



LEBANON THIS WEEK

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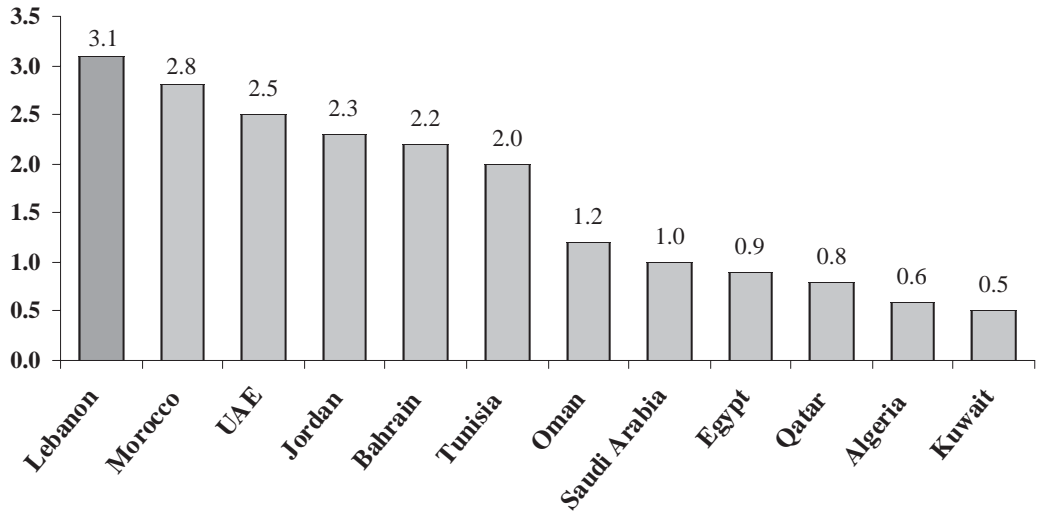
Commercial banks' assets reach \$124bn at end-July 2010

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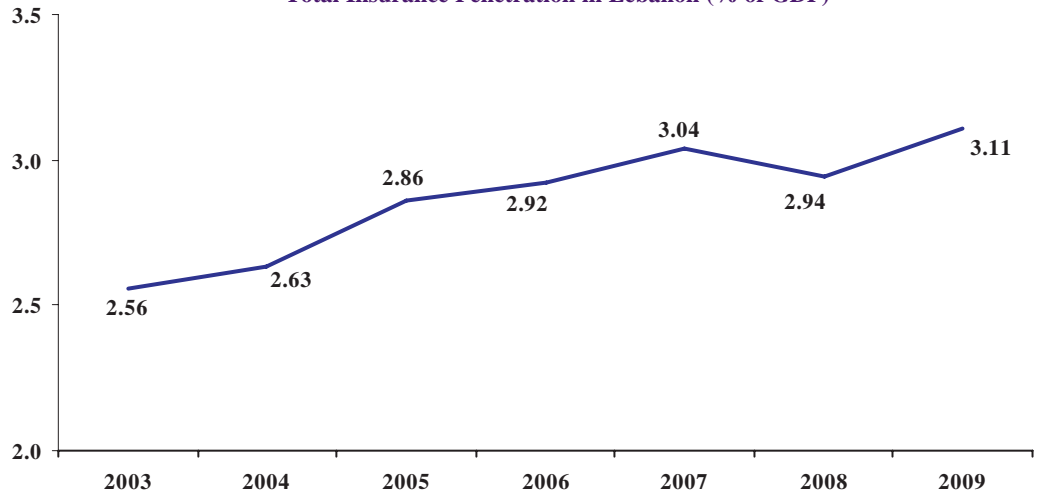
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Charts of the Week

Total Insurance Penetration in Arab Countries at end-2009 (% of GDP)



Total Insurance Penetration in Lebanon (% of GDP)



Source: Swiss Re, Byblos Reserach

Quote to Note

"The current rapid growth, low global interest rates, and abundant liquidity in the Lebanese banking system are unlikely to persist over the medium term."

The Institute of International Finance, on the need to rapidly implement structural reforms given the limited window of opportunity available to authorities

Number of the Week

82%: Percentage of Lebanese students and fresh graduates who are satisfied with the quality of their university education, the highest level in the Arab world, according to a survey conducted by job portal Bayt.com

Economic Indicators

\$m (unless otherwise mentioned)	2008	July 09	2009	May 10	June 10	July 10	% Change*
Exports	3,478	230	3,486	371	385	303	31.74
Imports	16,133	1,470	16,241	1,369	1,449	1,850	25.85
Trade Balance	(12,655)	(1,240)	(12,755)	(998)	(1,064)	(1,547)	24.76
Balance of Payments	3,462	1,246	7,899	(195)	106	994	(20.22)
Checks Cleared in LBP	9,350	1,028	11,122	1,068	1,674	1,783	73.44
Checks Cleared in FC	43,174	4,115	45,270	4,677	4,609	4,898	19.03
Total Checks Cleared	52,524	5,143	56,392	5,745	6,283	6,681	29.90
Budget Deficit/Surplus	(2,921)	(157)	(2,960)	(183)	(52)	(272)	73.25
Primary Balance	597	136	1,078	137	279	94	(30.88)
Airport Passengers	4,085,334	621,522	4,986,544	420,212	497,647	684,084	10.07

\$bn (unless otherwise mentioned)	Dec 2008	July 09	Apr 10	May 10	June 10	July 10	% Change*
BdL FX Reserves	17.06	22.01	27.32	27.32	27.42	27.93	26.90
<i>In months of Imports</i>	<i>15.03</i>	<i>14.97</i>	<i>19.84</i>	<i>19.96</i>	<i>18.92</i>	<i>15.1</i>	<i>0.87</i>
Public Debt	47.02	47.92	51.49	51.07	51.00	50.77	5.95
Net Public Debt	41.49	43.05	44.34	44.24	44.13	44.3	2.90
Bank Assets	94.25	105.38	120.64	120.69	121.68	127.05	17.72
Bank Deposits (Private Sector)	77.78	87.69	99.13	99.21	100.12	101.93	16.24
Bank Loans to Private Sector	25.04	26.98	31.04	31.44	31.71	32.86	21.79
Money Supply M2	24.76	30.11	36.72	37.43	38.02	38.24	27.33
Money Supply M3	68.66	76.17	85.75	86.04	86.74	88.1	15.66
LBP Lending Rate (%)	9.95	9.43	8.48	8.47	8.37	8.09	(134b.p.)
LBP Deposit Rate (%)	7.22	7.02	6.00	5.93	5.83	5.79	(123b.p.)
USD Lending Rate (%)	7.47	7.24	7.10	7.10	7.03	7.05	(19b.p.)
USD Deposit Rate (%)	3.33	3.19	2.84	2.84	2.75	2.8	(39b.p.)
%* Change in CPI**	6.36	2.42	6.55	6.51	7.42	6.41	399b.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"	19.20	(3.81)	76,759	15.51%
Solidere "B"	19.55	(0.56)	19,115	10.26%
Byblos Common	1.78	0.00	229,023	5.17%
Byblos Priority	1.80	(0.55)	34,302	2.99%
Byblos Pref. 08	100.10	0.00	0.00	1.62%
BLOM GDR	94.75	0.26	500	5.65%
BLOM Listed	85.95	(0.06)	1,163	14.92%
Audi GDR	8.90	(1.00)	15,000	7.31%
Audi Listed	8.01	0.12	536,019	22.26%
HOLCIM	13.29	2.39	7,542	2.09%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Nov. 2010	6.875	101.19	-1.25
May 2011	7.875	103.88	1.96
Mar. 2012	7.500	106.50	3.00
Sep. 2012	7.750	108.88	3.05
June 2013	8.625	112.75	3.68
Apr. 2015	10.000	121.13	4.79
Jan. 2016	8.500	116.00	5.02
May 2016	11.625	130.75	5.22
Mar. 2017	9.000	120.25	5.28
Apr. 2021	8.250	116.38	6.11

Source: Byblos Capital Markets

	Sep. 13-17, 10	Sep. 6-9, 10	% Change	August 2010	August 2009	% Change
Total Shares Traded	1,558,781	256,599	507.48	2,924,222	3,835,239	(23.75)
Total Value Traded	\$20,454,706	\$3,070,944	566.07	\$35,867,053	\$61,835,814	(42.00)
Market Capitalization	\$12.38bn	\$12.46bn	(0.62)	\$12.19bn	\$11.04bn	10.37

Source: Beirut Stock Exchange (BSE)



Lebanon ranks 112th globally, 13th in Arab region in credit ratings

In its annual survey on the creditworthiness of 178 countries, *Institutional Investor* magazine ranked Lebanon in 112th place worldwide and in 13th place among 19 Arab countries in the 2010 survey. Lebanon ranked in 116th place globally and in 14th place regionally in 2009 and came in 113th place globally and 14th regionally in the 2008 survey. Also, Lebanon came in 31st place among 37 upper middle income countries (UMICs) included in the survey compared to 29th place in 2009. The survey rates the creditworthiness of countries on a scale of 0 to 100, with 100 representing countries with the least chance of debt default. The ratings are based on input provided by senior economists and sovereign risk analysts at leading global banks and money management and securities firms.

On a global basis, Lebanon ranked ahead of Bosnia & Herzegovina, Bangladesh and Iran, and came immediately behind Grenada, Tonga and Georgia. Also, Lebanon ranked ahead of Bosnia & Herzegovina, Jamaica and Belarus, and came behind Grenada, Argentina and Venezuela among UMICs. Lebanon's rank improved by 4 spots from the previous survey, constituting the 46th best improvement in the ranking globally and the fifth best regionally. Lebanon received a score of 32.5 points, below the global average of 46.2 points as well as lower than the Arab average of 49.6 points and the UMICs' average of 47.2 points. Its score improved by 3.1 points, or 10.5%, year-on-year, constituting the third best improvement in the Arab region both numerically and in percentage terms. Lebanon was one of nine Arab countries whose score improved by one or more points, the amount considered statistically significant for a country. The rankings of 12 Arab countries improved and 7 regressed, while the scores of 14 countries improved and 5 declined from September 2009.

The survey said the global financial crisis and its aftermath have shifted considerably conventional notions about sovereign creditworthiness, as many countries in Western Europe, a region that has been traditionally home to some of the soundest credits in the world, have seen their standing fall over the last year because of their mounting debt problems. In parallel, emerging market sovereigns, many of which were synonymous with crisis a decade or two ago, have been dramatically upgraded by investors. It noted that European countries posted six of the 10 steepest declines in credit ratings, while many emerging-market countries posted strong gains, reflecting their perceived sound public finances and vibrant economies. The global average score improved to 46.2 points from 45.7 points a year earlier. Norway replaced Switzerland as the country with the best creditworthiness in the world while Somalia had the highest probability of default worldwide.

Political tensions to affect growth, short-term challenge is to rollover maturing Eurobonds

Barclays Capital indicated that the Lebanese economy continues to show robust activity and sustained capital flows, but added that recent political and security events highlight Lebanon's increasingly volatile environment. It noted the growth in various sectors, including construction, tourism, trade and financial services has been solid; while the sustained rapid expansion of credit to the private sector is supporting sectoral activity. It added that the balance of payments is posting large surpluses despite the widening merchandise trade deficit, while continued conversion of foreign currency deposits into Lebanese pounds shored up gross reserves to yet another record level that exceeded \$31bn at the end of July. It anticipated economic activity to remain strong, supporting GDP growth of about 7% to 8% in 2010, but projected growth to slow down on the back of recent events, particularly if political tensions reignite. It noted that political volatility is far from dissipating and expected it to continue over the coming months.

In parallel, Barclays said that delays in submitting the 2010 budget and discussing it in Parliament have postponed the release of spending, especially on the expanding investment program. As such, the deficit has contracted by 35% during the first 7 months from the same period last year. It considered that the government will be unable to pass any executable budget this year in time to allow for actual investment spending, which could result in better deficit and debt outturns of 8.5% of GDP and 146% of GDP, respectively, compared with 8.8% of GDP and 152% of GDP last year. It noted that, while this is a positive for Lebanon's credit, the absence of a budget highlights significant weaknesses at the state institutions' level.

Barclays considered that the key challenge for Lebanon in the short term, in addition to passing a new budget, is to roll over almost \$4.8bn of foreign currency debt during the coming 16 months. It said Lebanon will need to repay almost \$1.45bn of maturing Eurobonds, including \$0.9bn in principal by November 2010, with another \$3.3bn falling due by March 2011 that include \$2.1bn in principal. It expected the government to be able to cover those needs from the market, given the ample liquidity in Lebanese banks and interest from international investors in 2010. It noted, however, that it is unclear if authorities will proceed with refinancing the combined 2010-11 maturities to benefit from relatively lower rates and to lengthen the debt's maturity structure further, as this may require a vote by Parliament.

Arab Countries Rankings & Scores

Country	Credit Rating	Arab Rank	Global Rank
Qatar	79.5	1	24
Bahrain	77.9	2	25
Kuwait	76.9	3	28
Saudi Arabia	74.1	4	32
Oman	71.6	5	34
UAE	71.0	6	37
Tunisia	58.5	7	55
Algeria	56.3	8	59
Morocco	55.2	9	63
Libya	53.7	10	69
Egypt	51.0	11	73
Jordan	45.8	12	78
Lebanon	32.5	13	112
Syria	28.6	14	131
Iraq	26.6	15	136
Djibouti	25.0	16	142
Yemen	24.8	17	144
Mauritania	21.4	18	156
Sudan	12.1	19	172

Source: *Institutional Investor*, *Byblos Research*

Draft budget for 2011 projects fiscal deficit at 27% of expenditures and 8.6% of GDP

The Ministry of Finance issued the budget draft for 2011 that shows overall budget and Treasury expenditures at \$13.7bn, constituting an increase of 12.7%, or \$1.5bn, from 2010; and aggregate revenues of \$10bn, up 16% or \$1.4bn, from the previous year. As a result, the fiscal deficit would reach \$3.65bn, or 27% of overall spending compared to a deficit of \$3.5bn or 28.7% of expenditures in 2010. The ministry estimated the deficit at 8.6% of GDP in 2011 relative 8.9% of GDP in 2010; and the primary surplus at 0.1% of GDP next year compared to 1.15% of GDP this year. The ministry based its projections on real GDP growth of 5% and inflation of 2.8% at the end of the year. It estimated the debt-to-GDP ratio at 129.2% of GDP at end-2011, down from 131.2% of GDP at end-2010.

It estimated overall spending at 32.1% of GDP in 2011, which includes 8.7% of GDP in debt servicing and 23.4% of GDP for other items. It projected debt servicing at \$3.7bn, a decrease of 6% year-on-year, accounting for 27% of overall spending and absorbing 37% of total revenues. It also forecast current expenditures to rise by 4.5% to \$7.1bn and for capital spending to increase by 3.2% to \$2.2bn. The distribution of current expenditures shows that wages & salaries increase by 7.7% to \$3.1bn, subsidies to Electricité du Liban decline by 4% to \$1.5bn, end-of service indemnities & retirement expand by 7% to \$1bn, social & health outlays grow by 9% to \$924m, government operations rise by 3.4% to \$432.5m, and agricultural subsidies regress by 8% to \$75.6m. The distribution of capital spending indicates that spending on electricity facilities & their maintenance jumps by 88% to \$591m; expenditures on road construction & repairs regress by 10% to \$223.5m; outlays for facility maintenance grow by 19% to \$139m; and disbursements on new buildings decreases by 55% to \$115.4m; while projects financed by foreign loans increase by 11% to \$332m. The ministry estimated capital spending at 5.2% of GDP for 2011 compared to 5.44% of GDP in 2010.

In parallel, the ministry estimated fiscal revenues at 23.5% of GDP in 2011, with tax receipts at 18% of GDP and non-tax income at 4.5% of GDP. It expected tax receipts to rise by 11.5% to \$7.6bn and to account for 76% of total revenues; while it forecast non-tax income to rise by 42% to \$1.9bn due to an 80% jump in telecom revenues. The distribution of tax revenues shows that the ministry forecasts VAT receipts to improve by 9% to \$2.4bn; customs revenues to expand by 7.2% to \$2bn; income tax receipts to jump by 29.5% to \$1.8bn; and property tax revenues to rise by 9.6% to \$828m. In order to boost revenues, the ministry said it will introduce a capital gains tax of 1%. It also plans to impose a 5% fee on one-time revaluations of fixed assets and real estate of companies, as well as on such one-time revaluations when turning a sole proprietorship into a shareholding company. It will also modify some taxes and fees on holding and offshore companies, and impose a 2% fee on sales contracts. Further, it will cancel discount rights for sectors exempt from the value-added tax. In parallel, it will reduce penalties on taxes and fees by 90% in order to encourage taxpayers to settle their dues; and exempt offshore activities from the VAT.

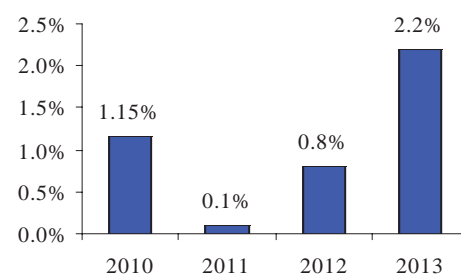
Balance of payments posts surplus of \$2.3bn in first 7 months of 2010

Central Bank figures show that Lebanon's balance of payments posted a surplus of \$2.31bn in the first 7 months of 2010 compared to a surplus of \$3.35bn in the same period last year. The balance of payments posted a surplus of \$993.7m in July compared to a surplus of \$105.8m in June and a surplus of \$1.25bn in July 2009. The July 2010 surplus was caused by a surplus of \$403.5m in the Central Bank's net foreign assets and a surplus of \$590m in those of banks and financial institutions. The cumulative surplus over the first 7 months of 2010 was caused by a surplus of \$2.62bn in the Central Bank's net foreign assets and a deficit of \$316m 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.

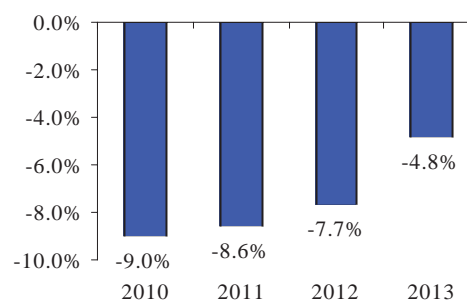
Coincident Indicator up 13.4% year-on-year in July 2010

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 251.9 points in July 2010 compared to 249.9 points in June 2010 and 230.2 points in July 2009. The Coincident Indicator, an average of 8 weighted economic indicators, improved by 0.8% month-on-month, and rose by 9.4% year-on-year. The indicator averaged 242.9 points in the 12-months ending July 2010 compared to 241.1 points in the 12-months ending June 2010 and to 214.2 points in the 12-months ending July 2009. As a result, the average coincident indicator rose by 13.4% year-on-year. The indicator increased for the first time in four months this year after peaking in March at an all-time high of 264.5 points. Further, the month-to-month increase in July constitutes the sixth highest increase for the indicator for the covered month. In parallel, the indicator improved 9 times, and regressed 9 times in the month of July since 1993. The indicator averaged 225.8 point in 2009 and 198.4 points in 2008.

Primary Balance (% of GDP)



Fiscal Balance (% of GDP)



Source: Ministry of Finance

Lebanon ranks 92nd globally, 12th among Arab countries in global competitiveness

The World Economic Forum ranked Lebanon in 92nd place among 139 countries on its Global Competitiveness Index for 2010-11, constituting the first time Lebanon is included in the index. It also ranked Lebanon in 26th place among 32 upper-middle income countries (UMICs) included in the survey. The index measures national competitiveness and highlights its micro and macroeconomic foundation. It measures a country's and its enterprises' ability to compete in global markets, based on the supporting institutions, infrastructure, economic policies and education and healthcare systems, the country's capacity for innovation as well as the sophistication of domestic markets and local business practices. The index is based on 12 pillars that are grouped in three sub-indices that measure Basic Requirements, Efficiency & Innovation and Sophistication.

Globally, Lebanon ranked ahead of Georgia, Moldova and Jamaica and came behind Honduras, The Gambia and Ukraine. It also ranked ahead of Jamaica and Serbia, and came behind Algeria and Macedonia FYR among UMICs. Lebanon received a score of 3.89 points, lower than the global average of 4.18 points, the UMICs' average of 4.14 points and the Arab average of 4.3 points.

Lebanon ranked ahead of Dominican Republic and Senegal and came behind Guyana and Benin on the Basic Requirements Sub-Index, which covers institutions, infrastructure, macroeconomic stability and health & primary education. It ranked ahead of the Dominican Republic and behind Jamaica among UMICs, and ahead of Mauritania and behind Egypt in the Arab world.

Also, Lebanon ranked ahead of Kazakhstan and Ukraine and behind Sri Lanka and Kuwait on the Efficiency Sub-Index that covers higher education, labor market efficiency, financial market development, and overall market efficiency. It ranked ahead of Kazakhstan and Uruguay and behind Mauritius and Bulgaria among UMICs, and came ahead of Jordan and behind Kuwait in the Arab world.

Further, Lebanon ranked ahead of the Philippines and Pakistan and behind Greece and Brunei Darussalam on the Innovation & Sophistication Sub-Index, while it ranked ahead of Latvia and Russian and behind Argentina and Uruguay among UMICs, and ahead of Morocco and behind Egypt in the Arab world.

The World Economic Forum said that Lebanon's results show that competitiveness-enhancing reforms could help sustain economic growth and pointed to a number of strengths upon which Lebanon could build. It noted that the country can depend on a healthy and well-educated population with advantages in the quality of education, which is a key advantage in the region. It added that the country's other strengths include efficient goods markets, reflecting a high intensity of local competition; and a well-developed financial sector, which provides easy access to loans and other financial services and is supported by a solvent banking sector. It stressed that Lebanon's challenges to be include a dismal infrastructure in transportation, electricity and telephony, as well as a fragile macroeconomic environment characterized by poorly managed public finances.

Global Competitiveness Index 2010-11

	Overall Score	Arab Rank	Global Rank
Qatar	5.10	1	17
Saudi Arabia	4.95	2	21
UAE	4.89	3	25
Tunisia	4.65	4	32
Oman	4.61	5	34
Kuwait	4.59	6	35
Bahrain	4.54	7	37
Jordan	4.21	8	65
Morocco	4.08	9	75
Egypt	4.00	10	81
Algeria	3.96	11	86
Lebanon	3.89	12	92
Syria	3.78	13	97
Libya	3.74	14	100
Mauritania	3.14	15	135

Source: World Economic Forum, Byblos Research

Components of the Global Competitiveness Index

Category	Global Rank	Arab Rank	UMIC Rank	Lebanon Score	Global Average Score	Arab Average Score	UMIC Average Score
Basic Requirements	106	14	30	3.87	4.52	4.80	4.44
Efficiency	70	8	19	4.00	4.04	4.00	4.02
Innovation & Sophistication	74	10	16	3.41	3.67	3.60	3.44

Source: World Economic Forum, Byblos Research

Lebanese banks to comply with new sanctions on Iran

Central Bank Governor Riad Salameh declared that Lebanese banks are expected to comply with new financial sanctions imposed on Iran by the United Nations Security Council, the United States and the European Union. He noted that Lebanese banks are expected to respect international law and refrain from dealing with people and institutions blacklisted by the U.S. and the EU. He added that Bank Saderat, one of Iran's largest banks and operating in Lebanon since 1963, would have to comply with the new sanctions and with Lebanese banking regulations. Last June, the UN Security Council imposed new sanctions against Iran that include restrictions on financial transactions, a tighter arms embargo and authority to seize cargo linked to nuclear or missile programs. The new penalties, the fourth set of sanctions imposed on Iran by the Council since 2006, aim to block Iran's ability to develop nuclear weapons. The UN sanctions prohibit Iranian banks from opening new branches, subsidiaries, or representative offices in other countries, as well as from establishing new joint ventures, taking an ownership interest in or establishing or maintaining correspondent relationships with banks in other jurisdictions, in case such activities could contribute to Iran's nuclear activities or the development of nuclear weapon delivery systems.

In addition, the U.S. Department of the Treasury widened its sanction against Iran in June by placing dozens of Iranian companies and senior Iranian officials on a financial blacklist due to their connection to Iran's nuclear weapons program, while the EU widened significantly its sanctions against Iran last July on concerns over Tehran's nuclear weapons program. The EU's new measures explicitly target for the first time parts of the economy that are not linked to Tehran's nuclear program. The EU also tightened scrutiny of Iranian banks operating in its 27-member countries, and required that any money transfers of more than €10,000 to be notified to national authorities, and amounts above €40,000 to require prior authorization. The EU also blacklisted 40 individuals and more than 50 companies. In parallel, Australia and South Korea imposed recently new sanctions against Iran. According to Governor Salameh, transactions with Iran through Lebanese banks were historically limited.

Lebanon ranks 9th in Arab world in connectivity

The Arab Advisors Group's 2010 Total Country Connectivity Measure (TCCM) ranked Lebanon in 9th place among 18 countries in the Arab world, up from 14th place in the 2009 survey. The TCCM is the aggregate of household mainlines' penetration, cellular penetration, and Internet users' penetration rates in each country. It is intended to show the extent of connectivity of individuals in a country whether via fixed lines, cellular lines or the Internet. The measure provides an accurate and informative picture on the level of ICT services penetration in an economy.

Lebanon received a score of 155%, below the Arab average score of 175%, but up from 124.6% in 2009 and 125% in 2008. The survey noted that a TCCM score of more than 100% does not mean that all the population uses the services due to overlap of usage, since many individuals could be using the three communication technologies at the same time. It added that high scores are correlated with high income levels, while countries with competitive markets have seen their scores improve rapidly as competition drove down rates and raised awareness among consumers.

The UAE is the most connected country in the Arab world, followed by Saudi Arabia and Qatar. Only 6 Arab countries have a total country connectivity measure exceeding 200%, which shows that there is a potential for growth in most Arab markets. The rankings of 5 countries improved, 8 were unchanged and 5 regressed, while the scores of 17 countries improved and one was unchanged from the previous year.

Construction permits up 48% in first 7 months of 2010

Figures released by the Association of Engineers of Beirut & Tripoli show that construction permits reached 10.1 million square meters in the first 7 months of 2010, up 48% from 6.8 million square meters in the same period last year. Construction permits totaled 1.7 million square meters in July 2010, up 209.5% year-on-year from 557,000 square meters in July 2009. In parallel, cement deliveries reached 3.1 million tons in the first 7 months of 2010, an increase of 7.6% from 2.9 million tons in the same period last year. Cement deliveries reached 517,000 tons in July 2010, down 0.4% from 519,000 tons in July 2009.

Total Country Connectivity Measure

	Rank	Score
UAE	1	352%
Saudi Arabia	2	286%
Qatar	3	254%
Bahrain	4	250%
Libya	5	246%
Kuwait	6	201%
Oman	7	189%
Algeria	8	161%
Lebanon	9	155%
Morocco	10	149%
Jordan	11	148%
Tunisia	12	145%
Syria	13	142%
Egypt	14	140%
Palestine	15	109%
Iraq	16	100%
Yemen	17	66%
Sudan	18	51%

Source: Arab Advisors Group 2010

Launch of Lebanese-Mexican Business Council

The Lebanese-Mexican Business Council (LMBC) announced the official launch of its operations. The Council's objectives are to develop and expand trade and economic ties between Lebanon and Mexico, to promote and strengthen contacts between Mexican and Lebanese trade and business associations, to identify business and commercial opportunities for both sides, to provide a networking platform for its members, and to organize related events. It also intends to facilitate the exchange of economic and trade information among Lebanese and Mexican businessmen, and to familiarize Lebanese businesses with the Mexican business community and help them find business partners. The Council urged Lebanese companies and businessmen to increase economic cooperation and expand trade links with Mexico, and especially to develop ties with Consejo Empresarial Mexicano de Comercio Exterior, Mexico's largest business council. The LMBC noted that Mexico is the 14th largest economy in the world, is a free-market economy with a strong manufacturing sector, has a growing middle class, and is the 7th largest tourism destination globally. Further, it is the largest exporter and importer in Latin America, as well as the 15th largest exporter and the 12th largest importer in the world, as its exports reached \$292bn and its imports totaled \$309bn last year.

The Council identified several Mexican sectors of interest for Lebanese companies such as electronics & electrical appliances, textile & clothing, fresh food products, building materials, pharmaceutical & medical equipment, jewelry, furniture, and franchises. Trade activity between the two countries remains very low, as the aggregate value of bilateral trade totaled \$25.8m in 2009. Lebanese imports from Mexico increased by 8.2% year-on-year to \$25.4m, while Lebanese exports to Mexico increased by 18% to \$0.37m in 2009. As such, imports from Mexico account for 0.2% of total Lebanese imports and exports represent 0.01% of aggregate exports. The Council's Honorary President is Mr. Jorge Alvarez, Mexico's Ambassador to Lebanon; while the LMBC's President is Mr. Maroun Rizkallah and its Vice President is Mr. Nabil Harfouche.

Net public debt at \$44.3bn at end-July 2010

Lebanon's gross public debt reached \$50.8bn at the end of July 2010, constituting a marginal decrease of 0.64% from end-2009, and an increase of 5.95% from end-July 2009. Domestic debt increased by 11.8% to \$29.8bn, while external debt decreased by 1.4% annually to \$21bn. Local currency debt accounted for 58.6% of gross public debt at end-July 2010 compared to 55.5% a year earlier, while foreign currency-denominated debt represented 41.4% of the total at the end of July relative to 44.5% a year earlier. The weighted interest rate on outstanding Treasury bills was 8.14%, while the weighted interest rate on Eurobonds was 7.34% at the end of June. Further, the weighted life on Eurobonds was 4.84 years, while that on Treasury bills was 552 days.

Commercial banks accounted for 61.6% of the local public debt at the end of July 2010 compared to 57.1% a year earlier. They were followed by the Central Bank with 21.6%, down from 26.1% at end-July 2009; while public agencies, financial institutions and the general public accounted for 16.8% of local debt unchanged from a year earlier. Eurobond holders, foreign private sector loans and special T-bills in foreign currencies accounted for 87% of the external debt, followed by multilateral institutions with 7%, foreign governments with 4.5%, and Paris II loans with 1.6%. 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 2.9% to \$44.3bn. In parallel, the gross market debt accounted for about 67% of total public debt. Gross market debt is the total public debt less the portfolios of the Central Bank, the National Social Security Fund, bilateral and multilateral loans, as well as Paris II and Paris III related debt.

Airport passengers up 11% in first 8 months of 2010

Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures, transit) totaled 3,691,396 in the first 8 months of 2010, up 11.1% year-on-year. The UAE accounted for 674,271 passengers, or 18.3% of total passenger activity. It was followed by Saudi Arabia with 437,395 passengers, or 11.9% of the total, France with 364,345 travelers (9.9%) and Kuwait with 276,633 travelers (7.5%). The total number of flights reached 43,360 in the first 8 months of 2010, up 16.8% year-on-year. Middle East Airlines registered 12,545 flights, accounting for 28.9% of the total. It was distantly followed by Royal Jordanian Airlines with 1,932 flights or 4.5% of the total, Etihad Airways with 1,247 flights, National Air Services with 1,199 flights, Emirates Airlines with 1,168 flights and Turkish Airlines with 994 flights. The UAE was the biggest source and destination of traffic to Lebanon, as aircraft movement to and from the UAE totaled 6,365 flights, accounting for 14.7% of the total. Also, the HIA processed 51,265 metric tons of cargo in the first eight months of 2010, of which 50,555 tons of freight and 710,073 tons of mail. MEA processed 13,814 tons of freight, of which 13,598 tons in regular freight and 215,827 tons in mail.

MEA's IPO indefinitely postponed

Central Bank Governor Riad Salameh indicated that national flag carrier Middle East Airlines (MEA) has postponed an initial public offering of 25% of the carrier's share capital that was scheduled for later this year. MEA intended to raise \$250m from the IPO, which would value the carrier at about \$1bn. Governor Salameh attributed the decision to unfavorable market conditions related to the Greek debt crisis and its impact on European economies, a drop in oil prices, the weak performance of Arab stock exchanges, and a general lack of market appetite. The Central Bank owns a 99% stake in the carrier. The floated shares were slated to be listed on the Beirut Stock Exchange before the end of the year, which would have helped absorb excess liquidity in the economy and banking sector, revitalize and deepen the stock market, and attract new institutional and individual investors to the Beirut bourse. Three local banks, two international investment banks, and one regional investment bank have expressed interest in managing the IPO, and the Central Bank was expected to announce the manager's selection by the end of June.

MEA, which currently serves 28 destinations, will receive two new Airbus planes in 2010 and an additional one in 2011, expanding its fleet to 16 aircraft. MEA underwent a restructuring program in 2001 that witnessed the layoff of more than 1,500 employees, or 40% of its staff, in addition to the cancellation of unnecessary flights and routes. Subsequently, the company managed to reverse 26 years of losses and returned to profitability in 2002. The national carrier also modernized its fleet, as it completed in 2003 its first fleet upgrade since 1975. The company's income turned from losses of \$87m in 1997 to a net profit of \$100m in 2009. It is not possible to independently verify the actual financial state of the national flag carrier, as it does not publish its balance sheet and income statement.

BLC Bank acquires 10% stake in USB Bank

BLC Bank sal announced it has acquired a 9.9% stake in Cyprus-based USB Bank PLC, and agreed to acquire an additional 62.94% stake pending regulatory approval. BLC's purchase of the 62.94% stake will be priced at €0.8, or about \$1.04, per share. Further, BLC Bank intends to take a final decision on a public offer to acquire 100% of the shares of USB Bank, also priced at €0.8 per share, after it receives approval from the Central Bank of Lebanon, the Central Bank of Cyprus and the Commission for the Protection of Competition. Cyprus' Securities and Exchange Commission gave BLC Bank a 60-day deadline starting on September 9 to announce a final decision on submitting the public offer. USB Bank is the 11th largest bank in Cyprus, with total assets of \$700m, loans of \$400m and customer deposits of \$600m. BLC Bank sal, one of Lebanon's listed banks, posted unaudited net profits of \$21.7m in the first half of 2010, up 32.4% from the same period last year. Total assets reached \$2.85bn, while loans & advances to customers reached \$565m at end-June. The bank's customer deposits totaled \$2.34bn. BLC Bank is part of the Fransabank Group.

BLOM Bank splits shares 10-for-1

BLOM Bank sal announced that its Extraordinary General Assembly held on June 21, 2010 approved a 10-for-1 split of all the bank's common shares, Series 2004 and 2005 Preferred Shares, as well as of all its Global Depository Receipts. The split will go into effect on October 4, 2010 and trading in the newly-split shares of all categories will start the following day. As such, the bank will have a total of 306,396,010 outstanding shares that include 215,000,000 common shares, 73,896,010 GDRs and 17,500,000 Series 2004 and 2005 Preferred Shares. BLOM Bank, one Lebanon's top 3 banks, posted net profits of \$156.4m in the first half of 2010, up 13% from the same period last year. The bank had assets of \$21.5bn and loans of \$4.63bn, while its customer deposits totaled \$18.5bn at end-June 2010.

Bank of Beirut to issue preferred shares

Bank of Beirut sal announced plans to increase its capital by issuing \$150m in preferred shares. The Preferred Shares Series G are non-cumulative, non-convertible, redeemable and subject to a call option by the bank starting in 2016 and for each subsequent year. The issue price is \$35 per share. Holders of the preferred shares will receive a dividend of 6.75% annually per share. Bank of Beirut sal, one of Lebanon's top 10 banks, announced consolidated net profits of \$48.1m in the first half of 2010, up 65% from the same period last year. The bank had total assets of \$7.1bn, loans & advances to customers of \$1.4bn, and customer deposits of \$5.1bn at end-June.

Kafalat loan guarantees reach \$114m in first 8 months of 2010

Figures released by the Kafalat Corporation show that loans extended to small- and medium-size companies under the guarantee of Kafalat reached \$114.1m in the first 8 months of 2010, up 28.4% from \$89m in the same period last year. The number of loan guarantees totaled 966 year-to-August compared to 673 in the same period last year. The average loan size reached \$118,106 compared to \$132,008 in the first 8 months of 2009. Mount Lebanon accounted for 42.8% of guarantees, followed by the Bekaa with 19%, the South & Nabatieh with 21.3% the North with 12%, and Beirut with 4.9%. The agriculture sector accounted for 45.6% of total guarantees, followed by industry with 37.7%, tourism with 13.3%, handicraft with 1.9% and specialized technologies with 1.5%. Kafalat is a state-sponsored organization that provides financial guarantees for loans up to \$400,000 earmarked for the set up and expansion of small and medium-size companies in productive sectors. It guarantees up to 75% of the loan amount and a similar percentage of the interest that accrues during the grace period.

Commercial banks' assets reach \$124bn at end-July 2010

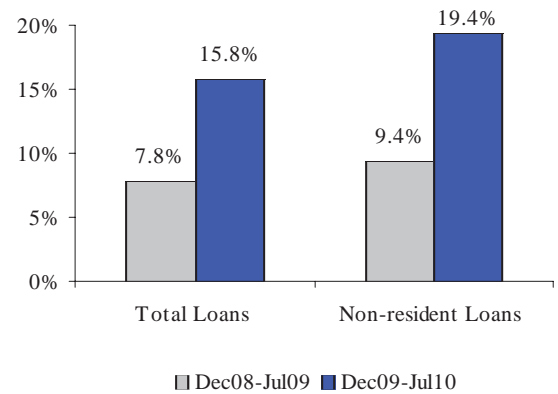
The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$124bn at the end of July 2010, constituting an increase of 7.6% from end-2009 and up 17.7% from end-July 2009. Private sector deposits totaled \$101.9bn, up 6.4% from end-2009 and up 16.2% from end-July 2009. Deposits in Lebanese pounds reached \$37.9bn, increasing by 11.2% from end-2009 and by 28.5% year-on-year, while deposits in foreign currencies reached \$64bn, and rising by 3.8% from the end of last year and by 10% from end-July 2009. Non-resident foreign currency deposits reached \$14.8bn at end-July 2010, increasing by 4.1% from end-2009 and increasing by 17.7% 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, \$908m in June 2010 and \$1.8bn in July. In parallel, deposits of non-resident banks reached \$5.1bn, up 10.4% from end-2009 and up 14.7% from end-July 2009. The dollarization rate of deposits reached 62.9% at end-July 2010, down from 64.5% at end-2009 and from 66.4% a year earlier. Further, the average deposit rate in Lebanese pounds reached 5.79% compared to 7.02% a year earlier, while the same rate in US dollars was 2.8%, down from 3.19% in July 2009.

Loans to the private sector amounted to \$32.9bn, up 15.8% from end-2009 and up 21.8% year-on-year. The dollarization rate in private sector lending reached 81.7% compared to 84% at end-2009 and 85.5% a year earlier. The average lending rate in Lebanese pounds was 8.09% in July 2010 compared to 9.43% a year earlier, while the same average in US dollars was 7.05% compared to 7.24% in July 2009. Claims on the public sector stood at \$29.1bn, up 10.9% year-on-year and up 0.3% from end-2009, and accounted for 47% of the banking sector's total loans. The ratio of private sector loans to deposits in foreign currencies stood at 41.9%, well below the Central Bank's limit of 70%, and above the ratio of 39.6% a year earlier. In parallel, the same ratio in Lebanese pounds was 15.9%, up from 13.3% a year earlier. The ratio of total private sector loans to deposits stood at 32.2%, compared to 30.8% a year earlier. The banks' aggregate capital base stood at \$9bn, up 13.3% from end-2009 and up 19.5% from \$7.53bn in July 2009.

Bank Audi to issue common shares, raise capital

Bank Audi sal, one of Lebanon's top 3 banks, announced plans to issue common shares for shareholders who exercised their stock options, to cancel about 8 million common shares that include Deposited Property linked to GDRs held by the bank's treasury, and to increase the nominal value of all remaining shares by an amount equivalent to the nominal value of the cancelled shares. It also intends to increase the bank's share capital by issuing nearly 13,500,000 common shares reserved to shareholders who exercised their stock options, and through the incorporation of general reserves. After the implementation of the above decisions, the bank's share capital is expected to increase by LBP15.7bn to LBP454.2bn, and the number of common shares will increase by about 4.3 million shares to 348,477,114 shares. Further, the bank's consolidated shareholders' equity would increase to \$2.29bn from \$2.25bn currently. The bank's board of directors invited its shareholders to an Extraordinary General Assembly to be held on October 1, 2010 to vote on these decisions.

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	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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