

## LEBANON THIS WEEK

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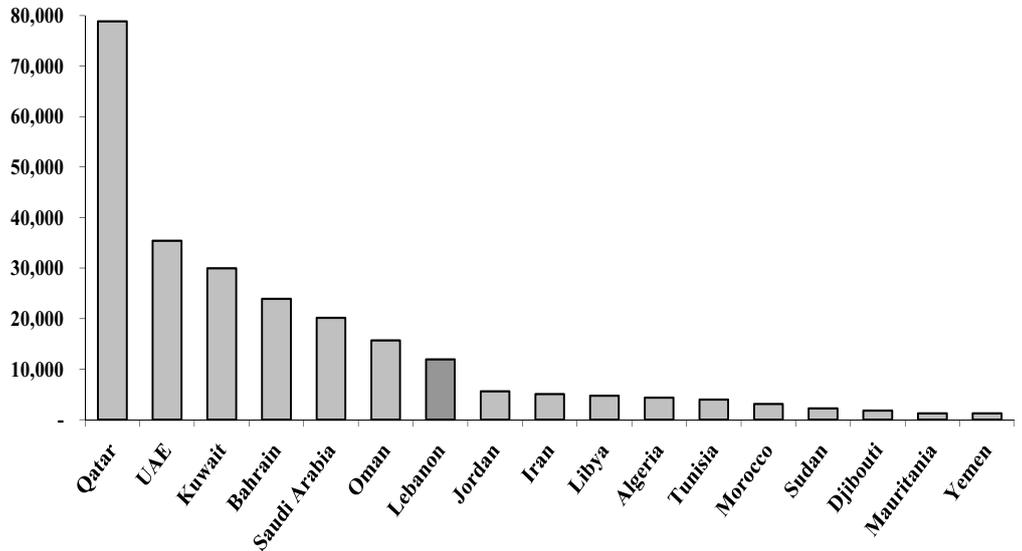
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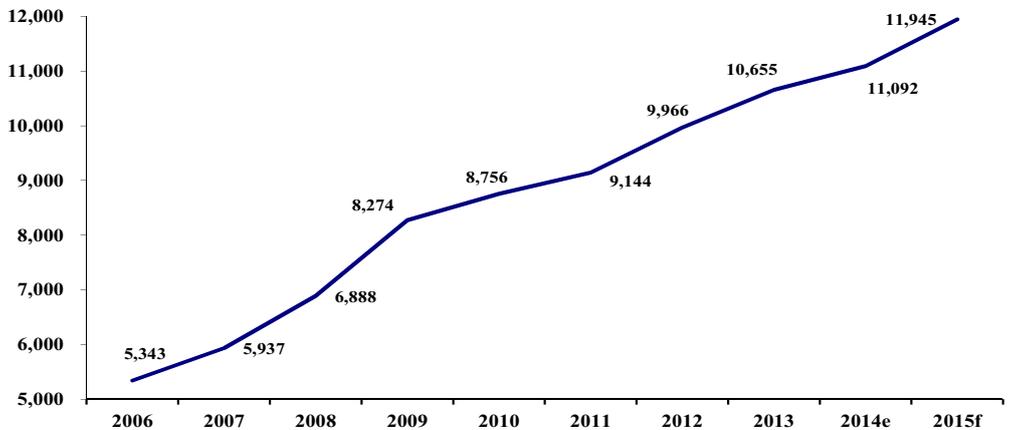
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### Charts of the Week

Projected GDP per capita in Middle East & North African Countries in 2015\*



GDP per capita in Lebanon\*



\*in US dollars at current prices

Source: International Monetary Fund - October 2015, Byblos Research

### Quote to Note

"Depositors have demonstrated little aversion to political shocks in recent years."

*Moody's Investors Service, on the resilience of deposit growth in the Lebanese banking sector amid political and external shocks*

### Number of the Week

**137:** Lebanon's rank out of 140 countries on the quality of electricity supply, according to the World Economic Forum's Global Competitiveness Index for 2015-16

## Lebanon in the News

\$m (unless otherwise mentioned)	2014	Jun 14	Mar 15	Apr 15	May 15	Jun 15	% Change*
Exports	3,313	278	257	235	342	281	1.08
Imports	20,494	1,567	1,509	1,444	1,486	1,690	7.85
Trade Balance	(17,181)	(1,289)	(1,252)	(1,209)	(1,144)	(1,409)	9.31
Balance of Payments	(1,408)	(561)	(417)	136	189	(794)	41.59
Checks Cleared in LBP	18,143	1,518	1,579	1,550	1,564	1,593	4.94
Checks Cleared in FC	56,348	4,807	4,322	4,158	4,424	4,504	(6.30)
Total Checks Cleared	74,491	6,325	5,901	5,708	5,988	6,097	(3.60)
Budget Deficit/Surplus	(4,632)	(187.36)	(391.66)	(85.53)	(167.04)	(38.90)	(79.24)
Primary Balance	1,970	133.93	(22.84)	42.17	281.74	289.34	116.04
Airport Passengers	6,567,647	610,170	476,739	598,055	544,388	591,890	(3.00)

\$bn (unless otherwise mentioned)	2014	Jun 14	Mar 15	Apr 15	May 15	Jun 15	% Change*
BdL FX Reserves	32.40	33.85	34.53	33.77	34.10	34.11	0.77
<i>In months of Imports</i>	<i>18.97</i>	<i>21.60</i>	<i>22.88</i>	<i>23.38</i>	<i>22.95</i>	<i>20.18</i>	<i>(6.56)</i>
Public Debt	66.58	65.71	69.44	69.46	69.37	69.02	5.04
Net Public Debt	57.31	55.17	58.51	58.97	59.28	59.46	7.78
Bank Assets	175.70	169.57	176.95	179.40	179.03	180.08	6.20
Bank Deposits (Private Sector)	144.43	140.35	145.46	147.50	147.89	148.58	5.86
Bank Loans to Private Sector	50.90	49.18	51.14	51.43	51.37	51.74	5.21
Money Supply M2	48.69	46.89	49.44	50.01	50.26	50.59	7.90
Money Supply M3	117.68	114.97	118.06	119.75	120.04	120.46	4.77
LBP Lending Rate (%)	7.49	7.45	6.94	7.10	7.11	7.12	(33bps)
LBP Deposit Rate (%)	5.56	5.49	5.57	5.61	5.56	5.51	2bps
USD Lending Rate (%)	6.97	6.97	7.16	7.08	7.04	7.03	6bps
USD Deposit Rate (%)	3.07	2.98	3.12	3.16	3.14	3.16	18bps
Consumer Price Index**	0.59	1.19	0.00	(0.17)	(0.13)	(0.38)	-

\* Year-on-Year

\*\* Year-on-Year percentage change

Note: bps i.e. basis point

Source: Association of Banks in Lebanon, Banque du Liban, Byblos Research

## Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization
BLOM Listed	9.40	0.00	207,500	18.40%
BLOM GDR	9.62	(0.31)	52,000	6.47%
Solidere "A"	10.02	(0.60)	48,862	9.12%
Solidere "B"	9.85	(1.89)	45,922	5.83%
Audi GDR	6.00	1.01	18,052	6.35%
Byblos Common	1.60	(0.62)	16,034	5.24%
Audi Listed	5.99	0.00	12,600	21.80%
Byblos Pref. 08	101.00	0.00	2,500	1.84%
Byblos Pref. 09	100.50	(0.40)	625	1.83%
HOLCIM	15.00	0.00	167	2.67%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Jan 2016	8.500	101.34	2.94%
Mar 2017	9.000	105.74	4.76%
Nov 2018	5.150	100.25	5.06%
May 2019	6.000	101.38	5.57%
Mar 2020	6.375	102.50	5.72%
Apr 2021	8.250	110.25	6.03%
Oct 2022	6.100	100.13	6.08%
Jun 2025	6.250	99.50	6.32%
Nov 2026	6.600	101.13	6.46%
Feb 2030	6.650	99.50	6.70%

Source: Byblos Bank Capital Markets

	Oct 12-16	Oct 5-9	% Change	September 2015	September 2014	% Change
<b>Total Shares Traded</b>	430,830	462,841	(6.92)	10,044,627	35,353,319	(71.59)
<b>Total Value Traded</b>	\$5,363,973	\$5,033,856	6.56	\$96,050,554	\$228,108,320	(57.89)
<b>Market Capitalization</b>	\$10.98bn	\$11.00bn	(0.18)	\$11.02bn	\$11.07bn	(0.47)

Source: Beirut Stock Exchange (BSE)



### Lebanon has 26th highest loan penetration rate in the world, 42nd highest deposit penetration rate in 2014

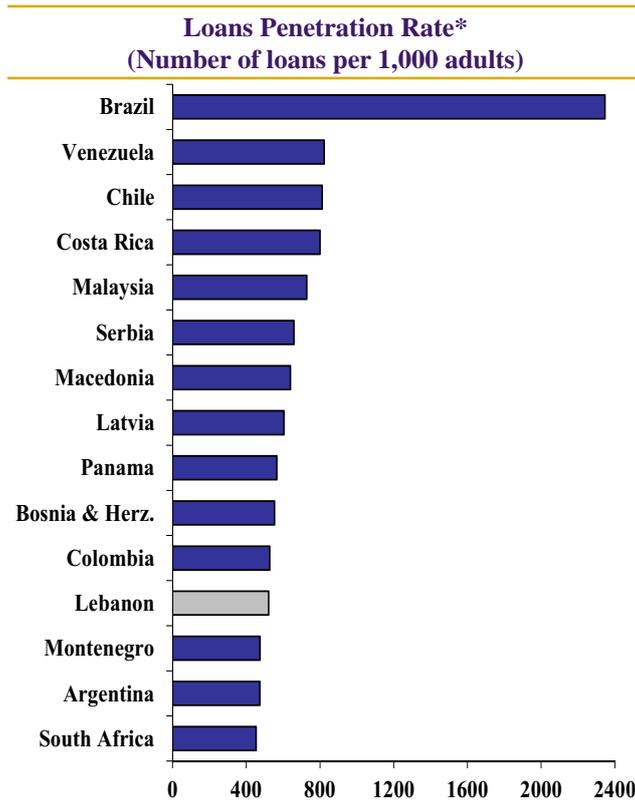
Figures issued by the International Monetary Fund show that there were 294.2 borrowers per 1,000 adults at commercial banks in Lebanon at the end of 2014, constituting an increase of 4.8% from 280.7 borrowers per 1,000 adults in 2013 and compared to 179.1 borrowers per 1,000 adults in 2005. The borrowers' penetration rate ranks Lebanon in 26th place globally among 88 countries with available figures for 2014, in 14th place among 29 upper middle-income countries (UMICs) and in first place among nine Arab countries. Globally, Lebanon had a higher penetration rate than Azerbaijan, Bosnia & Herzegovina and Paraguay, and a lower rate than Macedonia, China mainland and Thailand. It also had a lower rate than Turkey, Uruguay, Serbia, Chile, Brazil, Malaysia, Palau, Argentina, Latvia, Venezuela, Macedonia, China mainland and Thailand among UMICs. Further, there were 521.4 loan accounts per 1,000 adults at Lebanese commercial banks in 2014, down 5.8% from 553.8 loan accounts per 1,000 adults in 2013 and compared to 273.3 loan accounts per 1,000 adults in 2005. The loan penetration rate ranks Lebanon in 26th place among 91 countries globally with available figures for 2014, in 12th place among 30 UMICs and in first place among seven Arab countries.

In parallel, there were 792.5 depositors per 1,000 adults at Lebanese commercial banks in 2014, constituting a drop of 0.2% from 794.3 depositors per 1,000 adults in 2013 and compared to 759.5 depositors per 1,000 adults in 2005. As a result, Lebanon had the 28th highest depositors' penetration rate among 70 countries worldwide with available figures for 2014, the 13th highest among 21 UMICs and the second largest among eight Arab countries. Globally, Lebanon had a higher depositors' penetration rate than Belize, the Dominican Republic and Peru, and a lower rate than Saudi Arabia, Uruguay and Namibia. It also had a higher rate than the Dominican Republic and Peru and a lower rate than Uruguay and Namibia among UMICs; it also had a lower rate than only Saudi Arabia among Arab countries. Further, there were 1,317 deposit accounts per 1,000 adults at commercial banks in Lebanon in 2014, down 4.5% from 1,378 deposit accounts per 1,000 adults in 2013 and compared to 1,074 deposit accounts per 1,000 adults in 2005. As such, Lebanon had the 42nd highest deposit account penetration rate among 109 countries worldwide with available figures for 2014, the 19th highest among 31 UMICs and the highest among 12 Arab countries.

Further, there were 1.06 million borrowers and 1.88 million loan accounts at commercial banks in Lebanon at the end of 2014. Resident private sector loans were equivalent to 99.2% of GDP at the end of the year, the 22nd highest such ratio among 159 countries globally, the fourth largest among 46 UMICs and the highest among 15 Arab countries. Also, there were 2.85 million depositors and 4.74 million deposit accounts at commercial banks in Lebanon in 2014. Resident private sector deposits were equivalent to 249.6% of GDP in 2014, the sixth highest such ratio among 158 countries globally, the largest among 46 UMICs and the highest among 14 Arab countries.

### Economic activity stagnates in first eight months of 2015

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 266.6 points in August 2015 compared to 264.6 in July 2015 and 265 in August 2014. The Coincident Indicator, an average of 8 weighted economic indicators, increased by 0.8% month-on-month and by 0.6% year-on-year in August 2015. The indicator averaged 274.4 in the first eight months of 2015, up 0.7% from 272.5 in the same period of 2014. Also, the indicator averaged 274.4 in the 12 months ending August 2015, compared to 274.3 in the 12 months ending July 2015 and 270.4 in the 12 months ending August 2014. As a result, the average coincident indicator was nearly unchanged month-on-month but grew by 1.5% year-on-year. In parallel, the indicator regressed 11 times and improved 12 times on a monthly basis in the month of August since 1993. It averaged 249.5 points in 2010, 255.7 points in 2011, 256.6 points in 2012, 264.7 points in 2013 and 273.2 points in 2014.



\*Top 15 upper middle-income countries  
Source: International Monetary Fund, Byblos Research

### Lebanon ranks 120th globally, 14th in MENA region in country risk

In its quarterly survey of the country risk level in 186 countries, the Euromoney Group ranked Lebanon in 120th place worldwide and in 14th place among 22 countries in the Middle East & North Africa region in the third quarter of 2015. Also, Lebanon came in 38th place among 52 upper middle-income countries (UMICs) included in the survey. Lebanon's global rank regressed by one spot from 119th place in the second quarter of 2015 and by two spots from 118th place in the third quarter of 2014. Lebanon's regional rank has not changed since 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.

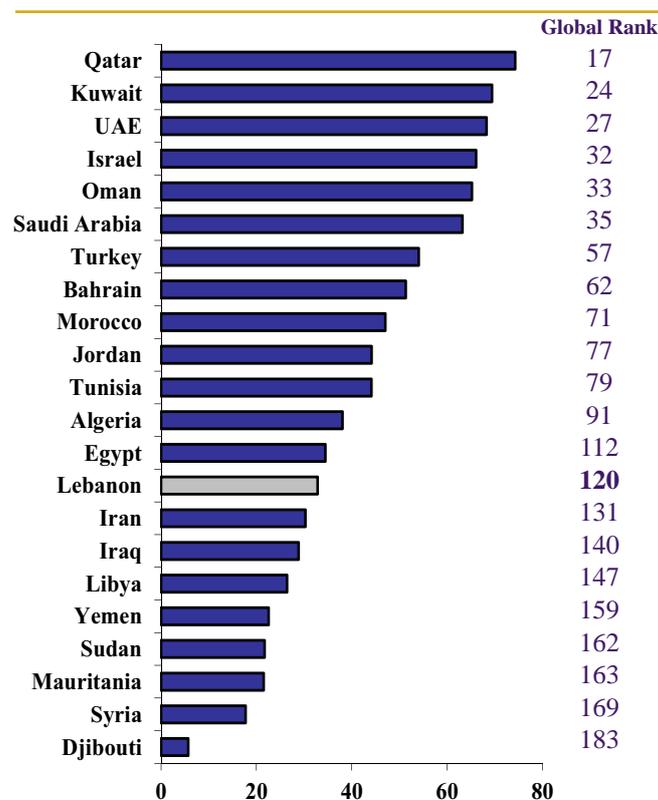
Globally, Lebanon had a lower country risk level than that of Papua New Guinea, Madagascar and Cameroon, and a higher risk level than that of Egypt, Jamaica and Uganda among economies with a GDP of \$10bn or more. It also ranked ahead of Argentina and behind Jamaica among UMICs with a GDP of \$10bn or more. Lebanon's global rank regressed by three spots on the Economic Performance category, by two spots on the Political Risks factor and by one spot on each of the Structural Assessments and Credit Ratings categories quarter-on-quarter. In contrast, Lebanon's rank improved by 17 spots on the Access to Bank Finance & Capital Markets factor, while it was unchanged on the Debt Indicators category from the preceding quarter.

In parallel, Lebanon received a score of 32.84 points, constituting a marginal increase of 0.8% from 32.58 points in the second quarter of 2015 and a rise of 1.4% from 32.39 points in the third quarter of 2014. Lebanon's score came below the global average score of 42.7 points, the UMICs' average score of 39.6 points and the MENA average of 42.2 points. Also, its score came below the Arab average score of 40.9 points and the Gulf Cooperation Council (GCC) countries' average score of 65.3 points, but was above the average score of non-GCC Arab countries of 29.6 points.

Lebanon's score regressed by 2.1% quarter-on-quarter on each of the Economic Performance and Political Risks categories and by 0.1% on the Structural Assessment factor, while its score on the Access to Bank Finance & Capital Market category improved by 100% quarter-on-quarter. Its score on each of the Credit Ratings and Debt Indicators categories was unchanged from the second quarter of 2015.

Lebanon ranked ahead of Honduras and behind Algeria globally, while it came ahead of Mauritania and behind Algeria regionally on the Political Risks category. Also, it ranked ahead of Senegal and behind Serbia worldwide, and came ahead of Libya and behind Iraq regionally in terms of Economic Performance. Further, Lebanon came ahead of Morocco and behind Panama globally, and ranked ahead of Morocco and behind Bahrain regionally on the Structural Assessment category. Finally, Lebanon ranked ahead of Niger and behind Liberia globally, and came ahead of only Mauritania and Djibouti regionally on the Debt Indicators category.

MENA Countries Rankings & Scores  
in Third Quarter of 2015



Source: Euromoney, Byblos Research

Country Risk Indicators for Lebanon - Third Quarter 2015

	Weighting (%)	Score	MENA Rank	Global Rank	MENA Avg Score	Global Avg Score
Political Risks	30	10.24	14	130	12.20	13.74
Economic Performance	30	12.32	14	114	13.53	13.36
Structural Assessments	10	5.08	9	66	4.37	4.01
Debt Indicators	10	2.69	20	161	5.19	4.58
Credit Rating	10	1.04	12	112	3.09	3.14
Access to Bank Finance & Capital Markets	10	1.50	14	122	3.77	3.88

Source: Euromoney, Byblos Research



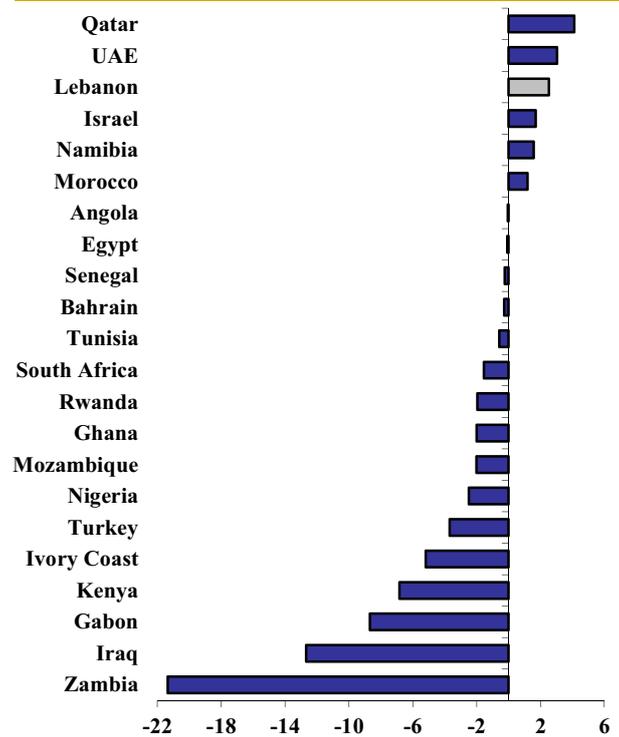
### Lebanon's external debt posts 18th highest return in emerging markets, third highest in the Middle East & Africa

Figures issued by Merrill Lynch indicate that Lebanon's external debt posted returns of 2.53% in the first nine months of 2015, constituting the ninth highest return among 38 markets in the Central & Eastern Europe and the Middle East & Africa (CEEMEA) region, as well as the 18th highest return among the 70 emerging markets included in Merrill Lynch's External Debt EM Sovereign Index. Lebanon outperformed the overall emerging markets return of -0.18% during the covered period. Further, Lebanon's external debt posted the third highest return among 22 countries in the Middle East & Africa region in the first nine months of 2015, behind only Qatar (+4.12%) and the UAE (+3.04%).

In parallel, Lebanon's external debt posted returns of -0.26% in September 2015, constituting the 18th highest return in the CEEMEA region and the 30th highest return in emerging markets during the covered month. Lebanon outperformed the overall emerging markets return of -0.97%, those of the CEEMEA region of -0.27%, and the -1.74% return posted by 'B'-rated sovereigns in September 2015.

Further, Lebanon's external debt posted the sixth highest return in the Middle East & Africa region in September 2015. It outperformed Tunisia (-0.28%), Egypt (-0.45%), South Africa (-1.19%), Turkey (-1.9%), Namibia (-2.17%), Nigeria (-2.21%), Angola (-2.27%), Senegal (-2.39%), the Ivory Coast (-3.41%), Gabon (-4.79%), Kenya (-5.13%), Rwanda (-5.56%), Ghana (-5.76%), Iraq (-9.16%) and Zambia (-11.54%); while it underperformed Qatar (+0.55%), the UAE (+0.35%), Israel (+0.04%), Morocco (+0.02%) and Bahrain (-0.05%).

**External Debt Performance in the Middle East & Africa in First Nine Months of 2015 (%)**



Source: Merrill Lynch, Byblos Research

Merrill Lynch indicated that the spread on Lebanese Eurobonds ended September 2015 at 449 basis points, constituting the 16th widest spread in the CEEMEA region and the 26th widest among emerging markets. It was wider than the emerging markets' overall spread of 355 basis points at the end of September 2015. Lebanon has a weight of 3.4% on Merrill Lynch's External Debt EM Sovereign Index, the fifth largest weight in the CEEMEA universe and the 10th biggest among emerging economies. Lebanon accounted for 6.1% of allocations in the CEEMEA region.

### Government arrears to private hospitals exceed \$900m

The Syndicate of Hospitals in Lebanon indicated that the Lebanese government and various public institutions owe private hospitals more than \$900m in payment arrears as at September 2015. It noted that arrears have reached about LBP300bn (\$199m) in the first nine months of 2015 and are expected to rise to LBP450bn (\$298.5m) for the full year if the government fails to settle part of its overdue payments to hospitals before the end of the year. The Ministry of Public Health has contracts with private and public hospitals to cover the cost of medical treatment to uninsured patients, and allocates an annual budget for each hospital. The contracts stipulate that uninsured patients pay 15% of the bill at private hospitals and 5% of the bill at public hospitals, with the ministry reimbursing the balance. Also, the syndicate noted that there are LBP200bn (\$132.7m) in arrears accumulated between 2000 and 2014 from emergency treatments that the hospitals provided above the fixed annual funds from the ministry.

The syndicate, which is comprised of more than 115 private hospitals, called on the government to implement the contracts for 2015 between the hospitals on one hand, and the ministry and other public providers of medical insurance on the other hand, so the hospitals can be paid. It also asked the government to issue LBP120bn (\$79.6m) worth of Treasury bills to cover dues owed to hospitals for the period between 2000 and 2011 as stipulated by Law 225 dated October 2012. Further, it requested the government to secure the needed funds for the Health Ministry to settle arrears from 2012, 2013 and 2014, as well as to provide military and security institutions the required funds to settle their outstanding debt to private hospitals.

The public sector currently covers 31% of health expenditures in Lebanon, including beneficiaries of the Ministry of Health, the National Social Security Fund, the Civil Servants Cooperative, the Lebanese Army, Internal Security Forces, General Security Forces and State Security Forces. The Health Ministry's latest available figures indicate that it signed contracts with 141 private hospitals and 25 public hospitals across Lebanon in 2013 and that it provided subsidized admissions to 154,681 patients at private hospitals in the same year.



### New car sales up 1% in first nine months of 2015

Figures released by the Association of Automobile Importers in Lebanon (AIA) indicate that dealers sold 29,170 new passenger cars in the first nine months of 2015, constituting a rise of 1.2% from 28,811 cars sold in the same period of 2014. Consumers purchased 2,436 new cars in January, 2,141 automobiles in February, 2,966 cars in March, 3,198 vehicles in April, 3,481 cars in May, 3,825 automobiles in June, 4,241 cars in July, 3,603 vehicles in August and 3,279 automobiles in September 2015. Japanese cars accounted for 38.6% of total sales in the first nine months of 2015, followed by Korean cars with a 34.4% share, European automobiles (20.5%), American vehicles (5.7%) and Chinese cars (0.7%). The number of American vehicles sold rose by 26.1% year-on-year, sales of Japanese cars grew by 17.8% and European cars sold increased by 14.1%; while the number of new Chinese vehicles sold dropped by 52% year-on-year and sales of Korean cars regressed by 18.1%. Kia is the leading brand in the Lebanese market with 5,473 cars sold in the first nine months of 2015, followed by Toyota with 4,731 in new car sales, Hyundai (4,531), Nissan (3,070), Renault (1,263) and Suzuki (1,041). In parallel, 1,666 new commercial vehicles were sold in the first nine months of 2015, down by 3.6% from 1,728 vehicles in the same period last year.

The AIA attributed the modest increase in the sale of new passenger cars to the challenging domestic economic, political and security conditions in the country. The AIA reiterated that the majority of new cars sold are small-engine automobiles with a low selling price. The number of new vehicles sold by the country's top five distributors reached 21,493 in the first nine months of 2015 and accounted for 69.7% of new car sales. NATCO sal sold 5,473 vehicles, equivalent to 17.7% of the total, followed by Boustany United Machineries sal with 5,023 vehicles (16.3%), Century Motor Co. sal with 4,618 (15%), Rasamny Younis Motor Co. sal with 3,517 (11.4%) and Bassoul Heneiné sal with 2,862 (9.3%).

### Kafalat loan guarantees down 24% to \$66m in first nine months of 2015

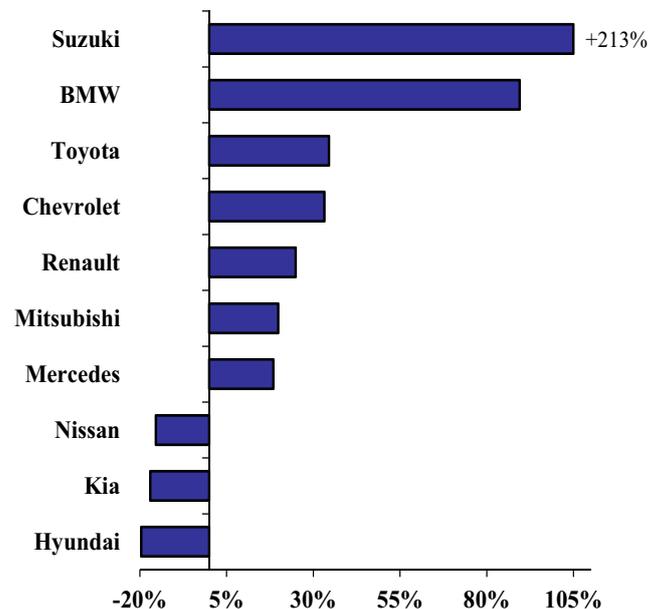
Figures released by the Kafalat Corporation show that loans extended to small- and medium-size companies under the guarantee of Kafalat reached \$66.3m in the first nine months of 2015, constituting a decline of 23.7% from \$87m in the same period of 2014. Kafalat provided 476 loan guarantees year-to-September 2015, down by 29.1% from 671 guarantees in the first nine months of 2014. The average loan size reached \$139,391 during the covered period compared to \$129,677 in the first nine months of last year. Mount Lebanon accounted for 38.5% of the total number of guarantees, followed by the Bekaa with 21.4%, the North with 12.8%, the South with 12.4%, Nabatieh with 8% and Beirut with 6.9%. The agricultural sector accounted for 47.9% of the total number of guarantees, followed by the industrial sector with 35.9%, tourism with 9%, handicraft with 3.8% and specialized technologies with 3.4%. Kafalat is a state-sponsored organization that provides financial guarantees for loans of up to \$400,000 earmarked for the setup and expansion of small- and medium-size companies in productive sectors. It guarantees up to 75% of the loan amount and a similar percentage of the interest that accrues during the grace period. It also guarantees up to 90% of the loan amount for innovative start-ups and a similar percentage of the interest that accrues during the grace period.

### Top five freight forwarders' import activity down 4% in first eight months of 2015

Figures released by the Port of Beirut Authority show that overall import shipping operations by the top five freight forwarders through the port reached 226,107 20-foot equivalent units (TEUs) in the first eight months of 2015, constituting a decline of 4% from 235,456 TEUs in the same period last year. The five freight forwarders accounted for 59.8% of the total import freight forwarding market and for 90.2% of imports to the Lebanese market during the covered period. Mediterranean Shipping Company (MSC) handled 78,984 TEUs in imports in the first eight months of 2015, equivalent to a 20.9% share of the total freight forwarding import market. It was followed by Sealine Group with 50,979 TEUs (13.5%), Merit Shipping with 39,009 TEUs (10.3%), Metz Group with 38,067 TEUs (10.1%) and Gezairy Transport with 19,068 TEUs (5%). Further, Metz Group registered the highest growth in import shipping among the top five freight forwarders at 17% year-on-year, while Merit Shipping posted the steepest decline at 24.1%.

In parallel, export shipping operations by the top five freight forwarders through the Port of Beirut reached 54,798 TEUs in the first eight months of 2015, constituting an increase of 31.1% from 41,791 TEUs in the same period last year. The five freight forwarders accounted for 14.6% of the total export freight forwarding market and for 98.1% of exported Lebanese cargo during the first eight months of 2015. Merit Shipping handled 20,399 TEUs of freight in the first eight months of the year, equivalent to 36.5% of the Lebanese cargo export market. It was followed by Sealine Group with 14,073 TEUs (25.2%), Metz Group with 13,625 TEUs (24.4%), MSC with 3,695 TEUs (6.6%) and Gezairy Transport with 3,006 TEUs (5.4%). Further, Metz Group registered the highest growth in export shipping among the top five freight forwarders at 100.1% year-on-year, while Sealine Group posted the only decline at 4%.

Sales of Top 10 Car Brands in First Nine Months  
(% change\*)



\*from the first nine months of 2014

Source: AIA, Byblos Research

### **Lebanon & Gulf Bank's profits at \$16m in first half of 2015**

Lebanon & Gulf Bank sal, one of Lebanon's top 14 banks, announced unaudited consolidated net profits of \$15.7m in the first half of 2015, constituting a rise of 6.7% from the same period last year. Net operating income increased by 6.2% year-on-year to \$34.6m, with net interest income growing by 3.2% to \$23.8m and net fees & commissions receipts decreasing by 30% to \$5m. Non-interest income accounted for 31.2% of total income, down from 32.7% in the first half of 2014, with net fees & commissions representing 46.6% of non-interest earnings, down from 64% in the first half of 2014. Further, the bank's interest margin was 1.48% in the first half of 2015 relative to 1.64% in the same period last year, while its spread dropped to 1.44% from 1.59% in the first half of 2014. Total operating expenditures increased by 5.1% to \$15.5m, with staff expenses rising by 9.7% to \$9.2m. Also, the bank's return on average assets reached 0.95% in June 2015 on an annualized basis relative to 1.01% a year earlier, while its return on average equity was 11.27% compared to 11.79% in June 2014. The cost-to-income ratio rose to 44.7% in the first half of 2015 from 42.9% in the same period last year.

In parallel, total assets reached \$3.4bn at the end of June 2015 and increased by 8.2% from end-2014 and by 10.9% from a year earlier; while loans & advances to customers, excluding loans & advances to related parties, grew by 3.8% from end-2014 and by 9.8% year-on-year to \$1.3bn. Also, customer deposits, excluding deposits from related parties, totaled \$3bn at the end of June 2015, growing by 7.1% from end-2014 and by 12.3% from a year earlier. The loans-to-deposits ratio decreased to 44.2% at end-June 2015 from 45.2% a year earlier. Further, shareholders' equity rose by 4.3% from end-2014 to \$285.2m at end-June 2015.

### **HSBC Bank Middle East's ratings affirmed, outlook 'stable'**

Moody's Investors Service affirmed HSBC Bank Middle East's (HBME) long and short-term deposit ratings at 'A2/P-1', its senior unsecured rating at 'A2', its baseline credit assessment (BCA) at 'baa2' and its Counterparty Risk Assessment at 'A1(cr)/P-1(cr)'. It maintained the 'stable' outlook on the ratings. It said that the ratings take into account the bank's intention to move its place of incorporation and head office to the Dubai International Financial Centre in 2016 from its current location in Jersey in the United Kingdom. It noted that the move also implies that the Dubai Financial Services Authority (DFSA) will become the bank's lead regulator. Moody's considered the potential implications of the relocation to be credit neutral, as policies and regulations in Dubai are broadly in line with international standards. Also, it did not anticipate that the change in domicile would have any incidence on the bank's business activities, governance or financial performance.

The agency indicated that there is a very high probability that the bank would receive support from its parent HSBC Holdings, in case of need, due to HBME's strategic importance for the Middle East operations of the HSBC group and its strong integration within the group's infrastructure and operations. HBME is a wholly-owned subsidiary of HSBC Holdings. It operates through a network of branches and affiliates in seven countries in the region that are Lebanon, the UAE, Oman, Bahrain, Qatar, Kuwait and Algeria. HSBC was established in Lebanon in 1946 and has three branches in the Beirut area.

### **IBL's net income at \$35m in first half of 2015**

IBL sal, one of Lebanon's top 14 banks, announced unaudited consolidated net profits of \$34.7m in the first half of 2015, reflecting an increase of 25% from the same period last year. Net operating income rose by 17.3% year-on-year to \$62m, with net interest income decreasing by 6.7% to \$19.4m and net fees & commissions receipts dropping by 25.2% year-on-year to \$2.5m. Non-interest income accounted for 14% of total income, up from 11.8% in the same period last year; with net fees & commissions representing 27.7% of non-interest earnings, down from 51.7% in the first half of 2014. Further, the bank's interest margin was 2.13% in the first half of 2015 relative to 2% in the same period last year; while its spread grew to 2.11% in the first half of 2015 from 1.97% in the same period last year. Total operating expenditures increased by 8.7% to \$22m, with staff expenses growing by 7.8% to \$11.5m. Also, the bank's return on average assets reached 1.31% in June 2015 on an annualized basis, up from 1.13% in June 2014; while its return on average equity increased to 18.31% on an annualized basis from 16.5% in June 2014. The cost-to-income ratio declined to 34.1% in the first half of the year from 36.9% in the same period last year.

In parallel, total assets reached \$5.3bn at the end of June 2015, constituting an increase of 1.9% from end-2014 and a rise of 5.1% from a year earlier. Loans & advances to customers, excluding loans & advances to related parties, dropped by 5.1% from end-2014 and by 4.8% from a year earlier to \$989m. Also, customer deposits, excluding deposits from related parties, totaled \$4.8bn at the end of June, growing by 1% from end-2014 and by 4.9% from a year earlier. The loans-to-deposits ratio dropped to 20.6% at end-June 2015 from 22.7% a year earlier. In parallel, the bank's shareholder equity rose by 3.8% from the end of 2014 to \$385.9m at end-June 2015.



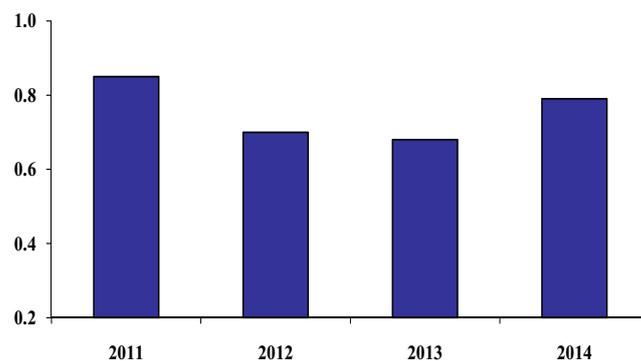
### Profitability of mid-sized banks improve slightly in 2014

The consolidated net profits of the Beta Group of banks totaled \$132.4m in 2014, constituting an increase of 22.9% from net earnings of \$107.7m in 2013. The Beta Group consists of banks with deposits of \$500m to \$2bn each. Net operating income rose by 8.7% to \$454m in 2014, with aggregate net interest income increasing by 3.8% to \$309m and net fees & commissions receipts rising by 11% to \$87m year-on-year. Non-interest income accounted for 32.2% of total income in 2014, up from 28.6% in the preceding year. The interest spread narrowed to 1.89% in 2014 from 1.95% in the preceding year. Total operating expenditures rose by 8.2% to \$293.6m in 2014, with staff expenses increasing by 7.8% to \$149.1m and administrative & other operating expenses growing by 9.2% to \$121.1m. Further, the cost-to-income ratio was nearly unchanged at 63% in 2014 relative to 63.1% in 2013. The banks' return on average assets improved from 0.68% in 2013 to 0.79% in 2014; while their return on average equity rose from 8.5% in 2013 to 9.79% in 2014.

The banks' aggregate assets reached \$17.2bn at the end of 2014, constituting an increase of 5.4% from end-2013. Loans accounted for 39% of total assets at end-2014, followed by portfolio securities with 31%, liquid assets with 25%, fixed assets with 3% and other assets with 2%. Further, total loans & advances to customers rose by 10.2% from end-2013 to \$6.4bn, while credit extended to related parties decreased by 30.5% to \$251.2m at end-2014. Corporate loans accounted for 52.8% of total net lending to customers at the end of 2014 compared to 53.8% a year earlier. They were followed by housing credit with 12.8% of the total relative to 12.4% at end-2013, retail loans with 12.1% of the total compared to 12.3% a year earlier, and lending to small- and medium-sized enterprises with 11.6% relative to 11.2% at end-2013. Also, customer deposits reached \$14.2bn at the end of 2014 and rose by 6.5% from a year earlier; while deposits from related parties decreased by 37.2% to \$292.1m at end-2014.

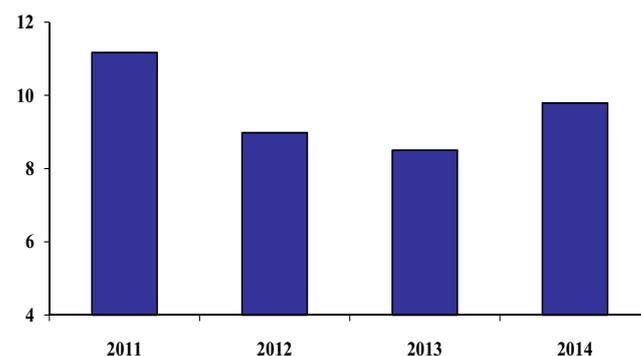
In parallel, the banks' loans-to-deposits ratio increased to 46.1% at end-2014 from 44.9% a year earlier. The ratio of loans-to-deposits in local currency reached 30.4% at end-2014 compared to 28.9% at end-2013, while that in foreign currency was 53.9% at the end of 2014 relative to 52.5% a year earlier. Further, the primary liquidity-to-assets ratio regressed from 25.3% at the end of 2013 to 25.1% at end-2014. The banks' gross doubtful loans-to-gross loans ratio rose to 8.1% at end-2014 from 7.8% a year earlier. Also, loan-loss reserves on doubtful loans were 82.8% of gross doubtful loans at the end of 2014 compared to a ratio of 83.4% at end-2013. The banks' capital adequacy ratio stood at 13.8% at the end of 2014, up from 13.49% at end-2013, according to Basel II criteria.

### Return on Average Assets



Source: Bankdata

### Return on Average Equity



Source: Bankdata

## Ratio Highlights

(in % unless specified)	2012	2013	2014	Change*
Nominal GDP (\$bn)	41.0	44.2	48.4	
Public Debt in Foreign Currency / GDP	59.4	59.1	52.9	(620)
Public Debt in Local Currency / GDP	81.2	84.6	84.7	13
Gross Public Debt / GDP	140.6	143.7	137.7	(607)
Total Gross External Debt / GDP**	163.9	163.8	165.4	160
Trade Balance / GDP	(40.9)	(38.9)	(35.6)	333
Exports / Imports	21.1	19.1	16.1	(295)
Fiscal Revenues / GDP	22.9	21.3	22.5	116
Fiscal Expenditures / GDP	32.5	30.9	28.9	(204)
Fiscal Balance / GDP	(9.6)	(9.6)	(6.4)	320
Primary Balance / GDP	(0.3)	(0.5)	2.7	325
Gross Foreign Currency Reserves / M2	69.4	69.5	66.5	(299)
M3 / GDP	253.5	251.7	243.4	(838)
Commercial Banks Assets / GDP	370.2	373.3	363.4	(992)
Private Sector Deposits / GDP	304.7	308.5	298.7	(979)
Private Sector Loans / GDP	105.9	107.3	105.3	(204)
Private Sector Deposits Dollarization Rate	64.8	66.1	65.7	(43)
Private Sector Lending Dollarization Rate	77.6	76.5	75.6	(98)

\* Change in basis points 13/14

\*\*Includes portion of public debt owed to non-residents, liabilities to non-resident banks, non-resident deposits (estimated by the IMF), Bank for International Settlements' claims on Lebanese non-banks

Source: Association of Banks in Lebanon, International Monetary Fund, Institute of International Finance, Byblos Research Estimates & Calculations

Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

## Risk Metrics

Lebanon	Aug 2013	July 2014	Aug 2014	Change*	Risk Level
Political Risk Rating	52.5	52.0	52.0	▲	High
Financial Risk Rating	33.5	38.0	38.0	▼	Low
Economic Risk Rating	28.5	27.0	27.0	▲	High
Composite Risk Rating	57.2	58.5	58.5	▼	High

Regional Average	Aug 2013	July 2014	Aug 2014	Change*	Risk Level
Political Risk Rating	58.2	57.9	57.7	▲	High
Financial Risk Rating	41.3	41.0	40.9	▲	Very Low
Economic Risk Rating	36.2	36.2	36.1	▲	Low
Composite Risk Rating	67.8	67.5	67.3	▲	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	Negative	B-	B	Negative
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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