

# LEBANON THIS WEEK

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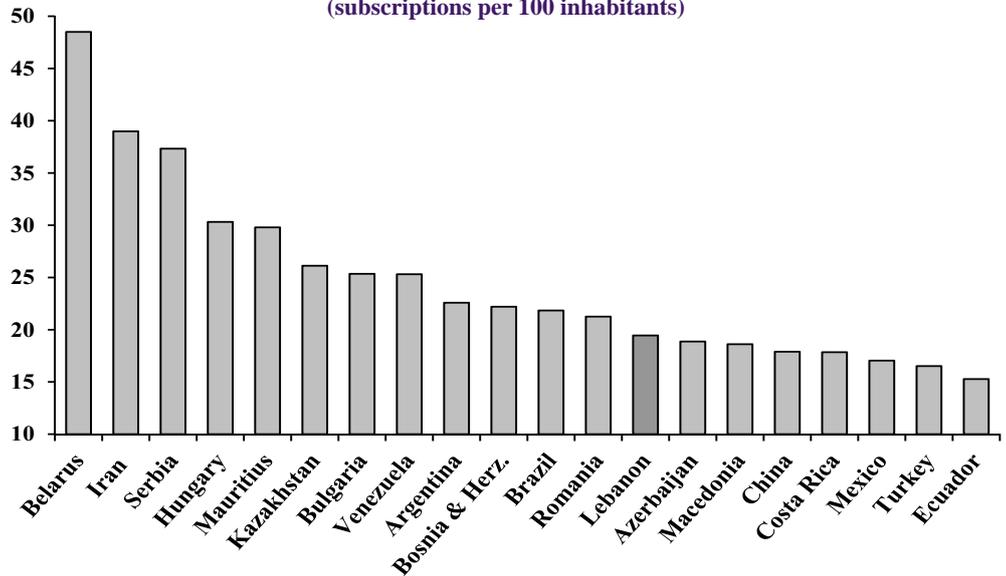
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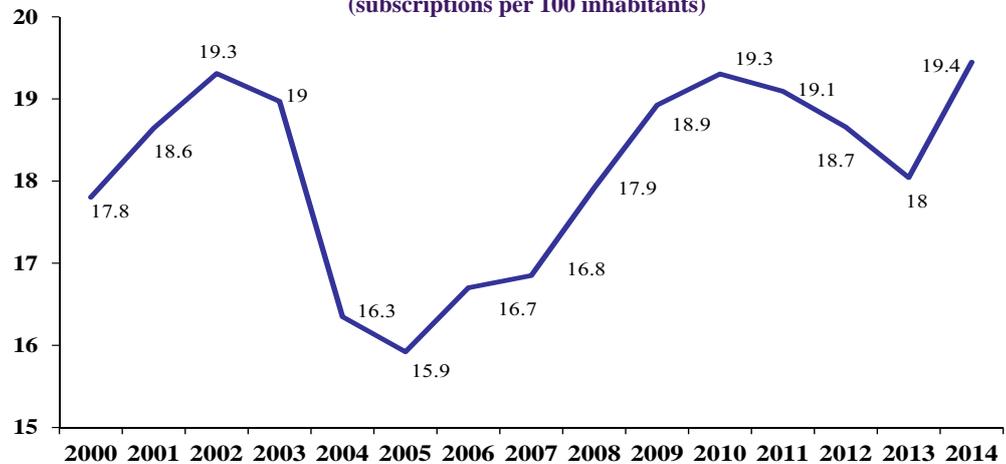
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## Charts of the Week

**Fixed Telephone Penetration Rates among Top 20 Upper-Middle Income Countries in 2014\***  
(subscriptions per 100 inhabitants)



**Fixed Telephone Penetration Rate in Lebanon**  
(subscriptions per 100 inhabitants)



\* Excluding countries with a nominal GDP of \$10bn or less

Source: International Telecommunication Union, Byblos Bank

## Quote to Note

"Stock-flow discrepancies between the country's balance of payments and its international investment position continue to make the analysis of Lebanon's external position difficult."

*Standard & Poor's, on the effects of Lebanon's weak statistical base*

## Number of the Week

**3,499:** Kilowatts-hour of electricity consumption per capita in Lebanon, compared to the global average of 3,045 KWh per capita, according to the World Bank

## Lebanon in the News

\$m (unless otherwise mentioned)	2014	Jun 14	Mar 15	Apr 15	May 15	Jun 15	% Change*
Exports	3,313	278	257	235	342	281	1.08
Imports	20,494	1,567	1,509	1,444	1,486	1,690	7.85
Trade Balance	(17,181)	(1,289)	(1,252)	(1,209)	(1,144)	(1,409)	9.31
Balance of Payments	(1,408)	(561)	(417)	136	189	(794)	41.59
Checks Cleared in LBP	18,143	1,518	1,579	1,550	1,564	1,593	4.94
Checks Cleared in FC	56,348	4,807	4,322	4,158	4,424	4,504	(6.30)
Total Checks Cleared	74,491	6,325	5,901	5,708	5,988	6,097	(3.60)
Budget Deficit/Surplus	(4,632)	(187.36)	(391.66)	(85.53)	(167.04)	(38.90)	(79.24)
Primary Balance	1,970	133.93	(22.84)	42.17	281.74	289.34	116.04
Airport Passengers	6,567,647	610,170	476,739	598,055	544,388	591,890	(3.00)

\$bn (unless otherwise mentioned)	2014	Jun 14	Mar 15	Apr 15	May 15	Jun 15	% Change*
BdL FX Reserves	32.40	33.85	34.53	33.77	34.10	34.11	0.77
<i>In months of Imports</i>	<i>18.97</i>	<i>21.60</i>	<i>22.88</i>	<i>23.38</i>	<i>22.95</i>	<i>20.18</i>	<i>(6.56)</i>
Public Debt	66.58	65.71	69.44	69.46	69.37	69.02	5.04
Net Public Debt	57.31	55.17	58.51	58.97	59.28	59.46	7.78
Bank Assets	175.70	169.57	176.95	179.40	179.03	180.08	6.20
Bank Deposits (Private Sector)	144.43	140.35	145.46	147.50	147.89	148.58	5.86
Bank Loans to Private Sector	50.90	49.18	51.14	51.43	51.37	51.74	5.21
Money Supply M2	48.69	46.89	49.44	50.01	50.26	50.59	7.90
Money Supply M3	117.68	114.97	118.06	119.75	120.04	120.46	4.77
LBP Lending Rate (%)	7.49	7.45	6.94	7.10	7.11	7.12	(33bps)
LBP Deposit Rate (%)	5.56	5.49	5.57	5.61	5.56	5.51	2bps
USD Lending Rate (%)	6.97	6.97	7.16	7.08	7.04	7.03	6bps
USD Deposit Rate (%)	3.07	2.98	3.12	3.16	3.14	3.16	18bps
Consumer Price Index**	0.59	1.19	0.00	(0.17)	(0.13)	(0.38)	-

\* 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
Audi GDR	6.00	0.00	84,400	6.34%
Solidere "A"	10.17	(0.29)	49,804	9.25%
Byblos Common	1.63	(0.61)	25,000	5.33%
BLOM Listed	9.40	0.00	18,458	18.38%
HOLCIM	15.00	0.07	10,000	2.66%
Byblos Pref. 08	100.70	0.20	7,880	1.83%
Solidere "B"	10.23	(1.54)	5,878	6.05%
BLOM GDR	9.70	0.00	5,000	6.52%
Audi Listed	5.56	(7.18)	2,840	20.22%
Byblos Pref. 09	100.70	0.10	2,180	1.83%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Jan 2016	8.500	101.75	3.36
Mar 2017	9.000	106.50	4.54
Nov 2018	5.150	100.50	4.98
May 2019	6.000	102.75	5.17
Mar 2020	6.375	103.25	5.55
Apr 2021	8.250	111.25	5.86
Oct 2022	6.100	101.25	5.88
Jun 2025	6.250	100.00	6.25
Nov 2026	6.600	101.25	6.44
Feb 2030	6.650	100.25	6.62

Source: Byblos Bank Capital Markets

	September 7-11	Aug 31- Sep 5	% Change	August 2015	August 2014	% Change
<b>Total Shares Traded</b>	240,313	498,887	(51.83)	2,758,559	6,941,456	(60.26)
<b>Total Value Traded</b>	\$3,348,059	\$5,661,879	(40.87)	\$36,050,573	\$42,076,299	(14.32)
<b>Market Capitalization</b>	\$10.99bn	\$11.18bn	(1.70)	\$11.17bn	\$10.95bn	1.97

Source: Beirut Stock Exchange (BSE)



### Growth forecast revised downwards to 1.1% due to policy inaction and political deadlock

The Institute of International Finance revised downwards its forecast for Lebanon's real GDP growth rate in 2015 from 2.2% in April to 1.1% currently, given that leading high frequency indicators point to a slower-than-expected economic activity. It said that the weak economic activity reflects policy inaction in the context of a prolonged political crisis and rising regional insecurity. Further, it noted that deflationary pressures persisted in the first seven months of the year due to subdued domestic demand and significantly lower import prices in the context of the currency peg to the US dollar and lower commodity prices. It added that the consumer price index regressed by 3.9% in July 2015 from the same month last year, and forecast the average inflation rate at -2.9% in 2015 relative to an average rate of 1.9% in 2014.

The IIF indicated that risks to the outlook are mitigated by the country's substantial foreign currency reserves and robust banking sector. It projected the Central Bank's assets in foreign currency at \$40.2bn, or 15.1 months of imports at the end of 2015, up from \$39.5bn or 13.6 months of imports a year earlier. Also, it said that non-resident deposits grew by 10.7% year-on-year in June, while confidence in the Lebanese pound remains intact.

Further, it forecast the current account deficit to narrow from 21.6% of GDP in 2014 to 15.5% of GDP in 2015 due to lower import prices and weak domestic demand. However, it expected the fiscal deficit to widen from 6.4% of GDP in 2014 to 8.1% of GDP in 2015, and for the public debt level to rise from 138.1% of GDP in 2014 to 140.7% of GDP in 2015.

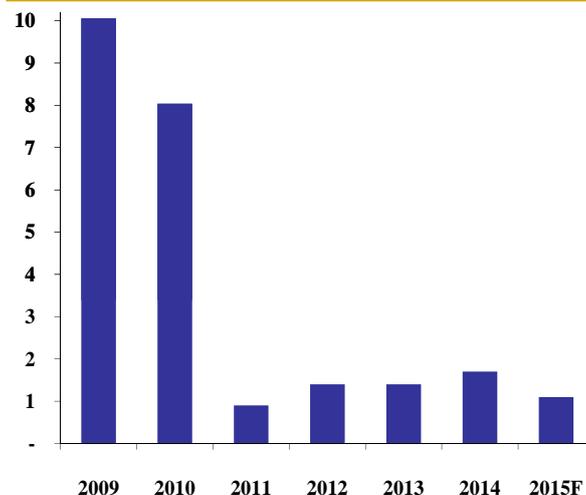
The IIF indicated that current and previous governments have failed to improve the country's development level and to upgrade its infrastructure. It said that, in addition to the current waste disposal problem in Beirut, Lebanon suffers from water scarcity in the summer and from chronic power shortages after years of low public investment. It attributed the authorities' failure to improve the delivery of public services in part to the dispute among the political class over profits and patronage. It noted that the weaknesses of Lebanon's political institutions are related to the country's difficult geostrategic environment and to the domestic political system that is tied to sectarian affiliation. Further, the IIF considered that the ongoing protests are unlikely to lead to significant violence, civil war or to authoritarian rule.

### Net public debt at \$60bn at end-July 2015

Lebanon's gross public debt reached \$69.2bn at the end of July 2015, constituting an increase of 3.9% from the end of 2014 and a rise of 5.4% from \$65.6bn at end-July 2014. Domestic debt totaled \$42.6bn at the end of July 2015, rising by 3.9% from end-2014 and by 7.6% 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 61.5% of gross public debt at the end of July 2015 compared to 60.3% a year earlier, while foreign currency-denominated debt represented the balance of 38.5% 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 July 2015. Further, the weighted life on Eurobonds was 5.71 years, while that on Treasury bills was 1,218 days.

Commercial banks held 48% of the local public debt at the end of July 2015 compared to 52.3% a year earlier. They were followed by the Central Bank with 35.3%, up from 30.2% at end-July 2014; while public agencies, financial institutions and the public accounted for 16.7% of local debt compared to 17.5% at the end of July 2014. In parallel, Eurobond holders, foreign private sector loans and special T-bills in foreign currencies accounted for 91.9% of foreign-currency denominated debt, followed by foreign governments with 4.1%, multilateral institutions with 3.7%, and Paris II loans with 0.2%. The net public debt, which excludes public sector deposits at the Central Bank and at commercial banks from overall debt figures, increased by 8% year-on-year to \$59.6bn. 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.

Real GDP Growth in Lebanon (%)



Source: Institute of International Finance

### **Standard & Poor's revises outlook to 'negative' on Lebanon's long-term sovereign ratings**

Standard & Poor's affirmed Lebanon's long- and short-term foreign and local currency sovereign credit ratings at 'B-/B' and revised the outlook on the long-term ratings to 'negative' from 'stable'. It attributed the change in outlook to the negative impact on growth from domestic political uncertainties and regional instability. It added that the protracted political instability could further limit the ability of policymakers to implement medium- and long-term macroeconomic reforms. The agency noted that the proper functioning of the government is impaired, given that Lebanon has been operating without a President since May 2014, the Parliament has failed to pass a budget since 2005 and has voted for a second time to extend its term of office to 2017.

S&P anticipated private consumption and investment to remain constrained in 2015, and did not expect a significant rebound in tourism, financial & trade services, or in foreign direct investment this year. But it noted that higher disposable income due to lower oil prices, along with the Central Bank's stimulus package, would continue to support modest real GDP growth during the 2015-18 period. The agency did not expect the government to use the lower oil price environment, and the resulting fiscal space, to implement the structural reforms that would reduce fiscal vulnerabilities and promote longer-term economic growth.

It considered that public finances and fiscal flexibility will remain constrained by structural expenditures that include transfers to EdL and high debt servicing. It forecast the fiscal deficit to widen from 6.2% of GDP in 2014 to 9.8% of GDP in 2015, despite expected savings this year of between 1.5% of GDP to 2% of GDP from lower transfers to Electricité du Liban amid low oil prices. It also forecast the net public debt to increase from 116% of GDP in 2014 to 120% of GDP in 2016.

S&P noted that confidence in the Lebanese financial system is strong, and is supported by the Central Bank's policies of maintaining a high level of foreign currency reserves. It pointed out that the government's debt servicing capacity is heavily dependent on the strength of deposit inflows and on the financial sector's willingness and ability to continue buying government debt. It added, however, that the government's dependence on a single source to finance its needs is a structural weakness that increases Lebanon's vulnerability to adverse business, financial, and economic conditions. It forecast private sector deposits to grow by 6% this year, which should be sufficient to finance the public and private sector borrowing needs. Further, it did not expect remittance inflows to decline in the near term from the possible slowdown in economic activity in GCC economies.

In parallel, S&P said that the government has sufficient legislative leeway to issue foreign currency debt to refinance upcoming debt maturities until the first quarter of 2016. But it noted that the government would need to pass new legislation to allow for further foreign currency debt issuance from March 2016 onwards. It forecast Lebanon's gross external financing needs to average 117% of its current account receipts (CARs) plus usable reserves between 2015 and 2018, and projected the country's net external liabilities to rise from 86% of its CARs in 2014 to 118% of its CARs in 2018.

### **Political deadlock is delaying the implementation of reforms**

Moody's Investors Service considered that the prevailing political deadlock in Lebanon is credit negative for the sovereign because it has prevented the implementation of key fiscal reforms. It said that the Lebanese Parliament has repeatedly failed to elect a new president, which has resulted in an ongoing vacuum at the presidential level since May 2014. It added that Parliament extended its mandate from 2013 to 2017 after it postponed the general elections twice because Members of Parliament failed to agree on an electoral law. The agency indicated that delays in key fiscal reforms have weighed on public finances. It noted that authorities have repeatedly postponed the ratification of budgets, tax reforms, and the restructuring of the state-owned money-losing Electricité du Liban. It expected Lebanon's fiscal deficit to widen from 6.2% of GDP in 2014 to 8.3% of GDP in 2015 in the absence of new revenue measures, which would increase the level of the net public debt to 124% of GDP in 2015. Further, it pointed out that the reliance on domestic borrowing to fund the fiscal deficit is costly and risks eroding the country's balance-of-payments inflows and foreign currency reserves over time.

Moody's pointed out that the Lebanese banking sector has supported the government's large financing needs through deposit inflows from the Lebanese Diaspora. It considered that the deteriorating domestic conditions are weighing on deposit inflows, as the sector's deposits grew by 4.7% year-on-year in June 2015 relative to an annual growth rate of 7.2% in June 2014. However, it noted that the banking sector continues to have ample liquidity, while the country benefits from large foreign exchange buffers that support confidence in the domestic financial system and the currency peg to the US dollar.

It said that the Central Bank's assets in foreign currency stood at \$40.7bn at the end of May 2015, which is more than sufficient to cover the expected external debt payments for 2015 and 2016. In addition, the agency indicated that anti-government protests, if they remain unaddressed, would likely affect confidence in the country's banking system, which would negatively affect deposit inflows. It added that protests would also put at risk the recovery in the tourism sector and the growth in economic activity. As such, it anticipated political instability to keep Lebanon's real GDP growth subdued in 2015 and significantly below the five-year average growth rate of 7.7% during the 2006-2010 period.



### Lebanon's external debt posts 19th 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 2.8% in the first eight 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 19th 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 0.8% 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 eight months of 2015, behind only Ghana (+3.99%), Namibia (+3.83%), Rwanda (+3.82%) and Qatar (+3.55%).

In parallel, Lebanon's external debt posted returns of -0.74% in August 2015, constituting the 18th lowest return in the CEEMEA region and the 30th highest return in emerging markets during the covered month. Lebanon underperformed the overall emerging returns of -0.73% and those of the CEEMEA region of 0.42%, while it outperformed the -1.75% return posted by 'B'-rated sovereigns in August 2015.

Further, Lebanon's external debt posted the eighth highest return in the Middle East & Africa region in August 2015. It outperformed Turkey (-0.93%), Angola (-0.99%), Egypt (-1.02%), Namibia (-1.36%), the Ivory Coast (-1.72%), South Africa (-1.75%), Ghana (-2.06%), Iraq (-3.13%), Nigeria (-3.21%), Senegal (-3.27%), Bahrain (-3.32%), Zambia (-4.05%) and Gabon (-6.52%); while it underperformed Israel (+0.25%), Qatar (+0.15%), Tunisia (-0.19%), the UAE (-0.25%), Rwanda (-0.52%), Morocco (-0.6%) and Kenya (-0.67%).

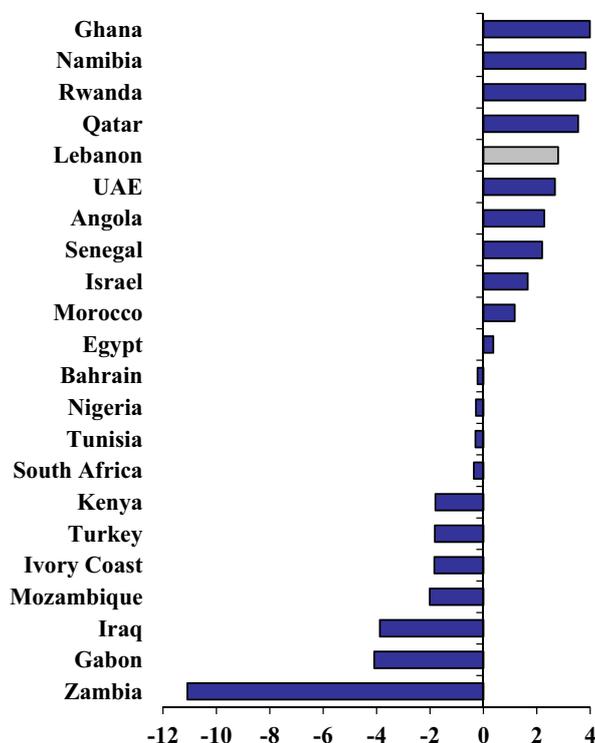
Merrill Lynch indicated that the spread on Lebanese Eurobonds ended August 2015 at 416 basis points, constituting the 17th widest spread in the CEEMEA region and the 28th widest among emerging markets. It was wider than the emerging markets' overall spread of 323 basis points at the end of August 2015. Lebanon has a weight of 3.37% on Merrill Lynch's External Debt EM Sovereign Index, the fifth largest weight in the CEEMEA universe and the ninth biggest among emerging economies. Lebanon accounted for 6.1% of allocations in the CEEMEA region.

### Revenues through Port of Beirut up 13% to \$142m in first seven months of 2015

Figures released by the Port of Beirut show that the port's overall revenues were \$142.3m in the first seven months of 2015, up by 12.9% from \$126m in the same period of 2014. The Port of Beirut handled an aggregate freight of 4.6 million tons in the covered period, down by 6.6% from 4.9 million tons in the first seven months of 2014. Imported freight amounted to 4 million tons in the first seven months of the year and accounted for 87.7% of the total, while the remaining 0.57 million tons, or 12.3%, consisted of export cargo. A total of 1,012 ships docked at the port in the first seven months of 2015 compared to 1,169 vessels in the same period of 2014.

In parallel, revenues generated through the Port of Tripoli reached \$7.6m in the first seven months of 2015, constituting a rise of 9.7% from \$6.9m in the same period last year. Further, the Port of Tripoli handled an aggregate weight of 901,521 tons of freight in the covered period, constituting an increase of 30.2% from 692,283 tons in the first seven months of 2014. Imported freight amounted to 732,749 tons and accounted for 81.3% of the total, while the remaining 168,772 tons, or 18.7%, were export cargo. A total of 392 vessels docked at the port in the first seven months of 2015, constituting a rise of 26% from 311 ships in the same period of 2014.

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



Source: Merrill Lynch, Byblos Research

### Lebanon's water resources to be under "extremely high" stress by 2020

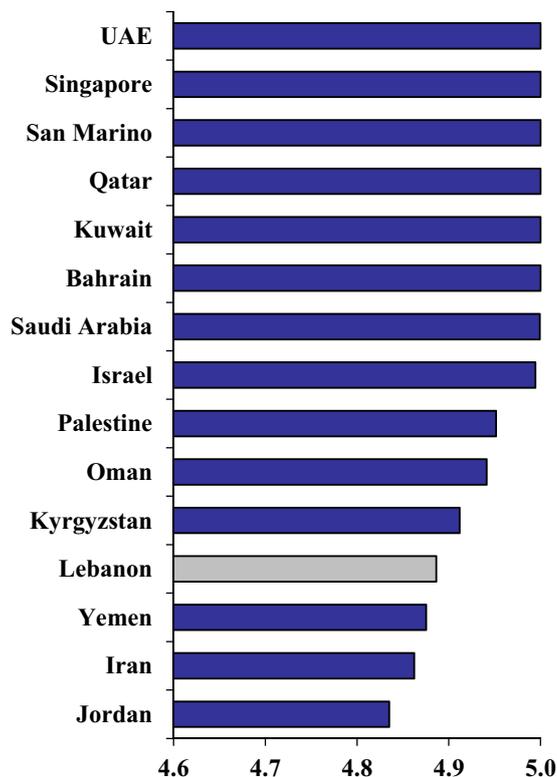
The World Resources Institute's (WRI) Aqueduct water stress survey shows that Lebanon would have the 16th highest water stress level among 167 countries worldwide in 2020, the 11th highest level among 20 Arab countries and the fourth highest level among 41 Upper-Middle Income Countries (UMICs) included in the survey. In comparison, Lebanon had the 18th highest water stress level globally in 2010, the 11th highest level among Arab countries and the fifth highest level among UMICs. The WRI defines water stress as the annual water withdrawals for domestic, industrial and agricultural usage relative to the total annual available water stock. The water stress level ranges between zero and five, with higher values indicating greater demand for water relative to available surface water resources. The WRI assesses the water stress levels under a "business-as-usual" scenario, a "pessimistic" scenario and an "optimistic" scenario. The scenarios are based on a combination of climate change indicators that represent water supply, and socioeconomic indicators that are used to estimate future water demand.

Under the "business-as-usual" scenario, Lebanon would have a higher water stress level than Kazakhstan, Pakistan and Iraq, and a lower stress level than Palestine, Iran and Jordan in 2020. Lebanon received a score of 4.75 out of five points, and came in the "extremely high" water stress category, along with 25 other countries that include 13 Arab countries. The "business-as-usual" scenario assumes normal socioeconomic drivers, such as population growth, real GDP growth and urbanization level. It also considered that emissions are relatively unconstrained, with the global average surface temperature rising by 2.6 to 4.8 degrees Celsius by year 2100, relative to the average temperature level that prevailed between 1986 and 2005. In parallel, Lebanon's global rank would remain unchanged under a more optimistic scenario or a more pessimistic one, with little or no changes in the water stress level relative to the "business-as-usual" scenario.

Further, Lebanon would have the 12th highest water stress level globally by 2030 under the "business-as-usual" scenario, the eighth highest level among Arab countries and the highest level among UMICs. Lebanon's water stress level would be lower than only Bahrain, Kuwait, Qatar, San Marino, Singapore, the UAE, Saudi Arabia, Israel, Palestine, Oman and Kyrgyzstan. Lebanon received a score of 4.89 out of five, and came in the "extremely high" water stress category along with 29 other countries. Lebanon's global rank would improve by two spots to 14th place globally under a more optimistic scenario, with a score of 4.80, while its rank and score would remain unchanged under more pessimistic conditions.

In addition, Lebanon would have the 11th highest water stress level globally by 2040 under the "business-as-usual" scenario, the eighth highest level among Arab countries and the highest level among UMICs. Globally, Lebanon's water stress level would be lower than only Bahrain, Kuwait, Qatar, San Marino, Singapore, the UAE, Palestine, Israel, Saudi Arabia and Oman. Lebanon received a score of 4.97 out of five, and came in the "extremely high" water stress category along with 32 other countries. Lebanon's global rank would remain unchanged under a more optimistic scenario with a score of 4.89, while it would regress by one spot under more pessimistic conditions with a score of 4.98 points.

Projected Water Stress Level by 2030\*



\*Countries with highest stress level

Source: World Resources Institute

### **Trade deficit narrows by 15% to \$8.5bn in first seven months of 2015**

The total value of imports reached \$10.3bn in the first seven months of 2015, constituting a decrease of 13.6% from the same period of 2014; while the value of aggregate exports dropped by 8.5% to \$1.8bn, leading to a trade deficit of \$8.5bn, down by 14.6% year-on-year. The narrowing of the deficit was due to a decrease of \$1.6bn in imports year-on-year, given that exports fell by \$163.5m. The coverage ratio reached 17.2% in the first seven months of 2015 compared to 16.2% in the same period last year, while it reached 14.3% in July 2015 relative to 16.7% in July 2014.

The value of imported oil & mineral fuels declined by \$1.1bn, or 38.8%, year-on-year, to \$1.7bn; while non-hydrocarbon imports regressed by 5.8% to \$8.6bn. The imports of base metals fell by \$198.7m, or 22.4%, to \$687.4m in the first seven months of 2015, and those of animal products dropped by \$133.6m, or 21.5%, to \$489m in the covered period. The value of oil & mineral fuels accounted for 16.7% of total imports in the first seven months of 2015 compared to a share of 23.6% in the same period of 2014.

In volume terms, imports reached 8.67 million tons in the first seven months of 2015, constituting a decrease of 1.9% from 8.84 million tons in the same period last year; while exports dropped by 4.7% to 1.1 million tons. Imports of oil & mineral fuels dropped by 7% year-on-year to 3.9 million tons, while non-hydrocarbon imports grew by 2.6% annually to 4.8 million tons. Imported oil & mineral fuels accounted for 44.9% of total imports in the covered period relative to a 47.4% share in the first seven months of 2014.

China was the main source of imports with \$1.2bn or 11.7% of the total in the first seven months of 2015, followed by Italy with \$778.7m (7.5%), Germany with \$727.7m (7.1%), France with \$656.3m (6.4%), the United States with \$584.3m (5.7%), Russia with \$536.8m (5.2%) and Greece with \$434m (4.2%). Imports from Russia surged by 17.6% year-on-year in the first seven months of 2015, those from Greece grew by 6.1% and imports from Germany were unchanged; while imports from the United States dropped by 27%, those from Italy fell by 26%, imports from France regressed by 20.8% and those from China decreased by 15.3%.

Further, Saudi Arabia was the main export destination of Lebanese merchandise with \$227.2m or 12.8% of total exports, followed by the UAE with \$182.7m (10.3%), Iraq with \$131.5m (7.4%), South Africa with \$119.1m (6.7%), Syria with \$118.6m (6.7%), Jordan with \$62.8m (3.5%) and Qatar with \$51.5m (2.9%). Exports to Saudi Arabia grew by 5.7% year-on-year in the first seven months of 2015; while exports to South Africa dropped by 43.3% year-on-year, those to Jordan fell by 16.2%, exports to Syria decreased by 12.2%, those to Qatar regressed by 9%, exports to Iraq dropped by 8.6% and those to the UAE declined by 0.8%.

Lebanon's main export products in the first seven months of 2015 were prepared foodstuff with \$290m, or 16.4% of the total, followed by jewelry with \$271.1m (15.3%), machinery & mechanical appliances with \$257.1m (14.5%), chemical products with \$248.9m (14.1%), base metals with \$187.3m (10.6%), paper & paperboard products with \$91.9m (5.2%) and vegetable products with \$90.1m (5.1%). In parallel, re-exports totaled \$250.4m in the first seven months of 2015 compared to \$231.1m in the same period last year.



### **Net profits of top 14 banks up 7.5% to \$936m in first half of 2015**

The unaudited consolidated net profits of the Alpha Group of banks reached \$935.7m in the first half of 2015, constituting an increase of 7.5% from net earnings of \$870.4m in the same period of 2014. The Alpha Group consists of 14 banks with deposits in excess of \$2bn each. Total net operating income increased by 9% to \$2.6bn, with aggregate net interest income rising by 7.8% to \$1.7bn and net fees & commissions decreasing by 1.3% to \$417.5m year-on-year. Non-interest income accounted for 34.1% of total income in the first half of 2015, up from 33.4% in the same period last year; with net fees & commissions representing 43.5% of non-interest income, down from 50% in the first half of 2014. The interest spread was nearly unchanged at 1.88% in the covered period relative to 1.87% in the same period last year. Also, total operating expenditures increased by 7.9% year-on-year to \$1.4bn in the first half of 2015, with staff expenses rising by 5% to \$769.1m. Further, the cost-to-income ratio was 49.5% in the first half of this year, down from 50.9% in the same period of 2014. The banks' return on average assets reached 1.01% in June 2015 on an annualized basis and was unchanged from June 2014; while their return on average equity was 11.57% on an annualized basis compared to 11.81% in June 2014.

The Alpha banks' total assets reached \$198.4bn at the end of June 2015, constituting a rise of 2% from end-2014 and an increase of 7.6% from end-June 2014. Net loans & advances to customers were nearly unchanged from the end of 2014 at \$59.8bn, while credits extended to related parties increased by 16.5% to \$628.2m at end-June 2015. Customer deposits totaled \$161.2bn at the end of June 2015, constituting an increase of 2.4% from end-2014, while deposits from related parties dropped by 7.6% to \$3.3bn at end-June 2015. Shareholders' equity reached \$17.2bn at the end of June 2015 and was nearly unchanged from end-2014.

### **Kafalat loan guarantees down 25% to \$57m in first eight months of 2015**

Figures released by the Kafalat Corporation show that loans extended to small- and medium-size companies under the guarantee of Kafalat reached \$57.3m in the first eight months of 2015, constituting a decline of 24.7% from \$76.1m in the same period of 2014. Kafalat provided 415 loan guarantees year-to-August 2015, down by 28.9% from 584 guarantees in the first eight months of 2014. The average loan size reached \$138,131 during the covered period compared to \$130,292 in the first eight months of last year. Mount Lebanon accounted for 39.8% of the total number of new guarantees, followed by the Bekaa with 21.2%, the North with 13%, the South with 12.5%, and Nabatieh and Beirut with 6.8% each. The agricultural sector accounted for 47.2% of the number of guarantees, followed by the industrial sector with 35.2%, tourism with 9.6%, handicraft with 4.3% and specialized technologies with 3.6%. Kafalat is a state-sponsored organization that provides financial guarantees for loans of up to \$400,000 earmarked for the setup and expansion of small- and medium-size companies in productive sectors. It guarantees up to 75% of the loan amount and a similar percentage of the interest that accrues during the grace period. It also guarantees up to 90% of the loan amount for innovative start-ups and a similar percentage of the interest that accrues during the grace period.

### **Top five freight forwarders' import activity down 4% in first seven months of 2015**

Figures released by the Port of Beirut Authority show that overall import shipping operations by the top five freight forwarders through the port reached 197,567 20-foot equivalent units (TEUs) in the first seven months of 2015, constituting a decline of 4.2% from 206,131 TEUs in the same period last year. They accounted for 59.8% of the total import freight forwarding market and for 90.2% of imports to the Lebanese market during the covered period. Mediterranean Shipping Company (MSC) handled 70,646 TEUs in imports in the first seven months of 2015, equivalent to a 21.4% share of the total freight forwarding import market. It was followed by Sealine Group with 45,109 TEUs (13.7%), Merit Shipping with 32,893 TEUs (10%), Metz Group with 31,819 TEUs (9.6%) and Gezairy Transport with 17,100 TEUs (5.2%). Further, Metz Group registered the highest growth in import shipping among the top five freight forwarders at 12.1% year-on-year, while Merit Shipping posted the steepest decline at 26.5%.

In parallel, export shipping operations by the top five freight forwarders through the Port of Beirut reached 46,060 TEUs in the first seven months of 2015, constituting an increase of 24.9% from 36,865 TEUs in the same period last year. They accounted for 14.2% of the total export freight forwarding market and for 98.2% of exported Lebanese cargo during the first seven months of 2015. Merit Shipping handled 16,176 TEUs of freight in the first seven months of the year, equivalent to 34.5% of the Lebanese cargo export market. It was followed by Sealine Group with 12,266 TEUs (26.1%), Metz Group with 11,513 TEUs (24.5%), MSC with 3,399 TEUs (7.2%) and Gezairy Transport with 2,706 TEUs (5.8%). Further, Metz Group registered the highest growth in export shipping among the top five freight forwarders at 90.7% year-on-year, while Sealine Group posted the only decline at 7.7%.

### **BankMed's net profits at \$73m in first half of 2015**

BankMed sal, one of Lebanon's top 10 banks, announced unaudited consolidated net profits of \$73.3m in the first half of 2015, constituting an increase of 11.5% from the same period last year. Net operating income rose by 31.1% year-on-year to \$278.2m, with net interest income rising by 17.5% to \$144.9m and net fees & commissions receipts dropping by 47.4% to \$17.8m. Non-interest income accounted for 55.6% of total income, up from 40.1% in the first half of 2014, with net fees & commissions representing 9% of non-interest earnings, down from 37.8% in the same period last year. Further, the bank's interest margin improved to 2.18% in the covered period from 2.08% in the first half of 2014; while its net spread rose to 2.01% from 1.91% in the same period last year. Total operating expenditures grew by 31.8% to \$174.4m, with staff expenses increasing by 15.3% to \$86.4m. The bank's return on average assets reached 0.96% in June 2015 on an annualized basis, down from 1.01% in June 2014; while its return on average equity was 10.14% relative to 10.27% in June 2014. The cost-to-income ratio declined to 48.87% in the first half of 2015 from 59.18% in the same period last year.

In parallel, total assets reached \$16.1bn at end-June 2015, constituting a rise of 4.4% from end-2014 and of 12.7% from end-June 2014; while loans & advances to customers, excluding loans & advances to related parties, rose by 0.1% from end-2014 and by 2.2% from the end of June 2014 to \$4.6bn. Also, customer deposits, excluding deposits from related parties, totaled \$12.2bn at end-June 2015, constituting a growth of 7.1% from end-2014 and of 14.6% from end-June 2014. The loans-to-deposits ratio declined to 37.8% at end-June 2015 from 41.5% a year earlier. Further, shareholders' equity reached \$1.5bn at end-June 2015 and dropped by 1.4% from end-2014.

### **SGBL's net income at \$79m in first half of 2015**

Société Générale de Banque au Liban sal (SGBL), one of Lebanon's top 10 banks, announced unaudited consolidated net profits of \$79m in the first half of 2015, constituting an increase of 1.4% from the same period last year. Net operating income grew by 5.9% year-on-year to \$186.5m, with net interest income increasing by 4.5% to \$137.6m and net fees & commissions receipts decreasing by 12.7% year-on-year to \$21.4m. Non-interest income accounted for 29.8% of total income, down from 30.7% in the same period last year; with net fees & commissions accounting for 36.3% of non-interest earnings, down from 41.9% in the first half of 2014. Further, the bank's interest margin was 1.91% in the first half of the year relative to 2.07% in the same period last year; while its spread dropped to 1.83% from 1.98% in the first half of 2014. Total operating expenditures increased by 10.4% to \$87.7m, with staff expenses decreasing by 1.4% to \$41.3m. Also, the bank's return on average assets reached 1.07% in June 2015 on an annualized basis relative to 1.2% in June 2014; while its return on average equity was 14.16% on an annualized basis relative to 15.47% in June 2014. The cost-to-income ratio increased to 44.3% in the first half of the year from 41.7% in the same period last year.

In parallel, total assets reached \$15.4bn at the end of June 2015, constituting a 2.7% rise from end-2014 and a 12.2% increase from a year earlier; while loans & advances to customers, excluding loans & advances to related parties, grew by 1.9% from end-2014 and by 10% from a year earlier to \$3.7bn. Also, customer deposits, excluding deposits from related parties, totaled \$11.6bn at end-June 2015, constituting an increase of 2.7% from end-2014 and a rise of 9.2% from a year earlier. The loans-to-deposits ratio rose to 32.3% at end-June 2015 from 31.9% a year earlier. In parallel, shareholders' equity rose by 4.4% from end-2014 to \$1.2bn at end-June 2015.

### **Arabia Insurance's net earnings at \$0.5m in 2014**

Arabia Insurance sal declared net profits of \$0.5m in 2014 compared to net losses of \$6.6m in 2013. The firm's audited balance sheet shows total assets of \$352.7m at the end of 2014, down 6.9% from \$379m a year earlier. On the assets side, general company investments totaled \$205.3m and decreased by 2.7% from end-2013. They included \$55.8m in variable income investments, \$49.2m in cash & cash equivalents, \$16.1m in fixed income investments, and \$3.4m in land and real estate investments. They also included \$73.8m in blocked bank deposits and deposits with maturity of more than three months, of which \$6m were blocked in favor of the Economy Ministry as guarantees. Also, reinsurance share in technical reserves for the life and non-life categories amounted to \$1.7m and \$31.2m, respectively, constituting decreases of 41.1% and 25.3%, respectively.

On the liabilities side, technical reserves for the life segment dropped by 0.8% year-on-year to \$21.4m, while technical reserves for the non-life category reached \$142.3m at end-2014 and fell by 8.9% from a year earlier. Non-life technical reserves included outstanding claims reserves of \$70.7m that declined by 12.2%, unearned premium reserves of \$63.6m that decreased by 5.6%, and \$8.1m in reserves incurred but not reported that regressed by 4.1% year-on-year. Provisions for risks and charges reached \$6.3m at the end of 2014 and fell by 5.2% from the previous year. Also, shareholders' equity totaled \$106.2m at end-2014, down by 12.9% from a year earlier.

*Al-Bayan* magazine's annual survey of the insurance sector in Lebanon ranked Arabia Insurance sal in 13th and in 19th place in 2014 in terms of non-life and life premiums, respectively. The firm's non-life premiums reached \$22.3m and its life premiums amounted to \$2.5m in 2014, constituting decreases of 2.5% and 5.2%, respectively. It had a 2.2% share of the local non-life market and a 0.6% share of the life market.

### **Al Mashrek Insurance's net profits at \$0.4m in 2014**

Al Mashrek Insurance and Reinsurance sal announced audited net profits of \$0.4m in 2014 compared to net losses of \$3.2m in 2013. Its audited balance sheet shows total assets of \$68.8m at the end of 2014, constituting an increase of 5.9% from \$64.9m at end-2013. On the assets side, general company investments reached \$28.8m and decreased by 3.8% from a year earlier. They included \$15.3m in land and real estate investments, \$2.2m investments in subsidiaries and associates and \$1.5m in cash and cash equivalents. They also included \$5.2m in blocked bank deposits and deposits with maturity of more than three months, of which \$4.8m were blocked in favor of the Economy Ministry as guarantees. Also, reinsurance share in technical reserves for the life and non-life categories amounted to \$1.2m and \$5.1m, respectively, constituting increases of 32.8% and 5.2%, respectively.

On the liabilities side, technical reserves for the life segment rose by 13% year-on-year to \$3.3m, while technical reserves for the non-life category reached \$31.1m at end-2014 and increased by 4.4% from a year earlier. Non-life technical reserves included unearned premium reserves of \$19.9m that rose by 2.5%, outstanding claims reserves of \$6.8m that decreased by 8%, and \$0.7m in reserves incurred but not reported that fell by 21.2% year-on-year. Provisions for risks and charges reached \$1m and declined by 2.4% from the previous year. Also, the firm's shareholders' equity totaled \$18m at end-2014, up by 2.4% from \$17.6m a year earlier.

*Al-Bayan* magazine's annual survey of the insurance sector in Lebanon ranked Al Mashrek in ninth and in 21st place in 2014 in terms of non-life and life premiums, respectively. The firm's non-life premiums amounted to \$38.3m, constituting a decrease of 0.2% year-on-year; while its life premiums reached \$1.9m, up 37.1% from the previous year. It had a 3.7% share of the local non-life market and a 0.4% share of the life market.

### **BSL Bank's net income at \$6m in 2014**

BSL Bank sal announced audited consolidated net profits of \$5.9m in 2014, constituting a decrease of 12.5% from net earnings of \$6.7m in 2013. Net operating income increased by 2.2% year-on-year to \$24.1m in 2014, with net interest income growing by 4.2% to \$15.3m and net fees & commissions receipts rising by 2.8% to \$2.9m. Total operating expenditures increased by 8.2% to \$16.9m, with staff expenses rising by 9.6% to \$9m and general & administrative expenses growing by 6.5% year-on-year to \$6.3m. The bank's cost-to-income ratio rose to 70.8% in 2014 from 68.9% in 2013.

In parallel, total assets reached \$1.1bn at end-2014, constituting an 8.3% increase from \$1bn a year earlier; while loans & advances to customers, excluding loans & advances to related parties, increased by 20.2% year-on-year to \$213.4m. Also, customer deposits, excluding deposits to related parties, totaled \$920.8m at the end of 2014, and grew by 9% from a year earlier. The loans-to-deposits ratio improved to 23.2% at end-2014 from 21% a year earlier. Further, the bank's shareholders' equity grew by 6.6% year-on-year to \$96.2m at end-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	Aug 2013	July 2014	Aug 2014	Change*	Risk Level
Political Risk Rating	52.5	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	57.2	58.5	58.5	▼	High

Regional Average	Aug 2013	July 2014	Aug 2014	Change*	Risk Level
Political Risk Rating	58.2	57.9	57.7	▲	High
Financial Risk Rating	41.3	41.0	40.9	▲	Very Low
Economic Risk Rating	36.2	36.2	36.1	▲	Low
Composite Risk Rating	67.8	67.5	67.3	▲	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	Negative	B-	B	Negative
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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