



LEBANON THIS WEEK

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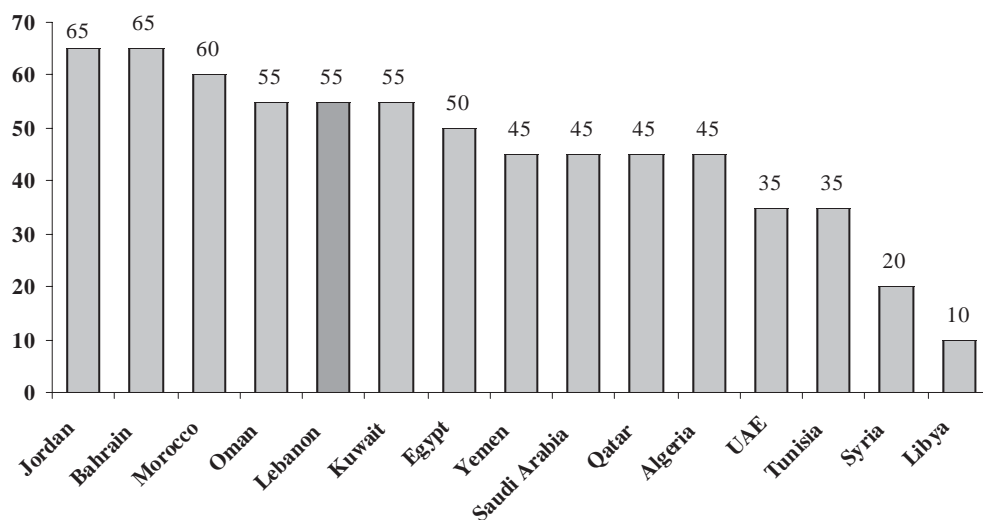
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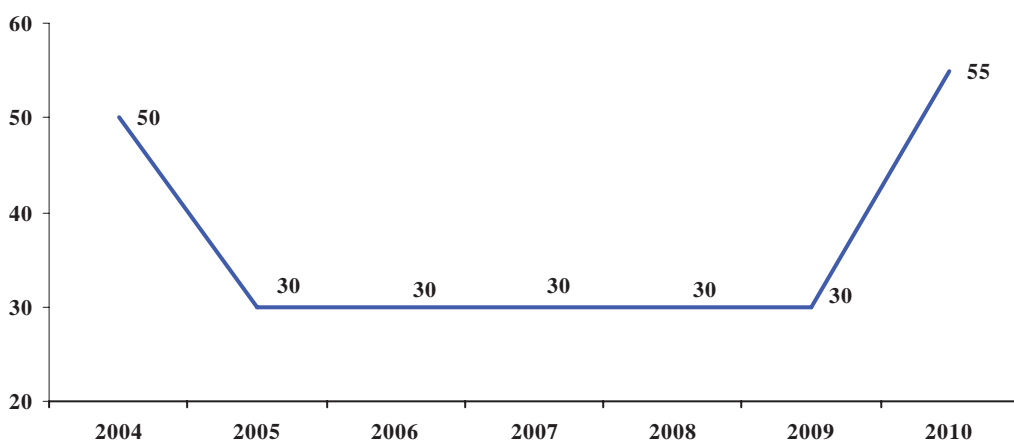
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Charts of the Week

Investment Freedom Index in Arab Countries for 2010



Investment Freedom Index for Lebanon



Source: Heritage Foundation/Wall Street Journal, 2010

Quote to Note

“The main challenge for the Lebanese economy is to reduce the gap between its potential and its actual performance.”

Carlos Ghosn, CEO of Renault-Nissan, on the longstanding challenge facing Lebanese policy-makers

Number of the Week

12%: projected growth of private sector credit in Lebanon for 2010, according to regional investment bank EFG Hermes

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"	23.69	1.24	189,578	17.53%
Solidere "B"	24.00	2.87	88,787	11.54%
Byblos Common	2.14	(0.47)	356,000	3.44%
Byblos Priority	2.16	(2.26)	31,200	3.29%
Byblos Pref. 08	104.2	(1.23)	1,000	1.54%
BLOM GDR	99.3	(0.70)	10,266	5.43%
BLOM Listed	100.0	0.00	0.00	15.91%
Audi GDR	90.95	0.72	3,030	6.83%
Audi Listed	87.90	(0.23)	1,850	22.38%
HOLCIM	12.54	0.32	26,139	1.81%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Nov. 2010	6.875	103.25	1.71
May 2011	7.875	105.75	2.74
Mar. 2012	7.500	107.88	3.36
Sep. 2012	7.750	109.75	3.54
June 2013	8.625	113.13	4.22
Apr. 2015	10.000	120.25	5.37
Jan. 2016	8.500	115.25	5.39
May 2016	11.625	130.25	5.67
Mar. 2017	9.000	119.25	5.63
Apr. 2021	8.250	113.50	6.51

Source: Byblos Capital Markets

	Mar 15-19, 2010	Mar 8-12, 2010	% Change	February 2010	February 2009	% Change
Total Shares Traded	236,184	980,066	(75.90)	55,216,126	54,105,555	2.05
Total Value Traded	\$2,290,223	\$11,783,671	(80.56)	\$158,807,366	\$115,261,712	37.78
Market Capitalization	\$13.52bn	\$13.46bn	0.40	\$12.89bn	\$8.55bn	50.76

Source: Beirut Stock Exchange (BSE)



Lebanon ranks 45th globally, 6th in MENA region in electronic participation

The United Nations' Electronic Participation Index for 2010 ranked Lebanon in 45th place among 179 countries worldwide and 6th among 19 countries in the Middle East and North Africa region. Lebanon came in 28th place globally and in second place regionally in the previous survey that was conducted in 2008. Also, Lebanon ranked in 8th place among 36 upper-middle income countries (UMICs) included in the 2010 survey and in 5th place in the previous survey. The index is an assessment of 21 public informative and participatory services and facilities in e-information, e-consultation and e-decision making across 6 general, economic and social sectors such as education, health, social welfare, finance and employment. The E-participation Index measures the quality, relevance and usefulness of the information that the government presents on its websites. It analyzes how the government interacts with the people and encourages their input online, as well as how well it promotes e-government services. It also assesses the degree of the government's willingness to encourage the public to be active in promoting participatory decision-making in public policy matters.

Globally, Lebanon tied with Latvia, and Portugal, ranked ahead of Greece, Ukraine and Uruguay, and came behind Brazil, Egypt and Jordan. It tied with Latvia, ranked ahead of Uruguay and behind Hungary among UMICs. Lebanon's numerical score was 0.2714 points, constituting a decrease of 33.6% from 0.4091 in the 2008 survey and an increase of 144.3% from 2005. It came above the global average of 0.2047 points, the MENA average of 0.1932 points and the UMIC's average of 0.1964 points. Regionally, the scores of 8 countries improved and those of 11 countries deteriorated, while the rankings of 9 countries increased and those of 10 countries dropped from the previous survey.

Globally, Lebanon posted the 68th steepest drop in ranking from the previous survey, falling from 28th place in 2008 to 45th place in 2010. In parallel, it posted the 39th biggest increase in rankings from the 2005 survey where it came in 69th place. Regionally, Lebanon posted the 4th steepest drop in ranking from the previous survey, falling from second place in 2008 to 6th place in 2010. It also posted the 8th steepest drop in rankings from the 2005 survey, falling from the 4th position. South Korea is the world's leader in e-participation, while 13 countries that include Algeria, Syria, Gambia, Senegal and Paraguay came in last place.

Payments to the Kuwait Petroleum Corporation and Sonatrach account for 95% of Treasury transfers to Electricité du Liban

Figures released by the Finance Ministry show that Treasury transfers to Electricité du Liban totaled \$1.5bn in 2009, constituting a decrease of 7% from \$1.6bn in 2008. It said that reimbursements to the Kuwait Petroleum Corporation (KPC) and to Algerian energy conglomerate Sonatrach accounted for \$1.4bn, or 94.4% of transfers in 2009, while EdL's debt servicing represented the remaining 5.6%. It added that the size of reimbursement of KPC and Sonatrach implies that any fluctuations in international oil prices are bound to have an impact on Treasury transfers to EdL. It noted that fuel and gas oil bills for the covered year reflect consumption made during the second half of the previous year and the first half of the year under consideration, due to the existing terms of payment to KPC and Sonatrach. As such, payments made in 2009 reflect consumption between mid-2008 and mid-2009. Further, oil prices prevailing during the covered period were lower on average than those between mid-2007 and mid-2008, according to which the 2008 payments to KPC and Sonatrach were made. The ministry indicated that consumed gas oil increased by 26% year-on-year, while fuel oil dropped by 1% from 2008. In parallel, Treasury transfers to EdL accounted for 20.4% of primary expenditures in last year's budget compared to 25.2% in 2008. EdL transfers constitute the third largest expenditures item after debt servicing and salaries & wages in overall spending. Transfers to EdL were equivalent to 4.3% of GDP in 2009 compared to 5.4% of GDP in 2008.

MENA Countries Rankings & Scores

Country	MENA Rank	Global Rank	Score
Bahrain	1	11	0.6714
Israel	2	30	0.4143
Tunisia	3	39	0.3000
Jordan	4	42	0.2857
Egypt	4	42	0.2857
Lebanon	6	45	0.2714
Kuwait	7	53	0.2286
Turkey	8	55	0.2143
Libya	9	68	0.1714
Oman	10	76	0.1571
Morocco	11	86	0.1286
Qatar	11	86	0.1286
UAE	11	86	0.1286
Saudi Arabia	14	102	0.1000
Iran	15	117	0.0714
Yemen	16	135	0.0429
Iraq	16	135	0.0429
Algeria	18	157	0.0143
Syria	18	157	0.0143

Source: United Nations, Byblos Research

Growth and credit outlooks depend on budget outcome, reform implementation

Barclays Capital projected economic growth in Lebanon at 6% in 2010, down from 8% in 2009, adding that initial indicators point towards sustained growth this year but at a slower pace than last year. It expected private consumption to slow down but to be offset by a pick-up in private and public investment, and by continued strength in services exports in line with a gradual recovery in the GCC. It also expected a slower pace of capital inflows despite a slight increase in remittances, due to a widening trade balance, higher oil prices and a stabilization of tourism activity. As such, it projected the current account deficit at around 8.6% of GDP for this year. It noted that the favorable macroeconomic trends should continue to be supported by a robust performance in the banking sector, but expected the pace of deposit growth to slow down from about 23% to around 15% annually, as conditions in external capital markets stabilize and Lebanon's interest rate differentials with the rest of the world decline. It said the banks' loans-to-deposits ratio of 68% highlights the potential of local banks in meeting an expected pick-up in private sector credit demand in case of sustained political stability.

Barclays Capital indicated that the key missing factor in this year's outlook is the 2010 budget, as it has been continuously delayed. It stated that discussions about the budget draft have not yielded an agreement on the package of revenues proposed by the Ministry of Finance and could result in a reconfiguration of the revenue package by shifting the burden onto direct taxation. It added that the main objective of the Finance Ministry is to find the fiscal space necessary to accommodate higher capital expenditures in view of alleviating the infrastructure bottlenecks to growth without raising indebtedness. It expected the fiscal deficit to widen to 11% of GDP in 2010 from 9% of GDP last year, and for the primary surplus to contract to 0.5% of GDP this year from 3.3% of GDP in 2009. It added that higher oil prices and a lack of visibility on the nature and timing of measures to reduce Electricité du Liban losses, including the much-needed electricity tariff reforms, will keep EdL's losses weighing heavily on public finances for a while. Accordingly, it estimated the debt level to remain unchanged at about 154% of GDP.

Barclays Capital considered that Lebanon's credit outlook depends primarily on credible policy actions from the new government aimed at furthering fiscal consolidation and sustaining higher growth rates to put the public debt on a sustainable path. It said the 2010 budget is a first key milestone, as the government faces crucial tests that will challenge its ability to implement the reforms necessary to improve the country's creditworthiness. It noted that the decline in interest rates will depend directly on the credibility of the government's reforms, especially in terms of reducing unnecessary spending, and restructuring the energy and telecoms sectors in preparation for their privatizations in early 2011.

Key Macroeconomic Indicators				
	2008	2009E	2010F	2011F
Real GDP (%y/y)	8.5	8.0	6.0	6.0
CPI (%average)	10.8	3.1	4.0	4.5
Current Account (\$bn)	(3.5)	(3.0)	(3.1)	(3.3)
CA (%GDP)	(12.0)	(9.1)	(8.6)	(8.2)
Gross External Debt (% of GDP)	191	178	175	171
Foreign Reserves (\$bn)	20.2	28.7	33.1	36.7
Fiscal Balance (%GDP)	(10.0)	(9.0)	(11.0)	(10.0)
Primary Balance (including grants)(%GDP)	2.0	3.3	0.5	1.5
Gross Public Debt (\$bn)	47.0	51.1	56.0	60.4
Gross Public Debt (%GDP)	160.2	155.0	153.8	151.9

Source: Barclays Capital

Industrial exports up 17% to \$242m in January 2010

Figures released by the Ministry of Industry show that industrial exports reached \$242m in January 2010, up 16.9% from \$207m in January 2009. Pearls & precious or semi-precious stones accounted for \$54m, or 22.3% of total industrial exports in January 2010, followed by machinery and mechanical appliances at \$51m (21.1%), base metals & base metal articles at \$36m (14.9%), Prepared foodstuffs and chemical products at \$22m (9.1%) each, and paper & paper products at \$15m (6.2%). Imports of industrial equipment and machinery reached \$20.2m in January 2010, up 34.6% from the same period last year. Italy was the main source of imports of industrial equipments, accounting for 33.4% of total, followed by France with 15.1% and Germany with 13.8%.

Lebanon's travel and tourism economy to generate \$12.4bn this year, ranks 11th globally in terms of its contribution to GDP in 2010

The World Travel & Tourism Council (WTTC) estimated that the travel & tourism industry would contribute directly \$4.39bn to the Lebanese economy in 2010, equivalent to 13.3% of GDP, and direct industry employment will reach 199,000, representing 13.7% of total employment in Lebanon this year. It added that, since travel & tourism (T&T) touches all sectors of the economy, its real direct and indirect impact is even greater, and forecast it will generate \$12.39bn, or 37.6% of overall economic activity in Lebanon in 2010, including 553,000 jobs, or one in every 2.6 jobs, representing 38% of total employment in 2010. It added that the T&T industry's direct contribution to Lebanon's economic activity will rise to \$10.1bn, or 15.7% of GDP in 2020, while the broader T&T economy will contribute \$28.1bn, or 43.7% of GDP by 2020.

The WTTC projected the T&T economy in Lebanon to grow by 5.7% per year in real terms between 2011 and 2020 compared to 5.2% in the Middle East and 4.4% globally over the same period of time, while the T&T direct industry will grow by 5.8% per year in real terms during the 2011-2020 period compared to 4.7% growth for the Middle East and 4% globally. Lebanon's T&T economy ranked 11th among 181 countries in terms of its contribution to GDP in 2010, while it ranked in 53rd place worldwide in terms of its annualized growth rate over the 2011-20 period.

Further, the T&T direct industry jobs are forecast to reach 271,504 or 16% of total jobs in Lebanon by 2020, while employment in the T&T economy should total 749,000 jobs overall, or one in every 2.3 jobs, equivalent to 44.2% of total employment by 2020. In comparison, the WTTC forecast direct industry employment in the Middle East to grow by 2.6% over the 2011-20 period and to account for 3.5% of total employment, while it forecast the T&T economy employment to grow by 2.8% and to account for 9.9% of total employment in the region. Lebanon ranked 13th worldwide in terms of the share of its T&T economy employment out of total employment, while it came in 42nd place in the real growth rate of T&T employment over the coming 10 years.

Travel & Tourism contribution in Lebanon (\$bn)			
	2010	2020f	Growth* (%)
Personal Travel & Tourism	4.39	8.49	4.0
Business Travel	0.48	11.48	6.2
Government Expenditures	0.41	0.64	1.8
Capital Investment	0.67	1.30	4.1
Visitors Exports	13.20	28.64	5.2
T&T Direct Industry GDP	4.39	10.07	5.8
T&T Economy GDP	12.39	28.09	5.7
Travel & Tourism Demand	19.19	40.29	4.9
T&T Industry Employment**	199.0	271.5	3.2
T&T Economy Employment**	553.0	749.0	3.1

*real annualized growth over 2011-2020

**in thousands of jobs

Source: World Tourism & Travel Council

Most tourists spending in Lebanon originated from Saudi Arabia and UAE in first two months of 2010

Figures issued by Global Refund, the VAT refund operator for international shoppers, visitors from Saudi Arabia spent the most in Lebanon in the first two months of 2010, accounting for 22% of total tourist spending, followed by visitors from the UAE (13%), Egypt (9%), Kuwait (8%) and Jordan (7%). Spending by visitors from Egypt rose by 48% year-on-year, followed by visitors from Jordan with a 46% increase, from Saudi Arabia (+40%), France (+33%), Syria (+31%), the UAE (+21%), and Qatar (+17%). Beirut attracted 80% of total spending over the covered period, followed by the Metn area with 15% and the Keserwan region with 3%. Fashion & clothing accounted for 66% of total spending, followed by watches with 13%, home & garden products with 5%, perfumes & cosmetics with 4%, department stores with 4%, souvenirs & gifts with 3%, and consumer electronics & household appliances with 2%. Spending on souvenirs & gifts increased by 50% from the same period last year, followed by spending on fashion & clothing with a 26% rise, watches (+23%), consumer electronics & household appliances (+21%), home & garden products (+20%), and perfume & cosmetics (+11%).



Cash transfers up 9% to \$721m in first half of 2009, UAE is largest source and Philippines is main destination

Figures issued by the Central Bank show that cash electronic transactions to and from Lebanon totaled \$720.9m in the first half of 2009, constituting an increase of 9.2% from \$660.2m in the first half of 2008. A total of \$481.9m were transferred electronically to Lebanon in the first half of 2009, up 3.9% from the first half of the previous year, while transfers from Lebanon amounted to \$239m in the covered period, up 21.6% year-on-year. The average amount per transaction to Lebanon was \$939.2 in the first half of 2009, while the average amount per transaction from Lebanon totaled \$487.6. Electronic cash transfers to Lebanon totaled \$1.4bn in 2008, \$321m in 2007, \$240m in 2006 and \$389m in 2005.

The UAE was the main source of inward electronic cash transfers with \$124.2m, equivalent to 25.8% of the total in the first half of 2009. It was followed by Saudi Arabia with \$74.8m (15.5%), Qatar with \$44.8m (9.3%), Australia with \$44m (9.1%), the United States with \$30.6m (6.3%), Kuwait with \$25.1m (5.2%), Gabon with \$18.1m (3.7%), Canada with \$11.3m (2.4%), Jordan with \$10.7m (2.2%), and Congo with \$10.4m (2.2%). The top 10 sources of cash transfers accounted for 81.7% of all transfers, while the top 20 sources represented 90.6% of the total. The six countries of the Gulf Cooperation Council accounted for 58% of all electronic cash transfers to Lebanon last year, while Arab countries overall accounted for 62.2%. Further, advanced economies represented 20.3% of the total, while the balance of 10.1% reflected electronic transfers from Africa as well as Central and Latin America. Electronic cash transfers represent a proxy for remittance inflows to Lebanon.

In parallel, the Philippines was the main destination of electronic cash transfers from Lebanon with \$37.5m, or 15.7% of the total. It was followed by Ethiopia with \$27m (11.3%), Egypt with \$21.6m (9%), Sri Lanka with \$17.8m (7.5%), India with \$13.2m (5.5%), the UAE with \$11m (4.6%), Bangladesh with \$9.2m (3.8%), the United States with \$8.6m (3.6%), Indonesia with \$7.9m (3.3%) and Syria with \$7.5m (3.1%). The top 10 destinations accounted for 67.4% of overall transfers.

Further, electronic cash transfer institutions accounted for \$353.9m, or 73.5% of all cash electronic transactions to Lebanon, followed by money dealers with \$92m (19.1%), commercial banks with \$34.7m (7.2%) and financial institutions with \$1.2m (0.2%). Also, electronic cash transfer institutions accounted for \$196.7m, or 82.3% of all cash electronic transactions from Lebanon, followed by money dealers with \$38.2m (16%), commercial banks with \$3.1m (1.3%) and financial institutions with \$0.9m (0.4%).

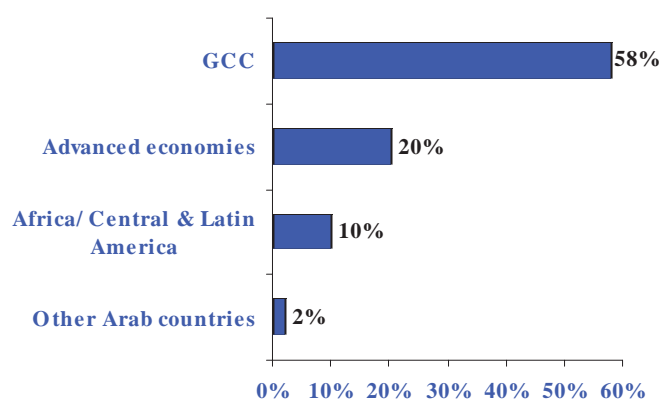
Central Bank business survey: industrial activity down in third quarter of 2009

According to the Central Bank's business survey, industrial production declined slightly during the third quarter of 2009, with a balance of opinion standing at +25, compared to +29 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 overall demand for industrial goods, the balance of opinion stood at +23 in the third quarter of 2008 and did not change during the same quarter of 2009. The balance of opinion for foreign demand dropped from +20 to +6 in the same period. 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.

Industrial Activity: Year-on-year evolution of opinions				
Aggregate results	Q3-06	Q3-07	Q3-08	Q3-09
Production	-64	11	29	25
Total demand	-60	7	23	23
Foreign demand	-36	9	20	6
Volume of investments	-18	15	24	11
Inventories of finished goods	-27	-3	6	4
Inventories of raw material	-31	-2	8	0
Registered orders	-47	-14	-3	1

Source: Central Bank Business Survey Q3-09

Sources of electronic cash transfers to Lebanon



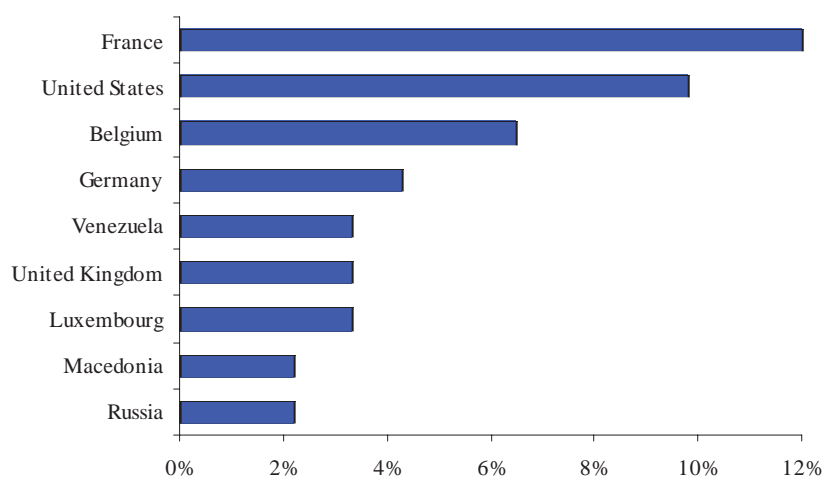
Source: Central Bank, Byblos Research

Central Bank lifts secrecy of 14 cases suspected of money laundering

The Special Investigation Commission (SIC) against money laundering issued its 9th annual report detailing its activities in tracing dirty money in Lebanon. Established by the Central Bank of Lebanon as an independent legal entity, the commission's mandate is to investigate suspected money-laundering operations and to monitor compliance with the rules and procedures of the anti-money laundering law, Law 318, passed in April 2001 by the Lebanese Parliament. The report indicated that the SIC received 202 suspected cases in 2009, of which 127 cases, or 62.9%, were local cases and 75 cases, or 37.1%, were referred from abroad. The SIC referred to judicial authorities 77 suspected cases of money laundering, while 59 cases are still pending and the remaining 66 cases did not fall within the framework of Law 318. As a result, authorities lifted the banking secrecy on 14 cases, of which two cases were referred from foreign governments and organizations and 12 cases from domestic sources. The SIC investigated a total of 67 out of 226 suspected cases in 2008, 54 out of 234 cases in 2007 and 70 out of 185 cases in 2006.

Counterfeiting and forgery accounted for 24% of reported cases, followed by terrorism & transfer of funds with 8.2%, embezzlement of private funds with 7%, drugs with 4.1%, embezzlement of public funds with 2.3%, organized crimes with 1.8% and illegal weapons trafficking with 0.6%, while the remaining 52% of cases were not categorized. In cases related to terrorism, local sources provided 8 names (2 cases), the United Nations supplied 18 names (6 cases), foreign embassies forwarded 8 names (2 cases), and financial investigative units provided 4 name (4 cases). The SIC referred 11 names to judicial authorities, with 3 cases being investigated. The SIC also examined a number of institutions to ensure compliance with Law 318. It covered 22 commercial banks, equivalent to 33.8% of the total, 20 insurance companies (37%), two brokerage firms (18.2%), 22 financial institutions (45.8%), and 49 currency exchanges (12.4%). Further, Europe was the main source of requests to Lebanese authorities, as it accounted for 46 requests, equivalent to 50% of the total, followed by North America and Latin America with 11% each, the United Nations and the Middle East & the Arabian Gulf with 8.7% each, Asia with 6.5%, and Africa and Australia with 2.2% each.

Top 10 foreign sources of money laundering cases reported to Lebanese authorities in 2009



Source: Special Investigation Commission

Stable outlook for Lebanese banking system

Moody's Investors Service indicated that the credit outlook for the Lebanese banking sector is 'stable', reflecting the performance of the local economy in 2009, improvement in Lebanese politics and relative stability in the region. It said that domestic and regional politics have a more significant impact than global economic conditions on Lebanon's economy, sovereign debt rating and banking system. It noted, therefore, that the sector's outlook could change rapidly if the recent political rhetoric in the region deteriorates into more serious military acts.

The agency said the Lebanese banking sector has an Average Bank Financial Strength Rating of 'D-', placing it in the same category as Armenia, Bolivia, China, Ireland, Estonia, Georgia, Ghana, Lithuania, Mongolia, Russia, Tunisia and Vietnam. It noted that the sector's stability reflects to a large extent its success in attracting deposits from the Lebanese Diaspora and Gulf investors. It said bank deposits have displayed a notable resilience to political shocks, while Lebanese banks have traditionally maintained a high level of liquidity and their management is crisis-tested. It did not anticipate a significant change in banks' liquidity policies or short-term obstacles to the stable inflow of foreign funding in the absence of a significant deterioration in regional politics.

Moody's stated that government securities will continue to represent a large portion of the sector's assets in the foreseeable future, linking banks' asset quality to the performance of the government's debt rating. In addition, although NPL ratios have been declining, the rapid pace of credit expansion translates into potentially elevated credit risk, particularly when considering that private sector leverage is material. In parallel, the agency noted that if banks continue to diversify their operations, the Banking Control Commission (BCC) and the Central Bank will have to adapt quickly to changing circumstances. It considered that the BCC faces the challenge of larger banks' operations in regional markets, as it is more tested at regulating against domestic risk than banks' regional operations, which are increasing in importance and entail a different set of challenges.

Car sales down 12.1% year-on-year in first two months of 2010

Figures released by the Association of Automobile Importers in Lebanon indicate that a total of 3,542 new passenger cars were sold in the first two months of 2010, constituting a decrease of 12.1% from the 4,028 cars sold in the same period of 2009. Japanese cars accounted for 37.8% of total sales, followed by European automobiles with a 26.3% market share, Korean cars with 26.2%, American vehicles with 8.6%, and Chinese vehicles with 1.1%. Chinese cars posted the biggest growth in sales with a 660% jump year-on-year, followed by Korean cars with a 43.1% rise and American cars with a 2.7% increase. Japanese cars recorded a 29.4% decrease in sales year-on-year, and European cars posted a 21% decrease. Kia is the leading brand in the Lebanese market with 639 cars sold in the first two months of 2010, followed by Nissan with 537 cars sold, Hyundai with 292, Toyota with 276, Chevrolet with 195, Mitsubishi with 179 and Mazda with 123 cars.

BLC Bank's profits up 48.6% to \$34.2m in 2009

BLC Bank, one of Lebanon's listed banks, announced net profits of \$34.2m in 2009, up 48.6% from 2008. Net interest income rose by 21.7% to \$53.1m while net fee & commission receipts increased by 51.8% to \$9.8m and net interest gains on trading portfolio reached \$2.6m in 2009 compared to a loss of \$0.3m in 2008. The bank's administrative expenses increased by 5.7% to \$11.7m while its staff costs rose by 17.5% to \$24.3m. Total assets reached \$2.6bn at the end of 2009, constituting a 31.5% rise from end-2008, while loans & advances to customers increased by 72.6% to reach \$475.5m. The bank held \$50.4m in assets acquired in satisfaction of loans at year-end 2009. Customers' deposits rose by 31.2% from end-2008 to \$2.27bn at end-2009. Total shareholders' equity increased by 45.4% to \$228.4m in 2009. BLC Bank is part of the Fransabank Group.

Balance sheet of investment banks posts 26.3% annual growth in September

Figures released by the Central Bank show that the consolidated balance sheet of investment banks in Lebanon reached LBP 7,359bn, or \$4.88bn, at the end of September 2009, constituting an increase of 17.3% from end-2008 and a rise of 26.3% from end-September 2008. Liabilities to the private sector reached \$3.05bn, up 31% from end-2008 and up by 52.1% year-on-year. Commitments to the financial sector reached \$713.3m at the end of September, representing a decrease of 0.5% from end-2008 and a decrease of 5.9% year-on-year.

On the assets' side, investment banks' operations with commercial banks reached \$2.55bn at end-September 2009, up 48.5% from end-2008 and up by 84.1% from end-September 2008. Lending to the private sector reached \$949m, constituting an increase of 11.6% from end-2008 and up by 4.8% year-on-year. Investments in government securities totaled \$1.11bn at end-September 2009, down by 16.3% from end-2008 and down 12.2% from end-September 2008. Further, the aggregate capital account of investment banks reached \$630.7m at the end of September, up 8% from the end of 2008 and up by 10.7% from \$569.8m at the end of September 2008.

ALICO's ratings affirmed at 'A1' on MetLife acquisition

Moody's Investors Service affirmed the 'A1' insurance financial strength (IFS) rating of ALICO and changed the outlook to 'stable' from 'developing'. The agency attributed its decision to the resolution of ALICO's ownership uncertainties following the announcement by American International Group Inc. to sell ALICO to MetLife Inc. for \$15.5bn in cash and stock. It also attributed its rating action to the recent stabilization of the firm's business fundamentals, as its sales and policyholder persistency have stabilized in key global markets in the second half of 2009 despite the weak economy and AIG-related issues. It said ALICO's rating is based on the company's strong position in the Japanese life insurance market, as well as its important market positions in approximately 50 other markets around the globe. The agency noted that captive distribution channels and generally consistent operating performance continue to be factors of strengths for ALICO. It considered that additional asset impairments in real estate-related securities and in corporate and sovereign securities will continue to place pressure on ALICO's net income and capital adequacy in 2010. ALICO's 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. Moody's said it could downgrade ALICO's ratings if the implementation of the acquisition by MetLife faces material difficulties, resulting in sustained deterioration of underlying business, including its reputation, distribution channels, market share, and earnings. It could also downgrade the ratings in case of diminished product, risk, and distribution diversity; and if pre-tax investment losses exceed \$1.5bn in 2010.

Energy Ministry denies agreement with US firm

The Ministry of Energy & Hydraulic Resources denied reports of a pending agreement or cooperation with U.S. solar energy firm Bergamo Acquisition Corporation. Last week, Bergamo announced that it will sign a letter of intent with the Lebanese government regarding a solar power project in the country. The company claimed that 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. The ministry said that it had no knowledge of the subject, and warned that it will take all the necessary measures against any possible exploitation by the firm.

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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