



# LEBANON THIS WEEK

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Eight Lebanese banks among Top 1000 banks in the world, Byblos Bank posts highest Tier One capital-to-assets ratio

Stock market activity down 38% to \$198m in first eight months of 2013

Banque BEMO approves \$2.6m in gross dividends, payout ratio at 70.8%

BSL Bank's net profits up 7% to \$5.4m in 2012

CMA CGM's net profits at \$364m in the first half of 2013

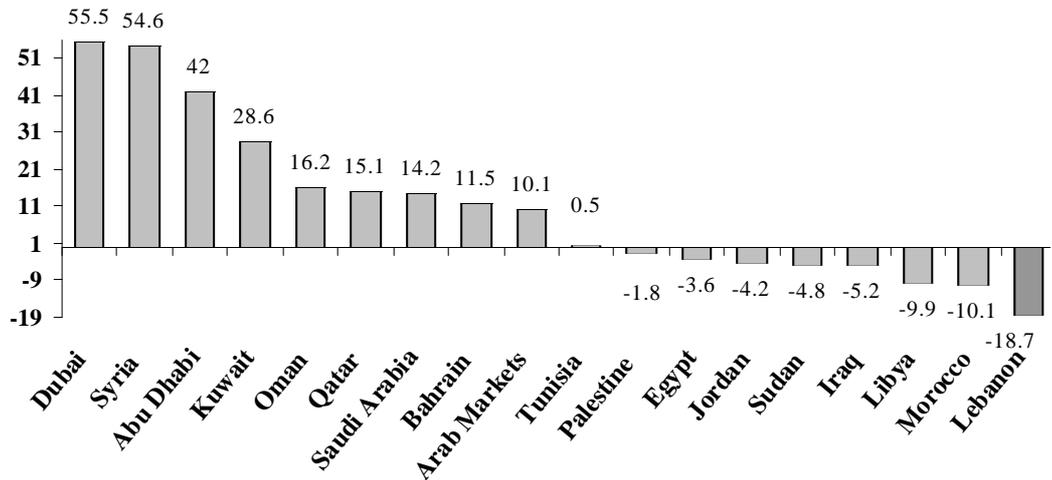
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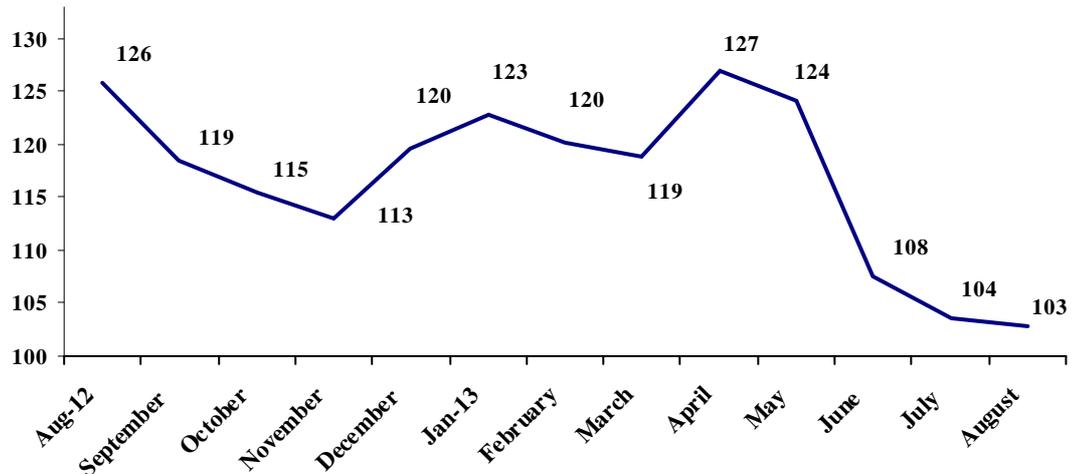
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## Charts of the Week

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



Performance of the Beirut Stock Exchange\*



\* Banque du Liban Market Value Weighted Index average monthly values  
 Source: Local Stock Markets, Dow Jones Indices, Banque du Liban, Byblos Bank

## Quote to Note

"The resilience of the banking system to previous shocks makes it hard to envisage what kind of event may undermine depositor confidence and, therefore, sovereign debt sustainability."

*Citigroup, on the high level of depositors' confidence in the Lebanese banking sector*

## Number of the Week

**\$31.7bn:** The Central Bank's gross foreign currency reserves at the end of June 2013

## Economic Indicators

<b>\$m (unless otherwise mentioned)</b>	<b>2011</b>	<b>Apr 12</b>	<b>2012</b>	<b>Feb 13</b>	<b>Mar 13</b>	<b>Apr 13</b>	<b>% Change*</b>
Exports	4,276	319	4,486	381	406	412	29.15
Imports	20,170	1,548	21,281	1,791	2,076	1,849	19.44
Trade Balance	(15,894)	(1,229)	(16,795)	(1,410)	(1,670)	(1,437)	16.92
Balance of Payments	(1,996)	(543)	(1,538)	(92)	(353)	44	n/a
Checks Cleared in LBP	14,251	1,154	14,976	1,213	1,286	1,473	27.64
Checks Cleared in FC	57,852	4,284	56,044	4,353	4,472	4,854	13.31
Total Checks Cleared	72,103	5,438	69,787	5,566	5,758	6,327	16.35
Budget Deficit/Surplus	(2,342)	(422.0)	(3,925)	(279.91)	(484.90)	(726.31)	72.11
Primary Balance	1,662	15.00	(109.87)	(130.10)	(75.10)	(264.63)	n/a
Airport Passengers	5,596,034	518,723	5,960,414	402,517	502,923	514,458	(0.82)

<b>\$bn (unless otherwise mentioned)</b>	<b>Dec 2011</b>	<b>Apr 12</b>	<b>Dec 12</b>	<b>Feb 13</b>	<b>Mar 13</b>	<b>Apr 13</b>	<b>% Change*</b>
BdL FX Reserves	30.82	31.76	29.97	30.34	30.36	30.66	(3.47)
<i>In months of Imports</i>	<i>18.51</i>	<i>20.52</i>	<i>16.02</i>	<i>16.94</i>	<i>14.62</i>	<i>16.58</i>	<i>(19.18)</i>
Public Debt	53.66	55.04	57.69	58.08	57.75	59.12	7.41
Net Public Debt	46.37	47.18	49.12	49.95	50.07	50.68	7.43
Bank Assets	140.58	144.71	151.88	153.97	155.44	155.11	7.19
Bank Deposits (Private Sector)	115.72	118.75	125.00	126.30	128.11	128.10	7.87
Bank Loans to Private Sector	39.38	41.67	43.45	43.95	44.70	44.08	5.77
Money Supply M2	38.90	40.46	43.17	43.62	43.76	43.93	8.58
Money Supply M3	97.23	99.77	104.01	104.71	105.85	106.18	6.42
LBP Lending Rate (%)	7.38	7.49	7.07	7.47	7.28	7.27	22b.p
LBP Deposit Rate (%)	5.63	5.42	5.41	5.46	5.44	5.43	(1b.p)
USD Lending Rate (%)	7.02	7.10	6.87	7.05	6.95	6.90	(20b.p)
USD Deposit Rate (%)	2.83	2.84	2.86	2.94	2.97	2.97	13b.p
%* Change in CPI**	4.27	6.03	4.68	3.66	9.17	4.48	(155b.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"	11.01	(1.96)	98,279	10.59%
Solidere "B"	10.62	(5.85)	58,617	6.64%
Byblos Common	1.49	(3.25)	114,630	5.15%
Byblos Pref. 08	100.00	(0.10)	23	1.92%
Byblos Pref. 09	100.00	(0.10)	607	1.92%
BLOM GDR	8.50	(1.73)	172,839	6.04%
BLOM Listed	8.27	0.24	16,583	17.10%
Audi GDR	6.29	0.48	4,250	6.17%
Audi Listed	6.25	1.63	12,874	21.03%
HOLCIM	15.68	0.00	0	2.94%

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

<b>Sovereign Eurobonds</b>	<b>Coupon %</b>	<b>Mid Price \$</b>	<b>Mid Yield %</b>
Apr. 2014	7.375	102.25	3.60
Jan. 2015	5.875	102.10	4.27
Apr. 2015	10.00	109.00	4.25
Jan. 2016	8.500	107.88	4.94
Mar. 2017	9.000	111.50	5.39
Nov. 2018	5.150	97.50	5.71
Apr. 2021	8.250	109.50	6.64
Nov. 2026	6.600	97.00	6.95

Source: Byblos Bank Capital Markets

	<b>Aug 26-30</b>	<b>Aug 19-23</b>	<b>% Change</b>	<b>Aug 2013</b>	<b>Aug 2012</b>	<b>% Change</b>
<b>Total Shares Traded</b>	505,963	232,285	117.82	1,136,561	2,124,597	(46.50)
<b>Total Value Traded</b>	\$4,302,986	\$2,203,483	95.28	\$13,445,987	\$25,488,402	(47.25)
<b>Market Capitalization</b>	\$10.40bn	\$10.46bn	(0.57)	\$10.40bn	\$10.10bn	2.94

Source: Beirut Stock Exchange (BSE)



### Telecommunications sector performing below potential despite growth, state monopoly is main obstacle

Business Monitor International projected the number of mobile phone subscriptions in Lebanon at 4.4 million at the end of 2013, constituting a rise of 10% from 4 million subscriptions in 2012 and relative to 3.4 million subscriptions in 2011 and 2.9 million subscriptions in 2010. It forecast the number of mobile phone subscriptions to grow at a compound annual rate (CAGR) of 2.9% during the 2013-17 period and to reach 4.9 million in 2017. Further, it estimated mobile phone penetration in Lebanon at 93.2 subscriptions per 100 inhabitants in 2012, up from 79.5 subscriptions per 100 inhabitants in 2011. It noted that Lebanon is one of a few countries in the Middle East and North Africa region with a mobile penetration rate of less than 100% at the end of 2012 despite having a relatively small population and high urbanization level. It attributed this trend to the lack of competition in the market, which has kept tariffs relatively high and delayed the roll out of network services to underserved areas. It forecast mobile phone penetration in Lebanon to reach 100.8 subscriptions per 100 inhabitants in 2013 and to rise to 110.1 subscriptions per 100 inhabitants in 2017.

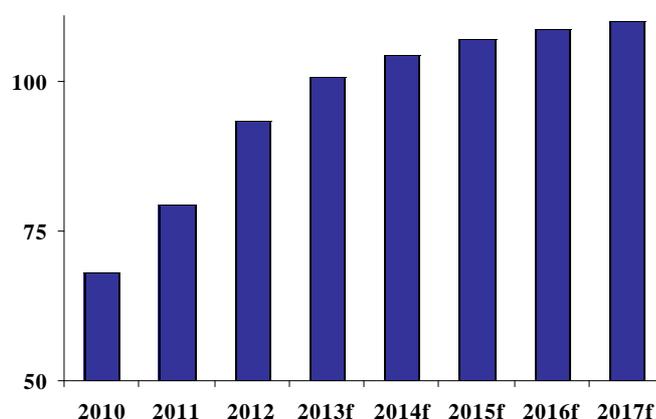
It forecast the number of subscriptions to the 3G service in Lebanon via handsets, tablets and other 3G-enabled devices to reach 1.6 million at the end of 2013, constituting an increase of 50% from 1.1 million in 2012 and compared to 280,000 subscriptions in 2011. It expected the number of 3G subscriptions to grow at a CAGR of 15.6% during the 2013-17 period and to reach 2.8 million in 2017. It anticipated that 36.1% of mobile phone subscribers in Lebanon will have 3G service by the end of 2013, up from 26.3% in 2012 and 8.3% in 2011. It forecast the share of 3G service of the overall Lebanese mobile market to reach 57.5% in 2017. Overall, BMI expected the mobile phone sector in Lebanon to post steady growth between 2013 and 2017 despite relatively uncompetitive tariffs and poor quality of service. It considered that Lebanon's young and well educated population will continue to drive demand for advanced communication services.

In parallel, BMI projected the number of Internet users in Lebanon at 2.9 million in 2013, constituting a rise of 10.3% from 2.6 million users in 2012. It forecast the number of Internet users to grow at a CAGR of 4.5% during the 2013-17 period and to reach 3.4 million in 2017. Also, it estimated Internet penetration in Lebanon at 60.4 users per 100 inhabitants in 2012, up from 52.8 users per 100 inhabitants in 2011. It noted that Lebanon has one of the highest Internet penetration rates in the MENA region despite the high cost of local telecom services. It expected the Internet penetration rate to rise significantly over the coming years and to reach 76.9% in 2017.

Further, it forecast the number of broadband Internet subscriptions at 704,000 at the end of 2013 relative to 500,000 in 2012. It projected the number of broadband Internet subscriptions to grow at a CAGR of 10% during the 2013-17 period and to reach one million in 2017. Also, it forecast the broadband Internet penetration rate to rise from 11.7 subscribers per 100 inhabitants in 2012 to 16.3 subscribers per 100 inhabitants in 2013 and to reach 23.2 subscribers per 100 inhabitants in 2017.

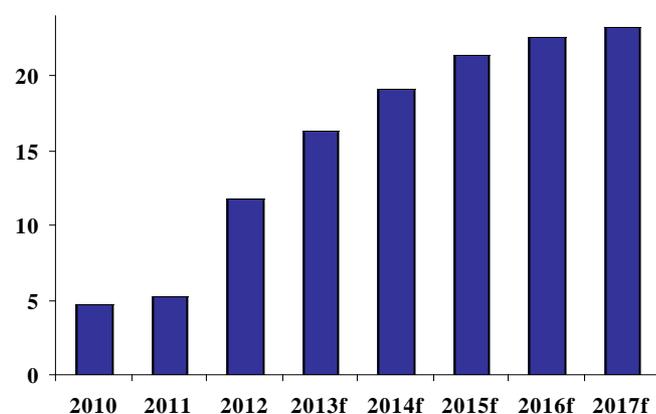
BMI considered that the government's tight control over the Lebanese telecommunications sector's is holding back investments and innovation, while the lack of competition in the mobile and broadband segments is restraining growth. It added that uncompetitive tariffs for services across all segments is limiting market growth and poses downside risks to the sector's outlook. However, it pointed out that the sector presents significant opportunities, as its liberalization, if implemented, has the potential to unlock much-needed capital and expertise in the sector. It noted that the telecommunications sector benefits from the local well-educated and predominantly urban population.

#### Mobile Penetration Rate



Source: Business Monitor International, Byblos Research

#### Broadband Internet Penetration Rate



Source: Business Monitor International, Byblos Research

### VAT collected at customs is leading source of VAT receipts, wholesale trade is biggest source of VAT from internal activity

Figures issued by the Finance Ministry show that revenues from the value-added tax (VAT) totaled \$2.17bn in 2012, constituting a decrease of 0.7% from \$2.19bn in 2011. VAT collected at customs accounted for 67% of the total, while receipts from internal economic activity represented the balance of 33%.

VAT collected at customs totaled \$1.45bn in 2012 and decreased by 4% from \$1.5bn in 2011. The ministry attributed the decline mainly to the government's decision to lift VAT on gas oil and to the lack of systematic import registration and payment of corresponding VAT by Electricité du Liban (EdL). It estimated the forgone VAT receipts from exempting red and green gas oil imports at customs at \$195.7m in 2012. Further, it noted that EdL covered last year only a portion of its VAT dues on fuel oil and gas oil imports from 2011, amounting to \$51.1m, but did not make any payments on its \$128.7m VAT dues for fuel oil and gas oil imports registered in 2012. Revenues from VAT collected at customs accounted for 67% of overall VAT receipts in 2012, down from 69% of overall VAT receipts in 2011.

In parallel, collected VAT receipts from internal economic activity stood at \$719.7m in 2012, constituting an increase of 6% from \$676m in 2011, and compared to rises of 13% in 2008, 23% in 2009 and 9% in 2010. The deceleration in collected VAT receipts was due to the slowdown in domestic economic activity and to the drop in the number of tourist arrivals.

The distribution of declared VAT receipts from internal economic activity shows that wholesale trade accounted for 28.4% of VAT collected from such activity, representing the biggest source of VAT revenues from domestic activity in 2012. VAT from wholesale trade rose by 1.7% year-on-year to \$196.4m. It was followed by other business activities & financial intermediation, which accounted for 23.7% of total VAT receipts from internal activity. VAT from other business activities & financial intermediation rose by 10.8% to \$163.8m in 2012. Also, manufacturing of other products was the third largest source of VAT from internal activities and generated 9.1% of the total, but contracted by 2.1% to \$63m last year.

Hotels & restaurants were the fourth biggest source of VAT from internal activity, with 8.7% of the total. VAT from hotels & restaurants rose by 3.4% year-on-year to \$60.4m. Construction followed in fifth place with \$57m in VAT receipts, rising by 14.7% from 2011, and accounting for 8.2% of VAT from domestic activity last year. Further, real estate activities generated \$39.8m or 5.7% of VAT receipts from internal activities, an increase of 9.1% from 2011.

Also, VAT from post & telecommunication totaled \$39.1m or 5.7% of VAT receipts from internal activities in 2012, while manufacturing of food products & beverages represented \$29.2m or 4.2% of the total. VAT from post & telecommunication rose by 7.3% annually and that from the manufacturing of food products & beverages increased by 18.9% last year. The ministry noted that VAT contribution from post & telecommunications is understated as it does not capture all the VAT raised from the telecom sector. As per the VAT law, a large share of telecom-related VAT receipts is directly transferred to municipalities and, therefore, is not captured in these figures. VAT from sales of motor vehicles rose by 2.6% to \$26.5m and accounted for 3.8% of overall VAT receipts from internal activities in 2012. Other sources of VAT receipts from internal activity accounted for 2.5% of the total.

<b>Top 5 sources of VAT from Internal Activity in 2012</b>		
	<b>Share</b>	<b>Annual Change</b>
Wholesale Trade	28.4%	1.7%
Other business activities	23.7%	10.8%
Retail Trade	9.1%	-2.1%
Hotels & Restaurants	8.7%	3.4%
Construction	8.2%	14.7%

*Source: Ministry of Finance*

### Number of real estate transactions down 5% in first seven months of 2013

Figures released by the Ministry of Finance indicate that the total number of real estate transactions reached 38,127 in the first seven months of 2013, constituting a decrease of 5.2% from 40,202 deals in the same period last year, and compared to an annual decline of 8.8% in the first seven months of 2012 and a drop of 12.3% year-on-year in the same period of 2011. Also, the aggregate value of real estate transactions totaled \$4.65bn in the first seven months of 2013, constituting an increase of 5.5% from \$4.4bn in the same period last year. The value of real estate deals was \$4.53bn and \$5.63bn in the first seven months of 2011 and 2010, respectively. In parallel, the average value per real estate transaction increased by 11.2% year-on-year to \$122,022 in the first seven months of 2013, relative to an average value of \$109,700 in the same period of 2012 and \$102,840 in the first seven months of 2011.



### **Opened letters of credits at \$3.63bn for imports and \$2.1bn for exports in first half of 2013**

Figures issued by the Central Bank indicate that the value of letters of credits (LCs) opened to finance imports to Lebanon totaled \$3.63bn in the first half of 2013, constituting an increase of 24.4% from \$2.92bn in the same period of 2012. The value of LCs opened to finance imports to Lebanon reached \$1.86bn in the first quarter and \$1.77bn in the second quarter of 2013. Further, utilized credits for imports reached \$3.5bn in the first half of 2013, up 25.3% from \$2.8bn in the same period of the previous year. They accounted for 96.4% of opened LCs in the covered period compared to 95.7% in the first half of 2012. Utilized credits for imports totaled \$1.78bn in the first quarter and \$1.73bn in the second quarter of this year. Also, outstanding import credits totaled \$1.23bn at end-June 2013 compared to \$995m at end-June 2012. Further, the aggregate value of inward bills for collection totaled \$823m in the first half of 2013, constituting a decrease of 21.4% from \$1bn in the same period last year. The value of inward bills for collection totaled \$366.7m and \$456.3m in the first and second quarters of 2013, respectively. Outstanding bills for collection reached \$151.2m at end-June 2013 relative to \$169.3m at end-June 2012.

In parallel, the value of documentary letters of credits opened to finance exports from Lebanon reached \$2.1bn in the first half of 2013, constituting a decline of 1.5% from the same period of 2012. The value of documentary letters of credits opened to finance Lebanese exports from Lebanon totaled \$1.1bn in the first quarter and \$1bn in the second quarter of 2013. Further, utilized credits for exports reached \$2bn in the first half of 2013, up 13.3% from \$1.8bn of used credits in the same period of 2012. They totaled \$992.7m and \$1bn in the first and second quarters of 2013, respectively. Outstanding export credits reached \$1.41bn at end-June 2013, down from \$1.42bn at end-June 2012. The aggregate value of outward bills for collection totaled \$776.4m in the first half of the year, down 13.3% from \$895m in the same period of 2012. They reached \$442.7m and \$333.8m in the first and second quarters of the year, respectively. The outstanding value of outwards bills for collection reached \$415.9m at end-June 2013 relative to \$462.7m a year earlier.

### **Public-sector salaries and benefits up 3% in first quarter of 2013**

Figures issued by the Ministry of Finance show that salaries, wages and related benefits paid to public-sector employees totaled \$647.4m in the first quarter of 2013, constituting an increase of 2.8% from the same period last year. They represented the largest component of total primary spending and accounted for 29% of such expenditures in the covered quarter, unchanged from the same period last year. The figures include basic salaries, indemnities, allowances, contributions to civil servants' cooperatives, as well as contributions to other mutual funds providing health insurance for specific categories of civil servants, mainly judges, religious judges and Parliament employees. The payments exclude retirement and end-of-service indemnities as well as salaries, wages and benefits of employees at public institutions. Salaries and benefits of military personnel totaled \$407.3 and accounted for 63% of the total, followed by educational personnel with \$140m or 21.6% of the total, civil staff with \$92.2m (14.2%), and customs employees with \$8.6m (1.3%). Also, the Lebanese Army's salaries totaled \$272m in the first quarter of the year and represented 66.8% of military personnel salaries and benefits. They were followed by salaries of the Internal Security Forces with \$107.5m (26.4%), General Security Forces with \$21.2m (5.2%), and State Security Forces with \$6.6m (1.6%).

The ministry attributed the increase in salaries, wages and related benefits paid to public-sector employees to a \$43.8m; or 9.5% annual rise in basic salaries to \$506.8m as a result of the 2012 cost-of-living adjustment and retroactive payments. It said that, excluding such payments from the two compared periods, basic salaries would have increased by 13% to \$461.7m due in part to an increase in basic salaries of military personnel. Also, allowances rose by 3% annually to \$69.7m, while indemnities rose by 19.2% to \$41.1m year-on-year. The breakdown of basic salaries shows a rise of \$49.8m in payments to military personnel, an increase of \$4.6m in payments to educational personnel and a decrease of \$10.6m in payments to civil personnel.

### **Subsidized interest loans at \$101.3m in first quarter of 2013**

Figures released by the Central Bank show that the amount of subsidized interest loans to productive sectors in Lebanon reached \$101.3m in the first quarter of 2013. The industrial sector accounted for \$53.8m, or 53.1% of the total, followed by tourism with \$39.3m (38.8%) and agriculture with \$8.2m (8.1%). Subsidized interest loans extended in 2012 totaled \$696m relative to \$930.7m in 2011, \$737.6m in 2010 and \$492.3m in 2009. The cumulative amount of subsidized interest loans to productive sectors in Lebanon reached \$5.2bn between 1997 and March 2013.

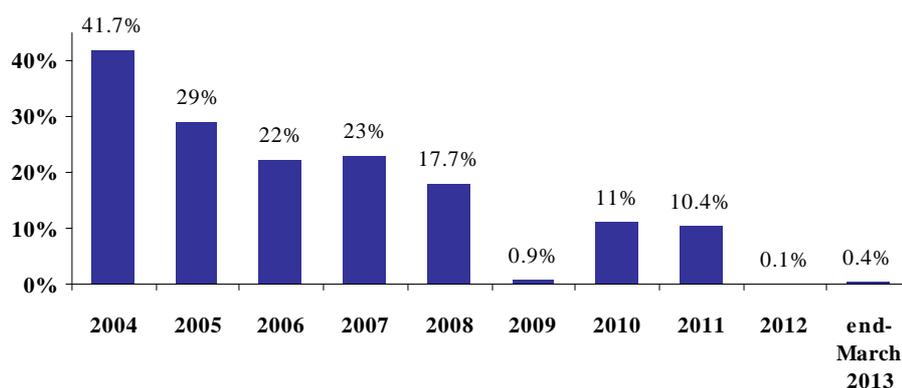
Subsidized medium & long-term loans reached \$80.4m in 2012, equivalent to 79.4% of the total. Industry accounted for 53.8% of total subsidized medium & long-term loans, followed by tourism with 43% and agriculture with 3.2%. The program was established in the first quarter of 1997 and consists of a 5% to 7% subsidy on the interest for loans extended in foreign currencies to productive sectors.

Also, subsidized interest loans guaranteed by the Kafalat Corporation totaled \$20.3m, or 20% of the total. Industry accounted for 49.1% of Kafalat-backed subsidies, followed by agriculture with 27.7% and tourism with 23.2%. Kafalat provides financial guarantees for loans of up to \$400,000 for small and medium-sized enterprises in productive sectors. Further, subsidized interest loans granted by leasing companies totaled \$0.6m in the first quarter of the year, or 0.6% of the total, extended in total to the industry sector.

### Payment cards reach 1.89 million, ATMs total 1,441 at end-March 2013

Figures released by the Central Bank show that the number of payment cards issued in Lebanon reached 1,887,106 cards at the end of March 2013, constituting a 1.4% increase from end-2012, and a 4.5% rise on a yearly basis. Resident cardholders accounted for 95.6% of total cards issued in Lebanon at end-March 2013. The distribution of payment cards by type shows that debit cards with residents accounted for 57.8% of the total, followed by credit cards with residents (22.7%), charge cards with residents (8.3%), resident prepaid cards (6.8%), non-resident debit cards (2.8%), non-resident credit cards (0.9%), non-resident charge cards (0.5%), and non-resident prepaid cards (0.2%). In parallel, the number of ATMs totaled 1,441 machines at the end of March 2013, constituting an increase of 0.6% from the end of 2012 and a rise of 7.4% from a year earlier. The Greater Beirut area had 618 ATMs at the end of March 2013, equivalent to 42.9% of the total, followed by Mount Lebanon with 425 (29.5%), the North with 140 (9.7%), the South with 122 (8.5%), the Bekaa with 110 (7.6%), and Nabatiyeh with 26 (1.8%).

#### Growth in the Number of Credit Cards Held by Residents



Source: Banque du Liban, Byblos Research

### Slow industrial activity in first quarter of 2013

The Central Bank's quarterly business survey indicated that industrial production improved in relative terms during the first quarter of 2013, with a balance of opinion standing at -8, unchanged from the preceding quarter and compared to -24 during the same quarter of 2012. But the negative balance continues to reflect very slow activity compared to normal years. The balance of opinions was the lowest in the North at -24, followed by the Bekaa (-17), Beirut & Mount Lebanon (-6) and the South (+39). The business survey reflects the opinions of enterprise managers on the evolution of their businesses, in order to depict the evolution of a number of key economic variables. The balance of opinion for overall demand for industrial goods stood at -10 in the first quarter of 2013 compared to -8 in the preceding quarter and -24 during the same quarter of 2012. Opinion about the overall demand for industrial goods was the lowest in the North where it reached -21, followed by the Bekaa (-15), Beirut & Mount Lebanon (-10), and the South (+27). Further, the balance of opinion for the volume of investments in industrial goods stood at zero in the first quarter of 2013 compared to -8 in the preceding quarter and -4 during the same quarter of 2012. Opinion about the volume of investments was the lowest in the North where it reached -26, followed by the South (-10), Beirut & Mount Lebanon (+4) and the Bekaa (+14). Also, the balance of opinion for foreign demand stood at -24 during the first quarter of 2013, compared to -22 in the preceding quarter and -25 in the same quarter of 2012. The balance of opinion is the difference between the proportion of surveyed managers who consider that there was an improvement in a particular indicator and the proportion of those who reported a decline in the same indicator.

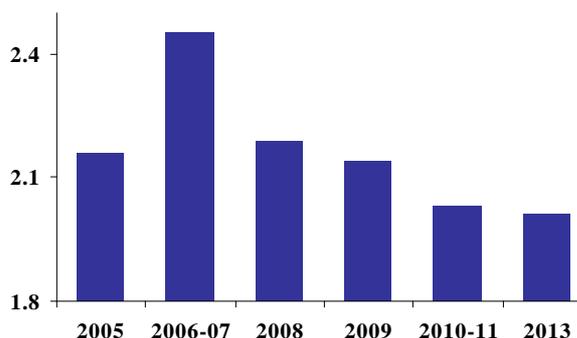
Industrial Activity: Evolution of opinions				
Aggregate results	Q1-10	Q1-11	Q1-12	Q1-13
Production	20	-21	-24	-8
Total demand	15	-29	-24	-10
Foreign demand	8	-19	-25	-24
Volume of investments	19	4	-4	0
Inventories of finished goods	9	-9	-11	-3
Inventories of raw material	1	0	-7	0
Registered orders	6	-24	-16	-11

Source: Central Bank Business Survey for First Quarter 2013

### Media sector's sustainability on a downward trend since 2008

The Media Sustainability Index (MSI) for 2013 assigned a score of 2.01 points for Lebanon, constituting Lebanon's lowest score since it was first included in the index in 2005. The index is produced by non-governmental organization IREX to assess the development of media systems over time and across countries. It is based on five objectives that are considered to be the most important aspects of a sustainable and professional independent media sector. The objectives are Freedom of Speech, Professional Journalism, Plurality of News Sources, Business Management, and Supporting Institutions. The MSI's results are produced from a simple average of the five objectives' scores that range between zero and four, with a score below one indicating an "unsustainable, anti-free press system"; a score between one and two representing an "unattainable mixed system"; a score between two and three indicating a "near sustainability" media system; and a score between three and four pointing to a "sustainable" media system.

Media Sustainability Index Score for Lebanon



Source: IREX, Byblos Research

Lebanon received a score of 1.97 points on the Freedom of Speech objective, down from 1.99 points during the 2009-11 period, 2.17 points in 2008 and 2.24 points in 2006-07, but up from 1.88 points in 2005. Lebanon came in the "unsustainable mixed system", unchanged from 2009, but reflected a downgrade from the "near sustainability" system reached during the 2006-08 period.

Further, Lebanon's score improved from 2.04 points in the 2010-11 survey to 2.08 points in the current survey on the Professional Journalism objective. Lebanon posted its second lowest score on this objective since 2005. Also, Lebanon's score decreased marginally from 2.41 points in the 2010-11 survey to 2.38 points in the current survey on the Plurality of News Sources, posting its second lowest score so far on this category. Lebanon remained in the "near sustainability system" on both objectives in the current Index.

Also, Lebanon received a score of 1.75 points on the Business Management objective, its lowest score on this category since 2005, and fell to the "unstable mixed system" category from the "near sustainability" category reached since 2008. Lebanon's scores fell by 0.3 points from the 2010-11 survey, the steepest drop across objectives. Further, Lebanon's score improved from 1.64 points in the 2010-11 survey to 1.89 points in the current survey on the Supporting Institutions objective, posting the largest improvement across objectives. But Lebanon remained in the "unsustainable mixed system" despite the large increase.

In parallel, Lebanon's 2013 MSI included Serving Public Needs as a sixth objective. The latter rates the extent to which the traditional media such as newspapers and broadcasters, and new media such as blogs and other online or mobile formats, capture citizens' concerns in a non-partisan manner. It is not included in the overall index's score. Lebanon received a score of 1.59 points on this objective and came in the "unsustainable mixed system".

### Treasury transfers to Electricité du Liban up 6% in first quarter of 2013

Figures released by the Finance Ministry show that Treasury transfers to Electricité du Liban totaled \$572m in the first quarter of 2013, constituting an increase of 5.7% from \$541m in the same period of 2012. The ministry said that reimbursements to the Kuwait Petroleum Corporation (KPC) and to Algerian energy conglomerate Sonatrach totaled \$559.5m, or 97.8% of transfers in the covered period and EdL's debt servicing represented \$12.6m or 2.2%. It attributed the increase to an annual rise of \$30.3m, or 5.7%, in payments to KPC and Sonatrach, and to an increase of \$0.8m or 6.7% in debt servicing during the covered period. It said that the increase in payments to KPC and Sonatrach reflects a 7% rise in imported gas oil and a 5% increase in imported fuel oil. It noted that the average international oil price according to which the payments were made was 4% lower. It pointed out that EdL contributed just 2.3% of repayments to the two oil suppliers during the covered period compared to 1.8% in the same period last year. EdL transfers accounted for 25.7% of primary expenditures in the first quarter, up from 25.1% in the same period of 2012. EdL transfers constitute the third largest expenditures item after debt servicing and salaries & wages in overall fiscal spending.

### Term savings attract 87% of customer deposits at end-March 2013

Figures issued by the Central Bank about the distribution of bank deposits show that term savings was the preferred type of account for resident and non-resident depositors in Lebanese pounds as well as in foreign currencies at the end of March 2013. As such, term saving deposits accounted for \$50.6bn, or 82.4% of resident deposits in foreign currencies. They were followed by checking and current accounts with \$9.1bn (14.8%), sight saving accounts with \$1.4bn (2.3%) and other creditor accounts with \$349m (0.6%). Further, term saving accounts attracted \$38.2bn, or 92.4%, of resident deposits in Lebanese pounds, followed by checking and current accounts with \$2.6bn (6.3%) and sight saving accounts with \$493m (1.2%). Non-residents also favored term saving accounts, which totaled \$19.2bn and accounted for 87.5% of their foreign currency deposits, and reached \$3.2bn, or 97.4%, of their Lebanese pound deposits. Term saving deposits in all currencies totaled \$111.3bn at end-March 2013, accounting for 87% of deposits in Lebanese pounds and foreign currencies. In parallel, Beirut and its suburbs attracted 69.2% of private sector deposits and 47.8% of depositors. It was followed by Mount Lebanon with 13.4% of deposits and 17.5% of beneficiaries; South Lebanon with 6.4% of deposits and 11.9% of beneficiaries; North Lebanon with 6% of deposits and 14.3% of depositors; and the Bekaa with 5% of deposits and 8.6% of beneficiaries.

## Corporate Highlights

### Eight Lebanese banks among Top 1000 banks in the world, Byblos Bank posts highest Tier One capital-to-assets ratio

In its 2013 survey of the Top 1000 commercial banks in the world, *The Banker* magazine included eight Lebanese banks on the list, unchanged from last year, none of which ranked among the top 25 banks in the Middle East. The rankings are based on Tier One capital at year-end 2012 as defined by the Basel Bank for International Settlements. *The Banker* said the definition is stricter than total shareholders' equity and covers only the core of a bank's strength, namely the shareholders' equity available to cover actual or potential losses.

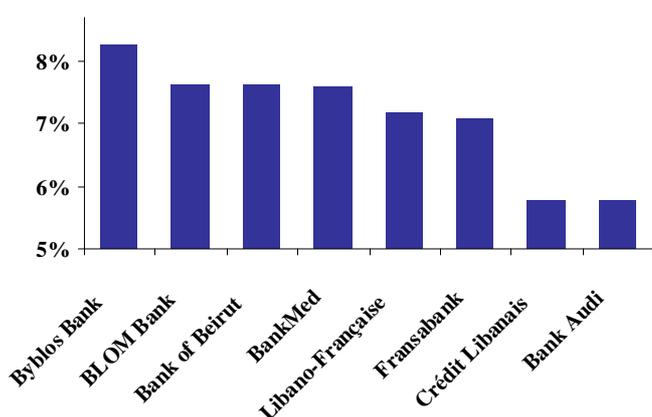
Byblos Bank's Tier One capital-to-assets ratio reached 8.24% at the end of 2012, posting the highest such ratio among Lebanese banks for the fourth consecutive year. It was followed by BLOM Bank (7.63%), Bank of Beirut (7.62%), BankMed (7.57%), Banque Libano-Française (7.2%), Fransabank (7.08%), Crédit Libanais (5.78%) and Bank Audi (5.77%).

The aggregate Tier One capital of the eight Lebanese banks totaled \$9.25bn at the end of 2012, constituting an increase of 8.1% from end-2011. In comparison, the Tier One capital of the Top 1000 banks grew by 7.3% and that of banks in the Middle East rose by 7.9% in 2012. Further, the pre-tax profits-to-Tier One capital ratio of the Lebanese banks reached 18.9% in 2012, down from 20.4% a year earlier, and compared to 12.2% for the Top 1000 banks and to 15.2% for Middle Eastern banks. The eight Lebanese banks accounted for 0.15% of the Tier One capital of the Top 1000 banks, for 0.11% of their total assets and for 0.23% of their aggregate pre-tax profits. They also accounted for 4.1% of the Tier One capital of the 92 Middle Eastern banks included in the Top 1000, for 6.1% of their total assets and for 5.1% of their aggregate pre-tax profits.

BLOM Bank's Tier One capital reached \$1.91bn at the end of 2012 and accounted for 20.7% of the aggregate Tier One capital of the eight Lebanese banks included in the survey. It was followed by Bank Audi with \$1.81bn or 19.5% of the total, Byblos Bank with \$1.4bn (15.2%), Fransabank with \$1.1bn (11.9%), BankMed with \$947m (10.2%), Bank of Beirut with \$862m (9.3%), Banque Libano-Française with \$753m (8.1%), and Crédit Libanais with \$460m (5%). The Tier One capital Bank Audi regressed by 4.6% in 2012, constituting the weakest performance among the Lebanese banks; while BankMed's Tier One capital increased by 32.3% year-on-year, highest among the eight banks.

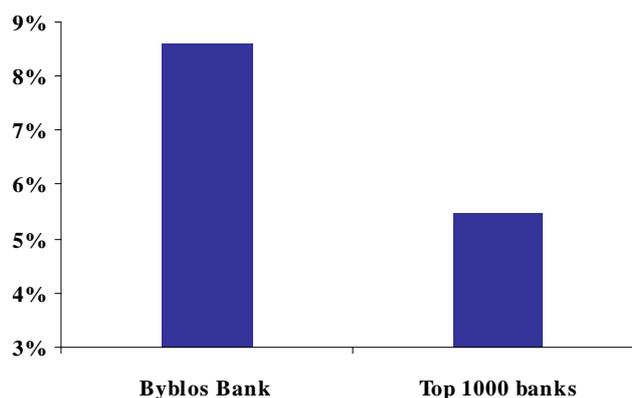
BLOM Bank ranked in 399th place globally, followed by Bank Audi in 418th place, Byblos Bank in 487th place, Fransabank (558th), BankMed (618th), Bank of Beirut (661st), Banque Libano-Française (705th) and Crédit Libanais (885th). Bank Audi and Banque Libano-Française posted the steepest declines in the rankings, as they regressed by 30 and 31 spots, respectively.

Tier One Capital-to-Assets Ratio at end-2012 (%)



Source: *The Banker Magazine*, July 2013

Tier One Capital-to-Assets Ratio at end-2012 (%)



Source: *The Banker Magazine*, July 2013

### **Stock market activity down 38% to \$198m in first eight months of 2013**

Figures released by the Beirut Stock Exchange indicate that total trading volume reached 29.1 million shares in the first eight months of 2013, constituting a decrease of 29.7% from the same period last year; while aggregate turnover amounted to \$198.2m, down 37.5% from a turnover of \$317m in the first eight months of 2012. Market capitalization increased by 2.9% from end-August 2012 to \$10.4bn, of which 79.2% was in banking stocks, followed by real estate stocks with 17.2%, industrial stocks with 3.2%, and trading stocks with 0.4%. The market liquidity ratio was 1.9% compared to 3.1% in the same period last year. Banking stocks accounted for 81.3% of aggregate trading volume in the first eight months of the year, followed by real estate stocks with 15.5%, and trading and industrial stocks with 1.6% each. Also, banking stocks accounted for 70.3% of the aggregate value of shares traded, followed by real estate stocks with 28.2%, industrial stocks with 0.9% and trading stocks with 0.6%. The average daily traded volume for the period was 181,031 shares for an average daily value of \$1.2m. The figures reflect decreases of 28.8% in volume and 36.7% in value year-on-year.

### **Banque BEMO approves \$2.6m in gross dividends, payout ratio at 70.8%**

The Ordinary General Assembly of Banque BEMO sal held on June 7, 2013 approved the Bank's proposed distribution of \$2.63m in gross dividends for common and preferred shares for 2012, representing a payout ratio of 70.8%. The Bank will pay LBP25 per share for holders of common shares; and LBP12,060 or \$8 per share for holders of Preferred Shares. The dividends are subject to a 5% withholding tax. Banque BEMO has 51,400,000 common shares and 200,000 preferred shares outstanding on the Beirut Stock Exchange.

Banque BEMO posted consolidated net profits of \$3.7m in 2012, constituting a decrease of 43.6% from \$6.6m in 2011. Total assets reached \$1.5bn at end-2012, constituting a decline of 2.4% from the end of 2011; while net loans & advances to customers rose by 11.3% year-on-year to reach \$608.2m at end-2012. Customers' deposits totaled \$1.2bn at end-2012 and increased by 12.7% from end-2011, with deposits from related parties reaching \$35.8m.

### **BSL Bank's net profits up 7% to \$5.4m in 2012**

Bank of Syria & Lebanon sal (BSL) posted audited net profits of \$5.4m in 2012, constituting an increase of 6.7% from \$5m in 2011. Net operating income decreased marginally by 0.2% year-on-year to \$20.1m in 2012, with net interest income increasing by 10.2% to \$15.3m and net fees & commissions receipts rising by 6.8% to \$2.6m. Total operating expenditures decreased by 2.6% to \$13.5m in 2012, with staff expenses rising by 4.7% to \$7.1m and general & administrative expenses dropping by 12.9% year-on-year to \$4.8m. The cost-to-income ratio declined to 66.2% in 2012 from a ratio of 72.7% in 2011.

In parallel, total assets reached \$907.2m at end-2012, constituting an 8.2% increase from \$838.4m at end-2011; while loans & advances to customers, excluding loans & advances to related parties, increased by 48.3% year-on-year to \$150.3m. Also, customer deposits, excluding deposits to related parties, totaled \$758.6m at end-2012, growing by 5.6% from a year earlier. The loans-to-deposits ratio rose to 19.1% at end-2012 from 13.6% a year earlier. The bank's total shareholders' equity grew by 6.7% year-on-year to \$83.7m at end-2012.

### **CMA CGM's net profits at \$364m in the first half of 2013**

The Lebanese-owned and France-based container shipping group CMA CGM declared net profits of \$364m in the first half of 2013 compared to consolidated losses of \$79m in the same period last year. The firm posted net profits of \$96m in the first quarter of 2013 and of \$268m in the second quarter of the year. Earnings before interest and taxes (EBIT) totaled \$614m in the first half of the year, up 113% year-on-year. EBIT was \$196m in the first quarter of 2013 and \$418m in the second quarter. The firm generated revenues of \$7.9bn in the covered period, up 1.7% from \$7.8bn in the same period last year, with volumes carried up 4.9% to 5.6 million twenty-foot equivalent unit (TEU). Revenues totaled \$3.9bn in the first quarter and \$4bn in the second quarter of the year. CMA CGM indicated that it closed the purchase of \$150m in mandatory convertible bonds by the Fonds Stratégique d'Investissement and completed the sale of a 49% stake in Terminal Link to China Merchants Holdings International in the second quarter of the year. CMA CGM is the third largest container shipping company in the world. It operates a fleet of 429 vessels with a total capacity of 1.45 million TEU.

In June 2013, CMA CGM announced that it has agreed with Maersk Line and MSC Mediterranean Shipping Company, the first and second largest shipping companies globally, respectively, to establish a long-term operational alliance. The P3 Network aims to improve and optimize operations and service offerings, and to reduce the disruptions for customers caused by cancelled sailings. The agreement is expected to come into effect in the second quarter of 2014 after obtaining the approval of relevant competition and other regulatory authorities. In 2011, CMA CGM and MSC Mediterranean Shipping Company agreed to form a broad-based operating partnership.

## 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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