

LEBANON THIS WEEK

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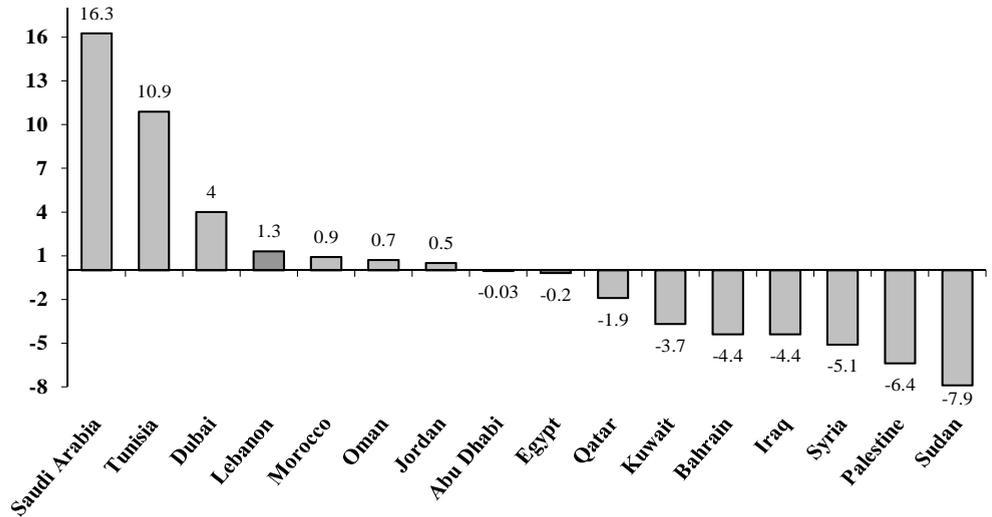
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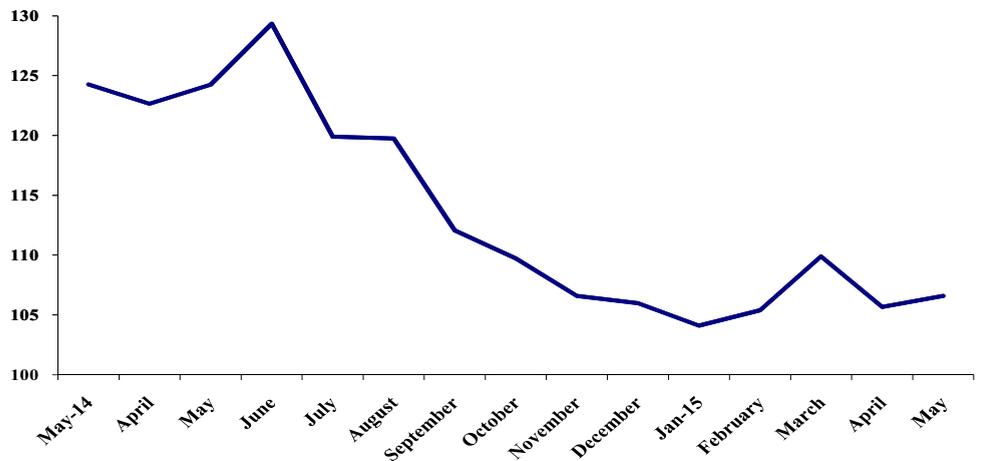
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Charts of the Week

Performance of Arab Stock Markets in First Five Months of 2015 (% 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

"Policy inertia is taking a growing toll on the economy and is threatening Lebanon's resilience."

The International Monetary Fund, on the cost of the absence of political will to implement much-needed structural reforms

Number of the Week

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

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
Byblos Common	1.60	(1.23)	354,628	4.98%
BLOM Listed	9.66	0.63	203,852	17.98%
BLOM GDR	10.00	(0.50)	93,124	6.40%
Solidere "A"	11.59	0.78	76,334	10.03%
Audi Listed	6.12	0.16	60,632	21.18%
Audi GDR	6.32	(4.10)	30,213	6.36%
Solidere "B"	11.51	1.14	23,965	6.48%
Byblos Pref. 09	100.70	0.40	11,870	1.74%
Byblos Pref. 08	100.70	0.40	2,400	1.74%
HOLCIM	16.00	(1.11)	500	2.70%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Jan 2016	8.500	103.06	3.49
Mar 2017	9.000	108.38	4.11
Nov 2018	5.150	101.25	4.75
May 2019	6.000	103.50	5.02
Mar 2020	6.375	104.88	5.21
Apr 2021	8.250	114.25	5.38
Oct 2022	6.100	103.00	5.60
Jun 2025	6.250	101.38	6.07
Nov 2026	6.600	104.00	6.11
Feb 2030	6.650	103.38	6.29

Source: Byblos Bank Capital Markets

	June 1-5	May 26-29	% Change	May 2015	May 2014	% Change
Total Shares Traded	940,498	1,589,536	(40.83)	3,514,330	3,204,699	9.66
Total Value Traded	\$7,775,365	\$13,903,890	(44.08)	\$40,077,612	\$32,279,807	24.16
Market Capitalization	\$11.55bn	\$11.57bn	(0.16)	\$11.56bn	\$11.05bn	4.61

Source: Beirut Stock Exchange (BSE)



Nearly half of Lebanese adults saved money in 2014

Figures issued by the World Bank show that 47.1% of Lebanese who are 15 years or older saved or set aside money in 2014, up from 30.8% of Lebanese adults in 2011. The share of Lebanese adults who saved money in 2014 was the 85th highest among 143 countries globally, the 20th highest among 40 upper-middle income countries (UMICs), and the second highest among nine developing countries in the Middle East & North Africa (MENA). Globally, the share of adults in Lebanon who saved money in 2014 was higher than that in Myanmar (46.7%), Poland (46.6%) and Saudi Arabia (45.4%), and lower than that in Ethiopia (48.1%), Mongolia (47.3%) and Venezuela (47.2%). The percentage of adults in Lebanon who saved money in 2014 was lower than the 56.5% of adults who saved money globally and the 62.7% of adults in UMICs who did the same in 2014, but higher than the 30.5% of adults in MENA countries who saved money last year.

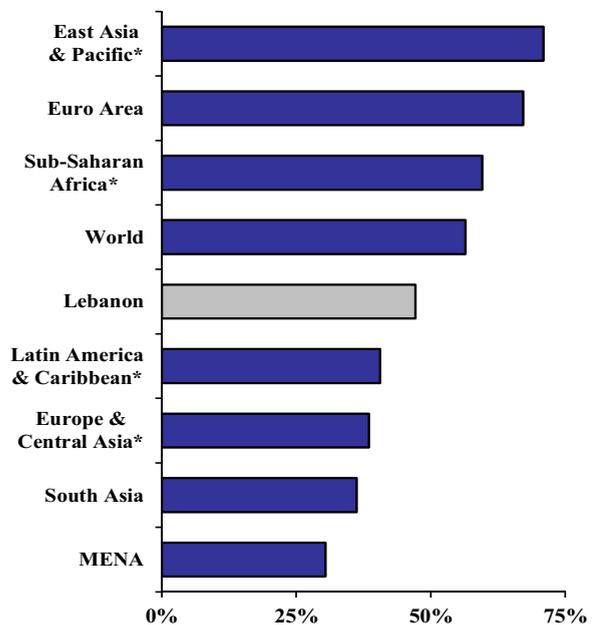
On a gender basis, 51.4% of Lebanese males and 43.3% of Lebanese females aged 15 years or more saved money in 2014. The percentage of Lebanese females who saved money last year was lower than the 54.2% of females worldwide and the 60.1% of females in UMICs who saved money in 2014, but higher than the 29.2% of adults in the MENA region who did the same. Similarly, the share of Lebanese males saving money in 2014 was lower than the 58.8% of males worldwide who saved money last year and of the 65.2% of males in UMICs who did the same, but higher than 31.7% of males in MENA countries who saved money in 2014. Also, 50.3% of Lebanese aged 25 and above were able to save money last year, while 37% of Lebanese in the 15 to 24 year-old bracket saved money in 2014.

In parallel, 17.5% of Lebanese adults saved money at banks and other types of financial institutions in 2014, almost unchanged from 17.1% in 2011. The share of Lebanese adults who saved money at banks or financial institutions in 2014 was the 66th highest globally, the 17th highest among UMICs, and the second highest among developing countries in the MENA region. Globally, the share of adults in Lebanon who saved money at banks or financial institutions in 2014 was higher than that in Zambia (16.8%), Uganda (16.77%) and Nepal (16.4%), and lower than that in Hungary (19.3%), Ghana (18.6%) and Gabon (18%). Further, the share of Lebanese adults who saved money at banks or financial institutions in 2014 was lower than the 27.4% of adults around the world and the 32.2% of adults among UMICs who did the same, but higher than the 4% of adults in developing MENA countries. Also, 20.2% of Lebanese aged 25 and above saved money at banks or financial institutions last year, while 8.7% of Lebanese in the 15 to 24 year-old bracket saved their money at banks or financial institutions. In addition, 10% of Lebanese adults saved money for education or school fees in 2014, while 6.5% of Lebanese aged 15 years or above saved money for retirement. Further, 8.4% of Lebanese adults saved money to start, operate or expand a farm or business in 2014.

Further, 33.8% of Lebanese respondents considered that, in case of an emergency, they would be able to come up with funds within the next month. The World Bank estimated emergency funds to be equivalent to about 5% of Gross National Income per capita in local currency, or about \$493.5 per capita in the case of Lebanon. Further, 32.7% of Lebanese adults considered that it is very possible to come up with emergency funds, 18.4% considered that it is not possible at all and 14.2% thought that it is unlikely to source emergency funds in case of an urgent situation. As such, 66.5% of Lebanese considered that it is possible to come up with emergency funds relative to 32.6% who said that it is not possible to have access to such funds.

Also, the Bank indicated that 50% of Lebanese adults who came up with emergency funds in 2014 borrowed the money from their family or friends. They were followed by 28.8% who used their savings, 11.8% used their salary or took a loan from their employer, 2.7% borrowed from a private informal lender and 2.1% borrowed from a financial institution or used a credit card; while the remaining 3.7% of Lebanese adults who came up with emergency funds in 2014 resorted to other sources of funds. The survey's sample excluded certain areas in Lebanon, which host around 10% of the population, for security reasons. Excluded zones were replaced by areas from within the same governorate.

Percentage of Adults Who Saved Money in 2014



*developing countries only

Source: World Bank, Byblos Research

Lebanon ranks in 68th place globally, fifth in MENA region in terms of Rule of Law

The World Justice Project's (WJP) Rule of Law Index for 2015 ranked Lebanon in 68th place among 102 countries around the world and in fifth place among seven countries in the Middle East & North Africa region. Lebanon also came in 25th place among 31 upper-middle income countries (UMICs) included in the survey. Lebanon's rank regressed by 17 spots from the 2014 survey, based on the same number of countries year-on-year, constituting the third steepest drop globally. Also, Lebanon's rank regressed by one spot among MENA countries and by eight spots among UMICs year-on-year.

The index measures the implementation of the rule of law by aggregating 44 sub-factors into eight factors that are Constraints on Government Powers, Absence of Corruption, Open Government, Fundamental Rights, Order & Security, Regulatory Enforcement, Civil Justice, and Criminal Justice. The scores and rankings of each factor and sub-factor are based on the results of a opinion poll of the general public and of a survey of legal professionals in each country. The general population poll covers only the three major urban areas in each country. The Lebanon survey covered 1,003 participants in Beirut, Tripoli and Sidon.

Globally, the implementation of the rule of law in Lebanon is better than that in Moldova, Ukraine and China, and worse than that in Kazakhstan, Belize and the Dominican Republic. Also, the rule of law in Lebanon is more effective than it is in China, Ecuador, Mexico, Turkey, Iran and Venezuela among UMICs. Lebanon received a score of 0.48 points, down by 5.9% from 0.51 points in the 2014 survey. It was lower than the global average of 0.57 points and the UMICs' and MENA region's scores of 0.52 points each.

Lebanon came in the second-tier of countries on the Constraints on Government Powers, Fundamental Rights and Criminal Justice factors, while it came in the third-tier of countries on the Absence of Corruption, Open Government, Order & Security, Regulatory Enforcement and Civil Justice factors. Lebanon ranked ahead of Kenya and Colombia and came behind Malawi and Morocco on the Constraints on Government Powers factor. This category measures how much government and public sector officials are bound by the law. Lebanon also ranked ahead of Colombia and came behind Bosnia & Herzegovina among UMICs, while it ranked ahead of Jordan and came behind Morocco in the region on this factor. Also, Lebanon ranked ahead of Tanzania and Albania, and came behind Indonesia and Nicaragua on the Absence of Corruption factor. It ranked ahead of only Albania, the Dominican Republic, Peru, Mexico and Venezuela among UMICs, and came in last place in the region on this factor.

Further, Lebanon ranked ahead of Turkey and Pakistan and came behind Kenya and Bolivia on the Open Government factor. This category measures the extent that society has clear, publicized and stable laws; if administrative proceedings are open to public participation; and if official information is available to the public. Lebanon had a more transparent government than Turkey and a less open government than Belarus among UMICs, while it had a more transparent government than Egypt and Iran in the MENA region. In addition, Lebanon came ahead of Nicaragua and Vietnam and ranked behind Kyrgyzstan and the Dominican Republic on the Regulatory Enforcement factor, which measures the extent of fair and effective enforcement of regulations. It came ahead of only Venezuela among UMICs, while it ranked ahead of only Egypt in the region.

Country	Score	2015 Rule of Law Index*	
		UMIC Rank	Global Rank
Argentina	0.52	17	54
Thailand	0.52	18	56
Serbia	0.50	19	60
Colombia	0.50	20	62
Peru	0.50	21	63
Kazakhstan	0.50	22	65
Belize	0.49	23	66
Dominican Rep.	0.48	24	67
Lebanon	0.48	25	68
China	0.48	26	71
Ecuador	0.47	27	77
Mexico	0.47	28	79
Turkey	0.46	29	80
Iran	0.43	30	88
Venezuela	0.32	31	102

*bottom 15 upper middle income countries

Source: World Justice Project, Byblos Research

Components of the 2015 Rule of Law Index for Lebanon

Factors	Global Rank	MENA Rank	UMIC Rank	Lebanon Score	Global Average Score	MENA Average Score	UMIC Average Score
Constraints on Government Powers	49	4	10	0.56	0.58	0.51	0.58
Absence of Corruption	76	7	26	0.37	0.52	0.52	0.53
Open Government	81	5	25	0.45	0.55	0.45	0.55
Fundamental Rights	57	1	18	0.55	0.60	0.44	0.60
Order and Security	73	6	21	0.68	0.55	0.74	0.73
Regulatory Enforcement	83	6	30	0.41	0.55	0.51	0.54
Civil Justice	78	6	27	0.45	0.55	0.53	0.55
Criminal Justice	62	6	20	0.39	0.55	0.48	0.49

Source: World Justice Project, Byblos Research

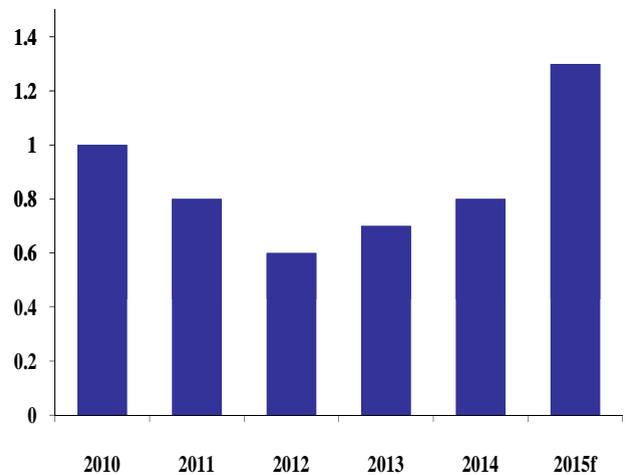


Lebanon ranks eighth in the Middle East & Africa in expected visitor spending for 2015

The 2015 MasterCard Worldwide Index of Global Destination Cities ranked Beirut in seventh place among 21 cities in the Middle East & Africa (ME&A) region in terms of expected spending by visitors in the current year. The survey ranks destination cities in terms of the total number of international overnight arrivals and cross-border spending. It defines international overnight arrivals as visitors who stay in a particular city for at least one night, while it refers to visitors' expenditures as the total amount that visitors spend in the destination city, excluding spending on airline tickets.

The survey projected visitors' spending in Beirut at \$1.3bn in 2015, constituting a rise of 62.5% from \$0.8bn in 2014 and compared to \$0.7bn in 2013, \$0.6bn in 2012, \$0.8bn in 2011 and \$1bn in 2010. The level of spending by visitors in Beirut this year would be similar to that in Cairo and Amman, and lower than that in Dubai (\$11.7bn), Johannesburg (\$2.6bn), Abu Dhabi (\$2.2bn), Cape Town (\$2.1bn), Riyadh (\$1.9bn) and Tel Aviv (\$1.5bn). The growth rate in international visitor spending in Beirut for 2015 would be, along with Cairo, the highest among the top 10 destination cities by tourist spending in the ME&A region.

Spending by Visitors in Lebanon (US\$bn)



Source: MasterCard, Byblos Research

In parallel, the survey forecast the number of overnight visitors to Beirut at 1.15 million in 2015. Beirut would receive the third lowest number of overnight visitors among the top 10 destination cities by visitors' spending in the ME&A region in 2015, behind only Tel Aviv with 1.05 million overnight visitors and Casablanca with 0.97 million overnight visitors. The expected number of international overnight arrivals in 2015 would be the highest in Dubai at 14.3 million visitors among ME&A cities, followed by Johannesburg at 4.4 million and Riyadh at 4.3 million. The number of overnight visitors in Lebanon would drop by 3.3% this year, constituting the only decline among the top 10 destination cities by visitors' spending in the ME&A region. Abu Dhabi would post the highest annual growth at 15.2%, followed by Cape Town (+12.7%) and Cairo (+9.4%). Further, Beirut would post the lowest compound annual growth rate (CAGR) in the number of overnight visitors between 2009 and 2015 at 0.1%, while Abu Dhabi would post the highest CAGR at 20.4%, followed by Riyadh (+18%) and Dubai (+9.4%).

Net public debt at \$59bn at end-April 2015

Lebanon's gross public debt reached \$69.5bn at the end of April 2015, constituting an increase of 4.3% from the end of 2014 and a rise of 7.1% from \$64.9bn at end-April 2014. Domestic debt totaled \$42bn at end-April 2015, rising by 2.6% from end-2014 and by 8.4% year-on-year; while debt in foreign currency stood at \$27.4bn, constituting an increase of 7.2% from the end of 2014 and a rise of 5% from a year earlier. Local currency debt accounted for 60.5% of gross public debt at the end of April 2015 compared to 59.7% a year earlier, while foreign currency-denominated debt represented the balance of 39.5% relative to 40.3% a year earlier. The weighted interest rate on outstanding Treasury bills was 6.91% and that on Eurobonds was 6.42% at the end of April 2015. Further, the weighted life on Eurobonds was 5.8 years, while that on Treasury bills was 1,220 days.

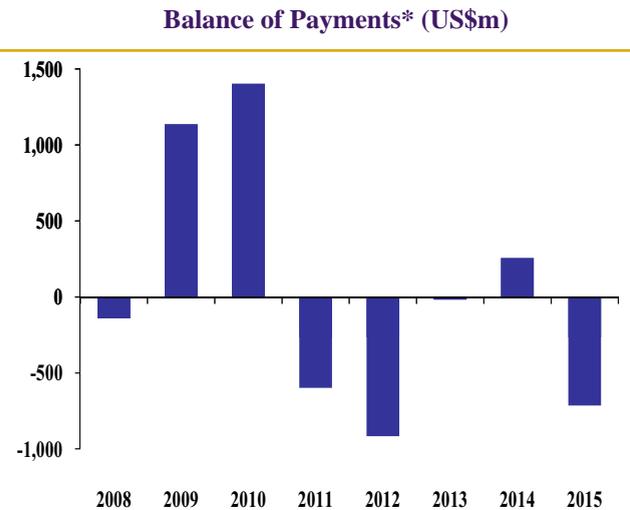
Commercial banks held 48.8% of the local public debt at the end of April 2015 compared to 52.3% a year earlier. They were followed by the Central Bank with 34.4%, up from 30.2% at end-April 2014; while public agencies, financial institutions and the public accounted for 16.8% of local debt compared to 17.5% at the end of April 2014. In parallel, Eurobond holders, foreign private sector loans and special T-bills in foreign currencies accounted for 91.8% of foreign-currency denominated debt, followed by foreign governments with 4.2%, multilateral institutions with 3.7%, and Paris II loans with 0.2%. The net public debt, which excludes public sector deposits at the Central Bank and at commercial banks from overall debt figures, increased by 7.9% year-on-year to \$59bn. In parallel, the gross market debt accounted for about 65% of total public debt. Gross market debt is the total public debt less the portfolios of the Central Bank, the National Social Security Fund, bilateral and multilateral loans, as well as Paris II and Paris III related debt.



Balance of payments posts deficit of \$714m in first four months of 2015

Central Bank figures show that Lebanon's balance of payments posted a deficit of \$714.2m in the first four months of 2015 compared to a surplus of \$256m in the same period last year. The balance of payments posted a surplus of \$136m in April 2015 compared to deficits of \$417.4m in March 2015 and \$45.4m in April 2014. The April 2015 surplus was caused by a surplus of \$1bn in the net foreign assets of banks and financial institutions, which was partly offset by a deficit of \$878.4m in those of the Central Bank.

The cumulative deficit over the first four months of 2015 was caused by a deficit of \$1.18bn in the net foreign assets of banks and financial institutions, and was partly offset by a surplus of \$470.2m in those of the Central Bank. The balance of payments posted surpluses of \$7.9bn in 2009 and \$3.3bn in 2010, and deficits of \$2bn in 2011, \$1.5bn in 2012, \$1.1bn in 2013 and \$1.4bn in 2014.



*in the first four months of each year

Source: Central Bank of Lebanon

Value of cleared checks down 6%, returned checks up 14% in first four months of 2015

The value of cleared checks reached \$22.7bn in the first four months of 2015, constituting a decrease of 6.1% from the same period of 2014, and compared to increases of 2.3% in the first four months of 2014 and of 3.4% in the same period of 2013. The value of cleared checks in Lebanese pounds rose by 1.9% year-on-year to the equivalent of \$6bn, while the value of cleared checks in US dollars declined by 8.7% annually to \$16.7bn in the first four months of 2015. The dollarization rate of cleared checks decreased to 73.6% from 75.7% in the first four months of 2014. Also, the value of returned checks in domestic and foreign currency grew by 13.6% year-on-year to \$533m in the first four months of 2015, relative to decreases of 4.5% in the same period of 2014 and of 2.6% in the first four months of 2013. In parallel, there were 4.03 million cleared checks in the first four months of 2015, down by 4.1% from the same period last year. Also, there were 82,000 returned checks in the covered period, up by 1.6% from 80,700 in the first four months of 2014.

Number of new construction permits down 21% in first four months of 2015, surface area down 19%

The Orders of Engineers & Architects of Beirut and of Tripoli issued 4,577 new construction permits in the first four months of 2015, constituting a decrease of 21.3% from 5,813 permits in the same period of 2014 and relative to a 3.2% rise in the first four months last year. Mount Lebanon accounted for 42.4% of newly issued construction permits in the first four months of 2015, followed by South Lebanon with 17%, Nabatieh with 13.5%, the North with 10.2%, the Bekaa with 9.5% and Beirut with 6.6%. The remaining 1.9% represents permits issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon.

Further, the surface area of construction permits granted in the first four months of 2015 reached 3,798,147 square meters (sqm), constituting a drop of 19% from the same period of 2014 and compared to a rise of 12.1% in the first four months of 2014. Mount Lebanon accounted for 1,901,953 sqm or 50.1% of total construction permits in the covered period. It was followed by the North with 471,816 sqm (12.4%), the South with 441,674 sqm (11.6%), Nabatieh with 330,094 sqm (8.7%), the Bekaa with 301,968 sqm (8%) and Beirut with 144,847 sqm (3.8%). The remaining 205,795 sqm, or 5.4% of total construction permits, reflect the surface area of permits that were issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon.

Airport passengers up 9% in first five months of 2015

Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures, transit) totaled 2,517,731 in the first five months of 2015, constituting a rise of 8.9% from the same period last year. The total number of arriving passengers increased by 9.6% year-on-year to 1,230,098 in the first five months of 2015, compared to a drop of 0.5% in the same period of 2014 and a rise of 4.4% in the first five months of 2013. Also, the number of departing passengers rose by 8.4% year-on-year to 1,282,897 in the first five months of 2015, relative to a decline of 6.7% in the same period of 2014 and an increase of 14.8% in the first five months of 2013. In parallel, the airport's aircraft activity rose by 4.6% year-on-year to 25,234 take-offs and landings in the first five months of 2015, compared to a decrease of 0.8% in the first five months of last year and a drop of 2.6% in the same period of 2013. The HIA processed 35,518 metric tons of cargo in the first five months of 2015 that consisted of 35,318 tons of freight and 200.4 tons of mail. In parallel, Middle East Airlines had 5,479 flights in the first quarter of 2015, accounting for 37.9% of total aircraft movement at the HIA. It was distantly followed by Egyptian Airlines with 594 flights or 4.1% of the total, Qatar Airways with 584 flights (4%), Turkish Airlines with 570 flights (3.9%), Fly Dubai with 535 flights (3.7%) and Iraqi Airways with 519 flights (3.6%). In addition, the UAE was the main source of flights to Lebanon and the primary aircraft destination from the HIA in the first quarter of 2015, with a total of 2,249 flights or 15.5% of total aircraft movement at the HIA.

Moody's affirms ratings on three Lebanese banks

Moody's Investors Service affirmed the 'B2/Not-Prime' deposit ratings of Byblos Bank, BLOM Bank and Bank Audi, and the 'b2' baseline credit assessments of the three banks. It also maintained the national scale ratings of Byblos Bank at 'A1.lb/LB-1' and those of Bank Audi and BLOM Bank at 'Aa3.lb/LB-1'. It kept the 'negative' outlook on the banks' long-term deposit and national scale ratings, similar to the outlook on the sovereign ratings. Moody's attributed the ratings' affirmation to its expectations that the banks' credit profile would remain relatively weak. It added that the challenging operating environment in Lebanon and the banks' large holdings of Lebanese government securities and Certificates of Deposits issued by the Central Bank constrain their credit profiles. Also, it said that there is a high likelihood that authorities would support banks in case of need, but it noted that the government's capacity to provide such support is limited. The agency estimated Byblos Bank's direct exposure to government credit risk at 4.3 times its Tier One capital, and that of BLOM Bank and Bank Audi at 2.5 times their respective Tier One capital at the end of 2014. It indicated that the banks' regional geographic diversification is not sufficient to fully offset the risks of the banks' credit linkages to the Lebanese sovereign. Further, it assessed the three banks' capitalization as "moderate", given the challenging operating environment and persistent pressure on asset quality.

In parallel, Moody's assigned a 'B1(cr)/Not-Prime(cr)' credit risk (CR) Assessment to the three banks. It said that the CR assessments are opinions of how counterparty obligations are likely to be treated if a bank fails, and take into consideration the risk of default rather than the expected financial losses suffered in the event of a default. It added that the CR Assessments apply to counterparty obligations and contractual commitments rather than to debt or deposit instruments. It indicated that the CR Assessment for the three Lebanese banks is one notch higher than their 'B2' deposit ratings, as Moody's expects authorities to honor the banks' operating obligations, in order to preserve each bank's critical functions and reduce the potential for contagion.

Moody's considered that prospects to upgrade the banks' ratings are limited given the 'negative' outlook. It said that it would revise the outlook to 'stable' if the operating environment and the sovereign's credit profile improve. In contrast, it pointed out that it would downgrade the ratings in the event of a further weakening of Lebanon's sovereign creditworthiness or in the banks' operating environment. It added that capital outflows or a decline in the banks' loss-absorption capacity would lead to negative rating action.

HOLCIM Liban announces dividends for 2014, payout ratio at 92%

The Ordinary General Assembly of HOLCIM Liban sal, held on May 28, 2015, approved a gross distribution of LBP43.85bn, or \$29.1m in dividends to holders of common shares for 2014. The dividends' distribution is equivalent to LBP2,247 (\$1.49) per share and to a payout ratio of 91.9%. The firm, which has 19,516,040 shares listed on the Beirut Stock Exchange, will pay the dividends starting on July 6, 2015 net of a 5% withholding tax.

HOLCIM Liban posted audited net profits of \$31.6m in 2014, constituting an increase of 44.9% from \$21.8m in 2013. The firm's sales totaled \$182.1m in 2014, down 4.2% from \$190m in the previous year. HOLCIM's total assets reached \$283.7m at the end of 2014, down 2.9% from \$292.1m at end-2013; while its shareholders' equity was \$225.2m at end-2014, up by 6.1% from \$212.3m at the end of 2013. The firm is engaged in the production and sale of cement and other related services. HOLCIM's share price closed at \$16 on June 5, 2015, constituting an increase of 4.9% from \$15.25 at end-2014.

Ciments Blancs' net income up 5% to \$3.6m in 2014

Société Libanaise des Ciments Blancs sal, an affiliate of Holcim Liban sal, declared audited net profits of \$3.6m in 2014, constituting an increase of 5% from net earnings of \$3.4m in 2013. The company generated total sales of \$14.2m last year compared to \$14.5m in 2013. The firm's gross profit margin reached 37.8% in 2014 relative to 35.2% in 2013. Ciments Blancs' distribution and selling costs reached \$0.7m in 2014, down by 6.9% from 2013; while administrative expenses rose by 64% year-on-year to \$1m in 2014. The company's return on assets improved to 16.07% in 2014 from 15.55% in 2013, while its return on equity was 20.28% relative to 19.87% in 2013.

Ciments Blancs' total assets reached \$22.2m at the end of 2014, reflecting a rise of 1.7% from \$21.9m at end-2013, while its shareholders' equity totaled \$17.6m at end-2014 relative to \$17.1m a year earlier. The firm's current ratio, which is a measure of the company's ability to meet its short-term obligations, reached 1.9x at the end of 2014 compared to 1.83x at end-2013. The company is engaged in the production and sale of white cement. The price of Ciments Blancs' Bearer shares closed at \$3.02 on June 5, 2015, down 19.5% from \$3.75 at the end of 2014, while the price of Ciments Blancs' nominal shares closed at \$2.75 on June 5, unchanged from end-2014.



Commercial banks' assets reach \$179bn at end of April 2015

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$179.4bn at the end of April 2015, constituting an increase of 2.1% from the end of 2014 and a rise of 7% from end-April 2014. Private sector deposits totaled \$147.5bn, growing by 2.1% from the end of 2014 and rising by 6.7% from a year earlier. Deposits in Lebanese pounds reached \$51.2bn and rose by 3.4% from end-2014 and by 8% from end-April 2014; while deposits in foreign currency totaled \$96.3bn, up by 1.5% from the end of 2014 and by 6.1% from a year earlier. Non-resident foreign currency deposits totaled \$27.1bn at the end of April 2015 and increased by 2.6% from end-2014 and by 10.7% year-on-year. The aggregate amount of non-resident deposits reached \$31.2bn at the end of April and rose by 3.1% from end-2014 and by 11.7% from a year earlier. Total private sector deposits decreased by \$274m in January and increased by \$577.8m in February, by \$731.7m in March and by \$2bn in April 2015; while they dropped by \$1.3bn in January and rose by \$848.4m in February, by \$843.8m in March and by \$1.65bn in April 2014. Overall, total private sector deposits grew by \$3.07bn in the first four months of 2015 relative to an increase of \$2bn in the same period of 2014. In parallel, deposits of non-resident banks reached \$6.1bn at the end of April 2015, constituting increases of 5.1% from end-2014 and of 14.6% from a year earlier. The dollarization rate of deposits reached 65.3% at the end of April 2015, down from 65.7% at end-April 2014. Further, the average deposit rate in Lebanese pounds was 5.61% in April 2015 relative to 5.47% in the same month of 2014, while the same rate in US dollars was 3.16% compared to 3% in April 2014.

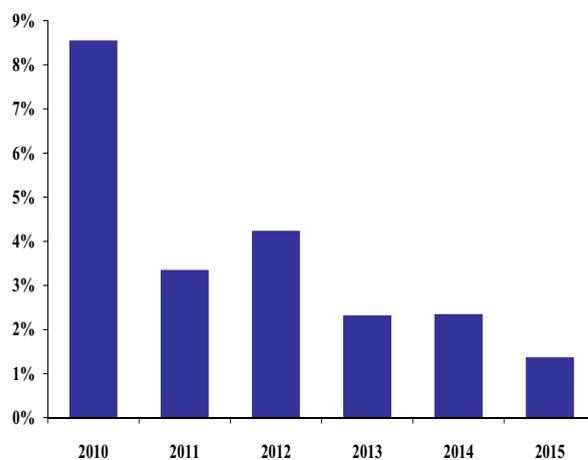
Loans to the private sector reached \$51.4bn at the end of April 2015, constituting increases of 1% from the end of 2014 and of 6.2% from a year earlier. In nominal terms, total credits extended to the private sector grew by \$526m in the first four months of 2015 relative to an increase of \$1.04bn in the same period of 2014. Lending to the resident private sector totaled \$46bn, up by 1.4% from the end of 2014 and by 8.3% from end-April 2014; while credit to the non-resident private sector reached \$5.4bn and regressed by 1.7% from end-2014 and by 3% from end-April 2014. Total claims on the resident private sector grew by \$621m in the first four months of 2015 relative to a rise of \$1.31bn in the same period of 2014. The dollarization rate in private sector lending regressed to 75.2% at the end of April 2015 from 76.1% a year earlier. The average lending rate in Lebanese pounds was 7.1% in April 2015 compared to 7.18% in the same month of 2014, while the same average in US dollars was 7.08%, up from 6.92% in April 2014. In addition, claims on non-resident banks reached \$12.8bn at the end of April 2015, representing a rise of 5% from end-2014 and a decline of 3.1% from a year earlier. In parallel, claims on the public sector stood at \$38.5bn at the end of April 2015, up by 3.1% from the end of 2014 and by 2.1% year-on-year. The ratio of private sector loans-to-deposits in foreign currency stood at 40.2%, well below the Central Bank's limit of 70% and compared to 40.6% a year earlier. In parallel, the same ratio in Lebanese pounds was 24.9% at end-April 2015, up from 24.4% at the end of April 2014. The ratio of total private sector loans-to-deposits was 34.9% relative to 35% a year earlier. The banks' aggregate capital base stood at \$16.12bn, up by 2.5% from end-2014 and by 8.4% from \$14.9bn at end-April 2014.

Fransabank distributes dividends for preferred shares

Fransabank sal announced that its Ordinary General Assembly held on May 22, 2015 approved the distribution of dividends for its preferred shares for 2014. The bank distributed gross dividends of \$25m to the holders of preferred shares. The bank paid gross dividends of \$17 (LBP25,628) per share for shareholders carrying Preferred Shares Catégorie A and \$13.5 (LBP20,351) per share for each of the holders of Preferred Shares Catégorie B, Catégorie C and Catégorie D. It paid the dividends on June 4, 2015 net of a 5% withholding tax, as the bank reimbursed the holders of Preferred Shares for the difference between the 10% withholding rate and the rate for which the shares would have been taxed if they were listed on the Beirut Stock Exchange. The bank has currently 500,000 Preferred Shares Catégorie A, 425,000 Preferred Shares Catégorie B, 375,000 Preferred Shares Catégorie C and 425,000 Preferred Shares Catégorie D outstanding.

Fransabank posted unaudited consolidated net profits of \$157.7m in 2014. Its assets reached \$18.9bn at end-2014; while loans & advances to customers, excluding loans & advances to related parties, rose by 10.7% from end-2013 to \$5.8bn at the end of 2014. Also, customer deposits, excluding deposits from related parties, totaled \$14.8bn at end-2014, up by 7.9% year-on-year.

Resident Private Sector Lending Growth* (% Change)



* in the first four months of each year

Source: Association of Banks in Lebanon, Byblos Research

Credit Bank raises capital through preferred shares issuance

The Extraordinary General Assembly of Credit Bank sal held on May 15, 2015 approved the increase of the bank's capital from LBP73.73bn, equivalent to \$48.9m, to LBP80.23bn or \$53.2m, through the issuance of 250,000 Preferred Shares Issue 2015 Series 5. The preferred shares are non-cumulative, perpetual and subject to a call option by the bank. The issue price is \$100 per share of which LBP26,000 (\$17.25) is par value and the remaining \$82.75 constitutes the issue premium. The Series 5 Preferred Shares carries an annual dividend rate of 7% of the issue price. The dividends will be paid net of a 5% withholding tax, as the bank will reimburse the holders of Preferred Shares for the difference between the 10% withholding rate and the rate for which the shares would have been taxed if they were listed on the Beirut Stock Exchange.

Credit Bank has the option to redeem and cancel the shares at anytime, if a regulatory event occurs, or within 60 days after the Ordinary General Assembly meets to approve the financials for fiscal year 2020, and annually thereafter, at a callable price of \$100 per share plus any declared but unpaid dividends. The bank would have to redeem a minimum of 20% of the outstanding Series 5 shares in case it decides to exercise its call option.

Credit Bank posted unaudited consolidated net profits of \$7.1m in the first quarter of 2015. Its assets reached \$3bn at the end of March 2015; while loans & advances to customers, excluding loans & advances to related parties, rose by 4.1% from end-2014 to \$1.54bn at the end of March 2015. Also, customer deposits, excluding deposits from related parties, totaled \$2.6bn at end-March 2015, up by 0.6% from the end of 2014.

BBAC's net earnings down 17% to \$11m in first quarter of 2015

BBAC Bank sal, one of Lebanon's top 10 banks, announced unaudited consolidated net profits of \$10.5m in the first quarter of 2015, reflecting a decline of 17.3% from the same quarter last year. Net operating income dropped by 4.8% year-on-year to \$28.8m, with net interest income increasing by 7.2% to \$21.5m and net fees & commissions receipts rising by 22.9% year-on-year to \$5.9m. Non-interest income accounted for 30.6% of total income, down from 37% in the same quarter last year; with net fees & commissions representing 62.3% of non-interest earnings, up from 40.8% in the first quarter of 2014. Further, the bank's interest margin was 1.63% in the first quarter of 2015 relative to 1.64% in the same quarter last year; while its spread dropped to 1.57% from 1.59% in the first quarter of 2014. Total operating expenditures increased by 2.6% to \$16.1m, with staff expenses marginally decreasing by 0.7% to \$9.6m. Also, the bank's return on average assets regressed to 0.77% in March 2015 on an annualized basis from 1% in March 2014; while its return on average equity declined to 9.34% on an annualized basis from 12.1% in March 2014. The cost-to-income ratio rose to 51.8% in the first quarter of the year from 49.1% in the same quarter last year.

In parallel, total assets reached \$5.5bn at end-March 2015, constituting a marginal increase of 0.4% from end-2014 and of 9.3% from a year earlier. Loans & advances to customers, excluding loans & advances to related parties, dropped by 1% from end-2014 and grew by 10.3% from a year earlier to \$1.4bn. Also, customer deposits, excluding deposits from related parties, totaled \$4.8bn at the end of March, and increased by 3.1% from end-2014 and by 9.2% from a year earlier. The loans-to-deposits ratio rose to 29.7% at end-March 2015 from 29.4% a year earlier. In parallel, the bank's shareholder equity rose by 2% from the end of 2014 to \$454.1m at end-March 2015.

Lebanon & Gulf Bank's profits down 7% to \$6.6m in first three months of 2015

Lebanon & Gulf Bank sal, one of Lebanon's top 14 banks, announced unaudited consolidated net profits of \$6.6m in the first quarter of 2015, constituting a decrease of 6.7% from the same quarter last year. Net operating income regressed by 0.5% year-on-year to \$15.6m, with net interest income increasing by 10.4% to \$12.2m and net fees & commissions receipts decreasing by 19.6% to \$2.2m. Non-interest income accounted for 21.4% of total income, down from 29.2% in the first quarter of 2014, with net fees & commissions representing 67% of non-interest earnings, up from 60.8% in the first quarter of 2014. Further, the bank's interest margin was 1.56% in the first quarter of 2015 relative to 1.63% in the same quarter last year; while its spread dropped to 1.51% from 1.59% in the first quarter of 2014. Total operating expenditures increased by 5.1% to \$8m, with staff expenses increasing by 10.3% to \$4.6m. Also, the bank's return on average assets reached 0.81% in March 2015 on an annualized basis, relative to 1.01% a year earlier; while its return on average equity was 9.55% on an annualized basis compared to 11.33% in March 2014. The cost-to-income ratio rose to 51.5% in the first quarter of 2015 from 48.7% in the same quarter last year.

In parallel, total assets reached \$3.3bn at end-March 2015 and increased by 3.5% from end-2014 and by 14.7% from a year earlier; while loans & advances to customers, excluding loans & advances to related parties, grew by 0.4% from end-2014 and by 11.9% year-on-year to \$1.3bn. Also, customer deposits, excluding deposits from related parties, totaled \$2.9bn at the end of March 2015, growing by 2.8% from end-2014 and by 15.1% from a year earlier. The loans-to-deposits ratio decreased to 44.5% at end-March 2015 from 45.8% a year earlier. Further, shareholders' equity rose by 1% from end-2014 to \$276m at end-March 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	July 2013	June 2014	July 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	July 2013	June 2014	July 2014	Change*	Risk Level
Political Risk Rating	58.3	58.0	57.9	▲	High
Financial Risk Rating	41.3	40.6	41.0	▲	Very Low
Economic Risk Rating	36.6	36.1	36.2	▲	Low
Composite Risk Rating	68.1	67.4	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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