

LEBANON THIS WEEK

In This Issue

Economic Indicators.....1

Capital Markets.....1

Lebanon in the News.....2

IMF forecasts real GDP growth at 8% in 2010 and 5% in 2011

Central Bank rules out modification of exchange rate policy

Association of Banks amends reference rate on US dollar and Lebanese pound lending

Lebanon ranks 127th globally, 13th among Arab countries on corruption index

Fiscal deficit down 9.3% to \$2bn in first 9 months of 2010

Lebanon is third largest recipient of IMF technical assistance in the region

Economy Ministry sets profit margins on basic goods

Coincident Indicator up 3.5% year-on-year in August 2010

Trade deficit up 7% to \$10.2bn in first 9 months of 2010

Customs receipts up 7% to \$1.5bn in first 9 months of 2010

Number of tourists up 16% in first 8 months of 2010

Corporate Highlights6

Byblos Bank's profits up 26% to \$121m in first 9 months of 2010

Byblos Bank to support higher education through €25m loan from French Development Agency

Intel fund invests in Lebanese Internet firm

Berytech Fund acquires 35% stake in ICT start-up

Economy Ministry revokes AUG's insurance license

Twelve Lebanese banks among top 100 Arab banks

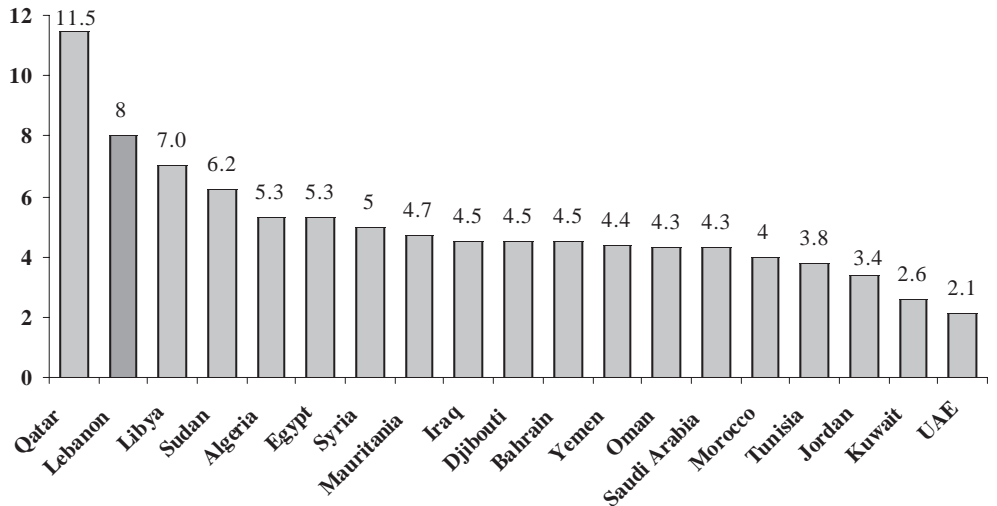
Ratio Highlights.....7

Risk Outlook.....8

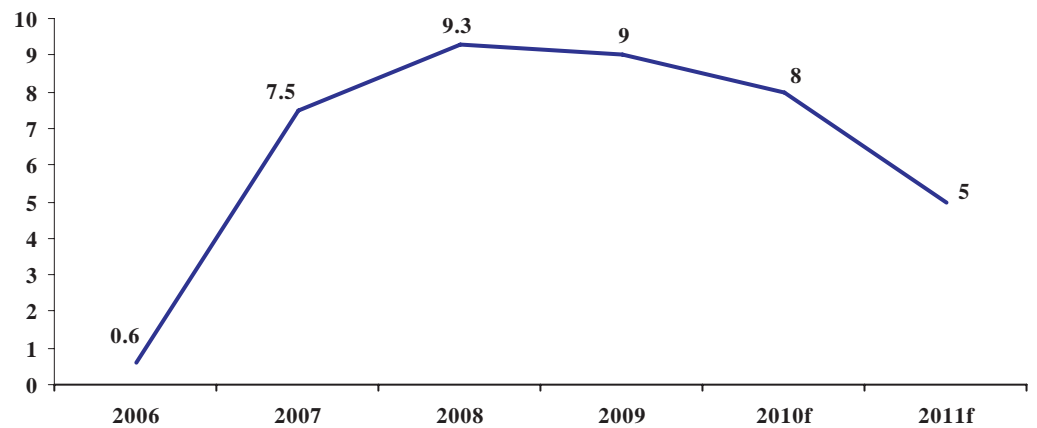
Ratings & Outlook.....9

Charts of the Week

Projected Real Non-Oil GDP Growth of Arab Countries in 2010 (%)



Real GDP Growth in Lebanon (%)



Source: International Monetary Fund

Quote to Note

“Near-term risks to the economic outlook are mainly linked to the political and regional security situation.”

The International Monetary Fund, on the direct impact of political developments on economic activity in the country

Number of the Week

3.6%: Telecom receipts as a share of overall fiscal revenues in the first 9 months of 2010

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	Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Solidere "A"	18.60	(0.27)	108,135	15.23%	Nov. 2010	6.875	100.07	4.29
Solidere "B"	18.58	(0.69)	62,419	9.89%	May 2011	7.875	103.38	1.61
Byblos Common	1.71	(2.29)	60,720	5.03%	Mar. 2012	7.500	106.13	2.89
Byblos Priority	1.76	1.15	3,100	2.97%	Sep. 2012	7.750	108.50	2.96
Byblos Pref. 08	100.50	0.00	0.00	1.65%	June 2013	8.625	113.07	3.36
BLOM GDR	9.35	0.54	2,650	5.66%	Apr. 2015	10.000	121.50	4.60
BLOM Listed	8.80	0.00	0.00	15.49%	Jan. 2016	8.500	116.50	4.85
Audi GDR	8.20	0.12	1,301	6.83%	May 2016	11.625	130.50	5.31
Audi Listed	7.99	(0.12)	2,249,910	22.52%	Mar. 2017	9.000	121.00	5.10
HOLCIM	14.02	(2.23)	460	2.24%	Apr. 2021	8.250	117.69	5.94

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

Source: Byblos Capital Markets

	October 25-30	October 18-22	% Change	September 2010	September 2009	% Change
Total Shares Traded	2,488,695	1,845,979	34.82	3,677,088	4,960,933	(25.88)
Total Value Traded	\$21,343,435	\$17,588,186	21.35	\$51,225,084	\$8,7945,925	(41.75)
Market Capitalization	\$12.21bn	\$12.24bn	(0.23)	\$12.38bn	\$11.64bn	6.33

Source: Beirut Stock Exchange (BSE)



IMF forecasts real GDP growth at 8% in 2010 and 5% in 2011

In its semi-annual economic outlook for the Middle East and Central Asia region, the International Monetary Fund projected Lebanon's real GDP growth at 8% in 2010 compared to growth of 4.2% for the Middle East, North Africa, Afghanistan and Pakistan (MENAP) economies, 5% for the region's oil importers and 5.4% in Mashreq countries. It also projected real GDP growth of 5% in 2011 compared to 4.8% in MENAP countries and 4.4% for oil importers. Lebanon's projected growth rate in 2010 would make it the third fastest growing economy in the Arab world, tied with Yemen and behind Qatar at 16% and Libya at 10.6%. The Fund estimated the country's nominal GDP at \$39.1bn in 2010 relative to \$34.5bn in 2009, accounting for 11.4% of the Mashreq region's aggregate GDP. It projected Lebanon's inflation to average 5% in 2010 compared to 7.1% in the MENAP economies, 9.3% for the region's oil importers and 9.2% in Mashreq countries.

Further, it forecast government revenues at 23.7% of GDP in 2010 relative to 31.9% of GDP in the MENAP countries and 24% of GDP in the Mashreq region, and estimated public expenditures at 32.8% of GDP compared to 34.1% of GDP for MENAP countries, 27.7% of GDP for oil importers and 31.9% of GDP for the Mashreq region. The IMF projected Lebanon's current account deficit at 11.1% of GDP in 2010 compared to deficits of 3.5% of GDP for oil importers and 3.8% of GDP for the Mashreq economies. It also expected the public debt to decrease to 139% of GDP at end-2010 from 148% of GDP at end-2009.

In parallel, the IMF estimated Lebanon's economic growth at 9% in 2009 compared to growth of 2.3% in the MENAP countries, 4.6% for oil importing economies, and 4.8% for the Mashreq region. Lebanon was the fastest growing Arab economy last year. The Fund said Lebanon posted a fiscal deficit of 8.1% of GDP in 2009 relative to a deficit of 3.3% of GDP for the MENAP economies, a deficit of 5.4% of GDP for oil importers and a deficit of 6.9% of GDP for the Mashreq countries. Further, it estimated Lebanon's current account deficit at 9.5% of GDP in 2009 compared to a deficit of 4.4% of GDP for oil importers and a deficit of 3.8% of GDP for the Mashreq economies.

	Lebanon		Oil Importers		Mashreq	
	2010P	2011P	2010P	2011P	2010P	2011P
Real GDP Growth (%)	8.0	5.0	5.0	4.4	5.4	5.4
Consumer Price Inflation (%)*	5.0	3.5	9.3	7.7	9.2	8.1
Fiscal Balance (% of GDP)	(8.7)	(9.6)	(6.3)	(5.1)	(7.5)	(7.0)
Total Debt (% of GDP)	139.0	137.5	58.8	55.4	71.9	69.9
External Debt (% of GDP)	160.3	161.9	31.1	30.6	31.4	30.3
Current Account (% of GDP)	(11.1)	(11.2)	(3.5)	(3.6)	(3.8)	(3.5)

P: projected

*Yearly average

Source: International Monetary Fund, October 2010

Central Bank rules out modification of exchange rate policy

Central Bank Governor Riad Salameh declared that the Bank intends to maintain the current exchange rate policy of implicit peg against the U.S. dollar that allows the Lebanese pound to fluctuate against the dollar in a range between LBP1,501 and LBP1,514, and ruled out any widening the band. He added that the market has been accustomed to the current exchange policy and any widening of the band would send negative signals to the market and lead to an increase in speculation. Governor Salameh considered that exchange rate stability to be an anchor of confidence that keeps inflation at low levels and preserves the purchasing power of the population. According to Salameh, the Central Bank's liquid foreign assets reached \$31bn, with 70% of foreign liquidity in U.S dollars and 30% in Euro, while its \$12bn in gold reserves is the second largest in the Middle East & North Africa region and is mainly viewed as a major factor in preserving confidence in the local currency. He added that, despite the current weakening the U.S dollar on global markets, the Central Bank does not plan to increase its purchase of Euros or to buy or sell gold. The Central Bank intervened in the currency market in October and sold U.S dollars to absorb the rise in dollar demand that pushed the exchange rate outside the upper band. The move constituted the Central Bank's first market intervention in about two years.

Association of Banks amends reference rate on US dollar and Lebanese pound lending

The Association of Banks in Lebanon (ABL) recommended to its member banks to decrease the Beirut Reference Rate in US dollars to 4.66% from 4.67% previously starting in November. The rate, considered as the reference rate for lending in foreign currency, replaced last year the London Inter-Bank Offering Rate (LIBOR) since the ABL considered that the LIBOR no longer accurately reflects the cost of funding and lending in Lebanon. Additionally, the ABL recommended to its member banks to decrease the Beirut Reference Rate in Lebanese pounds to 7.30% from 7.43% previously. The Beirut Reference Rate in US dollars and Lebanese pounds were adopted in March and May 2009, respectively. The ABL indicated that the BRR does not replace the Beirut Prime Lending Rate in each currency, but constitutes the basis to calculate the prime rate after adding the cost of liquidity and refinancing, credit risks, and the profitability of banks to the prime lending rate.

Lebanon ranks 127th globally, 13th among Arab countries on corruption index

Transparency International's 2010 Corruption Perceptions Index (CPI) ranked Lebanon in 127th place among 178 countries around the world and in 13th place among 20 Arab countries. Lebanon came in 130th place globally and in 14th place among Arab countries in the 2009 survey. Lebanon also came in 35th place among 38 upper-middle income countries (UMICs) included in the survey. The CPI is a composite index that uses surveys of business people and assessments by country analysts that reflect perceptions of the degree of corruption in each country. The rankings are based on scores that range between 10, representing countries with a clean reputation, and zero, reflecting economies perceived as highly corrupt.

Globally, Lebanon tied with Belarus, Ecuador, Nicaragua, Syria, Timor Leste and Uganda. It ranked ahead of Azerbaijan, Bangladesh, Honduras, Nigeria, Philippines, Sierra Leone, Togo, Ukraine and Zimbabwe and came behind Niger, Madagascar, Eritrea and Armenia. It also ranked ahead of Russia and Venezuela, and came behind Gabon and Belarus among UMICs. Lebanon received a score of 2.5 points, unchanged from 2009 but down from 3 points in each of the 2008 and 2007 survey. Its score came below the global average of 4 points and the UMICs average of 3.9 points, as well as below the Arab average of 3.5 points. Lebanon's CPI's scores for 2010 and 2009 marked the country's lowest scores since its inclusion in the index. The Lebanese Transparency Association, the local chapter of Transparency International, indicated that political paralysis has prevented the passage of several legal reforms and anti-corruption initiatives such as the draft law against illicit

enrichment, access to information draft law, whistle blower protection draft law, and the formation of the National Commission Against Corruption, among others. Corruption perception remained broadly unchanged in the region, as the Arab countries' average score stayed the same year-on-year. The scores of 10 Arab countries improved, 3 were unchanged and 7 regressed, while the rankings of 14 countries improved and 6 regressed. Denmark was perceived as the least corrupt country globally, while Somalia was considered the most corrupt country in the world.

Fiscal deficit down 9.3% to \$2bn in first 9 months of 2010

Figures released by the Finance Ministry show that the fiscal deficit reached \$2bn in the first 9 months of 2010, down 9.3% from \$2.22bn in the same period last year. The deficit was equivalent to 24.6% of total budget and Treasury expenditures compared to 26.2% in the first 9 months of 2009. Overall government expenditures reached \$8.2bn, down 3.4% year-on-year, while total revenues decreased by 1.3% to \$6.2bn in the covered period. Budgetary expenditures increased marginally by 0.1% to \$7.5bn and included \$348.4m in outlays from previous years, while budget revenues declined by 1.7% to \$5.84bn. Tax revenues improved by 13.7% year-on-year to \$5.1bn, of which 31%, or \$1.6bn, were in VAT receipts that posted an 11.2% annual rise. Tax revenues accounted for 87% of budgetary revenues and for 81% of total Treasury and budget receipts.

The distribution of other tax revenues shows that customs revenues rose 6.8% year-on-year to \$1.4bn, income & capital gains tax receipts grew by 13% to \$1.14bn, revenues from property taxes improved by 54.3% to \$538m, and other tax receipts, mainly stamp fees, increased by 17.2% to \$223.7m. Further, the distribution of income tax revenues shows that taxes on profits accounted for 44.5% of total income tax receipts, followed by the tax on interest deposits with 28%, taxes on wages & salaries with 17%, and capital gains tax with 10%. Receipts from taxes on profits increased by 9.7% year-on-year, income from capital gains tax grew by 23.4%, revenues from the tax on interest rose by 19%, and tax receipts on wages & salaries improved by 7%. Also, the distribution of property taxes shows that real estate registration fees rose by 61% to \$414m, revenues from built property taxes increased by 54.4% to \$83.8m and revenues from inheritance tax grew by 10% to \$40m. In parallel, non-tax budgetary revenues contracted by 48.3% to \$763m, with revenues from government properties dropping by 61.5% to \$456m and administrative fees & charges increasing by 4.5% to \$245m. Receipts from telecommunications services, which account for 48.2% of income from government properties and for 29% of non-tax revenues, dropped by 78% to \$220m in the first 9 months of the year.

Debt servicing increased by 6.8% year-on-year to \$3bn, accounting for 36% of total expenditures and for 40% of budgetary spending. It absorbed 48% of overall revenues and 50.7% of budgetary receipts. Repayment of principal on foreign debt rose by 13% to \$162.6m. Excluding debt servicing, the primary surplus reached \$1.52bn, or 20.4% of budget expenditures compared to a surplus of \$2.6bn, or 41% of budget spending a year earlier. The overall primary surplus reached \$1.1bn, or 13.5% of total spending compared to a surplus of \$690m, or 8.2% of total expenditures a year earlier.

CPI Arab Rankings & Scores

Country	Score	Arab Rank	Global Rank
Qatar	7.7	1	19
UAE	6.3	2	28
Oman	5.3	3	41
Bahrain	4.9	4	48
Jordan	4.7	5	50
Saudi Arabia	4.7	5	50
Kuwait	4.5	7	54
Tunisia	4.3	8	59
Morocco	3.4	9	85
Djibouti	3.2	10	91
Egypt	3.1	11	98
Algeria	2.9	12	105
Lebanon	2.5	13	127
Syria	2.5	13	127
Mauritania	2.3	15	143
Libya	2.2	16	146
Yemen	2.2	16	146
Sudan	1.6	18	172
Iraq	1.5	19	175
Somalia	1.1	20	178

Source: Transparency International

Lebanon is third largest recipient of IMF technical assistance in the region

The International Monetary Fund's Middle East Technical Assistance Center (METAC) indicated that Lebanon accounted for 15% of its overall allocation of technical assistance delivery during fiscal year 2010. It was the third biggest recipient of such assistance, ranking behind Syria and Sudan, and came ahead of the West Bank & Gaza, Yemen, Libya, Jordan, Afghanistan, Iraq and Egypt. Lebanon received 51.5 person weeks (PWs), or 257.5 days worth of assistance in 2010, up from 30.8 person weeks in 2009 and 34 person weeks in 2008.

Lebanon received 11.5 PWs, or 57.5 days in banking supervision assistance, accounting for 22.3% of its assistance and 17.6% of total bank supervision activity in the region. Support focused on enhancing the capacity of the Banking Control Commission examiners through seminars and workshops, covering advanced topics such as stress testing techniques and consolidated supervision. Support in FY2011 will cover capacity building on mutual funds and structured products and developing an early warning system. It also received 15 PWs, or 75 days in macroeconomic statistics support, accounting for 29.1% of the total assistance it received and for 14.5% of overall macroeconomic assistance in the region in FY 2010. METAC provided an assessment mission to the Central Administration of Statistics to review the CPI, which was introduced in 2008 and initiated work on the compilation of the PPI, which should be ready by 2011. Support in FY2011 will cover improving balance of payments components and compiling statistics for the international investment position.

Further, Lebanon received 9 PWs, or 45 days in revenue administration, accounting for 17.5% of its assistance and for 15.7% of the total. A draft restructuring plan is being finalized with respect to integrating the Value-Added Tax (VAT) and Revenue directorates and establishing unified headquarters. METAC is strengthening large taxpayer office (LTO) operation in Lebanon and developing a simplified regime for small taxpayers. Support in FY 2011 will include strengthening collection operations and arrears management, and supporting restructuring and integration. Lebanon received 9 PWs, or 45 days in public financial management assistance, accounting for 17.5% of assistance it received and for 15.4% of overall such assistance in the region. Such assistance covered budget classification in line with Government Financial Statistics Manual 2001 (GFMS 2001), banking arrangements for treasury single accounts and cash management. Support in FY2011 will cover further development of the cash management unit and extending the Treasury Single Account coverage.

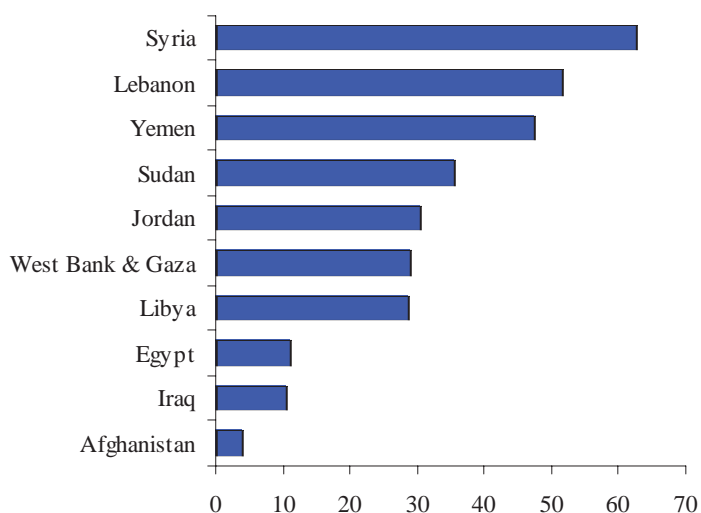
Lebanon received 7 PWs, or 35 days in Central Bank accounting, equivalent to 13.6% of its total assistance and to 14.7% of overall support for Central Bank accounting in the region. At the request of the BDL, a METAC short-term expert continued to assist BDL and the Association of the Banks in Lebanon in the IBAN implementation. As a result, the IBAN numbering system became operational in July 2010, and this was one of the main achievements in this area.

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. METAC is funded through grants from Lebanon and participating countries, as well from the IMF, the European Union, the European Investment Bank, France, Japan and Oman.

Economy Ministry sets profit margins on basic goods

The Ministry of Economy & Trade set a margin on profits for basic commodities on October 28 to limit the rise in the prices of meat, vegetables and fruits. The new margins will cover the percentage of profits made by wholesale, semi-wholesale and retail dealers and traders. The ministry set the total profit margins for oil and fatty food such as butter and dairy products at a 24% ceiling, with the ceiling for wholesalers and semi-wholesalers at 7% each and for retailers at 10%. Further, it set the profit margin for meat and grain products at 20%, and the ceiling on wholesalers and semi-wholesalers profit margins at 5% each and for retailers at 10%. Prices of meat, vegetables and fruits rose between 200% and 300% in one month, as traders attributed the increases to poor weather conditions and the appreciation of the Euro.

Technical Assistance by Person Weeks



Source: METAC

Coincident Indicator up 3.5% year-on-year in August 2010

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 228.3 point in August 2010 compared to 251.9 points in July 2010 and 228.3 points in August 2009. The Coincident Indicator, an average of 8 weighted economic indicators, declined by 9.4% month-on-month and rose by 3.5% year-on-year. The indicator averaged 243.5 points in the 12-months ending August 2010 compared to 242.9 points in the 12-months ending July 2010 and to 216.2 points in the 12-months ending August 2009. As a result, the average coincident indicator rose by 12.6% year-on-year. The indicator posted the steepest month-to-month drop since July and August 2006, and the steepest decline ever when excluding the two-month period of the Israeli war. The indicator decreased for the fourth time in five months after peaking in March at an all-time high of 264.5 points. Further, the month-to-month decrease in August constitutes the second most significant decline ever for the indicator for the covered month. In parallel, the indicator improved 10 times, and regressed 8 times in the month of August since 1993. The indicator averaged 225.8 point in 2009 and 198.4 points in 2008.

Trade deficit up 7% to \$10.2bn in first 9 months of 2010

Imports increased by 10% to \$13.19bn and exports increased by 23.2% to \$3.17bn in the first 9 months of 2010, leading to a trade deficit of \$10.17bn, up 6.6% year-on-year. The coverage ratio reached 24% year-to-September compared to 20.4% in the same period of 2009. The trade deficit was \$1.3bn in September 2010, down 9.5% from September 2009. China was the main source of imports with \$1.24bn or 9% of the total, followed by the United States with \$1.2bn (9%), Italy with \$1.03bn (8%), Germany with \$955m (7%) and France with \$883m (7%). Switzerland was the main export destination with \$421m or 14% of the total, followed by the UAE with \$316m (10%), Iraq with \$203m (7%), Saudi Arabia with \$180m (6%) and Turkey with \$176m (6%). Lebanon's main export was jewelry at \$836m, or 28% of total exports, followed by machinery and mechanical appliances with \$544m (18%), base metals with \$346m (11%), prepared foodstuff with \$241m (8%) and chemical products with \$216m (7%). Re-exports totaled \$104m in the first nine months of 2010, down 8% from \$113m in the same period last year.

Customs receipts up 7% to \$1.5bn in first 9 months of 2010

Customs revenues reached \$1.46bn in the first 9 months of 2010, up 6.9% from \$1.37bn in the same period last year. Custom revenues totaled \$167.2m in September 2010 compared to \$168m in August and to \$156.6m in September 2009. The Port of Beirut continues to be the main point of customs receipts, accounting for 87.8% of the total in first 9 months of 2010, and was followed by the Hariri International Airport with 5.3%, the Port of Tripoli with 3.4%, and the Masnaa crossing point with 2% of the total. Customs receipts from the value-added tax totaled \$1.1bn in the first 9 months of the year. The Port of Beirut accounted for 76% of such receipts, and was followed by the the Hariri International Airport with 8.6%, the Port of Tripoli with 6.8%, and the Masnaa crossing point with 6% of the total. As such, overall custom receipts reached \$2.6bn in the first 9 months of the year, with the Port of Beirut accounting for 82.7% of the total, and was followed by the Hariri International Airport with 6.7%, the Port of Tripoli with 5%, and the Masnaa crossing point with 3.7% of the total. In addition, other entry points accounted for the balance, with the port of Saida for 1.5%, the port of Tyr for 0.3%, and the crossing points of Abboudieh, Arida and Kaa for the rest. Overall customs receipts reached \$295.3m in September 2010 when including revenues from the value-added tax that totaled \$128m in the same period.

Number of tourists up 16% in first 8 months of 2010

The number of incoming tourists to Lebanon totaled 1,492,133 in the first 8 months of 2010, constituting an increase of 16.1% from 1,284,945 tourists in the same period of 2009. Arab tourists accounted for 36.3% of total visitors and were followed by visitors from Europe with 24.3%, Asia with 20.8%, America with 11.3%, Oceania with 3%, and Africa with 1.8%. The number of tourists reached 199,167 in August 2010, constituting an increase of 2% from 195,549 in August 2009. Tourists from Asia accounted for 35.6% of total visitors in August 2010, followed by visitors from Africa with 30.1%, the Americas with 16.8%, Europe with 12.9%, Oceania with 2.7% and Arab countries with 1.9%. Incoming tourists totaled 1.9 million in 2009, up 39% year-on-year and constituting the highest growth rate in the world in tourist arrivals last year.

Byblos Bank's profits up 26% to \$121m in first 9 months of 2010

Byblos Bank sal, one of Lebanon's top 3 banking and financial services groups, declared consolidated net profits of \$120.6m in the first 9 months of 2009, constituting an increase of 25.7% from \$96m in the same period last year. Net interest income reached \$208m, up 12.8% year-on-year; while net fees & commission income increased by 8% to \$62m. Further, net gains on financial assets reached \$28.4m relative to \$1.5m in the same period last year, and other operating income grew by 51.2% to \$4.4m. As a result, net operating income reached \$303m, constituting a rise of 19.3% year-on-year. In parallel, operating expenditures totaled \$157.3m, up 15% from the same period last year; with personnel expenses rising by 8.8% to \$71.7m. Total assets reached \$15.1bn at the end of September 2010, constituting a rise of 11.1% from the end of 2009, while net loans & advances to customers increased by 10.3% to \$3.52bn at end-September. Customers' deposits totaled \$11.5bn, constituting an increase of 13% from end-2009. The Bank's total equity reached \$1.6bn at end-September, up 23.5% from end-2009. Earnings per common ordinary share rose by 4% to LBP 270.83, equivalent to \$0.18 per share, and earnings per common priority share increased by 3.6% to LBP 307.13, or \$0.20 per share.

The Byblos Bank Group has a direct presence in Iraq, the United Arab Emirates, Sudan, Syria, the Democratic Republic of Congo, Nigeria and Armenia, as well as in Belgium, France, the United Kingdom, and Cyprus. Earlier this year, the Bank increased its capital by \$250m. Further, the International Finance Corporation (IFC), the private sector arm of the World Bank, bought 47,619,047 common shares for an aggregate purchase price of approximately \$100m; while PROPARGO, the private sector arm of the French Development Agency, purchased 3,636,363 common shares for an aggregate purchase price of \$30m. The capital increase and IFC's and PROPARGO's participation fall within Byblos Bank's strategy of gradual expansion in emerging markets and of increasing its lending to small and medium-size enterprises. The substantial participation of the two institutions in the Bank's capital demonstrates that Lebanese institutions with sound and conservative management, and with a clear vision, remain attractive to international institutional investors. The IFC participation constitutes the largest equity investment by the IFC in the Lebanese economy and one of the largest IFC investments in the Arab banking sector.

Byblos Bank to support higher education through €25m loan from French Development Agency

Byblos Bank sal, one of Lebanon's top 3 banking and financial services groups, received a €25m loan from the French Development Agency (AFD) to provide loans to students at nine private universities. The agreement between the AFD and Byblos Bank is the first initiative of its kind in Lebanon and falls within the Byblos Bank Group's objective of supporting education at all levels and expanding educational opportunities for all social classes in the country. It also falls within the Group's strategy of encouraging the utilization of the national currency and reducing the dollarization rate in the Lebanese economy. The loans are denominated in Lebanese pounds, may be extended for up to 18 years starting with the student's first year of study, and can cover 75% of tuition for a maximum of LBP 15m per year. The universities covered by the loan agreement are Antonine University, Balamand University, Beirut Arab University, Haigazian University, Lebanese American University, Notre Dame University, Sagesse University, Université Saint-Joseph (USJ), and Université du Saint-Esprit de Kaslik (USEK). The AFD loan to Byblos Bank is for 14 years, includes a four-year grace period and carries preferential rates.

Intel fund invests in Lebanese Internet firm

The Intel Capital Middle East & Turkey Fund announced it has acquired a stake in Nymgo, an Internet firm based in Lebanon and the United Kingdom. Established in 2008, Nymgo provides Internet telephony services, or voice over Internet protocol (VoIP), via a desktop application that serves customers. The firm has served more than 300 million minutes of international calls generated by a global customer base in more than 200 countries. Nymgo added that it will use the capital injection to accelerate infrastructure deployment, operations enhancement and global marketing. The \$50m Intel fund invests in companies developing innovative hardware, software, local content, and services throughout the Middle East and Turkey. It is part of Intel Capital, the global investment arm of U.S. technology giant Intel Corporation. The fund did not disclose the amount invested or the stake it purchased in Nymgo.

Berytech Fund acquires 35% stake in ICT start-up

The Beirut-based seed capital fund Berytech Fund announced the acquisition of a 35% stake in Dermandar, a new technology start-up focused on online digital image processing. The firm develops online software that automatically creates panoramic pictures in a fast and simple way. The fund said the investment will help Dermandar develop innovative solutions in the field of digital imaging by creating ground-breaking mathematical algorithms and helping it become a leader in panoramic imaging. Established in May 2008, the Berytech Fund invests in early-stage technology companies, providing equity capital and strategic guidance. The fund invests between \$100,000 and \$1.2m per firm. Last February, the Berytech Fund invested in Active Identity, a technology start-up specialized in UHF Radio Frequency Identification. It made its first investment in March 2009 through the acquisition of a 30% stake in Edulab, a firm that develops digital scientific educational materials adapted to the Lebanese curriculum. The Berytech Fund has about \$6m in assets under management and was established by five banks, Université Saint Joseph and three firms and investors in the ICT sector.

Economy Ministry revokes AUG's insurance license

The Ministry of Economy & Trade revoked the insurance license of the American Underwriters Group (AUG) and ended the firm's operations in Lebanon. The company received two warnings from the ministry in January and September 2010 for violating the insurance sector's laws in Lebanon, mainly related to its financial and administrative operations. The ministry added that AUG did not show any commitments and efforts to remedy the violations and to improve and correct its management practices. The ministry noted that AUG's board of director is expected to assign an auditor to organize the refunding process to the firm's policy holders. AUG generated total premiums of \$1.22bn in 2009, all in the non-life category, accounting for 0.2% of total non-life premiums and 0.1% of aggregate life and non-life premiums in Lebanon. AUG ranked in 42nd place among insurance companies in Lebanon. There were insurance firms operating in the country at the end of 2009, down from 86 firms in 1997. Insurers generated \$1bn in life and non-life premiums in the Lebanese market in 2009, up 12% from the previous year.

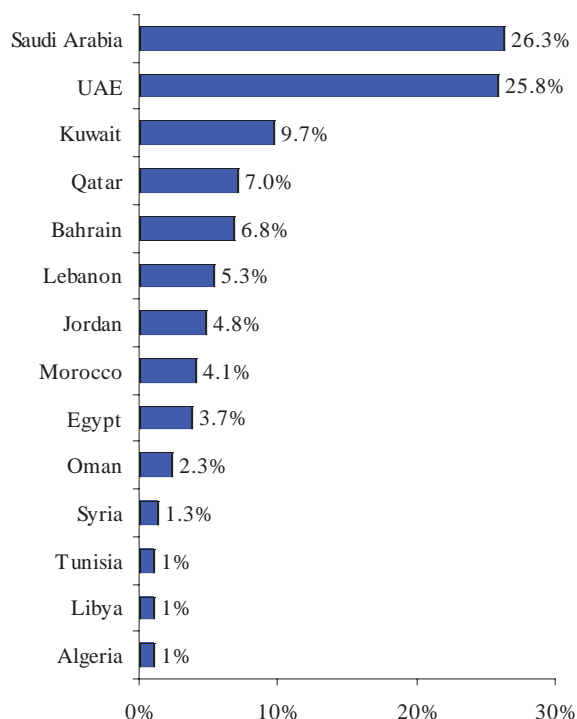
Twelve Lebanese banks among top 100 Arab banks

The Banker magazine's annual survey of the top 100 Arab banks included 12 banks from Lebanon, none of which ranked in the top 20 banks in the Middle East. Lebanon had the second highest number of banks on the list, behind only the UAE that had 17 banks. The rankings are based on Tier One capital at year-end 2009 as defined by the Basel Bank for International Settlements. The Banker said the definition is stricter than total shareholders' equity and covers only the core of a bank's strength, namely the shareholders' equity available to cover actual or potential losses. Three Lebanese banks did not report end-2009 figures so their rankings were based on end-2008 results. The aggregate Tier One capital of the 12 Lebanese banks was \$8.1bn, accounting for 5.3% of the Tier One capital of the 100 Arab banks. As such, Lebanon had the sixth highest share of Tier One capital in the Arab world, ahead of Jordan with 4.8%, Morocco with 4.1%, Egypt with 3.7%, Oman with 2.3%, Syria with 1.3%, and Algeria, Libya and Tunisia with 1% each.

The Banker indicated that Byblos Bank's Tier One capital-to-assets ratio reached 7.5% at end-2009, posting the highest such ratio among Lebanon's top 3 banks and the second highest ratio among banks reporting end-2009 figures. It was followed by Bank of Beirut with 7.35%, BLOM Bank with 7.18%, Bank Audi with 7.13%, Credit Libanais and Fransabank with 6.7% each, BankMed with 6.5%, and the Lebanese Canadian Bank with 5.4%; while Banque Libano-Française came first with 7.7%.

The rankings of five Lebanese banks improved, those of four declined and two were unchanged, while the Lebanese Canadian Bank was included for the first this year in the rankings. The Tier One capital of 9 banks increased and that of three banks declined. BankMed and Fransabank posted the highest increase in Tier One capital at 44.2% and 23.6%, respectively, among banks reporting end-2009 figures. The rankings of the two banks improved by 7 spots each, the highest rise among banks reporting end-2009 figures. The Banker said the aggregate Tier One capital of the top 100 Arab banks reached \$153.5bn at end-2009, constituting an increase of 11% from \$138.2bn at end-2008.

Distribution of Tier One Capital of top 100 Arab banks at end-2009



Source: *The Banker*

Ratio Highlights

(in % unless specified)	2007	2008	2009	Change*
Nominal GDP ⁽¹⁾ (\$bn)	25.0	29.9	34.5	
External Debt / GDP	84.9	70.7	61.6	(910)
Local Debt / GDP	83.2	86.5	86.5	(6)
Total Debt / GDP	168.1	157.3	148.1	(920)
Total External Debt / GDP	194	172	171	(100)
Trade Balance / GDP	(36.0)	(42.3)	(37.0)	530
Exports / Imports	23.8	21.6	21.5	(10)
Budget Revenues / GDP	23.2	21.7	23.1	140
Budget Expenditures / GDP	33.4	24.5	25.1	60
Budget Balance / GDP	(10.2)	(2.7)	(1.9)	80
Primary Balance / GDP	2.9	2.0	3.1	110
BdL FX Reserves / M2	59.4	67.5	71.2	370
M3 / GDP	239.3	229.6	237.9	830
Bank Assets / GDP	329.0	315.2	334.1	1,890
Bank Deposits / GDP	269.1	260.1	277.6	1,750
Private Sector Loans / GDP	81.7	83.7	82.2	(150)
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

Lebanon This Week is a research document that is owned and published by Byblos Bank sal. The contents of this publication, including all intellectual property, trademarks, logos, design and text, are the exclusive property of Byblos Bank sal, and are protected pursuant to copyright and trademark laws. No material from Lebanon This Week may be modified, copied, reproduced, repackaged, republished, circulated, transmitted, redistributed or resold directly or indirectly, in whole or in any part, without the prior written authorization of Byblos Bank sal.

The information and opinions contained in this document have been compiled from or arrived at in good faith from sources deemed reliable. Neither Byblos Bank sal, nor any of its subsidiaries or affiliates or parent company will make any representation or warranty to the accuracy or completeness of the information contained herein.

Neither the information nor any opinion expressed in this publication constitutes an offer or a recommendation to buy or sell any assets or securities, or to provide investment advice. This research report is prepared for general circulation and is circulated for general information only. Byblos Bank sal accepts no liability of any kind for any loss resulting from the use of this publication or any materials contained herein.

The consequences of any action taken on the basis of information contained herein are solely the responsibility of the person or organization that may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies that may be discussed in this report and should understand that statements regarding future prospects may not be realized.

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