

LEBANON THIS WEEK

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Byblos Bank's second quarter earnings 24% higher than forecast

Kafalat loan guarantees down 11% to \$83m in first seven months of 2012

Byblos Bank is 38th largest bank in the region, 10 Lebanese banks among top 100 Arab banks

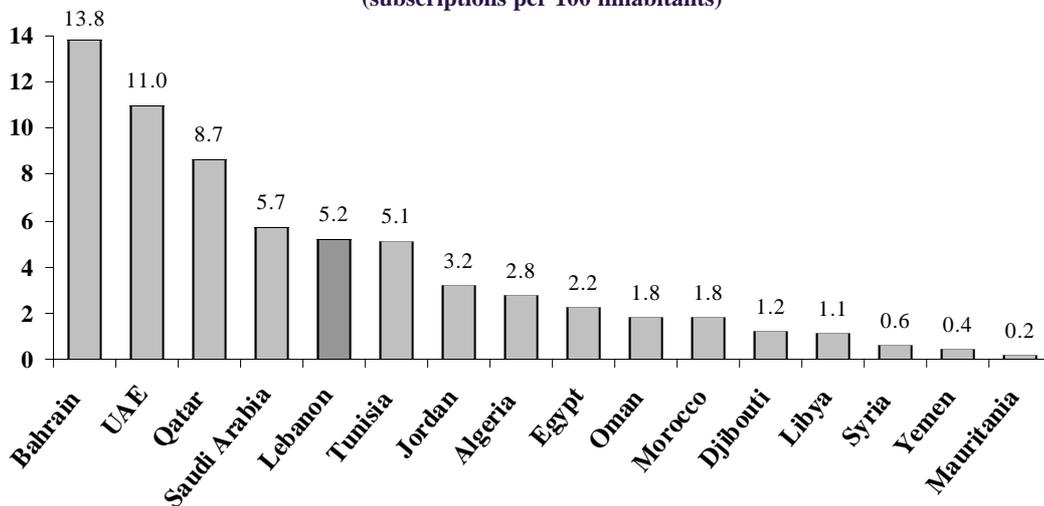
Holding Saradar's profits rise 17% to \$8m in 2011

Commercial banks' assets reach \$146bn at end-June 2012

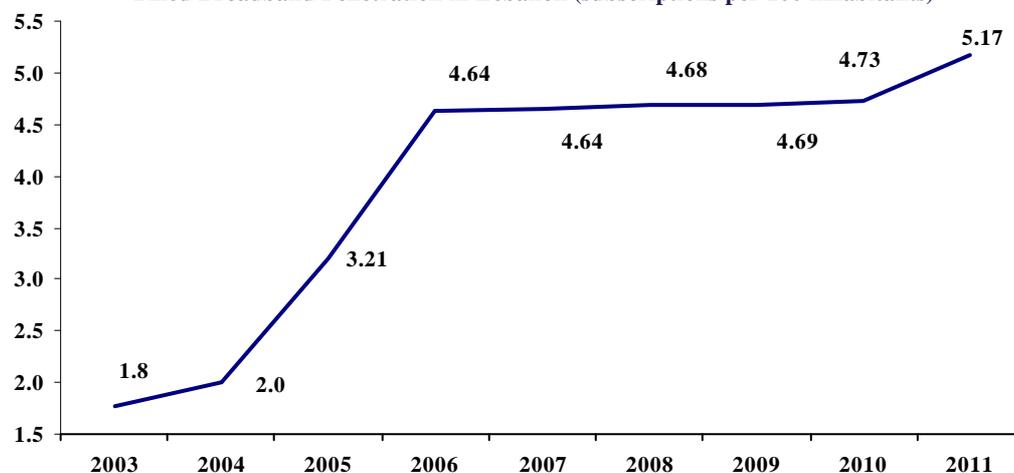
Metlife Alico's unit-linked investment contracts at \$319m

Charts of the Week

Fixed Broadband Penetration in Arab Countries at end-2011
(subscriptions per 100 inhabitants)



Fixed Broadband Penetration in Lebanon (subscriptions per 100 inhabitants)



Source: International Telecommunication Union, Byblos Research

Quote to Note

"Lebanon continues to show resilience against external risks despite significant external imbalances."

Standard & Poor's, on the ability of the sovereign the finance its widening trade and current account deficits

Number of the Week

5%: Percentage of Lebanese who expect the economic situation in Lebanon to "improve a lot" over the 12-month period ending next April, according to an opinion poll conducted in March and April 2012 by the Pew Research Center's Global Attitudes Project

Economic Indicators

\$m (unless otherwise mentioned)	2010	May 11	2011	Mar 12	Apr 12	May 12	% Change*
Exports	4,256	377	4,276	377	319	355	(5.84)
Imports	17,956	1,578	20,170	1,723	1,548	1,645	4.25
Trade Balance	(13,700)	(1,201)	(15,894)	(1,346)	(1,229)	(1,290)	7.41
Balance of Payments	3,326	(199)	(1,996)	51	(543)	(82)	(58.79)
Checks Cleared in LBP	13,519	1,145	14,251	1,192	1,154	1,196	4.45
Checks Cleared in FC	53,925	4,495	57,852	4,844	4,286	4,746	5.58
Total Checks Cleared	67,444	5,640	72,103	6,036	5,440	5,942	5.35
Budget Deficit/Surplus	(2,894)	183	(2,342)	(312)	(422)	(50)	(127.16)
Primary Balance	1,231	455	1,662	133	15	300	(34.13)
Airport Passengers	5,512,435	420,133	5,596,034	438,570	518,723	438,570	4.39

\$bn (unless otherwise mentioned)	Dec 2010	May 11	Feb 12	Mar 12	Apr 12	May 12	% Change*
BdL FX Reserves	28.60	28.44	30.76	30.99	31.76	29.57	3.97
<i>In months of Imports</i>	<i>19.46</i>	<i>18.02</i>	<i>10.99</i>	<i>17.99</i>	<i>20.52</i>	<i>17.98</i>	<i>(0.25)</i>
Public Debt	52.59	52.72	53.94	54.08	55.04	55.12	4.55
Net Public Debt	45.01	45.70	46.74	46.91	47.18	47.17	3.21
Bank Assets	128.93	134.04	144.11	144.73	144.71	144.86	8.07
Bank Deposits (Private Sector)	107.20	110.47	117.42	118.22	118.75	118.90	7.63
Bank Loans to Private Sector	34.93	37.45	40.45	41.00	41.67	41.89	11.86
Money Supply M2	39.40	37.22	39.46	40.04	40.46	41.74	9.46
Money Supply M3	92.15	94.11	98.13	98.94	99.77	99.96	6.22
LBP Lending Rate (%)	7.91	7.67	7.07	7.16	7.49	7.34	(33b.p.)
LBP Deposit Rate (%)	5.68	5.64	5.47	5.46	5.42	5.49	(15b.p.)
USD Lending Rate (%)	6.74	7.04	7.13	7.06	7.10	7.12	8b.p.
USD Deposit Rate (%)	2.80	2.84	2.87	2.83	2.84	2.83	(1b.p.)
%* Change in CPI**	6.19	7.30	3.71	4.40	6.03	6.36	(94b.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"	13.62	(0.73)	267,394	13.41%
Solidere "B"	13.43	(3.66)	28,347	8.60%
Byblos Common	1.52	(1.30)	239,916	5.38%
Byblos Pref. 08	101.30	1.30	2,250	2.00%
Byblos Pref. 09	102.00	0.39	25,470	2.01%
BLOM GDR	7.84	0.00	200	5.70%
BLOM Listed	7.40	0.00	115,260	15.67%
Audi GDR	5.82	(3.00)	24,050	5.82%
Audi Listed	5.30	(1.30)	100,197	18.24%
HOLCIM	16.00	0.00	0	3.07%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Sep. 2012	7.750	100.06	6.76
June 2013	8.625	103.38	4.60
Apr. 2014	7.375	104.00	4.87
Jan. 2015	5.875	102.00	4.99
Apr. 2015	10.00	113.00	4.83
Jan. 2016	8.500	110.00	5.29
Mar. 2017	9.000	114.00	5.52
Nov. 2018	5.150	98.50	5.44
Apr. 2021	8.250	112.00	6.42
Nov. 2026	6.600	99.00	6.71

Source: Byblos Bank Capital Markets

	Aug 6-10	July 30-Aug 3	% Change	July 2012	July 2011	% Change
Total Shares Traded	1,010,194	229,250	340.65	9,494,611	3,193,716	197.29
Total Value Traded	\$14,195,868	\$2,437,668	482.35	\$62,270,730	\$33,654,543	85.03
Market Capitalization	\$10.16bn	\$10.28bn	(0.91)	\$10.25bn	\$11.30bn	(9.31)

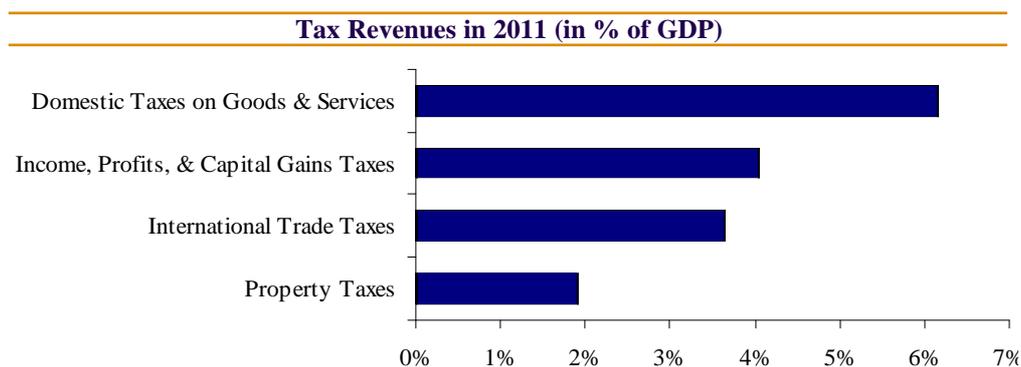
Source: Beirut Stock Exchange (BSE)



VAT is largest source of tax receipts, banks and financial firms are biggest institutional taxpayer in Lebanon

Figures issued by the Ministry of Finance show that fiscal revenues, excluding grants, were equivalent to 23.5% of GDP in 2011, up from 22.7% of GDP in 2010. Tax revenues were equivalent to 16.5% of GDP, up from 17.8% of GDP in the previous year, while non-tax budgetary revenues amounted to 5.8% of GDP compared to 3.7% of GDP in 2010.

The distribution of tax revenues in 2011 indicates that domestic taxes on goods & services totaled \$2.44bn, constituting 37.3% of total tax receipts. They were followed by taxes on income, profits & capital with \$1.61bn, or 24.5% of the total; taxes on international trade with \$1.45bn, or 22% of the total; taxes on property with \$0.8bn, or 11.6% of the total, while the balance of nearly 5% originated from fiscal stamp fees. Taxes on income, profits & capital posted an 18.2% increase year-on-year, followed by taxes on property with a 5.2% jump, domestic taxes on goods & services with a 2.8% improvement, and fiscal stamp fees with a 0.3% rise, while taxes on international trade declined by 22.2% year-on-year. The ministry attributed the worsened tax performance in 2011 to a slowdown in economic activity, a deceleration in the growth rate of private sector deposits, and a policy decision that affected excise revenues in 2011. It explained that the government's decision on February 26, 2011 to reduce the excise tax on gasoline by LBP5,000 per 20 liters led to a reduction in revenues from the gasoline excise tax by \$330.3m to \$359.5m in 2011 relative to receipts of \$690m in 2010.



Receipts from the value-added tax was equivalent to 5.5% of GDP in 2011, down from 5.7% of GDP in 2010, and accounted for 89.6% of domestic taxes on goods and services, with the balance divided between car registration fees (5.4%) and passenger departure tax (3.7%). Further, the breakdown of taxes on income, profits & capital shows that corporate income tax totaled \$685m and represented 42.6% of the total, followed by tax on interest income with \$432m (27%), taxes on wages & salaries with \$302m (18.8%), and taxes on capital gains & dividends with \$161m (10%). In parallel, real estate registration fees totaled \$560m and represented 73.8% of property taxes, with built property tax at \$92m or 12.2% of the total. Also, the excise tax totaled \$691m and accounted for 47.8% of taxes on international trade, while customs revenues reached \$515.4m for a 35.7% share.

The distribution of corporate income tax shows that financial institutions accounted for 27.6% of the total, up from 22%, and constituting by far the largest single taxpayer by source. They were followed distantly by real estate activities with a 13.1% share, wholesale trade & commission trade with 11%, retail trade with 6.4%, other business activities with 5.2%, construction with 4.2%, hotels & restaurants with 3.8%, recreational, cultural & sporting activities and insurance & pension funding with 3.2% each, manufacturing of other non-metallic mineral products with 3.1%, while all other categories represented the remaining 18.9%.

In parallel, the distribution of non-tax budgetary receipts shows that income from public institutions and government properties accounted for 77.2% of the total, followed by administrative fees & charges with 16.4%, and other non-tax income with 6%. Telecom revenues represented 89.4% of income from public institutions and government properties.

Top 10 Sources of Corporate Income Tax*		
	Share	Annual Change
Financial Intermediaries	27.6%	58.5%
Real Estate Activities	13.1%	23.8%
Wholesale Trade & Commission Trade	11.0%	22.5%
Retail Trade	6.4%	7.4%
Other Business Activities	5.2%	22.2%
Construction	4.2%	76.2%
Hotels & Restaurants	3.8%	64.2%
Recreational, Cultural & Sporting Activities	3.2%	-18.1%
Insurance & Pension Funding	3.2%	4.5%
Manufacturing of other Non-metallic Mineral Products	3.1%	8.3%
Other	18.9%	12.1%
Total	100%	26.9%

*Realized in 2009 and 2010, and collected in 2010 and 2011

Source: Ministry of Finance



Three quarters of Lebanese were pessimistic about local job market in 2011

A survey conducted by opinion polling and consulting firm Gallup on the job situation in 146 countries worldwide shows that 18% of respondents in Lebanon believed that last year was a "good year" to find a job in Lebanon, compared to 33% of adults worldwide who shared similar views about their economy and relative to 28% of adults in the Middle East and North Africa who considered that last year was a "good year" to find job in their country. The share of Lebanese who thought that last year was a "good year" to find a job in their country was the 38th lowest worldwide, similar to the share of respondents in Azerbaijan, Iraq and Pakistan. It was also the fourth lowest percentage among 19 Arab countries included in the survey, as 13% of adults in Palestine had similar opinions about the status of their domestic job market, 10% of adults in Yemen thought that last year was a "good year" to find a local job, and 9% of Egyptians shared a similar view about the job market in their economy. Globally, participants in Saudi Arabia and Oman had the highest level of optimism about the job market in their economy with 69% of residents in each country stating that last year was a "good year" to find a job, followed by Panama with 67% of its respondents sharing similar views about their economy.

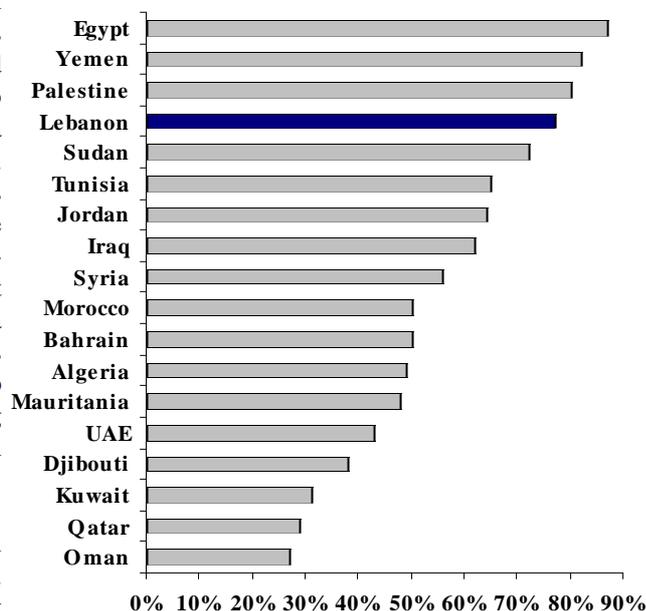
In parallel, the survey showed that 77% of survey participants in Lebanon acknowledged that last year was a "bad year" to find a job in Lebanon, compared to 57% of adults worldwide who shared similar views about their economy and relative to 64% of adults in the Middle East and North Africa who considered that last year was a "bad year" to find a job in their local communities. The percentage of Lebanese who thought that last year was a "bad year" to find a job in Lebanon was the 33rd highest worldwide, and was similar to the share of survey participants in Estonia and Uganda. It was also the fourth highest among Arab states, as 87% of Egyptians shared similar views about the job market in their economy, 82% of adults in Yemen thought that last year was a "bad year" to find a local job, and 80% of adults in Palestine had a similar opinion about the status of their domestic job market. Globally, 96% of respondents in Greece considered that that last year was a "bad year" to find a job in their economy followed by 93% of participants in Ireland who shared the similar views about their economy and 92% of respondents in Senegal who thought that last year was a "bad year" to find a job in their economy. The survey's results are based on telephone and face-to-face interviews with approximately 1,000 adults per country that were conducted in 146 countries and territories in 2011. The survey in Lebanon was conducted through face-to-face interviews with 1,004 adults.

Lebanon's trade dynamics with Syria reverse since start of crisis

International economic analysis provider IHS Global Insight indicated that Lebanon's exports to Syria stood at \$126m in the first half of 2012, constituting an 18% increase from the same period last year. It attributed the increase to the ongoing crisis in Syria, which led to shortages of key consumer products, mainly agriculture and energy products, in the Syrian market. Further, it noted that fuel smuggling from Lebanon to Syria has reportedly surged in 2012, reversing the historical trend of fuel smuggling from Syria into Lebanon. It pointed out that the increase in Lebanon's exports to Syria in the first half of the year reversed the downward trend in such exports of recent years. In parallel, it said that Lebanon's imports from Syria totaled \$142m in the first half of the year, constituting an 8% drop from the same period last year. It noted that Lebanon's imports from Syria remain larger than its exports, but that the corresponding trade deficit has narrowed significantly relative to previous years.

In parallel, IHS Global Insight indicated that the official trade figures understate the extent of trade between Syria and Lebanon, given that smuggling and black market activities developed and expanded since the beginning of the Syrian crisis. It expected trade between the two countries to fall significantly in the second half of the year as the escalating crisis resulted in the closure to trucks of Lebanon's main border crossing with Syria. It noted that this will have negative effects on the Lebanese economy, as Lebanese farmers used over-land trade routes through Syria to export their products to other Arab states.

Percentage of respondents who said 2011 was a "bad year" to find a job

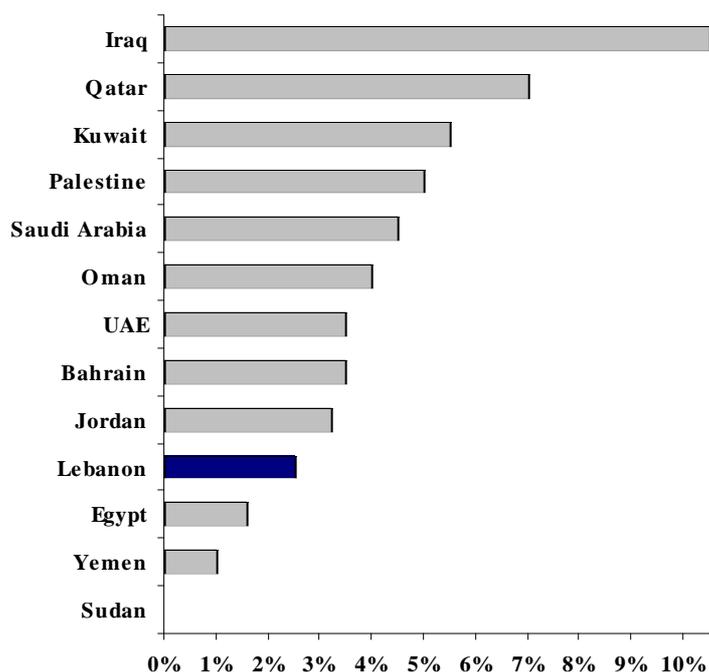


Source: Gallup, Byblos Research

Real GDP growth projected at 2.5% in 2012, FDI inflows to drop further

The United Nation's Economic and Social Commission for Western Asia (ESCWA) projected Lebanon's real GDP growth at 2.5% in 2012 compared to 2% in 2011. It said that regional and domestic political unrest affected Lebanon's economy last year mainly through the tourism industry which was severely hit. It anticipated that the ongoing Syrian crisis will continue to negatively affect the tourism sector, but noted that the economy will remain supported by capital inflows and remittances from GCC countries. Lebanon's growth projection for this year is lower than the expected real GDP growth rate of 4% for 14 ESCWA countries and that of 2.6% for the region's more diversified economies (MDEs) that include Egypt, Iraq, Jordan, Lebanon, Palestine, Sudan, Syria and Yemen. Lebanon's projected growth rate in 2012 would make it the fourth slowest growing economy in the ESCWA region and among MDEs, with Syria's GDP contracting by 5.5%. Lebanon had the second slowest growing economy in the region and among MDEs last year. In parallel, the ESCWA forecast consumer price inflation in Lebanon at 6% in 2012, unchanged from 2011, and compared to inflation of 5% for the ESCWA region and of 9.9% for MDEs countries. Lebanon's projected inflation rate would make it the fifth highest rate in the ESCWA regions and among MDEs.

Projected Real GDP Growth for 2012



Source: ESCWA, Byblos Research

In parallel, ESCWA pointed out that Lebanon's financial environment worsened and capital inflows declined last year, which led to a widening of the current account deficit. It noted that FDI in Lebanon dropped to \$3bn in 2011 from \$4.5bn in 2010, and expected FDI inflows to be lower this year due to the ongoing Syrian crisis. Further, it noted that continued fiscal deficits in Lebanon led to a rise in the country's indebtedness. In parallel, it said that the informal sector in Lebanon is equivalent to around one third of the country's GDP, which leads to vulnerable employment situations as workers in the informal sector are excluded from most forms of social protection.

French Development Agency's commitments to Lebanon up 54% to €71.4m in 2011

Figures released by the French Development Agency (AFD) indicate that its financial commitments to Lebanon totaled €71.4m in 2011, constituting an increase of 54% from €46.4m in 2010. It said that its commitments included €70m in loans that rose by 104% from €34.3m in 2010, and €1.4m in project subsidies that increased by 133.3% from €0.6m in 2010. Lebanon accounted for 6.4% of AFD's aggregate commitments of €1.1bn to the Middle East and North Africa region last year, constituting the fourth largest recipient behind Morocco with 50%, Turkey with 20.1% and Tunisia with 16.7%. The AFD pointed out that it is financing the Cultural Heritage and Urban Development Project initiated by the World Bank in 2003. It noted that it has financed the first phase of the program which costs €12m, and approved €1m for the financing of the second phase. The project seeks to increase local economic development and to enhance the quality of life around the historic centers of Tyre, Tripoli, Saida, Baalbek and Byblos.

In parallel, Lebanon accounted for 5% of the agency's total commitments to the Mediterranean region between 2002 and 2011, constituting, along with Jordan, the fifth largest recipient of AFD funds during the covered period behind Morocco with 36%, Tunisia with 21%, Turkey with 17% and Egypt with 8% of the total. AFD's net commitments to Mediterranean countries totaled €5.65bn between 2002 and 2011, while Proparco's net commitments reached €1.44bn during the 10-year period. Proparco is the private sector arm of the AFD.

Central Bank circular clarifies operations with non-resident sectors

The Central Bank issued Intermediary Circular 11110 dated July 21, 2012 that modifies Basic Circular 7274 dated April 15, 1999 about dealing with non-resident sectors. The modifications require banks and financial institutions in Lebanon to restrict treasury placements abroad, other than operating accounts, to correspondents rated 'BBB' and above. It noted that this decision does not cover placements at the Lebanese banks' foreign subsidiaries. It added that the Net Credit Exposure to a correspondent bank from the bank and its foreign subsidiaries should not exceed 25% of the Lebanese bank's private funds. The Net Credit Exposure includes operating accounts, cash collateral, investments in all financial instruments issued by the correspondent, and any other operation that directly or indirectly leads the bank or the financial institution to bear the risk of the correspondent.

Net public debt at \$47bn at end-June 2012

Lebanon's gross public debt reached \$55.2bn at the end of June 2012, constituting a rise of 3% from the end of 2011 and an increase of 5.2% from end-June 2011. Domestic debt reached \$32.2bn at end-June, declining by 1.7% from end-2011 and increasing by 1.1% annually; while external debt stood at \$23.1bn, up by 10.3% from end-2011 and by 11.4% from a year earlier. Local currency debt accounted for 58.2% of gross public debt at end-June 2012 compared to 60.6% a year earlier, while foreign currency-denominated debt represented 41.8% of the total at the end of June relative to 39.4% a year earlier. The weighted interest rate on outstanding Treasury bills was 6.65%, while the weighted interest rate on Eurobonds was 6.83% at the end of June. Further, the weighted life on Eurobonds was 5.84 years, while that on Treasury bills was 908 days.

Commercial banks accounted for 51.2% of the local public debt at the end of June 2012 compared to 50.2% a year earlier. They were followed by the Central Bank with 32.1%, down from 33.3% at end-June 2011; while public agencies, financial institutions and the general public accounted for 16.7% of local debt compared to 16.5% in June 2011. Eurobond holders, foreign private sector loans and special T-bills in foreign currencies accounted for 89% of the external debt, followed by multilateral institutions with 5.8%, foreign governments with 4.4%, and Paris II loans with 0.9%. Net public debt, which excludes the public sector's deposits at the Central Bank and at commercial banks from overall debt figures, increased annually by 3.3% to \$47.1bn. In parallel, the gross market debt accounted for about 62% of total public debt. Gross market debt is the total public debt less the portfolios of the Central Bank, the National Social Security Fund, bilateral and multilateral loans, as well as Paris II and Paris III related debt.

Trade deficit up 18% to \$8.7bn in first half of 2012

Total imports reached \$10.9bn in the first half of 2012, constituting an increase of 17.9% from the same period last year; while aggregate exports rose by 2.6% to \$2.2bn, leading to a trade deficit of \$8.7bn, up 22.5% year-on-year. The deficit was the highest in five years in both value and volume terms, and was caused by a rise of \$1.6bn in imports and an increase of just \$55m in exports year-on-year. Imports of oil & mineral fuels increased by 89% year-on-year to \$3.2bn, while non-hydrocarbon imports grew by 1.8% to \$7.7bn. In volume terms, imports reached 8,087 million tons in the first half of 2012, constituting an increase of 22% from the same period in 2011; while exports posted a 23.1% drop to 1,151 million tons in the covered period, leading to a trade deficit of 6,936 million tons, up 35.2% year-on-year. Imports of oil & mineral fuels surged by 60.7% year-on-year to 3,594 million tons, while non-hydrocarbon imports rose by 2.3% annually to 4,493 million tons. The trade deficit was \$1.4bn in June 2012, up 17.9% from the same month of the previous year. Imports and exports averaged \$1.8bn and \$362m, respectively, on a monthly basis year-to-June, resulting in an average monthly trade deficit of \$1.5bn during the covered period. The coverage ratio reached 20% in the first half of 2012 compared to 23% in the same period in 2011, while it reached 20.1% in June 2012 relative to 26.2% in June of the previous year.

The rise in imports was mainly due to a significantly higher mineral fuels & oil bill. The increase in exports was mostly driven by the rise in international gold and silver prices, with exports of unwrought gold, un-mounted diamond & precious metals increasing in value by 23% or \$158m and decreasing by 2% in volume terms in the first half of the year. Excluding this item, exports dropped in value by 7%, or by \$102m. Exports to Arab countries increased by 10%, largely due to a rise in exports to Syria by 33%, and to Saudi Arabia and the UAE by 18% each. But the increase was offset with a 32% 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.

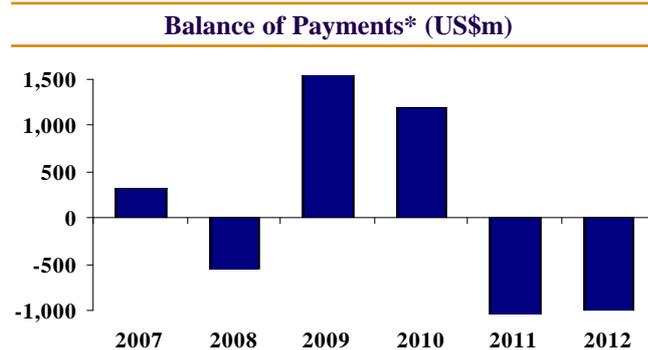
The United States was the main source of imports with \$1.6bn or 14% of the total in the first half of 2012, followed by Italy and China with \$847m (8% each), France with \$786m (7%), and Germany with \$587m (5%). Imports from the U.S. surged by 57%, those from France and China increased by 4% each year-on-year, and those from Germany rose by 3%; while imports from Italy dropped by 9%. Switzerland was the main export destination with \$254m or 12% of the total, followed by the UAE with \$192m and Saudi Arabia with \$189m (9% each), Syria with \$126m (6%), Iraq with \$84m and Turkey with \$83m (4% each). Exports to Saudi Arabia rose by 23%, those to the UAE grew by 19%, and exports to Syria increased by 18%; while exports to Turkey dropped by 40%, those to Iraq regressed by 15% and those to Switzerland declined by 1%. Lebanon's main export was jewelry at \$854m or 39% of the total, followed by machinery & mechanical appliances with \$257m (12%), base metals with \$215m (10%), prepared foodstuff with \$202m (9%) and chemical products with \$177m (8%). Re-exports totaled \$193m in the first half of 2012, compared to \$379m in the same period last year.

Customs receipts up 1% to \$759m in first half of 2012

Figures released by the Customs Directorate indicated that customs revenues reached \$759.5m in the first half of 2012, constituting an increase of 1% from \$741.2m in the same period of 2011. The Port of Beirut continues to be the main point of customs receipts, as it accounted for 87.6% of the total in the first five half of 2012, and was followed by the Hariri International Airport with 7.3%, the Port of Tripoli with 2.2%, the Masnaa crossing point with 2%, the Port of Saida with 0.6%, the crossing point of Abboudieh by 0.2%, and the Port of Tyre with 0.1%. Customs receipts from the value-added tax totaled \$760.1m in the first half of 2012, constituting an increase of 7.9% year-on-year. The Port of Beirut accounted for 78.7% of such receipts, and was followed by the Hariri International Airport with 9%, the Masnaa crossing point with 5.6%, the Port of Tripoli with 5.1%, and the Port of Saida with 1.4% of the total. As such, overall customs receipts reached \$1.5bn in the first half of this year, with the Port of Beirut accounting for 83.1% of the total, followed by the Hariri International Airport with 8.2%, the Masnaa crossing point with 3.8% and the Port of Tripoli with 3.6%. In addition, other entry points represented the balance, with the port of Saida accounting for 1%, the crossing point of Abboudieh for 0.2%, and the port of Tyre with 0.1%.

Balance of payments posts deficit of \$1bn in first half of 2012

Central Bank figures show that Lebanon's balance of payments posted a deficit of \$1.02bn in the first half of 2012 compared to a deficit of \$479.2m in the same period last year. The balance of payments posted a deficit of \$23.4m in June compared to a deficit of \$81.5m in May 2012 and a surplus of \$563.8m in June 2011. The June 2012 deficit was caused by a deficit of \$276m in the net foreign assets of banks and financial institutions and a surplus of \$252.4m in those of the Central Bank. The cumulative deficit over the first half of 2012 was caused by a surplus of \$1.15bn in the Central Bank's net foreign assets and a deficit of \$2.17bn 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.



* in the first half of each year

Source: Central Bank of Lebanon

Cleared checks up 2%, returned checks increase by 4% in first five months of 2012

The value of cleared checks reached \$28.8bn in the first five months of 2012, constituting an increase of 1.7% from the same period last year and an increase of 1.5% from the same period of 2010. The value of cleared checks in Lebanese pounds declined by 0.7% annually to the equivalent of \$5.9bn in the first five months of 2012, while the value of cleared checks in US dollars increased by 2.4% to \$22.8bn. The dollarization rate of cleared checks increased to 79.3% from 78.8% in the same period last year.

Also, the value of returned checks in domestic and foreign currency amounted to \$638m in the first five months of 2012, up 4.4% from the same period of 2011 but down 2.9% from the first five months of 2010. In parallel, the number of cleared checks totaled 5.3 million checks in the first five months of 2012, up 1.2% from the same period of 2011. Also, the number of returned checks totaled 116,000 checks and rose by 11.5% in the covered period.

Construction permits down 13% in first five months of 2012

Figures released by the Association of Engineers of Beirut & Tripoli show that construction permits issued in the first five months of 2012 reached 6.1 million square meters, constituting a decrease of 12.9% from 7 million square meters in the same period last year. Construction permits totaled 1.4 million square meters in May 2012, down 21.8% year-on-year from 1.8 million square meters in May 2011. In parallel, cement deliveries reached 2.1 million tons in the first five months of 2012, unchanged from the same period last year. Cement deliveries reached 562,000 tons in May 2012, up 7.9% from 521,000 tons in May 2011.

EU extends €2.5m in grants and €1.8m in technical assistance for agricultural and local development projects

The European Union extended to Ministry of Agriculture €1.8m in technical assistance to support the Agricultural and Rural Development Program. The program aims to strengthen the ministry's capacities to design, implement and monitor agricultural policies; to improve the quality of agricultural products; enhance the competitiveness of the agricultural products; and increase the economic development of farmers and agricultural cooperatives through easier access to credit. The technical assistance will help in the implementation of the project's components. Also, the EU extended €2.5m in grants to nine municipality clusters in Northern Lebanon for local development projects as part of an €8m development program for the region. The two-year projects cover activities in education, health, water and sanitation, irrigation and agriculture, and waste management, and are expected to benefit 80,000 inhabitants.

In parallel, the Islamic Development Bank signed a loan agreement for \$26.8m to finance the second phase of West Bekaa Wastewater Project, and extended a grant of \$180,000 to provide technical assistance for the project's implementation. The loan will finance the installation of a wastewater piping network, as well as the installation of secondary network for house connections, the construction and equipment of pumping stations, and consultancy services.

Byblos Bank's second quarter earnings 24% higher than forecast

Regional investment bank EFG Hermes indicated that Byblos Bank's earnings in the second quarter of 2012 were 24% higher than forecast due to lower-than-expected operating expenses and provisioning. It noted that net interest spread improved from the previous quarter, mainly as a result of stronger asset yields, with funding costs being broadly unchanged quarter-to-quarter. It said the Bank's loan and deposit growth were in line with expectations. It added that the loan book grew by 1.6% from the previous quarter, accelerating from 0.5% growth in the first quarter of the year. It noted that demand for lending in Lebanon is weak, adding that the Bank is focusing on preserving credit quality, especially at the level of its subsidiaries in Sudan and Syria. It expected the Bank to remain highly liquid and forecast its loans-to-deposits ratio at 31.2% at end-2012.

In parallel, EFG Hermes said that the Bank continued to book provisions, mainly related to its exposure to Syria. But it noted that such provisioning has a minor negative impact on profitability, as provisioning charges accounted for just 14% of the Bank's operating earnings in the second quarter. It said the NPL ratio stood at 3.9% in June 2012, with the NPL coverage at 112%, still the highest among the top 3 Lebanese banks. It expected the NPL coverage to remain high at 134% at the end of 2012, the highest such ratio by far among the top 3 Lebanese banks. It estimated it expected provisioning costs to continue at similar levels for the remainder of the year. Byblos Bank's capital adequacy ratio to reach 15.8% at end-2012, well above the minimum 8% required by the Central Bank and better than that of its Lebanese peers. EFG Hermes indicated that some of Byblos Bank's strengths include its strong consumer and SME franchise that places it in a strong position, as well as its expansionary strategy in markets where there is a large Lebanese Diaspora.

Kafalat loan guarantees down 11% to \$83m in first seven months of 2012

Figures released by the Kafalat Corporation show that loans extended to small- and medium-size companies under the guarantee of Kafalat reached \$83m in the first seven months of 2012, down 11% from \$93.3m in the same period last year. The number of loan guarantees totaled 609 in the first seven months of 2012 compared to 691 in the same period last year. The average loan size reached \$136,254 compared to \$134,992 in the first seven months of 2011. Mount Lebanon accounted for 41% of guarantees, followed by the South & Nabatieh with 22.2%, the Bekaa with 15.9%, the North with 14.3%, and Beirut with 6.6%. The agriculture sector accounted for 37.6% of total guarantees, followed by industrial with 37.4%, tourism with 19.7%, handicraft with 3.9%, and specialized technologies with 1.5%. Kafalat is a state-sponsored organization that provides financial guarantees for loans up to \$400,000 earmarked for the set up and expansion of small and medium-size companies in productive sectors. It guarantees up to 75% of the loan amount and a similar percentage of the interest that accrues during the grace period.

Byblos Bank is 38th largest bank in the region, 10 Lebanese banks among top 100 Arab banks

The Union of Arab Banks' 2012 survey of top 100 Arab banks included 10 Lebanese banks on its list. The survey ranked banks based on total assets at year-end 2011. Byblos Bank ranked in 38th place on the list, ahead of Burgan Bank in Kuwait, Qatar Islamic Bank and Saudi Arabia's Saudi Hollandi Bank. Byblos Bank's assets stood at \$16.6bn at end-2011, constituting an increase of 8.6% from \$15.3bn at end-2010, and compared to growth of 7% in the assets of the top 100 Arab assets. Also, Byblos Bank's assets accounted for 12.7% of the aggregate assets of the 10 Lebanese banks and for 0.9% of the assets of the top 100 Arab banks. Other Lebanese banks on the list included Bank Audi in 20th place, followed by BLOM Bank in 27th place, Fransabank in 44th place, BankMed (50th), Banque Libano-Française (57th), Bank of Beirut (60th), Crédit Libanais (73rd), Société Générale de Banque au Liban (86th) and Bank of Beirut and the Arab Countries (99th). The total assets of the 10 Lebanese banks reached \$131.1bn at end-2011, up 7.3% from end-2010. Also, the total assets of the 10 Lebanese banks accounted for 6.9% of the aggregate assets of the largest 100 Arab banks at end-2011, unchanged from end-2010. The aggregate loans of the 10 Lebanese banks reached \$37.6bn at end-2011, up 13.1% from end-2010 and accounted for 3.8% of total lending of the top 100 banks in 2011, up from a 3.6% share in 2010. The aggregate deposits of the Lebanese banks represented 8.5% of the 100 Arab banks' deposits at end-2011 compared to a share of 8.3% at end-2010. Further, the total profits of the 10 Lebanese banks reached \$1.5bn in 2011, constituting a marginal increase of 0.3% from 2010, and accounting for 5.2% of the aggregate profits of the 100 Arab banks included in the survey.

Holding Saradar's profits rise 17% to \$8m in 2011

Holding Saradar sal announced net profits of \$8.4m in 2011, constituting an increase of 17.2% from \$7.1m in 2010. Dividends received rose by 14.3% year-on-year to \$8.8m, while interest income increased by 32.1% to \$0.67m. Further, general and administrative expenses declined by 33.5% year-on-year to \$0.1m, while finance costs decreased by 23.4% to \$0.35m in 2011. Also, the firm posted other comprehensive losses of \$57.4m in 2011, down from losses of \$108.2m in the previous year, resulting in total comprehensive losses of \$49m last year compared to profits of \$7m in 2010. Total assets reached \$135m at end-2011, constituting a 30.2% drop from end-2010, with financial instruments available for sale decreasing by 29.9% to \$134.2m and bank balances declining by 52.8% to \$0.81m. Total equity reached \$126.4m, constituting a decrease of 30.3% from \$181.4m at end-2010. Also, retained earnings totaled \$12m at end-2011, constituting an increase of 24.5% from end-2010; while available equity for sale reserve decreased by 48.6% year-on-year to \$60.6m at end-2011. The firm's liabilities reached \$8.7m, declining by 28% from a year earlier. Non-current liabilities included bank loans of \$5.72m at end-2011, down from \$9m a year earlier, while current liabilities included loans of \$2.94m at end-2011 relative to \$3m a year earlier. Holding Saradar is the investment vehicle of the Saradar family.

Commercial banks' assets reach \$146bn at end-June 2012

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$145.9bn at the end of June 2012, constituting an increase of 3.8% from end-2011 and a rise of 7.7% from end-June 2011. Private sector deposits totaled \$119.9bn, increasing by 3.7% from end-2011 and rising by 7.6% from a year earlier. Deposits in Lebanese pounds reached \$42bn, up by 6.4% from end-2011 and by 13.3% year-on-year; while deposits in foreign currencies totaled \$78bn, and increased by 2.2% from end-2011 and by 4.8% from end-June 2011. Non-resident foreign currency deposits totaled \$19.2bn at end-June 2012, up 3.2% from end-2011, and grew by 9.7% from a year earlier. Total non-resident deposits reached \$22.3bn at end-June 2012 and grew by 4.8% from end-2011 and by 11.9% from a year earlier. Total private sector deposits increased by \$1bn in June, \$141m in May, \$533m in April, \$806m in March, \$725m in February and by \$976m in January 2012, compared to a rise of \$1bn in June, \$539m in May, \$1.8bn in April, \$1.3bn in March, \$673m in February and a decline of \$1.1bn in January 2011. In parallel, deposits of non-resident banks reached \$6.2bn in June, as they increased by 6.3% from end-2011 and by 8.4% year-on-year. The dollarization rate of deposits reached 65% at the end of June, down from 66.8% a year earlier. Further, the average deposit rate in Lebanese pounds reached 5.45% in June relative 5.62% a year earlier; while the same rate in US dollars was 2.78%, down from 2.81% in June 2011.

Loans to the private sector totaled \$41.7bn at end-June, constituting an increase of 5.9% from end-2011 and a rise of 11.9% from a year earlier. Lending to the resident private sector totaled \$36.2bn and increased by 5.7% from end-2011, while lending to the non-resident private sector reached \$5.5bn and rose by 7.4% from end-2011. The dollarization rate in private sector lending reached 78.1% in June compared to 79.3% a year earlier. The average lending rate in Lebanese pounds was 7.44% in June 2012 compared to 7.59% a year earlier, while the same average in US dollars was 7.15% compared to 6.98% in June 2011. In addition, claims on non-resident banks reached \$13.3bn at end-June, posting a decrease of 9.2% from end-2011. Claims on the public sector stood at \$29.4bn, constituting an increase of 6.2% from a year earlier and of 0.5% from end-2011. The ratio of private sector loans-to-deposits in foreign currencies stood at 41.7%, well below the Central Bank's limit of 70%, and compared to 39.7% a year earlier. In parallel, the same ratio in Lebanese pounds was 21.8%, slightly up from 21.6% a year earlier. The ratio of total private sector loans to deposits was 34.8% compared to 34% a year earlier. The banks' aggregate capital base stood at \$11.8bn, up by 14.4% from \$10.4bn in June 2011.

Metlife Alico's unit-linked investment contracts at \$319m

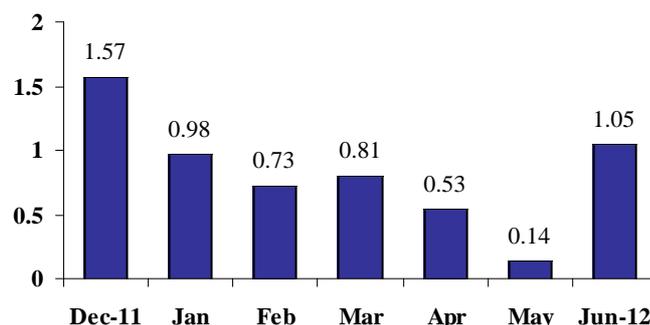
Metlife Alico, the largest provider of life insurance products in Lebanon, released its audited balance sheet for Lebanon that shows total assets of \$496.2m at end-November 2011, down 0.6% from \$499.2m at end-November 2010. On the assets side, general company investments totaled \$161.2m and declined by 10.5% from end-November 2010. They included \$81.3m in fixed investments; \$46.3m in blocked bank deposits and deposits with maturity of more than three months, of which \$6.5m blocked in favor of the Economy Ministry as guarantees; \$15m in cash and cash equivalent; \$10m in land and real estate; and \$6.8m in policy loans.

Also, Unit-linked contracts investments totaled \$319.1m at end-November 2011, constituting an increase of 5.5% from \$302.5m a year earlier. They included \$118.5m in fixed income investments, \$165m of placements in mutual funds, and \$35.6m in cash & similar investments. Unit-linked investment in fixed income instruments rose by 6.2%, investments in mutual funds rose by 10.8%, and cash & similar investments regressed by 14.6% year-on-year. Reinsurance share in technical reserves for the life and non-life categories amounted to \$4.1m and \$4.4m, respectively, constituting decreases of 14.5% and 8.5%, respectively.

On the liabilities side, shareholders' equity totaled \$30.3m at end-November 2011, constituting a decline of 6.8% from \$32.5m a year earlier. Unit-linked technical reserves reached \$324.2m at the end of November 2011, constituting a rise of 5.8% from \$306.4m at end-November 2010. Also, technical reserves for the life segment declined by 8.7% year-on-year to \$93.6m, while technical reserves for the non-life category reached \$21.3m at end-November 2011 and increased by 17.7% from a year earlier. Non-life technical reserves included unearned premium reserves of \$11.5m that rose by 8.1%, outstanding claims reserves of \$7.5m that grew by 35%, and \$2m in reserves incurred but not reported that rose by 20% year-on-year. Further, provisions for risks and charges reached \$1.2m and rose by 10.35 from a year earlier.

Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked Metlife Alico in first and 12th place in 2011 in terms of life and non-life premiums, respectively. The firm's life premiums reached \$72.1m and non-life premiums amounted to \$24.6m, constituting increases of 2% and 10.8%, respectively. It had a 19.5% share of the life market and a 2.8% share of the local non-life market.

Private Sector Deposit Change (\$bn)



Source: Association of Banks in Lebanon

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	Jan 2011	Dec 2011	Jan 2012	Change*	Risk Level
Political Risk Rating	56.5	54.5	55.5	▼	High
Financial Risk Rating	28.5	35.0	35.0	▲	Low
Economic Risk Rating	32.5	34.0	34.0	▲	Moderate
Composite Risk Rating	58.7	61.7	62.2	▲	Moderate

Regional Average	Jan 2011	Dec 2011	Jan 2012	Change*	Risk Level
Political Risk Rating	63.6	60.6	60.5	▼	Moderate
Financial Risk Rating	42.3	42.2	42.3	↔	Very Low
Economic Risk Rating	38.1	36.6	37.1	▼	Low
Composite Risk Rating	72.0	69.7	69.9	▼	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