



LEBANON THIS WEEK

In This Issue

Economic Indicators.....1

Capital Markets.....1

Lebanon in the News.....2

Real GDP growth forecast reduced to 1.2% for 2013

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

Fiscal and debt dynamics are main economic risks

Number of tourists down 13% in first five months of 2013

Fiscal deficit up 17% to \$783m in first quarter 2013 when assuming \$348m in telecom revenues

Real GDP growth projected at 2% in 2013, lowest in MENA region

Number of real estate transactions down 8% in first five months of 2013

Industrial exports up 6% to \$859m in first quarter of 2013

Lebanon's external debt posts 29th lowest returns in emerging markets, eighth highest in the Middle East & Africa

Public-sector salaries and benefits down 14% in January 2013

Market accessibility of Beirut Stock Exchange needs improvement in several areas

Lebanon to shift from analogue to digital broadcasting system by 2015

Occupancy at Beirut hotels at 58%, room yields down 32% in first four months of 2013

Corporate Highlights9

Profits of Syrian affiliates of Lebanese banks down 98% in first quarter of 2013, assets increase by 2.2% from end-2012

Car sales up 6% in first five months of 2013

Insurance premiums up 20% annually to \$382m in first quarter of 2013, claims and benefits rise by 17% to \$166m

Solidere's net income down 90% to \$16m in 2012

MEA's operating profits up 43.6% to \$58m in 2012

Kafalat loan guarantees down 25% to \$42m in first five months of 2013

RYMCO's profits at \$0.67m in first quarter of 2013

Cadbury Adams closes factory in Lebanon

BLC Bank announces dividends for 2012

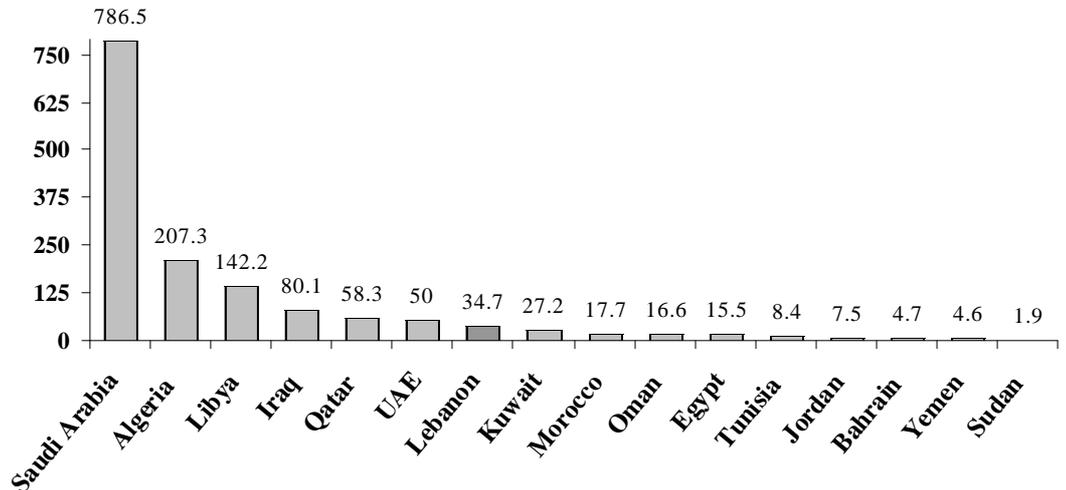
Capital Intelligence affirms ratings on BLOM Bank and Bank Audi

Arab Bank's profits up 1% to \$16m in 2012

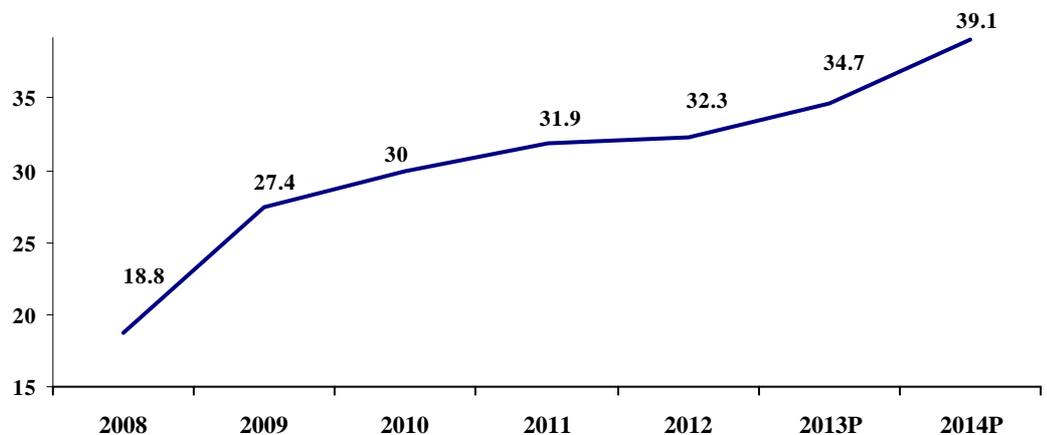
Banque Pharaon & Chiha's profits down 4% to \$4.8m in 2012

Charts of the Week

Projected Gross Foreign Currency Reserves in Arab Countries in 2013 (US\$bn)



Gross Foreign Currency Reserves in Lebanon* (US\$bn)



*Excludes gold and encumbered assets

Source: International Monetary Fund - May 2013, Byblos Bank

Quote to Note

"Fiscal reforms will be a low priority, as Lebanon's policymakers are preoccupied with the risk of political unrest."

The Economist Intelligence Unit, on Lebanese politicians' latest excuse to continue overlooking vital structural reforms

Number of the Week

70%: Percentage of smartphone users in Lebanon who download applications, according to a survey by Ipsos MediaCT

Economic Indicators

\$m (unless otherwise mentioned)	2011	Mar 12	2012	Jan 13	Feb 13	Mar 13	% Change*
Exports	4,276	377	4,486	405	381	406	7.69
Imports	20,170	1,723	21,281	1,871	1,791	2,076	20.49
Trade Balance	(15,894)	(1,346)	(16,795)	(1,241)	(1,410)	(1,670)	24.07
Balance of Payments	(1,996)	51	(1,538)	383	(92)	(353)	n/a
Checks Cleared in LBP	14,251	1,191	14,976	1,305	1,213	1,286	7.98
Checks Cleared in FC	57,852	4,843	56,044	4,637	4,353	4,472	(7.66)
Total Checks Cleared	72,103	6,034	69,787	5,942	5,566	5,758	(4.57)
Budget Deficit/Surplus	(2,342)	(312.40)	(3,925)	(17.78)	(279.91)	(484.90)	55.22
Primary Balance	1,662	133.00	(109.87)	200.38	(130.10)	(75.10)	n/a
Airport Passengers	5,596,034	432,817	5,960,414	463,972	402,517	502,923	16.20

\$bn (unless otherwise mentioned)	Dec 2011	Mar 12	Dec 12	Jan 13	Feb 13	Mar 13	% Change*
BdL FX Reserves	30.82	30.99	29.97	30.96	30.34	30.36	(2.03)
<i>In months of Imports</i>	<i>18.51</i>	<i>17.99</i>	<i>16.02</i>	<i>18.81</i>	<i>16.94</i>	<i>14.62</i>	<i>(18.69)</i>
Public Debt	53.66	54.12	57.69	58.04	58.08	57.75	6.71
Net Public Debt	46.37	46.95	49.12	49.55	49.95	50.07	6.65
Bank Assets	140.58	144.73	151.88	153.11	153.97	155.44	7.40
Bank Deposits (Private Sector)	115.72	118.22	125.00	125.55	126.30	128.11	8.37
Bank Loans to Private Sector	39.38	41.00	43.45	43.72	43.95	44.70	9.02
Money Supply M2	38.90	40.04	43.17	43.28	43.62	43.76	9.29
Money Supply M3	97.23	98.94	104.01	104.13	104.71	105.85	6.98
LBP Lending Rate (%)	7.38	7.16	7.07	7.32	7.47	7.28	12b.p
LBP Deposit Rate (%)	5.63	5.46	5.41	5.43	5.46	5.44	(2b.p)
USD Lending Rate (%)	7.02	7.06	6.87	6.98	7.05	6.95	(11b.p)
USD Deposit Rate (%)	2.83	2.83	2.86	2.88	2.94	2.97	14b.p
%* Change in CPI**	4.27	5.10	4.68	4.32	3.66	9.17	407b.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"	11.49	4.45	124,694	11.12%
Solidere "B"	11.32	2.91	206,601	7.12%
Byblos Common	1.52	(3.80)	63,443	5.29%
Byblos Pref. 08	100.00	0.00	400	1.94%
Byblos Pref. 09	100.50	0.00	3,479	1.95%
BLOM GDR	8.65	(1.14)	16,933	6.19%
BLOM Listed	8.25	0.00	1,324,296	17.16%
Audi GDR	6.48	0.00	0	6.40%
Audi Listed	6.35	0.79	288,243	21.49%
HOLCIM	15.42	0.46	1,895	2.91%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Apr. 2014	7.375	103.00	3.53
Jan. 2015	5.875	102.25	4.36
Apr. 2015	10.00	110.00	4.25
Jan. 2016	8.500	109.00	4.73
Mar. 2017	9.000	112.00	5.40
Nov. 2018	5.150	97.25	5.75
Apr. 2021	8.250	109.25	6.70
Nov. 2026	6.600	95.50	7.13

Source: Byblos Bank Capital Markets

	June 17-21	June 10-14	% Change	May 2013	May 2012	% Change
Total Shares Traded	2,079,334	601,420	245.74	3,775,206	6,344,289	(40.49)
Total Value Traded	\$18,731,217	\$8,335,132	124.73	\$30,561,605	\$43,064,303	(29.03)
Market Capitalization	\$10.33bn	\$10.29bn	0.45	\$10.71bn	\$10.20bn	5.06

Source: Beirut Stock Exchange (BSE)



Real GDP growth forecast reduced to 1.2% for 2013

Barclays Capital revised downward its projection for real GDP growth in Lebanon to 1.2% in 2013 from a previous projection of 2%, due to the broad-based weakening of domestic economic activity and the prospects of increased instability. It anticipated that the current political deadlock and the deterioration in the domestic security situation would worsen Lebanon's already weak economic and social conditions. It considered that recurrent security breaches and recent travel warnings to Lebanon, which foreign governments issued to their citizens, would adversely affect the tourism, real estate and trade sectors, and would further depress consumption that constitutes a key driver of economic growth. It noted that tourist arrivals to Lebanon contracted by 13.9% in the first four months of the year compared to the same period last year, while investment in the real estate residential segment retreated. It cautioned from downward risks in the second half of the year due to spillovers from the Syrian conflict. It noted that credit to the resident private sector also slowed and posted a growth rate of 2.3% year-on-year during the first four months of the year compared to a rise of 4.2% in the same period last year despite the Central Bank's recent stimulus package, which confirms the weakening economic activity and greater caution from commercial banks.

Further, it forecast the fiscal deficit to marginally widen to 9% of GDP in 2013 from 8.9% of GDP in 2012, due to fiscal slippages and lack of reforms. It said that the fiscal deficit narrowed by 52% in the first two months of this year compared to the same period last year. But it noted that the narrowing of the deficit masks a decline of 3.5% in revenues due to slowing economic activity and a decrease of 16% in spending due to the political deadlock. It expected the decline in revenues to persist over the next few months until the Parliament's mandate is clarified and a new government is formed, while it anticipated the rise in current spending to worsen the fiscal deficit. Barclays said that the absence of a government and the uncertain fate of Parliament delayed discussions of the controversial public-sector wage scale, for which a draft law was recently approved by the President of the Republic. It estimated the impact of the bill to be no less than one to two percentage points of GDP in additional deficit.

In parallel, Barclays Capital pointed out that the dynamics of financing Lebanon's fiscal and current account deficits have come into the spotlight again given the backdrop of heightened political risks and stalemate, which reconfirms the critical role of Lebanese banks in another turbulent period. It added that the contribution of public sector borrowing to overall credit growth has been increasing over the past four months, while that of the private sector has been declining or stagnant. But it noted that recent Treasury auctions by the Central Bank and the Ministry of Finance have lengthened the maturity of the country's public debt profile and have contained increases in risk premium. It said that local banks continue to hold the majority of the public debt and have been the main subscribers to recent bond issues. It considered that banks would continue to finance the government's needs due to their high level of liquidity. But it warned that further deterioration in the domestic economic and political situation would increase yields, which would negatively affect Lebanon's debt dynamics.

Key Macroeconomic Indicators				
	2011	2012e	2013F	2014F
Activity				
Real GDP (% yoy)	1.5	1.5	1.2	2.0
CPI (% average)	5.0	6.1	5.8	4.5
External Sector				
Current account balance (\$bn)	(4.9)	(6.7)	(6.9)	(6.7)
Current account balance (% of GDP)	(12.5)	(16.1)	(15.8)	(14.9)
Net FDI (\$bn)	3.4	1.1	0.5	1.2
Gross external debt (% of GDP)	158.9	162.5	166.0	168.3
Foreign reserves (\$bn)	33.7	37.1	38.2	39.1
Public Sector				
Fiscal balance (% of GDP)	(6.1)	(8.9)	(9.0)	(8.8)
Primary balance (including grants) (% of GDP)	4.3	(0.3)	(1.1)	(1.3)
Gross public debt (% of GDP)	137.4	139.5	142.1	143.1

Source: Barclays Capital, June 2013

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

The Association of Banks in Lebanon (ABL) recommended to its member banks to maintain the Beirut Reference Rate (BRR) in US dollars at 5.91% in July 2013, unchanged from the current rate. The rate, considered as the reference rate for lending in foreign currency, replaced in 2009 the London Inter-Bank Offering Rate (LIBOR) since the ABL considered that the LIBOR no longer accurately reflects the cost of funding and lending in Lebanon. Additionally, the ABL recommended to its member banks to increase the Beirut Reference Rate in Lebanese pounds to 8.53% in July from 8.51% currently. The Beirut Reference Rate in US dollars and Lebanese pounds were adopted in March and May 2009, respectively. The ABL indicated that the BRR does not replace the Beirut Prime Lending Rate in each currency, but constitutes the basis to calculate the prime rate after adding the cost of liquidity and refinancing, credit risks, and the profitability of banks to the prime lending rate.



Fiscal and debt dynamics are main economic risks

Regional investment bank EFG Hermes maintained its projection for real GDP growth in Lebanon at 1% in 2013, similar to its growth estimate for 2012. It said that the economy is increasingly feeling the impact of political instability, as economic indicators continue to reflect further deterioration in economic activity. It added that its growth forecast takes into consideration the impact of regional instability on Lebanon's vital tourism sector. It noted that tourist arrivals, hotel occupancy and tourism-related consumption regressed in the first quarter of the year. Further, it said that the real estate sector continues to suffer from reduced appetite from GCC investors, partly due to the Syrian conflict and wider political uncertainties. But it considered that demand from Syrians fleeing the violence is providing some support to prices and is softening the rapid decline in real estate transactions. It anticipated that political disagreements and spillovers from the Syrian conflict would hamper any agreement between Lebanon's political factions on the formation of a new Cabinet over the foreseeable future.

In parallel, it considered that Lebanon's fiscal and debt dynamics constitute the main macroeconomic risks facing the country. It forecast the fiscal deficit at 8.9% of GDP this year, unchanged from last year's deficit. But it expected the nominal fiscal deficit to increase this year due to stagnant tax receipts from depressed economic activity and to the prospect of a rise in public expenditures. It noted that the widening of the fiscal deficit would lead to a similar rise in the public debt stock, which would push higher the debt-to-GDP ratio. It considered that the implementation of an across-the-board adjustment to the salary scale of public sector employees is not likely this year due to political instability and delays in the formation of a new government. But it said that the potential approval of the public wage hike and the increases in taxes and fees that are intended to finance the cost of the adjustment remain a downside risk for Lebanon's public finances, as the planned revenue measures would fall short from financing the entire increase in the wage bill.

Further, it indicated that Lebanon's banking system remains a cornerstone of macroeconomic stability and continues to act as a buffer, with the sector's indicators showing a stable outlook. It said that commercial banks posted healthy levels of deposit growth in the first four months of 2013 despite showing signs of deceleration. Also, the level of deposit dollarization and lending in local currency continue to be stable, reflecting the confidence of depositors and borrowers in the local currency despite the political volatility. It added that the Central Bank's foreign currency reserves remain elevated with reserves, excluding gold, stood at \$30bn by April 2013 and represented 64% of GDP.

Macroeconomic Indicators				
	2011E	2012E	2013F	2014F
Real Sector				
Real GDP Growth Rate (%)	1.5	1.0	1.0	1.8
CPI Inflation (yoy % average)	4.9	6.5	4.5	5.5
External Sector				
Trade balance (\$bn)	(15.9)	(16.8)	(17.5)	(19.0)
Current account balance (% of GDP)	(11.8)	(12.1)	(11.0)	(12.5)
BdL gross FX reserves (ex-gold) (\$bn)	30.6	29.8	29.7	30.4
Fiscal Sector				
Fiscal balance (% of GDP)	(5.7)	(8.9)	(8.9)	(8.8)
Net domestic debt (% of GDP)	61.7	55.8	51.9	49.4
External debt (% of GDP)	50.7	55.0	58.8	59.7
Financial Sector				
Broad money growth (yoy %)	5.5	5.4	7.1	6.4
Private sector credit growth (yoy %)	13.2	10.2	9.5	10.0

Source: EFG Hermes, June 2013

Number of tourists down 13% in first five months of 2013

The number of incoming tourists to Lebanon totaled 487,608 in the first five months of 2013, constituting a decrease of 12.5% from 557,188 tourists in the same period last year and a decline of 18.2% from 596,298 tourists during the first five months of 2011. Arab tourists accounted for 34.1% of total visitors in the first five months of the year, and were followed by visitors from Europe with 33.7%, the Americas with 14.2%, Asia with 10%, Africa with 4.9%, and Oceania with 3%. Also, tourists from Iraq accounted for 10.5% of visitors in the first five months of 2013, followed by visitors from France with 8.8%, the United States with 7.1%, Jordan with 6.7%, Egypt with 5.5%, and Canada with 4.9%. The number of Arab tourists declined by 25.1% year-on-year in the first five months of 2013, followed by visitors from Asia with a 13.9% decrease, Oceania (-12.6%), Africa (-3.9%), the Americas (-2.9%). In parallel, the number of European tourists was almost unchanged year-on-year. Further, the number of tourists from the UAE declined by 76.2% annually, followed by Saudi Arabia with a 54.5% decrease, Kuwait (-34.9%), Jordan (-18.2%), Turkey (-10.6%) and Italy (-7.1%). In parallel, the number of tourists from Sweden rose by 11.7% annually, followed by those from Iraq with a 6% rise, Germany (+5.5%), and Brazil (+5.4%); while the number of tourists from each of France and Venezuela was almost unchanged in the covered period. Incoming tourists totaled 1.37 million in 2012, down 17.5% year-on-year.



Fiscal deficit up 17% to \$783m in first quarter 2013 when assuming \$348m in telecom revenues

Figures released by the Finance Ministry show that the fiscal deficit reached \$782.6m in the first quarter of 2013, widening by 16.9% from \$669.3m in the same quarter last year. The deficit was equivalent to 26% of total budget and Treasury expenditures compared to 22.3% of overall spending in the first quarter of 2012. Overall government expenditures reached \$3bn, unchanged year-on-year, while total revenues decreased by 4.8% to \$2.2bn. Budgetary expenditures regressed by 1.1% to \$2.5bn and included \$572m in transfers to Electricité du Liban and \$189m in outlays from previous years, while budget revenues decreased by 5.8% to \$2.1bn. Tax revenues declined by 5.6% year-on-year to \$1.6bn, of which 33.6%, or \$532.1m, were in VAT receipts that fell by 8.1% from the first quarter of 2012. Tax revenues accounted for 75.7% of budgetary revenues and for 71.3% of total Treasury and budget receipts. The Finance Ministry is basing its monthly fiscal results on the Telecommunications Ministry's estimate of telecom receipts which reached \$348m in the first quarter of 2013, rather than on the Treasury actually receiving the funds from the Telecom Ministry. On a cash basis for the two compared periods, public revenues decreased by 5.7% year-on-year; while the fiscal deficit rose by 11.5% to \$1.1bn, equivalent to 37.6% of expenditures.

The distribution of other tax revenues shows that receipts from taxes on income, profits & capital gains tax decreased by 5.1% to \$364.7m in the first quarter of 2013; customs revenues grew by a marginal 0.7% year-on-year to \$353.4m; revenues from property taxes fell by 16.5% to \$179.3m; revenues from taxes on goods & services grew by 23.7% to \$85m; and other tax receipts, mainly stamp fees, decreased by 13.5% to \$70.8m. Further, the distribution of income tax revenues shows that taxes on wages & salaries accounted for 31.9% of total income tax receipts, followed by the tax on interest deposits with 29.9%, the tax on profits with 29.7% and the capital gains tax with 6.6%. Income from taxes on wages & salaries improved by 19.8% and the tax on profits increased marginally by 0.8%; income from capital gains tax decreased by 57.2% and the tax on interest regressed by 1.3%.

Also, the distribution of property taxes shows that revenues from real estate registration fees decreased by 26.2% to \$97.9m and receipts from built property taxes fell by 2.6% to \$59.8m, while revenues from inheritance tax increased by 4.2% to \$21.7m. In parallel, non-tax budgetary revenues regressed by 6.5% to \$508.5m, with revenues from government properties dropping by 5% to \$390.3m and administrative fees & charges decreasing by 10.3% to \$94.2m. Based on the ministry's assumption, receipts from telecom services accounted for 89.2% of income from government properties and for 68.4% of non-tax revenues.

Debt-servicing cost decreased by 8.1% year-on-year to \$777.8m in the first quarter of 2013. It accounted for 25.9% of total expenditures and for 31.5% of budgetary spending, and absorbed 35% of overall revenues and 37.1% of budgetary receipts. Interest payment on domestic debt declined by 2.3% year-on-year to \$527.3m, while interest disbursement on foreign debt regressed by 16.8% to \$218.2m. Repayment of principal on foreign debt fell by 26.7% to \$32.2m. Excluding debt servicing, the primary budget balance posted a surplus of \$402m, or 16.3% of budget expenditures compared to a surplus of \$571.6m, or 22.9% of budget spending in the same quarter last year. The overall primary balance posted a deficit of \$4.8m or 0.2% of spending, relative to a surplus of \$177m or 5.9% of total expenditures in the same quarter of 2012.

Fiscal Results in First Quarter of 2013		
	Including Assumed Telecom Receipts	Excluding Assumed Telecom Receipts*
	US\$m	US\$m
Budget revenues	2,094	1,746
Tax revenues	1,585	1,585
Non-tax revenues	508.5	160.5
<i>of which Telecom revenues</i>	<i>348.0</i>	<i>-</i>
Budget expenditures	2,470	2,470
Budget Surplus/Deficit	(375.8)	(723.8)
<i>In % of budget expenditures</i>	<i>(15.2%)</i>	<i>(29.3%)</i>
Budget Primary Surplus	402.0	54.0
<i>In % of budget expenditures</i>	<i>16.3%</i>	<i>2.2%</i>
Treasury receipts	131.1	131.1
Treasury expenditures	537.9	537.9
Total Revenues	2,225	1,877
Total Expenditures	3,008	3,008
Total Deficit	(782.6)	(1,131)
<i>In % of total expenditures</i>	<i>(26.0%)</i>	<i>(37.6%)</i>
Total Primary Surplus/Deficit	(4.84)	(352.8)
<i>In % of total expenditures</i>	<i>(0.2%)</i>	<i>(11.7%)</i>

* Cash basis

Source: Ministry of Finance, Byblos Research

Real GDP growth projected at 2% in 2013, lowest in MENA region

The World Bank revised downward its projection for real GDP growth in Lebanon to 2% from a January forecast of 2.8% and compared to growth of 2.5% in the Middle East & North Africa, 3.1% for the region's developing oil importers, 2.2% for the global economy and 5.1% in developing countries. Lebanon's projected growth rate for 2013 would make it the slowest growing economy among 11 countries in the MENA region, as the Syrian and Iranian economies are forecast to contract by 10% and 1.1%, respectively, this year. The 11 countries exclude the GCC economies. The Bank attributed Lebanon's weak economic growth this year to negative spillovers from the Syrian conflict, mainly on the tourism sector and other export services. It cautioned from rising inflation levels that exceeded 10% in the first few months of 2013. It said that widening fiscal deficit and rising public sector debt have exacerbated growing fiscal sustainability concerns. It noted that the government is planning spending cuts equivalent to 3% of GDP this year, following the shift of the primary balance to a deficit last year on rising public sector wages and weak revenue growth.

The Bank expected Lebanon's economic growth to remain subdued at 2.3% in 2014 but to accelerate to 4% 2015. Lebanon's projected growth rate for 2014 would make it the second slowest rate in the region, while its projected growth level for 2015 would make it the fourth slowest in the region. Further, the World Bank forecast Lebanon's current account deficit at 14.7% of GDP in 2013 relative to 13.8% of GDP last year, the second widest in the region behind Jordan with a projected deficit of 15.4% of GDP, and compared to a deficit of 3.3% of GDP for the region this year. Lebanon's current account deficit would remain the second widest in the region in 2014 at 13.6% of GDP, but will become the widest deficit in the region in 2015 at 13.2% of GDP.

In parallel, the World Bank revised downward its estimate for economic growth in Lebanon to 1.5% in 2012 from 1.7%, compared to growth of 3.5% in each of the MENA region and the region's developing oil importers last year. Lebanon was the second-slowest growing economy among 11 MENA countries in 2012, ahead of only Yemen at 0.1%. Real GDP in Syria and Iran posted contractions of 30% and 1.9%, respectively, last year. It attributed Lebanon's subdued economic growth last year to elevated domestic uncertainty, spillovers from the Syrian conflict and the growing number of refugees that are weighing on public finances. However, it noted that the influx of Syrian refugees supported domestic private consumption to a certain extent. It also estimated Lebanon's current account deficit at 13.8% of GDP in 2012, up from 12.5% of GDP in 2011 and compared to a deficit of 1.9% of GDP for the region.

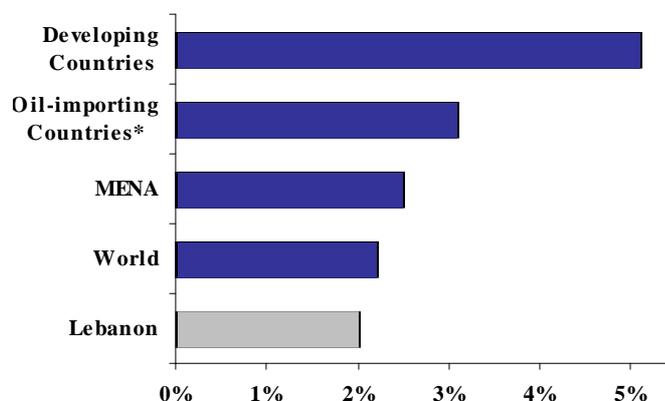
Number of real estate transactions down 8% in first five months of 2013

Figures released by the Ministry of Finance indicate that the total number of real estate transactions reached 26,042 in the first five months of 2013, constituting a decrease of 8.2% from 28,369 deals in the same period last year, and compared to an annual decline of 6.9% in the first five months of 2012 and a drop of 10% year-on-year in the same period of 2011. Also, the aggregate value of real estate transactions totaled \$3bn in the first five months of 2013, constituting an increase of 3% from \$2.92bn in the same period last year. The value of real estate deals was \$3.2bn and \$3.8bn in the first five months of 2011 and 2010, respectively. In parallel, the average value per real estate transaction increased by 12.4% year-on-year to \$116,114 in the first five months of 2013, relative to an average value of \$103,273 in the same period of 2012 and \$103,925 in the first five months of 2011.

Industrial exports up 6% to \$859m in first quarter of 2013

Figures released by the Ministry of Industry show that industrial exports totaled \$859.3m in the first quarter of 2013, constituting an increase of 6.3% from \$808.1m in the same quarter last year. Industrial exports reached \$318.9m in March 2013, up by 9.7% from \$290.8m in February 2013 and by 13.5% from \$281m in March 2012. Mineral products accounted for \$183.5m, or 21.4% of total industrial exports in the first quarter of the year, followed by base metals & articles of base metals with \$148m (17.2%), and machinery & mechanical appliances with \$124.8m (14.5%). Arab countries accounted for 58.8% of total industrial exports in March, followed by Asian countries with 12.3%, the United States with 9.4%, and European and African countries with 9.3% each. In parallel, industrial imports reached \$75.3m in the first quarter of the year, up 14.2% from the same quarter in 2012. Italy was the main source of such imports and accounted for 19.9% of the total. It was followed by China with 16.2% and Germany with 11.9%. Further, imports of industrial equipment and machinery reached \$23.3m in March 2013, decreasing by 1.8% year-on-year. Italy was the main source of imports of industrial equipments, accounting for 19.5% of the total, followed by Germany with 14.5% and China with 12.9%.

Projected Real GDP Growth in 2013 (%)



*Oil importers in the MENA region

Source: World Bank

Lebanon's external debt posts 29th lowest returns in emerging markets, eighth highest in the Middle East & Africa

Figures issued by Merrill Lynch indicate that Lebanon's external debt posted returns of 0.23% in the first five months of 2013, constituting the 15th lowest return among 34 markets in the Eastern Europe, the Middle East & Africa (EMEA) region as well as the 29th lowest return among the 61 emerging markets included in Merrill Lynch's Sovereign Plus Debt Index. Lebanon outperformed the EMEA region's returns of -0.15% and the overall emerging markets returns of -2.36% in the first five months of 2013. Also, Lebanon's external debt outperformed the -2.43% returns posted by similarly-rated sovereigns.

Further, Lebanon's external debt posted the eighth highest returns among 17 countries in the Middle East & Africa region in the first five months of the year, ahead of Gabon (-0.48%), Angola (-0.64%), Turkey (-0.66%), Nigeria (-1.26%), Namibia (-1.96%), Zambia (-3.35%), South Africa (-3.96%), Iraq (-4.92%), and Egypt (-12.86%). It was outperformed by the Ivory Coast (5.41%), Jordan (3.76%), Bahrain (2.86%), Senegal (1.79%), Tunisia (1.36%), Morocco (1.24%), and Ghana (0.41%). In US dollar terms, Lebanon's external debt posted returns of 0.22% in the first five months of 2013, 16th highest in the EMEA region and 29th highest among emerging markets.

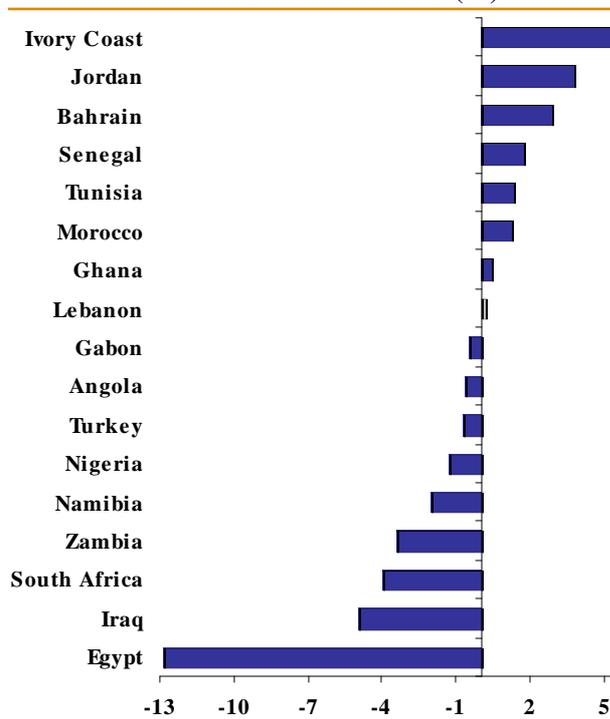
In parallel, Lebanon's external debt posted returns of -0.86% in May 2013, constituting the 12th highest return in the EMEA region and the 19th highest return in emerging markets during the covered month. Lebanon outperformed the EMEA returns of -1.55% and that of emerging markets of -3.25% as well as the -3.3% returns of similarly-rated sovereigns for the same month. Further, Lebanon's external debt posted the fourth highest returns in the Middle East & Africa region in May 2013. It outperformed Turkey (-1.06%), Bahrain (-1.09%), Ghana (-1.55%), Angola (-2.06%), Senegal (-2.42%), Nigeria (-2.46%), Gabon (-2.86%), Namibia (-3.31%), Morocco (-3.37%), Zambia (-3.48%), Iraq (-3.51%), South Africa (-4.63%), Egypt (-7.92%). It was outperformed by the Ivory Coast (0.64%), Jordan (0.32%) and Tunisia (-0.71%). Merrill Lynch said the spread on Lebanese Eurobonds ended May 2013 at 451 basis points, constituting the seventh widest spread in the EMEA region and the 15th widest among emerging markets. It was wider than the EMEA spread of 269 basis points as well as the emerging markets' overall spread of 294 basis points at end-May 2013. Lebanon has a weight of 3.53% on Merrill Lynch's Sovereign Plus Debt Index, the fifth highest in the EMEA universe and the 10th highest among emerging economies. Lebanon accounted for 7.1% of allocations in the EMEA region.

Public-sector salaries and benefits down 14% in January 2013

Figures issued by the Ministry of Finance show that salaries, wages and related benefits paid to public-sector employees totaled \$237.5m in January 2013, constituting a decrease of 13.9% from the same month last year. They represented the largest component of total primary spending and accounted for 29% of such expenditures in January, unchanged from the same month last year. The figures include basic salaries, indemnities, allowances, contributions to the civil servants cooperatives, as well as contributions to other mutual funds providing health insurance for specific categories of civil servants, mainly judges, religious judges and Parliament employees. The payments exclude retirement and end-of-service indemnities as well as salaries, wages and benefits of employees at public institutions. Salaries and benefits of military personnel totaled \$143.9 and accounted for 60.6% of the total, followed by educational personnel with \$53.7m or 22.6% of the total, civil staff with \$35.8m (15.1%), and customs employees with \$4m (1.7%). Also, the Lebanese Army's salaries totaled \$98.8m in January 2013 and represented 68.7% of military personnel salaries and benefits. It was followed by salaries of the Internal Security Forces with \$35.2m (24.4%), General Security Forces with \$8m (5.5%), and State Security Forces with \$2m (1.4%).

The ministry attributed the decline in salaries, wages and related benefits paid to public-sector employees to a \$15.9m or 8.3% annual decrease in basic salaries to \$175.1m as a result of a drop in the 2012 cost-of-living adjustment and retroactive payments. It said that excluding such payments from the two compared months, basic salaries would have increased by 12% to \$160m due in part to an increase in basic salaries of military personnel. Also, allowances decreased by 17.5% annually to \$31.2m, while indemnities rose by 62.5% to \$17.2m year-on-year. The breakdown of basic salaries shows a rise of \$3.3m in payments to military personnel and a decrease of \$9.3m in payments to each of educational personnel and civil personnel. Also, allowances decreased by \$6.6m due to lower payments to the Army and the State Security Forces.

External Debt Performance in Middle East & Africa in First Five Months of 2013 (%)



Source: Merrill Lynch, Byblos Research

Market accessibility of Beirut Stock Exchange needs improvement in several areas

In its annual assessment of the market accessibility of 79 Developed, Emerging and Frontier equity markets, global portfolio analytics and indices provider MSCI Barra maintained Lebanon in its Frontier Markets category and evaluated the country's stock market based on four accessibility criteria that are openness to foreign ownership, ease of capital inflows and outflows, efficiency of the operational framework, and stability of the institutional framework. It said that the four criteria reflect the views of international institutional investors, which generally put a strong emphasis on equal treatment of investors, free flow of capital, cost of investment and country specific risk.

In terms of openness to foreign ownership, it said that there are no limits to foreign ownership on the Beirut Stock Exchange except for Israeli nationals whom are formally prohibited from investing in Lebanese companies. It noted the need to improve equal rights to foreign investors, as company-related information is not always readily available in English. Lebanon was one of two frontier markets with a 'no major issues' rating in terms of investor qualification requirements, one of 14 markets with the same rating in terms of equal rights to foreign investors, one of 20 frontier markets with a 'no issues' rating in terms of foreign room level, and one of 16 markets with the same rating in terms of foreign ownership limit.

Regarding capital inflows and outflows, it said there are no restrictions on capital flows, but noted that there is no offshore currency market and there are constraints on the onshore currency market, as foreign investors are not allowed to hold Lebanese pound balances. Lebanon was among 20 frontier markets with a 'no issues' rating in terms of capital flows restrictions, and one of nine markets with an 'improvements needed' rating in terms of the liberalization level of the foreign exchange market.

Regarding the efficiency of the operational framework, it considered that market entry needs improvement, as registration is mandatory and may take up to five days. It added that not all regulations can be found in English, and the flow of information needs improvement as detailed stock market information is not always disclosed in English. It added that clearing and settlement procedures can be improved, as there is an absence of a real DVP system on the Beirut Stock Exchange, while there is no nominee status and no omnibus structures. In terms of custody, MSCI Barra said there is no formal segregation between custody and trading accounts for transactions on the Beirut market. In addition, there is only one active custodian available to foreign investors. It added that investors would welcome improvements in this area. Lebanon was among nine frontier markets that received a 'no major issues' rating in terms of market regulations and one of five markets to get the same rating in terms of information flow.

In parallel, it indicated that not all listed shares are dematerialized in terms of registry and depository, and in most instances the central depository acts as a central registry. It added that in-kind transfers and off-exchange transactions are prohibited. Finally, MSCI Barra said that Lebanon, like most Emerging and Frontier Markets, exhibits some shortcomings but "no major issues" in the stability of the institutional framework, and in particular in the enforcement of the rule of law.

Lebanon is one of 25 stock markets worldwide that fall under MSCI Barra's definition of Frontier Markets. The other such markets in the region are Tunisia, Bahrain, Jordan, Kuwait, Oman, Qatar, and the UAE. The latter two markets will become Emerging Markets in 2014. In November 2007, MSCI Barra included Lebanon in its MSCI Frontier Markets Index, a fully investable index for frontier equity markets. The index contains stocks from 25 developing markets in Asia, Emerging Europe, the Commonwealth of Independent States, Africa, and the Middle East.

Lebanon to shift from analogue to digital broadcasting system by 2015

The Lebanese National Committee for Transition to Digital TV announced that it has launched its operations to transform Lebanon's current analogue broadcasting system to a digital one. It said that the transition will be completed before June 17, 2015. It noted that Lebanon has to shift its current broadcasting system due to technical, economic and environmental needs. It added that specialized companies have suspended the manufacturing of analogue devices and that Lebanon is having difficulties finding spare parts for its own devices and machines. It said that the transition to digital broadcasting would improve the quality of service, promote competitiveness and create new investment opportunities. Also, it considered that the transition would have a positive impact on the rehabilitation and development of Lebanon's state-owned television station Télé Liban. The Committee was officially formed in May 2013 to manage and implement the shift from an analogue to a digital broadcasting system in Lebanon.

Occupancy at Beirut hotels at 58%, room yields down 32% in first four months of 2013

Ernst & Young's benchmark survey of the Middle East hotel sector indicated that the average occupancy rate at hotels in Beirut was 58% in the first four months of 2013, down from 66% in the same period last year. The occupancy rate at hotels in Beirut fell by eight percentage points year-on-year, constituting the second steepest decrease among 16 markets in the Middle East and North Africa region, similar to Cairo, and relative to an average increase of 0.6 percentage points for the region.

E&Y indicated that the Syrian conflict is negatively affecting Lebanon's hospitality market. It anticipated the downward trend in Lebanon's hospitality indicators to continue in the near-term. It noted that GCC countries advised their nationals who are currently present in Lebanon to leave the country and urged others to refrain from traveling to Lebanon. GCC nationals accounted for around 40% of tourist spending in Lebanon.

The occupancy rate at Beirut hotels was the third lowest in the region in the covered period, while it was the seventh lowest in the first four months of 2012. Occupancy rates at Beirut hotels were 49% in January, 60% in February, 58% in March and 65% in April 2013, compared to 60% in January, 64% in February, 74% in March and 66% in April 2012.

Cairo had the lowest hotel occupancy rate at 29%, while Amman posted a drop of 21 percentage points in hotel occupancy, the steepest in the region. The survey said that the average rate per room at Beirut hotels was \$162 in the first four months of 2013, ranking the capital's hotels as the 11th most expensive in the region. The average rate per room at Beirut hotels decreased by 22.9% year-on-year and posted the steepest decrease among all markets in the region. The average rate per room in Beirut came below the regional average of \$193.9, which increased by 1.6% from the same period last year.

Further, revenues per available room (RevPAR) were \$94 in Beirut in the first four months of the year, down from \$139 in the first same period last year, and coming in 13th place in the region. Beirut's RevPAR fell by 32.4% year-on-year compared to an increase of 4.1% across the MENA region, and posted the steepest decrease in the region. Beirut posted RevPARs of \$82 in January, \$97 in February, \$93 in March and \$106 in April 2013, compared to \$139 in January, \$131 in February, \$149 in March and \$138 in April 2012. Dubai City posted the highest average room rate in the region at \$314, the highest RevPAR at \$279, and the highest occupancy rate at 88% in the first four months of 2013.

Hotel Performance in First Four Months of 2013			
	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Dubai Overall	88	279	7.4
Makkah	85	190	1.9
Abu Dhabi	82	197	9.9
Muscat	79	174	3.5
Jeddah	77	205	9.1
Madina	76	150	13.2
Doha	74	197	(0.5)
Al Ain	73	105	8.8
Sharm El Shaikh	71	40	26.6
Hurghada	70	26	62.5
Riyadh	66	150	1.3
Kuwait	64	193	17.3
Amman	60	95	(19.1)
Beirut	58	94	(32.4)
Manama	48	106	21.1
Cairo Overall	29	25	(17.5)

Source: Ernst & Young, Byblos Research

Corporate Highlights

Profits of Syrian affiliates of Lebanese banks down 98% in first quarter of 2013, assets increase by 2.2% from end-2012

Preliminary financial results issued by the affiliates of seven Lebanese banks operating in Syria show that their aggregate assets reached SYP317bn at the end of March 2013, constituting an increase of 2.2% from end-2012. The increase was due to a 16.8% growth in the assets of Bank of Syria & Overseas (+SYP9.5bn), a 6.3% rise in those of Fransabank Syria (+SYP2.1bn) and a 1% improvement in those of Banque BEMO Saudi Fransi (+SYP0.83bn). Also, the rise in the assets of Bank of Syria & Overseas, Fransabank Syria and Banque BEMO Saudi Fransi offset the 24.2% fall in the assets of Bank Al-Sharq, the affiliate of Banque Libano-Française (-SYP4bn), the 2.3% decrease in those of Bank Audi Syria (-SYP1.2bn), the 0.7% decline in those of Byblos Bank Syria (-SYP0.3bn) and the 0.8% contraction in the assets of Syria Gulf Bank, the affiliate of First National Bank (-SYP0.2bn). The aggregate shareholders' equity of the seven banks reached SYP35.3bn, or \$406.5m, at end-March 2013, unchanged from end-2012. The aggregate assets of the seven banks were equivalent to about \$3.7bn at the prevailing official exchange rates during the covered period.

In parallel, the aggregate net profits of the seven banks reached SYP52.7m in the first quarter of 2013, constituting a decrease of 98.2% from SYP2.9bn in the first quarter of 2012, and compared to aggregate net losses of SYP489.5m in the fourth quarter of 2012. The profits were equivalent to about \$0.65m compared to \$49.8m in the same period last year and to \$6.9m in the fourth quarter of 2012 based on the prevailing official exchange rates during the covered quarters. The banks' total operating income reached SYP4.7bn in the first quarter of 2013, down 35.7% from SYP7.3bn in the same period last year. The decrease in net income is mainly attributed to a 99.7% decline in the profits of Bank Audi Syria (-SYP825.1m), a 59.5% drop in those of Banque BEMO Saudi Fransi (-SYP388.4m), a 64.3% contraction in those of Fransabank Syria (-SYP361.5m), a 95.5% fall in those of Bank Al-Sharq (-SYP360.8), and an 83.5% decrease in those of Bank of Syria & Overseas (-SYP92.6m). Also, the net income of Syria Gulf Bank shifted to a loss of SYP277.6m from a profit of SYP274.5m in the first quarter of 2012 and that of Byblos Bank Syria changed to a loss of SYP171.8m in the first quarter from net profits of SYP114.5m in the same period last year. The seven banks have yet to publish their detailed balance sheet and financial results for the first quarter of 2013.

Preliminary Results of Affiliates of Lebanese Banks in Syria in First Quarter of 2013 (in SYP)

	Banque BEMO Saudi Fransi	Bank of Syria & Overseas	Bank Audi Syria	Byblos Bank Syria	Fransabank Syria	Syria Gulf Bank	Bank Al-Sharq
Net Profits	263.88m	18.24m	2.14m	(171.78m)	200.59m	(277.57m)	17.16m
% Change*	-59.5%	-83.5%	-99.7%	n/a	-64.3%	n/a	-95.5%
Total Assets	84.7bn	66.3bn	48.5bn	43.2bn	35.9bn	25.9bn	12.4bn
% Change**	1%	16.8%	-2.3%	-0.7%	6.3%	-0.8%	-24.2%

*Year-on-year

**Change from end-2012

Source: Banks' financial statements

Car sales up 6% in first five months of 2013

Figures released by the Association of Automobile Importers in Lebanon (AIA) indicate that a total of 14,179 new passenger cars were sold in the first five months of 2013, constituting an increase of 5.7% from 13,418 cars sold in the same period last year. Korean cars accounted for 47.9% of total sales, followed by Japanese cars with a 24.3% share, European automobiles with 20.3%, American vehicles with 5.6%, and Chinese cars with 1.9%. Chinese cars posted the highest growth in sales with a 184% rise year-on-year, followed by European cars with a 10.7% increase and Korean cars with a 10.1% growth. In parallel, Japanese cars posted a contraction in sales with a 7.5% drop year-on-year, followed by American cars with a 4.3% decrease. Kia is the leading brand in the Lebanese market with 3,921 cars sold in the first five months of 2013, followed by Hyundai with 2,869, Nissan with 1,812 cars sold, Toyota (686), Chevrolet (421), Renault (415) and Volkswagen (330). In parallel, a total of 935 new commercial vehicles were sold in the first five months of 2013, down 1.2% from the 946 vehicles sold in the same period last year, but up 7.8% from the 867 vehicles sold in the same period of 2011.

The AIA indicated that more than 90% of new cars sold during the covered period were small automobiles that cost about \$11,000 each. It noted that the trend towards buying smaller cars is due to the high prices of gasoline, the lack of proper public transportation, and fierce competition among car dealers. It added that this translates into lower sales figures and, consequently, a decline in the dealers' income.

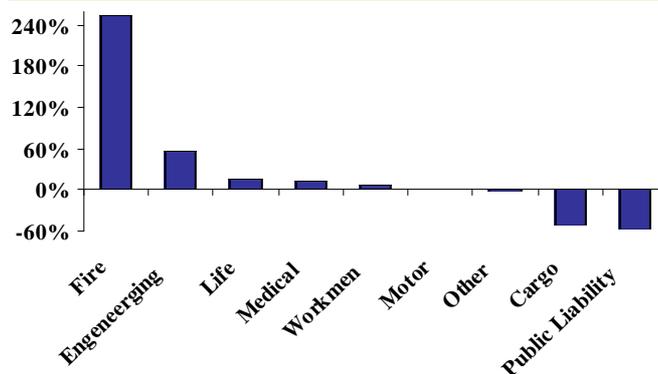


Insurance premiums up 20% annually to \$382m in first quarter of 2013, claims and benefits rise by 17% to \$166m

Figures released by the Association of Insurance Companies in Lebanon (ACAL) indicate that insurance premiums in Lebanon totaled \$382.3m in the first quarter of 2013, constituting an increase of 19.6% from \$319.6m in the same quarter last year, and a rise of 15.8% from \$330.1m in the preceding quarter.

Medical insurance premiums reached \$126.6m in the first quarter and accounted for 33.1% of the sector's aggregate premiums. They were followed by life premiums with \$109m (28.5%), motor premiums with \$74.6m (19.5%), fire premiums with \$32.6m (8.5%), workmen's compensation with \$11.4m (3%), other categories with \$9.1m (2.4%), cargo premiums with \$8.6m (2.3%), civil liability premiums with \$4.5m (1.2%), engineering premiums with \$4.3m (1.1%) and credit premiums with \$1.6m (0.4%). The life and medical categories were the main drivers of premium growth in the first quarter of the year as they posted annual increases of 36% and 27%, respectively, compared to growth of 14% for fire insurance premiums and 5% for each of workmen's insurance premiums and other categories; while motor premiums contracted by 2% in the covered quarter and cargo premiums decreased by 3% annually.

Change in Claims Paid in First Quarter of 2013*



*Percentage change from first quarter of 2012

Source: Association of Insurance Companies in Lebanon

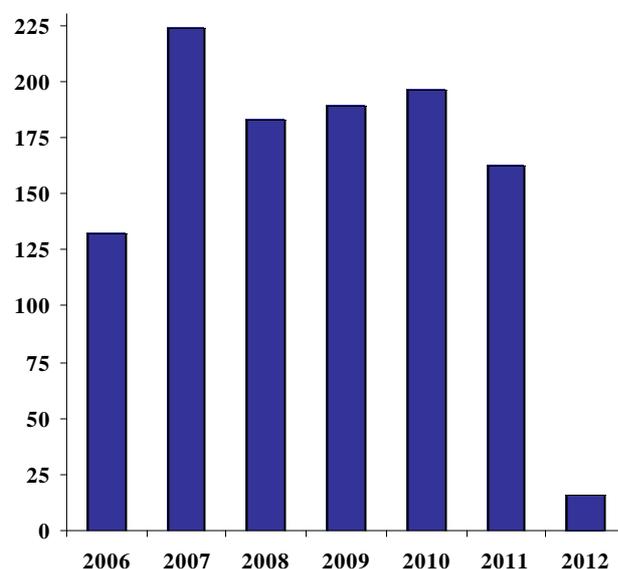
In parallel, ACAL indicated that total benefits and claims paid by insurance companies stood at \$166.3m in the first quarter of 2013, constituting a 17.6% increase from the same quarter of last year and an 18.5% drop from \$204.1m in the preceding quarter. Medical claims reached \$66.8m in the first quarter of 2013 and accounted for 40.1% of total payments, followed by life claims with \$25.7m (15.4%), motor policies payments with \$44.5m (26.7%), fire claims with \$20m (12%), workmen's claims with \$5.2m (3.1%), other categories claim with \$1.2m (0.7%), cargo claims with \$0.9m (0.5%), engineering claims with \$0.8m (0.5%), credit claims with \$0.7m (0.4%) and civil liability claims with \$0.6m (0.4%). Fire claims surged annually by 254% in the first quarter of the year, life claims increased by 16%, medical claims rose by 13%, workmen claims improved by 7% and motor claims grew by 2%; while cargo claims dropped by 50% and other categories fell by 3% year-on-year.

Further, unit-linked policies accounted for 61.6% of total life premiums and for 12.5% of the total number of life subject matters in the first quarter of the year; while life protection plans represented 38.4% of total life premiums and 87.5% of the total number of life subject matters in the covered quarter. ACAL noted that medical insurance premiums covering Lebanese citizens rose by 28% at \$124m, while medical insurance premiums covering expatriates grew by 6% year-on-year to \$2.6m in the first quarter. Finally, it indicated that non-compulsory motor insurance premiums rose by 1% year-on-year to \$63.7m, while compulsory motor insurance premiums fell by 15% annually to \$10.9m in the first quarter.

Solidere's net income down 90% to \$16m in 2012

Solidere, the Lebanese Company for the Development and Reconstruction of the Beirut Central District and Lebanon's largest firm in terms of market capitalization, announced net profits of \$16m in 2012, constituting a decline of 90.1% from \$162.6m in 2011. Revenues from land and real estate sales decreased by 79.5% to \$49.6m in 2012, while revenues from rental properties rose by 8.9% year-on-year to \$54.3m. Further, income from services grew by 49.1% year-on-year to \$7.1m in 2012. Also, the firm recorded total net operating revenues of \$75.4m, down 67.3% year-on-year. Solidere stated that its consolidated assets totaled \$2.8bn and increased by 2.5% from end-2011, as the inventory of land and projects in progress totaled \$1.2bn at end-2012 relative to \$1.1bn a year earlier. Bank overdrafts and short term facilities reached \$629.8m compared to \$504.8m at the end of 2011. It attributed the significant drop in revenues to slow macroeconomic conditions and political uncertainties that negatively affected real estate sales. It added that it still owns a land bank of 1.87 million square meters that is valued at about \$8bn based on prevailing market prices. Also, the value of its built properties amounted to about \$1.2bn, while its holdings in cash and securities totaled approximately \$702m. It noted that the market value of the firm's 4.8 million treasury shares totals about \$63m. Solidere also owns 4.3 million shares of its Dubai-based affiliate Solidere International, or the equivalent of 39% of the capital of the company, worth at least \$750m.

Solidere Net Profits (US\$m)



Source: Solidere Financial Statements

MEA's operating profits up 43.6% to \$58m in 2012

National flag carrier Middle East Airlines (MEA) announced operating profits of \$58m in 2012, constituting an increase of 43.6% from \$40.4m in 2011, but a decrease from \$90.6m in 2010, \$118.3m in 2009 and \$101.1m in 2008. It attributed the decline in profits relative to the 2008-2010 period to the deterioration in the domestic political and security situation that has adversely impacted the number of tourist arrivals. Further, MEA indicated that the number of passengers from Gulf Cooperation Council countries who travel business class dropped by 40% so far this year, and considered that the increase in the number of Syrian passengers does not offset the overall decline in passenger activity. Further, MEA said that its objective this year consists of avoiding shifting from operating profits to losses. It noted that it employs 4,500 persons, including 1,900 persons in the mother company and 3,500 in affiliated companies. 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.

MEA, which is 99% owned by the Central Bank of Lebanon, has currently a fleet of 18 modern Airbus planes and flies to more than 38 destinations in Europe, the Gulf region, the Middle East and Africa. Also, it signed last year a Memorandum of Understanding to purchase 10 new Airbus planes at an estimated cost of \$1bn.

Kafalat loan guarantees down 25% to \$42m in first five months of 2013

Figures released by the Kafalat Corporation show that loans extended to small- and medium-size companies under the guarantee of Kafalat reached \$42.2m in the first five months of 2013, down 24.6% from \$56m in the same period last year. The number of loan guarantees totaled 309 year-to-May compared to 421 in the same period last year. The average loan size reached \$136,591 compared to \$132,982 in the first five months of 2012. Mount Lebanon accounted for 39.8% of guarantees, followed by the Bekaa with 22%, the South & Nabatieh with 19.4%, the North with 11%, and Beirut with 7.8%. The agricultural sector accounted for 39.2% of total guarantees, followed by industry with 34.3%, tourism with 19.4%, handicraft with 4.5%, and specialized technologies with 2.6%. Kafalat is a state-sponsored organization that provides financial guarantees for loans up to \$400,000 earmarked for the set up and expansion of small and medium-size companies in productive sectors. It guarantees up to 75% of the loan amount and a similar percentage of the interest that accrues during the grace period. It also guarantees up to 90% of the loan amount for innovative start ups and a similar percentage of the interest that accrues during the grace period.

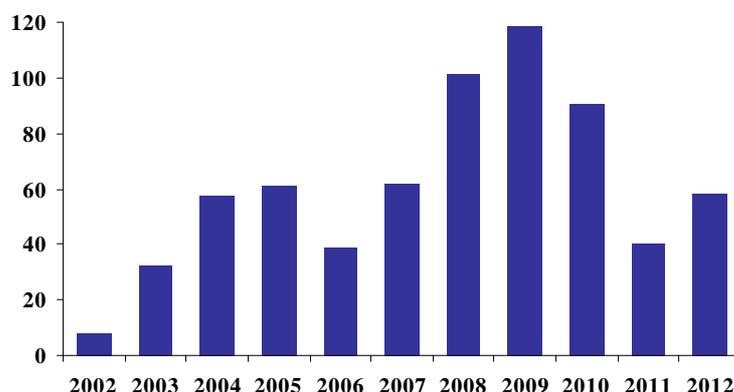
RYMCO's profits at \$0.67m in first quarter of 2013

Automobile dealer Rasamny Younis Motor Co. sal (RYMCO) declared net profits of \$0.67m in the first quarter of 2013 compared to net income of \$0.6m in the same quarter last year. Sales revenues (net of discounts) totaled \$30.2m, constituting a 21.3% decrease year-on-year; while net earnings from servicing and repairs, or 'garage income', increased by 23.4% to \$1.1m. General and administrative expenses rose by 11.5% to \$1.2m in the first quarter, while advertising & selling expenses increased by 89.8% to \$0.76m, and overall operating charges rose by 16.1% to \$3.8m. Total assets reached \$127.4m at end-March 2013, constituting a decline of 4.2% from \$132.9m a year earlier. The company's inventory of cars and spare parts reached \$38.5m at end-March, constituting a decrease of 14.4% year-on-year. In parallel, total shareholder's totaled \$52m at end-March 2013, constituting a drop of 4.1% from the same quarter last year. RYMCO is the only car retailer listed on the Beirut bourse. Its share price closed at \$3.5 on June 21, up 32.6% year-to-date.

Cadbury Adams closes factory in Lebanon

Cadbury Adams announced that it is closing its factory in Lebanon as part of the company's strategy to reduce the number of its plants in the Middle East and North Africa. Also, the company reportedly cited the high energy cost in Lebanon as a main reason for suspending its production operations in the country. But Cadbury Adams noted that it will keep its representative office, which will be in charge of the local distribution of the company's products. It added that the local factory is one of the company's smallest manufacturing plants and produced three brands that are Chiclets, Clorets and Halls. Cadbury Adams has already informed the relevant authorities of its decision and indicated that it will give fair compensation to dismissed employees. It said that it will retain about 50 employees out of its total local staff of 150, and that they will be part of its representative office. Cadbury Adams is owned by Mondelez International a U.S. multinational confectionery, food and beverage conglomerate.

MEA Operating Profits (US\$m)



Source: Middle East Airlines

BLC Bank announces dividends for 2012

BLC Bank sal announced that its Ordinary General Assembly held on May 22, 2013 approved the distribution of dividends for 2012. The bank will allocate a gross dividend payment of \$13.2m to the holders of common and preferred shares, equivalent to a 36.2% payout ratio. The bearers of common shares will receive a total of \$6.6m, equivalent to LBP65 (\$0.04) per share. The dividends will be paid net of a 5% withholding tax. BLC indicated that the dividends were determined after taking into consideration the 10% legal reserve requirements, the \$5.2m in reserves against various banking risks, as well as \$2.1m in provisions covering repossessed real estate collateral, and \$0.2m in free reserves to mainly cover debt provisions. The assembly also approved the bank's Chairman annual allowance that is equivalent to 3% of net profits, or \$998,000 for 2012; the Vice Chairman's allowance of \$333,000, or 1% of net earnings; and that of the General Manager at 0.5% of net profits, or \$166,000 for that year. BLC Bank sal, one of Lebanon's listed banks, announced unaudited consolidated net profits of \$33.3m in 2012, down 30.8% from net earnings of \$48.1m in 2011. Total assets reached \$5.1bn at end-2012, constituting a rise of 15.4% from \$4.4bn a year earlier; while loans & advances to customers increased by 15.9% year-on-year to \$1.8bn at end-2012. Further, customer deposits totaled \$4.3bn at end-2012, constituting an increase of 18.5% from \$3.6bn end-2011. BLC Bank is part of the Fransabank Group.

Capital Intelligence affirms ratings on BLOM Bank and Bank Audi

Capital Intelligence affirmed the long- and short-term foreign currency ratings of BLOM Bank and Bank Audi at 'B'. It also affirmed the financial strength rating (FSR) of the two banks at 'BBB-'. It said the banks' long- and short-term foreign currency ratings are constrained by the sovereign ceiling and that the outlook on all the ratings is 'stable'. The agency has previously affirmed Byblos Bank's long- and short-term foreign currency ratings at 'B' and 'B', respectively; as well as the Bank's Financial Strength Rating (FSR) at 'BBB-'.
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The agency indicated that BLOM Bank's FSR reflects its strong franchise and liquidity as well as better cost efficiency and profitability than the sector's average. But it noted that the FSR is constrained by weaker loan asset quality as well as the ongoing exposure to the Lebanese sovereign, and local and regional political risks. It cautioned that negative trends in the bank's asset quality are weighing on the FSR. It said that despite BLOM Bank's large increase in provisions last year, its loan-loss reserve coverage declined to a barely adequate level in view of projected asset quality trends. But it said the bank's risk-absorption capacity remains intact and expected it to restore its loss reserve coverage to a better level this year. It anticipated that the bank's sound capital will provide additional buffers against rising credit risks.

Also, the agency indicated that Bank Audi's FSR is constrained by the domestic and regional political environment, concentration to Lebanon's sovereign debt, rising cost of risk, and increased cross-border funding exposure to Turkey. It considered that the bank's credit exposure in Turkey would improve its risk profile through lower risk-weighting of assets. It added that the bank's FSR is supported by its strong franchise, customer deposit base, and good liquidity. It noted that the growth in the bank's net profits remains modest due to the increase in loan-loss provisions and was supported by gains from the sale of the group's insurance subsidiary.

Arab Bank's profits up 1% to \$16m in 2012

The Jordan-based Arab Bank plc announced audited net profits of \$16.3m in 2012 for its branches in Lebanon, constituting an increase of 1.2% from \$16.1m in 2011. Net operating income rose by 6.5% year-on-year to \$51.4m in 2012, with net interest income increasing by 14.1% to \$41.1m and net fees & commissions receipts decreasing by 1.5% to \$5.6m. Total operating expenditures rose by 7.5% to \$29.6m, with staff expenses increasing by 14.4% to \$16m. The cost-to-income ratio rose to 59% in 2012 from a ratio of 56.9% in 2011.

In parallel, total assets reached \$1.56bn at end-2012, constituting a marginal increase of 0.2% from end-2011; while loans & advances to customers, excluding loans & advances to related parties, increased by 4.4% year-on-year to \$625.2m. Also, customer deposits, excluding deposits to related parties, totaled \$1.3bn at end-2012, growing by 2.3% from a year earlier. The loans-to-deposits ratio rose to 46.7% at end-2012 from 45.8% a year earlier. Provisions for risks and charges rose by 20.2% year-on-year to \$9.8m in 2012.

Banque Pharaon & Chiha's profits down 4% to \$4.8m in 2012

Banque Pharaon & Chiha sal, one of the smaller banks in Lebanon, announced audited consolidated net profits of \$4.8m in 2012, down 4.2% from \$5m in 2011. Net operating income rose by 7.6% year-on-year to \$12.2m in 2012, with net interest income increasing by 0.5% to \$8.5m and net fees & commissions receipts rising by 0.4% to \$2.1m. Total operating expenditures increased by 10% to \$6.7m, with staff expenses increasing by 11.4% to \$4.3m. The cost-to-income ratio rose to 58.5% in 2012 from a ratio of 53% in 2011.

In parallel, total assets reached \$283.4m at end-2012, constituting a 5.9% increase from \$267.5m at end-2011; while loans & advances to customers, excluding loans & advances to related parties, increased by 5.3% year-on-year to \$81.4m. Also, customer deposits, excluding deposits to related parties, totaled \$227.1m at end-2012, growing by 4.8% from a year earlier. The loans-to-deposits ratio regressed slightly to 35.32% at end-2012 from 35.36% a year earlier. Provisions for risks and charges rose by 22.6% year-on-year to \$1.4m in 2012.



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	Negative	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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