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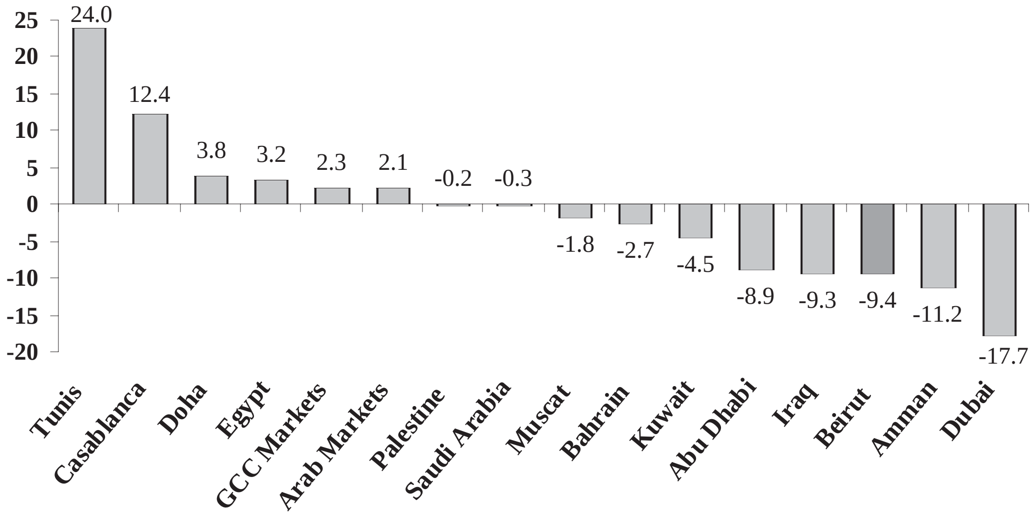
LEBANON THIS WEEK

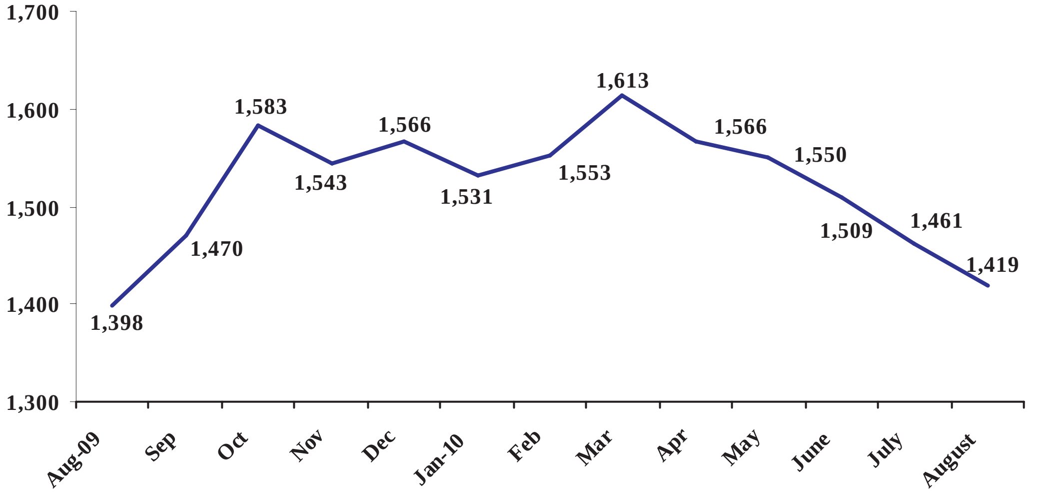
In This Issue

Charts of the Week

Performance of Arab Stock Markets in First Eight Months of 2010 (%)



Performance of Beirut Srock Market*



**BLOM Stock Index*

Source: Local Stock Markets

Quote to Note

"We are comfortable with the strong Lebanese macro story in the short term."

Merrill Lynch, on the strong economic growth, cash rich banks, high local ownership of public debt, improving budget balance, a balance of payment in surplus, and increasing foreign currency reserves

Number of the Week

LBP 26,218bn: Aggregate amount of Certificates of Deposits issued by the Central Bank of Lebanon as at the end of June 2010

Economic Indicators

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

$bn (unless otherwise mentioned)	Dec 2008	June 09	Mar 10	Apr 10	May 10	June 10	% Change*
BdL FX Reserves	17.06	20.62	27.17	27.32	27.32	27.42	32.98
In months of Imports	*15.03*	*13.29*	*14.04*	*19.84*	*19.96*	*18.92*	*42.36*
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

Most Traded Stocks on BSE	Last Price ($)	% Change*	Total Volume	Weight in Market Capitalization
Solidere "A"	20.04	4.70	160,874	16.07%
Solidere "B"	20.09	6.69	66,619	10.47%
Byblos Common	1.80	0.56	156,017	5.19%
Byblos Priority	1.82	1.11	12,770	3.01%
Byblos Pref. 08	100.10	0.00	0.00	1.61%
BLOM GDR	93.85	0.00	1,130	5.56%
BLOM Listed	86.00	0.58	63,589	14.83%
Audi GDR	9.00	3.45	4,940	7.34%
Audi Listed	8.00	0.00	73,448	22.08%
HOLCIM	12.30	(1.28)	5,000	1.92%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Nov. 2010	6.875	101.19	0.90
May 2011	7.875	103.88	2.56
Mar. 2012	7.500	106.50	3.12
Sep. 2012	7.750	108.88	3.13
June 2013	8.625	112.75	3.76
Apr. 2015	10.000	121.13	4.88
Jan. 2016	8.500	116.00	5.06
May 2016	11.625	130.75	5.28
Mar. 2017	9.000	120.25	5.29
Apr. 2021	8.250	116.37	6.13

Source: Byblos Capital Markets

	August 30-Sep. 3, 10	August 23-28, 10	% Change	August 2010	August 2009	% Change
Total Shares Traded	568,867	415,425	36.94	2,924,222	3,835,239	(23.75)
Total Value Traded	$11,586,077	$5,487,222	111.15	$35,867,053	$61,835,814	(42.00)
Market Capitalization	$12.47bn	$12.25bn	1.79	$12.19bn	$11.04bn	10.37

Source: Beirut Stock Exchange (BSE)

Economic growth at 7% in 2010 despite expected slow down in second half, energy reforms to raise growth by 2% annually

The Institute of International Finance projected economic growth in Lebanon at 7% in 2010 and 6.5% in 2011, slightly down from 8.6% in 2009. It estimated that real GDP grew by 9% in the first half of 2010 driven by strong activity, as the value of cleared checks grew by 26% in real terms; tax revenues rose by 12% in real terms; credit to the private sector increased by 16% in real terms; the number of tourists increased by 22%; construction permits rose by 33%; while the exports and imports of goods & services expanded by 17% and 4%, respectively, at constant prices. It expected real GDP growth to moderate in the second half of the year to 5% due to the rise in political tensions related to the findings of the United Nations tribunal probing the assassination of Prime Minister Rafiq Hariri, a decline in consumer confidence, and the slow down of the global economy. The IIF said its baseline scenario assumes that political tensions will be contained and that the relatively stable political environment will continue throughout the forecast period, which would keep at very low levels the risks to the stability of the exchange rate and the banking system.

It expected growth to remain strong over the medium-term under the baseline scenario of political stability and some progress on structural reforms. It said industry, energy, and construction will drive growth on the production side, while investment and exports of goods and services will boost activity on the expenditures side. It considered that the implementation of the reform plan of Electricité du Liban would result in a large increase in investment and would raise annual economic growth by at least 2 percentage points on average over the medium-term. In turn, this could offset the expected slowdown in the growth of private consumption, and sustain an annual growth rate of at least 6.5%.

In parallel, the IIF indicated that the continued strong growth in tax revenues and delays in the execution of the 2010 budget are expected to result in a narrower overall deficit and a larger primary surplus than originally forecast. It noted that delays in budget execution, particularly in capital spending, combined with the expected further decline in transfers to EdL, may result in an increase in spending of less than 10% instead of the 16% forecast in the 2010 draft budget. It added that slightly less than 40% of the budgeted expenditures have been executed in the first half of 2010, as total expenditures decreased by 9.7% from the same period last year. Further, actual tax revenues increased by 16.2% in the first half of the year, and non-tax revenues rose by 14% from the same period last year when including the estimated $600m in telecom profits, as has been the practice in previous years. Consequently, it expected the overall fiscal deficit, excluding grants, to reach 7.5% of GDP in 2010 compared to 10.7% of GDP in the 2010 budget and down from 8.7% of GDP in 2009; and for the primary surplus to reach 3% of GDP this year relative to zero percent of GDP in the 2010 budget and down from 8.7% of GDP at end-2009. It also forecast the public debt to reach 136% of GDP at the end of 2010 compared to 146.4% of GDP in the 2010 budget and down from 150% of GDP at end-2009.

The IIF warned that the government's pressing fiscal and debt burdens remain Lebanon's most important economic challenges. It noted that simply meeting the interest payments on the public debt consumes more than 40% of government revenues, which leaves the fiscal position vulnerable to political or economic shocks, and imposes considerable opportunity costs. It added that the macroeconomic risks from the exceptionally high debt ratio are somewhat alleviated by the fact that the financing needs of the government are supported by a highly profitable and liquid banking system, as well as by the large foreign assets of the Central Bank. However, the IIF cautioned that the current rapid economic growth, low global interest rates, and abundant liquidity in the Lebanese banking system are unlikely to persist over the medium term. It urged Lebanese authorities to avoid complacency and build consensus on structural reforms in order to maintain high levels of growth rate and reduce the debt to more sustainable levels.

Real GDP Growth by Production Sectors and Expenditure Components

	2009e	2010f	2011f
Real GDP growth (%)	8.6	7.0	6.5
Production real growth (%)			
Agriculture	-1.0	2.0	2.0
Industry (including energy)	1.0	3.0	7.0
Construction	8.0	11.4	14.3
Private Services	10.0	7.2	5.5
Public Services	9.3	4.5	5.0
Expenditure real growth (%)			
Private Consumption	8.2	6.1	4.4
Public Consumption	15.3	4.9	4.8
Private Investment	8.0	6.5	18.5
Public Investment	-11.7	47.0	90.4
Exports of Goods & Services	15.3	13.5	12.3
Imports of Goods & Services	12.2	11.2	15.6

Source: Institute of International Finance

Beirut is 10th most expensive city in the world for expatriate housing

EuroCost International's annual survey on house rental prices for 2010 ranked Beirut in 10th place globally, constituting an increase of 18 spots from 28th place in 2009. The survey evaluates the average rental cost OF two- and three-bedroom apartments for expatriates, and converts the average prices per location to euros. It said the data reflects the local rental market for expatriates and therefore differs from the rental market for the local population in terms of price level and evolution.

Beirut ranked ahead of Paris, Abu Dhabi and Amsterdam, and behind Singapore, Osaka and New York City in this year's survey. EuroCost International noted that Beirut appears for the first time among the top 20 cities worldwide and has become the most expensive city in the Middle East this year, pushed up by the real estate speculation that has generated a strong increase in the supply of high quality housing. It added that the decline in rental prices in other Arab and non-Arab cities contributed to the increase in Beirut's rankings, as Dubai rents declined by 30% to 50%, dropping the city from 12th place in 2009 to 31st place this year, while Abu Dhabi regressed by one spot from 11th place last year to 12th place this year. Further, the decline in rental prices pushed down the rankings of several non-Arab cities, with Kiev dropping from 10th place to 17th place and San Francisco regressing from 14th place to 16th place. In addition, Rome, Shanghai, Beijing and Jakarta dropped out of the top 20 this year. In parallel, Kinshasa, Sidney, Rio de Janeiro and Seoul joined the top 20 this year.

EuroCost International added that the locations selected for the survey are residential areas frequented by expatriates. It noted that it only includes residential units that are of very high quality, as multinationals are aware that housing is a crucial component of expatriates' comfort and satisfaction and, therefore, seriously take into consideration their staff's living conditions. It added that exchange rates have fluctuated significantly in 2009, which means that the evolution of rental costs might have been very different in euros than in local currencies. Tokyo remained the most expensive rental city in the world for expatriates in 2010, while the rankings of top 9 cities were almost unchanged from last year. EuroCost International specializes in cost of living services for expatriates in over 250 locations worldwide.

Ranking of Most Expensive Rental Cities

	2010	2009
Tokyo	1	1
London	2	3
Hong Kong	3	2
Moscow	4	4
Luanda	5	6
Mumbai	6	5
New York	7	7
Osaka	8	8
Singapore	9	9
Beirut	**10**	**28**
Paris	11	13
Abu Dhabi	12	11
Amsterdam	13	16
Sydney	14	41
Geneva	15	19
San Francisco	16	14
Kiev	17	10
Kinshasa	18	27
Rio de Janeiro	19	71
Seoul	20	36

Source: EuroCost International, Byblos Research

World Bank approves up to $550m to support public financial management, economic infrastructure, and social sectors in Lebanon

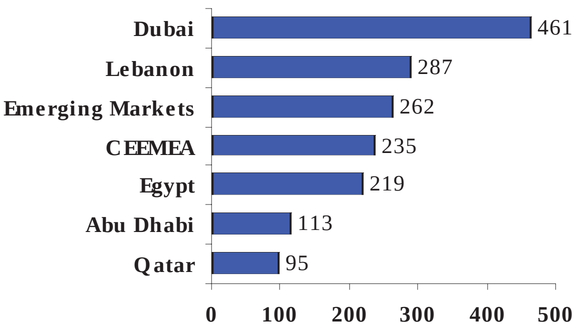
The World Bank Group indicated that it has finalized its Country Partnership Strategy (CPS), or business plan, for Lebanon for the next four years. It said the CPS, in agreement with Lebanese authorities, will provide support for priority areas that cover fiscal stability and economic growth; improving the business environment; enhancing the economic infrastructure in the water, electricity and environment sectors; and strengthening social sectors, especially improving the quality of education and enhancing social protection and safety nets in the country. It added that the World Bank's support for Lebanon will range between $375m and $550m over the 2010-14 period to finance the country's economic and social developoment program. The Bank considered that the current political stability provides an excellent opportunity for Lebanese authorities to utilize the Bank's financial and technical resources to address urgent development priorities and reform vital sectors. It added the CPS has a two-tier approach, which provides the government with greater flexibility. Under the core program, the World Bank Group will continue to support the government through technical assistance and the implementation of the existing portfolio; while Tier II allows the Bank to engage more deeply in additional areas where there is consensus for reforms.

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

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

The spread on five-year Credit Default Swaps (CDS) for Lebanon reached 287 basis points at the end of August 2010, compared to spreads of 262 bps for the CDX Emerging Markets benchmark index and to 235 bps for the Itraxx SovX index for Central & Eastern Europe, the Middle East & Africa (CEEMEA) region. Lebanon's spreads were the 11th widest among 36 emerging markets, the 7th widest among 19 countries in the CEEMEA region, and the narrowest among similarly-rated sovereigns. Lebanon's spreads were narrower than Lavia (343bps) and wider than Lithuania (284bps). Credit Default Swaps represent the cost of insuring government bonds against default and have become a reflection of perceived credit risk. As such, it cost around $287,000 a year at end-August to insure a notional $10m of Lebanese sovereign debt against default for five years, down from $299,000 a year earlier. CDS are tradable, over-the-counter derivatives that function like a default insurance contract for debt. If a borrower defaults, the protection buyer is paid compensation by the protection seller. Swap buyers may be protecting investments they own or simply making negative bets against countries. So the wider the spread is, the bigger the perception of default, and the more expensive it becomes to buy insurance against potential default.

Five-year CDS spreads at end-August 2010



Source: Bloomberg, Byblos Research

Lebanon's spread narrowed by 12 bps from the end of August 2009 compared to a narrowing of 57bps for emerging markets spreads year-on-year. Lebanon's spread narrowed by the 19th biggest margin in emerging markets and by the 10th biggest margin in the CEEMEA region, as well by the smallest margin among similarly-rated sovereigns during the 12-months ending August 2010. Further, Lebanon's spreads widened by 8bps in the first 8 months of 2010, similar to the widening of Malaysia's CDS spreads, and compared to a widening of 3 bps for emerging markets spreads. Lebanon's spreads widened by the 14th biggest margin in emerging markets and by the 7th biggest margin in the CEEMEA region, as well by the second highest margin among similarly-rated sovereigns during the first 8 months of 2010. In parallel, the spreads of 17 emerging markets widened during the same period, including those of 8 economies in the CEEMEA region.

Fiscal deficit down 31% to $1.2bn in first 7 months of 2010

Figures released by the Finance Ministry show that the fiscal deficit reached $1.2bn in the first 7 months of 2010, down 30.7% from $1.72bn in the same period last year. The deficit was equivalent to 18.8% of total budget and Treasury expenditures compared to 25.2% in the first 7 months of 2009. Overall government expenditures reached $6.3bn, down 7% year-on-year, while total revenues increased by 1% to $5.14bn in the covered period. Budgetary expenditures increased by 5.3% to $5.1bn and included $346m in outlays from previous years, while budget revenues rose by 0.8% to $4.85bn. Tax revenues improved by 15.1% year-on-year to $4.2bn, of which 31%, or $1.3bn, were in VAT receipts that posted a 12.2% annual rise. Tax revenues accounted for 87% of budgetary revenues and for 82% of total Treasury and budget receipts.

The distribution of other tax revenues shows that customs revenues rose 7.4% year-on-year to $1.1bn, income & capital gains tax receipts grew by 12% to $1bn, revenues from property taxes improved by 65% to $439m, and other tax receipts, mainly stamp fees, increased by 25% to $191.4m. Further, the distribution of income tax revenues shows that taxes on profits accounted for 48% of total income tax receipts, followed by the tax on interest deposits with 24%, taxes on wages & salaries with 18%, and capital gains tax with 9%. Receipts from taxes on profits increased by 9.5% year-on-year, income from capital gains tax grew by 23%, revenues from the tax on interest rose by 20.6%, and tax receipts on wages & salaries improved by 5.4%. Also, the distribution of property taxes shows that real estate registration fess rose by 80% to $334.6m, revenues from built property taxes increased by 45% to $72.6m and revenues from inheritance tax grew by 6% to $32m. In parallel, non-tax budgetary revenues contracted by 44.3% to $644.5m, with revenues from government properties dropping by 56.2% to $404.4m and administrative fees & charges increasing by 4% to $197.3m. Receipts from telecommunications services, which account for 54% of income from government properties and for 34% of non-tax revenues, dropped by 71% to $220m in the first 7 months of the year.

Debt servicing increased by 6% year-on-year to $2.3bn, accounting for 35.7% of total expenditures and for 44.6% of budgetary spending. It absorbed 44% of overall revenues and 46.5% of budgetary receipts. Repayment of principal on foreign debt rose by 8% to $119m. Excluding debt servicing, the primary surplus reached $2.16bn, or 42.7% of budget expenditures compared to a surplus of $2.24bn, or 46.7% of budget spending a year earlier. The overall primary surplus reached $1.2bn, or 18.8% of total spending compared to a surplus of $525m, or 7.7% of total expenditures a year earlier.

Lebanon in the News

Lebanon is 82nd biggest exporter, 67th largest importer in first half of 2010

Figures issued by the World Trade Organization indicate that Lebanon ranked in 82nd place among 95 countries around the world and in 10th place among 10 Arab countries in terms of merchandise exports during the first half of 2010. Lebanon's global and regional rankings were unchanged from the first half of last year. Globally, Lebanon ranked ahead of Paraguay, El Salvador and Iceland, and came behind Bolivia, Kenya and the Dominican Republic. Lebanon's exports increased by 21.2% year-on-year compared to an increase of 26.7% for world exports and a rise of 40.4% for the exports of Arab countries included in the survey. Lebanese exports accounted for 0.04% of global exports and for 1% of aggregate Arab exports in the first half of 2010.

Further, Lebanon ranked in 67th place among 94 countries globally and in 6th place among 9 Arab countries included in the survey in terms of merchandise imports during the first half of 2010. Lebanon's ranking was unchanged globally from the first half of 2009 but increased by one spot among Arab economies. Globally, Lebanon ranked ahead of Serbia, Jordan and the Dominican Republic, and came behind Ecuador, Croatia and Lithuania. Regionally, Lebanon ranked ahead of Jordan, Kuwait and Bahrain and came behind Tunisia, Morocco and Algeria. Lebanese imports increased by 9.6% year-on-year, compared to a rise of 25% for world imports and an increase of 7% for Arab imports. Lebanese imports accounted for 0.1% of global imports and for 5.8% of aggregate Arab imports in the first half of 2010.

In parallel, Lebanon ranked in 71st place globally and in 8th place among 9 Arab countries in terms of the combined value of exports and imports during the first half of 2010. Lebanon came in 69th place globally and in 7th place regionally the first half of 2009. Globally, Lebanon ranked ahead of Guatemala, Jordan and Estonia and came behind Costa Rica, Serbia and Bahrain. Regionally, Lebanon ranked ahead of Jordan and came behind Bahrain, Tunisia and Morocco. Lebanon's trade volume amounted to $11.27bn in the first half of 2010 compared to $10.1bn in the same period last year, reflecting an increase of 12% compared to a rise of 25.8% in global trade activity and an increase of 23.6% for Arab trade. Lebanon's trade activity accounted for 0.08% of global trade and for 3.1% of aggregate Arab trade in the first half of 2010.

Treasury transfers to Electricité du Liban down 35% year-on-year

Figures released by the Finance Ministry show that Treasury transfers to Electricité du Liban totaled $716.4m in the first 7 months of 2010, constituting a decrease of 35% from $1.1bn in the same period last year. It said that reimbursements to the Kuwait Petroleum Corporation (KPC) and to Algerian energy conglomerate Sonatrach accounted for $676.6m, or 94.5% of transfers year-to-July, while EdL's debt servicing represented the remaining 5.5%. It attributed the decline to a drop of $366.2m, or 35%, in payments to KPC and Sonatrach during the covered period, and to a decrease in debt servicing by $16.6m or 30% year-on-year. It added that the size of reimbursement of KPC and Sonatrach implies that any fluctuations in international oil prices are bound to have an impact on Treasury transfers to EdL. It attributed the decline in payments to KPC and Sonatrach to a significant drop in the average oil price according to which the 2010 payments were made. It noted that the decline also reflects a 30% decline in the quantity of imported gas oil during the covered period. It attributed the drop to the import from Egypt of commercial quantities of natural gas, a substitute for KPC and Sonatrach's gasoil, to the Deir Ammar-Beddawi power plant in November 2009. It noted that EdL has yet to pay for the natural gas. It added that EdL contributed just 11% of repayments to the two oil suppliers in the first 7 months of the year. EdL transfers constitute the third largest expenditures item after debt servicing and salaries & wages in overall fiscal spending. Transfers to EdL were equivalent to 4.3% of GDP in 2009 and to 5.4% of GDP in 2008.

Industrial exports up 36% to $2.1bn in first 7 months of 2010

Figures released by the Ministry of Industry show that industrial exports reached $2.1bn in the first 7 months of 2010, constituting an increase of 35.6% from $1.5bn in the same period last year. Industrial exports reached $270m in July 2010, down by 20% from June 2010 and up by 37.8% from July 2009. Machinery and mechanical appliances accounted for $432m, or 21% of total industrial exports in the first 7 months of 2010, followed by pearls & precious or semi-precious stone with $410m (20%) and base metals & articles of base metals with $270m (13%). In parallel, imports of industrial equipment and machinery reached $135.5m in the first 7 months of the year, up 13% from the same period in 2009. Italy was the main source of imports of industrial equipments, accounting for 28.7% of total, followed by China with 15.8% and Germany with 14.4%.

Lebanon launches environmental initiatives with international funding

The United Nations Development Program (UNDP) and the Ministry of Environment launched four environmental studies that will cost $5.6m and will be financed by the Lebanese government over a four-year period. One study will develop a strategy to combat pollution in the Litani River and the Qaraoun Lake, while the other studies will cover the development of permits required for quarrying and to address the reorganization of dumping sites. Further, the Italian Development Cooperation Office approved a project to build wastewater treatment plants and pumping stations, and to install sewage pipes in the villages of Hrajel and Mechmech. The project will be financed by soft loans of €14m. It also approved a project, in cooperation with the Ministry of Environment, which aims to encourage the production of electricity from solar energy by installing more than 900 photovoltaic panels in public buildings. Italy will provide a €1m grant to finance the project. In parallel, the Kuwait fund for Economic Development announced that it will contribute up to 70% to the renovation of the historic Beaufort Castle in Southern Lebanon that will cost $3m.

Corporate Highlights

Beirut bourse approves trading and pricing of Byblos Bank's GDRs

The Beirut Stock Exchange approved on August 25, 2010 the trading and pricing of 276,036 Byblos Bank Global Depository Receipts (GDRs), bringing the total to 1,309,078 GDRs listed on the bourse. In June 2009, the BSE approved the trading and pricing of Byblos Bank's GDRs that are listed on the London Stock Exchange (LSE). Byblos Bank sal, one of Lebanon's top 3 banks, listed its GDRs on the London bourse on February 19th, 2009, making it the first Lebanese listing on the exchange in 12 years. Byblos Bank also became the 37th institution from the Middle East to list on the LSE. The GDR program, which was launched in February 2009, consisted of giving holders of common shares the option to exchange every 50 shares for one GDR. Also, GDR holders have the same rights as holders of common shares, including all voting rights, dividend payments and participation in future capital increase, among other rights. Byblos Bank declared consolidated net profits of $72.4m in the first half of 2010, constituting an increase of 15% from the same period last year. Aggregate assets reached $14.6bn and loans totaled $3.5bn at the end of June, constituting increases of 7.6% and 9%, respectively, from end-2009. Customers' deposits totaled $11.1bn, up 8.4% from end-2009. The Byblos Bank Group has a direct presence in Syria, Sudan, Iraq, the United Arab Emirates, Nigeria, the Democratic Republic of Congo and Armenia, as well as in Belgium, France, the United Kingdom, and Cyprus.

Stock market activity at $1.6bn in first 8 months of 2010

Figures released by the Beirut Stock Exchange indicate that total trading volume reached 137 million shares in the first 8 months of 2010, constituting an increase of 61% from the same period last year, while aggregate turnover amounted to $1.6bn, up 134% from a turnover of $691m in the same period last year. Market capitalization increased by 10.4% to $12.2bn in the first 8 months of 2010, of which 71.3% was in banking stocks and 25.3% 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 sal 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 Cooperation Economique S.A. (PROPARCO). The market liquidity ratio was 13.3% compared to 6.3% for the same period of 2009. Bank stocks accounted for 90.6% of aggregate trading volume in the first 8 months of the year, followed by real estate stocks with 9%. In terms of value of shares traded, banking stocks accounted for 82.4% of aggregate value, followed by real estate stocks with 17.4%. The average daily traded volume for the period was 832,643 shares for an average daily value of $9.8m. The figures reflect increases of 60% in volume and 132% in value year-on-year.

CMA CGM's profits at $864m on revenues of $6.8bn in first half of 2010

The Lebanese-owned and France-based container shipping group CMA CGM declared net profits of $864m in the first half of 2010 compared to losses fo $518m in the same period last year. Earnings before interest, taxes, depreciation and amortization totaled $1.05bn in the first half of the year relative to losses of $568m during the first 6 months of 2009, while the firm's operating margin was 15.5% compared to -11.9% a year earlier. CMA CGM had revenues of $6.8bn in the first half of 2010, constituting an increase of 41% from $4.8bn in the same period last year, while freight volume rose by 22% to 4.4 million twenty-foot equivalent unit (TEU). It attributed the first-half results to the group's investment in large containerships and the implementation of its cost reduction plan, as well as to the upturn of the global economy.

CMA CGM has been reportedly considering an investment of €740m, or about $1bn from the Qatar Investment Authority (QIA), the sovereign wealth fund of Qatar. According to reports last April, QIA has offered the investment in the form of loan guarantees to the firm, which is carrying a heavy debt burden even as operating results in its liner business improve. CMA CGM, which owns 360 ships and employs 16,400 people, has some $5bn in debt following the worst downturn in container shipping history and a series of steep losses from hedging deals on oil prices. Last November, CMA CGM said it was seeking capital from investment funds and needed between $300m and $400m. Qatar was reportedly considering whether to use its investment in CMA CGM as part of its planned maritime hub in the port of Doha. Last year, Moody's Investors Service downgraded CMA CGM's Corporate Family Rating (CFR) and Probability of Default Rating (PDR) to 'B1' from 'Ba1', while Fitch Ratings downgraded its Long-term Issuer Default Rating (IDR) and its senior unsecured rating to 'BB-' from 'BB+' and kept the outlook at 'negative'. The agencies no longer rate CMA CGM at the request of the firm. Headquartered in Marseille, the privately-owned CMA CGM is the third largest container shipping company in the world with 913,000 TEU capacity. It has a global network of 81 main lines and 37 feeder lines, calling at 228 ports in 161 countries.

Harley-Davidson to re-enter Lebanese market

Harley-Davidson, Inc., the U.S. manufacturer of motorcycles, announced plans to open a dealership in Lebanon that will serve the local market as well as the Levant region. The Beirut showroom, which is scheduled to open in mid-September, cost $2.5m and will provide motorcycles, parts and accessories. Lebanon has an estimated 800 Harley-Davidson bikers across the country. The company had a dealership in Lebanon in the past, but it was terminated 10 years ago. Established in 1903, Harley-Davidson produces 35 motorcycle models that are sold through authorized dealers in about 80 countries across the world. It already has four authorized dealers in the Arab world located in Oman, Qatar, Saudi Arabia and the UAE. Harley-Davidson, Inc. posted losses of $55m on revenues of $4.3bn in 2009. Its income reached $208m on revenues of $2.18bn in the first half of 2010.

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	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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