



# LEBANON THIS WEEK

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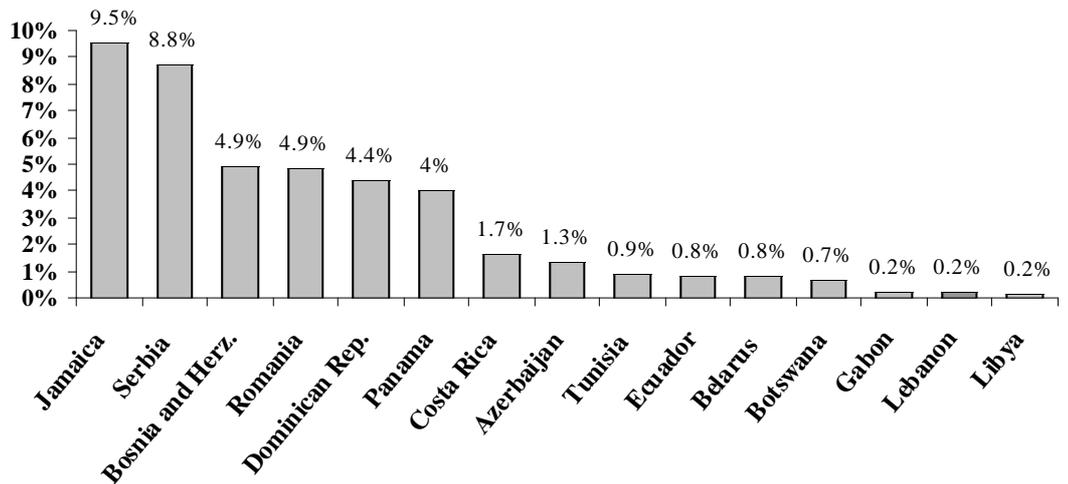
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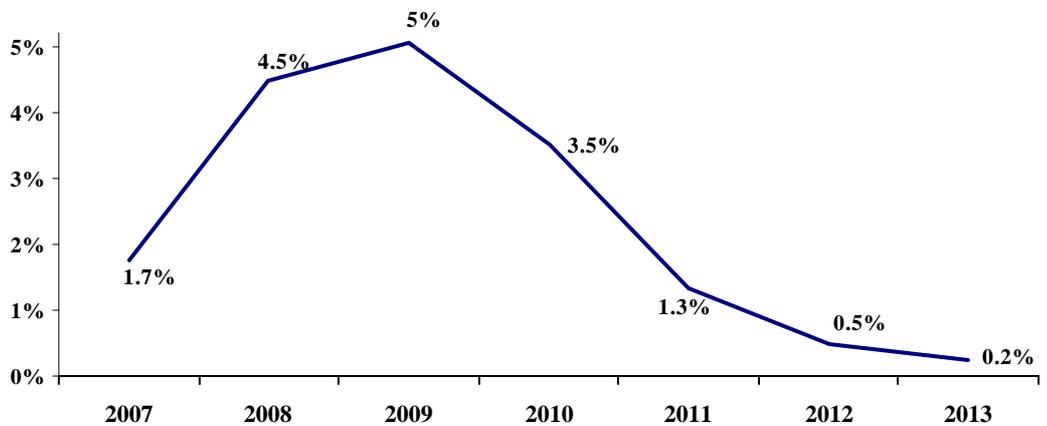
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## Charts of the Week

Greenfield FDI in Select Upper Middle-Income Countries in 2013 (% of GDP)



Greenfield FDI in Lebanon (% of GDP)



Source: UNCTAD, International Monetary Fund, Byblos Bank

## Quote to Note

"If implemented, the salary scale adjustment would further exacerbate budget rigidities."

*The International Monetary Fund, on the risks associated with the ratification and implementation of the public sector's salary scale adjustment*

## Number of the Week

**95:** Lebanon's rank among 144 countries on the Innovation Output Sub-Index of the 2014 INSEAD/WIPO Global Innovation Index

## Economic Indicators

<b>\$m (unless otherwise mentioned)</b>	<b>2013</b>	<b>Feb 13</b>	<b>Nov 13</b>	<b>Dec 13</b>	<b>Jan 14</b>	<b>Feb 14</b>	<b>% Change*</b>
Exports	3,936	381	263	243	244	253	(33.60)
Imports	21,228	1,791	1,772	1,797	1,873	1,732	(3.29)
Trade Balance	(17,292)	(1,410)	(1,509)	(1,554)	(1,629)	(1,479)	(4.89)
Balance of Payments	(1,128)	(92)	(192)	534	(31)	194	-
Checks Cleared in LBP	17,047	1,213	1,451	1,562	1,502	1,410	16.24
Checks Cleared in FC	55,321	4,353	4,584	4,728	4,783	4,369	0.37
Total Checks Cleared	72,368	5,566	6,035	6,290	6,285	5,779	3.82
Budget Deficit/Surplus	(4,220)	(279.91)	(463.41)	(238.09)	(119.34)	(125.38)	55.21
Primary Balance	(239.68)	(130.13)	2.97	70.72	142.38	23.91	-
Airport Passengers	6,265,470	403,968	407,869	510,367	450,476	376,106	(6.90)

<b>\$bn (unless otherwise mentioned)</b>	<b>Dec 2013</b>	<b>Feb 13</b>	<b>Nov 13</b>	<b>Dec 13</b>	<b>Jan 14</b>	<b>Feb 14</b>	<b>% Change*</b>
BdL FX Reserves	31.71	30.34	31.78	31.71	32.25	33.40	10.08
<i>In months of Imports</i>	<i>17.64</i>	<i>16.94</i>	<i>17.94</i>	<i>17.64</i>	<i>17.22</i>	<i>19.29</i>	<i>13.87</i>
Public Debt	63.46	58.08	63.26	63.46	63.94	64.99	11.90
Net Public Debt	53.18	49.95	52.75	53.18	53.47	53.91	7.92
Bank Assets	164.82	153.97	161.92	164.82	164.43	166.01	7.82
Bank Deposits (Private Sector)	136.21	126.30	133.15	136.21	134.86	135.71	7.45
Bank Loans to Private Sector	47.38	43.95	46.81	47.38	47.04	47.39	7.83
Money Supply M2	45.60	43.62	45.05	45.60	45.74	46.05	5.57
Money Supply M3	111.16	104.71	109.34	111.16	110.93	111.67	6.65
LBP Lending Rate (%)	7.29	7.47	7.01	7.29	7.39	7.14	(4bps)
LBP Deposit Rate (%)	5.44	5.46	5.47	5.44	5.48	5.51	1bps
USD Lending Rate (%)	6.88	7.05	6.88	6.88	6.82	6.96	(1bps)
USD Deposit Rate (%)	2.95	2.94	2.97	2.95	2.95	2.96	1bps
%* Change in CPI**	3.89	4.42	4.96	3.89	2.52	0.86	(81bps)

\* 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"	12.70	(1.40)	51,178	11.62%	Jan 2015	5.875	101.25	2.61
Solidere "B"	12.68	0.56	14,308	7.54%	Apr 2015	10.000	104.79	2.70
Byblos Common	1.62	(0.61)	118,737	5.33%	Jan 2016	8.500	107.25	3.16
Byblos Pref. 08	101.00	0.30	8,956	1.85%	Mar 2017	9.000	112.50	3.84
Byblos Pref. 09	100.50	0.00	7,113	1.84%	Nov 2018	5.150	101.38	4.78
BLOM GDR	9.35	0.00	48,832	6.32%	May 2019	6.000	104.00	5.04
BLOM Listed	8.74	(0.11)	30,368	17.19%	Mar 2020	6.375	105.75	5.17
Audi GDR	6.50	0.00	0	6.09%	Apr 2021	8.250	115.75	5.39
Audi Listed	6.10	(3.94)	2,590,518	19.51%	Oct 2022	6.100	102.38	5.73
HOLCIM	14.50	3.20	2,716	2.59%	Nov 2026	6.600	102.75	6.27

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

Source: Byblos Bank Capital Markets

	<b>Aug 18-22</b>	<b>Aug 11-14</b>	<b>% Change</b>	<b>July 2014</b>	<b>July 2013</b>	<b>% Change</b>
<b>Total Shares Traded</b>	2,882,296	304,235	847.4	3,616,820	7,014,320	(48.44)
<b>Total Value Traded</b>	\$20,099,867	\$4,194,306	379.2	\$19,622,207	\$30,195,961	(35.02)
<b>Market Capitalization</b>	\$10.93bn	\$11.03bn	(0.90)	\$10.94bn	\$10.56bn	3.57

Source: Beirut Stock Exchange (BSE)



### Cost of sending remittances to Lebanon decreases in second quarter of 2014

Figures issued by the World Bank show that the cost of sending remittances from the United States to Lebanon reached 10.19% in the second quarter of 2014 for a \$200 transfer, constituting a decrease from 10.81% in the first quarter of the year and from 10.72% in the fourth quarter of 2013. Also, the cost of sending \$500 from the U.S. to Lebanon reached 5.37% in the second quarter of 2014, compared to 5.41% in the previous quarter and 5.32% in the fourth quarter of 2013. 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 \$20.37 and \$26.84, respectively, in the second quarter of 2014 compared to \$21.62 and \$27.04, respectively, in the preceding quarter.

Further, the cost of sending remittances from Germany to Lebanon reached 16.05% in the second quarter of 2014 for a transfer of €140, or about \$200, constituting a decrease from 16.79% in the first quarter of 2014 and 17.31% in the fourth quarter of last year. Also, the cost of sending €345, or about \$500, from Germany to Lebanon reached 8.12% in the second quarter of this year relative to 8.44% in the preceding quarter and 8.52% in the fourth quarter of 2013. In nominal terms, the cost of sending €140 and €345 from Germany to Lebanon was €2.48 and €8, respectively, in the second quarter of 2014 relative to €3.50 and €9.12, respectively, in the previous quarter.

In parallel, Lebanon ranked as the second most expensive destination for sending \$200 from the U.S. among 30 countries with available data, after only Thailand (11.06%). It was the sixth most expensive destination for sending \$500. The data covered 14 countries in Latin & Central America and the Caribbean, seven countries in East & 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.

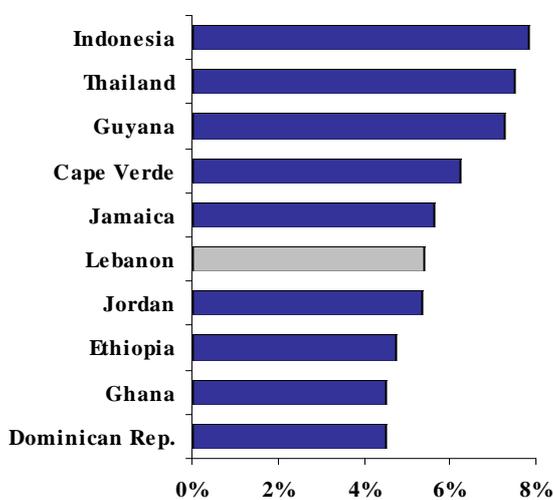
The World Bank indicated that the average cost to send \$500 in remittances from the United States through commercial banks to Lebanon was 7.5% and the average cost through MTOs was 4.3% in the second quarter of 2014. In comparison, the average cost to send \$500 in remittances through commercial banks to Lebanon was 8% and the average cost through MTOs was 4.11% in the first quarter of 2014; while it was 8% and 3.98%, respectively, in the fourth quarter of 2013. 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%.

### Central Bank sets new conditions for retail loans

The Central Bank of Lebanon issued Intermediate Circular 369 on August 21, 2014, which amends Basic Circular 81 dated February 21, 2001. The amendments consist of adding a new article to the original circular. The new article defined retail loans as housing loans; as well as consumer loans, including car, student and education loans; and revolving credits, including credit and debit cards. It stipulates that the housing or car loan should not exceed 75% of the value of the purchased home or that of the car. It added that the cumulative monthly payment for retail loans should not exceed 45% of a family's monthly income, except for housing loans where payments should not exceed 35% of a household's monthly earnings. It defined a family monthly income as the combined incomes of the husband and wife. The circular stipulates that banks and financial institutions that are non-compliant with the limits when they come into force should refrain from extending new retail loans to clients. The limits will be applied on loans extended after October 1, 2014.

Further, the circular stated that banks should build specific provisions against these loans in case of difficulties by the borrower in settling monthly payments. It noted that provisions would be calculated based on the net balance of the loan after deducting the cash collateral against housing loans and 60% from land collateral or its insurable value, as well as the collateral provided against other retail loans. Also, it stipulates that banks should build general provisions against their loan portfolio after deducting other provisions against these loans. It said that general provisions should be equivalent to 2% of the loan portfolio by the end of 2014 and would increase by 0.5% of the portfolio annually over the next six years starting in 2015. It added that these provisions would be part of Tier Two Capital. It noted that housing, student and education loans are excluded from retail loans when calculating the provisions for the loan portfolio.

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



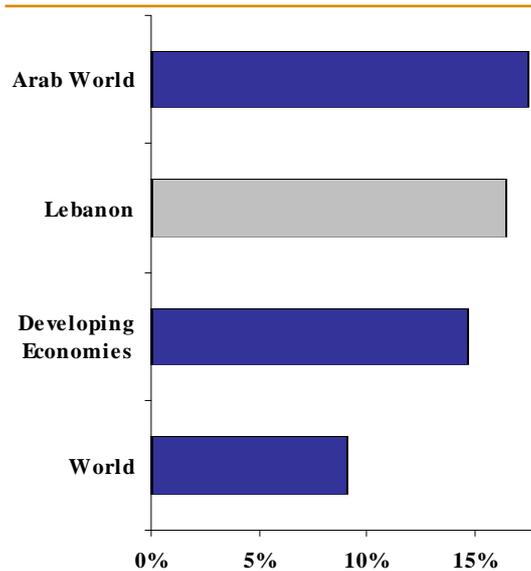
\* Cost of sending \$500 from the U.S.

Source: World Bank, Byblos Research

### Growth of broadband penetration outperforms Arab and developing economies

Figures released by the International Telecommunication Union (ITU) indicate that Lebanon ranked in 88th place among 199 countries at the end of 2013 in terms of fixed broadband penetration, which is the number of subscriptions to the service per 100 inhabitants. Lebanon's rank regressed by three spots from 2012 based on the same number of countries year-on-year. Lebanon also came in third place among 19 Arab countries and ranked in 22nd place among 52 upper middle income countries (UMICs) included in the survey. Lebanon's rank was unchanged in the Arab world, while it regressed by one spot among UMICs from the previous year. On a global basis, Lebanon had a higher penetration rate than Qatar, Costa Rica and Colombia and a lower rate than Brazil, Georgia and the UAE. Also, Lebanon ranked ahead of Costa Rica, Colombia and Malaysia and came behind Brazil, Mexico and Turkey among UMICs; while it came behind only the UAE and Bahrain among Arab countries. Lebanon had 9.95 fixed broadband subscriptions per 100 inhabitants in 2013, constituting an increase from 9.71 subscriptions in 2012. Lebanon's fixed broadband penetration rate was higher than the global average of 9.4 subscriptions per 100 inhabitants, the developing economies' average of 5.8 subscriptions per 100 inhabitants and the Arab world average of 2.8 subscriptions per 100 inhabitants. Fixed broadband penetration in Lebanon grew by a compound annual growth rate (CAGR) of 16.4% during the 2008-13 period compared to a CAGR of 14.7% for developing economies and 17.4% for Arab countries.

#### CAGR of Broadband Penetration in 2008-13



Source: ITU, Byblos Research

In parallel, Lebanon ranked in 49th place among 208 countries at the end of 2013 in terms of Internet penetration, which represents the number of Internet users per 100 inhabitants. Lebanon's rank improved by 11 spots from its global rank in 2012 based on the same number of countries year-on-year. Lebanon also ranked in fifth place among 20 Arab countries and in second position among 53 UMICs. On a global basis, Lebanon had a higher penetration rate than Lithuania, Bosnia & Herzegovina and Malaysia, and a lower rate than Israel, Spain and Hungary among economies with a GDP of \$10bn or more. Also, Lebanon ranked behind only Hungary among UMICs, while it came behind Bahrain, the UAE, Qatar and Kuwait among Arab countries. Lebanon had 70.5 Internet users per 100 inhabitants in 2013, constituting a rise from 61.25 Internet users per 100 inhabitants in 2012. Lebanon's Internet penetration rate came above the global average of 37.9 users, the Arab average of 37.4 users, and the developing economies' average of 29.9 users. Internet users in Lebanon grew by a CAGR of 25.6% during the 2008-13 period compared to a CAGR of 15.3% for developing economies and 18.2% for Arab countries.

### Food vouchers and casual labor are main sources of income for 70% of Syrian households in Lebanon

A survey commissioned by the United Nations High Commissioner for Refugees (UNHCR) indicated that 41% of Syrian refugee households cited food vouchers as their main source of income, 29% of households said that revenue from non-agricultural casual labor is their main source of income, and 13% of respondents noted that pay from skilled work is their main source of support. Approximately 80% of surveyed households indicated that they borrowed money or received credit to complement their income. Also, 73% of households said that they borrowed money or received credit to buy food, 50% of respondents noted that they used these resources to pay rent and 31% of participants indicated that they borrowed money or received credit to cover healthcare costs. The survey pointed out that the main lenders to Syrians refugees are friends and relatives in Lebanon.

Further, the survey indicated that 70% of registered households received food vouchers on a regular basis, 41% of them received hygiene kits regularly and about 25% of households benefited from regular healthcare services. It said that sharing the cost of healthcare services with patients is the most common type of healthcare assistance that non-governmental and humanitarian organizations provide. It added that about 16% of households benefited from free primary healthcare services provided by humanitarian actors. But it noted that nearly one third of households that required health assistance could not access it, mainly because they cannot afford it.

In parallel, 59% of households reported that they are living in apartments and in independent houses, while over 40% of households said that they are living in tents, collective shelters, unfinished construction projects, garages and squatting. Also, 82% of households said that they are paying rent for shelter, including for pieces of land where tents are erected. The survey revealed that households pay on average \$250 per month for rent. The data was collected from 1,750 Syrian refugee households in the Bekaa, the South, Beirut & Mount Lebanon, Tripoli and Akkar. The survey was conducted in May 2014 and covered 350 households per region.

### **Banking sector facing challenging operating conditions**

Standard & Poor's anticipated that banks operating in Lebanon would continue to face unstable and challenging operating conditions during the 2014-15 period. It indicated that the protracted domestic and regional political turmoil has negatively affected domestic policy-making, weighed on business confidence and delayed the economic recovery. It added, more specifically, that Lebanon remains vulnerable to the evolving conflict in Syria. However, it considered that Lebanese banks are poised for a recovery if political and geopolitical risks recede, given the country's economic growth potential, supportive demographics, an educated workforce, as well as increasing financial inclusion and product sophistication. It noted that the domestic banking sector, unlike the country's political institutions, has coped well with the prevailing challenging conditions.

S&P pointed out that sovereign creditworthiness would continue to drive the ratings of Lebanese banks during the 2014-15 period, given the banks' elevated holdings of sovereign debt instruments. It noted that Lebanese banks play a crucial role in meeting the government's financing needs, and that their role has increased as sovereign creditworthiness has deteriorated and because foreign investors' appetite for sovereign debt has regressed. It expected banks to continue to subscribe to sovereign securities, which would expose them to critical concentration risks as government debt represents a multiple of the banks' equity base. Further, it said that vulnerabilities at the sovereign level constrain the authorities' capacity to provide any kind of extraordinary support to banks in case of need. The agency has a 'stable' outlook on rated Lebanese banks, similar to the outlook on the sovereign ratings. It noted that it is unlikely to upgrade any of the banks' ratings over the next 12 months.

In parallel, S&P anticipated that commercial lending opportunities for banks operating in Lebanon would remain limited during the 2014-15 period, given the prevailing domestic political and economic conditions. It forecast lending to the private sector to grow by about 10% annually during the covered period, supported by credit to trade, services, domestic consumption, and real estate-related projects. It noted that banks' exposure to the construction and housing sectors is high, as this exposure accounted for 33.5% of the banks' aggregate lending to the private sector at the end of 2013. It added that housing loans, which are mostly extended in Lebanese pounds, have substantially increased since 2008 due to the subsidized lending programs provided by the Central Bank. Further, the agency considered the asset quality of the banking sector to be adequate despite persisting regional and domestic uncertainties and their adverse impact on economic activity. It expected Lebanese banks to continue to have sufficient absorption capacity to manage potential problems that may arise from their credit exposure to the private sector.

In parallel, S&P indicated that the banking sector's regulatory and supervisory framework aims at sustaining the confidence of depositors. It said that domestic regulations are largely in line with international standards. But it noted that these regulations are sometimes implemented over longer periods of time than global norms, in order to accommodate the need to supervise the large number of banks operating in the country.

### **Industrial exports down 15% to \$1bn in first four months of 2014**

Figures released by the Ministry of Industry show that industrial exports totaled \$1bn in the first four months of 2014, constituting a decrease of 14.5% from \$1.2bn in the same period of last year. Industrial exports reached \$277.1m in April 2014, up by 7.1% from \$258.7m in March 2014 but down by 6.8% from \$297.3m in April 2013. Machinery and mechanical appliances accounted for \$247.7m, or 24.4% of total industrial exports in the first four months of the year, followed by prepared foodstuffs with \$174.3m (17.2%) and chemical products with \$133.6m (13.2%). Arab countries accounted for 57% of total industrial exports in April 2014, followed by Asian countries with 14.2%, European countries with 12.7% and African countries with 12%. On a country basis, Saudi Arabia was the main destination of such exports and accounted for 13.8% of the total in April 2014, followed by the UAE with 11.2% and Turkey with 9.3%. In April, 14 Arab countries, 10 European states, nine African economies, three Asian countries, two states in the Americas and one country in Oceania imported \$1m or more each in industrial products from Lebanon. Overall, Lebanon exported its industrial products to 40 African countries, 40 European economies, 26 Asian states, 21 countries in the Americas, 19 Arab economies and four countries in Oceania in April 2014. In parallel, industrial imports reached \$91.3m in the first four months of the year, down 16.3% from the same period of 2013. Germany was the main source of such imports and accounted for 21% of the total. It was followed by Italy with 19.6% and China with 16%. Further, imports of industrial equipment and machinery reached \$21.1m in April 2014, decreasing by 37.7% year-on-year. Italy was the main source of imports of industrial equipments, accounting for 27.3% of the total, followed by China with 17.2% and Germany with 11.4%.

### **Customs receipts down 12% to \$774m in first seven months of 2014**

Figures released by the Customs Directorate indicate that customs revenues reached \$774.2m in the first seven months of 2014, constituting a decrease of 11.7% from \$876.6m in the same period last year. The Port of Beirut continues to be the main point of customs receipts, as it accounted for 87.8% of the total in the first seven months of the year. It was followed by the Hariri International Airport with 7.6%, the Port of Tripoli with 3.2%, the Port of Saida with 0.7%, the Masnaa crossing point with 0.6% and the Port of Tyre with 0.1%. Customs receipts from the value added tax totaled \$784.3m in the first seven months of 2014, reflecting a decrease of 3.5% from \$812.5m in the same period of 2013. The Port of Beirut accounted for 81.9% of such receipts, and was followed by the Hariri International Airport with 10.6%, the Port of Tripoli with 4.2%, the Masnaa crossing point with 2.1%, the Port of Saida with 0.9%, while the Port of Tyre and the Abboudieh and Arida crossing points had a 0.1% share each. As such, overall customs receipts reached \$1.6bn in the first seven months of 2014, with the Port of Beirut accounting for 84.8% of the total, followed by the Hariri International Airport with 9.1%, the Port of Tripoli with 3.7%, the Masnaa crossing point with 1.3% and the Port of Saida with 0.8%; while other entry points represented the balance.

### Consumer Price Index up 0.2% in July 2014

The Central Administration of Statistics' (CAS) Consumer Price Index for Lebanon increased by 0.2% in July 2014 from the preceding month, compared to a monthly decline of 0.7% in June 2014. Healthcare costs increased by 3.5% month-on-month in July 2014, followed by transportation costs (+0.9%), food & non-alcoholic beverages, restaurants & hotels and recreation & entertainment costs (+0.3% each), housing, water, electricity, gas & other fuels and miscellaneous goods & services (+0.2% each); while the prices of clothing & footwear fell by 4.4%, followed by communication costs (-3.6%). Further, the cost of education, furnishing & household equipment and alcoholic beverages & tobacco were unchanged month-on-month. Also, imputed, new and old rents were unchanged from the preceding month.

Regionally, the CPI increased by 1.6% in Nabatieh, followed by the South (+1.2%), the North and the Bekaa region (+0.5% each) and Mount Lebanon (+0.1%); while it regressed by 0.2% in Beirut. Prices of food & non-alcoholic beverages increased by 1.4% in Nabatieh, and rose by 0.8% in the North, by 0.3% in Mount Lebanon and by 0.1% in each of the Bekaa and the South; while they fell by 0.3% in Beirut. The price of housing, water, electricity, gas & other fuels, as well as transportation and healthcare costs rose across all regions, while communication costs fell in all covered areas. Also, the prices of clothing & footwear decreased by 7% in Mount Lebanon, and regressed by 4.3% in Beirut, by 2.5% in the Bekaa, by 1.2% in the South and by 0.7% in the North; while they remained unchanged from the previous month in Nabatieh.

### Surface area of new construction permits up 9% in first seven months of 2014

Figures released by the order of Engineers of Beirut & Tripoli show that the number of construction permits reached 10,091 in the first seven months of 2014, constituting a marginal decrease of 0.2% from 10,115 in the same period last year and compared to a 5.5% decline in the first seven 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%, Nabatieh with 12.7%, the North with 12.5%, the Bekaa with 9.8% and Beirut with 5.1%. Further, the surface area of construction permits issued in the first seven months reached 8.3 million square meters (sqm), constituting an increase of 9% from the same period last year and compared to decreases of 13.3% in the first seven months of 2013 and 12.5% in the same period of 2012. Mount Lebanon accounted for 3.7 million sqm or 45.4% of total construction permits in the covered period. It was followed by the North with 1.5 million sqm (18.1%), the South with 979,624 sqm (11.8%), Beirut with 750,002 sqm (9%), the Bekaa with 668,345 sqm (8%) and Nabatieh with 632,334 sqm (7.6%). In parallel, cement deliveries totaled 2.8 million tons in the first half of 2014 and rose by 5.2% annually, relative to an increase of 2.7% in the same period of last year and a drop of 2.9% year-on-year in the first half of 2012.

### Trade deficit widens by 1% to \$10bn in first seven months of 2014, exports down by 25%

Total imports reached \$11.9bn in the first seven months of 2014, constituting a decrease of 4.6% from the same period last year; while aggregate exports declined by 25.3% to \$1.9bn, leading to a trade deficit of \$10bn, up by 0.8% year-on-year. The widening of the deficit was caused by a decrease of \$656m in exports from the same period of 2013, given that imports fell by \$572.6m. The coverage ratio reached 16.2% in the first seven months of 2014 compared to 20.7% in the same period last year; while it reached 16.7% in July 2014 relative to 16.9% in July 2013. The value of imported oil & mineral fuels fell by 7.4% year-on-year to \$2.8bn, and that of non-hydrocarbon imports dropped by 3.7% to \$9.1bn. Imported oil & mineral fuels accounted for 23.6% of total imports in the covered period compared to a share of 24.3% in the same period last year.

In volume terms, imports reached 8.8 million tons in the first seven months of 2014, constituting an increase of 2.6% from the same period last year; while exports posted a 34.6% decline to 1.2 million tons, leading to a trade deficit of 7.7 million tons in the first seven months of 2014, up by 12.1% year-on-year. Imports of oil & mineral fuels increased by 1.6% year-on-year to 4.2 million tons, while non-hydrocarbon imports increased by 3.4% annually to 4.7 million tons. Imported oil & mineral fuels accounted for 47.4% of total imports in the covered period compared to a share of 47.8% in the same period last year.

China was the main source of imports with \$1.4bn or 12% of the total in the first seven months of 2014, followed by Italy with \$1.1bn (8.8%), France with \$828.6m (6.9%), the United States with \$800.2m (6.7%), Germany with \$726.7m (6.1%), Russia with \$456.4m (3.8%) and Greece with \$409m (3.4%). Imports from China increased by 25.3% annually and those from Italy grew by 2.8%; while imports from Russia dropped by 32.1%, those from the United States fell by 18%, those from France regressed by 8.2%, imports from Greece decreased by 4.1% and those from Germany declined by 3.4%.

Saudi Arabia was the main export destination with \$215.1m or 11.1% of the total, followed by South Africa with \$210.2m (10.9%), the UAE with \$184.1m (9.5%), Iraq with \$143.9m (7.4%), Syria with \$135m (7%), Turkey with \$85.7m (4.4%) and Jordan with \$75m (3.9%). Exports to Syria dropped by 67% year-on-year in the first seven months of 2014, those to South Africa declined by 33.7%, exports to Turkey dropped by 27%, those to the UAE and Saudi Arabia fell by 6.7% each, exports to Jordan decreased by 5.9% and those to Iraq regressed by 5% annually.

Lebanon's main export product was jewelry at \$350.9m or 18.1% of the total, followed by prepared foodstuff with \$305m (15.8%), machinery & mechanical appliances with \$261.6m (13.5%), base metals with \$222.1m (11.5%), chemical products with \$210.8m (10.9%) and paper & paperboard with \$120.8m (6.2%). Re-exports totaled \$231m in the first seven months of 2014 compared to \$141.6m in the same period last year.

### **Balance sheet of investment banks up 3% in first half of 2014**

Figures released by the Central Bank show that the consolidated balance sheet of investment banks in Lebanon reached LBP6,199bn, or \$4.1bn at the end of June 2014, reflecting increases of 3.2% from end-2013 and of 2% from end-June 2013. Private sector deposits totaled \$2bn at the end of June 2014, increasing by 3.8% from end-2013 and regressing by 1.4% from a year earlier. Resident deposits in foreign currencies reached \$1bn, followed by resident deposits in Lebanese pounds at \$681.7m and non-resident deposits in foreign currencies at \$257.8m. Also, commitments to the financial sector totaled \$644.8m at the end of June 2014, constituting a rise of 7.9% from end-2013 and an increase of 11.5% from a year earlier.

On the assets' side, investment banks' operations with commercial banks reached \$1.9bn at the end of June 2014, down by 2.8% from the end of 2013 but up by 2.7% from end-June 2013. Also, lending to the private sector totaled \$1.3bn, constituting a rise of 7.6% from end-2013 and an increase of 8.8% year-on-year. Investments in government securities totaled \$579.4m at the end of June 2014, representing an increase of 17.4% from end-2013 and a decrease of 13.2% from a year earlier. Further, the aggregate capital account of investment banks reached \$1.1bn at the end of June 2014, constituting an increase of 5.4% from end-2013 and a rise of 5.6% from a year earlier. There were 17 investment banks operating in Lebanon with a total of 22 branches as at December 2013.

### **Recommendations issued to amend bankruptcy law**

A task force formed by the Office of the Prime Minister in collaboration with the International Finance Corporation, the private sector arm of the World Bank, issued its recommendations on amendments of the Lebanese Bankruptcy Law. First, it recommended reviewing the enforced articles related to the Bankruptcy Law in chapter five of the Code of Commerce. It added that, without prejudice to some provisions, some articles should be omitted, reviewed or replaced. Second, it indicated that a clear definition of bankruptcy should be included in the reviewed law. It noted that the current definition is not clear and recommended to define bankruptcy as the inability of an entity to pay back its dues from its available assets. Third, it recommended to amend current bankruptcy procedures, such as liquidation, and to improve the process of "period of doubt" and bailout that will replace the process of reaching an arrangement between a bankrupt entity and its creditors. It also decided to merge the composition procedures, or *concordat préventif*, with the restructuring process, given the similarity between both processes.

The World Bank/International Finance Corporation Doing Business 2014 report ranked Lebanon in 93rd place among 189 countries worldwide and in eighth place among 21 Arab countries on the Resolving Insolvency indicator. Lebanon's global rank deteriorated by five spots from 88th place in the 2013 survey, as the World Bank did not register any reform to the process of resolving insolvency in Lebanon last year. Resolving insolvency in Lebanon takes three years and costs 15% of the value of the debtor's estate compared to a global average of 2.7 years and 16.2% of estate value, 3.1 years on average, to the Arab average of 3.1 years and 14% of estate value, as well as relative to 1.7 years and 9% of the value of the debtor's estate in OECD economies. The recovery rate in Lebanon is 32.4 cents on the dollar compared to a global average rate of 35.2 cents on the dollar, an average rate of 26.6 cents for the Arab region, and 70.6 cents on the dollar in OECD jurisdictions.

### **Bankers Assurance's net profits up 66% to \$11m in 2013**

Bankers Assurance sal announced audited net profits of \$10.5m in 2013, constituting an increase of 65.9% from \$6.4m in 2012. Its audited balance sheet shows total assets of \$156.2m at the end of 2013, up marginally by 0.3% from \$155.8m at the end of 2012. On the assets side, general company investments totaled \$75.9m at the end of 2013 and increased by 12.2% year-on-year. They included \$37.9m in cash & cash equivalent that dropped by 7.4% year-on-year, \$8.8m in fixed income investments that increased by 348%, and \$7.6m in land and real estate investments that rose by 22.1% from a year earlier. Also, \$14.7m were in blocked bank deposits and deposits with maturity of more than three months, of which \$1.3m were blocked in favor of the Economy Ministry as guarantees.

Unit-linked contracts investments totaled \$16.8m at end-2013, constituting an increase of 1.1% from \$16.6m a year earlier. They included \$8.5m in mutual funds and \$8.3m in cash & similar investments. Unit-linked investment in mutual funds rose by 148.1% and cash & similar investments decreased by 28.8% year-on-year. Reinsurance share in technical reserves for the life category increased by 24.5% from end-2012 to \$3.8m, while that of the non-life category dropped by 62.2% to \$8m at end-2013.

On the liabilities side, unit-linked technical reserves reached \$16.8m at the end of 2013 and rose by 1.1% from \$16.6m a year earlier. Technical reserves for the life segment increased by 45.1% year-on-year to \$7.3m, while technical reserves for the non-life category reached \$58.7m at end-2013 and decreased by 16.3% from a year earlier. Non-life technical reserves included unearned premium reserves of \$38.6m that rose by 10%, outstanding claims reserves of \$17.7m that fell by 46.3%, \$0.9m in premium deficiency reserves that increased by 281%, and \$0.8m in reserves incurred but not reported that dropped by 9.8% year-on-year. Provisions for risks and charges reached \$1.3m and rose by 2.3% from the previous year. The firm's shareholders' equity totaled \$56.8m at end-2013, up by 17.7% from a year earlier.

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



### **Fenicia Bank's net income up 6% to \$14m in 2013**

Fenicia Bank sal posted audited consolidated net profits of \$13.6m in 2013, constituting an increase of 6.2% from \$12.8m in 2012. Net operating income rose by 6.6% year-on-year to \$32m in 2013, with net interest income decreasing by 2.9% to \$22.7m and net fees & commissions receipts increasing by 9.9% to \$7.1m. Total operating expenditures rose by 8.7% to \$16.1m in 2013, with staff expenses rising by 5% to \$8.9m and general & administrative expenses growing by 17.2% year-on-year to \$5.1m. The cost-to-income ratio dropped marginally to 82.8% in 2013 from a ratio of 83.1% in 2012. Further, the bank's return on average assets reached 1.02% in 2013 relative to 1.01% in 2012; while its return on average equity reached 12.49% last year, down from 13.16% in 2012.

In parallel, total assets reached \$1.4bn at the end of 2013, reflecting a 9.1% increase from a year earlier; while loans & advances to customers, excluding loans & advances to related parties, increased by 19.3% year-on-year to \$369.7m. Further, customer deposits, excluding deposits from related parties, totaled \$1.15bn at end-2013 and grew by 8.2% from a year earlier. The loan-to-deposit ratio rose to 31.9% at end-2013 from 29.8% a year earlier. The bank's shareholders' equity grew by 10% year-on-year to \$128.2m at end-2013. Fenicia's capital adequacy ratio stood at 16.1% at end-2013 relative to 13.9% at end-2012. Also, the bank's non-performing loans rose to 6.6% of total loans at the end of 2013 from a ratio of 5.7% a year earlier. Fenicia Bank's main shareholders consist of the Achour Group with a 74% stake, followed by the Maacaron Group with 15% and the Merhi Group with a 10% share.

### **BSL Bank's net earnings at \$7m in 2013**

Société Nouvelle de la Banque de Syrie et du Liban sal (BSL) posted consolidated audited net profits of \$6.7m in 2013, constituting an increase of 24.1% from \$5.4m in 2012. Net operating income rose by 17.3% year-on-year to \$23.6m in 2013, with net interest income decreasing by 4.1% to \$14.7m and net fees & commissions receipts rising by 10.2% to \$2.9m. Total operating expenditures grew by 15.9% year-on-year to \$15.6m in 2013, with staff expenses rising by 14.9% to \$8.2m and general & administrative expenses increasing by 22.5% to \$5.9m. The bank's cost-to-income ratio rose to 68.8% in 2013 from 66.2% in 2012. BSL Bank's return on average assets reached 0.7% in 2013 relative to 0.6% in 2012; while its return on average equity reached 7.7% last year, up from 6.7% in 2012.

In parallel, total assets reached \$1bn at end-2013, reflecting a 12.3% increase from \$907.2m at end-2012; while loans & advances to customers, excluding loans & advances to related parties, rose by 18.1% year-on-year to \$177.5m. Also, customer deposits, excluding deposits from related parties, totaled \$844.7m at end-2013, growing by 11.4% from a year earlier. The loan-to-deposit ratio rose to 21% at end-2013 from 19.8% at end-2012. The bank's shareholders' equity grew by 7.8% year-on-year to \$90.2m at end-2013.

## Ratio Highlights

(in % unless specified)	2011	2012	2013	Change*
Nominal GDP (\$bn)	40.1	42.5	44.3	
Public Debt in Foreign Currency / GDP	52.2	57.4	58.9	150
Public Debt in Local Currency / GDP	81.7	78.3	84.3	600
Gross Public Debt / GDP	133.9	135.7	143.2	750
Total Gross External Debt / GDP	169.2	170.0	176.7	670
Trade Balance / GDP	(39.7)	(39.5)	(39.0)	50
Exports / Imports	21.2	21.1	18.6	(250)
Fiscal Revenues / GDP	23.3	22.1	21.3	(80)
Fiscal Expenditures / GDP	29.1	31.3	30.8	(50)
Fiscal Balance / GDP	(5.9)	(9.2)	(9.5)	(30)
Primary Balance / GDP	4.2	(0.3)	(0.5)	(20)
Gross Foreign Currency Reserves / M2	79.2	69.4	69.6	20
M3 / GDP	242.6	244.6	250.8	620
Commercial Banks Assets / GDP	350.7	357.2	371.9	1,470
Private Sector Deposits / GDP	288.7	294.0	307.3	1,330
Private Sector Loans / GDP	98.3	102.2	106.9	470
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

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**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)**

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# 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