

LEBANON THIS WEEK

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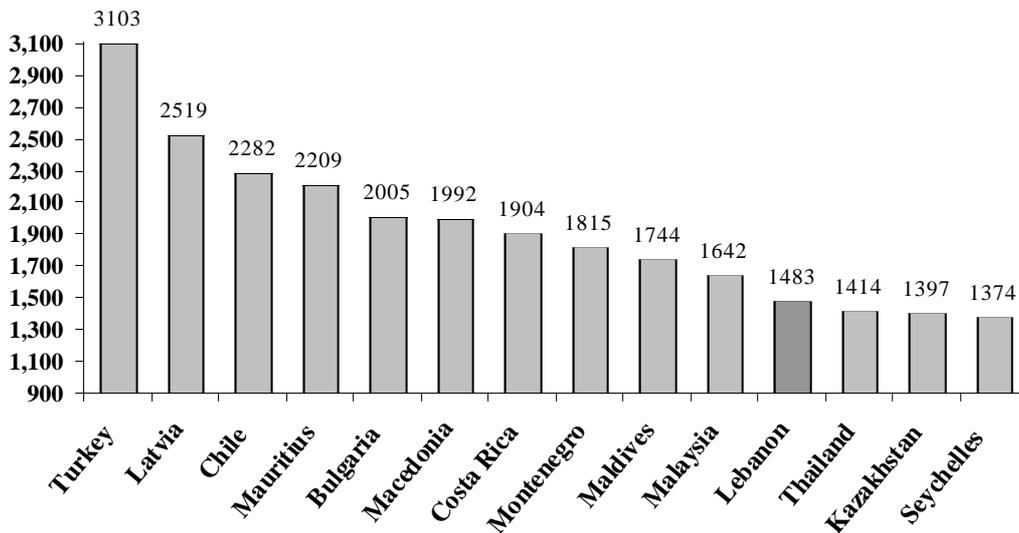
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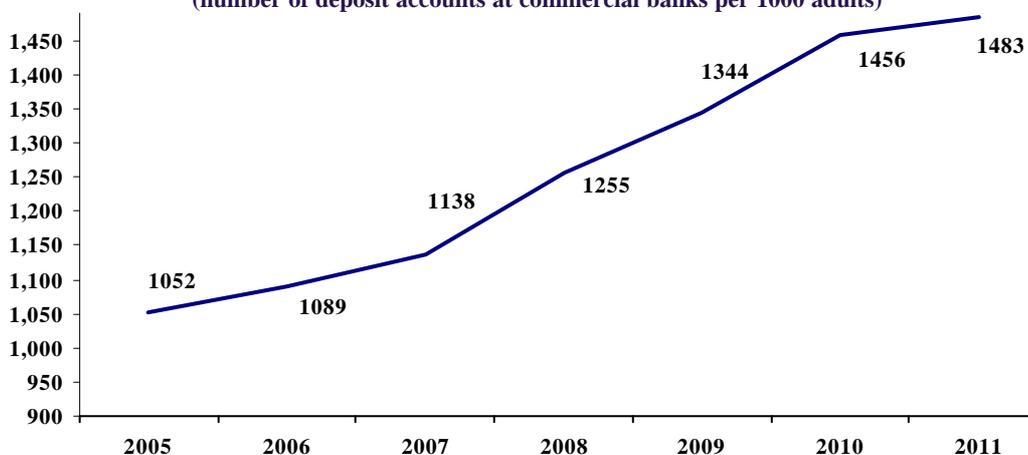
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Charts of the Week

Deposit Accounts' Penetration Rate in Select Upper-Middle Income Countries in 2011
(number of deposit accounts at commercial banks per 1000 adults)



Deposit Accounts' Penetration Rate in Lebanon
(number of deposit accounts at commercial banks per 1000 adults)



Source: International Monetary Fund, Byblos Bank

Quote to Note

"Policymakers need to avoid the pitfalls of complacency and tackle the challenges ahead to preserve growth and financial resiliency."

An International Monetary Fund recommendation to the United States that directly applies to Lebanon

Number of the Week

124: Lebanon's rank among 144 countries on the protection of intellectual property rights, according to the World Economic Forum's Global Competitiveness Index for 2012-13

Economic Indicators

\$m (unless otherwise mentioned)	2010	Jul 11	2011	May 12	Jun 12	Jul 12	% Change*
Exports	4,256	415	4,276	355	345	317	(23.61)
Imports	17,956	1,679	20,170	1,645	1,713	1,739	3.57
Trade Balance	(13,700)	(1,264)	(15,894)	(1,290)	(1,368)	(1,422)	12.50
Balance of Payments	3,326	(307)	(1,996)	(82)	(23)	(322)	4.89
Checks Cleared in LBP	13,519	1,218	14,251	1,196	1,283	1,311	7.64
Checks Cleared in FC	53,925	5,939	57,852	4,746	4,766	5,150	(13.29)
Total Checks Cleared	67,444	7,157	72,103	5,942	6,049	6,461	(9.72)
Budget Deficit/Surplus	(2,894)	67.1	(2,342)	(50)	8.1	(36.01)	(153.67)
Primary Balance	1,231	314	1,662	300	281	158.69	(49.53)
Airport Passengers	5,512,435	702,265	5,596,034	438,570	545,379	640,615	(8.78)

\$bn (unless otherwise mentioned)	Dec 2010	Jul 11	Mar 12	May 12	Jun 12	Jul 12	% Change*
BdL FX Reserves	28.60	28.91	30.99	29.57	29.26	29.64	2.54
<i>In months of Imports</i>	<i>19.46</i>	<i>17.22</i>	<i>17.99</i>	<i>17.98</i>	<i>17.08</i>	<i>17.05</i>	<i>(1.00)</i>
Public Debt	52.59	52.80	54.08	55.12	55.25	55.44	5.01
Net Public Debt	45.01	45.50	46.91	47.17	47.10	47.28	3.91
Bank Assets	128.93	136.88	144.73	144.86	145.90	145.51	6.30
Bank Deposits (Private Sector)	107.20	112.14	118.22	118.90	119.94	119.75	6.79
Bank Loans to Private Sector	34.93	38.34	41.00	41.89	41.70	41.49	8.21
Money Supply M2	39.40	36.84	40.04	41.74	41.00	41.19	11.81
Money Supply M3	92.15	94.65	98.94	99.96	100.36	100.50	6.18
LBP Lending Rate (%)	7.91	7.33	7.16	7.34	7.44	7.24	(9b.p.)
LBP Deposit Rate (%)	5.68	5.59	5.46	5.49	5.45	5.45	(14b.p.)
USD Lending Rate (%)	6.74	7.03	7.06	7.12	7.15	7.19	16b.p.
USD Deposit Rate (%)	2.80	2.86	2.83	2.83	2.78	2.84	(2b.p.)
%* Change in CPI**	6.19	6.28	4.40	6.36	4.72	4.72	(156b.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"	12.50	(1.96)	141,188	12.46%
Solidere "B"	12.50	(0.64)	8,400	8.10%
Byblos Common	1.48	(0.67)	50,023	5.30%
Byblos Pref. 08	102.30	0.00	250	2.04%
Byblos Pref. 09	103.20	0.00	1,040	2.06%
BLOM GDR	7.80	0.00	9,500	5.74%
BLOM Listed	7.40	0.00	0	15.86%
Audi GDR	5.90	(0.84)	19,816	5.97%
Audi Listed	5.50	2.04	924,700	19.15%
HOLCIM	15.51	0.00	0	3.02%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
June 2013	8.625	104.25	2.24
Apr. 2014	7.375	105.50	3.56
Jan. 2015	5.875	104.50	3.76
Apr. 2015	10.00	114.50	3.91
Jan. 2016	8.500	112.50	4.34
Mar. 2017	9.000	116.38	4.84
Nov. 2018	5.150	100.25	5.10
Apr. 2021	8.250	116.50	5.76
Nov. 2026	6.600	102.50	6.33

Source: Byblos Bank Capital Markets

	Oct 8-12	Oct 1- 5	% Change	Sep 2012	Sep 2011	% Change
Total Shares Traded	1,214,097	816,322	48.73	2,108,718	3,302,725	(36.15)
Total Value Traded	\$8,758,326	\$6,161,340	42.15	\$16,363,982	\$28,432,176	(42.45)
Market Capitalization	\$10.03bn	\$10.03bn	0.00	\$10.02bn	\$10.65bn	(5.92)

Source: Beirut Stock Exchange (BSE)



IMF projects real GDP in Lebanon at 2% in 2012, economy to post 34th slowest growth rate in the world

The International Monetary Fund revised downwards its projection for real GDP growth in Lebanon to 2% in 2012 from a previous forecast of 3% and compared to growth of 5.3% in the Middle East & North Africa, 1.2% for oil importing economies and 2% for the Mashreq economies, as well as compared to growth of 5.3% in emerging and developing economies and 3.3% for the world economy.

Lebanon's projected growth rate in 2012 would make it the slowest growing economy in the MENA region, similar to Bahrain and Egypt. Another three Arab economies are set to contract this year. Lebanon would also be the 34th slowest growing economy in the world in 2012 when excluding contracting economies, as its growth rate is projected to be similar to that of Fiji, Egypt, and Bahrain.

It also projected Lebanon's real GDP growth at 2.5% in 2013 compared to 3.6% in the MENA region and 3% in the Mashreq countries. Lebanon's projected growth rate in 2012 would make it the fourth slowest growing economy in the MENA region. Also, it would be the 47th slowest growing economy globally and would tie with Romania, the Maldives, Belize and Kiribati.

The Fund forecast inflation in Lebanon to average 6.5% this year, seventh highest in the region, relative to 10.4% for the MENA and 8.2% for the Mashreq region. Lebanon's inflation rate averaged 5% in 2011 and 4.5% in 2010. Further, it projected Lebanon's current account deficit at 16.2% of GDP in 2012 compared to a surplus of 12.2% of GDP for the region and a deficit of 6% of GDP for the Mashreq countries. Lebanon posted current account deficits of 14% of GDP in 2011 and 9.6% of GDP in 2010.

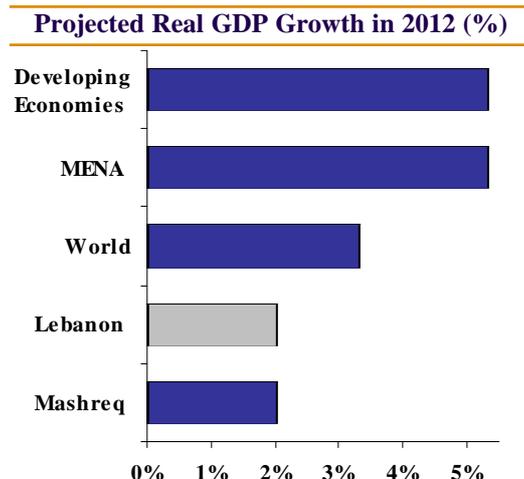
In parallel, the IMF maintained its estimate of Lebanon's economic growth at 1.5% in 2011 compared to growth of 3.3% in the MENA region and 1.8% for the Mashreq economies, as well as compared to growth of 6.2% in emerging and developing economies and 3.8% growth for the world economy. Lebanon was the slowest growing economy in the MENA region last year, with four economies posted a contraction in their real GDP. It was also the 20th slowest growing economy in the world in 2011, with its growth rate similar to that of Tonga and Norway.

Risks from regional spillovers to affect confidence and economic growth

Global financial institution JP Morgan Chase expected risks from regional spillovers into Lebanon to take their toll on confidence and weigh on economic growth over the foreseeable future, as it anticipated the level of uncertainty to remain elevated over the medium-term. It noted that high frequency indicators point to a contraction in Lebanon's real GDP in the third quarter of the year. It considered that warnings of GCC governments to their nationals against traveling to Lebanon will affect the tourism sector's outlook for a long time, adding that the war in Syria severely hit Arab tourist arrivals through land routes. It noted that airport arrivals in the first half of the year posted their strongest performance in five years, but this trend reversed during the summer due to the deterioration of security conditions in Lebanon.

Further, it forecast headline inflation to remain elevated at between 7% and 9% this year. It added that the increase in commodity prices during the summer would temporarily push headline inflation above 10% in the fourth quarter of the year. It did not expect the Central Bank to resort to disinflation measures, and anticipated that the interest rate differential to the US dollar would remain stable in coming years.

In parallel, it said that annual deposit growth decelerated in July 2012 to its lowest level since June 2007, while credit to the private sector remained on a downward trend. It added that deposits grew by 6.8% annually in July, representing a critical level to finance both the public and private sectors. It noted that this slowdown is still enough to finance both the public and private sectors this year, but warned that an extension of this downtrend would lead to a decrease in credit allocation to the private sector and weigh on domestic demand. It pointed out that the coverage ratio of total external debt by gross foreign currency reserves, excluding gold, remained relatively stable at around 160% in the previous 12 months despite the deterioration in the country's outlook.



Source: International Monetary Fund, October 2012

Cost of sending remittances to Lebanon drops in third quarter of 2012

Figures issued by the World Bank show that the cost of sending remittances from the United States to Lebanon reached 10.88% in the second quarter of 2012 for a \$200 transfer, constituting a decline from 11.83% in the first quarter of 2012 and from 14% in the third quarter of 2011. Also, the cost of sending \$500 from the U.S. to Lebanon reached 5.21% in the third quarter of 2012, down from 5.25% in the first quarter of 2012 and from 6.51% in the third quarter of 2011. The cost includes the transaction fee and exchange rate margin, and represents the average cost of transferring money through commercial banks and money transfer operators (MTOs). In nominal terms, the cost of sending \$200 and \$500 from the U.S. to Lebanon is \$21.8 and \$26.1, respectively; down from is \$23.7 and \$26.3, respectively, in the first quarter of this year and from \$28 and \$32.5 in the third quarter of last year.

Also, the cost of sending remittances from Germany to Lebanon reached 16.5% in the third quarter of 2012 for a transfer of €140, or about \$200, constituting a decrease from 17.1% in the first quarter of 2012 and an increase from 14.8% the third quarter of last year. Also, the cost of sending €345, or about \$500, from Germany to Lebanon reached 8.31% in the third quarter of 2012 compared to 8.84% in the first quarter of 2012 and to 8.1% in the third quarter of 2011. In nominal terms, the cost of sending €140 and €345 from Germany to Lebanon costs €23.1 and €28.7, respectively, compared to €23.9 and €30.5, respectively, in the first quarter of the year and to €20.7 and €27.8 in the third quarter of 2011.

In parallel, Lebanon ranked as the third most expensive destination for sending \$200 from the U.S. among 28 countries with available data after Thailand (13.6%) and Brazil (12%). It was the eighth most expensive for sending \$500. The data covered 15 countries in Latin & Central America and the Caribbean, seven countries in East and Southeast Asia, and five countries in Africa, in addition to Lebanon in the Middle East. The United States is the sixth largest source of inward electronic cash transfers to Lebanon.

The World Bank indicated that the average cost to send \$500 in remittances through commercial banks to Lebanon was 7.1% and the average cost through MTOs was 3.8% in the third quarter of 2012. In comparison, the average cost to send remittances through commercial banks to Lebanon was 6% and the average cost through MTOs was 4% in the first quarter of 2012; while it was 7.1% and 5.4%, respectively, in the third quarter of 2011. MTOs account for about 70% of all cash electronic transactions to Lebanon, followed by money dealers with 22.4% and commercial banks with 7.5%.

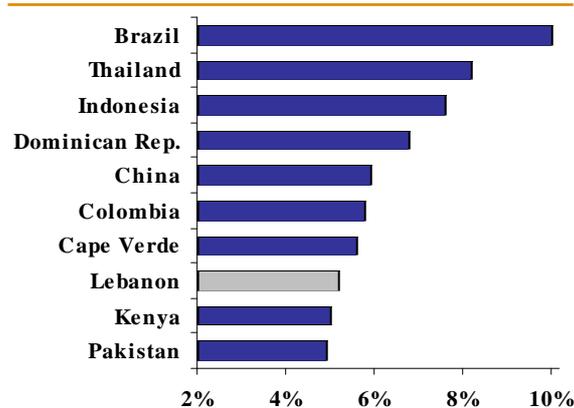
Solar water heaters market at \$18.1m in 2011

The Global Environment Facility, along with the United Nations Development Program (UNDP), estimated the size of Lebanon's solar water heaters market at \$18.1m in 2011. It said that a total of 12,197 solar water heaters were installed in households last year, of which 8,640 systems or 70.8% of the total were installed either through direct cash payments or private "dealer-to-consumer" loans or agreements; 1,840 systems were installed through the national financing mechanism that grants interest free loans and a repayment period of up to 5 years; and 1,717 systems that benefited from a \$200 grant from the Energy Ministry. It noted that subsidies provided by the government totaled \$0.34m last year and facilitated direct loans with a value of \$5.3m. It added that the average price of a solar water heater in Lebanon is estimated at \$1,487 with an average system size of 266 liters.

In parallel, it said that the installed solar water heaters were equivalent to a capacity of over 43,500 square meters of collector area, or the area that intercepts solar radiation. It estimated the total installed storage capacity last year at around 3.3 million liters, equivalent to 3,313 cubic meters of hot water capacity. It noted that 945,225 liters or 28.5% were installed through loans, of which 496,685 liters through loans exclusively and 448,540 liters through loans with subsidies. China is the main source of solar water heaters in Lebanon and accounts for more than 70% of the collectors sold and more than 42% of storage tanks, while Lebanese firms account for 18% of collectors and 36% of storage tanks.

Further, Mount Lebanon accounted for 29% of total installed systems last year, followed by Nabatieh with 21% and the Bekaa with 17%. According to the study, installed solar heaters systems resulted in savings of around \$3.7m for consumers and about \$0.15m for Electricité du Liban in the form of subsidies reduction. It estimated that installed solar heaters systems reduced electricity demand by 28.3 million kilowatt-hours, saved 3.68 Megawatts in electrical power capacity, and reduced emissions by 18,390 tons of CO₂ equivalent last year. The GEF Global Solar Water Heaters Initiative was launched in 2009 with the objective of accelerating the market development of solar water heating in Lebanon. It aims to facilitate the installation of 190,000 square meters of collector area over the 2009-14 period, with a target annual sale of 50,000 square meters by 2014. It also intends to help Lebanon reach one million square meters of total installed solar water heaters capacity by 2020. It claims that reaching these targets would reduce annual electricity demand by 123.6 million kilowatt-hours, save 16 Megawatts in electrical power capacity, and lead to cumulative greenhouse gas reduction potential of over 3 million tons of CO₂ between 2009 and 2020.

Costliest Destinations of Remittances from the U.S.*



*Cost of sending \$500 from the U.S.

Source: World Bank, Byblos Research

Lebanon's external debt posts third lowest returns in emerging markets, lowest in the Middle East & Africa

Figures issued by Merrill Lynch indicate that Lebanon's external debt posted returns of 2.95% in the first nine months of 2012, constituting the lowest return among 31 markets in the Eastern Europe, the Middle East & Africa (EMEA) region as well as the third lowest return among the 54 emerging markets included in Merrill Lynch's Sovereign Plus Debt Index. Lebanon underperformed the EMEA region's returns of 15.76%, as well as the overall emerging markets returns of 14.5% during the covered period. Also, Lebanon's external debt underperformed the 16.92% returns posted by similarly-rated sovereigns.

Further, Lebanon's external debt posted the lowest returns among 15 countries in the Middle East & Africa region in the first nine months of 2012. It was outperformed by the Ivory Coast (4.88%), Angola (6.84%), Tunisia (7.07%), Jordan (7.63%), South Africa (10.39%), Morocco (11.75%), Bahrain (12.13%), Gabon (12.61%), Ghana (13.13%), Nigeria (13.69%), Namibia (13.77%), Iraq (17.67%), Egypt (23.88%) and Senegal (29.13%). In US dollar terms, Lebanon's external debt posted returns of 2.87% in the first nine months of 2012, lowest in the EMEA region and third lowest among emerging markets.

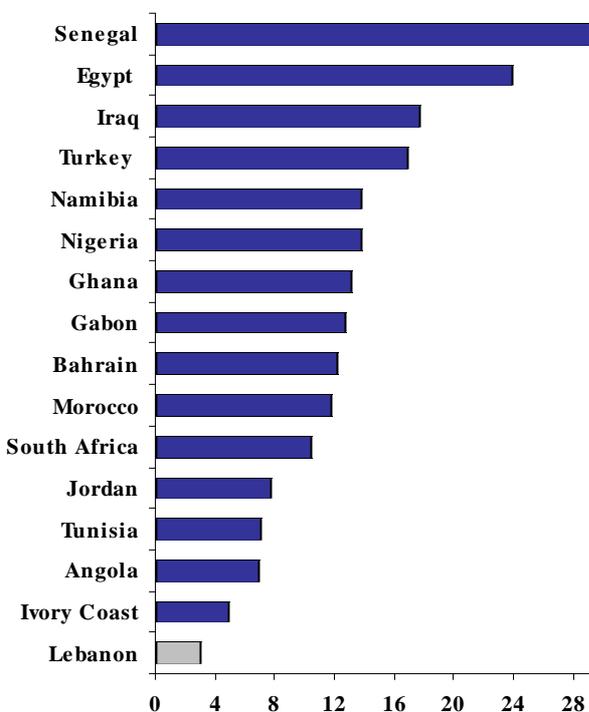
In parallel, Lebanon's external debt posted returns of 2.41% in September 2012, constituting the 15th highest return in the EMEA region and the 21st highest in emerging markets during the covered month. Lebanon outperformed the EMEA returns of 1.64% and the emerging markets returns of 1.74% as well as the 2.29% returns of similarly-rated sovereigns for the same month. Regionally, it outperformed South Africa (0.11%), Egypt (0.58%), Nigeria (0.72%), Tunisia (0.9%), Jordan (0.94%), Morocco (1.22%), Bahrain (1.53%), Iraq (1.9%), Namibia (1.98%) and Gabon (2.2%); and underperformed Ghana (2.49%), Ivory Coast (4.88%), Senegal (5.83%), and Angola (6.84%).

Merrill Lynch said the spread on Lebanese Eurobonds ended September 2012 at 444 basis points, constituting the ninth widest spread in the EMEA region and 18th widest among emerging markets. It was wider than the EMEA spread of 313 basis points as well as the emerging markets overall spread of 304 basis points at end-September 2012. Lebanon has a weight of 3.36% on Merrill Lynch's Sovereign Plus Debt Index, fifth highest in the EMEA universe, and 11th highest among emerging markets. Lebanon accounted for 7.2% of the allocations in the EMEA region.

Balance of payments posts deficit of \$1.8bn in first eight months of 2012

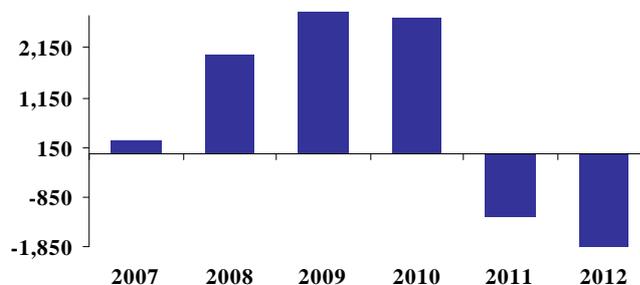
Central Bank figures show that Lebanon's balance of payments posted a deficit of \$1.84bn in the first eight months of 2012 compared to a deficit of \$1.24bn in the same period last year. The balance of payments posted a deficit of \$496.7m in August compared to a deficit of \$321.7m in July 2012 and a deficit of \$450.8m in August 2011. The August 2012 deficit was caused by a deficit of \$616m in the net foreign assets of banks and financial institutions and a deficit of \$119.4m in those of the Central Bank. The cumulative deficit over the first eight months of 2012 was caused by a surplus of \$1bn in the Central Bank's net foreign assets and a deficit of \$2.87bn 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.

External Debt Performance in Middle East & Africa in First Nine Months of 2012 (%)



Source: Merrill Lynch, Byblos Research

Balance of Payments* (US\$m)



* in the first eight months of each year
Source: Central Bank of Lebanon

Occupancy at Beirut hotels at 60%, room yields up 6% in first eight months of 2012

Ernst & Young's benchmark survey of the Middle East hotel sector indicated that the average occupancy rate at hotels in Beirut was 60% in the first eight months of 2012 compared to 52% in the same period last year. The occupancy rate at Beirut hotels was the eighth lowest among 21 markets in the region, while it was the fifth lowest in the same period last year. Occupancy rates at Beirut hotels were 60% in January, 64% in February, 74% in March, 66% in April, 67% in May, 58% in June, 53% in July and 34% in August 2012 compared to 44% in January, 42% in February, 53% in March, 61% in April, 58% in May, 62% in June, 67% in July and 31% in August 2011.

The survey said that the average rate per room at Beirut hotels was \$203 in the first eight months of 2012, ranking the capital's hotels as the 10th most expensive in the region. The average rate per room at Beirut hotels decreased by 6.5% year-on-year, and posted the sixth steepest decrease among all markets in the region. The average rate per room in Beirut came above the regional average of \$183.1, which was similar to that of the same period last year.

Further, revenues per available room (RevPAR) were \$122 in Beirut in the first eight months of 2012, up from \$115 in the same period last year, and ranking it in 12th place in the region. Beirut's RevPAR increased by 6% year-on-year, compared to an increase of 6.3% across the region, and posted the 10th highest increase in the region. Beirut posted RevPARs of \$139 in January, \$131 in February, \$149 in March, \$139 in April, \$134 in May, \$119 in June, \$103 in July and \$62 in August 2012 compared to \$99 in January, \$84 in February, \$107 in March, \$103 in April, \$117 in May, \$142 in June, \$184 in July and \$63 in August 2011. Dubai-Beach posted the highest average room rate in the region at \$337 and the highest RevPAR at \$262, while Dubai-Apartments posted the highest occupancy rate at 86% in the first eight months of 2012.

IDAL processes 11 projects in first nine months of 2012

The Investment Development Authority of Lebanon (IDAL) indicated that it has processed 11 projects in Lebanon in the first nine months of 2012, five of which have already been approved by the Council of Ministers. According to IDAL, the projects mobilized \$457.5m in investments and are expected to create 1,094 direct jobs and 2,707 indirect jobs over the long term. In comparison, it noted that eight projects were approved in both 2010 and 2011 with a total value of \$93m. IDAL said that industry accounted for 46% of the number of new projects, followed by tourism with 36%, and agriculture and technology with 9% each. It noted that tourism attracted \$403m, or 88%, of total announced investments. It claimed that tourism projects are expected to generate 717 direct and 1739 indirect jobs; industrial projects will contribute to the creation of 297 and 861 direct and indirect jobs respectively; projects in agriculture will generate 50 direct and 47 indirect work opportunities; and technology projects will help create 30 and 60 direct and indirect jobs, respectively. In parallel, IDAL pointed out that 55% of announced projects are Greenfield operations, 36% are expansion projects and 9% are initiated by joint ventures. The projects include the \$200m Mandarin Oriental Hotel and the \$1m Pharma M firm that will produce dietary supplements. IDAL noted that 10 out of the 11 projects are sponsored by Lebanese investors or investors of Lebanese origin.

EU provides €3.6m to improve border management

The European Union announced that it will provide €3.6m to finance a three-year border management project. The Developing National Capability for Integrated Border Management in Lebanon project will provide support to Lebanese authorities to secure and control the borders in accordance with national and international Integrated Border Management standards. It will help define and implement a national strategy for integrated border management, support the operations of General Security and Customs at legal crossing points along the northern and eastern borders, support inter-agency cooperation, and increase outreach to border communities. As a result, the project aims to increase the security of Lebanese citizens, promote regional stability and facilitate trade and development. It will be implemented by the International Centre for Migration Policy Development through the Lebanese Customs and General Security.

Hotel Performance in First Eight Months of 2012

	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Dubai Apartments	86	104	11.1
Makkah	85	245	3.6
Jeddah	81	194	20.7
Dubai City	80	151	13.9
Dubai Overall	80	189	12.3
Dubai Beach	77	262	7.1
Abu Dhabi	74	136	(11.2)
Amman	73	109	38.5
Madina	73	152	18.5
Hurghada	67	21	4.1
Sharm Shaikh	65	31	20.2
Muscat	65	131	1.6
Al Ain	62	86	(5.8)
Beirut	60	122	6.0
Doha	58	150	(6.3)
Riyadh	58	130	(2.7)
Cairo Pyramids	57	70	3.8
Kuwait	50	137	(6.9)
Cairo Overall	40	42	(0.7)
Cairo City	38	38	(1.8)
Manama	37	80	39.6

Source: Ernst & Young, Byblos Research

Economic growth forecast revised downward to 1% in 2012 and 1.5% in 2013 on policy paralysis and persisting political risks

Regional investment bank EFG Hermes revised downwards its projection for real GDP growth in Lebanon to 1% in 2012 from a previous forecast of 2.5% and relative to a growth of 1.5% in 2011. It said that the change reflects the poor performance of the Lebanese economy so far this year, as indicated by proxy economic indicators that point to a deceleration in growth compared to last year. It noted that the lack of a ratified budget will continue to result in lower-than-expected capital expenditures, which would further weigh on economic growth. It added that capital expenditures totaled \$193m in the first five months of the year compared to \$2bn allocated in the 2012 draft budget. It added that this, along with the impact of the Syrian war on key sectors of the Lebanese economy, will result in a negative outlook for the remainder of the year and for 2013. As such, it downgraded Lebanon's growth forecast for 2013 to 1.5% from 4.5% previously due to high political risks which would hamper economic performance next year and to the lack of a ratified budget to help support the economy through capital spending.

In parallel, EFG Hermes said that the 2013 draft budget law is unlikely to be endorsed by Parliament due to divisions within Lebanon's political class. It noted that Lebanon has not approved a budget since 2005, which has limited government spending to general expenditures, debt servicing, and transfers to cover the deficit of Electricité du Liban. It pointed out that the 2013 draft budget proposes new tax measures, including an increase in the value added tax from 10% to 12% and a capital gains tax on real estate transactions. But it noted that these measures, which are similar to those included in the 2012 draft budget, will not be implemented unless the budget law is approved by Parliament. It expected Lebanon's fiscal deficit to widen to 7.1% of GDP in 2012 from 5.7% of GDP in 2011, but to narrow to \$2.9bn or 6.1% of GDP in 2013 due to lower-than-projected spending in the absence of a budget law.

Further, EFG Hermes pointed out that confidence in the Lebanese pound remains stable, supported by a high level of foreign currency reserves at the Central Bank and excess liquidity at Lebanese banks. It added that local banks continue to hold the majority of the government's debt and were the main subscribers in the recent issuance of 10-year Treasury bonds. It noted that the sale of longer-maturing debt constitutes an attempt to increase the participation of Lebanese banks in local T-bills auctions, as they have recently refrained from subscribing to short and medium-term T-bills because of low yields.

Macroeconomic Indicators				
	2010	2011E	2012F	2013F
Real Sector				
Real GDP Growth Rate (%)	7.0	1.5	1.0	1.5
CPI Inflation (yoy % average)	4.0	4.9	6.5	4.5
External Sector				
Trade balance (\$bn)	(13.7)	(15.9)	(17.1)	(17.7)
Current account balance (% of GDP)	(19.2)	(12.2)	(12.1)	(13.0)
BdL NFAs (ex-gold) (\$bn)	28.4	30.6	32.0	34.8
Fiscal Sector				
Fiscal balance (% of GDP)	(7.4)	(5.7)	(7.1)	(6.1)
Net domestic debt (% of GDP)	63.0	61.9	56.4	52.2
External debt (% of GDP)	53.0	50.8	48.4	46.7
Financial Sector				
Broad money growth (yoy %)	12.3	5.5	6.3	9.0
Private sector credit growth (yoy %)	24.4	13.2	10.0	12.0

Source: EFG Hermes, October 2012

Lebanese insurers account for 11% of premiums generated in Arab world

The annual survey by *Al Bayan* magazine of the insurance market in the Arab world shows that the aggregate premiums generated in Lebanon and abroad by Lebanese insurance firms totaled \$2.48bn in 2011, constituting an increase of 8.7% from \$2.28bn in 2010. Premiums generated by 49 Lebanese insurers accounted for 11.2% of the total premiums generated by 323 Arab insurance firms last year, compared to 11.7% in 2010. Lebanese insurers held the fourth highest market share in premiums generated, coming behind UAE firms with 19.8% of the market, firms in Saudi Arabia with 18.9% and insurers from Morocco with 12.8% of the total.

The MEDGULF Group was the top ranked Lebanese insurer with \$1bn in premiums generated domestically and abroad, and ranked in second place in the Arab world. It was followed by Arabia Insurance in 16th place regionally (\$328m), AROPE Insurance in 49th place (\$111.9m), Allianz SNA in 53rd place (\$100m), Metlife Alico in 54th place (\$96.7m), Bankers Assurances in 63rd place (\$86.2m), Libano-Suisse in 64th place (\$86.1m), LIA in 66th place (\$82.7m), AXA Middle East in 77th place (\$76.2m), Fidelity in 101st place (\$52.4m), ADIR in 107th place (\$45.2m), Bancassurance in 112th place (\$42.2m), Mashrek Insurance in 139th place (\$31.4m), Assurex in 148th place (\$29.2m), and Sécurité in 158th place (\$25.1m) as the top 15 Lebanese insurers.

In parallel, the survey included 14 Lebanese insurers among the top 150 Arab insurance firms in terms of assets. The MEDGULF Group ranked in ninth place with \$1.7bn in assets at the end of 2011. It was followed by Metlife Alico in 25th place (\$498.7m), Arabia Insurance in 32nd place (\$401.7m), AROPE in 38th place (\$318.4m), Allianz SNA in 43rd place (\$306.4m), LIA in 44th place (\$289.5m), Bancassurance in 68th place (\$189.5m), ADIR in 83rd place (\$145.1m), Bankers Assurances in 84th place (\$142.8m), Libano Suisse in 85th place (\$140.9m), CLA in 96th place (\$125.3m), AXA Middle East in 112th place (\$93.3m), SOGECAP in 124th place (\$81.4m) and Mashrek in 147th place (\$54.8m). The aggregate assets of the 14 Lebanese firms reached \$4.5bn at end-2011 and accounted for 7.4% of the aggregate assets of the top 150 Arab insurers.

Further, the survey included 19 Lebanese insurers among the top 150 Arab insurance firms in terms of profits. The MEDGULF Group posted \$77.7m in profits in 2011, coming in fifth place regionally. It was followed by Metlife Alico with \$30.4m (15th), AROPE Insurance with \$15.5m (26th), LIA with \$11.6m (32nd), Arabia Insurance with \$10.1m (38th), Bankers Assurances with \$9.5m (41st), Bancassurance with \$8.3m (46th), CLA with \$6.8m (52nd), SOGECAP with \$5.5m (62nd), and Allianz SNA with \$5.2m (64th) as the 10 most profitable Lebanese insurers. The aggregate profits of the 19 insurers reached \$204.8m in 2011 and accounted for 12.4% of the top 150 Arab insurance collective profits.

Also, the survey included six Lebanese insurance companies among the largest Arab insurers in terms of capital. LIA had \$41.5m in capital at end-2011, ranking in 63rd place among 150 Arab insurers. It was followed by Arabia Insurance with \$34m (82nd), the MEDGULF Group with \$33.3m (86th), AROPE Insurance with \$28.7m (93rd), Allianz SNA with \$27.9m (94th), and ADIR with \$16.6m (146th). The total capital of the six insurers reached \$181.9m at end-2011 and accounted for 2% of the combined capital of the top 150 Arab insurers.

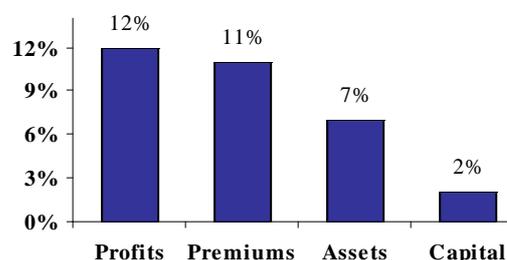
Holcim's net profits down 54% to \$9m in first half of 2012

Cement producer Holcim Liban sal posted net profits of \$9.1m in the first half of 2012, constituting a decrease of 54.3% from \$19.9m in the same period of last year. The firm's net sales totaled \$89.8m in the first half of the year, down 7.5% from \$97.1m in the first half of 2011. Holcim's total assets reached \$283.5m at end-June 2012, constituting a decrease of 5.7% from \$300.6m at end-2011; while its shareholders' equity was \$197.8m at end-June 2012 relative to \$215.2m at the end of last year. The company's total loans and borrowings reached \$11.5m at the end of June, down 8.8% from \$12.6m at end-2011; while its banks' balance and cash fell by 51% to \$11.8m at the end of June 2012 from \$24.1m at the end of last year. The firm is engaged in the production and sale of cement and other related services. Holcim's share price closed at \$15.51 on October 12, constituting a decline of 8.7% from end-2011.

Ciments Blancs' net income at \$1.1m in first half of 2012

Société Libanaise des Ciments Blancs sal, an affiliate of Holcim Liban sal, declared net profits of \$1.1m in the first half of 2012 relative to net income of \$1.4m in the in the same period last year. The company generated total sales of \$7.5m in the first six months of the year compared to \$6.9m in the same period of 2011. The firm's total assets reached \$19.9m at the end of June 2012, decreasing by 2.1% from \$20.3m at end-2011. Also, total equity reached \$14.6m at end-June and regressed by 6.7% from \$15.6m at the end of 2011. The price of Ciments Blancs' Bearer shares closed at \$3.5 on October 12, 2012, constituting a rise of 7.7% from end-2011, while the price of Ciments Blancs' nominal shares closed at \$3.05 on October 12 and rose by 26.6% year-to-date.

Share of Lebanese Insurers in 2011 by Category



Source: *Al Bayan* magazine, *Byblos Research*

Corporate Highlights

Byblos Bank is 40th largest bank in the region, 20 Lebanese banks among top 150 Arab banks

Al-Iktissad Wal-Aamal magazine's annual survey of top 150 banks in the Arab world included 20 Lebanese banks on the list, none of which ranked among the top 25 Arab banks. The rankings are based on shareholders' equity at year-end 2011. Byblos Bank ranked in 40th place on the list, ahead of Burgan Bank and Gulf Bank in Kuwait and Al Khaliji Commercial Bank in Qatar. Byblos Bank's shareholders equity was \$1.65bn at end-2011 and accounted for 13.2% of the aggregate shareholder's equity of the 20 Lebanese banks and for 0.7% of the shareholder's equity of the top 150 Arab banks.

Other Lebanese banks on the list included Bank Audi in 26th place, followed by BLOM Bank in 32nd place, Fransabank in 49th place, Bank of Beirut (60th), BankMed (61st), Banque Libano-Française (67th), Crédit Libanais in (80th), Bank of Beirut and the Arab Countries (100th), and IBL Bank (112th). The total shareholder's equity of the 20 Lebanese banks reached \$12.5bn and accounted for 5.4% of the aggregate equity of the largest 150 Arab banks at end-2011.

In parallel, Byblos Bank-Syria ranked in 138th place on the list with shareholders equity of \$121.2m at end-2011, up 29.3% from \$93.7m at end-2010 and compared to a growth rate of 9.12% of the shareholder's equity of the top 150 banks. Byblos Bank- Syria shareholder equity accounted for 10.8% of the aggregate shareholder's equity of the 8 Syrian banks included in the list and for 0.05% of the shareholder's equity of the top 150 Arab banks.

Stocks of Lebanese banks are most attractive in MENA region

Regional investment bank EFG Hermes indicated that the share prices of the three largest listed Lebanese banks are currently the most attractive in the Middle East & North Africa region given that their valuations have been negatively impacted by domestic political uncertainties and the armed conflict in Syria, which have strongly weighed on economic sentiment in Lebanon. It said the banks' projected price-to-earnings ratio of 5.5 and price-to-book value of 0.9 for 2012 incorporate a pessimistic outlook on credit quality deterioration in Syria, and anticipated that security risks in Lebanon linked to the conflict in Syria will limit further increases in the banks' valuations. EFG Hermes expected the banks' earnings to remain flat in 2012 as they continue to take provision for their Syrian exposure following strong provisioning last year. It said that banks operating in Lebanon will continue to use all their operating profits at their Syrian affiliates to strengthen their collective provisions.

In parallel, EFG Hermes indicated that the banks' net interest spreads are highly sensitive to US dollar rates due to the high dollarization rate of deposits; the banks' strong US dollar-denominated liquidity, with interbank assets accounting for around 20% of the sector's aggregate; and deposit interest rates historically above the LIBOR rate to reflect the fragile macroeconomic and political environment. It said that pressure on net interest spreads has been stable so far this year as banks have offset pressure on asset yields with lower funding costs by transferring partially lower LIBOR rates to their deposit base. It did not expect a strong increase in margins in 2012 and 2013, as higher spreads are linked to higher US dollar interest rates and as global interest rates on the dollar are expected to remain at their current low levels.

RYMCO's profits at \$2m in first half of 2012

Automobile dealer Rasamny Younis Motor Co. sal (RYMCO) declared net profits of \$2m in the first half of 2012 compared to a net loss of \$424,878 in the same period last year. Sales revenues (net of discounts) totaled \$84.2m, posting a 14.3% increase year-on-year; net earnings from servicing and repairs, or 'garage income', increased by 7.1% to \$2m. General and administrative expenses declined by 2% to \$2.2m, while advertising & selling expenses increased by 3.2% to \$0.9m, and overall operating charges rose by 8.7% to \$6.8m. RYMCO's total assets and total equity amounted to \$115.6m and \$53.1m at the end of June 2012, respectively, compared to \$133.7m and \$51.8m a year earlier. The company's inventory of cars and spare parts reached \$29m, constituting a decrease of 40% year-on-year. RYMCO is the only car retailer listed on the Beirut bourse. Its share price closed at \$2.2 on October 12, down 12% year-to-date.



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	Feb 2011	Jan 2012	Feb 2012	Change*	Risk Level
Political Risk Rating	56.5	55.5	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	62.2	62.2	▲	Moderate

Regional Average	Feb 2011	Jan 2012	Feb 2012	Change*	Risk Level
Political Risk Rating	62.6	60.5	60.4	▼	Moderate
Financial Risk Rating	42.2	42.3	42.2	↔	Very Low
Economic Risk Rating	38.0	37.1	37.3	▼	Low
Composite Risk Rating	71.4	69.9	70.0	▼	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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