

LEBANON THIS WEEK

In This Issue

Economic Indicators.....1
Capital Markets.....1
Lebanon in the News.....2

Economic stagnation to continue this year

Lebanon posts fourth steepest decline in tourist arrivals in the world in 2012

Eighty two percent of Lebanese were pessimistic about local job market in 2012

Consumer Price Index up 8.8% annually in June 2013

Coincident Indicator flat in May 2013

Commercial activity declines in fourth quarter of 2012

Subsidized interest loans at \$696m in 2012

Advances against real estate account for 31% of bank credits, share of trade & services at 35% of utilized credits at end-2012

Customs receipts down 3% to \$740m in first half of 2013

Value of cleared checks up 3%, returned checks down 4% in first five months of 2013

Construction permits down 15% in first five months of 2013

Corporate Highlights6

Foreign investments of financial sector at \$6bn at end-2012, commercial banks account for 64% of debt securities and for 23% of equity investments

Hotel occupancy rate at 53% in the first half of 2013

Credit Bank's profits down 28% to \$16.2m in 2012

Insurance rates for exports through Syria up 500%

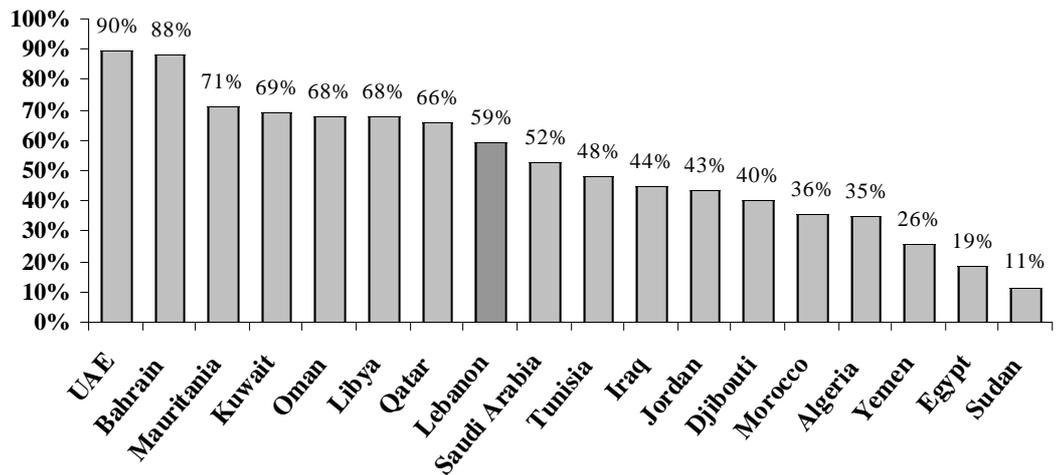
Three insurers with local operations part of globally systematic important firms

NECB's net income at \$1.4m in 2012

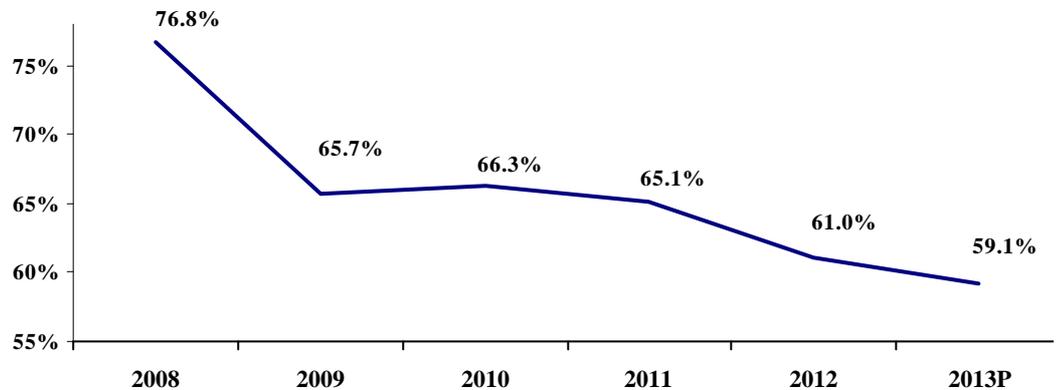
Ratio Highlights.....8
Risk Outlook.....8
Ratings & Outlook.....8

Charts of the Week

Projected Exports of Goods & Services from Arab Countries in 2013 (% of GDP)



Exports of Goods & Services from Lebanon (% of GDP)



Source: International Monetary Fund - May 2013, Byblos Bank

Quote to Note

"Some of the one-off revenue measures suffer from uncertain revenue yield, are potentially inequitable and unfair, and depart from fundamental tax policy principles."

The World Bank, on the new taxes that the government plans to impose

Number of the Week

645,780: Number of Syrian refugees in Lebanon who registered or who are awaiting registration with the Office of the UN High Commissioner for Refugees as of July 24, 2013, according to the United Nations

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"	11.51	2.22	104,022	10.95%
Solidere "B"	11.50	3.14	83,528	7.11%
Byblos Common	1.52	(1.30)	90,384	5.20%
Byblos Pref. 08	100.00	0.00	0	1.90%
Byblos Pref. 09	100.00	(0.50)	473	1.90%
BLOM GDR	8.65	0.00	0	6.08%
BLOM Listed	8.27	0.24	83,250	16.92%
Audi GDR	6.59	6.29	690	6.40%
Audi Listed	6.10	0.00	2,800	20.31%
HOLCIM	15.75	6.35	45	2.93%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Apr. 2014	7.375	102.88	3.21
Jan. 2015	5.875	102.25	4.27
Apr. 2015	10.00	109.50	4.26
Jan. 2016	8.500	108.75	4.70
Mar. 2017	9.000	112.25	5.25
Nov. 2018	5.150	99.00	3.87
Apr. 2021	8.250	111.88	6.28
Nov. 2026	6.600	99.50	6.66

Source: Byblos Bank Capital Markets

	July 22-26	July 15-19	% Change	June 2013	June 2012	% Change
Total Shares Traded	378,172	246,590	53.36	3,583,569	6,244,741	(42.61)
Total Value Traded	\$3,622,070	\$5,148,164	(29.64)	\$35,442,686	\$60,044,043	(40.97)
Market Capitalization	\$10.51bn	\$10.41bn	0.94	\$10.24bn	\$10.07bn	1.65

Source: Beirut Stock Exchange (BSE)



Economic stagnation to continue this year

The World Bank indicated that the Lebanese economy is in its third consecutive year of subdued activity, following real GDP growth rates of less than 2% in 2011 and less than 1% in 2012 and a projected growth of around 2% this year. It attributed the economic slowdown to spillovers from the Syrian crisis that have interrupted activity in the real sector, slowed tourism receipts and disrupted trade routes. It said that political and economic spillovers from the Syrian conflict continue to dampen recovery attempts in Lebanon's key economic drivers, mainly in the tourism, real estate and wholesale trade sectors. Further, it expected the weak domestic economic activity to push the unemployment rate in Lebanon to above its already high level of 11%.

It noted that Lebanon's real GDP growth decelerated to 1.2% in the first quarter of 2013 compared to 2.6% in the same quarter last year. It added that the real estate sector, which accounts for 13% of GDP, has significantly contracted since the beginning of 2011. It added that the slowdown in the property market has continued in the first quarter of 2013, as demand from foreigners, mainly from Arab nationals, has yet to show signs of recovery. Further, it said that activity in the tourism sector remains weak due to security concerns. It noted that the number of tourist arrivals continued its downward trend largely due to a sharp fall in visitors from Arab countries. It added that the number of tourists from the countries of the Gulf Cooperation Council, who usually account for more than half of tourist arrivals to Lebanon, declined sharply due to travel warnings.

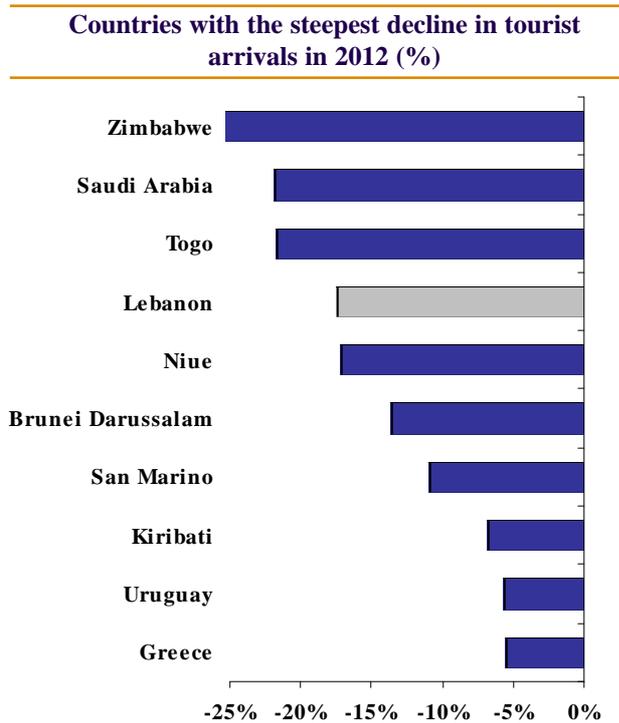
In parallel, the World Bank considered that the weak domestic economic activity and the widening of the fiscal deficit have further constrained the government's fiscal space. It said that the fiscal deficit almost doubled since 2011 and projected it to widen from 5.7% of GDP in 2011 to 9.2% of GDP in 2013 as a result of the implementation of a large fiscal stimulus that includes a significant rise in public-sector wages and salaries. It noted that Lebanon's public debt stock rose by \$5bn last year due to the government's large financing needs. It expected the rise in the public debt level to continue this year, given that the debt stock's growth pace accelerated in the first quarter of the year compared to the same period last year. However, it added that the Central Bank's large foreign currency reserves, which cover more than 17 months of import cover, could be used as a buffer during periods of economic downturn.

Lebanon posts fourth steepest decline in tourist arrivals in the world in 2012

Figures issued by the United Nations World Tourism Organization indicate that Lebanon posted the fourth steepest decline in tourist arrivals in the world in 2012 with a 17.5% decrease from the previous year. In comparison, tourist arrivals grew by 4% globally, by 3.8% in advanced economies and by 4.3% in emerging markets. Also, tourist arrivals dropped by 5.4% in the Middle East and rose by 8.7% in North Africa. They grew by 7% in Asia & the Pacific, increased by 5.9% in Africa, rose by 4.6% in the Americas and expanded by 3.4% in Europe. Globally, Lebanon's fall in tourist arrivals was lower than only in Zimbabwe (-26%), Saudi Arabia (-21.9%) and Togo (-21.7%). Also, Lebanon posted the second steepest decline in tourist arrivals among eight Arab countries after Saudi Arabia. Tourist arrivals fell by 23.7% in 2011, the sixth steepest decline globally. They rose by 17.6% in 2010, the 22nd highest growth rate globally, and they increased by 39% in 2009, the highest growth rate in the world during the covered year.

In parallel, the WTO said tourism receipts in Lebanon totaled \$6.9bn in 2011, down 14.8% from \$8.1bn in 2010 and constituting the 10th steepest decline globally and the sixth steepest when excluding countries with tourism receipts of less than \$1bn. Regionally, Lebanon posted the sixth steepest decline among 17 Arab countries, better than only Jordan (-16.3%), Bahrain (-24%), Tunisia (-27.6%), Egypt (-30.5%) and Yemen (-32.6%). Further, Lebanon ranked in 38th place globally in terms of tourism receipts in 2011, behind Morocco (\$7.3bn) and ahead of Denmark (\$6.6bn) globally; while it ranked in fifth place among Arab countries behind the UAE (\$9.2bn), Egypt (\$8.7bn), Saudi Arabia (\$8.5bn) and Morocco (\$7.3bn).

Figures issued by the Ministry of Tourism show that the number of incoming tourists to Lebanon totaled 1.36 million in 2012, constituting a decrease of 17.5% from 1.65 million tourists in 2011 and a decline of 37% from 2.17 million tourists in 2010. The number of tourists from Asia declined by 48.1% annually, Arab tourists regressed by 21.2%, those from Europe dropped by 8.4%, visitors from Oceania fell by 8% and tourists from the Americas decreased by 0.7%.



Source: UNWTO, Byblos Research

Eighty two percent of Lebanese were pessimistic about local job market in 2012

A survey conducted by opinion polling and consulting firm Gallup on the job situation in 141 countries worldwide shows that 13% of respondents in Lebanon believed that last year was a "good year" to find a job in Lebanon, compared to 33% of adults worldwide who shared similar views about their economy and relative to 27% of adults in the Middle East & North Africa who considered that last year was a "good year" to find a job in their country. The share of Lebanese who thought that last year was a "good year" to find a job in their country was the 27th lowest worldwide, similar to the share of respondents in Jordan and Mongolia. It was also the fourth lowest percentage among 19 Arab countries included in the survey, as 12% of adults in Yemen had similar opinions about the status of their domestic job market, 10% of adults in Egypt thought that last year was a "good year" to find a local job, and 8% of Palestinians shared a similar view about the job market in their economy. Globally, participants in Saudi Arabia and Thailand had the highest level of optimism about the job market in their economy with 73% of residents in each country stating that last year was a "good year" to find a job, followed by Kuwait with 69% of its respondents sharing similar views about their economy.

The share of Lebanese who thought that 2012 was a "good year" to find a job in Lebanon fell by five percentage points from 18% in 2011, constituting the fifth steepest decline among Arab countries. The Arab countries with steeper year-on-year declines were Jordan with a drop of six percentage points, Mauritania with a contraction of 14 percentage points, Morocco with a fall of 15 percentage points, and Syria with a drop of 17 percentage points.

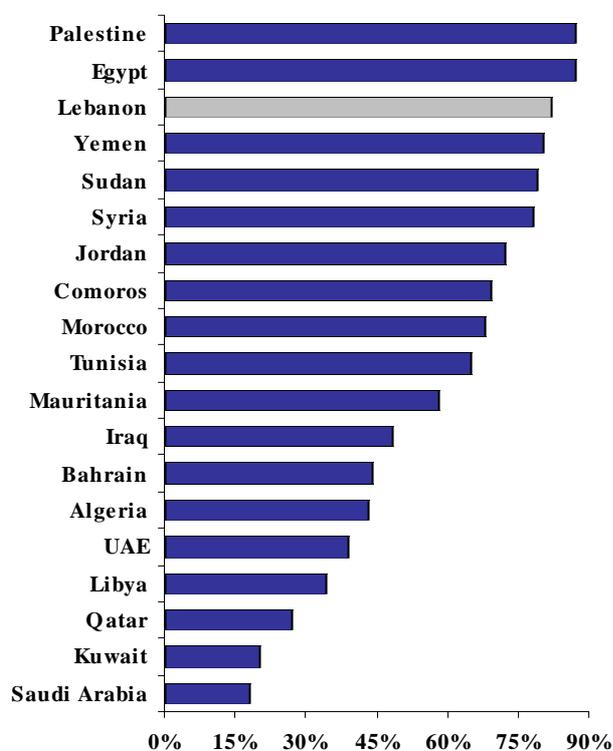
In parallel, the survey showed that 82% of survey participants in Lebanon acknowledged that last year was a "bad year" to find a job in Lebanon, compared to 57% of adults worldwide who shared similar views about their economy and relative to 66% of adults in the Middle East & North Africa who considered that last year was a "bad year" to find a job in their local community. The share of Lebanese who thought that 2012 was a "bad year" to find a job in Lebanon rose by five percentage points from 77% in 2011. The percentage of Lebanese who thought that last year was a "bad year" to find a job in Lebanon was the 23rd highest worldwide, and was similar to the share of survey participants in Kosovo. It was also the third highest among Arab states, as 87% of Egyptians and Palestinians shared similar views about the job market in their economy. Globally, Greece was the worst country to look for a job in the world, as 98% of Greek respondents considered that that last year was a "bad year" to find a job in their economy followed by 95% of participants in Italy who shared the similar views about their country and 94% of respondents in Spain who thought that last year was a "bad year" to find a job in their economy. The survey's results are based on telephone and face-to-face interviews with approximately 1,000 adults per country that were conducted in 141 countries and territories in 2012.

Consumer Price Index up 8.8% annually in June 2013

Figures released by the Central Administration of Statistics (CAS) indicate that the Consumer Price Index increased by 8.8% in June 2013 from June 2012. Prices of housing increased by 44.1% year-on-year, followed by education (+14.6%), alcoholic beverages & tobacco (+14.1%), water, electricity, gas & other fuels (+7.4%), restaurants & hotels (+5.8%), recreation, amusement & culture (+4.7%), food & non-alcoholic beverages (+3%), furnishings & household equipment (1.9%), miscellaneous goods & services (+1.4%), and healthcare costs (+0.7%); while communication prices remained unchanged year-on-year. Further, transportation costs decreased by 3.2% annually in June, and clothing & footwear declined by 2.5%. Lebanon's headline inflation rate rose significantly since July 2012, reflecting a technical adjustment in the official CPI rather than an underlying trend. The increase is attributed to a 44% one-off upward adjustment in the cost of housing, which had not changed in the CPI since July 2009 and which was incorporated in the index in July 2012.

The CAS resumed the calculation of the CPI after a five-month suspension that was caused by a political decision by the Council of Ministers. It said that prices have not been collected in the first five months of 2013, which resulted in the lack of data for the CPI series during the covered months. As such, it indicated that it calculated the average prices of all products collected in 2012 in order to account for temporarily missing prices, seasonal unavailability, and permanently missing items. It then used these averages to calculate the index results for June 2013.

Percentage of respondents who said 2012 was a "bad year" to find a job



Source: Gallup, Byblos Research

Coincident Indicator flat in May 2013

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 272.7 points in May 2013 compared to 272 in April 2013 and 265.3 in May 2012. The Coincident Indicator, an average of 8 weighted economic indicators, increased by a marginal 0.3% month-on-month and by 2.8% year-on-year in May 2013. The indicator averaged 259.5 in the 12 months ending May 2013, compared to 258.9 in the 12 months ending April 2013 as well as in the 12 months ending May 2012. As a result, the average coincident indicator increased by a marginal 0.2% month-on-month and remained unchanged year-on-year, which reflects economic stagnation. In parallel, the indicator improved eight times and regressed 13 times in the month of May since 1993. The indicator reached an all-time high of 273.7 points in April 2012. It averaged 256.6 in 2012, 255.7 in 2011, 249.5 in 2010 and 225.9 in 2009.

Commercial activity declines in fourth quarter of 2012

The Central Bank's quarterly business survey of opinions indicated that the volume of commercial sales decreased during the fourth quarter of 2012 and remained very low in historical terms, with the balance of opinion standing at -13 compared to -6 during the preceding quarter and -5 during the same quarter of 2011. The balance of opinions was the lowest in the North at -45, followed by Beirut & Mount Lebanon (-6), the Bekaa (-5) and the South (+13). The business survey reflects the opinions of enterprise managers about their business activity in order to depict the evolution of a number of key economic variables. The survey shows a significant decline in the sale of food items in the fourth quarter of 2012, as the balance of opinion for the sales volume of food items regressed to one in the fourth quarter of 2012 from 11 in the preceding quarter and compared to 26 in the same quarter of 2011. The balance of opinions for the sales of inter-industrial goods was -18 in the fourth quarter relative to -1 in the preceding period and to -32 in the fourth quarter of 2011; while it was -18 for non-food products, unchanged from the third quarter of 2012 and compared to -8 in the fourth quarter of 2011. Also, the balance of opinion for inventory levels in all commercial sub-sectors was +1 in the fourth quarter of 2012 compared to -4 in the third quarter of last year and -2 in the fourth quarter of 2011. Opinions about the level of inventories were the highest in the Bekaa where it reached 7, followed by Beirut & Mount Lebanon and the South (+4 each) and the North (-15). The balance of opinion is the difference between the proportion of surveyed managers who consider that there was an improvement in a particular indicator and the proportion of those who reported a decline in the same indicator

Commercial Activity: year-on-year evolution of opinions				
Aggregate results	Q4-09	Q4-10	Q4-11	Q4-12
Sales volume	32	0	-5	-13
Number of employees	12	11	1	-3
Inventories of finished goods	10	10	-2	1
Q4-12 Regional results	Beirut / Mount Lebanon	North	South	Bekaa
Sales volume	-6	-45	13	-5
Inventories of finished goods	4	-15	4	7

Source: Central Bank business survey for fourth quarter of 2012

Subsidized interest loans at \$696m in 2012

Figures released by the Central Bank show that the amount of subsidized interest loans to productive sectors in Lebanon reached \$695.5m in 2012. The industrial sector accounted for \$371.1m, or 53.4% of the total, followed by tourism with \$243.8m (35.1%) and agriculture with \$80.6m (11.6%). Subsidized interest loans extended in 2011 totaled \$930.7m relative to \$737.6m in 2010 and \$492.3m in 2009. The cumulative amount of subsidized interest loans to productive sectors in Lebanon reached \$5.1bn between 1997 and 2012.

Subsidized medium & long-term loans reached \$554.4m in 2012, equivalent to 79.7% of the total. Industry accounted for 54.2% of total subsidized medium & long-term loans, followed by tourism with 38.1% and agriculture with 7.7%. The program was established in the first quarter of 1997 and consists of a 5% to 7% subsidy on the interest for loans extended in foreign currencies to productive sectors.

Also, subsidized interest loans guaranteed by the Kafalat Corporation totaled \$135.5m, or 19.5% of the total. Industry accounted for 48% of Kafalat-backed subsidies, followed by agriculture with 28.1% and tourism with 24%. Kafalat provides financial guarantees for loans of up to \$400,000 for small and medium-sized enterprises in productive sectors. Further, subsidized interest loans granted by leasing companies totaled \$5.6m in 2012, or 0.8% of the total, extended in total to the industry sector.

Advances against real estate account for 31% of bank credits, share of trade & services at 35% of utilized credits at end-2012

Figures issued by the Central Bank about the distribution of bank credits by type show that advances against real estate accounted for \$14.9bn, or 30.6% of total private sector credits at the end of 2012. They were followed by overdrafts with \$13.6bn (28%), advances against personal guarantees \$8.8bn (18%), advances against cash collateral or bank guarantees \$6.7bn (13.8%), advances against other real guarantees \$3bn (6.1%), and advances against financial values \$1.7bn (3.6%). In parallel, utilized credits by the private sector totaled \$48.76bn at end-2012, with the trade & services sector accounting for \$16.86bn, or 34.6% of such credits. It was followed by personal credits with \$12.85bn (26.3%), construction with \$8.1bn (16.7%), industry with \$5.6bn (11.5%), financial intermediaries with \$3.4bn (7%) and agriculture with \$453.2m (0.9%), while other sectors accounted for the remaining \$1.5bn (3%). Also, wholesale trade represented 41.6% of trade & services credits, followed by real estate services with 21.2%, retail with 15.7%, transport & storage with 9.7%, hotels & restaurants with 8.2% and educational services with 3.7%.

Personal credits attracted 77% of loan beneficiaries, followed by trade & services with 12.6% of beneficiaries, industry with 3.4%, construction with 1.6%, agriculture with 0.9%, financial intermediaries with 0.7%, while other sectors attracted the remaining 3.9%. Further, the aggregate number of loan beneficiaries grew by 7.5% year-on-year to 431,485, while 79.9% of beneficiaries had loans ranging from LBP5m to LBP100m by end-2012. Beirut and its suburbs accounted for 79.4% of bank credits and for 54.6% of beneficiaries. It was followed by Mount Lebanon with 9.5% of credits and 16.3% of beneficiaries; South Lebanon with 4.2% of credits and 8.9% of beneficiaries; North Lebanon with 3.9% of credits and 13.6% of beneficiaries; and the Bekaa with 3% of credits and 6.7% of beneficiaries.

Customs receipts down 3% to \$740m in first half of 2013

Figures released by the Customs Directorate indicated that customs revenues reached \$740.3m in the first half of 2013, constituting a decrease of 2.5% from \$759.5m 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 half, and was followed by the Hariri International Airport with 7.6%, the Port of Tripoli with 3.1%, the Masnaa crossing point with 0.5%, and the Port of Saida and the Port of Tyre with 0.2% each. Customs receipts from the value-added tax totaled \$684.4m in the first half of 2013, down 10% from \$760.2m in the same period of 2012. The Port of Beirut accounted for 82.3% of such receipts, and was followed by the Hariri International Airport with 10.7%, the Port of Tripoli with 4.2%, the Masnaa crossing point with 2%, the Port of Saida with 0.5%, and the Port of Tyre and the crossing point of Abboudieh with 0.1% each. As such, overall customs receipts reached \$1.4bn in the first half, with the Port of Beirut accounting for 85.4% of the total, followed by the Hariri International Airport with 9.1%, the Port of Tripoli with 3.6% and the Masnaa crossing point with 1.3%. In addition, other entry points represented the balance, with the port of Saida accounting for 0.3%, the port of and Tyre for 0.2% and the crossing point of Abboudieh for 0.1%.

Value of cleared checks up 3%, returned checks down 4% in first five months of 2013

The value of cleared checks reached \$29.6bn in the first five months of 2013, constituting an increase of 2.9% year-on-year, compared to a rise of 1.7% in the same period of 2012 and a drop of 0.3% in the first five months of 2011. The value of cleared checks in Lebanese pounds rose by 13.4% annually to the equivalent of \$6.7bn in the first five months of 2013, while the value of cleared checks in US dollars was unchanged at \$22.8bn. The dollarization rate of cleared checks decreased to 77.2% from 79.3% in the same period of the previous year. Also, the value of returned checks in domestic and foreign currency declined by 3.9% to \$613m in the first five months of 2013, relative to a rise of 4.4% in the same period of 2012 and a decrease of 7% in the first five months of 2011. In parallel, the number of cleared checks totaled 5.4 million checks in the first five months of 2013, up by 2.4% from the same period last year. Also, the number of returned checks totaled 107,000 checks, down by 7.8% from 116,000 in the same period of 2012.

Construction permits down 15% in first five months of 2013

Figures released by the Association of Engineers of Beirut & Tripoli show that construction permits issued in the first five months of 2013 reached 5.3 million square meters, constituting a decrease of 15.3% year-on-year, compared to a drop of 11.9% in the same period last year and a rise of 3.7% in the first five months of 2011. Mount Lebanon accounted for 2.35 million square meters or 44.7% of total construction permits in the covered period. It was followed by the North with 1.1 million square meters (20.3%), the Bekaa with 595,825 square meters (11.3%), South Lebanon with 530,537 square meters (10.1%), Nabatieh with 456,271 square meters (8.7%), and Beirut with 258,236 square meters (4.9%). In parallel, cement deliveries totaled 2.1 million tons in the first five months of 2013 and increased by 1.6% annually relative to a decrease of 0.2% in the same period last year and a drop of 0.8% in the first five months of 2011.

Foreign investments of financial sector at \$6bn at end-2012, commercial banks account for 64% of debt securities and for 23% of equity investments

Figures issued by the Central Bank show that the net investment portfolio of Lebanese banks and financial institutions in foreign debt and equity securities totaled \$6bn at end-2012, constituting a decrease of 19% from \$7.4bn at end-2011. Investments in long-term debt securities totaled \$3.4bn at end-2012 and accounted for 57.2% of the total, followed by investments in equities with \$2.4bn, or 40% of the total, while short-term debt securities reached \$16.7m or 2.8% of the total. According to the Central Bank, the figures cover the net assets of resident financial institutions in tradable debt and equity instruments of non-resident issuers. They help provide a clearer picture about the flow of funds from Lebanon and, therefore, about balance of payments data.

The distribution of investments by institutions indicates that commercial banks' net portfolio in foreign long-term debt securities totaled \$2.2bn and accounted for 64.1% of total investments in such securities at end-2012. The figure includes banks' investment for their own account, on behalf of their clients and on a custodial basis. They were followed by medium and long-term banks with \$813m (23.8%), financial institutions with \$266.1m (7.8%) and insurance firms with \$146.7m (4.3%). Commercial banks also represented 98.7% of investments in short-term debt securities, followed distantly by medium and long-term banks with 1.2% and financial institutions with 0.1%.

In parallel, financial institutions' net assets in equity securities totaled \$1.1bn, accounting for 44.3% of total investments in such securities. They were followed by medium and long-term banks with \$637.3m (26.7%), commercial banks with \$543.8m (22.8%) and insurance companies with \$147.3m (6.2%).

The distribution of investments by destination shows that the United States was the leading recipient of equity investments by financial institutions operating in Lebanon, reaching \$1.3bn and accounting for 54.6% of the total at end-2012. It was followed by Bahrain with \$256m (10.7%), France with \$117.9m (4.9%), Jordan with \$114.9m (4.8%) and Saudi Arabia with \$94.7m (4%), while other countries accounted for the remaining 21%. In parallel, the United Kingdom accounted for \$609m, or 17.8% of investments in long-term debt securities, followed by the United States with \$467.5m (13.7%), France with \$405m (11.9%), the UAE with \$336.8m (9.9%), and the Netherlands with \$167.9m (4.9%), while other countries accounted for the remaining 41.9%. Further, China accounted for 45% of investments in short-term debt securities, followed by Australia with 22.7% and Switzerland with 12.6%.

Hotel occupancy rate at 53% in the first half of 2013

Figures released by STR Global show that the occupancy rate at Beirut hotels reached 53% in the first half of the year, down 10% from the same period last year; while the average daily rate (ADR) stood at \$156, down 21% from the first half of last year. STR indicated that Lebanon continues to suffer collateral damage due to its geographic proximity to Syria. The occupancy rate at hotels in the Middle East was 70.4% in the first half of the year relative to 67.7% in the same period last year, while the ADR was \$207.7 up 5% from \$197.7 in the first half of 2012. Also, the occupancy rate at hotels in North Africa was 52.3% in the first half of 2013 relative to 48% in the same period last year, while the ADR was \$84, down 1.6% from \$85.4 in the same period last year.

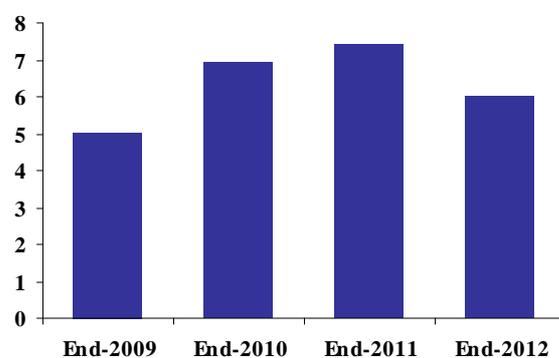
The ADR at Beirut hotels stood at \$162.5 in June 2013 down 18.4% from the same month last year, while the revenue per available room (RevPAR) amounted to \$88.8, down 20.4% from June 2012. STR said that Beirut posted the steepest year-on-year contractions in the Middle East and Africa region on the RevPAR and the ADR indicators in June. The ADR at hotels in the Middle East was \$170.3 up 5% from \$162.2 in June 2012, while the RevPAR was \$112.8 up 10.8% from \$101.8 in the same month last year. Also, the ADR rate at hotels in North Africa was \$82.5, up 1.4% from \$81.3 in the same month last year, while the RevPAR was \$46.7, up 15.5% from \$40.5 in June 2012.

Credit Bank's profits down 28% to \$16.2m in 2012

Credit Bank announced audited consolidated net profits of \$16.2m in 2012, down 28.3% from \$22.7m in 2011. Net operating income decreased by 3.2% year-on-year to \$66.4m in 2012, with net interest income increasing by 0.8% to \$42.1m and net fees & commissions receipts rising by 9% to \$14m. Total operating expenditures increased by 12.2% to \$46.7m, with staff expenses rising by 16% to \$26.4m and general & administrative expenses growing by 7.9% year-on-year to \$17.5m. The cost-to-income ratio rose to 66.1% in 2012 from a ratio of 57.8% in 2011.

In parallel, total assets reached \$2.2bn at end-2012, constituting a 17.2% increase from \$1.9bn at end-2011; while loans & advances to customers, excluding loans & advances to related parties, increased by 11.8% year-on-year to \$1.1bn. Also, customer deposits, excluding deposits to related parties, totaled \$1.88bn at end-2012, growing by 16.4% from a year earlier. The loans-to-deposits ratio regressed to 56.8% at end-2012 from 59.2% a year earlier. The bank's total shareholders' equity grew by 13% year-on-year to \$169.7m at end-2012.

Foreign Investments of Financial Sector (US\$bn)



Source: Central Bank, Byblos Research

Insurance rates for exports through Syria up 500%

The Association of Insurance Companies in Lebanon (ACAL) indicated that the rates on insurance policies that cover war risks for exports through Syria have increased by 500% compared to the pre-conflict period. It said that Lebanese insurers are still covering transit exports through Syria and that there is demand for insurance against war. It noted that insurance companies in Lebanon reached an agreement with the Bahrain-based Arab War Risks Insurance Syndicate, which is helping them to provide insurance coverage on transit exports through Syria. It added that premiums are set on a daily basis.

In parallel, ACAL indicated that the subdued domestic economic activity is affecting the local insurance market through a decrease in premium collection and through delays by policyholders in the settlement of monthly insurance payments. It added that rates on insurance policies are stable and it did not expect them to change in the near future. Further, ACAL called on the Ministry of Finance to modify the taxation on unit-linked insurance policies, which combine life insurance coverage with a savings account that can be invested in global stock or bond funds. It asked the ministry to reduce the tax rate on these policies or to collect the tax at the end of the policy's term rather than on an annual basis. It noted that such modifications would help insurers sell these products under better conditions.

Three insurers with local operations part of globally systematic important firms

The Financial Stability Board (FSB) included three insurance companies with operations in Lebanon on its list of the nine globally systematic important insurers (G-SIIs). The list included MetLife which operates in Lebanon through Metlife Alico; Axa which is present in the Lebanese market through its subsidiary AXA Middle East; and Allianz SE which operates locally through Allianz-SNA. The three firms' aggregate premiums generated in the Lebanese market accounted for 22.3% of total premiums in Lebanon in 2012.

The FSB noted that its list includes five insurance companies from Europe that are Allianz SE, Assicurazioni Generali SpA, Aviva, Axa and Prudential; three insurance firms from the United States that are American International Group, MetLife and Prudential Financial; and the Ping An Insurance Company of China. It pointed out that the list will be updated annually in November of each year starting in 2014. The FSB called for the immediate implementation of enhanced group-wide supervision for these insurers, while it said that G-SIIs have until July 2014 to establish crisis management groups and until the end of 2014 to meet the recovery and resolution planning requirements. It noted that implementation details for higher capital requirements will be developed by the end of 2015, and that the G-SIIs that will be identified in November 2017 will have to apply them starting from January 2019. Established in April 2009, the FSB coordinates at the international level the work of national financial authorities and international standard setting bodies, and develops and promotes the implementation of effective regulatory, supervisory and other financial sector policies.

NECB's net income at \$1.4m in 2012

Near East Commercial Bank sal posted audited consolidated net profits of \$1.4m in 2012, constituting an increase of 147.2% from \$0.56m in 2011. Total operating income grew by 48.7% year-on-year to \$12.1m, with net interest income increasing by 48.4% to \$5.8m and net fees & commissions receipts rising by 89.8% year-on-year to \$2.6m. Staff expenses rose by 47.4% to \$6.3m in 2012, while general & administrative expenses grew by 31.9% year-on-year to \$3.6m. In parallel, total assets reached \$379.3m at end-2012, constituting a 25.4% rise from a year earlier; while loans & advances to customers, excluding loans & advances to related parties, grew by 100% year-on-year to \$87.9m. Also, customer deposits, excluding deposits to related parties, totaled \$320.2m at end-2012, constituting an increase of 18.6% from \$270.1m a year earlier. The loans-to-deposits ratio rose to 26% at end-2012 from 16.1% a year earlier. The bank's total shareholders' equity grew by 6% year-on-year to \$24.8m at end-2012.

In February 2013, Saradar Group acquired a 60% stake in Swiss-owned NECB for about \$25m. NECB was originally established in 1978 as part of the SNA Insurance Group, but was acquired by the Swiss Group in 2010. NECB is a niche commercial bank that caters to private and business banking customers, and offers custody services to asset managers.

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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