



## LEBANON THIS WEEK

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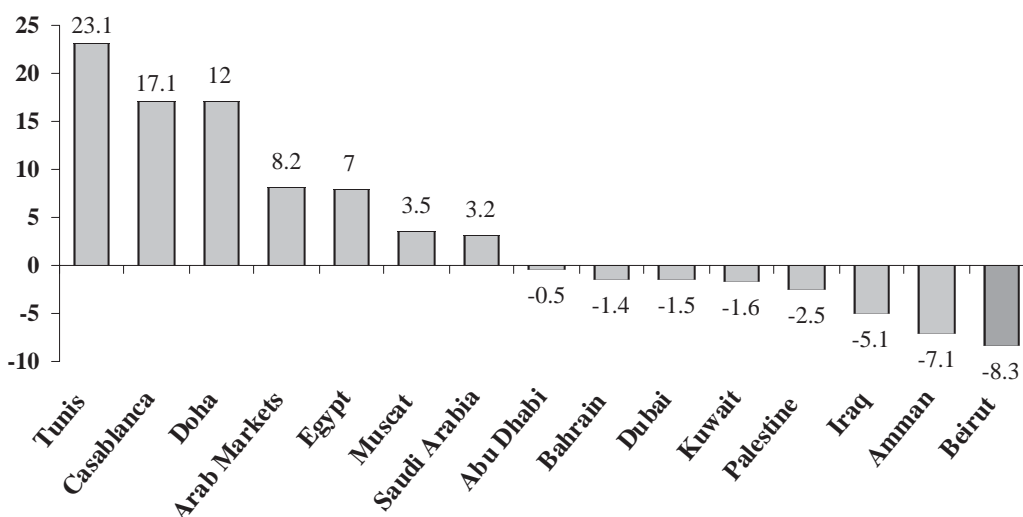
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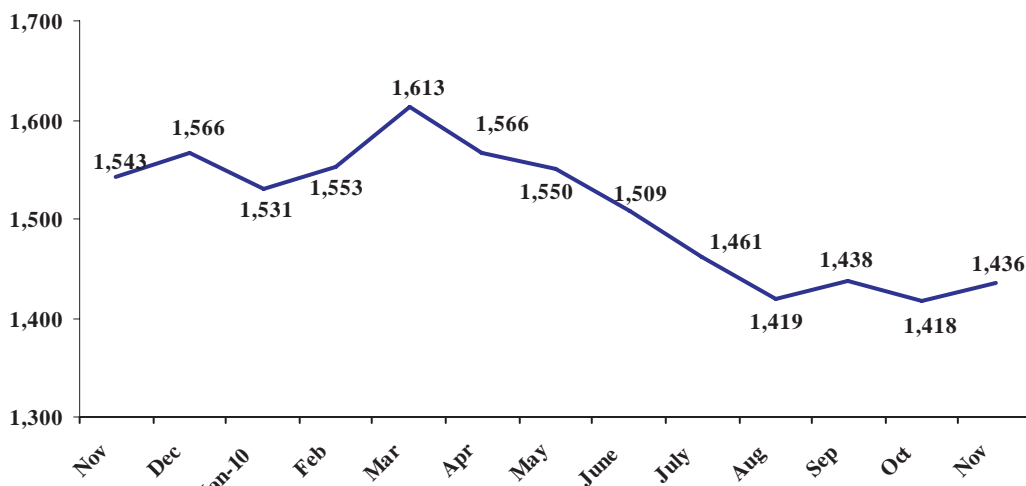
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### Charts of the Week

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



Performance of the Beirut Stock Market\*



\*BLOM Stock Index  
 Source: Local Stock Markets

### Quote to Note

"Downtown Beirut is a showcase to the peace dividend the country has been enjoying since the Doha Agreement in 2008."

*Merrill Lynch, on the importance of political stability for economic growth in Lebanon*

### Number of the Week

**31.4%:** Exposure of commercial banks operating in Lebanon to the Central Bank, as a percentage of total assets at March 2010, according to the International Monetary Fund

## Economic Indicators

<b>\$m (unless otherwise mentioned)</b>	<b>2008</b>	<b>Sep 09</b>	<b>2009</b>	<b>July 10</b>	<b>August 10</b>	<b>Sep10</b>	<b>% Change*</b>
Exports	3,478	298	3,486	385	312	290	(2.68)
Imports	16,133	1,250	16,241	1,449	1,449	1,310	4.80
Trade Balance	(12,655)	(952)	(12,755)	( 1,064)	(1,137)	(1,020)	7.14
Balance of Payments	3,462	475	7,899	106	447	186	(60.84)
Checks Cleared in LBP	9,350	900	11,122	1,674	1,152	1,124	24.89
Checks Cleared in FC	43,174	3,882	45,270	4,609	4,470	4,037	3.99
Total Checks Cleared	52,524	4,782	56,392	6,283	5,622	5,161	7.93
Budget Deficit/Surplus	(2,921)	(381)	(2,960)	(52)	(358)	472	(223.88)
Primary Balance	597	47	1,078	279	(69)	(13)	(127.66)
Airport Passengers	4,085,334	463,919	4,986,544	497,647	578,452	550,421	18.65

<b>\$bn (unless otherwise mentioned)</b>	<b>Dec 2008</b>	<b>Sep 09</b>	<b>May 10</b>	<b>June 10</b>	<b>August 10</b>	<b>Sep 10</b>	<b>% Change*</b>
BdL FX Reserves	17.06	23.21	27.32	27.42	28.24	28.46	22.62
<i>In months of Imports</i>	<i>15.03</i>	<i>18.57</i>	<i>19.96</i>	<i>18.92</i>	<i>19.5</i>	<i>21.7</i>	<i>16.86</i>
Public Debt	47.02	49.18	51.07	51.00	50.18	50.85	3.40
Net Public Debt	41.49	43.61	44.24	44.13	44.4	44.64	2.36
Bank Assets	94.25	109.90	120.69	121.68	124.63	126.74	15.32
Bank Deposits (Private Sector)	77.78	91.19	99.21	100.12	102.72	103.85	13.88
Bank Loans to Private Sector	25.04	27.89	31.44	31.71	33.24	33.82	21.26
Money Supply M2	24.76	31.57	37.43	38.02	38.78	39.32	24.55
Money Supply M3	68.66	78.73	86.04	86.74	88.9	90.06	14.39
LBP Lending Rate (%)	9.95	9.22	8.47	8.37	8.05	8.11	(111b.p.)
LBP Deposit Rate (%)	7.22	6.94	5.93	5.83	5.72	5.70	(124b.p.)
USD Lending Rate (%)	7.47	7.24	7.10	7.03	7.04	7.04	(20b.p.)
USD Deposit Rate (%)	3.33	3.16	2.84	2.75	2.78	2.78	(38b.p.)
%* Change in CPI**	6.36	1.99	6.51	7.42	4.74	7.15	516b.p.

\* Year-on-Year; \*\* Consumer Price Index

Note: b.p. i.e. basis point

Sources: ABL, BdL

## Capital Markets

<b>Most Traded Stocks on BSE</b>	<b>Last Price (\$)</b>	<b>% Change*</b>	<b>Total Volume</b>	<b>Weight in Market Capitalization</b>
Solidere "A"	18.71	0.92	119,745	15.08%
Solidere "B"	18.66	1.19	34,572	9.77%
Byblos Common	1.73	(1.14)	81,597	5.01%
Byblos Priority	1.75	0.00	21,600	2.91%
Byblos Pref. 08	102.00	0.00	600	1.64%
BLOM GDR	9.56	1.49	47,287	5.69%
BLOM Listed	9.00	2.27	30,950	15.59%
Audi GDR	8.93	0.34	8,700	7.32%
Audi Listed	7.95	2.85	30,557	22.05%
HOLCIM	16.47	16.89	14,087	2.59%

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

<b>Sovereign Eurobonds</b>	<b>Coupon %</b>	<b>Mid Price \$</b>	<b>Mid Yield %</b>
May 2011	7.875	102.38	2.56
Mar. 2012	7.500	105.50	3.09
Sep. 2012	7.750	107.50	3.30
June 2013	8.625	112.38	3.48
Apr. 2015	10.000	120.50	4.76
Jan. 2016	8.500	116.00	4.92
May 2016	11.625	129.50	5.30
Mar. 2017	9.000	120.50	5.14
Nov. 2018	5.150	99.50	5.23
Apr. 2021	8.250	116.25	6.11

Source: Byblos Capital Markets

	<b>Nov29-Dec 3</b>	<b>November 22-26</b>	<b>% Change</b>	<b>October 2010</b>	<b>October 2009</b>	<b>% Change</b>
<b>Total Shares Traded</b>	452,740	3,004,181	(84.93)	5,788,714	4,968,991	16.5
<b>Total Value Traded</b>	\$4,972,400	\$11,156,740	(55.43)	\$55,744,061	\$103,486,832	(46.1)
<b>Market Capitalization</b>	\$12.41bn	\$12.20bn	1.76	\$12.21bn	\$12.60bn	(3.1)

Source: Beirut Stock Exchange (BSE)



### **Byblos Bank mandated to issue long-term debt in Lebanese pounds**

The Ministry of Finance mandated Byblos Bank as the sole Lead Manager for the issuance of long-term maturities denominated in Lebanese pounds. The issue is expected to take place on the basis of the Republic of Lebanon's Global Medium Term Note Program for Lebanese pound issuance, which provides for settlement through Euroclear. There are LBP 44,309bn, or \$29.4bn, in outstanding government securities denominated in Lebanese pounds as at the end of October 2010. The three-year maturities total LBP 31,109bn and account for 70.2% of the total, followed by five-year maturities of LBP 7,192bn (16.2%), two-year maturities of LBP 3,460bn (7.8%), six-month maturities of LBP 1,010 (2.3%) and three-month maturities of LBP 277bn (0.6%). The weighted interest on the securities is 7.88% and their weighted life is 575 days. 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. Commercial banks account for about 59.2% of the total public debt; followed by the Central Bank with 18.1%; and public agencies, financial institutions and the general public with 11.2%. The public debt is forecast to reach 136% of GDP at the end of 2010, down from 150% of GDP at end-2009.

### **Fiscal deficit up 4% to \$2.5bn in first 10 months of 2010**

Figures released by the Finance Ministry show that the fiscal deficit reached \$2.51bn in the first 10 months of 2010, up 4% from \$2.41bn in the same period last year. The deficit was equivalent to 26.6% of total budget and Treasury expenditures compared to 25.3% in the first 10 months of 2009. Overall government expenditures reached \$9.4bn, down 1.1% year-on-year, while total revenues decreased by 2.8% to \$6.9bn in the covered period. Budgetary expenditures increased marginally by 0.9% to \$8.5bn and included \$350m in outlays from previous years, while budget revenues declined by 3.2% to \$6.54bn. Tax revenues improved by 12.3% year-on-year to \$5.7bn, of which 32.5%, or \$1.86bn, were in VAT receipts that posted a 10.4% annual rise. Tax revenues accounted for 87.6% of budgetary revenues and for 83% of total Treasury and budget receipts.

The distribution of other tax revenues shows that customs revenues rose 5.8% year-on-year to \$1.6bn, income & capital gains tax receipts grew by 12% to \$1.24bn, revenues from property taxes improved by 47% to \$591m, and other tax receipts, mainly stamp fees, increased by 16% to \$256m. Further, the distribution of income tax revenues shows that taxes on profits accounted for 41.3% of total income tax receipts, followed by the tax on interest deposits with 28%, taxes on wages & salaries with 20%, and capital gains tax with 10%. Receipts from taxes on profits increased by 9.5% year-on-year, income from capital gains tax grew by 18%, revenues from the tax on interest rose by 17%, and tax receipts on wages & salaries improved by 8%. Also, the distribution of property taxes shows that real estate registration fees rose by 52.5% to \$460m, revenues from built property taxes increased by 49% to \$87m and revenues from inheritance tax grew by 5% to \$44m. In parallel, non-tax budgetary revenues contracted by 51% to \$811m, with revenues from government properties dropping by 65% to \$470m and administrative fees & charges increasing by 4% to \$277m. Receipts from telecommunications services, which account for 46.7% of income from government properties and for 27% of non-tax revenues, dropped by 80% to \$220m in the first 10 months of the year.

Debt servicing increased by 4% year-on-year to \$3.3bn, accounting for 35% of total expenditures and for 39% of budgetary spending. It absorbed 47.6% of overall revenues and 50.3% of budgetary receipts. Repayment of principal on foreign debt rose by 17.4% to \$180m. Excluding debt servicing, the primary surplus reached \$1.53bn, or 18% of budget expenditures compared to a surplus of \$3bn, or 41.6% of budget spending a year earlier. The overall primary surplus reached \$959m, or 10.2% of total spending compared to a surplus of \$904m, or 9.5% of total expenditures a year earlier.

### **Treasury transfers to Electricité du Liban down 22% year-on-year**

Figures released by the Finance Ministry show that Treasury transfers to Electricité du Liban totaled \$1bn in the first 10 months of 2010, constituting a decrease of 22% from \$1.3bn in the same period last year. It said that reimbursements to the Kuwait Petroleum Corporation (KPC) and to Algerian energy conglomerate Sonatrach accounted for \$949m, or 94% of transfers year-to-October, while EdL's debt servicing represented the remaining 6%. It attributed the decline to a drop of \$263m, or 22%, in payments to KPC and Sonatrach during the covered period, and to a decrease in debt servicing by \$15m or 19% year-on-year. It credited the decrease in payments to KPC and Sonatrach to a 26% 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 which started in November 2009. It noted that EdL has yet to pay for the natural gas. It added that EdL contributed just 11.4% of repayments to the two oil suppliers in the first 10 months of the year compared to 6.8% in 2009 and relative to a larger oil bill. 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.

### Lebanon ranks 67th globally, 8th among Arab countries in Facebook users

Figures on the usage of social networking site Facebook indicate that there are 968,780 Facebook users in Lebanon at the end of November, accounting for 0.2% of worldwide users and for 4.8% of users in the Arab world. As such, Lebanon ranks in 67th place among 213 countries and in 8th place among 18 Arab countries in the number of users of the social site. Globally, Lebanon ranks ahead of Kenya, Guatemala and Bosnia & Herzegovina and comes behind Uruguay, Albania and Costa Rica. Lebanon's number of Facebook users is lower than the global average of 2,696,998 users and the Arab average of 1,122,076 users.

The Facebook usage penetration rate in Lebanon, or the ratio of the site's users to the total population, is 23.4%, ranking Lebanon in 83rd place globally and in third place in the Arab world. Lebanon ranks ahead of the Martinique, Costa Rica and Hungary and behind Estonia, Bulgaria and Seychelles globally; while it comes ahead of Kuwait and behind Bahrain in the Arab world.

The user age distribution shows that 42% of Facebook users in Lebanon are between 18 and 24 years old, 30% are in the 25 to 34 years age bracket, 10% are between 35 and 44 years of age, 6% are 16 to 17 year-old, 5% are between 13 and 15 year-old, and 4% are in the 45 to 54-year bracket; while the remaining 4% of users are above 55 years. Further, males account for 56% of total users in Lebanon, while female users represent the other 44%.

Lebanon was among five countries worldwide to witness a decline in Facebook users during the past six months with a 2% drop of 18,360 users. Also, Lebanon was among 21 countries that saw a drop in the number of Facebook users over the past three months, as the number dropped by 6% or 57,520 users. However, the number of the site's users Lebanon increased by 33,160 or 3.5% in November. The United States is by far the biggest user of Facebook in the world with 145.3 million users, and Egypt is the largest user of the site in the Arab world with 4.5 million users.

### Lebanon is 83rd biggest exporter, 67th largest importer in first 9 months of 2010

Figures issued by the World Trade Organization indicate that Lebanon ranked in 83rd place among 95 countries around the world and in 10th place among 10 Arab countries in terms of merchandise exports during the first 9 months of 2010. Lebanon's global and regional rankings were unchanged from the same period in 2009. Globally, Lebanon ranked ahead of Paraguay, El Salvador and Iceland, and came behind Kenya, Bolivia and Honduras. Lebanon's exports increased by 19.5% year-on-year compared to an increase of 23.6% for world exports and a rise of 31.2% for the exports of Arab countries included in the survey. Lebanese exports accounted for 0.03% of global exports and for 1% of aggregate Arab exports in the first three quarters of 2010.

Further, Lebanon ranked in 67th place among 94 countries globally and in 6th place among 9 Arab countries included in the survey in terms of merchandise imports in the first 9 months of 2010. Lebanon's ranking was unchanged globally but it came in 7th place among Arab economies during the same period of 2009. Globally, Lebanon ranked ahead of Serbia, Jordan and Dominican Republic, and came behind Ecuador, Croatia and Lithuania. Regionally, Lebanon ranked ahead of Jordan, Kuwait and Bahrain and came behind Tunisia, Morocco and Algeria. Lebanese imports increased by 10.5% year-on-year, compared to a rise of 22.5% for world imports and an increase of 5.4% for Arab imports. Lebanese imports accounted for 0.1% of global imports and for 6% of aggregate Arab imports in the first three quarters of 2010.

In parallel, Lebanon ranked in 71st place globally and in 9th place among 10 Arab countries in terms of the combined value of exports and imports in the first 9 months of 2010. Lebanon's ranking was unchanged globally but it came in 8th place among Arab economies in the same period of last year. Globally, Lebanon ranked ahead of Costa Rica, Estonia and Jordan and came behind Bahrain, Serbia and Croatia. Regionally, Lebanon ranked ahead of Jordan and came behind Bahrain, Tunisia and Iraq. Lebanon's trade volume amounted to \$17.1bn in the first 9 months of 2010 compared to \$15.2bn in the same period last year, reflecting an increase of 12.2% compared to a rise of 23% in global trade activity and an increase of 20% in Arab trade. Lebanon's trade activity accounted for 0.08% of global trade and for 3% of aggregate Arab trade in the first 9 months of 2010.

#### Facebook Users and Penetration

	Users	Penetration	Global Rank	Arab Rank
Egypt	4,499,680	5.6%	22	1
Saudi Arabia	3,100,380	12.1%	31	2
Morocco	2,373,660	7.5%	41	3
UAE	2,089,400	42.0%	47	4
Tunisia	1,768,200	16.7%	53	5
Algeria	1,363,540	3.9%	59	6
Jordan	1,079,540	16.9%	63	7
<b>Lebanon</b>	<b>964,780</b>	<b>23.4%</b>	<b>67</b>	<b>8</b>
Kuwait	622,400	22.3%	79	9
Qatar	502,000	59.7%	83	10
Palestine	462,760	18.4%	84	11
Iraq	385,640	1.3%	87	12
Bahrain	272,580	36.9%	94	13
Libya	249,100	3.9%	97	14
Oman	214,500	7.2%	102	15
Yemen	166,640	0.7%	113	16
Djibouti	44,740	6.0%	147	17
Mauritania	37,820	1.2%	154	18

Source: Facebook, Byblos Research

### Growth at 7% this year, to slow down in 2011

Standard Chartered Bank forecast real GDP growth in Lebanon at 7% in 2010 and at 6.5% for 2011 compared to an average growth rate of 8.5% during the past three years. It said strong activity in tourism, construction and financial services has underpinned growth so far, and expected activity to moderate going forward as the post-conflict effects wane. It noted that growth, along with low levels of public spending due to political paralysis, has led to the decline in the public debt-to-GDP ratio. It projected the public debt to be equivalent to 134% of GDP at end-2011 compared to 180% of GDP in 2006. It said inflation is slightly above historic levels due to higher commodity prices and a weaker U.S. dollar, and expected it to reach 5% this year and 5.3% next year.

Standard Chartered noted that political stability, brought by the formation of Prime Minister Saad Hariri's compromise government, faces serious challenges with the impending announcement of the findings of the Special Tribunal for Lebanon. It added that the prime minister has a parliamentary majority but does not hold the two-thirds quorum in the Cabinet needed for major decisions, which often results in political deadlock and reform paralysis. It expected the dollarization of the economy to remain, although the substantial interest rate spread between the Lebanese pound and the U.S. dollar will encourage a slight de-dollarization of deposits and continue to support deposit inflows from non-residents. It also expected prudent and orthodox monetary policy to continue under strong Central Bank supervision.

Standard Chartered considered that some segments of the real estate market could be heading for a mild correction, with the top end of the market likely to face higher vacancy rates. But it noted that developers' profitability is strong enough that they can sit on such properties without resorting to fire sales that would trigger a sudden price collapse. It did not expect a market-wide correction soon, based on fundamental geographical constraints, limited availability of desirable plots, a regulatory limit of 60% bank financing, and a Central Bank estimate that only 17% of properties are bought with bank credit. It added, however, that a large proportion of the resident population is likely to be priced out of the most desirable areas of Beirut, but that this represents a small part of the overall market.

Country Forecast Summary				
	2010F	2011P	2012P	2013P
Real GDP growth (%)	7.0	6.5	6.0	6.0
Consumer prices (%)	5.0	5.3	5.4	5.5
Current-account balance (% of GDP)	-16.0	-15.0	-14.5	-14.0
Fiscal balance (% of GDP)	-7.5	-9.5	-10.0	-10.0

Source: Standard Chartered Research

### World Bank approves \$40m to upgrade public education system

The World Bank's Board of Executive Directors approved the \$40m Second Education Development Project for Lebanon. The project aims to improve teaching quality and the learning environment in general education and in preschool across the country; and to increase the governance and managerial capacity of the Ministry of Education & Higher Education and schools. The Bank said the project will contribute to the second phase of education sector reform based on the government's Education Sector Development Plan, with a focus on "quality learning for growth" at the preschool, primary and secondary education levels. The plan aims at modernizing the public education sector in Lebanon and building the ministry's capacity to effectively manage the education system, and to make evidence-based policy decisions. The Bank noted that one of Lebanon's main strengths is its human capital; but it has traditionally faced significant migration and brain drain. It added that Lebanon needs to invest in a public education system where production and quality meet domestic and global labor market demand. The new project will build on the achievements of the first Education Development Project which closed at the end of 2009 after a nine-year implementation period. The World Bank's loan is part of its Country Partnership Strategy, or business plan, for Lebanon for the next four years. The Bank's support for Lebanon will range between \$375m and \$550m over the 2010-14 period to finance the country's economic and social development program.

### Abdeh port reopens

The United Nations Development Program (UNDP) announced the completion of the Abdeh Port's rehabilitation and its reopening, 25 years after it was built. Established in 1985 in Northern Lebanon, the port was neglected and has not been cleaned since then. The rehabilitation covered the cleaning of the port's bay and increasing its depth. The port's rehabilitation is part of the UNDP project to develop the area surrounding the North Lebanon Palestinian refugee camp of Nahr al-Bared. The UNDP expected the initiative to be implemented at other ports in Lebanon to improve environmental and ecological standards.

### **Environment Ministry signs €1.64m deal to monitor the country's resources**

The Environment Ministry signed a €1.64m agreement with the United Nations Environment Program and the Greek Embassy in Lebanon to monitor the country's environmental resources. The funds are expected to finance pollution studies in Lebanon as well as environmental projects. Environment Minister Mohammad Rahhal stated that 70% of the country's pollution originates from air pollution caused by the transportation system and the industrial sector. Lebanon ranked in 90th place among 163 countries worldwide, and in 11th place among 22 countries in the MENA region on the 2010 Environmental Performance Index.

### **Agriculture Ministry signs €1.8m deal to improve olive oil standards**

The Ministry of Agriculture and the Italian Development Cooperation Office signed a €1.8m agreement to improve the quality of olive oil. The one-year project, which will be managed by the Ministry of Agriculture, aims to bring to European commercial standards the quantity and quality of olive oil production in the four most productive regions of the country. It also aims to establish a national laboratory to certify good quality olive oil. In addition, the funds will provide the ministry with the necessary tools to fight the spread of Phytoplasma, a disease that severely damages almond trees' cultivation in many areas of the country.

### **Launch of Private Pilots Association**

The Tourism Minister Fadi Abboud launched the Private Pilots Association which aims at encouraging sightseeing flights over Lebanon as part of the "Fly Over Lebanon" project. Minister Abboud expected the number incoming tourists to Lebanon to reach 2.2 million by the end of year, up 17.6% from last year despite the political local tension. The number of incoming tourists totaled 1,851,922 in the first 10 months of 2010, constituting an increase of 17.6% from 1,574,490 tourists in the same period last year.

### **S&P links upgrade of banks' ratings to structural reforms and political stability, rated banks have adequate capitalization and high liquidity**

International rating agency Standard & Poor's indicated that the ratings on BLOM Bank sal and Bank Audi sal mainly reflect the risks inherent in Lebanon's operating environment. It said the two banks' exposure to the sovereign is high, and represents the most important risk factor for them, while it considered their capitalization to be moderate given the banks' high-risk operating environment. In parallel, it noted that the banks' ratings benefit from their strong commercial position, resilient operating performance and strong liquidity. Byblos Bank sal, one of Lebanon's top 3 banks, is not rated by Standard & Poor's.

The agency said BLOM Bank has a highly liquid asset structure, but has a high direct exposure to the sovereign of about 5.4 times its common shareholders' equity at-end June 2010, mostly in the form of government debt securities and Certificates of Deposit issued by the Central Bank. It added that, similar to BLOM Bank, Bank Audi channels its surplus liquidity primarily into high-risk Lebanese government debt securities and Central Bank CDs. It added that Bank Audi's direct exposure to the sovereign stood at about 4.3 times its total common shareholders' equity base at end-June 2010. It noted that the ratio is lower than domestic peers because the bank replaced part of its Lebanese Eurobonds with a portfolio of higher-rated international bonds, but this has undermined interest margins.

The agency stated that BLOM's loan leverage is low, which mitigates concerns about the quality of lending. It noted that BLOM's loan quality has significantly improved, which is a positive signal amid the global economic downturn and shows that the bank is resilient and well-positioned to withstand any possible worsening in the regional economy. S&P said BLOM's loan book growth slowed down in 2009 but started to pick up again in 2010, reflecting a generally cautious approach towards lending and a focus on protecting liquidity amid the regional downturn. It noted that Bank Audi's liquidity is high with deposits covering about three times the loan book. It added that the bank's local currency-denominated debt still significantly exceeds its equity and continues to constrain the ratings. Further, it did not expect Audi's new geographic footprint to be sizeable over the medium term.

S&P said the two banks' capitalization remains moderate and estimated the risk adjusted capital of BLOM at 6% and that of Audi at 6.2% before adjustments. It indicated that BLOM Bank's profitability metrics are slightly better than its peer due to the bank's better efficiency and sound assets quality metrics, adding that international operations provide the bank with an income that satisfactorily supplements revenues from domestic activities. It also noted that Bank Audi's net income is largely shaped by net interest margins and is likely to remain resilient. S&P said it could raise the banks' ratings if Lebanon reduces its debt stock through structural reforms and fiscal discipline. It noted that only fiscal reforms can sustain the recent improvement in deposits and reserves over the medium term. It warned that political uncertainties remain the main risk for the ratings.

### **Stock market activity at \$1.8bn in first 11 months of 2010**

Figures released by the Beirut Stock Exchange indicate that total trading volume reached 161 million shares in the first 11 months of 2010, constituting an increase of 62.2% from the same period last year, while aggregate turnover amounted to \$1.84bn, up 86% from a turnover of \$989m in the same period last year. Market capitalization decreased by 1.6% to \$12.4bn in the first 11 months of 2010, of which 71% was in banking stocks and 24.8% 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 14.9% compared to 7.9% for the same period of 2009. Bank stocks accounted for 90.6% of aggregate trading volume in the first 11 months of the year, followed by real estate stocks with 9%. In terms of value of shares traded, banking stocks accounted for 81.9% of aggregate value, followed by real estate stocks with 17.8%. The average daily traded volume for the period was 719,889 shares for an average daily value of \$8.2m. The figures reflect increases of 62.9% in volume and 86.5% in value year-on-year.

### **Zurich Insurance finalizes acquisition of Compagnie Libanaise D'Assurances**

Zurich Financial Services Group, a global provider of insurance-based financial services, announced that its subsidiary Zurich Insurance Company Ltd has completed the acquisition of 99.98% of Compagnie Libanaise D'Assurances sal (CLA), a privately-owned Lebanese insurer with branch operations in the UAE, Kuwait and Oman. 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.

### **EFG Hermes' revenues boosted by acquisition of Crédit Libanais**

Regional investment bank EFG Hermes declared consolidated net income of EGP668.4m, or \$117m, in the first 9 months of 2010, constituting an increase of 43% from the same period last year; and operating revenues of nearly EGP1.9bn year-to-September, up 81.5% year-on-year. The firm attributed the jump in profits and revenues in part to its acquisition of Crédit Libanais last August and the consolidation of the results of both institutions starting in the third quarter of 2010. As such, consolidated operating revenues rose by 46% to EGP497m in the third quarter of the year, with Crédit Libanais accounting for 51.4% of revenues during the covered period. In parallel, EFG Hermes indicated that revenues generated from capital markets and treasury operations fell to EGP56m in the third quarter as a result of the divestment of its stake in Bank Audi earlier in the year. It added that the acquisition of Crédit Libanais has further strengthened its balance sheet, with total consolidated assets reaching EGP47.1bn, or \$8.2bn as at the end of September, and Crédit Libanais contributing EGP35.5bn or 75.4% of the total. Also, consolidated shareholders' equity stood at EGP9bn, with Crédit Libanais contributing EGP2.6bn or 29% of the total.

Last August, EFG Hermes Holding SAE announced the acquisition of a 65% stake in Crédit Libanais for \$542m. It has a call option for an additional 25% interest in the bank, and will have the right to exercise the call option over the next two years at its sole discretion and at the same terms, including pricing, as those applicable to the acquisition of the initial 65% stake. EFG Hermes said the transaction transforms it from an investment company with an investment banking platform into a universal bank. Crédit Libanais, one of Lebanon's top 10 banks, posted net profits of \$58.8m in the first 9 months of the year, up 42% from the same period last year. Its total assets reached \$6.3bn and its customer deposits totaled \$5.3bn at end-September 2010. It has 61 branches in Lebanon, one branch in each of Cyprus and Bahrain, and a representative office in Canada. It recently established a subsidiary bank in Senegal.

### **RYMCO's profits down 6.2% to \$2.3m in first 9 months of 2010**

Automobile dealer Rasamny Younis Motor Co. (RYMCO) declared net profits of \$2.26m in the first 9 months of 2010, down 6.2% from \$2.41m in the same period last year. Sales revenues (net of discounts) totaled \$124.32m, posting a 13% decrease year-on-year; while net earnings from servicing and repairs, or 'garage income', increased by 18.7% to \$3.81m. General and administrative expenses decreased by 7.2% to \$3.1m, while advertising & selling expenses increased by 62.1% to \$1.8m, and overall operating charges rose by 8.2% to \$10.8m. RYMCO's total assets and total equity amounted to \$148.8m and \$55m at the end of September 2010 respectively, compared to \$138.3m and \$54m a year earlier. The company's inventory of cars and spare parts increased by 1.3% to \$56.35m. RYMCO is the only car retailer listed on the Beirut bourse. Its share price closed at \$2.75 on December 3, down 12.7% year-to-date.

### **IBL Bank's net income up 17% to \$23m in first 9 months of 2010**

IBL Bank announced consolidated net profits of \$22.7m in the first 9 months of 2010, up 17% from the same period last year. Net operating income rose by 21.6% year-to-September to \$44.8m, with net interest income increasing by 14.7% to \$38.8m and non-interest receipts growing by 57.3% to \$7.5m year-on-year. Also, operating expenditures increased by 16% to \$17.6m, with staff expenses increasing by 17% to \$9.5m. Total assets reached \$3.1bn at end-September 2010, constituting a 28% rise from end-September 2009 and an 18% rise from end-2009, while loans & advances to customers increased by 63% year-on-year and by 65% from end-2009 to \$441m. Customer deposits totaled \$2.8bn at end-September, constituting an increase of 17% from end-2009 and a growth of 29% from a year earlier. The bank's shareholders' equity reached \$216m, up 13% in the first 9 months of the year.

## Ratio Highlights

(in % unless specified)	2007	2008	2009	Change*
Nominal GDP <sup>(1)</sup> (\$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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