



# LEBANON THIS WEEK

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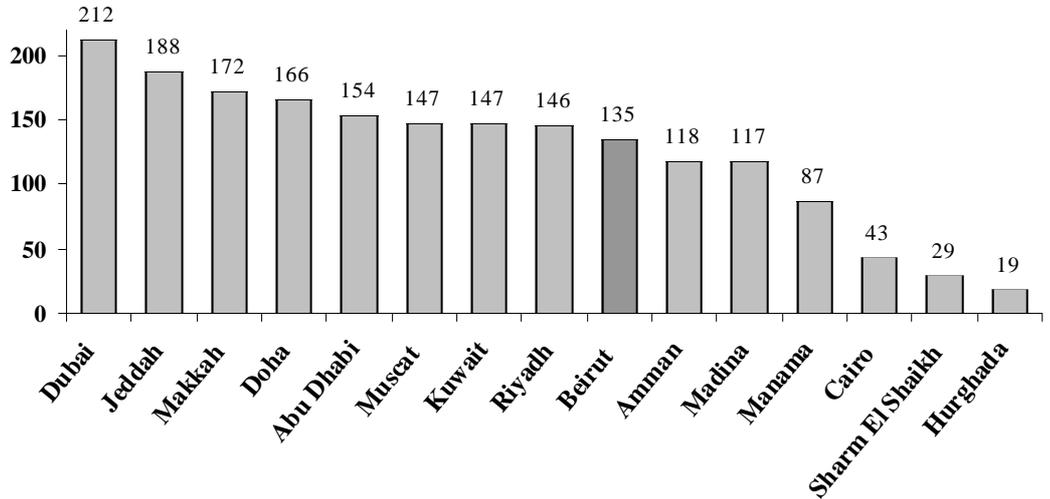
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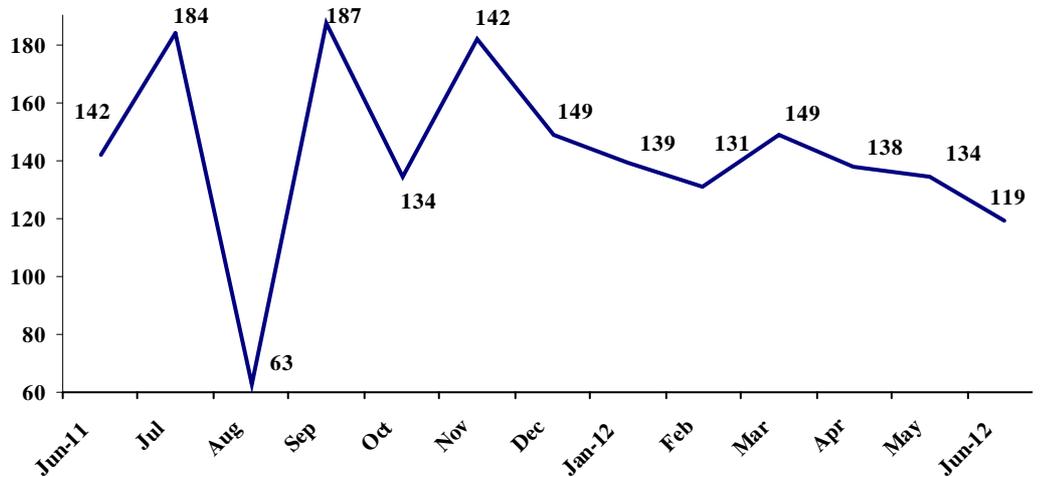
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## Charts of the Week

Revenue Per Available Room at Hotels in Arab Cities in the First Half of 2012 (US\$)



Revenue Per Available Room at Hotels in Beirut (US\$)



Source: Ernst & Young, Byblos Bank

## Quote to Note

"Slower growth without fiscal reforms will slow the debt-to-GDP reduction."

*Standard & Poor's, on the increasing risks of the government's inaction on public finance reforms*

## Number of the Week

**144:** Lebanon's rank out of 144 countries on the quality of electricity supply, according to the World Economic Forum's Global Competitiveness Index for 2012-13

## Economic Indicators

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

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

<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"	12.84	0.00	87,074	12.76%
Solidere "B"	12.84	2.64	51,025	8.29%
Byblos Common	1.50	0.00	103,274	5.36%
Byblos Pref. 08	101.80	0.00	0	2.02%
Byblos Pref. 09	102.80	0.00	0	2.04%
BLOM GDR	7.65	0.53	1,460	5.62%
BLOM Listed	7.40	0.00	0	15.81%
Audi GDR	5.71	(0.70)	11,200	5.76%
Audi Listed	5.50	0.00	1,300	19.10%
HOLCIM	15.31	(0.33)	83	2.97%

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

<b>Sovereign Eurobonds</b>	<b>Coupon %</b>	<b>Mid Price \$</b>	<b>Mid Yield %</b>
June 2013	8.625	104.25	2.87
Apr. 2014	7.375	105.30	3.86
Jan. 2015	5.875	105.75	3.29
Apr. 2015	10.00	114.25	4.16
Jan. 2016	8.500	112.13	4.54
Mar. 2017	9.000	116.00	4.99
Nov. 2018	5.150	99.50	5.25
Apr. 2021	8.250	115.00	5.99
Nov. 2026	6.600	102.25	6.36

Source: Byblos Bank Capital Markets

	<b>Sep 10 - 14</b>	<b>Sep 3 - 7</b>	<b>% Change</b>	<b>Aug 2012</b>	<b>Aug 2011</b>	<b>% Change</b>
<b>Total Shares Traded</b>	64,814	388,302	(83.31)	2,124,597	4,130,284	(48.56)
<b>Total Value Traded</b>	\$682,388	\$4,422,107	(84.57)	\$25,488,402	\$42,508,856	(40.04)
<b>Market Capitalization</b>	\$10.06bn	\$10.04bn	0.22	\$10.10bn	\$11.08bn	(8.86)

Source: Beirut Stock Exchange (BSE)



### Real GDP to slow down to 1.2% in 2012 on domestic political divisions, deteriorating security conditions and spillovers from Syria

The Institute of International Finance projected Lebanon's real GDP growth rate at 1.2% in 2012 relative to growth of 1.8% in 2011, and noted that repeated deterioration in security conditions and spillovers from the Syrian crisis have dragged down economic activity from a growth rate of 7% in 2010. Last March, the IIF expected economic growth in Lebanon to range between 2.1% and 3% in 2012. It attributed its updated forecast to the continuing adverse effects of the Syrian conflict on economic activity mainly through lower transit trade, the ongoing decline in tourist arrivals, and weak investment. It said that the escalation of fighting in Syria and the subsequent political tensions in Lebanon limited the possibility of a modest economic recovery this year. It estimated that Lebanon's real GDP grew by 2.5% annually in the first quarter of 2012, but contracted by 0.3% in the second quarter of the year. It noted that most proxy indicators of economic activity

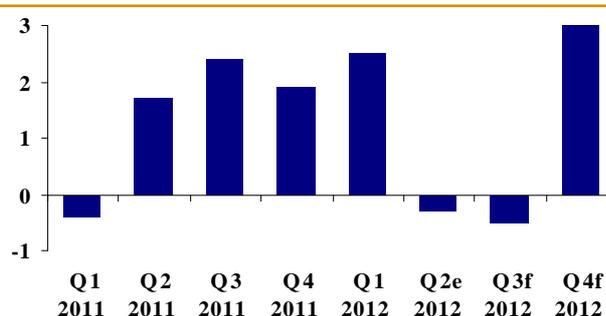
have declined in the second quarter of this year compared to the same period last year. It added that the surge in the volume of imports is largely due to the sharp jump in the import of petroleum products in the first quarter of the year due to the rising energy needs for electricity production and the smuggling of fuel oil to Syria. It added that the increase in VAT receipts largely reflects the surge in the import of petroleum derivatives, which led to higher VAT collection at customs.

Further, it expected that the prevailing tense security and political conditions in the country to lead to a 0.5% contraction in output in the third quarter of the year, which would result in a recession in 2012, given that an economic recession is defined as two consecutive quarterly contractions in real GDP. But the IIF forecast real GDP growth to rebound to 3% in the fourth quarter of the year in case of an improvement in the domestic security situation and the reestablishment of the rule of law in the country.

In parallel, the IIF pointed out that, beyond 2012, a substantial improvement in domestic security conditions, along with the implementation of structural reforms, would move the economy to a sustainable and higher growth rate and would help reduce the public debt level. It noted that Lebanon's infrastructure is in poor condition, mainly due to inadequate public investment given the lack of an approved budget since 2005. It called on authorities to involve the private sector in the design, implementation and evaluation of productive investment, which would facilitate a consensus for reforms and reinforce their credibility and effectiveness. As such, it projected Lebanon's real GDP growth at 3.7% in 2013 and 4.5% in 2014, assuming an improvement in the security situation and the restoration of political stability. It noted that, in this case, the recovery would be driven by a gradual rebound in tourism and private investment.

However, the IFF indicated that Lebanon continues to face serious and chronic vulnerabilities. It considered that the main risk to economic growth is the deep divisions within Lebanon's political class, which has paralyzed government decision-making and delayed the implementation of much-needed structural reforms. It pointed out that Lebanon is significantly exposed to market conditions given its large financing requirements resulting from the widening current account and fiscal deficits. It warned that failure to implement near- and medium-term fiscal consolidation would exacerbate existing debt sustainability concerns. It noted that the materialization of these risks would lead to further contraction in Lebanon's real GDP in the fourth quarter of the year and into 2013, and would increase the sovereign risk premium. It forecast the fiscal deficit to widen to 9% of GDP in 2012 from 6% of GDP in 2011 and for the public debt level to increase to 138.6% of GDP at the end 2012 from 137% of GDP at end-2011. But it added that the Lebanese economy has proved to be relatively resilient to shocks, partly due to a solid banking system supported by high deposits and stable remittances from the Lebanese Diaspora. It warned, however, that continuous sufficient inflows of foreign capital would require improvement in the political environment and domestic security conditions.

Real GDP Growth Rates (%)



Source: Institute of International Finance

Real GDP by Expenditure Components

	2009	2010	2011e	2012f	2013f
Real GDP, % change	9.0	7.0	1.8	1.2	3.7
Private Consumption	8.7	5.3	3.4	3.2	3.6
Public consumption	8.6	6.4	3.4	4.2	4.7
Private investment	23.9	5.8	(4.1)	(2.0)	1.8
Public investment	8.9	23.5	(9.5)	6.2	10.1
Exports of GNFS	1.7	11.7	(8.1)	(2.5)	5.2
Imports of GNFS	13.0	3.1	(4.1)	2.1	3.8

Source: Institute of International Finance, September 2012



### Lebanon ranks 42nd globally, 15th in developing countries in terms of outstanding external debt

Figures released by the Bank for International Settlements (BIS) show that Lebanon's external debt totaled \$28.7bn at the end of March 2012, ranking it in 42nd place globally and in 15th place among developing countries. Lebanon also ranked in seventh place among 15 offshore centers and third among 23 countries in the Middle East & Africa region. The figure represents the outstanding amount of international debt securities issued by both public and private institutions residing in the country. Lebanon accounted for 0.1% of the world's and for 2.1% of developing countries' outstanding external debt. Globally, Lebanon came ahead of China, Qatar and Colombia and behind Malaysia, Indonesia and South Africa.

Lebanon's outstanding external debt increased by 7.2% annually in the first quarter of 2012 compared to an increase of 10.4% in developing countries and a 6.5% rise in offshore centers. Lebanon's stock of external debt at end-March 2012 was above the average of \$20.1bn per country for developing countries.

Lebanon accounted for 1.7% of offshore centers' total external debt, ranking ahead of Bahamas and behind the West Indies. Further, Lebanon accounted for 13.4% of international debt securities in the Middle East & Africa region, ahead of Qatar with \$28.3bn and behind South Africa with \$34.8bn. The outstanding amount of international debt securities in all offshore centers totaled \$1,664.9bn, while that of developing countries reached \$1,343.4bn as at end-March 2012. The UAE had the highest outstanding external debt in the Middle East & Africa region with \$62bn as at end-March 2012.

In parallel, Lebanon's net debt issuance totaled - \$0.6bn in the first quarter of 2012, ranking it in 69th place globally and in 43rd place among developing countries. Globally, it came ahead of Russia, Malta and Qatar and behind Ukraine, Bahrain and Hungary. Lebanon's net debt issuance in the first quarter of 2012 was lower than the global average net issuance of \$6.7bn, the average net issuance in developing countries of \$1bn and the Middle East & Africa's net average issuance of \$0.42bn. Israel was the highest net issuer in the Middle East & Africa region in the covered quarter with \$2.5bn.

International Debt Securities as at March 2012		
Offshore centers	Outstanding Amount (\$bn)	Rank
Cayman Islands	1,163.3	1
Hong Kong SAR	134.1	2
Bermuda	87.1	3
Netherlands Antilles	80.4	4
Singapore	80.0	5
West Indies UK	40.2	6
<b>Lebanon</b>	<b>28.7</b>	<b>7</b>
Bahamas	12.8	8
Panama	12.0	9
Bahrain	6.9	10

Source: Bank for International Settlements, Byblos Research

International Debt Securities (\$bn)			
Top 10 ME&A	Outstanding Amount End-March 2012	Net Issuance First quarter of 2012	Net Issuance First quarter of 2011
United Arab Emirates	61.99	1.33	0.14
South Africa	34.81	2.41	5.96
<b>Lebanon</b>	<b>28.71</b>	<b>(0.60)</b>	<b>0.53</b>
Qatar	28.29	(1.08)	(0.08)
Israel	23.70	2.46	(0.02)
Saudi Arabia	7.35	-	0.15
Bahrain	6.91	(0.42)	(0.70)
Egypt	4.11	-	-
Iraq	2.66	-	-
Tunisia	2.63	-	-

Source: Bank for International Settlements, Byblos Research

### Number of tourists down 12% in first eight months of 2012

The number of incoming tourists to Lebanon totaled 986,649 in the first eight months of 2012, constituting a decrease of 12.4% from 1,126,755 tourists during the same period last year and a decline of 33.9% from 1,492,133 tourists during the first eight months of 2010. Arab tourists accounted for 34% of total visitors in the first eight months of the year, and were followed by visitors from Europe with 32.3%, the Americas with 16.5%, Asia with 9.2%, Africa with 4.2%, and Oceania with 3.7%. The number of African tourists increased by 7.7% year-on-year in the first eight months of 2012, followed by tourists from America with a 2.8% increase. In parallel, the number of tourists from Asia declined by 51.1% annually, Arab tourists decreased by 9.4%, those from Europe dropped by 5%, and tourists from Oceania decreased by 0.9%. Also, tourists from France accounted for 12.6% of total visitors in August 2012, followed by the United States with 9.6%, Iraq with 10.4%, Canada with 6.9% and Germany with 6%. Incoming tourists totaled 1.66 million in 2011, down 23.7% year-on-year.

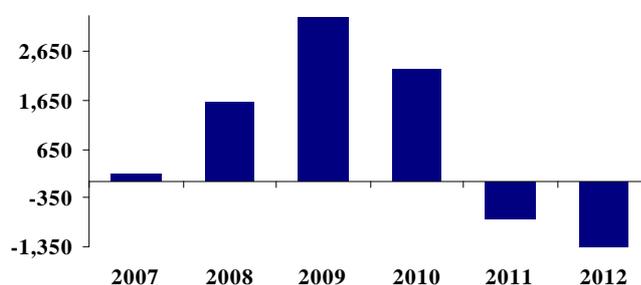
### Launch of New Entrants to Work program

The government launched a program to improve the employment prospects of first-time job seekers in the country. The \$2.2m New Entrants to Work (NEW) program will be managed by the National Employment Office under the supervision of the Ministry of Labor, with technical and financial assistance from the World Bank. The NEW program offers first-time job seekers a 12-month on-the-job training in a private firm, along with life skills training, counseling and placement services. Also, employers who hire first time job seekers will be fully reimbursed for the 12 months of social security contributions that they would have paid to the National Social Security Fund. The program aims to promote public-private partnerships in addressing Lebanon's youth employment issues. The program's objective is to have a positive impact on the employment prospects of first-time job seekers through the combination of financial incentives for employers, targeted training for workers, and job placement. The specific outcomes of the NEW program include breaking initial barriers in the transition from school to work, improving the skills of 1,600 first time job seekers in a 75-hour comprehensive training program geared to develop job searching and soft skills, and linking the training content with the requirements of the private sector. The NEW program has clear eligibility and selection criteria for both participants and employers.

### Balance of payments posts deficit of \$1.3bn in first seven months of 2012

Central Bank figures show that Lebanon's balance of payments posted a deficit of \$1.34bn in the first seven months of 2012 compared to a deficit of \$786.5m in the same period last year. The balance of payments posted a deficit of \$321.7m in July compared to a deficit of \$23.4m in June 2012 and a deficit of \$307.3m in July 2011. The July 2012 deficit was caused by a deficit of \$84m in the net foreign assets of banks and financial institutions and a deficit of \$237.8m in those of the Central Bank. The cumulative deficit over the first seven months of 2012 was caused by a surplus of \$910.4m in the Central Bank's net foreign assets and a deficit of \$2.25bn 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.

Balance of Payments\* (US\$m)



\* in the first seven months of each year

Source: Central Bank of Lebanon

### Amendments to investment law target specific sectors

A ministerial committee submitted to the Cabinet a set of amendments to the 10-year old Investment Law No. 360 with the aim to meet the current needs of the Lebanese economy and increase FDI in the country. The amendments stipulate a set of criteria that projects must meet in order to benefit from investment incentives and exemptions provided by the Investment Development Authority of Lebanon. The criteria include the size of the investment, the sector and sub-sector of the project, the project's location, the impact of the project on the environment and on natural resources, and the project's economic and social impact in terms of number of jobs created. The targeted sectors include agriculture, agro-industry, tourism, manufacturing, general technology, information technology, telecommunications, and the media. It noted that projects that intend to benefit from the incentives and exemptions must have a minimum investment size that depends on the location. For instance, the minimum size of the investment in plant and animal farms ranges between \$0.3m and \$0.8m; that for packaging centers and cold storage projects at \$0.8m to \$1.5m; agro-industrial projects at \$1m to \$2m; telecom-related projects at between \$0.2m and \$0.3m; and a minimum of \$0.2m for investments in general technology. In addition, the amendments aim to develop the agricultural and agro-industrial sectors and their exports, support rural development, support three-, four- and five-star hotels across the country, develop sectors that can provide value-added, improve the business environment through upgrading the telecom infrastructure, support software development firms, transform Lebanon into a regional media center, transform Lebanon into a regional provider of quality health care, and support export-oriented sectors.

### Lebanon in full compliance with international sanctions

Central Bank Governor Riad Salamé indicated that Lebanon is taking the appropriate measures to comply with the U.S., European and Arab sanctions; while at the same time preserving its independence regarding transactions in Lebanese pounds. He pointed out that the Central Bank issued circulars earlier this year asking Lebanese banks to avoid dealing with institutions and individuals under sanctions, and to be vigilant when dealing with cross-border money transfers through banks in sanctioned countries. Further, he pointed out that Lebanese banks have complied with the circulars and have taken precautionary measures to prevent using the banking sector to transfer illicit funds. He added that the Central Bank took several measures to protect the Lebanese banking system and to regulate money dealers in order to avoid any operation that does not identify the source of funds. He added that the Bank followed the same approach to other financial institutions and financial intermediaries, which has made the transfer of illicit funds through the Lebanese financial system extremely difficult. Also, he noted that the staff of institutions across the financial system are increasingly aware of the need to be vigilant and to detect suspicious transactions. It noted that several banks have established internal compliance units that are taken initiatives to protect the institution. Also, Governor Salamé indicated that he submitted to the Cabinet new amendments to the existing anti-money laundering law as well new draft laws to combat the financing of terrorism and to further regulate the cross-border transfer of funds. He revealed that the Cabinet has approved the draft laws and sent them to Parliament for ratification.



### Lebanese businesses have tentative recruitment plans, banking sector attracts top talent

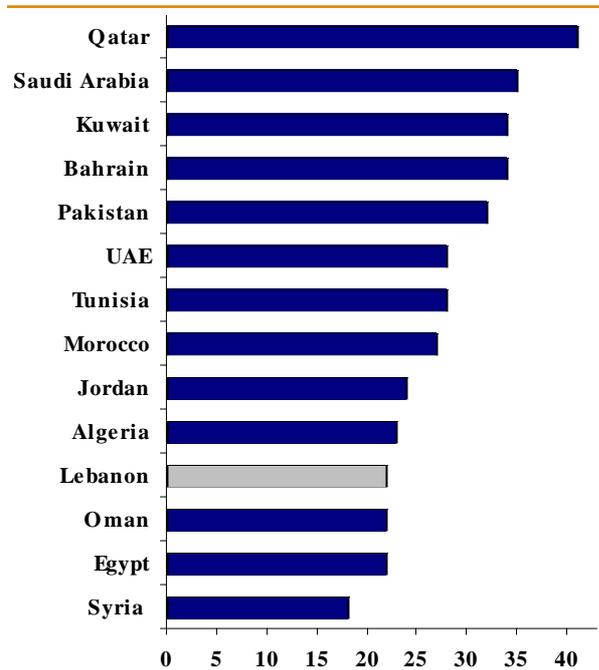
A survey conducted by regional job portal Bayt.com indicates that employers in Lebanon are likely to recruit staff in the coming three months as well as in the coming 12 months. The survey was conducted in July and August and interviewed about 5,999 persons residing in the MENA region and in Pakistan, with a sample size of 131 persons in Lebanon.

Results of the survey show that 22% of respondents in Lebanon plan to "definitely hire" in the next three months compared to 28% of respondents in the entire region who plan to do the same. Hiring expectations of firms in Lebanon were the second lowest among 14 economies covered, tying with Oman and Egypt, with Syrian firms having the lowest hiring expectations in the region at 18%. Further, 32% of respondents in Lebanon said they are "likely to recruit" in the next three months compared to 25% of responding firms across the region that have the same opinion. Lebanon had the highest percentage in the region in this category, followed by Jordan where 29% of respondents plan to recruit over the covered period. However, 24% of responding firms in Lebanon do not plan to recruit new employees in the coming three months, compared to only 15% for the region. Lebanon had the second-highest percentage in this category among economies covered by the survey, with only Syria having a worse share of respondents who do not plan to recruit at 36%.

In parallel, 36% of respondents in Lebanon plan to "definitely hire" in the next 12 months compared to 30% of responding firms in the region that plan to do so. Lebanon ranked in third place among the 14 economies covered, coming after Qatar and Kuwait. Further, 37% of respondents in Lebanon said they are likely to recruit in the next 12 months compared to 36% of respondents in the region. Lebanon ranked fifth in the region in this category, tying with Tunisia and the UAE and came behind Bahrain, Jordan, Algeria and Egypt. However, 12% of respondents in Lebanon do not plan to recruit new employees in the coming 12 months, compared to 10% for the region. Lebanon tied with Tunisia in fifth place in this category, with only Morocco, Oman, Jordan and Syria having a higher share of respondents who do not plan to recruit.

In parallel, results of the survey show that employers in Lebanon look mostly for candidates with mid-level experience of 3 to 7 years, followed by the ability to manage a team, sales and marketing experience, and computer skills and administrative experience. In comparison, employers in the region look mostly for candidates with the ability to manage a team, followed by people with computer expertise, mid-level experience of 3 to 7 years, sales and marketing experience and engineering experience. Further, employers in Lebanon considered that the most important requirement for a job candidate is being a team player, followed by having good communication skills in English and Arabic, being efficient and productive, having good leadership skills and being honest and trustworthy. In comparison, employers in the region view team play and flexibility and good communication in English and Arabic as the most important skills for a job candidate, followed by good leadership skills, honesty and trustworthiness and the candidate's ability to work under pressure. The survey shows that respondents in Lebanon think that the banking and finance sector is attracting the top talent in the country, followed by advertising, construction, tourism & hospitality, and telecommunications.

**% of respondents who plan to definitely recruit in the next three months**



Source: Bayt.com, Byblos Research

### **Banque Bemo's ratings downgraded on exposure to Syria and pressure on profits**

Moody's Investors Service downgraded Banque Bemo's long and short-term national-scale ratings to 'Baa1.lb/LB-2' from 'Aa3.lb/LB-1' and maintained a 'negative' outlook on the long-term ratings. It attributed the downgrade to the bank's significant exposure to the increasingly stressed Syrian operating environment, to pressures on profitability from rising provisioning charges, and to thin capitalization buffers that offer limited protection against rising asset-quality pressure. It added that Bemo's direct lending to Syrian-based borrowers accounted for 7.7% of the bank's total loan book at end-2011, adding that the bank maintains a 22% stake in Bank Bemo Saudi Fransi (BBSF), Syria's largest private bank. It expected BBSF's financial performance to remain impaired due to the severe deterioration of operating conditions in Syria, which will significantly weaken Bemo's profitability. It noted that BBSF accounted for an estimated 34% of Bemo's 2011 pre-tax profits.

Further, the agency anticipated that Bemo's capacity to generate earnings will be constrained by Lebanon's economic slowdown and fragile political environment. It considered that the slowdown would lead to an increase in loan-loss provisioning requirements and reduced business opportunities in Lebanon. In parallel, Moody's pointed out that Bemo's weak capitalization metrics leave the bank vulnerable to increasing pressures arising from the deterioration of its asset quality and losses from its Syrian operations. It added that the bank's capitalization buffers can withstand very limited pressure related to asset quality, given that its regulatory capital adequacy ratio was 9.8% at end-2011, below the 10% regulatory minimum requirements that will be introduced at end-2012.

### **Kafalat loan guarantees down 11% to \$95m in first eight 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 \$95m in the first eight months of 2012, down 11% from \$106.8m in the same period last year. The number of loan guarantees totaled 692 in the first eight months of 2012 compared to 828 in the same period last year. The average loan size reached \$137,356 compared to \$128,952 in the first eight months of 2011. Mount Lebanon accounted for 41.6% of guarantees, followed by the South & Nabatieh with 22.3%, the Bekaa with 15.3%, the North with 14.2%, and Beirut with 6.7%. The industrial sector accounted for 37.9% of total guarantees, followed by agriculture with 37.6%, tourism with 19.7%, handicraft with 3.8%, and specialized technologies with 1.3%. 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.

### **BLC Bank's net profits down 36% to \$24m in first half of 2012**

BLC Bank sal, one of Lebanon's listed banks, announced unaudited net profits of \$15.5m in the first half of 2012, down 35.9% from \$24.2m in the same period last year. Net interest income rose by 43.5% to \$46.6m, while net fees & commission income increased by 15.9% to \$9.3m and net interest gains on trading portfolio reached \$2.9m in the first half of 2012 compared to \$13.6m in the same period last year. Administrative expenses increased by 18.4% to \$12.2m and staff costs rose by 10.4% to \$24.1m year-on-year. Total assets reached \$4.7bn at end-June 2012, up 5.4% from end-2011; while loans & advances to customers increased by 8.9% to \$1.7bn at end-June 2012. The bank held \$58m in assets acquired in satisfaction of loans at end-June 2012, down from \$60.1m at end-2011. Also, customer deposits totaled \$3.9bn constituting an increase of 8.6% from end-2011. The bank's return on average assets decreased to 0.8% as at end-June 2012 compared to 1.31% as at end-December 2011; while its return on average equity reached 10.13% as at end-June 2012 compared to 15.83% as of end-2011. BLC Bank is part of the Fransabank Group.

### **Qatari investment bank raises stake in Al Rifai to 35%**

Qatar First Investment Bank (QFIB), a Doha-based Islamic financial institution, announced that it has increased its equity stake in Al Rifai International Holding to 35% from 15% previously. Al Rifai is a Lebanese manufacturer of nuts, kernels, light snacks and delicacies. QFIB said the firm's wholesale sales grew by 63.2% year-on-year during the first half of 2012, while the company's exports increased by 66% in the covered period. QFIB noted that Al Rifai is well-positioned to take advantage of the rapidly growing global savory snack market due to its diversified products and presence in European and regional markets. Al Rifai International Holding products are branded under the name of Al Rifai and Nutisal. The holding owns 100% of the Nutisal and Rifai business worldwide, with the exception of the GCC and North Africa market where the business is operated through a joint venture with the Kuwaiti Homaizi Group. It has also a direct presence in Europe through a manufacturing facility in Sweden. Al Rifai's presence in European markets gave QFIB an opportunity to enter new geographical regions. Euromonitor International expected the retail sales volume of sweet and savory snacks in the Middle East to grow by 21% during the 2010-14 period. Al Rifai is currently seeking to increase its production capacity in Lebanon to reach 10,000 tons in order to meet the increase in domestic and foreign demand.

### Procter & Gamble to close Beirut office

Procter & Gamble Co. (P&G), a multinational household products company, plans to close its Beirut office by the end of September 2012. It said that P&G will offer its Beirut-based employees a relocation package to redeploy to other regional hubs. It added that it will offer an end-of-service package, which would be in line with the Lebanese labor law, to its employees who are unable to relocate to another country. P&G pointed out that the closure of its Beirut office is part of a global restructuring plan aimed at improving business productivity. The company aims to centralize its Near East operations into one regional hub based in Cairo by consolidating the operations of the Beirut and Cairo offices. It indicated that this centralization will enable it to increase its pace and efficiency. P&G opened its Procter & Gamble Levant office in Beirut 2001, with the aim to serve Lebanon, Syria, Jordan and Iraq. It selected Beirut as the home of its Levant office, mainly due to the sophistication of Lebanese market and the availability of human capital. P&G has about 100 employees in Beirut.

### CMA CGM's net profits down 25% to \$178m in first half of 2012

The Lebanese-owned and France-based container shipping group CMA CGM declared net profit of \$178m in the first half of 2012, constituting a decline of 24.9% from \$237m in the same period last year. CMA CGM posted net profits of around \$426m in the second quarter and net losses of \$248m in the first quarter of the year. Earnings before interest, taxes, depreciation and amortization (EBITDA) totaled \$460m in the second quarter of 2012 compared to a negative EBITDA of \$31m in the first quarter. The firm generated revenues of \$4.1bn in the second quarter of 2012, up 12% from \$3.7bn in the same quarter last year, and compared to revenues of \$3.6bn in the first quarter of the year. It said that volumes carried increased by 8% annually to 2.7 million twenty-foot equivalent unit (TEU) in the second quarter of the year, while they were 2.6 million TEU in the first quarter of the year. CMA CGM expected its operating and financial performance to improve in the third quarter of 2012, which would lead to net profits for overall 2012. It noted that the Group continued to implement its financial restructuring plan, which has delivered \$294m of cost cutting as part of a \$400m cost savings target for 2012. Rating agencies have indicated that the company has been facing financial difficulties due to the global economic slowdown and the firm has negotiated with banks to refinance its loans. Last June, Standard & Poor's downgraded the long-term corporate credit rating of the CMA CGM to 'CCC+' from 'B-'. It also lowered to 'CCC-' from 'CCC' the company's €325m and \$475m worth of senior unsecured notes that mature in 2019 and 2017, respectively. It kept the company's ratings on CreditWatch with negative implications. It attributed the downgrades to the company's deteriorating liquidity position due to negative operating cash flow in the first quarter of 2012 and continued depletion of available cash. S&P expected CMA CGM's liquidity position to remain under strain over the near term due to delays in corrective actions. CMA CGM group is the third largest container shipping company in the world with a turnover of €15bn in 2011. It operates a fleet of 394 vessels and serves more than 400 ports around the world.

### Jammal Trust Bank's net profits up 150% to \$5m in 2011

Jammal Trust Bank sal posted audited net profits of \$5.2m in 2011, constituting an increase of 149.5% from \$2.1m in 2010. Net operating income grew by 38% year-on-year to \$27.3m, with net interest income rising by 9.9% to \$17.1m and net fees & commission income increasing by 12.3% to \$3.8m year-on-year. Operating expenditures rose by 21.1% to \$20.2m, with staff expenses increasing by 29.4% to \$7.1m. The bank's cost-to-income ratio decreased to 74% in 2011 from 84.4% in the previous year. Further, the bank's return on average assets reached 0.9% in 2011, up from 0.4% in 2010; while its return on average equity reached 9.3% last year relative to 3.7% in 2010. In parallel, total assets reached \$592.5m at end-2011, constituting a 6.9% rise from \$554.4m at end-2010, as loans & advances to customers increased by 25.1% year-on-year to \$186.9m. Also, customer deposits totaled \$517m at end-2011, up 5.9% from a year earlier. The bank's total shareholders' equity rose by 5% year-on-year to \$57.5m at end-2011.

### Shareholders' equity of Trust insurance firms decline in 2011

The audited balance sheets Trust Life Insurance Company sal shows that the firm's total assets reached \$2.7m at end-2011, down 21.4% from \$3.4m a year earlier; with general company investments dropping by 25.9% year-on-year to \$2.1m. The reinsurance share in technical reserves for the life category reached \$0.4m at end-2011 and declined by 6.6% annually. On the liabilities side, shareholders' equity totaled \$1.5m at end-2011, constituting a decline of 42.2% from \$2.6m a year earlier. Also, technical reserves for the life segment rose by 25.5% year-on-year to \$0.6m, while liabilities due to insurance companies rose by 186.8% year-on-year to \$0.2m. In parallel, figures released by Trust Insurance Company sal indicate that total assets reached \$3.1m at end-2011, down 8.5% from \$3.4m at end-2010; with general company investments declining by 8.8% year-on-year to \$2.8m. Reinsurance share in technical reserves for the non-life category amounted to \$0.1m, constituting a decrease of 45.4% from \$0.2m a year earlier. On the liabilities side, shareholders' equity totaled \$2.3m at end-2011, constituting a decline of 15.8% from \$2.8m at end-2010. Technical reserves for the non-life category reached \$0.6m at end-2011, down by 1.4% from a year earlier.

*Al-Bayan* magazine's annual survey of the insurance sector in Lebanon ranked Trust Insurance Co. in 44th place in 2011 in terms of non-life premiums. The firm's non-life premiums reached \$495,000, constituting an increase of 55.6% from 2010 and accounting for a 0.1% share of the local non-life market. Also, Trust Life was ranked in 26th place in 2011 in terms of life premiums, with life premiums of \$490,000, constituting an increase of 15.3% from 2010 and accounting for a 0.13% share of the local life market.

## 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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