

## LEBANON THIS WEEK

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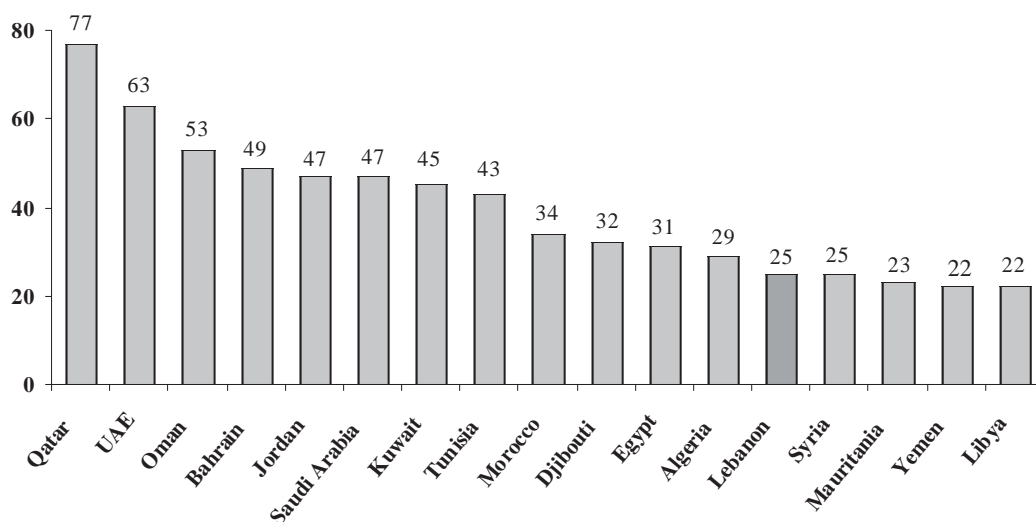
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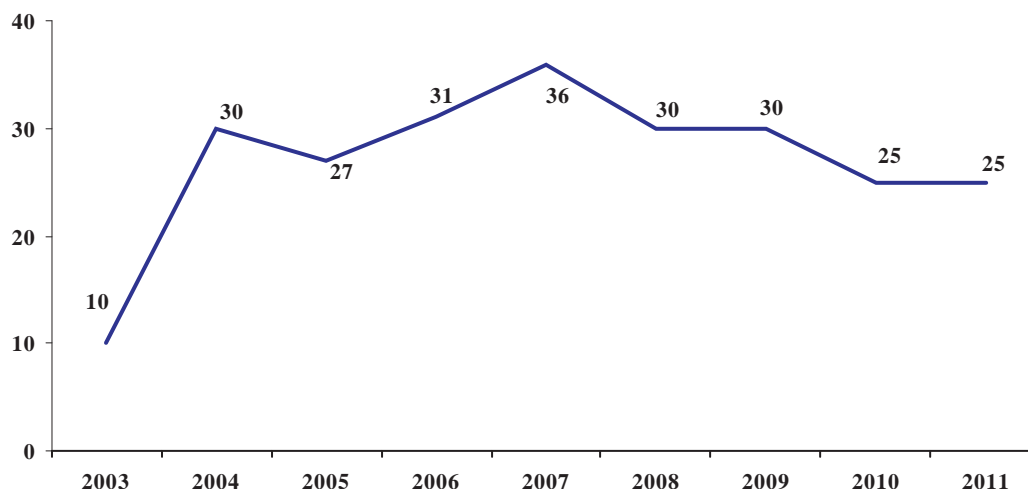
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### Charts of the Week

Freedom from Corruption in Arab Countries in 2011



Freedom from Corruption in Lebanon



Source: Heritage Foundation/Wall Street Journal, Byblos Bank

### Quote to Note

"Tighter financial conditions could make financing current account and government deficits much more difficult"

*The World Bank, on the challenging global environment that Lebanon could face to finance its twin deficits*

### Number of the Week

**47%:** Increase in the budgetary transfers to the state-owned and money-losing Electricité du Liban in the first 11 months of 2011, according to the Finance Ministry

## Economic Indicators

<b>\$m (unless otherwise mentioned)</b>	<b>2009</b>	<b>Oct 10</b>	<b>2010</b>	<b>Aug 11</b>	<b>Sep 11</b>	<b>Oct 11</b>	<b>% Change*</b>
Exports	3,486	435	4,256	373	334	351	(19.31)
Imports	16,241	1,486	17,956	1,719	1,792	2,508	68.78
Trade Balance	(12,755)	(1,051)	(13,700)	(1,346)	(1,458)	(2,157)	105.23
Balance of Payments	7,899	(185)	3,326	(2,143)	(302)	(590)	218.92
Checks Cleared in LBP	11,122	1,227	13,519	1,101	1,147	1,233	0.49
Checks Cleared in FC	45,270	4,526	53,925	5,017	5,181	5,123	13.19
Total Checks Cleared	56,392	5,753	67,444	6,118	6,328	6,356	10.48
Budget Deficit/Surplus	(2,960)	(460)	(2,892)	(178)	(419)	(118)	(74.25)
Primary Balance	1,078	(118)	1,232	75	44	280	(337.63)
Airport Passengers	4,986,544	417,378	5,552,260	574,924	582,383	448,620	7.49

<b>\$bn (unless otherwise mentioned)</b>	<b>Dec 2009</b>	<b>Oct 10</b>	<b>July 11</b>	<b>Aug 11</b>	<b>Sep 11</b>	<b>Oct 11</b>	<b>% Change*</b>
BdL FX Reserves	25.66	28.20	28.91	30.64	30.62	30.51	8.19
<i>In months of Imports</i>	18.6	18.98	17.2	17.82	17.09	12.17	(35.90)
Public Debt	51.09	51.13	52.80	53.40	54.35	54.22	6.04
Net Public Debt	44.11	44.93	45.50	45.71	45.80	45.78	1.89
Bank Assets	115.25	126.65	136.88	138.06	138.42	139.54	10.18
Bank Deposits (Private Sector)	95.77	104.18	112.14	112.95	113.39	114.19	9.61
Bank Loans to Private Sector	28.37	34.39	38.34	38.92	38.76	39.22	14.04
Money Supply M2	34.16	39.31	36.84	37.35	37.68	37.90	(3.59)
Money Supply M3	82.08	90.57	94.65	95.21	95.63	92.26	1.87
LBP Lending Rate (%)	9.04	8.15	7.33	7.53	7.37	7.27	(88b.p.)
LBP Deposit Rate (%)	6.75	5.72	5.59	5.53	5.58	5.60	(12b.p.)
USD Lending Rate (%)	7.28	7.08	7.03	7.16	6.92	7.10	2b.p
USD Deposit Rate (%)	3.05	2.81	2.86	2.80	2.84	2.82	1b.p.
%* Change in CPI**	4.20	6.92	6.28	6.49	5.27	3.14	(378b.p.)

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

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

Sources: ABL, BdL

## Capital Markets

<b>Most Traded Stocks on BSE</b>	<b>Last Price (\$)</b>	<b>% Change*</b>	<b>Total Volume</b>	<b>Weight in Market Capitalization</b>
Solidere "A"	14.09	(1.26)	51,750	13.67%
Solidere "B"	14.17	(1.00)	19,211	8.94%
Byblos Common	1.58	(1.25)	115,001	5.51%
Byblos Pref. 08	101.50	0.00	0	1.97%
Byblos Pref. 09	101.50	0.00	1,450	1.97%
BLOM GDR	7.44	0.81	389,515	5.34%
BLOM Listed	7.40	0.14	266,296	15.44%
Audi GDR	5.99	1.53	24,660	5.82%
Audi Listed	5.77	0.88	11,964	19.50%
HOLCIM	16.60	0.00	0	3.14%

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

<b>Sovereign Eurobonds</b>	<b>Coupon %</b>	<b>Mid Price \$</b>	<b>Mid Yield %</b>
Mar. 2012	7.500	100.25	6.05
Sep. 2012	7.750	100.50	6.94
June 2013	8.625	107.00	3.61
Apr. 2014	7.375	107.50	3.88
Jan. 2015	5.875	104.50	4.27
Apr. 2015	10.00	118.00	4.09
Jan. 2016	8.500	114.88	4.43
Mar. 2017	9.000	119.00	4.82
Nov. 2018	5.150	99.50	5.24
Apr. 2021	8.250	118.13	5.70

Source: Byblos Bank Capital Markets

	<b>January 16-20</b>	<b>January 9-13</b>	<b>% Change</b>	<b>December 2011</b>	<b>December 2010</b>	<b>% Change</b>
<b>Total Shares Traded</b>	902,547	876,872	2.93	9,690,264	3,399,412	185.06
<b>Total Value Traded</b>	\$6,858,292	\$2,672,446	156.63	\$34,334,710	\$33,080,487	3.79
<b>Market Capitalization</b>	\$10.30bn	\$10.21bn	0.96	\$10.29bn	\$12.68bn	(18.86)

Source: Beirut Stock Exchange (BSE)



### Geopolitical factors are key risk to Lebanon's economic outlook, exploitation of hydrocarbon resources to yield significant economic benefits

Citigroup projected Lebanon's real GDP growth at 3.5% in 2012 compared to an estimated growth of 2.8% in 2011. It considered that regional geopolitics, particularly the ongoing unrest in Syria, constitute a significant risk to the economic outlook given their potential to disrupt domestic political stability. It indicated that the real economy has been negatively impacted by domestic and regional political unrest last year, but noted that macroeconomic indicators have started to show a modest turnaround in the latter part of the year. It added that the tourism sector suffered from regional and domestic political uncertainties during most of 2011, but that the sector is starting to recover. It said that inflation is contained, but it expected the rise in the minimum wage to exert pressure on consumer prices in 2012.

Further, Citigroup indicated that Lebanon's fiscal deficit fell to 4.6% of GDP at end-October on a yearly basis, posting its lowest level in a decade. It added that the deficit would drop to 0.7% of GDP when excluding transfers to the state-owned money-losing utility Electricité du Liban (EdL). It attributed the low budget deficit to falling government expenditures and rising public revenues. It noted, however, that a major part of the revenues' increase is due to the inclusion of telecom receipts in budget results, even though these amounts are still withheld by the Telecommunications Ministry until the end of the fiscal year. It cautioned that part of the telecom receipts will be used to pay municipalities, which would reduce substantially the available amount to the Treasury. Citigroup warned from the likelihood of increased government expenditures in the near future due to a rise in transfers to EdL in the coming months as a result of the lagging impact of high global oil prices on such transfers. It also expected the government's spending to rise due to plans to expand current, capital and social spending. As such, it warned from a reversal in the improved fiscal position if the government's expenditure plans are fully implemented. It expected Lebanon's fiscal balance to post a deficit of 7.8% of GDP in 2012 relative to a deficit of 6.6% of GDP last year.

In parallel, Citigroup noted that Lebanon made significant progress to begin exploiting its potential offshore hydrocarbon resources, and that the exploitation of these reserves would have significant economic and political benefits for the country. It noted that Lebanon depends on oil and gas imports for all its domestic energy consumption, as they account for around 25% of total imports and are equivalent to 7% of GDP. It added that the fiscal burden of the external oil dependence is significant, given the losses that EdL incurs and that transfers from the budget to EdL account for around 5% of GDP annually. It said that a local source of gas is likely to be cheaper than imports, would ease the burden on the country's external balances, and will provide much-needed support to the economy.

Further, Citigroup considered that confidence in the Lebanese banking system has remained strong despite the political uncertainties. It said that deposits have continued to increase; and that the dollarization rate of deposits, an indicator of confidence in the Lebanese pound, has remained broadly flat in recent months. It added that the premium paid on Lebanese pound deposits over dollar deposits, a common measure of the country's risk premium, has remained stable at an all-time low of 3%. It noted that these indicators are particularly important given the role the Lebanese banking sector plays in supporting government finances through its purchase of government debt.

Lebanon Economic Indicators					
	2009	2010	2011F	2012F	2013F
Real GDP Growth (%)	8.5	6	2.8	3.5	4.3
Real per capita GDP (%)	7.1	6.1	1.5	1.5	2.3
CPI (avge, %)	1.2	4	3.4	6	5
Current account (US\$,bn)	(2.4)	(5.1)	(6.3)	(5.2)	(6)
Current account (% of GDP)	(6.9)	(13)	(15.1)	(11.4)	(12.3)
Trade balance (US\$,bn)	(12.8)	(16.7)	(18.6)	(18.5)	(20.5)
Government balance (% of GDP)	(8.5)	(7.4)	(6.6)	(7.8)	(8.8)
Public debt (% of GDP)	126.5	114.8	114.1	113.9	114
Net debt (% of GDP)	76	64.1	61.9	60.5	59.8
External debt (US\$,bn)	31.4	32.1	33.7	35.4	37.2
External debt/GDP (%)	89.9	81.9	80.5	78.7	76.3
External debt/XGS (%)	154.1	145	139.4	134.4	129.2
External assets (US\$,bn)	(52)	(55.4)	(61.7)	(66.8)	(72.9)

Source: Citi Investment Research and Analysis, January 2012

### Domestic and regional instability to limit economic prospects in 2012

The Royal Bank of Scotland (RBS) expected economic growth in Lebanon in 2012 to be lower than the growth rate of 1.5% posted last year due to the domestic political situation, the upheaval in Syria and the continuing impact of the Arab Spring in the region. It projected headline inflation to decrease to around 5% in 2012 relative to 6% in 2011 given the slower growth outcome. It said that the political situation would weigh on Lebanon's economic outlook this year and would also impact the government's ability to implement much-needed economic reforms, especially fiscal reforms. As such it ruled out significant progress in reducing the size of the fiscal deficit and expected the deficit to remain at around 8% of GDP in 2012, similar to that posted last year. It added that the continuing weakness in headline growth and the lack of reforms will keep revenues constrained. It expected public revenues to remain largely unchanged from the previous year at around 22% of GDP, while it projected a slight increase in expenditures.

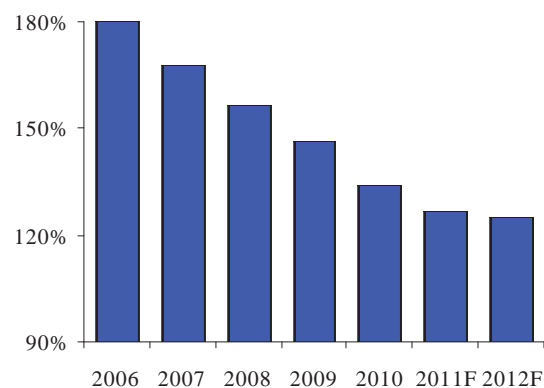
In parallel, RBS expected the public debt to remain elevated at nearly 125% of GDP in 2012, and discounted any meaningful reduction in the public debt burden this year. It said that regional and global economic concerns would weigh on Lebanese exports, while elevated oil prices would continue to pressure the current account deficit to remain wide at around 13% to 14% of GDP in 2012, in line with the deficit level last year. Further, it expected Lebanon's foreign currency reserves to remain strong at over \$30bn in 2012, covering 12 months of imports, unless a reversal of foreign currency inflows occurs. It said that the reserves also cover nearly 75% of Lebanon's gross external debt, which is equivalent to around 160% of GDP.

### Lebanon to establish sovereign wealth fund

Prime Minister Najib Mikati announced that the government plans to establish a sovereign wealth fund (SWF) from the expected proceeds from the exploitation of offshore oil and gas reserves. He said that the SWF will be earmarked to reduce Lebanon's nominal public debt, with the objective to reduce the debt level to 60% of GDP. The International Monetary Fund estimated Lebanon's debt level at 126.4% of GDP at end-2011 relative to 134.1% in 2010, 146.5% in 2009 and 180% in 2006. In parallel, the World Bank said that Lebanon was one of only 27 developing countries that had fiscal deficits in excess of 5% of GDP in 2011, and one of just 14 developing economies with a gross debt level in excess of 75% of GDP last year. It added that Lebanon, along with Egypt and Eritrea, are the only three developing countries that posted both a fiscal deficit above 5% of GDP and a gross debt level that exceeded 75% of GDP in 2011.

In August 2010, the Lebanese Parliament ratified a draft law that authorizes for the first time offshore oil and gas exploration and drilling. The law provides the basis to apply an international law called Production Sharing Agreement (PSA), essential in the production sharing deals that usually take place between states and international oil companies. Also, the Cabinet approved on January 4, 2011 the implementation decrees of a draft law that authorizes offshore oil and gas exploration and drilling. The decrees include the establishment of an independent regulatory authority and a committee to oversee exploration and production. They also cover the financial, administrative, and employment frameworks at the regulatory authority.

**Total Government Debt (% of GDP)**



Source: International Monetary Fund

### Government raises minimum wage by 35%

The Cabinet approved the agreement reached between the Economic Associations and the General Labor Confederation (GLC) that stipulates raising the minimum wage from LBP500,000 to LBP675,000, or \$447.8, which constitutes an increase of 35%. It said that the increase will apply in tranches, with a 100% raise on the first monthly salary segment of up to LBP400,000 and a maximum nominal increase of LBP375,000; while an additional 9% raise will be applied on the second salary bracket between LBP400,000 and LBP1,500,000. It said that there will be no increase on the segment above LBP1,500,000. It noted that the cumulative wage increase represents the inflation level between end-1995 and end-2011. It also fixed the daily minimum wage at LBP30,000. Further, the government cancelled the 2008 minimum wage increase of LP200,000 and considered the rise as a salary advance that will be deducted from the employee's basic salary before implementing the new increase. The decree also stipulated that all cost of living increases that were implemented after January 1, 2010 will be deducted from the current increase. Under the approved decree, the allowance for transportation will remain unchanged at the current LBP8,000 per working day and that for education at LBP1m per child. The transportation allowance decree expires on March 5, 2012 and the education allowance decree expires on November 5 2012, which means that the education allowance covers the current academic year. The raise is expected to come into effect as of February, as the minimum wage decree was published in the Official Gazette in the last week of January. In parallel, the Cabinet also mandated the Ministry of Labor to prepare a draft law that would allow the government to set the minimum rates for daily transportation allowance and yearly education allowance per child. The Shura Council previously indicated that the transportation allowance is beyond the scope of the government's mandate. The Shura Council is a consultative body whose decisions are non-binding.

### Fiscal deficit down 32% to \$1.95bn in first 11 months of 2011 when assuming \$1.3bn in telecom revenues

Figures released by the Finance Ministry show that the fiscal deficit reached \$1.95bn in the first 11 months of 2011, down 31.8% from \$2.86bn in the same period of the previous year. The deficit was equivalent to 18.8% of total budget and Treasury expenditures compared to 27.8% of overall spending in the same period of 2010. Overall government expenditures reached \$10.4bn, up 1.2% year-on-year, while total revenues increased by 13.9% to \$8.5bn. Budgetary expenditures rose by 4.3% to \$9.6bn and included \$1.56bn in transfers to Electricité du Liban and \$609.3m in outlays from previous years, while budget revenues rose by 14.5% to \$8bn. Tax revenues contracted by 1.5% year-on-year to \$6bn, of which 33.7%, or \$2bn, were in VAT receipts that grew by 2.6% from the same period of the previous year. Tax revenues accounted for 75.4% of budgetary revenues and for 71.7% of total Treasury and budget receipts. The narrowing of the deficit and the increase in revenues is due to the inclusion of \$1.32bn in telecommunications receipts in budget revenues. The figure is based on the Telecommunications Ministry's assumption that telecom receipts would total \$1.32bn in the first 11 months of the year, rather than on the Treasury actually receiving the funds from the Telecom Ministry. On a cash basis, public revenues decline by 4% and the fiscal deficit widens by 14.4% to \$3.3bn and 31.5% of expenditures.

The distribution of other tax revenues shows that customs revenues declined by 22.7% year-on-year to \$1.33bn; income, profits & capital gains tax receipts grew by 17.7% to \$1.53bn, revenues from property taxes increased by 2.9% to \$656m, and other tax receipts, mainly stamp fees, grew by 0.1% to \$277m. Further, the distribution of income tax revenues shows that taxes on profits accounted for 43.7% of total income tax receipts, followed by the tax on interest deposits with 26.3%, taxes on wages & salaries with 18.6%, and capital gains tax with 10.2%. Revenues from taxes on profits increased by 27.6% year-on-year, income from capital gains taxes grew by 19.7%, tax receipts on wages & salaries improved by 15%, and income from the tax on interest rose by 3.6%. Also, the distribution of property taxes shows that revenues from real estate registration fees regressed by 3% to \$486m, receipts from built property taxes decreased by 12.2% to \$79m, and revenues from inheritance tax grew by 92% to \$90.8m. In parallel, non-tax budgetary revenues rose by 128.5% to \$1.98bn, with revenues from government properties increasing by 225% to \$1.6bn and administrative fees & charges growing by 2.6% to \$315m. Based on the ministry's assumption, receipts from telecommunications services, which account for 83.6% of income from government properties and for 67% of non-tax revenues, jumped by 502% to \$1.32bn in the first 11 months of 2011.

Debt servicing decreased by 3.4% year-on-year to \$3.5bn, and accounted for 33.3% of total expenditures and for 36.2% of budgetary spending. It absorbed 41% of overall revenues and 43.2% of budgetary receipts. Interest payment on domestic debt declined by 5.3% to \$2.1bn, while interest disbursement on foreign debt was unchanged at \$1.32bn. Repayment of principal on foreign debt increased by 9.2% to \$218.5m. Excluding debt servicing, the primary budget balance posted a surplus of \$2.1bn, or 22.4% of budget expenditures compared to a surplus of \$1.62bn, or 17.6% of budget spending in the same period of the previous year. The overall primary balance posted a surplus of \$1.73bn, or 16.7% of spending, relative to a surplus of \$927m or 9% of total expenditures in the first 11 months of 2010.

Fiscal Results in the First 11 Months of 2011				
	Including Assumed Telecom Receipts		Excluding Assumed Telecom Receipts*	
	US\$m	year-on-year % change	US\$m	year-on-year % change
Budget revenues	8,031	14.5%	6,710	-4.3%
Tax revenues	6,055	-1.5%	6,055	-1.5%
Non-tax revenues	1,977	128.5%	655	-24.3%
<i>of which Telecom revenues</i>	1,321	501.7%	-	-
Budget expenditures	9,571	4.3%	9,571	4.3%
<b>Budget Deficit</b>	<b>(1,539)</b>	<b>-29%</b>	<b>(2,861)</b>	<b>32%</b>
<i>In % of budget expenditures</i>	<i>(16.1%)</i>		<i>(29.9%)</i>	
<b>Budget Primary Surplus</b>	<b>2,145</b>	<b>32.5%</b>	<b>824</b>	<b>-49.1%</b>
<i>In % of budget expenditures</i>	<i>22.4%</i>		<i>8.6%</i>	
Treasury receipts	414	2.3%	414	2.3%
Treasury expenditures	824	-24.9%	824	-24.9%
Total Revenues	8,445	13.9%	7,124	-4%
Total Expenditures	10,395	1.1%	10,395	1.1%
<b>Total Deficit</b>	<b>(1,950)</b>	<b>-31.9%</b>	<b>(3,271)</b>	<b>14.3%</b>
<i>In % of total expenditures</i>	<i>(18.8%)</i>		<i>(31.5%)</i>	
<b>Total Primary Surplus</b>	<b>1,735</b>	<b>87.2%</b>	<b>413</b>	<b>-55.4%</b>
<i>In % of total expenditures</i>	<i>16.7%</i>		<i>4%</i>	

\* Cash basis

Source: Ministry of Finance, Byblos Research



### Economic activity contracts in November

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 260.6 points in November 2011 compared to 259.5 points in October 2011 and to 266.7 in November 2010. The Coincident Indicator, an average of 8 weighted economic indicators, increased marginally by 0.4% month-on-month in November and declined by 2.3% year-on-year. The indicator averaged 254.9 in the 12-months ending November 2011 compared to 255.4 in the 12-months ending October 2011 and to 248.2 in the 12-months ending November 2010. As a result, the average coincident indicator decreased marginally by 0.2% month-on-month and rose by 2.7% year-on-year, which reflects economic contraction in real terms. The indicator posted its sixth increase this year, as it grew by 4% in March, 6.7% in April, 1.3% in June, 4.8% in September and 4.6% in October. The indicator reached at an all-time high of 269.9 in April 2011 after peaking at 266.7 in November 2010. In parallel, the indicator improved 14 times and regressed five times in the month of October since 1993. The indicator averaged 249.5 in 2010 and 225.9 in 2009.

### Lebanese banks to abide by sanctions against Syria

Central Bank Governor Riad Salamé expected the Lebanese economy to post real GDP growth of 4% in 2012 relative to growth of around 2% in 2011, in case the domestic political situation stabilizes and the regional unrest subsides. He considered that infrastructure projects and the exploration for oil and gas would stimulate confidence in Lebanon. He forecast inflation to increase to about 6% in 2012 relative to 4% in 2011 if global commodity and oil prices stabilize around their current levels. He said that the banking sector's aggregate deposits reached \$120bn at end-2011, constituting a growth of 7% year-on-year; while deposits at Lebanese banks operating outside Lebanon totaled \$30bn. Further, he indicated that lending increased by 14% in 2011, while loans extended to the private sector stood at \$40bn, equivalent to around 90% of GDP.

In parallel, Governor Salamé indicated that Lebanese banks have limited exposure to the political turmoil in Syria. He noted that the Central Bank is taking appropriate measures and is conducting stress tests to support the Syrian affiliates of Lebanese banks. He added that the banks are allocating general provisions in their balance sheets, despite that their Syrian affiliates have not posted losses. Further, Governor Salamé stated that the Lebanese banking sector will abide by the international sanctions against Syria. He added that Lebanese banks, both in Lebanon and abroad, will not take any action that would expose their correspondent banks or give the perception that they have breached regulations in their countries. He noted that the Central Bank of Syria does not have deposits at the Central Bank of Lebanon. He pointed out that the Lebanese banking sector has adopted strict measures to ensure compliance with the international sanctions against Syria. He said that these measures include strict control over the transactions of Syrian clients and close monitoring of Syrians who want to open new accounts at Lebanese banks.

### Lebanon ranks 93rd globally, fourth in the region in press freedom

In its annual survey on press freedoms in 179 countries, international organization Reporters Without Borders ranked Lebanon in 93rd place worldwide and fourth among 23 countries in the Middle East and North Africa (MENA) region. Lebanon came in 78th place globally and in first place regionally in the previous survey. The index measures the level of freedom that journalists and the media have in each country and the efforts made by governments to see that press freedom is respected. The survey reflects press freedom in each country based on events between December 2010 and November 2011. The index calculation was based on answers to a questionnaire with 44 criteria that asked for details of direct attacks on journalists and the media such as threats, attacks, censorship, confiscation, searches and pressure. It also asked about the degree of impunity enjoyed by those responsible for such violations. The questionnaire recorded the legal environment for the media and the behavior of the state towards the local and foreign press as well as the flow of information on the Internet. Reporters Without Borders assigns index scores in ascending order, the lower the score the higher is press freedom in a given country.

Globally, Lebanon ranked immediately ahead of Macedonia, the Dominican Republic and Albania, and came behind Israel, Benin and Congo. Lebanon received a score of 31.5 points in the 2011 survey, better than the Arab and MENA averages of 71.1 points and 72.2 points, respectively, and worse than its score of 20.5 points in 2010 and 15.4 points in 2009. The scores of 20 MENA countries deteriorated while only those of Mauritania, Tunisia and Israel improved; while the ranking of 9 countries improved and that of 13 countries regressed and one remained unchanged year-on-year. Also, Finland and Norway had the highest level of press freedom globally, while Eritrea had the lowest level of press freedom worldwide.

#### Press Freedom Index Rankings & Scores

	Score	MENA Rank	Global Rank
Mauritania	22.2	1	67
Kuwait	28.0	2	78
Israel	31.3	3	92
<b>Lebanon</b>	<b>31.5</b>	<b>4</b>	<b>93</b>
UAE	45.0	5	112
Qatar	46.0	6	114
Oman	55.0	7	117
Algeria	56.0	8	122
Jordan	56.8	9	128
Tunisia	60.3	10	134
Morocco	63.3	11	138
Turkey	70.0	12	148
Iraq	75.4	13	152
Palestine	76.0	14	153
Libya	77.5	15	154
Saudi Arabia	83.3	16	158
Djibouti	83.5	17	159
Egypt	97.5	18	166
Sudan	100.8	19	170
Yemen	101.0	20	171
Bahrain	125.0	21	173
Iran	136.6	22	175
Syria	138.0	23	176

Source: Reporters without Borders 2011-12

### **Byblos Bank's profits up 1% to \$180m in 2011**

Byblos Bank sal, one of the top 3 banking and financial services groups in Lebanon, declared consolidated net profits of \$179.7m in 2011, constituting an increase of 1.2% from \$177.7m in 2010. Net interest income reached \$281.4m, up 1.9% year-on-year; while net fees & commission income increased by 15.4% to \$96.2m and net trading income increased by 30% to \$28.4m in 2011. As a result, operating income rose by 4% year-on-year to \$471.9m. The Bank allocated specific and collective provisions for credit losses of \$44m during 2011, including \$31.9m in collective provisions. Specific and collective provisions allocated against the loan portfolio in Byblos Bank Syria totaled \$16.7m. Also, the Bank's cost-to-income ratio decreased to 43.3% in 2011 from 45.2% in 2010.

Total assets reached \$16.6bn at end-2011, constituting a rise of 8.6% from the end of 2010; while net loans & advances to customers increased by 6.3% to \$4bn at end-2011. Customers' deposits totaled \$12.7bn, increasing by 7.6% from end-2010. The Bank's total equity reached \$1.65bn at end-2011, constituting a rise of 1.1% from end-2010; while the Bank's capital totaled \$1.85bn at the end of 2011.

Byblos Bank's return on average assets stood at 1.11% in 2011 compared to 1.22% in the previous year, and its return on average common equity reached 12.3% relative to 14.03% in 2010. Earnings per common ordinary share reached LBP 376.3, equivalent to \$0.25 per share, compared to LBP 399.6 a year earlier. Also, the Bank's Capital Adequacy Ratio stood at 14% according to Basel II criteria. The Bank's primary liquidity placed with central banks and banks totaled \$9bn and represented 70.2% of total deposits at end-2011 compared to 65.5% at end-2010, one of the highest such ratios in the Lebanese banking sector. In parallel, net non-performing loans represented 0.58% of gross loans. Also, gross non-performing loans were equivalent to 2.95% of gross loans at end-2011 and were covered by up to 81.1% by specific provisions and reserved interest, with the coverage ratio reaching 139% when accounting for collective provisions. The Byblos Bank Group has a direct presence in Iraq, Syria, Sudan, the United Arab Emirates, Nigeria, Armenia and the Democratic Republic of Congo, as well as in Belgium, France, the United Kingdom and Cyprus.

### **EU imposes sanctions on Syrian-owned Lebanese bank**

The European Union imposed sanctions on the Beirut-based Syrian-Lebanese Commercial Bank sal (SLCB) as part of a new round of sanctions on five state-owned Syrian banks and three petroleum companies and their affiliates. The sanctions froze the assets that are under the jurisdiction of the 27-member EU of the designated entities. SLCB is the Lebanese subsidiary of the Commercial Bank of Syria (CBS), the state-owned and largest bank in Syria. Last October, the EU imposed sanctions on the CBS and froze the bank's assets that are under the jurisdiction of the 27-member states. It attributed the sanctions to the bank's role in providing financial support to the Syrian regime, and added that the sanctions aim to deprive the regime of financial revenues. The CBS is the largest bank in the country and provides financing to state-owned enterprises and other government institutions. SLCB has three branches and is one of the smaller banks operating in Lebanon. It accounts for 0.4% of assets, 0.3% of loans, and 0.1% of deposits of the Lebanese banking sector. Last August, the U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) imposed sanctions on SLCB. The sanctions froze the assets of the bank in U.S. jurisdictions, and prohibited U.S. nationals and companies from engaging in any transactions with the designated bank. The U.S. Treasury Department said the sanctions target the financial infrastructure that is helping provide support to the Syrian regime's illicit activities.

### **Standard & Poor's downgrades two French banks with stakes in Lebanese institutions**

Standard & Poor's downgraded the long-term counterparty credit rating of Société Générale (SocGen) and its core subsidiaries and that of Crédit Agricole SA (CASA) and its core subsidiaries to 'A' from 'A+' with a 'stable' outlook. It also affirmed the 'A-1' short-term ratings on the two banks and their subsidiaries. It attributed its action to its earlier downgrade of France's long-term sovereign credit rating to 'AA+'. The agency said the ratings on SocGen and CASA continue to reflect the banks' "strong" business position, "moderate" capital and earnings, "adequate" risk position, "average" funding, and "adequate" liquidity. It considered that the two institutions have high systemic importance in France and that the French government is "supportive" of the banking sector.

In parallel, the agency indicated that an increase in economic risk in the core markets in which both banks operate, or a rise in the industry risk score of their domestic market would lead to a further downgrade of both banks' ratings. S&P added that a reduction in the banks' access to euro-denominated resources, due to a prolonged disruption of capital markets, could also weigh on its assessment of the banks' funding and liquidity position. Société Générale has a 19% stake in Société Générale de Banque au Liban sal. Crédit Agricole has a direct presence in Lebanon through its subsidiary Crédit Agricole Suisse (Liban) Financial Services sal. The bank also has a 9% stake in Banque Libano-Française and a 6% stake in Fransabank sal.

Earlier this month, Fitch Ratings downgraded SocGen Viability Rating to 'a-' from 'a+' and that of CASA to 'a+' from 'aa-'. It also lowered CASA's long-term Issuer Default Rating to 'A+' from 'AA-' and affirmed that of SocGen at 'A+', with a 'stable' outlook to both banks' long-term IDR. Last December, Moody's Investors Service downgraded by one-notch the long-term debt and deposits ratings of SocGen to 'A1' from 'Aa3' and those of CASA to 'Aa3' from 'Aa2'. It also lowered by two notches SocGen's standalone bank financial strength rating to 'C-' from 'C+', and that of CASA by one notch to 'C-' from 'C'. The agency has a 'negative' outlook on the long-term ratings of both banks. It attributed the downgrades to the impact of liquidity funding constraints on both banks and to the deteriorating economic fundamentals in the Euro zone.

## Corporate Highlights

### **Beirut bourse approves listing, trading and pricing of BLC Bank's preferred shares**

The Beirut Stock Exchange (BSE) approved the listing, trading and pricing of BLC Bank's 950,000 preferred shares, constituting the bank's first listing of such shares. The preferred shares are divided into 400,000 Preferred Shares Class A and 550,000 Preferred Shares Class B. The preferred shares Class A and B are non-cumulative, non-convertible, redeemable, and subject to a call option. The issue price for both classes is \$100 per share of which \$0.66 is par value and the remaining \$99.34 is issue premium. Holders of both preferred shares classes will receive a \$7 in annual dividends per share. BLC has also 51,033,333 listed common shares on the BSE. BLC Bank's capital increased to LBP 153,650,000,000 from LBP 152,700,000,000 following the share preferred shares' issuance. BLC Bank sal announced unaudited net profits of \$37m in the first 9 months of 2011, up 12.8% from the same period of the previous year. Total assets reached \$4.27bn at end-September 2011, up 38% from end-2010; while loans & advances to customers increased by 117.3% to \$1.5bn at end-September 2011. Customer deposits totaled \$3.6bn constituting and increased of 39.4% from end-2010. BLC Bank is part of the Fransabank Group.

### **BBAC raises capital to LBP 157bn**

BBAC sal, one of Lebanon's top 10 banks, announced that it is raising its capital by LBP 8bn to LBP 157bn through the issuance of 8 million Preferred Shares Class B. The subscription price is \$10 per share, of which \$0.66 is par value and the remaining \$9.34 is issue premium. Holders of existing Preferred Shares Class A will have the priority to subscribe to the capital increase in a proportion equivalent to the number of preferred shares they own relative to the total. The Bank's Extraordinary Assembly approved the capital increase on November 21, 2011, while the Central Bank approved the increase on December 12, 2012.

BBAC sal posted unaudited consolidated net profits of \$32m in the first 9 months of 2011, constituting an increase of 0.3% from the same period last year. Net operating income rose by 7.5% to \$75.1m, with net interest income decreasing by 2.7% to \$48.9m and non-interest receipts increasing by 34.9% to \$20.1m year-on-year. Total assets reached \$4.3bn at end-September 2011, constituting an 8.5% rise from end-September 2010 and a 5.2% rise from end-2010, while loans & advances to customers increased by 23% year-on-year and by 18.7% from end-2010 to \$1bn. Customer deposits totaled \$3.8bn at end-September, constituting a growth of 7.6% from a year earlier and an increase of 3.6% from end-2010.

### **Fitch affirms Holcim's ratings, outlook stable**

Fitch Ratings affirmed the Long-term Issuer Default and senior unsecured ratings of the Swiss-based building materials company Holcim Ltd's at 'BBB', with a 'stable' outlook. It also affirmed the firm's short-term rating at 'F2'. Holcim Ltd is the parent company of Holcim Liban sal and holds a 52% stake in the Lebanese firm. The agency attributed its decision to Holcim's ability to maintain a solid financial profile in the current difficult market as well as a solid liquidity position. It said that Holcim's credit metrics moderately deteriorated in 2011 after the group's strong de-leveraging in 2010, but it expected the metrics to start improving in 2012. It anticipated Holcim's Free Cash Flow to return to positive territory in 2012 due to a drop in capital expenditures, despite the challenging trading conditions in the construction industry. It minimized the likelihood of a major recovery in mature markets, especially in Western Europe and North America, despite the fact that cement volume sales have already bottomed out. It noted that the construction industry's outlook in emerging markets is better, mainly in Eastern Europe and Latin America. It said that Holcim's ratings reflect its strong market positions in cement, aggregates and concrete, and its complementary product portfolio. It added that the group has solid geographical diversification, with a presence in more than 70 countries and with a well balanced mix between emerging and developed economies.

Holcim Liban sal posted net profits of \$20m in the first half of 2011 compared to \$33.7m in all of 2010. The firm's net sales reached \$97.1m in the first six months of the year relative to \$185m in 2010. Holcim's total assets reached \$282.2m and its equity amounted to \$206.7m at end-June 2010 compared to \$287.7m and \$217.1m, respectively, at end-2010. The company's total loans and borrowings reached \$25.6m at end-June 2011, including bank overdraft of \$10.5m, compared to total debt of \$20.1m at end-2010; while its banks' balance and cash decreased to \$7.4m from \$17m at end-2010. The firm is engaged in the production and sale of cement and other related services.

### **Azadea to manage stores of British retailer in Middle East**

Azadea Group, a Lebanese retail and fashion company, signed a franchise agreement with British retailer Asda to manage the latter's budget clothing brand stores across the Middle East. Established in 1978, Azadea Group owns and operates more than 40 international franchise concepts across the Middle East, such as Mango and Zara. It owns a chain of stores representing leading international brand names in fashion and accessories, food and beverage, home furnishings, sporting goods and multimedia. It has over 7,300 employees and 408 stores spread across 13 countries.



## Ratio Highlights

(in % unless specified)	2008	2009	2010	Change*
Nominal GDP <sup>(1)</sup> (\$bn)	30.1	34.9	39.2	
External Debt / GDP	70.7	60.9	52.5	(840)
Local Debt / GDP	86.5	85.5	81.7	(380)
Total Debt / GDP	157.3	146.4	134.2	(1,220)
Total External Debt / GDP	172.4	175.2	160.5	(1,470)
Trade Balance / GDP	(42.3)	(36.5)	(35.0)	150
Exports / Imports	21.6	21.5	23.7	220
Budget Revenues / GDP	23.5	24.1	21.4	(270)
Budget Expenditures / GDP	33.3	32.6	28.8	(380)
Budget Balance / GDP	(9.8)	(8.5)	(7.5)	(100)
Primary Balance / GDP	2.0	3.1	3.1	0
BdL FX Reserves / M2	68.9	75.1	72.6	(250)
M3 / GDP	229.6	235.2	235.1	(10)
Bank Assets / GDP	315.2	330.2	328.9	(130)
Bank Deposits / GDP	260.1	274.4	273.5	(90)
Private Sector Loans / GDP	83.7	81.3	89.1	780
Dollarization of Deposits	69.6	64.5	63.2	(130)
Dollarization of Loans	86.6	84.0	80.3	(370)

\* Change in basis points 09/10

(1) Based on Ministry of Finance Estimations and the International Monetary Fund

Source: Association of Banks in Lebanon, Byblos Research Calculations

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

## Risk Outlook

Lebanon	July 2010	June 2011	July 2011	Change*	Risk Level
Political Risk Rating	59.5	55.5	55.5	▼	High
Financial Risk Rating	28.0	28.5	28.5	▲	High
Economic Risk Rating	35.5	32.5	32.5	▼	Moderate
Composite Risk Rating	61.5	58.2	58.2	▼	High

Regional Average	July 2010	June 2011	July 2011	Change*	Risk Level
Political Risk Rating	64.7	59.9	59.8	▼	Moderate
Financial Risk Rating	42.1	42.0	42.1	↔	Very Low
Economic Risk Rating	38.3	36.6	36.8	▼	Low
Composite Risk Rating	72.5	69.3	69.4	▼	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	Stable	B2		Stable
Fitch Ratings	B	B	Stable	B		Stable
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	D-		Negative
EIU		B	Stable

Source: Rating agencies



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