

LEBANON THIS WEEK

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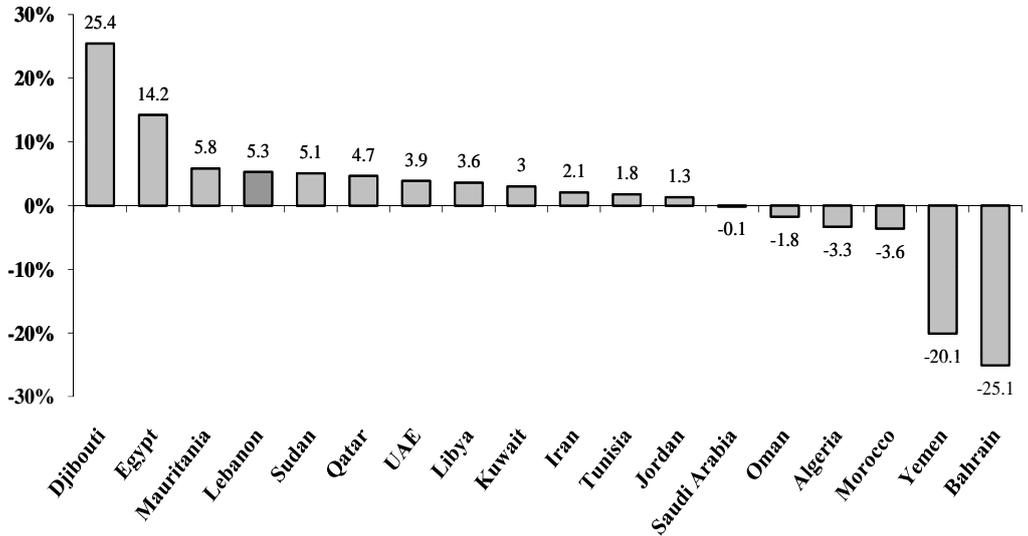
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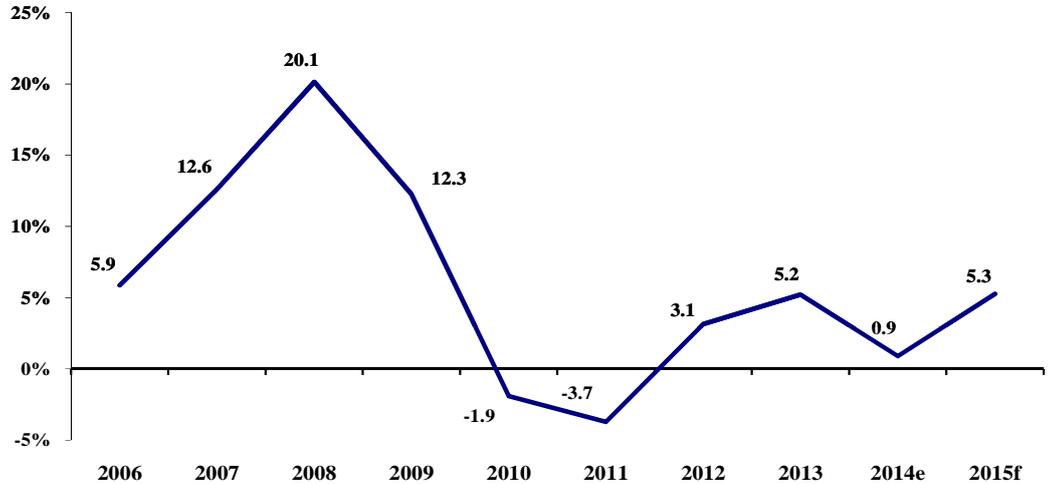
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Charts of the Week

Percentage Change in the Volume of Imports of Goods & Services to MENA Economies in 2015



Percentage Change in the Volume of Imports of Goods & Services to Lebanon



Source: International Monetary Fund - October 2015, Byblos Bank

Quote to Note

"Remittance inflows are a significant source of foreign currency for Lebanon, and have helped the country finance its current account deficit."

Citi, on the importance of expatriates' remittances to the Lebanese economy

Number of the Week

2%: Lebanon's real GDP growth rate in 2015 as projected by the International Monetary Fund, down from a forecast of 2.5% in April

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	5.94	(1.00)	150,824	6.27%
BLOM Listed	9.40	(0.53)	140,244	18.37%
Solidere "A"	10.08	0.10	40,449	9.16%
Solidere "B"	10.04	(0.50)	26,483	5.93%
HOLCIM	15.00	0.00	17,211	2.66%
BLOM GDR	9.65	(0.10)	17,000	6.48%
Byblos Common	1.61	0.63	16,600	5.26%
Audi Listed	5.99	0.34	9,000	21.76%
Byblos Pref. 08	101.00	0.00	6,330	1.84%
Byblos Pref. 09	100.90	0.00	0	1.83%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Jan 2016	8.500	101.50	2.72
Mar 2017	9.000	105.69	4.85
Nov 2018	5.150	100.25	5.05
May 2019	6.000	101.25	5.61
Mar 2020	6.375	102.50	5.72
Apr 2021	8.250	110.13	6.06
Oct 2022	6.100	100.13	6.08
Jun 2025	6.250	99.25	6.35
Nov 2026	6.600	100.75	6.50
Feb 2030	6.650	99.50	6.70

Source: Byblos Bank Capital Markets

	Oct 5-9	Sep 28 - Oct 2	% Change	September 2015	September 2014	% Change
Total Shares Traded	462,841	7,484,085	(93.82)	10,044,627	35,353,319	(71.59)
Total Value Traded	\$5,033,856	\$70,227,219	(92.83)	\$96,050,554	\$228,108,320	(57.89)
Market Capitalization	\$11.00bn	\$11.01bn	(0.07)	\$11.02bn	\$11.07bn	(0.47)

Source: Beirut Stock Exchange (BSE)



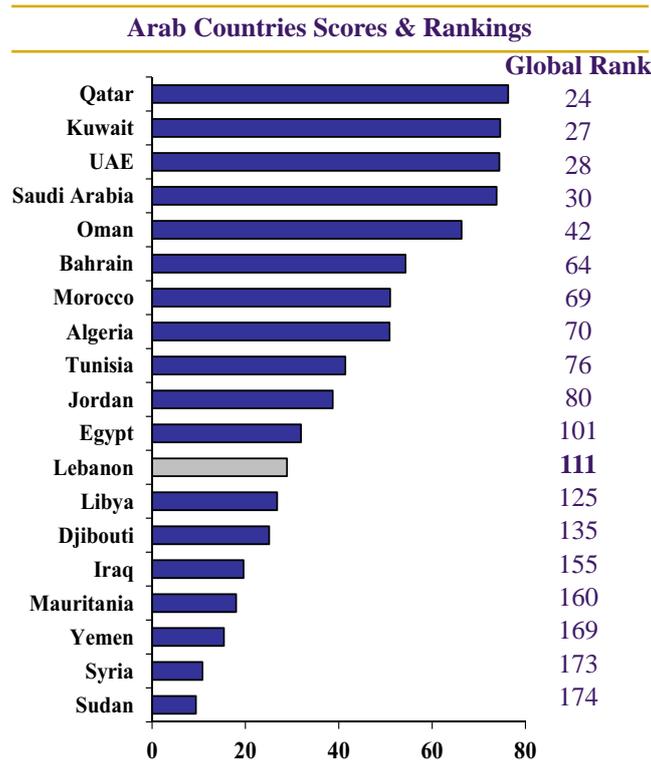
Lebanon ranks 111th globally, 12th in Arab region in credit ratings

In its semi-annual survey on Country Credit, *Institutional Investor* magazine ranked Lebanon in 111th place among 179 countries worldwide, in 34th place among 47 Upper-Middle Income Countries (UMICs) and in 12th place among 19 Arab countries in the September 2015 survey. In comparison, Lebanon ranked in 108th place globally and in 12th place regionally in the March 2015 survey. As such, Lebanon's ranking dropped by three spots from the March 2015 survey, constituting the 46th steepest decrease globally, the 15th steepest drop among UMICs and the seventh steepest decline among Arab countries. Lebanon ranked in 115th place globally and in 12th place among Arab countries in the September 2014 survey.

The survey rates the creditworthiness of countries on a scale of zero to 100, with 100 representing countries with the lowest chance of debt default. The ratings are based on input provided by senior economists and sovereign risk analysts at leading global banks and money management and securities firms.

On a global basis, Lebanon's creditworthiness was better than that of Jamaica, Guyana and Kyrgyzstan, and was weaker than that of Bosnia & Herzegovina, Uzbekistan and Côte d'Ivoire. Lebanon ranked ahead of Jamaica, Tonga and Iran, and came behind Fiji, Turkmenistan and Bosnia & Herzegovina among UMICs.

Lebanon received a score of 28.9 points compared to 30 points in March 2015 and 30.7 points in September 2014. As such, its score declined by 3.7% from March 2015, the eighth steepest decrease regionally; and regressed by 5.9% from September 2014, constituting the seventh steepest drop among Arab countries. Lebanon's score was below the global average of 44.1 points, the UMICs' average of 42.2 points, the Arab average of 41.5 points and the GCC countries' average of 70 points, but came above the non-GCC countries' average score of 28.3 points. In comparison, the average score of non-GCC Arab countries decreased by 3.6% from the March 2015 survey, the Arab average score dropped by 3.4% from six months earlier and the UMICs' average score declined by 0.8%; while the global average rating score was nearly unchanged from March 2015. The rankings of 12 Arab countries regressed, six improved and one was unchanged, while the scores of 15 countries decreased and four improved from the March 2015 survey. Switzerland was the country with the best creditworthiness in the world, while Somalia had the highest probability of default worldwide.



Source: *Institutional Investor* - September 2015, *Byblos Research*

Tender for management of mobile phone networks postponed

The Ministry of Telecommunications (MoT) announced that it will postpone 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) until November 10, 2015. The postponement of the tender followed the Shura Council's overruling of the MoT's previous decision to disqualify the Cairo-based Orascom Telecom Media and Technology firm, which currently operates MIC 1, from the bidding process. The telecom operator was excluded from the bidding process because it failed to meet some of the tender's requirements. The government has repeatedly extended the management contracts of the two firms since 2012, with the latest extension occurring in May 2015 when the Cabinet extended until the end of 2015 the management contracts of Orascom and Zain.

In 2013, the MoT announced plans to launch the tender but, since then, the government has repeatedly renewed the contracts of the current mobile phone operators. 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 \$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 \$2m and sign a clause of confidentiality.

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. There were 4.13 million mobile phone subscriptions in Lebanon at the end of June 2015, the latest available figures. Touch has 2.21 million mobile phone subscriptions, representing a 53.5% market share, while Alfa has 1.92 million subscriptions and a 46.5% share.



Level of economic freedom regresses significantly

The Fraser Institute's Index of Economic Freedom for 2015 ranked Lebanon in 76th place among 157 countries globally and in seventh place among 16 Arab economies. It also ranked Lebanon in 18th place among 41 Upper-Middle Income Countries (UMICs) included in the survey. Lebanon came in 59th place worldwide and in seventh place in the Arab world in the 2014 survey. Lebanon's rank regressed by 16 spots year-on-year when taking the same set of countries that were included in both the 2014 and 2015 surveys, constituting the fourth steepest decrease globally after Cyprus (-43 spots) and Uruguay and Tajikistan (-20 spots each). The deterioration in Lebanon's rank was due to a drop in its rank across four of the five sub-indicators from the index. Lebanon's rank deteriorated for the second consecutive year, as it dropped by 21 spots in the 2014 survey from 38th place in 2013.

The index measures the extent that a country's policies and institutions are supportive of economic freedom. It includes 42 variables that are divided into five broad factors of economic freedom that are the Size of Government, the Legal System & Property Rights, Access to Sound Money, Freedom to Trade Internationally, and the Regulation of Credit, Labor & Business.

Globally, Lebanon had a similar level of economic freedom than Indonesia, a higher level of freedom than Bosnia & Herzegovina, Cape Verde and Zambia, and a lower level than the Seychelles, Trinidad & Tobago and Cyprus. It also ranked ahead of Bosnia & Herzegovina and came behind the Seychelles among UMICs. Lebanon received a score of 7.01 points on a scale of zero to 10, down from 7.21 points in the 2014 survey and 7.34 points in the 2013 survey. Lebanon's score regressed by 0.20 points year-on-year, constituting the sixth steepest decline in the world. Lebanon's score was below the average score of the Gulf Cooperation Council (GCC) economies of 7.52 points, but higher than the Arab average of 6.67 points, the global average of 6.84 points, the UMICs' average score of 6.66 points and the non-GCC Arab countries' score of 6.17 points. Lebanon's score on the Regulation of Credit, Labor & Business regressed by 10.4% year-on-year, that on the Legal System & Property Rights decreased by 7.9%, its score on the Freedom to Trade Internationally fell by 1.6% and the outcome on the Size of the Government dropped by 0.6%; while the country's score on the Access to Sound Money improved by 2.5% year-on-year.

Further, Lebanon ranked ahead of Germany and behind South Korea on the Access to Sound Money category, which reflects the consistency of monetary policy with long-term price stability, as well as the ease of using other currencies via domestic and foreign bank accounts. Lebanon ranked behind only Albania and Mauritius among UMICs, and came first among Arab countries on this category. Lebanon ranked ahead of Jordan and behind El Salvador on the Size of Government category, which indicates the level of the country's reliance on the political process to allocate resources, goods and services. Lebanon came in first place among UMICs and Arab countries.

In parallel, Lebanon ranked ahead of Gabon and behind Cameroon on the Legal System & Property Rights category. This category assesses the judicial independence, the protection of property rights, the degree of military interference in the rule-of-law and politics, the integrity of the legal system and the legal enforcement of contracts, among other factors. Also, Lebanon ranked ahead of only Gabon, Argentina, Angola, Libya and Venezuela among UMICs; while it ranked ahead of only Yemen and Libya in the Arab world. The survey noted that countries with major deficiencies in this category are unlikely to prosper, regardless of their performance in the other four categories. The Fraser Institute is a Canada-based independent research organization whose mission is to study and measure the impact of competitive markets and government intervention on the welfare of individuals.



Source: Fraser Institute, Byblos Research

Components of the 2015 Economic Freedom Index for Lebanon

	Global Rank	Arab Rank	UMIC Rank	Lebanon Score	Global Avg Score	Arab Avg Score	UMIC Avg Score
Size of Government	12	1	1	8.25	6.46	6.15	6.48
Access to Sound Money	20	1	3	9.60	8.15	7.85	7.94
Regulation of Credit, Labor & Business	96	11	35	6.23	7.07	6.96	6.95
Freedom to Trade Internationally	136	9	23	6.34	7.04	6.80	6.86
Legal System & Property Rights	133	14	36	4.02	5.45	5.61	5.09

Source: Fraser Institute, Byblos Research



Tourist spending in Lebanon up 2% in the third quarter of 2015

Figures issued by Global Blue, the VAT refund operator for international shoppers, show that total spending by tourists in Lebanon increased by 2% in the third quarter of 2015 from the same quarter last year. Visitors from Saudi Arabia accounted for 14% of total tourist expenditures in the third quarter of 2015, followed by visitors from the UAE with 13%, Kuwait with 6%, Egypt and France with 5% each, Jordan, Qatar, Nigeria and the United States with 4% each, Syria with 3%, and Iraq with 2%; while visitors from other countries accounted for the remaining 35%. Beirut attracted 77.1% of total spending in the covered quarter, followed by the Metn area with 13.5%, Tripoli with 4.8%, the Keserwan region with 2.7% and the Baabda district with 1.2%. Fashion & clothing accounted for 72% of total spending in the third quarter of 2015, followed by watches & jewelry with 13%, home & garden products with 4%, department stores with 3%, and souvenirs & gifts and consumer electronics & household appliances with 1% each.

Spending by visitors from Jordan increased by 33% year-on-year in the third quarter of 2015, followed by those from the United States (+23%), Qatar (+19%), Egypt (+17%), the UAE and France (+13% each), Saudi Arabia (+9%) and Iraq (+5%). In contrast, spending by visitors from Syria contracted by 40% year-on-year, followed by those from Kuwait (-14%) and Nigeria (-11%). In parallel, spending on souvenirs & gifts rose by 28% from the third quarter of 2014, followed by expenditures on watches & jewelry (+6%), home & garden products (+4%), and fashion & clothing (+1%); while spending on consumer electronics & household appliances dropped by 16% and that in department stores remained unchanged year-on-year. Also, the total number of refund transactions by visitors in the third quarter of 2015 increased by 9% annually. The total number of refund transactions by visitors from Jordan rose by 38% year-on-year in the third quarter of 2015, followed by Egypt (+34%), Iraq (+32%), the United States (+24%), Qatar (+23%), Nigeria (+13%), the UAE (+12%) and France (+9%). In contrast, the number of refund transactions by visitors from Syria decreased by 24%, those by visitors from Kuwait declined by 8%, while those by visitors from Saudi Arabia remained unchanged year-on-year.

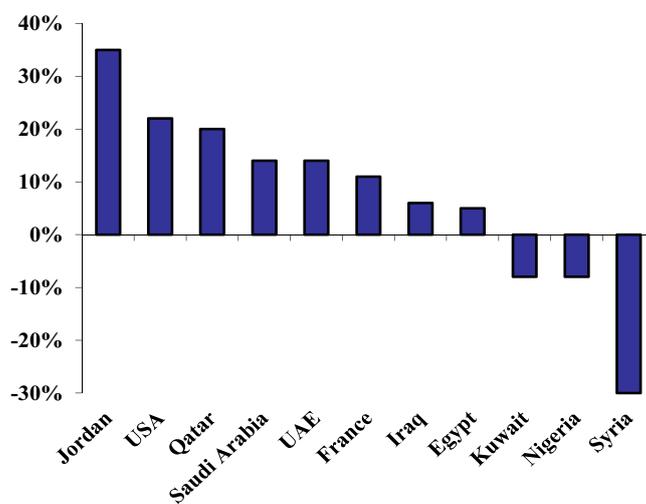
In parallel, total spending by tourists in Lebanon increased by 5% year-on-year in the first nine months of 2015. Spending by visitors from Jordan rose by 35%, followed by those from the United States (+22%), Qatar (+20%), Saudi Arabia and the UAE (+14% each), France (+11%), Iraq (+6%) and Egypt (+5%); while spending by visitors from Syria contracted by 30%, and spending by visitors from Nigeria and Kuwait fell by 8% each. Also, the total number of refund transactions by visitors grew by 4% year-on-year in the first nine months of 2015. The number of refund transactions by visitors from Jordan increased by 26% in the first nine months, followed by those from Qatar (+23%), Iraq (+20%), Egypt and the UAE (+10% each), the United States (+8%), Saudi Arabia (+7%), France (+3%) and Nigeria (+1%). In contrast, refund transactions by visitors from Syria fell by 29%, while those from Kuwait declined by 8% year-on-year in the first nine months of 2015.

Airport passengers up 10.5% in first nine months of 2015

Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures, transit) totaled 5,548,350 in the first nine months of 2015, constituting an increase of 10.5% from the same period last year. The total number of arriving passengers rose by 10.1% year-on-year to 2,709,556 in the first nine months of 2015, compared to increases of 6.7% in the same period of 2014 and of 3.4% in the first nine months of 2013. Also, the number of departing passengers rose by 10.5% year-on-year to 2,815,881 in the first nine months of 2015, relative to increases of 1.7% in the same period of 2014 and of 8.5% in the first nine months of 2013.

In parallel, the airport's aircraft activity rose by 6.4% year-on-year to 51,647 take-offs and landings in the first nine months of 2015, compared to an increase of 2.4% in the first nine months of last year and a decrease of 1.4% in the same period of 2013. Middle East Airlines had 18,209 flights in the first nine months of 2015, accounting for 35.3% of total aircraft movement at the HIA. It was distantly followed by Egyptian Airlines with 1,956 flights, or 3.8% of the total, Turkish Airlines with 1,870 flights and Qatar Airways with 1,834 flights (3.6% each), Iraqi Airways with 1,649 flights and Fly Dubai with 1,634 flights (3.2% each). In parallel, the HIA processed 68,959 metric tons of cargo in the first nine months of 2015 that consisted of 68,596 tons of freight and 363 tons of mail.

Total Spending by Visitors in First Nine Months of 2015 (Percentage Change*)



* From the same period of 2014

Source: Global Blue, Byblos Research

Trade deficit narrows by 17% to \$9.8bn in first eight months of 2015

The total value of imports reached \$11.8bn in the first eight months of 2015, constituting a decrease of 16.1% from the same period of 2014; while the value of aggregate exports dropped by 10.8% to \$2bn, leading to a trade deficit of \$9.8bn, down by 17.1% year-on-year. The narrowing of the deficit was due to a decrease of \$2.3bn in imports year-on-year, given that exports fell by \$240.7m. The coverage ratio reached 16.9% in the first eight months of 2015 compared to 15.9% in the same period last year, while it reached 14.8% in August 2015 relative to 14% in August 2014. The Port of Beirut was the entry point of 71% of Lebanon's imports in the covered period, followed by the Hariri International Airport with 19.5%, the Port of Tripoli with 5.4% and the Masnaa crossing point with 1%. In parallel, the Port of Beirut was the exit point of 50% of Lebanon's exports, followed by the Hariri International Airport with 28%, the Port of Tripoli with 8.4%, the Masnaa crossing point with 7.5% and the Abboudieh crossing point with 3.9%.

The value of imported oil & mineral fuels declined by \$1.6bn, or 43.8%, year-on-year, to \$2bn; while non-hydrocarbon imports regressed by 6.7% to \$9.8bn. The imports of base metals fell by \$211.7m, or 21%, to \$802.7m in the first eight months of 2015, and those of animal products dropped by \$148.3m, or 20.7%, to \$568.7m in the covered period. The value of oil & mineral fuels accounted for 17% of total imports in the first eight months of 2015 compared to a share of 25.3% in the same period of 2014.

In volume terms, imports reached 10 million tons in the first eight months of 2015, constituting a decrease of 4.7% from 10.48 million tons in the same period last year; while exports regressed by 7% to 1.28 million tons. Imports of oil & mineral fuels dropped by 12.4% year-on-year to 4.5 million tons, while non-hydrocarbon imports grew by 2.7% annually to 5.5 million tons. Imported oil & mineral fuels accounted for 45% of total imports in the covered period relative to a 49% share in the first eight months of 2014.

China was the main source of imports with \$1.4bn or 11.9% of the total in the first eight months of 2015, followed by Italy with \$918.3m (7.8%), Germany with \$819m (6.9%), France with \$715m (6.1%), the United States with \$682.4m (5.8%), Russia with \$604.2m (5.1%) and Greece with \$513.7m (4.4%). Imports from Greece surged by 11.7% year-on-year in the first eight months of 2015 and those from Russia grew by 7.8%; while imports from France dropped by 23.5%, those from Italy fell by 23.2%, imports from the United States regressed by 22%, those from China decreased by 14.8% and those from Germany declined by 1.2% year-on-year.

Further, Saudi Arabia was the main export destination of Lebanese merchandise with \$250.4m or 12.6% of total exports, followed by the UAE with \$204.5m (10.3%), Iraq with \$153m (7.7%), Syria with \$139.2m (7%), South Africa with \$134.7m (6.8%), Jordan with \$73.1m (3.7%) and Egypt with \$57.6m (2.9%). Exports to Egypt grew by 31.2% year-on-year in the first eight months of 2015; while exports to South Africa dropped by 43.8% year-on-year, those to Jordan fell by 13.8%, exports to Syria decreased by 8.9%, those to Iraq regressed by 8%, and exports to Saudi Arabia and the UAE declined by 2.6% each.

Lebanon's main exports were prepared foodstuff with \$325.2m, or 16.3% of the total, followed by jewelry with \$297m (14.9%), machinery & mechanical appliances with \$284.8m (14.3%), chemical products with \$281m (14.1%), base metals with \$210.7m (10.6%), vegetable products with \$109.3m (5.5%) and paper & paperboard products with \$103.5m (5.2%). In parallel, re-exports totaled \$309.2m in the first eight months of 2015 compared to \$273.2m in the same period last year.

Number and surface area of new construction permits down 13% each in first eight months of 2015

The Orders of Engineers & Architects of Beirut and of Tripoli issued 9,823 new construction permits in the first eight months of 2015, constituting a decrease of 13.2% from 11,315 permits in the same period last year, and relative to a 0.7% drop in the first eight months of 2014. Mount Lebanon accounted for 42.5% of newly issued construction permits in the first eight months of 2015, followed by South Lebanon with 16.4%, Nabatieh with 13%, the North with 10.3%, the Bekaa with 10.2% and Beirut with 5.7%. The remaining 2% represents permits issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon. The number of new construction permits issued for the North dropped by 17.7% year-on-year in the first eight months of 2015, followed by Mount Lebanon and South Lebanon (-15% each), the Bekaa (-10.7%), Nabatieh (-8.9%) and Beirut (-1.6%); while permits issued for regions located outside northern Lebanon rose by 0.5% annually.

Further, the surface area of construction permits granted in the first eight months of 2015 reached 8,270,111 square meters (sqm), constituting a drop of 13% from the same period of 2014 and compared to a rise of 11.1% in the first eight months of 2014. Mount Lebanon accounted for 4,032,837 sqm or 48.8% of total construction permits in the covered period. It was followed by the North with 1,058,831 sqm (12.8%), the South with 919,250 sqm (11.1%), the Bekaa with 694,568 sqm (8.4%), Nabatieh with 666,976 sqm (8.1%) and Beirut with 460,120 sqm (5.6%). The remaining 437,529 sqm, or 5.3% of total construction permits, represent the surface area of permits that were issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon. The surface area of construction permits issued for Beirut decreased by 41.4% annually in the first eight months of the year, followed by South Lebanon (-15.5%), the North (-15.2%), the Bekaa (-10.5%), Mount Lebanon (-9.5%), Nabatieh (-5.2%) and other regions located outside northern Lebanon (-3%). In parallel, cement deliveries totaled 2.7 million tons in the first seven months of 2015 and dropped by 27.4% annually, relative to increases of 1.1% in the same period of last year and 7.2% in the first seven months of 2013.

Net public debt at \$60bn at end-August 2015

Lebanon's gross public debt reached \$68.9bn at the end of August 2015, constituting an increase of 3.5% from the end of 2014 and a rise of 4.5% from \$65.9bn at end-August 2014. Domestic debt totaled \$42.7bn at the end of August 2015, rising by 4.3% from end-2014 and by 7.5% year-on-year; while debt in foreign currency stood at \$26.2bn, constituting an increase of 2.1% from the end of 2014 and was unchanged from a year earlier. Local currency debt accounted for 62% of gross public debt at the end of August 2015 compared to 60.3% a year earlier, while foreign currency-denominated debt represented the balance of 38% relative to 39.7% a year earlier. The weighted interest rate on outstanding Treasury bills was 6.93% and that on Eurobonds was 6.44% as at August 2015. Further, the weighted life on Eurobonds was 5.74 years, while that on Treasury bills was 1,211 days.

Commercial banks held 47.7% of the local public debt at the end of August 2015 compared to 52% a year earlier. They were followed by the Central Bank with 35.6%, up from 30.7% at end-August 2014; while public agencies, financial institutions and the public accounted for 16.8% of local debt compared to 17.2% at the end of August 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 4.3%, multilateral institutions with 3.7%, and Paris II loans with 0.2%. Also, commercial banks held 54.4% of the total public debt, followed by the Central Bank with 23%; public institutions, non-bank financial institutions and the public with 12.5%; bilateral and multilateral loans with 3.1%; and other holders with 7%. The net public debt, which excludes public sector deposits at the Central Bank and at commercial banks from overall debt figures, increased by 7.7% year-on-year to \$59.9bn. 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.

Value of cleared checks down 7.5%, returned checks up 3% in first eight months of 2015

The value of cleared checks reached \$46.1bn in the first eight months of 2015, constituting a decrease of 7.5% from the same period of 2014, compared to increases of 4.1% in the first eight months of 2014 and of 1.5% in the same period of 2013. The value of cleared checks in Lebanese pounds rose by 1.7% year-on-year to the equivalent of \$12.2bn, while the value of cleared checks in US dollars declined by 10.4% annually to \$33.9bn in the first eight months of 2015. The dollarization rate of cleared checks decreased from 75.9% to 73.5% in the first eight months of 2015.

Also, the value of returned checks in domestic and foreign currency grew by 3.4% year-on-year to \$1bn in the first eight months of 2015, relative to decreases of 1.4% in the same period of 2014 and of 2.8% in the first eight months of 2013. In parallel, there were 8.2 million cleared checks in the first eight months of 2015, down by 4.2% from the same period last year. Also, there were 155,600 returned checks in the covered period, down by 6.8% from 166,900 in the first eight months of 2014.

Public-sector personnel cost up 14% in first four months of 2015, absorbs 34% of fiscal spending

Figures issued by the Ministry of Finance show that public-sector personnel cost totaled \$1.6bn in the first four months of 2015, constituting an increase of 13.6% from \$1.4bn in the same period last year. Salaries, wages and related benefits accounted for 66% of the total in the first four months of the year, followed by retirement benefits (23.7%), transfers to public institutions to cover salaries (6.7%) and end of service indemnities (3.7%). The increase in personnel cost reflects a rise across all of its components. Personnel cost represented the largest component of total primary spending and accounted for 66% of such expenditures in the first four months of 2015 compared to 55% in the same period of 2014. Also, personnel cost absorbed 34% of total fiscal spending in the covered period, up from 31% in the same period last year.

In parallel, salaries, wages and related benefits paid to public-sector employees totaled \$1bn in the first four months of 2015, constituting an increase of 13.1% from the same period last year. This category includes basic salaries, employment benefits, allowances, contributions to civil servants' cooperatives, as well as contributions to other mutual funds providing health insurance for specific categories of civil servants, mainly judges, religious judges and employees at the Parliament.

Salaries and benefits of military personnel reached \$686.6m and accounted for 65.7% of salaries, wages and related benefits paid in the public sector, followed by educational personnel with \$197m (18.9%), civil staff with \$108.1m (10.3%), the government's contribution to the employees' cooperative with \$44.4m (4.3%) and customs employees with \$8m (0.8%). Also, the Lebanese Army's salaries totaled \$462.4m in the first four months of 2015 and represented 67.3% of the military personnel's salaries and benefits. They were followed by the salaries of the Internal Security Forces with \$160.5m (23.4%), those of the General Security Forces with \$49.1m (7.1%) and the State Security Forces with \$13.9m (2%).

The overall increase in salaries, wages and related benefits paid to public-sector employees reflects a rise of \$74.3m in allowances, an expansion of \$29.2m in basic salaries and an increase of \$17.9m in other payments given to non-military bodies, such as bonuses. They were offset in part by a drop of \$0.7m in employment benefits. The increase in allowances was allocated almost in full to military personnel. Overall, basic salaries grew by 4.1% year-on-year to \$737m in the first four months of 2015, allowances increased by 62% to \$194.4m and other payments expanded by 45% to \$57.7m, while employment benefits dropped by 1.4% to \$47.8m.



Commercial banks' assets reach \$182bn at end-August 2015

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$181.6bn at the end of August 2015, reflecting increases of 3.4% from the end of 2014 and of 6.6% from end-August 2014. Private sector deposits totaled \$149.6bn, growing by 3.6% from the end of 2014 and by 5.7% from a year earlier. Deposits in Lebanese pounds reached \$52.4bn and rose by 5.9% from the end of 2014 and by 8.6% from end-August 2014; while deposits in foreign currency totaled \$97.2bn, up by 2.4% from the end of 2014 and by 4.2% from a year earlier. Non-resident foreign currency deposits totaled \$27.3bn at the end of August 2015 and increased by 3.4% from end-2014 and by 6.6% from a year earlier. The aggregate amount of non-resident deposits reached \$31.7bn at the end of August and rose by 4.6% from end-2014 and by 8.3% from a year earlier. Total private sector deposits increased by \$577.8m in February, by \$731.7m in March, by \$2bn in April, by \$393.4m in May, by \$689.9m in June and by \$1.2bn in August 2015, while they regressed by \$274m in January and by \$188.4m in July 2015. In comparison, deposits decreased 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, by \$1.5bn in June, by \$965.8m in July and by \$200.3m in August 2014. As such, total private sector deposits grew by \$5.2bn in the first eight months of 2015 compared to an increase of \$5.3bn in the same period of 2014. Resident private sector deposits rose by \$3.8bn in the covered period relative to a growth of

\$4.5bn in the first eight months of 2014; while non-resident deposits grew by \$1.4bn in the first eight months of 2015 compared to a rise of \$798m in the same period last year. In parallel, deposits of non-resident banks reached \$6.3bn at the end of August 2015, constituting increases of 7.2% from end-2014 and of 15% from a year earlier. The dollarization rate of deposits reached 65% at the end of August 2015, down from 65.9% a year earlier. Further, the average deposit rate in Lebanese pounds was 5.61% in August 2015, up from 5.51% in the same month of 2014, while the same rate in US dollars was 3.19% compared to 3.13% in August 2014.

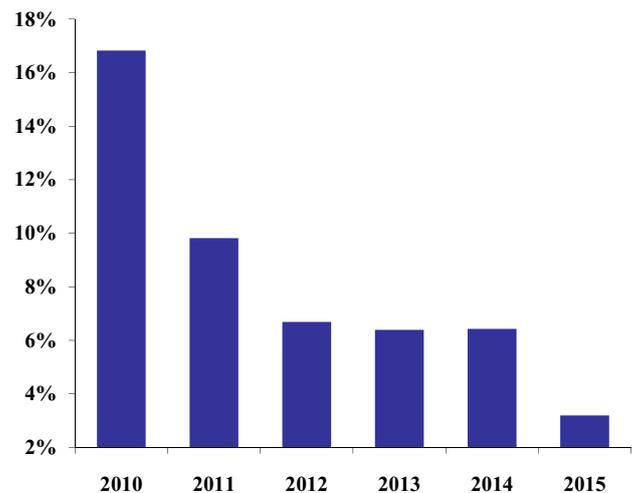
Loans to the private sector reached \$52.4bn at the end of August 2015, constituting increases of 3% from the end of 2014 and of 5.4% from a year earlier. In nominal terms, credit to the private sector rose by \$1.5bn in the first eight months of 2015 relative to an increase of \$2.4bn in the same period of 2014. Lending to the resident private sector grew by \$1.45bn in the first eight months of 2015 relative to a rise of \$2.67bn in the same period of 2014; while credit to the non-resident private sector rose by \$60.4m in the covered period compared to a drop of \$309.1m in the first eight months of 2014. Lending to the resident private sector totaled \$46.8bn, up by 3.2% from the end of 2014 and by 6% from the end of August 2014; while credit to the non-resident private sector reached \$5.6bn and rose by 1.1% from end-2014 and by 0.4% from the end of August 2014. The dollarization rate in private sector lending regressed to 74.6% at the end of August 2015 from 75.8% a year earlier. The average lending rate in Lebanese pounds was 6.89% in August 2015 compared to 7.21% in the same month of 2014, while the same average in US dollars was 7.12% relative to 6.96% in August 2014. In addition, claims on non-resident banks reached \$11.3bn at the end of August 2015, representing decreases of 7.3% from end-2014 and of 1.8% from a year earlier. In parallel, claims on the public sector stood at \$37.5bn at the end of August 2015, up by 0.3% from the end of 2014 and down by 1.5% year-on-year. The ratio of private sector loans-to-deposits in foreign currency stood at 40.3%, well below the Central Bank's limit of 70% and compared to 40.5% a year earlier. In parallel, the same ratio in Lebanese pounds was 25.3% at end-August 2015, up from 24.9% at the end of August 2014. The ratio of total private sector loans-to-deposits was 35% relative to 35.1% a year earlier. The banks' aggregate capital base stood at \$16.4bn, up by 4.3% from end-2014 and by 9.2% from \$15bn at end-August 2014.

BIT Bank completes capital increase

Banque de L'Industrie et du Travail sal (BIT Bank) announced that it raised its capital from LBP5.2bn (\$3.4m) to LBP10.6bn (\$7m) through the issuance of 5.4 million new nominal ordinary shares at a par value of LBP1,000 (\$0.66) each. The bank's Extraordinary General Assembly approved the capital increase on September 28, 2015 and the increase was executed on October 7, 2015. The new shares will not be listed on the Beirut Stock Exchange, in line with previous issuances. Near East Commercial Bank sal (NECB) and BIT Bank announced in 2014 that they are merging to form a new entity. The capital increase is part of the merger process, which is expected to be finalized by the end of 2015. The shareholders of NECB will hold 51% of the new bank's capital, while the shareholders of BIT Bank will hold the remaining 49%. Mr. Fouad El Khazen, Chairman & General Manager of BIT Bank, will become the Honorary Chairman of the new bank; while NECB's Chairman Mr. Mario Saradar will take on the role of Chairman and Chief Executive Officer of the new entity. The Central Bank of Lebanon is expected to withdraw NECB's license following the completion of the merger.

BIT Bank posted consolidated net profits of \$0.66m in 2014, up 12.5% from \$0.59m in 2013. Its assets reached \$731.8m at the end of 2014 and grew by 1% from a year earlier; while net loans & advances to customers, excluding loans & advances to related parties, regressed by 4.3% to \$192.4m at end-2014. Also, customer deposits, excluding deposits from related parties, totaled \$567.1m at end-2014 and increased by 3% year-on-year.

Resident Private Sector Lending Growth* (% Change)



* in the first eight months of each year

Source: Association of Banks in Lebanon, Byblos Research

Profits of Syrian affiliates of Lebanese banks at \$6m in first half of 2015 when excluding foreign exchange gains on structural positions

Financial results issued by the affiliates of seven Lebanese banks operating in Syria show that their aggregate net profits reached SYP24.5bn in the first half of 2015, constituting a rise of 5.4 times from net earnings of SYP4.5bn in the same period last year due to unrealized foreign exchange gains on structural positions. In US dollar terms, the net profits of the seven banks improved by 3.8 times from \$31.1m in the first half of 2014 to \$118.3m in the same period of 2015. The US dollar figures reflect the prevailing official exchange rates during the covered period. The aggregate net profits of the seven banks become SYP1.3bn, or \$6.1m, in the first half of 2015 when excluding foreign exchange gains on structural positions, compared to net losses of SYP1.5bn, or \$10.2m, in the first half of 2014. The profits of Fransabank Syria improved by SYP3.3bn, followed by an increase of SYP3.29bn in those of Bank Audi Syria, a rise of SYP3.19bn in those of Banque BEMO Saudi Fransi, a growth of SYP3.05bn in the profits of Byblos Bank Syria, an improvement of SYP2.66bn in those of Bank of Syria & Overseas and an increase of SYP1.92bn in the profits of Bank Al-Sharq, the affiliate of Banque Libano-Française. In parallel, the net income of Syria Gulf Bank, the affiliate of First National Bank, shifted from a loss of SYP867.8m to a gain of SYP1.7bn year-on-year.

The net interest income of the seven banks totaled SYP3.8bn in the first half of 2015, up 77.9% from SYP2.1bn in the same period last year; while their net fees & commission income increased by 50.8% to SYP2.2bn. In US dollar terms, the banks' net interest income totaled \$18.4m in the first half of the year, up 25.3% from \$14.7m in the first half of 2014; while their net fees & commission income stood at \$10.4m, reflecting a growth of 6.2% from \$9.8m in the same period last year. The seven banks' total operating income reached SYP30.7bn in the first half of 2015, a rise of three times year-on-year due to the increase in unrealized foreign exchange gains on structural positions; while total operating expenses reached SYP4.9bn in the first half of the year, down 18.6% from the same period last year. In US dollar terms, the banks' operating income totaled \$147.9m in the first half of the year relative to \$70.1m in the same period last year; while their operating expenses stood at \$23.6m, down 42.7% from \$41.2m in the first half of 2014. The banks' operating income becomes SYP7.4bn in the first half of the year when excluding foreign exchange gains on structural positions, relative to SYP4.2bn in the same period last year.

In parallel, the banks' aggregate assets reached SYP548.7bn at the end of June 2015 and increased by 14.1% from SYP480.7bn at end-2014. In US dollar terms, the assets of the seven banks dropped by 6% from \$2.7bn at the end of 2014 to \$2.5bn at the end of June 2015. The assets of Bank of Syria & Overseas increased by SYP25.4bn, followed by those of Fransabank Syria (+SYP18.4bn), Banque BEMO Saudi Fransi (+SYP15.4bn), Syria Gulf Bank (+SYP5.9bn) and Bank Al-Sharq (+SYP5.8bn). Also, the banks' total loans reached SYP104.2bn or \$478m at end-June 2015, reflecting a rise of 13.9% from SYP91.5bn the end of 2014. The loans' increase was mainly caused by an improvement of SYP5.6bn in the lending of Banque BEMO Saudi Fransi, followed by an increase in the loans of Fransabank Syria and Bank Al-Sharq (+SYP3.5bn each), Byblos Bank Syria (+SYP2.4bn) and Syria Gulf Bank (+SYP1.8bn). In US dollar terms, the aggregate loans of the seven banks reached \$478m at the end of June 2015 and regressed by 6.2% from \$509.6m at the end of 2014.

Also, the banks' customer deposits totaled SYP361.2bn at the end of June 2015 and grew by 2.8% from the end of 2014. The increase was due to a rise of SYP9.5bn in the deposits of Bank Syria & Overseas, an increase of SYP8.6bn in those of Banque BEMO Saudi Fransi, an improvement of SYP4bn in the deposits of Fransabank Syria, a growth of SYP2.7bn in those of Syria Gulf Bank and a rise of SYP781m in the deposits of Bank Al-Sharq. In US dollar terms, customer deposits at the seven banks reached \$1.7bn at the end of June 2015, constituting a drop of 15.4% from \$2bn at the end of 2014. The ratio of the banks' loans-to-customer deposits stood at 28.9% at the end of June 2015 compared to 26% at end-2014. Also, the aggregate shareholders' equity of the banks reached SYP74.5bn, or \$341.8m, at the end of June 2015, constituting an increase of 49.1% from SYP50bn at end-2014.

Results of Affiliates of Lebanese Banks in Syria for First Half of 2015 (in US\$)

	Banque BEMO Saudi Fransi	Bank of Syria & Overseas	Fransabank Syria	Bank Audi Syria	Byblos Bank Syria	Syria Gulf Bank	Bank Al-Sharq
Total Assets	\$0.71bn	\$0.60bn	\$0.33bn	\$0.29bn	\$0.24bn	\$0.20bn	\$0.15bn
% Change*	11.1%	24.1%	34.3%	-2.2%	-2.6%	15.5%	22.3%
Loans	\$151.5m	\$30.4m	\$68.8m	\$64.5m	\$68m	\$55.6m	\$39.2m
% Change*	20.4%	-4.6%	30.5%	-21.1%	19.8%	17.2%	68.8%
Customer Deposits	\$0.58bn	\$0.37bn	\$0.12bn	\$0.20bn	\$0.14bn	\$0.15bn	\$0.09bn
% Change*	7.3%	13.5%	17.9%	-11.6%	-24.7%	8.9%	4%
Net Profits	\$21.8m	\$15.4m	\$23.9m	\$22.4m	\$15.5m	\$8.2m	\$11.1m

*Change from end-2014

Source: Banks' financial statements

Selected technology firms proceed to second phase of accelerator program

The UK Lebanon Tech Hub (UKLTH) announced that it selected 15 out of 45 companies to proceed to the second phase of its international accelerator program in London for a period of six months. The 15 firms are Transterra Media sal, SLIDR, Markelligent (Smart Solutions), Roadie (By Band industries), Sensio Air, CardioDiagnostics, Thatsoyoo, Brate, Keeward, Slighter, Infosysta (App4Legal), Parentville, Game Cooks, Skoolee - Mobile App, and Tourist Tube. The UKLTH program aims to support Lebanese technology start-ups and to provide them with global market access. The second phase of the accelerator program aims to help firms in implementing their internationalization plans. It also intends to provide business development, skillsets and networks in London and Beirut. The UKLTH has partnered with several specialized companies in London to help support and develop the finalists during the second phase of the program. In parallel, the program will also accelerate 11 companies in Beirut that are targeting regional expansion in the Middle East & North Africa region. The firms consist of Netiks 360 Bank, BIM POS, Bnooki, Bluering, Silex, Ubility, Presella, Born Interactive, Urbacraft, Referd and HedgeSight.

The Central Bank of Lebanon and the United Kingdom government, through the British Embassy in Beirut, announced in June 2015 the selection of 45 companies to undergo the first phase of the UKLTH program that lasted four months. The selected firms received one-on-one mentorship and business support from international entrepreneurs and experts to help them develop growth plans in order to compete in global markets. The 45 companies are in financial technology, e-commerce, crowd-funding platforms, mobile applications, as well as hardware and software solutions. Companies based in Lebanon accounted for 39 of the selected firms, while two companies are based in the United Kingdom, two firms in the United States, one firm is based in France and one in the UAE. Companies that did not qualify for the second round will have an opportunity to qualify again after improving their weaknesses identified in the first round. The UKLTH is supported by UK-based PA Consulting Group and was created in response to Intermediate Circular 331 that the Central Bank issued in August 2013.

Bank of Beirut to exercise call option on preferred shares

The Board of Directors of Bank of Beirut sal approved on September 26, 2015 the redemption and cancellation of 2,400,000 Series "E" Preferred Shares at a price of \$25 per share. The shares carry an annual dividend of 8% per share and are non-cumulative, perpetual and redeemable. The shares will be officially delisted from the Beirut Stock Exchange by the end of 2015. In parallel, Bank of Beirut is currently weighing its options on how to cover the LBP3.38bn (\$2.24m) that represent the nominal value of the cancelled shares in the bank's capital. It noted that it could either issue new shares or transfer funds from its free reserves and retained earnings to its capital account. Bank of Beirut's share capital currently consists of 74,599,400 shares that include 50,467,400 common shares; 4,762,000 Priority Shares Series 2014; 2,400,000 Series "E" Preferred Shares; 3,570,000 Series "G" Preferred Shares; 5,400,000 Series "H" Preferred Shares, 5,000,000 Series "I" Preferred Shares and 3,000,000 Series "J" Preferred Shares.

United Commercial Assurance's net profits at \$2.7m in 2014

United Commercial Assurance sal (UCA) announced audited net profits of \$2.7m in 2014, constituting a decrease of 19.9% from net gains of \$3.3m in 2013. Its audited balance sheet shows total assets of \$43.1m at the end of 2014, reflecting an increase of 7.4% from \$40.2m at end-2013. On the assets side, general company investments totaled \$28.9m and increased by 9.5% from a year earlier. They included \$10.4m in cash & cash equivalents that rose by 7.4%, \$4.4m in variable income investments that increased by 0.9%, \$4.4m in land & real estate investments that dropped by 1.3% and \$1.3m in fixed income investments that rose by 48.7% year-on-year. Also, they included \$8.1m in bank deposits and deposits with maturity of more than three months, of which \$1.4m, or 17.6%, were blocked in favor of the Economy Ministry as guarantees. Also, reinsurance share in technical reserves for the life category amounted to \$0.5m and decreased by 78.1% year-on-year, while the reinsurance share in technical reserves for the non-life category reached \$4.2m in 2014, constituting an increase of 8.9% from a year earlier.

On the liabilities side, technical reserves for the life segment declined by 65.6% year-on-year to \$0.9m, while technical reserves for the non-life category reached \$13.7m at end-2014 and increased by 4.6% from a year earlier. Non-life technical reserves included unearned premium reserves of \$10.9m that rose by 2.7%, outstanding claims reserves of \$2.3m that increased by 9.6%, and \$0.1m in reserves incurred but not reported that grew by 25.6% year-on-year. Provisions for risks and charges reached \$0.4m and rose by 9.1% from the previous year. Also, the firm's shareholders' equity totaled \$21.2m at end-2014, up by 10% from \$19.3m a year earlier.

Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked United Commercial Assurance in 19th and in 25th place in 2014 in terms of non-life and life premiums, respectively. The firm's non-life premiums amounted to \$14.8m, constituting an increase of 7.7% year-on-year; while life premiums reached \$0.9m, constituting an improvement of 4.8% from the previous year. It had a 1.4% share of the local non-life market and a 0.2% share of the life market.

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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