

LEBANON THIS WEEK

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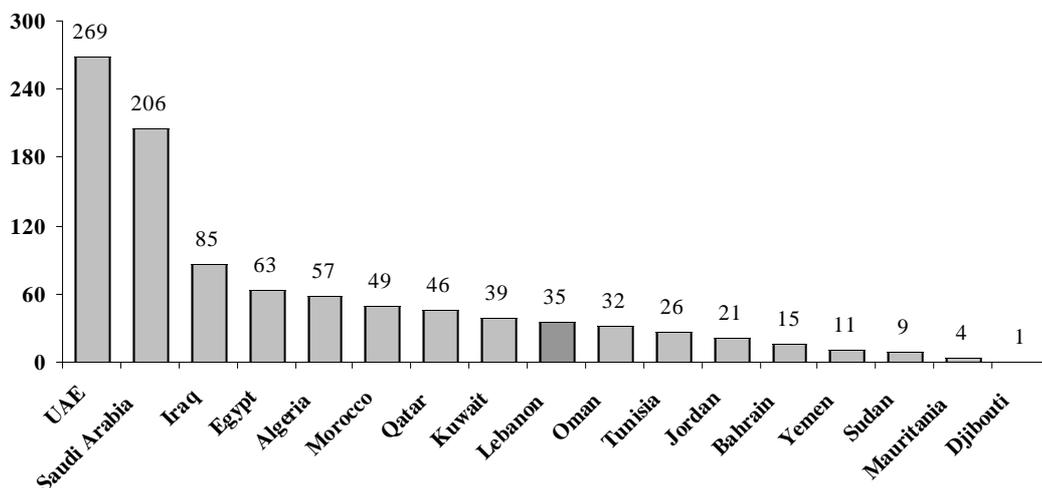
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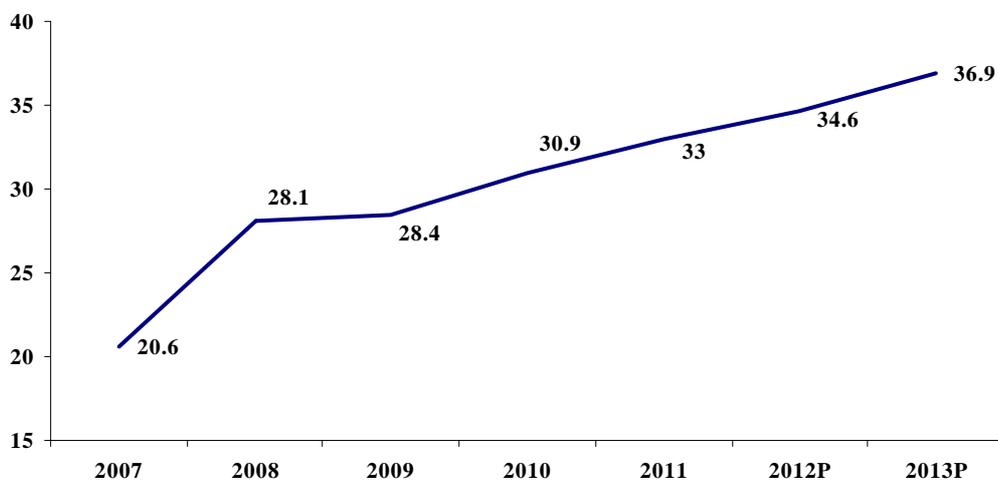
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Charts of the Week

Projected Imports of Goods and Services in Arab Countries in 2012 (US\$ bn)



Imports of Goods and Services in Lebanon (US\$ bn)



Source: International Monetary Fund, Byblos Bank

Quote to Note

"The economic spillovers from Syria are beginning to look serious."

The World Bank, on the increasing impact of the Syrian crisis on the Lebanese economy

Number of the Week

37.1%: Share of smartphones out of the total number of cellular handsets in Lebanon, according to the Arab Advisors Group

Economic Indicators

\$m (unless otherwise mentioned)	2010	Mar 11	2011	Jan 12	Feb 12	Mar 12	% Change*
Exports	4,256	354	4,276	348	429	377	6.50
Imports	17,956	1,631	20,170	1,454	2,799	1,723	5.64
Trade Balance	(13,700)	(1,277)	(15,894)	(1,106)	(2,370)	(1,346)	5.40
Balance of Payments	3,326	270	(1,996)	(290)	(134)	51	(81.11)
Checks Cleared in LBP	13,519	1,301	14,251	1,246	1,152	1,192	(8.38)
Checks Cleared in FC	53,925	4,798	57,852	4,665	4,272	4,844	0.96
Total Checks Cleared	67,444	6,099	72,103	5,911	5,424	6,036	(1.03)
Budget Deficit/Surplus	(2,894)	(548)	(2,342)	(176)	(181)	(312)	(42.99)
Primary Balance	1,231	(120)	1,662	33	11	133	(210.84)
Airport Passengers	5,512,435	344,024	5,596,034	424,741	374,252	438,570	27.48

\$bn (unless otherwise mentioned)	Dec 2010	Mar 11	Dec 11	Jan 12	Feb 12	Mar 12	% Change*
BdL FX Reserves	28.60	28.54	30.82	30.74	30.76	30.99	8.58
<i>In months of Imports</i>	<i>19.46</i>	<i>17.40</i>	<i>18.51</i>	<i>21.14</i>	<i>10.99</i>	<i>17.99</i>	<i>3.37</i>
Public Debt	52.59	52.59	53.64	53.65	53.94	54.08	2.83
Net Public Debt	45.01	45.61	46.35	46.54	46.74	46.91	2.85
Bank Assets	128.93	132.49	140.58	142.85	144.11	144.73	9.24
Bank Deposits (Private Sector)	107.20	108.15	115.72	116.69	117.42	118.22	9.31
Bank Loans to Private Sector	34.93	36.43	39.38	40.51	40.45	41.00	12.54
Money Supply M2	39.40	37.14	38.90	39.09	39.46	40.04	7.81
Money Supply M3	92.15	92.76	97.23	97.49	98.13	98.94	6.66
LBP Lending Rate (%)	7.91	7.73	7.38	7.19	7.07	7.16	(57b.p.)
LBP Deposit Rate (%)	5.68	5.63	5.63	5.60	5.47	5.46	(17b.p.)
USD Lending Rate (%)	6.74	7.24	7.02	6.99	7.13	7.06	(18b.p.)
USD Deposit Rate (%)	2.80	2.82	2.83	2.87	2.87	2.83	1b.p.
%* Change in CPI**	6.19	6.94	4.27	4.47	3.71	4.40	(254b.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"	13.08	0.08	44,364	12.84%
Solidere "B"	13.13	0.46	10,089	8.38%
Byblos Common	1.56	(0.64)	65,049	5.51%
Byblos Pref. 08	101.00	0.00	3,500	1.98%
Byblos Pref. 09	101.00	0.00	0	1.98%
BLOM GDR	7.70	0.00	14,413	5.59%
BLOM Listed	7.40	0.00	137,000	15.62%
Audi GDR	6.45	(0.77)	885	6.34%
Audi Listed	5.84	(1.02)	41,495	20.03%
HOLCIM	16.02	0.00	0	3.07%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Sep. 2012	7.750	100.25	6.59
June 2013	8.625	104.00	4.56
Apr. 2014	7.375	104.75	4.64
Jan. 2015	5.875	103.50	4.43
Apr. 2015	10.00	114.75	4.46
Jan. 2016	8.500	112.00	4.83
Mar. 2017	9.000	115.00	5.39
Nov. 2018	5.150	99.63	5.22
Apr. 2021	8.250	116.00	5.90
Nov. 2026	6.600	101.00	6.49

Source: Byblos Bank Capital Markets

	June 11-15	June 4-8	% Change	May 2012	May 2011	% Change
Total Shares Traded	339,392	335,549	1.15	7,256,285	6,771,576	7.16
Total Value Traded	\$3,078,253	\$4,879,593	(36.92)	\$49,148,802	\$62,013,241	(20.74)
Market Capitalization	\$10.19bn	\$10.21bn	(0.24)	\$10.20bn	\$11.70bn	(12.83)

Source: Beirut Stock Exchange (BSE)



Beirut is 67th most expensive city in the world, third most expensive among Arab cities

The annual survey on the cost of living in 214 cities around the world by Mercer Human Resource Consulting ranked Beirut as the 67th most expensive city worldwide and the third most expensive among 20 Arab cities surveyed in 2012. It also considered Beirut to be the 11th most expensive city among the 41 cities in 34 Upper Middle Income Countries (UMICs) included in the survey. Beirut's global rank rose by 8 spots in this year's survey, making it the fifth biggest rise among Arab cities in 2012. Beirut was the 75th most expensive city worldwide and the fourth most expensive in the Arab world in 2011 as well as the 80th most expensive city worldwide and the fourth most expensive among 18 Arab cities surveyed in 2010. The study measures the comparative cost of over 200 items in each location, including the cost of housing, food, clothing and household goods, as well as transportation and entertainment. It compares the cost of high-end items that are important to expatriates and their employers such as upscale residential areas and entertainment venues. New York City is used as the base city for the index and all cities are compared against it. The survey is conducted annually to help multinational companies determine compensation allowances for their expatriate workers.

On a global basis, Beirut was considered to be more expensive than Los Angeles in the United States, Prague in the Czech Republic and Cotonou in Benin; while it was less expensive than Qingdao in China, Helsinki in Finland, and Abuja in Nigeria. Among UMICs, Beirut was considered to be more expensive than Santiago in Chile, Istanbul in Turkey and Almaty in Kazakhstan; while it ranked behind Bogota in Colombia, Victoria in the Seychelles and Baku in Azerbaijan. Regionally, Khartoum and Djibouti were the only Arab cities to be more expensive than Beirut. Mercer said the cost of housing is often the biggest expense for expatriates and plays an important part in determining the ranking of cities. In addition, the strengthening of the US dollar against many of the world's currencies made economies with a currency peg to the dollar such as Lebanon more expensive.

The survey shows that the rankings of nine Arab cities increased in 2012, while those of the remaining 11 cities dropped. It attributed the decline in the rankings of the 11 Arab cities mainly to the fact that the increases in the prices of goods and services in the region have been more moderate than price increases in New York City, the benchmark city in the survey. Khartoum is the most expensive Arab city in 2012, while Tunis remains the least costly. Also, Djibouti and Khartoum ranked among the top 50 most expensive cities in the world. The survey included four non-Arab cities from the region, as Tel Aviv ranked in 31st place globally, Istanbul came in 79th place, Limassol was in 128th place and Tehran ranked in 146th place. Tokyo is the world's most expensive city, while Karachi in Pakistan maintained its status as the least costly city worldwide.

Balance of payments posts deficit of \$916m in first four months of 2012

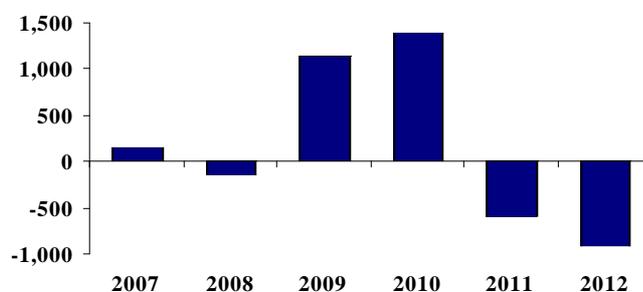
Central Bank figures show that Lebanon's balance of payments posted a deficit of \$916.2m in the first four months of 2012 compared to a deficit of \$597.8m in the same period last year. The balance of payments posted a deficit of \$543m in April compared to a surplus \$50.7m in March 2012 and a deficit of \$198.6m in April 2011. The April 2012 surplus was caused by a deficit of \$1.3bn in the net foreign assets of banks and financial institutions and a surplus of \$794.7m in those of the Central Bank. The cumulative deficit over the first four months of 2012 was caused by a surplus of \$912m in the Central Bank's net foreign assets and a deficit of \$1.8bn in those of banks and financial institutions. The balance of payments posted a deficit of \$2bn in 2011 and surpluses of \$3.3bn in 2010, \$7.9bn in 2009 and \$3.5bn in 2008.

Cost of Living Rankings in 2012

City	Arab Rank	Global Rank
Khartoum	1	26
Djibouti	2	44
Beirut	3	67
Abu Dhabi	4	76
Dubai	5	94
Amman	6	105
Riyadh	7	123
Algiers	8	124
Casablanca	9	127
Cairo	10	129
Kuwait City	11	134
Tripoli	12	138
Manama	13	156
Damascus	14	166
Doha	15	169
Rabat	16	177
Muscat	17	179
Jeddah	18	186
Nouakchott	19	203
Tunis	20	209

Source: Mercer Consulting, Byblos Research

Balance of Payments* (US\$m)



* in the first four months of each year

Source: Central Bank of Lebanon

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

Figures issued by Merrill Lynch indicate that Lebanon's external debt posted returns of 1.08% in the first five months of 2012, constituting the second 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 4.81%, as well the overall emerging markets returns of 3.61% during the covered period. Also, Lebanon's external debt underperformed the 3.87% 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 five months of 2012, ahead of only Iraq (-1.15%). It was outperformed by Tunisia (1.86%), South Africa (2.45%), Namibia (2.71%), Ghana (4.22%), Bahrain (4.6%), Gabon (5.17%), Nigeria (5.57%), Morocco (5.75%), Jordan (6.5%), Egypt (10.92%) and Senegal (13.25%). In US dollar terms, Lebanon's external debt posted returns of 1.04% in the first five months of 2012, third lowest in the EMEA region and eighth lowest among emerging markets.

In parallel, Lebanon's external debt posted returns of -1.15% in May, constituting the 16th lowest return in the EMEA region and the 25th lowest return in emerging markets during the covered month. Lebanon outperformed the EMEA returns of -1.62% and the emerging markets returns of -2.42% as well as the -3.8% returns of similarly-rated sovereigns for the same month. Regionally, it outperformed Iraq (-4.88%), Ghana (-2%), Gabon (-1.69%), Nigeria (-1.63%) and Namibia (-1.21%); and underperformed South Africa (-1.14%), Bahrain (-0.06%), Jordan (0.12%), Tunisia (0.14%), Egypt (0.65%), Senegal (1.27%) and Morocco (1.3%).

Merrill Lynch said the spread on Lebanese Eurobonds ended May 2012 at 440 basis points, constituting the 16th narrowest in the EMEA region and 27th narrowest among emerging markets. It was narrower than the EMEA spread of 467 basis points but wider than the emerging markets overall spread of 428 basis points at end-May 2012. Lebanon has a weight of 3.56% on Merrill Lynch's Sovereign Plus Debt Index, third highest in the EMEA universe behind Turkey (10.82%) and Russia (9.58%), and ninth highest among emerging markets. Lebanon accounted for 8.3% of the allocations in the EMEA region.

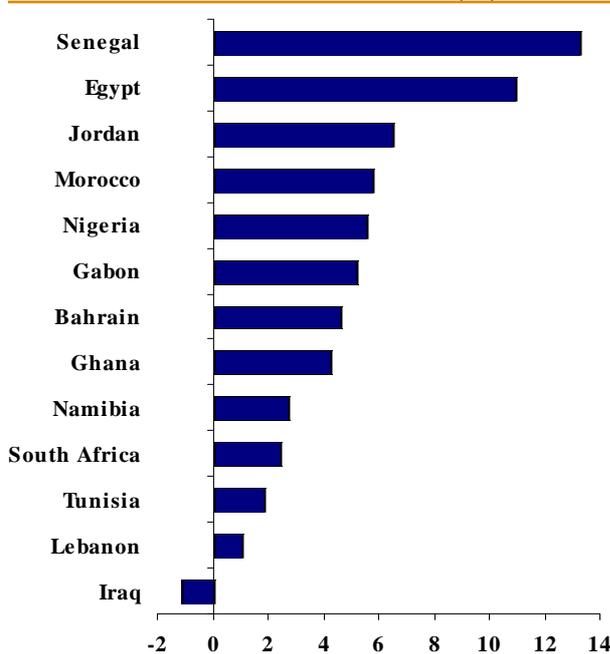
Customs receipts down 1% to \$483m in first four months of 2012

Figures released by the Customs Directorate indicated that customs revenues reached \$483.5m in the first four months of 2012, constituting a decline of 1.4% from \$490.2m in the same period of 2011. The Port of Beirut continues to be the main point of customs receipts, as it accounted for 86.6% of the total in the first four months of 2012, and was followed by the Hariri International Airport with 7.8%, the Port of Tripoli with 2.3%, the Masnaa crossing point with 2.1%, 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 \$512.7m in the first four months of 2012, constituting an increase of 13.5% year-on-year. The Port of Beirut accounted for 78.1% of such receipts, and was followed by the Hariri International Airport with 8.9%, the Port of Tripoli with 5.7%, the Masnaa crossing point with 5.4%, and the Port of Saida with 1.7% of the total. As such, overall customs receipts reached \$996.2m in the first four months of this year, with Port of Beirut accounting for 82.3% of the total, followed by the Hariri International Airport with 8.3%, the Port of Tripoli with 4% and the Masnaa crossing point with 3.8%. In addition, other entry points represented the balance, with the port of Saida accounting for 1.2%, the crossing point of Abboudieh for 0.2%, and the port of Tyre with 0.2%.

EU provides grants to support judicial reforms, municipal capacity and environmental reforms

The World Bank approved \$27m in additional financing for the Cultural Heritage and Urban Development project in Lebanon. The project aims to improve the conservation and management of built cultural heritage in the country, and to specifically support the development of historic centers of five main secondary Lebanese cities. In parallel, the European Union (EU) extended a €5m grant to improve the functioning of the Lebanese judiciary in line with principles of democracy and good governance. The objective of the four-year project is to support the independence and efficiency of the judiciary system. Further, the EU announced a €20m grant to improve the municipal finance framework and to enhance the capacities of the municipalities; as well as an €8m grant to improve the environmental performance of the public sector through reforming environmental governance.

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



Source: Merrill Lynch, Byblos Research

Cost of sending remittances to Lebanon drops in first quarter of 2012

Figures issued by the World Bank show that the cost of sending remittances from the United States to Lebanon reached 11.83% in the first quarter of 2012 for a \$200 transfer, constituting a decrease from 14% in the third quarter of 2011 and from 12.6% in the first quarter of 2011. Also, the cost of sending \$500 from the U.S. to Lebanon reached 5.25% in the first quarter of 2012, down from 6.51% in the third quarter of 2011 and 5.53% in the first quarter of 2011. The cost includes the transaction fee and exchange rate margin, and represents the average cost of transferring money through commercial banks and money transfer operators (MTOs). In nominal terms, the cost of sending \$200 and \$500 from the U.S. to Lebanon is \$23.7 and \$26.3, respectively, down from \$28 and \$32.53 in the third quarter of last year and from \$26.2 and \$28.5, respectively, in the first quarter of 2011.

Also, the cost of sending remittances from Germany to Lebanon reached 17.1% in the first quarter of 2012 for a transfer of €140, or about \$200, constituting an increase from 14.8% the third quarter of last year and from 13.5% in the first quarter of 2011. Also, the cost of sending €345, or about \$500, from Germany to Lebanon reached 8.84% in the first quarter of 2012 compared to 8.1% in the third quarter of 2011 and to 6.9% in the first quarter of last year. In nominal terms, the cost of sending €140 and €345 from Germany to Lebanon costs quarter of 2010.

In parallel, Lebanon ranked as the second most expensive destination for sending \$200 from the U.S. among 27 countries with available data after Thailand (12.7%). It was the 10th most expensive for sending \$500. The data covered 12 countries in Latin & Central America, seven countries in East and Southeast Asia, three countries in the Caribbean, and four countries in Africa, in addition to Lebanon in the Middle East. The United States is the sixth largest source of inward electronic cash transfers to Lebanon.

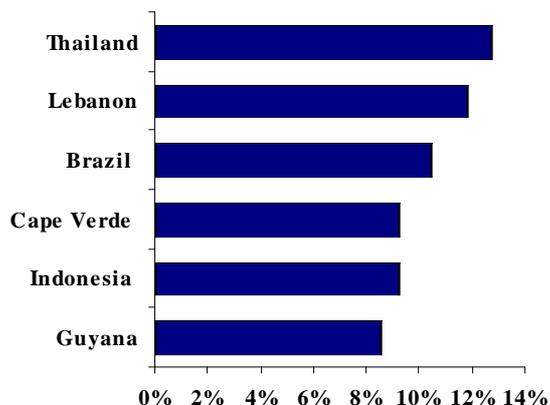
The World Bank indicated that the average cost to send \$500 in remittances through commercial banks to Lebanon was 6% and the average cost through MTOs was 4% in the first quarter of 2012. In comparison, the average cost to send remittances through commercial banks to Lebanon was 7.1% and the average cost through MTOs was 5.4% in the third quarter of 2011; while it was 6.7% and 3.7%, respectively, in the first quarter of last year. MTOs account for about 70% of all cash electronic transactions to Lebanon, followed by money dealers with 22.4% and commercial banks with 7.5%.

Visitor spending in Beirut expected to be second highest in the Middle East & Africa in 2012

The MasterCard Worldwide Index of Global Destination Cities for 2012 ranked Beirut in second place among 21 cities in the Middle East & Africa (ME&A) region in terms of cross-border spending this year. The index projected visitors' total spending in Beirut at \$6.7bn in 2012, placing the Lebanese capital second only to Dubai where cross-border spending is forecast at \$8.8bn this year. Beirut ranked in second place on this category for the third straight year. Beirut would account for 19.7% of aggregate cross-border spending in the top 10 destination cities in the ME&A region. The survey expected visitors' spending in Beirut to grow by 6.2% in 2012, compared to the region's average growth of 10.4%, which would constitute the seventh fastest growth rate in the ME&A region. In comparison, the survey forecast cross-border spending in the top 20 destination cities around the world to grow by an average of 10.6% this year. Further, the index forecast a total of 1.5 million visitor arrivals to Lebanon this year, lowest among the top 10 destination cities in the ME&A region. The survey ranks destination cities in terms of the total number of international visitor arrivals and cross-border spending. It excludes from arrivals the number of returning residents from overseas trips as well as transit passengers. Lebanon's projected visitor arrivals would account for 5.3% of tourist arrivals to the top 10 destination cities in the ME&A region.

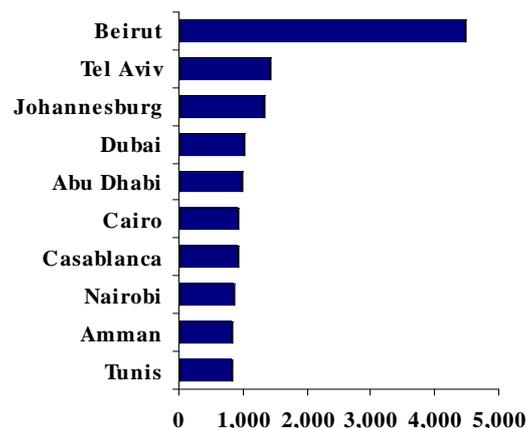
In parallel, the survey projected the average cross-border spending per visit in Beirut at \$4,522 in 2012, the highest among the region's top 10 destinations, significantly higher than that of its immediate followers Tel Aviv at \$1,387, Johannesburg at around \$1,300 and Dubai at \$1,004. Beirut's average cross-border spending per visit is also significantly higher than the region's average of \$1,181 and the average cross-border spending per visit of \$1,303 in the top 20 destination cities around the world.

Costliest Destinations of Remittances from the U.S.



Source: World Bank, Byblos Research

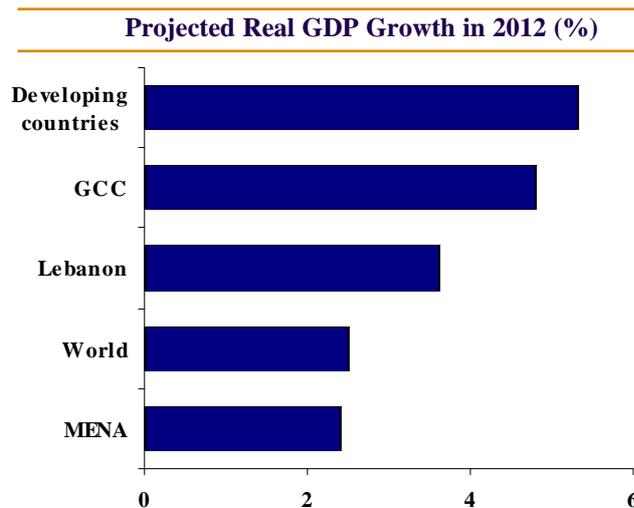
Cross-Border Spending per Visit in 2012 (\$US)



Source: MasterCard, Byblos Research

Real GDP growth projected at 3.6% in 2012

The World Bank projected economic growth in Lebanon at 3.6% in 2012, compared to growth of 2.4% in the Middle East & North Africa, 2.2% for the region's economies that are poor in resources and abundant in labor, 2.5% for the global economy and 5.3% in developing countries. Lebanon's projected growth rate for 2012 would make it the second fastest growing economy among 10 countries in the MENA region, behind Iraq with growth of 11.1%. The 10 countries exclude the GCC economies. The Bank expected Lebanon's economic growth to pickup to 4.5% in 2013, posting the third fastest growth rate among the 10 economies, behind Iraq at 13.5% and Morocco at 5%. Further, the World Bank forecast Lebanon's current account deficit at 18.2% of GDP in 2012 relative to 23% of GDP last year, widest in the region, and compared to a surplus of 1.8% of GDP for the region this year. The Bank said that the spillovers of the Syrian crisis to Lebanon are increasingly weighing on Lebanon's service-based economy. The Bank noted that economic activity in Lebanon is softening this year; but considered that it may recover in 2013 and 2014 in case capital inflows from the GCC, such as remittances, FDI and financial assistance, accelerate due to the oil windfall. However, it cautioned that tourism activity is likely to suffer over the foreseeable future until the political situation improves regionally.



Source: World Bank

In parallel, the World Bank estimated economic growth in Lebanon at 3% in 2011, down from 7% in 2010 and compared to growth of 2.1% in the MENA region and 1% for countries in the region with poor resources and abundant labor. Lebanon was the third fastest growing economy among 10 MENA countries in 2011, behind Iraq at 9.9% and Morocco at 4.3%. It also estimated Lebanon's current account deficit at 23% of GDP in 2011, up from 19.3% of GDP in 2010 and compared to a surplus of 3.4% of GDP for the region.

Trade deficit up 27% to \$6bn in first four months of 2012

Total imports reached \$7.5bn in the first four months of 2012, constituting an increase of 23.8% from the same period last year; while aggregate exports rose by 10.7% to \$1.5bn, leading to a trade deficit of \$6.1bn, up 27.4% 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 and an increase of \$142m in exports.

Imports of oil and mineral fuels increased by 101.4% year-on-year to \$2.6bn, and non-hydrocarbon imports grew by 3% to \$4.9bn. In volume terms, imports reached 5,656 million tons in the first four months of 2012, constituting an increase of 22.3% from the same period in 2011; while exports posted a 30.9% drop to 715 million tons in the covered period, leading to a trade deficit of 4,941 million tons, up 37.7% year-on-year. Imports of oil and mineral fuel surged by 66.4% year-on-year to 2,874 million tons, while non-hydrocarbon imports dropped by 3.9% annually to 2,782 million tons. The trade deficit was \$1.23bn in April 2012, up 9.1% from the same month of the previous year. Imports averaged \$1.8bn and exports averaged \$368m on a monthly basis year-to-April, resulting in an average monthly trade deficit of \$1.5bn during the covered period. The coverage ratio reached 19.6% in the first four months of 2012 compared to 21.9% in the same period in 2011, while it reached 20.6% in April 2012 relative to 25% in April 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 49% or \$213m and rising by 6% in volume terms in the first four months of the year. Excluding this item, exports dropped in value by 8%, or by \$71m, representing the lowest level of exports in five years in nominal terms, partly due to lower exports to Arab countries and as a result of the political instability in the region. Exports to Arab countries increased by 4%, largely due to a rise of 19% in exports to Saudi Arabia. But the increase was offset with a 37% 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 \$1.3bn or 18% of the total in the first four months of 2012, followed by Italy with \$579m (8%), France with \$530m and China with \$516m (7% each), and Germany with \$367m (5%). Imports from the U.S. surged by 104% and those from France increased by 5% year-on-year; while imports from Italy dropped by 7%, those from China by 5%, and from Germany fell by 3%. Switzerland was the main export destination with \$212m or 14% of the total, followed by the UAE with \$122m (8%), Saudi Arabia with \$118m (8%), Syria with \$74m (5%), Turkey with \$64m (4%), Iraq with \$50m (3%) and Jordan with \$43m (3%). Exports to Switzerland rose by 24%, those Saudi Arabia rose by 15%, to the UAE grew by 14%, and increased by 3% to Syria and by 2% to Jordan; while exports to Turkey dropped by 31% and regressed by 24% to Iraq. Lebanon's main export was jewelry at \$647m or 44% of the total, followed by machinery & mechanical appliances with \$161m (11%), base metals with \$153m (10%), prepared foodstuff with \$128m (9%) and chemical products with \$96m (7%). Re-exports totaled \$115m in the first four months of 2012, compared to \$66m in the same period of the previous year.

Byblos Bank to issue up to \$300m in 10-year convertible bonds

Byblos Bank sal, one of the top 3 banking and financial services groups in Lebanon, announced plans to issue a 10-year convertible bond of between \$150m and \$300m that will carry an annual coupon rate of 6.5% to be paid quarterly. The bond will be issued before the end of 2012 and will mature in 2022. The bond's issuance is subject to the approval of the Bank's General Assembly and that of the Central Bank of Lebanon. Subscribers will have the right to convert their holdings, in whole or in part, into common shares or into global depository receipts (GDRs) during each year of the bond's life. In case investors decide to exercise their option to convert, they will have the right to exchange their notes for Byblos Bank shares at a price of \$2.50 per share. In addition, subscribers will have preemptive rights to subscribe to any capital increase by Byblos Bank as well as to any new issue of convertible loans or convertible bonds by the Bank. Previous fixed income securities issued by Byblos Bank include a 10-year \$150m subordinated note issued in April 2011, a 10-year \$100m subordinated note issued in July 2002 and a 5-year \$200m convertible bond issued in November 2007. The new bond, which will not be listed on any stock exchange, will replace notes that mature this year.

Earlier this month, 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. 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. Byblos Bank sal declared consolidated net profits of \$38.63m in the first quarter of 2012 relative to \$38.56m in the same period last year, with operating income rising by 7.5% year-on-year to \$118.7m. Total assets reached \$16.8bn at end-March 2012, constituting a rise of 1% from the end of 2011 and of 5.3% from end-March 2011; while net loans & advances to customers grew by 0.5% from end-2011 and by 6.9% from end-March 2011 to \$4bn at end-March 2012. Customers' deposits totaled \$13bn, increasing by 2.2% from end-2011 and by 6.9% from end-March 2011. The Bank's total equity reached \$1.66bn at end-March 2012, up 0.4% from end-2011. Earnings per common ordinary share rose by 4.9% to LBP 76.9, equivalent to \$0.05 per share. Also, the Bank's Capital Adequacy Ratio stood at 13.6% according to Basel II criteria. In parallel, net non-performing loans represented 1.08% of gross loans, with the coverage ratio reaching 123.7% when accounting for collective provisions. The Byblos Bank Group has a direct presence in Iraq, Syria, Sudan, the United Arab Emirates, Nigeria, Armenia and the Democratic Republic of Congo, as well as in Belgium, France, the United Kingdom and Cyprus.

CMA CGM's ratings downgraded on deteriorating liquidity position

Standard & Poor's downgraded the long-term corporate credit rating of the Lebanese-owned and France-based container shipping group CMA CGM to 'CCC+' from 'B-'. It also lowered to 'CCC-' from 'CCC' the company's €325m and \$475m worth of senior unsecured notes that mature in 2019 and 2017, respectively. It kept the company's ratings on CreditWatch with negative implications. It attributed the downgrades to the company's deteriorating liquidity position due to negative operating cash flow in the first quarter of 2012 and continued depletion of available cash. S&P expected CMA CGM's liquidity position to remain under strain over the coming months due to delays in corrective actions. It noted that the firm is unlikely to complete the amendments to its debt amortization profile and to its financial covenants by June 30, 2012; and could take longer than expected to receive \$250m from the issuance of redeemable bonds to the Turkish Yildirim Group.

Further, the agency noted that CMA CGM's earnings remained under pressure in the first quarter of 2012 due to the rise in bunker fuel cost and reduced freight tariffs, in particular on Asia-Europe trades. It pointed out that the firm reported operating losses of \$104m and negative operating cash flow of \$192m in the first quarter of the year, and had to repay financial obligations that eroded its available cash position to \$300m.

S&P expected CMA CGM's earnings to rebound in the second quarter of 2012 due to improved industry conditions, but it noted that the persistent industry overcapacity and volatile bunker fuel prices might limit the upside potential of the firm's earnings and cash flow generation. Also, it said that the company faces upcoming equity payments for newly-build vessels, maintenance capital spending, and debt maturities. Also, it cautioned that the firm's liquidity sources may not be sufficient to cover liquidity uses over the next 12 months in the absence of corrective action, which could lead the company to continue breaching its covenant tests.

First National Bank's profits rise 17% to \$4m in first quarter of 2012

First National Bank sal, one of Lebanon's top 12 banks, announced unaudited consolidated net profits of \$4.1m in the first quarter of 2012, constituting an increase of 17.3% from the same quarter last year. Net operating income increased by 12.1% year-on-year to \$15.5m, with net interest income increasing by 20.6% to \$12.9m. Non-interest income accounted for 27% of total income, up from 24.1% in the first quarter of 2011; with net fees & commissions accounting for 21.4% of non-interest earnings. The bank's interest margin was 1.84% in the first quarter of 2012 relative to 1.73% in same quarter of 2011; while its net spread grew to 1.8% from 1.69% in the same quarter last year. Also, operating expenditures increased by 12% to \$10.4m, with staff expenses rising by 2.8% to \$5.4m. Total assets reached \$2.9bn at end-March 2012, constituting a 3.7% rise from end-2011, while loans & advances to customers increased by 2.1% from end-2011 to \$772.6m. Customer deposits totaled \$2.3bn at end-March, up 2% from end-2011. The bank's return on average assets increased to 0.57% on an annualized basis from 0.55% a year earlier; while its return on average equity reached 8.8% relative to 7.48% a year earlier.



BLC Bank's net income down 44% to \$5m in first quarter of 2012

BLC Bank sal, one of Lebanon's listed banks, announced unaudited net profits of \$5.2m in the first quarter of 2012, down 43.5% from the same quarter last year. Net interest income rose by 18.5% to \$25.4m, while net fees & commission income increased by 0.6% to \$3.8m and net interest gains on trading portfolio reached \$1.3m in the first quarter of 2012 compared to losses of \$48,000 in the same period last year. Administrative expenses increased by 35.9% to \$6.5m and staff costs rose by 43% to \$13.9m year-on-year. Total assets reached \$4.5bn at end-March 2012, up 2.7% from end-2011; while loans & advances to customers increased by 5.6% to \$1.6bn at end-March 2012. The bank held \$60.4m in assets acquired in satisfaction of loans as at end-March 2012, almost unchanged from end-2011. Customer deposits totaled \$3.8bn constituting an increase of 5.3% from end-2011. The bank's return on average assets decreased to 0.72% as at end-March 2012 compared to 1.31% as at end-December 2011; while its return on average equity reached 9.17% as at end-March 2012 compared to 15.83% as of end-2011. BLC Bank is part of the Fransabank Group.

IBL Bank's income up 29% to \$11m in first quarter of 2012

IBL Bank sal, one of Lebanon's top 12 banks, announced unaudited consolidated net profits of \$10.5m in the first quarter of 2012, constituting an increase of 28.8% from the same quarter last year. Net operating income increased by 18.2% year-on-year to \$19.2m, with net interest income increasing by 151.3% to \$14m. Non-interest income accounted for 32.5% of total income, down from 66.4% in the first quarter of 2011; with net fees & commissions accounting for 14.2% of non-interest earnings. The bank's interest margin was 1.48% in the first quarter of 2012 relative to 0.68% in same quarter of 2011; while its net spread grew to 1.46% from 0.67% in the same quarter last year. Also, operating expenditures increased by 12% to \$10.4m, with staff expenses rising by 20.3% to \$4.6m. Total assets reached \$3.9bn at end-March 2012, constituting a 2.4% rise from end-2011, while loans & advances to customers increased by 20.7% from end-2011 to \$746.4m. Customer deposits totaled \$3.5bn at end-March, up 2.2% from end-2011. The bank's return on average assets increased to 1.1% on an annualized basis from 0.99% a year earlier; while its return on average equity reached 14.68% relative to 13.89% a year earlier.

Capital Intelligence affirms ratings on Crédit Libanais and Bank Audi

Capital Intelligence affirmed the long- and short-term foreign currency ratings of Crédit Libanais (CL) and Bank Audi at 'B'. It also affirmed the financial strength rating (FSR) of CL at 'BB+' and that of Audi at 'BBB-'. It said the banks' ratings are restrained by the sovereign ceiling and that the outlook on all the ratings is 'stable'. It said that CL's FSR reflects its good capital adequacy, improving assets quality and comfortable liquidity. It added that the FSR is constrained by the bank's high exposure to Lebanese sovereign debt, which raises its sensitivity to interest rate and maturity mismatching risks. It noted that the bank's FSR is also constrained by the bank's high concentration to housing loans and by its low operating profitability. It considered that the bank's profitability, which was pressured last year by a compression of net interest margins, low non-interest income generation and a high cost base, needs to improve. The agency said that CL's ratings would be vulnerable to the deterioration in sovereign and political risk factors, or to a weakening in the bank's profitability.

In parallel, Capital Intelligence said that Bank Audi's ratings are constrained by Lebanese sovereign risk, weaker capital adequacy, and expectations that asset quality will continue to weaken as economic growth slows down in Lebanon and because of events in Syria and Egypt. It noted that the bank's financial condition and performance remain highly sensitive to systemic liquidity and interest rate risks despite its strong risk management. It added that the bank is exposed to significant concentration risks due to its large holdings of Lebanese sovereign debt. It pointed out that the bank managed the challenges posed by ongoing turmoil in Syria and Egypt, but it expected the bank's growth in the MENA region to be more limited over the short-term. It added that a new subsidiary in Turkey will expose the bank to new macroeconomic risks. The agency said the bank's ratings would come under pressure if sovereign risk factors deteriorated, in case its capital adequacy did not improve, or if its loan-loss reserve coverage declined.

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	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



Economic Research & Analysis Department
Byblos Bank Group
P.O. Box 11-5605
Beirut – Lebanon
Tel: (961) 1 338 100
Fax: (961) 1 217 774
E-mail: research@byblosbank.com.lb
www.byblosbank.com

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BYBLOS BANK GROUP

LEBANON

Byblos Bank S.A.L
Achrafieh - Beirut
Elias Sarkis Avenue - Byblos Bank Tower
P.O.Box: 11-5605
Riad El Solh - Beirut 1107 2811 - Lebanon
Phone: (+ 961) 1 335200
Fax: (+ 961) 1 339436

SYRIA

Byblos Bank Syria S.A.
Damascus Head Office
Al Chaalan - Amine Loutfi Hafez Street
P.O.Box: 5424 Damascus - Syria
Phone: (+ 963) 11 9292 - 3348240/1/2/3/4
Fax: (+ 963) 11 3348205
E-mail: byblosbanksyria@byblosbank.com

IRAQ

Erbil Branch, Kurdistan, Iraq
Street 60, Near Sports Stadium
P.O.Box: 34 - 0383 Erbil - Iraq
Phone: (+ 964) 66 2233457/8/9 - 2560017/9
E-mail: erbilbranch@byblosbank.com.lb

Baghdad Branch, Iraq
Al Karrada - Salman Faeq Street
Al Wahda District, No. 904/14
Facing Al Shuruk Building
P.O.Box: 3085 Badalat Al Olwiya - Iraq
Phone: (+ 964) 770 6527807
(+ 964) 780 9133031/2
(+ 964) 1 7177493
E-mail: baghdadbranch@byblosbank.com.lb

UNITED ARAB EMIRATES

Byblos Bank Abu Dhabi Representative Office
Intersection of Muroor and Electra Streets
P.O.Box: 73893 Abu Dhabi - UAE
Phone: (+ 971) 2 6336050 - 2 6336400
Fax: (+ 971) 2 6338400
E-mail: abudhabirepoffice@byblosbank.com.lb

ARMENIA

Byblos Bank Armenia CJSC
18/3 Amiryan Street - Area 0002
Yerevan - Republic of Armenia
Phone: (+ 374) 10 530362
Fax: (+ 374) 10 535296
E-mail: infoarm@byblosbank.com

CYPRUS

Limassol Branch
1, Archbishop Kyprianou Street
Loucaides Building
P.O.Box 50218
3602 Limassol - Cyprus
Phone: (+ 357) 25 341433/4/5
Fax: (+ 357) 25 367139
E-mail: byblosbankcyprus@byblosbank.com.lb

BELGIUM

Byblos Bank Europe S.A.
Brussels Head Office
Rue Montoyer 10
Bte. 3, 1000 Brussels - Belgium
Phone: (+ 32) 2 551 00 20
Fax: (+ 32) 2 513 05 26
E-mail: byblos.europe@byblosbankeur.com

UNITED KINGDOM

Byblos Bank Europe S.A., London Branch
Berkeley Square House - Suite 5
Berkeley Square
GB - London W1J 6BS - United Kingdom
Phone: (+ 44) 207 493 3537
Fax: (+ 44) 207 493 1233
E-mail: byblos.europe@byblosbankeur.com

FRANCE

Byblos Bank Europe S.A., Paris Branch
15 Rue Lord Byron
F- 75008 Paris - France
Phone: (+33) 1 45 63 10 01
Fax: (+33) 1 45 61 15 77
E-mail: byblos.europe@byblosbankeur.com

SUDAN

Byblos Bank Africa
Khartoum Head Office
Intersection of Mac Nimer and Baladiyya Streets
P.O.Box: 8121 - Khartoum - Sudan
Phone: (+ 249) 1 56 552 222
Fax: (+ 249) 1 56 552 220
E-mail: byblosbankafrica@byblosbank.com

NIGERIA

Byblos Bank Nigeria Representative Office
161C Rafu Taylor Close - Off Idejo Street
Victoria Island, Lagos - Nigeria
Phone: (+ 234) 706 112 5800
(+ 234) 808 839 9122
E-mail: nigeriarepresentativeoffice@byblosbank.com.lb

DEMOCRATIC REPUBLIC OF CONGO

Byblos Bank RDC S.A.R.L
Avenue du Marché No. 4
Kinshasa-Gombe, Democratic Republic of Congo
Phone: (+ 243) 81 7070701
(+ 243) 99 1009001
E-mail: byblosbankrdc@byblosbank.com

ADIR INSURANCE

Dora Highway - Aya Commercial Center
P.O.Box: 90-1446
Jdeidet El Metn - 1202 2119 Lebanon
Phone: (+ 961) 1 256290
Fax: (+ 961) 1 256293