# The Lebanon Weekly Monitor

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Central Bank figures for the first month of the year indicate that commercial banks commenced the year with a continuation of the growth exhibited in 2007 as significant positive variations in assets, deposits, and most importantly credits were reported over the month of January 2008.

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In its semi-annual survey on the country risk of 185 countries conducted in March 2008, Euromoney magazine ranked Lebanon in 127th place worldwide, thus demoting its rank by 11 notches from the 116th place globally in its previous survey of September 2007.

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Fransabank reported US$ 60.7 million in net profits in 2007, up by 12.2% from US$ 54.1 million in 2006.

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Lebanese capital markets were dominated by a wait-and-see mood this week, with all eyes directed towards the new 5-year sovereign bond issue amounting to US$ 875 million for a yield of 9.25%. The issue was managed by Bank Audi and Credit Suisse and its proceeds will be used in settling a previous sovereign bond maturing on March 12, 2008 for an amount of US$ 700 million. Within this context, the Central Bank's Governor stated recently that the swap operation shall close successfully thanks to the adequate liquidity available in capital markets. In fact, the commercial banks' primary foreign currency liquidity rose by 9.5% in 2007 and by a CAGR of 13.7% over the past five years, which reflects the mounting investment opportunities available at commercial banks, with these latter assumed to be the major subscribers in the new issue. Under such conditions, a calm mood reigned over the Eurobond market except for some modest selling operations taking place. The average spread widened significantly by 40 basis points to 631 basis points due to a rise in Lebanese yields and decline in benchmark yields. As to the equity market, a weak activity continued to govern within the context of the persisting local political impasse. The total trading value amounted to US$ 9.7 million and the price index nudged down by 0.3% to 144.81. On the foreign exchange market, activity was mostly balanced this week. Only a modest surplus of the US Dollar offer appeared on Monday and Wednesday, which called for the Central Bank's intervention as a buyer of the green currency at LP 1,512.5.


**Research Department**
Bank Audi sal - Audi Saradar Group
Bank Audi Plaza, Bab Idriss, Riad El Solh - Beirut - Lebanon
P.O.Box : 11 - 2560 / Tel : (01) 994000 / Telefax : (01) 985622
Swift : AUDBLBBX - http://www.banqueaudi.com


Bank Audi sal
Audi Saradar Group

## Consolidated assets of commercial banks at US$ 83 billion at end-January 2008

Central Bank figures for the first month of the year indicate that commercial banks commenced the year with a continuation of the growth exhibited in 2007 as significant positive variations in assets, deposits, and most importantly credits were reported over the month of January 2008. As a matter of fact, this is only natural given the insulation developed by the sector to the domestic political environment over the past three years.

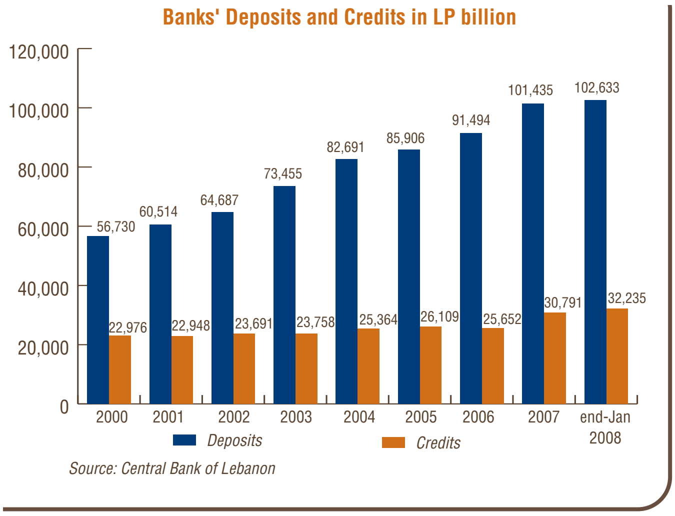
Indeed, the consolidated balance sheet of commercial banks for the month of January 2008 suggests that assets moved from LP 123,999 billion, or US$ 82.3 billion at end-2007 to LP 125,227 billion, or US$ 83.1 billion, demonstrating a growth of 1% over the month. Similar to the trend prevailing in 2007, the main source for assets' growth was customer deposits, which rose by 1.2% during January 2008 from LP 101,435 billion, or US$ 67.3 billion at end-2007 to LP 102,632 billion, or US$ 68.1 billion, the equivalent of US$ 793.7 million.

The analysis of deposits' growth by its different components reveals that during the month of January, LP deposits outpaced those in foreign currency. The former went up by LP 440,742 million, or 1.9%, while the latter grew by US$ 501.3 million, or 1.0%. Still, the dollarization of deposits remained almost unchanged from 77.3% at December-end 2007, to become 77.2%, due to the composition of deposits, which are mostly in foreign currency. Resident deposits grew by LP 1,006 billion, or 1.2% while non-resident deposits rose by a mere LP 191 billion, or 1.3% over the month. However, one should note that deposits growth was driven by residents, as its share of total deposits is much higher than that of non-residents' deposits. Also, this can be noted by the fact that the share of non-resident's deposits remained unchanged at 14.2% since end-2007.

In parallel, the banking sector lending activity saw an aggressive growth throughout the month of January, again following in the footsteps of its performance over the past year. Indeed, the growth in loans surpassed that in assets and deposits and was at a monthly 4.7%; and this is tied to the policy that large Lebanese banks are following nowadays, which aims at addressing regional corporates. In terms of quantity, this expansion was at LP 1,445 billion, or US$ 958 million in January, thus pushing total loans up to LP 32,235.2 billion, or US$ 21,383 million.

An in-depth look at lending activity locally and abroad suggests that the beginning of the year witnessed the continuation of the recently established strategy, which aims at expanding outside Lebanon and into the region in order for banks to diversify their markets of presence and secure a more balanced activity and earnings between Lebanon and abroad. Also, banks have been reducing their reliance on the domestic market. Indeed, the increase in loans to the non-resident private sector in January 2008 surpassed the rise in loans to the resident private sector. The former reached 17.8%, while the latter was at a lower 2.7%. In volume, the rise in non-resident claims was at LP 714.4 billion, which is close to the LP 729.3 billion increase in loans to the resident private sector, despite the fact that share of residents' loans is much larger than that of non-residents. By the end of January 2008, the share of loans to non-residents reached 14.7% of total loans, up from 13.1% at end-2007.

Finally, distribution of credit by currency indicates that foreign currency credits went up by 5.2% in January 2008 to reach US$ 18,558 million, while Lebanese pound-denominated loans went up by 1.6% to become LP 4,259.1 billion. This indicates that the dollarization rate of loans increased slightly from 86.4% at end-2007 to 86.8% at end-January 2008.




## Spending in hotels and furnished apartments drops by a yearly 14.5% in 2007

Figures released by the Ministry of Tourism on the usage of hotels and furnished apartments in Lebanon indicate that aggregate clients using those two facilities amounted to 441,306 and spent a total of 984,433 nights in them in 2007. Thus, the average stay of a single person was at 2.23 nights in 2007. Those clients spent a total of US$ 59.1 million in the hotel sector. Moreover, the Ministry reported average occupancy of 23.0% for hotel rooms and 29.7% for furnished apartments during the past year.

When compared to 2006, the number of clients using hotels and furnished apartments fell by 5.8%, while the total number of nights spent in such facilities dropped by 14.4%. This leads to a 10.3% decline in the average stay of a single person. As for the amount of money contributed by those visitors to the hotel sector, it went down by 14.5% from US$ 69.0 million in 2007, and by 13.2% from US$ 68 million in 2005. In parallel, the decrease in the average occupancy for hotel rooms was a lower 0.14%, while that for furnished apartments was at 2.35%. It is worth noting that the decline in the usage of furnished apartments was more significant, probably because in the two war months of 2006, a lot of Lebanese dislodged from war-stricken areas resorted to furnished apartments in the Greater Beirut area and other relatively safer areas of the country.

The aforesaid negative yearly variations are in line with 4.3% decrease in the number of tourists visiting the country in 2007. In fact, they clearly reflect the weakening of the tourism sector as a whole and the lodging sector in particular since 2005, when figures dropped from a climax in 2004, as visitors amounted to 560,444 and spent 1.48 million nights, leading to an average stay of 2.65 nights per person, while spending a hefty US$ 89 million on hotels and furnished apartments.

The majority of clients using hotels and furnished apartments in Lebanon were Lebanese with s total of 108,691 clients, or 24.6% of the total. The reiterates the fact of previously released data that majority of visitors to Lebanon in 2007 were expatriate Lebanese. It was followed by Saudi Arabia with 46,044 clients (10.4%), Jordan with 36,028 clients (8.2%), Iraq with 26,525 clients (6.0%), Kuwait with 23,721 clients (5.4%) and Syria with 21,414 clients (4.8%). One should note that the top ten in the number of clients using hotels and furnished apartment, which accounted for 72.8% of total clients, were all Arabs, except for French citizens which came in the 9th position.

## Tax-free purchases up by 61% in January 2008 relative to January 2007

Figures released by Global Refund, the firm that reimburses VAT to tourists at the Lebanese border points, reveal that tax-free purchases have reported an increase of 61% in January 2008 relative to the same month of the previous year. This increase compares especially well to the 30% decline in tax-free spending reported in January 2007 and reflects a relative recovery of tourism activity in the first month of this year, which, as a matter of fact, underwent an 18.7% yearly increase. It is worth noting that this increase in tax-free spending, driven by an increase in tourism activity, stems to a large extent from the low base of January 2007, as that month marked by extensive internal bickering.

The distribution of expenditures of tourists in Lebanon by country of origin confirms the fact that the majority of visitors to Lebanon were Arabs as aggregate spending of nationals from Saudi Arabia, Kuwait, United Arab Emirates, and Jordan, accounted for 45% of total spending of tourists in Lebanon. In details, spending of nationals from Saudi Arabia retained the lion's share of overall expenditures of tourists in Lebanon during January, as it accounted for 16% of total tourists' spending during the said period. It was followed by spending of citizens from the UAE with 15% of the total, citizens from Kuwait with 9%, and Jordanian citizens with 5%. Also, spending of French citizens accounted for 6% of overall spending. The remaining 49% was distributed among nationals from various countries, with each having a small share.



In terms of the year-on-year variation of spending of different nationals in January 2008, all changes were positive, again stemming from the low base of January 2007. Among Arab citizens, the largest increase was for citizens from the UAE, who's spending saw a hefty 107% rise. It was followed by spending of Egyptian citizens, which rose by 85%, Jordanian citizens with a 62% year-on-year increase in expenditures, Qatari nationals with a 53% rise in spending, Saudi Arabian nationals with a 22% rise in spending, and Kuwaiti nationals with the lowest increase of 18%. On the other hand, spending of non-Arabs saw major increases as well, as expenditures of Nigerian citizens went up by 91%, that of nationals from the United States went up by 88%, followed by expenditures of French citizens with a 66% rise, and a 63% increase in spending of nationals from the United Kingdom.

The distribution of tax free spending by category during January 2008 indicates that "fashion and clothing" was the category with the highest share of overall spending of 66%, followed by "watches and iewellery " with 13%, "home and garden" with 4%, "perfumes and cosmetics" with 4%, and spending in department stores with 4%.

Spending on "perfume and cosmetics" and spending in department stores witnessed large year-on-year increases in January 2008 which were at 146% and 156%, respectively. As for on "fashion and clothing" and "watches and Jewellery", it followed by smaller increases of 60% and 57%, respectively. Finally, spending on "home and garden" saw the lowest rise of 12%.

## Lebanon loses 11 ranks in 6 months as per Euromoney's country risk rankings

In its semi-annual survey on the country risk of 185 countries conducted in March 2008, Euromoney magazine ranked Lebanon in the 127th place worldwide, thus down by 11 notches from the 116th place globally in September 2007. On a yearly basis, Lebanon's ranking regressed by an even further 16 notches, as it ranked in the 111th place worldwide in March 2007. In fact, Lebanon's score dropped by 4.9% from 38.95 out of 100 in September 2007 and by 3.2% from 38.26 in March 2007 to reach a current 37.03.

Regionally, Lebanon ranked 16th out of 19 countries in the Middle Eastern and North African (MENA) region, dropping two spots from the 14th position in September 2007, as well as March 2007. The drop in Lebanon's score over the half-year period between September 2007 and March 2008 has been coupled with a similar regional trend as the average score of MENA countries fell, by 1.1%, from 52.5 to 51.9. The scores of 11 MENA countries saw a regression, while those of eight countries improved. In the past six months, the region's exposure to risk has risen, but not significantly as it has become adapted to turmoil.

Political risk accounts for 25% of the weight and refers to risk of non-servicing of payment for goods or services, loans, trade-related finance and dividends, and the non-repatriation of capital. Lebanon scored 7.41 out of 25 on this category, with its score falling slightly by 0.5% from 7.45 in the previous survey. Economic performance accounts for another 25% of the weight and is based on Gross National Income (GNI) figures per capita and on results of the Euromoney poll of economic projections. In this category, Lebanon saw a sharper decline of 19.9% to score 5.73 out of 25. Debt indicators account for 10% of the weight and are calculated using the World Bank's total debt stocks to GNP ratio, debt service to exports ratio, and current account balance to GNP ratio. Despite the 4.1% drop, Lebanon's score is still within the acceptable range at 7.21 out of 10.

Debt in default accounts for 10% of the weight and is based on the ratio of rescheduled debt to debt stocks. Lebanon's performance remained unchanged from several previous surveys, attaining a perfect score in this category, 10 out of 10. Naturally, this is attributed to Lebanon's history of never defaulting on its debt. Credit ratings account for 10% of the weight and represent the nominal values assigned to sovereign ratings from Moody's Investors Service, Standard & Poor's and Fitch Ratings. The country's score improved from 0.63 out of ten to 0.78. However, in spite of the advance, which is surprising given the fact that S&P recently downgraded Lebanon's ratings, the country's score is very low, due to low ratings of the country such as the "CCC+" by S&P and "B3" by Moody's. Access to bank finance accounts for 5% of the weight and is calculated from disbursements of private, long-term, unguaranteed loans as a percentage of GNP. Lebanon's score dropped from an already low 0.36 in September 2007 to a current 0. However, its score progressed when it came to access to short-term finance, which accounts for 5% and takes into account OECD consensus groups and short-term cover available from the US Exim Bank and Atradius UK. The 8.1% improvement led to a current score of 1.73 out of 5.

When it comes to access to capital markets, which also accounts for 5% and refers to country's accessibility to international markets, a semiannual weakening of 2.4% was observed, to reach a score of 2.48 of 5. Finally, with respect to discount on forfaiting, which accounts for 5%, and reflects the average maximum tenor for forfaiting. Lebanon scored 1.68 out of 5, down by 1.8%.

### Assessment of Country Risk for Lebanon by Category

| Category | Weighting | Mar-08 Score | Sep-07 Score | Mar-07 Score | Sep-06 Score |
|---|---|---|---|---|---|
| Political Risk | 25.00 | 7.41 | 7.45 | 6.96 | 7.90 |
| Economic Performance | 25.00 | 5.73 | 7.15 | 6.98 | 6.96 |
| Debt Indicators | 10.00 | 7.21 | 7.52 | 7.52 | 6.39 |
| Debt in Default or rescheduled | 10.00 | 10.00 | 10.00 | 10.00 | 10.00 |
| Credit Ratings | 10.00 | 0.78 | 0.63 | 0.78 | 0.78 |
| Access to Bank Finance | 5.00 | 0.00 | 0.36 | 0.37 | 0.12 |
| Access to Short-term Finance | 5.00 | 1.73 | 1.60 | 2.80 | 2.33 |
| Access to Capital Markets | 5.00 | 2.48 | 2.54 | 1.25 | 1.25 |
| Discount on Forfaiting | 5.00 | 1.68 | 1.71 | 1.60 | 2.85 |
| **Total** | **1.00** | **37.03** | **38.95** | **38.26** | **38.06** |

*Source: Euromoney, March 08*

Globally level, Lebanon came behind Georgia and Iran. Regionally, it ranked ahead of Sudan and Libya, and after Iran and Syria. Similar to the trend in the region, the global trend has been one of increasing risk, as the average score of all 185 countries fell by 1.0% from 50.3 in September 2007 to 49.8 in March 2008. Although the percentage drop in the MENA region's score is congruent with that of the world's, that of Lebanon in particular was significantly higher, due to the exacerbation of the political and economic instability. Lebanon's score remained below the MENA average by 14.9 points, or 28.7%. Also, it was lower than the global average by 12.8 points, or 25.6%

In conclusion, a quick glance at Lebanon's score over the past two years notes a peak of 38.9 in March 2006, given the promising first half of the year, however, the score went down to 38.06 in September 2006. In March 2007, it went back up to 38.26 and continued the upward path in September 2007, only for it to decline again in March 2008.

## Fransabank posts US$ 60.7 million in 2007 net profits

Fransabank reported US$ 60.7 million in net profits in 2007, up by 12.2% from US$ 54.1 million in 2006. Net interest margin increased by 3.4% to US$ 103.4 million, while non-interest income increased by 32.5% to US$ 43.7 million. Subsequently, net financial income grew by 10.6% to US$ 147.1 million over the same period. As such, the ratio of non-interest income to net financial income reached 29.7% in 2007, up from 24.8% in 2006.

General operating expenses increased by 21.6% to US$ 75.2 million, due to an increase of 22.0% in staff expenses and an increase of 21.0% in other operating expenses. The bank's cost-to-income ratio stood at 52.2% in 2007, compared to 51.4% in 2006.

Total assets amounted to US$ 7.3 billion at year-end 2007, up by 39.1% from US$ 5.2 billion at year-end 2006, while customer deposits totaled US$ 6.2 billion, posting a 43.6% increase from US$ 4.3 billion at year-end 2006. FC deposits reached US$ 4.3 billion, and constituted about 68.7% of total deposits. Loans increased by 67.0% to US$ 1.4 billion, and the ratio of loans to deposits was 23.1%.

The bank's shareholders' equity amounted to US$ 520.3 million at year-end 2007, up by 15.9% from US$ 449.1 million at year-end 2006. Subsequently, the bank's equity to assets ratio stood at 7.2%, compared to a higher ratio of 8.6% a year earlier. The bank's net return on average assets amounted to 0.97% in 2007, while its net return on average equity reached 12.5%. Fransabank operated 101 branches and employed a staff of 1,746 people at year-end 2007.

## Banque Libano-Française's net profits up by 29.7% to US$ 54.5 million in 2007

Banque Libano-Française reported US$ 54.5 million in net profits in 2007, up by 29.7% from US$ 42.0 million in 2006. Net interest margin increased by 29.5% to US$ 102.9 million, while non-interest income decreased by 1.1% to US$ 44.3 million. Subsequently, net financial income grew by 18.4% to US$ 147.2 million over the same period. As such, the ratio of non-interest income to net financial income reached 30.1% in 2007.

General operating expenses increased by 8.5% to US$ 73.8 million, due to an increase of 7.1% in staff expenses and a rise of 11.0% in other operating expenses. The bank's cost-to-income ratio stood at 54.3% in 2007, compared to 58.6% in 2006.

Total assets amounted to US$ 6.0 billion at year-end 2007, up by 17.9% from US$ 5.1 billion at year-end 2006, while customer deposits totaled US$ 5.0 billion, posting a 20.5% increase from US$ 4.2 billion at year-end 2006. FC deposits reached US$ 4.1 billion, and constituted about 81.1% of total deposits. Loans increased by 19.0% to US$ 1.7 billion, and the ratio of loans to deposits was 33.1%.

The bank's shareholders' equity amounted to US$ 490.4 million at year-end 2007, up by 8.7% from US$ 451.1 million at year-end 2006. Subsequently, the bank's equity to assets ratio stood at 8.2%, compared to 8.9% a year earlier. The bank's net return on average assets amounted to 0.98% in 2007, while its net return on average equity reached 11.6% over the same period. Banque Libano-Française operated 33 branches and employed a staff of 853 people at year-end 2007.

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## Credit Libanais posts US$ 30.5 million in 2007 net profits

Credit Libanais reported US$ 30.5 million in 2007 net profits, up by 2.8% from US$ 29.7 million in 2006. Net interest margin increased by 2.9% to US$ 71.4 million, while non-interest income decreased by 0.7% to US$ 24.0 million. Subsequently, net financial income grew by 1.9% to US$ 95.4 million over the same period. As such, the ratio of non-interest income to net financial income reached 25.1% in 2007.

General operating expenses increased by 2.3% to US$ 55.1 million, due to an increase of 3.2% in staff expenses and an increase of 0.7% in other operating expenses. The bank's cost-to-income ratio stood at 61.7% in 2007, compared to 62.0% in 2006.

Total assets amounted to US$ 3.8 billion at year-end 2007, up by 9.4% from US$ 3.5 billion at year-end 2006, while customer deposits totaled US$ 3.2 billion, posting a 10.7% increase from US$ 2.9 billion at year-end 2006. FC deposits reached US$ 2.1 billion, and constituted about 66.1% of total deposits. Loans increased by 17.2% to US$ 763.1 million, and the ratio of loans to deposits was 23.9%.

The bank's shareholders' equity amounted to US$ 361.4 million at year-end 2007, up by 2.5% from US$ 352.5 million at year-end 2006. Subsequently, the bank's equity to assets ratio stood at 9.6%, compared to 10.2% a year earlier. The bank's net return on average assets amounted to 0.85% in 2007, while its net return on average equity reached 8.6% over the same period. Credit Libanais operated 60 branches and employed a staff of 1,133 people at year-end 2007.

## Money Market: Abundant local currency liquidity

The overnight rate remained unchanged at its low official level of 3.5%, within the context of a balanced activity on the foreign exchange market and abundant local currency liquidity on the money market. As to Certificates of Deposits, no subscriptions were made this week.

On the other hand, the monetary aggregates for the week ending February 21 showed an increase in local currency deposits of LP 176 billion and a rise in foreign currency deposits of US$ 66 million. These weekly variations compare to an average increase of LP 69 billion for LP deposits since the beginning of the year 2008, and an average rise of US$ 84 million in foreign currency deposits. In addition, total money supply in its large sense (M4) expanded by LP 233 billion, versus an average weekly increase of LP 196 billion since the onset of the year 2008.

| Interest rates | 07/03/08 | 29/02/08 | 28/12/07 | |
|---|---|---|---|---|
| Overnight rate | 3.50% | 3.50% | 3.50% | ⇔ |
| 7 days rate | 3.63% | 3.63% | 3.63% | ⇔ |
| 1 month rate | 4.17% | 4.17% | 4.17% | ⇔ |
| 45-day CDs | 4.40% | 4.40% | 4.40% | ⇔ |
| 60-day CDs | 4.89% | 4.89% | 4.89% | ⇔ |

## Treasury Bills Market: Nominal surplus in February 2008

The latest results of the short-term Treasury bills auction, released by the Central Bank this week, showed that total subscriptions for value date March 6, 2008 amounted to LP 31 billion, and were distributed as follows: LP 1 billion in the three-month category and LP 30 billion in the six-month category. These compare to maturities of LP 115 billion, resulting in a nominal deficit of LP 84 billion. Interest rates remained unchanged since April 2005. In fact, the average yields on the three-month and six-month categories stood at 5.22% and 7.24% respectively.

On a cumulative basis, total subscriptions amounted to LP 2,467 billion in February 2008 and were distributed as follows: LP 508 billion in the short-term categories (three-month and six-month categories), LP 39 billion in the medium-term categories (one-year and two-year categories) and LP 1,920 billion in the three-year long-term category. These compare to maturities of LP 1,894 billion, which resulted in a nominal surplus of LP 573 billion in February.

On the secondary Treasury bills market, only the five-year category was modestly traded this week.

| T-Bills Yields | 07/03/08 | 29/02/08 | 28/12/07 | |
|---|---|---|---|---|
| 3-month | 5.22% | 5.22% | 5.22% | ⇔ |
| 6-month | 7.24% | 7.24% | 7.24% | ⇔ |
| 1-year | 7.75% | 7.75% | 7.75% | ⇔ |
| 2-year | 8.50% | 8.50% | 8.50% | ⇔ |
| 3-year | 9.32% | 9.32% | 9.32% | ⇔ |
| Nom. Subs. (LP billion) | 31 | 339 | 288 | ↓ |
| Short-term (3&6 mths) | 31 | 0 | 288 | ↑ |
| Medium-term (1&2 yrs) | 0 | 23 | 0 | ↓ |
| Long-term (3 yrs) | 0 | 316 | 0 | ↓ |
| Maturities | 115 | 45 | 326 | ↑ |
| Nom. Surplus/Deficit | -84 | 294 | -38 | ↓ |

## Foreign Exchange Market: The rise in gold prices provides an opportunity to reduce debt

Supply and demand forces were mostly balanced this week. A small surplus of the US Dollar appeared on Monday and Wednesday, which called for the Central Bank's intervention as a buyer of the green currency at a rate of LP 1,512.5. Commercial banks exchanged the US Dollar at a rate swaying between LP 1,512.5 and LP 1,514.25.

On the other hand, the Central Bank's bi-monthly balance sheet ending February 29 showed an increase in foreign assets of US$ 522 million during the second half of February to reach US$ 13.25 billion. The rise was mainly due to an increase in commercial banks' deposits of US$ 239 million and the continuous activity in favor of the Lebanese Pound during the second half of February. Accordingly, the Central Bank's foreign assets covered 79.1% of LP money supply, with this coverage ratio rising to a record high level of 132.5% when accounting for gold reserves, mainly due to the staggering surge in gold prices in global markets. The rise in gold prices was positively reflected on the "Valuation adjustment" item on the liabilities side of the BDL's balance sheet. In fact, since the release of gold surpluses on June 30, 2007 for the purpose of reducing the public debt to end-February 2008, the "Valuation adjustment" item increased by LP 4,608 billion, the equivalent of US$ 3 billion, which provides a good opportunity to reduce the public debt if the Central Bank decides once again in collaboration with the Ministry of Finance to release gold surpluses according to articles 115 and 116 of the code of Money and Credit. It is

| Exchange rate | 07/03/08 | 29/02/08 | 28/12/07 | |
|---|---|---|---|---|
| LP/US$ | 1,507.5 | 1,507.5 | 1,507.5 | ⇔ |
| LP/£ | 3,035.65 | 2,988.17 | 3,011.83 | ↓ |
| LP/¥ | 14.78 | 14.44 | 13.31 | ↓ |
| LP/SF | 1,477.51 | 1,437.22 | 1,330.77 | ↓ |
| LP/Can$ | 1,534.35 | 1,540.78 | 1,538.89 | ↑ |
| LP/Euro | 2,321.40 | 2,291.25 | 2,212.56 | ↓ |

worth noting that, according to the Central Bank's Governor, more than US$ 4 billion of the public debt were reduced in a similar way after Paris II and Paris III donor conferences.

## Stock Market: Weak activity due to persisting local political impasse

Activity remained weak on the Beirut Stock Exchange this week, within the context of the continuous local political stalemate. The total trading value amounted to US$ 9.7 million versus US$ 8.6 million last week. The average daily trading value rose from US$ 1.7 million to US$ 1.9 million, which resulted in an increase in the trading volume index of 12%.

At the level of prices, the price index reported a tiny decline of 0.27% week-on-week to close at 144.81. In details, Solidere shares accounted for 49% of the total trading value. The Solidere "A" share price increased by 1.0% to US$ 20.75, while the Solidere "B" share price decreased by 0.6% to US$ 20.74. On the other hand, the banking shares accounted for 42% of activity this week. Bank Audi's GDRs price edged up by 0.2% to US$ 72.15. BLOM's GDRs price moved up by 1.1% to US$ 89.00, while BLOM "listed shares" price stood at US$ 81.55. Byblos Bank's "listed shares" price dropped by 3.1% to US$ 2.17, and Byblos Bank's "priority shares" price decreased by 1.3% to US$ 2.22. Bank of Beirut's "listed shares" price declined by 0.7% to US$ 12.74.

As to the industrial shares, only Holcim's share traded this week and its price improved by 2.5% to US$ 19.90. At the level of the investment funds, the Beirut Golden Income's share price decreased by 0.5% to LP 102,000, erasing last week's gains. The Beirut Preferred Fund's share price stood at US$ 100.5 and the Beirut Global Income's share price remained unchanged at US$ 102. On the other hand, it is worth mentioning that Solidere's GDRs, which are listed solely on the London Stock Exchange, witnessed 1.2% drop in prices to US$ 20.50 this week.

| Audi Indices for BSE | 07/03/08 | 29/02/08 | 28/12/07 |
|---|---|---|---|
| *22/1/96=100* | | | |
| Market Cap. Index | 491.38 | 492.72 | 504.87↓ |
| Trading Vol. Index | 102.9 | 91.8 | 538.1↑ |
| Price Index | 144.81 | 145.20 | 149.12↓ |
| Change % | -0.27% | 0.84% | -2.42%↓ |
| | | | |
| Market Cap. $m | 11,658 | 11,689 | 11,977↓ |
| No. of shares traded | 626,470 | 535,067 | 3,419,011↑ |
| Value Traded $000 | 9,660 | 8,625 | 42,288↑ |
| o.w. : Solidere | 4,740 | 6,237 | 28,355↓ |
| Banks | 4,026 | 2,007 | 11,500↑ |
| Others | 894 | 381 | 2,433↑ |

Finally, when compared to peer stock exchanges in emerging markets, Lebanon's performance this week proved to be in line with that of other emerging markets, as reflected by the Morgan Stanley Capital International Emerging Market Free Index (MSCI EMF) and the MSCI East Europe, Middle East and Africa Index (MSCI EMEA). The first index dropped by 4.3% and the latter fell by 3.1% over the week. Likewise, Lebanon performed similarly to other Arabian markets, as reflected by a weekly decrease of 1.5% in the Morgan Stanley Capital International Arabian markets index.

Week
10
Mar 3 - Mar 8
2008

## Bond Market: New sovereign bond issue of US$ 875 million

The Ministry of Finance closed this week a new 5-year sovereign bond issue of US$ 875 million for a yield of 9.25%. The issue was managed by Bank Audi and Credit Suisse and its proceeds will be used in settling a previous sovereign bond of US$ 700 million maturing on March 12, 2008. Within this context, the Central Bank's Governor stated recently that this swap operation shall close successfully thanks to the adequate liquidity in capital markets. In fact, the commercial banks' primary foreign currency liquidity rose by 9.5% in 2007 and by a CAGR of 13.7% over the past five years to reach US$ 26 billion at end-December, which reflects the mounting investment opportunities available at commercial banks.

Under these conditions, a calm mood governed the Eurobond market with some modest selling operations taking place. Bond prices retreated as reflected by an increase in the average yield of 20 basis points to 8.60%. The average spread widened by 40 basis points to 631 basis points, due to a rise in Lebanese yields and drop in benchmark yields. For instance, the average yield on the five-year US Treasury bills fell from 2.59% last week to 2.44% this week, as fears about the credit and housing markets led investors to shy away from risk assets and pile into safe-haven government bonds.

In parallel, Eurobond prices in other emerging markets reported a slight progress this week, as reflected by a decrease in the average yield of three basis points to reach 4.60%, while the average spread widened by 20 basis points to 258 basis points.

| | 07/03/08 | 29/02/08 | 28/12/07 | |
|---|---|---|---|---|
| Total tradable size $m | 15,986 | 15,986 | 16,686 | ⇔ |
| o.w.: Sovereign bonds | 15,356 | 15,356 | 16,056 | ⇔ |
| Average Yield | 8.60% | 8.40% | 8.17% | ↑ |
| Average Spread | 631 | 591 | 461 | ↑ |
| Average Life | 4.89 | 4.90 | 4.86 | ↓ |
| Yield on US 5-year note | 2.44% | 2.59% | 3.58% | ↓ |

## ARAB STOCK MARKETS INDICES:

| | 07-Mar-08 | 29-Feb-08 | 01-Jan-08 | Weekly change | End-year-to-date change |
|---|---|---|---|---|---|
| Beirut stock market | 144.8 | 145.2 | 149.1 | -0.3% | -2.9% |
| Abu Dhabi securities market | 135.3 | 134.9 | 129.1 | 0.3% | 4.8% |
| Amman stock exchange | 548.9 | 558.6 | 482.6 | -1.7% | 13.7% |
| Bahrain stock exchange | 250.3 | 255.0 | 260.4 | -1.8% | -3.9% |
| Casablanca stock exchange | 348.0 | 349.3 | 319.1 | -0.4% | 9.1% |
| Doha securities market | 196.1 | 197.3 | 183.6 | -0.6% | 6.8% |
| Dubai financial market | 157.5 | 160.6 | 164.8 | -2.0% | -4.4% |
| Egypt capital market | 665.2 | 639.4 | 585.2 | 4.0% | 13.7% |
| Kuwait stock market | 332.0 | 337.3 | 302.7 | -1.6% | 9.7% |
| Muscat securities market | 505.6 | 479.2 | 427.5 | 5.5% | 18.3% |
| Saudi stock market | 288.3 | 297.0 | 330.3 | -2.9% | -12.7% |
| Tunis Stock Exchange | 111.0 | 112.7 | 109.3 | -1.5% | 1.6% |
| AMF Composite | 338.8 | 343.4 | 345.4 | -1.3% | -1.9% |

*Source: Arab Monetary Fund*

## INTERNATIONAL MARKET INDICATORS:

| | 07-Mar-08 | 29-Feb-08 | 28-Dec-07 | Weekly change | End-year-to-date change |
|---|---|---|---|---|---|
| EXCHANGE RATES | | | | | |
| YEN/$ | 102.27 | 103.09 | 112.06 | -0.8% | -8.7% |
| $/£ | 2.0191 | 1.9838 | 1.9980 | 1.8% | 1.1% |
| $/Euro | 1.5394 | 1.5199 | 1.4713 | 1.3% | 4.6% |
| STOCK INDICES | | | | | |
| DOW JONES INDUSTRIAL AVERAGE | 11,893.69 | 12,266.39 | 13,365.87 | -3.0% | -11.0% |
| S&P 500 | 1,293.37 | 1,330.63 | 1,487.49 | -2.8% | -13.1% |
| NASDAQ | 2,212.49 | 2,271.48 | 2,674.46 | -2.6% | -17.3% |
| CAC 40 | 4,618.96 | 4,790.66 | 5,612.41 | -3.6% | -17.7% |
| Xetra Dax | 6,513.99 | 6,748.13 | 8,067.32 | -3.5% | -19.3% |
| FT-SE 100 | 5,699.90 | 5,884.30 | 6,476.90 | -3.1% | -12.0% |
| NIKKEI 225 | 12,782.80 | 12,992.18 | 15,307.78 | -1.6% | -16.5% |
| COMMODITIES | | | | | |
| GOLD OUNCE | 974.40 | 981.95 | 839.19 | -0.8% | 16.1% |
| SILVER OUNCE | 20.21 | 20.16 | 14.84 | 0.2% | 36.2% |
| BRENT CRUDE | 101.66 | 101.65 | 96.57 | 0.0% | 5.3% |
| LEADING INTEREST RATES (%) | | | | | |
| 1-month Libor | 3.00 | 3.11 | 4.63 | -0.11 | -1.63 |
| US Prime Rate | 6.00 | 6.00 | 7.25 | 0.00 | -1.25 |
| US Discount Rate | 3.50 | 3.50 | 4.75 | 0.00 | -1.25 |
| US 10-year Bond | 3.54 | 3.60 | 4.14 | -0.06 | -0.60 |


CONTACTS

**Treasury and Capital Markets**
Nabil Chaya (01) 977422 nabil.chaya@audi.com.lb
Emile Shalala (01) 977622 emile.shalala@banqueaudi.com

**Private Banking**
Toufic Aouad (01) 329328 toufic.aouad@saradar.com

**Corporate Banking**
Khalil Debs (01) 977229 khalil.debs@asib.com

**Research**
Marwan Barakat (01) 977409 marwan.barakat@banqueaudi.com
Zeina Abla (01) 977407 zeina.abla@banqueaudi.com
Jamil Naayem (01) 977406 jamil.naayem@banqueaudi.com
Salma Saad Baba (01) 977346 salma.baba@banqueaudi.com
Rita Daher (01) 977575 rita.daher@banqueaudi.com
Rana Helou (01) 964763 rana.helou@banqueaudi.com