



# LEBANON THIS WEEK

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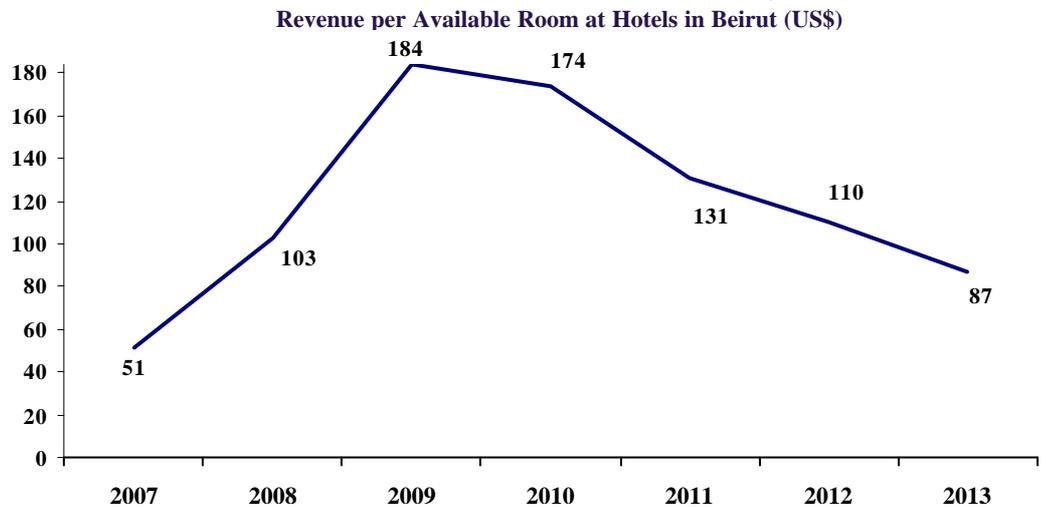
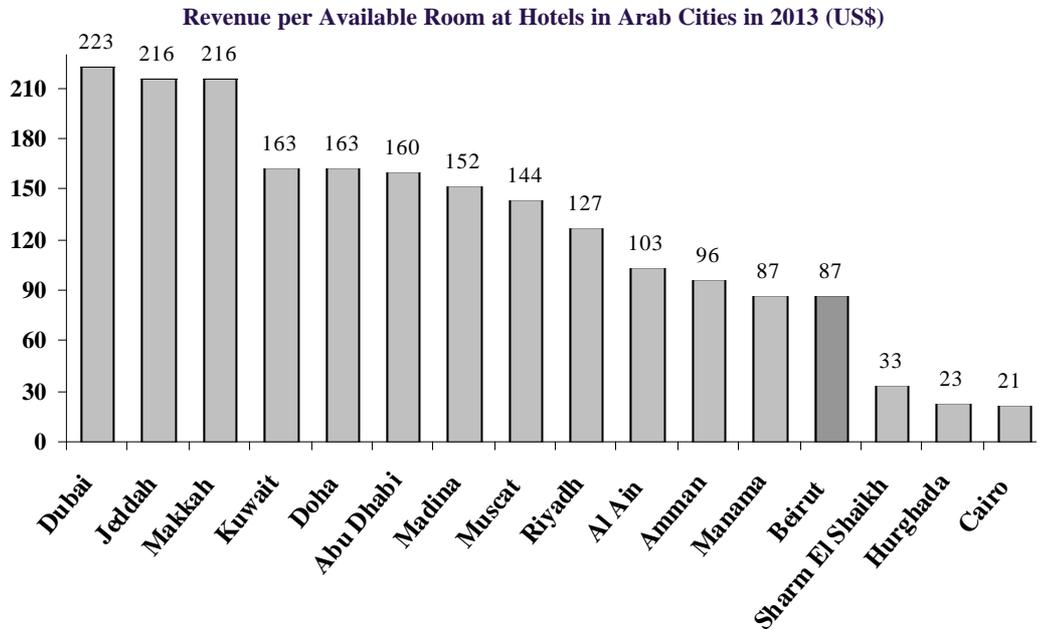
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## Charts of the Week



Source: EY, Byblos Bank

## Quote to Note

"The recent rally in Lebanese sovereign credit is a reflection of local bid and attractive yields on the short end of the curve."

*VTB Capital, on the recent performance of Lebanese Eurobonds*

## Number of the Week

**\$219:** Non-life insurance density in Lebanon in 2013, or aggregate non-life insurance premiums generated last year relative to the size of the Lebanese population

## Economic Indicators

<b>\$m (unless otherwise mentioned)</b>	<b>2012</b>	<b>Oct 12</b>	<b>Jul 13</b>	<b>Aug 13</b>	<b>Sep 13</b>	<b>Oct 13</b>	<b>% Change*</b>
Exports	4,486	440	260	279	288	391	(11.14)
Imports	21,281	1,774	1,718	1,828	1,565	1,757	(0.96)
Trade Balance	(16,795)	(1,334)	(1,438)	(1,549)	(1,277)	(1,366)	2.40
Balance of Payments	(1,538)	(97)	(575)	(223)	504	(794)	718.56
Checks Cleared in LBP	14,976	1,353	1,513	1,354	1,473	1,516	12.05
Checks Cleared in FC	56,044	4,732	4,938	4,495	4,513	4,698	(0.72)
Total Checks Cleared	69,787	6,085	6,451	5,849	5,986	6,214	2.12
Budget Deficit/Surplus	(3,925)	(617.49)	(171.51)	(551.43)	(668.16)	(228.92)	(62.93)
Primary Balance	(109.87)	(215.20)	82.10	(382.69)	(262.33)	233.07	-
Airport Passengers	5,960,414	473,046	581,605	727,086	539,297	524,741	10.93

<b>\$bn (unless otherwise mentioned)</b>	<b>Dec 2012</b>	<b>Oct 12</b>	<b>Jul 13</b>	<b>Aug 13</b>	<b>Sep 13</b>	<b>Oct 13</b>	<b>% Change*</b>
BdL FX Reserves	29.97	29.46	31.27	31.00	32.03	31.86	8.13
<i>In months of Imports</i>	<i>16.02</i>	<i>16.61</i>	<i>18.20</i>	<i>16.96</i>	<i>20.47</i>	<i>18.13</i>	<i>9.18</i>
Public Debt	57.69	56.64	60.23	60.50	62.39	62.44	10.24
Net Public Debt	49.12	48.38	51.14	51.74	52.15	52.50	8.50
Bank Assets	151.88	149.38	157.81	158.56	159.26	160.63	7.53
Bank Deposits (Private Sector)	125.00	122.60	131.18	131.38	131.26	132.10	7.75
Bank Loans to Private Sector	43.45	42.76	45.17	45.57	45.88	46.50	8.75
Money Supply M2	43.62	42.31	44.18	44.42	44.49	44.72	5.69
Money Supply M3	104.71	102.43	107.33	108.28	108.49	109.02	6.44
LBP Lending Rate (%)	7.47	7.31	7.13	7.24	7.36	7.59	28b.p
LBP Deposit Rate (%)	5.46	5.43	5.43	5.47	5.37	5.44	1b.p
USD Lending Rate (%)	7.05	7.15	7.02	7.16	6.95	6.85	(30b.p)
USD Deposit Rate (%)	2.94	2.87	2.89	2.91	2.91	2.94	7b.p
%* Change in CPI**	3.66	7.75	3.15	3.81	4.81	5.04	(271b.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"	13.50	3.77	284,368	12.03%
Solidere "B"	13.38	4.37	169,454	7.75%
Byblos Common	1.68	1.82	141,800	5.38%
Byblos Pref. 08	101.50	0.00	0	1.81%
Byblos Pref. 09	101.50	0.00	0	1.81%
BLOM GDR	9.18	3.15	121,775	6.05%
BLOM Listed	8.75	2.94	324,316	16.77%
Audi GDR	6.60	0.00	7,324	6.03%
Audi Listed	6.44	1.10	175,170	20.08%
HOLCIM	14.50	0.00	600	2.52%

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	100.95	0.38
Jan. 2015	5.875	102.00	3.56
Apr. 2015	10.00	107.25	3.59
Jan. 2016	8.500	107.94	4.11
Mar. 2017	9.000	112.00	4.75
Nov. 2018	5.150	100.00	5.15
Apr. 2021	8.250	112.75	6.02
Nov. 2026	6.600	99.75	6.63

Source: Byblos Bank Capital Markets

	<b>Feb 17-21</b>	<b>Feb 10-13</b>	<b>% Change</b>	<b>Jan 2014</b>	<b>Jan 2013</b>	<b>% Change</b>
<b>Total Shares Traded</b>	1,227,407	699,783	75.40	3,299,497	2,975,129	10.90
<b>Total Value Traded</b>	\$11,649,870	\$5,209,540	123.63	\$33,310,730	\$15,350,339	117.0
<b>Market Capitalization</b>	\$11.22bn	\$11.02bn	1.83	\$11.05bn	\$10.85bn	1.80

Source: Beirut Stock Exchange (BSE)



### Lebanon is 73rd most expensive country in the world, third most expensive Arab country

The Cost of Living Index, produced by data and analytics provider Xpatulator, ranked Lebanon as the 73rd most expensive country among 222 countries and territories around the world and the third most expensive among 20 Arab countries in the first quarter of 2014. In comparison, Lebanon was the 82nd most expensive country globally and the third most expensive among Arab countries in the first quarter of 2013, and the 89th costliest country worldwide globally and the seventh most expensive regionally in the first quarter of 2012.

The Cost of Living Index measures the cost of living in 780 locations in every country and territory around the world. The firm provides data and information to help companies and employees calculate the difference in salaries, allowances, and the overall cost of living when moving personnel from their current location to a different part of the world. It uses local prices for defined quantities of the same goods and services, and converts them into a single currency. The index evaluates the cost of living in each country by assigning a weighting to 13 basket groups that cover Household Accommodation, Transport, Groceries, Recreation & Culture, Healthcare, Education, Furniture & Appliances, Personal Care, Clothing, Communication, Alcohol & Tobacco, Restaurants, Meals Out & Hotels, and Miscellaneous Items. It uses data from local service providers in each location, as well as from international service providers, official governmental statistics and global agency data. Locations with the highest rankings are the most expensive, while those with the lowest rankings are the least expensive.

Globally, the cost of living in Lebanon is higher than in Guinea-Bissau, Malta and Taiwan, while it is lower than in China, the Comoros Islands and Senegal. Regionally, Lebanon came as less expensive than only the UAE and Qatar. In parallel, Angola was ranked as the most expensive country and Bhutan as the least expensive state globally; while Qatar has the highest cost of living regionally and Syria is the least expensive country.

In parallel, the survey shows that Beirut is the 169th most expensive city among more than 500 cities and locations in the world, and the fifth most expensive among 31 Arab cities in the first quarter of 2014. Globally, the cost of living in Beirut is higher than in Toulouse in France, Kaliningrad in Russia and Yaren in Nauru, while it is lower than in Leeds in the United Kingdom, Preston in the United Kingdom and Roseau in the Dominica. Regionally, Beirut came as less expensive than only Doha, Abu Dhabi, Dubai and Khartoum. In parallel, Luanda in Angola was ranked as the most expensive city globally and Thimphu in Bhutan was considered the least expensive city; while Doha has the highest cost of living among Arab countries and Damascus is the least expensive city.

### Government formation to benefit Lebanese stocks

Regional investment bank EFG Hermes indicated that the formation of a national unity government is a positive development for Lebanon. But it anticipated that the newly formed government would focus on the country's short-term challenges rather than on implementing reforms. It pointed out that the government's main agenda would include the organization of presidential elections scheduled in May 2014, and the rollover of about \$2.3bn in Eurobonds that mature this year. It noted that reforms that would reduce the chronic fiscal deficit would not be a priority for the current government. It said that achieving some level of political stability would support a recovery in tourism and other economic activity, but it noted that the conflict in Syria would remain a source of instability for Lebanon.

In parallel, EFG Hermes expected the Lebanese equity market to respond positively to the formation of the new government given that the market is driven by shifts in political sentiment. It noted that the market has lost 19% of its value since the collapse of the Hariri government in January 2011, while regional stock market indices rose overall by 12% during the same period.

Further, it pointed out that five-year CDS spreads for Lebanon have already narrowed from a high of 550 basis points in June 2013 to a current level of 388 basis points, indicating that the formation of the government is partly priced-in. It noted, however, that the five-year CDS spreads still exceed their level posted in January 2010 by about 160 basis points. It considered that a further narrowing of the CDS spreads would imply lower discount rates that would support some re-rating of Lebanese stocks. It anticipated that abundant liquidity is likely to spill over from core GCC equity markets to peripheral markets such as Lebanon and Jordan this year as investors look for value.

#### Cost of Living Index Rankings\*

	Arab Rank	Global Rank
Qatar	1	44
UAE	2	61
<b>Lebanon</b>	<b>3</b>	<b>73</b>
Sudan	4	85
Djibouti	5	108
Kuwait	6	118
Bahrain	7	120
Libya	8	124
Palestine	9	145
Oman	10	166
Jordan	11	174
Yemen	12	186
Iraq	13	189
Saudi Arabia	14	195
Morocco	15	205
Egypt	16	207
Mauritania	17	210
Algeria	18	211
Tunisia	19	215
Syria	20	221

\*First Quarter of 2014

Source: Xpatulator, Byblos Research



### Beirut has 24th most expensive office space worldwide, third most expensive in Middle East & Africa region

The 2014 survey of the world's most expensive office locations in 67 cities around the world by property consultants Cushman & Wakefield ranked Beirut as the 24th most expensive city worldwide and the third most expensive among seven cities in the Middle East & Africa region included in the rankings. Beirut's global rank was unchanged from the 2013 survey, while its regional rank regressed by one spot. Also, Beirut was the 23rd most expensive city globally and the third most expensive in the region in the 2012 survey. The study evaluates key office locations in 67 countries and includes in its annual rankings the location with the most expensive occupancy cost in each country. It said the occupancy costs reflect rent in addition to local taxes and service charges. Lebanon is represented by Beirut's Central Business District (CBD).

Globally, the office occupancy cost in Beirut was less expensive than in Amsterdam in the Netherlands, Taipei in Taiwan and Munich in Germany, and was considered to be more expensive than in Dublin in Ireland, Jakarta in Indonesia and Tel Aviv in Israel. Regionally, it was less expensive than in Dubai and Doha. The cost of office space in Beirut's CBD was €505 per square meter per year in 2013, compared to €485 per square meter in 2012, €492 per square meter in 2011, €427 per square meter in 2010, and €380 per square meter in 2009.

In parallel, Cushman & Wakefield indicated that the rent for net internal office areas in Beirut was €403.4 per square meter in 2013, constituting a decrease of 4.3% from €421.6 per square meter in 2012 and compared to €428.2 per square meter in 2011. In US dollar terms, the rent for net internal office areas in Beirut was \$450 per square meter in 2013, unchanged since 2011, and compared to a growth in rent of 13% in the Middle East & Africa region.

### ALI launches project to establish four prototype industrial cities

The Association of Lebanese Industrialists (ALI) announced a project to establish four prototype industrial cities in the areas of Jezzine, Nabatieh, Zahrani, and Terbol. The four eco-friendly cities would be equipped with advanced infrastructure, including a sewage system, water treatment, telecom services, and roads with modern urban planning. The ALI expected the project to create about 20,000 job opportunities in rural areas. In addition, the ALI launched a program for measuring industrial indicators, a basket of incentives to stimulate industrial investments as well as ways to increase Lebanese industrial exports. Further, it noted that it will reiterate its partnership with the International Labor Organization on aspects of social responsibility.

### Consumer Price Index up 0.1% monthly in January 2014

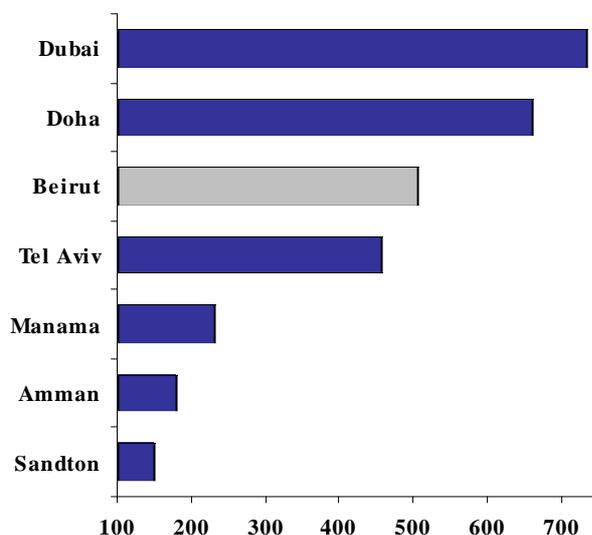
The Central Administration of Statistics' (CAS) Consumer Price Index increased by 0.1% in January 2014 from December 2013. Prices of food & non-alcoholic beverages increased by 2.3%, followed by the cost of alcoholic beverages & tobacco (+1%), housing and transportation costs (+0.7% each); water, electricity, gas & other fuels (+0.6%); healthcare costs (+0.2%) and recreation & entertainment (+0.1%). In parallel, prices of clothing & footwear fell by 9.9%, followed by restaurants & hotels (-0.2%). Further, furnishings & household equipment, education, miscellaneous goods & services, and communication costs were unchanged month-on-month. The CAS indicated that consumer prices grew by a record-high of 31.1% in January 2014 from the index' base month in December 2007.

The CAS did not provide a figure for the Consumer Price Index for January 2013, as it suspended the calculation of the CPI in the first five months in 2013 due to a political decision by the Council of Ministers.

### Launch of second phase of project to strengthen agricultural sector in southern towns

The French Ministry of Agriculture signed partnership agreements with representatives of agricultural cooperatives of six towns in southern Lebanon. The agreements constitute the second phase of the €500,000 Daman II project, which aims to improve agricultural management, as well as to provide farmers with technical assistance through training on advanced methods of farming and on modernizing production facilities. In addition, the agreements aim to strengthen the independence as well as the financial and managerial aspects of the cooperatives. The first phase of the project was implemented between 2008 and 2010. It created agricultural cooperatives and improved the quality of olive oil production through the establishment of contemporary olive squeezers. Daman II is mainly funded by the French Development Agency, the Association for the Development of Rural Capacities, and the Social Development Fund of the French Embassy in Lebanon.

Most Expensive Office Locations by Country in the Middle East & Africa in 2013 (€ per sqm)



Source: Cushman & Wakefield, Byblos Research

### **Central Bank to establish new platform for interest rates swaps**

In its monthly meeting between the Central Bank and the Association of Banks in Lebanon (ABL), Central Bank Governor Riad Salamé considered that the government's formation is a positive step for the economy's outlook. He said that the Bank has bought since the start of the year \$200m in foreign currency from the market and that there is increased demand for Lebanese-pound Treasury bills. He added that the Ministry of Finance will swap Eurobonds that mature in the first half of the year with new ones, which will maintain the stability of the Eurobond market. He noted that additional financing needs would require a separate law for their approval and, in case the law was not issued, the Bank could resort to financial engineering schemes to cover the country's debt servicing requirements.

In parallel, Governor Salamé announced a new financial engineering plan that consists of establishing a platform to conduct interest rates swap operations that would reflect the inter-bank rates on the US dollar and the Lebanese pound in the Beirut market, which would help the Bank keep rates under control. He added that this would support the management of liquidity, as interest rates alone are no longer sufficient to implement monetary policy, and that the Federal Reserve Bank of New York is currently testing a similar platform. He noted that central banks around the world may adopt this system in order to pull from the market the liquidity that they massively injected to reduce interest rates and stimulate growth. Also, the ABL and the Central Bank are discussing a preliminary draft of a circular that would require banks' boards of the directors to establish a Compensation Committee in addition to the existing Risk and Audit committees.

Further, Governor Salamé considered that the fact that correspondent banks are being more selective with the banks they deal with around the world is mainly dictated by their own risk management assessment rather than due to pressure from national regulators. He added that Lebanese banks should communicate with their correspondent banks in order to remain up-to-date about their requirements. He encouraged Lebanese banks to organize visits or to send their compliance officers to the correspondent banks in order to become more familiar with the way they operate. He noted that the ratification of related draft laws that are pending in Parliament would facilitate Lebanese banks' operations abroad.

In parallel, Governor Salamé indicated that the Central Bank and the ABL are preparing a Memorandum of Understanding with their Cypriot counterparts, which mainly aims to exchange expertise and information between both countries' banking authorities. He said that if Lebanese banks operating in Cyprus want to extended loans, credit and trade financing to companies in this country, then these operations would be considered internal to each bank and fall within their responsibility and under the supervision of the Lebanese banking authorities. He cautioned that banks should take the appropriate guarantees for their potential exposure.

### **Airport passengers down 3% in January 2014**

Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures, transit) totaled 450,476 in January 2014, constituting a decrease of 2.9% from the same month last year. The total number of arriving passengers dropped by 0.7% year-on-year to 200,024 in January 2014, compared to an annual rise of 10.1% in January 2013 and an increase of 17.6% year-on-year in January 2012. Also, the number of departing passengers dropped by 4.5% year-on-year to 249,498 in January 2014 relative to an annual rise of 8% in January 2013 and a growth of 15.1% year-on-year in January 2012. In parallel, the airport's aircraft movements rose by 0.5% year-on-year to 4,936 take-offs and landings in January 2014, compared to an annual drop of 4.7% in January 2013 and a marginal decrease of 0.3% year-on-year in January 2012. The HIA processed 6,985.5 metric tons of cargo in January 2014 that consisted of 6,909 tons of freight and 76.5 tons of mail.

### **European Union launches twinning project to strengthen public finance management and improve tax administration**

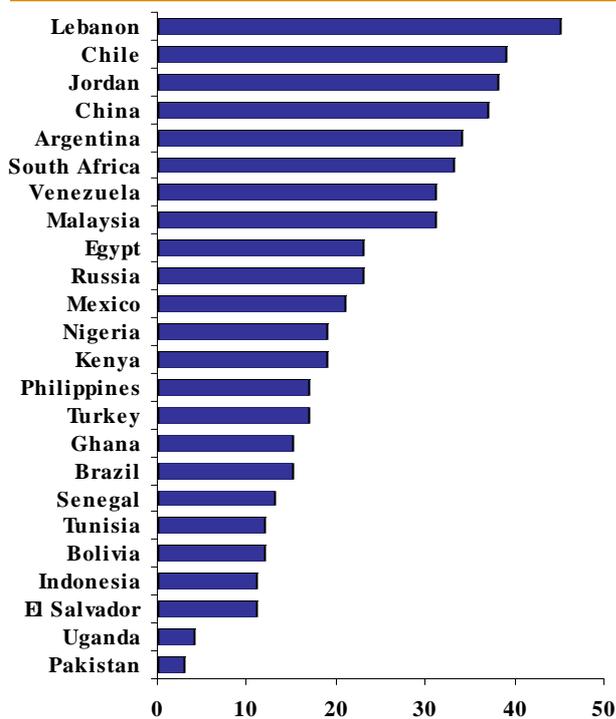
The European Union and the Ministry of Finance officially launched on February 20th a €2.9m twinning project to mainly improve the performance of public finance management in Lebanon, strengthen the mechanisms for the preparation of the budget, develop the budget's execution and forecasting, enhance public debt management and improve the control of public expenditures. In parallel, 70 French and Italian experts would provide the ministry with technical assistance, professional expertise, and cross-training. The project, named Institutional Capacity Development and Reorganization of the Ministry of Finance of Lebanon, will be implemented by the ministry's Directorate General over a period of 28 months. The program will be managed by ADETEF, the international technical assistance consultant agency and operator for the French ministries of Economy, Finance, Industry and Sustainable Development; along with the Italian Ministry of Economy & Finance.

### Social networking sites accessed by 72% of Internet users in Lebanon

A survey conducted by the U.S.-based opinion polling think tank Pew Research Center indicated that 86% of Lebanese own a mobile phone, the 10th highest share among 24 emerging countries covered in the survey. The share of participants who own a mobile phone in Lebanon is higher than the median of 83% in emerging countries, and is lower than that in Jordan (95%) as well as in Egypt and Tunisia (88% each). Further, 45% of mobile phone owners in Lebanon have a Smartphone, the highest share among emerging countries. Also, 62% of Lebanese aged between 18 and 29 years have a Smartphone, 55% of those aged between 30 and 49 years own such a device and 14% of Lebanese who are older than 50 years possess a Smartphone.

The most common phone related activities of mobile phone owners in Lebanon include sending text messages (89%), accessing social networking sites (36%), taking pictures and videos (35%), getting political news (24%), getting consumer information (16%), getting health information (6%) and making or receiving payments (4%). In comparison, 78% of mobile phone owners in emerging economies said that they send text messages, followed by taking pictures and videos (54%), accessing social networking sites (25%), getting political news (18%), getting consumer information (16%), getting health information (15%) and making or receiving payments (11%). The share of mobile phone owners in Lebanon who said that they make or receive payments through their phone is higher than only Tunisia and Bolivia (3% each) among emerging markets.

### Smartphone Penetration in Emerging Economies (% of mobile phone owners)



Source: Pew Research Center, Byblos Research

In parallel, the survey showed that 57% of Lebanese are Internet users, compared to a median of 44% of the population in emerging economies. The share of Lebanese who use the Internet is the fifth highest among emerging markets, lower than Argentina (68%), Russia and Chile (66% each) and Venezuela (59%). Also, 90% of Internet users in Lebanon access the Internet on a daily basis, the highest percentage among emerging economies. Further, 72% of Internet users in Lebanon access social networking sites compared to a median of 77% among emerging economies. The share of Internet users who access social networking sites in Lebanon is the fourth lowest among emerging markets, higher than only Bolivia (71%), South Africa (62%) and China (48%). Also, all Internet users who access social networking sites in Lebanon said that they use them to stay in touch with family and friends, 72% noted that they access them to share political views, 47% indicated that they use them to share views about music and movies, and 17% acknowledged that they access them to share religious views. Further, 69% of Lebanese who use online social networking sites are aged between 18 and 29 years, 46% are between 30 and 49 year-old and 5% are 50 years or older. The survey was conducted between March and May 2013 as part of the Pew Research Center's Global Attitudes Project. The survey's results are based on face-to-face interviews with 1,000 Lebanese adults.

### Assets of Syrian affiliates of Lebanese banks increase by 29%, shareholders' equity up by 10% at end-2013

Preliminary financial results issued by the affiliates of seven Lebanese banks operating in Syria show that their aggregate assets reached SYP400.4bn at the end of 2013, constituting an increase of 29.1% from end-2012. In US dollar terms, the assets of the seven banks reached \$2.8bn at end-2013. The rise was due to a 61.9% increase in the assets of Bank of Syria & Overseas (+SYP35.1bn), a 39.7% rise in those of Banque BEMO Saudi Fransi (+SYP33.3bn), a 26.2% expansion in those of Fransabank Syria (+SYP8.9bn), a 9.5% improvement in the assets of Bank Audi Syria (+SYP4.7bn), a 15.8% increase in those of Syria Gulf Bank, the affiliate of First National Bank (+SYP4.1bn), a 7.7% rise in those of Byblos Bank Syria (+SYP3.4bn), and a 4.9% increase in the assets of Bank Al-Sharq, the affiliate of Banque Libano-Francaise (+SYP805.8m). The aggregate shareholders' equity of the seven banks reached SYP38.8bn at end-2013, constituting an increase of 9.5% from end-2012; while in US dollar terms, banks' shareholders' equity reached \$273.5m at end-2013.

In parallel, the aggregate net profits of the seven banks reached SYP3.4bn in 2013 compared to SYP36.8m in the previous year. The substantial rise in net income is due to a significant increase in the unrealized net foreign exchange gains on structural positions. In US dollar terms, banks' net profits totaled \$31m last year. The profits of Banque BEMO Saudi Fransi surged by SYP1.9bn, followed by a rise of SYP736.8m in those of Byblos Bank Syria, a growth of SYP344.9m in those of Bank Al-Sharq, an increase of SYP311m in those of Bank Audi Syria, a rise of SYP142.8m in the net income of Fransabank Syria and an improvement of SYP109.6m in the profits of Bank of Syria & Overseas. In parallel, the net income of Byblos Bank Syria shifted from a loss of SYP157.3m to a gain of SYP579.5m, while the losses of Syria Gulf Bank rose by SYP237.9m to SYP423m last year. The banks' total operating income reached SYP29.4bn, constituting an increase of 85.5% from end-2012; while it totaled \$270m in US dollar terms at end-2013. The figures in US dollar reflect the prevailing official exchange rates at end-2013. The seven banks have yet to publish their detailed balance sheet and financial results for 2013.

#### Preliminary Results of Affiliates of Lebanese Banks in Syria for 2013 (in US\$)

	Banque BEMO Saudi Fransi	Bank of Syria & Overseas	Bank Audi Syria	Byblos Bank Syria	Fransabank Syria	Syria Gulf Bank	Bank Al-Sharq
Net Profits	\$18.1m	\$1.6m	\$2.9m	\$5.3m	\$1.8m	-\$3.9m	5.1m
Total Assets	\$826.7m	\$648m	\$383.7m	\$330.7m	\$300.9m	\$213m	\$121m
Operating Income	\$53m	\$41.9m	\$48.7m	\$43m	\$44.3m	\$21.9m	\$17.2m
Shareholder's Equity	\$63.1m	\$41.6m	\$51.4m	\$49.8m	\$31.1m	\$14.9m	\$21.6m

Source: Banks' financial statements

### Car sales up 1% in January 2014

Figures released by the Association of Automobile Importers in Lebanon (AIA) indicate that a total of 2,372 new passenger cars were sold in January 2014, constituting a marginal increase of 0.6% from 2,358 cars sold in the same month last year but a decrease of 30.5% from December 2013. Korean cars accounted for 38% of total sales, followed by Japanese cars with a 34.5% share, European automobiles with 20.9%, American vehicles with 5.1% and Chinese cars with 1.5%. Japanese cars posted the highest growth in sales with a 44.5% rise year-on-year. In parallel, American cars posted an 18.8% contraction in sales year-on-year, followed by European cars with a 16.8% decrease, Chinese cars with a 14.6% decline and Korean cars with a 10.3% drop. Kia is the leading brand in the Lebanese market with 541 cars sold in January 2014, followed by Hyundai with 361 cars sold, Toyota with 337 cars, Nissan (257), Renault (92), Mitsubishi (70) and Land Rover (67). In parallel, a total of 179 new commercial vehicles were sold in January 2014, up by 23.4% from 145 vehicles sold in the same month last year.

The number of new vehicles sold by the country's top five distributors reached 1,829 in January 2014 and accounted for 71.7% of new vehicles sold. NATCO sal sold 541 vehicles in January 2014, equivalent to 21.2% of the total, followed by Century Motor Co. sal with 381 (14.9%), Boustany United Machineries sal with 371 (14.5%), Rasamny Younis Motor Co. sal with 310 (12.2%) and Bassoul Heneine sal with 226 (8.9%).

The AIA indicated that the combined number of registered new and imported used cars in January 2014 decreased by 21% from December 2013. It reiterated that about 90% of new cars sold were small automobiles that cost on average about \$11,000 each. It noted that the trend towards buying smaller cars is due to the high price of gasoline, the lack of proper public transportation, and fierce competition among car dealers. It added that this translates into lower sales figures and, consequently, a decline in dealers' income.

### **RYMCO's profits down 12% to \$5m in 2013**

Automobile dealer Rasamny Younis Motor Co. sal (RYMCO) declared net profits of \$4.5m in 2013, constituting a decrease of 12.1% from net earnings of \$5.1m in 2012. Sales revenues (net of discounts) totaled \$166.1m, down by 1.6% year-on-year; while net earnings from servicing and repairs, or 'garage income', increased by 12.4% to \$4.5m. Gross operating income regressed by 11.8% year-on-year to \$24.8m in 2013, while total operating charges declined by 24.9% to \$16.6m. General and administrative expenses decreased by 5.1% year-on-year to \$5.2m last year, while advertising & selling expenses regressed by 25.2% to \$3.3m. The firm's gross profit margin reached 13.4% in 2013 relative to 14.3% in 2012.

Total assets reached \$133.1m at end-2013, constituting a decline of 1.6% from \$135.3m a year earlier. The company's inventory of cars and spare parts reached \$42.8m at end-2013, constituting a decrease of 4.4% year-on-year. In parallel, total shareholder's equity totaled \$51.9m at end-2013, constituting a rise of 1.1% from the preceding year. The firm's current ratio reached 1.3x at end-2013, up from 1.11x at end-2012. The total debt-to-equity ratio reached 85.6% at end-2013, up from 42.1% at the end of 2012. Also, the firm's return on assets reached 3.34% in 2013 relative to 3.74% in 2012, while its return on equity was 8.58% last year relative to 9.87% in 2012. RYMCO is the only car retailer listed on the Beirut bourse. Its share price closed at \$3.50 on February 21, 2014, unchanged from the start of the year.

### **Balance sheet of investment banks down 1% in 2013**

Figures released by the Central Bank show that the consolidated balance sheet of investment banks in Lebanon reached LBP6,009bn, or \$4bn, at the end of 2013, constituting a decrease of 0.8% from end-2012 and compared to a drop of 3.8% in 2012. Private sector deposits reached \$1.95bn at end-2013, down by 10.6% from end-2012 and relative to a 6.7% decrease in 2012. Resident deposits in foreign currencies reached \$971.4m, followed by resident deposits in Lebanese pounds at \$688.5m and non-resident deposits in foreign currencies at \$220.3m. Also, commitments to the financial sector reached \$597.8m at the end of 2013, representing a rise of 4.9% year-on-year and compared to an increase of 2% in 2012.

On the assets' side, investment banks' operations with commercial banks reached \$1.92bn at the end of 2013, up 10.7% from end-2012. Also, lending to the private sector reached \$1.2bn, constituting an increase of 1.8% year-on-year. Investments in government securities totaled \$493.4m at end-2013, down by 35.3% from end-2012 and compared to a decline of 4.1% in 2012. Further, the aggregate capital account of investment banks reached \$999.8m at the end of 2013, constituting an increase of 7.9% from a year earlier. There were 17 investment banks operating in Lebanon with a total of 22 branches as at June 2013.

## Ratio Highlights

(in % unless specified)	2011	2012	2013	Change*
Nominal GDP (\$bn)	40.1	42.5	44.3	
Public Debt in Foreign Currency / GDP	52.2	57.4	61.1	370
Public Debt in Local Currency / GDP	81.6	78.4	82.7	430
Gross Public Debt / GDP	133.9	135.7	143.9	820
Total Gross External Debt / GDP	169.0	169.9	172.7	280
Trade Balance / GDP	(34.7)	(34.6)	(32.8)	180
Exports / Imports	27.9	27.6	27.0	(60)
Fiscal Revenues / GDP	23.3	22.1	20.9	(120)
Fiscal Expenditures / GDP	29.1	31.4	32.1	70
Fiscal Balance / GDP	(5.9)	(9.3)	(11.2)	(190)
Primary Balance / GDP	4.1	(0.3)	(2.5)	(220)
Gross Foreign Currency Reserves / M2	79.2	69.4	70.6	120
M3 / GDP	242.5	244.7	248.9	420
Commercial Banks Assets / GDP	350.6	357.4	367.6	1,020
Private Sector Deposits / GDP	288.6	294.1	302.3	820
Private Sector Loans / GDP	98.2	102.2	106.4	420
Private Sector Deposits Dollarization Rate	65.9	64.8	65.7	90
Private Sector Lending Dollarization Rate	78.4	77.6	76.5	(110)

\* Change in basis points 12/13

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

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

## Risk Outlook

Lebanon	May 2012	Apr 2013	May 2013	Change*	Risk Level
Political Risk Rating	55.0	53.0	53.0	▼	High
Financial Risk Rating	35.0	35.0	33.5	▼	Moderate
Economic Risk Rating	34.0	34.0	28.5	▼	High
Composite Risk Rating	62.0	61.0	57.5	▼	High

Regional Average	May 2012	Apr 2013	May 2013	Change*	Risk Level
Political Risk Rating	59.8	58.6	58.5	▼	High
Financial Risk Rating	41.8	41.5	41.2	▼	Very Low
Economic Risk Rating	37.4	36.3	36.4	▼	Low
Composite Risk Rating	69.5	68.2	68.0	▼	Moderate

\*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	B1		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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