



# LEBANON THIS WEEK

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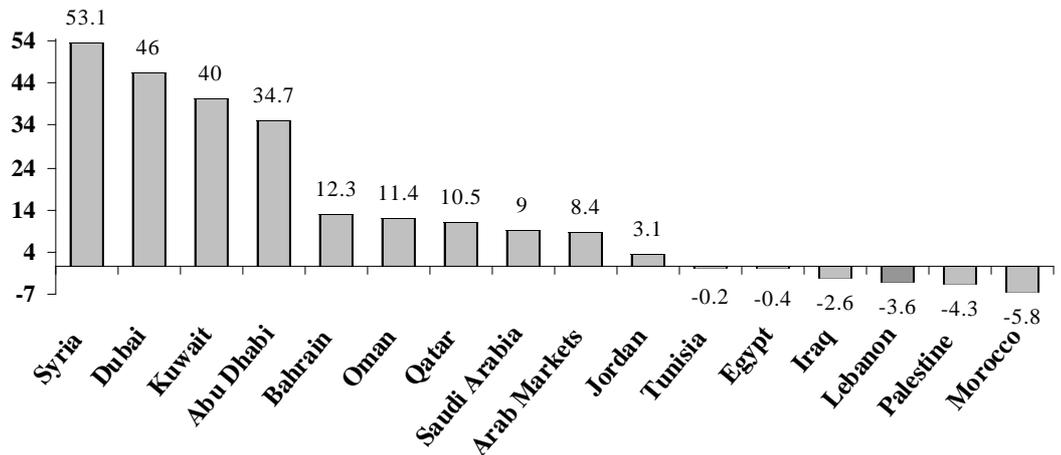
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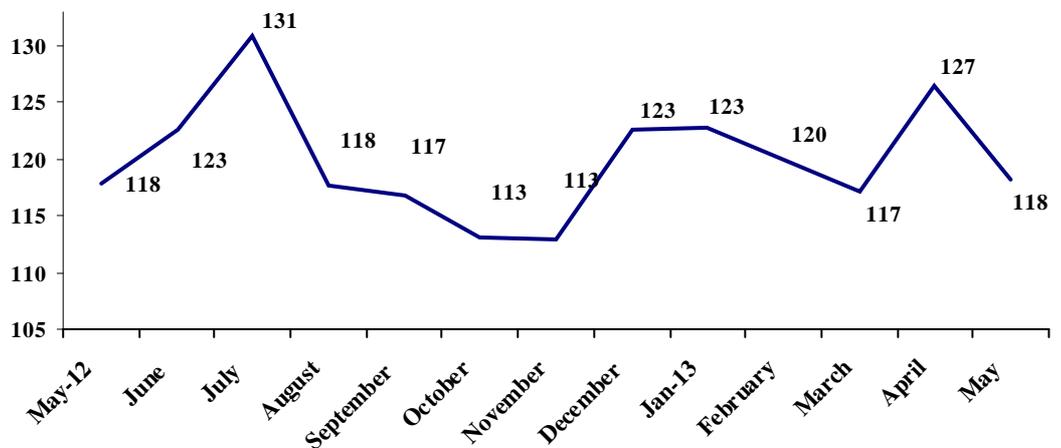
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## Charts of the Week

Performance of Arab Stock Markets in the First Five Months of 2013 (% change)



Performance of the Beirut Stock Exchange\*



\* Banque du Liban Market Value Weighted Index

Source: Local Stock Markets, Dow Jones Indices, Banque du Liban, Byblos Bank

## Quote to Note

"Political uncertainty and regional instability continue to depress economic growth, while factious domestic politics limit structural reforms."

*Moody's Investor Services, on the opportunity cost of political volatility on the Lebanese economy*

## Number of the Week

**15:** Number of outbound Greenfield FDI projects from Lebanon in 2012, according to investment data provider fDi Markets

## Economic Indicators

<b>\$m (unless otherwise mentioned)</b>	<b>2011</b>	<b>Jan 12</b>	<b>2012</b>	<b>Nov 12</b>	<b>Dec 12</b>	<b>Jan 13</b>	<b>% Change*</b>
Exports	4,276	348	4,486	364	381	405	16.38
Imports	20,170	1,454	21,281	1,604	1,871	1,646	13.20
Trade Balance	(15,894)	(1,106)	(16,795)	(1,240)	(1,490)	(1,241)	12.21
Balance of Payments	(1,996)	(290)	(1,538)	179	312	383	(232.07)
Checks Cleared in LBP	14,251	1,246	14,976	1,287	1,337	1,305	4.77
Checks Cleared in FC	57,852	4,663	56,044	4,676	4,670	4,637	(0.56)
Total Checks Cleared	72,103	5,909	69,787	5,963	6,007	5,942	0.56
Budget Deficit/Surplus	(2,342)	(176.00)	(3,925)	(807.69)	(441.24)	(17.78)	(89.90)
Primary Balance	1,662	33.00	(109.87)	(369.47)	(174.33)	200.38	507.22
Airport Passengers	5,596,034	430,472	5,960,414	412,595	495,760	463,972	7.78

<b>\$bn (unless otherwise mentioned)</b>	<b>Dec 2011</b>	<b>Jan 12</b>	<b>Oct 12</b>	<b>Nov 12</b>	<b>Dec 12</b>	<b>Jan 13</b>	<b>% Change*</b>
BdL FX Reserves	30.82	30.74	29.46	29.79	29.97	30.96	0.72
<i>In months of Imports</i>	<i>18.51</i>	<i>21.14</i>	<i>16.61</i>	<i>18.57</i>	<i>16.02</i>	<i>18.81</i>	<i>(11.03)</i>
Public Debt	53.66	53.65	56.60	57.55	57.69	58.04	8.18
Net Public Debt	46.37	46.59	48.35	48.87	49.12	49.55	6.34
Bank Assets	140.58	142.85	149.38	150.38	151.88	153.11	7.18
Bank Deposits (Private Sector)	115.72	116.69	122.60	123.13	125.00	125.55	7.59
Bank Loans to Private Sector	39.38	40.51	42.76	42.94	43.45	43.72	7.93
Money Supply M2	38.90	39.09	42.31	42.67	43.17	43.28	10.71
Money Supply M3	97.23	97.49	102.43	102.89	104.01	104.13	6.81
LBP Lending Rate (%)	7.38	7.19	7.31	7.11	7.07	7.32	13b.p
LBP Deposit Rate (%)	5.63	5.60	5.43	5.38	5.41	5.43	(17b.p)
USD Lending Rate (%)	7.02	6.99	7.15	7.09	6.87	6.98	(1b.p)
USD Deposit Rate (%)	2.83	2.87	2.87	2.85	2.86	2.88	1b.p
%* Change in CPI**	4.27	4.47	7.75	6.97	4.68	4.32	(15b.p)

\* 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>
Solidere "A"	12.50	(3.25)	90,605	11.67%
Solidere "B"	12.50	(2.65)	31,341	7.58%
Byblos Common	1.55	(2.52)	245,365	5.20%
Byblos Pref. 08	100.00	0.00	5,100	1.87%
Byblos Pref. 09	101.00	(0.10)	371	1.89%
BLOM GDR	8.85	(0.56)	35,160	6.10%
BLOM Listed	8.31	(1.07)	237,000	16.68%
Audi GDR	6.83	0.00	0	6.50%
Audi Listed	6.32	(3.51)	5,390	20.63%
HOLCIM	15.35	(6.97)	3,067	2.80%

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

<b>Sovereign Eurobonds</b>	<b>Coupon %</b>	<b>Mid Price \$</b>	<b>Mid Yield %</b>
June 2013	8.625	100.15	4.83
Apr. 2014	7.375	103.53	3.17
Jan. 2015	5.875	102.75	4.09
Apr. 2015	10.00	110.75	4.03
Jan. 2016	8.500	109.50	4.61
Mar. 2017	9.000	112.75	5.24
Nov. 2018	5.150	99.75	5.20
Apr. 2021	8.250	111.75	6.33
Nov. 2026	6.600	99.69	6.64

Source: Byblos Bank Capital Markets

	<b>May 27-31</b>	<b>May 20-24</b>	<b>% Change</b>	<b>May 2013</b>	<b>May 2012</b>	<b>% Change</b>
<b>Total Shares Traded</b>	668,510	970,361	(31.11)	3,775,206	6,344,289	(40.49)
<b>Total Value Traded</b>	\$5,217,239	\$10,088,257	(48.28)	\$30,563,607	\$43,064,303	(29.03)
<b>Market Capitalization</b>	\$10.71bn	\$10.93bn	(1.97)	\$10.71bn	\$10.20bn	5.06

Source: Beirut Stock Exchange (BSE)



### Real GDP growth at 2% in 2013, second slowest economy in Middle East & Africa

Citigroup projected real GDP growth in Lebanon at 2% in 2013 relative to growth of 4.7% in the Middle East & Africa (ME&A) region, 4.9% in emerging economies and 2.6% for the world economy this year. It also forecast Lebanon's real GDP to grow by 4.5% in 2014 compared to 5.7% in the ME&A region and 5.3% in emerging economies, as well as compared to a growth rate of 3.2% for the global economy next year. Lebanon's projected growth rate in 2013 would make it the second slowest economy in the ME&A region, faster than only Egypt (1.2%). It would also make it the 11th slowest economy among 52 emerging countries, which would tie it with Singapore and place it ahead of Romania (1.6%), Poland (1.3%), Egypt, Venezuela and Bulgaria (1% each), Slovakia (0.8%), Hungary (0.2%), Croatia (0%), Ukraine (-0.3%) and Czech Republic (-0.8%).

Further, Citigroup forecast the annual average inflation rate in Lebanon at 5% in 2013, which would make it the 11th highest level in the ME&A region, compared to a 5.7% inflation rate in the ME&A region and a 4.8% rate for emerging economies. It also expected Lebanon's annual average inflation rate to remain at 5% in 2014 compared to 6.2% in the ME&A region and 4.7% in emerging economies.

In parallel, it projected Lebanon's current account deficit to widen to 15.9% of GDP in 2013 from a deficit of 14.8% of GDP in 2012, compared to surpluses of 6% of GDP for the ME&A region and 1.1% of GDP for emerging economies this year. Lebanon's projected current account balance for 2013 would post the second widest deficit among the 52 emerging market economies included in Citigroup's universe, behind only Mongolia with a projected deficit of 22.6% of GDP. Citigroup expected Lebanon's current account deficit to marginally widen to 16% of GDP in 2014 and to post the widest deficit in emerging markets next year, compared to surpluses of 4.2% of GDP for the ME&A region and 0.7% of GDP for emerging economies. Also, Citigroup forecast Lebanon's fiscal deficit to widen to 10.2% of GDP this year from 8.8% of GDP in 2012, compared to deficits of 1.8% for the ME&A region and 2.4% of GDP for emerging economies. The deficit would be the second widest among the emerging economies covered by the forecasts, behind only Egypt with a projected deficit of 12.7% of GDP for 2013. It also expected the country's fiscal deficit to reach 10.5% of GDP in 2014 relative to deficits of 3.6% of GDP for the ME&A region and 2.6% of GDP for emerging economies.

Citigroup indicated that the real economy continues to be significantly affected by the prevailing political uncertainties, as trade and investments have underperformed. It noted that activity in the construction and housing sector has stagnated, while tourism activity has receded. But it added that the banking sector, which underpins sovereign debt sustainability, remains robust, with non-resident deposits and private sector credit growing in double digits, and dollarization and risk premia remaining stable. But it added that Lebanon's attempts to develop its potentially substantial offshore oil and gas resources have been dealt a blow by the current political impasse, and expected the oil and gas tender process to be put on hold for the time being.

### Value of unsold apartments in Beirut at \$398m at projects completed in 2012

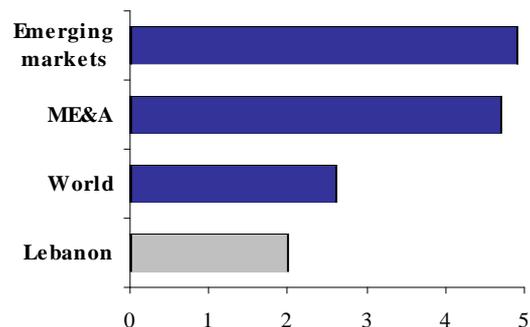
Figures released by Property advisory firm RAMCO show that a total of 100 residential real estate projects were completed last year and included 65 projects with an asking price of at least \$2,800 per square meter. Further, the firm indicated that 18 out of the 65 residential projects have been sold out. It added that the 65 projects have 1,179 units, of which 217 units or 18.4% are still available on the market. They also represent a total of 404,546 of built-up area (BUA), of which 71,357 BUA or 17.6% are still available on the market. It estimated the value of the remaining stock at \$397.8m.

Further, the firm indicated that the take-up ratio, or the ratio of sold BUA to total BUA, was 82.4% in 2012. It noted that projects completed in 2012 were launched between 2008 and 2009 and, therefore, benefited from a booming residential market at the time. It added that last year's take-up ratio could be inflated by the high level of sales during the 2008-10 period, as the volume of transactions was significantly lower in 2011 and 2012. Also, it pointed out that the take-up ratio in 2012 was slightly below the ratios of around 85% posted during the real estate boom years. It added that it needs to monitor the market to determine whether the decrease in the ratio is a long-term change in market trends or a temporary consolidation phase.

### Construction permits down 12.4% in first four months of 2013

Figures released by the Association of Engineers of Beirut & Tripoli show that construction permits issued in the first four months of 2013 reached 4.1 million square meters, constituting a decrease of 12.4% year-on-year, compared to a drop of 9.6% in the same period last year and a rise of 2.8% in the first four months of 2011. Mount Lebanon accounted for 1.8 million square meters or 44.6% of total construction permits in the covered period. It was followed by the North with 845,144 square meters (20.4%), the Bekaa with 477,467 square meters (11.5%), South Lebanon with 411,358 square meters (9.9%), Nabatieh with 370,796 square meters (8.9%), and Beirut with 191,267 square meters (4.6%). In parallel, cement deliveries totaled 1.1 million tons in the first quarter of 2013 and increased by 13.7% annually relative to a decrease of 4.2% in the same quarter last year and a drop of 6.8% in the first quarter of 2011.

### Projected Real GDP Growth in 2013 (%)



Source: Citigroup, May 2013

### Majority of Lebanese satisfied or moderately satisfied with current salary

A survey conducted by regional job portal Bayt.com indicated that 43% of salary packages in Lebanon consist of a basic salary only; 39% of packages include a basic salary in addition to benefits such as housing, transportation and allowance for children's education; and 18% of local packages include a basic salary, benefits and commissions. In comparison, 34% of income packages in the Arab world consist of a basic salary only; 48% include a basic salary and benefits; 18% include a basic salary, benefits and commissions; and 1% of packages consist of commissions only. The survey covered a sample of about 15,247 professionals holding jobs in Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia and the UAE. The survey, which was conducted between April 28 and May 5, 2013, covered a sample of 389 respondents in Lebanon.

Also, the survey found that 49% of Lebanese surveyed said they are moderately satisfied about their current salary; 47% of respondents were not satisfied; and 4% of respondents expressed a high level of satisfaction about their present salary. In comparison, 52% of persons surveyed across the Arab world expressed moderate satisfaction with their salary, 44% of respondents were not content, and 4% were highly satisfied. Further, the survey indicated that 60% of persons polled in Lebanon consider that their pay is lower than their counterparts at other companies in the same industry, 24% believe that their salary package is competitive with the market, and 3% think that their income is higher than their counterparts in the same sector. It noted that 44% of Lebanese do not save any part of their monthly income; 34% save less than 15% of their monthly income and 19% save more than 15% of their monthly income.

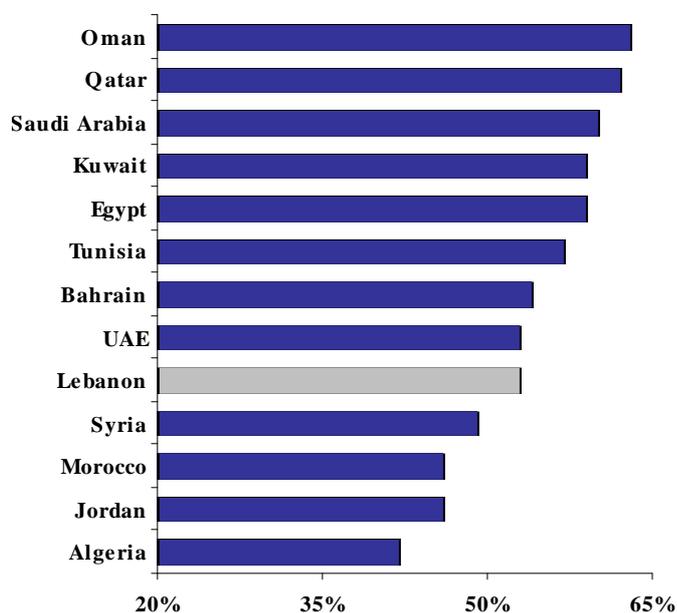
In parallel, the survey indicated that 39% of Lebanese surveyed acknowledged that they did not receive a raise in the past 12 months; while 22% of respondents said that they received a raise of up to 5%, 15% said that their annual raise ranged between 6% and 10%, 8% indicated that they received a raise between 11% and 15%, and 9% of respondents stated that their income rose by more than 15% in the past 12 months. Further, the survey found that 28% of respondents in Lebanon do not expect a raise in the next 12 months; followed by 15% who anticipate a raise of more than 15%; 14% of respondents who expect a raise between 6% and 10%; 13% who expect a raise between 1% and 5%; and 9% who anticipate a raise between 11% and 15%. Also, the survey pointed out that 49% of respondents consider that salaries in Lebanon are increasing, 33% said that salaries are unchanged, and 11% acknowledged that salaries are decreasing. It said that 80% of Lebanese who consider that salaries in Lebanon are increasing attributed the increase to inflation and to the rise in the cost of living, while 67% of respondents who consider that salaries in Lebanon are decreasing attributed the decline to the weak economy. 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.

### Smoking ban has positive impact on hospitality sector's revenues

A study by the American University of Beirut's Tobacco Control Project on the immediate impact of the indoor smoking ban that came into effect on September 3, 2012, indicated that the ban was economically beneficial to restaurants, cafés, pubs and nightclubs in Lebanon. The study's results show that the implementation of the law contributed to offsetting the seasonal decline in the hospitality sector's revenues that takes place in the Fall of each year, as well as the decline in revenues due to Gulf countries' travel warnings to their citizens to avoid visiting Lebanon.

It noted that the sector's revenues rose in the first and second quarters of 2012 compared to the same quarters of 2011, due in part to the inflow of Syrian refugees and displaced individuals into Lebanon. It also showed that the sector's receipts fell during the third quarter of 2012 but before the introduction of the indoor smoking ban, due to the drop the number of tourist arrivals from GCC countries. It added that the continuous influx of Syrian refugees in the first three quarters of 2012 was not enough to offset the large revenue losses from the decline in the number of Gulf tourists, reflecting the hospitality sector's vulnerability to fluctuations in the number of tourist arrivals. However, it noted that the sector's revenues increased by 3% annually in the last quarter of 2012, following the implementation of the anti-smoking law. It attributed the rise in receipts to an increase in the number of customers at restaurants, cafés and pubs among persons and families who prefer the cleaner environment provided by the indoor smoking ban. The study used reported revenues submitted by restaurants, cafés, pubs and nightclubs in Lebanon for valued-added tax declaration purposes between 2010 and 2012.

### % of Respondents who are Satisfied with Current Salary\*



\* moderately and highly satisfied

Source: Bayt.com, Byblos Research

### Growth rate to remain below potential due to ongoing Syrian conflict

Business Monitor International projected Lebanon's real GDP growth rate at 1.7% in 2013 and 3.3% in 2014 relative to an estimated growth rate of 1.2% in 2012, as it expected the economy to continue to be negatively affected by the ongoing conflict in Syria. It considered that elevated security risks will dent investors' confidence and worsen the crisis in the tourism sector, while disruptions to supply chains and trade routes will continue to adversely affect exports. It noted that the downturn in Lebanon's tourism industry, which contributes directly to around 10% of GDP, has been a key driver in depressing broader business activity and exports. It added that the government will not be able to make progress on any economic reform given the current political environment. It considered that spillovers from Syria and the lack of an effective policy response to the country's economic difficulties will keep Lebanon's growth rates below potential levels in the coming years. As such, it forecast real GDP growth to average 4.4% between 2013 and 2017 relative to an average growth of 5.6% during the 2008-12 period. It anticipated that Lebanon's low projected growth rates would not be sufficient to significantly reduce its unemployment rate that reached 10% in 2012.

In parallel, BMI indicated that private consumption in Lebanon could grow by 3.3% in real terms this year and by 4% in 2014 with an increase in public-sector salaries and in remittance inflows. But it anticipated that consumer confidence will not increase significantly this year, given rising uncertainties, political volatility and deteriorating security conditions. It expected Lebanese residents to continue holding their liquid cash and postpone long-term financial commitments. It forecast government consumption to grow by 2.5% in 2013 and by 4% in 2014. It noted that a substantial rise in investment in sectors such as education and healthcare is not likely this year, given the divisions within Lebanon's political class. Further, it projected Lebanon's gross fixed capital formation growth at 1.8% in 2013 and 4% in 2014, mainly due to a downward trend in Lebanon's construction sector and the fact that activity in the sector is not likely to rebound in the near-term, especially that the high prices of housing would continue to dampen consumer demand this year.

BMI anticipated that Lebanon's net export position will remain a major drag on economic activity this year. It noted that supply chains and trade routes that have been disrupted due to the conflict in Syria are not likely to be restored over the coming months. As such, it forecast total exports to increase by 2% in 2013 and by 4% in 2014. It considered that the low growth levels in private consumption and fixed investment will constrain the rise in imports. It forecast imports growth at 5% in 2013 and 5.5% in 2014. In parallel, BMI expected Lebanon's public finances to remain precarious this year following a fiscal deficit of 9.7% of GDP in 2012, which would result in further upward pressure on its debt-to-GDP ratio. It forecast the current account deficit to narrow from 15.3% of GDP in 2012 to 12.5% of GDP in 2013 and 11.8% of GDP in 2014.

### Lebanon has lowest number of subscribers to Fiber to Home service in Arab world

Figures released by the Fiber to the Home (FTTH) Council for the Middle East & North Africa show that Lebanon has 5,500 homes or buildings "passed" as of September 2012, of which 4,800 homes or buildings are offered by Solidere sal, the Lebanese Company for the Development and Reconstruction of the Beirut Central District. Fiber to the Home is the installation and use of optical fiber from a central point directly to individual buildings such as residences, apartment buildings and businesses to provide very high-speed Internet access. FTTH dramatically increases the connection speeds available to computer users compared with technologies now used in most places. Also, Homes Passed is the number of residences or businesses with a feeder cable already installed near their premises, making them capable of being easily connected to a cable, telecom firm or satellite network by a service provider, whether they choose to become customers or not.

Lebanon's overall number of "homes passed" was the third lowest among 10 Arab countries and accounted for 0.3% of the total in Arab countries, higher than only Kuwait with 4,750 "homes passed" and Bahrain with 4,500 "homes passed". Also, the number of "homes passed" in Lebanon increased by 22.2% from 4,500 in September 2010, constituting the lowest growth rate in the Arab world. The UAE and Saudi Arabia accounted both for 76% of total "homes passed" in the region.

In parallel, the number of subscribers in Fiber to the Home or Buildings (FTTH/B) in Lebanon stood at 600 as of September 2012 compared to 300 subscribers in 2010. Lebanon's total number of FTTH/B subscribers is the lowest in the region and accounted for 0.08% of total subscribers in the Arab world. Lebanon posted the second smallest increase in the number of FTTH/B subscribers compared to an average increase of 188.4% in the number of subscribers in the region. The UAE and Saudi Arabia accounted both for 92% of the region's total subscribers.

Fiber to Home Service in the Arab World		
	Number of Subscribers	Number of "Homes Passed"
UAE	580,000	1,000,000
Saudi Arabia	100,000	360,000
Qatar	38,000	135,000
Jordan	11,500	n.a
Egypt	3,000	109,400
Kuwait	2,400	4,750
Libya	1,500	n.a
Bahrain	1,000	4,500
Algeria	1,000	10,000
Tunisia	1,000	n.a
Oman	700	151,400
<b>Lebanon</b>	<b>600</b>	<b>5,500</b>
Iraq	n.a	20,000

Source: FTTH Council MENA, Byblos Research



### **Capital Markets Authority issues decrees on disclosure and governance**

The Capital Markets Authority (CMA) issued its first two decrees, one year after the complete formation of its board of directors. The first decree regulates the disclosure policy of joint stock companies and mutual funds that have their shares or units traded on the formal exchange or the over-the-counter (OTC) market, while the second decree lists the firms' obligations in terms of disclosing information towards shareholders and unit-holders.

The first decree mandates joint stock companies and mutual funds that have their shares or units traded on the formal exchange or the OTC market, and that have more than 20 shareholders or unitholders, to have a disclosure policy in order to comply with corporate governance standards that guarantee the rights of shareholders, unitholders and stakeholders. It noted that joint stock companies and mutual funds should not delay publishing information about their financial instruments, mainly if making such information public might affect the market value of these instruments.

The second decree requires joint stock companies and mutual funds that have their shares or units traded on the formal exchange or the OTC market, and that have more than 20 shareholders or unitholders, to communicate to shareholders or unitholders all information that would facilitate the exercise of their rights, such as information related to the capital of companies or total units value in mutual funds and financial results. The CMA noted that joint stock companies and mutual funds have to comply with both decrees by May 23, 2014 or would face legal proceedings.

The CMA was established through the Capital Markets Law, which was ratified by the Lebanese Parliament in August 2011. The law aims to regulate and supervise the activities of capital markets in Lebanon. Also, the legislation aims to create an adequate legal framework conducive to the organization and development of the Lebanese financial markets, in line with international standards and norms. It explicitly bans insider trading, which is the personal exploitation of information in capital markets trading. The law stipulates that the CMA's functions would be similar to those of the U.S. Securities and Exchange Commission, and that it will have a large degree of autonomy in setting its policies. The law was drafted by the Central Bank of Lebanon's Commission for the Modernization and Development of Financial and Banking Laws.

### **Central Bank modifies conditions of loans for the purchase of securities**

The Central Bank of Lebanon issued Intermediate Circular 333 on May 20, 2013, which amends Basic Circular 51 dated October 22, 1998. The basic circular prohibits banks, financial institutions and financial intermediaries operating in Lebanon from extending loans to clients to buy bonds and stocks, unless the customer provides cash collateral or the institution takes the portfolio as collateral. The new circular modified and detailed the set of conditions that would allow financial institutions to take the portfolio as collateral.

First, it said that the portfolio can be composed of Treasury bills or Eurobonds issued by the Lebanese government or issued by sovereigns rated 'BBB' and above. Second, it indicated that the portfolio can be made up of traded securities on formal financial markets in countries rated 'BBB' and above. These securities can include stocks, bonds, Certificate of Deposits, shares or units in mutual or securitization funds, and structured financial products. But it noted that stocks that have a market value below \$1 at the time the portfolio is formed, and that are issued by firms that are not among the 50% largest listed companies in term of market capitalization, cannot be included in the portfolio. It added that bonds or Certificate of Deposits have to be issued by entities rated 'BBB' and above. It specified that the capital value of structured financial instruments needs to have an unconditional guarantee issued by institutions or foreign parties, while the rating of the issuer and the guarantor has to be 'BBB' and above. Third, it indicated that the portfolio can be composed of stocks traded on financial markets in countries rated below 'BBB' on the condition that the stocks are issued by entities rated 'BBB' and above, and that they have a market value of at least \$1 if they are issued by a company that is not among the 50% largest listed firms by market capitalization.

In parallel, the circular noted that the loan should not exceed 75% of the market value of portfolios that consist of Treasury bills or Eurobonds issued by the Lebanese government; and should not surpass 50% of the market value of portfolios made up of stocks listed on foreign capital markets with a minimum market value of \$5 for each stock. Also, the loan should not exceed 50% of the market value of portfolios made up of stocks listed on foreign capital markets and issued by the 50% largest listed companies on the market; and should not surpass 30% of the market value of portfolios made up of stocks listed on foreign capital markets with each stock having a value that ranges between the equivalent of \$1 and \$5 and being issued by firms that are not among the largest 50% listed companies.

Finally, the circular stipulates that the client has to immediately cover all changes in the loan's margins. It noted that financial intermediaries can liquidate the portfolio if the loan exceeds 85% of the market value of a portfolio made up of Treasury bills or Eurobonds issued by the Lebanese government; or if the loan surpasses 75% of the market value of a portfolio composed of stocks listed on foreign capital markets with a minimum market value of \$5 for each stock; or if it exceeds 75% of the market value of a portfolio that consists of stocks listed on foreign capital markets and issued by the 50% largest listed firms on the market. Also, a financial institution can liquidate the portfolio if the loan exceeds 50% of the market value of portfolios made up of stocks listed on foreign capital markets, with each stock having a value that ranges between the equivalent of \$1 and \$5 and being issued by companies that are not among the largest 50% listed ones.

### **Byblos Bank's ratings affirmed, outlook 'stable'**

Capital Intelligence affirmed Byblos Bank's long- and short-term foreign currency ratings at 'B' and 'B', respectively. It also affirmed the Bank's Financial Strength Rating (FSR) at 'BBB-' and maintained the Support Level at '3', given the high likelihood of official support in case of need due to Byblos Bank's systemic importance. It said the outlook on all the ratings is 'stable' and noted that the ratings continue to be restrained by the sovereign ratings for Lebanon.

The agency pointed out that Byblos Bank's ratings are supported by its good liquidity and stronger-than-average capital adequacy. It indicated that the Bank's capital adequacy improved as maturing subordinated debt was refinanced, which strengthened its Tier Two eligible capital. It said that Byblos Bank has a broad customer deposits base as well as good access to capital markets, which have allowed the Bank to diversify its sources of funding a lot more significantly than most Lebanese banks. It noted that the Bank's interest margin partly reflects a higher share of local currency business and lower maturity mismatches. It added that the Bank's loan-loss reserve coverage has declined after its high allocation of provisions due to the continued deterioration of conditions in Syria and the economic slowdown in Lebanon. It pointed out that the Bank's ratings are constrained by such factors as geopolitical risks and fluctuating foreign exchange rates in some of the countries where it operates. It noted that the Bank follows a universal banking model and offers services in commercial and retail banking through one of the largest branch networks in Lebanon, and operates in 11 locations abroad.

### **ADIR's balance sheet up 18% to \$170m at end-2012**

ADIR Insurance sal, the insurance affiliate of the Byblos Bank Group, released its audited balance sheet that shows total assets of \$170.4m at the end of 2012, constituting an increase of 18.1% from \$144.3m at end-2011. On the assets side, general company investments totaled \$76m and increased by 14% from \$66.7m at end-2011. They included \$4.1m in cash & cash equivalents, \$16.6m in fixed income investments; and \$49.9m in blocked bank deposits and deposits with maturity of more than three months, of which \$2.9m were blocked in favor of the Economy Ministry as guarantees.

Also, Unit-linked contracts investments totaled \$71.5m at end-2012, constituting a rise of 25% from \$57.2m a year earlier. They included \$34.1m in fixed income investments, \$10m in variable income investments, and \$27.3m in cash & similar investments. Unit-linked investment in fixed income instruments rose by 62.5%, variable income investments increased by 23%, and cash & similar investments regressed by 2.7% year-on-year. Reinsurance share in technical reserves for the life and non-life categories amounted to \$13.2m and \$1.8m, respectively, constituting increases of 22.6% and 7%, respectively.

On the liabilities side, shareholders' equity totaled \$28.9m at end-2012 and rose by 16.8% from \$24.8m a year earlier. Unit-linked technical reserves reached \$62.1m at the end of 2012, constituting a rise of 23.6% from \$50.2m at end-2011. Also, technical reserves for the life segment grew by 24.1% year-on-year to \$26.6m, while technical reserves for the non-life category reached \$30.6m at end-December 2012 and increased by 2.4% from a year earlier. Non-life technical reserves included unearned premium reserves of \$24.5m that rose by 1%, outstanding claims reserves of \$2.7m that increased by 1.9%, and \$0.6m in reserves incurred but not reported that increased by 230.2% year-on-year. Provisions for risks and charges reached \$0.8m and rose by 90.4% from a year earlier. Further, the debt for funds held under reinsurance treaties reached \$13.2m at end-2012, constituting an increase of 22.8% from \$10.7m a year earlier.

*Al-Bayan* magazine's annual survey of the insurance sector in Lebanon ranked ADIR in sixth and 15th place in 2012 in terms of life and non-life premiums, respectively. The firm's life premiums reached \$30.8m and non-life premiums amounted to \$19.9m, constituting increases of 17.6% and 4.3%, respectively. It had an 8% share of the life market and a 2.1% share of the local non-life market.

### **Stock market activity down 30% to \$119m in first five months of 2013**

Figures released by the Beirut Stock Exchange indicate that total trading volume reached 17.4 million shares in the first five months of 2013, constituting a decrease of 26.2% from the same period last year; while aggregate turnover amounted to \$119.1m, down 29.6% from a turnover of \$169.2m in the first five months of 2012. Market capitalization increased by 5.1% from end-May 2012 to \$10.7bn, of which 77.4% was in banking stocks, followed by real estate stocks with 19.3%, industrial stocks with 3.1%, and trading stocks with 0.3%. The market liquidity ratio was 1.1% compared to 1.7% in the same period last year. Bank stocks accounted for 78.6% of aggregate trading volume in the first five months of the year, followed by real estate stocks with 16.2%, and trading and industrial stocks with 2.6% each. In terms of the value of shares traded, banking stocks accounted for 67% of aggregate value, followed by real estate stocks with 30.6%, industrial stocks with 1.4% and trading stocks with 1%. The average daily traded volume for the period was 174,115 shares for an average daily value of \$1.2m. The figures reflect decreases of 27% in volume and 30.3% in value year-on-year.

### **Seventeen Lebanese companies among top 100 firms making an impact in the Arab world**

*Forbes* magazine's list of the top 100 companies that are making an impact in the Arab world included 17 Lebanese firms. The list includes privately-held enterprises, from family businesses to holding companies that are making a positive impact and affecting positive change such as leading an industry, contributing to social development and charity work, or promoting economic growth. *Forbes* ranked the Debbané Group in 37th place, the Mouawad Group in 42nd place, the Kettaneh Group in 46th place, Malia Holding in 48th place, Baalbaki Group in 50th place, M1 Group in 54th place, Pharaon Holding Group in 56th place, Abou Adal Group in 58th place, Sehnaoui Plant Group of Companies in 72nd place, Johnny R. Saadé Holdings in 73rd place, Issa Holding in 75th place, Sarkis Group International in 78th place, Averda Group in 80th place, Kurban Group in 81st place, Zakhem International Construction in 85th place, Assouad Group Lebanon in 90th place, and Group Murr Holding in 92nd place.

Lebanon has the third highest number of companies on the list behind the UAE with 41 firms and Saudi Arabia with 23 companies. The list also included 14 companies from Kuwait, three companies from Jordan and one company from each of Bahrain and Oman.

### **BLC Bank's net profits up 90% to \$9m in first quarter of 2013**

BLC Bank sal, one of Lebanon's listed banks, announced unaudited consolidated net profits of \$8.8m in the first quarter of 2013, constituting an increase of 90% from net earnings of \$4.6m in the same quarter of 2012. Net interest income, including interest from fair value securities, rose by 13% to \$29.3m, while net fees & commissions receipts increased by 12.7% to \$4.8m in the first quarter of 2013. Net financial revenues after impairment charge for credit losses reached \$31.4m in the first quarter of 2013, constituting a rise of 21.3% from \$25.9m in the same quarter last year. Administrative expenses declined by 3.7% to \$6.2m, while staff expenses decreased by 6.9% year-on-year to \$12.9m in the first three months of 2013. In parallel, total assets reached \$5bn at end-March 2013, constituting a drop of 2% from \$5.1bn at end-2012; while loans & advances to customers increased by a marginal 0.4% to \$1.78bn at end-March 2013. Further, customer deposits totaled \$4.2bn at end-March 2013, constituting a decrease of 2.6% from \$4.3bn at end-2012. The loans-to-deposits ratio increased to 42.7% at end-March 2013 from 41.4% at end-2012. In parallel, the bank's total shareholders' equity rose by 2.4% year-on-year to \$382.8m at end-March 2013.

### **Fransabank approves dividend payments for 2012**

Fransabank sal, one of Lebanon's top 10 banks, announced that its Ordinary General Assembly held on May 17, 2013 approved the distribution of preferred shares dividends for 2012. The bank will allocate a gross dividend payment of \$17 per share for shareholders carrying Preferred Shares Series A, \$13.5 per share for shareholders carrying Preferred Shares Series B, and \$0.4057 per share for shareholders carrying Preferred Shares Series C. The dividends will be paid starting on May 27, 2013 net of a 5% withholding tax. Fransabank posted unaudited consolidated net profits of \$160.4m in 2012. Its assets reached \$15.8bn; while loans & advances to customers, excluding loans & advances to related parties, totaled \$4.8bn at end-2012. Further, customer deposits, excluding deposits to related parties, totaled \$12.9bn at end-2012.

### **Dutch food retailer SPAR to enter Lebanese market**

The Beirut-Based Business Management Integrated Holding (BMI) signed a license agreement with the Abu Dhabi Co-operative Society (ADCOOPS) to operate the outlets of Dutch food retailer SPAR in Lebanon. ADCOOPS is SPAR's principal partner in the Middle East. BMI is planning to open 10 SPAR stores in Lebanon in the coming five years that include SPAR Hypermarkets, SPAR supermarkets and SPAR Express convenience stores. It expects the first SPAR outlet to open at the beginning of 2014. SPAR Lebanon will also provide established independent retailers in Lebanon the opportunity of joining the SPAR local network as licensed partners. BMI invests in and manages several companies in retail, media & advertising, and industrial manufacturing in Saudi Arabia, the UAE, Lebanon, Egypt, Syria, Jordan and Turkey. SPAR was established in the Netherlands in 1932 and has over 12,200 stores in 36 countries across five continents. SPAR aims to have 30 stores in the region by the end of 2015 and expects its Middle East operations to generate revenues of over \$1bn in five to 10 years.

### **SITA's airport services contract renewed**

The Directorate General of Civil Aviation Authority and national flag carrier Middle East Airlines (MEA) signed a five-year contract with air transport communications and information technology firm SITA to provide new airport services at the Beirut-Rafic Hariri International Airport. SITA, which has been the exclusive provider of Common Use Terminal Equipment (CUTE) at the airport since 1998, will provide under the new contract additional airport services such as AirportConnect Open platform that enables passengers' processing; PassengerBagDrop that allows passengers who used self-service check-in to immediately drop their bags upon arrival at the airport; and WorldTracer kiosks that enables passengers to report their own missing bags.

Further, the deal would grant MEA and the airlines it handles access to SITA's individual IT applications through the AirportConnect Open platform, which would allow airlines to share workstations position such as check-in counters and gates, and to run airline-specific applications in a shared environment. SITA is a leading specialist in air transport communications and information technology. Its AirportConnect Open is used by more than 300 airlines in more than 400 airports worldwide.

### **Public Corporation for Housing issues warning to delinquent borrowers**

The Public Corporation for Housing (PCH) warned delinquent borrowers that they have until June 4, 2013 to take the necessary procedure to settle their past dues. It said the warning covers borrowers who either did not start implementing the second phase of their mortgage payment or are not settling their second-phase monthly payments to the PCH. The PCH called on these borrowers to contact its finance department or their banks as soon as possible to put their file in order. It said that it will take legal action against delinquent borrowers, such as seizing and auctioning their property, if they fail to meet their obligations or if they abstain from contacting the PCH to proceed with the second phase. The PCH provides subsidized mortgages of up to 30 years to low-income citizens. In return, individuals pay back the loan in two phases. The first phase consists of paying back the capital to commercial banks and the second phase consists of paying back the interest on the loan to the PCH. Loans extended through the state-owned PCH benefit from deductions in reserve requirements for commercial banks. Housing loans in local currency under the protocol between commercial banks and the PCH totaled \$1.8bn at end-March 2012, the latest available figures, and accounted for 33.3% of such credits. In 2010, the PCH increased the ceiling of real estate loans subject to its subsidies program from LBP180m or \$120,000 per loan to LBP270m or \$179,000 per loan, due to the unprecedented rise in real estate prices in the country during the previous three years.

### **Group Matelec wins \$97m tender to install electricity substations**

The Ministry of Energy & Water announced that the Lebanese Group Matelec, which specializes in power generation, transmission and distribution, won a \$97m bid to install three compressed gas-insulated substations with a capacity of 220 kilovolt for Electricité du Liban in each of the southern suburbs of Beirut, the El-Bahsas area near Tripoli, and in Achrafieh. It expected the project to be completed in the 24 months period following its endorsement by the Council of Ministers. The ministry indicated that this project is part of its electricity plan that aims to raise electricity production in the country by 700 Megawatts. The Matelec Group is part of Doumet Electrical Holding and employs more than 1,000 persons in the Middle East, Africa and Europe.

### **Moody's affirms AXA's ratings, outlook 'negative'**

Moody's Investors Service affirmed France-based insurance group AXA's senior unsecured debt rating at 'A2' and its subordinated debt rating at 'A3', and kept the Insurer Financial Strength rating of the main AXA subsidiaries at 'Aa3'. It maintained a 'negative' outlook on the ratings. AXA Middle East, one of Lebanon's insurance firms, is a subsidiary of the group. The agency indicated that the affirmation of the ratings reflects the group's strong business profile and good financial profile. However, it noted that AXA's capitalization and financial leverage remain weaker than similarly-rated peers. It added that these weaknesses, despite being partly mitigated by the group's good and stable profitability and by recent improvements in leverage and capitalization metrics, continue to put pressure on the ratings. It pointed out that the group is adjusting its business profile by reallocating capital to areas with higher growth and margins from markets or business lines with weak returns or growth prospects. It cautioned from a failure to convert the allocated capital into recurrent earnings over time. It considered that further deterioration in the global economic environment would have a negative impact on AXA's ability to develop new businesses and on its capacity to maintain margins at their current level. Moody's considered that a reduction in profitability below last year's levels, a deterioration in the credit quality of large European sovereigns, and a weakened solvency or financial leverage position would lead to downward pressure on the ratings. AXA Middle East generated total premiums of \$90.3m in 2012, including \$84.3m in life and \$5.9m in non-life premiums. It ranked in second and 11 place in the Lebanese insurance market in terms of life and non-life premiums, respectively, in 2012.

## Ratio Highlights

(in % unless specified)	2010	2011	2012	Change*
Nominal GDP (\$bn)	37.1	39.3	41.6	
Public Debt in Foreign Currency / GDP	55.5	53.2	58.7	550
Public Debt in Local Currency / GDP	86.2	83.2	80.2	(300)
Gross Public Debt / GDP	141.7	136.4	138.9	250
Total Gross External Debt / GDP	167.2	173.8	172.3	(150)
Trade Balance / GDP	(36.9)	(40.5)	(40.4)	10
Exports / Imports	23.7	21.2	21.1	(10)
Fiscal Revenues / GDP	24.8	23.7	22.8	(90)
Fiscal Expenditures / GDP	30.5	29.7	30.2	50
Fiscal Balance / GDP	(5.7)	(6.0)	(8.3)	(230)
Primary Balance / GDP	5.5	4.2	0.7	(350)
Gross Foreign Currency Reserves / M2	72.6	79.2	69.4	(980)
M3 / GDP	248.4	247.4	250.0	260
Commercial Banks Assets / GDP	347.3	357.4	365.6	820
Private Sector Deposits / GDP	289.0	294.4	300.5	610
Private Sector Loans / GDP	94.2	100.2	104.5	430
Private Sector Deposits Dollarization Rate	63.2	65.9	64.8	(110)
Private Sector Lending Dollarization Rate	80.3	78.4	77.6	(80)

\* Change in basis points 11/12

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

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

## Risk Outlook

Lebanon	Apr 2011	Mar 2012	Apr 2012	Change*	Risk Level
Political Risk Rating	55.5	55.5	55.5	↔	High
Financial Risk Rating	28.5	35.0	35.0	▲	Low
Economic Risk Rating	32.5	34.0	34.0	▲	Moderate
Composite Risk Rating	58.2	62.2	62.2	▲	Moderate

Regional Average	Apr 2011	Mar 2012	Apr 2012	Change*	Risk Level
Political Risk Rating	60.5	60.5	60.3	▼	Moderate
Financial Risk Rating	41.8	42.1	42.1	▲	Very Low
Economic Risk Rating	37.5	37.3	37.2	▼	Low
Composite Risk Rating	69.9	69.9	69.8	▼	Low

\*year-on-year

Source: The PRS Group, Byblos Research

Note: Political & Composite Risk Ratings range from 0 to 100 (where 100 indicates the lowest risk)

Financial & Economic Risk ratings range from 0 to 50 (where 50 indicates the lowest risk)

## Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's	B1	NP	Negative	B2		Stable
Fitch Ratings	B	B	Stable	B		Stable
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		B	Stable

Source: Rating agencies



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