

LEBANON THIS WEEK

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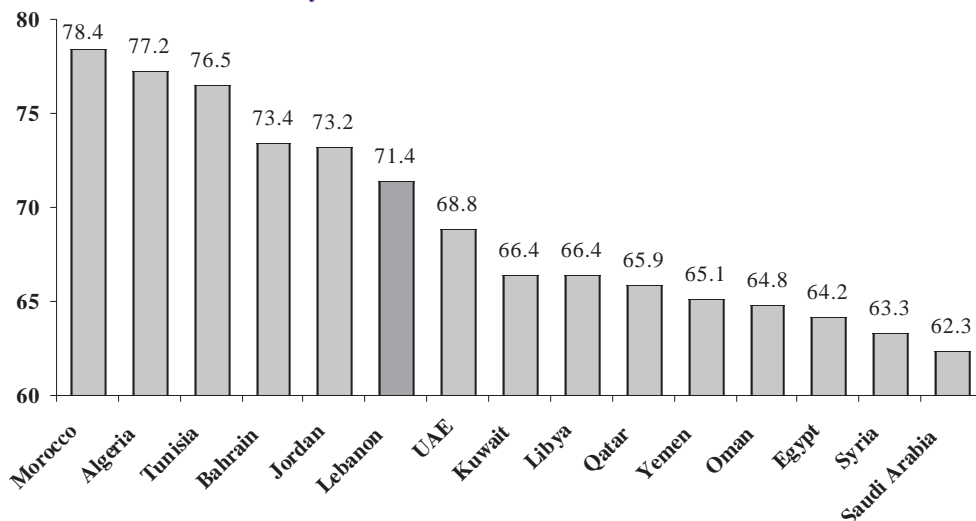
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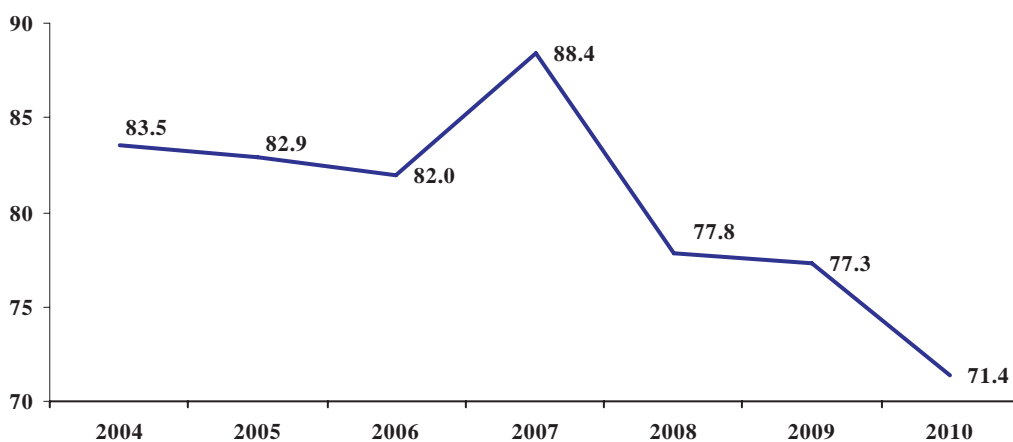
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Charts of the Week

Monetary Freedom Index in Arab Countries for 2010



Monetary Freedom Index for Lebanon



Source: Heritage Foundation/Wall Street Journal, 2010

Quote to Note

"Wealth, either public or private, should be managed with efficiency, promoting economic growth through reinvestment."

Mexican businessman of Lebanese descent Carlos Slim Helu, the world's wealthiest person, on a key driver of economic growth

Number of the Week

\$821m: Outstanding value of bank-issued Certificates of Deposits, Eurobonds and subordinated debt as at end-2009, according to the Association of Banks in Lebanon

Economic Indicators

\$m (unless otherwise mentioned)	2007	Dec 2008	2008	Oct 09	Nov 09	Dec 09	% Change*
Exports	2,816	251	3,478	327	339	364	45.02
Imports	11,815	1,135	16,133	1,291	1,581	1,380	21.58
Trade Balance	(8,999)	(884)	(12,655)	(964)	(1,242)	(1,016)	14.93
Balance of Payments	2,036	714	3,462	1,167	280	1,610	125.49
Checks Cleared in LBP	8,409	831	9,350	1,102	850	1,061	27.68
Checks Cleared in FC	29,893	3,184	43,174	4,600	3,752	4,756	49.37
Total Checks Cleared	38,302	4,015	52,524	5,702	4,602	5,817	44.88
Budget Deficit/Surplus	(2,546)	(332)	(2,921)	(190)	(179)	(368)	10.84
Primary Balance	731	48	597	210	101	72	50.00
Airport Passengers	3,408,834	419,329	4,085,334	388,771	380,342	738,211	76.05

\$bn (unless otherwise mentioned)	Dec 2007	Dec 2008	Sep 09	Oct 09	Nov 09	Dec 09	% Change*
BdL FX Reserves	9.78	17.06	23.21	24.12	24.81	25.66	50.41
<i>In months of Imports</i>	<i>9.19</i>	<i>15.03</i>	<i>18.57</i>	<i>18.68</i>	<i>15.69</i>	<i>18.59</i>	<i>23.68</i>
Public Debt	42.03	47.02	49.18	49.90	50.46	51.09	8.65
Net Public Debt	39.03	41.49	43.61	43.74	44.01	44.11	6.31
Bank Assets	82.26	94.25	109.90	111.57	113.57	115.25	22.28
Bank Deposits (Private Sector)	67.29	77.78	91.19	92.44	94.06	95.77	23.13
Bank Loans to Private Sector	20.42	25.04	27.89	28.09	28.81	28.37	13.30
Money Supply M2	16.47	24.76	31.57	32.36	33.19	34.16	37.96
Money Supply M3	59.83	68.66	78.73	79.71	81.04	82.08	19.54
LBP Lending Rate (%)	10.10	9.95	9.22	9.15	9.13	9.04	(91b.p.)
LBP Deposit Rate (%)	7.40	7.22	6.94	6.86	6.81	6.75	(47b.p.)
USD Lending Rate (%)	8.02	7.47	7.24	7.28	7.25	7.28	(19b.p.)
USD Deposit Rate (%)	4.69	3.33	3.16	3.18	3.07	3.05	(28b.p.)
%* Change in CPI**	5.92	6.36	1.99	1.66	4.47	4.20	(216b.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"	23.40	6.12	199,967	17.38%
Solidere "B"	23.33	2.59	68,291	11.26%
Byblos Common	2.15	3.86	384,440	3.47%
Byblos Priority	2.21	4.74	152,000	3.38%
Byblos Pref. 08	105.5	1.83	400	1.57%
BLOM GDR	100.0	3.09	9,023	5.49%
BLOM Listed	100.0	9.89	493	15.97%
Audi GDR	90.30	0.33	3,900	6.81%
Audi Listed	88.10	1.32	21,235	22.52%
HOLCIM	12.50	1.79	261	1.81%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Nov. 2010	6.875	103.25	1.94
May 2011	7.875	105.75	2.92
Mar. 2012	7.500	107.88	3.55
Sep. 2012	7.750	109.63	3.73
June 2013	8.625	113.25	4.24
Apr. 2015	10.000	120.38	5.39
Jan. 2016	8.500	115.13	5.45
May 2016	11.625	130.50	5.69
Mar. 2017	9.000	119.06	5.67
Apr. 2021	8.250	113.88	6.48

Source: Byblos Capital Markets

	Mar 8-12, 2010	Mar 1-5, 2010	% Change	February 2010	February 2009	% Change
Total Shares Traded	980,066	436,006	124.78	55,216,126	54,105,555	2.05
Total Value Traded	\$11,783,671	\$11,845,895	(0.53)	\$158,807,366	\$115,261,712	37.78
Market Capitalization	\$13.46bn	\$13.03bn	3.33	\$12.89bn	\$8.55bn	50.76

Source: Beirut Stock Exchange (BSE)



Lebanon ranks 82nd globally, 13th in MENA region in country risk

In its semi-annual survey of the country risk of 186 countries, *Euromoney* magazine ranked Lebanon in 82nd place worldwide and 13th among 20 countries in the Middle East and North Africa region in March 2010. Lebanon ranked 80th globally and 12th regionally in the September 2009 survey. Also, Lebanon came in 26th place among 36 upper middle income countries (UMICs) included in the survey. The survey evaluates individual country risk by assigning a weighting to seven categories that cover political risks, economic performance, access to bank finance and capital markets, discount on forfaiting, debt indicators, credit ratings, and debt in default or rescheduled. *Euromoney* said it changed its survey weightings to increase the influence of the political risks and economic performance categories in calculating the final score and rankings. As such, it increased the weightings of the two categories from 25% to 30% each, and reduced the overall number of categories to seven from nine previously.

Globally, Lebanon ranked ahead of Armenia, Macedonia and El Salvador, and came behind Vietnam, Botswana and Libya. It also ranked ahead of Argentina and behind Libya among UMICs. Lebanon received a score of 44.53 points, down 10% from 49.52 points in the September survey. Its score came below the global average of 46.08 points as well as lower than the MENA and Arab averages of 50.02 points and 50.21 points, respectively. It also scored below the average of 50.18 points for UMICs.

Lebanon ranked ahead of Grenada and behind Macedonia globally, and ahead of Libya and behind Algeria regionally on the Political Risks category; while it ranked ahead of Belize and Paraguay, tied with Bolivia, and came behind the Dominican Republic and Turkmenistan on the Credit Ratings category. Regionally, it ranked ahead of Algeria, Syria, Yemen, Mauritania, Iran, Iraq and Sudan, and came behind Jordan.

In parallel, Lebanon tied with Croatia, Morocco, Peru, Panama, Indonesia, Tunisia, Kazakhstan and Botswana in terms of Access to Bank Finance and Capital Markets. It ranked ahead of 22 tied countries that include Hungary, Nigeria and Ecuador, while it came behind the Philippines and Angola. Regionally, it tied with Morocco and Tunisia, and came behind Bahrain, Egypt, Kuwait and Israel.

Further, Lebanon ranked ahead of Guatemala and behind Kazakhstan worldwide in economic performance, while it came ahead of Syria and behind Egypt regionally. Also, Lebanon ranked ahead of Lithuania and behind Belize on the Debt Indicators category. It also came ahead of Libya, Algeria, Tunisia, Iran, Syria and Mauritania, and ranked behind Jordan regionally. Finally, it ranked ahead of Argentina, tied with Brunei, the Bahamas, Barbados, Albania and Benin, and came behind Indonesia in terms of Discount on Forfaiting; while it ranked ahead of Iran and behind Algeria in the MENA region.

MENA Countries Rankings & Scores

	Score	MENA Rank	Global Rank
Qatar	76.77	1	22
UAE	71.94	2	28
Kuwait	71.48	3	29
Bahrain	70.36	4	34
Saudi Arabia	68.09	5	36
Oman	67.74	6	38
Israel	65.70	7	40
Morocco	53.54	8	57
Egypt	50.31	9	69
Tunisia	49.21	10	71
Jordan	48.50	11	72
Libya	44.79	12	81
Lebanon	44.53	13	82
Algeria	40.94	14	92
Yemen	37.48	15	103
Iran	30.87	16	137
Syria	30.53	17	140
Sudan	28.05	18	153
Iraq	27.56	19	156
Mauritania	21.95	20	171

Source: *Euromoney*, *Byblos Research*

Country Risk Indicators for Lebanon March 2010

	Weighting (%)	Score	MENA Rank	Global Rank	MENA Avg Score	Global Avg Score
Political Risk	30	16.06	12	99	17.19	17.25
Economic Performance	30	10.12	14	92	12.09	10.51
Debt Indicators	7.5	6.17	14	118	5.07	4.67
Debt in Default	5	0.00	3	80	1.75	1.56
Credit Rating	7.5	0.78	13	114	2.89	2.47
Access to bank Finance/Capital Markets	10	6.67	9	56	6.05	5.52
Forfaiting	10	4.74	13	81	4.98	4.09

Source: *Euromoney*, *Byblos Research*

Merrill Lynch maintains its recommendation on Lebanese Eurobonds at 'Under Weight'

Merrill Lynch maintained its recommendation on Lebanon's external debt at 'Under Weight' in its model portfolio of emerging markets debt and kept Lebanon's market weight to 2.1% in March 2010. Last January, Merrill Lynch revised downwards its recommendation to 'Under Weight' from 'Market Weight' in its portfolio and reduced Lebanon's market weight from 5.5% after it rebalanced its portfolio at the end of last year to reflect its 2010 views of the external debt market. Lebanon's allocation remained unchanged at 2.1% since the beginning of the year. It was 5.5% in September, 5.9% in July, 7.4% in April, and 6.9% in January 2009.

Lebanon's external debt rating of 'Under Weight' placed Lebanon in the same category as Brazil, Colombia, Peru, the Philippines and South Africa. Lebanon's 'Under Weight' is similar to the recommendation on the Europe, the Middle East & Africa (EMEA) region and for similarly-rated countries. Lebanon is represented in the portfolio by the Republic March 2013 Eurobond. Lebanon accounted for 6.9% of the allocations in the EMEA region in March compared to 7.5% in January and a high of 25% last March. Lebanon's allocation was the 14th highest among countries in the portfolio, unchanged from January. Lebanon accounted for 12% of allocations to similarly-rated countries, up from 10.5% in January.

In parallel, Lebanon's external debt posted the 8th highest return at 2.75% among 20 markets in the EMEA region in the first two months of 2010, as well as the 17th best return among the 40 emerging markets included in Merrill Lynch's Sovereign Plus Debt Index. Lebanon outperformed the EMEA returns of 1.88% and the overall emerging market returns of 1.84% in the covered period. Also, Lebanon's external debt outperformed the 1.93% returns posted by similarly-rated sovereigns, while it posted the 6th best performance at 2.81% in the EMEA region and the 10th best performance in emerging markets in US dollar terms. But it underperformed significantly the 4.13% returns of US dollar 'B'-rated bonds. Further, Lebanon's external debt posted the third highest returns among 8 countries in the Middle East & Africa region during the covered period, as it came ahead of Iraq with 2.69%, Tunisia with 1.67%, Morocco with 1.31%, South Africa with 0.87% and Egypt with -0.04%, and behind Ghana with 3.28% and Gabon with 3.32%. Also, it posted returns of 0.62% in February, ahead of Gabon (-0.63%), Ghana (-0.27%) and Egypt (-0.02%), but behind Iraq (2.06%), Morocco (0.87%), South Africa (0.88%) and Tunisia (0.81%).

In parallel, Lebanon's external debt posted the 11th highest return in the EMEA region and the 17th highest return in emerging markets during February 2010. It underperformed the EMEA returns of 0.95%, the emerging markets returns of 1.36% and the 1.15% returns of similarly-rated sovereigns for the same month.

Commercial banks' proposal to yield \$1bn in new revenues for the Treasury

The Association of Banks in Lebanon suggested that commercial banks buy the government's share in the National Deposit Insurance Corporation (NDIC) for a contribution of \$1bn, of which \$500m would be paid this year. The NDIC is equally owned by the government and commercial banks, with each side supposed to contribute \$50m annually. But the government has not paid its dues since 1996, making it liable for about \$700m. The proposal would exempt the government from its accumulated dues, with banks contributing this amount in place of the State, in addition to valuing the NDIC's assets that are estimated at \$1bn, and paying the government \$500m in exchange for its 50% share in the NDIC. This would result in the banks' paying \$550m this year and \$150m per year in the coming two years, and would maintain the NDIC's involvement in managing the organization along with the Central Bank of Lebanon. The proposal implies that commercial banks would contribute about \$1bn over three years to government finances and would save the Treasury \$50m annually in dues. The proposal requires the modification of the NDIC's law or for Parliament to vote on a new draft law.

Emerging Markets External Debt Portfolio		
Country	Bonds	Weight (%)
Mexico	Mexico '17s	10
Venezuela	Vz '16s, '18Ns, '19s	10
Indonesia	Indonesia '18s, '19s	9.7
Russia	Russia '30s	9.6
Turkey	Turkey '18s, '19s	9.5
Brazil	Brazil '17s, '18s, '19s	8.9
Philippines	Philippines '16Ns, '20s	8.1
Colombia	Colombia '17s, '19s	4.4
Uruguay	Uruguay '22s	3.8
Ukraine	Ukraine '11	3.4
Panama	Panama '36s	3.3
Peru	Peru '19s, '37s	3.1
Hungary	Hungary '20s	3.0
Lebanon	Lebanon '13s	2.1
Argentina	Pars	1.7
El Salvador	El Salvador '23s	1.6
South Africa	South Africa '14s	1.4
Dubai	Dubai '14s	0.5
Qatar	Qatar '19s	0.5
Tunisia	Tunisia '12s	0.5
Cash		5.0
Total		100

Source: Merrill Lynch, March 2010

Lebanon is one of the least affected countries by tight economic conditions in the region

A survey conducted by regional job portal Bayt.com showed that most professionals in the Middle East & North Africa region received a lower raise in 2009 than in 2008, but expect to receive a larger raise in 2010. The survey was conducted in February 2010 and interviewed 10,699 professionals across the MENA region.

Results of the survey show that 30% of employees in Lebanon consider their packages competitive with the local market, 57% say their packages are lower than other companies in the same industry, while 4% consider their packages higher than what the competition offers. In parallel, 25% of employees interviewed in the MENA region believe that their packages are market competitive, and 55% believe that their packages are lower than competitors. Further, 19% of respondents in Lebanon consider that the country suffers from skills shortage, 41% believe there is an excess of supply in talent, while 17% say that labor supply is just sufficient. In comparison, 33% of respondent across the region believe that there is skills shortage in their country of residence.

In parallel, 59% of respondents in Lebanon said they are still affected by their employer's actions in response to the economic crisis, compared to 69% of professionals interviewed in the MENA region who said they are affected by the tight economic conditions. Also, 30% of respondents in Lebanon are optimistic about economic growth and the availability of jobs in the country in 2010. Also, 24% of respondents believe that the local job market will be more competitive due to the relocation of expatriate talent, 18% believe that companies will continue to hire at the same pace and volume, while 12% believe there will be fewer jobs in the market. In comparison, 36% of respondents across the region are optimistic about the regional job market while 12% are quite pessimistic.

The survey added that 15% of respondents in Lebanon are satisfied with the salary raise they received, 20% believe that their salary raise is fair relative to their contribution and the company's situation, while 25% are not satisfied with their raise and 40% did not get a raise. In parallel, 14% of respondents across the region are satisfied with the salary raise they received, 18% believe that the salary raise is fair, 25% are not satisfied with their raise, and 43% did not get a raise.

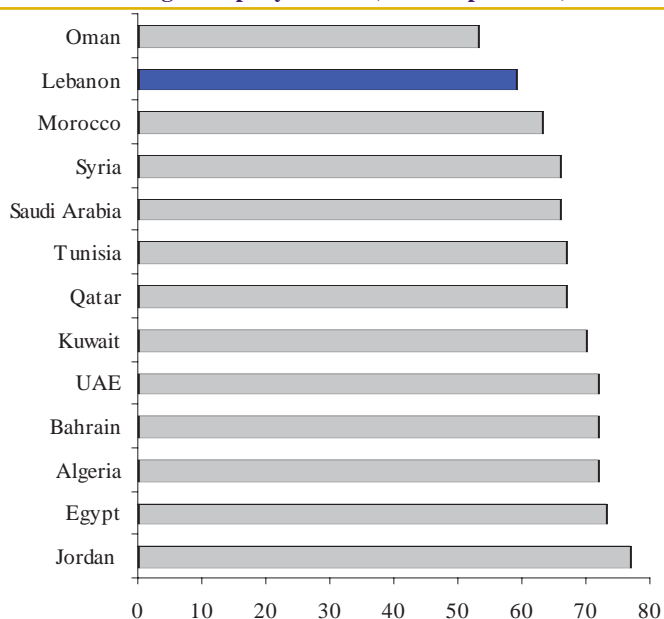
Association of Banks recommends ceiling on US dollar deposit rates

The Board of Directors of the Association of Banks in Lebanon (ABL) encouraged banks to maintain a ceiling of 3.25% on US dollar deposit rates. It said the decision is due to the continued low levels of interest rates in global markets and the need to reduce the spreads between the local and global interest rates on dollar deposits, as this spread has increased to unprecedented levels due to the decline in global rates. It noted that the spreads between time saving rates and the three-month LIBOR rates in US dollars widened from 2.50 basis points in January 2009 to 3.28 bps last December, peaking at 3.32 bps in October. In parallel, the spreads between the cost of funds and the returns in foreign currencies has regressed throughout 2009 from 1.9 basis points in January to 1.53 bps in December. Last week, the ABL encouraged banks to maintain a ceiling of 6.25% on Lebanese pound deposit rates, as the returns on two-year Treasury bills are currently lower than the cost of funds in Lebanese pounds, which has led to negative spreads since last August. It attributed its decision to the continued conversion of deposits to Lebanese pounds as well as to the Treasury's decision to suspend the issuance of Treasury bills and to the large amounts of Treasury bills that mature in the coming months, while banks continue to pay high interest rates on new and existing Lebanese pound deposits.

Association of Banks amends reference rate on US dollar and Lebanese pound lending

The Association of Banks in Lebanon (ABL) recommended to its member banks to decrease the Beirut Reference Rate in US dollars to 5.05% from 5.10% previously starting in April. The rate, considered as the reference rate for lending in foreign currency, replaced last year the London Inter-Bank Offering Rate (LIBOR) since the ABL considered that the LIBOR no longer accurately reflects the cost of funding and lending in Lebanon. Additionally, the ABL recommended to its member banks to decrease the Beirut Reference Rate in Lebanese pounds to 8.32% from 8.56% previously. The Beirut Reference Rate in US dollars and Lebanese pounds were adopted in March and May 2009, respectively. The ABL indicated that the BRR does not replace the Beirut Prime Lending Rate in each currency, but constitutes the basis to calculate the prime rate after adding the cost of liquidity and refinancing, credit risks, and the profitability of banks to the prime lending rate. The prime lending rate for US dollar and Lebanese pounds are 8.25% and 10% respectively.

People affected by the tight economic situation through company actions (% of respondents)



Source: Bayt.com, Byblos Research

Lebanon represented in *Forbes* magazine list of world billionaires

Forbes magazine's annual survey of the world's billionaires for 2010 included on its list 6 persons from Lebanon, unchanged from 2009, and had 4 members from the family of the late Prime Minister Rafiq Hariri and two members of the Mikati family. The survey ranked Mr. Bahaa Hariri in 316th place with a fortune of \$3bn, down from 221st place, but up from \$2.9bn in the previous year. He was followed by former Prime Minister Najib Mikati and his brother Taha Mikati in 374th place with a net worth of \$2.5bn each, down from 334th place but up from \$2bn each in 2009. Prime Minister Saad Hariri ranked in 536th place with an estimated fortune of \$1.9bn, down from 522nd place but up from \$1.4bn in 2009, while Mr. Ayman Hariri and his brother Fahd Hariri came in 721st place with \$1.4bn each, down from 647th place but up from \$1.1bn each last year. *Forbes* said the Hariri family's wealth is derived from investments in Saudi Arabia and many other countries in Europe, Africa and the Middle East in banking, real estate, tourism, telecommunications and media. It added that PM Hariri bought his brother Bahaa's share in Saudi Oger in January 2008 and currently owns 50% of the company. It added that Mr. Bahaa Hariri derives the bulk of his fortune from investments and real estate. The magazine said the Mikati brothers made their fortune in telecommunications and have vast holdings in the sector, adding that they currently run M1 Group, a holding company invested in real estate, banking, airlines and clothing. The 2009 survey saw the fortunes of all Lebanese on the list increase along with the global trend. The wealthiest man in the Middle East is Saudi Prince al-Waleed bin-Talal who ranked in 19th place globally with \$19.4bn, up from \$13.3bn in 2009. The richest man in the world is Mexican of Lebanese descent Carlos Slim Helu with \$53.3bn, taking the top spot from Bill Gates. The number of billionaires has increased to 1,011 this year from 793 last year, and their average net worth has increased by 16.7% to \$3.5bn.

Billionaires of Lebanese descent on Forbes' 2010 list of the world's richest people					
Name	Rank	Worth (\$bn)	Trend	Source	Country
Carlos Slim Helu	1	53.5	up	Telecom	Mexico
Joseph Safra	64	10	up	Banking	Brazil
Nicolas Hayek	232	3.9	up	Manufacturing	Switzerland
Moise Safra	421	2.3	up	Banking	Brazil
Joseph Jamail Jr.	655	1.5	unchanged	Law	USA
Alfredo Harp Helu	937	1.0	unchanged	Banking	Mexico

Source: *Forbes Magazine*, *Byblos Research*

Subsidized interest loans reach \$2.71bn at end-September 2009

Figures released by the Central Bank show that the cumulative amount of subsidized interest loans to productive sectors in Lebanon reached \$2.71bn from 1997 till the end of September 2009. The industrial sector accounted for \$1.6bn, or 59% of the total, followed by tourism with \$797m (29.4%), agriculture with \$255m (9.4%), specialized technology with \$58m (2.1%) and handicrafts with \$1m (0.1%). Subsidized interest loans extended in 2008 totaled \$472m relative to \$248m in 2007. Subsidized medium & long-term loans reached \$1.79bn, equivalent to 66.3% of the total at end-September 2009. Industry accounted for 59.4% of the total, followed by tourism with 34.9%, agriculture with 4.4% and specialized technologies with 1.3%. The program was established in the first quarter of 1997 and consists of a 5% to 7% subsidy on the interest for loans extended in foreign currencies to productive sectors. Also, subsidized interest loans guaranteed by the Kafalat Corporation totaled \$608.6m, or 22.4% of the total. Industry accounted for 53.2% of Kafalat-backed subsidies, followed by agriculture with 27.9%, tourism with 15.8%, special technologies with 3% and handicrafts with 0.2%. Kafalat provides financial guarantees for loans of up to \$400,000 for small and medium-sized enterprises in productive sectors.

Further, interest subsidized under the protocol signed with the European Investment Bank totaled \$146.3m, or 5.4% of the total, with industry accounting for 53.3% of the total, followed by tourism with 34.4%, specialized technologies with 10.9%, and agriculture with 1.4%. In addition, subsidized interest loans granted by leasing companies totaled \$81.6m at the end of September-2009, or 3% of the total, with industry accounting for 97.2%, tourism with 2.7% and specialized technologies with 0.1% of such subsidies. Also, subsidized interest loans granted by the International Finance Corporation totaled \$62.4m, or 2.3% of the total, with industry accounting for 73.7%, tourism for 18.4% and agriculture for 7.9%. Finally, subsidized interest loans to finance working capital totaled \$10.3m, or 0.4% of the total with tourism accounting for 100% of the total while subsidized interest loans granted by the French Development Agency totaled \$4.7m, or 0.2% of the total with industry accounting for 100% of the total.

Central Bank business survey: commercial activity up in third quarter of 2009

According to the Central Bank's business survey, the volume of commercial sales increased during the third quarter of 2009, with a balance of opinion standing at 40, compared to 41 during the same quarter of 2008. The business survey reflects the opinions of enterprise managers on the evolution of their businesses, in order to depict the evolution of a number of key economic variables. For inventory levels in all commercial sub-sectors, the balance of opinion went up from 5 in the third quarter of 2008 to 11 in the same quarter of 2009. The balance of opinion is the difference between the proportion of managers out of total surveyed managers estimating that there has been an improvement in the said variable and the proportion of those who have reported a decline in the variable.

Commercial Activity: Year-on-year evolution of opinions				
Aggregate results	Q3-06	Q3-07	Q3-08	Q3-09
Sales volume	-73	8	41	40
Inventories of finished goods	-12	2	5	11
Q3-09 Regional results	Beirut / Mount Lebanon	North	South	Bekaa
Sales volume	37	42	27	51
Inventories of finished goods	17	6	4	-1

Source: Central Bank Business Survey Q3-09

Term savings attract 86.5% of customer deposits

Figures issued by the Central Bank about the distribution of bank deposits showed that term savings in the private sector deposits was the preferred type of account for resident and non-resident bank clients in Lebanese pounds as well as in foreign currencies as at September 2009. Term saving deposits accounted for \$38.3bn, or 82%, of resident deposits in foreign currency and were followed by checking and current accounts with \$6.6bn (14%), sight saving accounts with \$1.3bn (2.8%) and other creditor accounts with \$0.57bn (1.2%). Further, term saving accounts attracted \$27.1bn, or 93%, of resident deposits in Lebanese pounds, followed by checking and current accounts with \$1.6bn (5.4%) and sight saving accounts with \$0.4bn (1.5%). Non-residents also favored term saving accounts, which accounted for \$11.6bn, or 86.5%, of their foreign currency deposits and for \$1.9bn, or 97.6%, of their Lebanese pound deposits. Term saving deposits in all currencies totaled \$78.9bn at the end of September 2009, accounting for 86.5% of deposits in Lebanese pounds and foreign currencies.

In parallel, Beirut and its suburbs accounted for 68.6% of private sector deposits and for 50.1% of depositors. It was followed by Mount Lebanon with 12.6% of deposits and 16.9% of beneficiaries; South Lebanon with 7.3% of deposits and 11.9% of beneficiaries; North Lebanon with 6.3% of deposits and 13.3% of depositors; and the Bekaa with 5.2% of deposits and 7.8% of beneficiaries.

Airport passengers up 21.4% in the first two months of 2010

Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures, transit) amounted to 708,931 in the first two months of 2010, up 21.4% year-on-year. The UAE accounted for 154,787 passengers, or 21.8% of total passenger activity. It was followed by Saudi Arabia with 90,795 passengers, or 12.81% of the total, France with 64,779 travelers (9.1%) and Kuwait with 61,791 travelers (8.7%). The total number of flights reached 9,646 in the first two months of 2010, up 28.8% year-on-year. Middle East Airlines registered 2,772 flights, accounting for 28.7% of the total. It was distantly followed by Royal Jordanian Airlines with 466 flights or 4.8% of the total, Etihad Airways with 300 flights, Emirates Airlines with 291 flights and Jazeera Airways with 264 flights. The UAE was the biggest source and destination of traffic to Lebanon, as aircraft movement to and from the UAE totaled 1,576 flights, accounting for 16.3% of the total. Also, the HIA processed 11,446 metric tons of cargo in the first two months of 2010, of which 11,286 tons of freight and 161 tons of mail. Total cargo processed in January and February increased by 9.21% compared to the same months of 2009. MEA processed 2,917 tons of freight, of which 2,871 tons in regular freight and 46 tons in mail.

Customs receipts at \$146m in January

Customs revenues reached \$146.3m in January compare to \$155m in December 2009 and [\$] in January 2009. The Port of Beirut continues to be the main point of customs receipts, accounting for 89.7% of the total in January, and was followed by the Hariri International Airport with 4.7%, the Port of Tripoli with 3%, and the Masnaa crossing point with 1.2%. Customs receipts from the value-added tax totaled \$115.7m. The Port of Beirut accounted for 15.7% of such receipts in January, and was followed by the Port of Tripoli with 8%, the Hariri International Airport with 7.1%, and the Masnaa crossing point with 4.6% of the total. As such, overall customs receipts reached \$262m in January, with the Port of Beirut accounting for 83.5% of the total in January, and was followed by the Hariri International Airport with 5.8%, the Port of Tripoli with 5.2%, and the Masnaa crossing point with 2.7% of the total. In addition, other entry points accounted for the balance of 2.8%, with the ports of Said and Tyr accounting for 2.6% and the crossing points of Abboudieh, Arida and Kaa for 0.2%.

Kafalat loan guarantees reach \$16.3m in first two months of 2010

Figures released by the Kafalat Corporation show that loans extended to small- and medium-size companies under the guarantee of Kafalat reached \$28.7m in the first two months of 2010, up 67.8% from \$17.1m in the same period of 2009. The number of loan guarantees totaled 271 in the first two months of 2010 compared to 126 in the same period of last year. The average loan size reached \$105,911 compared to \$135,941 in the first two months of 2009. Mount Lebanon accounted for 39.1% of guarantees, followed Bekaa with 26.6%, the North with 11.8%, the South with 10.7%, Nabatieh with 8.1%, and Beirut with 3.7%. The agriculture sector accounted for 52.8% of total guarantees, followed by industries with 35.1%, tourism with 9.6%, techniques with 2.2%, and handicraft with 0.4%. 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-size 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.

AIG sells ALICO for \$15.5bn

American International Group Inc, the largest insurance group in the world, sold its insurance subsidiary American Life Insurance Company (ALICO) for \$15.5bn to MetLife Inc., the largest life insurer in the United States, as part of its plan to pay \$182.5bn in debt to the U.S. government. The deal consists of \$6.8bn in cash and about \$8.7bn in MetLife equity, including common stock and convertible preferred securities. The transaction is scheduled to close in the fourth quarter of 2010, subject to regulatory and other approvals.

ALICO, one of AIG's most profitable subsidiaries, sells life and health insurance, wealth management and retirement plans in more than 55 countries and regions, including Japan, Western, Central & Eastern Europe, the Middle East, South Asia, Latin America and the Caribbean. Its aggregate statutory assets reached \$87bn and its surplus and capital totaled \$4bn at the end of September 2009. ALICO is the largest provider of life insurance in Lebanon with \$77.5m in premiums generated in 2008, accounting for 26.7% of the Lebanese life insurance market, down from 63% in 2000.

The US-based AIG nearly collapsed in 2008 when the financial crisis forced it to make payments tied to Credit Default Swaps it previously sold to banks. CDS are a type of insurance policy against default on securities that grew in recent years into an unregulated nominal market of about \$62,000bn, and where AIG sold about 80% of these policies. As global financial markets collapsed, AIG received an \$85bn loan from the U.S. government to avoid bankruptcy. The insurer's rescue package has since expanded to about \$182.5bn and included more time and a lower interest rate on the loan. As a result, AIG is currently 80% owned by the U.S. government. Last week, AIG sold its Asian life-insurer unit, American International Assurance Ltd., to Prudential Plc for \$35.5bn. It expects to return \$32bn in cash to the Federal Reserve Bank of New York in the coming months if both deals close as scheduled by year-end.

US firm to sign \$500m solar power project with government

The US-based firm Bergamo Acquisition Corp. announced that it will sign a letter of intent with the Lebanese government regarding a solar power project in the country. The company said it will be responsible for the technical know-how and will provide a turn-key operation for the government. It added that the total cost of the project will be \$500m and that the Lebanese government will issue a letter of credit to cover the project's costs. Bergamo Acquisition Corp. is mainly involved in the construction of mission-critical infrastructure, including clean energy electric plants, solar renewable energy projects, and LED high efficiency lighting projects. The Lebanese government has committed to introduce 12% renewable energy in its energy mix by 2020.

Balance sheet of financial institutions posts 0.6% annual decline in September

Figures released by the Central Bank show that the consolidated balance sheet of financial institutions in Lebanon reached LBP 1,342bn, or \$890.2m, at the end of September 2009, constituting an increase of 9.2% from end-2008 but a decrease of 0.6% from end-September 2008. Liabilities to the private sector reached \$180.4m, up 19.6% from end-2008 and down by 11.3% year-on-year. Commitments to the financial sector reached \$357.6m at the end of September, representing an increase of 2.1% from end-2008 but a decrease of 8% year-on-year.

On the assets' side, financial institutions' operations with commercial banks reached \$278.1m at end-September 2009, up 12% from end-2008 and up by 0.1% from end-September 2008. Lending to the private sector reached \$448.7m, constituting an increase of 8.9% from end-2008 but down by 4.2% year-on-year. Investments in government securities totaled \$132.6m at end-September 2009, up 1.4% from end-2008 and up 7.4% from end-September 2008. Further, the aggregate capital account of financial institutions reached \$252.7m at the end of September, up 11.3% from the end of 2008 and up by 11.9% from \$225.9m at the end of September 2008. There were 46 financial institutions operating in Lebanon at mid-2008.

Bank Audi splits shares 10-for-1, to issue new preferred shares

Bank Audi sal announced that its Extraordinary General Assembly held on March 2, 2010 approved a 10-for-1 split of all the bank's shares. As such, the bank will have a total of 356,689,410 outstanding shares that include 344,189,410 common shares and 12,500,000 Series D Preferred Shares. The new nominal price will be LBP 1,225 or \$0.8 per share. The bank stated that its Board of Directors will determine the date for the entry into effect of the split within a period of 45 days from the Central Bank of Lebanon's approval. In parallel, The Assembly also decided to issue 1.25 million new Series E Preferred Shares at a par value of \$100 and a nominal value of LBP 1,225 per share. The shares are non-cumulative and will pay an annual dividend of 4% per share for fiscal year 2010 and 6% per share annually afterwards, while the bank will have a call option after the fifth year of issuance. The issuance will contribute to increase the bank's capital to LBP 438,475,777,250 from LBP 436,944,527,250. The shares' listing on the BSE will bring the bank's total listed shares to 357,939,410 nominal shares distributed between 344,189,410 Common Shares, 12,500,000 Preferred Shares Series D and 1,250,000 Series E Preferred Shares. Last January, regional investment bank EFG-Hermes, Bank Audi's largest shareholder, sold its entire stake of 28% in the bank after lengthy discussions regarding a combination of the two businesses did not yield results.



Ratio Highlights

(in % unless specified)	2007	2008	2009	Change*
Nominal GDP ⁽¹⁾ (\$bn)	25.0	29.3	32.7	
External Debt / GDP	84.9	72.2	65.0	(720)
Local Debt / GDP	83.2	88.3	91.2	290
Total Debt / GDP	168.1	160.5	156.2	(430)
Trade Balance / GDP	(36.0)	(43.2)	(39.0)	420
Exports / Imports	23.8	21.6	21.5	(10)
Budget Revenues / GDP	23.2	24.0	25.8	180
Budget Expenditures / GDP	33.4	33.9	34.8	90
Budget Balance / GDP	(10.2)	(10.0)	(9.0)	100
Primary Balance / GDP	2.9	2.0	3.3	130
BdL FX Reserves / M2	59.4	68.9	75.1	620
M3 / GDP	239.3	234.3	251.0	1,670
Bank Assets / GDP	329.0	321.7	352.4	3,070
Bank Deposits / GDP	269.1	265.5	292.9	2,740
Private Sector Loans / GDP	81.7	85.5	86.8	130
Dollarization of Deposits	77.3	69.6	64.5	(510)
Dollarization of Loans	86.4	86.6	84.0	(260)

* Change in basis points 08/09

(1) Based on Ministry of Finance Estimations and the International Monetary Fund

Source: Association of Banks in Lebanon, Byblos Research Calculations

Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

Risk Outlook

Lebanon	Dec 2008	Nov 2009	Dec 2009	Change*	Risk Level
Political Risk Rating	57.5	57.0	57.0	▼	High
Financial Risk Rating	28.0	28.0	28.0	↔	High
Economic Risk Rating	30.0	35.5	35.5	▲	Low
Composite Risk Rating	57.7	60.2	60.2	▲	Moderate

Regional Average	Dec 2008	Nov 2009	Dec 2009	Change*	Risk Level
Political Risk Rating	65.6	64.9	64.7	▼	Moderate
Financial Risk Rating	41.8	42.0	42.1	▲	Very Low
Economic Risk Rating	39.5	34.8	35.2	▼	Low
Composite Risk Rating	73.4	70.8	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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