

LEBANON THIS WEEK

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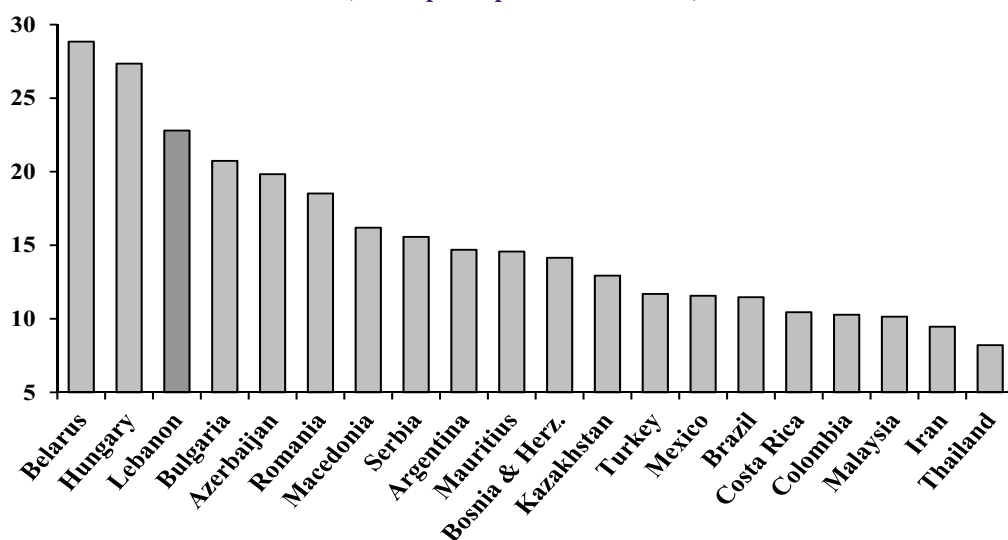
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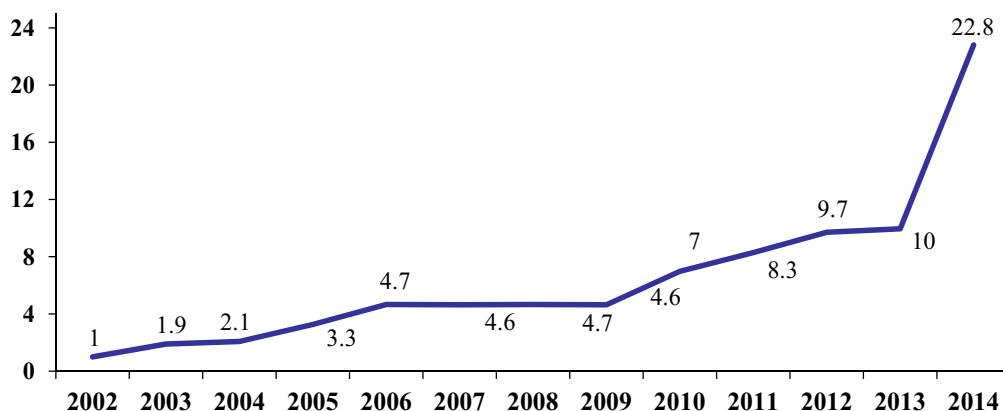
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Charts of the Week

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



Fixed Broadband 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

"Delays in key fiscal reforms because of the political vacuum have strained government finances."

Moody's Investors Service, on one of the negative impacts on public finances from the absence of a President

Number of the Week

87.2%: Urban population in Lebanon as a percentage of the total population, compared to the global average of 50.7%, 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
Solidere "A"	10.57	3.93	58,104	9.48%
Solidere "B"	10.83	5.87	41,736	6.32%
Audi GDR	6.00	0.00	33,110	6.26%
Byblos Common	1.62	(0.61)	27,545	5.22%
BLOM Listed	9.43	0.32	18,735	18.19%
BLOM GDR	9.70	0.00	2,980	6.43%
Audi Listed	5.74	3.24	1,600	20.59%
Byblos Pref. 08	100.70	0.00	0	1.81%
Byblos Pref. 09	100.70	0.00	0	1.81%
HOLCIM	15.00	0.00	0	2.63%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Jan 2016	8.500	101.72	3.08
Mar 2017	9.000	106.50	4.46
Nov 2018	5.150	100.75	4.89
May 2019	6.000	102.75	5.16
Mar 2020	6.375	103.50	5.48
Apr 2021	8.250	111.50	5.80
Oct 2022	6.100	101.00	5.92
Jun 2025	6.250	100.25	6.21
Nov 2026	6.600	101.38	6.42
Feb 2030	6.650	100.50	6.60

Source: Byblos Bank Capital Markets

	September 14-18	September 7-11	% Change	August 2015	August 2014	% Change
Total Shares Traded	223,970	240,313	(6.80)	2,758,559	6,941,456	(60.26)
Total Value Traded	\$2,588,299	\$3,348,059	(22.69)	\$36,050,573	\$42,076,299	(14.32)
Market Capitalization	\$11.15bn	\$10.99bn	1.38	\$11.17bn	\$10.95bn	1.97

Source: Beirut Stock Exchange (BSE)



Lebanon has highest prepaid cellular package rate in Arab world

A survey about the cellular market in the Arab world by telecommunications research firm Arab Advisors Group indicated that Lebanon had the highest prepaid cellular fees among 15 Arab countries as of May 2015. Lebanon's cellular prepaid fees are \$25 per month and are substantially higher than the Arab average of \$7.67 and the Arab median of \$5.32. The prepaid fees include credit available for usage as well as telecom fees and taxes. Credit available for usage in Lebanon is \$22.73 per month, equivalent to 91% of the total fees, the fourth highest such ratio among Arab countries behind only the UAE, Oman and Syria. The remaining \$2.27 represents related telecom fees and taxes. The survey covers 39 cellular operators and their rates in Algeria, Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia and the UAE. It ranked countries based on prevailing cellular rates, including applicable taxes, as of May 2015.

In parallel, Lebanon's average prepaid cellular package rate came at \$163.15 per month, the highest in the Arab world and well above the Arab average rate of \$65.76 and the region's median of \$60.43. Lebanon came in the "high cost" category when compared to its GDP per capita, along with Oman, Libya, Tunisia and Morocco. The packages take into consideration on-net and off-net local voice minutes and mobile Internet usage.

In terms of usage, the average rate of the "light usage" prepaid package is \$83.5 per month in Lebanon, which is the highest in the Arab world and is substantially higher than the region's average rate of \$32.13 and the Arab median of \$33.09 per month. The light package consists of 250 to 300 local minutes and 300 megabytes (MB) of Internet usage per month. The average "light usage" fee in Lebanon is \$35 more expensive than that in Saudi Arabia (\$48.62), the second most expensive country in this category.

In addition, the average fee of the "medium usage" prepaid package is \$135.5 per month in Lebanon, which is the highest in the region and is substantially higher than the Arab average rate of \$56.72 and the median of \$58.38 per month. The medium package consists of 500 local minutes and 500MB of Internet usage per month. The average "medium usage" fee in Lebanon is \$55 more expensive than the fees in Oman (\$80.62), the second most expensive country for the "medium usage" prepaid package.

Finally, the average fee of the "large usage" prepaid package is \$270.45 per month in Lebanon, which is the highest rate in the region and is higher than the Arab average rate of \$111.27 and the median of \$113.73 per month. The large package consists of 1000 local minutes and 1GB of Internet usage per month. The average "large usage" fee in Lebanon is \$120 more expensive than the fees in Oman (\$153.45), the second most expensive country for this type of package.

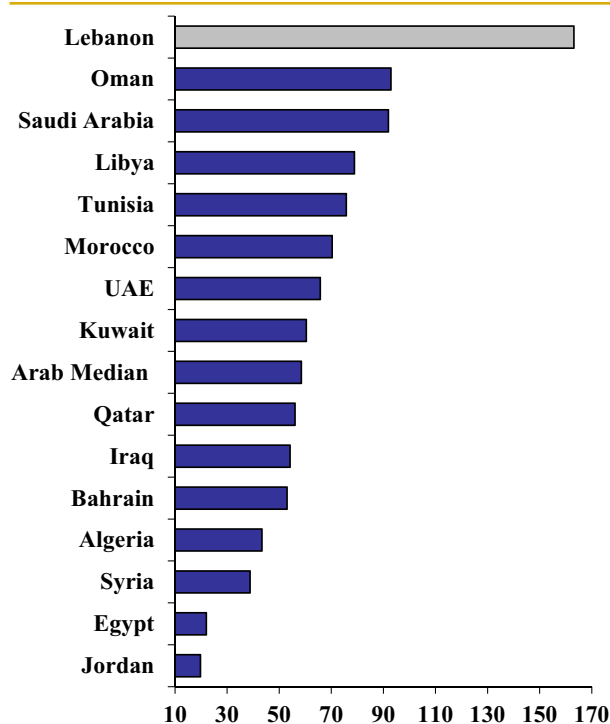
In parallel, the survey indicated that the validity period of prepaid recharge cards is 30 days in Lebanon, the shortest among Arab countries and compared to unlimited validity in each of the UAE and Algeria and to an average of 279 days among the remaining Arab countries.

Value of real estate transactions down 14% to \$5.1bn in first eight months of 2015

Figures released by the Ministry of Finance indicate that there were 39,783 real estate transactions in the first eight months of 2015, constituting a decrease of 12.3% from 45,348 deals in the same period of 2014. In comparison, the number of real estate transactions rose by 3.3% in the first eight months of 2014 and dropped by 4.6% in the same period of 2013. Also, the aggregate value of real estate transactions reached \$5.1bn in the first eight months of 2015, constituting a drop of 13.8% from \$5.9bn in the same period of 2014. In comparison, the value of real estate deals totaled \$5.3bn in the first eight months of 2013 and \$4.7bn in the same period of 2012.

In parallel, the average value per real estate transaction was \$127,187 in the first eight months of 2015, down by 1.7% from an average value of \$129,440 in the same period of 2014 and relative to \$121,049 in the first eight months of 2013. Further, there were 914 real estate transactions executed by foreigners in the first eight months of 2015, increasing by 36.4% from 670 deals in the same period of 2014, and compared to annual decreases of 16.6% in the first eight months of 2014 and of 8.1% in the same period of 2013. The number of real estate transactions by foreigners accounted for 2.3% of total real estate deals in the first eight months of 2015 compared to 1.5% of total deals in the same period last year and to 1.8% of total deals in the first eight months of 2013.

Prepaid Cellular Package Rates in Arab Countries (US\$)



Source: Arab Advisors Group

Lebanon ranks 74th globally, sixth among Arab countries in terms of innovation

The 2015 Global Innovation Index ranked Lebanon in 74th place among 141 countries around the world and in sixth place among 14 Arab countries. Lebanon also came in 22nd place among 38 upper-middle income countries (UMICs) included in the survey. Lebanon ranked in 77th place globally among 143 countries in the 2014 survey and in eighth place among 14 Arab countries. The index measures innovation in a broad sense and includes scientific innovation, as well as social and business innovation. It captures the multi-dimensional aspects of innovation and provides the tools that can assist in tailoring policies to promote long-term economic growth, improved productivity and job creation. It rates the innovation level of each country on a scale from zero to 100, with a score of 100 reflecting the most innovative economy. The index is a composite of 79 variables that are grouped into two sub-indices, the Innovation Input Sub-Index and the Innovation Output Sub-Index. The countries included in the index represent 95.1% of the world's population and 98.6% of global GDP. The index is co-published by the INSEAD Business School, Cornell University, and the World Intellectual Property Organization.

Global Innovation Index 2015			
	Score	Arab Rank	Global Rank
Saudi Arabia	40.7	1	43
UAE	40.1	2	47
Qatar	39.0	3	50
Bahrain	37.7	4	59
Oman	35.0	5	69
Lebanon	33.8	6	74
Jordan	33.8	7	75
Tunisia	33.5	8	76
Kuwait	33.2	9	77
Morocco	33.2	10	78
Egypt	28.9	11	100
Algeria	24.4	12	126
Yemen	20.8	13	137
Sudan	15.0	14	141

Source: INSEAD, Cornell University, WIPO, Byblos Research

Globally, Lebanon has a higher innovation level than Jordan, Tunisia and Kuwait, and is less innovative than Peru, Argentina and Georgia. Regionally, it has a lower level of innovation than Saudi Arabia, the UAE, Qatar, Bahrain and Oman. It also ranked ahead of Jordan and behind Argentina among UMICs. Lebanon received a score of 33.8 points, which is below the global average of 37.01 points and the UMIC's average of 34.58 points, but is higher than the Arab average of 32.08 points. Also, its score came below the Gulf Cooperation Council (GCC) countries' average of 37.62 points, but was above the average of non-GCC Arab countries of 27.93 points.

In parallel, Lebanon ranked ahead of Vietnam, Botswana and Jordan, and came behind Moldova, Kazakhstan and Morocco globally on the Innovation Input Sub-Index. This category covers the elements of the national economy that enable innovative activities, such as institutions, human capital & research, infrastructure, market sophistication, and business sophistication. Lebanon also ranked behind only the UAE, Qatar, Saudi Arabia, Bahrain, Oman and Morocco regionally; while it came ahead of Botswana and behind Kazakhstan among UMICs.

Further, Lebanon ranked ahead of the Philippines, Kenya and Sri Lanka, while it came behind Mongolia, Brazil and Colombia globally on the Innovation Output Sub-Index. This category reflects the results of innovative activities within the economy such as technology, knowledge and creativity. Lebanon ranked ahead of only Morocco, Egypt, the UAE, Algeria, Yemen and Sudan in the region; while it came ahead of Angola and behind Colombia among UMICs. Switzerland has the highest innovation level worldwide with an average score of 68.3 points, while Sudan has the lowest innovation level globally with an average score of 15 points.

Components of the 2015 Global Innovation Index for Lebanon							
	Global Rank	Arab Rank	UMIC Rank	Lebanon Score	Global Avge Score	Arab Avge Score	UMIC Avge Score
Innovation Input	77	7	25	40.5	43.3	39.4	41.4
Institutions	95	10	32	53.1	62.1	57.0	58.9
Human Capital & Research	42	3	5	38.1	31.2	30.6	29.9
Infrastructure	80	10	26	36.5	39.3	40.6	38.8
Market Sophistication	100	7	27	42.4	32.2	30.4	33.6
Business Sophistication	77	5	20	32.6	28.4	24.7	28.2
Innovation Output	76	8	23	27.1	30.7	24.7	27.8
Knowledge & Technology	93	9	24	22.4	28.2	21.8	25.1
Creativity	73	8	20	31.8	26.8	24.3	26.2

Source: INSEAD, Cornell University, WIPO, Byblos Research



Central Bank encourages banks to subscribe to upcoming Eurobond issue

In the monthly meeting between the Central Bank and the Association of Banks in Lebanon (ABL), Governor Riad Salamé indicated that the currency market is stable despite the prevailing circumstances, that interest rates are steady and that liquidity is available in the market. He expected bank deposits to grow by 6% and for lending to expand by 5% in 2015 despite a projected real GDP growth of close to zero percent. He reaffirmed that the Central Bank would provide another financial stimulus package in 2016.

Governor Salamé stated that he forwarded a draft circular about the restructuring of non-performing loans to the ABL for consultation. But he noted that it would be up to each bank to take the necessary actions, on a case by case basis, regarding these loans. He added that the draft circular is a precautionary measure given the current economic and political conditions, as the NPL ratio continues to be low at 3.6%.

In parallel, Governor Salamé indicated that Standard & Poor's did not downgrade Lebanon's sovereign ratings, but revised the outlook on the ratings to 'negative' from 'stable'. He agreed with the ABL about the need to raise awareness among the political class on the risks that would stem from the sustained deterioration in the political and security conditions, their impact on the sovereign ratings and, in turn, on the banking sector and the cost of financing the government. He encouraged banks to subscribe to the upcoming Eurobond issue, as the success of the issuance would have a positive impact on the country and on the banking sector. He noted that banks and the Central Bank have enough liquidity to subscribe to the new issue. The ABL noted that the government is relying on domestic banks for its financing needs in foreign currency, but is ignoring their calls for implementing reforms.

In parallel, the Central Bank and the Banking Control Commission pointed out that bank clients are allowed to reimburse in full their subsidized loans prior to maturity if the loan beneficiary dies or stops working. They said that if clients wish to close their subsidized loan prior to maturity, then they should pay the difference between the subsidized interest rate and the prevailing market rate. Governor Salamé hoped that banks would thoroughly study applications for medium- and long-term subsidized loans and would only grant them when needed.

In parallel, the ABL indicated that the Capital Market Authority (CMA) is not allowed to request the lifting banking secrecy, as this falls under the mandate of the Special Investigation Commission to combat money laundering. Governor Salamé indicated that the CMA should respect the banking secrecy, and can only monitor anonymous transactions carried on financial instruments. He added that banks should have a separate registry for trading operations.

Public-sector personnel cost up 10% in first two months of 2015, absorbs 40% of fiscal spending

Figures issued by the Ministry of Finance show that public-sector personnel cost totaled \$740.3m in the first two months of 2015, constituting an increase of 10% from \$673.3m in the same period last year. Salaries, wages and related benefits accounted for 67.1% of total personnel cost in the first two months of the year, followed by retirement benefits (25.2%), transfers to public institutions to cover salaries (5.5%) and end of service indemnities (2.2%). 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 62% of such expenditures in the first two months of 2015 compared to 53% in the same period of 2014. Also, personnel cost absorbed 40% of total fiscal spending in the covered period, up from 35% in the same period last year.

In parallel, salaries, wages and related benefits paid to public-sector employees totaled \$497.5m in the first two months of 2015, constituting an increase of 12.4% 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 \$349.6m and accounted for 70.3% of salaries, wages and related benefits paid in the public-sector, followed by educational personnel with \$84.2m (16.9%), civil staff with \$53.1m (10.7%), government contribution to the employees' cooperative with \$6.6m (1.3%) and customs employees with \$4m (0.8%). The distribution of military personnel salaries and benefits shows that the Lebanese Army's salaries totaled \$236.2m in the first two months of 2015 and represented 67.6% of the military personnel's salaries and benefits. They were followed by salaries of the Internal Security Forces with \$85.6m (24.5%), General Security Forces with \$22.6m (6.5%) and State Security Forces with \$6m (1.7%).

The overall increase in salaries, wages and related benefits paid to public-sector employees reflects a rise of \$55.1m in allowances, an expansion of \$2.7m in basic salaries and an increase of \$1.3m in employment benefits. They were offset in part by a \$4m drop in other payments given to non-military bodies such as bonuses. The increase in allowances was allocated almost in full to military personal. Overall, basic salaries grew by 0.8% year-on-year to \$355m in the first two months of 2015, allowances increased by 113.7% to \$103.5m and employment benefits expanded by 6.1% to \$23.2m, while other payments decreased by 25% to \$11.9m.

Lebanon ranks 99th globally, ninth in Arab world in budget transparency

The International Budget Partnership's Open Budget Index for 2015 ranked Lebanon in 99th place among 102 countries globally and in ninth place among 11 Arab countries included in the survey. Lebanon ranked in 69th place among 100 countries globally and in third place among nine Arab countries in the 2012 survey. Lebanon also ranked in last place among 32 upper-middle income countries (UMICs) included in the current survey. The index measures the timeliness and comprehensiveness of publicly available budget information in eight key budget documents. The survey scores countries on a scale from zero to 100, with zero representing the lowest level of transparency. Each country is classified as a provider of 'extensive' information, 'significant' information, 'some', 'minimal', and 'scant or no' information. The International Budget Partnership determined a country's placement within a performance category by averaging responses to 109 questions about the information contained in eight key budget documents that all countries should make available to the public. The documents are the Pre-Budget Statement, the Executive's Budget Proposal, the Enacted Budget, the Citizens' Budget, In-Year Reports, a Mid-Year Review, a Year-End Report, and an Audit Report. The 2015 Index assesses events, activities or developments that occurred prior to end-June 2014.

Arab Countries' Scores & Rankings			
	Score (%)	Arab Rank	Global Rank
Jordan	55	1	32
Tunisia	42	2	65
Morocco	38	3	72
Yemen	34	4	79
Algeria	19	5	86
Egypt	16	6	90
Sudan	10	7	93
Iraq	3	8	98
Lebanon	2	9	99
Qatar	0	10	101
Saudi Arabia	0	10	101

Source: International Budget Partnership, Byblos Research

Globally, Lebanon has a similar level of budget transparency than Myanmar while it is more transparent than only Qatar and Saudi Arabia. Lebanon's level of budget transparency reached 2% in 2015, regressing from 33% in 2012 and placing it in the category of governments that provide 'scant or no' budgetary information, along with 17 countries worldwide that include six Arab countries. Lebanon's level of budget transparency came significantly below the global average of 45.4%, the UMICs' average of 44.9% and the Arab region's average of 19.9%.

The International Budget Partnership indicated that the Lebanese government has reduced the availability of budget information since 2012. It said that the government is currently producing the Executive's Budget Proposal for internal use only, while it used to be available to the public. Also, it noted that the government has failed to publish the In-Year Reports in a timely manner. In addition, it pointed out that the government does not to produce a Pre-Budget Statement, an Enacted Budget, a Citizens' Budget, a Mid-Year Review and an Audit Report. It noted that only the Year-End Report is available to the public in Lebanon. It considered that authorities should publish an Executive's Budget Proposal and In-Year Reports in a timely manner; while they should produce and publish an Enacted Budget, Citizens Budget, and Audit Report.

Central Bank clarifies definition of banks' loan portfolio categories

The Central Bank issued Intermediary Circular 396 dated September 8, 2015 that modifies Basic Circular 9794 dated December 14, 2007 about the content of Lebanese banks' main credit portfolios. The circular clarifies what banks should include in their retail portfolio, as well as in their corporate and small and medium-sized entities' (SME) portfolios.

First, the circular limited the definition of the retail loans' portfolio to housing loans; to consumer loans such as car, student and education loans; and to revolving credits, including credit and debit cards.

Second, it indicated that the SME loans' portfolio includes loans granted to members of liberal professions such as doctors, engineers and lawyers in order to finance their professional activities. Also, the SME portfolio covers loans granted to sole proprietorships or to corporations whose annual turnover and assets do not exceed the equivalent of \$10m each and that have a maximum of 60 employees. In addition, the SME portfolio includes personal loans granted to individuals in order to finance their private investments, if they repay the loan through their company's revenues and if their company is classified as an SME as per the Central Bank's definition. Prior to the amendments, sole proprietorships or corporations in SME portfolios had to just have an annual turnover of \$5m or less, with no ceiling on the amount of assets or on the number of employees.

Third, the circular specified that the corporate loans' portfolio should include loans granted to sole proprietorships or to corporations whose annual turnover and assets exceed the equivalent of \$10m each and that have more than 60 employees; as well as loans granted to insurance companies regardless of their turnover. It added that the corporate portfolio should include personal loans granted to individuals to finance their private investments, provided that the loans are repaid through their company's revenue, and only if their company would fall under the corporate portfolio. Prior to the amendments, sole proprietorships or corporations in the corporate portfolio had to have an annual turnover of \$10m or more with no limits on assets or on the number of employees. The circular indicated that corporations include general partnerships, limited partnerships, jointly-owned companies, and joint-stock companies, including holdings, partnerships limited by shares, limited liability companies and offshore companies.

Airport passengers up 9.5% in first eight months of 2015

Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures, transit) totaled 4,796,822 in the first eight months of 2015, constituting a rise of 9.5% from the same period last year. The total number of arriving passengers rose by 9.2% year-on-year to 2,378,448 in the first eight months of 2015, compared to increases of 4.9% in the same period of 2014 and of 4% in the first eight months of 2013. Also, the number of departing passengers rose by 9.8% year-on-year to 2,404,356 in the first eight months of 2015, relative to a decline of 0.3% in the same period of 2014 and an increase of 9.9% in the first eight months of 2013.

In parallel, the airport's aircraft activity rose by 5.5% year-on-year to 44,953 take-offs and landings in the first eight months of 2015, compared to an increase of 1.7% in the first eight months of last year and a decrease of 1.9% in the same period of 2013. Middle East Airlines had 15,919 flights in the first eight months of 2015, accounting for 35.4% of total aircraft movement at the HIA. It was distantly followed by Egyptian Airlines with 1,738 flights, or 3.9% of the total, Turkish Airlines with 1,646 flights (3.7%), Qatar Airways with 1,624 flights (3.6%), Fly Dubai with 1,454 flights (3.2%) and Iraqi Airways with 1,417 flights (3.2%). In addition, the UAE was the main source of flights to Lebanon and the primary aircraft destination from the HIA in the first eight months of 2015, with a total of 6,146 flights or 13.7% of total aircraft movement at the HIA. In parallel, the HIA processed 61,186 metric tons of cargo in the first eight months of 2015 that consisted of 60,859 tons of freight and 327 tons of mail.



Standard & Poor's changes to 'negative' the outlook on Bank Audi, BankMed and BLOM Bank

Standard & Poor's revised its outlook on the long-term ratings of Bank Audi, BankMed and BLOM Bank to 'negative' from 'stable'. It simultaneously affirmed the 'B-' long-term counterparty credit ratings on the three banks, and the 'C' short-term counterparty credit ratings on Bank Audi and BankMed. The agency attributed the outlook revision to its earlier change of the outlook on Lebanon's long-term sovereign ratings to 'negative' from 'stable' due to the negative impact on growth from domestic political uncertainties and regional instability, as well as to the reduced ability of policymakers to implement medium- and long-term macroeconomic reforms.

S&P said that the three banks are highly exposed to their domestic operating environment, especially through their very large exposure to the sovereign, despite their sound geographic diversification and their risk-control strategies since the start of the Syrian conflict in March 2011. It noted that the banks' sovereign exposure relative to their equity has declined in recent years, but it is still at very high levels. It expected the banks' holdings of Lebanese government and Central Bank debt instruments to continue to represent a multiple of common shareholders' equity of each bank in the foreseeable future. As such, it pointed out that the banks' ratings do not exceed the sovereign ratings and that the banks' financial performance is closely linked to Lebanon's solvency. S&P pointed out that specific factors to each bank that would prompt a change in its respective ratings appear limited at this stage, given the close links between the banks' creditworthiness and that of the sovereign.

New car sales up 2% in first eight months of 2015

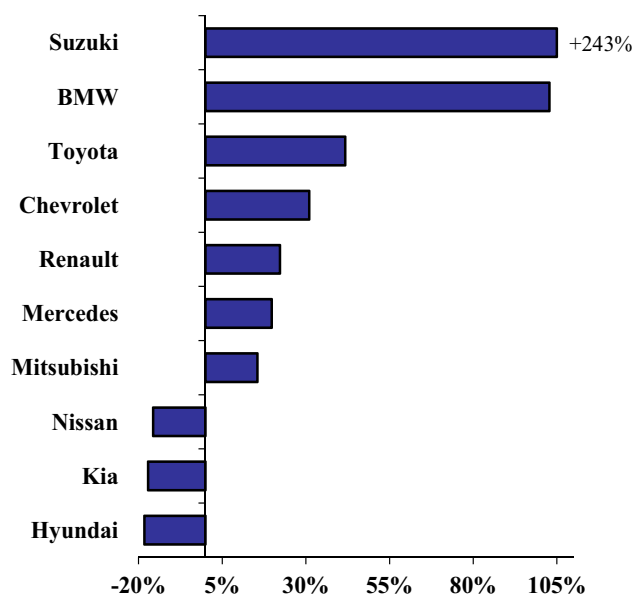
Figures released by the Association of Automobile Importers in Lebanon (AIA) indicate that dealers sold 25,891 new passenger cars in the first eight months of 2015, constituting a rise of 2.1% from 25,357 cars sold in the same period of 2014. Consumers purchased 2,436 new cars in January, 2,141 automobiles in February, 2,966 cars in March, 3,198 vehicles in April, 3,481 cars in May, 3,825 automobiles in June, 4,241 cars in July and 3,603 vehicles in August 2015. Japanese cars accounted for 38.5% of total sales in the first eight months of 2015, followed by Korean cars with a 34.5% share, European automobiles (20.6%), American vehicles (5.7%) and Chinese cars (0.7%). The number of American vehicles sold rose by 27.1% year-on-year, sales of Japanese cars grew by 19.2% and European cars sold increased by 15.3%; while the number of new Chinese vehicles sold dropped by 50.9% year-on-year and sales of Korean cars regressed by 17.5%. Kia is the leading brand in the Lebanese market with 4,855 cars sold in the first eight months of 2015, followed by Toyota with 4,270 in new car sales, Hyundai (4,067), Nissan (2,735), Renault (1,093) and Suzuki (877). In parallel, 1,476 new commercial vehicles were sold in the first eight months of 2015, down by 4.4% from 1,544 vehicles in the same period last year.

The AIA attributed the modest increase in the sale of new passenger cars to the Central Bank's decision to impose a minimum down payment of 25% of the retail price on auto loans, as well as to the challenging domestic economic, political and security conditions in the country. The AIA reiterated that the majority of new cars sold are small-engine automobiles with a low selling price. The number of new vehicles sold by the country's top five distributors reached 19,214 in the first eight months of 2015 and accounted for 70.2% of new car sales. NATCO sal sold 4,855 vehicles, equivalent to 17.7% of the total, followed by Boustany United Machineries sal with 4,536 vehicles (16.6%), Century Motor Co. sal with 4,147 (15.2%), Rasamny Younis Motor Co. sal with 3,111 (11.4%) and Bassoul Heneiné sal with 2,565 (9.4%).

Bank Audi's Extraordinary General Assembly approves capital increase

The Extraordinary General Assembly of Bank Audi sal, held on September 8, 2015, approved the cancellation of the Series "E" Preferred Shares and the increase of the bank's capital to LBP668.2bn from LBP667.8bn divided into 358,495,224 nominal shares for a par value of LBP1,656 per share (\$1.1). The Central Bank approved the increase in the bank's capital on August 11, 2015. The Series "E" Preferred Shares were issued in March 2010, carried an annual dividend of 6% per share, and were non-cumulative, perpetual and redeemable after five years from issuance date. Following the cancellation, the bank's capital would consist of 399,749,204 common shares; 1,500,000 Series "F" Preferred Shares, 1,500,000 Series "G" Preferred Shares and 750,000 Series "H" Preferred Shares.

Sales of Top 10 Car Brands in First Eight Months
(% change*)



* from the first eight months of 2014

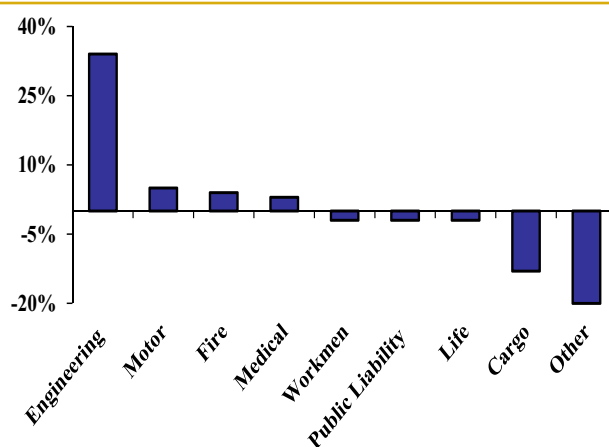
Source: AIA, Byblos Research

Insurance premiums up 1% year-on-year to \$782m in first half of 2015, claims and benefits up 2% to \$356m

Figures released by the Association of Insurance Companies in Lebanon (ACAL) indicate that insurance premiums generated in Lebanon totaled \$782.3m in the first half of 2015, constituting an increase of 0.8% from \$775.8m in the same period last year.

Medical insurance premiums reached \$270m in the first half of the year and accounted for 34.5% of the sector's aggregate premiums. They were followed by life premiums with \$207.1m (26%), motor premiums with \$165m (21.1%), fire premiums with \$61.9m (7.9%), workmen compensation with \$26.6m (3.4%), cargo premiums with \$17.8m (2.3%), public liability premiums with \$9m (1.2%) and engineering premiums with \$5m (0.6%); while premiums from other categories totaled \$19.9m and accounted for 2.5% of the total. Engineering premiums grew by 34% annually in the first half of 2015, motor premiums rose by 5%, fire premiums increased by 4%, and medical premiums improved by 3%. In contrast, compensation from other categories contracted by 20%, cargo premiums declined by 13%, and public liability, workmen and life premiums decreased by 2% each.

Change in Claims Paid in First Half of 2015



Source: ACAL, Byblos Research

In parallel, ACAL indicated that total benefits and claims paid by insurance companies stood at \$356.4m in the first half of 2015, constituting a rise of 1.8% from the same period of 2014. Benefits and claims paid for non-life categories totaled \$277m and dropped by 0.5% year-on-year, while claims disbursed for the life category amounted to \$79.5m and grew by 10.8% from the same period last year. Medical claims accounted for 42.1% of total payments in the first half of 2015, followed by motor claims (24.6%), life claims (22.3%), workmen's claims (4%), fire claims (3.8%) and cargo claims (1.2%), public liability claims (0.7%) and engineering claims (0.3%); while claims from other categories accounted for 1% of the total. Medical claims surged by 4% year-on-year in the first half of 2015 and fire claims rose by 2% from the first half of 2014; while public liability claims dropped by 36% year-on-year, claims from other categories decreased by 24%, engineering claims regressed by 20%, cargo claims decreased by 18%, workmen claims declined by 12% and motor claims regressed by 1%.

Further, unit-linked policies accounted for 59.6% of total life premiums and for 19.4% of the total number of life contracts in the first half of 2015, while life protection plans represented 40.4% of total life premiums and 80.6% of the total number of life contracts in the covered period. ACAL noted that medical insurance premiums covering Lebanese citizens rose by 3% year-on-year to \$263.6m in the first half of 2015, while medical insurance premiums covering expatriates grew by 5% year-on-year to \$6.4m. Finally, it indicated that non-compulsory motor insurance premiums increased by 4% year-on-year to \$139m, while compulsory motor insurance premiums improved by 13% to \$26.1m in the first half of 2015.

Banque Libano Francaise's net profits up 3% to \$53m in first half of 2015

Banque Libano-Française sal, one of Lebanon's top 10 banks, announced unaudited consolidated net profits of \$53.1m in the first half of 2015, constituting an increase of 3% from the same period last year. Net operating income regressed marginally by 0.4% year-on-year to \$119.3m, with net interest income falling by 10.1% to \$71.4m and net fees & commissions receipts rising by 1.5% to \$21.9m. Non-interest income accounted for 31.3% of total income, up from 29.2% in the first half of 2014, with net fees & commissions representing 58.2% of non-interest earnings, down from 61.7% in the same period last year. Further, the bank's interest margin regressed to 1.52% in the covered period from 1.59% in the first half of 2014; while its net spread dropped to 1.46% from 1.54% in the same period last year. Total operating expenditures declined by 4.6% to \$58.2m, with staff expenses decreasing by 3.4% to \$37m. The bank's return on average assets reached 0.98% in June 2015 on an annualized basis, up from 0.95% in June 2014; while its return on average equity was 10.75% relative to 11.45% in June 2014. The cost-to-income ratio declined to 48.35% in the first half of 2015 from 50.9% in the same period last year.

In parallel, total assets reached \$11.3bn at the end of June 2015, unchanged from end-2014 and increasing by 2.9% from end-June 2014; while loans & advances to customers, excluding loans & advances to related parties, declined by 3.7% from end-2014 and by 0.6% from the end of June 2014 to \$3.8bn. Also, customer deposits, excluding deposits from related parties, totaled \$9.3bn at end-June 2015, constituting decreases of 0.7% from end-2014 and of 1.1% from end-June 2014. The loans-to-deposits ratio declined to 40.7% at end-June 2015 from 41.3% a year earlier. Further, shareholders' equity reached \$1.1bn at the end of June 2015 and rose by 6.3% from end-2014.

Assurex's net earnings at \$2.4m in 2014

Assurex Insurance & Reinsurance sal declared net profits of \$2.4m in 2014, constituting an increase of 8% from net earnings of \$2.2m in 2013. The firm's audited balance sheet shows total assets of \$67.5m at the end of 2014, up 5.4% from \$64.1m a year earlier. On the assets side, general company investments totaled \$20.6m and increased by 6.5% from end-2013. They included \$12.7m in cash & cash equivalents, \$3.2m in fixed income investments, \$1.8m in land and real estate investments, and \$0.6m in variable income investments. They also included \$2.1m in blocked bank deposits and deposits with maturity of more than three months, of which \$2.06m, or 97.5%, 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 \$2m and \$9.3m, respectively, constituting increases of 6.4% and 17.6%, respectively.

On the liabilities side, technical reserves for the life segment rose by 2.4% year-on-year to \$4.4m, while technical reserves for the non-life category reached \$26.7m at end-2014 and grew by 4.8% from a year earlier. Non-life technical reserves included unearned premium reserves of \$15.7m that decreased by 11.5% and outstanding claims reserves of \$8.8m that increased by 35.5% year-on-year. Provisions for risks and charges reached \$1m at the end of 2014 and fell by 3.6% from the previous year. Also, shareholders' equity totaled \$26.7m at end-2014, up by 4.9% from a year earlier.

Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked Assurex in 12th and in 22nd place in 2014 in terms of non-life and life premiums, respectively. The firm's non-life premiums reached \$27.9m and its life premiums amounted to \$1.5m in 2014, constituting decreases of 5.3% and 27.6%, respectively. It had a 2.7% share of the local non-life market and a 0.3% share of the life market.

First National Bank's net profits at \$14m in first half of 2015

First National Bank sal, one of Lebanon's top 14 banks, announced unaudited consolidated net profits of \$13.9m in the first half of 2015, constituting an increase of 3.8% from the same period last year. Net operating income rose by 13.5% year-on-year to \$45.5m, with net interest income dropping by 3.6% to \$22.2m and net fees & commissions receipts rising by 53% to \$6.2m. Non-interest income accounted for 24.7% of total income, up from 23.4% in the first half of 2014, with net fees & commissions representing 55.2% of non-interest earnings, up from 41.6% in the same period last year. Further, the bank's interest margin improved to 1.82% in the covered period from 1.81% in the first half of 2014; while its net spread dropped to 1.74% from 1.76% in the same period last year. Total operating expenditures surged by 22.1% to \$29.5m, with staff expenses increasing by 19.2% to \$18m. The bank's return on average assets reached 0.71% in June 2015 on an annualized basis, down from 0.74% in June 2014; while its return on average equity was 9.5% relative to 10.31% in June 2014. The cost-to-income ratio rose to 64.82% in the first half of 2015 from 57.9% in the same period last year.

In parallel, total assets reached \$3.9bn at end-June 2015, nearly unchanged from the end of 2014 and rising by 6.2% from end-June 2014; while loans & advances to customers, excluding loans & advances to related parties, improved by 4.2% from end-2014 and by 2.7% from the end of June 2014 to \$931.6m. Also, customer deposits, excluding deposits from related parties, totaled \$3.1bn at end-June 2015, constituting a decrease of 1.3% from end-2014 and an increase of 4.1% from end-June 2014. The loans-to-deposits ratio declined to 29.4% at end-June 2015 from 29.8% a year earlier. Further, shareholders' equity reached \$294.1m at end-June 2015 and rose by 1% from end-2014.

Lebanese Credit Insurer posts profits in 2014

The Lebanese Credit Insurer sal (LCI) announced audited net profits of \$80,275 in 2014 compared to net losses of \$152,193 in 2013. Its audited balance sheet shows total assets of \$10.3m at the end of 2014, constituting an increase of 15.2% from \$8.9m at end-2013. On the assets side, general company investments totaled \$4.6m and increased by 6% from a year earlier. They included \$2.7m in cash & cash equivalents that rose by 9.9%, \$0.9m in mutual funds that increased by 1.9%, and \$0.1m in variable income investments that were unchanged year-on-year. Also, they included \$0.8m in bank deposits and deposits with maturity of more than three months that were entirely blocked in favor of the Economy Ministry as guarantees. The reinsurance share in technical reserves for the non-life category amounted to \$2.5m at end-2014 and increased by 18.6% from a year earlier. It included \$2.2m of reinsurance share in claims reserves and \$0.2m share in premium reserves. Premium receivables totaled \$1.5m at the end of 2014, constituting an increase of 2.7 times from \$0.5m a year earlier.

On the liabilities side, technical reserves for the non-life category reached \$3.8m at end-2014 and rose by 29.1% from a year earlier. They included outstanding claims reserves of \$2.8m that surged by 18% and unearned premium reserves of \$0.5m that rose by 7%. Further, provisions for risks and charges reached \$0.1m and dropped by 12.6% year-on-year. Shareholders' equity rose by 1.6% from end-2013 to \$5m at end-2014.

Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked LCI in 36th place in 2014 in terms of non-life premiums. The firm's non-life premiums amounted to \$4.3m in 2014, constituting a decrease of 1.3% from 2013. It had a 0.4% share of the local non-life insurance market in 2014. LCI was established in 2001 and is the first independent specialized credit insurance company in Lebanon. It specializes in credit information, debt collection, rating, and credit management consultancy.

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

Economic Research & Analysis Department
Byblos Bank Group
P.O. Box 11-5605
Beirut – Lebanon
Tel: (961) 1 338 100
Fax: (961) 1 217 774
E-mail: research@byblosbank.com.lb
www.byblosbank.com

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BYBLOS BANK GROUP

LEBANON

Byblos Bank S.A.L
Achrafieh - Beirut
Elias Sarkis Avenue - Byblos Bank Tower
P.O.Box: 11-5605 Riad El Solh - Beirut 1107 2811- Lebanon
Phone: (+ 961) 1 335200
Fax: (+ 961) 1 339436

SYRIA

Byblos Bank Syria S.A.
Damascus Head Office
Al Chaalan - Amine Loutfi Hafez Street
P.O.Box: 5424 Damascus - Syria
Phone: (+ 963) 11 9292 - 3348240/1/2/3/4
Fax: (+ 963) 11 3348205
E-mail: byblosbanksyria@byblosbank.com

IRAQ

Erbil Branch, Kurdistan, Iraq
Street 60, Near Sports Stadium
P.O.Box: 34 - 0383 Erbil - Iraq
Phone: (+ 964) 66 2233457/8/9 - 2560017/9
E-mail: erbilbranch@byblosbank.com.lb

Baghdad Branch, Iraq
Al Karrada - Salman Faeq Street
Al Wahda District, No. 904/14, Facing Al Shuruk Building
P.O.Box: 3085 Badalat Al Olwiya - Iraq
Phone: (+ 964) 770 6527807 / (+ 964) 780 9133031/2
E-mail: baghdadbranch@byblosbank.com.lb

Basra Branch, Iraq
Intersection of July 14th, Manawi Basha Street, Al Basra - Iraq
Phone: (+ 964) 770 4931900 / (+ 964) 770 4931919
E-mail: basrabranch@byblosbank.com.lb

UNITED ARAB EMIRATES

Byblos Bank Abu Dhabi Representative Office
Intersection of Muroor and Electra Streets
P.O.Box: 73893 Abu Dhabi - UAE
Phone: (+ 971) 2 6336050 - 2 6336400
Fax: (+ 971) 2 6338400
E-mail: abudhabirepoffice@byblosbank.com.lb

ARMENIA

Byblos Bank Armenia CJSC
18/3 Amiryan Street - Area 0002
Yerevan - Republic of Armenia
Phone: (+ 374) 10 530362
Fax: (+ 374) 10 535296
E-mail: infoarm@byblosbank.com

CYPRUS

Limassol Branch
1, Archbishop Kyprianou Street, Loucaides Building
P.O.Box 50218
3602 Limassol - Cyprus
Phone: (+ 357) 25 341433/4/5
Fax: (+ 357) 25 367139
E-mail: byblosbankcyprus@byblosbank.com.lb

BELGIUM

Byblos Bank Europe S.A.
Brussels Head Office
Rue Montoyer 10
Bte. 3, 1000 Brussels - Belgium
Phone: (+ 32) 2 551 00 20
Fax: (+ 32) 2 513 05 26
E-mail: byblos.europe@byblosbankeur.com

UNITED KINGDOM

Byblos Bank Europe S.A., London Branch
Berkeley Square House
Berkeley Square
GB - London W1J 6BS - United Kingdom
Phone: (+ 44) 20 8518 8100
Fax: (+ 44) 20 8518 8129
E-mail: byblos.london@byblosbankeur.com

FRANCE

Byblos Bank Europe S.A., Paris Branch
15 Rue Lord Byron
F- 75008 Paris - France
Phone: (+33) 1 45 63 10 01
Fax: (+33) 1 45 61 15 77
E-mail: byblos.europe@byblosbankeur.com

SUDAN

Byblos Bank Africa
Khartoum Head Office
Intersection of Mac Nimer and Baladiyya Streets
P.O.Box: 8121 - Khartoum - Sudan
Phone: (+ 249) 1 56 552 222
Fax: (+ 249) 1 56 552 220
E-mail: byblosbankafrica@byblosbank.com

NIGERIA

Byblos Bank Nigeria Representative Office
161C Rafu Taylor Close - Off Idejo Street
Victoria Island, Lagos - Nigeria
Phone: (+ 234) 706 112 5800
(+ 234) 808 839 9122
E-mail: nigeriarepresentativeoffice@byblosbank.com.lb

DEMOCRATIC REPUBLIC OF CONGO

Byblos Bank RDC S.A.R.L
Avenue du Marché No. 4
Kinshasa-Gombe, Democratic Republic of Congo
Phone: (+ 243) 81 7070701
(+ 243) 99 1009001
E-mail: byblosbankrdc@byblosbank.com

ADIR INSURANCE

Dora Highway - Aya Commercial Center
P.O.Box: 90-1446
Jdeidet El Metn - 1202 2119 Lebanon
Phone: (+ 961) 1 256290
Fax: (+ 961) 1 256293