

## LEBANON THIS WEEK

### In This Issue

Economic Indicators.....1

Capital Markets.....1

Lebanon in the News.....2

Lebanon's ratings affirmed, outlook changed to 'positive'

Launch of administrative modernization and anti-corruption initiative

Lebanon to expand airport capacity

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

Trade deficit up 5.3% to \$6.5bn in first half of 2010

Lebanon ranks 6th globally in FDI performance, net inflows at \$3.7bn in 2009

Credit and debit cards reach 1.68 million cards, ATMs total 1,243 at end of June

Customs receipts up 7.6% to \$1.4bn in first half of 2010

**Corporate Highlights .....6**

Aggregate profits of listed banks rise 20.4% in first half of 2010

Qatar National Bank to open branch in Beirut

Stock market activity at \$1.6bn in first 7 months of 2010

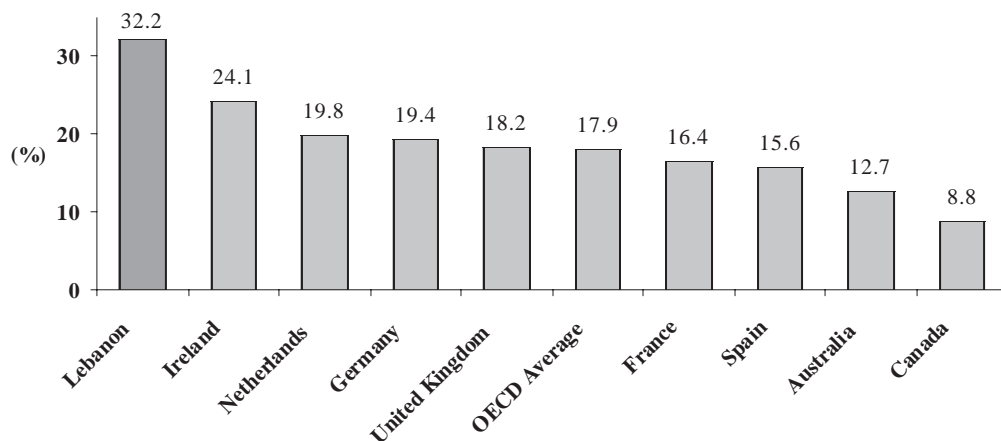
**Ratio Highlights.....8**

**Risk Outlook.....8**

**Ratings & Outlook.....8**

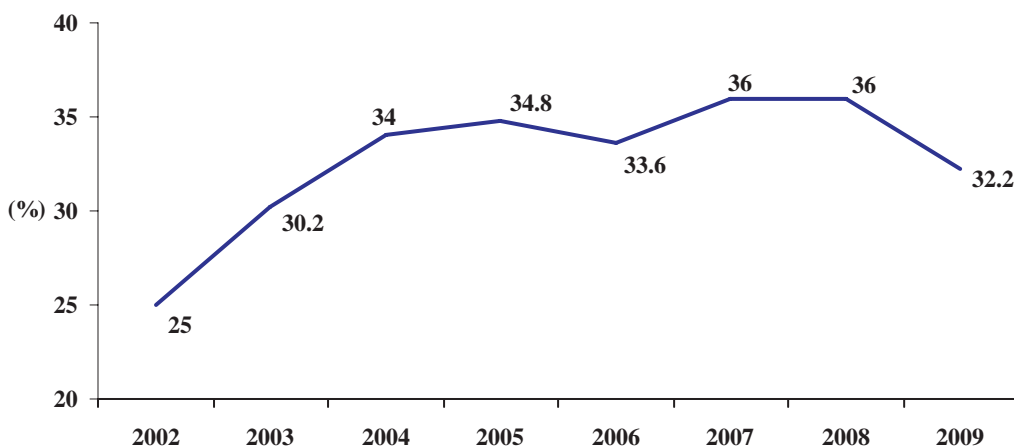
### Charts of the Week

Value-Added Tax as % of Total Government Tax Receipts in 2009



Source: PricewaterhouseCoopers

Value-Added Tax as % of Total Government Tax Receipts in Lebanon



Source: Ministry of Finance, Byblos Research

### Quote to Note

"Beirut is one of the most important banking hubs in the Middle East."

*Qatar National Bank, on the significance of opening a branch in Lebanon*

### Number of the Week

**1.58%:** Average bank spread on funds in Lebanese pounds during the first 5 months of 2010, according to the Association of Banks in Lebanon

## Economic Indicators

<b>\$m (unless otherwise mentioned)</b>	<b>2008</b>	<b>May 09</b>	<b>2009</b>	<b>Mar 10</b>	<b>Apr 10</b>	<b>May 10</b>	<b>% Change*</b>
Exports	3,478	292	3,486	374	328	371	27.06
Imports	16,133	1,242	16,241	1,934	1,377	1,369	10.23
Trade Balance	(12,655)	(950)	(12,755)	( ,560)	( 1,049)	(998)	5.05
Balance of Payments	3,462	521	7,899	264	424	(195)	(137.43)
Checks Cleared in LBP	9,350	928	11,122	1,187	1,058	1,068	15.09
Checks Cleared in FC	43,174	3,497	45,270	5,302	4,615	4,677	33.74
Total Checks Cleared	52,524	4,425	56,392	6,489	5,673	5,745	29.83
Budget Deficit/Surplus	(2,921)	(198)	(2,960)	(377)	(110)	(183)	(7.58)
Primary Balance	597	64	1,078	62	291	137	114.06
Airport Passengers	4,085,334	345,278	4,986,544	363,742	438,328	420,212	21.70

<b>\$bn (unless otherwise mentioned)</b>	<b>Dec 2008</b>	<b>May 09</b>	<b>Feb 10</b>	<b>Mar 10</b>	<b>Apr 10</b>	<b>May 10</b>	<b>% Change*</b>
BdL FX Reserves	17.06	20.22	26.88	27.17	27.32	27.32	35.11
<i>In months of Imports</i>	<i>15.03</i>	<i>16.28</i>	<i>22.29</i>	<i>14.04</i>	<i>19.84</i>	<i>19.96</i>	<i>22.60</i>
Public Debt	47.02	47.73	51.98	51.46	51.49	51.07	7.00
Net Public Debt	41.49	42.77	44.20	44.40	44.34	44.24	3.44
Bank Assets	94.25	101.65	118.27	119.91	120.64	120.69	18.73
Bank Deposits (Private Sector)	77.78	84.35	97.07	98.14	99.13	99.21	17.62
Bank Loans to Private Sector	25.04	26.07	29.87	30.71	31.04	31.44	20.60
Money Supply M2	24.76	28.15	35.42	36.23	36.72	37.43	32.97
Money Supply M3	68.66	73.58	83.75	84.96	85.75	86.04	16.93
LBP Lending Rate (%)	9.95	9.79	8.83	8.69	8.48	8.47	(132b.p.)
LBP Deposit Rate (%)	7.22	7.06	6.42	6.11	6.00	5.93	(113b.p.)
USD Lending Rate (%)	7.47	7.28	7.26	7.01	7.10	7.10	(18b.p.)
USD Deposit Rate (%)	3.33	3.22	2.99	2.86	2.84	2.84	(38b.p.)
%* Change in CPI**	6.36	2.15	9.04	8.73	6.55	6.51	436b.p.

\* Year-on-Year; \*\* Consumer Price Index

Note: b.p. i.e. basis point

Sources: ABL, BdL

## Capital Markets

<b>Most Traded Stocks on BSE</b>	<b>Last Price (\$)</b>	<b>% Change*</b>	<b>Total Volume</b>	<b>Weight in Market Capitalization</b>
Solidere "A"	20.60	(0.39)	226,548	16.47%
Solidere "B"	20.57	0.39	57,546	10.69%
Byblos Common	1.80	0.56	1,903,243	5.17%
Byblos Priority	1.80	0.00	10,137	2.96%
Byblos Pref. 08	100.00	0.00	0	1.60%
BLOM GDR	91.50	1.67	3,532	5.41%
BLOM Listed	86.80	(0.12)	33,224	14.92%
Audi GDR	8.46	3.30	33,600	6.88%
Audi Listed	8.00	0.00	41,365	22.01%
HOLCIM	13.00	(0.54)	1,520	2.03%

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

<b>Sovereign Eurobonds</b>	<b>Coupon %</b>	<b>Mid Price \$</b>	<b>Mid Yield %</b>
Nov. 2010	6.875	101.00	3.12
May 2011	7.875	104.38	2.25
Mar. 2012	7.500	106.50	3.33
Sep. 2012	7.750	108.50	3.47
June 2013	8.625	112.75	3.88
Apr. 2015	10.000	120.75	4.98
Jan. 2016	8.500	115.50	5.18
May 2016	11.625	128.75	5.67
Mar. 2017	9.000	117.88	5.72
Apr. 2021	8.250	113.00	6.53

Source: Byblos Capital Markets

	<b>July 26-30,10</b>	<b>July 19-23,10</b>	<b>% Change</b>	<b>July 2010</b>	<b>July 2009</b>	<b>% Change</b>
<b>Total Shares Traded</b>	3,732,283	960,096	288.74	9,412,692	6,492,987	44.97
<b>Total Value Traded</b>	\$37,465,862	\$12,467,256	200.51	\$117,692,424	\$153,033,909	(23.09)
<b>Market Capitalization</b>	\$12.51bn	\$12.47bn	0.29	\$12.51bn	\$11.56bn	8.22

Source: Beirut Stock Exchange (BSE)



### **Lebanon's ratings affirmed, outlook changed to 'positive'**

Japanese rating agency Rating & Investment Information, Inc. (R&I) affirmed Lebanon's Foreign Currency Issuer Rating at 'B+' and revised the outlook to 'positive' from 'stable'. It also affirmed the Short-Term Foreign Currency Debt at 'B'. R&I downgraded Lebanon's Foreign Currency Issuer rating to 'BB-' from 'BBB' in August 2006, and then to 'B+' from 'BB-' in May 2008. The agency said the formation of a national unity government in November 2009 has so far put an end to the period of political turmoil, adding that the economy has been growing solidly, driven by the expansion of construction, tourism and trade. It noted that concerns about fiscal deterioration diminished due to strong GDP growth and the rise of tax revenues, supported by measures such as uncapping gasoline taxes.

The agency said it maintained the ratings at 'B+' despite the favorable situation due to the fact that the national unity government has yet to show convincingly it has solid political footing. It noted that the government's need to accommodate the interests of all political sides is leading to a slow decision-making process, while consensus-building is taking long periods of time. It added that it will monitor carefully the government's level of cohesiveness and its ability to manage effectively. R&I considered Lebanon's deposit-rich banking sector to be a positive factor, as it allows the government to smoothly refinance the public debt. It noted, however, that this financing is not sufficiently solid, since it relies heavily on non-resident deposits that are more volatile than resident deposits, suggesting that the risk of deposit outflows remains. It added that sustained political stability can minimize such risk.

R&I indicated that its outlook change to 'positive' reflects its view that the government has started to function and take steps towards fiscal consolidation on the back of the favorable political and economic situation, as highlighted by the endorsement of a budget for the current fiscal year. It said the projected fiscal deficit for 2010 remains large, and the government has yet to show a path towards reducing the structural fiscal deficit in face of problems such as a narrow tax base, a heavy debt service payment, and massive transfers to the state-run electric power company. R&I said it could upgrade the ratings if the political and economic situation remains stable, and if the government implements its budget on time and makes progress on fiscal consolidation.

### **Launch of administrative modernization and anti-corruption initiative**

Prime Minister Saad Hariri launched an initiative to modernize the public administration and fight corruption. The initiative consists of working with Parliament and the related parliamentary committees to speed the ratification of draft laws related to fighting corruption and modernizing the public administration; implementing the United Nations Convention against Corruption that was ratified by the Lebanese Parliament; implementing the electronic government initiative and simplifying administrative procedures; filling vacant posts across the public administration through the mechanism adopted by the Cabinet; and coordinating with all stakeholders to fight corruption. The Governance Unit at the Office of the Prime Minister will be in charge of following up on the initiative and of coordinating with civil society stakeholders.

Transparency International's 2009 Corruption Perceptions Index ranked Lebanon in 130th place among 180 countries around the world and in 14th place among 20 Arab countries. Lebanon also came in 28th place among 32 upper-middle income countries included in the survey. Lebanon's score declined significantly in 2009 and reached 2.5 compared to a score of 3 in the two previous years. Lebanon's score declined by 16.7% from 2008, posting the steepest decline among Arab countries, while it regressed by 28 spots in the rankings, also the biggest drop in the region. Transparency International said Lebanon's score for 2009 is its lowest since the country's inclusion in the index. It attributed the decline to the deterioration of political and security conditions since 2005 and to the absence of legal mechanisms that promote transparency in different sectors. Further, the World Bank's World Governance Indicators ranked Lebanon in 167th globally and in 16th place in the MENA region on the Control of Corruption indicator, the measure of a country's level of corruption. Lebanon also ranked in 146th place worldwide and in 13th place in the MENA region in terms of Government Effectiveness, which measures the competence of the bureaucracy and the quality of public service delivery; while it ranked 155th globally and 15th in the MENA region on the Rule of Law category, an indicator of the extent that citizens have confidence in and abide by the rules of society.

### **Lebanon to expand airport capacity**

The Director General of Civil Aviation declared that plans are underway to expand the passenger and cargo capacity of the Rafic Hariri International Airport (HIA). He said the plan will increase the airport's capacity from six million passengers a year currently to 18 million passengers annually with the construction of a new terminal and the addition of 23 new gates. Also, the airport will undergo additional work to completely renovate a runway that was damaged by Israeli attacks in 2006, and to build additional hangars to increase the airport's maintenance, repair and overhaul capacity. He indicated that the expansion plan will take three years to complete and expected work to start in January 2011, adding that the new terminal is likely to be built in stages. The plan stipulates doubling the total number of gates to 46, with up to 7 gates designed to receive Airbus A380 airplanes. The existing terminal is already close to its six million passengers capacity and is expected to exceed it later this year. The number of passengers (arrivals, departures, transit) at the HIA totaled 2.43 million in the first half of 2010, up 16.3% from the same period last year; while the total number of flights increased by 21% year-on-year to 30,572 flights. Also, the number of incoming tourists to Lebanon totaled 964,067 in the first half of 2010, constituting an increase of 26.6% from 761,415 tourists in the same period of 2009. In parallel, plans exist to rehabilitate the René Mouawad Airport in Northern Lebanon for it to handle cargo and low cost carriers. The airport currently consists of a 3,000 meter runway and is primarily utilized by the military. The plan aims to restore the runway and build a free zone area.

### Merrill Lynch maintains its recommendation on Lebanese Eurobonds at 'Market Weight'

Merrill Lynch maintained its recommendation on Lebanon's external debt at 'Market Weight' in its model portfolio of emerging markets debt and reduced Lebanon's allocation to 5.4% in July 2010. Last May, it upgraded its recommendation to 'Market Weight' from 'Under Weight' where it was kept since January. Lebanon's allocation was 5.7% in May, and 2.1% since the beginning of the year prior to the upgrade. It was 5.5% in September and 5.9% in July 2009. Merrill Lynch attributed its May upgrade to the increased global risk aversion for emerging market bonds, leading it to reduce all high yielding bonds in its portfolio. It added that Lebanon represents the ultimate defensive play due to the low volatility of its external debt.

Lebanon's external debt rating of 'Market Weight' placed Lebanon in the same category as Argentina, Brazil, El Salvador, Hungary, Iraq, Panama, Peru, the Philippines, Turkey, Tunisia, Uruguay and Venezuela. Lebanon's 'Market Weight' is similar to the recommendation for similarly-rated countries, but does not compare well to the 'Over Weight' recommendation on the Europe, the Middle East & Africa (EMEA) and the Middle East & North Africa regions. Lebanon is represented in the portfolio by the March 2013 Eurobond, as well as by the May 2014 and the March 2020 Eurobonds. Lebanon accounted for 16.4% of the allocations in the EMEA region in July compared to 17.6% in May, 6.9% in March, 7.5% in January and a high of 25% in March 2009. Lebanon's allocation was the 8th highest among countries in the portfolio, down from 7th highest in May and up from 14th highest in March. Lebanon accounted for 31.4% of allocations to similarly-rated countries, down from 38.5% in May and up from 12% in March and 10.5% in January.

In parallel, Lebanon's external debt posted the 7th highest return at 5.07% among 22 markets in the EMEA region in the first half of 2010, as well as the 25th best return among the 44 emerging markets included in Merrill Lynch's Sovereign Plus Debt Index. Lebanon outperformed the EMEA returns of 3.85% and underperformed the overall emerging market returns of 5.21% in the covered period. Also, Lebanon's external debt underperformed the 5.54% returns posted by similarly-rated sovereigns in the first half of the year, while it posted the 5th best performance at 5.19% in the EMEA region and the 23rd best performance in emerging markets in US dollar terms. It also outperformed the 4.89% returns of US dollar 'B'-rated bonds. Further, Lebanon's external debt posted the 4th highest returns among 9 countries in the Middle East & Africa region during the covered period, as it came ahead of Morocco with 5.05%, Tunisia with 4.23%, South Africa with 5%, Egypt with -0.15%, and the Ivory Coast with -10.6%, but behind Iraq with 9%, Ghana with 6.8% and Gabon with 5.1%. Also, it posted returns of 0.71% in June ahead of Morocco (0.63%), Egypt (0.09%), Iraq (-0.62%) and the Ivory Coast (-1.84%), but behind Ghana (2.84%), South Africa (2.03%), Gabon (1.55%) and Tunisia (0.95%).

In parallel, Lebanon's external debt posted the 13th highest return in the EMEA region and the 31st highest return in emerging markets in June 2010. It outperformed the EMEA returns of 0.67%, but underperformed the emerging markets returns of 1.57% and the 1.6% returns of similarly-rated sovereigns for the same month.

### Trade deficit up 5.3% to \$6.5bn in first half of 2010

Imports increased by 9.5% to \$8.58bn and exports increased by 25.1% to \$2.11bn in the first half of 2010, leading to a trade deficit of \$6.5bn, up 5.3% year-on-year. The coverage ratio reached 24.6% year-to-June compared to 21.6% in the same period of 2009. The trade deficit was \$1.1bn in June 2010, down 18.3% from June 2009. China was the main source of imports with \$784m or 9% of the total, followed by the United States with \$742m (9%), Italy with \$686m (8%), Germany with \$617m (7%) and France with \$580m (7%). Switzerland was the main export destination with \$317m or 15% of the total, followed by the UAE with \$212m (10%), Iraq with \$132m (6%), Saudi Arabia with \$123m (6%) and Turkey with \$119m (6%). Lebanon's main export was jewelry at \$614m, or 29% of total exports, followed by machinery and mechanical appliances with \$360m (17%), base metals with \$239m (11%), prepared food-stuff with \$160m (8%) and chemical products with \$143m (7%). Re-exports totaled \$69m in the first half of 2010, down 8% from \$75m in the same period last year.

Emerging Markets External Debt Portfolio		
Country	Bonds	Weight (%)
Mexico	Mexico '17s	10.3
Russia	Russia '18s, '30s	9.9
Indonesia	Indonesia '18s, '19s	9.5
Turkey	Turkey '18s, '19s	9.3
Brazil	Brazil '17s, '18s, '37s	9.2
Philippines	Philip '16Ns, '19s, '20s	9.0
Venezuela	Vz '14s, '16s, '18Ns, '19s	6.8
<b>Lebanon</b>	<b>Lebanon '13, '14N, '20s</b>	<b>5.4</b>
South Africa	South Africa '14s, '20s	4.7
Colombia	Colombia '17s, '19s, '37s	4.6
Peru	Peru '19s	4.1
Panama	Panama '15s, '36s	3.4
Argentina	Pars, Boden '12s	3.4
Uruguay	Uruguay '22s	2.6
Hungary	Hungary '20s	2.1
El Salvador	El Salvador '23s	1.5
Ukraine	Ukraine '11s	1.5
Bahrain	Bahrain '20s	0.5
Egypt	Egypt '20s	0.5
Qatar	Qatar '19s	0.5
Tunisia	Tunisia '12s	0.1
Iraq	Iraq '28s	0.1
Cash		0.9
<b>Total</b>		<b>100</b>

Source: Merrill Lynch, July 2010

### Lebanon ranks 6th globally in FDI performance, net inflows at \$3.7bn in 2009

Figures released by the United Nations Conference on Trade and Development (UNCTAD) show that foreign direct investment (FDI) in Lebanon totaled \$4.8bn in 2009, constituting an increase of 10.9% from \$4.33bn in 2008. FDI inflows to Lebanon totaled \$3.38bn in 2007 and \$3.13bn in 2006.

Lebanon was the 4th largest recipient of FDI in nominal terms among 20 Arab countries, the 5th largest among the 23 economies of the MENA region, and the 4th largest in West Asia in 2009. It was the 4th largest recipient among its Arab peers, 6th largest in the MENA region and the 4th largest in West Asia in 2008. Also, Lebanon posted the third highest growth rate in FDI among Arab countries and the fourth highest in the MENA region last year. Lebanon was one of 5 Arab countries that saw an increase in FDI in 2009. In contrast, aggregate FDI to Arab economies declined by 45.7% year-on-year, global FDI declined by 37%, FDI to developing economies contracted by 24%, and FDI to West Asia dropped by 24.3%. Further, net FDI inflows to Lebanon totaled \$3.68bn in 2009, making it the 4th largest destination of net inflows in the Arab world. In parallel, Lebanon ranked in 6th place globally and was the only Arab economy among the top 10 worldwide on the Inward FDI Performance Index, while it ranked in 91st place globally and in 8th place in the Arab world on the Inward FDI Potential Index.

FDI inflows to Lebanon accounted for 6.1% of total FDI in Arab countries and for 5.1% of inflows to the MENA region, compared to 4.5% in the Arab world and 3.4% regionally in 2008. They also represented 14.6% of total flows to the 13 countries that form West Asia, for 1% of FDI inflows to developing countries, and for 0.4% of global foreign direct investment in 2009.

Further, FDI flows to Lebanon were equivalent to 14.1% of GDP in 2009, highest in the Arab world, and were equivalent to 69.4% of gross fixed capital formation, the highest such ratio in the region. In comparison, FDI flows as a percentage of gross fixed capital formation were 20.1% in West Asian economies, 9.3% in developing economies and 9.1% on a global basis in 2009.

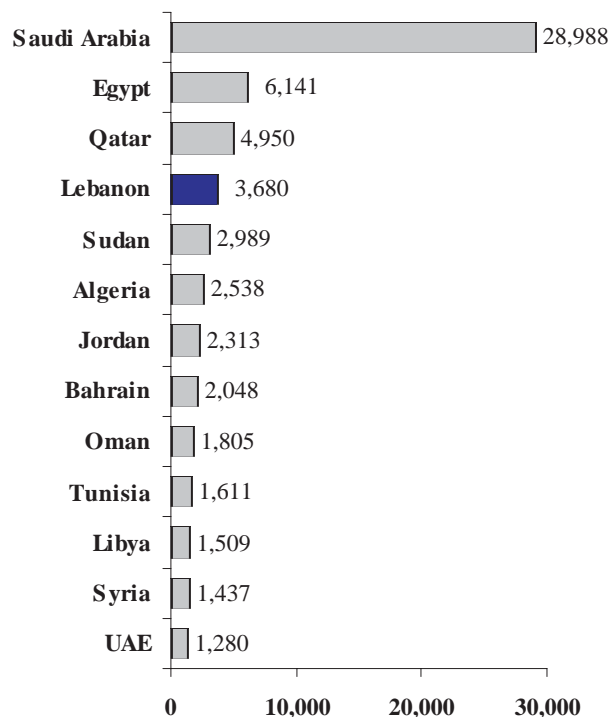
In addition, net cross-border merger & acquisition purchases reached \$283m in 2009, compared to -\$233m in 2008 and \$210m in 2007, reflecting the differential between the acquisition price of companies abroad by Lebanon-based entities and the value of sales of foreign affiliates of locally-based entities. Lebanon was the source of 5 cross-border M&A purchases in 2009 and 3 such deals in the first 5 months of 2010. The UNCTAD did not record any net cross-border M&A sales in Lebanon in 2009, while such sales reached \$108m in 2008, reflecting the differential between the value of sales of local companies to foreign entities and the value of sales of foreign affiliates in the local economy. Further, there were 26 greenfield FDI projects in Lebanon in 2009 relative to 9 in 2008 and 7 in the first 4 months of 2010. In comparison, Lebanon was the source of 4 greenfield FDI projects in 2009 relative to 9 projects in 2008 and two projects in the first four months of 2010. Global FDI reached \$1,114bn, while FDI inflows to developing economies totaled \$478.3bn in 2009.

### Foreign Direct Investment in Arab Countries (\$m)

	2009	2008	Change (%)
Saudi Arabia	35,514	38,151	-7%
Qatar	8,722	4,107	112%
Egypt	6,712	9,495	-29%
<b>Lebanon</b>	<b>4,804</b>	<b>4,333</b>	<b>11%</b>
UAE	4,003	13,700	-71%
Sudan	3,034	2,601	17%
Algeria	2,847	2,646	8%
Libya	2,674	4,111	-35%
Jordan	2,385	2,829	-16%
Oman	2,211	2,359	-6%
Tunisia	1,688	2,758	-39%
Syria	1,434	1,467	-2%
Morocco	1,331	2,487	-47%
Iraq	1,070	1,856	-42%
Bahrain	257	1,794	-86%
Kuwait	145	-51	-384%
Yemen	129	1,555	-92%
Djibouti	100	234	-57%
Palestine	33	52	-37%
Mauritania	-38	338	-111%
<b>Total</b>	<b>79,055</b>	<b>96,822</b>	<b>-45.7%</b>

Source: UNCTAD, Byblos Research

### Net FDI inflows in 2009 (US\$m)



Source: UNCTAD, Byblos Research

### Credit and debit cards reach 1.68 million cards, ATMs total 1,243 at end of June

Figures released by the Central Bank of Lebanon show that the number of credit and debit cards issued in Lebanon reached 1,683,095 cards at the end of June 2010, constituting a 3.3% increase from end-2009, and a 3.5% rise on a yearly basis. Resident cardholders accounted for 97.3% of total cards issued in Lebanon. The distribution of payment cards by type shows that debit cards with residents accounted for 62.7% of the total, followed by credit cards with residents (22.2%), charge cards with residents (9.8%), resident prepaid cards (2.6%), non-resident debit cards (2.1%), non-resident charge cards (0.3%), non-resident credit cards (0.2%), and non-resident pre-paid cards (0.03%). The number of ATMs totaled 1,243 machines at end-June, constituting an increase of 3% in the first half of 2010 and up by 7% from 1,162 ATMs at the end of June 2009. The Greater Beirut area had 619 ATMs, accounting for 49.8% of the total, followed by Mount Lebanon with 284 (22.8%), the North with 123 (10%), the South with 99 (8%), the Bekaa with 93 (7.5%), and Nabatiyeh with 25 (2%). Further, the aggregate number of point of sales accepting payment cards reached 45,410 by the end of June, increasing by 1.3% annually.

The average monthly domestic payment by residents totaled \$110.65m in the second quarter of 2010, increasing by 6.2% quarter-to-quarter and declining by 13.4% from the second quarter of 2009, while the average monthly payment and cash withdrawal abroad by residents rose by 12.2% to \$68.1m from the second quarter of 2010 and decreased by 14% from the second quarter of 2009.

Further, the average monthly value of cash withdrawals by residents using ATMs increased quarterly by 10% and regressed by 27% from the same quarter of the previous year to \$412.8m, while average monthly withdrawals by non-residents grew by 15.3% to \$6.24m quarter-to-quarter and dropped by 23% from the same period last year. Also, the average monthly purchases in Lebanon by non-residents increased by 9% quarter-to-quarter and decreased by 29.6% annually to \$1.84m. Domestic card payments in Lebanese pounds accounted for 11.65% of aggregate payments in all currencies, while local currency withdrawals represented 66.5% of the total in the second quarter of 2010.

<b>Number and Usage of Payment Cards Issued in Lebanon</b>			
	<b>H1-2010</b>	<b>H1-2009</b>	<b>Change</b>
<b>Cards</b>			
With residents	1,639,152	1,583,277	3.5%
With non-residents	44,943	43,138	4.2%
Total	1,683,095	1,626,415	3.5%
<b>ATMs</b>			
Points of Sales	45,410	44,818	1.3%
<b>Purchases (in US\$m)</b>			
by residents in Lebanon	\$644.4	\$491.2	31.2%
<i>% in Lebanese pounds</i>	<i>11.9%</i>	<i>12.2%</i>	
by non-residents in Lebanon	\$10.6	\$10.1	5.5%
by residents outside Lebanon	\$386.4	\$296.8	30.2%
<b>Cash withdrawal (in US\$m)</b>			
by residents in Lebanon	\$2,365	\$2,169	9.0%
<i>% in Lebanese pounds</i>	<i>66.5%</i>	<i>67.3%</i>	
by non-residents in Lebanon	\$35.0	\$30.9	13.1%

Source: Central Bank of Lebanon, Byblos Research

### Customs receipts up 7.6% to \$1.4bn in first half of 2010

Customs revenues reached \$1.43bn in the first half of 2010, up 7.6% from \$1.33bn in the same period last year. Custom revenues reached \$272m in June 2010 up from \$233m in May and compared to \$232m in June 2009. The Port of Beirut continues to be the main point of customs receipts, accounting for 87.6% of the total in the first half of 2010, and was followed by the Hariri International Airport with 5.5%, the Port of Tripoli with 3.5%, and the Masnaa crossing point with 1.9% of the total. Customs receipts from the value-added tax totaled \$733.5m in the first half of the year. The Port of Beirut accounted for 76.1% of such receipts, and was followed by the Hariri International Airport with 8.6%, the Port of Tripoli with 6.7%, and the Masnaa crossing point with 5.8% of the total. As such, overall custom receipts reached \$1.68bn in the first half of the year, with the Port of Beirut accounting for 82.6% of the total, and was followed by the Hariri International Airport with 6.9%, the Port of Tripoli with 4.9%, and the Masnaa crossing point with 3.6% of the total. In addition, other entry points accounted for the balance of 2%, with the port of Saida for 1.5%, the port of Tyr for 0.2%, and the crossing points of Abboudieh, Arida and Kaa accounting for 0.3%.

### Aggregate profits of listed banks rise 20.4% in first half of 2010

Financial results issued by five banks listed on the Beirut Stock Exchange show that their aggregate net profits reached \$443.2m in the first half of 2010, constituting an increase of 20.4% from \$368.1m in the same period last year. The average growth of the net profits of the five banks reached 23.2% in the first half of 2010, constituting an increase from the average growth in net profits of 22.2% in the first quarter of 2010, and from the average growth in net profits of 1.5% in the first half of 2009. The aggregate net interest income of the five banks reached \$668.4m in the first half of 2010, up 15.3% from \$580m in the same period last year, while their total net fees and commission income increased by 21.6% to \$201m year-on-year. Total operating income of the listed banks reached \$1,059.5m in the first half of 2010, up 19.2% from \$888.6m in the first half of 2009.

In parallel, the aggregate assets of the five banks rose by 4.1% from end-2009 and by 16.8% from end-June 2009 to \$71.73bn, while their total loans, excluding loans to related parties, increased by 13.2% from end-2009 and by 25% from end-June 2009 to \$18bn. Also, the banks' customer deposits rose by 5% from end-2009 and by 18.6% from end-June 2009 to reach \$59.3bn. BLOM Bank posted the lowest loans-to-deposits ratio at 25% compared to 21.7% at end-June 2009, followed by Byblos Bank with a ratio of 31.3% relative to 30.9% a year earlier, Bank Audi with 32.1% from 32.4% at end-June 2009, Bank of Beirut with 37.2% from 31.3% a year earlier, and Banque Bemo with a 44.2% ratio compared to 47.8% at end-June 2009. BLOM Bank had the lowest cost-to-income ratio at 39.8%, down from 41.6% in the first half of 2009.

Results of Listed Banks for First Half of 2010					
	Byblos	BLOM	Audi	BoB	BEMO
Net Profits	\$72.4m	\$156.4m	\$161.4m	\$48.1m	\$4.9m
% Change*	14.9%	13.1%	22.4%	65.3%	0.5%
Total Assets	\$14.61bn	\$21.51bn	\$27.32bn	\$7.10bn	\$1.19bn
% Change**	7.6%	3.9%	3.1%	1.9%	(0.9%)
Loans (1)	\$3.47bn	\$4.63bn	\$7.58bn	\$1.90bn	\$0.42bn
% Change**	8.9%	15.5%	15.1%	12.6%	4.6%
Deposits (1)	\$11.10bn	\$18.53bn	\$23.61bn	\$5.11bn	\$0.95bn
% Change**	8.9%	4.0%	3.5%	7.3%	0.35%

\*Year-on-year

\*\*Change from end-2009

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

### Qatar National Bank to open branch in Beirut

The Qatar National Bank Group (QNB), the largest financial institution in Qatar and one of the largest banks in the Middle East & North Africa region, announced that it has received a license from the Central Bank of Lebanon to open a full service branch in the country. It said the branch will provide a full range of banking services and products to individuals, corporate entities and government. It indicated that it will offer retail banking services, as well as a range of corporate banking and advisory services that include corporate, project and trade finance. The bank said the branch will support trade and business activity between Lebanon and Qatar. QNB added that its presence in Lebanon falls within the context of its regional and international expansion plan, as the bank is currently present in 23 countries across the Arab world, Europe, Asia and Africa. It recently opened a branch in Mauritania and is present in Syria and Jordan in the Levant region. The Qatar Investment Authority owns 50% of the bank and the other 50% is publicly-traded. QNB posted net profits of 2.7bn Qatari riyals, or \$742m, in the first half of 2010, up 31% year-on-year. It had total assets of \$51bn, loans & advances of \$32.4bn and customer deposits of \$38bn at end-June 2010. There are 53 commercial banks operating in Lebanon through 893 branches, including 9 foreign banks with 30 branches in the country. The sector's total assets reached \$121bn at end-May 2010.

### Stock market activity at \$1.6bn in first 7 months of 2010

Figures released by the Beirut Stock Exchange indicate that total trading volume reached 134 million shares in the first 7 months of 2010, constituting an increase of 65% from the same period last year, while aggregate turnover amounted to \$1.6bn, up 151% from a turnover of \$629m in the same period last year. Market capitalization increased by 8% to \$12.51bn in the first 7 months of 2010, of which 70.2% was in banking stocks and 27.2% in real estate stocks. The bourse's activity was artificially inflated in January due to the sale of regional investment bank EFG-Hermes of its entire stake in Bank Audi during the month. It was also boosted this year from the sale of Byblos Bank of 47.6 million common shares to the International Finance Corporation and of 13.6 million common shares to Société de Promotion et de Participation pour la Coopération Economique S.A. (PROPARCO). The market liquidity ratio was 12.6% compared to 5.4% for the same period of 2009. Bank stocks accounted for 91% of aggregate trading volume in the first 7 months of the year, followed by real estate stocks with 8.6%. In terms of value of shares traded, banking stocks accounted for 83% of aggregate value, followed by real estate stocks with 16.7%. The average daily traded volume for the period was 941,051 shares for an aver-

## Ratio Highlights

(in % unless specified)	2007	2008	2009	Change*
Nominal GDP <sup>(1)</sup> (\$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](mailto:research@byblosbank.com.lb)**  
**[www.byblosbank.com](http://www.byblosbank.com)**

---

---

Lebanon This Week is a research document that is owned and published by Byblos Bank sal. The contents of this publication, including all intellectual property, trademarks, logos, design and text, are the exclusive property of Byblos Bank sal, and are protected pursuant to copyright and trademark laws. No material from Lebanon This Week may be modified, copied, reproduced, repackaged, republished, circulated, transmitted, redistributed or resold directly or indirectly, in whole or in any part, without the prior written authorization of Byblos Bank sal.

The information and opinions contained in this document have been compiled from or arrived at in good faith from sources deemed reliable. Neither Byblos Bank sal, nor any of its subsidiaries or affiliates or parent company will make any representation or warranty to the accuracy or completeness of the information contained herein.

Neither the information nor any opinion expressed in this publication constitutes an offer or a recommendation to buy or sell any assets or securities, or to provide investment advice. This research report is prepared for general circulation and is circulated for general information only. Byblos Bank sal accepts no liability of any kind for any loss resulting from the use of this publication or any materials contained herein.

The consequences of any action taken on the basis of information contained herein are solely the responsibility of the person or organization that may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies that may be discussed in this report and should understand that statements regarding future prospects may not be realized.

---

# 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