

LEBANON THIS WEEK

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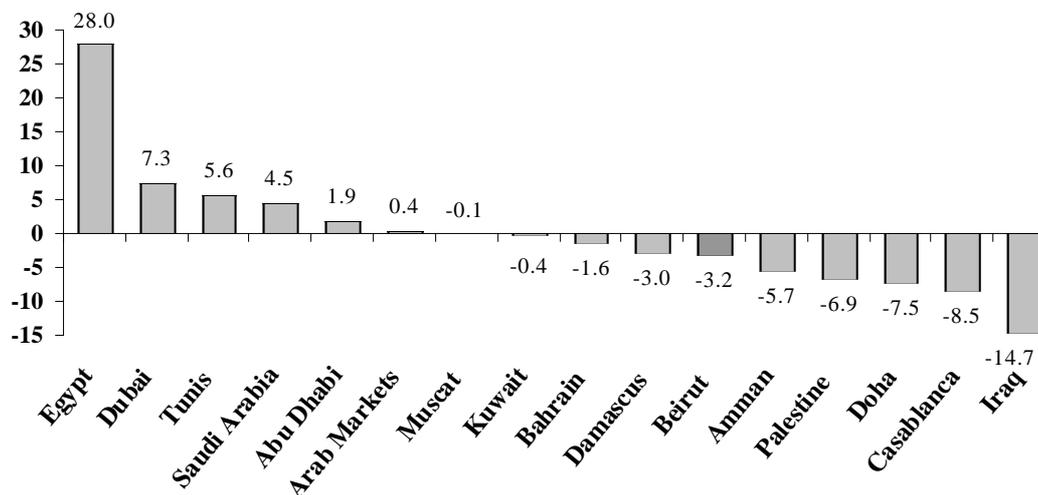
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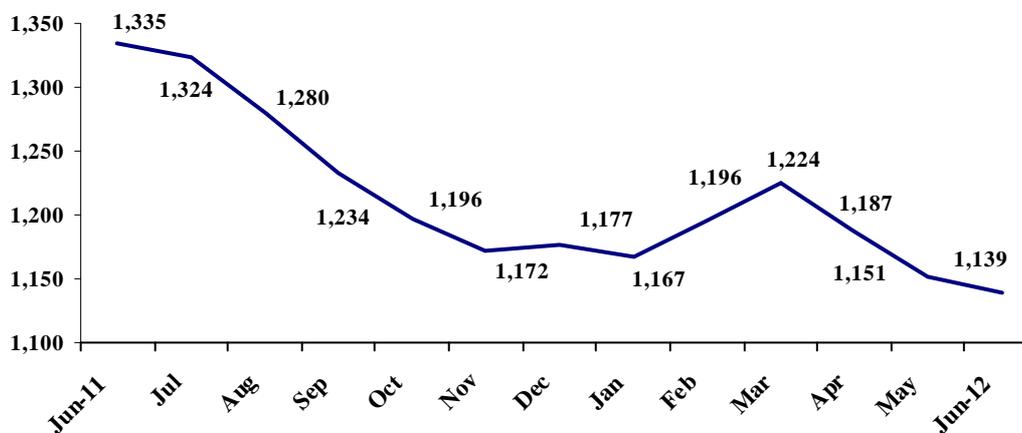
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Charts of the Week

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



Performance of the Beirut Stock Exchange



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

Quote to Note

"The unrest in Syria has weighed on Lebanon's economic growth for the past 15 months, constraining key sectors such as tourism, financial services and construction, which collectively account for more than 50% of GDP."

Standard & Poor's, on the ongoing impact of the Syrian crisis on the Lebanese economy

Number of the Week

3,130: Kilowatts per hour of electricity consumption per capita in Lebanon, compared to the global average of 2,803 KWh per capita, according to the World Bank

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"	13.17	(0.23)	1,174,641	13.08%
Solidere "B"	13.01	(0.61)	1,021,306	8.40%
Byblos Common	1.50	0.00	85,000	5.36%
Byblos Pref. 08	100.00	0.00	500	1.99%
Byblos Pref. 09	100.30	(0.69)	1,852	1.99%
BLOM GDR	7.70	0.00	125,910	5.65%
BLOM Listed	7.40	0.00	0	15.80%
Audi GDR	6.15	(4.65)	69,000	6.11%
Audi Listed	5.66	(1.22)	1,516,610	19.64%
HOLCIM	16.80	0.00	0	3.26%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Sep. 2012	7.750	100.13	2.32
June 2013	8.625	104.00	5.55
Apr. 2014	7.375	105.00	4.33
Jan. 2015	5.875	103.00	4.54
Apr. 2015	10.00	114.13	4.91
Jan. 2016	8.500	112.00	5.16
Mar. 2017	9.000	115.38	5.00
Nov. 2018	5.150	99.75	4.58
Apr. 2021	8.250	116.00	5.27
Nov. 2026	6.600	101.00	5.83

Source: Byblos Bank Capital Markets

	June 25-29	June 18-22	% Change	June 2012	June 2011	% Change
Total Shares Traded	4,299,484	1,097,730	291.67	6,244,741	2,792,846	123.60
Total Value Traded	\$41,368,850	\$8,755,117	372.51	\$60,044,046	\$34,880,478	72.14
Market Capitalization	\$10.07bn	\$10.14bn	(0.68)	\$10.07bn	\$11.33bn	(11.14)

Source: Beirut Stock Exchange (BSE)



Lebanon ranks 66th globally, fifth among Arab countries in real estate transparency

Jones Lang LaSalle's Global Real Estate Transparency Index for 2012 ranked Lebanon in 66th place among 97 countries and markets worldwide. Lebanon came in 16th place among 28 upper-middle income economies and in fifth place among 15 Arab countries and markets included in the survey. The index ranked Lebanon in 66th place globally, in 14th place among UMICs and in 10th place among Arab countries in the 2010 survey. Jones Lang LaSalle, a global real estate management, consulting and investment firm, included Lebanon in the index for the first time in 2010.

The index, which is issued every two years, measures national real estate transparency across the globe and is used to compare and contrast transparency conditions across markets. It highlights the important differences in transacting, owning and operating in real estate markets. It also aims to provide governments and industry organizations with a point of reference to measure and improve transparency in their markets. The index is a composite of five categories that cover performance measurement, market fundamentals, listed investment vehicles, regulatory and legal issues, and the transaction process. It is compiled from the weighted scores of 20 major questions posed to sector professionals and business leaders in each of the covered markets, with each question carrying a maximum 5% weight. The survey also uses a global benchmarking process to ensure that the questions are being interpreted consistently by all participants. The index scores range on a scale from 1.00 to 5.00 points. A country or market with a perfect 1.00 score is considered to have full real estate transparency, while a country or market with a 5.00 score has total real estate opacity. Countries and markets are then assigned to one of five transparency levels.

Globally, Lebanon's real estate market was more transparent than markets in Kuwait, Vietnam and Serbia and less transparent than those in Kenya, Saudi Arabia and Bahrain. It also ranked ahead of Serbia, Costa Rica and Jamaica and came behind Mauritius, Argentina and Bulgaria among upper-middle income economies. Also, Lebanon came in the "Semi-Transparent" category, along with Dubai, Abu Dhabi, Bahrain, Saudi Arabia and Kuwait. The survey classified five Arab countries or markets in the "Low-Transparency" category and four countries in the "Opaque" category. Lebanon received a score of 3.75 points, which is worse than the global average of 3.1 points and the upper-middle income economies' average of 3.5 points, but better than the Arab average of 3.9 points. Jones Lang LaSalle modified its methodology to calculate the scores by incorporating a greater number of quantitative measures of investment performance and market fundamentals, which means that it is not possible to make a direct comparison between the 2012 index's scores and the 2010 results.

Jones Lang LaSalle indicated that the real estate market in Lebanon has experienced a boom in the last few years, resulting in massive increases in land values in Beirut. It said that as a result, the market is gaining more structure and attracting attention from more institutional players. It added that the level of market information and public interest in the real estate sector is rising significantly. Also, it explained that the Central Bank of Lebanon has recognized the importance of the real estate sector to the overall economy and has started to impose more stringent rules on real estate lending.

Real Estate Transparency Index 2012

	Score	Global Rank	Arab Rank	Level of Transparency
Dubai	3.05	47	1	Semi
Abu Dhabi	3.23	52	2	Semi
Bahrain	3.62	63	3	Semi
Saudi Arabia	3.63	64	4	Semi
Lebanon	3.75	66	5	Semi
Kuwait	3.76	67	6	Semi
Qatar	3.82	72	7	Low
Oman	3.85	74	8	Low
Egypt	3.88	76	9	Low
Morocco	3.88	76	9	Low
Jordan	3.97	80	11	Low
Tunisia	4.38	89	12	Opaque
Iraq	4.44	91	13	Opaque
Algeria	4.49	93	14	Opaque
Sudan	4.59	97	15	Opaque

Source: Jones Lang LaSalle, Byblos Research

Rankings & Scores on the Categories of the Real Estate Transparency Index 2012

	Global Rank	Arab Rank	UMIC Rank	Lebanon Score	Global Avg Score	Arab Avg Score	UMIC Avg Score
Investment Performance	62	8	14	4.14	3.52	4.2	4.0
Market Fundamentals	84	13	25	4.88	3.69	4.7	4.1
Listed Vehicles	38	3	7	2.25	2.83	3.3	3.4
Regulatory & Legal	74	9	19	3.49	2.65	3.5	3.0
Transaction Process	67	4	22	3.13	2.69	3.5	2.8

Source: Jones Lang LaSalle, Byblos Research

Lebanon ranks 63rd globally, fifth in Arab world in insurance premiums

Swiss Re's annual survey of the global insurance market indicated that Lebanon ranked in 63rd place among 147 markets in terms of premiums generated in 2011. Lebanon also came in fifth place among 12 Arab markets included in the survey. Lebanon ranked in 66th place globally and in sixth place regionally in the 2010 survey. Lebanon generated \$1.2bn in total premiums in 2011, accounting for 0.03% of global premiums, for 0.17% of premiums generated in emerging markets and for 3.3% of premiums generated in the Middle East & Central Asia region. Globally, Lebanon ranked ahead of Algeria and Kazakhstan and behind Pakistan and Ecuador, while it came ahead of Algeria and behind Egypt regionally.

Lebanon generated \$878m in non-life premiums last year, ranking it in 66th place globally and in seventh place among Arab countries. Lebanon ranked in 64th place globally and seventh regionally in the 2010 survey. Globally, Lebanon ranked ahead of the Panama and Costa Rica, and came behind Angola and Qatar; while it came ahead of Tunisia and behind Qatar in the region. Non-life premiums generated in the Lebanese market accounted for 0.04% of global non-life premiums, for 0.3% of such premiums generated in emerging markets and for 2.7% of non-life premiums generated in the Middle East & Central Asia region.

Further, Lebanon generated \$343m in life premiums in 2011, ranking it in 66th place globally and in fourth place in the Arab world, compared to 66th place worldwide and fifth place regionally in the 2010 survey. Globally, Lebanon ranked ahead of Sri Lanka and Saudi Arabia and behind Macao and Kenya, while it came behind Egypt and ahead of Saudi Arabia regionally. Life premiums generated in Lebanon accounted for 0.01% of global life premiums, for 0.09% of such premiums generated in emerging markets and for 6.9% of life premiums generated in the Middle East & Central Asia region in 2011.

In parallel, Swiss Re estimated Lebanon's insurance density, or premiums per capita, at \$287 in 2011 which would rank the market in 53rd place globally and in fifth place in the Arab world. In comparison, it ranked in 52nd place globally and in fifth place regionally in 2010. Globally, Lebanon ranked ahead of Oman and Uruguay and came behind Panama and Kuwait; while it came ahead of Oman and behind Kuwait in the region. The survey estimated Lebanon's non-life density at \$206 and life density at \$81 in 2011.

Also, insurance penetration in Lebanon, or premiums relative to the size of the economy, reached 2.9% of GDP last year, ranking it in 46th place globally and in first place in the Arab world. Globally, Lebanon came ahead of Argentina and Slovakia, and behind Trinidad & Tobago and China. Lebanon ranked in 52nd place globally and in third place in the Arab world in terms of insurance penetration in 2010. Lebanon posted penetration rates of 0.8% of GDP and 2.1% of GDP in the life and non-life categories, respectively, last year.

Barclays upgrades Lebanon's external debt to 'Overweight'

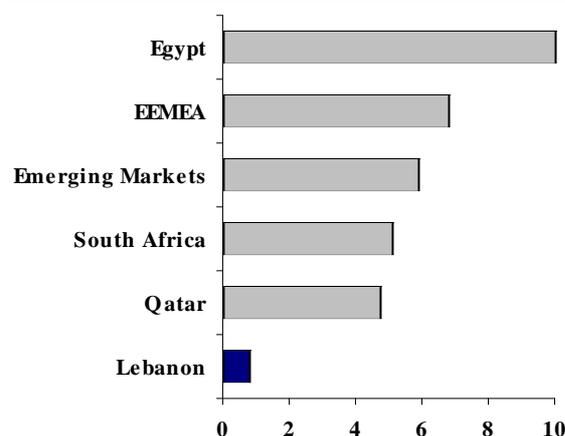
Barclays Capital upgraded its recommendation on Lebanon's external debt to 'Overweight' in its emerging markets credit portfolio in June 2012 from 'Underweight' in March 2012. It also increased Lebanon's allocation to 3.5% in the portfolio from 1.1% in March. Lebanon's external debt rating of 'Overweight' placed it in the same category as the Philippines, Turkey, Qatar, Lithuania, Croatia, Brazil, Mexico and Colombia. Also, Lebanon's 'Overweight' recommendation is similar to that on the Europe, the Middle East & Africa (EMEA) region. Lebanon is represented in the portfolio by the April 2021 Eurobond. Lebanon accounted for 8.3% of the allocations in the EMEA region, up from 2.9% in March 2012. Lebanon's allocation was the 10th highest among 25 sovereigns in the portfolio and the fourth highest among 11 credits in the EMEA region. In parallel, Lebanon's external debt posted returns of 0.8% in the first half of 2012, the second lowest among the 25 emerging markets included in Barclays Capital's portfolio. Lebanon underperformed the EMEA returns of 6.8% and the overall emerging market returns of 5.9% in the covered period.

Insurance Density in MENA region in 2011
(Premiums per Capita in US\$)

	Life	Non-Life	Total	Rank
UAE	255	1,126	1,380	30
Qatar	30	500	530	38
Bahrain	109	316	425	43
Kuwait	66	223	289	52
Lebanon	81	206	287	53
Oman	53	217	270	54
Saudi Arabia	10	167	177	59
Jordan	9	90	99	67
Iran	10	101	111	69
Morocco	27	62	89	71
Tunisia	11	66	77	72
Algeria	3	31	33	80
Egypt	9	12	21	85

Source: Swiss Re, Byblos Research

External Debt Performance in First Half
of 2012 (%)



Source: Barclays Capital, Byblos Research

Occupancy at Beirut hotels at 66%, room yields up 31% in first five months of 2012

Ernst & Young's benchmark survey of the Middle East hotel sector indicated that the average occupancy rate at hotels in Beirut was 66% in the first five months of 2012 compared to 52% in the same period last year. The occupancy rate at Beirut hotels was the 11th highest among 21 markets in the region, while it was the seventh lowest in the same period last year. Occupancy rates at Beirut hotels were 60% in January, 64% in February, 74% in March and 67% in May 2012 compared to 44% in January, 42% in February, 53% in March and 58% in May 2011.

The survey said the average rate per room at Beirut hotels was \$208 in the first five months of 2012, ranking the capital's hotels as the ninth most expensive in the region. The average rate per room at Beirut hotels increased by 2.6% year-on-year, and posted the seventh highest increase among all markets in the region. The average rate per room in Beirut came above the regional average of \$185.7, which dropped by 1% from \$187.6 in the same period last year.

Further, revenues per available room (RevPAR) were \$138 in Beirut in the first five months of 2012, up from \$106 in the same period last year, and ranking it in 11th place in the region. Beirut's RevPAR increased 30.8% year-on-year, compared to an increase of 7.6% across the region, and posted the third highest increase in the region after Manama with a rise of 52.1% and Amman with an increase of 54.9%. The year-on-year increase in RevPAR at Beirut hotels is due mainly to base effects, given the very low figures in the same period of 2011. Beirut posted RevPARs of \$139 in January, \$131 in February, \$149 in March and \$134 in May 2012 compared to \$99 in January, \$84 in February, \$107 in March and \$117 in May 2011. Dubai-Beach posted the highest average room rate in the region at \$397 and the highest RevPAR at \$327, while Dubai-Apartments posted the highest occupancy rate at 91% in the first five months of 2012.

Prime Minister Mikati rules out tax increases that hurt economic activity

Prime Minister Najib Mikati announced that the 2012 budget would not include new taxes or raise existing ones that would weigh on economic sectors or on the working class in Lebanon. He declared that the government is considering tax increases or new taxes that do not pose further imbalances in the economy, as inappropriate taxes might hurt the economy a lot more than the additional revenues they are supposed to generate. He pointed out that the government will consider ways to secure the necessary revenues to cover the increase in public sector wages and salaries that are expected to cost the Treasury an additional \$1.5bn in direct and indirect spending, equivalent to 2.2% of GDP. Further, he stated that the Council of Ministers will speed up the debate on the draft budget and that the latter will not include additional expenditures and revenues measures.

Last May, 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.

On the expenditures side, the revisions included 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 capital gains tax of 4% for transactions on real estate owned prior to January 1, 2009 and a capital gains tax of 15% on transactions on real estate that was owned after this date. 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%. It also imposes an income tax on universities that do not have a religious affiliation.

Hotel Performance in first five months of 2012

	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Dubai Apartments	91	114	13.0
Makkah	87	175	2.9
Dubai City	87	176	13.2
Dubai Overall	85	227	12.7
Dubai Beach	82	327	8.3
Jeddah	80	184	20.8
Amman	80	120	54.9
Abu Dhabi	79	163	(11.2)
Muscat	73	155	1.3
Madina	73	118	25.1
Beirut	66	138	30.8
Doha	65	176	(8.0)
Sharm Shaikh	64	30	20.1
Riyadh	64	150	(3.1)
Al Ain	63	92	(8.0)
Hurghada	60	18	1.9
Cairo Pyramids	57	70	7.2
Kuwait	54	149	(8.8)
Cairo Overall	42	43	(3.4)
Manama	39	93	52.1
Cairo City	39	39	(6.0)

Source: Ernst & Young, Byblos Research

Fiscal deficit down 22% to \$1.1bn in first four months of 2012 when assuming \$463m in telecom revenues

Figures released by the Finance Ministry show that the fiscal deficit reached \$1.1bn in the first four months of 2012, down 22% from \$1.4bn in the same period last year. The deficit was equivalent to 25.7% of total budget and Treasury expenditures compared to 35.5% of overall spending in the same period last year. Overall government expenditures reached \$4.3bn, up 8% year-on-year, while total revenues increased by 24.4% to \$3.2bn. Budgetary expenditures dropped by 5.9% to \$3.5bn and included \$713.8m in transfers to Electricité du Liban and \$347.2m in outlays from previous years, while budget revenues rose by 26.5% to \$3bn. Tax revenues increased by 10.3% year-on-year to \$2.3bn, of which 37.1%, or \$856.6m, were in VAT receipts that grew by 12.1% from the same period last year. Tax revenues accounted for 76.4% of budgetary revenues and for 73% of total Treasury and budget receipts. The narrowing of the deficit and the increase in revenues is due to the inclusion of \$463.4m in telecommunications receipts in budget revenues. The Finance Ministry is basing its monthly fiscal results on the Telecommunications Ministry's estimate of telecom receipts, rather than on the Treasury actually receiving the funds from the Telecom Ministry. On a cash basis, public revenues increased by only 6.2% and the fiscal deficit rose by 11.2% to \$1.6bn, equivalent to 36.6% of expenditures.

The distribution of other tax revenues shows that income, profits & capital gains tax receipts grew by 19.7% to \$527.7m; customs revenues declined by 1.6% year-on-year to \$461.4m; revenues from property taxes increased by 5.4% to \$263m; and other tax receipts, mainly stamp fees, grew by 9% to \$114.8m. Further, the distribution of income tax revenues shows that the tax on taxes on wages & salaries accounted for 32.6% of total income tax receipts, followed by taxes on interest deposits with 27.4%, taxes on profits with 23.8%, and capital gains tax with 13.3%. Income from capital gains taxes grew by 158.5%, revenues from taxes on wages & salaries improved by 17.2% and tax receipts on profits rose by 12.6%, while income from the tax on interest fell by 2.4%. Also, the distribution of property taxes shows that revenues from real estate registration fees increased by 3.2% to \$173m, and receipts from built property taxes increased by 26.6% to \$65m, while revenues from inheritance tax dropped by 18.1% to \$25m.

In parallel, non-tax budgetary revenues rose by 141.7% to \$713m, with revenues from government properties increasing by 254.8% to \$541.6m and administrative fees & charges growing by 18.7% to \$135m. Based on the ministry's assumption, receipts from telecommunications services, which account for 85.6% of income from government properties and for 65% of non-tax revenues, stood at \$463.4m in the first four months of 2012. Debt servicing decreased by 9.5% year-on-year to \$1.2bn, and accounted for 28.8% of total expenditures and for 35.1% of budgetary spending. It absorbed 38.7% of overall revenues and 40.5% of budgetary receipts. Interest payment on domestic debt declined by 6.2% to \$774.3m, while interest disbursement on foreign debt regressed by 14.7% to \$449.8m. Repayment of principal on foreign debt fell by 8.5% to \$58.7m. Excluding debt servicing, the primary budget balance posted a surplus of \$812.2m, or 36.8% of budget expenditures compared to a deficit of \$93.1m, or 4.1% of budget spending in the same period last year. The overall primary balance posted a surplus of \$191.7m, or 4.5% of spending, relative to a surplus of \$17.9m or 0.5% of total expenditures in the same period last year.

Fiscal Results in First Four Months of 2012				
	Including Assumed Telecom Receipts		Excluding Assumed Telecom Receipts*	
	US\$m	year-on-year % change	US\$m	year-on-year % change
Budget revenues	3,021	26.5%	2,558	7.1%
Tax revenues	2,308	10.3%	2,308	10.3%
Non-tax revenues	713	141.7%	250	(15.4%)
<i>of which Telecom revenues</i>	463		-	-
Budget expenditures	3,492	(5.9%)	3,492	(5.9%)
Budget Deficit	(471)	(64.4%)	(934)	(29.5%)
<i>In % of budget expenditures</i>	<i>(13.5%)</i>		<i>(26.7%)</i>	
Budget Primary Surplus	812		349	
<i>In % of budget expenditures</i>	<i>23.3%</i>		<i>10.0%</i>	
Treasury receipts	139	(8.8%)	139	(8.8%)
Treasury expenditures	760	233.7%	760	233.7%
Total Revenues	3,160	24.4%	2,697	6.2%
Total Expenditures	4,252	7.9%	4,252	7.9%
Total Deficit	(1,091)	(22.0%)	(1,555)	11.2%
<i>In % of total expenditures</i>	<i>(25.7%)</i>		<i>(36.6%)</i>	
Total Primary Surplus	192	958.5%	(272)	(1,601%)
<i>In % of total expenditures</i>	<i>4.5%</i>		<i>(6.4%)</i>	

* Cash basis

Source: Ministry of Finance, Byblos Research

Stock market activity down 31% to \$235m in first half of 2012

Figures released by the Beirut Stock Exchange indicate that total trading volume reached 30.8 million shares in the first half of 2012, constituting a decrease of 42% from the same period last year, while aggregate turnover amounted to \$235.1, down 31% from a turnover of \$340.8m in the first half of 2011. Market capitalization decreased by 11.1% from end-June 2011 to \$10.1bn, of which 74.4% was in banking stocks, 21.5% in real estate stocks, 3.6% in industrial stocks, and 0.3% each for fund stocks and trading stocks. The market liquidity ratio was 2.3%, down from 3% from the same period last year. Bank stocks accounted for 72% of aggregate trading volume in the first half of the year, followed by real estate stocks with 20.4%, trading stocks with 7.4%, and industrial stocks with 0.2%. In terms of value of shares traded, banking stocks accounted for 61.4% of aggregate value, followed by real estate stocks with 35.9% trading stocks with 2.2% and industrial stocks with 0.3%. The average daily traded volume for the period was 250,075 shares for an average daily value of \$1.9m. The figures reflect decreases of 43.6% in volume and 32.7% in value year-on-year.

Economic activity continues to stagnate in April

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 273.7 points in April 2012 compared to 264.8 in March 2012 and 269.9 in April 2011. The Coincident Indicator, an average of 8 weighted economic indicators, increased by 3.4% month-on-month in April and by 1.4% year-on-year. The indicator averaged 258.3 in the 12-months ending April 2012 compared to 257.8 in the 12-months ending March 2012 and to 250 in the 12-months ending April 2011. As a result, the average coincident indicator rose marginally by 0.2% month-on-month and increased by 3.3% 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 273.7 points in April 2012 after peaking at 269.9 in April 2011. In parallel, the indicator improved 15 times and regressed five times in the month of April since 1993. The indicator averaged 255.7 in 2011, 249.5 in 2010 and 225.9 in 2009.

HOLCIM Liban to distribute dividends, payout ratio at 74%

The Ordinary General Assembly of HOLCIM Liban sal held on May 15, 2012 approved the distribution of LBP39.9bn, or \$26.4m, in dividends to common shareholders for 2011, which is equivalent to a pre-tax payout ratio of 74% and to LBP1,940 (\$1.29) per nominal share after tax. HOLCIM Liban posted net profits of \$28.3m in 2011 compared to \$33.7m in 2010. The company's net sales reached \$195.6m in 2011 relative to \$185m in 2010. HOLCIM Liban has 19.5 million shares listed on the Beirut Stock Exchange. HOLCIM's share price closed at \$16.8 on June 29, constituting a decrease of 1.1% from end-2011.

Ciments Blancs announces dividends

The Ordinary General Assembly of Société Libanaise des Ciments Blancs sal held on May 29, 2012 approved the distribution of LBP3.3bn, or \$2.2m, in dividends to common shareholders for 2011, which is equivalent to a pre-tax payout ratio of 79% and to LBP350 (\$0.23) per share after tax. Ciments Blancs, which is an affiliate of HOLCIM Liban, posted net profits of \$2.4m in 2011 compared to \$3.13m in 2010. The company generated net sales worth \$13.9m at end-2011 relative to \$14.2m in the previous year. Ciments Blancs has 6 million bearer shares and 3 million nominal shares listed on the Beirut Stock Exchange. Ciments Blancs' bearer share price closed at \$3.5 on June 29, constituting an increase of 7.7% from end-2011. Ciments Blancs' Nominal share price closed at \$3.05 on June 29, constituting an increase of 26.6% from end-2011.

Capital Intelligence affirms ratings on BLOM Bank and BBAC

Capital Intelligence affirmed the long- and short-term foreign currency ratings of BLOM Bank and BBAC at 'B'. It also affirmed the financial strength rating (FSR) of BLOM at 'BBB-' and that of BBAC at 'BB+'. It said the banks' ratings are restrained by the sovereign ceiling and that the outlook on all the ratings is 'stable'. It said that BLOM's ratings are supported by the bank's high market share in Lebanon, its strong liquidity, and highest level of cost efficiency and profitability among peers. But it noted that the ratings are constrained by the expectation that non-performing loans will continue to rise due to lower domestic economic growth and challenging operating conditions in Syria and Egypt. It added that BLOM Bank absorbed the first round effect of events in Syria and Egypt last year by de-leveraging and carefully controlling its operations, resulting in a moderate impact so far relative to its risk absorption capacity and its net profitability. It pointed out that the bank's capital adequacy is currently lower than desired considering the need for greater buffers against heightened risks and contingencies. Further, it said that the ratings are constrained by the bank's high exposure to Lebanese sovereign debt, which raises its sensitivity to interest rate and maturity mismatching risks.

In parallel, Capital Intelligence indicated that BBAC's ratings are constrained by exposure to Lebanese sovereign and real estate sector risks, interest rate and maturity mismatches, and low operating profitability. It noted that growth in net interest income last year was severely restricted by declining yields on Lebanese-pound securities, lower margins and pressure on loan deposit spreads, despite rapid growth in retail and corporate lending. It added that these factors, along with a rise in operating expenses, drove down BBAC's operating profits and return on average assets. The agency pointed out that the bank's asset quality improved noticeably last year, which allowed it to maintain net profits through releases of provisions, while also reaching near full loss reserve coverage. It added that BBAC is exposed to significant concentration risks derived from its large holdings of Lebanese sovereign debt.

Bank Audi issues preferred shares, raises capital

The Extraordinary General Assembly of Bank Audi sal approved the issuance of 1.5 million Series F Preferred Shares at a price of \$100 per share and a par value of LBP 1,254 each. The shares are non-cumulative and will pay an annual dividend of 4% per share for fiscal year 2012 and 6% per share annually afterwards, while the bank has a call option after the fifth year of issuance. The shares will be listed on the Beirut Stock Exchange. The issuance will result in the increase the bank's capital to LBP 457.3bn from LBP 455.4bn. Also, the assembly announced a further increase in the bank's capital to LBP 457.7 from LBP457.3 through the issuance of 309,260 common shares, at a par value of LBP 1,254 each, that are reserved for the holders of stock options who have exercised their rights. As a result, the bank's capital will be divided between 349,749,204 common shares, 12,500,00 Series D Preferred shares, 1,250,000 Series E Preferred Shares and 1,500,000 Series F Preferred Shares outstanding.

Thomson Reuters acquires information provider Zawya

Global information and data provider Thomson Reuters Corp. announced that it has acquired Zawya Limited, a privately-held online provider of business and financial information on the economies of the Middle East and North Africa region. Thomson Reuters, which did not disclose the terms of the transaction, purchased Zawya from a group of shareholders led by the Dubai-based investment firm Saffar Holdings. Established in London in 2000, Zawya moved to Dubai after Saffar Holdings bought a majority stake in the firm in 2001. Zawya Ltd employs 200 people, with 120 of them based in Beirut due to the availability of human capital in Lebanon. Zawya offers specialized content and tools that include detailed profiles about listed companies in the MENA region, live news, as well as comprehensive industry and asset class research, among others. It has a partnership with Dow Jones Newswires to distribute the agency's content. Thomson Reuters stated that it has no plans to end the Zawya-Dow Jones agreement and that the acquisition is in line with its long-term commitment to investing in the region. Thomson Reuters has about 55,000 employees in more than 100 countries. It posted revenues of \$12.9bn in 2011.



MEA joins SkyTeam alliance

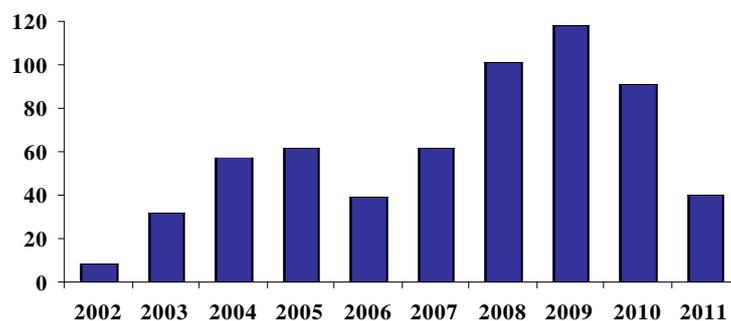
National flag carrier Middle East Airlines (MEA) joined the global airline alliance SkyTeam, one of the three largest passenger alliances in the world. MEA expects the agreement to enlarge its passengers' base and generate revenue increases of at least 10%, as the deal would allow MEA flights to connect with around 14,800 flights and 983 destinations in 178 countries. It said that the agreement would allow Lebanese passengers to particularly benefit from better-priced long-haul flights to destinations such as Japan, the U.S. and China. It noted that MEA customers would immediately be able to earn and redeem miles on any service operated by the alliance, while members of SkyTeam airlines' frequent flyer program can also earn and redeem miles when flying on MEA flights. MEA is the second Arab carrier to join the 17-airlines alliance after the Saudi Arabian Airlines. The deal would allow travelers to benefit from various supplementary services, including airport lounges, baggage handling and a pan-alliance frequent traveler plan.

The Central Bank owns a 99% stake in MEA, which has a fleet of 17 modern Airbus planes. MEA was planning to raise \$250m through an initial public offering of 25% towards the end of 2010, but the partial IPO was indefinitely postponed. MEA underwent a restructuring program in 2001 that witnessed the layoff of more than 1,500 employees, or 40% of its staff, in addition to the cancellation of unnecessary flights and routes. Subsequently, the company managed to reverse 26 years of losses and returned to profitability in 2002. It accumulated consolidated profit of around \$595m over the last decade. However, MEA announced operating profits of \$40m in 2011, constituting a drop of 56% from \$90.6m in 2010. It attributed the profits' decline to a rise in fuel prices; an increase in the salaries of employees, pilots and crew; and the turmoil in the Arab region. It warned that a continuous increase in fuel prices would have an impact on the profitability of the company this year. It also expected the government-mandated salary increases to affect MEA's profits in 2012. It noted that the company is facing increasing competition from many Arab airlines that are subsidized by their governments. It indicated that MEA's performance improved in the first four months of this year, as the number of passengers increased by 15% to 20% relative to the same period last year. MEA posted operating profits of \$118.3m in 2009 and \$101.1m in 2008. It is not possible to independently verify the actual financial state of MEA, as it does not publish its detailed balance sheet or income statement.

Sale of LIA completed

Bank Audi sal announced that it has completed the sale of an 81% stake in its insurance subsidiary LIA Insurance sal to Moroccan firm Saham Finances after receiving the required regulatory approvals. The 81% stake was reportedly sold for between \$110m and \$113m, which would value LIA at between \$135m and \$140m. The bank, which said that it generated returns of \$46m from the transaction, took into consideration the financial requirements of Basel III in its decision to sell the firm. Saham Finances, a subsidiary of Saham Group, operates in 15 African countries through 20 insurance companies and a reinsurance firm. Saham said it plans to use LIA as a base for its expansion in the Levant region. LIA generated \$82.7m in life and non-life premiums in 2011, accounting for 6.7% of overall premiums produced in the Lebanese market last year. Its life premiums totaled \$46.4m in 2011 and represented 12.5% of the life category, while its non-life premiums reached \$36.3m or 4.2% of the non-life segment. The firm ranked in third and eighth place locally, respectively, in terms of life and non-life premiums last year. LIA had total assets of \$289.6m at end-2011 relative to \$242.7m at end-2010, and posted profits of \$11.6m in 2011 compared to \$9.9m in 2010. Last year, insurance rating agency i.e. Muhanna & co Rating Services maintained LIA's financial strength rating at 'A+' due to good levels of underwriting exposure and underwriting profitability. Fitch Ratings said that Bank Audi's impairment charges almost tripled to about \$150m in 2011, absorbing 17% of pre-impairment operating profit last year and 20% of profits in the first quarter of 2012. Further, the Extraordinary General Assembly held by Bank Audi sal on June 22, 2012 approved the acquisition of 29,500 shares of the capital of Fonciere Dora sal, from LIA for a total of \$3m, and subject to the approval of the Central Bank of Lebanon.

MEA Operating Profits (US\$m)



Source: Middle East Airlines

Moody's Investors Service downgrades global banks with local presence

Moody's Investors Service downgraded the ratings of HSBC Holdings, Crédit Agricole SA and Société Générale due to the volatility and risks that their global capital markets operations face. The agency downgraded HSBC Holdings' senior debt rating to 'Aa3' from 'Aa2' with a 'negative' outlook, while it affirmed the group's provisional short-term rating '(P) Prime-1'. It also lowered by one notch the intrinsic standalone financial strength of the consolidated group to 'a1'. It said that the downgrade reflects HSBC's moderately large capital markets operation; and its links with other financial institutions, given the size and presence of the group and its role in the inter-bank and repo markets. But the agency said that HSBC is one of the strongest banking groups globally given its very strong geographic diversification, and its conservative funding profile that is based on a strong global retail deposit base and a strict liquidity framework at each subsidiary. HSBC Holdings has a direct presence in the Middle East through its wholly-owned subsidiary HSBC Bank Middle East. It operates through a network of 47 branches in Lebanon, Jordan, the UAE, Oman, Bahrain, Qatar, Kuwait, Pakistan, and the Palestinian Territories. HSBC was established in Lebanon in 1946 and operates in the country through three branches located in the Beirut area.

Moody's Investors Service also downgraded Crédit Agricole SA's (CASA) long-term debt and deposit ratings by two notches to 'A2' from 'Aa3', and affirmed the bank's 'Prime-1' short-term rating. It also lowered the bank's standalone credit assessment by three notches to 'D/ba2' from 'C-/baa2' and the adjusted baseline credit assessment, incorporating cooperative support from Groupe Credit Agricole, to 'baa2' from 'a3'. It said that the outlook on all the rating is 'negative'. It attributed the downgrade to the risks to CASA from its significant exposure to the Greek economy, particularly in view of the €4.6bn of financing currently extended to its Greek subsidiary; as well as the bank's greater dependence compared to many peers on short-term wholesale funding and a higher reliance on Central Bank eligible loans for its liquidity reserves. It added that capital markets activities constitute a higher marginal risk factor for CASA than for most other banks. It said that the balance of risks lies to the downside, given the increased probability to a potential exit of Greece from the Eurozone. Crédit Agricole has a direct presence in Lebanon through its subsidiary Crédit Agricole Suisse (Liban) Financial Services sal. The bank also has a 9% stake in Banque Libano-Française and a 6% stake in Fransabank sal.

In parallel, the agency downgraded Société Générale's (SocGen) long-term debt and deposit ratings by one notch to 'A2' from 'A1' and affirmed its 'Prime-1' short-term rating. It also lowered the bank's standalone credit assessment by one notch to 'C-/baa2' from 'C-/baa1'. It said that the outlook on all the ratings is 'stable'. It pointed out that the downgrade reflects the bank's significant and relatively volatile capital markets business; SocGen's continued reliance on short-term wholesale funding and its smaller liquidity pool compared with some other banks; and challenges arising from the expected deterioration in macroeconomic conditions in Western Europe that would affect many of the countries in which SocGen operates. Société Générale has a 19% stake in Société Générale de Banque au Liban sal. Moody's downgrade of the three banks is part of a series of downgrades for 15 global financial institutions.

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

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