

LEBANON THIS WEEK

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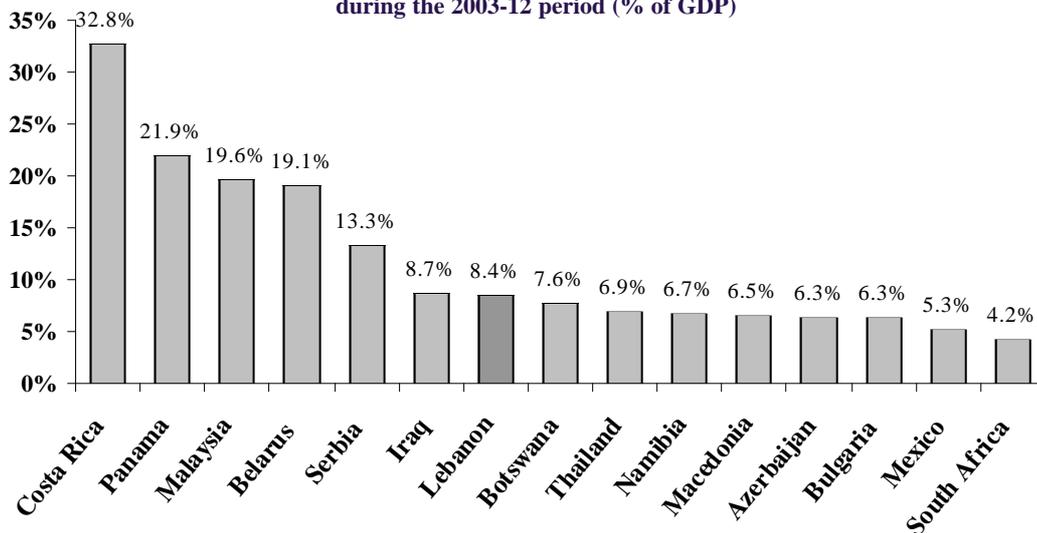
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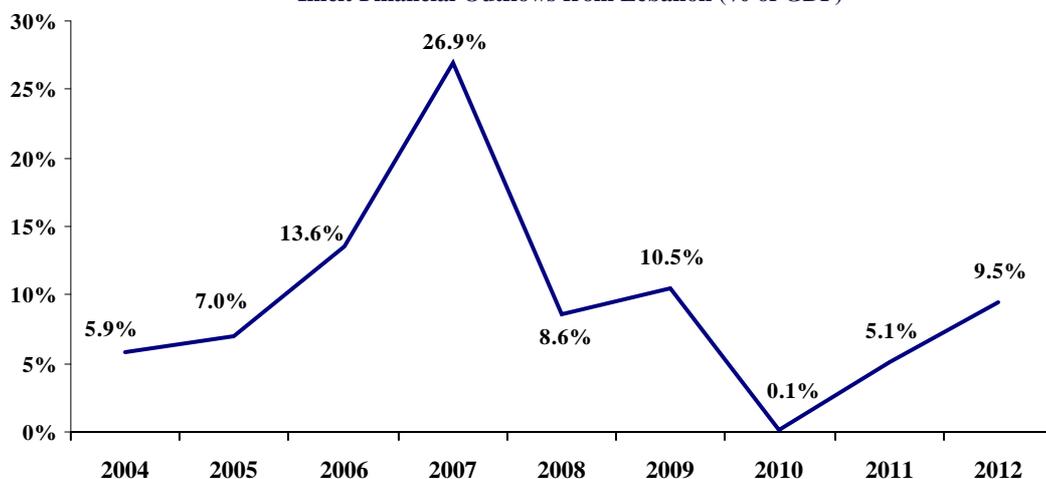
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Charts of the Week

Cumulative Illicit Financial Outflows from Select Upper-Middle Income Countries during the 2003-12 period (% of GDP)



Illicit Financial Outflows from Lebanon (% of GDP)



Source: Global Financial Integrity, International Monetary Fund, Byblos Bank

Quote to Note

"The new estimates are subject to a wide range of uncertainty."

The Central Administration of Statistics, on the limitations of the National Accounts that it published recently for 2011, 2012 and 2013

Number of the Week

19: Number of times the Lebanese Parliament convened and failed to elect a President

Lebanon in the News

\$m (unless otherwise mentioned)	2013	Oct 13	July 14	Aug 14	Sep 14	Oct 14	% Change*
Exports	3,936	272	276	285	282	279	2.57
Imports	21,228	1,757	1,657	2,120	1,671	1,724	(1.88)
Trade Balance	(17,292)	(1,485)	(1,381)	(1,835)	(1,389)	(1,445)	(2.69)
Balance of Payments	(1,128)	(794)	(85)	(564)	131	(566)	(28.72)
Checks Cleared in LBP	17,047	1,516	1,454	1,558	1,553	1,587	4.64
Checks Cleared in FC	55,321	4,698	4,694	4,973	4,852	4,730	0.68
Total Checks Cleared	72,368	6,214	6,148	6,531	6,405	6,317	1.65
Budget Deficit/Surplus	(4,220)	(228.92)	238.07	(318.75)	(564.21)	(216.28)	(5.52)
Primary Balance	(239.68)	233.07	513.55	(141.93)	(84.64)	258.98	11.12
Airport Passengers	6,265,470	524,730	641,830	814,800	640,546	549,726	4.76

\$bn (unless otherwise mentioned)	2013	Oct 13	July 14	Aug 14	Sep 14	Oct 14	% Change*
BdL FX Reserves	31.71	31.86	35.14	33.09	32.34	33.09	3.87
<i>In months of Imports</i>	<i>17.65</i>	<i>18.13</i>	<i>21.21</i>	<i>15.61</i>	<i>19.35</i>	<i>19.19</i>	<i>5.86</i>
Public Debt	63.46	62.44	65.62	65.86	65.97	66.21	6.03
Net Public Debt	53.18	52.50	55.17	55.59	55.89	56.23	7.11
Bank Assets	164.82	160.63	169.74	170.33	171.34	171.27	6.62
Bank Deposits (Private Sector)	136.21	132.10	141.32	141.52	142.02	142.04	7.52
Bank Loans to Private Sector	47.38	46.50	49.38	49.74	49.95	50.10	7.74
Money Supply M2	45.60	44.72	47.28	47.48	47.90	47.82	6.93
Money Supply M3	111.16	109.02	115.58	115.62	116.07	116.02	6.42
LBP Lending Rate (%)	7.29	7.59	7.36	7.21	7.08	7.29	(30bps)
LBP Deposit Rate (%)	5.44	5.44	5.54	5.51	5.51	5.58	14bps
USD Lending Rate (%)	6.88	6.85	6.96	6.96	6.94	6.95	10bps
USD Deposit Rate (%)	2.95	2.94	3.02	3.13	3.04	3.12	18bps
Consumer Price Index**	3.89	5.04	1.54	0.81	1.24	(0.27)	-

* Year-on-Year

** Year-on-Year percentage change

Note: bps i.e. basis point

Source: Association of Banks in Lebanon, Banque du Liban, Byblos Research

Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization	Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Solidere "A"	11.22	(1.58)	108,086	9.63%	Apr 2015	10.000	100.95	4.23
Solidere "B"	11.19	0.09	62,460	6.24%	Jan 2016	8.500	104.50	3.38
Byblos Common	1.68	(0.59)	246,555	5.18%	Mar 2017	9.000	108.75	4.53
Byblos Pref. 08	102.00	(0.10)	1,750	1.75%	Nov 2018	5.150	100.88	4.89
Byblos Pref. 09	102.20	0.99	750	1.75%	May 2019	6.000	102.75	5.27
BLOM GDR	9.91	0.00	0	6.28%	Mar 2020	6.375	103.75	5.51
BLOM Listed	9.05	0.00	4,440	16.69%	Apr 2021	8.250	112.50	5.80
Audi GDR	6.76	(3.43)	324,359	6.74%	Oct 2022	6.100	101.75	5.81
Audi Listed	6.59	1.38	18,715,415	22.60%	Jun 2025	6.250	100.50	6.18
HOLCIM	15.50	0.00	24	2.60%	Nov 2026	6.600	103.00	6.23

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

Source: Byblos Bank Capital Markets

	Feb 16-20	Feb 9-13	% Change	Jan 2015	Jan 2014	% Change
Total Shares Traded	19,471,089	554,146	3,414	2,924,443	3,299,492	(11.37)
Total Value Traded	\$127,097,795	\$4,315,222	2,845	\$18,796,462	\$33,310,730	(43.57)
Market Capitalization	\$11.66bn	\$11.67bn	(0.11)	\$11.25bn	\$11.05bn	1.83

Source: Beirut Stock Exchange (BSE)



Lebanon ranks 41st globally, sixth in MENA region on Global Connectedness Index

The DHL's 2014 Global Connectedness Index (GCI) ranked Lebanon in 41st place among 140 countries around the world and in sixth place among 15 countries in the Middle East & North Africa region (MENA). Lebanon also came in fifth place among 37 upper-middle income countries (UMICs) included in the survey. Lebanon's global rank regressed by four spots from 37th place in the 2013 survey, by eight spots from 33rd place in the 2012 survey and by nine spots from 32nd place in the 2011 survey.

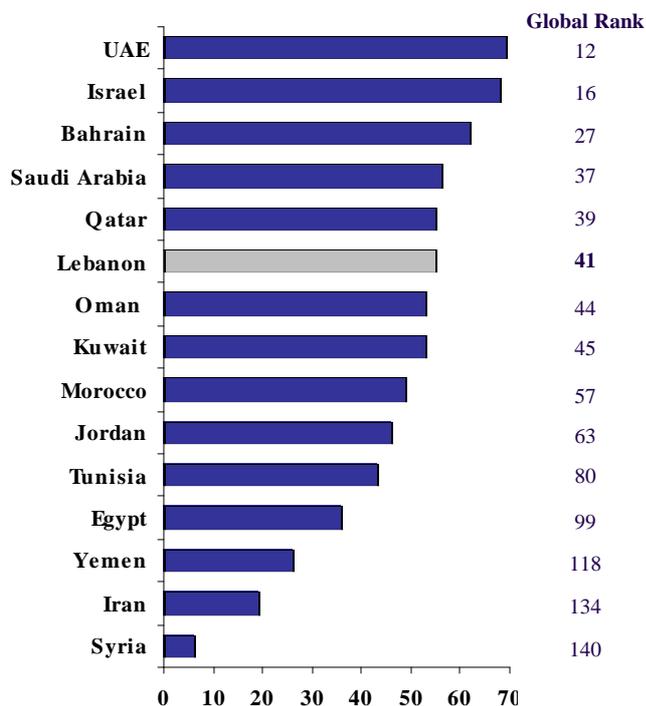
The DHL Global Connectedness Index reflects a country's level of globalization in terms of the size and the geographical distribution of the flows of trade, capital, information and people. It is composed of 12 components grouped into four pillars that cover the four types of flows, and that are each assessed in terms of depth and breadth. The index is a composite of two sub-indicators that are the Depth Sub-Indicator and the Breadth Sub-Indicator, measured each on a scale of zero to 50. As such, a country's overall score on the GCI ranges from zero to 100, with a higher score reflecting a better performance in terms of global connectedness.

Globally, Lebanon was better connected globally than Slovakia, Poland and Oman, and less connected than Nigeria, Qatar and Japan. It was less connected globally than only Hungary, Thailand, Malaysia and Bulgaria among UMICs, while it was less connected than the UAE, Israel, Bahrain, Saudi Arabia and Qatar among MENA countries. Lebanon received a score of 55 points, unchanged from its score on the 2013 survey. Lebanon's score came higher than the MENA average score of 46.4 points, the global average score of 45.5 points and the UMICs' average score of 42.2 points. Lebanon's score was lower than the Gulf Cooperation Council (GCC) countries' average score of 58 points, but higher than that of non-GCC Arab countries of 37.3 points. The Netherlands was the most globally connected country with a score of 89 points, while Syria was the least connected country in the world with a score of six points.

Lebanon came in 42nd place globally, in seventh place among UMICs and in fourth place regionally on the Depth Sub-Indicator. This category measures an economy's international activities or flows relative to the size of its domestic economy. Lebanon's global rank on this category fell by seven points in the 2014 survey and by 16 points in the 2013 survey, which resulted in a cumulative decline of 23 spots from the 2012 survey, the steepest decline worldwide during the covered period. Globally, Lebanon ranked ahead of Mongolia and Vietnam, and came behind Norway and Portugal among economies with a GDP of \$10bn or more. It also ranked behind only Hungary, Malaysia, Bulgaria, Mauritius, Panama and Macedonia among UMICs; while it trailed only the UAE, Bahrain and Oman in the MENA region. Lebanon received a score of 29 points on this category, higher than the global average score of 23.2 points and the UMICs and the MENA region's average score of 22.3 points each.

Lebanon came in 56th place globally, in 11th place among UMICs and in ninth place regionally on the Breadth Sub-Indicator. This category measures the geographical distribution of a country's international flows of trade, capital, information and people. Globally, Lebanon ranked ahead of Pakistan and Chile, and came behind Colombia and Portugal. It also ranked behind only Thailand, Brazil, Turkey, China, South Africa, Argentina, Malaysia, Peru, Hungary and Colombia among UMICs. Regionally, Lebanon came ahead of only Oman, Tunisia, Jordan, Iran, Yemen and Syria. Lebanon received a score of 25 points on this category, higher than the global average score of 22.2 points, the UMICs' average score of 19.9 points and the MENA average score of 24.1 points.

Global Connectedness Index 2014



Source: DHL, Byblos Research

Central Bank sets guidelines about the transparency of financial products and services

The Central Bank of Lebanon issued Basic Circular 134 dated February 12, 2015 that sets guidelines about how banks and financial institutions communicate the specifics of products and services to their clients. The circular stipulates that banks and financial institutions operating in Lebanon should inform their clients, raise their awareness and clarify their rights about the products and services that clients are looking to buy. It pointed out that employees should provide key information to customers about the characteristics of the products and services, about their risks and benefits, as well as about how fees, commissions and interest rates on a product are calculated. It added that employees should take into account the clients' level of financial literacy when presenting the products and services. The circular said that the information should be available at the head office, at all branches, on the institution's website and should be disseminated through all other channels of communications with clients. Further, the circular mandates banks and financial institutions to prepare a list of the clients' rights and obligations as per the Central Bank's guidelines. It asked banks and financial institutions to provide their customers with a copy of the list, which should be available in Arabic and in one foreign language, and to explain to them its content in details. Also, the client must sign a receipt that confirms that he/she received the list and understood its content.

Further, the circular mandates banks and financial institutions to prepare internal procedures and policies about the guidelines that dictate the conduct of banking and financial institutions' operations with clients. It also requires the board of directors to approve the policies and procedures, and stipulates that the bank and financial institution's code of conduct should include a clause about the policies and procedures. Also, the policies and procedures should include training of the banks and financial institutions' employees, mainly those that have direct contact with clients, on the proper implementation of the policies.

Moreover, the Central Bank said that advertising campaigns about financial products and services should be clear, transparent and comprehensive, and that each product offered to customers should be suitable with their risk profile. Also, banks and financial institutions should provide clients with periodic statements of accounts about the product or service. The circular noted that these guidelines also apply to products and services provided by the affiliates and subsidiaries of banks and financial institutions, such as insurance companies. It asked banks and financial institutions to establish a specialized unit that reports directly to the general manager and that would help in the drafting of related procedures and guidelines, as well as in the reviewing of the contracts, advertising, and of all documents presented to clients, among other duties.

Consumer Price Index down 4% year-on-year in January 2015

The Central Administration of Statistics' Consumer Price Index declined by 3.75% in January 2015 from January 2014. Prices of clothing & footwear increased by 17.5%, followed by actual rent (+9%), alcoholic beverages & tobacco (+5.2%), the cost of education (+4.5%), prices at restaurants & hotels (+2.2%), imputed rent (+1.7%), miscellaneous goods & services and recreation & entertainment (+1.4% each), and furnishings & household equipment (+1.3%). The distribution of actual rent shows that old rents rose by 20.4% year-on-year in January 2015, while new rents increased by 1.6% annually during the covered month. In contrast, the cost of communication fell by 23.7% in January 2015, followed by water, electricity, gas & other fuels (-18.1%), transportation costs (-14.1%), healthcare costs (-2.1%) and prices of food & non-alcoholic beverages (-1.1%)

Further, the CPI regressed by 2.2% in January 2015 from the preceding month, relative to a decrease of 1.2% month-on-month in December 2014. Prices of food & non-alcoholic beverages increased by 1.5% month-on-month in January 2015, followed by miscellaneous goods & services (+0.7%), prices at restaurants & hotels (+0.4%), the cost of furnishings & household equipment (+0.2%), and alcoholic beverages & tobacco and imputed rent (+0.1% each). The prices of clothing & footwear fell by 13.4%, followed by water, electricity, gas & other fuels (-7.1%), transportation costs (-6.3%), healthcare costs (-0.9%), recreation & entertainment (-0.2%) and communication costs (-0.1%). The cost of education and of actual rent was unchanged month-on-month. Also, the Fuel Price Index regressed by 15.8% month-on-month in January 2015, while the Education Price Index was unchanged.

In parallel, the CPI decreased by 3.5% month-on-month in each of the Bekaa and Nabatieh, by 2.7% in the South, by 2% in Mount Lebanon, by 1.8% in the North, and by 1.5% in Beirut. Prices of food & non-alcoholic beverages rose by 1.7% in the Bekaa region, by 1.5% in each of Beirut and Mount Lebanon, by 1.4% in the North and by 1.2% in each of the South and Nabatieh. The cost of housing, water, electricity, gas & other fuels, as well as that of transportation and healthcare regressed across all regions. Also, the prices of clothing & footwear decreased by 18.2% in Beirut, by 17.6% in the South, by 16.2% in Mount Lebanon, by 13.9% in Nabatieh, by 6.4% in the Bekaa region and by 1.7% in the North.

Customs receipts down 2% to \$116m in January 2015

Figures released by the Lebanese Customs Administration indicate that customs revenues reached \$116.3m in January 2015, constituting a decrease of 2.2% from \$118.9m in the same month of 2014. The Port of Beirut was the main source of customs receipts as it accounted for about 88.6% of the total in January 2015. It was followed by the Hariri International Airport with 5.9%, the Port of Tripoli with 3.4%, the Masnaa crossing point with 1.1%, the Port of Saida with 0.9% and the Port of Tyre with 0.2%. Customs receipts from the value-added tax totaled \$97.6m in January 2015, reflecting a drop of 15.4% from \$115.4m in the same month of 2014. The Port of Beirut accounted for 83.9% of such receipts, followed by the Hariri International Airport with 9.6%, the Port of Tripoli with 3.1%, the Masnaa crossing point with 2.6%, the Port of Saida with 0.5% and the Port of Tyre with 0.2%, while the Abboudieh and Arida crossing points had a 0.1% share each. As such, overall customs receipts reached \$213.9m in January 2015, with the Port of Beirut accounting for 86.5% of the total, followed by the Hariri International Airport with 7.5%, the Port of Tripoli with 3.3%, the Masnaa crossing point with 1.8%, the Port of Saida with 0.7% and the Port of Tyre with 0.2%.

Lebanese Army perceived as least corrupt public institution in the country

A survey commissioned by advocacy organization Sakker el Dekkéne and conducted by research firm Ipsos indicated that 93.4% of respondents considered that the Port of Beirut is the most corrupt public institution in the country. It was followed by the Tax Administration and the Real Estate Registration Department-cadastre (86.3% each), the vehicle registration office (84.3%), Electricité du Liban (66.7%), the Consumer Protection Unit at the Ministry of Economy (65.6%), municipalities (58.2%), the National Social Security Fund (54.3%), and the Public Corporation for Housing (52.8%). In terms of overall ministries, 63.4% of respondents perceived the Ministry of Energy & Water to be corrupt, followed by the Ministry of Public Works (61.5%), the Telecommunications Ministry (57.8%), the Labor Ministry (50.7%), the Environment Ministry (47.9%), the Ministry of Agriculture (47%), and the Ministry of Education & Higher Education (45.3%). In contrast, only 13.7% of respondent perceived the Lebanese Army to be a corrupt institution.

Further, 32% of survey participants said that they have "no trust at all" in the judiciary system and 46% of participants indicated that they have "some trust" in the system, relative to 14% of respondents who have "full trust" in the judiciary system. In addition, 64% of respondents cited political interference as the main reason for the lack of trust in the judiciary system, while 49% of participants attributed the absence of trust in the judiciary to corruption and bribery.

In parallel, the survey showed that 43% of respondents said that they would not report corruption. However, it noted that most Lebanese who are willing to report corruption would do so if the corrupt person is penalized or if their anonymity is preserved. It indicated that 37% of Lebanese would report corruption to a police station, 34% said that they would report it to government offices, 11% to local non-governmental organization and 10% to international organizations.

The survey was conducted between May and December 2014. The survey's results are based on face-to-face interviews with a representative sample of 1,200 adults across Lebanon. Sakker el Dekkéne is a non-governmental organization that aims to collect data about various forms of corruption in the Lebanese public administration in order to raise awareness and promote a transparent relationship between the citizens and the state.

Utilized credits by private sector at \$55bn at end-June 2014, advances against real estate account for 33% of total

Figures issued by the Central Bank show that utilized credits by the private sector from commercial banks and financial institutions totaled \$55.2bn at the end of June 2014, constituting an increase of 4.3% from \$52.9bn at end-2013. The distribution of credits by type show that advances against real estate totaled \$18.4bn and accounted for 33.3% of total private sector utilized credits at the end of June 2014. They were followed by overdrafts with \$15.6bn (28.3%), advances against personal guarantees \$10.3bn (18.6%), advances against cash collateral or bank guarantees \$6.9bn (12.4%), advances against other real guarantees \$2.9bn (5.3%), and advances against financial values \$1.2bn (2.2%).

Trade & services accounted for \$19.3bn or 34.9% of utilized credits at end-June 2014, followed personal credits with \$15.7bn (28.4%), construction with \$8.9bn (16.2%), industry with \$6.1bn (11%), financial intermediaries with \$3.1bn (5.6%) and agriculture with \$619.9m (1.1%), while other sectors accounted for the remaining \$1.5bn (2.7%). Also, the distribution of utilized credits in trade & services shows that wholesale trade accounted 42.4% of overall trade & services credits, followed by real estate services with 21.5%, retail with 16.1%, hotels & restaurants with 8.8%, transport & storage with 7.8% and educational services with 3.5%.

Personal credits attracted 76.4% of loan beneficiaries, followed by trade & services with 12.7% of beneficiaries, industry with 3.4%, construction with 1.7%, agriculture with 0.9%, and financial intermediaries with 0.7%, while other sectors attracted the remaining 4.1%. The aggregate number of loan beneficiaries grew by 7.1% year-on-year to 485,104, while 76.5% of beneficiaries had loans ranging from LBP5m to LBP100m by the end of June 2014. Beirut and its suburbs accounted for 77.2% of bank credits and for 55% of beneficiaries. It was followed by Mount Lebanon with 11.3% of credits and 17.6% of beneficiaries; South Lebanon with 4.5% of credits and 9.7% of beneficiaries; North Lebanon with 4% of credits and 10.5% of beneficiaries; and the Bekaa with 3.1% of credits and 7.2% of beneficiaries.

In parallel, the off-balance sheet liabilities of banks and financial institutions totaled \$94bn at the end of June 2014, reflecting a rise of 4.9% from \$89.66bn at the end of 2013. They included endorsement & guarantees of \$85.5bn, or 91% of the total, followed by letters of undertaking at \$3.1bn (3.2%) and commitments on notes at \$1.97bn (2.1%).

Revenues through Port of Beirut down 5% to \$2.6bn in 2014

Figures released by the Port of Beirut show that overall receipts generated through the port reached \$2.6bn in 2014, constituting a decrease of 5.1% from 2013. Customs receipts through the port totaled \$1.2bn in 2014, down 6.8% from \$1.3bn in 2013; while receipts from the value-added tax reached \$1.1bn, down by 3.3% year-on-year. Also, the port's overall revenues totaled \$210.9m in 2014, down by 3.8% from 2013. Further, the Port of Beirut handled an aggregate freight of 8.28 million tons in 2014, up by 0.2% from 8.26 million tons in 2013. Imported freight accounted for 88.2% of the total, while the remaining 11.8% was export cargo. A total of 1,962 ships docked at the port in 2014 compared to 2,114 vessels in 2013.

In parallel, overall revenues generated through the Port of Tripoli reached \$113.8m in 2014, constituting a rise of 0.5% from \$113.3m in 2013. Receipts from the value-added tax reached \$56.6m in 2014, up by 0.4% year-on-year; while customs receipts through the port reached \$45.9m and declined by 1% from \$46.3m in 2013. The port's revenues rose by 7.2% to \$11.3m in 2014. Further, the Port of Tripoli handled an aggregate weight of 1.34 million tons of freight last year, constituting an increase of 1.3% from 1.32 million tons in 2013. A total of 575 vessels docked at the port in 2014, constituting an increase of 4% from 553 ships in 2013.

Slow commercial activity in second quarter of 2014

The Central Bank's quarterly business survey of opinions shows that the decline in the volume of commercial sales slowed down during the second quarter of 2014 but remained low relative to historical levels, with the balance of opinion standing at -8 compared to -11 in the preceding quarter and -17 during the second quarter of 2013. The business survey reflects the opinions of enterprise managers about their business activity in order to depict the evolution of a number of key economic variables. The balance of opinions was the lowest in Beirut & Mount Lebanon at -14, followed by the South (-12), the Bekaa (-6) and the North (+2). The survey shows that the balance of opinions for the sales volume of food items was +14 in the second quarter of 2014 relative to +12 in the preceding quarter and compared to -5 in the same quarter of 2013.

The balance of opinions about the sales of inter-industrial goods was -17 in the second quarter compared to -13 in the preceding quarter and -19 in the second quarter of 2013; while it was -17 for non-food products, relative to -23 in the first quarter of 2014 and in the second quarter of 2013. Also, the balance of opinions for inventory levels in all commercial sub-sectors was +1 in the second quarter of 2014 compared to -5 in the preceding quarter and -4 in the second quarter of 2013. Opinions about the level of inventories were the highest in the South where they reached +24, followed by the Bekaa (+12), Beirut & Mount Lebanon (-1) and the North (-18). The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in an indicator and the proportion of those who reported a decline in the same indicator.

Commercial Activity: year-on-year evolution of opinions				
Aggregate results	Q2-11	Q2-12	Q2-13	Q2-14
Sales volume	-4	-13	-17	-8
Number of employees	2	-2	-1	1
Inventories of finished goods	4	-2	-4	1
Q2-14 Regional results	Beirut / Mount Lebanon	North	South	Bekaa
Sales volume	-14	2	-12	-6
Inventories of finished goods	-1	-18	24	12

Source: Central Bank business survey for second quarter of 2014

Net profits of Syrian affiliates of Lebanese banks up threefold in 2014 due to unrealized foreign exchange gains on structural positions

Preliminary financial results issued by the affiliates of seven Lebanese banks operating in Syria show that their aggregate net profits reached SYP11.1bn in 2014 compared to net earnings of SYP3.2bn in 2013. In US dollar terms, the seven banks generated net profits of \$72.3m in 2014 relative to net earnings of \$29.8m in 2013. The banks' financial results reflect the depreciation of the Syrian pound on the official market, as it was trading at an average rate of SYP154.13 against the US dollar in 2014 compared to an average rate of SYP108.78 in 2013. Also, the exchange rate was SYP180.9 per dollar at the end of 2014 relative to SYP141.8 at the end of 2013. As such, the value of assets and liabilities in foreign currency becomes distorted when converted and reported in Syrian pounds. In addition, the reported net profits include the unrealized net foreign exchange gains on structural positions. The profits of Bank Audi Syria increased by SYP2.6bn; followed by a rise of SYP2.2bn in those of Fransabank Syria; a growth of SYP1.8bn in the income of Bank of Syria & Overseas; an increase of SYP716.6m in those of Bank Al-Sharq, the affiliate of Banque Libano-Francaise; a rise of SYP635.6m in the profits of Byblos Bank Syria; and an improvement of SYP342.9m in the income of Banque BEMO Saudi Fransi. In contrast, the net losses of Syria Gulf Bank, the affiliate of First National Bank, rose by SYP415.1m to SYP841m in 2014. The banks' total operating income reached SYP25.5bn, constituting a decrease of 12.8% from 2013; while it totaled \$165.6m in US dollar terms in 2014.

In parallel, the banks' aggregate assets reached SYP480.8bn at the end of 2014 and increased by 20.1% from SYP400.3bn end-2013. In US dollar terms, the assets of the seven banks decreased by 5.8% from \$2.82bn at end-2013 to \$2.66bn at the end of 2014. The rise was due to an 18.5% increase in the assets of Banque BEMO Saudi Fransi (+SYP21.7bn), a 14.7% growth in those of Bank of Syria & Overseas (+SYP13.5bn), a 25.6% expansion in the assets of Fransabank Syria (+SYP10.9bn), an 18.4% improvement in those of Bank Audi Syria (+SYP10bn), a 51.2% increase in the assets of Bank Al-Sharq (+SYP8.8bn), a 26.3% rise in those of Syria Gulf Bank (+SYP7.9bn) and a 16.4% expansion in the assets of Byblos Bank Syria (+SYP7.6bn). The aggregate shareholders' equity of the seven banks reached SYP49.9bn at end-2014, constituting an increase of 29.1% from end-2013; while in US dollar terms, the banks' shareholders' equity reached \$275.9m at end-2014. The seven banks have yet to publish their detailed balance sheet and financial results for 2014.

Preliminary Results of Affiliates of Lebanese Banks in Syria for 2014 (in US\$)

	Banque BEMO Saudi Fransi	Bank of Syria & Overseas	Bank Audi Syria	Byblos Bank Syria	Fransabank Syria	Syria Gulf Bank	Bank Al-Sharq
Net Profits*	\$15m	\$12.9m	\$19.2m	\$7.1m	\$15.3m	-\$5.5m	\$8.3m
Total Assets**	\$767.8m	\$582.8m	\$356.2m	\$300.9m	\$296.1m	\$210.8m	\$143.4m
Operating Income*	\$37.8m	\$25.2m	\$30m	\$26.5m	\$28.3m	\$5.8m	\$11.9m
Shareholder's Equity**	\$62.2m	\$43.5m	\$56.2m	\$44.2m	\$38.7m	\$7m	\$23.9m

* Based on the average exchange rate in 2014

** Based on the exchange rate at the end of 2014

Source: Banks' financial statements

Cyprus extends the easing of capital controls on foreign banks

The Cypriot authorities issued Decree 27 that extended the period during which branches and subsidiaries of foreign banks operating in Cyprus can benefit from the relaxation of capital controls. The period was due to expire on February 16, 2015, but authorities extended it by 28 days to March 16, 2015. The benefiting Lebanese banks are Byblos Bank sal, BankMed sal, Bank of Beirut sal, Banque BEMO sal, BBAC sal, BLOM Bank sal, Crédit Libanais sal, Lebanon & Gulf Bank sal and Banque SBA, the affiliate of Banque Libano-Française sal. The decree allows all cashless payments or transfers of deposits and funds from an eligible bank for its own account or by the order of an international customer. It also permits all transactions between eligible banks and international customers, as well as all transactions among international customers. Additionally, it allows the execution of all transactions between an eligible bank and an entity outside the country, either for an international customer or for the bank's own account.

In parallel, the Cypriot authorities issued Decree 34 that extended the relaxation of restrictive measures on transactions under the Emergency Law of 2013. The decree was due to expire on February 16, 2015, but authorities extended it by 28 days to March 16, 2015. Also, the decree relaxed capital controls, as it increased the maximum amount that a person in Cyprus is allowed to transfer abroad from €20,000 to €50,000. Overall, the decree continued to abolish restrictions on the maximum amount of cash withdrawal per person, to lift the ban on the cashing of checks, and to eliminate restrictions on the payment and/or transfer of deposits and funds between banks within Cyprus and on the opening of new bank accounts on the island. In March 2013, Cypriot authorities imposed capital control measures on commercial banks operating on the island in the wake of the country's financial crisis.



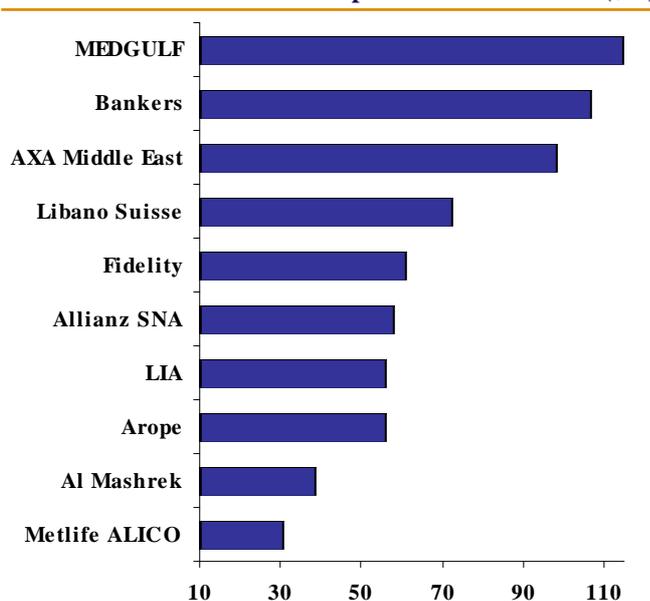
Total non-life premiums up 5% to \$1bn in 2014

The annual survey by *Al-Bayan* magazine of the insurance sector in Lebanon shows that total non-life premiums generated in the Lebanese market reached \$1bn in 2014, constituting an increase of 5.3% from \$983m in 2013, and compared to growth rates of 5.9% in 2013 and 6.8% in 2012. Non-life premiums totaled \$869.6m in 2011 and \$928.6m in 2012. MEDGULF ranked in first place among non-life insurers with \$114.4m in non-life premiums, followed by Bankers with \$106.6m, AXA Middle East with \$97.9m, Libano-Suisse with \$72.4m and Fidelity with \$60.6m. Byblos Bank's insurance affiliate ADIR ranked in 15th place with \$19.6m in non-life premiums in 2014. The rank of Liberty Insurance improved by five spots to 17th place and registered the highest jump in the rankings among the 45 non-life insurers operating in Lebanon. Its non-life premiums grew by 43.2% year-on-year, the fastest expansion rate among all insurers covered in the survey.

There were eight advances and five declines among the rankings of the top 20 insurers, while the rankings of seven insurers were unchanged. The composition of the top 10 insurers changed from 2013 with Metlife Alico replacing Assurex in 10th place. Also, Bankers rose by one spot to second place, Allianz SNA improved from seventh to sixth place, and LIA's rank increased from eighth to seventh, while the ranking of AXA Middle East regressed from second to third place and Arope's rank declined from sixth to eighth place.

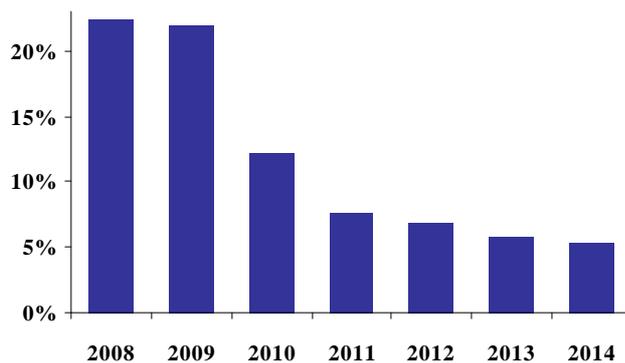
In addition, eight out of the top 10 insurers posted increases in their non-life premiums, with three insurers posting a double-digit rise. Bankers and LIA recorded year-on-year increases at 23.6% and 16.8%, respectively, highest among the top 10 firms. The top 10 insurers accounted for 66.7% of the non-life insurance market in 2014 compared to 66.4% in 2013 and 64.6% in 2012; while the top 20 insurers represented 85.8% of premiums compared to 85% in each of 2013 and 2012. The aggregate non-life premiums of the top 10 insurers reached \$689.8m in 2014 compared to \$652.9m in 2013 and \$599.7 in 2012.

Non-Life Premiums of the Top 10 Insurers in 2014 (\$m)



Source: *Al-Bayan*, *Byblos Research*

Growth in Non-Life Premiums



Source: *Al-Bayan*, *Byblos Research*

Kafalat loan guarantees down 52% to \$5m in January 2015

Figures released by the Kafalat Corporation show that loans extended to small- and medium-size companies under the guarantee of Kafalat reached \$5.1m in January 2015, constituting a decline of 51.8% from \$10.7m in the same month of 2014. Kafalat provided 40 loan guarantees in January 2015, down 43.7% from 71 in the same month of 2014. The average loan size reached \$128,373 compared to \$150,093 in January 2014. Mount Lebanon accounted for 47.5% of the total number of guarantees, followed by the South with 20%, the Bekaa and Nabatieh with 12.5% each, the North with 5% and Beirut with 2.5%. The agricultural sector accounted for 47.5% of the total number of guarantees, followed by the industrial sector with 32.5%, tourism and handicraft with 7.5% each and specialized technologies with 5%. Kafalat is a state-sponsored organization that provides financial guarantees for loans up to \$400,000 earmarked for the setup and expansion of small- and medium-size companies in productive sectors. It guarantees up to 75% of the loan amount and a similar percentage of the interest that accrues during the grace period. It also guarantees up to 90% of the loan amount for innovative start-ups and a similar percentage of the interest that accrues during the grace period.

Balance sheet of financial institutions up 18% in 2014

Figures released by the Central Bank show that the consolidated balance sheet of financial institutions in Lebanon reached LBP2,525bn, or \$1.68bn, at the end of 2014, constituting an increase of 17.5% from end-2013 and compared to a rise of 14.2% in 2013. Liabilities to the private sector reached \$259.6m, constituting a marginal decrease of 0.9% from end-2013 and relative to an increase of 20.5% in 2013. Further, commitments to the financial sector totaled \$875.1m at the end of 2014, representing a rise of 30.7% from the end of 2013, and compared to an increase of 15.2% in 2013. On the assets' side, financial institutions' operations with commercial banks reached \$579m at the end of 2014, up 2.8% from end-2013 and compared to a rise of 19% in 2013. Lending to the private sector totaled \$742m, nearly unchanged from end-2013 and relative to a rise of 16.7% in 2013. Also, investments in government securities totaled \$368.5m as at end-2014, up by 202.3% from end-2013, and compared to a decline of 11.4% in 2013. Further, the aggregate capital account of financial institutions reached \$433.6m at the end of 2014, constituting an increase of 9.5% from end-2013. There were 55 financial institutions in Lebanon with a total of 73 branches as of June 2014.

Top five freight forwarders' import activity flat in 2014

Figures released by the Port of Beirut Authority show that overall import shipping operations by the top five freight forwarders reached 349,563 20-foot equivalent units (TEUs) in 2014, constituting a marginal increase of 0.2% from 348,806 TEUs in 2013. They accounted for 59.3% of the total import freight forwarding market in 2014.

Mediterranean Shipping Company (MSC) handled 114,135 TEUs in imports in 2014, equivalent to 19.4% share of the total freight forwarding import market. It was followed by Merit Shipping with 77,585 TEUs (13.2%), Sealine Group with 71,700 TEUs (12.2%), Metz Group with 47,712 TEUs (8.1%) and Gezairy Transport with 38,431 TEUs (6.5%). Further, Gezairy Transport registered the highest growth in import shipping among the top five freight forwarders at 65.8% last year, while Sealine Group posted the steepest drop of 21.8%.

In parallel, export shipping operations by the top five freight forwarders reached 66,765 TEUs in 2014, constituting a decrease of 7.7% from 72,367 TEUs in 2013. They accounted for 94.4% of the total export freight forwarding market in 2014. Merit shipping group handled 23,016 TEUs of freight, equivalent to a 32.5% share of the total freight forwarding Lebanese cargo export market. It was followed by Sealine group with 22,889 TEUs (32.4%), Metz Group with 11,559 TEUs (16.3%), MSC with 5,466 TEUs (7.7%) and Gezairy Transport with 3,835 TEUs (5.4%). Further, Metz Group registered the highest growth in export shipping among the top five freight forwarders at 63.4% last year, while Sealine Group posted the steepest drop at 36.5%.

MEA reduces fuel surcharge on most airfares

National flag carrier Middle East Airlines (MEA) indicated that it reduced its fuel surcharge on passenger airfares from 14% of the ticket price to 7%, due to the substantial drop in global oil prices since June 2014. In nominal terms, the average fuel surcharge decreased by \$50 to \$100 per airfare, depending on the final destination of the flight. MEA said that it did not reduce the fuel surcharges imposed on tickets to Saudi Arabia and Iraq because the fuel surcharge is low and because it recently reduced the price of the ticket.

MEA, which is 99% owned by the Central Bank of Lebanon, has a fleet of 17 modern Airbus planes, serves 33 destinations, and is part of the global airline alliance SkyTeam. It said that it might acquire or lease one or two planes in 2016. MEA announced unaudited net profits of \$69m in 2014, constituting an increase of 9.5% from \$63m in 2013, but still far below its net income peak of \$107.3m in 2009.

Ratio Highlights

(in % unless specified)	2012	2013	2014	Change*
Nominal GDP (\$bn)	43.3	46.2	48.2	
Public Debt in Foreign Currency / GDP	56.3	56.6	53.1	(346)
Public Debt in Local Currency / GDP	76.9	80.9	85.0	413
Gross Public Debt / GDP	133.2	137.4	138.1	68
Total Gross External Debt / GDP**	166.8	168.7	173.1	440
Trade Balance / GDP	(38.8)	(37.4)	(35.6)	178
Exports / Imports	21.1	18.5	16.2	(238)
Fiscal Revenues / GDP	22.1	18.5	20.8	40
Fiscal Expenditures / GDP	30.7	29.3	29.3	-
Fiscal Balance / GDP	(8.6)	(9.0)	(8.5)	50
Primary Balance / GDP	(0.3)	(0.5)	1.4	-
Gross Foreign Currency Reserves / M2	69.4	69.5	66.5	(299)
M3 / GDP	240.2	240.6	244.1	354
Commercial Banks Assets / GDP	350.8	356.8	364.5	776
Private Sector Deposits / GDP	288.7	294.8	299.6	482
Private Sector Loans / GDP	100.4	102.6	105.6	304
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 Outlook

Lebanon	Apr 2013	Mar 2014	Apr 2014	Change*	Risk Level
Political Risk Rating	53.0	52.0	52.0	▲	High
Financial Risk Rating	35.0	38.0	38.0	▼	Low
Economic Risk Rating	34.0	27.0	27.0	▲	High
Composite Risk Rating	61.0	58.5	58.5	▲	High

Regional Average	Apr 2013	Mar 2014	Apr 2014	Change*	Risk Level
Political Risk Rating	58.6	58.3	58.3	▲	High
Financial Risk Rating	41.5	40.5	40.7	▲	Very Low
Economic Risk Rating	36.3	35.9	36.1	▲	Low
Composite Risk Rating	68.2	67.3	67.5	▲	Moderate

*year-on-year change in risk

Source: The PRS Group, Byblos Research

Note: Political & Composite Risk Ratings range from 0 to 100 (where 100 indicates the lowest risk)

Financial & Economic Risk ratings range from 0 to 50 (where 50 indicates the lowest risk)

Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's	B2	NP	Negative	B2		Negative
Fitch Ratings	B	B	Negative	B		Negative
Standard & Poor's	B-	B	Stable	B-	B	Stable
Capital Intelligence	B	B	Stable	B	B	Stable

Source: Rating agencies

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

Source: Rating agencies

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