



# LEBANON THIS WEEK

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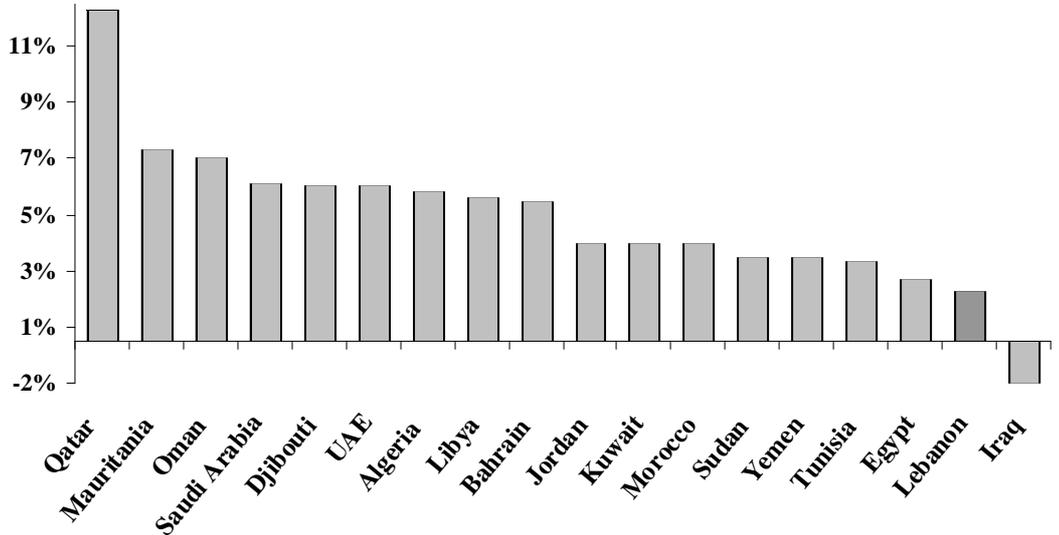
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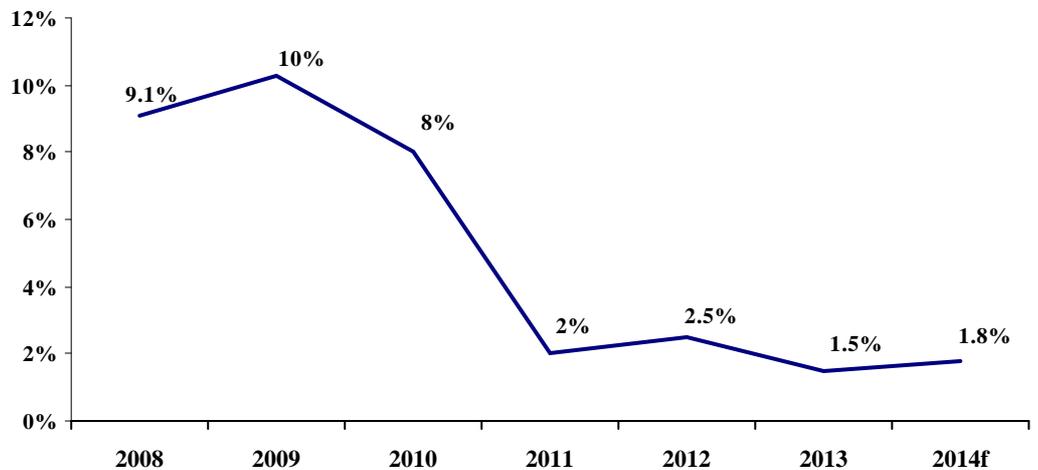
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## Charts of the Week

Projected Non-Oil Real GDP Growth Rate of Arab Countries in 2014 (%)



Real GDP Growth Rate in Lebanon (%)



Source: International Monetary Fund - October 2014, Byblos Bank

## Quote to Note

"Uncertainty over the expected benefits and the start date of extraction remains significant."

*Fitch Ratings, on the need to tone down expectations about oil and gas prospects in Lebanon in light of the prevailing uncertainties*

## Number of the Week

**\$856.4m:** Amount that the United Nations General Assembly asked Israel to pay to Lebanon as compensation for the environmental damage it caused during the July 2006 War

## Economic Indicators

<b>\$m (unless otherwise mentioned)</b>	<b>2013</b>	<b>Aug 13</b>	<b>May 14</b>	<b>June 14</b>	<b>July 14</b>	<b>Aug 14</b>	<b>% Change*</b>
Exports	3,936	279	308	278	276	285	2.15
Imports	21,228	1,828	1,676	1,567	1,657	2,120	15.97
Trade Balance	(17,292)	(1,549)	(1,368)	(1,289)	(1,381)	(1,835)	18.46
Balance of Payments	(1,128)	(223)	520	(561)	(85)	(564)	152.91
Checks Cleared in LBP	17,047	1,354	1,619	1,518	1,454	1,558	15.09
Checks Cleared in FC	55,321	4,495	5,058	4,807	4,694	4,973	10.63
Total Checks Cleared	72,368	5,849	6,677	6,325	6,148	6,531	11.67
Budget Deficit/Surplus	(4,220)	(551.43)	(170.31)	(187.36)	238.07	(318.75)	(42.20)
Primary Balance	(239.68)	(382.69)	316.5	133.93	513.55	(141.93)	(62.91)
Airport Passengers	6,265,470	727,086	511,556	610,170	641,830	814,800	12.06

<b>\$bn (unless otherwise mentioned)</b>	<b>2013</b>	<b>Aug 13</b>	<b>May 14</b>	<b>June 14</b>	<b>July 14</b>	<b>Aug 14</b>	<b>% Change*</b>
BdL FX Reserves	31.71	31.00	33.26	33.85	35.14	33.09	6.76
<i>In months of Imports</i>	<i>17.65</i>	<i>16.96</i>	<i>19.84</i>	<i>21.60</i>	<i>21.21</i>	<i>15.61</i>	<i>(7.95)</i>
Public Debt	63.46	60.50	65.08	65.71	65.62	65.86	8.86
Net Public Debt	53.18	51.73	54.92	55.17	55.17	55.59	7.46
Bank Assets	164.82	158.56	168.85	169.57	169.74	170.33	7.42
Bank Deposits (Private Sector)	136.21	131.38	138.85	140.35	141.32	141.52	7.71
Bank Loans to Private Sector	47.38	45.57	48.62	49.18	49.38	49.74	9.16
Money Supply M2	45.60	44.42	46.81	46.89	47.28	47.48	6.88
Money Supply M3	111.16	108.28	114.19	114.97	115.58	115.62	6.79
LBP Lending Rate (%)	7.29	7.24	7.48	7.45	7.36	7.21	(3bps)
LBP Deposit Rate (%)	5.44	5.47	5.50	5.49	5.54	5.51	4bps
USD Lending Rate (%)	6.88	7.16	7.04	6.97	6.96	6.96	(20bps)
USD Deposit Rate (%)	2.95	2.91	3.01	2.98	3.02	3.13	22bps
%* Change in CPI**	3.89	3.81	0.63	1.19	1.54	0.81	(300bps)

\* 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"	11.07	(3.57)	83,023	9.93%	Jan 2015	5.875	100.18	3.46
Solidere "B"	10.99	(3.68)	94,491	6.41%	Apr 2015	10.000	103.00	1.43
Byblos Common	1.60	(3.03)	182,326	5.16%	Jan 2016	8.500	105.63	3.17
Byblos Pref. 08	102.00	0.69	15	1.83%	Mar 2017	9.000	111.00	3.86
Byblos Pref. 09	102.10	0.49	1,200	1.83%	Nov 2018	5.150	101.13	4.83
BLOM GDR	9.64	(0.10)	6,000	6.39%	May 2019	6.000	103.75	5.04
BLOM Listed	8.75	(0.57)	162,730	16.88%	Mar 2020	6.375	105.25	5.21
Audi GDR	6.21	(5.05)	28,799	6.44%	Apr 2021	8.250	115.13	5.39
Audi Listed	6.05	(2.10)	169,935	21.70%	Oct 2022	6.100	102.50	5.70
HOLCIM	16.21	0.00	0	2.84%	Nov 2026	6.600	103.00	6.24

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

Source: Byblos Bank Capital Markets

	<b>Dec 15-20</b>	<b>Dec 8-12</b>	<b>% Change</b>	<b>Nov 2014</b>	<b>Nov 2013</b>	<b>% Change</b>
<b>Total Shares Traded</b>	754,319	2,867,825	(73.70)	3,438,292	15,046,249	(77.15)
<b>Total Value Traded</b>	\$6,040,486	\$20,427,405	(70.43)	\$25,146,028	\$108,272,444	(76.78)
<b>Market Capitalization</b>	\$11.14bn	\$11.34bn	(1.71)	\$11.29bn	\$10.63bn	6.18

Source: Beirut Stock Exchange (BSE)



### Lebanon is largest recipient of IMF technical assistance in Middle East region

The International Monetary Fund's Middle East Technical Assistance Center (METAC) indicated that Lebanon accounted for 23% of its overall allocation of technical assistance delivery during the fiscal year that ended in June 2014. Lebanon was the biggest recipient of such assistance, ranking ahead of Jordan (20%), Sudan (16%), the West Bank & Gaza (8%), Afghanistan and Iraq (6% each), Egypt and Libya (4% each) and Yemen (1%). Lebanon received 40 person weeks (PWs), or 200 days worth of assistance in FY2014, down from 47 person weeks in FY2013 and compared to 31 person weeks in FY2012.

Lebanon received 18 PWs, or 90 days, in revenue administration support, which accounts for 45.6% of the total assistance it received and for 27.3% of the region's total for this category. METAC supported the authorities' efforts in developing a fiscal regime for the oil and gas sector in Lebanon. Also, METAC delivered technical assistance to the Lebanese customs administration to strengthen its risk management, valuation systems and post-clearance audit. It provided technical assistance to the value-added tax (VAT) administration to strengthen its capacity in managing VAT refunds, as well as in applying appropriate schemes to assess tax evasion risks, detect abusive activities and prevent fraud. METAC indicated that its support in FY2015 will focus on developing revenue enhancement strategy for the large taxpayers' office, as well as on strengthening sector-specific risk-based audit.

In addition, Lebanon received 11 PWs, or 55 days, in public financial management assistance, accounting for 27.8% of assistance it received and for 19.1% of overall such assistance in the region. METAC analyzed ways to move towards a fully-fledged Treasury single account at the cash management department and assisted the department in developing cash plans and forecasts. METAC will support in FY2015 the modernization of the legal and regulatory frameworks by providing guidance on strengthening public financial management legislation and by developing consistent financial regulations.

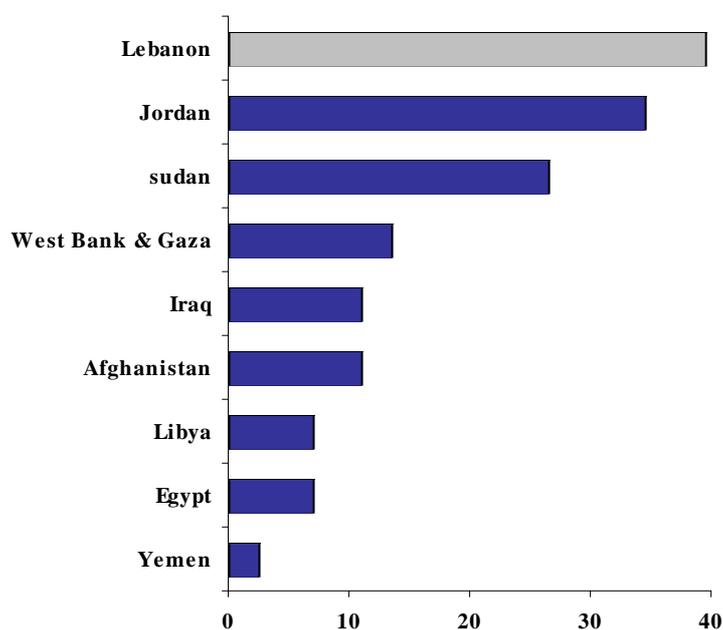
Also, Lebanon received 8 PWs, or 40 days, in banking supervision assistance, accounting for 20.3% of its assistance and for 34.8% of total bank supervision activity in the region. METAC's support in this area was in strengthening the supervisory and enforcement framework. METAC also completed the technical assistance project with the Banking Control Commission of Lebanon for the development of a new risk-based supervisory manual for non-bank financial institutions. It pointed out that it will help improve cross-border supervision and develop a supervisory college in the country in FY2015.

In parallel, Lebanon received 2.5 PWs, or 12.5 days, in macroeconomic statistics support, which accounts for 6.3% of the total assistance it received and for 9.4% of overall macroeconomic assistance in the region in FY2014. METAC assessed the progress made by the Central Bank on the Direct Investment survey of financial institutions and reviewed the current practices to compile the financial account. It noted that the financial account is affected by the quality of data sources and the lack of consistency checks with related data sources. Support in FY2015 will focus on helping Lebanon publish its first International Investment Position statement, on completing its Direct Investment surveys, and on improving the overall quality of the external sector statistics and national accounts. The IMF established METAC in Beirut in October 2004 to serve Afghanistan, Egypt, Iraq, Jordan, Lebanon, Libya, Sudan, Syria, the West Bank & Gaza and Yemen. The center's mandate is to provide capacity building assistance, facilitate the reform process in member countries, and support the region's integration in the world economy.

### Launch of strategy to support SMEs

The Ministry of Economy & Trade launched a national strategy for small- and medium-sized enterprises (SME) in Lebanon. The Lebanon SME Strategy aims to support the transition of SMEs into large enterprises, to ensure the long-term sustainability of businesses, to develop innovative and creative SMEs in order to transition to a high-value economy, and to transform SMEs to more productive, competitive and international players. The national SME strategy identifies six objectives to be implemented between 2015 and 2020. They consist of facilitating the access to funding for SMEs, improving SMEs' access to foreign markets, enhancing the capabilities and innovative capacity of SMEs, developing a conducive business climate, developing business leaders, and ensuring a coherent and effective coordination between the public and private sectors. The six objectives include more than 40 initiatives that will be implemented over three phases in the next five years.

Technical Assistance by Person Weeks in FY2014



Sources: International Monetary Fund, METAC, Byblos Research

### Moody's downgrades by one notch Lebanon's sovereign ratings on deteriorating public finance metrics

Moody's Investors Service downgraded Lebanon's government bond ratings to 'B2' from 'B1' and kept the outlook at 'negative'. It also lowered the country's local-currency bond and deposit ceilings to 'Ba2' from 'Ba1' and its foreign currency deposit ceiling to 'B2' from 'B1'. It affirmed the short-term foreign currency deposit ceiling at 'NP' and the foreign currency bond ceiling at 'Ba3/NP'. Also, it downgraded Lebanon's Medium Term Note Program '(P)B2' from '(P)B1' and affirmed its short term rating at '(P)NP'.

Moody's attributed the downgrades to a rise in Lebanon's public debt level and to the spillovers from the Syrian conflict on political stability, on economic activity and on public finances. It said that the public debt level has been rising since 2011 and projected it at close to 140% of GDP in 2015, the third-highest level among rated sovereigns. It noted that other debt metrics, such as gross financing needs, debt servicing relative to public revenues, and the debt stock compared to public revenues reflect a greater burden. It forecast the public debt to be equivalent to 632% of public revenues in 2015, the second-highest level among Moody's-rated sovereigns. The agency expected the current debt trends to continue to worsen in the coming two years. It noted that a slowdown in economic activity, along with the political paralysis, led to a significant widening of the fiscal deficit. It forecast Lebanon's real GDP growth to average 2.1% annually during the 2011-15 period compared to an average annual growth rate of 9.1% between 2008 and 2010. It noted that the fiscal deficit has been widening since 2011 and expected it to average about 10% of GDP annually in 2014 and 2015. It considered that domestic political turmoil poses a challenge to fiscal consolidation.

The agency indicated that the 'negative' outlook reflects the fact that economic growth is unlikely to return to potential levels in the near-term and that slower economic conditions would pose additional fiscal challenges and would prevent debt metrics from improving. It considered that an upgrade of the sovereign ratings is unlikely over the medium term. But it noted that it would revise the outlook to 'stable' if the debt metrics stop deteriorating and if the risks of political spillovers from the Syrian conflict recedes.

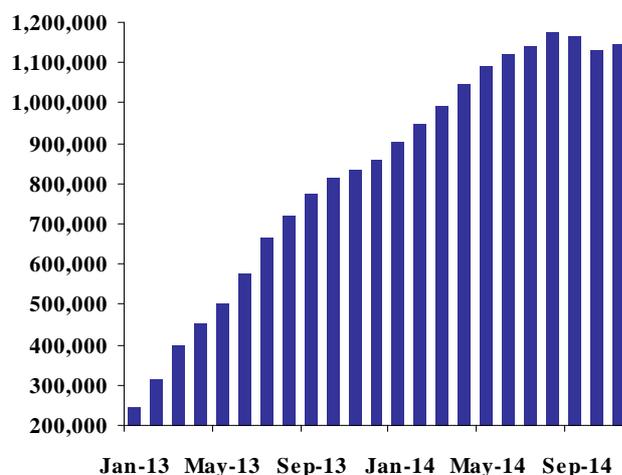
### United Nations and Lebanon launch \$2.1bn response plan to Syrian crisis

The Lebanese government and the United Nations issued the Lebanon Crisis Response Plan (LCRP) for the 2015-16 period, which aims to protect the poorest Lebanese from the spillovers of the Syrian crisis, and the most vulnerable Syrian refugees from the adverse impact of displacement. The \$2.1bn plan aims to provide direct humanitarian assistance to 2.2 million highly vulnerable individuals with acute needs. It would also allow investments in services, communities and institutions that would benefit up to 2.9 million people in the poorest locations across the country. The LCRP targets the priority needs of the extremely vulnerable individuals or households in Lebanon, the needs of areas facing crisis-related stress on their services and economies, and of national and social institutions that are over-stretched by the rising number of Syrian refugees. First, the LCRP aims to provide basic assistance to communities that are unable to meet their material needs; would offer food assistance to the poorest Lebanese and to the most vulnerable displaced Syrian families; would grant shelter assistance for those living in sub-standard accommodations; and would support national capacities in registering and profiling Syrian nationals.

Second, the LCRP aims to strengthen the capacity of national and local service delivery systems to expand the access to and quality of basic public services. It would improve and rehabilitate infrastructure in high-risk areas; would offer essential education and health-care, as well as water, sanitation and hygiene materials to cover additional needs. Third, it aims to expand work opportunities in local economies, which would benefit the most vulnerable communities.

The breakdown of the funding shows that \$447m or 20.9% of the total cost would be allocated for food security, followed by basic assistance with \$288.6m (13.5%), education with \$263.6m (12.3%), healthcare with \$249.2m (11.6%); water, sanitation and hygiene with \$231.4m (10.8%); livelihoods with \$175.9m (8.2%), social cohesion with \$157.3m (7.3%), shelter with \$147.2m (6.9%), protection with \$111.8m (5.2%), child protection with \$43.4m (2%), and sexual & other forms of gender-based violence with \$27.7m (1.3%).

Number of Syrian Refugees in Lebanon\*



\*registered and awaiting to be registered  
Source: UNHCR, Byblos Research

### Labor Ministry imposes measures to restrict foreign participation in labor market

The Ministry of Labor issued a decision to restrain foreign participation in the labor market in an attempt to protect the Lebanese workforce and local enterprises from the rise of foreign competition in Lebanon. It indicated that at least 60 professions in the banking, insurance, education, technical, pharmaceuticals, healthcare and administrative sectors, as well as in other industries, would be off limits to non-Lebanese nationals. Also, the ministry forbids non-Lebanese nationals from establishing any kind of business or liberal profession that would constitute a threat to Lebanese businesses.

The ministry pointed out that Palestinians who are born in Lebanon and who are registered at the Ministry of Interior and listed in municipal records would be exempt from the restrictions, with the exception of liberal professions and of professions that legally prohibit the employment of non-Lebanese. In addition, it said that Syrian nationals working in the agriculture, cleaning and construction sectors are not subject to the new rules.

In parallel, the ministry noted that some foreign staff are exempt from the newly-issued labor rules, such as a manager or a representative of a foreign company registered in Lebanon, a foreigner who has been residing in Lebanon since birth, and a person of Lebanese origin or born to a Lebanese mother. In addition, it said that foreign nationals could work in Lebanon, contingent that their country of origin allows Lebanese expatriates to occupy a similar position in their country.

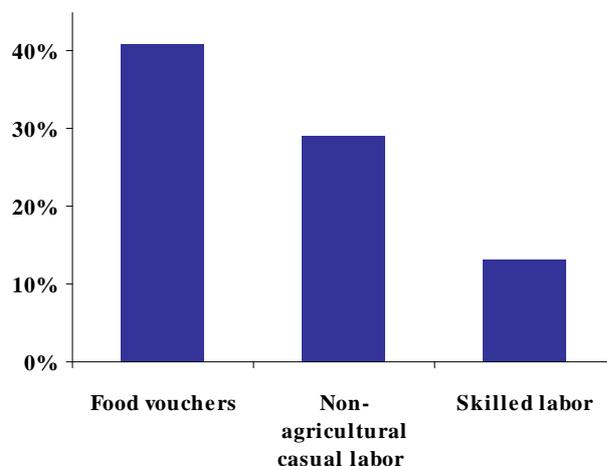
A survey commissioned by the International Labor Organization shows that 47% of Syrian refugees in Lebanon are economically active compared to an economic activity rate of 43% for Lebanese residents. The ILO noted that 27% of Syrian refugees are employed as personal service workers, such as drivers and housekeepers, 24% of Syrians are skilled agricultural workers and 12% are in the construction sector, while 4% of refugees are in occupations that require higher skill levels, such as technicians and professionals.

### Opened letters of credits at \$4.75bn for imports and \$2.4bn for exports in first nine months of 2014

Figures issued by the Central Bank indicate that the value of letters of credits (LCs) opened to finance imports to Lebanon totaled \$4.75bn in the first nine months of 2014, constituting a decrease of 7.2% from \$5.13bn in the same period of 2013. The value of LCs opened to finance imports to Lebanon reached \$1.53bn in the first quarter, \$1.68bn in the second quarter and \$1.54bn in the third quarter of 2014. Further, utilized credits for imports reached \$4.9bn in the first nine months of 2014, down 5.8% from \$5.2bn in the same period of the previous year. They accounted for 103% of opened LCs in the covered period compared to 101.4% in the first nine months of 2013. Utilized credits for imports totaled \$1.65bn in the first quarter, \$1.42bn in the second quarter and \$1.83bn in the third quarter of this year. Also, outstanding import credits totaled \$997m at end-September 2014 compared to \$969.7m at end-September 2013. Further, the aggregate value of inward bills for collection totaled \$1.27bn in the first nine months of 2014, constituting an increase of 4.1% from \$1.22bn in the same period last year. The value of inward bills for collection totaled \$478.8m in the first quarter, \$421.3m in the second quarter and \$369.9m in the third quarter of 2014. Outstanding bills for collection reached \$152.2m at end-September 2014 relative to \$165.8m at end-September 2013.

In parallel, the value of documentary letters of credits opened to finance exports from Lebanon reached \$2.4bn in the first nine months of 2014, constituting a decrease of 11% from the same period of 2013. The value of documentary letters of credits opened to finance Lebanese exports from Lebanon totaled \$650.1m in the first quarter, \$943.5m in the second quarter and \$819.6m in the third quarter of 2014. Further, utilized credits for exports reached \$2.3bn in the first nine months of 2014, down 16.4% from \$2.7bn of used credits in the same period of 2013. They totaled \$643.9m in the first quarter, \$763m in the second quarter and \$859.5m in the third quarter of 2014. Outstanding export credits reached \$1.27bn at end-September 2014, nearly unchanged from end-September 2013. The aggregate value of outward bills for collection totaled \$1.3bn in the first nine months of the year, up 23.5% from \$1.1bn in the same period of 2013. They reached \$394.4m, \$491.9m and \$435.4m in the first, second and third quarters of the year, respectively. The outstanding value of outwards bills for collection reached \$474.5m at end-September 2014 relative to \$455.5m a year earlier.

Main Sources of Income of Syrian Refugees



Source: UNHCR, Byblos Research

### **Lebanon and Mercosur sign MoU to expand bilateral trade**

The Ministry of Foreign Affairs & Emigrants signed a memorandum of understanding (MoU) with the Mercado Comun del Sur (Mercosur) to facilitate and improve trade relations between Lebanon and Mercosur member countries. The MoU marks the opening of commercial negotiations in areas of mutual interest of the participating countries. Lebanon and Mercosur would elaborate on a list of products and conditions to be included in future commercial agreements. The agreement would be automatically renewed on an annual basis unless one of the participating countries issues a written statement that states otherwise. The MoU will go into effect following the approval of the Lebanese Cabinet and Parliament. Mercosur is a trade bloc agreement between Argentina, Brazil, Paraguay, Uruguay and Venezuela. It aims to bring about the free movement of goods, capital, services and persons among its member states.

The aggregate value of trade between Lebanon and Mercosur member countries totaled \$496.8m in the first 10 months of 2014, reflecting a rise of 8.3% from \$458.9m in the same period of 2013. Lebanese imports from Mercosur economies rose by 11.8% year-on-year to \$473.8m in the first 10 months of the year, while Lebanese exports to Mercosur regressed by 34.2% to \$23m. As such, imports from Mercosur member countries to Lebanon account for 2.7% of total Lebanese imports, while Lebanese exports to Mercosur represent 0.8% of aggregate Lebanese exports. Brazil is currently Lebanon's main trade partner among Mercosur economies as it captures a share of 1.9% of Lebanon's import market and accounts for 1% of Lebanese exports.

### **Revenues through Port of Beirut down 5% to \$2.2bn in first 10 months of 2014**

Figures released by the Port of Beirut show that overall receipts generated through the port reached \$2.2bn in the first 10 months of 2014, constituting a decrease of 4.7% from the same period of 2013. Customs receipts through the port totaled \$1bn in the first 10 months of 2014, down 6.5% from \$1.1bn in the same period of 2013; while receipts from the value-added tax reached \$943.4m, down 3.2% from the first 10 months of 2013. Also, the port's overall revenues totaled \$179.5m in the first 10 months of 2014, down by 2.1% from the same period of 2013. Further, the Port of Beirut handled an aggregate freight of 6.9 million tons in the first 10 months of 2014, up by 1.5% from 6.8 million tons in the same period last year. Import freight accounted for 88.1% of the total, while the remaining 11.9% was export cargo. A total of 1,658 ships docked at the port in the first 10 months of 2014 compared to 1,759 vessels in the same period of 2013.

In parallel, overall revenues generated through the Port of Tripoli reached \$93.8m in the first 10 months of 2014, constituting an increase of 0.6% from \$93.3m in the same period of 2013. Receipts from the value-added tax reached \$48m in the first 10 month of this year, up by 3.5% from the same period of 2013; while customs receipts through the port reached \$36.4m and declined by 4.6% from \$38.2m in the first 10 months of 2013. The port's revenues rose by 7.9% year-on-year to \$9.4m in the first 10 months of 2014. Further, the Port of Tripoli handled an aggregate weight of 968,686 tons of freight in the first 10 months of the year, constituting a decrease of 14% from 1.1 million tons in the same period of 2013. A total of 466 vessels docked at the port in the first 10 months of 2014, constituting an increase of 1.5% from 459 ships in the same period last year.

### **Moody's downgrades three Lebanese banks, outlook 'negative'**

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Moody's Investors Service downgraded to 'B2' from 'B1' the long-term foreign currency deposit ratings of Bank Audi, BLOM Bank and Byblos Bank and lowered the three banks' long-term local currency deposit ratings to 'B2' from 'Ba3'. It kept the 'negative' outlook on the long-term deposit ratings. Also, it downgraded the long-term national scale ratings of Bank Audi and BLOM Bank to 'Aa3.lb' from 'A1.lb' and those of Byblos Bank to 'A1.lb' from 'Aa2.lb', with a 'negative' outlook. It also lowered the baseline credit assessments of the three banks to 'b2' from 'b1'. The agency indicated that its ratings action followed its earlier decision to downgrade Lebanon's sovereign rating.

The agency indicated that the downgrade of the three banks' baseline credit assessment reflects the adverse impact of the weakening of government creditworthiness on the banks' credit profile, given their large holdings of government debt. It estimated Byblos Bank's sovereign exposure at 4.4 times its Tier One capital, that of BLOM Bank at 2.6 times its Tier One capital and that of Bank Audi at 2.5 times its Tier One capital at the end of September 2014. It noted that the banks' high exposure to government securities and to the Central Bank's Certificates of Deposit, as well as their limited regional diversification, make them susceptible to event risks at the sovereign level and constrain their credit assessments at the level of the government's bond rating. It added that the banks' regional geographic diversification is not sufficient to offset the risks of the banks' credit linkages to the Lebanese sovereign. Further, Moody's attributed the downgrade of the banks' deposit ratings to the government's reduced capacity to support them in case of need. It noted that the deposit ratings of the three banks are now rated on par with the government's ratings and do not benefit from the government's support uplift.

### **Fitch Ratings affirms banks' ratings, outlook 'negative'**

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Fitch Ratings affirmed at 'B' the long-term Issuer Default Rating (IDR) of Byblos Bank and Bank Audi with a 'negative' outlook. It also maintained the two banks' Viability Ratings at 'b'. It said that the 'negative' outlook mirrors the outlook on the sovereign ratings. It noted that the unstable domestic political situation would weigh on the banking sector, but it did not expect political instability to have a significant impact on deposit growth. As such, it expected liquidity in the banking sector to remain at comfortable levels.

The agency indicated that the two banks' long-term IDRs are driven by their intrinsic strength. It said that the ratings are capped at the sovereign level due to the banks' substantial holdings of government debt and of Certificates of Deposit issued by the Central Bank, as well as due to the impact of the difficult local and regional operating environment. It said that the ratings take into account the banks' strong domestic franchise, experienced management and resilient deposit, in addition to Byblos Bank's solid liquidity and Bank Audi's increasing international diversification and adequate liquidity profile. It considered that both banks have weak capitalization, mainly due to their large holdings of sovereign debt. It indicated that a ratings upgrade is not likely in the short- to medium-term, given the banks' key role in financing the sovereign. It said that it would downgrade the banks' ratings in the event of a prolonged weakening of the operating environment that would affect depositor confidence, and if asset quality significantly deteriorates and reduces the banks' capital base. It added that Bank Audi's rapid expansion in Turkey poses potential risks to the bank, as the fast lending growth could weaken capitalization and asset quality.

Further, the agency pointed out that the Lebanese authorities would have a high willingness to support the two banks in case of need, given their systemic importance to the banking sector and to the economy as a whole. But it noted that the authorities' ability to provide such support cannot be relied upon. It added that the authorities would face difficulties in providing system-wide support for the banking sector, including to Byblos Bank and Bank Audi, if needed.

### **Cyprus extends easing of restrictive measures on foreign banks**

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The Cypriot authorities issued Decree 25 that extended the period during which branches and subsidiaries of foreign banks operating in Cyprus can benefit from the relaxation of capital controls. The period was due to expire on December 8, 2014, but authorities extended it to January 12, 2015. The benefiting Lebanese 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. Additionally, 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 32 that extended the relaxation of restrictive measures on transactions under Emergency Law of 2013. The period was due to expire on December 8, 2014, but authorities extended it until January 12, 2015. 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 on 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.

### **MetLife's ratings affirmed, outlook 'stable'**

Fitch Ratings affirmed MetLife's long-term Issuer Default Rating (IDR) at 'A', with a 'stable' outlook. It also affirmed the Insurer Financial Strength (IFS) rating of the company's main subsidiaries at 'AA-'. MetLife, through its subsidiaries and affiliates, is a global provider of insurance, annuities and employee benefits programs. It acquired American Life Insurance Company (ALICO) in 2010. MetLife Alico is the largest provider of life insurance products in Lebanon.

The agency indicated that the ratings reflect the company's strong balance sheet fundamentals, excellent financial flexibility and very strong market positioning in several major insurance product lines and markets. It added that the firm has a strong risk-adjusted capitalization and a favorable liquidity profile. It noted that the firm's very strong brand name and its large and diverse distribution capabilities provide it with significant competitive advantages. However, Fitch expressed concerns about MetLife's above average investment risk and exposure to the variable annuity business, as well as about macroeconomic challenges associated with the ongoing low interest rate environment.

MetLife Alico announced audited net profits of \$33.2m for the fiscal year ending in November 2013, constituting a rise of 9.6% from net earnings of \$30.3m in the same period of 2012. Its audited balance sheet for Lebanon shows total assets of \$554.7m at end-November 2013, up 4.4% from a year earlier. Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked MetLife Alico in first and 11th places in 2013 in terms of life and non-life premiums, respectively. The firm's life premiums reached \$75m and non-life premiums amounted to \$27.3m, constituting increases of 2.5% and 1.2%, respectively. It had an 18% share of the life market and a 2.8% share of the local non-life market.

### **SGBL's net income at \$120m in first nine months of 2014**

Société Générale de Banque au Liban sal (SGBL), one of Lebanon's top 10 banks, announced unaudited consolidated net profits of \$120.4m in the first nine months of 2014, up 20.6% from the same period last year. Net operating income grew by 15.9% year-on-year to \$264m, with net interest income increasing by 17.9% to \$200.7m and net fees & commissions receipts decreasing by 4.7% year-on-year to \$36.6m. Non-interest income accounted for 28.5% of total income, up from 28.2% in the same period last year; with net fees & commissions accounting for 45.6% of non-interest earnings, down from 56.4% in the first nine months of 2013. Further, the bank's interest margin was 2.09% in the first nine months of the year relative to 2.03% in the same period last year; while its spread rose to 2% from 1.93% in the first nine months of 2013. Total operating expenditures increased by 12.1% to \$120.5m, with staff expenses rising by 9.9% to \$62.4m. Also, the bank's return on average assets reached 1.2% in September 2014 on an annualized basis relative to 1.12% in September 2013; while its return on average equity was 14.9% on an annualized basis relative to 15.9% in September 2013. The cost-to-income ratio decreased to 42.8% in the first nine months of the year from 44.6% in the same period last year.

In parallel, total assets reached \$13.8bn at the end of September 2014, constituting a 6.3% rise from end-2013 and a 9.9% increase from a year earlier; while loans & advances to customers, excluding loans & advances to related parties, grew by 11.9% from end-2013 and by 15.2% from a year earlier to \$3.4bn. Also, customer deposits, excluding deposits from related parties, totaled \$10.8bn at end-September 2014, constituting an increase of 5.8% from end-2013 and a rise of 12.1% from a year earlier. The loans-to-deposits ratio rose to 32.2% at end-September 2014 from 31.2% a year earlier. In parallel, shareholders' equity rose by 3.2% from end-2013 to \$1.1bn at end-September 2014.

### **CreditBank's net profits down 8% to \$15m in first nine months of 2014**

CreditBank sal, one of Lebanon's top 14 banks, announced unaudited consolidated net profits of \$14.9m in the first nine months of 2014, constituting a decrease of 7.7% from the same period last year. Net operating income grew by 9.5% year-on-year to \$59.9m, with net interest income rising by 17.1% to \$44.4m and net fee & commission receipts decreasing by 17.1% to \$9.6m. Non-interest income accounted for 31.5% of total income, up from 31.2% in the first nine months of last year, with net fees & commissions accounting for 47.3% of non-interest earnings, down from 67.8% in the same period of 2013. Further, the bank's interest margin rose marginally to 2.23% in the first nine months of the year from 2.22% in the same period of 2013, while its spread remained unchanged year-on-year at 2.13%. Total operating expenditures increased by 16.8% to \$41.4m, with staff expenses growing by 9.3% to \$22.9m. Also, the bank's return on average assets reached 0.72% on an annualized basis in September 2014 compared to 0.91% in September 2013; while its return on average equity was 9.5% relative to 12.3% on an annualized basis in September 2013. The cost-to-income ratio was 63.9% in the first nine months of 2014 compared to 64.4% in the same period last year.

In parallel, total assets reached \$2.9bn at the end of September 2014, constituting a 10.1% rise from end-2013 and a 15% increase from a year earlier; while loans & advances to customers, excluding loans & advances to related parties, rose by 12.2% from end-2013 and by 15.5% from end-June 2013 to \$1.5bn. Also, customer deposits, excluding deposits from related parties, totaled \$2.5bn at end-September 2014, reflecting increases of 10.9% from end-2013 and of 16.1% from a year earlier. The loans-to-deposits ratio was 57.5% at the end of September 2014, down from 57.8% a year earlier. Further, total shareholders' equity dropped by 0.7% from end-2013 to \$206m at end-September 2014.



### **Profits of Delta banks down 4% to \$30m in 2013**

The consolidated net profits of the Delta Group of banks reached \$30.3m in 2013, constituting a decrease of 4.2% from \$31.6m in 2012. The Delta Group consists of banks with deposits under \$200m each. Total net operating income rose by 3.6% to \$121.5m in 2013, with aggregate net interest income increasing by 5% to \$74.6m and net fees & commissions receipts rising by 9.4% to \$46.9m year-on-year. Also, non-interest income accounted for 41.8% of total income in 2013, down from 42.9% in the preceding year; with net fees & commission earnings representing 86% of non-interest receipts last year, up from 78.8% in 2012. The interest spread increased to 3.12% in 2013 from 2.99% in the preceding year. Total operating expenditures increased by 6.8% year-on-year to \$87.2m in 2013, with staff expenses rising by 11.4% to \$48.1m. Further, the cost-to-income ratio increased to 66.8% last year relative to 64.3% in 2012. The banks' return on average assets regressed from 1.3% in 2012 to 1.24% in 2013; while their return on average equity decreased from 5.12% in 2012 to 4.49% in 2013.

The total assets of Delta banks reached \$2.5bn at the end of 2013, constituting a rise of 5.3% from end-2012. Liquid assets and loans accounted for 37% each of assets at end-2013, followed by portfolio securities with 20%, fixed assets with 4% and other assets with 2%. Further, aggregate loans & advances to customers fell by 0.4% from end-2012 to \$924.6m, while credit extended to related parties increased by 24.7% to \$0.9m at end-2013. Housing loans accounted for 54.7% of total net lending at the end of 2013 compared to 52.3% a year earlier. They were followed by corporate loans with 24.7% of the total relative to 27.1% at end-2012; retail lending with 7.8% compared to 8.2% a year earlier; and credit to small- and medium-sized enterprises with 0.7% relative to 0.6% at end-2012. Also, customer deposits reached \$754.3m at the end of 2013 and rose by 9.3% from a year earlier; while deposits from related parties increased by 3.7 times to \$120m at end-2013.

In parallel, the banks' loans-to-deposits ratio dropped to 106% at end-2013 from 128.5% a year earlier. The ratio of loans-to-deposits in local currency reached 226.6% at end-2013 compared to 240.3% at end-2012, while that in foreign currency was 61.4% at the end of 2013 relative to 82% a year earlier. Further, the primary liquidity-to-assets ratio improved marginally from 36.52% at the end of 2012 to 36.58% at end-2013. The banks' net doubtful loans (DLs) plus substandard loans were equivalent to 9.34% of gross loans at end-2013 relative to 8.86% a year earlier; while their net DLs over equity stood at 12.63% at the end of 2013, down from a ratio of 12.1% at end-2012. Also, the loan-loss reserves on doubtful loans was 67.7% of gross doubtful loans at the end of 2013 compared to a ratio of 67.2% at end-2012. The banks' capital adequacy ratio stood at 41.65% at the end of 2013, up from 40% at end-2012, according to Basel II criteria.

## 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	Feb 2013	Jan 2014	Feb 2014	Change*	Risk Level
Political Risk Rating	53.0	52.0	52.0	▼	High
Financial Risk Rating	35.0	38.0	38.0	▲	Low
Economic Risk Rating	34.0	27.0	27.0	▼	High
Composite Risk Rating	61.0	58.5	58.5	▼	High

Regional Average	Feb 2013	Jan 2014	Feb 2014	Change*	Risk Level
Political Risk Rating	58.6	58.4	58.4	▼	High
Financial Risk Rating	41.6	40.7	40.4	▼	Very Low
Economic Risk Rating	36.3	35.8	35.9	▼	Low
Composite Risk Rating	68.2	67.5	67.4	▼	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	B2	NP	Negative	B2		Negative
Fitch Ratings	B	B	Negative	B		Negative
Standard & Poor's	B-	B	Stable	B-	B	Stable
Capital Intelligence	B	B	Stable	B	B	Stable

Source: Rating agencies

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

Source: Rating agencies

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