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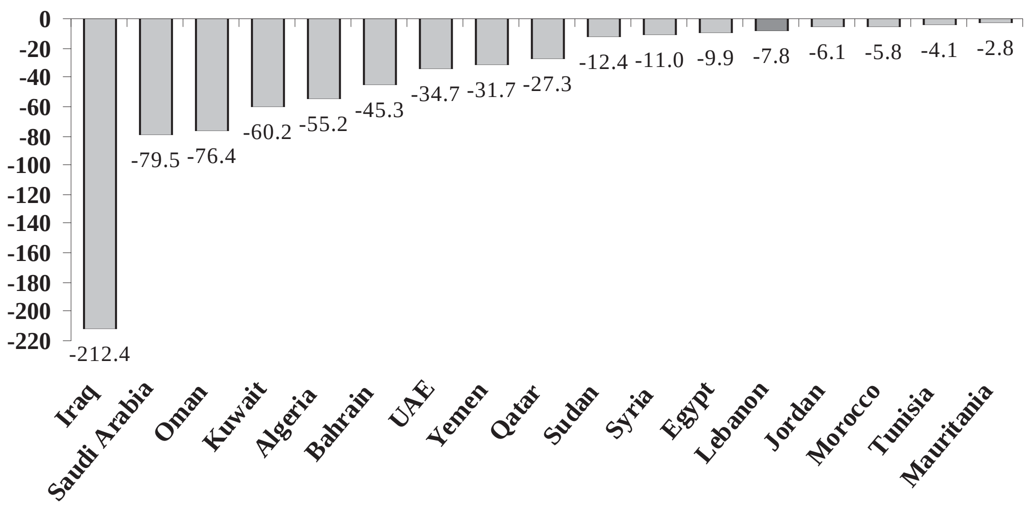
LEBANON THIS WEEK

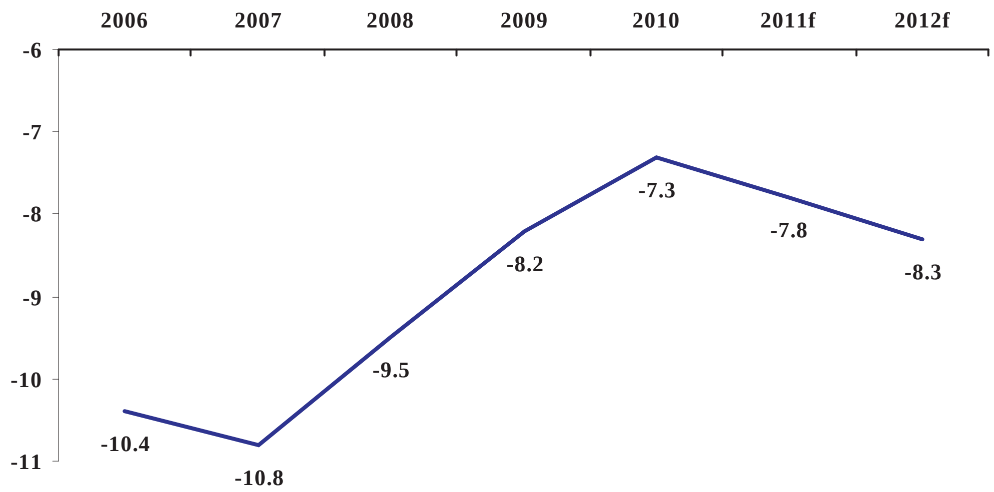
In This Issue

Charts of the Week

Projected Non-Oil Fiscal Balance of Arab Countries in 2011 (% of Non-Oil GDP)



Fiscal Balance of Lebanon (% of GDP)



Source: International Monetary Fund, Byblos Bank

Quote to Note

"The government has very little ammunition with which to carry out any type of stimulus program."

Business Monitor International, on the need of the Cabinet to reduce the wide fiscal deficit instead of raising expenditures

Number of the Week

$30.5bn: The Central Bank of Lebanon's gross foreign currency reserves at the end of October 2011, as estimated by the Association of Banks in Lebanon

Economic Indicators

$m *(unless otherwise mentioned)*	2009	Sep 10	2010	July 11	Aug 11	Sep 11	% Change*
Exports	3,486	290	4,256	415	373	334	15.17
Imports	16,241	1,310	17,956	1,679	1,719	1,792	36.79
Trade Balance	(12,755)	(1,020)	(13,700)	(1,264)	(1,346)	(1,458)	42.94
Balance of Payments	7,899	186	3,326	(307)	(2,143)	(302)	(262.37)
Checks Cleared in LBP	11,122	1,124	13,519	1,218	1,101	1,147	2.05
Checks Cleared in FC	45,270	4,037	53,925	5,939	5,017	5,181	28.34
Total Checks Cleared	56,392	5,161	67,444	7,157	6,118	6,328	22.61
Budget Deficit/Surplus	(2,960)	(472)	(2,892)	67	(178)	(419)	(11.15)
Primary Balance	1,078	(13)	1,232	314	75	44	(450.79)
Airport Passengers	4,986,544	550,421	5,552,260	702,265	574,924	582,383	5.81

$bn *(unless otherwise mentioned)*	Dec 2009	Sep 10	June 11	July 11	Aug 11	Sep 11	% Change*
BdL FX Reserves	25.66	28.46	28.33	28.91	30.64	30.62	7.59
In months of Imports	*18.6*	*21.73*	*18.03*	*17.2*	*17.82*	*17.09*	*(21.35)*
Public Debt	51.09	50.85	52.52	52.80	53.40	54.35	6.88
Net Public Debt	44.11	44.64	45.6	45.50	45.71	45.80	2.60
Bank Assets	115.25	126.74	135.43	136.88	138.06	138.42	9.22
Bank Deposits (Private Sector)	95.77	103.85	111.48	112.14	112.95	113.39	9.19
Bank Loans to Private Sector	28.37	33.82	37.26	38.34	38.92	38.76	14.61
Money Supply M2	34.16	39.32	36.61	36.84	37.35	37.68	(4.17)
Money Supply M3	82.08	90.06	94.23	94.65	95.21	95.63	6.18
LBP Lending Rate (%)	9.04	8.11	7.59	7.33	7.53	7.37	(74b.p.)
LBP Deposit Rate (%)	6.75	5.70	5.62	5.59	5.53	5.58	(12b.p.)
USD Lending Rate (%)	7.28	7.24	6.98	7.03	7.16	6.58	(66b.p)
USD Deposit Rate (%)	3.05	2.78	2.81	2.86	2.80	2.84	6b.p.
%* Change in CPI**	4.20	5.05	6.16	6.28	6.49	5.27	22b.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"	16.32	20.09	317,697	15.32%
Solidere "B"	16.28	20.50	59,479	9.93%
Byblos Common	1.60	0.00	84,622	5.40%
Byblos Pref. 08	101.00	0.00	0	1.90%
Byblos Pref. 09	101.00	0.00	250	1.90%
BLOM GDR	7.75	(1.90)	2,000	5.38%
BLOM Listed	7.42	0.00	85,495	14.97%
Audi GDR	6.29	(0.16)	5,300	5.88%
Audi Listed	5.82	(2.02)	535,340	19.09%
HOLCIM	16.40	0.00	0	3.00%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Mar. 2012	7.500	100.50	5.74
Sep. 2012	7.750	100.50	7.05
June 2013	8.625	108.38	3.07
Apr. 2014	7.375	108.50	3.60
Jan. 2015	5.875	105.50	3.98
Apr. 2015	10.00	118.75	4.04
Jan. 2016	8.500	115.25	4.42
Mar. 2017	9.000	119.38	4.82
Nov. 2018	5.150	99.75	5.19
Apr. 2021	8.250	118.00	5.74

Source: Byblos Bank Capital Markets

	December 5-9	Nov. 28- Dec. 2	% Change	November 2011	November 2010	% Change
Total Shares Traded	$1,092,679	365,774	198.73	1,749,640	15,207,803	(88.50)
Total Value Traded	$10,058,333	$3,904,617	157.60	$18,138,922	$115,946,913	(84.36)
Market Capitalization	$10.65bn	$10.26bn	3.85	$10.26bn	$12.35bn	(16.94)

Source: Beirut Stock Exchange (BSE)

Lebanon in the News

Government's spending decisions likely to undermine fiscal discipline, Syria sanctions to negatively impact growth prospects

Barclays Capital projected real GDP growth in Lebanon at 3.6% in 2012 relative to a forecast of 1.8% for 2011. It said that several indicators reflect subdued economic activity this year, and considered that the escalation of sanctions against Syria could intensify downside risks to growth prospects and seriously affect the Lebanese economy. It noted that formal and informal trade and investment linkages between the two countries have deepened significantly in recent decades; while Lebanese investments across various sectors in Syria are significant and have been an important source of income earned. It added that Lebanon has to deal with increased scrutiny of its trade and financial systems to ensure compliance with international and regional sanctions on Syria. It expected capital flows to remain subdued and to possibly come under pressure due to concerns about the recent sanctions.

In parallel, Barclays indicated that the government's recent spending decisions resulted in an ad-hoc approach to public expenditures, which is likely to undermine fiscal discipline given the ongoing contraction in tax revenues. It added that the 2012 draft budget, as presented, could reverse past gains and exacerbate sovereign risk.

It said most of the increase in government spending this year came from non-interest current expenditures, which rose by more than 9% year-on-year and are likely to increase even further given the planned wage increases. Also, it said the government's approval of $1.2bn to finance investment in the electricity sector is not anchored within a medium-term expenditure framework and is not formally linked to obligations of completing cost recovery-related reforms. Moreover, the Council of Ministers recently approved several special Treasury draws that were drafted by line ministries. Also, the suggested 9.5% increase in spending in the 2012 draft budget may not be commensurate with line ministries' absorptive capacities, which could potentially result in inefficient and wasteful spending. Further, the government's ability to contain the cost of debt may become more constrained from increasing political risks that could spill over onto banks' balance sheets and lead to further fiscal slippages in 2012.

As a result, it urged the Lebanese government to support an orderly budgetary process, something that has been lacking for the past six years. It said this is necessary to allow for a transparent and coherent fiscal policy. So it expected the 2012 draft budget to be revised in light of recent political developments and increasing downside risks to growth, and expressed skepticism about the likelihood of an agreement on the proposed tax measures. As a result, it revised its fiscal deficit forecast from 8.5% of GDP to 9% of GDP in 2012, and expected the primary surplus to shrink from 2.5% of GDP in 2011 to 1.2% of GDP in 2012.

Key Macroeconomic Indicators

	2009	2010E	2011F	2012F
Activity				
Real GDP (% yoy)	8.5	7.5	1.8	3.6
CPI (% average)	1.2	4.5	5.0	5.0
External Sector				
Current account balance ($bn)	(3.3)	(4.0)	(5.6)	(6.1)
Current account balance (% of GDP)	(9.5)	(10.1)	(13.5)	(13.6)
Gross external debt (% of GDP)	168.9	160.5	163.5	161.9
International reserves ($bn)	29.1	31.5	33.5	35.6
Public Sector				
Public sector balance (% of GDP)	(8.5)	(7.4)	(7.7)	(9.0)
Primary balance (including grants) (% of GDP)	3.1	3.1	2.5	1.2
Gross public debt ($bn)	51.1	53.6	54.5	59.1
Gross public debt (% of GDP)	146.4	136.7	131.1	131.0

Source: Barclays Capital

Central Bank increases capital of money dealers

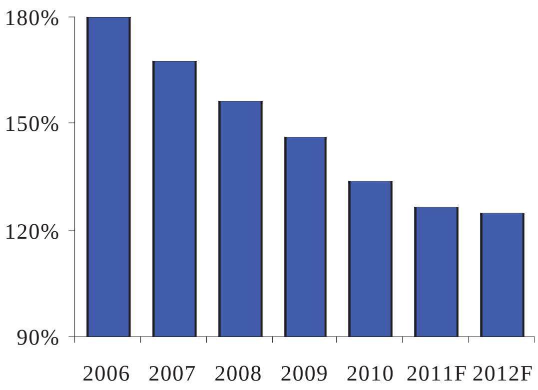
The Central Bank of Lebanon issued a circular that mandates an increase in the capital of money dealers in the country. Basic Circular 4 stipulated that "Category A" money dealer institutions have to raise their capital to LBP750m from LBP250m and that "Category B" firms have to increase their capital to LBP500m from LBP100m. The Central Bank defines money dealer institutions in Category A as firms that are allowed to deal with cash, transfers, checks, traveler checks and precious metals. It defines Category B money dealers as firms that are allowed to deal with cash and traveler checks of up to $10,000, uncollected traveler checks, and precious metal bars not exceeding 1,000 grams each. There were 393 money dealers in Lebanon at the end of 2009, according to the latest available figures from the Central Bank. Earlier this year, the Central Bank issued a set of circulars about the operations of money dealers in Lebanon in order to deter their usage for money laundering and terrorism financing, and to preserve the reputation of the sector.

Lebanon in the News

Net public debt at $46bn at end-October 2011

Lebanon's gross public debt reached $54.2bn at the end of October 2011, up 3.1% from the end of 2010, and constituting an increase of 6% from end-October 2010. Domestic debt reached $33.2bn at end-October, up by 10.2% annually and by 3.7% from end-2010, while external debt stood at $21bn, unchanged year-on-year and up by 2.1% from end-2010. Local currency debt accounted for 61.2% of gross public debt at end-October 2011 compared to 58.9% a year earlier, while foreign currency-denominated debt represented 38.8% of the total at the end of October relative to 41.1% a year earlier. The weighted interest rate on outstanding Treasury bills was 6.87%, while the weighted interest rate on Eurobonds was 7.09% at the end of October. Further, the weighted life on Eurobonds was 5.15 years, while that on Treasury bills was 936 days.

Total Government Debt (% of GDP)



Source: International Monetary Fund

Commercial banks accounted for 52.1% of the local public debt at the end of October 2011 compared to 59.1% a year earlier. They were followed by the Central Bank with 32.4%, up from 23.6% at end-October 2010; while public agencies, financial institutions and the general public accounted for 15.5% of local debt, compared to 17.3% in October 2010. Eurobond holders, foreign private sector loans and special T-bills in foreign currencies accounted for 87.2% of the external debt, followed by multilateral institutions with 6.8%, foreign governments with 4.8%, and Paris II loans with 1.2%. Net public debt, which excludes the public sector's deposits at the Central Bank and at commercial banks from overall debt figures, increased annually by 1.9% to $45.8bn. In parallel, the gross market debt accounted for about 63% of total public debt. Gross market debt is the total public debt less the portfolios of the Central Bank, the National Social Security Fund, bilateral and multilateral loans, as well as Paris II and Paris III related debt.

Banking sector outlook revised to 'negative' from 'stable'

Moody's Investors Service changed the outlook on Lebanon's banking system to 'negative' from 'stable'. The agency attributed its decision to the slowdown in the Lebanese economy following a sharp deceleration in activity in the first half of the year; downside economic risks from regional political uncertainty, particularly in Syria; and the banks' asset and loan exposures to other countries experiencing political unrest or economic slowdown, such as Egypt and Jordan.

The agency considered that increased domestic and regional uncertainties have affected Lebanese banks' operating environment and put pressure on asset quality and performance. It expected the sector's profitability to come under pressure, as subdued business activity will likely cause a slowdown in credit growth and fee-generating income. It expressed concerns that historically low interest rates and potential upward pressure on funding costs could exert pressure on the banks' pre-provision income. It also expected provisioning charges to rise at least into the first half of 2012, which would further affect profitability. Moody's expected problem loans to increase in the first half of next year due to the weakened domestic operating environment, the banks' material exposures to countries undergoing political transition or experiencing political unrest, and the broader economic slowdown in other neighboring countries.

In parallel, the agency expected the banking system to maintain its liquidity buffers and resilient depositor base, which would mitigate some of the downside risks. It noted that highly liquid assets and placements with international banks account for about 25% of the sector's total assets. It said that the sector retains a relatively stable funding structure that is driven by customer deposits, which account for about 90% of total liabilities. It added that the inflow of remittances would provide additional support to the deposit base. Also, it considered that the sector's capitalization level of 13% at end-2010 is moderate given the risky operating environment. It added that risk-weighted assets in the system are understated, as low-rated local currency-denominated government securities do not carry a risk weight.

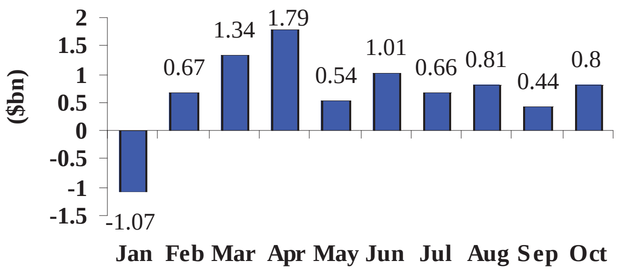
Energy Ministry mandates French company to conduct offshore seismic survey

The Ministry of Energy &Water signed a contract with the French oil and gas consulting firm Beicip-Franlab to conduct an offshore survey that would complement the previous offshore two-dimensional seismic survey in Lebanon. It said that the results of the first survey provided an incentive for further in-depth analysis of Lebanese offshore waters. It added that the new survey would provide more accurate information that would prepare Lebanon for the oil and gas research and exploration phase. In August 2010, the Lebanese Parliament ratified a draft law that authorizes for the first time offshore oil and gas exploration and drilling. The law provides the basis to apply an international law called Production Sharing Agreement (PSA), essential in the production sharing deals that usually take place between states and international oil companies. The law calls for the establishment of a regulatory authority and a committee to oversee exploration and production; while discussions over the establishment, structure and management of a sovereign wealth fund have been postponed.

Commercial banks' assets reach $140bn at end-October 2011

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached $139.5bn at the end of October 2011, constituting an increase of 8.2% from end-2010 and a rise of 10.2% from end-October 2010. Private sector deposits totaled $114.2bn, increasing by 6.5% from end-2010 and rising by 9.6% from a year earlier. Deposits in Lebanese pounds reached $38.5bn, down 2.3% from end-2010 and 1% year-on-year, while deposits in foreign currencies totaled $75.7bn and rose by 11.7% from the end of last year and by 15.9% from end-October 2010. Non-resident foreign currency deposits totaled $18bn at end-October 2011, up by 15.7% from end-2010 and by 24.3% year-on-year. Total private sector deposits decreased by $1.1bn in January, and rose by $673m in February, $1.34bn in March, $1.79bn in April, $539m in May, $1bn in June, $656m in July, $813m in August, $440m in September and $798m in October 2011. In parallel, deposits of non-resident banks reached $6.5bn, an increase of 44% from end-2010 and of 27.1% year-on-year. The dollarization rate of deposits reached 66.3% at the end of October relative to 63.2% at end-2010 and 62.7% at end-October 2010. Further, the average deposit rate in Lebanese pounds reached 5.6% in October, down from 5.72% a year earlier, while the same rate in US dollars was 2.82% compared to 2.81% in October 2010.

Private sector deposit change in first 10 months of 2011



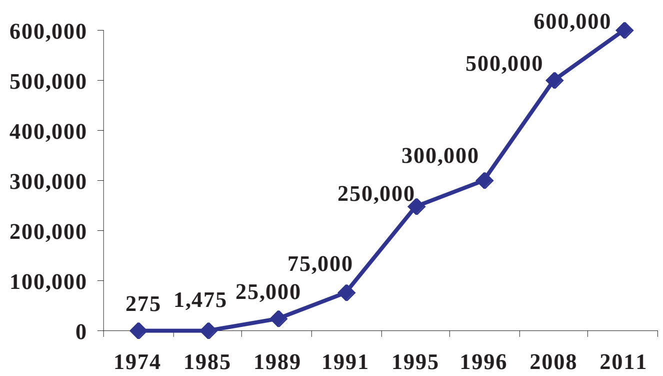
Source: Association of Banks in Lebanon

Loans to the private sector totaled $39.2bn at end-October, constituting an increase of 12.3% from end-2010 and up 14% year-on-year. Lending to the non-resident private sector reached $5.7bn and rose by 23.9% from end-2010. The dollarization rate in private sector lending reached 78.9%, marginally down from 80.3% at end-2010 and compared to 81.1% a year earlier. The average lending rate in Lebanese pounds was 7.27% in October 2011 compared to 8.15% a year earlier, while the same average in US dollars was 6.74% compared to 7.08% in October 2010. In addition, claims on non-resident banks reached $14.5bn at end-October, posting a decrease of 8.6% from end-2010. Claims on the public sector stood at $29.9bn, up 4.5% year-on-year and 1.9% from end-2010, and accounted for 43.2% of the banking sector's total claims. The ratio of private sector loans to deposits in foreign currencies stood at 40.9%, well below the Central Bank's limit of 70%, and below the ratio of 42.7% a year earlier. In parallel, the same ratio in Lebanese pounds was 21.5%, up from 16.7% a year earlier. The ratio of total private sector loans to deposits was 34.4% compared to 33% a year earlier. The banks' aggregate capital base stood at $10.5bn, up by 13.3% from end-2010 and 15.2% from $9.1bn in October 2010.

Government raises minimum wage by 20%

The Cabinet approved raising the minimum wage by 20% from LBP500,000 to LBP600,000, or $398. It also approved a 30% raise on monthly salaries of up to LBP1,000,000 with a cap of LBP200,000 and a floor of LBP150,000; and a 20% increase on monthly wages that are higher than LBP1,000,000 with a cap of LBP275,000. Employees whose salary increased since January 2010 may reportedly not be eligible for the raise. The Cabinet also decided to increase the education allowance to LBP1.5m per child from its current level of LBP1m per year. The transportation allowance remained unchanged at the current LBP8,000 per working day. The General Labor Confederation rejected the deal and considered it unfair to employees.

Evolution of the Minimum Wage (in Lebanese pounds)



The Cabinet's decision followed the rejection of the Shura Council of a previous decision taken in October to raise the minimum wage from LBP500,000 to LBP700,000, or $464; as well as to increase by LBP200,000 salaries of up to LBP1,000,000 and to raise by LBP300,000 wages between LBP1,000,000 and LBP1,800,000. The Shura Council said the Cabinet's decision violated Article 6 of the 1967 Act by proposing a fixed increase in wages, while Article 6 stipulates determining the increase in the cost of living that would be indexed to wages. It added that the decision excluded workers with salaries exceeding LBP1,800,000, while the increase in the cost of living affects all workers and employees. Further, it considered that the government's decision to increase the transportation allowance to LBP10,000 from LBP8,000 a day and to raise the education allowance for children to a maximum of LBP1,500,000 to be beyond the scope of the government's mandate.

Lebanon in the News

Insurance premiums up 14% to $904m in the first 9 months of 2011

Figures released by the Association of Insurance Companies in Lebanon (ACAL) indicated that insurance premiums in Lebanon totaled $904.4m in the first 9 months of 2011, constituting an increase of 14% from the same period last year. In comparison, premiums grew by 4% in 2010. ACAL said that most of the growth was realized in the second quarter of 2011, where aggregate premiums grew by 17% year-on-year.

It noted that the life, fire and medical categories were the main drivers of premium growth in the third quarter as they posted year-on-year increases of 29%, 15% and 14%, respectively, compared to growth of 29% for medical premiums, 24% for life premiums and 9% for fire premiums in the second quarter of the year. It added that medical insurance premiums accounted for 29.8% of the sector's aggregate premiums in the third quarter compared to 33.5% in the second quarter, followed by motor insurance with 27.4% relative to 25.7% in the previous quarter, and life premiums with a 25.1% share compared to 23.1% in the second quarter.

In parallel, ACAL indicated that total benefits and claims paid by insurance companies stood at $390.4m in the first 9 months of 2011, constituting an 11% increase from the same period last year. Claims and benefits paid reached $131.8m in the third quarter and rose by 13.4% from the same quarter last year, while they reached $131m in the second quarter and increased by 6.3% year-on-year. It noted that medical claims accounted for 44.5% of total payments, followed by motor policies payments with 30.3%. ACAL said its figures cover over 90% of all underwriting activities in the sector, as they include 95% of non-life premiums and 80% of life premiums.

Lebanon and Armenia sign cooperation deals

Lebanon and Armenia signed seven agreements to promote bilateral ties in the areas of economic collaboration, standardization procedures, sports, culture and tourism. The two sides signed a deal on cultural cooperation for 2012, 2013 and 2014; a Memorandum of Understanding (MoU) for environmental cooperation; an MoU between the Lebanese Ministry of Industry and the Armenian Ministry of Economy; and an accord on the mutual recognition of certificates. Bilateral trade between the two countries totaled $2.8m in 2010, with Lebanese exports rising by 6% to $2.73m and imports from Armenia declining by 54% to $90,000.

Further, figures issued by the National Statistical Service of Armenia (NSSA) indicate that the aggregate value of Lebanese investments in Armenia reached $17.4m in 2010, constituting a drop of 20% from about $21m 2009. Foreign direct investment accounted for $11.2m, or 64%, of total Lebanese investments in Armenia last year, with the balance in portfolio and other investments. The NSSA said that investments were mainly in the banking and insurance sectors, as well as in the real estate and services sectors.

Airport activity up 2% in first 10 months of 2011

Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures and transit) totaled 4,737,489 in the first 10 months of 2011, up 1.7% from the same period last year. The UAE accounted for 833,828 passengers, or 17.6% of total passenger activity. It was followed by Saudi Arabia with 546,150 passengers, or 11.5% of the total; France with 461,704 travelers (9.8%) and Turkey with 393,779 travelers (8.3%). The total number of flights reached 53,341 in the first 10 months of 2011, down 2.7% year-on-year. Middle East Airlines registered 17,395 flights, accounting for 32.6% of the total. It was distantly followed by Royal Jordanian Airlines with 2,426 flights or 4.5% of the total, Qatar Airways with 1,829 flights, Etihad Airways with 1,562 flights, Fly Dubai with 1,518 flights, and Saudi Arabian Airlines with 1,501 flights. The UAE was the biggest source and destination of traffic to Lebanon, as aircraft movement to and from the UAE totaled 7,578 flights, accounting for 14.2% of the total. Also, the HIA processed 61,069 metric tons of cargo in the first 10 months of 2011, of which 60,356 tons of freight and 713 tons of mail. MEA processed 17,907 tons of freight, of which 17,599 tons in regular freight and 308 tons in mail.

Corporate Highlights

Kafalat loan guarantees down 2.4% year-on-year to $156m in first 11 months of 2011

Figures released by the Kafalat Corporation show that loans extended to small- and medium-sized companies under the guarantee of Kafalat reached $151.9m in the first 11 months of 2011, down 2.4% from $155.7m in the same period last year. The number of loan guarantees totaled 1,182 year-to-November compared to 1,293 in the same period last year. The average loan size reached $128,552 compared to $120,424 in the first 11 months of 2010. Mount Lebanon accounted for 41.3% of guarantees, followed by the South & Nabatieh with 19.2%, the Bekaa with 17.8%, the North with 15.4%, and Beirut with 6.4%. Agriculture accounted for 41.1% of total guarantees, followed by the industrial sector with 37.7%, tourism with 17.3%, handicraft with 2.4%, and specialized technologies with 1.6%. 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-sized 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.

BBAC's profits flat at $32m in first 9 months of 2011

BBAC sal posted unaudited consolidated net profits of $32m in the first 9 months of 2011, constituting an increase of 0.3% from the same period last year. Net operating income rose by 7.5% to $75.1m, with net interest income decreasing by 2.7% to $48.9m and non-interest receipts increasing by 34.9% to $20.1m year-on-year. Also, operating expenditures increased by 15.6% to $37.7m, with staff expenses increasing by 9.9% to $21.6m. Total assets reached $4.3bn at end-September 2011, constituting an 8.5% rise from end-September 2010 and a 5.2% rise from end-2010, while loans & advances to customers increased by 23% year-on-year and by 18.7% from end-2010 to $1bn. Customer deposits totaled $3.8bn at end-September, constituting a growth of 7.6% from a year earlier and an increase of 3.6% from end-2010. In addition, the net interest spread decreased to 1.54% in the first 9 months of 2011 from 1.73% in the same period last year. The banks' net return on average assets reached 1.01% on an annualized basis, up from 1.1% a year earlier; while net return on average equity was 13.92% relative to 14.31% a year earlier. Further, the cost-to-income ratio increased to 54.7% in the first 9 months of 2011 from 50.11% in the same period last year.

Moody's downgrades two French banks with stakes in Lebanese institutions

Moody's Investors Service downgraded by one-notch the long-term debt and deposits ratings of Société Générale (SocGen) to 'A1' from 'Aa3' and those of Crédit Agricole SA (CASA) to 'Aa3' from 'Aa2'. It also lowered by two notches SocGen's standalone bank financial strength rating (BFSR) to 'C-' from 'C+', and that of CA by one notch to 'C-' from 'C'. The agency has a 'negative' outlook on the long-term ratings of both banks. It attributed the downgrades to the impact of liquidity funding constraints on both banks and to the deteriorating economic fundamentals in the Euro zone.

Moody's said that the two banks' liquidity and funding conditions deteriorated significantly, which have used extensively the wholesale funding markets. It added that the probability that the banks will face further funding pressures has risen in line with the worsening European debt crisis and the consequent reduction in investor appetite to invest in banks such as SocGen and CASA, given their direct and indirect exposure to distressed sovereigns and countries. It also noted that the banks' de-leveraging plan will help somewhat reduce their need for wholesale funding. But it expressed concerns about a mounting risk that any further asset sales, where required, could generate less-than-expected or negative capital, given that many other banks in Europe are engaged in similar programs. Further, it said that the banks retain exposures to sovereigns and their economies that are experiencing tighter refinancing conditions and declining creditworthiness, such as Greece and Italy. It noted that SocGen and CASA have written down 60% of their gross exposure to Greece. Société Générale has a 19% stake in Société Générale de Banque au Liban sal. Crédit Agricole has a direct presence in Lebanon through its subsidiary Crédit Agricole Suisse (Liban) Financial Services sal. The bank also has a 9% stake in Banque Libano-Française and a 6% stake in Fransabank sal.

CMA CGM's ratings downgraded on poor results, outlook negative

Moody's Investors Service downgraded the corporate family and probability of default ratings of the Lebanese-owned and France-based container shipping group CMA CGM to 'B2' from 'B1' with a 'negative' outlook. It also downgraded to 'Caa1' from 'B3' the company's $325m and $475m worth of senior unsecured notes that mature in 2019 and 2017, respectively.

It attributed the downgrades to the group's weak performance in the third quarter, mainly due to the poor performance of the industry during its peak season that were caused by the oversupply of vessels and reduced freight rates to a very low level. As such, it expected the group's result for 2011 to be significantly weaker than previously estimated, translating into credit metrics that are likely to be very weak at year end. It added that the ratings still incorporate an assumption that industry conditions would not further worsen and that freight rates would recover, at least modestly, in the last weeks of the year as well as in 2012. In parallel, the agency indicated that CMA CGM has a strong business profile with solid market shares globally, as well as a distinctive position in some secondary lanes that are more profitable. It added that the group successfully strengthened its capital base earlier this year, which boosted its liquidity. It noted that all the major new deliveries of ships that are scheduled before the end of 2012 are fully financed.

Moody's expected the container market's operating conditions to remain difficult in 2012 which would keep CMA CGM's performance under pressure. It added that the firm has recently obtained approval from its lender to waive the covenant test due at end-2011, but it warned that the next semi-annual periods could remain challenging if the current market conditions do not improve substantially.

Corporate Highlights

S&P upgrades Standard Chartered's ratings

Standard & Poor's raised Standard Chartered Bank's long-term counterparty credit rating to 'AA-' from 'A+' and its short-term counterparty credit rating to 'A-1+' from 'A-1'. It also raised the long-term counterparty credit rating on Standard Chartered PLC, the group holding company, to 'A+' from 'A' and affirmed the 'A-1' short-term rating on the company. It has a 'stable' outlook on all of the long-term ratings. It said that the ratings reflect the bank's strong business position, adequate capital and earnings, strong risk position, above-average funding and strong liquidity. It added that the bank has a well-diversified risk exposure. It expected the sluggish global trade to likely affect the volume of the bank's trade finance business as well as its asset quality. It noted that the bank's has a rich pool of liquid assets and that its liquidity is likely to benefit from flight to safety in times of funding market stress. Standard Chartered Bank has been present in the Lebanese market since 1999 when it acquired Metropolitan Bank sal. It operates through its fully-owned subsidiary Standard Chartered Bank sal and has three branches in the country.

IBL Bank's net income up 30% to $30m in first 9 months of 2011

IBL Bank sal posted unaudited consolidated net profits of $30.1m in the first 9 months of 2011, constituting an increase of 30.4% from the same period last year. Net operating income rose by 25.5% to $56.4m, with net interest income increasing by 18% to $39.4m and non-interest receipts increasing by 41.3% to $18.3m year-on-year. Also, operating expenditures increased by 25.2% to $21.6m, with staff expenses increasing by 25.3% to $11.9m. Total assets reached $3.5bn at end-September 2011, constituting a 14.4% rise from end-September 2010 and a 9.1% rise from end-2010, while loans & advances to customers increased by 35.8% year-on-year and by 21.3% from end-2010 to $598.2m. Customer deposits totaled $3.2bn at end-September, constituting a growth of 15.5% from a year earlier and an increase of 8.6% from end-2010. In addition, the net interest spread decreased marginally to 1.56% in the first 9 months of 2011 from 1.57% in the same period last year. The banks' net return on average assets reached 1.19% on an annualized basis, up from 1.08% a year earlier; while net return on average equity was 16.64% relative to 14.79% a year earlier. Further, the cost-to-income ratio increased slightly to 37.48% in the first 9 months of 2011 from 37.26% in the same period last year.

Lebanese firms represented among fastest growing companies in the Arab world

AllWorld Network's Arabia500 list of the fastest growing companies in the Arab world and Turkey included 12 Lebanese firms that ranked between 27th and 142nd place and whose revenue growth ranged between 22% and 218% during the 2008-10 period. It also identified two Lebanese start-ups among start-ups to watch. The survey indicated that three Lebanese companies were from the food industries, two firms from each of the advertising & marketing and construction & engineering sectors, and one firm from each of the automotive, environmental services, finance & insurance, high-tech & telecommunications, manufacturing & packaging, public relations, media & publishing, and travel & tourism sectors. It noted that the 12 Lebanese companies had an average revenue growth of 83% during the 2008-10 period, and that each firm employs 89 persons on average.

Further, the survey said that Lebanon had the highest percentage of fast-growing companies owned by women in the Levant region, as the fastest and the third-fastest growing firms from Lebanon belong to businesswomen. It pointed out that Jordan has the largest number of fast growth companies on the list among countries from the Levant with 27 fast-growing companies, followed by Lebanon with 14, Palestine with two, and Syria with one firm.

The Arabia500 is a ranking of the fastest growing young firms in the Middle East and North Africa region, Turkey and Pakistan. The Arabia500 companies are divided into three categories, with the first category being firms with at least three years of operating history and a minimum of $500,000 in sales; start-ups that are usually just one or two years old and growing rapidly; and companies to watch, which are firms that posted remarkable growth until 2008 and managed to sustain sales through the downturn

Top 12 Fastest Growing Lebanese Companies

Rank	Company Name	Industry	Growth Rate (2008-10)
27	Semsom Restaurant	Food Industries	218%
31	Lebanese Credit Insurance	Finance & Insurance	201%
53	Firehorse	Public Relations, Media & Publishing	133%
74	Sfeir Industries	Food Industries	83%
77	Grey Matter	Travel & Tourism	79%
83	Print Works	Advertising & Marketing	74%
90	Boisselier Safi	Manufacturing & Packaging	64%
115	Tecmo	Construction & Engineering	37%
118	Wooden Bakery	Food Industries	36%
137	Born Interactive	High-Tech & Telecommunications	25%
142	INTRAMURO	Construction & Engineering	22%
141	A.N.Boukather	Automotive	22%

Source: Arabia500

Corporate Highlights

First National Bank's profits down 12% to $10.7m in first 9 months of 2011

First National Bank sal posted unaudited consolidated net profits of $10.7m in the first 9 months of 2011, constituting a decrease of 12.1% from the same period last year. Net operating income rose by 1.3% to $41.5m, with net interest income increasing by 10.6% to $34.5m and non-interest receipts decreasing by 19.5% to $8.5m year-on-year. Also, operating expenditures increased by 8.5% to $28m, with staff expenses increasing by 11.6% to $15.3m. Total assets reached $2.8bn at end-September 2011, constituting a 14.2% rise from end-September 2010 and an 8.6% rise from end-2010, while loans & advances to customers increased by 21.2% year-on-year and by 17.7% from end-2010 to $742m. Customer deposits totaled $2.2bn at end-September, constituting a growth of 19.8% from a year earlier and an increase of 12% from end-2010. In addition, the net interest spread decreased to 1.73% in the first 9 months of 2011 from 1.82% in the same period last year. The banks' net return on average assets reached 0.54% on an annualized basis, down from 0.71% a year earlier; while net return on average equity was 7.76% relative to 8.95% a year earlier. Further, the cost-to-income ratio increased to 65.24% in the first 9 months of 2011 from 61.94% in the same period last year.

Theme park for children to open next summer in Beirut

KidzMania, a role playing theme park where children can experience real life jobs, announced that it will start operations at the end of next summer in Beirut. Located in the Beirut Waterfront are of the Beirut Central District, the $20m park will include more than 40 categories of jobs for kids between two and 14 years old. The initiative is financed by two Lebanese investors. KidzMania projects revenues to reach $13m per year based on forecasts of selling about 400,000 entrance tickets per year, with tickets prices fixed at $25 for individuals and $14 for groups or schools. The investors aim to franchise the concept in the Gulf countries, with Saudi Arabia and Qatar constituting the main destinations.

Ratio Highlights

(in % unless specified)	2008	2009	2010	Change*
Nominal GDP*(1)* ($bn)	30.1	34.9	39.2	
External Debt / GDP	70.7	60.9	52.5	(840)
Local Debt / GDP	86.5	85.5	81.7	(380)
Total Debt / GDP	157.3	146.4	134.2	(1,220)
Total External Debt / GDP	172.4	175.2	160.5	(1,470)
Trade Balance / GDP	(42.3)	(36.5)	(35.0)	150
Exports / Imports	21.6	21.5	23.7	220
Budget Revenues / GDP	23.5	24.1	21.4	(270)
Budget Expenditures / GDP	33.3	32.6	28.8	(380)
Budget Balance / GDP	(9.8)	(8.5)	(7.5)	(100)
Primary Balance / GDP	2.0	3.1	3.1	0
BdL FX Reserves / M2	68.9	75.1	72.6	(250)
M3 / GDP	229.6	235.2	235.1	(10)
Bank Assets / GDP	315.2	330.2	328.9	(130)
Bank Deposits / GDP	260.1	274.4	273.5	(90)
Private Sector Loans / GDP	83.7	81.3	89.1	780
Dollarization of Deposits	69.6	64.5	63.2	(130)
Dollarization of Loans	86.6	84.0	80.3	(370)

** Change in basis points 09/10*
(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	June 2010	May 2011	June 2011	Change*	Risk Level
Political Risk Rating	58.5	55.5	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	58.2	58.2	▼	High

Regional Average	June 2010	May 2011	June 2011	Change*	Risk Level
Political Risk Rating	64.8	60.3	59.9	▼	Moderate
Financial Risk Rating	41.7	41.8	42.0	▲	Very Low
Economic Risk Rating	38.4	36.8	36.6	▼	Low
Composite Risk Rating	72.4	69.5	69.3	▼	Moderate

**year-on-year*
Source: The PRS Group, Byblos Research
Note: Political & Composite Risk Ratings range from 0 to 100 (where 100 indicates the lowest risk)
Financial & Economic Risk ratings range from 0 to 50 (where 50 indicates the lowest risk)

Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's	B1	NP	Stable	B2		Stable
Fitch Ratings	B	B	Stable	B		Stable
Standard & Poor's	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-		Negative
EIU		B	Stable

Source: Rating agencies

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