

# LEBANON THIS WEEK

## In This Issue

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

Beirut is 44th most expensive city in the world in 2015, third most expensive Arab city

Interest rates and currency market maintain stable trend

Cost of sending remittances from the U.S. and Canada increases in second quarter of 2015

Government launches tender for management contracts of mobile phone networks

Lebanon's fashion industry faces challenges

Lebanon signs \$180m in loans for Litani River project

Lebanon ranks 145th globally, 16th in MENA region on peace index

Maturing Eurobonds exchanged for long term Certificates of Deposits

Value of real estate transactions down 24% to \$2.9bn in first five months of 2015

## Corporate Highlights .....7

Selection of 45 technology firms for UK Lebanon Tech Hub initiative

Banque Libano-Française increases capital through issuance of preferred shares

Venture capital firm launches officially first investment fund

Launch of new commercial center in Bekaa

BankMed's net profits at \$31m in first quarter of 2015

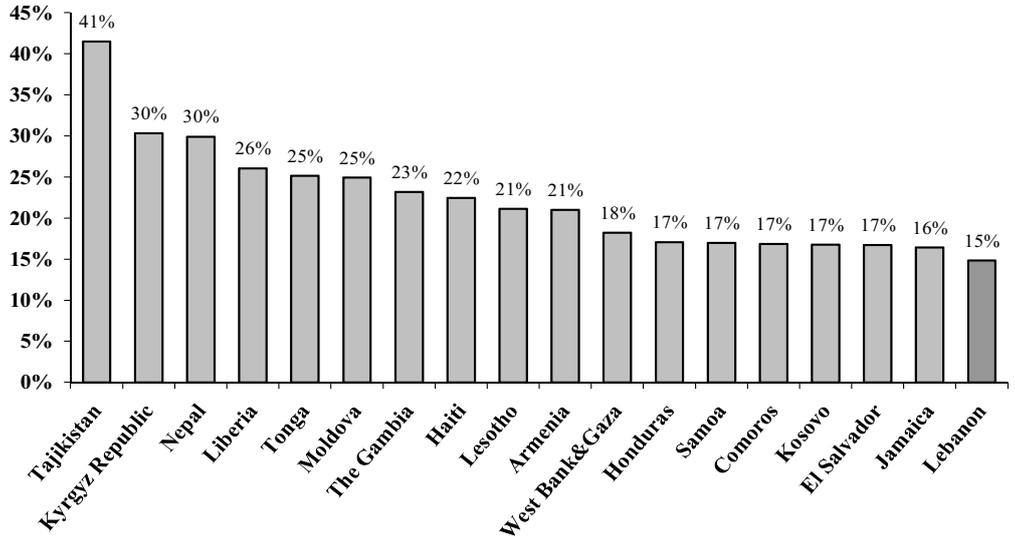
Holcim's net profits up 45% to \$31.6m in 2014

BLC Bank allocates reserves

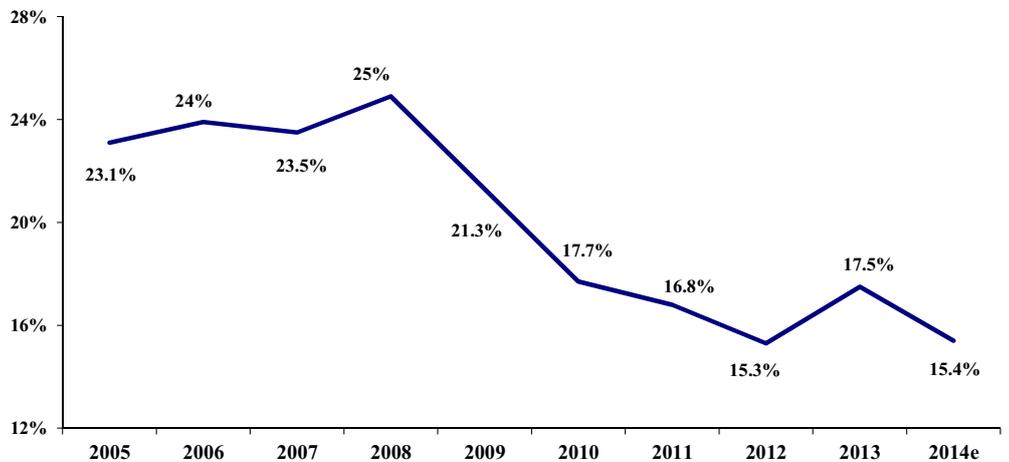
**Ratio Highlights.....9**  
**Risk Outlook .....9**  
**Ratings & Outlook.....9**

## Charts of the Week

**Top Recipients of Remittance Inflows among Developing Economies in 2014 (%GDP)**



**Remittance Inflows to Lebanon (%GDP)**



Source: World Bank, Banque du Liban, IMF, IIF, Byblos Research

## Quote to Note

"Lebanon's economic model rests on confidence."

*The International Monetary Fund, on the importance of maintaining the confidence of depositors, investors and households for the stability of the Lebanese economy and of public finances*

## Number of the Week

**15%:** Percentage of Lebanese adults who borrowed from a store by using installment credit or buying on credit in 2014, according to the World Bank

## 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	Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Audi Listed	6.00	(1.8)	1,015,830	20.85%	Jan 2016	8.500	102.94	3.25
BLOM Listed	9.70	0.52	353,119	18.13%	Mar 2017	9.000	108.13	4.11
Solidere "A"	11.57	(0.34)	152,819	10.06%	Nov 2018	5.150	101.38	4.71
Byblos Common	1.63	1.87	68,415	5.09%	May 2019	6.000	103.25	5.07
Solidere "B"	11.63	(0.94)	53,803	6.57%	Mar 2020	6.375	104.50	5.28
Audi GDR	6.19	(0.16)	13,000	6.25%	Apr 2021	8.250	113.25	5.55
BLOM GDR	10.00	0.00	12,260	6.42%	Oct 2022	6.100	102.25	5.72
Byblos Pref. 09	101.00	0.40	7,444	1.76%	Jun 2025	6.250	101.13	6.10
Byblos Pref. 08	101.00	0.20	3,615	1.76%	Nov 2026	6.600	103.00	6.23
HOLCIM	15.20	0.00	200	2.58%	Feb 2030	6.650	102.50	6.38

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

Source: Byblos Bank Capital Markets

	June 15-19	June 8-12	% Change	May 2015	May 2014	% Change
<b>Total Shares Traded</b>	1,731,740	2,113,856	(18.08)	3,514,330	3,204,699	9.66
<b>Total Value Traded</b>	\$16,408,342	\$15,123,076	8.50	\$40,077,612	\$32,279,807	24.16
<b>Market Capitalization</b>	\$11.51bn	\$11.53bn	(0.22)	\$11.56bn	\$11.05bn	4.61

Source: Beirut Stock Exchange (BSE)



### Beirut is 44th most expensive city in the world in 2015, third most expensive Arab city

The annual survey on the cost of living in 207 cities around the world by global consulting firm Mercer ranked Beirut as the 44th most expensive city worldwide and the third most expensive among 16 Arab cities surveyed in 2015. It also considered Beirut to be the 16th most expensive city among the 48 cities in 36 upper middle income countries (UMICs) included in the survey. In comparison, Beirut was the 63rd most expensive city worldwide and the most expensive in the Arab world in 2014. The cost of living in Beirut increased relative to other cities, as its global rank rose by 19 spots in this year's survey, constituting the 47th lowest increase among 110 cities that posted increases in their rank, and the second smallest rise among Arab cities relative to Nouakchott (+18 spots). In parallel, Port of Spain in Trinidad & Tobago posted the largest increase in rank of 73 spots, while Manama and Doha posted the highest rise among Arab cities with 59 spots each.

The study measures the comparative cost of over 200 items in each location, including the cost of housing, food, clothing and household goods, as well as transportation and entertainment. The figures are derived from a survey conducted in March 2015. New York City is used as the base city for the index and all cities are compared against it. The survey is conducted annually to help multinational companies determine compensation allowances for their expatriate workers.

On a global basis, the cost of living in Beirut is higher than in Bangkok, Paris and Melbourne; while Beirut has a lower cost of living than Taipei in Taiwan, Chicago, and Brazzaville in the Republic of Congo. Also, Beirut was considered to be more expensive than Bangkok, Amman and Rio de Janeiro; while it was less costly than Libreville in Gabon, Sao Paulo and Baku in Azerbaijan among UMICs.

Beirut's ranking was mainly due to the high cost of unfurnished housing (lower than New York), personal leisure and sports (higher than New York), transportation cost (higher than New York) and the cost of utilities (higher than New York). Mercer indicated that it compares the cost of high-end items that are important to expatriates and their employers, such as upscale residential areas and entertainment venues.

The survey shows that the rankings of 13 out of the 17 Arab cities increased in the 2015 survey, as many currencies in the Middle East region, including Lebanon, are pegged to the US dollar that appreciated against major currencies, which pushed the cities up in the ranking. The survey included three non-Arab cities from the region, as Tel Aviv ranked in 18th place globally, unchanged from the 2014 survey, Limassol came in 159th spot compared to 113th in 2014, while Istanbul came in 99th place relative to 135th in 2014. Luanda in Angola maintained its status as the world's most expensive city, while Bishkek in Kyrgyzstan became the least costly city worldwide.

### Interest rates and currency market maintain stable trend

In the monthly meeting between the Central Bank and the Association of Banks in Lebanon (ABL), Governor Riad Salamé indicated that there is no pressure in the currency market and that the Lebanese pound is trading at below the level that requires the Central Bank's intervention. He said that deposits at commercial banks grew by 6.5% at the end of May 2015 on an annual basis, a rate that he considers sufficient to cover the borrowing needs of the private and public sectors. Also, he noted that interest rates in Lebanon are stable, while he did not expect interest rates in the United States to start increasing before the fourth quarter of the year.

Further, Governor Salamé informed the banks that the Central Bank would exchange the Eurobonds that will mature in June and August 2015 with 10- or 15-year Certificates of Deposits to help absorb liquidity in the market, until the Finance Ministry issues new Eurobonds. He reiterated his call for authorities to finance the fiscal deficit through the market rather than through the Central Bank.

In parallel, the ABL raised the issue of retail loans, specifically housing loans, extended to individuals who have had subsequently their bank accounts frozen by the Special Investigation Commission against Money Laundering (SIC). The ABL requested the Central Bank's approval to liquidate the collateral related to the loans, but Governor Salamé suggested that the concerned banks would still collect the loan settlements from these individuals and could put them in a parallel account until the SIC decides about their status.

Further, Governor Salamé asked banks to make sure that the down payments required for retail loans are equivalent to 25% of the loan amount, as per the Central Bank's recent regulation, excluding the cost of the insurance policy. He noted that the down payment required from customers on loans would increase to 40% when including the insurance policy as part of the loan, which would constitute a high burden on consumers. Therefore, he suggested separating the insurance component from the loan itself, and letting insurers collect the policy's fees. Also, he said that the Central Bank would provide credit facilities to banks that sign protocols with military bodies. He added that the Bank would extend loans to domestic banks at an interest rate of 1% per year so they can lend them in return to the market at low rates, given that most banks have used their freed reserve requirements for this purpose.

### Cost of Living Rankings in 2015

	Arab Rank	Global Rank	Change in Global Rank
Dubai	1	23	+44
Abu Dhabi	2	33	+35
<b>Beirut</b>	<b>3</b>	<b>44</b>	<b>+19</b>
Amman	4	54	+49
Djibouti	5	55	+46
Riyadh	6	71	+40
Manama	7	91	+59
Doha	8	99	+59
Kuwait City	9	117	+30
Muscat	9	117	+51
Cairo	11	120	+33
Jeddah	12	151	+24
Nouakchott	13	173	+18
Rabat	14	175	-12
Algiers	15	181	-57
Tunis	16	204	-2

Source: Mercer, Byblos Research

### Cost of sending remittances from the U.S. and Canada increases in second quarter of 2015

Figures issued by the World Bank show that the cost of sending \$500 in remittances from the United States to Lebanon reached 5.95% in the second quarter of 2015, constituting an increase from 5.29% in the first quarter of 2015 and 5.37% in the second quarter of 2014. The cost includes the transaction fee and exchange rate margin, and represents the average cost of transferring money through commercial banks and money transfer operators (MTOs). In nominal terms, the cost of sending \$500 from the U.S. to Lebanon was \$29.74 in the second quarter of 2015 and \$26.4 in the preceding quarter. Lebanon is the sixth most expensive destination for sending \$500 from the U.S. among 31 countries with available data. The World Bank indicated that the average cost of sending \$500 in remittances from the United States through commercial banks to Lebanon was 8.5% and the average cost through MTOs was 4.25% in the second quarter of 2015.

Further, the cost of sending remittances from Canada to Lebanon reached 9.12% in the second quarter of 2015 for a transfer of CAD500 relative to 7.83% in the first quarter of 2015 and 7.62% in the second quarter of 2014. In nominal terms, the cost of sending CAD500 from Canada to Lebanon was CAD45.58 in the second quarter of 2015 relative to CAD39.13 in the preceding quarter. Lebanon is the most expensive destination for sending CAD500 from Canada among 12 countries with available data.

Also, the cost of sending remittances from Australia to Lebanon was 7.33% in the second quarter of 2015 compared to 7.59% in the first quarter and 6.75% in the second quarter of 2014. The cost of sending AUD500 from Australia to Lebanon was AUD36.64 in the second quarter of 2015 relative to AUD37.96 in the previous quarter. Lebanon is the fourth most expensive destination for sending AUD500 from Australia among 11 countries with available data.

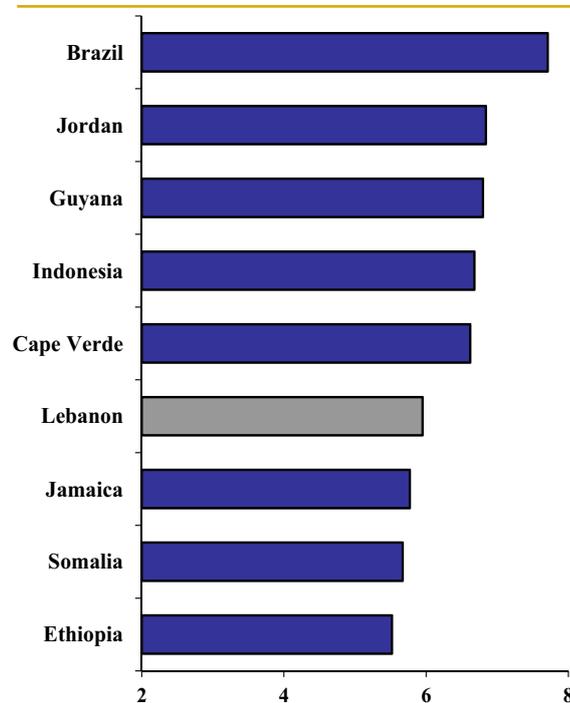
In parallel, the cost of sending remittances from Germany to Lebanon reached 7.19% in the second quarter of 2015 for a transfer of EUR345, down from 7.53% in the preceding quarter and 8.12% in the first quarter of 2014. In nominal terms, the cost of sending EUR345 from Germany to Lebanon was EUR24.81 in the second quarter of 2015 relative to EUR25.98 in the previous quarter. Lebanon is the most expensive destination for sending EUR345 from Germany among 13 countries with available data.

### Government launches tender for management contracts of mobile phone networks

The government launched a public tender to award new contracts for the management of the two state-owned mobile phone networks Mobile Interim Company 1 (MIC 1) and Mobile Interim Company 2 (MIC 2). In 2013, the Ministry of Telecommunications announced plans to launch the tender but, since then, the government has repeatedly renewed contracts of current mobile phone operators Global Telecom Holding and Zain. The conditions to qualify for the tender stipulate that telecom firms must have at least 10 million subscribers over the past five years, with 3 million of them on the same network. The firm must also have assets of \$5 billion, a minimum experience of 10 years in the sector, and be a member of the GSM Association. In addition, the applying firms must demonstrate their ability to manage the existing mobile phone infrastructure, deposit a guarantee of \$2 million and sign a clause of confidentiality. Companies have until September 7, 2015 to submit their bids, while the bidding process is expected to be completed by the end of 2015, with the new management contracts ranging from three to five years.

In May, the Cabinet extended until the fourth quarter of 2015 the management contracts of Global Telecom Holding and Zain, which operate the state-owned mobile phone networks MIC 1 and MIC 2, respectively. The government previously extended the management contracts of the two firms for a period of one year that started on February 1, 2012. Upon the contracts' expiration at the end of January 2013, the government extended the deals for one month to decide what to do and then extended them until the end of June 2013. It further extended both firms' contracts four times until the end of September 2013, and then until the end of 2013, the end of March 2014 and the end of June 2014. The ministry renewed the management contracts of both companies on a monthly basis from end-June 2014 until the end of October 2014. It then extended the deals until May 2015. Zain has been running MIC 2 since June 2004 under the brand Touch, and Global Telecom Holding has been managing MIC 1 since January 2008 under the Alfa brand. Figures released by Alfa and Touch show that there were four million mobile phone subscriptions in Lebanon at the end of June 2014, the latest available figures. Touch has 2.1 million mobile phone subscriptions, representing a 53% market share, while Alfa has 1.9 million subscriptions and a 47% share.

Costliest Destinations of Remittances from the United States\*



\*Cost of sending \$500 from the U.S.  
Source: World Bank, Byblos Research

### **Lebanon's fashion industry faces challenges**

A survey conducted by non-profit organization Endeavor Lebanon about the fashion industry in Lebanon indicated that the country offers two main advantages to the sector that are the local quality of life and the availability of human capital. In contrast, the survey identified the lack of market accessibility, a weak professional support system, and limited access to finance as the main challenges a fashion designer faces in Lebanon. The sample covered 57 locally established fashion and accessories designers for women, as well as five experts from the fashion industry. The survey only covered companies whose founders are the designers themselves. Also, 30% of surveyed participants specialized in ready-to-wear items, 25% in both couture and ready-to-wear garments and 11% in couture only, while 34% specialized in accessories. Endeavor noted the lack of official statistics on the number of fashion houses in Lebanon and on the market's size.

The survey indicated that Lebanon's reputation as a fashion hub encouraged several Lebanese designers to set up their company in the country. It also noted that many designers view the small size of the local market as a positive factor, given that it facilitates contacts with suppliers. In addition, fashion designers said that the availability of contacts in Lebanon through word-of-mouth and a strong social network constitute advantages for establishing their businesses in the country. Overall, 70% of fashion designers believe that the local culture provides a favorable environment for their business. Further, the survey pointed out that the perception of fashion designers about the availability of human capital in Lebanon varies across sub-sectors. It noted that most accessories and couture designers said that talent is available in Lebanon. In contrast, only 38% of designers in ready-to-wear items believe that talent is available in the country, given that the majority of workers are not trained to manufacture this type of garments. Also, 17% of surveyed participants had a degree in architecture, interior design or graphic design, but later pursued a career in fashion design.

In parallel, the survey indicated that fashion designers face challenges with their supply chain and with their access to customers locally and abroad. It said that most fashion designers get fabrics from local suppliers, but they consider that they do not have a wide choice and that the merchandise is overpriced. Also, it noted that designers who outsource their production to craftsmen, ateliers or clothing factories face several challenges that include failure to deliver orders on time, inconsistent quality, lack of transparency in terms of pricing, and theft of ideas through design copying. The survey showed that about 60% of participants indicated that the production costs in Lebanon are high, which is leading to high retail prices. Further, designers who specialize in ready-to-wear garments said that they have difficulties accessing Lebanese boutiques, given that boutiques are often reluctant to offer Lebanese designs. In addition, designers indicated that their most important market is the Gulf Cooperation Council economies, but added that they have a presence in other markets as well. As such, 32% of designers are present in GCC countries, 25% in Europe, 15% in Asia, 13% in the United States, 11% in Russia, and 6% in each of North Africa and South America. Also, 34% of designers have a presence online, but most of them said that online sales have not yet picked up in the region. The survey indicated that regulatory issues deter access to foreign markets, including inadequate customs regulations.

In addition, more than 75% of designers noted the limited availability of professional support. Also, 50% of designers consider that their type of business lacks proper access to finance, while 17% of designers consider that access to finance is available. The survey revealed that most designers have relied on their personal or their family funds to finance their fashion business, and that they have decided to grow their business organically. It noted that 7% of designers benefited from a subsidized loan from the Kafalat corporation, while most designers said they did not qualify for such a loan but had access to personal loans from their banks. It added that only one designer received an investment from a professional firm and three companies had investments from angel investors.

Further, the survey showed that 33% of designers had between one and five employees relative to 31% who had no employees at all. Also, 18% of designers had between 6 and 10 employees, 10% had between 11 and 20 employees, 3% had between 21 and 50 employees and 5% had more than 50 employees. In addition, 66% of designers established their business between 2008 and 2013, 27% formed their company between 2000 and 2007, and 7% established their firm before the year 2000. Endeavor Lebanon, which is part of the international non-profit organization Endeavor Global, identifies and supports promising entrepreneurs and firms in Lebanon.

### **Lebanon signs \$180m in loans for Litani River project**

The Council of Development and Reconstruction signed two loan agreements worth \$180m with the Kuwaiti Fund for Arab Economic Development (KFAED) and the Arab Fund for Economic and Social Development (AFESD) to finance the first phase of the Litani River project. The AFESD extended \$109m and the KFAED the remaining \$71m. The loans carry an interest rate of 3%, have a five-year grace period, and will be repaid over 22 years.

The Litani River project, which consists of two phases, aims to increase agricultural productivity and provide potable water to vast areas of the country. Under the first phase, 12 agricultural areas of 1,500 hectares will receive 120 million cubic meters of irrigation water, while 98 villages will get 20 million cubic meters of water through pipelines running from the Qaraoun Reservoir in the Bekaa to the south of the country. The second phase consists of building an irrigation network and water treatment plants for agricultural land. The overall cost of the Litani River project is estimated at \$360m and will be partly financed by KFAED, AFESD and the Lebanese Government. The Litani River Authority launched the first phase of the project in July 2014 and expects it to be completed within three years.



### Lebanon ranks 145th globally, 16th in MENA region on peace index

The 2015 Global Peace Index ranked Lebanon in 145th place among 162 countries globally and in 16th place among 22 countries in the Middle East & North Africa (MENA) region. Lebanon ranked in 146th place among 162 countries globally and in 17th place among 22 countries regionally in the 2014 survey. The GPI ranks countries by their 'absence of violence' and assigns a weight of 60% to internal peace and a weight of 40% to external peace factors. The index is based on 23 qualitative and quantitative indicators grouped in three sub-domains that are Societal Safety & Security, Militarization, and Ongoing Domestic & International Conflict. Countries with the lowest score are considered to be the most peaceful. The index was developed by the Economist Intelligence Unit and the Institute for Economics and Peace.

Globally, Lebanon is considered to be more peaceful than Columbia, Yemen and Israel, and less peaceful than Venezuela, India and Mexico. The survey placed Lebanon in the 'low state of peace' category, along with Mauritania, Turkey, Egypt, Iran, Yemen, Israel and Libya in the region. Lebanon received a score of 2.62 points, worse than the global average of 2.03 points and the MENA average score of 2.37 points. Lebanon's score regressed by 0.2% from the 2014 survey and was among 13 countries in the MENA region that posted an improvement in their state of peace.

Globally, Lebanon came ahead of Mexico, Israel and the Philippines on the Ongoing Domestic and International Conflict Sub-Domain. This category reflects the number, duration and role of the country in internal and external conflicts, as well as the death toll from organized conflict, the level of internally organized conflict and the country's relations with neighboring states. Also, Lebanon came ahead of Israel, Yemen, Libya, Iraq, Sudan and Syria in the region.

In addition, Lebanon ranked ahead of Brazil, Honduras and El Salvador, and came behind Zimbabwe, Guatemala and North Korea on the Societal Safety and Security Sub-Domain. This category assesses the number of refugees and displaced people as a percentage of the population, the level of perceived criminality in society, political instability and terror scale, the impact of terrorist activity, the level of violent crime, the likelihood of violent demonstrations, as well as the number of homicides, jailed population and internal security officers & police per 100,000 inhabitants. Lebanon came ahead of Yemen, Libya, Sudan, Syria and Iraq in the region.

In parallel, the survey estimated spending on violence containment in Lebanon at 8% of GDP in 2014, constituting the 46th highest such ratio globally and the 11th highest in the region. Regionally, it is lower than such spending in Syria (42% of GDP), Iraq (30% of GDP), Sudan and Libya (15% of GDP each), Oman (14% of GDP), Israel (12% of GDP), Bahrain (11% of GDP), Saudi Arabia (10% of GDP), and Mauritania and Yemen (9% of GDP each). Further, it estimated spending on violence containment in Lebanon at \$1,503 per capita in 2014, constituting the 35th highest such ratio globally and the 11th highest in the region. It came lower than similar spending in Oman (\$6,254), Saudi Arabia (\$5,732), Qatar (\$5,107), Bahrain (\$4,937), Kuwait (\$4,637), Iraq (\$4,478), Israel (\$3,997), the UAE (\$2,872), Syria (\$2,509) and Libya (\$2,422).

### Global Peace Index for 2015

Country	Score	MENA Global	
		Rank	Rank
Qatar	1.568	1	30
Kuwait	1.626	2	33
UAE	1.805	3	49
Jordan	1.944	4	71
Oman	1.947	5	74
Tunisia	1.952	6	76
Morocco	2.002	7	86
Saudi Arabia	2.042	8	95
Djibouti	2.113	9	102
Algeria	2.131	10	104
Bahrain	2.142	11	107
Mauritania	2.262	12	122
Turkey	2.363	13	135
Egypt	2.382	14	137
Iran	2.409	15	138
<b>Lebanon</b>	<b>2.623</b>	<b>16</b>	<b>145</b>
Yemen	2.751	17	147
Israel	2.781	18	148
Egypt	2.819	19	149
Sudan	3.295	20	156
Iraq	3.444	21	161
Syria	3.645	22	162

Source: EIU, Institute for Economics and Peace, Byblos Research

### Components of the 2015 Global Peace Index for Lebanon

Sub-Domains	Global Rank	MENA Rank	UMIC Rank	Lebanon Score	Global Average Score	MENA Average Score	UMIC Average Score
Societal Safety & Security	141	17	34	3.11	2.51	2.92	2.66
Militarization	141	14	38	1.77	1.47	1.75	1.39
Ongoing Domestic & International Conflict	145	16	38	2.41	1.67	2.03	1.62

Source: EIU, Institute for Economics and Peace, Byblos Research

### Maturing Eurobonds exchanged for long term Certificates of Deposits

The Central Bank announced that it is offering holders of Eurobonds that mature in August 2015 the possibility to exchange them for 10-year and 15-year Certificate of Deposits (CDs) in US dollars. The 10-year CDs offer a 6.04% yield, while the 15-year CDs offer a yield of 6.5%. The \$500m Eurobond was issued on August 6, 2008 and carries an annual coupon rate of 8.5% that is paid on a semi-annual basis. Further, the same exchange offer applied to the holders of the \$500m Eurobond that matured on June 12, 2015. The Eurobond was issued on June 12, 2012 and carried an annual coupon rate of 4.1%. The ministry does not have other Eurobond maturities for 2015, but needs to meet \$4bn in principal and coupon payments in 2016

In February 2015, the Ministry of Finance issued a \$2.2bn dual-tranche Eurobond under the Republic of Lebanon's Global Medium Term Note Program to cover part of the government's operating expenditures and debt service payments in 2015. The issuance followed the Lebanese Parliament's ratification of a law on November 5, 2014 that allowed the government to issue up to \$2.5bn in foreign-currency debt. As such, the Finance Ministry can only issue \$300m under the current law.

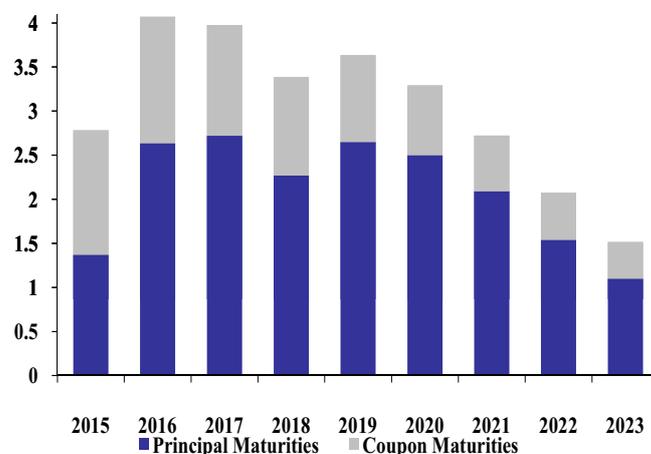
Lebanon's gross public debt reached \$69.5bn at the end of April 2015, constituting an increase of 4.3% from the end of 2014 and a rise of 7.1% from \$64.9bn at end-April 2014. Domestic debt totaled \$42bn at the end of April 2015, and grew by 2.6% from end-2014 and by 8.4% year-on-year; while debt in foreign currency stood at \$27.4bn, and rose by 7.2% from the end of 2014 and by 5% from a year earlier. Foreign currency-denominated debt accounted for 39.5% of the public debt at the end of April 2015 relative to 40.3% a year earlier.

### Value of real estate transactions down 24% to \$2.9bn in first five months of 2015

Figures released by the Ministry of Finance indicate that the number of real estate transactions totaled 23,130 in the first five months of 2015, constituting a decrease of 18.7% from 28,448 deals in the same period of 2014. In comparison, the number of real estate transactions rose by 9.2% in the first five months of 2014 and dropped by 8.2% in the same period of 2013. Also, the aggregate value of real estate transactions reached \$2.9bn in the first five months of 2015, constituting a drop of 24% from \$3.8bn in the same period of 2014. The value of real estate deals totaled \$3bn in the first five months of 2013 and \$3.3bn in the same period of 2012.

In parallel, the average value per real estate transaction reached \$125,746 in the first five months of 2015, down 6.5% from an average value of \$134,468 in the same period of 2014 and relative to \$116,114 in the first five months of 2013. Further, there were 545 real estate transactions executed by foreigners in the first five months of 2015, increasing by 27% from 429 deals in the same period of 2014, compared to an annual drop of 9.7% in the first five months of 2014 and a decline of 10.2% in the same period of 2013. The number of real estate transactions by foreigners accounted for 2.4% of total real estate deals in the first five months of 2015, up from 1.5% of total deals in the same period last year and from 1.8% of total deals in the first five months of 2013.

Redemption Profile of Eurobonds (US\$bn)



Source: Ministry of Finance, Byblos Research

### **Selection of 45 technology firms for UK Lebanon Tech Hub initiative**

The Central Bank of Lebanon and the United Kingdom government through the British Embassy in Beirut announced the selection of 45 companies to undergo the first phase of the UK Lebanon Tech Hub (UKLTH) program. The program aims to support Lebanese technology start-ups and to provide them with global market access. The selected firms will receive one-on-one mentorship and business support from international entrepreneurs and experts to help them develop growth plans in order to compete in global markets. About 31% of the selected companies are in their early startup stage, 16% are at the product stage, while the remaining 53% are growth-stage small- and medium-size enterprises. The 45 companies are in financial technology, e-commerce, crowd-funding platforms, mobile applications, as well as hardware and software solutions. Companies based in Lebanon accounted for 39 of the selected firms, while two companies are based in the United Kingdom, two firms in the United States, one firm is based in France and one in the UAE.

The first phase of the program officially started on June 12, 2015 and will last four months, after which only 15 companies will be selected to undergo the second phase. The second phase aims to help enterprises implement their internationalization plans over a period of 10 months, while operating mainly from London. Companies that do not qualify for the second round will have an opportunity to qualify again after improving the weaknesses identified in the first round.

The UKLTH is supported by UK-based PA Consulting Group and was created in response to Intermediate Circular 331 that the Central Bank issued in August 2013. The circular authorized commercial banks operating in Lebanon to invest up to 3% of their private funds in the capital of start-up firms in the knowledge economy, with a 10% limit per firm of this percentage. Intermediate Circular 331 also stipulates that the Central Bank would guarantee 75% of banks' investments into start-up companies or in local venture capital funds targeting the knowledge economy.

### **Banque Libano-Française increases capital through issuance of preferred shares**

The Extraordinary General Assembly of Banque Libano-Française (BLF) held on May 29, 2015 approved the increase of the bank's capital from LBP235bn, equivalent to \$155.9m, to LBP250bn or \$165.8m, through the issuance of 1,500,000 Series 4 Preferred Shares. The Series 4 Preferred Shares were issued in April 2015 and are redeemable, non-cumulative and perpetual. The issue price is \$100 per share, of which LBP10,000 (\$6.63) is par value and the remaining \$93.37 constitutes the issue premium. The Series 4 Preferred Shares carry an annual dividend rate of 7% of the issue price and the annual payment is contingent on the availability of sufficient declared net profits. BLF has the option to call the shares within 60 days after the Ordinary General Assembly meets to approve the financials for fiscal year 2019, and annually thereafter, at a callable price of \$100 per share plus any declared but unpaid dividends. The bank would have to redeem a minimum of 20% of the outstanding shares in case it decides to exercise its call option.

BLF posted unaudited consolidated net profits of \$34.4m in the first quarter of 2015. Its assets reached \$11.1bn at end-March 2015; while loans & advances to customers, excluding loans & advances to related parties, dropped by 0.2% from end-2014 to \$4bn at end-March 2015. Also, customer deposits, excluding deposits from related parties, totaled \$9.4bn at end-March 2015, down by 1.3% from end-2014.

### **Venture capital firm officially launches its operations**

The Beirut- and Dubai-based venture capital firm Leap Ventures announced that it intends to invest in growth stage companies operating in the information & communications technology and in other knowledge-based industries in Lebanon. This step follows the successful closure of its \$71m Leap Investments I fund in March 2015. Also, Leap Ventures announced the launch of a second fundraising round that is expected to increase the size of the fund by 10% to 20%.

The fund is in line with the Central Bank of Lebanon's Intermediate Circular 331 that was issued in August 2013. The circular authorized commercial banks operating in Lebanon to invest up to 3% of their private funds in the capital of start-up firms in the knowledge economy, with a 10% limit per firm of this percentage. Under the circular, the Central Bank guarantees 75% of banks' investments in startup companies or in startup funds. Byblos Bank committed \$10m to the Leap Investments I fund. Leap Ventures is a MENA-focused venture capital firm that aims to invest in companies run by entrepreneurs who have already achieved significant traction in their business, and to help them grow in any sector related to Lebanon's knowledge economy.

### **Launch of new commercial center in Bekaa**

Inter Mall Group launched Cascada Mall, a new commercial center in the Bekaa Valley and the largest mall outside the Greater Beirut area. The mall is located near the town of Taanayel and close to the international highway that links Lebanon with Syria and the Arab hinterland. The mall is built on a 150,000 square meter area and has the capacity to include 250 shops, 40 restaurants, a theater, a food court, an entertainment center and a supermarket. The French chain Carrefour will have a 13,000 square meters hypermarket in the mall, which will be the second Carrefour outlet in Lebanon. The Cascada Mall is scheduled to open in the fourth quarter of 2015, but the mall's opening was delayed repeatedly because of the conflict in Syria, as the facility was destined to cater in large part to clients from Syria and Jordan. The mall is part of the Cascada Village project that currently includes a wedding & events venue and an open-air Roman amphitheater. The Village will also include a professional and medical center, a hotel, an extreme sports park and a 10,000 square meters artificial lake. Inter Mall Group was established in 2007 and is managed by Lebanese partners from North and South America who have expertise in the real estate sector and in the development of shopping centers.

### **BankMed's net profits at \$31m in first quarter of 2015**

BankMed sal, one of Lebanon's top 10 banks, announced unaudited consolidated net profits of \$30.9m in the first quarter of 2015, constituting an increase of 13.7% from the same quarter last year. Net operating income rose by 31.4% year-on-year to \$132.6m, with net interest income rising by 20.2% to \$69.8m and net fees & commissions receipts dropping by 89.4% to \$2m. Non-interest income accounted for 64.8% of total income, up from 38.4% in the first quarter of 2014, with net fees & commissions representing 1.4% of non-interest earnings down from 48.2% in the same quarter last year. Further, the bank's interest margin improved to 2.11% in the covered quarter from 2.04% in the first quarter of 2014; while its net spread rose to 1.95% from 1.86% in the same period last year. Total operating expenditures grew by 16.5% to \$77.8m, with staff expenses increasing by 13.8% to \$39m. The bank's return on average assets reached 0.83% in the first quarter of 2014 on an annualized basis, down from 0.87% in the same quarter last year; while its return on average equity was 8.83% relative to 8.75% in the first quarter of 2014. The cost-to-income ratio declined to 35.7% in the first quarter of 2015 from 65.1% in the same quarter last year.

In parallel, total assets reached \$16.1bn at end-March 2015, constituting an increase of 4.3% from end-2014 and of 21.1% from end-March 2014; while loans & advances to customers, excluding loans & advances to related parties, dropped by 2% from end-2014 and rose by 2.5% from the first quarter of 2014 to \$4.5bn. Also, customer deposits, excluding deposits from related parties, totaled \$12.1bn at end-March 2015, constituting a growth of 5.5% from end-2014 and of 23.1% from end-March 2014. The loans-to-deposits ratio declined to 36.4% at end-March 2015 from 43.8% a year earlier. Further, shareholders' equity reached \$1.5bn at end-March 2015 and remained nearly unchanged from end-2014.

### **Holcim's net profits up 45% to \$31.6m in 2014**

Cement producer Holcim Liban sal posted audited consolidated net profits of \$31.6m in 2014, constituting an increase of 44.9% from \$21.8m in 2013. The firm's sales totaled \$182.1m in 2014, down 4.2% from \$190m in 2013. The firm's gross profits margin reached 34.2% last year relative to 30.3% in 2013. Holcim's total assets reached \$283.7m at end-2014, constituting a decrease of 2.9% from \$292.1m at end-2013; while its shareholders' equity was \$225.2m at end-2014 relative to \$212.3m at the end of 2013. The company's total loans and borrowings reached \$8m at the end of 2014, down 9.2% from \$8.8m at end-2013; while its banks' balance and cash fell by 17.4% from end-2013 to \$30.4m. The firm's current ratio, which is a measure of the company's ability to meet its short-term obligations, reached 2.59x at end-2014, up from 1.91x at end-2013. The total debt-to-equity ratio was 3.91% at end-2014, down from 4.5% at the end of 2013. Also, the firm's return on assets reached 11.15% in 2014 relative to 7.5% in 2013; while its return on common equity was 14.05% last year relative to 10.3% in 2013. The firm is engaged in the production and sale of cement and other related services. Holcim's share price closed at \$15.2 on June 19, 2015, constituting a decrease of 0.3% from \$15.25 at end-2014.

### **BLC Bank allocates reserves**

BLC Bank sal announced that its Ordinary General Assembly held on May 12, 2015 allocated \$7.3m in reserves against various banking risks, \$4.4m in legal reserve requirements, and \$5.4m in provisions covering repossessed real estate collateral. In addition, it allocated \$0.63m in free reserves to mainly cover debt provisions, \$0.61m to cover the June 2003 debt reserves as stipulated by the Central Bank's Circular No.73, and \$0.4m in revalued stocks and bonds that were converted to non-distributable income. The bank also allocated a gross dividend payment of \$13.2m to the holders of common shares and \$9m to those of preferred shares.

BLC Bank sal announced audited consolidated net profits of \$44m in 2014. Its total assets reached \$5.4bn, while loans & advances to customers amounted to \$1.93bn at end-2014. Further, customer deposits totaled \$4.3bn at end-2014, nearly unchanged from a year earlier. The bank's stock price on the Beirut Stock Exchange closed at \$1.7 on June 19, 2015, unchanged from the end of 2014.



## 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



---

**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](mailto:research@byblosbank.com.lb)**  
**[www.byblosbank.com](http://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