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BYBLOS BANK SAL

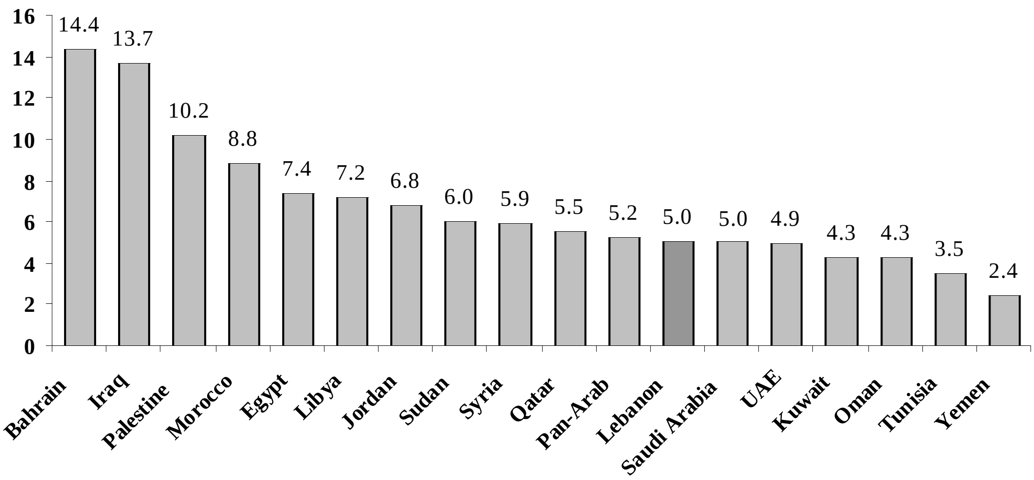
Economic Research & Analysis Department

LEBANON THIS WEEK

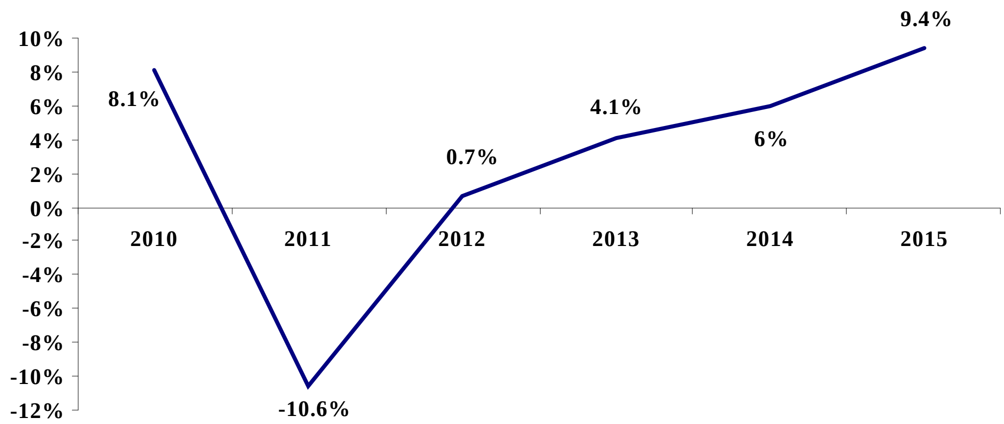
In This Issue

Charts of the Week

Compound Annual Growth Rate of Advertising Spending in Arab Countries in 2011-2015 (%)



Annual Advertising Spending Growth in Lebanon (%)



Source: Deloitte & Touche, Byblos Bank

Quote to Note

"Lebanon's credit should be resilient given the strong technicals that support the yield curve."

The Royal Bank of Scotland, on past history showing that an increase in domestic instability does not significantly affect the Eurobond market

Number of the Week

99: Lebanon's rank among 142 countries on the affordability of information and communication technology in the country, according to the World Economic Forum/INSEAD's Networked Readiness Index for 2012

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
In months of Imports	*19.46*	*23.33*	*19.52*	*18.51*	*21.14*	*10.99*	*(52.90)*
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"	12.75	(3.62)	192,126	12.35%
Solidere "B"	12.84	(2.95)	72,520	8.08%
Byblos Common	1.59	0.63	33,565	5.54%
Byblos Pref. 08	101.00	0.00	0	1.96%
Byblos Pref. 09	101.00	0.00	2,100	1.96%
BLOM GDR	7.85	0.00	22,899	5.62%
BLOM Listed	7.79	0.00	0	16.22%
Audi GDR	6.50	0.00	3,119	6.30%
Audi Listed	6.00	0.00	27,831	20.30%
HOLCIM	17.07	(1.1)	500	3.23%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Sep. 2012	7.750	100.25	6.74
June 2013	8.625	104.75	3.99
Apr. 2014	7.375	105.25	4.42
Jan. 2015	5.875	104.13	4.20
Apr. 2015	10.00	115.50	4.27
Jan. 2016	8.500	112.75	4.65
Mar. 2017	9.000	116.50	5.09
Nov. 2018	5.150	99.75	5.20
Apr. 2021	8.250	117.25	5.74
Nov. 2026	6.600	101.50	6.44

Source: Byblos Bank Capital Markets

	May 21-24	May 14-18	% Change	April 2012	April 2011	% Change
Total Shares Traded	382,246	1,436,878	(73.40)	3,868,312	18,453,479	(79.04)
Total Value Traded	$4,634,360	$11,821,551	(60.80)	$35,454,788	$94,089,158	(62.32)
Market Capitalization	$10.33bn	$10.40bn	(0.68)	$10.50bn	$11.91bn	(11.84)

Source: Beirut Stock Exchange (BSE)

Lebanon ranks 93rd globally, 11th among Arab countries on the Enabling Trade Index

The World Economic Forum's Enabling Trade Index for 2012 ranked Lebanon in 93rd place among 132 countries around the world and in 11th place among 15 Arab countries. Lebanon also came in 26th place among 32 upper-middle income countries (UMICs) included in the survey.

Lebanon was included for the first time in the 2012 index. The index measures the extent to which individual economies have developed institutions, policies and services that facilitate the free flow of goods over borders and to destination. The index is composed of four sub-indices that are Market Access, Border Administration, Transport & Communications Infrastructure, and the Business Environment.

Globally, Lebanon ranked ahead of Tanzania, Bolivia and Argentina and came behind Senegal, The Gambia and Egypt. Lebanon received a score of 3.71 points, lower than the global average of 4.13 points, the Arab average of 4.07 points, and the UMIC's average of 4.02 points.

Lebanon ranked ahead of Argentina, Qatar and Kuwait, and came behind France, the United Kingdom and Finland on the Market Access Sub-Index. This category measures the extent to which the policy framework of the country welcomes foreign goods into the country and enables access to foreign markets for its exporters. Regionally, Lebanon ranked ahead of Qatar, Kuwait and the UAE, and came behind Saudi Arabia, Yemen, and Tunisia. It also ranked ahead of Argentina and behind Bulgaria among UMICs.

Enabling Trade Index 2012

	Score	Arab Rank	Global Rank
UAE	5.07	1	19
Oman	4.86	2	25
Saudi Arabia	4.84	3	27
Bahrain	4.80	4	30
Qatar	4.74	5	32
Jordan	4.42	6	42
Tunisia	4.39	7	44
Morocco	4.08	8	64
Kuwait	4.07	9	66
Egypt	3.78	10	90
Lebanon	**3.71**	**11**	**93**
Syria	3.47	12	108
Yemen	3.25	13	119
Algeria	3.22	14	120
Mauritania	3.06	15	125

Source: World Economic Forum 2012

Also, Lebanon ranked ahead of Argentina, Nicaragua and Vietnam, and came behind Namibia, Bolivia and Guyana on the Border Administration Sub-Index. This category assesses the extent to which the administration at the borders facilitates the entry and exit of goods. Regionally, Lebanon ranked ahead of Algeria, Yemen and Mauritania, and came behind Kuwait, Egypt and Morocco. It also ranked ahead of Argentina and behind Namibia among UMICs.

Further, Lebanon came ahead of Bosnia & Herzegovina, Sri Lanka and Iran, and ranked behind Colombia, Indonesia and Macedonia on the Transport and Communications Infrastructure Sub-Index. This category evaluates the level of transport and communications infrastructure necessary to facilitate the movement of goods within a country and across the border. Regionally, Lebanon ranked ahead of Algeria, Syria and Yemen, and came behind Kuwait, Egypt and Jordan. It also ranked ahead of Bosnia & Herzegovina and behind Colombia among UMICs.

Finally, Lebanon came ahead of Bulgaria, Uganda and Lesotho, and ranked behind Zimbabwe, Mali and Bangladesh on the Business Environment Sub-Index. This category looks at the quality of governance as well as the regulatory and security environment impacting the business of importers and exporters active in the country. Regionally, Lebanon ranked ahead of Algeria, Mauritania and Yemen, and came behind Egypt, Morocco and Syria. It also ranked ahead of Bulgaria and behind Peru among UMICs. Singapore has the highest score on the Index, while Chad has the lowest score globally.

Lebanon's Rankings & Scores on the Components of the Enabling Trade Index 2012

	Global Rank	Arab Rank	UMIC Rank	Lebanon Score	Global Avge Score	Arab Avge Score	UMIC Avge Score
Market Access	93	7	24	3.89	4.09	3.82	4.17
Border Administration	91	11	24	3.47	4.12	4.12	3.88
Transport & Communications Infrastructure	79	11	25	3.7	3.99	3.96	3.92
Business Environment	97	12	23	3.78	4.34	4.56	4.09

Source: World Economic Forum, Byblos Research

Revised draft budget for 2012 projects deficit at 26% of expenditures, excessive spending widens deficit to 8.7% of GDP despite multiple tax hikes

The Ministry of Finance unveiled the revised budget draft for 2012 that shows expenditures at $14.2bn and revenues of $10.5bn. As a result, the budget deficit would reach $3.7bn, or 26% of overall spending, compared to a previously stated target of $3.5bn. The ministry estimated the deficit at 8.7% of GDP in 2012 compared previous statements that the deficit would not exceed 7% of GDP this year. The ministry based its projections on real GDP growth of 3% this year. It estimated the debt-to-GDP ratio at 134.8% of GDP at end-2012 compared to 135.1% of GDP at end-2011. The ministry did not publish yet the full details of the revised draft budget.

On the expenditures side, the revisions include an increase of 65% in capital spending from 2011 levels and a jump of more than 31% in spending on salaries & wages. On the revenues side, the draft budget imposes new taxes on the real estate sector that include a retroactive capital gains tax of 4% for transactions that took place prior to January 1, 2009 and a capital gains tax of 15% on transactions that took place after this date. Finance Minister Mohamad Safadi said the tax does not apply to real estate developers and that one family housing unit per owner will be exempt from the tax. The draft budget also raises the value added tax from 10% to 12%, increases the tax on deposit interest from 5% to 7%, and raises the income tax on the banking sector by 33% from 15% to 20%. According to Minster Safadi, the multiple tax hikes aim to finance part of the massive increase in government expenditures. He said the mandated increase in the public sector's wages and salaries total $1.5bn in direct and indirect spending, equivalent to 2.2% of GDP. He expected transfers to the state-owned and money-losing Electricité du Liban to increase by LBP500bn to LBP3,200bn, or $2.2bn, this year. He also considered that the economic slowdown in Europe and the United States, as well as the regional turmoil, have necessitated the increase in spending.

In parallel, in its monthly meeting with the Central Bank, the Association of Banks in Lebanon (ABL) asked Governor Riad Salamé to work with the Finance Ministry to convince the latter to avoid imposing new taxes or raising existing ones in the revised 2012 draft budget, given the decline in investments and the prevailing unstable circumstances in the country. The ABL noted that limiting the income tax increase to the banking sector is unconstitutional and will force it to take this issue to the Constitutional Council, as all Lebanese are supposed to be treated equally before the law. The ABL also questioned the motives for singling out the banking sector with tax hikes, especially that Lebanese banks have constantly provided the state with its needed financing and at a much lower cost than the level of Lebanon's sovereign risks; as well as at lower rates in comparison to any other country, including Qatar's recent borrowing conditions from the global markets.

Consumer Price Index up 3.5% annually in April

The Central Administration of Statistics' Consumer Price Index indicates that inflation increased by 3.5% in April 2012 from April 2011. Prices of alcoholic beverages & tobacco increased by 11.2%, followed by education (+7.5%), food & non-alcoholic beverages (+6.3%), transportation (+6.1%), recreation & entertainment (+5.1%), restaurants & hotels (+4.5%), miscellaneous goods & services (+3.4%), furnishings & household equipment (+2.4%), clothing & footwear (+1.3%), health care (+0.7%) and water, electricity, gas & other fuels (+0.6%). In parallel, housing prices and communication prices remained unchanged year-on-year. Imported inflation accounts for about 70% of inflation in the country, as Lebanon has an import-based economy. Lebanon imports most of its energy needs and the value of imports historically has been equivalent to about five times that of exports.

The Consumer Price Index grew by 0.5% in April 2012 from March 2012. Prices of transportation increased by 2.9%, followed by clothing & footwear (+0.8%), food & non-alcoholic beverages and miscellaneous goods & services (+0.5% each), restaurants & hotels (+0.3%), furnishings & household equipment (+0.2%); while water, electricity, gas & other fuels deflated by 0.7%. Further, the cost of alcoholic beverages & tobacco, housing, communication, health care, recreation & entertainment, and education remained unchanged month-on-month. The Consumer Price Index grew by 4% year-on-year in March 2012 and by 3.4% year-on-year in February 2012.

Number of tourists down 8% in first four months of 2012

The number of incoming tourists to Lebanon totaled 436,860 in the first four months of 2012, constituting a decrease of 8.1% from 475,534 tourists during the same period last year and a decline of 22.4% from 562,623 tourists during the first four months of 2010. Arab tourists accounted for 41.3% of total visitors in the first four months of the year, and were followed by visitors from Europe with 29.7%, the Americas with 11.9%, Asia with 10.1%, Africa with 4.1%, and Oceania with 2.7%. The number of African tourists increased by 17.7% annually in the first four months of 2012, followed by Arab tourists with a 16.4% increase, and tourists from the Americas with a rise of 6.4%. In parallel, the number of tourists from Asia declined by 59.1% annually, those from Europe dropped by 4.2%, and tourists from Oceana decreased by 1.6%. Also, tourists from France accounted for 10.1% of total visitors in April 2012, followed by visitors from Iraq with 8.4%, Jordan with 7.1%, the United States with 6.5% and Saudi Arabia with 6.2%. Incoming tourists totaled 1.66 million in 2011, down 24% year-on-year.

Lebanon ranks 91st globally, 12th in MENA region in country risk

In its quarterly survey of the country risk of 185 countries, *Euromoney* magazine ranked Lebanon in 91st place worldwide and in 12th place among 20 countries in the Middle East & North Africa region in the first quarter of 2012. Also, Lebanon came in 24th place among 44 upper middle income countries (UMICs) included in the survey. Lebanon ranked in 84th place globally and in 11th place regionally in December 2011 and in 82nd place globally and in 11th place regionally in September 2011. The survey evaluates individual country risk by assigning a weighting to six categories that cover Political Risks, Economic Performance, Access to Bank Finance & Capital Markets, Debt Indicators, Credit Ratings, and Structural Assessments.

Globally, Lebanon ranked ahead of Seychelles, Albania and Angola, and came behind Honduras, Ukraine and Algeria. It also ranked ahead of Seychelles and behind Algeria among UMICs. Lebanon's rank on the Access to Bank Finance & Capital Markets regressed by 26 spots from last December, its rank on the Structural Assessments retreated by 17 spots and its ranks on the Political Risks category receded by seven spots from last December. Also, Lebanon's rank on Economic Performance improved by 17 spots from last December, and its rank on Credit Rating improved by two spots. Lebanon's rank on Debt Indicators remained unchanged from the preceding quarter.

In parallel, Lebanon received a score of 39.41 points, below the global average of 41.64 points and the MENA average of 43.18 points. Also, its score came below the Arab average score of 42.93 points and the UMICs' average score of 40.55 points.

Lebanon's score remained unchanged on the Credit Ratings and the Debt Indicators categories. Its score on the Economic Performance category grew by 7.9%, while its scores on the Access to Bank Finance & Capital Markets categories dropped by 133.2%, on the Structural Assessments category fell by 7.2% and on the Political Risks category regressed by 5.9%.

MENA Countries Rankings & Scores

	Score	MENA Rank	Global Rank
Qatar	72.93	1	20
Kuwait	67.29	2	28
Israel	66.43	3	31
Oman	66.35	4	32
Saudi Arabia	64.18	5	33
UAE	60.46	6	39
Bahrain	55.65	7	53
Tunisia	47.30	8	70
Jordan	45.36	9	73
Morocco	45.19	10	74
Algeria	40.01	11	88
Lebanon	**39.41**	**12**	**91**
Egypt	35.28	13	106
Iraq	28.85	14	128
Sudan	26.98	15	137
Libya	26.07	16	141
Iran	24.48	17	144
Syria	23.27	18	147
Yemen	22.07	19	150
Mauritania	6.12	20	177

Source: Euromoney, Byblos Research

Lebanon ranked ahead of Papua New Guinea and behind Ethiopia globally, while it came ahead of Algeria and behind Morocco regionally on the Political Risks category. Also, it ranked ahead of Gabon and behind Latvia worldwide, while it came ahead of Jordan and behind Algeria regionally in Economic Performance. Further, Lebanon ranked ahead of Georgia and behind Hungary globally, and came ahead of Saudi Arabia and behind Bahrain on the Structural Assessments category. Finally, Lebanon ranked ahead of Georgia and behind Nicaragua globally, and came ahead of UAE and behind Turkey regionally on the Debt Indicators category.

Country Risk Indicators for Lebanon - March 2012

	Weighting (%)	Score	MENA Rank	Global Rank	MENA Avge Score	Global Avge Score
Political Risk	30	11.52	11	105	12.57	13.70
Economic Performance	30	14.78	9	78	14.58	13.15
Structural Assessments	10	5.47	8	58	4.66	3.81
Debt Indicators	10	3.70	13	122	4.11	4.06
Credit Rating	10	1.46	12	109	3.43	3.21
Access to Bank Finance & Capital Markets	10	2.50	12	98	3.85	3.69

Source: Euromoney March 2012, Byblos Research

Cleared checks up 2%, returned checks increase by 19% in first quarter of 2012

The value of cleared checks reached $17.4bn in the first quarter of 2012, constituting an increase of 2.3% from the first quarter of 2011 and an increase of 2.7% from the same period of 2010. The value of cleared checks in Lebanese pounds declined by 2.4% annually to the equivalent of $3.6bn in the first quarter of 2012, while the value of cleared checks in US dollars increased by 3.7% to $13.8bn. The dollarization rate of cleared checks increased to 79.3% from 78.3% in the same period last year. Also, the value of returned checks in domestic and foreign currency amounted to $387,000 in the first quarter of 2012, up 19.1% from the first quarter of 2011 but down 17.5% from the same period of 2010. In parallel, the number of cleared checks totaled 3.2 million checks in the first quarter of 2012, up 2.6% from the same period of 2011. Also, the number of returned checks totaled 71,000 checks and rose by 10.9% in the covered period.

Central Bank cautions banks about Spanish and Greek counterparts, says FACTA will not affect banking secrecy

In the monthly meeting between the Central Bank and the Association of Banks in Lebanon (ABL), Governor Riad Salamé indicated that domestic conditions are positive, as the Central Bank continues to buy US dollars in the market and has purchased about $1bn so far this year. He added that subscriptions to Treasury bills are showing surpluses and that bank deposits are growing at an annualized rate of 8%, which is a higher pace than expected. He estimated that real GDP growth in Lebanon for this year could be higher or lower than the International Monetary Fund's projection of 3%, depending on the developments in the country. He considered this level of growth to be acceptable in the current environment and compared to expected growth rates in the oil-importing economies of the MENA region. In parallel, Governor Salamé asked Lebanese banks to be cautious in their dealings with Spanish and Greek banks, given the precarious situation of the banking sector of the two countries and where governments may need to inject cash in banks to maintain stability. He advised Lebanese banks to restrict their dealings to Spanish and Greek banks that are considered systematically important, as their respective governments would intervene to support and protect these banks. He noted that the Central Bank of Lebanon places most of its foreign currency reserves at other Central Banks rather than at commercial banks. He encouraged Lebanese banks to form teams at each institution to follow closely the developments in Europe that might affect the Lebanese banking sector. He pointed out the need to follow the fluctuation of spreads on credit default swaps (CDS) given that they reflect the perceived level of risk and provide a general view despite being a speculative market dominated by hedge funds and influenced by rating agencies.

Also, Governor Salamé indicated that the implementation of the United States' Foreign Account Tax Compliance Act (FACTA) will not compromise the banking secrecy laws in Lebanon. He noted that in case a client with U.S. nationality does not comply with a bank's request for information, the client can be referred to the Special Investigation Commission against Money Laundering and Terrorism Financing. He added that Lebanon may not be a priority at the start of FACTA's implementation due to the relatively limited number of U.S. nationals who have accounts at Lebanese banks compared to other countries such as Switzerland, Luxembourg and Austria. He considered that the Central Bank could play the role of agent on behalf of the Lebanese banking sector, rather than having each bank reach a separate agreement with the U.S. Internal Revenue Service, in case the latter requests such an arrangement. He added that Lebanese banks have enough time to prepare for FACTA, as the IRS has yet to issue the corresponding compliance program.

Further, the ABL asked Governor Salamé to coordinate with the Finance Ministry to remove some of the obstacles to the proper functioning of Islamic banks in Lebanon. It noted that Islamic banks do not benefit from subsidized interest loans, given that such banks operate on the concept of profit sharing. It added that Islamic banks are paying value added tax, despite that banking and financial services are exempt from this tax. Further, it said that the stamp fee imposed on commercial banks' loans is also applied to Islamic banks even though the latter engage in profit-sharing rather than in direct lending.

Industrial exports increase by 9% to $808m in the first quarter of 2012, imports up 25% to $66m

Figures released by the Ministry of Industry show that industrial exports totaled $808.1m in the first quarter of 2012, constituting an increase of 9% from $741.3m in the same period last year. Industrial exports reached $281m in March 2012, down 2.6% from $288.4m in February 2012 and up 6.2% from $264.7m in March 2011. Pearls & precious or semi-precious stones accounted for $234.8m, or 29.1% of total industrial exports in the first quarter of the year, followed by base metals & articles of base metals with $125.1m (15.5%), and machinery & mechanical appliances with $116.3m (14.4%). Arab countries accounted for 49.8% of total industrial exports in March, followed by African countries with 21.7%, European countries with 13.2%, and Asian countries with 11.6%. In parallel, industrial imports reached $65.9m in the first quarter of the year, up 24.9% from the same period in 2011. Italy was the main source of such imports and accounted for 23.5% of the total. It was followed by China with 16.6% and Germany with 11.1%. Further, imports of industrial equipment and machinery reached $23.7m in March 2012, increasing by 36.8% year-on-year. Italy was the main source of imports of industrial equipments, accounting for 31.4% of the total, followed by China with 12.4% and Germany with 10.2%.

Construction permits down 3.5% in first quarter of 2012

Figures released by the Association of Engineers of Beirut & Tripoli show that construction permits issued in the first quarter of 2012 reached 3.6 million square meters, constituting a decrease of 3.5% from 3.7 million square meters in the same period last year. Construction permits totaled 1.4 million square meters in March 2012, down 13.5% year-on-year from 1.6 million square meters in March 2011. In parallel, cement deliveries reached 992,000 tons in the first quarter of 2012, a decrease of 4.2% from one million tons in the same period last year. Cement deliveries reached 408,000 tons in March 2012, up 2.3% from 399,000 tons in March 2011.

Term savings attract 86% of customer deposits

Figures issued by the Central Bank about the distribution of bank deposits show that term savings was the preferred type of account for resident and non-resident depositors in Lebanese pounds as well as in foreign currencies at the end of December 2011. Term saving deposits accounted for $46.8bn, or 81.1% of resident deposits in foreign currencies and were followed by checking and current accounts with $9.2bn (15.9%), sight saving accounts with $1.5bn (2.5%) and other creditor accounts with $291m (0.5%). Further, term saving accounts attracted $34.1bn, or 92.9%, of resident deposits in Lebanese pounds, followed by checking and current accounts with $2.1bn (5.8%) and sight saving accounts with $464m (1.3%). Non-residents also favored term saving accounts, which totaled $15.9bn and accounted for 85.8% of their foreign currency deposits, and reached $2.6bn, or 97.4%, of their Lebanese pound deposits. Term saving deposits in all currencies totaled $97.5bn at end-December 2011, accounting for 86% of deposits in Lebanese pounds and foreign currencies.

In parallel, Beirut and its suburbs accounted for 69% of private sector deposits and for 49.1% of depositors. It was followed by Mount Lebanon with 13.2% of deposits and 17.4% of beneficiaries; South Lebanon with 6.6% of deposits and 11.8% of beneficiaries; North Lebanon with 6.1% of deposits and 13.8% of depositors; and the Bekaa with 5.1% of deposits and 7.9% of beneficiaries.

Construction and public work activity down in fourth quarter of 2011

The Central Bank's quarterly business survey indicated that construction activity decreased during the fourth quarter of 2011, as the balance of opinions stood at -7, compared to +5 during the same quarter of 2010 and +2 during the third quarter of 2011. The business survey reflects the opinions of enterprise managers on the evolution of their businesses, in order to depict the evolution of a number of key economic variables. The balance of opinions for public works stood at -13 in the fourth quarter of 2011 compared to -19 in the same quarter of 2010 and -12 in the third quarter of 2011. Also, the balance of opinions for general construction activity decreased to -7 during the fourth quarter of 2011, compared to -2 during the same quarter of 2010. Further, the balance of opinion for construction costs reached +32, down from +46 in the same period of 2010 and compared to +44 in the third quarter of 2011. The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in a particular indicator and the proportion of those who reported a decline in the same indicator.

Construction and Public Work Activity: Year-on-year evolution of opinions

Aggregate results	Q4-08	Q4-09	Q4-10	Q4-11
General activity	2	29	-2	-7
Construction	6	29	5	-7
Public work	-21	-2	-19	-13
Portfolio of projects	-6	10	-2	-13
Construction costs	32	46	46	32
Investments (% of yes)	33%	37%	39%	35%

Source: Central Bank Business Survey Q4-11

Assets of Syrian affiliates of Lebanese banks increase by 6% and deposits grow by 7% in the first quarter of 2012

Financial results issued by the affiliates of seven Lebanese banks operating in Syria show that their aggregate assets reached SYP342.6bn, or $5.7bn, at the end of March 2012, constituting an increase of 5.6% from end-2011. The growth was mainly due to an increase of 10.2% in the assets of Banque BEMO Saudi Fransi (+SYP7.7bn), followed by a rise of 10% in those of Byblos Bank Syria (+SYP4.6bn), of 14.3% in those of Fransabank Syria (+SYP4.5bn), of 13.1% in those of Syria Gulf Bank, the affiliate of First National Bank (+SYP2.9bn), and of 2.6% in those of Bank Al-Sharq, the affiliate of Banque Libano-Française (+SYP0.4bn). In parallel, the assets of Bank of Syria & Overseas and Bank Audi Syria declined by 1.4% (-SYP0.97bn) and 1.3% (-SYP0.85bn), respectively. Also, the banks' loans totaled SYP130.6bn, or $2.2bn at end-March 2012, reflecting a drop of 5.1% from the end of 2011. The loans' decline was mainly caused by a contraction of 9.3% in the lending of Bank Audi Syria (-SYP2.7bn), followed by a decline of 11% in the lending of Bank of Syria & Overseas (-SYP2.3bn), a drop of 5.3% in the loans of Byblos Bank Syria (-SYP1.3bn), a contraction of 3.7% in the lending of Banque BEMO Saudi Fransi (-SYP1.2bn), and a decline of 18% in the lending of Bank Al-Sharq (-SYP1.1bn). Also, the banks' total customer deposits reached SYP258.5bn, or $4.3bn at the end of March 2012, increasing by 6.5% from the end of 2011. The increase was mainly prompted by an 11.4% rise in the deposits of Banque BEMO Saudi Fransi (+SYP7bn), a 13.1% increase in those of Byblos Bank Syria (+SYP4.7bn), and a 22.1% rise in those of Fransabank Syria (+SYP2.9bn). In parallel, Bank Al-Sharq and Syria Gulf Bank saw deposit growth of 17.2% (+SYP1.7bn) and 7% (+SYP0.96bn), respectively. The deposits of Bank Audi Syria contracted by 2.8% (-SYP1.4bn) from the end of 2011, posting the only drop among the affiliates of Lebanese banks operating in Syria in the quarter; while the deposits of Bank of Syria & Overseas were unchanged. The ratio of the banks' loans-to-customer deposits stood at 50.5% at end March 2012 compared to 56.7% at the end of 2011. Also, the aggregate shareholders' equity of the banks reached SYP38.3bn, or $637m, at the end of March 2012, constituting an increase of 8.7% from end 2011.

In parallel, the aggregate net profits of the seven banks reached SYP2.9bn, or $48.6m in the first quarter of 2012, constituting an increase of 364% from SYP0.63bn in the same period last year. The increase in net income is mainly attributed to a significant increase in the unrealized net foreign exchange gains on structural positions from SYP120.4m in the first quarter of 2011 to SYP4.7bn in the first quarter of 2012. When these foreign exchange gains on structural positions are excluded, the aggregate net profits of the seven banks shift into a loss of SYP1.8bn, or $30.2m in the first quarter of 2012. The profits of Syria Gulf Bank rose by 639% from the same period last year, followed by Bank Audi Syria with a 510% rise in profits, Banque BEMO Saudi Fransi with a 279.5% increase, and Byblos Bank Syria with a 48.5% growth in profits; in addition to the shift from a loss to a profit for Bank Al-Sharq as well as to a rise from a low base of Fransbank Syria's profits. In parallel, the profits of Bank of Syria & Overseas contracted by around 50% from the same period last year. The aggregate net interest income of the banks reached SYP1.76bn, or $29.3m, in the first quarter of 2012, down 2.3% from the same period last year; while their total net fees & commission income increased by 4.3% to SYP0.52bn, or $8.6m. The banks' total operating income reached SYP7.3bn, or $120.7m in the first quarter of 2012, up 167.2% year-on-year; while total operating expenses reached SYP4.3bn, or $71.2m in the first quarter of the year, up 139% from the same period last year.

Results of Affiliates of Lebanese Banks in Syria for First Quarter of 2012

	Banque BEMO Saudi Fransi	Bank of Syria & Overseas	Bank Audi Syria	Byblos Bank Syria	Syria Gulf Bank	Fransabank Syria	Bank Al-Sharq
Net Profits	$10.9m	$1.8m	$13.8m	$1.9m	$4.6m	$9.4m	$6.3m
% Change*	279.5%	-49.9%	510.1%	48.5%	639%	5465.3%	-
Total Assets	$1.39bn	$1.14bn	$1.04bn	$0.85bn	$0.42bn	$0.59bn	$0.27bn
% Change**	10.2%	-1.4%	-1.3%	10.0%	13.1%	14.3%	2.6%
Loans	$528m	$314m	$439m	$375m	$231m	$200m	$85m
% Change**	-3.7%	-11.0%	-9.3%	-5.3%	9.4%	4.1%	-17.9%
Customer Deposits	$1.14bn	$0.98bn	$0.81bn	$0.67bn	$0.25bn	$0.27bn	$0.19bn
% Change**	11.4%	0.1%	-2.8%	13.1%	7.0%	22.1%	17.2%

**Year-on-year*
***Change from end-2011*
Source: Banks' financial statements

Corporate Highlights

Fransabank to distribute dividends for 2011

Fransabank sal announced that its Ordinary General Assembly held on April 15, 2012 approved the distribution of dividends for 2011. The bank will pay $17 per share to the holders of Preferred Shares Series A, and $13.5 per share to the holders of Preferred Shares Series B. Fransabank issued 500,000 Series A Preferred shares in March 2008 at an issue price of $200 per share, while it issued 425,000 Series B Preferred shares in July 2010 at an issue price of $200 per share. Fransabank posted unaudited consolidated net profits of $157.8m in 2011, up 8.3% from 2010. Total assets reached $14.5bn at end-2011, constituting an 18.1% rise from end-2010, while net loans & advances to customers increased by 43% year-on-year to $4.35bn. Customer deposits totaled $11.6bn at end-2011, constituting an increase of 17.2% from end-2010.

Balance sheet of investment banks down 20% in 2011

Figures released by the Central Bank show that the consolidated balance sheet of investment banks in Lebanon reached LBP6,298bn, or $4.2bn, at the end of 2011, constituting a drop of 11.8% from end-June 2011 and a decrease of 20.2% from end-2010. Private sector deposits reached $2.34bn at end-2011, down 19.8% from end-June 2011 and 28% from end-2010. Resident deposits in foreign currencies reached $1bn, followed by resident deposits in Lebanese pounds at $924.1m and non-resident deposits in foreign currencies at $295.6m. Also, commitments to the financial sector reached $558.4m at the end of 2011, representing an increase of 3.9% from June 2011 and a decrease of 1.2% from end-2010.

On the assets' side, investment banks' operations with commercial banks reached $1.9bn at the end of 2011, down 20.5% from end-June 2011 and 30.6% from the end of 2010. Lending to the private sector reached $1.1bn, constituting an increase of 6.7% from June 2011 and a rise of 6.6% from end-2010. Investments in government securities totaled $794.5m at end-2011, declining by 7.4% from June and by 22.2% from end-2010. Further, the aggregate capital of investment banks reached $811.5m at the end of 2011, regressing by 1.5% from end-June and growing by 13.3% from end-2010. There are 15 investment banks operating in Lebanon with a total of 20 branches. The Central Bank recently issued a circular that clarifies the operations of investments banks and delineates their activities from those of commercial banks. The regulator has been calling for the full separation of activities between investment banks and commercial banks, especially at investment banks that are affiliated to commercial banking groups.

Moody's affirms LAU's rating, changes outlook to 'stable' on solid financial performance

Moody's Investors Service affirmed the 'Baa1' rating on the Lebanese American University's (LAU) Series 2008 Taxable Bonds and revised the outlook to 'stable' from 'negative'. It attributed the outlook revision to the university's emergence from the 2007-09 recession and poor investment markets in the U.S. with a continued strong balance sheet and robust operating cash flow generation, which provide consistently strong debt servicing.

It said that LAU's rating reflects its strong balance sheet and liquidity; consistently favorable operating margins and operating cash flow; as well as its position as a large, two-campus university in Lebanon with growth in enrollment and net tuition revenues. It noted that expendable financial resources reached $456.3m in fiscal year 2011, up from a low of $394.5m in FY2009, which reflected investment losses that year. It added that the exposure of the university to foreign currency risk is limited, as LAU's operations in Lebanon are conducted in US dollars and the majority of its investments are held in U.S.-based funds denominated in US dollars. Further, it pointed out that bondholders are protected due to covenants requiring LAU to maintain in the U.S. a sizeable investment pool that is well in excess of its outstanding debt.

The agency noted that the university has posted a consistently strong operating performance, as reflected by its 35.5% three-year average operating margin for fiscal years 2009-2011. Also, comparable operating cash flow levels provide strong debt service coverage, with a 44.9% operating cash flow margin and 10.3 times average debt service coverage. It added that enrollment rose to 7,743 full-time students in the fall of 2011 from 5,935 in the fall of 2007, reflecting new program offerings and increased demand. It pointed out that the net tuition per student reached $14,216 for FY2011, constituting a 17% increase from $12,179 in FY2007. In parallel, Moody's said the challenges to LAU's ratings include the risk of disruption of university operations from political instability in Lebanon; the risk of investment losses due to significant equity holdings; and exposure to healthcare risks through the ownership of a hospital in Lebanon.

Byblos Bank sal subscribed in full to the $75m bond issued by the LAU in 2008. The bond has a 10-year maturity of February 2018, carries a 6.75% annual coupon rate during the first 5 years until February 2013 and an annual rate of 7.35% afterwards. Also, the bond is callable in its entirety in February 2013. LAU is an independent, non-profit institution of higher learning established under the laws of the State of New York in 1950.

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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