

LEBANON THIS WEEK

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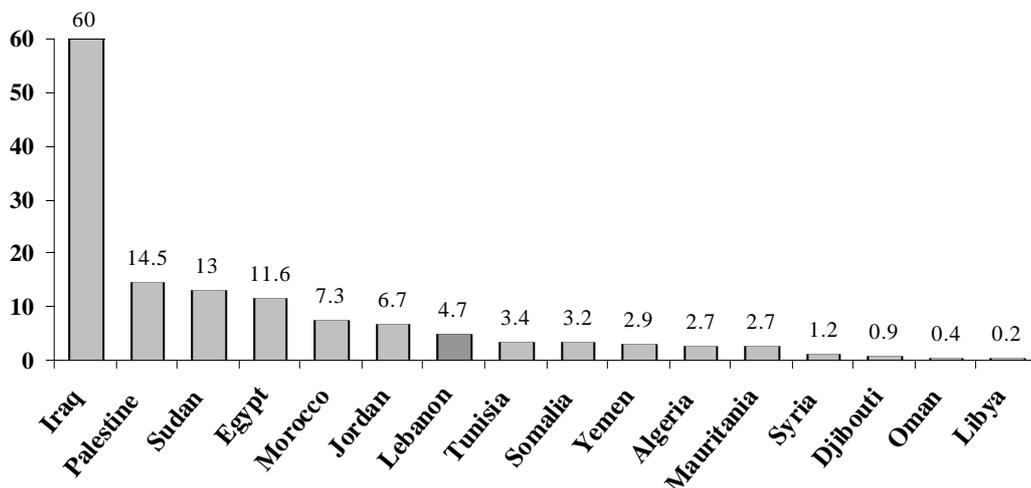
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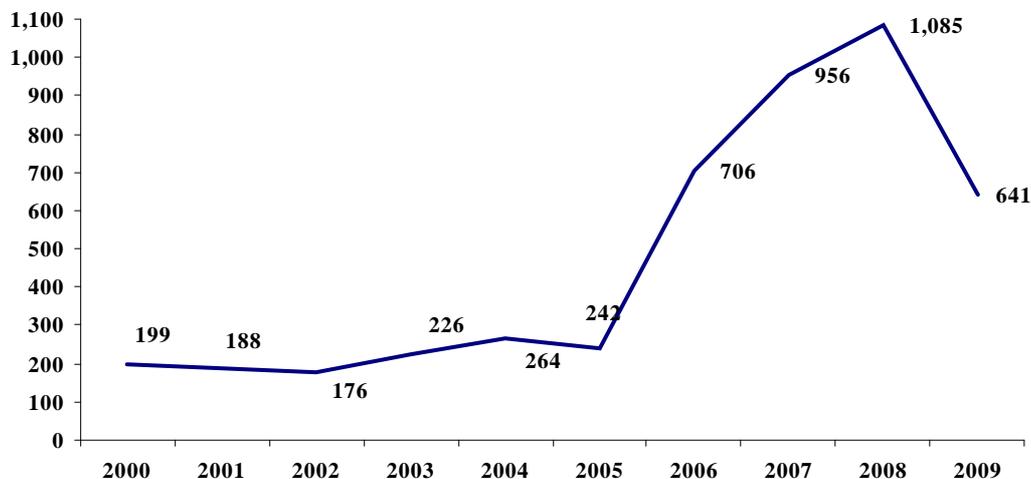
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Charts of the Week

Net Official Development Aid & Financial Support to Arab Countries in 2000-2009 (US\$bn)



Net Official Development Aid & Financial Support to Lebanon (US\$m)



Source: World Bank, Arab Investment & Export Credit Guarantee Corporation, Byblos Bank

Quote to Note

"The passage of the public-private partnership law remains blocked due to political infighting, as political elites remain reluctant to divest their power in the public sector."

Standard & Poor's, on the actual reason for delays in the ratification of the PPP draft law

Number of the Week

1.1%: Net annual smoking-related losses to the Lebanese economy, as a percentage of GDP, according to the AUB Tobacco Control Research Group

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"	12.84	1.18	107,967	12.79%
Solidere "B"	12.51	(1.18)	17,796	8.10%
Byblos Common	1.50	(1.32)	79,249	5.37%
Byblos Pref. 08	101.80	0.49	6,500	2.03%
Byblos Pref. 09	102.80	0.78	4,550	2.05%
BLOM GDR	7.61	(1.17)	17,500	5.60%
BLOM Listed	7.40	0.00	136,050	15.84%
Audi GDR	5.75	(4.17)	1,200	5.81%
Audi Listed	5.50	0.18	10,900	19.14%
HOLCIM	15.36	(8.13)	744	2.99%

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

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

Source: Byblos Bank Capital Markets

	Sep 3 - 7	Aug 28 - Sep 1	% Change	Aug 2012	Aug 2011	% Change
Total Shares Traded	388,302	301,094	28.96	2,124,597	4,130,284	(48.56)
Total Value Traded	\$4,422,107	\$3,233,812	36.75	\$25,488,402	\$42,508,856	(40.04)
Market Capitalization	\$10.04bn	\$10.10bn	(0.58)	\$10.10bn	\$11.08bn	(8.86)

Source: Beirut Stock Exchange (BSE)



Lebanon ranks 91st globally, 9th among Arab countries in global competitiveness

The World Economic Forum ranked Lebanon in 91st place among 144 countries globally and in ninth place among 14 Arab countries on its Global Competitiveness Index for 2012-13. It also ranked Lebanon in 26th place among 36 upper-middle income countries (UMICs) included in the survey. Lebanon came in 89th place globally, in 11th place regionally, and in 27th place among UMICs in the 2011-12 survey. The index measures national competitiveness and highlights its micro and macroeconomic foundation. It measures a country's and its enterprises' ability to compete in global markets, based on the supporting institutions, infrastructure, economic policies and education and healthcare systems; the country's capacity for innovation; as well as the sophistication of domestic markets and local business practices. The index is based on 12 pillars that are grouped in three sub-indices that measure Basic Requirements, Efficiency & Innovation, and Sophistication.

Globally, Lebanon ranked ahead of Namibia, Mongolia, Argentina and Serbia, and came behind Bosnia & Herzegovina, Albania and Honduras. It also ranked ahead of Namibia and Argentina, and came behind Bosnia & Herzegovina and Albania among UMICs. Lebanon received a score of 3.88 points, down from 3.95 points in last year's survey, and lower than the global average of 4.2 points, the UMICs' average of 4.13 points and the Arab average of 4.23 points. But Lebanon's score was better than the average score of non-GCC Arab countries of 3.71 points.

The World Economic Forum said Lebanon ranked well in its assessments of health care and primary education, higher education & training, financial market development, and business sophistication. However, it continues to rank poorly in terms of infrastructure, macroeconomic stability, the supporting institutional environment, and innovation.

Lebanon ranked ahead of Timor-Leste and Ethiopia and came behind Jamaica and Cameroon on the Basic Requirements Sub-Index, which covers institutions, infrastructure, macroeconomic stability and health & primary education. Lebanon's global rank regressed by seven spots and its score retreated on the sub-index from last year's survey. Further, Lebanon ranked ahead of Venezuela and behind the Dominican Republic and Jamaica among UMICs. Regionally, it came ahead of Mauritania and Yemen and trailed Libya and Egypt.

Also, Lebanon ranked ahead of Azerbaijan and Brunei Darussalam, and came behind Romania and Ukraine on the Efficiency Sub-Index that covers higher education, labor market efficiency, financial market development, and overall market efficiency. Lebanon's global rank worsened by two spots and its score was unchanged on the sub-index from last year's survey. Also, Lebanon ranked ahead of Azerbaijan and Uruguay and behind Colombia and Romania among UMICs, and came ahead of Jordan and Kuwait, and behind Bahrain and Oman in the Arab world.

Further, Lebanon ranked ahead of Botswana and Croatia and came behind Ukraine and Jamaica on the Innovation & Sophistication Sub-Index, which covers business sophistication and innovation. Lebanon's worldwide rank regressed by three spots and its score retreated on the sub-index from last year's survey. Lebanon ranked ahead of Botswana and Seychelles and behind Uruguay and Jamaica among UMICs; and came ahead of Morocco and Kuwait and behind Jordan and Bahrain in the Arab world.

The rankings of six Arab countries regressed, six improved year-on-year, and one remained unchanged. Also, the scores of seven Arab countries increased and six declined from last year's survey. The World Economic Forum added Libya to this year's index, and removed Syria and Tunisia. Globally, Switzerland had the most competitive economy with a score of 5.72 points, while Burundi was the least competitive country in the world and received a score of 2.78 points.

Global Competitiveness Index 2012-13

	Overall Score	Arab Rank	Global Rank
Qatar	5.38	1	11
Saudi Arabia	5.19	2	18
UAE	5.07	3	24
Oman	4.65	4	32
Bahrain	4.63	5	35
Kuwait	4.56	6	37
Jordan	4.23	7	64
Morocco	4.15	8	70
Lebanon	3.88	9	91
Egypt	3.73	10	107
Algeria	3.72	11	110
Libya	3.68	12	113
Mauritania	3.32	13	134
Yemen	2.97	14	140

Source: World Economic Forum, Byblos Research

Components of the Global Competitiveness Index

Category	Global Rank	Arab Rank	UMIC Rank	Lebanon Score	Global Average Score	Arab Average Score	UMIC Average Score
Basic Requirements	116	12	35	3.79	4.53	4.71	4.48
Efficiency	66	6	17	4.06	4.09	3.96	4.00
Innovation & Sophistication	81	7	16	3.41	3.71	3.55	3.41

Source: World Economic Forum, Byblos Research



Economic growth projected at 1.6% in 2012 on political uncertainties

Business Monitor International revised downward its projection for Lebanon real GDP growth to 1.6% in 2012 from an earlier forecast of 2.8%. It attributed the change to a weak domestic security environment, political paralysis, unrest in Syria and higher global oil prices that are all undermining the country's growth outlook. It noted that the Central Bank's monthly Coincident Indicator, which constitutes a measure for the underlying health of the economy given the absence of timely official GDP data, continues to reflect weak economic activity. Further, it expected the tourism industry to slow down further during the remainder the year, given the sharp deterioration in Lebanon's security environment. It added that the recent security breaches led Saudi Arabia, Qatar, Kuwait and the UAE to advise their citizens against traveling to Lebanon. It noted that this will negatively impact the tourism industry as visitors from Saudi Arabia account for around 20% of tourist spending, while those from the UAE, Kuwait, Qatar and Bahrain account for 25% of such expenditures. Also, BMI pointed out that political instability is undermining consumption and investment patterns in the country. It said that consumer confidence has yet to recover from the initial sharp fall posted at the start of 2011. It added that the number of transactions in points-of-sale, which is used as a measure of retail sales, increased by less than 1% for eight consecutive months in May 2012. It noted that consumers are continuing to delay purchases given the political and economic uncertainty in the country.

In parallel, BMI considered that Lebanon's growth outlook will remain linked to the unrest in Syria, as the risk of spillovers will prevent a more robust economic recovery. It noted that fixed investment is currently on a downward trend and is unlikely to reverse as long as the political environment remains volatile. It added that foreign direct investment inflows to Lebanon fell in 2011 to their second-lowest level in nine years due to the rise in investors' risk aversion. Further, it said that external conditions will not be supportive to Lebanon's macroeconomic outlook. It noted that the sharp rise in energy prices and the deterioration in domestic electricity production are exacerbating existing problems, as households are forced to devote a greater share of their spending on energy products and on private electricity generators. It added that the net impact of higher global oil prices on the Lebanese economy has been positive traditionally, as it resulted in significant inflows of investment, remittances, banking sector deposits and tourists from the Gulf. However, it expressed uncertainty about the net positive impact of further increases in global oil prices, as Gulf visitors are likely to stay away due to the fragile security situation and investment are stalled due the regional uncertainty.

In parallel, BMI did not expect the authorities to respond to the economic slowdown in the near-term, through a fiscal stimulus, due to the ongoing policy paralysis. It noted that the 2013 draft budget is unlikely to be endorsed by Parliament, adding that Lebanon has not approved a budget since 2005 with government spending taking place on an *ad hoc* basis. It pointed out that the lack of official budget is limiting Lebanon's ability to pursue long-term capital expenditures, particularly on infrastructure.

Draft budget for 2013 projects deficit at 20% of expenditures and 7% of GDP

The Ministry of Finance issued the 2013 draft budget that shows expenditures at \$15.3bn, constituting an increase of 13.6% from 2012; and revenues of \$12.2bn, up 28% from the previous year. As a result, the budget deficit would narrow by 21% to reach \$3.1bn, or 20.3% of overall spending, compared to a deficit of \$3.9bn or 29.2% of expenditures in the 2012 draft budget. Expenditures would be equivalent to 34% of GDP and revenues to 27.1% of GDP. The ministry estimated the deficit at 6.9% of GDP in 2013 relative to 9.2% of GDP in 2012. The percentage changes are based on comparisons with the latest version of the 2012 draft budget that was modified and endorsed by the Council of Ministers less than two months ago, and that has yet to be debated or ratified by Parliament. The ministry based its 2013 budget projections on real GDP growth of 2.5% and an average inflation rate of 3% in 2013. It estimated Lebanon's nominal GDP at LBP 67,695bn or \$44.9bn in 2013.

On the expenditures side, the ministry estimated capital spending at \$1.8bn, equivalent to 4% of GDP, and accounting for 11.8% of total expenditures. The distribution of current expenditures shows that wages & salaries would stand at \$3.7bn and would account for 24.6% of budgetary spending; while subsidies to Electricité du Liban would decline by around 9.5% to \$1.9bn. Wages & salaries are the largest expenditures item in the budget and would be equivalent to 8.2% of GDP, while transfers to EdL would be equivalent to 4.2% of GDP. The allocation to wages & salaries in the budget takes into account part of the cost of the increase in public sector salaries, with such part estimated at LBP 1,450bn.

On the revenues side, the draft budget assumed that tax receipts would rise by 31% to \$9.4bn and would account for 77.5% of budgetary revenues; while it forecast non-tax income to improve by 18.3% to \$2.7bn. Tax and non-tax revenues would be equivalent to 21% of GDP and 6% of GDP, respectively. In order to boost revenues, the ministry plans to increase the value-added tax to 12% from 10%, and the tax on deposit interest rates to 8% from 5%, among other measures. It claimed that it allocated tax breaks such as tax exemptions for a period of five years for hotels in certain areas in Lebanon and for firms in the tourism sector that meet requirements set by the Finance Ministry.

Lebanon's external debt posts second 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 0.52% in the first eight months of 2012, constituting the lowest return among 29 markets in the Eastern Europe, the Middle East & Africa (EMEA) region as well as the second lowest return among the 52 emerging markets included in Merrill Lynch's Sovereign Plus Debt Index. Lebanon underperformed the EMEA region's returns of 13.9%, as well the overall emerging markets returns of 12.54% during the covered period. Also, Lebanon's external debt underperformed the 14.3% returns posted by similarly-rated sovereigns.

Further, Lebanon's external debt posted the lowest returns among 13 countries in the Middle East & Africa region in the first eight months of 2012. It was outperformed by Tunisia (6.11%), Jordan (6.63%), Morocco (10.4%), Gabon (10.19%), South Africa (10.27%), Ghana (10.38%), Bahrain (10.44%), Namibia (11.57%), Nigeria (12.88%), Iraq (15.48%), Senegal (22%) and Egypt (23.16%). In US dollar terms, Lebanon's external debt posted returns of 0.41% in the first eight months of 2012, lowest in the EMEA region and third lowest among emerging markets.

In parallel, Lebanon's external debt posted returns of 0.15% in August 2012, constituting the third lowest return in the EMEA region and 10th lowest in emerging markets during the covered month. Lebanon underperformed the EMEA returns of 1.88% and the emerging markets returns of 1.31% as well as the 2.43% returns of similarly-rated sovereigns for the same month. Regionally, it outperformed Jordan (-0.03%) and South Africa (0.14%); and underperformed Tunisia (1.46%), Morocco (1.83%), Bahrain (3.06%), Gabon (3.12%), Ghana (3.45%), Senegal (3.73%), Nigeria (3.95%), Iraq (4.27%), Namibia (4.64%) and Egypt (7.97%).

Merrill Lynch said the spread on Lebanese Eurobonds ended August 2012 at 485 basis points, constituting the ninth widest spread in the EMEA region and 17th widest among emerging markets. It was wider than the EMEA spread of 338 basis points as well as the emerging markets overall spread of 330 basis points at end-August 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 7.3% of the allocations in the EMEA region.

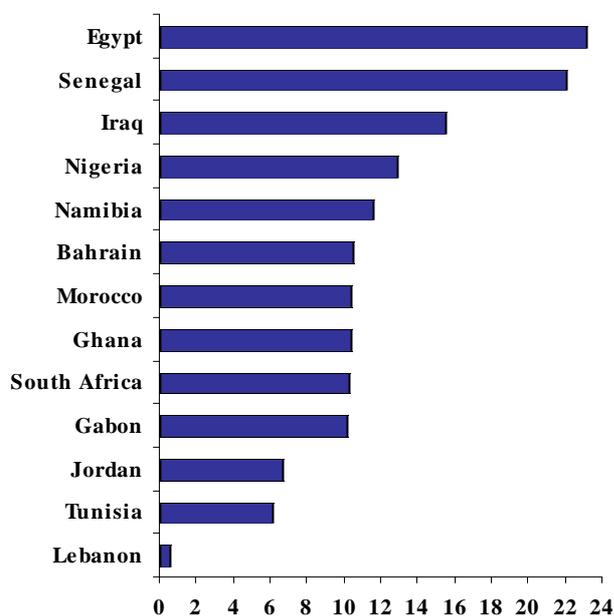
Cabinet approves across-the-border salary adjustment for public sector employees

The Cabinet approved a draft law that stipulates raising the minimum wage for public sector employees across the board, including the military, municipal employees and the staff of state-owned entities from LBP500,000 to LBP675,000, or \$447.8, which constitutes an increase of 35%.

Further, the Cabinet endorsed the cost-of-living increase for employees in the public sector. It said that the increase will apply in tranches, with a 100% raise on the first monthly salary segment of up to LBP400,000 and a minimum nominal increase of LBP375,000; while an additional 9% raise will be applied on the second salary bracket between LBP400,000 and LBP1,500,000. It said that there will be no increase on the segment above LBP1,500,000. It noted that the cumulative increase represents the inflation level between end-1995 and end-2011. Further, the government said that the 2008 minimum wage increase of LP200,000 will be deducted from the employee's basic salary before implementing the new increase. It noted that the increase in the cost of living is expected to be paid retroactively as of February 1, 2012 starting at the end of September. The increase in the cost of living is expected to cost the Treasury about \$320m per year.

In addition, the Cabinet approved an across-the-board adjustment to the salary scale of public sector employees, and will pay it retroactively as of July 1, 2012. It noted that salary adjustments and cost-of-living increases will cover retired employees of the public sector. According to the draft law, salaries of public sector employees will nearly double after the implementation of the cost-of-living increase and salary adjustments. The government announced that it will start paying the salary adjustment on April 1, 2013, and that it will disburse the payments over five years. The salary adjustment for public sector employees is expected to cost the Treasury over \$1bn annually.

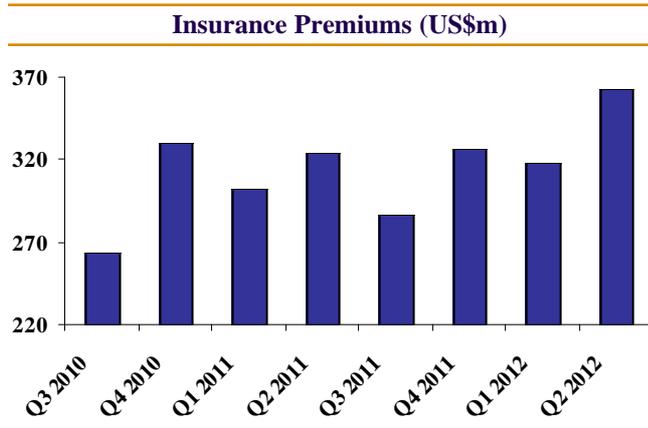
External Debt Performance in Middle East & Africa in First Eight Months of 2012 (%)



Source: Merrill Lynch, Byblos Research

Insurance premiums up 9% to \$627m in first half of 2012, claims and benefits at \$286m

Figures released by the Association of Insurance Companies in Lebanon (ACAL) indicate that insurance premiums generated in Lebanon totaled \$680.8m in the first half of 2012, constituting an increase of 8.6% from \$626.7m in the same period last year. Aggregate premiums reached \$318.5m in the first quarter of the year, up 5.3% from the same quarter last year; while they stood at \$362.3m in the second quarter up 11.8% from the same period of 2011. Also, insurance premiums grew by 13.7% quarter-to-quarter. The life and fire categories were the main drivers of premium growth in the first half of the year as they posted increases of 23% and 16%, respectively, compared to growth of 10% for workmen insurance premiums, 8% for cargo premiums and 4% for medical premiums; while motor premiums contracted by 1% in the covered period. Further, medical insurance premiums reached \$115.1m in the second quarter and accounted for 31.8% of the sector's aggregate premiums. They were followed by life premiums with \$105.2m (29%), motor premiums with \$83.3m (23%), fire premiums with \$22m (6.1%), workmen compensation premiums with \$10.3m (2.9%) and cargo premiums with \$9m (2.5%). Life premiums increased by 31.3% quarter-on-quarter, medical premiums rose by 18.8%, motor premiums grew by 10% and cargo premiums increased by 1.6%; while fire premiums dropped by 25.8% and workmen insurance premiums regressed by 1.5%.



Source: Association of Insurance Companies in Lebanon

In parallel, ACAL indicated that total benefits and claims paid by insurance companies stood at \$285.5m in the first half of 2012, constituting an 8.6% increase from the same period last year. Claims and benefits paid reached \$143.4m in the second quarter and rose by 7% from the same period last year, while they reached \$142.1m in the first quarter and increased by 10.3% year-on-year. Life, motor, medical and workmen claims grew annually by 38%, 13%, 6% and 3%, respectively, in the first half of 2012; while cargo claims dropped by 71% and fire claims declined by 6% year-on-year. Further, medical claims reached \$63.2m in the second quarter of 2012 and accounted for 44% of total payments, followed by motor policies payments with \$44.4m (30.1%), life claims with \$21.8m (15.2%), workmen's claims with \$4.7m (3.3%), fire claims with \$4.1m (2.9%), and public liability claims with \$2m (1.4%). Also, cargo claims stood at \$946,000 in the second quarter, engineering claims reached \$783,000 and credit claims accounted for \$218,000. Public liability claims rose by 31% quarter-on-quarter and medical claims increased by 6.9%, while motor claims remained unchanged. In contrast, engineering and credit claims fell by 100% each, cargo claims dropped by 41%, fire claims declined by 27.5%, workmen insurance claims decreased by 4.5% and life claims regressed 1.7%.

Further, unit-linked policies accounted for 59.7% of total life premiums and for 43.1% of the total number of life contracts in the first half of the year; while life protection plans represented 40.3% of total life premiums and 56.9% of the total number of life contracts in the covered period. ACAL noted that medical insurance premiums covering expatriates grew by 9% year-on-year to \$5.1m in the first half, while medical insurance premiums covering Lebanese citizens rose by 4% at \$208.5m. Finally, it indicated that compulsory motor insurance premiums rose by 24% annually to \$27m in the first half, while non-compulsory motor insurance premiums declined by 2% year-on-year to \$131.6m.

Net public debt at \$47bn at end-July 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 compared to 60.7% a year earlier, while foreign currency-denominated debt represented 41.5% of the total at the end of July relative to 39.3% a year earlier. The weighted interest rate on outstanding Treasury bills was 6.64%, while the weighted interest rate on Eurobonds was 6.85% at the end of July. Further, the weighted life on Eurobonds was 5.78 years, while that on Treasury bills was 913 days.

Commercial banks accounted for 51.7% of the local public debt at the end of July 2012 compared to 48.7% a year earlier. They were followed by the Central Bank with 31.6%, down from 34.8% at end-July 2011; while public agencies, financial institutions and the general public accounted for 16.7% of local debt compared to 16.5% in July 2011. Eurobond holders, foreign private sector loans and special T-bills in foreign currencies accounted for 89% of the external debt, followed by multilateral institutions with 5.8%, foreign governments with 4.3%, and Paris II loans with 0.9%. Net public debt, which excludes the public sector's deposits at the Central Bank and at commercial banks from overall debt figures, increased annually by 3.9% to \$47.3bn. In parallel, the gross market debt accounted for about 62% of total public debt. Gross market debt is the total public debt less the portfolios of the Central Bank, the National Social Security Fund, bilateral and multilateral loans, as well as Paris II and Paris III related debt.

Commercial banks' assets reach \$146bn at end-July 2012

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$145.5bn at the end of July 2012, constituting an increase of 3.5% from end-2011 and a rise of 6.3% from end-July 2011. Private sector deposits totaled \$119.8bn, increasing by 3.5% from end-2011 and rising by 6.8% from a year earlier. Deposits in Lebanese pounds reached \$42.2bn, up by 7% from end-2011 and by 13.2% year-on-year; while deposits in foreign currencies totaled \$77.6bn, and increased by 1.7% from end-2011 and by 3.6% from end-July 2011. Non-resident foreign currency deposits totaled \$18.8bn at end-July 2012, up 1.3% from end-2011, and grew by 6.4% from a year earlier. Total non-resident deposits reached \$21.9bn at end-July 2012 and grew by 3.2% from end-2011 and by 8.9% from a year earlier. Total private sector deposits decreased by \$130m in July and increased by \$985.4m in June, \$141.3m in May, \$533m in April, \$806m in March, \$725.7m in February and by \$976m in January 2012, compared to a rise of \$656.7m in July, \$1bn in June, \$539m in May, \$1.8bn in April, \$1.3bn in March, \$673m in February and a decline of \$1.1bn in January 2011. In parallel, deposits of non-resident banks reached \$6bn in July, as they increased by 2.4% from end-2011 and declined by 3.8% year-on-year. The dollarization rate of deposits reached 64.8% at the end of July, down from 66.7% a year earlier. Further, the average deposit rate in Lebanese pounds reached 5.45% in July relative 5.59% a year earlier; while the same rate in US dollars was 2.84%, down from 2.86% in July 2011.

Loans to the private sector totaled \$41.5bn at end-July, constituting an increase of 5.4% from end-2011 and a rise of 8.2% from a year earlier. Lending to the resident private sector totaled \$36.2bn and increased by 5.7% from end-2011, while lending to the non-resident private sector reached \$5.3bn and rose by 3% from end-2011. The dollarization rate in private sector lending reached 77.7% in July compared to 79.4% a year earlier. The average lending rate in Lebanese pounds was 7.24% in July 2012 compared to 7.33% a year earlier, while the same average in US dollars was 7.19% compared to 7.03% in July 2011. In addition, claims on non-resident banks reached \$12.8bn at end-July, posting a decrease of 12.3% from end-2011. Claims on the public sector stood at \$29.6bn, constituting an increase of 8.5% from a year earlier and of 1.5% from end-2011. The ratio of private sector loans-to-deposits in foreign currencies stood at 41.5%, well below the Central Bank's limit of 70%, and compared to 40.7% a year earlier. In parallel, the same ratio in Lebanese pounds was 22%, slightly up from 21.2% a year earlier. The ratio of total private sector loans to deposits was 34.6% compared to 34.2% a year earlier. The banks' aggregate capital base stood at \$11.9bn, up by 13% from \$10.5bn in July 2011.

MEA's exclusive rights extended until 2024

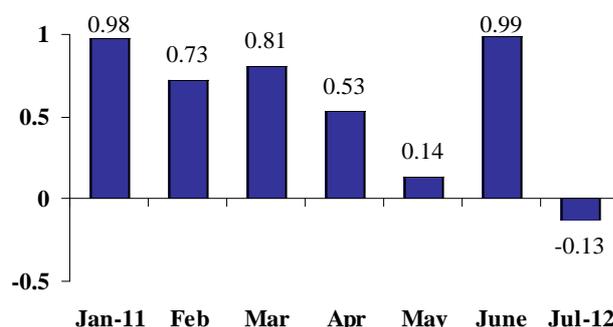
The Cabinet approved on September 5, 2012 the extension of National flag carrier Middle East Airlines' (MEA) exclusive rights for 12 years ending in September 2024. The airline's monopoly was last renewed for 20 years in 1992 and was about to expire on September 14 of this year. MEA was seeking exclusivity rights for another 20 years, so the 12 year-renewal is a compromise from the firm's original request. But the extension of the exclusive rights will ensure that the airline would not face competition before 2024. The Central Bank owns a 99% stake in the airline.

MEA has a fleet of 17 modern Airbus planes, serves 34 destinations, and is part of the global airline alliance SkyTeam. It was planning to raise \$250m through an initial public offering of 25% towards the end of 2010, but the partial IPO was indefinitely postponed. MEA announced operating profits of \$40m in 2011, constituting a drop of 56% from \$90.6m in 2010. It attributed the profits' decline to a rise in fuel prices; an increase in the salaries of employees, pilots and crew; and the turmoil in the Arab region. It noted that the company is facing increasing competition from many Arab airlines that are subsidized by their governments. It posted operating profits of \$118.3m in 2009 and \$101.1m in 2008. It is not possible to independently verify the actual financial state of MEA, as it does not publish its detailed balance sheet or income statement.

Hotel occupancy rate at 54% in July

Figures released by STR Global show that the occupancy rate at Beirut hotels reached 53.9% and the revenue per available room (RevPAR) amounted to \$105.5 in July 2012. STR said occupancy rates in Beirut dropped by 19.3% year-on-year and the RevPAR regressed by 39.6% in the covered month, both posting the steepest year-on-year contraction in the Middle East. The occupancy rate at hotels in the Middle East was 57.8% during the covered month relative to 64.2% in July 2011, while the region's RevPAR was \$81.23 up 14.2% from \$71.1 in the same period last year. Also, the occupancy rate at hotels in North Africa was 52.8% in July 2012 relative to 53.9% in the same month last year, while the region's RevPAR was \$34.9, up 8.1% from \$32.2 in July 2011.

Private Sector Deposit Change (US\$bn)



Source: Association of Banks in Lebanon

Bankers Assurance's profits down 11% to \$9m

Bankers Assurance sal, one of Lebanon's top 5 insurance firm, declared profits of \$9.3m in 2011, constituting a decrease of 10.6% from \$10.4m in 2010. Its audited balance sheet shows total assets of \$142.1m at end-2011, up 4.9% from \$135.4m at end-2010. On the assets side, general company investments totaled \$70.8m and increased by 4% from end-2010. They included \$3.2m in investment in subsidiaries and associates; \$1.48m in fixed income investments; and \$60m in cash & cash equivalent and deposits with maturity of more than three months, of which \$1.9m blocked in favor of the Economy Ministry as guarantees. Also, the unit-linked contract investments totaled \$19m at end-2011, down 19.4% from \$23.6m a year earlier. They included \$7.7m in fixed income investments and placements in mutual funds, and \$11.3m in cash & short-term investments. Reinsurance share in technical reserves for the life and non-life categories amounted to \$3.1m and \$6.6m, respectively, constituting increases of 33.9% and 12.6%, respectively.

On the liabilities side, shareholders' equity totaled \$45.9m at end-2011, reflecting a decline of 25.3% from \$36.6m a year earlier. Unit-linked technical reserves reached \$16.2m at the end of 2011, a rise of 5.4% from \$21.7m at end-2010. Also, technical reserves for the life segment increased by 21.3% year-on-year to \$5m, while technical reserves for the non-life category reached \$50.7m at end-2011 and increased by 7% from a year earlier. Non-life technical reserves included unearned premium reserves of \$32.6m that rose by 6%, outstanding claims reserves of \$16.6m that grew by 10.7%, and \$0.9m in reserves incurred but not reported that declined by 6.8% year-on-year. Further, provisions for risks and charges reached \$1.3m and rose by 59% from a year earlier. Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked Bankers Assurances sal in second and 10th place in 2011 in terms of non-life and life premiums, respectively. The firm's non-life premiums reached \$79.7m and life premiums amounted to \$6.5m in 2011, constituting an increase of 5.2% in life and a drop of 67% in non-life premiums from the previous year. It had a 9.2% share of the local non-life market and a 1.8% share of the life market.

LIA's rating downgraded

Insurance rating agency i.e. Muhanna & co Rating Services downgraded the financial strength ratings of LIA insurance to 'A' from 'A+'. The agency said the financial strength of LIA is based on a good level of underwriting profitability for 2011, but a high level of underwriting exposure. It noted that the firm's liquidity ratio was 156.6% in 2011, up from 137.2% in 2010; while total reserves reached \$192.9m last year, up from \$153.7m at end-2010. The company's expense ratio dropped to 22.8% in 2011 from 28.8% in 2010, which is significantly lower than the market average of 45% and reflecting the firm's good underwriting profitability in the market. Also, the firm's level of underwriting exposure, which is the ratio of net premiums over total equity, increased to 87.2% last year from 68.6% in 2010, higher than the market average of 85%, which reflects LIA insurance's unfavorable capital position in the market. Further, LIA posted net profits of \$11.6m in 2011 relative to \$9.9m in 2010. Its shareholders' equity reached \$69.4m last year, up 4.5% from \$66.4m in 2010; while return on equity was 18.4% in 2011 compared to 16.2% in 2010. The firm's gross premiums reached \$71.4m in 2011 relative to \$56.1m in 2010, while claims totaled \$14.4m, up 26% from \$11.5m in 2010.

Last June, Moroccan firm Saham Finances acquired an 81% stake in LIA Insurance sal from Bank Audi sal. The stake was reportedly sold for about \$111.4m, which would value LIA at nearly \$138m. Saham Finances, a subsidiary of Saham Group, operates in 15 African countries through 20 insurance companies and a reinsurance firm. Saham said it plans to use LIA as a base for its expansion in the Levant region.

CMA CGM sells cruise operator as part of restructuring plan

The Lebanese-owned and France-based container shipping group CMA CGM sold the French luxury cruise operator La Compagnie du Ponant to private equity firm Bridgepoint. The cruise operator has three ships, 580 employees and posted revenues of €80m in 2011. The move is part of CMA CGM's financial restructuring plan that includes de-leveraging and the shedding of assets that are not core to its business, as the firm intends to refocus exclusively on its strategic businesses. Rating agencies have indicated that the company has been facing financial difficulties due to the global economic slowdown and the firm has negotiated with banks to refinance its loans. Last June, Standard & Poor's downgraded the long-term corporate credit rating of the CMA CGM to 'CCC+' from 'B-'. It also lowered to 'CCC-' from 'CCC' the company's €25m and \$475m worth of senior unsecured notes that mature in 2019 and 2017, respectively. It kept the company's ratings on CreditWatch with negative implications. It attributed the downgrades to the company's deteriorating liquidity position due to negative operating cash flow in the first quarter of 2012 and continued depletion of available cash. S&P expected CMA CGM's liquidity position to remain under strain over the near term due to delays in corrective actions. It noted that the firm could take longer than expected to receive \$250m from the issuance of redeemable bonds from the Turkish Yildirim Group. CMA CGM group is the third largest container shipping company in the world with a turnover of €15bn in 2011. It operates a fleet of 394 vessels and serves more than 400 ports around the world.

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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