

LEBANON THIS WEEK

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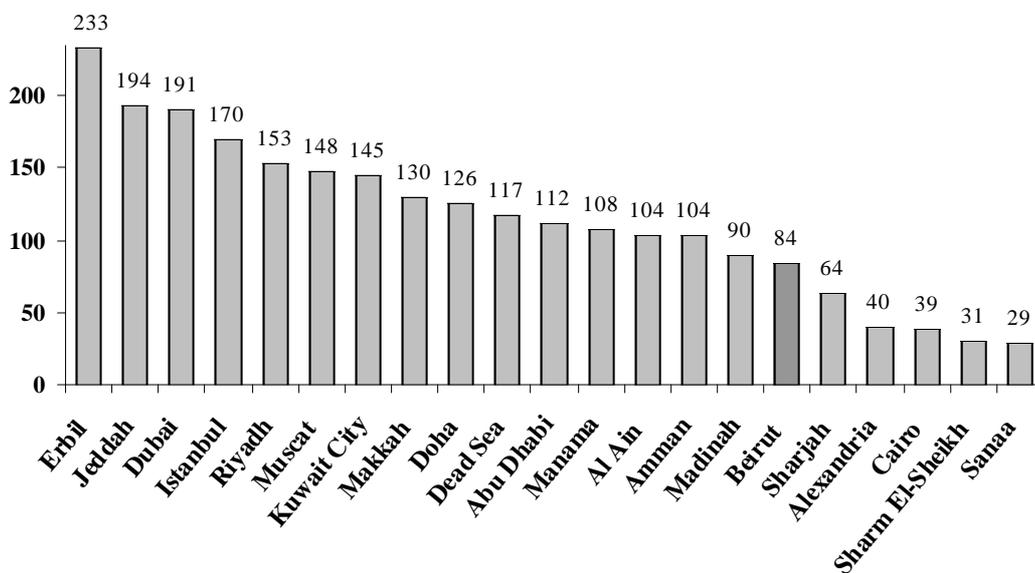
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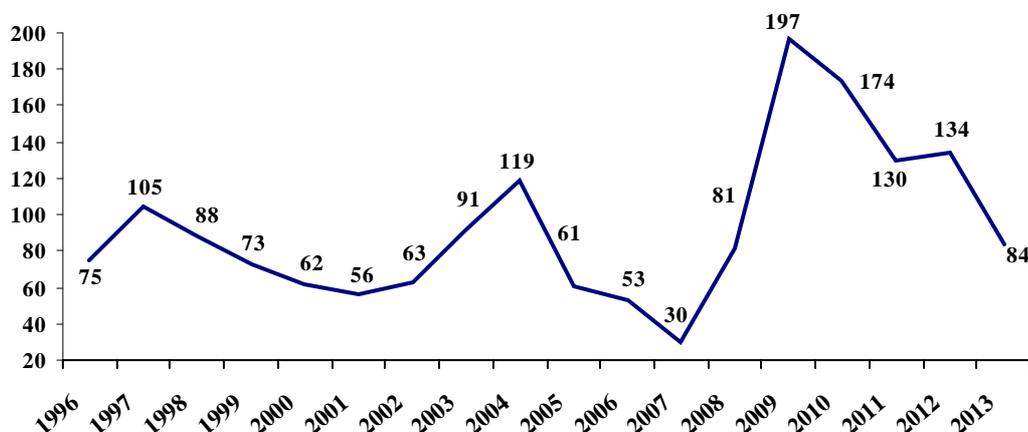
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Charts of the Week

Revenue per Available Room at Hotels in Select MENA Cities in 2013 (US\$)



Revenue per Available Room at Hotels in Beirut (US\$)



Source: HVS, Byblos Bank

Quote to Note

"Inefficient and insufficient electricity provision is a major impediment to growth."

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

Number of the Week

114: Number of Lebanese financial institutions and branches that have registered with the U.S. Internal Revenue Service as of May 23, 2014, in accordance with the regulations of the Foreign Account Tax Compliance Act

Economic Indicators

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

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

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

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

Sources: ABL, BdL

Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization	Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Solidere "A"	13.55	0.37	55,667	12.06%	Jan 2015	5.875	101.00	4.14
Solidere "B"	13.63	1.19	15,327	7.89%	Apr 2015	10.000	105.75	3.22
Byblos Common	1.60	1.27	197,867	5.12%	Jan 2016	8.500	107.75	3.48
Byblos Pref. 08	100.50	0.50	7,486	1.79%	Mar 2017	9.000	112.13	4.31
Byblos Pref. 09	100.00	0.00	859	1.78%	Nov 2018	5.150	100.50	5.02
BLOM GDR	9.40	1.40	56,000	6.18%	May 2019	6.000	103.75	5.13
BLOM Listed	8.80	0.00	9,819	16.85%	Mar 2020	6.375	105.38	5.28
Audi GDR	6.60	0.61	78,940	6.02%	Apr 2021	8.250	115.50	5.50
Audi Listed	6.43	5.41	13,024	20.02%	Oct 2022	6.100	102.13	5.78
HOLCIM	14.77	(0.20)	417	2.57%	Nov 2026	6.600	102.13	6.35

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

Source: Byblos Bank Capital Markets

	June 9-13	June 2-6	% Change	May 2014	May 2013	% Change
Total Shares Traded	483,212	975,554	(50.47)	3,204,699	3,775,206	(15.11)
Total Value Traded	\$4,479,993	\$10,106,809	(55.67)	\$32,279,807	\$30,561,605	5.62
Market Capitalization	\$11.23bn	\$11.08bn	1.35	\$11.19bn	\$10.71bn	4.45

Source: Beirut Stock Exchange (BSE)



FDI in Lebanon down 22% to \$2.9bn in 2013, equivalent to 6.4% of GDP

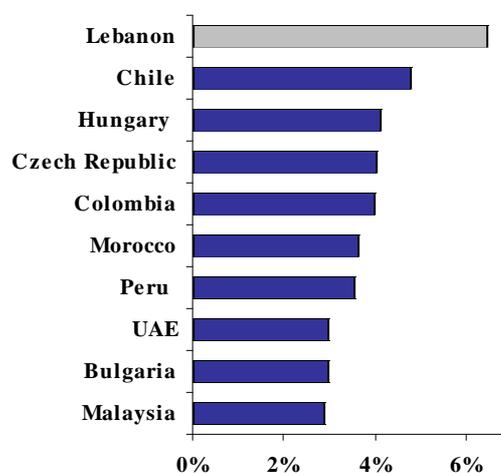
Figures released by the Institute of International Finance show that foreign direct investments (FDI) in Lebanon totaled \$2.85bn in 2013, constituting a decline of 22.4% from \$3.67bn in 2012 and compared to inflows of \$3.5bn in 2011 and \$4.3bn in 2010. The percentage drop in FDI was the 11th steepest among 30 emerging markets with available data for 2013, while it was the fourth steepest among seven countries in the Middle East and Africa (ME&A) region, lower than only Nigeria (-35.1%), Egypt (-24.5%) and Saudi Arabia (-23.7%). FDI inflows to Lebanon accounted for 0.5% of total FDI in the 30 emerging markets and for 7.5% of aggregate flows to ME&A countries last year, relative to a share of 0.7% of total FDI inflows to emerging economies and of 8.9% of aggregate FDI inflows to the ME&A region in 2012. Lebanon was the eighth smallest recipient of FDI inflows last year among the 30 emerging markets, while it was the second smallest recipient among countries in the ME&A region after South Africa (\$2.7bn). It was the ninth smallest recipient among emerging markets and the third smallest among ME&A economies in 2012. China (\$250bn) was the largest recipient of FDI inflows among emerging economies, while the UAE (\$12bn) was the biggest recipient in the ME&A region.

In parallel, FDI outflows from Lebanon totaled \$500m in 2013, down 12.6% from \$572m in 2012 and compared to outflows of \$755m in 2011 and \$487m in 2010. FDI outflows from Lebanon accounted for 0.2% of total FDI outflows from emerging markets and for 2.8% of aggregate outflows from ME&A economies last year. FDI outflows from Lebanon were the ninth lowest among emerging markets in 2013, while they were the second lowest among ME&A countries after Egypt (\$184m).

Further, net FDI in Lebanon totaled \$2.4bn in 2013, constituting a drop of 24.2% from \$3.1bn in 2012 and relative to \$2.7bn in 2011 and \$3.8bn in 2010. Net FDI flows to Lebanon accounted for 1.1% of total net FDI flows to emerging markets and for 11.4% of aggregate net flows of \$20.6bn in the ME&A region in 2013. Net FDI flows in Lebanon were the 11th lowest among 30 emerging markets in 2013 and the second lowest among countries in the ME&A region behind South Africa (-\$3.3bn). They were the 14th lowest among emerging markets and the third lowest in the ME&A region in 2012. China (\$140bn) was the largest recipient of net FDI among emerging economies, while the UAE (\$8.2bn) was the biggest recipient in the ME&A region last year. The IIF projected FDI inflows to Lebanon at \$3.4bn and net FDI at \$2.8bn in 2014.

Further, FDI inflows to Lebanon were equivalent to 6.4% of GDP last year, the highest among the 30 emerging markets. In comparison, FDI inflows to emerging markets economies were equivalent to 2.1% of their aggregate GDP last year, while inflows to ME&A states were equivalent to 1.7% of the region's total GDP. Further, net FDI in Lebanon was equivalent to 5.3% of GDP in 2013, the highest share among emerging markets and among ME&A economies. In comparison, net FDI to emerging market economies were equivalent to 0.8% of their aggregate GDP last year, while inflows to ME&A states were equivalent to 0.9% of the seven countries' total GDP.

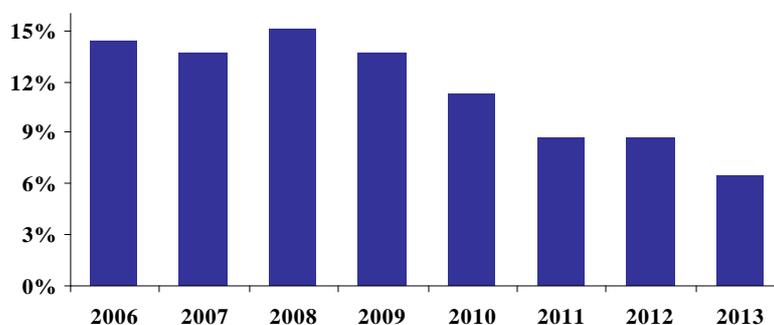
Top FDI Destinations in 2013* (% of GDP)



*in 30 Emerging Markets

Source: Institute of International Finance, Byblos Research

Foreign Direct Investment in Lebanon (% of GDP)



Source: Institute of International Finance, Byblos Research

Fitch Ratings affirms Lebanon's sovereign ratings, outlook 'negative'

Fitch Ratings affirmed Lebanon's long-term foreign and local currency Issuer Default Ratings (IDR) and short-term foreign currency IDR at 'B'. It also affirmed at 'B' the issue ratings on Lebanon's senior unsecured foreign and local currency bonds, and maintained the outlook on the Long-term IDRs at 'negative'. It further affirmed the Country Ceiling at 'B'. The agency indicated that Lebanon's ratings are supported by its large and well-managed banking system, credible exchange rate policy, elevated GDP per capita, and high level of human development. But it noted that the ratings are constrained by elevated political risks, weak public finances, a high and rising public debt level, and large government financing needs.

The agency indicated that political risks and uncertainty remain particularly high, due mainly to spillovers from the Syrian conflict. It expected the government's cohesion to be tested in the run-up to the Parliamentary elections scheduled for November 2014. It considered that significant improvements in the domestic political and security environment are contingent on the resolution of the Syrian conflict. It expected real GDP growth to slightly improve to an annual average of about 1.8% during the 2014-15 period from an estimated growth rate of 1.5% in 2013. Fitch pointed out that Lebanon's public finances remain a key rating weakness. It said that the public debt was equivalent to 141.1% of GDP at the end of 2013, which is the third-highest level among all Fitch-rated sovereigns after Japan and Greece. It added that the primary budget balance posted a second consecutive deficit last year and the fiscal deficit widened to 9.3% of GDP in 2013, reflecting the decline in public revenues and the ongoing reversal of public debt trends. It expected the fiscal deficit to widen further and the public debt level to increase this year.

In parallel, the agency said that the domestic banking sector is large, well managed and liquid. It added that the sector supports the sovereign's creditworthiness, as it holds 58% of the public debt as of April 2014. It noted that the sector's deposit growth rate slightly decelerated this year, but it considered that banks remain willing to finance the government's large borrowing needs. It said that Lebanon's ratings are also supported by its stellar track record of meeting its financial obligations on time and by the fact that the government continues to have access to bond markets. It pointed out that Lebanon is a net external creditor due to the banks' holdings of US dollar-denominated public debt and the Central Bank's large foreign currency reserves. It considered that foreign currency reserves are essential to support the peg to the US dollar given the high dollarization rate of the economy and the wide current account deficit. It noted that confidence in the peg remains strong despite the deterioration in political conditions.

Fitch indicated that it would downgrade Lebanon's ratings if domestic political or security conditions deteriorate, in case of a significant outflow of deposits from the banking sector, or if the public debt's dynamics continue to deteriorate. The agency noted that it does not currently anticipate developments that would lead to an upgrade of the sovereign ratings. It added that it could revise the outlook to 'stable' in case of a reversal of the current public debt dynamics, a pick up in real GDP growth, or the start of peace negotiations in Syria. According to Fitch, the ratings and outlook are sensitive to several assumptions. It assumes that insecurity and political uncertainty in Lebanon will prevail until the end of the Syrian conflict, but that violence will fall short of escalating into a full-scale civil conflict. It also presumes that international oil prices will be lower in 2014 and 2015 than they were in 2012 and 2013, which would benefit the current account deficit and limit budget transfers to the state-owned and money-losing Electricité du Liban. It also assumes that domestic banks continue to be willing to finance the government's needs.

Market stability unaffected by political vacuum

In the monthly meeting between the Central Bank and the Association of Banks in Lebanon (ABL), Governor Riad Salamé considered that the vacuum at the presidential level has not affected market stability, as reflected by the narrowing of the spreads of five-year credit default swaps (CDS) on Lebanese Eurobonds, as well as by the trading level of the exchange rate. He indicated that the Lebanese State has enough foreign currency liquidity to cover its obligations in foreign currency for the rest of the year. He estimated these obligations at about \$2bn that include \$500m in maturing debt, \$800m in debt servicing, as well as credit lines for the import of hydrocarbon products. He added that the Central Bank could have recourse to specific financial engineering measures to cover these needs if necessary. He added that the Central Bank would intervene, in case of need, to guarantee the solvency of the State.

In parallel, the ABL expressed concerns about the projected fiscal deficit of \$5.1bn for 2014 given the slowdown in banks' deposit growth on one hand and the politically-motivated campaign against the banking sector on the other hand, which could threaten the confidence of shareholders, depositors and borrowers. Governor Salamé noted that the trust between the Central Bank, the ABL and the Ministry of Finance is crucial, given the role that the three parties play in maintaining monetary stability and in financing the fiscal deficit. He said that the expected growth in banks' deposits of between 5% and 6% in 2014 would be enough to finance the government's financing needs through banks' subscription to government securities of about \$3bn to \$3.5bn, and through their subscription to Central Bank-issued Certificate of Deposits of about \$1.5bn to \$2bn. He indicated that the banking sector has the necessary liquidity and the Central Bank has the adequate tools and measures to finance the government's needs. He called on political parties to separate the financing of the government's needs from politics in the context of the current presidential vacuum.

Real GDP growth projected at 1.5% in 2014, lowest in MENA region

The World Bank projected real GDP growth in Lebanon at 1.5% for 2014 relative to a growth rate of 0.9% in 2013 and compared to growth of 2.9% in the Middle East & North Africa region, 2.7% for the region's oil importers, and 1.9% for the region's developing economies. Lebanon's projected growth rate for 2014 would make it, along with Brazil and Iran, the fourth slowest-growing economy among emerging markets, and better than only Saint Lucia (+0.9%), Serbia (+1%) and Jamaica (+1.1%). The World Bank expected economic activity to contract in five countries and to post zero growth in another two emerging markets in 2014. Also, Lebanon's projected growth rate for 2014 would make it, along with Iran, the slowest-growing economy among 13 developing countries in the MENA region, as the Bank forecast the Syrian and Libyan economies to contract by 8.6% and 9.7%, respectively, this year.

The World Bank said that spillovers from the conflict in Syria and the unstable domestic political conditions have weighed on Lebanon's economic activity. It cautioned that an escalation of the Syrian conflict would negatively affect Lebanon's growth prospects, as it would further increase economic, social and fiscal pressures. Further, the Bank projected private consumption to grow in real terms by 2.4% in 2014 relative to a growth rate of 2.3% last year, while it expected government consumption to expand by 4.7% in real terms in 2014 compared to 4.9% in 2013. Also, it forecast fixed investment to stagnate this year compared to a growth rate of 0.8% in 2013. It anticipated that net exports would continue to be a drag on Lebanon's real GDP growth as it forecast net export's contribution to GDP at -1.1 percentage points.

Further, the Bank indicated that Lebanon's potential real GDP growth rate has been on a downward trend since 2011 as it fell from 5% in 2010 to 4.6% in 2011, 4.2% in 2012 and 3.8% in 2013. It expected this trend to continue in coming years, as the country's potential real GDP growth rate would further decelerate to 3.4% in 2014, 3% in 2015 and 2.7% in 2016. Also, it pointed out that the gap between Lebanon's real and potential GDP growth rates has shifted to -0.4% in 2013 from 2.5% in 2012, 5.3% in 2011 and 6.9% in 2010. It expected the gap to widen to -2.2% in 2014 and -2.7% in 2015, and to narrow to -2.4% by 2016.

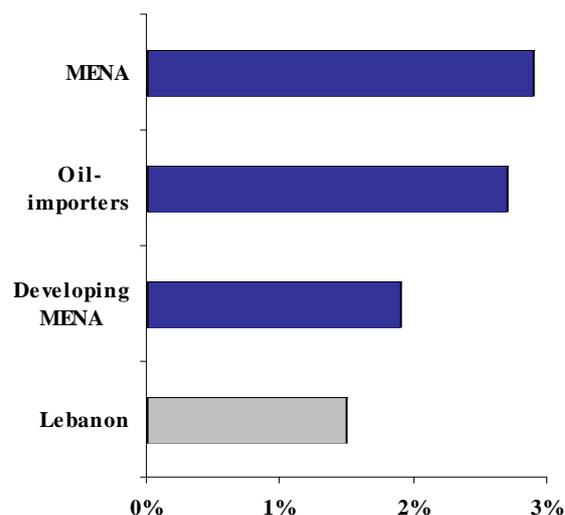
In parallel, the World Bank forecast Lebanon's current account deficit at 6.8% of GDP in 2014 relative to a deficit of 6.3% of GDP last year. This would constitute the eighth-widest deficit in the region behind the West Bank & Gaza (-30.4% of GDP), Libya (-28% of GDP), Syria (-16.8% of GDP), Djibouti (-15.2% of GDP), Jordan (-13.7% of GDP), Morocco (-7.9% of GDP) and Tunisia (-7.5% of GDP); and compared to a deficit of 3.3% of GDP for developing economies in the MENA region.

Revenues through Port of Beirut down 6% to \$809m in first four months of 2014

Figures released by the Port of Beirut show that overall receipts generated through the port reached \$809.3m in the first four months of 2014, constituting a decrease of 6.4% from the same period of 2013. Customs receipts through the port totaled \$376.3m in the first four months of 2014, down 12.7% from \$431.2m in the same period of 2013; while receipts from the value added tax reached \$362.5m, almost unchanged from the first four months of 2013. Also, the port's overall revenues were flat at \$68.1m in the first four months of 2014. Further, the Port of Beirut handled an aggregate of 2.8 million tons of freight in the first four months of 2014, up by 6.1% from 2.7 million tons in the same period of the preceding year. Import freight accounted for 90.1% of the total, while the remaining 9.9% was export cargo. A total of 674 ships docked at the port in the first four months of 2014 compared to 711 vessels in the same period of the previous year.

In parallel, overall revenues generated through the Port of Tripoli reached \$35m in the first four months of 2014, constituting a drop of 8.7% from \$38.3m in the same period of 2013. Customs receipts through the port reached \$13.3m in the covered period, down 13.1% from \$15.3m in the first four months of the previous year; while receipts from the value-added tax reached \$17.6m and dropped by 7.7% from \$19.1m in the first four months of 2013. The port's revenues rose by 3.1% year-on-year to \$4.1m in the first four months of 2014. Further, the Port of Tripoli handled an aggregate weight of 378,036 tons of freight in the first four months of the year, constituting a decrease of 20.7% from 476,727 tons in the same period of 2013. A total of 174 vessels docked at the port in the first four months of 2014, constituting a decrease of 3.3% from 180 ships in the same period of the preceding year.

Projected Real GDP Growth in 2014 (%)



Source: World Bank, Byblos Research

Market accessibility of Beirut Stock Exchange needs improvement in several areas

In its annual assessment of the market accessibility of 82 Developed, Emerging and Frontier equity markets, global portfolio analytics and indices provider MSCI Barra maintained Lebanon in its Frontier Markets category. It evaluated the country's stock market based on four accessibility criteria that are openness to foreign ownership, ease of capital inflows and outflows, efficiency of the operational framework, and stability of the institutional framework. It said that the four criteria reflect the views of international institutional investors, which generally put a strong emphasis on equal treatment of investors, free flow of capital, cost of investment and country specific risk.

In terms of openness to foreign ownership, it said that there are no limits to foreign ownership on the Beirut Stock Exchange except for Israeli nationals who are formally prohibited from investing in Lebanese companies. It noted the need to improve equal rights to foreign investors, as company-related information is not always readily available in English. Lebanon was one of two frontier markets with a 'no major issues' rating in terms of investor qualification requirements, and one of 13 markets with the same rating in terms of equal rights to foreign investors. It came also as one of 21 frontier markets with a 'no issues' rating in terms of foreign room level, and one of 17 markets with the same rating in terms of foreign ownership limit.

Regarding capital inflows and outflows, it that said there are no restrictions on capital flows to and from Lebanon. But it noted that there is no offshore currency market and that there are constraints on the onshore currency market, as foreign investors are not allowed to hold Lebanese pound balances. Lebanon was among 18 frontier markets with a 'no issues' rating in terms of capital flows restrictions, and one of 10 markets with an 'improvements needed' rating in terms of the liberalization level of the foreign exchange market.

Regarding the efficiency of the operational framework, it considered that market entry needs improvement, as registration is mandatory and may take up to five days. It noted that not all regulations are available in English, and that the flow of information needs improvement as detailed stock market information is not always disclosed in English. It indicated that clearing and settlement procedures can be improved, as there is no real DVP system on the Beirut Stock Exchange, as well as no nominee status and no omnibus structures. In terms of custody, MSCI Barra said that there is no formal segregation between custody and trading accounts for transactions on the Beirut market. It added that there is only one active custodian available to foreign investors. Lebanon was among 10 frontier markets that received a 'no major issues' rating in terms of market regulations and one of six markets to get the same rating in terms of information flow. In terms of registry and depository, it indicated that not all listed shares are dematerialized, few securities are registered at the issuer level and that the central depository acts as a central registry in most instances. It added that in-kind transfers and off-exchange transactions are prohibited. Finally, MSCI Barra said that Lebanon, like most Emerging and Frontier Markets, exhibits some shortcomings but that there are "no major issues" in the stability of the institutional framework, and in particular in the enforcement of the rule of law.

Lebanon is one of 24 stock markets worldwide that fall under MSCI Barra's definition of Frontier Markets. The other such markets in the region are Tunisia, Bahrain, Jordan, Kuwait, Oman and Morocco. In November 2007, MSCI Barra included Lebanon in its MSCI Frontier Markets Index, a fully investable index for frontier equity markets. The index contains stocks from 36 developing markets in Asia, Emerging Europe, the Commonwealth of Independent States, Africa, the Middle East and the Americas.

Association of Banks amends reference rates on US dollar and Lebanese pound lending

The Association of Banks in Lebanon (ABL) recommended to its member banks to increase the Beirut Reference Rate (BRR) in US dollars to 5.99% in July 2014 from 5.94% currently. The rate, considered as the reference rate for lending in foreign currency, replaced the London Inter-Bank Offering Rate (LIBOR) in 2009 as the ABL considered that the LIBOR no longer accurately reflects the cost of funding and lending in Lebanon. Additionally, the ABL recommended to its member banks to increase the Beirut Reference Rate in Lebanese pounds to 8.61% in July from 8.58% currently. The Beirut Reference Rate in US dollars and Lebanese pounds were adopted in March and May 2009, respectively. The ABL considers that the BRR does not replace the Beirut Prime Lending Rate in each currency, but constitutes the basis to calculate the prime rate after adding the cost of liquidity and refinancing, credit risks and the profitability of banks to the prime lending rate.

Airport passengers down 4% in first five months of 2014

Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures, transit) totaled 2,311,661 in the first five months of 2014, constituting a decrease of 3.8% from the same period last year. The total number of arriving passengers dropped marginally by 0.5% year-on-year to 1,122,334 in the first five months of 2014 compared to a rise of 4.4% in the same period of 2013. Also, the number of departing passengers dropped by 6.7% year-on-year to 1,183,094 in the first five months of the year relative to an annual increase of 14.8% in the same period of 2013. In parallel, the airport's aircraft movement decreased by 0.8% year-on-year to 24,134 take-offs and landings in the first five months of the year, compared to an annual drop of 2.6% year-on-year in the same period of 2013. The HIA processed 40,162 metric tons of cargo in the first five months of 2014 that consisted of 39,816 tons of freight and 347 tons of mail.

Majority of Lebanese moderately satisfied with current salary

A survey conducted by regional job portal Bayt.com indicated that 37% of salary packages in Lebanon consist of a basic salary only; 42% of packages include a basic salary and benefits such as housing, transportation and allowance for children's education; and 19% of local packages include a basic salary, benefits and commissions; while 1% of packages consist of commissions only. In comparison, 32% of income packages in the Arab world consist of a basic salary only; 53% include a basic salary and benefits; 14% include a basic salary, benefits and commissions; and 1% of packages consist of commissions only. The survey covered a sample of about 9,537 professionals in Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia and the UAE. The survey, which was conducted between April 20 and April 28, 2014, covered a sample of 295 respondents in Lebanon.

Also, the survey found that 57% of Lebanese surveyed said they are moderately satisfied with their current salary; 41% of respondents were not satisfied; and 2% of participants expressed a high level of satisfaction about their present salary. In comparison, 51% of persons surveyed across the Arab world expressed moderate satisfaction with their salary, 45% of respondents were not content, and 3% were highly satisfied. Further, the survey indicated that 56% of persons polled in Lebanon consider that their take-home pay is lower than their counterparts at other firms in the same industry, 24% believe that their salary package is competitive with the market and 5% think that their income is higher than their counterparts in the same sector. It noted that 42% of Lebanese do not save any part of their monthly income, 34% save less than 15% of their take-home pay, and 20% save more than 15% of their monthly income.

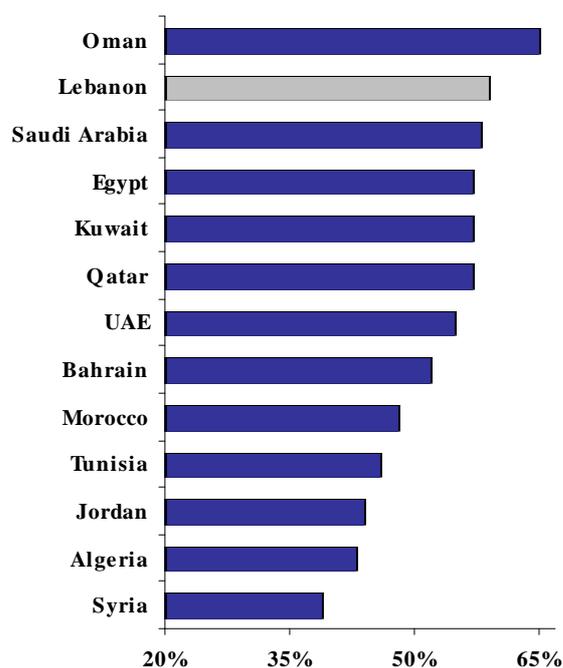
In parallel, the survey indicated that 39% of surveyed Lebanese acknowledged that they did not receive a raise in 2013, while 22% of respondents said that they received a raise of up to 5%, and 15% said that their annual raise ranged between 6% and 10%. Also, 8% of participants indicated that they received a raise between 11% and 15%, and 9% of respondents stated that their annual raise exceeded 15% in 2013. Further, the survey found that 29% of respondents in Lebanon do not expect to receive a raise in 2014, followed by 14% of participants who anticipate a raise of 6% to 10%, and 13% of respondents expect a raise of 1% to 5%. In addition, 11% expect a raise of more than 15%, while 10% of respondents anticipate a raise between 11% and 15%.

Further, the survey pointed out that 44% of respondents consider that salaries in Lebanon are increasing, 38% said that salaries are stagnating, and 10% acknowledged that salaries are decreasing. It said that 83% of Lebanese who consider that salaries in Lebanon are increasing attributed the increase to inflation and to the rise in the cost of living, while 72% of respondents who consider that salaries in Lebanon are decreasing attributed the decline to weak economic activity. The survey's results for Lebanon are mitigated by the fact that the sample size is not representative enough and that the survey was conducted via the Internet, which is not the most reliable methodology for opinion polling.

Value of cleared checks up 2%, returned checks down 5% in first four months of 2014

The value of cleared checks reached \$24.1bn in the first four months of 2014, constituting an increase of 2.3% from the same period last year, and compared to a rise of 3.4% in the first four months of 2013 and an increase of 0.8% in the same period of 2012. The value of cleared checks in Lebanese pounds rose by 11.1% annually to the equivalent of \$5.9bn in the first four months of 2014, while the value of cleared checks in US dollars marginally decreased by 0.2% to \$18.3bn. The dollarization rate of cleared checks decreased to 75.7% from 77.6% in the first four months of 2013. Also, the value of returned checks in domestic and foreign currencies decreased by 4.5% year-on-year to \$469m in the first four months of 2014, relative to an annual drop of 2.6% in the same period of 2013 and an annual increase of 2.9% in the first four months of 2012. In parallel, the number of cleared checks totaled 4.2 million checks in the first four months of 2014, down 2% from the same period last year. Also, the number of returned checks totaled 80,700 checks, down 4.2% from the first four months of 2013.

% of Respondents who are Satisfied with Current Salary*



*moderately and highly satisfied
Source: Bayt.com, Byblos Research

Byblos Bank signs €45m credit line from EIB to support SMEs

The European Investment Bank (EIB) extended a 12-year €45m credit line to Byblos Bank that the latter will use to finance small- and medium-sized enterprises (SMEs) in Lebanon. The loan would target SMEs operating in productive economic sectors such as industry, tourism, services, healthcare, energy, telecommunications, information technology, higher education, as well as firms in the knowledge-based economy. The credit line constitutes Byblos Bank's third line from the EIB following €50m extended in 2005 and €60m allocated in 2007. In 2005, Byblos Bank became the first private sector entity in the Near East and the second among 14 Mediterranean Partners countries to benefit from a credit line from the EIB without a state guarantee. The EIB has committed more than €33.5m since 2002 to support and develop SMEs in Lebanon.

Kafalat loan guarantees up 6% to \$45m in first five months of 2014

Figures released by the Kafalat Corporation show that loans extended to small- and medium-size companies under the guarantee of Kafalat reached \$44.7m in the first five months of 2014, up 6% from \$42.2m in the same period last year. The number of loan guarantees totaled 356 year-to-May compared to 309 in the same period last year. The average loan size reached \$125,653 relative to \$136,591 in the first five months of 2013. Mount Lebanon accounted for 42.4% of guarantees, followed by the Bekaa with 20.5%, Nabatieh with 11%, the North with 10.7%, the South with 10.1% and Beirut with 5.3%. The agricultural sector accounted for 50.8% of total guarantees, followed by industry with 34%, tourism with 9%, handicraft with 3.4% and specialized technologies with 2.8%. Kafalat is a state-sponsored organization that provides financial guarantees for loans up to \$400,000 earmarked for the setup and expansion of small and medium-size companies in productive sectors. It guarantees up to 75% of the loan amount and a similar percentage of the interest that accrues during the grace period. It also guarantees up to 90% of the loan amount for innovative start-ups and a similar percentage of the interest that accrues during the grace period.

Top five freight forwarders' import activity up 4% in first four months of 2014

Figures released by the Port of Beirut Authority show that overall import shipping operations by the top five freight forwarders reached 113,130 20-foot equivalent units (TEUs) in the first four months of 2014, constituting a rise of 4.4% from 108,386 TEUs in the same period last year. They accounted for 60.5% of the total import freight forwarding market during the covered period. Mediterranean Shipping Company (MSC) handled 38,437 TEUs in imports for the local market in the first four months of the year, equivalent to 20.6% share of the total freight forwarding import market. It was followed by Sealine Group with 23,838 TEUs (12.8%), Merit Shipping with 22,985 TEUs (12.3%), Metz Group with 15,852 TEUs (8.5%) and Gezairy Transport with 12,018 TEUs (6.4%). Further, Gezairy Transport registered the highest growth in import shipping among the top five freight forwarders at 59.8% year-on-year, while Sealine Group posted the steepest drop of 23.1% year-on-year.

In parallel, export shipping operations by the top five freight forwarders reached 20,262 TEUs in the first four months of 2014, constituting a decrease of 6.2% from 21,593 TEUs in the same period of 2013. They accounted for 98.3% of the total export freight forwarding market during the covered period. Sealine Group handled 7,559 TEUs of freight, equivalent to 36.7% share of the total freight forwarding Lebanese cargo export market. It was followed by Merit Shipping with 6,635 TEUs (32.2%), Metz Group with 3,339 TEUs (16.2%), MSC with 1,767 TEUs (8.6%) and Gezairy Transport with 962 TEUs (4.7%). Further, Metz Group registered the highest growth in export shipping among the top five freight forwarders at 246.7% year-on-year, while Sealine Group posted the steepest drop of 31.7% year-on-year.

Banque Libano-Française's net income down 37% to \$24m in first quarter of 2014

Banque Libano-Française sal, one of Lebanon's top 10 banks, posted unaudited consolidated net profits of \$24.1m in the first quarter of 2014, constituting a decrease of 37.4% from the same quarter last year. Net operating income fell by 21% year-on-year to \$57.7m, with net interest income decreasing by 3.5% to \$40.3m and net fees & commissions receipts regressing by 3.8% to \$10.1m. Non-interest income accounted for 27.3% of total income, down from 37.7% in the first quarter of 2013, with net fees & commissions accounting for 62.3% of non-interest earnings. Further, the bank's interest margin was 1.61% in the first quarter of the year relative to 1.73% in the same quarter last year; while its net spread decreased to 1.57% from 1.69% in the first quarter of 2013. Total operating expenditures grew by 7% year-on-year to \$30.4m in the first quarter of 2014, with staff expenses increasing by 12.1% to \$18.8m. Also, the bank's return on average assets reached 0.88% in the first quarter of 2014 on an annualized basis, relative to 1.48% in the same quarter last year; while its return on average equity was 10.22% on an annualized basis relative to 16.84% in the first quarter of 2013. The bank's cost-to-income ratio increased to 51.4% in the first quarter of 2014 from 40.2% in the same quarter last year.

In parallel, total assets reached \$10.9bn at end-March 2014, constituting a 1.9% drop from end-2013 and a 4.9% increase from a year earlier; while loans & advances to customers, excluding loans & advances to related parties, rose by 2.8% from end-2013 and by 6.1% year-on-year to \$3.7bn. Also, customer deposits, excluding deposits from related parties, totaled \$9.3bn at end-March 2014, constituting a marginal drop of 0.6% from end-2013 but an increase of 4.8% from a year earlier. The loans-to-deposits ratio rose to 40.2% at end-March 2014 from 39.7% a year earlier. In parallel, the bank's shareholders' equity rose by 2.7% from end-2013 to \$921.1m at end-March 2014.

BLC Bank's net profits at \$11.3m in first quarter of 2014

BLC Bank sal, one of Lebanon's listed banks, announced unaudited consolidated net profits of \$11.3m in the first quarter of 2014, constituting an increase of 28% from net earnings of \$8.8m in the same quarter of 2013. Net interest income rose by 21.5% to \$32m, while net fees & commissions receipts decreased by 5.7% to \$4.5m in the first quarter of 2014. Net financial revenues after impairment charge for credit losses reached \$38.6m in the first quarter of 2014, constituting a rise of 11.1% from \$34.7m in the same quarter last year. Administrative expenses increased by 4.3% to \$6.5m, while staff expenses rose by 3.5% year-on-year to \$13.3m in the first quarter of 2014. In parallel, total assets reached \$5.4bn at end-March 2014, constituting an increase of 5% from \$5.1bn at end-2013; while loans & advances to customers rose by 1.9% to \$1.9bn at end-March 2014. Further, customer deposits decreased by 0.5% to \$4.3bn at end-March 2014. The loans-to-deposits ratio increased to 44.7% at end-March 2014 from 43.6% at the end of 2013. In parallel, shareholders' equity rose by 18.2% year-on-year to \$452.7m at end-March 2014.

Launch of regional private equity fund

The Beirut-based Capital Trust Group launched EuroMena III, its fourth private equity fund that would focus on the Middle East and North Africa region. It expected the fund's size to reach between \$150m and \$200m by the end of the current year. It noted that several institutions have committed to the fund including the European Investment Fund (EIB), the German Investment Corporation, the International Finance Corporation and Electricité de France, among others. The EIB has invested €20m, or about \$27m, in EuroMena III, bringing its total investments with the Capital Trust Group to \$56m. The fund plans to invest in companies operating in fast-growing industries in the MENA region and in firms that have the potential to become regional leading groups. It noted that it would not invest in real estate companies or in start-ups, but would allocate limited investments to Greenfield projects. EuroMena I fully invested its capital in nine companies and has exited four of them, while EuroMena II has six companies in its portfolio.

CreditBank's net profits at \$5m in first quarter of 2014

CreditBank sal, one of Lebanon's top 14 banks, announced unaudited consolidated net profits of \$5.4m in the first quarter of 2014, constituting an increase of 66.5% from the same quarter last year. Net operating income grew by 23.4% year-on-year to \$20.1m, with net interest income rising by 25% to \$14.4m and net fees & commissions receipts decreasing by 5.1% to \$3.1m. Non-interest income accounted for 34.5% of total income, up from 32.6% in the first quarter of last year, with net fees & commissions accounting for 40.6% of non-interest earnings, down from 58.3% in the covered quarter of 2013. Further, the bank's interest margin improved to 2.2% in the first quarter of the year from 2.1% in the same quarter last year, and its spread increased to 2.15% from 2.03% in the covered quarter last year. Total operating expenditures increased by 11.3% to \$13.5m, with staff expenses growing by 6.9% to \$8.4m. Also, the bank's return on average assets reached 0.8% on an annualized basis in the first quarter of 2014, compared to 0.57% in the same quarter last year; while its return on average equity was 9.88% relative to 7.26% on an annualized basis in the first quarter of 2013. The cost-to-income ratio was 61.48% in the first quarter of 2014 compared to 71.09% in the same quarter last year.

In parallel, total assets reached \$2.7bn at the end of March 2014, constituting a 2.6% rise from end-2013 and a 16.7% increase from a year earlier; while loans & advances to customers, excluding loans & advances to related parties, rose by 6.7% from end-2013 and by 22.4% from end-March 2013 to \$1.4bn. Also, customer deposits, excluding deposits from related parties, totaled \$2.3bn at end-March 2014, reflecting growth of 3.3% from end-2013 and of 19.3% from a year earlier. The loans-to-deposits ratio was 58.9% at end-March 2014, up from 57.3% a year earlier. Further, shareholders' equity rose by 2% from end-2013 to \$212m at end-March 2014.

Banque Pharaon & Chiha's earnings up 2% to \$4.9m in 2013

Banque Pharaon & Chiha sal, one of the smaller banks in Lebanon, announced audited consolidated net profits of \$4.9m in 2013, up 1.7% from \$4.8m in 2012. Net operating income rose by 2.9% year-on-year to \$12.5m in 2013, with net interest income increasing by 8.3% to \$9.2m and net fees & commissions receipts rising by 7.5% to \$2.3m. Total operating expenditures increased by 4.7% to \$7m, with staff expenses increasing by 5.1% to \$4.5m. The cost-to-income ratio rose to 55.2% in 2013 from a ratio of 58.5% in 2012.

In parallel, total assets reached \$299.5m at the end of 2013, constituting a 5.7% increase from \$283.4m a year earlier; while loans & advances to customers, excluding loans & advances to related parties, increased by 12.5% year-on-year to \$91.6m. Also, customer deposits, excluding deposits to related parties, totaled \$238.5m at end-2013, growing by 6% from a year earlier. The loans-to-deposits ratio rose to 38.1% at end-2013 from 35.3% a year earlier. Further, provisions for risks and charges increased by 11.3% and totaled \$1.5m in 2013.

Ratio Highlights

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

* Change in basis points 12/13

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

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

Risk Outlook

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

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

*year-on-year

Source: The PRS Group, Byblos Research

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

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

Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's	B1	NP	Negative	B1		Negative
Fitch Ratings	B	B	Negative	B		Negative
Standard & Poor's	B-	B	Stable	B-	B	Stable
Capital Intelligence	B	B	Stable	B	B	Stable

Source: Rating agencies

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

Source: Rating agencies



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