

LEBANON THIS WEEK

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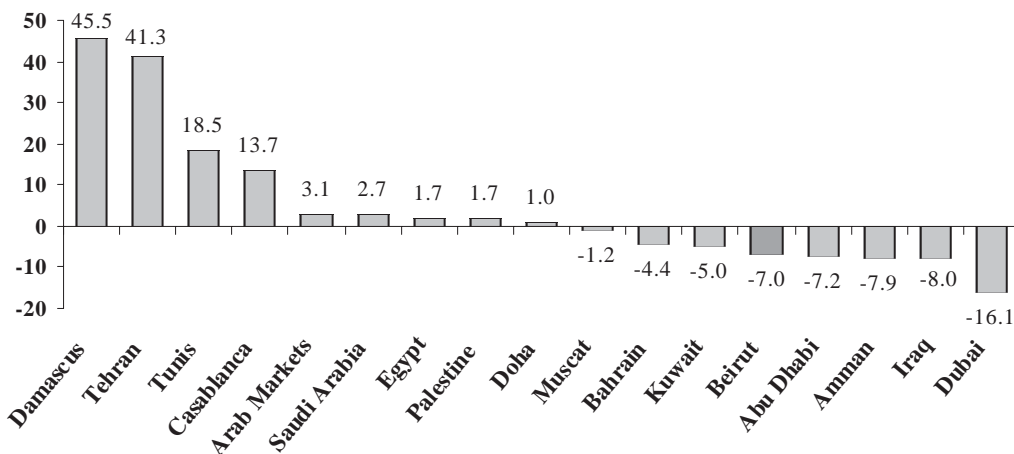
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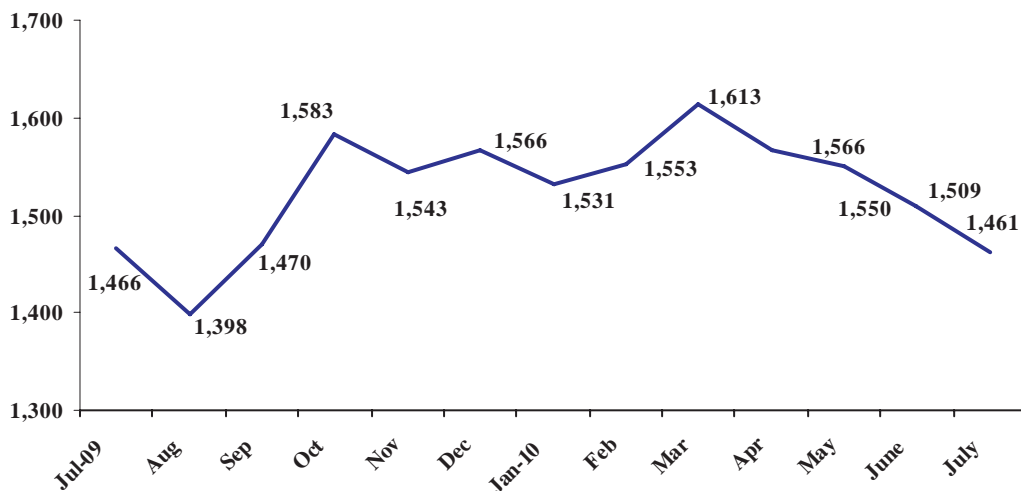
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Charts of the Week

Performance of MENA Stock Markets in First Seven Months of 2010 (%)



Performance of Beirut Stock Market*



*BLOM Stock Index
Source: Local Stock Markets

Quote to Note

"The sovereign is likely to retain support from bilateral donors, given its geopolitical significance, while banks should be able to comfortably rollover their foreign exchange liabilities."

The Royal Bank of Scotland, on factors mitigating the country's sovereign risks

Number of the Week

1.78%: Average bank spread on funds in foreign currencies during the first 5 months of 2010, according to the Association of Banks in Lebanon

Economic Indicators

\$m (unless otherwise mentioned)	2008	May 09	2009	Mar 10	Apr 10	May 10	% Change*
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

\$bn (unless otherwise mentioned)	Dec 2008	May 09	Feb 10	Mar 10	Apr 10	May 10	% Change*
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

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization
Solidere "A"	20.62	0.10	139,220	16.46%
Solidere "B"	20.41	(0.78)	32,635	10.59%
Byblos Common	1.80	2.22	300,426	5.28%
Byblos Priority	1.80	0.00	2,300	2.96%
Byblos Pref. 08	100.00	0.00	500	1.60%
BLOM GDR	92.40	0.98	9,342	5.45%
BLOM Listed	86.70	(0.12)	2,628	14.88%
Audi GDR	8.78	3.78	364,817	7.13%
Audi Listed	8.00	0.00	459,396	21.97%
HOLCIM	12.01	(7.62)	1,194	1.87%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Nov. 2010	6.875	101.00	3.09
May 2011	7.875	104.38	2.23
Mar. 2012	7.500	106.50	3.32
Sep. 2012	7.750	108.50	3.47
June 2013	8.625	112.75	3.87
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

	August 2-6,10	July 26-30,10	% Change	July 2010	July 2009	% Change
Total Shares Traded	1,341,888	3,732,283	288.74	9,412,692	6,492,987	44.97
Total Value Traded	\$13,306,517	\$37,465,862	200.51	\$117,692,424	\$153,033,909	(23.09)
Market Capitalization	\$12.53bn	\$12.51bn	0.29	\$12.51bn	\$11.56bn	8.22

Source: Beirut Stock Exchange (BSE)



Lebanon's brand perception improves in second quarter

The Nation Brand Perception Index (NBPI) ranked Lebanon in 178th place among 200 countries and territories around the world and in 14th place among 20 countries in the Middle East and North Africa region in the second quarter of 2010. Lebanon ranked in 179th place globally and in 14th place regionally in the first quarter of 2010. Lebanon also came in 38th place among 43 upper-middle income countries (UMICs) included in the survey. The NBPI analyzes international perceptions of a country's brand. It covers the tone, whether positive or negative, and frequency of mentions in the international media. It said the number of times a country is mentioned reflects the strength of the brand, but not necessarily its quality. The index is based on a quarterly analysis of millions of mentions of countries in hundreds of thousands of news articles in 38 prominent global media sources. The index scores rely both on the overall quality of the media coverage and the prominence of the country, determined by the number of country references or mentions.

Globally, Lebanon ranked ahead of Jamaica, Poland and Vatican City and came behind Libya, Rwanda and Belarus. It also ranked ahead of Jamaica and Poland, and behind Libya and Belarus among UMICs. Lebanon received a score of 41.5 points, below the global and UMICs averages of 49.8 points and 49.4 points respectively, the MENA average of 44.7 points and the Arab average of 47.3 points. Lebanon's score increased by 4.8% quarter-to-quarter but regressed by 2.5% from the second quarter of 2009. Its score was 53.1 points in the fourth quarter, 41.6 points in the third quarter, 43 points in the second quarter and 36.4 points in the first quarter of 2009.

In parallel, Lebanon was the 55th most mentioned country in the international media in the second quarter of 2010, the 9th most mentioned country from the MENA region and the 10th most mentioned among UMICs. Globally, Lebanon was mentioned more than Serbia, Sudan and Bangladesh, and less than the Austria, Fiji and Jordan. It was also mentioned more than Serbia and Algeria and less than Fiji and Argentina among UMICs. It was the 63rd most mentioned country in the previous quarter and the 37th most mentioned in the fourth quarter of 2009. Lebanon was mentioned 7,603 times in the international media, below the global average mentions of 16,706 times, the MENA average mentions of 18,671 times, the Arab average mentions of 9,661 times and the UMICs' average mentions of 9,530 times. Lebanon's number of mentions in the second quarter of 2010 was higher than its 7,041 mentions in the preceding quarter but lower than its 11,824 mentions in the fourth quarter of 2009. Singapore had the best nation brand perception in the world with a score of 89.5 points and Pakistan the worst brand perception with a score of 7.8 points.

Balance of payments posts surplus of \$1.3bn in first half of 2010

Central Bank figures show that Lebanon's balance of payments posted a surplus of \$1.31bn in the first half of 2010 compared to a surplus of \$2.1bn in the same period last year. The balance of payments posted a surplus of \$105.8m in June compared to a deficit of \$194.8m in May and a surplus of \$443.3m in June 2009. The June 2010 surplus was caused by a surplus of \$104.6m in the Central Bank's net foreign assets and a surplus of \$1m in those of banks and financial institutions. The cumulative surplus over the first half of 2010 was caused by a surplus of \$2.22bn in the Central Bank's net foreign assets and a deficit of \$906m 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.

Coincident Indicator up 13.8% year-on-year in June 2010

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 249.9 points in June 2010 compared to 250.8 points in May 2010 and 229 points in June 2009. The Coincident Indicator, an average of 8 weighted economic indicators, regressed by 0.4% month-on-month, and rose by 9.1% year-on-year. The indicator averaged 241.1 points in the 12-months ending June 2010 compared to 239.4 points in the 12-months ending May 2010 and to 211.9 points in the 12-months ending June 2009. As a result, the average coincident indicator rose by 13.8% year-on-year. The indicator declined for the third 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 second lowest decline ever for the indicator for the covered month. In parallel, the indicator improved 11 times, and regressed 7 times in the month of June since 1993. The indicator averaged 225.8 point in 2009 and 198.4 points in 2008.

MENA Scores & Rankings in Q2-2010

	Score	MENA Rank	Global Rank
Kuwait	69.2	1	6
Qatar	61.6	2	19
Saudi Arabia	56.1	3	28
Jordan	56.0	4	31
Morocco	55.5	5	33
Bahrain	54.8	6	38
UAE	53.5	7	50
Tunisia	51.8	8	74
Oman	51.6	9	81
Syria	47.1	10	158
Egypt	47.0	11	159
Algeria	46.4	12	160
Libya	41.6	13	177
Lebanon	41.5	14	178
Turkey	36.0	15	183
Yemen	34.6	16	185
Palestine	28.1	17	188
Iran	27.9	18	189
Israel	26.1	19	191
Iraq	8.3	20	199

Source: East West Communications, Byblos Research

Increase in fiscal spending in 2010 budget inconsistent with fiscal consolidation and debt reduction goals

Merrill Lynch maintained its forecast for Lebanon's real GDP growth at 6.5% in 2010 and 5.1% in 2011, adding that this year's projection is conservative as the Lebanese economy is well-placed to sustain the momentum of the previous year. It noted that domestic indicators suggest strong demand with double-digit annual increases in tourist arrivals, cleared checks, construction permits and deposit inflows. It noted, however, that decision-making in Lebanon requires political consensus, which constitutes an obstacle to addressing structural issues. It added that geopolitical risks remain, with the increasing isolation of Iran following the imposition of sanctions.

Merrill Lynch noted that the 2010 draft budget includes a deficit of 10.7% of GDP with a planned spending increase of 15.5%, mainly earmarked to alleviate infrastructure bottlenecks. It said the government intends to run down its primary surplus and is counting on up to 5% growth to keep the public debt stable. It considered the increase in fiscal outlays to be misplaced, given its inconsistency with the medium-term objective of fiscal consolidation and debt reduction, as well as question marks about execution efficiency. It said spending plans are unlikely to go through in their entirety due to delays in the Parliament's ratification of the budget. It expected strong domestic political opposition to an increase in the VAT rate, adding that any future revenue-enhancing measures are more likely to include some modest broadening of the VAT scope given the existing exemptions and refunds, along with a broader package of tax on interest or property.

Merrill Lynch stressed on the limitations of maintaining high debt levels, but noted that Lebanon is insulated for now given that the highly liquid local banks hold the bulk of the public debt. It added that the government has been funding itself increasingly locally, with local currency debt representing 58.8% of gross public debt at end-March 2010 compared to 50.3% in 2005, while commercial banks hold 60.8% of the stock of domestic debt relative to 48.5% in 2005. It considered that the low correlation of Lebanese external debt with global markets should continue to make it a safe haven for investors.

Country Forecast Summary				
	2008	2009E	2010F	2011F
Real GDP (%y/y)	9.0	9.0	6.5	5.1
CPI (% average)	10.8	3.4	4.7	5.3
Policy Rate (end-year %)	12.0	12.0	10.0	10.0
Fiscal Balance (%GDP)	(9.9)	(8.9)	(8.2)	(9.0)
Public Debt (%GDP)	159.5	149.4	147.0	145.0
Current Account (\$bn)	(3.4)	(3.7)	(4.2)	(4.4)
Current Account (%GDP)	(11.6)	(11.0)	(11.3)	(10.9)
Gross External Debt (\$bn)	55.0	56.5	59.0	61.2
Gross External Debt (% of GDP)	186.7	168.2	159.3	153.0
Foreign Reserves (\$bn)	20.2	28.7	32.0	33.0
Import Cover (in months)	14.9	23.0	21.3	19.8
Short-term Debt Cover (%)	44.8	57.5	61.5	61.7

Source: Merrill Lynch

Petrochemical materials facility opens at Tripoli Port

The Qatar Petrochemical Company opened its logistics service facility for the storage of petrochemical materials in the free zone area of the Port of Tripoli. The facility is projected to store around 15,000 tons of petrochemicals used in plastics, paper and other industries. The storage capacity is expected to double in the coming years. Imports through the Port of Tripoli totaled \$535m in the first half of 2010, up 12% year-on-year and accounted for 6% of Lebanon's imports bill. Further, exports through the port reached \$117m in the first half the year, up 42% annually, but representing 6% of Lebanese exports during the covered period. Further, the Port of Tripoli accounted for 3.5% of customs receipts and for 6.7% of receipts from the value-added tax in the first half of the year.

Italy grants €2.5m to expand environmental capacity

The Italian government, through the Italian Development Cooperation Office in Lebanon, extended to the Ministry of Environment a grant of €2.5m to support environmental protection activities in the country. The grant will contribute to the consolidation and reinforcement of the staff capacity of the Ministry of Environment in land management. It also aims to support the provision of basic services at the local level, and to reinforce integrated waste management through the construction of a controlled dump in the Baalbek area as a pilot project.

Cash transfers up 15% to \$1.6bn in 2009, UAE is largest source and Philippines is main destination

Figures issued by the Central Bank show that cash electronic transactions to and from Lebanon totaled \$1.6bn in 2009, constituting an increase of 14.5% from \$1.4bn in 2008 and compared to \$1.1bn in 2007. A total of \$1.1bn was transferred electronically to Lebanon in 2009, up 14.3% from the previous year, while transfers from Lebanon amounted to \$494m, up 15% year-on-year. The average amount per transaction to Lebanon was \$1,073, while the average amount per transaction from Lebanon totaled \$478 in 2009. In comparison, the average amount per transaction to Lebanon was \$927.4 and the average amount per transaction from Lebanon totaled \$488 in 2008.

The UAE was the main source of inward electronic cash transfers with \$263m, equivalent to 24% of the total in 2009. It was followed by Saudi Arabia with \$148m (13.5%), Qatar with \$101.5m (9.3%), Kuwait with \$96.2m (8.8%), Australia with \$68.2m (6.2%), the United States with \$66.2m (6%), Iraq with \$49.7m (4.5%), Gabon with \$41m (3.7%), Canada with \$25.4m (2.3%), and Jordan with \$24.3m (2.2%). The top 10 sources of cash transfers accounted for 80.5% of all transfers, while the top 20 sources represented 90.6% of the total. The six countries of the Gulf Cooperation Council accounted for 58% of all electronic cash transfers to Lebanon in 2009, while Arab countries overall accounted for about 64.5%. Further, the major advanced economies represented 17% of the total, while the balance reflected electronic transfers mostly from Africa as well as Central and Latin America. Electronic cash transfers represent a proxy for remittance inflows to Lebanon.

In parallel, the Philippines was the main destination of electronic cash transfers from Lebanon with \$79.1m, or 16% of the total, in 2009. It was followed by Egypt with \$53.7m (11%), Ethiopia with \$41m (8.3%), Sri Lanka with \$36.6m (7.4%), Bangladesh with \$32m (6.5%), India with \$22.1m (4.5%), the UAE with \$20.8m (4.6%), Syria with \$18.3m (3.7%), the United States with \$16.5m (3.4%), and Nepal with \$15.8 (3.2%). The top 10 destinations accounted for 68% of overall transfers.

Further, electronic cash transfer institutions accounted for \$770m, or 70.2% of all cash electronic transactions to Lebanon, followed by money dealers with \$245.8m (22.4%), commercial banks with \$79m (7.2%) and financial institutions with \$3m (0.3%). Also, electronic cash transfer institutions accounted for \$405.5m, or 82.1% of all cash electronic transactions from Lebanon, followed by money dealers with \$80.5m (16.3%), commercial banks with \$5.8m (1.2%) and financial institutions with \$2m (0.4%).

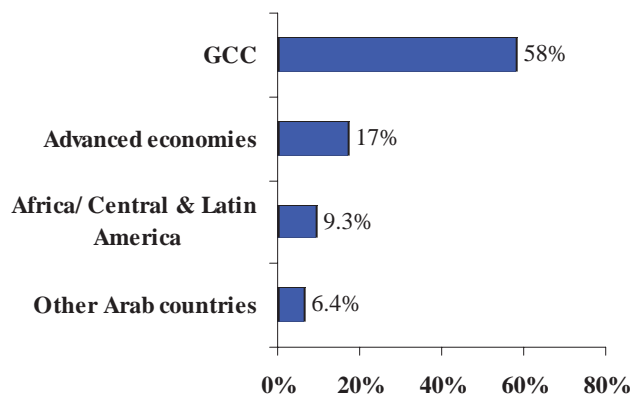
Mutual funds subscriptions in Lebanon at \$837m at end-2009

Figures released by the Central Bank show that the aggregate number of foreign and domestic mutual funds marketed in Lebanon reached 551 funds at the end 2009, including 250 licensed and 401 not licensed funds. Mutual funds marketed in Lebanon totaled 387 funds at end-2008. Financial institutions, brokerage firms, commercial banks, and investment banks market in Lebanon the majority of foreign mutual funds.

The amount of subscriptions in marketed funds as at end-2009 totaled \$837m compared to \$731.2m at end-2008. The distribution of investment by sector shows that securities funds accounted for 65.4% of all subscriptions, followed by fixed income funds with 26.4%, equity funds with 8.1%, and money market with (0.06%). Banks accounted for \$777.3m, or 93%, of overall subscriptions, while financial institutions represented the balance of \$58.5m, or 7% of the total. The distribution of the number of marketed licensed and not licensed funds by sector shows that securities funds totaled 426 funds, or 77.3% of the total, followed by equity with 118 funds (21.4%), fixed income with 6 (1.1%), and money markets with one fund. There were no derivatives funds marketed in Lebanon in 2009 compared to 21 such funds in 2008.

The total number of licensed mutual funds in Lebanon reached 1,418 funds at end-2009. The distribution of licensed funds by currency shows that 1,040 funds, or 73.3% of the total, were US dollar-denominated, followed by the Euro with 305 funds (21.5%) and the British pound with 32 (2.3%), while other currencies accounted for the remaining 41 funds (2.9%). Further, a total of 150 funds, or 10.6% of total licensed funds, were actively marketed in Lebanon.

Main Sources of Electronic Cash Transfers to Lebanon



Source: Central Bank, Byblos Research

Lebanon ranks third as exporter and 13th as importer in terms of export credit insurance contracts

Figures issued by the Arab Investment & Export Credit Guarantee Corporation (Dhaman) indicate that Lebanon ranked third among 12 Arab countries in the value of overall export credit insurance contracts signed in 2009. Dhaman provides insurance coverage to Arab and non-Arab investments in its member countries against non-commercial risks, as well as insurance against commercial and non-commercial risks for inter-Arab and worldwide Arab export credits. As an exporter, Lebanon signed \$77m worth of export credit insurance contracts in 2009, accounting for 13% of the total value of such contracts. Lebanon signed \$85.9m, or 13.7% of the total value of such contracts in 2008. Lebanon ranked ahead of Kuwait with \$50.3m (8.5%), Bahrain \$27.5m (4.7%), Egypt with \$24.8m (4.2%), Syria with \$24.4m (4.1%), Sudan with \$10.5m (1.8%), the UAE with \$9.4m (1.6%), Oman with \$4m (0.7%), Jordan with \$3.1m (0.5%) and Algeria with \$1.8m (0.3%). It came behind Saudi Arabia that accounted for \$247.2m, or 42% of the total and Tunisia with \$109.6m (18.6%). Lebanon did not sign any investment insurance contracts with Dhaman last year as an exporter of FDI.

In parallel, Lebanon ranked in 13th place among 17 Arab importing countries with \$5m worth of export credit insurance contracts signed in 2009, representing 0.85% of the total value of such contracts. Lebanon ranked in 8th place with \$16.8m worth of such contracts signed in 2008. Lebanon ranked behind the UAE whose credit insurance contracts \$58m, or 9.8%, of the total followed by Kuwait with \$47.8m (8.1%), Saudi Arabia with \$47.5m (8%), Jordan with \$41.3m (7%), Syria with \$32m (5.4%), Sudan with \$31.1m (5.3%), Qatar with \$28.2m (4.8%), Egypt with \$27.3m (4.6%), Bahrain with \$26.7m (4.5%), Tunisia with \$17.2m (2.9%), Oman with \$16.4m (2.8%) and Yemen with \$8.5m (1.5%). It ranked ahead of only Algeria, Libya, Morocco, and Mauritania. Lebanon was not a recipient of Dhaman-insured foreign direct investment last year.

Further, Lebanon ranked in 14th place among 17 Arab countries in terms of total current contracts with \$20.7m as at end-2009, of which \$16m relate to current investment contracts and \$4.7m to current export credit contracts. Lebanon ranked in 7th place with \$32.4m in such contracts as at end-2008. Current contracts represent the value of insurance contracts whether executed or not for a country as a destination of imports and investments. Lebanon's total current contracts accounted for 2.1% of overall current contracts of Arab importing countries. Further, Lebanon accounted for 3% of current investment contracts and for 0.8% of current export credit contracts. Finally, Lebanon ranked in fifth place among 17 Arab countries in terms of total outstanding commitments, which represents the value of investments executed for investment guaranteed contracts and the value of shipments executed but bit yet repaid of export credit insurance contracts. Lebanon's total outstanding commitments reached \$12.3m, accounting for 3% of the total.

Lebanon to review BlackBerry usage on security concerns

The Telecommunications Regulatory Authority (TRA) declared that it would assess security concerns related to the usage of BlackBerry smartphones in Lebanon. The TRA said it is studying the issue from all angles, including the technical, service, economic, financial, legal and security sides. Further, the Posts & Telecommunications Ministry stated that it is getting ready for discussions with BlackBerry-maker Research In Motion (RIM) and will request a program that would allow it to access information used on the smartphone device. The ministry added that it has not decided to restrict the usage of BlackBerry in Lebanon, and that talks with RIM could take two months. There are about 60,000 BlackBerry users in the country.

The Canada-based RIM is facing pressure to open up its secure network to government scrutiny, with a growing number of countries demanding access to encrypted communications sent through the device due to national security concerns. RIM is the only smartphone maker that manages the traffic of messages sent using its equipment. Saudi Arabia's Communications and Information Technology Commission (CITC) announced it has ordered the kingdom's three mobile phone providers to block BlackBerry services starting on August 6; while the UAE Telecommunications Regulatory Authority announced it will suspend BlackBerry messenger, web browsing and e-mail services starting October 11th of this year. BlackBerry has more than 700,000 subscribers in Saudi Arabia and 500,000 in the UAE. India and Indonesia have also expressed concerns about the lack of access to encrypted messages. In parallel, Research in Motion declared that allowing governments to monitor messages on the BlackBerry networks would imperil the firm's relationships with customers, including major corporations and law enforcement agencies. It added that the encryption that is causing concerns is used for many legal purposes including e-commerce transactions, teleconferencing and electronic money transfers.

Commercial banks' assets reach \$122bn at end-June 2010

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$121.7bn at the end of June 2010, constituting an increase of 5.6% from end-2009 and up 17.4% from end-June 2009. Private sector deposits totaled \$100.1bn, up 4.5% from end-2009 and up 16.7% from end-June 2009. Deposits in Lebanese pounds reached \$37.5bn, increasing by 10.2% from end-2009 and by 32.5% year-on-year, while deposits in foreign currencies reached \$62.6bn, rising by 1.4% from the end of last year and by 9% from end-June 2009. Non-resident foreign currency deposits reached \$14.3bn at end-June 2010, increasing by 0.7% from end-2009 and increasing by 16.7% year-on-year. Total private sector deposits increased by \$225m in January, \$1.07bn in February, \$1.07bn in March, \$997m in April, \$82m in May and \$908m in June 2010. In parallel, deposits of non-resident banks reached \$5.1bn, up 10% from end-2009 and up 10.5% from end-June 2009. The dollarization rate of deposits reached 62.5% at end-June 2010, down from 64.5% at end-2009 and from 67% a year earlier. Further, the average deposit rate in Lebanese pounds reached 5.83% compared to 6.96% a year earlier, while the same rate in US dollars was 2.75%, down from 3.18% in June 2009.

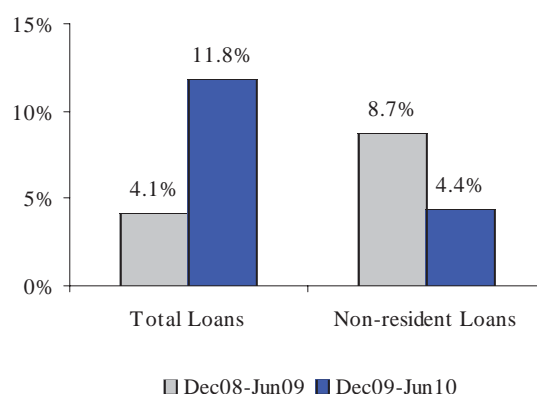
Loans to the private sector amounted to \$31.7bn, up 11.8% from end-2009 and up 21.7% year-on-year. The dollarization rate in private sector lending reached 81.9% compared to 84% at end-2009 and 85.4% a year earlier. The average lending rate in Lebanese pounds was 8.37% in June 2010 compared to 9.76% a year earlier, while the same average in US dollars was 7.03% compared to 7.24% in June 2009. Claims on the public sector stood at \$29.1bn, up 15.2% year-on-year and up 0.2% from end-2009, and accounted for 47.9% of the banking sector's total loans. The ratio of private sector loans to deposits in foreign currencies stood at 41.5%, well below the Central Bank's limit of 70%, and above the ratio of 38.7% a year earlier. In parallel, the same ratio in Lebanese pounds was 15.3%, up from 13.5% a year earlier. The ratio of total private sector loans to deposits stood at 31.7%, compared to 30.4% a year earlier. The banks' aggregate capital base stood at \$8.95bn, up 12.6% from end-2009 and up 19.2% from \$7.51bn in June 2009.

Central Bank urges investment banks to focus on core activities

The Central Bank of Lebanon set the end of 2010 as the deadline for investment banks and specialized medium- and long-term banks to implement its directive about limiting their lending to the public sector and expanding private sector lending, especially to productive sectors. It indicated that this would be the final deadline for the institutions and that it would review their licenses by the end of the period. Also, it stressed the need to segregate the work of investment banks from commercial banks, as investment banks need to focus on their core tasks of investment banking and private banking operations. It added that there is a need for investment banks to help companies increase their capitalization, underwrite and market public and private equity and debt issues, support financial markets, and establish a secondary market. As such, investment banks would generate their revenues and profits from their core activities, instead of relying on Treasury bills and certificates of deposits. It noted that most investment banks do not extend medium- and long-term loans, while their deposits represent only 3.5% of total private sector deposits because of the exemption of reserve requirements.

The consolidated balance sheet of investment banks in Lebanon reached LBP 8,458bn, or \$5.61bn, at the end of March 2010, constituting an increase of 9.4% from end-2009 and a rise of 26.5% from end-March 2009. Liabilities to the private sector reached \$3.63bn, up 11.7% from end-2009 and up by 37.7% year-on-year. Commitments to the financial sector reached \$672.7m at the end of March, representing a decrease of 9.7% from end-2009 and a decrease of 7.2% year-on-year. On the assets' side, investment banks' operations with commercial banks reached \$2.93bn at end-March 2010, up 7% from end-2009 and up by 54.1% from end-March 2009. Lending to the private sector reached 1.06bn, constituting an increase of 5.4% from end-2009 and up by 19.7% year-on-year. Investments in government securities totaled \$1.32bn at end-March 2010, up by 19.9% from end-2009 and down 6% from end-March 2009. Further, the aggregate capital account of investment banks reached \$629.4m at the end of March, up 0.24% from the end of 2009 and up by 7.8% from \$584m at the end of March 2009.

Growth in Private Sector Loans (%)



Source: Association of Banks in Lebanon

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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