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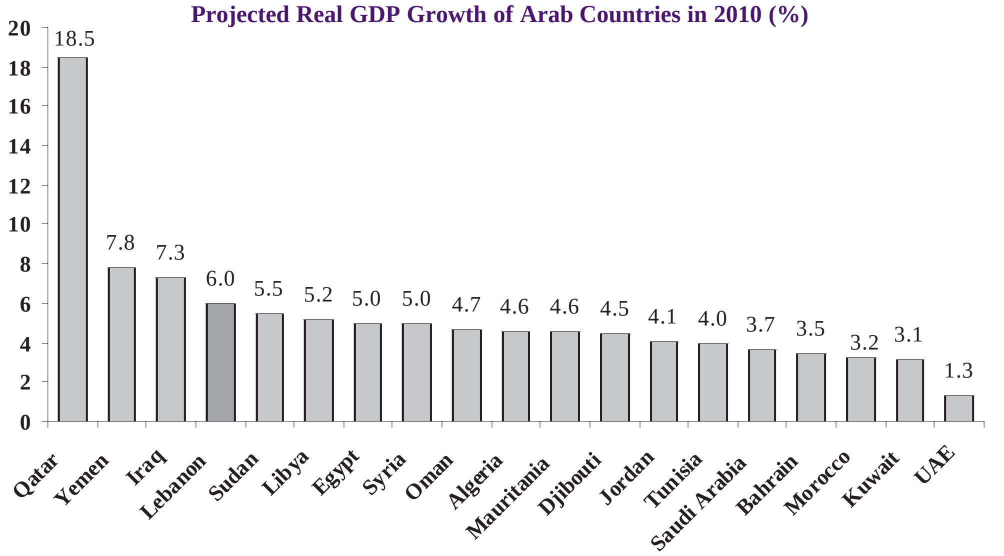
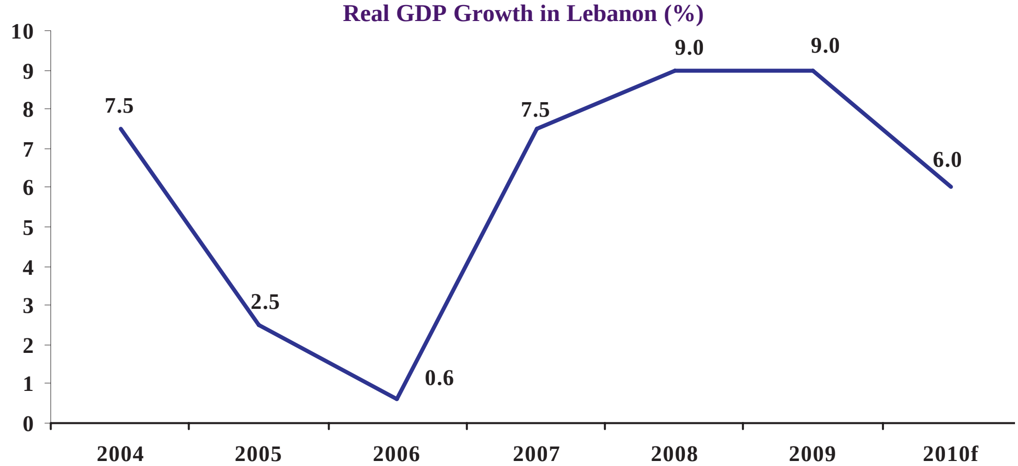
LEBANON THIS WEEK

In This Issue

Charts of the Week





Source: International Monetary Fund

Quote to Note

"Domestic politics have historically had a much greater impact than global economic conditions on Lebanon's economy and the performance of the country's banking sector."

Moody's Investors Service, on the relevance of political risks to economic prospects in Lebanon

Number of the Week

$26.9bn: The Central Bank of Lebanon's gross foreign currency reserves at the end of February 2010, as estimated by the Association of Banks in Lebanon

Economic Indicators

$m *(unless otherwise mentioned)*	**2008**	**Feb 09**	**2009**	**Dec 09**	**Jan 10**	**Feb 10**	**% Change***
Exports	3,478	376	3,486	364	313	342	(9.04)
Imports	16,133	1,035	16,241	1,380	1,245	1,026	(0.87)
Trade Balance	(12,655)	(659)	(12,755)	(1,016)	(932)	(864)	31.11
Balance of Payments	3,462	300	7,899	1,610	(44)	759	153
Checks Cleared in LBP	9,350	815	11,122	1,061	1,088	966	18.53
Checks Cleared in FC	43,174	2,872	45,270	4,756	4,444	3,929	36.80
Total Checks Cleared	52,524	3,687	56,392	5,817	5,532	4,895	32.76
Budget Deficit/Surplus	(2,921)	(325)	(2,960)	(368)	(18)	(176)	45.85
Primary Balance	597	(826)	1,078	72	202	123	(114.89)
Airport Passengers	4,085,334	276,825	4,986,544	738,211	369,694	339,237	22.55

$bn *(unless otherwise mentioned)*	**Dec 2008**	**Feb 09**	**Nov 09**	**Dec 09**	**Jan 10**	**Feb 10**	**% Change***
BdL FX Reserves	17.06	18.24	24.81	25.66	26.78	26.88	47.37
In months of Imports	*15.03*	*17.62*	*15.69*	*18.59*	*21.50*	*26.20*	*48.69*
Public Debt	47.02	47.21	50.46	51.09	51.65	51.98	10.10
Net Public Debt	41.49	41.89	44.01	44.11	43.92	44.20	5.51
Bank Assets	94.25	95.12	113.57	115.25	116.52	118.27	24.34
Bank Deposits (Private Sector)	77.78	78.88	94.06	95.77	95.99	97.07	23.06
Bank Loans to Private Sector	25.04	24.94	28.81	28.37	29.36	29.87	19.77
Money Supply M2	24.76	26.23	33.19	34.16	34.77	35.42	35.04
Money Supply M3	68.66	69.41	81.04	82.08	82.43	83.75	20.66
LBP Lending Rate (%)	9.95	10.03	9.13	9.04	8.91	8.83	(120b.p.)
LBP Deposit Rate (%)	7.22	7.13	6.81	6.75	6.61	6.42	(71b.p.)
USD Lending Rate (%)	7.47	7.28	7.25	7.28	7.26	7.26	(2b.p.)
USD Deposit Rate (%)	3.33	3.25	3.07	3.05	3.04	2.99	(26b.p.)
%* Change in CPI**	6.36	2.80	4.47	4.20	4.96	9.04	624b.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"	23.03	(1.24)	213,761	17.49%
Solidere "B"	23.00	(0.04)	60,952	11.35%
Byblos Common	2.16	(0.92)	14,661,701	3.56%
Byblos Priority	2.16	(2.70)	16,500	3.38%
Byblos Pref. 08	105.00	0.48	1,548	1.59%
BLOM GDR	95.30	(2.26)	42,677	5.35%
BLOM Listed	94.00	(3.59)	18,764	15.35%
Audi GDR	89.00	(1.11)	4,659	6.86%
Audi Listed	86.00	(3.32)	1,930	22.48%
HOLCIM	12.44	2.81	19,189	1.84%

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

Sovereign Eurobonds	**Coupon %**	**Mid Price $**	**Mid Yield %**
Nov. 2010	6.875	102.50	2.32
May 2011	7.875	105.25	2.83
Mar. 2012	7.500	107.50	3.38
Sep. 2012	7.750	109.50	3.52
June 2013	8.625	113.25	4.09
Apr. 2015	10.000	120.50	5.28
Jan. 2016	8.500	115.75	5.28
May 2016	11.625	130.25	5.64
Mar. 2017	9.000	118.88	5.66
Apr. 2021	8.250	113.63	6.49

Source: Byblos Capital Markets

	Apr 19-32, 10	**Apr 12-16, 10**	**% Change**	**March 2010**	**March 2009**	**% Change**
Total Shares Traded	535,801	375,443	42.71	8,084,842	2,056,873	293.06
Total Value Traded	$1,775,215	$1,478,099	20.10	$59,053,649	$32,104,177	83.94
Market Capitalization	$13.17bn	$13.43bn	(1.96)	$13.40bn	$8.48bn	58.08

Source: Beirut Stock Exchange (BSE)

Lebanon in the News

IMF projects real GDP at 6% in 2010, economy posts fourth fastest growth globally in 2009

The International Monetary Fund projected economic growth in Lebanon at about 6% in 2010 compared to growth of 4.5% in the Middle East & North Africa and 5% for the Mashreq economies, as well as compared to growth of 6.3% in emerging and developing economies and 4.2% for the world economy. It also projected real GDP growth of 4.5% in 2011 compared to 4.8% in the MENA region and 5.4% for the Mashreq countries. Lebanon's projected growth rate in 2010 would make it the fourth fastest growing economy in the MENA region behind Qatar at 18.5%, Yemen at 7.8% and Iraq at 7.3%. Also, it would rank in 22nd place globally and would tie with Indonesia, Vietnam and Malawi. The Fund forecast inflation in Lebanon to average 5% this year relative to 6.5% for the region and 10% for the Mashreq region. Further, it projected Lebanon's current account deficit at 12.8% of GDP in 2010 compared to a surplus of 5.2% of GDP for the region and a deficit of 4.4% of GDP for the Mashreq countries.

In parallel, the IMF estimated Lebanon's economic growth at 9% in 2009 compared to growth of 2.4% in the MENA region and 4.8% for the Mashreq economies, as well as compared to growth of 2.4% in emerging and developing economies and a contraction of -0.6% for the world economy. Lebanon tied with Qatar as the fastest growing economy in the MENA region, and came fourth globally behind Afghanistan that posted growth of 22.5%, Ethiopia with 9.9% and Azerbaijan with 9.3%. The IMF previously noted, however, that Lebanon's statistical system remains weak and in need of significant improvement, which mitigates the growth forecasts. It said real sector statistics should be compiled on a timely basis, while the development of comprehensive statistics for the real estate sector and the labor market would constitute key improvements. It also called for increased resources for the compilation of the balance of payments figures.

Structural imbalances and political uncertainties to hinder reforms

Standard Chartered Bank forecast real GDP growth in Lebanon at 5% in 2010, down from 7% last year, and for inflation to pick up to 3.5% this year from 1.7% in 2009, adding that the favorable trends of 2009 are likely to continue this year. It warned, however, about the structural limitations of the Lebanese economy, as government debt of 150% of GDP is still among the highest in the world despite an encouraging decrease from almost 170% in 2007. It noted that the banking system represents a major economic force, but has 56% of its assets exposed to the sovereign and is highly dependent on non-resident deposits. It added that the Lebanese pound's peg to the US dollar is a pillar of financial stability, yet the massive currency mismatch in both the private and public sectors poses a risk should the system be affected. Further, it noted that the currency peg implies that Lebanese interest rates should closely track US rates. But the uncertain political environment results in a premium on deposit rates, so Lebanese rates have not followed the decline in US rates. It added that the spread between Lebanese and US interest rates has encouraged de-dollarization and supports a continued inflow of deposits, but it has rendered private credit expensive.

It expected the government to continue to post large fiscal deficits, as plans to privatize and modernize Electricité du Liban (EdL) are strongly opposed by the opposition coalition that has substantial vested interests in maintaining the status quo. It noted that transfers to EdL represent the third-largest expenditure item at 13% of all state spending and 4.6% of GDP, constituting a huge burden on public finances. It also expected transfers to Electricité du Liban to gradually increase throughout 2010 as global oil prices recover from last year's lows, given the time lag between the price rise and its reflection in public finances. It anticipated the deficit to be equivalent to be around 10% of GDP in 2010, and to possibly widen further due to increased government spending on projects to satisfy various political factions.

Standard Chartered stated that economics and politics are closely linked in Lebanon, as political stability leads to an improvement in sentiment that quickly spreads to all GDP contributors such as construction, tourism, domestic consumption, and corporate investment. It noted, however, that the country's fragile political equilibrium means that reforms are inevitably blocked by conflict between various vested interests. It noted that this is currently the case in the stalled reforms of the electricity and telecom sectors. As such, it considered that substantial progress on much-needed structural economic reforms is highly unlikely.

Finance Ministry outlines tax reforms, starts paying dues to contractors

Finance Minister Raya El Hassan indicated that the ministry plans to improve the tax system in Lebanon through several measures. She said the ministry intends to modernize the income tax code for companies and individuals, including the capital gains tax, by adopting the global income tax system, implementing unified tax brackets, unifying tax impositions and introducing tax exemptions in place of family deductions. The ministry also pledged to work with Parliament to ratify a 2006 draft law that would solve the problem of illegal seaside properties. Also, it plans to improve the mechanism of real estate valuation in order to determine taxes and fees, including municipal fees, which would reduce arbitrary valuations and increase revenues. The ministry also pledged to work on improving tax collection and fighting tax evasion through practical and feasible measures, as well as to restructure and consolidate the tax administration in order to upgrade its services and simplify its procedures. In parallel, the ministry announced that it has issued $16m in Treasury bills that mature in 2015 and carry a 6% interest rate as a first payment to contractors. The issuance is part of $200m in Treasury bills to be issued to cover government dues to contractors from the price fluctuations of construction materials. It added that the issuance took place in conformity to law 69 of April 2009 that authorizes the government to issue Treasury bills in Lebanese pounds or in US dollars equivalent to $200m in order to pay government dues to contractors who have implemented or are currently implementing public contracts and who submitted bids between 2001 and 2007.

Lebanon in the News

Government releases national accounts for 2008, official real GDP growth at 9.3%

The government released national economic data covering 2008 that provide official figures of gross domestic product (GDP), its structure and components, as well as figures on gross national income (GNI) and gross national disposable income (GNDI). The economic data covering the year 1997 served as the base year for computing the national accounts from 1998 onwards. The findings show that GDP was LP45,124bn ($29.9bn) in 2008, reflecting a real GDP growth of 9.3% in 2008. National expenditures stood at LP58,298bn ($38.7bn) in 2008 relative to LP47,283bn ($31.4bn) in 2007, resulting in a negative trade balance of LP13,174bn ($8.7bn) in 2008 compared to LP9,509bn ($6.3bn) in 2007. Also, the results show that private consumption grew by 9.5% rise in 2008 compared to 6.6% in 2007, while public consumption grew by 8.6% in 2008 relative to 4.5% in 2007. Further, private investments jumped by 20.8% in 2008 compared to 22.1% in 2007, while public investments declined by 5.9% in 2008 relative to growth of 7% in 2007.

The study infers that GDP alone cannot measure the level of economic activity and estimated GNDI at LP56,914bn ($37.8bn) for 2008 by adding foreign transfers and income earned abroad to GNI figures. Net current transfers totaled $7.55bn in 2008 compared to $4.24bn and in 2007 . In parallel, the trade deficit has always been covered by foreign revenues and transfers, which contributed to the financing of the national economy by contributing to the formation of household savings. The figures were compiled by the National Accounts Unit at the Presidency of the Council of Ministers with the technical assistance of French research organization L'Institut National de la Statistique et des Etudes Economiques (INSEE). The government has now compiled national accounts for the 1997-2008 period.

GDP Distribution by Sector

	2007		2008	
Sector	**Value (LP bn)**	**% of Total**	**Value (LP bn)**	**% of Total**
Commercial Services	13,208	35	15,102	33
Trade	8,532	23	12,000	27
Construction	4,286	11	5,847	13
Industry	3,325	9	3,952	9
Government	3,662	10	4,206	9
Transportation & Communications	3,089	8	3,249	7
Agriculture & Livestock	2,279	6	2,543	6
Energy & Water	(608)	(2)	(1776)	(4)
Total GDP	**37,774**	**100**	**37,754**	**100**

Source: National Accounts, Byblos Research

Consumer Price Index up 4.5% annually in March 2010

The Central Administration of Statistics' Consumer Price Index indicates that inflation increased by 4.5% in March 2010 from March 2009. Prices of transportation increased by 16.3%, followed by prices of water, electricity, gas & other fuels (+14.9%), education(+9.6%), alcoholic beverages & tobacco (+7.8%), housing (+6.1%), restaurants & hotels (+3.8%), recreation & entertainment (+3.3%), health care (+2.4%), miscellaneous goods & services (+1.2%), furniture & household equipment (+1.0%), and food & non-alcoholic beverages (+0.3%). Prices of communication regressed by 13.1%, followed by clothing & footwear (-6.8%). Imported inflation accounts for about 70% of inflation in the country. Lebanon has an import-based economy and imports most of its energy needs, as the value of imports historically has been equivalent to about five times that of exports.

The Consumer Price Index increased by 0.9% in March 2010 from February 2010. Prices of clothing & footwear increased by 6.4%, followed by water, electricity, gas and other fuels (4.3%), transportation (+1.0%), furniture & household equipment (+0.3%), recreation & entertainment (+0.2%), miscellaneous goods & services (+0.2%), food & non-alcoholic beverages (+0.1%), restaurants & hotels (+0.1%). Prices of health care regressed by 0.3% month-on-month. Housing prices remained unchanged month-to-month as well as prices of alcoholic beverages & tobacco, communication, and education.

Number of tourists up 32.1% in first quarter of 2010

The number of incoming tourists to Lebanon totaled 393,212 in the first quarter of 2010, constituting an increase of 32.1% from 297,679 tourists in the same period of 2009. Arab tourists accounted for 43.2% of total visitors and were followed by visitors from Europe with 22.5%, Asia with 21.6%, America with 8.8%, Oceania with 2.2% and Africa with 1.6%. The number of tourists reached 158,411 in March 2010, constituting an increase of 28.3% from 123,469 in March 2009. Arabs accounted for 35.6% of total visitors in March 2010, followed by Europeans with 22.1%, Asians with 29.6%, Americans with 8.7%. Incoming tourists totaled 1.9 million in 2009, up 39% year-on-year and constituting the highest growth rate in the world in tourist arrivals last year.

Most tourists spending in Lebanon originated from Saudi Arabia and UAE in first quarter of 2010

Figures issued by Global Refund, the VAT refund operator for international shoppers, show that visitors from Saudi Arabia spent the most in Lebanon in the first quarter of 2010, accounting for 21% of total tourist spending, followed by visitors from the UAE (12%), Egypt (9%), Kuwait (9%) and Syria (8%). Spending by visitors from Syria rose by 57% in the first three months of the year, followed by visitors from Egypt with a 38% increase, from France (+36%), Saudi Arabia (+31%), Jordan (+25%), Qatar (+21%), and the UAE (+12). Beirut attracted 81% of total spending over the covered period, followed by the Metn area with 15%, the Keserwan region with 2% and Baabda with 1%. Fashion & clothing accounted for 67% of total spending, followed by watches with 12%, home & garden products and perfumes & cosmetics with 5% each, department stores with 4%, souvenirs & gifts with 3%, and consumer electronics & household appliances and electronics & IT with 2% each. Both spending on souvenirs & gifts and on electronics & IT increased by 32% in the first quarter, followed by spending on fashion & clothing with a 25% rise, consumer electronics & household appliances (+24%), watches (+21%), perfume & cosmetics (+14%), and home & garden products (+7%).

Foreign investments of financial sector at $4.8bn at end-June 2009, commercial banks account for 74% of debt securities, financial institutions account for 50% of equity investments

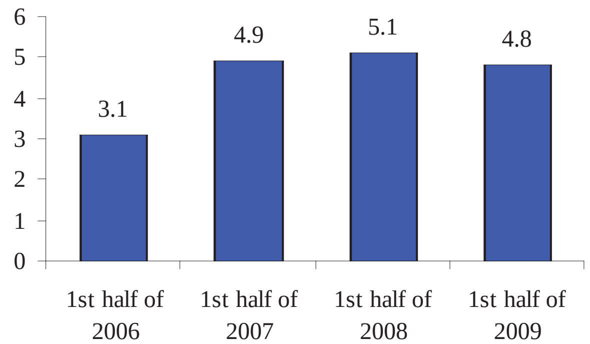
Figures issued by the Central Bank show that the net investment portfolio of Lebanese banks and financial institutions in foreign debt and equity securities totaled $4.79bn at the end of June 2009, constituting an increase of 8% from $4.44bn at end-2008 and a decrease of 5.8% from $5.09bn at the end of June 2008. Such investments totaled $3.95bn at end-2007 and $2.39bn at end-2006. Investments in equities totaled $2.51bn at end-June 2009, accounting for 52.3% of the total, followed by investments in long-term debt securities with $2.21bn, or 46% of the total, while short-term debt securities accounted for $77.5m or 1.6% 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 $1.61bn, accounting for 73.1% of total investments in such securities at the end of June 2009. The figure includes banks' investment for their own account, for their clients and on a custodial basis. They were followed by medium and long-term banks with $376.6m (17%), financial institutions with $131.5m (5.9%), insurance firms with $84.6m (3.8%) and financial intermediaries with $1.3m (0.1%). Commercial banks also represented 94.2% of investments in short-term debt securities, followed distantly by financial institutions with 3.2%.

In parallel, financial institutions' net assets in equity securities totaled $1.25bn, accounting for 50% of total investments in such securities. They were followed by commercial banks with $966.4m (38.5%), medium and long-term banks with $254.8m (10.1%), insurance firms with $28.3m (1.1%), and financial intermediaries with $4.4m (0.2%).

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 51.7% of the total at end-June 2009. It was followed by Egypt with $316.5m (12.6%), France with $240.5m (9.6%), Jordan with $105.3m (4.2%) and Saudi Arabia with $103.3m (4.1%), while other countries accounted for the remaining 17.7%. In parallel, the United States accounted $539.2m, or 24.4% of investments in long-term debt securities, followed by the United Kingdom with $510.8m (23.1%), the UAE with $181.5m (8.2%), Switzerland with $161.3m (7.3%) and Luxembourg with $113.9m (5.2%), while other countries accounted for the remaining 31.8%. Further, the United Kingdom accounted for 60.5% of investments in short-term debt securities, followed by the United States with 22.4% and the UAE with 4.6%.

Foreign Investments of Financial Sector (US$bn)



Source: Central Bank, Byblos Research

Corporate Highlights

Capital Intelligence affirms Byblos Bank's ratings, cites quality management, low NPLs and provision coverage among strengths

Capital Intelligence affirmed Byblos Bank's Long- and Short-Term Foreign Currency Ratings at 'B' and 'B' respectively. It also affirmed Byblos Bank's Financial Strength Rating at 'BBB-' as well as the Support level at '3', adding that all the ratings carry a 'stable' outlook. It noted that the ratings are constrained by Lebanon's sovereign ratings. It said Byblos Bank is a well managed institution that is implementing a clear business strategy and sound risk management practices. It added that the Bank has successfully expanded its balance sheet and operations in Lebanon and abroad through successive capital injections over the years, and that the international expansion is diversifying its assets and revenues.

The agency stated that the quality of the Bank's already sound credit portfolio improved in 2009 due to strong economic growth in Lebanon, while the Bank boasts the lowest non-performing loan (NPL) ratio and best provision coverage among its peers. It noted that the rights issue underway will strengthen the Bank's capital adequacy ratio and provide additional resources to sustain business expansion. It said that the International Finance Corporation, which recently acquired an 8% equity stake in the Bank's capital, is supporting the Bank's capacity and expertise in lending to small- and medium-size enterprises (SMEs), given that SMEs contribute significantly to Lebanon's economy. It added that the Bank's return on average assets (ROAA) is stable, and that it has a comfortable liquidity position and a sound funding profile that reflect a stable base of customer deposits. It noted that, similar to peer banks, a considerable proportion of the Bank's liquid assets consist of Lebanese government paper and Certificates of Deposit issued by the Central Bank. It expressed concern about this asset concentration given the size of the state's debt burden and the lack of real progress on economic reforms. But it added that Lebanon's near-term refinancing risks have receded due to the significant increase in foreign currency reserves.

Byblos Bank to distribute $85.4m in dividends for 2009, payout ratio at 69%

The Extraordinary General Assembly of Byblos Bank sal held on April 23, 2010 approved the Bank's proposed distribution of $85.4m in dividends for 2009, representing a payout ratio of 69% on an unconsolidated basis. The Bank will pay LBP 200 per share for holders of common shares; LBP 200 per share and 4% of the share's nominal value (LBP 48.4 per share) for holders of Priority Shares; $8 per share for holders of Series 2008 Preferred Shares, and $3.35 per share for shareholders carrying Series 2009 Preferred Shares. The dividends will be paid starting April 29, 2010 net of a 5% distribution tax. Also, the Bank will pay LBP 200 per share in US dollars starting May 5, 2010 for GDR holders through the depositary, Bank of New York Mellon, after deducting the 5% tax. Byblos Bank sal declared consolidated net profits of $146.1m in 2009, constituting an increase of 20% from $122m in 2008. Total assets reached $13.58bn at the end of 2009, constituting a rise of 21% from the end of 2008, while net loans & advances to customers increased by 14.6% to $3.19bn at end- 2009. Customers' deposits totaled $10.2bn, up 23% from end-2008.

PROPARCO buys 13.6 million Byblos shares

Byblos Bank sal announced that its principal shareholder, the Luxembourg-based Byblos Invest (Holding) SA, sold 13,636,363 common shares of the Bank to Société de Promotion et de Participation Pour La Cooperation Economique S.A. (PROPARCO). The transaction took place at a price at $2.20 per common share for an aggregate purchase price of $30m. PROPARCO is the private sector arm of the French Development Agency and is the second major international institutional investor this year to become a major shareholder of Byblos Bank. Earlier this year, the International Finance Corporation (IFC), the private sector arm of the World Bank, bought 47,619,047 common shares of the Bank at a price of $2.10 per share, for an aggregate purchase price of approximately $100m and an 8% stake in Byblos Bank sal. The Bank is currently in the process of raising its capital by $250m.

The capital increase and IFC's and PROPARCO's participation fall within Byblos Bank's strategy of gradual expansion in emerging markets and of increasing its lending to small and medium-size enterprises. The substantial participation of the two institutions in the Bank's capital demonstrates that Lebanese institutions with sound and conservative management, and with a clear vision, remain attractive to international institutional investors. The IFC participation constitutes the largest equity investment by the IFC in the Lebanese economy and one of the largest IFC investments in the Arab banking sector.

Car sales down 3.6% year-on-year in first quarter of 2010

Figures released by the Association of Automobile Importers in Lebanon indicate that a total of 6,039 new passenger cars were sold in the first quarter of 2010, constituting a decrease of 3.6% from the 6,263 cars sold in the same period of 2009. Japanese cars accounted for 35.9% of total sales, followed by European automobiles with a 26.3% market share, Korean cars with 29.3%, American vehicles with 7.6%, and Chinese vehicles with 0.9%. Chinese cars posted the biggest growth in sales with a 522.2% jump year-on-year, followed by Korean cars with a 66.5% rise. In parallel, Japanese cars recorded a 26.1% decrease in sales year-on-year, followed by European cars with an 11.1% decrease and American cars with a 2.7% decrease. Kia is the leading brand in the Lebanese market with 1,163 cars sold in the first quarter of 2010, followed by Nissan with 916 cars sold, Hyundai with 606, Toyota with 436, Mitsubishi with 302, Chevrolet with 297, and Renault with 212 cars.

Corporate Highlights

Six financial institutions interested in MEA's IPO

Central Bank Governor Riyad Salameh indicated that at least six financial institutions have expressed interest in managing the expected initial public offering of national flag carrier Middle East Airlines (MEA). He said three local banks, two international investment banks, and one regional investment bank and have expressed an interest in managing the IPO. MEA intends to raise $250m through an IPO of 25% of the carrier's capital later this year. As such, MEA would be valued at about $1bn. The Central Bank owns a 99% stake in the carrier. Governor Salameh added that investors will be limited to a 1% stake in order to guarantee wide ownership of the shares. The floated shares will be listed on the Beirut Stock Exchange, which will help absorb excess liquidity in the economy and banking sector, revitalize and deepen the stock market, and attract new institutional and individual investors to the Beirut bourse. The Central Bank plans to announce the manager of the IPO by the end of June.

MEA, which currently serves 28 destinations, will receive two new Airbus planes in 2010 and an additional one in 2011, expanding its fleet to 16 aircraft. MEA underwent a restructuring program in 2001 that witnessed the layoff of more than 1,500 employees, or 40% of its staff, in addition to the cancellation of unnecessary flights and routes. Subsequently, the company managed to reverse 26 years of losses and returned to profitability in 2002. The national carrier also modernized its fleet, as it completed in 2003 its first fleet upgrade since 1975. The company's income turned from losses of $87m in 1997 to an expected net profit of $100m in 2009. It is not possible to independently verify the actual financial state of the national flag carrier, as it does not publish its balance sheet and income statement.

RYMCO's profits down 68% to $3.3m in 2009

Automobile dealer Rasamny Younis Motor Co. sal (RYMCO) declared net profits of $3.3m in 2009, down 68% from $10.4m in 2008. Sales revenues (net of discounts) totaled $195.7m, posting a 4.2% decrease year-on-year; while net earnings from servicing and repairs, or 'garage income', increased by 75.3% to $4.41m. General and administrative expenses increased by 17.7% to $5.04m, while advertising & selling expenses decreased by 7.8% to $1.95m, and overall operating charges rose by 13.4% to $14.3m. RYMCO's total assets and total equity amounted to $127.7m and $53m at the end of 2009 respectively, compared to $138.4m and $51.9m at the end of 2008. RYMCO's inventory of cars and spare parts decreased 16% to $50.8m. Annualized earnings per share stood at 12 cents compared to 38 cents in 2008. RYMCO is the only car retailer listed on the Beirut bourse.

Banque Libano-Française announces dividends for 2009

Banque Libano-Française sal announced that its Ordinary General Assembly held on April 16, 2010 approved dividends distribution of $8 per share for shareholders carrying Preferred Shares Series 1 and $2.25 per share for shareholders carrying Preferred Shares Series 2. The dividends will be paid starting April 20, 2010 net of a 5% distribution tax. Banque Libano-Française, one of Lebanon's top 10 banks, ranks in 6th place in assets and in customer deposits, and in 5th place in loans & advances to customers.

Bank ratings affirmed

Capital Intelligence affirmed Credit Libanais and BBAC's Long- and Short-Term Foreign Currency Ratings at 'B' and 'B' respectively. It also maintained the banks' Financial Strength Rating at 'BB+' as well as the Support level at '3', adding that all the ratings carry a 'stable' outlook. It noted that the ratings are constrained by Lebanon's sovereign ratings.

The agency said Credit Libanais steadily increased customer deposits and total assets in 2009 despite intense competition in the local market. Further, the quality of its loan portfolio improved last year due to strong economic growth in the country, and as reflected by the reduction in NPLs and stronger provision coverage ratio. It noted that the vast majority of the bank's assets remain domiciled in Lebanon, and added that it is gradually expanding regional operations in order to diversify its asset base and revenue streams over the long term. In parallel, Capital Intelligence said BBAC's net profits increased last year due a significant provision write-back and despite slower credit growth. It said the quality of BBAC's credit portfolio improved significantly in 2009 as evidenced by the marked decline NPLs from recoveries and satisfactory provision coverage. It noted that BBAC's assets remain largely domestic in nature, while the recently opened branch in Kurdistan represents the start of the Bank's regional expansion strategy. It added that the banks' ROAA is moderate.

Capital Intelligence indicated that the capital adequacy of Credit Libanais is satisfactory and that of BBAC is adequate, but considered that a higher capital adequacy ratio for both banks would be prudent due to Lebanon's historically volatile operating environment. It said the banks continue to maintain a comfortable level of liquidity, reflecting a stable of customer deposits. It noted, however, that a considerable proportion of Credit Libanais and BBAC's liquid assets consist of Lebanese government paper. It expressed concern about this asset concentration given the size of the state's debt burden and the lack of real progress on economic reforms.

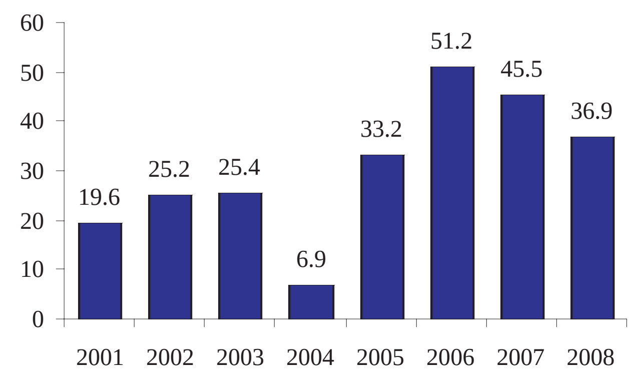
Insurance sector's profits at $37m in 2008, health and motor categories struggling

Figures issued by the Insurance Control Commission (ICC) indicate that the insurance sector in Lebanon posted net profits of $36.9m in 2008, down from $45.5m in 2007 and $51.2m in 2006, but up from $33.2m in 2005 and $6.9m in 2004. The Life branch generated $24.2m in profits, Protection with Savings registered profits of $8.6m, while the Unit-Linked category posted profits of $7.6m. In the non-life segments, Transportation generated profits of $5.8m, followed by the Fire category with $5.6m, Accidents with $5.2m, Compulsory Motor with $3.7m, Engineering & Civil Liabilities with $1.2m each, and Credit with $0.9m, while other miscellaneous categories generated profits of $3.3m. In parallel, Non-Compulsory Motor insurance posted losses of $25.2m while Health posted losses of $4.5m. The figures are part of the second report issued by the ICC on the Lebanese insurance sector and shed much-needed light on the sector's performance and financial health.

The ICC indicated that the sector's consolidated assets reached $2.2bn at end-2008 relative to $1.9bn in the previous year and $1.5bn in 2006. Further, written premiums totaled $898.8m in 2008, up from $776.3m in 2007 and $661.8m in 2006. Non-life premiums accounted for 68.4% of total premiums in 2008. It added that total claims paid reached $373.3m and ceded premiums reached $170.4m in 2008. Also, total technical reserves reached $1.3bn, of which $1.1bn in unearned premium reserves and $249m in outstanding claims reserves. Further, the aggregate owners' equity of insurance firms totaled $485m in 2008, up from $447.5m in 2007 and $373.2m in 2006. The ICC said there were 54 licensed insurance firms operating in Lebanon in 2008, including 31 insurers that offer life and non-life services, 18 non-life insurers, and five firms that offer life insurance only. It noted that 7 insurers have equity above $20m each, 6 firms have equity between $10m and $20m, the equity of 11 insurers falls between $5m and $10m, while 30 insurers have equity less than $5m. It added that the sector's solvency ratio is at 54%.

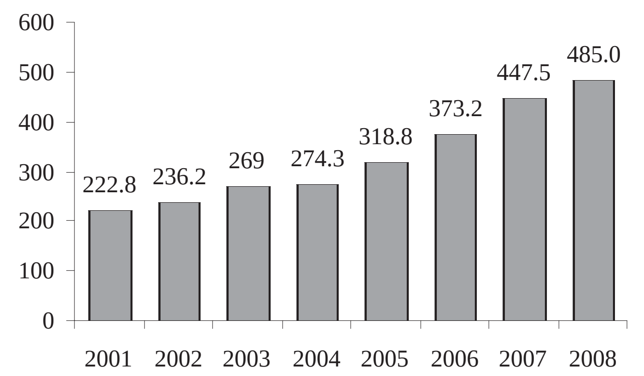
Further, the ICC's figures show that the sector's earned gross premiums totaled $818.8m and investments returns reached $10.4m in 2008, while claims incurred reached $393.3m, commissions or acquisitions costs totaled $128.7m, reinsurance costs were $53.7m, and other general expenses amounted to $124.5m. In parallel, the sector's loss ratio, or the ratio of claims incurred to earned gross premiums, was -48% in 2008. Health and Non-Compulsory Motor had the highest loss ratios at -76% and -72%, respectively, in the non-life segment, while the Protection with Savings segment posted a loss ratio of -32% in the covered year. Further, the sector's investment income ratio, or the net investment results relative to earned gross premiums, was 1% in 2008, with the ratios of the Protection with Savings and Life categories at 18% and 10%, respectively, and the ratio of the Unit-Linked category at -32%. The sector's combined ratio, which aggregates the Loss, Commission, Re-insurance and Expense ratios reached -86% in 2008, with the combined ratio of Non-Compulsory Motor at -119%, Health at -103%, Credit at -99% and Accidents at -92%.

Net Profits ($m)



Source: Insurance Control Commission

Shareholders' Equity ($m)



Source: Insurance Control Commission

Relevant Ratios for 2008	
Loss Ratio	-48%
Comission Ratio	-16%
Re-Insurance Ratio	-7%
Expense Ratio	-15%
Net Accounting Ratio	-55%
Combined Ratio	-86%
Net Investment Income Ratio	1%

Source: Insurance Control Commission

Ratio Highlights

(in % unless specified)	2007	2008	2009	Change*
Nominal GDP*(1)* ($bn)	25.0	29.3	32.7	
External Debt / GDP	84.9	72.2	65.0	(720)
Local Debt / GDP	83.2	88.3	91.2	290
Total Debt / GDP	168.1	160.5	156.2	(430)
Trade Balance / GDP	(36.0)	(43.2)	(39.0)	420
Exports / Imports	23.8	21.6	21.5	(10)
Budget Revenues / GDP	23.2	24.0	25.8	180
Budget Expenditures / GDP	33.4	33.9	34.8	90
Budget Balance / GDP	(10.2)	(10.0)	(9.0)	100
Primary Balance / GDP	2.9	2.0	3.3	130
BdL FX Reserves / M2	59.4	68.9	75.1	620
M3 / GDP	239.3	234.3	251.0	1,670
Bank Assets / GDP	329.0	321.7	352.4	3,070
Bank Deposits / GDP	269.1	265.5	292.9	2,740
Private Sector Loans / GDP	81.7	85.5	86.8	130
Dollarization of Deposits	77.3	69.6	64.5	(510)
Dollarization of Loans	86.4	86.6	84.0	(260)

** Change in basis points 08/09*
(1) Based on Ministry of Finance Estimations and the International Monetary Fund
Source: Association of Banks in Lebanon, 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	Feb 2009	Jan 2010	Feb 2010	Change*	Risk Level
Political Risk Rating	57.0	57.0	57.5	↑	High
Financial Risk Rating	28.0	28.0	28.0	↔	High
Economic Risk Rating	30.0	35.5	35.5	↑	Low
Composite Risk Rating	57.5	60.2	60.5	↑	Moderate

Regional Average	Feb 2009	Jan 2010	Feb 2010	Change*	Risk Level
Political Risk Rating	65.7	64.8	64.7	↓	Moderate
Financial Risk Rating	41.1	42.0	42.1	↑	Very Low
Economic Risk Rating	38.9	35.3	35.7	↓	Low
Composite Risk Rating	72.8	71.0	71.2	↓	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	Stable	B2		Stable
Fitch	B	B	Stable	B		Stable
S&P	B	B	Positive	B	B	Positive
Capital Intelligence	B	B	Stable	B	B	Stable

Source: Rating agencies

Banking Ratings	Banks' Financial Strength	Banking Sector Risk	Outlook
Moody's	D-		Stable
EIU		B	Stable

Source: Rating agencies

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