

LEBANON THIS WEEK

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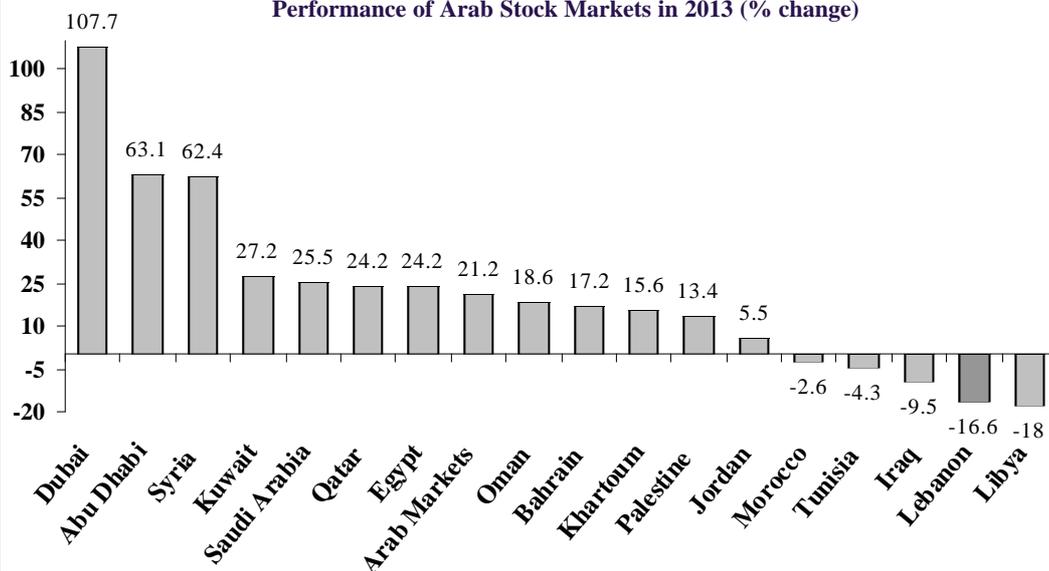
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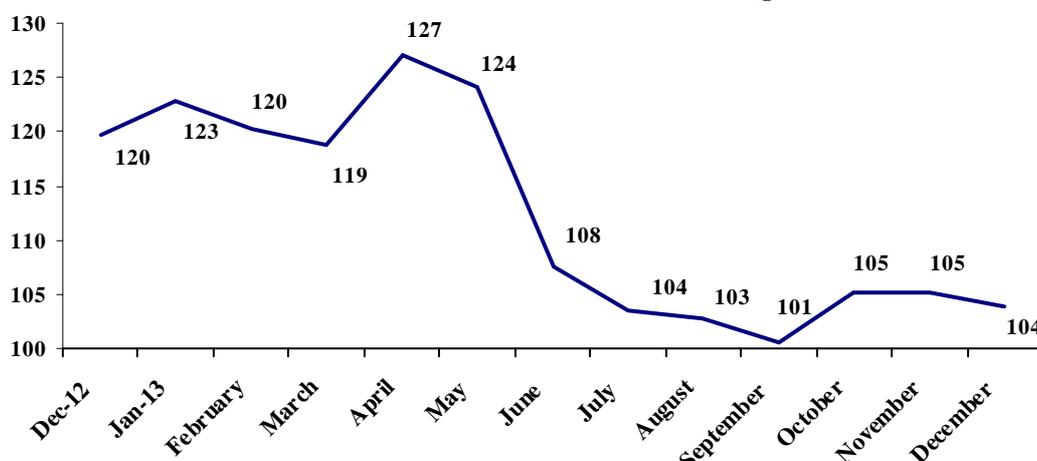
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Charts of the Week

Performance of Arab Stock Markets in 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

"Commercial banks in coordination with the Central Bank of Lebanon are playing a critical role in supporting the economy's financing needs against a backdrop of stable deposit growth."

Barclays Capital, on the ability of the Lebanese banking system to support economic activity

Number of the Week

54: Lebanon's rank out of 189 countries in terms of corporate taxes paid as a percentage of commercial profits, according to the 2014 PricewaterhouseCoopers/World Bank Ease of Paying Taxes Index

Economic Indicators

\$m (unless otherwise mentioned)	2012	Oct 12	Jul 13	Aug 13	Sep 13	Oct 13	% Change*
Exports	4,486	440	260	279	288	391	(11.14)
Imports	21,281	1,774	1,718	1,828	1,565	1,757	(0.96)
Trade Balance	(16,795)	(1,334)	(1,438)	(1,549)	(1,277)	(1,366)	2.40
Balance of Payments	(1,538)	(97)	(575)	(223)	504	(794)	718.56
Checks Cleared in LBP	14,976	1,353	1,513	1,354	1,473	1,516	12.05
Checks Cleared in FC	56,044	4,732	4,938	4,495	4,513	4,698	(0.72)
Total Checks Cleared	69,787	6,085	6,451	5,849	5,986	6,214	2.12
Budget Deficit/Surplus	(3,925)	(617.49)	(171.51)	(551.43)	(668.16)	(228.92)	(62.93)
Primary Balance	(109.87)	(215.20)	82.10	(382.69)	(262.33)	233.07	-
Airport Passengers	5,960,414	473,046	581,605	727,086	539,297	524,741	10.93

\$bn (unless otherwise mentioned)	Dec 2012	Oct 12	Jul 13	Aug 13	Sep 13	Oct 13	% Change*
BdL FX Reserves	29.97	29.46	31.27	31.00	32.03	31.86	8.13
<i>In months of Imports</i>	<i>16.02</i>	<i>16.61</i>	<i>18.20</i>	<i>16.96</i>	<i>20.47</i>	<i>18.13</i>	<i>9.18</i>
Public Debt	57.69	56.64	60.23	60.50	62.39	62.44	10.24
Net Public Debt	49.12	48.38	51.14	51.74	52.15	52.50	8.50
Bank Assets	151.88	149.38	157.81	158.56	159.26	160.63	7.53
Bank Deposits (Private Sector)	125.00	122.60	131.18	131.38	131.26	132.10	7.75
Bank Loans to Private Sector	43.45	42.76	45.17	45.57	45.88	46.50	8.75
Money Supply M2	43.62	42.31	44.18	44.42	44.49	44.72	5.69
Money Supply M3	104.71	102.43	107.33	108.28	108.49	109.02	6.44
LBP Lending Rate (%)	7.47	7.31	7.13	7.24	7.36	7.59	28b.p
LBP Deposit Rate (%)	5.46	5.43	5.43	5.47	5.37	5.44	1b.p
USD Lending Rate (%)	7.05	7.15	7.02	7.16	6.95	6.85	(30b.p)
USD Deposit Rate (%)	2.94	2.87	2.89	2.91	2.91	2.94	7b.p
%* Change in CPI**	3.66	7.75	3.15	3.81	4.81	5.04	(271b.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"	11.11	1.00	40,034	10.49%
Solidere "B"	11.11	0.00	2,226	6.82%
Byblos Common	1.55	0.00	241,526	5.26%
Byblos Pref. 08	101.00	0.00	0	1.91%
Byblos Pref. 09	101.50	0.00	0	1.92%
BLOM GDR	8.80	0.00	0	6.14%
BLOM Listed	8.25	0.00	42,100	16.75%
Audi GDR	6.60	1.69	18,800	6.36%
Audi Listed	6.30	0.96	440	20.80%
HOLCIM	15.66	9.21	105,457	2.89%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Apr. 2014	7.375	101.38	2.15
Jan. 2015	5.875	101.75	4.11
Apr. 2015	10.00	107.50	4.00
Jan. 2016	8.500	108.00	4.34
Mar. 2017	9.000	111.75	4.98
Nov. 2018	5.150	99.25	5.33
Apr. 2021	8.250	111.75	6.21
Nov. 2026	6.600	98.38	6.79

Source: Byblos Bank Capital Markets

	Dec 30 - Jan 3	Dec 23-27	% Change	Dec 2013	Dec 2012	% Change
Total Shares Traded	473,413	808,958	(41.48)	3,186,671	6,388,172	(50.12)
Total Value Traded	\$3,488,335	\$6,633,405	(47.41)	\$30,056,051	\$32,380,727	(7.18)
Market Capitalization	\$10.59bn	\$10.52bn	0.66	\$10.55bn	\$10.42bn	1.19

Source: Beirut Stock Exchange (BSE)



Lebanon ranks 123rd globally, 15th among Arab countries on Energy Architecture Performance Index

The World Economic Forum ranked Lebanon in 123rd place among 124 countries on its 2014 Energy Architecture Performance Index (EAPI), in 15th place among 16 Arab countries, and in last place among 35 upper-middle income countries (UMICs) included in the survey. Lebanon ranked in 103rd place among 105 countries, and in last place among 14 Arab countries and 26 UMICs in the 2013 survey.

The EAPI assesses the performance of energy systems across three primary objectives that are delivering economic growth, achieving economic growth in an environmentally-sustainable way, and providing universal energy access and security. The index is composed of 18 indicators aggregated into three sub-indices that are Economic Growth & Development, Environmental Sustainability, and Energy Access & Security. The scores and ranks of each country are based on how well its current energy architecture contributes to the three objectives. Scores are between zero and one, with zero reflecting the lowest score and one the highest.

Globally, Lebanon ranked ahead of only Yemen. Lebanon's score fell by 15.4% from 0.39 points in the 2013 survey to 0.32 points in the 2014 survey and posted the third steepest decline, better than only Oman (-18.8%) and Brunei Darussalam (-17.6%). Lebanon's score was lower than the global and UMICs' average score of 0.52 points each, and the Arab region's average score of 0.42 points. In comparison, GCC countries received an average score of 0.42 points, while non-GCC Arab countries had an average score of 0.43 points.

Globally, Lebanon tied with Armenia, Bolivia, Libya, Pakistan, Kuwait and Yemen, ranked ahead of Tajikistan, Saudi Arabia, and Benin, and came behind Bosnia & Herzegovina, Ghana and Algeria on the Economic Growth & Development Sub-Index. This category measures the extent to which a country's energy architecture supports its economic growth and development. Lebanon tied with Libya and ranked ahead of Malaysia, Belarus, Venezuela, Turkmenistan, Iran, Jamaica and Jordan among UMICs. It tied with Libya, Kuwait and Yemen and came behind Iraq, Tunisia, Morocco, the UAE, Qatar and Algeria among Arab countries.

Further, Lebanon tied with Iran, ranked ahead of Bosnia & Herzegovina, Mongolia and Trinidad & Tobago, and came behind Yemen, Syria and Turkmenistan on the Environmental Sustainability Sub-Index. This category reflects the capacity of a country's energy architecture to minimize negative environmental externalities. Lebanon tied with Iran and came ahead of only Bosnia & Herzegovina and Iraq among UMICs, while it came ahead of the UAE, Bahrain, Saudi Arabia, Iraq, Qatar, Kuwait and Oman in the Arab world.

Finally, Lebanon tied with Côte d'Ivoire and Namibia, came ahead of Cameroon, Yemen and Bangladesh, and ranked behind Senegal, Ghana and Botswana on the Energy Access & Security Sub-Index. This category measures whether all segments of the population have adequate access to energy. Lebanon came in last place among UMICs and ranked ahead of only Yemen in the region.

Components of the 2014 Energy Architecture Performance Index for Lebanon

	Global Rank	Arab Rank	UMIC Rank	Lebanon Score	Global Avg Score	Arab Avg Score	UMIC Avg Score
Economic Growth & Development	89	7	27	0.33	0.45	0.31	0.46
Environmental Sustainability	112	9	32	0.25	0.46	0.26	0.41
Energy Access & Security	107	15	34	0.41	0.65	0.69	0.69

Source: World Economic Forum, Byblos Research

Central Bank warns from using virtual currency

The Central Bank warned commercial banks, financial institutions, brokerages, currency dealers and the public from buying, possessing or dealing with virtual money, given the risks and losses that would result from using it. It noted that the Central Bank's Basic Decision 7548, issued on March 30, 2000, prohibits issuing and dealing with electronic money. It said that virtual money, specifically Bitcoin, poses serious risks. First, it pointed out that the platforms and networks that are used to issue and deal with virtual money are not subject to any legislation or regulation, and lack the legal protection framework that guarantees the recovery of real money used to purchase virtual money in the event of losses. Second, it noted that virtual money is not issued nor guaranteed by any central bank and, therefore, is at risk of large fluctuations in prices and could lose its entire value. Third, it indicated that incorrect or unauthorized operations are not reversible. Launched in 2009, Bitcoin is a peer-to-peer digital currency that is not supervised by any central monetary authority. Bitcoin is based on digital tokens that do not have an intrinsic value. Bitcoin's price has been extremely volatile last year, as it rose from less than \$15 in January 2013 to \$230 in April 2013. It then fell below \$70 in July before rising to more than \$1,000 in November 2013.



Occupancy rate at Beirut hotels at 51%, room yields down 22.4% in first 11 months of 2013

Ernst & Young's benchmark survey of the Middle East hotel sector indicated that the average occupancy rate at hotels in Beirut was 51% in the first 11 months of 2013, down from 54% in the first 11 months of 2012 and compared to a rate of 62% in 16 Arab markets. The occupancy rate at Beirut hotels was the third lowest in the region during the covered period, unchanged from the same period of 2012. Cairo and Manama posted the lowest and second-lowest occupancy rates of 24% and 42%, respectively, in the first 11 months of 2013. Occupancy rates at Beirut hotels were 49% in January, 60% in February, 58% in March, 65% in April, 59% in May, 55% in June, 40% in July, 47% in August, 34% in September, 48% in October and 47% in November 2013; compared to 60% in January, 64% in February, 74% in March, 66% in April, 67% in May, 59% in June, 54% in July, 35% in August, 46% in September, 39% in October and 38% in November 2012.

Also, the occupancy rate at hotels in Beirut fell by three percentage points year-on-year, constituting the seventh steepest decrease among 16 Arab markets, and relative to an average decrease of 2.8 percentage points for the region. Cairo posted the steepest decrease of 16 percentage points in the region, followed by Sharm El Shaikh with a 12 percentage points fall, Hurghada with a 10 percentage points decline, Amman with a nine percentage points drop, Makkah with a six percentage points decrease and Madina with a fall of four percentage points.

Ernst & Young indicated that the average rate per room at Beirut hotels was \$168 in the first 11 months of 2013, ranking the capital's hotels as the 11th most expensive in the region. The average rate per room at Beirut hotels decreased by 17% year-on-year and posted the steepest decline among all markets in the region. The average rate per room in Beirut came below the regional average of \$195.8, which increased by a marginal 0.8% from the same period of 2012.

Further, revenues per available room (RevPAR) were \$86 in Beirut in the first 11 months of 2013, down from \$111 in the same period of 2012, and came in 13th place in the region. Beirut's RevPAR fell by 22.4% year-on-year compared to a marginal decrease of 0.8% across the region, and posted the second steepest decrease among Arab markets. Cairo posted the steepest decrease of 39.4% in the first 11 months of 2013.

Beirut posted RevPARs of \$82 in January, \$97 in February, \$93 in March, \$106 in April, \$98 in May, \$101 in June, \$67 in July, \$86 in August, \$56 in September, \$85 in October and \$80 in November 2013; compared to \$139 in January, \$131 in February, \$149 in March, \$138 in April, \$134 in May, \$132 in June, \$112 in July, \$69 in August, \$85 in September, \$74 in October and \$67 in November 2012. Makkah posted the highest average room rate in the region at \$315, while Dubai posted the highest occupancy rate of 80% and the highest room yield of \$221 in the first 11 months of 2013.

World Bank establishes trust fund for Lebanon to mitigate impact of Syrian crisis

The World Bank announced that it has established a trust fund to help the Lebanese government deal with the fiscal impact of the Syrian crisis. It said that the Lebanon Syrian Conflict Trust Fund is a financing mechanism that ensures a timely and reliable flow of international grants to finance projects that would have immediate impacts on Lebanese communities affected by the influx of Syrian refugees.

The World Bank estimated the foregone public revenues as a result of the Syrian crisis at \$1.5bn during the 2012-14 period and for public spending to rise by an additional \$1.1bn between 2012 and 2014. As such, it expected the fiscal deficit to widen by an additional \$2.6bn during the 2012-14 period. In parallel, it estimated the aggregate cost of the Syrian crisis on healthcare, education and social safety nets at between \$308m and \$340m during the 2012-14 period, and that on infrastructure at between \$589m and \$684m between 2012 and 2014. It calculated the fiscal cost on the electricity sector at \$310m to \$440m, the burden on water & sanitation at between \$340m and \$375m, the cost on solid waste management & municipal services at between \$193m and \$206m, and that on transportation at between \$246m and \$525m. Further, it anticipated that Lebanon would need between \$1.4bn and \$1.6bn, equivalent to 3% of GDP to 3.4% of GDP, to restore the quality of public services to pre-conflict levels. It anticipated that a minimum of \$1.1bn will be required to restore Lebanon's infrastructure to its pre-crisis conditions, including a minimum of \$258m in current spending. The United Nations High Commissioner for Refugees indicated that the number of registered and awaiting to be registered Syrian refugees in Lebanon totaled 857,780 as of December 30, 2013.

Hotel Performance in First 11 Months of 2013			
	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Dubai	80	221	6.2
Saudi Arabia	79	219	9.4
Abu Dhabi	76	159	8.1
Al Ain	71	103	13.7
Makkah	69	218	(9.1)
Oman	67	141	4.3
Qatar	65	164	(4.0)
Hurghada	64	24	0.3
Sharm El Shaikh	64	34	(4.1)
Madina	64	153	(6.0)
Jordan	62	97	(9.6)
Riyadh	57	126	(3.0)
Kuwait	56	164	2.8
Lebanon	51	86	(22.4)
Manama	42	87	11.5
Cairo	24	21	(39.4)

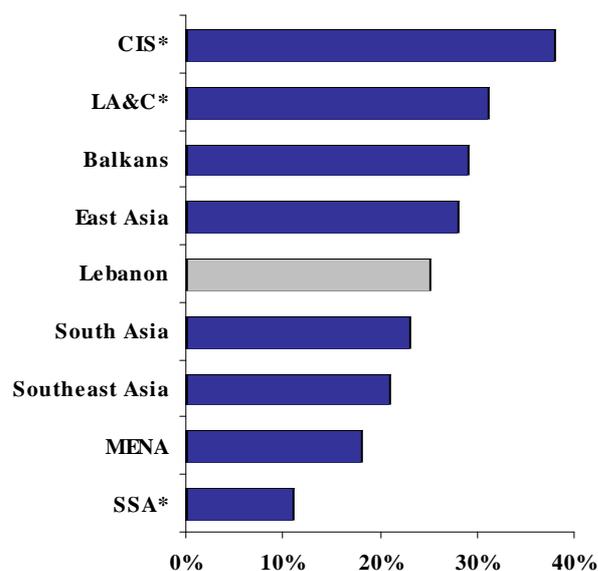
Source: Ernst & Young, Byblos Research

Payroll-to-population ratio at 25%, 66th highest globally

A survey conducted by opinion polling and consulting firm Gallup shows that the payroll-to-population (P2P) ratio in Lebanon was 25% in 2012, constituting an increase from 23% in 2011 and compared to a global ratio of 26% and a ratio of 18% in the Middle East and North Africa region. Gallup defines the payroll-to-population rate as the percentage of the adult population with full-time employment and those who work at least 30 hours per week. It included the entire adult population and not just those who are currently in the workforce, which makes the P2P measurement unaffected by changes in the workforce participation rate. Gallup indicated that adults who are self-employed, working part time, unemployed or out of the workforce are not counted as payroll-employed.

Lebanon's P2P rate was the 66th highest among 138 countries globally, similar to that in Italy, Libya, Mongolia and Peru. It was also the seventh highest percentage among 18 Arab countries included in the survey, lower than only Kuwait (51%), the UAE (48%), Qatar (31%), Bahrain and Saudi Arabia (28% each), and Jordan (26%). Globally, participants in Iceland had the highest level of full time employment in their economy at 60%, followed by Sweden with 52% and Kuwait with 51%. The P2P ratio declines when fewer people are working and rises when more people find full-time jobs. The survey's results are based on telephone and face-to-face interviews with approximately 1,000 adults per country that were conducted in 140 countries and territories in 2012.

Payroll-to-Population Ratio in 2012



*Commonwealth of Independent States, Latin America & the Caribbean, Sub-Saharan Africa

Source: Gallup, Byblos Research

Fitch Ratings revises outlook on sovereign ratings to 'negative'

Fitch Ratings revised the outlook on Lebanon's long-term foreign currency Issuer Default Rating (IDR) to 'negative' from 'stable'. It simultaneously affirmed the country's long-term foreign and local currency IDRs and short-term foreign currency IDR at 'B'. It maintained the Country Ceiling and the senior unsecured foreign and local currency bonds at 'B'. It attributed the outlook revision to heightened political risks that have "high" importance in assessing Lebanon's sovereign ratings and the outlook, as well as to deteriorating public debt dynamics and weak growth prospects that each has "medium" importance in assessing the ratings or the outlook.

First, it said that domestic political decision-making has been paralyzed since the Cabinet's resignation in March 2013 and in the absence of a political consensus to form a new one. It added that the presidential elections scheduled for 2014 add to the current political uncertainty. It noted that the domestic security situation deteriorated in recent months, while the rising number of Syrian refugees is weighing on the infrastructure and on public institutions. Second, it pointed out that the public debt level, which is already among the highest of all Fitch-rated sovereigns, is rising again following several years of decline. It forecast the debt level to rise from 134.2% of GDP at end-2012 to 138% of GDP at end-2013 and to exceed 140% of GDP by the end of 2015. It considered that the sustainability of the public debt remains reliant on the continuous rise in the banks' deposit base, given the latter's role in financing the government's needs. It noted that bank deposits have remained resilient so far, but added that the growth in the stock of deposits has slowed down since the start of the Syrian conflict. It cautioned that the deterioration in domestic security conditions could expose the banking sector to an increased risk of sudden deposit outflows. Third, the agency indicated that the loss in confidence due to spillovers from the Syrian conflict has taken a heavy toll on domestic economic activity. It pointed out that significant improvement in the domestic economic situation is contingent on the resolution of the Syrian conflict.

In parallel, Fitch indicated that the ratings reflect a supportive banking sector, high development indicators and a net external creditor position. It noted that the banking system is still willing to support the country's public finances, as it held 58.6% of the public debt as at October 2013 relative to 54% at the end of 2012. It added that the deposit dollarization rate, which is an indicator of depositor confidence in the country, slightly increased from 64.8% at end-2012 to 65.7% at end-October 2013. It pointed out that Lebanon is a net external creditor due to the steady accumulation of 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.

Number of tourists down 7.3% in first 11 months of 2013

The number of incoming tourists to Lebanon totaled 1,162,962 in the first 11 months of 2013, constituting a decrease of 7.3% from 1,255,091 tourists in the same period last year and a decline of 23.7% from 1,525,038 tourists during the first 11 months of 2011. European tourists accounted for 34.3% of total visitors in the first 11 months of the year and were followed by visitors from Arab countries with 31.6%, the Americas with 16.4%, Asia with 9.1%, Africa with 5%, and Oceania with 3.5%. Also, tourists from Iraq accounted for 11.1% of visitors in the first 11 months of 2013, followed by visitors from France with 9.3%, the United States with 8.1%, Jordan with 6.2%, Canada with 5.6% and Egypt with 4.9%. The number of visitors from Oceania declined by 14.7% year-on-year in the first 11 months of 2013, followed by visitors from Arab countries with a 12.9% decrease, Asia (-8.6%), the Americas (-6.3%), and Europe (-2.6%), while the number of visitors from Africa increased by 5.2%. Further, the number of tourists from the UAE declined by 64.5% annually, followed by Saudi Arabia with a 44.3% decrease, Kuwait (-27.1%), Turkey (-13.7%), Jordan (-11.6%), the United States (-7.6%), Canada (-6%), England (-3.7%), Italy (-3.1%), Egypt and France (-2.2% each), Germany (-2.1%), Sweden (-1.4%), and Brazil (-1%). In parallel, the number of tourists from Iraq rose by 12.1% annually, followed by those from Venezuela (1.7%). Incoming tourists totaled 1.37 million in 2012, down 17.5% year-on-year and constituted the fourth steepest decline in the world.

Balance of payments posts deficit of \$1.7bn in first 11 months of 2013

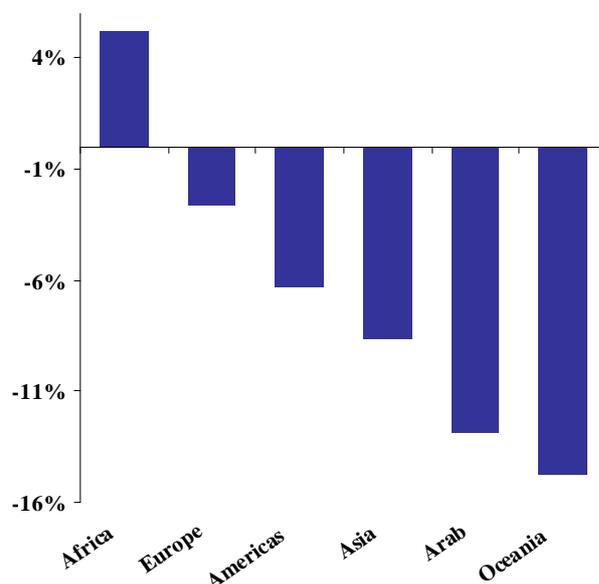
Central Bank figures show that Lebanon's balance of payments posted a deficit of \$1.66bn in the first 11 months of 2013 compared to a deficit of \$1.85bn in the same period last year. The balance of payments posted a deficit of \$192m in November 2013 compared to a deficit of \$793.7m in October 2013 and a surplus of \$179.6m in November 2012. The November 2013 deficit was caused by a deficit of \$165.4m in the net foreign assets of banks and financial institutions and a deficit of \$26.6m in those of the Central Bank. The cumulative deficit over the first 11 months of 2013 was caused by a deficit of \$3.64bn in the banks and financial institutions' net foreign assets, and was partly offset by a surplus of \$1.98bn in those of the Central Bank. The balance of payments posted deficits of \$1.54bn in 2012 and \$2bn in 2011, and surpluses of \$3.3bn in 2010 and \$7.9bn in 2009.

Consumer Price Index up 0.6% annually in November 2013

The Central Administration of Statistics' Consumer Price Index increased by 0.6% in November 2013 from November 2012. Prices of alcoholic beverages & tobacco increased by 12%, followed by the cost of education (+7%), restaurants & hotels (+5.8%), recreation & entertainment (+4%), miscellaneous goods & services (+2.5%), food and non-alcoholic beverages (+2%), and furnishings & household equipment and healthcare costs (+1.9% each). In parallel, prices of clothing & footwear fell by 7.8%, followed by transportation costs (-4.1%), and water, electricity, gas and other fuels (-1.2%). Further, housing and communication costs remained unchanged year-on-year.

The Consumer Price Index rose by 0.1% in November 2013 from October 2013. Prices of alcoholic beverages and tobacco increased by 4.5%, followed by healthcare costs (+1.4%); miscellaneous goods & services (+0.3%); clothing & footwear, restaurants & hotels, and water, electricity, gas & other fuels (+0.2% each); recreation & entertainment (+0.1%); while transportation costs fell by 0.9%. Further, the cost of education, food & non-alcoholic beverages, housing, communication, and furnishing & household equipment were unchanged month-on-month.

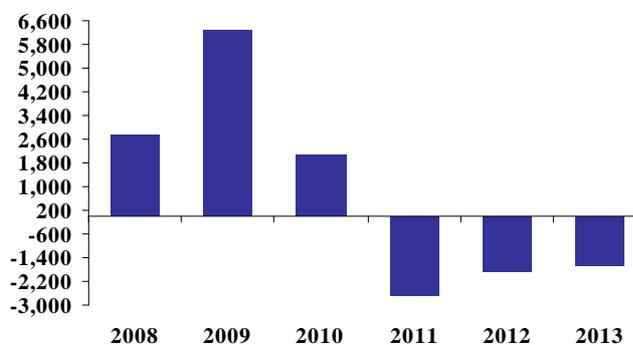
Number of Tourist Arrivals in First 11 Months of 2013*



* year-on-year percentage change

Source: Ministry of Tourism, Byblos Research

Balance of Payments* (US\$m)



*in the first 11 months of each year

Source: Central Bank of Lebanon

Fiscal deficit up 31.4% to \$3.5bn in first 10 months of 2013 when assuming \$1bn in telecom revenues

Figures released by the Finance Ministry show that the fiscal deficit reached \$3.5bn in the first 10 months of 2013 and widened by 31.4% from \$2.7bn in the same period of 2012. The deficit was equivalent to 30.8% of total budget and Treasury expenditures compared to 24.8% of overall spending in the first 10 months of 2012. Overall government expenditures reached \$11.4bn and increased by 6.2% year-on-year, while total revenues decreased by 2.2% to \$7.9bn. Budgetary expenditures rose by 7.1% to \$9bn and included \$1.8bn in transfers to Electricité du Liban and \$304.5m in outlays from previous years, while budget revenues decreased by 3.4% to \$7.5bn. Tax revenues declined by 1.1% year-on-year to \$5.9bn, of which 33.1%, or \$1.9bn, were in VAT receipts that were flat compared to the first 10 months of 2012. Tax revenues accounted for 78.5% of budgetary revenues and for 74% of total Treasury and budgetary receipts. The Finance Ministry is basing its monthly fiscal results on the Telecommunications Ministry's estimate of telecom receipts that reached \$1bn in the first 10 months of 2013, rather than on the Treasury actually receiving the funds from the Telecom Ministry. On a cash basis for the two compared periods, public revenues remained almost unchanged year-on-year; while the fiscal deficit rose by 17.1% to \$4.5bn, equivalent to 39.6% of expenditures.

The distribution of other tax revenues shows that receipts from taxes on income, profits & capital gains decreased by 0.6% to \$1.5bn in the first 10 months of 2013; customs revenues regressed by 4.5% year-on-year to \$1.2bn; revenues from property taxes fell by 0.9% to \$640.1m; revenues from taxes on goods & services rose by 2.6% to \$274.1m; and other tax receipts, mainly stamp fees, decreased by 1% to \$269.1m. Further, the distribution of income tax revenues shows that taxes on profits accounted for 40.7% of total income tax receipts, followed by the tax on wages & salaries with 24.5%, the tax on interest deposits with 23.7%, and the capital gains tax with 9.4%. Income from taxes on wages & salaries improved by 11.9% and that from the tax on interest rates rose by 2.4%; while receipts from capital gains tax regressed by 21% and those from the tax on profits fell by 3.3%.

Also, the distribution of property taxes shows that revenues from real estate registration fees decreased by 3.7% to \$444.5m, while receipts from built property taxes rose by 0.5% to \$100.9m and revenues from inheritance tax increased by 12.4% to \$94.6m. In parallel, non-tax budgetary revenues regressed by 11% to \$1.6bn, with revenues from government properties dropping by 13.8% to \$1.2bn and administrative fees & charges rising by 1.8% to \$312.1m. Based on the ministry's assumption, receipts from telecom services accounted for 83.8% of income from government properties and for 63.3% of non-tax revenues.

Debt-servicing cost increased by 3% year-on-year to \$3.2bn in the first 10 months of 2013. It accounted for 28% of total expenditures and for 35.7% of budgetary spending, and absorbed 40.5% of overall revenues and 42.9% of budgetary receipts. Interest payment on domestic debt rose by 0.5% year-on-year to \$1.9bn, while interest disbursement on foreign debt rose by 8.5% to \$1.2bn. Repayment of principal on foreign debt fell by 2.5% to \$161.1m. Excluding debt servicing, the primary budget balance posted a surplus of \$1.7bn, or 18.9% of budget expenditures compared to a surplus of \$2.5bn, or 29.4% of budget spending in the same period of the previous year. The overall primary balance posted a deficit of \$313.4m or 2.7% of spending, relative to a surplus of \$433.8m or 4% of total expenditures in the same period of 2012.

Fiscal Results in First 10 Months of 2013		
	Including Assumed Telecom Receipts	Excluding Assumed Telecom Receipts*
	US\$m	US\$m
Budget revenues	7,463	6,449
Tax revenues	5,861	5,861
Non-tax revenues	1,603	588.1
<i>of which Telecom revenues</i>	<i>1,015</i>	<i>-</i>
Budget expenditures	8,973	8,973
Budget Surplus/Deficit	(1,509)	(2,524)
<i>In % of budget expenditures</i>	<i>(16.8%)</i>	<i>(28.1%)</i>
Budget Primary Surplus	1,696	681.6
<i>In % of budget expenditures</i>	<i>18.9%</i>	<i>7.6%</i>
Treasury receipts	457.4	457.4
Treasury expenditures	2,467	2,467
Total Revenues	7,921	6,906
Total Expenditures	11,439	11,439
Total Deficit	(3,519)	(4,533)
<i>In % of total expenditures</i>	<i>(30.8%)</i>	<i>(39.6%)</i>
Total Primary Surplus/Deficit	(313.4)	(1,328)
<i>In % of total expenditures</i>	<i>(2.7%)</i>	<i>(11.6%)</i>

* Cash basis

Source: Ministry of Finance, Byblos Research

Trade deficit up 2% to \$15.6bn in first 11 months of 2013

Total imports reached \$19.4bn in the first 11 months of 2013, almost unchanged from the same period of 2012; while aggregate exports fell by 7% to \$3.8bn, leading to a trade deficit of \$15.6bn, up 2% year-on-year. The deficit in the covered period reflects mainly a decline of \$286.5m in exports as imports rose by \$23.3m. The coverage ratio reached 19.6% in the first 11 months of 2013 compared to 21.1% in the same period of 2012, while it reached 14.8% in November 2013 relative to 22.7% in November 2012. The value of imported oil & mineral fuels fell by 15.1% year-on-year to \$4.7bn, and that of non-hydrocarbon imports rose by 6.1% to \$14.8bn. Imported oil & mineral fuels accounted for 24% of total imports in the covered period compared to a share of 28.3% in the same period of 2012.

In volume terms, imports reached 14.5 million tons in the first 11 months of 2013, constituting an increase of 2.2% from the same period of 2012; while exports posted a 9.2% rise to 2.6 million tons, leading to a trade deficit of 11.9 million tons in the first 11 months of 2013, up by a marginal 0.8% year-on-year. Imports of oil & mineral fuels fell by 12.8% year-on-year to 6.5 million tons, while non-hydrocarbon imports increased by 18.7% annually to 8 million tons. Imported oil & mineral fuels accounted for 44.5% of total imports in the covered period compared to a share of 52.2% in the same period of 2012.

China was the main source of imports with \$2.1bn or 10.6% of the total in the first 11 months of 2013, followed by Italy with \$1.6bn (8.2%), the United States with \$1.4bn (7.3%), France with \$1.4bn (7.1%), Germany with \$1.1bn (5.9%), Turkey with \$1.1bn (5.5%) and Russia with \$825.2m (4.2%). Imports from Russia surged by 132.2% annually, those from China grew by 28.3%, those from Turkey increased by 20.8% and those from Germany rose by 4.7%; while imports from the United States dropped by 38.4%, those from France fell by 2.4% and imports from Italy declined by 1.7%

Syria was the main export destination with \$492m or 13% of the total, followed by South Africa with \$398m (10.4%), Iraq with \$371.7m (9.7%), Saudi Arabia with \$324.1m (8.5%), the UAE with \$309m (8.1%), Turkey with \$170.9m (4.5%) and Switzerland with \$164.7m (4.3%). Exports to Syria surged by 96.3% year-on-year in the first 11 months of 2013, those to Iraq grew by 96% and those to Turkey increased by 15%, while exports to Switzerland dropped by 64.7%, those to South Africa fell by 53.5%, those to the UAE decreased by 6%, and those to Saudi Arabia dropped by 1.1%. Lebanon's main export was jewelry at \$746m or 19.6% of the total, followed by base metals with \$497m (13%), machinery & mechanical appliances with \$469m (12.3%), chemical products with \$428m (11.2%), prepared foodstuff with \$408m (10.7%), and mineral products with \$350m (9.2%). Re-exports totaled \$219m in the first 11 months of 2013 compared to \$235m in the same period of 2012.

Customs receipts down 4% to \$1.37bn in first 11 months of 2013

Figures released by the Customs Directorate indicate that customs revenues reached \$1.37bn in the first 11 months of 2013, constituting a decrease of 4.1% from \$1.43bn 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 covered period, and was followed by the Hariri International Airport with 7.7%, the Port of Tripoli with 3.1%, the Masnaa crossing point with 0.5%, the Port of Saida with 0.3% and the Port of Tyre with 0.2%.

Customs receipts from the value-added tax totaled \$1.29bn in the first 11 months of 2013, down 4% from \$1.34bn in the same period of 2012. The Port of Beirut accounted for 81.9% of such receipts, and was followed by the Hariri International Airport with 11.3%, the Port of Tripoli with 4%, the Masnaa crossing point with 1.9%, the Port of Saida with 0.6%, the Port of Tyre and the crossing points of Abboudieh and Arida with 0.1% each. As such, overall customs receipts reached \$2.66bn in the first 11 months, with the Port of Beirut accounting for 85.2% of the total, followed by the Hariri International Airport with 9.4%, the Port of Tripoli with 3.5%, and the Masnaa crossing point with 1.2%. In addition, other entry points represented the balance, with the port of Saida accounting for 0.5% and the Port of Tyre for 0.1%.

Cabinet extends management contracts of mobile phone operators till end-March 2014

The Ministry of Telecommunications announced that the Cabinet extended till the end of March 2014 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. The decision constitutes the fifth contract extension since early 2013. 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 extended them till the end of June 2013. It then extended both firms' contracts till the end of September and then till the end of December 2013. Zain has been running MIC 2 since June 2004 and Orascom Telecom has been managing MIC 1 since January 2008. The two operators were receiving a total 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 repeatedly since then. Touch and Alfa's collective income reached \$1.6bn in 2011, the latest available figure, of which \$1.4bn were transferred as revenues to the Lebanese Treasury. Touch has a market share of about 53% while Alfa accounts for the remaining 47%.

Lebanon represented in list of top 50 Arab billionaires

Arabian Business magazine's annual survey of the Arab world's top 50 billionaires for 2013 included seven persons from Lebanon or of Lebanese origin on its list. The survey ranked Joseph Safra in eighth place with an estimated fortune of \$7.5bn in 2013. The magazine said that Mr. Safra, who is a newcomer to the list, runs the Brazilian banking and investment empire Safra Group. He is followed by Mr. Taha Mikati in 25th place, up six spots from 31st place in the previous year, with an estimated fortune of \$3.5bn relative to \$3.3bn in 2012. Caretaker Prime Minister Najib Mikati came in 27th place, up six spots from 33rd place in the 2012 survey with an estimated fortune of \$3.4bn compared to \$3bn in 2012. The Mikati brothers founded the telecommunications firm Investcom in 1982 and sold a part of their stake to South Africa's MTN Group in 2006 for \$5.5bn. Their Beirut-based holding company M1 Group has investments in real estate, jet leasing, retail and manufacturing.

Former Prime Minister Saad Hariri ranked in 29th place, down seven spots from 22nd place in the previous year, with an estimated fortune of \$3.3bn relative to \$3.7bn in 2012. The survey said that he holds large stakes in Saudi Oger, the family's \$9bn construction company, as well as in a number of large firms. He is followed by the Switzerland-based Hayek family in 32nd place, down two spots from 30th place in 2012, with an estimated fortune of \$3.2bn relative to \$3.4bn in 2012. The magazine said that the Hayek family runs the Swatch Group, the world's largest watch-making company. Mr. Bahaa Hariri came in 33rd place, down 10 spots from the previous survey, with an estimated fortune of \$3.1bn compared to \$3.65bn in 2012. The survey said that he derives the bulk of his fortune from investment management as well as from real estate development and logistics. Finally, Mr. Ayman Hariri ranked in 50th place, down from 48th place in 2012, with an estimated fortune of \$1.95bn relative to \$2.15bn in the previous year. The magazine indicated that he is handling the construction and facilities management for some of Saudi Arabia's most important projects through Saudi Oger. The aggregate fortunes of the seven Lebanese on the list reached \$26bn and accounted for 9.75% of the total net worth of the top 50. Saudi Prince Al-Waleed bin Talal topped the list with \$31.2bn, up from \$25.9bn in 2012. The survey estimated the aggregate wealth of the 50 wealthiest Arab families or individuals at \$266.2bn, up by 3.5% from the previous year.

Standard & Poor's revises stand-alone credit profiles of Bank Audi, BLOM Bank and BankMed

Standard & Poor's reduced by one notch the stand-alone credit profiles (SACPs) of Bank Audi and BLOM Bank from 'bb-' to 'b+' and that of BankMed from 'b+' to 'b'. It noted that the three banks' SACPs are supported by their good management and track record of resilience during periods of stress. Further, it affirmed the long-term counterparty credit ratings on Bank Audi, BankMed and BLOM Bank at 'B-' and maintained the 'negative' outlook on the ratings. It also affirmed the short-term counterparty credit ratings on Bank Audi and BankMed at 'B'. The agency attributed its decision to reduce the SACP of the three banks to its reduction of the industry risk score to '7' from '6' as part of its review of Lebanon's Banking Industry Country Risk Assessment (BICRA) following its downgrade of the sovereign ratings in November 2013. The BICRA framework evaluates and compares global banking systems, and covers a country's rated and unrated financial institutions. It assigns scores to banking systems on a scale from one to 10, with 'Group 1' including the least risky banking sectors and 'Group 10' the riskiest ones. Following the review, the agency maintained Lebanon's BICRA in 'Group 8' and its economic risk score at '9', but it reduced its industry risk score to '7' from '6'. S&P indicated that Lebanon's industry score reflects the change of its assessment of system-wide funding risks to "high risks" from "intermediate risks", and its assessment of "high risks" to the country's institutional framework and competitive dynamics. It said that the trend for the banking sector's industry risk is 'negative' as it considered that the current adverse geopolitical and economic conditions are increasing system-wide funding risks.

Outlook on banks revised to 'negative'

Fitch Ratings revised its outlook on the long-term Issuer Default Rating (IDR) of Byblos Bank and Bank Audi to 'negative' from 'stable'. It simultaneously affirmed both banks' long-term IDRs and Viability Ratings at 'B'. The agency attributed the outlook revision to its earlier change of the outlook on Lebanon's sovereign ratings to 'negative' from 'stable' due to heightened political risks, deteriorating public debt dynamics and weak growth prospects.

Fitch said that the ratings take into account the banks' strong domestic franchise, experienced management, relatively sound asset quality, and resilient deposit growth. It noted that the ratings also reflect the two banks' exposure to the Lebanese sovereign through their large holdings of government debt, as well as the difficult local and regional operating environments. It indicated that the banks' ratings are sensitive to economic and political developments in Lebanon and in the broader Arab region, and are correlated to changes in the sovereign rating. It said that it would downgrade the ratings if a prolonged weakening of the operating environment affects depositor confidence, in case asset quality significantly deteriorates, or if profitability declines substantially.

Further, the agency pointed out that Lebanese authorities would have a high willingness to support the two banks in case of need, given their systemic importance to the banking sector and to the economy as a whole. But it noted that the authorities' ability to provide such support cannot be relied on given the low level of the sovereign ratings. It added that the authorities would face difficulties in providing system-wide support for the banking sector, including to Byblos Bank and Bank Audi, if needed.

Stock market activity down 8% to \$375m in 2013

Figures released by the Beirut Stock Exchange indicate that total trading volume reached 51.4 million shares in 2013, constituting a decrease of 6.6% from 2012; while aggregate turnover amounted to \$375.2m, down 8.2% from a turnover of \$408.5m in 2012. Market capitalization increased by 1.2% from end-2012 to \$10.54bn, of which 79.2% was in banking stocks, followed by real estate stocks with 17.3%, industrial stocks with 3.2%, and trading stocks with 0.4%. The market liquidity ratio was 3.6% compared to 3.9% in 2012. Banking stocks accounted for 86% of aggregate trading volume in 2013, followed by real estate stocks with 11.9%, industrial stocks with 1.2% and trading stock with 0.9%. Also, banking stocks accounted for 79% of the aggregate value of shares traded, followed by real estate stocks with 19.6%, industrial stocks with 1.1% and trading stocks with 0.3%. The average daily traded volume for the year was 215,112 shares for an average daily value of \$1.57m. The figures reflect decreases of 4.6% in volume and 6.2% in value year-on-year.

In parallel, Rasamny Younis Motor Company's stock price rose by 32.6% year-on-year and posted the best performance among Lebanese shares listed on the Beirut bourse in 2013. It was followed by BLC Bank's stock with a 7.7% increase and Ciments Blancs Bearer shares with a rise of 7.4%. In parallel, Solidere A shares declined by 15% last year and posted the steepest drop among listed shares on the Beirut stock market, followed by Solidere B shares with a 14.8% decline and Banque Bemo's stock with a 2.6% decrease.

Al Rifai sells Swedish subsidiary

Al Rifai International Holding, a Lebanese-based manufacturer of nuts, kernels, light snacks and delicacies, announced that it sold its Swedish subsidiary and manufacturing facility, Alrifai Nutisal AB (Nutisal), to Swedish-based Cloetta Group for an upfront payment and a potential deferred compensation. The subsidiary was sold for an upfront purchase price of about \$17m and an earn-out provision based on Nutisal's financial results for 2016. The earn-out is set at a maximum of \$46.3m to be paid in three years. In parallel, the deal stipulates that Al Rifai would supply Cloetta with raw materials and know-how during the next three years in order to produce its own range of nut products. Al Rifai indicated that it sold the Swedish factory to focus on other international markets, while it affirmed that its newly-established factory in Nahr Ibrahim would accommodate the consumption needs of European and international markets. Established in Sweden in 2007, Alrifai Nutisal AB produces and sells dry roasted nuts under the brand Nutisal. Qatar First Bank currently holds a 35% stake in Al Rifai International Holding.

Insurance premiums up 11% to \$1bn in first nine months of 2013, claims and benefits rise by 12% to \$505m

Figures released by the Association of Insurance Companies in Lebanon (ACAL) indicate that insurance premiums in Lebanon totaled \$1.1bn in the first nine months of 2013, constituting an increase of 10.9% from \$966.8m in the same period of 2012. Aggregate premiums reached \$382.3m in the first quarter of 2013, constituting an increase of 19.6% from \$319.6m in the same quarter last year; while they stood at \$356.7m in the second quarter down 1.8% from the same period of 2012. Also, premiums reached \$333.2m in the third quarter of 2013, constituting a rise of 16.5% from \$286m in the same quarter of 2012.

Medical insurance premiums reached \$321.9m in the first nine months of the year and accounted for 30% of the sector's aggregate premiums. They were followed by life premiums with \$308.1m (28.7%), motor premiums with \$248.1m (23.1%), fire premiums with \$81.5m (7.6%), workmen's compensation with \$31m (2.9%), other categories with \$31.8m (3%), cargo premiums with \$26m (2.4%), civil liability premiums with \$15.5m (1.4%) and engineering premiums with \$8.2m (0.8%).

The life category was the main driver of premium growth in the first nine months of the year as it posted an annual increase of 17%. It was followed by the medical and fire categories with growth of 12% each, and workmen's compensation with a rise of 4%, while cargo and motor's insurance premiums grew by 1% each annually.

In parallel, ACAL indicated that total benefits and claims paid by insurance companies stood at \$505m in the first nine months of 2013, constituting a 12.3% increase from the same period of 2012. Aggregate benefits and claims paid by insurers reached \$166.3m in the first quarter of 2013, \$167m in the second quarter and \$171.7m in the third quarter of 2013. Medical claims reached \$218.2m in the first nine months of 2013 and accounted for 43.2% of total payments, followed by motor policy payments with \$138m (27.3%), life claims with \$80.3m (15.9%), fire claims with \$35.5m (7%), workmen's claims with \$16.9m (3.3%), other categories claims with \$6.9m (1.4%), cargo claims with \$4.3m (0.8%), civil liability claims with \$2.9m (0.6%) and engineering claims with \$1.9m (0.4%). Fire claims surged annually by 90% in the first nine months of 2013, workmen's claims improved by 19%, medical claims rose by 18%, motor claims grew by 5% year-on-year; while life claims and cargo claims decreased by 14% and 11%, respectively.

Further, unit-linked policies accounted for 57.9% of total life premiums and for 15.9% of the total number of life subject matters in the first nine months of 2013; while life protection plans represented 42.1% of total life premiums and 84.1% of the total number of life subject matters in the covered period. ACAL noted that medical insurance premiums covering Lebanese citizens rose by 12% to \$313.8m, while medical insurance premiums covering expatriates grew by 7% year-on-year to \$8.2m in the first nine months of 2013. Finally, it indicated that non-compulsory motor insurance premiums rose by 3% year-on-year to \$210.9m, while compulsory motor insurance premiums fell by 9% annually to \$37.2m in the first nine months of 2013.

BLC Bank's net profits up 1% to \$24m in first nine months of 2013

BLC Bank sal, one of Lebanon's listed banks, announced unaudited consolidated net profits of \$23.9m in the first nine months of 2013, constituting an increase of 1.2% from net earnings of \$23.7m in the same period of 2012. Net interest income rose by 9.6% to \$85.7m, while net fees & commission receipts increased by 1.3% to \$14m in the first nine months of 2013. Net financial revenues after impairment charge for credit losses reached \$89.8m in the first nine months of 2013, constituting a rise of 2.9% from \$89.8m in the same period last year. Administrative expenses decreased by 2.3% to \$19.9m, while staff expenses regressed by 1.4% year-on-year to \$37.6m in the first nine months of 2013. The cost-to-income ratio decreased to 61% in the first nine months relative to 66% in the same period last year. Also, the bank's return on average assets reached an annualized rate of 0.64% in September 2013, relative to 1.3% a year earlier; while its return on average equity reached 8.22% on an annualized basis relative to 17.43% in September 2012. In parallel, total assets reached \$5.1bn at end-September 2013, nearly unchanged from end-2012; while loans & advances to customers increased by 4% to \$1.85bn at end-September 2013. Further, customer deposits totaled \$4.24bn at end-September 2013, constituting a decrease of 1.2% from \$4.3bn at end-2012. The loans-to-deposits ratio increased to 43.6% at end-September 2013 from 41.4% at end-2012. In parallel, the bank's total shareholders' equity rose by 12.2% from end-2012 to \$419.4m at end-September 2013.

Group Matelec signs \$108m contract to install electricity substations

The Ministry of Energy & Water signed a \$108m contract with the Lebanese Group Matelec for the purchase and installation of three 220 kilovolt compressed gas-insulated substations for Electricité du Liban in each of the southern suburbs of Beirut, the El-Bahsas area near Tripoli, and in Achrafieh. The ministry indicated that the agreement is part of a plan that aims to upgrade the transmission network across Lebanon and raise the country's electricity production by 700 Megawatts. It expected the project to be completed in the third quarter of 2015. Established in 1974, the Matelec Group specializes in power generation, transmission and distribution and is part of Doumet Electrical Holding, and employs more than 1,000 persons in the Middle East, Africa and Europe.

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 2012	Mar 2013	Apr 2013	Change*	Risk Level
Political Risk Rating	55.5	53.0	53.0	▼	High
Financial Risk Rating	35.0	35.0	35.0	↔	Low
Economic Risk Rating	34.0	34.0	34.0	↔	Moderate
Composite Risk Rating	62.2	61.0	61.0	▼	Moderate

Regional Average	Apr 2012	Mar 2013	Apr 2013	Change*	Risk Level
Political Risk Rating	60.3	58.6	58.6	▼	High
Financial Risk Rating	42.1	41.5	41.5	▼	Very Low
Economic Risk Rating	37.2	36.4	36.3	▼	Low
Composite Risk Rating	69.8	68.2	68.2	▼	Moderate

*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		Negative
Fitch Ratings	B	B	Negative	B		Negative
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		CCC	

Source: Rating agencies

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