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BYBLOS BANK SAL

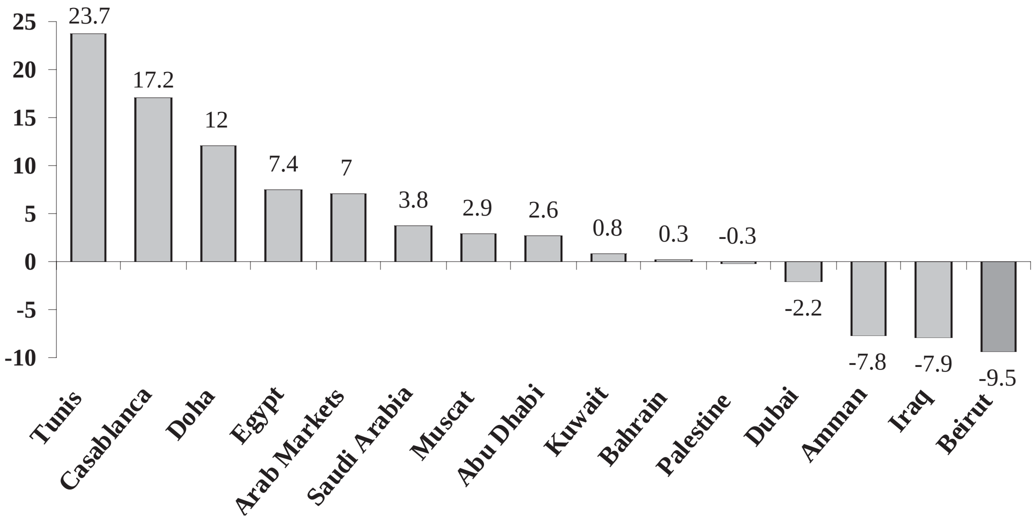
Economic Research & Analysis Department

LEBANON THIS WEEK

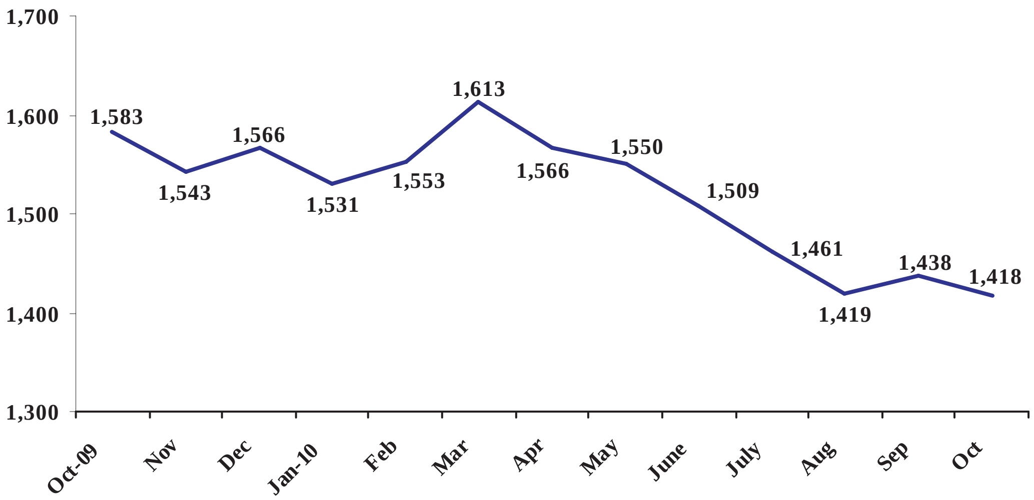
In This Issue

Charts of the Week

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



Performance of the Beirut Stock Market*



**BLOM Stock Index*

Source: Local Stock Markets

Quote to Note

"The telecom sector is inefficient in infrastructure investment and pricing, and privatization could be one route towards unlocking the sector's large growth potential."

The International Monetary Fund, on the solution to the underperforming telecommunications sector in Lebanon

Number of the Week

45%: Upside of Byblos Bank's common share price, highest among listed Lebanese banks, according to regional investment bank EFG Hermes

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
In months of Imports	*15.03*	*15.86*	*19.96*	*18.92*	*15.1*	*19.5*	*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"	18.69	0.48	109,210	15.25%
Solidere "B"	18.50	(0.43)	50,452	9.81%
Byblos Common	1.72	0.58	130,432	5.05%
Byblos Priority	1.71	(2.84)	25,000	2.87%
Byblos Pref. 08	101.50	1.00	2,100	1.66%
BLOM GDR	9.44	0.96	2,473	5.69%
BLOM Listed	8.80	0.00	17,799	15.44%
Audi GDR	8.44	2.93	3,200	7.01%
Audi Listed	8.00	0.13	9,000	22.47%
HOLCIM	14.50	3.42	5,835	2.31%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Nov. 2010	6.875	100.01	5.57
May 2011	7.875	103.38	1.50
Mar. 2012	7.500	106.00	2.98
Sep. 2012	7.750	108.50	2.94
June 2013	8.625	112.88	3.44
Apr. 2015	10.000	121.88	4.53
Jan. 2016	8.500	116.75	4.82
May 2016	11.625	117.75	5.10
Mar. 2017	9.000	121.38	5.03
Apr. 2021	8.250	117.88	5.93

Source: Byblos Capital Markets

	November 1-5	October 25-29	% Change	October 2010	October 2009	% Change
Total Shares Traded	614,388	2,488,695	(75.31)	5,788,714	4,968,991	16.5
Total Value Traded	$8,255,689	$21,343,435	(61.32)	$55,744,061	$103,486,832	(46.1)
Market Capitalization	$12.25bn	$12.21bn	0.36	$12.21bn	$12.60bn	(3.1)

Source: Beirut Stock Exchange (BSE)

Lebanon ranks 113th globally, 11th among Arab countries on ease of doing business

The World Bank/International Finance Corporation Doing Business 2011 report ranked Lebanon in 113th place among 183 countries worldwide and 11th among 19 Arab countries in terms of ease of doing business. Lebanon came in 109th place globally and in 11th place regionally in 2010. Lebanon also ranked in 35th place among 46 upper-middle income countries in the 2011 survey. The index is a composite of nine sub-indices of business regulation that track the time and cost to meet government requirements in business start-up, operation, trade, taxation, and closure. Globally, Lebanon came ahead of Morocco, Argentina and Nepal and ranked behind Brunei Darussalam, Jordan and Bosnia & Herzegovina, while it ranked ahead of Argentina and Palau and behind Bosnia & Herzegovina and Seychelles among upper-middle income countries.

Lebanon ranked ahead of Fiji and Palau and behind Paraguay and Senegal on the Starting a Business Indicator. Regionally, it came ahead of Qatar and Sudan and behind Morocco and Bahrain. Entrepreneurs need five steps to start a business in Lebanon compared to 8.1 in the MENA region and 5.6 procedures in OECD states, and it takes nine days to start a business compared to 20 days in the region and 13.8 days in the OECD.

Also, Lebanon ranked ahead of Nepal and Bosnia & Herzegovina, and came behind Malawi and the Bahamas on the Enforcing Contracts indicator, while it ranked ahead of Algeria and Jordan and behind Bahrain and Kuwait in the region. A firm in Lebanon requires 37 procedures and 721 days to enforce commercial contracts, compared to an average of 43.9 procedures and 664.1 days in the MENA region and to 31.2 procedures and 517.5 days in OECD countries. Further, enforcing a contract in Lebanon costs 30.8 percent of the claim compared to 23.6 percent in the region and 19.2 percent in OECD markets.

Also, Lebanon tied with 27 countries that include Greece, Jamaica, Italy and Portugal on the Getting Credit indicator, while it ranked ahead of Slovenia and Luxembourg, and came behind Bangladesh and Paraguay. This category measures the legal rights of lenders and borrowers, as well as access and quality of available credit information. Regionally, it tied with Bahrain, Kuwait, Tunisia, Oman and Morocco, ranked ahead of Oman and Jordan, and came behind the United Arab Emirates and Egypt. Lebanon scored five points on the Credit Information category, better than the 3.3 points for the regional average and 4.7 points for the OECD average.

Lebanon ranked ahead of Guinea and Vietnam, and came behind the Gambia and Honduras on the Closing a Business indicator, while it ranked ahead of Egypt and behind Jordan in the region. Closing a business in Lebanon takes four years and costs 22 percent of estate compared to 3.4 years on average for the MENA region and 1.7 years in OECD economies. The recovery rate in Lebanon is 19.8 cents on the dollar compared to 33 cents for the region and 69.1 for the OECD markets.

Ease of Doing Business in 2011

Country	Arab Rank	Global Rank
Saudi Arabia	1	11
Bahrain	2	28
UAE	3	40
Qatar	4	50
Tunisia	5	55
Oman	6	57
Kuwait	7	74
Egypt	8	94
Yemen	9	105
Jordan	10	111
Lebanon	**11**	**113**
Morocco	12	114
West Bank & Gaza	13	135
Algeria	14	136
Syria	15	144
Sudan	16	154
Djibouti	17	158
Mauritania	18	165
Iraq	19	166

Source: Doing Business 2011, Byblos Research

Lebanon's Rankings by Category in 2011

Indicator	Arab Rank	Global Rank	Change in Rank
Starting a Business	9	103	5
Dealing with Licenses	16	142	-2
Registering Property	16	111	-1
Getting Credit	7	89	-2
Protecting Investors	8	93	-1
Paying Taxes	9	36	-1
Trading across Borders	11	95	0
Enforcing Contracts	10	122	0
Closing a Business	12	122	0

Source: Doing Business 2011, Byblos Research

Plan to raise oil storage capacity to 1.5 million cubic meters

The Ministry of Energy & Water announced plans to increase Lebanon's oil storage capacity from 0.35 million cubic meters currently to 1.5 million cubic meters through the restoration and upgrade of the Zahrani and Tripoli oil storage facilities, and the building of new storage facilities at the two locations. It said the project would be awarded through an international tender to bidding companies. It estimated the project's cost at $60m, which would be financed in part by the government and in part by the multinational firms that would win the tender. It estimated annual revenues from the new facilities at $50m, with a payback period of 14 months for the project. It considered that storage capacity can be further increased at a later stage to reach two or three million cubic meters. The ministry said the expanded capacity aims to meet demand for oil storage by multinational firms, given the strategic location of Lebanon.

Economic growth to slow down to 5% in second half of 2010, full year projection at 7%

The Institute of International Finance projected real GDP growth in Lebanon at 5% in the second half of 2010 compared to its growth estimate of 9% for the first half of the year. It forecast economic growth at 7% in 2010 and 6.5% in 2011, slightly down from 8.6% in 2009. It attributed the moderation in growth during the second half of the year to the rise in political tensions related to the findings of the United Nations tribunal probing the assassination of Prime Minister Rafiq Hariri, and to a decline in consumer confidence. The IIF considered that the government faces the challenge of finding the right balance between the planned substantial increase in capital expenditures in 2011-2015 to sustain growth, and the need to further reduce its debt. It noted the need for additional funds to finance the increase in government investment. But it said that, given the large fiscal deficits and the high debt burden, such resources could be raised by reducing current expenditures through reforming the energy sector and reducing transfers to Electricité du Liban (EDL), as well as by privatizing the two mobile phone companies and raising additional tax revenues.

In parallel, the IIF indicated that the continued strong growth in tax revenues and delays in the execution of the 2010 budget are expected to result in a narrower overall deficit and a larger primary surplus than originally forecast. It noted that delays in budget execution, particularly in capital spending, combined with the expected further decline in transfers to EdL, may result in an increase in spending of about 7% instead of the 16% forecast in the 2010 draft budget. It noted that total expenditures decreased by 4.4% in the first 8 months of the year from the same period last year. Further, actual tax revenues increased by 14.4% in the first 8 months of the year, and non-tax revenues rose by 10% from the same period last year when including the estimated $600m in telecom profits, as has been the practice in previous years. It added that the primary surplus increased to 15.8% of expenditures year-to-August compared to 8.7% in the same period of 2009. Consequently, it expected the overall fiscal deficit, excluding grants, to reach 7.3% in 2010 compared to 10.7% of GDP in the 2010 budget and down from 8.7% of GDP in 2009; and for the primary surplus to reach 3% of GDP this year relative to zero percent of GDP in the 2010 budget and up from 2.6% of GDP in 2009. It also forecast the public debt to reach 136% of GDP at the end of 2010 compared to 146.4% of GDP in the 2010 budget and down from 150% of GDP at end-2009.

The IIF warned that EdL continues to be a heavy burden on public finances, as budgetary transfers to EdL are expected to remain high at about $1.2bn, or 10% of total expenditures this year. It indicated that, without the transfers to EdL, the overall deficit would be around 4% of GDP and the primary balance would post a surplus equivalent to 6.1% of GDP in 2010. It added that the government's pressing fiscal and debt burdens remain Lebanon's most important economic challenges. It noted that simply meeting the interest payments on the public debt accounts for 34% of government expenditures and 10% of GDP, which leaves the fiscal position vulnerable to political or economic shocks, and imposes considerable opportunity costs. It noted that the macroeconomic risks from the exceptionally high debt ratio are somewhat alleviated by the fact that the financing needs of the government are supported by a highly profitable and liquid banking system, as well as by the large foreign assets of the Central Bank.

Main Economic Indicators

	2009	2010P	2011P
Real GDP Growth (%)	8.6	7.0	6.0
Consumer Prices (avg., % change)	3.4	4.9	5.2
Credit to Private Sector (% change)	15.1	21.0	14.0
Broad Money (% change)	23.2	12.0	13.0
Government Revenue (% of GDP)	24.7	24.3	24.4
Government Expenditure (% of GDP)	33.3	31.6	33.6
Overall Deficit, excluding grants (% of GDP)	(8.7)	(7.3)	(9.2)
Primary Surplus, excluding grants (% of GDP)	2.3	3.0	1.5
Government Debt (% of GDP)	150	136	134
Current Account (% of GDP)	(22.0)	(15.8)	(14.5)

Source: Institute of International Finance

Industrialists Association against cancellation of VAT refund on industrial components

The Lebanese Industrialists Association warned that any government attempt to cancel Article 59 of the value added tax law, as proposed in the 2011 draft budget, would cause severe damage to Lebanese industries. Article 59 allows companies to reclaim the 10% VAT levied on the fixed assets that are used in the manufacturing process. The refund covers the manufacturing of pharmaceutical and medical products, alimentary products, and the production of books, newspapers and magazines. The exemption also covers education, hospitalization and medical laboratories, and non-profit organizations. In parallel, Article 59 also allows the reimbursement of 50% of the VAT charged on the operational costs of the above activities.

Lebanon ranks third in Arab world in economic freedom

The Fraser Institute's annual Index of Economic Freedom in the Arab World ranked Lebanon in third place in 2010 among 15 countries included in the survey, unchanged from 2009 and up from fourth place in 2008 and 2007. The index measures the degree of economic freedom in each country on the basis of 18 variables that are divided into five broad factors of economic freedom. The factors measure the size of government, legal structure and security of property rights, access to sound money, freedom to trade internationally, and the regulation of credit, labor and business. Lebanon received a score of 7.6 points on a scale of 1 to 10, down from 7.7 points in 2009 but unchanged from 2008, and higher than the Arab average of 6.9 points.

Lebanon ranked first on the Size of Government category, the fifth year in a row that Lebanon tops the region in terms of the small size of the government relative to its economy. Also, Lebanon came behind Kuwait and ahead of Saudi Arabia on the Access to Sound Money category, which measures the extent that a nation's currency is sound and holds its value over time. It ranked first in the region on the Access to Sound Money in 2009 and third in 2008.

In parallel, Lebanon ranked behind Egypt and ahead of Algeria on the Legal Structure & Security of Property Rights category. This category examines whether laws, primarily dealing with economic matters, are fairly and transparently applied in a timely manner, and whether property rights and contracting are protected by the rule of law.

Also, Lebanon ranked behind Saudi Arabia and ahead of Mauritania on the Freedom to Trade Internationally category, which measures the extent to which businesses and individuals can freely trade with their counterparts in other nations. It came in 11th place in each of 2010, 2009 and 2008. Further, Lebanon came behind Saudi Arabia and ahead of Oman in terms of Regulation of Credit, Labor and Business. This category measures the extent to which the regulatory burden hinders the formation or advancement of businesses, the free movement of labor, and ability to obtain or advance credit.

The Fraser Institute is a Canada-based independent research organization whose mission is to study and measure the impact of competitive markets and government intervention on the welfare of individuals. The 2010 survey is based on figures for end-2008, while the 2009 survey is based on updated figures for 2007.

Index of Arab Economic Freedom 2010

Country	Score	Rank
Bahrain	8.0	1
Kuwait	7.8	2
Lebanon	**7.6**	**3**
Oman	7.5	4
Jordan	7.4	5
Qatar	7.4	5
Saudi Arabia	7.3	7
UAE	7.3	7
Egypt	6.9	9
Morocco	6.5	10
Djibouti	6.5	10
Mauritania	6.3	12
Tunisia	6.3	12
Syria	5.7	14
Algeria	5.5	15

Source: Fraser Institute, Byblos Research

Lebanon's Rankings & Scores by Category

Category	Rank	Score
Size of Government	1	7.5
Access to Sound Money	3	8.8
Regulation of Credit, Labor & Business	3	8.0
Freedom to Trade Internationally	9	6.8
Legal Structure & Security of Property Rights	14	6.1

Source: Fraser Institute, Byblos Research

Government to issue $700m Eurobond

The government plans to sell $700m in Eurobonds to refinance debt maturing this month. The Finance Ministry intends to issue a $500m bond with an 8-year maturity at a coupon rate in the range of 5.15% to 5.25%, and a $200m bond with a 12-year maturity and a coupon rate of 6.1% to 6.2%. The ministry, which will decide next week on the final coupon rate, has mandated Credit Suisse Group and Bank of Beirut sal to place the new issue. Last month, Finance Minister Raya el-Hassan stated that the government intends to roll over $830m in Eurobonds maturing in November 2010 that include $700m in principal and $130m in interest. The ministry hoped to combine the rollover of debt maturing in November with some or all of the debt maturing in the first quarter of 2011 in order to benefit from low global interest rates. Lebanon has $2.14bn in Eurobonds due in 2011, with total redemptions reaching $3.3bn next year when including interest payment. Minister Hassan noted, however, that the government needs to wait for Parliament to approve the 2010 budget and authorize the government to borrow funds in order to do a voluntary exchange. She indicated that she might seek a special law that could allow the refinancing of the 2011 Eurobonds if there was no progress in the Parliament's ratification of the budget. Last February, the ministry issued $1.2bn in Eurobonds under the Republic of Lebanon's Global Medium Term Note Program to refinance $1.1bn in debt that matured in March. The Eurobond has a 10-year maturity and carries a coupon rate of 6.375%.

Lebanon in the News

Net public debt at $44.6bn at end-September 2010

Lebanon's gross public debt reached $50.8bn at the end of September 2010, constituting an increase of 0.5% from end-2009, and an increase of 3.4% from end-September 2009. Domestic debt increased by 4.9% to $29.2bn, while external debt decreased by 1.7% annually to $21bn. Local currency debt accounted for 58.7% of gross public debt at end-September 2010 compared to 56.6% a year earlier, while foreign currency-denominated debt represented 41.3% of the total at the end of September relative to 43.4% a year earlier. The weighted interest rate on outstanding Treasury bills was 8.07%, while the weighted interest rate on Eurobonds was 7.34% at the end of August. Further, the weighted life on Eurobonds was 4.75 years, while that on Treasury bills was 555 days.

Commercial banks accounted for about 59.2% of the total public debt at the end of September 2010 compared to 57.3% a year earlier. They were followed by the Central Bank with 18.1% relative to 19.8% at end-September 2009; while public agencies, financial institutions and the general public accounted for 11.2% of the debt relative to 10.6% a year earlier. Further, multilateral and bilateral loans represented 5.5% of the debt compared to 6.2% at the end of September 2009, while other holders accounted for the remaining 6%. In parallel, residents held 88.5% of the public debt at the end of September 2010, up from 87.7% a year earlier. The 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 2.4% to $44.6bn. Further, 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.

Treasury transfers to Electricité du Liban down 28% year-on-year

Figures released by the Finance Ministry show that Treasury transfers to Electricité du Liban totaled $829m in the first 9 months of 2010, constituting a decrease of 28% from $1.16bn in the same period last year. It said that reimbursements to the Kuwait Petroleum Corporation (KPC) and to Algerian energy conglomerate Sonatrach accounted for $779m, or 94% of transfers year-to-September, while EdL's debt servicing represented the remaining 6%. It attributed the decline to a drop of $305m, or 28%, in payments to KPC and Sonatrach during the covered period, and to a decrease in debt servicing by $21m or 30% year-on-year. It credited the decline in payments to KPC and Sonatrach to a 23% drop in the imported quantity compared to the same period last year. It attributed the drop to the import from Egypt of commercial quantities of natural gas, a substitute for KPC and Sonatrach's gasoil, to the Deir Ammar-Beddawi power plant in November 2009. It added that EdL contributed just 11.4% of repayments to the two oil suppliers in the first 9 months of the year. EdL transfers are expected to reach 16% of primary expenditures in 2010, compared to 20.7% in 2009, which reflects a lower level of transfers in 2010. EDL transfers constitute the third largest expenditures item after debt servicing and salaries & wages in overall fiscal spending. Transfers to EdL were equivalent to 4.3% of GDP in 2009 and to 5.4% of GDP in 2008.

Airport passengers up 11.6% in first 10 months of 2010

Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures, transit) totaled 4,659,194 in the first 10 months of 2010, up 11.6% year-on-year. The UAE accounted for 837,601 passengers, or 18% of total passenger activity. It was followed by Saudi Arabia with 547,826 passengers, or 11.8% of the total, France with 460,718 travelers (9.9%) and Kuwait with 332,876 travelers (7.1%). The total number of flights reached 54,841 in the first 10 months of 2010, up 16.3% year-on-year. Middle East Airlines registered 15,972 flights, accounting for 29.1% of the total. It was distantly followed by Royal Jordanian Airlines with 2,414 flights or 4.4% of the total, Etihad Airways with 1,556 flights, National Air Services with 1,482 flights, Emirates Airlines with 1,457 flights and Turkish Airlines with 1,274 flights. The UAE was the biggest source and destination of traffic to Lebanon, as aircraft movement to and from the UAE totaled 7,942 flights, accounting for 14.5% of the total. Also, the HIA processed 65,172 metric tons of cargo in the first 10 months of 2010, of which 64,262 tons of freight and 910 tons of mail. MEA processed 17,346 tons of freight, of which 17,068 tons in regular freight and 278 tons in mail.

Number of tourists up 18% in first 9 months of 2010

The number of incoming tourists to Lebanon totaled 1,694,662 in the first 9 months of 2010, constituting an increase of 17.8% from 1,438,619 tourists in the same period last year. Arab tourists accounted for 33.4% of total visitors and were followed by visitors from Europe with 21.5%, Asia with 22.2%, the Americas with 13.1%, Africa with 7% and Oceania with 2.8%. The number of tourists reached 730,595 in the third quarter of 2010, increasing by 7.9% from the same quarter of the previous year. Also, the number of tourists reached 202,529 in September 2010, constituting an increase of 31.8% from 153,674 in September 2009. Tourists from Asia accounted for 44.7% of total visitors in September 2010, followed by visitors from Africa with 22.3%, the Americas with 17.8%, Europe with 10.2%, Oceania with 3.4% and Arab countries with 1.5%. 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.

Beltone Financial maintains 'Add' recommendation on Byblos Bank stock

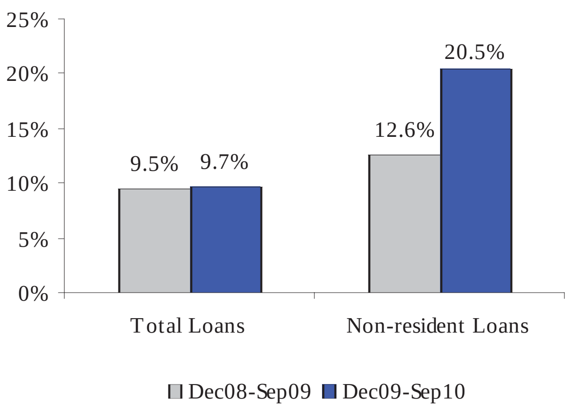
Investment bank Beltone Financial reiterated its "Add" recommendation on the stock of Byblos Bank sal and raised the stock's target price to $2.07 compared to a closing price of $1.71 at the end of October. It said Byblos Bank’s third quarter profits reached $46.1m, exceeding its net income estimate and the consensus estimate of $33m. It attributed the Bank's better-than-expected results to higher margins, stronger than expected non-interest income and a sharp drop in loan-loss provisions. It noted that the Bank's balance sheet has been growing year-on-year, quarter-to-quarter, and year-to-date, indicating better utilization. It said Byblos Bank also managed to improve its efficiency levels, as the cost-to-income ratio dropped year-on-year and quarter-to-quarter. It added that the strong rise in net income in the third quarter came from an increase in interest and non-interest income, as well as from a significant drop in loan-loss provisions by 42.7% on a quarterly basis. Beltone Financial expected Byblos Bank's net profits to grow by a compound annual growth rate of 16.8% between 2010 and 2015. It attributed its assumption to the Bank's healthy operations as a result of a rise in both interest and non-interest income.

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 LPB 307.13, or $0.20 per share.

Commercial banks' assets reach $127bn at end-September 2010

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached $126.7bn at the end of September 2010, constituting an increase of 10% from end-2009 and up 15.3% from end-September 2009. Private sector deposits totaled $103.9bn, up 8.4% from end-2009 and up 13.9% from end-September 2009. Deposits in Lebanese pounds reached $38.8bn, increasing by 14.1% from end-2009 and by 24.8% year-on-year, while deposits in foreign currencies reached $65bn, and rising by 5.3% from the end of last year and by 8.2% from end-September 2009. Non-resident foreign currency deposits reached $14.6bn at end-September 2010, increasing by 3.7% from end-2009 and increasing by 10.1% 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, $792m in August and $2.12bn in September 2010. In parallel, deposits of non-resident banks reached $5.3bn, up 15.3% from end-2009 and up 10.4% from end-September 2009. The dollarization rate of deposits reached 62.6% at end-September 2010, down from 64.5% at end-2009 and from 65.9% a year earlier. Further, the average deposit rate in Lebanese pounds reached 5.7% compared to 6.94% a year earlier, while the same rate in US dollars was 2.78%, down from 3.16% in September 2009.

Growth in Private Sector Loans (%)



Source: Association of Banks in Lebanon

Loans to the private sector amounted to $33.8bn, up 19.2% from end-2009 and up 21.3% year-on-year. The dollarization rate in private sector lending reached 81.2% compared to 84% at end-2009 and 85% a year earlier. The average lending rate in Lebanese pounds was 8.11% in September 2010 compared to 9.22% a year earlier, while the same average in US dollars was 7.24% compared to 7.24% in September 2009. Claims on the public sector stood at $29.2bn, up 6.6% year-on-year and 0.4% from end-2009, and accounted for 46.3% of the banking sector's total loans. The ratio of private sector loans to deposits in foreign currencies stood at 42.3%, well below the Central Bank's limit of 70%, and above the ratio of 39.5% a year earlier. In parallel, the same ratio in Lebanese pounds was 16.3%, up from 13.4% a year earlier. The ratio of total private sector loans to deposits stood at 32.6%, compared to 30.6% a year earlier. The banks' aggregate capital base stood at $9.1bn, up 14.5% from end-2009 and up 20% from $7.58bn in September 2009.

Aggregate profits of listed banks rise 21.5% in first 9 months of 2010

Financial results issued by five banks listed on the Beirut Stock Exchange show that their aggregate net profits reached $692.7m in the first 9 months of 2010, constituting an increase of 21.5% from $502m in the same period last year. The average growth of the net profits of the five banks reached 11.9% in the first 9 months of 2010, constituting a decrease from the average growth in net profits of 23.2% in the first half of 2010, but an increase from the average growth in net profits of 11.8% in the first 9 months of 2009. The aggregate net interest income of the five banks reached $1,048.5m in the first 9 months of 2010, up 17.7% from $890.6m in the same period last year, while their total net fees and commission income increased by 18.6% to $303.2m year-on-year. Total operating income of the listed banks reached $1,631.7m in the first 9 months of 2010, up 22.3% from $1,334.5m in the first 9 months of 2009.

In parallel, the aggregate assets of the five banks rose by 7.1% from end-2009 and by 12.7% from end-September 2009 to $73.8bn, while their total loans, excluding loans to related parties, increased by 18.6% from end-2009 and by 23.8% from end-September 2009 to $18.8bn. Also, the banks' customer deposits rose by 7.9% from end-2009 and by 13.3% from end-September 2009 to reach $61bn. BLOM Bank posted the lowest loans-to-deposits ratio at 25.5% compared to 21.9% at end-September 2009, followed by Byblos Bank with a ratio of 30.6% relative to 29.9% a year earlier, Bank Audi with 33.2% from 30.7% at end-September 2009, Bank of Beirut with 37.5% from 34.5% a year earlier, and Banque BEMO with a 46.9% ratio compared to 45.5% at end-September 2009. BLOM Bank had the lowest cost-to-income ratio at 40.2%, down from 45.4% at end-September 2009.

Results of Listed Banks for First 9 Months of 2010

	Byblos	BLOM	Audi	BoB	BEMO
Net Profits	$120.6m	$235.8m	$253.4m	$76m	$6.9m
% Change*	25.7%	15%	19.1%	(0.4%)	0.3%
Total Assets	$15.08bn	$22.05bn	$28bn	$7.44bn	$1.26bn
% Change**	11.1%	6.5%	5.7%	6.8%	4.9%
Loans (1)	$3.52bn	$4.87bn	$7.99bn	$2bn	$0.46bn
% Change**	10.3%	21.4%	21.4%	18.7%	15.8%
Deposits (1)	$11.51bn	$19.08bn	$24.08bn	$5.33bn	$0.98bn
% Change**	12.9%	7.1%	5.6%	11.7%	4.1%

**Year-on-year*
***Change from end-2009*
(1) Customer Loans and Deposits, excluding related parties' Loans and Deposits

Stock market activity at $1.7bn in first 10 months of 2010

Figures released by the Beirut Stock Exchange indicate that total trading volume reached 146 million shares in the first 10 months of 2010, constituting an increase of 53.9% from the same period last year, while aggregate turnover amounted to $1.72bn, up 95% from a turnover of $882m in the same period last year. Market capitalization decreased by 3.1% to $12.2bn in the first 10 months of 2010, of which 71% was in banking stocks and 25.1% in real estate stocks. The bourse's activity was artificially inflated in January due to the sale of regional investment bank EFG Hermes of its entire stake in Bank Audi sal during the month. It was also boosted this year from the sale of Byblos Bank of 47.6 million common shares to the International Finance Corporation and of 13.6 million common shares to Société de Promotion et de Participation pour la Cooperation Economique S.A. (PROPARCO). The market liquidity ratio was 14.1% compared to 7% for the same period of 2009. Bank stocks accounted for 90% of aggregate trading volume in the first 10 months of the year, followed by real estate stocks with 9.6%. In terms of value of shares traded, banking stocks accounted for 81.3% of aggregate value, followed by real estate stocks with 18.4%. The average daily traded volume for the period was 708,967 shares for an average daily value of $8.4m. The figures reflect increases of 53.9% in volume and 95% in value year-on-year.

Car sales up 5.5% year-on-year in first 9 months of 2010

Figures released by the Association of Automobile Importers in Lebanon indicate that a total of 25,565 new passenger cars were sold in the first 9 months of 2010, constituting an increase of 5.5% from the 24,242 cars sold in the same period last year. Japanese cars accounted for 39.2% of total sales, followed by Korean cars with a 30.8% share, European automobiles with 23.3%, American vehicles with 6%, and Chinese vehicles with 0.75%. Korean cars posted the only growth in sales with an 87.1% rise year-on-year. In parallel, Japanese cars posted a 14.9% drop in sales year-on-year, followed by Chinese cars with a 13.8% decrease, American cars with a 12.4% decline and European cars with a 5.3% drop. Kia is the leading brand in the Lebanese market with 4,837 cars sold in the first 9 months of 2010, followed by Nissan with 4,180, Hyundai with 3,018 cars sold, Toyota with 2,539, Mitsubishi with 1,056, Chevrolet with 1,040, and Renault with 906 cars.

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

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