

LEBANON THIS WEEK

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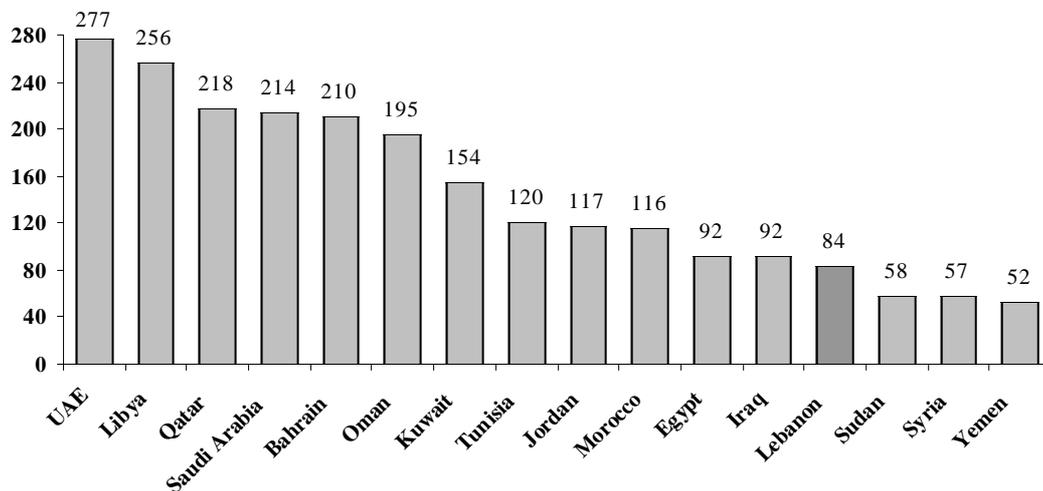
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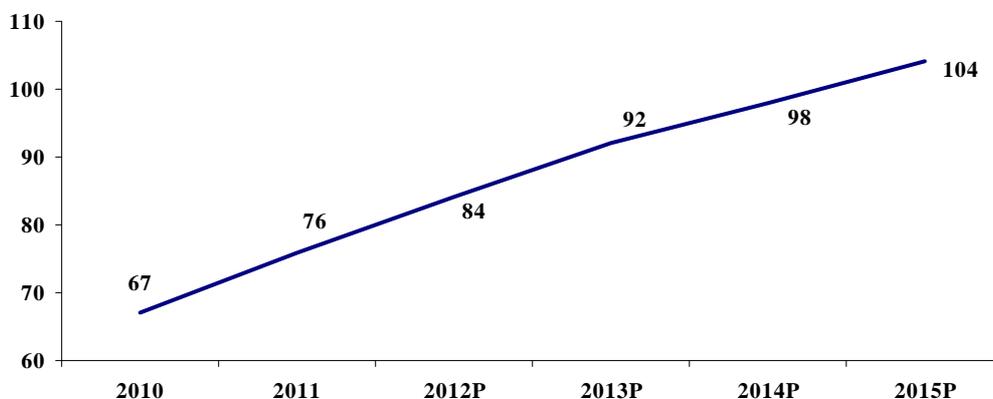
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Charts of the Week

Projected Mobile Subscribers Penetration in Arab Countries in 2012 (% of population)



Projected Mobile Subscribers Penetration in Lebanon (% of population)



Source: Deloitte & Touche, Byblos Bank

Quote to Note

"What Lebanon needs is faster, sustained and more inclusive growth."

Dr. Nemat Shafik, Deputy Managing Director of the International Monetary Fund, on the slowdown of economic activity in the country

Number of the Week

53%: Percentage of Lebanese youth who consider they have fewer opportunities currently than they did 12 months ago, compared to 33% of Arab youth who have the same opinion, according to a survey by public relations firm ASDA'A Burston-Marsteller

Economic Indicators

\$m (unless otherwise mentioned)	2010	Feb 11	2011	Dec 11	Jan 12	Feb 12	% Change*
Exports	4,256	304	4,276	338	348	429	41.12
Imports	17,956	1,218	20,170	1,665	1,454	2,799	129.80
Trade Balance	(13,700)	(914)	(15,894)	(1,327)	(1,106)	(2,370)	159.30
Balance of Payments	3,326	104	(1,996)	692	(290)	(134)	(228.85)
Checks Cleared in LBP	13,519	1,172	14,251	1,370	1,246	1,152	(1.71)
Checks Cleared in FC	53,925	4,094	57,852	5,094	4,665	4,272	4.35
Total Checks Cleared	67,444	5,266	72,103	6,464	5,911	5,424	3.00
Budget Deficit/Surplus	(2,894)	(501)	(2,342)	(391)	(176)	(181)	(63.85)
Primary Balance	1,231	(266)	1,662	(73)	33	11	(104.24)
Airport Passengers	5,512,435	300,326	5,596,034	441,214	424,741	374,252	24.62

\$bn (unless otherwise mentioned)	Dec 2010	Feb 11	Nov 11	Dec 11	Jan 12	Feb 12	% Change*
BdL FX Reserves	28.60	28.42	30.82	30.82	30.74	30.76	8.25
<i>In months of Imports</i>	<i>19.46</i>	<i>23.33</i>	<i>19.52</i>	<i>18.51</i>	<i>21.14</i>	<i>10.99</i>	<i>(52.90)</i>
Public Debt	52.59	52.08	54.05	53.64	53.65	53.94	3.57
Net Public Debt	45.01	45.31	46.10	46.35	46.54	46.74	3.15
Bank Assets	128.93	130.06	139.43	140.58	142.85	144.11	10.80
Bank Deposits (Private Sector)	107.20	106.80	114.15	115.72	116.69	117.42	9.94
Bank Loans to Private Sector	34.93	35.70	39.60	39.38	40.51	40.45	13.31
Money Supply M2	39.40	37.03	38.42	38.90	39.09	39.46	6.56
Money Supply M3	92.15	91.01	96.32	97.23	97.49	98.13	6.65
LBP Lending Rate (%)	7.91	7.71	7.31	7.38	7.19	7.07	(64b.p.)
LBP Deposit Rate (%)	5.68	5.63	5.59	5.63	5.60	5.47	(16b.p.)
USD Lending Rate (%)	6.74	7.01	6.99	7.02	6.99	7.13	12b.p.
USD Deposit Rate (%)	2.80	2.90	2.84	2.83	2.87	2.87	(3b.p.)
%* Change in CPI**	6.19	5.09	3.89	4.27	4.47	3.71	(138b.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"	13.37	(0.67)	278,082	12.80%
Solidere "B"	13.22	(1.27)	59,428	8.23%
Byblos Common	1.60	0.63	206,384	5.51%
Byblos Pref. 08	101.10	0.10	100	1.94%
Byblos Pref. 09	101.10	0.10	417	1.94%
BLOM GDR	7.85	0.64	36,150	5.55%
BLOM Listed	7.80	0.00	0	16.05%
Audi GDR	6.50	0.00	745	6.23%
Audi Listed	6.05	0.83	125,712	20.24%
HOLCIM	17.26	1.71	6,000	3.22%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Sep. 2012	7.750	100.75	5.22
June 2013	8.625	105.50	3.46
Apr. 2014	7.375	107.13	3.49
Jan. 2015	5.875	104.88	3.93
Apr. 2015	10.00	117.25	3.75
Jan. 2016	8.500	114.00	4.34
Mar. 2017	9.000	118.25	4.74
Nov. 2018	5.150	100.75	5.01
Apr. 2021	8.250	119.50	5.46
Nov. 2026	6.600	104.13	6.17

Source: Byblos Bank Capital Markets

	May 7-11	April 30-May 4	% Change	April 2012	April 2011	% Change
Total Shares Traded	760,378	3,668,115	(79.27)	3,868,312	18,453,479	(79.04)
Total Value Traded	\$7,100,744	\$17,171,806	(58.65)	\$35,454,788	\$94,089,158	(62.32)
Market Capitalization	\$10.45bn	\$10.43bn	0.12	\$10.50bn	\$11.91bn	(11.84)

Source: Beirut Stock Exchange (BSE)



Lebanon's advertising market to grow by 5% during 2011-15 to \$175m, digital segment to post fastest growth

Deloitte & Touche projected total advertising revenues in Lebanon to reach \$145.1m in 2012, and to account for 3% of aggregate ad revenues in the Arab world. It forecast advertising spending in Lebanon to increase by 1% this year and to grow by a compound annual growth rate (CAGR) of 5% during the 2011-15 period, compared to growth of 5.9% for ad revenues in Arab economies in the covered period. It estimated that ad spending in Lebanon would total \$174.6m and would account for 2.9% of total advertising revenues the Arab world in 2015.

The survey said TV advertising revenues are expected to reach \$54.8m in Lebanon in 2012, or 37.8% of the total, followed by out-of-home advertising with \$40m (27.6%), newspaper ads with \$24.8m (17.1%), digital ads with \$10.2m (7%), magazine ads with \$10.1m (7%) and radio with \$5.3m (3.7%). The survey forecast television advertising expenditures in Lebanon to post a CAGR of 5% during the 2011-15 period and to reach \$66.3m in 2015, compared to growth of 6% for TV ad spending in the Arab world during the same period. It also expected out-of-home ad spending to contract at a CAGR of 1% between 2011 and 2015 and to total \$40.1m by 2015, compared to growth of 6% in the Arab world. In addition, it forecast ad spending in newspapers to remain flat during 2011-15 and to total \$26.2m in 2015. It estimated advertising revenues from digital ads to post a CAGR of 37% during 2011-15 and to reach \$22.7m by 2015, compared to growth of 35% in the Arab world. Further, it projected the ad market for magazines to grow by a CAGR of 5% over the 2011-15 period and to reach \$12.2m in 2015. Finally, it expected radio advertising in Lebanon to jump by a CAGR of 9% in the four-year period and to total \$7m in 2015, higher than the projected growth rate of 7% in the Arab world.

The survey indicated that the share of digital ad spending in Lebanon is relatively small at about 4% of the total in 2011, but it noted some positive drivers for the growth of digital advertising in the country. It estimated that digital advertising will grow to 13% of the total advertising spent by 2015 despite the currently low broadband penetration, and will be driven by increased mobile broadband uptake, robust internet usage and a thriving media sector in the country. Also, it attributed the large size of outdoor advertising in Lebanon to a vast inventory with less strict urban regulations compared to other markets in the region.

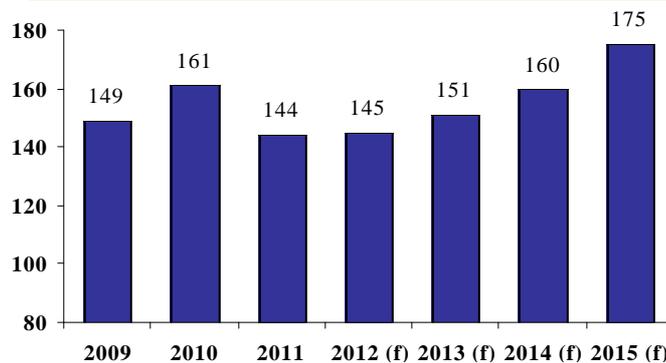
In parallel, the survey shows that aggregate advertising revenues in Lebanon reached \$143.7m in 2011, constituting a drop of 11% from \$161.4m in 2010. It said that TV advertising revenues stood at \$54.2m and fell by 18.1% annually, followed by out-of-home ad spending with \$41.8m (-2.6%), newspapers ads with \$26.3m (-18.3%), and magazine ads with \$10m (-10.7%); while digital ads increased by 64.1% to \$6.4m and radio ads remained flat at \$5m. It said that last year's drop in TV advertising budgets has severely impacted some of the smaller TV channels and many survived thanks to alternative funding, as a number of channels are supported by political parties.

Economic growth remains below potential

The International Monetary Fund indicated that Lebanon's projected real GDP growth of 3% in 2012 is well below the economy's potential, adding that domestic political and regional uncertainties have taken their toll on the country's economic activity. As such, it said that the implementation of strong domestic policies is essential to stimulate confidence. It noted that this requires maintaining fiscal discipline by targeting a primary surplus, which would keep the debt-to-GDP ratio on a downward path. It considered that a medium-term fiscal strategy, anchored in reducing the debt-to-GDP ratio, would revive market confidence and create fiscal space through revenue and expenditure measures for higher social and capital spending. Further, it pointed out that creating a dynamic economy that can generate jobs would help reduce unemployment and poverty levels over the medium term. It said that this requires investment and reforms in infrastructure as well as improvements in the business climate and the labor market.

In its Article IV Consultation published last February, the IMF cautioned that near-term risks to growth are high and to the downside due to the uprising in Syria, the uncertain outlook for the region, and the financial crisis in Europe. It added that underlying vulnerabilities remain large, especially those stemming from the high government debt and the continuing current account deficit. It indicated that the uprising in Syria is keeping Lebanon on edge given the two countries' close political and economic ties. It considered that further escalation of the uprising and sanctions by the Arab League could have far-reaching political and economic repercussions. It added that Lebanon is facing risks related to the worsening outlook in Europe and that second-round effects could be significant if regional oil exporters were affected via a lower oil price or financial losses.

Advertising Revenues in Lebanon (US\$m)



Source: Deloitte & Touche

U.S. maintains Lebanon on Watch List of intellectual property rights protection

In its annual Special 301 review of the state of intellectual property rights (IPR) protection and enforcement around the world, the Office of the United States Trade Representative (USTR) maintained Lebanon on the Watch List, along with 25 other countries and jurisdictions. The USTR placed Lebanon on the Watch List in 1999 and then downgraded it to the more critical Priority Watch List in 2001 where it remained till 2007. It then upgraded Lebanon to the Watch List in 2008. The USTR also included 13 countries this year on its Priority Watch List. Countries from the Middle East & Africa on the 2012 Watch List are Egypt, Kuwait, Lebanon and Turkey, while Algeria and Israel remained on the more critical Priority Watch List.

The USTR indicated that Lebanon participated actively in training programs and conducted IPR awareness-raising programs. It added that rights holders reported good cooperation from the Internal Security Forces (ISF) on enforcement efforts, including a notable action against a manufacturer of counterfeit medicines. But it noted that Lebanon should take further action to address concerns about counterfeit medicines by shutting down offending factories. It encouraged Lebanon to clarify its protection against the unfair commercial use and unauthorized disclosure of test or other data generated to obtain marketing approval of pharmaceutical products. It also encouraged Lebanon to complete its accession to the World Intellectual Property Organization (WIPO) Internet Treaties. It pointed out that several key legislative reforms remain pending, and that progress on the copyright law's amendments has stalled. It said that Lebanon should provide enforcement authorities, including the Cybercrime & Intellectual Property Unit of the ISF and customs officials, with *ex officio* authority.

Economic outlook continues to depend on Syrian developments

Regional investment bank EFG Hermes maintained its economic growth forecast for Lebanon at 2.5% for 2012 compared to an estimate of 1.5% for 2011. It attributed its higher growth forecast in part to a strengthening in tourism activity following the sharp decline of tourist arrivals in 2011. It pointed out that a better tourism season would support private consumption, higher spending by visitors, and more employment in the sector. But it expected the recovery of the tourism sector to depend on security conditions in Lebanon and Syria. It warned from substantial risks stemming from Syria, where international ceasefire plans are struggling to be implemented. It considered that the security environment in Lebanon would remain fragile as long as the unrest in Syria is ongoing. In parallel, EFG Hermes indicated that it has a bearish outlook on other key economic drivers, mainly government spending and investments, which continue to post a subdued performance. It said that the domestic political situation remains at a standstill, as reflected by the stalled 2013 budget, and expected the ongoing unrest in Syria to continue dominating the Lebanese political scene.

In parallel, EFG Hermes expected the fiscal deficit to increase from 5.7% of GDP in 2011 to 7.1% of GDP in 2012, mainly due to higher interest payments on the public debt and a smaller increase in telecommunication revenues. It said that government spending remained strong in the first two months of the year and rose by 10.1% year-on-year, mainly due to higher debt servicing. But it expected the increase in debt servicing to have a muted impact on Lebanon's real GDP growth performance. It noted that an increase in telecom revenues reduced Lebanon's fiscal deficit by LBP291bn in the first two months of the year. However, it said that such a trend is unlikely to continue this year given that telecom revenues were not transferred to the Finance Ministry's account in the first two months of 2011, as the transfers from the Ministry of Telecommunications took place at the end of 2011.

Macroeconomic Indicators				
	2010	2011E	2012F	2013F
Real Sector				
Real GDP Growth Rate (%)	7.0	1.5	2.5	4.5
CPI Inflation (yoy % average)	4.0	4.9	4.9	4.5
External Sector				
Trade balance (\$bn)	(13.7)	(15.9)	(17.7)	(19.5)
Current account balance (% of GDP)	(19.2)	(12.2)	(12.1)	(0.1)
BdL NFAs (ex-gold) (\$bn)	28.4	30.6	32.0	34.4
Fiscal Sector				
Fiscal balance (% of GDP)	(7.4)	(5.7)	(7.1)	(6.1)
Net domestic debt (% of GDP)	63.0	61.9	56.5	50.8
External debt (% of GDP)	53.0	50.8	48.4	45.5
Financial Sector				
Broad money growth (yoy %)	12.3	5.5	6.3	8.8
Private sector credit growth (yoy %)	24.4	13.2	10.0	12.0

Source: EFG Hermes, May 2012

Political deadlock preventing reforms

Standard Chartered attributed the improvement in Lebanon's economic activity so far this year to stronger domestic consumption, a favorable base effect, and higher tourism activity. It said that growth in Lebanon remains volatile and highly vulnerable to political shocks. It noted that growth slowed significantly last year due to a collapse in confidence because of increased geopolitical tensions in the region. It added that this severely affected the tourism sector and overall economic growth, given that the economy is relatively concentrated as two-thirds of Lebanon's GDP originate from tourism and financial services. It pointed out that implementing reforms would allow the country to move towards a more sustainable growth track, but added that the pace of reforms remains very slow due to political deadlock. It noted that major reforms such as restructuring the state-owned Electricité du Liban, privatizing the telecom companies, and increasing the value-added tax rate have been on the agenda for a number of years.

Further, Standard Chartered indicated that the public debt level continues to limit the government's ability to spend on upgrading the infrastructure. It said that the high level of indebtedness implies that the government will have a large financing gap for the foreseeable future. But it pointed out that the combination of primary surpluses and liability management by the authorities improved the structure of government indebtedness, and that foreign currency-denominated debt declined to around 40% of the total public debt. It noted that the debt's funding sources are stable and deep despite structural weaknesses in the fiscal and external accounts, and that the financing gap is covered. It added that Lebanon's large banking sector remains the government's primary creditor; while remittances from the Lebanese Diaspora provide strong structural support for the external balance, and foreign currency reserves continue to increase and stand currently at around \$32bn.

In parallel, Standard Chartered said that the budget remains in deficit despite Lebanon's ability to generate primary surpluses over the past few years. It projected the fiscal deficit at 8.3% of GDP this year relative to 9.9% of GDP last year. Further, it said that Lebanon's current account deficit widened to 17.5% of GDP in 2011 from 11.6% of GDP in 2010 due to increased tensions in Syria and the decline in tourism. It forecast the current account deficit at 16% of GDP this year.

Draft law to cut by 50% tax on revenues from industrial exports

The Ministry of Industry indicated that a draft law that reduces income tax on industrial exports by 50% was approved by the Cabinet on March 28, 2012 and awaits the Parliament's ratification. The ministry indicated that the tax reduction will allow industries to increase export-oriented production, reduce prices of exported products, and encourage mergers and acquisitions among smaller firms. It added that the decision is expected to raise the liquidity of companies, encourage investments in the industrial sector, and help create new jobs. Figures released by the Ministry of Industry show that industrial exports totaled \$527.1m in the first two months of 2012, constituting an increase of 10.6% from \$476.6m in the same period last year. Pearls & precious or semi-precious stones accounted for \$175.9m, or 33.4% of total industrial exports in the first two months of the year, followed by base metals & articles of base metals with \$80.2m (15.2%), and machinery and mechanical appliances with \$70m (13.3%).

Online shopping shows potential in Lebanon

A survey by MasterCard indicated that online shopping has significant potential for growth in Lebanon. The survey's results show that 31% of respondents in Lebanon have made an online purchase in recent months, led by consumers in the 25-34 years and 35-44 years age brackets.

Further, the survey showed that when calculating the ratio of online-to-offline shopping, the highest ratio of 100% occurred on coupon or deal websites. Other leading categories were music download sites with a ratio of 77%, followed by airlines (68%) and applications (68%). Also, shopping online for airline tickets led all categories of online purchases in terms of absolute value. Respondents cited speed of transactions (58%), reputation of website (57%), convenient payment methods (57%), and the price-to-value of products (56%) as the major factors affecting their online shopping.

The survey found that 43% of respondents in Lebanon indicated that they prefer a hotline for enquiries when shopping online. Also, 42% of respondents said that shopping online is easier than shopping offline through the use of catalogues and telephones, but another 42% stated that they still do not feel secure shopping online. The survey added that 54% of consumers in Lebanon plan in advance about the products or services that they will look for before going online.

In terms of cross-border shopping, the survey indicated that Lebanese respondents spend 61% of their online shopping time on foreign retailers' websites. It added that the most popular categories for cross-border online shopping were airlines (25%), retailers of clothing and accessories (19%), and travel websites (16%). But it found that the main barrier to online cross-border shopping is Lebanese consumers' perception that buying locally is more convenient (31%) and that local products are less expensive (28%).

In parallel, the survey's findings revealed that shopping through mobile phones is increasing in Lebanon, as 14% of respondents said they made a purchase through their mobile phones recently. The top three categories that Lebanese consumers bought over their mobile phones are applications (23%), cinema tickets (17%), and travel bookings (12%). The MasterCard survey selected a sample of 500 respondents between 18 and 64 years old, where all respondents have bank accounts and accessed the Internet at least once a week. It was conducted online between December 5, 2011 and January 6, 2012.



Central Bank circular clarifies operations of specialized and investment banks

The Central Bank issued Intermediary Circular 299 on specialized banks and brokerage firms and credits granted against pledged securities and dealing with non-resident sectors. It modified Basic Circular 6101 dated February 1996 dealing with investment banks and specialized banks. The modifications consist of several new measures that banks are required to implement. The measures limit banks' investments, participations and loans to the public sector in any currency to their investments, participations and loans to the private and joint sectors; their investments in financial intermediation operations as a market maker such that the related bonds are liquidated during a period of six months; and assets under management excluding Lebanese Treasury bills. The circular also required investment and specialized banks to have a management team that is independent from the teams of other entities belonging to the same financial group. Further, it imposed penalties on specialized and investment banks that allow clients to withdraw cash deposits before six months of the date of the actual deposit transaction. Also, it asked the banks to allocate reserve requirements equivalent to 15% of their average weekly deposits that are not invested.

In parallel, it modified Basic Circular 6213 dated June 1996 related to financial intermediation institutions. The circular mandated financial intermediaries operating in Lebanon to provide their customers, personally and periodically, with statements of account and all data related to these accounts. It also added a clause stipulating that financial intermediation institutions must record telephone calls conducted with customers in the event of receiving orders and requests for carrying out operations on their behalf over the phone.

Further, the circular modified Basic Circular 7135 dated October 1998 dealing with credits granted against pledged securities. The modifications prohibit financial intermediaries from granting credit to clients for the purpose of creating a securities portfolio, except with a cash guarantee or portfolio guarantee, and provided that the securities to be bought are Lebanese Treasury bonds or Treasury bonds issued by sovereigns rated 'BBB' and above.

Finally, the circular added a clause to basic circular 7274 dated April 1999 on dealing with non-resident sectors. The new clause prohibits banks and financial institutions domiciled in Lebanon from conducting treasury placements, other than operating accounts, except at correspondent banks rated 'BBB' and above.

NSSF increases hospitalization coverage

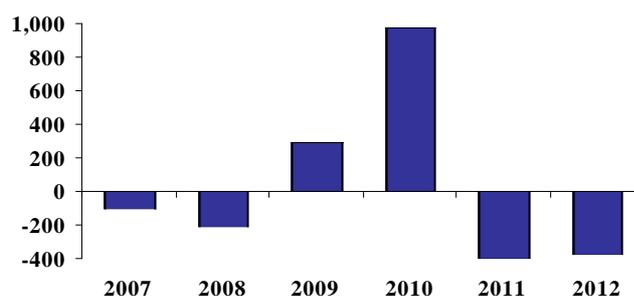
The National Social Security Fund (NSSF) increased its coverage for an overnight stay of a patient at a hospital from the current LBP30,000 to LBP90,000 per night, in return for increasing the ceiling of employees' contributions to the sickness and maternity category from LBP30,000 to LBP50,000. Prior to this decision, employers deducted 2% of an employee's salary for salaries up to LBP1.5m as contribution to the NSSF's sickness and maternity category. The deduction was capped at LBP30,000 per month for monthly salaries above LBP1.5m. The new agreement raised the employee's contribution to a maximum of LBP50,000 by raising the salary cap to LBP2.5m and keeping the share at 2% of the monthly income. The decision came after private hospitals complained that the NSSF coverage became too low in light of the increase in the cost of patients' care.

Earlier this year, the NSSF stated that the accumulated financial obligations of the government towards the Fund stood at LBP829bn, or \$550m at end-2011. The accumulated government's financial obligations towards the NSSF were LBP762bn at end-2010, LBP679bn at end-2009, and LBP743bn at end-2008. In comparison, the government paid to the NSSF LBP120bn in 2011, LBP100bn in 2010, and LBP240bn in 2009. In parallel, the NSSF said that it faces human resources issues such as understaffing, as 45% of the positions are vacant; the high age of employees, which exceeds 51 years on average; and a lack of expertise in the automation, public relations, medical administration, and funds' management and investment fields.

Balance of payments posts deficit of \$373m in first quarter of 2012

Central Bank figures show that Lebanon's balance of payments posted a deficit of \$373.2m in the first quarter of 2012 compared to a deficit of \$399.2m in the same period last year. The balance of payments posted a surplus of \$50.7m in March compared to a deficit \$134.1m in February 2012 and a surplus of \$269.6m in March 2011. The March 2012 surplus was caused by a deficit of \$196.2m in the net foreign assets of banks and financial institutions and a surplus of \$246.9m in those of the Central Bank. The cumulative deficit over the first quarter of 2012 was caused by a surplus of \$117.3m in the Central Bank's net foreign assets and a deficit of \$491.2m in those of banks and financial institutions. The balance of payments posted a deficit of \$2bn in 2011 and surpluses of \$3.3bn in 2010, \$7.9bn in 2009 and \$3.5bn in 2008.

Balance of Payments* (US\$m)



* in the first quarter of each year
Source: Central Bank of Lebanon

Net public debt at \$47bn at end-March 2012

Lebanon's gross public debt reached \$54.1bn at the end of March 2012, constituting a marginal rise of 0.8% from end-2011 and an increase of 2.8% from end-March 2011. Domestic debt reached \$33.5bn at end-March, up by 2.3% from end-2011 and by 5.5% annually, while external debt stood at \$20.6bn, down by 1.6% from end-2011 and by 1.3% from a year earlier. Local currency debt accounted for 61.9% of gross public debt at end-March 2012 compared to 60.3% a year earlier, while foreign currency-denominated debt represented 38.1% of the total at the end of March relative to 39.7% a year earlier. The weighted interest rate on outstanding Treasury bills was 6.69%, while the weighted interest rate on Eurobonds was 7.04% at the end of March. Further, the weighted life on Eurobonds was 5.59 years, while that on Treasury bills was 947 days.

Commercial banks accounted for 48.8% of the local public debt at the end of March 2012 compared to 53.1% a year earlier. They were followed by the Central Bank with 35.7%, up from 30.5% at end-March 2011; while public agencies, financial institutions and the general public accounted for 15.6% of local debt, compared to 16.4% in March 2011. Eurobond holders, foreign private sector loans and special T-bills in foreign currencies accounted for 87.3% of the external debt, followed by multilateral institutions with 6.7%, foreign governments with 5%, and Paris II loans with 1%. Net public debt, which excludes the public sector's deposits at the Central Bank and at commercial banks from overall debt figures, increased annually by 2.9% to \$46.9bn. In parallel, the gross market debt accounted for about 62% of total public debt. Gross market debt is the total public debt less the portfolios of the Central Bank, the National Social Security Fund, bilateral and multilateral loans, as well as Paris II and Paris III related debt.

Lebanon and UAE sign MoU for tax cooperation

The Ministry of Finance and its UAE counterpart signed a Memorandum of Understanding for tax cooperation. The MoU stipulates cooperation between the two countries on taxation and the exchange of expertise, mainly in the areas of the development of tax legislation, tax administration, tax electronic systems, as well as the mechanisms and management of tax collection, tax audit recoveries and tax compliance. It also encourages holding courses and workshops on taxation topics.

Byblos Bank's asset quality remains superior to peers

FFA Private Bank indicated that Byblos Bank's earnings and balance sheet indicators for the first quarter of 2012 were generally in line with expectations, adding that the Bank posted higher-than-expected gains on financial securities. It noted that non-interest income increased by 71% in the first quarter relative to the same quarter last year, reflecting a 182% rise in financial gains and a solid 11% rise in fees and commissions receipts. It said that the contribution of non-interest income to total operating income increased to 50% in the first quarter of the year from 31% in the same quarter of 2011 on lower net interest income and higher gains on financial securities. It added that the contribution of fees and commissions to operating income reached 21% in the quarter relative to 20% in the same period last year. It noted that Byblos Bank boasts ample liquidity levels, as highlighted by a loan-to-deposit ratio of 31% at end-March 2012, almost unchanged from the previous quarter; and an immediate liquidity ratio of 49% at end-March compared to 48% at end-2011. Further, it said that the net NPL ratio was 1.1% and the coverage level was 124%, which reflect the Bank's superior asset quality and show the highest coverage ratio among its peers. It added that Byblos Bank's capitalization level is comfortable, as its Capital Adequacy Ratio is about 13.6% and its equity-to-assets ratio is 10%.

Commercial banks' assets reach \$145bn at end-March 2012

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$144.7bn at the end of March 2012, constituting an increase of 3% from end-2011 and a rise of 9.2% from end-March 2011. Private sector deposits totaled \$118.2bn, increasing by 2.2% from end-2011 and rising by 9.3% from a year earlier. Deposits in Lebanese pounds reached \$40.9bn, up by 3.8% from end-2011 and 10.9% year-on-year; while deposits in foreign currencies totaled \$77.3bn, up by 1.3% from end-2011, and 8.5% from end-March 2011. Non-resident foreign currency deposits totaled \$18.9bn at end-March 2012 and grew by 2% from end-2011 and by 18.2% year-on-year. Total private sector deposits increased by \$806m in March, by \$725m in February and by \$976m in January 2012, compared to a rise of \$1.3bn in March and of \$673m in February and a decline of \$1.1bn in January 2011. In parallel, deposits of non-resident banks reached \$6.5bn and increased by 11.4% from end-2011, but unchanged year-on-year. The dollarization rate of deposits reached 65.4% at the end of March, down from 65.9% a year earlier. Further, the average deposit rate in Lebanese pounds reached 5.46% in March, down from 5.63% a year earlier, while the same rate in US dollars was 2.83% compared to 2.82% in March 2011.

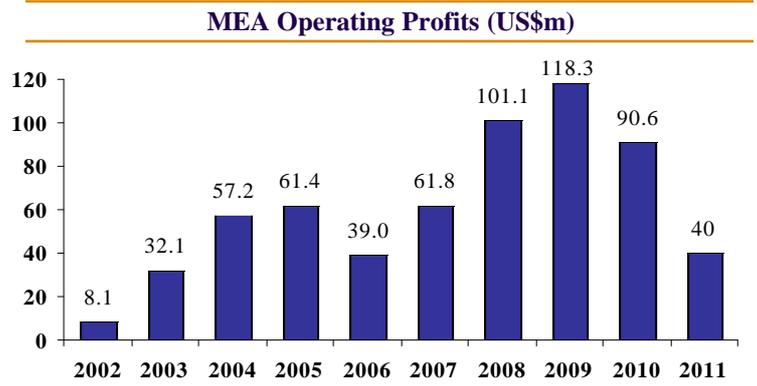
Loans to the private sector totaled \$41bn at end-March, constituting an increase of 4.1% from end-2011 and a rise of 12.5% year-on-year. Lending to the resident private sector totaled \$35.1bn and increased by 2.6% from end-2011, while lending to the non-resident private sector reached \$5.9bn and rose by 14.1% from end-2011. The dollarization rate in private sector lending reached 78.4% in March compared to 80.3% a year earlier. The average lending rate in Lebanese pounds was 7.16% in March 2012 compared to 7.73% a year earlier, while the same average in US dollars was 7.06% compared to 7.24% in March 2012. In addition, claims on non-resident banks reached \$14.5bn at end-March, posting a decrease of 1.1% from end-2011. Claims on the public sector stood at \$28.8bn, up 2.1% year-on-year but down 1.4% from end-2011. The ratio of private sector loans to deposits in foreign currencies stood at 41.6%, well below the Central Bank's limit of 70%, and compared to 41.1% a year earlier. In parallel, the same ratio in Lebanese pounds was 21.6%, up from 19.5% a year earlier. The ratio of total private sector loans to deposits was 34.7% compared to 33.7% a year earlier. The banks' aggregate capital base stood at \$11bn, up by 15.4% from \$9.5bn in March 2011.



Source: Association of Banks in Lebanon

MEA's profits down 56% to \$40m in 2011

National flag carrier Middle East Airlines (MEA) announced operating profits of \$40m in 2011, constituting a drop of 55.9% from \$90.6m in 2010. It attributed the profits' decline to a rise in fuel prices; an increase in the salaries of employees, pilots and crew; and the turmoil in the Arab region. It warned that a continuous increase in fuel prices would have an impact on the profitability of the company this year. It also expected the government-mandated salary increases to affect MEA's profits in 2012. It noted that the company is facing increasing competition from many Arab airlines that are subsidized by their governments. It indicated that MEA's performance improved in the first four months of this year, as the number of passengers increased between 15% and 20% from the same period last year. MEA posted operating profits of \$118.3m in 2009 and \$101.1m in 2008.



Source: Middle East Airlines

The Central Bank owns a 99% stake in MEA, which has a fleet of 16 modern Airbus planes. MEA was planning to raise \$250m through an initial public offering of 25% towards the end of 2010, but the partial IPO was indefinitely postponed. MEA underwent a restructuring program in 2001 that witnessed the layoff of more than 1,500 employees, or 40% of its staff, in addition to the cancellation of unnecessary flights and routes. Subsequently, the company managed to reverse 26 years of losses and returned to profitability in 2002. It is not possible to independently verify the actual financial state of MEA, as it does not publish its detailed balance sheet or income statement.

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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