

## LEBANON THIS WEEK

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BBAC's profits up 22% to \$22m in first half of 2010

BLC Bank's profits up 32% to \$21.7m in first half of 2010

IBL Bank's net income up 5% to \$14m in first half of 2010

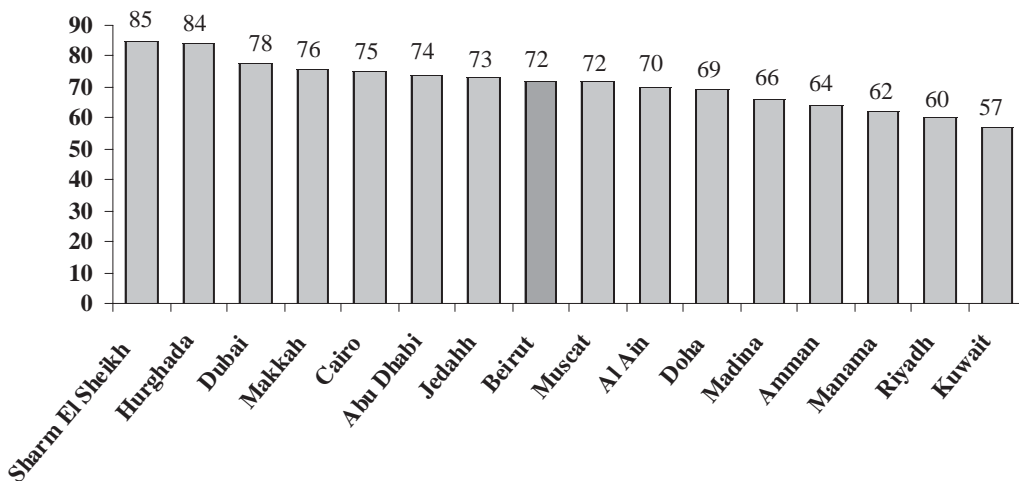
Beirut bourse approves two new brokers

Fitch affirms ratings of HSBC Middle East

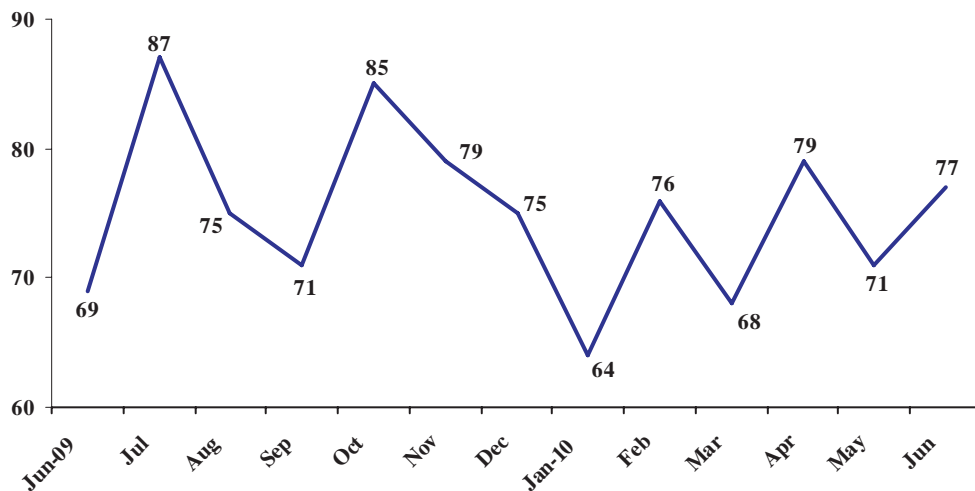
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### Charts of the Week

Occupancy Rate at Hotels in the Middle East in the First Half of 2010 (%)



Occupancy Rates at Beirut Hotels (%)



Source: Ernst & Young, Byblos Research

### Quote to Note

"Achieving high growth and employment creation over the medium-term requires addressing the deeper structural economic determinants of growth and fiscal adjustment."

*The World Bank, on the need to implement structural reforms to maintain high growth rates in Lebanon*

### Number of the Week

**75,000:** Estimated number of Palestinians working in Lebanon, according to human rights organization Shahed

## Economic Indicators

<b>\$m (unless otherwise mentioned)</b>	<b>2008</b>	<b>June 09</b>	<b>2009</b>	<b>Apr 10</b>	<b>May 10</b>	<b>June 10</b>	<b>% Change*</b>
Exports	3,478	249	3,486	328	371	385	54.62
Imports	16,133	1,551	16,241	1,377	1,369	1,449	(6.58)
Trade Balance	(12,655)	(1,302)	(12,755)	(1,049)	(998)	(1,064)	(18.30)
Balance of Payments	3,462	443	7,899	424	(195)	106	(76.07)
Checks Cleared in LBP	9,350	873	11,122	1,058	1,068	1,674	91.75
Checks Cleared in FC	43,174	3,658	45,270	4,615	4,677	4,609	26.00
Total Checks Cleared	52,524	4,531	56,392	5,673	5,745	6,283	38.67
Budget Deficit/Surplus	(2,921)	(151)	(2,960)	(110)	(183)	(52)	(65.56)
Primary Balance	597	161	1,078	291	137	279	73.29
Airport Passengers	4,085,334	460,223	4,986,544	438,328	420,212	497,647	8.13
<b>\$bn (unless otherwise mentioned)</b>	<b>Dec 2008</b>	<b>June 09</b>	<b>Mar 10</b>	<b>Apr 10</b>	<b>May 10</b>	<b>June 10</b>	<b>% Change*</b>
BdL FX Reserves	17.06	20.62	27.17	27.32	27.32	27.42	32.98
<i>In months of Imports</i>	<i>15.03</i>	<i>13.29</i>	<i>14.04</i>	<i>19.84</i>	<i>19.96</i>	<i>18.92</i>	<i>42.36</i>
Public Debt	47.02	47.31	51.46	51.49	51.07	51.00	7.80
Net Public Debt	41.49	42.96	44.40	44.34	44.24	44.13	2.72
Bank Assets	94.25	103.62	119.91	120.64	120.69	121.68	17.43
Bank Deposits (Private Sector)	77.78	85.78	98.14	99.13	99.21	100.12	16.72
Bank Loans to Private Sector	25.04	26.07	30.71	31.04	31.44	31.71	21.63
Money Supply M2	24.76	29.07	36.23	36.72	37.43	38.02	30.79
Money Supply M3	68.66	74.68	84.96	85.75	86.04	86.74	16.15
LBP Lending Rate (%)	9.95	9.76	8.69	8.48	8.47	8.37	(139b.p.)
LBP Deposit Rate (%)	7.22	6.96	6.11	6.00	5.93	5.83	(113b.p.)
USD Lending Rate (%)	7.47	7.24	7.01	7.10	7.10	7.03	(21b.p.)
USD Deposit Rate (%)	3.33	3.18	2.86	2.84	2.84	2.75	(43b.p.)
%* Change in CPI**	6.36	3.31	8.73	6.55	6.51	7.42	411b.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"	19.14	(3.24)	147,421	15.62%
Solidere "B"	18.83	(4.66)	36,849	9.99%
Byblos Common	1.79	(0.56)	142,084	5.25%
Byblos Priority	1.80	(0.55)	43,820	3.03%
Byblos Pref. 08	100.10	0.10	1,620	1.63%
BLOM GDR	93.85	1.35	4,964	5.66%
BLOM Listed	85.50	(1.16)	1,000	15.00%
Audi GDR	8.70	0.00	1,500	7.22%
Audi Listed	8.00	0.00	24,800	22.47%
HOLCIM	12.46	0.00	0.00	1.98%

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	101.19	0.89
May 2011	7.875	103.88	2.38
Mar. 2012	7.500	106.75	2.99
Sep. 2012	7.750	108.75	3.21
June 2013	8.625	113.00	3.67
Apr. 2015	10.000	121.13	4.84
Jan. 2016	8.500	116.13	5.02
May 2016	11.625	130.50	5.31
Mar. 2017	9.000	120.50	5.26
Apr. 2021	8.250	116.13	6.15

Source: Byblos Capital Markets

	<b>August 23-28,10</b>	<b>August 16-21,10</b>	<b>% Change</b>	<b>July 2010</b>	<b>July 2009</b>	<b>% Change</b>
<b>Total Shares Traded</b>	415,425	254,014	63.54	9,412,692	6,492,987	44.97
<b>Total Value Traded</b>	\$5,487,222	\$4,405,551	24.55	\$117,692,424	\$153,033,909	(23.09)
<b>Market Capitalization</b>	\$12.25bn	\$12.39bn	(1.13)	\$12.51bn	\$11.56bn	8.22

Source: Beirut Stock Exchange (BSE)



### Merrill Lynch upgrades its recommendation on Lebanese Eurobonds to 'Over Weight', switches to the April 2021 bond

Merrill Lynch upgraded its recommendation on Lebanon's external debt to 'Over Weight' from 'Market Weight' in its model portfolio of emerging markets debt and raised Lebanon's allocation by 0.4 percentage points to 5.8% in August 2010. Last May, it upgraded its recommendation to 'Market Weight' from 'Under Weight' where it was kept since January. The last time Merrill Lynch had an 'Over Weight' recommendation on Lebanon's external debt was in April 2007. Lebanon's allocation was 5.4% in July, 5.7% in May, and 2.1% in the first four months of this year. It was 5.5% in September and 5.9% in July 2009. Merrill Lynch attributed its August upgrade to the credit's potential to outperform despite the medium-term political risks, given that it is not strongly correlated to emerging markets and that it has lagged the broader market moves. It added that Lebanon represents the ultimate defensive play due to the low volatility of its external debt.

Lebanon's external debt rating of 'Over Weight' placed Lebanon in the same category as Bahrain, Indonesia, Mexico, Qatar, Russia and South Africa. Lebanon's 'Over Weight' is similar to the recommendation for similarly-rated countries, as well as 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 April 2021 Eurobond, which replaced the March 2013, the May 2014 and the March 2020 Eurobonds. Lebanon accounted for 17.4% of the allocations in the EMEA region in August compared to 16.4% in July, 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 7th highest among countries in the portfolio, up from 8th highest in July, unchanged from May and up from 14th highest in March. Lebanon accounted for 34% of allocations to similarly-rated countries, up from 31.4% in July, but down from 38.5% in May, while it was up from 12% in March and 10.5% in January.

In parallel, Lebanon's external debt posted the 13th highest return at 5.56% among 22 markets in the EMEA region in the first 7 months of 2010, as well as the 34th best return among the 44 emerging markets included in Merrill Lynch's Sovereign Plus Debt Index. Lebanon underperformed the EMEA returns of 6.84% and the overall emerging market returns of 9.21% in the covered period. Also, Lebanon's external debt underperformed the 10.47% returns posted by similarly-rated sovereigns in the first 7 months of the year, while it posted the 10th best performance at 5.79% in the EMEA region and the 31st best performance in emerging markets in US dollar terms. It also outperformed the 11.65% returns of US dollar 'B'-rated bonds. Further, Lebanon's external debt posted the 7th highest returns among 9 countries in the Middle East & Africa region during the covered period, as it came ahead of Egypt with 3.66%, and the Ivory Coast with -9.41%, but behind Iraq with 13.26%, Ghana with 10.24% and Gabon with 8.48%, South Africa with 7.81%, Morocco with 6.89% and Tunisia with 5.75%. Also, it posted returns of 0.57% in July, behind the Ivory Coast (1.3%) Tunisia (1.46%), Morocco (1.75%), South Africa (2.65%), Egypt (3.81%), Ghana (3.22%), Gabon (3.23%) and Iraq (3.89%).

In parallel, Lebanon's external debt posted the second lowest return in the EMEA region and the fifth lowest return in emerging markets in July 2010. It underperformed the EMEA returns of 2.88%, the emerging markets returns of 3.8%, and the 4.67% returns of similarly-rated sovereigns for the same month.

Merrill Lynch said the spread on Lebanese Eurobonds ended July 2010 at 355 basis points, 10th narrowest in the EMEA region and 22nd narrowest among emerging markets. It was wider than the EMEA spread of 285 basis points and the emerging markets overall spread of 397 basis points as at end-July 2010. Also, Lebanon's spread widened by 12 basis points in July, as spreads in the EMEA narrowed by 35 basis points while spreads in emerging markets overall narrowed by 36 basis points in the same month.

### Cleared checks up 37.5% to \$34.6bn in first half of 2010

The value of cleared checks increased by 37.5% to \$34.6bn in the first half of 2010 compared to the same period of 2009. The value of cleared checks in Lebanese pounds rose by 34.2% to the equivalent of \$7bn, while the value of cleared checks in US dollars rose by 38.4% to \$27.6bn. The dollarization rate of cleared checks increased from 79.2% to 79.7% year-on-year.

Emerging Markets External Debt Portfolio		
Country	Bonds	Weight (%)
Mexico	Mexico '17s	10.2
Russia	Russia '18s, '30s	10.1
Indonesia	Indonesia '18s, '19s, Suk'14s	9.6
Philippines	Philip '16Ns, '19s, '20s	9.4
Turkey	Turkey '18s, '19s	9.2
Brazil	Brazil '17s, '18s, '37s	9.2
Venezuela	Vz '14s, '16s, '18Ns, '19s	6.5
<b>Lebanon</b>	<b>Lebanon '21s</b>	<b>5.8</b>
South Africa	South Africa '14s, '20s	4.7
Colombia	Colombia '17s, '19s, '37s	4.6
Peru	Peru '19s	4.2
Panama	Panama '15s, '36s	3.5
Argentina	Pars, Boden '12s, '15s	3.3
Uruguay	Uruguay '22s	2.7
Hungary	Hungary '20s	2.1
El Salvador	El Salvador '23s	1.5
Ukraine	Ukraine '11s	1.5
Bahrain	Bahrain '20s	0.5
Qatar	Qatar '19s	0.5
Iraq	Iraq '28s	0.1
Cash		0.7
<b>Total</b>		<b>100</b>

Source: Merrill Lynch, August 2010

### **Potential windfall from oil and gas discoveries to help improve sovereign creditworthiness, political interests may delay process and squander benefits**

Merrill Lynch indicated that the Lebanese Parliament's recent ratification of the hydrocarbons law opens the door for offshore oil and gas exploration and allows for licenses to be issued to interested firms. It said seismic surveys carried out in 2006 and 2007 indicate that there could be significant reserves of natural gas off the Lebanese coast. It added that Norwegian firm Petroleum Geo-Services (PGS) has developed data on seismic studies across the Levantine Basin and noted signs of deposits, but cautioned that there is no indication to date of actual quantities. It noted that PGS' exploration has come at a minimal fiscal cost to the Lebanese government so far, given that the firm owns the data results and can sell them to prospective bidders in future tenders according to agreements in place. However, Merrill Lynch warned that it is unlikely that commercial production can start before at least 5 to 8 years, in case gas is discovered in Lebanese territorial waters. It noted that a potential windfall could help improve sovereign creditworthiness, as Lebanon has one of the highest debt-to-GDP ratios in the world and the country is resource-poor compared to GCC countries and other hydrocarbon-rich economies in the region. It added that the initial impact on Lebanon's balance of payments could be negative, as was the case in other economies with new oil discoveries, due to the heavy import requirements for production. It estimated that potential gas discoveries are most likely to be modest in size by regional standards, but the impact on Lebanon's fiscal accounts should be positive and would reduce debt refinancing needs in the future. It warned, however, that the delay of the passage of a law establishing a sovereign wealth fund, or reserves fund, may reflect the long-term risk that oil and gas revenues could be subjected to Lebanon's fractured sectarian political landscape.

In parallel, the Economist Intelligence Unit indicated that the hydrocarbon law's main purpose appears to be political as a reaction to the rapid development of Israel's offshore gas prospects. It added that many crucial details on the regulatory framework remain to be clarified. It said the hydrocarbon draft law was delayed during its review by a parliamentary committee due to differences about which governmental body should have authority and jurisdiction over exploration work. It expressed concerns that political infighting and corruption may squander the benefits of any offshore discoveries. It added that efforts to establish a sovereign wealth fund to save any extra income from hydrocarbons revenues did not advance, leading to concerns that public officials and politicians would seek to spend all the revenues rather than set some aside for future generations. As result, it concluded that there was no consensus on any aspect of the new law or the wider issue of future hydrocarbons income. It expected that the Parliament, despite the law's unanimous passage, will still face complicated issues in the drafting of the by-laws that will cover the law's implementation.

### **Government may roll over \$4.8bn in 2010 and 2011 Eurobonds**

Finance Minister Raya el-Hassan stated that the government may roll over or swap as much as \$4.8bn of Eurobonds maturing in 2010 and 2011, as the country looks to take advantage of low global interest rates before central banks worldwide begin to tighten monetary policy. Lebanon has \$893m in Eurobonds maturing before the end of the year and \$2.14bn due in 2011. Total redemptions would reach \$1.5bn in 2010 and \$3.3bn in 2011 when interest payments are included. Minister Hassan said one of the factors that will influence the decision to combine the roll over of debt maturing this year with that of 2011 will be the premium that the government may have to pay if it retires the debt before its maturity. Last February, the ministry issued \$1.2bn in Eurobonds under the Republic of Lebanon's Global Medium Term Note Program to refinance \$1.1bn in debt that matured in March. The Eurobond has a 10-year maturity and carries a coupon rate of 6.375%. Minister Hassan said it will decide by September about the size of the rollover, as the government needs to wait for Parliament to approve the 2010 budget and authorize the government to borrow funds. She added that if Parliament does not ratify the budget by September, the ministry may revert to redeeming in cash part of the maturities and rolling over the rest. She said at least one foreign bank and two local Lebanese banks would oversee the potential rollover.

Lebanon's gross public debt reached \$51bn at the end of June 2010, constituting a marginal decrease of 0.2% from end-2009, and an increase of 7.8% from end-June 2009. Domestic debt increased by 16% to \$30.2bn, while external debt decreased by 2.4% annually to \$20.8bn. Local currency debt accounted for 59% of gross public debt at end-June 2010, while foreign currency-denominated debt represented 41% of the total. The weighted interest rate on outstanding Treasury bills was 8.24%, while the weighted interest rate on Eurobonds was 7.34% at the end of June. Further, the weighted life on Eurobonds was 4.92 years, while that on Treasury bills was 552 days. Net public debt, which excludes the public sector's deposits at the Central Bank and at commercial banks from overall debt figures, increased annually by 2.7% to \$44.1bn.

### **Association of Banks signs loan deal for agricultural sector**

The Association of Banks in Lebanon (ABL) signed a Memorandum of Understanding with the Ministry of Agriculture to provide investors in the agriculture sector with soft loans ranging from LBP 3m or \$2,000 to LBP 25m or \$16,667 to finance small and medium enterprises (SMEs) for a four-year period at low interest rates. The agricultural sector contributes around 6% of GDP and employs 7.5% of the Lebanese working force, according to the national accounts of 2008. The agricultural, livestock and fisheries products sector grew by 56.7% between 2000 and 2008. The ABL added that exports of animal and plant products increased from \$86m in 2005 to \$135m in 2009, contributing to 5% of total Lebanese exports. It also noted that loans provided to the agriculture sector remain very modest despite the fact that their value increased from LBP 344bn in 2005 to LBP 421bn in 2009. The cumulative value of subsidized loans extended to the sector reached LBP 426.5bn between 1997 and March 2010.

### **Finance Ministry expects spending level to be unchanged, no new taxes in 2011 draft budget**

The Ministry of Finance expected the 2011 draft budget to be completed in a short period of time, adding that it has finalized the expenditures component and is currently estimating the revenues side. It indicated that next year's budget does not earmark new capital expenditures, given that the bulk of such spending has been included in the 2010 budget, and implying that overall spending will remain at its current level. It added that the budget will not include new taxes, but will have limited measures depending on requests from ministries and government agencies. It noted that the approval of the 2011 draft budget will take place rapidly compared to the 2010 budget, and expected the draft to be discussed by the Cabinet in September and to be forwarded to Parliament in November.

Last May, the ministry's preliminary projections estimated overall spending at 34.2% of GDP in 2011, which includes 10.4% of GDP in debt servicing and 23.8% of GDP for other items. It said the non-debt servicing component consists of wages & salaries at 9% of GDP, capital expenditures at 4.9% of GDP, transfers to Electricité du Liban at 3.5% of GDP, and other Treasury spending at 2.85% of GDP. It forecast spending to decline to 31.4% of GDP in 2012 and 29% of GDP in 2013. In parallel, the ministry estimated fiscal revenues at 24.4% of GDP in 2011 and to average 24% of GDP in 2012-13. As such, the ministry estimated the fiscal deficit at 9.9% of GDP and the primary surplus at 0.6% of GDP in 2011. It stated that it aims to reduce the fiscal deficit to 7.1% of GDP in 2012 and 5.7% of GDP in 2013, and to increase the primary surplus to 3% of GDP in 2012 and 3.3% of GDP in 2013.

### **Central Bank and Association of Banks negotiate prospective measure related to large loans**

The Central Bank of Lebanon's Central Council is reportedly planning to request from commercial banks operating in Lebanon to submit the balance sheet and income statements of companies and organizations that apply for loans exceeding \$5m in Lebanese pounds or in foreign currencies. The Central Bank is expected to issue a circular to banks about the new measure after taking into consideration the reservations expressed by the Association of Banks in Lebanon (ABL) related to potential conflicts with existing bank secrecy laws in case of transmission of firms' financial information to third parties. The measure, currently under discussion between the Central Bank and the ABL, aims to verify the solvency of companies that request sizeable loans and their ability to service their debt, as well as to encourage better liquidity management in light of the high level of liquidity at banks. Also, the upcoming measure is supposed to be in line with the strict measures related to liquidity management that central banks around the world have adopted in the wake of the global financial crisis. Banks operating in Lebanon are required under law not to share the financials of current or prospective clients with any third party, including any government ministry or official body, except in specific cases when requested by judicial authorities. Further, the measure under consideration does not imply tightening lending criteria for any sector, particularly to productive sectors, but is aimed at exercising caution in lending large amounts.

### **Trade deficit up 9% to \$8bn in first 7 months of 2010**

Total imports reached \$10.43bn in the first 7 months of 2010, constituting an increase of 12.1% from the same period last year, while aggregate exports rose by 20.6% to \$2.42bn in the same period, leading to a trade deficit of \$8bn, up 9% year-on-year. Imports of oil and mineral fuels increased by 15.7% year-on-year to nearly \$2.1bn, while non-hydrocarbon imports grew by 11.3% to \$8.4bn. The rise of non-oil imports was mainly driven by higher imports of natural or cultured pearls, reactors, boilers, machinery & mechanical appliances, iron & steel, and pharmaceutical products. The coverage ratio reached 23.2% year-to-July compared to 20.6% in the same period of 2009. The trade deficit was \$1.55bn in July 2010, up 25% from the same month last year. Imports averaged \$1.5bn and exports averaged \$345m on a monthly basis year-to-July, resulting in an average monthly trade deficit of \$1.14bn during the covered period.

In volume terms, imports reached 8.7 million tons in the first 7 months of 2010, constituting an increase of 3.4% from the same period last year, while exports rose by 3% to 1.7 million tons in the same period, leading to a trade deficit of 7 million tons up 3.5% year-on-year. Imports of oil and mineral fuels decreased by 13% year-on-year to nearly 3.4 million tons, while non-hydrocarbon imports grew by 17.6% to 5.3 million tons.

The United States was the main source of imports with \$1bn or 10% of the total, followed by China with \$935m (9%), Italy with \$796m (8%), Germany with \$740m (7%) and France with \$681m (7%). Imports from China and Italy rose by 11% each and those from Germany grew by 3% year-on-year, while imports from France dropped by 26% and those from the U.S. declined by 2% for the covered period. Switzerland was the main export destination with \$349m or 14% of the total, followed by the UAE with \$248m (10%), Iraq with \$156m (6%), Saudi Arabia with \$145m (6%) and Syria with \$130m (5%). Exports to the UAE rose by 28% year-on-year and those to Saudi Arabia grew by 2%, while exports to Switzerland declined by 23%, and those to Iraq and Syria regressed by 1% each. Lebanon's main export was jewelry at \$679m, or 28% of total exports, followed by machinery and mechanical appliances with \$432m (18%), base metals with \$270m (11%), prepared foodstuff with \$188m (8%) and chemical products with \$172m (7%). Re-exports totaled \$80m in the first 7 months of 2010, down 5.8% from \$85m in the same period last year.

### **Customs receipts up 7.4% to \$1.7bn in first 7 months of 2010**

Customs revenues reached \$1.7bn in the first 7 months of 2010, up 7.4% from \$1.58bn in the same period last year. Custom revenues reached \$273m in July 2010 compared \$272m in June and to \$257m in July 2009. The Port of Beirut continues to be the main point of customs receipts, accounting for 87.7% of the total in first 7 months of 2010, and was followed by the Hariri International Airport with 5.4%, the Port of Tripoli with 3.4%, and the Masnaa crossing point with 2% of the total. Customs receipts from the value-added tax totaled \$865m in the first 7 months of the year. The Port of Beirut accounted for 76% of such receipts, and was followed by the Hariri International Airport with 8.5%, the Port of Tripoli with 6.7%, and the Masnaa crossing point with 6% of the total. As such, overall custom receipts reached \$2bn in the first 7 months of the year, with the Port of Beirut accounting for 82.6% of the total, and was followed by the Hariri International Airport with 6.8%, the Port of Tripoli with 4.9%, and the Masnaa crossing point with 3.8% of the total. In addition, other entry points accounted for the balance, with the port of Saida for 1.5%, the port of Tyr for 0.2%, and the crossing points of Abboudieh, Arida and Kaa for 0.2%. Overall customs receipts reached \$471m in July 2010 when including revenues from the value-added tax that totaled \$198m in the same period.

### **Industrial exports up 35% to \$1.8bn in first half of 2010**

Figures released by the Ministry of Industry show that industrial exports reached \$1.79bn in the first half of 2010, constituting an increase of 35% from \$1.32bn in the same period last year. Industrial exports reached \$336m in June 2010, up by 5% from May 2010 and by 70.6% from June 2009. Pearls & precious or semi-precious stone accounted for \$365m, or 20.4% of total industrial exports in the first half of 2010, followed by machinery and mechanical appliances at \$360m (20%), and base metals & articles of base metals at \$239m (13.4%). In parallel, imports of industrial equipment and machinery reached \$113m in the first half of the year, up 8% from the same period in 2009. Italy was the main source of imports of industrial equipments, accounting for 27.4% of total, followed by China with 15.6% and Germany with 15.4%.

### **Construction permits up 34% in first half of 2010**

Figures released by the Association of Engineers of Beirut & Tripoli show that construction permits reached 8.4 million square meters in the first half of 2010, up 33.6% from 6.3 million square meters in the same period last year. Construction permits totaled 1.6 million square meters in June 2010, down 20% year-on-year from two million square meters in June 2009. In parallel, cement deliveries reached 2.6 million tons in the first half of 2010, an increase of 9.3% from 2.4 million tons in the same period last year. Cement deliveries reached 495,000 tons in June 2010, down 6.5% from 465,000 tons in June 2009.

### Fastest growing companies in Lebanon reflect entrepreneurial potential

AllWorld Network, a network that promotes entrepreneurship in the developed and developing economies, selected 25 Lebanese companies in a competition to identify the fastest growing firms in the country. The firms will be included in a list of the top 500 fastest growing companies in the Arab world. It said the selection of the Lebanese firms was based on rigorous international standards that included completing a detailed survey of business strategy and operations, sales growth between 2006 and 2008, and providing audited statements or an audit letter to verify revenues. AllWorld Network said the "Lebanon 25" grew by an annual average of 22% during the 2006-08 period, averaged \$3m in revenues in 2008, with only two companies exceeding \$10m each in sales in 2008. Further, they represent diversified industries, with food services in first place, followed by high tech & telecommunications, and public relations, media and marketing tied for second place. It added that the firms had 43 employees on average in 2008 and the founders were 29 years old on average when they started their company. Also, the average first year cost of starting a "Lebanon 25" company was \$172,000, of which 80% was financed by the founder's own funds. It noted that the 25 firms have created 776 jobs since company inception. It said most of the companies were started in the 1990s, giving the "Lebanon 25" a unique strength in start ups and "restarts", which are mature companies that grew rapidly after the war. Further, 35% of sales of the "Lebanon 25" come from outside Lebanon, and the firms expect foreign sales to represent 46% of revenues by 2011. Most companies project revenue and job growth of 5%-25% in the next six months, while 65% of the firms planning to bring in outside investors in the next two years, which is considered a high ratio relative to other countries.

AllWorld Network indicated that the findings suggest that Lebanon can be a strong location for growth entrepreneurs. It said the "Lebanon 25" are strong in "entrepreneurial intensity", having established 58 other businesses that are still operating and with 80% planning to start another company in the next two years. It added that several of the entrepreneurs have also helped employees start their own firms, making the "Lebanon 25" responsible for creating over 100 other companies overall. The "Lebanon 25" identified the top two constraints to further growth as finding qualified talent as well as the shortage and cost of working capital, which are universal problems for growth companies. They cited other obstacles such as the lack of support from the government; challenges finding the right investors; political unrest; grey market, smuggled goods and a poor commercial legal system; and lack of effective infrastructure and Internet.

Top 10 Fastest Growing Companies in Lebanon		
Company Name	Sales Growth Rate (2006-08)	Industry
Food Trends Corporation	598%	Accommodation & Food Service
Firehorse	566%	Public Services, Media & Publishing, Advertising
Consulting & Development Services	181%	Management Consulting
Mouftah El Chark	145%	Art & Design
Born Interactive	143%	High-Tech & Telecommunications
element^n	141%	High-Tech & Telecommunications
Clartag	134%	High-Tech & Telecommunications
Grey Matter	97%	Travel & Tourism
el-Haceb	87%	High-Tech & Telecommunications
World of Light & Electricity	80%	Energy & Power, Water

Source: AllWorld Network

### RYMCO's profits down 20% to \$1.9m in first half of 2010

Automobile dealer Rasamny Younis Motor Co. sal (RYMCO) declared net profits of \$1.89m in the first half of 2010, down 20.3% from \$2.37m in the same period last year. Sales revenues (net of discounts) totaled \$87.9m, posting a 8.1% decrease year-on-year; while net earnings from servicing and repairs, or 'garage income', increased by 19% to \$2.44m. General and administrative expenses decreased by 0.9% to \$2.18m, while advertising & selling expenses increased by 66.7% to \$1.1m, and overall operating charges rose by 7.8% to \$6.9m. RYMCO's total assets and total equity amounted to \$140.9m and \$54.6m at the end of June 2010 respectively, compared to \$135.7m and \$54m a year earlier. The company's inventory of cars and spare parts decreased 9.6% to \$48.3m. RYMCO is the only car retailer listed on the Beirut bourse. Its share price closed at \$2.25 on August 27, down 28.6% year-to-date.

### BBAC's profits up 22% to \$22m in first half of 2010

BBAC sal, posted consolidated net profits of \$21.8m in the first half of 2010, constituting an increase of 21.7% from the same period last year. Net operating income rose by 14.6% in the first half of the year to \$46.8m, with net interest income increasing by 39.4% to \$32m and non-interest receipts declining by 13.8% to \$11.4m year-on-year. Also, operating expenditures increased by 9.2% to \$21.5m, with staff expenses increasing by 5% to \$13m. Total assets reached \$3.86bn at end-June 2010, constituting an 11.7% rise from end-June 2009 and a 3.4% rise from end-2009, while loans & advances to customers increased by 21.3% year-on-year and rose by 14.8% from end-2009 to \$781m. Customer deposits totaled \$3.4bn at end-June, constituting an increase of 2.2% from end-2009 and a growth of 10.5% from a year earlier. The bank's shareholders' equity reached \$304m, up 11.3% in the first half of the year.



### **BLC Bank's profits up 32% to \$21.7m in first half of 2010**

BLC Bank sal, one of Lebanon's listed banks, announced unaudited net profits of \$21.7m in the first half of 2010, up 32.4% from the same period last year. Net interest income rose by 35.2% to \$34m while net fee & commission receipts rose by 14% to \$5.7m and net interest gains on trading portfolio dropped by 87.4% to \$0.3m compared to \$2.2m in the same period last year. General administrative expenses increased by 14% to \$21.2m and staff costs increased by 13% to \$13.5m. Total assets reached \$2.85bn at end-June 2010 up 10% from end-2009 and by 28.1% from June 2009, while loans & advances to customers increased by 19% from end-2009 and by 52.4% year-on-year to \$565m. The bank held \$50.3m in assets acquired in satisfaction of loans at end-June, down from \$52.1m a year earlier. Customer deposits totaled \$2.34bn, an increase of 3% from end-2009 and of 20.4% from end-June 2009. Also, the bank's average return on assets reached 1.6% and its average return on equity reached 17.6% in June-2010. In August 2007, Fransabank acquired 97.52% of BLC Bank sal from the Qatari Supreme Council for Economic Affairs. It then sold a majority stake in BLC to the Maurice Sehnaoui Group in April 2008. BLC Bank's share price closed at \$1.66 on August 27, up 3.8% year-to-date.

### **IBL Bank's net income up 5% to \$14m in first half of 2010**

IBL Bank sal announced consolidated net profits of \$14.3m in the first half of 2010, up 5% from the same period last year. Net operating income rose by 15.8% in the first half of the year to \$28.6m, with net interest income increasing by 3.7% to \$23.6m and non-interest receipts growing by 95.6% to \$5.9m year-on-year. Also, operating expenditures increased by 16% to \$11.3m, with staff expenses increasing by 17% to \$6.3m. Total assets reached \$3bn at end-June 2010, constituting a 32.7% rise from end-June 2009 and a 16% rise from end-2009, while loans & advances to customers increased by 20% year-on-year and by 47.3% from end-2009 to \$394m. Customer deposits totaled \$2.7bn at end-June, constituting an increase of 14% from end-2009 and a growth of 33% from a year earlier. The bank's shareholders' equity reached \$217m, up 13.4% in the first half of the year.

### **Beirut bourse approves two new brokers**

The Beirut Stock Exchange (BSE) approved Bank of Beirut Invest sal and Middle East Capital Group sal as brokers on the bourse, raising to 17 the number of authorized brokers on the BSE. The two new brokers will start trading at the beginning of September 2010. Total trading volume on the BSE 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 market liquidity ratio was 12.6% compared to 5.4% a year earlier. 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 average daily value of \$11.1m. The figures reflect increases of 65% in volume and 160% in value year-on-year.

### **Fitch affirms ratings of HSBC Middle East**

Fitch Ratings affirmed HSBC Bank Middle East's (HBME) Long-term Issuer Default Rating (IDR) at 'AA-', Short-term IDR at 'F1+', and Support Rating at '1'. It kept the Individual 'B/C' rating on Rating Watch Negative (RWN) and said the outlook for the Long-term rating is 'stable'. HBME is a wholly-owned subsidiary of HSBC Holdings plc. It operates through a network of 46 branches in Lebanon, Jordan, the UAE, Oman, Bahrain, Qatar, Kuwait, Pakistan, and the Palestinian Territories. The bank operates in Lebanon through 5 branches and had assets of \$946m, loans of \$402m and deposits of \$820m at end-2008. The agency said the ratings are underpinned by an extremely high probability of support from its parent company. It added that the Individual Rating reflects the strength of HBME's regional franchise, its sound liquidity and satisfactory capitalization as well as the benefits of being part of the HSBC Group. It also takes into account the bank's high risk concentrations in the UAE and the possibility of further pressure on earnings and asset quality going forward. Fitch said it will keep HBME's Individual Rating on Rating Watch Negative pending the final settlement of the Dubai World restructuring, in order to evaluate its impact on bank's financial profile. It noted HBME's conservative stand to provisioning against its corporate lending portfolio and its proactive approach to recognizing its problem loans. The agency said asset quality concerns continue to pose challenges for the bank, as NPLs represented 7.3% of total loans at end-2009 compared to 1.3% at end-2008, higher than at most of the bank's competitors. It added that high credit costs could put pressure on the bank's 2010 results. Fitch considered that the bank is well-funded, reflecting its strong franchise, particularly in retail banking. HBME ranks in 17th place in assets, 16th place in deposits, and in 14th place in loans and advances in the Lebanese market.

## 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	June 2009	May 2010	June 2010	Change*	Risk Level
Political Risk Rating	57.0	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	57.5	61.0	61.0	▲	Moderate

Regional Average	June 2009	May 2010	June 2010	Change*	Risk Level
Political Risk Rating	65.1	64.8	64.8	▼	Moderate
Financial Risk Rating	41.5	41.7	41.7	▲	Very Low
Economic Risk Rating	34.6	38.3	38.4	▲	Low
Composite Risk Rating	70.6	72.4	72.4	▲	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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