

LEBANON THIS WEEK

In This Issue

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

Rising political tensions affecting economic outlook

Deteriorating political climate hurting growth prospects

IDAL facilitates 35 projects worth \$1.1bn in 2003-10 period

Industrial exports increase by 4% to \$1.1bn in first four months of 2011, imports stagnate at \$77.2m

Palestinian refugees to benefit from end-of-service coverage

Number of employees in financial sector up 7% to 22,300 in 2010, 45% are females and 70% hold university degrees

Lebanon ranks 137th globally, 18th in MENA region on peace index

Cleared checks stagnate, returned checks down 31% in first quarter of 2011

Central Bank business survey: industrial activity down in fourth quarter of 2010

Corporate Highlights6

Fitch affirms Byblos Bank's ratings, highlight strong franchise and resilient profitability

Capital Intelligence affirms Byblos Bank's ratings, Bank has lowest NPL ratio and best provisioning among its peers

Profits of top 12 banks up 12.5% to \$372.6m in first quarter

Solidere ranks in 61st place among Top 100 Arab companies

Banks' ratings affirmed

Fransabank's profits up 15% to \$34m in first quarter

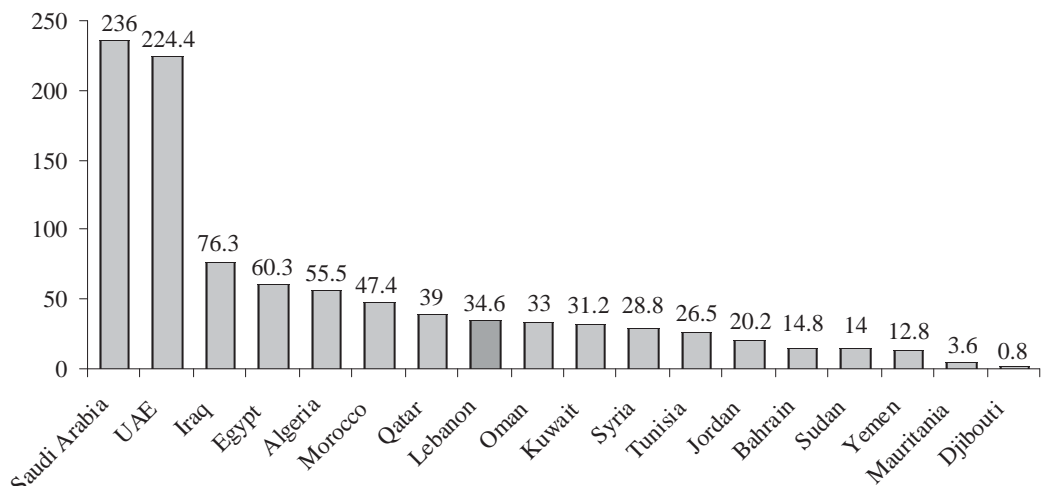
BankMed's net income up 11% to \$26m in first quarter

SGBL's profits increase by 9% to \$22m in 2010

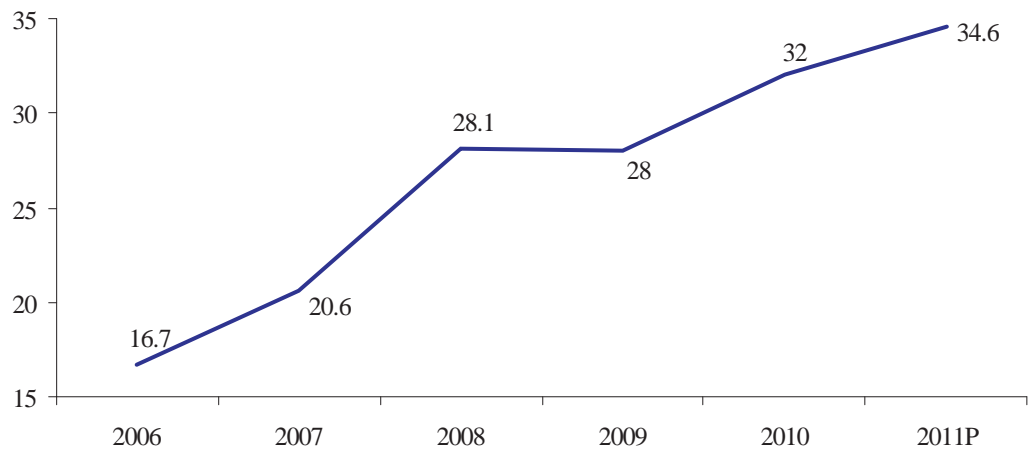
Ratio Highlights.....8
Risk Outlook.....8
Ratings & Outlook.....8

Charts of the Week

Projected Value of Imports of Goods & Services of Arab Countries in 2011 (US\$bn)



Projected Value of Imports of Goods & Services of Lebanon (US\$bn)



Source: International Monetary Fund April 2011, Byblos Research

Quote to Note

"Several other necessary legislative measures concerning intellectual property rights remain pending."

The United States Trade Representative, on the need to implement additional legislative measures to protect IPRs in Lebanon, despite improvements made in 2010.

Number of the Week

1,500: Megawatt capacity for wind power generation in Lebanon, according to the National Wind Atlas of Lebanon

Economic Indicators

| \$m (unless otherwise mentioned) | 2009 | Mar 10 | 2010 | Jan 11 | Feb 11 | Mar 11 | % Change* |
|------------------------------------------|-----------------|---------------|---------------|---------------|---------------|---------------|------------------|
| Exports | 3,486 | 374 | 4,256 | 297 | 304 | 354 | (5.35) |
| Imports | 16,241 | 1,934 | 17,956 | 1,729 | 1,218 | 1,631 | (15.67) |
| Trade Balance | (12,755) | (1,560) | (13,700) | (1,432) | (914) | (1,277) | (18.14) |
| Balance of Payments | 7,899 | 264 | 3,326 | (772) | 104 | 270 | 2.27 |
| Checks Cleared in LBP | 11,122 | 1,187 | 13,519 | 1,206 | 1,172 | 1,301 | 9.60 |
| Checks Cleared in FC | 45,270 | 5,302 | 53,925 | 4,404 | 4,094 | 4,798 | (9.51) |
| Total Checks Cleared | 56,392 | 6,489 | 67,444 | 5,610 | 5,266 | 6,099 | (6.01) |
| Budget Deficit/Surplus | (2,960) | (377) | (2,892) | (48) | (501) | (548) | 45.36 |
| Primary Balance | 1,078 | 62 | 1,232 | 202 | (266) | (120) | (293.55) |
| Airport Passengers | 4,986,544 | 363,742 | 5,552,260 | 369,735 | 307,134 | 247,795 | (4.38) |
| \$bn (unless otherwise mentioned) | Dec 2009 | Mar 10 | Dec 10 | Jan 11 | Feb 11 | Mar 11 | % Change* |
| BdL FX Reserves | 25.66 | 27.17 | 28.60 | 28.30 | 28.42 | 28.54 | 5.04 |
| <i>In months of Imports</i> | 18.6 | 14.04 | 19.4 | 16.3 | 23.33 | 17.40 | 23.93 |
| Public Debt | 51.09 | 51.46 | 52.59 | 52.29 | 52.08 | 52.59 | 2.20 |
| Net Public Debt | 44.11 | 44.40 | 45.01 | 44.95 | 45.31 | 45.61 | 2.73 |
| Bank Assets | 115.25 | 119.91 | 128.93 | 128.41 | 130.06 | 132.49 | 10.49 |
| Bank Deposits (Private Sector) | 95.77 | 98.14 | 107.20 | 106.13 | 106.80 | 108.15 | 10.20 |
| Bank Loans to Private Sector | 28.37 | 30.71 | 34.93 | 35.31 | 35.70 | 36.43 | 18.63 |
| Money Supply M2 | 34.16 | 36.23 | 39.40 | 37.12 | 37.03 | 37.14 | 4.55 |
| Money Supply M3 | 82.08 | 84.96 | 92.15 | 91.57 | 92.01 | 92.76 | 9.86 |
| LBP Lending Rate (%) | 9.04 | 8.69 | 7.91 | 7.71 | 7.71 | 7.73 | (96b.p.) |
| LBP Deposit Rate (%) | 6.75 | 6.11 | 5.68 | 5.63 | 5.63 | 5.63 | (48b.p.) |
| USD Lending Rate (%) | 7.28 | 7.01 | 6.74 | 7.14 | 7.01 | 7.24 | 23b.p. |
| USD Deposit Rate (%) | 3.05 | 2.86 | 2.80 | 2.84 | 2.90 | 2.82 | (4b.p.) |
| %* Change in CPI** | 4.20 | 5.04 | 6.19 | 6.92 | 5.09 | 6.94 | 190b.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" | 18.24 | (0.22) | 873,075 | 15.44% |
| Solidere "B" | 18.10 | (0.82) | 30,153 | 9.96% |
| Byblos Common | 1.75 | (2.78) | 80,754 | 5.32% |
| Byblos Pref. 08 | 100.00 | (0.10) | 5,350 | 1.69% |
| Byblos Pref. 09 | 100.00 | 0.00 | 1,813 | 1.69% |
| BLOM GDR | 9.10 | 0.00 | 15,000 | 5.69% |
| BLOM Listed | 8.61 | (2.71) | 120,000 | 15.67% |
| Audi GDR | 7.50 | 0.00 | 31,400 | 6.26% |
| Audi Listed | 7.04 | 0.86 | 79,239 | 20.76% |
| HOLCIM | 17.52 | 1.57 | 800 | 2.89% |

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

| Sovereign Eurobonds | Coupon % | Mid Price \$ | Mid Yield % |
|----------------------------|-----------------|---------------------|--------------------|
| Aug. 2011 | 7.500 | 100.88 | 2.18 |
| Mar. 2012 | 7.500 | 103.06 | 3.56 |
| Sep. 2012 | 7.750 | 105.00 | 3.66 |
| June 2013 | 8.625 | 109.00 | 4.01 |
| Apr. 2014 | 7.375 | 108.50 | 4.19 |
| Apr. 2015 | 10.00 | 117.00 | 5.13 |
| Jan. 2016 | 8.500 | 113.00 | 5.30 |
| Mar. 2017 | 9.000 | 116.75 | 5.58 |
| Nov. 2018 | 5.150 | 96.50 | 5.73 |
| Apr. 2021 | 8.250 | 114.88 | 6.21 |

Source: Byblos Capital Markets

| | May 23-27 | May 16-20 | % Change | April 2011 | April 2010 | % Change |
|------------------------------|------------------|------------------|-----------------|-------------------|-------------------|-----------------|
| Total Shares Traded | 1,265,242 | 1,208,005 | 4.74 | 18,453,479 | 26,726,767 | (30.96) |
| Total Value Traded | \$20,302,062 | \$7,835,108 | 159.12 | \$94,089,158 | \$84,719,626 | 11.06 |
| Market Capitalization | \$11.82bn | \$11.87bn | (0.60) | \$11.91bn | \$13.01bn | (8.44) |

Source: Beirut Stock Exchange (BSE)



Rising political tensions affecting economic outlook

Regional investment bank EFG Hermes revised downwards its economic growth forecast for Lebanon to 3.5% for 2011 from 5% previously, and compared to a growth estimate of 6.5% for 2010. It attributed the reduced forecast to the weaker than expected activity in key sectors during the first quarter, and to the recent developments in Syria. It noted that exports, capital inflows, real estate activity and tourism numbers have declined in the first quarter of 2011 and expected them to decelerate further in the second quarter of the year. It anticipated lower tourism receipts in 2011, especially from a drop in Arab tourists, who constitute the majority of non-Lebanese visitors; and considered that the closure of the Syrian borders, the only land getaway for Lebanese goods to regional markets, will negatively impact the country's exports in the second quarter of the year.

In parallel, EFG Hermes expected the fiscal deficit to widen by an additional 2.1 percentage points than its earlier forecast, as it projected the deficit to widen to 9.2% of GDP this year from its previous estimate of 7.1% of GDP, due to weaker revenue growth and rising spending on transfers to Electricité du Liban after the recent rise in global oil prices. It indicated that Lebanon has successfully refinanced \$1bn worth of Eurobonds in May at relatively low rates, and did not anticipate the Finance Ministry to face problems in rolling over maturing Treasury bills and Eurobonds in 2011 despite delays in forming a new government. It noted that Lebanese banks were the main buyers of the new Eurobond issue, which reflects their commitment to refinance existing government debt. It noted that Lebanon cannot tap international markets to raise new debt in the absence of a government, given that a governmental decree is required.

EFG Hermes said banks have been reluctant to subscribe to new local currency T-bills and have been holding their Lebanese pound liquidity due to rising dollarization in the first quarter of the year, which has pushed the Central Bank to intervene and fill the T-bills subscription gap. As such, it expected the Central Bank to remain the lender of last resort for the government if banks remain reluctant to subscribe to Lebanese pound-denominated Treasury bills. It added that around \$11.5bn of local currency T-bills will mature this year.

| Country Forecast Summary | | | |
|--------------------------------------|--------|--------|--------|
| | 2010 | 2011F | 2012F |
| Real Sector | | | |
| Real GDP growth (% yoy) | 6.5 | 3.5 | 4.8 |
| CPI inflation (% yoy, avg.) | 3.9 | 4.5 | 4.2 |
| External Sector | | | |
| Trade balance (\$bn) | (13.9) | (16.2) | (16.9) |
| Current account balance (% of GDP) | (10.6) | (12.2) | (12.1) |
| Gross reserves (\$bn) | 28.4 | 29.4 | 30.5 |
| Fiscal Sector | | | |
| Fiscal balance (% of GDP) | (7.4) | (9.2) | (8.4) |
| Net domestic debt (% of GDP) | 63.4 | 60.6 | 54.5 |
| External debt (% of GDP) | 53.4 | 50.8 | 47.7 |
| Financial Sector | | | |
| Broad money growth (% yoy) | 12.3 | 14.4 | 10.0 |
| Private sector credit growth (% yoy) | 24.4 | 15.0 | 18.0 |

Source: EFG Hermes

Deteriorating political climate hurting growth prospects

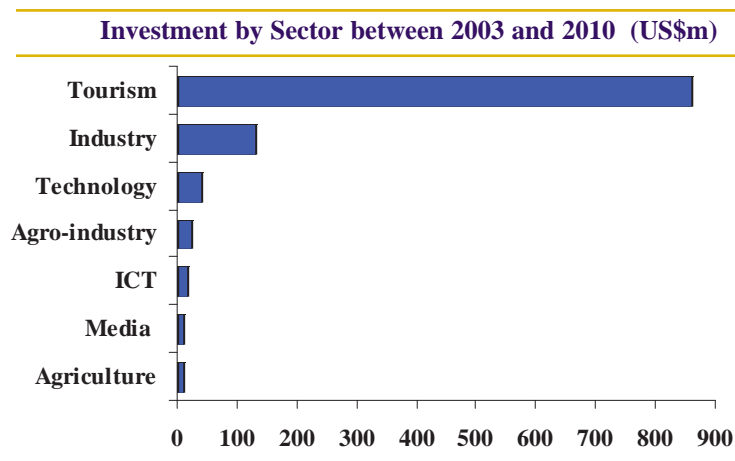
Standard Chartered Bank revised downwards its economic growth forecast for Lebanon to 3% for 2011 from 5.5% previously. It attributed the economic slowdown this year to the deteriorating political environment, which is clouding the outlook for the service-dependent economy, as well as to the indirect impact of regional unrest. It noted the strong and steep decline in economic activity during the first quarter of the year. It said the trade balance posted its widest deficit in five years due to a combination of a higher hydrocarbon bill and a 7% decrease in exports; while the fiscal deficit widened by 92% due to lower revenues and an 11% rise in expenditures. It indicated that fiscal policy will be defined by a deteriorating fiscal balance, triggered by slippages in energy subsidies and diminishing tax collection because of lower growth. It noted, however, that restrained government expenditures due to the political paralysis will contain the fiscal deficit to 9.5% of GDP this year. It also considered that the tourism sector's direct and indirect contribution to economic activity, estimated at 38% of GDP in 2010, will decline in 2011 as reflected by the drop in tourist arrivals and hotel occupancy rates so far this year, as well as due to the inability to form a new government.

IDAL facilitates 35 projects worth \$1.1bn in 2003-10 period

The Investment Development Authority of Lebanon (IDAL) indicated that it has facilitated the implementation of 35 projects in Lebanon that mobilized \$1.1bn in investments and created 4,760 jobs between 2003 and 2010. It said tourism accounted for 37% of the total number of projects, followed by industry with 17%, technology and agro-industry with 14% each, information, communication & technology with 12%, and media and agriculture with 3% each. It said 60% of these projects were Greenfield operations, and 80% of projects were initiated by Lebanese investors. In value terms, tourism accounted for \$860m or 79% of the total during the seven-year period, followed by industry with \$131m (12%), technology with \$40m (4%), agro-industry with \$22m (2%), ICT with \$16m (1.5%), and media and agriculture with \$11m each (1% each). Beirut attracted 34% of projects and 54% of investments, followed by Mount Lebanon with 31% of projects and 31% of total investments during the covered period.

IDAL said tourism projects consisted of five-star hotels and leisure facilities; while industrial projects were in metal, machinery and equipment as well as in textile, timber, and rubber and chemicals. Also, technology projects covered the medical and pharmaceutical fields; and the ICT sector saw projects in the software and wireless areas.

Further, IDAL indicated that tourism projects generated 3,271 jobs, or 73% of total employment opportunities created during the 2003-10 period; followed by agro-industry with 443 opportunities (9.3%), technology with 443 jobs (8%), ICT with 305 jobs (6.4%), industry with 276 (5.8%), agriculture with 62 (1.3%), and media with 24 (0.5%). In parallel, IDAL said the real estate and residential sectors attracted around 70% of total FDI inflows to Lebanon in 2009, followed by tourism with 22% of the total; while media, financial services, education and trade generated 7.1% of total investments.



Source: IDAL

Industrial exports increase by 4% to \$1.1bn in first four months of 2011, imports stagnate at \$77.2m

Figures released by the Ministry of Industry show that industrial exports totaled \$1.1bn in the first four months of 2011, constituting an increase of 3.9% from \$1.05bn in the same period last year. Industrial exports reached \$302.4m in April 2011, up by 4.7% from March 2011 and by 16.8% from April 2010. Pearls & precious or semi-precious stones accounted for \$247.1m, or 22.6%, of total industrial exports in the first four months of the year, followed by base metals & articles of base metals with \$192.2m (17.6%), and machinery and mechanical appliances with \$169.4m (15.5%). Arab countries accounted for 39.5% of total industrial exports in April, followed by African countries with 21.8%. In parallel, industrial imports reached \$77.2m in the first four months of the year, unchanged from the same period in 2010. Italy was the main source of such imports and accounted for 34.4% of total. It was followed by China with 16.2% and Germany with 9%. Further, imports of industrial equipment and machinery reached \$24.4m in April, up 27% year-on-year. Italy was the main source of imports of industrial equipments, accounting for 43.6% of total, followed by Turkey with 10.3% and China with 8.8%.

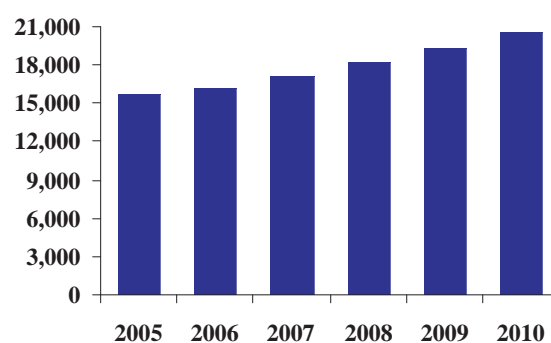
Palestinian refugees to benefit from end-of-service coverage

The National Social Security Fund (NSSF) announced that Palestinian refugees will start benefiting from end-of-service coverage in accordance with Law 128. The NSSF said that in order to benefit from the service, the beneficiary should be a Palestinian refugee residing in Lebanon, is registered at the Directorate of Political Affairs and Refugees, and has obtained a work permit according to the laws and regulations. Last August, the Lebanese Parliament passed Law 128 that provided working rights to Palestinian refugees in Lebanon. The bill gave Palestinians the right to enter the wider labor market on the same terms as other foreigners, and authorized the refugees to work in a number of professions that were previously prohibited to Palestinians. Further, Palestinians became eligible to benefit for the first time from social security protection, which will be derived from a special fund, and not from the resources of the NSSF. The United Nations estimates there are 400,000 Palestinian refugees in Lebanon, many of whom already work in low-skilled jobs without proper legal status.

Number of employees in financial sector up 7% to 22,300 in 2010, 45% are females and 70% hold university degrees

Figures issued by the Central Bank show that the number of employees in the Lebanese financial sector totaled 22,286 at the end of 2010, constituting an increase of 7.1% from 20,812 workers in 2009 and compared to 19,645 employees in 2008. The number of employees at commercial banks reached 20,487 and accounted for 92% of the total in 2010. They were followed by financial institutions with 887 workers or 4% of the total, medium- & long-term banks with 769 (3.5%), financial intermediaries with 131 (0.6%) and leasing companies with 12 (0.05%). Further, female employees totaled 10,021 and accounted for 45% of the workforce in the Lebanese financial system. Commercial banks employed 9,312 females as at end-2010, or 45.5% of their workforce. Financial institutions had 344 females, or 38.8% of their staff; medium and long-term banks employed 321 females or 42.2% of their workforce; financial intermediaries had 40 females or 30.5% of their staff; while 33% of the staff at leasing firms were females.

Number of Employees at Commercial Banks



Source: Central Bank

Also, holders of university degrees totaled 15,479 and accounted for 69.5% of the staff in the Lebanese financial sector, with females accounting for 50.3% of university degree holders. Further, holders of a baccalaureate degree represented 18.8% of the total and the remaining 11.8% had a degree below the baccalaureate level. Females accounted for 41.3% of holders of a baccalaureate degree and for 19.4% of those who have a degree below the baccalaureate level.

In parallel, there are 4,079 managers and supervisors in the financial system, with 95% of them working at commercial banks. Females totaled 1,430 and accounted for 35% of the aggregate. Also, females accounted for 36% of managers and supervisors at commercial banks, 20% at medium and long-term banks, 15.3% at financial institutions, and 13.3% at financial intermediaries. There are 54 commercial banks, 50 financial institutions, 13 medium- and long-term banks, 11 financial intermediaries, and two leasing companies in Lebanon.

Lebanon ranks 137th globally, 18th in MENA region on peace index

The 2011 Global Peace Index ranked Lebanon in 137th place among 153 countries globally and in 16th place among 20 countries in the Middle East and North Africa region. It also ranked Lebanon in 23rd place among 26 upper-middle income countries (UMICs) included in the survey. Lebanon ranked in 134th place among 149 countries globally and in 18th place regionally in the 2010 survey. The GPI ranks countries by their 'absence of violence', using metrics that combine both internal and external factors. The index is based on 23 indicators and is a composite of two sub-indices that measure internal peace, carrying a weight of 60%, and external peace with a weight of 40%. The index was developed by the Economist Intelligence Unit and the Institute for Economics and Peace.

Globally, Lebanon ranked ahead of Yemen, Colombia and Zimbabwe and came behind the Philippines, India and Georgia. It also ranked ahead of Libya and Russia, and behind Turkey, Venezuela and Mexico among UMICs. Lebanon received a score of 2.6 points, constituting a marginal improvement for 2.64 points in 2010. Its score was worse than the global average of 2.05 points and the MENA and Arab averages of 2.25 points and 2.19 points, respectively. The survey indicated that the recent wave of uprisings and revolutions in the Arab world have been reflected in sharply deteriorating GPI scores across the region, notably in Bahrain, Egypt, Libya and Tunisia, which were previously ranked in the top half of the GPI. It added that ongoing protests in Syria and Yemen contributed to the deterioration in their respective GPI scores.

Global Peace Index Rankings & Scores

| | Score | MENA Rank | Global Rank |
|----------------|-------------|-----------|-------------|
| Qatar | 1.40 | 1 | 12 |
| Kuwait | 1.67 | 2 | 29 |
| UAE | 1.69 | 3 | 33 |
| Oman | 1.74 | 4 | 41 |
| Tunisia | 1.77 | 5 | 44 |
| Morocco | 1.89 | 6 | 58 |
| Jordan | 1.92 | 7 | 64 |
| Egypt | 2.02 | 8 | 73 |
| Saudi Arabia | 2.19 | 9 | 101 |
| Syria | 2.32 | 10 | 116 |
| Iran | 2.36 | 11 | 119 |
| Bahrain | 2.40 | 12 | 123 |
| Turkey | 2.41 | 13 | 127 |
| Algeria | 2.42 | 14 | 129 |
| Mauritania | 2.43 | 15 | 130 |
| Lebanon | 2.60 | 16 | 137 |
| Yemen | 2.67 | 17 | 138 |
| Libya | 2.82 | 18 | 143 |
| Israel | 2.90 | 19 | 145 |
| Iraq | 3.30 | 20 | 152 |

Source: EIU, Institute for Economics and Peace

Cleared checks stagnate, returned checks down 31% in first quarter of 2011

The value of cleared checks increased by 0.3% to \$17bn in the first quarter of 2011 compared to the same period of 2010. The value of cleared checks in Lebanese pounds rose by 13.5% to the equivalent of \$3.7bn, while the value of cleared checks in US dollars declined by 2.8% to \$13.3bn. The dollarization rate of cleared checks decreased from 80.8% to 78.3% year-on-year. Also, the value of returned checks in domestic and foreign currency amounted to \$325m in the first quarter of 2011, down 30.7% from \$469m in the same period last year. In parallel, the number of cleared checks increased by 0.9% to 3.1 million checks in the first quarter of 2011 compared to the same period of 2010. Also, the number of returned checks increase by 10.7% to 64,400 checks in the first quarter of 2011 compared to the same period of 2010.

Central Bank business survey: industrial activity down in fourth quarter of 2010

According to the Central Bank's business survey, industrial production declined during the fourth quarter of 2010, with a balance of opinion standing at +18, compared to +25 during the same quarter of 2009. The business survey reflects the opinions of enterprise managers on the evolution of their businesses, in order to depict the evolution of a number of key economic variables. For overall demand for industrial goods, the balance of opinion stood at +4 in the fourth quarter of 2010, down from +19 in the same period of 2009. The balance of opinion for foreign demand rose from +2 to +9 in the same period. The balance of opinion is the difference between the proportion of managers out of total surveyed managers estimating that there has been an improvement in the said variable and the proportion of those who have reported a decline in the variable.

| Industrial Activity: Year-on-year evolution of opinions | | | | |
|----------------------------------------------------------------|--------------|--------------|--------------|--------------|
| Aggregate results | Q4-07 | Q4-08 | Q4-09 | Q4-10 |
| Production | 4 | 15 | 25 | 18 |
| Total demand | -1 | 13 | 19 | 4 |
| Foreign demand | 12 | 4 | 2 | 9 |
| Volume of investments | 21 | 23 | 15 | 18 |
| Inventories of finished goods | -8 | 6 | 7 | 1 |
| Inventories of raw material | -6 | 1 | 0 | 0 |
| Registered orders | -19 | -11 | -1 | -8 |

Source: Central Bank Business Survey in fourth quarter 2010

Fitch affirms Byblos Bank's ratings, highlight strong franchise and resilient profitability

Fitch Ratings affirmed Byblos Bank's Long-term Issuer Default Rating (IDR) at 'B' with a 'stable' outlook, Short-term IDR at 'B', Individual Rating at 'D', Support Rating at '5', and Support Rating Floor at 'CCC'. The agency said Byblos Bank's income grew strongly in 2010 and during the first quarter of 2011, with net income rising by about 22% in both periods. It expected the Bank's revenues to remain relatively stable in 2011, with growth slowing due to the Bank's strategy of focusing on stability and consolidation rather than on growth, as well as from the slowdown in the Lebanese economy and key regional trading countries. Also, it did not expect the Lebanese banking sector as a whole to post the elevated growth rates experienced in recent years.

Fitch indicated that Byblos Bank has a strong domestic franchise. It noted that the quality of the loan portfolio remained good at end-2010 with impaired loans-to-gross loans reaching 1.6% at the end of March relative to 1.5% at end-2010, which compares well with peers. It said non-equity funding consists almost entirely of customer deposits, with such deposits accounting for 86% of funding at end-2010. It added that Byblos Bank is adequately capitalized given its relatively small loan book; aims to maintain its Tier 1 capital ratio above 12%; and its equity increased by almost 25% in 2010, largely due to the issuance of preferred and common shares. It said the Bank's international operations cover the Middle East and North Africa region, Europe, and sub-Saharan Africa.

Capital Intelligence affirms Byblos Bank's ratings, Bank has lowest NPL ratio and best provisioning among its peers

Capital Intelligence affirmed Byblos Bank's Long-Term and Short-Term Foreign Currency Ratings at 'B' and 'B', respectively. It also affirmed the Bank's Financial Strength Rating (FSR) at 'BBB-', reflecting the fact that the Bank's loan quality and capital adequacy is better than that of its peer group. It maintained the Support Level at '3' given the high likelihood of official support in case of need. It said the outlook for all the ratings is 'stable' and noted that the ratings continue to be restrained by the sovereign ratings for Lebanon.

The agency indicated that Byblos Bank is a well-managed institution, and is implementing a clear business strategy based on sound risk management practices. It noted that the Bank has successfully grown its capital base and operations in Lebanon and abroad through a series of capital injections over the years from supportive shareholders. It added that the regional expansion is leading to the diversification of assets and sources of income, but noted that the bulk of the Bank's assets remain domestic in nature with a significant amount invested in Lebanese government securities and Certificates of Deposit issued by the Central Bank of Lebanon. It said that the exposure to the sovereign is declining in both absolute and relative terms, as the Bank grows its other liquid assets and loans.

Also, Capital Intelligence said the quality of the Bank's already sound credit portfolio improved further due to strong economic expansion in Lebanon. It stressed that Byblos Bank has the lowest non-performing loan ratio and best provision coverage among its peers. It noted that the rights issue in 2010 strengthened the Bank's capital adequacy ratio to a level that is better than that of its peers. Further, the Bank's net profits and operating profits continued to grow, supported by credit expansion and despite a lower interest differential.

Profits of top 12 banks up 12.5% to \$372.6m in first quarter

The unaudited consolidated net profits of the Alpha Group of banks reached \$372.6m in the first quarter of 2011, constituting an increase of 12.5% from the same period last year. The Alpha Group consists of 12 banks with deposits in excess of \$2bn each. Total net operating income rose by 13% to \$924.5m, with aggregate net interest income increasing by 18.3% to \$635.2m and non-interest receipts growing by 1.3% to \$313m year-on-year. The net interest spread rose to 1.95% in the first quarter from 1.83% in the same period last year. Also, total operating expenditures increased by 13% year-on-year to \$470m, with staff expenses increasing by 17% to \$261.6m. The banks' total assets reached \$133bn at end-March, constituting a 4% increase from end-2010; while aggregate loans & advances rose by 8.5% during the first quarter to \$37.4bn. Customer deposits totaled \$111bn at the end of March, constituting an increase of 3.8% from end-2010. The banks' net return on average assets reached 1.14% on an annualized basis, almost unchanged from a year earlier; while net return on average equity was 12.4% relative to 12.14% at end March-2010. Further, the cost-to-income ration increased to 49.6% in the first quarter from 49.2% in the same period last year.

Solidere ranks in 61st place among Top 100 Arab companies

Al-Iktissad Wal-Aamal magazine's annual survey of the Top 100 publicly-traded Arab firms ranked Solidere in 61st place in the region, down from 45th place in the previous survey. The rankings are based on market capitalization at the end of 2010. Solidere's market capitalization reached \$3.1bn at end-2010, constituting a decline of 23.3% from \$3.99bn at end-2009. Solidere was the highest-ranked Lebanese institution in the survey. Saudi Basic Industries Corporation (SABIC), a leading petrochemicals company, was the top-ranked Arab company with a market capitalization of \$83.8bn at end-2010. Solidere posted net profits of \$182.2m in 2009, down 0.8% from \$183.6m in 2008. Net consolidated revenues from land and real estate sales rose by 17.7% to \$241.6m in 2009 while net revenues from rental properties increased by 25.3% to \$27.2m, resulting in total net operating revenues of \$234m for the year, up 14.7% year-on-year. Solidere's consolidated assets totaled \$2.34bn in 2009, down 2.7% from end-2008.

Banks' ratings affirmed

Fitch Ratings affirmed BLOM Bank's Support Rating at '5'. It considered that the Lebanese authorities would have a high propensity to support the bank, if necessary, in view of its systemic importance to the banking sector and to the economy as a whole. It noted, however, that given the low sovereign rating, the authorities' ability to provide support, although possible, cannot be relied on. It said BLOM's operating and net income grew by 15% and 13%, respectively, in 2010; and the bank's profitability ratios compare well with the large regional banks. Fitch expects profitability to continue to grow in 2011 but at a slower rate than recent years as the Lebanese economy slows and key regional economies suffer from recent unrest.

In parallel, Fitch Ratings affirmed Bank Audi's long-term Issuer Default Rating (IDR) at 'B' with a 'stable' outlook, short-term IDR at 'B', Individual Rating at 'D', Support Rating at '5', and the Support Rating Floor at 'CCC'. It said Audi's ratings reflect the bank's substantial exposure to the sovereign through its large holding of Lebanese government debt, as well the weaknesses of the Lebanese operating environment, including political factors. It noted that the pace of net income growth slowed in the first quarter of the year but remained healthy, adding that income growth from Audi's MENA subsidiaries, specifically Egypt and Syria, is likely to decline in 2011. It added that the bank's Lebanese revenues may also fail to maintain the strong growth rates experienced in recent years as the domestic operating environment remains uncertain. It noted that Audi's largest credit risk remains the Lebanese sovereign, which accounts for 38% of the bank's total assets including cash and balances with the Central Bank of Lebanon. It said that rapid loan growth in 2010 offset the modest increase in impaired loans and helped maintain a low level of non-performing loans at end-2010.

Fransabank's profits up 15% to \$34m in first quarter

Fransabank sal, one of Lebanon's top 10 banks, announced unaudited consolidated net profits of \$33.9m in the first quarter of 2011, up 14.8% from the same period last year. Net operating income rose by 23% year-on-year to \$93.1m, with net interest income increasing by 37% to \$74.5m and non-interest receipts contracting by 4% to \$20m year-on-year. Also, operating expenditures increased by 26% to \$50m, with staff expenses increasing by 29% to \$31.6m. Total assets reached \$13bn at end-March, constituting a 6.7% rise from end-2010, while loans & advances increased by 22% in the first quarter to \$3.84bn. Customer deposits totaled \$10.8bn at end-2010, up 7% from end-2010.

BankMed's net income up 11% to \$26m in first quarter

BankMed sal, one of Lebanon's top 10 banks, announced unaudited consolidated net profits of \$25.5m in the first quarter of 2011, up 11% from the same period last year. Net operating income rose by 13% to \$79m, with net interest income rising by 21.6% to \$53m while non-interest income decreased by 32.5% to \$23.5m year-on-year. Also, operating expenditures increased by 6% to \$50m year-on-year. Total assets reached \$12bn at end-March, constituting an 8.2% rise from end-2010, while loans & advances to customers increased by 21% in the first quarter to \$4.3bn. Customer deposits totaled \$9.8bn at end-March, constituting an increase of 12% from end-2010.

SGBL's profits increase by 9% to \$22m in 2010

Société Générale de Banque au Liban sal (SGBL) sal, one of Lebanon's top 10 banks, declared unaudited consolidated net profits of \$22m in the first quarter of 2011, constituting an increase of 9.3% from the same period last year. Net operating income rose by 4.6% to \$49m, with net interest income increasing by 16.4% to \$32.6m and non-interest receipts contracting by 30% to \$16.7m year-on-year. Also, operating expenditures increased by 4.5% to \$26m, with staff expenses unchanged at \$14.3m. Total assets reached \$5.4bn at end-March, constituting a 4.7% rise from end-2010, while loans & advances increased by 9.2% in the first quarter to \$1.54bn. Customer deposits totaled \$4.3bn at end March, constituting a rise of 4.7% from end-2010. SGBL's first quarter results are not consolidated with the assets and liabilities of the Lebanese-Canadian Bank, which SGBL acquired last February.

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 | Feb 2010 | Jan 2011 | Feb 2011 | Change* | Risk Level |
|-----------------------|----------|----------|----------|---------|------------|
| Political Risk Rating | 57.5 | 56.5 | 56.5 | ▼ | High |
| Financial Risk Rating | 28.0 | 28.5 | 28.5 | ▲ | High |
| Economic Risk Rating | 35.5 | 32.5 | 32.5 | ▼ | Moderate |
| Composite Risk Rating | 60.5 | 58.7 | 58.7 | ▼ | High |

| Regional Average | Feb 2010 | Jan 2011 | Feb 2011 | Change* | Risk Level |
|-----------------------|----------|----------|----------|---------|------------|
| Political Risk Rating | 64.7 | 63.6 | 62.6 | ▼ | Moderate |
| Financial Risk Rating | 42.1 | 42.3 | 42.2 | ▲ | Very Low |
| Economic Risk Rating | 35.7 | 38.1 | 38.0 | ▲ | Low |
| Composite Risk Rating | 71.2 | 72.0 | 71.4 | ▲ | 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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