

LEBANON THIS WEEK

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Fitch Ratings affirms ratings on Byblos Bank and Bank Audi, outlook 'stable'

Balance sheet of financial institutions up 3% in 2011

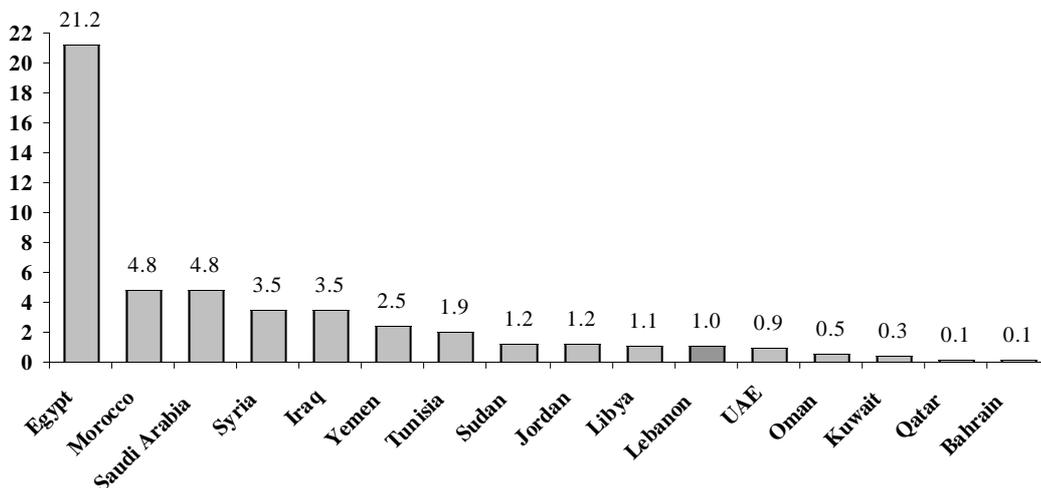
SGBL plans to sell African subsidiary

Bank Audi to sell 81% of insurance subsidiary

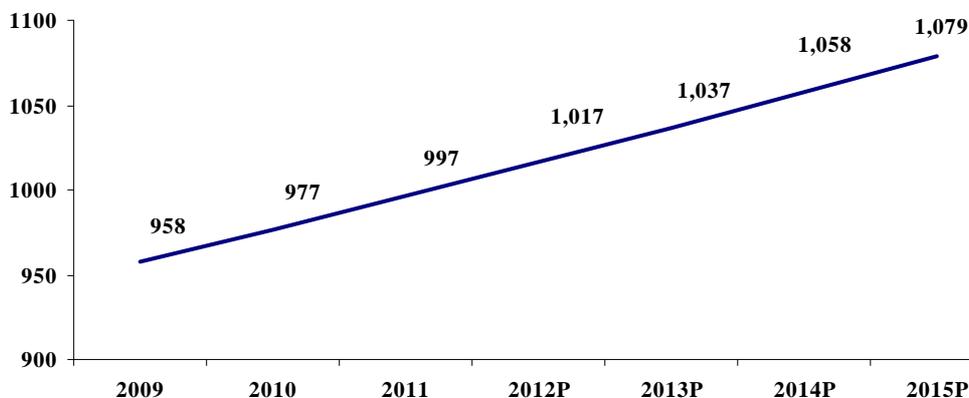
EFG Hermes and Qinvest to form regional investment bank

Charts of the Week

Projected Number of Households with TV Sets in Arab Countries in 2012 (millions)



Projected Number of Households with TV Sets in Lebanon (thousands)



Source: Informa, Byblos Bank

Quote to Note

"A number of Arab countries still need to improve their statistical systems in order to provide the required data for evidence-based public policy and private sector decision-making."

Dr. Nemat Shafik, Deputy Managing Director of the International Monetary Fund, on the weak statistical base in Lebanon and other Arab countries

Number of the Week

3%: Projected advertising expenditures in Lebanon as a share of aggregate advertising spending in the Arab world in 2012, according to Deloitte & Touche

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"	13.18	(1.42)	139,281	12.68%
Solidere "B"	13.23	0.08	13,838	8.27%
Byblos Common	1.58	(1.25)	188,269	5.46%
Byblos Pref. 08	101.00	(0.10)	500	1.94%
Byblos Pref. 09	101.00	(0.10)	1,286	1.94%
BLOM GDR	7.85	0.00	9,350	5.58%
BLOM Listed	7.79	(0.13)	990,190	16.11%
Audi GDR	6.50	0.00	0	6.26%
Audi Listed	6.00	(0.83)	39,893	20.17%
HOLCIM	17.26	0.00	0	3.24%

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 14-18	May 7-11 %	Change	April 2012	April 2011	% Change
Total Shares Traded	1,436,878	760,378	88.97	3,868,312	18,453,479	(79.04)
Total Value Traded	\$11,821,551	\$7,100,744	66.48	\$35,454,788	\$94,089,158	(62.32)
Market Capitalization	\$10.40bn	\$10.45bn	(0.35)	\$10.50bn	\$11.91bn	(11.84)

Source: Beirut Stock Exchange (BSE)



Lebanon ranks 96th globally, 12th in Arab World on Logistics Performance Index

The World Bank's Logistics Performance Index (LPI) for 2012 ranked Lebanon in 96th place among 155 countries worldwide and in 12th place among 19 Arab countries. Lebanon came in 33rd place globally and in third place regionally in the 2010 survey, while it ranked in 98th place globally and in 13th place regionally in the 2007 survey. Lebanon also ranked in 26th place among 37 upper-middle income countries (UMICs), relative to fourth place in 2010 and 21st place in 2007.

The LPI provides an in-depth cross-country assessment of the logistics gap among countries and reflects perceptions of the logistics environment of trading partner countries. It is based on a survey of operators on the ground worldwide who provided feedback on the logistics "friendliness" of the countries in which they operate and those with which they trade. The LPI is a composite of six sub-indices of supply chain performance that cover customs procedures, logistics costs, infrastructure quality, the ability to track and trace shipments, and timeliness in reaching a destination. The survey assigned scores to the main index and its sub-categories that range from one to five points, with one being the worst performance.

Globally, Lebanon ranked immediately ahead of Togo, the Central African Republic and Macedonia, and came behind Russia, Guinea-Bissau and El Salvador. It ranked ahead of Macedonia and Venezuela and behind Russia and Belarus among UMICs. Lebanon received a score of 2.58 points, down 22.8% from 3.34 points in 2010, but up 8.9% from 2.37 points in 2007. Lebanon's score was lower than the global average of 2.87 points as well as the UMICs average of 2.79 points and the Arab average of 2.74 points.

Lebanon ranked ahead of Nepal and behind Jamaica on the Customs Sub-Index. Regionally, it ranked ahead of Sudan and came behind Algeria. This category reflects the efficiency and effectiveness of customs and other border procedures. Further, Lebanon ranked ahead of Paraguay and came behind Azerbaijan on the Infrastructure Sub-Index, while it ranked ahead of Mauritania and behind Jordan in the region. This category measures the quality of trade- and transport-related infrastructure.

Also, Lebanon ranked ahead of Honduras and came behind Latvia on the International Shipments Sub-Index. Regionally, it ranked ahead of Algeria and came behind Oman. The category measures the ease of arranging competitively-priced shipments. In addition, Lebanon ranked ahead of Montenegro and came behind Kenya on the Logistics Competence Sub-Index, while it ranked ahead of Sudan and behind Syria among Arab countries. This category reflects competence and quality of logistics services such as transport operators and customs brokers.

In parallel, Lebanon ranked ahead of El Salvador and came behind the Pakistan on the Tracking & Tracing Sub-Index. Regionally, it ranked ahead of Oman and behind Egypt. This category measures the ability to track and trace shipments. Also, Lebanon ranked ahead of Kuwait and came behind the Fiji on the Timeliness Sub-Index, while it ranked ahead of Kuwait and behind Oman in the region. This category assesses the frequency with which shipments reach the consignee within the scheduled or expected delivery time.

Logistics Performance Index 2012			
Country	Arab Rank	Global Rank	Score
UAE	1	17	3.78
Qatar	2	33	3.32
Saudi Arabia	3	37	3.18
Tunisia	4	41	3.17
Bahrain	5	48	3.05
Morocco	6	50	3.03
Egypt	7	57	2.98
Oman	8	62	2.89
Yemen	9	63	2.89
Kuwait	10	70	2.83
Syria	11	92	2.60
Lebanon	12	96	2.58
Jordan	13	102	2.56
Algeria	14	125	2.41
Mauritania	15	127	2.40
Libya	16	137	2.28
Iraq	17	145	2.16
Sudan	18	148	2.10
Djibouti	19	154	1.80

Source: World Bank, Byblos Research

Logistics Performance Indicators for Lebanon		
Indicator	Arab Rank	Global Rank
Customs	15	124
Infrastructure	13	102
International Shipments	11	85
Logistics Competence	12	119
Tracking and Tracing	10	91
Timeliness	11	86

Source: World Bank, Byblos Research

Logistics Performance Scores by Category			
Indicator	Lebanon Score	Arab Average	Global Average
Customs	2.21	2.51	2.66
Infrastructure	2.41	2.62	2.77
International Shipments	2.71	2.74	2.82
Logistics Competence	2.38	2.64	2.82
Tracking & Tracing	2.61	2.73	2.88
Timeliness	3.11	3.16	3.26

Source: World Bank, Byblos Research

Lebanon's external debt posts 7th lowest returns in emerging markets, 2nd lowest in the Middle East & Africa

Figures issued by Merrill Lynch indicate that Lebanon's external debt posted returns of 2.26% in the first four months of 2012, constituting the third lowest return among 29 markets in the Eastern Europe, the Middle East & Africa (EMEA) region as well as the seventh lowest return among the 52 emerging markets included in Merrill Lynch's Sovereign Plus Debt Index. Lebanon underperformed the EMEA region's returns of 6.53%, as well the overall emerging markets returns of 6.18% during the covered period. Also, Lebanon's external debt underperformed the 7.96% returns posted by similarly-rated sovereigns.

Further, Lebanon's external debt posted the second lowest returns among 13 countries in the Middle East & Africa region in the first four months of 2012, ahead of only Tunisia (1.72%). It was outperformed by South Africa (3.63%), Iraq (3.92%), Namibia (3.97%), Morocco (4.39%), Bahrain (4.66%), Ghana (6.35%), Jordan (6.37%), Gabon (6.98%), Nigeria (7.32%), Egypt (10.2%) and Senegal (11.84%). In US dollar terms, Lebanon's external debt posted returns of 2.27% in the first four months of 2012, second lowest in the EMEA region and sixth lowest among emerging markets.

In parallel, Lebanon's external debt posted returns of 0.17% in April, constituting the ninth lowest return in the EMEA region and the 13th lowest return in emerging markets during the covered month. It was underperformed by the EMEA returns of 1.63% and the emerging markets returns of 1.48%, as well as the 1.55% returns of similarly-rated sovereigns for the same month. Regionally, it tied with Nigeria, outperformed Gabon (-1.36%), Egypt (-1.04%), Iraq (-0.75%), Namibia and Ghana (-0.04%, each), Tunisia (0.12%) and Senegal (0.15%); and underperformed Bahrain (0.25%), Morocco (1.14%), South Africa (1.85%) and Jordan (2.59%).

Merrill Lynch said the spread on Lebanese Eurobonds ended April 2012 at 380 basis points, constituting the 12th narrowest in the EMEA region and 24th narrowest among emerging markets. It was narrower than the EMEA spread of 401 basis points and the emerging markets overall spread of 359 basis points at end-April 2012.

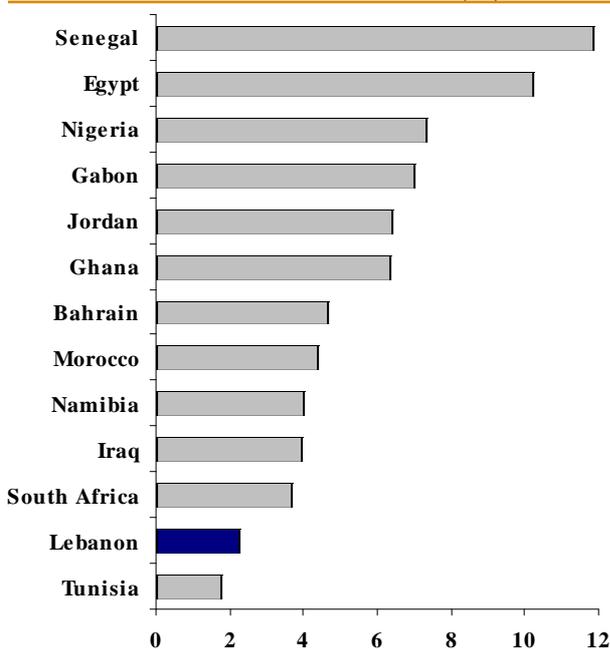
Lebanon has a weight of 3.52% on Merrill Lynch's Sovereign Plus Debt Index, fourth highest in the EMEA universe behind Turkey (10.77%), Russia (9.35%) and Hungary (3.6%), and 10th highest among emerging markets. Lebanon accounted for 8.2% of the allocations in the EMEA region.

Gasoline prices in Lebanon are 13th highest in the world as a share of per capita income

The price of 20 liters of gasoline in Lebanon as a percentage of the daily income per capita in the country is the 13th highest among 55 countries in the world, based on the prices of gasoline between April 2 and April 11, 2012. The price of a gallon of gasoline in Lebanon is equivalent to 95% of the country's daily income per capita, which is higher than that of the Seychelles at 94.2%, Brazil at 94.1% and Argentina at 92.7%; and is lower than that of Lithuania (98.1%), Hungary (99.1%) and Egypt (107.2%). Lebanon also ranked in fifth place among 14 upper middle-income countries (UMICs) included in the survey, higher than the Seychelles, Brazil and Argentina; and lower than Lithuania, South Africa (126%) and Romania (134%). Also, the price of 20 liters of gasoline in Lebanon as a percentage the daily income per capita is the second highest among five Arab countries included in the survey. It is significantly higher than in oil producers Saudi Arabia (5.9%), the UAE (5.4%) and Kuwait (3.6%); but is lower than in Egypt (107.2%). India is the most expensive country for gasoline based on per capita income, as the price of 20 liters of gasoline is equivalent to 711.5% of daily per capita income; while Venezuela is the least expensive country with a ratio of 1.7%.

In parallel, the price of 20 liters of gasoline in Lebanon is the 13th cheapest among 56 countries included in the survey. The price of a gallon of gasoline in Lebanon was \$25.7 between April 2 and April 11, higher than prices in the U.S. at \$22.1, Indonesia at \$21.7 and Russia at \$19.6; but lower than prices in Thailand at \$26.2, China at \$28.1 and Argentina at \$28.7. The price of a gallon of gasoline in Lebanon is lower than the 56-country average of \$33.7 and the UMICs' average of \$25.9, but higher than the five Arab countries' average of \$10.5. Norway is the most expensive country in the world for gasoline in nominal terms, as the price of 20 liters of gasoline is \$51.2, while Venezuela has the cheapest gasoline globally at \$0.48 per gallon. The figures for Lebanon were calculated by Byblos Research based on the International Monetary Fund's estimates of GDP per capita for 2011, while those for the other countries were compiled by Bloomberg.

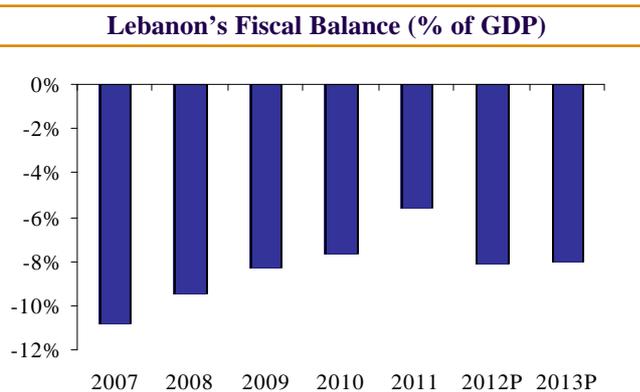
External Debt Performance in Middle East & Africa in First Four Months of 2012 (%)



Source: Merrill Lynch, Byblos Research

Government targets issuance of \$2bn in new Eurobonds this year

Finance Minister Mohammad Safadi announced that the government intends to raise \$2bn in foreign currency-denominated bonds this year in order to spend on infrastructure projects and to take advantage of low borrowing costs. He said that the ministry is currently testing the market for the sale of at least \$500m in bonds as a first step; and added that the government plans to exchange next year \$3bn in maturing debt with new bonds. He noted that the government will use the proceeds to invest in electricity and gas infrastructure projects, and not to finance the mandated salary and wage increases for public sector employees. It stated that the government intends to finance the \$1bn cost of the salary and wage adjustments through the imposition of new taxes and the increase of existing ones. It pointed out that it will impose a 15% capital-gains tax on the real estate sector and will raise import duties on items such as tobacco and alcohol, in addition to raising the income tax on several economic sectors. If the \$2bn issuance takes place as planned, Lebanon would become the largest sovereign debt issuer of dollar-denominated bonds in the Middle East this year. The International Monetary Fund projected Lebanon's fiscal deficit to widen to 8.1% of GDP this year compared to a deficit of 5.6% of GDP in 2011. It also forecast the public debt to reach 135.3% of GDP at end-2012, marginally down from 136.2% last year.



Source: International Monetary Fund, April 2012

Last March, Lebanon issued a \$950m dual-tranche Eurobond under the Republic of Lebanon's Global Medium Term Note Program to refinance \$293m and €15m in Eurobonds that mature in March and April 2012, respectively. The first series consisted of a 5.5-year \$600m bond that matures on October 2017 and carries a coupon rate of 5% to be paid semi-annually. The second series consisted 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 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.

Lebanon's gross public debt reached \$54.1bn at the end of March 2012, constituting 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. 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.

Association of Banks amends reference rate on US dollar and Lebanese pound lending

The Association of Banks in Lebanon (ABL) recommended to its member banks to decrease the Beirut Reference Rate (BRR) in US dollars to 5.73% in June 2012 from 5.77% currently. The rate, considered as the reference rate for lending in foreign currency, replaced in 2009 the London Inter-Bank Offering Rate (LIBOR) since the ABL considered that the LIBOR no longer accurately reflects the cost of funding and lending in Lebanon. Additionally, the ABL recommended to its member banks to increase the Beirut Reference Rate in Lebanese pounds to 8.49% in June from 8.46% currently. The Beirut Reference Rate in US dollars and Lebanese pounds were adopted in March and May 2009, respectively. The ABL indicated that the BRR does not replace the Beirut Prime Lending Rate in each currency, but constitutes the basis to calculate the prime rate after adding the cost of liquidity and refinancing, credit risks, and the profitability of banks to the prime lending rate.

Ministry of Industry signs deal to raise quality of industrial research

The Ministry of Industry signed a cooperation agreement with the American University of Beirut (AUB), the National Council for Scientific Research and the Lebanese Industrial Research Achievements program (LIRA). The agreement aims to improve the quality of industrial research in Lebanon and to generate industrial products of high economic value. In parallel, the agreement seeks to provide AUB students with the needed platform to conduct industrial research relevant to their academic objectives. AUB stated that the deal would keep the university's academic programs relevant to the needs of the industrial sector. The industrial sector accounted for 7% of GDP, according to the latest available official figures, and industrial exports increased by 7% to \$3.5bn in 2011.

Social Security's Sickness & Maternity and Family Benefits categories post deficits in 2011

Figures issued by the National Social Security Fund (NSSF) show a deficit of LBP60bn in the Sickness & Maternity category in 2011 on revenues of LBP546.8bn and expenditures of about LBP597.7bn during the year. The category posted just two annual surpluses during the 2001-11 period that consist of a surplus of LBP12bn in 2009 and one of LBP27.9bn in 2005. As a result, the accumulated deficit in the category reached LBP438.8bn at end-2011 compared to an accumulated surplus of LBP415.6 at end-2000. Also, the Family Benefits category recorded a deficit of LBP39.3bn in 2011 on revenues of LBP262.7bn and expenditures of about LBP302bn during the year. The category posted a deficit of LBP39.3bn in 2010 and did not post an annual surplus since 2000, with the accumulated deficit reaching LBP379.7bn at end-2011 relative to an accumulated surplus of LBP219.6bn at end-2000. Further, the End-of-Service category posted a surplus of around LBP824.7bn in 2011 compared to LBP752.4bn in 2010, with revenues reaching LBP1,115bn and expenses totaling LBP290.3bn. The accumulated surplus in this category totaled LBP7,893bn at end-2011 relative to a surplus of LBP1,746.4bn at end-2000. Also, the Fund had to withdraw around LBP818bn from the End-of-Service category to cover the deficit at the Sickness & Maternity and Family Benefits categories.

Earlier this month, the 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.

Overdrafts account for 30% of bank credits, share of trade & services at 35% of utilized credits at end-2011

Figures issued by the Central Bank about the distribution of bank credits by type show that overdrafts accounted for \$13.3bn, or 30.2% of total private sector credits at the end of 2011. They were followed by advances against real estate with \$12.4bn (28.1%), advances against personal guarantees \$7.8bn (17.7%), advances against cash collateral or bank guarantees \$5.7bn (13%), advances against other real guarantees \$2.9bn (6.6%), and advances against financial values \$1.9bn (4.4%).

In parallel, utilized credits by the private sector totaled \$43.9bn at end-2011, with the trade & services sector accounting for \$15.4bn, or 35.1% of such credits. It was followed by personal credits with \$11.2bn (25.5%), construction with \$7.1bn (16.2%), industry with \$4.9bn (11.2%), financial intermediaries with \$3.5bn (7.9%) and agriculture with \$427m (1%), while other sectors accounted for the remaining \$1.4bn (3.1%). Also, wholesale trade represented 41.6% of trade & services credits, followed by real estate services with 21.2%, retail with 15.9%, transport & storage with 10.3%, hotels & restaurants with 8% and educational services with 3%.

Personal credits accounted for 77.7% of loan beneficiaries, followed by trade & services with 12.6% of beneficiaries, industry with 3.3%, construction with 1.5%, agriculture with 0.9%, and financial intermediaries with 0.7%; while other sectors accounted for 3.4%. Further, the aggregate number of loan beneficiaries grew by 12.6% year-on-year to 401,399, while 81.4% of beneficiaries had loans ranging from LBP5m to LBP100m by end-December 2011. Beirut and its suburbs accounted for 80% of bank credits and for 56% of beneficiaries. It was followed by Mount Lebanon with 9% of credits and 15.8% of beneficiaries; South Lebanon with 4.1% of credits and 8.6% of beneficiaries; North Lebanon with 3.9% of credits and 13.1% of beneficiaries; and the Bekaa with 3% of credits and 6.4% of beneficiaries.

Subsidized interest loans at \$953m in 2011

Figures released by the Central Bank show that the amount of subsidized interest loans to productive sectors in Lebanon reached \$953.2m in 2011. The industrial sector accounted for \$490.7, or (51.5%) of the total, followed by tourism with \$365.6m (38.4%) and agriculture with \$96.9m (10.2%). Subsidized interest loans extended in 2010 totaled \$761.2m relative to \$518.4m in 2009 and \$451.2m in 2008. The cumulative amount of subsidized interest loans to productive sectors in Lebanon reached \$4.5bn between 1997 and 2011.

Subsidized medium & long-term loans reached \$764.8m in 2011, equivalent to 80.2% of the total. Industry accounted for 52% of total subsidized medium & long-term loans, followed by tourism with 41.4% and agriculture with 6.6%. The program was established in the first quarter of 1997 and consists of a 5% to 7% subsidy on the interest for loans extended in foreign currencies to productive sectors. Also, subsidized interest loans guaranteed by the Kafalat Corporation totaled \$169.2m, or 17.8% of the total. Industry accounted for 45.8% of Kafalat-backed subsidies, followed by agriculture with 27.6% and tourism with 26.7%. Kafalat provides financial guarantees for loans of up to \$400,000 for small and medium-sized enterprises in productive sectors.

Further, subsidized interest loans granted by leasing companies totaled \$12.3m in 2011, or 1.3% of the total. In addition, subsidized interest loans signed with the European Bank for Investment totaled \$3.9m and that granted by the International Finance Corporation totaled \$2.9m.

Credit and debit cards reach 1.8 million cards, ATMs total 1,342 at end-March 2012

Figures released by the Central Bank of Lebanon show that the number of credit and debit cards issued in Lebanon reached 1,805,705 cards at the end of March 2012, constituting a 1.2% increase from end-2011, and a 5.9% rise on a yearly basis. Resident cardholders accounted for 97% of total cards issued in Lebanon. The distribution of payment cards by type shows that debit cards with residents accounted for 63% of the total, followed by credit cards with residents (23.9%), charge cards with residents (7.2%), resident prepaid cards (2.9%), non-resident debit cards (2.2%), non-resident charge cards (0.4%), non-resident prepaid cards (0.2%), and non-resident credit cards (0.2%). The number of ATMs rose by 1.2% to 1,342 machines on a quarterly basis and by 2.6% from 1,308 ATMs at the end of March 2011. The Greater Beirut area had 621 ATMs, accounting for 46.3% of the total, followed by Mount Lebanon with 354 (26.4%), the North with 135 (10.1%), the South with 116 (8.6%), the Bekaa with 93 (6.9%), and Nabatiyeh with 23 (1.7%). Further, the aggregate number of point of sales accepting payment cards reached 49,399 by the end of March 2012, increasing by 1.7% on a quarterly basis and by 0.7% annually.

The average monthly domestic payment by residents totaled \$149.6m in the first quarter of 2012, declining by 8.6% quarter-to-quarter and rising by 24.6% from the first quarter of 2011, while the average monthly payment and cash withdrawal abroad by residents decreased by 2.9% to \$81.1m from the last quarter of 2011 and increased by 16.8% from the first quarter of 2011. Further, the average monthly value of cash withdrawals by residents using ATMs decreased quarterly by 9.2% and rose by 7.9% from the same quarter of the previous year to \$456.8m, while average monthly withdrawals by non-residents regressed by 6.9% to \$7m quarter-to-quarter and rose by 22.4% from the same period last year. Also, the average monthly purchases in Lebanon by non-residents regressed by 7% quarter-to-quarter and increased by 41.4% annually to \$2.6m. Domestic card payments in Lebanese pounds accounted for 13.9% of aggregate payments in all currencies, while local currency withdrawals represented 66.6% of the total in the first quarter of 2012.

Number and Usage of Payment Cards Issued in Lebanon			
(for the first quarter of 2012 and 2011)			
	end-Mar 2012	end-Mar 2011	Change
Cards			
With residents	1,751,320	1,657,842	5.6%
With non-residents	54,385	47,042	15.6%
Total	1,805,705	1,704,884	5.9%
ATMs			
	1,342	1,308	2.6%
Points of Sale	49,399	49,074	0.7%
Purchases (US\$m)*			
by residents in Lebanon	448.8	360.1	24.6%
% in LBP	13.9%	12.7%	
by non-residents in Lebanon	7.7	5.5	41.4%
by residents outside Lebanon**	243.2	208.2	16.8%
Cash withdrawals (US\$m)*			
by residents in Lebanon	1,370.3	1,269.7	7.9%
% in LBP	66.6%	67.1%	
by non-residents in Lebanon	21.1	17.3	22.4%

* in the first quarter of the year

** including cash withdrawals

Source: Central Bank of Lebanon, Byblos Research

Commercial activity retreats in fourth quarter of 2011

The Central Bank's quarterly business survey of opinions indicated that the volume of commercial sales decreased during the fourth quarter of 2011, with the balance of opinion standing at -5, compared to -12 during the preceding quarter and to zero during the same quarter of 2010. Commercial activity in the fourth quarter was considerably lower than in the same quarter of 2010 despite the slight improvement from the third quarter of 2011. The business survey reflects the opinions of enterprise managers about their business activity in order to depict the evolution of a number of key economic variables. The balance of opinion for inventory levels in all commercial sub-sectors was -2 in the fourth quarter of 2011 compared to +10 in the same quarter of 2010. The balance of opinion is the difference between the proportion of surveyed managers who consider that there was an improvement in a particular indicator and the proportion of those who reported a decline in the same indicator.

Commercial Activity: year-on-year evolution of opinions				
Aggregate results	Q4-08	Q4-09	Q4-10	Q4-11
Sales volume	37	32	0	-5
Inventories of finished goods	9	10	10	-2
Q4-11 Regional results	Beirut / Mount Lebanon	North	South	Bekaa
Sales volume	9	-17	-45	-10
Inventories of finished goods	10	-20	-29	0

Source: Central Bank Business Survey in fourth quarter 2011

Public-sector salaries and benefits up 14% in 2011, account for 33% of primary expenditures

Figures issued by the Ministry of Finance show that salaries, wages and related benefits paid to public-sector employees totaled \$2.5bn in 2011, constituting an increase of 13.8% from \$2.2bn in 2010. The figures include basic salaries, indemnities, allowances, contributions to the civil servants cooperatives, as well as contributions to other mutual funds providing health insurance for specific categories of civil servants, mainly judges, religious judges and Parliament employees. The payments exclude retirement and end-of-service indemnities as well as salaries, wages and benefits of employees at public institutions. Salaries and benefits of military personnel totaled \$1.6bn and accounted for 64.2% of the total, followed by salaries of educational personnel with \$501m or 19.8% of the total, civil staff with \$379m (15%), and customs employees with \$25.2m (1%). Also, the Lebanese Army's salaries totaled \$1.1bn in 2011 and represented 69% of military personnel salaries and benefits. It was followed by salaries of the Internal Security Forces with \$404m (24.8%), General Security Forces with \$73m (4.5%), and State Security Forces with \$28m (1.7%). The ministry attributed the rise last year to an 18.8% increase in basic salaries, an 18.6% jump in allowances and a 1% increase in indemnities. It said basic salaries increased by \$312.4m to \$2bn due to a rise of \$308m in payments to military personnel and an increase of \$27m in outlays to public education personnel, which were partially offset by a \$22m drop in payments to civil staff. It added that allowances rose by \$42.5m due to an equivalent increase in allowances to military personnel, while indemnities increased to \$1.3m. Salaries, wages and related benefits paid to public sector employees represented the largest component of primary spending, accounting for 33% last year. They totaled \$2.2bn and accounted for 31% of current expenditures in 2010.

Fitch Ratings affirms ratings on Byblos Bank and Bank Audi, outlook 'stable'

Fitch Ratings affirmed Byblos Bank's and Bank Audi's long-term Issuer Default Rating (IDR) at 'B' with a 'stable' outlook, short-term IDR at 'B', the Viability Rating (VR) at 'b', and the Support Rating at '5'. It said that both banks' ratings reflect the strong correlation between sovereign and bank risks due to their substantial exposure to the Lebanese sovereign through their large holding of government debt, as well as the difficult local and regional operating environments. It added that the ratings also take into account the banks' strong domestic franchise, resilient profitability, as well as large and stable deposit base. It noted that the banks' outlook is underpinned by economic and political developments in Lebanon and in the broader Arab region. It warned that a prolonged weakening of the operating environment, significant deterioration in asset quality, or substantially reduced profitability would result in downward pressure on the banks' ratings.

Further, the agency indicated that Byblos Bank's profits continue to grow due to higher non-interest income and solid cost control, and despite higher provisioning and sector-wide pressure on margins. It noted that the Bank's high level of liquidity provides a buffer to its limited exposure to Syria through its banking affiliate. It added that the Bank's asset quality ratios are healthy and non-performing loans are fully covered by reserves. It said that Byblos' core capital ratio was 14.3% at end-2011, which is higher than that of its domestic peers. In parallel, the agency indicated that Bank Audi's income is constrained by a sharp rise in impairment charges, which almost tripled to LBP148bn, or \$150m, in 2011. It noted that impairment charges absorbed 17% of pre-impairment operating profit in 2011 and 20% of profits in the first quarter of 2012. It added that a large part of the increase in provisions was due to the bank's exposure in Syria and Egypt given the uncertainties in both markets. It pointed out that the bank's capital is only adequate, given the high level of borrower concentration and the zero percent risk weighting of Lebanon's local currency sovereign debt. It said the bank's Tier One capital ratio weakened to 10.8% at the end of the first quarter of the year from 11.1% at end-2010 due to the growth of its risk-weighted assets.

In parallel, Fitch Ratings affirmed and withdrew BLOM Bank's Support Rating of '5'. It said that the affirmation reflects the agency's assessment of the likelihood of the bank receiving support from the Lebanese state in case of necessity. But it noted that the potential state support cannot be relied upon given Lebanon's low sovereign rating. As such, the agency withdrew the Support Rating, as it no longer considered it to be relevant to its coverage.

Balance sheet of financial institutions up 3% in 2011

Figures released by the Central Bank show that the consolidated balance sheet of financial institutions in Lebanon reached LBP1,650bn, or \$1.1bn, at the end of 2011, constituting a decrease of 2.3% from end-June 2011 and an increase of 2.8% from end-2010. Liabilities to the private sector reached \$226.8m, down 20% from end-June 2011 and by 12.7% from end-2010. Further, commitments to the financial sector totaled \$475.7m at the end of 2011, representing a rise of 3.4% from end-June 2011 and an increase of 12.3% from end-2010.

On the assets' side, financial institutions' operations with commercial banks reached \$427m at the end of 2011, up 1.4% from end-June 2011 and 5.6% from the end of 2010. Lending to the private sector totaled \$538.2m, down 7% from end-June 2011 and unchanged from end-2010. Also, investments in government securities totaled \$106.6m as at end-2011, increasing by 4.6% from end-June and by 5.3% from end-2010. Further, the aggregate capital account of financial institutions reached \$311.5m at end-2011, constituting an increase of 15.7% from end-June 2011 and a rise of 19.3% from end-2010. There are 53 financial institutions in Lebanon with a total of 57 branches.

SGBL plans to sell African subsidiary

Société Générale de Banque au Liban (SGBL) sal, one of Lebanon's top 10 banks, reportedly plans to sell Bank of Gambia, which was an affiliate of the Lebanese Canadian Bank (LCB) and which it acquired as part of its purchase of certain assets and liabilities of LCB last year. SGBL plans to sell Bank of Gambia for around \$8m and the Gambian government has reportedly expressed interest in acquiring the bank.

In September 2011, SGBL announced that the Central Bank approved its acquisition of certain assets and liabilities of the LCB. In March 2011, the Central Bank announced that SGBL has won the bid to acquire the LCB for an undisclosed amount. The decision to sell LCB came after the U.S. Department of the Treasury identified the bank and its subsidiaries as a financial institution of primary money laundering concerns, due to its alleged role in facilitating the money laundering activities of an international narcotics trafficking and money laundering network. The U.S. Treasury added that the network has used accounts at the bank to launder hundreds of millions of dollars monthly. Also, the U.S. Treasury's Financial Crimes Enforcement Network (FinCEN) filed a proposal to prohibit U.S. financial institutions from opening or maintaining correspondent or payable through accounts for LCB.

Bank Audi to sell 81% of insurance subsidiary

Bank Audi sal announced plans to sell an 81% stake in its insurance subsidiary LIA Insurance sal to Moroccan firm Saham Finances for an undisclosed amount. Saham Finances, a subsidiary of Saham Group, operates in 15 African countries through 20 insurance companies and a reinsurance firm. Saham said it plans to use LIA as a springboard to establish a presence in the Levant region. LIA generated \$82.7m in life and non-life premiums in 2011, accounting for 6.7% of overall premiums produced in the Lebanese market last year. Its life premiums totaled \$46.4m in 2011 and represented 12.5% of the life category, while its non-life premiums reached \$36.3m or 4.2% of the non-life segment. The firm ranked in third and eighth place locally, respectively, in terms of life and non-life premiums last year. The completion of the sale is subject to obtaining the required approvals and is expected to take place by the end of June 2012. LIA had total assets of \$289.6m at end-2011 relative to \$242.7m at end-2010, and posted profits of \$11.6m in 2011 compared to \$9.9m in 2010. Bank Audi's impairment charges almost tripled to about \$150m in 2011, absorbing 17% of pre-impairment operating profit last year and 20% of profits in the first quarter of 2012. Last year, insurance rating agency i.e. Muhanna & co Rating Services maintained LIA's financial strength rating at 'A+' due to good levels of underwriting exposure and underwriting profitability.

EFG Hermes and Qinvest to form regional investment bank

Regional investment bank EFG Hermes, which has a majority stake in Crédit Libanais sal, and the Qatari investment firm Qinvest agreed to create a joint regional investment bank with operations in the Middle East, Africa, Turkey, and South and South East Asia. Qinvest, which is fully-owned by the Qatar Islamic Bank, will hold a 60% share in the new bank, to be named EFG Hermes Qatar, and will inject \$250m in the form of a capital increase in the new firm; while EFG Hermes will hold a 40% stake in the new entity. The deal stipulates that EFG Hermes will have the right to sell its 40% holding in the new bank to Qinvest for \$165m at anytime between 12 and 36 months from the signing of the transaction. If it exercises its option, EFG Hermes would be swallowed by the new bank.

The current arrangement involves EFG Hermes' brokerage, research, asset management, investment banking and infrastructure fund businesses. Crédit Libanais, which is 65% owned by EFG Hermes Holding, is not part of the agreement. The deal is awaiting approval from EFG Hermes' shareholders and relevant regulators. EFG Hermes Holding SAE acquired a 65% stake in Crédit Libanais sal for \$542m in August 2010. It has a call option for an additional 25% interest in the bank, and has the right to exercise the call option over a two-year period at its sole discretion and at the same terms, including pricing, as those applicable to the acquisition of the initial stake.

EFG Hermes declared consolidated net income of EGP133m, or around \$22m, in 2011, constituting a decrease of 81.3% from EGP708m 2010. Investment banking operations generated net losses of EGP102m, while commercial bank activity by Crédit Libanais posted net profits of EGP234m in 2011. Total operating revenues reached EGP1,690m in 2011, down 31.4% from EGP2,463 in 2010. It said that investment banking revenues contracted by 65% year-on-year to EGP668m, and by 44% year-on-year when excluding the one-off capital gain from the sale of Bank Audi of EGP716.6m in 2010. It attributed the decline in investment banking revenues to a drop in revenue generated from different divisions, which includes brokerage, investment banking, asset management, capital markets and treasury operations. In parallel, EFG Hermes indicated that the acquisition of Crédit Libanais has further expanded its balance sheet, as total consolidated assets reached EGP52.5bn, or \$8.7bn as at end-2011, with the bank contributing \$7.2bn or around 83% of the total. It added that Crédit Libanais accounted for 60.5% of consolidated operating revenues 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	Dec 2010	Nov 2011	Dec 2011	Change*	Risk Level
Political Risk Rating	58.5	55.0	54.5	▼	High
Financial Risk Rating	28.5	35.0	35.0	▲	Low
Economic Risk Rating	32.5	34.0	34.0	▲	Moderate
Composite Risk Rating	59.7	62.0	61.7	▲	Moderate

Regional Average	Dec 2010	Nov 2011	Dec 2011	Change*	Risk Level
Political Risk Rating	64.5	60.2	60.6	▼	Moderate
Financial Risk Rating	42.2	42.3	42.2	↔	Very Low
Economic Risk Rating	38.0	36.2	36.6	▼	Low
Composite Risk Rating	72.3	69.3	69.7	▼	Low

*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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