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LEBANON THIS WEEK

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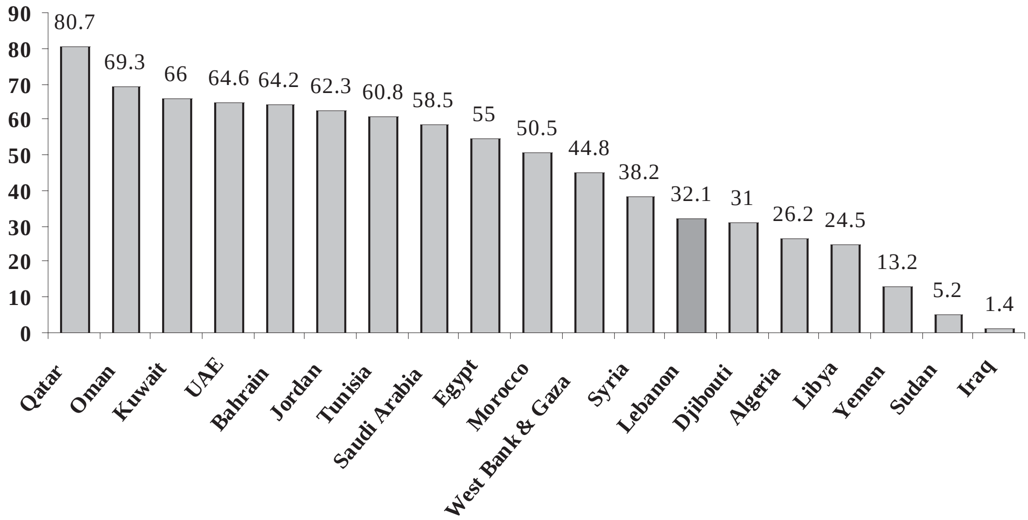
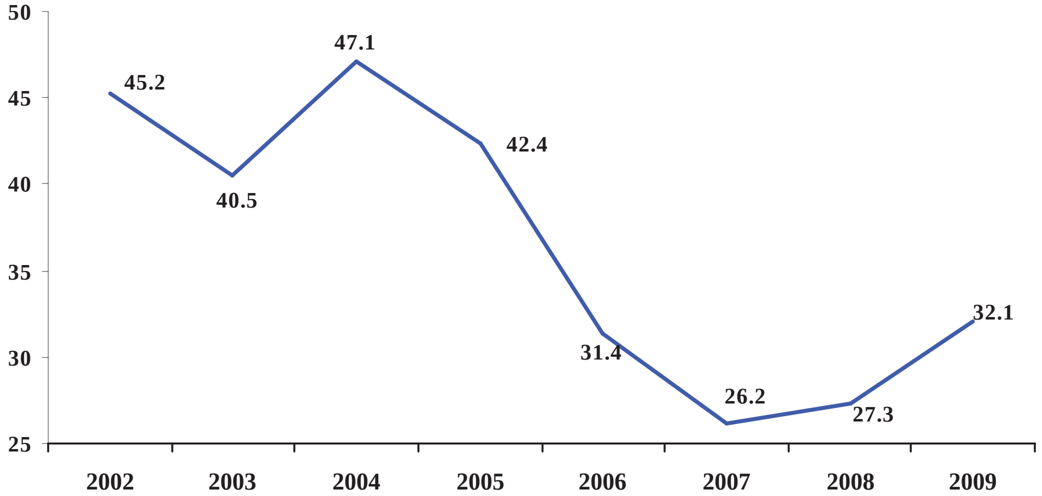
Charts of the Week

Rule of Law Indicator of Arab Countries in 2009 in Percentile Rank



Rule of Law Indicator for Lebanon in Percentile Rank



Source:World Bank Governance Indicators

Quote to Note

"A functional and cohesive government able to formulate policies and execute decisions."

Barclays Capital, on the basic requirement to sustain high levels of economic growth and implement fiscal and economic reforms in Lebanon

Number of the Week

2,752,580: Number of mobile phone subscribers in Lebanon at the end of September 2010, according to the Telecommunications Ministry Economic Forum's

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
In months of Imports	*15.03*	*18.57*	*19.96*	*18.92*	*19.5*	*21.7*	*16.86*
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
Solidere "A"	18.38	(0.65)	150,896	14.4%
Solidere "B"	18.05	(1.85)	23,630	9.35%
Byblos Common	1.76	(1.12)	71,142	5.04%
Byblos Priority	1.78	0.00	0	2.92%
Byblos Pref. 08	102.50	0.49	4,000	1.63%
BLOM GDR	10.24	0.29	20,377	6.03%
BLOM Listed	9.50	0.00	31,741	16.27%
Audi GDR	9.08	0.00	0	7.36%
Audi Listed	8.00	(0.25)	16,350	21.93%
HOLCIM	17.05	(0.23)	2,000	2.65%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
May 2011	7.875	101.75	2.56
Mar. 2012	7.500	104.75	3.09
Sep. 2012	7.750	107.00	3.30
June 2013	8.625	111.25	3.48
Apr. 2015	10.000	120.25	4.76
Jan. 2016	8.500	115.00	4.92
May 2016	11.625	127.50	5.30
Mar. 2017	9.000	119.50	5.14
Nov. 2018	5.150	98.75	5.23
Apr. 2021	8.250	114.50	6.11

Source: Byblos Capital Markets

	December 13-18	December 6-11	% Change	November 2010	November 2009	% Change
Total Shares Traded	333,605	408,432	(18.32)	15,207,803	4,512,808	237
Total Value Traded	$4,645,634	$4,910,767	(5.4)	$55,744,061	$106,395,792	9.00
Market Capitalization	$12.55bn	$12.60bn	(0.37)	$12.54bn	$12.55bn	898

Source: Beirut Stock Exchange (BSE)

Lebanon in the News

Finance Ministry issues long-term debt in Lebanese pounds

The Ministry of Finance declared that it has issued a seven-year LBP 1,500bn bond denominated in Lebanese pounds that carries a coupon rate of 7.9%. Byblos Bank sal acted as the sole Lead Manager for the issuance, which constitutes the longest maturing issue to date in the domestic currency. The issue took 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. The bond, which matures in December 2017, helps the government further shift the financing of the deficit and the composition of the public debt from foreign currencies to Lebanese pounds.

There are LBP 45,444bn, or $30.1bn, in outstanding government securities denominated in Lebanese pounds as at the end of November 2010. The three-year maturities total LBP 31,435bn and account for 69.2% of the total, followed by five-year maturities of LBP 7,288bn (16%), two-year maturities of LPB 3,413bn (7.5%), 6-month maturities of LBP 1,664 (23.7%) and three-month maturities of LBP 123bn (0.3%). The weighted interest on the securities is 7.75% and their weighted life is 566 days. 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 October. Further, the weighted life on Eurobonds was 4.67 years, while that on Treasury bills was 575 days. The public debt is forecast to reach 136% of GDP at the end of 2010, down from 150% of GDP at end-2009.

Government releases national accounts for 2009, official real GDP growth at 8.5%

The government released national economic data covering 2009 that provide official figures of gross domestic product (GDP), its structure and components, as well as figures on gross national income (GNI) and gross national disposable income (GNDI). The economic data covering the year 1997 served as the base year for computing the national accounts from 1998 onwards. The findings show that GDP was LBP 52,650bn ($34.9bn) in 2009, reflecting a real GDP growth of 8.5% in 2008. National expenditures stood at LBP 67,106bn ($44.5bn) in 2009 relative to LBP 58,514bn ($38.8bn) in 2008, resulting in a negative trade balance of LBP 14,455bn ($9.6bn) in 2009 compared to LBP 13,167bn ($8.7bn) in 2008. Also, the results show that private consumption grew by 8.3% in 2009 compared to 9.5% in 2008, while public consumption grew by 8.6% in 2009 unchanged from 2008. Further, private investments jumped by 38.1% in 2009 compared to 20.4% in 2008, while public investments increased by 8.4% in 2009 relative to a decline of 5.9% in 2008.

The study infers that GDP alone cannot measure the level of economic activity and estimated GNDI at LBP 68,400bn ($45.4bn) for 2009 by adding foreign transfers and income earned abroad to GNI figures. Net current transfers totaled $9.6bn in 2009 compared to $7.82bn and in 2008. In parallel, the trade deficit has always been covered by foreign revenues and transfers, which contributed to the financing of the national economy through the formation of household savings. The figures were compiled by the National Accounts Unit at the Presidency of the Council of Ministers with the technical assistance of French research organization L'Institut National de la Statistique et des Etudes Economiques (INSEE). The government has now compiled national accounts for the 1997-2009 period.

GDP Distribution by Sector

	2008		2009	
	Value (LBP bn)	**% of Total**	**Value (LBP bn)**	**% of Total**
Commercial Services	14,981	33	16,549	31
Trade	11,778	26	14,531	28
Construction	6,090	13	7,012	13
Government	4,270	9	4,766	9
Transportation & Communications	3,376	7	4,026	8
Industry	3,545	8	3,947	7
Agriculture & Livestock	2,646	6	2,574	5
Energy & Water	-1341	-3	-756	-1
Total GDP	45,346	100	52,650	100

Source: National Accounts, Byblos Research

Lack of regulation, shortage of funds and unreliable data are key obstacles to the development of microfinance

The United Nations Economic and Social Commission for Western Asia (ESCWA) indicated that the microfinance sector in Lebanon has seen substantial growth in recent years and is expected to continue to expand. It said, however, that the industry remains underdeveloped and suffers from a lack of regulation, measurement problems and a lack of reliable data. It noted that donor money is in short supply due to the global economic downturn, making it increasingly difficult for MFIs, which depend on donations, to get money. It added that, rather than create new microfinance institutions (MFIs), it would be more appropriate to upgrade and improve existing ones. The International Finance Corporation estimated the microfinance market in Lebanon at $286m, with only 11.5% of demand met by existing financing sources.

The UN agency noted that the Lebanese government has adopted a laissez-faire attitude about microfinance, as there are no laws regulating the industry and the government has no clear role in the sector. It added that micro-lending is not explicitly regulated by any authoritative legal text, with the Ministry of Interior & Municipalities, rather than the Ministry of Finance or the Central Bank of Lebanon, currently supervising all MFIs that work in the sector. It said the only form of government support has come from the Central Bank, which issued a directive allowing local banks to use 5% of their required reserves for microfinance initiatives. However, the Central Bank has been unresponsive to requests to use this liquidity.

It added that MFIs have inherent weaknesses in terms of micro-credit provision. They are bound by the legal provisions and restrictions to charitable organizations and, consequently, have limited access to funds since Lebanese charities are not allowed to take deposits. Further, their legal structure makes it difficult to access funds from the financial sector in the form of loans. As such, MFIs depend greatly on donor funds, which translate into a lack of stability in access to credit. They also face a greater financial risk in case of default due to the absence of regulations. These factors greatly contribute to limit their growth potential.

The ESCWA indicated that the government should play a critical role by implementing effective policies to ensure the soundness of financial service providers, minimize market distortions, and make MFIs subject to the supervision and regulatory requirements of the Central Bank. It specified that the government should develop a proper legal environment through appropriate and enforceable credit laws as well as appropriate institutional regulations. It said proper laws would facilitate collection and increase accountability of the client, and must allow for cost-effective enforcement through the courts and on the ground. It noted that another important role for the government is information sharing through the development of an adequate credit bureau or Centrale des Risques to allow for the sharing of information between various organizations on delinquent clients. It also encouraged promoting best practices within the context of information sharing that include the lifting of subsidies on interest rates; implementing policies that encourage small loans with short maturities; the delivery of services in a market-oriented manner; promoting partnerships between donors and the private sector; and having long-term action plans. It noted that there is an urgent need for human resource development in the sector, specifically in advisory services and training on best practice in credit methodology and marketing. It stressed the need for additional funding to help providers expand their product portfolios and reach in the regions, therefore increasing access to finance.

World Bank approves $200m loan for Beirut water project

The World Bank's Board of Directors approved a $200m loan for Lebanon to help finance the Greater Beirut Water Supply Project. The $370m project aims to increase access to drinkable water to around 1.5 million people in the Greater Beirut region. The World Bank indicated that water supply in Lebanon has not kept pace with demand and lags far behind the standards associated with the country's level of economic development. It estimated the annual cost of inadequate public water supply at $433m, equivalent to 1.8% of GDP per year, including $380m in household spending on private water supply. It added that despite relatively high connection rates, the continuity of water supply is low and reaches as little as three hours a day in the Beirut-Mount Lebanon region, which houses about 40% of the Lebanese population. It estimated that the seasonal imbalance of water resources will lead to chronic water shortages by as early as 2020 if no measures are taken to improve efficiency and to increase storage capacity. The project will build the infrastructure required for the intake, treatment, conveyance and storage of water to meet the daily demand for 250,000 cubic meters of potable water. The new supply will reach residents of Baabda, Aley, parts of Metn, the Southern Beirut and Mount Lebanon.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. The loan is for 23 years and includes a 6-year grace period. The Beirut & Mount Lebanon Water Authority will provide $140m, while land appropriation will cost an additional $30m.

Deposit inflows to slow down, lending to remain strong, interest spreads to improve in 2011

Regional investment bank EFG Hermes expected deposit inflows in the Lebanese banking sector to slow down, loans growth to remain in double-digits, and for net interest spreads to improve in 2011. It indicated that the Lebanese banking sector has seen very strong deposit growth rates over the past two years, driven by private sector deposits, and particularly by large deposit inflows from Lebanese expatriates who have been historically a recurrent driver of Lebanese banks' deposit growth. It said that additional factors driving deposit growth have been the large interest rate differential between interest rates paid on deposits by Lebanese banks and rates paid by their counterparts in Europe, U.S. and the Gulf; a flight to quality since the onset of the global financial crisis; and improved security conditions in Lebanon following the election of a new president in May 2008 and the formation of a new Cabinet in November 2009. As such, it expected a deceleration in deposit growth after record-high growth rates in 2008 and 2009, and estimated average deposit growth of 14% in 2011 compared to 15% in 2010.

It noted that Lebanese banks have reported strong loan growth in 2009, well above the average growth rates for MENA banks. It said corporate and retail loan growth has been mainly domestically driven. It expected lending growth to continue to be driven by domestic demand, both in the retail and corporate segments, but anticipated a slowdown relative to 2010 as domestic companies delay some of their investment plans due to the uncertain political backdrop. It also forecast private consumption to slowdown in 2011 due to the weakening of consumer confidence since July 2010. It added that loan growth will also be driven by the banks' expansion in the MENA region and in emerging markets. It expected the trends in deposits and lending to result in a slight improvement in the banks' asset mix, and anticipated the loans-to-deposits ratio to increase by three percentage points on average for the top three Lebanese banks.

EFG Hermes added that Lebanese banks enjoy higher levels of balance sheet liquidity than most of their MENA peers, with the majority of this liquidity invested in short-term interbank placements and denominated in foreign currency, mainly in US dollar. It noted that Lebanese banks' net interest spreads fell in 2009, reflecting the decline in US dollar LIBOR and the fact that US dollar deposit rates have declined, but not by the same extent as interbank rates. It said this "negative carry" is not new for Lebanese banks, as the fragile political conditions in Lebanon and the need to maintain deposits inflows have meant that rates on US dollar deposits have been traditionally high as they include an embedded risk premium. But it noted that the spread between LIBOR rates and US dollar rates paid by Lebanese banks is now at the highest level of the past five years, suggesting there is further room for Lebanese banks to lower deposit rates. It expected an improvement in net interest spreads in 2011 on lower funding costs. It anticipated a continued reduction in Lebanese pound deposit rates to compensate for the decline in yields on Treasury-bills; as well as a slight decline in US dollar deposit rates along with flat LIBOR rates. It added that the upside for net interest spreads is large if benchmark rates increase towards the end of 2011.

Opened letters of credits at $3.9bn for imports and $3.2bn for exports in first 9 months of the year

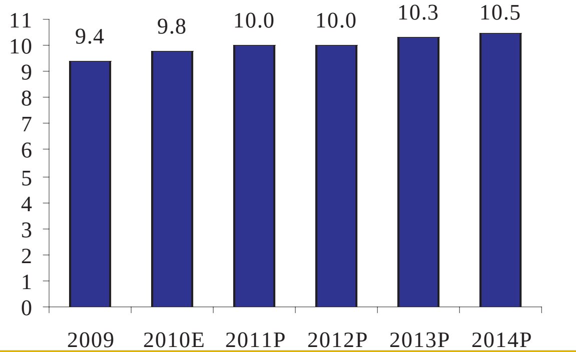
Figures issued by the Central Bank indicate that the value of letters of credits opened to finance imports totaled $3.9bn in the first 9 months of 2010, constituting an increase of 23.8% from $3.1bn the first 9 months of 2009, while they totaled $1.35bn in the third quarter, up 9.4% from $1.2bn in the third quarter of 2009. Utilized credits for imports totaled $3.7bn in the first 9 months of this year, up 20.8% from $3.1bn in utilized credits in the same period of last year, while they totaled $1.26bn in the third quarter of the year constituting an increase of 10.5% from $1.1bn the same period last year. Utilized import credits accounted for 96% of the total in the first 9 months compared to 98.2% in the same period last year while they accounted for 93.2% of the total in the third quarter compared to 92.3% in the third quarter of 2009. Also, outstanding import credits totaled $945m at the end of September 2010 compared to $877m at end-2009 and $820m at end-September 2009. Further, the aggregate value of inward bills for collection totaled $1.75bn in the first 9 months of 2010 compared to $1.45bn in the first 9 months of 2009 while they totaled $657.7m in the third quarter relative to $563.3m in the third quarter of 2009. Outstanding bills reached $157.7m at end-September 2010 relative to $156m at end-2009 and $127.4m at end-September 2009.

In parallel, the value of documentary letters opened to finance exports totaled $3.2bn in the first 9 months of 2010, constituting an increase of 28.4% from $2.5bn in the first 9 months of 2009, while they totaled $1.1bn in the third quarter of the year, up 31% from $836.9m in the same period last year. Utilized credits for exports totaled $2.8bn in the first 9 months, up 13.4% from $2.5bn in utilized credits in the first 9 months of 2009, while they totaled $873m in the third quarter of 2010 constituting a drop of 2% from $891m in the same period last year. Further, outstanding export credits totaled $1.5bn at the end of September 2010, up from $1.2bn at end-2009 and compared to $1.4bn at end-September 2009. Further, the aggregate value of outward bills for collection totaled $3.8bn in the first 9 months of this year, up from $3.65bn from the first 9 months of 2009, while they totaled $1.17bn in the third quarter of the year, down 2.2 % from $1.2bn from the third quarter of 2010. Outstanding bills reached $357.6m at end-September relative to $279m at end-2009 and $298m at the end of September 2009.

Lebanon's home care market at $10m in 2010, to grow by 2.2% during 2009-14

Euromonitor International estimated the size of the household cleaning market in Lebanon at $9.8m in 2010, constituting an increase of 4% from $9.4m in 2009. The home care industry includes laundry care, surface care, air care, and bleach products. The Lebanese market accounts for 0.8% of the total Arab market size of $1.25bn for such products, ranking it in eighth place among 11 Arab countries, ahead of only Qatar, Bahrain and Yemen. The aggregate size of the Arab market is estimated to have contracted by 1.3% in 2010. The Lebanese market is projected to grow by a compound annual growth rate of 2.2% during the 2009-2014 period compared to a CAGR of 0.3% for the overall Arab market. Further, the Lebanese market is forecast to reach $10.5m in 2014, representing 1% of the Arab market.

Lebanon's home care market size



Source: Euromonitor International, Byblos Research

The size of the Lebanese laundry care market reached $3.4m in 2010, growing by 6.2% year-on-year and constituting the fifth highest growth rate of this segment in the Arab world. Lebanon accounts for 0.4% of the $918m Arab laundry care market in 2010, constituting the fourth smallest Arab market in this segment. Further, Lebanon's laundry care market is forecast to grow at a marginal CAGR of 0.4% in the 2009-2014 period, while the Arab market is expected to contract by 0.1% over the covered period.

The size of the Lebanese surface care market reached $3.6m in 2010, growing by 3% year-on-year and constituting the seventh highest growth rate of this segment in the Arab world. Lebanon accounts for 2.2% of the $166m Arab market in 2010, constituting the fourth smallest Arab market in this category. Also, Lebanon's surface care market is projected to grow at a CAGR of 2.2% in the 2009-2014 period compared to 2% for the aggregate Arab market.

The size of the Lebanese air care market reached $1.7m in 2010, growing by 6.3% year-on-year and constituting the fastest growth rate of this segment in the Arab world. Lebanon accounts for 2% of the $85m Arab market in 2010, constituting the sixth largest Arab market for this segment. Also, Lebanon's air care market is projected to grow at a CAGR of 2.4% in the 2009-2014 period, faster than the 1.3% rate for the aggregate Arab market.

Finally, the size of the bleach market in Lebanon reached $1.1m in 2010, unchanged year-on-year, similar to the trend of this segment in the Arab world. Lebanon accounts for 1.4% of the $81m Arab market in 2010, constituting the third smallest Arab market in this segment. Also, Lebanon's bleach market is projected to remain stagnant in the 2009-2014 period compared to a CAGR of 1.3% for the overall Arab market.

In parallel, advertising spending in Lebanon on homecare products totaled $49.2m last year, accounting for 18% of overall ad expenditures in the Arab world and for 60% of ad spending when excluding such spending in pan Arab media. The figures show that the Lebanese market for home care products is very competitive despite its relatively small size, as advertising expenditures jumped by 82% year-on-year domestically compare to a rise of 32% in Arab markets.

Construction and public work activity down in third quarter of 2010

The Central Bank's quarterly business survey indicated that construction decreased during the third quarter of 2010, with a balance of opinion standing at +11, compared to +33 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. For public work, the balance of opinion stood at -11 in the third quarter of 2010 compared to +3 in the same quarter of 2009. The balance of opinion for the general activity decreased from +6 during the third quarter of 2010, compared to +30 during the same quarter of 2009. The balance of opinion for construction costs increased from +47 to +49 in the same period. The balance of opinion is the difference between the proportion of managers out of total surveyed managers estimating that there has been an improvement in the said variable and the proportion of those who have reported a decline in the variable.

Construction and Public Work Activity: Year-on-year evolution of opinions

Aggregate results	Q3-07	Q3-08	Q3-09	Q3-10
General activity	-7	14	30	6
Construction	-2	14	33	11
Public work	-26	-18	3	-11
Portfolio of projects	-20	-3	11	5
Construction costs	57	51	47	49
Investments (% of yes)	31%	39%	47%	35%

Source: Central Bank Business Survey Q3-10

Lebanon raLebanon is the most democratic Arab country, ranks 86th globally

The Economist Intelligence Unit's 2010 Democracy Index ranked Lebanon in 86th place among 167 countries worldwide, and in first place among 20 Arab countries. Lebanon came in 89th place globally, in 2nd place among Arab countries in the 2008 index. Lebanon also ranked in 26th place among 37 Upper Middle Income countries (UMICs) included in the current survey. The index measures 60 indicators that are grouped in five categories that are Electoral Processes and Pluralism, Civil Liberties, the Functioning of Government, Political Participation, and Political Culture. Each category is rated on a scale from zero to 10, with the overall index calculated as a simple average of the five sub-indices. The survey also placed countries in five categories of political freedoms that are full democracies, flawed democracies, hybrid regimes and authoritarian regimes.

Globally Lebanon ranked ahead of Ecuador, Honduras and Turkey, and came immediately behind Malawi, Albania and Bangladesh. It also ranked ahead of Turkey and behind Macedonia among UMICs. Lebanon received a score of 5.82 points, above the global average of 5.56 points and well above the MENA and Arab averages of 3.49 points and 3.26 points, respectively, but lower than the UMICs average of 6.03 points. Lebanon's ranking improved by three spots, while its score rose by 0.2% from the 2008 survey. Lebanon was one of three Arab political systems in the region to fall to the "Hybrid Regimes" categories, while the rest were classified as "Authoritarian".

Lebanon tied with 6 countries that included Luxembourg, the Czech Republic and Slovenia, ranked ahead of Spain and came behind South Africa on the Political Participation sub-index. It also tied with Namibia ranking second to South Africa and ahead of Costa Rica among UMICs in this category. Lebanon came ahead of Iraq, tied with Nepal, Israel, Tanzania, Kyrgyz Republic, Kenya, Kazakhstan, Sierra Leone and Pakistan, and came behind Armenia on the Civil Liberties sub-index. It also ranked ahead of Russia, tied with Kazakhstan and came behind Venezuela among UMICs.

Also, Lebanon tied with Bolivia, Guyana and Turkey, came ahead of Ecuador and ranked behind Mali on the Electoral Process and Pluralism sub-index. It tied with Turkey, ranked ahead of Montenegro and came behind Macedonia among UMICs. Further, Lebanon tied with 34 countries that included Slovakia, Croatia and Peru, ranked ahead of India and came behind Myanmar on the Political Culture sub-index. It also ranked ahead of Poland and behind Algeria among UMICs. Finally, it tied with Ethiopia and Venezuela, ranked ahead of Bahrain and came behind Mauritania on the Functioning of Government sub-index. It also came ahead of Bosnia & Herzegovina and behind Cuba among UMICs. The report stated that the MENA region is the most repressive region in the world with only three countries categorized as having non-authoritarian regimes, adding that it has much lower levels of democratization than could be inferred on the basis of income levels.

Arab Countries Rankings & Scores

	Score	Arab Rank	Global Rank
Lebanon	**5.82**	**1**	**86**
Palestine	5.44	2	93
Iraq	4.00	3	111
Kuwait	3.88	4	114
Mauritania	3.86	5	115
Morocco	3.79	6	116
Jordan	3.74	7	117
Bahrain	3.49	8	122
Algeria	3.44	9	125
Qatar	3.09	10	137
Egypt	3.07	11	138
Oman	2.86	12	143
Tunisia	2.79	13	144
Yemen	2.64	14	146
UAE	2.52	15	148
Sudan	2.42	16	151
Syria	2.31	17	152
Djibouti	2.2	18	154
Libya	1.94	19	158
Saudi Arabia	1.84	20	160

Source: Economist Intelligence Unit, Byblos Research

Components of the Democracy Index for Lebanon

	Global Rank	Arab Rank	UMICs Rank	Lebanon Score	Global Average Score	Arab Average Score	UMICs Average Score
Civil Liberties	98	1	29	5.59	6.27	3.41	7.29
Political Participation	19	2	2	6.67	4.57	3.08	4.87
Electoral Process and pluralism	70	1	23	7.92	5.94	2.05	7.24
Political Culture	80	5	15	5	5.52	4.75	5.27
Functioning of Government	109	5	28	3.93	5.01	2.99	5.48

Source: Economist Intelligence Unit, Byblos Research

Foreign investments of financial sector at $4.3bn at September-2010, commercial banks account for 63% of debt securities and financial institutions for 28% of equity investments

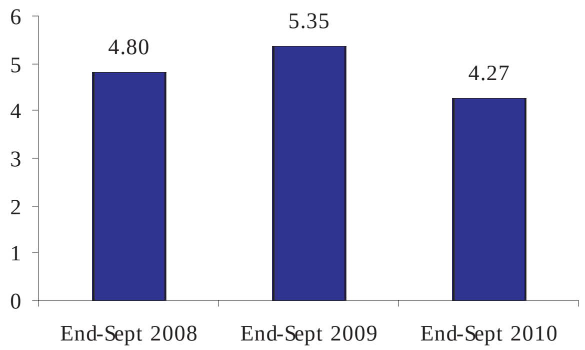
Figures issued by the Central Bank show that the net investment portfolio of Lebanese banks and financial institutions in foreign debt and equity securities totaled $4.27bn at September-2010, constituting a decrease of 20% from $5.35bn in the same period last year. Investments in long-term debt securities totaled $2.23bn at September 2010, accounting for 52.1% of the total, followed by investments in equities with $1.94bn, or 45.4% of the total, while short-term debt securities accounted for $105 or 2.45% of the total. According to the Central Bank, the figures cover the net assets of resident financial institutions in tradable debt and equity instruments of non-resident issuers. They help provide a clearer picture about the flow of funds from Lebanon and, therefore, about balance of payments data.

The distribution of investments by institutions indicates that commercial banks' net portfolio in foreign long-term debt securities totaled $1.4bn, accounting for 63.4% of total investments in such securities at September 2010. The figure includes banks' investment for their own account, for their clients and on a custodial basis. They were followed by medium and long-term banks with $597.7m (27%), financial institutions with $213.5m (9.6%), financial intermediaries with $4.2m (0.19%) and insurance firms with $2m (0.01%). Commercial banks also represented 99.4% of investments in short-term debt securities, followed distantly by medium and long-term banks with 0.4%.

In parallel, financial institutions' net assets in equity securities totaled $1.1bn, accounting for 28% of total investments in such securities. They were followed by medium and long-term banks with $433m (22.3%), commercial banks with $394.2m (20.3%), financial intermediaries with $9.95m (0.5%) and insurance firms with $5.84m (0.3%).

The distribution of investments by destination shows that the United States was the leading recipient of equity investments by financial institutions operating in Lebanon, reaching $1.21bn and accounting for 62.3% of the total at September 2010. It was followed by Bahrain with $134.6m (7%), France with $127m (6.6%), Jordan with $76m (3.9%) and Saudi Arabia with $72m (3.7%), while other countries accounted for the remaining 16.6%. In parallel, the United Kingdom accounted $448m, or 20% of investments in long term debt securities, followed by the United States with $261m (11.7%), the UAE with $250.6m (11.3%), Luxembourg with $176.4m (8%), and France with $161m (7.2%), while other countries accounted for the remaining 41.7%. Further, the United States accounted for 34.6% of investments in short-term debt securities, followed by the United Kingdom with 28% and Switzerland with 10.6%.

Foreign Investments of Financial Sector ($bn)



Source: Central Bank, Byblos Research

Number of tourists up 18% in first 11 months of 2010

The number of incoming tourists to Lebanon totaled 2,015,755 in the first 11 months of 2010, constituting an increase of 17.6% from 1,713,430 tourists in the same period last year. Arab tourists accounted for 34.4% of total visitors and were followed by visitors from Europe with 22.5%, Asia with 21.6%, the Americas with 12.5%, Africa with 6.2%, and Oceania with 2.8%. The number of tourists reached 1633,833 in November 2010, constituting an increase of 18% from 138,940 in November 2009. Tourists from Arab countries accounted for 44.1% of total visitors in November 2010, followed by visitors from Europe with 23.6%, Asia with 18%, the Americas with 9.3%, Oceania with 3% and Africa with 2%. 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.

Economy Ministry receives $6m to support WTO accession and export competitiveness

The Ministry of Economy & Trade and the U.S. Agency for International Development signed two Memoranda of Understanding (MOU) of $3m each to support the country's trade regime. The first MOU is for three years and aims at supporting Lebanon's accession to the World Trade Organization by bringing its foreign trade regime in conformity with WTO agreements through technical assistance. The second MOU, which is also for three years, aims to upgrade the development and testing laboratories of the chambers of commerce of Saida, Tripoli and Zahlé. The project's objective is to help agro-industrial firms comply with international standards and make their products more marketable in foreign markets.

Economy Ministry expands anti-piracy capabilities

The Ministry of Economy & Trade and the Brand Protection Group, an association against product counterfeiting, announced the implementation of a new software-based system that would expand by five times the ministry's capacity to fight product piracy. The ministry stated that the new system will help it expand the area of product surveillance systems in Lebanon as well as facilitate follow-ups on surveillance practices. The system consists of a new cutting-edge product supervision technology, ArGIS 10, that includes tools based on geographic information systems. The ministry expects to increase the number of its surveillance devices as well as to expand the system's reach outside Beirut and Mount Lebanon. The project is joint initiative of the U.S. Agency for International Development and Esri, the firm that developed the ArcGIS software.

Industrial exports up 35% to $2.94bn in first 10 months of 2010

Figures released by the Ministry of Industry show that industrial exports reached $2.94bn in the first 10 months of 2010, constituting an increase of 35.4% from $2.17bn in the same period last year. Industrial exports reached $377m in October 2010, up by 52.6% from September 2010 and up by 55.8% from October 2009. Machinery and mechanical appliances accounted for $628m, or 21.35% of total industrial exports in the first 10 months of 2010, followed by pearls & precious or semi-precious stone with $563m (19.1%) and base metals & articles of base metals with $382m (13%). In parallel, imports of industrial equipment and machinery reached $196m in the first 10 months of the year, up 17% from the same period in 2009. Italy was the main source of imports of industrial equipments, accounting for 27.5% of total, followed by China with 16.8% and Germany with 15.5%.

Corporate Highlights

EFG Hermes maintains 'Buy' recommendation on Byblos Bank stock, sees 28% upside

Regional investment bank EFG Hermes reiterated its long term 'Buy' recommendation on Byblos Bank's stock, adding that the share price has a 28% upside potential under its long term fair value price of $2.27 per share. It said the valuation of Byblos Bank's share price makes it the least expensive banking stock in the Middle East & North Africa region, excluding the UAE. It indicated that Byblos has been growing rapidly over the past few years due to its regional expansion in countries with low banking penetration or with a large base of Lebanese expatriates. It expected the Bank to use its recent capital increase of $250m to strengthen its existing regional operations by increasing the capital at some subsidiaries, and to actively seek potential acquisition opportunities in new markets. It added that the Bank plans to participate in domestic consolidation to increase its local market share to 15% from 10% currently. EFG Hermes expected the Bank's returns and profitabilitiy to gradually improve over the medium term due to the contribution from its foreign entities and its focus on increasing exposure to fee income-generating activities, particularly trade finance. It noted that the Bank has shown a tight control on costs despite its regional expansion. It forecast earnings to increase by a CAGR of 20% in 2009-2012 and for net attributable income to reach $337m in 2012. It projected the Bank's return on assets to improve to 1.05% in 2012 from 0.9% in 2010; and for return on average equity to rise to 19.3% in 2012 from 16.8% in 2010.

It noted that loan-loss provisioning charges remained low at an estimated 0.4% of average gross loans on an annualized basis, while provisions are equivalent to 134% of NPLs, the highest such ratio by far among the top 3 Lebanese banks. It added that NPLs are equivalent to 2.6% of total loans, lowest among Lebanon's top 3 banks, and expected the ratio to decline further. It estimated Byblos Bank's capital adequacy ratio at 13.2% at end-2010, well above the minimum 8% required by the Central Bank. EFG Hermes indicated that some of Byblos Bank's strengths include its strong consumer and SME franchise that places it in a strong position to benefit from domestic economic growth, as well as its aggressive expansionary strategy in markets where there is a large Lebanese Diaspora.

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 2010, 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.

Lebanese Banks Current Valuation Multiples

	P/E		P/BV		Div. Yield
	2010E	2011E	2010E	2011E	2010E
Byblos	7.8	6.4	1.0	0.9	7.2%
BLOM	7.4	6.3	1.5	1.3	3.9%
Audi	9.6	8.0	1.5	1.4	3.9%
Average MENA Banks (ex UAE)	11.5	9.4	1.8	1.6	3.5%

Source: EFG Hermes

Balance sheet of financial institutions posts 5% annual increase in September

Figures released by the Central Bank show that the consolidated balance sheet of financial institutions in Lebanon reached LBP 1,406bn, or $932.9m, at the end of September 2010, constituting a decrease of 2.8% from end-2009 but an increase of 4.8% from end-September 2009. Liabilities to the private sector reached $211.5m, up 15% from end-2009 and by 17.2% year-on-year. Commitments to the financial sector reached $353.7m at the end of September, representing a decrease of 8.9% from end-2009 and of 1.09% year-on-year.

On the assets' side, financial institutions' operations with commercial banks reached $290.9m at end-September 2010, down 9.2% from end-2009 and up by 4.6% from end- September 2009. Lending to the private sector reached $517.6m, constituting an increase of 11.6% from end-2009 and an increase of 15.4% year-on-year. Investments in government securities totaled $104.1m at end-September 2010, down 24.6% from end-2009 and 21.5% from end-September 2009. Further, the aggregate capital account of financial institutions reached $259.4m at the end of September, up 0.06% from the end-2009 and up by 2.6% from $252.7m at the end of September 2009. There are about 46 financial institutions operating in Lebanon.

Corporate Highlights

MEDGULF 's equity up 75% to $67m

The Mediterranean & Gulf Insurance & Reinsurance Company sal (MEDGULF), Lebanon's top insurance firm, released its consolidated balance sheet that shows total assets of $188m at end-2009, up 59.2% from $118m at end-2008, and shareholders' equity of $67.1m, constituting a 74.9% increase year-on-year. Technical provisions rose 61.5% to $155.7m, of which 22.5% were of the life fund. Unearned premium rose by 22.2% to $69.9m and outstanding claims increased by 52.9% to $44.1m. Also, provisions for risks and charges increased by 8% to $1.1m year-on-year. *Al-Bayan* magazine's annual survey of the insurance sector in Lebanon ranked MEDGULF in first and sixth place in 2009 in terms of non-life and life premiums respectively. The firm's non-life premiums reached $94.1m while life premiums amounted to $22.9m, constituting increases of 23.5% and 237.5%, respectively. It had a 13% share of the local non-life market and an 8.5% share of the life market.

Bankers Assurances' equity up 40% to $26.3m

Bankers Assurances sal, Lebanon's top 5 insurance firm, released its consolidated balance sheet that shows total assets of $116.5m at end-2009, up 45% from $80.4m at end-2008, and shareholders' equity of $26.3m, a 39.8% increase year-on-year. Technical provisions rose 18.5% to $54.6m, of which 7.7% were of the life fund. Unearned premium rose by 15.5% to $27.5m while outstanding claims declined by 8.6% to $13.4m. Also, the firm's provisions for risks and charges decreased by 21.3%year-on-yea to $0.61m at end-2009. *Al-Bayan* magazine's annual survey of the insurance sector in Lebanon ranked Bankers Assurances sal in second and tenth place in 2009 in terms of non-life and life premiums respectively. The firm's non-life premiums reached $67.5m and life premiums amounted to $8.8m in 2009, constituting increases of 11.5% and 87.4%, respectively, from the previous year. It had a 9.3% share of the local non-life market and a 3.3% share of the life market.

Bank Audi raises capital by $10m

Bank Audi sal, one of Lebanon's top 3 banks, indicated that its Extraordinary General Assemby confirmed the issuance of common shares for shareholders who exercised their stock options, the cancellation of about 8 million common shares that include Deposited Property linked to GDRs held by the bank's treasury, and the increase of the nominal value of all remaining shares by an amount equivalent to the nominal value of the cancelled shares. It also verified the implementation of the increase of the bank's share capital by issuing 12,317,460 common shares reserved to shareholders who exercised their stock options, and through the incorporation of general reserves. After the implementation of the above decisions, the bank's share capital increased by LBP 15.4bn to LBP 454.2bn.

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	Oct 2009	Sep 2010	Oct 2010	Change*	Risk Level
Political Risk Rating	56.5	59.5	58.5	↑	High
Financial Risk Rating	28.0	28.0	28.0	↔	High
Economic Risk Rating	35.5	35.5	35.5	↔	Low
Composite Risk Rating	60.0	61.5	61.0	↑	Moderate

Regional Average	Oct 2009	Sep 2010	Oct 2010	Change*	Risk Level
Political Risk Rating	65.1	64.6	64.5	↓	Moderate
Financial Risk Rating	42.0	42.2	42.3	↑	Very Low
Economic Risk Rating	34.8	38.2	38.2	↑	Low
Composite Risk Rating	70.9	72.5	72.5	↑	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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