

LEBANON THIS WEEK

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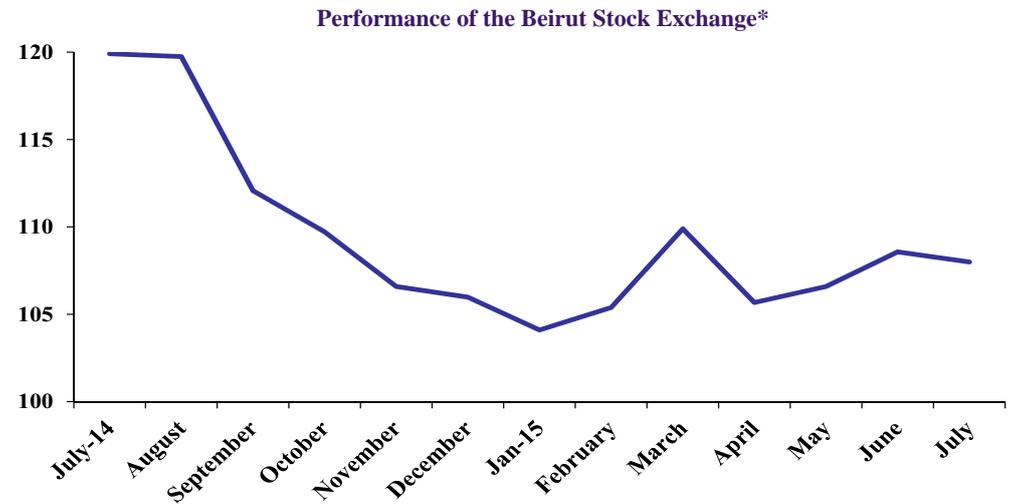
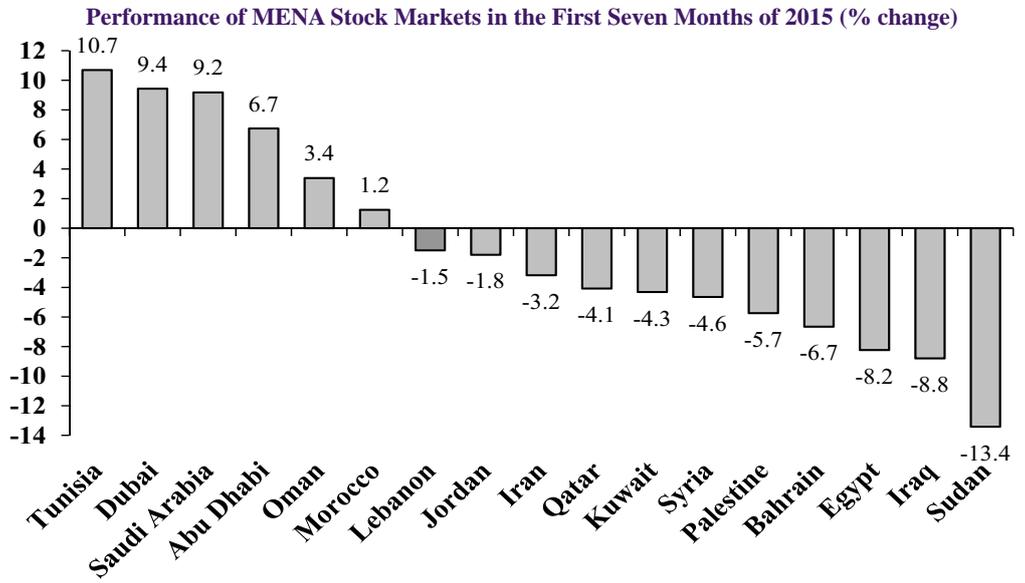
BML's profits up 6% to \$5.4m in 2014

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Charts of the Week



* Banque du Liban Market Value Weighted Index average monthly values
 Source: Local Stock Markets, Dow Jones Indices, Banque du Liban, Byblos Bank

Quote to Note

"Reforms to decentralize authority and empower local governments could help address concerns about inequities in public spending and service delivery, and could serve as a means for increasing trust in and the accountability of the State."

The World Bank, on the perceived benefits of administrative decentralization in Lebanon

Number of the Week

90%: Percentage of smartphone users with Internet access in Lebanon at the end of 2014, according to Ipsos Connect

Lebanon in the News

\$m (unless otherwise mentioned)	2014	Mar 14	Dec 14	Jan 15	Feb 15	Mar 15	% Change*
Exports	3,936	275	268	250	236	257	(6.55)
Imports	21,228	1,791	1,649	1,341	1,320	1,509	(15.75)
Trade Balance	(17,292)	(1,516)	(1,381)	(1,091)	(1,084)	(1,252)	(17.41)
Balance of Payments	(1,128)	139	(116)	(280)	(153)	(417)	-
Checks Cleared in LBP	17,047	1,520	1,599	1,490	1,354	1,579	3.84
Checks Cleared in FC	55,321	4,671	4,692	4,331	3,878	4,322	(7.47)
Total Checks Cleared	72,368	6,191	6,291	5,821	5,232	5,901	(4.69)
Budget Deficit/Surplus	(4,220)	(595.29)	(48.81)	(111.66)	(444.09)	(506.29)	(14.95)
Primary Balance	(239.68)	(128.09)	281.94	157.82	(273.02)	(22.84)	(82.17)
Airport Passengers	6,265,470	430,979	573,229	501,766	394,774	478,284	10.98

\$bn (unless otherwise mentioned)	2014	Mar 14	Dec 14	Jan 15	Feb 15	Mar 15	% Change*
BdL FX Reserves	31.71	33.63	32.40	32.41	34.1	34.53	2.67
<i>In months of Imports</i>	<i>17.65</i>	<i>18.78</i>	<i>19.65</i>	<i>24.17</i>	<i>25.83</i>	<i>22.88</i>	<i>21.86</i>
Public Debt	63.49	65.16	66.58	66.58	69.25	69.43	6.56
Net Public Debt	53.21	54.33	57.30	57.46	58.03	58.51	7.69
Bank Assets	164.82	166.20	175.70	175.74	176.55	176.95	6.47
Bank Deposits (Private Sector)	136.21	136.55	144.43	144.15	144.73	145.46	6.52
Bank Loans to Private Sector	47.38	48.14	50.90	50.56	50.60	51.14	6.25
Money Supply M2	45.60	46.34	48.69	48.67	49.01	49.44	6.71
Money Supply M3	111.16	112.29	117.68	117.14	117.71	118.06	5.13
LBP Lending Rate (%)	7.29	7.26	7.49	7.26	7.18	6.94	(32bps)
LBP Deposit Rate (%)	5.44	5.48	5.56	5.57	5.58	5.57	9bps
USD Lending Rate (%)	6.88	6.87	6.97	6.96	7.05	7.16	29bps
USD Deposit Rate (%)	2.95	2.96	3.07	3.12	3.13	3.12	16bps
Consumer Price Index**	3.89	(0.23)	(1.66)	(2.39)	(0.63)	0.00	23bps

* 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 %
BLOM Listed	9.60	0.00	100,000	18.04%	Jan 2016	8.500	102.63	2.70
Audi Listed	6.17	(0.32)	54,312	21.56%	Mar 2017	9.000	108.10	3.82
Solidere "A"	11.12	(2.46)	45,036	9.72%	Nov 2018	5.150	101.38	4.69
BLOM GDR	9.98	(0.20)	37,480	6.45%	May 2019	6.000	103.50	4.98
Audi GDR	6.00	(0.17)	34,700	6.10%	Mar 2020	6.375	104.50	5.26
Byblos Common	1.60	0.00	23,533	5.03%	Apr 2021	8.250	113.50	5.46
HOLCIM	15.15	1.68	18,000	2.58%	Oct 2022	6.100	102.38	5.69
Solidere "B"	11.14	(2.28)	6,936	6.33%	Jun 2025	6.250	101.13	6.10
Byblos Pref. 09	102.00	1.29	1,730	1.78%	Nov 2026	6.600	103.00	6.23
Byblos Pref. 08	101.50	0.0	500	1.77%	Feb 2030	6.650	102.38	6.40

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

Source: Byblos Bank Capital Markets

	July 27-31	July 20-24	% Change	July 2015	July 2014	% Change
Total Shares Traded	356,033	1,592,082	(77.64)	3,370,674	3,616,820	(6.81)
Total Value Traded	\$3,487,739	\$11,580,735	(69.88)	\$28,058,064	\$19,622,207	42.99
Market Capitalization	\$11.44bn	\$11.49bn	(0.41)	\$11.44bn	\$10.94bn	4.58

Source: Beirut Stock Exchange (BSE)



Vast majority of Lebanese consider current economic situation to be bad or very bad, only 18% think it will improve in next 12 months

A survey conducted by the U.S.-based opinion polling think tank Pew Research Center indicated that 53% of Lebanese consider that the current economic situation in Lebanon is 'very bad' and 36% think it is 'bad', compared to 9% who believe it is 'good' and 1% who say it is 'very good'. The trend improved slightly from the 2014 survey when 56% of Lebanese respondents believed that the economic situation was 'very bad', and the 2013 survey when 57% of respondents said the economy was 'very bad'. The survey was conducted between April 7 and May 5, 2015 through face-to-face interviews with 1,000 Lebanese residents who are 18 years or older.

Overall, 89% of Lebanese respondents consider that the current economic situation in Lebanon is 'bad' or 'very bad', compared to 91% of respondents in the 2014 survey and to 90% in the 2013 survey. In comparison, 56% of respondents in advanced countries, 55% of participants in emerging economies and 54% in developing countries have the same opinion about their local economy. The percentage of respondents in Lebanon who think that the current economic situation in the country is 'bad' or 'very bad' is the second highest among 40 countries covered in the survey, relative to 94% in Ukraine. Regionally, 73% of Jordanians and 67% of Palestinians consider that the current economic situation in their country is 'bad' or 'very bad'.

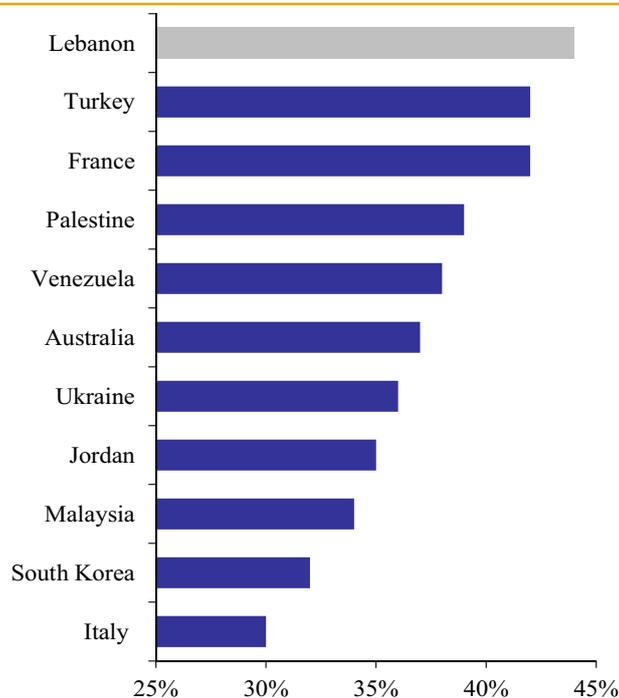
Further, the survey pointed out that 37% of Lebanese respondents expect the economic situation in the country to 'remain the same' in the next 12 months, 27% of participants anticipate that it will 'somewhat worsen' and 17% of participants think that it will 'worsen a lot', while 18% of respondents consider that it will 'improve' in the next 12 months. As such, 44% of Lebanese respondents expect the economic situation in Lebanon to 'worsen' or 'worsen a lot' in the next 12 months, compared to 46% of respondents who had similar expectations in the 2014 survey and 48% of participants in the 2013 survey. In comparison, 21% of respondents in each of the advanced and developing economies and 20% of participants in emerging countries have the same opinion about their local economy. Also, the percentage of respondents in Lebanon who expect the economic situation in the country to 'worsen' or 'worsen a lot' in the coming 12 months is the highest globally; while the share of respondents in Lebanon who indicated that the economic situation in the country will 'improve' is the second lowest worldwide, behind only Poland (16%). Regionally, 39% of Palestinians and 35% of Jordanians anticipate a worsening in their country's economic performance in the coming 12 months.

In parallel, 47% of survey participants in Lebanon think that the next generation will be worse off financially than their parents, unchanged from each of the 2013 and the 2014 surveys. In comparison, 64% of respondents in advanced countries, 38% in developing countries and 26% of participants in emerging economies have the same expectations for the next generation. The percentage of respondents in Lebanon who consider that the next generation will be worse off financially than their parents is, along with Kenya, the 14th highest globally. Regionally, 44% of Palestinians and 37% of Jordanians think that the next generation will be worse off financially than their parents. The survey is part of the Pew Research Center's Global Attitudes Project.

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

The Association of Banks in Lebanon (ABL) recommended to its member banks to increase the Beirut Reference Rate (BRR) in US dollars to 6.15% starting in August 2015 from 6.11% in July. The rate, considered as the reference rate for lending in foreign currency, replaced the London Interbank Offered Rate (LIBOR) in 2009 as the ABL considered that the LIBOR no longer accurately reflects the cost of funding and lending in Lebanon. Additionally, the ABL recommended to its member banks to increase the BRR in Lebanese pounds to 8.71% in August from the July rate of 8.7%. The BRR in US dollars and Lebanese pounds was adopted in March and May 2009, respectively. The ABL considers that the BRR does not replace the Beirut Prime Lending Rate in each currency, but constitutes the basis to calculate the prime rate after adding the cost of liquidity and refinancing, credit risks and the profitability of banks to the prime lending rate.

Percentage of Respondents who think Economic Conditions will Deteriorate in the Near Term



Source: Pew Research Center, Byblos Research

Moody's maintains 'negative' outlook on banking sector

Moody's Investors Service maintained its 'negative' outlook on Lebanon's banking system for the next 12 to 18 months due to the agency's expectations that the domestic operating environment would remain weak in coming months, given the domestic political vacuum and the ongoing conflict in Syria. It added that its 'negative' outlook takes into account the banks' high and growing exposure to the Lebanese sovereign, which leaves their capital buffers vulnerable to sovereign event risk. Also, it anticipated that the limited business generation and the elevated loan-loss provisioning needs would weigh on the banking sector's profitability.

Moody's indicated that the domestic political deadlock has limited the government's ability to adopt economic policies and has restricted capital spending that could stimulate a recovery in activity. As such, it expected nominal credit growth at below 5% in 2015, which is significantly below the 24% annual growth rate in credit during the 2007-10 period. It expected the slowdown in construction and real estate activities, along with the macro-prudential measures for retail exposures and weak private investment, to constrain new demand for credit. However, it considered that Lebanese banks are accustomed to operating in an uncertain environment and that they have shown exceptional resilience under previous periods of severe stress. It added that Lebanese banks benefit from a stable exchange rate regime that supports the resilience of financial inflows, from ample foreign currency reserves that cover about 19 months of imports, as well as from significant remittance inflows from the Lebanese Diaspora.

In terms of asset risks and capital, Moody's indicated that the banks' high exposure to sovereign risk constitutes the main credit risk for banks, as it links their creditworthiness to that of the Lebanese government. It noted that the banking sector's aggregate exposure to the government and the Central Bank reached \$80.3bn in April 2015, equivalent to 45% of total assets and to over five-times the banks' Tier-One capital. In parallel, it cautioned that a deterioration in the operating environment would lead to pronounced weakness in asset quality. It anticipated that the rise in household indebtedness, the slow pace of job creation and the aging of retail portfolios would lead to downside pressure on asset quality over the next 12 to 18 months. It considered that the Central Bank's macro-prudential measures and additional collective provisioning requirements would ensure better retail loan affordability and collateral coverage, which would help contain asset quality risks for loans extended after October 2014. Further, the agency expected the banking sector's capital level to improve gradually, supported by the phased introduction of Basel III requirements. It forecast total shareholders' equity to account for 9.5% of the sector's assets at the end of 2015. But it considered the banks' capital buffers to be modest, given their very high exposure to Lebanon's sovereign risk and the downside risks from the difficult domestic operating environment. It noted that the Lebanese banks' capital adequacy ratios are inflated, as the regulatory zero risk weight applied to local currency-denominated securities understates risk-weighted assets.

In terms of profitability and efficiency, Moody's expected the sector's profitability to come under pressure from relatively elevated provisioning requirements, as well as from low net interest income growth and weak fee income generation. It indicated that loan-loss provisioning costs remain elevated, and are absorbing an estimated 16% of pre-provision income in 2014 compared to about 6% in 2010.

In terms of funding and liquidity, Moody's pointed out that the banking sector continues to benefit from solid liquidity buffers and depositor-based funding, which support the system's overall stability. It expected remittance inflows from the Lebanese Diaspora to continue to support private sector deposit growth, which it projects at about 7% in 2015. It noted that the banks' deposits have been resilient to previous crises and periods of high domestic instability. It added that the sector's reliance on market funding is minimal as customer deposits fund over 80% of the sector's aggregate assets.

Reactivation of GSP program allows duty-free access of Lebanese products to the U.S.

The United States reactivated the U.S. Generalized System of Preferences (GSP) program, which allows the entry to the U.S. of products from eligible developing countries without paying customs duties. Under the program, Lebanon would be able to export about 3,500 types of products duty-free to the United States. The GSP program provides non-reciprocal, duty-free tariff treatment to certain products imported from 122 beneficiary developing countries and territories, including Lebanon. The program was established in 1974 and was renewed regularly, but the GSP statute automatically expired for all beneficiary developing countries on July 31, 2013. The trade program became effective on July 29, 2015 and will end in 2017, but is subject to renewal. The objectives of the U.S. GSP program are to promote the development of developing countries; promote trade, rather than aid, as a more efficient way of supporting economic development; and promote trade liberalization in developing countries.

Lebanon exported \$48.6m of duty-free products to the U.S. in 2008, equivalent to 49.1% of its total exports to the U.S. in 2008; \$43.6m or 56.5% of the total in 2009, and \$38.4m or 45.7% of its total exports to the U.S. in 2010. It also exported \$33.6m, or 45.2% of its exports to the U.S., in the first 11 months of 2011, and \$36.7m or 48.8% of the total in the first 11 months of 2012. Lebanon's eligibility for the GSP trade program came under threat in 2003, as the United States Trade Representative "accepted for review" during this year a petition from the International Intellectual Property Alliance to have the U.S. government evaluate whether to suspend some or all of Lebanon's benefits under the GSP trade program for failure to adequately protect intellectual property rights.



Growth of broadband penetration outperforms Arab and developing economies

Figures released by the International Telecommunication Union (ITU) indicate that Lebanon ranked in 47th place among 161 countries at the end of 2014 in terms of fixed broadband penetration, which is the number of subscriptions to the service per 100 inhabitants. Lebanon's global rank improved by 30 spots from 2013, based on the same number of countries year-on-year, and constituted the highest increase globally. Lebanon came in first place among 17 Arab countries and ranked in third place among 45 upper middle-income countries (UMICs) included in the survey. Lebanon's rank improved by three spots in the Arab world and by 17 spots among UMICs from the previous year. On a global basis, Lebanon had a higher penetration rate than Slovakia, Bahrain and Cyprus and a lower rate than Poland, the Philippines and Croatia among economies with a GDP of \$10bn or more. Also, Lebanon came behind only Belarus and Hungary among UMICs. Lebanon had 22.8 fixed broadband subscriptions per 100 inhabitants in 2014, constituting an increase of 129% from 9.95 subscriptions in 2013, reflecting the fourth highest rise globally. Lebanon's fixed broadband penetration rate was higher than the global average of 10.3 subscriptions per 100 inhabitants, the developing economies' average of 6.6 subscriptions per 100 inhabitants and the Arab world average of 3.4 subscriptions per 100 inhabitants. Fixed broadband penetration in Lebanon grew by a compound annual growth rate (CAGR) of 37.5% during the 2009-14 period compared to a CAGR of 13.3% for developing economies and 16% for Arab countries.

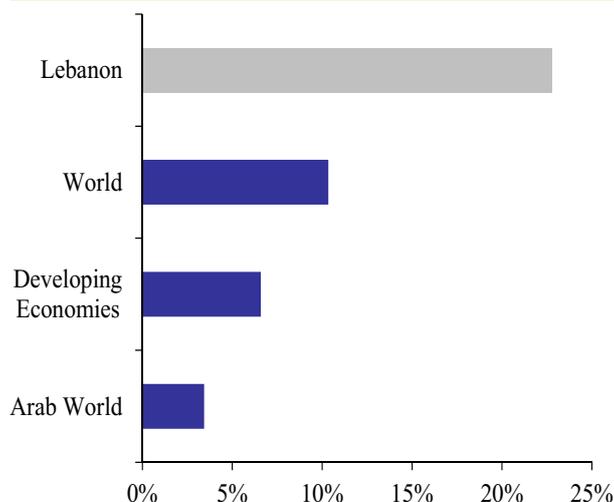
In parallel, Lebanon ranked in 44th place among 207 countries at the end of 2014 in terms of Internet penetration, which represents the number of Internet users per 100 inhabitants. Lebanon's rank improved by four spots from its global rank in 2013. Lebanon also ranked in fifth place among 20 Arab countries and in second position among 52 UMICs. On a global basis, Lebanon had a higher penetration rate than Hong Kong, Malta and Chile, and a lower rate than Spain, Hungary and Latvia among economies with a GDP of \$10bn or more. Also, Lebanon had a lower penetration rate than Hungary among UMICs, while it trailed Qatar, Bahrain, the UAE and Kuwait among Arab countries. Lebanon had 74.7 Internet users per 100 inhabitants in 2014, constituting a rise of 6% from 70.5 Internet users per 100 inhabitants in 2013. Lebanon's Internet penetration rate came above the global average of 40.6 users, the Arab average of 34.7 users and the developing economies' average of 32.4 users. Internet users in Lebanon grew by a CAGR of 19.9% during the 2009-14 period compared to a CAGR of 13.2% for developing economies and 12.6% for Arab countries.

Real estate prices vary significantly across Beirut

Figures released by Property advisory firm RAMCO show that the asking price for first floor apartments in buildings under construction in Beirut ranges from a low of \$2,088 per sqm in the Noueiri area to a high of \$7,000 per square meter (sqm) in the Beirut Central District (BCD). It indicated that the average asking price for a first floor apartment in the BCD ranges between \$6,000 and \$7,000 per sqm, but it noted that prices in this area fell over the past 12 months. Further, it said that the average price for a first floor apartment in Beirut's seafront neighborhoods, which extend from Ain el Mreisseh to Ramlet el Baida, ranges between \$4,583 and \$6,925 per sqm. It noted that the reported prices also cover projects under construction on secondary streets in this area where certain apartments do not offer open sea views. It pointed out that prices are the lowest in Beirut's central neighborhoods that cover the area from Bachoura South towards Tarik el Jdideh with an average price of between \$2,088 and \$2,400 per sqm.

RAMCO indicated that the asking price for first floor apartments in buildings under construction in Beirut is the highest in the Foch/Allenby Street (\$7,000 per sqm), followed by the Manara area (\$6,925 per sqm), Minet El Hosn (\$6,914 per sqm), Raouché (\$6,800 per sqm), Saifi Village (\$6,663 per sqm), Ramlet El Baida (\$6,451 per sqm), the Grand Serail (\$6,250 per sqm), Wadi Abou Jamil and Rizk Tower (\$6,000 per sqm each) and Sursock (\$5,250 per sqm). In contrast, the asking price for first floor apartments in buildings under construction in Beirut is the lowest in Noueiri, followed by the Beirut Arab University area (\$2,140 per sqm), Basta (\$2,182 per sqm), Hamad/Rawas (\$2,197 per sqm), Malaab al Baladi (\$2,225 per sqm), Bachoura (\$2,260 per sqm), Makassed (\$2,313 per sqm), Borj Abi Haidar (\$2,325 per sqm), Barbour (\$2,346 per sqm) and Kaskas (\$2,400 per sqm). The survey covered 346 buildings that are currently under construction in 71 neighborhoods in Beirut.

CAGR of Broadband Penetration in 2009-14



Source: ITU, Byblos Research

Occupancy rate at Beirut hotels at 56%, room yields up 17% in the first half of 2015

EY's benchmark survey of the hotel sector in the Middle East indicated that the average occupancy rate at hotels in Beirut was 56% in the first half of 2015, up from 50% in the same period of 2014 and compared to an average rate of 64.1% in 12 Arab markets included in the survey. The occupancy rate at Beirut hotels was the sixth lowest in the region in the covered period, while it was the second lowest, along with Manama, in the first half of 2014. Manama posted the lowest occupancy rate of 47% in the first half of 2015, followed by Cairo (48%), Makkah (52%), Amman (54%) and Kuwait City (55%). Also, the occupancy rate at hotels in Beirut rose by six percentage points year-on-year, constituting the second highest increase among the 12 Arab markets, behind only Cairo (+16%) and relative to an average drop of 0.6 percentage points for the region. Occupancy rates at Beirut hotels were 50% in January, 55% in February, 54% in March, 56% in April, 61% in May and 57% in June 2015, compared to 36% in January, 41% in February, 40% in March, 51% in April, 61% in May and 68% in June 2014.

The average rate per room at Beirut hotels was \$176 in the first half of 2015, ranking the capital's hotels as the fourth least expensive in the region, relative to Amman (\$155), Makkah (\$136) and Cairo (\$104). The average rate per room at Beirut hotels rose by 4.6% year-on-year and posted the fifth highest growth rate among all markets in the region, as it underperformed only Makkah (+49.9%), Cairo (+30.5%), Madina (+21.6%) and Doha (+6.3%). The average rate per room in Beirut came below the regional average of \$203.8, which rose by 2.6% from the same period of 2014.

Further, revenues per available room (RevPAR) were \$99 in Beirut in the first half of 2015, up from \$84 in the same period of 2014, and came in eighth place in the region, higher than Manama (\$94), Amman (\$85), Makkah (\$71) and Cairo (\$51). Beirut's RevPAR surged by 17.1% year-on-year and posted the fourth highest increase among Arab markets, relative to a growth rate of 95% in Cairo, 24.3% in Makkah and 21.7% in Madina. Beirut posted RevPARs of \$92 in January, \$93 in February, \$91 in March, \$99 in April, \$111 in May and \$104 in June 2015, compared to \$64 in January, \$68 in February, \$57 in March, \$88 in April, \$103 in May and \$125 in June 2014. Further, Kuwait posted the highest average rate per room in the region at \$273, while Dubai posted the highest occupancy rate at 83% and the highest room yield at \$226 in the first half of 2015.

Payment cards reach 2.5 million at end-March 2015, ATMs total 1,630

Figures released by the Central Bank show that the number of payment cards issued in Lebanon reached 2,510,607 cards at the end of March 2015, constituting a 3.2% increase from the end of 2014 and a 9.2% rise from the end of March 2014. Cards held by residents accounted for 97.4% of total cards issued in Lebanon at end March-2015. The distribution of payment cards by type shows that debit cards with residents reached 1,212,509 and accounted for 48.3% of the total, followed by prepaid cards with resident at 572,732 (22.8%), credit cards with residents at 511,012 (20.4%), charge cards with residents at 148,973 (5.9%), debit cards held by non-residents at 39,358 (1.6%), credit cards held by non-residents at 11,574 (0.5%), and charge cards held by non-residents at 8,016 and prepaid cards held by non-residents at 6,433 (0.3% each).

Further, the aggregate number of points-of-sales accepting payment cards reached 38,222 at the end of March of 2015, and increased by 1.8% on a quarterly basis and by 5.4% on an annual basis. In parallel, the number of ATMs totaled 1,630 at the end of March 2015, constituting a rise of 1.7% from the end of 2014 and an increase of 6.3% from the end of March 2014. The Greater Beirut area had 679 ATMs at end-March 2015, equivalent to 41.7% of the total, followed by Mount Lebanon with 515 ATMs (31.6%), the North with 160 ATMs (9.8%), the South with 126 ATMs (7.7%), the Bekaa with 122 ATMs (7.5%) and Nabatieh with 28 ATMs (1.7%).

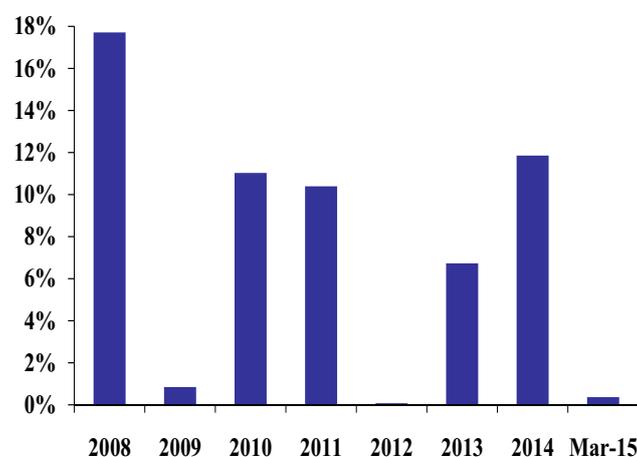
Hotel Sector Performance in First Half of 2015

	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Dubai	83	226	(7.8)
Jeddah	75	205	0.4
Doha	74	187	8.2
Abu Dhabi	79	157	(1.2)
Madina	78	154	21.7
Kuwait City	55	151	(3.8)
Riyadh	68	149	(6.5)
Beirut	56	99	17.1
Manama	47	94	(12.7)
Amman	54	85	(22.4)
Makkah	52	71	24.3
Cairo	48	51	95.0

Source: EY, Byblos Research

Payment cards reach 2.5 million at end-March 2015, ATMs total 1,630

Growth in the Number of Credit Cards Held by Residents



Source: Central Bank of Lebanon, Byblos Research

Industrial activity regresses in first quarter of 2015

The Central Bank's quarterly business survey shows that industrial production regressed in the first quarter of 2015, as the balance of opinions stood at -15 compared to -5 in the fourth quarter of 2014 and -8 in the same quarter last year. The balance of opinions was the lowest in the North at -29, followed by Beirut & Mount Lebanon (-20), the Bekaa (-6) and the South (+17). The business survey reflects the opinions of enterprise managers on the evolution of their businesses, in order to depict the evolution of a number of key economic variables. The balance of opinions for overall demand for industrial goods stood at -20 in the first quarter of 2015 compared to -9 in the preceding quarter and to -10 in the same quarter of 2014. The balance of opinions about demand for industrial goods was the lowest in the North at -33, followed by Beirut & Mount Lebanon (-28), the Bekaa (-8) and the South (+11).

In parallel, the balance of opinions for the volume of investments in the industrial sector stood at -14 in the first quarter of 2015 compared to +1 in the preceding quarter and zero in the same quarter of 2014. The balance of opinions about the volume of investments was the lowest in the North at -29, followed by the South (-21), Beirut & Mount Lebanon (-18) and the Bekaa (+11). Also, the balance of opinions for foreign demand of industrial goods stood at -20 during the first quarter of 2015 compared to -14 in the preceding quarter and -11 in the first quarter of 2014. The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in a particular indicator and the proportion of those who reported a decline in the same indicator.

Industrial Activity: Evolution of opinions				
Aggregate results	Q1-12	Q1-13	Q1-14	Q1-15
Production	-24	-8	-8	-15
Total demand	-24	-10	-10	-20
Foreign demand	-25	-24	-11	-20
Volume of investments	-4	0	0	-14
Inventories of finished goods	-11	-3	-5	-15
Inventories of raw material	-7	0	-3	-10
Registered orders	-16	-11	-13	-21

Source: Central Bank Business Survey for First Quarter 2015

ESFD guaranteed 125 loans in second quarter of 2015

The Economic & Social Fund for Development (ESFD) indicated that the total number of loans to small- and medium-sized enterprises that it guaranteed through a network of commercial banks reached 125 for a total of LBP3.1bn or \$2.1m in the second quarter of 2015. The total number of loans guaranteed by the ESFD reached 8,540 for an aggregate value of LBP144bn or \$95.5m between 2003 and June 2015. The ESFD claims that it has helped create 6,259 new jobs since 2003. It added that the number of loans that it has guaranteed through banks to the services sector reached 3,303, or 38.7% of total loans, followed by the trade sector with 3,096 loans (36.3%), the industrial sector with 1,251 loans (14.6%) and the agricultural sector with 890 loans (10.4%). On a regional basis, Mount Lebanon benefited from 27.7% of the total number of loans guaranteed by the ESFD, followed by Nabatieh (23.5%), the North (18.1%), the South (13.3%), the Bekaa (12.7%) and Beirut (4.8%). The ESFD guarantees 50% of the loan principal and accrued interest for 120 days.

The ESFD aims to alleviate poverty and mitigate the social impact on disadvantaged groups in Lebanon. It provides financial and technical support to small- and medium-sized enterprises through financial intermediaries to finance projects in poor regions of the country. The ESFD was established in November 2000 upon the signing of a financing agreement between the European Commission and the Lebanese government through the Council for Development & Reconstruction. The ESFD is funded by the European Union and the Lebanese government.



Byblos Bank's net profits at \$70m in the first half of 2015

Byblos Bank sal, one of the top banking and financial services groups in Lebanon, declared unaudited net profits of \$70.1m in the first half of 2015, constituting an increase of 1.1% from \$69.4m in the same period of 2014. Net interest income reached \$127.8m in the first half and grew by 8.8% from \$117.5m in the same period of 2014; while net fees & commissions income stood at \$40.5m relative to \$45.2m in the first half of last year. Net operating income totaled \$222.4m in the first half of 2015, reflecting a rise of 11.7% from \$199m in the same period of 2014. Total assets reached \$19.2bn at the end of June 2015 and grew by 0.7% from \$19bn at end-2014. Net loans & advances to customers totaled \$4.7bn at the end of June, constituting a decrease of 0.9% from end-2014. They included \$18.4m in net loans & advances to related parties that declined by 0.8% from end-2014.

Byblos Bank maintained strong financial buffers to mitigate unexpected risks and counter economic volatility. The Bank's net nonperforming loans, or NPLs net of specific provisions and reserved interest, were equivalent to 1.35% of net loans at the end of June 2015. Also, the NPL coverage ratio, including collective provisions, was 113.4% at the end of June 2015. The Bank's capital adequacy ratio stood at 16.7% at end-2014 according to Basel III criteria, which is significantly above the minimum regulatory requirements of 11.5% for 2014 and 12% for 2015, and one of the highest such ratios in the Lebanese banking sector. Also, the Bank's immediate liquidity with commercial banks and central banks stood at \$9.5bn at the end of June, representing 50% of the Bank's aggregate assets.

The Bank's deposits totaled \$15.95bn at the end of June 2015, up by 1.5% from the end of 2014. They included \$249.7m in deposits from related parties that rose by 20.3% from end-2014. The Bank's shareholders' equity reached \$1.62bn at the end of June 2015. The Byblos Bank Group has a direct presence in Iraq, Syria, Sudan, the United Arab Emirates, Nigeria, Armenia and the Democratic Republic of Congo, as well as in Belgium, France, the United Kingdom and Cyprus.

Stock market activity up 53% to \$378m in first seven months of 2015

Figures released by the Beirut Stock Exchange indicate that total trading volume reached 48.2 million shares in the first seven months of 2015, constituting an increase of 43.9% from 33.5 million shares traded in the same period of 2014; while aggregate turnover amounted to \$378.4m, up by 53.2% from a turnover of \$247m in the first seven months of 2014. Market capitalization increased by 4.6% from end-July 2014 to \$11.4bn, with banking stocks accounting for 80.8% of the total, followed by real estate shares (16.1%), industrial equities (2.8%) and trading stocks (0.3%). The market liquidity ratio was 3.3% compared to 2.3% in the first seven months of 2014. Banking stocks accounted for 90.5% of aggregate trading volume in the first seven months of this year, followed by real estate equities with 9.2%, industrial shares with 0.2% and trading stocks with 0.1%. Also, banking stocks represented 86.2% of the aggregate value of shares traded, followed by real estate equities with 13.3% and industrial stocks with 0.4%. In parallel, the average daily traded volume for the period was 339,152 shares for an average daily value of \$2.7m. The figures reflect increases of 41.9% in volume and 51% in value year-on-year.

SGBL issues preferred shares

Société Générale de Banque au Liban sal (SGBL) issued 10,000 Series 2015 Preferred Shares on July 28, 2015 for a total issuance of \$100m. The Series 2015 Preferred Shares are redeemable, non-cumulative and perpetual. The issue price is \$10,000 per share, of which LBP233,000 (\$154.6) is par value and the remaining \$9,845.4 constitute the issue premium. The newly-issued Preferred Shares carry an annual dividend rate of 7% of the issue price. The issuance resulted in an increase of the bank's capital by LBP2.33bn, from LBP21.91bn, equivalent to \$14.5m, to LBP24.24bn or \$16.1m. SGBL has the option to call the shares within 90 days after the Ordinary General Assembly meets to approve the financials for fiscal year 2019, and annually thereafter, at a redemption price of \$10,150 per share that includes a premium of 1.5% of the issue price, plus any declared but unpaid dividends. The bank would have to redeem and cancel a minimum of 25% of the outstanding Series 2015 shares in case it decides to exercise its call option.

SGBL posted unaudited consolidated net profits of \$39.1m in the first quarter of 2015 relative to \$38.7m in the same quarter last year. Its assets rose by 0.3% from end-2014 to \$15bn at the end of March 2015; while loans & advances to customers, excluding loans & advances to related parties, rose by 1.5% from end-2014 to \$3.67bn at end-March 2015. Also, customer deposits, excluding deposits from related parties, totaled \$11.28bn at end-March 2015, down by 0.4% from end-2014.

BML's profits up 6% to \$5.4m in 2014

Banque Misr Liban sal (BML) announced audited consolidated net profits of \$5.4m in 2014, up 6% from \$5.1m in 2013. Net operating income rose by 6.5% year-on-year to \$27m in 2014, with net interest income increasing by 8.1% to \$21.1m and net fees & commissions receipts rising by 1.9% to \$3.2m. Total operating expenditures increased by 6.8% to \$20.2m, with staff expenses rising by 7.4% to \$11.4m. The cost-to-income ratio rose to 74.8% in 2014 from a ratio of 71.3% in 2013. The bank's return on assets reached 0.4% in 2014 relative to 0.43% in 2013, while its return on equity was 5.31% last year, up from 5.17% in 2013.

In parallel, total assets reached \$1.35bn at the end of 2014, constituting a 13.7% increase from \$1.18bn at end-2013; while loans & advances to customers, excluding loans & advances to related parties, grew by 30.7% year-on-year to \$252.3m. Also, customer deposits, excluding deposits to related parties, totaled \$1.1bn at end-2014, growing by 12.2% from a year earlier. Total shareholders' equity grew by 3.1% year-on-year to \$101.1m at end-2014.



Aggregate profits of listed banks up 7% in first half of 2015

Financial results issued by the six banks listed on the Beirut Stock Exchange show that their aggregate net profits reached \$582.3m in the first half of 2015, constituting a rise of 6.8% from net earnings of \$545.5m in the same period last year. The banks' net profits reached \$303.1m in the second quarter and \$279.2m in the first quarter of 2015. Further, the banks' aggregate pre-tax profits grew by 5.2% year-on-year to \$644.8m in the first half of 2015. The aggregate net interest income of the six banks reached \$1.1bn in the first half of 2015, up by 10.4% from \$966.3m in the same period of 2014; while their receipts from total net fees and commission increased by 4.3% year-on-year to \$289.7m. The total operating income of listed banks reached \$1.6bn in the first half of 2015, up by 5.7% from \$1.5bn in the same period last year.

In parallel, the aggregate assets of the publicly-listed banks grew by 1.7% from the end of 2014 and by 5.9% from end-June 2014 to \$112.6bn; while their total loans, including those to related parties, regressed by 0.3% from end-2014 and rose by 4.2% from a year earlier to \$35.5bn. Also, total deposits, including those from related parties, increased by 2% from end-2014 and by 5.9% from the end of June 2014 to \$94.1bn. The banks' aggregate shareholders' equity reached \$9.8bn, at the end of June 2015, and reflected a decrease of 1.8% from end-2014.

The six banks' aggregate loans-to-deposits ratio stood at 37.7% at the end of June 2015, down from 38.6% at end-2014 and from 38.3% at end-June 2014. BLOM Bank had the lowest loans-to-deposits ratio at 28.4% compared to 28.8% at end-June 2014; followed by Byblos Bank with a ratio of 29.4% at end-June 2015 relative to 30.2% a year earlier, Bank of Beirut with 35.8%, down from 38.4% at end-June 2014; BLC Bank with 43% at end-June 2015 compared to 44.5% a year earlier; Bank Audi with 47.2%, unchanged from end-June 2014; and Banque BEMO with 53.1% compared to 51.3% a year earlier. Further, the banks' collective cost-to-income ratio was nearly unchanged at 50.1% in the first half of 2015 relative to 50.2% in the same period last year, with BLOM Bank posting the lowest cost-to-income ratio among listed banks at 40.3% in the first half of 2015.

Results of Listed Banks in First Half 2015						
	Byblos	BLOM	Audi	BoB	BEMO	BLC
Net Profits (\$m)	70.1	190.4	202.1	88.64	7.97	23.14
% Change*	1.1%	6.2%	6.5%	13.8%	33.2%	-0.6%
Total Assets (\$bn)	19.17	28.62	42.31	15.39	1.57	5.52
% Change**	0.7%	2.3%	0.8%	3.2%	6.7%	2.7%
Loans (\$bn)	4.68	7.02	17.03	4.14	0.69	1.89
% Change**	-0.9%	1.6%	-0.8%	-0.8%	8.0%	-2.4%
Deposits (\$bn)	15.95	24.75	36.11	11.56	1.31	4.40
% Change**	1.5%	3.1%	0.8%	3.7%	7.7%	2.7%

*Year-on-year

**Change from end-2014

Source: Banks' financial statements, Byblos Research

MetLife Alico's net income up 13% to \$38m in FY2014

MetLife Alico, the largest provider of life insurance products in Lebanon, announced audited net profits of \$37.6m for the fiscal year ending in November 2014, constituting a rise of 13.4% from net earnings of \$33.2m in the same period of 2013. Its audited balance sheet for Lebanon shows total assets of \$567.3m at the end of November 2014, up 2.3% from a year earlier. On the assets side, general company investments totaled \$140.6m and decreased by 9.8% from end-November 2013. They included \$78.6m in fixed income investments; \$36m in blocked bank deposits and deposits with maturity of more than three months, of which \$8.5m were blocked in favor of the Economy Ministry as guarantees; \$9.7m in land and real estate; \$9.4m in cash and cash equivalent and \$5.2m in policy loans.

Also, unit-linked contract investments totaled \$405.6m at end-November 2014, reflecting an increase of 6.5% from \$381m a year earlier. They included \$200.6m of placements in mutual funds, \$122.3m in fixed income investments and \$82.7m in cash & similar investments. Cash & similar investments grew by 14.4%, while unit-linked investment in mutual funds rose by 7.1% and investments in fixed income instruments increased by 0.7% year-on-year. Reinsurance share in technical reserves for the life and non-life categories amounted to \$4.8m and \$3.8m, respectively, constituting increases of 7.1% and 5.3%, respectively, from end-November 2013.

On the liabilities side, unit-linked technical reserves reached \$411.8m at end-November 2014, constituting a rise of 6.3% from a year earlier. Also, technical reserves for the life segment declined by 6.8% year-on-year to \$73.1m, while technical reserves for the non-life category reached \$23.7m at end-November 2014 and decreased by 5.6% from a year earlier. In parallel, shareholders' equity totaled \$37.6m at end-November 2014, up 13.4% from a year earlier. Further, provisions for risks and charges reached \$1.9m, rising by 45.4% from end-November 2013.

Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked MetLife Alico in first and 10th place in 2014 in terms of life and non-life premiums, respectively. The firm's life premiums reached \$78.4m and non-life premiums amounted to \$30.2m, constituting increases of 4.4% and 10.5%, respectively. It had a 17.7% share of the life market and a 2.9% share of the local non-life market in 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



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