



LEBANON THIS WEEK

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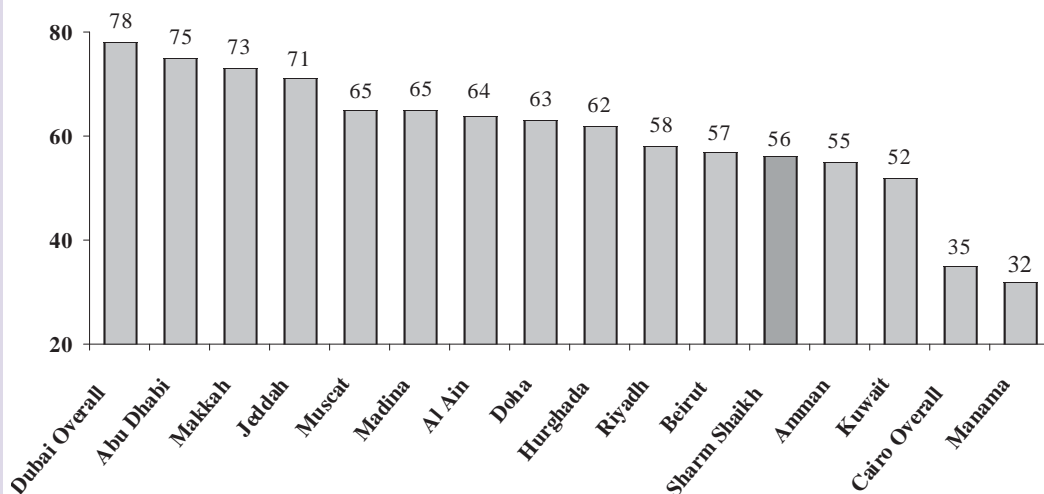
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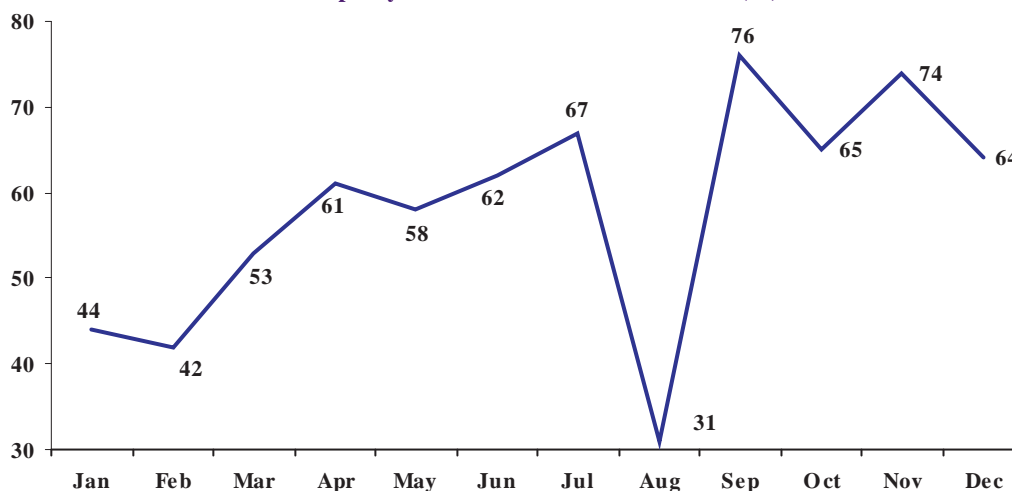
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Charts of the Week

Hotel Occupancy Rates in Arab Cities in 2011 (%)



Occupancy Rates at Hotel in Beirut in 2011 (%)



Source: Ernst & Young, Byblos Bank

Quote to Note

"Lebanon can no longer rely on rapid growth as in the past years."

The International Monetary Fund, on the need to implement in-depth and comprehensive structural reforms to raise Lebanon's real GDP growth rates to previous levels

Number of the Week

24.3%: Percentage of small- and medium-sized enterprises in Lebanon that export their products, according to a survey conducted by Bankdata Financial Services

Economic Indicators

\$m (unless otherwise mentioned)	2009	Nov 10	2010	Sep 11	Oct 11	Nov 11	% Change*
Exports	3,486	316	4,256	334	351	347	9.81
Imports	16,241	1,811	17,956	1,792	2,508	1,579	(12.81)
Trade Balance	(12,755)	(1,495)	(13,700)	(1,458)	(2,157)	(1,232)	(17.59)
Balance of Payments	7,899	(673)	3,326	(302)	(590)	(559)	(16.94)
Checks Cleared in LBP	11,122	1,079	13,519	1,147	1,233	1,042	(3.43)
Checks Cleared in FC	45,270	4,048	53,925	5,181	5,123	4,506	11.31
Total Checks Cleared	56,392	5,127	67,444	6,328	6,356	5,548	8.21
Budget Deficit/Surplus	(2,960)	(328)	(2,892)	(419)	(118)	(436)	33.03
Primary Balance	1,078	(32)	1,232	44	280	(95)	198.68
Airport Passengers	4,986,544	467,131	5,552,260	582,383	448,620	471,120	0.85
\$bn (unless otherwise mentioned)	Dec 2009	Nov 10	Aug 11	Sep 11	Oct 11	Nov 11	% Change*
BdL FX Reserves	25.66	27.74	30.64	30.62	30.51	30.82	11.09
<i>In months of Imports</i>	18.6	15.32	17.82	17.09	12.17	19.52	27.41
Public Debt	51.09	51.77	53.40	54.35	54.22	54.05	4.41
Net Public Debt	44.11	44.92	45.71	45.80	45.78	46.10	2.62
Bank Assets	115.25	127.57	138.06	138.42	139.54	139.43	9.30
Bank Deposits (Private Sector)	95.77	105.02	112.95	113.39	114.19	114.15	8.69
Bank Loans to Private Sector	28.37	34.92	38.92	38.76	39.22	39.60	13.41
Money Supply M2	34.16	39.31	37.35	37.68	37.90	38.42	(2.26)
Money Supply M3	82.08	91.00	95.21	95.63	92.26	96.32	5.85
LBP Lending Rate (%)	9.04	7.98	7.53	7.37	7.27	7.31	(67b.p.)
LBP Deposit Rate (%)	6.75	5.68	5.53	5.58	5.60	5.59	(9b.p.)
USD Lending Rate (%)	7.28	6.96	7.16	6.92	7.10	6.99	3b.p
USD Deposit Rate (%)	3.05	2.80	2.80	2.84	2.82	2.84	4b.p.
%* Change in CPI**	4.20	6.07	6.49	5.27	3.14	3.89	(218b.p.)

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

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

Sources: ABL, BdL

Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization
Solidere "A"	14.00	0.72	118,788	13.25%
Solidere "B"	14.21	2.38	6,365	8.74%
Byblos Common	1.65	0.61	3,333	5.61%
Byblos Pref. 08	102.00	0.00	0	1.93%
Byblos Pref. 09	102.00	0.00	0	1.93%
BLOM GDR	7.75	0.91	169,000	5.42%
BLOM Listed	7.42	0.00	0	15.09%
Audi GDR	6.45	1.57	59,060	6.11%
Audi Listed	6.19	3.00	84,010	20.46%
HOLCIM	16.65	0.00	300	3.07%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Mar. 2012	7.500	100.25	4.06
Sep. 2012	7.750	100.50	6.79
June 2013	8.625	107.38	2.92
Apr. 2014	7.375	107.75	3.59
Jan. 2015	5.875	104.50	4.21
Apr. 2015	10.00	117.75	3.99
Jan. 2016	8.500	114.88	4.32
Mar. 2017	9.000	119.25	4.69
Nov. 2018	5.150	99.50	5.24
Apr. 2021	8.250	118.50	5.64

Source: Byblos Bank Capital Markets

	February 20-24	February 13-17	% Change	January 2012	January 2011	% Change
Total Shares Traded	458,056	612,691	(25.24)	4,698,553	5,322,427	(11.72)
Total Value Traded	\$4,225,631	\$6,314,257	(33.08)	\$30,077,731	\$47,601,150	(36.81)
Market Capitalization	\$10.57bn	\$10.45bn	1.11	\$10.29bn	\$12.66bn	(18.74)

Source: Beirut Stock Exchange (BSE)



Beirut has 22nd most expensive office space worldwide, second most expensive in Arab World

The 2012 survey of the world's most expensive office locations in 63 cities around the world by property consultants Cushman & Wakefield ranked Beirut as the 22nd most expensive city worldwide and the second most expensive among 7 cities in the Middle East & Africa region included in the rankings. Beirut was the 28th most expensive city globally and the third most expensive in the region in the 2011 survey. The study evaluates key office locations in 63 countries and includes in its annual rankings the location with the most expensive occupancy cost in each country. It said the occupancy costs reflect rent in addition to local taxes and service charges.

Globally, Beirut ranked immediately behind Amsterdam, Abu Dhabi and Munich, and was considered more expensive than Athens, Madrid and Hanoi. The cost of office space in Beirut was €492 per square meter per year in 2011, lower than the global average of €524 per sqm, but higher than the Arab cities' average of €378 per sqm and the average of €359 per sqm for cities in the Middle East & Africa. The cost of office space in Beirut was €427 per square meter per year in 2010, €380 per sqm in 2009 and €398 per sqm in 2008.

In parallel, Cushman & Wakefield indicated that the rent for net internal office areas in Beirut was €28.2 per square meter in 2011, constituting an increase of 16.3% from €368.3 per sqm in 2010, and a rise of 24.2% from €344.75 per sqm in each of 2009 and 2008. It attributed the increase in the rent for net internal office areas last year to the lack of good quality supply of office space in the Lebanese capital. It expected this trend to continue in 2012, and anticipated an increase in the demand for smaller floor-plates in order to keep costs minimal. Beirut's net internal area rent was higher than the global average rent of €82 per sqm, the average rent of €39 per sqm in Europe, the Middle East & Africa (EMEA), and the average of €42 per sqm in 5 Arab cities and locations.

Further, rents in the Beirut Central District increased by 13% last year, posting the third highest increase in the EMEA region. In comparison, rents dropped by 9% in Manama, contracted by 12% in Abu Dhabi and fell by 6% in Dubai; while they remained unchanged in Ankara, Durban, Cape Town, Johannesburg and Sandston, and increased by 2% in Tel Aviv.

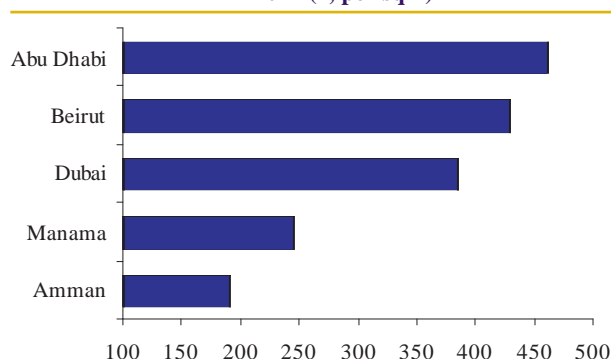
Occupancy at Beirut hotels at 60%, room yields up 40% in January

Ernst & Young's benchmark survey of the Middle East hotel sector indicated that the average occupancy rate at hotels in Beirut was 60% in January 2012, increasing from 44% in the same month last year. The occupancy rate at Beirut hotels was the tenth highest among 21 markets in the region, while it was the second lowest in January 2011. The survey said the average rate per room at Beirut hotels was \$229 in January 2012, ranking the capital's hotels as the seventh most expensive in the region.

The average rate per room at Beirut hotels increased by 4% year-on-year and posted the eighth highest increase among all markets in the region, behind Dubai Apartments and Makkah. The average rate per room in Beirut came above the regional average of \$191, which increased by a marginal 0.4% from \$190.4 in the same month last year.

Further, revenues per available room (RevPAR) were \$139 in Beirut in January 2012, up from \$99 in January 2011, ranking it in 9th place in the region behind Doha and Muscat and ahead of Riyadh and Kuwait. Beirut's RevPAR increased by 40.4% year-on-year, compared to a decrease of 2.3% across the region, and posted the second highest increase in the region behind Madina. Dubai Beach posted the highest average room rate in the region at \$398, as well as the highest RevPAR at \$332, while Dubai Apartments posted the highest occupancy rate at 95% in January 2012.

Most Expensive Office Locations in the Arab World in 2011 (€ per sqm)



Source: Cushman & Wakefield, Byblos Research

Hotel Performance in January 2012

	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Dubai Apartments	95	125	22.2
Dubai City	90	193	20.2
Dubai Overall	87	241	15.6
Dubai Beach	83	332	7.5
Makkah	81	187	32.7
Abu Dhabi	79	177	(6.9)
Jeddah	76	174	35.2
Muscat	75	158	(3.7)
Amman	68	97	29.7
Beirut	60	139	40.4
Madina	60	105	114.0
Riyadh	57	133	(5.3)
Sharm Shaikh	56	30	(35.9)
Doha	55	143	(36.8)
Al Ain	51	74	(24.4)
Kuwait	50	131	(15.4)
Cairo Pyramids	45	54	(42.5)
Hurghada	44	17	(56.3)
Manama	38	92	(35.6)
Cairo Overall	30	35	(57.1)
Cairo City	28	32	(59.7)

Source: Ernst & Young, Byblos Research

Real GDP growth at 3.5% in 2012, eighth slowest economy in Middle East & Africa

Citigroup projected economic growth in Lebanon at 3.5% in 2012 compared to 2.8% in 2011 and relative to growth of 4.2% in the Middle East & Africa (ME&A) region, 5.3% in emerging economies and 2.4% for the world economy for this year. It also forecast Lebanon's real GDP growth at 4.3% in 2013 compared to 5.1% in the ME&A region and 5.9% in emerging economies, as well as compared to growth of 3% for the world economy. Lebanon's projected growth rate in 2012 would make it the eighth slowest-growing economy in the ME&A region ahead of Egypt at 3.3% and Oman at 3%; while it would make it the 18th slowest-growing economy among 48 emerging countries, tied with Russia and ahead of the UAE, Kuwait, Romania, Turkey, Jordan, Ukraine and Brazil. Also, Lebanon would be one of eight economies in the ME&A region and among 17 emerging economies to expand at a faster pace than in 2011.

Further, Citigroup forecast the inflation rate in Lebanon at 6% this year, ninth highest in the region, relative to 3.4% in 2011 and compared to inflation of 6% for the ME&A region and 5.1% for emerging economies. It also expected inflation to reach 5% in 2013 compared to 6.4% in the ME&A region and 5.2% in emerging economies.

In parallel, it projected Lebanon's current account deficit at 11.4% of GDP in 2012, down from a deficit of 15.1% of GDP in 2011 and compared to surpluses of 10.4% of GDP for the ME&A region and 2.1% of GDP for emerging economies for this year. Lebanon's current account balance would post the second widest deficit this year, after Panama with a deficit of 11.5% of GDP, among the 48 emerging market economies included in Citigroup's universe. It expected Lebanon's current account deficit to widen to 12.3% of GDP in 2013, and to post the widest deficit in emerging markets next year, compared to surpluses of 9.8% of GDP for the ME&A region and 1.5% of GDP for emerging economies. Also, Citigroup forecast Lebanon's fiscal deficit to widen to 7.8% of GDP this year from 6.6% of GDP last year, compared to a surplus of 2.5% for the ME&A region and a deficit of 1.8% of GDP for emerging economies. The deficit would be the fourth widest among the emerging economies covered by the forecasts. It also expected the country's fiscal deficit to reach 8.8% of GDP in 2013 relative to a surplus of 3% of GDP for the ME&A region and a deficit of 1.5% of GDP for emerging economies.

Lebanese economy benefits from higher global oil prices

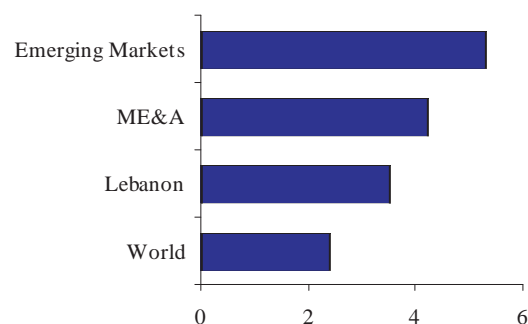
The International Monetary Fund indicated that higher oil prices have an overall positive impact on economic activity in Lebanon, as strong positive second-round effects offset the negative first-round impact of an oil price shock. It said that higher oil prices would increase Lebanon's exports and tourism receipts in the short-term, and would drive deposits inflows and private sector credit growth in the medium- to long-term. The IMF added that Lebanon benefits more generally through an increase in external demand and capital inflows, as oil exporters recycle their oil proceeds, given the country's close economic ties with major oil exporters in the region.

The IMF estimated that a 10% rise in the real price of oil translates into Lebanon's real GDP being 0.8% to 1.2% higher two to three years after this price rise. It attributed this outcome to the presence of large positive second-round effects operating through various transmission channels. It revealed that a 1% increase in the income of oil exporters would generate an increase of about \$44m in Lebanon's exports and tourism revenues, which is equivalent to 1% of GDP. It noted that oil exporters are the recipient of about 33% of Lebanon's exports of goods and account for one third of its tourism receipts. It added that a 1% increase in the income of GCC oil producers would generate an additional \$40m in remittance inflows to Lebanon, equivalent to 1% of the country's GDP.

Further, the Fund said that a 1% increase in oil prices results in an average increase of 0.26% in Lebanese exports during the following four quarters. Also, a 1% hike in oil prices leads to a 0.21% rise in passenger arrivals to Lebanon, with the positive effect waning by the 10th quarter following the rise in oil prices. The IMF stated that an increase in oil prices would increase deposit inflows, as they would be on average 0.2% higher in the third to fifth years following a 1% shock to oil prices. It added that private sector credit responds to an oil price shock similarly to that of bank deposits, as a 1% rise in oil prices leads to a 0.21% increase in private sector credit in the third year.

In parallel, the IMF indicated that the immediate negative effects on Lebanon of an increase in oil prices consist of a higher import bill and a wider fiscal deficit. It noted that higher oil imports represent an income transfer from Lebanon to oil exporters, given that oil imports account for about 20% of Lebanon's imports of goods and were equivalent to almost 10% of GDP in the 2009-10 period. It added that an increase in oil prices by \$10 per barrel would lead to a \$500m increase in nominal imports, equivalent to 1.3% of 2010 GDP. Also, it said that the fiscal deficit widens by 0.5% of GDP for every \$10 per barrel increase in oil prices.

Projected Real GDP Growth in 2012 (%)



Source: Citigroup

Standard & Poor's maintains assessment of Lebanese banking sector, revises downward the country's medium-term growth assumptions

Standard & Poor's maintained Lebanon's Banking Industry Country Assessment (BICRA) at Group '8', its economic risk score at '9' and industry risk score at '6', following the agency's affirmation last month of Lebanon's sovereign ratings at 'B'. The BICRA framework evaluates and compares global banking systems, and covers a country's rated and unrated financial institutions. It assigns scores to banking systems on a scale from one to 10, with 'Group 1' including the least risky banking sectors and 'Group 10' the riskiest ones. Other countries in BICRA 'Group 8' include Argentina, Kazakhstan, Latvia, Nigeria, Tunisia and Uruguay.

S&P indicated that Lebanon's economic risk score reflects the downgrade of its economic resilience to "extremely high risk" from "very high risk", maintaining its assessment of economic imbalances at "high risk" and the revision of its credit risk in the economy to "very high risk" from "extremely high risk". It said that changes in the factors that form Lebanon's economic risk score reflect a downward revision of the country's medium-term growth assumptions through 2015. It expected Lebanon's real GDP growth to recover only gradually from an estimated 1.5% in 2011 to 5% in 2014, relative to an 8.2% average growth during the 2007-10 period. It said that the growing instability in Syria and the uncertainty associated with Lebanon's extended political transition during the first half of 2011 are weighing negatively on investments and main business sectors such as tourism and financial services. It noted that Lebanon's growth is unlikely to reach over the medium term its pre-2011 growth rates, as they mainly resulted from a combination of several key factors that included political and macroeconomic stability and the global low interest rate environment, which drove capital inflows to Lebanon.

It also warned from potential imbalances originating from Lebanon's recent fast-paced lending growth, mainly as credit to the construction sector has consistently outpaced GDP growth. It considered that Lebanon's current account deficit constitutes a weakness for the banking system, where financing relies on continued investor confidence.

In parallel, the agency said that Lebanon's industry score indicates that the country faces "high risks" in its institutional framework and competitive dynamics, and "intermediate risks" in system-wide funding. It said that Lebanon has an adequate track record of regulation and supervision, which supports the banks' ability to attract steady flows of deposits and support the government's financing needs. It considered that the Central Bank and the Banking Control Commission are largely independent from Lebanon's government, and that the latter is not willing to risk a destabilization of the banking system. But it noted that transparency and governance issues among the smallest banks are a weakness, mainly as depositor confidence constitutes a key factor in preserving Lebanon's stock of deposits. Further, it pointed out that the sector's competitive landscape is crowded, but is largely concentrated around a dozen players. It considered that the domestic economic slowdown, along with regional unrest, may increase the cost of risk substantially in the next few years and temporarily stall banks' asset diversification away from sovereign risk.

Further, it considered that the banking sector's funding constitutes a factor of strength, as retail deposits are the main funding sources and have been resilient in past crises. It said that the sector's excess funds are largely channeled toward the government's debt that dominates both the domestic capital markets and banks' balance sheets. S&P classified the Lebanese authorities as "supportive" of the banking sector, but it noted that extraordinary support to banks in times of stress would be constrained by the government's limited financial flexibility.

Finance Minister to impose new taxes and raise existing ones in order to contain the fiscal deficit

Minister of Finance Mohammad Safadi announced that he will introduce changes to the 2012 budget draft with the aim to reduce the fiscal deficit. The amendments focus on increasing revenues through a series of tax increases despite the prevailing economic slowdown and uncertainties, and in spite of the decline in consumer confidence. He said the new measures take into consideration the recently-approved wage increase that will cost the Treasury an additional \$1bn per year.

In order to boost revenues, the ministry intends to increase the value-added tax to 11% from 10% and to raise the tax on deposit interest rates to 8% from 5%. He estimated that the first measure would generate an additional \$232m and the second one \$265m in revenues for the Treasury. He stressed that non-Lebanese depositors will also have to pay the tax on deposit interest rates, as they have been exempt from this tax so far. The ministry also plans to increase taxes on real estate transactions by 15% in order to generate \$232m in extra revenues for the Treasury, and will also raise the income tax on the property sector from 10% to 15%. He claimed that the real estate transaction tax will target speculators and land brokers, rather than property developers. He also suggested raising taxes on several high-end products. The minister added that the proposals include a reduction of the income tax for industrialists by nearly one-third, as well as cutting taxes on hotels outside Beirut.

The 2012 draft budget that was submitted last October included an increase in the value-added tax to 12% from 10% and a hike in the tax on deposit interest rates to 8% from 5%; while it imposed a new tax of 3% on real estate transactions as a prelude to introducing a capital gains tax on the property sector. The minister estimated total expenditures at \$14bn and revenues at \$10.5bn in the modified budget, leading to a fiscal deficit of \$3.5bn in 2012 compared to a deficit of \$4.14bn in the previous draft budget.

Lebanon to receive electricity from Iran

Lebanon and Iran signed a Memorandum of Understanding (MoU) on economic cooperation that aims for the latter to supply the former with electricity. The MoU, which was also signed by Iraq and Syria, stipulates that Iran would supply between 1,200 to 1,300 megawatts to the three countries, with Iraq receiving 1,000 megawatts, and Syria and Lebanon sharing the remaining quantity. The MoU will come into effect once the governments of the four involved countries endorse the agreement.

Consumer Price Index up 0.1% monthly in January

The Central Administration of Statistics' Consumer Price Index indicates that inflation increased by 0.1% in January 2012 from December 2011. Transportation prices increased by 0.9% month-on-month; followed by clothing & footwear (+0.4%); alcoholic beverages & tobacco, food & non-alcoholic beverages, recreation & entertainment, restaurants & hotels, and water, miscellaneous goods & services (+0.1% each). In parallel, housing prices, communication prices, education prices, and prices of furnishings & household equipment remained unchanged; while prices of health care declined by 1.2%, and those of water, electricity, gas & other fuels declined by 0.2%. The Central Administration of Statistics did not publish CPI figures for January 2011, which limits comparisons of the current results to December 2011. Imported inflation accounts for about 70% of inflation in the country, as Lebanon has an import-based economy. Lebanon imports most of its energy needs and the value of imports historically has been equivalent to about five times that of exports. The Consumer Price Index grew by 3.1% year-on-year in December and increased by 3.6% year-on-year in November.

Construction and public work activity down in third quarter of 2011

The Central Bank's quarterly business survey indicated that construction activity decreased during the third quarter of 2011, with a balance of opinion standing at +2, compared to +11 during the same quarter of 2010 and -7 during the previous quarter. The business survey reflects the opinions of enterprise managers on the evolution of their businesses, in order to depict the evolution of a number of key economic variables. The balance of opinion for public works stood at -12 in the third quarter of 2011 compared to -11 in the same quarter of 2010 and -28 in the second quarter of 2011. Also, the balance of opinion for general construction activity decreased to -3 during the third quarter of 2011, compared to +6 during the same quarter of 2010. Further, the balance of opinion for construction costs reached +44, down from +49 in the same period of 2010 and compared to +35 in the second quarter of 2011. The balance of opinion is the difference between the proportion of surveyed managers who consider that there was an improvement in a particular indicator and the proportion of those who reported a decline in the same indicator.

Construction and Public Work Activity: Year-on-year evolution of opinions				
Aggregate results	Q3-08	Q3-09	Q3-10	Q3-11
General activity	14	30	6	-3
Construction	14	33	11	2
Public work	-18	3	-11	-12
Portfolio of projects	-3	11	5	-6
Construction costs	51	47	49	44
Investments (% of yes)	39%	47%	35%	32%

Source: Central Bank Business Survey Q3-11

Construction permits down 10% in 2011

Figures released by the Association of Engineers of Beirut & Tripoli show that construction permits issued in 2011 reached 15.7 million square meters, constituting a decrease of 10.3% from 17.6 million square meters in 2010. Construction permits totaled 1.1 million square meters in December 2011, down 44.3% year-on-year from 1.9 million square meters in December 2010. In parallel, cement deliveries reached 5.6 million tons in 2011, an increase of 6.2% from 5.2 million tons in 2010. Cement deliveries reached 446,000 tons in December 2011, up 11.5% from 400,000 tons in December 2010.

Term savings attract 86% of customer deposits

Figures issued by the Central Bank about the distribution of bank deposits show that term savings was the preferred type of account for resident and non-resident depositors in Lebanese pounds as well as in foreign currencies at the end September 2011. Term saving deposits accounted for \$46.6bn, or 81.4% of resident deposits in foreign currencies and were followed by checking and current accounts with \$8.8bn (15.4%), sight saving accounts with \$1.5bn (2.6%) and other creditor accounts with \$339m (0.6%). Further, term saving accounts attracted \$32.2bn, or 92.9%, of resident deposits in Lebanese pounds, followed by checking and current accounts with \$2.1bn (5.8%) and sight saving accounts with \$464m (1.3%). Non-residents also favored term saving accounts, which totaled \$15.4bn and accounted for 86.2% of their foreign currency deposits, and reached \$2.5bn, or 97.4%, of their Lebanese pound deposits. Term saving deposits in all currencies totaled \$97.7bn at end-September 2011, accounting for 86.1% of deposits in Lebanese pounds and foreign currencies.

In parallel, Beirut and its suburbs accounted for 68.8% of private sector deposits and for 49.1% of depositors. It was followed by Mount Lebanon with 13.2% of deposits and 17.4% of beneficiaries; South Lebanon with 6.7% of deposits and 11.8% of beneficiaries; North Lebanon with 6.2% of deposits and 13.8% of depositors; and the Bekaa with 5.2% of deposits and 8% of beneficiaries.

Cleared checks up 5%, returned checks up 2% in 2011

The value of cleared checks reached \$71bn in 2011, constituting an increase of 5.3% from 2010. The value of cleared checks in Lebanese pounds rose by 5.4% to the equivalent of \$14.3bn, while the value of cleared checks in US dollars increased by 7.3% to \$57.9bn. The dollarization rate of cleared checks increased to 81.5% from 80% in 2010. Also, the value of returned checks in domestic and foreign currency amounted to \$1.4bn 2011, constituting an increase of 2% from 2010. In parallel, the number of cleared checks totaled 13.1 million checks in 2011, up 1.3% from 2010. Also, the number of returned checks totaled 268,000 checks and rose by 6.8% in the covered period.

Industrial exports increase by 7% to \$3.5bn in 2011, imports up 5% to \$239m

Figures released by the Ministry of Industry show that industrial exports totaled \$3.5bn in 2011, constituting an increase of 7% from \$3.3bn in 2010. Industrial exports reached \$296m in December 2011, down by a marginal 0.3% from \$295.2m in November 2011 and up 1% from \$293m in December 2010. Pearls & precious or semi-precious stones accounted for \$930.8m, or 26.4% of total industrial exports in 2011, followed by base metals & articles of base metals with \$525.4m (14.9%), and machinery and mechanical appliances with \$519.2m (14.8%). Arab countries accounted for 42.5% of total industrial exports in December, followed by African countries with 22.5% and European countries with 22.2% and Asian countries with 9.3%. In parallel, industrial imports reached \$238.6m in 2011, up 5% from 2010. Italy was the main source of such imports and accounted for 28.4% of total. It was followed by Germany with 17.6% and China with 14.3%. Further, imports of industrial equipment and machinery reached \$24.7m in December 2011, increasing by 38.9% year-on-year. Germany was the main source of imports of industrial equipments, accounting for 41.8% of the total, followed by Italy with 16.1% and China with 12%.

Byblos Bank extends €m in education loans to 582 students

Byblos Bank sal, one of Lebanon's top 3 banking and financial services groups, announced that it has extended €m in loans to 582 students from nine Lebanese universities as part of the "University Loans Program" launched in 2010 in partnership with the French Development Agency (AFD). It said that 25% of the students that benefited from the loans are pursuing business studies, 22% are majoring in civil engineering and architecture, 20% are studying medicine and medical sciences, and 33% have matriculated in other majors. It added that 71% of the students are still in their first year at university. The loans, which are denominated in Lebanese pounds, are offered at an annual average interest rate of 3%, may be extended for up to 18 years starting with the student's first year of study, and cover up to 75% of tuition for a maximum of LBP 15m per year. The universities covered by the loan agreement are Antonine Universtiy, Balamand University, Beirut Arab University, Haigazian University, Lebanese American University, Notre Dame University, Sagesse University, Université Saint-Joseph (USJ), and Université du Saint-Esprit de Kaslik (USEK).

In October 2010, Byblos Bank received a €25m loan from AFD to provide loans to students at the nine private universities. The agreement between the AFD and Byblos Bank is the first initiative of its kind in Lebanon and falls within the Byblos Bank Group's objective of supporting education at all levels and expanding educational opportunities for all social classes in the country. It also falls within the Group's strategy of encouraging the usage of the national currency and reducing the dollarization rate in the Lebanese economy. The AFD loan to Byblos Bank is for 14 years, includes a four-year grace period and carries preferential rates.

Profits up 3.5% at Syrian affiliates of Lebanese banks, assets fall 17% in 2011

Preliminary financial results issued by the affiliates of seven Lebanese banks operating in Syria show that their aggregate assets reached SYP324bn, or \$5.8bn, at the end of 2011, constituting a decrease of 17.2% from end-2010. The decline was due to an average drop of 30.3% in the assets of Banque BEMO Saudi Fransi, Bank of Syria & Overseas and Bank Audi Syria, the three largest private commercial banks by assets. The aggregate shareholders equity of the seven banks reached SYP35.4bn, or \$635m, at end-2011, constituting an increase of 28.3% from end-2010.

In parallel, the aggregate net profits of the seven banks reached SYP2bn, or \$36.8m in 2011, constituting an increase of 3.5% from 2010. The banks' total operating income reached SYP13.2bn, or \$236.8m in 2011, up 49.4% year-on-year. The marginal increase in net income is mainly attributed to the shift from a loss to a profit for Syria Gulf Bank, the affiliate of First National Bank sal, and Bank Al-Sharq, the affiliate of Banque Libano-Française, as well as to a rise from a very low base in 2010 of Fransabank Syria's profits, which together offset the drop in net income of the other four banks. Six out of the seven banks have yet to publish their detailed balance sheet and financial results for 2011.

Results of Affiliates of Lebanese Banks in Syria for 2011

	Banque BEMO Saudi Fransi	Bank of Syria & Overseas	Bank Audi Syria	Byblos Bank Syria	Syria Gulf Bank	Fransabank Syria	Bank Al-Sharq
Net Profits	\$11.8m	\$10.2m	\$2.1m	\$3.1m	\$4.6m	\$2.7m	\$2.3m
% Change*	-1.2%	-19.7%	-83.2%	-25.6%	227.2%	2775.5%	211.3%
Total Assets	\$1.36bn	\$1.25bn	\$1.14bn	\$0.83bn	\$0.40bn	\$0.56bn	\$0.29bn
% Change**	-34.1%	-24.6%	-32.4%	9.1%	41.9%	31.3%	73%

*Year-on-year

**Change from end-2010

Source: Banks' financial statements

Launch of aquaculture group in Lebanon

A group of Lebanese and foreign investors launched AquaCulture Technologies Group (ATG), a firm that offers services to active aquaculture projects. Aquaculture, also known as aqua-farming, is the farming of aquatic organisms such as fish, crustaceans, mollusks and aquatic plants. It involves cultivating freshwater and saltwater populations under controlled conditions. ATG's services include global aqua-systems design, project conception, financial structuring, turnkey construction, after-sales maintenance, global transportation logistics, and international distribution. In parallel, ATG is evaluating the possibility of establishing a plant in Lebanon to produce caviar. It considered that Lebanon has highly skilled local engineers and technicians, a very strong local market, a tourist base providing a fast growing expansion potential, an ability to be a successful showcase pilot project for future plants in other countries, and a strategic fit into the Group's intention to have fully integrated activities. It estimated the plant's total cost at \$20m and its production capacity at around three tons of caviar yearly. ATG estimated the domestic demand for caviar at between three to five tons annually. In parallel, ATG announced that it will launch an Aquaculture Fund under the management of Aqua Capital Invest for participation in plants worldwide.



Automotive firms raise funds through securitization

Auto dealer Rasamny Younis Motor Company sal (RYMCO) raised \$8.9m through a revolving securitization transaction of a portfolio of auto loans. RYMCO issued two classes of notes, with Class A having an expected weighted average life of 4 years, and Class B that is subordinated to Class A and is retained by the company. The structure provides protection to Class A note holders under several credit enhancement features as well as a three-year replenishing period during which the fund established for this transaction may buy additional auto loans subject to certain preset criteria and conditions precedent to purchase. The deal represents the second time that RYMCO has tapped the securitization market. RYMCO is the exclusive distributor in Lebanon of Nissan, Infiniti and GMC brands.

In parallel, car rental and leasing company Middle East Car Rental Co.- Avis Lebanon (MECAR) raised financing through the securitization of a portfolio of operating leases. MECAR issued two classes of notes that are backed by a portfolio of operating leases, with Class A having an expected weighted average life of 3.9 years and paying a yearly fixed return to investors, and Class B that is subordinated to Class A and is retained by the company for credit enhancement purposes. The structure provides for a revolving period during which additional operating leases may be transferred to the Gear I securitization fund that was established for this purpose. The securitization transactions aim to finance the business growth of the two companies. Both deals were structured and arranged by BSEC, the securitization subsidiary of Banque BEMO sal.

Balance sheet of investment banks posts 17% decrease year-on-year at end-September 2011

Figures released by the Central Bank show that the consolidated balance sheet of investment banks in Lebanon reached LBP6,589bn, or \$4.37bn, at the end of September 2011, constituting a decrease of 16.5% from end-2010 and a drop of 26% from a year earlier. Private sector deposits reached \$2.44bn at end-September, down 24.7% from end-2010 and 37.6% from end-September 2010. Resident deposits in Lebanese pounds reached \$1bn, followed by resident deposits in foreign currencies at \$972.1m and non-resident deposits in foreign currencies at \$320m. Also, commitments to the financial sector reached \$628m at the end of September 2011, representing an increase of 11.1% from end-2010 and 6.8% year-on-year.

On the assets' side, investment banks' operations with commercial banks reached \$2.04bn at the end of the third quarter, down 25.8% from the end of 2010 and 36.6% from end-September 2010. Lending to the private sector reached \$1.1bn, constituting a decrease of 1.8% from end-2010 but unchanged year-on-year. Investments in government securities totaled \$832m as at end-September, down 18.5% from end-2010 and 33.1% from a year earlier. Further, the aggregate capital of investment banks reached \$823.4m at the end of September 2011, up 15% from end-2010 and 13.6% from a year earlier. There are 15 investment banks operating in Lebanon with a total of 20 branches.

Ratio Highlights

(in % unless specified)	2008	2009	2010	Change*
Nominal GDP ⁽¹⁾ (\$bn)	29.7	34.7	37.1	
External Debt / GDP	71.2	61.3	55.4	(590)
Local Debt / GDP	87.1	86.0	86.3	30
Total Debt / GDP	158.3	147.2	141.8	(540)
Total External Debt / GDP	175.2	176.1	167.0	(910)
Trade Balance / GDP	(42.6)	(36.8)	(36.9)	(10)
Exports / Imports	21.6	21.5	23.7	220
Budget Revenues / GDP	23.6	24.3	22.7	(160)
Budget Expenditures / GDP	33.4	32.8	30.6	(220)
Budget Balance / GDP	(9.8)	(8.5)	(7.9)	60
Primary Balance / GDP	2.0	3.1	3.2	10
BdL FX Reserves / M2	68.9	75.1	72.6	(250)
M3 / GDP	231.2	236.5	248.4	1,190
Bank Assets / GDP	317.4	332.1	347.5	1,540
Bank Deposits / GDP	261.9	276.0	289.0	1,300
Private Sector Loans / GDP	84.3	81.8	94.2	1,240
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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