

## LEBANON THIS WEEK

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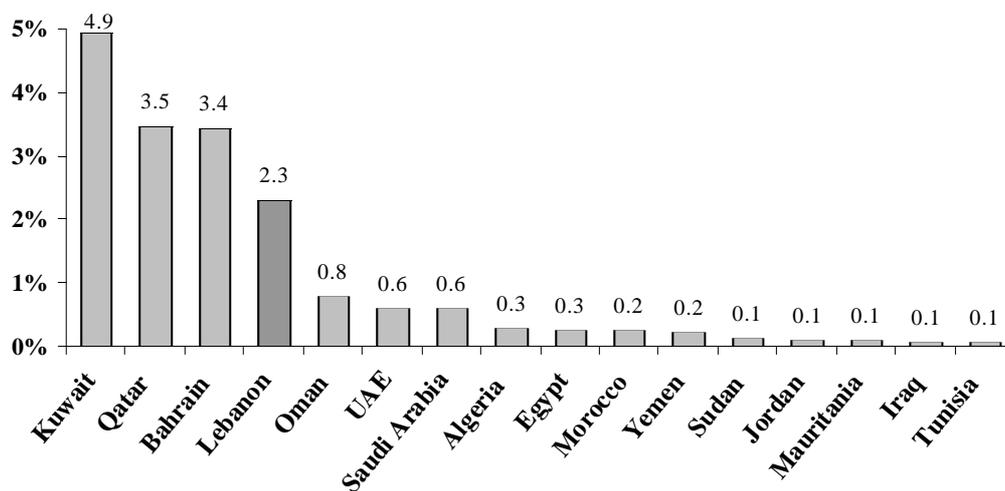
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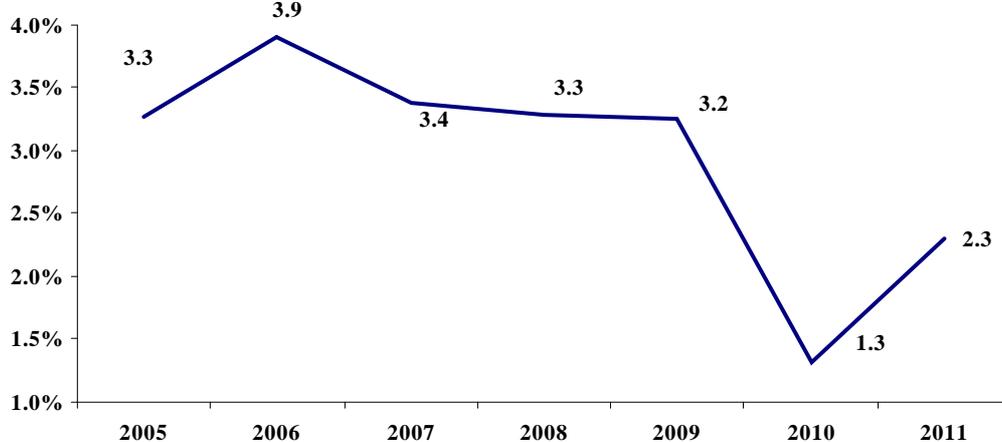
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### Charts of the Week

Foreign Direct Investment Outflows from Arab Countries in 2011 (% of GDP)



Foreign Direct Investment Outflows from Lebanon in 2011 (% of GDP)



Source: UNCTAD, International Monetary Fund, Byblos Research

### Quote to Note

"Lebanon's service-oriented economy is highly sensitive to political events."

*The Economist Intelligence Unit, on the expected impact of recent security breaches and political developments on economic activity in the country*

### Number of the Week

**1,580:** Energy use per capita in kilograms of oil equivalent in Lebanon, compared to the global average of 1,788 per capita, according to the World Bank

## Economic Indicators

<b>\$m (unless otherwise mentioned)</b>	<b>2010</b>	<b>May 11</b>	<b>2011</b>	<b>Mar 12</b>	<b>Apr 12</b>	<b>May 12</b>	<b>% Change*</b>
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

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

<b>Most Traded Stocks on BSE</b>	<b>Last Price (\$)</b>	<b>% Change*</b>	<b>Total Volume</b>	<b>Weight in Market Capitalization</b>
Solidere "A"	13.29	0.00	58,350	13.21%
Solidere "B"	13.01	(1.06)	8,900	8.41%
Byblos Common	1.51	0.00	17,829	5.40%
Byblos Pref. 08	101.30	0.00	1,500	2.01%
Byblos Pref. 09	102.00	0.00	0	2.03%
BLOM GDR	7.70	0.00	14,050	5.66%
BLOM Listed	7.40	0.00	90,000	15.82%
Audi GDR	5.93	(1.17)	4,620	5.99%
Audi Listed	5.24	(0.19)	7,790	18.20%
HOLCIM	15.54	0.00	0	3.02%

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

<b>Sovereign Eurobonds</b>	<b>Coupon %</b>	<b>Mid Price \$</b>	<b>Mid Yield %</b>
Sep. 2012	7.750	100.00	7.50
June 2013	8.625	104.00	3.69
Apr. 2014	7.375	104.50	4.51
Jan. 2015	5.875	103.00	4.55
Apr. 2015	10.00	113.00	4.77
Jan. 2016	8.500	110.50	5.11
Mar. 2017	9.000	114.50	5.39
Nov. 2018	5.150	98.00	5.54
Apr. 2021	8.250	112.50	6.35
Nov. 2026	6.600	99.50	6.65

Source: Byblos Bank Capital Markets

	<b>Aug 20-24</b>	<b>Aug 13-17</b>	<b>% Change</b>	<b>July 2012</b>	<b>July 2011</b>	<b>% Change</b>
<b>Total Shares Traded</b>	241,310	411,476	(41.36)	9,494,611	3,193,716	197.29
<b>Total Value Traded</b>	\$2,497,871	\$3,915,126	(36.20)	\$62,270,730	\$33,654,543	85.03
<b>Market Capitalization</b>	\$10.06bn	\$10.08bn	(0.21)	\$10.25bn	\$11.30bn	(9.31)

Source: Beirut Stock Exchange (BSE)



### **Investor sentiment to remain dependent on developments in Syria**

Citigroup indicated that the conflict in Syria is weighing heavily on investor sentiment towards Lebanon, as yields on Lebanese debt have increased and activity on the Beirut Stock Exchange dropped further recently. But it said that Lebanon's sovereign credit fundamentals have not shifted significantly despite the rise in violence in Syria, given that ongoing deposit inflows into the Lebanese banking system continue to underpin fundamental stability. Further, it pointed out that regime change in Syria could be interpreted by domestic and foreign markets as the beginning of the end to the Syrian conflict, therefore easing fears of spillover into Lebanon and improving investor sentiment. It considered, however, that any positive impact on Lebanese assets would likely be short-lived, given that regime change would not result automatically in near-term political stability in Syria. It added that a lasting positive impact on Lebanon and, therefore, on Lebanese assets necessitates the end of violence in Syria. But it considered that many factors suggest that the conflict is likely to continue irrespective of who is in power. It indicated that this scenario would result in ongoing risks to the region and to Lebanon.

### **Travel warnings undermine economic outlook**

Business Monitor International expected that the recent decision of Saudi Arabia, the UAE, Qatar and Kuwait to warn their nationals from visiting Lebanon will have a significant impact on the domestic tourism industry. It added that the governments of the four countries called on their citizens to leave Lebanon following multiple security breaches recently that included the kidnapping of Syrian and Turkish citizens as well as kidnapping threats against other Arab nationals. As such, it expected the number of visitor arrivals to drop and hotel occupancy rates to deteriorate in the near-term as the nationals from the four countries account for 17% of all non-Lebanese or Syrian tourists. It pointed out that this will further damage confidence in Lebanon's macroeconomic outlook, which is already relatively weak as a result of the conflict in Syria, given that the tourism sector contributes directly to 10% of Lebanon's GDP and indirectly to 35% of GDP, while it employs around 10% of the country's total workforce. However, BMI maintained its forecast for Lebanon's real GDP growth at 2.8% in 2012 relative to 1.2% in 2011. It noted that, even prior to the most recent deterioration of security conditions in the country; the economy has not been able to recover at a faster pace from the 2011 slowdown due to the Syrian crisis. It said that the war in Syria undermined Lebanon's ability to attract foreign direct investments, and damaged the tourism and trade industries given the disruptions in transportation links and supply chains. It expected economic activity to remain subdued for the rest of the year.

### **Delays in offshore exploration to continue**

Business Monitor International anticipated that Lebanon will continue to lag its regional peers in establishing oil & gas exploration and production due to systematic and persistent political risks, as well as because of political disputes within the government. It added that the ongoing crisis in Syria is causing the deterioration of both the political and security landscape in Lebanon, which would suggest further delays to both the licensing round and to efforts to establish the country's oil & gas industry. It noted that the disputed maritime border with Israel further complicates the industry's outlook and constitutes an obstacle for the sector's long-term development, even though early licensing rounds are not expected to include blocks in the disputed maritime border with Israel. It pointed out that the region's offshore potential has increased following substantial discoveries near Cyprus and upcoming commercial production in Israel. It noted that Israel has moved quickly towards commercializing resources, as it is expecting to start extracting gas from the offshore Tamar field by 2013 and to become a net exporter of natural gas by 2017. In contrast, the Lebanese government delayed the launching of the first offshore licensing round that was scheduled in 2011 on the back of continued political problems in the country. It noted that continued delays in developing domestic natural resources will translate into a higher reliance on energy imports. It indicated that Lebanon intends to shift energy consumption to natural gas from gas oil, which would generate substantial savings for the country's energy import bill, among other benefits. It considered that the upside potential would be significant if Lebanon is able to tap its offshore resources, given its wide fiscal deficit and high debt burden. But it considered that Lebanon will continue to rely on imported energy for its consumption needs over the foreseeable future, given that offshore production is likely to remain a slow-moving process.

In parallel, BMI said that a three-dimensional offshore seismic survey, which will be conducted by geosciences data providers Dolphin Geophysical and Spectrum Energy & Information Technology, will provide advanced information regarding prospective oil & gas presence off Lebanon's coast. It expected the survey to be completed by September 2012 and data to be ready by the end of 2012. The United States Geological Survey (USGS) estimates that the Levant Basin Province has a mean of 1.7 billion barrels of recoverable oil and a mean of 122 trillion cubic feet of recoverable gas. The Levant Basin Province encompasses approximately 83,000 square kilometers of the eastern Mediterranean area off the coasts of Lebanon, Syria, Cyprus and Israel. The USGS stressed that the estimates represent technically-recoverable oil and gas resources, and are not estimates of economically-recoverable resources.

### Oil imports is leading source of VAT collected at customs, wholesale trade is biggest source of VAT from internal activity

Figures issued by the Finance Ministry show that revenues from value-added tax (VAT) collected at customs accounted for 70.5% of overall VAT receipts in 2011, while the balance of 29.5% came from VAT collected from internal economic activity. VAT revenues collected at customs decreased by 2 percentage points in 2011 from 70.7% of overall VAT receipts in 2010. VAT revenues collected at customs increased by 3.8% to \$1.5bn in 2011, in line with the 12% increase in imports and reflecting increases in both fuel and non-fuel imports, while VAT receipts from internal economic activity increased by 4.7% to \$642.8m in 2011.

Mineral fuels & oil accounted for 30.5% of VAT receipts collected at customs, making them the biggest source of such VAT revenues in 2011. They rose by 10.2% to \$468.3m in 2011. They were followed by VAT from vehicles with 11.6% of the total. Such receipts declined by 23.8% year-on-year to \$178.4m, in line with the 24% decrease in the value of vehicle imports. VAT collected at customs from machinery & mechanical appliances increased by 4.4% to \$118.1m, accounting for 7.7% of VAT collected at customs in 2011. Iron & steel ranked as the fourth most important source of VAT collected at customs, accounting for 6% of the total. VAT from this category rose by 28.8% year-on-year to \$91m. VAT from electrical machinery increased by 0.7% to \$83m last year, accounting for 5.4% of VAT collected at customs. Other sources of VAT receipts at customs accounted for 39% of the total.

<b>Top 5 sources of VAT collected at Customs in 2011</b>		
	<b>Share</b>	<b>Annual Change</b>
Mineral fuels & Oil	30.5%	10.2%
Vehicles	11.6%	-23.8%
Machinery & Mechanical Appliances	7.7%	4.4%
Iron & Steel	5.9%	28.8%
Electrical Machinery	5.4%	0.7%

*Source: Ministry of Finance*

In parallel, wholesale trade accounted for 17.5% of VAT collected from internal economic activity, representing the biggest source of VAT revenues from internal activity in 2011. It rose by 8.6% year-on-year to \$112.8m. It was followed by other business activities, which accounted for 13.2% of total VAT receipts from internal activity. VAT from other business activities rose by 10.4% to \$85m in 2011. Also, retail trade accounted for 12.3% of VAT receipts in 2011, coming as the third biggest source of VAT from internal activities. They rose by 1.7% to \$79m last year.

Hotels & restaurants were the fourth biggest source of VAT from internal activities, with 9.1% of the total. VAT from hotels & restaurants declined by 13% year-on-year to \$58.4m. Construction followed in fifth place with \$50m in VAT receipts, up 7.3% from 2010, and accounted for 7.7% of VAT from internal activity last year. Further, real estate activities generated 5.7% of VAT receipts from internal activities, up 16% from 2010. The sale, maintenance and repair of motor vehicles accounted for 4% of VAT receipts from internal activities in 2011, while manufacturing of food products & beverages represented 3.8% of the total. VAT from sales of motor vehicles rose by 17.8% to \$26m, while tax from food products & beverages declined by 4.1%. VAT collected from real estate is from commercial rent as the sale of real estate is VAT-exempt.

Also, VAT receipts from the manufacturing of other non-metallic mineral products decreased by 6.5% annually to \$24.5m, accounting for 3.8% of the total, while post & telecommunications rose by 8.5% to \$19.2m, accounting for 3% of VAT collected from internal activity in 2011. The VAT contribution from post & telecommunications is understated as it does not capture all the VAT raised from the telecom sector. As per the VAT law, a large fraction of VAT on telecom is directly transferred to municipalities, and hence is not captured in these figures. Other sources of VAT receipts from internal activity accounted for 19.8% of the total.

<b>Top 5 sources of VAT from Internal Activity in 2011</b>		
	<b>Share</b>	<b>Annual Change</b>
Wholesale Trade	17.5%	8.6%
Other business activities	13.2%	10.4%
Retail Trade	12.3%	1.7%
Hotels & Restaurants	9.1%	-13.0%
Construction	7.7%	7.3%

*Source: Ministry of Finance*



### Fiscal deficit up 31% to \$1.1bn in first half of 2012 when assuming \$707m in telecom revenues

Figures released by the Finance Ministry show that the fiscal deficit reached \$1.13bn in the first half of 2012, up 31% from \$865m in the same period last year. The deficit was equivalent to 18.3% of total budget and Treasury expenditures compared to 15.4% of overall spending in the same period last year. Overall government expenditures reached \$6.2bn, up 10.1% year-on-year, while total revenues increased by 6.3% to \$5.1bn. Budgetary expenditures regressed by 3% to \$5.1bn and included \$981.2m in transfers to Electricité du Liban and \$350.3m in outlays from previous years, while budget revenues rose by 7.3% to \$4.9bn. Tax revenues rose by 9.3% year-on-year to \$3.7bn, of which 29.7%, or \$1.1bn, were in VAT receipts that grew by 8.5% from the same period last year. Tax revenues accounted for 77% of budgetary revenues and for 73.9% of total Treasury and budget receipts. The Finance Ministry is basing its monthly fiscal results on the Telecommunications Ministry's estimate of telecom receipts which reached \$707m in the first half of the year, rather than on the Treasury actually receiving the funds from the Telecom Ministry. On a cash basis, public revenues dropped by 8.5% and the fiscal deficit rose by 112.6% to \$1.8bn, equivalent to 29.7% of expenditures. In addition, the ministry decided to include telecom revenues in the fiscal results for the first half of 2011, even though it has excluded them in the comparative results of each of the first five months of the year.

The distribution of other tax revenues shows that income, profits & capital gains tax receipts increased by 9.1% to \$1.2bn; customs revenues grew by 2.4% year-on-year to \$725.3m; revenues from property taxes expanded by 12.9% to \$402m; and other tax receipts, mainly stamp fees, grew by 9.7% to \$159.8m. Further, the distribution of income tax revenues shows that the tax on profits accounted for 53% of total income tax receipts, followed by taxes on interest deposits with 18.1%, taxes on wages & salaries with 15% and capital gains tax with 12.3%. Income from capital gains taxes grew by 52.5%, revenues from taxes on wages & salaries improved by 16.7%, tax receipts on profits increased by 2.4% while income from the tax on interest fell by 0.3%. Also, the distribution of property taxes shows that revenues from real estate registration fees increased by 6.2% to \$273.2m, receipts from built property taxes grew by 34.1% to \$78.5m, and revenues from inheritance tax rose by 24.4% to \$50.3m.

In parallel, non-tax budgetary revenues rose by 1.2% to \$1.2bn, with revenues from government properties dropping by 2.5% to \$863.6m and administrative fees & charges growing by 16% to \$200.8m. Based on the ministry's assumption, receipts from telecommunications services accounted for 82% of income from government properties and for 63.2% of non-tax revenues. Debt servicing decreased by 4.5% year-on-year to \$1.8bn, and accounted for 29.3% of total expenditures and for 35.5% of budgetary spending. It absorbed 35.8% of overall revenues and 37.3% of budgetary receipts. Interest payment on domestic debt declined by 4.2% to \$1.1bn, while interest disbursement on foreign debt regressed by 5.1% to \$677.4m. Repayment of principal on foreign debt fell by 6.1% to \$89.8m. Excluding debt servicing, the primary budget balance posted a surplus of \$1.65m, or 51.3% of budget expenditures compared to a surplus of \$1.25bn, or 38.2% of budget spending in the same period last year. The overall primary balance posted a surplus of \$772.1m, or 12.4% of spending, relative to a surplus of \$1.1bn or 20.1% of total expenditures in the same period last year.

<b>Fiscal Results in First Half of 2012</b>		
	<b>Including Assumed Telecom Receipts</b>	<b>Excluding Assumed Telecom Receipts*</b>
	<b>US\$m</b>	<b>US\$m</b>
Budget revenues	4,864	4,157
Tax revenues	3,745	3,745
Non-tax revenues	1,119	412
<i>of which Telecom revenues</i>	707	-
Budget expenditures	5,121	5,121
<b>Budget Deficit</b>	<b>(257)</b>	<b>(964)</b>
<i>In % of budget expenditures</i>	<i>(5.0%)</i>	<i>(18.8%)</i>
<b>Budget Primary Surplus</b>	<b>1,648</b>	<b>941</b>
<i>In % of budget expenditures</i>	<i>32.2%</i>	<i>18.4%</i>
Treasury receipts	205	205
Treasury expenditures	1,081	1,081
Total Revenues	5,069	4,362
Total Expenditures	6,202	6,202
<b>Total Deficit</b>	<b>(1,133)</b>	<b>(1,840)</b>
<i>In % of total expenditures</i>	<i>(18.3%)</i>	<i>(29.7%)</i>
<b>Total Primary Surplus</b>	<b>772</b>	<b>65</b>
<i>In % of total expenditures</i>	<i>12.5%</i>	<i>1.1%</i>

\* Cash basis

Source: Ministry of Finance, Byblos Research



### **Consumer Price Index up 9% annually in July**

The Central Administration of Statistics' Consumer Price Index indicates that inflation increased by 8.9% in July 2012 from July 2011. Prices of housing increased by 44.1%, followed by alcoholic beverages & tobacco (+11.2%), education (+7.5%), food & non-alcoholic beverages (+6.8%), clothing & footwear equipment (+5.7%), restaurants & hotels (+5.5%), recreation & entertainment (+5.4%), miscellaneous goods & services (+3.8%), furnishings & household (+1.8), water, electricity, gas & other fuels (+1.6%); while prices of transportation and health care decreased by 2.8% each year-on-year. In parallel, communication prices remained unchanged year-on-year. Imported inflation accounts for about 70% of inflation in the country, as Lebanon has an import-based economy. Lebanon imports most of its energy needs and the value of imports historically has been equivalent to about five times that of exports. The Consumer Price Index rose by 6.6% in July 2012 from June 2012. Prices of housing increased by 44.1%, followed by water, electricity, gas & other fuels (+5.9%), food & non-alcoholic beverages (+1%), restaurants & hotels (+0.9%), alcoholic beverages & tobacco and clothing & footwear (+0.1% each); while transportation prices declined by 2.1%, followed by health care (-0.2%). Further, the cost of communication, furnishings & household equipment, recreation & entertainment, miscellaneous goods & services and education remained unchanged month-on-month. The Consumer Price Index grew by 2.1% year-on-year in June 2012 and by 3% year-on-year in May 2012.

### **Number of tourists down 12% in first seven months of 2012**

The number of incoming tourists to Lebanon totaled 871,720 in the first seven months of 2012, constituting a decrease of 12.3% from 993,867 tourists during the same period last year and a decline of 34.3% from 1,326,001 tourists during the first seven months of 2010. Arab tourists accounted for 35% of total visitors in the first seven months of the year, and were followed by visitors from Europe with 31.5%, the Americas with 16%, Asia with 9.5%, Africa with 4.4%, and Oceania with 3.5%. The number of African tourists increased by 13.6% year-on-year in the first seven months of 2012, followed by tourists from America with a 2.5% increase. In parallel, the number of tourists from Asia declined by 52.1% annually, Arab tourists decreased by 7%, those from Europe dropped by 5.7%, and tourists from Oceania decreased by 1.2%. Also, tourists from France accounted for 12.6% of total visitors in July 2012, followed by the United States with 9.8%, Iraq with 8.4%, Canada with 6.4% and Germany with 5.6%. Incoming tourists totaled 1.66 million in 2011, down 23.7% year-on-year.

### **Industrial exports at \$1.5bn in first half of 2012, imports up 18% to \$145m**

Figures released by the Ministry of Industry show that industrial exports totaled \$1.5bn in the first half of 2012, constituting a decrease of 5% from the same period last year. Industrial exports reached \$252.9m in June 2012, down 0.9% from \$255.3m in May 2012 and by 16.6% from \$303.2m in June 2011. Pearls & precious or semi-precious stones accounted for \$303.2m, or 19.7% of total industrial exports in the first half of the year, followed by machinery & mechanical appliances with \$257.3m (16.7%), and base metals & articles of base metals with \$215.5m (14%). Arab countries accounted for 61% of total industrial exports in June, followed by European countries with 13.6%, African countries with 10.8%, and Asian countries with 10.7%. In parallel, industrial imports reached \$145.1m in the first half of the year, up 17.9% from the same period in 2011. Italy was the main source of such imports and accounted for 22.1% of the total. It was followed by China with 18.2% and Germany with 11.5%. Further, imports of industrial equipment and machinery reached \$28.5m in June 2012, increasing by 31.6% year-on-year. China was the main source of imports of industrial equipments, accounting for 21.2% of the total, followed by Italy with 20.3% and Germany with 9.9%.

### **Treasury transfers to Electricité du Liban up 49% in first five months of 2012**

Figures released by the Finance Ministry show that Treasury transfers to Electricité du Liban totaled \$934.7m in the first five months of 2012, constituting an increase of 48.8% from \$947m in the same period last year. The ministry said that reimbursements to the Kuwait Petroleum Corporation (KPC) and to Algerian energy conglomerate Sonatrach accounted for \$906.1m, or 96.9% of transfers year-to-May; while EdL's debt servicing represented the remaining 3.1%. It attributed the increase to a rise of \$303.8m, or 50.4%, in payments to KPC and Sonatrach during the covered period, and to a rise in debt servicing by \$3.3m or 12% year-on-year. It added that the amount of the reimbursements to KPC and Sonatrach implies that any fluctuations in international oil prices are bound to have an impact on Treasury transfers to EdL. It attributed the rise in payments to KPC and Sonatrach to a significant increase in the average international oil price according to which the 2012 payments were made. It noted that the average oil price for the 2012 payments is 38% higher than the corresponding average price in 2011. It added that EdL contributed just 1.9% of repayments to the two oil suppliers during the covered period compared to 6.9% in same period last year. EdL transfers accounted for 25.9% of primary expenditures in the first five months of 2012, constituting the highest share of primary spending in the last three years, and compared to 20.4% in the same period of 2011. EdL transfers constitute the third largest expenditures item after debt servicing and salaries & wages in overall fiscal spending.

### Car sales up 9% in first seven months of 2012

Figures released by the Association of Automobile Importers in Lebanon indicate that a total of 20,187 new passenger cars were sold in the first seven months of 2012, constituting an increase of 8.8% from the 18,556 cars sold in the same period last year and a rise of 2.8% from the 19,639 cars sold in the first seven months of 2010. Korean cars accounted for 44.9% of total sales, followed by Japanese cars with a 27.7% share, European automobiles with 20.2%, American vehicles with 6%, and Chinese cars with 1.2%. Chinese cars posted the highest growth in sales with a 83.1% rise year-on-year, followed by American cars with a 15.7% rise, Korean cars with a 15.2% increase, European cars with a 5% rise, but Japanese automobiles posted a 0.5% decline in sales. Kia is the leading brand in the Lebanese market with 5,523 cars sold in the first seven months of 2012, followed by Nissan with 3,546, Hyundai with 3,535 cars sold, Toyota (999), Chevrolet (812), Renault (723), and Volkswagen (449). In parallel, a total of 1,375 new commercial vehicles were sold in the first seven months of 2012, up 9.5% from the 1,256 vehicles sold in the same period last year, but down 19.2% from the 1,702 vehicles sold in the first seven months of 2010.

### EFG Hermes' net income down 47% to \$10.3m in first half of 2012

Regional investment bank EFG Hermes declared consolidated net income of EGP61.9m, or around \$10.3m, in the first half of 2012, constituting a decrease of 47.3% from net profits of EGP117.5m in the same period last year. Investment banking operations generated net losses of EGP59m, while commercial banking activity by Crédit Libanais posted net profits of EGP121m in the covered period. Total operating revenues reached EGP477m in the second quarter of 2012, up 10.2% quarter-on-quarter and 2.4% annually. The firm said commercial banking revenues increased by 13% annually to EGP549m, while those from investment banking contracted by 8% year-on-year to EGP361m in the first half of 2012. Fees and commissions of the investment bank fell by 10% year-on-year to EGP312m; while revenues generated from capital markets and treasury operations rose by 7% year-on-year to EGP49m in the first half of 2012. In parallel, EFG Hermes indicated that the total consolidated assets reached EGP54.8bn, or \$9.1bn at the end of June 2012; relative to EGP52.5bn, or \$8.7bn at end-2011. It added that Crédit Libanais accounted for 59% of consolidated operating revenues in the second quarter of 2012. EFG Hermes Holding SAE holds a 65% stake in Crédit Libanais and has a call option for an additional 25% interest in the bank. Crédit Libanais posted net profits of \$35.6m in the first half of 2012, constituting an increase of 5.3% from \$33.8m in the same period of 2011. Its total assets reached \$7.5bn at end-June 2012, a 4.2% increase from end-2011; while its loans stood at \$2.1bn at end-June up 7.8% from end-December 2011. The bank's deposits totaled \$6.5bn at end-June, up 3.9% from the end of the preceding year.

### Top eight freight forwarders' activity improves in first half of 2012

Figures released by the Port of Beirut Authority show that overall import shipping operations by the top eight freight forwarders reached 150,313 TEUs in the first half of 2012, constituting a rise of 11.6% from 134,660 TEUs in the same period last year. They accounted for 59.8% of the total import freight forwarding market during the covered period. Mediterranean Shipping Company (MSC) handled 48,242 20-foot equivalent units (TEUs) in imports during the first half of 2012, equivalent to 19.2% share of the total freight forwarding import market. It was followed by Sealine Group with 32,247 TEUs (12.8%), Merit Shipping with 29,813 TEUs (11.9%), Metz Group with 17,764 TEUs (7.1%), Gezaury Transport with 11,354 TEUs (4.5%), Abdul Hamid El Fil with 5,458 TEUs (2.2%), Edouard Cordahi with 3,586 TEUs (1.4%) and MAERSK with 1,849 TEUs (0.7%). Further, Gezaury Transport registered the highest growth in import shipping among freight forwarders at 74.8% year-on-year, while MAERSK posted the steepest contraction at 90.1% year-on-year.

In parallel, export shipping operations by the top eight freight forwarders reached 26,305 TEUs in the first half of 2012, constituting an increase of 18% from 22,293 TEUs in the same period of 2011. They accounted for 99.1% of the total export freight forwarding market during the covered period. Merit Shipping handled 10,707 TEUs of freight, equivalent to 40.3% share of the total freight forwarding export market. It was followed by Sealine Group with 8,295 TEUs (31.2%), MSC with 2,864 TEUs (10.8%), Gezaury Transport with 1,787 TEUs (6.7%), Metz Group with 1,421 TEUs (5.4%), Abdul Hamid El fil with 358 TEUs (1.3%), MAERSK with 556 TEUs (2.1%) and Edouard Cordahi with 317 TEUs (1.2%). Further, Sealine Group registered the highest growth in export shipping among all freight forwarders at 228.5% year-on-year, while MEARSK posted the steepest drop of 92% year-on-year.

### Emirates Lebanon Bank's net profits up 50% to \$14m in 2011

Emirates Lebanon Bank sal posted audited consolidated net profits of \$13.9m in 2011, constituting an increase of 50.1% from \$9.3m in 2010. Net operating income grew by 10.9% year-on-year to \$37m, with net interest income rising by 18.1% to \$28.2m and net fees & commission income declining by 2.8% to \$7m year-on-year. Operating expenditures decreased by 7% to \$20.4m, with staff expenses dropping by 9.5% to \$12.5m. The cost-to-income ratio decreased to 55% in 2011 from 67.4% in the previous year. In parallel, total assets reached \$1.35bn at end-2011, constituting a 1.3% rise from \$1.33bn at end-2010. Loans & advances to customers increased by 4.4% year-on-year to \$588.5m, while customer deposits totaled \$1bn at end-2011, up 2.3% from end-2010. The bank's total shareholders' equity grew by 5% year-on-year to \$185.7m at end-2011. Emirates Lebanon Bank sal shareholders are Bank of Sharjah PSC that has a 67.3% stake, EL Capital FZC that holds a 20% share, and BNPI Paris with a 12.7% share of the capital.

## Corporate Highlights

### **Lebanese Credit Insurer's profit up 14% to \$0.7m in 2011**

The Lebanese Credit Insurer sal (LCI) declared profits of \$0.7m in 2011, constituting an increase of 13.8% from \$0.6m in 2010. Its audited balance sheet shows total assets of \$7m at end-2011, up 8.4% from \$6.5m at end-2010. On the assets side, general company investments totaled \$4.1m and increased by 25.6% from end-2010. They included \$0.84m in investment in subsidiaries and associates; \$0.51m in fixed income investments; and \$1.8m in cash & cash equivalent and deposits with maturity of more than three months, of which \$0.5m blocked in favor of guarantees. Also, the reinsurance share in technical reserves totaled \$0.65m at end-2011, constituting a decrease of 37.5% from \$1m a year earlier. They included \$0.25m reinsurance share in premium reserves and \$0.4m reinsurance share in claims reserves. Premiums receivables totaled \$0.93m at end-2011, constituting an increase of 67.5% from \$0.55m a year earlier. On the liabilities side, shareholders' equity totaled \$4.4m at end-2011, constituting a rise of 19% from \$3.7m a year earlier. Technical reserves reached \$1.1m at the end of December 2011, down 26.8% from \$1.5m at end-2010. They included unearned premium reserves of \$0.48m that declined by 9.4%, outstanding claims reserves of \$0.57m that decreased by 36.6%, and \$0.02m in reserves incurred but not reported that regressed by 36.6% year-on-year. Further, provisions for risks and charges reached \$0.1m and rose by 2% from a year earlier.

*Al-Bayan* magazine's annual survey of the insurance sector in Lebanon ranked the Lebanese Credit Insurer in 35th place in 2011 in terms of non-life premiums. The firm's non-life premiums amounted to \$3.6m, constituting a 2.9% decrease from 2010. It had a 0.4% share of the local non-life insurance market. LCI was established in 2001 and is the first independent specialized credit insurance company in Lebanon.

### **Lebanon facilitates export of agricultural products through maritime routes**

Lebanon started facilitating the export of agricultural products through maritime routes earlier this month, with the first shipment containing 200 refrigerated containers of potatoes headed towards the economies of the Gulf Cooperation Council countries on August 7th. The move was announced after a meeting of a newly formed joint committee comprising officials from the ministries of Agriculture, Economy & Trade, Public Works & Transportation and representatives of shipping agencies. The committee identified the options available for the transfer of agricultural products via maritime routes through Mersin in Turkey, the port of Jeddah in Saudi Arabia and the port of Aqaba in Jordan, and confirmed that refrigerated containers are the most viable mode of transport. The shift towards maritime transportation is due to the increasing difficulties of transporting goods through Syria, Lebanon's only overland transit route, due to deteriorating security conditions. Also, shipping companies CMA-CGM and MAERSK announced their willingness to provide all possible facilities for the transport of Lebanese agricultural products by refrigerated containers.

### **Children's \$20m theme park to benefit from tax incentives**

The Investment Development Authority of Lebanon (IDAL) indicated that KidzMondo, a role playing theme park where children can experience real life jobs, will benefit from a 10 year tax-break and free land registration, among other incentives, under IDAL's Package Deal Contract. Located in the Beirut Waterfront area of the Beirut Central District, the \$20m park will include more than 80 categories of jobs for kids between two and 14 years old. The project, which is financed by two Lebanese investors, is forecasting revenues of \$13m per year based on sales of about 400,000 entrance tickets per year, with tickets prices fixed at \$25 for individuals and \$14 per person for groups or schools. Construction works are expected to be completed by the end of 2012. The investors aim to franchise the concept in several countries that include Abu Dhabi and Turkey.

## Ratio Highlights

(in % unless specified)	2009	2010	2011	Change*
Nominal GDP <sup>(1)</sup> (\$bn)	34.7	37.1	39.1	
External Debt / GDP	61.3	55.4	53.5	(190)
Local Debt / GDP	86.0	86.3	83.7	(260)
Total Debt / GDP	147.2	141.8	137.2	(460)
Total External Debt / GDP	176.1	167.0	163.2	(380)
Trade Balance / GDP	(36.8)	(36.9)	(40.7)	(380)
Exports / Imports	21.5	23.7	21.2	(250)
Budget Revenues / GDP	24.3	22.7	22.7	(5)
Budget Expenditures / GDP	32.8	30.6	27.2	(342)
Budget Balance / GDP	(8.5)	(7.9)	(6.0)	191
Primary Balance / GDP	3.1	3.2	4.3	105
BdL FX Reserves / M2	74.0	77.1	78.8	172
M3 / GDP	236.5	248.4	248.7	30
Bank Assets / GDP	332.1	347.5	359.5	1,200
Bank Deposits / GDP	276.0	289.0	296.0	695
Private Sector Loans / GDP	81.8	94.2	100.7	650
Dollarization of Deposits	64.5	63.2	65.9	270
Dollarization of Loans	84.0	80.3	78.4	(190)

\* Change in basis points 10/11

(1) Based on Ministry of Finance Estimations and the International Monetary Fund

Source: Association of Banks in Lebanon, Byblos Research Calculations

Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

## Risk Outlook

Lebanon	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



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