



# LEBANON THIS WEEK

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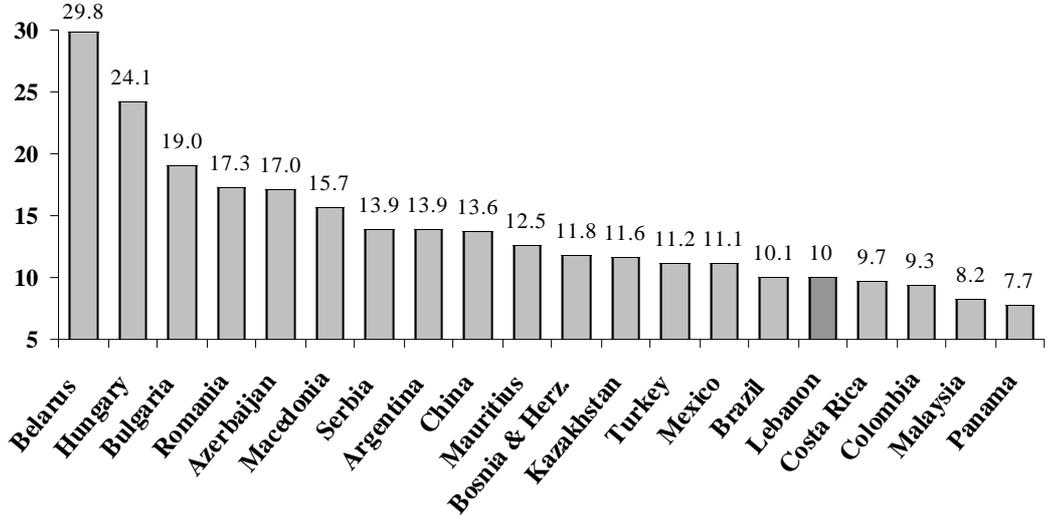
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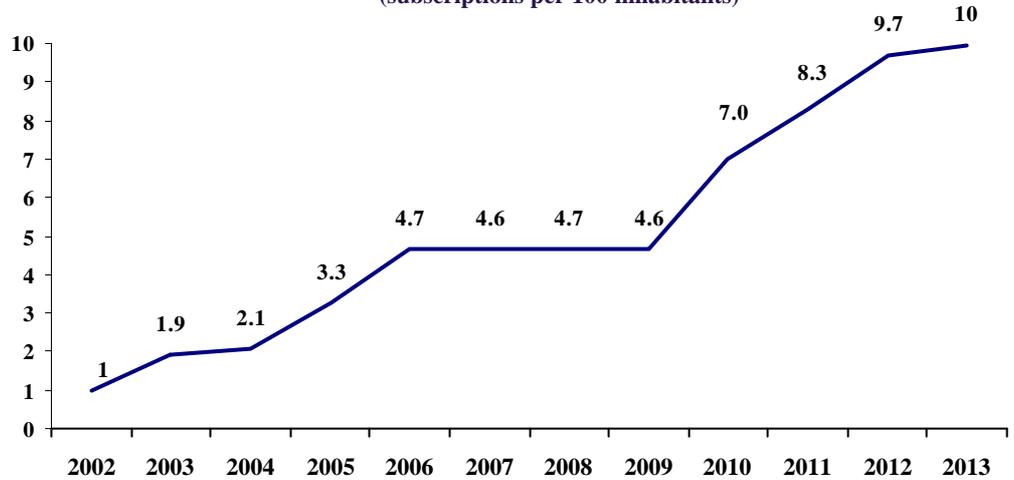
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## Charts of the Week

**Fixed Broadband Penetration Rate among Top 20 Upper-Middle Income Countries\***  
(subscriptions per 100 inhabitants)



**Fixed Broadband Penetration Rate in Lebanon**  
(subscriptions per 100 inhabitants)



\*Excluding countries with a nominal GDP of \$10bn or less

Source: International Telecommunication Union, Byblos Bank

## Quote to Note

"Lebanon's banking sector, unlike its political institutions, has resisted the crisis well."

*Standard & Poor's, on the resilience of Lebanese banks*

## Number of the Week

**144:** Lebanon's rank out of 144 countries in terms of the public's trust in politicians, according to the World Economic Forum's Global Competitiveness Index for 2014-15

## Economic Indicators

<b>\$m (unless otherwise mentioned)</b>	<b>2013</b>	<b>Mar 13</b>	<b>Dec 13</b>	<b>Jan 14</b>	<b>Feb 14</b>	<b>Mar 14</b>	<b>% Change*</b>
Exports	3,936	406	243	244	253	275	(32.27)
Imports	21,228	2,076	1,797	1,873	1,732	1,792	(13.68)
Trade Balance	(17,292)	(1,669)	(1,554)	(1,629)	(1,479)	(1,517)	(9.16)
Balance of Payments	(1,128)	(353)	534	(31)	194	139	(139.38)
Checks Cleared in LBP	17,047	1,286	1,562	1,502	1,394	1,520	18.27
Checks Cleared in FC	55,321	4,472	4,728	4,783	4,279	4,671	4.45
Total Checks Cleared	72,368	5,758	6,290	6,285	5,673	6,191	7.53
Budget Deficit/Surplus	(4,220)	(484.93)	(238.09)	(119.34)	(125.38)	(595.29)	22.76
Primary Balance	(239.68)	(75.10)	171	142.38	23.91	(128.09)	70.57
Airport Passengers	6,265,470	502,923	510,367	450,476	376,106	430,979	(14.31)
<b>\$bn (unless otherwise mentioned)</b>	<b>2013</b>	<b>Mar 13</b>	<b>Dec 13</b>	<b>Jan 14</b>	<b>Feb 14</b>	<b>Mar 14</b>	<b>% Change*</b>
BdL FX Reserves	31.71	30.36	31.71	32.25	33.40	33.63	10.77
<i>In months of Imports</i>	<i>17.65</i>	<i>14.62</i>	<i>17.65</i>	<i>17.64</i>	<i>19.28</i>	<i>18.77</i>	<i>28.33</i>
Public Debt	63.46	57.79	63.46	17.22	64.99	65.20	12.74
Net Public Debt	53.18	50.09	53.18	53.47	53.91	54.37	8.54
Bank Assets	164.82	155.44	164.82	164.43	166.01	166.50	7.12
Bank Deposits (Private Sector)	136.21	128.11	136.21	134.86	135.71	136.55	6.59
Bank Loans to Private Sector	47.38	44.71	47.38	47.04	47.39	48.14	7.67
Money Supply M2	45.60	43.76	45.60	45.74	46.05	46.34	5.90
Money Supply M3	111.16	105.85	111.16	110.93	111.67	112.29	6.08
LBP Lending Rate (%)	7.29	7.28	7.29	7.39	7.14	7.26	(2bps)
LBP Deposit Rate (%)	5.44	5.44	5.44	5.48	5.51	5.48	4bps
USD Lending Rate (%)	6.88	6.95	6.88	6.82	6.96	6.87	(8bps)
USD Deposit Rate (%)	2.95	2.97	2.95	2.95	2.96	2.96	(1bps)
%* Change in CPI**	3.89	4.57	3.89	2.52	0.86	(0.23)	(480bps)

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

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

Sources: ABL, BdL

## Capital Markets

<b>Most Traded Stocks on BSE</b>	<b>Last Price (\$)</b>	<b>% Change*</b>	<b>Total Volume</b>	<b>Weight in Market Capitalization</b>	<b>Sovereign Eurobonds</b>	<b>Coupon %</b>	<b>Mid Price \$</b>	<b>Mid Yield %</b>
Solidere "A"	11.67	(2.83)	59,473	10.86%	Jan 2015	5.875	100.90	3.03
Solidere "B"	11.58	(3.66)	18,233	7.00%	Apr 2015	10.000	104.25	2.80
Byblos Common	1.65	0.00	175,668	5.52%	Jan 2016	8.500	106.35	3.58
Byblos Pref. 08	100.70	0.00	250	1.87%	Mar 2017	9.000	112.15	3.86
Byblos Pref. 09	100.10	(0.10)	55	1.86%	Nov 2018	5.150	101.38	4.78
BLOM GDR	9.37	0.00	0	6.44%	May 2019	6.000	104.10	5.00
BLOM Listed	8.75	0.00	13,485	17.50%	Mar 2020	6.375	105.35	5.24
Audi GDR	6.39	0.00	0	6.09%	Apr 2021	8.250	115.75	5.37
Audi Listed	6.09	(0.16)	8,832	19.82%	Oct 2022	6.100	102.75	5.67
HOLCIM	14.50	0.00	6,500	2.63%	Nov 2026	6.600	102.75	6.27

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

Source: Byblos Bank Capital Markets

	<b>Sep 15-19</b>	<b>Sep 8-12</b>	<b>% Change</b>	<b>Aug 2014</b>	<b>Aug 2013</b>	<b>% Change</b>
<b>Total Shares Traded</b>	291,166	21,182,308	(98.63)	6,941,456	1,136,561	510.74
<b>Total Value Traded</b>	\$2,057,062	\$132,372,788	(98.45)	\$42,076,299	\$13,445,987	212.93
<b>Market Capitalization</b>	\$10.75bn	\$10.81bn	(0.62)	\$10.95bn	\$10.40bn	5.32

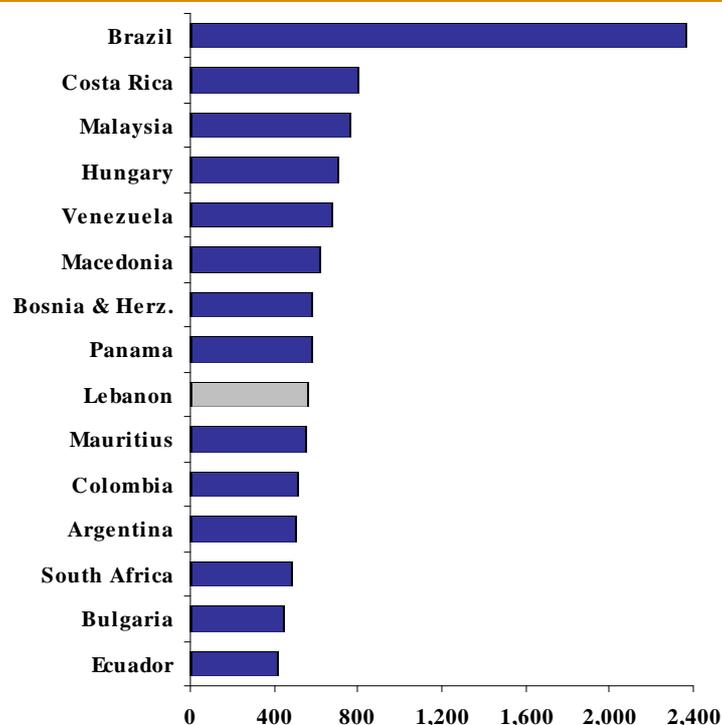
Source: Beirut Stock Exchange (BSE)



### Lebanon has 22nd highest loan penetration rate in the world, 38th highest deposit penetration rate in 2013

Figures issued by the International Monetary Fund show that there were 299 borrowers per 1,000 adults at commercial banks in Lebanon at the end of 2013, constituting a decrease of 4.7% from 313.5 borrowers per 1,000 adults in 2012 and compared to 200 borrowers per 1,000 adults in 2006. The borrowers' penetration rate ranks Lebanon in 24th place among 93 countries with available figures for 2013, in 10th place among 31 upper-middle income countries (UMICs) and in first place among 10 Arab countries. Globally, Lebanon had a higher penetration rate than mainland China, Bosnia & Herzegovina and Namibia, and a lower rate than Macedonia, El Salvador and Thailand. It also had a lower rate than Turkey, Hungary, Palau, Brazil, Malaysia, Argentina, Venezuela, Macedonia and Thailand among UMICs. Lebanon's borrowers' penetration rate was higher than the global average penetration rate of 199.8 and the UMIC's rate of 268, and was more than twice the Arab region's rate of 131.2 in 2013. Further, there were 558.1 loan accounts per 1,000 adults at Lebanese commercial banks in 2013, down 3.2% from 576.6 loan accounts per 1,000 adults in 2012 and compared to 314.8 loans per 1,000 adults in 2006. The loan penetration rate ranks Lebanon in 22nd place among 97 countries globally with available figures for 2013, in ninth place among 33 UMICs and in first place among eight Arab countries. Lebanon has a higher penetration rate in this category than the global rate of 318.1 loans per 1,000 adults, the UMICs' average rate of 454.4, and the Arab average penetration rate of 190.

**Loans Penetration in Top 15 Upper Middle Income Countries  
(Number of loans per 1,000 adults)**



Source: International Monetary Fund, Byblos Research

In parallel, there were 832.1 depositors per 1,000 adults at Lebanese commercial banks in 2013, constituting a drop of 3.2% from 860 depositors per 1,000 adults in 2012 and compared to 773.6 depositors per 1,000 adults in 2006. As a result, Lebanon had the 24th highest depositors' penetration rate among 85 countries worldwide with available figures for 2013, the 10th highest among 24 UMICs and the largest among 10 Arab countries. Globally, Lebanon had a higher depositors' penetration rate than Tunisia, Saudi Arabia and Argentina, and a lower rate than Israel, Uzbekistan and Georgia. It also had a higher rate than Tunisia and Argentina and a lower rate than Costa Rica and Hungary among UMICs. Lebanon's depositors' penetration rate was higher than the global rate of 618.8 depositors per 1,000 adults in 2013 and the Arab countries' penetration rate of 492.2, but lower than the UMICs' average rate of 836.6 depositors per 1,000 adults. Further, there were 1,409 deposit accounts per 1,000 adults at commercial banks in Lebanon in 2013, down 4.2% from 1,470 deposit accounts per 1,000 adults in 2012 and compared to 1,099 deposit accounts per 1,000 adults in 2006. As such, Lebanon had the 38th highest deposit account penetration rate among 117 countries with available figures for 2013, the 16th highest among 36 UMICs and the highest among 12 Arab countries. Also, Lebanon's deposit account penetration rate was higher than the global rate of 1,192, the UMICs' penetration rate of 1,371 and the Arab rate of 681 deposit accounts per 1,000 adults last year.

Also, there were 1.04 million borrowers and 1.94 million loan accounts at commercial banks in Lebanon at the end of 2013. In addition, resident private sector loans were equivalent to 96.6% of GDP. As a result, Lebanon's resident private sector loans-to-GDP ratio was the 23rd highest among 176 countries globally, the fifth largest among 49 UMICs and the highest among 15 Arab countries. Further, there were 2.89 million depositors and 4.88 million deposit accounts at commercial banks in Lebanon in 2013. In addition, resident private sector deposits were equivalent to 250.8% of GDP in 2013. Lebanon's resident private sector deposits-to-GDP ratio was the third highest among 176 countries globally, the largest among 49 UMICs and the highest among 15 Arab countries.

### **Surveyed economists expect real GDP growth at 1.6% in 2014**

Bloomberg's quarterly survey of economists and analysts about the outlook on the Lebanese economy indicates that real GDP growth is expected to reach 1.6% in 2014, and to rise to 2.5% in 2015 and 3.5% in 2016. The individual forecasts of growth rates for 2014 ranged from 0.8% to 2.6%. The consensus forecast among 77.8% of participants is that real GDP would grow by 2% or less this year, compared to 55.6% of participants who expected real GDP to grow by 2% or more this year in the previous survey. The results displayed a median real GDP growth figure of 1.5% for this year. The survey's results are based on the opinions of nine economists and analysts based in Lebanon and abroad. Bloomberg conducted the poll during the September 12-17, 2014 period.

Also, participants forecast Lebanon's inflation rate at 3.2% on average for 2014, at 4.4% in 2015 and at 3.4% in 2016. The opinions of polled economists differed on the direction of consumer prices in 2014 with expectations ranging from 2% to 5%, while 55.6% of participants agreed that the inflation rate would be between 3% and 4% this year. The poll's results revealed a median inflation rate of 3.4% for 2014.

In addition, surveyed economists forecast Lebanon's fiscal deficit at 10.2% of GDP in 2014, at 10.1% of GDP in 2015 and at 9.6% of GDP in 2016. All participants expected the fiscal deficit to remain above 8.5% of GDP this year, with opinions ranging between deficits of 8.8% of GDP and 12% of GDP. Also, 43% of those polled projected a double-digit fiscal deficit, while the remaining participants expected a deficit between 8.8% of GDP and 9.9% of GDP in 2014. The median for the fiscal deficit came at 9.9% of GDP for this year.

Further, polled economists projected the current account deficit at 10.9% of GDP this year and at 10.4% of GDP in 2015 and 10.2% of GDP in 2016. Also, 44.4% of those polled expect the current account deficit to be in double-digits in 2014 and to range between 12.6% of GDP and 15.8% of GDP; while 55.6% of participants projected a deficit between 7.1% of GDP and 9.8% of GDP this year. The poll's results show that the median current account deficit would be 9.8% of GDP in 2014.

In parallel, respondents assigned an average probability of 28% for Lebanon to enter a recession in the next 12 months. The opinions of three surveyed economists differed significantly, with probabilities ranging from a low of 20% to a high of 40%. The poll's results indicated a median probability for a recession of 25% for 2014.

### **National Energy Efficiency Action Plan to be updated**

The Lebanese Center for Energy Conservation (LCEC) indicated that the EU-funded project MED-ENEC will conduct an assessment of the Lebanese National Energy Efficiency Action Plan (NEEAP) for the 2011-15 period. The assessment will measure the degree of the NEEAP's implementation, identify barriers that delayed the progress of some of the plan's initiatives, and set a new NEEAP for the 2015-20 period. MED-ENEC will also assist in defining the steps needed to develop the new NEEAP for Lebanon in accordance with the European Union's standards. MED-ENEC aims to increase the use of energy efficiency measures and renewable energy systems in buildings in southern and eastern Mediterranean countries.

The LCEC developed the 2011-15 NEEAP in October 2010 in collaboration with MED-ENEC, the League of Arab States and the Regional Center for Renewable Energy and Energy Efficiency. The 2011-15 NEEAP is the first comprehensive strategy for energy efficiency and renewable energy to be adopted by a Lebanese or Arab Government. The 2011-15 NEEAP includes 14 initiatives that support Lebanon's target of having 12% of its energy consumption come from renewable energy by 2020.

### **Cyprus alleviates restrictive measures on foreign banks**

The Cypriot authorities issued Decree 24 that relaxed restrictive measures for branches and subsidiaries of foreign banks operating in Cyprus. Nine Lebanese banks operating in Cyprus benefit from the decision. The banks are Byblos Bank sal, Bank of Beirut sal, BankMed sal, Banque BEMO sal, BBAC sal, BLOM Bank sal, Credit Libanais sal, Lebanon & Gulf Bank sal and Banque SBA, the affiliate of Banque Libano-Française sal. The decree allows all cashless payments or transfers of deposits and funds from an eligible bank for its own account or by the order of an international customer. It also permits all transactions between eligible banks and international customers, as well as all transactions among international customers. It allows all transactions between an eligible bank and an entity outside the country, by the order of an international customer or for the bank's own account.

In parallel, the Cypriot authorities issued Decree 31 that relaxes the enforcement of restrictive measures on transactions under Emergency Law of 2013. The decree abolished restrictions on the maximum amount of cash withdrawal per person, lifted the ban on the cashing of checks, and eliminated restrictions on the payment and/or transfer of deposits and funds between banks within Cyprus and on the opening of new bank accounts in the island. In March 2013, Cypriot authorities imposed capital control measures on the banks operating on the island in the wake of the country's financial crisis. The two decrees are valid until December 8, 2014.

### Insurance premiums up 9% to \$805m in first half of 2014, claims and benefits rise by 8% to \$360m

Figures released by the Association of Insurance Companies in Lebanon (ACAL) indicate that insurance premiums in Lebanon totaled \$804.5m in the first half of 2014, constituting an increase of 8.7% from \$740m in the same period of 2013. Aggregate premiums reached \$394.2m in the first quarter of 2014 and increased by 2.7% from \$383.8m in the same quarter last year; while they stood at \$410.4m in the second quarter, up 15.2% from the same quarter of 2013. Also, insurance premiums rose by 4.1% quarter-on-quarter.

Medical insurance premiums reached \$270m in the first half of the year and accounted for 33.5% of the sector's aggregate premiums. They were followed by life premiums with \$228.4m (28.4%), motor premiums with \$166.1m (20.6%), fire premiums with \$62.3m (7.7%), premiums from other categories with \$23.5m (2.9%), workmen compensation with \$22.8m (2.8%), cargo premiums with \$17.7m (2.2%), public liability premiums with \$10m (1.2%) and engineering premiums with \$3.8m (0.5%). Life premiums grew by 14% annually in the first half of the year, medical and fire premiums rose by 12% each, motor premiums and workmen compensation increased by 3% each, and premiums from other categories improved by 1%. In contrast, engineering premiums contracted by 41%, public liability premiums decreased by 9% and cargo premiums remained unchanged from the same period last year.

In parallel, ACAL indicated that total benefits and claims paid by insurance companies stood at \$360.2m in the first half of 2014, constituting an increase of 8.3% from the same period last year. Medical claims reached \$147.4m in the first half of 2014 and accounted for 41% of total payments. They were followed by motor policy payments with \$92.1m (25.6%), life claims with \$77.6m (21.5%), fire claims with \$15.2m (4.2%), workmen's claims with \$13.7m (3.8%), cargo claims with \$4.4m (1.2%), public liability claims with \$3.9m (1.1%) and engineering claims with \$1.4m (0.4%), while claims for other categories reached \$4.6m (1.3%). Public liability claims surged by 114% annually in the first half of the year, life claims improved by 57%, cargo claims rose by 55%, workmen claims increased by 26%, engineering claims grew by 17%, claims from other categories improved by 12% and medical claims rose by 5%; while fire claims dropped by 49% and motor claims remained unchanged year-on-year.

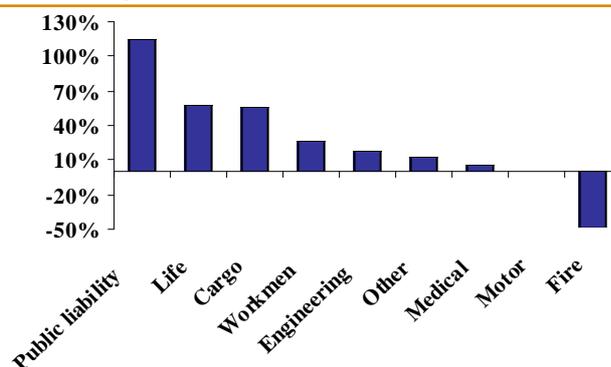
Further, unit-linked policies accounted for 50% of total life premiums and for 18.4% of the total number of life subject matters in the first half of the year, while life protection plans represented 41.3% of total life premiums and 81.8% of the total number of life subject matters in the covered period. ACAL noted that medical insurance premiums covering Lebanese citizens rose by 12% to \$264.5m, while medical insurance premiums covering expatriates grew by 4% year-on-year to \$5.3m in the first half of 2014. Finally, it indicated that non-compulsory motor insurance premiums increased by 2% year-on-year to \$140m, while compulsory motor insurance premiums rose by 9% annually to \$26.2m in the first half of the year.

### Trust fund provides \$10m grant to municipalities for urgent needs

The Lebanon Syrian Crisis Trust Fund provided a \$10m grant to Lebanese municipalities that are the most affected by the influx of Syrian refugees. The grant will provide municipalities with support to address urgent needs, such as maintaining basic services, providing critical infrastructure and promoting social cohesion. Also, it will help the host communities to address urgent priorities in water, sanitation, roads and community activities.

The multi-donor fund, which was launched towards the end of 2013, is designed to support Lebanese communities hosting Syrian refugees. It has received about \$30m so far from Finland, France and Norway. The World Bank is administering the fund as per the request of the Lebanese government and in accordance with the Bank's policies and procedures, including fiduciary policies and anti-corruption frameworks. A Steering Committee made up of government representatives, the World Bank, UN representatives and contributing donors supervises the fund's activities and provides overall strategic guidance. The World Bank considered that this mechanism ensures that projects are funded in a transparent and efficient way. The Office of the United Nations High Commissioner for Refugees estimated the number of registered and awaiting to be registered Syrian refugees in Lebanon at 1.2 million as at September 17, 2014.

Change in Claims Paid in First Half of 2014\*



\*Percentage change from first half of 2013

Source: ACAL, Byblos Research

### **Banque Libano-Française's net income up 12% to \$52m in first half of 2014**

Banque Libano-Française sal, one of Lebanon's top 10 banks, posted unaudited consolidated net profits of \$52.2m in the first half of 2014, constituting an increase of 11.6% from the same period last year. Net operating income rose by 8.3% year-on-year to \$121.8m, with net interest income unchanged at \$81.6m and net fees & commissions receipts rising by 8.5% to \$21.6m. Non-interest income accounted for 28.7% of total income, down from 31.2% in the first half of 2013, with net fees & commissions accounting for 61.7% of non-interest earnings, up from 50.8% from the same period last year. Further, the bank's interest margin was 1.63% in the first half of the year relative to 1.69% in the same period last year, while its net spread decreased to 1.58% from 1.65% in the first half of 2013. Total operating expenditures grew by 8.1% year-on-year to \$63.1m in the first half of 2014, with staff expenses increasing by 10.9% to \$38.3m. Also, the bank's return on average assets reached 0.95% on an annualized basis in the first half of 2014 relative to 0.9% in the same period last year; while its return on average equity was 11.13% on an annualized basis compared to 10.7% in the first half of 2013. The bank's cost-to-income ratio increased from 46.7% in the first six months of 2013 to 51.8% in the first half of 2014.

In parallel, total assets reached \$11bn at the end of June 2014, constituting a marginal drop of 0.4% from end-2013 and an increase of 5.2% from a year earlier. Loans & advances to customers, excluding loans & advances to related parties, rose by 7.8% from end-2013 and by 13.1% year-on-year to \$3.9bn. Also, customer deposits, excluding deposits from related parties, totaled \$9.4bn at end-June 2014, constituting an increase of 0.9% from end-2013 and a rise of 4.6% from a year earlier. The loans-to-deposits ratio rose to 41.3% at end-June 2014 from 38.5% a year earlier. In parallel, shareholders' equity dropped by 1.1% from end-2013 to \$906.7m at end-June 2014.

### **Distribution firm raises funds through securitization**

Ets. F.A. Kettaneh sal (Kettaneh Frères) raised about \$3.74m through a revolving securitization transaction of its portfolio of auto loans to its clients. The securitization fund, Kettaneh Auto-Fund SIF, issued two classes of notes, with \$3m in senior Class A having an expected weighted average life of 3.75 years; and \$0.74m worth of Class B notes that are subordinated to Class A notes and are retained by the company. Investors in Class A notes will receive an annual fixed coupon rate of 6.5%. The structure provides protection to Class A noteholders under several credit enhancements. In addition, the deal provides for a three-year replenishing period during which additional auto loans could be financed through the same structure. The transaction was authorized by the Capital Markets Authority and was fully subscribed by Banque Bemo sal, FFA Private Bank sal, BSL Bank sal, Medgulf Insurance and Reinsurance sal, Crédit Libanais Investment Bank sal and Bemo Europe - Banque Privée. The deal represents the first time that Ets. F.A. Kettaneh has tapped the securitization market. Established in 1922, Ets. F.A. Kettaneh is the exclusive distributor of Audi, Volkswagen and Skoda vehicles in Lebanon. It also has a portfolio of renowned international brands that spans across several other business activities including, energy and automation, pharmaceutical and baby products, as well as medical products. The deal was structured, arranged and managed by BSEC, a wholly-owned subsidiary of Banque BEMO sal.

### **Lebanon & Gulf Bank's net profits at \$15m in first half of 2014**

Lebanon & Gulf Bank sal, one of Lebanon's top 14 banks, announced unaudited consolidated net profits of \$14.7m in the first half of 2014, constituting an increase of 31.7% from the same period last year. Net operating income rose by 23% year-on-year to \$32.5m, with net interest income increasing by 15.9% to \$23.1m and net fees & commissions receipts rising by 63.2% to \$7.2m. Non-interest income accounted for 32.7% of total income, down from 39.5% in the first half of 2013, with net fees & commissions representing 64% of non-interest earnings, up from 33.9% in the first half of 2013. Further, the bank's interest margin was 1.64% in the first half of 2014 relative to 1.67% in the same period last year; while its spread fell to 1.59% from 1.62% in the first half of 2013. Total operating expenditures increased by 13.1% to \$14.7m, with staff expenses rising by 10.5% to \$8.4m. Also, the bank's return on average assets reached 1% in June 2014 on an annualized basis, relative to 0.9% a year earlier; while its return on average equity was 11.5% on an annualized basis compared to 11.2% in June 2013. The cost-to-income ratio rose to 42.9% in the first half of the year from 39.6% in the same period last year.

In parallel, total assets reached \$3.1bn at the end of June 2014 and increased by 14.2% from the end of 2013 and by 22.7% from a year earlier; while loans & advances to customers, excluding loans & advances to related parties, rose by 14.1% from end-2013 and by 26.3% year-on-year to \$1.2bn. Also, customer deposits, excluding deposits from related parties, totaled \$2.7bn at end-June, growing by 13.1% from end-2013 and by 18.9% from a year earlier. The loans-to-deposits ratio increased to 45.2% at end-June 2014 from 42.6% a year earlier. Further, shareholders' equity rose by 4.6% from end-2013 to \$255.7m at end-June 2014.

### **MEA signs a codeshare agreement with Royal Jordanian Airlines**

National flag carrier Middle East Airlines (MEA) signed a free sale codeshare agreement with Royal Jordanian Airlines (RJ) that would come into effect on September 22, 2014. A codeshare agreement allows two airline operators to share the same flight. The deal stipulates that RJ will place its marketing carrier code on MEA-operated flights between Beirut and Amman, while MEA would put its code on RJ-operated flights between Amman and Beirut. MEA has a fleet of 17 modern Airbus planes, serves 33 destinations, and is part of the global airline alliance SkyTeam. MEA, which is 99% owned by the Central Bank of Lebanon, announced net profits of \$63m in 2013, constituting an increase of 2.4% from \$61.5m in 2012, and relative to \$63.3m in 2011 and \$83.1m in 2010. It is not possible to independently verify the actual financial state of MEA, as it does not publish its detailed balance sheet or income statement.

### Capital Insurance's net earnings at \$2.6m in 2013

The Capital Insurance & Reinsurance Co. sal, the insurance affiliate of Bank of Beirut and the Arab Countries sal (BBAC), declared net profits of \$2.6m in 2013, constituting an increase of 28.8% from \$2m in 2012. The firm's audited balance sheet shows total assets of \$39.1m at end-2013, up 14.9% from \$34m at end-2012. On the assets side, general company investments totaled \$23.5m and increased by 18% from end-2012. They included \$13m in cash & cash equivalents, \$4m in fixed income investments, and \$2.9m in land and real estate investments. They also included \$3.6m in bank deposits and deposits with maturity of more than three months that were blocked in favor of the Economy Ministry as guarantees. Also, reinsurance share in technical reserves for the life and non-life categories amounted to \$4.7m and \$3.2m, respectively, constituting increases of 17.2% and 1.3%, respectively.

On the liabilities side, technical reserves for the life segment increased by 19.4% year-on-year to \$6.1m, while technical reserves for the non-life category reached \$17.7m at end-2013 and increased by 11.2% from a year earlier. Non-life technical reserves included unearned premium reserves of \$12.8m that rose by 11.8%, outstanding claims reserves of \$3.8m that declined by 2.6%, and \$0.5m in reserves incurred but not reported that increased by 255% year-on-year. Provisions for risks and charges reached \$0.3m at the end of 2013 and rose by 6.6% from the previous year. Also, shareholders' equity totaled \$12.1m at end-2013, up by 23.6% from a year earlier.

*Al-Bayan* magazine's annual survey of the insurance sector in Lebanon ranked The Capital Insurance & Reinsurance Co. sal in 16th place in 2013 in terms of both non-life and life premiums. The firm's non-life premiums reached \$16.9m and life premiums amounted to \$4.1m in 2013, constituting increases of 19.6% and 9.9%, respectively. It had a 1.7% share of the local non-life market and a 1% share of the life market.

### Arab Bank's net income up 17% to \$19m in 2013

The Jordan-based Arab Bank plc announced audited net profits of \$19m in 2013 for its branches in Lebanon, constituting an increase of 17% from \$16.3m in 2012. Net operating income rose by 8.1% year-on-year to \$55.5m in 2013, with net interest income increasing by 12.3% to \$46.2m and net fees & commissions receipts rising by 9.3% to \$6.1m. Total operating expenditures grew by 0.7% year-on-year to \$29.9m in 2013, with staff expenses declining by 3.9% to \$15.3m. The bank's cost-to-income ratio decreased to 52.8% in 2013 from 59% in 2012. Arab Bank's return on assets reached 1.3% in 2013 relative to 1% in 2012; while its return on equity reached 22% last year, up from 19.9% in 2012.

In parallel, total assets reached \$1.4bn at the end of 2013, reflecting a decrease of 7.4% from \$1.6bn at end-2012; while loans & advances to customers, excluding loans & advances to related parties, rose by 7.5% year-on-year to \$671.8m. Also, customer deposits, excluding deposits from related parties, totaled \$1.2bn at end-2013, regressing by 8.3% from a year earlier. The loans-to-deposits ratio rose to 54.6% at end-2013 from 46.7% at end-2012. Shareholders' equity grew by 5.9% year-on-year to \$86.5m at end-2013.

### Lebanese Credit Insurer's net losses at \$0.2m in 2013

The Lebanese Credit Insurer sal (LCI) announced audited net losses of \$0.2m in 2013 compared to net profits of \$0.9m in 2012. Its audited balance sheet shows total assets of \$8.9m at the end of 2013, constituting an increase of 6.6% from \$8.4m at end-2012. On the assets side, general company investments totaled \$4.3m and decreased by 8.1% from a year earlier. They included \$2.4m in cash & cash equivalents that rose by 21.7%, \$0.9m in mutual funds that increased by 58.9%, and \$0.1m in variable income investments that fell by 50.1% from end-2012. Also, they included \$0.8m in bank deposits and deposits with maturity of more than three months that were entirely blocked in favor of the Economy Ministry as guarantees. The reinsurance share in technical reserves for the non-life category amounted to \$2.1m at end-2013 and increased by 56.6% from a year earlier. It included \$1.8m of reinsurance share in claims reserves and \$0.2m share in premium reserves. Premium receivables totaled \$0.54m at the end of 2013, constituting an increase of 3.4% from \$0.52m a year earlier.

On the liabilities side, technical reserves for the non-life category reached \$2.9m at end-2013 and rose by 48.9% from a year earlier. They included outstanding claims reserves of \$2.4m that surged by 72.8% and unearned premium reserves of \$0.5m that fell by 13.8%. Further, provisions for risks and charges reached \$0.1m and rose by 43.7% from the previous year. Shareholders' equity totaled \$4.9m at end-2013, down by 3% from a year earlier.

*Al-Bayan* magazine's annual survey of the insurance sector in Lebanon ranked LCI in 36th place in 2013 in terms of non-life premiums. The firm's non-life premiums amounted to \$4.4m in 2013, constituting an increase of 12.7% from 2012. It had a 0.4% share of the local non-life insurance market. LCI was established in 2001 and is the first independent specialized credit insurance company in Lebanon. It specializes in credit information, debt collection, rating, and credit management consultancy.

## 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	58.9	150
Public Debt in Local Currency / GDP	81.7	78.3	84.3	600
Gross Public Debt / GDP	133.9	135.7	143.2	750
Total Gross External Debt / GDP	169.2	170.0	176.7	670
Trade Balance / GDP	(39.7)	(39.5)	(39.0)	50
Exports / Imports	21.2	21.1	18.6	(250)
Fiscal Revenues / GDP	23.3	22.1	21.3	(80)
Fiscal Expenditures / GDP	29.1	31.3	30.8	(50)
Fiscal Balance / GDP	(5.9)	(9.2)	(9.5)	(30)
Primary Balance / GDP	4.2	(0.3)	(0.5)	(20)
Gross Foreign Currency Reserves / M2	79.2	69.4	69.6	20
M3 / GDP	242.6	244.6	250.8	620
Commercial Banks Assets / GDP	350.7	357.2	371.9	1,470
Private Sector Deposits / GDP	288.7	294.0	307.3	1,330
Private Sector Loans / GDP	98.3	102.2	106.9	470
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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