

LEBANON THIS WEEK

In This Issue

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

Net private capital inflows to Lebanon drop by 6.6% to \$6.7bn in 2015, equivalent to 13.3% of GDP

Income growth insufficiently reflected in population well-being

Telecommunications sector trails most MENA markets in terms of risks-rewards

Value of unsold apartments in Beirut at \$477m for projects completed in 2014

Foreign investments of financial sector at \$6.4bn at end-September 2014, commercial banks account for 67% of long term debt securities and for 23% of equity investments

Central Bank stresses on proper operations with correspondent banks

Mixed impact of Syrian conflict on Lebanon's external trade

Corporate Highlights7

Byblos Bank's ratings affirmed, outlook 'stable'

Stock market activity up 77% to \$300m in first five months of 2015

Net profits of top 14 banks up 10% to \$451m in first quarter of 2015, profitability ratios stagnate

Solidere's consolidated net income up 2.7 times to \$114m in 2014

Banque BEMO's dividend payout ratio at 40.3% for 2014

LIA's net profits down 15% to \$14m in 2014

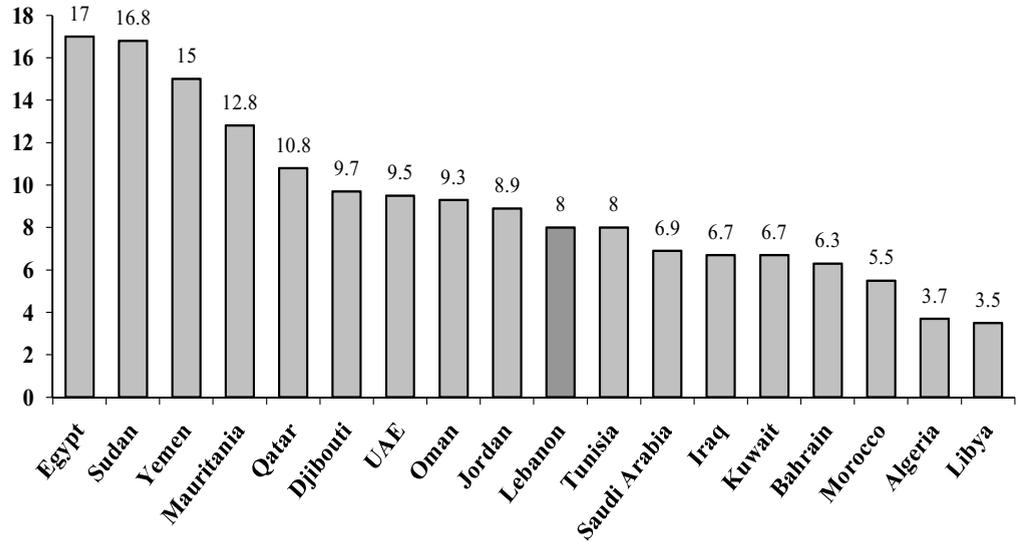
MEA launches new cargo center

Jammal Trust Bank to raise capital, net profits at \$13m in 2014

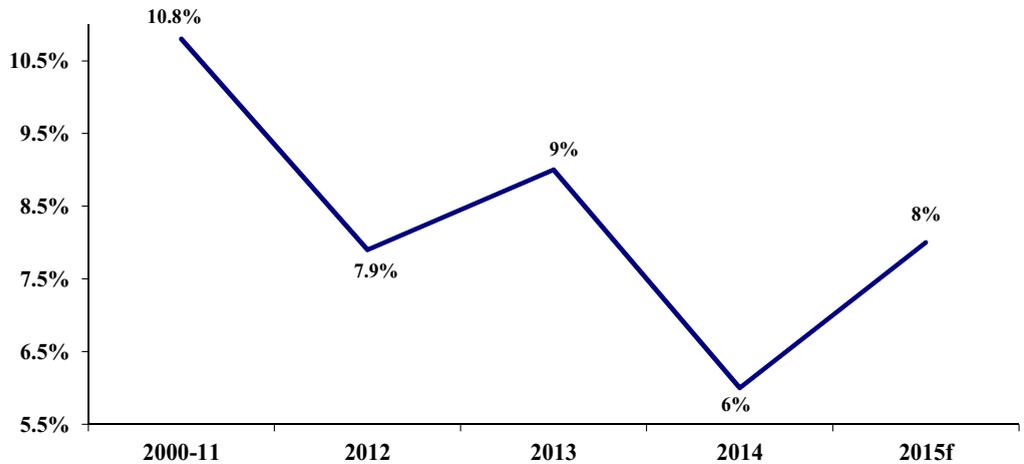
Ratio Highlights.....10
Risk Outlook10
Ratings & Outlook.....10

Charts of the Week

Projected Broad Money Growth in Arab Countries in 2015 (%)



Broad Money Growth in Lebanon (%)



Source: International Monetary Fund - May 2015, Byblos Bank

Quote to Note

"Lebanon's inefficient electricity supply is a major impediment to growth."

The International Monetary Fund, on the urgent need to reform the electricity sector

Number of the Week

\$34.54bn: The Central Bank's gross foreign currency reserves at the end of March 2015

Lebanon in the News

| \$m (unless otherwise mentioned) | 2013 | Dec 13 | Sep 14 | Oct 14 | Nov 14 | Dec 14 | % Change* |
|---|-------------|---------------|---------------|---------------|---------------|---------------|------------------|
| Exports | 3,936 | 243 | 282 | 279 | 248 | 268 | 10.29 |
| Imports | 21,228 | 1,797 | 1,671 | 1,724 | 1,393 | 1,649 | (8.24) |
| Trade Balance | (17,292) | (1,554) | (1,389) | (1,445) | (1,145) | (1,381) | (11.13) |
| Balance of Payments | (1,128) | 534 | 131 | (566) | (424) | (116) | - |
| Checks Cleared in LBP | 17,047 | 1,562 | 1,553 | 1,587 | 1,415 | 1,599 | 2.37 |
| Checks Cleared in FC | 55,321 | 4,728 | 4,852 | 4,730 | 4,367 | 4,692 | (0.76) |
| Total Checks Cleared | 72,368 | 6,290 | 6,405 | 6,317 | 5,782 | 6,291 | 0.02 |
| Budget Deficit/Surplus | (4,220) | (238.09) | (564.21) | (216.28) | (585.95) | 23.00 | - |
| Primary Balance | (239.68) | 70.72 | (84.64) | 258.98 | (100.54) | 281.94 | 298.6 |
| Airport Passengers | 6,265,470 | 510,367 | 640,546 | 549,726 | 427,403 | 573,229 | 12.32 |

| \$bn (unless otherwise mentioned) | 2013 | Dec 13 | Sep 14 | Oct 14 | Nov 14 | Dec 14 | % Change* |
|--|--------------|---------------|---------------|---------------|---------------|---------------|------------------|
| BdL FX Reserves | 31.71 | 31.71 | 32.34 | 33.09 | 33.87 | 32.40 | 2.19 |
| <i>In months of Imports</i> | <i>17.65</i> | <i>17.65</i> | <i>19.35</i> | <i>19.19</i> | <i>24.32</i> | <i>19.65</i> | <i>11.36</i> |
| Public Debt | 63.46 | 63.49 | 65.97 | 66.21 | 66.64 | 66.56 | 4.84 |
| Net Public Debt | 53.18 | 53.21 | 55.89 | 56.23 | 56.71 | 57.30 | 7.69 |
| Bank Assets | 164.82 | 164.82 | 171.34 | 171.27 | 172.21 | 175.70 | 6.60 |
| Bank Deposits (Private Sector) | 136.21 | 136.21 | 142.02 | 142.04 | 142.74 | 144.43 | 6.03 |
| Bank Loans to Private Sector | 47.38 | 47.38 | 49.95 | 50.10 | 50.51 | 50.90 | 7.42 |
| Money Supply M2 | 45.60 | 45.60 | 47.90 | 47.82 | 48.07 | 48.69 | 6.78 |
| Money Supply M3 | 111.16 | 111.16 | 116.07 | 116.02 | 116.47 | 117.68 | 5.87 |
| LBP Lending Rate (%) | 7.29 | 7.29 | 7.08 | 7.29 | 6.96 | 7.49 | 20bps |
| LBP Deposit Rate (%) | 5.44 | 5.44 | 5.51 | 5.58 | 5.55 | 5.56 | 12bps |
| USD Lending Rate (%) | 6.88 | 6.88 | 6.94 | 6.95 | 7.01 | 6.97 | 9bps |
| USD Deposit Rate (%) | 2.95 | 2.95 | 3.04 | 3.12 | 3.10 | 3.07 | 12bps |
| Consumer Price Index** | 3.89 | 3.89 | 1.24 | (0.27) | 0.48 | (1.66) | - |

* 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" | 11.50 | 0.00 | 149,952 | 9.94% |
| Solidere "B" | 11.38 | (0.26) | 63,530 | 6.39% |
| Byblos Common | 1.62 | 0.00 | 590,982 | 5.03% |
| Byblos Pref. 08 | 100.30 | 0.10 | 11,640 | 1.73% |
| Byblos Pref. 09 | 100.30 | 0.00 | 18,189 | 1.73% |
| BLOM GDR | 10.05 | 0.50 | 15,785 | 6.42% |
| BLOM Listed | 9.60 | 1.05 | 592,907 | 17.84% |
| Audi GDR | 6.59 | 0.61 | 11,000 | 6.62% |
| Audi Listed | 6.11 | (0.16) | 18,320 | 21.11% |
| HOLCIM | 16.18 | 0.00 | 0 | 2.73% |

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

| Sovereign Eurobonds | Coupon % | Mid Price \$ | Mid Yield % |
|----------------------------|-----------------|---------------------|--------------------|
| Jan 2016 | 8.500 | 103.43 | 2.95 |
| Mar 2017 | 9.000 | 108.25 | 4.19 |
| Nov 2018 | 5.150 | 101.25 | 4.75 |
| May 2019 | 6.000 | 103.25 | 5.09 |
| Mar 2020 | 6.375 | 104.75 | 5.23 |
| Apr 2021 | 8.250 | 113.75 | 5.47 |
| Oct 2022 | 6.100 | 102.75 | 5.64 |
| Jun 2025 | 6.250 | 101.38 | 6.07 |
| Nov 2026 | 6.600 | 103.75 | 6.14 |
| Feb 2030 | 6.650 | 103.25 | 6.31 |

Source: Byblos Bank Capital Markets

| | May 26-29 | May 18-22 | % Change | May 2015 | May 2014 | % Change |
|------------------------------|------------------|------------------|-----------------|-----------------|-----------------|-----------------|
| Total Shares Traded | 1,589,536 | 641,089 | 147.94 | 3,514,330 | 3,204,699 | 9.66 |
| Total Value Traded | \$13,903,890 | \$12,345,313 | 12.62 | \$40,077,612 | \$32,279,807 | 24.16 |
| Market Capitalization | \$11.57bn | \$11.54bn | 0.21 | \$11.56bn | \$11.05bn | 4.61 |

Source: Beirut Stock Exchange (BSE)



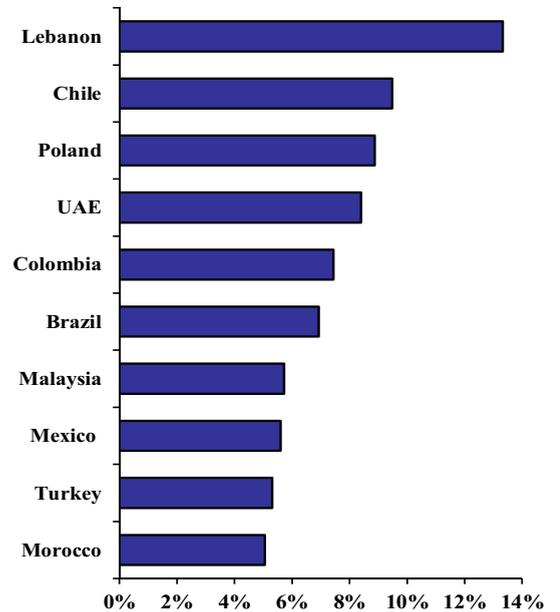
Net private capital inflows to Lebanon drop by 6.6% to \$6.7bn in 2015, equivalent to 13.3% of GDP

The Institute of International Finance projected net private capital inflows to Lebanon at \$6.7bn in 2015, which would constitute a decrease of 6.6% from \$7.1bn in 2014, and compared to inflows of \$6.3bn in 2013, \$7.9bn in 2012 and a peak of \$14bn in 2009. Lebanon would post the 15th steepest decline in net capital inflows among 30 emerging markets with available figures, while it would post the third steepest decline among seven countries in the Middle East & Africa (ME&A), relative to Nigeria (-9.8%) and South Africa (-33.2%). The IIF forecast shows that the expected decline in net private capital inflows to Lebanon would be due to a drop of nearly 2% in net FDI inflows, as well as to a decrease of about 26% in deposit inflows from non-resident financial institutions.

Net private capital inflows to Lebanon would account for 0.7% of total net private capital inflows to emerging markets and for 7% of aggregate flows to ME&A economies in 2015. Lebanon would be the 11th smallest recipient of capital flows among emerging markets and the second smallest among countries in the ME&A region, ahead of only Morocco (\$5bn). Further, net private capital inflows to Lebanon would be equivalent to 13.3% of GDP in 2015, the highest ratio among the 30 emerging markets.

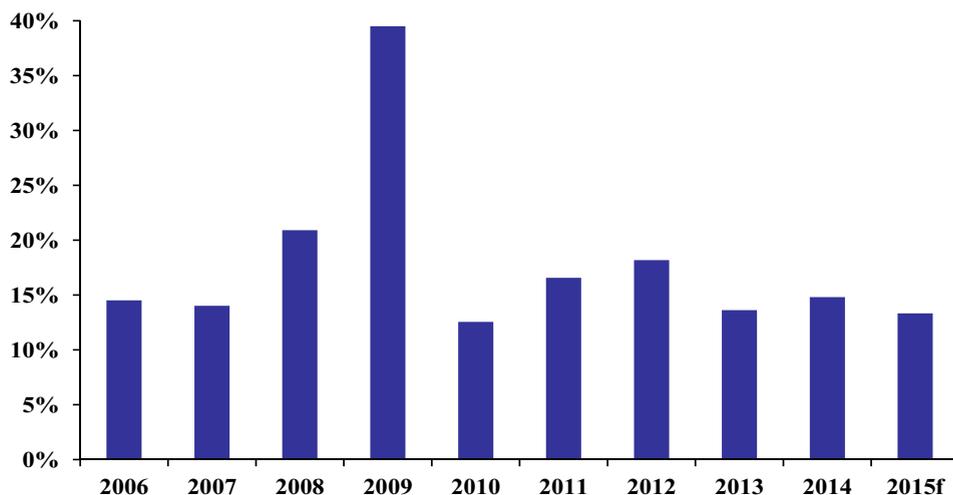
In parallel, the IIF estimated net private capital inflows to Lebanon at \$7.1bn in 2014, which reflects an increase of 13.6% year-on-year. Lebanon posted the 10th largest increase in net capital inflows among the 30 emerging markets, while it posted the smallest increase among ME&A countries. The IIF attributed the increase in net private capital inflows to Lebanon last year mainly to a rise in the flows from commercial banks and other private creditors from \$2.6bn in 2013 to \$3.4bn in 2014 and to a marginal increase of \$54m in equity investments. Net private capital inflows to Lebanon accounted for 0.7% of total capital inflows to emerging markets and for 7.3% of aggregate flows to the ME&A region last year. Net private capital inflows to Lebanon were the 12th smallest among emerging markets in 2014, while they were the third lowest in the ME&A region. Further, net private capital inflows to Lebanon were equivalent to 14.8% of GDP in 2014, the highest among emerging markets.

Net Capital Inflows in 2014*
(% of GDP)



*Top 10 countries among 30 Emerging Markets
Source: Institute of International Finance, Byblos Research

Net Private Capital Inflows to Lebanon (% of GDP)



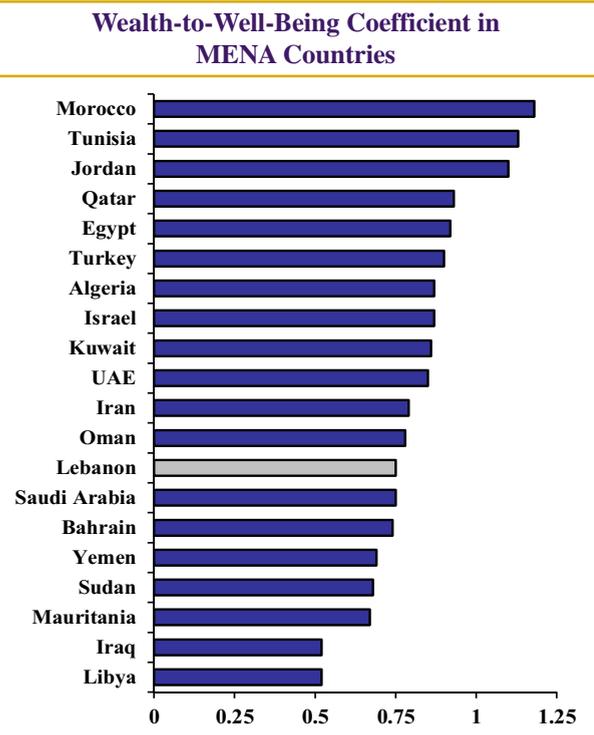
Source: Institute of International Finance, Byblos Research



Income growth insufficiently reflected in population well-being

The Boston Consulting Group's 2015 Sustainable Economic Development Assessment (SEDA) ranked Lebanon in 87th place among 149 countries globally in terms of well-being. It also ranked Lebanon in 11th place among 20 countries in the Middle East & North Africa, and in 30th place among 41 upper middle-income countries (UMICs) included in the survey. BCG's SEDA measures a country's current level of well-being through 10 dimensions divided into three fundamental elements that consist of Economics, Investments and Sustainability. The Economics element includes income, economic stability and employment; while the Investments element covers education, health and infrastructure. Also, the Sustainability element covers the environment, social inclusion and governance dimensions. The BCC assigned a score to each country from zero to 100, with 100 reflecting the highest level of well-being.

Globally, Lebanon has a similar level of well-being than Algeria, a higher level than Iran, Colombia and Morocco, and a lower level than Indonesia, Jamaica and Peru. Lebanon received a score of 39.3 points, lower than the global median score of 43.1 points, the UMICs' median of 43.6 points and the MENA region's median of 42.9 points. Also, Lebanon's score was similar to the Arab median score, came lower than the Gulf Cooperation Council (GCC) countries' median of 68.8 points, and was higher than the median score of 37.7 points for non-GCC Arab countries.



Source: Boston Consulting Group, Byblos Research

Further, the BCG provided the wealth-to-well-being coefficient, which compares a country's SEDA score of well-being with the potential score of well-being in relation to the country's GDP per capita. As such, the coefficient provides an indicator of how well a country has converted its wealth into well-being for its population. Lebanon's coefficient came at 0.75 points, which means that Lebanon has delivered a lower level of well-being than what would be expected given its GDP per capital level. Lebanon's coefficient is the 21st lowest globally, the eighth lowest among UMICs and the seventh lowest in the MENA region. Globally, it is similar to the coefficient of Saudi Arabia and Zambia, is higher than that of Trinidad & Tobago, Bahrain and Zambia, and is lower than that of Oman, Eritrea and Venezuela.

In parallel, the BCG tracks how a country's well-being evolved during the 2006-13 period through its "recent progress score", which measures the change in well-being indicators over the previous seven years. Lebanon ranked in 80th place globally, in 25th place among UMICs and in sixth place in the MENA region. Globally, it posted better progress in well-being than Argentina, Croatia and New Zealand, and less progress than Serbia, Bolivia and Russia.

Further, the BCG provided the growth-to-well-being coefficient, which compares a country's "recent progress" score with the score that would be expected given its real GDP growth rate. The coefficient shows how well a country has translated income growth into improved well-being. Lebanon's coefficient came at 0.87 points, which means that Lebanon's improvement in well-being has been below the expected level relative to its real GDP growth rate. Lebanon's coefficient is the 34th lowest globally and the ninth lowest among UMICs, but is the seventh highest in the MENA region. Globally, Lebanon's coefficient is similar to that of Uganda and the Democratic Republic of Congo, is higher than that of Uzbekistan, Togo and Mozambique, and came lower than that of Azerbaijan, Zambia and Sweden.

| Elements of the 2015 Sustainable Economic Development Assessment for Lebanon | | | | | | | |
|--|-------------|------------|-----------|---------------|---------------|--------------|-------------|
| | Global Rank | UMICs Rank | MENA Rank | Lebanon Score | Global Median | UMICs Median | MENA Median |
| Economics | 80 | 30 | 13 | 37.5 | 49.7 | 45.5 | 42.8 |
| Investments | 127 | 21 | 12 | 63.7 | 62.4 | 63.7 | 64.7 |
| Sustainability | 114 | 40 | 19 | 31.3 | 48.1 | 46.2 | 45.1 |

Source: Boston Consulting Group, Byblos Research



Telecommunications sector trails most MENA markets in terms of risks-rewards

BMI Research ranked Lebanon in 17th place among 18 countries in the Middle East & North Africa region on its Telecommunications Risks/Rewards Rating (RRR) for the second quarter of 2015. Lebanon's rank regressed by one spot from 16th place in the preceding quarter. Lebanon received a score of 37.8 points compared to the region's average score of 47.7 points.

The RRR is a weighted average of the 'Rewards' sub-rating that has a weight of 70% and the 'Risks' sub-rating that has a weight of 30%. The sub-ratings cover risks and rewards on the industry and country levels. The 'Rewards' sub-rating evaluates the size and the growth potential of a country's telecom market as well as the country's broader economic and socio-demographic characteristics that impact the development of the telecom industry. The Industry Rewards category has a weight of 65% and the Country Rewards category has a weight of 35%. The 'Risks' sub-rating assesses specific threats to the telecom sector, as well as risks related to the domestic political and economic profile that could affect the realization of expected returns in the telecom industry. The Industry Risks category has a weight of 40% and the Country Risks category has a weight of 60%. Ratings are on a scale from zero to 100, with a score of 100 reflecting the highest rating.

BMI attributed Lebanon's low score to the structure of the country's telecom market, given that the government retains full ownership of the two mobile networks and that high rates discourage the adoption of new services. It considered that the liberalization of the telecommunications sector would improve the market's prospects, but it remained uncertain about the implementation of any related regulations.

Lebanon came in last place on the Industry Rewards category, which reflects the low level of competition in the telecom sector. Lebanon received a score of 26.3 points on this category, well below the region's average score of 39.2 points. Further, Lebanon came in 14th place on the Industry Risks category, better than only Iran, Yemen, Syria and Libya. It received a score of 25 points on this category, lower than the MENA region's average score of 43.9 points.

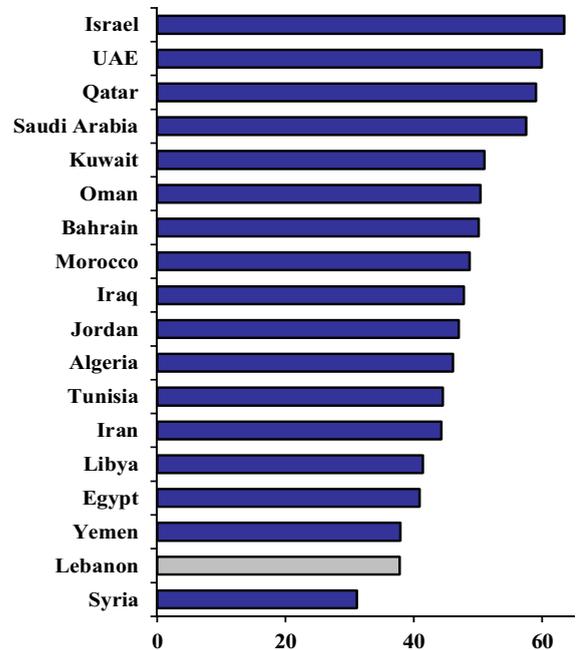
In parallel, Lebanon came in eighth place on the Country Rewards category, behind Israel, Kuwait, Qatar, Libya, Saudi Arabia, Bahrain and the UAE. It received a score of 63.3 points on this category, higher than the region's average score of 62.1 points. Also, Lebanon came in 14th place on the Country Risks category, ahead of only Iraq, Yemen, Libya and Syria. Lebanon received a score of 44 points on this category relative to the MENA region's average score of 54 points.

Value of unsold apartments in Beirut at \$477m for projects completed in 2014

Figures released by property advisory firm RAMCO show that 56 residential real estate projects were completed in 2014 in Beirut, of which 14 projects have been sold out. It noted that 271 units or 22.3% of the 1,213 units that were completed in 2014 are still available on the market, with an average size of 310 square meters for unsold apartments. It estimated the value of the unsold stock at \$477.2m. It said that unsold apartments usually have some problems, either in the size, location, price, or construction quality. It noted that some developers have built apartments without a thorough understanding of the real estate market and their apartments, once completed, did not meet existing demand. It added that the large number of unsold stock of apartments completed in 2014 proves that the residential market is still going through a period of stagnation.

Further, the 56 completed residential projects in 2014 represent a total of 342,901 square meters of built-up area (BUA), of which 83,976 sqm of BUA, or 24% of the total, are still available for sale. As such, the take-up ratio, or the ratio of sold BUA to total BUA, was 76% in 2014, down from 78% in 2013 and 82% in 2012. RAMCO indicated that sales ratios have dropped by 2.5% from 2013. It noted that nine out of the 56 completed projects in 2014 have a sales ratio that ranges between zero and 50%, of which one project has not sold any apartment yet.

Telecommunications Risk/Reward Rating for the Second Quarter of 2015



Source: Business Monitor International

Foreign investments of financial sector at \$6.4bn at end-September 2014, commercial banks account for 67% of long term debt securities and for 23% of equity investments

Figures issued by the Central Bank show that the net investment portfolio of Lebanese banks and financial institutions in foreign debt and equity securities totaled \$6.4bn at the end of September 2014, constituting an increase of 4.7% from \$6.1bn at end-2013 and a 2% increase from \$6.3bn at end-September 2013. Investments in long-term debt securities reached \$3.4bn at the end of September 2014 and accounted for 53.5% of the total, followed by investments in equities at \$2.9bn (44.9%) and short-term debt securities at \$106.6m (1.7%). According to the Central Bank, the figures cover the net assets of resident banks and financial institutions in foreign tradable debt and equity instruments. They help provide a clearer picture about the flow of funds from Lebanon and, therefore, about the balance of payments.

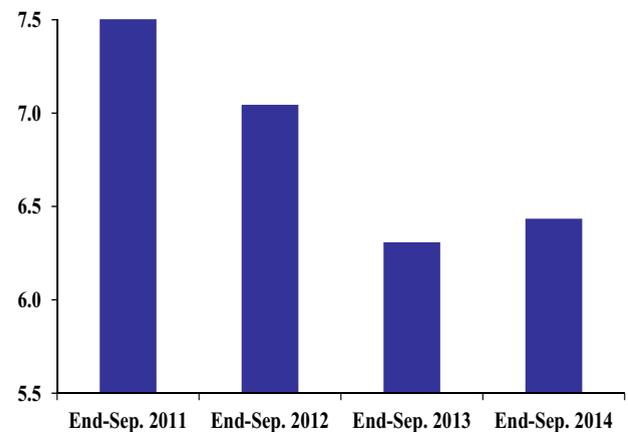
Commercial banks' net portfolio in foreign long-term debt securities totaled \$2.3bn and accounted for 67.4% of aggregate investments in such securities at the end of September 2014. The figure includes banks' investments for their own account, on behalf of their clients and on a custodial basis. The net portfolio in foreign long-term debt securities of medium- and long-term banks followed with \$847.1m (24.6%), insurance firms with \$165.3m (4.8%) and financial institutions with \$108.7m (3.2%). In parallel, commercial banks represented 92.3% of investments in short-term debt securities, followed by medium- and long-term banks with 4.4%, financial institutions with 2.8% and insurance companies with 0.6%. Further, financial institutions' net assets in equities reached \$1.3bn and accounted for 44% of total investments in such securities. They were followed by medium- and long-term banks with \$760.8m (26.4%), commercial banks with \$674.7m (23.4%), insurance companies with \$172.5m (6%) and financial intermediaries with \$7.5m (0.3%).

The distribution of investments by destination shows that the United States was the leading recipient of equity investments by banks and financial institutions operating in Lebanon with \$1.48bn or 51.3% of the total at end-September 2014. Bahrain followed with equity investments worth \$263.1m (9.1%), Saudi Arabia with \$154.3m (5.3%), France with \$136m (4.7%) and Luxembourg with \$125.1m (4.3%), while other countries accounted for the remaining 25.2% of total equity investments. In parallel, the United Kingdom represented \$623.6m or 18.1% of investments in long-term debt securities, followed by France with \$458.4m (13.3%), the United States with \$437m (12.7%), the UAE with \$238.8m (6.9%) and Qatar with \$167.9m (4.9%), while other countries accounted for the remaining 44%. Further, Qatar accounted for 40% of investments in short-term debt securities, followed by Bahrain (34.1%), Australia (13.4%), France (3.5%) and the United States (2.4%), while other countries represented the remaining balance of 6.6%.

Central Bank stresses on proper operations with correspondent banks

In the monthly meeting between the Central Bank and the Association of Banks in Lebanon (ABL), Governor Riad Salamé emphasized the importance to abide by the rules and standards that dictate Lebanese banks' operations with correspondent banks. He called on Lebanese banks to collaborate with and visit the compliance officers at corresponding banks. He indicated that the ABL delegation's recent visit to New York and Washington, DC aims to strengthen the relationship with correspondent banks in the United States. He said that, during its visit, the ABL delegation stressed that the Lebanese banking sector is compliant with global standards, especially U.S. standards, given that 80% of the Lebanese banking sector's foreign operations are in US dollars and go through correspondent banks in the United States. He noted that U.S. officials considered that it is crucial for Lebanese banks to maintain their efforts in terms of risk management in order to preserve their relationships with correspondent banks. He considered that the visit protected Lebanon from de-risking, and called on the ABL to continue its efforts to maintain the confidence in the Lebanese banking system.

Foreign Investments of Financial Sector (US\$bn)



Source: Central Bank, Byblos Research

Mixed impact of Syrian conflict on Lebanon's external trade

The World Bank estimated that the Syrian conflict has had a mixed impact so far on Lebanon's trade activity. It indicated that the share of Lebanese exports relative to GDP has been on a downward trend since 2008, but that the conflict in Syria did not have an impact on the value of Lebanese merchandise exports. It noted that the growth rate in merchandise exports decelerated in 2011 and shifted to negative since 2012 due to factors unrelated to the Syrian war, such as lower demand for pearls and precious stones that are neither destined to the Syrian market nor exported through Syria. In addition, it said that Lebanese merchandise imports continued to grow since the conflict started, but at a slower pace than the average growth rate of the preceding decade. It attributed the relative stability of imports to two factors related to the conflict in Syria. First, it noted that the large influx of Syrian refugees to Lebanon has resulted in higher demand for goods, which in turn pushed imports up. Second, it indicated that the rise in the cost of trade due to the war in Syria has constrained the ability of Lebanese traders to import via land routes, which decreased the import propensity of the economy.

In parallel, the Bank pointed out that the Syrian crisis has severely disrupted overland Lebanese imports and exports. It said that trade was redirected from the Masnaa and Abboudieh crossing points to the Port of Beirut, especially during the 2012-13 period. As such, it noted that 44% of Lebanese exports transited through the Port of Beirut in 2013, up from 28% in 2012, while 71% of imports came through the port in 2013 relative to 66% in 2012. However, it indicated that Syria has continued to be an export destination for Lebanon throughout the conflict, as demand for Lebanese products from Syria and its neighboring countries has been resilient to the crisis. In contrast, it indicated that the collapse of Syrian production has led to a substantial decline in Lebanese imports from Syria, which almost halved between 2010 and 2013.

The Bank estimated that a Lebanese firm that was exporting to Syria in 2010 lost on average \$90,000 in export receipts by 2012, equivalent to about 25% of the average per-crisis export level to Syria, and relative to an average loss of \$340,000 for a Jordanian exporter to Syria. It said that losses varied across exporters, and mainly affected those that are highly exposed to the Syrian market. Further, it noted that the Syrian conflict generated opportunities for Lebanese exporters to replace the loss of production in the Syrian market, as many firms that were not exporting to Syria in 2010 started to export by 2012. It estimated that, on average, exports to Syria increased by \$125,000 per firm. It said that the replacement effect is large enough to compensate for the negative impact of the conflict on pre-crisis exporters to Syria.



Byblos Bank's ratings affirmed, outlook 'stable'

Capital Intelligence affirmed Byblos Bank's long- and short-term foreign currency ratings at 'B', and the Bank's Financial Strength Rating (FSR) at 'BBB-'. It maintained the Support Level at '3', given the high likelihood of official support in case of need due to Byblos Bank's systemic importance to the Lebanese banking sector. It said the outlook on all the ratings is 'stable' and noted that the foreign currency ratings continue to be restrained by Lebanon's sovereign ratings.

The agency pointed out that Byblos Bank's FSR is supported by its strong capital adequacy, sound loan-loss reserve coverage of non-performing loans (NPLs), comfortable liquidity level and good franchise. It said that the Bank's customer deposit base expanded in 2014 despite strong competition, mainly due to its strong franchise. It indicated that Byblos Bank has good access to capital markets, which has allowed it to diversify its sources of funding a lot more significantly than most Lebanese banks. It said that the Bank's loan-loss reserve coverage is among the highest in the sector, while the unprovided NPLs-to-free capital ratio remains at a very low level, reflecting the Bank's low share of net loans to total assets and its solid capital base.

Further, the agency pointed out that the Bank's net profits and return on average assets rebounded in 2014, and that the Bank continues to have an adequate loss absorption capacity for larger than expected losses on existing NPLs. It noted that the Bank's FSR is constrained by factors such as the exposure to the sovereign, the country risk level and slow economic growth. It said that Byblos Bank follows a universal banking model, offers services in commercial and retail banking through one of the largest branch networks in Lebanon, and operates in 11 markets abroad.

Stock market activity up 77% to \$300m in first five months of 2015

Figures released by the Beirut Stock Exchange indicate that total trading volume reached 39.4 million shares in the first five months of 2015, constituting an increase of 75.4% from 22.4 million shares traded in the same period of 2014; while aggregate turnover amounted to \$300.4m, up 77.2% from a turnover of \$169.5m in the first five months of 2014. Market capitalization increased by 3.4% from end-May 2014 to \$11.57bn, with banking stocks accounting for 80.4% of the total, followed by real estate shares (16.3%), industrial equities (3%) and trading stocks (0.3%). The market liquidity ratio was 2.6% compared to 1.5% in the first five months of 2014. Banking stocks accounted for 92% of aggregate trading volume in the first five months of this year, followed by real estate equities with 7.8% and trading shares with 0.1%. Also, banking stocks represented 88.3% of the aggregate value of shares traded, followed by real estate equities with 11.5%, and trading and industrial stocks with 0.1% each. In parallel, the average daily traded volume for the period was 401,560 shares for an average daily value of \$3.1m. The figures reflect increases of 80.8% in volume and 82.7% in value year-on-year.

Net profits of top 14 banks up 10% to \$451m in first quarter of 2015, profitability ratios stagnate

The unaudited consolidated net profits of the Alpha Group of banks reached \$451m in the first quarter of 2015, constituting an increase of 10.1% from \$409.6m in the same quarter of 2014. The Alpha Group consists of 14 banks with deposits in excess of \$2bn each. Total net operating income increased by 11.7% to \$1.27bn, with aggregate net interest income rising by 8.4% to \$843.1m and net fees & commissions decreasing by 5.2% to \$194.3m year-on-year. Non-interest income accounted for 36.5% of total income in the first quarter of 2015, up from 31.7% in the same quarter last year; with net fees & commissions representing 37.2% of non-interest income, down from 53.6% in the first quarter of 2014. The interest spread rose to 1.87% in the first quarter from 1.85% in the same quarter last year. Also, total operating expenditures increased by 9.2% to \$679.6m in the first quarter of 2015, with staff expenses rising by 7.9% to \$378.5m. Further, the cost-to-income ratio was 47.5% in the first quarter of this year, down from 51.6% in the same quarter of 2014. The banks' return on average assets reached 0.99% in March 2015 on an annualized basis relative to 0.97% in March 2014; while their return on average equity was 11.06% on an annualized basis compared to 11.07% in March 2014.

The Alpha banks' total assets reached \$194bn at the end of March 2015, constituting a marginal drop of 0.3% from end-2014 and a rise of 8.4% from end-March 2014. Net loans & advances to customers regressed by 1.9% from the end of 2014 to \$58.72bn, while credits extended to related parties increased by 1.1% to \$535.2m at end-March 2015. Customer deposits totaled \$156.8bn at the end of March 2015, constituting a decrease of 0.8% in the first quarter, while deposits from related parties rose by 23.6% to \$3.5bn at end-March. Shareholders' equity reached \$17.5bn at the end of March 2015 and grew by 1.8% from end-2014.

In parallel, the banks' loans-to-deposits ratio was unchanged at 37% at end-March 2015. The loans-to-deposits ratio in local currency reached 22.4% compared to 21.4% at end-March 2014, while that in foreign currency was 43.2% at the end of March 2015 relative to 43.9% a year earlier. Further, the primary liquidity-to-assets ratio was 31.9% at the end of March, up from 30.1% at end-March 2014. The banks' gross doubtful loans-to-gross loans ratio was nearly unchanged at 5.74% at the end of March 2015. Also, the loan-loss reserves on doubtful loans covered 76.7% of gross doubtful loans at end-March 2015, unchanged from a year earlier. The ratio of collective provisions-to-net loans increased from 1.13% at the end of March 2014 to 1.23% at the end of March 2015.



Corporate Highlights

Solidere's consolidated net income up 2.7 times to \$114m in 2014

Solidere, The Lebanese Company for the Development and Reconstruction of Beirut Central District sal, announced consolidated audited net profits of \$113.7m in 2014, up 2.7 times from \$42.6m in 2013. The consolidated results reflect Solidere's stand-alone financials and those of its subsidiaries, which include Solidere International Limited, Solidere Management Services sal, BCD Cinemas sal, Beirut Waterfront Development sal and Beirut Hospitality Company Holding sal. It noted that Solidere International Limited generated net profits of \$67.3m in 2014, of which \$25.1m were included in the firm's consolidated results. In parallel, Solidere's non-consolidated net profits reached \$96.9m last year, representing a rise of 144.2% from \$39.7m in 2013.

The firm's consolidated revenues from land and real estate sales grew by 78.6% to \$169.5m in 2014. Solidere indicated that it executed seven new sale agreements, mostly for Lebanese investors. It added that it sold \$4.3m worth of residential apartments, while revenues from rental properties rose by 12% year-on-year to \$61.5m. The firm indicated that it renegotiated several rental agreements after taking into consideration the challenging environment of commercial activity, especially in the Beirut Souks. It added that most rental revenues came from the new cinema complex that was inaugurated in early 2014. Further, income from services rendered decreased by 24.4% to \$6.1m last year. Also, on a consolidated basis, the firm recorded total net operating revenues of \$180.6m in 2014, up 60.1% year-on-year. In parallel, the company's general and administrative expenses increased by 11% in 2014 to \$34.3m.

Solidere stated that its consolidated assets reached \$2.96bn at the end of 2014 and increased by 3.2% from \$2.87bn at end-2013, with the inventory of land and projects in progress totaling \$1.13bn relative to \$1.14bn a year earlier. In parallel, the firm's non-consolidated assets totaled \$2.86bn at the end of 2014, up 2.8% from end-2013. The firm noted that it still owns a land bank of 1.8 million square meters that is valued at about \$7bn, as well as built properties valued at about \$1.4bn based on the prevailing market prices at the end of 2014. Solidere's holdings in cash and securities totaled \$772m last year, while the firm's outstanding loans from banks were \$649m, equivalent to about 7% of the firm's assets at market value. The firm's consolidated shareholders' equity totaled \$2.06bn at the end of 2014, up 5.8% from \$1.95bn at end-2013.

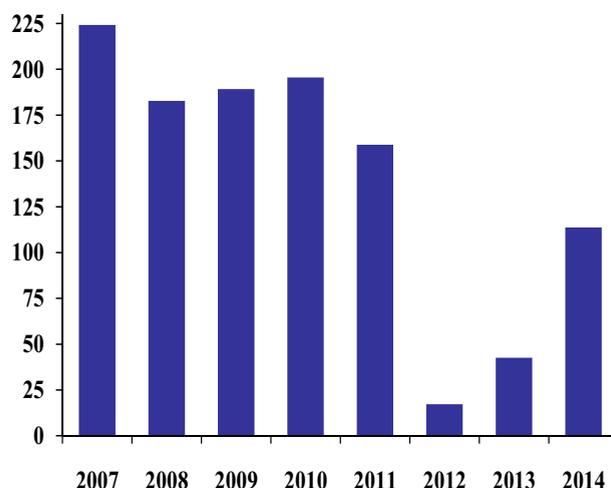
In parallel, the Board of Directors of Solidere announced that it will propose to the firm's annual Ordinary General Assembly on June 22, 2015 the distribution of dividends for 2014. It plans to propose a gross dividend payment of about \$38m, or the equivalence of one third of Solidere's consolidated net profits. Solidere is Lebanon's third largest listed firm in terms of market capitalization as at the end of May 2015. The price of Solidere A shares closed at \$11.5 per share on May 29, 2015, reflecting a rise of 1.6% from the end of 2014, while Solidere B shares closed at \$11.38, constituting a marginal increase of 0.4% from end-2014.

Banque BEMO's dividend payout ratio at 40.3% for 2014

Banque BEMO sal announced that its Ordinary General Assembly held on May 29, 2015 approved the distribution of dividends for 2014. The bank will allocate a gross dividend payment of LBP6.79bn, or \$4.5m, to the holders of common and preferred shares, which is equivalent to a 40.3% payout ratio. The bearers of common shares will receive a total of LBP3.1bn, or \$2m, equivalent to LBP50 or \$0.03 per share. Also, the bank will pay \$7 per share to the holders of Preferred Shares Issuance of Year 2013. The dividends will be paid starting on June 9, 2015 net of a 5% withholding tax for publicly-listed shares and net of a 10% tax for shares that are not publicly listed. Banque BEMO currently has 62,000,000 common shares, of which 51,400,000 shares are listed on the Beirut Stock Exchange. It also has 350,000 Preferred Shares Issuance of Year 2013 listed on the bourse.

Banque BEMO posted unaudited net profits of \$11.2m in 2014. Its assets reached \$1.48bn at end-2014; while loans & advances to customers, including loans & advances to related parties, totaled \$643.2m at the end of 2014. Also, customer deposits, including deposits from related parties, reached \$1.2bn at the end of the year.

Solidere Net Profits (US\$m)



Source: Solidere Financial Statements

LIA's net profits down 15% to \$14m in 2014

LIA Insurance sal announced audited net profits of \$14m in 2014, constituting a decrease of 14.9% from net earnings of \$16.5m in 2013. Its audited balance sheet shows total assets of \$421.1m at the end of 2014, constituting an increase of 6.1% from \$397m at end-2013. On the assets side, general company investments totaled \$161.2m, and constituted a marginal decrease of 0.4% from \$161.8m at end-2013. They included \$39.7m in fixed income investments, \$39.1m in cash & cash equivalents, \$6.1m in investments in subsidiaries and associates; and \$69.7m in blocked bank deposits and deposits with maturity of more than three months, of which \$2.1m were blocked in favor of the Ministry of Economy as guarantees.

Also, Unit-linked contracts investments totaled \$167.8m at the end of 2014, reflecting a marginal rise of 0.6% from \$166.8m a year earlier. They included \$105.7m in cash & short-term investments, \$61m in fixed income investments and \$1.1m in equity and similar investments. Unit-linked fixed income investments rose by 5.2% and investments in equity and similar instruments increased by 1.9%; while cash & short-term investments declined by 1.9% year-on-year. Reinsurance share in technical reserves for the life and non-life categories amounted to \$11.5m and \$29.5m, respectively, constituting increases of 15.5% and 10.6%, respectively.

On the liabilities side, technical reserves for the life segment grew by 16.6% year-on-year to \$85m, while technical reserves for the non-life category reached \$67.4m at end-2014 and increased by 14.8% from the preceding year. Non-life technical reserves included unearned premium reserves of \$35.9m that rose by 15.6% and outstanding claims reserves of \$28.9m that increased by 14.7%. Provisions for risks and charges reached \$2.8m and rose by 10.5% from a year earlier. Also, the firm's shareholders' equity totaled \$83.4m at the end of 2014 and rose by 2.9% from a year earlier.

Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked LIA in fifth and seventh place in 2014 in terms of life and non-life premiums, respectively. The firm's life premiums reached \$40.3m and non-life premiums amounted to \$55.8m, constituting a decrease of 2.6% and an increase of 16.8%, respectively. It had a 9.1% share of the life market and a 5.4% share of the local non-life market. LIA had a 6.5% share of the insurance market and ranked in seventh place in overall premiums in 2014.

MEA launches new cargo center

National flag carrier Middle East Airlines (MEA) launched a cargo center that aims to accelerate and improve the inspection of imported and exported products. The \$25m center is built on a 20,645 square meter area and will be fully operational by July 2015. MEA expects to handle about 165,000 tons of goods, reflecting an increase of 2.5 times from a capacity of 65,000 tons currently. The newly-built cargo center is in line with international security, safety, health, environmental and hygiene standards. It is equipped with four large scanners, uninterruptible power supply systems, and more than 330 security cameras, among others.

In parallel, MEA launched in March 2015 Lebanon's first aviation training center with an estimated initial budget of \$80m. The training center is currently operational and is expected to be fully equipped in the coming three years. It offers training to pilots and cabin crew members for crisis-type situations, and provides flight license renewals, among other services. The training center is part of the Middle East Aviation Academy, which will be completed by June 2016. 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.

Jammal Trust Bank to raise capital, net profits at \$13m in 2014

Jammal Trust Bank sal posted audited consolidated net profits of \$13.2m in 2014, reflecting a rise of about 2.4 times from \$5.4m in 2013. Net interest income reached \$21.5m in 2014, nearly unchanged from the preceding year; while net fees & commission income rose by 12% to \$5.5m year-on-year. Operating expenditures grew by 13.6% to \$25.9m, with staff expenses increasing by 8.7% to \$9.5m in 2014. The bank's cost to income ratio dropped to 68.6% in 2014, compared to 83.8% in the previous year. Further, its return on average assets reached 1.56% in 2014 relative to 0.68% in 2013, while its return on average equity was 19.49% last year, up from 8.32% in 2013.

Total assets reached \$903m at the end of 2014, constituting an increase of 8.6% from \$831.5m at end-2013; while loans & advances to customers, increased by 18% year-on-year to \$383.3m. Also, customer deposits totaled \$788.1m at end-2014, growing by 8.4% from a year earlier. The bank's loan-to-deposit ratio increased to 49% in 2014 from 45.02% in the previous year, while its non-performing loans ratio rose to 10.8% in 2014 from 8.5% in 2013. The bank's shareholders' equity rose by 18% year-on-year to \$73.8m at end-2014.

In parallel, Jammal Trust Bank announced that it plans to raise its capital by LBP29.91bn or \$19.8m, from LBP75.09bn (\$49.8m) to LBP105bn (\$69.7m) through the transfer of funds from its legal and statutory reserves and its retained earnings. The capital increase is subject to the approval of the bank's Extraordinary General Assembly on June 10, 2015.

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 | June 2013 | May 2014 | June 2014 | Change* | Risk Level |
|-----------------------|-----------|----------|-----------|---------|------------|
| Political Risk Rating | 53.0 | 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 | 57.5 | 58.5 | 58.5 | ▼ | High |

| Regional Average | June 2013 | May 2014 | June 2014 | Change* | Risk Level |
|-----------------------|-----------|----------|-----------|---------|------------|
| Political Risk Rating | 58.4 | 58.3 | 58.0 | ▲ | High |
| Financial Risk Rating | 41.0 | 40.6 | 40.6 | ▲ | Very Low |
| Economic Risk Rating | 36.7 | 36.0 | 36.1 | ▲ | Low |
| Composite Risk Rating | 68.0 | 67.5 | 67.4 | ▲ | 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



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

Lebanon This Week is a research document that is owned and published by Byblos Bank sal. The contents of this publication, including all intellectual property, trademarks, logos, design and text, are the exclusive property of Byblos Bank sal, and are protected pursuant to copyright and trademark laws. No material from Lebanon This Week may be modified, copied, reproduced, repackaged, republished, circulated, transmitted, redistributed or resold directly or indirectly, in whole or in any part, without the prior written authorization of Byblos Bank sal.

The information and opinions contained in this document have been compiled from or arrived at in good faith from sources deemed reliable. Neither Byblos Bank sal, nor any of its subsidiaries or affiliates or parent company will make any representation or warranty to the accuracy or completeness of the information contained herein.

Neither the information nor any opinion expressed in this publication constitutes an offer or a recommendation to buy or sell any assets or securities, or to provide investment advice. This research report is prepared for general circulation and is circulated for general information only. Byblos Bank sal accepts no liability of any kind for any loss resulting from the use of this publication or any materials contained herein.

The consequences of any action taken on the basis of information contained herein are solely the responsibility of the person or organization that may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies that may be discussed in this report and should understand that statements regarding future prospects may not be realized.

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