



LEBANON THIS WEEK

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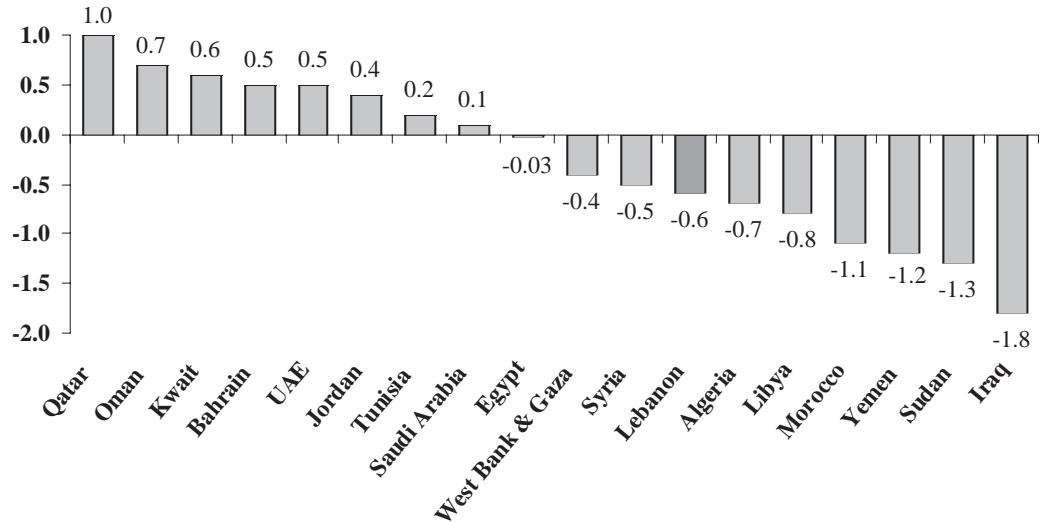
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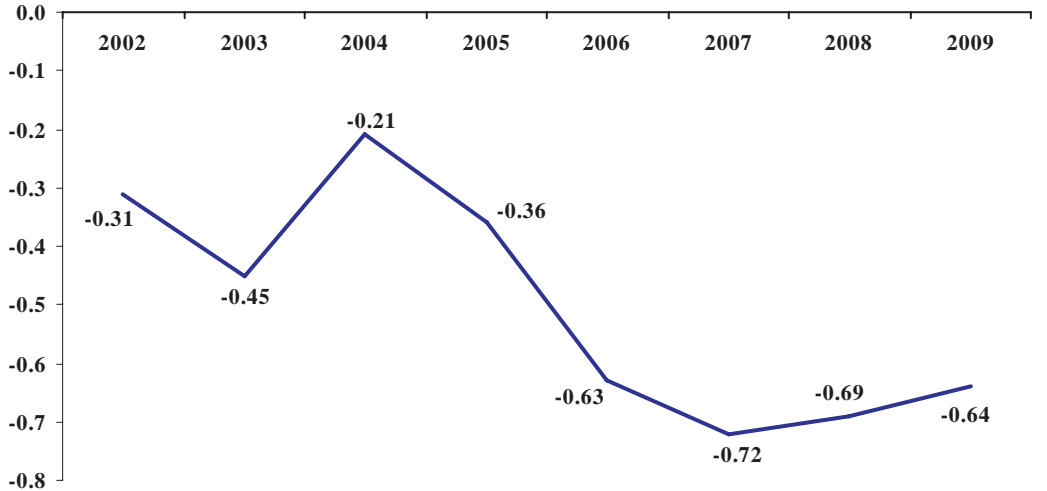
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Charts of the Week

Rule of Law Indicator of Arab Countries in 2009



Rule of Law Indicator for Lebanon



Source: World Bank Governance Indicators

Quote to Note

"The main medium-term challenges are to address the country's macro-financial vulnerabilities and implement growth-enhancing structural reforms."

The International Monetary Fund, on the urgent need to implement much-delayed reforms

Number of the Week

136: Lebanon's rank out of 139 countries on the quality of electricity supply, according to the World Economic Forum's Global Competitiveness Index

Economic Indicators

\$m (unless otherwise mentioned)	2008	August 09	2009	June 10	July 10	August 10	% Change*
Exports	3,478	239	3,486	385	303	312	30.54
Imports	16,133	1,439	16,241	1,449	1,850	1,449	0.69
Trade Balance	(12,655)	(1,200)	(12,755)	(1,064)	(1,547)	(1,137)	(5.25)
Balance of Payments	3,462	1,020	7,899	106	994	447	(56.18)
Checks Cleared in LBP	9,350	937	11,122	1,674	1,783	1,152	22.95
Checks Cleared in FC	43,174	4,233	45,270	4,609	4,898	4,470	5.6
Total Checks Cleared	52,524	5,170	56,392	6,283	6,681	5,622	8.74
Budget Deficit/Surplus	(2,921)	(127)	(2,960)	(52)	(272)	(358)	181.89
Primary Balance	597	121	1,078	279	94	(69)	(157.02)
Airport Passengers	4,085,334	612,956	4,986,544	497,647	684,084	578,452	(5.63)

\$bn (unless otherwise mentioned)	Dec 2008	August 09	May 10	June 10	July 10	August 10	% Change*
BdL FX Reserves	17.06	22.82	27.32	27.42	27.93	28.24	23.75
<i>In months of Imports</i>	<i>15.03</i>	<i>15.86</i>	<i>19.96</i>	<i>18.92</i>	<i>15.1</i>	<i>19.5</i>	22.95
Public Debt	47.02	48.51	51.07	51.00	50.77	50.18	3.44
Net Public Debt	41.49	43.24	44.24	44.13	44.3	44.4	2.68
Bank Assets	94.25	107.37	120.69	121.68	127.05	124.63	16.08
Bank Deposits (Private Sector)	77.78	89.30	99.21	100.12	101.93	102.72	15.03
Bank Loans to Private Sector	25.04	27.11	31.44	31.71	32.86	33.24	22.61
Money Supply M2	24.76	30.91	37.43	38.02	38.24	38.78	25.46
Money Supply M3	68.66	77.22	86.04	86.74	88.1	88.9	15.13
LBP Lending Rate (%)	9.95	9.27	8.47	8.37	8.09	8.05	(122b.p.)
LBP Deposit Rate (%)	7.22	7.00	5.93	5.83	5.79	5.72	(128b.p.)
USD Lending Rate (%)	7.47	7.05	7.10	7.03	7.05	7.04	(1b.p.)
USD Deposit Rate (%)	3.33	3.18	2.84	2.75	2.8	2.78	(40b.p.)
%* Change in CPI**	6.36	1.52	6.51	7.42	6.41	4.74	322b.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"	18.83	(4.32)	186,491	14.84%
Solidere "B"	18.80	(3.75)	110,354	9.68%
Byblos Common	1.73	(1.70)	135,901	5.20%
Byblos Priority	1.72	(0.58)	181,472	2.93%
Byblos Pref. 08	100.50	0.00	0.00	1.65%
BLOM GDR	9.42	(1.36)	16,200	5.80%
BLOM Listed	8.80	(0.00)	3,761	15.55%
Audi GDR	8.05	(3.01)	21,679	6.94%
Audi Listed	7.91	(1.37)	45,842	22.69%
HOLCIM	13.99	0.65	60	2.23%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Nov. 2010	6.875	100.15	4.56
May 2011	7.875	103.88	1.41
Mar. 2012	7.500	106.25	2.93
Sep. 2012	7.750	108.50	3.05
June 2013	8.625	112.50	3.64
Apr. 2015	10.000	121.13	4.72
Jan. 2016	8.500	116.25	4.92
May 2016	11.625	130.00	5.28
Mar. 2017	9.000	121.00	5.12
Apr. 2021	8.250	117.00	6.03

Source: Byblos Capital Markets

	October 11-15	October 4-8, 10	% Change	September 2010	September 2009	% Change
Total Shares Traded	100,993	104,627	(3.47)	3,677,088	4,960,933	(25.88)
Total Value Traded	\$948,290	\$1,679,118	(43.52)	\$51,225,084	\$8,7945,925	(41.75)
Market Capitalization	\$12.20bn	\$12.16bn	(0.33)	\$12.38bn	\$11.64bn	6.33

Source: Beirut Stock Exchange (BSE)



World Bank projects real GDP growth of 8% in 2010, urges implementation of reforms to reduce fiscal vulnerabilities and raise competitiveness

The World Bank projected economic growth in Lebanon at 8% in 2010 compared to growth of 4% in the Middle East & North Africa, 4.9% for the region's oil importers and 6.5% for oil importers with links to the GCC. It also projected real GDP growth of 7% in 2011 compared to 4.8% in the MENA region and 5.3% for oil importers. Lebanon's projected growth rate in 2010 would make it, along with Yemen, the second fastest growing economy in the MENA region behind only Qatar's expected real GDP expansion of 18.5%. It attributed Lebanon's high expected growth to strong regional demand fueled by inflows of capital into the real estate and banking sectors, which have been driving the boom in the construction and trade sectors. It noted, however, that sectors producing tradable goods and high value-added services remain weak due to structural bottlenecks in infrastructure, and the loss in competitiveness associated with the continued appreciation of the real exchange rate, driven by the massive inflow of funds to the country. It added that the growth outlook for oil importers with GCC links continues to be strong largely because of the high expected growth in Lebanon, where credit to the private sector grew at the highest pace among oil importing economies.

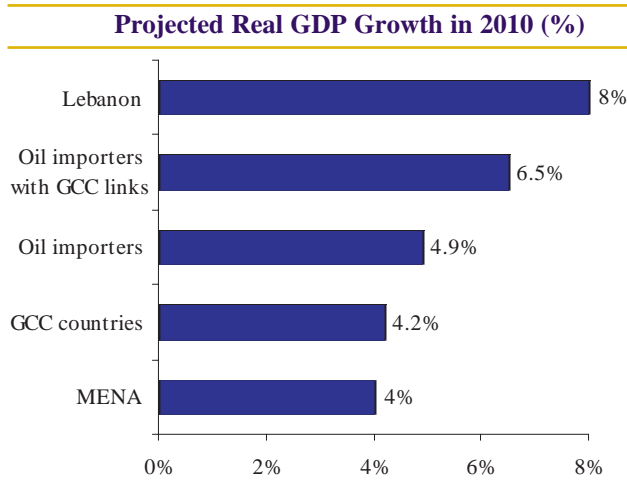
The World Bank forecast Lebanon's fiscal balance to post a deficit of 8.5% of GDP this year relative to a surplus of 0.6% of GDP for the MENA region, a deficit of 6.8% of GDP for oil importers and a deficit of 7.9% for oil importers with GCC links. The projected fiscal deficit would be the second highest in the region in 2010 behind Iraq with a deficit of 12.2% of GDP. Further, it projected Lebanon's current account deficit at 15.4% of GDP in 2010 compared to a surplus of 5.8% of GDP for the region, a deficit of 4.8% of GDP for oil importers and a deficit of 13.1% of GDP for oil importers with GCC links.

In parallel, the World Bank revised upwards Lebanon's economic growth to 9% in 2009 from a May estimate of 8%, compared to growth of 2% in the MENA region, 4.9% for oil importing economies, and 6.5% for oil importers with GCC links. It said that the Lebanese economy grew at a much faster pace than other oil importers with GCC links, reflecting a post-conflict recovery expansion aided by strength in certain sectors and vibrant private investment. It noted, however, that fiscal and monetary policy interventions helped fuel this recovery, adding that such policies strained the fiscal outlook.

The World Bank warned that Lebanon has limited fiscal space and remains sensitive to negative shocks, which pushes its credit spreads higher than those of its peers. It added that the large fiscal and current account deficits, as well as the high level of public debt at more than 145% of GDP, are a key source of long-term vulnerability and restrain the government's ability to respond to unexpected shocks. It cautioned that failure to implement structural reforms that would raise the economy's competitiveness and reduce fiscal risks would erode Lebanon's growth outlook and debt servicing capacity. It added that one of Lebanon's key macroeconomic challenges is the management of large financial inflows, which have been triggered by large spreads between interest rates on deposits in US dollar and Lebanese pounds on the one hand, and international rates on the other.

Beirut-based technical assistance center receives \$21.5m in pledges

The International Monetary Fund indicated that Lebanon, Egypt, Jordan, Libya, Syria, Sudan and Yemen, as well as the IMF, the European Commission, France, Kuwait and Oman pledged to contribute \$21.5m to the Beirut-based Middle East Regional Technical Assistance Center (METAC). It said that the pledges received cover about two thirds of the center's requirements for its third phase of operation, which runs from May 2010 to April 2015. It added that discussions are ongoing with a number of other donors that have expressed interest in contributing to METAC. The IMF established METAC in Beirut in October 2004 to serve Afghanistan, Egypt, Iraq, Jordan, Lebanon, Libya, Sudan, Syria, the West Bank & Gaza and Yemen. The center's mandate is to provide capacity building assistance, facilitate the reform process in member countries, and support the region's integration in the world economy. It provides technical assistance and training in banking supervision, public debt management, revenue administration, public financial management, and macroeconomic statistics.



Source: World Bank

Merrill Lynch maintains its recommendation on Lebanese Eurobonds at 'Over Weight'

Merrill Lynch maintained its recommendation on Lebanon's external debt at 'Over Weight' in its model portfolio of emerging markets debt and reduced Lebanon's allocation by 0.3 percentage points to 5.5% in October 2010. Last August, Merrill Lynch upgraded its recommendation on Lebanon's external debt to 'Over Weight' from 'Market Weight', following its upgrade in May to 'Market Weight' from 'Under Weight'. The last time Merrill Lynch had an 'Over Weight' recommendation on Lebanon's external debt was in April 2007. Lebanon's allocation was 5.8% in each of September and August, 5.4% in July, 5.7% in May, and 2.1% in each of the first four months of this year. It was 5.5% in September and 5.9% in July 2009. Merrill Lynch said the credit is not strongly correlated to emerging markets as local banks hold the bulk of its debt. It said the credit has lagged the broader market moves and, despite the stronger macro outlook, it missed the recent rally of emerging market credits and US Treasury bills.

Lebanon's external debt rating of 'Over Weight' placed Lebanon in the same category as Argentina, Bahrain, Hungary, Indonesia, Mexico, Qatar, Russia and South Africa. Lebanon's 'Over Weight' is similar to the recommendation for similarly-rated countries, as well as to the 'Over Weight' recommendation on the Europe, the Middle East & Africa (EMEA) and the Middle East & North Africa regions. Lebanon is represented in the portfolio by the April 2021 Eurobond. Lebanon accounted for 16.4% of the allocations in the EMEA region in October, compared to 17.4% in August, 16.4% in July, 6.9% in March, 7.5% in January and a high of 25% in March 2009. Lebanon's allocation was the 8th highest among countries in the portfolio, down from 7th highest in August and May and up from 14th highest in March. Lebanon accounted for 30% of allocations to similarly-rated countries, down from 34% in August, 38.5% in May, while it was up from 12% in March and 10.5% in January.

In parallel, Lebanon's external debt posted the 12th highest return at 8.53% among 23 markets in the EMEA region in the first 9 months of 2010, as well as the 33rd best return among the 45 emerging markets included in Merrill Lynch's Sovereign Plus Debt Index. Lebanon underperformed the EMEA returns of 10.77% and the overall emerging market returns of 13.83% in the covered period. Also, Lebanon's external debt underperformed the 113.7% returns posted by similarly-rated sovereigns in the first 9 months of the year, while it posted the 11th best performance at 8.8% in the EMEA region and the 32nd best performance in emerging markets in US dollar terms. It also underperformed the 15.2% returns of US dollar 'B'-rated bonds. Further, Lebanon's external debt posted the 7th highest returns among 9 countries in the Middle East & Africa region during the covered period, as it came ahead of Tunisia with 6.93% and the Ivory Coast with -3.81%, but behind Iraq with 18.3%, Ghana with 18.1%, Gabon with 17.2%, South Africa with 11.3%, Egypt with 10.44% and Morocco with 8.54%. Also, it posted returns of 0.84% in September, ahead of Tunisia (0.76%), Morocco (0.64%) and Egypt (-1.03%), and behind the Ivory Coast (6.75%), Ghana (2.34%), Gabon (2.18%), Iraq (1.14%) and South Africa (0.96%).

In parallel, Lebanon's external debt posted the 14th highest return in the EMEA region and the 31st highest return in emerging markets in September 2010. It underperformed the EMEA returns of 1.67%, the emerging markets returns of 1.88%, and the 1.87% returns of similarly-rated sovereigns for the same month. Merrill Lynch said the spread on Lebanese Eurobonds ended September 2010 at 347 basis points, 11th narrowest in the EMEA region and 23rd narrowest among emerging markets. It was wider than the EMEA spread of 276 basis points and the emerging markets overall spread of 291 basis points as at end-September 2010. Also, Lebanon's spread narrowed by 6 basis points in September, as spreads in the EMEA narrowed by 23 basis points while spreads in emerging markets overall narrowed by 19 basis points in the same month.

Lebanon signs 17 trade agreements with Iran

Lebanon and Iran signed 17 trade agreements in various sectors. Two of the signed agreements consist of Iranian soft loans of \$450m to finance energy-related projects, which could include the building of power plants and dams, as well as provide technical and managerial expertise. Moreover, Iran may export electricity to Lebanon via Syria and Turkey. A joint technical committee will be formed to assess Iran's input in the field. Trade activity between Lebanon and Iran remains low, as the aggregate value of bilateral trade totaled \$87m in 2009. Lebanese imports from Iran dropped by 12% year-on-year to \$38.1m, while Lebanese exports to Iran declined by 51.5% to \$49m in 2009. As such, imports from Iran account for 0.23% of total Lebanese imports and exports represent 1.4% of aggregate exports.

Emerging Markets External Debt Portfolio		
Country	Bonds	Weight (%)
Mexico	Mexico '17s, '40s	10.0
Russia	Russia '18s, '30s	10.0
Brazil	Brazil '17s, '19s, '37s	9.5
Indonesia	Indonesia '18s, '19s, Suk'14s	9.4
Turkey	Turkey '18s, '19s	9.3
Philippines	Philip '16Ns, '19s, '20s	9.2
Venezuela	Vz '14s, '16s, '18Ns, '19s	6.7
Lebanon	Lebanon '21s	5.5
Colombia	Colombia '17s, '19s, '37s	4.4
Argentina	Boden '15s, Disc\$N	4.3
South Africa	South Africa '14s, '20s	4.3
Peru	Peru '19s	4.0
Panama	Panama '15s, '36s	3.3
Uruguay	Uruguay '22s	2.6
Hungary	Hungary '20s	2.6
Ukraine	Ukraine '11s	2.2
El Salvador	El Salvador '23s	1.5
Bahrain	Bahrain '20s	0.5
Qatar	Qatar '19s	0.5
Iraq	Iraq '28s	0.1
Cash		0.1
Total		100

Source: Merrill Lynch, October 2010

Rising political tensions affecting economic outlook

Regional investment bank EFG Hermes maintained its economic growth forecast for Lebanon at 6.5% for 2010 and 5% in 2011, but acknowledged that risks have shifted to the downside. It indicated that rising political tensions since last July have raised concerns about the country's positive economic performance. It said tensions related to the UN tribunal investigating the assassination of former Prime Minister Rafiq Hariri have increased risks about the country's economic outlook, while the fire exchange between the Lebanese and Israeli armies in early August were a reminder that Lebanon continues to be exposed to regional struggles. It added that the deteriorating political environment is starting to filter through the economy, as rising tensions have had their impact on the stock market where, despite prices holding up relatively well, volumes have been drying up. Further, it noted signs of slower activity in real estate trading as investors become more nervous about political stability. It stated that the escalating political tensions pose mounting risks to the economy, as they risk bringing the country to the pre May 2008 situation. It considered that further deterioration in political stability would negatively impact tourism and private consumption, as well as investment levels despite improved economic activity in the GCC region, the country's main trading partner.

EFG Hermes also warned that the escalation of current tensions is likely to negatively affect the confidence of the Lebanese Diaspora, which has supported economic growth through increased remittances and demand for real estate. It stressed that political stability remains the cornerstone of the country's economic development, as successive periods of political instability since 2005 resulted in a sharp deterioration in economic activity when the Arab economies were booming, while activity only started to pick up in mid-2008 after a truce was signed between Lebanon's political factions and the election of a new president.

EFG Hermes projected the inflation rate to average 3.5% in 2010 and 4% in 2011. It forecast the annual growth of broad money at 13% in 2010 relative to 19.5% last year, while it projected private-sector lending to grow by 22% this year relative to 15% last year. Further, it projected the fiscal deficit to widen from 8.9% of GDP in 2009 to 10.3% of GDP in 2010 and 9.8% of GDP in 2011. It also forecast the external debt to decline from 64% of GDP at end-2009 to 58% of GDP by end-2010 and 53.2% of GDP by end-2011, and for the net domestic debt to regress from 68.4% of GDP in 2009 to 66.4% of GDP at the end of this year and to 64.2% of GDP by the end of 2011.

Energy Ministry to tender LNG pipeline

The Ministry of Energy & Water indicated that it will offer tenders in November for the construction of the first pipeline for liquefied natural gas, as part of a strategy to revamp the country's power industry and reduce electricity outages. The ministry said it is completing preparations to invite companies to bid for work on the pipeline, which would link power stations along the country's coast. It added that it will offer other tenders later for related facilities, including a terminal for receiving shipments of imported LNG. It expected have a working LNG terminal by 2012. The ministry is also planning separate tenders for supplies of LNG and a terminal to receive gas imports. Last July, the Lebanese Cabinet endorsed a five-year plan to reform the electricity sector. The plan consists of 10 inter-related initiatives that cover infrastructure, demand and the regulatory framework. The plan prioritizes energy sources that are environmentally-friendly such as gas and renewable energy, and includes the establishment of infrastructure for liquefied petroleum gas and the construction of a pipeline along the coast. The plan expects power production to reach 4,000 megawatts by 2014 and 5,000 megawatts starting in 2015, with round-the-clock electricity supply by 2014. It also stipulates improving the transmission and distribution network, restructuring tariffs, and reducing technical losses. The ministry estimated the plan's cost at \$4.87bn, to be funded by the state, the private sector and donors. According to the ministry, the plan would gradually reduce the sector's overall losses, which it estimates at \$4.4bn for 2010, to break-even point by 2014. It noted that the state could start generating profits by 2015, and that losses would rise to \$9.5bn by then if the plan is not implemented. The plan stressed the need to amend exiting laws as a prerequisite to establish a clear regulatory framework, called for the corporatization of Electricité du Liban, and for the adoption of a public-private partnerships (PPP) law.

Cleared checks up 29% to \$45.8bn in first 8 months of 2010

The value of cleared checks increased by 28.9% to \$45.8bn in the first 8 months of 2010 compared to the same period of 2009. The value of cleared checks in Lebanese pounds rose by 22.2% to the equivalent of \$8.8bn, while the value of cleared checks in US dollars rose by 30.6% to \$36.9bn. The dollarization rate of cleared checks increased from 79.7% to 80.7% year-on-year. Also, the value of returned checks in domestic and foreign currency amounted to \$968m in the first 8 months of 2010, up 47.3% from \$657m in the period last year.

Construction permits up 52% in first 8 months of 2010

Figures released by the Association of Engineers of Beirut & Tripoli show that construction permits reached 11.7 million square meters in the first 8 months of 2010, up 52.1% from 7.7 million square meters in the same period last year. Construction permits totaled 1.6 million square meters in August 2010, up 85.1% year-on-year from 866,000 square meters in August 2009. In parallel, cement deliveries reached 3.5 million tons in the first 8 months of 2010, an increase of 5.6% from 3.3 million tons in the same period last year. Cement deliveries reached 425,000 tons in August 2010, down 7% from 457,000 tons in August 2009

Most tourists spending in Lebanon originates from Saudi Arabia, UAE and Kuwait in first 9 months of 2010

Figures issued by Global Blue, the VAT refund operator for international shoppers, show that visitors from Saudi Arabia spent the most in Lebanon in the first 9 months of 2010, accounting for 23% of total tourist spending. They were followed by visitors from the UAE with 11%, Kuwait with 10% while Syria and Egypt accounted for 7% each. Spending by visitors from Syria rose by 41% in the first 9 months of the year, followed by visitors from Saudi Arabia with a 39%, Egypt (38%), France (+26%), Jordan (+16%), the UAE (+10%) and Kuwait (+4%), while visitors from Qatar decreased by 1%. Beirut attracted 82% of total spending over the covered period, followed by the Metn area with 14%, the Keserwan region with 2% and Baabda with 1%. Fashion & clothing accounted for 68% of total spending, followed by watches with 11%, home & garden products, perfumes & cosmetics and department stores with 4% each, souvenirs & gifts with 3%, and consumer electronics & household appliances and electronics & IT with 2% each. Spending on Electronics & IT increased by 39% in the first 9 months of the year, followed by spending on perfume & cosmetics with a 27% rise, watches and fashion & clothing with 25% increase each, consumer electronics & household appliances (+21%), department stores (+15%), souvenirs & gifts (+8%) and home & garden products (+2%).



Lebanon included in new Dow Jones MENA index

Global index provider Dow Jones Indexes included Lebanon in its new Dow Jones MENA Broad Stock Market Index. The firm said the index measures the stock performance of actively-traded large-caps and mid-caps equity securities in the Middle East and North Africa region. The index includes 129 stocks from listed companies in Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Tunisia and the United Arab Emirates. Lebanon's weight in the index is 1.63% as of September 30, 2010 and is represented by Solidere 'A' and 'B' shares. Dow Jones said all stocks in the index universe with a minimum float-adjusted market capitalization of \$100m are included in the index. Saudi Arabia and Kuwait have the highest country weightings in the new index at 46.9% and 22% respectively, while financials (45.6%), basic materials (20.5%), industrials (10.8%), and telecommunications (9.4%) are the biggest sector constituents. The companies represented in the index have a full market capitalization of \$466.3bn and a float-adjusted capitalization of \$191bn as of end-September 2010, with the top 10 firms accounting for 44.7% of aggregate float-adjusted market capitalization. Saudi Basic Industries Corporation (SABIC) has the largest market capitalization and accounts for 11.3% of the total. Other constituent companies include, Al Rajhi Banking & Investment, Mobile Telecommunications Company (Zain), National Bank of Kuwait, Etihad Etisalat and Kuwait Finance House. Dow Jones noted that the stock selection is subject to a 10% annual turnover ratio, which means that securities with an annualized three-month average daily trading volume of less than 10% of the full shares outstanding will be removed from the index. Lebanon is already included in several regional and emerging market indices such as Standard & Poor's Pan-Arab Index, Standard & Poor's Pan-Arab Shariah Index, the MSCI Frontier Markets Index, the Merrill Lynch Frontier Index, as well as the Standard & Poor's Environment, Social and Governance Index for the MENA region.

Banks' liquidity at 68% of assets, capital adequacy at 12.4%

Figures issued by the International Monetary Fund show that the risk-weighted capital adequacy ratio of banks operating in Lebanon reached 12.4% at the end of 2009 relative to 12.1% at the end of 2008 and 12.5% at end-2007, while the capital-to-assets ratio was 6.8% at end-March 2010, down from 7% at end-2009 and 8.5% at end-2008. The sector's net liquid assets reached 67.5% of total assets at end-March 2010, down from 70% at end-2009 but up from 42.3% at end-2008; while net liquid assets were equivalent to 52% of short-term liabilities at end-March relative to 54.2% at end-2009 and 50% at end-2008. Further, private sector deposits were equivalent to 68.4% of total assets at end-March 2010, relative to 68.7% at end-2009 and 70.3% at end-2008, and non-resident deposits represented 13.4% of assets at end-March.

The sector's non-performing loans reached 2.1% of total loans at end-March 2010, down from 2.3% at end of 2009 and 3.1% at end-2008, while they were equivalent to 6.9% of banks' capital at end-March 2010, unchanged from end-2009 but down from 8.4% at end-2008. Further, the sector's provisions against NPLs reached 63.4% of total NPLs at end-March 2010, compared to 64.4% at end-2009 and 61.3% at end-2008; while the sector's provisions-to-NPLs ratio improved to 101% at end-March 2010 from 98.4% at end-2009 and 86.4% at end-2008. Also, foreign currency loans were equivalent to 79.6% of total loans, and foreign currency deposits were equivalent to 63% of overall deposits at end-March. Foreign currency loans were equivalent to 53% of projected GDP in 2010, down from 57% of GDP in 2009 and 59% of GDP in 2008.

The sector's assets concentration indicates that claims on the Central Bank accounted for 31.4% of total assets, followed by claims on the government with 24.6%, claims on the private sector for 21.5% and claims on non-residents for 15.6% at end-March 2010. Claims on the Central Bank increased from 24.7% at end-2007 to 27.8% at end-2008 and 30.7% at end-2009; with Certificates of Deposits issued by the Bank driving this increase, as they rose from 9% of the sector's assets at end-2007 to 12% at end-2008, 16.3% at end-2009 and 17% at end March. In parallel, the banks' exposure to the government declined from 27% of assets at end-2009 to 25.2% at end-2009 and 24.6% at end-March. Further, the sector's net foreign currency assets were equivalent to 17.7% of capital at end-March compared to 15% at end-2009 and 19% at end-2008. In parallel, banks' average return on assets reached 1% at end-March 2010 on an annualized basis, down from 1.1% in 2009 and unchanged from 2008; while their average return on equity reached 14.5% at end-March 2010 annually, relative to 14.4% in 2009 and 13.8% in 2008. The sector's net interest margin declined from 2% in 2007 to 2.1% in 2008, 1.9% in 2009 and 1.8% at end-March 2010.

Zurich acquires Compagnie Libanaise D'Assurances

Zurich Financial Services Group, a global provider of insurance-based financial services, announced that its subsidiary Zurich Insurance Company Ltd acquired 99.98% of Compagnie Libanaise D'Assurances sal (CLA), a privately-owned Lebanese insurer with branch operations in the UAE, Kuwait and Oman. The transaction is expected to close before the end of 2010 subject to the approval of the relevant regulatory authorities. Established in 1951, CLA offers general insurance solutions to retail and commercial customers in the UAE, Kuwait, Oman and Lebanon, and offers individual and group life insurance solutions to customers in Lebanon. It generated \$20.8m in premiums in the Lebanese market in 2009, accounting for 2% of total premiums generated in Lebanon last year. CLA generated non-life premiums of \$11.25m and life premiums of \$9.6m in 2009 in Lebanon, accounting for 1.6% and 3%, respectively, of each category's total premiums. The firm had aggregate gross written premiums of \$49.1m from all its markets and posted net profits of \$5.1m in 2009. Zurich indicated that the acquisition falls within the context of its expansion strategy in the Middle East, and provides it access to personal and commercial customer segments in four important markets, while complementing its existing general insurance presence in Bahrain and Dubai. Zurich posted net profits of \$1.64bn in the first half of 2010, down 16% from the same period last year. It had gross written premiums of \$18bn and life premiums of \$13bn. It operates in North America, Europe, Asia-Pacific, Latin America and other markets.



Corporate Highlights

Merger of Lebanese freight forwarders to create global player

The Lebanese-owned Freight forwarders Overseas Group and Globe Express Services Ltd. announced the merger of their operations to create on the top 100 logistics providers worldwide. The two privately-held firms said they joined forces to expand their global capabilities, build economies of scale and leverage best practices across their organization. The new company, named Globe Express Services (Overseas Group), will have 41 offices worldwide and over 750 employees serving Asia, Europe, the Middle East and the Americas. The firm's regional headquarters for the Middle East will be based in Beirut. The new group said that the two firms complement each others in terms of market segments, trade lanes served and geographic presence. Overseas Group is specialized in U.S. exports to Europe and the Middle East, while Globe Express Services has historically focused on Asian imports to the United States. The World Bank's Logistics Performance Index ranked Lebanon in 33rd place among 155 countries worldwide and third among 17 Arab countries in 2010.

ADMIC expands in Syria

Advanced Development Management and Investment Corporation sal (ADMIC), an operator of shopping centers and supermarkets in Lebanon, is expanding in the Syrian market through the opening of the first Monoprix supermarket in Damascus. Established in 1996, ADMIC holds the master franchise rights to develop the Monoprix supermarket and Geant hypermarket chains in Lebanon and other Arab countries, and opened its first outlet in the Jnah area of Beirut in June 1999. It also holds the master franchise rights to develop the BHV chain of department stores in Lebanon, Syria and Jordan. Both the Monoprix and BHV chains are part of the French retail giant Groupe Galeries Lafayette. The Damascus supermarket has a surface area of 7,000 square meters. ADMIC is expected to operate a second Monoprix supermarket of 2,000 sqm in Aleppo this year. ADMIC sold in 2008 its five Monoprix supermarkets and its Géant Casino hypermarket in Lebanon to Kuwait's Sultan Center Food Products Co. for \$97m.

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



Economic Research & Analysis Department
Byblos Bank Group
P.O. Box 11-5605
Beirut – Lebanon
Tel: (961) 1 338 100
Fax: (961) 1 217 774
E-mail: research@byblosbank.com.lb
www.byblosbank.com

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BYBLOS BANK GROUP

LEBANON

Byblos Bank S.A.L
Achrafieh - Beirut
Elias Sarkis Avenue - Byblos Bank Tower
P.O.Box: 11-5605
Riad El Solh - Beirut 1107 2811 - Lebanon
Phone: (+ 961) 1 335200
Fax: (+ 961) 1 339436

SYRIA

Byblos Bank Syria S.A
Abu Roummaneh Head Office
Al Chaalan - Amine Loutfi Hafez Str.
P.O.Box: 5424 Damascus - Syria
Phone: (+ 963) 11 9292 - 3348240 / 1 / 2 / 3 / 4
Fax: (+ 963) 11 3348207
E-mail: byblosbanksyria@byblosbank.com

IRAQ

Erbil Branch, Kurdistan, Iraq
Street 60,
Near Sports Stadium
P.O.Box: 34 - 0383 Erbil - Iraq
Phone: (+ 964) 66 2233457 / 9
Fax: (+ 964) 66 2233458
E-mail: iraqbranch@byblosbank.com.lb

Baghdad Branch, Iraq
Karada - Salman Faeq Street
Facing Al Sheruk Building
P.O.Box: 3085 Al Elweyah - Iraq
Phone: (+ 964) 1 7177493
(+ 964) 1 7177294
E-mail: aabdelkader@byblosbank.com

UNITED ARAB EMIRATES

Byblos Bank Abu Dhabi Representative Office
Intersection of Muroor and Electra Streets
P.O.Box: 73893 Abu Dhabi - UAE
Phone: (+ 971) 2 6336400
Fax: (+ 971) 2 6338400
E-mail: byblosbankuae@byblosbank.com

ARMENIA

Byblos Bank Armenia CJSC
18/3 Amiryan Street
Yerevan, 37500 - Republic of Armenia
Phone: (+ 374) 10 530 362
Fax: (+ 374) 10 535 296

CYPRUS

Limassol Branch
1, Arch. Kyprianou / St. Andrew Street
P.O.Box 50218
3602 Limassol - Cyprus
Phone: (+ 357) 25 341433 / 4 / 5
Fax: (+ 357) 25 367139
E-mail: bybloscyprus@byblosbank.com

BELGIUM

Byblos Bank Europe S.A
Bussels Head Office
10, Rue Montoyer
B-1000 Brussels - Belgium
Phone: (+ 32) 2 551 00 20
Fax: (+ 32) 2 513 05 26
E-mail: byblos.europe@byblosbankeur.com

ENGLAND

London Branch
Berkeley Square House - Suite 5
Berkeley Sq.
GB - London W1J 6BS - United Kingdom
Phone: (+ 44) 207 493 35 37
Fax: (+ 44) 207 493 12 33
E-mail: byblos.europe@byblosbankeur.com

FRANCE

Paris Branch
15 Rue Lord Byron
F- 75008 Paris - France
Phone: (+ 33) 1 45 63 10 01
Fax: (+ 33) 1 45 61 15 77
E-mail: byblos.europe@byblosbankeur.com

SUDAN

Byblos Bank Africa Ltd.
Khartoum - Sudan
El Amarat -Street 21
P.O.Box: 8121 El Amarat - Khartoum - Sudan
Phone: (+ 249) 183 566 444
Fax: (+ 249) 183 566 454
E-mail: byblosbankafrica@byblosbank.com

NIGERIA

Byblos Bank Nigeria Representative Office
10-14 Bourdillon Road
Ikoyi, Lagos - Nigeria
Phone: (+ 234) 1 6653633
(+ 234) 1 8990799
E-mail: nigeriarepresentativeoffice@byblosbank.com.lb

DEMOCRATIC REPUBLIC OF CONGO

Byblos Bank RDC
4, Avenue du Marche
C/Gombe, Kinshasa, Democratic Republic of Congo
Phone: (+ 243) 817 070701
(+ 243) 991 009001
E-mail: melamm@byblosbank.com.lb