

## LEBANON THIS WEEK

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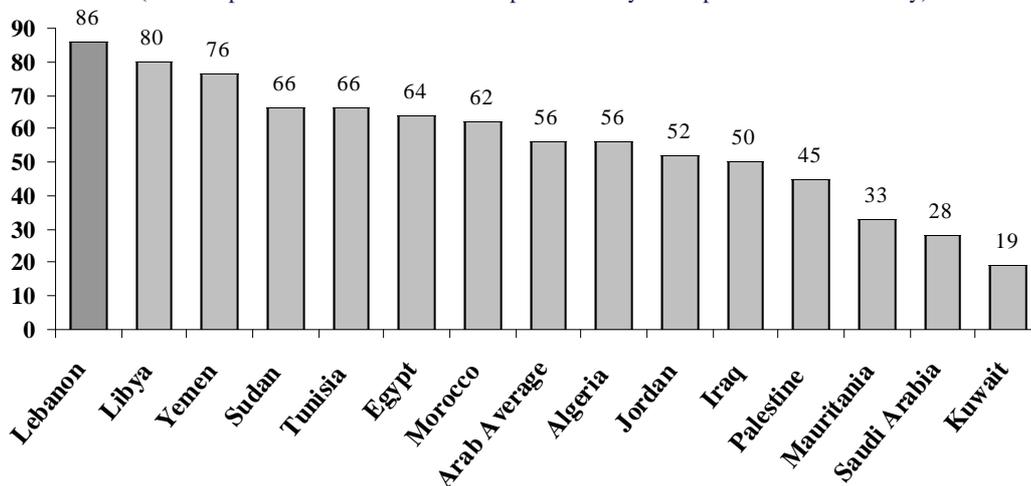
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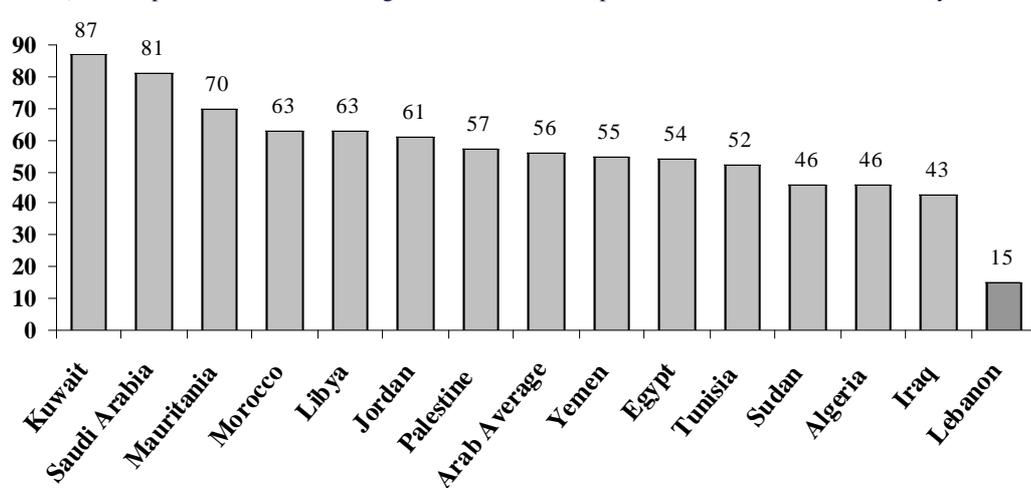
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### Charts of the Week

**Public Perception about the Extent of Corruption in Select Arab Countries**  
(% of respondents who consider corruption is 'very widespread' in their country)



**Public Perception about Government Efforts in Fighting Corruption in Select Arab Countries**  
(% of respondents who consider government anti-corruption efforts to be 'serious' or 'very serious')



Source: Arab Center for Research & Policy Studies, Byblos Bank

### Quote to Note

"Lebanon's poor quality of economic data impedes economic monitoring."

*The World Bank, on the impact of the country's weak statistical base*

### Number of the Week

**66.3%:** Percentage of respondents who are opposed to the recent extension of the Lebanese Parliament's mandate, according to an opinion poll conducted in the second week of June by Statistics Lebanon

## 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"	11.21	(2.44)	76,631	10.95%
Solidere "B"	11.21	(0.97)	18,749	7.12%
Byblos Common	1.50	(1.32)	33,128	5.27%
Byblos Pref. 08	100.00	0.00	2,130	1.95%
Byblos Pref. 09	100.50	0.00	1,257	1.96%
BLOM GDR	8.65	0.00	74,898	6.25%
BLOM Listed	8.25	0.00	4,233	17.33%
Audi GDR	6.38	(1.54)	8,300	6.36%
Audi Listed	6.18	(2.68)	14,203	21.12%
HOLCIM	16.27	5.51	1,500	3.10%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Apr. 2014	7.375	101.75	5.05
Jan. 2015	5.875	102.00	4.51
Apr. 2015	10.00	109.25	4.61
Jan. 2016	8.500	108.00	5.11
Mar. 2017	9.000	110.50	5.81
Nov. 2018	5.150	98.00	5.59
Apr. 2021	8.250	110.00	6.58
Nov. 2026	6.600	97.00	6.95

Source: Byblos Bank Capital Markets

	June 24-28	June 17-21	% Change	June 2013	June 2012	% Change
<b>Total Shares Traded</b>	277,999	2,079,334	(86.63)	3,583,569	6,244,741	(42.61)
<b>Total Value Traded</b>	\$3,487,454	\$18,731,217	(81.38)	\$35,442,686	\$60,044,043	(40.97)
<b>Market Capitalization</b>	\$10.24bn	\$10.33bn	(0.96)	\$10.24bn	\$10.07bn	1.65

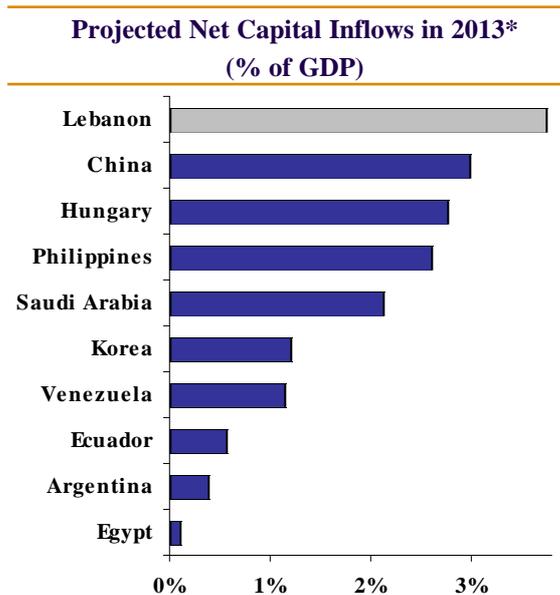
Source: Beirut Stock Exchange (BSE)



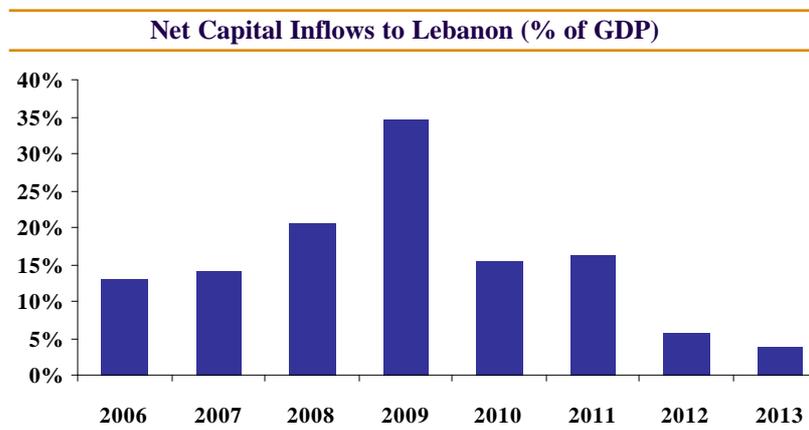
### Net private capital inflows to Lebanon to drop by 30% to \$1.6bn in 2013, third lowest in emerging markets

Figures released by the Institute of International Finance projected net private capital inflows to Lebanon at \$1.6bn in 2013, constituting a decline of 30.3% from \$2.4bn in 2012, and compared to inflows of \$6.3bn in 2011, \$5.8bn in 2010 and \$12bn in 2009. The IIF attributed the decline in net private capital inflows to Lebanon to domestic and regional political instability that are weighing on investor sentiment and on domestic economic activity. The expected drop in capital inflows this year would be the sixth steepest among 30 emerging markets with available figures, better than only Bulgaria (-36.8%), the Czech Republic (-38.2%), Venezuela (-39.3%), South Korea (-64.2%) and Argentina (-77.1%); and the steepest among seven countries in the Middle East & Africa (ME&A). Net private capital inflows to Lebanon would account for 0.1% of total net private capital inflows to emerging markets and for 2% of aggregate flows to ME&A economies in 2013. Lebanon would be the third smallest recipient of net private capital inflows this year among emerging markets, coming ahead of Ecuador (\$496m) and Egypt (\$283m); and the second smallest recipient among countries in the ME&A region, ahead of only Egypt. Further, net private capital inflows to Lebanon are expected to be equivalent to 3.7% of GDP in 2013, the 10th lowest share among emerging markets, and the third lowest share among ME&A economies, ahead of only Saudi Arabia (2.1% of GDP) and Egypt (0.1% of GDP).

In parallel, net private capital inflows to Lebanon contracted by 62.7% in 2012 and constituted the steepest drop in emerging markets. Net private capital inflows to Lebanon accounted for 0.2% of total capital inflows to emerging markets and for 3.2% of aggregate flows to the ME&A region last year. Lebanon was the third smallest recipient of net private capital inflows among emerging markets last year, coming ahead of Hungary (\$2bn) and Ecuador (\$53m); and the smallest recipient among countries in the ME&A region. Egypt was the only country that posted net private capital outflows last year as its total outflows widened from \$1.8bn in 2011 to \$6.5bn in 2012. Further, net private capital inflows to Lebanon were equivalent to 5.7% of GDP in 2012, the 12th highest share among emerging markets and the third highest share among ME&A economies, behind only Nigeria (9.2% of GDP) and South Africa (5.7% of GDP).



\*Bottom 10 countries among 30 Emerging Markets  
Source: Institute of International Finance, Byblos Research



Source: Institute of International Finance, Byblos Research

### Customs receipts flat at \$626m in first five months of 2013

Figures released by the Customs Directorate indicated that customs revenues reached \$626.3m in the first five months of 2013, constituting a marginal decrease of 0.2% from \$624.9m in the same period of 2012. The Port of Beirut continues to be the main point of customs receipts, as it accounted for 88.3% of the total in the first five months, and was followed by the Hariri International Airport with 7.7%, the Port of Tripoli with 3.1%, the Masnaa crossing point with 0.6%, the Port of Tyre with 0.2% and the Port of Saida with 0.1%. Customs receipts from the value-added tax totaled \$568.4m in the first five months of 2013, down 11.3% from \$640.8m in the same period of 2012. The Port of Beirut accounted for 82.4% of such receipts, and was followed by the Hariri International Airport with 10.9%, the Port of Tripoli with 4%, the Masnaa crossing point with 2.2%, the Port of Saida with 0.3%, and the Port of Tyre and the crossing point of Abboudieh with 0.1% each. As such, overall customs receipts reached \$1.2bn in the first five months, with the Port of Beirut accounting for 85.5% of the total, followed by the Hariri International Airport with 9.2%, the Port of Tripoli with 3.5% and the Masnaa crossing point with 1.3%. In addition, other entry points represented the balance, with the ports of Saida and Tyre accounting for 0.2% each, and the crossing point of Abboudieh for 0.1%.



### **Gap between country risk and sovereign risk widens, strength of banking sector is key to stability of the sovereign's credit profile**

Citigroup indicated that the gap between the country risk and the sovereign risk in Lebanon has widened due to the significant rise in the level of country risk. It considered that the sharp deterioration in the country risk level over the past two years has had little impact on the level of sovereign risk so far. It said that the country risk refers to risks of doing business in a country and covers economic, security, political, operational and regulatory risks, among others; while the sovereign risk is the ability of the sovereign to meet its financial obligations on time.

In terms of country risk, Citigroup said that the negative environment for trade, construction and tourism, as well as the ongoing political instability and reduced investor confidence have taken their toll on the Lebanese economy. It noted that regional and domestic political volatility and security instability severely affected investor and business confidence in Lebanon. It added that the real estate and tourism sectors, which are pillars of the Lebanese economy, have been negatively affected by these developments, resulting in spillovers on overall economic activity. As a result, it pointed out that real GDP grew by an average annual rate of 1.5% in 2011 and 2012, well below the average annual growth level of around 8% between 2008 and 2010.

In parallel, it noted that the risk of the government defaulting on its financial obligations has remained relatively stable in the past two years as opposed to the growing country risk. It attributed the sovereign's stable credit profile to a resilient banking sector and to the fact that government finances have been relatively less affected than the wider economy by domestic and regional instability. First, it considered that Lebanon's public finances have suffered historically from structural weaknesses in revenues and from sustained expenditure pressure. It pointed out that the fiscal deficit widened to 8% of GDP last year from 4% of GDP in 2011 and from 6% of GDP in 2010. But it noted that the deficit has not widened significantly compared to fiscal deficits posted prior to 2011, as the country's public finances have been chronically weak and fiscal deficits fluctuated around 10% of GDP in the past decade. It added that the narrowing of the deficit in 2011 was due to inflated public revenues, as the Ministry of Finance included revenues from the telecommunications sector in overall government monthly revenues prior to actually receiving them. It indicated that the widening of the fiscal deficit in 2012 was due mainly to a rise in spending as a result of the one-time cost-of-living adjustment to public sector employees and of stagnating tax reserves.

Second, Citigroup considered that the government's ability to finance its deficit through the domestic banking sector has strengthened over the past two years. It noted that the ability and willingness of the banking sector to continue to provide support to the sovereign is the key strength for Lebanon's stable sovereign risk profile. It added that, without such support, the sovereign risk profile would be weak. It considered that banks in Lebanon have a strong incentive to continue financing the fiscal deficit, given their already large holdings of government debt and the fact that a write-down of such holdings in the event of a sovereign default would severely impact their capitalization level and viability. It added that the banking system has been resilient to the political turmoil and that private sector deposit growth remains robust and supportive of banks' capacity to finance the government's needs. It considered the stability of the banking system to be critical to the sustainability of public finances. It cautioned that a loss of depositors' confidence would lead to capital flight and to a substantial reduction in the ability of banks to support the sovereign. It said that depositor confidence rests on the belief that the banking system would overcome the turmoil and manage its assets effectively, and that the Central Bank would be able to defend the peg of the Lebanese pound to the US dollar.

### **Trade deficit down 2% to \$7.2bn in first five months of 2013, volume of non-hydrocarbon imports up 4%**

Total imports reached \$9.16bn in the first five months of 2013, constituting a marginal decrease of 0.1% from the same period last year; while aggregate exports rose by 7.7% to \$1.97bn, leading to a trade deficit of \$7.2bn, down by 2% year-on-year. The narrowing of the deficit was mainly caused by a decline of \$8.3m in imports and an increase of \$140.3m in exports from the first five months of last year. The coverage ratio reached 21.5% in the first five months of 2013 compared to 19.9% in the same period last year, while it reached 20.2% in May 2013 relative to 21.6% in May 2012. The value of imported oil & mineral fuels fell by 19.9% year-on-year to \$2.3bn, and that of non-hydrocarbon imports rose by 9.1% to \$6.8bn. In volume terms, imports reached 6.2 million tons in the first five months of 2013, constituting a decrease of 9.2% from the same period last year; while exports posted a 38.6% rise to 1.3 million tons, leading to a trade deficit of 4.9 million tons in the first five months of 2013, down by 16.7% year-on-year. Imports of oil & mineral fuels fell by 19.9% year-on-year to 3 million tons, while non-hydrocarbon imports increased by 3.8% annually to 3.2 million tons.

The United States was the main source of imports with \$812.9m or 8.9% of the total in the first five months of 2013, followed by China with \$789.1m (8.6%), Italy with \$709.2m (7.7%), France with \$630.7m (6.9%), Russia with \$590.4m (6.4%), Germany with \$543.8m (5.9%) and Turkey with \$519.8m (5.7%). Imports from Russia surged by 290% annually, those from Turkey increased by 23%, those from China grew by 15.2%, those from Germany rose by 13.6% and those from Italy increased by 0.1%; while imports from the United States dropped by 43.7% and those from France fell by 4.1%. Syria was the main export destination with \$343.7m or 17.5% of the total, followed by South Africa with \$285.3m (14.5%), Saudi Arabia with \$164.9m (8.4%), the UAE with \$139.1m (7.1%), Switzerland with \$102.4m (5.2%), Iraq with \$100.6m (5.1%) and Turkey with \$89.6m (4.6%). Exports to Syria surged by 255.3% year-on-year in the first five months of 2013, those to Iraq grew by 46%, those to Turkey increased by 23.7% and those to Saudi Arabia rose by 8%, while exports to Switzerland dropped by 54.8%, those to South Africa fell by 21% and those to the UAE decreased by 10.8%.

### FDI inflows up 8% to \$3.8bn in 2012, equivalent to 9% of GDP

Figures released by the United Nations Conference on Trade and Development (UNCTAD) show that foreign direct investment (FDI) in Lebanon totaled \$3.8bn in 2012, constituting an increase of 8.7% from \$3.5bn in 2011. FDI inflows to Lebanon totaled \$4.3bn in 2010, \$4.8bn in 2009, \$4.3bn in 2008 and \$3.4bn in 2007. The UNCTAD attributed the increase in FDI inflows last year to foreign acquisitions in the insurance industry and in services related to the real estate sector. Lebanon was the third largest recipient of FDI in nominal terms among 18 Arab countries, the sixth largest among 21 economies in the MENA region, and the fourth largest among 12 countries in West Asia in 2012. Also net FDI inflows to Lebanon totaled \$3.2bn in 2012, making the country the third largest destination of net inflows in the Arab world.

Lebanon posted the smallest increase in FDI inflows among Arab countries and in the MENA region last year. It was one of 11 Arab and 12 MENA countries that saw an increase in FDI inflows in 2012, while FDI shifted from outflows to inflows in each of Egypt, Qatar and Yemen. In comparison, FDI inflows to Arab economies rose by 12.6% year-on-year and those to MENA countries increased by 2.4%, while FDI inflows to West Asia dropped by 4%, those to emerging economies fell by 4.4% and global FDI contracted by 18.2%.

FDI inflows to Lebanon accounted for 8% of total FDI in Arab countries and for 5% of inflows to the MENA region in 2012, compared to 8.3% in the Arab world and 4.7% regionally in 2011. They also represented 8% of total flows to the 12 countries that form West Asia, 0.5% of FDI inflows to developing countries, and 0.3% of global foreign direct investment in 2012.

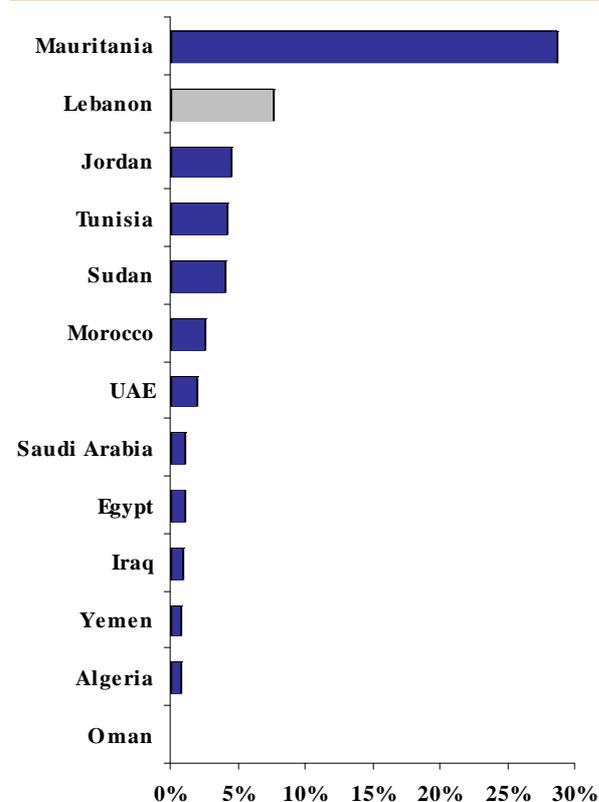
Further, FDI flows to Lebanon were equivalent to 9.2% of GDP in 2012, the second highest in the Arab world behind Mauritania (28.7% of GDP), and were equivalent to 31.3% of gross fixed capital formation, the third highest such ratio in the region behind Mauritania (80.5%) and Djibouti (33.2%). In comparison, FDI flows as a percentage of gross fixed capital formation were equivalent to 8.4% in West Asian economies, 9% in developing economies and 8.3% on a global basis in 2012.

In addition, net cross-border M&A purchases in Lebanon reached \$80m in 2012 compared to \$836m in 2011, a zero value of purchases in 2010, \$283m in 2009 and -\$233m in 2008, reflecting the differential between the acquisition price of companies abroad by Lebanon-based entities and the value of sales of foreign affiliates of locally-based entities. Further, net cross-border M&A sales in Lebanon reached \$317m in 2012, compared to a zero value of sales in each of 2011 and 2009, \$642m in 2010 and \$108m in 2008, reflecting the differential between the value of sales of local companies to foreign entities and the value of sales of foreign affiliates in the local economy.

Foreign Direct Investment in Arab Countries (\$m)			
	2012	2011	Change (%)
Saudi Arabia	12,182	16,308	(25.3%)
UAE	9,602	7,679	25.0%
<b>Lebanon</b>	<b>3,787</b>	<b>3,485</b>	<b>8.7%</b>
Morocco	2,836	2,568	10.4%
Egypt	2,798	(483)	-
Iraq	2,549	2,082	22.4%
Sudan	2,466	2,692	(8.4%)
Tunisia	1,918	1,148	67.1%
Kuwait	1,851	855	116.5%
Oman	1,514	739	104.9%
Algeria	1,484	2,571	(42.3%)
Jordan	1,403	1,474	(4.8%)
Mauritania	1,204	589	104.6%
Bahrain	891	781	14.1%
Yemen	349	(518)	-
Qatar	327	(87)	-
Palestine	244	214	14.3%
Djibouti	100	78	28.2%
<b>Total</b>	<b>47,506</b>	<b>42,174</b>	<b>12.6%</b>

Source: UNCTAD, Byblos Research

### Net FDI inflows in 2012 (% of GDP)



Source: UNCTAD, Byblos Research

### Lebanon ranks 65th globally, sixth in Arab world in insurance premiums

Swiss Re's annual survey of the global insurance market indicated that Lebanon ranked in 65th place among 147 markets in terms of premiums generated in 2012. Lebanon also came in sixth place among 12 Arab markets included in the survey. Lebanon ranked in 63rd place globally and in fifth place regionally in the 2011 survey. Lebanon generated \$1.3bn in total premiums in 2012, up 4% in nominal terms but down 2.4% in real terms. Total premiums generated in Lebanon last year accounted for 0.03% of global premiums, for 0.2% of premiums generated in emerging markets and for 3.2% of premiums generated in the Middle East & Central Asia region. Globally, Lebanon ranked ahead of Kenya and Algeria and came behind Qatar and Kazakhstan, while it came ahead of Algeria and ranked behind Qatar regionally.

Lebanon generated \$918m in non-life premiums last year, ranking it in 65th place globally and in seventh place among Arab countries. Non-life premiums generated in Lebanon rose by 3.7% in nominal terms, but fell by 2.7% in real terms in 2012. Lebanon ranked in 66th place globally and seventh regionally in the 2011 survey. Globally, Lebanon ranked ahead of Bulgaria and Panama, and came behind Egypt and Kazakhstan; while it came ahead of Kuwait and ranked behind Egypt in the region. Non-life premiums generated in the Lebanese market accounted for 0.05% of global non-life premiums, for 0.3% of such premiums generated in emerging markets and for 3% of non-life premiums generated in the Middle East & Central Asia region.

Further, Lebanon generated \$377m in life premiums in 2012, ranking it in 65th place globally and in fourth place in the Arab world, compared to 64th place worldwide and fourth place regionally in the 2011 survey. Life premiums generated in the Lebanese market grew by 4.9% in nominal terms, but contracted by 1.6% in real terms last year. Globally, Lebanon ranked ahead of Trinidad & Tobago and Kazakhstan and came behind Croatia and Kenya, while it came ahead of Saudi Arabia and behind Egypt regionally. Life premiums generated in Lebanon accounted for 0.01% of global life premiums, for 0.1% of such premiums generated in emerging markets and for 3.8% of life premiums generated in the Middle East & Central Asia region in 2012.

In parallel, Swiss Re estimated Lebanon's insurance density, or premiums per capita, at \$301.9 in 2012 which would rank the market in 51st place globally and in fifth place in the Arab world. Globally, Lebanon had a higher insurance density than Uruguay and Thailand and a lower density than Panama and Hungary; while it had a higher density than Oman and lower than that of Kuwait in the region. The survey estimated Lebanon's non-life density at \$214 and life density at \$87.9 in 2012.

Also, insurance penetration in Lebanon, or premiums relative to the size of the economy, reached 2.85% of GDP last year, ranking it in 48th place globally and in second place in the Arab world behind only Morocco. Globally, Lebanon had a higher insurance penetration rate than Slovakia and Croatia, and a lower penetration rate than Morocco and China. Lebanon posted penetration rates of 0.8% of GDP and 2% of GDP in the life and non-life categories, respectively, last year.

### Value of cleared checks up 3.4%, returned checks down 2.6% in first four months of 2013

The value of cleared checks reached \$23.6bn in the first four months of 2013, constituting an increase of 3.4% year-on-year, compared to a rise of 0.8% in the same period of 2012 and a growth of 0.2% in the first four months of 2011. The value of cleared checks in Lebanese pounds rose by 11.2% annually to the equivalent of \$5.3bn in the first four months of 2013, while the value of cleared checks in US dollars grew by 1.4% to \$18.3bn. The dollarization rate of cleared checks decreased to 77.6% from 79.2% in the same period of the previous year. Also, the value of returned checks in domestic and foreign currency declined by 2.6% to \$491m in the first four months of 2013, relative to a rise of 2.9% in the same period of 2012 and a decrease of 13.3% in the first four months of 2011. In parallel, the number of cleared checks totaled 4.3 million checks in the first four months of 2013, up by 2.9% from the same period last year. Also, the number of returned checks totaled 84,000 checks, down by 8.8% from 92,000 in the same period of 2012.

### Insurance Density in MENA region in 2012 (Premiums per Capita in US\$)

	Life	Non-Life	Total	Rank
UAE	294	1,170	1,464	26
Qatar	31	665	696	35
Bahrain	102	347	450	43
Kuwait	63	274	337	48
<b>Lebanon</b>	<b>88</b>	<b>214</b>	<b>302</b>	<b>51</b>
Oman	44	220	264	54
Saudi Arabia	8	182	190	57
Jordan	10	93	103	66
Morocco	29	59	88	70
Tunisia	12	65	76	72
Algeria	2	32	34	81
Egypt	9	12	22	85

Source: Swiss Re, Byblos Research

### Impact of Syrian conflict on Lebanese economy largely negative

The World Bank indicated that the Lebanese economy has been severely affected by the conflict in Syria, as the latter weighed on private consumption, disrupted trade activity, and negatively affected government finances. It added that tourism has been the most affected sector by the crisis, while the real estate and banking sectors have proven to be resilient. First, the World Bank said that security spillovers from the conflict in Syria have had a negative impact on private consumption in Lebanon. It noted that additional deterioration in the domestic security situation would further depress consumer confidence, which would push households to increase their precautionary savings and reduce their consumption. It added that this would reduce aggregate demand and further weigh on economic activity. It pointed out that private investment slowed down due to the uncertainty of final demand.

Second, the World Bank considered that the conflict in Syria partly contributed to the decline in tourist arrivals and hotel occupancy in Lebanon, as tourists who used to travel to Lebanon through land have not been able to do so. It added that security spillovers from Syria are discouraging tourists from visiting Lebanon, while the increase in the general public's perception of danger in the Middle East has kept away non-Arab tourists. It estimated the loss in tourist spending at \$303m in 2012, equivalent to 0.5% of last year's GDP.

Third, it indicated that the Syrian crisis has taken its toll on Lebanese exports, as the disruption of transit routes through Syria limited the access of Lebanese products to Arab markets and resulted in a large increase in insurance and freight costs. It noted that exports through Syria fell to 1.3% of GDP in 2012 from 1.8% of GDP in 2011, 1.9% of GDP in 2010 and 2% of GDP in 2009. But it pointed out that the increase in exports to Syria due to high Syrian demand for Lebanese products has partially offset the negative impact on exports transiting through Syria. It noted that Lebanese exports to Syria rose by 0.15 percentage point to 0.7% of GDP last year, the highest level since 2008. It said the increase came primarily from light industrial products, agro-food items, fuel products and tobacco. It noted that Lebanese exports have filled part of the supply gap, especially with the destruction of the Syrian manufacturing and industrial base. It added that Lebanon remains one of the few market entry points to Syria, as borders have remained open especially the Masnaa crossing point, which is the closest entry point to Damascus. It noted, however, that this niche market remains volatile and highly dependent on border security, as recurrent closures keep disrupting the flow of goods and reduce their volume.

Fourth, the Bank attributed the increase in Lebanon's aggregate import bill last year mainly to the Syrian conflict, as some goods are imported to Lebanon but are then smuggled across the border for Syrian consumption and are not registered as re-exports. It added that the disruption of smuggling activity from Syria to Lebanon has led to the substitution of smuggled goods with formally-imported ones from more expensive sources, especially in the case of oil derivatives.

Fifth, the Bank pointed out that the Syrian conflict is negatively affecting government revenues as a result of the slowdown in domestic economic activity. It noted that the increase in customs receipts from import substitution and the contribution to VAT receipts from the consumption of Syrians in Lebanon have not offset the drop in public revenues. Sixth, it considered that the immediate impact of the conflict on government spending has been limited. It said the government has extended some public services to Syrian refugees, which has contributed to a slight increase in public expenditures. It noted, however, that Lebanon does not provide widespread subsidies as many Arab countries do, which makes the immediate impact on the expenditures side of the budget more limited. But it expected the associated pressure on public services, such as healthcare and education, to grow rapidly due to the increase in the number of refugees and in the length of their presence in the country.

Seventh, it considered that the large inflow of Syrian refugees has resulted in a major increase in the labor supply in Lebanon, which has put downward pressure on wages and employment. It expected this pressure to increase, given the mismatch between the rapid expansion in labor supply and the limited demand for labor, especially that the Syrian crisis is resulting in an overall softening of economic activity. It anticipated pressure to be most acute for lower-skilled jobs over the short term.

Eighth, it indicated that the banking sector remains resilient despite the Syrian crisis. It noted that the total losses of the Syrian affiliates of Lebanese banks have exceeded \$400m, and that the increase in banks' provisions on the banking sector to cover these losses would have an impact on their profitability in the short-term. But it noted that the medium- to-long-term outlook remains positive.



Source: World Bank, Byblos Research

### **Revenues through Port of Beirut down 1% to \$863m in first four months of 2013**

Figures released by the Port of Beirut show that overall receipts generated through the port reached \$863.3m in the first four months of 2013, constituting a decrease of 1.3% from \$875.2m in the same period last year. Customs receipts through the port totaled \$431.2m in the first four months of the year, up 3% from \$418.9m in the same period of 2012; while receipts from the value-added tax declined by 9.5% to \$326.6m. Also, the port's overall revenues grew by 26.8% year-on-year to \$68m in the first four months of 2013. Further, the Port of Beirut handled an aggregate weight of 2.7 million tons of freight in the first four months of 2013, up by 18.7% from 2.3 million tons in the same period last year. Import freight accounted for 88.7% of the weight, while the remaining 11.3% was export cargo. A total of 711 ships docked the port in the first four months of 2013, constituting an increase of 8.2% from 657 vessels in the same period last year.

In parallel, overall revenues generated through the Port of Tripoli reached \$38.3m in the first four months of 2013, constituting a drop of 13.6% from \$44.4m in the same period last year. Customs receipts through the port reached \$15.3m in the covered period, up 35.4% from \$11.3m in the same period last year; while receipts from the value-added tax reached \$19.1m and dropped by 34.2% from \$29m in the first four months of 2012. The port's revenues regressed by 2.4% to \$3.95m in the first four months of 2013 from \$4m in the same period last year. Further, the Port of Tripoli handled an aggregate weight of 476,727 tons of freight in the first four months of 2013, up 18.7% from 401,789 tons in the same period last year. A total of 180 vessels docked the port in the first four months of 2013, constituting an increase of 40.6% from 128 ships in the same period last year.

### **Treasury transfers to Electricité du Liban down 42.3% in January 2013**

Figures released by the Finance Ministry show that Treasury transfers to Electricité du Liban totaled \$136m in January 2013, constituting a decrease of 42.3% from \$235.5m in the same month of 2012. The ministry said that reimbursements to the Kuwait Petroleum Corporation (KPC) and to Algerian energy conglomerate Sonatrach totaled \$130m, or 95.6% of transfers in January and EdL's debt servicing represented \$6m or 4.4%. It attributed the decrease to a fall of \$102.8m, or 44.2%, in payments to KPC and Sonatrach during the covered month that more than offset the increase in debt servicing by \$3.6m, or 148.2% year-on-year. It said that the drop in payments to KPC and Sonatrach reflects a significant decrease in the average international oil price according to which the payments were made, as well as a significant fall in imported fuel oil quantities. It added that the average oil price for the payments was 8% lower, while imported fuel oil quantities were 34% lower. As such, it noted that the amount of the reimbursements to KPC and Sonatrach implies that any fluctuations in international oil prices are bound to have an impact on Treasury transfers to EdL. It pointed out that EdL contributed just 3.3% of repayments to the two oil suppliers during the covered month compared to 1.4% during the same month last year. EdL transfers accounted for 16.5% of primary expenditures the covered month, down from 24.4% in the same month of 2012. EdL transfers constitute the third largest expenditures item after debt servicing and salaries & wages in overall fiscal spending.

### **Stock market activity down 33% to \$155m in first half of 2013**

Figures released by the Beirut Stock Exchange indicate that total trading volume reached 21 million shares in the first half of 2013, constituting a decrease of 29.7% from the same period last year; while aggregate turnover amounted to \$154.5m, down 32.6% from a turnover of \$229.3m in the first half of 2012. Market capitalization increased by 1.7% from end-June 2012 to \$10.2bn, of which 78.2% was in banking stocks, followed by real estate stocks with 18.1%, industrial stocks with 3.4%, and trading stocks with 0.4%. The market liquidity ratio was 1.5% compared to 2.3% in the same period last year. Banking stocks accounted for 78.3% of aggregate trading volume in the first half of the year, followed by real estate stocks with 17.3%, and trading and industrial stocks with 2.2% each. Also, banking stocks accounted for 68.5% of the aggregate value of shares traded, followed by real estate stocks with 29.6%, industrial stocks with 1.1% and trading stocks with 0.8%. The average daily traded volume for the period was 176,429 shares for an average daily value of \$1.3m. The figures reflect decreases of 29.1% in volume and 32% in value year-on-year.

### **Capital Markets Authority issues decree on crowdfunding**

The Capital Markets Authority (CMA) issued a decree to regulate crowdfunding activities in Lebanon. Crowdfunding consists of small- and medium-sized enterprises (SMEs), as well as start-up firms, raising funds by selling small shares of equity to many individual investors, usually through the Internet. The CMA said that specialized crowdfunding institutions would have to set up an electronic platform to connect the firms with potential investors. It indicated that the minimum amount of capital that SMEs and startup companies need to raise through crowdfunding is LBP30m, or \$20,000. In addition, it said that crowd investors' direct and indirect investments in each company is set at between LBP750,000 and LBP15m, or between \$500 and \$10,000. The CMA noted that crowdfunding organizations need to open a frozen escrow account at a bank operating in Lebanon for each crowdfunding transaction, while the release of funds would be contingent on reaching the desired amount of funding and within a timeline of up to 180 days.

In parallel, the CMA indicated that crowdfunding services would be offered by joint stock Lebanese companies or foreign institutions with a branch in Lebanon. It noted that domestic and foreign institutions are required to have a capital of at least LBP1bn, or \$0.7m, and for crowdfunding to be their core business. It said that crowdfunding institutions need to have a CMA-issued license to operate in Lebanon, while newly-issued licenses must become operational within six months or may get revoked. The CMA indicated that crowdfunding institutions operating in Lebanon are not allowed to offer financial advice to investors, start-ups, or SMEs. Also, it said that such firms are not allowed to receive any kind of deposits, use their crowdfunding electronic platform for other purposes, and are prohibited from engaging in direct or indirect proprietary trading of shares on the crowdfunding electronic platform.

### **Japanese firm acquires 26% stake in MEDGULF**

The Japan-based financial services group ORIX Corporation announced that it has reached a preliminary agreement to acquire a 25.7% stake for around \$225m in the Bahrain-based holding firm Mediterranean and Gulf Insurance and Reinsurance Company BSC (MEDGULF). SLH Holdings, which holds the shares of LFZ Holding, the investment vehicle of MEDGULF's shareholder and CEO Lutfi El-Zain, will remain the largest shareholder with a 60.2% share; followed by the ORIX Corporation with a 25.7% stake; and International Finance Corporation, the private sector arm of the World Bank, with the remaining 14.1%. The MEDGULF Group, which started its activities in the 1980s in Lebanon, is a regional insurance company with operations in Lebanon, Saudi Arabia, Bahrain, the UAE, Jordan, Turkey and the United Kingdom. The MEDGULF Group operates in Lebanon through Mediterranean and Gulf Insurance & Reinsurance Co. sal, which is the largest insurer by premiums in the market. It also operates in Saudi Arabia through the publicly-traded Mediterranean and Gulf Cooperative Insurance & Reinsurance Company KSA, one of the largest insurers in the kingdom. The latter was established in 2006 and started operations in the kingdom in 2009. The group also operates in Bahrain and Jordan through MEDGULF subsidiaries. Its other operations include Third Party Administrator MEDIVISA, which manages and services the medical portfolio of MEDGULF in its main markets; and risk manager Addison Bradley. In April 2011, Saudi Oger Ltd, the conglomerate owned by the family of late Prime Minister Rafiq Hariri, sold its 51% stake in the MEDGULF Group to LFZ Holding. In June 2012, the IFC acquired a stake in MEDGULF for \$124m to help the firm extend its health and commercial risk insurance services across the region, mainly in Egypt, Iraq and Turkey.

### **Holcim's net profits down 37% to \$18m in 2012**

Cement producer Holcim Liban sal posted net profits of \$18m in 2012, constituting a decrease of 36.6% from \$28.3m in 2011. The firm's sales totaled \$186.8m in 2012, down 4.5% from \$195.6m in the previous year. Holcim's total assets reached \$280.8m at end-2012, constituting a decrease of 6.6% from \$300.6m at end-2011; while its shareholders' equity was \$206.7m at end-2012 relative to \$215.2m at the end of 2011. The company's total loans and borrowings reached \$9.6m at the end of December, down 7.8% from \$10.4m at end-2011; while its banks' balance and cash fell by 36.5% year-on-year to \$15.3m at the end of 2012. Total debt to equity ratio reached 3.2% at end-2012, up from 2.5% at the end of 2011. Also, the firm's return on assets reached 4.9% in 2012 relative to 8.1% in 2011; while its return on common equity was 8.7% last year relative to 12.5% in 2011. The firm is engaged in the production and sale of cement and other related services. Holcim's share price closed at \$16.27 on June 28, constituting a rise of 3.3% from end-2012.

### **CMA CGM forms strategic alliance with main competitors**

The Lebanese-owned and France-based container shipping group CMA CGM, the third largest container shipping company in the world, announced that it has agreed with Maersk Line and MSC Mediterranean Shipping Company, the first and second largest shipping companies globally, respectively, to establish a long-term operational alliance. It noted that the P3 Network aims to improve and optimize operations and service offerings. It added that the Network will reduce the disruptions for customers caused by cancelled sailings. It pointed out that the Network will initially operate a capacity of 2.6 million twenty-foot equivalent unit (TEU), or 255 vessels, on three trade lanes. It noted that the first lane will link Asia and Europe, the second will cover the Pacific region and the third one will operate in the Atlantic region. Maersk Line will contribute around 1.1 million TEU or 42% of total capacity, followed by MSC with about 0.9 million TEU (34%) and CMA CGM with about 0.6 million TEU (24%). It said that the P3 Network vessels will be operated independently by a joint vessel operating center, while the three companies will continue to have fully independent sales, marketing and customer service functions. It expected the agreement to come into effect in the second quarter of 2014 after obtaining the approval of relevant competition and other regulatory authorities. In 2011, CMA CGM and MSC Mediterranean Shipping Company agreed to form a broad-based operating partnership.

In parallel, Moody's Investors Service anticipated that falling oil imports by the United States, the return of some manufacturing capacity to industrialized nations, and advances in vessel design would significantly change the competitive landscape for global shipping companies. It said companies' failure to proactively manage these risks would increase operating and financial pressure and eventually hurt their businesses. The agency pointed out that CMA CGM would be mainly affected by the partial return of manufacturing capacity back to industrialized nations, as it will cause a drop in transportation volumes on routes between Asia and the United States. It considered that companies in the container segment need to rebalance some of their capacity from long-haul trade to smaller vessels that are more suited to intra-Asia trade.

### **Lebanon & Gulf Bank's profits up 115% to \$9m in first quarter of 2013**

Lebanon & Gulf Bank sal, one of Lebanon's top 13 banks, announced unaudited consolidated net profits of \$8.6m in the first quarter of 2013, up 115.4% from the same quarter last year. Net operating income rose by 56% year-on-year to \$16.3m, with net interest income increasing by 66.1% to \$9.1m and net fees & commissions receipts rising by 15.2% to \$2m. Non-interest income accounted for 52% of total income, up from 47.6% in the first quarter of 2012, with net fees & commissions representing 20.3% of non-interest earnings down from 34.9% in the first quarter of 2012. Further, the bank's interest margin was 1.56% in the first quarter of 2013 relative to 1.03% in the same quarter last year; while its spread increased to 1.51% from 1% in the first quarter of 2012. Total operating expenditures increased by 10.9% to \$6.3m, with staff expenses increasing by 11.7% to \$3.8m. Also, the bank's return on average assets reached 1.42% in March 2013 on an annualized basis, relative to 0.72% a year earlier; while its return on average equity was 16.59% relative to 8.7% in March 2012. The cost-to-income ratio regressed to 33.4% in the first quarter from 54.7% in the same quarter last year.

In parallel, total assets reached \$2.4bn at end-March 2013, constituting a marginal increase of 0.9% from end-2012 and a growth of 7.8% from a year earlier; while loans & advances to customers, excluding loans & advances to related parties, increased by 4.1% from end-2012 and by 28.9% year-on-year to \$945.9m. Also, customer deposits, excluding deposits to related parties, totaled \$2.2bn at end-March, growing by 0.3% from end-2012 and by 7.7% from a year earlier. The loans-to-deposits ratio increased to 43.9% at end-March 2013 from 36.7% a year earlier.

### **First National Bank's income up 84% to \$8m in first quarter of 2013**

First National Bank sal, one of Lebanon's top 13 banks, announced unaudited consolidated net profits of \$7.6m in the first quarter of 2013, up 84.2% from the same quarter last year. Net operating income rose by 25.3% year-on-year to \$19.4m, with net interest income increasing by 10.1% to \$14.2m and net fees & commissions receipts dropping by 6.3% to \$0.96m. Non-interest income accounted for 20.3% of total income, down from 27.4% in the first quarter of 2012, with net fees & commissions representing 24.2% of non-interest earnings up from 21% in the first quarter of 2012. Further, the bank's interest margin was 1.86% in the first quarter of 2013 relative to 1.84% in the same quarter last year; while its net spread rose to 1.81% from 1.79% in the first quarter of 2012. Total operating expenditures decreased by a marginal 0.2% to \$10.4m, with staff expenses increasing by 14.7% to \$6.2m. Also, the bank's return on average assets reached 0.88% in March 2013 on an annualized basis, relative to 0.57% a year earlier; while its return on average equity was 12.28% relative to 8.8% in March 2012. The cost-to-income ratio regressed to 53.2% in the first quarter relative from 58.8% in the same quarter last year.

In parallel, total assets reached \$3.5bn at end-March 2013, constituting a 3.6% increase from end-2012 and a 19.7% growth from a year earlier; while loans & advances to customers, excluding loans & advances to related parties, decreased by 0.4% from end-2012 but rose by 8.2% year-on-year to \$4.1bn. Also, customer deposits, excluding deposits to related parties, totaled \$2.5bn at end-March, dropping by 0.4% from end-2012 but rising by 12.6% from a year earlier. The loans-to-deposits ratio decreased to 32.3% at end-March 2013 from 33.6% a year earlier.



### **Top five freight forwarders' activity up 25% in first four months of 2013**

Figures released by the Port of Beirut Authority show that overall import shipping operations by the top five freight forwarders reached 108,386 20-foot equivalent units (TEUs) in the first four months of 2013, constituting a rise of 24.5% from 87,058 TEUs in the same period last year. They accounted for 62.5% of the total import freight forwarding market during the covered period. Mediterranean Shipping Company (MSC) handled 37,154 TEUs in imports in the first four months of the year, equivalent to 21.4% share of the total freight forwarding import market. It was followed by Sealine Group with 31,011 TEUs (17.9%), Merit Shipping with 20,777 TEUs (12%), Metz Group with 11,921 TEUs (6.9%) and Gezairy Transport with 7,523 TEUs (4.3%). Further, Gulf Agency registered the highest growth in import shipping among freight forwarders at 103.4% year-on-year, while MAERSK posted the steepest contraction at 98.9% year-on-year.

In parallel, export shipping operations by the top five freight forwarders reached 21,593 TEUs in the first four months of 2013, constituting an increase of 51.6% from 14,246 TEUs in the same period of 2012. They accounted for 98.7% of the total export freight forwarding market full with Lebanese cargo during the covered period. Sealine Group handled 11,063 TEUs of freight, equivalent to 50.6% share of the total freight forwarding Lebanese cargo export market. It was followed by Merit Shipping with 6,644 TEUs (30.4%), MSC with 2,168 TEUs (10%), Metz Group with 963 TEUs (4.4%) and Gezairy Transport with 755 TEUs (3.5%). Further, Sealine Group registered the highest growth in export shipping among all freight forwarders at 117.5% year-on-year, while Edouard Cordahi Shipping Agency posted the steepest drop of 70% year-on-year.

### **Ciments Blancs' net income up 8% to \$2.6m in 2012**

Société Libanaise des Ciments Blancs sal, an affiliate of Holcim Liban sal, declared net profits of \$2.6m in 2012, constituting an increase of 8.3% from net earnings of \$2.4m in 2011. The company generated total sales of \$14.5m last year compared to \$13.9m in 2011. The firm's total assets reached \$20.2m at the end of December 2012, decreasing by 0.6% from \$20.3m at end-2011. Also, total equity reached \$16m at end-December and increased by 2.3% from \$15.6m at the end of 2011. The price of Ciments Blancs' Bearer shares closed at \$3.23 on June 28, 2013, constituting a decrease of 0.9% from end-2012, while the price of Ciments Blancs' nominal shares closed at \$3.24 on June 28 and dropped by 1.8% year-to-date.

### **Ratings on Crédit Libanais and Fransabank affirmed, outlook 'stable'**

Capital Intelligence affirmed the long- and short-term foreign currency ratings of Crédit Libanais (CL) and Fransabank at 'B', as well as the financial strength rating (FSR) of the two banks at 'BB+'. It also affirmed the Support Level of the two banks at '3'. It said the outlook on all the ratings is 'stable' and that the banks' long- and short-term foreign currency ratings are restrained by the sovereign ceiling. The agency indicated that CL's FSR reflects its good capital adequacy, comfortable liquidity and strong retail franchise. It added that its FSR is constrained by the bank's high exposure to Lebanese sovereign debt, which raises its sensitivity to interest rate and maturity mismatching risks. It considered that fall in the bank's loan-loss reserve coverage is also a constraining factor given the expected weakening of asset quality due to the domestic economic slowdown. It noted that the FSR would be vulnerable if asset quality, loss reserve coverage, or operating profitability weaken further. It added that the bank's operating profitability remains under pressure by the ongoing narrowing of the net interest margin and a relatively high cost base.

Also, the agency said that Fransabank's FSR is constrained by relatively weak loan asset quality metrics, low non-interest income generation, and exposure to Lebanese sovereign and macroeconomic risks. It added that expectations of weakening credit quality and continued rise in the cost of risk relative to the bank's risk absorption capacity further constrain the rating. It noted that the FSR could be downgraded if NPLs and the unprovided NPLs-to-free capital ratio are not contained through higher provisioning and write-offs. It considered that the bank needs to increase its provisioning in order to improve effective loan-loss reserve coverage and to contain the rise in unprovided NPLs. It expected the bank's asset quality to weaken and to require higher risk charges at a time when the bank's operating profitability and its risk absorption capacity are likely to continue to trend downwards. It added that the bank's liquidity improved, particularly in foreign currency, but noted that the net inter-bank assets position is a bit lower than peer group banks.

### **Capital Intelligence withdraws BBAC's ratings**

Capital Intelligence announced that it has withdrawn BBAC's ratings upon the bank's request. Prior to the withdrawal, the agency affirmed the bank's long- and short-term foreign currency ratings at 'B' and its financial strength rating (FSR) at 'BB+'. It also affirmed the Support level at '3'. It said the bank's long- and short-term foreign currency ratings are restrained by the sovereign ceiling and that the outlook on all the ratings is 'stable'. It noted that the bank's FSR reflects its improved asset quality and capital adequacy, as well as good liquidity. But it noted that the ratings are constrained by Lebanese sovereign risk factors, the bank's modest profitability, and its relatively small balance sheet.

## 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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