



LEBANON THIS WEEK

In This Issue

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

Lebanon wins best sovereign borrower award in the EMEA region

Economic recovery this year to mainly depend on developments in Syria

Finance Ministry raises yields on 12-month Treasury bills by 50 basis points

Occupancy at Beirut hotels at 62%, room yields up 48% in first two months of 2012

Central Bank asks banks to abide by international sanctions and to apply FACTA

Number of tourists down 6% in the first two months of 2012

Structural reforms to add up to 2.9 percentage points to economic growth annually

Consumer Price Index up 3.4% annually in February

Launch of national bioenergy strategy

Lebanon ranks 118th globally, eighth among Arab countries in terms of gender gap

Social safety net and subsidies programs are costly, badly-targeted and fragmented

Corporate Highlights7

Byblos Bank announces dividends for 2011, invites shareholders to General Assembly

Profits of top 12 banks up 1.2% to \$1.5bn in 2011

BankMed's net income up 11% to \$118m in 2011

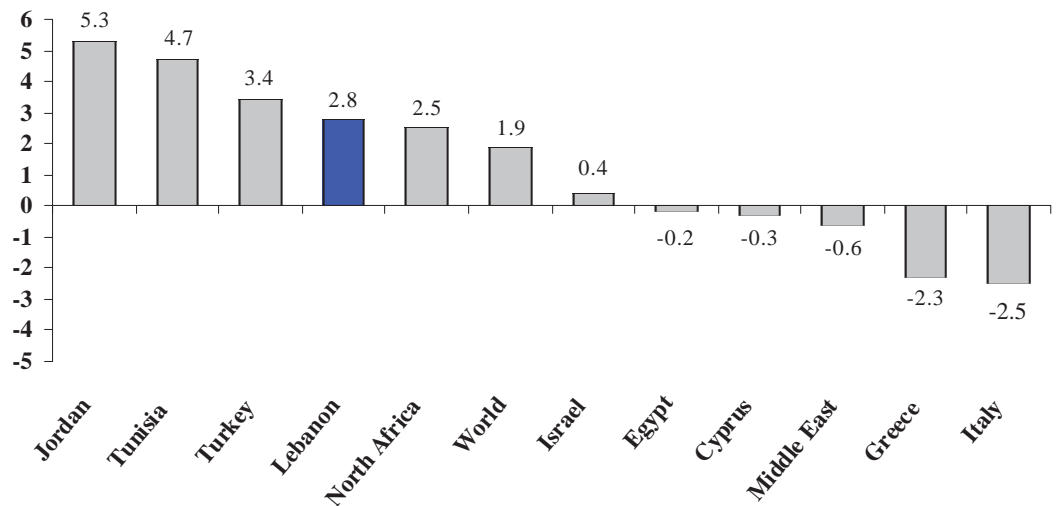
Muhanna Rating Services takes rating actions on insurance firms

CMA CGM's ratings downgraded on poor results

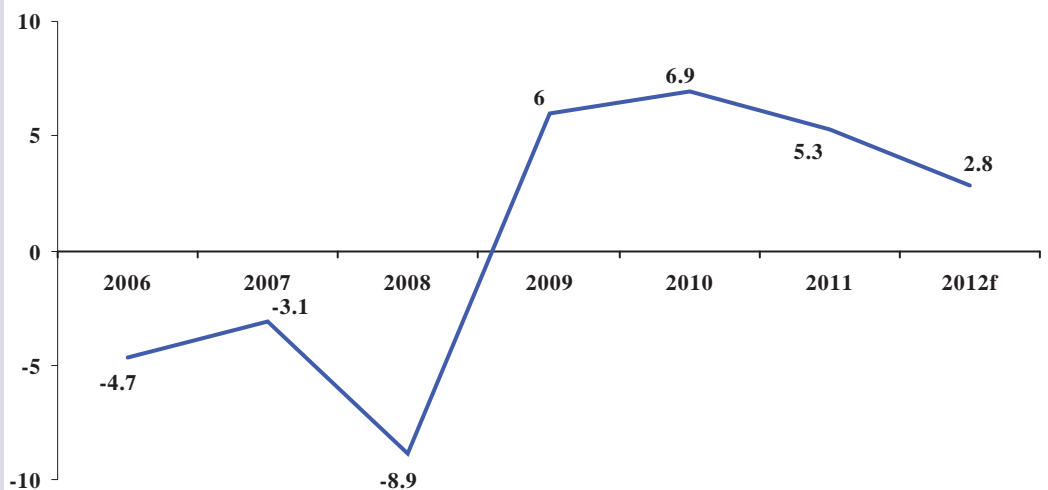
Libano-Française profits down 21% to \$63m in 2011

Charts of the Week

Travel & Tourism's Total Contribution to Employment in 2012 (% growth)



Travel & Tourism's Total Contribution to Employment in Lebanon (% growth)



Source: World Travel & Tourism Council, Byblos Bank

Quote to Note

"With the difficult external environment clouding prospects, domestic policies should aim at instilling confidence."

The International Monetary Fund, on the need to reduce public finance imbalances and implement structural reforms in order to raise investor and consumer confidence

Number of the Week

8.7%: Percentage of retail sales lost annually due to power outages in Lebanon, according to the World Bank

Economic Indicators

\$m (unless otherwise mentioned)	2009	Dec 10	2010	Sep 11	Oct 11	Dec 11	% Change*
Exports	3,486	487	4,256	334	351	338	(30.60)
Imports	16,241	1,470	17,956	1,792	2,508	1,665	13.27
Trade Balance	(12,755)	(983)	(13,700)	(1,458)	(2,157)	(1,327)	34.99
Balance of Payments	7,899	1,243	3,326	(302)	(590)	692	(44.33)
Checks Cleared in LBP	11,122	1,278	13,519	1,147	1,233	1,370	7.20
Checks Cleared in FC	45,270	4,370	53,925	5,181	5,123	5,094	16.57
Total Checks Cleared	56,392	5,648	67,444	6,328	6,356	6,464	14.45
Budget Deficit/Surplus	(2,960)	(62)	(2,892)	(419)	(118)	(391)	531.32
Primary Balance	1,078	276	1,232	44	280	(73)	(126.57)
Airport Passengers	4,986,544	369,735	5,552,260	582,383	448,620	441,214	19.33

\$bn (unless otherwise mentioned)	Dec 2009	Dec 10	Aug 11	Sep 11	Oct 11	Dec 11	% Change*
BdL FX Reserves	25.66	28.60	30.64	30.62	30.51	30.82	7.74
<i>In months of Imports</i>	18.6	19.46	17.82	17.09	12.17	18.51	(4.87)
Public Debt	51.09	52.59	53.40	54.35	54.22	53.64	2.00
Net Public Debt	44.11	45.01	45.71	45.80	45.78	46.35	2.98
Bank Assets	115.25	128.93	138.06	138.42	139.54	140.58	9.04
Bank Deposits (Private Sector)	95.77	107.20	112.95	113.39	114.19	115.72	7.95
Bank Loans to Private Sector	28.37	34.93	38.92	38.76	39.22	39.38	12.74
Money Supply M2	34.16	39.40	37.35	37.68	37.90	38.90	(1.27)
Money Supply M3	82.08	92.15	95.21	95.63	92.26	97.23	5.51
LBP Lending Rate (%)	9.04	7.91	7.53	7.37	7.27	7.38	(53b.p.)
LBP Deposit Rate (%)	6.75	5.68	5.53	5.58	5.60	5.63	(5b.p.)
USD Lending Rate (%)	7.28	6.74	7.16	6.92	7.10	7.02	28b.p
USD Deposit Rate (%)	3.05	2.80	2.80	2.84	2.82	2.83	3b.p.
%* Change in CPI**	4.20	6.19	6.49	5.27	3.14	4.27	(192b.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"	14.44	0.91	85,763	13.48%
Solidere "B"	14.51	(0.76)	11,767	8.80%
Byblos Common	1.66	0.61	1,068,525	5.57%
Byblos Pref. 08	105.10	0.00	0	1.96%
Byblos Pref. 09	103.10	0.00	0	1.92%
BLOM GDR	7.90	0.38	48,017	5.45%
BLOM Listed	7.65	(1.92)	113,367	15.35%
Audi GDR	6.49	(0.15)	16,479	6.06%
Audi Listed	6.21	1.80	15,091	20.25%
HOLCIM	16.50	0.00	184	3.01%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Mar. 2012	7.500	99.96	11.59
Sep. 2012	7.750	100.25	7.18
June 2013	8.625	107.38	2.60
Apr. 2014	7.375	107.75	3.46
Jan. 2015	5.875	104.25	4.26
Apr. 2015	10.00	117.75	3.87
Jan. 2016	8.500	114.90	4.25
Mar. 2017	9.000	119.15	4.66
Nov. 2018	5.150	100.20	5.11
Apr. 2021	8.250	119.00	5.55

Source: Byblos Bank Capital Markets

	March 19-23	March 12-16	% Change	February 2012	February 2011	% Change
Total Shares Traded	1,368,291	438,447	212	3,288,030	7,279,483	(54.83)
Total Value Traded	\$4,734,135	\$2,103,526	125.1	\$28,733,271	\$29,306,533	(1.96)
Market Capitalization	\$10.71bn	\$10.68bn	(0.12)	\$10.57bn	\$12.07bn	(12.36)

Source: Beirut Stock Exchange (BSE)



Lebanon wins best sovereign borrower award in the EMEA region

EMEA Finance magazine, a leading provider of financial and capital markets information and analysis on the Emerging Europe, the Middle East and Africa region, extended to the Republic of Lebanon its annual award for Best Sovereign Borrower in the EMEA region for 2011. It said that, in a year when worries mounted over levels of leverage around the world, the emerging EMEA region still managed to produce some truly groundbreaking deals. It indicated that Lebanon managed to raise \$3.6bn across three international issuances during 2011 even as debt markets around the world seized up. It noted that the three issues consisted of \$1bn in May, \$1.2bn in July and \$1.4bn in November. It added that the Lebanese government used a variety of local and international banks across the three issuances that included Byblos Bank, Citi, HSBC, Deutsche Bank and Standard Chartered Bank, as well as Blom Bank and Fransabank. Byblos Bank co-lead managed in May 2011 a \$1bn dual-tranche Eurobond under the Republic of Lebanon's Global Medium Term Note Program. The first tranche consisted of an 8-year \$650m bond that matures in May 2019 and carries a coupon rate of 6% paid semi-annually, and the second tranche consists of an 11-year \$350m bond that matures in October 2022 and carries a coupon rate of 6.1% paid semi-annually. Also, Byblos Bank was the sole Lead Manager for the issuance of a long-term maturities denominated in Lebanese pounds. The issue was a seven-year LBP 1,500bn bond that carries a coupon rate of 7.9%. The two transactions took place on the basis of the Republic of Lebanon's Global Medium Term Note Program.

In parallel, *EMEA Finance* extended its Best Sovereign Bond in the Middle East award to the \$1.4bn raised by the Republic of Lebanon in November 2011. Also, the award for Best Sovereign Bond in the EMEA region went to Qatar; the award for Best Sovereign Bond in Central & Eastern Europe went to the Slovak Republic; and the Best Sovereign Bond in Africa award went to the Republic of Namibia. *EMEA Finance* will officially present the awards to the winners at a ceremony to be held in London in July.

Economic recovery this year to mainly depend on developments in Syria

Barclays Capital estimated that real GDP growth in Lebanon could reach 3.5% in 2012, in case capital spending in the energy sector materializes and if the wage increase drives consumption, as well as from favorable base effects. But it warned that downside risks to growth and to the economy's external position have considerably exacerbated with the escalation of the Syrian crisis. It noted that the effects of the crisis are gradually spilling over into Lebanon. It said that security incidents in the North have dented confidence, and institutional paralysis and domestic political infighting had a serious negative effect on growth in 2011. It indicated that this has led to a contraction in tourism activity, a slowdown in trade and in the real estate sector, as well as to milder demand for credit. It added that the crisis negatively impacted the country's external position, as the balance of payments posted a deficit of \$2bn in 2011 compared to an average surplus of \$3.6bn over the past five years. It attributed the shift to a larger deficit in goods trade as oil prices soared, and to a fall in non-goods flows, namely in tourism receipts and capital inflows.

It considered that Lebanon's economic recovery this year will mainly depend on developments in Syria; how Lebanese political factions respond to them; and the effects they will have on investor confidence, tourism and trade. It added that many traders have bypassed the transit route through Syria and have resorted to alternative and more expensive routes to export their goods to Middle Eastern countries; while Lebanese banks significantly reduced their exposure to Syria in order to limit the spillover to their balance sheets.

Barclays noted that the impact on Lebanon's growth from protracted civil strife in Syria is difficult to quantify at this stage. It said that the Lebanese economy has proved its resilience during past episodes of severe stress, such as the Hariri assassination in 2005 and the war with Israel in 2006, but it warned not to under-estimate the complicated nature of the Syrian crisis and the severity of possible scenarios that may unfold given Lebanon's fractious political landscape. It pointed out that the risk of an extended conflict in Syria brings to the fore Lebanon's long-standing vulnerabilities, including the short-dated maturity structure of bank deposits, relatively high levels of deposit dollarization, and the Central Bank's reliance on issuing high yielding Certificates of Deposits to manage bank liquidity, which weigh on its financial position and that of its net international reserves. However, it said that Lebanon benefits from significant buffers to face external shocks; as the country has more than \$33bn in gross foreign exchange reserves, enough to deal with around \$3.5bn short-term foreign currency denominated public debt; and still moderate deposit growth.

Finance Ministry raises yields on 12-month Treasury bills by 50 basis points

The Ministry of Finance raised the yield on 12-month Treasury bills by 50 basis points to 5.33%, the highest yield since May 2010. The increase came in response to the recommendation by the International Monetary Fund in its Article IV Consultation earlier this year to raise interest rates on Lebanese pound-denominated debt. The Fund considered that letting interest rates on T-bills with maturities of less than 7 years rise would compensate for higher risks and make them attractive to banks. In turn, this would allow the Treasury to reduce its reliance on the Central Bank or on 7-year T-bills, and would encourage the government to finance its operations from the market. It noted that this could also lower the average cost of borrowing and allow targeting a smoother maturity profile of government debt. Political uncertainties and tight liquidity in Lebanese pound reduced banks' appetite for pound-denominated government debt in 2011. Only high-yielding 7-year T-bills drew strong demand, as banks stayed away from T-bills with shorter maturity that yield about the same or less than what banks pay on pound deposits. The resulting shortfall in demand for T-bills with shorter maturities was picked up by the Central Bank, which prevented interest rates from rising.



Occupancy at Beirut hotels at 62%, room yields up 48% in first two months of 2012

Ernst & Young's benchmark survey of the Middle East hotel sector indicated that the average occupancy rate at hotels in Beirut was 62% in the first two months of 2012 compared to 43% in the same period last year. The occupancy rate at Beirut hotels was the 12th highest among 21 markets in the region, while it was the lowest in the first two months last year. Beirut's occupancy rate was higher than that of cities in Kuwait, Bahrain and Egypt. Occupancy rates at Beirut hotels were 60% in January and 64% in February 2012 compared to 44% in January and 42% in February 2011.

The survey said the average rate per room at Beirut hotels was \$216 in the first two months 2012, ranking the capital's hotels as the 10th most expensive in the region. The average rate per room at Beirut hotels increased by 3% year-on-year, and posted the 10th highest increase among all markets in the region. The average rate per room in Beirut came above the regional average of \$189.5, which dropped by 3.4% from \$196 in the same period last year.

Further, revenues per available room (RevPAR) were \$135 in Beirut in the first two months of 2012, up from \$92 in the same period last year, and ranking it in 10th place in the region. Beirut's RevPAR increased 47.5% year-on-year, compared to a decrease of 1.7% across the region, and posted the second highest increase in the region after Madina with a rise of 62.6%. Beirut posted RevPARs of \$139 in January and \$131 in February 2012 compared to \$99 in January and \$84 in February 2011. Dubai-Beach posted the highest average room rate in the region at \$392 and the highest RevPAR at \$321, while Dubai-Apartments posted the highest occupancy rate at 94% in the first two months 2012.

Hotel Performance in first two months of 2012

	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Dubai Apartments	94	127	15.3
Dubai City	90	196	11.9
Makkah	87	192	22.0
Dubai Overall	87	238	8.1
Dubai Beach	81	321	1.4
Abu Dhabi	80	177	(19.7)
Muscat	78	165	(6.8)
Jeddah	78	178	29.1
Amman	76	108	40.1
Madina	68	118	62.6
Doha	63	165	(24.3)
Beirut	62	135	47.5
Riyadh	62	149	(2.1)
Sharm Shaikh	57	27	(10.8)
Al Ain	56	85	(24.0)
Cairo Pyramids	51	63	(10.9)
Kuwait	51	133	(28.9)
Hurghada	47	16	(34.4)
Manama	40	93	(31.0)
Cairo Overall	34	38	(39.2)
Cairo City	31	34	(44.6)

Source: Ernst & Young, Byblos Research

Central Bank asks banks to abide by international sanctions and to apply FACTA

In its monthly meeting with the Association of Banks in Lebanon (ABL), Central Bank Governor Riad Salamé indicated that the banking sector needs to face the challenges related to the sanctions imposed on some countries in the region, and urged banks to abide by the sanctions in order to maintain relations with correspondent banks in the United States and Europe. He encouraged Lebanese banks to cooperate as closely as possible with the Banking Control Commission to conduct a new stress test following information about payment problems that some Syrian borrowers are facing, which would result in an increase in provisions. The governor also urged banks to follow a conservative policy and to limit dividend distribution to 25% of profits, so they can use the balance of 75% to strengthen their capital and to meet the Basel III targets by the end of 2015.

In parallel, Governor Salamé considered that Lebanese banks need to apply the United States' Foreign Account Tax Compliance Act (FACTA). He stressed on the need to reach an agreement similar to the one reached between European countries and the U.S. Department of the Treasury. He considered that the Central Bank will have to play the role of agent on behalf of the Lebanese banking sector, rather than having each bank reach a separate agreement with the U.S. Internal Revenue Service. FACTA seeks to identify U.S. taxpayers who have accounts at non-U.S. financial institutions, and aims to enforce reporting of those accounts through withholding. It requires non-U.S. financial institutions to enter into compliance agreements with the U.S. Treasury by June 30, 2013 and to identify and report U.S. accounts annually.

Number of tourists down 6% in the first two months of 2012

The number of incoming tourists to Lebanon totaled 193,384 in the first two months of 2012, constituting a decrease of 5.7% from 204,979 tourists during the same period last year. Arab tourists accounted for 44.2% of total visitors in the first two months of the year, and were followed by visitors from Europe with 28.3%, the Americas with 11.4%, Asia with 9%, Africa with 4.7%, and Oceania with 2.2%. The number of African tourists increased by 30.1% annually in the first two months of 2012, followed by Arab tourists with a 15.2% increase and tourists from the Americas with a rise of 4.8%. In parallel, the number of tourists from Asia declined by 57.1% annually, those from Oceania dropped by 5.4%, and tourists from Europe decreased by 4.4%. Also, tourists from Iraq accounted for 9.6% of total visitors in February 2012, followed by visitors from France with 8.1%, Jordan with 7.5%, Saudi Arabia with 6.7%, and Kuwait with 6%. Incoming tourists totaled 1.66 million in 2011, down 24% year-on-year.

Structural reforms to add up to 2.9 percentage points to economic growth annually

The World Bank indicated that implementing reforms, such as increasing public investment, improving the efficiency of public spending, reducing macroeconomic volatility, and enforcing intellectual property rights (IPRs) would lead to an increase in long-term growth. It considered that Lebanon's core infrastructure in electricity, roads and sanitation is deficient in several respects; and that access to reliable and cost-effective infrastructure services constitutes a major constraint on economic activity. It added that the efficiency of public spending is poor and many infrastructure sectors suffer from deficiencies in their regulatory frameworks, poor governance, and inefficiencies of public utilities. It pointed out that these deficiencies are detrimental to domestic and foreign long-term investments, and that the non-implementation of structural reforms would result in opportunity costs in terms of long-term growth prospects.

According to World Bank simulations, a 50% increase in public investment would add 0.6 percentage points to a benchmark real GDP growth rate of 4%; while an improvement by about 25% in the efficiency of public spending on infrastructure and education would generate an additional 0.5 percentage point of growth. The Bank added that the reduction in volatility and macroeconomic imbalances, as measured by an 80% rise in FDI, would add 0.08 percentage points to long-term growth; while an improvement in the enforcement of IPRs would generate up to 0.8 percentage points in additional growth.

In parallel, the World Bank said that the combined effect of higher public investments, improved efficiency of public spending, improved competition and reduced macroeconomic volatility would add 1.3 percentage points to the average yearly long-term GDP growth over a horizon of 15 years. It noted that this would lead to a real GDP per capita that is 21% higher than it would have been if long-term growth had remained at the annual average benchmark rate of 4%. It stated that the growth reward can start materializing at the first year of reforms implementation, but added that the full impact on growth will be realized with the completion of all reforms, which may take up to five years. It noted that when including the enforcement of IPRs to the reforms, long-term GDP could improve by up to 2.9 percentage points, while real GDP per capita in 15 years would be at least 50% higher than the benchmark rate of 4%.

The World Bank said that structural reforms in Lebanon are indispensable to generate employment for the young and skilled segments of the population, to increase wealth generated domestically, and to raise the welfare of the population in general. It added that the recent developments in the Arab region and in host countries of the Lebanese Diaspora have underlined the urgency for decision-makers to build an economy that is more resilient to external shocks and that promotes employment creation. It noted that Lebanon lacks the political will to engage in a process of reform that would create a more diversified, innovation-driven economy that is capable of generating the high number of jobs required to absorb the increase in the country's skilled labor force.

Consumer Price Index up 3.4% annually in February

The Central Administration of Statistics' Consumer Price Index indicates that inflation increased by 3.4% in February 2012 from February 2011. Prices of alcoholic beverages & tobacco increased by 11.1%, followed by education (+7.5%), food & non-alcoholic beverages (+6.3%), clothing & footwear (+5.3%), recreation & entertainment (+5.2%), water, electricity, gas & other fuels (+4.8%), restaurants & hotels (+4.6%), miscellaneous goods & services (+3.4%), health care (+2.3%) and furnishings & household equipment (+2.1%). In parallel, housing prices and communication prices remained unchanged, and those of transportation declined by 0.8% year-on-year. 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 increased by 0.8% in February 2012 from January 2012. Prices of transportation increased by 3.2%, followed by restaurants & hotels (+1.3%), water, electricity, gas & other fuels and miscellaneous goods & services each (+1.1%), health care (+0.7%), food & non-alcoholic beverages (+0.6%), furnishings & household equipment and recreation & entertainment each (+0.2%) and clothing & footwear (+0.1%). Further, the cost of housing, communication and education remained unchanged month-on-month and that of alcoholic beverages & tobacco declined by 0.4%. The Consumer Price Index grew by 3.1% year-on-year in December 2011 and increased by 3.6% year-on-year in November.

Launch of national bioenergy strategy

The Ministry of Energy & Water and the UNDP-CEDRO project launched the National Bioenergy Strategy for Lebanon. The strategy focuses on the development of waste-to-energy plants and on enhancing government support for the production of electricity and heat with biomass. It also plans to promote a national action plan for the development of liquid fuels production to reduce the country's dependence on imported fossil fuels and to develop the agricultural sector. Also, the strategy focuses on financial incentives that include the restructuring of existing tariffs to eliminate the financial deficit in the electricity sector and to improve collection rates. It aims to contribute to the government's goal of achieving 12% of the country's total energy needs from renewable energy sources by 2020. It noted that Lebanon could produce biofuels equivalent to 17% of current fossil fuel consumption in the transportation sector.

In parallel a study that aims to define and develop key elements to be considered in the formulation of the National Bioenergy Strategy indicated that Lebanon has a relatively abundant availability of bioenergy resources. It said that approximately one third of the country's land is arable, with the most fertile areas located along the coastal strip and in the Beqaa Valley. It noted, however, that the development of sustainable bioenergy in rural areas is lagging behind the modest goals that have been formulated in the past. It found that the most promising bioenergy streams are residues from forestry fellings, residues from fruit and olive trees, and residues from cereals and energy crops on currently unused land.

Lebanon ranks 118th globally, eighth among Arab countries in terms of gender gap

The World Economic Forum ranked Lebanon in 118th place among 135 countries on its Global Gender Gap Index for 2011, and in eighth place among 15 Arab countries. It also ranked Lebanon in 29th place among 32 upper-middle income countries (UMICs) included in the survey. Lebanon ranked in 116th place globally, in sixth place among Arab countries and in 29th place among UMICs and in the 2010 survey. The index ranks countries according to gender equality rather than women empowerment, and aims to capture the magnitude and scope of gender-based disparities in each country and to track their progress over time. The index is based on four sub-indices that measure Economic Participation & Opportunity, Educational Attainment, Health & Survival, and Political Attainment.

Globally, Lebanon ranked ahead of Cameroon, Nigeria and Algeria, and came behind Jordan, Ethiopia and Burkina Faso. It also ranked ahead of Algeria and Turkey, and came behind Fiji and Suriname among UMICs. Lebanon received a score of 0.6083 points, lower than the global and the UMICs averages of 0.6792 points and 0.6769 points respectively, but slightly above the MENA and the Arab averages of 0.6042 points and 0.5999 points respectively. Lebanon's score was unchanged from the 2010 survey when it was included in the index for the first time.

Lebanon ranked ahead of Algeria and Iran, and came behind Egypt and Nepal on the Economic Participation & Opportunity Sub-Index, which captures the participation, remuneration and advancement gaps between men and women in the work environment. It ranked ahead of Algeria and behind Fiji among UMICs, and ahead of Algeria and behind Egypt in the Arab world.

Also, Lebanon ranked ahead of Madagascar and Saudi Arabia, and came behind Cyprus and Peru on the Educational Attainment Sub-Index, which captures the gap between women's and men's current access to education through ratios of women to men in primary-, secondary- and tertiary-level education. Lebanon ranked ahead of Algeria and behind Peru and Jamaica among UMICs, and came ahead of Saudi Arabia and behind Kuwait in the Arab world.

Further, Lebanon ranked first along with 37 other countries on the Health & Survival Sub-Index, as it came ahead of the United States and the Czech Republic. It ranked ahead of Russia, Colombia, Romania and Bulgaria among UMICs, and tied with Mauritania and came ahead of Egypt and Saudi Arabia in the Arab world. Further, Lebanon ranked ahead of Oman and Iran, and came behind Hungary and Egypt on the Political Empowerment Sub-Index. This category captures the ratio of women to men in minister-level and parliamentary positions, in addition to the number of years in executive office. It ranked ahead of only Iran among UMICs, and came ahead of Oman and behind Egypt in the Arab world.

Arab Countries' Scores & Rankings			
	Overall Score	Arab Rank	Global Rank
UAE	0.6454	1	103
Kuwait	0.6322	2	105
Tunisia	0.6255	3	108
Bahrain	0.6232	4	110
Qatar	0.623	5	111
Mauritania	0.6164	6	114
Jordan	0.6117	7	117
Lebanon	0.6083	8	118
Algeria	0.5991	9	121
Egypt	0.5933	10	123
Syria	0.5896	11	124
Oman	0.5873	12	127
Morocco	0.5804	13	129
Saudi Arabia	0.5753	14	131
Yemen	0.4873	15	135

Source: World Economic Forum, Byblos Research

Components of the Global Gender Gap Index in 2011

Category	Global Rank	Arab Rank	UMIC Rank	Lebanon Score	Global Average Score	Arab Average Score	UMIC Average Score
Economic Participation & Opportunity	123	7	29	0.4482	0.6340	0.4458	0.6166
Educational Attainment	90	6	29	0.9773	0.9487	0.9288	0.9864
Health & Survival	1	1	1	0.9796	0.9711	0.9696	0.9718
Political Empowerment	128	11	31	0.0282	0.1631	0.0553	0.1329

Source: World Economic Forum, Byblos Research

Social safety net and subsidies programs are costly, badly-targeted and fragmented

The International Monetary Fund estimated the amount that the Lebanese government spends on subsidies and on its social safety net at about 4% of GDP annually, of which 3% of GDP go to direct subsidies and 1% of GDP to social programs. It indicated that Lebanon's allocation to its social safety net is below the global average of 2% of GDP and to the Middle East & North Africa historical average of about 1.7% of GDP.

It noted that the official social safety net in Lebanon is provided through three channels, which are social services to specific vulnerable groups administered by the Ministry of Social Affairs through welfare institutions and non-governmental organizations; fee waivers for hospitalizations that cover 85% of private hospital fees for those who do not have any insurance coverage; and price subsidies for diesel, tobacco and bread. It said that fee waivers for hospitalization account for more than half of the social safety net funds, while the remaining funds are equally divided between the Ministry of Social Affairs' services and price subsidies. Further, the IMF said that the subsidy provided to Electricité Du Liban (EdL) accounted for 97.3% of total subsidies provided in Lebanon in 2010. It added that transfers to EdL were equivalent to 2.9% of GDP in 2010, which is higher than the region's oil importing countries of 2% of GDP. It noted that production subsidies accounted for the remaining 0.1% of GDP, including wheat subsidy at 0.03% of GDP and agricultural export subsidy at 0.08% of GDP.

In parallel, the IMF pointed out that Lebanon's social safety net and subsidies programs are costly, badly-targeted and fragmented. It said that Lebanon relies largely on generalized subsidies, which are relatively easy to administer but that tend to benefit the well-off. It noted that the services are provided by different agencies with little coordination, and that some of them lead to waste in resources and distortions. It said that the hospitalization program is subject to leakages and weaknesses. It added that there is also an abuse of some subsidies, such as petroleum stations buying and stocking large quantities of subsidized diesel in order to sell them at higher prices when the subsidy is not provided. It also considered that tobacco subsidies hamper the development of the sector because farmers have no incentive to increase their production and raise quality to international standards.

The Fund considered that the government should focus on gradually replacing universal subsidies with cost-effective and well targeted ones, especially in the electricity sector. It also encouraged Lebanon to narrow the scope of some subsidies and integrate new programs with existing ones. It added that the government should address data gaps on social indicators, and should have a communication strategy to raise awareness and generate broad support for reforms.

Byblos Bank announces dividends for 2011, invites shareholders to General Assembly

The Board of Directors of Byblos Bank sal announced that it will propose to the Bank's Ordinary General Assembly the distribution of dividends of LBP 200 per share for holders of Common Shares. Upon the General Assembly's approval, the shares' dividends will be paid net of a 5% distribution tax. In parallel, the Board of Directors of Byblos Bank sal invited its shareholders to its Annual General Assembly to be held on April 10, 2012. The agenda of the meeting includes hearing the Board of Directors and the auditors' reports for 2011, approving the financial statements of 2011, granting clearance to the Chairman and Board members for their administrative duties during 2011, and electing a new Board of Directors for the financial year 2012.

Byblos Bank maintains a Capital Adequacy Ratio (CAR) well above the Basel II criteria, as its Common Equity CAR reached 9.64% at end-2011, above the 8% minimum required ratio by Basel III. Also, the bank's Net Tier One CAR was 13.29% at end-2011, compared to the minimum Basel III required ratio of 10%; while the Bank's Total Equity CAR reached 13.61% relative to the 12% minimum required ratio by 2015. The CAR figures do not incorporate the Bank's profits for 2011.

Byblos Bank declared consolidated net profits of \$179.7m in 2011, constituting an increase of 1.2% from \$177.7m 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 Byblos Bank Group has a direct presence in Syria, Sudan, Iraq, the United Arab Emirates, Nigeria and Armenia, as well as in Belgium, France, the United Kingdom, and Cyprus.

Profits of top 12 banks up 1.2% to \$1.5bn in 2011

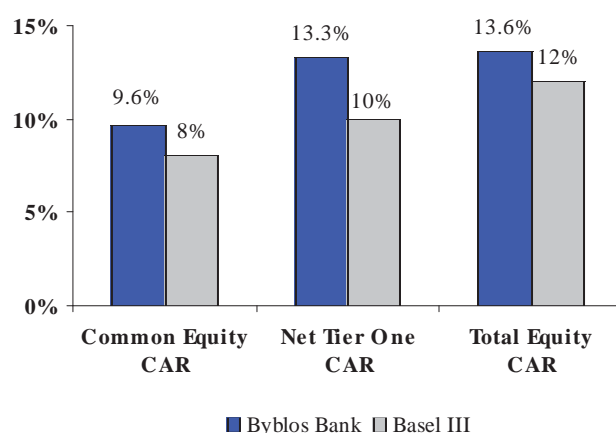
The unaudited consolidated net profits of the Alpha Group of banks reached \$1.48bn in 2011, constituting an increase of 1.2% from \$1.46bn in 2010. The Alpha Group consists of 12 banks with deposits in excess of \$2bn each. Total net operating income rose by 6% to \$3.6bn, with aggregate net interest income increasing by 5.5% to \$2.4bn and net fees & commissions receipts growing by 13.9% to \$657.8m year-on-year. Also, non-interest income accounted for 34.7% of total income 2011, down from 35.5% in 2010; with net fees & commissions earnings representing 49% of non-interest income. The net interest spread remained unchanged at 1.97% for 2011 from the previous year. Also, total operating expenditures increased by 9.1% year-on-year to \$1.8bn, with staff expenses increasing by 13.5% to \$1bn. Further, the cost-to-income ratio increased marginally to 47.4% in 2011 relative to 47.2% in the previous year. The banks' total assets reached \$143.3bn at end-2011, constituting a 12% increase from end-2010; while aggregate loans & advances rose by 19% annually to \$39.6bn. Customer deposits totaled \$117.1bn at the end-2011, constituting an increase of 12% from end-2010.

In parallel, the banks' loans-to-assets ratio increased to 28.5% at end-2011 from 26.9% at end-2010, while the loans-to-deposits ratio increased to 34.1% at end-2011 from 32.2% a year earlier. The ratio of loans-to-deposits in local currency increased to 18.4% at end-2011 compared to 15% at end-2010, while that in foreign currency increased slightly to 41.1% at end-2011 from 40.7% a year earlier. Also, the banks' net return on average assets reached 1.16% in 2011 relative to 1.25% in 2010; while their net return on average equity was 13.12% last year relative to 13.87% in 2010. Further, the primary liquidity-to-deposits ratio reached 39.6% at end-2011, down from 40.2% at end-2010. The equity-to-assets ratio declined to 8.3% at end-2011 compared to 9.1% a year earlier. Also, the collective provisions-to-net loans ratio increased to 1% at end-2011 from 0.83% at end-2010.

BankMed's net income up 11% to \$118m in 2011

BankMed sal, one of Lebanon's top 10 banks, announced unaudited consolidated net profits of \$117.5m in 2011, up 11.2% from 2010. Net operating income rose by 7.3% to \$343.8m, with net interest income rising by 11% to \$216.7m and net fees & commission income growing by 7% to \$43.3m year-on-year. Non-interest income accounted for 39.5% of total income, down from 45.2% in 2010. The bank's interest margin was 2.1% last year relative to 1.95% in 2010, and its net spread improved to 1.94% from 1.79% in the previous year. Also, operating expenditures increased by 1.6% to \$208.2m year-on-year. The cost-to-income ratio declined to 56.6% in 2011 from 57.6% in the previous year. Total assets reached \$11.8bn at end-2011, constituting a 5.4% rise from end-2010, while loans & advances to customers increased by 21% year-on-year to \$3.5bn. Customer deposits totaled \$8bn at end-2011, constituting an increase of 2.8% from end-2010. The bank's return on average assets improved from 0.97% in 2010 to 1.02% in 2011; and its return on average equity rose from 9.4% in 2010 to 11.2% in 2011.

Byblos Bank CAR at end-2011 vs Basel III Targets



Source: Byblos Bank

Muhanna Rating Services takes rating actions on insurance firms

In its annual set of ratings of insurance firm in the Arab world, insurance rating agency i.e. Muhanna & co Rating Services reaffirmed the 'A' financial strength rating of ADIR Insurance sal, the insurance affiliate of the Byblos Bank Group. ADIR came in the 'secure' category, which includes insurers with a sound and balanced capacity to meet policyholders' obligations. It said the financial strength of ADIR is based on good levels of liquidity and underwriting profitability and average level of underwriting exposure. Also, the agency upgraded the Mediterranean & Gulf Insurance and Reinsurance Co. sal (MEDGULF Lebanon) financial strength rating to 'A' from 'A-' due a drop in underwriting exposure and an increase in profitability. It said that the rating is based on improved but still high level of underwriting exposure, good underwriting and overall profitability and stronger loss reserve. It also upgraded the rating of Arab Re to 'BBB+' from 'BBB' as a result of a decrease in underwriting exposure and in the combined ratio. It said that the rating reflects the firm's good level of underwriting exposure, satisfactory capital position, good overall profitability and stronger loss reserve, but unfavorable level of underwriting profitability. Further, it increased the rating of United Commercial Assurance sal to 'A-' from 'BBB+' due to a decrease in underwriting exposure and strengthening of reserves, adding that the rating is based on good liquidity and underwriting exposure as well as good underwriting and overall profitability. It also increased the ratings of Victoire Insurance Co sal to 'BBB' from 'BBB-' due to a fall in underwriting exposure and in the combined ratio. It said the firm's rating is based on better levels of underwriting and overall profitability, better level of liquidity, but high level of underwriting exposure and weak loss reserve.

In parallel, the agency kept the financial strength rating of Crédit Libanais d'Assurance (CLA) at 'BBB+' due to good levels of underwriting exposure and overall profitability and that of LIA at 'A+' due to good levels of underwriting exposure and underwriting profitability. It also maintained the rating of Arab Lebanese Insurance Group (ALIG) at 'BBB-' due to high levels underwriting exposure and unfavorable level of underwriting profitability. Further, it affirmed the rating of Capital Insurance & Reinsurance Company sal at 'BBB' based on a good level of underwriting profitability, but high level of underwriting exposure. The agency downgraded Arabia Insurance Company's financial strength rating to 'A' from 'A+' due to an increase in the firm's underwriting exposure. It said the rating is based on a good level of liquidity and underwriting profitability, but the firm has a high level of underwriting exposure.

CMA CGM's ratings downgraded on poor results

Moody's Investors Service downgraded the corporate family rating of the Lebanese-owned and France-based container shipping group CMA CGM to 'B3' from 'B2' and the firm's probability of default to 'Caa1' from 'B2'. It also downgraded to 'Caa2' from 'Caa1' the company's \$325m and \$475m worth of senior unsecured notes that mature in 2019 and 2017, respectively. It kept the company's ratings on review for further downgrade.

The agency attributed the downgrades to the group's weaker-than-expected results last year, mainly due to the poor performance of the industry in 2011 that was caused by the oversupply of vessels and severely reduced freight rates. It said the downgrades also reflect the company's plan to submit a proposal to its banks to restructure part of its debt. It noted that CMA CGM's negative performance last year led to a significant reduction in its liquidity headroom, which drove the company to discuss with banks a restructuring of its debt for 2012 and 2013. Moody's noted that a restructuring of CMA CGM's debt would help the company maintain a sufficient cash buffer to better withstand the business volatility of the industry. It warned that the weakening of the group's profile increased significantly its probability of default. In parallel, the agency indicated that CMA CGM has a sound business profile with solid market shares globally, as well as a distinctive position in some secondary lanes that are more profitable. It added that the group's limited order-book limits its financial needs for capital spending in the near future. Moody's said the ratings would come under pressure if a lack of short-term improvement in market conditions negatively affects CMA CGM's financial leverage ratio, in case of liquidity pressure, and if the company fails to restore headroom under covenants.

Earlier this month, Standard & Poor's downgraded its long-term corporate credit ratings on CMA CGM SA to 'B-' from 'B+'. It also lowered its issue ratings on the company's debt to 'CCC' from 'B-', and placed all issuer and issue ratings on CreditWatch with negative implications. It attributed the downgrade to CMA CGM's significantly lower than projected operating profits in 2011 due to depressed freight rates and elevated operating costs.

Libano-Française profits down 21% to \$63m in 2011

Banque Libano-Française sal, one of Lebanon's top 10 banks, posted unaudited consolidated net profits of \$62.9m in 2011, constituting a decrease of 20.8% from 2010. Net operating income dropped by 1.8% year-on-year to \$188.4m, with net interest income falling by 13.7% to \$131.9m. Non-interest income accounted for 27.8% of total income, up from 25.2% in 2010; with net fees & commissions accounting for 74% of non-interest earnings. The bank's interest margin was 1.69% last year relative to 2.03% in 2010, while its net spread regressed to 1.52% from 1.81% in the preceding year. Also, operating expenditures increased by 9.1% to \$114m, with staff expenses increasing by 12.3% to \$67m. The cost-to-income ratio rose to 57.6% in 2011 from 53.3% in the previous year. Total assets reached \$10.16bn at end-2011, constituting a 17.3% rise from end-2010, while loans & advances to customers increased by 15.5% year-on-year to \$3.3bn. Customer deposits totaled \$8.6bn at end-2011, up 18.7% from end-2010. The bank's return on average assets regressed from 0.92% in 2010 to 0.67% in 2011; and its return on average equity declined from 11.1% in 2010 to 8.1% in 2011.

Ratio Highlights

(in % unless specified)	2009	2010	2011	Change*
Nominal GDP ⁽¹⁾ (\$bn)	34.7	37.1	39.1	
External Debt / GDP	61.3	55.4	53.5	(190)
Local Debt / GDP	86.0	86.3	83.7	(260)
Total Debt / GDP	147.2	141.8	137.2	(460)
Total External Debt / GDP	176.1	167.0	163.2	(380)
Trade Balance / GDP	(36.8)	(36.9)	(40.7)	(380)
Exports / Imports	21.5	23.7	21.2	(250)
Budget Revenues / GDP	24.3	22.7	22.7	(5)
Budget Expenditures / GDP	32.8	30.6	27.2	(342)
Budget Balance / GDP	(8.5)	(7.9)	(6.0)	191
Primary Balance / GDP	3.1	3.2	4.3	105
BdL FX Reserves / M2	74.0	77.1	78.8	172
M3 / GDP	236.5	248.4	248.7	30
Bank Assets / GDP	332.1	347.5	359.5	1,200
Bank Deposits / GDP	276.0	289.0	296.0	695
Private Sector Loans / GDP	81.8	94.2	100.7	650
Dollarization of Deposits	64.5	63.2	65.9	270
Dollarization of Loans	84.0	80.3	78.4	(190)

* Change in basis points 10/11

(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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