

LEBANON THIS WEEK

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Bank Audi lists preferred shares

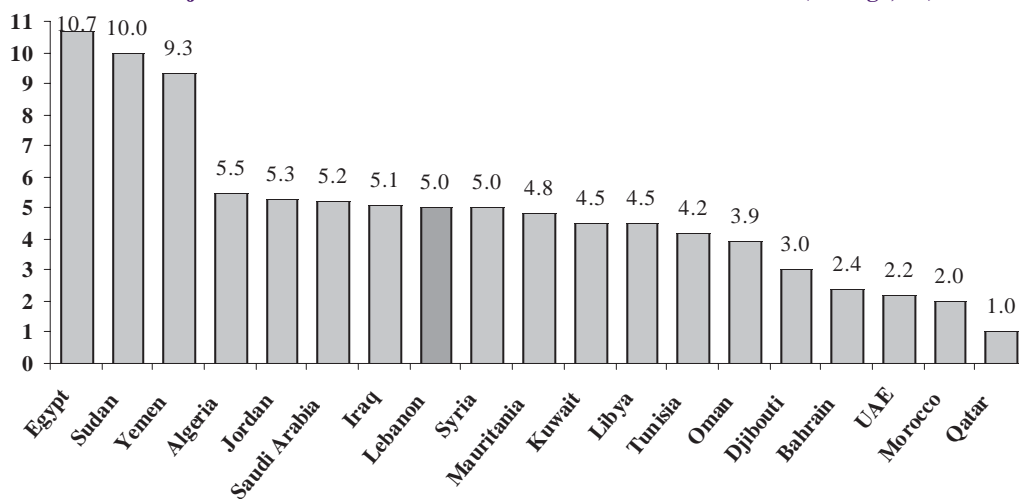
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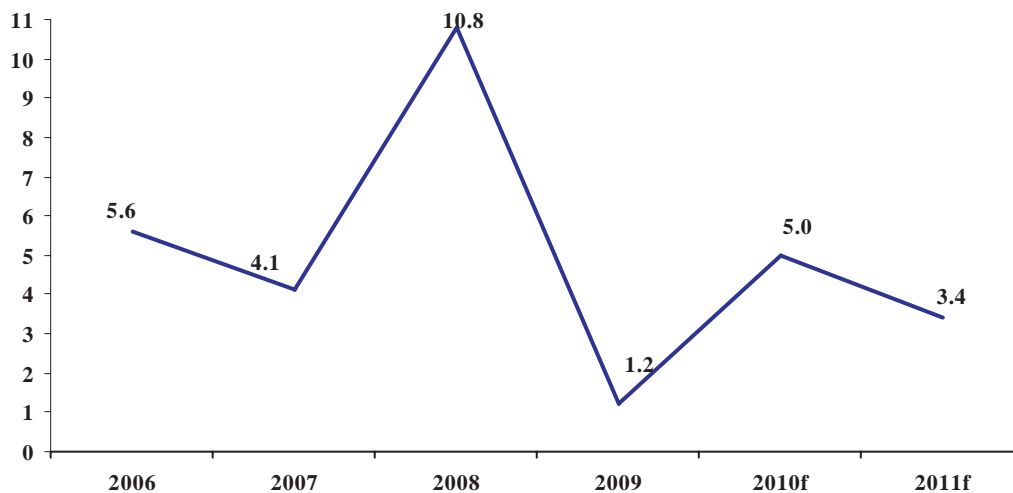
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Charts of the Week

Projected Consumer Price Inflation of Arab Countries in 2010 (average; %)



Consumer Price Inflation in Lebanon (average; %)



Source: International Monetary Fund

Quote to Note

“Lowering the budgetary support to Electricité du Liban would pave the way for achieving fiscal sustainability, stimulating economic activity, and reducing the need to raise the tax burden in the future.”

The Institute of International Finance, on the fiscal and economic burdens resulting from the current state of the electricity company

Number of the Week

28%: Market-issued Eurobonds as a share of the total gross public debt at end-April 2010, according to the Ministry of Finance

Economic Indicators

| \$m (unless otherwise mentioned) | 2008 | Apr 09 | 2009 | Feb 10 | Mar 10 | Apr 10 | % Change* |
|---|-------------|---------------|-------------|---------------|---------------|---------------|------------------|
| Exports | 3,478 | 231 | 3,486 | 342 | 374 | 328 | 41.99 |
| Imports | 16,133 | 1,797 | 16,241 | 1,206 | 1,934 | 1,377 | (23.37) |
| Trade Balance | (12,655) | (1,566) | (12,755) | (864) | (1,560) | (1,049) | 33.01 |
| Balance of Payments | 3,462 | 839 | 7,899 | 759 | 264 | 424 | (49.46) |
| Checks Cleared in LBP | 9,350 | 804 | 11,122 | 966 | 1,187 | 1,058 | 31.59 |
| Checks Cleared in FC | 43,174 | 3,222 | 45,270 | 3,929 | 5,302 | 4,615 | 43.23 |
| Total Checks Cleared | 52,524 | 4,026 | 56,392 | 4,895 | 6,489 | 5,673 | 40.91 |
| Budget Deficit/Surplus | (2,921) | (76) | (2,960) | (176) | (377) | (110) | 44.74 |
| Primary Balance | 597 | 363 | 1,078 | 123 | 62 | 291 | (19.83) |
| Airport Passengers | 4,085,334 | 392,556 | 4,986,544 | 339,237 | 363,742 | 438,328 | 11.66 |

| \$bn (unless otherwise mentioned) | Dec 2008 | Apr 09 | Jan 10 | Feb 10 | Mar 10 | Apr 10 | % Change* |
|--|-----------------|---------------|---------------|---------------|---------------|---------------|------------------|
| BdL FX Reserves | 17.06 | 19.33 | 26.78 | 26.88 | 27.17 | 27.32 | 41.33 |
| <i>In months of Imports</i> | <i>15.03</i> | <i>10.75</i> | <i>21.50</i> | <i>22.29</i> | <i>14.04</i> | <i>14.04</i> | <i>30.60</i> |
| Public Debt | 47.02 | 47.77 | 51.65 | 51.98 | 51.46 | 51.49 | 7.79 |
| Net Public Debt | 41.49 | 42.69 | 43.92 | 44.20 | 44.40 | 44.34 | 3.87 |
| Bank Assets | 94.25 | 99.63 | 116.52 | 118.27 | 119.91 | 120.64 | 21.09 |
| Bank Deposits (Private Sector) | 77.78 | 82.62 | 95.99 | 97.07 | 98.14 | 99.13 | 19.98 |
| Bank Loans to Private Sector | 25.04 | 25.76 | 29.36 | 29.87 | 30.71 | 31.04 | 20.50 |
| Money Supply M2 | 24.76 | 27.77 | 34.77 | 35.42 | 36.23 | 36.72 | 32.23 |
| Money Supply M3 | 68.66 | 72.28 | 82.43 | 83.75 | 84.96 | 85.75 | 18.64 |
| LBP Lending Rate (%) | 9.95 | 9.83 | 8.91 | 8.83 | 8.69 | 8.48 | (136b.p.) |
| LBP Deposit Rate (%) | 7.22 | 7.08 | 6.61 | 6.42 | 6.11 | 6.00 | (108b.p.) |
| USD Lending Rate (%) | 7.47 | 7.21 | 7.26 | 7.26 | 7.01 | 7.10 | (11b.p.) |
| USD Deposit Rate (%) | 3.33 | 3.24 | 3.04 | 2.99 | 2.86 | 2.84 | (40b.p.) |
| %* Change in CPI** | 6.36 | 2.00 | 4.96 | 9.04 | 8.73 | 6.55 | 455b.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" | 22.80 | 1.20 | 89,260 | 18.31% |
| Solidere "B" | 22.78 | 1.29 | 35,528 | 11.89% |
| Byblos Common | 1.81 | 1.69 | 1,621,042 | 3.16% |
| Byblos Priority | 1.80 | 0.00 | 2,610 | 2.98% |
| Byblos Pref. 08 | 100.00 | 0.00 | 250 | 1.61% |
| BLOM GDR | 90.00 | 1.81 | 234,964 | 5.34% |
| BLOM Listed | 87.00 | (0.46) | 252,094 | 15.02% |
| Audi GDR | 8.35 | 0.12 | 101,485 | 6.82% |
| Audi Listed | 7.91 | (2.94) | 9,049 | 21.86% |
| HOLCIM | 13.50 | (1.32) | 1,083 | 2.12% |

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

| Sovereign Eurobonds | Coupon % | Mid Price \$ | Mid Yield % |
|----------------------------|-----------------|---------------------|--------------------|
| Nov. 2010 | 6.875 | 101.50 | 2.25 |
| May 2011 | 7.875 | 104.38 | 2.63 |
| Mar. 2012 | 7.500 | 106.50 | 3.48 |
| Sep. 2012 | 7.750 | 108.50 | 3.60 |
| June 2013 | 8.625 | 112.75 | 3.98 |
| Apr. 2015 | 10.000 | 120.50 | 5.11 |
| Jan. 2016 | 8.500 | 115.50 | 5.23 |
| May 2016 | 11.625 | 128.75 | 5.74 |
| Mar. 2017 | 9.000 | 117.50 | 5.80 |
| Apr. 2021 | 8.250 | 113.44 | 6.49 |

Source: Byblos Capital Markets

| | July 5-10,10 | June 28-July 3,10 | % Change | June 2010 | June 2009 | % Change |
|------------------------------|---------------------|--------------------------|-----------------|------------------|------------------|-----------------|
| Total Shares Traded | 2,355,885 | 1,582,825 | 48.84 | 5,167,659 | 8,778,166 | (41.13) |
| Total Value Traded | \$49,918,948 | \$10,003,992 | 398.99 | \$47,678,154 | \$174,823,842 | (72.73) |
| Market Capitalization | \$12.50bn | \$12.50bn | (0.24) | \$12.50bn | \$11.31bn | 10.51 |

Source: Beirut Stock Exchange (BSE)



Lebanon's has 11th widest spread in emerging markets on five-year Credit Default Swaps

The spread on five-year Credit Default Swaps (CDS) for Lebanon reached 315 basis points at the end of June 2010, compared to spreads of 253 bps for the CDX Emerging Markets benchmark index and to 239 bps for the Itraxx SovX index for Central & Eastern Europe, the Middle East & Africa (CEEMEA) region. Lebanon's spreads were the 11th widest among 36 emerging markets, the 8th widest among 19 countries in the CEEMEA region, and the narrowest among similarly-rated sovereigns. Lebanon's spreads were narrower than Croatia (326bps) and wider than Lithuania (285bps). Credit Default Swaps represent the cost of insuring government bonds against default and have become a reflection of perceived credit risk. As such, it cost around \$315,000 a year at end-June to insure a notional \$10m of Lebanese sovereign debt against default for five years, down \$385,000 a year earlier. CDS are tradable, over-the-counter derivatives that function like a default insurance contract for debt. If a borrower defaults, the protection buyer is paid compensation by the protection seller. Swap buyers may be protecting investments they own or simply making negative bets against countries. So the wider the spread, the bigger the perception of default and the more expensive it becomes to buy insurance against potential default.

Lebanon's spread narrowed by 70bps from the end of June 2009 compared to a narrowing of 137bps for emerging markets spreads year-on-year. Lebanon's spread narrowed by the 16th biggest margin in emerging markets and by the 9th biggest margin in the CEEMEA region, as well by the smallest margin among similarly-rated sovereigns during the 12-months ending June 2010. Further, Lebanon's spreads widened by 36bps in the first half of 2010, similar to the widening of South Korea's CDS spreads, and compared to a narrowing of 6 bps for emerging markets spreads. Lebanon's spreads widened by the 7th biggest margin in emerging markets and by the 6th biggest margin in the CEEMEA region, as well by the highest margin among similarly-rated sovereigns during the first half of 2010. In parallel, the spreads of 22 emerging markets widened during the same period, including those of 11 economies in the CEEMEA region.

Association of Banks issues recommendations to reduce mismatch gap

The Association of Banks in Lebanon (ABL) expressed concerns about the mismatch gap between the banking sector's assets and liabilities, and its potential impact on capitalization and the capital adequacy of banks in case global and domestic interest rates resume their increase. So in order to narrow the mismatch gap, and in line with the Basel Committee recommendations, the ABL advised its member banks to reduce their holdings of long-term Treasury bills of three- and five-year maturities in their portfolio by limiting new subscriptions to maturities of three-, six-, and 24-months T-bills. It also advised banks to avoid extending retail loans that carry fixed rates of more than two years, particularly for car loans. In parallel, the ABL said the Central Bank and the Banking Control Commission plan to conduct a stress test to evaluate the impact on the banks' profitability and capital adequacy of a rise interest rates on the domestic currency to 8% or 9%, compared to current yields on the banks' portfolio of government securities. It added that the supervisory authorities will ask banks to increase their private funds according to the results of the stress test.

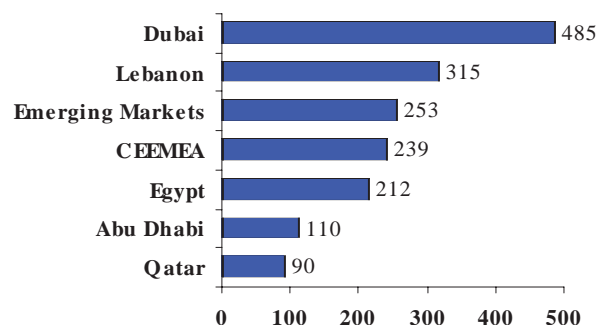
New guidelines for cars entering Lebanon temporarily

The Lebanese customs imposed new guidelines and procedures on cars entering Lebanon temporarily via land, sea or air. The new regulations stipulate that the beneficiary's main place of residence should be the country where the car is registered, and that he or she should be visiting Lebanon for a period that does not exceed six months. Also, the beneficiary should be the owner of the car or the person authorized to drive it. The new guidelines stipulate that the vehicle must hold a global crossing license or a trip tick provided by the clubs concerned, and that the ownership documents should be valid and presented to the customs officials. Also, cars entering under the temporary import permit are allowed a maximum stay of three months, while vehicles with a trip tick can enter the country for a maximum period of six months. As such, customs will stamp all beneficiaries' passports with special seal regardless of nationality, with the exception of Arab sheikhs and princes, diplomats and holders of special passports.

Rural development program gets financial support

The Ministry of Agriculture and the International Fund for Agricultural Development (IFAD) signed a \$4.6m agreement to support the Hilly Areas Sustainable Agricultural Development initiative. The rural development program aims to help small-scale farmers and rural communities fight water scarcity in the areas of Akkar-Dannieh, North Baalbeck and Hermel, South and Lower Litani, and Mount Lebanon. IFAD will extend a \$4m soft loan and a \$600,000 grant to finance the project. In parallel, the OPEC Fund for International Development signed an \$8.4m loan agreement with the Council for Development and Reconstruction as co-financing for the program, with a focus on funding the development of post-harvest support services.

Five-year CDS spreads at end-June 2010



Source: Bloomberg, Byblos Research

SMEs face illegal payments in government bureaucracy to receive basic services

A survey on public administration corruption in Lebanon indicated that 65% of small and medium-size enterprises (SMEs) surveyed have faced a situation where they had to pay bribes to facilitate and accelerate government-related procedures. Further, 71% of SMEs that did not resort to bribes said they carried procedures according to government rules and regulations, and 17% said that a lawyer or an employee took care of the process. The survey covered 250 SMEs in the Greater Beirut area, which accounts for more than two thirds of business activity in Lebanon. The trade sector accounted for 40% of the surveyed firms, followed by the services sector with 38%, industry with 15%, social or health services with 6%, real estate with 3%, financial services with 2%, and insurance with 1% of SMEs included in the study. The survey also interviewed 16 lawyers, since firms often ask a lawyer to handle government-related procedures. The survey was commissioned by the Lebanese Transparency Association (LTA) and was conducted by InfoPro Research during April 2010. The objective of the study is to enable the LTA to pinpoint issues that constitute administrative obstacles to small- and medium-sized businesses in Lebanon in order to raise awareness.

Survey respondents indicated that 32% of companies in their line of business pay a gratification to government employees when they need to get things done, an additional 24% pay officials most of the time, and 29% do so for urgent matters only, while only 15% said they never pay bribes. The survey also shows that government officials asked for payment in 54% of the cases, indicating that the payment initiative is usually taken by government employees. Further, in 41% of cases, the bribery method and amount are known beforehand, implying a tacit understanding between the company representative and the government employee, while in only 14% of cases the enterprise offers a payment of its own accord. Further, 48% of firms surveyed indicated that enterprises in their line of business never anticipate the amount of gratification, while 34% sometimes anticipate the figures and 19% of firms always anticipate such amounts. Further, firm managers saw little possibility of recourse against illegal payment demands in the government bureaucracy, as 53% of respondents indicated that they could not go to another employee or to the corrupt employee's superior to get the proper service without resorting to unofficial payments. An additional 21% said that this cannot be done very often, while only 12% of companies considered that they can often approach another employee or a superior and 14% said they can take such step almost all the time.

In parallel, the survey revealed that unofficial payments are more common in procedures that are complicated, costly and involve valuable assets, while the size of the payment is generally proportionate to the regular administrative fees that have to be paid. The results of the study suggest a relation between the length of time it takes to complete administrative procedures and the likelihood of unofficial payment. One reason for this is that government employees intentionally delay the process in order to stall and ask for bribes. Further, 48% of surveyed firms said they pay between 1% and 10% of their annual revenues in unofficial payments, while 40% said they do not make any such payments. Also, 62% of respondents indicated that companies in their line of business do not face gratification payments when dealing with government contracts, while 32% of respondents have to pay up to 10% of the contract's value in bribes.

Industrial activity up in first quarter of 2010

The Central Bank's quarterly business survey indicated that industrial production increased during the first quarter of 2010, with a balance of opinion standing at +20, compared to +4 during the same quarter of 2009. 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 +15 in the first quarter of 2010 compared to zero in the same quarter of 2009. The balance of opinion for foreign demand increased from -7 to +8 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 | Q1-07 | Q1-08 | Q1-09 | Q1-10 |
| Production | -17 | -4 | 4 | 20 |
| Total demand | -27 | -8 | 0 | 15 |
| Foreign demand | -7 | 12 | -7 | 8 |
| Volume of investments | -2 | 10 | 13 | 19 |
| Inventories of finished goods | -9 | -10 | 4 | 9 |
| Inventories of raw material | -5 | -5 | -2 | 1 |
| Registered orders | -26 | -12 | -7 | 6 |

Source: Central Bank Business Survey Q1-10



Lebanon ranks 88th globally, 9th among Arab countries in terms of economic opportunities for women

The Economist Intelligence Unit's Women's Economic Opportunity Index ranked Lebanon in 88th place among 113 countries globally and in 9th place among 14 Arab countries. It also ranked Lebanon in 26th place among 27 upper-middle income countries (UMICs) included in the survey. The index measures specific attributes of the environment for women employees and entrepreneurs. It is based on 26 indicators that are grouped in five sub-indices that measure labor policy and practice, access to finance, education and training, women's legal and social status, and the general business environment.

Globally, Lebanon ranked ahead of Benin, Kenya and Bolivia and came behind Azerbaijan, Ghana and the Kyrgyz Republic. It also ranked ahead of Algeria, and behind Turkey and Botswana among UMICs. Lebanon received a score of 41.9 points, lower than the global average of 54.9 points, the UMICs' average of 56.5 points and the Arab average of 42.5 points.

Lebanon ranked ahead of Oman and Madagascar and came behind the UAE and Russia on the Labor Policy & Practice Sub-Index, while it ranked ahead of Serbia and behind Russia among UMICs and ahead of Oman and behind the UAE in the Arab world. It ranked 96th on the labor policy category and 85th in terms of labor practice, while it came in 80th place in equal pay in terms of policy and in 48th place in equal pay in labor practice.

Also, Lebanon ranked ahead of China and Ukraine and behind India and Vietnam on the Access to Finance Sub-Index, while it ranked ahead of Namibia and Uruguay and behind Mexico and Kazakhstan among UMICs, and ahead of Jordan and behind Bahrain in the Arab world. It ranked first globally in private sector credit to women, in 42nd place in women's access to finance programs, in 47th place in delivering financial services and in 79th place in building credit histories. Further, Lebanon ranked ahead of Tunisia and Moldova and behind Malaysia and Peru on the Education & Training Sub-Index, while it came ahead of Serbia and Mexico and behind Malaysia and Peru among UMICs, and ahead of Tunisia and behind the UAE in the Arab world.

Lebanon ranked ahead of Uganda and Bangladesh and behind Chad and Pakistan on the Legal & Social Status Sub-Index, while it ranked behind Algeria among UMICs, and ahead of Saudi Arabia and behind Oman in the Arab world. It came 93rd worldwide in the women's freedom of movement category and in 50th place in women's property ownership rights. Finally, Lebanon ranked ahead of Paraguay and Kazakhstan and behind Moldova and Ukraine on the General Business Environment Sub-Index, while it came ahead of Kazakhstan and Algeria and behind the Dominican Republic and Costa Rica among UMICs, and ahead of Algeria and behind Morocco in the Arab world. It ranked in 72nd place in the starting a business category and in 71st place in terms of regulatory quality.

| Women's Economic Opportunity Index | | | |
|------------------------------------|---------------|-----------|-------------|
| | Overall Score | Arab Rank | Global Rank |
| Tunisia | 59.7 | 1 | 44 |
| Egypt | 50.5 | 2 | 62 |
| Bahrain | 49.3 | 3 | 66 |
| UAE | 48.6 | 4 | 70 |
| Kuwait | 46.4 | 5 | 76 |
| Morocco | 44.1 | 6 | 78 |
| Oman | 43.7 | 7 | 80 |
| Jordan | 43.5 | 8 | 81 |
| Lebanon | 41.9 | 9 | 88 |
| Algeria | 38.5 | 10 | 93 |
| Saudi Arabia | 35.9 | 11 | 98 |
| Syria | 31.7 | 12 | 106 |
| Yemen | 19.2 | 13 | 112 |
| Sudan | 15.4 | 14 | 113 |

Source: Economist Intelligence Unit, Byblos Research

Components of the Women Economic Opportunity Index

| Category | Global Rank | Arab Rank | UMIC Rank | Lebanon Score | Global Average Score | Arab Average Score | UMIC Average Score |
|------------------------------|-------------|-----------|-----------|---------------|----------------------|--------------------|--------------------|
| Labor Policy & Practise | 10 | 6 | 26 | 34.4 | 52.1 | 33.1 | 50.5 |
| Access to Finance | 58 | 4 | 14 | 38.9 | 38.9 | 27.9 | 26.6 |
| Education & Training | 50 | 4 | 21 | 58.9 | 58.9 | 49.6 | 47.5 |
| Legal & Social Status | 106 | 9 | 27 | 48.3 | 78.1 | 54.0 | 70.4 |
| General Business Environment | 77 | 10 | 24 | 35.4 | 49.1 | 45.6 | 35.6 |

Source: Economist Intelligence Unit, Byblos Research

Hotel occupancy at 66% in first 5 months of 2010

Figures released by Deloitte and STR Global show that the occupancy rate at Beirut hotels reached 66.3% in the first five months of 2010 compared to 69.5% in the same period last year. Also, the city's revenues per available room (RevPAR) totaled \$146.7 for the first five months of the year, constituting an increase of 256% from the corresponding period in 2009. In comparison, occupancy rates at hotels in the Middle East was 63.6% during the covered period relative to 64.6% in the first five months of 2009, while the region's RevPAR was \$132.5, down 9.4% from \$146.3 in the same period last year.

Companies in Lebanon need 75 days and 5 procedures at a cost of 30% of per capita income to get an electricity connection

The World Bank issued a set of indicators for 140 economies that track all procedures, the time, and the cost required for a business to obtain an electricity connection for a newly constructed building, including an extension or expansion of the existing infrastructure. It said the Getting Electricity Indicators reflect the efficiency and cost of the services provided to commercial customers by distribution utilities, the complexity of procedures, and the resources expended by businesses to obtain a connection. It added that the new indicators provide insights into the regulatory aspects surrounding electricity connections and might serve as a proxy for some aspects of the quality of the electricity system.

The indicators show that a company in Lebanon requires 5 procedures to be connected to electricity, higher than the MENA region's average of 4.8 procedures and the Arab average of 4.6 procedures, but lower than the UMICs average of 5.6 procedures. Lebanon ranked in 49th place globally and in 7th place among 14 countries in the Arab world on the number of procedures required to provide an electricity connection to a company. It also ranked in 6th place among 28 upper middle income countries (UMICs) included in the survey. On a global basis, Lebanon tied with 47 other countries, ranked ahead of 44 economies and came behind 48 countries. It also tied with 10 UMICs, ranked ahead of 12 economies and behind 5 countries. Regionally, Lebanon tied with Oman, Morocco, Jordan, Bahrain and Syria, came ahead of Palestine and Egypt, and ranked behind Qatar, Saudi Arabia, Tunisia, UAE, Yemen and Djibouti in this category.

Further, the World Bank figures show that it takes 75 days for a company in Lebanon to obtain a new electricity connection, higher than the Arab average of 71.9 days, but lower than the MENA region's average of 78.9 days and the UMICs average of 110.7 days. Lebanon ranked in 63rd place worldwide on the average time to obtain an electricity connection, while it came in 12th place in the Arab world and in 11th place among UMICs. On a global basis, Lebanon tied with Ethiopia, ranked ahead of Singapore and behind Argentina and El Salvador. It also came ahead of Serbia and behind Argentina among UMICs, and ranked ahead of Qatar and behind Bahrain in the Arab world.

Further, the World Bank indicators show that the cost required for a business to obtain an electricity connection in Lebanon is equivalent to 29.9% of income per capita in the country, lower than the MENA average of 1,355% of income per capita, as well as the UMICs average of 534.3% of income per capita and the Arab average of 1,473% of income per capita. Lebanon ranked in 17th place globally on the cost of obtaining an electricity connection, while it came in third place in the Arab world and in third place among UMICs. On a global basis, Lebanon ranked ahead of Singapore and behind France. It also came ahead of Malaysia and behind Argentina among UMICs, and ranked ahead of Bahrain and behind the UAE in the Arab world. The World Bank noted that the cost of both the electricity connection and the electricity supply is very important for businesses because electricity-related expenditures absorb a significant share of their revenues. It estimated that companies spend on average the equivalent of 4% of their annual sales on electricity alone, compared to 6.4% of their yearly sales on all other infrastructure services such as fuel, telecommunications services and water.

Getting Electricity Indicators

| | Time (days) | Procedures (number) | Cost (% of income per capita) |
|----------------|-------------|---------------------|-------------------------------|
| Yemen | 35 | 4 | 6,926 |
| Jordan | 43 | 5 | 525.2 |
| Egypt | 50 | 7 | 453.5 |
| UAE | 55 | 4 | 15.9 |
| Tunisia | 58 | 4 | 1,136 |
| Oman | 66 | 5 | 70.8 |
| Palestine | 70 | 6 | 1,567 |
| Saudi Arabia | 71 | 3 | 78 |
| Morocco | 71 | 5 | 2,295 |
| Syria | 71 | 5 | 994.2 |
| Bahrain | 72 | 5 | 47.8 |
| Lebanon | 75 | 5 | 29.9 |
| Qatar | 90 | 3 | 3.8 |
| Djibouti | 180 | 4 | 6,473.4 |

Source: World bank, Byblos Research

Getting Electricity Indicators

| Category | Global Rank | Arab Rank | UMIC Rank | Lebanon Score | MENA Average Score | Arab Average Score | UMIC Average Score |
|-------------------------------|-------------|-----------|-----------|---------------|--------------------|--------------------|--------------------|
| Time (days) | 49 | 7 | 6 | 5 | 4.8 | 4.6 | 4.6 |
| Procedures (number) | 63 | 12 | 11 | 75 | 78.9 | 71.9 | 110.7 |
| Cost (% of income per capita) | 17 | 3 | 3 | 29.9 | 1,355 | 1,472.6 | 534.3 |

Source: World Bank, Byblos Research

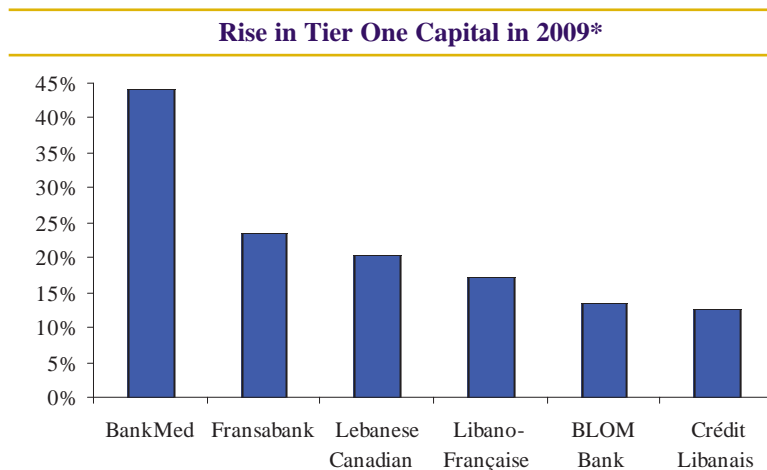
Nine Lebanese banks among top 1000 banks in the world, three banks have more than \$1bn each in Tier One capital

In its 2010 survey of the Top 1000 commercial banks in the world, *The Banker* magazine included 9 Lebanese banks on the list, up from 8 banks last year, none of which ranked among the top 25 banks in the Middle East & North Africa or among the top 25 Arab banks. The rankings are based on Tier One capital at year-end 2009 as defined by the Basel Bank for International Settlements. *The Banker* said the definition is stricter than total shareholders' equity and covers only the core of a bank's strength, namely the shareholders' equity available to cover actual or potential losses. Byblos Bank came in 506th place globally, ranking ahead of Bank of Sharjah in the UAE and Germany's Nassauische Sparkasse, while it was preceded by India's Syndicate Bank and Germany's Badische Beamtenbank. The figures issued by *The Banker* also indicate that Byblos Bank's Tier One capital-to-assets ratio reached 7.5% at end-2009, posting the highest such ratio among Lebanon's top 3 banks and the second highest among the 9 Lebanese banks included in the survey. The aggregate Tier One capital of the 9 Lebanese banks reached \$7.53bn at end-2009, with Byblos Bank, BLOM Bank and Bank Audi accounting for 58.3% of the total and maintaining Tier One capital above \$1bn each. *The Banker* said that Lebanese banks have benefited from a highly liquid and well-regulated domestic market that has been resilient to the global financial crisis.

BankMed posted the biggest annual increase in Tier One capital among Lebanese banks with a 44.2% rise, followed by Fransabank with a 23.6% rise, Lebanese Canadian Bank with a 20.4% improvement, Banque Libano-Française with a 17.2% increase, BLOM Bank with a 13.5% jump, and Crédit Libanais with a 12.7% improvement, while Bank Audi came last with a growth of 6.8%. In parallel, the Tier One capital of Bank of Beirut was unchanged year-on-year, while that of Byblos Bank contracted by 5%. Also, six Lebanese banks ranked among the top 25 banks in the Middle East in terms of Tier One capital growth in 2009, with BankMed posting the second best growth in the region behind Bahrain's Al Salam Bank. It was followed by Fransabank in 9th place, Lebanese Canadian Bank in 14th place, Banque Libano-Française in 15th place, BLOM bank in 20th place, and Crédit Libanais in 25th place. However, the growth rates are mitigated by the fact that, for this year's survey, *The Banker* asked for Tier One capital figures under Basel II requirements, which include deductions for the calculation of capital adequacy ratios, compared to end-2008 figures that were just Tier One figures as per individual balance sheets. So it is not clear what figures it adopted and if year-on-year comparisons are warranted.

Five Lebanese banks improved their ranking in the 2010 survey, with BankMed jumping 120 places to 638th place and posting the biggest year-on-year improvement in the standings among its Lebanese peers. Fransabank's rank increased by 54 spots to 625th place; Crédit Libanais rose by 53 spots to 864th place, Banque Libano-Française improved by 59 places to the 701st position, Bank Audi rose by 28 place to the 326th spot, and BLOM bank jumped 25 spots to 390th place. The Lebanese Canadian Bank was included for the first time in the rankings and came in 969th place. The survey indicated that Fransabank rose by 131 spots last year. But the rise is based on the bank's rank in the 2009 survey that mistakenly reported its Tier One capital at \$481m instead of \$581m, therefore understating its rank at 756th place. After the correction, Fransabank's global rank rose to 679th place in 2009, thereby leading to an effective rise of 54 spots in 2010.

The 9 Lebanese banks accounted for 0.15% of the Tier One capital of the top 1000 banks, 0.11% of their total assets and for 0.34% of their aggregate pre-tax profits. They also accounted for 4.3% of the aggregate Tier One capital of Middle Eastern banks and for 5.9% of their assets. The top ranked Arab bank remained National Commercial Bank of Saudi Arabia, coming in 126th place with \$7.64bn in Tier One capital, while Bank of America Corp. was the number one bank in the world with its capital base rising by 33% to \$160.4bn.



* among top 25 banks in Middle East in capital growth

Source: *The Banker*



Car sales down 2.6% year-on-year in first half of 2010

Figures released by the Association of Automobile Importers in Lebanon indicate that a total of 14,307 new passenger cars were sold in the first half of 2010, constituting a decrease of 2.6% from the 14,691 cars sold in the same period last year. Japanese cars accounted for 37.7% of total sales, followed by Korean cars with a 29.2% share, European automobiles with 25.1%, American vehicles with 6.9%, and Chinese vehicles with 1.1%. Chinese cars posted the biggest growth in sales with a 180.4% jump year-on-year, followed by Korean cars with a 55% rise. In parallel, Japanese cars posted a 24% drop in sales year-on-year, followed by European cars with a 6% decline and American cars with a 4% decrease. Kia is the leading brand in the Lebanese market with 2,630 cars sold in the first half of 2010, followed by Nissan with 2,332 cars sold, Hyundai with 1,533, Toyota with 1,053, Chevrolet with 659, Mitsubishi with 651, and Renault with 516 cars.

Holcim's net profits up 50% to \$29m in 2009

Cement producer Holcim Liban sal posted net profits of \$29.2m in 2009, up 49.5% from \$19.5m in 2008. The firm's net sales reached \$172.9m, up 3.8% from end-2008. Holcim's total assets and total equity amounted to \$298.9m and \$209.5m, respectively, as at end-December 2009, compared to \$312.7m and \$197.8m as at end-2008. The company's total loans and borrowings reached \$40m at end-2009 compared to \$53m at end-2008, while its banks' balance and cash increased to \$16.1m from \$10m at end-2008. The company is engaged in the production and sale of cement and other related services. Holcim Liban is majority-owned by the Swiss-based Holcim Ltd. and its shares are listed on the Beirut Stock Exchange. In parallel, the firm's Ordinary General Assembly held on June 8, 2010 approved the distribution of \$26.2m in dividends, constituting a payout ratio of 90% and LBP 2,021 (\$1.34) in pre-tax dividend per share.

Ciments Blancs' net income down 22% to \$2.5m in 2009

Société Libanaise des Ciments Blancs sal, an affiliate of Holcim Liban sal, declared net profits of \$2.5m in 2009 compared to \$3.2m in 2008. The company generated sales worth \$13.2m in 2009 almost unchanged from 2008. The firm's total assets reached \$19.1m at end-2009 compared to \$19.4m a year earlier. Total equity amounted to \$15.2m as at end-December 2009 compared to \$15.5m at end-2008. In parallel, the company's Ordinary General Assembly held of June 24, 2010 approved the distribution of \$2.26m in dividends for 2009, constituting a payout ratio of about 90.4% and LBP 379 (\$0.25) in pre-tax dividend per share.

Bank Audi lists preferred shares

The Beirut Stock Exchange approved the listing, trading and pricing on the exchange's regulated market of 1,250,000 Series E Preferred Shares issued by Bank Audi sal, one of Lebanon's publicly-traded banks. Earlier this year, the bank issued the new series of 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 contributed 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 Series D Preferred Shares and 1,250,000 Series E Preferred Shares.

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 | Apr 2009 | Mar 2010 | Apr 2010 | Change* | Risk Level |
|-----------------------|----------|----------|----------|---------|------------|
| Political Risk Rating | 57.5 | 58.5 | 58.5 | ▲ | 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 | 61.0 | 61.0 | ▲ | Moderate |

| Regional Average | Apr 2009 | Mar 2010 | Apr 2010 | Change* | Risk Level |
|-----------------------|----------|----------|----------|---------|------------|
| Political Risk Rating | 65.4 | 64.9 | 64.8 | ▼ | Moderate |
| Financial Risk Rating | 41.4 | 42.2 | 42.0 | ▲ | Very Low |
| Economic Risk Rating | 37.0 | 36.8 | 37.1 | ▲ | Low |
| Composite Risk Rating | 71.9 | 71.9 | 71.9 | ↔ | 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 | B1 | NP | Stable | B2 | | Stable |
| Fitch | B | B | Stable | B | | Stable |
| 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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