

LEBANON THIS WEEK

In This Issue

Economic Indicators.....	1
Capital Markets.....	1
Lebanon in the News.....	2

Consumer confidence in Lebanon at record low in second half of 2013

IMF calls for urgent measures to maintain fiscal sustainability, preserve financial stability and implement structural reforms

Value of cleared checks up 5%, returned checks up 1% in first quarter of 2014

Association of Banks maintains reference rate on US dollar and amends reference rate on Lebanese pound lending

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

Net public debt at \$54.3bn at end-March 2014

Average annual hotel occupancy rate in Beirut at 52% during past 18 years

Revenues through Port of Beirut down 6% to \$604m in first quarter of 2014

Corporate Highlights6

Byblos Bank approves \$107m in dividends, payout ratio at 69%

A.M. Best assigns ratings to Bankers Assurance, outlook 'stable'

Bank of Beirut to issue priority shares

Commercial banks' assets reach \$167bn at end-March 2014

Top five freight forwarders' import activity up 8% in first quarter of 2014

ALICO's rating affirmed, outlook 'stable'

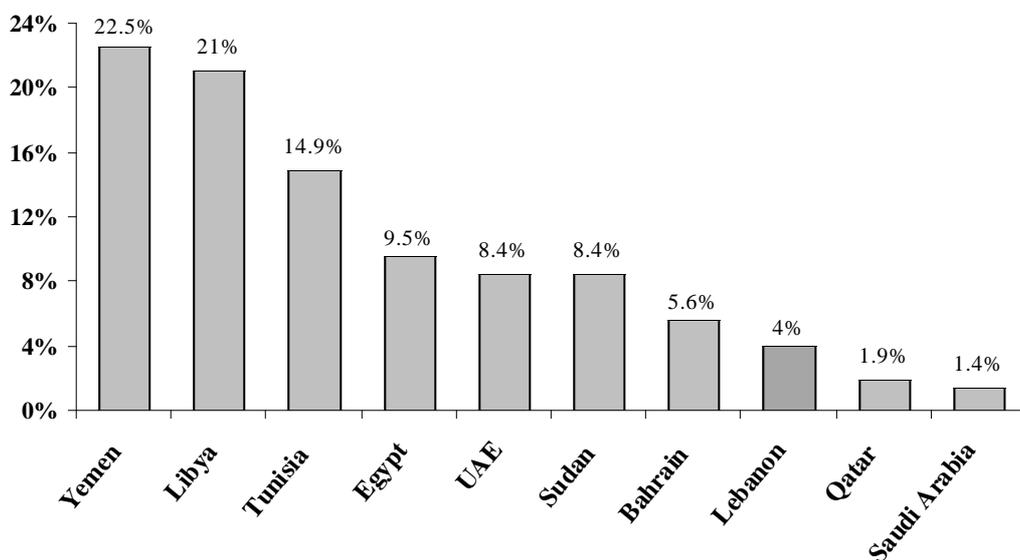
Ratio Highlights.....9

Risk Outlook9

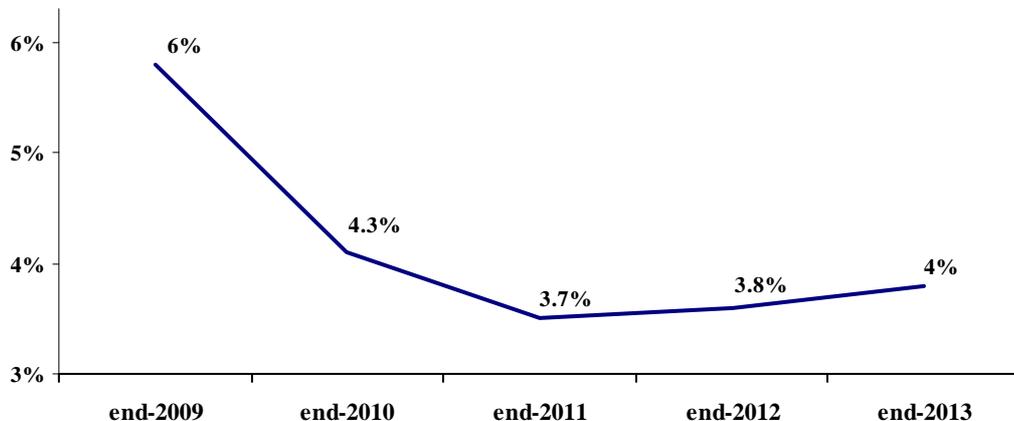
Ratings & Outlook.....9

Charts of the Week

Non-performing Loans Ratio in Select Arab Banking Sectors at end-2013 (% of total loans)*



Non-performing Loans Ratio in Lebanon (% of total loans)



*90-day basis, latest available figures in 2013

Source: International Monetary Fund - May 2014, Byblos Bank

Quote to Note

"The recurring fiscal deficits continue to limit fiscal space, hindering the country's ability to absorb shocks through countercyclical policies."

The World Bank, on the need to drastically reduce inefficient government spending

Number of the Week

99: Lebanon's rank among 148 countries on the affordability of information & communication technology, according to the World Economic Forum/INSEAD Business School's Networked Readiness Index for 2014

Economic Indicators

\$m (unless otherwise mentioned)	2012	Dec 12	Sep 13	Oct 13	Nov 13	Dec 13	% Change*
Exports	4,486	381	288	391	263	243	(36.22)
Imports	21,281	1,871	1,565	1,757	1,772	1,797	(3.96)
Trade Balance	(16,795)	(1,490)	(1,277)	(1,366)	(1,509)	(1,554)	4.30
Balance of Payments	(1,538)	312	504	(794)	(192)	534	71.15
Checks Cleared in LBP	14,976	1,337	1,473	1,516	1,451	1,562	16.83
Checks Cleared in FC	56,044	4,670	4,513	4,698	4,584	4,728	1.24
Total Checks Cleared	69,787	6,007	5,986	6,214	6,035	6,290	4.71
Budget Deficit/Surplus	(3,925)	(132.36)	(668.16)	(228.92)	(126.15)	(137.58)	3.94
Primary Balance	(109.87)	134.56	(262.33)	233.07	340.22	171.23	27.26
Airport Passengers	5,960,414	495,760	539,297	524,741	407,869	510,367	2.95

\$bn (unless otherwise mentioned)	Dec 2012	Dec 12	Sep 13	Oct 13	Nov 13	Dec 13	% Change*
BdL FX Reserves	29.97	29.97	32.03	31.86	31.78	31.70	5.77
<i>In months of Imports</i>	16.02	16.02	20.47	18.13	17.93	17.64	10.13
Public Debt	57.69	57.69	62.39	62.44	63.26	63.46	10.01
Net Public Debt	49.12	49.12	52.15	52.50	52.75	53.18	8.28
Bank Assets	151.88	151.88	159.26	160.63	161.92	164.82	8.52
Bank Deposits (Private Sector)	124.99	124.99	131.26	132.10	133.15	136.21	8.97
Bank Loans to Private Sector	43.45	43.45	45.88	46.50	46.81	47.38	9.05
Money Supply M2	43.17	43.17	44.49	44.72	45.05	45.60	5.63
Money Supply M3	104.01	104.01	108.49	109.02	109.34	111.16	6.87
LBP Lending Rate (%)	7.07	7.07	7.36	7.59	7.01	7.29	22b.p
LBP Deposit Rate (%)	5.41	5.41	5.37	5.44	5.47	5.44	3b.p
USD Lending Rate (%)	6.87	6.87	6.95	6.85	6.88	6.88	1b.p
USD Deposit Rate (%)	2.86	2.86	2.91	2.94	2.97	2.95	9b.p
%* Change in CPI**	4.68	4.68	4.81	5.04	4.96	3.89	(79b.p)

* Year-on-Year; ** Consumer Price Index

Note: b.p. i.e. basis point

Sources: ABL, BdL

Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization	Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Solidere "A"	12.83	(0.93)	83,001	11.67%	Jan 2015	5.875	101.50	3.59
Solidere "B"	12.75	(2.00)	75,227	7.54%	Apr 2015	10.000	106.25	3.27
Byblos Common	1.70	0.59	33,650	5.56%	Jan 2016	8.500	107.75	3.71
Byblos Pref. 08	103.50	0.00	0	1.88%	Mar 2017	9.000	112.00	4.47
Byblos Pref. 09	103.10	0.00	0	1.88%	Nov 2018	5.150	100.50	5.03
BLOM GDR	9.20	0.00	25,850	6.18%	May 2019	6.000	102.50	5.43
BLOM Listed	8.70	(2.79)	13,500	17.01%	Mar 2020	6.375	103.88	5.59
Audi GDR	6.30	(1.10)	15,300	5.87%	Apr 2021	8.250	113.63	5.83
Audi Listed	6.10	0.83	16,989	19.41%	Oct 2022	6.100	99.50	6.18
HOLCIM	14.80	(4.45)	417	2.63%	Nov 2026	6.600	100.75	6.51

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

Source: Byblos Bank Capital Markets

	May 5-9	Apr 28-May 2	% Change	Apr 2014	Apr 2013	% Change
Total Shares Traded	313,613	350,131	(10.43)	1,817,870	4,184,711	(56.56)
Total Value Traded	\$4,533,688	\$4,929,277	(8.03)	\$17,838,999	\$28,430,668	(37.25)
Market Capitalization	\$10.99bn	\$11.07bn	(0.71)	\$11.05bn	\$10.07bn	9.76

Source: Beirut Stock Exchange (BSE)



Consumer confidence in Lebanon at record low in second half of 2013

The level of consumer confidence in Lebanon reached a record low in the second half of 2013, as reflected by the results of the Byblos Bank/AUB Consumer Confidence Index for the third and fourth quarters of the year. The index averaged 29 in the third quarter of 2013, constituting its fourth-lowest reading in 26 quarters; while it averaged 28.2 in the fourth quarter of 2013, the second-lowest quarterly result since the start of the index's calculation. As a result, the Byblos Bank/AUB Consumer Confidence Index posted an average monthly value of 28.6 during the second half of 2013, constituting the index's lowest level on a semi-annual basis.

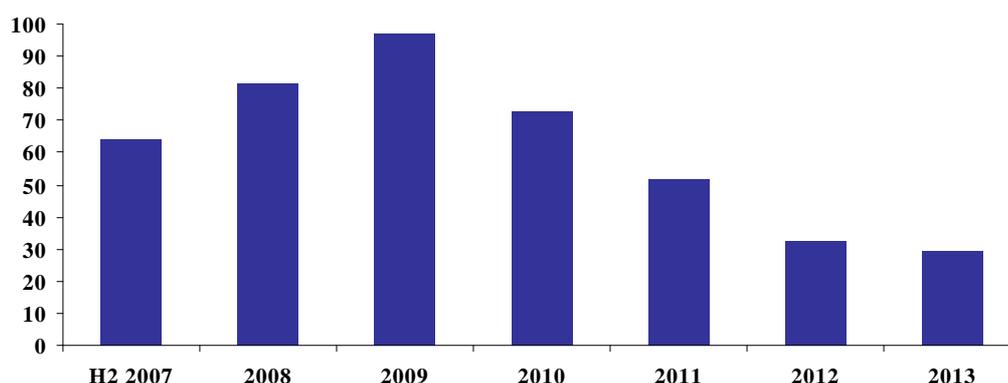
Consumer confidence in Lebanon remained very sensitive to political and security developments during the second half of 2013, in line with trends since the start of the index calculation in July 2007. Repeated security breaches, domestic political tensions, the political vacuum and paralyzed decision-making process within public institutions, in addition to the growing direct and indirect spillovers from the Syrian conflict, combined to keep confidence at very low levels during the covered period. The most significant cause for the weakening of consumer sentiment during the covered period was the sharp deterioration in security conditions across the country, particularly through car and suicide bombings. Also, the high level of political polarization and tensions, as well as the deadlock over the formation of a Cabinet took their toll on sentiment. In addition, the impact of the Syrian conflict's socio-economic component became more significant during the second half of 2013 with the rapid rise in the number of Syrian refugees entering the country, which, in turn, exacerbated the anxiousness of Lebanese consumers.

The Byblos Bank/AUB Present Situation Index and the Byblos Bank/AUB Expectations Index posted their lowest semi-annual readings during the second half of 2013, which reflected the deterioration of confidence in current as well as in future conditions. On a quarterly basis, the Present Situation Index posted its lowest reading ever in the third quarter of the year, while the Expectations Index posted its fourth-lowest reading in the same quarter of 2013. The Expectations Index was higher than the Present Situation Index during the third quarter of 2013, in line with general trends. In contrast, the Expectations Index was lower than the Present Situation Index during the fourth quarter of 2013, which shows that Lebanese consumers were more pessimistic about the future than they were about present circumstances.

The results also revealed that male consumers posted a relatively higher level of confidence than their female counterparts did, while consumers in the 21 to 29 year-old bracket displayed a higher level of confidence than other age brackets during the second half of 2013. Also, consumers with household income above \$2,000 per month consistently had a higher level of confidence than those earning less. Moreover, private sector employees displayed a higher level of confidence than the self-employed, the unemployed, public sector employees and housewives in the second half of the year. In addition, consumers in the South were the least pessimistic across administrative districts, or *mohafaza*, in the second half of the year, followed by consumers in Mount Lebanon, the North, Beirut and the Bekaa. Further, Druze consumers displayed a higher level of confidence in the second half of 2013 than Lebanese of other religious affiliations, and were followed by Christian, Shiite, and Sunni consumers.

The Byblos Bank/AUB Consumer Confidence Index is a measure of the sentiment and expectations of Lebanese consumers towards the economy and their own financial situation. The Index was developed and is compiled in line with international best practices and according to criteria from leading consumer confidence indices worldwide. It is composed of two sub-indices, the Byblos Bank/AUB Present Situation Index and the Byblos Bank/AUB Expectations Index. The first sub-index covers the current economic and financial conditions of Lebanese consumers, and the second one addresses their outlook over the coming six months. In addition, the data segregates the Index based on age, gender, income, profession, administrative district, and religious affiliation. The Index has been calculated on a monthly basis since July 2007, with January 2009 as its base month. It is based on a nationally representative survey of 1,200 face-to-face interviews with adult males and females living throughout Lebanon. The monthly field survey is conducted by Statistics Lebanon, a market research and opinion-polling firm.

Byblos Bank/AUB Consumer Confidence Index*



* Monthly average index for the period

Source: Byblos Research and AUB, based on surveys conducted by Statistics Lebanon

IMF calls for urgent measures to maintain fiscal sustainability, preserve financial stability and implement structural reforms

In the concluding statement of its Article IV Consultation for Lebanon, the International Monetary Fund indicated that macroeconomic conditions in the country have deteriorated over the past two years. It said that economic growth has been significantly below pre-Syria crisis levels, traditional drivers of growth such as real estate, tourism and construction activity have been affected by increasing uncertainties and poor security conditions, the fiscal deficit has widened, and the public debt level has increased. It added that the political deadlock has paralyzed reforms, which has amplified the macroeconomic imbalances. But it noted that the country's financial markets have been largely resilient and that the Central Bank has been actively seeking to maintain stability.

The IMF urged authorities to implement strong policies that would focus on ensuring fiscal sustainability, preserving financial stability, and implementing structural reforms to stimulate growth. On the fiscal front, it considered that Lebanon's priority should be to reduce the public debt level through sustained primary surpluses supported by a strong and credible fiscal adjustment. It stressed that ratifying a budget for 2014 is a necessary initial step to anchor fiscal policy, and urged authorities to move away from the current fragmented approach to fiscal policy-making. It noted that the ongoing debate about the salary scale adjustment for the public sector has diverted attention away from the budgetary strategy and from the need for broader fiscal consolidation. It said that fiscal consolidation should be based on a multi-year strategy, must include revenue and spending measures, and support growth. It added that the salary scale adjustment must be contained, disbursed through installments, exclude retroactive payments and be accompanied by civil service reforms. It also stressed on the need to reform the electricity sector, particularly electricity subsidies. It warned that prospective oil and gas revenues should not become an excuse to delay fiscal reforms.

On the financial front, the IMF considered that the accumulation of foreign exchange reserves by the Central Bank is still necessary in the current volatile environment, but it noted that the continued reserve accumulation and the associated sterilization costs have weighed on the Bank's balance sheet. It added that monetary policy should aim to increase interest rate flexibility, and encouraged the Central Bank to withdraw gradually from Treasury bill auctions. It said that providing more details about auction results would make T-bill auctions more transparent. It noted that these measures would result in interest rates that reflect more accurately the cost of funding the government.

In parallel, it indicated that commercial banks have been largely resilient despite the difficult environment, and encouraged them to maintain large liquidity levels and strengthen their capital buffers. It noted that the banking sector should reassess the capital buffers relative to its large exposure to the sovereign, in accordance with Basel III. It also called on banks to improve loan classification and restructuring, stay vigilant for signs of further asset deterioration, and further strengthen the anti money-laundering and combating the financing of terrorism regime.

On the structural reforms front, the IMF pointed out to signs that the Lebanese economy is losing its competitiveness and called for reducing the cost of doing business, improving the business environment, and increasing the productivity of the public and private sectors. It noted that the inefficient and insufficient supply of electricity is a major impediment to growth, and that there is a need to modernize labor market legislation and improve compliance with labor laws. It added that ratifying and implementing a framework law for Public Private Partnerships would pave the way for improving the governance and transparency of public projects, particularly in the telecommunications, transportation and water sectors. It considered that improving competitiveness would unlock Lebanon's growth potential.

Value of cleared checks up 5%, returned checks up 1% in first quarter of 2014

The value of cleared checks reached \$18.1bn in the first quarter of 2014, constituting an increase of 5.1% from the same quarter of last year, and compared to a marginal decrease of 0.6% in the first quarter of 2013 and an increase of 2.3% in the same quarter of 2012. The value of cleared checks in Lebanese pounds rose by 16.1% annually to the equivalent of \$4.4bn in the first quarter of 2014, while the value of cleared checks in US dollars increased by 2% to \$13.7bn. The dollarization rate of cleared checks decreased to 75.7% from 78% in the first quarter of 2013. Also, the value of returned checks in domestic and foreign currencies increased by 0.8% year-on-year to \$357m in the first quarter of 2014, relative to an annual decrease of 8.5% in the same quarter of 2013 and an annual increase of 19.1% in the first quarter of 2012. In parallel, the number of cleared checks totaled 3.2 million checks in the first quarter of 2014, unchanged from the same quarter last year. Also, the number of returned checks totaled 60,600 checks, down 2.6% from the first quarter of 2013.

Association of Banks maintains reference rate on US dollar and amends reference rate on Lebanese pound lending

The Association of Banks in Lebanon (ABL) recommended to its member banks to maintain the Beirut Reference Rate (BRR) in US dollars at 5.94% in June 2014, unchanged from the current rate. The rate, considered as the reference rate for lending in foreign currency, replaced the London Inter-Bank Offering Rate (LIBOR) in 2009 as the ABL considered that the LIBOR no longer accurately reflects the cost of funding and lending in Lebanon. Additionally, the ABL recommended to its member banks to decrease the Beirut Reference Rate in Lebanese pounds to 8.58% in June from 8.63% currently. The Beirut Reference Rate in US dollars and Lebanese pounds were adopted in March and May 2009, respectively. The ABL considers that the BRR does not replace the Beirut Prime Lending Rate in each currency, but constitutes the basis to calculate the prime rate after adding the cost of liquidity and refinancing, credit risks, and the profitability of banks to the prime lending rate.

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

Figures issued by Merrill Lynch indicate that Lebanon's external debt posted returns of 3.3% in the first four months of 2014, constituting the 12th lowest return among 34 markets in the Eastern Europe, the Middle East & Africa (EMEA) region as well as the 16th lowest return among the 63 emerging markets included in Merrill Lynch's Sovereign Plus Debt Index. Lebanon underperformed the EMEA region's returns of 3.77%, the overall emerging markets returns of 5.16% and the 5.42% returns posted by sovereigns rated 'BB' and lower during the covered period.

Further, Lebanon's external debt posted the fifth lowest return among 18 countries in the Middle East & Africa region in the covered period, ahead of Angola (+2.51%), Nigeria (+2.36%), Jordan (+1.53%) and Ghana (-0.19%). It was outperformed by Tunisia (+10.82%), Egypt (+10.73%), Turkey (+9.86%), Gabon (+8.43%), Rwanda (+8.06%), Iraq (+7.32%), Bahrain (+6.72%), Morocco (+6.44%), the Ivory Coast (+5.59%), South Africa (+5.26%), Namibia (+4.58%), Zambia (+4.44%) and Senegal (+3.92%). In US dollar terms, Lebanon's external debt posted returns of 3.28% in the first four months of 2014, constituting the 12th lowest in the EMEA region and 16th lowest among emerging markets.

In parallel, Lebanon's external debt posted returns of 0.52% in April 2014, and constituted the 13th lowest return in the EMEA region and the 18th lowest return in emerging markets during the covered month. Lebanon underperformed the EMEA returns of 0.64%, those of emerging markets of 1.49%, and the 1.72% returns of sovereigns rated 'BB' and lower for the same month.

Further, Lebanon's external debt posted the fourth lowest return in the Middle East & Africa region in April 2014. It outperformed Morocco (+0.38%), Senegal (+0.09%) and Angola (-0.27%). But it was outperformed by Zambia (+4.18%), Turkey (+3.5%), Rwanda (+2.53%), Iraq (+1.94%), Tunisia (+1.83%), South Africa (+1.62%), Ghana (+1.38%), Nigeria (+1.34%), Gabon (+1.28%), Bahrain (+1.02%), Egypt (+1%), the Ivory Coast (+0.96%), Jordan (+0.69%) and Namibia (+0.55%).

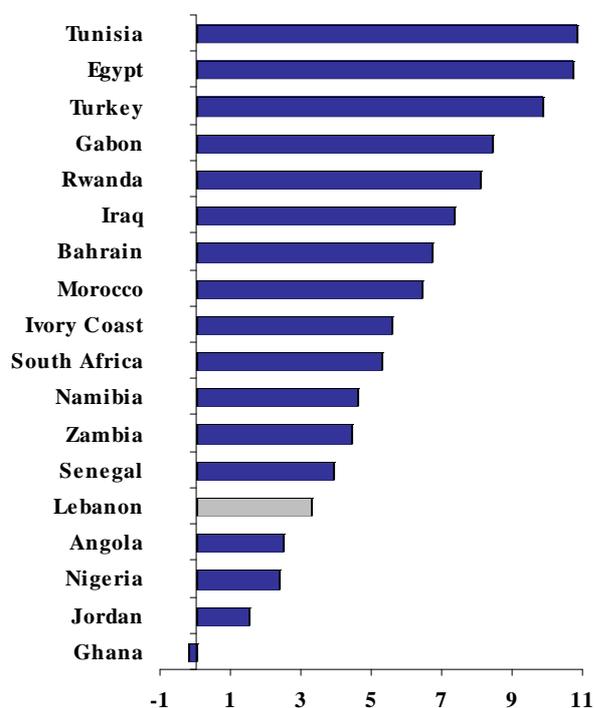
Merrill Lynch indicated that the spread on Lebanese Eurobonds ended April 2014 at 387 basis points, constituting the 10th widest spread in the EMEA region and the 20th widest among emerging markets. It was wider than the EMEA spread of 302 basis points as well as the emerging markets' overall spread of 312 basis points at end-April 2014. Lebanon has a weight of 3.95% on Merrill Lynch's Sovereign Plus Debt Index, the fourth highest in the EMEA universe and the ninth highest among emerging economies. Lebanon accounted for 7.8% of allocations in the EMEA region.

Net public debt at \$54.3bn at end-March 2014

Lebanon's gross public debt reached \$65.1bn at the end of March 2014, constituting a rise of 2.6% from the end of 2013 and an increase of 12.7% from end-March 2013. Domestic debt totaled \$38.8bn at end-March, rising by 3.8% from end-2013 and increasing by 14.5% annually; while external debt stood at \$26.3bn, constituting a rise of 0.8% from end-2013 and an increase of 10% from a year earlier. Local currency debt accounted for 59.5% of gross public debt at end-March 2014 compared to 58.6% a year earlier, while foreign currency-denominated debt represented 40.5% of the total at end-March 2014 relative to 41.4% a year earlier. The weighted interest rate on outstanding Treasury bills was 6.85%, and that on Eurobonds was 6.5% at the end of March 2014. Further, the weighted life on Eurobonds was 5.37 years, while that on Treasury bills was 1,223 days.

Commercial banks accounted for 52.6% of the local public debt at the end of March 2014 compared to 50.6% a year earlier. They were followed by the Central Bank with 30%, down from 32.4% at end-March 2013; while public agencies, financial institutions and the general public accounted for 17.4% of local debt compared to 17% at end-March 2013. Eurobond holders, foreign private sector loans and special T-bills in foreign currencies accounted for 90.5% of the external debt, followed by multilateral institutions with 4.6%, foreign governments with 4.5%, and Paris II loans with 0.4%. The net public debt, which excludes the public sector's deposits at the Central Bank and at commercial banks from overall debt figures, increased annually by 8.5% to \$54.3bn. In parallel, the gross market debt accounted for about 65% of total public debt. Gross market debt is the total public debt less the portfolios of the Central Bank, the National Social Security Fund, bilateral and multilateral loans, as well as Paris II and Paris III related debt.

External Debt Performance in Middle East & Africa in First Four Months of 2014 (%)



Source: Merrill Lynch, Byblos Research

Average annual hotel occupancy rate in Beirut at 52% during past 18 years

The annual survey of the Middle East hotel sector by global hotel consulting firm HVS indicated that the average occupancy rate at Beirut hotels was 52% during the 1996-2013 period, constituting the lowest rate among 14 cities in the Middle East for which complete data is available over the covered period. The survey added that the average rate per room at Beirut hotels grew at a compound annual growth rate (CAGR) of 0.3% during the covered period, and posted the third lowest CAGR in the region. Further, revenues per available room (RevPAR) increased by a CAGR of 1%, constituting the fifth lowest growth rate in the Middle East.

In parallel, HVS said that the average occupancy rate at Beirut hotels was 48% in 2013, similar to the occupancy rate in Taba in Egypt, and constituted the 11th lowest rate among 42 cities covered by the survey. Also, the occupancy rate at Beirut hotels decreased by eight percentage points in 2013 from the previous year, compared to a drop of one percentage point for the region. The survey pointed out that Beirut was among 21 cities that posted a decline in occupancy rates. It had the sixth steepest drop in the region, along with Al Quseir in Egypt and Istanbul in Turkey. Further, the occupancy rate at Beirut hotels in 2013 was the third lowest rate in Lebanon since 1994, and came higher than the rates of 45% in 1996 and 39% in 2007. Also, the occupancy rate at Beirut hotels last year was similar to that posted in 2006.

Further, HVS indicated that revenues per available room (RevPAR) reached \$84 in 2013, down 37% year-on-year and compared to the regional average of \$83. The drop in RevPAR in Beirut was the sixth steepest in the region, less pronounced than in the Egyptian cities of Sharm El Sheikh (-45%), Dahab (-44%), Luxor and Al Quseir (-43% each) and Marsa Al Alam (-42%). But Beirut hotels realized the 23rd highest RevPAR in the region last year, as well as the ninth highest in Lebanon during the previous 18 years after posting RevPARs of \$197 in 2009, \$174 in 2010, \$134 in 2012, \$130 in 2011, \$119 in 2004, \$105 in 1997, \$91 in 2003 and \$88 in 1998.

HVS said that the average rate per room at Beirut hotels reached \$174 in 2013, down from \$241 in 2012 and relative to \$147 for the region. The average room rate at Beirut hotels in 2013 was the 15 highest in the region, while it was the fifth highest in Lebanon during the previous 18 years, behind \$281 in 2009, \$263 in 2010, \$241 in 2012 and \$220 in 2011.

Revenues through Port of Beirut down 6% to \$604m in first quarter of 2014

Figures released by the Port of Beirut show that overall receipts generated through the port reached \$603.5m in the first quarter of 2014, constituting a decrease of 5.8% from the same quarter of 2013. Customs receipts through the port totaled \$275.8m in the first quarter of 2014, down 15.3% from \$325.5m in the same quarter of 2013; while receipts from the value added tax reached \$274m, constituting an increase of 4% from the same quarter of 2013. Also, the port's overall revenues grew by 3.2% year-on-year to \$51.5m in the first quarter of 2014. Further, the Port of Beirut handled an aggregate weight of 1.9 million tons of freight in the first quarter of 2014, up by 13.6% from 1.7 million tons in the same quarter of the preceding year. Import freight accounted for 90.7% of the weight, while the remaining 9.3% was export cargo. A total of 509 ships docked at the port in the first quarter of 2014 compared to 522 vessels in the same quarter of the previous year.

In parallel, overall revenues generated through the Port of Tripoli reached \$24.4m in the first quarter of 2014, constituting a drop of 16.3% from \$29.1m in the same quarter of 2013. Customs receipts through the port reached \$9.4m in the covered quarter, down 16.2% from \$11.2m in the same quarter of the previous year; while receipts from the value-added tax reached \$11.7m and dropped by 21.5% from \$14.9m in the first quarter of 2013. The port's revenues rose by 9.2% year-on-year to \$3.3m in the first quarter of 2014. Further, the Port of Tripoli handled an aggregate weight of 250,534 tons of freight in the first quarter of the year, constituting a decrease of 12.9% from 287,770 tons in the same quarter of 2013. A total of 122 vessels docked at the port in the first quarter of 2014, constituting a decrease of 5.4% from 129 ships in the same quarter of the preceding year.

Hotel Performance in the Middle East during 1996-2013

	Avg Annual Occupancy Rate (%)	Room Rate CAGR (%)	RevPar CAGR (%)
Abu Dhabi	68	2	3
Hurghada	68	(3)	(2)
Cairo	67	3	-
Dubai	67	4	4
Doha	64	6	6
Jeddah	63	5	6
Muscat	63	4	4
Damascus	61	(2)	(6)
Manama	60	5	3
Sharm El Sheikh	60	1	(1)
Amman	59	5	5
Riyadh	56	6	5
Kuwait city	53	1	2
Beirut	52	0.3	1

Source: HVS, Byblos Research

Byblos Bank approves \$107m in dividends, payout ratio at 69%

The Ordinary General Assembly of Byblos Bank sal held on May 9, 2014 approved the Bank's proposed distribution of \$107.2m in dividends for common and preferred shares for 2013, representing a payout ratio of 68.6%. The Bank will pay LBP200 (\$0.13) per share to holders of common shares; and would allocate \$8 per share for holders of Preferred Shares Class 2008 and Preferred Shares Class 2009. The dividends will be paid starting on May 16, 2014 net of a 5% withholding tax. Also, the Bank will pay LBP200 per share in US dollars for GDR holders starting May 21, 2014 through the Bank of New York Mellon after deducting the withholding tax and other expenses. Byblos Bank has 565,515,040 common shares and GDRs, 2,000,000 preferred shares Class 2008, and 2,000,000 preferred shares Class 2009 listed on the Beirut Stock Exchange. In parallel, the Assembly approved the appointment of Mr. Des O'Shea to the Board of Directors as the representative of the International Finance Corporation, the private sector arm of the World Bank.

Byblos Bank declared audited consolidated net profits of \$156.2m in 2013 relative to \$167.3m in 2012. Total assets reached \$18.5bn at end-2013, constituting a rise of 8.6% from the end of 2012; while net loans & advances to customers rose by 9.5% year-on-year to reach \$4.5bn at end-2013. Customers' deposits totaled \$14.6bn and increased by 10.1% from end-2012. The Bank's primary liquidity, representing dues from central banks and commercial banks, totaled \$9.3bn and was equivalent to 63% of total customer deposits at the end of 2013, which is one of the highest liquidity levels in the Lebanese banking sector. The Bank's capital adequacy ratio stood at 16.2% at end-2013 according to Basel III criteria, which is above the 12% minimum regulatory requirement and one of the highest such ratios in the sector. The Byblos Bank Group has a direct presence in Syria, Sudan, Iraq, the United Arab Emirates, Nigeria and Armenia, as well as in Belgium, France, the United Kingdom, and Cyprus.

A.M. Best assigns ratings to Bankers Assurance, outlook 'stable'

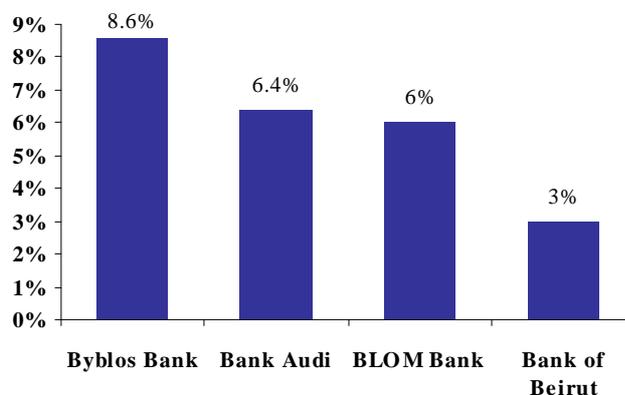
Insurance rating agency A.M. Best assigned Bankers Assurance sal, one of Lebanon's largest insurance firms, a financial strength rating of 'B++' and an issuer credit rating of 'bbb'. It also assigned a 'stable' outlook to all ratings. It said that the ratings reflect Bankers' strong risk-adjusted capitalization, solid technical performance and good market position in Lebanon. It indicated that Bankers posted a solid technical performance with a five-year average combined ratio below 89%. It added that the company generated a technical profit of about \$8.9m in 2013, with a loss ratio of 54% relative to a 59% ratio in 2012. It noted that the company's capital position weakened in 2012 following a dividend payment, the first such disbursement in several years. But it said that risk-adjusted capitalization rebounded in 2013, driven by strong earnings. It expected the company's capital position to remain supportive of the current rating level. It pointed out that the improvement in underwriting performance was mainly due to stricter technical discipline, such as the non-renewal of underperforming medical business. It said that the ratings also factor in the elevated financial and political risks in Lebanon. It noted that an upward rating movement is unlikely in the near term.

Incorporated in Beirut in 1972, Bankers Assurance is the sixth largest insurer in Lebanon in terms of total premiums. *Al-Bayan* magazine's annual survey of the insurance sector in Lebanon ranked Bankers in 10th and in third place in 2013 in terms of life and non-life premiums, respectively. The firm's life premiums reached \$10.6m and non-life premiums amounted to \$86.2m, constituting increases of 38.6% and 3.1%, respectively. It had a 2.5% share of the life market and an 8.8% share of the local non-life market.

Bank of Beirut to issue priority shares

Bank of Beirut sal announced plans to issue 7,200,000 Series 2014 Priority Shares for a total of \$151.2m. The issue price is expected at \$21 per share at a par value of LBP1,350 (\$0.89) and an issue premium of \$20.1. The Series 2014 Priority Shares are non-cumulative and are neither redeemable, nor secured, nor covered by any guarantee. The bank will pay an annual dividend rate of 4% of the issue price adjusted on a pro-rata basis for the fraction of the year during which the issuance of the shares occurs, contingent on the availability of sufficient declared net profits. The dividends would be subject to a 5% withholding tax. The bank will use the proceeds to increase its Common Equity Tier One capital. The shares will be listed on the Beirut Stock Exchange pending the Central Bank's approval. Bank of Beirut posted unaudited consolidated net profits of \$36.8m in the first quarter of 2014 relative to \$33.1m in the same quarter last year. Total assets reached \$13.37bn at end-2013, constituting a decrease of 1.8% from the end of 2013; while net loans & advances to customers dropped by 3.9% from end-2013 to \$3.57bn at end-March 2014. Customers' deposits totaled \$10bn and decreased by 3% from end-2013.

Gross Dividend Yield on Common Shares*



* for closing market prices at end-2013

Source: Beirut Stock Exchange, Banks' releases, Byblos Research

Commercial banks' assets reach \$167bn at end-March 2014

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$166.5bn at the end of March 2014, constituting an increase of 1% from the end of 2013 and a rise of 7.1% from end-March 2013. Private sector deposits totaled \$136.6bn, increasing by a marginal 0.3% from end-2013 and by 6.6% from end-March 2013. Deposits in Lebanese pounds reached \$47.2bn and rose by 2.3% from end-2013 and by 5.8% from end-March 2013; while deposits in foreign currencies totaled \$89.4bn, constituting a decrease of 0.8% from end-2013 and an increase of 7% from a year earlier. Non-resident foreign currency deposits totaled \$24bn at the end of March 2014, declining by 4.4% from the end of 2013 and growing by 9.1% year-on-year. Total non-resident deposits reached \$27.4bn at the end of March 2014 and dropped by 3.8% from end-2013, but they increased by 8.2% from a year earlier. Total private sector deposits decreased by \$1.3bn in January but increased by \$848.4m in February 2014 and by \$843.8m in March 2014, while they rose by \$558m in January, by \$744.9m in February and by \$1.8bn in March 2013. In parallel, deposits of non-resident banks reached \$5.1bn at the end of March 2014 and increased by 2.1% from end-2013, but they declined by 14% from a year earlier. The dollarization rate of deposits reached 65.4% at the end of March 2014 relative to 66.1% at end-2013 and 65.2% a year earlier. Further, the average deposit rate in Lebanese pounds reached 5.48% at end-March 2014 relative to 5.44% a year earlier, while the same rate in US dollars was 2.96%, down from 2.97% in March 2013.

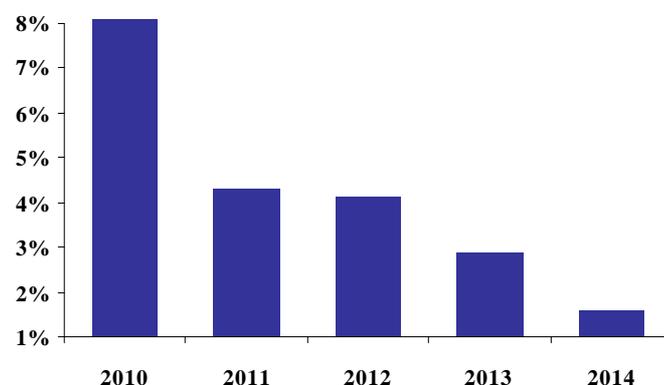
Loans to the private sector totaled \$48.1bn, constituting an increase of 1.6% from end-2013 and a rise of 7.7% from a year earlier. Lending to the resident private sector totaled \$42.5bn, increasing by 2.5% from end-2013 and by 9.4% year-on-year; while credit to the non-resident private sector reached \$5.6bn and fell by 4.7% from end-2013 relative to a drop of 3.9% from end-March 2013. The dollarization rate in private sector lending regressed to 76.2% at end-March 2014 from 77.7% a year earlier. The average lending rate in Lebanese pounds was 7.26% in March 2014 compared to 7.28% a year earlier, while the same average in US dollars was 6.87% compared to 6.95% in March 2013. In addition, claims on non-resident banks reached \$12.3bn at end-March 2014, posting a decrease of 11.6% from end-2013 and of 6.2% from a year earlier. Claims on the public sector stood at \$38bn, constituting a marginal increase of 1% from end-2013 and a rise of 19.3% year-on-year. The ratio of private sector loans-to-deposits in foreign currencies stood at 41%, well below the Central Bank's limit of 70%, and compared to 41.6% a year earlier. In parallel, the same ratio in Lebanese pounds was 24.3%, up from 22.3% at the end of March 2013. The ratio of total private sector loans-to-deposits was 35.3% compared to 34.9% a year earlier. The banks' aggregate capital base stood at \$14.5bn, up by 1.6% from the previous month and by 14.9% from \$12.6bn in March 2013.

Top five freight forwarders' import activity up 8% in first quarter of 2014

Figures released by the Port of Beirut Authority show that overall import shipping operations by the top five freight forwarders reached 83,150 20-foot equivalent units (TEUs) in the first quarter of 2014, constituting a rise of 8.2% from 76,843 TEUs in the same quarter last year. They accounted for 59.5% of the total import freight forwarding market during the covered quarter. Mediterranean Shipping Company (MSC) handled 28,489 TEUs in imports for the local market in the first quarter of the year, equivalent to 20.4% share of the total freight forwarding import market. It was followed by Sealine Group with 17,305 TEUs (12.4%), Merit Shipping with 16,232 TEUs (11.6%), Metz Group with 12,525 TEUs (9%) and Gezairy Transport with 8,599 TEUs (6.2%). Further, Gezairy Transport registered the highest growth in import shipping among the top five freight forwarders at 84.3% year-on-year, while Sealine Group posted the steepest drop of 24.6% year-on-year.

In parallel, export shipping operations by the top five freight forwarders reached 15,168 TEUs in the first quarter of 2014, constituting an increase of 4.6% from 14,499 TEUs in the same quarter of 2013. They accounted for 98.3% of the total export freight forwarding market full with Lebanese cargo during the covered quarter. Sealine Group handled 5,690 TEUs of freight, equivalent to 36.9% share of the total freight forwarding Lebanese cargo export market. It was followed by Merit Shipping with 4,970 TEUs (32.2%), Metz Group with 2,482 TEUs (16.1%), MSC with 1,355 TEUs (8.8%) and Gezairy Transport with 671 TEUs (4.3%). Further, Metz Group registered the highest growth in export shipping among the top five freight forwarders at 304.2% year-on-year, while Sealine Group posted the steepest drop of 26.5% year-on-year.

Private Sector Lending Growth* (% Change)



*in the first quarter of each year

Source: Association of Banks in Lebanon, Byblos Research

Corporate Highlights

ALICO's rating affirmed, outlook 'stable'

Moody's Investors Service affirmed the Insurance Financial Strength (IFS) rating of American Life Insurance Company (ALICO) at 'A1' with a 'stable' outlook. It also affirmed the senior debt rating of ALICO's parent MetLife at 'A3' and kept the IFS rating of the company's main subsidiaries operating in the United States at 'Aa3'. It changed the outlook on MetLife's rating to 'stable' from 'negative'.

Moody's indicated that the affirmation of ALICO's ratings reflects its strong position in the Japanese life insurance market as well as its important and leading market positions in many markets around the world. It added that the company's consistent operating performance is a credit strength. It noted that ALICO's life, annuity and health insurance products are well-diversified, while its capital has been solid. The agency indicated that the ratings are constrained by the company's growth and expansion in emerging markets, given their elevated sovereign and operating environment risks, as well as by the current weakness in the Japanese insurance market.

In parallel, the agency attributed the change in outlook on MetLife's ratings to the improvement in the U.S. economy and the expected rise in interest rates, which would benefit the company's profitability, capital generation and financial flexibility. It said that the ratings are mainly supported by the group's very strong market position and brand recognition, and substantial capital base. But it noted that these strengths are mitigated by the subdued growth outlook for individual life products in the United States, the relatively large exposure to high-risk assets and the relatively weak earnings and cash flow coverage.

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	59.0	160
Public Debt in Local Currency / GDP	81.6	78.4	84.4	600
Gross Public Debt / GDP	133.9	135.7	143.4	770
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	372.4	1,500
Private Sector Deposits / GDP	288.6	294.1	307.7	1,360
Private Sector Loans / GDP	98.2	102.2	107.0	480
Private Sector Deposits Dollarization Rate	65.9	64.8	66.1	130
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	Aug 2012	July 2013	Aug 2013	Change*	Risk Level
Political Risk Rating	53.5	53.0	52.5	▼	High
Financial Risk Rating	35.0	33.5	33.5	▼	Moderate
Economic Risk Rating	34.0	28.5	28.5	▼	High
Composite Risk Rating	61.2	57.5	57.2	▼	High

Regional Average	Aug 2012	July 2013	Aug 2013	Change*	Risk Level
Political Risk Rating	59.7	58.3	58.2	▼	High
Financial Risk Rating	41.2	41.3	41.3	▼	Very Low
Economic Risk Rating	36.3	36.6	36.2	▼	Low
Composite Risk Rating	68.6	68.1	67.8	▼	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	Stable	B-	B	Stable
Capital Intelligence	B	B	Stable	B	B	Stable

Source: Rating agencies

Banking Ratings	Banks' Financial Strength	Banking Sector Risk	Outlook
Moody's	E+		Negative
EIU		CCC	

Source: Rating agencies



Economic Research & Analysis Department
Byblos Bank Group
P.O. Box 11-5605
Beirut – Lebanon
Tel: (961) 1 338 100
Fax: (961) 1 217 774
E-mail: research@byblosbank.com.lb
www.byblosbank.com

Lebanon This Week is a research document that is owned and published by Byblos Bank sal. The contents of this publication, including all intellectual property, trademarks, logos, design and text, are the exclusive property of Byblos Bank sal, and are protected pursuant to copyright and trademark laws. No material from Lebanon This Week may be modified, copied, reproduced, repackaged, republished, circulated, transmitted, redistributed or resold directly or indirectly, in whole or in any part, without the prior written authorization of Byblos Bank sal.

The information and opinions contained in this document have been compiled from or arrived at in good faith from sources deemed reliable. Neither Byblos Bank sal, nor any of its subsidiaries or affiliates or parent company will make any representation or warranty to the accuracy or completeness of the information contained herein.

Neither the information nor any opinion expressed in this publication constitutes an offer or a recommendation to buy or sell any assets or securities, or to provide investment advice. This research report is prepared for general circulation and is circulated for general information only. Byblos Bank sal accepts no liability of any kind for any loss resulting from the use of this publication or any materials contained herein.

The consequences of any action taken on the basis of information contained herein are solely the responsibility of the person or organization that may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies that may be discussed in this report and should understand that statements regarding future prospects may not be realized.

BYBLOS BANK GROUP

LEBANON

Byblos Bank S.A.L
Achrafieh - Beirut
Elias Sarkis Avenue - Byblos Bank Tower
P.O.Box: 11-5605 Riad El Solh - Beirut 1107 2811- Lebanon
Phone: (+ 961) 1 335200
Fax: (+ 961) 1 339436

SYRIA

Byblos Bank Syria S.A.
Damascus Head Office
Al Chaalan - Amine Loutfi Hafez Street
P.O.Box: 5424 Damascus - Syria
Phone: (+ 963) 11 9292 - 3348240/1/2/3/4
Fax: (+ 963) 11 3348205
E-mail: byblosbanksyria@byblosbank.com

IRAQ

Erbil Branch, Kurdistan, Iraq
Street 60, Near Sports Stadium
P.O.Box: 34 - 0383 Erbil - Iraq
Phone: (+ 964) 66 2233457/8/9 - 2560017/9
E-mail: erbilbranch@byblosbank.com.lb

Baghdad Branch, Iraq
Al Karrada - Salman Faeq Street
Al Wahda District, No. 904/14, Facing Al Shuruk Building
P.O.Box: 3085 Badalat Al Olwiya - Iraq
Phone: (+ 964) 770 6527807 / (+ 964) 780 9133031/2
E-mail: baghdadbranch@byblosbank.com.lb

Basra Branch, Iraq
Intersection of July 14th, Manawi Basha Street, Al Basra - Iraq
Phone: (+ 964) 770 4931900 / (+ 964) 770 4931919
E-mail: basrabranch@byblosbank.com.lb

UNITED ARAB EMIRATES

Byblos Bank Abu Dhabi Representative Office
Intersection of Muroor and Electra Streets
P.O.Box: 73893 Abu Dhabi - UAE
Phone: (+ 971) 2 6336050 - 2 6336400
Fax: (+ 971) 2 6338400
E-mail: abudhabirepoffice@byblosbank.com.lb

ARMENIA

Byblos Bank Armenia CJSC
18/3 Amiryan Street - Area 0002
Yerevan - Republic of Armenia
Phone: (+ 374) 10 530362
Fax: (+ 374) 10 535296
E-mail: infoarm@byblosbank.com

CYPRUS

Limassol Branch
1, Archbishop Kyprianou Street, Loucaides Building
P.O.Box 50218
3602 Limassol - Cyprus
Phone: (+ 357) 25 341433/4/5
Fax: (+ 357) 25 367139
E-mail: byblosbankcyprus@byblosbank.com.lb

BELGIUM

Byblos Bank Europe S.A.
Brussels Head Office
Rue Montoyer 10
Bte. 3, 1000 Brussels - Belgium
Phone: (+ 32) 2 551 00 20
Fax: (+ 32) 2 513 05 26
E-mail: byblos.europe@byblosbankeur.com

UNITED KINGDOM

Byblos Bank Europe S.A., London Branch
Berkeley Square House
Berkeley Square
GB - London W1J 6BS - United Kingdom
Phone: (+ 44) 20 8518 8100
Fax: (+ 44) 20 8518 8129
E-mail: byblos.london@byblosbankeur.com

FRANCE

Byblos Bank Europe S.A., Paris Branch
15 Rue Lord Byron
F- 75008 Paris - France
Phone: (+33) 1 45 63 10 01
Fax: (+33) 1 45 61 15 77
E-mail: byblos.europe@byblosbankeur.com

SUDAN

Byblos Bank Africa
Khartoum Head Office
Intersection of Mac Nimer and Baladiyya Streets
P.O.Box: 8121 - Khartoum - Sudan
Phone: (+ 249) 1 56 552 222
Fax: (+ 249) 1 56 552 220
E-mail: byblosbankafrica@byblosbank.com

NIGERIA

Byblos Bank Nigeria Representative Office
161C Rafu Taylor Close - Off Idejo Street
Victoria Island, Lagos - Nigeria
Phone: (+ 234) 706 112 5800
(+ 234) 808 839 9122
E-mail: nigeriarepresentativeoffice@byblosbank.com.lb

DEMOCRATIC REPUBLIC OF CONGO

Byblos Bank RDC S.A.R.L
Avenue du Marché No. 4
Kinshasa-Gombe, Democratic Republic of Congo
Phone: (+ 243) 81 7070701
(+ 243) 99 1009001
E-mail: byblosbankrdc@byblosbank.com

ADIR INSURANCE

Dora Highway - Aya Commercial Center
P.O.Box: 90-1446
Jdeidet El Metn - 1202 2119 Lebanon
Phone: (+ 961) 1 256290
Fax: (+ 961) 1 256293