



# LEBANON THIS WEEK

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Profits of top 12 banks down 0.4% to \$372m in first quarter

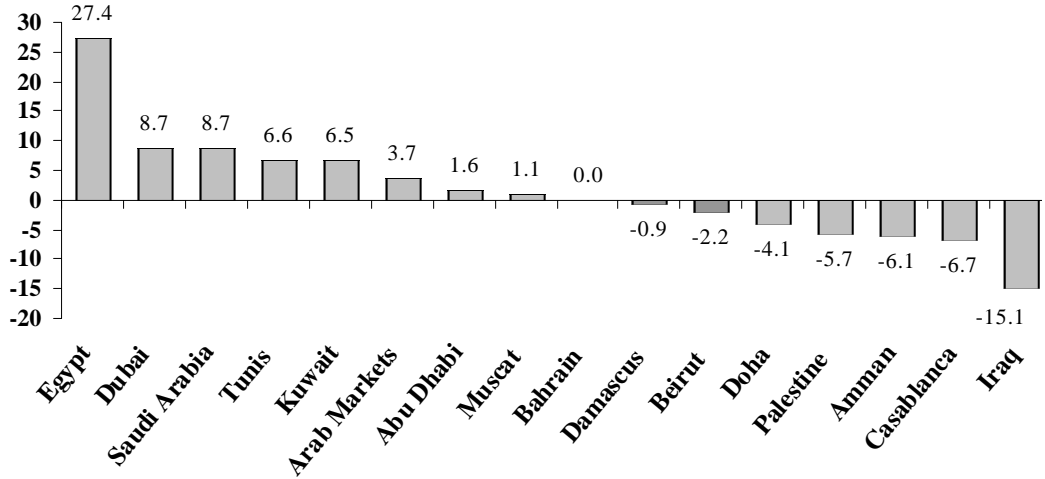
Oger Telecom injects \$180m in South African subsidiary

SGBL's profits rise 33% to \$30m in first quarter of 2012

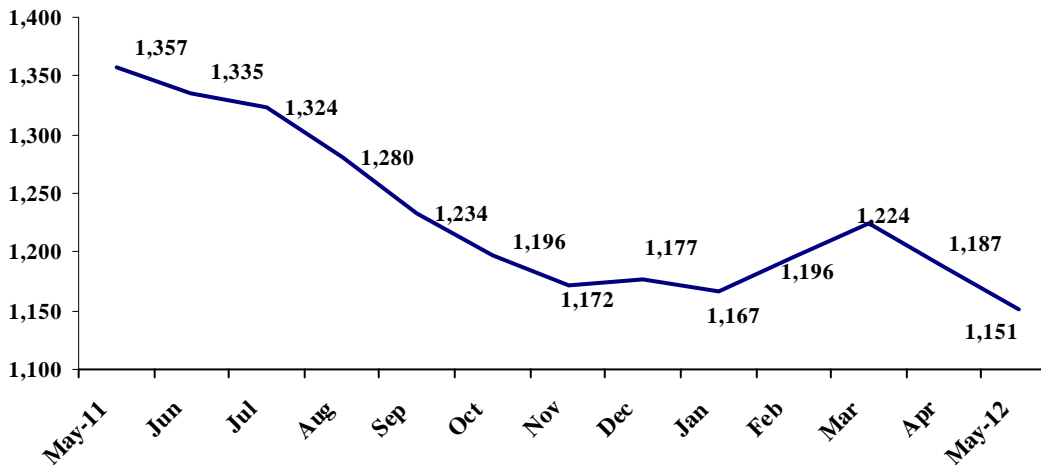
Libano-Française profits down 61% to \$9m in first quarter of 2012

## Charts of the Week

Performance of Arab Stock Markets in First Five Months of 2012 (% change)



Performance of the Beirut Stock Exchange



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

## Quote to Note

"Historically, political developments, rather than global economic conditions, have had a more profound effect on the country's economy."

*Moody's Investors Service, on the importance of political stability for the performance of the Lebanese economy*

## Number of the Week

**79:** Lebanon's rank among 132 countries in terms of the transport and communication infrastructure necessary for the movement of goods internally and across the border, according to the World Economic Forum

## Economic Indicators

<b>\$m (unless otherwise mentioned)</b>	<b>2010</b>	<b>Feb 11</b>	<b>2011</b>	<b>Dec 11</b>	<b>Jan 12</b>	<b>Feb 12</b>	<b>% Change*</b>
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

<b>\$bn (unless otherwise mentioned)</b>	<b>Dec 2010</b>	<b>Feb 11</b>	<b>Nov 11</b>	<b>Dec 11</b>	<b>Jan 12</b>	<b>Feb 12</b>	<b>% Change*</b>
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

<b>Most Traded Stocks on BSE</b>	<b>Last Price (\$)</b>	<b>% Change*</b>	<b>Total Volume</b>	<b>Weight in Market Capitalization</b>
Solidere "A"	12.62	(1.02)	212,417	12.46%
Solidere "B"	12.41	(3.35)	40,039	7.96%
Byblos Common	1.57	(1.26)	121,952	5.57%
Byblos Pref. 08	101.30	0.30	1,000	2.00%
Byblos Pref. 09	101.00	0.00	0	1.99%
BLOM GDR	7.85	0.00	0	5.73%
BLOM Listed	7.60	(2.44)	18,200	15.70%
Audi GDR	6.49	(0.15)	20,116	6.41%
Audi Listed	5.90	(1.67)	15,100	20.35%
HOLCIM	16.02	(6.15)	500	3.09%

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

<b>Sovereign Eurobonds</b>	<b>Coupon %</b>	<b>Mid Price \$</b>	<b>Mid Yield %</b>
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

	<b>May 28-Jun 1</b>	<b>May 21-24</b>	<b>% Change</b>	<b>April 2012</b>	<b>April 2011</b>	<b>% Change</b>
<b>Total Shares Traded</b>	529,584	382,246	38.55	3,868,312	18,453,479	(79.04)
<b>Total Value Traded</b>	\$6,664,576	\$4,634,360	43.81	\$35,454,788	\$94,089,158	(62.32)
<b>Market Capitalization</b>	\$10.13bn	\$10.33bn	(1.89)	\$10.50bn	\$11.91bn	(11.84)

Source: Beirut Stock Exchange (BSE)



### Real GDP growth at 3.5% in 2012, ninth slowest economy in Middle East & Africa

Citigroup maintained its economic growth projection for Lebanon at 3.5% in 2012 relative to growth of 4.3% in the Middle East & Africa (ME&A) region, 5.2% in emerging economies and 2.7% for the world economy for this year. It also forecast Lebanon's real GDP growth at 4.3% in 2013 compared to 5.2% in the ME&A region and 5.8% in emerging economies, as well as compared to growth of 2.9% for the global economy. Lebanon's projected growth rate in 2012 would make it the ninth slowest economy in the ME&A region, faster than Egypt, Bahrain and Oman that would grow at a rate of 3% each. It would also make it the 20th slowest economy among 48 emerging countries, which would tie it with Russia and place it ahead of Korea, Brazil and Taiwan.

Further, Citigroup forecast the inflation rate in Lebanon at 6% this year, the 17th highest level in the region, relative to 5.1% in 2011 and similar to the inflation rate in the ME&A region but below the 4.9% rate for emerging economies. It also expected the inflation rate to reach 5% in 2013 compared to 6% in the ME&A region and 5% in emerging economies.

In parallel, it projected Lebanon's current account deficit at 22.6% of GDP in 2012, widening from a deficit of 21.3% of GDP in 2011 and compared to surpluses of 12.5% of GDP for the ME&A region and 2% of GDP for emerging economies this year. Lebanon's projected current account balance would post the widest deficit this year among the 48 emerging market economies included in Citigroup's universe. It expected Lebanon's current account deficit to further widen to 23.5% of GDP in 2013 and to also post the widest deficit in emerging markets next year, compared to surpluses of 13.2% of GDP for the ME&A region and 1.6% of GDP for emerging economies. Also, Citigroup forecast Lebanon's fiscal deficit to widen to 8% of GDP this year from 6.8% of GDP last year, compared to a surplus of 4.8% for the ME&A region and a deficit of 1.6% of GDP for emerging economies. The deficit would be the second widest among the emerging economies covered by the forecasts. It also expected the country's fiscal deficit to reach 9.1% of GDP in 2013 relative to a surplus of 3.4% of GDP for the ME&A region and a deficit of 1.5% of GDP for emerging economies.

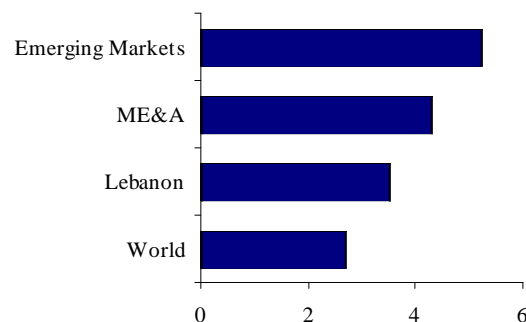
### Standard & Poor's revises outlook on sovereign ratings to 'negative' on increased geopolitical risks

Standard & Poor's revised the outlook on Lebanon's long-term sovereign credit rating to 'negative' from 'stable'. It simultaneously affirmed its 'B/B' long- and short-term foreign and local currency sovereign credit ratings, and maintained the country's transfer and convertibility assessment at 'BB-' and the recovery rating at '4'. It attributed the outlook revision to concerns that increased tensions from the ongoing turmoil in Syria have raised domestic and geopolitical risks for Lebanon. It said that domestic tensions and the escalation of violence in Lebanon could destabilize local politics and potentially lead to the government's collapse. It considered that such an outcome could put further pressure on the economy and aggravate Lebanon's fiscal and external vulnerabilities. The agency added that the unrest in Syria continues to hurt Lebanon's economic activity by depressing its transit trade, tourism revenues, and foreign inflows. It forecast the fiscal deficit to widen to 8% of GDP this year, and minimized the likelihood of the budget's ratification.

In parallel, S&P indicated that Lebanon's ratings reflect its political and macroeconomic resilience to both domestic and geopolitical turmoil in recent years. It pointed out that the current government maintained a greater degree of stability than a number of its neighbors in the Middle East and North Africa region. But it noted that the possibility of the Syrian conflict destabilizing Lebanese society and politics increased, despite the government's efforts to avoid getting drawn into neighboring conflicts. It said that Lebanon's banking system and external position are key rating strengths. It noted that deposit inflows provide support to the balance of payments and are a source for additional government financing. It pointed out that deposits in Lebanon are traditionally sticky, as a significant part comes from members of the Lebanese Diaspora who are well aware of the political risks in the country. It added that the Central Bank's international reserves, along with the financial sector's external assets, represent 1.5 times Lebanon's external debt; and exceed Lebanon's gross external financing needs for this year when combined with the projected current account receipts for 2012. In parallel, it said that risks to the balance-of-payments remain despite the country's favorable external stock positions. It noted that the financial sector moved into a small net external debtor position last year and that the current account deficit exceeded 20% of GDP in 2010 and 2011.

S&P warned that it would downgrade the ratings in case the deterioration in domestic or regional security conditions adversely affects deposit inflows over an extended period of time. It considered that this would strain the government's ability to issue new debt and rollover existing one, and would undermine the economy's ability to fund the large current account deficit as well as affect the Central Bank's ability to maintain the currency peg to the dollar.

### Projected Real GDP Growth in 2012 (%)



Source: Citigroup, May 2012

### **Economic activity continues to stagnate in March**

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 264.8 points in March 2012 compared to 263.9 points in February 2012 and 252.9 in March 2011. The Coincident Indicator, an average of 8 weighted economic indicators, increased by 0.3% month-on-month in March and by 4.7% year-on-year. The indicator averaged 257.8 in the 12-months ending March 2012 compared to 257 in the 12-months ending February 2012 and to 249.2 in the 12-months ending March 2011. As a result, the average coincident indicator rose marginally by 0.3% month-on-month and increased by 3.5% year-on-year, which reflects continued economic stagnation in real terms. The indicator posted its second increase in 2012 after it declined by 5.9% in January. The indicator reached an all-time high of 269.9 in April 2011 after peaking at 266.7 in November 2010. In parallel, the indicator improved 11 times and regressed nine times in the month of March since 1993. The indicator averaged 255.7 in 2011, 249.5 in 2010 and 225.9 in 2009.

### **Downtown Beirut has 395 real estate projects totaling three million square meters**

Solidere sal, the Lebanese Company for the Development and Reconstruction of the Beirut Central District, indicated that a total of 403 development projects representing about 3.2 million square meters of built-up area were at various stages of development in the Beirut Central District as of end-March 2012. It said 272 projects have been completed, 51 are under study, 40 are under construction, 13 are awaiting permits, 13 awaiting submission, eight are inactive and six are under restoration. Also, the projects completed represent 1.4 million square meters of built-up area and account for 42.7% of the total; those under study cover 925,018 sqm; projects awaiting submission total 395,834 sqm, projects under construction total 341,562 sqm; projects awaiting permit reached 153,573 sqm; while inactive projects represent 20,128 sqm and projects being restored consist of 12,543 sqm.h-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.

### **Trade deficit up 33% to \$4.8bn in first quarter of 2012**

Total imports reached \$6bn in the first quarter of 2012, constituting an increase of 31% from the same period last year; while aggregate exports rose by 21% to \$1.15bn, leading to a trade deficit of \$4.8bn, up 33% year-on-year. The deficit was the highest deficit in five years in both value and volume terms, and was caused by a rise of \$1.4bn in imports from the same period last year despite an increase of \$199m in exports.

Imports of oil and mineral fuels increased by 113% year-on-year to \$2.3bn, and non-hydrocarbon imports grew by 5.5% to \$3.7bn. In volume terms, imports reached 4,562 million tons in the first quarter of 2012, constituting an increase of 25% from the same period in 2011; while exports posted a 33% drop to 514 million tons in the covered period, leading to a trade deficit of 4,048 million tons, up 40% year-on-year. Imports of oil and mineral fuel surged by 73% year-on-year to 2,545 million tons, while non-hydrocarbon imports dropped by 7.6% annually to 2,017 million tons. The trade deficit was \$1.35bn in March 2012, up 5.4% from the same month of the previous year. Imports averaged \$2bn and exports averaged \$385m on a monthly basis year-to-March, resulting in an average monthly trade deficit of \$1.6bn during the covered period. The coverage ratio reached 19.3% in the first quarter of 2012 compared to 20.9% in the same period in 2011, while it reached 21.9% in March 2012 relative to 21.7% in March of the previous year.

The rise in imports was mainly due to a significantly higher mineral fuels & oil bill. The increase in exports was mainly driven by the rise in international gold and silver prices, with exports of unwrought gold, un-mounted diamond & precious metals increasing in value by 86% or \$249m and rising by 6% in volume terms in the first quarter of the year. Excluding this item, exports dropped in value by 8%, or by \$51m, representing the lowest level of exports in five years in nominal terms, partly due to lower exports to Arab countries. Exports to Arab countries increased by 2%, largely due to a rise of 19% in exports to Saudi Arabia. But the increase was offset with a 39% year-on-year drop in exports to Iraq, mainly due to political unrest in Syria which represents Lebanon's only overland trade route for exports.

The United States was the main source of imports with \$1.2bn or 20% of the total in the first quarter of 2012, followed by Italy with \$437m (7%), France with \$407m (7%), China with \$383m (6%), and Germany with \$264m (4%). Imports from the U.S. surged by 146% and those from France increased by 8% year-on-year; while imports from Germany dropped by 8%, and those from Italy and China fell by 6% each. Switzerland was the main export destination with \$193m or 17% of the total, followed by the UAE with \$90m (8%), Saudi Arabia with \$86m (7%), Syria with \$55m (5%), Turkey with \$47m (4%), Iraq with \$34m (3%) and Jordan with \$33m (3%). Exports to Switzerland rose by 50%, those to the UAE and Saudi Arabia rose by 12% each, and increased by 5% to Jordan and by 2% to Syria; while exports to Turkey dropped by 32% and regressed by 31% to Iraq. Lebanon's main export was jewelry at \$541m or 47% of the total, followed by base metals with \$125m (11%), machinery & mechanical appliances with \$116m (10%), prepared foodstuff with \$97m (8%) and chemical products with \$64m (6%). Re-exports totaled \$92m in the first quarter of 2012, compared to \$52m in the same period of the previous year.

### **Customs receipts down 1% to \$368m in first quarter of 2012**

Figures released by the Customs Directorate indicated that customs revenues reached \$367.5m in the first quarter of 2012, constituting a decline of 1.1% from \$371.5m in the same period of 2011. The Port of Beirut continues to be the main point of customs receipts, as it accounted for 86.8% of the total in the first quarter of 2012, and was followed by the Hariri International Airport with 7.9%, the Port of Tripoli with 2.3%, the Masnaa crossing point with 1.9%, the Port of Saida with 0.6%, the crossing point of Abboudieh by 0.3%, and the Port of Tyre with 0.2%. Customs receipts from the value-added tax totaled \$390.5m in the first quarter of 2012, constituting an increase of 15.7% year-on-year. The Port of Beirut accounted for 78.2% of such receipts, and was followed by the Hariri International Airport with 8.7%, the Port of Tripoli with 5.8%, the Masnaa crossing point with 5.1%, and the Port of Saida with 2.1% of the total. As such, overall customs receipts reached \$758m in the first quarter of this year, with Port of Beirut accounting for 82.4% of the total, followed by the Hariri International Airport with 8.3%, the Port of Tripoli with 4.1% and the Masnaa crossing point with 3.6%. In addition, other entry points represented the balance, with the port of Saida accounting for 1.3%, the crossing point of Abboudieh for 0.2%, and the port of Tyre with 0.1%.

### **Treasury transfers to Electricité du Liban up 56% in first two months of 2012**

Figures released by the Finance Ministry show that Treasury transfers to Electricité du Liban totaled \$360.9m in the first two months of 2012, constituting an increase of 56% from \$231.5m in the same period last year. The ministry said that reimbursements to the Kuwait Petroleum Corporation (KPC) and to Algerian energy conglomerate Sonatrach accounted for \$349m, or 96.7% of transfers year-to-February; while EdL's debt servicing represented the remaining 3.3%. It attributed the increase to a rise of \$128m, or 58%, in payments to KPC and Sonatrach during the covered period, and to an increase in debt servicing by \$0.66m or 9% year-on-year. It added that the amount of the reimbursements to KPC and Sonatrach implies that any fluctuations in international oil prices are bound to have an impact on Treasury transfers to EdL. It attributed the rise in payments to KPC and Sonatrach to a significant increase in the average oil price according to which the 2012 payments were made. It noted that the average oil price for the 2012 payments is 49% higher than the corresponding average price in 2011. It added that EdL contributed just 1.8% of repayments to the two oil suppliers during the covered period. EdL transfers constitute the third largest expenditures item after debt servicing and salaries & wages in overall fiscal spending.

### **Public-sector salaries and benefits up 69% in January 2012**

Figures issued by the Ministry of Finance show that salaries, wages and related benefits paid to public-sector employees totaled \$276m in January 2012, constituting an increase of 69% from the same month last year. They represented the largest component of total primary spending and accounted for 29% of such expenditures in January 2012. 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 \$148.6m and accounted for 53.8% of the total, followed by salaries of civil staff with \$63m (22.8%), educational personnel with \$56.4m or 20.4% of the total, and customs employees with \$8m (2.9%). Also, the Lebanese Army's salaries totaled \$90.2m in January and represented 60.7% of military personnel salaries and benefits. It was followed by salaries of the Internal Security Forces with \$29.2m (19.6%), State Security Forces with \$23.9m (16.1%), and General Security Forces with \$5.3m (3.6%). The ministry attributed the rise in the first month of the year to a 46.2% increase in basic salaries, a 6.7% rise in indemnities, and a 96.6% jump in allowances. It said basic salaries increased by \$60.4m to \$191m due to a rise of \$25.9m in payments to military personnel, a \$21.2m increase to public education personnel, and a \$13.3m increase in payments to civil staff. It added that allowances rose by \$18.6m due to an equivalent increase in allowances to military personnel, while indemnities increased to \$0.63m. 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.

### **Opened letters of credit at \$5bn for imports and \$4bn for exports in 2011**

Figures issued by the Central Bank indicate that the value of letters of credit (LCs) opened to finance imports to Lebanon totaled \$5.46bn in 2011 compared to \$5.12bn in 2010. Also, utilized credits for imports totaled \$5.3bn in 2011, up 7.2% from \$4.9bn in utilized credits in 2010. They accounted for 97% of opened LCs in 2011 compared to 96.5% in 2010. In addition, outstanding import credits totaled \$932.5m in 2011 compared to \$937m in 2010. Further, the aggregate value of inward bills for collection totaled \$2.1bn in 2011 compared to \$2.3bn in 2010. Outstanding bills for collection reached \$167.6m at end-December 2011 relative to \$153.6m at end-December 2010.

In parallel, the value of documentary letters of credit opened to finance exports from Lebanon totaled \$4.18bn in 2011, constituting an increase of 0.2% from \$4.17bn in the previous year. Utilized credits for exports totaled \$3.65bn in 2011, down 11.8% from \$4.1bn of utilized credits in 2010. Further, outstanding export credits totaled \$1.24bn in December 2011, up by 10.4%, from \$1.13bn in December 2010. The aggregate value of outward bills for collection totaled \$3.95bn in 2011, down 11.7% from \$4.5bn in 2010. The outstanding value of outward bills for collection reached \$504.1m at end-December 2011 relative to \$390.3m at end-December 2010.



### **Byblos Bank's ratings affirmed, outlook 'stable'**

Capital Intelligence affirmed Byblos Bank's Long-Term and Short-Term Foreign Currency Ratings at 'B' and 'B', respectively. It also affirmed the Bank's Financial Strength Rating (FSR) at 'BBB-' and maintained the Support Level at '3', given the high likelihood of official support in case of need, given Byblos Bank's systemic importance. It said the outlook for all the ratings is 'stable' and noted that the ratings continue to be restrained by the sovereign ratings for Lebanon.

The agency pointed out that Byblos Bank's ratings are supported by the Bank's stronger than average capital adequacy, sound loan asset quality, and a well-managed cost base. But it noted that the Bank's ratings are constrained by exposure to the Lebanese sovereign, although the exposure is lower than that of its peers; an increasingly competitive business environment with lower economic growth in Lebanon; and exposure to systemic interest rate and liquidity risks as is the case with other Lebanese banks. In parallel, the agency said that Byblos Bank absorbed the effect of events in Syria and Sudan last year with only a moderate impact on its consolidated net profits and capital. But it considered that the Bank's revenues from these markets might be affected if the situation in the two countries deteriorates further.

### **Standard & Poor's changes to 'negative' the outlook on Bank Audi, BankMed and BLOM Bank**

Standard & Poor's revised its outlook on the long-term ratings of Bank Audi, BankMed and BLOM Bank to 'negative' from 'stable'. It simultaneously affirmed the 'B' long-term counterparty credit ratings on the three banks, and the 'B' short-term counterparty credit ratings on Bank Audi and BankMed. The agency attributed the outlook revision to its earlier change of the outlook on Lebanon's sovereign ratings to 'negative' from 'stable' due to rising geopolitical risks. It added that the rating action on the three banks reflects the risks inherent to their fragile operating environment, as well as the assumption that the banks would not withstand a scenario where Lebanon defaults on its obligations. Byblos Bank is not rated by Standard & Poor's.

It noted that the banks' sovereign exposure relative to their equity is still high, despite the decline of this exposure over time. As such, it pointed out that the banks' financial performance is closely linked to Lebanon's solvency. It noted that the banks' holdings of Lebanese government securities and Central Bank debt instruments relative to their common shareholder equity stood at about 3.8 times for Bank Audi, 4.1 times for BankMed, and 4.8 times for BLOM Bank.

S&P said that it would downgrade the ratings on the three banks in case of a downgrade of the sovereign ratings. It pointed out that specific factors to each of the three banks that would prompt a change in their respective ratings appear limited at this stage, given the close links between the banks' creditworthiness and that of the sovereign.

### **Stock market activity down 43% to \$175m in first five months of 2012**

Figures released by the Beirut Stock Exchange indicate that total trading volume reached 24.5 million shares in the first five months of 2012, constituting a decrease of 51% from the same period last year, while aggregate turnover amounted to \$175m, down 43% from a turnover of \$305.9m in the first five months of 2011. Market capitalization decreased by 13% from end-May 2011 to \$10.2bn, of which 75.6% was in banking stocks, 20.5% in real estate stocks, 3.3% in industrial stocks, 0.33% in fund stocks, and 0.26% in trading stocks. The market liquidity ratio was 1.7%, down from 2.6% from the same period last year. Bank stocks accounted for 75.1% of aggregate trading volume in the first five months of the year, followed by real estate stocks with 15.3%, trading stocks with 9.3%, and industrial stocks with 0.3%. In terms of value of shares traded, banking stocks accounted for 67% of aggregate value, followed by real estate stocks with 29.5% trading stocks with 3% and industrial stocks with 0.4%. The average daily traded volume for the period was 240,338 shares for an average daily value of \$1.7m. The figures reflect decreases of 53% in volume and 45% in value year-on-year.

### **Holcim's net profits drop by 16% to \$28m in 2011**

Cement producer Holcim Liban sal posted net profits of \$28.3m in 2011, constituting a decline of 15.9% from \$33.7m in 2010. The firm's net sales totaled \$195.6m in 2011, increasing by 5.7% from \$185m in 2010. Holcim's total assets reached \$300.6m at the end of 2011, growing by 4.5% from \$287.7m at end-2010; while its shareholders' equity was \$215.2m at end-2011 relative to \$217m at end-2010. The company's total loans and borrowings reached \$12.6m at end-2011, down by 37.2% from \$20.1m at end-2010; while its banks' balance and cash increased by 41.8% to \$24.1m at the end 2011 from \$17m at end-2010. The firm is engaged in the production and sale of cement and other related services. Holcim's share price closed at \$16.02 on June 1st, constituting a decline of 5.7% from end-2011.

### **Ciments Blancs' net income drop by 23% to \$2.4m in 2011**

Société Libanaise des Ciments Blancs sal, an affiliate of Holcim Liban sal, declared net profits of \$2.4m in 2011, constituting a decrease of 22.8% from \$3.1m in 2010. The company generated total sales of \$13.9m in 2011, down 1.8% from \$14.2m in 2010. The firm's total assets reached \$20.3m at end the end of 2011, increasing by 2.4% from \$19.8m at end-2010. Total equity declined by 2.6% to \$15.6m at end-December 2011 from \$16.1m at end-2010. The price of Ciments Blancs's Bearer shares closed at \$3.15 on June 1, 2012, constituting a decline of 3.1% from end-2011, while the price of Ciments Blancs' nominal shares closed at \$3.10 on June 1st, constituting a rise of 28.6% in the first five months of the year.

### Moody's downgrades financial strength ratings of three largest banks

Moody's Investors Service downgraded the standalone bank financial strength ratings (BSFRs) of Bank Audi, BLOM Bank and Byblos Bank to 'E+' from 'D'. In parallel, it affirmed the three banks' local currency long-term deposit rating at 'Ba3', short-term deposits rating at 'Not Prime', and national scale deposit short-term ratings at 'LB1'. It also affirmed Byblos Bank's national scale long-term deposit rating of 'Aa2.Lb' and its foreign currency subordinated debt rating of 'B1', as well as the 'Aa1.Lb' national scale long-term deposit ratings of Bank Audi and BLOM Bank.

The agency's rating actions on the three Lebanese banks are part of a broader review of the standalone credit assessment of 13 banks in Lebanon, Jordan, Pakistan and Ukraine. The agency said that its review was triggered by its revised assessment of the linkage between the credit profiles of sovereigns and financial institutions. It noted that the creditworthiness of banks with low cross-border operational diversification and/or with high balance sheet exposure to sovereign debt is closely linked to the country's credit strength where the bank is domiciled. Therefore the banks are unlikely to have standalone credit assessments above the sovereign rating.

Moody's indicated that it took into account the extent to which the three Lebanese banks' business depends on the domestic macroeconomic and financial environment; the degree of reliance on market-based, and therefore more confidence-sensitive, funding; and direct or indirect exposures to domestic sovereign debt compared with the banks' capital base. It concluded that the banks' creditworthiness is highly correlated to that of the Lebanese sovereign. Consequently, it reduced the BSFRs of the banks so that each is now in line with Lebanon's 'B1' sovereign rating.

The agency pointed out that the one-notch downgrade reflects the banks' high exposure to the Lebanese government, which is equivalent to around 350% of Bank Audi's Tier One capital, under 400% of Byblos Bank's Tier One capital, and over 400% of BLOM Bank's Tier One capital when including the banks' holdings of Certificates of Deposits issued by the Central Bank of Lebanon. It noted that the downgrade also reflects the banks' moderate geographical diversification outside Lebanon, as foreign assets account for about 33% of each of BLOM Bank's and Byblos Bank's consolidated assets, and for less than 30% of Bank Audi's consolidated assets. It considered that there is a high probability that each of the banks would receive systemic support in case of need, despite that systemic support assumptions in Lebanon are constrained by the banking sector's high rate of dollarization. It warned that the deterioration in the banks' operating environment or a weakening of their standalone financial fundamentals would exert downwards pressure on the ratings.

### Profits of top 12 banks down 0.4% to \$372m in first quarter

The unaudited consolidated net profits of the Alpha Group of banks reached \$370.2m in the first quarter of 2012, constituting a marginal decrease of 0.4% from \$371.6m in the same period last year. The Alpha Group consists of 12 banks with deposits in excess of \$2bn each. Total net operating income rose by 7.7% to \$991m, with aggregate net interest income increasing by 12.1% to \$672.4m and net fees & commissions receipts growing by 6.9% to \$180.4m year-on-year. Also, non-interest income accounted for 38.4% of total income in the first quarter of the year, up from 32.6% in the same quarter last year; with net fees & commissions earnings representing 41.3% of non-interest income in the first quarter of 2012, down from 54.7% in the same period last year. The net interest spread dropped to 1.93% in the first quarter of 2012 from 1.96% in the same quarter last year. Also, total operating expenditures increased by 13.2% year-on-year to \$532m, with staff expenses rising by 11.85% to \$292.6m. Further, the cost-to-income ratio dropped to 46.8% in the first quarter relative to 49.6% in the same period last year. The banks' total assets reached \$146.3bn at end-March 2012, constituting a 2% growth from end-2011; while aggregate loans & advances rose by 2.3% from end-2011 to \$40.5bn at end-March. Customer deposits totaled \$118.9bn at end-March 2012, a rise of 1.5% from end-2011.

In parallel, the banks' loans-to-assets ratio increased to 29.1% at end-March 2012 from 28.1% a year earlier, while the loans-to-deposits ratio grew to 34.8% at end-March 2012 from 33.7% a year earlier. The ratio of loans-to-deposits in local currency reached 19% at end-March 2012 compared to 17.2% at end-March 2011, while that in foreign currency was 41.8% at end-March 2012 relative to 40.6% a year earlier. Also, the banks' net return on average assets reached 1.02% at end-March 2012 on an annualized basis, relative to 1.14% a year earlier; while their net return on average equity was 11.75% on an annualized basis relative to 12.4% in March 2011. Further, the primary liquidity-to-deposits ratio reached 36.5% at end-March 2012, up from 34.8% at end-March 2011. The banks' aggregate equity-to-assets ratio declined to 8.4% at end-March 2012 compared to 8.5% a year earlier. Also, the collective provisions-to-net loans ratio increased to 1.2% at end-March 2012 from 0.8% at end-March 2011.

### Oger Telecom injects \$180m in South African subsidiary

Oger Telecom, part of the Hariri family-owned Saudi Oger Group, declared that it will inject \$180m in its South African subsidiary Cell C to improve the coverage and quality of the latter's network. It said that the funds will be used to support the company's plans, which include the funding of new products and enhancing the quality and coverage of Cell C's network. It added that the company aims to attract subscribers from its larger rivals MTN and Vodacom. It noted that the investment will not alter Oger Telecom's 75% stake in Cell C or the remaining 25% share owned by CellSaf. Mobile operator Cell C currently has about 13% of the South African mobile market, carries about 87% of its traffic on its own network, and covers about 35% of South Africa's geography. Oger Telecom also owns, among other assets, 95% of Cyberia, an Internet service provider operating in Jordan, Saudi Arabia and Lebanon.

### **SGBL's profits rise 33% to \$30m in first quarter of 2012**

Société Générale de Banque au Liban (SGBL) sal, one of Lebanon's top 10 banks, announced unaudited consolidated net profits of \$29.5m in the first quarter of 2012, up 33.4% from the same quarter last year. Net operating income increased by 39.1% year-on-year to \$68.5m, with net interest income increasing by 48.1% to \$47.7m. Non-interest income accounted for 32.7% of total income, down from 33% in the first quarter of 2011; with net fees & commissions accounting for 53% of non-interest earnings. The bank's interest margin was 1.98% in the first quarter of 2012 relative to 2.61% in same quarter of 2011; while its net spread regressed to 1.86% from 2.48% in the same quarter last year. Also, operating expenditures increased by 41.6% to \$36.7m, with staff expenses rising by 35.8% to \$19.4m. Total assets reached \$10.5bn at end-March 2012, constituting a 1.4% drop from end-2011, while loans & advances to customers regressed by a marginal 0.3% from end-2011 to \$2.9bn. Customer deposits totaled \$8.5bn at end-March, down 0.4% from end-2011. The bank's return on average assets regressed from 1.69% at end-March 2011 to 1.12% in March 2012; and its return on average equity grew from 20% at end-March 2011 to 21.56% at end-March 2012.

### **Libano-Française profits down 61% to \$9m in first quarter of 2012**

Banque Libano-Française sal, one of Lebanon's top 10 banks, posted unaudited consolidated net profits of \$8.8m in the first quarter of 2012, constituting a decrease of 60.7% from the same period last year. Net operating income dropped by 26% year-on-year to \$39.9m, with net interest income increasing by 12.7% to \$38.3m. Non-interest income accounted for 42.1% of total income, up from 34.45% in first quarter of 2011; with net fees & commissions accounting for 36% of non-interest earnings. The bank's interest margin was 1.56% in the first quarter of 2012 relative to 1.87% in same quarter of 2011, while its net spread regressed to 1.5% from 1.68% in the same period last year. Also, operating expenditures decreased by 1.8% to \$27.5m, with staff expenses decreasing by 9% to \$15.2m. The cost-to-income ratio declined to 41.8% in the first three months of 2012 from 49.8% in the same quarter last year. Total assets reached \$10.1bn at end-March 2012, constituting a 1% decline from end-December 2011; while loans & advances to customers increased by 0.1% from end-2011 to \$3.3bn. Customer deposits totaled \$8.5bn at end-March 2012, down 1.1% from end-2011. The bank's return on average assets regressed to 0.35% at end-March 2012 on an annualized basis from 1.02% a year earlier; and its return on average equity declined from to 4.28% at end-March 2012 from 11.25% at end-March 2011.

## Ratio Highlights

(in % unless specified)	2009	2010	2011	Change*
Nominal GDP <sup>(1)</sup> (\$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	Negative	B	B	Negative
Capital Intelligence	B	B	Stable	B	B	Stable

Source: Rating agencies

Banking Ratings	Banks' Financial Strength	Banking Sector Risk	Outlook
Moody's	E+		Negative
EIU		B	Stable

Source: Rating agencies



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