



LEBANON THIS WEEK

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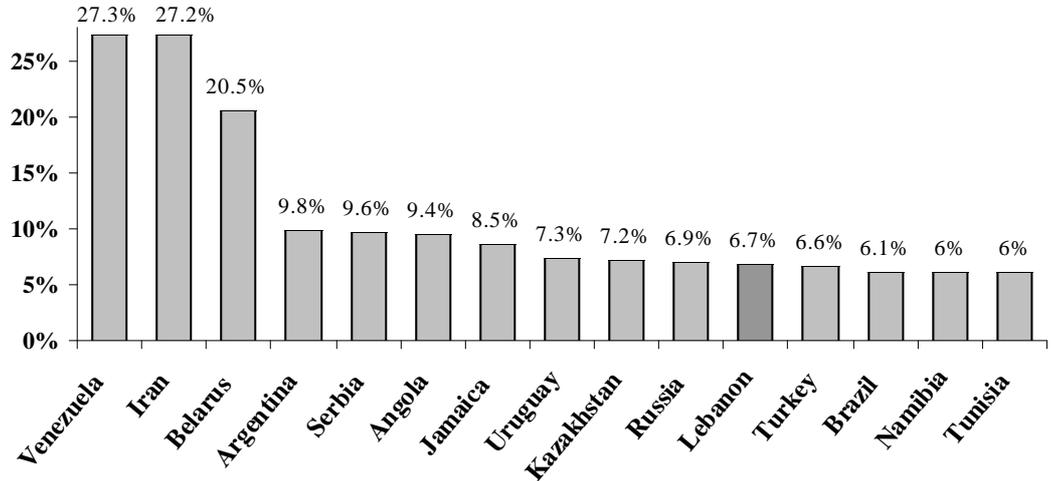
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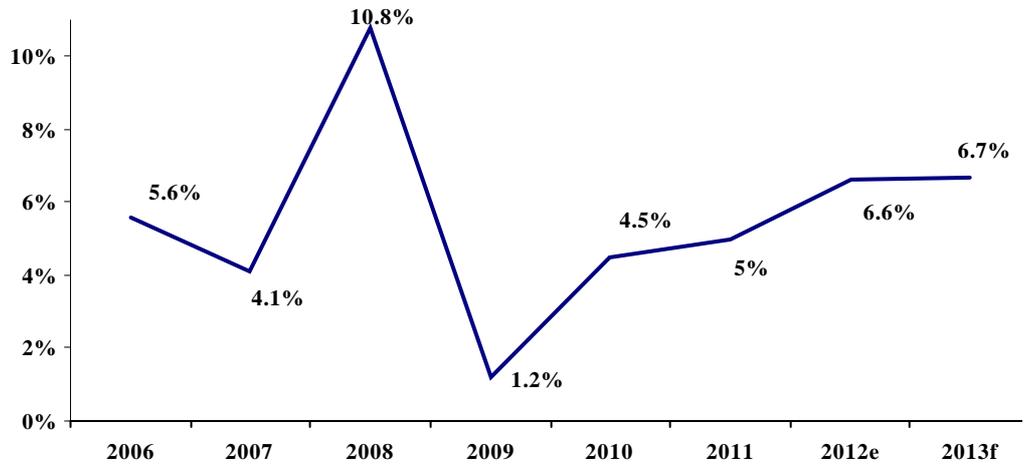
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Charts of the Week

Projected Highest Inflation Rate among Upper Middle-Income Countries in 2013*



Inflation Rate in Lebanon (%)



* UMICs with nominal GDP above \$10bn

Source: International Monetary Fund - April 2013, Byblos Bank

Quote to Note

"A prolonged period of government formation would undermine growth."

Standard & Poor's, on one of the risks from delaying the formation of a new Cabinet

Number of the Week

91.6%: Percentage of respondents who consider that Lebanese politicians need to respect the constitutional deadline for holding parliamentary elections, according to a nationwide opinion poll conducted by Statistics Lebanon in the first 10 days of April 2013

Economic Indicators

\$m (unless otherwise mentioned)	2010	Dec 11	2011	Oct 12	Nov 12	Dec 12	% Change*
Exports	4,256	338	4,276	441	364	381	12.72
Imports	17,956	1,665	20,170	1,774	1,604	1,871	12.37
Trade Balance	(13,700)	(1,327)	(15,894)	(1,333)	(1,240)	(1,490)	12.28
Balance of Payments	3,326	692	(1,996)	(97)	179	312	(54.90)
Checks Cleared in LBP	13,519	1,370	14,251	1,353	1,287	1,337	(2.37)
Checks Cleared in FC	53,925	5,091	57,852	4,732	4,676	4,670	(8.27)
Total Checks Cleared	67,444	6,461	72,103	6,085	5,963	6,007	(7.02)
Budget Deficit/Surplus	(2,894)	(391.00)	(2,342)	(617.49)	(807.69)	(441.24)	12.85
Primary Balance	1,231	(73.00)	1,662	(215.20)	(369.47)	(174.33)	138.81
Airport Passengers	5,512,435	445,968	5,596,034	470,190	412,595	495,760	11.16
\$bn (unless otherwise mentioned)	Dec 2010	Dec 11	Sep 12	Oct 12	Nov 12	Dec 12	% Change*
BdL FX Reserves	28.60	30.82	29.99	29.46	29.79	29.97	(2.76)
<i>In months of Imports</i>	<i>19.46</i>	<i>18.51</i>	<i>18.41</i>	<i>16.61</i>	<i>18.57</i>	<i>16.02</i>	<i>(13.46)</i>
Public Debt	52.59	53.66	56.07	56.60	57.55	57.69	7.51
Net Public Debt	45.01	46.37	47.83	48.35	48.87	49.12	5.93
Bank Assets	128.93	140.58	148.36	149.38	150.38	151.88	8.04
Bank Deposits (Private Sector)	107.20	115.72	121.75	122.60	123.13	125.00	8.02
Bank Loans to Private Sector	34.93	39.38	42.29	42.76	42.94	43.45	10.34
Money Supply M2	39.40	38.90	41.81	42.31	42.67	43.17	10.97
Money Supply M3	92.15	97.23	101.50	102.43	102.89	104.01	6.97
LBP Lending Rate (%)	7.91	7.38	7.30	7.31	7.11	7.07	(31b.p.)
LBP Deposit Rate (%)	5.68	5.63	5.43	5.43	5.38	5.41	(22b.p.)
USD Lending Rate (%)	6.74	7.02	7.16	7.15	7.09	6.87	(15b.p.)
USD Deposit Rate (%)	2.80	2.83	2.83	2.87	2.85	2.86	3b.p.
%* Change in CPI**	6.19	4.27	8.26	8.86	9.48	6.36	209b.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"	13.17	(1.64)	161,261	11.83%
Solidere "B"	13.20	0.00	31,331	7.70%
Byblos Common	1.64	(0.61)	277,879	5.29%
Byblos Pref. 08	102.50	0.00	0	1.84%
Byblos Pref. 09	102.90	0.00	0	1.85%
BLOM GDR	8.55	(5.00)	16,093	5.67%
BLOM Listed	8.75	0.00	2,460	16.89%
Audi GDR	6.89	(1.57)	21,736	6.31%
Audi Listed	6.69	1.36	28,366	21.01%
HOLCIM	15.50	3.20	6,707	2.72%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
June 2013	8.625	100.80	2.76
Apr. 2014	7.375	105.00	2.06
Jan. 2015	5.875	103.50	3.74
Apr. 2015	10.00	111.75	3.80
Jan. 2016	8.500	110.00	4.55
Mar. 2017	9.000	114.50	4.86
Nov. 2018	5.150	99.50	5.26
Apr. 2021	8.250	114.25	5.97
Nov. 2026	6.600	100.75	6.52

Source: Byblos Bank Capital Markets

	Apr 22-26	Apr 15-19	% Change	Mar 2013	Mar 2012	% Change
Total Shares Traded	576,593	1,423,305	(59.49)	4,985,295	5,403,251	(7.74)
Total Value Traded	\$4,693,985	\$8,455,907	(44.49)	\$31,728,425	\$31,890,556	(0.51)
Market Capitalization	\$11.14bn	\$11.17bn	(0.31)	\$10.90bn	\$10.84bn	0.55

Source: Beirut Stock Exchange (BSE)



Lebanon is 82nd most expensive country in the world, third most expensive among Arab countries

The Cost of Living Index, produced by data and analytics provider Xpatulator, ranked Lebanon as the 82nd most expensive country among 217 countries and territories and the third most expensive among 20 Arab countries in the first quarter of 2013. In comparison, Lebanon was the 89th costliest country globally and the seventh most expensive regionally in the first quarter of 2012, which reflects an increase in the cost of living year-on-year.

The Cost of Living Index measures the cost of living in 780 locations in every country and territory around the world. The firm provides data and information to help companies and employees calculate the difference in salaries, allowances, and the overall cost of living when moving personnel from their current location to a different part of the world. It uses local prices for defined quantities of the same goods and services, and converts them into a single currency. The index evaluates the cost of living in each country by assigning a weighting to 13 basket groups that cover Household Accommodation, Transport, Groceries, Recreation & Culture, Healthcare, Education, Furniture & Appliances, Personal Care, Clothing, Communication, Alcohol & Tobacco, Restaurants, Meals out & Hotels, and Miscellaneous Items. It uses data from local service providers in each location, international service providers, official governmental statistics and global agency data. Locations with the highest rankings are the most expensive, while those with the lowest rankings are the least expensive.

Globally, the cost of living in Lebanon is higher than in Guinea-Bissau, Cyprus and Gabon, while it is lower than in Zambia, Azerbaijan and Timor-Leste. Regionally, Lebanon came as less expensive than only the UAE and Qatar.

The survey shows that Lebanon is the sixth most expensive Arab country on the Household Accommodation basket group, which covers apartment prices, rent, mortgage cost, and utilities expenses, among others. It is less expensive than only Qatar, the UAE, Libya, Kuwait and Djibouti on this category. Also, Lebanon is the most expensive country in the region on the Transport basket group, which covers the cost of items such as fuel, vehicle purchases & maintenance, and public transportation. In addition, Lebanon is the fifth most expensive Arab country on the Groceries basket group, which covers items such as consumable goods, dairy products, fresh fruit & vegetables, general foodstuffs, snacks & soft drinks, and cleaning products. It is less expensive than only Djibouti, Sudan, the UAE and Qatar on this category.

In parallel, Lebanon is the seventh least expensive Arab country on the Recreation & Culture basket group, which covers the cost of books, cinema, sports and theatre tickets, among others. It is more expensive than only Egypt, Oman, Iraq, Morocco, Tunisia and Algeria on this category. However, Lebanon is the third most expensive Arab country on the Healthcare basket group that includes the cost of visits to doctors' clinics, hospital stays, non-prescription medicine, and medical insurance. It is less expensive than only Qatar and Kuwait among Arab countries. Finally, Lebanon is the most affordable Arab country in terms of Education, with this category covering pre-school, primary school, high-school and tertiary study tuition and fees.

Cost of Living Index Rankings*		
	Arab Rank	Global Rank
Qatar	1	42
UAE	2	55
Lebanon	3	82
Djibouti	4	96
Libya	5	111
Bahrain	6	115
Sudan	7	118
Kuwait	2	120
Palestine	9	139
Jordan	10	175
Oman	11	178
Iraq	12	181
Syria	13	184
Yemen	14	188
Saudi Arabia	15	191
Egypt	16	196
Morocco	17	198
Mauritania	18	211
Algeria	19	212
Tunisia	20	215

*First Quarter of 2013

Source: Xpatulator, Byblos Research

Components of the Cost of Living Index for Lebanon		
	Weight	Arab Rank*
Household Accommodation	30.0%	6
Transportation	18.0%	1
Groceries	16.5%	5
Recreation & Culture	6.0%	14
Healthcare	5.0%	3
Education	5.0%	20
Furniture & Appliances	5.0%	5
Personal Care	3.0%	4
Clothing	2.4%	1
Communication	2.0%	6
Alcohol & Tobacco	2.0%	9
Restaurants, Meals Out & Hotels	2.0%	2
Miscellaneous Items	3.0%	3

*Note: most expensive = 1, least expensive = 20

Source: Xpatulator, Byblos Research



Cost of sending remittances to Lebanon drops in first quarter of 2013

Figures issued by the World Bank show that the cost of sending remittances from the United States to Lebanon reached 10.74% in the first quarter of 2013 for a \$200 transfer, constituting a decline from 10.88% in the third quarter of 2012 and from 11.83% in the first quarter last year. Also, the cost of sending \$500 from the U.S. to Lebanon reached 5.27% in the first quarter of 2013, constituting an increase from 5.21% in the third quarter of 2012 and from 5.25% in the first quarter of 2012. 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; unchanged from the third quarter of last year; and down from \$23.7 and \$26.3, respectively, in the first quarter of 2012.

Also, the cost of sending remittances from Germany to Lebanon reached 16.8% in the first quarter of 2013 for a transfer of €140, or about \$200, constituting an increase from 16.5% in the third quarter of 2012, and a decline from 17.1% in the first quarter of 2012. Also, the cost of sending €345, or about \$500, from Germany to Lebanon reached 8.37% in the first quarter of 2013 compared to 8.31% in the third quarter of 2012 and 8.84% in the first quarter of last year. In nominal terms, the cost of sending €140 and €345 from Germany to Lebanon costs €23.1 and €28.7, respectively, unchanged from the third quarter of 2012 and compared to €23.9 and €30.5, respectively, in the first quarter of last year.

In parallel, Lebanon ranked as the fourth most expensive destination for sending \$200 from the U.S. among 28 countries with available data after Cape Verde (13.36%), Brazil (13.1%) and Thailand (12.33%). It was the sixth 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 7.5% and the average cost through MTOs was 4% in the first quarter of 2013. In comparison, 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; while it was 6% and 3%, respectively, in the first quarter of last year. 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%.

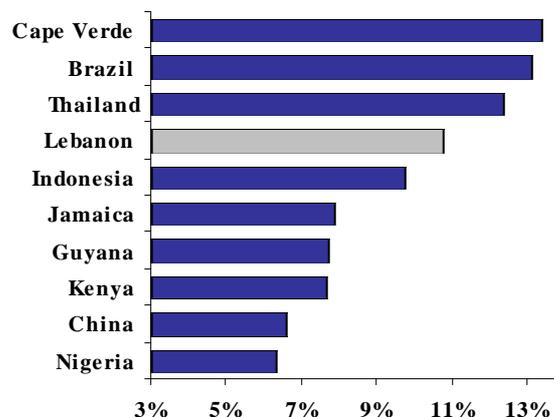
Moody's maintains 'negative' outlook on banking sector

Moody's Investors Service maintained its 'negative' outlook on Lebanon's banking system for the next 12 to 18 months due to expectations of weak domestic economic growth; the capital buffers of banks relative to their high exposures to the Lebanese sovereign; the likelihood of further asset-quality deterioration; and declining net profitability from higher provisioning needs and slower business generation. The agency noted that the weak growth outlook reflects the ongoing war in Syria and domestic political tensions that would continue to affect the performance of key sectors such as trade, tourism, real estate and construction. It expected the banking sector to post subdued nominal credit growth of between 8% and 10% in 2013 relative to a projected average inflation rate of 5.7% for the year. It noted that the government will continue to rely on the banking sector to finance its large fiscal deficit, adding that the banks' high exposure to sovereign risk will remain a major source of credit risk over the next 12 to 18 months.

First, it expected the banks' NPL ratio to exceed 6.5% this year. It attributed the deterioration in asset quality to regional instability that weighs on domestic operating conditions, and to banks' operations in high-risk countries in the region such as Egypt, Syria and Jordan. It anticipated upward pressure on NPL formation in retail loans, including mortgages. The agency considered that reported NPL figures understate the extent of asset quality pressure due to weak classification rules, such as lack of rules related to the re-aging and classification of overdraft facilities that constitute 30% of the system's loan book. Second, Moody's expected the sector's profitability to weaken over the coming 18 months due to higher credit costs, lower fee income generation, higher provisioning charges, and lower contribution from the banks' operations in Syria. It expected Lebanese banks to post return on equity of between 8% and 10% in 2013, compared to an estimated 10% to 12% in 2012 and relative to 13% in 2011. Third, it considered that the banks' reported capital adequacy ratios are inflated, as the regulatory zero risk weight applied to local currency-denominated securities understates risk-weighted assets. It estimated that the sector's Tier-One capital ratio would drop to 7.3% from 11.8% at end-2011 when applying a 100% risk weighting on rated banks' sovereign exposures.

In parallel, Moody's pointed out that the sector's robust liquidity will remain a key strength for the system. It noted that the banking sector continues to benefit from solid liquidity buffers and depositor-based funding, which support the system's overall stability. It expected remittance inflows from the Lebanese Diaspora to remain stable and to continue to support deposit growth, which it projects at between 6% and 8% in 2013. It added that banks' reliance on market funding is minimal as customer deposits fund over 80% of the sector's aggregate assets.

Costliest Destinations of Remittances from the U.S.*



*Cost of sending \$200 from the U.S.

Source: World Bank, Byblos Research

Macroeconomic risks still high

Regional investment bank EFG Hermes ranked Lebanon in ninth place among 11 Arab countries on its Macroeconomic Heatmap for 2013, unchanged from the previous year, and constituting a drop from seventh place in 2011. The heatmap provides a holistic snapshot and points of comparison across the region, and reflects changes to growth forecasts and economic indicators affected by recent political developments. Lebanon ranked ahead of only Jordan and Egypt on the 2013 Macroeconomic Heatmap. The heatmap is a composite of 16 variables grouped in four broad categories of indicators that are Growth Outlook Indicators with a 35% weight, Other Key Macroeconomic Indicators (30%), Socioeconomic Indicators (25%), and Stock Market Investability (10%). In 2011, EFG Hermes changed the weighting of the categories to take into account greater political risks and changes in socioeconomic fundamentals, which are of increased importance for investors. It also assigned scores to individual variables in each category ranging between 68 and 100 points for the 'strongest' score, between 34 and 67 points for the 'middle' category, and between zero and 33 points for the 'weakest'.

Lebanon received a score of 51.5 points relative to the Arab average of 68.2 points on a maximum possible score of 100. EFG Hermes indicated that the ongoing Syrian conflict and political developments would continue to weigh on Lebanon's growth outlook. It expected the weak economic environment that prevailed in 2012 to continue in 2013, given the prevailing domestic political uncertainties and the continued deterioration of the situation in Syria, which would both affect confidence and limit investment inflows and tourism receipts in Lebanon.

EFG Hermes placed Lebanon's economic growth rate in the 'weakest' category, along with Egypt and Jordan, but it came in the 'middle' category in terms of its positioning in the global economy, along with Algeria, Bahrain and Jordan. Lebanon also came in the 'weakest' category along with Algeria, Bahrain, Egypt, Jordan and Kuwait in terms of investment implementation. Further, Lebanon came in the 'strongest' category for its annual growth in private sector credit and foreign currency reserves relative to GDP, as well as for its annual average exchange rate change against the US dollar. However, it came in the 'weakest' segment for its fiscal and current account balances relative to GDP, as well as for its short-term external debt and current account balance as a percentage of foreign reserves.

Also, EFG Hermes placed Lebanon in the 'low' category in terms of stock market breadth and depth, along with Algeria, Bahrain, Jordan, Oman and Qatar; while it classified it in the 'high' category in terms of foreign investors' access, along with Bahrain, Egypt, Jordan and Oman. Also, it considered the stock market's corporate governance and regulatory framework to be at a 'medium' level, similar to Bahrain, Jordan, Morocco and Qatar. In parallel, EFG Hermes considered that Lebanon has a 'low' level of government stability and effectiveness, along with Algeria, Bahrain, Egypt and Kuwait. It also pointed out that Lebanon has 'high' socioeconomic risks along with Algeria, Bahrain, Egypt and Jordan, as well as 'high' geopolitical risks along with Bahrain.

Commercial banks utilize 100% of soft loans for new projects, 40% of housing loans

The Central Bank indicated that commercial banks operating in Lebanon used more than 40% of the total amount allocated to the housing sector and utilized all of the amount allocated for the financing of new investment projects, as part of the stimulus package provided by the Bank at the start of the current year. The stimulus package consists of LBP2,210bn, or \$1.46bn, in the form of soft loans that the Central Bank is extending to commercial banks in order to boost lending activity and fuel economic growth. The Bank is extending the loans on a first-come first-served basis, while it fixed the interest rate on these facilities at 1% per year to be paid monthly by the beneficiary banks. The new package includes incentives to support housing, education, renewable energy projects, innovative projects, research & development ventures, entrepreneurship, and various productive sectors of the economy. Further, banks are obliged to abide by the interest rates fixed by the Central Bank for each type of loan and by the total amount that all banks are allowed to lend for each sector.

The Central Bank allocated LBP1,232bn or \$817.2m to the housing sector, followed by environmentally-friendly projects with LBP533bn (\$353.6m), productive sectors with LBP220bn (\$146m), non-housing loans with LBP120bn (\$79.6m), education loans with LBP50bn (\$33.2m), research & development and investment projects with LBP22.5bn (\$14.9m) each, and SMEs with LBP10bn (\$6.6m). As such, housing loans would account for 55.7% of the total facility, followed by environmentally-friendly projects with 24.1%, productive sectors with 10%, non-housing loans with 5.4%, education with 2.3%, research & development and investment projects with 1% each and SMEs with 0.5%.

Construction permits down 21% in first quarter of 2013

Figures released by the Association of Engineers of Beirut & Tripoli show that construction permits issued in the first quarter of 2013 reached 2.8 million square meters, constituting a decrease of 21.2% year-on-year, compared to a rise of 3% in the same quarter last year and a decline of 2% in the first quarter of 2011. Mount Lebanon accounted for 1.3 million square meters or 44.8% of total construction permits in the covered quarter. It was followed by the North with 630,088 square meters (22.3%), the Bekaa with 298,200 square meters (10.5%), South Lebanon with 259,364 square meters (9.2%), Nabatieh with 244,429 square meters (8.6%), and Beirut with 128,366 (4.5%). In parallel, cement deliveries totaled 693,000 tons in the first two months of 2013 and increased by 18.7% annually relative to a decrease of 8.2% in the same period last year and a drop of 1.4% in the first two months of 2011.

Lebanon is 107th biggest exporter, 74th largest importer in 2012

Figures issued by the World Trade Organization indicate that Lebanon ranked in 107th place among 202 countries around the world and in 15th place among 19 Arab countries in terms of merchandise exports in 2012. Lebanon's global rank remained unchanged from 2011, while its regional rank improved by two spots. Lebanon also ranked in 37th place among 54 Upper Middle Income Countries (UMICs) in 2012, improving by one spot from 38th place in 2011. Globally, Lebanon exported more than Tanzania, El Salvador and Bosnia & Herzegovina, and less than Botswana, Cuba, and Kenya. Also, it exported more than Bosnia & Herzegovina, Namibia and Macedonia, and less than Botswana, Cuba and Jordan among UMICs. Lebanon had higher exports than only Syria, Sudan, Mauritania and Djibouti among Arab countries. Lebanon's exports regressed by 0.9% year-on-year compared to an increase of 0.4% for world exports, a rise of 4.1% for UMICs' exports and growth of 9% for the exports of Arab countries. Lebanese exports accounted for 0.03% of global exports, for 0.1% of total UMICs' exports and for 0.4% of aggregate Arab exports in 2012. Also, Lebanese exports posted a compound annual growth rate (CAGR) of 6% between 2008 and 2012.

Further, Lebanon ranked in 74th place globally and in 12th place among Arab countries in terms of merchandise imports in 2012. Lebanon's global rank remained unchanged from 2011, while its rank regressed by one spot among Arab economies. Lebanon also ranked in 26th place among UMICs in 2012, regressing by one spot from 25th place in 2011. Globally, Lebanon had higher imports than Croatia, Jordan and Sri Lanka, and less imports than Libya, Panama and Angola. It also had more imports than Jordan, Serbia and Costa Rica, and less than Libya, Panama and Angola among UMICs. Regionally, Lebanon had higher imports than only Jordan, Bahrain, Yemen, Sudan, Syria, Mauritania and Djibouti. Imports to Lebanon increased by 5.4% year-on-year, compared to a rise of 0.7% for world imports, an increase of 3.8% for imports to UMICs and a growth of 8.9% for Arab imports. Lebanese imports accounted for 0.1% of global imports, for 0.5% of total UMICs imports and for 2.7% of aggregate Arab imports in 2012. Also, Lebanese imports posted a CAGR of 7% between 2008 and 2012.

In parallel, Lebanon ranked in 84th place globally and in 14th place among Arab countries in terms of the combined value of exports and imports in 2012. Lebanon came in 83rd place globally and in 12th place among Arab economies in 2011. Also, it came in 31st place among UMICs in 2012, down from 29th place in 2011. Globally, Lebanon had higher terms of trade than Guatemala, the Dominican Republic, and Turkmenistan, and lower terms of trade than Sri Lanka, Jordan and Costa Rica. It also ranked ahead of the Dominican Republic, Turkmenistan and Cuba and came behind Jordan, Costa Rica and Serbia among UMICs. Regionally, Lebanon ranked ahead of only Yemen, Sudan, Syria, Mauritania and Djibouti among Arab countries. Lebanon's trade volume amounted to \$27.6bn in 2012 compared to \$26.4bn in 2011, reflecting an increase of 4.3% compared to a rise of 0.5% in global trade activity, a growth of 4% in UMICs trade and an increase of 9.3% in Arab trade. Lebanon's trade activity accounted for 0.07% of global trade, for 0.3% of total UMICs trade and for 1.3% of aggregate Arab trade in 2012.

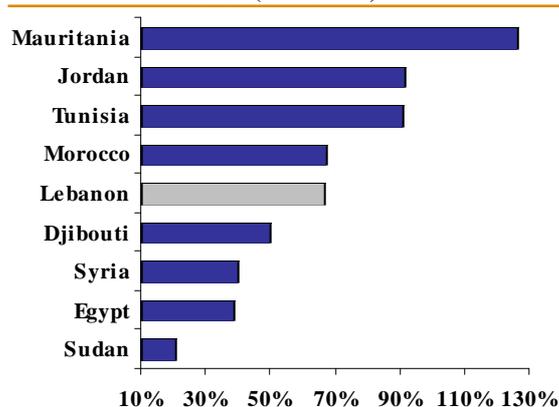
Value of cleared checks up 1.5%, returned checks up 0.4% in first two months of 2013

The value of cleared checks reached \$11.5bn in the first two months of 2013, constituting an increase of 1.5% year-on-year, compared to a rise of 4.2% in the same period of 2012 and a growth of 4.3% in the first two months of 2011. The value of cleared checks in Lebanese pounds rose by 5% annually to the equivalent of \$2.5bn in the first two months of 2013, while the value of cleared checks in US dollars increased by 0.6% to \$9bn. The dollarization rate of cleared checks decreased to 78.1% from 78.8% in the same period of the previous year. Also, the value of returned checks in domestic and foreign currency increased by a marginal 0.4% to \$240m in the first two months of 2013, relative to a rise of 14.4% in the same period of 2012 and a growth of 8.3% in the first two months of 2011. In parallel, the number of cleared checks totaled 2.1 million checks in the first two months of 2013, up 1.6% from the same period last year. Also, the number of returned checks totaled 41,000 checks, down by 10.9% from 46,000 in the same period of 2012.

EU supports quality infrastructure in Lebanon

The Ministry of Economy & Trade and the European Union launched the third Phase of the QUALEB Program as well as the Twinning Program to reinforce the quality infrastructure in Lebanon. Both programs are funded by the European Union. Phase III of the QUALEB program, which costs €4.4m, seeks to raise the quality of Lebanese products to international health, safety and environmental standards. It also seeks to improve the quality of public sector services. In parallel, the €1.4m Twinning Program aims to partner Lebanese public administrations with their counterparts in EU member states to exchange good practices and achieve EU-level standards. Under the Twinning Program, the Economy Ministry will partner with the British Standards Institution Royal Charter and the Czech Office for Standards, Metrology and Testing. The ministry indicated that the development of the quality infrastructure reduces the number of shipments of Lebanese products that are rejected abroad. It added that the number of rejected shipments originating from Lebanon decreased by 6% annually in the last three years. The EU's support mainly consists of technical assistance and the provision of quality inspection equipments, and is part of a larger €4m program dedicated to improving the competitiveness of the Lebanese private sector, especially of small- and medium-sized enterprises.

Imports and Exports of Oil Importing Countries in 2012 (% of GDP)



Source: WTO, IMF, IIF, Byblos Research

Lebanese American University exercises call option on bond

The Lebanese American University (LAU) exercised a call option on February 1, 2013 on its \$75m step-up bond that it issued in February 2008. Byblos Bank had subscribed to the bond in its entirety. The bond had a 10-year maturity of February 2018, carried a 6.75% annual coupon rate during the first 5 years until February 2013, and an annual rate of 7.35% afterwards. Also, the bond was callable in its entirety in February 2013. LAU intended to use the bond's proceeds to finance a variety of projects that cost a total of \$120m, including new capital projects and a medical school building. The bond issuance was the first-of-its-kind transaction by a Middle Eastern-based university and LAU was the first Beirut-based institution to be rated above the sovereign level. LAU is an independent, non-profit institution of higher learning and one of the largest private universities in Lebanon. It was established under the laws of the State of New York in 1950. In parallel, Moody's Investors Service withdrew its 'Baa1' rating on LAU's bond following the latter's redemption.

American University of Beirut included among top 100 universities in Asia

The *Times Higher Education* Asia University Rankings for 2013 included one Lebanese university among 100 ranked universities in Asia. The survey ranked the American University of Beirut (AUB) in 87th place in Asia and in fifth place among five Arab universities included in the rankings. The rankings are based on a weighted average of five factors that are Teaching, Research and Citations with a 30% weight each, International Outlook with a 7.5% weight and Industry Income with a 2.5% weight. AUB received a score of 23.6 points compared to 37.2 points for Asian universities and an average of 27 points for Arab universities.

AUB ranked in third place among Arab universities on the Teaching factor, which reflects the teaching and learning environment of each institution from both the student and the academic perspective. It ranked ahead of the UAE University and King Abdulaziz University, and received a score of 23.6 points relative to the average score of 21.9 points for the five Arab universities. Also, AUB ranked in third place among Arab universities on the Research factor, which reflects the university's reputation for research excellence among its peers, its research income scaled against staff numbers and normalized for purchasing-power parity, and its research productivity. AUB ranked ahead of King Abdulaziz University and the UAE University, and received a score of 11.4 points relative to the average of 11.4 points for the five Arab universities.

Further, AUB ranked in fourth place among Arab universities on the Citations factor, which examines a university's research influence by capturing the number of times that its published work is cited by scholars globally. AUB ranked ahead of only King Saud University and received a score of 23.5 points, lower than the Arab average of 31.4 points. Finally, AUB ranked in last place on each of the International Outlook factor that looks at the diversity on campus and to what degree academics collaborate with international colleagues on research projects; and on the Industry Income factor that captures knowledge transfer by looking at how much research income an institution earns from the industry, scaled against the number of academic staff it employs. Saudi Arabia's King Abdulaziz University is the top-ranked Arab university and came in 47th place with a score of 34.3 points, while the University of Tokyo ranked first in Asia and received a score of 78.3 points. The *Times Higher Education* Asia University Rankings are prepared by British magazine *Times Higher Education*, and the citation database is supplied by Thomson Reuters.

U.S. blacklists two money dealers

The U.S. Department of the Treasury identified Kassem Rmeiti & Co. For Exchange and Halawi Exchange Co., two currency exchange houses, as financial institutions of primary money laundering concern. The U.S. Treasury attributed its decision to the institutions' alleged role in facilitating the money laundering activities of an international narcotics trafficking and money laundering network. It added that the money dealers used their foreign money transmitter businesses to process millions of dollars on behalf of narcotics traffickers and money launderers, and attempted to conceal the source of illicit funds by co-mingling or splitting transactions across a variety of businesses, financial institutions, and continents. Also, the U.S. Treasury's Financial Crimes Enforcement Network (FinCEN) filed a proposal to prohibit U.S. financial institutions from opening or maintaining correspondent or payable-through accounts for the two money dealers. The U.S. Treasury added that it will work with the Central Bank of Lebanon and Lebanese authorities to address these concerns. In 2011, the Central Bank of Lebanon issued a set of circulars about the operations of money dealers in Lebanon in order to deter their usage for money laundering and terrorism financing, and to preserve the reputation of the sector.

The circulars mandated exchanges to establish anti-money laundering and terrorism financing (AML/TF) procedures; to appoint a Compliance Officer; and for their management and shareholders to successfully pass training courses on AML/TF. The circulars also asked money dealers to retain an internationally-recognized auditing firm and to raise their capital. Further, the Central Bank stipulated that money dealers must segregate the accounting of the shipments of cash and/or of precious metals, from the accounting of other operations; and to submit monthly financial statements detailing the number and volume of the shipment of bank notes or precious metals to or from Lebanon. It also mandates money dealers to submit monthly, quarterly, semi-annual and annual financial statements. There were 393 money dealers in Lebanon at the end of 2009, according to the latest available figures from the Central Bank.

Change in Intra's shareholding structure

Intra Investment Company sal, the government-controlled investment firm, saw a change in its shareholders' structure, as Lebanese businessman, Mr. Abdullah Tamari, acquired 1.6 million shares, equivalent to a 14% stake, from Mr. Nadhmi Auchy, a British-Iraqi businessman, for an undisclosed amount. The deal was reportedly executed at a significant premium relative to the share's market price of \$22. Intra owns a 52.3% stake in the Compagnie du Casino du Liban and a 98.75% share in The Finance Bank sal, as well as prime real estate properties across Lebanon. The Central Bank has a 35% stake in Intra, making it the largest shareholder in the investment firm, followed by Mr. Tamari with 14%, the Lebanese government with 10%, the National Bank of Kuwait and the government of Qatar with 4% each, while the remaining shares are held by various local, Arab, and foreign companies as well as individual investors. The company's latest published financials show that Intra posted net profits of \$21.9m in 2009, up by 53% from \$12.8m in 2008, and compared to \$5.2m in 2007 and \$6.1m in 2006. Total assets reached \$266m at the end of 2009, up by 9.3% from \$243.3m at end-2008. The firm's shareholders' equity reached \$250.3m at the end of 2009 relative to \$237m at end-2008.

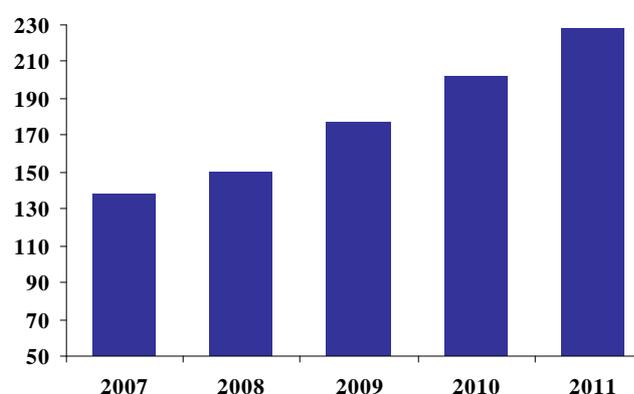
Net profits of health insurance branch up 71% to \$20.4m in 2011, claims up 13% to \$228.3m

Figures released by the Insurance Control Commission (ICC) show that the aggregate net profits of 41 insurance companies active in the health insurance segment in Lebanon reached \$20.4m in 2011, constituting an increase of 70.8% from \$11.9m in 2010. The medical insurance segment posted a net profit margin of 6% in 2011, compared to a ratio of 4% in 2010 and relative to a 9% margin for the insurance sector. Further, gross written premiums from the health insurance category rose by 14.8% to \$340.7m in 2011 and accounted for 27.3% of the sector's aggregate premiums. The 'individual' health segment's written premiums reached \$137.9m in 2011 and accounted for 40.5% of the medical branch's aggregate premiums, while those of the 'group' category totaled \$202.8m and accounted for 59.5% of the total. The medical insurance market is heavily concentrated as the top five companies wrote 57% of health premiums for individuals and 69% for groups in 2011. MEDGULF led all insurers in the health insurance branch with premiums of \$80.5m in 2011 and accounted for 23.6% of the health branch's aggregate premiums, followed by AXA Middle East with \$40.9m (12%), Bankers with \$39.7m (11.7%), Allianz SNA with \$25.2 (7.4%), and Fidelity with \$21.8m (6.4%).

In parallel, paid claims totaled \$228.3m in 2011, constituting a rise of 13% from \$202.1m in 2010. Paid claims from the 'individual' segment reached \$67.5m and accounted for 29.6% of aggregate health claims in 2011, while those of the 'group' section totaled \$160.8m and accounted for 70.4% of the total in the same year. The number of paid claims totaled 814,950 in 2011, constituting an increase of 15.4% from 706,293 in 2010. Also, the number of policies in the health branch reached 182,049 in 2011, constituting a decrease of 4.3% from 190,250 policies in 2010.

In parallel, the loss ratio, or the ratio of claims incurred to earned gross premiums, of the 'individual' segment of the medical insurance branch was 51% in 2011; the commission ratio, or the ratio of acquisition cost to earned gross premiums, reached 15%, and the expense ratio, or the ratio of other general expenses to earned gross premiums, was 13% in 2011. As such, the average technical combined loss ratio, which is the aggregate ratio of the above three ratios, reached 79% in 2011. Further, the loss ratio of the 'group' medical insurance segment was 83% in 2011; the commission ratio reached 7%, and the expense ratio was 12% in 2011. As such, the average technical combined loss ratio reached 102% in 2011.

Paid Claims (US\$m)



Source: Insurance Control Commission, Byblos Research

Ratio Highlights

(in % unless specified)	2010	2011	2012	Change*
Nominal GDP (\$bn)	37.1	39.3	41.6	
Public Debt in Foreign Currency / GDP	55.5	53.2	58.7	550
Public Debt in Local Currency / GDP	86.2	83.2	80.2	(300)
Gross Public Debt / GDP	141.7	136.4	138.9	250
Total Gross External Debt / GDP	167.2	173.8	172.3	(150)
Trade Balance / GDP	(36.9)	(40.5)	(40.4)	10
Exports / Imports	23.7	21.2	21.1	(10)
Fiscal Revenues / GDP	24.8	23.7	22.8	(90)
Fiscal Expenditures / GDP	30.5	29.7	30.2	50
Fiscal Balance / GDP	(5.7)	(6.0)	(8.3)	(230)
Primary Balance / GDP	5.5	4.2	0.7	(350)
Gross Foreign Currency Reserves / M2	72.6	79.2	69.4	(980)
M3 / GDP	248.4	247.4	250.0	260
Commercial Banks Assets / GDP	347.3	357.4	365.6	820
Private Sector Deposits / GDP	289.0	294.4	300.5	610
Private Sector Loans / GDP	94.2	100.2	104.5	430
Private Sector Deposits Dollarization Rate	63.2	65.9	64.8	(110)
Private Sector Lending Dollarization Rate	80.3	78.4	77.6	(80)

* Change in basis points 11/12

Source: Association of Banks in Lebanon, Institute of International Finance, International Monetary Fund, Ministry of Finance, 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	Apr 2011	Mar 2012	Apr 2012	Change*	Risk Level
Political Risk Rating	55.5	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	58.2	62.2	62.2	▲	Moderate

Regional Average	Apr 2011	Mar 2012	Apr 2012	Change*	Risk Level
Political Risk Rating	60.5	60.5	60.3	▼	Moderate
Financial Risk Rating	41.8	42.1	42.1	▲	Very Low
Economic Risk Rating	37.5	37.3	37.2	▼	Low
Composite Risk Rating	69.9	69.9	69.8	▼	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



Economic Research & Analysis Department
Byblos Bank Group
P.O. Box 11-5605
Beirut – Lebanon
Tel: (961) 1 338 100
Fax: (961) 1 217 774
E-mail: research@byblosbank.com.lb
www.byblosbank.com

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BYBLOS BANK GROUP

LEBANON

Byblos Bank S.A.L
Achrafieh - Beirut
Elias Sarkis Avenue - Byblos Bank Tower
P.O.Box: 11-5605
Riad El Solh - Beirut 1107 2811 - Lebanon
Phone: (+ 961) 1 335200
Fax: (+ 961) 1 339436

SYRIA

Byblos Bank Syria S.A.
Damascus Head Office
Al Chaalan - Amine Loutfi Hafez Street
P.O.Box: 5424 Damascus - Syria
Phone: (+ 963) 11 9292 - 3348240/1/2/3/4
Fax: (+ 963) 11 3348205
E-mail: byblosbanksyria@byblosbank.com

IRAQ

Erbil Branch, Kurdistan, Iraq
Street 60, Near Sports Stadium
P.O.Box: 34 - 0383 Erbil - Iraq
Phone: (+ 964) 66 2233457/8/9 - 2560017/9
E-mail: erbilbranch@byblosbank.com.lb

Baghdad Branch, Iraq
Al Karrada - Salman Faeq Street
Al Wahda District, No. 904/14
Facing Al Shuruk Building
P.O.Box: 3085 Badalat Al Olwiya - Iraq
Phone: (+ 964) 770 6527807
(+ 964) 780 9133031/2
(+ 964) 1 7177493
E-mail: baghdadbranch@byblosbank.com.lb

UNITED ARAB EMIRATES

Byblos Bank Abu Dhabi Representative Office
Intersection of Muroor and Electra Streets
P.O.Box: 73893 Abu Dhabi - UAE
Phone: (+ 971) 2 6336050 - 2 6336400
Fax: (+ 971) 2 6338400
E-mail: abudhabirepoffice@byblosbank.com.lb

ARMENIA

Byblos Bank Armenia CJSC
18/3 Amiryan Street - Area 0002
Yerevan - Republic of Armenia
Phone: (+ 374) 10 530362
Fax: (+ 374) 10 535296
E-mail: infoarm@byblosbank.com

CYPRUS

Limassol Branch
1, Archbishop Kyprianou Street
Loucaides Building
P.O.Box 50218
3602 Limassol - Cyprus
Phone: (+ 357) 25 341433/4/5
Fax: (+ 357) 25 367139
E-mail: byblosbankcyprus@byblosbank.com.lb

BELGIUM

Byblos Bank Europe S.A.
Brussels Head Office
Rue Montoyer 10
Bte. 3, 1000 Brussels - Belgium
Phone: (+ 32) 2 551 00 20
Fax: (+ 32) 2 513 05 26
E-mail: byblos.europe@byblosbankeur.com

UNITED KINGDOM

Byblos Bank Europe S.A., London Branch
Berkeley Square House - Suite 5
Berkeley Square
GB - London W1J 6BS - United Kingdom
Phone: (+ 44) 207 493 3537
Fax: (+ 44) 207 493 1233
E-mail: byblos.europe@byblosbankeur.com

FRANCE

Byblos Bank Europe S.A., Paris Branch
15 Rue Lord Byron
F- 75008 Paris - France
Phone: (+33) 1 45 63 10 01
Fax: (+33) 1 45 61 15 77
E-mail: byblos.europe@byblosbankeur.com

SUDAN

Byblos Bank Africa
Khartoum Head Office
Intersection of Mac Nimer and Baladiyya Streets
P.O.Box: 8121 - Khartoum - Sudan
Phone: (+ 249) 1 56 552 222
Fax: (+ 249) 1 56 552 220
E-mail: byblosbankafrica@byblosbank.com

NIGERIA

Byblos Bank Nigeria Representative Office
161C Rafu Taylor Close - Off Idejo Street
Victoria Island, Lagos - Nigeria
Phone: (+ 234) 706 112 5800
(+ 234) 808 839 9122
E-mail: nigeriarepresentativeoffice@byblosbank.com.lb

DEMOCRATIC REPUBLIC OF CONGO

Byblos Bank RDC S.A.R.L
Avenue du Marché No. 4
Kinshasa-Gombe, Democratic Republic of Congo
Phone: (+ 243) 81 7070701
(+ 243) 99 1009001
E-mail: byblosbankrdc@byblosbank.com

ADIR INSURANCE

Dora Highway - Aya Commercial Center
P.O.Box: 90-1446
Jdeidet El Metn - 1202 2119 Lebanon
Phone: (+ 961) 1 256290
Fax: (+ 961) 1 256293