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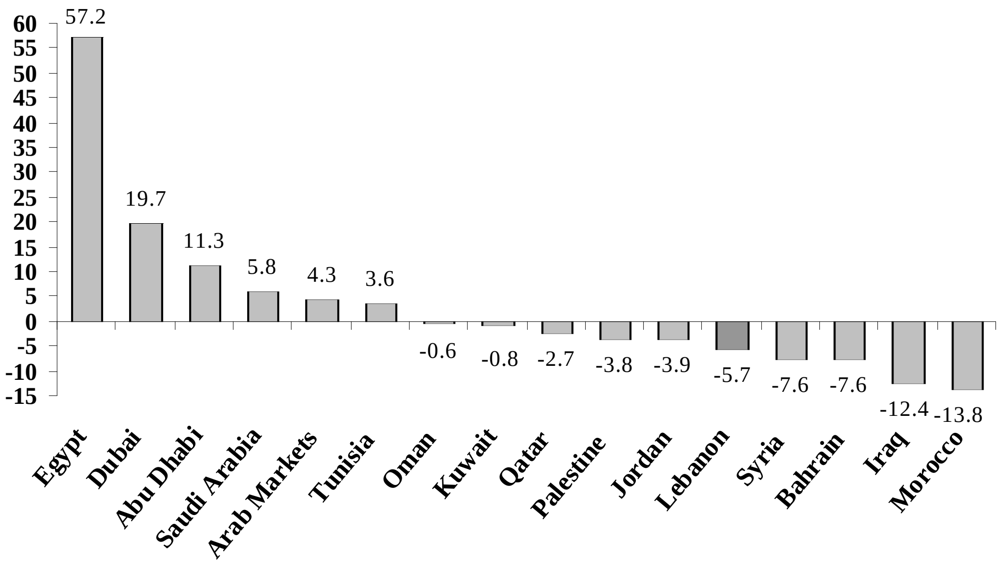
LEBANON THIS WEEK

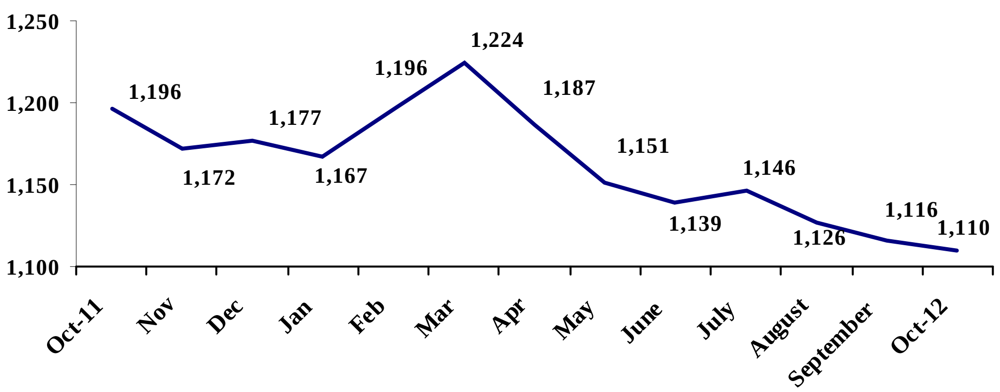
In This Issue

Charts of the Week

Performance of Arab Stock Markets in the First 10 Months of 2012 (% Change)



Performance of the Beirut Stock Exchange



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

Quote to Note

"The establishment of the rule of law and improvement in the domestic security situation would support economic activity."

The Institute of International Finance, on the basic requirements to improve economic growth prospects in Lebanon

Number of the Week

55%: percentage of Lebanese who do not save any part of their monthly income, according to a World Bank survey

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
In months of Imports	*19.46*	*17.22*	*17.99*	*17.98*	*17.08*	*17.05*	*(1.00)*
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"	12.25	(0.73)	44,661	12.27%
Solidere "B"	12.30	(1.05)	20,023	8.01%
Byblos Common	1.49	0.00	25,000	5.37%
Byblos Pref. 08	102.60	0.00	0	2.06%
Byblos Pref. 09	103.60	0.00	1,375	2.08%
BLOM GDR	7.80	0.00	0	5.77%
BLOM Listed	7.64	3.95	2,250	16.45%
Audi GDR	5.80	0.87	3,058	5.90%
Audi Listed	5.35	(5.81)	10,730	18.74%
HOLCIM	15.51	0.00	0	3.03%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
June 2013	8.625	104.00	2.43
Apr. 2014	7.375	107.25	2.34
Jan. 2015	5.875	104.50	3.75
Apr. 2015	10.00	114.50	3.87
Jan. 2016	8.500	112.50	4.32
Mar. 2017	9.000	116.75	4.74
Nov. 2018	5.150	100.38	5.08
Apr. 2021	8.250	116.75	5.73
Nov. 2026	6.600	102.50	6.33

Source: Byblos Bank Capital Markets

	Oct 29-Nov 2	Oct 22-25	% Change	Oct 2012	Oct 2011	% Change
Total Shares Traded	184,068	361,813	(49.13)	3,246,713	2,253,871	44.05
Total Value Traded	$3,337,027	$2,715,320	22.90	$24,752,559	$17,474,040	41.65
Market Capitalization	$9.98bn	$10.05bn	(0.64)	$9.96bn	$10.45bn	(4.71)

Source: Beirut Stock Exchange (BSE)

Lebanon ranks 115th globally, 11th among Arab countries on ease of doing business

The World Bank/International Finance Corporation Doing Business 2013 report ranked Lebanon in 115th place among 185 countries worldwide and in 11th place among 19 Arab countries in terms of ease of doing business. Lebanon came in 112th place globally and in 11th place regionally in 2012. Lebanon also ranked in 38th place among 49 Upper-Middle Income Countries included in the 2013 survey. The index is a composite of 10 sub-indices of business regulations that track the time and cost to meet government requirements in business start-up, expansion, operations and insolvency. Globally, Lebanon ranked ahead of the Dominican Republic, Kiribati and Yemen, and came behind Guyana, El Salvador and Russia. It also ranked ahead of the Dominican Republic and Argentina, and behind Russia and Palau among UMICs.

Globally, Lebanon tied with Japan on the Starting a Business indicator, while it ranked ahead of Vanuatu and Seychelles, and behind Tanzania and Ghana. Regionally, it came ahead of Sudan and Syria and behind Yemen and Qatar. Entrepreneurs need five steps to start a business in Lebanon compared to an average of 8.4 procedures in Arab countries and 5 procedures in OECD states, and it takes nine days to start a business locally compared to an average of 22.6 days in the region and 12 days in OECD countries.

Also, Lebanon tied with Malta on the Enforcing Contracts indicator, while it ranked ahead of the Bahamas and Saudi Arabia and behind Bosnia & Herzegovina and St. Kitts & Nevis. Regionally, it ranked ahead of Saudi Arabia and Algeria and behind Kuwait and Bahrain. A firm in Lebanon requires 37 procedures and 721 days to enforce commercial contracts, compared to an average of 44.6 procedures and 661 days in the Arab world and to 31 procedures and 510 days in OECD countries. Further, enforcing a contract in Lebanon costs 30.8% of the claim compared to 23.4% in the region and 20.1% in OECD markets.

Further, Lebanon tied with 24 countries that include Italy, Portugal and Russia on the Getting Credit indicator, while it ranked ahead of Bahrain and Samoa, and came behind Iran and Sierra Leone. This category measures the legal rights of lenders and borrowers, as well as access and quality of available credit information. Regionally, it tied with Morocco, Kuwait, Tunisia and Qatar, ranked ahead of Bahrain and Algeria, and came behind Egypt and Oman. Lebanon scored five points on the Credit Information category, which is equal to the 5 points for the OECD average and better than the 3.5 points for the regional average.

Lebanon ranked ahead of Benin and Honduras, and came behind Niger and Tanzania on the Resolving Insolvency indicator, while it ranked ahead of Egypt and Djibouti and behind Yemen and Jordan in the region. Resolving Insolvency in Lebanon takes four years and costs 22% of the value of the debtor's estate compared to 3.5 years on average and 13.9% of estate value in the Arab countries and 1.7 years and 9% of estate value in OECD economies. The recovery rate in Lebanon is 20.9 cents on the dollar compared to 32.6 cents for the region and 70.6 cents for OECD markets.

Ease of Doing Business in 2013

Country	Arab Rank	Global Rank
Saudi Arabia	1	22
UAE	2	26
Qatar	3	40
Bahrain	4	42
Oman	5	47
Tunisia	6	50
Kuwait	7	82
Morocco	8	97
Jordan	9	106
Egypt	10	109
Lebanon	**11**	**115**
Yemen	12	118
West Bank & Gaza	13	135
Sudan	14	143
Syria	15	144
Algeria	16	152
Iraq	17	165
Mauritania	18	167
Djibouti	19	171

Source: World Bank Group, Byblos Research

Lebanon's Rankings by Category in 2013

Indicator	Arab Rank	Global Rank	Change in Rank
Starting a business	11	114	-3
Dealing with Construction permits	19	172	-11
Getting Electricity	6	47	-1
Registering Property	16	108	3
Getting Credit	5	104	-7
Protecting Investors	8	100	-2
Paying Taxes	8	37	-1
Trading Across Borders	11	95	-1
Enforcing Contracts	11	121	-
Resolving Insolvency	13	131	-

Source: World Bank Group, Byblos Research

Hotel occupancy rate at 43% in September

Figures released by STR Global show that the occupancy rate at Beirut hotels reached 42.7% in September 2012, the revenue per available room (RevPAR) amounted to $71.11 and the average daily rate (ADR) stood at $166.4. STR said occupancy rates in Beirut dropped by 40.1% year-on-year in September 2012, the RevPAR regressed by 56.6% annually and the ADR fell by 27.5% from the same month last year. It noted that Lebanon posted the steepest year-on-year contraction on all three indicators in the Middle East. It added that the RevPAR's year-on-year decline in September was the steepest so far this year. It pointed out that the RevPAR posted double-digit increases in the first five months of the year, while it has been on a downward trend since June 2012. The occupancy rate at hotels in the Middle East was 59% during the covered month relative to 57.3% in September 2011, while the region's RevPAR was $101.83 up 0.1% from $101.71 in the same period last year. Also, the occupancy rate at hotels in North Africa was 60.8% in September 2012 relative to 54.5% in the same month last year, while the region's RevPAR was $49.85, up 8.7% from $45.87 in September 2011.

Lebanon in the News

Economic activity to remain flat in 2012

Global investment bank JPMorgan Chase projected Lebanon's real GDP to remain flat in 2012 due to expectations of negative growth in the fourth quarter of the year. It added that high frequency indicators point to a contraction in Lebanon's real GDP in the third quarter of the year. It anticipated that the recent security deterioration and political events will negatively affect domestic sentiment and growth in Lebanon. It said that the assassination of security chief General Wissam al-Hassan will affect the country's political outlook as well as its economic prospects, with domestic confidence being severely hit. It added that the tourism sector will continue to further suffer from the deterioration of security conditions in Lebanon.

In parallel, it anticipated that renewed uncertainties would lead bank deposits growth at below the 5% to 6% rate needed to finance both the private and public sectors this year. But it noted that the Central Bank's large stock of foreign exchange reserves and its proactive intervention would cushion the impact of a deceleration in deposit growth on the banking system.

Spillovers from Syrian conflict remain key challenge for Lebanese economy

Citigroup indicated that security concerns and risks of spillovers from the Syrian conflict remain a key challenge for the Lebanese economy, as reflected by the assassination of intelligence chief General Wissam al-Hassan. Further, it considered that the recent domestic unrest significantly weakened the current government, adding that the latter is unlikely to implement significant policies or endorse laws in the foreseeable future given that the unrest brings into question the Cabinet's longevity.

In parallel, Citigroup said that deposit growth in the Lebanese banking sector has been on a downward trend in recent months, as it grew by 7.6% annually in August 2012 compared to an annual increase of 10% in August 2011 and an average growth rate of around 18% in 2010. It attributed the deceleration in deposit growth to economic factors rather than to political concerns, given that the downward trend started before the current round of unrest. It noted that non-resident deposits grew by 11.5% annually in August, twice the growth rate of domestic deposits. It added that signs of risk aversion remain stable, as the dollarization rate has not increased and interest premium on local currency deposits has not widened. Further, it pointed out that the slowdown in deposit growth would not have an impact on the banking sector's ability to support the government's financing needs, as the deposit growth level outpaces the rate of net debt issuance by the government. It anticipated that the support from the banking sector for government debt markets will continue to be considerable due to banks' strong liquidity.

In parallel, Citigroup indicated that the progress in Lebanon's efforts to exploit its potential offshore gas reserves slowed due to the political turmoil. It said that political instability would further delay the appointment of the Petroleum Administration board, which, in turn, would postpone the exploration of gas reserves. It noted that the Ministry of Energy announced last month that seismic surveys of half of Lebanon's Exclusive Economic Zone, excluding areas that are subject of territorial dispute between Lebanon and Israel, suggest the presence of up to 12 trillion cubic feet of gas.

Byblos Bank to co-lead manage upcoming $2bn Eurobond issue

The Ministry of Finance mandated Byblos Bank sal, BLOM Bank sal and Credit Suisse as the Lead Managers to issue Eurobonds worth $2bn. The new issue will be used to refinance $875m in Eurobonds that mature in March 2013 and carries a coupon rate of 9.125%, and $650m Eurobonds that mature in June 2013 and carries a coupon rate of 8.25%. The balance will be earmarked to finance Treasury expenditures. The Eurobond's tenors and pricing have not been decided yet. Byblos Bank co-lead managed in March 2012 a $950m dual-tranche Eurobond under the Republic of Lebanon's Global Medium Term Note Program to refinance $293m and €115m in Eurobonds that mature in March and April 2012, respectively. The first series consisted of a 5.5-year $600m bond that matures on October 2017 and carries a coupon rate of 5% to be paid semi-annually. The second series consisted of reopening and increasing by $350m an existing bond that matures on November 28, 2026 and that carries a coupon rate of 6.6% paid semi-annually. Also, Byblos Bank co-lead managed in May 2011 a $1bn dual-tranche Eurobond under the Republic of Lebanon's Global Medium Term Note Program. The first tranche consisted of an 8-year $650m bond that matures in May 2019 and carries a coupon rate of 6%, and the second tranche consists of an 11-year $350m bond that matures in October 2022 and carries a coupon rate of 6.1%. Also, Byblos Bank was the sole Lead Manager for the issuance of a long-term maturities denominated in Lebanese pounds. The issue was a seven-year LBP 1,500bn bond that carries a coupon rate of 7.9%.

Lebanon's gross public debt reached $55.7bn at the end of August 2012, constituting a rise of 3.8% from the end of 2011 and an increase of 4.3% from end-August 2011. Domestic debt reached $32.6bn at end-August, declining by 0.4% from end-2011 and increasing by 1.4% annually; while external debt stood at $23.1bn, up by 10.4% from end-2011 and by 8.5% from a year earlier. Local currency debt accounted for 58.5% of gross public debt at end-August 2012 compared to 60.1% a year earlier, while foreign currency-denominated debt represented 41.5% of the total at the end of August relative to 39.9% a year earlier.

Lebanon in the News

Lebanon ranks 85th globally, 7th in Arab region on prosperity index

The Legatum Institute's 2012 Prosperity Index ranked Lebanon in 85th place among 142 countries around the world and in seventh place among 15 Arab countries. Lebanon also came in 26th place among 32 upper-middle income countries (UMICs) included in the survey. Lebanon came in 82nd place among 110 countries worldwide, in 10th place regionally, and ranked in 25th place among 27 UMICs in the 2011 survey.

Globally, Lebanon ranked ahead of Tajikistan, Ghana and Kyrgyzstan and came behind Moldova, Namibia and Laos. The index uses a broad definition of prosperity to include both material wealth and quality of life. It finds that the most prosperous nations in the world are not necessarily those that have only a high level of GDP, but are those that also have happy, healthy, and free citizens. The data covers 89 variables grouped into eight sub-indices, each identified as a foundation of long-term prosperity. The index rankings are based on the simple average of the scores of the eight sub-indices for each country.

Lebanon ranked in 63rd place globally, in sixth place among Arab region and in 14th place among UMICs on the Economy Sub-Index. The sub-index measures countries' performances in four areas that are essential to promoting prosperity, namely macroeconomic policies, economic satisfaction and expectations, foundation for growth, and financial sector efficiency. Globally, Lebanon ranked ahead of Belize, Guatemala and Venezuela, and came behind Russia, Iceland and Estonia. Regionally, Lebanon ranked ahead of Tunisia, Syria and Iraq and came behind Algeria, Morocco and Saudi Arabia. It also ranked ahead of Venezuela and Iran, and behind Russia and Kazakhstan among UMICs.

Prosperity Index 2012

	Arab Rank	Global Rank
UAE	1	29
Kuwait	2	38
Saudi Arabia	3	52
Morocco	4	73
Jordan	5	77
Tunisia	6	78
Lebanon	**7**	**85**
Algeria	8	100
Egypt	9	106
Syria	10	113
Djibouti	11	121
Mauritania	12	122
Sudan	13	125
Iraq	14	131
Yemen	15	134

Source: Legatum Institute, Byblos Research

Also, Lebanon ranked in 74th place globally, in sixth place among Arab countries and in 24th place among the UMICs on the Entrepreneurship & Opportunity Sub-Index. The category measures countries' performance in their entrepreneurial environment, innovative activity, and access to opportunity. Globally, Lebanon came ahead of Philippines, Georgia and Moldova and ranked behind Vietnam, Belize and Peru. Regionally, Lebanon ranked ahead of Morocco, Egypt and Algeria and came behind Jordan, Tunisia and Saudi Arabia. It also ranked behind Peru and Macedonia and ahead of Serbia and the Dominican Republic among UMICs.

Further, Lebanon ranked in 107th place globally, in 11th place among Arab countries and in 26th place among the UMICs on the Governance Sub-Index. This category measures countries' performances in three areas, namely the effectiveness and accountability of the government, fair elections and political participation, and the rule of law. Globally, Lebanon ranked ahead of Bosnia and Herzegovina, Ecuador and Nepal, and came behind Algeria, Honduras and Bolivia. Regionally, Lebanon ranked ahead of Yemen, Mauritania and Sudan and came behind Algeria, Djibouti and Syria. It also ranked ahead of Bosnia & Herzegovina and Azerbaijan, and came behind Algeria and Kazakhstan among UMICs. Norway was perceived as the most prosperous country globally, while the Central African Republic was considered to be the least prosperous country around the world.

Lebanon's Rankings on Prosperity Sub-Indices for 2012

Sub-Index	Global Rank	MENA Rank	UMIC Rank
Economy	63	6	14
Entrepreneurship & Opportunity	74	6	24
Governance	107	11	26
Education	63	4	16
Health	86	9	26
Security & Safety	85	8	21
Personal Freedom	114	6	25
Social Capital	120	12	29

Source: Legatum Institute, Byblos Research

Lebanon ranks 40th globally, 11th in the Middle East & Africa for its microfinance environment

The Economist Intelligence Unit's 2012 Global Microfinance Index ranked Lebanon in 40th place among 55 developing countries worldwide and in 11th place among 15 countries in the Middle East & Africa (ME&A) in terms of the environment for microfinance. Also, Lebanon came in 12th place among 16 Upper Middle Income Countries (UMICs) included in the survey. The index evaluates the microfinance climate across two categories that are the Regulatory Framework & Practices, which assesses market-entry and regulatory dynamics; and the Supporting Institutional Framework that addresses institutional and business practices. The index also factors in the impact of political shocks on the microfinance sector.

Globally, Lebanon ranked ahead of Bangladesh, Cameroon and Jamaica, and came behind Morocco, Georgia and Senegal. Lebanon came ahead of Cameroon and Yemen and behind Morocco and Senegal among ME&A countries; while it ranked ahead of Jamaica and Argentina, and behind Azerbaijan and Costa Rica among UMICs.

Lebanon received a score of 33.5 points, below the global average of 42.6 points as well as the ME&A and UMICs' averages of 40.2 points and 44 points, respectively. Lebanon, Morocco, Egypt and Yemen were the only Arab countries included in the index. Peru ranked first globally and Vietnam came in last place.

Global Microfinance Index 2012

Country	Score	ME& A Rank	Global Rank
Kenya	62.8	1	5
Uganda	51.6	2	14
Ghana	51	3	15
Rwanda	48.6	4	17
Tanzania	46.5	5	19
Mozambique	44	6	27
Nigeria	43.4	7	29
Madagascar	35.9	8	35
Senegal	34.1	9	37
Morocco	33.7	10	38
Lebanon	**33.5**	**11**	**40**
Cameroon	31.6	12	42
Yemen	30.4	13	45
Dem. Rep. Congo	28.5	14	48
Egypt	27.4	15	50

Source: Economist Intelligence Unit, Byblos Research

Lebanon ranked in 41st place globally, tied with Ghana and Cameroon in last place among ME&A countries, and came in 11th place among UMICs on the Regulatory Framework & Practices category. Globally, it tied with seven other countries that include Armenia and Vietnam, ranked ahead of Sri Lanka and Argentina and came behind Uruguay and Georgia. Also, it tied with Bosnia & Herzegovina, ranked ahead of Argentina and Turkey, and came behind Uruguay and Azerbaijan among UMICs.

Also, Lebanon ranked in 28th place globally, in fifth place among ME&A countries and in 11th place among UMICs on the Supporting Institutional Framework category. Globally, Lebanon tied with nine other countries that include Morocco and Venezuela, ranked ahead of Bangladesh and Georgia, and came behind Rwanda and Nigeria. Also, it tied with Morocco, Tanzania, Uganda and Mozambique, ranked ahead of Egypt and came behind Nigeria among ME&A countries; while it tied with Argentina, Venezuela and Azerbaijan, ranked ahead of Turkey, and behind Jamaica among UMICs.

In parallel, the EIU estimated the number of microfinance institutions (MFIs) at around 20, most of which are non-governmental organizations located in urban areas. It said that the microfinance sector is dominated by Qard Al-Hassan that services approximately 69,000 clients and Emkaan that has an estimated 10,000 clients. It noted that the Arab Gulf Program for United Nations Development (AGFUND) has registered as a new financial institution in October 2011, bringing to three the total number of financial institutions in Lebanon providing microfinance. It added that the AGFUND is expected to be operational in late 2012 and aims to service 35,000 microfinance customers over the next five years. It pointed out that there is substantial room for growth of the microfinance sector in Lebanon, mainly in rural areas.

However, it said that the supervision of the microfinance sector is weak and ineffective, as the government does not have the capacity or capability to regulate the financial operations of MFIs, and as the sector is not a priority for the Central Bank. It noted that the lack of political stability and interest from the authorities have resulted in the continued delay of much-needed reforms in the microfinance sector. It pointed out that the sector lacks specific dispute settlement mechanisms for micro lenders or borrowers.

Airport passengers up 7% in first nine months of 2012

Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures, transit) totaled 4,579,013 in the first nine months of 2012, constituting an increase of 6.8% from the same period last year. The total number of flights reached 48,100 in the first nine months of 2012, up 0.3% year-on-year. Also, the HIA processed 61,101 metric tons of cargo in the first nine months of 2012, of which 60,539 tons of freight and 562 tons of mail.

Rise in VAT on imported cars to cost Treasury $182m in public revenues

The Association of Automobile Importers in Lebanon (AIA) indicated that any increase in value-added tax or customs duties on imported cars, as well as in car registration or road-usage *(mécanique)* fees, will lead to declines in car sales and government tax revenues. It expected that the government-mandated increase in the VAT on imported cars from 10% to 15% will lead to a 30% decrease in car sales and an aggregate drop of $182m in government revenues from customs duties, VAT and car registration fees. The 50% rise in the VAT on imported cars is part of the Cabinet's recent decision to impose wide-ranging taxes and fees in an attempt to finance the massive cost of the adjustment to the salary scale of public sector employees that it approved earlier. The government estimated that the 50% increase in VAT on imported cars would lead to a rise of $60m in related tax revenues. As such, the AIA estimated that the net loss in government revenues from the VAT hike will reach $122m in 2013.

As an alternative, the AIA called on the government to collect unpaid road-usage fees that total $56m annually. It noted that 829,000 registered cars, or 64% of total registered cars in Lebanon, pay road-usage fees each year compared to 467,000 registered cars, or 36% of the total, that do not pay this fee. Also, it asked the government to monitor cars that enter Lebanon with a temporary car registration plate but that remain in the country after the expiry of the plate. The AIA projected the number of imported and registered new and used cars to drop to 70,000 units in 2012 from 74,000 units in 2011 and 92,000 units in 2010. It attributed the decrease in the number of imported cars to the deterioration of the domestic economic, political, and security situation.

Outlook on banking sector still negative

Moody's Investors Service maintained its 'negative' outlook on Lebanon's banking system due to expectations of weak domestic economic growth and business sentiment in 2012 and 2013 from political instability; a rise in problem loans related to lending in the domestic and regional markets; and declining net profitability from higher provisioning and subdued fee-generation capacities. It anticipated that the domestic operating environment for banks will remain challenging over the coming 12 to 18 months due to political instability, weak growth, and the poor performance of sectors that are important to the banks' asset quality.

The agency noted that the weak growth outlook reflects the unstable security situation in Syria that is affecting Lebanon's business sentiment and economic performance. It added that downside risks to growth have increased due to the escalating local political unrest in the wake of General Wissam al-Hassan's assassination. It considered that the volatile security situation will affect the performance of key sectors such as trade, tourism, real estate and construction; and that it will restrict the government's fiscal capacity to provide fiscal stimulus to the economy. It added that political divisions will continue to dent the government's capacity to implement economic policy and reforms. As a result, it expected the banking sector to post weak nominal credit growth, but to continue to finance the government's deficit. Further, it anticipated that banks' asset quality will remain under pressure with non-performing loans exceeding 6.5% of gross loans compared to a ratio of 4% at end-2011. It attributed the expected rise in problem-loans to adverse socio-political events, weaker domestic market conditions, as well as banks' regional exposures. It added that Lebanese banks' high exposure to sovereign risk will remain a major source of credit risk over the next 12 to 18 months.

In parallel, Moody's expected the sector's profitability to weaken over the coming 18 months due to higher credit costs, lower fee income generation, and lower contribution from the banks' Syrian operations. It estimated that increases in credit charges to maintain current provisioning coverage will erode around 25% of rated banks' aggregate pre-provision income, while fee and commission income will slow due to lower business volumes.

Tourism spending in Lebanon down 24% in third quarter of 2012

Figures issued by Global Blue, the VAT refund operator for international shoppers, show that total spending by tourists in Lebanon in the third quarter of 2012 decreased by 24% from the same period last year. Visitors from Saudi Arabia accounted for 14% of total tourist spending in the third quarter, followed by visitors from the UAE with 12%, Kuwait and Syria with 7% each and Egypt with 5%. Beirut attracted 80% of total spending in the third quarter of 2012, followed by the Metn area with 15%, the Keserwan region with 2% and Baabda with 1%. Fashion & clothing accounted for 72% of total spending in the third quarter of 2012, followed by watches & Jewelry with 11%, home & garden products and department stores with 4% each, souvenirs & gifts with 3% and consumer electronics & household appliances with 2%.

Spending by visitors from the United States rose by 14% from the same quarter last year; while spending by visitors from Saudi Arabia contracted by 53%, followed by visitors from Kuwait (-45%), Qatar (-44%), Jordan (-31%), Syria (-28%), the UAE (-21%), Egypt (-19%) and France (-18%). Also, the number of refund transactions by visitors from Nigeria increased by 4% year-on-year; while refund transactions by visitors from Saudi Arabia fell by 49%, followed by Kuwait (-47%), Qatar (-41%), Jordan (-30%), the UAE (-23%), Egypt, Syria and France (-12%, each), and the United States (-6%). Spending on souvenirs & gifts fell by 39% from the same quarter last year, followed by consumer electronics & household appliances and department stores with a 28% decrease each, fashion and clothing (-26%), home & garden (-16%), and watches & Jewelry (-3%).

Industrial exports down 12% to $1.9bn in first eight months of 2012

Figures released by the Ministry of Industry show that industrial exports totaled $1.9bn in the first eight months of 2012, constituting a decrease of 12.2% from the same period last year. Industrial exports reached $204.7m in August 2012, down 0.3% from $205.3 in July 2012 and by 29.8% from $291.5m in August 2011. Pearls & precious or semi-precious stones accounted for $335.3m, or 17.2% of total industrial exports in the first eight months of the year, followed by machinery & mechanical appliances with $327.4m (16.8%), and base metals & articles of base metals with $279.7m (14.4%). Arab countries accounted for 54.9% of total industrial exports in August, followed by European countries with 15.7%, African countries with 11.4% and Asian countries with 11.2%.

In parallel, industrial imports reached $201.4m in the first eight months of the year, up 26.3% from the same period in 2011. Italy was the main source of such imports and accounted for 23.6% of the total. It was followed by China with 16.8% and Germany with 12.1%. Further, imports of industrial equipment and machinery reached $29.2m in August 2012, increasing by 59.2% year-on-year. Italy was the main source of imports of industrial equipments, accounting for 27.8% of the total, followed by China with 14.6% and Germany with 11.3%.

Construction and public work activity down in first quarter of 2012

The Central Bank's quarterly business survey indicated that construction activity decreased during the first quarter of 2012, as the balance of opinions stood at -16, compared to -7 during the preceding quarter and -9 during the same quarter of 2011. The balance of opinions on construction activity was the lowest in the Bekaa at -73, followed by the South (-41), Beirut & Mount Lebanon (-35) and the North (+49). The business survey reflects the opinions of enterprise managers on the evolution of their businesses, in order to depict the evolution of a number of key economic variables. The balance of opinions for public works stood at -33 in the first quarter of 2012 compared to -13 in the preceding quarter and -25 in the same quarter of 2011. Opinion about the level of public works was the lowest in the Bekaa at -73, followed by Beirut & Mount Lebanon (-29), the North (-15) and the South (zero).

In parallel, the balance of opinions for the portfolio of projects rose to -7 relative to -13 during the preceding quarter and remained unchanged from the same quarter of 2011. The balance of opinions on the portfolio of projects was the worst in the South at -42, followed by Beirut & Mount Lebanon (-23), the Bekaa (-18) and the North (+40). Also, the balance of opinions for general construction activity decreased to -21 during the first quarter of 2012, compared to -11 during the same quarter of 2011. Further, the balance of opinion for construction costs reached +34, down from +52 in the same period of 2011 and compared to +32 in the fourth quarter of 2011. The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in a particular indicator and the proportion of those who reported a decline in the same indicator.

Construction and Public Work Activity: evolution of opinions

Aggregate results	Q1-09	Q1-10	Q1-11	Q1-12
General activity	0	13	-11	-21
Construction	2	19	-9	-16
Public work	-10	-9	-25	-33
Portfolio of projects	-8	5	-7	-7
Construction costs	16	49	52	34
Investments (% of yes)	33%	39%	30%	29%

Source: Central Bank Business Survey in first quarter 2012

Corporate Highlights

Byblos Bank's profits at $123m in first nine months of 2012, primary liquidity at 69% of deposits

Byblos Bank sal, one of the top 3 banking and financial services groups in Lebanon, declared consolidated net profits of $122.6m in the first nine months of 2012 relative to $128.1m in the same period last year. Net interest income reached $191.2m, down 10.7% year-on-year; while net fees & commission income stood at $75.3m, unchanged from the same period last year. As a result, net operating income regressed by a marginal 0.8% year-on-year to $318.3m. Also, the Bank's cost-to-income ratio increased to 49.8% at end-September 2012 from 47.4% a year earlier.

Total assets reached $16.9bn at end-September 2012, constituting a rise of 1.8% from the end of 2011 and an increase of 1.4% from end-September 2011; while net loans & advances to customers rose by 3.2% from end-2011 and by 4.1% from end-September 2011 to $4.1bn at end-September 2012. Net loans & advances to related parties stood at $8.5m at end-September 2012. The Bank allocated during the first nine months of 2012 provisions for credit losses of $40.1m that included $13.9m in collective provisions. Gross non-performing loans represented 4.6% of gross loans as at end-September 2012, and were covered up to 65.6% by specific provisions and reserved interest. Also, the coverage ratio reaches 98.6% when accounting for collective provisions, and represented 1.6% of net loans. The Bank's net non-performing loans, which represent NPLs net of specific provisions and reserved interest, reached 1.7% of net loans at the end of September 2012.

Customers' deposits totaled $13.4bn, increasing by 4.2% from end-2011 and by 4.8% from end-September 2011, with deposits from related parties reaching $119.3m. The Bank's primary liquidity, representing dues from Central Banks and banks, totaled $9.2bn and was equivalent to 68.7% of total deposits at the end of September 2012, which is one of the highest liquidity levels in the Lebanese banking sector. Also, the Bank's Basel III Capital Adequacy Ratio stood at 13%, one of the highest in the sector, compared to the minimum regulatory requirement of 12% for end-2015. Earnings per common ordinary share fell were LBP 252.92, equivalent to $0.17 per share. The Bank's total equity reached $1.6bn at end-September 2012. The Byblos Bank Group has a direct presence in Iraq, Syria, Sudan, the United Arab Emirates, Nigeria, Armenia and the Democratic Republic of Congo, as well as in Belgium, France, the United Kingdom and Cyprus.

Stock market activity down 21% to $364m in first 10 months of 2012

Figures released by the Beirut Stock Exchange indicate that total trading volume reached 47.7 million shares in the first 10 months of 2012, constituting a decrease of 27.8% from the same period last year; while aggregate turnover amounted to $363.9m, down 21.4% from a turnover of $462.8m in the first 10 months of 2011. Market capitalization decreased by 3.2% from end-2011 and by 4.7% from end-October 2011 to $9.95bn, of which 75.7% was in banking stocks, 20.4% in real estate stocks, 3.3% in industrial stocks, 0.3% in fund stocks, and 0.2% in trading stocks. The market liquidity ratio was 3.7%, down from 4.4% in the same period last year. Bank stocks accounted for 76.8% of aggregate trading volume in the first 10 months of the year, followed by real estate stocks with 17.8%, trading stocks with 5.2%, and industrial stocks with 0.2%. In terms of value of shares traded, banking stocks accounted for 66.9% of aggregate value, followed by real estate stocks with 31.1%, trading stocks with 1.5% and industrial stocks with 0.3%. The average daily traded volume for the period was 229,489 shares for an average daily value of $1.7m. The figures reflect decreases of 29.5% in volume and 23% in value year-on-year.

Balance sheet of financial institutions up 6% in first quarter of 2012

Figures released by the Central Bank show that the consolidated balance sheet of financial institutions in Lebanon reached LBP1,670bn, or $1.1bn, at the end of March 2012, constituting an increase of 1.2% from end-2011 and a rise of 6% from end-March 2011. Liabilities to the private sector reached $261.2m, up 15.2% from end-2011 but down 6% from end-March 2011. Further, commitments to the financial sector totaled $456.6m at the end of March 2012, representing a drop of 4% from the end of last year, and an increase of 15.6% from end-March 2011.

On the assets' side, financial institutions' operations with commercial banks reached $413.7m at the end of March 2012, down 3.11% in the first quarter of the yaer, but up 15.1% from a year earlier. Lending to the private sector totaled $562.2m, up 4.5% from end-2011, but down 0.2% from end-March 2011. Also, investments in government securities totaled $111.7m as at end-March 2012, increasing by 4.7% in the first quarter of the year and by 12.1% from end-March 2011. Further, the aggregate capital account of financial institutions reached $320.1m at end-March 2012, constituting an increase of 2.8% from end-2011 and a rise of 20.8% from a year earlier. There are 53 financial institutions in Lebanon with a total of 58 branches.

Aggregate profits of listed banks flat in first nine months of 2012

Financial results issued by five banks listed on the Beirut Stock Exchange show that their aggregate net profits reached $719.1m in the first nine months of 2012, similar to net profits of $718.9m in the same period last year and compared to a rise in net income of 3.8% in the first nine months of 2011. Also, the banks' aggregate net profits reached $235m in the third quarter of 2012, constituting a drop of 3.4% from $243.4m in the previous quarter, and a decline of 2.5% from $241.1m in the third quarter of 2011. The profit figures exclude the one-time income of $44.5m realized by Bank Audi from the sale of 81% of LIA Insurance sal. The aggregate net profits of the five listed banks would rise by 6.2% to $763.6m in the first nine months of the year when including the proceeds from the sale of LIA Insurance. The average year-on-year change in net profits of the five banks contracted by 14.1% in the first nine months of 2012 compared to an average growth in net profits of 3.1% in the same period last year. The average year-on-year decline in net profits during the first nine months of this year is due largely to general and specific provisions taken by the banks as a precautionary measure in view of prevailing conditions. Further, the average year-on-year change in net profits of the five banks contracted by 11.2% in the third quarter of 2012, compared to average contractions in net profits of 26.5% in the second quarter of 2012 and 7.5% in the first quarter. The aggregate net interest income of the five banks reached $1.15bn in the first nine months of 2012, up 6.9% from $1.1bn in the same period last year, while their total net fees and commission income increased by 3.1% to $350.1 year-on-year. Total operating income of the listed banks reached $2bn in the first nine months of 2012, up 14% from $1.75bn in the same period last year.

In parallel, the aggregate assets of the five banks increased by 3.1% from end-2011 and by 4% from end-September 2011 to $82.2bn; while their total loans, excluding loans to related parties, increased by 5.8% from end-2011 and by 7.1% from end-September 2011 to $23bn. Also, the banks' customer deposits rose by 2.9% from end-2011 and by 4% from end-September 2011 to reach $67.9bn. BLOM Bank posted the lowest loans-to-deposits ratio at 27.7% compared to 27.9% at end-September 2011, followed by Byblos Bank with a ratio of 31.2% compared to 31.4% at end-September 2011, Bank Audi with 37% up from 34% at end-September 2011, Bank of Beirut with 42.4% relative to 43.6% a year earlier, and Banque BEMO with a 50.8% ratio up from 49.2% at end-September 2011.

Results of Listed Banks in First Nine Months of 2012

	Byblos	BLOM	Audi*	BoB	BEMO
Net Profits	$122.6m	$250.7m	$264.9m	$79m	$1.83m
% Change**	(4.2%)	6.1%	(2.3%)	3.6%	(73.8%)
Total Assets	$16.90bn	$24.37bn	$29.18bn	$10.22bn	$1.56bn
% Change***	1.8%	5.2%	1.5%	5.1%	2.1%
Loans (1)	$4.13bn	$5.86bn	$9.04bn	$3.34bn	$0.60bn
% Change***	3.2%	5.3%	7.4%	4.8%	10.4%
Deposits (1)	$13.23bn	$21.16bn	$24.46bn	$7.88bn	$1.19bn
% Change***	4.1%	5.2%	(0.6%)	6.0%	7.0%

** Net Profits exclude proceeds from the sale of 81% of LIA Insurance sal*
***Year-on-year*
****Change from end-2011*
(1) Customer Loans and Deposits, excluding related parties' Loans and Deposits

Negative outlook on Société Générale and Crédit Agricole

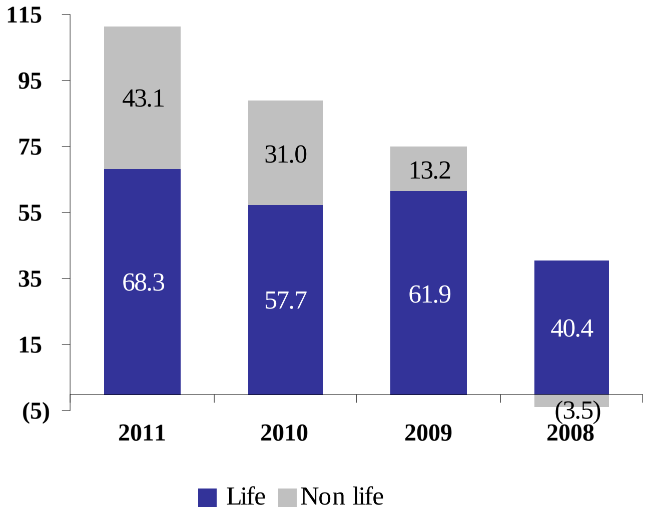
Standard & Poor's affirmed the 'A/A-1' long- and short-term ratings on Crédit Agricole SA and most of its core subsidiaries, and those on Société Générale (SocGen) and its core subsidiaries, and revised the outlook on both banks' long-term ratings to 'negative' from 'stable'. It attributed the outlook revision to a moderate increase in France's economic risks. It said that both banks have a "strong" business position, "moderate" capital and earnings, an "adequate" risk position, "average" funding, and "adequate" liquidity. It added that the outlook revision takes into account an anticipated increase in the industry risks of the French banking sector over the near-term due to an intensification of competition in the domestic market and volatile market conditions. It noted that the two banks have implemented serious measures to improve their regulatory capital ratios. But it warned that rising economic risks offset part of the benefits of these improvements, and that the banks' capital and earnings remain negative rating factors.

Further, it said that the 'negative' outlook take into consideration that an increase in France's banking industry risks, a downgrade of its sovereign ratings, or an economic deterioration across the Eurozone would occur before the banks have implemented a sufficient and sustainable increase in their capital position. Crédit Agricole has a direct presence in Lebanon through its subsidiary Crédit Agricole Suisse (Liban) Financial Services sal. The bank also has a 9% stake in Banque Libano-Française and a 6% stake in Fransabank sal. Société Générale has a 19% stake in Société Générale de Banque au Liban sal.

Net profits of insurance sector up 26% to $111.4m in 2011, claims up 18% to $633m

Figures released by the Association of Insurance Companies in Lebanon (ACAL) show that the aggregate net profits of 46 insurance companies operating in Lebanon reached $111.4m in 2011, constituting an increase of 25.6% from $88.7m in 2010. Net income from the life category reached $68.3m in 2011 and increased by 18.5% year-on-year, while that of the non-life category amounted to $43.1m and rose by 38.7% annually. Premiums and similar revenues increased by 11.4% to $1.19bn in 2011, with written premiums rising by 8.5% to $1.24bn in 2011. Also, net investment income reached $97.1m last year, up 6.3% from the preceding year. In parallel, claims expenses rose by 17.7% to $633m in 2011 and included $608.7m in paid claims that increased by 21% year-on-year. Paid claims from the non-life category reached $502m in 2011 and increased by 17.6% year-on-year, while claims of the life category amounted to $106.7m and rose by 38.8% annually. Net reinsurance expenses reached $25.9m in 2011, down 32.2% from $38.3m in 2011, while ceded premiums rose by 6.9% to $231.6m and paid reinsurance benefits increased by 30.5% to $143m. Further, general insurance expenses increased by 10.3% to $353.1m in 2011. Brokerage expenses rose by 8.6% to $183.2m and administration costs increased by 7% to $127m in 2011.

Net Profits of Insurance Companies (US$m)



Source: ACAL, Byblos Research

In parallel, the consolidated balance sheet of insurance companies operating in Lebanon shows that total assets reached $3.4bn at the end of 2011, up 9.6% from $3.1bn at end-2010. On the assets side, general investments totaled $1.8bn and increased by 8.7% from a year earlier. They included $534.2m in fixed income investments that rose by 8.2% annually; as well as $527m in blocked bank deposits and deposits with maturity of more than three months, and $350.2m in cash and cash equivalents. Also, unit-linked contracts investments totaled $647.8m at end-2011, constituting an increase of 11.5% from $580.9m a year earlier, and included $234.6m in cash and similar investments, $223.8m in fixed income investments, $165.6m in mutual funds and $23.8m in variable income investments. Reinsurance share in technical reserves amounted to $214.5m at end-2011 constituting an increase of 10% from $195m at end-2010. Receivables under insurance business and under insurance contracts stood at $237.4m and $27.4m, respectively, constituting increases of 6.3% of and 60.7% respectively

On the liabilities side, shareholders' equity totaled $792.2m at end-2011, constituting an increase of 8.5% from $730.3m a year earlier. Also, technical reserves increased by 9.6% year-on-year to $1.5bn at end-2011. Unit-linked technical reserves reached $662.6m at the end of December 2011, constituting a rise of 14.7% from $577.8m at end-2010. Further, provision for risks and charges increased by 21.5% to $31.6 at end-2011 while debt for funds held under reinsurance treaties rose by 12.2% to $21.2m at end-2011. Liabilities under reinsurance contracts stood at $93.7m at end-2011, up by 22.3% from the preceding year, while liabilities under insurance business fell by 22.1% to $16.3m at end-2011. Total debt dropped by 41.4% to $20.8m at end-2011, and included $14.8 in bank debts, $3.6m in borrowed money and $2.4m in other debts.

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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