



## LEBANON THIS WEEK

### In This Issue

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

Cost of sending remittances to Lebanon increases in first quarter of 2014

Consumer Price Index down 0.3% in May 2014

Surveyed economists expect real GDP growth at 1.8% in 2014

Central Bank to increase economic stimulus package

Surface area of new construction permits up 14% in first five months of 2014

Number of tourist arrivals down 9% in first five months of 2014

Coincident Indicator continues to reflect economic slowdown

Occupancy rate at hotels in Lebanon at 22% in 2013

Fiscal deficit at 23.4% of expenditures on a cash basis in first two months of 2014

Lebanon ranks 146th globally, 17th in MENA region on peace index

### Corporate Highlights .....7

ADIR's financial strength rating affirmed at 'A'

Ratings on four banks affirmed, outlook 'stable'

Insurance premiums up 2% annually to \$393m in first quarter of 2014, claims and benefits rise by 9% to \$181m

IBL's net profits at \$14m in first quarter of 2014

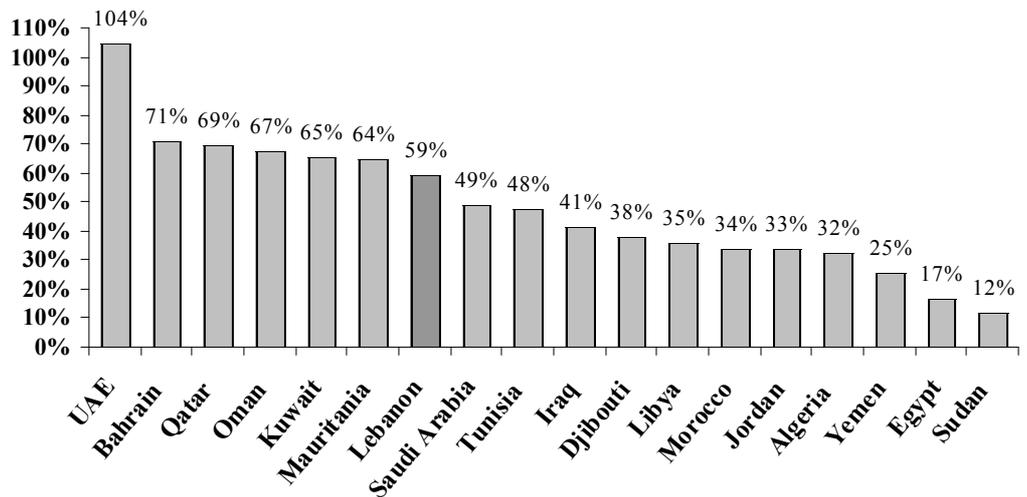
### Ratio Highlights.....9

**Risk Outlook**.....9

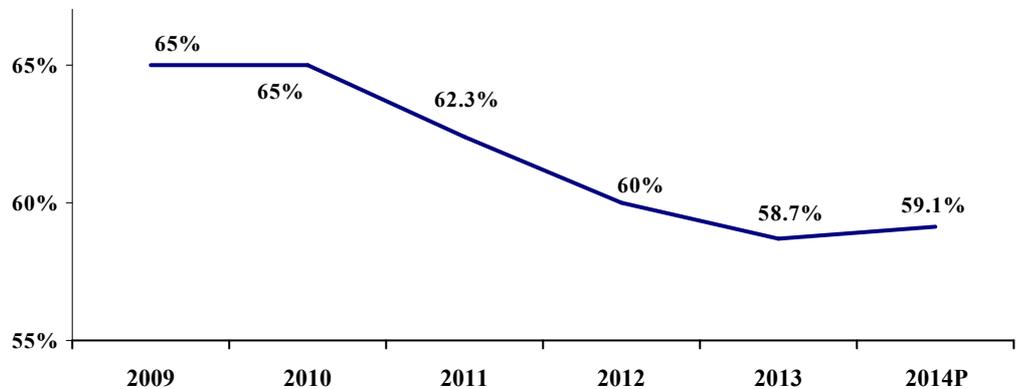
**Ratings & Outlook**.....9

### Charts of the Week

Projected Exports of Goods & Services from Arab Countries in 2014 (% of GDP)



Exports of Goods & Services from Lebanon (% of GDP)



Source: International Monetary Fund - May 2014, Byblos Bank

### Quote to Note

"Lowering the cost of doing business, improving the business environment, and increasing productivity of the public and private sectors could boost competitiveness."

*The International Monetary Fund, on some of the needed measures to improve the competitiveness of the Lebanese economy*

### Number of the Week

**57%:** Percentage of economists who are predicting that Brazil will win the 2014 FIFA World Cup, according to a survey of 171 economists that was conducted by Bloomberg News between May 29 and June 6, 2014

## Economic Indicators

<b>\$m</b> (unless otherwise mentioned)	<b>2012</b>	<b>Dec 12</b>	<b>Sep 13</b>	<b>Oct 13</b>	<b>Nov 13</b>	<b>Dec 13</b>	<b>% Change*</b>
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
<b>\$bn</b> (unless otherwise mentioned)	<b>Dec 2012</b>	<b>Dec 12</b>	<b>Sep 13</b>	<b>Oct 13</b>	<b>Nov 13</b>	<b>Dec 13</b>	<b>% Change*</b>
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

<b>Most Traded Stocks on BSE</b>	<b>Last Price (\$)</b>	<b>% Change*</b>	<b>Total Volume</b>	<b>Weight in Market Capitalization</b>	<b>Sovereign Eurobonds</b>	<b>Coupon %</b>	<b>Mid Price \$</b>	<b>Mid Yield %</b>
Solidere "A"	13.59	0.30	68,191	12.09%	Jan 2015	5.875	101.00	4.04
Solidere "B"	13.66	0.22	37,227	7.90%	Apr 2015	10.000	105.25	3.56
Byblos Common	1.59	(0.63)	691,582	5.09%	Jan 2016	8.500	107.50	3.54
Byblos Pref. 08	100.20	(0.30)	10,425	1.78%	Mar 2017	9.000	112.00	4.30
Byblos Pref. 09	100.10	0.10	1,408	1.78%	Nov 2018	5.150	100.50	5.02
BLOM GDR	9.41	0.11	5,640	6.19%	May 2019	6.000	103.75	5.12
BLOM Listed	8.79	(0.11)	20,939	16.81%	Mar 2020	6.375	105.26	5.29
Audi GDR	6.56	(0.61)	53,219	5.98%	Apr 2021	8.250	115.31	5.52
Audi Listed	6.45	0.31	2,280,040	20.07%	Oct 2022	6.100	102.00	5.79
HOLCIM	15.13	2.44	283	2.63%	Nov 2026	6.600	102.25	6.34

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

Source: Byblos Bank Capital Markets

	<b>June 16-20</b>	<b>June 9-13</b>	<b>% Change</b>	<b>May 2014</b>	<b>May 2013</b>	<b>% Change</b>
<b>Total Shares Traded</b>	3,184,785	483,212	559.09	3,204,699	3,775,206	(15.11)
<b>Total Value Traded</b>	\$20,389,661	\$4,479,993	355.13	\$32,279,807	\$30,561,605	5.62
<b>Market Capitalization</b>	\$11.24bn	\$11.23bn	0.07	\$11.19bn	\$10.71bn	4.45

Source: Beirut Stock Exchange (BSE)



### Cost of sending remittances to Lebanon increases in first quarter of 2014

Figures issued by the World Bank show that the cost of sending remittances from the United States to Lebanon reached 10.81% in the first quarter of 2014 for a \$200 transfer, constituting an increase from 10.72% in the fourth quarter of 2013 and from 10.74% in the first quarter last year. Also, the cost of sending \$500 from the U.S. to Lebanon reached 5.41% in the first quarter of 2014, compared to 5.32% in the fourth quarter of 2013 and 5.27% in the first quarter last year. The cost includes the transaction fee and exchange rate margin, and represents the average cost of transferring money through commercial banks and money transfer operators (MTOs). In nominal terms, the cost of sending \$200 and \$500 from the U.S. to Lebanon was \$21.62 and \$27.04, respectively, in the first quarter of 2014 compared to \$21.44 and \$26.61, respectively, in the preceding quarter.

Further, the cost of sending remittances from Germany to Lebanon reached 16.79% in the first quarter of 2014 for a transfer of €140, or about \$200, constituting a decrease from 17.31% in the fourth quarter of 2013 and a rise from 16.77% in the first quarter of last year. Also, the cost of sending €345, or about \$500, from Germany to Lebanon reached 8.44% in the first quarter of 2014 relative to 8.52% in the fourth quarter of 2013 and 8.37% in the first quarter of last year. In nominal terms, the cost of sending €140 and €345 from Germany to Lebanon was €23.50 and €29.12, respectively, in the first quarter of 2014 relative to €24.23 and €29.41, respectively, in the fourth quarter of last year.

In parallel, Lebanon ranked as the third most expensive destination for sending \$200 from the U.S. among 30 countries with available data after Thailand (11.71%) and Cape Verde (11.28%). It was the fifth most expensive for sending \$500. The data covered 14 countries in Latin & Central America and the Caribbean, seven countries in East and Southeast Asia, and six countries in Africa, in addition to Lebanon, Yemen and Jordan in the Middle East. The United States is the sixth largest source of inward electronic cash transfers to Lebanon. Also, Lebanon came as the most expensive destination for sending €140, or about \$200, from Germany among 13 countries with available data, as well as the most expensive destination for sending €345, or about \$500.

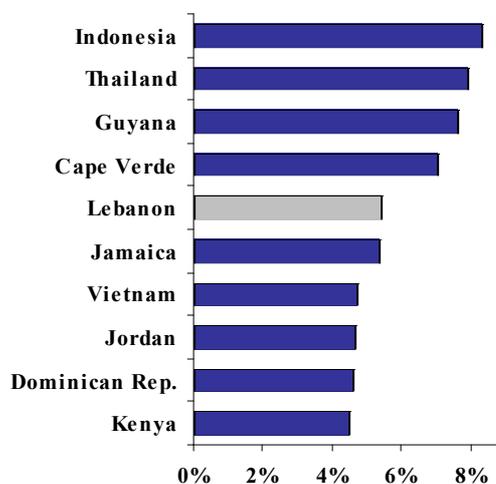
The World Bank indicated that the average cost to send \$500 in remittances from the United States through commercial banks to Lebanon was 8% and the average cost through MTOs was 4.11% in the first quarter of 2014. In comparison, the average cost to send \$500 in remittances through commercial banks to Lebanon was 8% and the average cost through MTOs was 3.98% in the fourth quarter of 2013; while it was 8% and 3.77%, respectively, in the third quarter of last year. MTOs account for about 70% of all cash electronic transactions to Lebanon, followed by money dealers with 22.4% and commercial banks with 7.5%.

### Consumer Price Index down 0.3% in May 2014

The Central Administration of Statistics' (CAS) Consumer Price Index for Lebanon decreased by a marginal 0.3% in May 2014 from April 2014 compared to a month-on-month decline of 0.1% in April 2014. The cost of health care increased by 0.8% month-on-month in May 2014, followed by transportation costs (+0.6%), furnishing & household equipment (+0.4%), restaurants & hotels and alcoholic beverages & tobacco (+0.1% each); while the prices of food and non-alcoholic beverages fell by 2.2%, followed by clothing & footwear (-0.3%), and communication (-0.2%). Further, the cost of education, recreation & entertainment, housing, water, electricity, gas & other fuels, and miscellaneous goods & services were unchanged month-on-month in May 2014. Imputed, new and old rents were unchanged from the preceding month.

Regionally, the CPI increased by 0.2% month-on-month in Nabatieh in May 2014. It decreased by 0.6% in the North, followed by Beirut (-0.3%), and the South and Mount Lebanon (-0.2% each); while the CPI in the Bekaa region remained unchanged from the previous month. Prices of food & non-alcoholic beverages fell by 3% in the North, followed by the South (-2.5%), Mount Lebanon (-2.2%), Beirut (-1.8%), the Bekaa (-1.5%), and Nabatieh (-1.4%). The cost of housing, water, electricity, gas & other fuels fell by 0.2% month-on-month in the North and by 0.1% in Mount Lebanon, while it rose in all other regions. Also, the prices of clothing & footwear decreased by 1.9% in Beirut and increased in all other regions. Prices at restaurants & hotels rose by 3.5% in Nabatieh and 0.1% in Mount Lebanon, while they remained unchanged in all other regions.

### Costliest Destinations of Remittances from the United States\*



\* Cost of sending \$500 from the U.S.

Source: World Bank, Byblos Research

### **Surveyed economists expect real GDP growth at 1.8% in 2014**

Bloomberg's quarterly survey of economists and analysts about the outlook on the Lebanese economy indicates that real GDP growth is expected to reach 1.8% on average in 2014, and to rise to 2.9% in 2015 and 4% in 2016. The individual forecasts of growth rates for 2014 ranged between 1% and 2.6%. The consensus forecast among 55.6% of participants is that real GDP would grow by 2% or more this year. The survey's results displayed a median real GDP growth figure of 2% for this year. The survey's results are based on the opinions of nine economists and analysts based in Lebanon and abroad. Bloomberg conducted the poll during the June 15-18, 2014 period and will update it on a quarterly basis.

Also, participants forecast Lebanon's inflation rate at 4% on average for 2014, at 4.5% in 2015 and at 3.4% in 2016. The opinions of polled economists differed drastically on the direction of consumer prices in 2014 with expectations ranging between 3% and 7.5%, while 87.5% of participants agreed that the inflation rate will be between 3% and 4% this year. The poll's results revealed a median inflation rate of 3.5% for 2014.

In addition, surveyed economists forecast Lebanon's fiscal deficit at 9.6% of GDP on average in 2014 and at 9.7% of GDP in 2015. All participants expected the fiscal deficit to remain above 8.5% of GDP this year, with opinions ranging between deficits of 8.7% of GDP and 11% of GDP. Also, one-third of those polled projected a double-digit fiscal deficit, while the remaining participants expected a deficit between 8.7% of GDP and 9.5% of GDP in 2014. The median for the fiscal deficit came at 9.4% of GDP for this year.

Further, polled economists projected the current account deficit at 9.8% of GDP, on average, this year and at 9.6% of GDP in 2015 and 10.1% of GDP in 2016. Also, 25% of those polled expect the current account deficit to be in double-digits in 2014 and to range between 14% of GDP and 16.1% of GDP; while 62.5% of participants projected a deficit between 7.9% of GDP and 9.8% of GDP this year. The poll's results show that the median current account deficit would be 9% of GDP in 2014.

In parallel, respondents assigned an average probability of 28% for Lebanon to enter a recession in the next 12 months. The opinions of three surveyed economists differed significantly, with probabilities ranging between a low of 10% and a high of 40%. The poll's results indicated a median recession probability of 33% for 2014.

### **Central Bank to increase economic stimulus package**

Central Bank Governor Riad Salamé announced that the Central Bank is considering expanding the LBP1,200bn, or \$800m, economic stimulus package for 2014, given that commercial banks have used most of the available financial facilities. The package consists of loans extended to commercial banks by the Central Bank at an interest rate of 1%. In turn, the banks would lend the money to their clients at reduced interest rates. The Central Bank launched the first stimulus package at the beginning of 2013 by allowing banks operating in Lebanon to benefit from financial facilities from the Bank totaling up to LBP2,210bn, or \$1.47bn. Following the success of the first package, the Central Bank announced in November 2013 the \$800m package for 2014, as it rolled over the remaining amount of the \$1.47bn and added to it about LBP500bn, or \$331.7m. Governor Salamé said at the time that the smaller 2014 stimulus package reflects the need to contain inflation and to preserve the stability of the currency and interest rates. Housing loans account for more than half of the financial facilities offered by the Central Bank, followed by environmentally friendly projects, productive sectors, education, research & development, and investment projects. Governor Salamé indicated that the size of the 2014 stimulus package might be similar to the 2013 package after the increase.

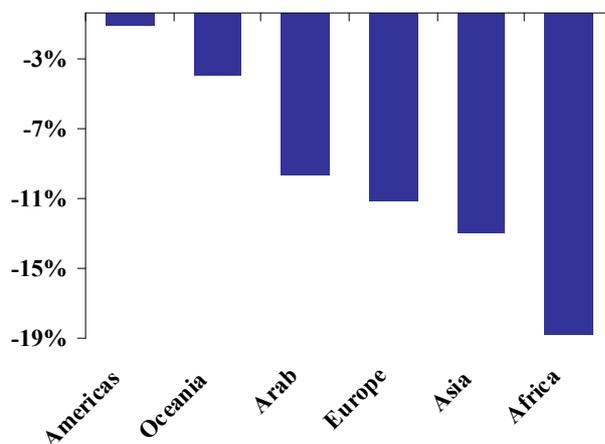
### **Surface area of new construction permits up 14% in first five months of 2014**

Figures released by the order of Engineers of Beirut & Tripoli show that the number of construction permits reached 7,203 in the first five months of 2014, constituting a marginal decrease of 0.4% from 7,234 in the same period of last year and compared to a 1.6% decline in the first five months of 2013. Mount Lebanon accounted for 43.1% of the number of construction permits in the covered period, followed by South Lebanon with 16.8%, the North with 12.6%, Nabatieh with 12.5%, the Bekaa with 10% and Beirut with 5%. Further, the surface area of construction permits issued in the first five months reached 6.1 million square meters (sqm), constituting an increase of 14.3% from the same period of last year and compared to decreases of 14.8% in the first five months of 2013 and 11.9% in the same period of 2012. Mount Lebanon accounted for 2.7 million sqm or 44.3% of total construction permits in the covered period. It was followed by the North with 1.1 million sqm (17.4%), the South with 719,493 sqm (11.9%), Beirut with 640,913 sqm (10.6%), the Bekaa with 503,224 sqm (8.3%) and Nabatieh with 455,247 sqm (7.5%). In parallel, cement deliveries totaled 1.7 million tons in the first four months of 2014 and rose by 9.3% annually, relative to an increase of 3.6% in the same period last year and a drop of 2.8% year-on-year in the first four months of 2012.

### Number of tourist arrivals down 9% in first five months of 2014

The number of incoming tourists to Lebanon totaled 443,071 in the first five months of 2014, constituting a decrease of 9.1% from 487,608 tourists in the same period last year, a decline of 20.5% from 557,188 tourists in the first five months of 2012 and a drop of 25.7% from the same period of 2011. Arab tourists accounted for 34.1% of total visitors in the first five months of 2014 and were followed by visitors from European countries with 33.1%, the Americas with 15.5%, Asia with 9.6%, Africa with 4.4% and Oceania with 3.2%. Also, tourists from Iraq accounted for 13% of total visitors in the covered period, followed by visitors from France with 8.8%, the United States with 7.8%, Jordan with 6.1%, Egypt with 5.9% and Canada with 5.3%. The number of visitors from African countries declined by 18.4% year-on-year in the first five months of 2014, followed by visitors from Asian countries with a 12.5% decrease, Europe (-10.7%), Arab countries (-9.3%), Oceania (-3.5%) and the Americas (-0.7%). Further, the number of tourists from Turkey declined by 54.1% annually, followed by visitors from Saudi Arabia with a 37.4% decrease, Kuwait (-35.4%), the UAE (-32.2%), Jordan (-17.4%), England (-10.3%), Venezuela (-9.6%), France (-8.3%), Germany and Sweden (-6.7% each), Egypt (-2%), Brazil (-0.8%) and Canada (-0.1%). In parallel, the number of tourists from Iraq rose by 13.1% annually, followed by visitors from Italy with a 4.5% increase and those from the United States with a 0.2% rise in the first five months of the year.

Number of Tourist Arrivals in First Five Months of 2014\*



\*year-on-year percentage change

Source: Ministry of Tourism, Byblos Research

### Coincident Indicator continues to reflect economic slowdown

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 285.1 points in April 2014 compared to 271.8 in March 2014 and 272 in April 2013. The Coincident Indicator, an average of 8 weighted economic indicators, increased by 4.9% month-on-month and by 4.8% year-on-year in April 2014. The indicator averaged 267.2 in the 12 months ending April 2014, compared to 266.1 in the 12 months ending March 2014 and 258.9 in the 12 months ending April 2013. As a result, the average coincident indicator rose by 0.4% month-on-month and increased by 3.2% year-on-year. Also, the indicator averaged 277.4 in the first four months of 2014 compared to 274.9 in the first quarter of the year and 270.1 in the first four months of 2013. As a result, the average coincident indicator rose by 0.9% month-on-month and increased by 2.7% year-on-year during the covered period. In parallel, the indicator improved 16 times and regressed 6 times in the month of April since 1993. It averaged 225.9 in 2009, 249.5 in 2010, 255.7 in 2011, 256.6 in 2012 and 264.7 points in 2013.

### Occupancy rate at hotels in Lebanon at 22% in 2013

Figures compiled by the Ministry of Tourism show that the average occupancy rate at hotels in Lebanon was 21.9% in 2013. Beirut hotels posted the highest occupancy rate at 40.2% last year, followed by hotels in the Bekaa (21.9%), Mount Lebanon (19.6%), the North (14.6%) and the South (13.2%). Further, the average occupancy rate at five-star hotels across Lebanon reached 30.3% in 2013, followed by four-star hotels (27.9%), three-star hotels (18%) and two-star hotels (10.7%). The 2013 figures are based on data collected from 172 hotels across Lebanon and covered 75 hotels in Mount Lebanon, 69 facilities in Beirut, 11 hotels in the North, nine facilities in the Bekaa and eight hotels in the South. Also, the survey covered 21 five-star hotels, 61 four-star facilities, 70 three-star hotels and 20 two-star hotels.

In parallel, the occupancy rate at "first class" furnished apartment facilities in Beirut reached 35.3% in 2013, while that at "second class" facilities stood at 53%. Also, the occupancy rate at "first class" furnished apartment facilities in Mount Lebanon reached 35.3% in 2013 and occupancy at "second class" furnished apartment facilities stood at 34%. The survey covered 68 furnished apartment facilities that included 39 facilities in Beirut and 29 in Mount Lebanon.



### Fiscal deficit at 23.4% of expenditures on a cash basis in first two months of 2014

Figures released by the Finance Ministry show that the fiscal deficit reached \$244.7m in the first two months of 2014 and narrowed by 17.8% from \$297.7m in the same period last year. The deficit was equivalent to 12.7% of total budget and Treasury expenditures compared to 16.1% of overall spending in the first two months of 2013. Overall government expenditures reached \$1.9bn and increased by 4.1% year-on-year, while total revenues rose by 8.3% to \$1.7bn. Budgetary expenditures increased by 19.1% to \$1.7bn and included \$245.7m in transfers to Electricité du Liban and \$412.5m in outlays from previous years, while budget revenues rose by 4.2% to \$1.5bn. Tax revenues declined by 0.6% year-on-year to \$1.1bn, of which 38.3%, or \$431.6m, were in VAT receipts that rose by 5% from the same period of 2013. Tax revenues accounted for 74% of budgetary revenues and for 66.8% of total Treasury and budgetary receipts. The Finance Ministry is basing its monthly fiscal results on the Telecommunications Ministry's estimate of telecom receipts that reached \$207.6m in the first two months of 2014, rather than on the Treasury actually receiving the funds from the Telecom Ministry. On a cash basis for the two compared periods, public revenues increased by 11% year-on-year; while the fiscal deficit narrowed by 13.5% to \$452.3m and was equivalent to 23.4% of expenditures.

The distribution of other tax revenues shows that receipts from taxes on income, profits & capital gains increased by 3.7% to \$287.3m in the first two months of 2014; customs revenues regressed by 11.5% year-on-year to \$205.8m; revenues from property taxes rose by 20.2% to \$110.2m; revenues from taxes on goods & services fell by 51.3% to \$32.8m; and other tax receipts, mainly stamp fees, rose by 10% to \$58.3m. Further, the distribution of income tax revenues shows that taxes on wages and salaries accounted for 39.4% of total income tax receipts, followed by the tax on interest deposits with 28.9%, the tax on profits with 25.7% and the capital gains tax with 4.6%. Income from the tax on profits rose by 14.3%, receipts from tax on interest deposits grew by 2.7% and revenues from the taxes on wages & salaries increased by 1.9%; while receipts from capital gains tax regressed by 28.1%

Also, the distribution of property taxes shows that revenues from real estate registration fees increased by 27.1% to \$81.1m, and receipts from built property taxes rose by 38.2% to \$16.9m, while revenues from inheritance tax fell by 21.9% to \$12.2m. In parallel, non-tax budgetary revenues rose by 20.5% to \$396.1m, with revenues from government properties rising by 23.2% to \$309.8m and administrative fees & charges growing by 14.9% to \$70m. Based on the ministry's assumption, receipts from telecom services accounted for 67% of income from government properties and for 52.4% of non-tax revenues.

Debt-servicing cost increased by 11.7% year-on-year to \$411m in the first two months 2014. It accounted for 21.3% of total expenditures and for 23.8% of budgetary spending, and absorbed 24.4% of overall revenues and 27% of budgetary receipts. Interest payment on domestic debt rose by 3.5% year-on-year to \$278.1m, while interest disbursement on foreign debt rose by 43% to \$109.4m. Repayment of principal on foreign debt increased by 3.8% to \$23.5m. Excluding debt servicing, the primary budget balance posted a surplus of \$206.6m, or 12% of budget expenditures compared to a surplus of \$379.3m, or 26.2% of budget spending in the first two months of 2013. The overall primary balance posted a surplus of \$166.3m or 8.6% of spending in the first two months of 2014, relative to a surplus of \$70.3m or 3.8% of total expenditures in the same period last year.

	Fiscal Results in First Two Months of 2014	
	Including Assumed Telecom Receipts	Excluding Assumed Telecom Receipts*
	US\$m	US\$m
Budget revenues	1,522	1,315
Tax revenues	1,126	1,126
Non-tax revenues	396.1	188.5
<i>of which Telecom revenues</i>	207.6	-
Budget expenditures	1,727	1,727
<b>Budget Surplus/Deficit</b>	<b>(204.4)</b>	<b>(412)</b>
<i>In % of budget expenditures</i>	<i>(11.8%)</i>	<i>(23.9%)</i>
<b>Budget Primary Surplus</b>	<b>206.6</b>	<b>(1.0)</b>
<i>In % of budget expenditures</i>	<i>12%</i>	<i>0.1%</i>
Treasury receipts	164.2	164.2
Treasury expenditures	204.6	204.6
Total Revenues	1,686	1,479
Total Expenditures	1,931	1,931
<b>Total Deficit</b>	<b>(244.7)</b>	<b>(452.3)</b>
<i>In % of total expenditures</i>	<i>(12.7%)</i>	<i>(23.4%)</i>
<b>Total Primary Surplus/Deficit</b>	<b>166.3</b>	<b>(41.3)</b>
<i>In % of total expenditures</i>	<i>8.6%</i>	<i>(2.1%)</i>

\* Cash basis

Source: Ministry of Finance, Byblos Research

### Lebanon ranks 146th globally, 17th in MENA region on peace index

The 2014 Global Peace Index ranked Lebanon in 146th place among 162 countries globally and in 17th place among 22 countries in the Middle East & North Africa region. It also ranked Lebanon in 39th place among 41 upper-middle income countries (UMICs) included in the survey. Lebanon ranked in 142nd place among 162 countries globally and in 16th place among 22 countries regionally in the 2013 survey. The GPI ranks countries by their 'absence of violence' and assigns a weight of 60% to internal peace and a weight of 40% to external peace factors. The index is based on 22 qualitative and quantitative indicators grouped in three sub-domains that are Societal Safety & Security, Militarization, and Ongoing Domestic & International Conflict. Countries with the lowest score are considered to be the most peaceful. The index was developed by the Economist Intelligence Unit and the Institute for Economics and Peace.

Globally, Lebanon is considered to be more peaceful than Yemen, Zimbabwe and Israel, and less peaceful than Egypt, India and Guinea-Bissau. It is also considered to be more peaceful than Yemen, Israel, Sudan, Iraq and Syria in the MENA region, and more peaceful than Colombia and Iraq among UMICs. The survey placed Lebanon in the 'low state of peace' category, along with Egypt, Yemen and Israel from the region. Lebanon received a score of 2.62 points, worse than the global average of 2.07 points, the UMIC average of 2.1 points and the MENA average score of 2.34 points. Lebanon's score regressed by 1.2% from the 2013 survey and was among 13 countries in the MENA region that posted a deterioration in their scores.

Globally, Lebanon tied with eight other countries that include North Korea, Yemen and Mali, ranked behind Egypt, Libya and Iran, and came ahead of Myanmar, Afghanistan and Somalia on the Ongoing Domestic and International Conflict Sub-Domain. This category reflects the number of internal & external conflicts fought as well as the death toll from organized conflict, the level of internally organized conflict and the country's relations with neighboring states. Also, Lebanon ranked ahead of only Iraq among UMICs on this category, while it tied with Yemen and came ahead of Iraq, Sudan and Syria in the region.

Further, Lebanon came ahead of Guinea, Iran and the United Kingdom, and ranked behind Mali, Venezuela and Ethiopia on the Militarization Sub-Domain. This category measures the number of refugees and displaced people as a percentage of the population, the level of terrorist activity, the level of violent crime, the likelihood of violent demonstrations as well as the number of homicides, jailed population and internal security officers & police per 100,000 people. Also, Lebanon ranked ahead of Iran and Iraq only among UMICs on this category, while it came ahead of Iran, Oman, Saudi Arabia, Iraq, Yemen, Sudan, Syria and Israel in the region.

In parallel, the survey estimated spending on violence containment in Lebanon at 6.8% of GDP in 2013, constituting the 43rd highest such ratio globally and the 11th highest in the region. It is lower than such spending in Syria (24.1% of GDP), Iraq (17.7% of GDP), Oman (13.8% of GDP), Sudan (12.4% of GDP), Libya (10.7% of GDP), Bahrain (10.5% of GDP), Saudi Arabia (9.4% of GDP), Israel (8.1% of GDP), Mauritania (7.9% of GDP) and Yemen (6.9% of GDP). Further, it estimated spending on violence containment in Lebanon at \$985 per capita in 2013, constituting the 37th highest such ratio globally and the 11th highest in the region. It came lower than similar spending in Oman (\$3,940), Saudi Arabia (\$3,100), Qatar (\$2,995), Israel (\$2,795), Bahrain (\$2,785), Kuwait (\$2,480), Iraq (\$1,350), Libya (\$1,280), the UAE (\$1,270) and Syria (\$1,160).

### Global Peace Index for 2014

Country	Score	MENA	Global
		Rank	Rank
Qatar	1.491	1	22
Kuwait	1.679	2	37
UAE	1.748	3	40
Jordan	1.861	4	56
Oman	1.889	5	59
Morocco	1.915	6	63
Djibouti	1.979	7	74
Tunisia	2.001	8	79
Saudi Arabia	2.003	9	80
Bahrain	2.225	10	111
Algeria	2.239	11	114
Mauritania	2.350	12	120
Turkey	2.402	13	128
Iran	2.437	14	131
Libya	2.453	15	133
Egypt	2.571	16	143
<b>Lebanon</b>	<b>2.620</b>	<b>17</b>	<b>146</b>
Yemen	2.629	18	147
Israel	2.689	19	149
Sudan	3.362	20	157
Iraq	3.377	21	159
Syria	3.650	22	162

Source: EIU, Institute for Economics and Peace, Byblos Research

### Components of the 2014 Global Peace Index for Lebanon

Sub-Domains	Global Rank	MENA Rank	UMIC Rank	Lebanon Score	Global Average Score	MENA Average Score	UMIC Average Score
Societal Safety & Security	132	17	32	2.88	2.38	2.61	2.51
Militarization	141	14	39	2.09	1.78	2.03	1.72
Ongoing Domestic & International Conflict	141	18	39	2.60	1.81	2.17	1.76

Source: EIU, Institute for Economics and Peace, Byblos Research

### **ADIR's financial strength rating affirmed at 'A'**

Insurance rating agency i.e. Muhanna & co Rating Services affirmed at 'A' the Financial Strength Rating of ADIR Insurance sal, the insurance affiliate of the Byblos Bank Group. The agency said the financial strength of ADIR is based on good liquidity as well as good levels of underwriting profitability and underwriting exposure.

It indicated that the firm's liquidity ratio was 83.3% in 2013 relative to 84.4% in 2012; while total reserves reached \$121.2m at the end of 2013, up from \$104.3m at end-2012. The company's expense ratio increased to 36.7% in 2013 from 33.7% in 2012, which is significantly lower than the market average of 38% and reflects the firm's good underwriting profitability relative to peers. Also, the firm's retention rate, which is the ratio of net premium written over gross premium written, rose to 81.9% last year from 78.8% in 2012, which is slightly higher than the market average of 80%. ADIR Insurance's ratio of net premium receivables-to-gross direct premium rose to 7.4% in 2013 from 4.8% in 2012, which is significantly lower than the market average ratio of 22% and reflects the company's good collection of receivables in the market. Also, the firm's level of underwriting exposure, which is the ratio of net premiums over total equity, decreased to 74.3% last year from 85.4% in 2012.

Further, ADIR posted net profits of \$8.8m in 2013, constituting an increase of 33.3% from \$6.6m in 2012. The firm's shareholders' equity reached \$34.4m at the end of 2013, up 19% from \$28.9m at end-2012; while its return on equity was 27.2% in 2013 compared to 27.1% in 2012. The firm's gross premiums reached \$31.2m in 2013 relative to \$31.4m in 2012, while its claims totaled \$9m, up from \$8m in 2012.

### **Ratings on four banks affirmed, outlook 'stable'**

Capital Intelligence affirmed the long- and short-term foreign currency ratings of BLOM Bank, Crédit Libanais (CL), Bank Audi and Fransabank at 'B', as well as the financial strength rating (FSR) of BLOM Bank and Bank Audi at 'BBB-' and that of CL and Fransabank at 'BB+'. It also affirmed the Support Level of the four banks at '3'. It said the outlook on all the ratings is 'stable' and that the banks' long- and short-term foreign currency ratings are restrained by the sovereign ceiling. The agency has previously affirmed Byblos Bank's long- and short-term foreign currency ratings at 'B' and 'B', respectively, as well as the Bank's FSR at 'BBB-' with a 'stable' outlook on the ratings.

The agency indicated that BLOM Bank's FSR reflects the bank's strong franchise and liquidity as well as its better cost efficiency and profitability than the sector's average. But it noted that the FSR is constrained by the rise in the non-performing loans (NPL) ratio, by the bank's ongoing exposure to the Lebanese sovereign and to local and regional political risks, and by its increased exposure to the real estate sector. It anticipated that the bank's operating profitability would regress this year, given the ongoing slowdown in domestic economic activity and heightened competition in the market. It noted that the bank's sound capital would provide additional buffers against rising credit risks.

Also, the agency indicated that Bank Audi's FSR is constrained by the domestic and regional political environment, concentration to Lebanon's sovereign debt, mismatches between the maturity of deposits and that of government securities, and the slow economic growth in Lebanon. It added that the bank's relatively low Common Equity Tier 1 (CET1) ratio and the significant decline in its operating and net profits constrain the FSR. It cautioned from downward pressure on the bank's FSR in case its CET1 ratio and profitability metrics do not improve.

Further, the agency indicated that CL's FSR is constrained by its high exposure to Lebanese sovereign debt, which raises its sensitivity to interest rate and maturity mismatching risks. It added that the bank's FSR reflects its good capital ratios, improved NPL ratio, comfortable liquidity and strong retail franchise. It noted that CL's relatively low profitability and concentration to housing loans weigh on its FSR.

In parallel, the agency said that Fransabank's FSR is constrained by relatively weak loan asset-quality metrics, low non-interest income generation, and high exposure to Lebanon's sovereign and macroeconomic risks. It noted that the bank's weak loan asset quality reflects legacy NPLs at its subsidiary BLC Bank and higher NPLs at its Cypriot subsidiary USB Bank, which have raised the provisioning gap relative to free capital and operating profits. It noted that the FSR could be downgraded if the bank does not reduce its unprovided NPLs-to-free capital ratio. It said that Fransabank's FSR is supported by its improved capital adequacy, comfortable liquidity, and relatively strong net interest margin.

## Corporate Highlights

### Insurance premiums up 2% annually to \$393m in first quarter of 2014, claims and benefits rise by 9% to \$181m

Figures released by the Association of Insurance Companies in Lebanon (ACAL) indicate that insurance premiums in Lebanon totaled \$393m in the first quarter of 2014, constituting an increase of 2.1% from \$384.9m in the same quarter last year, and a rise of 13.9% from \$345.1m in the fourth quarter of 2013.

Medical insurance premiums reached \$141.4m in the first quarter of the year and accounted for 36% of the sector's aggregate premiums. They were followed by life premiums with \$97.9m (24.9%), motor premiums with \$78.3m (19.9%), fire premiums with \$36.6m (9.3%), workmen's compensation with \$11.6m (3%), premiums from other categories with \$11.2m (2.9%), cargo premiums with \$8.6m (2.2%), public liability premiums with \$5.2m (1.3%) and engineering premiums with \$2.1m (0.5%). Fire premiums grew by 12% annually in the first quarter of the year, medical premiums rose by 10%, public liability premiums grew by 6%, premiums from motor and other categories improved by 5% each, and workmen compensation rose by 2%. In contrast, engineering premiums contracted by 51%, life premiums decreased by 10% and cargo premiums fell by 1% from the first quarter last year.

In parallel, ACAL indicated that total benefits and claims paid by insurance companies stood at \$180.8m in the first quarter of 2014, constituting an 8.6% increase from the same quarter of 2013 and a 21% drop from \$229m in the fourth quarter of 2013. Benefits and claims paid for non-life categories totaled \$137.1m and contracted by 2.6% year-on-year, while claims disbursed for the life category amounted to \$43.8m in the first quarter and increased by 69.6% annually. Medical claims reached \$69.6m in the first quarter of 2014 and accounted for 38.5% of total payments, followed by motor claims with \$47m (26%), fire claims with \$6.8m (3.8%), workmen's claims with \$6.3m (3.5%), cargo and public liability claims with \$2.2m each (1.2% each), and engineering claims with \$0.9m (0.5%), while claims from other categories totaled \$2m (1.1%). Public liability claims surged by 235% year-on-year in the first quarter of the year, cargo claims increased by 162%, workmen claims rose by 22%, engineering claims grew by 13%, motor claims expanded by 6%, medical claims increased by 4% and claims from other categories rose by 1%, while fire claims dropped by 66% year-on-year.

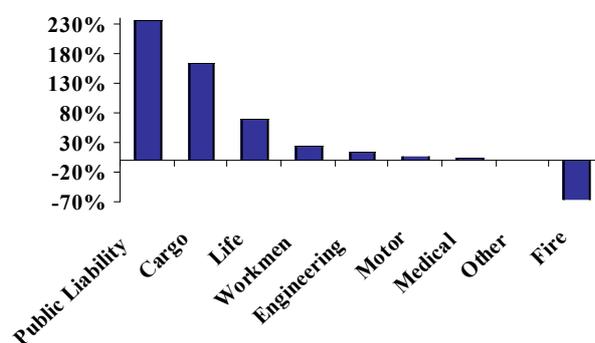
Further, unit-linked policies accounted for 50% of total life premiums and for 18.4% of the total number of life contracts in the first quarter of the year; while life protection plans represented 50% of total life premiums and 81.6% of the total number of life contracts in the covered quarter. ACAL noted that medical insurance premiums covering expatriates grew by 7% year-on-year to \$2.6m in the first quarter. Finally, it indicated that non-compulsory motor insurance premiums rose by 4% year-on-year to \$66.1m, while compulsory motor insurance premiums increased by 11% annually to \$12.2m in the first quarter of 2014.

### IBL's net profits at \$14m in first quarter of 2014

IBL Bank sal, one of Lebanon's top 14 banks, announced unaudited consolidated net profits of \$13.8m in the first quarter of 2014, up 8.7% from the same quarter last year. Net operating income grew by 7.6% year-on-year to \$25.9m, with net interest income decreasing by 13.5% to \$11m and net fees & commissions receipts falling by 3.8% to \$1.6m. Non-interest income accounted for 59.1% of total income, up from 49.4% in the first quarter of 2013; with net fees & commissions representing 10% of non-interest earnings down from 13.3% in the first quarter of 2013. Further, the bank's interest margin was 0.93% in the first quarter of 2014 relative to 1.17% in same quarter last year, and its net spread declined to 0.92% from 1.15% in the first quarter of 2013. Total operating expenditures increased by 6.2% to \$9.8m, with staff expenses growing by 1.5% to \$5.4m. Also, the bank's return on average assets reached 1.15% in March 2014 on an annualized basis, unchanged from a year earlier; while its return on average equity was 15.4% on an annualized basis relative to 15.8% in March 2013. The cost-to-income ratio decreased marginally to 36.4% in the first quarter from 36.6% in the same quarter last year.

In parallel, total assets reached \$4.8bn at end-March 2014, constituting a 2.2% rise from end-2013 and an 8.7% increase from a year earlier; while loans & advances to customers, excluding loans & advances to related parties, grew by 0.8% from end-2013 and by 3.9% year-on-year to \$0.9bn. Also, customer deposits, excluding deposits from related parties, totaled \$4.4bn at end-March, reflecting a growth of 1.8% from end-2013 and a rise of 8.7% from a year earlier. The loans-to-deposits ratio decreased to 21% at end-March 2014 from 22% a year earlier. Further, shareholders' equity rose by 4.1% from end-2013 to \$345.4m at end-March 2014.

### Change in Claims Paid in First Quarter of 2014\*



\*Percentage change from first quarter of 2013

Source: ACAL, Byblos Research

## 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](mailto:research@byblosbank.com.lb)**  
**[www.byblosbank.com](http://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