



LEBANON THIS WEEK

In This Issue

Economic Indicators.....1
Capital Markets.....1
Lebanon in the News.....2

Rising political uncertainties to weaken macroeconomic fundamentals, financing needs adequately covered

Lebanon's sovereign ratings affirmed, outlook 'stable'

Beirut is the least polluted city in the Arab world

Reduction of telecom rates to support market, government ownership of mobile networks is an obstacle to growth

Lebanon ranks in 11th place in the Arab world in ICT usage

Trade deficit up 4% to \$6bn in first four months of 2014

Usage of hotels and furnished apartments in Lebanon at 3.82 nights per person in 2013

Number of tourist arrivals down 12% in first four months of 2014

Number of real estate transactions up 9% in first four months of 2014

Customs receipts down 12% to \$431m in first four months of 2014

Corporate Highlights7

Stock market activity up 42% to \$170m in first five months of 2014

Banque BEMO's dividend payout ratio at 35% for 2013

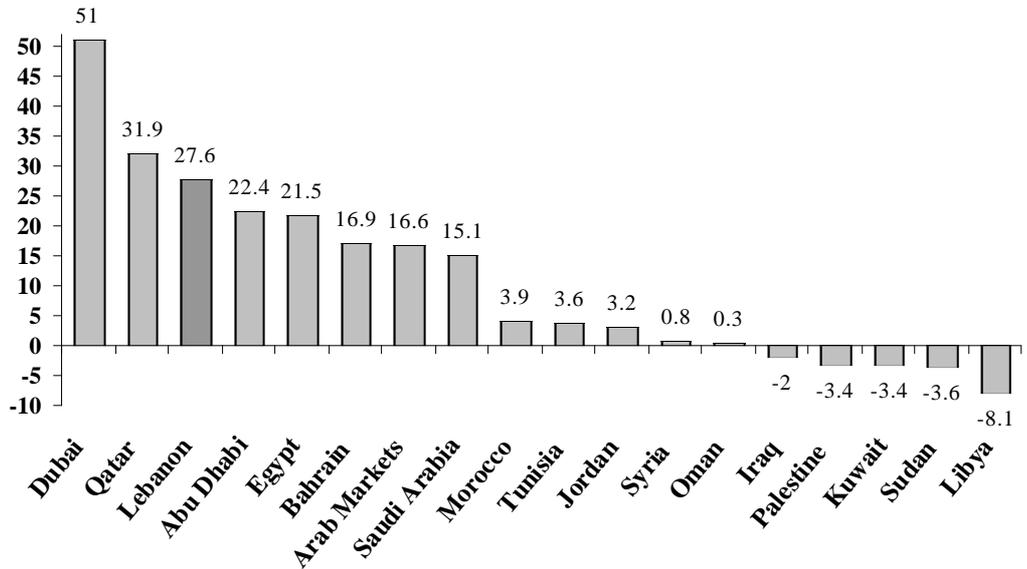
Arope's net income at \$15.3m in 2013

Bank of Beirut to raise capital by issuing priority shares

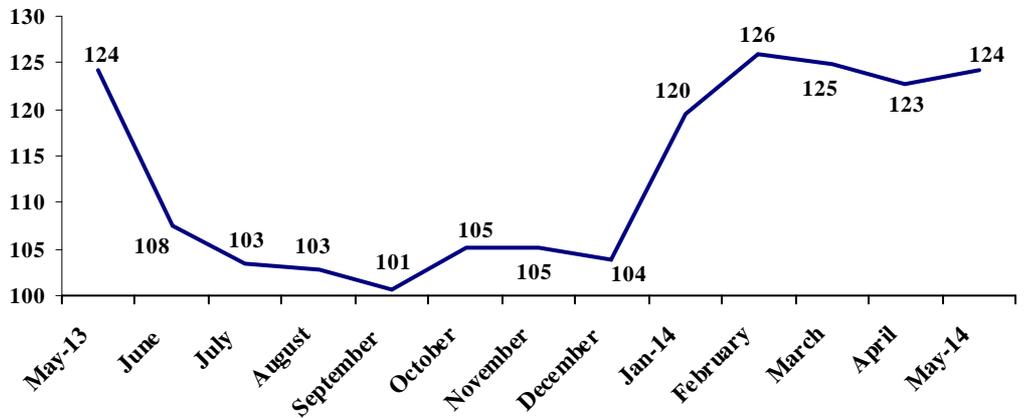
Ratio Highlights.....8
Risk Outlook8
Ratings & Outlook.....8

Charts of the Week

Performance of Arab Stock Markets in the First Five Months of 2014 (% change)



Performance of the Beirut Stock Exchange*



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

Quote to Note

"Despite the pick-up in market sentiment, a broader recovery is not yet in sight."

HSBC Bank, on the growth prospects of the Lebanese economy

Number of the Week

5: Number of times the Lebanese Parliament tried and failed to elect a new president

Economic Indicators

\$m (unless otherwise mentioned)	2012	Dec 12	Sep 13	Oct 13	Nov 13	Dec 13	% Change*
Exports	4,486	381	288	391	263	243	(36.22)
Imports	21,281	1,871	1,565	1,757	1,772	1,797	(3.96)
Trade Balance	(16,795)	(1,490)	(1,277)	(1,366)	(1,509)	(1,554)	4.30
Balance of Payments	(1,538)	312	504	(794)	(192)	534	71.15
Checks Cleared in LBP	14,976	1,337	1,473	1,516	1,451	1,562	16.83
Checks Cleared in FC	56,044	4,670	4,513	4,698	4,584	4,728	1.24
Total Checks Cleared	69,787	6,007	5,986	6,214	6,035	6,290	4.71
Budget Deficit/Surplus	(3,925)	(132.36)	(668.16)	(228.92)	(126.15)	(137.58)	3.94
Primary Balance	(109.87)	134.56	(262.33)	233.07	340.22	171.23	27.26
Airport Passengers	5,960,414	495,760	539,297	524,741	407,869	510,367	2.95

\$bn (unless otherwise mentioned)	Dec 2012	Dec 12	Sep 13	Oct 13	Nov 13	Dec 13	% Change*
BdL FX Reserves	29.97	29.97	32.03	31.86	31.78	31.70	5.77
<i>In months of Imports</i>	<i>16.02</i>	<i>16.02</i>	<i>20.47</i>	<i>18.13</i>	<i>17.93</i>	<i>17.64</i>	<i>10.13</i>
Public Debt	57.69	57.69	62.39	62.44	63.26	63.46	10.01
Net Public Debt	49.12	49.12	52.15	52.50	52.75	53.18	8.28
Bank Assets	151.88	151.88	159.26	160.63	161.92	164.82	8.52
Bank Deposits (Private Sector)	124.99	124.99	131.26	132.10	133.15	136.21	8.97
Bank Loans to Private Sector	43.45	43.45	45.88	46.50	46.81	47.38	9.05
Money Supply M2	43.17	43.17	44.49	44.72	45.05	45.60	5.63
Money Supply M3	104.01	104.01	108.49	109.02	109.34	111.16	6.87
LBP Lending Rate (%)	7.07	7.07	7.36	7.59	7.01	7.29	22b.p
LBP Deposit Rate (%)	5.41	5.41	5.37	5.44	5.47	5.44	3b.p
USD Lending Rate (%)	6.87	6.87	6.95	6.85	6.88	6.88	1b.p
USD Deposit Rate (%)	2.86	2.86	2.91	2.94	2.97	2.95	9b.p
%* Change in CPI**	4.68	4.68	4.81	5.04	4.96	3.89	(79b.p)

* Year-on-Year; ** Consumer Price Index

Note: b.p. i.e. basis point

Sources: ABL, BdL

Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization
Solidere "A"	13.75	4.32	123,696	12.29%
Solidere "B"	13.50	2.82	82,512	7.84%
Byblos Common	1.60	1.27	1,398,850	5.14%
Byblos Pref. 08	100.00	0.00	6,455	1.79%
Byblos Pref. 09	100.10	(0.69)	9,804	1.79%
BLOM GDR	9.30	0.32	21,610	6.14%
BLOM Listed	8.90	1.48	100,234	17.10%
Audi GDR	6.56	2.50	23,599	6.01%
Audi Listed	6.23	2.30	19,371	19.47%
HOLCIM	14.80	0.00	0	2.58%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Jan 2015	5.875	101.25	3.80
Apr 2015	10.000	106.00	3.14
Jan 2016	8.500	107.75	3.55
Mar 2017	9.000	112.25	4.30
Nov 2018	5.150	100.88	4.93
May 2019	6.000	103.75	5.13
Mar 2020	6.375	105.00	5.35
Apr 2021	8.250	115.25	5.55
Oct 2022	6.100	101.13	5.93
Nov 2026	6.600	102.50	6.31

Source: Byblos Bank Capital Markets

	May 26-30	May 19-23	% Change	May 2014	May 2013	% Change
Total Shares Traded	1,845,830	370,918	397.64	3,204,699	3,775,206	(15.11)
Total Value Traded	\$9,626,152	\$6,998,060	37.55	\$32,279,808	\$30,561,605	5.62
Market Capitalization	\$11.19bn	\$11.00bn	1.70	\$11.19bn	\$10.71bn	4.45

Source: Beirut Stock Exchange (BSE)



Rising political uncertainties to weaken macroeconomic fundamentals, financing needs adequately covered

Merrill Lynch changed its recommendation on Lebanon's external debt from 'Market Weight' to 'Under Weight' due to the deterioration in the country's political and macroeconomic fundamentals. It indicated that the vacuum at the presidential level by itself is not the reason for the underperformance of external debt, given that Lebanon has gone through similar events in the past and that market weaknesses were short-lived during previous periods of political stress. However, it considered that political uncertainties have increased with the failure of Parliament to elect a president, which would further weaken macroeconomic fundamentals. It noted that the presidential vacuum reflects continued political paralysis in the context of the ongoing Syrian crisis, and cautioned that it could lead to increased tensions and to a wider institutional crisis, which would further weigh on economic activity and confidence. It indicated that the steady deterioration in fundamentals over the past two years has weighed on the economy in the absence of reforms. It noted that these developments have resulted in a lower risk-reward profile for the external debt relative to other emerging market sovereigns.

In parallel, Merrill Lynch estimated the government's gross financing needs at \$14bn in 2014, equivalent to about 30% of GDP. It noted that such needs include \$9.8bn in debt amortization, \$3.9bn in debt servicing and \$0.3bn to finance the primary budget deficit. It considered that reduced debt-servicing costs and lower debt amortization levels have contained the government financing needs despite the wide fiscal deficit and the shift in the primary budget balance to a deficit since 2012. It noted that lower debt amortization reflects the lengthening of the average maturity of the domestic debt stock from 1.6 years to 3.5 years, as well as a stable maturity profile for Eurobonds at between 5.6 and 5.9 years. Further, it considered that the structure and ownership of the public debt mitigates debt rollover risks. It noted that commercial banks held 52% of the domestic public debt at the end of March 2014, followed by the Central Bank (30%) and the non-financial sector (18%). It said that foreigners hold about 2% of the domestic public debt stock market-issued. It added that Eurobonds represent 84% of foreign currency debt and that 80% of it is domestically owned.

Further, Merrill Lynch indicated that the country's gross external financing needs for 2014 include a current account deficit of \$7bn, equivalent to 15.5% of GDP, \$0.4bn or 1% of GDP in government medium-term external debt amortization, as well as \$50bn in short-term non-resident deposits, which are equivalent to 110% of GDP. It pointed out that the current account deficit has been adequately covered by sustained FDI inflows and by other private sector sources of external financing. It added that the deposit dollarization rate of the non-financial sector has remained stable at 65.4% and that total deposits continue to grow at about 7% annually in the first quarter of the year. It noted that the banking sector's resilience and high liquidity as well as the Central Bank's substantial foreign currency reserves continue to adequately mitigate external financing risks. It said that its estimate for short-term non-resident deposits represents 35% of the sector's deposits and is higher than the official share of 23% at end-2013, as some deposits remain classified as domestic even if a resident opens an account with a local address and later becomes a non-resident.

Lebanon's sovereign ratings affirmed, outlook 'stable'

Capital Intelligence affirmed Lebanon's long- and short-term foreign and local currency sovereign ratings at 'B' with a 'stable' outlook. It indicated that Lebanon's ratings reflect its adequate international liquidity and especially the country's foreign currency reserves, which constitute a buffer against external economic shocks. It noted that foreign currency reserves stood at \$37bn at the end of 2013 and were equivalent to 84% of GDP and to about 1.4 times the country's external financing needs. It considered that deposits from the Lebanese Diaspora, which are equivalent to about 120% of GDP, support the accumulation of foreign reserves, are the main source to cover the current account deficit, and indirectly allow the government to finance its fiscal deficit. It noted that non-resident deposit inflows have remained stable during previous periods of political instability, and continued to grow last year despite the rise in domestic and regional tensions.

Further, the agency said that the government benefits from a supportive domestic banking sector and continues to be able to rollover maturing external debt on favorable terms. However, it noted that the heavy reliance of external and government financing on a single source constitutes a major vulnerability for the Lebanese economy and is one of the main constraints on the ratings. It noted that the level of official foreign currency reserves is adequate in case of moderate shocks, but could prove insufficient in the event of large-scale currency conversions and deposit outflows. It expected political risks to remain high in the context of the presidential vacuum, the stalemate in Parliament and the ongoing Syrian crisis. It anticipated economic activity to remain subdued and forecast real GDP growth at 1% in 2014. It noted that the fiscal deficit widened to 9.5% of GDP in 2013 and would widen even more in 2014 in the absence of efforts to contain public spending and to mobilize additional revenues. It indicated that the public debt dynamics have deteriorated since 2012 following several years of improvements and expected the debt level to maintain its upward trend and to exceed 147% of GDP this year.

Capital Intelligence indicated that Lebanon's refinancing risks remain high, with the government's current annual gross financing requirements equivalent to about 34% of GDP. It noted that the high level of external financing needs reflects a wide current account deficit that reached 14% of GDP in 2013 and an elevated external debt level of 140% of GDP. It said that the government relies on the domestic banking system to meet the bulk of its financing needs in both local and foreign currency. As such, it anticipated that the government would be vulnerable to a political or economic shock that would adversely affect the risk appetite of local banks or the confidence of depositors. However, it said that, in the absence of such shocks, the government would be able to manage its financing needs in the short-term and that the domestic market would provide financing due to continued deposit growth.

Beirut is the least polluted city in the Arab world

Figures released by the World Health Organization (WHO) indicate that Beirut has the 311th highest level of urban outdoor air pollution among 1,528 cities in the world. Beirut also ranks as the 157th most polluted city among 347 cities in upper-middle income countries (UMICs), but is the least polluted city among 17 Arab cities included in the survey. Further, Tripoli in Northern Lebanon has the 204th highest level of urban outdoor air pollution globally and is the 98th most polluted city among UMICs, while it is the second least polluted city in the region. The WHO based its findings on measures of air quality in cities and countries using the annual mean concentration of fine particulate matter (PM10), which refers to particles smaller than 10 microns. The indicator captures measurements from monitoring stations located in urban background, urban traffic, as well as in residential, commercial and mixed-use areas. The WHO indicated that PM10 particles can penetrate into the lungs, may enter the bloodstream, and can cause heart disease, lung cancer, asthma, and acute lower respiratory infections. The level of outdoor air pollution in Beirut is 81 ug/m³, while that in Tripoli is 63 ug/m³. The WHO recommended air quality guidelines for PM10 of 20 micrograms per cubic meter (ug/m³) as an annual average.

Globally, the level of outdoor air pollution in Beirut is higher than in Rehovot in Israel, Nellore in India and Bucheon in South Korea, but is lower than in Trabzon in Turkey, Plovdiv in Bulgaria and Colombo in Sri Lanka. Also, Beirut has a higher level of air pollution than in Antalya and Konya in Turkey, and Lima in Peru, and a lower level than in Trabzon, Plovdiv and Jiujiang in China among cities in UMICs. Peshwar in Pakistan has the highest level of air pollution in the world, while Lake Havasu City in the United States has the lowest level of pollution globally.

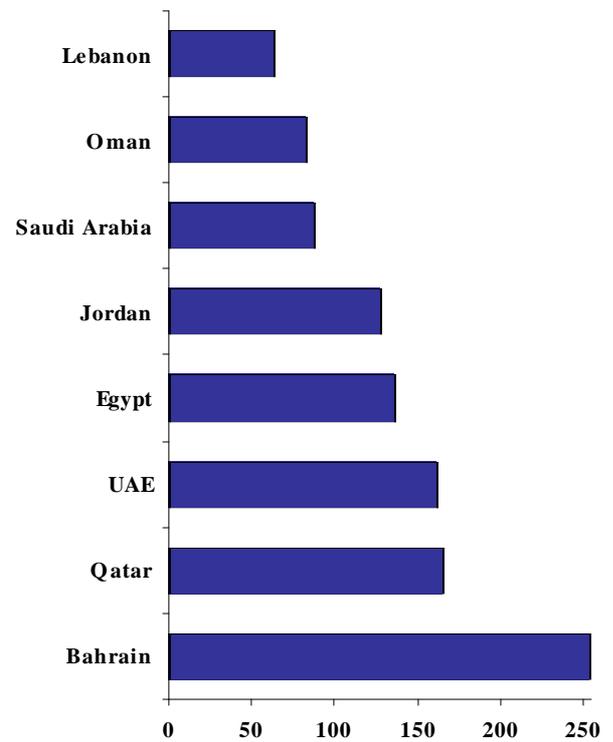
On a countrywide basis, Lebanon has the 25th highest level of outdoor air pollution among 89 countries worldwide. Air pollution in Lebanon was the sixth highest among 25 UMICs, while Lebanon was the least polluted country among eight Arab countries with available data. The level of outdoor air pollution in Lebanon is 63.4 ug/m³, which is above the global average of 71 ug/m³ and the European low- and middle-income countries' average of 49 ug/m³, but is lower than the Eastern Mediterranean low- and middle-income countries' average of 208 ug/m³. Globally, Lebanon has a higher level of outdoor air pollution than Peru, Turkey and Honduras, and a lower level than Chile, Sri Lanka and Israel. Further, air pollution in Lebanon was lower than in Jordan, Iran, China, Mexico and Mauritius among UMICs. Pakistan has the highest level of outdoor air pollution in the world, while Iceland is the least polluted country globally.

Reduction of telecom rates to support market, government ownership of mobile networks is an obstacle to growth

Business Monitor International considered that the Ministry of Telecommunications' decision to reduce telecom tariffs would improve mobile phone penetration in the country. It estimated mobile phone penetration in Lebanon at 90.4 subscriptions per 100 inhabitants at the end of 2013, which is well below the average penetration rate of 118.5 subscriptions per 100 inhabitants in the Middle East & North Africa region. It noted that 3G/4G subscriptions accounted for 36% of the total Lebanese mobile telecom market at end-2013, two years after the launch of 3G services. Further, it said that the decision to reduce the price of fixed broadband services would be beneficial for residential subscribers as well as to small- and medium-sized enterprises, and would encourage the development of new services, such as Internet Protocol television and enterprise solutions. However, it pointed out that authorities would have to upgrade the network to handle increasing traffic, specifically by replacing the current copper networks with fiber optics.

In parallel, BMI noted that, despite the reduction in tariffs, there are fundamental obstacles to the growth of Lebanon's telecommunications market. It said that the government retains full ownership of the two mobile operators, Mobile Interim Company 1 (MIC 1) and Mobile Interim Company 2 (MIC 2). It noted that short-term management contracts extended to Global Telecom Holding and to Zain to manage MIC 1 and MIC 2, respectively, have deterred the implementation of long-term investment strategies. It added that the government's ownership of the networks eliminates competition, discourages investment in network upgrades and expansion, and reduces the development of new services. It considered that this situation has led to poor quality of services, and that authorities need to implement reforms beyond price reduction in order for the telecom market to reach its full potential.

Arab Countries from Least to most Polluted*



* Based on annual mean concentration of fine particulate matter (PM10) in ug/m³

Source: World Health Organization, Byblos Research

Lebanon ranks in 11th place in the Arab world in ICT usage

The Arab ICT Use Index for 2013 ranked Lebanon in 11th place among 18 Arab countries, unchanged from the 2012 and 2011 surveys. The ICT Use Index covers four information and communications technology parameters that are the number of installed computers as well as the number of Internet users, mobile phones and fixed lines in each country. A country's score reflects the sum of the four parameters divided by its population. The index results show that ICT adoption in Lebanon is more advanced than in Egypt, Algeria, Palestine, Syria, Iraq, Sudan and Yemen. Lebanon received a score of 1.72 points in 2013 compared to 1.64 points in 2012 and relative to an average score of 1.64 points for Arab countries. Lebanon's score rose by 10.1% year-on-year compared to an average increase of 9.1% for Arab countries. Lebanon posted the ninth largest increase in the region, higher than Sudan (+9.9%), Morocco (+8.7%), Palestine (+8.6%), Tunisia (+7.2%), Qatar and Algeria (+6.5% each), Libya (+5.4%) Saudi Arabia (+1.3%) and Oman (-0.2%).

In parallel, Lebanon ranked in eighth place among 14 countries on the Arab e-Performance Index for 2013-14. The index is a composite of the Global Competitiveness Index, the Network Readiness Index, the ICT Development Index, the Global Innovation Index, the Knowledge Economy Index and the E-government Development Index. A country's score is derived from the simple average of its scores on each of these indices. Lebanon's e-performance came better than that of Tunisia, Egypt, Morocco, Algeria, Syria and Yemen. It received a score of 48.72 points, lower than the Arab average score of 50 points. The Arab e-Performance Index and the Arab ICT Use Index are co-issued by the Dubai-based ICT market research firm MADAR Research & Development company and by the Dubai-based Orient Planet PR & Marketing Communications.

Trade deficit up 4% to \$6bn in first four months of 2014

Total imports reached \$7bn in the first four months of 2014, constituting a decrease of 4.4% from the same period last year; while aggregate exports declined by 33% to \$1.1bn, leading to a trade deficit of \$6bn, up by 3.5% year-on-year. The widening of the deficit was caused by a decrease of \$528.6m in exports from the same period of 2013, as imports fell by \$325.9m year-on-year. The coverage ratio reached 15.2% in the first four months of 2014 compared to 21.7% in the same period last year. The value of imported oil & mineral fuels fell by 7.6% year-on-year to \$1.8bn, and that of non-hydrocarbon imports dropped by 3.3% to \$5.3bn. Imported oil & mineral fuels accounted for 25.1% of total imports in the covered period compared to a share of 25.9% in the same period last year.

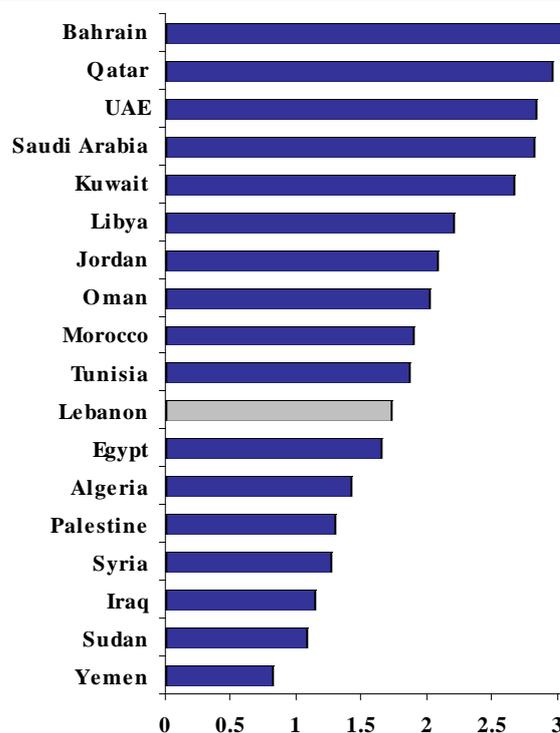
In volume terms, imports reached 5.2 million tons in the first four months of 2014, constituting an increase of 3% from the same period last year; while exports posted a 42.4% decline to 0.6 million tons, leading to a trade deficit of 4.6 million tons in the first four months of 2014, up by 14.4% year-on-year. Imports of oil & mineral fuels decreased by 1.3% year-on-year to 2.5 million tons, while non-hydrocarbon imports increased by 7.2% annually to 2.8 million tons. Imported oil & mineral fuels accounted for 47.1% of total imports in the covered period compared to a share of 49.1% in the same period last year.

China was the main source of imports with \$879.6m or 12.5% of the total in the first four months of 2014, followed by Italy with \$611.8m (8.7%), the United States with \$542.5m (7.7%), Germany with \$415m and France with \$413.7m (5.9% each), Greece with \$275.1m (3.9%) and Russia with \$263.4m (3.7%). Imports from China increased by 43% annually, those from Greece surged by 33.8% and those from Italy grew by 7.5%; while imports from Russia dropped by 48.1%, those from the United States fell by 26.3%, those from France regressed by 16% and those from the Germany declined by 4.1%.

South Africa was the main export destination with \$128.8m or 12% of the total, followed by Saudi Arabia with \$114.4m (10.7%), the UAE with \$98.7m (9.2%), Iraq with \$82.1m (7.7%), Syria with \$77.6m (7.2%), Turkey with \$48.2m (4.5%) and Jordan with \$41.1m (3.8%). Exports to Syria dropped by 73.1% year-on-year in the first four months of 2014, those to South Africa declined by 48.3%, those to Turkey dropped by 30.2%, those to the UAE fell by 14.4%, those to Saudi Arabia decreased by 12.8% and those to Jordan regressed by 7.1%; while exports to Iraq rose by 7.2% annually.

Lebanon's main export product was jewelry at \$201.2m or 18.8% of the total, followed by prepared foodstuff with \$170.1m (15.9%), machinery & mechanical appliances with \$145.3m (13.6%), base metals with \$128.5m (12%), chemical products with \$105.8m (9.9%) and paper & paperboard with \$67.5m (6.3%). Re-exports totaled \$118.1m in the first four months of 2014 compared to \$77.1m in the same period last year.

Arab ICT Usage Index for 2013



Source: Research & Development company, Orient Planet PR & Marketing Communications, Byblos Research

Usage of hotels and furnished apartments in Lebanon at 3.82 nights per person in 2013

Figures compiled by the Ministry of Tourism show that a total of 566,758 persons used hotels and furnished apartments in Lebanon and spent 2,167,017 nights in such facilities in 2013, leading to an average stay of 3.82 nights per person last year. Arab nationals, including Lebanese citizens, accounted for 63.9% of total clients and for 74% of aggregate nights in 2013. The top 5 countries accounted for 53.5% of clients and 65.3% of total nights spent, while the top 10 countries accounted for 71.8% of clients and 78.9% of total nights spent in 2013. The 2013 figures are based on data collected from 172 hotels and 68 furnished apartment facilities across Lebanon. The 2013 figures are not comparable with those of previous years given the change in the number of surveyed hotels and furnished apartments each year.

The distribution of clients by nationalities at hotels and furnished apartments indicates that there were 90,099 clients from Syria, who accounted for 15.9% of total clients in 2013. They were followed by clients from Lebanon with 88,066 (15.5%), Iraq with 53,513 (9.4%), Jordan with 40,693 (7.2%), France with 31,107 (5.5%), Egypt with 26,588 (4.7%), the United States with 22,421 (4%), Saudi Arabia with 21,735 (3.8%), England with 16,521 (2.9%) and Germany with 15,974 (2.8%). Further, customers from Syria accounted for 23.3% of the total number of nights spent, followed by those from Lebanon with 21.5%, Iraq with 10.2%, Jordan with 5.9% and France with 4.3%.

In parallel, Syrian nationals stayed an average of 5.59 nights at hotels and furnished apartments last year, the highest usage per night among Arab nationalities. They were followed by Lebanese clients (5.28 nights), as well by visitors from Qatar (4.45 nights), Djibouti (4.2 nights), Iraq (4.15 nights), Morocco (3.93 nights), Oman (3.91 nights), Saudi Arabia (3.6 nights), Algeria (3.59 nights), Yemen (3.26 nights), Jordan (3.17 nights), Bahrain and Libya (3.16 nights each), Tunisia (3.05 nights), Egypt (2.95 nights), the UAE (2.93 nights), Kuwait (2.79 nights), Sudan (2.75 nights), Palestine (2.65 nights) and Mauritania (2.19 nights).

In parallel, the length of stay per person for non-Arab visitors shows that nationals from Moldova stayed an average of 11.04 nights, followed by clients from Belarus (9.67 nights), the Czech Republic (7.09 nights), Ukraine (4.66 nights), Japan (4.37 nights), Romania (4.29 nights) and Albania (4.03 nights). The above non-Arab countries had more than 400 visitors each.

Number of tourist arrivals down 12% in first four months of 2014

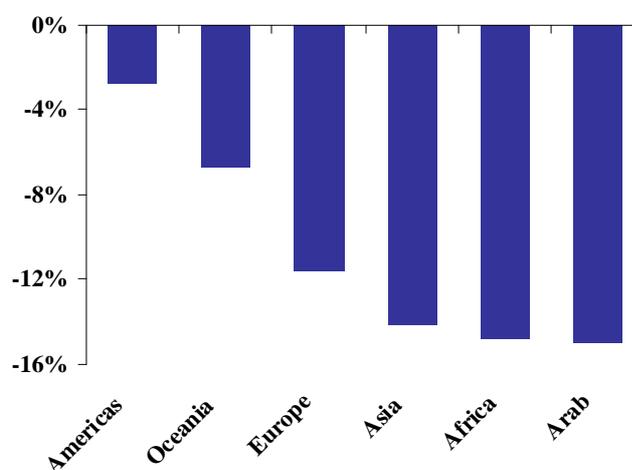
The number of incoming tourists to Lebanon totaled 331,708 in the first four months of 2014, constituting a decrease of 11.9% from 376,561 tourists in the same period of last year, a decline of 24.2% from 437,490 tourists in the first four months of 2012 and a drop of 30.2% from the same period of 2011. European tourists accounted for 33.9% of total visitors in the first four months of 2014 and were followed by visitors from Arab countries with 33.8%, the Americas with 14.8%, Asia with 9.8%, Africa with 4.6% and Oceania with 3%. Also, tourists from Iraq accounted for 13.2% of total visitors in the covered period, followed by visitors from France with 9.1%, the United States with 7.3%, Egypt with 6.1%, Jordan with 6% and Canada with 5.1%. The number of visitors from Arab countries declined by 15% year-on-year in the first four months of 2014, followed by visitors from African countries with a 14.8% decrease, Asia (-14.1%), Europe (-11.6%), Oceania (-6.7%) and the Americas (-2.7%). Further, the number of tourists from Turkey declined by 55.3% annually, followed by the UAE with a 50.1% decrease, Saudi Arabia (-47.7%), Kuwait (-46.6%), Jordan (-23.1%), England (-12%), Sweden (-11.1%), France (-8.3%), Germany (-7.1%), Canada (-3.2%), the United States (-2.9%), Venezuela (-1.6%) and Egypt (-1.5%). In parallel, the number of tourists from Iraq rose by 8.4% annually, followed by Italy with a 5.5% increase and Brazil with a 3.3% rise in the first four months of the year.

Length of Stay of Top 10 Countries in 2013

Country	Total nights	Average night per person
Syria	503,980	5.59
Lebanon	465,327	5.28
Iraq	222,095	4.15
Jordan	128,825	3.17
France	93,866	3.02
Egypt	78,430	2.95
United States	65,038	2.90
Saudi Arabia	78,215	3.60
Kuwait	43,751	2.79
Germany	39,633	2.48

Source: Ministry of Tourism, Byblos Research

Number of Tourist Arrivals in first four months of 2014*



* year-on-year percentage change

Source: Ministry of Tourism, Byblos Research

Number of real estate transactions up 9% in first four months of 2014

Figures released by the Ministry of Finance indicate that the total number of real estate transactions reached 22,038 in the first four months of 2014, constituting an increase of 8.9% from 20,244 deals in the same period last year. In comparison, the number of real estate transactions dropped by 8.6% in the first four months of 2013 and declined by 6% in the same period of 2012. Also, the aggregate value of real estate transactions totaled \$2.8bn in the first four months of 2014, constituting a rise of 23.3% from \$2.3bn in the same period last year. The value of real estate deals was \$2.5bn in the first four months of 2012 and \$2.4bn in the same period of 2011. In parallel, the average value per real estate transaction increased by 13.2% year-on-year to \$128,603 in the first four months of 2014 relative to average values of \$113,586 in the same period of 2013 and \$114,995 in the first four months of 2012.

There were 320 real estate transactions executed by foreigners in the first four months of 2014 relative to 342 deals in the same period last year, and compared to an annual decrease of 16% in the first four months of 2013 and an increase of 7.7% in the same period of 2012. In parallel, the number of real estate transactions by foreigners accounted for 1.5% of total real estate deals in the first four months of 2014, down from 1.7% in the same period last year and from 1.8% in the first four months of 2012.

Customs receipts down 12% to \$431m in first four months of 2014

Figures released by the Customs Directorate indicate that customs revenues reached \$430.7m in the first four months of 2014, constituting a decrease of 12.2% from \$490.6m in the same period last year. The Port of Beirut continues to be the main point of customs receipts, as it accounted for 87.4% of the total in the first four months of 2014, and was followed by the Hariri International Airport with 8.2%, the Port of Tripoli with 3.1%, the Port of Saida with 0.7%, the Masnaa crossing point with 0.5% and the Port of Tyre with 0.1%. Customs receipts from the value added tax totaled \$444.5m in the first four months of 2014, representing a marginal decrease of 0.3% from \$445.8m in the same period of 2013. The Port of Beirut accounted for 81.6% of such receipts, and was followed by the Hariri International Airport with 11.5%, the Port of Tripoli with 4%, the Masnaa crossing point with 2%, the Port of Saida with 0.7% and the Port of Tyre and the crossing point of Abboudieh with 0.1% each. As such, overall customs receipts reached \$875.2m in the first four months of 2014, with the Port of Beirut accounting for 84.4% of the total, followed by the Hariri International Airport with 9.9%, the Port of Tripoli with 3.5%, the Masnaa crossing point with 1.3% and the Port of Saida with 0.7%; while other entry points represented the balance.

Stock market activity up 42% to \$170m in first five months of 2014

Figures released by the Beirut Stock Exchange indicate that total trading volume reached 22.4 million shares in the first five months of 2014, constituting an increase of 28.8% from the same period of 2013; while aggregate turnover amounted to \$169.5m, up 42.4% from a turnover of \$119.1m in the first five months of 2013. Market capitalization increased by 4.4% from end-May 2013 to \$11.19bn, of which 76.7% was in banking stocks, followed by real estate stocks with 20.1%, industrial stocks with 2.8% and trading stocks with 0.3%. The market liquidity ratio was 1.5% compared to 1.1% in the first five months of 2013. Banking stocks accounted for 84.5% of aggregate trading volume in the first five months of the year, followed by real estate stocks with 15.4% and industrial stocks with 0.1%. Also, banking stocks accounted for 73.2% of the aggregate value of shares traded, followed by real estate stocks with 26.6% and industrial stocks with 0.1%. The average daily traded volume for the period was 226,580 shares for an average daily value of \$1.7m. The figures reflect increases of 30.1% in volume and 43.8% in value year-on-year.

Banque BEMO's dividend payout ratio at 35% for 2013

Banque BEMO sal announced that its Ordinary General Assembly held on May 16, 2014 approved the distribution of dividends for 2013. The bank will allocate a gross dividend payment of \$2.22m to the holders of common and preferred shares, equivalent to a 34.8% payout ratio. The Bank will pay LBP15 (\$0.01) per share for holders of common shares and \$8 per share for holders of Preferred Shares. Banque BEMO currently has 51,400,000 common shares and 350,000 Preferred Shares Issuance of Year 2013 listed on the Beirut Stock Exchange. The dividends will be paid net of a 5% withholding tax for publicly-listed shares and net of a 10% tax for those that are not publicly listed.

In parallel, the bank's Extraordinary General Assembly approved the redemption and cancellation of the 200,000 Preferred Shares Issuance of Year 2006 at \$100 per share. The Preferred Shares Issuance of Year 2006 are non-cumulative, perpetual and carried an annual dividend of 8% per share. The bank will convert part of its retained earnings to capital in order to cover the shortage in the shares' nominal value subsequent to the redemption and cancellation of the shares. The bank's capital is LBP62.6bn, or \$41.5m. Banque BEMO posted unaudited consolidated net profits of \$2.7m in the first quarter of 2014, constituting an increase of 77% from \$1.5m in the same quarter last year. Total assets reached \$1.52bn at end-March 2014, net loans & advances to customers stood at \$643.8m and customers' deposits totaled \$1.2bn at end-March 2014.

Arope's net income at \$15.3m in 2013

Arope Insurance sal announced audited net profits of \$15.3m in 2013, constituting a marginal increase of 0.4% from 2012. Its audited balance sheet shows total assets of \$313.7m at end-2013, up 9.5% from \$286.6m at end-2012. On the assets side, general company investments totaled \$190.7m, up 11.4% from \$171.3m at end-2012. They included \$55.8m in cash & cash equivalents, \$30.9m investments in subsidiaries and associates, \$9.3m in fixed income investments; and \$89m in blocked bank deposits and deposits with maturity of more than three months. Also, Unit-linked contracts investments totaled \$52.9m at end-2013, constituting a decrease of 9.7% from \$58.6m a year earlier, and were fully vested in cash and similar investments. Reinsurance share in technical reserves for the life and non-life categories amounted to \$17m and \$12.1m, respectively, constituting increases of 11% and 56.5%, respectively.

On the liabilities side, unit-linked technical reserves reached \$52.9m at the end of 2013, constituting a decline of 9.7% from end-2012. Also, technical reserves for the life segment rose by 35.1% year-on-year to \$54.8m, while technical reserves for the non-life category reached \$92m at end-2013 and increased by 6.2% from a year earlier. Non-life technical reserves included unearned premium reserves of \$73.3m that remained nearly unchanged from a year earlier, outstanding claims reserves of \$16.8m that increased by 40%, and \$0.9m in reserves incurred but not reported that rose by 8.3% year-on-year. Further, provisions for risks and charges reached \$6.7m and declined by 20% from a year earlier. In parallel, the firm's shareholders' equity totaled \$89.6m at end-2013, constituting a rise of 20.7% from \$74.2m a year earlier. *Al-Bayan* magazine's annual survey of the insurance sector in Lebanon ranked Arope in fourth and sixth place in 2013 in terms of life and non-life premiums, respectively. The firm's life premiums reached \$43.5m and non-life premiums amounted to \$56.3m, constituting increases of 10% and 2.3%, respectively. It had a 10.4% share of the life market and a 5.7% share of the local non-life market.

Bank of Beirut to raise capital by issuing priority shares

Bank of Beirut sal announced that it is raising its capital by LBP6.43bn (\$4.3m) to LBP100.7bn, or \$66.8m, through the issuance of 4,762,000 Series 2014 Priority Shares. The issuance would total \$100m, of which \$95.7m would be the issue premium and the remaining balance would be added to the bank's capital. As such, the issue price is set at \$21 per share with a par value of LBP1,350 (\$0.89) and an issue premium of \$20.1. The Bank's Extraordinary General Assembly approved the capital increase on May 22, 2014. The issued shares will have priority over the bank's ordinary shares until they get converted into common shares in 2019. But the priority shares can be renewed by the bank's Board of Directors for a two-year period in case the market price of the common shares is trading below \$30 a share on the eve of the Ordinary General Assembly meeting in 2019. The Series 2014 Priority Shares are non-cumulative and are neither redeemable, nor secured, nor covered by any guarantee. The bank will pay an annual dividend rate of 4% of the issue price adjusted on a pro-rata basis, contingent on the availability of sufficient declared net profits. The dividends would be subject to 5% withholding tax. The shares will be listed on the Beirut Stock Exchange. Bank of Beirut posted unaudited consolidated net profits of \$36.8m in the first quarter of 2014 relative to \$33.1m in the same quarter last year. Total assets reached \$13.37bn at end-March 2014, net loans & advances to customers totaled \$3.57bn and customers' deposits stood at \$10bn at end-March 2014.

Ratio Highlights

(in % unless specified)	2011	2012	2013	Change*
Nominal GDP (\$bn)	40.1	42.5	44.3	
Public Debt in Foreign Currency / GDP	52.2	57.4	59.0	160
Public Debt in Local Currency / GDP	81.6	78.4	84.4	600
Gross Public Debt / GDP	133.9	135.7	143.4	770
Total Gross External Debt / GDP	169.0	169.9	172.7	280
Trade Balance / GDP	(34.7)	(34.6)	(32.8)	180
Exports / Imports	27.9	27.6	27.0	(60)
Fiscal Revenues / GDP	23.3	22.1	20.9	(120)
Fiscal Expenditures / GDP	29.1	31.4	32.1	70
Fiscal Balance / GDP	(5.9)	(9.3)	(11.2)	(190)
Primary Balance / GDP	4.1	(0.3)	(2.5)	(220)
Gross Foreign Currency Reserves / M2	79.2	69.4	70.6	120
M3 / GDP	242.5	244.7	248.9	420
Commercial Banks Assets / GDP	350.6	357.4	372.4	1,500
Private Sector Deposits / GDP	288.6	294.1	307.7	1,360
Private Sector Loans / GDP	98.2	102.2	107.0	480
Private Sector Deposits Dollarization Rate	65.9	64.8	66.1	130
Private Sector Lending Dollarization Rate	78.4	77.6	76.5	(110)

* Change in basis points 12/13

Source: Institute of International Finance, Association of Banks in Lebanon, International Monetary Fund, Byblos Research Estimates & Calculations

Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

Risk Outlook

Lebanon	Aug 2012	July 2013	Aug 2013	Change*	Risk Level
Political Risk Rating	53.5	53.0	52.5	▼	High
Financial Risk Rating	35.0	33.5	33.5	▼	Moderate
Economic Risk Rating	34.0	28.5	28.5	▼	High
Composite Risk Rating	61.2	57.5	57.2	▼	High

Regional Average	Aug 2012	July 2013	Aug 2013	Change*	Risk Level
Political Risk Rating	59.7	58.3	58.2	▼	High
Financial Risk Rating	41.2	41.3	41.3	▼	Very Low
Economic Risk Rating	36.3	36.6	36.2	▼	Low
Composite Risk Rating	68.6	68.1	67.8	▼	Moderate

*year-on-year

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	B1	NP	Negative	B1		Negative
Fitch Ratings	B	B	Negative	B		Negative
Standard & Poor's	B-	B	Stable	B-	B	Stable
Capital Intelligence	B	B	Stable	B	B	Stable

Source: Rating agencies

Banking Ratings	Banks' Financial Strength	Banking Sector Risk	Outlook
Moody's	E+		Negative
EIU		CCC	

Source: Rating agencies



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