



# LEBANON THIS WEEK

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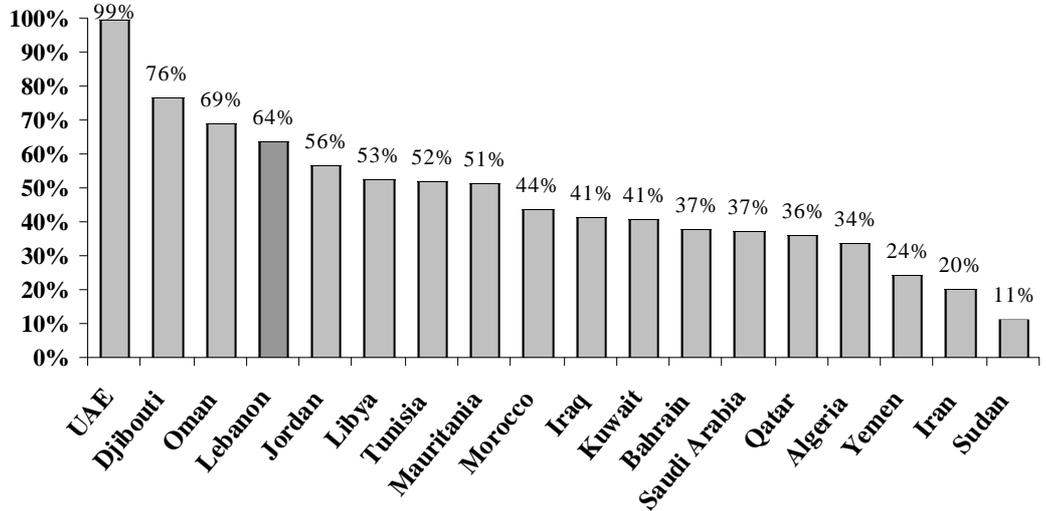
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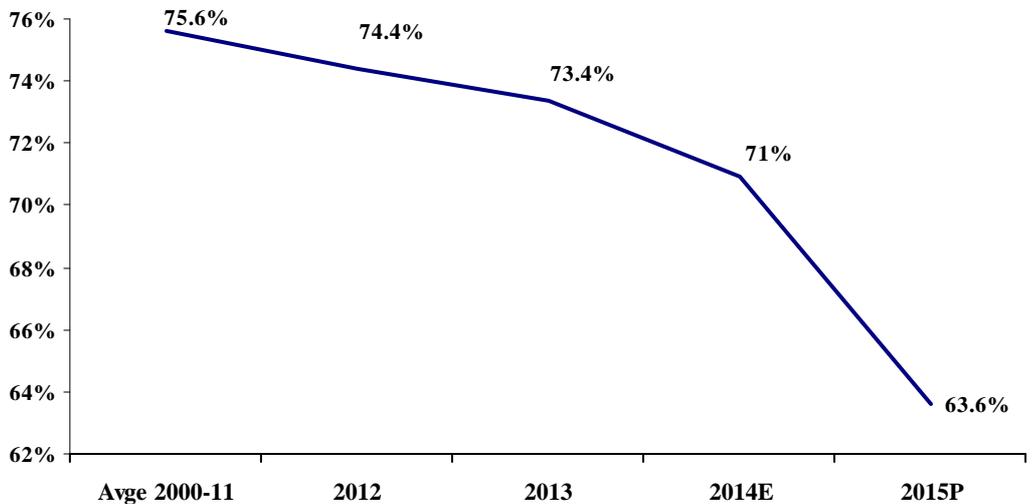
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## Charts of the Week

Projected Imports of Goods & Services of MENA Countries in 2015 (% of GDP)



Imports of Goods & Services to Lebanon (% of GDP)



Source: International Monetary Fund - January 2015, Byblos Bank

## Quote to Note

"The balance of payments is likely to experience a net favorable effect, as lower energy imports will outweigh the reduction in remittance inflows."

*The World Bank, on the positive impact of the drop in global oil prices on Lebanon's external accounts*

## Number of the Week

**138:** Lebanon's rank out of 178 countries in terms of property rights, according to the Heritage Foundation/Wall Street Journal Index of Economic Freedom for 2015

## Lebanon in the News

<b>\$m (unless otherwise mentioned)</b>	<b>2013</b>	<b>Oct 13</b>	<b>July 14</b>	<b>Aug 14</b>	<b>Sep 14</b>	<b>Oct 14</b>	<b>% Change*</b>
Exports	3,936	272	276	285	282	279	2.57
Imports	21,228	1,757	1,657	2,120	1,671	1,724	(1.88)
Trade Balance	(17,292)	(1,485)	(1,381)	(1,835)	(1,389)	(1,445)	(2.69)
Balance of Payments	(1,128)	(794)	(85)	(564)	131	(566)	(28.72)
Checks Cleared in LBP	17,047	1,516	1,454	1,558	1,553	1,587	4.64
Checks Cleared in FC	55,321	4,698	4,694	4,973	4,852	4,730	0.68
Total Checks Cleared	72,368	6,214	6,148	6,531	6,405	6,317	1.65
Budget Deficit/Surplus	(4,220)	(228.92)	238.07	(318.75)	(564.21)	(216.28)	(5.52)
Primary Balance	(239.68)	233.07	513.55	(141.93)	(84.64)	258.98	11.12
Airport Passengers	6,265,470	524,730	641,830	814,800	640,546	549,726	4.76
<b>\$bn (unless otherwise mentioned)</b>	<b>2013</b>	<b>Oct 13</b>	<b>July 14</b>	<b>Aug 14</b>	<b>Sep 14</b>	<b>Oct 14</b>	<b>% Change*</b>
BdL FX Reserves	31.71	31.86	35.14	33.09	32.34	33.09	3.87
<i>In months of Imports</i>	<i>17.65</i>	<i>18.13</i>	<i>21.21</i>	<i>15.61</i>	<i>19.35</i>	<i>19.19</i>	<i>5.86</i>
Public Debt	63.46	62.44	65.62	65.86	65.97	66.21	6.03
Net Public Debt	53.18	52.50	55.17	55.59	55.89	56.23	7.11
Bank Assets	164.82	160.63	169.74	170.33	171.34	171.27	6.62
Bank Deposits (Private Sector)	136.21	132.10	141.32	141.52	142.02	142.04	7.52
Bank Loans to Private Sector	47.38	46.50	49.38	49.74	49.95	50.10	7.74
Money Supply M2	45.60	44.72	47.28	47.48	47.90	47.82	6.93
Money Supply M3	111.16	109.02	115.58	115.62	116.07	116.02	6.42
LBP Lending Rate (%)	7.29	7.59	7.36	7.21	7.08	7.29	(30bps)
LBP Deposit Rate (%)	5.44	5.44	5.54	5.51	5.51	5.58	14bps
USD Lending Rate (%)	6.88	6.85	6.96	6.96	6.94	6.95	10bps
USD Deposit Rate (%)	2.95	2.94	3.02	3.13	3.04	3.12	18bps
%* Change in CPI**	3.89	5.04	1.54	0.81	1.24	(0.27)	-

\* 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"	11.00	0.55	95,589	9.60%	Apr 2015	10.000	101.58	2.34
Solidere "B"	10.93	(0.55)	58,263	6.20%	Jan 2016	8.500	104.50	3.58
Byblos Common	1.68	3.07	452,863	5.27%	Mar 2017	9.000	108.75	4.60
Byblos Pref. 08	102.10	0.00	0	1.78%	Nov 2018	5.150	101.00	4.82
Byblos Pref. 09	101.20	0.00	0	1.77%	May 2019	6.000	102.88	5.24
BLOM GDR	9.96	0.00	8,800	6.43%	Mar 2020	6.375	104.38	5.38
BLOM Listed	8.95	0.00	1,120	16.80%	Apr 2021	8.250	112.75	5.76
Audi GDR	6.90	6.15	2,712	6.96%	Oct 2022	6.100	102.25	5.73
Audi Listed	6.42	5.07	9,207	22.41%	Jun 2025	6.250	100.63	6.17
HOLCIM	15.01	0.07	2,428	2.56%	Nov 2026	6.600	103.25	6.21

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

Source: Byblos Bank Capital Markets

	<b>Feb 2-6</b>	<b>Jan 26-30</b>	<b>% Change</b>	<b>Jan 2015</b>	<b>Jan 2014</b>	<b>% Change</b>
<b>Total Shares Traded</b>	1,291,153	508,402	153.96	2,924,443	3,299,492	(11.37)
<b>Total Value Traded</b>	\$15,370,164	\$3,041,918	405.28	\$18,796,462	\$33,310,730	(43.57)
<b>Market Capitalization</b>	\$11.45bn	\$11.25bn	1.79	\$11.25bn	\$11.05bn	1.83

Source: Beirut Stock Exchange (BSE)



### Lebanon ranks 50th globally, eighth in MENA region on Global Entrepreneurship Index

The Global Entrepreneurship Development Institute (GEDI), a Washington, DC-based non-profit research organization, ranked Lebanon in 50th place among 130 countries worldwide and in eighth place among 15 countries in the Middle East & North Africa region (MENA) on its Global Entrepreneurship Index (GEI) for 2015. Lebanon also came in sixth place among 36 Upper-Middle Income countries (UMICs) included in the survey.

The GEI measures the quality and dynamics of a country's entrepreneurship ecosystem by taking into account the aspects of the entrepreneurial ecosystem at the micro and macro levels. It assesses the efficiency of start-ups' ecosystems and attempts to highlight the bottlenecks that erode the competitive advantages for start-ups. The GEI is a composite of 14 pillars grouped into three sub-indices that are the Entrepreneurial Attitudes Sub-Index, the Entrepreneurial Abilities Sub-Index and the Entrepreneurial Aspirations Sub-Index. A country's score is the simple average of its scores on the three sub-indices, with a higher score reflecting a better ecosystem for entrepreneurship.

Globally, Lebanon's entrepreneurial ecosystem is better than that of Croatia, South Africa and Malaysia, and is worse than that of Greece, Uruguay and Italy. Lebanon came behind only Turkey, Colombia, Romania, Bulgaria and Hungary among UMICs, while it trailed the UAE, Israel, Qatar, Saudi Arabia, Kuwait, Oman and Bahrain in the MENA region. Lebanon received a score of 40.7 points, higher than the global average score of 39.1 points and the UMICs' average score of 33.7 points, but lower than the MENA average score of 41.5 points.

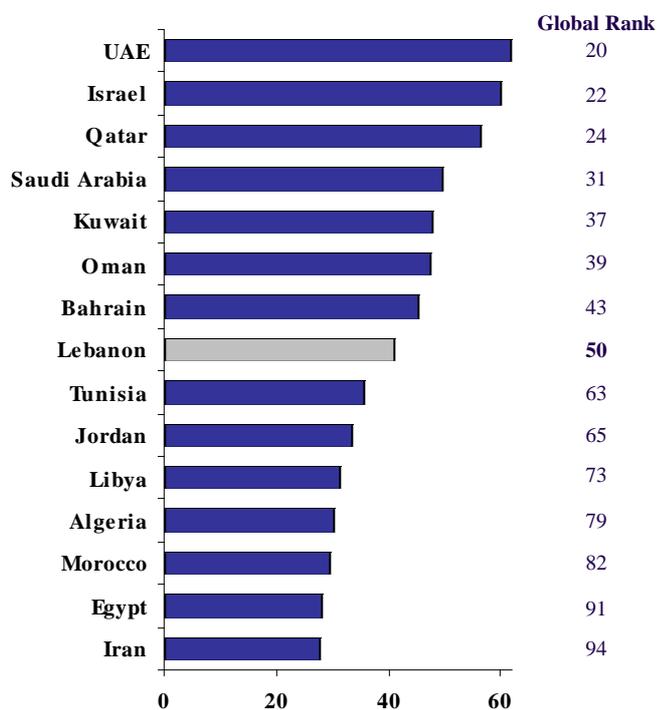
Also, Lebanon's score was lower than the Gulf Cooperation Council (GCC) countries' average score of 51.3 points and higher than that of non-GCC Arab countries of 33.7 points. The United States has the best entrepreneurial ecosystem globally with a score of 85 points, while Bangladesh had the worst entrepreneurial environment with a score of 14.4 points.

Globally, Lebanon ranked ahead of Puerto Rico, Bulgaria and Costa Rica, and came behind Uruguay, Turkey and Poland on the Entrepreneurial Attitudes Sub-Index. This category identifies the attitudes of a country's population towards entrepreneurship, such as recognizing opportunities, knowing entrepreneurs personally, endowing entrepreneurs with high status, accepting the risks associated with business start-ups, and having the skills to launch a business successfully. Lebanon came behind only Turkey among UMICs, while it trailed only Saudi Arabia, the UAE, Israel and Qatar regionally.

Also, Lebanon ranked ahead of Liberia, Costa Rica and Macedonia, and came behind Kenya, Croatia and Panama on the Entrepreneurial Abilities Sub-Index. This category reflects the characteristics of the entrepreneurs and of their businesses, including motivation, education, as well as the number of businesses that are in technology sectors and the level of competition. It also includes the level of participation of women in start-ups. Lebanon ranked ahead of Costa Rica, Macedonia and Argentina, and came behind Thailand, Albania and Panama among UMICs; while it came ahead of Algeria, Iran, Jordan, Morocco and Egypt among MENA countries.

Finally, Lebanon ranked ahead of Sri Lanka, Kenya and Paraguay, and came behind Bahrain, Bulgaria and Laos on the Entrepreneurial Aspirations Sub-Index. This category reflects the early-stage entrepreneur's effort to introduce new products or services, to develop new production processes, to penetrate foreign markets, to substantially increase his/her company's staff, and to finance the business with formal or informal venture capital. Lebanon ranked ahead of Jordan, Malaysia and Gabon, and came behind Macedonia, Namibia and Bulgaria among UMICs; while it ranked ahead of Jordan, Tunisia, Egypt, Libya, Morocco, Algeria and Iran regionally.

### Global Entrepreneurship Index 2015



Source: GEDI, Byblos Research

### Components of the 2015 Global Entrepreneurship Index for Lebanon

	MENA Rank	Global Rank	Lebanon Score	MENA Average	Global Average
Entrepreneurial Attitudes	5	29	50.8	43.7	37.0
Entrepreneurial Abilities	10	70	35.6	40.1	41.0
Entrepreneurial Aspirations	8	58	35.8	40.9	39.2

Source: Global Entrepreneurship Development Institute, Byblos Research

### Occupancy rate at Beirut hotels at 52%, room yields down 3% in 2014

EY's benchmark survey of the hotel sector in the Middle East indicated that the average occupancy rate at hotels in Beirut was 52% in 2014, unchanged from 2013 and compared to an average rate of 62.4% in 11 Arab markets included in the survey. The occupancy rate at Beirut hotels was the fourth lowest in the region in 2014, while it was the third lowest in 2013. Cairo City posted the lowest occupancy rate of 35% in 2014, followed by Kuwait City and Manama with an occupancy rate of 48% for each. The occupancy rate at Beirut hotels was 36% in January, 42% in February, 41% in March, 52% in April, 63% in May, 67% in June, 36% in July, 60% in August, 56% in September, 59% in October, 51% in November and 61% in December 2014. In comparison, it was 50% in January, 60% in February, 59% in March, 64% in April, 59% in May, 55% in June, 40% in July, 48% in August, 35% in September, 49% in October, 47% in November and 53% in December 2013.

The average rate per room at Beirut hotels was \$165 in 2014, ranking the capital's hotels as the third least expensive in the region. The average rate per room at Beirut hotels decreased by 2.7% year-on-year and posted the second steepest decline among all markets in the region, compared to a drop of 6.2% in Madina. The average rate per room in Beirut came below the regional average of \$209.2 that posted an increase of 1.1% from 2013.

Further, revenues per available room (RevPAR) were \$86 in Beirut in 2014, down from \$88 in 2013, and came in 10th place in the region, higher than only Cairo City (\$33). Beirut's RevPAR fell by 2.8% year-on-year and posted the second steepest decrease among Arab markets relative to a contraction of 12.9% in Kuwait City. Beirut posted RevPARs of \$60 in January, \$65 in February, \$62 in March, \$82 in April, \$97 in May, \$120 in June, \$62 in July, \$104 in August, \$89 in September, \$100 in October, \$83 in November and \$116 in December 2014. In comparison, RevPARs were \$87 in January, \$101 in February, \$99 in March, \$108 in April, \$102 in May, \$101 in June, \$65 in July, \$84 in August, \$55 in September, \$83 in October, \$78 in November and \$97 in December 2013. Kuwait City posted the highest average room rate in the region at \$294, while Dubai posted the highest room yield of \$218 and had the highest occupancy rate of 79.7% in 2014.

### Lebanese youth more prone to corrupt behavior than adults

A survey commissioned by advocacy organization Sakker el Dekkéné and conducted by research firm IPSOS indicated that 50% of respondents in Lebanon admitted that they are willing to use their connections or bribe a civil servant to speed up formalities or when caught breaking the law. The survey showed that 25% of participants would definitely use their connections or bribe a civil servant to speed up formalities or when caught breaking the law, while another 25% would do so occasionally.

Further, 62% of respondents said that they are willing to use their connections to go around a queue in a public institution, and 52% of participants acknowledge that they would use their connections if a police officer catches them driving the wrong way. Also, 51% of respondents revealed that they are willing to offer money to a civil servant to sign an incomplete file, and 49% of participants noted that they would share goods with a customs agent at the airport to let them enter a prohibited item.

The survey showed that Lebanese youth are more willing than older citizens to use their connections or to bribe an officer. As such, 62% of respondents aged between 18 and 24 years would use their connections when dealing with a law enforcement officer on duty, while 30% of those who are 55 years old or more admitted that they would do the same. Further, the survey indicated that respondents with lower income levels are more resistant to corrupt acts. As such, 38% of respondents in high-income brackets said that they would bribe a civil servant to sign an incomplete file or to avoid delays in their paperwork, while only 16% of respondents with lower income levels would do the same. The survey revealed that the respondents' willingness to engage in corruption is not related to their political affiliations. But it noted that survey participants who admitted to be politically affiliated to a party are more prone to corrupt behavior than respondents who are not affiliated to a political party.

The survey was conducted between May and December 2014. The survey's results are based on face-to-face interviews with a representative sample of 1,200 adults across Lebanon. Sakker el Dekkéné is a non-governmental organization that aims to collect data about various forms of corruption in the Lebanese public administration in order to raise awareness and promote a transparent relationship between the citizens and the state.

### Hotel Sector Performance in 2014

	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Dubai	80	218	(1.3)
Jeddah	75	206	6.8
Doha	70	167	13.6
Abu Dhabi	78	159	(0.1)
Kuwait City	48	143	(12.9)
Riyadh	66	142	11.2
Madina	74	141	7.3
Manama	48	97	12.1
Amman	60	97	0.4
<b>Beirut</b>	<b>52</b>	<b>86</b>	<b>(2.8)</b>
Cairo City	35	33	53.1

Source: EY, Byblos Research

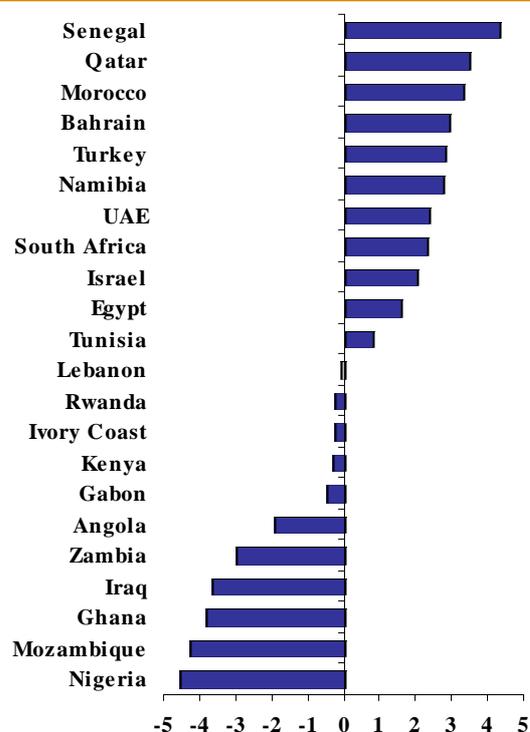
### Lebanon's external debt posts 21st lowest return in emerging markets, 16th lowest in the Middle East & Africa

Figures issued by Merrill Lynch indicate that Lebanon's external debt posted a return of -0.06% in January 2015, constituting the 16th lowest return among 38 markets in the Central & Eastern Europe and the Middle East & Africa (CEEMEA) region, as well as the 21st lowest return among the 70 emerging markets included in Merrill Lynch's External Debt EM Sovereign Index. Lebanon's external debt was outperformed by the emerging markets returns of 1.04%, the CEEMEA returns of 0.93%, and the 0.2% returns posted by 'B'-rated sovereigns in January 2015.

Further, Lebanon's external debt posted the 11th lowest return among 22 countries in the Middle East & Africa region in January 2015, ahead of Nigeria (-4.53%), Mozambique (-4.27%), Ghana (-3.83%), Iraq (-3.66%), Zambia (-2.97%), Angola (-1.91%), Gabon (-0.49%), Kenya (-0.32%), the Ivory Coast (-0.27%) and Rwanda (-0.26%). It was outperformed by Tunisia (+0.79%), Egypt (+1.6%), Israel (+2.06%), South Africa (+2.32%), the UAE (+2.4%), Namibia (+2.79%), Turkey (+2.84%), Bahrain (+2.92%), Morocco (+3.33%), Qatar (+3.49%) and Senegal (+4.32%).

Merrill Lynch indicated that the spread on Lebanese Eurobonds ended January 2015 at 437 basis points, constituting the 16th widest spread in the CEEMEA region and the 27th widest among emerging markets. It was wider than the emerging markets' overall spread of 344 basis points at end-January 2015. Lebanon has a weight of 3.22% on Merrill Lynch's External Debt EM Sovereign Index, the fifth highest in the CEEMEA universe and the 10th highest among emerging economies. Lebanon accounted for 5.9% of allocations in the CEEMEA region.

### External Debt Performance in the Middle East & Africa in January 2015 (%)



Source: Merrill Lynch, Byblos Research

### Airport passengers up 11% in January 2015

Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures, transit) totaled 501,766 in January 2015, constituting a rise of 11.4% from the same month last year. The total number of arriving passengers increased by 12.7% year-on-year to 225,479 in January 2015, compared to an annual drop of 0.7% in January 2014 and a rise of 10.1% in January 2013. Also, the number of departing passengers rose by 10.4% year-on-year to 275,366 in January 2015 relative to an annual decrease of 4.5% in January 2014 and an increase of 8% in January 2013.

In parallel, the airport's aircraft movements rose by 3.4% year-on-year to 5,104 take-offs and landings in January 2015, compared to a marginal rise of 0.5% in January 2014 and a drop of 4.7% year-on-year in January 2013. The HIA processed 5,824 metric tons of cargo in January 2015 that consisted of 5,776 tons of freight and 48.1 tons of mail.

### Number of new construction permits flat in 2014, surface area up 5%

The Order of Engineers of Beirut & Tripoli issued 16,663 new construction permits in 2014, constituting a marginal decrease of 0.4% from 16,728 in 2013 and relative to an 8.1% decline in 2013. Mount Lebanon accounted for 43.5% of the number of newly issued construction permits in 2014, followed by South Lebanon with 17%, Nabatieh with 12.8%, the North with 11.9%, the Bekaa with 9.7% and Beirut with 5%.

Further, the surface area of new construction permits reached 13.5 million square meters (sqm) in 2014, constituting an increase of 4.8% from 12.9 million sqm in 2013 and compared to decreases of 12% in 2013 and of 10.8% in 2012. Mount Lebanon accounted for 6.3 million sqm or 46.2% of total construction permits in 2014. It was followed by the North with 2.5 million sqm (18.4%), the South with 1.7 million sqm (12.2%), Nabatieh with 1.1 million sqm (8.2%), the Bekaa with 1.09 million sqm (8.1%), and Beirut with 937,914 sqm (6.9%).

### Fiscal deficit at 22% of expenditures in first 10 months of 2014 when assuming \$1.1bn in telecom revenues

Figures released by the Finance Ministry show that the fiscal deficit reached \$2.4bn in the first 10 months of 2014 and narrowed by 30.7% from \$3.5bn in the same period of 2013. The deficit was equivalent to 21.6% of total budget and Treasury expenditures compared to 30.8% of overall spending in the first 10 months of 2013. Overall government expenditures reached \$11.3bn and decreased by 1.5% year-on-year, while total revenues rose by 11.5% to \$8.8bn. Budgetary expenditures increased by 9.6% to \$9.8bn and included \$1.6bn in transfers to Electricité du Liban and \$571.5m in outlays from previous years, while budget revenues rose by 5.3% to \$7.9bn. Tax revenues grew by 3.6% year-on-year to \$6.1bn, of which 32.4%, or \$2bn were in VAT receipts that rose by 1.3% year-on-year. Tax revenues accounted for 77.2% of budgetary revenues and for 68.8% of total Treasury and budgetary receipts. Based on the Finance Ministry's own estimates, telecom receipts reached \$1.1bn in the first 10 months of 2014 compared to \$1bn in the same period of 2013. On a cash basis for the two periods, public revenues increased by 12.4% year-on-year; while the fiscal deficit widened to \$3.5bn and was equivalent to 31.1% of expenditures.

The distribution of other tax revenues shows that receipts from taxes on income, profits & capital gains increased by 11.7% to \$1.7bn in the first 10 months of 2014; revenues from customs regressed by 5% year-on-year to \$1.1bn; receipts from property taxes rose by 6.5% to \$681.4m; revenues from taxes on goods & services grew by 4.7% to \$287m; and other tax receipts, mainly stamp fees, increased by 3.8% to \$279.4m. Further, the distribution of income tax revenues shows that receipts from taxes on profits accounted for 41.4% of total income tax receipts, followed by taxes on wages & salaries with 24.4%, the tax on interest deposits with 22.9% and the capital gains tax with 9.4%. Receipts from the tax on profits increased by 13.6%, income from capital gains rose by 11.7%, revenues from the taxes on wages & salaries grew by 11.2%, and receipts from the tax on interest deposits rose by 7.7%.

Also, the distribution of property taxes shows that revenues from real estate registration fees increased by 5.1% to \$467.2m, receipts from built property taxes rose by 26.8% to \$127.9m and revenues from the inheritance tax regressed by 8.9% to \$86.2m. In parallel, non-tax budgetary receipts rose by 11.8% to \$1.8bn, with revenues from government properties rising by 10.4% to \$1.3bn and administrative fees & charges growing by 13.2% to \$353.3m. Based on the ministry's assumption, receipts from telecom services accounted for 80% of income from government properties and for 59.7% of non-tax revenues.

Debt-servicing totaled \$3.6bn in the first 10 months of 2014, up by 11.2% year-on-year. It accounted for 31.6% of total expenditures and for 36.2% of budgetary spending, and absorbed 40.4% of overall revenues and 45.3% of budgetary receipts. Interest payment on domestic debt grew by 16.5% year-on-year to \$2.2bn, while interest disbursement on foreign debt rose by 4.9% to \$1.2bn. Also, the repayment of principal on foreign debt regressed by 5.5% to \$152.3m. Excluding debt servicing, the primary budget balance posted a surplus of \$1.6bn, or 16.2% of budget expenditures compared to a surplus of \$1.7bn, or 18.9% of budget spending in the first 10 months of 2013. The overall primary balance posted a surplus of \$1.1bn or 10% of spending in the first 10 months of 2014, relative to a deficit of \$313.4m or 2.7% of total expenditures in the same period of 2013.

Fiscal Results in First 10 Months of 2014		
	Including Assumed Telecom Receipts	Excluding Assumed Telecom Receipts*
	US\$m	US\$m
Budget revenues	7,862	6,793
Tax revenues	6,071	6,071
Non-tax revenues	1,791	721.7
<i>of which Telecom revenues</i>	1,070	-
Budget expenditures	9,831	9,831
<b>Budget Surplus/Deficit</b>	<b>(1,969)</b>	<b>(3,039)</b>
<i>In % of budget expenditures</i>	<i>(20%)</i>	<i>(30.9%)</i>
<b>Budget Primary Surplus</b>	<b>1,594</b>	<b>524.7</b>
<i>In % of budget expenditures</i>	<i>16.2%</i>	<i>5.3%</i>
Treasury receipts	967.6	967.6
Treasury expenditures	1,436	1,436
Total Revenues	8,830	7,760
Total Expenditures	11,268	11,268
<b>Total Deficit</b>	<b>(2,438)</b>	<b>(3,508)</b>
<i>In % of total expenditures</i>	<i>(21.6%)</i>	<i>(31.1%)</i>
<b>Total Primary Surplus/Deficit</b>	<b>1,126</b>	<b>55.9</b>
<i>In % of total expenditures</i>	<i>10%</i>	<i>0.5%</i>

\* Cash basis

Source: Ministry of Finance, Byblos Research



### Commercial banks' assets reach \$176bn at end of 2014

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$175.7bn at the end of 2014, constituting an increase of 6.6% from the end of 2013. Private sector deposits totaled \$144.43bn, and increased by 6% from the end of 2013. Deposits in Lebanese pounds reached \$49.5bn and rose by 7.4% from end-2013; while deposits in foreign currencies totaled \$94.9bn at end-2014, constituting a rise of 5.4% from a year earlier. Total non-resident deposits rose by 6.4% to \$30.3bn at the end of 2014, of which non-resident foreign currency deposits totaled \$26.4bn and increased by 5.3% from end-2013. Total private sector deposits decreased by \$1.3bn in January but increased by \$848.4m in February, by \$843.8m in March, by \$1.6bn in April, by \$650.7m in May, by \$1.5bn in June, by \$965.8m in July, by \$200.3m in August, by \$508.1m in September, by \$13.3m in October, by \$705.1m in November and by \$1.68bn in December 2014. In comparison, they rose by \$558m in January, by \$744.9m in February, by \$1.8bn in March, by \$2bn in May, by \$1.2bn in June, by \$203m in August, by \$739m in October, by \$1.1bn in November and by \$3.1bn in December 2013, but declined by \$11.3m in April, by \$87.6m in July and by \$21.9m in September 2013. In parallel, deposits of non-resident banks totaled \$5.83bn at the end of 2014 and increased by 16.4% from a year earlier. The dollarization rate of deposits was 65.7% at the end of 2014, down from 66.1% at end-2013. Further, the average deposit rate in Lebanese pounds was 5.56% in December 2014 relative to 5.44% in the same month of 2013, while the same rate in US dollars was 3.07% compared to 2.95% in December 2013.

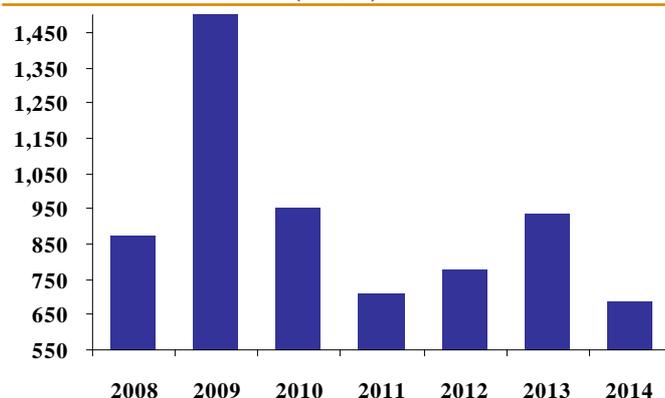
Loans to the private sector reached \$50.9bn at the end of 2014, constituting an increase of 7.4% from the end of 2013. In nominal terms, credit to the private sector rose by \$3.52bn in 2014 relative to an increase of \$3.93bn in 2013. Lending to the resident private sector totaled \$45.36bn, growing by 9.3% from the end of 2013; while credit to the non-resident private sector reached \$5.53bn, and decreased by 5.9% from end-2013. The dollarization rate in private sector lending regressed to 75.6% at the end of 2014 from 76.5% a year earlier. The average lending rate in Lebanese pounds was 7.49% in December 2014 compared to 7.29% in the same month of 2013, while the same rate in US dollars was 6.97%, up from 6.88% in December 2013. In addition, claims on non-resident banks reached \$12.17bn at the end of 2014, posting a decrease of 12.8% from end-2013. In parallel, claims on the public sector stood at \$37.35bn at the end of 2014, down by 0.9% from a year earlier. The ratio of private sector loans-to-deposits in foreign currencies stood at 40.5%, well below the Central Bank's limit of 70%, and compared to 40.3% a year earlier. In parallel, the same ratio in Lebanese pounds was 25.1% at end-2014, up from 24.1% at the end of 2013. The ratio of total private sector loans-to-deposits was 35.2% at end-2014 compared to 34.8% a year earlier. The banks' aggregate capital base stood at \$15.73bn, up by 10.8% from \$14.2bn at end-2013.

### Byblos Bank's stock price has significant upside

Regional investment bank EFG Hermes assigned a "Neutral" rating on the listed shares of Byblos Bank, one of the top banking and financial services groups in Lebanon. A "neutral" rating indicates that the stock is expected to perform in line with the expected returns of the market. EFG Hermes estimated the fair value of Byblos Bank's stock's price at \$1.82 per share, implying an 8.3% upside from its February 6, 2015 closing market price. It forecast Byblos Bank's lending activity to accelerate from a growth rate 4.8% in 2014 to a rate of 7% in 2015 and of 10.2% in 2016. It also forecast the Bank's deposit growth to pick up from 6.3% in 2014 to 7% and 9%, in 2015 and 2016, respectively. It noted that the Bank is one of the strongest lenders to retail and small- to medium-sized enterprises in Lebanon.

EFG Hermes expected Byblos Bank's earnings to rise from \$0.27 per share in 2014 to \$0.29 per share in 2015 and to \$0.32 per share in 2016, while it projected the reported dividend to rise from \$0.13 per share in each of 2014 and 2015 to \$0.14 per share in 2016. EFG forecast the dividend yield to increase from 7.6% in 2014 to 8.1% in 2015 and to 8.2% in 2016. It projected Byblos Bank's price-to-earnings ratio to drop from 6.3x in 2014 to 5.7x in 2015 and to 5.2x in 2016. EFG Hermes noted that the Bank's return on average equity improved from 10.8% in 2013 to 12.9% in 2014. It indicated that the increase was due to a decline in the cost of risk, as well as to a rebound in net interest income, which had been negatively affected during the 2011-13 period by an increase in reserved interest in Syria, devaluations of the Syrian and Sudanese currencies, and to Byblos' banks conservative investment approach. It forecast the Bank's ROAE to remain unchanged at 12.9% in 2015 and to improve to 13.3% in 2016. Also, it projected the Bank's return on average assets to rise from 0.8% in 2014 to 0.9% in each of 2015 and 2016. EFG Hermes indicated that Byblos Bank posted a strong capital adequacy ratio of 16.5% at the end of June 2014, according to Basel III criteria, which is significantly above the minimum regulatory requirements of 11.5% for 2014 and 12% for 2015.

Average Monthly Growth of Private Sector Deposits (US\$m)



Source: Association of Banks in Lebanon, Byblos Research

### Automotive firm raises funds through securitization

Auto dealer Century Motor Company sal (CMC) raised about \$7.5m through securitizing \$8.6m in auto loans that CMC extended to car rental companies, corporates and individuals. The deal constitutes CMC's first securitization transaction and the first securitization for a Korean brand automobile dealer in the Lebanese market. The securitization fund, CMC Automotive SIF, issued two classes of notes, with senior Class A having an expected weighted average life of 3.75 years, and Class B notes subordinated to Class A. In addition, the deal provides for a three-year replenishing period during which additional eligible assets could be financed through the same structure. Established in 1993, CMC is the exclusive agent of Hyundai Motor Company products in Lebanon. The deal was structured, arranged and managed by BSEC, a wholly-owned subsidiary of Banque BEMO sal.

### BLC Bank's net profits at \$43.3m in 2014

BLC Bank sal, one of Lebanon's listed banks, announced unaudited consolidated net profits of \$43.3m in 2014, constituting an increase of 2.7% from net earnings of \$42.1m in 2013. The bank's unaudited net profits reached \$13.1m in the first quarter, \$10.2m in the second quarter, \$10.7m in the third quarter and \$9.3m in the fourth quarter of 2014. Net interest income rose by 10.6% to \$129.8m, while net fees & commissions' receipts grew by 3.1% to \$19.1m in 2014. Net financial revenues after impairment charge for credit losses reached \$120.5m in 2014, reflecting a rise of 44.4% from \$83.5m in 2013. Total operating expenses increased by 3% in 2014 to \$86.4m, with staff expenses growing by 3.5% year-on-year to \$52.7m and administrative expenditures rising by 1.1% to \$28.6m. The bank's cost-to-income ratio was 54.6% in 2014 relative to 56.9% in 2013. BLC Bank's return on average assets was 0.83% in 2014 relative to 0.84% in 2013; while its return on average equity was 9.5% last year, down from 10.6% in 2013.

Total assets reached \$5.34bn at the end of 2014, reflecting an increase of 4% from \$5.1bn at end-2013; while loans & advances to customers rose by 3.3% to \$1.94bn at end-2014. Customer deposits regressed by 0.2% from end-2013 to \$4.29bn at the end of 2014. The loan-to-deposit ratio increased from 43.6% at the end of 2013 to 45.2% at end-2014. In parallel, shareholders' equity rose by 8.2% year-on-year to \$476m at the end of 2014.

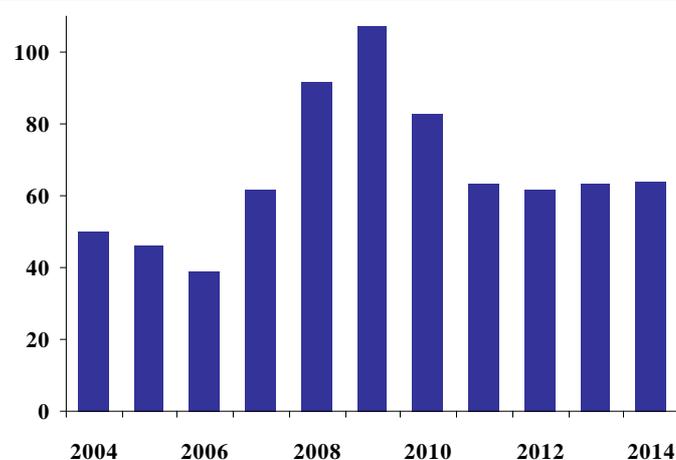
### MEA's net profits at \$69m in 2014

National flag carrier Middle East Airlines (MEA) announced unaudited net profits of \$69m in 2014, constituting an increase of 9.5% from \$63m in 2013, but still far below its net income peak of \$107.3m in 2009. The company said its total gross revenues were about \$700m last year, down from \$708m in 2013. It is not possible to verify independently the actual financial state of MEA, as it does not publish its balance sheet or income statement. MEA indicated that it posted losses in the first quarter of 2014, but it managed to offset the losses following a rise in the number of airport passengers in the remaining quarters of the years. The number of airport passengers at the Hariri International Airport fell by 8% in the first quarter of 2014, but ended the year with a 5% increase.

MEA attributed its relatively good performance last year to careful planning, restructuring measures and the increase in flight destinations. It added that the drop in global oil prices has helped it reduce its overall operating costs. However, it has yet to transfer these savings to consumers and end-users. It said that it currently charges a 15% fuel surcharge on airline tickets, which generates about \$100m annually. But it noted that it might consider reducing this charge by half to reflect the drop in oil prices.

MEA, which is 99% owned by the Central Bank of Lebanon, has a fleet of 17 modern Airbus planes, serves 33 destinations, and is part of the global airline alliance SkyTeam. It said that it might acquire or lease one or two planes in 2016. The Central Bank allocated about \$100m to MEA between 1998 and 2001 to implement its restructuring program, as well as an advance of \$160m to increase its capital. MEA has been transferring about \$55m to the Central Bank each year during the past six years, and the Central Bank is channeling them to the Finance Ministry. MEA has three other subsidiaries that are the Middle East Airlines Ground Handling, Middle East Airport Services and the Mideast Aircraft Services Company. MEA employs about 2,000 employees, but the number of employees exceeds 5,000 at the group level.

MEA Net Profits (US\$m)



Source: Middle East Airlines

### Finance Ministry unblocks dues to Public Corporation for Housing

The Public Corporation for Housing (PCH) announced that it has received LBP70bn or \$46.4m from the Treasury to pay its late dues to commercial banks. It received the first advance of LBP30bn or \$19.9m in August 2014 and a second advance of LBP40bn or \$26.5bn in January 2015 to pay interest arrears it owes to banks for 2014. The accumulation of interest arrears forced some commercial banks to stop extending loans under the protocol signed between the PCH and the Association of Banks in Lebanon (ABL), while other banks processed the applications with caution. The Banking Control Commission of Lebanon estimated that the PCH owes banks about \$22m in interest payments for 2014 and will owe about \$150m in 2015.

In addition, the PCH indicated that the Ministry of Finance agreed to disburse to the PCH the latter's share in construction fees that amounts to LBP380bn or \$252.1m, and which the ministry has not transferred since 2001. It noted that the ministry will pay LBP125bn or \$82.9m in a first installment and will disburse the remaining amount gradually. Also, the PCH and the ministry agreed that the ministry will pay the PCH's share from construction fees on an annual basis from 2015 onwards, which it estimated at LBP40bn or \$19.9m for this year.

The ABL considered that the annual payments from the Finance Ministry would prevent the accumulation of arrears and the occurrence of delays in the processing of housing loans under the protocol with the PCH. Established in 1996, the PCH provides subsidized mortgages with maturities ranging between 10 years and 30 years to households with a monthly income that do not exceed LBP6.75m, or \$4,500. Also, qualified borrowers are exempt from registration, mortgage and release of mortgage fees. The subsidized loans currently carry a fixed annual interest rate of 4.67%.

### Net profits of health insurance branch down 4% to \$12.8m in 2013, claims up 12% to \$285m

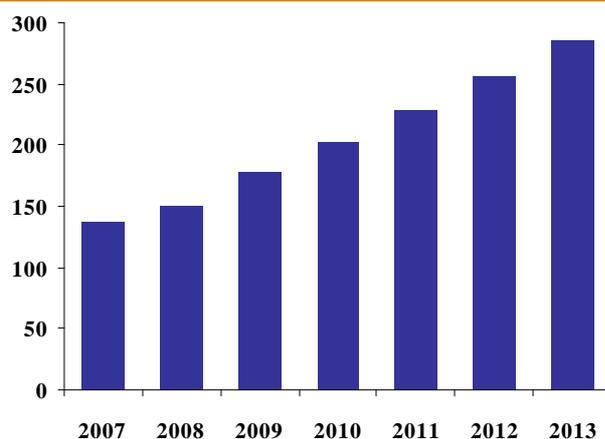
Figures released by the Insurance Control Commission (ICC) show that the aggregate net profits of insurance companies active in the health insurance segment in Lebanon reached \$12.8m in 2013, constituting a decrease of 3.7% from \$13.3m in 2012. The medical insurance segment posted a net profit margin of 3% in 2013, compared to a ratio of 3.6% in 2012 and relative to an 8% profit margin for the insurance sector. Health insurance was the largest segment of the non-life branches in 2013, with 715,888 people covered by the various medical plans that were offered through 41 health insurers on the market.

Further, gross written premiums from the health insurance category rose by 11.6% to \$407m in 2013 and accounted for 28.7% of the sector's aggregate premiums. The 'individual' health segment's written premiums reached \$169.3m in 2013 and accounted for 41.6% of the medical branch's aggregate premiums, while those of the 'group' category totaled \$237.5m and accounted for 58.4% of the total. The medical insurance market is heavily concentrated, as the top five companies underwrote 56% of health premiums for individuals and 68% for groups in 2013. MEDGULF led all insurers in the health insurance branch with premiums of \$90.3m in 2013 and accounted for 22.2% of the health branch's aggregate premiums, followed by AXA Middle East with \$54.3m (11%), Bankers with \$42.7m (10.5%), Allianz SNA with \$30.4m (7.5%), and Fidelity with \$28.3m (7%).

In parallel, paid claims totaled \$285.2m in 2013, constituting a rise of 11.7% from \$255.3m in 2012. Gross claims paid from the 'individual' segment reached \$89m and accounted for 31.2% of aggregate health claims in 2013, while those of the 'group' section totaled \$196.3m and accounted for 68.8% of the total in the same year. The number of paid claims totaled 997,242 in 2013, constituting an increase of 23% from 811,398 in 2012.

In parallel, the loss ratio, or the ratio of claims incurred to earned gross premiums, of the 'individual' health segment was 57% in 2013; the commission ratio, or the ratio of acquisition cost to earned gross premiums, reached 17%; the expense ratio, or the ratio of other general expenses to earned gross premiums, was 14%; and the reinsurance ratio, or the ratio of net reinsurance income to earned gross premiums, reached 2% in 2013. As such, the average technical combined loss ratio, which is the aggregate ratio of the above four ratios, reached 90% in 2013. Further, the loss ratio of the 'group' medical insurance segment was 85% in 2013, the commission ratio reached 7%, the expense ratio was 12%, and the reinsurance ratio reached 1% in 2013. As such, the average combined loss ratio reached 105% in 2013.

Health Insurance Paid Claims (US\$m)



Source: Insurance Control Commission

## 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	Apr 2013	Mar 2014	Apr 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	Apr 2013	Mar 2014	Apr 2014	Change*	Risk Level
Political Risk Rating	58.6	58.3	58.3	▲	High
Financial Risk Rating	41.5	40.5	40.7	▲	Very Low
Economic Risk Rating	36.3	35.9	36.1	▲	Low
Composite Risk Rating	68.2	67.3	67.5	▲	Moderate

\*year-on-year change in risk

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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