

## LEBANON THIS WEEK

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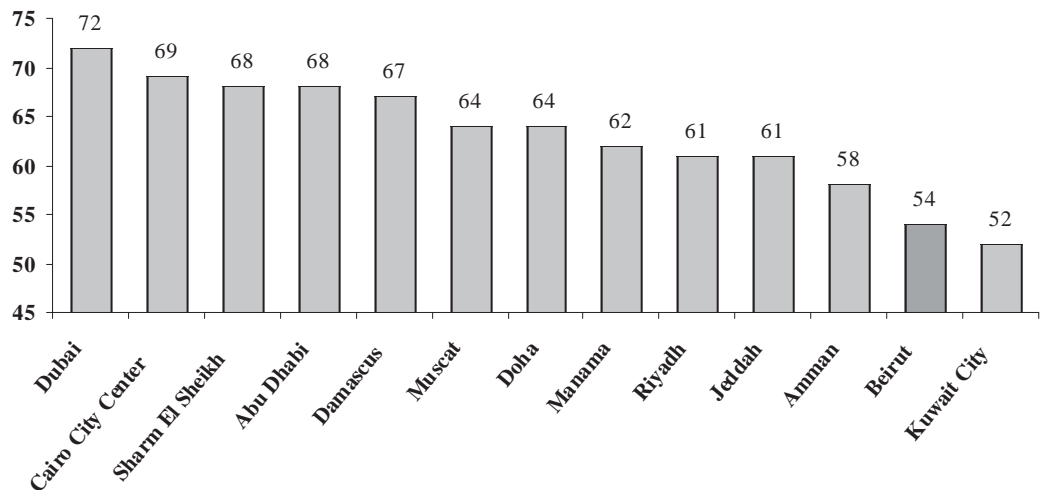
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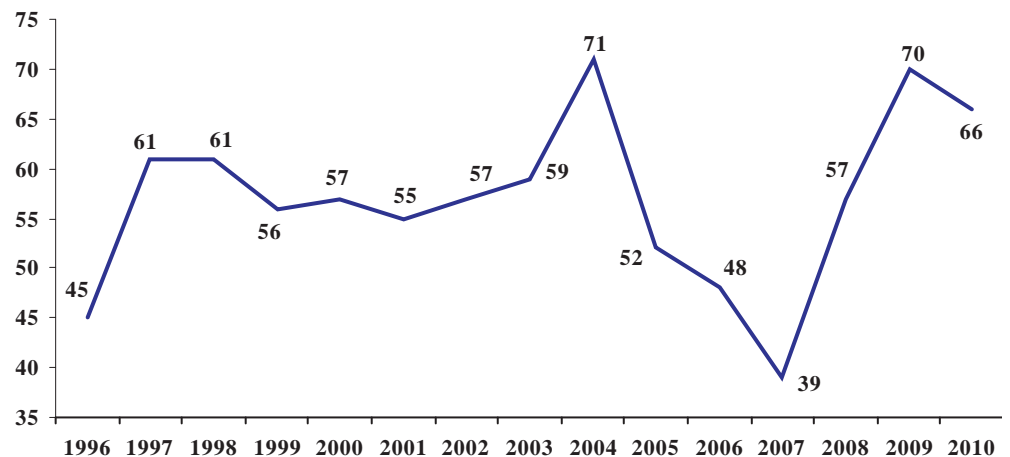
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### Charts of the Week

Average Occupancy Rate at Hotels in Arab Cities during the 1994-2010 Period (%)



Average Annual Occupancy Rates at Hotels in Beirut (%)



Source: HVS Research, Byblos Research

### Quote to Note

"Lebanon's benchmark Eurobonds do not seem to have responded in any sustained manner to the formation of the Cabinet."

*The Royal Bank of Scotland, on investors' wait-and-see attitude towards the new Cabinet*

### Number of the Week

**16%:** Number of venture capital transactions in Lebanon, as a percentage of total deals in the Middle East & North Africa region during the 2006-10 period, according to the MENA Private Equity Association

## Economic Indicators

<b>\$m (unless otherwise mentioned)</b>	<b>2009</b>	<b>Apr 10</b>	<b>2010</b>	<b>Feb 11</b>	<b>Mar 11</b>	<b>Apr 11</b>	<b>% Change*</b>
Exports	3,486	328	4,256	304	354	375	14.33
Imports	16,241	1,377	17,956	1,218	1,631	1,501	9.01
Trade Balance	(12,755)	(1,049)	(13,700)	(914)	(1,277)	(1,126)	7.34
Balance of Payments	7,899	424	3,326	104	270	(199)	(146.93)
Checks Cleared in LBP	11,122	1,058	13,519	1,172	1,301	1,160	9.64
Checks Cleared in FC	45,270	4,615	53,925	4,094	4,798	4,485	(2.82)
Total Checks Cleared	56,392	5,673	67,444	5,266	6,099	5,645	(0.49)
Budget Deficit/Surplus	(2,960)	(110)	(2,892)	(501)	(548)	(301)	173.64
Primary Balance	1,078	291	1,232	(266)	(120)	163	(43.99)
Airport Passengers	4,986,544	438,328	5,552,260	307,134	347,795	466,640	6.46

<b>\$bn (unless otherwise mentioned)</b>	<b>Dec 2009</b>	<b>Apr 10</b>	<b>Dec 10</b>	<b>Feb 11</b>	<b>Mar 11</b>	<b>Apr 11</b>	<b>% Change*</b>
BdL FX Reserves	25.66	27.32	28.60	28.42	28.54	28.76	5.27
<i>In months of Imports</i>	<i>18.6</i>	<i>14.04</i>	<i>19.4</i>	<i>23.33</i>	<i>17.40</i>	<i>19.16</i>	<i>36.47</i>
Public Debt	51.09	51.49	52.59	52.08	52.59	52.61	2.18
Net Public Debt	44.11	44.34	45.01	45.31	45.61	45.72	3.11
Bank Assets	115.25	120.64	128.93	130.06	132.49	133.80	10.91
Bank Deposits (Private Sector)	95.77	99.13	107.20	106.80	108.15	109.93	10.89
Bank Loans to Private Sector	28.37	31.04	34.93	35.70	36.43	36.81	18.59
Money Supply M2	34.16	36.72	39.40	37.03	37.14	37.48	2.07
Money Supply M3	82.08	85.75	92.15	92.01	92.76	94.20	9.85
LBP Lending Rate (%)	9.04	8.48	7.91	7.71	7.73	7.73	(75b.p.)
LBP Deposit Rate (%)	6.75	6.00	5.68	5.63	5.63	5.64	(36b.p.)
USD Lending Rate (%)	7.28	7.10	6.74	7.01	7.24	7.05	(5b.p.)
USD Deposit Rate (%)	3.05	2.84	2.80	2.90	2.82	2.84	0b.p.
%* Change in CPI**	4.20	4.46	6.19	5.09	6.94	6.56	210b.p.

\* Year-on-Year; \*\* Consumer Price Index

Note: b.p. i.e. basis point

Sources: ABL, BdL

## Capital Markets

<b>Most Traded Stocks on BSE</b>	<b>Last Price (\$)</b>	<b>% Change*</b>	<b>Total Volume</b>	<b>Weight in Market Capitalization</b>
Solidere "A"	17.66	(0.84)	99,618	15.19%
Solidere "B"	17.54	(1.07)	17,314	9.83%
Byblos Common	1.71	(2.29)	4,798	5.37%
Byblos Pref. 08	100.00	0.00	1,214	1.71%
Byblos Pref. 09	100.00	0.00	10,274	1.71%
BLOM GDR	8.80	(1.46)	100	5.63%
BLOM Listed	8.48	(0.24)	164,739	15.59%
Audi GDR	7.50	(2.47)	77,163	6.47%
Audi Listed	7.00	0.00	76,867	20.80%
HOLCIM	16.50	(6.25)	5,213	2.93%

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

<b>Sovereign Eurobonds</b>	<b>Coupon %</b>	<b>Mid Price \$</b>	<b>Mid Yield %</b>
Aug. 2011	7.500	100.40	3.79
Mar. 2012	7.500	103.13	3.08
Sep. 2012	7.750	105.00	3.48
June 2013	8.625	109.00	3.89
Apr. 2014	7.375	109.00	3.96
Apr. 2015	10.00	117.50	4.94
Jan. 2016	8.500	114.00	5.02
Mar. 2017	9.000	117.50	5.40
Nov. 2018	5.150	97.50	5.57
Apr. 2021	8.250	115.88	6.07

Source: Byblos Capital Markets

	<b>June 20-24</b>	<b>June 13-17</b>	<b>% Change</b>	<b>May 2011</b>	<b>May 2010</b>	<b>% Change</b>
<b>Total Shares Traded</b>	492,811	1,199,943	(58.93)	6,771,576	16,963,146	(60.08)
<b>Total Value Traded</b>	\$6,556,605	\$16,509,508	(60.29)	\$62,013,242	\$149,074,321	(58.04)
<b>Market Capitalization</b>	\$11.43bn	\$11.73bn	(2.49)	\$11.69bn	\$12.84bn	(8.96)

Source: Beirut Stock Exchange (BSE)



### **New government faces major socioeconomic challenges, growth revised downward to 3% for 2011**

Barclays Capital indicated that the unfolding crisis in Syria accelerated the formation of the Lebanese government after five months of stalemate. It said the government's formation constitutes a positive step despite the political risks involved, given the months of policy vacuum and institutional paralysis that seriously undermined political stability and negatively affected private sector activity, consumer confidence and investor sentiment. As a result, it revised downwards its real GDP growth forecast to 3% in 2011 from an earlier projection of 5.3% for the year. It noted that the government faces long-standing socio-economic and political challenges, but expected it to act more coherently and cohesively than its predecessor in several economic policy areas, at least given its composition. It noted that the government faces greater public scrutiny about its willingness and ability to deliver on critical policy issues.

Barclays considered that the formation of the new Cabinet should bring in principle some positive momentum to the economy following consecutive months of deteriorating activity across various sectors. It said the coincident indicator has been on a downward trend in the first quarter of the year, declining for the first time on a year-on-year basis in February and March since 2007. Also, real estate sales dropped by 21% year-on-year in the first four months of 2011, resulting in a severe slowdown in the real estate and construction sector. Further, tourism activity decelerated sharply and the growth of private sector credit slowed down.

It said that the slowdown in tourism and other related service exports, along with a fall in capital inflows, led to a balance of payments deficit of \$0.6bn in the first four months of the year, the first such deficit since 2005. It expected the service balance to weaken considerably, which would widen the current account deficit to about 11.9% of GDP in 2011 relative to 10.1% in 2010, unless there is a significant influx of Arab tourists and Lebanese expatriates in the second half of the year. It added that prevailing conditions in Syria will complicate matters further, notably for exports of goods and services; and will keep risk aversion elevated, which would affect major investment decisions, especially in the real estate sector. It also assumed that workers' remittances would decline to \$7bn in 2011 from \$8.4bn last year.

Barclays expected the deterioration in public finances to continue. It anticipated public revenues to remain weak until the end of the year in light of heightened regional political risks spilling into local domestic politics and private sector growth. It forecast the deficit to reach 9.6% of GDP in 2011 compared to 7.4% of GDP in 2010. It said its deficit forecast takes into consideration an expected transfer of telecom receipts from the Telecommunications Ministry to the Finance Ministry of about \$1bn, without which the deficit would reach double-digit levels. It did not expect capital expenditures to increase significantly in the second half of the year, even if a new revised budget is ratified by Parliament this year, but added that higher wages and fuel subsidies will keep the pressure on the spending side. It warned that debt dynamics would start to reverse next year in case the primary balance continues to deteriorate. It forecast the public debt to reach 138% of GDP at the end of 2011 compared to 137% of GDP at end-2010. It noted that domestic banks, which hold almost 80% of the country's total debt, expressed concerns recently about the weakening economic growth and deteriorating fiscal balance, but reconfirmed their commitment to securing the government's financing needs. It did not expect the banks' stance to change following the formation of the new government, despite diverging political views within the banking community. It indicated that deposit growth is still averaging 10% year-on-year during the first months of this year, and that banks should continue to add the equivalent of about \$10bn to \$13.5bn to their asset base in 2011.

<b>Key Macroeconomic Indicators</b>				
	<b>2009</b>	<b>2010E</b>	<b>2011F</b>	<b>2012F</b>
<b>Activity</b>				
Real GDP (% yoy)	8.5	7.5	3.0	4.5
CPI (% average)	1.2	4.5	5.0	3.0
<b>External Sector</b>				
Current account balance (\$bn)	(3.3)	(4.0)	(5.1)	(5.3)
Current account balance (% of GDP)	(9.5)	(10.1)	(11.9)	(11.5)
Gross external debt (% of GDP)	168.9	160.5	163.8	165.1
International reserves (\$bn)	29.1	31.5	29.1	31.2
<b>Public Sector</b>				
Public sector balance (% of GDP)	(8.5)	(7.4)	(9.6)	(9.1)
Primary balance (including grants) (% of GDP)	3.1	3.1	(0.5)	1.1
Gross public debt (\$bn)	51.1	53.6	56.9	61.6
Gross public debt(% of GDP)	146.4	136.7	138.0	137.4

Source: Barclays Capital

### Lebanon ranks 95th globally, 11th among Arab countries on Networked Readiness Index

The World Economic Forum's Networked Readiness Index for 2010-11 ranked Lebanon in 95th place among 138 countries around the world and in 11th place among 15 Arab countries. Lebanon also came in 27th place among 33 upper-middle income countries (UMICs) included in the survey. The WEF included Lebanon for the first time in the index. Globally, Lebanon ranked ahead of Argentina, Moldova and Georgia and came behind Guatemala, Serbia and El Salvador. Lebanon received a score of 3.5 points, lower than the global average of 3.9 points and the Arab average of 3.87 points, as well as lower than the UMIC's average of 3.7 points. The index reflects the factors driving networked readiness, which is the capacity of countries to fully benefit from new information and communication technologies (ICT) in their competitiveness strategies and their citizens' daily lives. The index is a composite of three sub-indices that cover the environment, readiness, and usage of technology.

Lebanon ranked ahead of Ghana, Russia and Senegal, and came behind Colombia, El Salvador and Vietnam on the Environment Sub-Index. This category covers the market conditions, regulatory framework, and infrastructure for a country's successful use of ICT. Regionally, Lebanon ranked ahead of Syria, Mauritania and Algeria and behind Morocco, Egypt and Kuwait. It also ranked ahead of Russia and behind Colombia among UMICs.

Also, Lebanon ranked ahead of Mozambique, Tajikistan and Albania, and came behind Hungary, the Dominican Republic and Ukraine on the Readiness Sub-Index. This category covers the degree of preparation for and interest in using ICT by individuals, businesses, and the government in their daily activities and operations. Regionally, Lebanon tied with Algeria, ranked ahead of Kuwait, Morocco and Syria, and came behind Egypt, Jordan and Yemen. It also ranked ahead of Albania and behind the Dominican Republic among UMICs.

Further, Lebanon came ahead of Guyana, Venezuela and the Ivory Coast and ranked behind Nigeria, Ecuador and Botswana on the Usage Sub-Index. This category reflects the actual use of ICT by individuals, businesses, and the government. Regionally, Lebanon ranked ahead of Libya, Mauritania and Algeria and came behind Morocco, Kuwait and Egypt. It also ranked ahead of Venezuela and behind Botswana among UMICs. Sweden had the highest networked readiness globally, while Chad was the least ready worldwide.

#### Networked Readiness Index 2010-11

	Score	Arab Rank	Global Rank
UAE	4.80	1	24
Qatar	4.79	2	25
Bahrain	4.64	3	30
Saudi Arabia	4.44	4	33
Tunisia	4.35	5	35
Oman	4.25	6	41
Jordan	4.00	7	50
Egypt	3.76	8	74
Kuwait	3.74	9	75
Morocco	3.57	10	83
<b>Lebanon</b>	<b>3.49</b>	<b>11</b>	<b>95</b>
Algeria	3.17	12	117
Syria	3.06	13	124
Libya	3.03	14	126
Mauritania	2.98	15	130

Source: World Economic Forum

#### Lebanon's Rankings & Scores on the Components of the Networked Readiness Index 2010-11

	Global Rank	Arab Rank	UMIC Rank	Lebanon Score	Global Avg Score	Arab Avg Score	UMIC Avg Score
<b>Environment</b>	81	11	22	3.62	3.95	3.88	3.75
Market Environment	45	7	7	4.37	4.15	4.23	3.97
Political & Regulatory Framework	126	13	31	3.12	4.18	4.05	3.90
Infrastructure Environment	66	8	16	3.37	3.54	3.38	3.37
<b>Readiness</b>	85	9	23	4.03	4.30	4.37	4.19
Individual Readiness	32	5	3	5.29	4.77	5.00	4.78
Business Readiness	44	5	7	4.32	4.02	3.81	3.87
Government Readiness	138	15	33	2.48	4.11	4.30	3.90
<b>Usage</b>	100	11	27	2.82	3.47	3.36	3.27
Individual Usage	88	11	27	3.01	3.65	3.61	3.46
Business Usage	91	10	25	2.79	3.19	2.90	2.97
Government Usage	125	13	30	2.65	3.57	3.57	3.38

Source: World Economic Forum, Byblos Research

### **Market accessibility of Beirut Stock Exchange needs improvement in several areas**

In its annual assessment of the market accessibility of 77 Developed, Emerging and Frontier equity markets, global portfolio analytics and indices provider MSCI Barra maintained Lebanon in its Frontier Markets category and evaluated the country's stock market based on four accessibility criteria that are openness to foreign ownership, ease of capital inflows and outflows, efficiency of the operational framework, and stability of the institutional framework. It said that the four criteria reflect the views of international institutional investors, which generally put a strong emphasis on equal treatment of investors, free flow of capital, cost of investment and country specific risk. MSCI Barra noted that a higher level of competition among brokers in Lebanon has reduced trading costs, which led it to upgrade Lebanon in the trading category in this year's review.

In terms of openness to foreign ownership, it said that there are no limits to foreign ownership on the Beirut Stock Exchange and that there is plenty of foreign room level, which is the proportion of shares still available for non-domestic investors, and noted the existence of a foreign board where non-domestic investors could trade with one another. However, it noted the need to improve equal rights to foreign investors as company-related information is not always readily available in English. Lebanon was one of two frontier markets with a 'no major issues' rating in terms of investor qualification requirements, one of 15 markets with the same rating in terms of equal rights to foreign investors, one of 22 frontier markets with a 'no issues' rating in terms of foreign room level, and one of 16 markets with the same rating in terms of foreign ownership limit.

Regarding capital inflows and outflows, it said there are no restrictions on capital flows, but noted that there is no offshore currency market and there are constraints on the onshore currency market, as foreign investors are not allowed to hold Lebanese pound balances. Lebanon was among 22 frontier markets with a 'no issues' rating in terms of capital flows restrictions, and one of 9 markets with an 'improvements needed' rating in terms of liberalization level of the foreign exchange market.

Regarding the efficiency of the operational framework, it said market entry needs improvement, as registration is mandatory and may take up to five days. Also, not all regulations can be found in English, and the flow of information needs improvement as detailed stock market information is not always disclosed in English. It added that clearing and settlement procedures can be improved, as there is an absence of a real DVP system on the Beirut Stock Exchange, while there is no nominee status and no omnibus structures. In terms of custody, MSCI Barra said there is no formal segregation between custody and trading accounts for transactions on the Beirut market. In addition, there is only one active custodian available to foreign investors. It added that investors would welcome improvements in this area. Lebanon was among 10 frontier markets that received a 'no major issues' rating in terms of market regulations and one of 5 markets to get the same rating in terms of information flow.

In parallel, it said that not all listed shares are dematerialized in terms of registry and depository, and there is no central registry. It added that there are now lower trading costs in Lebanon due to a higher level of competition among brokers, while in-kind transfers and off-exchange transactions are prohibited. Further, it noted the need for a regulatory framework allowing stock lending and a practical framework allowing short selling. Finally, MSCI Barra said that Lebanon, like most Emerging and Frontier Markets, exhibits some shortcomings in the stability of the institutional framework, and in particular in the enforcement of the rule of law.

Lebanon is one of 25 stock markets worldwide that fall under MSCI Barra's definition of Frontier Markets. The other such markets in the region are Tunisia, Bahrain, Jordan, Kuwait, Oman, Qatar, and the UAE. In November 2007, MSCI Barra included Lebanon in its MSCI Frontier Markets Index, a fully investable index for frontier equity markets. The index contains stocks from 25 developing markets in Asia, Emerging Europe, the Commonwealth of Independent States, Africa, and the Middle East.

### **Decree sets conditions for importing agricultural products from Japan**

The Ministry of Agriculture signed on June 21, 2011 Decree number 576/1 that sets the conditions for importing agricultural products from Japan. The decree takes into consideration the International Food Safety Authorities Network's (INFOSAN) warnings about the impact of the nuclear disaster in Japan on the products and the actions taken in this regard. It also stipulates that products imported from Japan should be accompanied by a certificate showing the level of radioactivity, and that the certificate must be issued by a laboratory recognized by the Ministry of Economy & Trade in Lebanon and endorsed by the Japanese authorities. The products covered by the decree include herbs, tea, seaweed, canned food, pasta, vegetables, pesticides and fertilizers.

### **Number of tourists down 19% in first five months of 2011**

The number of incoming tourists to Lebanon totaled 596,298 in the first five months of 2011, constituting a decrease of 18.6% from 732,855 tourists in the same period last year, driven by annual declines in tourist arrivals of 29.1% in May, 20.4% in April, 14.3% in March, 17% in February and 7.6% in January. Arab tourists accounted for 32.3% of total visitors in the first five months of the year, and were followed by visitors from Europe with 28.7%, Asia with 21.2%, the Americas with 11.3%, Africa with 3.5%, and Oceania with 2.9%. Tourists from France accounted for 8% of total visitors in May 2011, followed by visitors from the U.S. with 7.4%, Iraq with 7.1%, Jordan with 6.6% and Canada with 6%. The number of tourists reached 120,764 in May 2011 compared to 170,232 in May 2010. Incoming tourists totaled 2.17 million in 2010, up 17% year-on-year.

### Consumer Price Index up 5.6% annually in May

The Central Administration of Statistics' Consumer Price Index indicates that inflation increased by 5.6% in May 2011 from May 2010. Prices of clothing and footwear increased by 21.8%, followed by water, electricity, gas & other fuels (+12%), food & non-alcoholic beverages (+7.2%), education (+6.7%), restaurants & hotels (+6.6%), transportation (+5.1%), health care (4.2%), recreation & entertainment (+2.4%), miscellaneous goods & services (+1.7%), furnishings & household equipment (+1%) and alcoholic beverages & tobacco (+0.7%). In parallel, housing prices and communication remained unchanged year-on-year. Imported inflation accounts for about 70% of inflation in the country. Imported inflation accounts for about 70% of inflation in the country, as Lebanon has an import-based economy. Lebanon imports most of its energy needs and the value of imports historically has been equivalent to about five times that of exports.

The Consumer Price Index increased by 0.2% in May 2011 from April 2011. Prices of transportation increased by 2.2%, followed by water, electricity, gas & other fuels (+0.5%), restaurants & hotels (+0.4%), clothing and footwear (+0.3%) and alcoholic beverages & tobacco, furnishings & household equipment, health care and miscellaneous goods & services (+0.1%, each). In parallel, prices of food & non-alcoholic beverages regressed by 0.7% while housing prices, communication, recreation & entertainment and education remained unchanged month-on-month. In parallel, the Consumer Price Index grew by 5.3% year-on-year in April and increased by 4.9% year-on-year in March.

### Economic activity picks up in April, overall slowdown trend continues

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 269.9 points in April 2011 compared to 252.9 in March 2011 and to 259.4 in April 2010. The Coincident Indicator, an average of 8 weighted economic indicators, grew by 6.7% in April and by 4% year-on-year. The indicator averaged 250 in the 12-months ending April 2011 compared to 249.2 in the 12-months ending March 2011 and to 237.4 in the 12-months ending April 2010. As a result, the average coincident indicator increased marginally by 0.3% month-on-month and rose by 5.3% year-on-year. The indicator posted its second improvement this year after regressing for two consecutive months, as it declined by 4.4% in February and 0.4% in January. The indicator reached an all-time high in April after peaking at 266.7 last November, but has been on the decline in December, January and February. Further, the month-to-month increase in April constituted the fourth best improvement ever for the indicator for the covered month. In parallel, the indicator improved 14 times and regressed 5 times in the month of April since 1993. The indicator averaged 249.5 in 2010 and 225.9 in 2009.

### Cleared checks stagnate, returned checks down 13% in first four months of 2011

The value of cleared checks reached \$22.6bn in the first four months of 2011, constituting a marginal increase of 0.14% from the same period of 2010. The value of cleared checks in Lebanese pounds rose by 12.6% to the equivalent of \$4.8bn, while the value of cleared checks in US dollars declined by 2.8% to \$17.8bn. The dollarization rate of cleared checks decreased to 78.6% from 81% year-on-year. Also, the value of returned checks in domestic and foreign currency amounted to \$490m in the first four months of 2011, down 13.3% from \$565m in the same period last year. In parallel, the number of cleared checks totaled 4.1 million checks in the first four months of 2011, up 0.9% from the same period of 2010. Also, the number of returned checks increased by 9.2% to 83,400 checks in the first four months of 2011 compared to the same period of 2010.

### Airport passengers down 1% in first five months of 2011

Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures, transit) totaled 1,911,437 in the first five months of 2011, constituting a decline of 1% from the same period last year. The UAE accounted for 75,838 passengers, or 18% of total passenger activity in May. It was followed by Saudi Arabia with 45,911 passengers, or 11% of the total; France with 45,224 travelers (10.8%) and Turkey with 35,846 travelers (8.5%). The total number of flights reached 24,275 in the first five months of 2011, down 2.3% year-on-year. Middle East Airlines registered 7,949 flights, accounting for 32.7% of the total. It was distantly followed by Royal Jordanian Airlines with 1,172 flights or 4.8% of the total, Qatar Airways with 911 flights, Etihad Airways with 776 flights, Fly Dubai with 714 flights, and Saudi Arabian Airlines with 691 flights. The UAE was the biggest source and destination of traffic to Lebanon in May, as aircraft movement to and from the UAE totaled 721 flights last month, accounting for 14.4% of the total. Also, the HIA processed 28,642 metric tons of cargo in the first five months of 2011, of which 28,228 tons of freight and 414 tons of mail. MEA processed 8,658 tons of freight, of which 8,478 tons in regular freight and 180 tons in mail.

### Construction permits up 3% in first four months of 2011

Figures released by the Association of Engineers of Beirut & Tripoli show that construction permits reached 5.2 million square meters in the first four months of 2011, constituting an increase of 2.7% from 5.1 million square meters in the same period last year. Construction permits totaled 1.5 million square meters in April 2011, up 16.6% year-on-year from 1.3 million square meters in April 2010. In parallel, cement deliveries reached 1.6 million tons in the first four months of 2011, a decrease of 3.5% from 1.6 million tons in the same period last year. Cement deliveries reached 521,000 tons in April 2011, up 3.8% from 502,000 tons in April 2010.

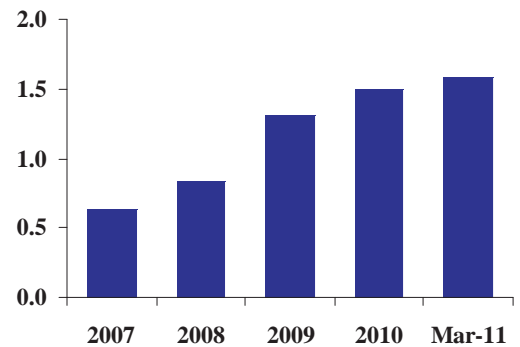
### Growth of banks' income to slow down in 2011

Regional investment bank EFG Hermes projected average earnings growth of 3% for BLOM Bank, Byblos Bank and Bank Audi, which would constitute a slowdown compared to the banks' 17% average earnings growth in 2010. It said its forecast takes into consideration a deceleration in loan growth to an average of 10% in 2011 from 25% in 2010. It noted that corporate investment and private consumption slowed down in Lebanon in the first half of 2011, while the key tourism sector has been negatively impacted by domestic political tensions and regional developments. It considered that the formation of the new government in mid-June after a five month delay will provide some impetus to economic confidence, but it did not expect a very strong rebound in lending growth in the second half of 2011. It added that its earnings forecasts assumes an increase in provisioning charges, mainly due to the allocation of collective provisions for some of the banks' regional exposures, particularly in Syria, which accounts for 12% of total loans for BLOM Bank, 9% for Bank Audi and 8% for Byblos Bank. It added that margins in Syria will be under pressure this year following the recent increase in deposit rates by the country's Central Bank. EFG Hermes indicated that Lebanese banks offer value from a long-term perspective, especially considering a scenario of economic reforms and sustained economic growth in the country, but it did not expect economic reforms to materialize in the near term.

### Zain's revenues in Lebanon at \$26m in first quarter, customer base reaches 1.58 million

Figures issued by regional cellular firm Zain Group, formerly Mobile Telecommunications Company, indicate that its subscriber base in Lebanon reached 1.58 million at the end of March 2011, constituting an increase of 5.4% from the end of 2010 and a rise of 19.4% from March 2010. Lebanon accounted for 4.2% of Zain's overall customer base in the first quarter, unchanged from the same period last year, but up from 4% for all of 2010. Zain's revenues from its Lebanese operation totaled about \$26m in the first quarter of 2011. As such, revenues from Lebanon accounted for 2.2% of the group's overall revenues in the covered period, almost unchanged from the 2.3% contribution in 2010. Also, the EBITDA margin in Lebanon was 32% in the first quarter compared to 30% last year. Lebanon contributed the second lowest EBITDA margin for the group after Saudi Arabia, where the EBITDA margin was 10% for the covered period. Zain generated net income of \$27.1m in 2010 from its Lebanese operation MTC Touch, constituting an increase of 42% from \$19.1m in 2009.

Zain's Subscribers in Lebanon\* (in millions)



\* end of period

Source: Zain Group

In June 2004, Zain won a four-year management contract to operate one of Lebanon's two government-owned GSM networks. In May 2010, the agreement was extended for three months from July 31, 2010 to October 2010 and was renewed for another three months until the end of January 2011. Last February, the contract was renewed for a 12-month period. Terms of the contract were modified in January 2010 to a management fee of \$2.5m per month and 8.5% of revenues, while the previous contract included a management fee and revenues of \$6.75 per subscriber. Zain is preparing the launch hi-speed 3G internet services, but private sector telecom companies have questioned the legality of the move, and claim that the government-owned networks do not have licenses from the Council of Ministers and did not receive licensed frequencies from the Telecommunications Regulatory Authority to implement and offer 3G services. The Zain Group is also present in Kuwait, Saudi Arabia, Bahrain, Iraq, Jordan and Sudan. It posted net profits of \$254.4m on revenues of \$1.18bn in the first quarter of 2011.

### U.S. imposes sanctions on Libyan-owned Lebanese bank

The U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) imposed sanctions on the Beirut-based North Africa Commercial Bank sal (NACB) as part of new sanctions imposed on three banks owned or controlled by the Libyan Arab Foreign Bank. The sanctions freeze the assets of the bank in U.S. jurisdictions, and prohibit U.S. nationals and companies from engaging in any transactions with the designated bank. The sanctions also cover the Istanbul-based Arab-Turkish Bank and the Tunis-based North Africa International Bank. The Libyan Arab Foreign Bank owns 99.5% of NACB, as well as 62.4% of the Arab-Turkish Bank and 50% of North Africa International Bank. The Treasury Department said the three banks have processed commercial transactions on behalf of or for the benefit of the Libyan Arab Foreign Bank. Las March, OFAC imposed sanctions on the Libyan Arab Foreign Bank for being owned by the Government of Libya. The Treasury Department said it is carefully monitoring Libyan-associated entities worldwide to ensure that they are not trying to evade sanctions and assist the Qadhafi regime. Earlier this month, NACB froze assets belonging to the Libyan regime, in compliance with United Nations Security Council resolutions 1970 and 1973. The two resolutions stipulate that member states should freeze funds, other financial assets and economic resources on their territories that are owned or controlled, directly or indirectly, by the Libyan regime. NACB is one of the smaller banks operating in Lebanon. It accounts for 0.7% of assets, 0.6% of loans, and 0.3% of deposits of the Lebanese banking sector.

### **SGBL finalizes acquisition of Lebanese Canadian Bank**

Société Générale de Banque au Liban sal (SGBL) announced that its Board of Directors unanimously approved the acquisition of certain assets and liabilities of the Lebanese-Canadian Bank sal (LCB). It added that SGBL, the Banking Control Commission, as well as three international audit firms proceeded with a preliminary review process of accounts and transactions. It said that such process aims to ensure that the acquired assets and liabilities conform to international standards and to the compliance rules of SGBL and Société Générale SA. It noted also that the reviewing process will continue in coordination with local and international authorities. SGBL stated that it will submit the transaction to the Central Bank of Lebanon for its approval.

Last March, the Central Bank announced that SGBL has won the bid to acquire the LCB for an undisclosed amount. SGBL was the smallest among four banks that bid for LCB, and is smaller than its new acquisition by assets, loans & advances, deposits, and shareholders' equity. The decision to sell LCB came after the U.S. Department of the Treasury identified last month the bank and its subsidiaries as a financial institution of primary money laundering concerns due to its alleged role in facilitating the money laundering activities of an international narcotics trafficking and money laundering network. The U.S. Treasury added that the network has used accounts at the bank to launder hundreds of millions of dollars monthly. Also, the U.S. Treasury's Financial Crimes Enforcement Network (FinCEN) filed a proposal to prohibit U.S. financial institutions from opening or maintaining correspondent or payable-through accounts for LCB. The bank denied at the time any involvement and affirmed it would fully cooperate with authorities.

## Ratio Highlights

(in % unless specified)	2007	2008	2009	Change*
Nominal GDP <sup>(1)</sup> (\$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	Mar 2010	Feb 2011	Mar 2011	Change*	Risk Level
Political Risk Rating	58.5	56.5	55.5	▼	High
Financial Risk Rating	28.0	28.5	28.5	▲	High
Economic Risk Rating	35.5	32.5	32.5	▼	Moderate
Composite Risk Rating	61.0	58.7	58.2	▼	High

Regional Average	Mar 2010	Feb 2011	Mar 2011	Change*	Risk Level
Political Risk Rating	64.9	62.6	60.7	▼	Moderate
Financial Risk Rating	42.2	42.2	41.9	▼	Very Low
Economic Risk Rating	36.8	38.0	37.6	▲	Low
Composite Risk Rating	71.9	71.4	70.1	▼	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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