



LEBANON THIS WEEK

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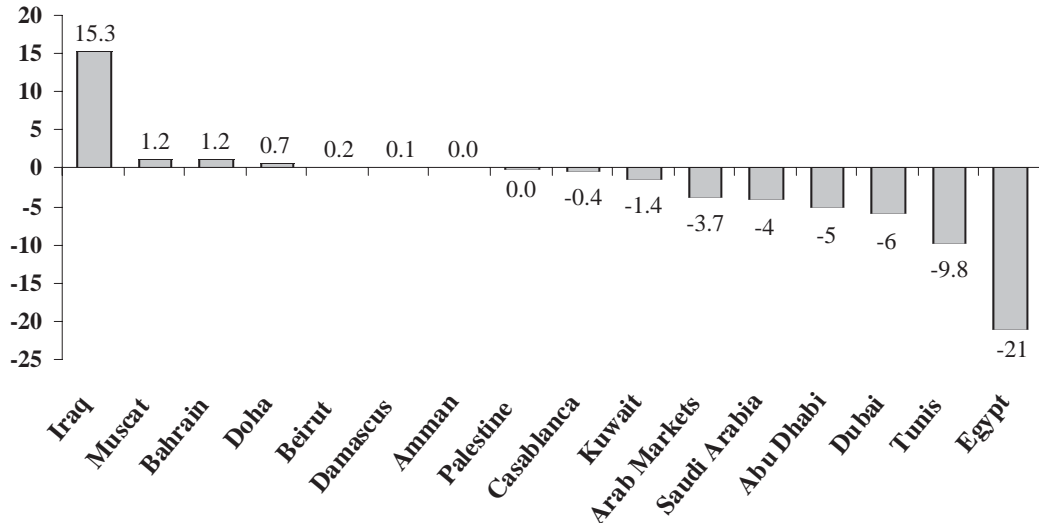
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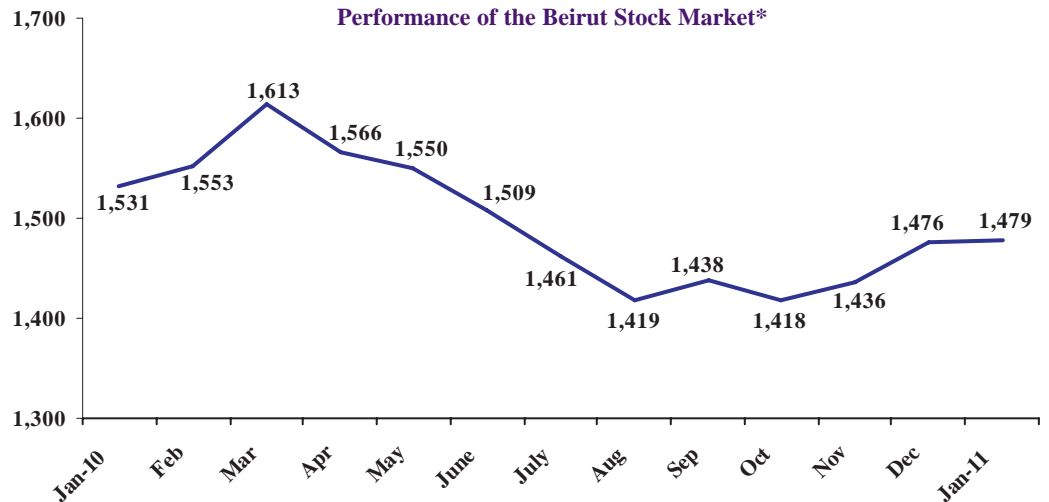
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Charts of the Week

Performance of Arab Stock Markets in January 2011 (%)



Performance of the Beirut Stock Market*



*BLOM Stock Index

Source: Local Stock Markets

Quote to Note

"It will prove difficult in the absence of a sustained and unified government effort to reduce the deficit, at a time when liquidity is under pressure."

Bill O'Neil, Merrill Lynch's Chief Investment Officer for Europe, the Middle East & Africa, on the risks to fiscal adjustment in Lebanon

Number of the Week

\$28.6bn: The Central Bank of Lebanon's gross foreign currency reserves at the end of 2010, as estimated by the Association of Banks in Lebanon

Economic Indicators

\$m (unless otherwise mentioned)	2008	Nov 09	2009	Sep10	Oct 10	Nov 10	% Change*
Exports	3,478	339	3,486	290	435	316	(6.78)
Imports	16,133	1,581	16,241	1,310	1,486	1,811	14.55
Trade Balance	(12,655)	(1,242)	(12,755)	(1,020)	(1,051)	(1,495)	20.37
Balance of Payments	3,462	280	7,899	186	(185)	(673)	(340.36)
Checks Cleared in LBP	9,350	850	11,122	1,124	1,849	1,626	91.29
Checks Cleared in FC	43,174	3,752	45,270	4,037	4,526	4,048	7.89
Total Checks Cleared	52,524	4,602	56,392	5,161	6,375	5,674	23.29
Budget Deficit/Surplus	(2,921)	(179)	(2,960)	(472)	(460)	(328)	83.24
Primary Balance	597	101	1,078	(44)	(118)	(32)	(131.68)
Airport Passengers	4,085,334	380,342	4,986,544	550,421	417,378	467,131	22.82
\$bn (unless otherwise mentioned)	Dec 2008	Nov 09	July 10	Sep 10	Oct 10	Nov 10	% Change*
BdL FX Reserves	17.06	24.81	27.42	28.46	28.20	27.74	11.81
<i>In months of Imports</i>	<i>15.03</i>	<i>15.69</i>	<i>18.92</i>	<i>21.7</i>	<i>18.9</i>	<i>15.3</i>	<i>(2.49)</i>
Public Debt	47.02	50.46	51.00	50.85	51.13	51.77	2.60
Net Public Debt	41.49	44.01	44.13	44.64	44.93	44.92	2.07
Bank Assets	94.25	113.57	121.68	126.74	126.65	127.57	12.33
Bank Deposits (Private Sector)	77.78	94.06	100.12	103.85	104.18	105.02	11.65
Bank Loans to Private Sector	25.04	28.81	31.71	33.82	34.39	34.92	21.21
Money Supply M2	24.76	33.19	38.02	39.32	39.31	39.31	18.44
Money Supply M3	68.66	81.04	86.74	90.06	90.57	91.00	12.29
LBP Lending Rate (%)	9.95	9.13	8.37	8.11	8.15	7.98	(115b.p.)
LBP Deposit Rate (%)	7.22	6.81	5.83	5.70	5.72	5.68	(113b.p.)
USD Lending Rate (%)	7.47	7.25	7.03	7.24	7.08	6.96	(29b.p.)
USD Deposit Rate (%)	3.33	3.07	2.75	2.78	2.81	2.80	(27b.p.)
%* Change in CPI**	6.36	4.47	7.42	7.15	8.69	10.82	635b.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"	18.90	(3.91)	165,212	15.05%	May 2011	7.875	101.00	4.46
Solidere "B"	19.00	(1.81)	17,008	9.84%	Mar. 2012	7.500	551.00	5.47
Byblos Common	1.90	(1.04)	2,450,327	5.44%	Sep. 2012	7.750	106.00	3.84
Byblos Priority	1.89	(1.05)	1,830,505	3.10%	June 2013	8.625	109.00	4.59
Byblos Pref. 08	103.00	0.00	0	1.64%	Apr. 2015	10.000	117.50	5.32
BLOM GDR	9.90	(4.26)	7,569	5.83%	Jan. 2016	8.500	113.00	5.47
BLOM Listed	10.19	(1.74)	43,200	17.45%	May 2016	11.625	127.50	5.30
Audi GDR	7.96	(2.93)	57,690	5.94%	Mar. 2017	9.000	116.50	5.77
Audi Listed	7.74	(3.13)	9,600	21.48%	Nov. 2018	5.150	96.00	5.80
HOLCIM	16.51	0.06	7,407	2.57%	Apr. 2021	8.250	115.00	6.24

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

Source: Byblos Capital Markets

	Jan. 31-Feb. 4	January 24-28	% Change	January 2011	January 2010	% Change
Total Shares Traded	4,593,898	1,689,257	171.95	5,322,427	12,057,977	(55.9)
Total Value Traded	\$12,530,166	\$14,708,158	(14.81)	\$47,601,150	\$961,719,141	(95.1)
Market Capitalization	\$12.55bn	\$12.85bn	(2.27)	\$12.66bn	\$12.65bn	0.1

Source: Beirut Stock Exchange (BSE)



Lebanon has 70th lowest retail gasoline prices and 30th lowest diesel prices in the world

The GTZ fuel price survey of 174 countries ranked Lebanon as having the 70th lowest retail gasoline prices worldwide and 17th lowest among 23 countries in the Middle East and North Africa region. It also ranked Lebanon as having the 30th lowest retail diesel prices globally and 16th lowest in the MENA region. The rankings are based on a crude oil price level of \$81 per barrel in mid-November 2010. The survey aims to highlight energy policies in developing countries as well as to help governments assess the relevance of their pricing policy and implement related reforms. GTZ is a Germany-based organization that works on sustainable development and socio-economic reforms worldwide.

The survey classified countries in four categories ranging from countries with 'very high gasoline subsidies', economies with 'gasoline subsidies', those with 'gasoline taxation', to countries with 'very high gasoline taxation'. Lebanon came in the category of 'gasoline taxation' where gasoline retail prices range between \$0.77 and \$1.46 per liter, along with Jordan, Sudan, Syria, Tunisia, Mauritania and Morocco in the region. The retail price of gasoline in Lebanon was \$1.13 per liter in mid-November, similar to prices in Georgia and Belize, lower than prices in Suriname and Costa Rica, and more expensive than gasoline prices in China, Mongolia and Mozambique. The category places Lebanon among economies where the retail price of gasoline is above the price level in the United States and up to the price level in Romania. The reason the survey benchmarked prices with Romania is that the country's gasoline prices of \$1.46 per liter in mid-November 2010 were the lowest in the 27 countries of the European Union where prices are subject to VAT, fuel taxes, as well as other country-specific duties and taxes.

The survey also classified countries in four categories ranging from countries with 'very high diesel subsidies', countries with 'diesel subsidies', those with 'diesel taxation', and economies with 'very high diesel taxation'. Lebanon came in the category of countries with 'diesel subsidies', where diesel retail prices range between \$0.52 and \$0.84 per liter, along with Jordan, Iraq, the UAE and Tunisia in the region. The category places Lebanon among economies where the retail price of diesel is above the price of crude oil on world markets and up to the price level in the United States. The retail price of diesel in Lebanon was \$0.77 per liter in mid-November, similar to prices in Panama, Vietnam and Nigeria; lower than prices in Kyrgyzstan, Myanmar and India; and more expensive than diesel prices in Jordan, Russia and Mexico. Venezuela has the lowest retail gasoline and diesel prices globally, while Eritrea has the most expensive gasoline prices and Turkey the costliest diesel prices in the world.

Lebanon imports all of its fuel needs. The Lebanese government capped the retail price of gasoline at the May 2004 level due to increasing oil prices in international markets at the time, which eroded the gasoline excise revenue base. This decision was introduced temporarily on the assumption that oil prices would decline shortly after, but they increased to historic highs until the global financial crisis led to the collapse of global oil prices. Therefore, in January 2009, the Lebanese government adopted a new policy measure that restored the gasoline excise tax. As such, the government took the decision to fix the excise rate at the level prevailing in January 2009 and to allow domestic prices to move with international oil prices.

Balance of payments posts surplus of \$3.3bn in 2010

Central Bank preliminary figures show that Lebanon's balance of payments posted a surplus of \$3.3bn in 2010 compared to a surplus of \$7.9bn in 2009. The balance of payments posted a surplus of \$1.25bn in December compared to a deficit of \$673m in November and a surplus of \$1.6bn in December 2009. The December 2010 surplus was caused by a surplus of \$836m in the Central Bank's net foreign assets and a surplus of \$418m in those of banks and financial institutions. The cumulative surplus in 2010 was caused by a surplus of \$3.2bn in the Central Bank's net foreign assets and a surplus of \$135m in those of banks and financial institutions. The balance of payments posted a cumulative surplus of \$3.5bn in 2008.

Rankings by Least Expensive Retail Prices of Gasoline

	MENA	Global	
	Rank	Rank	Category
Iran	1	2	Very High Subsidies
Saudi Arabia	2	3	Very High Subsidies
Libya	3	4	Very High Subsidies
Qatar	4	5	Very High Subsidies
Bahrain	5	6	Very High Subsidies
Kuwait	6	8	Very High Subsidies
Oman	7	9	Very High Subsidies
Algeria	8	10	Very High Subsidies
Yemen	9	11	Very High Subsidies
UAE	10	14	Very High Subsidies
Egypt	11	15	Very High Subsidies
Sudan	12	18	Subsidies
Iraq	13	24	Taxation
Tunisia	14	40	Taxation
Syria	15	44	Taxation
Jordan	16	55	Taxation
Lebanon	17	70	Taxation
Mauritania	18	78	Taxation
Morocco	19	87	Taxation
South Sudan	20	116	Taxation
Djibouti	21	134	Very High Taxation
West Bank & Gaza	22	147	Very High Taxation
Israel	23	156	Very High Taxation

Source: GTZ, Byblos Research

Advertising spending in Lebanon up 15% to \$180m in 2010

The annual survey of the advertising market in the Arab world by *ArabAd* magazine and research firm IPSOS-STAT shows that real advertising expenditures in Lebanon totaled \$180m in 2010, constituting an increase of 15.4% from \$156m in the previous year, but lower than the 18.5% growth rate posted in 2009. Television attracted \$63m, or 35% of advertising expenditures, followed by outdoor billboards with \$48m (26.7%), newspapers with \$37m (20.6%), magazines with \$15m (8.3%), radio with \$12.5m (7%), online with \$3.3m (1.8%) and cinemas with \$1.2m (0.7%). Magazines and cinema advertising rose by 20% each last year, followed by outdoor ads with a 17% increase, TV with a 16.7% rise, radio with a 13.6% growth, newspapers with a 10.4% improvement, and online ads with a 10% growth.

In terms of advertising revenues, LBCI was the top television station, *An Nahar* led all newspapers, *Achabaka* was the top weekly publication, *Mondanité* was the leading monthly periodical, while Radio Liban Libre was the top news radio station and Sawt Al Ghad the leading musical radio station. Transmed was the biggest individual spender on advertising in Lebanon, followed by L'Oréal Liban, Khalil Fattal & Fils, Solvid, Nestlé, Zinatat, BankMed, Moukarzel, BUMC, and S.M.L.C. Further, Zein al Atat was the top advertised brand in all media, followed by BankMed, Moukarzel, Pantene Pro-V, Freez, Pampers, Head & Shoulders, Toyota, Tide, and Ariel. Byblos Bank was the top advertised brand in cinemas, BankMed was the most advertised in the press, Zein Al Atat was the top advertised brand on television, and BO18 Classic on radio.

According to IPSOS-STAT, monitored advertising expenditures in Lebanon, which are determined according to rate cards, totaled \$1.23bn last year, up 23% from \$1bn in 2009. It said the discrepancy between monitored rates and actual figures is increasing, as monitored rates are 6.8 larger than real advertising expenditures. It attributed this trend to big client discounts, inflated rate cards, big barter deals, as well as to a lack of transparency in the industry in reporting earnings. It noted that monitored ad spending on TV are 15 times larger than actual spending, followed by radio and magazines with a 3.7 ratio, outdoor billboards with a 2.5 ratio, newspapers with a ratio of 1.7, and cinema at 1.2 times. Lebanon accounted for 8% of monitored advertising expenditures in the Arab world in 2010.

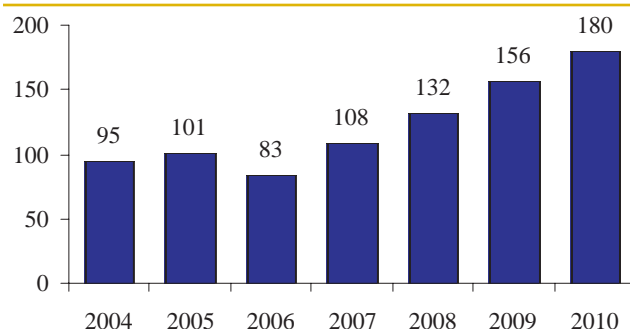
Occupancy at Beirut hotels at 68%, room yields down 4% in 2010

Ernst & Young's benchmark survey of the Middle East hotel sector indicated that the average occupancy rate at hotels in Beirut was 68% in 2010, decreasing from 73% in the previous year. The occupancy rate at Beirut hotels ranked 12th among 19 markets in the region, while it came in sixth place in 2009. The survey said the average rate per room at Beirut hotels was \$257 in 2010, ranking the capital's hotels as the fifth most expensive in the region.

The average rate per room at Beirut hotels increased by 3.2% to \$257 year-on-year and posted the seventh steepest increase among all markets in the region, ahead of Amman and behind Hurghada. The average rate per room in Beirut came above the regional average of \$200, which declined by 2.5% from \$205 in 2009. Occupancy rates at Beirut hotels were 64% in January, 76% in February, 68% in March, 79% in April, 71% in May, 77% in June, 80% in July, 43% in August, 53% in September, 71% in October, 73% in November and 65% in December 2010. In comparison, they were 85% in January, 76% in February, 74% in March, 81% in April, 68% in May, 69% in June, 87% in July, 75% in August, 62% in September, 85% in October, 79% in November and 75% in December 2009.

Further, revenues per available room (RevPAR) were \$177 in Beirut in 2010, down from \$184 in the previous year. Beirut's RevPAR were the third highest in the region, tying with Doha and coming after Makkah and Dubai-Beach. Beirut's RevPAR were down 3.8% year-on-year, compared to a decrease of 1.6% across the region. Beirut posted RevPARs of \$160 in January, \$209 in February, \$155 in March, \$208 in April, \$158 in May, \$188 in June, \$270 in July, \$120 in August, \$179 in September, \$151 in October, \$206 in November and \$159 in December 2010. Dubai-Beach posted the highest average room rate in the region at \$307 as well as the highest RevPAR at \$247, while Hurghada posted the highest occupancy rate at 86% in 2010.

Real advertising expenditures in Lebanon (\$m)



Source: ArabAd, Byblos Research

Hotel Performance in 2010

	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Hurghada	86	40	13.6
Sharm El Sheikh	85	55	16.3
Dubai - Beach	80	247	(4.2)
Dubai - Overall	75	164	(8.2)
Abu Dhabi	74	174	(25.8)
Dubai - City	73	132	(9.8)
Cairo - City	72	85	4.3
Cairo - Overall	72	86	4.8
Jeddah	72	154	3.7
Makkah	70	213	38.2
Al Ain	69	109	(3.1)
Beirut	68	177	(3.8)
Muscat	68	152	(4.4)
Madina	65	122	28.6
Amman	63	93	8.2
Doha	63	177	(12.2)
Manama	59	151	(8.4)
Riyadh	54	127	6.2
Kuwait	53	141	(8.2)

Source: Ernst & Young, Byblos Research

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

Lebanon's gross public debt reached \$52.6bn at the end-2010, constituting an increase of 2.8% from end-2009. Domestic debt increased by 7.3% to \$32bn, while external debt decreased by 3.3% annually to \$20.6bn. Local currency debt accounted for 60.9% of gross public debt at end-2010 compared to 58.3% a year earlier, while foreign currency-denominated debt represented 39.1% of the total at the end of 2010 relative to 41.7% a year earlier. The weighted interest rate on outstanding Treasury bills was 7.6%, while the weighted interest rate on Eurobonds was 7.3% at the end of December. Further, the weighted life on Eurobonds was 4.84 years, while that on Treasury bills was 623 days. The gross public debt was equivalent to 134.5% of estimated 2010 GDP, down from 146.5% of GDP at end-2009.

Commercial banks accounted for about 57% of the total public debt at the end of 2010 compared to 58% a year earlier. They were followed by the Central Bank with 20.3% relative to 18.4% at end-2009; while public agencies, financial institutions and the general public accounted for 12% of the debt relative to 10.7% a year earlier. Further, multilateral and bilateral loans represented 4.7% of the debt compared to 5.9% at the end of 2009, while other holders accounted for the remaining 6%. In parallel, residents held 89.3% of the public debt at end-2010 up from 87.1% a year earlier. The net public debt, which excludes the public sector's deposits at the Central Bank and at commercial banks from overall debt figures, increased annually by 1.9% to \$45bn. Further, the gross market debt accounted for about 67% of total public debt. Gross market debt is the total public debt less the portfolios of the Central Bank, the National Social Security Fund, bilateral and multilateral loans, as well as Paris II and Paris III related debt.

Fiscal deficit down 1.3% to \$2.9bn in 2010, equivalent to 7.5% of GDP

Figures released by the Finance Ministry show that the fiscal deficit reached \$2.92bn in 2010, down 1.3% from \$2.96bn in the previous year. The deficit was equivalent to 25.8% of total budget and Treasury expenditures compared to 26% in 2009. It was also equivalent to 7.5% of estimated 2010 GDP compared to 8.5% of GDP in 2009. Overall government expenditures reached \$11.3bn, down 0.5% year-on-year, while total revenues decreased by a marginal 0.2% to \$8.4bn. Budgetary expenditures decreased marginally by 0.4% to \$10.1bn and included \$519m in outlays from previous years, while budget revenues was nearly unchanged as it declined by 0.2% to \$8bn. Tax revenues improved by 11.3% year-on-year to \$6.6bn, of which 32%, or \$2.1bn, were in VAT receipts that posted a 10.5% annual rise. Tax revenues accounted for 83% of budgetary revenues and for 78.6% of total Treasury and budget receipts.

The distribution of other tax revenues shows that customs revenues rose 5.2% year-on-year to \$1.86bn, income & capital gains tax receipts grew by 11.5% to \$1.36bn, revenues from property taxes improved by 34.5% to \$721.7m, and other tax receipts, mainly stamp fees, increased by 14.4% to \$300m. Further, the distribution of income tax revenues shows that taxes on profits accounted for 39.4% of total income tax receipts, followed by the tax on interest deposits with 30.6%, taxes on wages & salaries with 20.5%, and capital gains tax with 10.4%. Receipts from taxes on profits increased by 10.5% year-on-year, income from capital gains tax grew by 19%, revenues from the tax on interest rose by 12.6%, and tax receipts on wages & salaries improved by 8%. Also, the distribution of property taxes shows that revenues from real estate registration fees rose by 36% to \$566m, built property taxes increased by 43% to \$96m and revenues from inheritance tax grew by 10.6% to \$60m. In parallel, non-tax budgetary revenues contracted by 33.5% to \$1.35bn, with revenues from government properties dropping by 44% to \$916.5m and administrative fees & charges increasing by 6% to \$355m. Receipts from telecommunications services, which account for 69.3% of income from government properties and for 47% of non-tax revenues, dropped by 53.4% to \$635m in 2010.

Debt servicing increased by 1.9% year-on-year to \$3.9bn, accounting for 34.5% of total expenditures and for 38.7% of budgetary spending. It absorbed 46.5% of overall revenues and 49% of budgetary receipts. Interest payment on domestic debt rose by 2.7% to \$2.5bn, while interest disbursement on foreign debt rose marginally by 0.5% to \$1.4bn. Repayment of principal on foreign debt increased by 7% to \$215m. Excluding debt servicing, the primary surplus reached \$2bn, or 19.7% of budget expenditures compared to a surplus of \$1.88bn, or 18.6% of budget spending in 2009. The overall primary surplus rose by 11.6% in 2010 to \$1.2bn and was equivalent to 10.6% of total spending, compared to a surplus of \$1.1bn or 9.5% of total expenditures in the previous year.

Coincident indicator declines by 4% in December 2010

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 255.5 points in December 2010 compared to 266.7 points in November and 240.5 points in December 2009. The Coincident Indicator, an average of 8 weighted economic indicators, regressed by 4.2% in December, and increased by 6.2% year-on-year. The indicator averaged 249.5 in 2010 compared to 248.2 points in the 12-months ending November 2010 and to 225.9 points in 2009. As a result, the average coincident indicator declined by 0.5% month-on-month and rose by 10.5% year-on-year. The indicator decreased five times last year, with December posting the second steepest monthly after a 9.4% decline in August. It increased by more than one percentage point in four out of seven monthly rises, and peaked at an all time high of 266.7 in November. Further, the month-to-month decrease in December constituted the worst drop ever for the indicator for the covered month. In parallel, the indicator improved 8 times and regressed 10 times in the month of December since 1993. The indicator averaged 198.4 points in 2008.

Credit and debit cards exceed 1.72 million, ATMs total 1,255 at end of 2010

Figures released by the Central Bank of Lebanon show that the number of credit and debit cards issued in Lebanon reached 1,723,622 cards at the end of 2010, constituting a 1.2% increase from end-September, and a 5.7% rise from the end of 2009. Resident cardholders accounted for 97.3% of total cards issued in Lebanon. The distribution of payment cards by type shows that debit cards with residents accounted for 62.5% of the total, followed by credit cards with residents (22.4%), charge cards with residents (10%), resident prepaid cards (2.5%), non-resident debit cards (2.1%), non-resident charge cards (0.4%), non-resident credit cards (0.2%), and non-resident pre-paid cards (0.04%). The number of ATMs totaled 1,285 machines, constituting an increase of 2.4% in the fourth quarter of 2010 and a rise of 6.5% from 1,207 ATMs at the end of 2009. The Greater Beirut area had 628 ATMs, accounting for 49% of the total, followed by Mount Lebanon with 301 (23.4%), the North with 131 (10.2%), the South with 108 (8.4%), the Bekaa with 94 (7.3%), and Nabatiyeh with 23 (1.8%). Further, the aggregate number of point of sales accepting payment cards reached 45,455 by the end of 2010, unchanged year-on-year.

The average monthly domestic payment by residents totaled \$131.23m in the fourth quarter of 2010, increasing by 10.8% quarter-to-quarter and rising by 18.3% from the fourth quarter of 2009; while the average monthly payment and cash withdrawal abroad by residents rose by 0.8% to \$80m from the third quarter of 2010 and grew by 23.3% from the fourth quarter of 2009.

Further, the average monthly value of cash withdrawals by residents using ATMs increased quarterly by 6.1% and rose by 14.4% from the fourth quarter of the previous year to \$463.2m; while average monthly withdrawals by non-residents contracted by 20.3% to \$6.4m quarter-to-quarter and grew by 11% from the same period last year. Also, the average monthly purchases in Lebanon by non-residents decreased by 12.7% quarter-to-quarter and rose by 7.4% from the fourth quarter of 2009 to \$2m. Domestic card payments in Lebanese pounds accounted for 12.4% of aggregate payments in all currencies, while local currency withdrawals represented 67.4% of the total in the fourth quarter of 2010.

Number and Usage of Payment Cards Issued in Lebanon			
	2010	2009	Change
Cards			
With residents	1,677,271	1,582,769	6.0%
With non-residents	46,351	47,267	(1.9%)
Total	1,723,622	1,630,036	5.7%
ATMs	1,285	1,207	6.5%
Points of Sales	45,455	45,469	0.0%
Purchases (in US\$m)			
by residents in Lebanon	\$1,405.9	\$1,132.4	24.2%
<i>% in Lebanese pounds</i>	<i>12.0%</i>	<i>12.2%</i>	
by non-residents in Lebanon	\$23.2	\$21.8	6.7%
by residents outside Lebanon	\$803.3	\$677.8	18.5%
Cash withdrawal (in US\$m)			
by residents in Lebanon	\$5,064	\$4,632	9.3%
<i>% in Lebanese pounds</i>	<i>66.5%</i>	<i>67.4%</i>	
by non-residents in Lebanon	\$78.5	\$71.8	9.3%

Source: Central Bank of Lebanon, Byblos Research

Commercial activity in Beirut down by 20% in second half of 2010

The Beirut Traders Association estimated that commercial activity in Beirut contracted by 20% during the second half of 2010 compared to the positive performance of the first half of the year. It attributed the decline in activity to the rise in political tensions that affected the summer tourism season, as well as the Adha and Ramadan holidays periods, which are considered peak periods for Beirut traders. It added that the rise in political tensions reduced household expenditures and slowed down tourism activity starting in July. It added that households have reduced spending on basic and durable goods, while the number of GCC nationals visiting Lebanon declined relative to overall tourism arrivals. It noted that activity in the luxury sector was more affected than the activity of basic goods. The BTA added that the slowdown coincided with implementation of a 1972 law that set a ceiling on profit margins for traders of basic commodities. Last October, the Ministry of Economy & Trade set a margin on profits for basic commodities to limit the rise in the prices of meat, vegetables and fruits. The margins cover the percentage of profits made by wholesale, semi-wholesale and retail dealers and traders. The association considered that the margin ceiling does not take into account imported inflation or the fluctuation of the euro, since more than 40% Lebanese imports come from the European Union.

Measures to support tourism sector

The Ministry of Tourism unveiled three measures to strengthen the country's tourism sector. The first measure consists of including a detailed pricing structure of travel tickets when selling them, which would cover taxes and fees, in order to promote competition and transparency among travel agencies in Lebanon. The measure is expected to prevent price rounding, incorrect labeling and the use of inflated exchange rates. Also, the ministry requested the implementation of the 1963 law that prevents minors from entering pubs and night clubs, as well as prohibits alcohol serving to minors in restaurants. Finally, the ministry appointed Bureau Veritas Liban to undertake a classification of tourism establishments in Lebanon that include hotels, tourist residences and restaurants, based on new standards and criteria. The ministry expects the measures to support the country's profile as a tourism destination. The number of incoming tourists to Lebanon totaled 2.17 million in 2010, constituting an increase of 17% from the previous year. Arab tourists accounted for 34.6% of total visitors and were followed by visitors from Europe with 23%, Asia with 21.2%, the Americas with 12.5%, Africa with 6%, and Oceania with 2.8%.

Mount Lebanon to be connected to water grid by mid-2013

The Ministry of Energy & Water expected Mount-Lebanon's 386 cities, towns and villages to be connected to a water grid by mid-2013. It said that the Beirut & Mount Lebanon Water Authority invested \$30m last year in different infrastructural projects and intends to invest \$36m in 2011 to connect the region. The ministry plans to implement three additional water projects that would cover the region's needs by 2015 and 2016. The projects include the adduction of the Awali River water to the region that amounts to 50 million cubic meters, the construction of Janna's dam that can provide 90 million cubic meters and the Madik's spring project that is expected to be completed by August and would supply Keserwan with water. It noted that the Beirut & Mount Lebanon Water Authority has the necessary capital to pursue such investments but lacks human capital since it suffers from large vacancies in various positions. It stated that the Authority's revenues increased to \$75.6m in 2010m from \$72.3m in 2009.

Lebanon included in first environment, social and governance index for region

Standard & Poor's and the Hawkamah Institute for Corporate Governance indicated that Lebanon has been included in the S&P/Hawkamah Pan Arab ESG Index, which is the first tradeable index for Middle East & North African (MENA) equity markets that will rank and track the performance, transparency and disclosure of regional companies on environmental, social and corporate Governance (ESG) issues. The index will include the top 50 MENA companies based on their performance on nearly 200 ESG metrics, when compared to their regional peers. In addition to Lebanon, the index covers Bahrain, Egypt, Jordan, Kuwait, Morocco, Oman, Qatar, Saudi Arabia, Tunisia and the United Arab Emirates. The index's constituents will be drawn from a universe of the 150 largest and most liquid companies listed on the stock exchanges of the 11 countries. S&P said a company's ESG score will determine its weight in the index, ensuring that performance is based on ESG factors rather than market size. Hawkamah noted that the index serves the dual purpose of offering a tool for investors to identify the regional companies that perform well on ESG parameters, while providing an incentive to MENA companies to pursue sustainable business practices through improved environmental and socially responsible operations, as well as enhanced corporate governance systems. It added that financial performance indicators have traditionally marked investment decisions, while the index aims to provide the market and investors with a tool focusing on non-financial indicators that are fundamental in assessing the sustainability of a company's future performance. The International Finance Corporation, the private sector arm of the World Bank, has helped develop and partly fund the index.

Corporate Highlights

Aggregate profits of listed banks rise 20% in 2010

Financial results issued by five banks listed on the Beirut Stock Exchange show that their aggregate net profits reached \$972.2m in 2010, constituting an increase of 20% from \$810.7m in 2009. The average growth of the banks' net profits reached 21.7% in 2010, constituting an increase from 11.8% in the first 9 months of 2010, and from the average growth in net profits of 16.4% in 2009. The aggregate net interest income of the five banks reached \$1.24bn in 2010, down 18% from \$1.37bn in the same period last year; while their total net fees and commission income increased by 18.4% to \$413.4m year-on-year. Total operating income of the listed banks reached \$2.3bn in 2010, up 20.4% from \$1.9bn in 2009.

In parallel, the aggregate assets of the five banks rose by 9.6% from end-2009 to \$75.5bn; while their total loans, excluding loans to related parties, increased by 26.4% to \$20bn. Also, the banks' customer deposits rose by 11.1% from end-2009 to reach \$62.8bn. BLOM Bank posted the lowest loans-to-deposits ratio at 26.6% compared to 22.6% at end-2009, followed by Byblos Bank with a ratio of 31.8% relative to 31.3% a year earlier, Bank Audi with 34% from 38.8% at end-2009, Bank of Beirut with 38.6% from 35.4% a year earlier, and Banque BEMO with a 47% ratio compared to 42% at end-2009.

BLOM Bank had the lowest cost-to-income ratio at 38.3%, down from 40.7% at end-2009. It was followed by Bank of Beirut with 46.5%, down from 50.9% in 2009, Byblos bank with a 46.6% ratio compared to 46.3% in 2009, Bank Audi with a 47.3% ratio relative to 48.6% in 2009, and Banque BEMO with a 73.5% ratio relative to 76.6% in 2009.

Results of Listed Banks for 2010					
	Byblos	BLOM	Audi	BoB	BEMO
Net Profits	\$178.4m	\$330.7m	\$352.2m	\$100.7m	\$10.2m
% Change*	22.5%	12.9%	21.9%	35.3%	15.9%
Total Assets	\$15.28bn	\$22.34bn	\$28.69bn	\$7.99bn	\$1.21bn
% Change**	12.6%	7.9%	8.3%	14.8%	0.8%
Loans (1)	\$3.76bn	\$5.17bn	\$8.39bn	\$2.25bn	\$0.47bn
% Change**	18%	28.9%	27.3%	33.5%	18%
Deposits (1)	\$11.82bn	\$19.45bn	\$24.68bn	\$5.83bn	\$1.00bn
% Change**	15.9%	9.1%	8.2%	22.4%	6.3%

*Year-on-year

(1) Customer Loans and Deposits, excluding related parties' Loans and Deposits

Stock market activity at \$48m in January 2011

Figures released by the Beirut Stock Exchange indicate that total trading volume reached 5.3 million shares in January 2011, constituting a decrease of 56% from the same month last year, while aggregate turnover amounted to \$47.6m, down 95% from a turnover of \$961.7m in January 2010. Market capitalization marginally increased by 0.1% to \$12.7bn in the first month of 2011, of which 71% was in banking stocks and 25% in real estate stocks. The market liquidity ratio was 0.4% compared to 7.6% in the same month last year. Bank stocks accounted for 73.4% of aggregate trading volume in the first month of the year, followed by real estate stocks with 26.2%. In terms of value of shares traded, real estate stocks accounted for 55.7% of aggregate value, followed by banking stocks with 43.7%. The average daily traded volume for the period was 266,121 shares for an average daily value of \$2.4m. The figures reflect decreases of 58% in volume and 95% in value year-on-year.

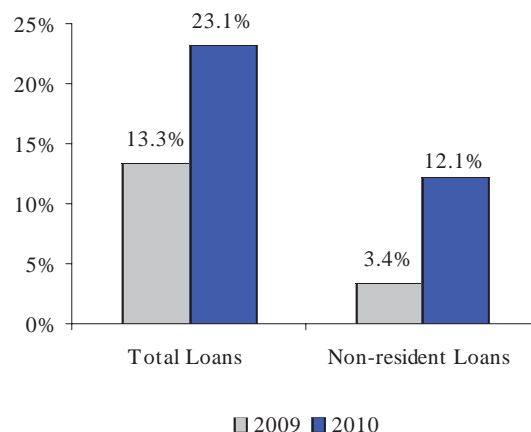
Kafalat and MIGA to provide political risk insurance

The Kafalat Corporation and the Multilateral Investment Guarantee Agency (MIGA), a member of the World Bank Group, signed a Memorandum of Understanding to provide political risk insurance to the private sector in Lebanon. The agreement stipulates that Kafalat will process insurance applications for investments of up to \$10m, and will provide assistance investors about steps to apply for guarantees through MIGA when the investment exceeds the \$10m ceiling. The agreement is expected to help attract foreign direct investment to Lebanon, as well as raise general awareness about risk mitigation instruments, such as political risk insurance, through joint conferences, seminars and training. FDI in Lebanon totaled \$4.7bn in 2010, down 3.2% from the previous year. Since its inception in 1988, MIGA has provided \$881m in political risk insurance coverage for more than 20 projects in the Middle East and North Africa region, but it did not issue any new guarantees in the region in 2010. 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.

Commercial banks' assets reach \$129bn at end-2010

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$128.9bn at the end of 2010, constituting an increase of 11.9% from end-2009. Private sector deposits totaled \$107.2bn, up 11.9% from end-2009. Deposits in Lebanese pounds reached \$39.5bn, increasing by 15.9% from end-2009, while deposits in foreign currencies reached \$67.8bn, rising by 9.8% from end-2009. Non-resident foreign currency deposits reached \$15.6bn at end-2010, increasing by 9.7% from end-2009. 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, \$331m in October, \$831m in November, and \$2.2bn in December 2010. In parallel, deposits of non-resident banks reached \$4.5bn at end-2010, down 2.2% from end-2009. The dollarization rate of deposits reached 63.2% at end-2010, down from 64.5% a year earlier. Further, the average deposit rate in Lebanese pounds reached 5.68% compared to 6.75% a year earlier, while the same rate in US dollars was 2.8% down from 3.05% in December 2009.

Growth in Private Sector Loans (%)



Source: Association of Banks in Lebanon

Loans to the private sector amounted to \$34.9bn, up 23.1% from end-2009. The dollarization rate in private sector lending reached 80.3% compared to 84% at end-2009. The average lending rate in Lebanese pounds was 7.91% in December 2010 compared to 9.04% a year earlier, while the same average in US dollars was 6.74% compared to 7.28% in December 2009. Claims on the public sector stood at \$29.3bn up 0.9% from end-2009, and accounted for 45.6% of the banking sector's total loans. The ratio of private sector loans to deposits in foreign currencies stood at 41.4%, well below the Central Bank's limit of 70%, and above the ratio of 38.6% a year earlier. In parallel, the same ratio in Lebanese pounds was 17.4%, up from 13.3% a year earlier. The ratio of total private sector loans to deposits stood at 32.6%, compared to 29.6% a year earlier. The banks' aggregate capital base stood at \$9.2bn up 16.1% from end-2009.

Venture capital fund invests in personal care firm

The Beirut-based venture capital fund Middle East Venture Partners Fund L.P. announced it had acquired a stake in Body & Soul Ltd, a Lebanese company that manufactures and exports personal care products made of natural resources. Launched in 2005, the brand is sold in Lebanon as well through franchises in Jordan, Bahrain and Saudi Arabia. Last October, the fund invested in the Lebanese-based companies Pin-Pay sal, iLevel sal and Multilane sal to assist them in pursuing regional growth and development plans, as well as to extending their product offerings. The fund did not disclose the amount invested or the stake it purchased in Body & Soul Ltd. The fund was launched and is managed by Middle East Venture Partners, a Middle East-focused venture capital firm that invests in the early and growth stages of companies in consumer technology and consumer products and services. It targets firms in Lebanon as well as in the greater Levant region. Last June, the firm raised \$10m for its first fund and plans to raise another \$10m in the near future.

Ratio Highlights

(in % unless specified)	2007	2008	2009	Change*
Nominal GDP ⁽¹⁾ (\$bn)	25.0	29.9	34.9	
External Debt / GDP	84.9	70.7	60.9	(980)
Local Debt / GDP	83.2	86.5	85.5	(100)
Total Debt / GDP	168.1	157.3	146.4	(1,090)
Total External Debt / GDP	194	172	169.2	(280)
Trade Balance / GDP	(36.0)	(42.3)	(36.5)	580
Exports / Imports	23.8	21.6	21.5	(10)
Budget Revenues / GDP	23.2	21.7	22.9	120
Budget Expenditures / GDP	33.4	24.5	24.8	30
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	235.2	560
Bank Assets / GDP	329.0	315.2	330.2	1,500
Bank Deposits / GDP	269.1	260.1	274.4	1,430
Private Sector Loans / GDP	81.7	83.7	81.3	(240)
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	Stable	B	B	Stable
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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