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LEBANON THIS WEEK

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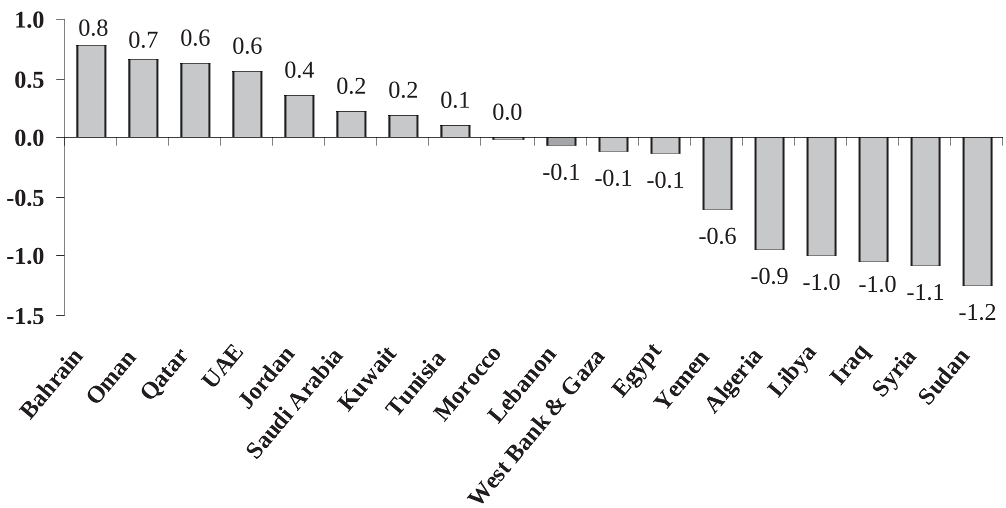
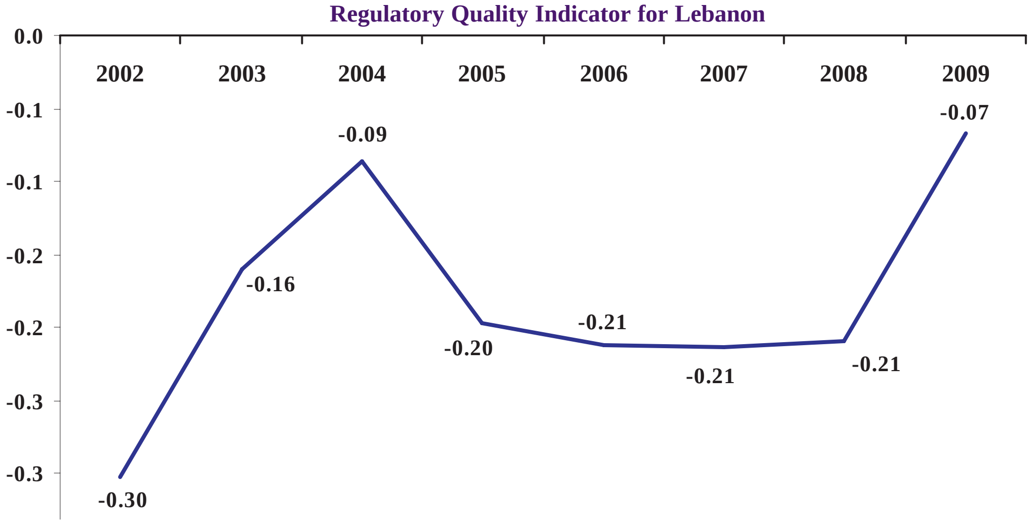
Charts of the Week

Regulatory Quality Indicator of Arab Countries in 2009



Regulatory Quality Indicator for Lebanon



Source:World Bank Governance Indicators

Quote to Note

"Short-term market movements should continue to be determined by politics."

Regional investment bank EFG Hermes, on the most important factor for stock price movement in Lebanon

Number of the Week

$28.2bn: Gross foreign currency reserves at the Central Bank of Lebanon at the end of August 2010, as estimated by the Association of Banks in Lebanon

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
In months of Imports	*15.03*	*14.97*	*19.84*	*19.96*	*18.92*	*15.1*	*0.87*
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"	18.05	(4.80)	279,837	14.84%
Solidere "B"	18.12	(3.77)	75,003	9.68%
Byblos Common	1.76	(1.12)	87,867	5.20%
Byblos Priority	1.73	(1.14)	36,993	2.93%
Byblos Pref. 08	100.50	0.40	800	1.65%
BLOM GDR	9.55	(89.93)	6,850	5.80%
BLOM Listed	8.80	(90.00)	0.00	15.55%
Audi GDR	8.30	(6.74)	18,650	6.94%
Audi Listed	8.02	(2.20)	30,000	22.69%
HOLCIM	13.90	4.75	1,454	2.23%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Nov. 2010	6.875	100.15	5.25
May 2011	7.875	104.00	1.34
Mar. 2012	7.500	106.25	3.05
Sep. 2012	7.750	108.50	3.14
June 2013	8.625	112.50	3.62
Apr. 2015	10.000	121.13	4.80
Jan. 2016	8.500	116.25	4.96
May 2016	11.625	130.00	5.26
Mar. 2017	9.000	121.00	5.13
Apr. 2021	8.250	117.00	6.04

Source: Byblos Capital Markets

	October 4-8	Sep. 20-Oct. 1, 10	% Change	September 2010	September 2009	% Change
Total Shares Traded	104,627	170,866	(38.77)	3,677,088	4,960,933	(25.88)
Total Value Traded	$1,679,118	$1,645,086	2.07	$51,225,084	$8,7945,925	(41.75)
Market Capitalization	$12.16bn	$12.41bn	(2.02)	$12.38bn	$11.64bn	6.33

Source: Beirut Stock Exchange (BSE)

IMF forecasts real GDP growth at 8% in 2010, top priority is reducing public debt

The International Monetary Fund projected economic growth in Lebanon at 8% in 2010 compared to growth of 4.1% in the Middle East & North Africa (MENA), 5% for the region's oil importers and 5.4% for the Mashreq economies, as well as compared to growth of 7.1% in emerging and developing economies and 4.8% for the world economy. It also projected real GDP growth of 5% in 2011 compared to 5.1% in the MENA region, 5.2% for oil importers and 5.4% for the Mashreq countries. Lebanon's projected growth rate in 2010 would make it third fastest growing economy among MENA countries behind Qatar at 16% and Libya at 10.6%. Also, it would rank in 16th place globally and would tie with Uzbekistan, Papua New Guinea, Yemen and Ethiopia.

The Fund indicated that, despite the economy's performance, Lebanon's underlying vulnerabilities are still very high and key reforms remain stalled despite rising primary surpluses, a drop in the debt-to-GDP ratio, the inflow of deposits, and a rise in the Central Bank's foreign reserves. It noted that, at 148% of GDP at end-2009, the debt level is among the highest in the world and generates large recurring borrowing needs. Further, the banking system depends on short-term deposit inflows from non-residents to roll over its large exposure to the sovereign, and carries significant exposure to unhedged borrowers given the high rate of loan dollarization. It added that there is little progress on critical structural reforms, including addressing the loss-making electricity sector, raising the value added tax (VAT) rate, eliminating extra-budgetary funds, and overhauling the budget process.

The IMF declared that a further reduction in the government debt-to-GDP ratio remains the top medium-term policy priority. It urged authorities to take advantage of the positive economic environment to implement structural reforms, including modernizing tax administration and public financial management, and reforming the electricity, water, and telecommunications sectors. It supported the authorities' intention to increase capital spending to address growing infrastructure gaps, but cautioned from a substantial fiscal loosening given the growing economy. It encouraged authorities to execute current spending prudently and to save revenues in order achieve a larger primary surplus in 2010. It said lowering the debt burden, while maintaining permanently higher investment and social spending, will require a combination of expenditure rationalization and socially-balanced tax measures.

In parallel, the IMF agreed that Lebanon's vulnerabilities and exposure to shocks require a high level of foreign currency reserves. But it encouraged the monetary authorities to carefully assess the pace of reserve accumulation and to consider the costs of sterilization. It welcomed the recent policy interest rate reductions that moderated the pace of deposit inflows, and supported a pause in interest rate reduction given the imperfect policy transmission mechanism and uncertain lags in Lebanon. It also underscored the importance of strengthening the Central Bank's balance sheet as the management of past crises and the large sterilization operations of the last two years have weakened its income position. It encouraged the phasing out of exemptions from reserve requirements, as well as the privatization of the Central Bank's non-financial assets.

The Fund continued to highlight the weaknesses in the availability, quality, and timeliness of economic data, and urged the authorities to take bold steps to improve Lebanon's statistical system. It previously noted that Lebanon's statistical system remains weak and in need of significant improvement, which mitigates the growth forecasts. It said real sector statistics should be compiled on a timely basis. It added that data shortage in national accounts, employment and wage statistics, coverage of the fiscal accounts, balance of payments statistics, and the real estate sector, among others, still hamper economic analysis and policy development.

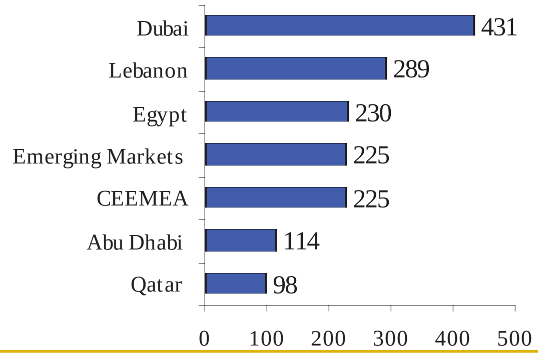
Country Forecast Summary

	2009	2010P	2011P	2012P
Real GDP growth (%)	9.3	8.0	5.0	4.0
Consumer prices (end-of-period) (%)	3.4	4.7	2.8	2.2
Consumer prices (avge) (%)	1.2	5.0	3.5	2.2
Fiscal balance including grants (% of GDP)	-8.1	-8.7	-9.6	-8.1
Primary balance including grants (% of GDP)	3.0	1.5	0.5	1.5
Primary balance excluding grants (% of GDP)	2.6	1.2	0.3	1.2
Public debt (% of GDP)	148	139	137	137
External debt (% of GDP)	171	160	162	169
Trade balance of goods & services (% of GDP)	-16.2	-15.9	-15.9	-16
Current account including official transfers (% of GDP)	-9.5	-11.1	-11.2	-10
Gross reserves ($bn)	27.4	29.6	31.8	35.1
In % of short-term external debt	55.2	55.4	53.2	52.4
In months of goods & services import cover	10.3	10.3	10.3	10.3

P: projected
Source: Internaional Monetary Fund, October 2010

Lebanon's has 10th widest spread in emerging markets on five-year Credit Default Swaps

Five-year CDS spreads at end-September 2010



Source: Bloomberg, Byblos Research

The spread on five-year Credit Default Swaps (CDS) for Lebanon reached 289 basis points at the end of September 2010, compared to spreads of 225 bps for the CDX Emerging Markets benchmark index and to 225 bps for the Itraxx SovX index for Central & Eastern Europe, the Middle East & Africa (CEEMEA) region. Lebanon's spreads were the 10th widest among 36 emerging markets, the 6th widest among 19 countries in the CEEMEA region, and the narrowest among similarly-rated sovereigns. Lebanon's spreads were narrower than Latvia (328bps) and wider than Bulgaria (285bps). 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 $289,000 a year at end-September to insure a notional $10m of Lebanese sovereign debt against default for five years, down from $298,000 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. Therefore, the wider the spread, the bigger the perception of default and the more expensive it becomes to buy insurance against potential default.

Lebanon's spread widened by 9bps from the end of September 2009 compared to a narrowing of 46bps for emerging markets spreads year-on-year. Lebanon's spread widened by the 15th biggest margin in emerging markets and by the 11th biggest margin in the CEEMEA region, as well by the second biggest among similarly-rated sovereigns during the 12-months ending September 2010. Further, Lebanon's spreads widened by 9bps in the first 9 months of 2010 compared to a narrowing of 34bps for emerging markets spreads. Lebanon's spreads widened by the 7th biggest margin in emerging markets and by the 5th biggest margin in the CEEMEA region, as well as by the highest margin among similarly-rated sovereigns during the first 9 months of 2010. In parallel, the spreads of 11 emerging markets widened during the same period, including those of 7 economies in the CEEMEA region.

Net public debt at $44.4bn at end-August 2010

Lebanon's gross public debt reached $50.2bn at the end of August 2010, constituting a decrease of 1.78% from end-2009, and an increase of 3.44% from end-August 2009. Domestic debt increased by 7.5% to $29.2bn, while external debt decreased by 2% annually to $21bn. Local currency debt accounted for 58.2% of gross public debt at end-August 2010 compared to 56% a year earlier, while foreign currency-denominated debt represented 41.8% of the total at the end of August relative to 44.2% 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 July. Further, the weighted life on Eurobonds was 4.84 years, while that on Treasury bills was 552 days.

Commercial banks accounted for 63.1% of the local public debt at the end of August 2010 compared to 57.8% a year earlier. They were followed by the Central Bank with 21.9%, down from 26.1% at end-August 2009; while public agencies, financial institutions and the general public accounted for 17.2% of local debt, up from 16.6% a year earlier. Eurobond holders, foreign private sector loans and special T-bills in foreign currencies accounted for 87.1% of the external debt, followed by multilateral institutions with 7%, foreign governments with 4.5%, and Paris II loans with 1.4%. 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 $44.4bn. 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.

World Bank extends $200m loan for Beirut water project

The World Bank extended to Lebanon a $200m loan to help finance the Greater Beirut Water Supply Project. The $370m project aims to provide clean water to around 1.5 million people in the Greater Beirut Region. The Beirut and Mount Lebanon Water Authority will provide $140m, while land appropriation will cost an additional $30m.The World Bank indicated that water supply in Lebanon has not kept pace with demand and lags far behind the standards associated with the country's level of economic development. The annual cost of inadequate public water supply is estimated at $470m, equivalent to 2% of GDP in 2008, including $380m in household spending on private water supply. It added that despite relatively high connection rates, the continuity of water supply is low and reaches as little as three hours a day in the Beirut-Mount Lebanon region, which houses about 40% of the Lebanese population. It estimated that the seasonal imbalance of water resources will lead to chronic water shortages by as early as 2020 if no measures are taken to improve efficiency and to increase storage capacity. The World Bank's loan is part of its Country Partnership Strategy, or business plan, for Lebanon for the next four years. The 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

Lebanon in the News

Central Bank foreign assets increase by 11.4% to $31.5bn in first 9 months of 2010

The Central Bank's interim balance sheet reached $60.1bn at the end of September 2010 compared to $53.75bn at the end of 2009 and to $50.4bn at the end of September 2009. Assets in foreign currencies increased by 11.4% in the first 9 months of the year to $31.5bn, up from $28.3bn at the end of 2009. Assets in foreign currencies increased by $230m in September, $309.3m in August, $627.7m in July, $109m in June, $146.2m in April, $561.7m in March, $236.9m in February, and by $1bn in January, while they declined by $1.65m in May. This resulted in an aggregate increase of nearly $3.22bn in the first 9 months of 2010. Further, assets in foreign currencies rose by $5.82bn, or 22.7%, year-on-year.

The value of the Central Bank's gold reserves increased by 20.4% year-to-September and by 31% year-on-year to $12.1bn, reaching a new all-time high. Its securities portfolio decreased by 5% in the first 9 months and by 5.1% annually to $7.3bn. Further, deposits of the financial sector rose by $4.73bn, or 12.5% in the first 9 months of the year and by $5.7bn or 17.3% annually to $42.5bn due to capital inflows into the banking sector; while deposits of the public sector declined by 17.5% year-to-September but rose by 6.6% year-on-year to $4.9bn. Assets in foreign currencies increased by $28.3bn in 2009, $7.34bn in 2008, declined by $580m in 2007 and rose by $1.32bn in 2006.

Foreign investments of financial sector at $5.3bn at March-2010, commercial banks account for 71% of debt securities, financial institutions account for 46% of equity investments

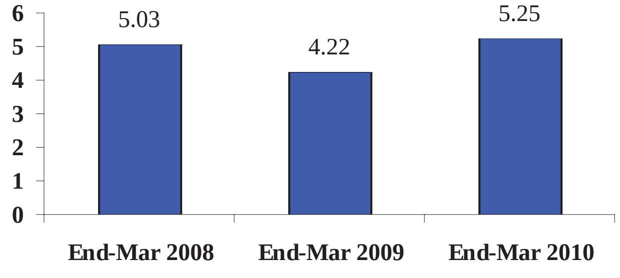
Figures issued by the Central Bank show that the net investment portfolio of Lebanese banks and financial institutions in foreign debt and equity securities totaled $5.3bn at March-2010, constituting an increase of 24.4% from $4.2bn in the same period last year. Such investments totaled $5bn at March 2008. Investments in equities totaled $2.7bn at March 2010, accounting for 51.8% of the total, followed by investments in long-term debt securities with $2.4bn, or 45.3% of the total, while short-term debt securities accounted for $153.5m or 2.9% of the total. According to the Central Bank, the figures cover the net assets of resident financial institutions in tradable debt and equity instruments of non-resident issuers. They help provide a clearer picture about the flow of funds from Lebanon and, therefore, about balance of payments data.

The distribution of investments by institutions indicates that commercial banks' net portfolio in foreign long-term debt securities totaled $1.65bn, accounting for 69.3% of total investments in such securities at March 2010. The figure includes banks' investment for their own account, for their clients and on a custodial basis. They were followed by medium and long-term banks with $528.2m (22.2%), financial institutions with $197.5m (8.3%), financial intermediaries with $3.8m (0.16%) and insurance firms with $1.5m (0.06%). Commercial banks also represented 99.3% of investments in short-term debt securities, followed distantly by financial institutions with 0.4%.

In parallel, financial institutions' net assets in equity securities totaled $1.2bn, accounting for 45.9% of total investments in such securities. They were followed by commercial banks with $1bn (37.9%), medium and long-term banks with $387.7m (14.2%), insurance firms with $38.3m (1.4%), and financial intermediaries with $14.1m (0.5%).

The distribution of investments by destination shows that the United States was the leading recipient of equity investments by financial institutions operating in Lebanon, reaching $1.36bn and accounting for 50.1% of the total at March 2010. It was followed by Egypt with $325.3m (12%), France with $236.7m (8.7%), Jordan with $137.2m (5%) and Saudi Arabia with $130m (4.8%), while other countries accounted for the remaining 19.4%. In parallel, the United Kingdom accounted $494.4m, or 20.8% of investments in long-term debt securities, followed by the United States with $406.4m (17.1%), the UAE with $240.6m (10.1%), Luxembourg with $174.3m (7.3%), and Switzerland with $170.3m (7.2%), while other countries accounted for the remaining 37.5%. Further, the United States accounted for 52.6% of investments in short-term debt securities, followed by the United Kingdom with 21.7% and the UAE with 5.8%.

Foreign Investments of Financial Sector (US$bn)



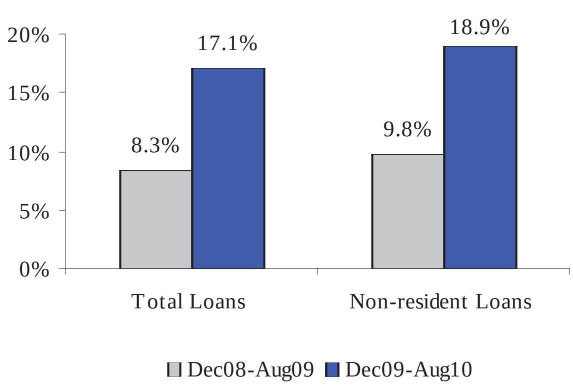
Source: Central Bank, Byblos Research

Lebanon in the News

Commercial banks' assets reach $125bn at end-August 2010

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached $124.6bn at the end of August 2010, constituting an increase of 8.1% from end-2009 and up 16.1% from end-August 2009. Private sector deposits totaled $102.7bn, up 7.3% from end-2009 and up 15% from end-August 2009. Deposits in Lebanese pounds reached $38.4bn, increasing by 12.9% from end-2009 and by 26.5% year-on-year, while deposits in foreign currencies reached $64.3bn, and rising by 4.2% from the end of last year and by 9.1% from end-August 2009. Non-resident foreign currency deposits reached $14.6bn at end-August 2010, increasing by 3% from end-2009 and increasing by 12.4% 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, $1.8bn in July and $792m in August 2010. In parallel, deposits of non-resident banks reached $5.2bn, up 13.1% from end-2009 and up 18.3% from end-August 2009. The dollarization rate of deposits reached 62.6% at end-August 2010, down from 64.5% at end-2009 and from 66% a year earlier. Further, the average deposit rate in Lebanese pounds reached 5.72% compared to 7% a year earlier, while the same rate in US dollars was 2.78%, down from 3.18% in August 2009.

Growth in Private Sector Loans (%)



Source: Association of Banks in Lebanon

Loans to the private sector amounted to $33.2bn, up 17.1% from end-2009 and up 22.6% year-on-year. The dollarization rate in private sector lending reached 81.4% compared to 84% at end-2009 and 85.2% a year earlier. The average lending rate in Lebanese pounds was 8.05% in August 2010 compared to 9.27% a year earlier, while the same average in US dollars was 7.04% compared to 7.05% in August 2009. Claims on the public sector stood at $29.1bn, up 8.4% year-on-year and nearly unchanged from end-2009, and accounted for 46.7% of the banking sector's total loans. The ratio of private sector loans to deposits in foreign currencies stood at 42.1%, well below the Central Bank's limit of 70%, and above the ratio of 38.4% a year earlier. In parallel, the same ratio in Lebanese pounds was 16.1%, up from 13.3% a year earlier. The ratio of total private sector loans to deposits stood at 32.4%, compared to 30.4% a year earlier. The banks' aggregate capital base stood at $9bn, up 13.4% from end-2009 and up 19.7% from $7.53bn in August 2009.

Lebanon signs two agreements with Mexico to increase trade exchange

Lebanon and Mexico signed two agreements to increase trade between the two countries. The first agreement was concluded between the Federation of Chambers of Commerce, Industry & Agriculture of Lebanon and Consejo Empresarial Mexicano de Comercio Exterior, Mexico's largest business council. The Federation also signed an accord with the National Chamber of Commerce, Services and Tourism of the City of Mexico (Camara Nacional de Comercio, Servicios y Turismo de la Ciudad de México - CANACO). The agreements aim 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 businessmen, and to organize related events and trade fairs. The deals also aim 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.

Mexico 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. 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.

World Bank grants $0.5m to telecom regulator

The World Bank's Institutional Development Fund (IDF) extended to the Telecommunications Regulatory Authority (TRA) a grant of $492,300 to support the latter's capacity building. The grant will finance of the Telecommunications Regulatory Capacity Building project and support the TRA in streamlining internal processes, strengthening external transparency, improving external communications with stakeholders and building technical capacity on specific regulatory issues. It will also help the TRA in setting a general telecommunications policy framework by coordinating with the Ministry of Telecommunications as well as in hiring an independent and qualified audit firm to undertake annual audits of the books related to the IDF grant activities. The TRA said that these objectives will help it to be a credible, efficient, and responsive regulator for the Lebanese telecommunications sector. It noted that the IDF grant will assist the TRA in creating a more efficient telecommunications sector in order to attract investment, create jobs, and unlock growth opportunities. Last month, the TRA received €0.5m from the European Union to acquire crucial equipment that would help build its internal and external capacities.

Airport passengers up 12% in first 9 months of 2010

Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures, transit) totaled 4,241,816 in the first 9 months of 2010, up 12% year-on-year. The UAE accounted for 763,924 passengers, or 18% of total passenger activity. It was followed by Saudi Arabia with 509,455 passengers, or 12% of the total, France with 417,287 travelers (9.84%) and Kuwait with 309,981 travelers (7.3%). The total number of flights reached 49,361 in the first 9 months of 2010, up 17% year-on-year. Middle East Airlines registered 14,356 flights, accounting for 29% of the total. It was distantly followed by Royal Jordanian Airlines with 2,170 flights or 4.4% of the total, Etihad Airways with 1,400 flights, National Air Services with 1,372 flights, Emirates Airlines with 1,314 flights and Turkish Airlines with 1,140 flights. The UAE was the biggest source and destination of traffic to Lebanon, as aircraft movement to and from the UAE totaled 7,163 flights, accounting for 14.51% of the total. Also, the HIA processed 57,992 metric tons of cargo in the first nine months of 2010, of which 57,198 tons of freight and 794 tons of mail. MEA processed 15,566 tons of freight, of which 15,323 tons in regular freight and 243 tons in mail.

Industrial activity up in second quarter of 2010

The Central Bank's quarterly business survey indicated that industrial production remained the same during the second quarter of 2010, with a balance of opinion standing at +27, as in the second quarter of 2009. The business survey reflects the opinions of enterprise managers on the evolution of their businesses, in order to depict the evolution of a number of key economic variables. For overall demand for industrial goods, the balance of opinion stood at +24 in the second quarter of 2010 compared to +21 in the same quarter of 2009. The balance of opinion for foreign demand increased from +5 to +10 in the same period. The balance of opinion is the difference between the proportion of managers out of total surveyed managers estimating that there has been an improvement in the said variable and the proportion of those who have reported a decline in the variable

Industrial Activity: Year-on-year evolution of opinions

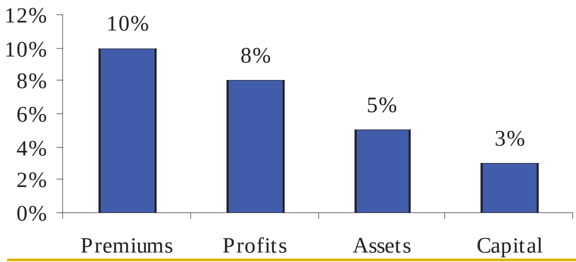
Aggregate results	Q2-07	Q2-08	Q2-09	Q2-10
Production	-17	4	27	27
Total demand	-25	-3	21	24
Foreign demand	-1	13	5	10
Volume of investments	8	20	10	27
Inventories of finished goods	-6	-5	2	11
Inventories of raw material	-4	-1	-4	8
Registered orders	-17	-8	7	10

Source: Central Bank Business Survey Q2-10

Lebanese insurers account for 10% of premiums generated in Arab world

The annual survey by *Al Bayan* magazine of the insurance market in the Arab world shows that the aggregate premiums generated in Lebanon and abroad by Lebanese insurance firms totaled $1.87bn at the end of 2009, constituting an increase of 14.8% from $1.63bn in 2008. Premiums generated by 48 Lebanese insurers accounted for 10.1% of the total premiums generated by 306 Arab insurance firms last year, compared to 11.4% in 2008. Lebanese insurers held the fourth highest market share in premiums generated, coming behind UAE firms with 20% of the market, firms in Saudi Arabia with 16.2%, and insurers from Morocco with 14.8% of the total. The MEDGULF Group was the top ranked Lebanese insurer with $675.8m in premiums generated domestically and abroad, and ranked in third place in the Arab world. It was followed by Arabia Insurance in 19th place regionally ($211m), Libano-Suisse in 41st place ($105m), AROPE Insurance in 47th place ($93.6m), Allianz SNA in 55th place ($85.1m), Bankers Assurances in 65th place ($77m), Union Nationale in 79th place ($59.2m), LIA in 80th place ($59m), Libanaise in 91st place ($49.6m), AXA Middle East in 93rd place ($49m), ADIR in 94th place ($47m), Fidelity in 107th place ($37.4m), Bancassurance in 115th place ($34.8m), Assurex in 133rd place ($24.8m), and Mashrek Insurance in 138th place ($23.2m) as the top 15 Lebanse insurers.

Share of Lebanese Insurers in 2009 by Category



Source: Al Bayan magazine, Byblos Research

In parallel, the survey included 13 Lebanese insurers among the top 150 Arab insurance firms in terms of assets. The MEDGULF Group ranked in 9th place with $1.18bn in assets at the end of 2009. It was followed by Arabia Insurance in 34th place ($350m), AROPE in 40th place ($262m), LIA in 46th place ($212.5m), Bancassurance in 59th place ($169.4m), Libano Suisse in 59th place ($67m), Union Nationale in 82nd place ($110.4m), ADIR in 88th place ($100.5m), CLA in 96th place ($87.8m), Libanaise in 102nd place ($80.1m), AXA Middle East in 113th place ($63.4m), SOGECAP in 126th place ($53.4m) and Mashrek Insurance in 149th place ($42.8m). the aggregate assets of the 13 firms reached $2.4bn at end-2009.

Further, the survey included 20 Lebanese inurers among the top 150 Arab insurance firms in terms of profits. The MEDGULF Group posted $74m in profits in 2009, coming in 7th place regionally. It was followed by Arabia Insurance with $14m (30th), LIA with $8m (44th), Allianz SNA with $6.2m (55th), Bancassurance with $6m (57th), AROPE Insurance with $5.8m (59th), Libanaise with $4.43m (71st), CLA with $4.4m (73rd), ADIR Insurance with $3.4m (90th), and Mashrek Insurance with $2.32m (101st) as the 10 most profitable Lebanese insurers. The aggregate profits of the 20 insurers reached $146.2m in 2009. Also, the survey included 8 Lebanese insurance companies among the largest Arab insurers in terms of capital. The MEDGULF Group had $63.2m in capital at end-2009, ranking in 27th place among 150 Arab insurers. It was followed by LIA with $41.5m (61st), Arabia Insurance with $34m (76th), AROPE Insurance with $28.7m (86th), Allianz SNA with $28m (87th), Libanaise with $15m (138th), Securité with $15m (141st), and Union Nationale with $13.7m (148th). The total capital of the 20 insurers reached $239m at end-2009.

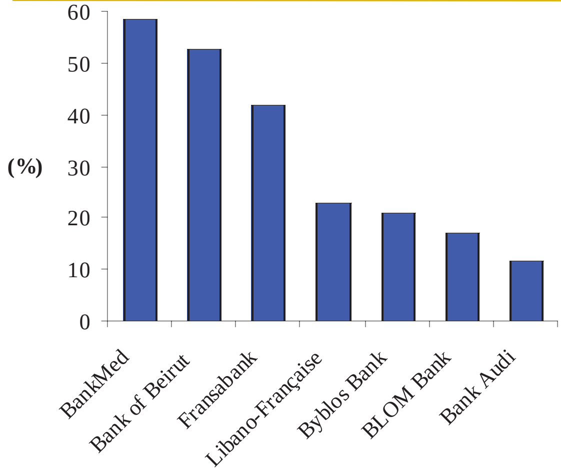
Kafalat loan guarantees reach $126m in first 9 months of 2010

Figures released by the Kafalat Corporation show that loans extended to small- and medium-size companies under the guarantee of Kafalat reached $126.4m in the first 9 months of 2010, up 24.2% from $101.8m in the same period last year. The number of loan guarantees totaled 1,070 year-to-September compared to 766 in the same period last year. The average loan size reached $118,116 compared to $132,935 in the first 9 months of 2009. Mount Lebanon accounted for 42.3% of guarantees, followed by the the South & Nabatieh with 19.1%, Bekaa with 21.5% the North with 12.2%, and Beirut with 5%. The agriculture sector accounted for 45.6% of total guarantees, followed by industry with 37.2%, tourism with 13.8%, 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.

Seven Lebanese banks among top 150 Arab banks

Al-Iktissad Wal-Aamal magazine's annual survey of top 150 banks in the Arab world included 7 Lebanese banks on the list, none of which ranked among the top 25 Arab banks. The rankings are based on shareholders' equity at year-end 2009. Five Lebanese banks improved their rankings in the 2010 survey, with Fransabank and Bank of Beirut rising by 7 spots each to 54th and 65th place, respectively, and posting the biggest year-on-year improvement among their Lebanese peers. Also, Byblos Bank's rank improved by 4 spots to 44th place, BLOM Bank rose by three spots to 31st place; and Banque Libano-Française moved up two places to the 74th position. In parallel, BankMed's ranking declined by three spots to 50th place and Bank Audi regressed by two spots to 26th place.The shareholders' equity of all Lebanese banks increased by double digits year-on-year, with BankMed's equity rising by 52.8%, followed by Bank of Beirut with 52.8%, Fransabank with 42%, with 42%, Banque Libano-Française with 22.8%, Byblos Bank with 21%, BLOM Bank with 17%, while Bank Audi posted the lowest growth rate at 11.5% year-on-year. Bank Audi's shareholders'equity was $2.2bn at end 2009, followed by BLOM Bank with $1.7bn, Byblos Bank with $1.3bn, BankMed with $$1.14bn, Fransabank $1.1bn, Bank of Beirut with $796m, and Banque Libano-Libano-Française with $$595m. The aggregate shareholders' equity of the 7 Lebanese banks accounted for 5.5% of the 150 Arab banks' equity at end-2009. In parallel, the 7 Lebanese banks accounted for 7.8% of the aggregate assets and for 7% of the total profits of the 150 banks. BLOM Bank ranked highest among the 7 banks in profitabiltiy last year, as it came in 19th place in terms of return on average equity (ROAE) with 18.5% and in 50th place in terms of return on average assets (ROAA) with 1.52%.

Change in Shareholders' Equity in 2009 (%)



Source: Al-Iktissad Wal-Aamal

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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