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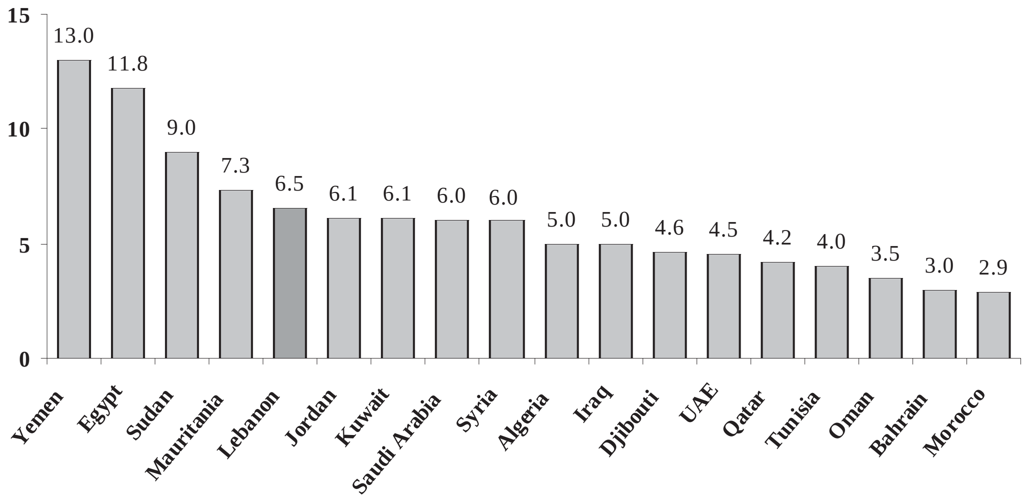
LEBANON THIS WEEK

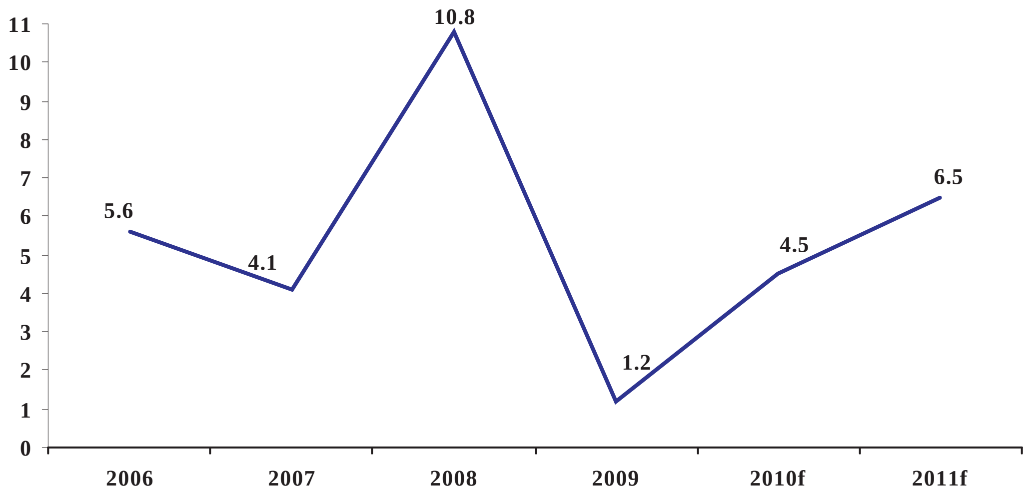
In This Issue

Charts of the Week

Projected CPI Inflation Rates in Arab countries in 2011 (%)



CPI Inflation Rate in Lebanon (%)



Source: International Monetary Fund, April 2011, Byblos Research

Quote to Note

"In the absence of a government, Lebanon will be unable to issue Eurobonds."

Citigroup, on one of the many rising obstacles to policy-making from the delay in government formation

Number of the Week

13.3%: Capital Adequacy Ratio of banks operating in Lebanon at the end of 2010, according to the international Monetary Fund

Economic Indicators

$m *(unless otherwise mentioned)*	2009	Feb 10	2010	Dec 10	Jan 11	Feb 11	% Change*
Exports	3,486	342	4,256	487	297	304	(11.11)
Imports	16,241	1,026	17,956	1,470	1,729	1,218	18.71
Trade Balance	(12,755)	(864)	(13,700)	(983)	(1,432)	(914)	5.79
Balance of Payments	7,899	759	3,326	1,243	(772)	104	(86.30)
Checks Cleared in LBP	11,122	966	13,519	1,278	1,206	1,172	21.33
Checks Cleared in FC	45,270	3,929	53,925	4,370	4,404	4,094	4.20
Total Checks Cleared	56,392	4,895	67,444	5,648	5,610	5,266	7.58
Budget Deficit/Surplus	(2,960)	(176)	(2,892)	(62)	(48)	(501)	184.55
Primary Balance	1,078	123	1,232	276	202	(266)	(316.26)
Airport Passengers	4,986,544	339,237	5,552,260	369,735	369,735	307,134	(9.46)

$bn *(unless otherwise mentioned)*	Dec 2009	Feb 10	Nov 10	Dec 10	Jan 11	Feb 11	% Change*
BdL FX Reserves	25.66	26.88	27.74	28.60	28.30	28.42	5.73
In months of Imports	*18.6*	*26.20*	*15.3*	*19.4*	*16.3*	*23.33*	*(10.94)*
Public Debt	51.09	51.98	51.77	52.59	52.29	52.08	0.19
Net Public Debt	44.11	44.20	44.92	45.01	44.95	45.31	2.51
Bank Assets	115.25	118.27	127.57	128.93	128.41	130.06	9.97
Bank Deposits (Private Sector)	95.77	97.07	105.02	107.20	106.13	106.80	10.02
Bank Loans to Private Sector	28.37	29.87	34.92	34.93	35.31	35.70	19.52
Money Supply M2	34.16	35.42	39.31	39.40	37.12	37.03	4.55
Money Supply M3	82.08	83.75	91.00	92.15	91.57	92.01	9.86
LBP Lending Rate (%)	9.04	8.83	7.98	7.91	7.71	7.71	(112b.p.)
LBP Deposit Rate (%)	6.75	6.42	5.68	5.68	5.63	5.63	(79b.p.)
USD Lending Rate (%)	7.28	7.26	6.96	6.74	7.14	7.01	(25b.p.)
USD Deposit Rate (%)	3.05	2.99	2.80	2.80	2.84	2.90	(9b.p.)
%* Change in CPI**	4.20	6.07	6.07	6.19	6.92	5.09	(98b.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"	18.32	(0.81)	54,883	15.38%
Solidere "B"	18.31	0.44	30,829	9.99%
Byblos Common	1.92	(1.03)	0	5.85%
Byblos Priority	1.92	(1.03)	10,000	3.32%
Byblos Pref. 08	104.00	0.00	0	1.75%
BLOM GDR	9.40	0.00	0	5.83%
BLOM Listed	8.80	1.15	10,000	15.88%
Audi GDR	7.54	1.89	11,040	5.93%
Audi Listed	6.80	(5.82)	4,894,916	19.89%
HOLCIM	17.45	2.35	5,108	2.86%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
May 2011	7.875	100.25	2.17
Mar. 2012	7.500	103.00	3.96
Sep. 2012	7.750	104.88	3.95
June 2013	8.625	108.76	4.24
Apr. 2014	7.375	108.00	4.43
Apr. 2015	10.00	117.63	5.03
Jan. 2016	8.500	112.88	5.35
Mar. 2017	9.000	116.25	5.71
Nov. 2018	5.150	97.13	5.62
Apr. 2021	8.250	114.50	6.26

Source: Byblos Capital Markets

	April 26-29	April 18-21	% Change	April 2011	April 2010	% Change
Total Shares Traded	5,115,166	2,233,169	129.05	18,453,479	26,726,767	(30.96)
Total Value Traded	$38,706,096	$9,625,598	302.12	$94,089,158	$84,719,626	11.06
Market Capitalization	$11.91bn	$12.03bn	(0.99)	$11.91bn	$13.01bn	(8.44)

Source: Beirut Stock Exchange (BSE)

IMF warns of challenging policy-making environment amid current uncertainties

In its semi-annual economic outlook for the Middle East and Central Asia region, the International Monetary Fund projected Lebanon's real GDP growth at 2.5% in 2011 compared to growth of 4.1% for the Middle East and North Africa economies, 1.9% for the region's oil importers and 1.5% in Mashreq countries. Lebanon's projected growth rate in 2011 would make it the third slowest growing economy in the Arab world, ahead of only Tunisia at 1.3% and Egypt at 1%. It said this represents a sharp deceleration from the average 8% annual growth of the past four years, and largely reflects the impact of continued political uncertainty in the country and the region. The Fund noted that its lower growth projection takes into account the weak economic activity in the first quarter of 2011. It added that the political deadlock and regional turmoil are affecting commercial activity, tourism, and real estate investment, which are the main drivers of the Lebanese economy. It cautioned that a recovery in the second half of the year would be insufficient to raise the annual growth rate to its recent levels. Also, it indicated that the delay in government formation will likely postpone the implementation of public investment spending to the latter part of the year or even to 2012, thereby limiting a possible fiscal stimulus. It considered that economic policy-making will be more challenging in this deteriorated economic context. The Fund forecast the country's nominal GDP at $42.5bn in 2011 relative to $39.2bn in 2010, which would account for 11.4% of the Mashreq region's aggregate GDP.

The IMF expected Lebanon's inflation rate to average 6.5% in 2011 compared to 10.2% in the MENA region, 8.3% for the region's oil importers and 10.2% in Mashreq countries. It attributed the rise of inflation in Lebanon to pressures from increasing global oil and food prices. In parallel, the Fund projected Lebanon's fiscal deficit to widen to 10.5% of GDP this year from 7.2% of GDP last year, relative to deficits of 7.9% for oil importers and 9.2% of GDP for Mashreq economies. It forecast government revenues at 21.4% of GDP in 2011 relative to 21.4% of GDP in the Mashreq region, and estimated public expenditures at 32.1% of GDP compared to 31% of GDP in Mashreq countries. Further, it expected Lebanon's current account deficit to widen to nearly 13% of GDP in 2011 due to higher prices of oil imports, and compared to deficits of 5.2% of GDP for the MENA's oil importers and 4.7% of GDP for Mashreq countries.

	Lebanon		Oil Importers		Mashreq	
	2010	2011P	2010	2011P	2010	2011P
Real GDP Growth (%)	7.5	2.5	4.5	1.9	5.0	1.5
Consumer Price Inflation (%)*	4.5	6.5	7.6	8.3	9.6	10.2
Fiscal Balance (% of GDP)	(7.2)	(10.5)	(6.2)	(7.9)	(7.4)	(9.2)
Total Debt (% of GDP)	136.7	133.8	62.3	61.9	71.6	71.7
External Debt (% of GDP)	160.8	156.8	31.8	30.0	32.4	31.0
Current Account (% of GDP)	(10.2)	(12.9)	(3.8)	(5.2)	(3.6)	(4.7)

P: projected
**Yearly average*
Source: International Monetary Fund, April 2011

Delays in government formation affecting economic activity

Global investment bank JP Morgan indicated that, after the Lebanese economy posted an exceptional performance during the global financial crisis, high frequency indicators are pointing to a slowdown in activity. It said record deposit inflows and an improved political landscape supported strong growth in the previous two years. But it added that the exceptional levels of deposit inflows, which helped reduce the dollarization rate to its lowest level since 2000 and fueled the growth of credit to the private sector, have reversed their trend. It noted that the stabilization of the interest rate differential resulted in the deceleration of deposit growth to 10% year-on-year in February, the lowest level since November 2007. Further, the trend in the coincident indicator, net tourist arrivals, and other indicators suggests that the economy is set for a slowdown. JP Morgan also indicated that the primary balance relative to budgetary expenditures posted a notable deterioration so far this year compared to recent years, and posted in February its largest deficit in a decade. It added that annual deposit growth of below 7% could increase pressure on government financing, and cautioned that political stability is key to keep the fiscal deficit under control and to reverse the downward trend in the primary balance. In parallel, it warned that regional tensions could accelerate this trend and increase the risks of a hard landing; while sovereign spreads could be affected by regional turmoil and in case of domestic political instability. It stated that the formation of a new government has suffered several delays since the political crisis in January that led to the collapse of the Hariri Cabinet of national unity, and that further delays to government formation could negatively affect the economy.

In parallel, independent research firm Capital Economics considered that the collapse of the Lebanese government in January has affected the already slowing economy, and that the ongoing uncertainty is contributing to the slowdown. It expressed concerns about the impact on the country's fiscal position, as a prolonged slowdown would affect the government's tax receipts, which account for 75% of total government revenues. It added that a new government perceived to be too close to Iran may affect foreign aid and foreign direct investments, as the latter account on average for 60% of fixed investment in Lebanon. It noted that tourism revenues and worker remittances from the GCC states may also be impacted.

Growth outlook affected by domestic and external factors

Business Monitor International (BMI) expected economic activity in Lebanon to slow down over the coming years, and projected real GDP growth at an annual average of 4.7% between 2012 and 2015 compared to the average rate of 8.3% posted between 2007 and 2010. It attributed the deceleration in activity primarily to the gradual closing of the economy's output gap as a result of several straight years of unprecedented growth following the 2006 war.

It said growth throughout the economy remained relatively broad-based in 2010, with consumption, investment and trade indicators all continuing to expand at a relatively healthy pace. It noted, however, that growth is beginning to slow as points-of-sales transactions growth, a proxy for retail sales, dropped to a 43-month low of 14.9% year-on-year in December, compared with a year-on-year average of 25.8% through the first 11 months of 2010. It added that new construction permits issued also fell in the latter months of 2010, with the three-month moving average falling to a 16-month low of -4.4% year-on-year in December.

In parallel, it considered that the ongoing deterioration in the external environment is becoming a growing concern. It said that Lebanon's over-reliance on the Middle East and North Africa region as a destination for its exports has left the economy vulnerable to a potential downturn in economic activity as a result of the unfolding crisis, with over 70% of the country's exports of goods and services absorbed by states throughout the region. It added that Lebanon's economy remains among the most highly exposed to a marked slowdown in foreign investment inflows given its large current account and fiscal deficits. It noted, however, that a combination of strong remittance inflows, a stable banking sector and the Central Bank's still massive stock of foreign exchange reserves will support broader economic stability throughout this period of heightened risk aversion. It stressed that a significant slowdown in foreign investment inflows at this point would not come as a surprise and could weigh on fixed investment activity in 2011.

BMI indicated that if Prime Minister designate Najib Mikati manages to form a government, Lebanon may finally be able to pass a budget that targets much-needed upgrades to the country's underlying physical infrastructure network. It said that the narrowing of the budget deficit and improvement in the broader debt dynamics in recent years was caused by the government's inability to increase spending due to a lack of new budget. It added that a failure to increase capital spending that would expand the economy's long-term productive capacity could see growth settle significantly below potential over the long run.

Deposit slowdown does not threaten stability of public finances

Citigroup indicated that deposit growth is not essential for the stability of public finances given the excess liquidity in the banking sector, but said that it is crucial to maintain confidence in the Lebanese pound's peg to the US dollar given the country's large current account deficit. It also considered that the main political risk for Lebanon remains the threat of conflict with Israel, which would represent the greatest challenge to public finances and the banking system. It expected the budget deficit to widen significantly to around 13% of GDP in 2011, as high oil prices will increase transfers to Electricité du Liban this year, while the reduction of the flat rate tax on gasoline by LBP 5,000 will negatively affect revenues. But it considered that public finances are sustainable given the banking system's capacity to absorb government debt. It said the banking sector is highly liquid due to the massive inflows of non-resident deposits over the past three years, which provides it with significant capacity to support public finances even if deposit growth slows down or stagnates in the medium term. But it expressed concerns about the impact this would have on the balance of payments.

Citigroup expected high oil prices to widen the current account deficit to as much as $5bn this year. It noted that capital inflows to Lebanon mainly consist of FDI in real estate, and did not expect substantial FDI flows this year given the negative outlook for the local real estate market. It added that, in this case, there would be a need for steady deposit inflows to cover the current account deficit in order to avoid a balance of payments deficit. It considered that the alternative would be a decline in foreign exchange reserves, which are a cornerstone of confidence in the Lebanese economy. As such, it deemed that insufficient growth in the deposit base may be a concern to stability despite excess bank liquidity.

Commercial activity affected by political uncertainty

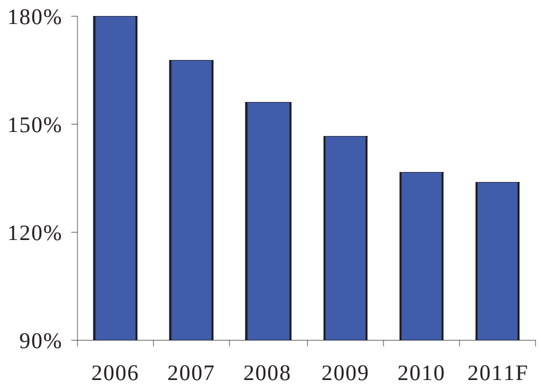
The Chamber of Commerce, Industry & Agriculture of Beirut and Mount Lebanon estimated that commercial activity across Lebanon has declined between 30% and 60% in the first quarter of this year relative to the same period last year; and assessed the slowdown in Beirut specifically at between 20% and 30% during the same period. It attributed the decline in commercial activity to the current political situation and called for the separation of politics from the economy, adding that the slowdown is affecting all commercial sectors.

In parallel, The Beirut Traders Association indicated that trading activity, mainly related to items consumed by expatriates and tourists, dropped significantly in the first quarter. It considered that the current political turmoil is having a severe negative impact on trade, as it discouraged tourists from coming to Lebanon and caused residents to reduce expenditures and avoid making unnecessary purchases. It added that merchants have suffered from low sales volume since the beginning of the year, while the increase in operating costs driven by the hike in fuel prices is weighing on their capacity to meet their financial obligations.

Government to rollover Eurobond maturing in May

Finance Minister Raya el-Hassan stated that Lebanon intends to roll over $1.13bn in Eurobonds maturing in May 2011 that include $1bn in principal and $130m in interest. Minster Hassan said the ministry intends to tap the market to refinance the bond and has sent requests for proposals to 20 banks. She indicated that the ministry is studying market conditions, and expected market appetite for high yielding securities given the U.S. Federal Reserve's decision to maintain interest rates at near zero. The government has $2.1bn in maturing Eurobonds this year, including a $750m bond that matures in August.

Total Government Debt (% of GDP)



Source: International Monetary Fund

Last year, the ministry refinanced two maturing Eurobonds. In February 2010, it issued $1.2bn in Eurobonds under the Republic of Lebanon's Global Medium Term Note Program to refinance $1.1bn in debt that matured in March of the same year. The Eurobond has a 10-year maturity and carries a coupon rate of 6.375%. In November 2010, the ministry issued a $725m dual-tranche Eurobond to refinance maturities in the same month. The issue carried an average coupon rate of 5.44% and had an average time to maturity of 9.21 years, resulting in the lowest market yields ever issued by the Republic of Lebanon on fixed rate bonds. The first tranche consisted of a $500m bond that has an 8-year maturity of November 2018 and carries a coupon rate of 5.15% paid semi-annually; while the second tranche consisted of a $225m bond that has a 12-year maturity of October 2022 and carries a coupon rate of 6.1% paid semi-annually.

Lebanon's gross public debt reached $52.1bn at the end of February 2011, constituting a decrease of 1% from end-2010, and an increase of 0.2% from end-February 2010. Domestic debt increased by 1% to $31.1bn, while external debt decreased by 1.2% annually to $21bn. Local currency debt accounted for 59.7% of gross public debt at end-February 2011, almost unchanged from a year earlier, while foreign currency-denominated debt represented 40.3% of the total at the end of February. The weighted interest rate on outstanding Treasury bills was 7.45%, while the weighted interest rate on Eurobonds was 7.29% at the end of February. Further, the weighted life on Eurobonds was 4.78 years, while that on Treasury bills was 661 days. The public debt was equivalent to 137% of GDP at the end of 2010, down from 146.4% of GDP at end-2009.

Central Bank outlines anti-money laundering measures

Central Bank Governor Riad Salamé announced that the Bank is currently amending the circular about the shipment of foreign currency notes to and from Lebanon in order to impose new measures on the firms under its supervision. The measures would include the need to inform the Central Bank in advance of the desire to ship foreign currency notes; and the need to appoint a compliance officer to monitor the compliance of the firm with the relevant laws, regulations and directives issued by the Central Bank, the Banking Control Commission and the Special Investigation Commission. He added that the Bank is currently working on issuing a set of new circulars covering the operations of foreign exchange bureaus in Lebanon in order to deter their usage for money laundering and terrorist financing and to preserve their reputation.

In parallel, Governor Salamé declared that the Central Bank has recently proposed amendments to anti-money laundering Law 318 by adding the offense of terrorism financing to that of money laundering. Further, the amendments include expanding the list of crimes that result in ill-gotten funds; considering the crime of money laundering as a separate offense that does not require conviction of a suspect of the original offense, as well as the fact that a conviction of the original crime does not preclude pursuing the accused for money laundering crimes. Also, the amendments would clarify in details the authority of the Special Investigation Commission, as well as the procedures and measures it takes.

Hotel occupancy at 48% in March

Figures released by STR Global show that the occupancy rate at Beirut hotels reached 48% and the revenue per available room (RevPAR) amounted to $91.5 in March 2011. STR said occupancy rates in Beirut dropped by 25% year-on-year and the RevPAR regressed by 30% in the covered month, both posting the second steepest year-on-year contraction in the Middle East after Cairo. The occupancy rate at hotels in the Middle East was 68.5% during the covered month relative to 67.3% in March 2010, while the region's RevPAR was $139.3 down 2% from $142.2 in the same period last year. Also, the occupancy rate at hotels in North Africa was 28.6% in March 2011 relative to 74.8% in the same month last year, while the region's RevPAR was $27.4, down 58.5% from $66.1 in March 2010.

Residential real estate market stagnant since early summer, niche markets outperform

Property advisory firm RAMCO indicated that the residential real estate market in Lebanon has stabilized after several years of rapid growth, double-digit increase in prices, and hyper-activity. It said the market has been historically driven by Lebanese expatriates mostly, particularly those living in the Gulf States. But it added that expatriates' tighter liquidity conditions have affected buying conditions more recently. As such, it considered that the market has entered a period of "more reasonable" growth in contrast to the unjustifiably rapid expansion of the past few years. It noted that current market conditions for residential apartments are difficult, with demand becoming very sophisticated and buyers trying to locate residential units at below market value. Further, demand has been stagnant since early summer, prices have not increased and the number of transactions has declined.

In parallel, RAMCO identified niche residential markets in Beirut. It said the Beirut seafront, stretching from Ain el Mreisseh to Ramlet el Baida, has seen the construction of 22 new high-end residential buildings with an average of 18 floors per project and a total of 200 apartments for sale at an aggregate value of $850m. It added that the average size per apartment is 525 square meters, with the size of the smallest unit at 310 sqm and the vast majority of apartments ranging between 500 sqm and 600 sqm. It said that first-floor prices of such apartments start at $7,000 per sqm and could increase to as much as $10,000 per sqm for upper floors. It noted, however, that these projects have a 65% occupancy rate, which is slightly higher than the overall average rate of 60% for Beirut. It considered that this niche segment has been less affected by the slowdown in the upper tier of the residential market.

Further, it said that five mega-projects supplying 580 apartments and 215,000 sqm of residential space are being built in the Beirut Central District. It estimated the total value of this new stock at $1.7bn. It said these projects have a pre-sale rate of about 25%, which is in line with the rates developers expect before beginning excavations. It considered that asking prices of about $6,500 are consistent with prices elsewhere in the market. It noted that fierce competition between the suppliers of this new stock of residential units has narrowed the gap in prices between the BCD and other prime locations in Beirut. It said there are a total of 21 projects under construction in the BCD that would supply 600 new apartments at a starting price of $5,500 per sqm. It added that 10 of these projects are scheduled to be delivered this year, with the five mega-projects expected to start delivery in 2014 or 2015.

Cleared checks up 4.3% to $11bn in first two months of 2011

The value of cleared checks increased by 4.3% to $10.9bn in the first two months of 2011 compared to the same period of 2010. The value of cleared checks in Lebanese pounds rose by 15.8% to the equivalent of $2.4bn, while the value of cleared checks in US dollars rose by 1.5% to $8.5bn. The dollarization rate of cleared checks decreased from 80.3% to 78.1% year-on-year. Also, the value of returned checks in domestic and foreign currency amounted to $1209m in the first two months of 2011, up 8.3% from $193m in the period last year.

Construction permits up 17% in first two months of 2011

Figures released by the Association of Engineers of Beirut & Tripoli show that construction permits reached 2.1 million square meters in the first two months of 2011, constituting an increase of 17% from 1.8 million square meters in the same period last year. Construction permits totaled 1.16 million square meters in February 2011, up 2.8% year-on-year from 1.13 million square meters in February 2010. In parallel, cement deliveries reached 636,000 tons in the first two months of 2011, a decrease of 1.4% from 645,000 tons in the same period last year. Cement deliveries reached 294,000 tons in February 2011, down 7.6% from 318,000 tons in February 2010.

Corporate Highlights

Byblos Bank's profits up 23% to $38.6m in first quarter of 2011

Byblos Bank sal, one of the top 3 banking and financial services groups in Lebanon, declared consolidated net profits of $38.6m in the first quarter of 2011, constituting an increase of 22.8% from $31.4m in the same period last year. Net interest income reached $75.7m, up 18.2% year-on-year; while net fees & commission income increased by 12.3% to $22.6m and net trading income dropped by 12.9% to $4m in the first quarter of 2011. As a result, operating income rose by 6.6% year-on-year to $110.4m. Total assets reached $15.9bn at end-March 2011, constituting a rise of 4.1% from the end of 2010; while net loans & advances to customers were unchanged at $3.76bn at end-March 2011. Customers' deposits totaled $12.2bn, increasing by 2.9% from end-2010. The Bank's total equity reached $1.64bn at end-March 2011, up 0.6% from end-2010. Earnings per common ordinary share rose by 6.3% to LBP 73.3, equivalent to $0.05 per share, and earnings per common priority share increased by 5.4% to LPB 85.4, or $0.06 per share. The Byblos Bank Group has a direct presence in Iraq, Syria, Sudan, the United Arab Emirates, Nigeria, Armenia and the Democratic Republic of Congo, as well as in Belgium, France, the United Kingdom and Cyprus.

Byblos Bank announces dividends for 2010, invites shareholders to General Assembly

The Board of Directors of Byblos Bank sal announced that it will propose to the Ordinary General Assembly the distribution of dividends for 2010 as follows: LBP 200 per share for holders of common shares; LBP 200 per share and 4% of the share's nominal value (LBP 46.2 per share) for holders of Priority Shares; and $8 per share for holders of Series 2008 Preferred Shares and Series 2009 Preferred Shares. Also, the Bank will propose LBP 200 per share in US dollars for GDR holders. Upon the General Assembly's approval, the shares' dividends will be paid starting May 11, 2011 net of a 5% distribution tax.while the GDRs' dividends will be paid starting May 18, 2011 through Bank of New York Mellon, after deducting the 5% tax. In parallel, the Board of Directors of Byblos Bank sal invited the Bank's shareholders to an Annual Ordinary General Assembly to be held on May 5, 2011. The agenda of the meeting includes hearing the Board of Directors and the auditors' reports for 2010, approving the financial statements of 2010 and granting clearance to the Chairman and Board members for their administrative duties during 2010.

Aggregate profits of listed banks rise 13% in first quarter of 2011

Financial results issued by five banks listed on the Beirut Stock Exchange show that their aggregate net profits reached $234.4m in the first quarter of 2011, constituting an increase of 13% from $207.4m in the same period last year. Byblos Bank posted the higest growth in profits, assets and deposits among the top three banks. The average growth of the net profits of the five banks reached 17.2% in the first three months of 2011, constituting a decrease from the average growth in net profits of 21.7% in 2010, and from the average growth in net profits of 22.2% in the first quarter of 2010. The aggregate net interest income of the five banks reached $357.1m in the first quarter of 2011, up 15.5% from $309.1m in the same period last year, while their total net fees and commission income increased by 13.9% to $110.3m year-on-year. Total operating income of the listed banks reached $582.7m in the first quarter of 2011, up 13.6% from $513.2m in the same period last year.

In parallel, the aggregate assets of the five banks rose by 3.3% from end-2010 and by 10.4% from end-March 2010 to $78bn, while their total loans, excluding loans to related parties, increased by 5.4% from end-2010 and by 22.8% from end-March 2010 to $21.1bn. Also, the banks' customer deposits rose by 2.5% from end-2010 and by 10.9% from end-March 2010 to reach $64.3bn. BLOM Bank posted the lowest loans-to-deposits ratio at 27.3% compared to 23.6% at end-March 2010, followed by Byblos Bank with a ratio of 31% relative to 30.9% a year earlier, Bank Audi with 34.4% from 32% at end-March 2010, Bank of Beirut with 44.8% from 35.5% a year earlier, and Banque BEMO with a 48.1% ratio compared to 44.2% at end-March 2010.

Results of Listed Banks for First Quarter of 2011

	Byblos	BLOM	Audi	BoB	BEMO
Net Profits	$38.6m	$82.1m	$90.4m	$20.2m	$3.1m
% Change*	22.8%	11.3%	12.7%	1.4%	38.1%
Total Assets	$15.91bn	$22.81bn	$28.94bn	$9.09bn	$1.29bn
% Change**	4.1%	2.2%	0.9%	13.8%	6.7%
Loans (1)	$3.76bn	$5.38bn	$8.50bn	$2.98bn	$0.50bn
% Change**	(0.1%)	3.9%	1.3%	32.4%	6.2%
Deposits (1)	$12.15bn	$19.74bn	$24.72bn	$6.65bn	$1.04bn
% Change**	2.9%	1.8%	0.2%	14.0%	3.9%

**Year-on-year*

***Change from end-2010*

(1) Customer Loans and Deposits, excluding related parties' Loans and Deposits

Central Bank details corporate governance procedures at commercial banks

The Central Bank issued Intermediary Circular 10708 that modified Basic Circular 9382 dated July 2006, which deals with corporate governance issues at commercial banks. The modifications consist of several new measures that banks are required to implement. The measures mandate banks to follow up on international recommendations and best practices dealing with governance that have been, or will be, issued by the Basel Committee. Also, banks have to prepare a corporate governance manual that includes a general organizational chart and an organizational chart depicting the links between the mother company and its affiliates and sister banks. The manual must also include clear internal directives to implement governance principles; the size of the Board of Directors; and its role, responsibilities, as well as its composition regarding the number of independent, executive, and non-executive board members.

Further, banks have to include in the manual the standards used to determine the remunerations of board members and upper management; the board committees and their scope of work; the way the board communicates with upper management; the procedures implemented to appraise the performance of upper management and the board of directors in terms of their abiding by corporate governance procedures; and the succession plan to members of upper management and board directors. Further, the manual must incorporate a summary of the bank's Code of Conduct and its Disclosure Policy, especially regarding the preparation of financial statements and dealing with conflicts of interest. It also asked banks to include procedures the mother company uses to deal with sister banks and affiliates; as well as the bank's likelihood to grant stock options to employees, in case a stock option plan exits. Further, the Central Bank mandated banks to post the corporate governance manual on their website and to include it in their annual reports. The Central Bank asked banks to implement these procedures no later than the end of 2011.

Stock market activity down 81% to $244m in first four months of 2011

Figures released by the Beirut Stock Exchange indicate that total trading volume reached 43.6 million shares in the first four months of 2011, constituting a decrease of 57% from the same period last year; while aggregate turnover amounted to $243.9m, down 80.7% from a turnover of $1.26bn in the first four months of 2010. Market capitalization decreased by 8.4% from end-April 2010 to $11.9bn, of which 71.1% was in banking stocks and 25.4% in real estate stocks. The market liquidity ratio was 2% compared to 9.7% in the same period last year. Bank stocks accounted for 88% of aggregate trading volume in the first four months of the year, followed by real estate stocks with 12%. In terms of value of shares traded, banking stocks accounted for 58.6% of aggregate value, followed by real estate stocks with 39.3%. The average daily traded volume for the period was 559,119 shares for an average daily value of $3.1m. The figures reflect decreases of 57% in volume and 80.5% in value year-on-year.

AUB Medical Center unveils 10-year plan

The American University of Beirut's Medical Center (AUBMC) unveiled its 2020 vision plan that aims to preserve the center's leading role in health care, education and research at the local and regional level. The plan stipulates the construction of the AUB Medical Complex 2020, which will increase capacity from 350 beds to 600 beds by 2020. AUBMC added that the complex will include a new adult hospital and a new pediatric hospital. It noted that the plan also covers the expansion existing services, recruiting more faculty members and medical staff, improving patient-centered care, and establishing specialized clinical services and centers of excellence. Further, it said that the 2020 vision will stress on innovation and leadership in education and research through curriculum restructuring in order to improve education and training of future physicians

Mobile phone subscribers near 3 million at end-March

Figures issued by the Ministry of Telecommunications indicated that the number of mobile users reached 2,984,387 users at the end of March 2011, constituting an increase of 4.2% from end-March 2010 and a 1.3% rise from February 2011. Mobile Interim Company (MIC 2), operated by MTC Touch, had a 53.8% market share at end-March 2011, up marginally from 53.1% from the same period last year; while MIC1, operated by Alfa, has the remaining 46.2%. It attributed the larger market of MTC Touch to a higher growth in subscribers of 5.5% compared to a growth rate of 2.7% for Alfa.

In parallel, the number of prepaid subscribers increased by 4.7% from end-2010 to 2,495,576 subscribers at end-March, while the number of postpaid subscribers increased by 1.9% to 488,811 subscribers. As such, prepaid subscribers accounted for 83.6% of total mobile subscribers at end-March 2010, while postpaid subscribers accounted for the remaining 16.4%, despite the fact that the tariff per minute for postpaid subscribers is around one-third that of prepaid subscribers. In parallel, the number of landlines subscribers increased marginally by 0.4% from end-December to 835,309 at end-March 2011, according to *le Commerce du Levant.*

Corporate Highlights

Kafalat loan guarantees reach $42m in first quarter of 2011

Figures released by the Kafalat Corporation show that loans extended to small- and medium-size companies under the guarantee of Kafalat reached $41.9m in the first quarter of 2011, down 9.5% from $46.3m in the same period last year. The number of loan guarantees totaled 301 year-to-March compared to 392 in the same quarter last year. The average loan size reached $139,183 compared to $118,173 in the first quarter of 2010. Mount Lebanon accounted for 44% of guarantees, followed by the South & Nabatieh with 21%, the North with 16.3%, the Bekaa with 12.3% and Beirut with 6.6%. The industrial sector accounted for 40% of total guarantees, followed by agriculture with 37.2%, tourism with 19.3%, specialized technologies with 2.3% and handicraft with 1.3%. Kafalat is a state-sponsored organization that provides financial guarantees for loans up to $400,000 earmarked for the set up and expansion of small and medium-size companies in productive sectors. It guarantees up to 75% of the loan amount and a similar percentage of the interest that accrues during the grace period.

BLOM Bank's ratings affirmed

Capital Intelligence affirmed BLOM Bank's long- and short-term foreign currency ratings at 'B', the bank's Financial Strength rating at 'BBB-' and the Support Level at '3'. It said that all the ratings have a 'stable' outlook. It indicated that Lebanon's strong economic expansion in recent years helped preserve the soundness of the bank's credit portfolio with a low non-performing loans ratio and good loan-loss reserve coverage. It noted that the bank's net profit growth has been driven in recent years by higher net interest and non-interest income, as well as by ongoing good operating efficiency. It added that BLOM maintains a comfortable level of liquidity, with a larger share than the sector's average of funds placed with prime banks in Europe. Also, the agency considered that the bank's capital position is satisfactory and supported by good level of internal capital generation. It warned, however, that the bulk of liquidity remains invested in Lebanese government bonds, which increases the bank's exposure to the Lebanese sovereign and leads to significant concentration risk. It also considered that heightened domestic and regional political risk factors, as well as the expected slowdown in Lebanon's economic activity this year, could hamper the bank's expansion plans and raise credit risks.

CMA CGM issues $945m in bonds

The Lebanese-owned and France-based container shipping group CMA CGM declared that it has issued a $945m bond and that proceeds will be used to refinance existing debts as well as to finance expansion plans. It said that the issue was oversubscribed, which led the firm to increase the initial offerin from $800m to $945m. It noted that the issue consisted of $475m of dollar-denominated senior notes that mature in 2017 and carry a coupon rate of 8.5%, and €325m of euro-denominated notes that mature in 2019 and carry a coupon rate of 8.875%. Earlier this year, Moody's Investors Service assigned to CMA CGM a provisional corporate family rating (CFR) and default probability rating (PDR) of 'Ba3', with a 'stable' outlook. It said the ratings are 'provisional' because they are contingent on CMA CGM's successful conclusion of its financial restructuring and issuance of the $800m bond. CMA CGM is the third-largest container shipping company in the world; owns 360 ships and employs 16,400 people. It posted net profits of $1.63bn on revenues of $14.3bn in 2010.

Ratio Highlights

(in % unless specified)	2007	2008	2009	Change*
Nominal GDP(1) ($bn)	25.0	29.9	34.9	
External Debt / GDP	84.9	70.7	60.9	(980)
Local Debt / GDP	83.2	86.5	85.5	(100)
Total Debt / GDP	168.1	157.3	146.4	(1,090)
Total External Debt / GDP	194	172	169.2	(280)
Trade Balance / GDP	(36.0)	(42.3)	(36.5)	580
Exports / Imports	23.8	21.6	21.5	(10)
Budget Revenues / GDP	23.2	21.7	22.9	120
Budget Expenditures / GDP	33.4	24.5	24.8	30
Budget Balance / GDP	(10.2)	(2.7)	(1.9)	80
Primary Balance / GDP	2.9	2.0	3.1	110
BdL FX Reserves / M2	59.4	67.5	71.2	370
M3 / GDP	239.3	229.6	235.2	560
Bank Assets / GDP	329.0	315.2	330.2	1,500
Bank Deposits / GDP	269.1	260.1	274.4	1,430
Private Sector Loans / GDP	81.7	83.7	81.3	(240)
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	Dec 2009	Nov 2010	Dec 2010	Change*	Risk Level
Political Risk Rating	57.0	58.5	58.5	↑	High
Financial Risk Rating	28.0	28.0	28.5	↑	High
Economic Risk Rating	35.5	35.5	32.5	↓	Moderate
Composite Risk Rating	60.2	61.0	59.7	↓	High

Regional Average	Dec 2009	Nov 2010	Dec 2010	Change*	Risk Level
Political Risk Rating	64.7	64.4	64.5	↓	Moderate
Financial Risk Rating	42.1	42.3	42.2	↑	Very Low
Economic Risk Rating	35.2	38.0	38	↑	Low
Composite Risk Rating	70.9	72.3	72.3	↑	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	Stable	B	B	Stable
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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