	54.67	54.92	55.17	8.39
Bank Assets	164.82	157.95	166.50	168.05	168.85	169.57	7.36
Bank Deposits (Private Sector)	136.21	131.30	136.55	138.20	138.85	140.35	6.89
Bank Loans to Private Sector	47.38	44.84	48.14	48.42	48.62	49.18	9.68
Money Supply M2	45.60	44.20	46.34	46.56	46.81	46.89	6.09
Money Supply M3	111.16	107.31	112.29	113.43	114.19	114.97	7.14
LBP Lending Rate (%)	7.29	7.87	7.26	7.18	7.48	7.45	(42bps)
LBP Deposit Rate (%)	5.44	5.39	5.48	5.47	5.50	5.49	10bps
USD Lending Rate (%)	6.88	6.97	6.87	6.92	7.04	6.97	-
USD Deposit Rate (%)	2.95	2.86	2.96	3.00	3.01	2.98	12bps
%* Change in CPI**	3.89	3.72	(0.23)	(0.03)	0.63	1.19	(253bps)

* Year-on-Year; ** Consumer Price Index

Note: b.p. i.e. basis point

Sources: ABL, BdL

Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization	Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Solidere "A"	11.41	(2.06)	123,578	10.10%	Jan 2015	5.875	100.28	3.06
Solidere "B"	11.36	(3.15)	61,782	6.54%	Apr 2015	10.000	103.05	1.85
Byblos Common	1.64	1.23	111,857	5.22%	Jan 2016	8.500	105.83	3.11
Byblos Pref. 08	101.30	0.00	0	1.79%	Mar 2017	9.000	111.25	3.80
Byblos Pref. 09	101.60	(1.36)	1,000	1.80%	Nov 2018	5.150	102.00	4.59
BLOM GDR	9.60	0.00	39,600	6.28%	May 2019	6.000	104.00	4.99
BLOM Listed	8.75	(0.57)	17,217	16.65%	Mar 2020	6.375	105.75	5.11
Audi GDR	6.50	2.36	3,200	6.65%	Apr 2021	8.250	115.50	5.34
Audi Listed	6.22	(1.89)	17,331	22.01%	Oct 2022	6.100	102.88	5.64
HOLCIM	15.00	0.00	0	2.59%	Nov 2026	6.600	103.88	6.14

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

Source: Byblos Bank Capital Markets

	Dec 1-5	Nov 24-28	% Change	Nov 2014	Nov 2013	% Change
Total Shares Traded	469,006	333,655	40.57	3,438,292	15,046,249	(77.15)
Total Value Traded	\$3,589,295	\$3,629,80	(1.12)	\$25,146,028	\$108,272,444	(76.78)
Market Capitalization	\$11.30bn	\$11.29bn	0.04	\$11.29bn	\$10.63bn	6.18

Source: Beirut Stock Exchange (BSE)



Lebanon's sovereign ratings affirmed, outlook 'stable'

Capital Intelligence affirmed Lebanon's long- and short-term foreign and local currency sovereign ratings at 'B' with a 'stable' outlook. It indicated that Lebanon's ratings reflect its adequate international liquidity and especially the level of its foreign currency reserves, which constitutes a buffer against external economic shocks. It noted that foreign currency reserves and other liquid foreign assets stood at \$39.4bn at the end of September 2014 and were equivalent to 83% of GDP and to about 1.5 times the country's external financing needs. The agency considered that deposits from the Lebanese Diaspora, which are equivalent to about 120% of GDP, support the accumulation of foreign reserves, are the main source to cover the current account deficit, and indirectly allow the government to finance its fiscal deficit. It added that non-resident deposit inflows have remained stable during previous periods of political instability, and continue to grow so far this year despite the rise in domestic and regional tensions. It noted that the level of official foreign currency reserves is adequate in case of moderate shocks, but could be insufficient in the event of large-scale currency conversions and deposit outflows.

Further, the agency said that the government benefits from a supportive domestic banking sector and continues to roll over maturing external debt maturities on favorable terms. It noted, however, that the heavy reliance of external and government financing on the banking sector constitutes a major vulnerability for the Lebanese economy and is one of the main constraints on the ratings.

Capital Intelligence considered that Lebanon's refinancing risks remain high, with the government's gross financing requirements equivalent to about 35% of GDP in 2014. It noted that the high level of external financing needs reflects a wide current account deficit of about 24% of GDP and an elevated external debt level of 152% of GDP for the year. It also forecast the fiscal deficit at 11% of GDP in 2014 and expected it to widen to more than 12% of GDP in 2015 in the absence of efforts to contain public spending and to mobilize additional revenues. It forecast the public debt level to maintain its upward trend and to exceed 144% of GDP at the end of 2014.

It pointed out that the government relies on the domestic banking system to meet the bulk of its financing needs, which makes it vulnerable to a political or economic shock that would adversely affect the risk appetite of local banks or the confidence of depositors. But it considered that, in the absence of such shocks, the government would be able to manage its financing needs in the short-term.

Lebanon ranks 136th globally, 13th in MENA region on corruption index

Transparency International's 2014 Corruption Perceptions Index (CPI) ranked Lebanon in 136th place among 175 countries around the world and in 13th place among 19 countries in the Middle East & North Africa region. Lebanon's global rank regressed by nine spots from last year's survey, constituting along with Bangladesh, Kenya, Montenegro and Russia, the ninth steepest decline globally. The countries that posted steeper declines are China (-20 spots), Malawi (-19 spots), Comoros (-15 spots), Timor-Leste (-14 spots), Djibouti (-13 spots), Liberia and Turkey (-11 spots each) and Nepal (-10 spots). Lebanon also came in 39th place among 45 upper-middle income countries (UMICs) included in the 2014 survey. The CPI is a composite index that uses data sources from independent institutions specializing in governance and business climate analysis to assess the degree of corruption in the public sector of each country. The rankings are based on scores that range between zero and 100, with zero reflecting economies perceived as highly corrupt.

Globally, Lebanon is perceived as having the same level of corruption as Cameroon, Iran, Kyrgyzstan, Nigeria and Russia. It is also considered to be less corrupt than Comoros, Uganda and Ukraine; and more corrupt than Madagascar, Nicaragua and Timor-Leste. Lebanon is considered to be less corrupt than only Angola, Venezuela, Libya, Turkmenistan and Iraq among UMICs; and to be less corrupt than Syria, Yemen, Libya, Iraq and Sudan in the MENA region.

CPI MENA Rankings & Scores in 2014

Country	Score	MENA Rank	Global Rank
UAE	70	1	25
Qatar	69	2	26
Israel	60	3	37
Bahrain	49	4	55
Jordan	49	4	55
Saudi Arabia	49	4	55
Oman	45	7	64
Kuwait	44	8	67
Tunisia	40	9	79
Morocco	39	10	80
Egypt	37	11	94
Algeria	36	12	100
Iran	27	13	136
Lebanon	27	13	136
Syria	20	15	159
Yemen	19	16	161
Libya	18	17	166
Iraq	16	18	170
Sudan	11	19	173

Source: Transparency International, Byblos Research

Lebanon received a score of 27 points, down from 28 points in last year's survey, and constituted the 21st steepest decline globally. Lebanon's score came below the global average score of 43.2 points, the UMICs' average score of 39.1 points and the MENA region's average score of 38.2 points. Also, Lebanon's score came below the average score of GCC countries of 54.3 points, and was similar to the average score of non-GCC Arab countries. Lebanon was among 35 countries globally that received a score between 20 and 29 points, a category classified as the third worst globally in terms of corruption perception. Denmark ranked as the least corrupt country worldwide, while Somalia was considered to be the most corrupt in the world.



Lebanon's external debt posts 28th lowest return in emerging markets, ninth lowest in the Middle East & Africa

Figures issued by Merrill Lynch indicate that Lebanon's external debt posted returns of 8.9% in the first 11 months of 2014, constituting the 19th lowest return among 41 markets in the Central & Eastern Europe, and the Middle East & Africa (CEEMEA) region, as well as the 28th lowest return among the 73 emerging markets included in Merrill Lynch's External Debt EM Sovereign Index. Lebanon underperformed the overall emerging markets returns of 9.75% during the covered period.

Further, Lebanon's external debt posted the ninth lowest return among 23 countries in the Middle East & Africa region in the covered period, ahead of Gabon (+8.6%), Israel (+8.4%), Qatar (+8.2%), Mozambique (+7.1%), Nigeria (+5.1%), Kenya (+5%), Jordan (+4.6%) and Angola (+1.9%). It was outperformed by Egypt (+24.3%), Turkey (+19%), Zambia (+17%), Tunisia (+16.8%), Morocco (+15.8%), Rwanda (+15.7%), the Ivory Coast (+14%), Bahrain (+12.7%), South Africa (+11%), Namibia (+10.7%), Senegal (+10.2%), Iraq (+10.2%), Ghana (+10.1%) and the UAE (+9.2%).

In parallel, Lebanon's external debt posted returns of 0.71% in November 2014, constituting the 18th highest return in the CEEMEA region and the 32nd highest return in emerging markets during the covered month. Lebanon outperformed in November the CEEMEA returns of 0.28%, the emerging markets returns of 0.15%, and those posted by 'B'-rated sovereigns of -3.05%.

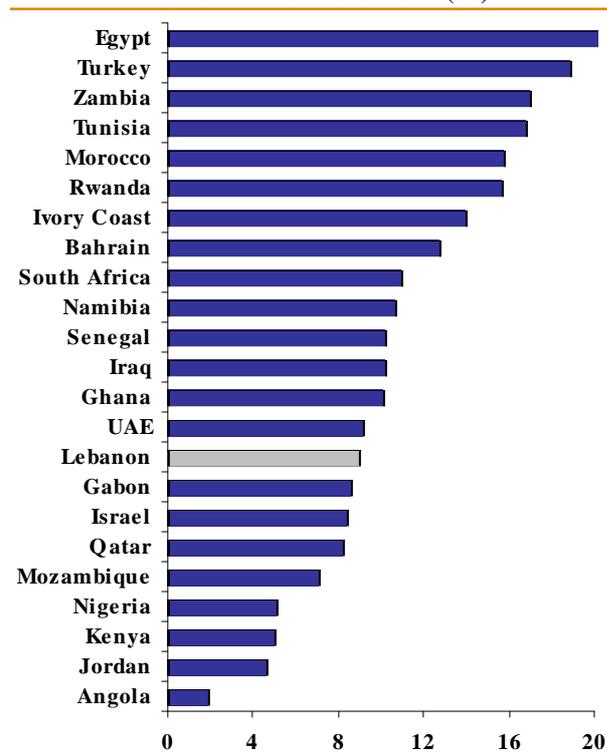
Further, Lebanon's external debt posted the 10th highest return in the Middle East & Africa region in November 2014. It was outperformed by Egypt (+3.1%), Turkey (+2.3%), the Ivory Coast (+1.5%), Morocco (+1.5%), South Africa (+1.3%), Israel and Tunisia (+1% each), Senegal (+0.9%) and the UAE (+0.8%).

Merrill Lynch indicated that the spread on Lebanese Eurobonds ended November 2014 at 375 basis points, constituting the 15th widest spread in the CEEMEA region and the 26th widest among emerging markets. It was wider than the emerging markets' overall spread of 279 basis points at end-November 2014. Lebanon has a weight of 3.24% on Merrill Lynch's External Debt EM Sovereign Index, the fifth highest in the CEEMEA universe and the ninth highest among emerging economies. Lebanon accounted for 5.7% of allocations in the CEEMEA region.

Balance of payments posts deficit of \$868m in first 10 months of 2014

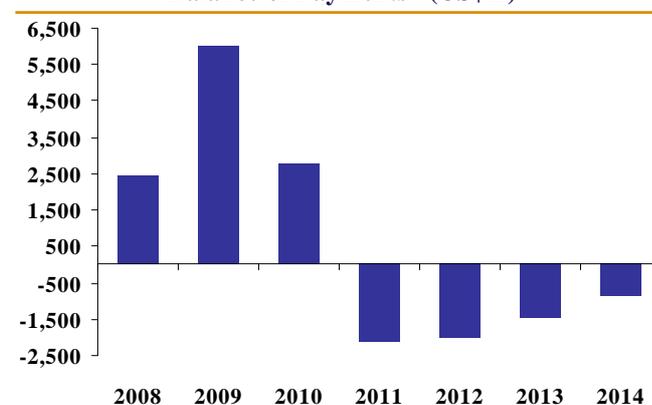
Central Bank figures show that Lebanon's balance of payments posted a deficit of \$867.7m in the first 10 months of 2014 compared to a deficit of \$1.47bn in the same period last year. The balance of payments posted a deficit of \$565.9m in October 2014 compared to a surplus of \$131.1m in September 2014 and a deficit of \$793.7m in October 2013. The October 2014 deficit was caused by a deficit of \$1bn in the net foreign assets of banks and financial institutions, and was partly offset by a surplus of \$449.2m in those of the Central Bank. The cumulative deficit over the first 10 months of 2014 was caused by a deficit of \$5.54bn in the net foreign assets of banks and financial institutions, and was partly offset by a surplus of \$4.68bn in those of the Central Bank. The balance of payments posted surpluses of \$7.9bn in 2009 and \$3.3bn in 2010, and deficits of \$2bn in 2011, \$1.5bn in 2012 and \$1.1bn in 2013.

External Debt Performance in Middle East & Africa in First 11 Months of 2014 (%)



Source: Merrill Lynch, Byblos Research

Balance of Payments* (US\$m)



*in the first 10 months of each year

Source: Central Bank of Lebanon

Net public debt at \$56.2bn at end-October 2014

Lebanon's gross public debt reached \$66.2bn at the end of October 2014, constituting a rise of 4.3% from \$63.5bn at the end of 2013 and an increase of 6% from \$62.4bn at end-October 2013. Domestic debt totaled \$40.3bn at end-October, rising by 7.8% from end-2013 and by 11.6% annually; while external debt stood at \$25.9bn, constituting a decrease of 0.7% from the end of 2013 and a decline of 1.6% from a year earlier. Local currency debt accounted for 60.8% of gross public debt at the end of October 2014 compared to 57.8% a year earlier, while foreign currency-denominated debt represented 39.2% of the total relative to 42.2% a year earlier. The weighted interest rate on outstanding Treasury bills was 6.88% and that on Eurobonds was 6.38% at the end of October 2014. Further, the weighted life on Eurobonds was 5.49 years, while that on Treasury bills was 1,164 days.

Commercial banks accounted for 51% of the local public debt at the end of October 2014 compared to 52% a year earlier. They were followed by the Central Bank with 31.7%, up from 31% at end-October 2013; while public agencies, financial institutions and the public accounted for 17.2% of local debt compared to 17% at the end of October last year. Eurobond holders, foreign private sector loans and special T-bills in foreign currencies accounted for 90.8% of the external debt; followed by foreign governments with 4.7%; multilateral institutions with 4.2%; and Paris II loans with 0.3%. The net public debt, which excludes the public sector's deposits at the Central Bank and at commercial banks from overall debt figures, increased annually by 7.1% to \$56.2bn. In parallel, the gross market debt accounted for about 65% of total public debt. Gross market debt is the total public debt less the portfolios of the Central Bank, the National Social Security Fund, bilateral and multilateral loans, as well as Paris II and Paris III related debt.

Environmental cost of Syrian refugees on the rise

The United Nations Development Program indicated that the large number of Syrian refugees in Lebanon constitutes a heavy burden on the country's already fragile environmental resources. The UNDP assessed the environmental impact of the Syrian refugees on solid waste management (SWM), water and wastewater management, air pollution, and land-use and ecosystems in the country.

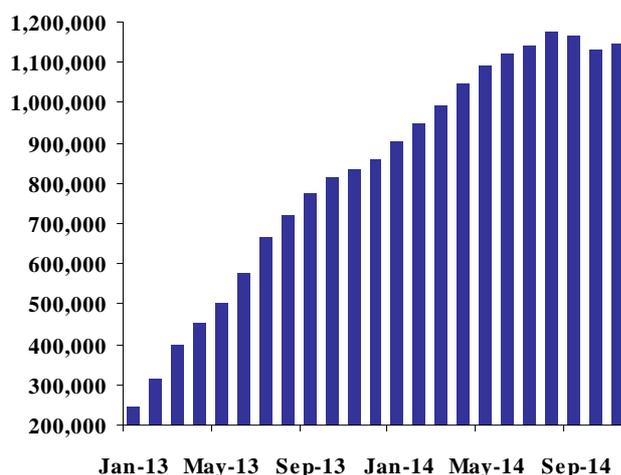
The UNDP projected the incremental daily quantity of Municipal Solid Waste (MSW) generated by Syrian refugees in Lebanon at 324,568 tons per year at the end of 2014, equivalent to 15.7% of solid waste produced by Lebanese citizens prior to the start of the Syrian crisis. It estimated the cost of managing and disposing of the waste generated by refugees at \$23.8m. It indicated that 48% of MSW generated by refugees is handled within the existing solid waste management infrastructure, which is weighing on SWM facilities. It added that municipalities' spending on SWM rose by 11% in 2012 and by an additional 40% in 2013. It pointed out that the remaining 52% of MSW are disposed of in existing open dumps, which results in the contamination of land, soil and groundwater. It estimated the capital cost to mitigate environmental degradation at \$131.1m, with an additional operations & management cost of \$57.6m per year.

In parallel, the UNDP estimated that water demand from Syrian refugees would lead to an increase in total water demand in Lebanon by about 8% to 12% by the end of 2014, equivalent to a rise of between 43 million and 70 million cubic meters. It noted that the increase in water demand is exacerbating the stress on water resources, especially on groundwater resources. Further, it projected wastewater generation across Lebanon to rise by about 8% to 14% by the end of 2014, equivalent to between 34 million and 56 million cubic meters. It indicated that water and wastewater mismanagement would result in the depletion of water resources, the deterioration of water and air quality, and a rise in health risks. It estimated the capital cost to mitigate such impacts at about \$1.3bn.

Further, the UNDP anticipated that the presence of the refugees would result in a 20% increase in the emission of air pollutants, which would lead to a degradation of air quality in the country. It indicated that the main factors affecting air pollution in Lebanon include road transportation, residential heating, solid waste management practices and electricity production. It estimated the capital cost of potential measures to mitigate the effects of air pollution at \$2bn, with about \$139m in annual operations & management costs.

In terms of land-use and ecosystems, the UNDP indicated that the influx of Syrian refugees increased Lebanon's population density by about 37% from 400 to 520 persons per square meter, which is the 16th highest density worldwide. It considered that this urban densification level results in more waste generation, water and sanitation problems, more vehicles on the roads, noise pollution, and encourages new construction. It pointed out that the number of informal tented settlements rose steadily from 250 in June 2011 to 1,224 in May 2014, and expected them to increase further if the Syrian crisis intensifies. It said that the rising number of informal tented settlements would affect environmentally sensitive areas, agricultural land and flood-prone regions. It estimated the capital cost for priority mitigation measures related to land use planning and ecosystem management at \$16m, with about \$78.5m in annual operations & management costs.

Number of Syrian Refugees in Lebanon*

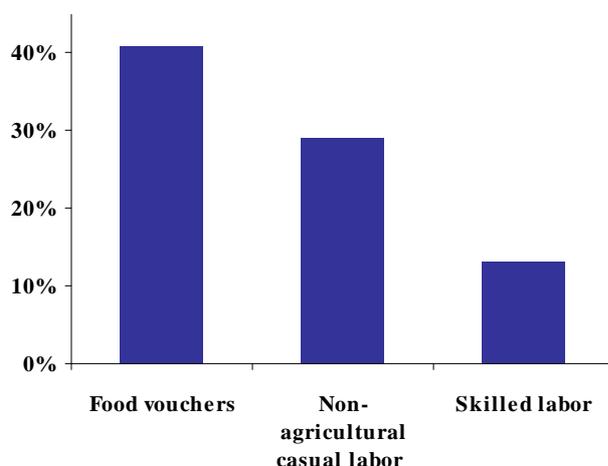


*registered and awaiting to be registered
Source: UNHCR, Byblos Research

UN suspends food assistance to Syrian refugees

The United Nations World Food Program (WFP) announced that it has suspended on December 1, 2014 its program that provides food vouchers to more than 1.7 million Syrian refugees in Lebanon as well as in Egypt, Iraq, Jordan and Turkey due to a funding crisis. It said that its Syria emergency operations are currently in critical need of funding, as many donor commitments are still unfulfilled. The UN noted that the WFP requires the immediate disbursement of \$64m in order to support refugees in countries that border Syria during the month of December. It added that it would immediately resume assistance for refugees who use electronic vouchers to buy food in local shops if new funding arrives in December. The WFP's voucher program has injected since 2011 about \$800m into the economies of host countries that border Syria. The Office of the United Nations High Commissioner for Refugees (UNHCR) estimated the number of registered and awaiting to be registered Syrian refugees in Lebanon at 1.1 million as at December 2, 2014. A survey commissioned by the UNHCR and conducted in May 2014, indicated that 41% of Syrian refugee households in Lebanon cited food vouchers as their main source of income, and 70% of registered households received food vouchers on a regular basis.

Main Sources of Income of Syrian Refugees



Source: UNHCR, Byblos Research

Value of cleared checks up 4%, returned checks nearly unchanged in first 10 months of 2014

The value of cleared checks reached \$62.5bn in the first 10 months of 2014, constituting an increase of 4.2% from the same period last year, and compared to a rise of 1.7% in the first 10 months of 2013 and to a decrease of 1.7% in the same period of 2012. The value of cleared checks in Lebanese pounds rose by 8% annually to the equivalent of \$15.2bn in the first 10 months of 2014, while the value of cleared checks in US dollars increased by 3% to \$47.4bn. The dollarization rate of cleared checks decreased to 75.8% from 76.6% in the first 10 months of 2013. Also, the value of returned checks in domestic and foreign currencies regressed by 0.2% year-on-year to \$1.3bn in the first 10 months of 2014, compared to an annual drop of 0.9% in the same period of 2013 and to an annual increase of 5.6% in the first 10 months of 2012. In parallel, the number of cleared checks totaled 10.8 million checks in the first 10 months of 2014, down by 1.8% from the same period last year. Also, the number of returned checks totaled 212,000 checks, down 5.4% from 224,100 in the first 10 months of 2013.

Slow construction and public work activity in first quarter of 2014

The Central Bank's quarterly business survey indicated that construction activity improved in relative terms during the first quarter of 2014, as the balance of opinions stood at -14, compared to -20 during the preceding quarter and -24 during the same quarter of 2013. The balance of opinions shows that construction activity was the lowest in the Bekaa at -31, followed by Beirut and Mount Lebanon (-27), the South (+6) and the North (+21). The business survey reflects the opinions of enterprise managers about the evolution of their businesses, in order to depict the evolution of a number of key economic variables. The balance of opinions for public works stood at -19 in the first quarter of 2014 compared to -16 in the preceding quarter and -27 in the same quarter of 2013. Opinions about the level of public works were the lowest in both Beirut and Mount Lebanon at -37, followed by the Bekaa (-18), the South (zero) and the North (+23).

In parallel, the balance of opinions for the portfolio of projects was -20 in the first quarter of 2014 relative to -14 during the preceding quarter, and compared to -19 in the same quarter of 2013. The balance of opinions on the portfolio of projects was the lowest in Beirut & Mount Lebanon at -27, followed by the South (-19), the Bekaa (-15) and the North (-10). Also, the balance of opinions for general construction activity was -14 during the first quarter of 2014, compared to -20 in the preceding quarter and relative to -23 in the first quarter of 2013. Further, the balance of opinions for construction costs reached +19 in the covered quarter compared to +18 in the preceding quarter and +31 in the same quarter of 2013. The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in a particular indicator and the proportion of those who reported a decline in the same indicator.

Construction and Public Work Activity: evolution of opinions				
Aggregate results	Q1-11	Q1-12	Q1-13	Q1-14
General activity	-11	-21	-24	-14
Construction	-9	-16	-23	-14
Public work	-25	-33	-27	-19
Portfolio of projects	-7	-7	-19	-20
Construction costs	52	34	31	19
Investments (% of yes)	30%	29%	38%	32%

Source: Central Bank Business Survey in first quarter of 2014

Commercial banks' assets reach \$171.3bn at end of October 2014

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$171.26bn at the end of October 2014, constituting an increase of 3.9% from the end of 2013 and a rise of 6.6% from end-October 2013. Private sector deposits totaled \$142bn, increasing by 4.3% from the end of 2013 and by 7.5% from a year earlier. Deposits in Lebanese pounds reached \$48.7bn and rose by 5.6% from end-2013 and by 7.4% from end-October 2013; while deposits in foreign currencies totaled \$93.3bn, constituting a rise of 3.6% from the end of 2013 and an increase of 7.6% from a year earlier. Non-resident foreign currency deposits totaled \$25.7bn at the end of October 2014, increasing by 2.2% from end-2013 and growing by 11.3% year-on-year. Total non-resident deposits reached \$29.4bn at the end of October and rose by 3.4% from end-2013 and by 11.7% from a year earlier. Total private sector deposits decreased by \$1.3bn in January but increased by \$848.4m in February, by \$843.8m in March, by \$1.6bn in April, by \$650.7m in May, by \$1.5bn in June, by \$965.8m in July, by \$200.3m in August, by \$508.1m in September and by \$13.3m in

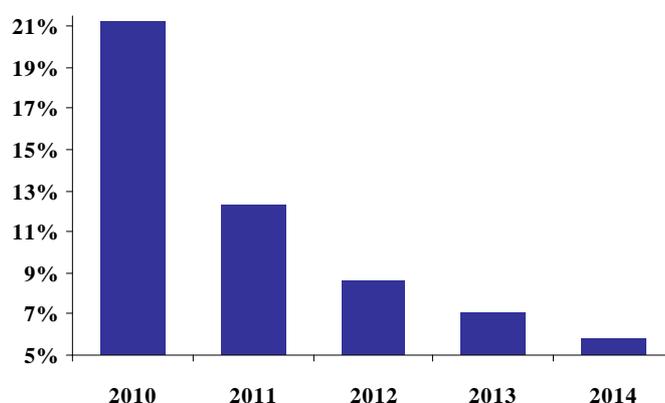
October 2014. In comparison, they rose by \$558m in January, by \$744.9m in February, by \$1.8bn in March, by \$2bn in May, by \$1.2bn in June, by \$203m in August and by \$739m in October, but declined by \$11.3m in April, by \$87.6m in July and by \$21.9m in September 2013. In parallel, deposits of non-resident banks reached \$5.47bn at the end of October 2014 and increased by 9.2% from end-2013 and by 6.5% from a year earlier. The dollarization rate of deposits reached 65.7% at the end of October, down from 66.1% at end-2013 and was unchanged from a year earlier. Further, the average deposit rate in Lebanese pounds was 5.58% in October 2014 relative to 5.44% in the same month of last year, while the same rate in US dollars was 3.12% compared to 2.94% in October 2013.

Loans to the private sector reached \$50.1bn at the end of October 2014, constituting an increase of 5.7% from the end of 2013 and a rise of 7.7% from a year earlier. In nominal terms, credit to the private sector rose by \$2.72bn in the first 10 months of 2014 relative to an increase of \$3bn in the same period last year. Lending to the resident private sector totaled \$44.5bn, growing by 7.2% from the end of 2013 and by 8.5% year-on-year; while credit to the non-resident private sector reached \$5.6bn, decreasing by 4.6% from end-2013 and rising by 2% from end-October 2013. The dollarization rate in private sector lending regressed to 75.7% at the end of October 2014 from 76.7% a year earlier. The average lending rate in Lebanese pounds was 7.29% in October 2014 compared to 7.59% in the same month last year, while the same average in US dollars was 6.95%, up from 6.85% in October 2013. In addition, claims on non-resident banks reached \$10.3bn at the end of October 2014, posting decreases of 26% from end-2013 and of 13.5% from a year earlier. In parallel, claims on the public sector stood at \$37.4bn at the end of October, down by 0.8% from the end of 2013 and up by 2.1% year-on-year. The ratio of private sector loans-to-deposits in foreign currencies stood at 40.6%, well below the Central Bank's limit of 70%, and compared to 41.1% a year earlier. In parallel, the same ratio in Lebanese pounds was 25% at end-October 2014, up from 23.9% at the end of October 2013. The ratio of total private sector loans-to-deposits was 35.3% compared to 35.2% a year earlier. The banks' aggregate capital base stood at \$15.47bn, up by 9% from \$14.2bn at end-2013 and by 9.3% from \$14.16bn at end-October 2013.

Fransabank to raise capital by issuing preferred shares

The Extraordinary General Assembly of Fransabank held on October 23, 2014 approved the increase of the bank's capital from LBP446bn, equivalent to \$295.9m, to LBP454.5bn or \$301.5m, through the issuance of 425,000 Series D Preferred Shares. The issue price is \$200 per share of which LBP20,000 (\$13.27) is par value and the remaining \$186.73 constituting the issue premium. The Series D Preferred Shares will carry an annual dividend of 6.5% of the issue price adjusted on a pro-rata basis, while the annual payment is contingent on the availability of sufficient unconsolidated declared net profits, among other factors. The dividends will be paid net of a 10% withholding tax. The preferred shares are non-cumulative, perpetual and subject to a call option by the bank. Fransabank has the right to call the Series D Preferred Shares in case of an organizational event at the bank at a call price of \$200 per share. Also, the bank has the option to call the shares after 2019 at a call price of \$200 plus a premium of 3.5% of the issue price. The call price is subject to change. The bank would have to redeem a minimum of 20% of the outstanding Series D shares in case it decides to exercise its call option. Fransabank posted unaudited consolidated net profits of \$105.2m in the first nine months of 2014, down 1.1% from \$106.4m in the same period last year. Aggregate assets reached \$18.28bn, while loans & advances to customers totaled \$5.74bn and customers' deposits stood at \$14.7bn at the end of September 2014.

Private Sector Lending Growth* (% Change)



*in the first 10 months of each year

Source: Association of Banks in Lebanon, Byblos Research

Foreign investments of financial sector at \$6.2bn at end-March 2014, commercial banks account for 68% of long-term debt securities and for 28% of equity investments

Figures issued by the Central Bank show that the net investment portfolio of Lebanese banks and financial institutions in foreign debt and equity securities totaled \$6.2bn at the end of March 2014, constituting an increase of 0.6% from \$6.1bn at end-2013. Investments in long-term debt securities reached \$3.3bn at the end of March 2014 and accounted for 53.1% of the total, followed by investments in equities with \$2.8bn, or 45.5% of the total, while short-term debt securities reached \$83.2m or 1.3% of the total. According to the Central Bank, the figures cover the net assets of resident financial institutions in tradable debt and equity instruments of non-resident issuers. They help provide a clearer picture about the flow of funds from Lebanon and, therefore, about the balance of payments.

Commercial banks' net portfolio in foreign long-term debt securities totaled \$2.2bn and accounted for 68.2% of aggregate investments in such securities at end-March 2014. The figure includes banks' investment for their own account, on behalf of their clients and on a custodial basis. They were followed by medium and long-term

banks with \$807m (24.6%), insurance firms with \$153.4m (4.7%) and financial institutions with \$83.4m (2.5%). Commercial banks also represented 83.2% of investments in short-term debt securities, followed by medium and long-term banks with 7.7%, financial institutions with 5.3% and insurance companies with 3.8%. In parallel, financial institutions' net assets in equities were \$1.2bn and accounted for 41.4% of total investments in such securities. They were followed by commercial banks with \$788.7m (28%), medium and long-term banks with \$715.3m (25.4%) and insurance companies with \$141.8m (5%).

The distribution of investments by destination shows that the United States was the leading recipient of equity investments by financial institutions operating in Lebanon, with investments reaching \$1.47bn or 52.1% of the total at end-March 2014. Bahrain followed with \$251.4m (8.9%), Luxembourg with \$141.5m (5%), France with \$132.9m (4.7%) and Jordan with \$132.7m (4.7%), while other countries accounted for the remaining 24.5%. In parallel, the United Kingdom received \$541.8m or 16.5% of investments in long-term debt securities, followed by the United States with \$442.6m (13.5%), France with \$354.2m (10.8%), the UAE with \$259.3m (7.9%), and the Netherlands with \$171.1m (5.2%), while other countries accounted for the remaining 46.2%. Further, Qatar attracted 51.4% of Lebanese financial institutions' investments in short-term debt securities, followed by the UAE with 17.1% and Australia with 14.2%.

Central Bank circular clarifies foreign borrowing of banks and financial institutions

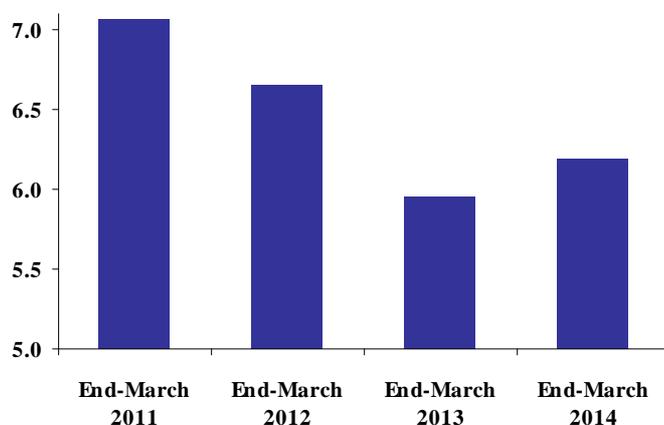
The Central Bank issued Intermediary Circular 378 dated November 12, 2014 that modifies Basic Circular 7274 dated April 15, 1999 about dealing with non-resident sectors. The amendments consist of adding a new article to the original circular.

The article puts conditions on banks and financial institutions domiciled in Lebanon that plan to borrow or to access funds from non-resident financial institutions against guarantees or collateral in the form of Lebanese sovereign Eurobonds, foreign currency-denominated Certificates of Deposits (CDs) issued by the Central Bank of Lebanon, and sovereign or corporate bonds from foreign issuers.

First, it noted that the value of borrowed funds should not exceed 60% of the value of the sovereign Eurobonds and CDs or 50% of the value of corporate bonds used as a guarantee. Second, it indicated that the total value of borrowed funds from non-resident financial sectors should not exceed 50% of the borrowing institution's Tier One capital. Third, it prohibited banks and financial institutions from including the foreign currency-denominated CDs issued by the Central Bank of Lebanon as part of their net immediate liquidity in foreign currency, in case they are used as guarantees against loans from non-resident financial institutions.

Further, the new article stipulates that the deal between the two sides must allow Lebanese banks and financial institutions to freely and unconditionally implement any necessary adjustments in case of a ratings downgrade to below 'BBB' of the foreign sovereign or corporate bonds used as a guarantee. Finally, the article requires banks and financial institutions to build specific provisions, in case of a downgrade in the ratings of the foreign sovereign or corporate bonds used as a guarantee, which would be commensurate with the scale of the downgrade.

Foreign Investments of Financial Sector (US\$bn)



Source: Central Bank, Byblos Research

Net profits of fire insurance segment at \$12m, combined ratio at 90.5% in 2013

Figures released by the Association of Insurance Companies in Lebanon (ACAL) show that the aggregate net profits generated by the fire insurance segment in Lebanon reached \$12.4m in 2013, constituting an increase of 35.3% from net earnings of \$9.1m in 2012, and relative to net profits of \$8.9m in 2011 and \$8.6m in 2010. The fire segment's gross written premiums rose by 7.9% to \$94m in 2013 and accounted for 6.7% of the sector's total written premiums. Policy fees rose by 4.1% year-on-year to \$18.1m and the cost of policies increased by 4.4% to \$6.6m, which resulted in net premiums of \$69.3m in 2013. Further, accepted premiums reached \$5.9m last year, of which 29.4% were from local sources.

Also, net investment income reached \$4.2m last year, up 19.2% from the preceding year. In parallel, the fire segment's paid claims increased by 53.7% to \$41.6m in 2013 and accounted for 5.7% of the insurance sector's aggregate paid claims last year; while overall claim expenses dropped by 40.4% to \$28.5m in 2013. Further, net reinsurance expenses reached \$23.6m in 2013, up 11.2 times from \$2.1m in 2012; while ceded premiums rose by 10.5% to \$64.3m and paid reinsurance benefits rose by 60.6% to \$37.3m. Also, general insurance expenses increased by 7.9% to \$31.6m in 2013, with brokerage expenses rising by 7.1% to \$16.6m and administration costs surging by 12.8% to \$11.5m in 2013.

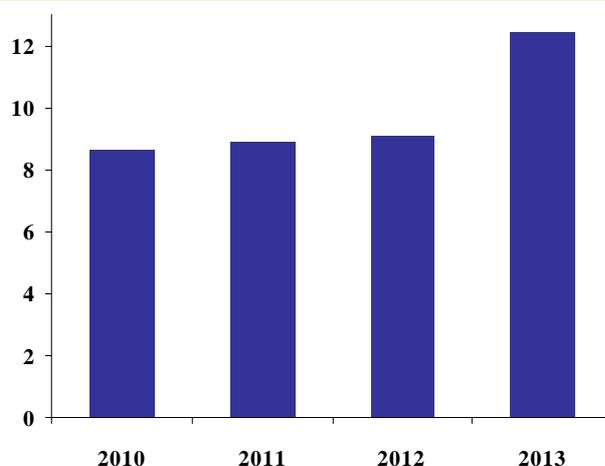
In parallel, the loss ratio of the fire category, or the ratio of claims incurred to earned gross premiums, was 30.8% in 2013 compared to 55.1% in 2012 and to 54.7% for the sector's overall ratio last year. Also, the commission ratio for the fire category, or the ratio of acquisition cost to earned gross premiums, reached 19% at end-2013 relative to 19.1% at end-2012 and to 17% for the sector last year. Further, the fire segment's reinsurance ratio, or the ratio of net reinsurance income to earned gross premiums, increased to 25.5% in 2013 from 2.4% in 2012, relative to the insurance sector's ratio of 5.7%. The expense ratio, or the ratio of other general expenses to earned gross premiums, stood at 15.1% in 2013 compared to 14.6% in 2012 and to the insurance sector's ratio of 13.4%. Finally, the combined ratio of the fire category, which is the aggregate ratio of the above four ratios, was 90.5% in 2013 compared to 91.3% in 2012 and relative to the insurance sector's ratio of 90.8%.

Banque Libano-Française's net income down 3% to \$74 in first nine months of 2014

Banque Libano-Française sal, one of Lebanon's top 10 banks, posted unaudited consolidated net profits of \$73.8m in the first nine months of 2014, constituting a decrease of 3.4% from the same period last year. Net operating income rose by 0.8% year-on-year to \$178.2m, with net interest income declining by a marginal 0.1% to \$126m and net fees & commissions receipts rising by 4.4% to \$31.3m. Non-interest income accounted for 26.6% of total income, down from 31.4% in the first nine months of 2013, with net fees & commissions accounting for 64.6% of non-interest earnings, up from 49.2% from the same period last year. Further, the bank's interest margin was 1.66% in the first nine months of the year relative to 1.74% in the same period last year, while its net spread decreased to 1.61% from 1.69% in the first nine months of 2013. Total operating expenditures grew by 3.9% year-on-year to \$94.8 in the first nine months of 2014, with staff expenses increasing by 7.6% to 57.4m. Also, the bank's return on average assets reached 0.89% on an annualized basis in September 2014 relative to 0.97% in September 2013; while its return on average equity was 10.5% on an annualized basis compared to 11.7% in September 2013. The bank's cost-to-income ratio increased from 46.9% in the first nine months of 2013 to 52% in the first nine months of 2014.

In parallel, total assets reached \$11.1bn at the end of September 2014, constituting an increase of 0.4% from end-2013 and a rise of 5.1% from a year earlier. Loans & advances to customers, excluding loans & advances to related parties, rose by 9.6% from end-2013 and by 12.7% year-on-year to \$3.9bn. Also, customer deposits, excluding deposits from related parties, totaled \$9.5bn at end-September 2014, constituting an increase of 1.9% from end-2013 and a rise of 5.2% from a year earlier. The loans-to-deposits ratio rose to 41.5% at end-September 2014 from 39% a year earlier. In parallel, shareholders' equity rose by 1% from end-2013 to \$926.2m at end-September 2014.

Net Profits of the Fire Insurance Segment (US\$m)



Source: ACAL, Byblos Research

Ratio Highlights

(in % unless specified)	2011	2012	2013	Change*
Nominal GDP (\$bn)	40.1	42.5	44.3	
Public Debt in Foreign Currency / GDP	52.2	57.4	58.9	150
Public Debt in Local Currency / GDP	81.7	78.3	84.3	600
Gross Public Debt / GDP	133.9	135.7	143.2	750
Total Gross External Debt / GDP	169.2	170.0	176.7	670
Trade Balance / GDP	(39.7)	(39.5)	(39.0)	50
Exports / Imports	21.2	21.1	18.6	(250)
Fiscal Revenues / GDP	23.3	22.1	21.3	(80)
Fiscal Expenditures / GDP	29.1	31.3	30.8	(50)
Fiscal Balance / GDP	(5.9)	(9.2)	(9.5)	(30)
Primary Balance / GDP	4.2	(0.3)	(0.5)	(20)
Gross Foreign Currency Reserves / M2	79.2	69.4	69.6	20
M3 / GDP	242.6	244.6	250.8	620
Commercial Banks Assets / GDP	350.7	357.2	371.9	1,470
Private Sector Deposits / GDP	288.7	294.0	307.3	1,330
Private Sector Loans / GDP	98.3	102.2	106.9	470
Private Sector Deposits Dollarization Rate	65.9	64.8	66.1	130
Private Sector Lending Dollarization Rate	78.4	77.6	76.5	(110)

* Change in basis points 12/13

Source: Institute of International Finance, Association of Banks in Lebanon, International Monetary Fund, 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	Feb 2013	Jan 2014	Feb 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	Feb 2013	Jan 2014	Feb 2014	Change*	Risk Level
Political Risk Rating	58.6	58.4	58.4	▼	High
Financial Risk Rating	41.6	40.7	40.4	▼	Very Low
Economic Risk Rating	36.3	35.8	35.9	▼	Low
Composite Risk Rating	68.2	67.5	67.4	▼	Moderate

*year-on-year

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	B1	NP	Negative	B1		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



Economic Research & Analysis Department
Byblos Bank Group
P.O. Box 11-5605
Beirut – Lebanon
Tel: (961) 1 338 100
Fax: (961) 1 217 774
E-mail: research@byblosbank.com.lb
www.byblosbank.com

Lebanon This Week is a research document that is owned and published by Byblos Bank sal. The contents of this publication, including all intellectual property, trademarks, logos, design and text, are the exclusive property of Byblos Bank sal, and are protected pursuant to copyright and trademark laws. No material from Lebanon This Week may be modified, copied, reproduced, repackaged, republished, circulated, transmitted, redistributed or resold directly or indirectly, in whole or in any part, without the prior written authorization of Byblos Bank sal.

The information and opinions contained in this document have been compiled from or arrived at in good faith from sources deemed reliable. Neither Byblos Bank sal, nor any of its subsidiaries or affiliates or parent company will make any representation or warranty to the accuracy or completeness of the information contained herein.

Neither the information nor any opinion expressed in this publication constitutes an offer or a recommendation to buy or sell any assets or securities, or to provide investment advice. This research report is prepared for general circulation and is circulated for general information only. Byblos Bank sal accepts no liability of any kind for any loss resulting from the use of this publication or any materials contained herein.

The consequences of any action taken on the basis of information contained herein are solely the responsibility of the person or organization that may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies that may be discussed in this report and should understand that statements regarding future prospects may not be realized.

BYBLOS BANK GROUP

LEBANON

Byblos Bank S.A.L
Achrafieh - Beirut
Elias Sarkis Avenue - Byblos Bank Tower
P.O.Box: 11-5605 Riad El Solh - Beirut 1107 2811- Lebanon
Phone: (+ 961) 1 335200
Fax: (+ 961) 1 339436

SYRIA

Byblos Bank Syria S.A.
Damascus Head Office
Al Chaalan - Amine Loutfi Hafez Street
P.O.Box: 5424 Damascus - Syria
Phone: (+ 963) 11 9292 - 3348240/1/2/3/4
Fax: (+ 963) 11 3348205
E-mail: byblosbanksyria@byblosbank.com

IRAQ

Erbil Branch, Kurdistan, Iraq
Street 60, Near Sports Stadium
P.O.Box: 34 - 0383 Erbil - Iraq
Phone: (+ 964) 66 2233457/8/9 - 2560017/9
E-mail: erbilbranch@byblosbank.com.lb

Baghdad Branch, Iraq
Al Karrada - Salman Faeq Street
Al Wahda District, No. 904/14, Facing Al Shuruk Building
P.O.Box: 3085 Badalat Al Olwiya - Iraq
Phone: (+ 964) 770 6527807 / (+ 964) 780 9133031/2
E-mail: baghdadbranch@byblosbank.com.lb

Basra Branch, Iraq
Intersection of July 14th, Manawi Basha Street, Al Basra - Iraq
Phone: (+ 964) 770 4931900 / (+ 964) 770 4931919
E-mail: basrabranch@byblosbank.com.lb

UNITED ARAB EMIRATES

Byblos Bank Abu Dhabi Representative Office
Intersection of Muroor and Electra Streets
P.O.Box: 73893 Abu Dhabi - UAE
Phone: (+ 971) 2 6336050 - 2 6336400
Fax: (+ 971) 2 6338400
E-mail: abudhabirepoffice@byblosbank.com.lb

ARMENIA

Byblos Bank Armenia CJSC
18/3 Amiryan Street - Area 0002
Yerevan - Republic of Armenia
Phone: (+ 374) 10 530362
Fax: (+ 374) 10 535296
E-mail: infoarm@byblosbank.com

CYPRUS

Limassol Branch
1, Archbishop Kyprianou Street, Loucaides Building
P.O.Box 50218
3602 Limassol - Cyprus
Phone: (+ 357) 25 341433/4/5
Fax: (+ 357) 25 367139
E-mail: byblosbankcyprus@byblosbank.com.lb

BELGIUM

Byblos Bank Europe S.A.
Brussels Head Office
Rue Montoyer 10
Bte. 3, 1000 Brussels - Belgium
Phone: (+ 32) 2 551 00 20
Fax: (+ 32) 2 513 05 26
E-mail: byblos.europe@byblosbankeur.com

UNITED KINGDOM

Byblos Bank Europe S.A., London Branch
Berkeley Square House
Berkeley Square
GB - London W1J 6BS - United Kingdom
Phone: (+ 44) 20 8518 8100
Fax: (+ 44) 20 8518 8129
E-mail: byblos.london@byblosbankeur.com

FRANCE

Byblos Bank Europe S.A., Paris Branch
15 Rue Lord Byron
F- 75008 Paris - France
Phone: (+33) 1 45 63 10 01
Fax: (+33) 1 45 61 15 77
E-mail: byblos.europe@byblosbankeur.com

SUDAN

Byblos Bank Africa
Khartoum Head Office
Intersection of Mac Nimer and Baladiyya Streets
P.O.Box: 8121 - Khartoum - Sudan
Phone: (+ 249) 1 56 552 222
Fax: (+ 249) 1 56 552 220
E-mail: byblosbankafrica@byblosbank.com

NIGERIA

Byblos Bank Nigeria Representative Office
161C Rafu Taylor Close - Off Idejo Street
Victoria Island, Lagos - Nigeria
Phone: (+ 234) 706 112 5800
(+ 234) 808 839 9122
E-mail: nigeriarepresentativeoffice@byblosbank.com.lb

DEMOCRATIC REPUBLIC OF CONGO

Byblos Bank RDC S.A.R.L
Avenue du Marché No. 4
Kinshasa-Gombe, Democratic Republic of Congo
Phone: (+ 243) 81 7070701
(+ 243) 99 1009001
E-mail: byblosbankrdc@byblosbank.com

ADIR INSURANCE

Dora Highway - Aya Commercial Center
P.O.Box: 90-1446
Jdeidet El Metn - 1202 2119 Lebanon
Phone: (+ 961) 1 256290
Fax: (+ 961) 1 256293