



LEBANON THIS WEEK

In This Issue

Economic Indicators.....1
Capital Markets.....1

Lebanon in the News.....2

Lebanon is most exposed among Syria's neighbors from ongoing conflict

Lebanon has 19th highest loan penetration rate in the world, 27th highest deposit penetration rate in 2011

Association of Banks maintains reference rate on US dollar and amends rate on Lebanese pound lending

Lebanon ranks 110th globally, 13th in Arab region in credit ratings

Issuance of first 10-year Treasury bond

Airport passengers up 9% in first seven months of 2012

Government imposes wide-scale tax and fee increases to finance rise in public expenditures

Consumer Price Index up 9% annually in August 2012

Industrial exports down 9.5% to \$1.7bn in first seven months of 2012

Orange Card yields \$2.4m in premiums and \$0.6m in commissions for 2011

AUB and USJ among top 15 Arab universities

Value of cleared checks stagnates, returned checks up by 8% in first seven months of 2012

Corporate Highlights6

Car sales up 8% in first eight months of 2012

Profits of top 12 banks up 8% to \$837m in first half of 2012

Allianz SNA's fixed income investment up 18% to \$185m in 2011

Fransabank's profits down 18% to \$66m in first half of 2012

SGBL's net profits up 17% to \$58m in first half of 2012

Arabia's shareholder equity at \$124m at end-2011

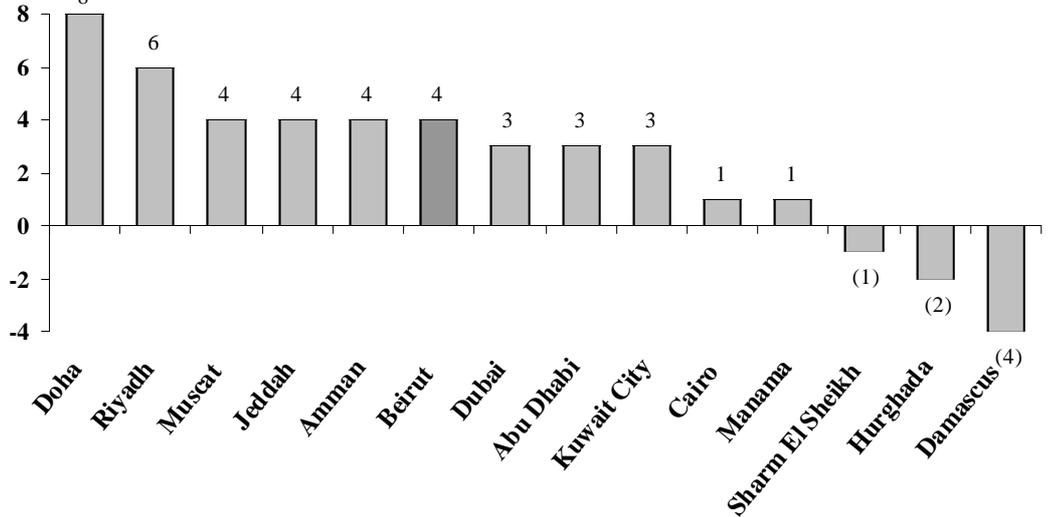
Ratio Highlights.....9

Risk Outlook.....9

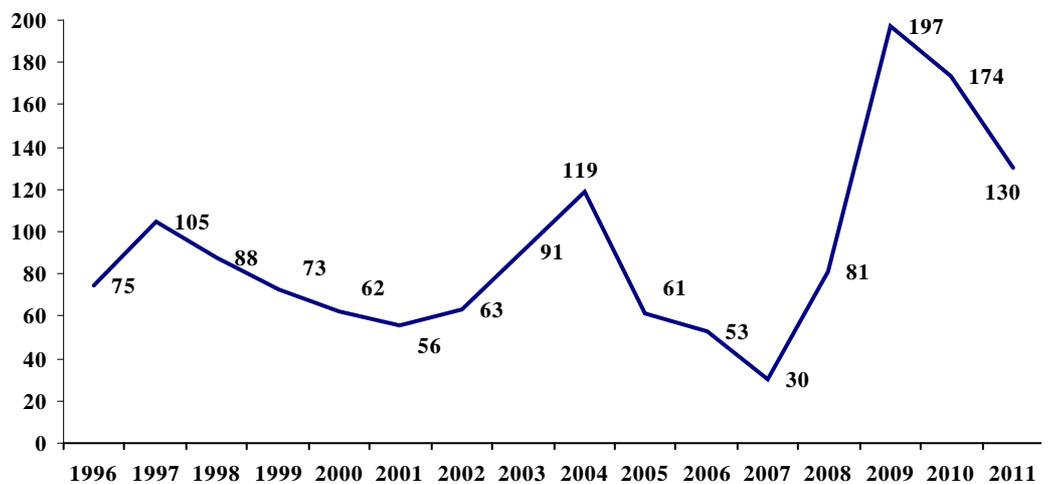
Ratings & Outlook.....9

Charts of the Week

Compound Annual Growth Rate of Revenue Per Available Room in Arab Cities (1994-2011 period in %)



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



Source: HVS Research, Byblos Bank

Quote to Note

"Lebanon is more affected by the slowdown in investment due to policy paralysis, and less so from the direct effect from Syria."

The International Monetary Fund, on the impact of the lack of reforms and political infighting on the Lebanese economy's outlook

Number of the Week

142: Lebanon's rank out of 144 countries in terms of the public's trust in politicians, according to the World Economic Forum's Global Competitiveness Index

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"	12.82	(0.16)	69,742	12.73%
Solidere "B"	12.67	(1.32)	10,706	8.18%
Byblos Common	1.49	(0.67)	4,834	5.32%
Byblos Pref. 08	102.30	0.49	58	2.03%
Byblos Pref. 09	103.10	0.29	42	2.05%
BLOM GDR	7.70	0.65	4,385	5.65%
BLOM Listed	7.40	0.00	0	15.80%
Audi GDR	5.73	0.35	128,310	5.78%
Audi Listed	5.55	0.91	130,105	19.26%
HOLCIM	15.36	0.33	166	2.98%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
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

	Sep 17 - 21	Sep 10 - 14	% Change	Aug 2012	Aug 2011	% Change
Total Shares Traded	410,511	64,814	533.37	2,124,597	4,130,284	(48.56)
Total Value Traded	\$2,659,662	\$682,388	289.76	\$25,488,402	\$42,508,856	(40.04)
Market Capitalization	\$10.07bn	\$10.06bn	0.06	\$10.10bn	\$11.08bn	(8.86)

Source: Beirut Stock Exchange (BSE)



Lebanon is most exposed among Syria's neighbors from ongoing conflict

Standard & Poor's indicated that Lebanon is the most exposed sovereign among Syria's five neighbors to external, fiscal and political risks stemming from the Syrian conflict. It noted that the Syrian war would negatively affect the Lebanese economy and its sovereign ratings through three channels. The first channel consists of a disruption in cross-border trade and a reduction in external financial flows that could amplify external vulnerabilities; the second way would be damages to the fiscal balance that include reduced tax revenues and the escalating costs of hosting refugees; and the third channel is a rise in security and political risks that would affect the domestic policy environment. It pointed out that Lebanon is more exposed to these risks than Jordan, Iraq, Turkey and Israel due to its close political and economic links with Syria.

In terms of external risks, S&P said the Syrian conflict would affect Lebanon's external position and the sustainability of this position directly through trade linkages and, indirectly, by affecting its external financing. It added that Syria is among the top six export destinations for Lebanon and Jordan, but it noted that the Syrian market is a more important destination for Lebanese exports than it is for Jordan, while trade with Syria is no longer significant for Turkey. It said that Lebanon's current account receipts would decrease, given its export trade and transit links with Syria. Further, the agency considered that Lebanon's external financing needs would be affected if the turmoil in Syria significantly impacts risk perceptions of investors toward Lebanon. It added that this could lead to a sudden reduction, stoppage or reversal in capital inflows in the form of bank deposits, portfolio flows, foreign direct investment, or tourism receipts. In comparison, it noted that Jordan's largest source of external financing is through official channels in the form of bilateral grants and concessional loans that are more reliant on international political support; while foreign investor confidence in Turkey and Israel is unlikely to be affected unless there is a much more serious spillover of violence.

In terms of fiscal risks, S&P said that the Syrian conflict is directly and indirectly weighing on the Lebanese economy, therefore depressing tax revenues and putting strain on public finances. Further, it considered that the scale of the violence would make the stay for some of the refugees in Lebanon, as well as in Jordan and Turkey, permanent. It added that this would represent a potential financial, political, and security liability for host countries. But it noted that the fiscal impact would be proportionate to the sovereign's size and fiscal resources, leading to a higher impact on Lebanon and Jordan. It noted that the cost of providing for the inflow of Syrian refugees would lead to additional government spending by the host country, which would affect its fiscal risks.

In terms of political risks, S&P said that the Syrian conflict is reducing the effectiveness, stability, and predictability of policy-making and political institutions in Lebanon, with such risks being lower in Jordan and Turkey. Last May, Standard & Poor's revised the outlook on Lebanon's long-term sovereign credit ratings to 'negative' from 'stable' on concerns that increased tensions from the ongoing turmoil in Syria have raised domestic and geopolitical risks. It said by depressing its transit trade, tourism revenues, and foreign inflows. It noted that the possibility of the Syrian conflict destabilizing Lebanese society and politics increased, despite the government's efforts to avoid getting drawn into neighboring conflicts.

Likelihood of Risk Events Stemming from Syria and Potential Impact on Sovereign Ratings

	Lebanon		Jordan		Israel		Turkey	
	L*	I**	L	I	L	I	L	I
External Risks								
Trade and transit links	High	Medium	High	Medium	Minimal	Minimal	High	Medium
Sudden stop of financial flows	Medium	High	Low	High	Low	Low	Low	High
Fiscal Risks								
Cost of refugee absorption	Medium	High	High	High	Minimal	Minimal	High	Minimal
Political Risks								
Destabilization of domestic politics	Medium	High	Low	Low	Low	Low	Low	Low
Security risks	Medium	High	Low	Medium	Low	High	Medium	Low

* Likelihood

** Impact

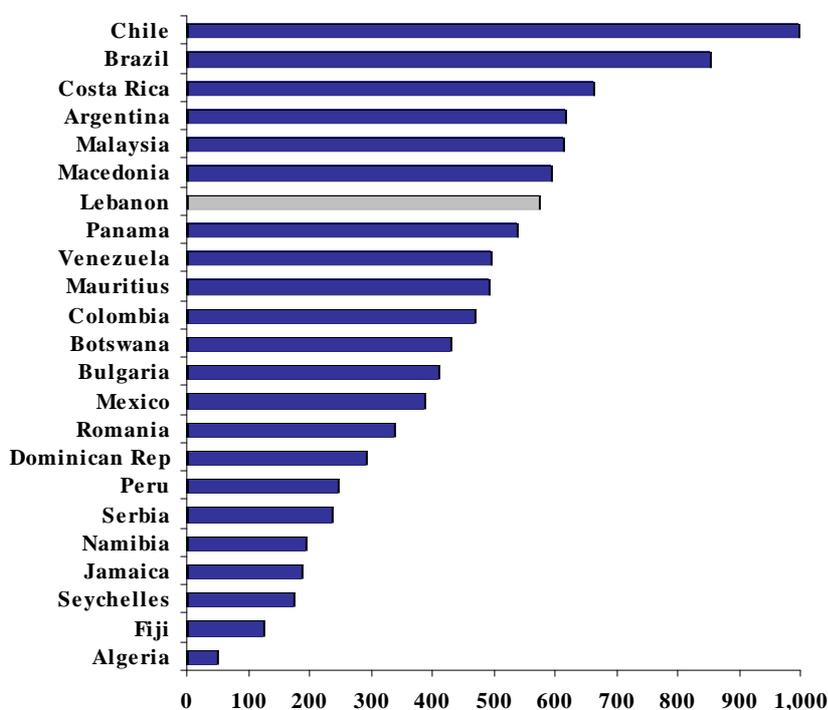
Source: Standard & Poor's, September 2012



Lebanon has 19th highest loan penetration rate in the world, 27th highest deposit penetration rate in 2011

Figures issued by the International Monetary Fund show that there were 335.2 borrowers per 1,000 adults at commercial banks in Lebanon in 2011, constituting an increase of 90.2% from 176.2 borrowers per 1,000 adults in 2005. The borrowers' penetration rate ranks Lebanon in 13th place among 79 countries with available figures for 2011, in fourth place among 22 upper-middle income countries (UMICs) and in second place among 15 Arab countries. Globally, Lebanon ranked ahead of Latvia and Argentina, and came behind Chile and Portugal. It also ranked ahead of Argentina, and came behind Chile among UMICs; while it came second to Oman in the region. Lebanon's borrowers' penetration rate was higher than the global average penetration rate of 197.2 and the UMIC's rate of 243.8, and was more than twice the Arab region's rate of 128.1 in 2011. Further, there were 573.5 loans per 1,000 adults at Lebanese commercial banks in 2011, up 114.3% from 267.6 loan accounts per 1,000 adults in 2005. The loan penetration rate ranks Lebanon in 19th place among 73 countries globally, in seventh place among 24 UMICs and in first place among Arab countries. Lebanon has a higher penetration rate in this category than the global rate of 371.7 loan accounts per 1,000 adults, the UMICs' average rate of 437.1, and the Arab average penetration rate of 523.8.

**Loans Penetration in Upper Middle Income Countries
(Number of loans per 1,000 adults)**



Source: International Monetary Fund, Byblos Research

In parallel, there were 949 depositors per 1,000 adults at Lebanese commercial banks in 2011, constituting a rise of 26.9% from 747.7 depositors per 1,000 adults in 2005. As a result, Lebanon has the 20th highest depositors' penetration rate among 68 countries worldwide, the fourth highest among 15 UMICs and the third largest among Arab countries. Globally, Lebanon ranked ahead of Turkey and Samoa, and came behind Malta and Uzbekistan. It also ranked ahead of Turkey, and came behind Kazakhstan among UMICs; while it came behind Oman and ahead of Tunisia in the region. Lebanon's depositors' penetration rate was higher than the global rate of 718.3 depositors per 1,000 adults in 2011, the UMIC's rate of 677.8, and the Arab countries' penetration rate of 696. Further, there were 1,483 deposit accounts per 1,000 adults at commercial banks in Lebanon in 2011, up 41% from 1,052.1 deposit accounts per 1,000 adults in 2005. As such, Lebanon had the 27th highest deposit account penetration rate among 91 countries globally, the ninth highest among 26 UMICs and the second highest among Arab countries. Also, Lebanon's deposit account penetration rate was higher than the global rate of 1,281.5, the UMICs' penetration rate of 1,358.7, and the Arab rate of 973.6 deposit accounts per 1,000 adults last year.

Also, there were 1,065,823 borrowers and 1,823,455 loan accounts at commercial banks in Lebanon at the end of 2011. In addition, private sector loans were equivalent to 87.7% of GDP. As result, Lebanon's loans-to-GDP ratio was the 36th highest among 164 countries globally, the sixth largest among 43 UMICs and the highest among Arab countries. It was higher than the global average of 63.7% of GDP, the UMICs average of 56% of GDP and the Arab average of 47.6% of GDP. Further, there were 3.01 million depositors and 4,715,033 deposit accounts at commercial banks in Lebanon in 2011. In addition, deposits were equivalent to 296.7% of GDP in 2011. Lebanon's deposit-to-GDP ratio was the fifth highest among 164 countries globally, the largest among 43 UMICs and the highest among Arab countries.

Association of Banks maintains reference rate on US dollar and amends rate on Lebanese pound lending

The Association of Banks in Lebanon (ABL) recommended to its member banks to maintain the Beirut Reference Rate (BRR) in US dollars at 5.73% in October 2012, unchanged from the current rate. The rate, considered as the reference rate for lending in foreign currency, replaced in 2009 the London Inter-Bank Offering Rate (LIBOR) since the ABL considered that the LIBOR no longer accurately reflects the cost of funding and lending in Lebanon. Additionally, the ABL recommended to its member banks to decrease the Beirut Reference Rate in Lebanese pounds to 8.39% in October from 8.43% currently. The Beirut Reference Rate in US dollars and Lebanese pounds were adopted in March and May 2009, respectively. The ABL indicated that the BRR does not replace the Beirut Prime Lending Rate in each currency, but constitutes the basis to calculate the prime rate after adding the cost of liquidity and refinancing, credit risks, and the profitability of banks to the prime lending rate.



Lebanon ranks 110th globally, 13th in Arab region in credit ratings

In its semi-annual survey on the creditworthiness of 179 countries, *Institutional Investor* magazine ranked Lebanon in 110th place worldwide, in 33rd place among 40 Upper-Middle Income Countries (UMICs) and in 13th place among 19 Arab countries in the September 2012 survey. Lebanon ranked in 105th place globally, in 31st place among UMICs and in 12th place regionally in March 2012, as well as in 99th place globally, in 31st place among UMICs and in 12th place regionally in the September 2011 report. The survey rates the creditworthiness of countries on a scale of zero to 100, with 100 representing countries with the least chance of debt default. The ratings are based on input provided by senior economists and sovereign risk analysts at leading global banks and money management and securities firms.

On a global basis, Lebanon ranked ahead of Turkmenistan, Grenada and Honduras, and came behind Uzbekistan, Kenya and Libya. Lebanon's ranking dropped by five spots from the March survey, constituting the 29th steepest decline globally and the sixth steepest decrease among Arab countries. Also, Lebanon's ranking dropped by 11 spots from the September survey, constituting the 11th steepest decline globally and the third steepest decrease among Arab countries. Lebanon received a score of 31.7 points compared to 32.5 points in March 2012 and 35.7 points in September 2011. Its score was below the global average of 44.6 points and the Arab average of 44.1 points, but slightly above the score of non-GCC Arab countries of 31.5 points. Also, Lebanon's score declined by 0.8 points, or 2.5% from March 2012, constituting the fourth smallest decline in the Arab region numerically and the fifth smallest decrease in percentage terms; while its score contracted by 4 points, or 11.2% from September 2011, constituting the fourth steepest decline in the region both numerically and in percentage terms. The rankings of two Arab countries improved, 14 regressed and three remained unchanged; while the scores of four countries improved, 14 declined, and one was unchanged from March 2012.

Institutional Investor said that the global average score increased to 44.6 points in September from 44.1 points in March. It attributed the modest increase in the global score to improvements in the credit ratings of countries in Eastern Europe and Asia, which offset the continuous declines in the credit ratings of Western European countries and the sizeable drop in those of Middle Eastern countries. Norway remained the country with the best creditworthiness in the world while Somalia had the highest probability of default worldwide.

Issuance of first 10-year Treasury bond

The Ministry of Finance issued LBP1,049bn in 10-year Treasury bonds that carry a coupon rate of 8.24%. This the first time that the government issues Lebanese-pound denominated securities with a 10-year maturity. The issuance aims to extend the yield curve on Treasury bills, to attract banks and other local institutional investors to the T-bills market, to limit the Central Bank's subscription to T-bills, and to reduce pressure on the Finance Ministry to meet short-term maturing T-bills by extending maturities. There were LBP48,135bn, or \$31.9bn, in outstanding government securities denominated in Lebanese pounds as at the end of August 2012. The three-year maturities total LBP20,451bn and account for 42.5% of the total, followed by five-year maturities of LBP13,109bn (27.2%), seven-year maturities of LBP7,885 (16.4%), two-year maturities of LBP4,378bn (9.1%), six-month maturities of LBP1,202 (2.5%) and three-month maturities of LBP108bn (0.2%). The weighted interest on outstanding Treasury bills was 6.63% and their weighted life was 901 days at end-August 2012. Lebanon's gross public debt reached \$55.4bn at the end of July 2012, constituting a rise of 3.3% from the end of 2011 and an increase of 5% from end-July 2011. Domestic debt reached \$32.4bn at end-July, declining by 0.9% from end-2011 and increasing by 1.3% annually; while external debt stood at \$23bn, up by 9.9% from end-2011 and by 10.8% from a year earlier. Local currency debt accounted for 58.5% of gross public debt at end-July 2012.

Airport passengers up 9% in first seven months of 2012

Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures, transit) totaled 3,404,359 in the first seven months of 2012, constituting an increase of 8.7% from the same period last year. The total number of flights reached 36,680 in the first seven months of 2012, up 1.8% year-on-year. Also, the HIA processed 38,085 metric tons of cargo in the first seven months of 2012, of which 45,271 tons of freight and 449 tons of mail.

Arab Countries Rankings & Scores

Country	Credit Rating	Arab Rank	Global Rank
Qatar	76.8	1	25
Kuwait	75.6	2	26
UAE	73.6	3	29
Saudi Arabia	73.0	4	31
Oman	69.3	5	37
Bahrain	59.2	6	53
Algeria	52.4	7	67
Morocco	50.4	8	71
Tunisia	48.3	9	74
Jordan	44.7	10	77
Egypt	34.8	11	100
Libya	32.9	12	107
Lebanon	31.7	13	110
Iraq	25.7	14	130
Djibouti	21.9	15	143
Mauritania	20.1	16	153
Syria	18.5	17	157
Yemen	18.1	18	160
Sudan	10.0	19	175

Source: *Institutional Investor*, *Byblos Research*

Government imposes wide-scale tax and fee increases to finance rise in public expenditures

The Cabinet approved a list of taxes and fees that aim to offset the recent adjustment to the salary scale of public sector employees. The measures are supposed to generate LBP2,075bn, or \$1.4bn, in additional revenues for the Treasury in 2013, and LBP2,005bn, or \$1.3bn, in 2014.

The government increased fees on construction permits, which is expected to generate \$490m in additional revenues in each of 2013 and 2014; imposed fines on illegally-built seaside properties, which are expected to raise \$199m in government revenues in 2013; raised taxes on bank interest deposits from 5% to 7% (\$172.5m in additional receipts in each of 2013 and 2014); and imposed a fee on branches and headquarters of companies in Lebanon ranging between LBP50,000 for small firms and LBP2m for corporations, which would raise \$100m in additional revenues.

It also increased stamp fees on bills, commercial receipts and other business documents issued by institutions from LBP100 to LBP500, which would secure \$80m in revenues in each of 2013 and 2014. Further, it called for the settlement of construction violations (\$66.4m in additional revenues in each of 2013 and 2014); and increased stamp fees on landline phone bills to LBP1,500 from LBP1,000 and imposed a stamp duty of LBP1,500 on mobile phone bills that would both generate an additional \$47.8m in each of 2013 and 2014.

It also increased real estate fees (\$33.2m in additional revenues), imposed a tax on capital gains from real estate transactions (\$31.8m in new receipts); raised taxes on tobacco products (\$30m in additional income annually); raised the dividend tax on listed companies on the Beirut Stock Exchange to 7.5% from 5% currently (\$26.5m in extra revenues in each of 2013 and 2014); raised taxes on lottery winnings from 10% to 15% (\$16.6m in additional income); imposed a 7.5% tax on capital gains from the sale of stocks (\$13.3m in new receipts in each of 2013 and 2014); doubled the taxes on alcoholic beverages (\$10m in additional revenues in each of 2013 and 2014); raised the business and first-class departure taxes (\$10m in additional income); and imposed fees on permits related to ground-water usage for business and commercial purposes (\$6.6m in additional revenues in each of 2013 and 2014).

The government also increased the income tax rate on financial companies from 15% to 17% (\$100m in additional revenues in 2014). It also raised the tax on real estate repairs to 15% from 10% currently (\$36.5m in additional revenues in 2014). The government is also projecting increases in income tax revenues by \$43.1m and \$59.7m in 2013 and 2014, respectively, due to the implementation of the cost-of-living increase and adjustment to the wage & salary scale of public sector employees.

Consumer Price Index up 9% annually in August 2012

The Central Administration of Statistics' Consumer Price Index indicates that inflation increased by 9.3% in August 2012 from August 2011. Prices of housing increased by 44.1%, followed by alcoholic beverages & tobacco (+16.4%), education (+7.5%), clothing & footwear equipment (+5.6%), food & non-alcoholic beverages (+5.5%), recreation & entertainment and restaurants & hotels (+5.3%, each), water, electricity, gas & other fuels (+4.2%), miscellaneous goods & services (+3.8%), and furnishings & household equipment (+1.8); while prices of healthcare decreased by 2.4% year-on-year and those of transportation by 0.5%. In parallel, communication prices remained unchanged year-on-year. Imported inflation accounts for about 50% 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 0.9% in August 2012 from July 2012. Prices of alcoholic beverages & tobacco increased by 4.9%, followed by transportation (+3.5%), water, electricity, gas & other fuels (+3%), healthcare (+0.4%), food & non-alcoholic beverages (+0.3%), furnishings & household equipment, restaurants & hotels and miscellaneous goods & services (0.2%, each), and recreation & entertainment (+0.1%). Further, the cost of clothing & footwear, housing communication and education remained unchanged month-on-month. The Consumer Price Index grew by 8.9% year-on-year in July 2012, 2.1% annually June 2012 and by 3% year-on-year in May 2012.

Industrial exports down 9.5% to at \$1.7bn in first seven months of 2012

Figures released by the Ministry of Industry show that industrial exports totaled \$1.7bn in the first seven months of 2012, constituting a decrease of 9.5% from the same period last year. Industrial exports reached \$205.3m in July 2012, down 18.8% from \$252.9m in June 2012 and by 33.2% from \$307.5m in July 2011. Pearls & precious or semi-precious stones accounted for \$314.4m, or 18% of total industrial exports in the first seven months of the year, followed by machinery & mechanical appliances with \$292.7m (16.8%), and base metals & articles of base metals with \$246m (14.1%). Arab countries accounted for 58.8% of total industrial exports in July, followed by African countries with 12.9%, European countries with 12%, and Asian countries with 11.1%.

In parallel, industrial imports reached \$172.2m in the first seven months of the year, up 22% from the same period in 2011. Italy was the main source of such imports and accounted for 22.9% of the total. It was followed by China with 17.2% and Germany with 12.2%. Further, imports of industrial equipment and machinery reached \$27m in July 2012, increasing by 50.1% year-on-year. Italy was the main source of imports of industrial equipments, accounting for 27.3% of the total, followed by Germany with 16% and China with 11.9%.

Orange Card yields \$2.4m in premiums and \$0.6m in commissions for 2011

Figures released by the Association of Insurance Companies in Lebanon (ACAL) show that the Orange Card plan generated \$2.4m in premiums in 2011, constituting a 39.4% drop from \$4m in 2010. Also, the program yielded commissions of \$0.6m in 2011, down 39.3% from nearly \$1m in the previous year. In late 2001, Lebanon joined the Orange Card system, a unified auto insurance plan that offers automobile insurance coverage in 19 countries in the Middle East & North Africa region.

The top five insurance companies in the Orange Card system generated about \$1.9m in premiums in 2011, constituting a drop of 30.2% from \$2.7m in the same period of 2010. They accounted for 79% of the total Orange Card system in terms of premiums during the covered period. Security Assurance generated the most written premiums at \$0.7m in 2011, equivalent to 27.1% share of the total Orange Card system. It was followed by Mearco Assurance with \$0.5m (19%), United Commercial Assurance with \$0.4m (16%), Mains Insurance with \$0.3m (11.8%) and Al Ittihad Al Watani Insurance with \$0.1m (5.1%).

The Orange Card is applicable only in countries that have mandatory car insurance. The card allows Lebanese insurers to issue auto insurance policies for vehicles traveling among the participating countries, and is equivalent to the Green Card Insurance in Europe. The type of coverage varies between countries depending on the prevailing insurance laws in each country. A total of 40 Lebanese insurers participate in the unified auto insurance plan that is administered by ACAL.

AUB and USJ among top 15 Arab universities

The QS World University Rankings for 2012 included two Lebanese universities among 700 ranked universities worldwide. The list ranked the American University of Beirut (AUB) in 250th place globally and in third place among 24 Arab universities included in the rankings. AUB came in 300th place in the 2011 survey and in 341st place on the 2010 list. Also, the survey ranked Université Saint-Joseph de Beyrouth (USJ) within the 501-550 range globally and in 14th place among Arab universities. USJ's ranks fell in the 551-600 range in the 2011 list, and above 601st place in the 2010 list. AUB received a score of 42.2 points compared to an average of 40 points for the top six universities in the region. The top two Arab universities are King Saud University which ranked in 197th place globally and King Fahd University of Petroleum & Minerals (208th); while the Massachusetts Institute of Technology ranked first worldwide and received a score of 96.5 points. The rankings are based on a weighted average of six factors that are academic reputation with a 40% weight, faculty-to-student ratio and citations per faculty with 20% each, employer reputation with 10%, and international faculty ratio and international student ratio with 5% each. QS World University Rankings is prepared by Quacquarelli Symonds since 2004, a company specializing in education and study-abroad programs.

Value of cleared checks stagnates, returned checks up by 8% in first seven months of 2012

The value of cleared checks reached \$41.3bn in the first seven months of 2012, constituting a decrease of 0.1% from the same period last year and a rise of 2.8% from the first seven months of 2010. The value of cleared checks in Lebanese pounds rose by 2.1% annually to the equivalent of \$8.5bn in the first seven months of 2012, while the value of cleared checks in US dollars decreased by 0.6% to \$32.7bn. The dollarization rate of cleared checks decreased to 79.3% from 79.8% in the same period last year. Also, the value of returned checks in domestic and foreign currency amounted to \$889m in the first seven months of 2012, increasing by 7.6% from the same period of 2011 and by 3.1% from the first seven months of 2010. In parallel, the number of cleared checks totaled 7.5 million checks in the first seven months of 2012, up by 0.6% from the same period of 2011. Also, the number of returned checks totaled 163,000 checks and rose by 10.9% in the covered period.

Car sales up 8% in first eight months of 2012

Figures released by the Association of Automobile Importers in Lebanon indicate that a total of 23,012 new passenger cars were sold in the first eight months of 2012, constituting an increase of 7.6% from the 21,382 cars sold in the same period last year and a rise of 2.1% from the 22,545 cars sold in the first eight months of 2010. Korean cars accounted for 44.4% of total sales, followed by Japanese cars with a 27.5% share, European automobiles with 20.8%, American vehicles with 6.1%, and Chinese cars with 1.2%. Chinese cars posted the highest growth in sales with a 85.5% rise year-on-year, followed by Korean cars with a 13.8% rise, American cars with a 10.1% increase and European cars with a 5.5% rise. Japanese cars posted a 1.8% decline in sales. Kia is the leading brand in the Lebanese market with 6,162 cars sold in the first eight months of 2012, followed by Hyundai with 4,045, Nissan with 3,928 cars sold, Toyota (1,152), Chevrolet (948), Renault (834), and Volkswagen (507). In parallel, a total of 1,516 new commercial vehicles were sold in the first eight months of 2012, up 8.1% from the 1,403 vehicles sold in the same period last year, but down 44% from the 2,700 vehicles sold in the first eight months of 2010.

Profits of top 12 banks up 8% to \$837m in first half of 2012

The unaudited consolidated net profits of the Alpha Group of banks reached \$836.6m in the first half of 2012, constituting an increase of 7.7% from the same period last year. The Alpha Group consists of 12 banks with deposits in excess of \$2bn each. Total net operating income rose by 8.4% to \$2bn, with aggregate net interest income increasing by 13.2% to \$1.4bn and net fees & commissions receipts growing by 6.4% to \$362.7m year-on-year. Also, non-interest income accounted for 37% of total income in the first half of the year, up from 34.8% in the same period last year; with net fees & commissions earnings representing 43.3% of non-interest income in the first half of 2012, down from 49.8% in the same period last year. The net interest spread rose marginally to 1.96% in the first half of 2012 from 1.95% in the same period last year. Also, total operating expenditures increased by 11.2% year-on-year to \$1.1bn, with staff expenses rising by 11% to \$584m. Further, the cost-to-income ratio dropped to 46.7% in the first half relative to 48.3% in the same period last year. The banks' total assets reached \$146.7bn at end-June 2012, constituting a 2.3% growth from end-2011; while aggregate loans & advances rose by 4.7% from end-2011 to \$41.4bn at end-June. Also, customer deposits totaled \$120.5bn at end-June 2012, a rise of 2.9% from end-2011.

In parallel, the banks' loans-to-assets ratio increased to 29.2% at end-June 2012 from 28% a year earlier, while the loans-to-deposits ratio grew to 34.7% at end-June 2012 from 33.5% a year earlier. The ratio of loans-to-deposits in local currency reached 18.9% at end-June 2012 compared to 18.6% at end-June 2011, while that in foreign currency was 41.9% at the end of June 2012 relative to 39.5% a year earlier. Also, the banks' net return on average assets reached 1.09% in June 2012 on an annualized basis, relative to 1.17% a year earlier; while their net return on average equity was 12.38% on an annualized basis relative to 12.83% in June 2011. Further, the primary liquidity-to-deposits ratio reached 36.3% at end-June 2012, up from 36% at end-June 2011. The banks' aggregate equity-to-assets ratio rose to 8.3% at end-June 2012 compared to 8.1% a year earlier. Also, the collective provisions-to-net loans ratio increased to 1.2% at end-June 2012 from 0.9% at end-June 2011.

Allianz SNA's fixed income investment up 18% to \$185m in 2011

Allianz SNA released its audited balance sheet that shows total assets of \$304.8m at the end of 2011, up 11.9% from \$272.4m at end-2010. On the assets side, general company investments totaled \$238.7m and increased by 15.4% from a year earlier. They included \$185m in fixed income investments that rose by 18% annually; as well as \$23.7m in blocked bank deposits and deposits with maturity of more than three months, of which \$2.1m blocked in favor of the Economy Ministry as guarantees; \$17.1m in policy loans; and \$7.9m in cash and cash equivalent. Also, Unit-linked contracts investments totaled \$19.2m at end-2011, constituting an increase of 1% from \$19m a year earlier, and were fully vested in fixed income investments. Reinsurance share in technical reserves for the life and non-life categories amounted to \$1.5m and \$7.4m, respectively, constituting decreases 2.3% of and 10% respectively.

On the liabilities side, shareholders' equity totaled \$43.4m at end-2011, constituting an increase of 8.2% from \$40.1m a year earlier. Unit-linked technical reserves reached \$19.2m at the end of December 2011, constituting a rise of 1% from \$19m at end-2010. Also, technical reserves for the life segment increased by 20.4% year-on-year to \$181m, and decreased by 4.4% to \$47.9m for the non-life category. Non-life technical reserves included unearned premium reserves of \$26.6m that declined by 7.5%, outstanding claims reserves of \$9.2m that regressed by 3.8%, and \$5m in reserves incurred but not reported that rose by 17% year-on-year.

Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked Allianz SNA in second and sixth place in 2011 in terms of life and non-life premiums, respectively. The firm's life premiums reached \$49.8m, up 22% year-on-year, while its non-life premiums amounted to \$50.2m, down 6.9% annually. It had a 13.5% share of the life market and a 5.8% share of the local non-life market.

Fransabank's profits down 18% to \$66m in first half of 2012

Fransabank sal, one of Lebanon's top 10 banks, announced unaudited consolidated net profits of \$66m in the first half of 2012, down 17.8% from the same period last year. Net operating income rose by 3.4% year-on-year to \$197.9m, with net interest income increasing by 27.7% to \$163.7m and net fees & commissions receipts decreasing by 3.1% to \$27.7m year-on-year. Non-interest income accounted for 21% of total income, down from 29% in the first half of 2011; with net fees & commissions accounting for 59.3% of non-interest earnings. Further, the bank's interest margin was 2.54% in the first half of 2012 relative to 2.48% in same period of 2011; while its net spread increased to 2.38% from 2.34% in the same period last year. Total operating expenditures increased by 10.7% to \$118m, with staff expenses increasing by 9.5% to \$74.2m. Also, the bank's return on average assets reached 0.9% in June 2012 on an annualized basis, relative to 1.24% a year earlier; while its return on average equity was 9.7% relative to 12.2% in June 2011. The cost-to-income ratio grew to 53.3% in the first half relative to 50.2% in the same period last year.

In parallel, total assets reached \$14.8bn at end-June 2012, constituting a 9.3% increase from a year earlier and a 2.7% rise from end-2011; while loans & advances to customers increased by 12.1% year-on-year and by 3% from end-2011 to \$4.4bn. Also, customer deposits totaled \$12.3bn at end-June, constituting an increase of 11.2% from a year earlier and a growth of 6.8% from end-2011. The loans-to-deposits ratio stood at 36.3% at end-June 2012 from 35.9% a year earlier.

SGBL's net profits up 17% to \$58m in first half of 2012

Société Générale de Banque au Liban (SGBL) sal, one of Lebanon's top 10 banks, announced unaudited consolidated net profits of \$58.4m in the first half of 2012, up 17.2% from the same period last year. Net operating income grew by 33.4% year-on-year to \$138.5m, with net interest income increasing by 58.5% to \$101.2m and net fees & commissions receipts rising by 27.5% to \$25.5m year-on-year. Non-interest income accounted for 28.4% of total income, down from 33.9% in the first half of 2011; with net fees & commissions accounting for 61.5% of non-interest earnings. Further, the bank's interest margin was 2.15% in the first half of 2012 relative to 2.82% in same period of 2011; while its net spread regressed to 2.02% from 2.27% in the same period last year. Total operating expenditures increased by 49.6% to \$75.8m, with staff expenses increasing by 37.1% to \$38.3m. Also, the bank's return on average assets reached 1.13% at end-June 2012 on an annualized basis, relative to 1.76% a year earlier; while its return on average equity was 22.34% on an annualized basis relative to 20.86% at end-June 2011. The cost-to-income ratio decreased to 51.9% in the first half relative to 52% in the same period last year.

In parallel, total assets reached \$10.2bn at end-June 2012, constituting a 4.1% drop from end-2011, while loans & advances to customers regressed by 1.2% from end-2011 to \$2.8bn. Also, Customer deposits totaled \$8.1bn at end-June, constituting a drop of 4.9% from end-2011. The loans-to-deposits ratio increased to 35.3% at end-June 2012 from 31.4% a year earlier.

Arabia's shareholder equity at \$124m at end-2011

Arabia Insurance sal released its audited balance sheet that shows total assets of \$399.7m at end-2011, up 1.9% from \$392.1m at end-2010. On the assets side, general company investments totaled \$218.7m and declined by 6.4% from end-2010. They included \$76.7m in blocked bank deposits and deposits with maturity of more than three months, of which \$6.2m blocked in favor of the Economy Ministry as guarantees; \$64.3m in variable income investments; \$36.2m in cash and cash equivalent; \$21.1m in fixed income investments; \$13.1m in land and real estate; \$6m in mutual funds and \$0.1m in policy loans. Also, unit-linked contracts investments totaled \$26.3m at end-2011, constituting an increase of 7.6% from \$24.4m a year earlier. They included \$16.6m in cash & similar investments, and \$9.7m of placements in mutual funds. Investments in mutual funds rose by 30.5% and unit-linked investment in cash & similar investments regressed by 2.4% year-on-year. Reinsurance share in technical reserves for the life and non-life categories amounted to \$1.5m and \$54.1m, respectively, constituting increases of 5.4% and 17.8%, respectively.

On the liabilities side, shareholders' equity totaled \$124m at end-2011, constituting an increase of 1.2% from \$122.6m a year earlier. Unit-linked technical reserves reached \$37.1m at end-2011, constituting a rise of 8.4% from \$34.2m at end-2010. Also, technical reserves for the life segment declined by 5.1% year-on-year to \$8.1m, while those for the non-life category reached \$165m at end-2011 and increased by 6.5% from a year earlier. Non-life technical reserves included unearned premium reserves of \$73.1m that rose by 11.2% annually, and outstanding claims reserves of \$89.9m that grew by 4.2%. Further, provisions for risks and charges reached \$5.4m and rose by 10.8% from a year earlier. *Al-Bayan magazine's* annual survey of the insurance sector in Lebanon ranked Arabia Insurance in 16th and 11th place in 2011 in terms of life and non-life premiums, respectively. The firm's life premiums decreased by 88.4% and reached \$2.4m, while non-life premiums increased by 18.1% and amounted to \$26m. It had a 0.6% share of the local life market and a 3% share of the local non-life market.

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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