

THE LEBANON BRIEF

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FINANCIAL MARKETS

Equity Market Stock Market

	09/05/2014	02/05/2014	% Change
BLOM Stock Index*	1,199.64	1,207.35	-0.64%
Average Traded Volume	62,715	87,533	-28.35%
Average Traded Value	906,178	1,232,319	-26.47%

*22 January 1996 = 1000



Banking Sector

	Mkt	09/05/2014	02/05/2014	%Change
BLOM (GDR)		\$9.20	\$9.20	0.00%
BLOM Listed		\$8.70	\$8.95	-2.79%
BLOM (GDR)		\$9.20	\$9.30	-1.08%
Audi (GDR)		\$6.30	\$6.37	-1.10%
Audi Listed		\$6.10	\$6.05	0.83%
Audi (GDR)		\$6.30	\$6.30	0.00%
Byblos (C)		\$1.70	\$1.69	0.59%
Byblos (GDR)		\$73.00	\$73.00	0.00%
Bank of Beirut (C)		\$19.00	\$19.00	0.00%
BLC (C)		\$2.00	\$1.85	8.11%
Fransabank (B)		\$28.00	\$28.00	0.00%
BEMO (C)		\$1.82	\$1.82	0.00%

	Mkt	09/05/2014	02/05/2014	% Change
Banks' Preferred Shares Index *		104.97	105.16	-0.18%
BEMO Preferred 2006	BSE	\$100.00	\$100.00	0.00%
Audi Pref. E	BSE	\$100.00	\$100.00	0.00%
Audi Pref. F	BSE	\$100.00	\$100.00	0.00%
Audi Pref. G	BSE	\$100.00	\$100.00	0.00%
Audi Pref. H	BSE	\$100.00	\$100.00	0.00%
Byblos Preferred 08	BSE	\$103.50	\$103.50	0.00%
Byblos Preferred 09	BSE	\$103.10	\$103.10	0.00%
Bank of Beirut Pref. E	BSE	\$25.50	\$25.15	1.39%
Bank of Beirut Pref. I	BSE	\$25.25	\$26.40	-4.36%
Bank of Beirut Pref. H	BSE	\$25.50	\$25.10	1.59%
BLOM Preferred 2011	BSE	\$10.18	\$10.18	0.00%
BLC Pref C	BSE	\$100.50	\$100.50	0.00%
Bemo Preferred 2013	BSE	\$100.00	\$100.00	0.00%

* 25 August 2006 = 100

The improved security situation and the banks' solid financial results in the first quarter of 2014 were insufficient to boost the performance of Lebanese stocks.

The Beirut Stock Exchange closed in the red on Friday as meeting the deadline for the presidential elections appears to be a challenging task and as social issues drive teachers, government offices and civil servants to stage protests and strikes.

The BLOM Stock Index (BSI)'s performance mirrored these tumults, shedding a weekly 0.64% to 1,199.64 points.

The daily average volume and value followed the downward trend dropping by 28.35% and 26.47% to reach 62,715 and \$906,178, respectively. Accordingly, the market capitalization shrunk by \$62M from last week's \$9.70B to \$9.63B.

On a comparative scale, the BSI was outperformed by all of its regional peers as the Morgan Stanley emerging index (MSCI) added 1.29% to 1,008.85 points, as the S&P AFE40 gained 1.25% to 71.35 points and as the S&P Pan Arab Composite LargeMidCap Index rose by 1.12% to 152.85 points.

Within the Arab bourses, Egypt, Kuwait and Abu Dhabi were the only losers falling by 0.55%, 0.33% and 0.22%, respectively. Meanwhile, Dubai, Bahrain and Qatar stock exchanges were the top performers with respective gains of 4.41%, 3.06% and 1.84%.

The banking sector showed mixed performances over the past week: the listed shares of Byblos, Audi and BLC registered upticks of 0.59% to \$1.70, 0.83% to \$6.10 and 8.11% to \$2.00, respectively.

In contrast, BLOM's listed shares edged down by 2.79% to \$8.70 and Audi's Global Depository Receipts lost 1.10% to \$6.30.

Real Estate

	Mkt	09/05/2014	02/05/2014	%Change
Solidere (A)	BSE	\$12.83	\$12.95	-0.93%
Solidere (B)	BSE	\$12.75	\$13.01	-2.00%
Solidere (GDR)	LSE	\$12.75	\$12.90	-1.16%

The BLOM Preferred Shares Index (BPSI) lost 0.18% to 104.97 points mainly on account of the 4.36% drop in the price of Bank of Beirut's preferred "I" shares to \$25.25. Meanwhile Bank of Beirut's preferred shares classes E and H posted upticks of 1.39% and of 1.59% to close at the same price of \$25.50.

Manufacturing Sector

	Mkt	09/05/2014	02/05/2014	%Change
HOLCIM Liban	BSE	\$14.80	\$15.49	-4.45%
Ciments Blancs (B)	BSE	\$3.50	\$3.50	0.00%
Ciments Blancs (N)	BSE	\$2.75	\$2.75	0.00%

On the London Stock Exchange (LSE), the Global Depository Receipts (GDR) of BLOM Bank and Solidere lost 1.08% and 1.16% to close at \$9.20 and \$12.75, respectively.

Funds

	Mkt	09/05/2014	02/05/2014	% Change
BLOM Cedars Balanced Fund Tranche "A"	----	\$7,186.59	\$7,176.74	0.14%
BLOM Cedars Balanced Fund Tranche "B"	----	\$5,213.76	\$5,206.61	0.14%
BLOM Cedars Balanced Fund Tranche "C"	----	\$5,458.27	\$5,450.79	0.14%
BLOM Bond Fund	----	\$9,578.13	\$9,568.62	0.10%

Real estate shares Solidere "A" and "B" lost 0.93% to \$12.83 and 2.00% to \$12.75, respectively.

In the industrial sector, HOLCIM shares reversed last week's gains, falling by 4.45% to close at \$14.80 on Friday.

Looking ahead, presidential elections and the wage scale issues will continue to be the barometers of the stock market's performance, overshadowing the large improvement achieved on the security front.

Retail Sector

	Mkt	09/05/2014	02/05/2014	% Change
RYMCO	BSE	\$3.50	\$3.50	0.00%
ABC (New)	OTC	\$33.00	\$33.00	0.00%

Tourism Sector

	Mkt	09/05/2014	02/05/2014	% Change
Casino Du Liban	OTC	\$425.00	\$425.00	0.00%
SGHL	OTC	\$7.00	\$7.00	0.00%

Foreign Exchange Market Lebanese Forex Market

	09/05/2014	02/05/2014	% Change
Dollar / LP	1,512.50	1,514.00	-0.10%
Euro / LP	2,082.61	2,089.85	-0.35%
Swiss Franc / LP	1,708.66	1,714.04	-0.31%
Yen / LP	14.81	14.71	0.68%
Sterling / LP	2,548.88	2,545.72	0.12%
NEER Index**	130.35	130.45	-0.08%

*Close of GMT 09:00+2

**Nominal Effective Exchange Rate, Base Year Jan 2006=100

**The unadjusted weighted average value of a country's currency relative to all major currencies being traded within a pool of currencies.

Nominal Effective Exchange Rate (NEER)



Demand for the dollar decreased over the past week, as shown by the Lebanese pound's peg against the dollar, going from \$/LP 1513.5-1514.5 with a mid-price of \$/LP 1514 to \$/LP 1510.5-1514.5 with a mid-price of \$/LP 1512.5. Foreign assets (excluding gold) at the Central Bank stood at \$36.12B by April compared to \$36.30B by March. Meanwhile, the dollarization rate of private sector deposits stood at 66.1% in December compared to 65.45% in March.

The euro depreciated against the dollar this week to €/1.3815 from last week's close of €/1.3863, after ECB chief, Mario Draghi, showed his concern, on Thursday, about actual inflation of 0.7% being lower than the targeted 2%. Moreover he stated that the ECB was at ease with taking actions that would lead to growth and inflation because of the strong currency.

By Friday May 09, 2014, 12:30 pm Beirut time, the Euro lost 0.35% to reach €/1.3815. As for the dollar-pegged LP, it appreciated to €/LP 2,082.61 compared to last week's €/LP 2,089.85. The Nominal effective exchange Rate (NEER) crawled down by 0.08% over the cited period to 130.35 points, while its year-to-date gain stood at 1.00%.

Money & Treasury Bills Market

Money Market Rates

	09/05/2014	02/05/2014	Change bps
Overnight Interbank	2.75	2.75	0
BDL 45-day CD	3.57	3.57	0
BDL 60-day CD	3.85	3.85	0

Treasury Yields

	09/05/2014	02/05/2014	Change bps
3-M TB yield	4.39%	4.39%	0
6-M TB yield	4.87%	4.87%	0
12-M TB yield	5.35%	5.35%	0
24-M TB coupon	5.84%	5.84%	0
36-M TB coupon	6.50%	6.50%	0
60-M TB coupon	6.74%	6.74%	0

In the course of the week ending April 24, 2014, broad Money M3 increased by LP 328B (\$218M), to reach LP 170,529B (\$113.12B). M3 growth rate reached 6.60% year-on-year and 1.77% on a year-to-date basis. As for M1, it shrank by LP 115B (\$76M) due to a decline in money in circulation by LBP 89B (\$59.04M), and in demand deposits by LBP 26B (\$17.25M).

Total deposits (excluding demand deposits) surged by LP 443B (\$29M), given the \$326M growth in deposits denominated in foreign currencies and the LP 49B drop in term and saving deposits in domestic currency. Over the above mentioned period, the broad money dollarization went from a previous 59.06% to %59.24. According to the Central Bank, the overnight interbank rate stood at 2.75% at the end of February 2014.

In the TBs auction held on May the 1st 2014, the Ministry of Finance raised LP 124.66B (\$82.69M) through the issuance of 1 Year (Y), 2Y, and 3Y notes. The highest demand was witnessed on the 3Y notes, capturing 73.43% of total subscriptions, while the 1Y and 2Y notes captured respective shares of 20.07% and 6.50%. The average coupon rates of the notes were 5.35% for 1Y notes, 5.84% for 2Y notes and 6.50% for 3Y notes. Maturing T-bills exceeded new subscriptions by LP 88.35B (\$58.60M).

Eurobond Market

Eurobonds Index and Yield

	08/05/2014	30/04/2014	Change	Year to Date
BLOM Bond Index (BBI)*	107.020	106.530	0.46%	1.30%
Weighted Yield**	5.45%	5.46%	-2	43
Weighted Spread***	381	386	-5	-49

*Base Year 2000 = 100; includes US\$ sovereign bonds traded on the OTC market

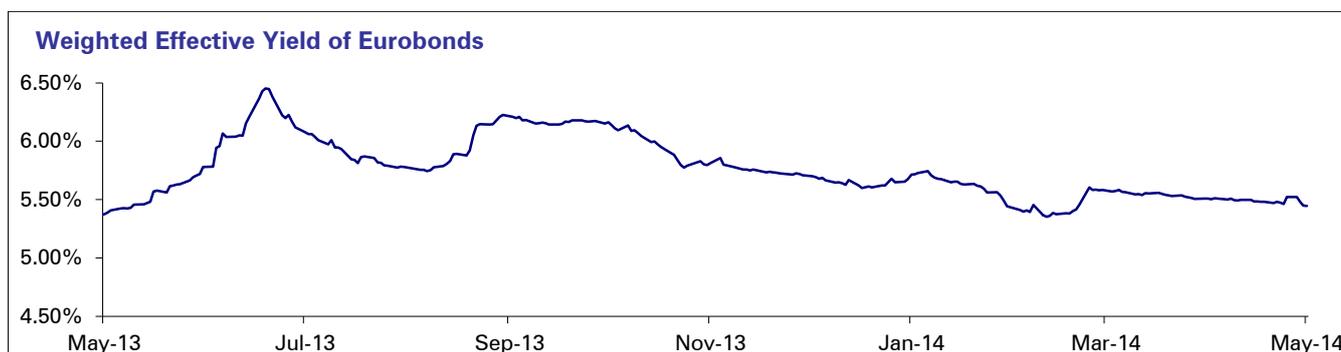
** The change is in basis points

***Against US Treasuries (in basis points)

Eurobonds Lebanese Government

Maturity - Coupon	08/05/2014 Price*	30/04/2014 Price*	Change %	08/05/2014 Yield	30/04/2014 Yield	Change bps
2015, Jan - 5.875%	101.59	101.58	0.02%	3.49%	3.58%	-9
2015, Aug - 8.500%	106.07	106.26	-0.18%	3.47%	3.39%	8
2016, Jan - 8.500%	107.57	107.71	-0.12%	3.84%	3.81%	3
2016, May - 11.625%	114.53	114.56	-0.03%	4.02%	4.07%	-5
2017, Mar - 9.000%	111.73	111.42	0.27%	4.58%	4.72%	-13
2018, Jun - 5.150%	100.48	100.25	0.23%	5.02%	5.08%	-6
2020, Mar - 6.375%	103.42	103.11	0.30%	8.51%	5.74%	277
2021, Apr - 8.250%	113.58	112.74	0.74%	5.84%	5.98%	-14
2022, Oct - 6.100%	99.30	99.00	0.31%	6.21%	6.25%	-5
2023, Jan - 6.00%	98.32	97.73	0.61%	6.25%	6.34%	-9
2024, Dec - 7.000%	104.15	103.64	0.49%	6.45%	6.52%	-7
2026, Nov - 6.600%	100.33	99.52	0.81%	13.80%	6.66%	714
2027, Nov - 6.75%	100.68	100.24	0.44%	6.67%	6.72%	-5

*Bloomberg Data



The continuous lack of presidential consensus didn't deter investors' appetite for Lebanese Eurobonds as the country remained relatively stable over the past week. The Eurobonds market showed positive performance with the BLOM Bond Index (BBI) reaching an 11-month high at 107.02 points. Correspondingly, the BBI edged up by a weekly 0.46% widening its year-to-date gain to 1.30%. Medium and long term maturities gained investors interest driving the 5Y and 10Y yields down by 17 basis points (bps) and 7 bps to 5.24% and 6.48%, respectively. However, the BBI increased at a slower pace than the JP Morgan emerging markets' bond index that rose by a weekly 1.52% to reach 671.13 points.

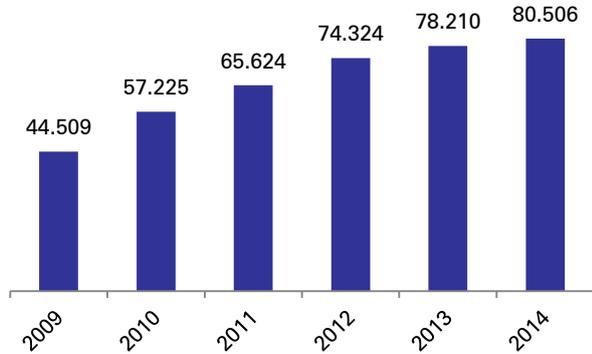
An unappealing yield levels send auction demand in the U.S to a 3-Year Low. 10Y Treasury bonds saw their yield edging up by 1 bp over the week to 2.61%, while the 5Y yield on the U.S Treasury notes lost 4 bps to 1.63%. Accordingly, the 5Y and 10Y spreads between the Lebanese Eurobonds and U.S benchmarks tightened by 13 bps and 8 bps to 361 bps and 387 bps, respectively.

Lebanon's credit default swaps for 5 years (CDS) were last quoted at 340-370 bps, widening from the previous range of 338-362 bps last week. In regional economies, 5 year CDS quotes in Saudi Arabia and Dubai narrowed by weekly averages of 4 bps and 7 bps to 42-47 bps and 153-163 bps this week. As for emerging markets, the 5Y insurance premiums against state-debt default in Turkey and Brazil narrowed from last week's ranges of 191-195 bps and 148-150 bps to 172-177 bps and 144-146 bps, respectively.

ECONOMIC AND FINANCIAL NEWS

BDL's total Assets In April

(In \$B)



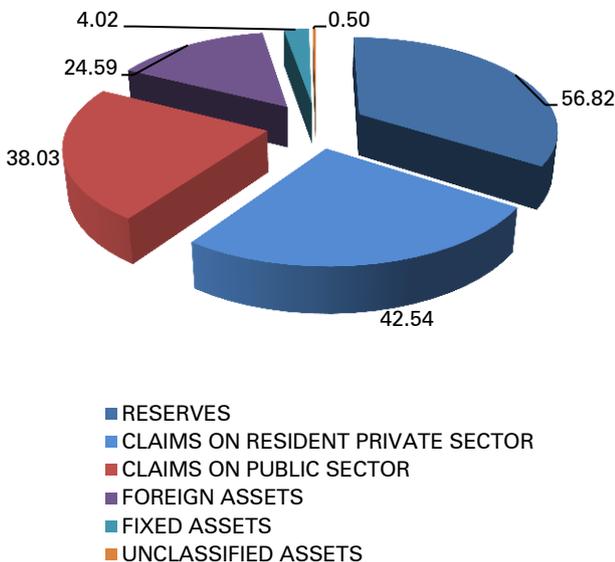
Source: BDL

BDL's Total Assets Edge up to \$80.51B by April

According to the Central Bank's (BDL) balance sheet, total assets registered a 0.26% monthly upturn to reach \$80.51B by April. Total assets were enhanced by the 3.38% monthly increase of loans to local financial sector to \$3.09B, and the 0.57% upturn of securities portfolio to \$12.53B. Gold reserves dropped by 0.25% to \$11.91B, due to the decline in the metal's price on international markets. Foreign assets also slipped by 0.50% from \$36.3B in March to \$36.12B in April. As for liabilities, financial sector deposits increased to \$60.44B from its March value of \$59.77B.

Total Assets at Commercial Banks

(In \$B)



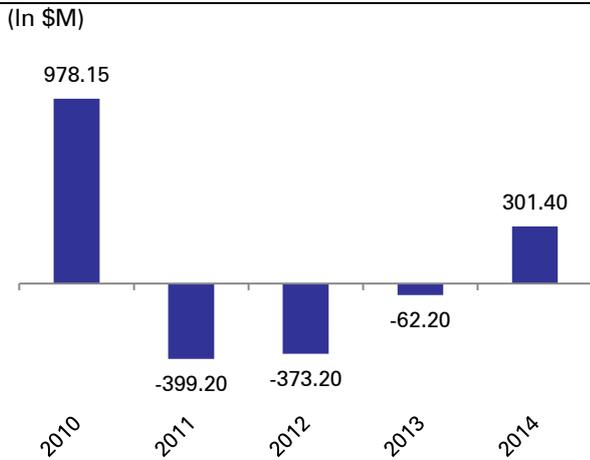
Source: BDL

Lebanon's Commercial Banks Assets Rose to \$166.50B in March

Total consolidated assets of commercial banks reached \$166.50B by March 2014, a 1.02% growth since year start, and a progress of 7.12% year-on-year (y-o-y). Claims on the private sector, which constituted 28.91% of total assets, edged up by 1.59% from the beginning of the year to \$48.13B. The dollarization of private sector loans went from 76.54% to 76.19%. Foreign currency loans grew by 1.12% since year start, to \$36.67B, while that of local currency rose at a faster pace of 3.12%, to reach \$11.46B. During the same period, Lebanese commercial banks' holdings of government securities also augmented by 0.96% to settle at \$38.03B. As a matter of fact, treasury bills in local currency escalated by 0.96% y-t-d to \$20.39B, while Eurobonds tailed off by 0.32% to 17.55%. On the liabilities side, resident private sector deposits expanded by 1.34% since year start to \$109.17B. In details, deposits denominated in domestic currency broadened by 2.41% to \$43.80B outpacing the 0.63% rise in foreign currency deposits to \$65.37B. Whereas non-resident private sector deposits shrank by 3.84% to \$27.39B. As a result, dollarization rate of private deposits went from 66.13% end of December 2013, to 65.45% in March 2014.

Lebanon's Balance of Payments Records a Surplus of \$301.4M in Q1

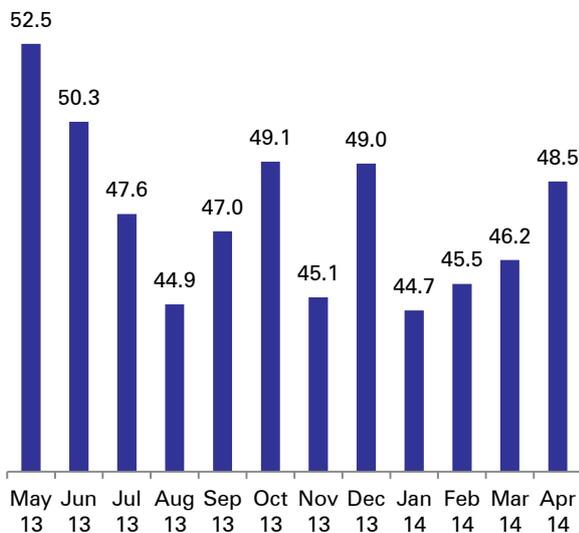
Balance of Payments in Q1 2014



Source: BDL

Lebanon's Balance of Payments (BoP) revealed a surplus of \$301.4M in the first quarter of 2014, compared to a deficit of \$62.2M same period last year. Up until March, Net Foreign Assets (NFA) of the Central Bank (BDL) rose by \$1,395.2M, while that of commercial banks declined by \$1,093.8M. In March alone Lebanon's BoP recorded a surplus of \$139M, compared to a higher surplus of \$193.7M in the previous month, partially caused by a widening trade deficit from \$1.48M in February this year to \$1.52M in March. NFAs of BDL swelled by \$219.9M, compared to a \$572.6M growth in February, while NFAs of commercial banks declined by \$80.9M, subsequent to a drop of \$378.9M in the prior month.

BLOM Lebanon PMI Historical Readings



Source: Markit, Blominvest Bank

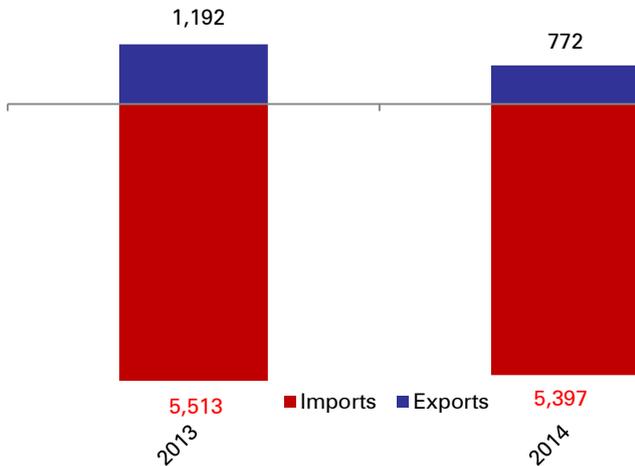
BLOM Purchasing Managers' Index Reaches Four-Month High in April

At 48.5 in April and up from 46.2 in March, The BLOM Lebanon PMI underscores a slower deterioration in the operating conditions of the Lebanese private sector. April's reading marked a four-month high, as the rates of decline in output and new orders eased sharply. This improvement was the result of a calmer security situation and of lower average output prices, designed to boost new business. Private sector activity also benefitted from export sales returning to growth even if at modest rate.

Commenting on the latest survey results, Dr. Ali Bolbol, Economic Advisor at Blominvest Bank said:

"The Lebanese economy is not out of the woods yet, but the trend of recent months is slowly but clearly indicating towards there. This ease in the deterioration of business conditions is a welcome outcome to the formation of a consensual government and the improvement of the security situation in the North and East of the country, as output decreased at a slower rate and exports actually returned to growth. Looking forward, we hope this trend is reinforced by the election of a new president in the near future".

Imports and Exports in the first quarter of 2013 and 2014



Source: Lebanese Customs

Lebanon's Trade deficit widens to \$4.63B during Q1

The Lebanese trade balance deficit widened by 7.03% to \$4.63B during the first quarter of 2014, compared to a deficit of \$4.32B during the same period in 2013, due to exports falling more than the reduction in imports. Exports covered 14.31% of imports by March edging down from 2013's ratio of 21.61%.

Total imports dropped by 2.10% year-on-year (y-o-y) to reach \$5.40B, essentially caused by the plunge in the value of pearls, precious stones and metals imported by 32.18%. However, this drop was caused by falling prices, whereby average price of gold and silver declined by 20.38% and 32.00% y-o-y, respectively. However imported volume of pearl, precious stones and metals increased by 3% during the same period. Mineral products ranked first among total imports accounting for 26.89% of the total at \$1.45B, and falling by 4.52% y-o-y. This drop was also caused by the decline in mineral products' prices, except oil whose price increased by 5%, since the volume imported edged up by 5%. Second and third highest shares of total imports were machinery and electrical instruments at 10.57% (or \$0.57B) and products of the chemical or allied industries at 9.66% (or \$0.52B). China led the rank among countries that Lebanon imports from, with a 12.46% stake and was followed by Italy and US with respective shares of 8.24% and 8.14%.

Total exports fell by 35.19% y-o-y, reaching \$0.77B, mostly due to mineral products plummeting by 95.10% to reach \$89M. Worth mentioning that since the start of the war in Syria, mineral products exported increased and reached its peak of \$183.84 in 2013, where 90.48% of the total was exported to Syria. Thus, the difficulties in transportation on the Lebanese-Syrian border caused this huge decline. Pearls/precious stones and metals topped the list with 18.55% of total exports at \$0.14B although they decreased by 54.6% y-o-y, while prepared foodstuffs came in second at 16.56% (or \$0.13B). South Africa is at the top of the list of countries importing from Lebanon accounting for 10.95% of the total, followed by Saudi Arabia and UAE with respective shares of 10.49% and 9.40%.

For the month of March alone, Lebanon's trade deficit narrowed by 9.17% y-o-y to \$1.52B compared to \$1.67B registered in March 2013 as imports edged down by 13.71% to reach \$1.79B, while exports retreated by 32.33% y-o-y to \$0.28B.

IMF: Lebanon's Real GDP Growth at 1% in 2013 and 2014

IMF Indicators for Lebanon

	2013e	2014p	2015p
Real GDP Growth, In %	1.00	1.00%	2.50%
Consumer Price Inflation In %	3.20	2.00%	2.00%
Fiscal Balance, % of GDP	-9.40	-11.50	-10.20
Current Account Balance, % of GDP	-16.20	-15.80	-13.90

Source: IMF Regional Economic Outlook, May 2014

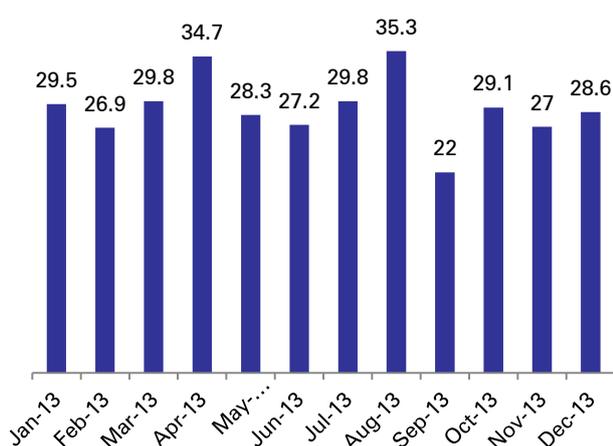
According to the IMF's May Regional Economic Outlook, Lebanon's real GDP growth is projected at 1% in 2014, same as 2013's estimate. As for inflation, it will drop from 3.2% in 2013 to 2% in 2014. The overall fiscal balance's share in total GDP will rise from -9.4% in 2013 to -11.5% in 2014. As for the current account balance's share in total GDP, it is estimated to drop from 16.2% in 2013 to 15.8% in 2014.

On a broader note, growth in MENA oil importing countries reached 3% in 2013, still below the historical average of around 5%. Political and security challenges remained the main factors impeding growth. Particularly, the Syrian conflict's spillovers brought about large refugee inflows and trade disruptions in Iraq, Jordan and Lebanon. For 2014, while growth will remain subdued, the IMF expects investment to rise for the first time since the onset of the Arab Spring.

Meanwhile, growth for MENA oil exporters will likely increase from 2% in 2013 to 3.5% in 2014 on account of stable oil production and robust non-oil growth boosted by the construction, retail and trade sectors.

The Byblos Bank/AUB Consumer Confidence Index at its Lowest in 2013

The Byblos Bank/AUB Consumer Confidence Index in 2013



Source: Byblos Bank Research and AUB

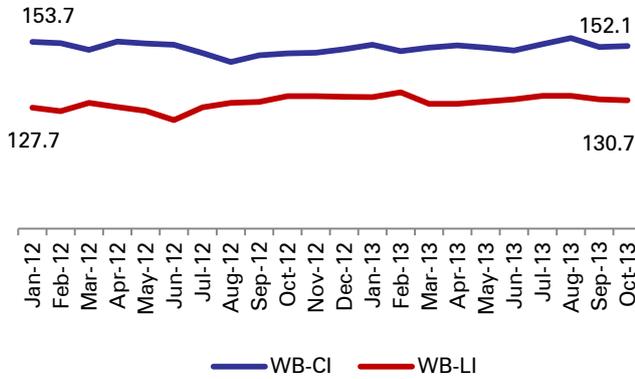
The Byblos Bank/AUB Consumer Confidence consistently dropped from a monthly average of 72.8 in 2010 to 32.5 in 2012 and to a low of 29 in 2013.

The unstable political and security scenes and the spillovers of the Syrian conflict weighed heavily on consumer sentiment especially in the second half of the year. Particularly, the month of September marked the poorest consumer confidence as the Byblos Bank/AUB Present Situation Index and Expectations Index registered the lowest readings since inception. According to the report, the formation of a new cabinet has been insufficient to restore confidence to its levels in 2008, 2009 and 2010. Therefore, a renewed sense of confidence will only be provoked by a political event of substantial magnitude.

The Byblos report expects further output losses in the first half of 2014, following losses of around \$5.2B in 2013. formation of the long awaited Cabinet that took place by Mid-February along with the latter's security plan in Tripoli that partially stabilized some of the region's tensions.

World Bank Develops New Indicators for Lebanon's Economic Activity

World Bank Coincident and Leading Indicators



Source: World Bank, Lebanon Economic Monitor, Spring 2014

Since the lack of economic data in Lebanon stand in the way of elaborate analysis and guided decision-making, the World Bank developed two new indicators for economic activity: the World Bank Coincident Indicator (WB-CI) and the World Bank Leading Indicator (WB-LI), which detects early signs of swings in the business cycle and which forecast GDP growth during the next 12 months.

The WB-CI underscores a deceleration in economic activity during the first ten months of 2013. In fact, Lebanon's GDP growth was estimated at 0.9% in 2013, the worst since 1999. If security tensions abate and the parliamentary and presidential elections run smoothly, growth will pick up to 1.5% in 2014.

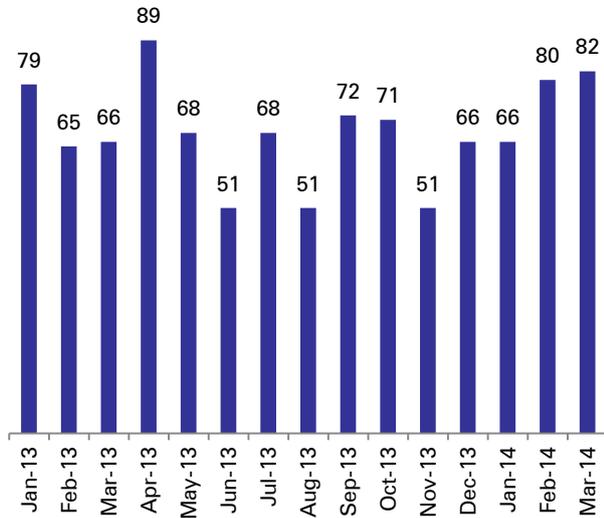
In the Spring Edition of the World Bank's Lebanon Economic Monitor, longer-term projections have been revised downwards for 2015 from 4.0% to 2.5%. The slashed projection is due to a change in the assumption regarding the timing of a significant improvement in the Syrian conflict and the ensuing spillovers on Lebanon. Growth is projected to return towards potential in 2016, albeit this depends on the turn of events both locally and in Syria.

The World Bank also noted that although the Syrian crisis weighs on Lebanon's growth, the latter is also hindered by structural bottlenecks in terms of electricity, water, transportation and telecommunications. These hurdles have worsened Lebanon's ranking on the ease of doing business index. Addressing them is a must to create a favorable environment for small and medium enterprises.

The World Bank's future prospects warn that disruptions to Russian oil and gas supplies, as a result of the Ukrainian crisis, will have adverse effects on Lebanon. First, potential sanctions on Russia are likely to inflate oil prices and since Lebanon is a net energy importer, the deficit of the balance of payments might widen. Second, the crisis in Ukraine might push global food prices upwards, which would weigh on the vulnerable Lebanese households.

Improved Security Situation Lifts Consumer Confidence Index (CCI) to 82 points in March

CCI Historic Levels



Source: ARA Marketing Research and Consultancy

According to ARA Marketing Research and Consultancy, the Consumer Confidence Index (CCI) posted a 2 points monthly uptick to 82 points in March.

The improvement of the security situation, particularly in Tripoli, lifted the Security Situation Index by 24 points to 82 points in March, the second consecutive increase.

The Current Personal Income Index rose by 7 points to 67 points, an improvement which could be furthered by an increase in public sector wages. The Purchase of Durable Goods Index also rose by 3 points to 96 points.

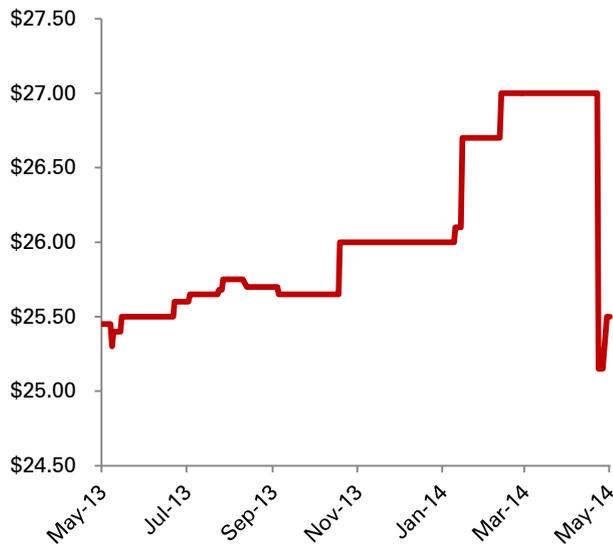
However, with the Union Coordination Committee taking to the street, the pay scale issue remaining unresolved and talks about higher taxes, the Current Economic Situation Index plummeted by 76 points to 35 points, its second lowest level after the one reached in November 2006 following the July war during that same year.

For the period ahead, consumer sentiment remained broadly unchanged during the month of March, with The Expected Personal Income Index and The Expected Economic Situation Index stabilizing at 79 points and 84 points, respectively.

CORPORATE DEVELOPMENTS

Bank of Beirut Calls for an Extraordinary General Assembly

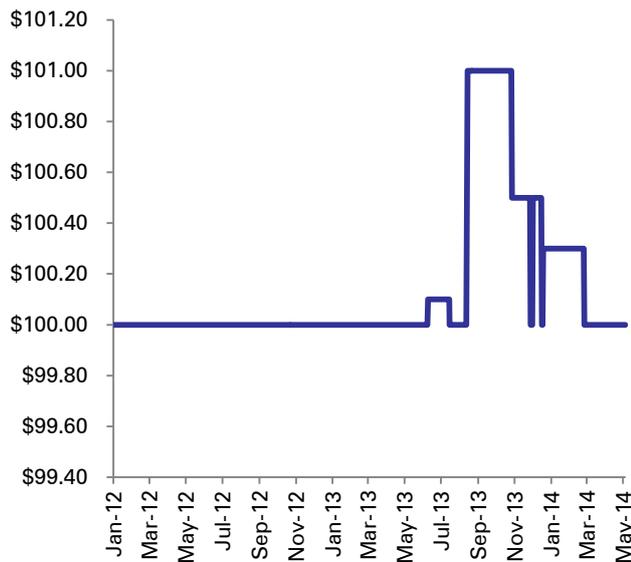
Bank of Beirut Preferred Shares Class E



Source: Beirut Stock Exchange, Blominvest Research department

Bank of Beirut S.A.L invites all common shareholders to attend an Extraordinary General Meeting to be held at 3:00 am on Thursday May 22, 2014 at the Bank's Head Office located at Foch Street, Beirut Downtown. The meeting's agenda revolves around issuing new priority shares to increase the bank's capital as well as altering some articles of the corresponding by-laws according to the capital increase.

Annual Performance of Byblos Bank shares



Source: Beirut Stock Exchange, Blominvest Research department

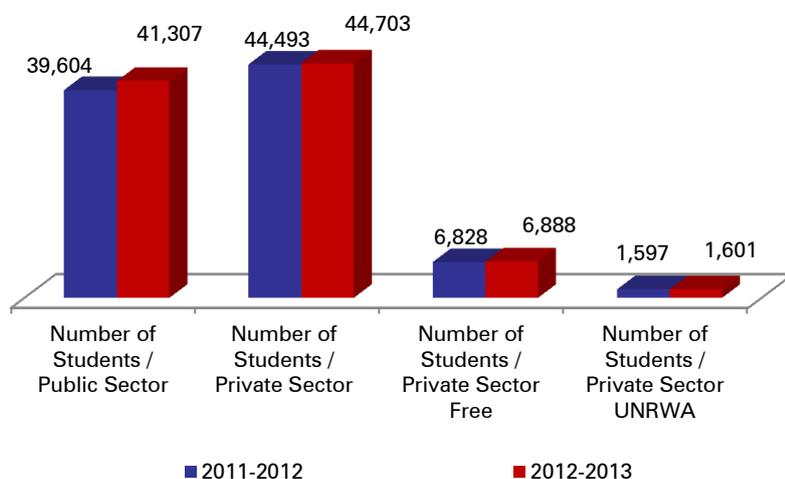
BEMO Bank Calls for General Assembly

BEMO Bank's board of directors invited its shareholders for an ordinary assembly that will be held at the bank's headquarters in Riad el Solh, Beirut on May 16, 2014 at 9:00 am. The meeting's agenda will include, among other things, hearings of the board's report and the auditors' findings, approval of the financial statements of end 2014, clearing the chairman and boards' administrative duties for the financial year 2013, and agreement on the remunerations of the bank's chairman and board for the year 2014. Shareholders will be able to review the related documents to the article 197 of the Trade Act 15 days ahead of the meeting at the bank's headquarters. In addition, shareholders are also invited to attend an extraordinary general assembly to be held on the same day at 10:00 am, to examine the cancellation of its 2006 preferred shares and add its value to the face value of the bank's other shares and increase the bank's capital.

FOCUS IN BRIEF

Persisting Public Deficiencies Hinder Lebanon's Education Sector

Number of Teachers by Sector



Source: Center for Educational Research and Development (CERD)

As discussions on approving the wage scale are ongoing, however in their final stages, it is important to shed the light on the education sector as the educational body in the public sector constitutes a large component of public salaries with more than 41,000 teachers by the end of 2013.

Landscape of the Lebanese Education

While preserving its standing as one of the foremost civil rights in the world, education enjoys a high positioning in Lebanon and constitutes a substantial barometer of the country's socio-economic status. With more than 1.26M enrolled students, the yearly performance of education will surely have direct and indirect impacts on the Lebanese economy and population. In this context, education positively contributed over the past few years to the Gross Domestic Product (GDP) with a value added share¹ hovering around 6%.

Over the past decades, Lebanon served as the educational hub of the region. According to the Global Information Technology Report 2014 of the World Economic Forum, Lebanon's education system ranked 13th out of 148 countries in the world due to its superior quality and high standards. Lebanon came second among the MENA countries and was only outpaced by Qatar that stood 4th globally. However, Lebanon outperformed the United Arab Emirates (15th rank), Jordan (27th rank) and Saudi Arabia (39th rank). The country also grasped the 4th international rank in terms of math and science education quality trailing Singapore, Finland and Belgium.

Yet, results of the 2011 Trends in International Mathematics and Science Study (TIMSS) revealed inconsistent figures. According to TIMSS, Lebanon couldn't reach the international averages² in math and science. In details, Lebanon scored 449 in the former and 406 in the later. The contradiction is mostly explained by the poor performance and deficiencies of education in the public sector that will be detailed subsequently.

Lebanese youth enjoys high degrees of literacy (89.6%) and enrollment with minimal gender discrimination. The Gross Enrolment Ratio (GER)³ in pre-primary level was estimated in 2012 at 93.1% for male and 89.2% for female. The GERs of

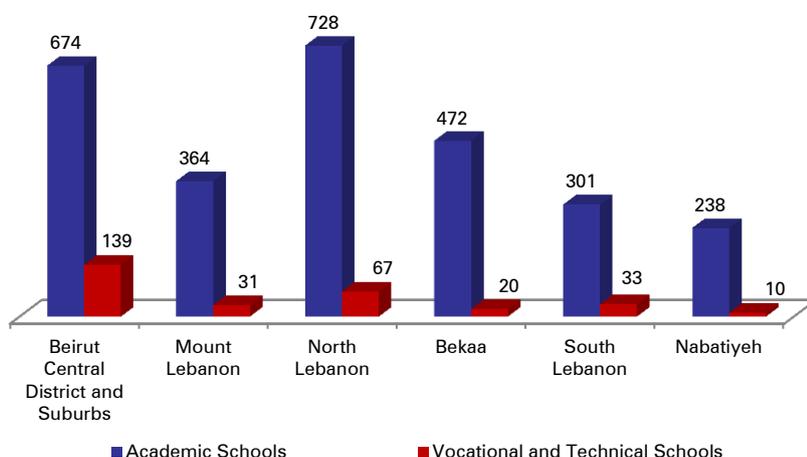
¹ According to 2011 national accounts of the Central Administration of Statistics (CAS)

² Each of the International averages in math and science equal 500

³ According to the United Nations Educational, Scientific and Cultural Organization (UNESCO), the GER is "the number of pupils or students enrolled in a given level of education, regardless of age, expressed as a percentage of the official school-age population corresponding to the same level of education. For the tertiary level, the population used is the 5-year age group starting from the official secondary school graduation age"

Basic (Primary) education hit 111.4% for male and 101.9% for female, noting that education is compulsory over the intermediate cycle and available to all Lebanese students. In secondary education, GERs stood at 73.7% for male and 74.3% for female. As for higher education, GERs for the tertiary education reached 44.5% for males and 47.8% for females over the same period.

Geographical Breakdown of Lebanon's schools in 2013



Source: Center for Educational Research and Development (CERD)

Education in Lebanon is provided by the public sector as well as the private sector around the different Lebanese regions. The public sector, which is practically free of charge, runs around 1,275 schools, 117 vocational schools and the Lebanese University⁴. As for the private sector, that charges a tuition fee for admission, it encompasses around 1,502 private schools, 300 vocational schools and about 40 universities spread around the country. Yet, schools seem to be asymmetrically distributed as Greater Beirut preserved in 2013 the highest concentration of academic and vocational schools at 26.4% of the total. North Lebanon and Bekaa followed with 25.8% and 16.0% respective shares, while Mount Lebanon, South Lebanon and Nabatiyeh held 12.8%, 10.9% and 8.1% of the total, respectively.

Financing Education in Lebanon

Education costs upheld their ascendant trend and are estimated to grow at a CAGR of 7.0%. In details, and within the consumer price index (CPI)⁵, the "education" sub-category recorded a 60.5% surge between 2007 and 2013. The CPI attributes a 7.7% weight for education⁶ in its basket, noting that it contains the cost of education in private schools including institutes of technical education. 2013 witnessed a 7.1% yearly increase on prices and this year registered a marginal 0.1% year-to-date growth up to March.

Education is gaining over the time higher standings in terms of government and household spending. In this context, Lebanon's total spending on education by the private and public sectors is estimated at 5.5% of GDP in 2011. Public spending on education reached 1.6% of GDP in 2011, while households private spending stood at 7% of GDP over the same period.

As a share of government's expenditures, public spending on education represented 7.1% in 2011, a share that has followed a downward path over the period 2006-2010. On a comparative scale, the average of public expenditure on education as a percentage of total government spending hovers around 18.6% in the MENA and around 14.2% in the world⁷.

On the household spending front, private expenditure on education exceeds 8% of the households' final consumption. This reveals the high educational expenses incurred by families to insure the education of their children, particularly at the higher educational level.

⁴ According to CERD

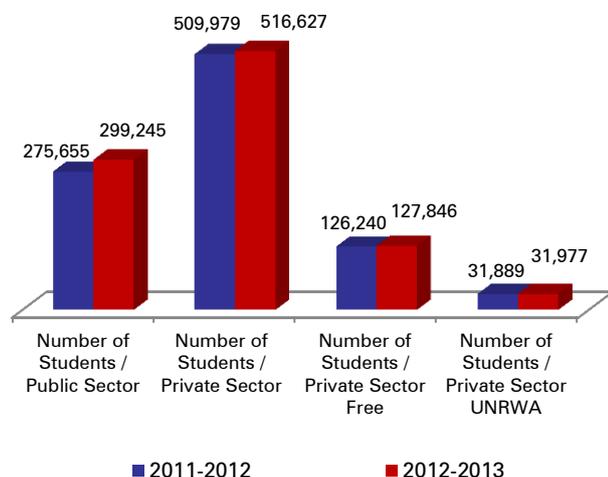
⁵ According to the Central Administration of Statistics (CAS)

⁶ CPI with Base Year December 2013

⁷ According to the World Bank

Another crucial indicator to assess spending in the education sector is the expenditure per student rate. As for Lebanon's expenditures per tertiary student, it has followed a descending trend from 18.5% of GDP per capita in 2005 to 8.8% in 2011. Yet, the ratio went up again in 2012 to 14.1% of GDP per capita.

Number of Students in Lebanon's Education System



Source: Center for Educational Research and Development (CERD)

Private Education versus Public Education

It is commonly asserted that the private school student outperform the public school student. 88.3% of total enrolled students in private schools passed their class in 2013, while the percentage slips to 77.2% in the public sector. This was translated in the number of students in private schools where the quality of learning is more competitive, in spite of the heavy financial burden incurred. The total number of students for the year 2012-2013 was 975,695 among whom 30.7% were enrolled in public schools, 16.4% in subsidized or free private schools, and 52.9% in private schools.

Households will consent the expensive additional charges when it comes to their children education. Families have many reasons to enroll their children in private schools of which their socio-economic status, the higher quality of education, the stricter discipline and the better structure and facilities of the private sector institutions. Accordingly, total enrolled students in the private sector rose by a yearly 1.2% to 676,450 students in 2013.

Public schooling in Lebanon embraces weak quality control and frail teaching that need to be reformed urgently. If not, the whole sector will be affected and will continue to post sluggish performance.

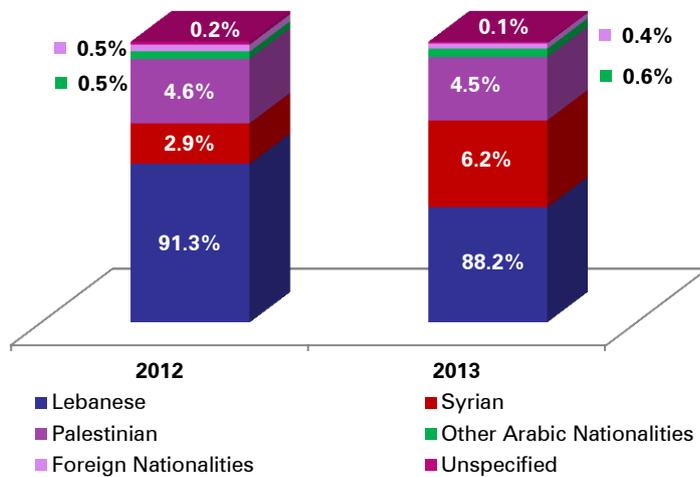
The considerable dropout and repetition rates reflect that the return of education remains inadequate compared to the high level of spending. In the elementary level, 25.2% was the repetition rate amongst public students, while it was only 5.3% in private schools. 2013's data show that around 7.3% of enrolled students repeated their classes in 2013, of which 69.7% were in public schools. The scholastic drop-out rate in primary schools averaged 9.21% according to CERD. If not prioritized, this will constitute a very dangerous indicator that will threaten the society's principles and aspirations especially with the existing regional disparities in school dropout rates.

Given their vital role in the education process, Lebanon's education sector tried to provide, to a certain extent, well-trained workforce. The total number of teachers (public and private sectors) rose by 2.1% y-o-y to 94,499 teachers in 2013. However, the lack of governmental supervision and investment to assess and train teachers resulted in an inefficient development of the system with under-qualified personnel where only half of them (around 47,000 teachers) holds bachelor degrees, while 22.3% have the official Lebanese baccalaureate certificate and 8.6% survived to the last grade of elementary level. Yet, when comparing to the previous year, the share of high degree holders edged up from 7.3% in 2012 to 8.0% in 2013, an addition of 710 new highly-qualified teachers.

Also, the absence of public management allowed the number of teachers in public schools to reach alarming levels. 2013's overall pupil to teacher ratio stood at 7:1 in Lebanon's public schools and at 13:1 in the private sector. The following ratio shows that the government is carrying unnecessary expenses that could be reduced by rationalizing the number of existing teachers according to the actual number of students. This will help tempering the governmental spending, particularly public salaries and wages, as well as enhancing the competency of teachers.

Wages and salaries of education personnel constitute also an extra burden on the Lebanese government. The total amount of basic salaries for the public educational body reached \$572.5M in 2013 compared to \$527.40M⁸ in 2012. Accordingly, public wages saw an 8.6% yearly increase or \$44.44M that is partly explained by the respective rises of \$13.93M, \$25.20M and \$15.08M in the salaries of permanent, primary and secondary trainee teachers and contractual teachers at the Directorate General of Education⁹. Several reasons may also explain the 8.6% annual increase in 2013 such as the recruitment of new contractual and permanent teachers, the promotion of current workforce, the cost of living adjustment etc...

Breakdown of Students' Nationalities in the Public Sector



Source: Center for Educational Research and Development (CERD)

The Syrian crisis aggravated the educational cost in the public sector. In details, the number of students in the public sector witnessed an 8.6% annualized rise to 299,245 students. This is explained by the 3-Year war in the neighboring Syria that forced the majority of refugees to register their children in Lebanon's public schools which they can afford. On a yearly basis, the Syrian stake of students in the public education rose from 2.9% to 6.2% in 2013. The Syrian crisis weighed over the educational public institutions that will need further funding from the state to survive. Accordingly, the crowding of schools might have an adverse impact on the cost of education and the government finances, and the coming academic years and efforts will determine its size and direction.

Higher Education in Lebanon

Higher education comprises Technical and Vocational Institutes, University Colleges, University Institutes and Universities. Private universities, which accounted for 62.8% of total enrolled students, saw their student enrolment rate increase by 1.3% y-o-y to 120,348. Meanwhile, the Lebanese university grasped a 37.2% share or 71,440 students over the same year, down from 73,698 students in 2012.

On one note, 2013 witnessed a switch in university graduates to total students' ratio. The Lebanese University outpaced private universities in 2012 with a 17.1% ratio compared to 16.8% in the private tertiary sector. However, Lebanon's public university saw its ratio go down to 14.5% in 2013 while that of the private universities climbed to 18% thanks to the sector's continuous efforts to boost their students' academic outcome.

⁸ Basic salaries excluding retroactive payments

⁹ According to the Ministry of Finance

As for the persistent gap between vocational and academic higher education, it started to tighten in 2013. The former posted a timid 0.5% yearly increase in the number of enrolled students to 90,228 students, while the latter slipped by 0.4% y-o-y to 191,788.

The regional competition mainly from GCC countries threatens Lebanon's position as educational hub. The country will have to heavily invest in the education system to maintain its regional reputation in higher education. In this context, Lebanese universities are challenged to communicate their advantages and high standards to the region at a time of growing competition. The government should also settle a renewed management framework that provides supervision, affordability, participation, quality, accreditation and autonomy to monitor the private sector involvement in higher education, in order to guarantee the competitive position of the Lebanese education system.

Finally, reducing the number of incompetent public schools and restructuring the remaining ones is fundamental as the majority is non-efficient. In details, students' enrolment rate in several public schools is marginal and only increases education costs and public spending. Several actions to reform the sector were launched by the Ministry of Education and Higher Education, yet they remain slow. In this context, 7 public schools were closed in 2013 versus 2 in the private sector. The closure is promising as it was mainly due to their lack of efficiency which will positively impact the overall sector's performance. Worth noting, households' final consumption will be reduced as improving the quality of the learning system will encourage families to send back their children to public schools thus lowering unnecessary expenses in private schooling.

Nevertheless, the Council for Development and Reconstruction (CDR) initiated in 2012 the construction of more than 10 public schools. Several projects are also under preparation (2013-2015) totaling \$58.22M with expected completion dates by 2018. However, those projects will only have a positive impact on the sector's performance if they went hand in hand with the closure of the incompetent public schools. At this stage, a public transportation scheme will turn out to be necessary as the remaining public schools may become hardly accessible by students.

In conclusion, it is of maximum importance for the government to activate its efforts on the education front. This could be achieved through the implementation of a clear official strategic vision that would enhance the technical needs of public schools and efficiently allocate spending to invest more in staff training, as teachers are at the core of any competent educational system.



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