



LEBANON THIS WEEK

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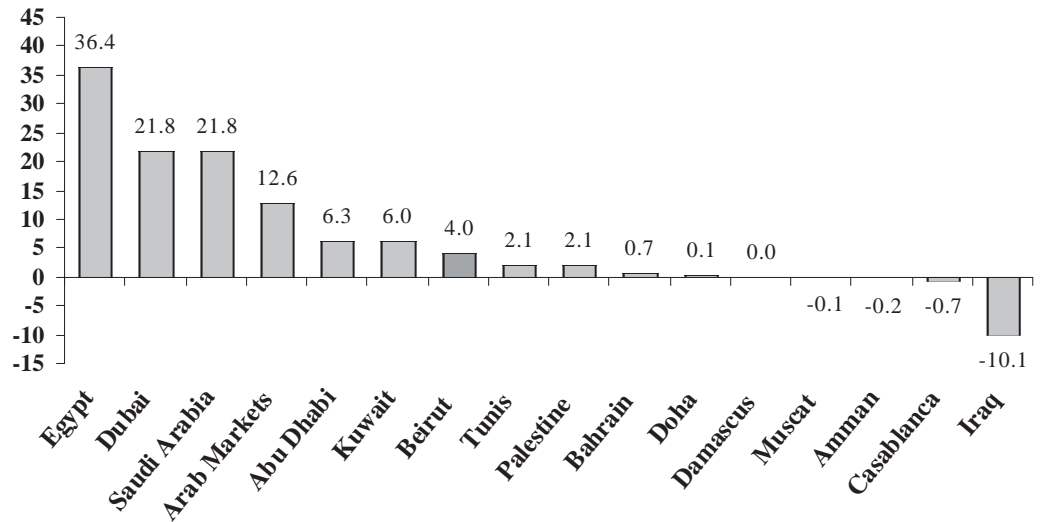
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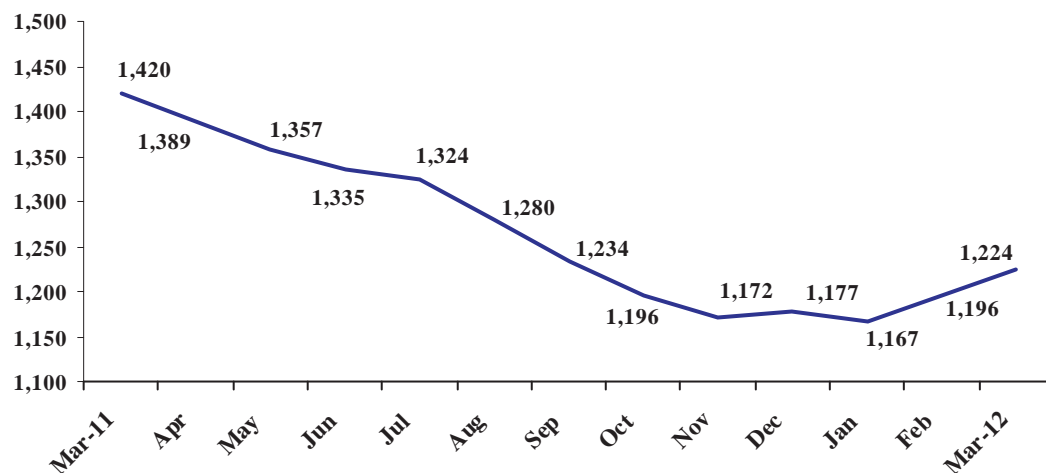
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Charts of the Week

Performance of Arab Stock Markets in the First Quarter of 2012 (% Change)



Performance of the Beirut Stock Exchange



Source: Local Stock Markets, Dow Jones Indices, Byblos Bank

Quote to Note

"A long-term solution to the country's energy problems will require an improvement in the political environment."

Citigroup, on the impact of the political stalemate on reforming the electricity sector

Number of the Week

\$30.75bn: The Central Bank's gross foreign currency reserves at end-January 2012, according to the Association of Banks in Lebanon

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"	14.28	(1.11)	98,764	13.18%
Solidere "B"	14.17	(2.34)	28,194	8.50%
Byblos Common	1.72	3.61	206,170	5.71%
Byblos Pref. 08	105.10	0.00	0	1.94%
Byblos Pref. 09	103.10	0.00	0	1.90%
BLOM GDR	7.98	1.01	28,181	5.44%
BLOM Listed	7.65	0.00	505,200	15.18%
Audi GDR	6.70	3.24	2,001,000	6.19%
Audi Listed	6.50	4.67	37,235	20.96%
HOLCIM	16.50	0.00	6,183	2.97%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Sep. 2012	7.750	100.25	7.11
June 2013	8.625	107.00	2.71
Apr. 2014	7.375	107.50	3.51
Jan. 2015	5.875	104.25	4.24
Apr. 2015	10.00	117.75	3.80
Jan. 2016	8.500	114.50	4.31
Mar. 2017	9.000	119.00	4.67
Nov. 2018	5.150	100.88	4.99
Apr. 2021	8.250	119.00	5.55
Nov. 2026	6.600	102.50	6.34

Source: Byblos Bank Capital Markets

	March 26-30	March 19-23	% Change	March 2012	March 2011	% Change
Total Shares Traded	2,922,829	1,368,291	113.61	5,403,251	12,601,873	(57.12)
Total Value Traded	\$19,824,398	\$4,734,135	318.75	\$31,601,350	\$72,865,526	(56.63)
Market Capitalization	\$10.84bn	\$10.71bn	1.15	\$10.84bn	\$12.09bn	(10.39)

Source: Beirut Stock Exchange (BSE)



Pharmaceuticals association requests placing Lebanon on global black list over the lack of adequate intellectual property protection

The Pharmaceutical Research and Manufacturers of America (PhRMA), an organization grouping the largest U.S. pharmaceutical companies, asked the United States Trade Representative to place Lebanon on the 2012 Priority Watch List over the lack of adequate intellectual property protection in the Lebanese pharmaceutical market. Lebanon is one of 17 countries, in addition to the European Union, that PhRMA recommended for the Priority Watch List. The list includes Algeria and Israel from the region.

PhRMA identified ineffective regulatory data protection, regulatory barriers, and parallel imports as the three key issues of concern in the Lebanese pharmaceutical market. It said that Lebanon is required to prevent unfair commercial use of pharmaceutical data as a World Trade Organization applicant. But it noted that Lebanon does not currently provide protection for clinical data submitted in seeking regulatory approval. It noted that Lebanon passed a new industrial property law in 2000, which represented a major improvement over the 1924 law. It said the 2000 law provides 20 years of product patent protection, as well as incentives for foreign direct investment and technology transfer, specifically for the pharmaceutical sector. But it considered that the patent law does not provide sufficient pipeline or transitional patent protection even though it improved the environment for innovation in the country and provided a good basis for Lebanon's accession to the WTO. It noted that the law provides only a partial definition of confidential information, leaving the identification of such information to interpretation by the courts. Further, it said that the Economy Ministry considers that the publication of any data in a medical journal and on the Internet constitutes a disclosure of the data. However, PhRMA noted that this should not be perceived as giving up the rights in underlying proprietary data, and that relying on those publications for marketing approval is an unfair commercial use of the data. PhRMA indicated that the list of countries with concerns relating to the implementation and enforcement of regulatory data protection includes Algeria, Israel, Jordan, Saudi Arabia, Tunisia and Turkey.

Second, PhRMA pointed out that regulatory barriers constitute another concern in Lebanon's pharmaceutical market. It said that the absence of clear criteria to distinguish between innovative and generic medicines is an ongoing concern in the Lebanese market. It noted that the Ministry of Health has not implemented an effective regulatory system to technically monitor and confirm bioequivalence studies submitted for approval. It added that the drug registration committee currently assesses a registration file based on a set of requirements according to a well-defined checklist and ensures that all sections required are included. As such, PhRMA recommended the establishment of a central laboratory to validate the quality of medicines and bioequivalence, and to create a system to track post-marketing quality concerns in Lebanon. Further, it said that innovative products are subject to more onerous requirements than generics. It noted that Lebanon's current registration system is discriminatory against imported products, which must undergo longer regulatory approval timelines. It added that local manufacturers of 'copy' products and importers of unauthorized copies are able to register with the Health Ministry.

Third, PhRMA cited parallel importation as one of the local pharmaceutical market's key challenges. It noted that grey market medicinal products, with their attendant risks to patients, remain an issue in the country even though Lebanon introduced new regulations to restrict parallel imports. It added that parallel importation presents risks to Lebanese patients by facilitating the import of counterfeit, sub-standard or uncontrolled pharmaceuticals. It pointed out that in the case of product withdrawal or recall, it may be very difficult for the manufacturer to identify parallel importers to alert them of recall decisions. It noted that the trade in counterfeit pharmaceutical products persists and may become a significant public health issue in Lebanon, despite the Health Ministry's efforts to detect counterfeit products and publicly disclose information about them. It added that consumers find it difficult to distinguish counterfeit or sub-standard products from authentic medicine.

Fiscal reforms should be the government's priority

Standard Chartered Bank expected economic activity in Lebanon to be driven in 2012 by highly volatile sectors such as tourism, construction and domestic consumption. It said that a favorable low base effect, along with an adjustment of confidence to the new uncertainties, would support the growth outlook this year. It noted that additional support to growth would also come from expanded government spending, especially on electricity generation capacity, in case the 2012 draft budget is ratified. It added that the recent minimum wage increase would support higher aggregate domestic consumption. It warned, however, that the deteriorating political situation in neighboring countries would present a substantial risk to the outlook in the event of a contagion. But it considered that this scenario would also encourage the current government to adopt a more conciliatory tone with the opposition on the passage of much-needed structural reforms and economic improvements, notably in the energy, telecommunications and infrastructure sectors.

In parallel, Standard Chartered considered that Lebanon's high debt-to-GDP ratio constitutes the country's main vulnerability, and that fiscal reforms should be a governmental priority. It noted that Lebanon has posted primary surpluses for the past 10 years, which maintained investor confidence, despite one of the most elevated debt levels in the world. It added that Lebanon's debt level declined steeply from 180% of GDP at end-2006 to 146% of GDP at end-2009, but pointed out that most of the improvement came from a 60% increase in nominal GDP during the 2006-09 period. It noted that Lebanon's nominal gross public debt increased by 2% in 2011, posting the slowest annual increase in two decades. It added that 98% of Lebanese pound debt and 80% of foreign currency debt is held by Lebanese investors, most of which are commercial banks that have a vested interest in the stability of public finances. It also expected Lebanon's current account deficit to decrease to 15% of GDP this year relative to an estimated deficit of 16% of GDP last year.



Lebanon ranks 117th globally, 15th among economies in the region for its economic growth environment

Global investment bank Goldman Sachs ranked Lebanon in 117th place among 183 countries worldwide on its Growth Environment Scores index (GES) for 2011, up from 121st place in 2010 but down from 60th place in 1997. Lebanon also ranked in 15th place among 23 countries in the Middle East & North Africa (MENA) region, up from the 17th place in the previous year and down from eighth place in 1997. Additionally, Lebanon came in 41st place among the 43 Upper Middle Income Countries (UMICs) included in the survey, up from the 42nd place in 2010, but down from 12th place in 1997.

The GES is a composite measure of economic growth conditions in 183 countries that summarizes the overall growth environment and that ranks countries according to their ability to achieve their growth potential. The GES consists of 13 indicators that are grouped in six broad categories. They are Macroeconomic Stability that covers inflation, government deficits and external debt as a percentage of GDP; Macroeconomic Conditions such as investment rates and openness of the economy; Political Conditions as reflected by political stability, the rule of law and corruption; Human Capital, including life expectancy and the level of education; Technological Capabilities such as penetration of personal computers, phones and the Internet; and the Microeconomic Environment, including the cost to start a business, the urban population as a percentage of total population, the number of patent applications, and expenditures on research & development.

Globally, Lebanon ranked ahead of Benin, Djibouti and Honduras, and came behind Bolivia, Ukraine and Bosnia & Herzegovina. It also ranked ahead of Venezuela and Cuba, and came behind Bosnia & Herzegovina, Namibia and the Dominican Republic among UMICs. Lebanon received a score of 4.62 points in 2011, up from 4.39 points in the previous year but down from 4.73 points in 1997. Lebanon's score was lower than the global average score of 5.05 points, the UMICs' average of 5.27 points, the MENA average score of 5.13 points and the Arab average score of 5.09 points. The scores of 20 countries in the region improved year-on-year and three declined, while the ranks of 10 countries improved and 13 regressed. Singapore had the best economic growth environment in the world, while the Democratic Republic of Congo had the least favorable climate among countries included in the survey. Goldman Sachs noted that technological penetration has been the major driver behind the improvement of the growth environment in recent years and accounted for 50% of the increase in the GES globally since 1996.

Successful exchange of maturing Eurobonds, new issues significantly oversubscribed

The Republic of Lebanon issued a \$950m dual-tranche Eurobond under the Republic of Lebanon's Global Medium Term Note Program to refinance \$293m and €115m in Eurobonds that mature in March and April 2012, respectively. The first series consists of a 5.5-year \$600m bond that matures on October 12, 2017 and carries a coupon rate of 5% to be paid semi-annually. The second series consists of reopening and increasing by \$350m an existing bond that matures on November 28, 2026 and that carries a coupon rate of 6.6% paid semi-annually. The aggregate size of the November 2026 bond becomes \$725m after the increase. The Ministry of Finance had mandated Byblos Bank and Bank of America-Merrill Lynch as the Lead Managers to issue Eurobonds worth \$700m to refinance the two maturities. The size of the original issuance was raised due to the high level of demand, as the first tranche was oversubscribed almost twice and the second tranche was oversubscribed by 4.5 times, with both series showing substantial interest from foreign institutions at booking. The exchange is the first foreign currency market transaction executed by the Lebanese Republic in 2012 to refinance maturing debt.

Byblos Bank co-lead managed in May 2011 a \$1bn dual-tranche Eurobond under the Republic of Lebanon's Global Medium Term Note Program. Also, Byblos Bank was the sole Lead Manager for the issuance of a long-term maturity denominated in Lebanese pounds. The issue was a seven-year LBP 1,500bn bond that carries a coupon rate of 7.9%.

Lebanon's gross public debt reached \$53.6bn at the end of January 2012, unchanged from the end of 2011, and constituting an increase of 2.6% from end-January 2011. Domestic debt reached \$32.8bn at end-January, up by 4.5% annually and unchanged from end-2011, while external debt stood at \$20.9bn, down by 0.3% year-on-year and unchanged from end-2011. Local currency debt accounted for 61.1% of gross public debt at end-January 2012 compared to 60% a year earlier, while foreign currency-denominated debt represented 38.9% of the total at the end of January relative to 40% a year earlier.

GES Scores & Rankings 2011

Country	Score	MENA	Global
		Rank	Rank
UAE	6.76	1	22
Bahrain	6.64	2	24
Oman	6.55	3	26
Israel	6.37	4	31
Kuwait	6.27	5	34
Qatar	6.21	6	36
Saudi Arabia	6.07	7	43
Libya	5.64	8	56
Tunisia	5.46	9	63
Jordan	5.24	10	74
Algeria	5.08	11	84
Iran	4.94	12	94
Morocco	4.89	13	96
Turkey	4.85	14	99
Lebanon	4.62	15	117
Djibouti	4.57	16	119
West Bank Gaza	4.55	17	120
Syria	4.48	18	123
Egypt	4.34	19	132
Mauritania	4.20	20	135
Iraq	3.86	21	147
Sudan	3.18	22	171
Yemen	3.17	23	172

Source: Goldman Sachs, Byblos Research

Economic and social reform plan to address poor telecom performance and low ICT competitiveness

The Economic and Social Reform Action Plan prepared by the Presidency of the Council of Ministers stated that Lebanon lags behind other Arab countries in the development of its information & communication technology (ICT) sector; and that the country's international competitiveness and its attractiveness to investors may decline if the current telecom policies are not changed. It stressed that the evolution of the digital economy is proceeding at a rapid pace around the world and that, unless various fundamental issues are urgently addressed, the current ICT development gap between Lebanon and peer countries will widen. It warned that, if reforms are not implemented, Lebanon's current competitive disadvantages in ICT would evolve into embedded structural barriers to economic and social progress. It added that Lebanon is the only country in the world that still owns its mobile phone operations.

The plan advocates implementing several steps that include speeding up the much-delayed structural reforms of the sector; relying on the domestic and international private sector, rather than on the government's budget, to tap the needed investments; reviewing the level of taxation on telecommunications service-supply; allowing the supply of state-of-the-art infrastructure and innovative services to consumers through competition at all levels of the network; and developing the telecommunications market through the application of Law 431, subject to the effective regulation and governance of the Telecommunications Regulatory Authority (TRA).

It added that Law 431 has to be enforced immediately in order to insure the proper transition from a government-run sector to a fully competitive one. It noted that the two mobile operators must be privatized, with a substantial part of their shares floated on the Beirut Stock Exchange for acquisition by Lebanese investors. The plan also calls on the government to build a consensus about these fundamental issues in order to either allow the private sector into the telecommunications market or to keep all networks within the ownership and operation of the state. The plan advocates for government policy to move away from the piece-meal approach that has been followed so far.

In parallel, the plan stipulates that the government would soon decide on several imminent telecom-related issues and deadlines such as the end of TRA's Board of Directors three-year term in February 2011 and the appointment of a new board; the issue of the TRA operating without a mandate; the issue of OGERO operating without a contract since August 2011; and the nomination by the Council of Ministers of a Board of Directors for Liban Telecom.

Ratification of 2012 budget unlikely, fiscal deficit to widen to 9% of GDP

Barclays Capital considered that the endorsement and ratification of a budget for 2012 is unlikely to take place anytime soon. It said the submission of the 2012 draft budget to Parliament missed the constitutional deadline, which would lead to a seventh consecutive year without a ratified budget. It said that the lack of a legally-approved budget restricts capital spending, delays reforms on the revenue side, and limits Lebanon's ability to benefit from low borrowing costs on international markets. It noted that the government intends to revise the draft 2012 budget that it submitted last September, given disagreements within the Cabinet over the proposed tax hikes and the failure to account for legislated increases in the wage bill that would cost in excess of \$800m. It added that a vote on a new budget would not be possible until the political parties find a legal solution to close the accounts of previous budgetary exercises, an issue that has led to a major political stand-off in Parliament. But it said that if a budget is to be passed, it would have to include an increase in spending, due to the upcoming parliamentary elections next year, even though the Prime Minister opposes any additional increase in spending that is not accompanied by offsetting revenue measures.

Barclays Capital ruled out the implementation of major fiscal reforms over the short term given the deep political frictions and increased political uncertainty. It forecast Lebanon's fiscal deficit to widen to at least 9% of GDP this year from 7.9% of GDP in 2011 due to the increases in wages, salaries and pensions; as well as because of a higher energy bill and a rise in capital spending on electricity. It added that the primary surplus would erode this year, leading to a surplus of about 0.3% of GDP in 2012 relative to 1.2% of GDP in 2011. It also forecast the public debt level to stabilize at 131% of GDP at end-2012, following several years of steady decline.

In parallel, Barclays Capital warned that a further deterioration in public finances may raise concerns about the financing of the deficit, which would put upward pressure on interest rates. It noted that banks have refrained from buying short-term Treasury bills, prompting the Central Bank to expand its T-bills portfolio by 50% year-on-year to the equivalent of \$10.9bn by end-January 2012. It expected an increase in risks to exert further pressure on local debt yields, which may exacerbate the weakening debt dynamics in a low growth environment.

Lebanon signs cooperation agreement with Georgia

Lebanon and Georgia signed an agreement to expand bilateral trade and economic relations between the two countries. The agreement aims to avoid double taxation, lifts visa restrictions for Lebanese visiting Georgia, aims to increase tourism cooperation, and seeks to collaborate in the field of electricity. The aggregate value of bilateral trade between Lebanon and Georgia totaled \$7.2m in 2010. Lebanese imports from Georgia increased by 67% year-on-year to \$6.5m, while Lebanese exports to Georgia increased by 611% to \$0.7m in 2010.

Cabinet approves leasing of power-generating ships and building power plants

The Council of Ministers agreed on March 28 to lease power-generating ships to produce 270 megawatts of electricity. The agreement stipulates that the ships would supply electricity to Lebanon for a maximum period of three years, and that a ministerial committee will negotiate prices and conditions for contracts to be offered to the companies renting out the ships. In parallel, the Cabinet approved the construction of power plants with the capacity to collectively produce 1,500-megawatt. The approval covers finalizing studies, preparing specification handbooks, securing the needed funds, and taking measures to facilitate the participation of the private sector. The Ministry of Electricity projected electricity demand to rise to 3,000 megawatts per day during the summer of 2012 compared to the current production level of 1,500 megawatts per day. The leasing of power-generating ships is considered to be a short-term solution to improve electricity supply in the country until the implementation of a multi-year comprehensive plan that would raise electricity production by 700 Megawatts during the 2011-14 period.

IDAL processes 12 projects in the first quarter of 2012

The Investment Development Authority of Lebanon (IDAL) indicated that it has processed 11 Greenfield projects and one expansion project that met its the minimum investment requirements set by Investment Law No. 360, in the first quarter of 2012. It said that it has received more than 21 applications from potential investors interested to set up their operations in Lebanon in the first quarter of 2012, but nine projects were not eligible to benefit from IDAL's incentives, mainly the 100% exemption on corporate income tax, as they failed to meet the minimum investment requirements. It said tourism accounted for 48% of the total number of projects, followed by industry with 19%, agriculture with 14%, information technology with 9%, telecommunication with 5% and agro-industry with 5%. Mount Lebanon attracted 52% of projects, followed by North Lebanon with 19%, Beirut with 14%, the Bekaa with 10% and South Lebanon with 5%. IDAL said tourism projects consisted of four and five-star hotels to be located across Mount Lebanon, Beirut, North Lebanon and the Bekaa.

Economic activity contracts in January 2012

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 249.8 points in January 2012 compared to 265.5 points in December 2011 and to 254.4 in January 2011. The Coincident Indicator, an average of 8 weighted economic indicators, decreased by 5.9% month-on-month in January and by 1.8% year-on-year. The indicator averaged 255.3 in the 12-months ending January 2012 compared to 255.7 in 2011 and to 250.4 in the 12-months ending January 2011. As a result, the average coincident indicator declined marginally by 0.2% month-on-month and rose by 2% year-on-year, which reflects economic contraction in real terms. The indicator posted its first decline in recent months after it grew by 4.8% in September, 4.6% in October, 0.4% in November and 1.9% in December. The indicator reached an all-time high of 269.9 in April 2011 after peaking at 266.7 in November 2010. In parallel, the indicator improved nine times and regressed 10 times in the month of January since 1993. The indicator averaged 255.7 in 2011, 249.5 in 2010 and 225.9 in 2009.

Cleared checks up 5%, returned checks up 10% in January 2012

The value of cleared checks reached \$5.9bn in the first month of 2012, constituting an increase of 5.4% from January 2011. The value of cleared checks in Lebanese pounds rose by 3.3% to the equivalent of \$1.2bn, while the value of cleared checks in US dollars increased by 5.9% to \$4.7bn. The dollarization rate of cleared checks increased slightly to 78.9% from 78.5% in January 2011. Also, the value of returned checks in domestic and foreign currency amounted to \$122m in January 2012, constituting an increase of 9.9% from January 2011. In parallel, the number of cleared checks totaled 1.1 million checks in January, up 1.4% from the same month last year. Also, the number of returned checks totaled 23,000 checks and rose by 4.6% in the covered month.

Construction permits up 1% in January 2012

Figures released by the Association of Engineers of Beirut & Tripoli show that construction permits issued in January 2012 reached 933,000 square meters, constituting an increase of 0.9% from 925,000 square meters in January 2011. In parallel, cement deliveries reached 263,000 tons in January, a decrease of 23.1% from 342,000 tons in January 2011.

Customs receipts down 22% to \$1.5bn in 2011

Figures released by the Customs Directorate indicated that customs revenues reached \$1.5bn in 2011, constituting a decline of 21.6% from \$2.9bn in 2010. Customs revenues totaled \$126m in December 2011, up 2.7% from \$122.7m in the preceding month but down 16% from \$150m in December 2010. The Port of Beirut continues to be the main point of customs receipts, as it accounted for 86.6% of the total last year, and was followed by the Hariri International Airport with 7.3%, the Port of Tripoli with 2.8%, the Masnaa crossing point with 2.3%, and the crossing point of Abboudieh by 0.5%. Customs receipts from the value-added tax totaled \$1.5bn last year, constituting a marginal increase of 1% from 2010. The Port of Beirut accounted for 75.2% of such receipts, and was followed by the Hariri International Airport with 9%, the Port of Tripoli with 7%, the Masnaa crossing point with 6%, and the Port of Saida with 2.4% of the total. As such, overall customs receipts reached \$3bn last year, with the Port of Beirut accounting for 81% of the total. It was followed by the Hariri International Airport with 8%, the Port of Tripoli with 5%, and the Masnaa crossing point with 4%. In addition, other entry points represented the balance, with the port of Saida accounting for 1.4%, the crossing point of Abboudieh for 0.4%, and the port of Tyre for 0.1%. Customs receipts reached \$260m in December 2011 when including revenues from the value-added tax that totaled \$134m in the same period.

Trade deficit up 23% to \$17bn in 2011 when including EdL imports

Total imports reached \$20.2bn in 2011 constituting an increase of 12.2% from 2010, while aggregate exports rose marginally by 0.3% to \$4.3bn, leading to a trade deficit of \$15.9bn, up 16% from \$13.7bn in 2010. The trade balance constituted the highest deficit in five years in both value and volume terms, and was prompted by a rise of \$2.2bn in imports as the value of exports was almost unchanged last year. Imports of oil and mineral fuels increased by 21.7% year-on-year to \$4.5bn, and non-hydrocarbon imports grew by 9.8% to \$15.7bn. In volume terms, imports reached 15 million tons in 2011, constituting a marginal increase of 0.3% from 2010; while exports posted a 12.6% drop to 2.7 million tons in the covered period, leading to a trade deficit of 12.3 million tons, up 3.7% year-on-year. Imports of oil and mineral fuels decreased by 6.8% year-on-year to 5.6 million tons, while non-hydrocarbon imports increased by 5% annually to 9.5 million tons. However, the value of imports of mineral fuel and oil would rise by 46% to \$5.75bn in 2011 from \$4bn in 2010 when including \$275m and \$1.3bn worth of imports by the state-owned Electricité Liban in 2010 and 2011, respectively. These imports entered the market under a special permission and were not registered in the respective periods. As such, the trade deficit would widen by 23% to \$17.2bn in 2011 from a deficit of \$14bn in 2010.

The increase in imports of oil and mineral fuels is partly attributed to a price effect, as imports by volume remained almost stable when compared to 2010. The rise in non-hydrocarbon imports is largely explained by a \$982m, or 85%, increase in "unwrought & semi-manufactured gold, diamonds, precious stones & metals", reflecting an increase in prices, as the import volume of these products rose by around 4% year-on-year. Exports were stagnant despite a 35% increase in the export of "unwrought gold, un-mounted diamond & precious stones" in terms of value, partially due to higher gold prices, as the export volume of these products decreased by 2% year-on-year. As such, when excluding these products, exports would drop by 12% due mainly to lower exports to Arab countries. Exports to Arab countries dropped by 13%, largely due to a 66% drop in exports to Egypt and a 3% drop in exports to Syria. Imports averaged \$1.7bn and exports averaged \$355 on a monthly basis last year, resulting in an average monthly trade deficit of \$1.3bn in 2011. The coverage ratio reached 21.2% in 2011 compared to 23.7% in 2010, while it reached 20.3% in December 2011 relative to 33.1% in December of the preceding year.

The United States was the main source of imports with \$2bn or 10% of the total, followed by Italy with \$1.9bn (9%), China with \$1.6bn (8%), France with \$1.5bn (7%), and Germany with \$1.1bn (6%). Imports from Italy rose by 34% year-on-year, from France by 26% and from the U.S. by 4%; while imports from Germany decreased by 9% and those from China by 1% in 2011. Switzerland was the main export destination with \$515m or 12% of the total, followed by the UAE with \$322m (8%), Saudi Arabia with \$308m (7%), Turkey with \$276m (6%), Syria with \$215m (5%) and Iraq with \$198m (4.6%). Exports to Saudi Arabia rose by 25%, they increased by 20% to Turkey and grew by 2% to Switzerland; while exports to Iraq dropped by 26%, they regressed by 23% to the UAE and contracted by 3% to Syria. Lebanon's main export was jewelry at \$1.5bn or 35% of the total, followed by base metals with \$525m (12.3%), machinery & mechanical appliances with \$519m (12.2%), chemical products with \$384m (9%) and prepared foodstuff with \$380m (9%). Re-exports totaled \$568m in 2011 compared to \$153m in 2010.

Byblos Bank Armenia to support housing and energy-efficient lending

The International Finance Corporation, the private sector arm of the World Bank, announced that it has extended a \$10m loan to Byblos Bank Armenia to increase access to housing finance in Armenia and support the first energy-efficient lending package in the country. It said that the partnership will help Byblos Bank Armenia to increase mortgage lending and provide loans to homeowners who want to have energy-efficient residences. In turn, this would help Armenians save power and reduce greenhouse gas emissions. It added that the partnership with Byblos Bank Armenia would yield a significant impact on development, given that the country relies heavily on energy imports. It noted that Byblos Bank Armenia will design its energy-efficiency products with advisory support from IFC's Armenia Sustainable Energy Finance Project. IFC will provide training for Byblos Bank Armenia credit officers and risk specialists on assessing risks and processing energy-efficiency loan applications. Byblos Bank Armenia operates as an independent subsidiary of the Byblos Bank Group and mainly focuses on commercial and retail activities, as well as serves the needs of the Armenian Diaspora. Byblos Bank Armenia had total asset of AMD36bn, equivalent to \$93.5m, at the end of September 2011; while its net profit reached AMD330m, equivalent to \$855,000 in the first 9 months of the year. The Byblos Bank Group has a direct presence in Lebanon, Syria, Iraq, Sudan, the United Arab Emirates, Nigeria, Armenia and the Democratic Republic of Congo, as well as in Belgium, France, the United Kingdom and Cyprus.

Stock market activity down 40% to \$90m in first quarter of 2012

Figures released by the Beirut Stock Exchange indicate that total trading volume reached 13.4 million shares in the first quarter of 2012, constituting a decrease of 47% from the same period last year, while aggregate turnover amounted to \$90.4m, down 39.6% from a turnover of \$149.8m in the first three months of 2011. Market capitalization decreased by 10.4% from end-March 2011 to \$10.8bn, of which 74.6% was in banking stocks, 21.7% in real estate stocks, 3.2% in industrial stocks, 0.3% in fund stocks, and 0.2% in trading stocks. The market liquidity ratio was 0.8%, down from 1.2% from the same period last year. Bank stocks accounted for 86% of aggregate trading volume in the first quarter of the year, followed by real estate stocks with 11.7%, trading stocks with 2%, and industrial stocks with 0.3%. In terms of value of shares traded, banking stocks accounted for 74.7% of aggregate value, followed by real estate stocks with 24.5%, industrial stocks with 0.4%, and trading stocks with 0.3%. The average daily traded volume for the period was 215,965 shares for an average daily value of \$1.5m. The figures reflect decreases of 49.4% in volume and 42.6% in value year-on-year.

BLC Bank's net income up 6% to \$48m in 2011

BLC Bank sal, one of Lebanon's listed banks, announced audited net profits of \$48.1m in 2011, constituting an increase of 6.2% from 2010. Net interest income rose by 31.4% to \$83.8m, while net fees & commission income increased by 47.8% to \$16.9m in 2011 from \$11.5m in 2010. Also, administrative expenses increased by 60.5% to \$23.9m and staff costs rose by 61.3% to \$44.9m year-on-year. Total assets reached \$4.42bn at end-2011, up 42.4% from end-2010; while loans & advances to customers increased by 123% to \$1.53bn at end-2011. The bank held \$60.6m in assets acquired in satisfaction of loans at end-2011, down from \$63.8m at end-2010. Customer deposits totaled \$3.6bn constituting an increase of 38.9% from end-2010. BLC Bank is part of the Fransabank Group.

BBAC's net income unchanged at \$39m in 2011

BBAC sal posted unaudited consolidated net profits of \$38.6m in 2011, up 0.3% from 2010. Net operating income rose by 1.8% to \$100.8m, with net interest income also rising by 1.8% to \$66.7m and net fees & commission income growing by 10.3% to \$15.9m year-on-year. Non-interest income accounted for 30.2% of total income, up from 29.9% in 2010. The bank's interest margin was 1.63% last year relative to 1.72% in 2010, and the spread declined to 1.58% from 1.67% in the previous year. Also, operating expenditures increased by 1.7% to \$59.8m year-on-year. The cost-to-income ratio declined slightly to 62.7% in 2011 from 62.9% in the previous year. Total assets reached \$4.3bn at end-2011, constituting a 5.2% rise from end-2010, while loans & advances to customers increased by 24.1% year-on-year to \$1.1bn. Customer deposits totaled \$3.8bn at end-2011, constituting an increase of 5% from end-2010. The bank's return on average assets declined from 0.7% in 2010 to 0.66% in 2011; and its return on average equity decreased from 9.28% in 2010 to 8.86% in 2011.

First National Bank's net income stagnates at \$16m in 2011

First National Bank sal posted unaudited consolidated net profits of \$16.4m in 2011, up 0.2% from 2010. Net operating income rose by 4.9% to \$53.3m, with net interest income rising by 7.5% to \$44.4m and net fees & commission income declining by 14.4% to \$2.5m year-on-year. Non-interest income accounted for 15.02% of total income, down from 23.9% in 2010. The bank's interest margin was 1.7% last year relative to 1.82% in 2010, and the spread declined to 1.66% from 1.77% in the previous year. Also, operating expenditures increased by 5.9% to \$33.3m year-on-year. The cost-to-income ratio increased to 63.8% in 2011 from 57.5% in the previous year. Total assets reached \$2.8bn at end-2011, constituting an 11.3% rise from end-2010, while loans & advances to customers increased by 32.3% year-on-year to \$756.8m. Customer deposits totaled \$2.2bn at end-2011, constituting an increase of 17% from end-2010. The bank's return on average assets declined from 0.7% in 2010 to 0.53% in 2011; and its return on average equity decreased from 9.19% in 2010 to 7.65% 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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