

LEBANON THIS WEEK

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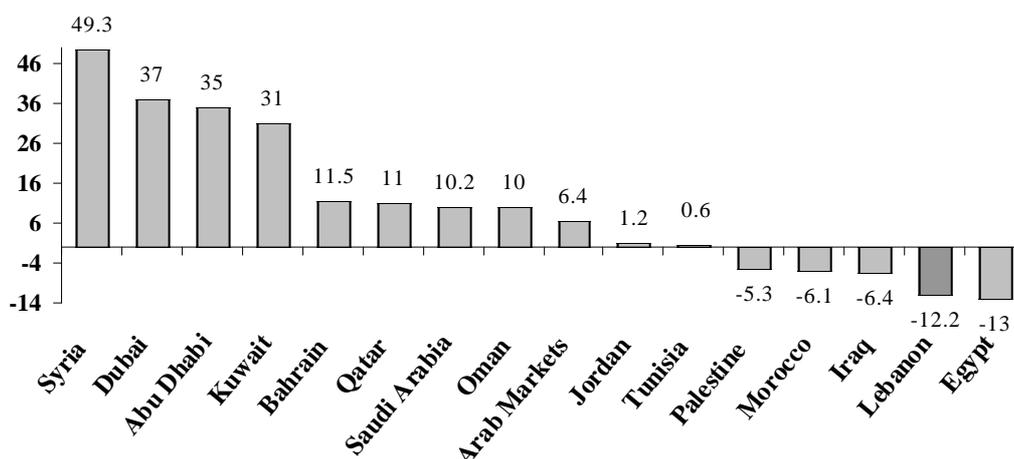
BBAC's net profits up 77% to \$13m in first quarter of 2013

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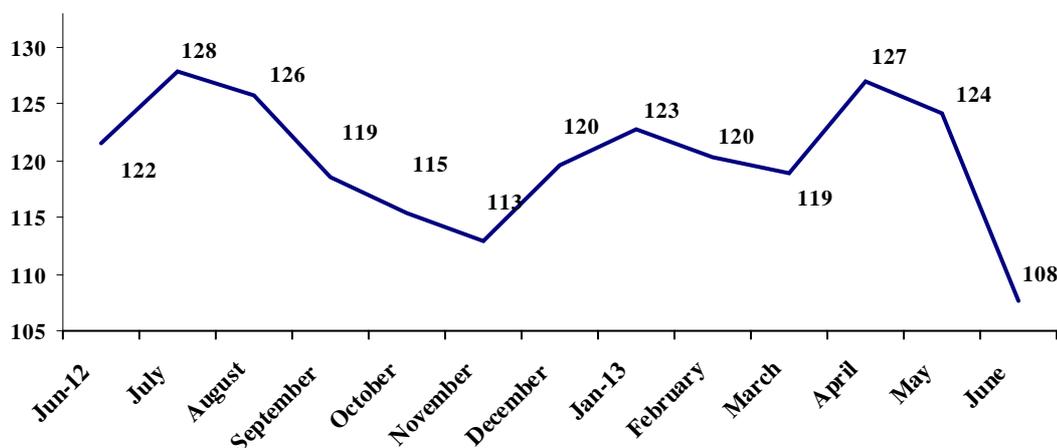
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Charts of the Week

Performance of Arab Stock Markets in the First Half of 2013 (% change)



Performance of the Beirut Stock Exchange*



* Banque du Liban Market Value Weighted Index average monthly values
Source: Local Stock Markets, Dow Jones Indices, Banque du Liban, Byblos Bank

Quote to Note

"The ability and willingness of the banking sector to continue providing support to the sovereign is the key strength of Lebanon's otherwise weak sovereign risk profile."

Citigroup, on the Lebanese banking sector's role in maintaining the stability of public finances

Number of the Week

78%: Percentage of respondents who do not trust at all or somewhat do not trust the current Lebanese government, according to an opinion poll commissioned by the Arab Center for Research & Policy Studies and conducted by Statistics Lebanon in 2012

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"	11.29	0.71	93,141	10.84%
Solidere "B"	11.06	(1.34)	9,015	6.90%
Byblos Common	1.52	1.33	4,300	5.25%
Byblos Pref. 08	100.00	0.00	10,550	1.92%
Byblos Pref. 09	101.00	0.50	800	1.94%
BLOM GDR	8.65	0.00	0	6.14%
BLOM Listed	8.25	0.00	15,235	17.03%
Audi GDR	6.39	0.16	5,935	6.26%
Audi Listed	6.10	(1.29)	7,566	20.48%
HOLCIM	14.81	(8.97)	1,000	2.78%

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

	July 1-5	June 24-28	% Change	June 2013	June 2012	% Change
Total Shares Traded	161,092	277,999	(42.05)	3,583,569	6,244,741	(42.61)
Total Value Traded	\$2,695,548	\$3,487,454	(22.71)	\$35,442,686	\$60,044,043	(40.97)
Market Capitalization	\$10.42bn	\$10.24bn	1.76	\$10.24bn	\$10.07bn	1.65

Source: Beirut Stock Exchange (BSE)



Lebanon ranks 75th globally, 8th among Arab countries in terms of innovation

INSEAD's Global Innovation Index for 2013 ranked Lebanon in 75th place among 142 countries around the world and in eighth place among 15 Arab countries. Lebanon also came in 26th place among 40 upper-middle income countries (UMICs) included in the survey. Lebanon ranked in 61st place globally among 141 countries in 2012, in ninth place among 15 Arab countries and in 18th place among 40 UMICs. The index measures innovation in a broad sense and includes scientific innovation as well as social and business innovation. It rates the innovation level of each country on a scale from zero to 100, with a score of 100 reflecting the most innovative economy. The index is a composite of 84 variables that are grouped in two sub-indices that are the Innovation Input Sub-Index and the Innovation Output Sub-Index. It covers an economy's institutions, human capital & research, infrastructure, market and business sophistication; as well as its knowledge & technology, and creative outputs. The countries included in the index represent 94.9% of the world's population and 98.7% of global GDP.

Globally, Lebanon has a higher innovation level than Vietnam, Belarus and Guyana, and is less innovative than Brunei Darussalam, Georgia and Mongolia. Regionally, it has a lower level of innovation than the UAE, Saudi Arabia, Qatar, Kuwait, Jordan, Bahrain and Tunisia. It also ranked ahead of Belarus and behind Tunisia among UMICs. Lebanon received a score of 35.5 points, down 1.9% from 36.2 points in 2012, which constitutes the smallest decline, along with Tunisia, among the seven Arab economies whose innovation level regressed year-on-year. Also, Lebanon's score is lower than the global average of 37.41 points and the UMIC's average of 35.71 points, but is higher than the MENA average of 33.70 points and the Arab average of 32.49 points.

Lebanon ranked ahead of Thailand, Bosnia & Herzegovina and Colombia, and came behind Romania, Brunei Darussalam and Oman on the Innovation Input Sub-Index. This category covers the elements of the national economy that enable innovative activities, such as institutions, human capital and research, infrastructure, market sophistication, and business sophistication. Regionally, it ranked behind the UAE, Qatar, Saudi Arabia, Bahrain and Oman. It also ranked ahead of Thailand and came behind Romania among UMICs.

Further, Lebanon ranked ahead of Brunei Darussalam, Bahrain and Guatemala, and came behind Trinidad and Tobago, Bolivia and Tajikistan on the Innovation Output Sub-Index. This category reflects the results of innovative activities within the economy such as technology, knowledge and creativity. Regionally, it came behind Kuwait, Saudi Arabia, Qatar, Tunisia, Jordan and the UAE; while it ranked ahead of Venezuela and behind Jamaica among UMICs.

Global Innovation Index 2013			
	Score	Arab Rank	Global Rank
UAE	41.9	1	38
Saudi Arabia	41.2	2	42
Qatar	41.0	3	43
Kuwait	40.0	4	50
Jordan	37.3	5	61
Bahrain	36.1	6	67
Tunisia	35.8	7	70
Lebanon	35.5	8	75
Oman	33.3	9	80
Morocco	30.9	10	92
Egypt	28.5	11	108
Syria	23.7	12	134
Algeria	23.1	13	138
Sudan	19.8	14	141
Yemen	19.3	15	142

Source: INSEAD, Byblos Research

Components of the Global Innovation Index

	Global Rank	Arab Rank	UMIC Rank	Lebanon Score	Global Avg Score	Arab Avg Score	UMIC Avg Score
Innovation Input	56	6	12	42.7	42.1	38.8	40.3
Institutions	79	9	24	57.9	62.5	57.8	59.5
Human Capital & Research	48	3	8	37.1	32.7	33.1	31.5
Infrastructure	69	9	23	32.0	33.5	32.2	33.2
Market Sophistication	57	2	14	48.1	48.3	42.4	45.6
Business Sophistication	41	3	6	38.5	33.7	28.4	31.7
Innovation Output	88	7	30	28.2	32.7	26.2	31.1
Knowledge & Technology Outputs	109	10	34	19.1	27.6	20.8	25.6
Creative Outputs	71	6	22	37.4	37.7	31.6	36.6

Source: INSEAD, Byblos Research

Lebanon is 79th largest market for U.S. exports, key exports include fuel, vehicles and machinery in 2012

The United States Department of Commerce's 2013 Country Commercial Guide for Lebanon (CCG) indicated that Lebanon has many investment strengths that have encouraged foreign companies to set up offices in the country. It said that Lebanon's key advantages include a free-market economy, the absence of controls on the movement of capital and foreign exchange, a well developed banking system, a highly-educated labor force, good quality of life, and limited restrictions on investors. It added that Lebanon's economy follows a laissez-faire model and that the government's intervention in foreign trade is minimal. But it noted that some issues continue to cause frustration among local and foreign businessmen. It pointed out that impediments include red tape and corruption, arbitrary licensing decisions, complex customs procedures, archaic legislation, an ineffectual judicial system, high taxes and fees, flexible interpretation of laws, and weak enforcement of intellectual property rights. It said that political risk perceptions remain high this year given the ongoing regional unrest and its adverse impact on Lebanon. It expected domestic tension as well as political and security instability, mainly from spillovers of the conflict in Syria, to continue to have a negative impact on the domestic business and economic environment.

The U.S. Department of Commerce said that Lebanon was the 79th largest market for U.S. exports in 2012, adding that the U.S. exported \$2.4bn worth of goods to Lebanon last year, equivalent to 11% of total Lebanese imports. It noted that the U.S. was the number one trading partner for Lebanon in 2012. It said that major U.S. exports to Lebanon in 2012 were mineral fuel and oil (\$1.5bn), vehicles (\$218m), machinery and electrical instruments (\$170m), chemical products (\$154m), prepared foodstuffs, beverages and tobacco (\$71m), and vegetable products (\$39m).

The Guide said that leading Lebanese sectors for U.S. exports and investment include the automobile sector, pharmaceuticals & drugs, medical equipment, apparel, and educational services. The CCG estimated U.S. automotive exports to Lebanon at \$204m in 2012, an increase of 4.1% from 2011. It attributed the subdued growth to the fact that the local automotive market is passing through a wait-and-see period due to the prevailing political and security uncertainties. It also estimated the U.S. share of the local auto market at 14% in 2012, adding that demand for U.S. automotive products such as brakes, clutches, engine lubricants and safety accessories is increasing because of their quality advantage over foreign competitors. Also, it noted the rising demand for American sport utility vehicles (SUVs) because of their competitive price, high quality, and long record of success in the market.

Further, U.S. pharmaceutical exports to Lebanon increased by 23.5% to \$105m in 2012 and accounted for about 10.8% of the country's total pharmaceutical imports, while U.S. exports of medical equipment rose by 19% to \$75m in 2012 and had a 27% market share. The CCG said U.S. pharmaceutical products have an advantage over European products in the biotechnology, high-tech, anti-cancer, and cardiovascular fields. It added that any new leading American drug that is not yet manufactured in Europe is well received in Lebanon. It considered that demand for U.S. medical equipment is increasing due to their high quality, long record of success in the Lebanese market, and to the weakness of the dollar relative to the euro. It noted that Lebanon is an ideal location for establishing a regional office to cover the Levant, including Iraq.

In parallel, U.S. apparel exports to Lebanon fell by 10% to \$9m in 2012, and accounted for 1.9% of the country's total apparel imports last year. Finally, it noted that Lebanon has one of the best educational systems in the Middle East with 192,522 students enrolled in universities throughout Lebanon and around 1,350 Lebanese students studying in the U.S. It said that the number of Lebanese students in the U.S. decreased by 7.7% during the 2011/2012 school year compared to 2010/2011 due to the advanced Lebanese educational system and the increasing cost of education in the U.S.

Further, the CCG expected Lebanon to offer significant investment opportunities for international companies, mainly in transportation, electricity, telecommunications, education, and solid and water waste. It added that significant investment opportunities also exist in Lebanon's offshore oil and gas exploration.

Cabinet extends management contracts of mobile phone operators till end-September 2013

The Ministry of Telecommunications announced that the Cabinet extended the management contracts of Orascom Telecom and Zain, which operate the state-owned mobile phone networks Mobile Interim Company 1 (MIC 1) and Mobile Interim Company 2 (MIC 2), respectively, till the end of September 2013. The decision constitutes the third contract extension this year. The government previously extended the management contracts of the two firms for a period of one year that started on February 1, 2012. Upon the contracts' expiration at the end of January 2013, the government extended the deals for one month to decide what to do and then again extended them till the end of June 2013. Orascom Telecom has been managing MIC 1 since January 2008 and Zain has been running MIC 2 since June 2004. The two operators were receiving a total amount of \$150m per year in management fees. In January 2008, the government said that the duration of both contracts was for one year renewable for one time only. But the contracts of both companies have been renewed annually since then. Touch and Alfa's collective income reached \$1.6bn in 2011, of which \$1.4bn were transferred as revenues to the Lebanese Treasury. Touch has a market share of 53% while Alfa accounts for the remaining 47%.

Fitch Ratings affirms Lebanon's sovereign ratings, outlook 'stable'

Fitch Ratings affirmed Lebanon's long-term foreign and local currency Issuer Default Ratings (IDR) and short-term foreign currency IDR at 'B', with a 'stable' outlook. It also affirmed the Country Ceiling at 'B'. It attributed the ratings' affirmation to the continuous but decelerating growth in bank deposits in 2012 and early 2013 despite the subdued economic growth and rising political uncertainties in the past two years. The agency indicated that Lebanon's ratings are supported by its large and well-managed banking system, credible exchange rate policy, and high GDP per capita and human development. But it added that the ratings are constrained by weak public finances, a high public debt level, large rollover and financing needs, and elevated political risks. It noted that Lebanon's GDP per capita and broader human development indicators are well above those of similarly-rated peers and are in line with 'BBB'-rated sovereigns.

It said that the domestic banking sector is large, liquid, well-managed, and supports the sovereign's creditworthiness through the intermediation of large deposits from the Lebanese Diaspora into the public debt, as it holds 54% of the public debt. It noted that Lebanon's ratings are also supported by its stellar track record of meeting its financial obligations on time, as well as by a lower share of foreign currency-denominated debt than its peers. It pointed out that Lebanon is a net external creditor due to the banks' holdings of US dollar-denominated public debt and the Central Bank's large foreign currency reserves. It considered that foreign currency reserves are essential to support the peg to the US dollar given the high dollarization rate of the economy.

In contrast, Fitch indicated that Lebanon's public finances remain a key rating weakness. It said that the public debt level is the third-highest among all Fitch-rated sovereigns after Japan and Greece. It said that the public debt level stood at 139.5% of GDP at end-2012, while debt servicing absorbed 38.5% of overall revenues last year. It considered that the public debt-to-GDP ratio is unlikely to fall significantly in the coming years without fiscal and structural reforms, given that economic activity is likely to remain subdued due to spillovers from the Syrian conflict.

Further, it indicated that the government's large rollover and new financing needs, estimated at 38% of GDP in 2012, are financed to a large extent by domestic banks. It said that such needs and the role of banks in financing them make the government extremely reliant on the continuous rise in banks' deposits. It noted that the continuous inflow of deposits to domestic banks depends on the Diaspora's confidence in the country's political situation and in the credibility of the peg.

Fitch said the 'stable' outlook incorporates a substantial degree of political risk into the ratings. It added that the deteriorating political, security and economic conditions have not led so far to the flight of deposits from the banking system and have not affected the ability of the domestic banking system to finance government needs. It noted that the ratings may come under pressure in case of deposit flights from the banking system for a sustained period of time, a deterioration in public debt dynamics that would lead to heightened risks to debt sustainability, or large-scale violence in the country. It added that a sustained decline in the public debt, fiscal and structural reforms, and a decline in political tensions could lead to positive action on the ratings.

Central Bank's foreign assets up 4% to \$35.7bn in first half of 2013

The Central Bank's interim balance sheet reached \$76.9bn at the end of June 2013 compared to \$76.7bn at the end of 2012 and to \$74.4bn at end-June 2012. Assets in foreign currencies reached \$37.2bn at the end of June, constituting an increase 4% in the first half of the year from \$35.7bn at the end of 2012. Assets in foreign currencies increased by \$251.4m in January, by \$2bn in April and by \$411.3m in June; while they declined by \$133.3m in February, \$528.7m in March, and \$535.3m in May 2012. This resulted in an aggregate increase of nearly \$1.43bn in the first half of the year, with a decrease of \$410.6m in the first quarter and a rise of \$1.8bn in the second quarter of 2013. Further, assets in foreign currencies rose by \$2bn, or 5.6%, year-on-year.

The value of the Central Bank's gold reserves contracted by 27.5% in the first half of 2013 and by 23.4% year-on-year to \$11.1bn, compared to the peak of \$16.7bn reached at end-August 2011. Its securities portfolio increased by 8.2% in the first half and by 5.3% annually to \$11.7bn. Further, deposits of the financial sector rose by \$3.5bn, or 6.4%, in the first half of the year and by \$5.3bn or 10.2% annually to \$57.9bn; while deposits of the public sector increased by 7% year-to-June and by 3.2% year-on-year to \$6.3bn. Assets in foreign currencies increased by \$3.5bn in 2012, \$1.63bn in 2011, \$2.3bn in 2010, \$8.3bn in 2009, and \$7.34bn in 2008.

Airport passengers up 8% in first half of 2013

Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures, transit) totaled 2,974,516 in the first half of 2013, constituting an increase of 7.8% from the same period last year. The total number of arriving passengers grew by 2.3% year-on-year to 1,428,343 in the first half of 2013, compared to an annual rise of 11.9% in the same period of 2012 and a marginal drop of 0.2% year-on-year in the first half of 2011. Also, the number of departing passengers rose by 15.4% year-on-year to 1,538,124 in the first half of 2013, relative to an annual increase of 15.6% in the same period of 2012 and a decline of 0.5% year-on-year in the first half of 2011. In parallel, the airport's aircraft movements dropped by 2.7% to 29,769 take-offs and landings in the first half of 2013, compared to an annual rise of 3.4% in the same period of 2012 and a drop of 3.2% year-on-year in the first half of 2011. The HIA processed 52,371.1 metric tons of cargo in the first half of 2013 that consisted of 51,984 metric tons of freight and 387.1 metric tons of mail.



Lebanon ranks 96th globally, 13th in MENA region in country risk

In its quarterly survey of the country risk of 184 countries, *Euromoney* magazine ranked Lebanon in 96th place worldwide and in 13th place among 22 countries in the Middle East & North Africa region in the second quarter of 2013. Also, Lebanon came in 33rd place among 51 upper middle income countries (UMICs) included in the survey. Lebanon's global rank regressed by one spot from 95th place in the first quarter of 2013 and by two spots from 94th place in the second quarter of 2012. The survey evaluates individual country risk by assigning a weighting to six categories that cover Political Risks, Economic Performance, Access to Bank Finance & Capital Markets, Debt Indicators, Credit Ratings, and Structural Assessments.

Globally, Lebanon had a lower country risk level than that of Tanzania, Saint Vincent & Grenadines and Belize, and a higher risk level than that of Ecuador, Algeria and Serbia. It also ranked ahead of Saint Vincent & Grenadines and behind Ecuador among UMICs. Lebanon's rank improved by one spot from the preceding quarter on the Political Risks category and Credit Ratings category, while it rank on the Economic Performance, Structural Assessments, Debt Indicators and the Access to Bank Finance & Capital Markets categories remained unchanged from the preceding quarter.

In parallel, Lebanon received a score of 38.26 points, constituting a decrease of 0.5% from 38.45 points in the first quarter of 2013, an increase of 4.1% from 36.75 points in the fourth quarter of 2012, and a drop of 2.9% from 39.41 points in the second quarter of 2012. Lebanon's score came below the Gulf Cooperation Council (GCC) countries' average score of 66.93 points, the MENA average of 43.24 points and the UMICs' average score of 43.10 points. Also, its score came below the global average score of 43.35 points and the Arab average score of 42.40 points, but was above the average score of non-GCC Arab countries of 31.08 points.

Lebanon's score on Political Risks category declined by 0.7% from the first quarter of 2013 and that on the Economic Performance category dropped by 0.8% quarter-on-quarter. Lebanon's score on the Structural Assessments, Debt Indicators, Credit Ratings and the Access to Bank Finance & Capital Markets categories remained unchanged from the preceding quarter.

Lebanon ranked ahead of Azerbaijan and behind Togo globally, while it came ahead of Algeria and behind Bahrain regionally on the Political Risks category. Also, it ranked ahead of Vietnam and behind Mongolia worldwide, and came ahead of Jordan and behind Morocco regionally in terms of Economic Performance. Further, Lebanon ranked ahead of Namibia and behind Bahrain globally, and came ahead of Saudi Arabia and behind Bahrain regionally on the Structural Assessments category. Finally, Lebanon ranked ahead of Guinea and behind Turkey globally, and came ahead of Iraq and behind Turkey regionally on the Debt Indicators category.

MENA Countries Rankings & Scores

	Score	MENA Rank	Global Rank
Qatar	72.62	1	18
Kuwait	72.15	2	20
Oman	68.29	3	26
UAE	67.34	4	28
Saudi Arabia	66.90	5	29
Israel	65.11	6	33
Turkey	56.29	7	48
Bahrain	54.26	8	55
Morocco	47.11	9	71
Jordan	45.04	10	76
Tunisia	43.72	11	79
Algeria	38.55	12	94
Lebanon	38.26	13	96
Egypt	30.09	14	136
Iraq	29.58	15	138
Yemen	28.21	16	143
Libya	26.88	17	147
Iran	24.35	18	151
Sudan	23.59	19	153
Mauritania	23.10	20	155
Syria	22.82	21	158
Djibouti	7.05	22	181

Source: *Euromoney, Byblos Research*

Country Risk Indicators for Lebanon - Second Quarter 2013

	Weighting (%)	Score	MENA Rank	Global Rank	MENA Avge Score	Global Avge Score
Political Risk	30	10.96	12	117	12.51	13.95
Economic Performance	30	13.57	12	93	14.14	13.53
Structural Assessments	10	5.38	9	62	4.52	4.02
Debt Indicators	10	3.09	18	138	4.80	4.23
Credit Rating	10	1.46	12	106	3.20	3.19
Access to Bank Finance & Capital Markets	10	3.83	11	92	4.07	4.41

Source: *Euromoney, Byblos Research*

Lebanon's external debt posts 24th highest returns in emerging markets, 13th highest in the Middle East & Africa

Figures issued by Merrill Lynch indicate that Lebanon's external debt posted returns of -2.82% in the first half of 2013, constituting the 13th highest return among 35 markets in the Eastern Europe, the Middle East & Africa (EMEA) region as well as the 24th highest return among the 63 emerging markets included in Merrill Lynch's Sovereign Plus Debt Index. Lebanon outperformed the EMEA region's returns of -4.48% and the overall emerging markets returns of -6.84% in the first half of 2013. Also, Lebanon's external debt outperformed the -6.94% returns posted by similarly-rated sovereigns.

Further, Lebanon's external debt posted the fourth highest returns among 18 countries in the Middle East & Africa region in the first half of the year, ahead of Bahrain (-2.91%), Gabon (-3.82%), Angola (-4.03%), Ghana (-5.14%), Morocco (-5.22%), Rwanda (-5.22%), Namibia (-7.44%), Zambia (-7.98%), Turkey (-8.11%), South Africa (-8.43%), Senegal (-8.84%), Nigeria (-8.85%), Iraq (-9.18%), and Egypt (-19.28%). It was outperformed by the Ivory Coast (6.08%), Jordan (2.53%), and Tunisia (-0.78%). In US dollar terms, Lebanon's external debt posted returns of -2.86% in the first half of 2013, 10th highest in the EMEA region and 21st highest among emerging markets.

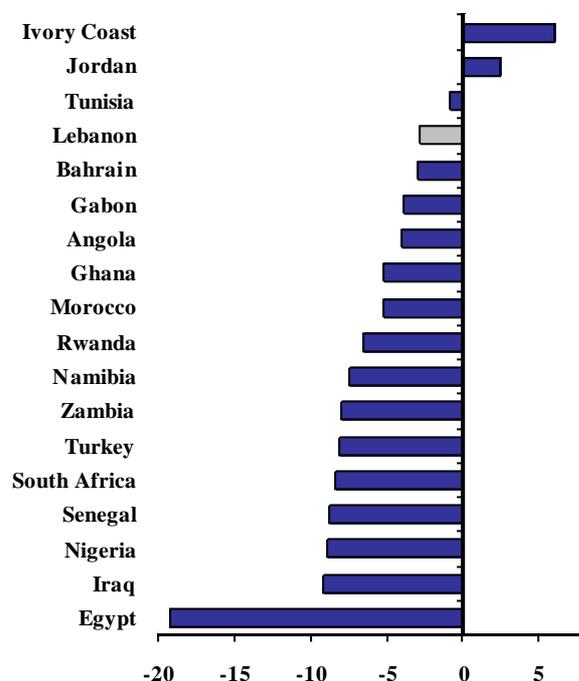
In parallel, Lebanon's external debt posted returns of -3.04% in June 2013, constituting the 12th highest return in the EMEA region and the 18th highest return in emerging markets during the covered month. Lebanon outperformed the EMEA returns of -4.34% and that of emerging markets of -4.59% as well as the -4.62% 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 Gabon (-3.36%), Angola (-3.42%), Iraq (-4.48%), South Africa (-4.65%), Zambia (-4.79%), Ghana (-5.53%), Bahrain and Namibia (-5.6% each), Morocco (-6.38%), Rwanda (-6.57%), Egypt (-7.38%), Turkey (-7.50%), Nigeria (-7.68%), Senegal (-10.45%). It was outperformed by the Ivory Coast (0.64%), Jordan (-1.19%) and Tunisia (-2.12%).

Merrill Lynch said the spread on Lebanese Eurobonds ended June 2013 at 488 basis points, constituting the 10th widest spread in the EMEA region and the 18th widest among emerging markets. It was wider than the EMEA spread of 327 basis points as well as the emerging markets' overall spread of 345 basis points at end-June 2013. Lebanon has a weight of 3.82% 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 7.7% of allocations in the EMEA region.

Net public debt at \$50.7bn at end-May 2013

Lebanon's gross public debt reached \$59.2bn at the end of May 2013, constituting a rise of 2.6% from the end of 2012 and an increase of 7.3% from end-May 2012. Domestic debt totaled \$33.2bn at end-May, down by 0.2% from end-2012 and by 2.1% annually; while external debt stood at \$25.9bn, increasing by 6.4% from end-2012 and by 22.4% from a year earlier. Local currency debt accounted for 56.2% of gross public debt at end-May 2013 compared to 61.6% a year earlier, while foreign currency-denominated debt represented 43.8% of the total at the end of May relative to 38.4% a year earlier. The weighted interest rate on outstanding Treasury bills was 6.61%, while the weighted interest rate on Eurobonds was 6.52% at the end of May. Further, the weighted life on Eurobonds was 6.01 years, while that on Treasury bills was 1,058 days. Commercial banks accounted for 49.9% of the local public debt at the end of May 2013 compared to 48.3% a year earlier. They were followed by the Central Bank with 32.3%, down from 36.1% at end-May 2012; while public agencies, financial institutions and the general public accounted for 17.7% of local debt compared to 15.6% at end-May 2012. Eurobond holders, foreign private sector loans and special T-bills in foreign currencies accounted for 90.5% of the external debt, followed by multilateral institutions with 4.9%, foreign governments with 4%, and Paris II loans with 0.6%. The net public debt, which excludes the public sector's deposits at the Central Bank and at commercial banks from overall debt figures, increased annually by 7.5% to \$50.7bn. In parallel, the gross market debt accounted for about 64% of total public debt. Gross market debt is the total public debt less the portfolios of the Central Bank, the National Social Security Fund, bilateral and multilateral loans, as well as Paris II and Paris III related debt.

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



Source: Merrill Lynch, Byblos Research

Cost-of-living and salary-scale adjustment to largely have negative impact on public finances, inflation, foreign reserves and the current account

The World Bank simulated four scenarios that reflect the long-term impact of the implementation of the cost-of-living adjustment to public sector employees and the across-the-board adjustment to the salary scale of public sector employees in Lebanon. The baseline scenario is the absence of all kind of adjustments to public sector wages.

The World Bank's first scenario assumes that the government only implements the cost-of-living increase without additional revenue measures. Under this scenario, it estimated that real GDP would be 0.5 percentage point lower in 2019 compared to the baseline scenario. It noted that the inflation and nominal interest rates would rise by 0.1 percentage point each under the first scenario in 2019. Also, it said that Lebanon's public finances would deteriorate given the absence of revenue measures that would offset the increase in wages. It estimated that public spending would rise by 0.9 percentage point of GDP in 2019, while the fiscal deficit would widen by one percentage point of GDP. It added that the public-debt-to-GDP ratio would rise by an additional 6 percentage points of GDP by 2019. Also, it said that the current account deficit would widen by 0.1 percentage point of GDP in 2019, while gross foreign exchange reserves would drop by \$2.6bn. It attributed the decrease in reserves and the deterioration in the external account to the expected increase in domestic consumption as a result of the rise in wages, given that imported goods account for around 50% of total domestic demand. Further, it anticipated an increase in the unemployment rate of 0.5 percentage point by 2019 under the first scenario due to a decline in labor demand.

The World Bank's second scenario assumes that the government implements the cost-of-living increase and the adjustment to the salary scale of public sector employees without new revenue measures. Under this scenario, it estimates that real GDP would be lower than under the baseline scenario by 1.1 percentage points by 2019. It noted that the inflation and nominal interest rates would rise by 0.3 percentage point each compared to the baseline scenario. It added that Lebanon's public finances would further deteriorate as public spending would rise by 2.7 percentage points of GDP in the absence of revenue measures to offset the increase in expenditures. It estimated that the fiscal deficit would widen by an additional 2.7 percentage points of GDP in 2019, while the public-debt-to-GDP ratio would rise by an additional 14 percentage points of GDP by 2019. Also, it said that the current account deficit would widen by 0.7 percentage point of GDP, while gross foreign exchange reserves would drop by \$6.4bn by 2019. It noted that higher interest rates would further widen the fiscal deficit through higher debt servicing. It estimated that the debt servicing cost would rise by 1.5 percentage points of GDP by 2019. Further, it anticipated an increase in the unemployment rate of 0.9 percentage point by 2019 under the second scenario due to a decline in labor demand. In parallel, it said that the construction and manufacturing sectors would be the most affected by the increase in the cost-of-living as well as the salary scale. It noted that the activity in the construction sector would contract by 3.4 percentage points under the second scenario, while that in the manufacturing sector would shrink by one percentage point. It estimated that total investment would drop by 17.3% compared to the baseline scenario by 2019, which would take its toll on the construction and manufacturing sectors.

The World Bank's third scenario assumes that the government implements the cost-of-living increase and the adjustment to the salary scale of public sector employees, in addition to revenue measures. It said that the proposed revenue package would generate LBP3,952bn in additional receipts in 2013. But it noted that they include large one-off revenue measures, such as fines on illegal construction, which would all account for 29% of these revenues. Under this scenario, it assumes that real GDP would be lower than under the baseline scenario by 0.3 percentage point in 2019. It noted that the inflation and nominal interest rates would not be affected by the increase in wages. Also, it said that Lebanon's public finances would improve marginally, as public spending would rise by 1.8 percentage points of GDP and revenues would increase by 2 percentage points, which would lead to a 0.2 percentage point improvement in the fiscal balance. It estimated that the public-debt-to-GDP ratio would rise by an additional 0.9 percentage point of GDP by 2019. Also, it said that the current account balance would improve by 0.3 percentage point of GDP, while gross foreign exchange reserves would drop by only \$648m. Further, it anticipated an increase in the unemployment rate of 0.5 percentage point by 2019 under the third scenario. But it noted that the emigration rate would drop by 1.4 percentage points under this scenario compared to increases of 3.1 percentage points under the first scenario and 5.4 percentage points under the second scenario.

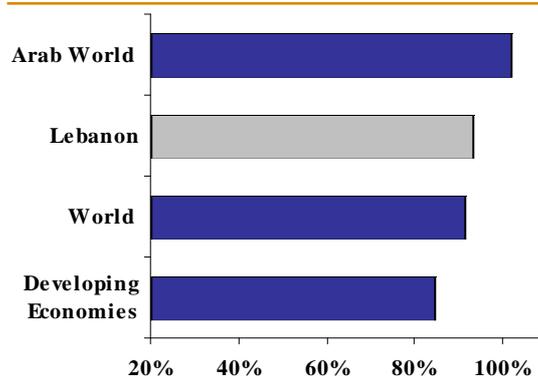
The World Bank's fourth scenario assumes that the government implements the cost-of-living increase and the adjustment to the salary scale of public sector employees, in addition to revenues and reforms. It said that the reforms package includes a 5% cut in the wage increase and a reform of the civil service pension system. It estimated overall savings from these measures at LBP800bn between 2013 and 2019. It added that these measures would only reduce real GDP growth by 0.2 percentage point in 2019, while they would improve the fiscal and current account balances by 0.3 percentage point each. It noted that the public debt-to-GDP ratio would remain unchanged.

Mobile cellular penetration trails Arab economies, exceeds global rates

Figures released by the International Telecommunication Union indicate that Lebanon ranked in 124th place among 209 countries at the end of 2012 in terms of mobile cellular penetration, which is the number of subscriptions to the service per 100 inhabitants. Lebanon's rank improved by 15 spots from its rank in 2011 based on the same number of countries year-on-year, as the ITU included data for three additional countries in the 2012 survey. Lebanon also came in 14th place among 20 Arab countries and ranked in 41st place among 53 upper middle income countries (UMICs) included in the survey. Lebanon's rank was unchanged among Arab countries and improved by five spots among UMICs from the previous year. On a global basis, Lebanon had a higher penetration rate than in Honduras, Serbia and Bolivia and a lower rate than in Monaco, Sri Lanka and Côte d'Ivoire. Also, it ranked ahead of Serbia, Turkey and Bosnia & Herzegovina and came behind Jamaica, Peru and Venezuela among UMICs. Lebanon had 93.2 mobile subscriptions per 100 inhabitants in 2012, constituting an increase from 79.5 subscriptions per 100 inhabitants in 2011. Lebanon's penetration rate was higher than the global average of 91.2 subscriptions per 100 inhabitants, but lower than the Arab average of 101.6 subscriptions per 100 inhabitants last year. Mobile cellular penetration in Lebanon grew by a compound annual growth rate (CAGR) of 25.1% during the 2007-2012 period compared to a CAGR of 16.6% for developing economies and 14.1% for Arab countries.

In parallel, Lebanon ranked in 90th place among 215 countries in terms of fixed telephone lines penetration last year, which represents the number of subscriptions to fixed telephone lines per 100 inhabitants. Lebanon also ranked in fourth place among 20 Arab countries and in 24th position among 54 UMICs. Lebanon's rank improved by five spots from its rank in 2011 based on the same number of countries year-on-year, as the ITU included data for 10 additional countries in the 2012 survey. Lebanon's rank was unchanged among Arab countries, while it improved by four spots among UMICs year-on-year. On a global basis, Lebanon had a higher penetration rate than in Guyana, Lithuania and the Czech Republic, and a lower rate than in China, Saint Lucia and Puerto Rico. Also, it ranked ahead of Lithuania, Macedonia and Chile, and came behind China, Saint Lucia and Costa Rica among UMICs. Lebanon had 20.5 fixed telephone lines subscriptions per 100 inhabitants in 2012, almost unchanged from 20.3 subscriptions per 100 inhabitants in 2011. Lebanon's penetration rate was higher than the global average of 16.9 subscriptions and the Arab average of 9.4 subscriptions per 100 inhabitants. Fixed telephone lines penetration in Lebanon grew by a CAGR of 3.9% during the 2007-2012 period, compared to a CAGR of -2.8% for developing economies and -1.4% for Arab countries.

Mobile Cellular Penetration at end-2012



Source: ITU, Byblos Research

Association of Banks in Lebanon elects board of directors

The General Assembly of the Association of Banks in Lebanon (ABL) elected its Board of Directors for a two-year term. The Board elected Dr. François Bassil, Chairman & General Manager of Byblos Bank as ABL's Chairman, constituting Dr. Bassil's fourth term chairing the ABL's board. Mr. Saad Azhari, Chairman of BLOM Bank, was re-elected as Vice Chairman; Bank Audi's Chairman, Mr. Raymond Audi, was re-elected as the Board's Secretary and Mr. Tanal Sabbah from the Lebanese-Swiss Bank as Treasurer. The other board members are Mr. Nadim Kassar (Fransabank), Mr. Farid Raphael (Banque Libano-Française), Dr. Joseph Torbey (Crédit Libanais), Mr. Mohammad Hariri (BankMed), Mr. Antoine Sehnaoui (SGBL), Mr. Marwan Kheireddine (Al-Mawarid), Mr. Abdel-Razzak Achour (Bank of Kuwait & the Arab Countries), and Mr. Selim Sfeir (Bank of Beirut).

Commercial banks' assets reach \$156.6bn at end-May 2013

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$156.6bn at the end of May 2013, constituting an increase of 3.1% from the end of 2012 and a rise of 8.1% from end-May 2012. Private sector deposits totaled \$130bn, increasing by 4% from end-2012 and by 9.4% from end-May 2012. Deposits in Lebanese pounds reached \$45bn and rose by 2.2% from end-2012 and by 7.8% from end-May 2012; while deposits in foreign currencies totaled \$85.1bn and increased by 5% from end-2012 and by 10.2% from a year earlier. Non-resident foreign currency deposits totaled \$23.1bn at the end of May 2013, up by 11.1% from the end of 2012 and by 24.4% year-on-year. Total non-resident deposits reached \$26.4bn at the end of May 2013 and grew by 9.7% from end-2012 and by 22.2% from a year earlier. Total private sector deposits increased by \$558.2m in January, \$745m in February, \$1.8bn in March and \$1.95bn in May; while they decreased by \$11.3m in April 2013. In comparison, they rose by \$976m January, \$725.3m in February, \$806m in March, \$533m in April and \$141.3m in May of 2012. In parallel, deposits of non-resident banks reached \$5.1bn at the end of May 2013 and decreased by 13.4% from end-2012 and by 21.1% from a year earlier. The dollarization rate of deposits reached 65.4% at the end of April 2013 up from 64.8% at end-2012 and from 64.9% a year earlier. Further, the average deposit rate in Lebanese pounds reached 5.49% at end-May 2013 unchanged from a year earlier; while the same rate in US dollars was 2.90%, up from 2.83% in May 2012.

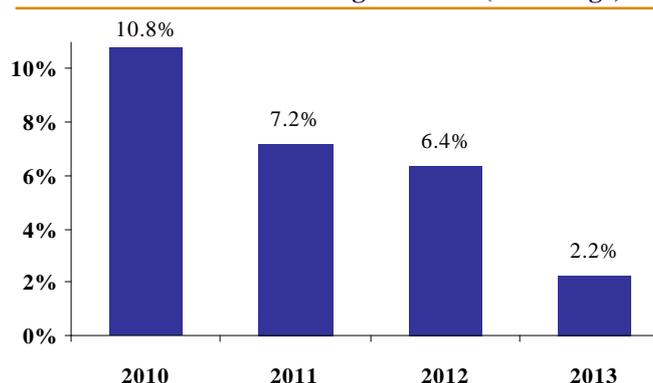
Loans to the private sector totaled \$44.4bn, constituting an increase of 2.2% from end-2012 and a rise of 6% from a year earlier. Lending to the resident private sector totaled \$38.9bn and increased by 2.9% from end-2012 and by 8.5% year-on-year, while credit to the non-resident private sector reached \$5.5bn and decreased by 2.1% from end-2012 and by 8.9% from end-May 2012. The dollarization rate in private sector lending regressed to 77.1% at end-April 2013 from 78.3% a year earlier. The average lending rate in Lebanese pounds was 7.35% in May 2013 compared to 7.34% a year earlier, while the same average in US dollars was 6.97% compared to 7.12% in May 2012. In addition, claims on non-resident banks reached \$13.4bn at end-May 2013, posting a decrease of 7.1% from end-2012 and a rise of 6% from a year earlier. Claims on the public sector stood at \$32.3bn, constituting an increase of 3.7% from end-2012 and a rise of 10.7% year-on-year. The ratio of private sector loans-to-deposits in foreign currencies stood at 40.3%, down from 42.5% at end-May 2012, and well below the Central Bank's limit of 70%. In parallel, the same ratio in Lebanese pounds was 22.6%, up from 21.7% at the end of May 2012. The ratio of total private sector loans to deposits was 34.2% at the end of May compared to 35.2% a year earlier. The banks' aggregate capital base stood at \$13.2bn, up by 2.7% month-on-month and by 13.8% from \$11.6bn in May 2012.

GlobeMed chosen as subcontractor for Qatar's universal healthcare coverage program

The Beirut-based GlobeMed Limited, a service provider and healthcare management company, will provide third-party administration services, such as enrollment management, claims administration and call center functions, to Qatar's newly-established National Health Insurance Company (NHIC). The NHIC manages Qatar's universal health care coverage program that will be launched in five stages. The program is expected to become fully operational for all citizens, expatriates and visitors in 2015. The first stage of the program will provide insurance coverage for cases such as maternity, obstetrics, gynecology and other related health care concerns; while coverage for Qatari citizens for all medical treatments would begin in early 2014. GlobeMed entered into a strategic business partnership with the Qatari-based Alkhaleej Takaful Group and Aetna. Alkhaleej Takaful Group will act as a third-party administrator to manage administration of the insurance plan, while GlobeMed and the U.S.-based insurance firm Aetna International will act as joint exclusive subcontractors.

GlobeMed was established in 1991 as one of the earliest Third Party Administrators to promote healthcare management by facilitating medical payment and patients' benefits on behalf of its clients in both the public and private sectors. GlobeMed manages in excess of \$500 million in health insurance premiums across its operations in the Middle East and Africa. In addition, GlobeMed provides actuarial and statistical services, international health services and medical coding education.

Private Sector Lending Growth* (% Change)



*in first five months of each year

Source: Association of Banks in Lebanon, Byblos Research

Venture capital fund announces three investments

The Beirut-based venture capital fund Berytech Fund announced several transactions that consist of an investment in Cardio Diagnostics, the first supplier of mobile cardiac telemetry solutions in the MENA region; and an investment in Cook & Eat Lebanese, a social media portal designed to promote Lebanese culture through cooking and connecting Lebanese-food lovers. It also invested in Mistile.com, which is an e-commerce website that sells luxury brand items at significant discounts. The fund is currently fully invested with a portfolio of 15 companies. In parallel, Berytech launched a second fund in collaboration with the Central Bank of Lebanon, and is expected to raise between \$20m to \$30m by 2014.

Established in May 2008, the Berytech Fund invests in early-stage technology companies and provides equity capital and strategic guidance. The fund invests between \$100,000 and \$1.2m per firm. The Berytech Fund has \$6m in assets under management and was established by five banks, Univeristé Saint Joseph and three firms and investors in the information and communication technology sector. The Fund has already invested in ElementN, a technology firm specialized in mobile and web-based e-business technology and solutions; in Dermander, a new technology start-up focused on online digital image processing; and in Active Identity, a technology start-up specialized in UHF Radio Frequency Identification. It also invested in Yalla Play, a gaming platform that is compatible with social networking sites; in ButterflEye, a producer of water-proof goggles that measure a swimmer's heartbeat rates using infrared technology; and in the web texting software Wext, which is designed to be used on mobile phones or on computers, but at a low cost and with a 5,000-character limit.

BBAC's net profits up 77% to \$13m in first quarter of 2013

The Bank of Beirut and the Arab Countries (BBAC) sal, one of Lebanon's top 13 banks, announced unaudited consolidated net profits of \$12.8m in the first quarter of 2013, up 77.2% from the same quarter last year. Net operating income grew by 24.7% year-on-year to \$30.6m, with net interest income decreasing by 2% to \$18.8m and net fees & commissions receipts rising by 15.6% year-on-year to \$4.2m. Non-interest income accounted for 37.9% of total income, up from 22.6% in the same quarter last year; with net fees & commissions representing 36.6% of non-interest earnings down from 64.9% in the first quarter of 2012. Further, the bank's interest margin was 1.59% in the first quarter of the year relative to 1.82% in the same quarter last year; while its spread dropped to 1.54% from 1.75% in the first quarter of 2012. Total operating expenditures increased by 3.7% to \$15.9m, with staff expenses growing by 9% to \$8.5m. Also, the bank's return on average assets reached 1.05% in March 2013 on an annualized basis relative to 0.66% a year earlier; while its return on average equity was 12.6% on an annualized basis relative to 8.3% in the first quarter of 2012. The cost-to-income ratio declined to 52.7% in the first quarter from 62.2% in the same quarter last year.

In parallel, total assets reached \$4.8bn at end-March 2013, constituting a 2% decrease from end-2012 and a 9.5% increase from a year earlier; while loans & advances to customers, excluding loans & advances to related parties, grew by 1.5% from end-2012 and by 8% from a year earlier to \$1.2bn. Also, customer deposits, excluding deposits to related parties, totaled \$4.2bn at end-March 2013, constituting a marginal increase of 0.7% from end-2012 and a rise of 11% from a year earlier. The loans-to-deposits ratio fell to 28.3% at end-March 2013 from 29.1% a year earlier.

Sogecap's balance sheet up 16% to \$94m at end-2012

Sogecap Liban sal, the insurance affiliate of Société Générale de Banque au Liban, released its audited balance sheet that shows total assets of \$93.6m at the end of 2012, constituting an increase of 15.7% from \$81m at end-2011. On the assets side, general company investments totaled \$73.9m and increased by 14.1% from \$64.8m at end-2011. They included \$48.1m in cash & cash equivalents, \$23.7m in fixed income investments; and \$0.8m in blocked bank deposits in favor of the Economy Ministry as guarantees.

Also, Unit-linked contracts investments totaled \$18.3m at end-2012, constituting a rise of 23.4% from \$14.8m a year earlier. They included \$8.9m in variable income investments and \$9.4m in cash & similar investments. Unit-linked investment in variable income investments increased by 21.7%, and cash & similar investments rose by 25.1% year-on-year. Reinsurance share in technical reserves for the life category amounted to \$0.8m, constituting a decrease of 11% from \$0.9m.

On the liabilities & shareholders' equity side, unit-linked technical reserves reached \$18.3m at the end of 2012 and rose by 23.4% from \$14.8m at end-2011. Also, technical reserves for the life segment grew by 15.7% year-on-year to \$49.8m. Provisions for risks and charges reached \$0.5m and rose by 32% from a year earlier. Shareholders' equity totaled \$23.3m at end-2012 and rose by 11.8% from \$20.9m a year earlier. *Al-Bayan* magazine's annual survey of the life insurance sector in Lebanon ranked Sogecap Liban in seventh place in 2012 in terms of premiums. The firm's life premiums reached \$24.5m, constituting a rise of 11.4% from \$22m a year earlier. It had a 6.3% share of the life market.

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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