

LEBANON THIS WEEK

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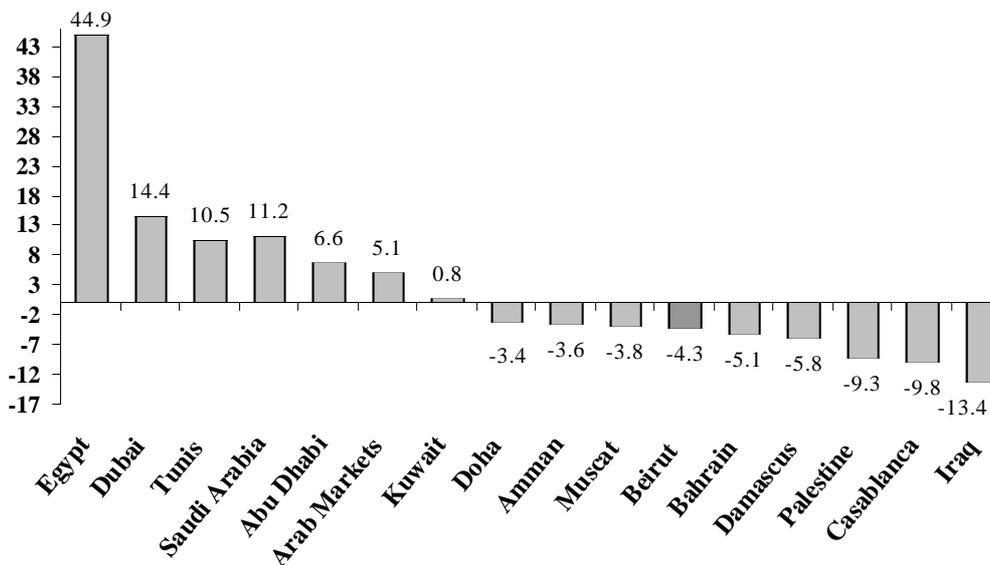
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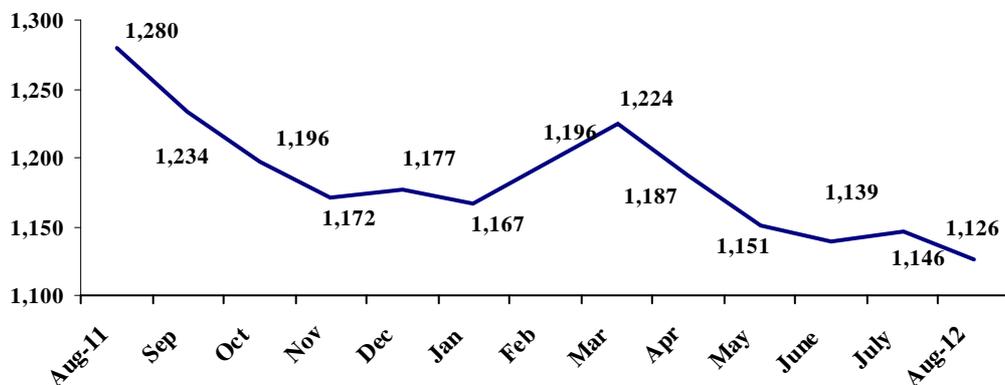
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Charts of the Week

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



Performance of the Beirut Stock Exchange



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

Quote to Note

"The near-term outlook will largely depend on domestic political stability."

J.P Morgan, on the the near-term prospects for economic activity in Lebanon in light of recent security breaches and ongoing political uncertainties

Number of the Week

\$29.3bn: The Central Bank's gross foreign currency reserves at the end of June 2012, according to the Association of Banks in Lebanon

Economic Indicators

\$m (unless otherwise mentioned)	2010	Jun 11	2011	Apr 12	May 12	Jun 12	% Change*
Exports	4,256	411	4,276	319	355	345	(16.06)
Imports	17,956	1,571	20,170	1,548	1,645	1,713	9.04
Trade Balance	(13,700)	(1,160)	(15,894)	(1,229)	(1,290)	(1,368)	17.93
Balance of Payments	3,326	564	(1,996)	(543)	(82)	(23)	(104.08)
Checks Cleared in LBP	13,519	1,156	14,251	1,154	1,196	1,283	10.99
Checks Cleared in FC	53,925	4,716	57,852	4,286	4,746	4,766	1.06
Total Checks Cleared	67,444	5,872	72,103	5,440	5,942	6,049	3.01
Budget Deficit/Surplus	(2,894)	350	(2,342)	(422)	(50)	8.1	(97.67)
Primary Balance	1,231	459	1,662	15	300	281	(38.75)
Airport Passengers	5,512,435	517,860	5,596,034	518,723	438,570	545,379	5.31

\$bn (unless otherwise mentioned)	Dec 2010	Jun 11	Mar 12	Apr 12	May 12	Jun 12	% Change*
BdL FX Reserves	28.60	28.33	30.99	31.76	29.57	29.26	3.28
<i>In months of Imports</i>	<i>19.46</i>	<i>18.03</i>	<i>17.99</i>	<i>20.52</i>	<i>17.98</i>	<i>17.08</i>	<i>(5.26)</i>
Public Debt	52.59	52.52	54.08	55.04	55.12	55.25	5.19
Net Public Debt	45.01	45.60	46.91	47.18	47.17	47.10	3.30
Bank Assets	128.93	135.43	144.73	144.71	144.86	145.90	7.73
Bank Deposits (Private Sector)	107.20	111.48	118.22	118.75	118.90	119.94	7.59
Bank Loans to Private Sector	34.93	37.26	41.00	41.67	41.89	41.70	11.93
Money Supply M2	39.40	36.61	40.04	40.46	41.74	41.00	11.99
Money Supply M3	92.15	94.23	98.94	99.77	99.96	100.36	6.51
LBP Lending Rate (%)	7.91	7.59	7.16	7.49	7.34	7.44	(15b.p.)
LBP Deposit Rate (%)	5.68	5.62	5.46	5.42	5.49	5.45	(17b.p.)
USD Lending Rate (%)	6.74	6.98	7.06	7.10	7.12	7.15	17b.p.
USD Deposit Rate (%)	2.80	2.81	2.83	2.84	2.83	2.78	(3b.p.)
%* Change in CPI**	6.19	6.16	4.40	6.03	6.36	4.72	(144b.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"	12.29	(4.51)	70,339	12.56%
Solidere "B"	12.66	(2.69)	21,571	8.15%
Byblos Common	1.52	0.66	63,767	5.41%
Byblos Pref. 08	101.30	0.00	0	2.01%
Byblos Pref. 09	102.00	0.00	0	2.02%
BLOM GDR	7.70	0.00	32,500	5.63%
BLOM Listed	7.40	0.00	40,000	15.75%
Audi GDR	6.00	1.18	3,000	6.03%
Audi Listed	5.49	4.77	12,700	19.00%
HOLCIM	16.72	7.59	1,217	3.23%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
June 2013	8.625	104.00	3.44
Apr. 2014	7.375	105.00	4.13
Jan. 2015	5.875	103.00	4.52
Apr. 2015	10.00	113.00	4.70
Jan. 2016	8.500	111.00	4.92
Mar. 2017	9.000	114.75	5.30
Nov. 2018	5.150	99.00	5.34
Apr. 2021	8.250	113.50	6.20
Nov. 2026	6.600	99.00	6.71

Source: Byblos Bank Capital Markets

	Aug 27-31	Aug 20-24	% Change	Aug 2012	Aug 2011	% Change
Total Shares Traded	301,094	241,310	24.77	2,022,602	4,130,285	(51.03)
Total Value Traded	\$3,233,8121	\$2,497,871	29.46	\$24,522,435	\$42,508,859	(42.31)
Market Capitalization	\$10.10bn	\$10.06bn	0.41	\$10.10bn	\$11.08bn	(8.86)

Source: Beirut Stock Exchange (BSE)



Jump in global food prices to raise Lebanon's import bill by 0.36% of GDP or 0.44% of foreign currency reserves

The World Bank indicated that the "price risk" of an increase in global food prices on Lebanon's import bill is small, as it would be cushioned through the use of foreign exchange reserves, but that the "quantity risk" of a rise in prices is very high. It said that countries in the MENA region with high cereal imports and wide fiscal deficits face "price risks" and "quantity risks", and considered them to be the most vulnerable at the macroeconomic level. It added that a country's fiscal position determines its ability to cushion the impact of the price shock on the economy as well as on households, while foreign exchange reserves increase the fiscal space and allow an economy to easily absorb the import cost associated with an unexpected price surge.

The World Bank estimated that a rise in the global prices of grains and sugar would increase Lebanon's food import bill by the equivalent of 0.36% of GDP or would use 0.44% of its foreign currency reserves. It said that an increase in the global prices of grains would cost Lebanon the equivalent of 0.32% of GDP or 0.4% of its foreign exchange reserves, while a rise in global prices of sugar would generate additional costs equivalent to 0.03% of GDP or 0.04% of foreign exchange reserves. Lebanon's increase of its food import bill as a share of its GDP would be the seventh lowest among 14 countries in the Middle East and North Africa region and the lowest among the region's oil importers. Also, Lebanon's additional cost would be below the MENA region's cost of 0.42% of GDP, that of oil importers of 1.01% of GDP and the cost to non-GCC oil exporters of 0.53% of GDP. But it would be above the additional cost for GCC economies that would reach 0.12% of their GDP. Also, Lebanon's additional cost in terms of foreign exchange reserves would be the fifth lowest among 13 countries in the MENA region and the lowest among the region's oil importers. Lebanon's additional cost in terms of its foreign exchange reserves would be below the MENA region's cost of 0.42% of its total foreign currency reserves, as well as lower than the cost for oil importers of 5.42% of their foreign reserves, and below that of non-GCC oil exporters of 1.76% of their reserves. However, it would be higher than the GCC economies' cost of 0.24% of their aggregate foreign exchange reserves.

In parallel, the World Bank said that the "quantity risk" of a rise in global food prices is very high for Lebanon, as the country has storage capacity of around three months of grain and sugar consumption, which is the lowest storage capacity in the MENA region. It noted that the quantity risk for Lebanon have increased because of the inflow of Syrian refugees into the country. In parallel, the World Bank indicated that domestic factors have contributed to more than 50% of the cumulative increase in Lebanon's domestic food prices since the end of 2006. As such, it considered that Lebanon could reduce vulnerabilities to increases in food price by addressing domestic issues.

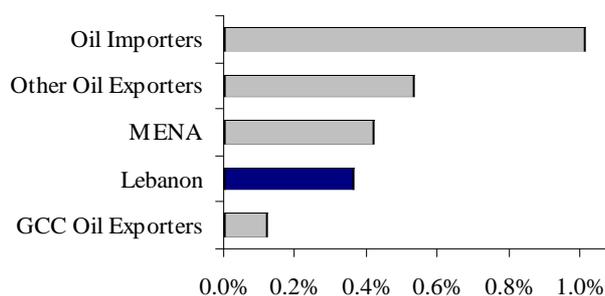
Economic activity continues to stagnate in June

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 261 points in June 2012 compared to 265.3 in May and 261.8 in June 2011. The Coincident Indicator, an average of 8 weighted economic indicators, decreased by 1.6% month-on-month and was unchanged year-on-year. The indicator averaged 258.8 in the 12-months ending June 2012 compared to 258.9 in the 12-months ending May 2012 and to 251.7 in the 12-months ending May 2011. As a result, the average coincident indicator was unchanged month-on-month and increased by 2.8% year-on-year, which reflects continued economic stagnation in real terms. The indicator posted its third decline in 2012 after it dropped by 5.9% in January and by 3.1% in May. 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 12 times and regressed eight times in the month of June since 1993. The indicator averaged 255.7 in 2011, 249.5 in 2010 and 225.9 in 2009.

Cleared checks up 2%, returned checks increase by 8% in first half of 2012

The value of cleared checks reached \$34.8bn in the first half of 2012, constituting an increase of 2% from the same period last year and a rise of 2.2% from the first six months of 2010. The value of cleared checks in Lebanese pounds rose by 1.2% annually to the equivalent of \$7.2bn in the first half of 2012, while the value of cleared checks in US dollars increased by 2.2% to \$27.6bn. The dollarization rate of cleared checks increased to 79.2% from 79.1% in the same period last year. Also, the value of returned checks in domestic and foreign currency amounted to \$766m in the first half of 2012, increasing by 8% from the same period of 2011 and up by 1.7% from the first half of 2010. In parallel, the number of cleared checks totaled 6.4 million checks in the first half of 2012, up 0.9% from the same period of 2011. Also, the number of returned checks totaled 139,000 checks and rose by 12.1% in the covered period.

Rise in Import Bill From Food Price Increase (% of GDP)



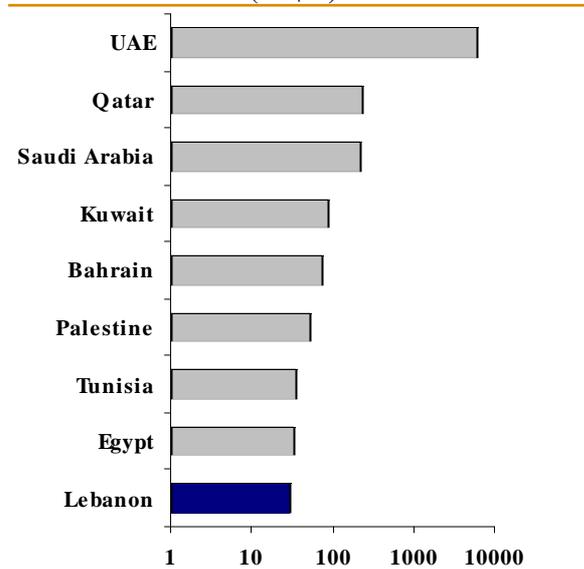
Source: World Bank, Byblos Research

Lebanon is 10th largest source of inter-Arab investments in 2011, Egypt is main destination

Figures released by the Arab Investment & Export Credit Guarantee Corporation (AIECGC) show that investments from Lebanon in Arab countries reached \$29m in 2011 compared to \$73m in 2010. The AIECGC said the figures may be underestimated as only five Arab countries submitted data about capital flows in 2011. Lebanon was the 10th largest source of inter-Arab investments in 2011, unchanged from 2010. Also, Lebanon accounted for 1.3% of aggregate inter-Arab investments in 2011, unchanged from the preceding year. Egypt was the largest destination of Lebanese direct investments, as it received \$18.4m last year, accounting for 63.4% of total Lebanese investments in the Arab world. It was followed by Jordan with \$10.4m, or 35.9% of the total and Tunisia with \$0.3m (1%). In comparison, Sudan was the largest destination of Lebanese direct investments in 2010, as it received \$55.3m and accounted for 75.8% of total Lebanese investments in the Arab world during the year.

In parallel, aggregate Arab investments in Lebanon totaled \$14.8bn during the 1995-2011 period, making Lebanon the fourth largest destination of inter-Arab investments during the covered period, after Saudi Arabia, Sudan and Egypt. As such, Lebanon accounted for 8.3% of inter-Arab investments during the 17 years. But the aggregate figure of \$14.8bn for Lebanon did not cover 2009, 2010 and 2011, as Lebanese authorities did not submit figures for the three years to the AIECGC.

Top 9 sources of Inter-Arab Investments in 2011 (US\$m)



Source: AIECGC, Byblos Research
Note: Chart re-scaled using Logarithmic scale

Tourism spending in Lebanon down 20% in second quarter of 2012

Figures issued by Global Blue, the VAT refund operator for international shoppers, show that total spending by tourists in Lebanon dropped by 20% during the second quarter of 2012 compared to the first quarter of the year, while it increased by 5% from the same quarter last year. Visitors from Saudi Arabia accounted for 17% of total tourist spending in the second quarter, followed by visitors from the UAE with 12%, Kuwait with 9%, Syria with 8% and Egypt with 7%. Beirut attracted 86% of total spending in the second quarter of 2012, followed by the Metn area with 11%, and the Keserwan region and Baabda with 1% each. Fashion & clothing accounted for 75% of total spending, followed by watches & Jewelry with 10%, home & garden products with 4%, department stores and souvenirs & gifts with 3% each, and consumer electronics & household appliances with 1%.

Spending by visitors from Syria rose by 24% quarter-to-quarter, followed by visitors from Jordan with a 9% rise; while spending by visitors from Nigeria fell by 40%, followed by visitors from Saudi Arabia (-38%), Qatar (-36%), the United States (-23%), the UAE (-22%), Egypt (-21%) and Kuwait (-17%). Spending by visitors from France remained unchanged from the preceding quarter. Also, the number of refund transactions by visitors from Syria rose by 51% year-on-year, followed by visitors from Jordan with a 17% increase; while refund transactions by visitors from Nigeria fell by 47%, followed by Saudi Arabia (-41%), Qatar (-33%), the UAE (-28%), Kuwait (-26%), the United States (-24%), Egypt (-10%) and France (-9%). Spending on watches & Jewelry fell by 31% from the same quarter last year, followed by consumer electronics & household appliances (-29%), souvenirs & gifts (-22%), fashion & clothing (-19%), home & garden (-10%) and department stores (-9%).

In parallel, spending by visitors from the United States rose by 39% from the same quarter last year, followed by visitors from Nigeria (+27%), the UAE (+17%), France (+13%) and Kuwait (+1%); while spending by visitors from Saudi Arabia contracted by 17%, followed by visitors from Jordan (-5%), and Syria and Qatar (-4%, each). Spending by visitors from Egypt remained unchanged from the same quarter last year. Also, the number of refund transactions by visitors from the United States increased by 11% year-on-year, followed by visitors from Nigeria (+9%), the UAE (+7%), Egypt (4%), Syria and Qatar (+4% each) and France (3%); while refund transactions by visitors from Saudi Arabia fell by 21%, followed by Jordan (-9%) and Kuwait with (-1%). Spending on watches & Jewelry and home & gardens increased by 14% each from the same quarter last year, followed by fashion & clothing with a 5% growth; while spending on department stores and souvenirs & gifts fell by 7% each, followed by consumer electronics & household appliances with a 6% decrease.

Anti-smoking law goes into effect

The Tobacco Control Law 174, which was ratified by the Lebanese Parliament in August 2011, comes into effect on September 3, 2012. The law, which aims to reduce smoking in Lebanon, prohibits smoking in indoor and outdoor public areas such as restaurants, pubs, cafés, offices, schools and hospitals; and bans all forms of tobacco advertisements such as TV, billboards and magazine advertisements; as well as tobacco firms' sponsorship of concerts and other events. It also requires larger graphic warnings on cigarette packs. Owners of tourist establishments, including restaurants, pubs and hotels had a period of one year to comply before enforcement begins. The ban already went into effect at indoor public areas like hospitals, schools, and public transportation. Lebanon is the third Arab country, along with the UAE and Syria, to ban smoking in public places. The law defined a public place as all indoor and outdoor public areas, as well as all areas of social use, including public transportation. The law also bans smoking in the workplace at both

public and private institutions, as well as at airports and places of worship. Also, the law stipulates that hotels are allowed to allocate 20% of their room capacity for smokers provided that they abide by health standards from the Health Ministry. Further, the law imposes penalties ranging between LBP1m and LBP3m on owners and managers of public establishments if their clients are caught smoking inside, and a fine of LBP100,000 on individuals caught smoking in public spaces. The police and inspectors from the Ministry of Health and the Directorate of Consumer Protection will be responsible for monitoring the execution of the law.

A study issued by the AUB Tobacco Control Research Group last year estimated that Lebanese aged 18 years and above smoke 2,979 cigarettes per year on a per capita basis, as males consume 4,228 cigarettes per year and females consume 1,807 cigarettes annually on average. As a result, Lebanon has one of the highest adult cigarette consumption rates in the world at 12.4 packs per person per month, compared to 3.7 packs per month in France, 3.5 packs in Jordan and 1.7 packs in Singapore. The study conservatively estimated the direct and indirect cost of smoking on the Lebanese economy at \$326.7m, excluding the impact of second hand smoke on non-smokers. It calculated the direct cost of smoking at \$262.1m, which includes the cost of smoking-related diseases at \$146.7m, productivity-related costs at \$102.2m, and environmental degradation costs at \$13.6m. Further, it estimated the indirect costs of smoking due to tobacco-related deaths at \$64.6m. As a result, it estimated the net losses of smoking to the Lebanese economy at \$55.4m, equivalent to about 1.1% of GDP in 2008 and compared to 1.5% of GDP in Denmark, 0.8% of GDP in Egypt and 0.3% of GDP in Singapore.

Revenues through the Port of Beirut up 8% to \$1.4bn in first half of 2012

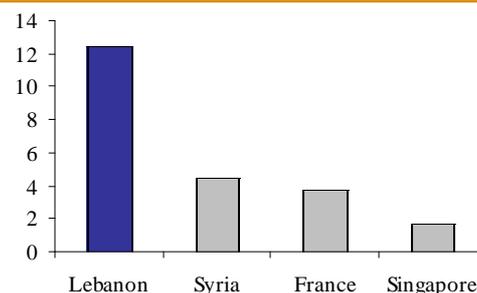
Figures released by the Port of Beirut show that overall receipts generated through the port reached \$1.4bn in the first half of 2012, constituting a rise of 7.8% from \$1.3bn in the same period last year. Customs receipts through the port totaled \$665m in the first half of the year, up 4% from \$639.3m in the same period of 2011; while receipts from the value-added tax grew by 12.5% to \$598m. Also, the port's overall revenues grew by 7.4% year-on-year to \$87.8m in the first half of 2012. Further, the Port of Beirut handled an aggregate weight of 3.5 million tons of freight in the first half of 2012, up by 7.4% from 3.2 million tons in the same period last year. Import freight accounted for 88.3% of the weight, while the remaining 11.7% was export cargo. A total of 1,012 ships docked the port in the first half of 2012, constituting a decrease of 6.9% from 1,078 ships in the same period last year.

In parallel, overall revenues generated through the Port of Tripoli reached \$60.6m in the first half of 2012, constituting a drop of 22.8% from \$78.5m in the same period last year. Customs receipts through the port reached \$16.4m in the covered period, down 31.1% from \$23.75m in the same period last year; while receipts from the value-added tax reached \$38.6m and dropped by 21.6% from \$49.3m in the first half of 2011. The port's revenues rose 2.3% to \$5.6m in the first half of 2012 from \$5.5m in the same period of 2011. Further, the Port of Tripoli handled an aggregate weight of 596,429 tons of freight in the first half of 2012, down by 19.9% from 744,280 tons in the same period last year. Import cargo represented 81.3% of the weight handled, while the remaining 18.7% was export cargo. A total of 200 ships docked the port in the first half of 2012, constituting a decrease of 20% from 250 ships in the same period last year.

Construction permits down 14% in first half of 2012

Figures released by the Association of Engineers of Beirut & Tripoli show that construction permits issued in the first half of 2012 reached 7.5 million square meters, constituting a decrease of 14.3% from 8.8 million square meters in the same period last year. Construction permits totaled 1.4 million square meters in June 2012, down 23.3% year-on-year from 1.8 million square meters in June 2011. In parallel, cement deliveries reached 2.6 million tons in the first half of 2012, down 2.9% from the same period last year. Cement deliveries reached 512,000 tons in June 2012, down 12.5% from 585,000 tons in June 2011.

Consumption of Cigarette Packs*



* Per person, per month

Source: AUB Tobacco Control Research Group

Lebanon's gross external financing needs in 2011-14 are third highest in MENA region, net external debt position is fourth best

Standard & Poor's expected Lebanon's gross external financing needs to average 98.9% of current account receipts (CARs) and usable reserves during the 2011-14 period, constituting the third highest external funding requirements in the Middle East and North Africa region. It defined external financing needs as current account payments plus short-term external debt at the end of the prior year, plus non-resident deposits at the end of the prior year, plus long-term external debt maturing within the year. Lebanon's external funding requirements would be lower than those of Bahrain with 527.7% of CARs and useable reserves during the covered period and Tunisia (107.9%); and would be higher than those of Egypt (94.9%), Qatar (88.8%), Jordan (86.5%), Morocco (84.5%), Israel (83.3%), Oman (82.7%), Saudi Arabia (69.3%) and Kuwait (53.2%).

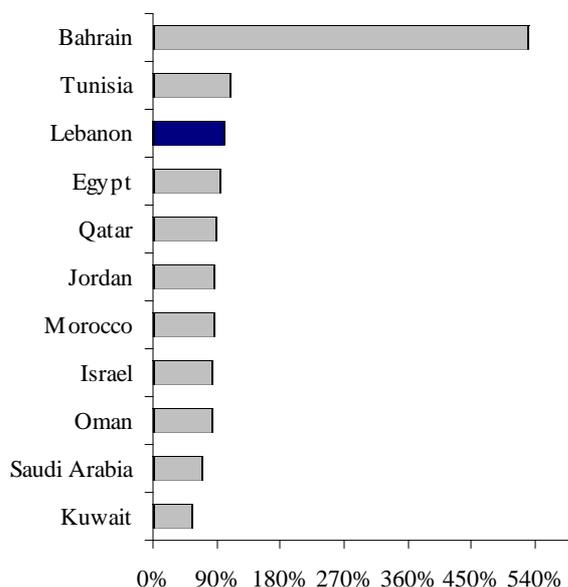
In parallel, S&P forecast Lebanon's net external debt to average -87.8% of CARs during the 2011-14 period, constituting the fourth strongest position in the MENA region. It measured a country's narrow net external debt as the gross external debt minus the liquid external assets of its public and financial sectors, as a percent of current account receipts. Lebanon's narrow net external asset position is lower than that of Kuwait with -291.2% of CARs, Saudi Arabia with -172.6% of CARs and Qatar with -151.9% of CARs; but is better than that of Oman with -75% of CARs, Bahrain with -68.7% of CARs, Jordan with -21% of CARs, Egypt -17.5% of CARs and Israel with -5.5% of CARs. The agency noted that Morocco and Tunisia would be the region's only narrow net external borrowers with 15.9% of CARs and 56.5% of CARs, respectively, during the covered period. only narrow net external borrowers with 15.9% of CARs and 56.5% of CARs, respectively, during the covered period.

S&P projected Lebanon's narrow net external debt at -90% of CARs in 2012. It attributed Lebanon's position mainly to the accumulation of foreign currency reserves as a result of historically strong non-debt-creating inflows, including foreign direct investment and net equity inflows. Lebanon's narrow net external asset position this year would be stronger than that of Jordan with -21% of CARs and Israel with -7.5% of CARs; and would be weaker than that of Kuwait with -282% of CARs, Saudi Arabia with -172% of CARs and Qatar with -140% of CARs.

Public-sector salaries and benefits up 2% in first four months of 2012

Figures issued by the Ministry of Finance show that salaries, wages and related benefits paid to public-sector employees totaled \$897.5m in the first four months of 2012, constituting an increase of 1.8% from the same period last year. They represented the largest component of total primary spending and accounted for 30% of such expenditures in the first four months of 2012. The figures include basic salaries, indemnities, allowances, contributions to the civil servants cooperatives, as well as contributions to other mutual funds providing health insurance for specific categories of civil servants, mainly judges, religious judges, and Parliament employees. The payments exclude retirement and end-of-service indemnities as well as salaries, wages and benefits of employees at public institutions. Salaries and benefits of military personnel totaled \$544.6m and accounted for 60.7% of the total, followed by salaries of civil staff with \$169.8m (18.9%), educational personnel with \$169.2m or 18.8% of the total, and customs employees with \$14.6m (1.6%). Also, the Lebanese Army's salaries totaled \$344.9m in the first four months of 2012 and represented 63.3% of military personnel salaries and benefits. It was followed by salaries of the Internal Security Forces with \$141.3m (25.9%), State Security Forces with \$31.8m (5.8%), and General Security Forces with \$26.5m (4.9%). The ministry attributed the rise to a 5% increase in allowances and a 6.1% drop in basic salaries, while indemnities remained unchanged. It said basic salaries decreased by \$39.1m to \$606.3m due to a drop of \$80.9m in payments to military personnel, which was partly offset by an increase of \$27.9m in payments to civilian personnel and a \$13.9m rise in payments to educational personnel. It added that allowances increased by \$8.6m due to higher payments to the Army, while the Internal Security Forces and the General Security Forces payments off set each other. Salaries, wages and related benefits paid to public sector employees represent the largest component of primary spending and accounted for 33% of such expenditures last year.

Gross External Financing Needs in 2011-14 (% of CAR)



Source: Standard & Poor's

Assets of Syrian affiliates of Lebanese banks and deposits increase by 3% each in the first half of 2012

Financial results issued by the affiliates of seven Lebanese banks operating in Syria show that their aggregate assets reached SYP333.5bn, or \$5.2bn, at the end of June 2012, constituting an increase of 2.8% from end-2011. The growth was mainly due to an increase of 46.5% in assets of Syria Gulf Bank, the affiliate of First National Bank (+SYP10.4bn), followed by a rise of 10.3% in those of Banque BEMO Saudi Fransi (+SYP7.8bn), of 7.6% in those Byblos Bank Syria (+SYP3.5bn) and of 8.2% in those of Fransabank Syria (+SYP2.6bn). In parallel, the assets of Bank Audi Syria contracted by 10.4% (-SYP6.6bn), those of Bank of Syria & Overseas dropped by 9.2% (-SYP6.4bn) and those of Bank Al-Sharq, the affiliate of Banque Libano-Française declined by 13% (-SYP2.1bn). Also, the banks' loans totaled SYP119.1bn, or \$1.9bn at end-June 2012, reflecting a drop of 13.4% from the end of 2011. The loans' decline was mainly caused by a contraction of 19.4% in the lending of Bank Audi Syria (-SYP5.7bn), followed by a decline of 19.2% in the lending of Byblos Bank Syria (-SYP4.6bn), a contraction of 13.3% in the lending of Banque BEMO Saudi Fransi (-SYP4.4bn), a drop of 18.8% in the loans of Bank of Syria & Overseas (-SYP4bn), and a decline of 12.9% in the lending of Bank Al-Sharq (-SYP0.8bn). In parallel, the loan book of Syria Gulf Bank increased by 5.2% (+SYP0.7bn) and that of Fransabank Syria rose by 2.7% (+SYP0.3bn). Also, the banks' total customer deposits reached SYP249.4bn, or \$3.9bn at the end of June 2012, increasing by 2.8% from the end of 2011. The increase was mainly prompted by a 14.1% growth in deposits of Banque BEMO Saudi Fransi (+SYP8.7bn), a 15.1% increase in those of Byblos Bank Syria (+SYP5.4bn), a 24.6% rise in those of Fransabank Syria (+SYP3.2bn), a 2.3% expansion in those of Syria Gulf Bank (+SYP0.3bn), and 0.5% increase in those of Bank Al-Sharq (+SYP0.05bn). In parallel, Bank Audi Syria and Bank of Syria & Overseas saw deposit drops of 12.2% (+SYP6.1bn) and 8.2% (+SYP4.8n), respectively. The ratio of the banks' loans-to-customer deposits stood at 47.8% at end June 2012 compared to 56.7% at the end of 2011. Also, the aggregate shareholders' equity of the banks reached SYP37.2bn, or \$582.5m, at the end of June 2012, constituting an increase of 5.7% from end 2011.

In parallel, the aggregate net profits of the seven banks reached SYP1.9bn, or \$29.7m in the first half of 2012, constituting an increase of 55.1% from SYP1.2bn in the same period last year. The increase in net income is mainly attributed to a significant increase in the unrealized net foreign exchange gains on structural positions from SYP120.4m in the first half of 2011 to SYP3.7bn in the first half of 2012. When these foreign exchange gains on structural positions are excluded, the aggregate net profits of the seven banks shift into a loss of SYP1.8bn, or \$28.2m in the first half of 2012. The profits of Bank Audi Syria rose by 99.3% from the same period last year, in addition to the shift from a loss to a profit for Bank Al-Sharq as well as to a rise from a low base in the profits of Fransabank Syria's and Syria Gulf Bank. In parallel, the profits of Bank of Syria & Overseas contracted by around 67.7% from the same period last year, those of Byblos Bank Syria dropped by 58.8% and those of Banque BEMO Saudi Fransi fell by 42.7%. The aggregate net interest income of the banks reached SYP3.3bn, or \$51.9m, in the first half of 2012, down 11.7% from the same period last year; while their total net fees & commission income fell by 3.5% to SYP1bn, or \$15.5m. The banks' total operating income reached SYP8.6bn, or \$134.1m in the first half of 2012, up 58.4% year-on-year; while total operating expenses reached SYP6.6bn, or \$103.7m in the first half of the year, up 71.6% from the same period last year.

Results of Affiliates of Lebanese Banks in Syria for First Half of 2012

	Banque BEMO Saudi Fransi	Bank of Syria & Overseas	Bank Audi Syria	Byblos Bank Syria	Syria Gulf Bank	Fransabank Syria	Bank Al-Sharq
Net Profits	\$3.9m	\$1.7m	\$10.8m	\$0.7m	\$2.1m	\$6.4m	\$4.1m
% Change*	-42.7%	-67.7%	99.3%	-58.8%	162.5%	1950.9%	-
Total Assets	\$1,305m	\$987m	\$889m	\$782m	\$512m	\$527m	\$215m
% Change**	10.3%	-9.2%	-10.4%	7.6%	46.5%	8.2%	-13.0%
Loans	\$446m	\$270m	\$367m	\$301m	\$209m	\$185m	\$84m
% Change**	-13.3%	-18.8%	-19.4%	-19.2%	5.2%	2.7%	-12.9%
Customer Deposits	\$1,102m	\$842m	\$686m	\$642m	\$222m	\$256m	\$156m
% Change**	14.1%	-8.2%	-12.2%	15.1%	2.3%	24.6%	0.5%

*Year-on-year

**Change from end-2011

Source: Banks' financial statements

Private equity fund invests in oil servicing firm

The Beirut-based EuroMena II private equity fund announced that it has invested \$20m through a capital increase in Egypt-based oil and gas drilling service provider Sakson Petroleum Services. The capital injection will help the firm access new markets, including Libya and Gulf Cooperation Council countries. Sakson Petroleum Services has several onshore drilling projects in Tanzania, Kenya, Somalia, Algeria and Iraq, among others. It has a secured project pipeline of around \$100m for the next two years. Capital Trust Group, which manages the Beirut-based EuroMena II fund, noted that this investment constitutes the fourth deal executed by the private equity fund, with one to two future investments remaining in order for the \$100m fund to be fully invested.



Corporate Highlights

Stock market activity down 23% to \$322m in first eight months of 2012

Figures released by the Beirut Stock Exchange indicate that total trading volume reached 42.2 million shares in the first eight months of 2012, constituting a decrease of 30.2% from the same period last year, while aggregate turnover amounted to \$321.9m, down 22.8% from a turnover of \$416.9m in the first eight months of 2011. Market capitalization decreased by 8.9% from end-August 2011 to \$10.1bn, of which 75.2% was in banking stocks, 20.7% in real estate stocks, 3.5% in industrial stocks, 0.3% in fund stocks, and 0.2% in trading stocks. The market liquidity ratio was 3.2%, down from 3.8% in the same period last year. Bank stocks accounted for 76.8% of aggregate trading volume in the first eight months of the year, followed by real estate stocks with 17.6%, trading stocks with 5.4%, and industrial stocks with 0.2%. In terms of value of shares traded, banking stocks accounted for 66.9% of aggregate value, followed by real estate stocks with 31%, trading stocks with 1.6% and industrial stocks with 0.3%. The average daily traded volume for the period was 254,677 shares for an average daily value of \$1.9m. The figures reflect decreases of 32.3% in volume and 25.1% in value year-on-year.

BankMed's profits rise 8% to \$64m in first half of 2012

BankMed sal, one of Lebanon's top 10 banks, announced unaudited consolidated net profits of \$64.2m in the first half of 2012, constituting an increase of 8.1% from \$59.6m in the same period last year. Net operating income increased by 17.1% year-on-year to \$204.3m, with net interest income increasing by 15% to \$116.7m, while net fees & commission income declined by 5.7% annually to \$24.3m in the first half of 2012. Also, operating expenditures increased by 22.9% to \$126.2m, with staff expenses rising by 43% to \$68.9m. The cost-to-income ratio decreased to 50.1% in the first half of 2012 from 50.6% in the same period last year. Also, the loans-to-deposits ratio stood at 43.5% at end-June 2012 relative to 43.9% a year earlier. Total assets reached \$13.2bn at end-June 2012, constituting a 11.8% rise from end-2011, while loans & advances to customers increased by 9.7% from end-2011 to \$3.8bn. Customer deposits totaled \$9.3bn at end-June, up 16.3% from end-2011. The bank's total shareholders' equity totaled \$999.1m at end-June 2012, constituting a 1.1% rise from end-2011.

Housing Bank's net profits up 37% to \$14m in 2011

The Housing Bank sal posted audited net profits of \$14.3m in 2011, constituting an increase of 36.6% from \$10.5m in 2010. Net operating income grew by 24.9% year-on-year to \$22.2m, with net interest income rising by 16.6% to \$22.2m and net fees & commission income increasing by 16.2% to \$0.7m year-on-year. Operating expenditures rose by 0.3% to \$5.6m, with staff expenses increasing by 10.3% to \$4m. Further, provisions for risks and charges reached \$2.8m and rose by 5.5% from a year earlier. The bank's cost-to-income ratio decreased to 24.5% in 2011 from 28.4% in the previous year. In parallel, total assets reached \$650.8m at end-2011, constituting a 6.8% rise from \$609.7m at end-2010, as loans & advances to customers increased by 16.6% year-on-year to \$452.4m. Also, customer deposits totaled \$125.9m at end-2011, up 15.4% from a year earlier. The bank's total shareholders' equity rose by 8.8% year-on-year to \$136.9m at end-2011. The Housing Bank, whose capital is \$33.2m, is owned by commercial banks, local insurance companies and the government, with the latter holding 20% of the bank's capital. It extends long-term loans to build new residences or to buy exiting units as well as loans for housing repairs.

Fencia Bank's net profits down 8% to \$15m in 2011

Fencia Bank sal posted audited consolidated net profits of \$14.7m in 2011, constituting a decrease of 8% from \$15.9m in 2010. Net interest income grew by 3.6% year-on-year to \$22.7m, while net interest income after loan impairment releases dropped by 3.8% to \$21.9m relative to \$22.8m posted in 2010. Net fees & commission income reached \$6.5m, up by 5.9% from \$6.1m registered in 2010. Operating expenditures increased by 20.1% to \$12.5m, with staff expenses growing by 6.8% to \$7.4m. The cost-to-income ratio increased to 80.2% in 2011 from 77.5% in the previous year. Loan provisions accounted for 65.5% of non-performing loans at end-2011, compared to 83.4% of NPLs at end-2010. Further, the bank's return on average assets reached 1.2% at end-2011 on an annualized basis, down from 1.5% in 2010; while its return on average equity reached 15.9% at end-2011, relative to 22.5% in 2010. Earnings per share dropped by 47.8% to LBP22 (\$0.01) in 2011 from LBP46 (\$0.03) a year earlier. In parallel, total assets reached \$1.3bn at end-2011, constituting a 7.7% rise from \$1.2bn at end-2010, while loans & advances to customers increased by 8.1% year-on-year to \$310.2m. Also, customer deposits totaled \$1.1bn at end-2011, up 7.2% from end-2010. The bank's capital adequacy ratio stood at 12.4% at end-2011 according to Basel II criteria. Non-performing loans accounted for 5.51% of total loans at end-2011, relative to 5.46% in 2010. The bank's total shareholders' equity grew by 12.8% year-on-year to \$105.7m at end-2011. Fencia Bank's main shareholder is the Achour Group which holds a 74% stake in the bank.

Bank of Syria & Lebanon's net profits up 13% to \$5m in 2011

Bank of Syria & Lebanon sal (BSL) posted audited net profits of \$5.1m in 2011, constituting an increase of 12.7% from \$4.5m in 2010. Net operating income grew by 11% year-on-year to \$20.2m, with net interest income rising by 18.1% to \$13.9m and net fees & commission income increasing by 6.7% to \$2.4m year-on-year. The bank's operating expenditures rose by 11.2% to \$13.8m, with staff expenses increasing by 11.1% to \$6.8m. Also, the cost-to-income ratio decreased to 72.7% in 2011 from 73.8% in the previous year. In parallel, total assets reached \$838.4m at end-2011, constituting a 3.7% rise from \$808.7m at end-2010, with loans & advances to customers increasing by 17% year-on-year to \$101.4m. Customer deposits totaled \$718.5m at end-2011, up 5.4% from end-2010. The bank's total shareholders' equity dropped by 3.1% year-on-year to \$78.4m at end-2011.



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



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