



LEBANON THIS WEEK

In This Issue

Economic Indicators.....1
Capital Markets.....1
Lebanon in the News.....2

Lebanon's CDS spreads widen by 9.2% in fourth quarter of 2014

Average value of real estate transactions down 1% to \$126,387 in 2014

Airport passengers up 5% in 2014

Lebanon ranks 118th globally, 13th in MENA region in country risk

Real GDP growth projected at 2% in 2015, third lowest in MENA region

Industrial exports down 9% to \$2.4bn in first nine months of 2014

Female workers better paid in Lebanon than in Arab countries

Cabinet approves comprehensive solid waste management plan

Lebanese passport holders can travel to 39 countries and territories worldwide without a visa

Final phase of natural resource exploration survey awaits government approval

Corporate Highlights7

Central Bank encourages commercial banks to subscribe to upcoming Eurobond issue

Net profits of insurance sector down 11% to \$112m in 2013, claims paid up 11% to \$734m

Lebanon & Gulf Bank increases capital through issuance of preferred shares

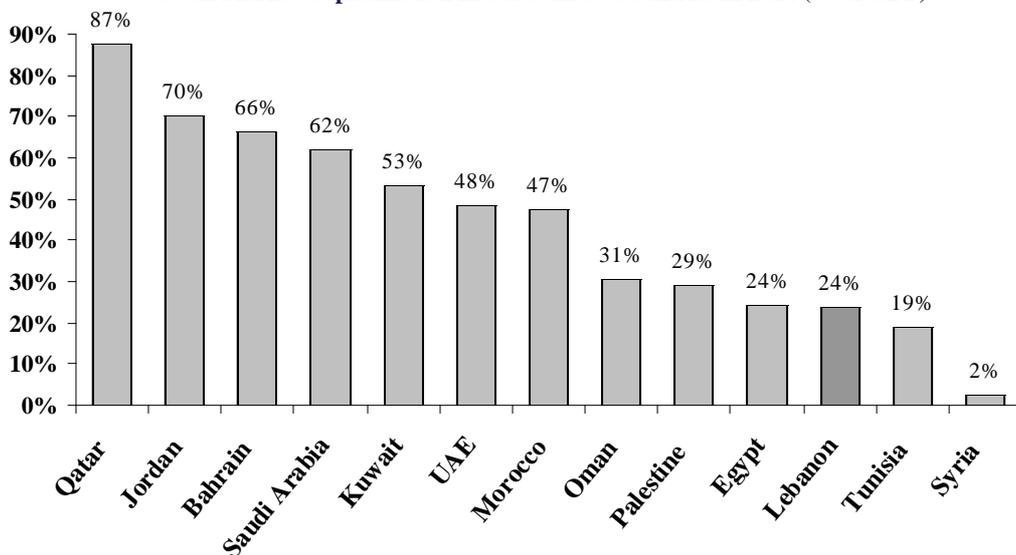
Ratio Highlights.....8

Risk Outlook8

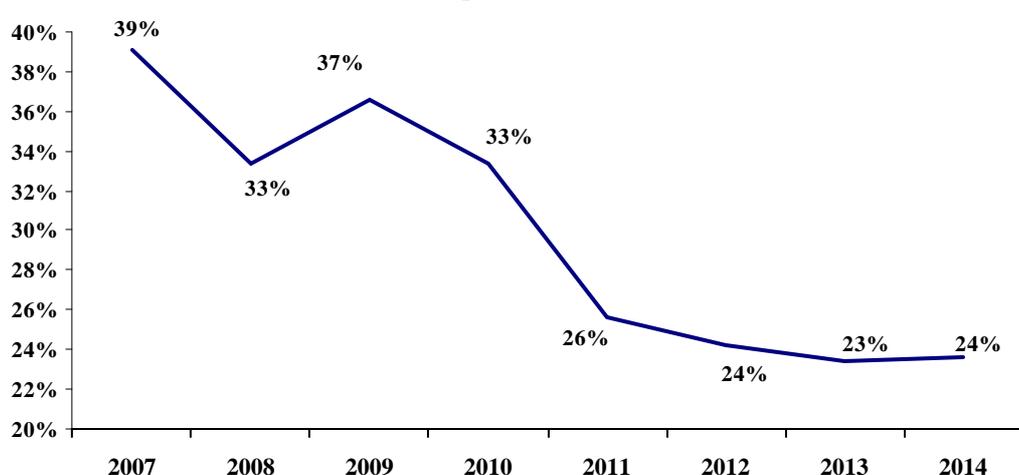
Ratings & Outlook.....8

Charts of the Week

Stock Market Capitalization in Select Arab Countries in 2014 (% of GDP)



Stock Market Capitalization in Lebanon (% of GDP)



Source: Local Stock Exchanges, International Monetary Fund, Zawya Markets, Institute of International Finance, Oanda.com, Byblos Bank

Quote to Note

"Energy sector reforms and sizable investments in the sector will be critical to address Lebanon's insufficient and inefficient electricity provision."

The International Monetary Fund, on a key requirement to reduce the cost of doing business and lift potential growth in the country

Number of the Week

121: Lebanon's rank out of 144 countries in terms of protection of minority shareholders' rights, according to the World Economic Forum's 2014-2015 World Competitiveness Index

Economic Indicators

\$m (unless otherwise mentioned)	2013	Aug 13	May 14	June 14	July 14	Aug 14	% Change*
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

\$bn (unless otherwise mentioned)	2013	Aug 13	May 14	June 14	July 14	Aug 14	% Change*
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

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization	Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Solidere "A"	11.25	0.27	49,772	10.02%	Apr 2015	10.000	102.16	2.05
Solidere "B"	11.11	0.00	17,509	6.43%	Jan 2016	8.500	105.05	3.31
Byblos Common	1.62	1.25	313,020	5.19%	Mar 2017	9.000	109.75	4.26
Byblos Pref. 08	102.00	0.00	11,710	1.82%	Nov 2018	5.150	101.35	4.72
Byblos Pref. 09	101.20	0.00	1,563	1.80%	May 2019	6.000	103.75	5.03
BLOM GDR	9.98	0.60	11,685	6.57%	Mar 2020	6.375	105.38	5.17
BLOM Listed	8.81	0.11	244,677	16.87%	Apr 2021	8.250	114.35	5.50
Audi GDR	6.50	0.00	15,350	6.69%	Oct 2022	6.100	102.63	5.67
Audi Listed	6.04	(3.51)	87,649	21.51%	Jun 2025	6.250	101.00	6.12
HOLCIM	15.00	(3.23)	333	2.61%	Nov 2026	6.600	104.00	6.12

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

Source: Byblos Bank Capital Markets

	Jan 11-16	Jan 5-9	% Change	Dec 2014	Dec 2013	% Change
Total Shares Traded	755,118	977,698	(22.77)	10,832,896	3,186,671	239.94
Total Value Traded	\$5,632,536	\$6,134,863	(8.19)	\$69,469,519	\$30,056,050	131.13
Market Capitalization	\$11.23bn	\$11.30bn	(0.69)	\$11.22bn	\$10.55bn	6.42

Source: Beirut Stock Exchange (BSE)



Lebanon's CDS spreads widen by 9.2% in fourth quarter of 2014

Figures released by CDS and bond pricing firm S&P Capital IQ show that the average spreads on five-year credit default swaps (CDS) for Lebanon ended the fourth quarter of 2014 at 397 basis points. This reflects a widening of 33.4bps from 363.6bps at the end of the third quarter of 2014, of 48.6bps from 348.4bps at the end of the second quarter and of 11.8bps from 385.2bps at the end of the first quarter of 2014. Credit Default Swaps represent the cost of insuring government bonds against default and are a reflection of perceived credit risk. As such, it costs around \$397,000 a year at the end of 2014 to insure a notional \$10m of Lebanese sovereign debt against default for five years, up from \$395,000 a year earlier.

The firm noted that Lebanon's 5-year CDS spreads were the eighth widest among 73 countries during the fourth quarter of the year. They were tighter than Venezuela's spreads of 4,505bps, Ukraine (2,578bps), Greece (1,281bps), Pakistan (632bps), Cyprus (493bps), Russia (476bps) and El Salvador (425bps). It said that Lebanon's CDS spreads widened by 9.2% from the preceding quarter.

Further, S&P Capital IQ indicated that Lebanon ended the fourth quarter of 2014 with a five-year cumulative probability of default (CPD) of 25.3%, up from 23.4% at the end of the third quarter of 2014, 22.5% at the end of the second quarter and 24.6% at the end of the first quarter of 2014. The CPD quantifies the probability of an issuer being unable to honor its debt obligations over a given period of time. It added that the CPD is a function of the market's recovery level, which varies according to several factors and distance to default. It calculates the CPD using an industry standard model and proprietary credit data.

Lebanon's CPD at the end of 2014 shows that Lebanese debt was the eighth riskiest globally, but it was less risky than the debt of Venezuela (89%), Ukraine (74.7%), Greece (62.9%), Pakistan (36.5%), Cyprus (34%), Russia (28.4%) and El Salvador (26.5%). S&P Capital IQ maintained Lebanon among the top 10 riskiest sovereigns for the fourth consecutive quarter. Norway, Sweden and the United States had the lowest CPD among the 73 sovereigns covered in the survey, with rates of 1.2%, 1.3% and 1.4%, respectively.

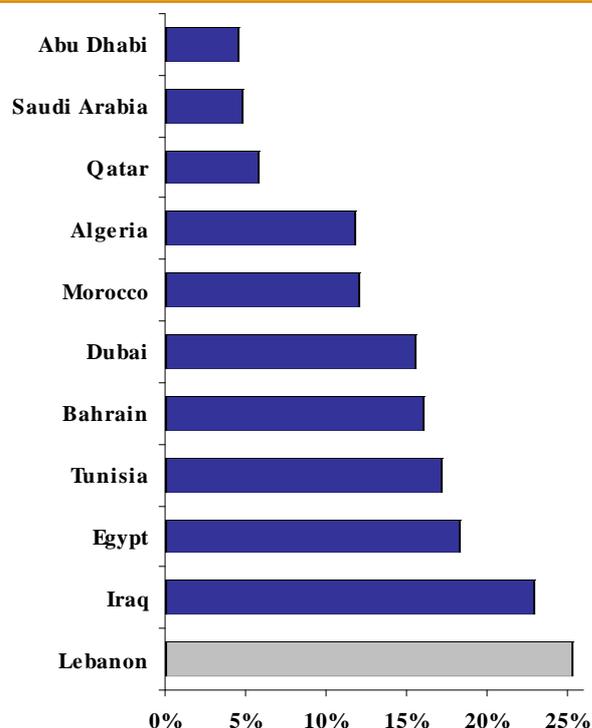
Average value of real estate transactions down 1% to \$126,387 in 2014

Figures released by the Ministry of Finance indicate that the total number of real estate transactions reached 70,866 in 2014, constituting an increase of 2.4% from 69,198 deals in 2013. In comparison, the number of real estate transactions dropped by 7.2% in 2013 and by 10.1% in 2012. Also, the aggregate value of real estate transactions totaled \$9bn in 2014, constituting a rise of 1% from \$8.9bn in 2013. The value of real estate deals reached \$8.8bn in each of 2011 and 2012. In parallel, the average value of real estate transaction dropped by 1.4% to \$126,387 in 2014 from \$128,201 in 2013 and relative to \$118,246 in 2012. There were 1,201 real estate transactions executed by foreigners in 2014, down 6% from 1,278 deals in 2013, and compared to annual decreases of 7.7% in 2013 and 9.5% in 2012. In parallel, the number of real estate transactions by foreigners accounted for 1.7% of total real estate deals in 2014 relative to 1.8% in 2013.

Airport passengers up 5% in 2014

Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures, transit) totaled 6,567,647 in 2014, constituting an increase of 4.8% from 6,265,470 in 2013. The total number of arriving passengers grew by 6.3% to 3,222,573 in 2014, while the number of departing passengers rose by 3.5% to 3,331,225. In parallel, the airport's aircraft movement increased by 2.5% to 64,580 takeoffs and landings in 2014 compared to 62,980 in 2013. The HIA processed 92,931 metric tons of cargo in 2014 that consisted of 92,187 tons of freight and 744 tons of mail.

Cumulative Probability of Default in the Arab World (at end-December 2014)



Source: S&P Capital IQ, Byblos Research

Lebanon ranks 118th globally, 13th in MENA region in country risk

In its quarterly survey of the country risk level in 186 countries, *Euromoney* magazine ranked Lebanon in 118th place worldwide and in 13th place among 22 countries in the Middle East & North Africa region in the fourth quarter of 2014. Also, Lebanon came in 37th place among 52 upper middle-income countries (UMICs) included in the survey. Lebanon's global rank was unchanged from the third quarter of 2014, while it regressed by six spots from 112th place in the second quarter of 2014, by five spots from 113th place in the first quarter of 2014 and by 16 spots from 102nd place in the fourth quarter of 2013. The survey evaluates individual country risk by assigning a weighting to six categories that cover Political Risks, Economic Performance, Access to Bank Finance & Capital Markets, Debt Indicators, Credit Ratings, and Structural Assessments.

Globally, Lebanon had a lower country risk level than that of Uganda, Egypt and Bangladesh, and a higher risk level than that of the Ivory Coast, Greece and Papua New Guinea among economies with a GDP of \$10bn or more. It also ranked ahead of Argentina and behind Jamaica among UMICs. Lebanon's global rank regressed by four spots on the Economic Performance category, by two spots on the Structural Assessments category and by one spot on the Political Risks category; while it improved by one spot on each of the Debt Indicators and Credit Ratings categories. Lebanon's global rank was unchanged on the Access to Bank Finance & Capital Markets category from the preceding quarter.

In parallel, Lebanon received a score of 32.89 points, constituting an increase of 1.5% from 32.39 points in the third quarter of 2014 and a drop of 8.1% from 35.78 points in the fourth quarter of 2014. Lebanon's score came below the global average score of 42.5 points, the UMICs' average score of 39.39 points and the MENA average of 42.03 points. Also, its score came below the Arab average score of 40.8 points and the Gulf Cooperation Council (GCC) countries' average score of 65.69 points, but was above the average score of non-GCC Arab countries of 29.31 points.

Lebanon's score on the Debt Indicators category rose by 34.5% from the third quarter of 2014, while its score regressed by 1.2% on the Structural Assessments category, by 0.9% on the Economic Performance category and by 0.2% on the Political Risks category. Lebanon's score on the Access to Bank Finance & Capital Markets and the Credit Ratings categories remained unchanged from the third quarter of 2014.

Lebanon ranked ahead of Nigeria and behind Uganda globally, while it came ahead of Algeria and behind Egypt regionally on the Political Risks category. Also, it ranked ahead of the Dominican Republic and behind Madagascar worldwide, and came ahead of Libya and behind Tunisia regionally in terms of Economic Performance. Further, Lebanon ranked ahead of Morocco and behind Kazakhstan globally, and came ahead of Morocco and behind Bahrain regionally on the Structural Assessments category. Finally, Lebanon ranked ahead of Mozambique and behind Iraq globally, and came ahead of only Mauritania and Djibouti regionally on the Debt Indicators category.

MENA Countries Rankings & Scores

	Score	MENA Rank	Global Rank
Qatar	74.09	1	18
UAE	68.77	2	24
Kuwait	68.76	3	25
Oman	65.98	4	31
Israel	65.49	5	32
Saudi Arabia	64.73	6	33
Turkey	54.72	7	53
Bahrain	51.82	8	60
Morocco	44.88	9	73
Tunisia	44.56	10	74
Jordan	41.94	11	81
Algeria	36.31	12	97
Lebanon	32.89	13	118
Egypt	32.69	14	121
Iran	29.29	15	135
Iraq	28.82	16	138
Libya	26.94	17	146
Yemen	25.09	18	150
Sudan	21.98	19	161
Mauritania	21.04	20	162
Syria	18.23	21	168
Djibouti	5.72	22	183

Source: *Euromoney*, *Byblos Research*

Country Risk Indicators for Lebanon - Fourth Quarter 2014

	Weighting (%)	Score	MENA Rank	Global Rank	MENA Avge Score	Global Avge Score
Political Risk	30	10.52	13	128	12.36	13.79
Economic Performance	30	12.65	14	112	13.85	13.48
Structural Assessments	10	5.06	9	66	4.41	4.02
Debt Indicators	10	2.69	20	161	5.19	4.58
Credit Rating	10	1.25	12	107	3.13	3.14
Access to Bank Finance & Capital Market	10	0.75	14	138	3.10	3.49

Source: *Euromoney*, *Byblos Research*

Real GDP growth projected at 2% in 2015, third lowest in MENA region

The World Bank revised downward its projection for real GDP growth in Lebanon to 2% in 2015 from an April forecast of 2.5%. It attributed the revision to the change in the Bank's assumption about the timing of a major improvement in the Syrian conflict and the associated security spillovers in Lebanon. Lebanon's projected growth rate for 2015 would make it the third slowest growing economy among 12 developing countries in the MENA region, better than only Iraq and Iran with a projected economic growth of 0.9% each. Lebanon would also be the 10th slowest growing economy among developing countries in 2015 and would tie with Hungary and the Kyrgyz Republic.

The Bank forecast the fiscal deficit to widen from an estimated deficit of 10.2% of GDP in 2014 to 11.2% of GDP in 2015, and for the primary deficit to deteriorate from 1.5% of GDP in 2014 to 1.7% of GDP in 2015. As such, it expected the public debt level to rise from 149.4% of GDP in 2014 to 151% of GDP in 2015. Also, it forecast the current account deficit at 8% of GDP in 2015 relative to an estimated deficit of 8.3% of GDP in 2014.

The Bank indicated that Lebanon has started to be directly affected by spillovers from the Syrian conflict through the presence of Islamic militants in the Bekaa and their confrontation with the Lebanese Army. It noted that continued domestic political deadlock and the vacuum at the presidential level, along with the conflict in Syria, are negatively affecting consumer and investor sentiment and are posing substantial downside risks to Lebanon's prospects. It considered that the Lebanese economy could only reach its potential growth level in case of a resolution of the Syrian conflict, as well as in case of significant improvements in the country's security and political conditions. Further, the Bank considered that the authorities' focus on maintaining security, in addition to the prevailing political deadlock and the need for an absolute political consensus for decision-making, would prevent any progress in addressing longstanding and worsening structural bottlenecks in infrastructure. It noted that bottlenecks in the electricity, water, transportation and telecommunication sectors are negatively affecting the investment climate in the country. It said that addressing these bottlenecks is crucial for promoting a favorable environment for small- and medium-sized enterprises as well as for creating quality jobs.

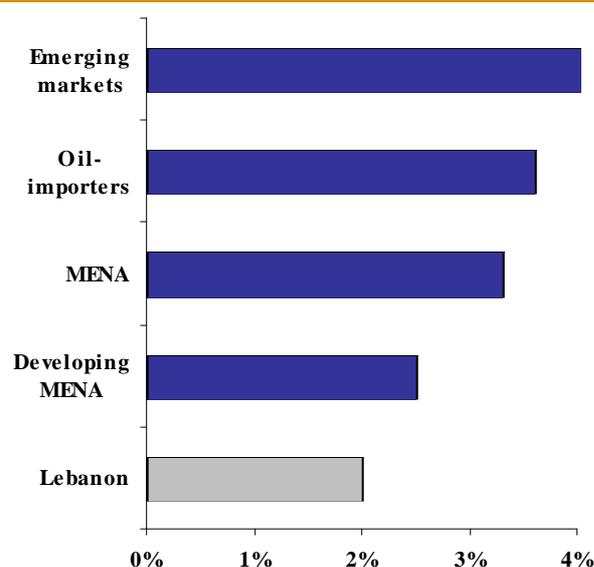
In parallel, the World Bank estimated Lebanon's real GDP growth rate at 1.5% for 2014, compared to a growth rate of 3% in the MENA region and 2.6% for the region's developing oil importers, and relative to a rate of 1.2% in the developing countries of the MENA region. Lebanon tied with Iran, and came ahead of the slowest growing economies in the region in 2014, with real GDP in Libya, the West Bank & Gaza and Iraq posting contractions of 21.8%, 3.7% and 2.7%, respectively, last year. Lebanon was also the ninth slowest growing economy among developing economies in 2014.

Industrial exports down 9% to \$2.4bn in first nine months of 2014

Figures released by the Ministry of Industry show that industrial exports totaled \$2.4bn in the first nine months of 2014, constituting a decrease of 8.8% from \$2.6bn in the same period of 2013. Industrial exports reached \$269m in September 2014, down by 2.5% from \$275.9m in August 2014 and by 6% from \$286.1m in September 2013. Machinery and mechanical appliances accounted for \$552m, or 23.1% of total industrial exports in the first nine months of 2014, followed by prepared foodstuffs with \$398.1m (16.7%) and chemical products with \$391.5m (16.4%). Arab countries were the destination of 60% of Lebanese industrial exports in September 2014, followed by African economies with 13.3%, European countries with 11.5%, Asian economies with 11.3% and countries in the Americas with 3%. On a country basis, Saudi Arabia was the main destination of such exports and accounted for 13.7% of the total in September 2014, followed by Iraq with 11.6%, Syria with 10.2% and the UAE with 8.1%. In September 2014, 13 Arab countries, 10 European states, eight African economies, three Asian countries, two economies in the Americas and one country in Oceania imported \$1m or more each in industrial products from Lebanon. Overall, Lebanon exported its industrial products to 44 European countries, 41 African economies, 29 Asian states, 28 countries in the Americas, 19 Arab economies and eight markets in Oceania in September 2014.

In parallel, industrial imports reached \$212.4m in the first nine months of 2014, down 13% from the same period of 2013. Italy was the main source of such imports and accounted for 22.4% of the total in the covered period, followed by China with 18.3% and Germany with 16.3%. Further, imports of industrial equipment and machinery reached \$19.2m in September 2014, decreasing by 28.5% year-on-year. Italy was the main source of imports of industrial equipment in September and accounted for 16.9% of the total, followed by China with 16.2% and Germany with 13%.

Projected Real GDP Growth in 2015 (%)



Source: World Bank

Female workers better paid in Lebanon than in Arab countries

A survey conducted by regional job portal Bayt.com indicated that 50% of working females in Lebanon earn between \$1,001 and \$2,000 per month, 28% of working women receive a monthly income of between \$501 and \$1,000, while 14% of women in Lebanon generate between \$2,001 and \$3,000 per month. Also, 4% of female workers earn between \$200 and \$500 per month, 3% receive a monthly income between \$3,001 and \$4,000, and 1% earn between \$8,001 and \$9,000 per month. As such, only 32% of working females in Lebanon earn less than \$1,000 per month compared to 50% of participants in Arab countries. The survey covered a sample of 1,543 working females in Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia and the UAE. The survey, which was conducted between October 22 and November 20, 2014, covered a sample of 115 respondents in Lebanon, including 105 women who work in a mixed gender environment.

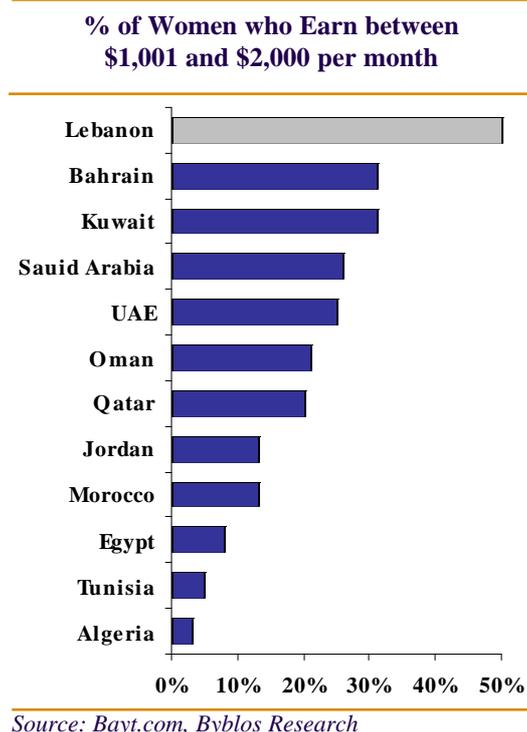
Further, the survey indicated that 52% of women believe that job offers in Lebanon are based on experience and qualification, and that gender does not play a role in the recruitment process, relative to 56% of Arab women who shared similar views. In contrast, 14% of women considered that it is easier for a male to find a job in Lebanon than for a female, similar to the share of women in the region who have the same opinion. In addition, the survey showed that 54% of working women in Lebanon consider that the chances of receiving a promotion depend entirely on their performance and is independent of gender, compared to 49% working women in the Arab world who shared similar views. Also, 17% of participants said that a female worker has a lower chance of being promoted than her male counterpart, relative to 34% of respondents in the region who have the same opinion.

In parallel, the survey pointed out that the most important factors for working women in Lebanon are a higher salary (50% of responses), flexible working hours (41% of answers) and opportunities for long-term career growth (36% of responses); followed by children's education allowance (23% of answers), the opportunity to travel for work or business (21% of responses) and the option to work from home (20% of replies). It revealed that the main reason for a Lebanese woman to change her job is a better salary (63% of responses), followed by more opportunities for career advancement (35% of responses), better benefits (31% of responses) and a higher designation or position (26% of responses). Further, the main life challenges faced by women in Lebanon are the difficulties they face in finding good job opportunities (63% of responses), few opportunities to relax or to socialize (36% of responses), the lack of opportunities to improve their professional skills (35% of responses) and the difficulty they face in living a healthy lifestyle (26% of responses). The survey's results for Lebanon are mitigated by the fact that the sample size is not representative enough and that the survey was conducted via the Internet, which is not the most reliable methodology for opinion polling.

Cabinet approves comprehensive solid waste management plan

The Cabinet modified and approved a comprehensive solid waste management plan for the country that includes tendering the related operations. The plan covers the rules for the sweeping, collection and treatment of solid waste, in addition to landfill management and energy recovery. It divided the country into six service areas that will be subject to tenders. The geographic areas are Beirut and its suburbs, the North & Akkar, the South & Nabatieh, the Bekaa Valley & Baalbek-Hermel; Baabda, the Chouf & Aley; and Jbeil, Metn & Keserwan. The rules stipulate that the contract is for seven years with an option to renew it for three additional years, while a contractor may handle a maximum of two service areas. In addition, contractors who win the tender are required to secure the service sites for the duration of their contract. If they fail to do so within one month, the Council for Development & Reconstruction (CDR) and the Ministry of Environment would secure the landfill, while the contractor will bear the cost. The Cabinet also tasked the Ministry of Environment and the Ministry of Finance to launch the tenders within a maximum of two months after they submit the rules and conditions to the Cabinet. It also decided to form a committee to evaluate the tender offers. It will be chaired by the Minister of Environment and is composed of representatives from the CDR, the Ministry of Interior & Municipalities, the Office of the Minister of State for Administrative Development, and the Presidency of the Council of Ministers.

In parallel, the Cabinet extended for three months the contracts of Sukleen, the waste management company responsible for the collection and disposal of solid waste in Beirut and Mount Lebanon, and that of Sukom International (Sukomi), which handles the treatment and sanitary disposal of municipal solid waste. Sukleen and Sukom International are subsidiaries of the Averda Group. The Cabinet said that it could renew the two contracts for another three months. It also extended for three months the operations at the waste landfill of Naameh, with the option to renew for another three months, and approved the allocation of LBP33bn or \$21.9m to encourage towns to host landfills once the Naameh dump is closed.

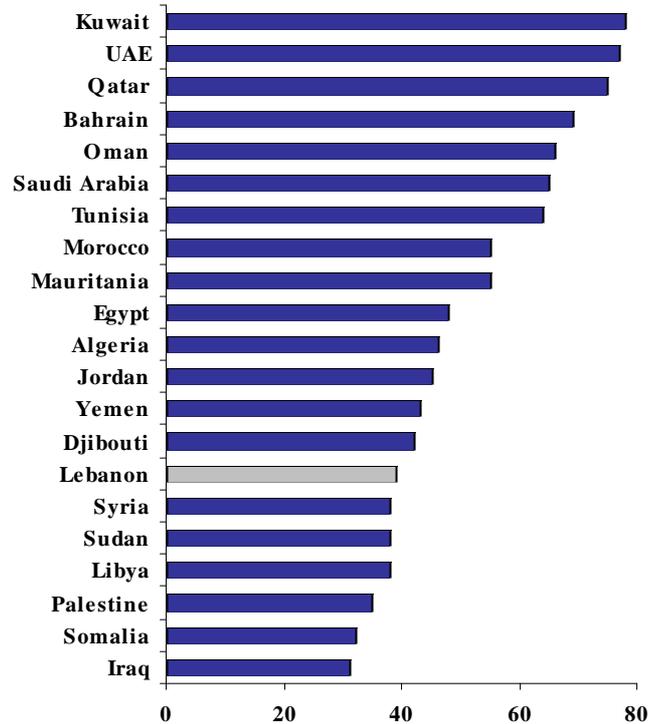


Lebanese passport holders can travel to 39 countries and territories worldwide without a visa

The 2014 Henley & Partners Visa Restrictions Index ranked Lebanon in 186th place among 199 countries and territories worldwide and in 15th place among 21 Arab countries. Lebanon ranked in 189th place globally and in 17th place among Arab countries on the 2013 index and in 192nd place globally and in 18th place among Arab countries on the 2012 index. The Index ranks countries according to the number of countries and territories that their citizens can access without a visa. According to Henley & Partners, the global rankings reflect the international freedom of travel for the passport holders of various nations, as well as the international relations and status of individual countries relative to others.

The survey indicated that holders of Lebanese passports can travel to 39 countries and territories worldwide without a visa as of July 2014, up from 38 countries and territories in 2013 and relative to 35 in 2012. The number of countries that Lebanese citizens can access without a visa is similar to that for Ethiopia, South Sudan and Sri Lanka. Globally, Lebanon ranked ahead of only Eritrea, Libya, Sudan and Syria (38 destinations each), Nepal (37 destinations), the Palestinian Territory (35 destinations), Pakistan and Somalia (32 destinations), Iraq (31 destinations) and Afghanistan (28 destinations). Finland, Germany, Sweden, the United States and the United Kingdom tied for first place globally, as their citizens can access 174 destinations without a visa, while Kuwait came in first place regionally with visa-free access to 78 destinations worldwide.

Number of Visa-Free Destinations per Country



Source: Henley & Partners, Byblos Research

Final phase of natural resource exploration survey awaits government approval

The U.S. firm NEOS GeoSolutions Inc. indicated that it completed in December 2014 its aerial oil and gas survey over an area of 6,000 square kilometers in the northern part of the country as part of the CedarsOil project, a geological and geophysical survey to study Lebanon's onshore natural resource exploration potential. It used two airplanes equipped with advanced sensors to collect information on the earth's surface and subsurface in order to determine the existence of onshore oil and gas deposits and to estimate their quantity. NEOS noted that it would begin the third and final phase of the CedarsOil project once it obtains the government's official approval. The final phase of the project consists of a study of the magnetic field of the Lebanese soil through the installation of sensors in northern Lebanon. The project, initially launched in September 2014, is conducted in collaboration with Qatar's Petroserv Limited with the support of the Lebanese Army and Air Force, as well as the Petroleum Administration. NEOS indicated that, upon completion, it will send all the acquired data to the United States, where it will be analyzed and sent back to the Ministry of Energy & Water and to the Petroleum Administration. It added that multinational oil companies would also be able to have access to the gathered data.

In October 2011, the Cabinet approved the start of onshore oil exploration in Lebanon, as it authorized the launch of a tender process to survey the Lebanese territory and locate areas with potential oil deposits. It also recommended the preparation of a draft law that regulates oil exploration on Lebanese soil, followed by a tender process for onshore exploration. The decisions constituted at the time the government's first official step for launching onshore oil exploration. British firm Spectrum Energy & Information Technology conducted in 2014 a two-dimensional onshore seismic survey that mainly covered the territory along the Lebanese coast.

Central Bank encourages commercial banks to subscribe to upcoming Eurobond issue

In the monthly meeting between the Central Bank and the Association of Banks in Lebanon (ABL), Governor Riad Salamé expected that the exchange rate and the level of interest rates would remain stable in Lebanon in 2015, despite the anticipated increase in U.S. interests of up to 50 basis points and the continuous decrease in interest rates in the Eurozone. He indicated that the Bank's assets in foreign currency support the stability of interest rates and of the exchange rate. He attributed the deficit in Lebanon's balance of payments in 2014 to a drop in capital inflows and a decline in export receipts.

In parallel, Governor Salamé encouraged banks to subscribe to Treasury bills and Eurobonds issued by the Lebanese government, rather than to Central Bank-issued Certificate of Deposits. He said the Ministry of Finance has adopted a pro rata system to subscribe to the upcoming Eurobond issuance, given the prevailing demand. He encouraged banks to subscribe to the upcoming Eurobond, as the success of the issuance would provide the Treasury with the needed funds in foreign currency, which would ease the pressure on the Central Bank to utilize its foreign currency reserves. He added that the successful placement of the Eurobond would be credit positive for Lebanon's sovereign ratings. He considered that the subscription of banks to the Eurobond issuance would not have a negative impact on their liquidity or on their capital adequacy ratio, which exceeds 10%.

In parallel, the ABL indicated that the Public Housing Corporation's (PHC) loan portfolio totaled about \$3bn as per the Banking Control Commission (BCC). It added that the PHC's dues to banks for 2014 stood at \$22m and are estimated at more than \$150m for 2015. The PHC's shortage of funds is because the government stopped transferring to the organization the latter's usual revenues. The ABL and the BCC agreed that banks would take provisions for the 2014 dues in order to avoid classifying these debts as non-performing, until the government pays its dues to the PHC or until a solution is found.

Net profits of insurance sector down 11% to \$112m in 2013, claims paid up 11% to \$734m

Figures released by the Insurance Control Commission (ICC) show that the aggregate net profits of insurance companies operating in Lebanon reached \$112m in 2013, constituting a decrease of 11.2% from \$126.1m in 2012. Net income from the life category reached \$82.6m in 2013 and increased by 8.2% year-on-year, while that of the non-life category amounted to \$29.5m and regressed by 40.8% annually. In the life branch, the protection segment posted profits of \$49.5m in 2013, followed by the life with savings segment with \$18.5m and the unit-linked life segment with \$14.5m. In the non-life branch, health generated profits of \$12.8m, followed by fire with \$11m, transportation with \$7.7m, accidents with \$4.5m, miscellaneous categories with \$3.3m and other insurance categories that include credit, civil liabilities and C.A.R. with \$3m. In parallel, motor compulsory and motor non-compulsory insurance posted losses of \$8m and \$4.8m, respectively, in 2013.

Further, gross written premiums increased by 7.3% to \$1.42bn in 2013 and included \$1bn in non-life gross premiums that grew by 7.3% annually and \$408.7m in life gross premiums that rose by 7.5% year-on-year. Written premiums from the health segment totaled \$406.9m and accounted for 28.7% of the insurance sector aggregate premiums, followed by motor non-compulsory insurance premiums with \$273.3m (19.3%), protection life insurance premiums with \$157m (11.1%), life insurance with savings with \$134m (9.5%), life with unit-linked savings with \$117.7m (8.3%), fire premiums with \$98.8m (7%), accidents with \$72.6m (5.1%), motor compulsory with \$53.5m (3.8%), and transportation with \$44.7m (3.2%).

In parallel, gross paid claims totaled \$733.8m in 2013, constituting a rise of 10.7% from \$662.7m in 2012. Paid claims from the non-life category reached \$557.3m in 2013 and increased by 10.3% year-on-year, while claims for the life category amounted to \$176.6m and rose by 12.3% annually. Paid claims from the health segment accounted for 38.9% of total paid claims, followed by motor non-compulsory with 22.5%, life insurance with unit-linked savings with 13.2%, life with savings with 7.9%, fire with 5.5%, accidents with 4.1%, protection life with 3%, compulsory motor with 2.2%, transportation with 1.2%, other categories with 1% and miscellaneous segments with 0.6%. In parallel, the sector's loss ratio, or the ratio of claims incurred to earned gross premiums, was 55% in 2013; the commission ratio, or the ratio of acquisition cost to earned gross premiums, reached 17% at end-2013, the reinsurance ratio, or the ratio of net reinsurance income to earned gross premiums, stood at 6% in 2013, the expense ratio, or the ratio of other general expenses to earned gross premiums, was 13%, and the combined ratio, which is the aggregate ratio of the above four ratios, was 92% in 2013.

Lebanon & Gulf Bank increases capital through issuance of preferred shares

Lebanon & Gulf Bank sal (LGB) increased its Tier One capital by LBP4.1bn (\$2.7m) through the issuance of 200,000 Issue 2014 Preferred Shares. The issue price is \$100 per share, of which LBP20,300 (\$13.5) is par value and the remaining \$86.5 constitute the issue premium. The bank does not intend to list the shares on the Beirut Stock Exchange. The Issue 2014 Preferred Shares carries an annual dividend rate of 7% of the issue price paid net of a 10% withholding tax. The shares are non-cumulative, perpetual and subject to a call option by the bank. LGB has the option to call the shares within 60 days after the Ordinary General Assembly meets to approve the financials for fiscal year 2019, and annually thereafter, at a call price of \$103.5 per share plus any declared but unpaid dividends. LGB's capital consists of 9,560,000 nominal shares; 300,000 Issue 2010 Preferred Shares; 230,000 Issue 2013 Preferred Shares and 200,000 Issue 2014 Preferred Shares. LGB posted unaudited consolidated net profits of \$21.6m in the first nine months of 2014 relative to \$17.8m in the same period last year. Total assets reached \$3.2bn at the end of September 2014, while loans & advances to customers totaled \$1.25bn and customers' deposits stood at \$2.8bn.

Ratio Highlights

(in % unless specified)	2012	2013	2014	Change*
Nominal GDP (\$bn)	43.0	45.0	47.5	
Public Debt in Foreign Currency / GDP	56.7	58.0	54.1	(389)
Public Debt in Local Currency / GDP	77.4	83.0	86.9	389
Gross Public Debt / GDP	134.1	141.0	141.0	(5)
Total Gross External Debt / GDP	168.2	173.8	176.4	260
Trade Balance / GDP	(39.1)	(38.4)	(37.1)	134
Exports / Imports	21.1	18.5	15.9	(260)
Fiscal Revenues / GDP	21.9	20.9	20.8	(10)
Fiscal Expenditures / GDP	31.0	30.3	32.0	170
Fiscal Balance / GDP	(9.1)	(9.4)	(11.1)	(170)
Primary Balance / GDP	(0.3)	(0.5)	(0.3)	20
Gross Foreign Currency Reserves / M2	69.4	69.5	68.8	(73)
M3 / GDP	241.9	247.0	246.9	(11)
Commercial Banks Assets / GDP	353.2	366.3	364.5	(177)
Private Sector Deposits / GDP	290.7	302.7	302.3	(37)
Private Sector Loans / GDP	101.1	105.3	107.0	172
Private Sector Deposits Dollarization Rate	64.8	66.1	65.7	(40)
Private Sector Lending Dollarization Rate	77.6	76.5	75.6	(90)

* Change in basis points 13/14

Source: 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	Mar 2013	Feb 2014	Mar 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	Mar 2013	Feb 2014	Mar 2014	Change*	Risk Level
Political Risk Rating	58.6	58.4	58.3	▲	High
Financial Risk Rating	41.6	40.4	40.5	▲	Very Low
Economic Risk Rating	36.3	35.9	35.9	▲	Low
Composite Risk Rating	68.2	67.4	67.3	▲	Moderate

*year-on-year change in risk tolerance

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

Economic Research & Analysis Department
Byblos Bank Group
P.O. Box 11-5605
Beirut – Lebanon
Tel: (961) 1 338 100
Fax: (961) 1 217 774
E-mail: research@byblosbank.com.lb
www.byblosbank.com

Lebanon This Week is a research document that is owned and published by Byblos Bank sal. The contents of this publication, including all intellectual property, trademarks, logos, design and text, are the exclusive property of Byblos Bank sal, and are protected pursuant to copyright and trademark laws. No material from Lebanon This Week may be modified, copied, reproduced, repackaged, republished, circulated, transmitted, redistributed or resold directly or indirectly, in whole or in any part, without the prior written authorization of Byblos Bank sal.

The information and opinions contained in this document have been compiled from or arrived at in good faith from sources deemed reliable. Neither Byblos Bank sal, nor any of its subsidiaries or affiliates or parent company will make any representation or warranty to the accuracy or completeness of the information contained herein.

Neither the information nor any opinion expressed in this publication constitutes an offer or a recommendation to buy or sell any assets or securities, or to provide investment advice. This research report is prepared for general circulation and is circulated for general information only. Byblos Bank sal accepts no liability of any kind for any loss resulting from the use of this publication or any materials contained herein.

The consequences of any action taken on the basis of information contained herein are solely the responsibility of the person or organization that may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies that may be discussed in this report and should understand that statements regarding future prospects may not be realized.

BYBLOS BANK GROUP

LEBANON

Byblos Bank S.A.L
Achrafieh - Beirut
Elias Sarkis Avenue - Byblos Bank Tower
P.O.Box: 11-5605 Riad El Solh - Beirut 1107 2811- Lebanon
Phone: (+ 961) 1 335200
Fax: (+ 961) 1 339436

SYRIA

Byblos Bank Syria S.A.
Damascus Head Office
Al Chaalan - Amine Loutfi Hafez Street
P.O.Box: 5424 Damascus - Syria
Phone: (+ 963) 11 9292 - 3348240/1/2/3/4
Fax: (+ 963) 11 3348205
E-mail: byblosbanksyria@byblosbank.com

IRAQ

Erbil Branch, Kurdistan, Iraq
Street 60, Near Sports Stadium
P.O.Box: 34 - 0383 Erbil - Iraq
Phone: (+ 964) 66 2233457/8/9 - 2560017/9
E-mail: erbilbranch@byblosbank.com.lb

Baghdad Branch, Iraq
Al Karrada - Salman Faeq Street
Al Wahda District, No. 904/14, Facing Al Shuruk Building
P.O.Box: 3085 Badalat Al Olwiya – Iraq
Phone: (+ 964) 770 6527807 / (+ 964) 780 9133031/2
E-mail: baghdadbranch@byblosbank.com.lb

Basra Branch, Iraq
Intersection of July 14th, Manawi Basha Street, Al Basra – Iraq
Phone: (+ 964) 770 4931900 / (+ 964) 770 4931919
E-mail: basrabranch@byblosbank.com.lb

UNITED ARAB EMIRATES

Byblos Bank Abu Dhabi Representative Office
Intersection of Muroor and Electra Streets
P.O.Box: 73893 Abu Dhabi - UAE
Phone: (+ 971) 2 6336050 - 2 6336400
Fax: (+ 971) 2 6338400
E-mail: abudhabirepoffice@byblosbank.com.lb

ARMENIA

Byblos Bank Armenia CJSC
18/3 Amiryan Street - Area 0002
Yerevan - Republic of Armenia
Phone: (+ 374) 10 530362
Fax: (+ 374) 10 535296
E-mail: infoarm@byblosbank.com

CYPRUS

Limassol Branch
1, Archbishop Kyprianou Street, Loucaides Building
P.O.Box 50218
3602 Limassol - Cyprus
Phone: (+ 357) 25 341433/4/5
Fax: (+ 357) 25 367139
E-mail: byblosbankcyprus@byblosbank.com.lb

BELGIUM

Byblos Bank Europe S.A.
Brussels Head Office
Rue Montoyer 10
Bte. 3, 1000 Brussels - Belgium
Phone: (+ 32) 2 551 00 20
Fax: (+ 32) 2 513 05 26
E-mail: byblos.europe@byblosbankeur.com

UNITED KINGDOM

Byblos Bank Europe S.A., London Branch
Berkeley Square House
Berkeley Square
GB - London W1J 6BS - United Kingdom
Phone: (+ 44) 20 8518 8100
Fax: (+ 44) 20 8518 8129
E-mail: byblos.london@byblosbankeur.com

FRANCE

Byblos Bank Europe S.A., Paris Branch
15 Rue Lord Byron
F- 75008 Paris - France
Phone: (+33) 1 45 63 10 01
Fax: (+33) 1 45 61 15 77
E-mail: byblos.europe@byblosbankeur.com

SUDAN

Byblos Bank Africa
Khartoum Head Office
Intersection of Mac Nimer and Baladiyya Streets
P.O.Box: 8121 - Khartoum - Sudan
Phone: (+ 249) 1 56 552 222
Fax: (+ 249) 1 56 552 220
E-mail: byblosbankafrica@byblosbank.com

NIGERIA

Byblos Bank Nigeria Representative Office
161C Rafu Taylor Close - Off Idejo Street
Victoria Island, Lagos - Nigeria
Phone: (+ 234) 706 112 5800
(+ 234) 808 839 9122
E-mail: nigeriarepresentativeoffice@byblosbank.com.lb

DEMOCRATIC REPUBLIC OF CONGO

Byblos Bank RDC S.A.R.L
Avenue du Marché No. 4
Kinshasa-Gombe, Democratic Republic of Congo
Phone: (+ 243) 81 7070701
(+ 243) 99 1009001
E-mail: byblosbankrdc@byblosbank.com

ADIR INSURANCE

Dora Highway - Aya Commercial Center
P.O.Box: 90-1446
Jdeidet El Metn - 1202 2119 Lebanon
Phone: (+ 961) 1 256290
Fax: (+ 961) 1 256293