



LEBANON THIS WEEK

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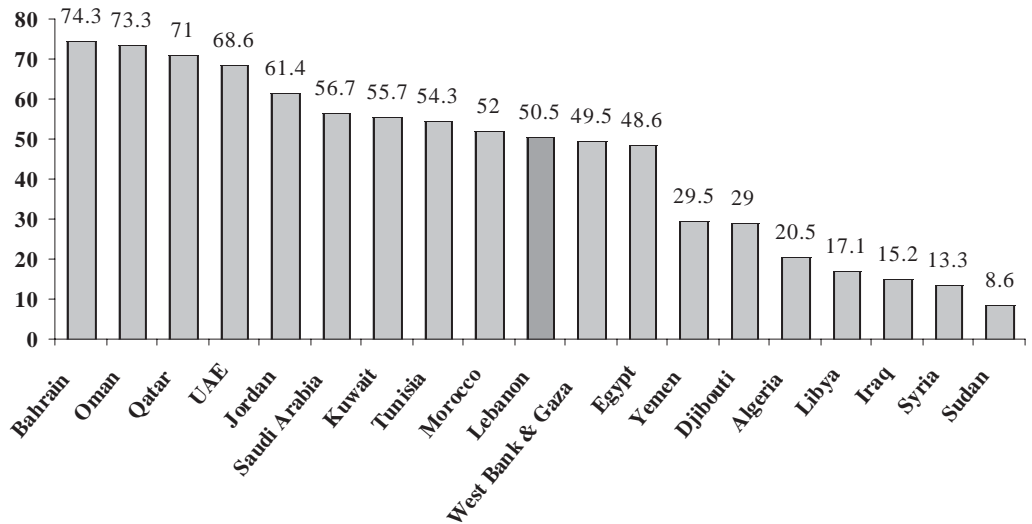
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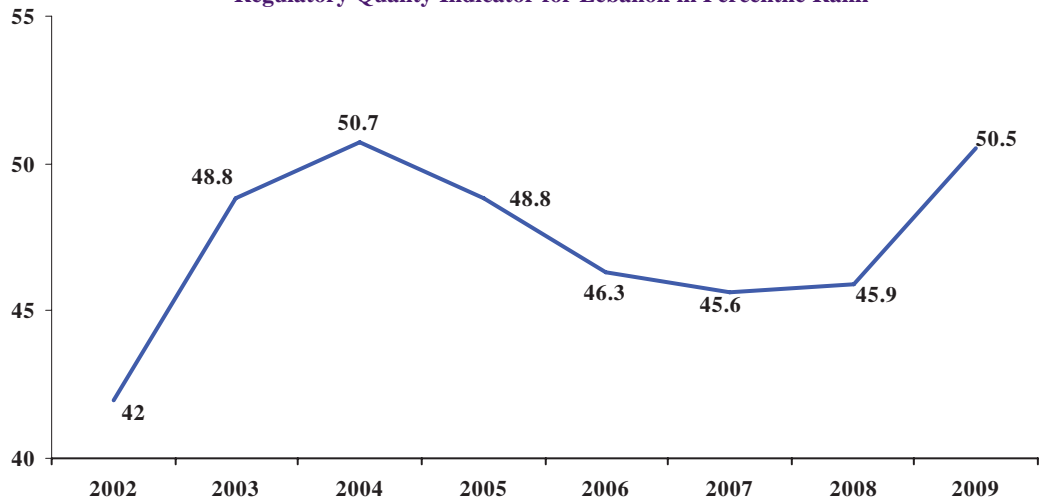
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Charts of the Week

Regulatory Quality Indicator of Arab Countries in 2009 in Percentile Rank



Regulatory Quality Indicator for Lebanon in Percentile Rank



Source: World Bank Governance Indicators

Quote to Note

"Structural adjustments, together with political stability."

Standard & Poor's, on the two vital points required to support a sustained reduction in the fiscal deficit and to maintain confidence in the system over the medium- to long term

Number of the Week

109: Lebanon's rank out of 139 countries in terms of university-corporate collaboration in research & development, according to the World Economic Forum's Global Competitiveness Index

Economic Indicators

\$m (unless otherwise mentioned)	2008	Sep 09	2009	July 10	August 10	Sep10	% Change*
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

\$bn (unless otherwise mentioned)	Dec 2008	Sep 09	May 10	June 10	August 10	Sep 10	% Change*
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

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization	Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Solidere "A"	18.50	(1.12)	99,568	14.68%	May 2011	7.875	102.38	2.56
Solidere "B"	18.39	(1.45)	16,879	9.49%	Mar. 2012	7.500	105.50	3.09
Byblos Common	1.78	2.89	8,267	5.08%	Sep. 2012	7.750	107.50	3.30
Byblos Priority	1.78	1.71	1,400	2.91%	June 2013	8.625	112.38	3.48
Byblos Pref. 08	102.00	0.00	0	1.62%	Apr. 2015	10.000	120.50	4.76
BLOM GDR	10.21	6.80	175,708	5.99%	Jan. 2016	8.500	116.00	4.92
BLOM Listed	9.50	5.56	10,520	16.21%	May 2016	11.625	129.50	5.30
Audi GDR	9.08	1.68	44,723	7.33%	Mar. 2017	9.000	120.50	5.14
Audi Listed	8.02	0.88	36,134	21.91%	Nov. 2018	5.150	99.50	5.23
HOLCIM	17.09	3.76	3,633	2.65%	Apr. 2021	8.250	116.25	6.11

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

Source: Byblos Capital Markets

	December 6-10	Nov29-Dec 3	% Change	October 2010	October 2009	% Change
Total Shares Traded	408,432	452,740	(9.79)	5,788,714	4,968,991	16.5
Total Value Traded	\$4,910,767	\$4,972,400	(1.24)	\$55,744,061	\$103,486,832	(46.1)
Market Capitalization	\$12.60bn	\$12.41bn	1.55	\$12.21bn	\$12.60bn	(3.1)

Source: Beirut Stock Exchange (BSE)



Functional government is key for growth and reforms, challenges are reducing the public debt and the fiscal deficit

Barclays Capital projected economic growth in Lebanon at 7.5% in 2010, adding that economic activity remains favorable despite the market's nervousness about political developments. It considered that the political differences over the Special Tribunal for Lebanon (STL) investigating the assassination of Prime Minister Rafiq Hariri and the expected release of an indictment have paralyzed the government, raised political tensions and increased uncertainty in the country. It noted that growth in various sectors, including construction, tourism, trade and financial services has been solid in the first 9 months of the year; while the sustained rapid expansion of credit to the private sector continues to support sectoral activity. It added that the balance of payments posted a surplus over the past four months despite slower capital inflows and expected the surplus to decline, given the exceptional amount of transfers from Lebanese living abroad during last year's financial crisis.

It added that the fiscal performance over the past 10 months showed positive results, as the deficit declined by 33% year-on-year and the primary surplus increased by 9.5%. As a result, it forecast a reduction of at least 7 percentage points in the debt-to-GDP ratio, bringing the debt level to an estimated 141% of GDP by end-December, down from 148% of GDP at end-2009. It stressed that, despite these positive points, the figures highlight the persistence of a significant structural problem as reflected by a fiscal deficit of nearly 8.5% of GDP, even without accounting for capital expenditures that would normally be spent if the budget had been ratified.

Barclays considered that Lebanon's key challenges in 2011 and beyond remain reducing the debt level and narrowing the fiscal deficit, which will depend on the country's ability to sustain high levels of economic growth and to implement much-needed fiscal and economic reforms. It noted, however, that this will require a functional and cohesive government able to formulate policies and execute decisions. It said the current government will remain unable to take decisions until the political sides agree on a common approach to handle the imminent indictment from the STL once it is issued, and on a joint strategy for Lebanon's formal institutions to deal with the STL and the international community afterwards.

Barclays said its base case scenario envisages an agreement among the various factions on how to deal with the indictments prior to their publication. Under such scenario, it forecast growth to remain at 6% to 7% in 2011, mainly driven by domestic demand fuelled by higher remittances and tourism revenues. It said that a delayed budgetary process will not allow for significant capital spending and, therefore, would keep the fiscal deficit flat, which could bring the debt-to-GDP ratio down slightly to 136% of GDP at end-2011.

It added that under a worse case scenario, the STL indictment would be issued prior to an agreement among political factions, which would lead to the withdrawal of several ministers from the Cabinet and would bring public institutions to a complete halt. As such, it expected renewed pressure in the foreign exchange market similar to 2006-07, bringing the Central Bank to draw down some of its reserves. It noted that the Central Bank has repeatedly confirmed its ability and willingness to ward off any pressure on the Lebanese pound. It considered that the Central Bank can easily accommodate further pressures should they recur, as its record \$32bn in reserves are equivalent to more than 55% of short-term debt and cover almost 72% of the country's money supply, putting the country in a much better position than in previous instances of extreme political tension. Further, the banking sector remains solid and highly liquid, with the loans-to-deposit ratio at 35% and capital adequacy at 13.7%, making it able to support imminent financing needs of the public and the private sectors.

Key Macroeconomic Indicators				
	2009	2010F	2011P	2012P
Real GDP growth (%)	9.0	7.5	6.5	6.0
Consumer Prices (avge) (%)	1.2	4.0	4.5	3.0
Fiscal balance (% of GDP)	-8.6	-7.9	-7.7	-7.5
Primary balance including grants (% of GDP)	3.1	2.5	2.3	3.2
Gross public debt (\$bn)	51.1	54.9	58.0	60.0
Gross public debt (% of GDP)	148.1	141.2	135.4	129.3
Current-account balance (\$bn)	-3.3	-3.9	-4.3	-4.5
Current-account balance (% of GDP)	-9.5	-10.1	-10.0	-9.6
Gross external debt (% of GDP)	170.9	162.0	163.4	168.1
International reserves (\$bn)	29.1	32.1	34.5	36.7

Source: Barclays Capital

Majority of Lebanese think corruption level worsened in past three years, political parties are most corrupt segment

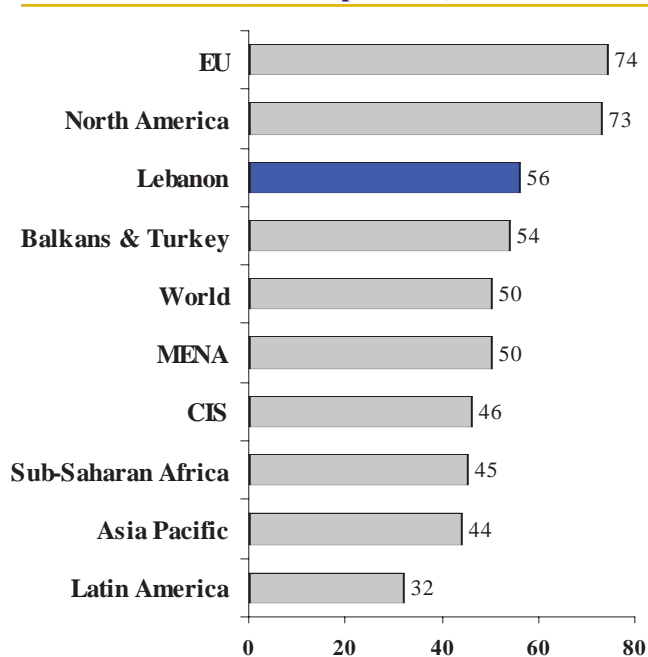
Transparency International's Global Corruption Barometer, a panel survey about the general public's views and experiences on corruption in 90 countries, indicated that 82% of respondents in Lebanon consider that the level of corruption in the country increased during the past three years, while 56% of respondents said that current efforts by the government to fight corruption are ineffective. The survey, which was commissioned by Transparency International, covered 1,000 respondents in Lebanon and was conducted by a local statistics firm. The country-by-country survey asks a sample of the public about its country's corruption level in 11 key sectors and institutions, as well as about perceptions on the government's effort in fighting corruption. It also explores the bribery frequency in nine different basic services.

The percentage of respondents in Lebanon who consider that the level of corruption in the country increased during the past three years came higher than that in the MENA region (56%) and worldwide (56%), as well as higher than the corresponding percentages in the European Union (73%), North America (67%), Sub-Saharan Africa (62%), the Western Balkans & Turkey (57%), Latin America (51%), Asia Pacific (47%), and the Commonwealth of Independent States (45%).

In parallel, 34% of respondents in Lebanon said they had to pay a bribe in the past 12 months to speed up government services that include registry & permit services, utilities, tax revenues, customs education, the judiciary, medical services, and the police. In comparison, 36% of respondents in the MENA region and 26% globally said they paid a bribe to speed up the same services. Globally, only Sub-Saharan Africa had a higher ratio than Lebanon, with 56% of respondents affirming paying bribes for such services.

Further, the survey indicates that corruption is least widespread in Lebanon's military, non-governmental organizations, the education system, religious bodies and the private sector. It also shows that corruption is most prevalent among political parties in Lebanon, followed by public officials & civil servants, the Parliament, the police, the judiciary, and the media.

Government Ineffectiveness in Fighting Corruption (% of respondents)



Source: Transparency International, Byblos Research

Perception Level of Corruption by Sector (scale 1 to 5)*

Country/Region	Lebanon	MENA	World
Political Parties	4.1	3.6	4.2
Public Officials/Civil Servants	3.9	3.4	3.7
Parliament/Legislature	3.8	3.3	3.7
Police	3.7	3.2	3.7
Judiciary	3.5	2.9	3.3
Media	3.5	2.6	3.2
Business/Private Sector	3.4	2.9	3.4
Religious bodies	3.0	2.5	3.3
Education system	3.0	2.6	3.1
NGOs (non governmental organizations)	3.0	2.5	2.9
Military	2.4	2.4	2.8

*: A level of 1 reflects no corruption while a level of 5 reflects extreme corruption

Source: Transparency International

Government steps up protection of intellectual property rights

The Ministry of Economy & Trade indicated that the Lebanese government intensified in recent months its operations against intellectual property rights (IPR) violations by increasing surveillance and urging copyright owners to refer to special judicial courts. It added that it supplied the Police Cyber Crime and Intellectual Property Rights Bureau with a number of surveyors to assist in the fight against all kinds of IPR violations and crimes, and expressed support for an active mechanism to fight plagiarism, piracy and forgery. It also encouraged holders of intellectual property rights to seek compensation for transgressions and violations in special courts.

Lebanon is currently working to amend the 1999 Copyright Law to become compliant with the requirements of the World Trade Organization's treaty on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Last January, a joint committee of Parliament approved Lebanon's accession to the United Nations' WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty.

In its annual Special 301 review of the state of IPR protection and enforcement around the world, the Office of the United States Trade Representative (USTR) maintained Lebanon on the Watch List, along with 29 other countries and jurisdictions. It also affirmed that the Lebanese government has demonstrated a commitment to protecting IPR by expressing its intention to ratify the WIPO Internet treaties, by reengaging with U.S. technical experts on the update of the 1999 Copyright Law, and through training and public campaigns aimed at raising awareness about the importance of IPR protection. Piracy-related losses incurred in Lebanon by copyright-based industries totaled \$29m in 2009 compared to \$31m in 2008, \$26.8m in 2007 and \$25.6m in 2006.

EU grants €0.9m to upgrade capacity of Central Administration of Statistics

The European Union extended a grant of €900,000 to fund the twinning of the Central Administration of Statistics (CAS) and the Northern Ireland Statistics and Research Agency (NISRA). The 18-month project, which is coordinated through the Northern Ireland Co-operation Overseas Ltd, aims to upgrade the institutional capacity of CAS and provide it with technical support to issue national accounts up to international standards and on a regular basis. The national accounts of Lebanon have been issued by the Office of the Prime Minister to date, and have covered the 1997-2008 period so far. The twinning project is in support of the transfer of this function to CAS. In addition, the project aims to improve the capacity of CAS to issue regular socio-economic statistics based on international norms and standards, and to provide related training to the staff. The project is a step in the process of making CAS the principal source of official statistics on the Lebanese economy.

Education Ministry launches \$75m project to improve public school system

The Education Ministry, in cooperation with the U.S. Agency for International Development, launched D-RASATI, a \$75m project to improve student results at public schools. The project aims to raise the quality of teachers' performance through in-service training as well as to upgrade the educational environment at all 1,300 public schools in the country. D-RASATI is expected to be implemented over five years by the Education Development Center, a global non-profit organization that designs, delivers and evaluates projects related to all aspects of school management and education. D-RASATI will be implemented in partnership with the American University of Beirut, AMIDEAST, the Cooperative Housing Foundation, the International Orthodox Christian Charities, and the Hariri Foundation for Sustainable Human Development. The project is funded by the USAID, whose financial support to Lebanon totaled \$68m in 2009 and \$109m in 2010, with the 2011 budget expected to be higher and to focus mainly on education and agriculture.

Net public debt at \$45bn at end-October 2010

Lebanon's gross public debt reached \$51.1bn at the end of October 2010, unchanged from end-2009, and constituting an increase of 2.5% from end-October 2009. Domestic debt increased by 4.9% to \$30.1bn, while external debt decreased by 0.7% annually to \$21bn. Local currency debt accounted for 58.9% of gross public debt at end-October 2010 compared to 57.5% a year earlier, while foreign currency-denominated debt represented 41.1% of the total at the end of October relative to 42.4% a year earlier. The weighted interest rate on outstanding Treasury bills was 7.93%, while the weighted interest rate on Eurobonds was 7.34% at the end of August. Further, the weighted life on Eurobonds was 4.67 years, while that on Treasury bills was 575 days.

Commercial banks accounted for 59.1% of the local public debt at the end of October 2010 compared to 59.6% a year earlier. They were followed by the Central Bank with 23.5%, down from 24.1% at end-October 2009; while public agencies, financial institutions and the general public accounted for 17.3% of local debt relative to 16.3% a year earlier. Eurobond holders, foreign private sector loans and special T-bills in foreign currencies accounted for 86.7% of the external debt, followed by multilateral institutions with 7.1%, foreign governments with 4.7%, and Paris II loans with 1.5%. Net public debt, which excludes the public sector's deposits at the Central Bank and at commercial banks from overall debt figures, increased annually by 2.7% to \$44.9bn. In parallel, the gross market debt accounted for about 67% of total public debt. Gross market debt is the total public debt less the portfolios of the Central Bank, the National Social Security Fund, bilateral and multilateral loans, as well as Paris II and Paris III related debt.

Balance of payments posts surplus of \$2.8bn in first 10 months of 2010

Central Bank figures show that Lebanon's balance of payments posted a surplus of \$2.75bn in the first 10 months of 2010 compared to a surplus of \$6bn in the same period last year. The balance of payments posted a deficit of \$185m in October compared to a surplus of \$186m in August and a surplus of \$1.2bn in October 2009. The October 2010 deficit was caused by a deficit of \$359m in the Central Bank's net foreign assets and a surplus of \$174m in those of banks and financial institutions. The cumulative surplus over the first 10 months of 2010 was caused by a surplus of \$2.71bn in the Central Bank's net foreign assets and a surplus of \$45m in those of banks and financial institutions. The balance of payments posted a cumulative surplus of \$7.9bn in 2009 and \$3.5bn in 2008.

Coincident indicator up 8% in October 2010

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 248 points in October compared to 229 points in September and 233.5 points in October 2009. The Coincident Indicator, an average of 8 weighted economic indicators, rose by 8.3% in October, and increased by 6.2% year-on-year. The indicator averaged 246.2 points in the 12-months ending October 2010 compared to 245 points in the 12-months ending September 2010 and to 220.6 points in the 12-months ending October 2009. As a result, the average coincident indicator rose by 11.6% year-on-year. The indicator increased for the sixth time in nine months this year, but only for the third time in six months, after peaking in March at an all-time high of 264.5 points. Further, the month-to-month increase in October constituted the highest month-to-month increase this year, and the second best improvement ever for the indicator for the covered month. In parallel, the indicator improved 15 times, regressed two times and was unchanged once in the month of October since 1993. The indicator averaged 225.8 point in 2009 and 198.4 points in 2008.

Overdrafts account for 31% of bank credits, share of trade & services at 36% of utilized credits

Figures issued by the Central Bank about the distribution of bank credits by type show that overdrafts accounted for \$11.8bn, or 31.4% of total private sector credits at the end of September 2010. They were followed by advances against real estate with \$9.2bn (24.6%), advances against personal guarantees \$6.4bn (17%), advances against cash collateral or bank guarantees \$5.6bn (15%), advances against other real guarantees \$2.7bn (7.1%), and advances against financial values \$1.9bn (5%). In parallel, utilized credits by the private sector totaled \$37.5bn at the end of September 2010, with the trade & services sector accounting for \$13.6bn, or 36.3% of such credits. It was followed by personal credits with \$8.5bn (22.8%), construction with \$6.1bn (16.3%), industry with \$4.3bn (11.4%), financial intermediaries with \$3.3bn (8.9%) and agriculture with \$361m (1%), while other sectors accounted for the remaining \$1.26bn (3.4%). Also, wholesale trade represented 43.6% of trade & services credits, followed by real estate services with 20%, retail with 15.1%, transport & storage with 11.8%, hotels & restaurants with 6.6% and educational services with 3%.

Personal credits accounted for 76.7% of loan beneficiaries, followed by trade & services with 12.8% of beneficiaries, industry with 3.4%, construction with 1.6%, financial intermediaries with 0.8%, agriculture with 0.8%, while other sectors accounted for 3.8%. Further, the aggregate number of loan beneficiaries grew by 20.9% year-on-year to 326,007, while 85% of beneficiaries had loans ranging from LBP5m to LBP100m by end-September 2010. Beirut and its suburbs accounted for 80.6% of bank credits and for 56.7% of beneficiaries. It was followed by Mount Lebanon with 8.3% of credits and 15.6% of beneficiaries; South Lebanon with 4% of credits and 8.4% of beneficiaries; North Lebanon with 4% of credits and 12.9% of beneficiaries; and the Bekaa with 3.2% of deposits and 6.4% of beneficiaries.

Commercial activity slows down in third quarter of 2010

The Central Bank's quarterly business survey of opinions indicated that the volume of commercial sales decreased during the third quarter of 2010, with the balance of opinion standing at +16, compared to +40 during the same quarter of 2009. The business survey reflects the opinions of enterprise managers on the evolution of their businesses in order to depict the evolution of a number of key economic variables. The balance of opinion for inventory levels in all commercial sub-sectors recorded at +11 in the third quarter of the year unchanged from +11 in the same quarter last year. The balance of opinion is the difference between the proportions of managers out of those surveyed who estimate that there has been an improvement in a particular variable and the proportion of those who reported a decline in the variable.

Commercial Activity: year-on-year evolution of opinions				
Aggregate results	Q3-07	Q3-08	Q3-09	Q3-10
Sales volume	8	41	40	16
Inventories of finished goods	2	5	11	11
Q3-10 Regional results	Beirut / Mount Lebanon	North	South	Bekaa
Sales volume	13	8	0	50
Inventories of finished goods	18	3	4	5

Source: Central Bank Business Survey Q3-10

Kafalat loan guarantees reach \$156m in first 11 months of 2010

Figures released by the Kafalat Corporation show that loans extended to small and medium-size companies under the guarantee of Kafalat reached \$155.7m in the first 11 months of 2010, up 22.2% from \$127.4m in the same period last year. The number of loan guarantees totaled 1,293 year-to-November compared to 949 in the same period last year. The average loan size reached \$120,423 compared to \$134,220 in the first 11 months of 2009. Mount Lebanon accounted for 43% of guarantees, followed by the South & Nabatieh with 12.4%, Bekaa with 18.2% the North with 12.6%, and Beirut with 4.8%. The agriculture sector accounted for 44% of total guarantees, followed by industry with 38.3%, tourism with 14.5%, handicraft with 1.7% and specialized technologies with 1.5%. Kafalat is a state-sponsored organization that provides financial guarantees for loans up to \$400,000 earmarked for the set up and expansion of small and medium-size companies in productive sectors. It guarantees up to 75% of the loan amount and a similar percentage of the interest that accrues during the grace period.

Lebanese Business Angels network announces investment in start-up

The Lebanese Business Angels network (LBA) announced that one of its members invested \$100,000 in agro-industrial start-up OVIS, constituting the network's first transaction. OVIS, which produces sausage envelopes, said that the investment was against an equity stake of 15% and that it will get back 5% if the firm realizes certain targets within a period of three years. The LBA, which officially launched its activities in January 2009, is part of the Bader Young Entrepreneurs Program. Bader, an organization launched by a group of local business leaders and entrepreneurs to raise awareness about the importance of entrepreneurship in Lebanon, developed a network of 'angel' investors who will channel investments to start-up companies and share their expertise with Lebanese entrepreneurs. In advanced economies, 'angel' investors are typically proven entrepreneurs who have worked with or founded start-ups themselves and have a personal interest or expertise in an industry. They operate on an individual basis as part of a loosely structured group, but they can be found in more sophisticated networks with strict protocols, sometimes pooling money in syndicates.

Angel investors in Lebanon plan to invest between \$50,000 and \$500,000 at a very early stage of a Lebanese start-up, and will also mentor local entrepreneurs. The LBA considers ideas from all sectors, with a focus on innovative products and companies with the potential for international reach. The LBA works in close cooperation with the Kafalat Corporation, Berytech and the Arab Business Angel Network.

MEA starts direct flights to Democratic Republic of Congo

National flag carrier Middle East Airlines (MEA) inaugurated direct flights between Beirut and Kinshasa, the capital of the Democratic Republic of Congo. MEA said the addition of the Kinshasa route would enable it cover between 80% and 85% of African destinations. Last September, MEA signed an agreement with Brussels Airlines to serve passengers traveling to 12 African destinations via connections through Brussels. The deal facilitates the travel plans of the large Lebanese expatriate community in Africa. The destinations served by the new agreement are Luanda in Angola, Cotonou in Benin, Ouagadougou in Burkina Faso, Douala in Cameroon, Banjul in The Gambia, Accra in Ghana, Conakry in Guinea, Monrovia in Liberia, Dakar in Senegal, Freetown in Sierra Leone, and Lomé in Togo. MEA currently serves 30 destinations and is scheduled to receive a new Airbus plane in 2011, expanding its fleet to 16 aircraft. The Central Bank owns a 99% stake in the carrier, which was planning to raise \$250m through an initial public offering of 25% of its capital in the fourth quarter of this year. But the partial IPO was indefinitely postponed in September.

BankMed has adequate liquidity and capitalization

Standard & Poor's indicated that the ratings on BankMed mainly reflect the risks inherent in Lebanon's operating environment. It said that, similar to other banks in the country, the bank's exposure to the sovereign is high and represents its most important risk factor. It said BankMed has an adequate liquid asset structure, but has a high direct exposure to the sovereign of about 3.3 times its common shareholders' equity at end-2009, mostly in the form of government debt securities and Certificates of Deposit issued by the Central Bank. It also considered capitalization to be adequate and estimated the risk-adjusted capital ratio at about 4.5% before adjustments. It noted that the bank's ratings benefit from its strong commercial position and adequate liquidity, as well as its resilient operating performance that is largely supported by business from the bank's shareholder-related firms. It said related-party financing represented about 22.3% of total gross loans at end-2009 and that this lending is done on an arms-length basis with no negative impact on overall profitability and is more than fully collateralized by deposits.

S&P noted that BankMed's overall profitability remains below that of its domestic rated-peers because it streamlined its organization and strategic focus later than peers. It expected the bank's profitability to continue to improve due to its stronger strategic focus on the more lucrative retail and corporate sectors in Lebanon, the gradual pick-up in investment banking through the enhancement of ties between shareholders and regional corporates, as well as increased momentum in overseas operations. S&P said the 'positive' outlook on BankMed reflects and will closely follow that on Lebanon. It said it could raise the bank's ratings if Lebanon reduces its debt stock through structural reforms and fiscal discipline, or if regional tensions decline. 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.

Standard Chartered Bank ratings upgraded

Moody's Investors Service upgraded the long-term deposit and senior debt ratings of Standard Chartered Bank to 'A1' from 'A2' as well as its Bank Financial Strength Rating to 'B-' from 'C+'. It also upgraded the bank's long-term senior debt rating to 'A2' from 'A3'. All the ratings carry a 'stable' outlook. It attributed the upgrade to Standard Chartered's improving capitalization as a result of its \$5.2bn rights issue launched in October, as well as to the group's improving diversification and the franchise gains it has made during the global financial crisis.

The agency said the rights issue brings the capitalization of Standard Chartered more in line with other highly-rated emerging market banks. It added that the bank will be strongly positioned to accommodate increases in regulatory capital requirements, including any additional buffers that may be imposed for counter-cyclicality and systemic importance, as well as to support its strong organic growth on the back of favorable economic conditions in its core markets in Asia, the Middle East and Africa. Standard Chartered Bank has been present in the Lebanese market since 1999 when it acquired Metropolitan Bank sal. It operates through its fully-owned subsidiary Standard Chartered Bank sal and has three branches in the country. Further, Moody's expected Standard Chartered to operate with a structurally higher level of capital than before the crisis. It considered this to be positive because emerging market economies tend to experience pronounced cycles over time, and because emerging market banks tend to have high single-name exposure concentrations. Standard Chartered Bank is present in 50 emerging markets and developing economies.

Balance sheet of investment banks posts 15% growth year-to-September

Figures released by the Central Bank show that the consolidated balance sheet of investment banks in Lebanon reached LBP 8,901bn or \$5.9bn, at the end of September 2010, constituting an increase of 15.1% from end-2009 and a rise of 21% from end-September 2009. Liabilities to the private sector reached \$3.91bn, up 20.3% from end-2009 and up by 27.8% year-on-year. Commitments to the financial sector reached \$587.9m at the end of September, representing a decrease of 21.1% from end-2009 and a decrease of 17.6% year-on-year.

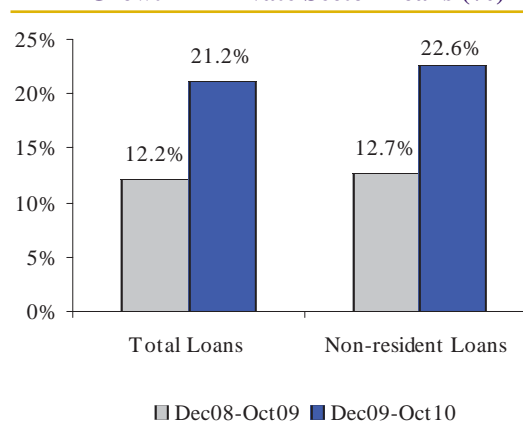
On the assets' side, investment banks' operations with commercial banks reached \$3.23bn at end-September 2010, up 18% from end-2009 and up by 26.6% from end-September 2009. Lending to the private sector reached \$1.1bn, constituting an increase of 8.9% from end-2009 and up by 15.5% year-on-year. Investments in government securities totaled \$1.24bn at end-September 2010, up by 12.7% from end-2009 and up 12.1% from end-September 2009. Further, the aggregate capital account of investment banks reached \$725.1m at the end of September, up 15.5% from the end-2009 and up by 15% from \$627.9m a year earlier.

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

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$126.6bn at the end of October 2010, constituting an increase of 9.9% from end-2009 and up 13.5% from end-October 2009. Private sector deposits totaled \$104.2bn, up by 8.8% from end-2009 and by 12.7% from end-October 2009. Deposits in Lebanese pounds reached \$38.9bn, increasing by 14.3% from end-2009 and by 21.6% year-on-year, while deposits in foreign currencies reached \$65.3bn and rose by 5.7% from the end of last year and by 8% from end-October 2009. Non-resident foreign currency deposits totaled \$14.5bn at end-October 2010, increasing by 2.1% from end-2009 and by 7.3% 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, \$1.14bn in September and \$331m in October 2010. In parallel, deposits of non-resident banks reached \$5.1bn, up 10.8% from end-2009 and up 9.8% from end-October 2009. The dollarization rate of deposits reached 62.7% at the end of October, down from 64.5% at end-2009 and from 65.4% a year earlier. Further, the average deposit rate in Lebanese pounds reached 5.72% in October compared to 6.86% a year earlier, while the same rate in US dollars was 2.81%, down from 3.18% in October 2009.

Loans to the private sector amounted to \$34.4bn, constituting an increase of 21.2% from end-2009 and up 22.4% year-on-year. The dollarization rate in private sector lending reached 81.1% compared to 84% at end-2009 and 84.8% a year earlier. The average lending rate in Lebanese pounds was 8.15% in October 2010 compared to 9.32% a year earlier, while the same average in US dollars was 7.08% compared to 7.28% in October 2009. Claims on the public sector stood at \$28.6bn, up 1.4% year-on-year and down by 1.7% from end-2009, and accounted for 45.3% of the banking sector's total claims. The ratio of private sector loans to deposits in foreign currencies stood at 42.7%, well below the Central Bank's limit of 70%, and above the ratio of 39.4% a year earlier. In parallel, the same ratio in Lebanese pounds was 16.7%, up from 13.3% a year earlier. The ratio of total private sector loans to deposits stood at 33%, compared to 30.4% a year earlier. The banks' aggregate capital base stood at \$9.1bn, up 14.2% from end-2009 and up 17.5% from \$7.72bn in October 2009.

Growth in Private Sector Loans (%)



Source: Association of Banks in Lebanon

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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