

LEBANON THIS WEEK

In This Issue

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

Market accessibility of Beirut Stock Exchange needs improvement in several areas

Aerial survey suggests hydrocarbon potential in certain areas of the country

Lebanon's external debt posts 31st lowest return in emerging markets, 10th lowest in the Middle East & Africa

Finance Ministry reduces tax on profits from industrial exports

Fitch Ratings affirms Lebanon's sovereign ratings, outlook 'negative'

Revenues through Port of Beirut up 6% to \$72m in first four months of 2015

Coincident Indicator down 1.4% year-on-year in first quarter of 2015

Trade deficit down 22% to \$4.6bn in first four months of 2015

Corporate Highlights6

New car sales down 2% in first five months of 2015

Kafalat loan guarantees down 28% to \$32m in first five months of 2015

Top five freight forwarders' import activity down 8% in first four months of 2015

Insurance premiums up 6% year-on-year to \$418m in first quarter of 2015, claims and benefits down 1% to \$179m

First National Bank's net earnings up 20% to \$7.5m in first quarter of 2015

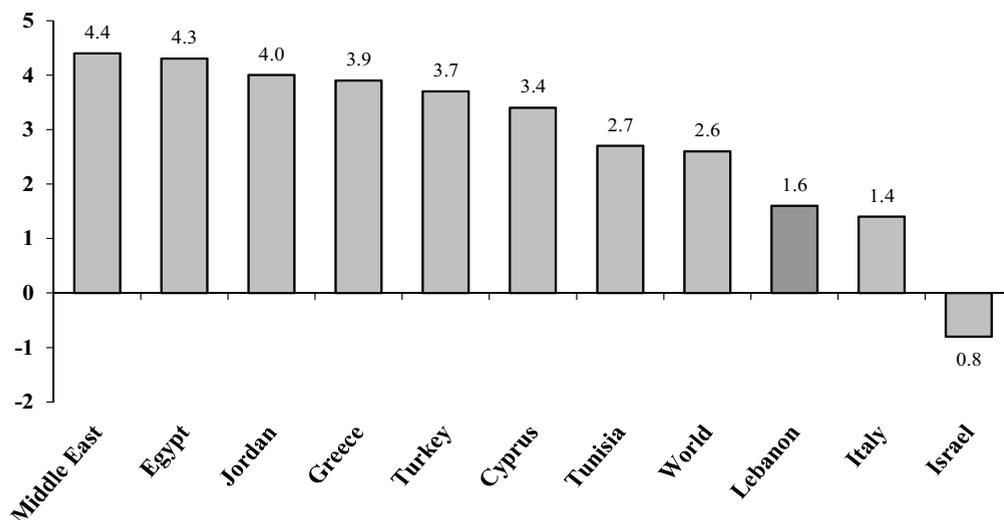
Eleven Lebanese universities among top 100 in the Arab world

Bank Audi exercises call option on preferred shares

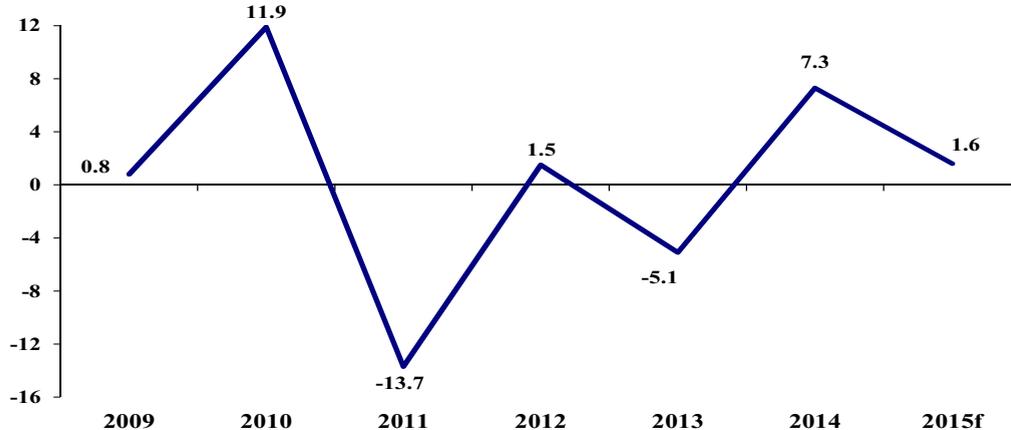
Ratio Highlights.....9
Risk Outlook9
Ratings & Outlook.....9

Charts of the Week

Projected Travel & Tourism's Total Contribution to Employment in 2015 (% growth)



Travel & Tourism's Total Contribution to Employment in Lebanon (% growth)



Source: World Travel & Tourism Council, Byblos Bank

Quote to Note

"It is imperative and urgent for policy-makers to address Lebanon's longstanding and worsening structural bottlenecks."

The World Bank, on the urgent need to implement structural reforms

Number of the Week

83: Lebanon's rank among 102 countries in terms of the fair and effective enforcement of regulations, according to the World Justice Project's 2015 Rule of Law Index

Lebanon in the News

\$m (unless otherwise mentioned)	2013	Dec 13	Sep 14	Oct 14	Nov 14	Dec 14	% Change*
Exports	3,936	243	282	279	248	268	10.29
Imports	21,228	1,797	1,671	1,724	1,393	1,649	(8.24)
Trade Balance	(17,292)	(1,554)	(1,389)	(1,445)	(1,145)	(1,381)	(11.13)
Balance of Payments	(1,128)	534	131	(566)	(424)	(116)	-
Checks Cleared in LBP	17,047	1,562	1,553	1,587	1,415	1,599	2.37
Checks Cleared in FC	55,321	4,728	4,852	4,730	4,367	4,692	(0.76)
Total Checks Cleared	72,368	6,290	6,405	6,317	5,782	6,291	0.02
Budget Deficit/Surplus	(4,220)	(238.09)	(564.21)	(216.28)	(585.95)	23.00	-
Primary Balance	(239.68)	70.72	(84.64)	258.98	(100.54)	281.94	298.6
Airport Passengers	6,265,470	510,367	640,546	549,726	427,403	573,229	12.32

\$bn (unless otherwise mentioned)	2013	Dec 13	Sep 14	Oct 14	Nov 14	Dec 14	% Change*
BdL FX Reserves	31.71	31.71	32.34	33.09	33.87	32.40	2.19
<i>In months of Imports</i>	<i>17.65</i>	<i>17.65</i>	<i>19.35</i>	<i>19.19</i>	<i>24.32</i>	<i>19.65</i>	<i>11.36</i>
Public Debt	63.46	63.49	65.97	66.21	66.64	66.56	4.84
Net Public Debt	53.18	53.21	55.89	56.23	56.71	57.30	7.69
Bank Assets	164.82	164.82	171.34	171.27	172.21	175.70	6.60
Bank Deposits (Private Sector)	136.21	136.21	142.02	142.04	142.74	144.43	6.03
Bank Loans to Private Sector	47.38	47.38	49.95	50.10	50.51	50.90	7.42
Money Supply M2	45.60	45.60	47.90	47.82	48.07	48.69	6.78
Money Supply M3	111.16	111.16	116.07	116.02	116.47	117.68	5.87
LBP Lending Rate (%)	7.29	7.29	7.08	7.29	6.96	7.49	20bps
LBP Deposit Rate (%)	5.44	5.44	5.51	5.58	5.55	5.56	12bps
USD Lending Rate (%)	6.88	6.88	6.94	6.95	7.01	6.97	9bps
USD Deposit Rate (%)	2.95	2.95	3.04	3.12	3.10	3.07	12bps
Consumer Price Index**	3.89	3.89	1.24	(0.27)	0.48	(1.66)	-

* 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
BLOM Listed	9.65	(0.1)	560,794	17.99%
Byblos Common	1.60	0.00	410,775	4.99%
BLOM GDR	10.00	0.00	35,000	6.41%
Solidere "A"	11.61	0.17	21,860	10.07%
Byblos Pref. 08	100.80	0.10	13,000	1.75%
Solidere "B"	11.74	2.00	12,241	6.62%
Audi Listed	6.11	(0.16)	10,110	21.18%
Audi GDR	6.20	(1.90)	7,068	6.25%
Byblos Pref. 09	100.60	(0.10)	2,249	1.74%
HOLCIM	15.20	(5.00)	450	2.57%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Jan 2016	8.500	102.94	3.41
Mar 2017	9.000	108.25	4.09
Nov 2018	5.150	101.38	4.71
May 2019	6.000	103.13	5.11
Mar 2020	6.375	104.50	5.29
Apr 2021	8.250	113.25	5.55
Oct 2022	6.100	102.38	5.70
Jun 2025	6.250	101.13	6.10
Nov 2026	6.600	103.00	6.23
Feb 2030	6.650	102.00	6.44

Source: Byblos Bank Capital Markets

	June 8-12	June 1-5	% Change	May 2015	May 2014	% Change
Total Shares Traded	2,113,856	940,498	(125)	3,514,330	3,204,699	9.66
Total Value Traded	\$15,123,076	\$7,775,365	(94.5)	\$40,077,612	\$32,279,807	24.16
Market Capitalization	\$11.53bn	\$11.55bn	(0.16)	\$11.56bn	\$11.05bn	4.61

Source: Beirut Stock Exchange (BSE)



Market accessibility of Beirut Stock Exchange needs improvement in several areas

In its annual assessment of the market accessibility of 82 developed, emerging and frontier equity markets, global portfolio analytics and indices provider MSCI Barra maintained Lebanon in its Frontier Markets category. It evaluated the country's stock market based on four accessibility criteria that are openness to foreign ownership, ease of capital inflows and outflows, efficiency of the operational framework, and stability of the institutional framework. It said that the four criteria reflect the views of international institutional investors, which generally put a strong emphasis on equal treatment of investors, free flow of capital, cost of investment and country specific risk.

In terms of openness to foreign ownership, it said that there are no limits to foreign ownership on the Beirut Stock Exchange except for Israeli nationals who are formally prohibited from investing in Lebanese companies. It noted the need to improve equal rights to foreign investors, as company-related information is not always readily available in English. Lebanon was one of two frontier markets with a "no major issues" rating in terms of investor qualification requirements, and one of 13 markets with the same rating in terms of equal rights to foreign investors. It came also as one of 21 frontier markets with a "no issues" rating in terms of foreign room level, and one of 17 markets with the same rating in terms of foreign ownership limit.

Regarding capital inflows and outflows, it that said there are no restrictions on capital flows to and from Lebanon. But it noted that there is no offshore currency market and that there are constraints on the onshore currency market, as foreign investors are not allowed to hold Lebanese pound balances. Lebanon was among 17 frontier markets with a "no issues" rating in terms of capital flows restrictions, and one of 10 markets with an "improvements needed" rating in terms of the liberalization level of the foreign exchange market.

Regarding the efficiency of the operational framework, it considered that market entry needs improvement, as registration is mandatory and may take up to five days. Further, it said that not all regulations are available in English, and that the flow of information needs improvement, as detailed stock market information is not always disclosed in English. Lebanon was among 11 frontier markets that received a "no major issues" rating in terms of market regulations and one of seven markets to get the same rating in terms of information flow.

In addition, it said that almost all market infrastructure indicators need improvements. It indicated that clearing and settlement procedures can be improved, as there is no real DVP system on the Beirut Stock Exchange, as well as no nominee status and no omnibus structures. In terms of custody, MSCI Barra said that there is no formal segregation between custody and trading accounts for transactions on the Beirut market. It added that there is only one active custodian available to foreign investors. In terms of registry and depository, it indicated that not all listed shares are dematerialized, few securities are registered at the issuer level, and that the central depository acts as a central registry in most instances. It added that in-kind transfers and off-exchange transactions are prohibited. Finally, MSCI Barra said that Lebanon, like most emerging and frontier markets, exhibits some shortcomings but found "no major issues" in the stability of the institutional framework, and in particular in the enforcement of the rule of law.

Lebanon is one of 24 stock markets worldwide that fall under MSCI Barra's definition of Frontier Markets. The other markets in the region are Bahrain, Jordan, Kuwait, Morocco, Oman and Tunisia. In November 2007, MSCI Barra included Lebanon in its MSCI Frontier Markets Index, a fully investable index for frontier equity markets. The index contains stocks from 24 developing markets in Asia, Emerging Europe, the Commonwealth of Independent States, Africa, the Middle East and the Americas.

Aerial survey suggests hydrocarbon potential in certain areas of the country

The U.S. firm NEOS GeoSolutions Inc. announced that the analysis of legacy wells and seismic data, as well as of data acquired from its aerial oil and gas survey of Lebanon, shows hydrocarbon potential in select areas of the country. NEOS indicated that data interpretation shows evidence of hydrocarbon-generating source rock in large parts of the surveyed area, as well as extensive evidence of indirect and direct hydrocarbon indicators, such as oil seeps, which suggest an active hydrocarbon generating system in large parts of the covered area. Also, the data analysis revealed evidence of sedimentary depo-centers, reservoir rocks and typical structural trapping mechanisms. In addition, NEOS announced that the data reflects evidence of higher porosity reservoir zones that could carry hydrocarbons. Further, the firm revealed evidence of multiple play types, both onshore and in the near-shore coastal waters of the Eastern Mediterranean. According to NEOS, this evidence suggests the presence of onshore and offshore petroleum. NEOS delivered the data to the Ministry of Energy & Water, the Lebanon Petroleum Administration, the General Directorate of Oil and to the project's underwriter.

The aerial oil and gas survey covered an area of 6,000 square kilometers in the northern part of the country and in the transition zone along the Mediterranean coastline. The survey is part of the CedarsOil project, which is a geological and geophysical survey to study Lebanon's onshore natural resource exploration potential. The project, initially launched in September 2014, is conducted in collaboration with Qatar's Petroserv Limited with the support of the Lebanese Army and Air Force, as well as the Petroleum Administration.

In October 2011, the Cabinet approved the start of onshore oil exploration in Lebanon, as it authorized the launch of a tender process to survey the Lebanese territory and locate areas with potential oil deposits. It also recommended the preparation of a draft law that regulates oil exploration on Lebanese soil, followed by a tender process for onshore exploration. The decisions constituted at the time the government's first official step for launching onshore oil exploration. British firm Spectrum Energy & Information Technology conducted in 2014 a two-dimensional onshore seismic survey that mainly covered the territory along the Lebanese coast.



Lebanon's external debt posts 31st lowest return in emerging markets, 10th lowest in the Middle East & Africa

Figures issued by Merrill Lynch indicate that Lebanon's external debt posted returns of 3.15% in the first five months of 2015, constituting the 11th lowest return among 36 markets in the Central & Eastern Europe and the Middle East & Africa (CEEMEA) region, as well as the 31st lowest return among the 66 emerging markets included in Merrill Lynch's External Debt EM Sovereign Index. Lebanon underperformed the overall emerging markets return of 2.62% during the covered period. Further, Lebanon's external debt posted the 10th lowest return among 20 countries in the Middle East & Africa region in the covered period, ahead of Turkey (+0.71%), Zambia (+1.86%), Iraq (+1.97%), South Africa (+2.24%), Israel (+2.28%), the Ivory Coast (+2.66%), the UAE (+3.1%), Morocco (+3.11%) and Kenya (+3.13%).

In parallel, Lebanon's external debt posted returns of 0.67% in May 2015, constituting the sixth highest return in the CEEMEA region and the 11th highest return in emerging markets during the covered month. Lebanon outperformed the overall emerging markets returns of -0.61%, those of the CEEMEA region of -0.16%, and the -0.11% return posted by 'B'- rated sovereigns in May 2015.

Further, Lebanon's external debt posted the second highest return in the Middle East & Africa region in May 2015, behind only Bahrain (+1.05%). It outperformed Tunisia (+0.34%), the Ivory Coast (+0.32%), Senegal (+0.31%), Egypt (+0.29%), Rwanda (+0.28%), Zambia (+0.12%), Turkey (+0.11%), South Africa (+0.01%), Morocco and Kenya (-0.08% each), the UAE (-0.1%), Qatar (-0.29%), Namibia (-0.36%), Israel (-0.53%), Ghana (-1.25%), Nigeria (-1.49%), Gabon (-1.95%) and Iraq (-3.59%).

Merrill Lynch indicated that the spread on Lebanese Eurobonds ended May 2015 at 387 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 300 basis points at the end of May 2015. Lebanon has a weight of 3.35% on Merrill Lynch's External Debt EM Sovereign Index, the fifth highest in the CEEMEA universe and the 10th highest among emerging economies. Lebanon accounted for 6.2% of allocations in the CEEMEA region.

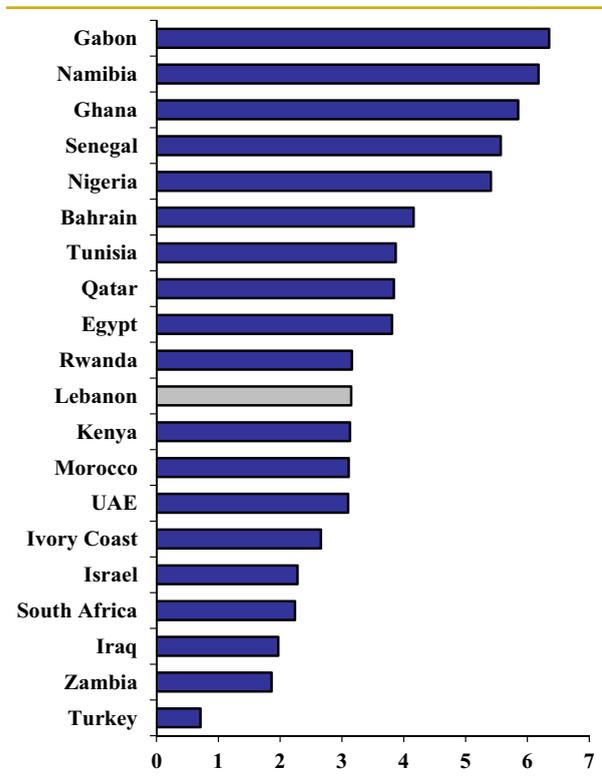
Finance Ministry reduces tax on profits from industrial exports

The Ministry of Finance announced that it has exempted Lebanese industries from 50% of the tax on their profits that they generate from the exports of locally manufactured industrial products. It defined locally manufactured industrial goods as products that meet specific requirements and that have a certificate of origin from the relevant Lebanese authorities. It said that private companies can benefit from this exemption if they are properly registered at the Finance Ministry and at any of Lebanon's chambers of commerce, industry and agriculture.

In contrast, the ministry said that firms and organizations that import industrial products for re-export purposes are not entitled to the tax deduction. Also, it noted that private companies that prepare non-locally manufactured industrial products for re-export through packaging and labeling, do not benefit from the tax exemption on profits generated from these operations. Further, the ministry indicated that companies that exploit natural resources, such as underground water, mining, queries, as well as cement producing organizations and companies that produce and export bottled water, do not qualify for the exemption. It added that firms that exploit on- and off-shore hydrocarbon resources do not benefit either from the tax deduction. It said that the exemption covers net profits generated from April 22, 2014 onwards.

Figures released by the Ministry of Industry show that industrial exports totaled \$3.1bn in 2014, constituting a decrease of 6.9% from \$3.4bn in 2013. Machinery & mechanical appliances accounted for \$710.7m or 22.6% of total industrial exports, followed by prepared foodstuffs with \$528.9m (16.8%), chemical products with \$519.6m (16.5%) and base metals with \$377.8m (12%). Arab countries were the primary destination of Lebanese industrial exports 2014, with more than 50% of the total.

External Debt Performance in the Middle East & Africa in First Five Months of 2015 (%)



Source: Merrill Lynch, Byblos Research

Fitch Ratings affirms Lebanon's sovereign ratings, outlook 'negative'

Fitch Ratings affirmed Lebanon's long-term foreign and local currency Issuer Default Ratings (IDR) and short-term foreign currency IDR at 'B'. It also affirmed at 'B' the issue ratings on Lebanon's senior unsecured foreign and local currency bonds, and maintained the outlook on the long-term IDRs at 'negative'. Further, it affirmed the Country Ceiling at 'B'. The agency said that Lebanon's ratings and the 'negative' outlook reflect the prevailing political and geopolitical risks, as well as the country's very weak public finances, the fiscal deficit's costly funding structure and the country's weak economic performance. But it noted that Lebanon's strong external liquidity, sustained non-resident deposit inflows and other structural strengths offset the rating weaknesses.

The agency indicated that Lebanon has been operating without a president since May 2014 as a result of multiple failed attempts to reach a necessary quorum in Parliament. It expected the deadlock to persist until the conflict in Syria has subsided, given the opposing views among the political class about the Syrian conflict. But it noted that authorities have managed to avoid major security incidents or sectarian tensions despite the massive influx of Syrian refugees.

Fitch pointed out that Lebanon's economic performance has been weaker and more volatile than similarly rated peers since the start of the Syrian conflict in March 2011. It noted that the country's real GDP growth averaged 3.2% annually over the past five years, below the 4.4% median growth rate of 'B'-rated sovereigns and despite favorable revisions to the historical GDP growth series in late 2014. Further, it estimated the public debt level at 134% of GDP in 2014, the third highest among Fitch-rated sovereigns. It expected the public debt stock to continue to increase given the persistent budget deficits and the elevated debt servicing cost. It considered that the financing of the deficits has become reliant on a funding structure that has resulted in the Central Bank running annual losses in order to attract US dollar deposits from the banking sector.

In parallel, the agency indicated that Lebanon has strong external liquidity buffers and estimated the stock of foreign reserves at \$43bn at the end of 2014, supported by deposit flows from the Lebanese Diaspora. It noted that the country's reserve coverage, which is equivalent to 12.8 times its current external payments, is well above the 3.2 times median for 'B'-rated countries. In addition, it said that Lebanon's GDP per capita and broader human development indicators are well above similarly rated peers and more in line with the median of 'BBB'-rated sovereigns. It noted that the government has a perfect track record of public debt repayment.

Fitch noted that it does not currently anticipate developments that would lead to an upgrade of the sovereign ratings. It indicated that it would downgrade the ratings if domestic political or security conditions deteriorate, in case of a reversal of the banking sector's willingness or ability to continue funding the government, or if the public debt's dynamics significantly worsen. The agency added that it could revise the outlook to 'stable' in case of growing confidence in the sustainability of the domestic political situation, a decrease in overall security risks associated with the Syrian conflict, continuing resilience of Lebanon's financing model, or improved economic performance.

Revenues through Port of Beirut up 6% to \$72m in first four months of 2015

Figures released by the Port of Beirut show that the port's overall revenues were \$72.2m in the first four months of 2015, up by 6% from \$68.1m in the same period of 2014. The Port of Beirut handled an aggregate freight of 2.46 million tons in the covered period, down by 13.6% from 2.8 million tons in the first four months of 2014. Imported freight amounted to 2.2 million tons in the first four months of the year and accounted for 89.5% of the total, while the remaining 0.26 million tons, or 10.5%, were export cargo. A total of 565 ships docked at the port in the first four months of 2015 compared to 674 vessels in the same period of 2014.

In parallel, revenues generated through the Port of Tripoli reached \$4.6m in the first four months of 2015, constituting a rise of 13.6% from \$4.1m in the same period last year. Further, the Port of Tripoli handled an aggregate weight of 468,074 tons of freight in the covered period, constituting an increase of 23.8% from 378,036 tons in the first four months of 2014. Imported freight amounted to 426,392 tons and accounted for 91.1% of the total, while the remaining 41,682 tons, or 8.9%, were export cargo. A total of 175 vessels docked at the port in the first four months of 2015, constituting a rise of 0.6% from 174 ships in the same period of 2014.

Coincident Indicator down 1.4% year-on-year in first quarter of 2015

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 279.7 points in March 2015 compared to 263.3 in February 2015 and 271.8 in March 2014. The Coincident Indicator, an average of 8 weighted economic indicators, increased by 6.2% month-on-month and by 2.9% year-on-year in March 2015. The indicator averaged 272.2 in the 12 months ending March 2015, compared to 271.6 in the 12 months ending February 2015 and 266.1 in the 12 months ending March 2014. As a result, the average coincident indicator rose by 0.2% month-on-month and by 2.3% year-on-year. Also, the indicator averaged 271 in the first quarter of 2015, down 1.4% from 274.9 in the first quarter of 2014. In parallel, the indicator improved 13 times and regressed 10 times on a monthly basis in the month of March since 1993. It averaged 249.5 in 2010, 255.7 in 2011, 256.6 points in 2012, 264.7 points in 2013 and 273.2 points in 2014.



Trade deficit down 22% to \$4.6bn in first four months of 2015

The total value of imports reached \$5.6bn in the first four months of 2015, constituting a decrease of 20.2% from the same period of 2014; while the value of aggregate exports dropped by 8.7% to \$978.4m, leading to a trade deficit of \$4.6bn, down by 22.3% year-on-year. The narrowing of the deficit was due to a decrease of \$1.4bn in imports year-on-year, given that exports fell by \$93.5m. The coverage ratio reached 17.4% in the first four months of 2015 compared to 15.2% in the same period last year, while it reached 16.3% in April 2015 relative to 18.3% in April 2014.

The value of imported oil & mineral fuels declined by \$832m, or 47.1% year-on-year, to \$933.3m, while that of non-hydrocarbon imports regressed by 11.2% to \$4.7bn. Non-hydrocarbon imports show that the imports of base metals fell by \$211.5m, or 36.1%, to \$374.4m in the first four months of 2015, and those of machinery & mechanical appliances dropped by \$133.3m, or 16.6%, to \$667.7m in the covered period. The value of oil & mineral fuels accounted for 16.6% of total imports in the first four months of 2015 compared to a share of 25.1% in the same period of 2014.

In volume terms, imports reached 4.8 million tons in the first four months of 2015, constituting a decrease of 7.5% from 5.2 million tons in the same period last year; while exports dropped by 2.3% to 568,410 tons. Imports of oil & mineral fuels dropped by 16.4% year-on-year to 2 million tons, while non-hydrocarbon imports grew marginally by 0.3% annually to 2.8 million tons. Imported oil & mineral fuels accounted for 42.6% of total imports in the covered period relative to a 47.1% share in the first four months of 2014.

China was the main source of imports with \$665.7m or 12 % of the total in the first four months of 2015, followed by Italy with \$370m (6.6%), Germany with \$361.3m (6.4%), France with \$350.7m (6.2%), Russia with \$315.4m (5.6%), the United States with \$299.3m (5.3%) and Greece with \$252.1m (4.5%). Imports from Russia surged by 19.7% year-on-year in the first four months of 2015; while imports from the United States dropped by 44.8%, those from Italy fell by 39.5%, imports from China regressed by 24.3%, those from France declined by 15.2%, imports from Germany decreased by 12.9% and those from Greece fell by 8.4%.

Further, Saudi Arabia was the main export destination of Lebanese merchandise with \$129.6m or 13.2% of total exports, followed by the UAE with \$103.5m (10.6%), Iraq with \$81m (8.3%), South Africa with \$70.8m (7.2%), Syria with \$64m (6.5%), Jordan with \$31.9m (3.3%) and Qatar with \$30.8m (3.1%). Exports to Saudi Arabia surged by 13.3% year-on-year in the first four months of 2015, those to the UAE increased by 4.9% and exports to Qatar grew by 0.6%; while exports to South Africa dropped by 45% year-on-year, those to Jordan declined by 22%, exports to Syria regressed by 17.6% and those to Iraq decreased by 1.3%.

Lebanon's main export product was prepared foodstuff with \$162m, or 16.6% of the total, followed by jewelry with \$153.8m (15.7%), machinery & mechanical appliances with \$137.1m (14%), chemical products with \$132.4m (13.5%), base metals with \$101.2m (10.3%), and paper & paperboard products with \$51.8m (5.3%). Re-exports totaled \$127.6m in the first four months of 2015 compared to \$118.1m in the same period last year.

New car sales down 2% in first five months of 2015

Figures released by the Association of Automobile Importers in Lebanon (AIA) indicate that 14,222 new passenger cars were sold in the first five months of 2015, constituting a drop of 2.3% from 14,558 cars sold in the same period of 2014. Consumers purchased 2,436 new cars in January, 2,141 vehicles in February, 2,966 cars in March, 3,198 vehicles in April and 3,481 cars in May 2015. Japanese cars accounted for 38% of total sales in the first five months of 2015, followed by Korean cars with a 36.3% share, European automobiles with 20%, American vehicles with 5% and Chinese cars with 0.7%. The number of Japanese cars sold rose by 12.3% year-on-year, American vehicles sold rose by 10.7% and European vehicles sold increased by 9%; while the number of Chinese vehicles sold declined by 47.4% from the same period last year and sales of Korean cars dropped by 18%. Kia is the leading brand in the Lebanese market with 2,837 cars sold in the first five months of 2015, followed by Toyota with 2,383 cars sold, Hyundai (2,325), Nissan (1,461), Suzuki (478) and Renault (473). In parallel, 872 new commercial vehicles were sold in the first five months of 2015, down by 2% from 890 vehicles in the same period 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 on auto loans, as well as to the challenging domestic economic, political and security conditions in the country. The AIA reiterated that the majority of new cars sold were small-engine automobiles with a low selling price. The number of new vehicles sold by the

country's top five distributors reached 10,690 in the first five months of 2015 and accounted for 70.8% of new car sales. NATCO sal sold 2,837 vehicles, equivalent to 18.8% of the total, followed by Boustany United Machineries sal with 2,543 vehicles (16.8%), Century Motor Co. sal with 2,378 (15.8%), Rasamny Younis Motor Co. sal with 1,665 (11%) and Bassoul Heneine sal with 1,267 (8.4%).

Kafalat loan guarantees down 28% to \$32m in first five months of 2015

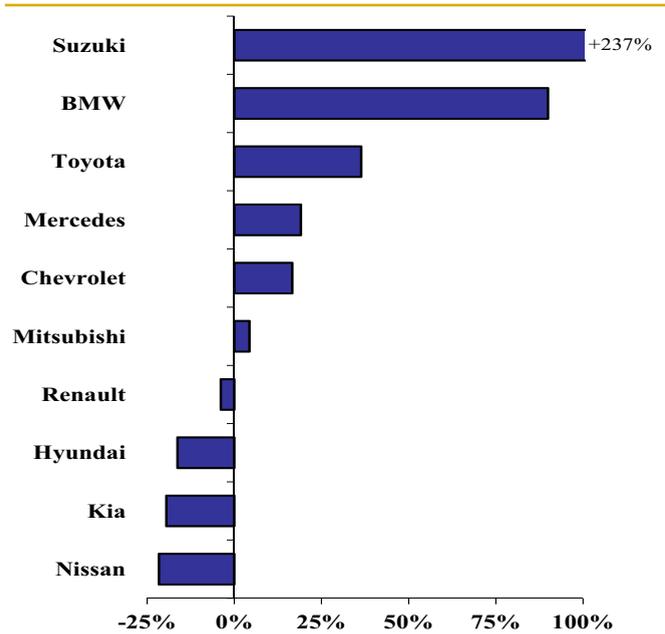
Figures released by the Kafalat Corporation show that loans extended to small- and medium-size companies under the guarantee of Kafalat reached \$32.1m in the first five months of 2015, constituting a decline of 28.1% from \$44.7m in the same period of 2014. Kafalat provided 221 loan guarantees year-to-May 2015, down 38% from 356 in the same period of 2014. The average loan size reached \$145,461 during the covered period compared to \$125,653 in the first five months of 2014. Mount Lebanon accounted for 42.5% of the total number of guarantees, followed by the Bekaa with 18.1%, the South with 12.2%, the North with 11.8%, Nabatieh with 8.1% and Beirut with 7.2%. The agricultural sector accounted for 45.3% of the total number of guarantees, followed by the industrial sector with 37.6%, tourism with 9.1%, handicraft with 5% and specialized technologies with 3.2%. 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.

Top five freight forwarders' import activity down 8% in first four months of 2015

Figures released by the Port of Beirut Authority show that overall import shipping operations by the top five freight forwarders through the port reached 104,238 20-foot equivalent units (TEUs) in the first four months of 2015, constituting a decline of 7.9% from 113,130 TEUs in the same period last year. They accounted for 59.2% of the total import freight forwarding market and for 91.8% of imports to the Lebanese market during the covered period. Mediterranean Shipping Company (MSC) handled 36,400 TEUs in imports in the four months of 2015, equivalent to a 20.7% share of the total freight forwarding import market. It was followed by Sealine Group with 22,914 TEUs (13%), Merit Shipping with 19,372 TEUs (11%), Metz Group with 17,164 TEUs (9.7%) and Gezairy Transport with 8,388 TEUs (4.8%). Further, Metz Group registered the highest growth in import shipping among the top five freight forwarders at 8.3% year-on-year, while Gezairy Transport posted the steepest decline at 30.2%.

In parallel, export shipping operations by the top five freight forwarders through the Port of Beirut reached 20,817 TEUs in the first four months of 2015, constituting an increase of 2.7% from 20,262 TEUs in the same period last year. They accounted for 12.7% of the total export freight forwarding market and for 98.5% of exported Lebanese cargo during the first four months of 2015. Merit Shipping handled 6,976 TEUs of freight in the first four months of this year, equivalent to 33% of the Lebanese cargo export market. It was followed by Sealine Group with 6,567 TEUs (31.1%), Metz Group with 4,663 TEUs (22.1%), MSC with 1,577 TEUs (7.5%) and Gezairy Transport with 1,034 TEUs (4.9%). Further, Metz Group registered the highest growth in export shipping among the top five freight forwarders at 39.7% year-on-year, while Sealine Group posted the steepest drop of 13.1%.

Sales of Top 10 Car Brands in First Five Months (% change*)



* from the first five months of 2014

Source: AIA, Byblos Research

Insurance premiums up 6% year-on-year to \$418m in first quarter of 2015, claims and benefits down 1% to \$179m

Figures released by the Association of Insurance Companies in Lebanon (ACAL) indicate that insurance premiums generated in Lebanon totaled \$417.7m in the first quarter of 2015, constituting an increase of 6.4% from \$392.7m in the same quarter last year, and a rise of 20.7% from \$346.1m in the fourth quarter of 2014.

Medical insurance premiums reached \$162.3m in the first quarter of the year and accounted for 38.9% of the sector's aggregate premiums. They were followed by life premiums with \$102.1m (24.4%), motor premiums with \$79m (18.9%), fire premiums with \$37.5m (9%), workmen compensation with \$11.7m (2.8%), premiums from other categories with \$10.3m (2.5%), cargo premiums with \$7.2m (1.7%), public liability premiums with \$4.8m (1.2%) and engineering premiums with \$2.7m (0.6%). Engineering premiums grew by 25% year-on-year in the first quarter of 2015, medical premiums expanded by 14%, life premiums rose by 5%, fire premiums increased by 2%, and premiums from motor and workmen compensation improved by 1% each. In contrast, cargo premiums contracted by 16% from the first quarter last year, premiums from other categories regressed by 9% and public liability premiums dropped by 1%.

In parallel, ACAL indicated that total benefits and claims paid by insurance companies stood at \$179.1m in the first quarter of 2015, constituting a drop of 1% from the same quarter of 2014. Benefits and claims paid for non-life categories totaled \$149.1m and grew by 8.1% year-on-year, while claims disbursed for the life category amounted to \$30.1m and contracted by 30% from the same quarter last year. Medical claims reached \$85.4m in the first quarter of 2015 and accounted for 47.7% of total payments, followed by motor claims at \$45.2m (25.2%), fire claims and workmen's claims at \$6.2m each (3.5% each), cargo claims at \$2.1m (1.2%), public liability claims at \$1.7m (0.9%), and engineering claims at \$0.6m (0.3%), while claims for other categories reached \$1.6m (0.9%). Medical claims surged by 21% year-on-year in the first quarter of 2015, while engineering claims dropped by 34% from the first quarter of 2014. Life claims followed with a decrease of 30%, public liability claims declined by 23%, claims from other categories regressed by 18%, fire claims decreased by 9%, cargo claims dropped by 6%, motor claims regressed by 4% and workmen claims declined by 1%.

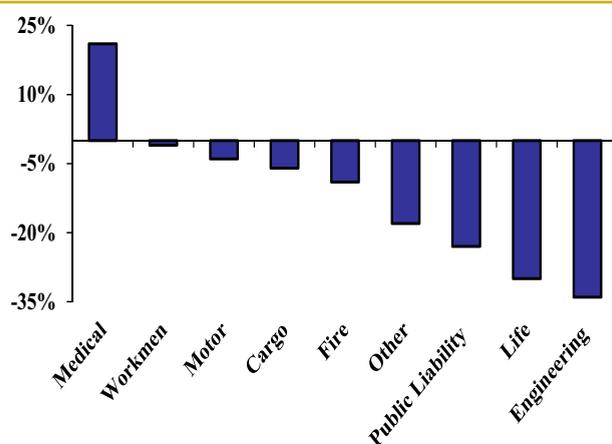
Further, unit-linked policies accounted for 55.6% of total life premiums and for 21.5% of the total number of life contracts in the first quarter of 2015, while life protection plans represented 44.4% of total life premiums and 78.5% of the total number of life contracts in the covered quarter. ACAL noted that medical insurance premiums covering Lebanese citizens rose by 15% year-on-year to \$159.3m in the first quarter of 2015, while medical insurance premiums covering expatriates grew by 4% year-on-year to \$3.1m. Finally, it indicated that non-compulsory motor insurance premiums increased by 2% year-on-year to \$67.5m, while compulsory motor insurance premiums regressed by 6% to \$11.5m in the first quarter of 2015.

First National Bank's net earnings up 20% to \$7.5m in first quarter of 2015

First National Bank, one of Lebanon's top 14 banks, announced unaudited consolidated net profits of \$7.5m in the first quarter of 2015, reflecting an increase of 20.4% from the same quarter last year. Net operating income rose by 16.6% year-on-year to \$22.9m, with net interest income decreasing by 4.4% to \$11m and net fees & commissions receipts rising by 81.8% year-on-year to \$3.7m. Non-interest income accounted for 28.9% of total income, up from 24.1% in the same quarter last year; with net fees & commissions representing 56.6% of non-interest earnings, up from 43% in the first quarter of 2014. Further, the bank's interest margin was 1.75% in the first quarter of 2015 relative to 1.73% in the same quarter last year; while its spread remained unchanged at 1.68% in the first quarter of 2015. Total operating expenditures increased by 19.1% to \$14.4m, with staff expenses rising by 9.7% to \$8.8m. Also, the bank's return on average assets rose to 0.78% in March 2015 on an annualized basis from 0.7% in March 2014; while its return on average equity increased to 10.2% on an annualized basis from 9.9% in March 2014. The cost-to-income ratio rose to 63% in the first quarter of the year from 60.9% in the same quarter last year.

In parallel, total assets reached \$3.8bn at end-March 2015, constituting a decrease of 2.8% from end-2014 and an increase of 4.2% from a year earlier. Loans & advances to customers, excluding loans & advances to related parties, grew by 1.6% from end-2014 and by 2.6% from a year earlier to \$908.1m. Also, customer deposits, excluding deposits from related parties, totaled \$3bn at the end of March, and decreased by 4.2% from end-2014 and increased by 2.7% from a year earlier. The loans-to-deposits ratio rose to 29.62% at end-March 2015 from 29.6% a year earlier. In parallel, the bank's shareholder equity rose by 2.6% from the end of 2014 to \$299.2m at end-March 2015.

Change in Claims Paid in First Quarter of 2015



Source: ACAL, Byblos Research

Corporate Highlights

Eleven Lebanese universities among top 100 in the Arab world

The QS University Rankings for 2015 included 11 Lebanese universities among 100 ranked universities in the Arab region. The American University of Beirut (AUB) was the highest ranked institution in Lebanon and the second highest ranked in the Arab world with an overall score of 99.4 points out of a maximum 100 points. It was followed by the Lebanese American University (LAU) in 15th place (68.6 points), Université Saint-Joseph de Beyrouth (USJ) in 20th place (66.8 points), the University of Balamand in 25th place (59.2 points), the Beirut Arab University in 32nd place (46.1 points), Notre Dame University in 33rd place (45.8 points) and the Lebanese University in 34th place (45.4 points). Also, the survey ranked the Holy Spirit University of Kaslik within the 61-70 range regionally (26.6 points), while it ranked Université Antonine (23.4 points), the Hariri Canadian University (21.7 points) and Haigazian University (21.1 points) in the 81-90 range.

NDU's rank rose by 30 spots year-on-year, the largest increase among the top 50 universities due to improved polling among both academics and employers. Also, the rank of Beirut Arab University's improved by three spots, while AUB's rank remained unchanged year-on-year. In contrast, USJ's rank regressed by eight spots from the 2014 survey, followed by the Lebanese University (seven spots) and the University of Balamand (one spot).

Saudi Arabia has three among the top 10 universities, including the King Fahd University of Petroleum & Minerals that came in the number one spot; Egypt, Jordan and the UAE each has two universities, while Lebanon has one university among the top 10. The rankings are based on a weighted average of six factors that are academic reputation with a 30% weight, faculty-to-student ratio and employer reputation with 20% each, web impact (10%), proportion of staff with PhDs (5%), citations per paper and papers per faculty (5% each), as well as international faculty ratio and international student ratio (2.5% each). The QS University Rankings are compiled by Quacquarelli Symonds Limited, a company specializing in education and study abroad. The QS University Rankings for the Arab Region were first published as a pilot edition in 2014. QS assessed 260 institutions, of which 194 had enough data to be ranked and were sufficiently broad-based to be included in the top 100 list.

Factors of the 2015 QS University Rankings

	Arab Rank	Academic Reputation	Employer Reputation	Faculty Student	Web Impact	Staff with PhDs	Citations per Paper	Papers per Faculty
American University of Beirut	2	98.7	100.0	84.7	94.3	100.0	95.5	80.9
Lebanese American University	15	62.8	93.8	43.8	74.0	78.6	68.2	24.5
Université Saint-Joseph de Beyrouth	20	57.1	72.3	98.3	63.3	7.8	81.7	9.2
University of Balamand	25	54.3	72.3	90.3	17.4	7.8	79.7	11.2
Beirut Arab University	32	51.0	40.8	41.2	13.3	98.8	23.2	15.1
Notre Dame University	33	43.8	73.4	35.6	16.4	19.5	58.0	9.4
Lebanese University	34	41.0	91.7	49.4	-	7.8	28.3	6.4
Holy Spirit University of Kaslik	61-70	-	-	49.7	28.9	7.8	56.6	5.8
Haigazian University	81-90	-	-	89.1	15.2	3.7	-	4.2
Hariri Canadian University	81-90	-	-	86.8	4.9	33.5	-	14.1
Université Antonine	81-90	-	-	100	15.5	7.8	-	-

Source: Quacquarelli Symonds Limited, Byblos Research

Bank Audi exercises call option on preferred shares

The Extraordinary General Assembly of Bank Audi sal held on June 9, 2015 approved the redemption and cancellation of 1,250,000 Series "E" Preferred Shares at a price of \$100 per share. The shares were issued in March 2010, carry an annual dividend of 6% per share, and are non-cumulative, perpetual and redeemable after five years from issuance date. Also, the bank converted LBP2.42bn (\$1.6m) from its free reserves to its capital account, of which LBP2.06bn (\$1.37m) represented the nominal value of the cancelled shares, and LBP358.5m (\$237,808) reflected the capital increase. As such, Bank Audi's capital would increase from LBP667.8bn, equivalent to \$443m, to LBP668.2bn (\$443.2m), resulting in a nominal value of LBP1,656 per share. The shares are expected to be officially de-listed from the Beirut Stock Exchange upon the Central Bank's approval of the modification of the bank's by-laws. Following the cancellation, the bank's capital would consist of 399,749,204 common shares; 1,500,000 Series "F" Preferred Shares, 1,500,000 Series "G" Preferred Shares and 750,000 Series "H" Preferred Shares.

Ratio Highlights

(in % unless specified)	2012	2013	2014	Change*
Nominal GDP (\$bn)	41.0	44.2	48.4	
Public Debt in Foreign Currency / GDP	59.4	59.1	52.9	(620)
Public Debt in Local Currency / GDP	81.2	84.6	84.7	13
Gross Public Debt / GDP	140.6	143.7	137.7	(607)
Total Gross External Debt / GDP**	163.9	163.8	165.4	160
Trade Balance / GDP	(40.9)	(38.9)	(35.6)	333
Exports / Imports	21.1	19.1	16.1	(295)
Fiscal Revenues / GDP	22.9	21.3	22.5	116
Fiscal Expenditures / GDP	32.5	30.9	28.9	(204)
Fiscal Balance / GDP	(9.6)	(9.6)	(6.4)	320
Primary Balance / GDP	(0.3)	(0.5)	2.7	325
Gross Foreign Currency Reserves / M2	69.4	69.5	66.5	(299)
M3 / GDP	253.5	251.7	243.4	(838)
Commercial Banks Assets / GDP	370.2	373.3	363.4	(992)
Private Sector Deposits / GDP	304.7	308.5	298.7	(979)
Private Sector Loans / GDP	105.9	107.3	105.3	(204)
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 Metrics

Lebanon	July 2013	June 2014	July 2014	Change*	Risk Level
Political Risk Rating	53.0	52.0	52.0	▲	High
Financial Risk Rating	33.5	38.0	38.0	▼	Low
Economic Risk Rating	28.5	27.0	27.0	▲	High
Composite Risk Rating	57.5	58.5	58.5	▼	High

Regional Average	July 2013	June 2014	July 2014	Change*	Risk Level
Political Risk Rating	58.3	58.0	57.9	▲	High
Financial Risk Rating	41.3	40.6	41.0	▲	Very Low
Economic Risk Rating	36.6	36.1	36.2	▲	Low
Composite Risk Rating	68.1	67.4	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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