

LEBANON THIS WEEK

In This Issue

Economic Indicators.....1

Capital Markets.....1

Lebanon in the News.....2

Public financial management in need of reforms, political obstacles limit progress

FDI in Lebanon at 14.3% of GDP in 2009, highest in the Arab world

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

Main challenge of electricity sector is to gain consumers' trust

Balance of payments posts surplus of \$1.2bn in first five months of 2010

Opened letters of credits at \$1.3bn for imports and \$946m for exports in first quarter

World Bank loans disbursed to Lebanon total \$138m as at June 2010

Most tourists spending in Lebanon originates from Saudi Arabia and UAE in first half of 2010

Airport passengers up 16.3% in first half of 2010

Coincident Indicator up 14.4% year-on-year in May 2010

Corporate Highlights7

Byblos Bank lists additional shares on Beirut bourse

INDEVCO launches joint venture for North American market

Future Pipe Industries closes manufacturing plant in Lebanon

FFA to launch financial services firm in Syria

Swiss Group becomes sole shareholder in Near East Commercial Bank

Kafalat loan guarantees reach \$90m in first half of 2010

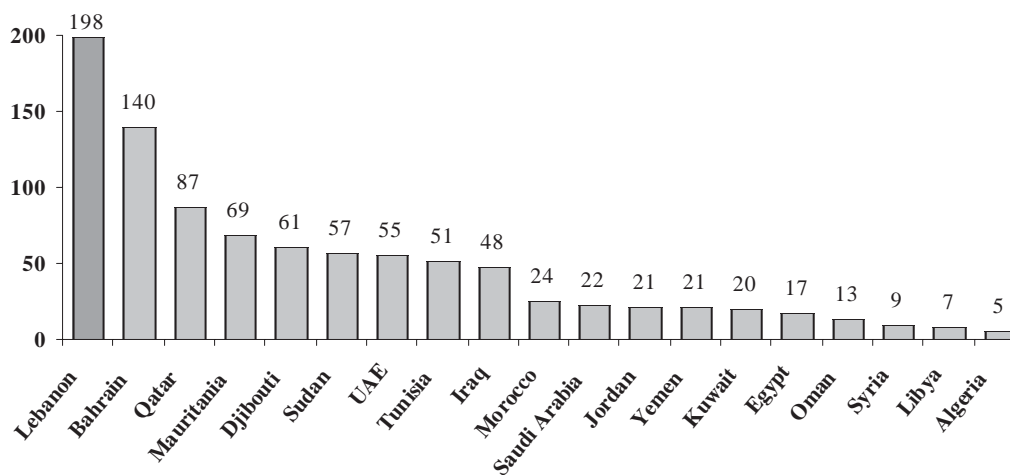
Ratio Highlights.....8

Risk Outlook.....8

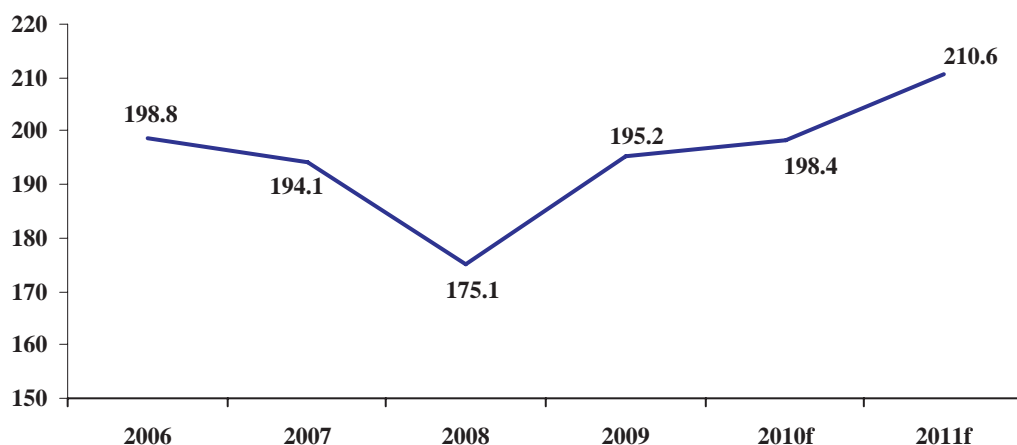
Ratings & Outlook.....8

Charts of the Week

Projected Total Gross External Debt of Arab Countries in 2010 (% of GDP)



Total Gross External Debt in Lebanon (% of GDP)



Source: International Monetary Fund

Quote to Note

“Lebanese banks have benefited from a highly liquid and well-regulated domestic market that has been resilient to the global financial crisis.”

The Banker magazine, on the inclusion of 9 Lebanese banks in its annual list of the Top 1000 Banks in the World

Number of the Week

108%: Public debt-to-GDP ratio in 2015 with the implementation of basic revenue-enhancing measures and the rehabilitation of Electricité du Liban, as projected by the Institute of International 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"	21.60	(5.26)	202,777	17.03%
Solidere "B"	21.02	(7.73)	82,748	11.10%
Byblos Common	1.79	(1.10)	358,490	5.07%
Byblos Priority	1.80	0.00	3,700	2.92%
Byblos Pref. 08	100.00	0.00	2,000	1.58%
BLOM GDR	91.15	1.28	4,328	5.31%
BLOM Listed	87.00	0.00	8,125	14.75%
Audi GDR	8.37	0.24	14,500	6.71%
Audi Listed	8.00	1.14	333,500	21.72%
HOLCIM	13.60	0.74	5,130	2.09%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Nov. 2010	6.875	101.50	2.04
May 2011	7.875	104.38	2.51
Mar. 2012	7.500	106.50	3.43
Sep. 2012	7.750	108.50	3.55
June 2013	8.625	112.75	3.93
Apr. 2015	10.000	120.50	5.07
Jan. 2016	8.500	115.50	5.20
May 2016	11.625	128.75	5.70
Mar. 2017	9.000	117.50	5.80
Apr. 2021	8.250	113.44	6.48

Source: Byblos Capital Markets

	July 12-17,10	July 5-10,10	% Change	June 2010	June 2009	% Change
Total Shares Traded	1,059,989	2,355,885	(55.01)	5,167,659	8,778,166	(41.13)
Total Value Traded	\$11,977,516	\$49,918,948	(76.01)	\$47,678,154	\$174,823,842	(72.73)
Market Capitalization	\$12.70bn	\$12.50bn	1.81	\$12.50bn	\$11.31bn	10.51

Source: Beirut Stock Exchange (BSE)



Public financial management in need of reforms, political obstacles limit progress

A World Bank assessment of public financial management (PFM) in Lebanon indicated that progress on related reforms has been slow and challenging, and that reform programs have been repeatedly interrupted by political unrest. The assessment covered the credibility of the budget; comprehensiveness and transparency; policy-based budgeting; predictability and control in budget execution; accounting, recording and reporting; and external scrutiny and audit. It said that the most successful PFM reforms have been in tax administration, especially the introduction of the value added tax. But progress on the expenditures side has been more limited, although some reforms were introduced in the 2005-07 period despite the adverse impact of the protracted political stalemate that also paralyzed legislative activity. It noted that reforms were at the center of proposals, draft laws, or pilot projects in the key areas of budget coverage, credibility, preparation and debt management, but were not approved or fully implemented.

Budget Transparency Levels & Rankings

Country	Transparency		Global Rank
	Level	Arab Rank	
Jordan	52%	1	31
Egypt	43%	2	41
Lebanon	32%	3	57
Morocco	27%	4	59
Yemen	9%	5	69
Algeria	1%	6	79
Saudi Arabia	1%	6	79

Source: International Budget Partnership

In terms of budget credibility, the assessment indicated that macroeconomic assumptions are not used to guide budget formulation, and the Ministry of Finance does not have a formal unit dedicated to the development of a macroeconomic framework. As a result, the budget preparation process does not set envelopes for line ministries based on macroeconomic perspectives or sectoral objectives. Further, budgets are prepared from the bottom up, with no consideration of multi-year planning and sustainability. It noted that this approach results in a high degree of uncertainty in the budget process and is at odds with fiscal efficiency and discipline.

In terms of comprehensiveness and transparency, the World Bank noted that a fundamental weakness in Lebanon's PFM practices is the insufficient budget coverage and transparency. It said the budget excludes foreign financed projects, and a number of activities are included as an annex to the budget document but fall outside the reported budget and are not fully disclosed to Parliament when disbursed. It noted that the Ministry of Finance has started to expand the coverage of the budget to include foreign financed investment, as it drafted a budget law in 2007 allowing for the integration of the largest extra-budgetary entities such as the Council for Development & Reconstruction and the Higher Relief Council. However, it did not include the extra-budgetary expenditures of other large entities such as the National Social Security Fund or the Independent Municipal Fund. In addition, the draft law does not address the issue of incomplete reporting to Parliament on the 55 state-owned enterprises, especially that their financial situation has major implications for the country's fiscal position.

Regarding policy-based budgeting, the assessment noted that the budget does not reflect policy priorities, as a full medium-term expenditures framework (MTEF) is still lacking. It added that the government uses an aggregate fiscal framework communicated in the budget circular, while an MTEF usually provides the link between the budget and government policy by translating the cost of sectoral strategies into budget allocations with overall expenditure ceilings, revenue forecasts and fiscal targets. It noted, however, that a pilot sectoral MTEF is being implemented at the Ministry of Education and is introducing performance and results-oriented budgeting. It added that weak flow of information between the Finance Ministry and the various implementing entities, along with an inadequate level of consistency of budgetary data, undermine efforts to make the budget a useful and credible tool for policy implementation.

In terms of predictability and control in budget execution, the World Bank declared that spending by extra-budgetary entities and state-owned enterprises further undermines budget control, as such entities operate outside the regular budget process and their spending escapes the Finance Ministry's oversight. It said that any overspending by these entities adversely affects execution directly and indirectly by crowding out resources budgeted for approved expenditure and programs. It added that the practice of off-budget Treasury advances compounds the high degree of unpredictability, leading to significant deviations of actual expenditures from budgeted amounts. In addition, the ministry continues to rely heavily on budget carryovers, which is against the principle of annual budgeting.

In parallel, the World Bank said the reporting on the budget has improved, as the Finance Ministry provides annual and quarterly financial data, monthly statistical reports, and annual economic and fiscal reports. Also, the revenue agencies post relevant tax and customs information on policies, practices and statistics on their websites and through other dissemination means. Additionally, the annual budget report includes a section on the aggregate debt levels. But budget execution reports are not timely as they are submitted to Parliament two years after the completion of the fiscal year on which they are based, which falls short of the international best practices of six to nine months from year-end.

FDI in Lebanon at 14.3% of GDP in 2009, highest in the Arab world

Figures issued by the Arab Investment and Export & Guarantee Corporation (AIEGC) show that foreign direct investment (FDI) in Lebanon totaled \$4.8bn in 2009, constituting an increase of 33% from \$3.61bn in 2008. FDI inflows to Lebanon totaled \$2.73bn in 2007 and \$2.68bn in 2006. Also, FDI inflows to Lebanon came above the \$4.48bn in average FDI inflows per Arab country in 2009.

Lebanon was the fifth largest recipient of FDI in nominal terms among 18 Arab countries in 2009 and the 7th largest recipient in 2008. Also, Lebanon posted the fourth highest growth rate in FDI among Arab countries and the highest rate among the top 5 recipients of FDI last year, and was one of 7 Arab economies that saw an increase in FDI in 2009. In contrast, aggregate FDI to Arab economies declined by 15% year-on-year, global FDI declined by 38.7%, FDI to developing economies contracted by 34.7%, and FDI in West Asia decreased by 43.2% in 2009.

FDI inflows to Lebanon accounted for 6% of total FDI in Arab countries compared to 3.8% of aggregate inflows in 2008. They also represented 9.4% of total flows to the 13 countries that form West Asia relative to 4% in 2008. FDI inflows to Lebanon accounted for 1.2% of FDI inflows to developing countries and for 0.5% of global foreign direct investment in 2009, compared to 0.6% of FDI inflows to developing countries and for 0.21% of global FDI in 2008.

Further, FDI inflows to Lebanon were equivalent to 14.3% of GDP in 2009, highest in the Arab world, and ahead of Jordan with 10.4% of GDP, Qatar with 10.4% of GDP, and Djibouti with 9.9% of GDP. Also, Lebanon's FDI as a percentage of GDP increased from 12.2% in 2008, the second highest increase among Arab countries after Qatar.

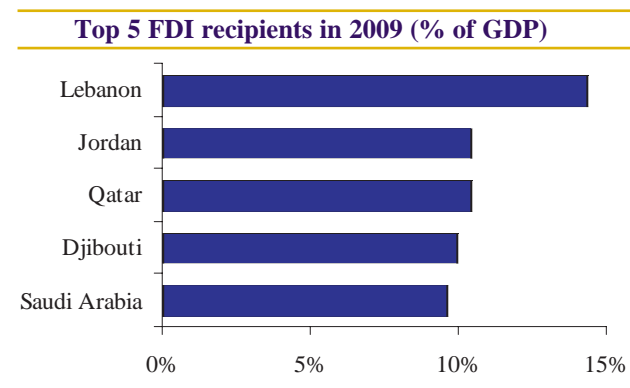
In parallel, aggregate FDI to Lebanon reached \$21bn during the 1999-2008 period, accounting for 5.8% of total FDI in the Arab world and making it the fourth biggest Arab recipient of FDI during the covered period. FDI inflows to Lebanon represented 0.6% of FDI to developing economies and 0.2% of global FDI inflows in the 1999-2008 period. Further, FDI outflows from Lebanon totaled \$5.1bn during the 1999-2008 period, accounting for 3.7% of such outflows from the Arab world and making it the 7th biggest Arab source of FDI during the covered period. As a result, net FDI to Lebanon reached \$16bn and averaged \$1.6bn per year during the covered period.

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 4.76% from 4.8% previously starting in August. 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 7.54% from 7.6% 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 7.10% and 8.48% respectively.

Foreign Direct Investment in Arab Countries (\$m)			
	2009	2008	Change (%)
Saudi Arabia	35,514	38,151	-7%
Qatar	8,722	6,700	30%
UAE	8,550	13,700	-38%
Egypt	6,712	9,495	-29%
Lebanon	4,804	3,606	33%
Sudan	2,923	2,601	12%
Morocco	2,519	3,608	-30%
Jordan	2,384	2,826	-16%
Algeria	2,310	2,280	1%
Tunisia	1,768	2,726	-35%
Syria	1,514	2,116	-28%
Iraq	920	488	89%
Libya	844	4,111	-79%
Yemen	655	416	58%
Bahrain	257	1,794	-86%
Kuwait	146	56	161%
Djibouti	99	253	-61%
Mauritania	84	103	-19%
Total Arab	80,725	95,029	-15.1%

Source: AIEGC, Byblos Research



Source: AIEGC, Byblos Research

Main challenge of electricity sector is to gain consumers' trust

The World Bank considered that the main challenge facing the electricity sector in Lebanon is to gain the trust of consumers, as the sector suffers from inadequate supply and low quality service, and is dependent on informal private generation operating outside any state supervision. It noted that consumers have little faith in the system and want to see concrete results on credible action.

First, it recommended the design of a more effective and simplified tariff structure. It said the current tariff structure is regressive and will not shield the poor from any future tariff increases. Also, the inverted tariff block is not progressive because it subsidizes all households and because effective kilowatt prices differ markedly from the quoted prices, particularly for low electricity-consuming households. Second, it advised authorities to keep in perspective the priorities in implementing policy measures. It said the burden from the deterioration in Electricité du Liban's (EdL) services has increased significantly for consumers, despite the fact that the cost of electricity purchased from EdL has remained relatively low. It noted, however, that increasing tariffs to cost-recovery levels without improving services would meet with resistance, as consumers must feel that the burden of reform is not placed entirely on their shoulders but is shared with EdL.

Third, it urged cutting down on electricity rationing, especially in the areas outside Beirut that experience long blackout hours. It said this measure will readjust the rationing burden from the poor to the non-poor. It noted that keeping rationing in the capital to a minimum gives rise to social inequities, as Beirut households have higher welfare levels and can afford to pay for expensive substitutes, while most households in other regions must choose between going without electricity and spending significant amounts on private generation.

Fourth, it recommended establishing operating guidelines for the informal electricity sector, which provides up to 30% of Lebanon's electricity and is indispensable to many households. It noted, however, that the sector lies entirely outside the legal framework and does not pay taxes to the state. It urged authorities to identify proper operating guidelines that will protect and benefit consumers, while ensuring continued availability of this alternative source. It advised establishing guidelines to bring private generator businesses into the formal sector that would provide customers with a recourse for losses or damages caused by suppliers, that would allow the state to tax the sector like other businesses, and that would set technical standards for service.

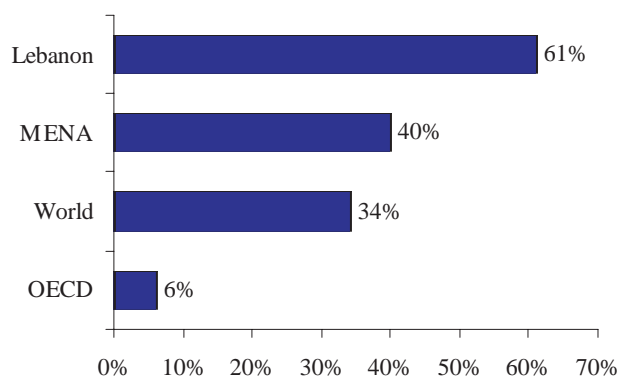
Balance of payments posts surplus of \$1.2bn in first five months of 2010

Central Bank figures show that Lebanon's balance of payments posted a surplus of \$1.21bn in the first five months of 2010 compared to a surplus of \$1.66bn in the same period last year. The balance of payments posted a deficit of \$194.8m in May compared to a surplus of \$424.4m in April and a surplus of \$521.3m in May 2009. The May 2010 surplus was caused by a surplus of \$160m in the Central Bank's net foreign assets and a deficit of \$355m in those of banks and financial institutions. The cumulative surplus over the first five months of 2010 was caused by a surplus of \$2.12bn in the Central Bank's net foreign assets and a deficit of \$907m in those of banks and financial institutions. The balance of payments posted a cumulative surplus of \$7.9bn in 2009 and \$3.5bn in 2008.

Opened letters of credits at \$1.3bn for imports and \$946m for exports in first quarter

Figures issued by the Central Bank indicate that the value of letters of credits opened to finance imports totaled \$1.3bn in the first quarter of 2010, constituting an increase of 14.1% from \$1.1bn in the fourth quarter of 2009 and a rise of 37.7% from \$914m in the first quarter of last year. Utilized credits for imports totaled \$1.15bn in the first three months of this year, up 12.8% from \$1.02bn in utilized credits in the previous quarter and up 13.2% from \$1.01bn in the same period last year. Utilized import credits accounted for 91.3% of the total in the first quarter compared to 92.3% in the previous quarter and 111% in the same quarter last year. Also, outstanding import credits totaled \$954m at the end of March 2010 compared to \$877m at end-2009 and \$696m at end-March 2009. Further, the aggregate value of inward bills for collection totaled \$486m in the first quarter of 2010 compared to \$470m in the previous quarter and \$452m in the first quarter last year; with outstanding bills reaching \$136m at end-March 2010 relative to \$431m at end-2009 and \$130m at end-March 2009. In parallel, the value of documentary letters opened to finance exports totaled \$946m in the first quarter of 2010, constituting an increase of 15% from \$823m in the preceding quarter and a decline of 0.6% from \$951.6m in the first quarter of last year. Utilized credits for exports totaled \$973m in the first quarter, up 8.8% from \$895m in utilized credits in the previous quarter and up 11.5% from \$873m in the first quarter of 2009. Further, outstanding export credits totaled \$1.2bn at the end of March 2010, unchanged from end-2009 and compared to \$1.6bn at end-March 2009. Further, the aggregate value of outward bills for collection totaled \$1.1bn in the first quarter of this year unchanged from the preceding quarter and compared to \$1.2bn in the first quarter last year; with outstanding bills reaching \$323m at end-March relative to \$279m at end-2009 and \$358m at the end of March 2009.

% of Businesses that say Electricity is an Obstacle



Source: World Bank

World Bank loans disbursed to Lebanon total \$138m as at June 2010

Figures released by the World Bank indicate that the Bank's loan portfolio in Lebanon consists of 8 active projects for a total amount of \$270m, of which \$138m, or 51%, had been disbursed as at June 2010. Transportation accounted for 50% followed by urban development with 23%, water supply & sanitation with 22%, social protection and energy & mining with 2% each, and economic policy with 1%. In parallel, other grants from the World Bank total \$4m, of which 41% have been disbursed so far. They include \$0.33m to support environmental legislation, \$0.34m to develop capacity-building tools for sustainable governance, \$0.35m for the sustainable development strategy in Tripoli, and \$2m for the Nahr el Barid Emergency Recovery Project. Further, the net principal amount of the Bank's lending to Lebanon totals \$1bn, of which \$921m has been disbursed and \$609.5m has been repaid by Lebanese authorities.

World Bank Loans to Lebanon at of June 2010 (\$m)

Project Name	Approval Date	Loan Amount	Amount Disbursed	Closing Date
Baalbeck Water & Wastewater	Jun-02	43.5	29.1	Jun-11
Urban Transport Development	Jun-02	134.7	64.7	Dec-11
Cultural Heritage & Urban Development	Apr-03	31.5	19.6	Jun-11
First Municipal Infrastructure	Nov-06	30.0	17.2	Jun-11
Bekaa Emergency Water	Mar-07	15.0	2.5	Nov-11
Emergency Power Sector	Mar-07	5.0	3.3	Dec-11
Second Emergency Social Protection Implementation Support	Sep-08	6.0	0.8	Mar-12
Emergency Financial Management Reform	Mar-09	4.0	0.5	Sep-11
Total		269.7	137.7	

Source: World Bank Group

Most tourists spending in Lebanon originates from Saudi Arabia and UAE in first half of 2010

Figures issued by Global Refund, the VAT refund operator for international shoppers, show that visitors from Saudi Arabia spent the most in Lebanon in the first half of 2010, accounting for 23% of total tourist spending, followed by visitors from the UAE (11%), Kuwait (10%), Egypt (9%) and Syria (9%). Spending by visitors from Syria rose by 62% in the first half of the year, followed by visitors from Egypt with a 45% increase, Saudi Arabia (+43%), France (+39%), Jordan (+27%), UAE (+17%), and Qatar (+10). Beirut attracted 83% of total spending over the covered period, followed by the Metn area with 13%, the Keserwan region with 2% and Baabda with 1%. Fashion & clothing accounted for 67% of total spending, followed by watches with 11%, home & garden products, perfumes & cosmetics and department stores with 4% each, souvenirs & gifts with 3%, and consumer electronics & household appliances and electronics & IT with 2% each. Spending on electronics & IT increased by 62% in the first half of the year, followed by spending on watches with a 34% rise, consumer electronics & household appliances (+32%), fashion & clothing (+30%), department stores (+19%), perfume & cosmetics (+18%), home & garden products (+15%) and souvenirs & gifts (+9%).

Airport passengers up 16.3% in first half of 2010

Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures, transit) amounted to 2,428,860 in the first six months of 2010, up 16.3% year-on-year. The UAE accounted for 475,420 passengers, or 19.6% of total passenger activity. It was followed by Saudi Arabia with 251,070 passengers, or 10.3% of the total, France with 191,207 travelers (7.9%) and Kuwait with 155,479 travelers (6.4%). The total number of flights reached 30,572 in the first six months of 2010, up 21% year-on-year. Middle East Airlines registered 8,687 flights, accounting for 28.4% of the total. It was distantly followed by Royal Jordanian Airlines with 1,414 flights or 4.6% of the total, Etihad Airways with 930 flights, National Air Services (NAS) with 912 flights, Emirates Airlines with 867 flights and Jazeera Airways with 733 flights. The UAE was the biggest source and destination of traffic to Lebanon, as aircraft movement to and from the UAE totaled 4,738 flights, accounting for 16% of the total. Also, the HIA processed 37,945 metric tons of cargo in the first six months of 2010, of which 37,400 tons of freight and 545 tons of mail. MEA processed 10,360 tons of freight, of which 10,199 tons in regular freight and 160 tons in mail.

Coincident Indicator up 14.4% year-on-year in May 2010

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 250.8 points in May 2010 compared to 259.4 points in April 2010 compared to 264.5 points in March 2010 and 227.5 points in May 2009. The Coincident Indicator, an average of 8 weighted economic indicators, regressed by 3.3% month-on-month, and rose by 10.2% year-on-year. The indicator averaged 239.4 points in the 12-months ending May 2010 compared to 237.4 points in the 12-months ending April 2010 and to 209.3 points in the 12-months ending May 2009. As a result, the average coincident indicator rose by 14.4% year-on-year. The indicator declined for the second consecutive month this year after peaking in March at an all-time high of 264.5 points. Further, the month-to-month decrease in May constitutes the fifth highest decline ever for the indicator for the covered month. In parallel, the indicator improved 7 times, and regressed 11 times in the month of May since 1993. The indicator averaged 225.8 point in 2009 and 198.4 points in 2008.



Byblos Bank lists additional shares on Beirut bourse

The Beirut Stock Exchange approved the listing of 142,378,760 additional common shares for Byblos Bank sal at a par value of LP1,210 (\$0.8) per share for a total of LP172.3bn, or \$114.3m, bringing the Bank's total listed common shares to 359,491,317 shares. The new shares will be added to the existing 217,112,557 common shares, raising the bank's capital to \$457.12m distributed into 359,491,317 common shares, 206,023,723 priority shares, and 4,000,000 preferred shares. The listing of the new shares is part of the Bank's capital increase of \$250m. The capital increase falls within Byblos Bank's strategy of gradual expansion in emerging markets and of increasing its lending to small and medium-size enterprises. Byblos Bank declared consolidated net profits of \$31.4m in the first quarter of 2010, constituting an increase of 25.8% from the same period last year. Aggregate assets reached \$14.4bn and loans totaled \$3.4bn at the end of March, constituting increases of 5.8% and 6.4%, respectively, from end-2009. Customers' deposits reached totaled \$11bn, up 7.7% from end-2009. The Byblos Bank Group has a direct presence in Syria, Sudan, Iraq, the United Arab Emirates, Nigeria, the Democratic Republic of Congo and Armenia, as well as in Belgium, France, the United Kingdom, and Cyprus.

INDEVCO launches joint venture for North American market

CEDEX Plastics sal, a joint venture between the INDEVCO Group and the U.S.-based firm Exopack Holding Corp., launched its polyethylene film manufacturing operations in Zouk Mosbeh. CEDEX Plastics will produce and export co-extruded polyethylene (PE) film products for use in flexible packaging in the North American market. It will initially produce high-clarity shrink film and corrugated case overwrap film, as well as heavy-duty shrink bundling film. It will also expand to produce lamination film, surface printable film, and towel and tissue wrap. The joint venture intends to take advantage of lower resin pricing in the Middle East, given that raw materials account for about 80% of the production cost of PE films in North America. Also, CEDEX Plastics would provide a hedging mechanism against sudden and significant resin price increases in North America from non-market related events such as hurricanes. Signed in April 2009, the joint venture aims to capitalize on the competencies in film production and flexible packaging of the two groups, as well as on existing business relationships with resin suppliers in the Middle East.

The INDEVCO Group is a privately-owned multinational group comprised of over 55 manufacturing plants, industrial & commercial enterprises. It is the oldest and largest flexible packaging company in the Middle East and has a global production and distribution platform for its products and services, including nine manufacturing sites in North America. Exopack Holding Corp. specializes in the development, manufacturing, and sourcing of paper and plastic flexible solutions for various consumer and industrial end-use markets. It manages 17 production facilities in North America and the United Kingdom, as well as a global network of alliance partners.

Future Pipe Industries closes manufacturing plant in Lebanon

Future Industries sal, a producer of thermosetting pipes and fittings, thermoplastic pipes, concrete pipes and rubber gaskets announced it has closed its operations in Lebanon. Established in 1995 in the Akkar region of Northern Lebanon, the company is a subsidiary of the Future Pipe Industries Group, a global manufacturer of fiberglass pipe systems and supplier of turnkey pipe systems. Future Industries, which had several hundred employees and was the largest private-sector employer in the Akkar region, attributed its decision to close its operations to difficult operating conditions in Lebanon. Headquartered in Dubai, Future Pipe Industries has 10 manufacturing plants in the UAE, Qatar, Oman, Egypt, Saudi Arabia, the United States and the Netherlands, in addition to the plant in Lebanon, as well as a presence on five continents. It derives 76% of its sales from the GCC. The Future Pipe Industries Group, established by Lebanese businessman Fouad Makhzoumi in 1971 and fully-owned by the Makhzoumi family, had an annual turnover of \$830m in 2008, and employs over 4,500 persons around the world.

FFA to launch financial services firm in Syria

FFA Private Bank sal received a final license from the Syrian Commission on Financial Markets and Securities (SCFMS) to operate as a financial consultancy firm in Syria. FFA Private Bank will hold 49% of the shares in FFA-Syria, while businessman Rami Houriyeh will own 49% of the firm and Mazen Aslan a 2% stake. FFA-Syria will have a capital of 20m Syrian pounds, or about \$400,000. Established as a brokerage firm in Beirut in 1994, FFA was granted a specialized bank license by the Central Bank of Lebanon in 2007. FFA Private Bank has a shareholder's equity of about \$25m and is the only independent private bank in Lebanon. It has a Dubai-based subsidiary, FFA (Dubai) Limited, to cover the Gulf markets. The SCFMS has so far licensed 12 brokerage and financial services firms to operate in Syria.

Swiss Group becomes sole shareholder in Near East Commercial Bank

The Near East Commercial Bank, one of Lebanon's smaller banks, announced that the Swiss Group, holder of 43% of the bank's capital, has acquired the shares of the other shareholders. Prior to the transaction, Financial Holding held a 42.7% stake in the bank and other shareholders represented the remaining 14.3%. The deal resulted in the Swiss Group owning 99.67% of the bank's shares. Established in 1978, the bank was originally part of the SNA insurance group and has currently five branches in Lebanon. It posted net profits of \$1.5m in 2009 and \$0.3m in 2008. Its assets totaled \$183m at the end of 2009 relative to \$150m at end-2008, while customer loans reached \$21m at end-2009 from \$17m a year earlier. Further, customer deposits totaled \$156m at the end of last year, up from \$126.4m at end-2008. The Near East Commercial Bank ranks in 38th place in terms of assets, in 40th place by loans and in 34th place by deposits among commercial banks operating in Lebanon.

Kafalat loan guarantees reach \$90m in first half of 2010

Figures released by the Kafalat Corporation show that loans extended to small- and medium-size companies under the guarantee of Kafalat reached \$88.93m in the first half of 2010, up 36.8% from \$64.7m in the same period last year. The number of loan guarantees totaled 749 in the first six months of 2010 compared to 499 in the same period last year. The average loan size reached \$118,734 compared to \$129,562 in the first six months of 2009. Mount Lebanon accounted for 41.92% of guarantees, followed by the Bekaa with 20.83%, the South & Nabatieh with 20%, the North with 13.1% and Beirut with 4.3%. The agriculture sector accounted for 47.5% of total guarantees, followed by industry with 36.85%, tourism with 12.3%, specialized technologies with 1.5% and handicraft with 1.9%. 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.

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



Economic Research & Analysis Department
Byblos Bank Group
P.O. Box 11-5605
Beirut – Lebanon
Tel: (961) 1 338 100
Fax: (961) 1 217 774
E-mail: research@byblosbank.com.lb
www.byblosbank.com

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BYBLOS BANK GROUP

LEBANON

Byblos Bank S.A.L
Achrafieh - Beirut
Elias Sarkis Avenue - Byblos Bank Tower
P.O.Box: 11-5605
Riad El Solh - Beirut 1107 2811 - Lebanon
Phone: (+ 961) 1 335200
Fax: (+ 961) 1 339436

SYRIA

Byblos Bank Syria S.A
Abu Roummaneh Head Office
Al Chaalan - Amine Loutfi Hafez Str.
P.O.Box: 5424 Damascus - Syria
Phone: (+ 963) 11 9292 - 3348240 / 1 / 2 / 3 / 4
Fax: (+ 963) 11 3348207
E-mail: byblosbanksyria@byblosbank.com

IRAQ

Erbil Branch, Kurdistan, Iraq
Street 60,
Near Sports Stadium
P.O.Box: 34 - 0383 Erbil - Iraq
Phone: (+ 964) 66 2233457 / 9
Fax: (+ 964) 66 2233458
E-mail: iraqbranch@byblosbank.com.lb

Baghdad Branch, Iraq
Karada - Salman Faeq Street
Facing Al Sheruk Building
P.O.Box: 3085 Al Elweyah - Iraq
Phone: (+ 964) 1 7177493
(+ 964) 1 7177294
E-mail: aabdelkader@byblosbank.com

UNITED ARAB EMIRATES

Byblos Bank Abu Dhabi Representative Office
Intersection of Muroor and Electra Streets
P.O.Box: 73893 Abu Dhabi - UAE
Phone: (+ 971) 2 6336400
Fax: (+ 971) 2 6338400
E-mail: byblosbankuae@byblosbank.com

ARMENIA

Byblos Bank Armenia CJSC
18/3 Amiryan Street
Yerevan, 37500 - Republic of Armenia
Phone: (+ 374) 10 530 362
Fax: (+ 374) 10 535 296

CYPRUS

Limassol Branch
1, Arch. Kyprianou / St. Andrew Street
P.O.Box 50218
3602 Limassol - Cyprus
Phone: (+ 357) 25 341433 / 4 / 5
Fax: (+ 357) 25 367139
E-mail: bybloscyprus@byblosbank.com

BELGIUM

Byblos Bank Europe S.A
Bussels Head Office
10, Rue Montoyer
B-1000 Brussels - Belgium
Phone: (+ 32) 2 551 00 20
Fax: (+ 32) 2 513 05 26
E-mail: byblos.europe@byblosbankeur.com

ENGLAND

London Branch
Berkeley Square House - Suite 5
Berkeley Sq.
GB - London W1J 6BS - United Kingdom
Phone: (+ 44) 207 493 35 37
Fax: (+ 44) 207 493 12 33
E-mail: byblos.europe@byblosbankeur.com

FRANCE

Paris Branch
15 Rue Lord Byron
F- 75008 Paris - France
Phone: (+ 33) 1 45 63 10 01
Fax: (+ 33) 1 45 61 15 77
E-mail: byblos.europe@byblosbankeur.com

SUDAN

Byblos Bank Africa Ltd.
Khartoum - Sudan
El Amarat -Street 21
P.O.Box: 8121 El Amarat - Khartoum - Sudan
Phone: (+ 249) 183 566 444
Fax: (+ 249) 183 566 454
E-mail: byblosbankafrica@byblosbank.com

NIGERIA

Byblos Bank Nigeria Representative Office
10-14 Bourdillon Road
Ikoyi, Lagos - Nigeria
Phone: (+ 234) 1 6653633
(+ 234) 1 8990799
E-mail: nigeriarepresentativeoffice@byblosbank.com.lb

DEMOCRATIC REPUBLIC OF CONGO

Byblos Bank RDC
4, Avenue du Marche
C/Gombe, Kinshasa, Democratic Republic of Congo
Phone: (+ 243) 817 070701
(+ 243) 991 009001
E-mail: melamm@byblosbank.com.lb