

LEBANON THIS WEEK

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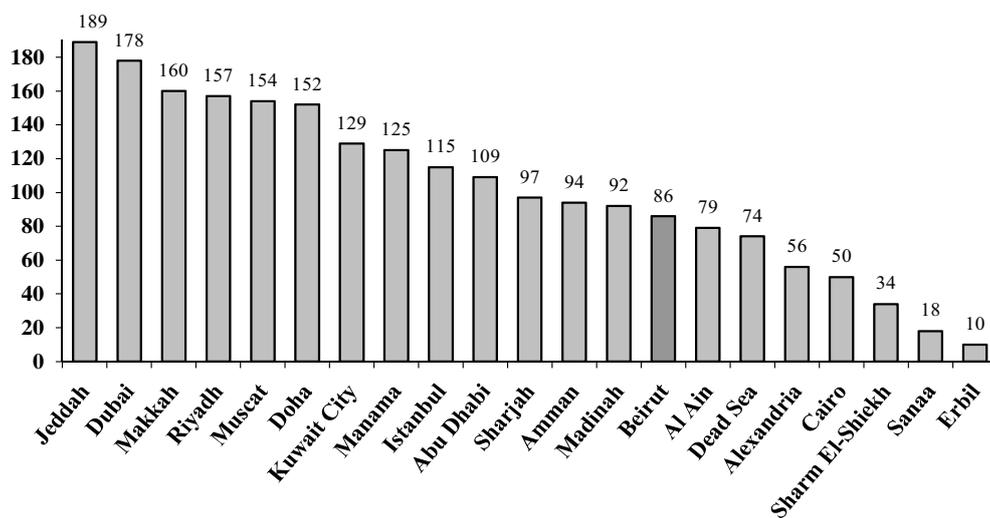
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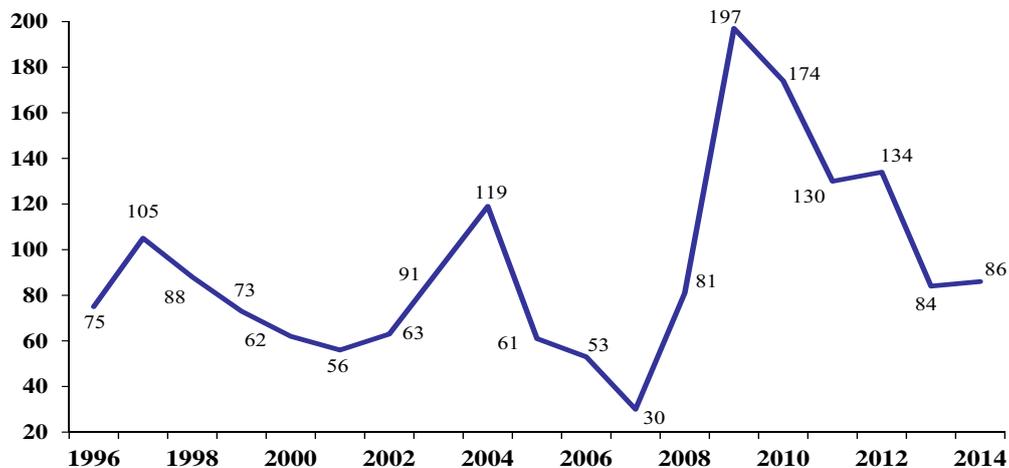
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Charts of the Week

Average Revenues Per Available Room at Hotels in Arab Cities in 2014 (US\$)



Average Revenues Per Available Room at Hotels in Beirut (US\$)



Source: HVS, Byblos Bank

Quote to Note

"Lebanon's weak infrastructure base has curtailed economic development and the population's well-being."

The World Bank, on the opportunity cost of the deterioration in the quality of the country's infrastructure

Number of the Week

1.28%: The spread between the weighted average cost of funds and the weighted return on the uses of funds in US dollars at commercial banks in Lebanon as at June 2015, according to the Association of Banks in Lebanon

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 %
Audi Listed	5.93	(3.89)	154,973	20.93%	Jan 2016	8.500	102.63	2.66
Solidere "A"	10.99	(1.17)	63,549	9.71%	Mar 2017	9.000	108.10	3.82
BLOM Listed	9.50	(1.04)	40,313	18.04%	Nov 2018	5.150	101.38	4.70
Audi GDR	6.00	0.00	30,162	6.16%	May 2019	6.000	103.50	4.98
Solidere "B"	10.94	(1.80)	13,619	6.28%	Mar 2020	6.375	104.50	5.26
BLOM GDR	10.10	1.20	10,280	6.59%	Apr 2021	8.250	113.30	5.50
Byblos Common	1.63	1.87	3,087	5.17%	Oct 2022	6.100	102.38	5.70
HOLCIM	15.10	(0.33)	1,082	2.60%	Jun 2025	6.250	101.13	6.10
Byblos Pref. 09	102.00	0.00	232	1.80%	Nov 2026	6.600	103.00	6.23
Byblos Pref. 08	101.10	(0.39)	200	1.79%	Feb 2030	6.650	102.25	6.41

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

Source: Byblos Bank Capital Markets

	August 3-7	July 27-31	% Change	July 2015	July 2014	% Change
Total Shares Traded	357,534	356,033	0.42	3,371,034	3,616,820	(6.81)
Total Value Traded	\$3,620,052	\$3,487,739	3.79	\$28,058,062	\$19,622,207	42.99
Market Capitalization	\$11.32bn	\$11.44bn	(1.02)	\$11.44bn	\$10.94bn	4.58

Source: Beirut Stock Exchange (BSE)



One-third of firms in Lebanon expect to make informal payments to secure a government contract

The World Bank's Enterprise Survey on bribery in public institutions and administrations shows that 19.2% of firms operating in Lebanon experience at least one bribe payment request when applying for an electricity license, a water connection, a construction-related permit, an import or operating license, or when meeting with tax officials. The percentage of firms that face bribe payment requests in Lebanon is the 50th highest among 135 countries globally and the fifth highest among 11 countries in the Middle East & North Africa (MENA) region. In addition, the survey noted that 61.4% of surveyed firms in Lebanon identified corruption as a major constraint to their operations, compared to 35.2% of firms globally and 53.2% of firms in the MENA region who shared the same opinion.

Globally, the percentage of firms that face bribe payment requests in Lebanon is similar to that in Togo (19.1% of firms), is higher than in Algeria and Montenegro (18.8% each) and in Ghana (18.7%); while it is lower than in Tanzania (20.8%), in Albania (19.5%) and in Côte d'Ivoire and Jamaica (19.3% each). Also, the share of firms that face bribe payment requests in Lebanon is lower than that in Syria (69.6%), Yemen (64.3%), and Iraq and Morocco (37.3% each) in the MENA region. In comparison, 18.1% of firms around the world and 24% of companies in the MENA region experience at least one bribe payment request when dealing with utilities access, permits, licenses and taxes.

The survey captures the prevalence of different types of bribery among countries worldwide. The World Bank said bribery occurs when businesses are forced to make unofficial payments or gifts to "get things done". The results are based on surveys of business owners and top managers of more than 130,000 firms worldwide. The sample in Lebanon covered 561 firms that include 264 micro- and small-sized enterprises, 207 medium-sized firms and 90 large companies. Also, 42.6% of surveyed firms in Lebanon are in the manufacturing sector, 18.7% are in the retail sector, while 38.7% are active in other sectors. In addition, 91% of surveyed firms in Lebanon are domestically-owned.

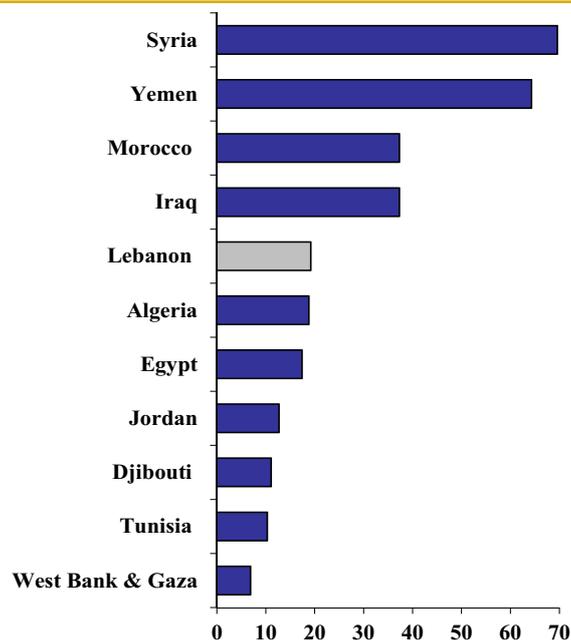
The survey indicated that 41.8% of firms operating in Lebanon expect to give gifts or make informal payments in order to get a construction permit and 17.3% of companies expect to do the same to acquire an electricity connection. Also, 11.8% of firms operating in Lebanon expect to give gifts to secure an operating license; 9.8% of companies expect to make informal payments to get a water connection, and 9.6% of firms expect to do the same to secure an import license. In addition, the survey showed that 14.6% of firms operating in Lebanon expect to give gifts or make informal payments during meetings with tax officials, the 48th highest percentage globally and the sixth highest regionally. Further, the survey pointed out that 20.9% of firms in Lebanon give gifts or make informal payments to public officials to "get things done" with regard to customs, taxes, licenses, regulations and services, relative to 19.7% of firms globally and 18.7% of companies regionally.

Also, the survey pointed out that 30.2% of firms in Lebanon give gifts or make informal payments to public officials to secure a government contract, the 62nd highest percentage globally. This percentage is higher than that in Sri Lanka (29.8%) and lower than that in Bolivia (30.7%) worldwide; while it is higher than that of the West Bank & Gaza (17.6%), Egypt (14.3%) and Jordan (14.1%) in the region. In comparison, 27.2% of companies around the world and 40.3% of firms in the MENA region expect to give gifts or make informal payments to public officials to secure a government contract.

Value of cleared checks down 6.4%, returned checks up 11% in first half 2015

The value of cleared checks reached \$34.7bn in the first half of 2015, constituting a decrease of 6.4% from the same period of 2014, compared to increases of 4.5% in the first half of 2014 and of 2.1% in the same period of 2013. The value of cleared checks in Lebanese pounds rose by 1.4% year-on-year to the equivalent of \$9.1bn, while the value of cleared checks in US dollars declined by 9% annually to \$25.6bn in the first half of 2015. The dollarization rate of cleared checks decreased to 73.7% from 75.8% in the first half of 2014. Also, the value of returned checks in domestic and foreign currency grew by 11% year-on-year to \$794m in the first half of 2015, relative to decreases of 2.7% in the same period of 2014 and of 4% in the first half of 2013. In parallel, there were 6.2 million cleared checks in the first half of 2015, down by 3.6% from the same period last year. Also, there were 118,800 returned checks in the covered period, down by 2.2% from 121,500 in the first half of 2014.

Bribery Incidence
(% of firms facing bribe payment requests)



Source: World Bank, Byblos Research

Lebanon's external debt posts 21st highest return in emerging markets, fifth highest in the Middle East & Africa

Figures issued by Merrill Lynch indicate that Lebanon's external debt posted returns of 3.57% in the first seven months of 2015, constituting the 11th highest return among 38 markets in the Central & Eastern Europe and the Middle East & Africa (CEEMEA) region, as well as the 21st highest return among the 70 emerging markets included in Merrill Lynch's External Debt EM Sovereign Index. Lebanon outperformed the overall emerging markets return of 1.53% during the covered period. Further, Lebanon's external debt posted the fifth highest return among 22 countries in the Middle East & Africa region in the first seven months of 2015, behind only Ghana (+6.18%), Senegal (+5.66%), Namibia (+5.27%) and Rwanda (+4.37%).

In parallel, Lebanon's external debt posted returns of 0.61% in July 2015, constituting the 17th lowest return in the CEEMEA region and the 33rd highest return in emerging markets during the covered month. Lebanon's external debt was similar to the overall emerging markets returns, while it underperformed those of the CEEMEA region of 0.9% and outperformed the -0.05% return posted by 'B'-rated sovereigns in July 2015.

Further, Lebanon's external debt posted the ninth highest return in the Middle East & Africa region in July 2015. It outperformed Egypt (+0.53%), Bahrain (+0.26%), Morocco (+0.22%), Turkey (+0.02%), Tunisia (-0.4%), Angola (-0.52%), Iraq (-1.21%), the Ivory Coast (-1.37%), Nigeria (-1.41%), Kenya (-2.22%), Gabon (-2.45%) and Zambia (-3.36%); while it underperformed Ghana (+2.69%), Rwanda (+1.64%), Senegal (+1.18%), Israel (+1.08%), South Africa (+0.76%), the UAE (0.73%), Namibia (+0.69%) and Qatar (+0.65%).

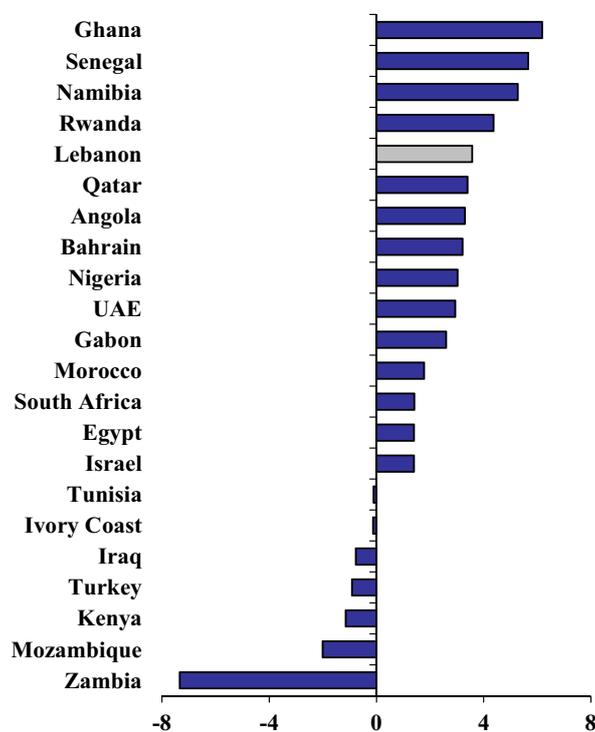
Merrill Lynch indicated that the spread on Lebanese Eurobonds ended July 2015 at 391 basis points, constituting the 18th widest spread in the CEEMEA region and the 29th widest among emerging markets. It was wider than the emerging markets' overall spread of 313 basis points at the end of July 2015. Lebanon has a weight of 3.38% on Merrill Lynch's External Debt EM Sovereign Index, the fifth largest weight in the CEEMEA universe and the 10th biggest among emerging economies. Lebanon accounted for 6.2% of allocations in the CEEMEA region.

Smartphone usage in Lebanon on the rise

A survey conducted by opinion polling firm IPSOS-STAT shows that smartphone penetration in Lebanon, which is the share of smartphone owners among the total population, was 70% in 2014, relative to penetration rates of 63% in 2013 and 36% in 2012. In comparison, smartphone penetration in the UAE stood at 91% last year, that in Kuwait was 86%, that in Saudi Arabia reached 79%, and that in Egypt stood at 12%. Lebanon's smartphone penetration rate rose by 34 percentage points between 2012 and 2014, the second highest increase among the five Arab countries with available data, behind only Kuwait (+37 percentage points). In comparison, the penetration rate in the UAE increased by 30 percentage points during the covered period, that in Saudi Arabia rose by 16 percentage points and Egypt's penetration rate improved by seven percentage points. Also, 90% of smartphone owners in Lebanon had mobile Internet on their device in 2014, up from 85% in 2013 and 74% in 2012, and compared to a share of 96% in each of the UAE and Kuwait, 87% in Saudi Arabia and 64% in Egypt. The share of smartphone owners in Lebanon with Internet on their device rose by 16 percentage points between 2012 and 2014, the second highest increase among the five Arab countries, similar to Saudi Arabia and lower than only the UAE (+19 percentage points). In comparison, the share of smartphone owners with Internet on their device improved by 12 percentage points in Kuwait and fell by four percentage points in Egypt during the covered period.

In parallel, the survey showed that 92% of Lebanese use their mobile phone while watching television, the highest such share among the five Arab countries and relative to 80% in the UAE, 77% in Saudi Arabia, 74% in Kuwait and 28% in Egypt. In addition, 12% of Lebanese use their computers while watching television and 4% use their tablets. The survey's results are based on face-to-face interviews with about 2,500 persons in Lebanon during the fourth quarter of 2014.

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



Source: Merrill Lynch, Byblos Research

Beirut is the 239th most expensive city in the world, fourth most expensive among Arab cities

The Consumer Price Index (CPI), produced by crowd-sourced global database Numbeo, ranked Beirut as the 239th most expensive city among 516 cities around the world in the first half of 2015, as well as the third most expensive among 106 cities in upper middle-income countries (UMICs) and the fourth most expensive among 22 Arab cities. Numbeo assesses the cost of living in each city based on the CPI and the Rent Index, and benchmarks both indices against New York City. The CPI is a relative indicator of the prices of consumer goods that cover groceries, restaurants, transportation and utilities. Numbeo relies on user inputs and manually collected data from official sources to compute the indices.

According to the CPI, the cost of consumer goods in Beirut is higher than in Albuquerque in the U.S., Kitchener in Canada and Larnaca in Cyprus, while it is lower than in Corfu in Greece, Kelowna in Canada and Akron in the U.S. Also, the cost of consumer goods in Beirut is lower than only in Luanda in Angola and Buenos Aires in Argentina among UMICs, while it is lower than in Doha, Dubai and Dammam among Arab cities. In parallel, Hamilton in Bermuda was ranked as the most expensive city and Thiruvananthapuram in India as the least expensive city globally. Beirut received a score of 66.7 points, which means that prices in Beirut are 33.3% less expensive than in New York City.

In parallel, the Rent Index, which is an estimate of the rent for apartments in a given city compared to New York City, ranked Beirut in 91st place globally and in fourth place among UMICs' cities and among Arab cities. Globally, renting an apartment in Beirut is more expensive than in Dallas in the U.S., and Southampton and Coventry in the United Kingdom, while it is less expensive than in the city of Houston in the U.S., Shanghai in China and Ulaanbaatar in Mongolia. Also, apartment rents in Beirut are less expensive than rents in only Luanda, Beijing and Shanghai among UMICs' cities, while they are lower than rents in Doha, Dubai and Abu Dhabi in the region. Monaco has the highest apartment rents in the world, while rent in Amritsar in India is the lowest globally. Lebanon received a score of 34.9 points on the index, which means that rent in Lebanon is 65.1% less expensive than in New York City.

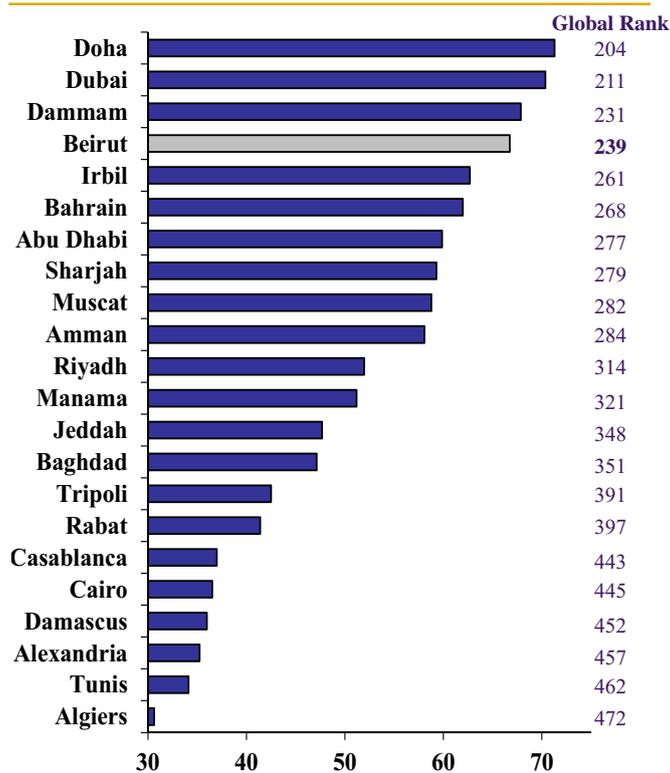
Further, the Groceries Index, which is an estimate of grocery prices in a city compared to New York City, ranked Beirut in 291st place globally, in 18th place among UMICs' cities and in eighth place among Arab cities. Lebanon received a score of 48.1 points, which means that grocery prices in Beirut are 52% less expensive than they are in New York City. Also, the Restaurant Index, which compares the prices of meals and drinks at restaurants and bars relative to New York City, ranked Beirut in 214th place globally, and in third place among UMICs and Arab cities. Lebanon received a score of 70 points on the index, which means that prices at restaurants and bars in Beirut are 30% less expensive than they are in New York City.

Six international companies to participate in tender for the management of mobile phone networks

The Ministry of Telecommunications announced that seven firms have applied to take part in the 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). The ministry accepted the applications of the U.K-based Vodafone; the French telecommunications firm Orange; Detecon, which is fully owned by Deutsche Telekom; Malaysia-based Maxis; and Turkcell; as well as Zain that currently operates MIC 2. In parallel, the ministry rejected the application of Orascom Telecom, which currently operates MIC 1, on the ground that the firm did not meet the application deadline. It said that the tender will take place on September 8, 2015.

In 2013, the Ministry of Telecommunications announced plans to launch the tender but, since then, the government has repeatedly renewed the contracts of the current mobile phone operators. Zain has been running MIC 2 since June 2004 under the brand Touch, and Orascom Telecom has been managing MIC 1 since January 2008 under the Alfa brand. The conditions to qualify for the tender stipulate that telecom firms must have provided mobile services to at least 10 million subscribers over the past five years, with three million of them on the same network. The firm must also have assets of at least \$5bn, 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.

Consumer Price Index in Arab Cities



Source: Numbeo, Byblos Research

Central Bank to facilitate mergers between small- and medium-sized banks

Governor Riad Salamé indicated that the Central Bank will facilitate mergers or acquisitions between commercial banks in Lebanon, but he reiterated his stance about opposing mergers or acquisitions among the country's largest banks. He stated that small- and medium-sized banks in Lebanon are coming under pressure from the rising cost of regulatory compliance requirements. He added that banks are required to set-up a compliance department and to take various measures to conform to the regulations imposed by the Central Bank and the United States, as well as to other international regulatory requirements, and to preserve their relationships with correspondent banks. He pointed out that compliance-related costs are increasingly becoming a financial burden on small- and medium-sized banks, and are negatively affecting the banks' profitability.

In parallel, Governor Salamé noted that commercial banks need to abide by U.S. laws in order to continue to conduct transactions in US dollars, given that the majority of the Lebanese banking sector's foreign operations are in US dollars and go through correspondent banks in the United States. He warned that correspondent banks will no longer conduct business with financial institutions that lack proper compliance procedures. In parallel, Governor Salamé indicated that the Lebanese banking sector could establish commercial ties with Iran and with banks in the country, when the international sanctions on Tehran are lifted. Further, he announced plans to launch a \$1bn economic stimulus package in 2016, given that the packages the Central Bank introduced in previous years were successful.

Finance Ministry to issue \$1.3bn Eurobond

The Ministry of Finance indicated that it is in the process of issuing a new Eurobond worth \$1.3bn to meet the government's financing needs in foreign currency for the remainder of 2015. It said that it asked Parliament to ratify in 2014 a law that would allow it to issue \$4.4bn in Eurobonds, which was supposed to cover a part of its financing needs for 2014 as well as \$3.5bn in foreign-funding requirements for 2015. But the Lebanese Parliament ratified in November 2014 a law that allows the government to issue up to \$2.5bn in foreign-currency debt. In February 2015, the Finance Ministry 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. As such, the ministry can only issue \$300m under the current law. But the ministry indicated that it will rely on previously ratified laws to issue the needed amounts.

In parallel, the Finance Ministry warned that delays in the approval and ratification of loans and grants extended to Lebanon from foreign parties could be canceled, given that they are associated with specific implementation and ratification deadlines. It indicated that there are 12 loan agreements for a total value of \$643m that need the approval of the Cabinet before being sent to Parliament for ratification. It added that the Cabinet forwarded to Parliament 14 loan agreements worth \$1.2bn that are still waiting the ratification of the legislative body. Further, the ministry pointed out that Lebanon has received nine grants for an aggregate value of \$172m that need to be ratified.

The French Development Agency rescinded on July 1, 2015 a EUR45m concessional loan to the Council for Development & Reconstruction and a EUR1.5m grant to the Ministry of Education & Higher Education that aimed to finance a project for the development of the educational system in Lebanon. Also, the French government canceled in December 2014 the disbursement of a EUR70m payment as part of a budgetary loan extended under the Paris III Conference as the Lebanese authorities failed to implement the reforms in the electricity sector that were conditional to the loan agreed upon in the 2008 conference. Further, the World Bank extended the deadline from July 20, 2015 until the end of 2015 for Lebanese authorities to approve a \$474m concessional loan to finance the Water Supply Augmentation project. The World Bank approved the project in September 2014, but the Lebanese Cabinet and Parliament failed to ratify it by the July 20 deadline.

Airport passengers up 9.5% in first seven months of 2015

Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures, transit) totaled 3,903,114 in the first seven months of 2015, constituting a rise of 9.5% from the same period last year. The total number of arriving passengers rose by 9.7% year-on-year to 1,999,755 in the first seven months of 2015, compared to increases of 5.2% in the same period of 2014 and of 1.2% in the first seven months of 2013. Also, the number of departing passengers rose by 9.3% year-on-year to 1,893,358 in the first seven months of 2015, relative to a decline of 4.5% in the same period of 2014 and an increase of 9.4% in the first seven months of 2013.

In parallel, the airport's aircraft activity rose by 5.3% year-on-year to 37,737 take-offs and landings in the first seven months of 2015, compared to an increase of 0.7% in the first seven months of last year and a decrease of 2.9% in the same period of 2013. Middle East Airlines had 13,496 flights in the first seven months of 2015, accounting for 35.8% of total aircraft movement at the HIA. It was distantly followed by Egyptian Airlines with 1,518 flights, or 4% of the total, Qatar Airways with 1,416 flights (3.8%), Turkish Airlines with 1,400 flights (3.7%), Fly Dubai with 1,268 flights (3.4%) and Iraqi Airways with 1,249 flights (3.3%). In parallel, the HIA processed 53,663 metric tons of cargo in the first seven months of 2015 that consisted of 53,375 tons of freight and 289 tons of mail.



Net public debt at \$59bn at end-June 2015

Lebanon's gross public debt reached \$69bn at the end of June 2015, constituting an increase of 3.7% from the end of 2014 and a rise of 5% from \$65.7bn at end-June 2014. Domestic debt totaled \$42.4bn at the end of June 2015, rising by 3.5% from end-2014 and by 7% year-on-year; while debt in foreign currency stood at \$26.6bn, constituting an increase of 4% from the end of 2014 and a rise of 2.1% from a year earlier. Local currency debt accounted for 61.4% of gross public debt at the end of June 2015 compared to 60.3% a year earlier, while foreign currency-denominated debt represented the balance of 38.6% relative to 39.7% a year earlier. The weighted interest rate on outstanding Treasury bills was 6.92% and that on Eurobonds was 6.48% at the end of June 2015. Further, the weighted life on Eurobonds was 5.79 years, while that on Treasury bills was 1,215 days. Commercial banks held 48.2% of the local public debt at the end of June 2015 compared to 52.8% a year earlier. They were followed by the Central Bank with 34.9%, up from 29.9% at end-June 2014; while public agencies, financial institutions and the public accounted for 16.9% of local debt compared to 17.4% at the end of June 2014.

In parallel, Eurobond holders, foreign private sector loans and special T-bills in foreign currencies accounted for 91.8% of foreign-currency denominated debt, followed by foreign governments with 4.2%, multilateral institutions with 3.7%, and Paris II loans with 0.3%. The net public debt, which excludes public sector deposits at the Central Bank and at commercial banks from overall debt figures, increased by 8.3% year-on-year to \$59.5bn. In parallel, the gross market debt accounted for about 65% of total public debt. Gross market debt is the total public debt less the portfolios of the Central Bank, the National Social Security Fund, bilateral and multilateral loans, as well as Paris II and Paris III related debt.

Construction and public work activity deteriorates in first quarter of 2015

The Central Bank's quarterly business survey shows that construction activity regressed during the first quarter of 2015, as the balance of opinions stood at -31, compared to -23 in the preceding quarter and to -14 in the same quarter of 2014. The balance of opinions indicates that construction activity was the lowest in the Bekaa region at -75, followed by Beirut & Mount Lebanon (-30), the South (-25) and the North (+2). The business survey reflects the opinions of enterprise managers about the evolution of their businesses, in order to depict the evolution of a number of key economic variables. The balance of opinions for public works stood at -37 in the first quarter of 2015, compared to -27 in the preceding quarter and to -19 in the first quarter of 2014. Opinions about the level of public works were the lowest in the Bekaa region at -55, followed by the North (-42), Beirut & Mount Lebanon (-29) and the South (zero).

In parallel, the balance of opinions for the portfolio of projects was -37 in the first quarter of 2015 relative to -36 in the preceding quarter and to -20 in the same quarter of 2014. The balance of opinions about the portfolio of projects was the lowest in the South at -43, followed by the Bekaa (-42), Beirut & Mount Lebanon (-35) and the North (-33). Also, the balance of opinions for general construction activity was -29 in the first quarter of 2015, compared to -22 in the preceding quarter and to -14 in the first quarter of 2014. Further, the balance of opinions for construction costs reached +26 in the covered quarter compared to +16 in the preceding quarter and to +19 in the same 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.

Construction and Public Work Activity: Evolution of Opinions				
Aggregate results	Q1-12	Q1-13	Q1-14	Q1-15
General activity	-21	-24	-14	-31
Construction	-16	-23	-14	-29
Public work	-33	-27	-19	-37
Portfolio of projects	-7	-19	-20	-37
Construction costs	34	31	19	26
Investments (% of yes)	29%	38%	32%	37%

Source: Central Bank Business Survey for First Quarter 2015

Treasury transfers to Electricité du Liban up 3% to \$2.1bn in 2014

Figures released by the Finance Ministry show that Treasury transfers to Electricité du Liban (EdL) totaled \$2.1bn in 2014, constituting a rise of 3.3% from \$2bn in the previous year. The ministry said that reimbursements to the Kuwait Petroleum Corporation (KPC) and to the Algerian energy conglomerate Sonatrach totaled \$2.07bn, or 99% of transfers in 2014, while EdL's debt servicing represented the balance of \$21.3m, or 1% of the total. It attributed the increase in transfers to a rise of \$89.3m, or 4.5%, in payments to KPC and Sonatrach during the year, which was partly offset by a decline of \$22.1m, or 50.9%, in debt servicing. The ministry said that the increase in payments to KPC and Sonatrach reflects a 30.5% year-on-year increase in the quantity of imported fuel oil and a 0.1% rise in oil prices at the time when the oil contracts were executed, which was partly offset by a 7.9% decline in the quantity of imported gas oil. Also, it pointed out that EdL contributed 3.2% of the repayments to the two oil suppliers in 2014 compared to 2.6% in 2013. EdL transfers accounted for 21.9% of primary expenditures in 2014, compared to 21% in 2013. They constituted the third largest expenditures item after debt servicing and salaries & wages in overall fiscal spending. EdL transfers were equivalent to 5.1% of GDP in 2012, and to 4.3% of GDP in each of 2013 and 2014.

Dr. François Bassil elected Chairman of Byblos Group, Mr. Semaan Bassil elected Chairman of Byblos Bank

The Board of Directors of Byblos Bank sal, one of the top banking and financial services groups in Lebanon, elected Dr. François Bassil as Chairman of the Byblos Group. The decision is in line with the resolution of the Extraordinary General Assembly of Shareholders held on May 15, 2015, which became effective upon the approval of the Central Council of the Central Bank of Lebanon on June 24, 2015. Further, the Board of Directors elected Mr. Semaan Bassil as Chairman of the Board and General Manager of Byblos Bank sal. The decisions are in line with the development of Byblos Bank's structure, contribute to its growth strategy in Lebanon and abroad, and reinforce the Bank's position among the leading banks in Lebanon.

The Byblos Group consists of Byblos Bank sal, Byblos Bank Europe, Byblos Bank Syria, Byblos Bank Africa, Byblos Bank Armenia, Byblos Bank RDC, Adonis Insurance and Reinsurance Company sal (ADIR), Adonis Insurance Company Syria (ADIR Syria), and Byblos Invest Bank, in addition to the Bank's branches in both Iraq and Cyprus and its two representative offices in the United Arab Emirates and Nigeria.

Byblos Bank indicated that it will continue to strengthen its financial performance by maintaining good asset quality and high levels of capital adequacy and liquidity. It added that it will pursue its plans for the improvement, development, simplification and automation of its procedures, as well as the adoption of the best practices and tools made available by modern technology to offer its customers optimal banking services.

Nine Lebanese banks among Top 1000 banks in the world

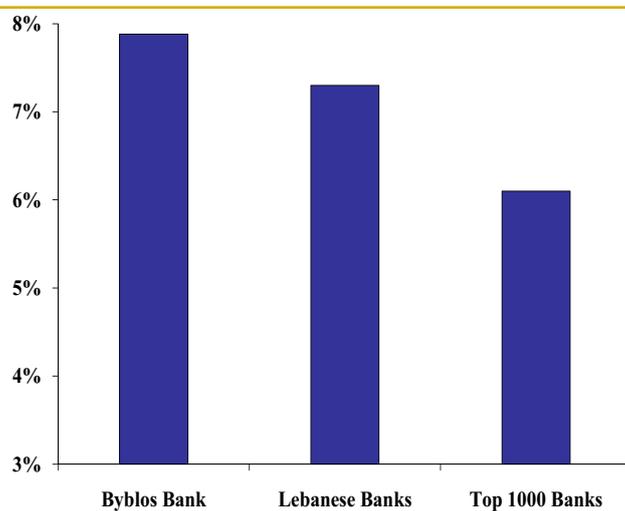
In its 2015 survey of the Top 1000 commercial banks in the world, The Banker magazine included nine Lebanese banks on the list, up from eight banks last year, none of which ranked among the top 25 banks in the Middle East. The list included Société Générale de Banque au Liban for the first time. The rankings are based on Tier One capital at year-end 2014. The Banker indicated that it changed its methodology this year and started to use the disclosed Tier One capital for banks that began implementing the Basel III framework. It noted that Basel III has clarified the rules about capital calculations, which previously varied widely across banks and jurisdictions.

The aggregate Tier One capital of the nine Lebanese banks totaled \$12.69bn at the end of 2014, constituting a rise of 12.1% from \$11.3bn end-2013. In comparison, the Tier One capital of the Top 1000 banks grew by 4.3% year-on-year, while that of the banks in the Middle East rose by 7.2%. Byblos Bank's Tier One capital-to-assets ratio reached 7.9% at the end of 2014, posting the highest such ratio among Lebanese banks in five out of the past six years. Also, Byblos Bank's ratio outperformed the nine Lebanese banks' combined Tier One capital-to-assets ratio of 7.3% and the Top 1000 banks' aggregate ratio of 6.1% at end-2014.

Bank Audi's Tier One capital reached \$2.64bn at the end of 2014 and accounted for 20.8% of the aggregate Tier One capital of the nine Lebanese banks included in the 2015 survey. It was followed by BLOM Bank with \$2.28bn or 18% of the total, Byblos Bank with \$1.5bn (11.8%), Fransabank with \$1.44bn (11.4%), Bank of Beirut with \$1.2bn (9.5%), BankMed with \$1.17bn (9.2%), Société Générale de Banque au Liban with \$947m (7.5%), Banque Libano-Française with \$875m (6.9%) and Crédit Libanais with \$637.6m (5%). Bank Audi ranked in 343rd place globally, followed by BLOM Bank (377th), Byblos Bank (506th), Fransabank (520th), Bank of Beirut (570th), BankMed (582nd), Société Générale de Banque au Liban (665th), Banque Libano-Française (698th) and Crédit Libanais (836th).

The cumulative pre-tax profits of the nine Lebanese banks reached \$2bn in 2014, up by 9% from the preceding year, and compared to a 7.8% increase in the gross earnings of the Top 1000 banks. The ratio of pre-tax profits-to-Tier One capital of the Lebanese banks reached 16.1% in 2014, down from 16.6% a year earlier, and compared to 14.37% for the Top 1000 banks. The nine Lebanese banks accounted for 0.18% of the Tier One capital of the Top 1000 banks, for 0.15% of their total assets and for 0.2% of their aggregate pre-tax profits. They also accounted for 4.7% of the Tier One capital of banks in the Middle East, for 7.1% of their total assets and for 5.4% of their aggregate pre-tax profits.

Tier One Capital-to-Assets Ratio at end-2014 (%)



Source: The Banker Magazine

Commercial banks' assets reach \$180bn at end of June 2015

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$180.1bn at the end of June 2015, constituting an increase of 2.5% from the end of 2014 and a rise of 6.2% from end-June 2014. Private sector deposits totaled \$148.6bn, growing by 2.9% from the end of 2014 and rising by 5.9% from a year earlier. Deposits in Lebanese pounds reached \$51.9bn and rose by 4.8% from the end of 2014 and by 8.8% from end-June 2014; while deposits in foreign currency totaled \$96.7bn, up by 1.9% from the end of 2014 and by 4.4% from a year earlier. Non-resident foreign currency deposits reached \$27.4bn at the end of June 2015 and increased by 3.7% from end-2014 and by 9.2% from a year earlier. The aggregate amount of nonresident deposits reached \$31.7bn at the end of June and rose by 4.5% from end-2014 and by 10.7% from a year earlier.

Total private sector deposits decreased by \$274m in January and increased by \$577.8m in February, by \$731.7m in March, by \$2bn in April, by \$393.4m in May, and by \$689.9m in June; while they dropped by \$1.3bn in January and rose by \$848.4m in February, by \$843.8m in March, by \$1.6bn in April, by \$650.7m in May, and by \$1.5bn in June 2014. As such, total private sector deposits rose by \$4.2bn in the first half of 2015 compared to an increase of \$4.1bn in the same period of 2014. In parallel, deposits of non-resident banks reached \$6.3bn at the end of June 2015, constituting increases of 8.6% from end-2014 and of 14.9% from a year earlier. The dollarization rate of deposits reached 65.1% at the end of June 2015, down from 66% at end-June 2014. Further, the average deposit rate in Lebanese pounds was 5.51% in June 2015 relative to 5.49% in the same month of 2014, while the same rate in US dollars was 3.16% compared to 2.98% in June 2014.

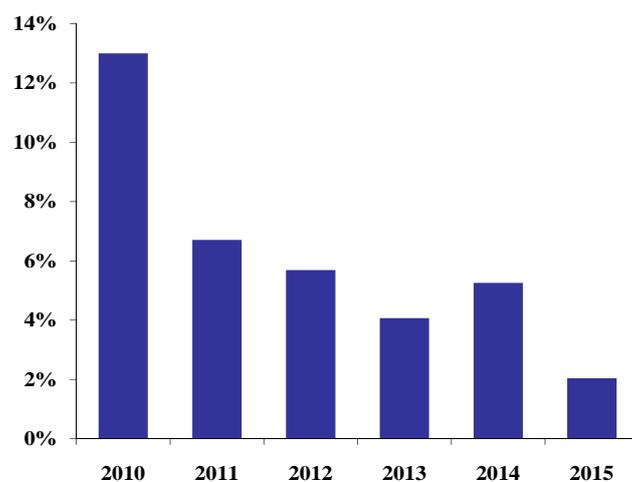
Loans to the private sector reached \$51.7bn at the end of June 2015, constituting increases of 1.7% from the end of 2014 and of 5.2% from a year earlier. In nominal terms, credit to the private sector rose by \$843.8m in the first half of 2015 relative to an increase of \$1.8bn in the same period of 2014. Lending to the resident private sector totaled \$46.3bn, up by 2% from the end of 2014 and by 6% from the end of June 2014; while credit to the non-resident private sector reached \$5.5bn and regressed by 1.5% from end-2014 and by 0.8% from the end of June 2014. The dollarization rate in private sector lending regressed to 74.8% at the end of June 2015 from 75.6% a year earlier. The average lending rate in Lebanese pounds was 7.12% in June 2015 compared to 7.45% in the same month of 2014, while the same average in US dollars was 7.03%, compared to 6.97% in June 2014. In addition, claims on non-resident banks reached \$11.4bn at the end of June 2015, representing decreases of 6.1% from end-2014 and 7.6% from a year earlier. In parallel, claims on the public sector stood at \$37.9bn at the end of June 2015, up by 1.6% from the end of 2014 and down by 0.1% year-on-year. The ratio of private sector loans-to-deposits in foreign currency stood at 40%, well below the Central Bank's limit of 70% and compared to 40.4% a year earlier. In parallel, the same ratio in Lebanese pounds was 25.1% at end-June 2015, up from 24.7% at the end of June 2014. The ratio of total private sector loans-to-deposits was 34.8% relative to 35% a year earlier. The banks' aggregate capital base stood at \$16.5bn, up by 4.8% from end-2014 and by 8.5% from \$15.2bn at end-June 2014.

Launch of technology start-up accelerator

Venture capital funds Berytech Fund II, Insure & Match Capital and Middle East Venture Partners launched a \$5m Beirut-based startup accelerator named Speed@BDD. The accelerator will invest \$30,000 in high-potential technology startups at the idea and seed stages, and will provide in-kind services for a three-month period, in return for a 10% equity stake in the firm. The in-kind services consist of a workspace at the Beirut Digital District (BDD), product and business development, accounting and legal services, and mentorship. Speed@BDD is currently the only Silicon Valley-style startup accelerator program in Lebanon.

The accelerator will primarily invest in startups in the software, digital, and Web/mobile industries in the Middle East and North Africa region. The program has two cycles per year and will select 10 startups in each cycle to move to the BDD and begin the acceleration plan. The first group of startups will begin the program on September 15, 2015. Following the three-month program, the top two companies in each cycle will be eligible to get \$20,000 follow-on funding from Speed@BDD for immersion in Silicon Valley. A foreign startup can be admitted to the accelerator program if it commits to incorporate its firm in Lebanon following the completion of the acceleration period. The Speed@BDD's founding investors are Middle East Venture Partners, Berytech Fund II and Insure & Match capital.

Resident Private Sector Lending Growth* (% Change)



* in the first half of each year

Source: Association of Banks in Lebanon, Byblos Research

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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