

LEBANON

ECONOMIC UPDATE

● ● November 2010 ● ●

As the year draws close to its end, the indicators point that 2010 will record a solid real economic growth rate in the range of 7-8%, a slight decline from the rates achieved in 2008-2009. The heightened domestic political tensions, which started early in the summer have affected the tourist season, albeit the figures continued to show good growth rates in number of arrivals. Although these figures did not register the desired and earlier-expected exceptional performance, they nonetheless revealed that the Lebanese economy is continuing to outperform many neighboring economies.

If not contained, the domestic political tensions might affect the growth prospects for 2011, especially in light of the delay in passing the budget law, which in turn will lead to a delay in tackling important structural reforms aimed at increasing the supply capacity and easing bottlenecks in key sectors such as power, telecoms and transport. The expected global slowdown in 2011, as well as the heightened sovereign risk in Europe and elsewhere in mature markets are all factors that pose additional potential challenges. In this context, we remain cautiously optimistic on the outlook for the Lebanese economy for the rest of 2010 and for 2011.

Economic Activity

● ● We start with the economic activity indicators for most of 2010. The relative political and security stability have indeed supported the ongoing growth witnessed in the Lebanese economy in the first half of 2010. The tensions in the South early in the summertime, as well as domestic tension seem to have slowed tourism to below expectations, though total arrivals figures remained at record numbers. Meanwhile, the construction sector continues to serve as a major engine of growth.

In 2009 and in the eight months of 2010, the country's solid real economic growth has been supported by record number of tourists, a remarkable increase in investors' confidence in the economy and a rise in remittance sent by expatriates.

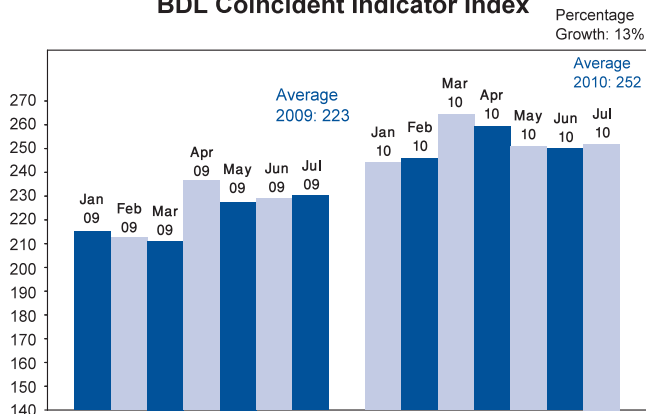
There are strong indications that growth in 2009 reached around 9%, following 9.3% recorded in 2008, and despite the external difficulties due to the global financial crisis, the Lebanese economy proved unprecedented resilience to its effects. The expected growth for 2010 is forecasted to be 7-8%. The growth in GDP is one of the highest in the Middle East and North Africa region and among the highest in the world.

| Real GDP Growth (annual change; %) | | |
|------------------------------------|------------|------------|
| | 2009 | 2010 (e) |
| Egypt | 4.7 | 5.3 |
| Islamic Republic of Iran | 1.1 | 1.6 |
| Iraq | 4.2 | 2.6 |
| Jordan | 2.3 | 3.4 |
| Kuwait | -4.8 | 2.3 |
| Lebanon | 9.0 | 8.0 |
| Morocco | 4.9 | 4.0 |
| Qatar | 8.6 | 16.0 |
| Saudi Arabia | 0.6 | 3.4 |
| Syrian Arab Republic | 4.0 | 5.0 |
| Tunisia | 3.1 | 3.8 |
| United Arab Emirates | -2.5 | 2.4 |

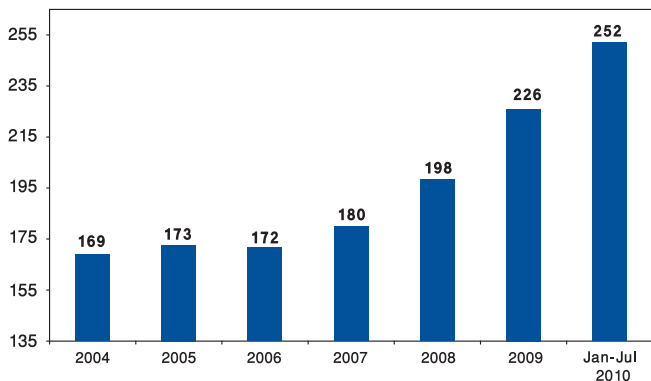
Source: International Monetary Fund (IMF)

The Banque Du Liban (BDL) Coincident Indicator-the Central Bank monthly indicator on economic growth-picked up in 2009 to an average of 226, compared with an average of 198 in 2008, implying a 14.1% average increase. The indicator continued to grow from the beginning of the year until the end of July registering an average of 252 up from 223 in the same period in 2009 showing a 13% increase.

BDL Coincident Indicator Index



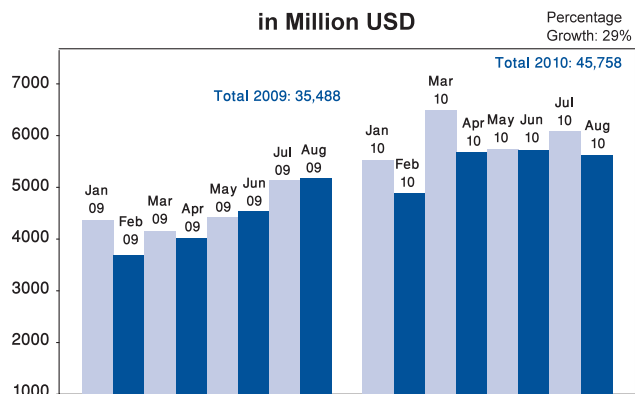
BDL Coincident Indicator Index Yearly Average



The relative stability in the political and the security scene in the country seem to have contributed significantly to the rising trend reflected in the BDL Coincident Indicator. After successfully carrying the parliamentary elections in the summer of 2009 and establishing a unity government in the fall 2009, Lebanon continued to show the ability to withstand political and security challenges. Such confidence helped the tourism sector to maintain a solid and healthy growth. The upward trend continued due to Lebanon's strong banking sector which showed solid resilience at a time many neighboring countries faced dire economic conditions.

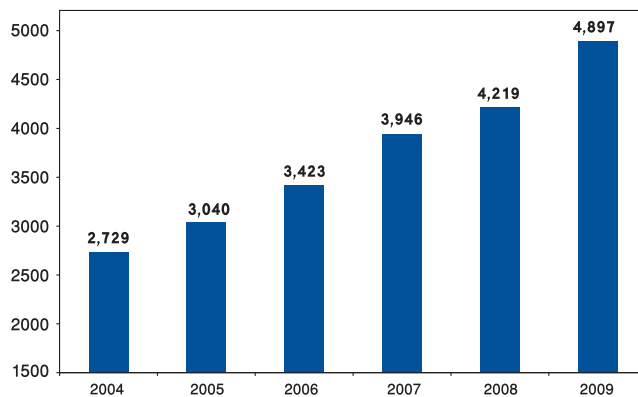
The total value of cleared checks, an important indicator of economic activity, rose to \$45.75 billion end-of-August 2010 from \$35.48 billion recorded end-of-August 2009 or increased by 29%.

Total Cleared Checks in Million USD



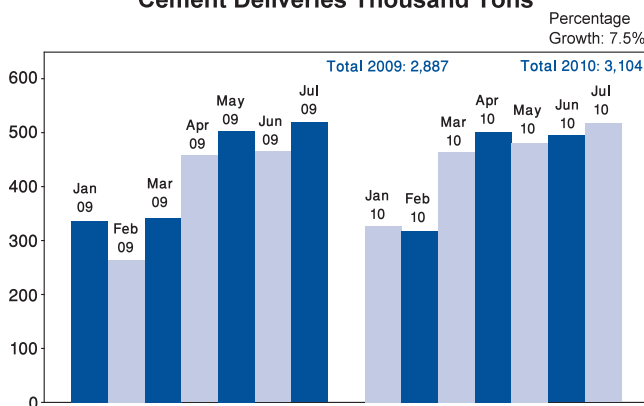
In Lebanon, industrial activity, mainly manufacturing and construction sectors, accounts for 21% of GDP. The construction sector, a driving and pivotal sector for economic growth, accounts for about 11% of GDP. Cement deliveries increased to 4.89 million tons in 2009 from 4.21 million in 2008; a 16.1% increase. The relative stability in the political and security environment and rising demand from locals and expatriates have significantly contributed to the strong growth in the construction sector in 2009.

Cement Deliveries Thousand Tons



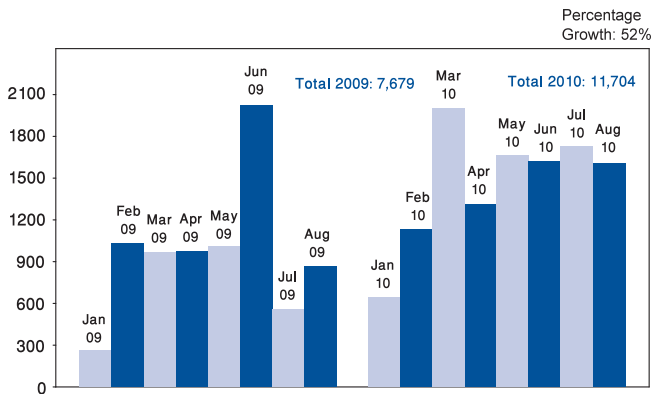
Cement deliveries continued on the rise from the beginning of the year towards the end of July. Cement delivery increased to 3.1 million tons from 2.89 million tons delivered during the same period in 2009; a 7.5% increase.

Cement Deliveries Thousand Tons



In addition to cement delivery, the total number of construction permits issued is another indicator of the level of activities in the construction sector. It reflects a good gauge of confidence in the sector and shows expectation on future growth. The available data from the beginning of 2010 to the end-of-August suggested the continuation of the boom and shedding positive outlook on the sector as a whole. Construction permits reached 11,704 thousand meters square up from 7,679 thousands meters square reported in the same period in 2009; a 52% growth. This growth was accompanied with a surge in the number of tourists visiting Lebanon and a significant flow of major regional investors interested to invest in Lebanon's real estate sector.

Construction Permits Thousand of Meter Square



In fact, the positive economic growth and relative political and security stability which have come to characterize the post-Doha era, along with continued strong capital inflows have contributed positively to the significant growth of the liberal and open real estate sector in Lebanon. Notwithstanding the global financial crisis and its spillovers, Lebanon's real estate sector has demonstrated resilience in the past couple of years and is now witnessing a healthy growth trend. The number and value of real estate transactions provides indications on the health of the real estate sector. 2006 was the only year that witnessed a relative slowdown which reflects the magnitude of the effect that the July War had on the sector. Even so, by the following year, real estate activity had recovered substantially, as evidenced by the 100% and 31% increases in the value and number of real estate transactions respectively. This growth trend was sustained in 2009 as the value and volume of real estate transactions increased by 8% and 11%, respectively.

Since the beginning of 2010 and towards the end of August, the real estate sector continued to record remarkable year-on-year surges in activity and sales. The value of transactions has increased by more than 73% from the beginning of 2010 towards the end of August, and the number of sales has gone up by more than 25%. An important factor that contributes to the resilience and strong performance of Lebanon's real estate sector is that demand seems to be still dominated by end-users, and not by speculators.

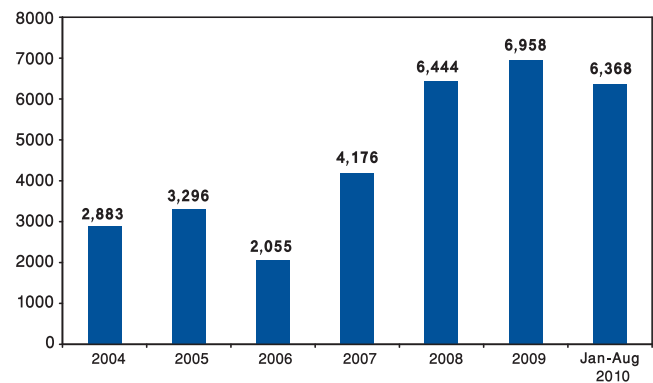
In Lebanon, speculators make up only a small portion of the potential buyers of property. The majority of buyers include a growing base of residents and increasing numbers of expatriates along with some regular visitors/tourists to Lebanon, hailing mostly from the Gulf States, who are all seeking to purchase homes in the country. Thus the market has witnessed sustained demand in the past few years.

Another important factor contributing to the robustness of Lebanon's property market is that developers fund their projects independently or by

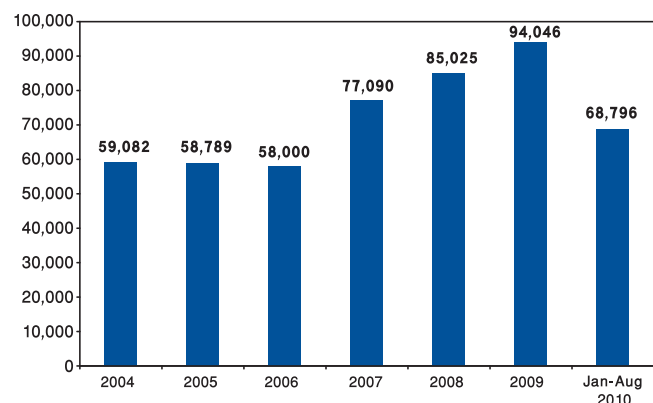
presales funding and therefore do not rely heavily on financial leverage from banks. As such the supply-end ensures the sector's solid financial standing and continuity. The prudent regulatory environment in Lebanon has also been instrumental in safeguarding the real estate sector from volatility. For example, the Lebanese central bank allows a maximum of 60% of a real estate project's value to be financed by bank loans. Thus, by setting a relatively low ceiling on leveraging it squeezes speculators out of the market. This has not reduced demand from end-users as the measure is not applicable to other private and public or state-sponsored housing loan schemes such as those provided to army volunteers, loans to first-time home owners as well as those through the national Housing Bank and Public Housing Institute.

Similarly, a recent measure passed by the central bank allows banks to deduct up to 60% of new lending denominated in Lebanese pounds from their reserve requirements. This has facilitated a reduction in interest rates on local currency housing loans to around 5%, and thus spurred recent demand for real estate. Moreover, the relatively low exposure of Lebanese banks to toxic assets on their balance sheets underpins their stability and allows them to continue financing the private sector (residents, expatriates and even developers) despite volatility and tight credit conditions present in the global environment.

Value of Real Estate Transactions in Million USD



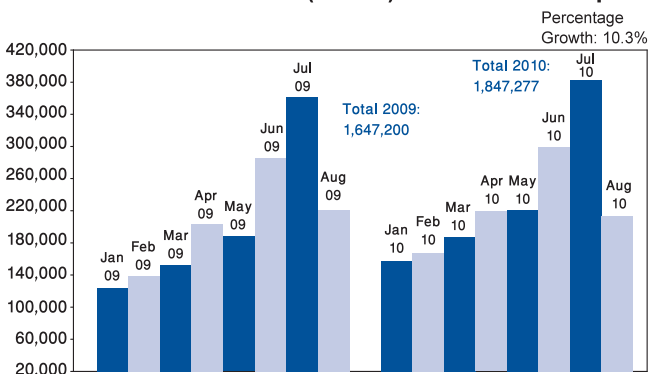
Number of Real Estate Transactions



The services sector, which accounts for approximately 35% of Lebanon's GDP and which is principally based on the banking and tourism sectors, has been witnessing remarkable growth. After facing challenging years in 2005 and 2006 due to political and security unrests, tourism is experiencing remarkable growth since the beginning of 2008 placing Lebanon as a must-visit global destination. Rafic Hariri International Airport has been recording a high number of tourists as the security situation started to ease especially after the Doha Accord in May 2008.

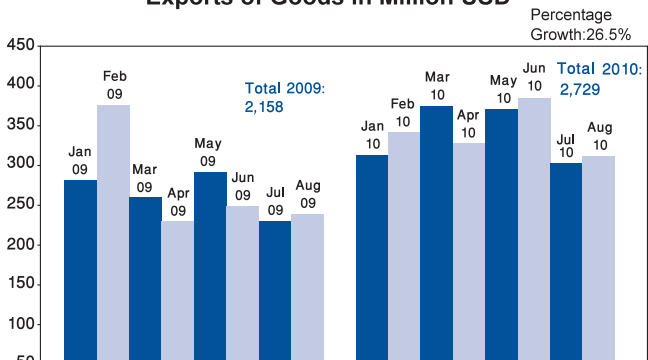
From the beginning of the year towards the end-of-August, the total arrivals reached more than 1.8 million or up by 10.3% from the level reported for same period in 2009. This is due to record numbers of Lebanese expatriates visiting and to a significant increase in the number of tourists, mostly from the GCC countries.

Arrivals at Rafic Hariri (Beirut) International Airport



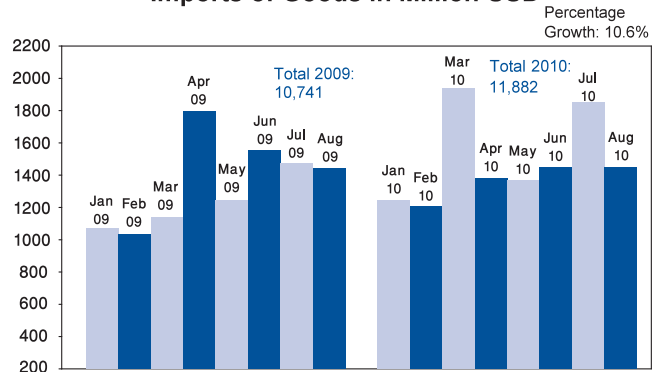
In addition to construction and tourism, the export sector has been providing important support for the economy, especially over the last years. However, the global financial crisis which affected global demand slowed the growth rate of the exports. As a result, total exports grew by only 0.2% in 2009, to reach \$3.484 billion in comparison with \$3.478 billion in 2008. But exports have picked up again. From the beginning of the year to the end-of-August, the value of exports rose to \$2.7 billion from \$2.15 billion for the same period the previous year; a 26.5% increase. Base metals and machinery/electrical instruments registered the highest growths of exported goods in the first eight months of 2010 with increases of 57% and 53% respectively when compared to the same period of 2009.

Exports of Goods in Million USD



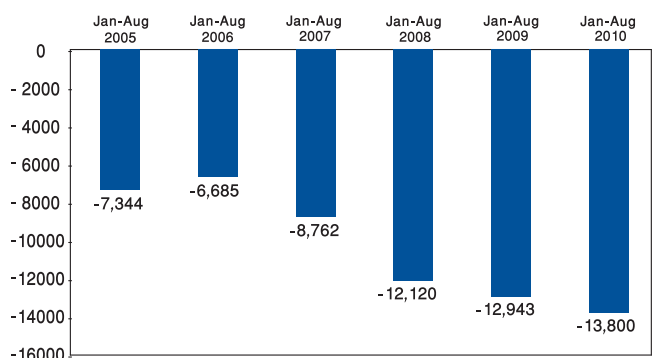
In 2009, the growth in imports slightly surpassed that of exports, registering an increase of around 0.6% totaling \$16.24 billion from the same period in 2008 reaching \$16.14 billion. The total value of imports increased from the beginning of 2010 to the end of August 2010 by 10.6% to reach \$11.8 billion up from the \$10.74 billion recorded in the same period last year. The rise in imports registered towards the end of August is mainly attributed to amelioration in consumption inside Lebanon and a weaker Euro.

Imports of Goods in Million USD



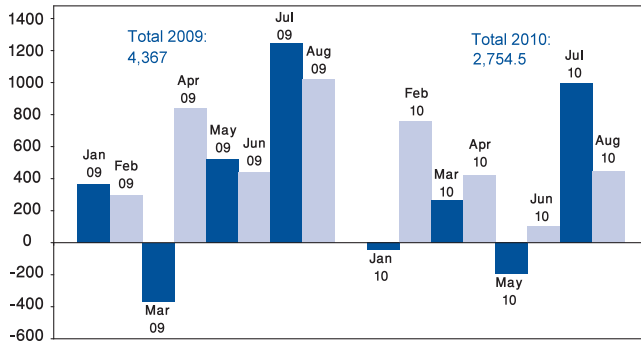
As the growth in imports surpassed the growth in exports, the trade deficit expanded to reach \$13.8 billion from the beginning of the year to end-of-August up from \$12.9 billion recorded in the same period last year; a 6.6% increase.

Trade Balance in Million USD



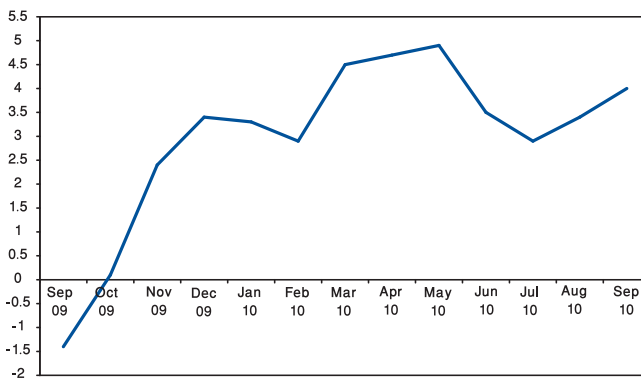
The balance of payments recorded a cumulative surplus of around \$2.75 billion from the beginning of the year and towards the end of August, in comparison with a cumulative surplus of \$4.36 billion in the same period last year. This is the result of an increase in net foreign assets held by the Central Bank by \$2,987 million opposed to a decrease of \$233 million in net foreign assets at commercial banks during Jan-Aug 2010.

Balance of Payments Flows in Million USD



The generally higher level of economic activity has thus far been achieved without a significant increase in inflation.

Inflation Year on Year in percent



The price level witnessed a 4% increase in September 2010, year-on-year, led mainly by a 33.8% increase in clothing and footwear and a 9.5% increase in education.

| Expenditure Divisions | Weights | Inflation rate September 2010 / September 2009 |
|--|------------|--|
| Food and non-alcoholic beverages | 19.9 | 5.4 |
| Alcoholic beverages, tobacco | 2.1 | 1.6 |
| Clothing and footwear | 6.2 | 33.8 |
| Housing water, electricity, gas and other fuels | 25.7 | |
| <i>Housing</i> | 16.2 | 0.0 |
| <i>Water, electricity, gas and other fuels</i> | 9.5 | 4.2 |
| Furnishings, household equipment and routine household maintenance | 3.9 | -2.2 |
| Health | 6.8 | -4.2 |
| Transportation | 12.3 | 0.1 |
| Communication | 4.8 | -0.1 |
| Recreation, amusement, and culture | 3.7 | 3.0 |
| Education | 7.7 | 9.5 |
| Restaurants & hotels | 2.7 | 4.1 |
| Miscellaneous goods & services | 4.2 | 1.9 |
| Consumer price index | 100 | 4.0 |

Source: Central Administration of Statistics



Public Finances

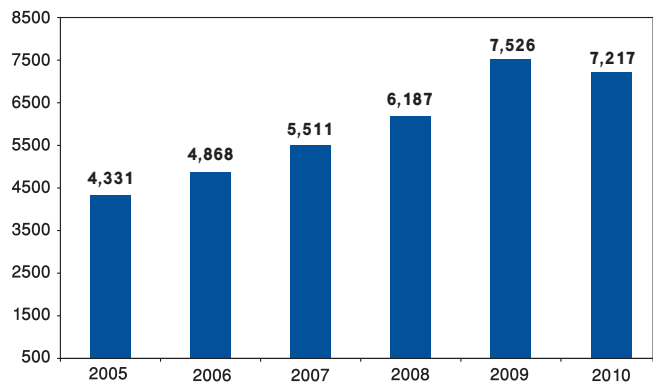
● ● *The public finances continue to show good improvement amid an increase in revenues spurred by higher economic activity and lower expenditures due to lower transfers to EDL.*

In line with the government’s reform agenda, public finances continued to exhibit some signs of progress from the beginning of 2010 until the end of August. Total revenues reached \$5.67 billion compared with \$5.68 billion from the same period in 2009. This shy 0.2 % year-on-year decrease was due to a 47% decrease in non-tax revenues from the beginning of the year towards the end of August, resulting from a delay in the transfers from the Telecom budget surplus to the Treasury. In fact, receipts to the Treasury from telecommunications services went down by 74.6% year-on-year to \$220 million from the beginning of the year towards the end of August. Last year, the transfer of telecom receipt totaled \$869 million, which means if equivalent transfers were met this year, total revenue would have increased by 11% rather than declining by 0.2%.

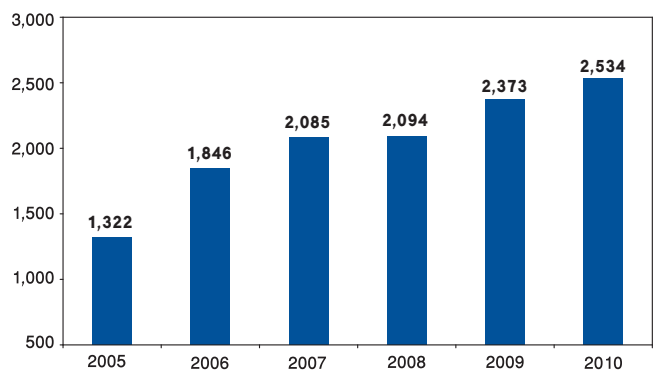
In parallel, tax revenues improved by 14.4% to \$4.6 billion, due to a year-on-year rise of 11.6% in VAT revenues and an increase of 6.7% in customs revenues. The rise in VAT is explained by a growing domestic demand, strong tourism activity and import growth.

domestic and foreign debt increased by 6.7% year-on-year to reach \$2.53 billion from the beginning of the year until end-of-August 2010. The rise was driven by a 9.8% increase of interest payments on local currency debt and an increase of 1.2% of interest payments on foreign currency debt.

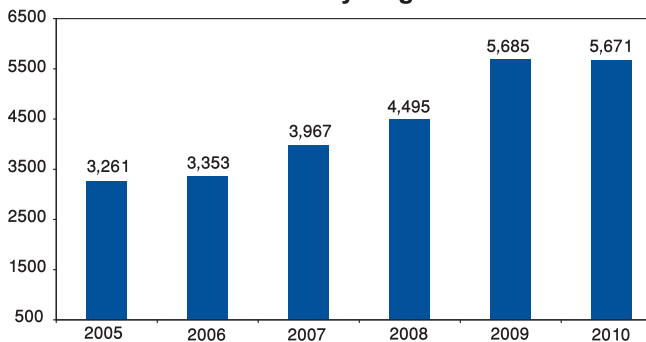
**Expenditures in Million USD
January-August**



**Interest Payments on Domestic and Foreign Debt
in Million USD January-August**



**Revenues in Millibn USD
January-August**



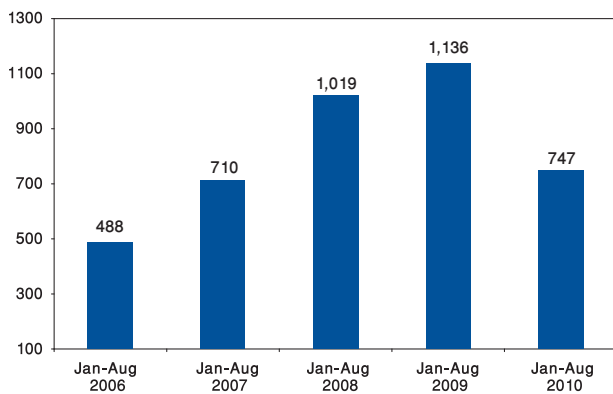
As to treasury expenditures, transfers to the state-owned electricity company (EDL) have been increasing over the past few years. Although fluctuation in oil prices is one of the main factors in these transfers, technical and non-technical losses in the energy sector have played a major role in government transfers to the public entity. Despite the fact that transfers from

| (in million USD) | Jan-Aug 2005 | Jan-Aug 2006 | Jan-Aug 2007 | Jan-Aug 2008 | Jan-Aug 2009 | Jan-Aug 2010 |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| VAT Revenues | 743 | 696 | 881 | 1,123 | 1,294 | 1,444 |
| Customs Revenues | 571 | 410 | 555 | 596 | 1,170 | 1,249 |
| Transfer from the Telecom Surplus | 603 | 615 | 744 | 626 | 869 | 220 |

Total expenditures went down to \$7.21 billion from the beginning of the year towards the end of August from \$7.52 billion for the same period in 2009; down by 4%. This drop is mainly caused by a 34.4% contraction in treasury expenditures that offset the 0.3% increase in budgetary expenditures. Interest payments on

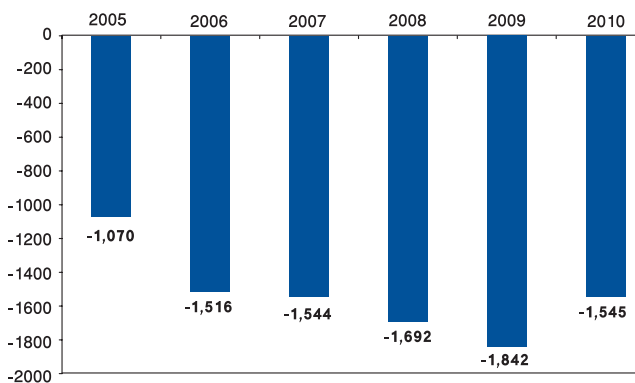
the beginning of the year towards August 2010 have dropped significantly to \$747 million from \$1.13 billion from the same period in 2009, the drop was mainly attributed to lower oil prices and to the securing of gas supply through the swap arrangements between Lebanon, Syria and Egypt.

Transfers to Electricité du Liban in Million USD



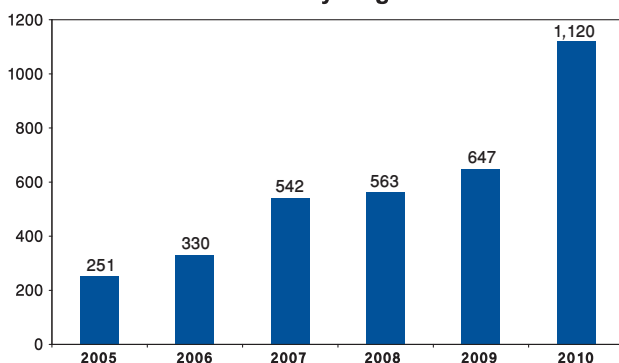
As a result, and as a strong sign of improvement, the overall deficit went down to \$1.545 billion from the beginning of the year towards the end of August 2010 from \$1.842 billion reported in the same period in 2009; down by more than 16%. The deficit would have been down by at least 51% if telecoms transfers were not held by the Ministry of Telecoms.

Fiscal Balance in Million USD January-August



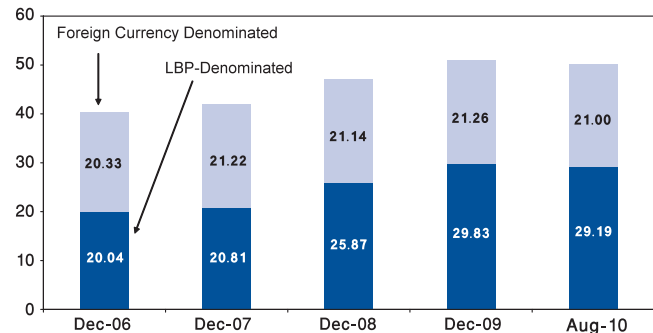
The primary balance, i.e. the total balance minus interest payments on the debt, increased to an unprecedented level exceeding previously recorded surpluses towards the end of the eight months of the year in the past few years. Since the beginning of the year and towards the end of August 2010, the primary balance increased to \$1.12 billion from \$647million recorded in the same period in 2009; an increase by more than 73%.

Primary Balance in Million USD January-August



Gross public debt decreased by around 1.76%, from \$51.09 billion at end-2009 to \$50.19 billion at end-of-August 2010. The debt in local currency is still exceeding the foreign currency denominated debt, a shift that started in 2007 and have been reducing the overall debt vulnerability. Local currency debt accounted for 58.2% of gross public debt at end-August 2010, while foreign currency denominated debt represented 42% of the total.

Gross Public Debt in Billion USD



Meanwhile, it is clear that the maturity profile of the domestic currency debt continues to extend as the 3-years and 5-years treasury issues continue to increase.

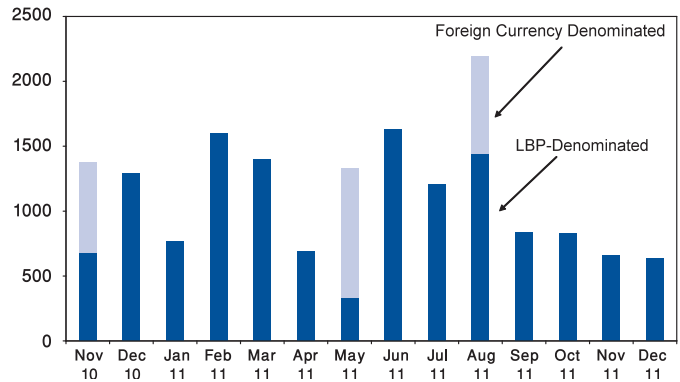
| Projected Monthly Maturities of Outstanding TB's Portfolio denominated in LBP as at August 31, 2010 (Million USD) | | | | | | | | |
|--|--------------|------------|------------|------------|--------------|---------------|--------------|---------------|
| Year | Month | Category | | | | | | Total |
| | | 3-month | 6-month | 12-month | 24-month | 36-month | 60-month | |
| 2010 | Nov-10 | 113 | 37 | 56 | 48 | 427 | | 681 |
| | Dec-10 | | 88 | 113 | 16 | 1,073 | | 1,290 |
| | Total | 113 | 125 | 169 | 64 | 1,500 | | 1,971 |
| 2011 | Jan-11 | | 117 | 115 | 151 | 385 | | 767 |
| | Feb-11 | | 158 | 96 | 82 | 1,264 | | 1,600 |
| | Mar-11 | | | | 131 | 1,000 | 265 | 1,396 |
| | Apr-11 | | | 79 | 87 | 521 | | 687 |
| | May-11 | | | 43 | 30 | 255 | | 328 |
| | Jun-11 | | | 78 | 31 | 1,522 | | 1,632 |
| | Jul-11 | | | 133 | 19 | 1,055 | | 1,207 |
| | Aug-11 | | | 44 | 155 | 1,244 | | 1,442 |
| | Sep-11 | | | | 184 | 650 | | 834 |
| | Oct-11 | | | | 200 | 626 | | 826 |
| | Nov-11 | | | | 62 | 595 | | 657 |
| | Dec-11 | | | | 153 | 480 | | 633 |
| Total | | | 275 | 588 | 1,284 | 9,598 | 265 | 12,010 |
| 2012 | Jan-12 | | | | 121 | 515 | | 635 |
| | Feb-12 | | | | 91 | 354 | | 445 |
| | Mar-12 | | | | | 551 | | 551 |
| | Apr-12 | | | | 113 | 328 | | 441 |
| | May-12 | | | | 60 | 672 | | 732 |
| | Jun-12 | | | | 82 | 393 | | 475 |
| | Jul-12 | | | | 173 | 407 | | 580 |
| | Aug-12 | | | | 27 | 410 | | 437 |
| | Sep-12 | | | | | 796 | | 796 |
| | Oct-12 | | | | | 672 | 666 | 1,338 |
| | Nov-12 | | | | | 544 | 351 | 895 |
| | Dec-12 | | | | | 549 | | 549 |
| Total | | | | | 667 | 6,190 | 1,017 | 7,875 |
| 2013 | Jan-13 | | | | | 299 | | 299 |
| | Feb-13 | | | | | 187 | | 187 |
| | Apr-13 | | | | | 402 | | 402 |
| | May-13 | | | | | 343 | | 343 |
| | Jun-13 | | | | | 279 | | 279 |
| | Jul-13 | | | | | 180 | | 180 |
| | Aug-13 | | | | | 170 | | 170 |
| Total | | | | | | 1,860 | | 1,860 |
| 2014 | Jul-14 | | | | | | 92 | 92 |
| | Aug-14 | | | | | | 206 | 206 |
| | Sep-14 | | | | | | 205 | 205 |
| | Oct-14 | | | | | | 251 | 251 |
| | Nov-14 | | | | | | 333 | 333 |
| | Dec-14 | | | | | | 230 | 230 |
| Total | | | | | | | 1,318 | 1,318 |
| 2015 | Jan-15 | | | | | | 433 | 433 |
| | Feb-15 | | | | | | 308 | 308 |
| | Apr-15 | | | | | | 308 | 308 |
| | May-15 | | | | | | 94 | 94 |
| | Jun-15 | | | | | | 150 | 150 |
| | Jul-15 | | | | | | 135 | 135 |
| | Aug-15 | | | | | | 184 | 184 |
| Total | | | | | | | 1,611 | 1,611 |
| Portfolio | | 113 | 399 | 757 | 2,015 | 19,148 | 4,212 | 26,645 |

**Projected Monthly Maturities of
Outstanding Market Debt**
Denominated in FC (Million USD) as at
August 31, 2010

| | |
|--------|-------|
| Nov-10 | 700 |
| May-11 | 1,000 |
| Aug-11 | 750 |
| Mar-12 | 600 |
| Apr-12 | 680 |
| Jul-12 | 200 |
| Sep-12 | 600 |
| Mar-13 | 875 |
| Jun-13 | 650 |
| Apr-14 | 677 |
| May-14 | 882 |
| Jan-15 | 250 |
| Aug-15 | 500 |
| Jan-16 | 750 |
| May-16 | 400 |
| Mar-17 | 1,465 |
| Jul-17 | 270 |
| Dec-17 | 1,993 |
| Mar-18 | 595 |
| May-18 | 160 |
| Mar-20 | 1,200 |
| Apr-21 | 2,092 |
| Dec-24 | 250 |

The monthly amortization payments show the equivalent of around \$13.98 billion in LBP-denominated (Treasury Bills) and around of \$2.45 billion in market-issued foreign-currency debt, falling due between the fall of 2010 and the end of 2011. We do not expect any problems with the government refinancing these payments through the local banking system as well as international bond issuances.

Amortization Obligations in Million USD

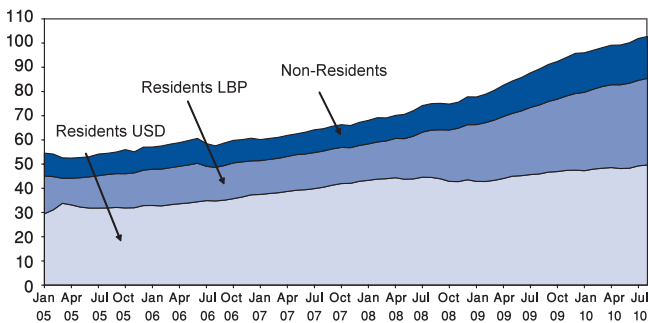


Banking Sector and Financial Markets

●● The banking sector continued its solid growth in 2010, and credit to the private sector has shown unprecedented growth.

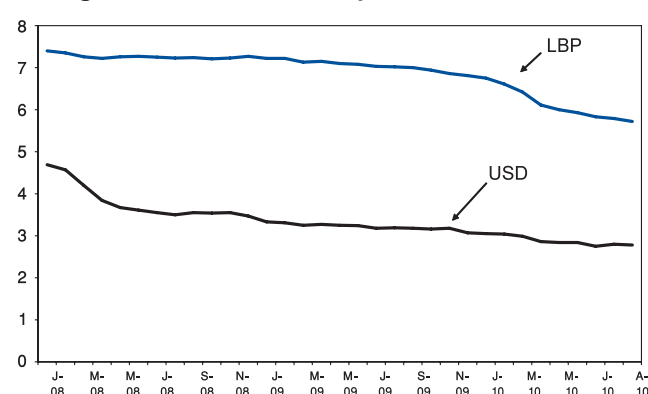
As it continues to show resilience to the global financial crisis, the banking sector continued to play a leading role in the Lebanese economy by also showing remarkable resilience to political and security challenges. From the beginning of the year until the end of August, total assets at commercial banks totaled \$125.29 billion; a 16.69% increase from the equivalent period last year. Total private sector deposits (resident and non-resident) totaled \$102.72 billion or a 15% increase from the equivalent period last year. Residents' deposits increased to \$85.42 billion end-of-August 2010 from \$74.45 billion end-of-August 2009 showing a 14.73% year-on-year increase. Non-residents' deposits increased to \$17.3 billion from \$14.85 billion showing a 16.5% year-on-year increase. The LBP-denominated deposits (resident and non-resident) experienced a remarkable 26.5% increase from August 2009 to August 2010, leading the dollarization rate to decrease to 62.5% by the end of August 2010.

**Total Commercial Banks' Private Sector Deposits
Residents and Non-Residents- in Billion USD**

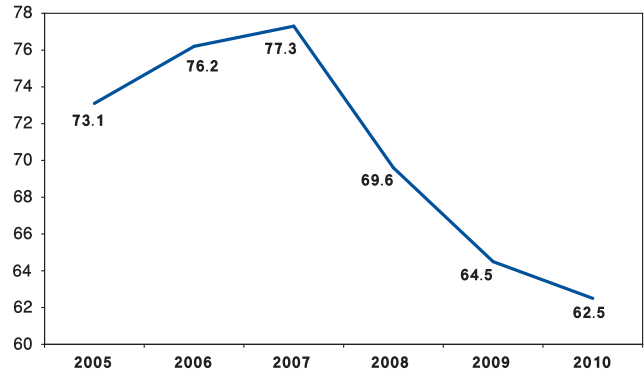


The growth in deposits was not attributed to higher interest rates. Indeed, the average interest rate on LBP deposits has edged down, reaching 5.72% in August 2010, while the average interest rate on USD deposits declined by 40 bps from August 2009 to August 2010.

Average Interest rates on Deposits in LBP and USD



Dollarization of Private Sector Deposits (%)

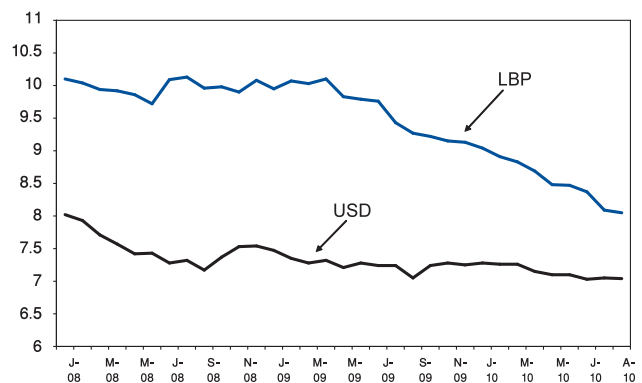


Loans to the private sector reached \$28.34 billion end-of-August 2010, up by 24.6% from end-of-August 2009; a significant performance when taking into account the slowdown in lending activity growth around the world. The increase in lending benefited from a significant subsidy program by the Central Bank (BdL), mainly on loans extended in LBP, with banks benefiting from a corresponding reduction in their reserve requirement at the BdL.

As a result, loans to the private sector in LBP increased by August 2010 to the equivalent of \$6.2 billion, an increase of 54% from August 2009, while loans in USD increased to \$22.1 billion, an increase of 18.3% from August 2009.

The interest rate on loans decreased by 122 bps in LBP and 1 bps in USD between August 2009 and August 2010.

Average Interest Rates on Loans in LBP and USD



The support of the government is not restricted to corporate and housing and student loans types of lending but also extends to the SME sector. Loans issued by Kafalat, which is an organization sponsored by the government to assist small and medium enterprises (SMEs) to have access to commercial loans by benefiting from subsidized interest rates,

Consolidated Balance Sheet of Lebanese Commercial Banks

| | USD Billion | | | | |
|---|--------------|---------------|---------------|---------------|---------------|
| | Dec-08 | Aug-09 | Dec-09 | Aug-10 | Aug10/Aug09 % |
| Assets | | | | | |
| Deposits at BDL | 25.73 | 33.34 | 35.31 | 39.14 | 17.40 |
| Claims on Private Sector | 21.06 | 22.74 | 24.26 | 28.34 | 24.63 |
| in LBP | 3.36 | 4.02 | 4.54 | 6.19 | 53.98 |
| In USD | 17.70 | 18.72 | 19.72 | 22.14 | 18.27 |
| Claims on Public Sector | 25.42 | 26.83 | 29.06 | 29.08 | 8.39 |
| in LBP | 15.06 | 14.96 | 17.50 | 17.54 | 17.25 |
| In USD | 10.35 | 11.81 | 11.57 | 11.54 | -2.29 |
| Foreign Assets | 19.13 | 21.14 | 23.68 | 25.17 | 19.06 |
| Claims on Non-Residents Banks | 11.39 | 12.70 | 15.02 | 15.21 | 19.76 |
| Liabilities | | | | | |
| Resident Private Sector Deposits | 66.27 | 74.45 | 79.19 | 85.42 | 14.73 |
| in LBP | 22.76 | 28.53 | 31.67 | 35.76 | 25.34 |
| In USD | 43.52 | 45.92 | 47.53 | 49.66 | 8.14 |
| Public Sector Deposits | 0.88 | 0.93 | 1.05 | 1.24 | 33.33 |
| Non-Residents Deposits | 11.51 | 14.85 | 16.57 | 17.30 | 16.50 |
| in LBP | 0.91 | 1.84 | 2.37 | 2.67 | 45.11 |
| In USD | 10.60 | 13.01 | 14.20 | 14.63 | 12.45 |
| Deposits of Non Residents Banks | 4.31 | 4.40 | 4.60 | 5.20 | 18.18 |
| Capital Account | 7.10 | 7.53 | 7.94 | 9.01 | 19.65 |
| Balance Sheet (Assets=Liabilities) | 94.26 | 107.37 | 115.25 | 125.29 | 16.69 |

Source: BDL

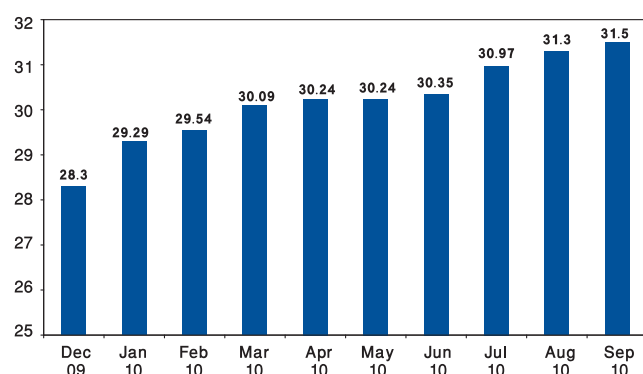
have been growing over the past few years. The value of the loans issues from the beginning of the year toward the end of August reached \$114 million while the value of the loans issues for the same period last year reached \$89 million; a 28% increase.

Lebanese financial markets continued to show resilience despite the renewed tensions, to sustain a growing reserve at the Central Bank. The Central Bank succeeded in boosting its gross international reserves in the first 9 months of 2010 where remittances remained unaffected by the aftermath of the global financial crisis and the renewed political tensions. Expatriates continued to seek the relative safety and stability prevailing in the Lebanese banking sector.

In this context, gross international reserves reached \$31.3 billion at the end of August 2010, and hence increased by more than 23% from August 2009 and by more than 10% from the beginning of the year.

The Beirut Stock Exchange saw a light drop in prices since the end of December 2009 up until the 22nd of October 2010, the last day of trading before this report was published. In fact, the BSE market capitalization declined by 4.7% over the same period on the back of a relatively low demand and mirroring the emerging and Arabian markets indices.

BDL Gross International Reserves in Billion USD



| Selected Listed Securities | Closing Price (USD) | |
|---|-----------------------|-----------------------|
| | 31-Dec-09 | 22-Oct-10 |
| Solidere A | 23.98 | 18.65 |
| Solidere B | 23.78 | 18.71 |
| Bank Audi | 82.95 | 8.00 |
| Bank Audi- GDR | 89.00 | 8.19 |
| Byblos Bank | 2.09 | 1.75 |
| BLOM Bank | 84.00 | 8.80 |
| BLOM Bank GDR | 89.80 | 9.30 |
| Holcim Liban | 12.52 | 14.34 |
| Total Market Capitalization (in USD) | 12,842,743,477 | 12,239,749,823 |

The bottom line

● ● The political stability that was enshrined by the Doha Accord and later the formation of a national unity government, combined with the proven ability to avoid the global financial crisis and its repercussions have both allowed the Lebanese economy to register for three consecutive years the highest growth rates in its recent history.

But with the foundations of the political stability being recently shaken, and with the global crisis morphing into a slow recovery, global currency wars, and potentially higher sovereign risk in Europe, some may question the ability of the economy to withstand these big changes.

Our view is that while growth rates will slow down a bit, maybe to 8% in 2010 and 6% in 2011, the economy and the financial sector will remain resilient. The shocks that Lebanon went through since 2005 and the performance of the economy and the banking sector throughout this period constitute a proven track record in dealing with stressful episodes. If anything the risk is on the upside: the resolution of the political divisions may open the door for the structural reforms that are so much needed in the power, telecom and transport sectors, and ease both the supply bottlenecks and the cost of doing business, opening the door for double-digit growth rates.



Tables

General Economic Indicators

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|--------|--------|--------|--------|--------|--------|
| Real GDP growth (in %) | 1.0 | 0.6 | 7.5 | 9.3 | 9 | 8 |
| inflation*** (in %) | 0.5 | 7.2 | 9.2 | 5.5 | 3.4 | 4 |
| GDP (in Billion \$) | 21.4 | 22.6 | 24.64 | 29.9 | 34.5 | 39.1 |
| Government Revenues* (in Million \$) | 4,912 | 4,838 | 5,804 | 7,033 | 8,428 | 8,506 |
| Government Expenditures* (in Million \$) | 6,768 | 7,879 | 8,350 | 9,955 | 11,388 | 10,826 |
| Deficit* (in Million \$) | 1,856 | 3,041 | 2,546 | 2,921 | 2,960 | 2,320 |
| Deficit* (in % of GDP) | 8.4 | 13.4 | 10.3 | 10.0 | 8.6 | 6 |
| Primary Balance* (in Million \$) | 489 | -17 | 731 | 597 | 1,078 | 1,680 |
| Primary Balance* (in % of GDP) | 2.2 | 0.0 | 3.0 | 2.1 | 3.1 | 4 |
| Gross Public Debt** (in Billion \$) | 38.48 | 40.40 | 42.03 | 47.01 | 51.09 | 50.19 |
| of which LBP** (in Billion \$) | 19.33 | 20.00 | 20.81 | 25.87 | 29.83 | 29.19 |
| of which USD** (in Billion \$) | 19.15 | 20.40 | 21.22 | 21.14 | 21.26 | 21.00 |
| Gross Public Debt** (in % of GDP) | 174 | 178 | 171 | 160 | 148 | 128 |
| Export of Goods* (in Million \$) | 1,880 | 2,282 | 2,816 | 3,478 | 3,484 | 4,093 |
| Imports of Goods* (in Million \$) | 9,343 | 9,398 | 11,818 | 16,137 | 16,242 | 17,819 |
| Trade Deficit* (in Million \$) | 7,463 | 7,116 | 9,002 | 12,659 | 12,758 | 13,726 |
| Trade Deficit* (in % of GDP) | 33.8 | 31.5 | 36.6 | 43 | 37 | 35 |
| Current Account Deficit***** (in million \$) | 2,715 | 1,116 | 1,605 | 4,103 | 7,555 | 4,435 |
| Current Account Deficit***** (in % of GDP) | 12.7 | 4.9 | 6.5 | 13.7 | 21.9 | 11.3 |
| Foreign direct investment**** (in Million \$) | 3,321 | 3,132 | 3,376 | 4,333 | 4,804 | 3,910 |
| Balance of Payments Flows** (in Million \$) | 747 | 2,795 | 2,036 | 3,462 | 7,899 | 2,754 |
| BDL FC Reserves** (in Million \$) | 11,657 | 12,975 | 12,844 | 19,730 | 28,300 | 31,283 |

Source: IMF, Ministry of Finance, BDL, and BankMed

*Annualised figures for 2010

**As of August 2010

***As of September 2010

****UNCTAD 2005-2009 figures; IMF figure for 2010, assuming privatisation of telecom

*****IMF figure for 2010

Total Imports & Exports By Product (Million US Dollars)

| Goods | Imports | | Exports | |
|--|-----------------|-----------------|-----------------|-----------------|
| | Jan-Aug 2009 | Jan-Aug 2010 | Jan-Aug 2009 | Jan-Aug 2010 |
| Live animals, animal products | 500 | 548 | 10 | 11 |
| Vegetable products | 424 | 461 | 75 | 91 |
| Fats & edible fats & oils | 92 | 88 | 13 | 15 |
| Prepared foodstuffs | 622 | 747 | 191 | 219 |
| Mineral products | 2,153 | 2,375 | 65 | 34 |
| Products of the chemical | 901 | 1,043 | 137 | 199 |
| Plastic & articles thereof | 353 | 425 | 82 | 78 |
| Raw hides & skins, leather, furskins | 41 | 48 | 5 | 7 |
| Wood and articles of wood | 146 | 156 | 21 | 15 |
| Pulp of wood, paper and paperboard | 232 | 262 | 152 | 155 |
| Textiles and textile articles | 442 | 466 | 69 | 69 |
| Footwear, headgear, prepared feathers | 77 | 89 | 13 | 16 |
| Articles of stone, plaster, cement | 206 | 258 | 41 | 31 |
| Pearls, precious stones and metals | 455 | 782 | 610 | 753 |
| Base metals and articles of base metal | 660 | 876 | 196 | 307 |
| Machinery & mechanical appliances | 1,276 | 1,480 | 323 | 493 |
| Transport equipment | 1,771 | 1,353 | 64 | 145 |
| Optical instruments & apparatus | 173 | 196 | 17 | 17 |
| Arms and ammunition | 12 | 15 | 0 | 1 |
| Miscellaneous manufactured articles | 191 | 203 | 69 | 68 |
| Works of art | 13 | 10 | 8 | 5 |
| Total | 10,740 | 11,879 | 2,158 | 2,728 |

Source: Directorate General of Customs

Imports By Origin (Million US Dollars)

| | Jan-Aug 2009 | Share % | Jan-Aug 2010 | Share % |
|----------------------|---------------|------------|---------------|------------|
| USA | 1,084 | 10.1 | 1,092 | 9.2 |
| China | 932 | 8.7 | 1,090 | 9.2 |
| Italy | 776 | 7.2 | 933 | 7.9 |
| Germany | 812 | 7.6 | 848 | 7.1 |
| France | 1,163 | 10.8 | 780 | 6.6 |
| Turkey | 433 | 4.0 | 465 | 3.9 |
| Japan | 457 | 4.3 | 433 | 3.6 |
| Russia | 308 | 2.9 | 387 | 3.3 |
| Switzerland | 291 | 2.7 | 386 | 3.2 |
| United Kingdom | 330 | 3.1 | 345 | 2.9 |
| Egypt | 258 | 2.4 | 290 | 2.4 |
| Other Countries | 3,896 | 36.3 | 4,830 | 40.7 |
| Total imports | 10,740 | 100 | 11,879 | 100 |

Source: Directorate General of Customs

Exports By Destination (Million US Dollars)

| | Jan-Aug 2009 | Share % | Jan-Aug 2010 | Share % |
|----------------------|--------------|------------|--------------|------------|
| Switzerland | 440 | 20.4 | 375 | 13.7 |
| UAE | 213 | 9.9 | 283 | 10.4 |
| South Africa | 2 | 0.1 | 207 | 7.6 |
| Iraq | 192 | 8.9 | 184 | 6.7 |
| Saudi Arabia | 169 | 7.8 | 164 | 6.0 |
| Turkey | 61 | 2.8 | 156 | 5.7 |
| Syria | 139 | 6.4 | 148 | 5.4 |
| Egypt | 42 | 1.9 | 135 | 4.9 |
| France | 63 | 2.9 | 122 | 4.5 |
| Jordan | 72 | 3.3 | 64 | 2.3 |
| Belgium | 79 | 3.7 | 63 | 2.3 |
| Other Countries | 686 | 31.8 | 827 | 30.3 |
| Total Exports | 2,158 | 100 | 2,728 | 100 |

Source: Directorate General of Customs

Fiscal Performance Summary (LBP Million)

| | 2006 | 2007 | 2008 | 2009 | 2010 jan-Aug |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|
| 1. Budget Transactions | | | | | |
| 1.1 Revenues | 6,867,491 | 8,093,626 | 9,794,988 | 12,036,474 | 8,073,435 |
| 1.1.1 Tax Revenues | 4,922,218 | 5,582,892 | 7,182,442 | 8,967,305 | 7,013,546 |
| Tax Revenues | 2,189,561 | 2,332,796 | 3,010,956 | 3,414,859 | 2,953,616 |
| Customs Revenues | 1,073,924 | 1,246,891 | 1,587,685 | 2,663,844 | 1,883,154 |
| VAT Revenues | 1,658,733 | 2,003,205 | 2,583,801 | 2,888,602 | 2,176,776 |
| 1.1.2 Non Tax Revenues | 1,945,273 | 2,510,734 | 2,612,546 | 3,069,169 | 1,059,889 |
| 1.2 Expenditures | 8,640,901 | 10,070,335 | 10,983,537 | 13,028,439 | 9,928,437 |
| 1.2.1 Expenditures excluding debt service of which EDL | 4,084,093 1,370,000 | 5,130,184 1,478,805 | 5,679,107 2,430,079 | 6,941,632 2,258,533 | 5,909,804 1,126,007 |
| 1.2.2 Debt Service | 4,556,808 | 4,940,151 | 4,957,351 | 5,784,054 | 3,820,720 |
| 1.2.2.1 Domestic Debt | 2,368,158 | 2,515,417 | 2,847,301 | 3,663,215 | 2,546,949 |
| 1.2.2.2 Foreign Debt | 2,188,650 | 2,424,734 | 2,110,050 | 2,120,839 | 1,273,771 |
| 2. Treasury Transactions | | | | | |
| 2.1 Receipts | 427,365 | 655,404 | 757,813 | 668,801 | 475,640 |
| 2.1.1 Trust accounts/Guarantees | 68,809 | 109,121 | 88,161 | 84,031 | 103,275 |
| 2.1.2 Municipalities | 68,809 | 155,618 | 207,359 | 239,404 | 205,095 |
| 2.1.3 Deposits | 74,244 | 77,834 | 81,384 | 93,756 | 64,989 |
| 2.1.4 Other | 146,904 | 312,831 | 380,909 | 251,610 | 102,281 |
| 2.2 Payments | 3,235,648 | 2,516,551 | 3,973,259 | 4,138,821 | 950,373 |
| 2.2.1 Trust accounts/Guarantees | 504,116 | 245,951 | 289,417 | 491,209 | 64,196 |
| 2.2.2 Municipalities | 404,778 | 306,451 | 526,658 | 456,408 | 287,920 |
| 2.2.3 Deposits | 59,669 | 84,260 | 83,620 | 89,661 | 42,900 |
| 2.2.4 Other | 2,267,085 | 401,084 | 643,485 | 843,010 | 555,357 |
| 3.Total Budget and Treasury Receipts | 7,294,856 | 8,749,030 | 10,552,801 | 12,705,275 | 8,549,075 |
| 4.Total Budget and Treasury Payments | 11,876,549 | 12,586,886 | 14,956,796 | 17,167,260 | 10,878,810 |
| 5. Total Deficit/Surplus (cash basis) | -4,581,693 | -3,837,856 | -4,403,995 | -4,461,985 | -2,329,735 |
| 6.Total Primary Deficit/Surplus | -24,885 | 1,102,295 | 900,435 | 1,624,822 | 1,688,898 |

Source: Ministry of Finance

Gross Public Sector Debt Outstanding

| | Dec. 06 | Dec. 07 | Dec. 08 | Dec. 09 | Jul. 10 |
|--|---------------|---------------|---------------|---------------|---------------|
| in LBP Billion | | | | | |
| Total Gross Public debt | 60,851 | 63,364 | 70,888 | 77,075 | 76,546 |
| Domestic Debt | 30,204 | 31,373 | 39,007 | 44,973 | 44,865 |
| a. Central Bank (including REPOs and Loans to EDL) | 9,588 | 9,052 | 8,781 | 10,334 | 9,687 |
| b. Commercial Banks | 16,487 | 16,847 | 24,320 | 27,286 | 27,659 |
| c. Other Domestic Debt (T-Bills) | 4,129 | 5,474 | 5,906 | 7,353 | 7,519 |
| o/w Public entities | 3,313 | 4,796 | 5,062 | 6,078 | 6,060 |
| Foreign debt | 30,647 | 31,991 | 31,881 | 32,102 | 31,681 |
| a. Bilateral Multilateral Foreign Private sector loans | 2,855 | 2,963 | 2,802 | 2,676 | 2,531 |
| b. Paris II Related debt (Eurobonds and Loans) | 6,540 | 6,063 | 5,456 | 4,819 | 4,448 |
| c. Paris III related debt (Eurobonds) | | 1,357 | 1,849 | 1,963 | 1,860 |
| d. Market Eurobonds | 20,399 | 20,780 | 20,925 | 21,736 | 21,826 |
| <i>of which Lebanese banks</i> | 16,091 | 16,696 | 15,608 | 17,435 | 17,545 |
| e. Accrued Interest on foreign currency debt | 434 | 410 | 430 | 460 | 535 |
| f. Special T-Bills in Foreign currency | 419 | 419 | 419 | 447 | 481 |
| in USD Billion | | | | | |
| Total Gross Public debt | 40.366 | 42.033 | 47.024 | 51.128 | 50.777 |
| Domestic Debt | 20.036 | 20.811 | 25.875 | 29.833 | 29.761 |
| a. Central Bank (including REPOs and Loans to EDL) | 6.360 | 6.005 | 5.825 | 6.855 | 6.426 |
| b. Commercial Banks | 10.937 | 11.175 | 16.133 | 18.100 | 18.348 |
| c. Other Domestic Debt (T-Bills) | 2.739 | 3.631 | 3.918 | 4.878 | 4.988 |
| o/w Public entities | 2.198 | 3.181 | 3.358 | 4.032 | 4.020 |
| Foreign debt | 20.330 | 21.221 | 21.148 | 21.295 | 21.016 |
| a. Bilateral Multilateral Foreign Private sector loans | 1.894 | 1.966 | 1.859 | 1.775 | 1.679 |
| b. Paris II Related debt (Eurobonds and Loans) | 4.338 | 4.022 | 3.619 | 3.197 | 2.951 |
| c. Paris III related debt (Eurobonds) | | 0.900 | 1.227 | 1.302 | 1.234 |
| d. Market Eurobonds | 13.532 | 13.784 | 13.881 | 14.419 | 14.478 |
| <i>of which Lebanese banks</i> | 10.674 | 11.075 | 10.354 | 11.566 | 11.638 |
| e. Accrued Interest on foreign currency debt | 0.288 | 0.272 | 0.285 | 0.305 | 0.355 |
| f. Special T-Bills in Foreign currency | 0.278 | 0.278 | 0.278 | 0.297 | 0.319 |

Source: Ministry of Finance



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