



LEBANON THIS WEEK

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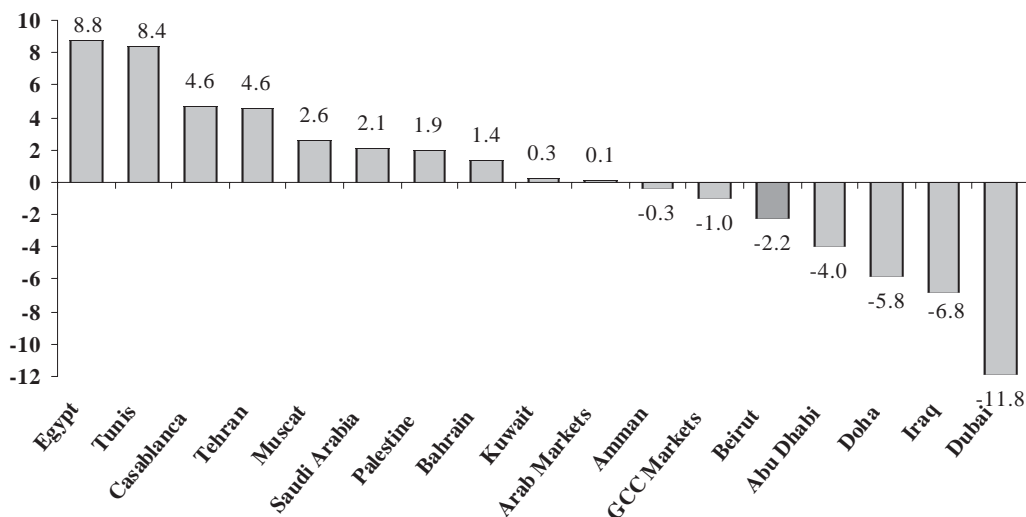
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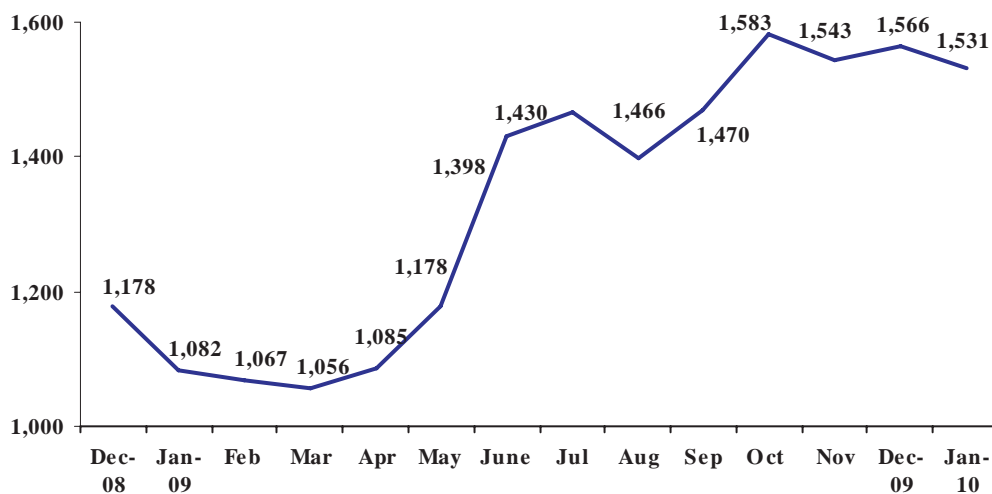
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Charts of the Week

Performance of MENA Stock Markets in January 2010 (%)



Performance of the Beirut Stock Market*



*BLOM Stock Index

Source: Local Stock Markets

Quote to Note

“Efforts to rein in the large fiscal deficit will continue to encounter political obstacles.”

The Economist Intelligence Unit, on the government's policy-making constraints

Number of the Week

76.5%: Percentage of cars and vehicles in Lebanon that are at least 10 years old, according to research firm Information International

Economic Indicators

\$m (unless otherwise mentioned)	2007	Nov 08	2008	Sep 09	Oct 09	Nov 09	% Change*
Exports	2,816	330	3,478	298	327	339	2.73
Imports	11,815	1,664	16,133	1,250	1,291	1,581	(4.99)
Trade Balance	(8,999)	(1,334)	(12,655)	(952)	(964)	(1,242)	(6.90)
Balance of Payments	2,036	303	3,462	475	1,167	280	(7.59)
Checks Cleared in LBP	8,409	764	9,350	900	1,102	850	11.26
Checks Cleared in FC	29,893	3,542	43,174	3,882	4,600	3,752	5.93
Total Checks Cleared	38,302	4,306	52,524	4,782	5,702	4,602	6.87
Budget Deficit/Surplus	(2,546)	(511)	(2,921)	(381)	(190)	(179)	(64.97)
Primary Balance	731	(247)	597	47	210	101	(140.89)
Airport Passengers	3,408,834	299,175	4,085,334	463,919	388,771	380,342	27.13

\$bn (unless otherwise mentioned)	Dec 2007	Nov 2008	Dec 2008	Sep 09	Oct 09	Nov 09	% Change*
BdL FX Reserves	9.78	16.42	17.06	23.21	24.12	24.81	51.10
<i>In months of Imports</i>	9.19	9.87	15.03	18.57	18.68	15.69	58.97
Public Debt	42.03	46.82	47.02	49.18	49.90	50.46	7.77
Net Public Debt	39.03	41.15	41.49	43.61	43.74	44.01	6.95
Bank Assets	82.26	91.76	94.25	109.90	111.57	113.57	23.77
Bank Deposits (Private Sector)	67.29	75.60	77.78	91.19	92.44	94.06	24.42
Bank Loans to Private Sector	20.42	24.69	25.04	27.89	28.09	28.81	16.69
Money Supply M2	16.47	23.87	24.76	31.57	32.36	33.19	39.04
Money Supply M3	59.83	67.08	68.66	78.73	79.71	81.04	20.81
LBP Lending Rate (%)	10.10	10.08	9.95	9.22	9.15	9.13	(95b.p.)
LBP Deposit Rate (%)	7.40	7.27	7.22	6.94	6.86	6.81	(46b.p.)
USD Lending Rate (%)	8.02	7.54	7.47	7.24	7.28	7.25	(29b.p.)
USD Deposit Rate (%)	4.69	3.47	3.33	3.16	3.18	3.07	(40b.p.)
%* Change in CPI**	5.92	8.35	6.36	1.99	1.66	4.47	(388b.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"	22.50	3.69	225,701	17.43%
Solidere "B"	22.66	5.49	98,337	11.41%
Byblos Common	2.11	(0.47)	4,988,552	3.55%
Byblos Priority	2.17	2.36	90,200	3.46%
Byblos Pref. 08	104.00	0.97	1,000	1.61%
BLOM GDR	90.5	2.55	59,274	5.18%
BLOM Listed	90.10	6.00	7,100	15.00%
Audi GDR	89.85	1.99	4,475	6.84%
Audi Listed	87.00	(1.14)	3,108	23.19%
HOLCIM	12.00	(0.50)	926	1.81%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Mar. 2010	7.125	100.19	4.54
May 2011	7.875	106.00	3.04
Mar. 2012	7.500	108.00	3.52
Sep. 2012	7.750	109.50	3.83
June 2013	8.625	113.25	4.33
Apr. 2015	10.000	119.88	5.53
Jan. 2016	8.500	114.50	5.59
May 2016	11.625	129.25	5.92
Mar. 2017	9.000	119.00	5.71
Apr. 2021	8.250	112.88	6.59

Source: Byblos Capital Markets

	Feb 1-5, 2010	Jan 25-29, 2010	% Change	January 2010	January 2009	% Change
Total Shares Traded	5,497,513	622,262	783.47	12,057,977	2,561,252	370.78
Total Value Traded	\$25,015,465	\$12,371,294	102.21	\$961,719,141	\$40,944,752	2,248.82
Market Capitalization	\$12.91bn	\$12.65bn	2.05	\$12.65bn	\$8.76bn	44.36

Source: Beirut Stock Exchange (BSE)



Real GDP growth at 8.7% in 2009, economy grew faster than China and India last year

The Institute of International Finance revised upwards its estimate for economic growth in Lebanon to 8.7% in 2009 from 6% previously. It said the new estimate is the highest growth rate in the region, and is an improvement over an already impressive real GDP growth rate of 8.2% in 2008. It added that, while most emerging economies suffered sharp slowdowns in 2008 and 2009, Lebanon has enjoyed a countercyclical growth pattern, as its economy grew faster than China and India last year. It noted that the strong performance of the Lebanese economy in 2009 was largely due to an improved security situation, a sound banking system, and robust capital flows from Lebanese expatriates and GCC nationals driven by regional and global market turbulence. It added that, contrary to official figures, the economy contracted by 1% in 2006 due to the impact of the summer war, while it grew by 5.9% in 2007, much lower than the official estimate of 7.5%.

The IIF stated that the quality of national accounts in Lebanon in terms of both reliability and timeliness remains weak. It said its measure of economic activity for Lebanon follows the Central Bank's approach with the Coincident Indicator, but it includes five additional indicators that are real growth in credit to the private sector instead of growth in deposits, growth in tourist arrivals instead of passengers arrivals, real growth in government revenues excluding grants, real growth in government spending, and real growth in imports of machinery and equipment. Also, it excluded electricity production from its methodology because it does not accurately reflect consumption in Lebanon, since a significant portion of electricity is drawn from private generators. Further, it calculated the growth in exports and imports of goods and services at constant prices, using appropriate export and import deflators.

The IIF indicated that the strong growth in Lebanon in 2009 was driven both by domestic demand and net exports. It said real growth rates in consumption indicators grew at a fast rate in 2009, while investment proxy indicators rose at faster rates than in the previous two years. Further, hotel occupancy rates or tourist arrivals, proxies for exports of services, increased by about 40% in an environment of global recession where most countries experienced declines in tourist arrival and hotel occupancy rates. It added that both the external current account and fiscal deficits narrowed significantly as a share of GDP.

Indicators of Economic Growth			
	2007	2008	2009
Consumption proxies (% change, real)			
Credit to private sector	12.3	10.5	13.5
Cleared checks	13.7	26.3	4.6
Government revenue	12.1	9.0	19.2
Government consumption	5.3	-0.5	13.0
Investment proxies (% change, vol)			
Cement deliveries	15.3	7.0	19.2
Imports of petroleum products	-13.7	14.0	16.0
Imports of machinery & equipment	5.1	15.2	17.1
Exports of goods & services (% change, vol)	1.0	25.8	23.4
Exports of goods	12.3	15.2	8.5
Tourist arrivals (% change)	-4.3	31.1	38.0
Imports of goods & services (real % change)	7.3	13.5	15.7

Source: Institute of International Finance

The IIF considered that economic growth is expected to remain in the 6% to 7% range in 2010, while inflation is likely to remain subdued and the risks to the stability of the exchange rate and the banking system are minimal. It expected earnings from tourism, remittances and FDI to rise at least as fast as last year if political stability is sustained, and if there is a recovery in the global economy and the GCC in particular. It added that growth will continue to be driven by services, particularly tourism and financial services, construction, and capital flows from the Gulf region. It noted that Lebanon's real estate boom is largely self-financed by wealthy Lebanese expatriates and GCC nationals, with only minimal bank financing.

The IIF stated that continued strong growth presents an opportunity for further fiscal adjustment and reduction in debt. It said buoyant fiscal revenues combined with spending restraints, particularly reduced transfers to Electricité du Liban, should further reduce the still large fiscal deficit. It also stated that privatization of the two mobile phone companies could ultimately provide a vehicle to reduce the debt and help spur the development of the technology sectors, which remain relatively underdeveloped. It said that, with privatization, the debt-to-GDP ratio could decline to 133% of GDP at end-2010, assuming the privatization value of the two telecom companies is around \$5bn.

Lebanon is 64th largest market for US exports, key exports include autos and agricultural products, with ICT offering the best prospects

The United States Department of Commerce's 2010 Country Commercial Guide for Lebanon (CCG) highlighted the country's favorable investment climate and its liberal economic system, but said that red tape and an unpredictable operating environment are some of the issues hurting Lebanon's image as a country open for investment. It said the country has very few restrictions on the movement of capital across its borders, foreign investors are allowed to manage and hold business and private assets without any restrictions, and the government does not require investors to engage in any particular sector or project. The guide indicated that corruption is more extensive in government contracts, taxation and real estate registration than in private sector deals and that Lebanon is not a signatory of the OECD convention on combating bribery.

The U.S. Department of Commerce said Lebanon was the 64th largest market for U.S. exports in 2009, up from 68th largest in 2008, adding that the U.S. exported \$1.1bn worth of goods to Lebanon in the first 9 months of 2009. The top 5 U.S. exports to Lebanon in 2009 were vehicles with \$521m, mineral fuel and oil with \$99m, machinery with \$79m, and electrical appliances and cereals with \$26m each. It noted that major competitors of U.S. companies in Lebanon include French, Italian, German, British, Korean, and Chinese firms.

The Guide said leading Lebanese sectors for U.S. exports and investment include the automobile sector, air conditioning & refrigeration equipment, pharmaceuticals, medical equipment, apparel, education services, and agriculture. The CCG expected the U.S. share of the local auto market to reach 16% in 2009, adding that demand for U.S. automotive products such as brakes, clutches, engine lubricants, and safety accessories are increasing because of their quality advantage over foreign competitors. Also, U.S. air conditioning and refrigeration exports to Lebanon reached \$210m in the first 10 months of last year, with a projected market share of 16% in 2009. Further, U.S. pharmaceuticals accounted for about 7% of total pharmaceutical imports, while U.S. exports of medical equipment had a 24% market share. It noted that Lebanon is an ideal location for establishing a regional office to cover the Levant, including Iraq.

Also, U.S. apparel exports to Lebanon reached around \$9m, about 3% of total apparel imports to Lebanon, while US agricultural exports totaled \$121m, equivalent to 6% of agricultural imports. Major U.S. agricultural exports to Lebanon include dairy products, cereals, beverages and spirits and tobacco. Finally, it noted that Lebanon has one of the best educational systems in the Middle East with 160,300 students enrolled in universities throughout Lebanon and over 1,800 Lebanese students studying in the U.S.

In parallel, the U.S. Department of Commerce considered the Information & Communication Technology (ICT), pharmaceuticals and insurance sectors as offering the best prospects. It said Lebanon has the fundamental building blocks needed to become a regional center for technology that include a highly-educated and multilingual workforce, a strong private sector, world-class advertising firms, and multi-lingual media content providers and web portals. Additionally, Lebanon is the leading importer of pharmaceuticals in the Levant, as 95% of the \$630m market consists of imported medicine.

Fiscal deficit to worsen in 2010 on higher government spending and lower primary surplus

Regional investment bank EFG Hermes indicated that the fiscal deficit reached 9.4% of GDP in 2009, lower than the deficit of 10.1% of GDP in 2008, but higher than its estimate of 9% of GDP for the year. It said the 2009 deficit narrowed despite a 22% increase in general expenditures, as public sector wages and investments rose in an election year. It attributed the improvement to a 7% drop in transfers to the money-losing Electricité du Liban and to a 25% increase in tax revenues, as economic growth remained strong. It noted, however, that the improvement was less than expected due to higher debt servicing and disappointing non-tax revenues, two-thirds of which come from telecoms. It said debt servicing and repayments rose to 12.9% of GDP from 12.2% of GDP in 2008. But it added that the primary surplus rose to 3.4% of GDP from 2.1% of GDP in 2008, contributing to a slight fall in the level of the public debt to about 161% of GDP at end-2009.

EFG Hermes expected fiscal policy to remain expansionary in 2010, with the primary surplus declining to 2.4% of GDP. It forecast general expenditures to rise by 9% this year, reflecting continuing government spending, and projected the growth in government revenues to slow down along with slower economic growth. It also expected interest expenses and debt repayments to decline to 12.2% GDP, reflecting the fall in Lebanese pound interest rates in 2009 due to continuing decline in the dollarization of deposits that reached 61% at end-November 2009. It projected the budget deficit to slightly worsen to 9.8% of GDP because of the fall in the primary surplus. It also forecast external debt to decline to 64% of GDP by end-2010 and to 60% of GDP by end-2011, and for domestic debt to reach to 90% of GDP at the end of 2010 and to 91% of GDP by the end of 2011.

In parallel, EFG Hermes considered that some members of the Lebanese Cabinet gave several indications in early 2010 that they are considering the sale of minority stakes in the two state-owned telecom operators. But it expected the process to be slow, given the relatively weak structure of the government. It warned that strong economic growth in 2009 and a record balance of payments surplus equivalent to 22% of GDP could reduce the urgency for major economic reforms, resulting in the continuation of the status quo in the telecommunications and electricity sectors.

Telecom taxes to be segregated from commercial revenues prior to privatization

Post & Telecommunications Minister Charbel Nahas indicated that the liberalization of the telecommunications sector should be preceded by the separation of the tax side from the commercial side, adding that privatizing part or all of the sector without taking into consideration this aspect would lead to a private monopoly in place of the current public monopoly. He said that successive government raised taxes on mobile phone usage in order to increase revenues to the Treasury, adding that the high taxes have made telecom the main source of revenues for the state. He stated that taxes account for 65% of total telecom revenues, while operational and commercial activities account for 25% of such revenues, and unbilled services represent the remaining 10%. He noted that his plan for the ministry consists of, first, controlling and rationalizing services to achieve a balance between improving the quality of services and the need to develop the networks, while preserving revenues to the Treasury. Second, acquiring and analyzing operational, financial and commercial data in order to better understand the sources of revenues. He added that he will decide before the end of this year what approach to take regarding the participation of the private sector in the ownership of telecommunications assets.

Airport passengers up 20.4% in January 2010

Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures, transit) amounted to 369,694 in January 2010, up 20.4% year-on-year. The UAE accounted for 79,755 passengers, or 21.6% of total passenger activity. It was followed by Saudi Arabia with 40,701 passengers, or 11% of the total, France with 36,078 travelers (9.7%) and Kuwait with 29,512 travelers (8%). The total number of flights reached 5,134 in January 2010, up 28.4% year-on-year. Middle East Airlines registered 1,460 flights, accounting for 28.4% of the total. It was distantly followed by Royal Jordanian Airlines with 248 flights or 4.8% of the total, Etihad Airways with 158 flights, Emirates Airlines with 153 flights and Jazeera Airways with 142 flights. The UAE was the biggest source and destination of traffic to Lebanon, as aircraft movement to and from the UAE totaled 843 flights, accounting for 16.5% of the total. Also, the HIA processed 5,369 metric tons of cargo in January 2010, of which 5,290 tons of freight and 79 tons of mail. Total cargo processed in January increased by 4.1% compared to the same month of 2009. MEA processed 1,392 tons of freight, of which 1,371 tons in regular freight and 21 tons in mail.

Balance of payments posts surplus of \$8bn in 2009

Central Bank figures show that Lebanon's balance of payments (BoP) posted a surplus of \$7.9bn in 2009 compared to a surplus of \$3.46bn in 2008. The BoP posted a surplus of \$1.6bn in December compared to a surplus of \$280m in November and to a surplus of \$714m in December 2008. The December 2009 surplus was caused by a rise of \$981m in the Central Bank's net foreign assets and an increase of \$629m in those of banks and financial institutions. The cumulative surplus over the year was caused by a rise of \$8.69bn in the Central Bank's net foreign assets and a decline of \$794m in those of banks and financial institutions. The balance of payments' surplus was equivalent to about 24% of GDP, constituting a historical record both in nominal terms and relative to the size of the economy. The balance of payments posted a cumulative surplus of \$3.5bn in 2008.

Net public debt at \$44.1bn at end-2009

Lebanon's gross public debt reached \$51.1bn at the end of December 2009, constituting an increase of 8.7% from end-2008. Domestic debt increased by 15.3% to \$29.8bn, while external debt decreased by 0.5% annually to \$21.3bn. Local currency debt accounted for 58.4% of gross public debt at end-2009 compared to 55% a year earlier, while foreign currency-denominated debt represented 41.6% of the total relative to 45% a year earlier. Market issued Eurobonds account for about 67% of external debt.

Commercial banks accounted for 58.4% of the total public debt at the end of 2009 compared to 56.7% at the end of 2008. They were followed by the Central Bank with 19.4% relative to 18.8% at end-2008; while public agencies, financial institutions and the general public accounted for 10.6% of the debt relative to 9.7% at end-2008. Further, multilateral and bilateral loans represented 5.8% of the debt compared to 6.4% at end-2008, while other holders accounted for the remaining 5.8%. In parallel, residents held 88.4% of the public debt at the end of 2009, up from 85.2% at end-2008. 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 6.3% to \$44.1bn. In parallel, the gross market debt accounted for about 65% 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.

Construction permits down 10.6% in 2009

Figures released by the Association of Engineers of Beirut & Tripoli show that construction permits reached 14.36 million square meters in 2009, down 10.6% from 16.07 million square meters in 2008. Construction permits totaled 2.93 million square meters in December 2009, down 44.4% from 5.26 million square meters in December 2008. In parallel, cement deliveries reached 4.58 million tons in the first 11 months of the year, an increase of 16.5% from 3.93 million tons in the same period of 2008. Cement deliveries decreased by 14.3% year-on-year to 388,000 tons in November 2009.

Trade deficit up 1% to \$12.8bn in 2009

Imports increased marginally by 0.7% to \$16.2bn in 2009 and exports stagnated as they grew by 0.2% to \$3.5bn, leading to a trade deficit of \$12.8bn, up 0.8% year-on-year. In volume terms, imports increased by 17% to 14.6 million tons and exports declined by 16% to nearly 3 million tons in 2009, leading to a trade deficit of 11.7 million tons, up 30% year-on-year. The coverage ratio reached 21.5% in 2009 compared to 21.6% in 2008. The trade deficit reached \$1bn in December 2009, up 14.8% from December 2008. The overall deficit was equivalent to about 39% of GDP, down from 43% of GDP in 2008.

The United States was the main source of imports with \$1.76bn or 11% of the total, followed by France with \$1.57bn (10%), China with \$1.44bn (9%), Germany with \$1.24bn (8%) and Italy with \$1.22bn (8%). Switzerland was the main export destination with \$777m or 22% of the total, followed by the UAE with \$333m (10%), Iraq with \$271m (8%), Saudi Arabia with \$243m (7%) and Syria with \$225m (6%). Lebanon's main export was jewelry at \$1.1bn or 32% of total exports, followed by machinery and mechanical appliances with \$509m (15%), base metals with \$314m (9%), prepared foodstuff with \$284m (8%) and paper and paperboard articles with \$231m (7%). Re-exports totaled \$144m in 2009, down 22.1% from \$185m in 2008.

Customs receipts up 65% to \$1.8bn in 2009

Customs revenues reached \$1.83bn in 2009, up 64.8% from \$1.11bn in 2008. Custom revenues reached \$155m in December 2009 compared to \$143m in November and to \$142m in December 2008. The Port of Beirut continues to be the main point of customs receipts, accounting for 88.7% of the total in December 2009, and was followed by the Hariri International Airport with 6.3%, the Port of Tripoli with 2.3%, and the Masnaa crossing point with 1.8%. Overall customs receipts reached \$3.2bn in 2009 when including revenues from the value-added tax that totaled \$1.37bn over the year.

EFG Hermes maintains 'Buy' recommendation on Byblos Bank stock, sees 23% upside

Regional investment bank EFG Hermes reiterated its long term 'Buy' recommendation on Byblos Bank's stock, adding that the stock price has a 23% upside under its long term fair value price of \$2.60. It said Byblos fourth quarter results delivered positive surprises, as its net attributable income rose by 20% year-on-year, driven by solid revenue growth and low provisioning charges for the year. It added that the Bank's net attributable profits in the fourth quarter increased by 18% year-on-year and by 54% quarter-to-quarter, which is 46% ahead of projections. It said that revenue growth exceeded expectations, while provisioning and costs were in line with forecasts. It noted that revenue growth accelerated in the fourth quarter due to better net interest spreads and higher non-interest income, while the trend in costs improved. EFG Hermes added that lending growth exceeded expectations by 6%, while deposit growth was strong at 23% annually, which is 7% better than forecast. It said the rise in net interest income was 24% ahead of expectations, and that the strong increase was driven by both volume growth and better spreads due to lower funding costs. Also, fee income picked up by 21% year-on-year, 35% higher than forecast. EFG Hermes indicated that the Bank's overall revenue quality was better than expected, with core banking income accounting for 91% of revenues. It noted that loan-loss provisioning charges remained low at an estimated 0.7% of average gross loans on an annualized basis, while the costs trend improved in the fourth quarter, as operating expenses fell by 6% quarter-to-quarter. It estimated Byblos' capital adequacy ratio at about 11.5% at end-2009, well above the minimum 8% required by the Central Bank. It added the recently announced capital increase of \$250m and the International Finance Corporation's capital participation will support the Bank's ongoing expansion in the region and in emerging markets.

Aggregate profits of listed banks rise 18.5% in 2009

Financial results issued by five banks listed on the Beirut Stock Exchange show that their aggregate net profits reached \$812.6m in 2009, constituting an increase of 18.5% from \$685.4m in 2008. The average growth of the net profits of the five banks reached 16.4% in 2009, constituting an increase from the average growth in net profits of 11.8% in the first three quarters of 2009, and a slowdown from the average growth in net profits of 22.6% in 2008. The aggregate net interest income of the five banks reached \$1.2bn in 2009, up 1.1% from 2008, while their total net fees and commission income increased by 7.7% to \$354 year-on-year. Total operating income of the listed banks reached \$1.9bn in 2009, up 9.8% from \$1.7bn in 2008.

In parallel, the aggregate assets of the five banks rose by 22.8% from end-2008 to \$68.9bn, while their total loans, excluding loans to related parties, increased by 13.6% from end-2008 to \$15.9bn. Also, the banks' deposits increased by 25.3% from end-2008 to \$56.5bn. BLOM Bank posted the lowest loans-to-deposits ratio at 22.6% compared to 23% at the end of 2008, followed by Bank Audi with a ratio of 28.8% relative to 34.8% at end-2008, Byblos Bank with 31.3% from 33.5% a year earlier, Bank of Beirut with 35.4% from 35.9% a year earlier, and Banque Bemo with a 41.9% ratio compared to 50.7% at end-2008.

BLOM Bank had the lowest cost-to-income ratio at 43%, unchanged from the previous year. It was followed by Byblos Bank with 46.8%, down from 47.3% in 2008, Bank Audi with a 48.8% ratio compared to 55% in 2008, Bank of Beirut with a 51.1% ratio relative to 50% in 2008, and Banque Bemo with a 72% ratio relative to 71.5% in 2008.

Results of Listed Banks for 2009					
	Byblos	BLOM	Audi	BoB	BEMO
Net Profits	\$146.1m	\$293.2m	\$288.9m	\$76.3m	\$8.0m
% Change*	19.8%	16.5%	21.4%	15.0%	9.1%
Total Assets	\$13.58bn	\$20.72bn	\$26.49bn	\$6.97bn	\$1.19bn
% Change**	20.9%	15.8%	29.9%	21.5%	30.9%
Loans (1)	\$3.19bn	\$4.02bn	\$6.57bn	\$1.69bn	\$0.39bn
% Change**	14.6%	15.7%	10.3%	22.0%	9.3%
Deposits (1)	\$10.19bn	\$17.81bn	\$22.81bn	\$4.77bn	\$0.93bn
% Change**	22.9%	18.6%	32.8%	23.3%	31.7%

*Year-on-year

**Change from end-2008

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

Stock market activity up to \$961.7m in January 2010

Figures released by the Beirut Stock Exchange indicate that total trading volume reached 12.1 million shares in January 2010, an increase of 371% from January 2009 and up 279.8% from December 2009. Aggregate turnover amounted to \$961.7m, up 2,249% from a turnover of \$41m in January 2009 and 1,847% from \$49.4m last December. The bourse's activity was artificially inflated in January due to the sale by regional investment bank EFG-Hermes of its entire stake in Bank Audi sal during the month. Market capitalization increased by 44% to \$12.6bn year-on-year, of which 69.2% was in banking stocks and 28.2% in real estate stocks. The market liquidity ratio was 7.6% up from 0.5% in January 2009.

Banks stocks accounted for 90.7% of aggregate trading volume in January 2010, followed by real estate with 8.8%. In terms of value of shares traded, banking stocks accounted for 97.5% of aggregate value, followed by real estate with 2.5%. The average daily traded volume for January 2010 was 634,630 shares for an average daily value of \$50.6m. The figures reflect an increase of 371% in volume and an increase of 2,249% in value year-on-year.

Commercial banks' assets reach \$115bn at end-2009

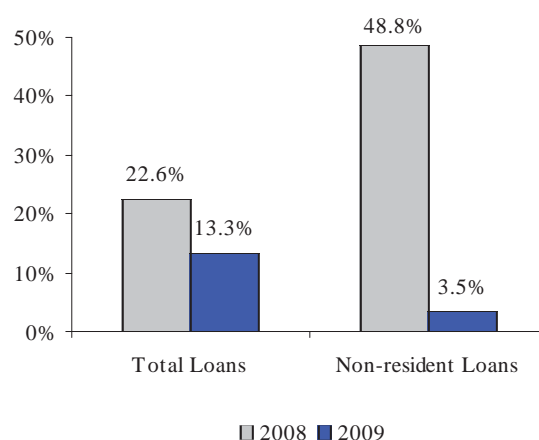
The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$115.2bn at the end of 2009, up 22.3% from end-2008. Private sector deposits totaled \$95.8bn, up 23.1% from end-2008. Deposits increased by \$1.7bn in December, \$1.62bn in November, \$1.25bn in October, \$1.89bn in September, \$1.62bn in August, \$1.91bn in July, \$1.43bn in June, \$1.73bn in May, \$2.12bn in April, \$1.63bn in March and \$1.14bn in February, after declining by \$42m in January 2009. Deposits in Lebanese pounds rose by 43.6%, while deposits in foreign currencies increased by 14.1% from the end of 2008. In parallel, deposits of non-resident banks reached \$4.6bn, up 6.9% from end-2008. The dollarization rate of deposits reached 64.5% at end-2009, down from 69.6% at end-2008. Further, the average deposit rate in Lebanese pounds reached 6.75% compared to 7.22% a year earlier, while the same rate in US dollars was 3.05%, down from 3.33% in December 2008.

Loans to the private sector amounted to \$28.4bn, up 13.3% from end-2008. Non-resident foreign currency loans reached \$4.1bn at end-December 2009, increasing by 3.5% from end-2008. The dollarization rate in private sector lending reached 84% compared to 86.6% at end-2008. The average lending rate in Lebanese pounds was 9.04% in December 2009 compared to 9.95% a year earlier, while the same average in US dollars was 7.28% compared to 7.47% in December 2008. Claims on the public sector stood at \$29.1bn, up 14.3% from end-2008, and accounted for 50.6% of the banking sector's total loans but for just 25.2% of the sector's asset base. The ratio of private sector loans-to-deposits in foreign currencies stood at 38.6%, well below the Central Bank's limit of 70%, and down from 40.1% a year earlier. In parallel, the same ratio in Lebanese pounds was 13.3% compared to 14.2% a year earlier. The ratio of total private sector loans to deposits stood at 29.6%, down from 32.2% a year earlier. The banks' aggregate capital base stood at \$7.94bn, up 11.9% from end-2008.

Aggregate Tier One capital adjusted to \$4.4bn

In a follow up to its annual rankings of the Top 1000 banks in the world published last July, The Banker magazine adjusted the aggregate figure for Tier One capital of Lebanese banks that reported end-2008 Tier One figures to \$4.44bn from the \$4.34bn reported last July. It attributed the change to a recalculation of Fransabank's Tier One capital from \$481m to \$581m for 2008, as it omitted to include \$100m in preferred shares issued by the bank during the covered year. As a result, Fransabank's ranking changed from 756th place to 679th place among the top 1000 banks and from 60th place to 54th place among the top 100 Arab banks. Its Tier One capital rose by 76% year-on-year. The Lebanese banks that reported end-2008 Tier One capital and were included in the July survey are Byblos Bank, BLOM Bank, BankMed, Fransabank, Bank of Beirut and Banque Libano-Française.

Growth in Private Sector Loans (%)



Source: Association of Banks in Lebanon

Ratio Highlights

(in % unless specified)	2006	2007	2008	Change*
Nominal GDP ⁽¹⁾ (\$bn)	22.7	24.6	28.8	
External Debt / GDP	89.9	86.4	73.4	(1,300)
Local Debt / GDP	88.1	84.6	89.8	520
Total Debt / GDP	178.4	171.0	163.2	(780)
Trade Balance / GDP	(31.3)	(36.6)	(43.9)	(730)
Exports / Imports	24.3	23.8	21.6	(220)
Budget Revenues / GDP	19.4	23.6	24.4	80
Budget Expenditures / GDP	30.8	33.9	34.5	60
Budget Balance / GDP	(11.5)	(10.3)	(10.1)	20
Primary Balance / GDP	0.4	2.9	2.1	(80)
BdL FX Reserves / M2	65.6	59.6	68.9	930
M3 / GDP	234.4	243.2	238.4	(480)
Bank Assets / GDP	327.2	334.4	327.3	(710)
Bank Deposits / GDP	267.4	273.5	270.1	(340)
Private Sector Loans / GDP	67.4	72.2	86.9	1,470
Dollarization of Deposits	76.2	77.3	69.6	(770)
Dollarization of Loans	84.0	84.3	86.6	230

* Change in basis points 07/08

(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	Oct 2008	Sept 2009	Oct 2009	Change*	Risk Level
Political Risk Rating	57.5	56.5	56.5	▼	High
Financial Risk Rating	28.0	27.5	28.0	↔	High
Economic Risk Rating	30.0	27.5	35.5	▲	Low
Composite Risk Rating	57.7	55.7	60.0	▲	Moderate

Regional Average	Oct 2008	Sept 2009	Oct 2009	Change*	Risk Level
Political Risk Rating	65.6	65.1	65.1	▼	Moderate
Financial Risk Rating	41.1	41.7	42.0	▲	Very Low
Economic Risk Rating	39.0	34.7	34.8	▼	Moderate
Composite Risk Rating	72.8	70.7	70.9	▼	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	B2	NP	Positive	B2		Positive
Fitch	B-	B	Stable	B-		
S&P	B	B	Positive	B	B	Positive
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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