Country Report - Lebanon

Credit Libanais Research

SUMMARY SHEET

OCTOBER 2009

Main Macro Economic Indicators					
Key Trends & Ratios	2005	2006	2007	2008	2009
GDP					
GDP At Current Prices (USD Millions)	21,861	22,438	25,047	28,942	31,298*
Real GDP Growth	1.10%	0.60%	7.50%	8.50%	7.00%*
GDP per Capita At Current Prices (USD)	59,880	6,060*	6,677*	7,617*	8,132*
Public Finance					
Net Public Debt (USD Millions)	34,756	37,418	39,020	41,500	43,051[2]
Gross Public Debt / GDP Ratio	175.70%	179.90%	167.80%	162.50%	N.A.
Debt Service / Net Public Debt Ratio	6.74%	8.08%	8.40%	7.92%	N.A.
Total Deficit (USD Millions)	(1,856)	(3,027)	(2,545)	(2,922)	(1,715)[2]
Total Deficit / Total Expenditures Ratio	27.42%	38.42%	30.49%	29.45%	25.22%[2]
Total Deficit / GDP Ratio	8.61%	13.49%	10.16%	10.10%	N.A.
External Sector					
Balance of Trade (USD Millions)	(7,460)	(7,115)	(8,999)	(12,658)	(7,297)[2]
Foreign Direct Investments (USD Millions)**	2,624	2,675	2,731	3,606	N.A.
FDI / GDP Ratio	12.00%	11.92%	10.90%	12.46%	N.A.
Foreign Reserves					
Foreign Assets (USD Millions)	11,657	12,975	12,395	19,732	25,688[4]
Foreign Currency Reserves (USD Millions)	9,845	10,207	9,778	17,062	22,012[2]
Gold Reserves (USD Millions)	4,736	5,807	7,640	8,032	9,246[4]
Total Reserves (USD Millions)	16,394	18,782	20,035	27,764	34,934[4]
Money Supply					
Broad Money Supply "M2" (USD Billions)	16.23	15.57	16.47	24.76	31.37[3]
Monetization Level (M2 / GDP Ratio)	74.24%	69.39%	65.76%	85.55%	N.A.

Republic Of Lebanon Sovereign Ratings			
Rating Agency	Tenor	Rating	Outlook
Standard & Poor's	Long-term	B-	Stable
	short-term	C	
Moody's Investors Service Ltd	Long-term	B2	Stable
Fitch IBCA Ltd	Long-term	B-	Stable
	short-term	B	

Source: Ministry of Finance: Debt & Debt Markets Reports Q2, 2009

(1) As At End of June 2009, (2) As At End of July 2009, (3) As At September 17, 2009 (4) As At End Of September 2009

*IMF Estimates, **UNCTAD figures

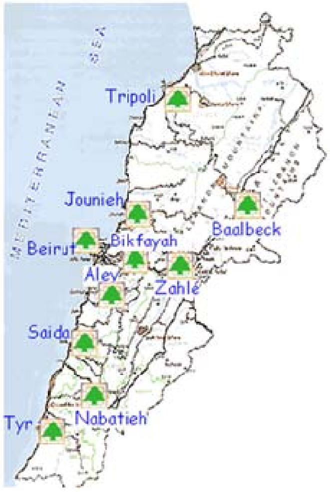


Image Source: BDL

OVERVIEW

The Lebanese economy continues to prosper in 2009, notwithstanding the rippling effects of the global financial crisis and propagating World economic recession. Main indicators remain solid, thanks to a regained level of confidence in the economy, a strong banking sector, a prudent Central Bank and an unprecedented rebound in tourism activity. More particularly, Lebanon presented a unique example amid the global financial crisis managing to achieve a consensus real GDP growth rate in excess of 8% in 2008, when paradoxically, regional and international economies lowered their respective growth expectations in 2008 to negative and near zero levels. The year 2009 was no exception for the Lebanese economy, with latest estimates projecting real GDP growth at 7%, despite the intensification of the global crisis and the prevalence of a World recessionary environment in the first tier of the year, thus eclipsing the negative 1.1% anticipated growth of the global economy. The resilience of the Lebanese banking sector, unarguably the backbone of the Lebanese economy, to domestic and international shocks coupled with the vibrant 2008 and 2009 tourism seasons in the aftermath of the Doha accord and smooth 2009 parliamentary elections, were the major drivers enabling Lebanon to weather, and oddly enough to benefit, from the mammoth financial storm. The unparalleled resiliency of the banking sector to the global crisis was the fruitful result of the Lebanese Central Bank's astute policies and stringent regulations. The credit also goes to Lebanese banks which succeeded at maintaining solid profitability levels, healthy liquidity ratios and a strong capital adequacy without tampering asset quality, with total consolidated banking sector assets attaining $105.38 billion through July 2009 up from $90.10 billion just one year earlier. A major impediment to a sustainable economic growth, however, pivots around the piling debt burden and the ensuing high debt to GDP ratio, which is considered to be one of the highest in the World, standing at 162.5% in 2008. Lebanon remains captive, though, of a vicious circle of a recurrent budget deficit, owing mainly to the burdensome debt service, and a mushrooming debt. The government, however, is striving to tackle this issue by organizing international aid conferences, which extended a lifeline to the Lebanese economy during periods of crisis, with the latest aid convention, the Paris III conference, amassing some $7.532 billion in pledged soft loans and grants.

Finally, the increasing confidence in the Lebanese economy allied with the remarkable improvement in Lebanon's major economic indicators may entitle the Lebanese government to refinance at cheaper rates, and eventually reduce debt servicing, as a first step towards tackling the lingering debt overhang.

STRENGTHS OF THE LEBANESE ECONOMY

The Lebanese economy enjoys a set of attributes which play a major role in accentuating growth and luring prospective investors. Said attributes include, among other things, the "laissez-faire" nature of the economy, the soundness of the Lebanese banking system, the country's clean record on debt servicing, the high level of international confidence materializing in international aid conferences, positive balance of payment figures and ample foreign reserves.

Complementing the aforementioned attributes is an array of investment incentives which serve to increase the appeal of investing in Lebanon in terms of lack of barriers on foreign investments, apart from some restrictions on real estate investments, free mobility and repatriation of capital in addition to a series of tax cuts and exemptions applicable to investments in certain businesses.

Said factors undoubtedly prepare for a better investment climate which, in its turn, will act as a catalyst for spurring economic growth.

FUTURE PROSPECTS

The vigorous performance of the Lebanese economy in 2008 and first half of 2009 demonstrated an unprecedented resiliency to regional and international tensions. In this background, and in light of the consecutive upward GDP revisions which raised Lebanon's 2009 real GDP growth estimate from 3% to 7%, we can expect the Lebanese economy to post a stellar performance in 2009 and the near future, backed by the stunning level of capital inflows, a vivid tourism season and a pick up in investment activity. Said performance, however, should be complemented with major reforms on the economic, political and bureaucratic fronts in an endeavor to further stimulate economic activity.

CREDIT LIBANAIS RESEARCH UNIT

Research: **Credit Libanais Research Unit**
E-mail: research@creditlibanais.com.lb
Phone/Fax: +961 1 326 786

IMPORTANT NOTICE

This economic research publication has been prepared by the Research unit at Credit Libanais s.a.l on the basis of published information and other sources which are deemed reliable. It is intended for limited use only and its distribution is strictly prohibited. Credit Libanais does not make any warranty or representation, expressed or implied, as to the accuracy or completeness of the materials contained herein. Neither the information nor the opinions expressed herein constitute, or are to be construed as an offer or solicitation of an offer to buy or sell investments. Opinions and data expressed herein are subject to change without notice.

TABLE OF CONTENTS

SYNOPSIS OF TERMS

"ABL"	The Association of Banks In Lebanon
"BCC"	Banking Control Commission
"BDL"	Banque Du Liban
"BEI"	Banque Européenne D'Investissement
"BIA"	Beirut International Airport
"BOP"	Balance of Payments
"BSE"	Beirut Stock Exchange
"CAGR"	Compounded Annual Growth Rate
"CDR"	Council for Development and Reconstruction
"CIA"	Central Intelligence Agency
"EDL"	Electricité Du Liban
"ESCWA"	Economic and Social Commission for Western Asia
"FDI"	Foreign Direct Investment
"GCC"	Gulf Cooperation Council
"GDP"	Gross Domestic Product
"HCP"	Higher Council for Privatization
"IDAL"	Investment Development Authority of Lebanon
"IFC"	International Finance Corporation
"IMF"	International Monetary Fund
"LBP"	The Lebanese Pound
"MSCI Arabia"	Morgan Stanley Capital International Arabian Index
"ROL"	Republic of Lebanon
"UNDP"	United Nations Development Program
"$"	The United States Dollar
"USD"	The United States Dollar
"TRA"	Telecommunications Regulatory Authority
"VAT"	Value Added Tax

I. Demographic and Political Structure

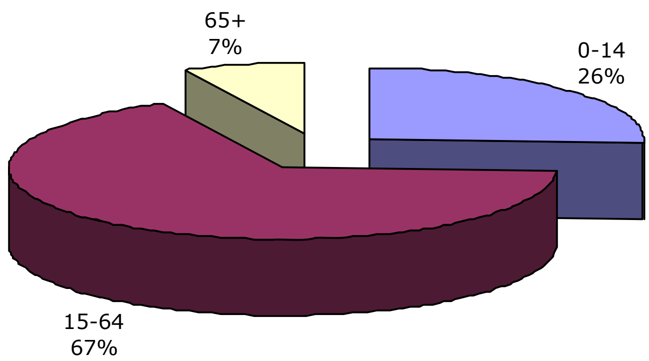
A. Demographic Structure

Lebanon, widely recognized as the Switzerland of the East, is a 10,452 square kilometers country in the Middle East, bordered by Syria to the North and East with a 375 kilometers borderline, Israel to the South with a 79 kilometers borderline and the Mediterranean Sea to the West. Lebanon, which has a coastal line of 225 kilometers, lies at the intersection of 33°54'North and 35°32'East [1]. Lebanon's capital and major city is Beirut (85 square kilometers) with other major cities such as Tripoli, Jounieh, Sidon (Saida), Tyre (Sour) and Zahlé holding significant historical and cultural values. Arabic is the country's official language, with French and English being widely spoken. The Beirut International Airport is the only operational commercial airport in the country and is located at the outskirts of Lebanon's capital (9 kilometers away from Beirut). The Beirut International Airport (BIA) has been the subject of several renovation and refurbishment projects throughout the years with the latest one occurring in 1999, raising its accommodation capacity to 6 million passengers per year. Moreover, Lebanon has also 4 official commercial and several other tourism ports, highlighting Lebanon's strategic geographical, economic and cultural importance as the "hub of the East".

Lebanon's population is estimated at 4.017 million as at mid 2009 [1] according to the CIA's World Factbook, excluding some 409,714 Palestinian refugees registered at the United Nations Relief and Works Agency (UNRWA) as at December 2006, and an unidentified number of foreign workers from Syria, Egypt, Iraq and other neighboring countries. The Lebanese population is characterized by a high degree of mobility in and out of the country, with the urban population estimated at 87% due to the concentration of major economic activity in major cities namely Beirut, and an estimated 15 million Lebanese descendants spread all over the world. Lebanon's population is young, with 25.8% of the population under the age of 14 [1].

The following chart depicts the composition of the Lebanese resident population by age group:

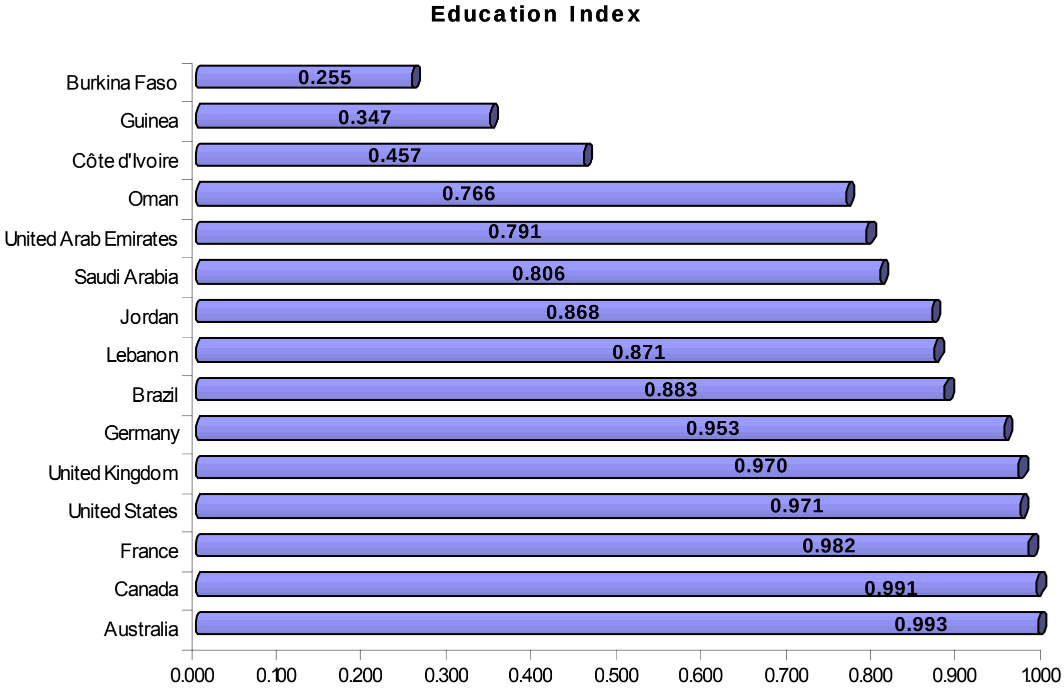
Breakdown of The Lebanese Population By Age Group



Source: CIA - The World Factbook

[1] CIA: The World Factbook

Lebanon is synonymous to religious diversity with around 18 officially recognized sects [3]. Muslims (including Shia, Sunni and Druze) represent 59.7% of the Lebanese population, while Christians (including Maronites, Orthodox and others) stand for 39% with Maronites, the largest Christian sect, constituting around 25.2% of the population [3].



Source: United Nations - Human Development Report 2007 / 2008

Lebanon's population is very well educated, with a literacy rate of 87.4% according to the CIA World Fact Book, the highest level among neighboring countries with respective literacy rates of 79.6%, 78.8% and 71.4% in Syria, Saudi Arabia and Egypt. Moreover, the United Nations' "Human Development Report 2007/2008" assigned Lebanon an Education Index of 0.871 [4], as compared to the World average of 0.750. The Lebanese educational standards are comparable to international ones, with Lebanese universities (American University of Beirut and Lebanese American University) earning "Accreditation Status" for some of their programs by official U.S. councils and institutions.

Furthermore, the Lebanese possess excellent communication and entrepreneurial skills, qualifying them for leading managerial positions in the Gulf region and the rest of the World. Said qualifications also contributed to helping Lebanon play a strategic cultural and economic bridge between the East and the West.

On the healthcare front, average life expectancy at birth is 73.66 years with 71.15 years for males and 76.31 years for females with the death rate estimated at 6.03 deaths per 1,000 inhabitants [2].

Moreover and according to the United Nations Development Program's (UNDP) 2008 Human Development annual report, Lebanon's 2008 Global Index value, which was calculated on the basis of year 2006 individual component values, stood at 0.796,

[2] CIA: The World Factbook, [3] Wikipedia, [4] United Nation's Human Development Report 2007/2008

positioning Lebanon 78th among 179 covered countries and 8th in the Arab region. The report ranked Lebanon 86th among 179 countries in term of life expectancy (with a life expectancy of 71.7 years), 77th in term of education (with expected literacy rate of 76.8%) and 71st in term of GDP (based on purchasing power parity) per capita (with expected GDP per capita at $9,757 in 2006). On the other hand, the Human Poverty Index ranked Lebanon 38th among 135 developing countries in 2006, estimating the percentage of people not surviving till the age of 40 as at end of 2005 at 6.3% (rank 32), the adult illiteracy rate at 9.9% in 2004 down from 13.6% three years earlier and that of population not using improved water sources as at 2004 at a remarkable 0% [5].

B. Political Structure

Lebanon enjoys a strict separation between the Executive (represented by the President of the Republic and the cabinet of Ministers), Legislative (Parliament) and Judiciary authorities. Lebanon is a democratic, parliamentary and constitutional republic. Current President of the Republic is Mr. Michel Sleiman, former commander of the armed forces, who was elected on May 25, 2008, with the Premier Designate being Mr. Saad Hariri (as of October 2, 2009) and the speaker of the Parliament being Mr. Nabih Berri. Lebanon has a representative system with many political parties and religious beliefs present, and legally and politically respected. Lebanon also supports the freedom of speech, human rights and democracy.

In April 1975, Lebanon was beset by a civil war that lasted 15 years, causing considerable economic damages. In 1989, the *Taif* accord, which marked the end of the civil war, restructured the political system in Lebanon in a formula more representative of the population's ethnic mix, and set a plan for extending government sovereignty over all the Lebanese territory. Afterwards, Lebanon witnessed a period of political stability and economic developments despite the continuing conflict with Israel, which caused Lebanon severe economic damages, both direct and indirect.

The year 2005 witnessed the assassination of former Prime Minister Mr. Rafik Hariri which was followed by political tensions, the withdrawal of the Syrian troops and a series of political assassinations. In July 2006, Israel launched another atrocious war against Lebanon which lasted for 33 days, inflicting hundreds of casualties as well as hundreds of millions of dollars ($3.6 billion in direct damages according to the CIA World Factbook) [6] in infrastructure damages.

Cost of Direct Damages - USD Million	
Infrastructure	958
- Road & Bridges	*429*
- Airports	*55*
- Electricity	*244*
- Telecommunications	*116*
- Water	*80*
- Schools & Hospitals	*34*
Households & Commercial Establishments	2,406
Industrial Establishments	220
Fuel Stations	12
Military Installations	16
Grand Total Up To August 14,2006	**3,612**

Source: Credit Libanais Weekly Market Watch

[5] United Nation's Human Development Report 2007/2008, [6] CIA: The World Factbook

In 2008, political tensions continued to escalate, peaking during military clashes between opposition and pro-government fighters during May 2008. The Doha accord on May, 2008, however, restored stability and paved the way for the election of a consensus President and to the appointment of a national unity government.

It is worth noting that according to the Cost of Conflict Report prepared by Strategic Foresight, the opportunity cost of conflict in the Middle East region during the 1991-2010 period is estimated at $12 trillion, out of which Lebanon's share stands at $100 billion based on 2006 prices [7].

II. Attributes of The Lebanese Economy

The Lebanese economy is characterized as a *"Laissez-faire"*, free-market economy that is service-driven particularly in the areas of tourism and banking. The consecutive Lebanese governments have always strived to encourage foreign investments in Lebanon by lifting any barriers on the convertibility of the domestic currency and the repatriation and movement of foreign capital into and out of the country.

Lebanon is known to many as "Switzerland of the East". This is not only a reference to the natural beauty and rich archeological heritage of the Country, the similarity extends as well to the economic and investment cultures. Common threads include:

- Strategically located in the heart of the Middle East;
- Liberal policies for investment and commerce;
- Free market laissez-faire economy;
- Ease and speed of entrepreneurial activities with an average time interval of 9 days to start a business compared to the MENA region's average of 20.7 days [8];
- Bilateral trade agreements with several Arab states with continuous efforts towards accession to the World Trade Organization. Lebanon is also a member of the Organization of Islamic Conference and a member of the Francophone countries and has concluded several accords with the European Union;
- Guaranteed domestic and foreign investments through the support of local and international companies that alleviate investment risk to a certain extent;
- Developed, solid and advanced banking system characterized by a Banking Secrecy Law;
- A strong and transparent judicial system;
- Fully enacted law to combat Money Laundering;
- Free liberal exchange rate regime;
- Relatively moderate inflation rate standing at 3.09% YTD July 2009 [9];
- Full convertibility of the Lebanese Pound;
- A pegged exchange rate system against the U.S. Dollar;
- Full repatriation of investment capital;
- Solid and modern regulatory environment that fosters protection rights to Lebanese and non-Lebanese investors;
- Moderate tax regime embracing one of the lowest taxation frameworks in the World. Top income tax rate is 20% while corporate income tax is set at 15% [10];
- Good quality industrial products that meet the tastes of consumers in the region;
- Proficient and multi-lingual Human capital with a literacy rate of 87.1% [11]; one of

[7] Strategic Foresight: Cost of Conflict Report , [8] World Bank: Doing Business 2010 Report, [9]ABL, [10] The Lebanese Ministry of Finance, [11] United Nation's Human Development Report 2007/2008

the highest in the Arab World. The academic standards in Lebanon are very high, even when compared to the most advanced countries in the world. In fact, the local educational curricula allow Lebanese students' admittance to some of the best universities in the world;

- Good quality of human capital with a high proportion of skilled labor (compared with many Arab countries) and technical know-how;
- Developed infrastructure with a state-of-the art telecommunications system, a professionally designed international airport in compliance with international norms, a well conceived road rehabilitation program currently underway; and
- A Unique Life Style embracing different cultures and ethnic groups. Lebanon also enjoys one of the best climate conditions in the World, with close proximity between the various regions (mountains and sea resorts), offering as well winter and summer activities, and a wild night life.

Lebanon also differentiates itself from other emerging market economies and neighboring countries by the lack of paralyzing regulations and red tape. In this fertile ground, the private sector contribution to the local economy remains strong in terms of participation in both the domestic and national output.

Owing to that environment, Lebanon is one of the strong financial, commercial, communications, education, and health care players in the region. This has resulted in a tertiary sector (finance, tourism, commerce, communication etc.) contributing to over 65% of Lebanon's GDP [12].

Historically, Lebanon's democratic traditions and the instability in surrounding countries enabled the Republic to become the cultural, academic and medical center of the Region. Thus, by law and traditions, Lebanon's constitution emphasized the respect for freedom of speech, human rights, parliamentary democracy, private ownership, free market economics and balanced regional development, and confirms the support for peaceful cohabitation between the various religious communities.

The 2009 Index of Economic Freedom prepared by the Heritage Foundation and published by the Wall Street Journal assigned Lebanon a score of 58.1 points which qualifies it to be the 95th freest economy worldwide and the 9th freest economy on a regional basis. Said index relies on ten criteria for its assessment of a country's economic freedom [13].

The index assigned Lebanon a high fiscal freedom rating owing to the country's relatively low tax rates (top income tax rate of 20% and corporate tax rate of 15%) indicating that tax revenues constitute some 14.4% of the country's Gross Domestic Product (GDP) in 2007 [13]. The index considered the time frame and the required regulatory procedures for establishing a new business to be in line with global norms. The index however, pointed out to the burdensome regulatory procedures required for closing a business, high cost of establishing a business, excessive trade restrictions, tariffs (4.6% average tariff rate in 2006) and quotas. The index also highlighted the government's high spending and stalled privatization process amid an ever growing fiscal debt.

[12] The Lebanese Ministry of Economy: Economic Accounts of Lebanon, [13] Heritage Foundation: 2009 Index of Economic Freedom

The following table unveils Lebanon's score on the various components of the 2009 Index of Economic Freedom in comparison with the World's average [14]:

Criterion	Description	Lebanon's Score	Net Change over 2008	Average World Score
Business Freedom	Time frame, regulatory procedures and cost for opening or closing a business	60.0	↑ 4.6	64.3
Trade Freedom	Extent of tariffs, quotas, restrictive licensing rules and sanitary regulations	80.8	↑ 3.4	73.2
Fiscal Freedom	Flexibility of tax structure	91.7	↑ 0.3	74.9
Government Size	Total government expenditures	64.1	↓ 5.4	65.0
Monetary Freedom	Degree of inflation, influence of government on certain commodity prices	77.3	↓ 0.5	74.0
Investment Freedom	Restrictions on foreign investments	30.0	↔ 0.0	48.8
Financial Freedom	Level of government interference in the private sector namely banking sector	60.0	↓ 10.0	49.1
Property Rights	Level of protection of intellectual property	30.0	↔ 0.0	44.0
Freedom From Corruption	Level of corruption in the public and private sector	30.0	↓ 6.0	40.3
Labor Freedom	Rigidity of labor regulations	57.4	↓ 13.8	61.3
Index of Economic Freedom		**58.1**	**↓ 2.8**	**59.5**

Source: Heritage Foundation

The Lebanese economy is also characterized by a strict banking secrecy law which subjects all banks operating in the country to the "secrecy of the profession". This means that banks' managers and employees, who are exposed to the banks' activities, are strictly prohibited from revealing any information related to their clients (names, assets, etc.) to any individual or public authority, except in any or a combination of the following four conditions [15]:

- A written authorization by the client himself or his/her heirs; or
- Bankruptcy of the client; or
- Litigation between the bank and the client; or
- Request by judiciary authorities for cases of illicit wealth accumulation.

Lebanon's commitment to the banking secrecy law, however, may create the perfect environment for illegal operations. This has prompted the Lebanese Central Bank in 2001 to issue circular 7818 "Status of Control of Banking and Money Activity for Fighting Money Laundering" dated 18/5/2001, which includes procedures and measures to be implemented by banks in an attempt to counter money laundering activities. Moreover, the Association of Banks in Lebanon (ABL), and in order to combat money laundering, prepared a Due Diligence Convention, signed by member banks, which aims at combating illegal financial operations while at the same time preserving banking secrecy. In this perspective, a joint committee was established on May 19, 2000 between the Banking Control Commission, the Lebanese of Ministry of Finance, the Central Bank of Lebanon (BDL) and the Association of Banks in Lebanon to ensure better coordination of anti-money laundering efforts in Lebanon.

In spite of the tensions and political and economic turmoil which threatened the Lebanese economy over the last decade, the Lebanese Pound has demonstrated strong resilience to domestic and global shocks, thanks to the efficient monetary policy of the Lebanese Central Bank which has proven a strong commitment to support the Lebanese Pound. The exchange rate hovers within the Central Bank's preset acceptable limits, as the Lebanese Pound is pegged to the U.S. Dollar since September 1999 [15].

[14] Heritage Foundation: 2009 Index of Economic Freedom, [15] Banque Du Liban

As for consumer confidence in the Lebanese economy, Lebanon's MasterIndex, which is the average of the index scores of five economic factors, namely *employment*, *economy*, *regular income*, *stock market* and *quality of life*, stood at 64.4 points over 100 in the first half of 2009, down from 69.1 in the second half of 2008. Results show a 6.80% slump in Lebanon's consumer confidence during the first half of 2009 compared to the second half of last year. Overall, Lebanon ranked third among the six major markets in the Middle East [16].

The following table provides a glimpse on Lebanon's consumer confidence for each of the five MasterIndex economic factors and their index scores:

MasterIndex of Consumer Confidence-Lebanon

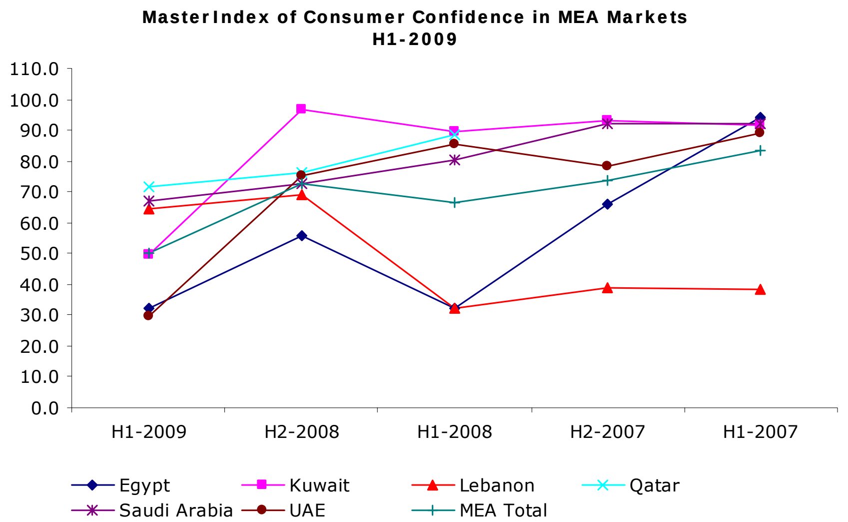
Economic Variable	Optimistic	Neutral	Pessimistic	H1-2009 Index Score	H2- 2008	H1-2008	H2-2007	H1-2007
Employment	35.0	44.0	21.0	62.5	72.4	26.3	56.4	38.3
Economy	34.0	42.0	24.0	58.6	63.3	34.7	30.0	43.9
Regular Income	31.0	57.0	12.0	72.1	83.0	27.8	37.9	67.9
Stock Market	32.0	55.0	14.0	69.6	55.9	28.5	32.3	20.5
Quality of Life	32.0	46.0	22.0	59.3	70.8	42.6	36.7	22.6
MasterIndex				**64.4**	**69.1**	**32.0**	**38.7**	**38.6**

Source: MasterCard MasterIndex

The MasterIndex for the Middle East stood at 49.9 [16], weaker than the second half of 2008. This is further elaborated in the following tabular and graphical representations:

MasterIndex of Consumer Confidence in MEA Markets

Country	H1-2009	H2-2008	H1-2008	H2-2007	H1-2007
Egypt	32.3	55.6	32.3	65.9	94.3
Kuwait	49.5	96.6	89.4	93.3	91.6
Lebanon	**64.4**	**69.1**	**32.0**	**38.7**	**38.6**
Qatar	71.4	76.2	88.6	n.a.	n.a.
Saudi Arabia	67.1	72.4	80.1	92.2	92.0
UAE	29.6	75.4	85.4	78.5	88.8
MEA Total	**49.9**	**72.7**	**66.4**	**73.7**	**83.6**



Qatar (71.4) topped the list of countries with the highest consumer sentiment score, followed by Saudi Arabia (67.1) and Lebanon (64.4), occupying second and third place respectively [16].

[16] MasterCard MasterIndex

III. Macroeconomic Highlights

A. Gross Domestic Product

1) GDP Composition

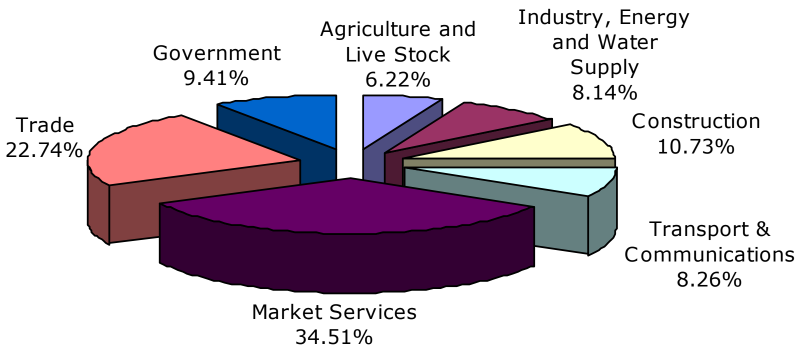
Economies around the World are generally divided into three main sectors, namely the primary sector, the secondary sector and the tertiary sector. The primary sector of the economy by definition centers upon converting natural resources into primary products. Examples of businesses falling under the umbrella of the primary sector include agriculture, agribusiness, fishing, forestry and quarrying industries. The secondary sector on the other hand, includes businesses that create a finished, usable product by utilizing the output of the primary sector and manufacturing goods for other businesses, export and domestic selling. The two main subdivisions of the secondary sector are manufacturing and construction. The tertiary sector revolves around intangible goods and services in general such as insurance, tourism, banking, retail, education, social services, news media, education, hospitality industry, consulting, legal practice, healthcare and real estate.

The following section depicts the evolution of the major sectors' contribution to Lebanon's GDP during the 2005-2007 period as well as the breakdown of Lebanon's GDP by sector in 2007 [17]:

Sector (Figures are in USD Million)	**2005**	**2006**	**2007**	**CAGR**
Agriculture and Live Stock	1,148	1,372	1,558	16.47%
Energy and Water Supply	-171	-259	-336	
Industry	2,332	2,182	2,374	0.89%
Construction	1,761	1,942	2,688	23.56%
Transport & Communications	1,941	1,908	2,068	3.23%
Market Services	7,572	8,021	8,643	6.84%
Trade	5,063	5,032	5,696	6.07%
Government	2,214	2,240	2,357	3.17%
Total GDP	**21,861**	**22,438**	**25,047**	

Source: The Lebanese Ministry of Economy, Economic Accounts of Lebanon

Breakdown of Lebanon's GDP by Sector In 2007



[17] The Lebanese Ministry of Economy: Economic Accounts of Lebanon

The tertiary sector, and particularly the services and banking sector, account for the largest contribution to Lebanon's GDP. The strength and appeal of the Lebanese banking sector stem primarily from the aforementioned banking secrecy law which binds all banks operating on the Lebanese territory along with the sound reputation enjoyed by Lebanese banks. Said reputation can be mainly attributed to the stringent regulations and astute policies of the Lebanese Central Bank which kept the Lebanese banking system relatively unscathed throughout the country's turbulent history and despite several regional and global economic crises namely the latest global financial crisis which drove several renowned and international banks into filing for bankruptcy. Furthermore, Lebanon's strategic location as a financial hub connecting the oil-rich Arab peninsula with the Western world served as a catalyst for the development of the Lebanese banking sector. Another active and highly contributing ingredient of Lebanon's tertiary sector to GDP growth is the tourism sector. Lebanon's logistic presence on the coast of the Mediterranean sea, its moderate climate, the proximity between its snow-capped mountains and its peaceful tranquil villages on the one hand and its beach resorts and wild vibrant nightlife in the cities on the other, transform it to a resort for Arab tourists seeking a close proximity destination. Furthermore, the existing peg between the Lebanese Pound and the U.S. Dollar makes Lebanon cheaper for American and European tourists than many other Mediterranean countries like France, Spain and Italy. Another contributing factor to the tourism sector is the presence of qualified, experienced and well educated human resources in the country.

The limited contribution of Lebanon's industrial sector is a result of the lack and scarcity of natural resources and raw materials, prompting industrialists, as such, to import raw materials at expensive prices. The high cost of electricity, with the absence of any important subsidy from the government and the prevailing power shortage in Lebanon which compel industrialists to interrupt production and pay additional fees for private generators, also remains a main factor hindering the growth of Lebanon's industrial sector. Another constraining factor is the high cost of Lebanese labor (qualified and unqualified) as compared to neighboring countries.

The agricultural sector suffers, in general, from the same limitations of the industrial sector (high cost of electricity, natural resources and workforce) added the scarcity of land resources owing to the country's small area and the limitation of arable land (16.35% as compared to 24.8% in Syria) [18]. It is worth noting, however, that the Lebanese government is striving to support the agricultural sector through IDAL's (Investment Development Authority of Lebanon) Export Plus program. The program was launched on August 14, 2001 based on decree number 6041/2001 and aims primarily at increasing the size of Lebanese agricultural exports, tapping new markets and extending Lebanese farmers with the necessary technology and know-how [19].

2) GDP Evolution

As a result of the consecutives wars, setbacks and spurs, Lebanon's GDP growth has been far from smooth during its short term and long term history. GDP grew at a 5% annual rate during the 1960s and then sprouted to 7% during the first half of the 1970s (1970-1975) as Lebanon further consolidated its position as the financial and economic hub of the region [20]. The following section provides a glimpse on the

[18] CIA: The World Factbook, [19] Investment Development Authority of Lebanon, [20] The Lebanese Ministry of Finance

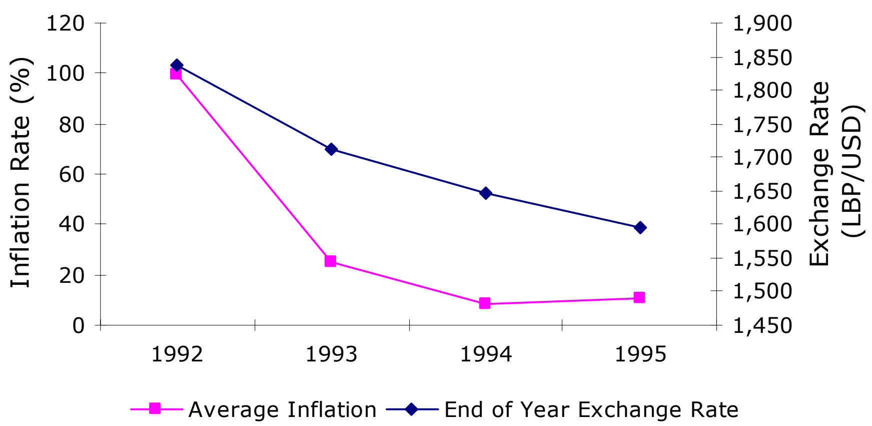
various phases the Lebanese economy has witnessed since the late civil war years:

The Lebanese civil war, which lasted 15 years, obliterated the country's infrastructure, with estimated losses totaling $25 billion [21], and drove capital investments and multinational firms out of the country. During the 1984-1990 period (the final years of the war), the Lebanese economy witnessed periods of high economic volatility depending mainly on the severity of the political and military situation. The 1984-1985 period was marked by a prosperous economic growth followed by a setback in 1986 and a rebound in 1987. Economic activity plunged sharply during the 1988-1990 period as military clashes intensified. In general, the trend in economic growth was negative during the 1984-1990 period interrupted by brief periods of economic growth.

During the early years of the post war period, the country's national output sprouted with real economic growth averaging 6.50% over the 1992-1995 period as political stability was restored, the economy started to recuperate and capital investments returned to the country. During the year 1992, a new government was appointed, led by late Prime Minister Rafik Hariri, which targeted the reformation of the economy, restored confidence and launched the Horizon 2000 program, a $20 billion reconstruction and economic development project. Concurrently, the government's efforts were complemented by the Central Bank's efficient monetary policy which focused on containing the inflationary environment and stabilizing the Lebanese Pound's then depreciating exchange rate, which surpassed the LBP 2,527.75 level against the U.S. Dollar in September 1992. The Central Bank's policy successfully met its objectives, trimming inflation down from an average of 99.847% in 1992 down to an average of 10.282% in 1995 while restoring the LBP/USD exchange rate up to the LBP 1,596 level against the U.S. Dollar by the end of December 1995 [22].

The following chart illustrates the outcomes of the Central Bank's efficient monetary policy in trimming inflation and reversing the Lebanese Pound's depreciating trend:

Inflation vs Exchange Rate



Source: Banque Du Liban, IMF World Economic Outlook

[21] The Lebanese Ministry of Finance, United Nations, [22] IMF

During the 1996-1998 period, the robust momentum at which economic growth was expanding started to fade, hampered by high interest rate levels and escalating public debt & budget deficits, compelling the government to follow a financial austerity policy in an attempt to control the piling debt burden. Consequently, investments flocked out of the country and GDP growth slowed to an average of 3.54% p.a. over the three-year period [23].

During the years 1999 and 2000, Lebanon entered into a recessionary period, registering a negative growth of -0.77% in 1999 (the first registered GDP contraction in the post war period) and a shy 1.72% growth in 2000 [23]. The constraining factors behind said slowdown were the ever increasing debt burden which attained 149.80% of GDP in 2000 and the repercussions of the fiscal tightening policy adopted by the government. In an attempt to tackle the mentioned challenges and tap stimulus into the economy, the government based its economic policy on the following pillars [24]:

- Stimulating the private sector contribution to GDP by encouraging private sector participation through a set of incentives, namely the implementation of a new customs law, the extension of interest subsidies through the Central Bank along with its guarantee of loans to enterprises in certain sectors and the adoption of more flexible rules towards foreign ownership of real estate.

- Eliminating or at least reducing the country's budget deficit through adopting a cost reduction strategy based on squeezing government expenditures coupled with a revenue boosting one which centers upon securing additional income sources for the government like the Value Added Tax (VAT).

- Maintaining monetary stability and a low inflation level

The period extending between 2001 and 2004 saw the Lebanese economy regain momentum fueled by several factors, namely the attraction of Arab investments after the September 11 hostile attacks on the United States and the Paris I & II conventions held in early 2001 and late 2002 which secured Lebanon some €500 million and $4.3 billion in total aid on a respective basis [24]. The above mentioned factors proved to be the main catalysts for Lebanon's prosperous growth period between 2001 and 2004, with Lebanon's GDP growth averaging 4.835% [23] during the period under consideration, with a peak of 7.45% [23] in 2004, the highest pace witnessed since the 8.00% growth registered in 1994 [23].

Lebanon's prosperous journey, however, suffered another setback in late 2005. A series of political assassinations, followed by an Israeli aggression in summer 2006 and a political deadlock which eventually lead to military skirmishes in Lebanon have altogether obstructed the investment climate in Lebanon and several multi-million real estate projects were suspended (Beirut Gate and Phoenician Village). The 2006 atrocities brought upon by the Israeli aggression had a devastating effect on the Lebanese infrastructure with some 30,000 housing units, 110 bridges and more than 30 vital infrastructure facilities partially or completely destroyed. The unanticipated hostile war, which stroke Lebanon in mid 2006 generated substantial direct and indirect losses estimated at $2.8 billion and $15 billion respectively, according to the United Nations Development Program [25]. As a result, growth stalled in 2005 and

[23] IMF, [24] The Lebanese Ministry of Finance, [25] United Nations Development Program

2006 with respective timid growth rates of 1.1% and 0.60%.

The year 2007 was earmarked by the Paris III convention which was convened in the aftermath of the Israeli atrocities in 2006 and managed to secure some $7.532 billion in total pledges. The year 2008 was highlighted by the Doha accord, which prepared for a better investment climate and healthy tourism season, and the LBP 200,000 monthly salary increase on the minimum wage level and subsequent wage brackets ratified by the government. Consequently, economic growth accelerated in 2007 and 2008 at respective growth rates of 7.5% and 8.5% in real terms [26].

The following table sketches the evolution of Lebanon's GDP at constant and current prices over the period 2003-2009:

Gross Domestic Product							
Key Figures	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
GDP At Current Prices (USD Millions)	19,795	21,465	21,861	22,438	25,047	28,942	31,298*
GDP At Constant Prices (USD Millions)	2,929	3,147	3,230	3,249	3,492	3,789*	3,903*
Growth of Real GDP	4.14%	7.45%	1.10%	0.60%	7.50%	8.50%	7.00%*
GDP Deflator	6.76	6.82	6.78	6.91*	7.17*	7.63*	8.01*
GDP per Capita, Current Prices (USD)	5,559.41	5,949.12	5,988.20	6,059.88*	6,677.17*	7,616.62*	8,131.6*
GDP Per Capita, Constant Prices (USD)	822.22	872.15	883.53	877.43*	931.13*	997.31*	1,014.05*

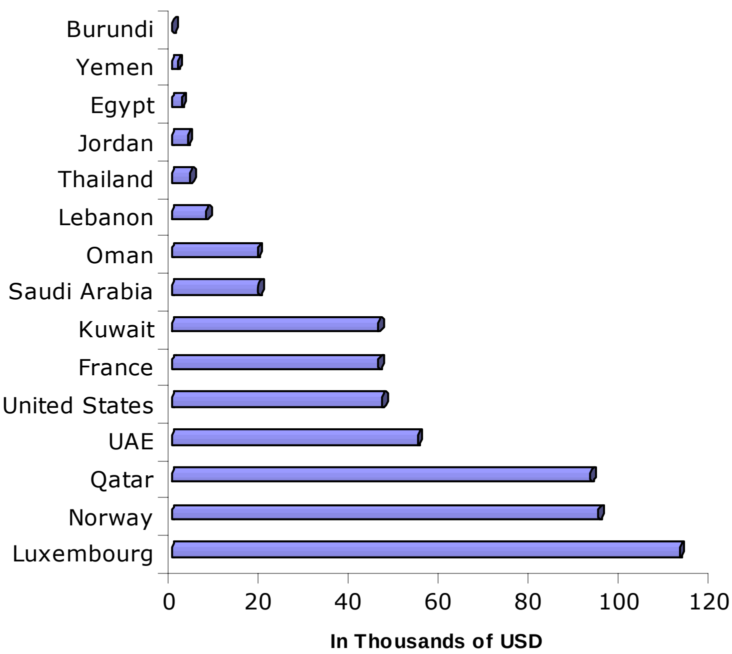
Values Reflect IMF Estimates, Credit Libanais research Unit

It is worth noting, in this perspective, that according to the International Monetary Fund (IMF), Lebanon ranked 66th globally in terms of GDP per capita ($7,617) in the year 2008, ranking ahead Jordan ($3,421) and Egypt ($2,161), as portrayed by the following table [27]:

Country	GDP per Capita	Rank
Luxembourg	$113,044	1
Norway	$95,062	2
Qatar	$93,204	3
UAE	$54,607	8
United States	$46,859	15
France	$46,016	16
Kuwait	$45,920	17
Canada	$45,428	18
Germany	$44,660	19
United Kingdom	$43,785	20
Italy	$38,996	21
Saudi Arabia	$19,345	37
Oman	$18,988	39
Russia	$11,807	52
Brazil	$8,197	64
Lebanon	**$7,617**	**66**
Thailand	$4,115	92
Jordan	$3,421	102
Egypt	$2,161	117
Yemen	$1,182	132
India	$1,016	142
Liberia	$212	177
Burundi	$138	179

Source: IMF, Credit Libanais Research Unit

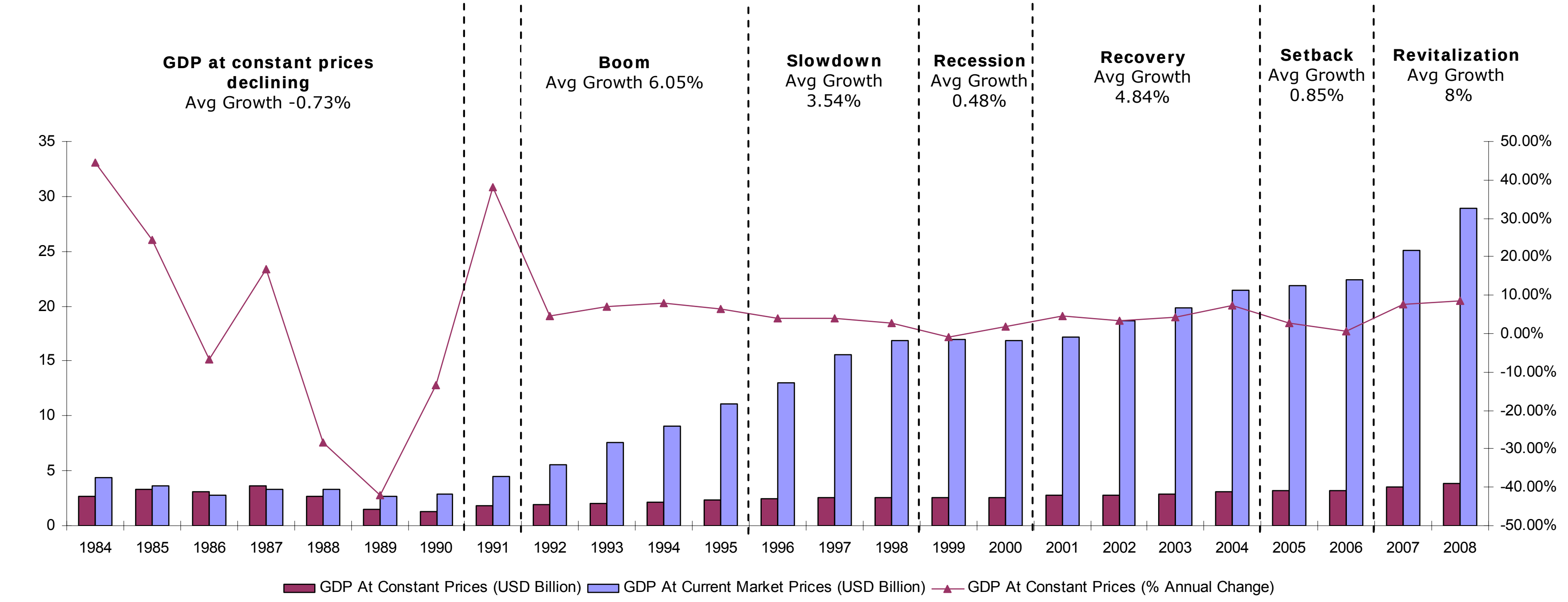
GDP per Capita in 2008



[26] The Lebanese Ministry of Finance, [27] IMF

Lebanon's prosperous economic journey amassed investors' attention in the first tier of the year 2009 following the smooth parliamentary elections in June and the regained level of confidence in the economy. The unprecedented rebound in tourism activity coupled with the healthy flow of investment capital spurred real estate investments and continued to position the banking sector more favorably in the region. This has prompted international rating agencies to continue to praise Lebanon's outlook, resilience to shocks, and economic prospects, with the International Monetary Fund revising upwards its real GDP growth estimate for 2009 to 7% from a lower 3.5% previously [28].

[28] IMF



Source: The Lebanese Ministry of Finance, IMF World Economic Outlook, Credit Libanais Research Unit

B. Public Finance

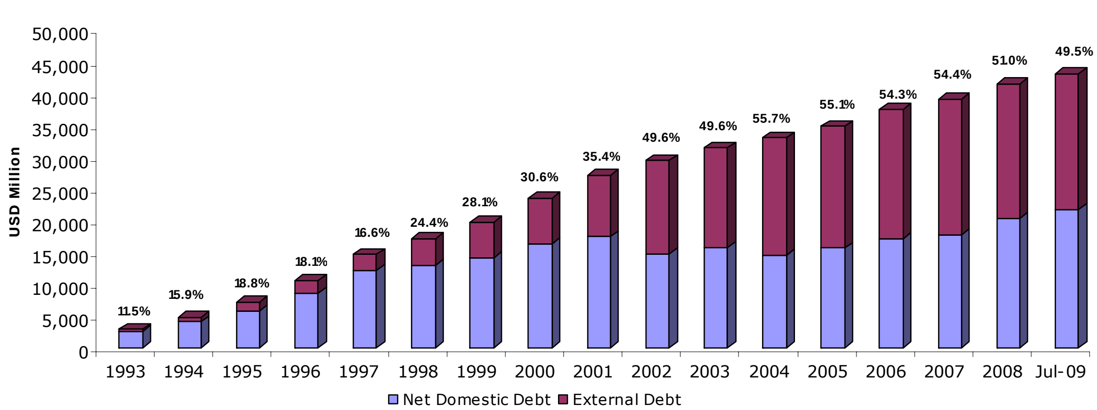
1) Public Debt

a) Overview

The heavy economic toll of the Lebanese civil war on Lebanon's infrastructure and the substantial damage inflicted on its capital meant that Lebanon was compelled to invest heavily and borrow money if it were to regain its role as a prime tourism target in the region and economic hub of the Middle East. Consequently, Lebanon embarked on a colossal reconstruction program in 1992 to reconstruct the country's infrastructure with Solidere, The Lebanese Company for the Development and Reconstruction of Beirut Central District s.a.l., being awarded the restoration of Beirut's Central District. A couple of years later, Lebanon in general and Beirut in specific, started to restore its role as the pearl of the Middle East while unfortunately Lebanon's hefty debt grew exponentially in parallel. Concurrently, Lebanon's growing budget deficit, on the back of the high cost of debt servicing, kept nourishing the gross public debt (which reached double figures in terms of billions of U.S. Dollars during 1996) and further aggravating the country's public finances. The government, however, attempted to tackle the mounting debt and budget deficit issues through organizing international aid conferences, namely the Paris I, II and III conferences which aimed at extending Lebanon grants and loans at subdued interest rate levels. It is worth noting, in this perspective, that the Paris III conference managed to secure some $1,737 million in pledges geared towards budget support out of $7.53 billion in total pledged support [29]. In 2003, the government's efforts to slow the hectic pace at which public debt was rising were buttressed by a private sector initiative in which commercial banks, and in collaboration with the Lebanese Central Bank, agreed to subscribe to two-year non-interest bearing government securities aggregating to around $3.7 billion, with the aim of reducing Lebanon's debt servicing by around $400 million [30].

The following table depicts the evolution of Lebanon's net public debt over the past decade and a half:

Evolution of Net Public Debt In Millions of U.S. Dollars



Source: The Lebanese Ministry of Finance, Banque Du Liban

[29] The Lebanese Ministry of Finance, [30] Banque Du Liban

It is obvious from the chart above that the bulk of Lebanon's debt in the early post-war years was denominated in Lebanese Pounds as the country's fragile position toughened the task of securing foreign currency financing, thus compelling the Lebanese government to resort to the domestic market and at high interest rates in an endeavor to lure investors' appetite. In the 2001-2008 period, foreign currency debt grew sharply, outpacing the outstanding balance of local currency debt in 2004, on the back of financing secured during the Paris I, II and III summits. We can also observe that the period extending between the second tier of 2008 and the first tier of 2009 witnessed a remarkable growth in net domestic debt from $19.02 billion in July 2008 to $21.75 billion in July 2009, while growth in external debt stalled ($21.51 billion in July 2008 in comparison with $21.30 billion in July 2009) [31]. This owes to the fact that the relaxed political situation in the post Doha accord period triggered a remarkable drop in the dollarization rate (with people converting to the higher yielding Lebanese Pound), compelling the Ministry of Finance to resort to open market operations (by issuing treasury bills for a total consideration of LBP 2,500 billion beyond its requirements) in an endeavor to absorb the excess liquidity in the market.

Furthermore, Lebanon's debt to GDP ratio, which is considered to be one of the highest among countries rated by renowned rating agencies, was always a topic of criticism in various reports prepared by the IMF and international rating agencies, hindering as such further rating upgrades. We can observe however, from the table below, that the government succeeded in the last two years in lowering the gross debt to GDP ratio from a whopping 180% in 2006 to around 162% in 2008, on the back of support from international aid conferences.

Milions of USD	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**Jul-09**
External Debt	15,559	18,382	19,133	20,330	21,212	21,148	21,301
Gross Domestic Debt	17,806	17,493	19,331	20,036	20,811	25,875	26,616
Gross Public Debt	**33,365**	**35,875**	**38,464**	**40,366**	**42,023**	**47,023**	**47,916**
Public Sector Deposits	2,003	2,892	3,708	2,948	3,003	5,523	4,866
Net Domestic Debt	15,804	14,602	15,623	17,088	17,808	20,352	21,750
Net Public Debt	**31,363**	**32,984**	**34,756**	**37,418**	**39,020**	**41,500**	**43,051**
Gross Public Debt/GDP	168.5%	167.1%	175.9%	179.9%	167.8%	162.5%	N.A
Net Public Debt/GDP	158.4%	153.7%	159.0%	166.8%	155.8%	143.4%	N.A
External Debt/GDP	78.6%	85.6%	87.5%	90.6%	84.7%	73.1%	N.A
Net Domestic Debt/GDP	79.8%	68.0%	71.5%	76.2%	71.1%	70.3%	N.A
External Debt/ Net Public Debt	49.6%	55.7%	55.1%	54.3%	54.4%	51.0%	49.5%
Net Internal Debt/ Net Public Debt	50.4%	44.3%	44.9%	45.7%	45.6%	49.0%	50.5%

Source : Banque Du Liban, The Association of Banks in Lebanon, Credit Libanais Research Unit

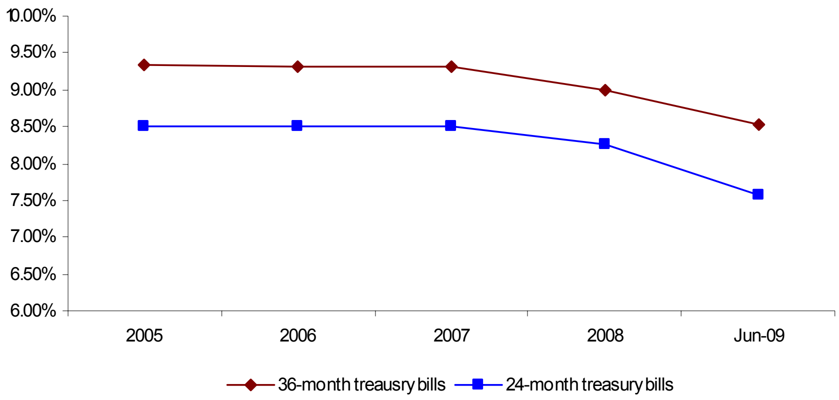
b) Treasury Bills

Treasury bills constitute, and by far, the vast majority of the government's local currency debt. The total value of outstanding treasury bills held by banks, the Central Bank and the non-banking system expanded at a compounded annual growth rate (CAGR) of 77.90% from $17.572 billion in 2003 to $25.570 billion in 2008 before attaining $26.020 billion in May 2009 [32]. Auctions for treasury bills of same maturities are conducted every other Monday, meaning that the auction for the three-month, six-month and five-year treasury bills which are conducted on a certain week will be followed by the one-year, two-year and three-year maturities on the

[31] The Association of Banks in Lebanon, [32] Banque u Liban

subsequent week. As depicted by the chart below, coupon rates on Lebanese treasury bills have been on the decline over the last couple of years, thanks to the improved economic environment and relaxed political situation.

Evolution of Treasury Bill Coupon Rates



Source: Banque Du Liban

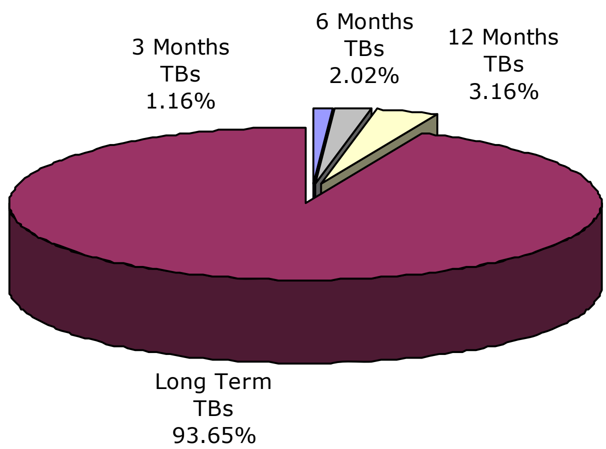
The following table portrays the evolution of outstanding treasury bills by maturity over the past five years [33]:

In millions of USD	2003	2004	2005	2006	2007	2008	May-09
3 Months TBs	384.21	74.16	103.48	94.86	5.97	190.38	301.82
6 Months TBs	281.39	1,394.83	1,371.14	740.96	1,160.86	818.57	526.70
12 Months TBs	527.83	1,915.09	2,005.31	1,047.43	350.91	448.42	822.55
Long Term TBs	16,379.04	13,775.06	15,511.77	17,818.91	18,983.08	24,112.77	24,369.49
Total	**17,572.47**	**17,159.14**	**18,991.71**	**19,702.16**	**20,500.83**	**25,570.15**	**26,020.56**

Source: Banque Du Liban, Credit Libanais Research Unit

The following chart sketches the breakdown of the treasury bills portfolio by tenor as at end of May 2009:

Total TBs outstanding by Tenor on May 2009



It is evident that the bulk (93.65%) of the treasury bills portfolio is concentrated in T-Bills with maturities exceeding one year, thanks to their appealing yields when compared to shorter-term ones. This implies the existence of an atmosphere of confidence in the Lebanese Pound and the ability of the government to repay its debt in due course.

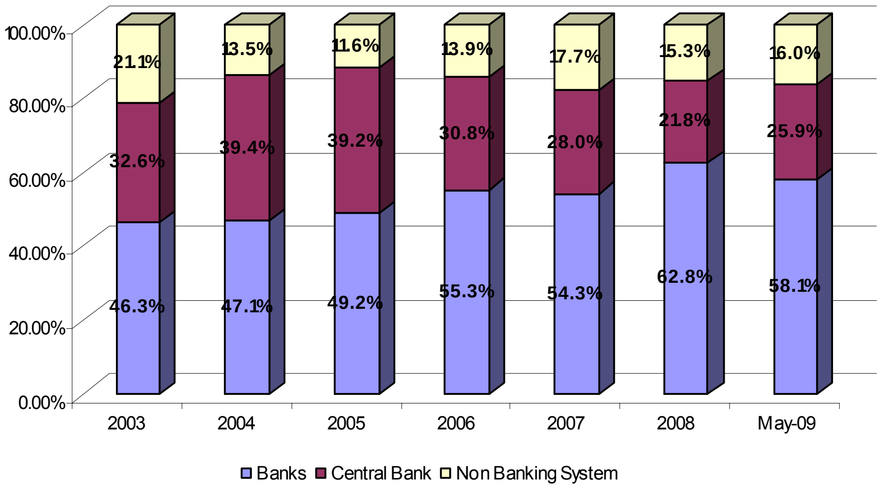
[33] Banque u Liban

The following section depicts the evolution of T-Bills by type of holder since 2003 [34]:

In Millions of USD	2003	2004	2005	2006	2007	2008	May-09
Banks	8,131.48	8,073.63	9,334.86	10,898.18	11,133.67	16,067.66	15,127.03
Central Bank	5,724.44	6,764.18	7,451.41	6,065.01	5,735.99	5,584.74	6,727.69
Non Banking System	3,716.55	2,321.72	2,205.64	2,738.97	3,631.18	3,917.74	4,165.84
Total	**17,572.47**	**17,159.54**	**18,991.91**	**19,702.16**	**20,500.83**	**25,570.15**	**26,020.56**

Source: Banque Du Liban, Credit Libanais Research Unit

Breakdown of T-Bills by Type of Holder



Obviously, Lebanese banks hold the majority (58.1%) of the government's treasury bills portfolio, given the fact that a significant part of their balance sheet is allocated to liquid investments in the high yielding treasury bonds. International rating agencies, however, have criticized Lebanese banks' high sovereign exposure, increasing the banking sector's vulnerability to shocks and economic crises.

c) Eurobonds

A Eurobond is an international bond that is denominated in a currency not native to the country where it is issued. Lebanese Eurobonds are issued by the Republic of Lebanon, with the majority paying coupons semiannually, with payments being settled through MIDCLEAR. Eurobonds are issued at various sizes and differing maturities, which are tailored to fit the government's financing needs and benefit from favorable market conditions. As portrayed by the table and chart below, market issued Eurobonds constitute the bulk of the government's foreign currency debt.

Foreign Currency Debt (in USD billion)	Dec-04	Dec-05	Dec-06	Dec-07	Dec-08	Jun-09
Foreign Currency Debt Balance	**18.38**	**19.13**	**20.33**	**21.21**	**21.15**	**21.35**
a. Bilateral, Multilateral and Foreign Private sector loans	1.99	1.85	1.89	1.96	1.86	1.78
b. Paris II related debt (Eurobonds and Loans)(1)	4.40	4.31	4.34	4.02	3.62	3.40
c. Paris III related debt (Eurobonds and Loans)(2)				0.90	1.23	1.30
d. Market-issued Eurobonds	11.73	12.42	13.53	13.78	13.88	14.30
e. Accrued Interest on Eurobonds	*0.26*	*0.27*	*0.29*	*0.27*	*0.29*	*0.28*
f. Special Tbls in Foreign currency(3)		0.28	0.28	0.28	0.28	0.30

(1) Paris II related debt (Eurobonds and Loans) including Eurobond orginally issued at USD 1,870 billion to BDL in the context of Paris II conference.

(2) Issued to Malaysia as part of its Paris III contribution, IBRD Loan, UAE Loan, first tranche of the French loan received in February 2008, and IMF loans.

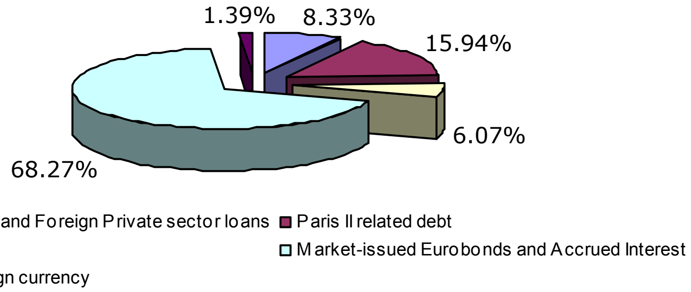
(3) Special Tbs in Foreign currency (expropriation bonds).

(4) Gross market debt equals gross debt less the portfolios of the BDL, NSSF, bilateral and multilateral loans, Paris II and Paris III related debt.

Source: *The Lebanese Ministry of Finance - Debt and Debt Markets Q1 2009*

[34] Banque u Liban, Credit Libanais Research Unit

Breakdown of Lebanon's Foreign Debt In The First Half of 2009



The following table lists all outstanding Eurobonds through June 30, 2009 along with their tenors, coupon rate, size and currency of denomination:

Foreign Currency Debt Data

List of Outstanding Eurobonds (Values as of June 30,2009)						
Eurobond Size	Outstanding Amount (in original currency)	Number of tranches	Currency	Coupon Rate	Mat. Date	Years to maturity
USD 650 MN	150,010,000	2	USD	10.250%	October 6, 2009	0.27
USD 1,265 MN	1,065,000,000	1	USD	7.125%	March 5, 2010	0.68
USD 600 MN	600,000,000	2	USD	7.750%	September 7, 2012	3.19
USD 625 MN FRN	40,203,000	1	USD	6 months U.S $ L + 3.25%	November 30, 2009	0.42
USD 425 MN	103,661,000	1	USD	7.000%	December 14, 2009	0.46
USD 1,000 MN	1,000,000,000	1	USD	7.875%	May 20, 2011	1.89
USD 400 MN	400,000,000	1	USD	11.625%	May 11, 2016	6.87
USD 700 MN	700,000,000	1	USD	6.875%	November 12, 2010	1.37
USD 650 MN	650,000,000	2	USD	8.625%	June 20, 2013	3.98
USD 750 MN	750,000,000	1	USD	8.500%	January 19, 2016	6.56
USD 676.902 MN	676,902,000	1	USD	7.375%	April 14, 2014	4.79
USD 2,092.469 MN	2,092,469,000	3	USD	8.250%	April 12, 2021	11.79
EUR 535.639 MN	535,639,000	3	EUR	5.875%	April 12, 2012	2.79
USD 750 MN	750,000,000	2	USD	7.500%	August 2, 2011	2.09
USD 351.591 MN	87,893,000	2	USD	7.500%	August 3, 2009	0.09
USD 875 MN	875,000,000	1	USD	9.125%	March 12, 2013	3.70
USD 881.612 MN	881,612,000	2	USD	9.000%	May 2, 2014	4.84
USD 500 MN	500,000,000	1	USD	8.500%	August 6, 2015	6.10
USD 600 MN	600,000,000	2	USD	7.500%	March 19, 2012	2.72
USD 1,500 MN	1,500,000,000	2	USD	9.000%	March 20, 2017	7.73
EUROBONDS ISSUED IN THE CONTEXT OF PARIS III*						
USD 300 MN	300,000,000	1	USD	3.750%	July 20, 2017	5.01
USD 200 MN	200,000,000	1	USD	3.750%	July 20, 2012	2.76
EUROBONDS ISSUED IN THE CONTEXT OF PARIS II**						
USD 2,007.511 MN	1,706,384,350	2	USD	4.000%	December 31, 2017	4.42
USD 950 MN	552,500,000	1	USD	5.000%	December 27, 2017	4.42
USD 700 MN	630,000,000	1	USD	5.000%	March 7, 2018	4.42
USD 200 MN	180,000,000	1	USD	5.000%	May 27, 2018	4.59
				Average Time to Maturity (in years, as of June 30, 2009):		**4.90 years**
				Weighted average coupon rate:		**7.36%**

*The two Eurobonds restructured in the context of the Paris III conference have an amortized principal repayment structure

**Eurobonds issued in the context of the Paris II conference are redeemable in 20 equal semiannual payments starting year 6 (grace period of 5 years from issue date).

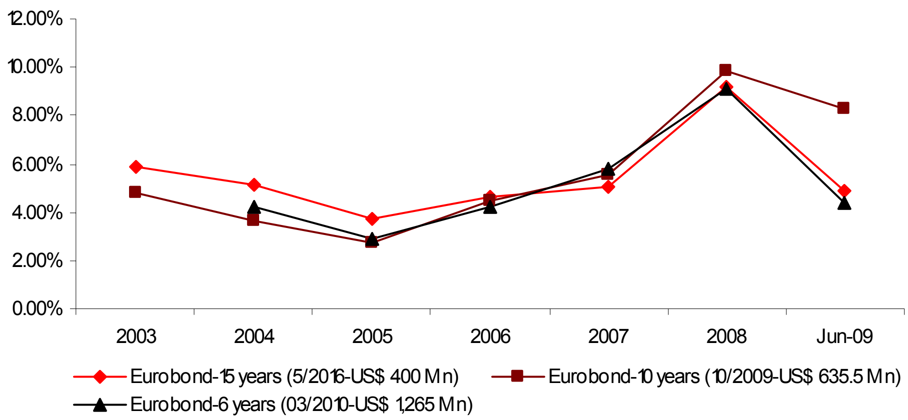
Source: The Lebanese Ministry of Finance - Debt and Debt Markets QII 2009

The following section sketches the spread of Republic of Lebanon Eurobonds over U.S. treasury bonds with similar maturities:

Spread over US Treasury Bonds of the same Maturity	Maturity	Size	2003	2004	2005	2006	2007	2008	Jun-09
Eurobond-15 years	May-10	US$400 Mn	5.84%	5.10%	3.72%	4.63%	5.03%	9.16%	4.86%
Eurobond-10 years	Oct-09	US$635.5 Mn	4.76%	3.64%	2.72%	4.46%	5.56%	9.88%	8.30%
Eurobond-6 years	Mar-10	US$1,265 Mn		4.21%	2.88%	4.24%	5.81%	9.10%	4.41%

Source: Banque Du Liban

ROL Eurobond Spread over U.S. Treasury Bonds with Similar Maturities



Normally, an increasing spread over U.S. Treasury bonds, as in the case above until year-end 2008, would be perceived as a negative element, as high spreads are usually a sign of many types of risk, of which we name sovereign risk. The widening spread in this case, however, is attributed the interest rate dampening strategy adopted by the U.S. Federal Reserve on the back of the global financial crisis, and which saw interest rates drop to near-zero levels, interpreting the sudden increase in spreads by some 400 basis points between 2007 and 2008.

The following section is a timeline of some major Eurobond operations (issuance, exchange) initiated by the Lebanese government over the past five years [35]:

May 2004: The Lebanese government launched two Eurobond issues co-lead managed by Credit Suisse First Boston and BNP Parisbas. The first issue was denominated in U.S. Dollars for a minimum issue size of US$ 500 million, a maturity of 7 years and an indicative coupon of 7.625% to 7.875%. The second issue was denominated in Euro for a total amount of €200 million, a maturity of 5 years and an indicative coupon of 7.125% to 7.375%. The deal amassed subscriptions in excess of $1.2 billion, of which $1 billion corresponded to the US Dollar tranche at a price of 99.34 percent of face value, a maturity of seven years, and a coupon of 7.875 percent. The second tranche, which was denominated in Euro, raised €225 million with a maturity of five years and a coupon rate of 7.25%. It is worth noting that the proceeds from said Eurobond issue exceeded the Lebanese government's expectations. In this context, Fitch, the international rating agency, assigned the Republic of Lebanon Eurobond issue a long-term foreign currency debt rating of "B-"

[35] Credit Libanais Weekly Market Watch

with “Stable Outlook”.

September 2004: The Lebanese Ministry of Finance succeeded in exchanging around 55% of the Republic of Lebanon (ROL) Eurobonds maturing in 2005. More precisely, the Finance Ministry has managed to exchange $1.186 billion of the total $2.264 billion of ROL Eurobonds maturing in 2005 for two issues: a long 5-year bond maturing in March 2010 with a yield of 7.125% and a face value of $1.265 billion, and an 8-year bond maturing in September 2012 yielding 7.75% with a face value of $275 million. In addition to the exchange transaction, cash subscriptions to the two Eurobond issues totaled $354 million, bringing as such total proceeds (exchange plus cash) up to $1.54 billion. The two Eurobond issues were assigned a “B-” senior unsecured debt rating by both Standard & Poor’s Rating Services, and “Fitch Ratings”, the international rating agency. Fitch has also assigned the two bond issues a “Stable” outlook.

October 2005: Citigroup, Audi Bank and Banque De La Méditerrannée have successfully closed a 10-year Republic of Lebanon Eurobond issue worth $750 million, maturing in January 2016. The ROL Eurobond issue covered old debt maturing in 2005, and carried an annual coupon ranging between 8.625% and 8.75%. The ROL Eurobond issue was listed in Luxembourg and Beirut and has been assigned a Long-term foreign currency rating of B- by Fitch and Standard & Poor’s and B3 rating by Moody’s.

March 2006: The Ministry of Finance closed the Republic of Lebanon Eurobond issue worth LBP 300 billion ($199 million). The issue was lead managed by Byblos Bank and BLOM Bank with a maturity of 5 years, and carried an annual coupon ranging between 9.25% and 9.50%. The Ministry of Finance also mandated Credit Suisse, BNP Paribas and BankMed to lead manage another ROL Eurobond with a size of $1.6 billion.

November 2007: The Lebanese government decided to structure a foreign currency denominated Republic of Lebanon (ROL) Eurobond issue for a total consideration of $400.465 million with the objective of repaying due debt principal amounts and accrued interests for the year 2007. The issue fell under the umbrella of law number 715 issued in February 2006 granting the Lebanese government the rights to resort to additional borrowings, if deemed inevitable, to settle due amounts. The government mandated the Finance Ministry in cooperation with the Lebanese Central Bank to structure said issue.

March 2008: The Lebanese Ministry of Finance reported that Lebanon raised some $875 million in ROL Eurobonds with a maturity of five years aiming at refinancing maturing debt. The issue price was 99.508 bearing a coupon rate of 9.125%. According to the Lebanese Finance Minister, the Eurobond issue attracted strong local and international demand, notwithstanding Standard & Poor's downgrade of Lebanon’s long-term sovereign foreign currency rating from “B-” to “CCC+”.

July 2008: The Lebanese Ministry of Finance mandated Byblos Bank, BLOM Bank and Deutsche Bank to lead manage the Republic of Lebanon ("ROL") Eurobond issue. The issue size stood at $500 million, with a maturity of 7 years, and carried an annual yield ranging between 8.5% and 8.75%.

March 2009: The Lebanese Ministry of Finance mandated Credit Libanais, Byblos Bank and Credit Suisse to lead manage the Voluntary Debt Exchange Offer which entails exchanging maturing Eurobonds with new longer term Eurobonds in an endeavor to perform liability management operations, boost the Republic's financial stability and extend its debt maturity profile. The transaction involved the exchange of four USD denominated tranches for a total consideration of $2.037 billion and one Euro denominated tranche worth €225 million and was met by a resounding success with a participation rate of 82.8%, one of the highest in history. Accordingly, an aggregate amount of around $1.655 billion and €211.097 million of face value of notes were exchanged into new longer-dated notes maturing in 2012 and 2017.

2) Fiscal Performance

As discussed in the section above, the recurring deficits (budget and treasury) posted by the Lebanese government were the main drivers behind the piling public debt. Accordingly, the budget and treasury deficit dilemmas remain a main issue that need to be tackled by the government in an attempt to alleviate Lebanon's indebtedness. Screening Lebanon's fiscal performance in 2008, we can observe that debt servicing accounts for a staggering 48.29% of total expenditures [36]. This owes particularly to the high interest rate environment prevailing in the post war period coupled with the sequential issuance of government securities both on the domestic and international markets to finance budget needs. As mentioned earlier, the government attempted to tackle this issue by organizing international aid conferences and receiving the banking sector support via subscription in non-interest bearing treasury bills. This strategy yielded encouraging results on the short-term with a sizeable reduction in interest payments from $3.233 billion in 2003 to $2.667 billion in 2004 and $2.344 billion in 2005 [37]. Said progress, however, was interrupted in 2006 following the Israeli hostilities which inflicted major damages on the Lebanese economy. On the long run, and notwithstanding the 2006 war, the interest burden grew timidly from $3.233 billion in 2003 to $3.288 billion in 2008 in spite of the accompanying increase in public debt [37]. The government also succeeded in 2008 and 2009 to redeem a small portion of its outstanding debt principal. The detrimental impact of debt servicing on Lebanon's finances can be noticed when looking at the total primary account and budget primary account, which exclude interest servicing and debt repayment. Lebanese public finances reveal total primary and budget primary surpluses over the period extending between 2003 and 2009, apart from 2006 when a shy $4 million total primary deficit was reported. Moreover, we can notice that the primary budget surplus is on the rise since 2006.

The table on the following page portrays the evolution of Lebanon's public finances over the last six years:

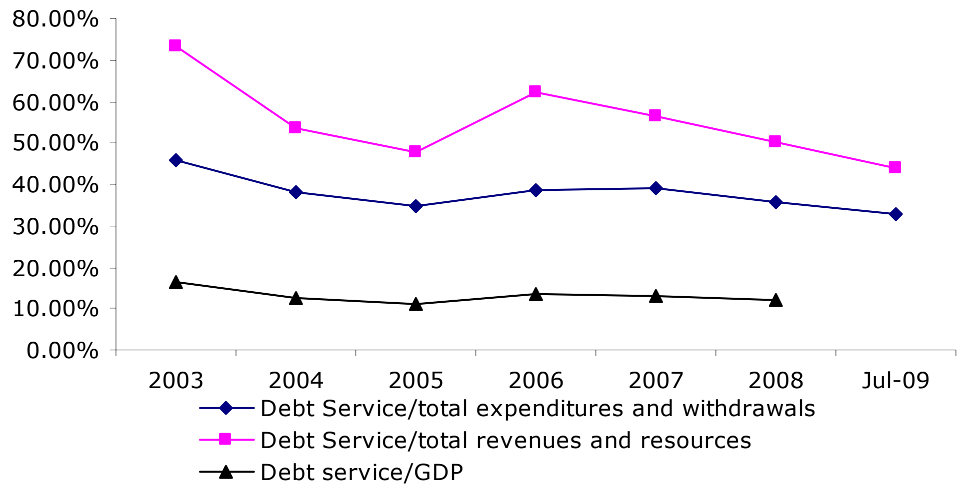
[36] The Association of Banks in Lebanon, [37] The Lebanese Ministry of Finance

in Millions of USD	2003	2004	2005	2006	2007	2008	Jul-09
1. Budget Transactions							
1.1 Revenues	4,125	4,693	4,633	4,569	5,369	6,498	4,813
1.1.1 Tax Revenues	2,986	3,429	3,229	3,279	3,703	4,764	3,656
Tax Revenues other than customs and VAT	994	1,187	1,264	1,465	3,538	1,997	1,472
Customs Revenues	1,089	1,073	841	712	827	1,053	1,013
VAT Revenues	903	1,169	1,123	1,101	1,329	1,714	1,171
1.1.2 Non Tax Revenues	1,139	1,265	1,404	1,290	1,666	1,733	1,156
1.2 Expenditures	5,844	5,510	5,175	6,257	6,680	7,286	4,810
1.2.1 Expenditures excluding debt service	2,610	2,842	2,831	3,234	3,403	3,767	2,569
1.2.2 Debt Servicing	3,233	2,667	2,344	3,023	3,277	3,288	2,240
Domestic Debt	2,062	1,490	1,017	1,571	1,668	1,889	1,331
Foreign Debt	1,171	1,178	1,328	1,452	1,609	1,400	799
Foreign Debt Principal Repayment						230	110
Budget Deficit / Surplus	**(1,719)**	**(817)**	**(543)**	**(1,688)**	**(1,311)**	**(789)**	**3**
Budget Primary Deficit / Surplus	**1,515**	**1,851**	**1,802**	**1,335**	**1,787**	**2,730**	**2,244**
2. Treasury Transactions							
2.1 Resources	289	291	279	284	435	503	274
2.1.1 Guarantees	119	63	49	46	72	58	30
2.1.2 Municipalities	77	72	124	91	103	138	105
2.1.3 Deposits	31	48	44	41	52	54	36
2.1.4 Other	62	109	62	106	208	253	103
2.2 Withdrawals	1,182	1,482	1,593	1,623	1,669	2,636	1,992
2.2.1 Guarantees	166	376	593	118	163	192	316
2.2.2 Municipalities	119	306	255	269	203	349	178
2.2.3 Deposits	54	46	49	40	56	55	31
2.2.4 Expenditures from previous years	404	349	430				
2.2.5 Expenditures from previous years/Guarantees	86	61	18				
2.2.6 Other	352	344	248	288	266	427	367
2.2.7 EDL				909	981	1,612	1,100
Total Treasury Deficit/Surplus	**(893)**	**(1,191)**	**(1,313)**	**(1,340)**	**(1,235)**	**(2,133)**	**(1,719)**
Total Cash Deficit / Surplus	**(2,612)**	**(2,008)**	**(1,856)**	**(3,027)**	**(2,545)**	**(2,922)**	**(1,715)**
Total Primary Deficit/Surplus	**622**	**660**	**488**	**(4)**	**732**	**597**	**525**

Source: The Lebanese Ministry of Finance

It is obvious that the Lebanese government managed to compress Lebanon's budget deficit over the last couple of years to $789 million in 2008, down from $1,311 million in 2007 and $1,688 in 2006, before succeeding to record a surplus of $3 million in the first seven months of 2009 [38].

The following chart further illustrates the heavy impact of debt servicing on Lebanon's public finances and GDP:



[38] The Lebanese Ministry of Finance

Another eye-catching item of Lebanon's public finances is the government's costly support to the Electricité du Liban. The above table unveils that over the period extending between 2005 and July 2009, the government spent an astounding $4.602 billion in support to EDL, which is still suffering from supply shortages and lack of operating efficiency. It is worth noting that in 2008 alone, government support to EDL reached $1.612 billion (23% of total revenues) on the back of skyrocketing oil prices which peaked at $147.27 per barrel on July 11, 2008. A recent report prepared by the World Bank titled *Republic of Lebanon Electricity Sector Public Expenditure Review*, and published on January 31, 2008 labeled the electricity sector as being "at the heart of a deep crisis" and a "major drain on government finances". The report attributes the electricity dilemma to the lack of operating efficiency (the Beddawi and Zahrani power plants are currently operated on gas-oil which is the least economical fuel), failure to add new generation capacity since the installation of two cycle plants in the 1990s, and the prevailing high percentage (15%) of technical losses. The study, which commented that switching fuel at Beddawi and Zahrani as a "high priority", suggests also that the government should rehabilitate the Jieh and Zouk power plants which together account for around 50% of Lebanon's power supply, an operation which would cost some $100 million yet can save some $60 million annually over a period of ten years. The report also stressed that EDL should as well strive to dampen the high level of technical losses, indicating that in the event the level of technical losses is reduced from 15% to 10% some $80-$100 million can be saved. The report also recommends a 99.26% increase in average tariffs, a raise which if coupled with the aforementioned power capacity increase steps, would enable consumers avoid power shortages and blackouts, sparing them the cost of alternative power. It is worth noting that current tariff rates are calculated on the basis of $21 per oil barrel. It is worth highlighting as well that the report favors the implementation of the aforementioned reform steps before the privatization of the electricity sector [39].

Public Finance - Financial Highlights	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**Jul-09**
Budget Deficit/total budget expenditures Ratio	29.41%	14.82%	10.48%	26.97%	19.62%	10.82%	N.A.*
Treasury Deficit/total treasury withdrawals Ratio	75.55%	80.36%	82.46%	82.52%	73.96%	80.93%	86.25%
Deficit/total expenditures Ratio	37.17%	28.71%	27.42%	38.42%	30.49%	29.45%	25.22%
Debt Service/total expenditures and withdrawals Ratio	46.01%	38.16%	34.65%	38.36%	39.25%	35.46%	32.94%
Debt Service/total revenues and resources Ratio	73.24%	53.53%	47.74%	62.29%	56.46%	50.26%	44.05%
Debt service/GDP Ratio	16.33%	12.43%	10.88%	13.47%	13.08%	12.16%	N.A.
Deficit/GDP Ratio	13.20%	9.35%	8.61%	13.49%	10.16%	10.10%	N.A.
EDL Support/total revenues and resources Ratio	-	-	-	18.73%	16.90%	23.03%	21.62%
EDL Support/total expenditures and withdrawals Ratio	-	-	-	11.54%	11.75%	16.25%	16.17%
EDL Support/GDP Ratio	-	-	-	4.05%	3.92%	5.57%	N.A.

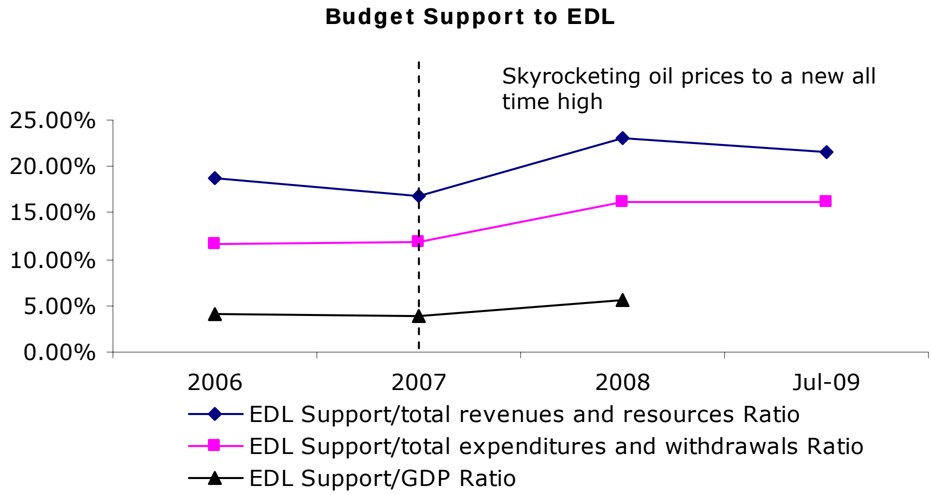
* The Budget recorded a surplus as at end of July 2009

Source: The Lebanese Ministry of Finance, Credit Libanais Research Unit

The combined effect of interest payments and support to EDL is massive, representing some 70% of total revenues and resources in 2008.

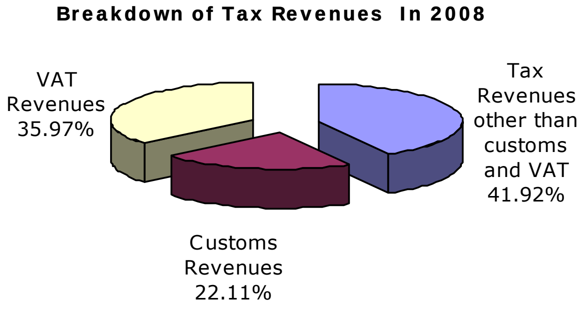
The chart on the following page illustrates support to EDL as a percentage of total revenues, total expenditures and GDP:

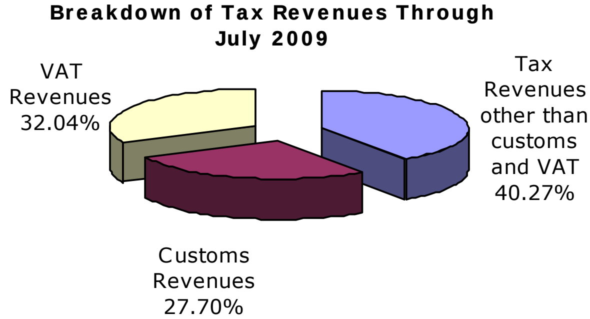
[39] The Lebanese Ministry of Finance

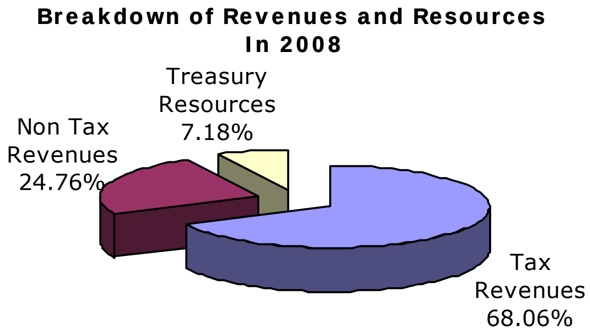


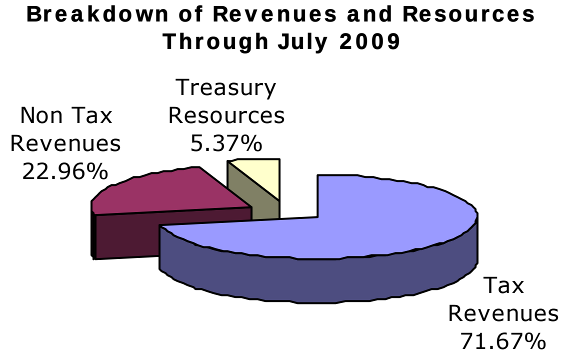
On the revenue side of the budget, it is clear that taxes and excises constitute the bulk of the government's revenues. More particularly, tax revenues outpaced non-tax revenues and resources at an average 2 to 1 ratio over the past six years, and comprised some 68.05% of total revenues in 2008. Tax revenues are split into three main subdivisions: Value Added Tax (VAT) revenues, customs revenues and other tax revenues. Year after year tax revenues have been on the rise, expanding by a compounded annual growth rate (CAGR) of 9.79% during the 2003-2008 period. Tax revenues are expected to sustain their positive impulse as economic activity continues to prosper, added a looming increase in various taxes and excises, some of which are proposed in the 2009 budget law.

The following charts unveil the composition of total revenues & resources and tax revenues in 2008 and the first seven months of 2009 [40]:









[40] The Lebanese Ministry of Finance

3) Taxation

Taxes in Lebanon are initiated by laws presented by the Tax Administration in the Ministry of Finance. The Lebanese Parliament, however, solely has the ability and power to levy taxes. Taxes are divided into two major categories, namely direct taxes and indirect taxes. The following table depicts the types of direct and indirect taxes currently in effect in Lebanon [41]:

Direct Taxes	Indirect Taxes
Income Tax	**Value Added Tax (VAT)**
Personal Income Tax	**Stamp Duty**
Corporate Income Tax	**Excise**
Deduction At Source on Salaries Tax (DASS)	**Others**
Capital Gain Tax	
Built Property Tax	
Inheritance Tax	

Source: The Lebanese Ministry of Finance

As indicated earlier, Lebanon enjoys a great deal of economic freedom with the top income tax rate set at 20% in comparison with 25% in Jordan and 28% in Syria. The corporate tax rate is 15% while taxes on partnerships can attain a maximum of 21%.

The dividend withholding and interest tax along with the tax on revaluation of fixed business assets is fixed at 10%, and the same rate goes also for the tax on movable capital and the Value Added Tax (VAT).

The following table depicts the tax rates applicable on profit tranches for professions in the commercial, industrial and non-commercial fields [41]:

Tax On Commercial, Industrial & Non-Commercial Professions	
Profit Category	**Tax Rate**
Annual Profits < LBP 9 Million	4%
LBP 9 Million < Annual Profits ≤ LBP 24 Million	7%
LBP 24 Million < Annual Profits ≤ LBP 54 Million	12%
LBP 54 Million < Annual Profits ≤ LBP 104 Million	16%
Annual Profits >LBP 104 Million	21%

Source: The Lebanese Ministry of Finance

The following table highlights the progressive tax rates applicable on the various salaries and wage tranches under the income tax law [41]:

Tax On Salaries and Wages	
Income Category	**Tax Rate**
Annual Income < LBP 6 Million	2%
LBP 6 Million < Annual Income ≤ LBP 15 Million	4%
LBP 15 Million < Annual Income ≤ LBP 30 Million	7%
LBP 30 Million < Annual Income ≤ LBP 60 Million	11%
LBP 60 Million < Annual Income ≤ LBP 120 Million	15%
Annual Imcome > LBP 120 Million	20%

Source: The Lebanese Ministry of Finance

[41] The Lebanese Ministry of Finance, Credit Libanais Research Unit

The following section lists some of the major tax exemptions applicable in Lebanon [42]:

- Share disposal is tax exempt;
- Companies that establish a manufacturing plant in areas or regions sponsored by the Government to promote economic growth are tax exempt for a period of 10 years;
- Companies that specialize in the production of commodities or new products not produced previously in Lebanon since the early eighties are also tax exempt for a period of 10 years;
- Lebanese offshore companies are tax exempt on both corporate income tax and dividend distributions. Offshore companies are subject to a fixed tax amount of LBP 1 million ($663);
- Lebanese holding companies are tax exempt on profits and dividends distributions. Lebanese holding companies are, however, subject to an annual tax amount pro-rata to paid-up capital. Lebanese holdings are compelled to pay a 5% annual tax on income generated from services rendered on behalf of sister/ affiliated companies and a 10% annual tax on income generated from the rental of patents;
- Non-profit educational organizations (school, universities etc…) are tax exempt. Unrelated business income (income generated from the sale of books etc…) is however taxable;
- Hospitals, shelters and psychiatric institutions are tax exempt;
- Harvested farm products are tax exempt, provided farmers do not display and sell said products in sales outlets;
- Shipping and air transportation companies are tax exempt, provided they meet certain pre-specified conditions;
- Profit generated by specialized banks are fully tax exempt during the first 7 years of operations and benefit afterwards from a tax deductible charge amounting to 4% of the share capital of said banks; and
- Creditors' accounts opened on behalf of the Lebanese Government with the Lebanese Central Bank and other operating banks in Lebanon and deposits opened by international Governments with Banque Du Liban and other operating banks in Lebanon as well as international Governments subscription in Republic of Lebanon treasury bills are all tax exempt.

In parallel, Lebanon offers some tax reduction schemes including [42]:

- Dividend withholding tax for Lebanese financial institutions whose shares are listed on the Beirut Stock Exchange is reduced to 5% instead of 10%;
- Dividend withholding tax for Lebanese financial institutions that allocate 20% of its capital to Arab companies whose shares are listed on their respective stock exchanges is reduced to 5% instead of 10%;
- Dividend withholding tax for Lebanese financial institutions that dedicate 20% of their capital to international firms whose stocks are listed on stock markets that are members of the Organization for Cooperation and Economic Development (OCED), is as well lowered to 5% instead of 10%;
- Real estate development companies benefit from a 50% tax shield on profits generated from the construction and sales of housing units to third parties.

[42] Credit Libanais Research Unit, Income Tax in Lebanon

- Companies utilizing operating profits to finance capital expenditures are illegible for up to 50% income tax exemption; and
- Customs incurred on imported merchandise or raw materials that are re-exported outside of Lebanon are refunded.

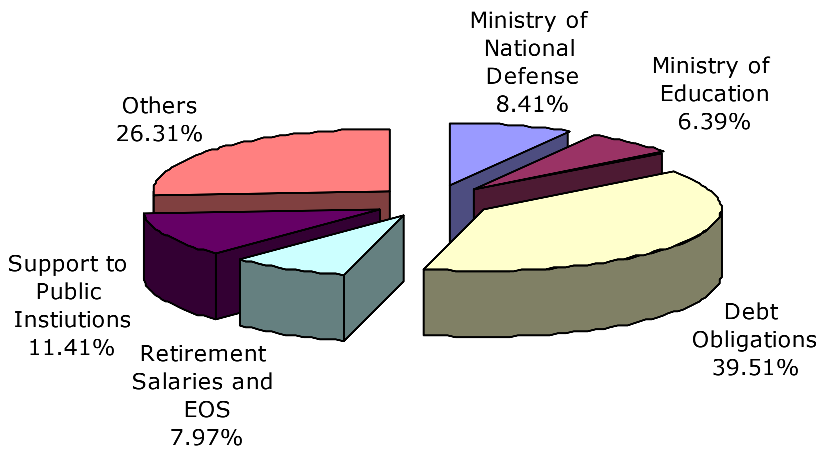
4) 2009 Budget Law

The Budget Law for the 2009 fiscal year was approved on June 12, 2009 by the Council of Ministers, conveying a budget deficit of $3.260 billion (LBP 4,915 billion) up from $2.061 billion (LBP 3,107 billion) in the 2008 budget law. The 2009 budget law points out to a consensus government spending level of $10.815 billion (16,304 billion), compared with the $7.612 billion (LBP 11,475 billion) in the 2008 budget law. Concurrently, revenues are projected to grow by 36.10% in the 2009 approved budget law to $7.555 billion (LBP 11,389 billion), up from $5.55 billion (LBP 8,368 billion) in that of 2008. As a result, the deficit to total expenditures ratio is expected to increase to 30.15% in 2009 up from 27.08% in the previous year. The 2009 budget law hypothetically assumes an average price per oil barrel at $54, and sets support to the EDL at $1.235 billion (LBP 1,861 billion) accordingly. In parallel, the new budget law calls for raising the tax on interest savings from 5% to 7% [43].

The recently approved 2009 budget law foresees a considerable 42.08% increase in expenditures. Said expansion in expenditures is mainly threefold, stemming from increases in allocations for ministries, a growing debt service burden and support to public institutions. The above average increase in allocation for ministries, offices and retirement salaries can be partly justified by the LBP 200,000 monthly salary increase on the minimum wage level and subsequent wage brackets approved by the government on May 5, 2009 along with its retroactive effect. Concurrently, the 38.52% increase in debt obligations (which constitute some 39.51% of total expenditures) from $3.08 billion in 2008 to $4.27 billion in 2009 coupled with the hefty $1.23 billion support to EDL weighed heavily in widening the budget deficit by 58.19% and lifting the deficit to total expenditures ratio up to 30.15%.

The following chart depicts the allocation of expenses in the 2009 budget law:

Breakdown of 2009 Budget Law Expenses



[43] The Lebanese Ministry of Finance

The following table compares the 2009 budget law with that of 2008, spotting the light on major changes in budget revenues and consensus government expenditures:

2009 Budget Law (USD Million)	**2008 Budget Law**	**2009 Budget Law**	**YOY % Change**
Revenues	5,551	7,555	**36.10%**
Expenditures	7,612	10,815	**42.08%**
- Current Expenditures	6,532	9,988	**52.90%**
- Investment Expenditures	1,079	827	**-23.36%**
Budget Deficit	**(2,061)**	**(3,260)**	**58.19%**
Deficit / Total Expenditures Ratio	**27.08%**	**30.15%**	

Source: The Lebanese Ministry of Finance, Credit Libanais Research Unit

The following section portrays the breakdown in government expenditures in the 2008 and 2009 budget laws:

In U.S. Dollars

Destination	**2008 Budget Law**	**2009 Budget Law**	**% Change**
Office of the President	7,072,636.82	8,793,917.74	24.34%
Parliament	38,297,844.11	40,015,920.40	4.49%
Prime Minister's Office	361,029,302.16	423,508,082.92	17.31%
Legal Council	1,120,623.55	1,126,593.70	0.53%
Ministry of Justice	49,928,242.12	87,750,116.09	75.75%
Ministry of Foreign Affairs	78,589,728.03	90,670,480.93	15.37%
Ministry of Interior	422,574,747.60	551,856,587.73	30.59%
Ministry of Finance	744,705,605.31	99,638,633.50	-86.62%
Ministry of Public Works	134,092,983.75	172,988,333.00	29.01%
Ministry of National Defense	760,820,199.00	909,336,318.41	19.52%
Ministry of Education	585,946,600.33	690,829,691.54	17.90%
Ministry of Health	249,037,628.52	291,706,532.67	17.13%
Ministry of Economy and Trade	13,191,708.13	39,162,311.77	196.87%
Ministry of Agriculture	26,995,356.55	28,354,560.53	5.03%
Ministry of Telecommunications	6,255,058.04	7,150,580.43	14.32%
Ministry of Labor	71,622,885.57	164,740,630.18	130.01%
Ministry of Media	14,050,082.92	17,231,509.12	22.64%
Ministry of Energy and Water	42,383,747.93	59,740,961.86	40.95%
Ministry of Tourism	7,378,441.13	7,550,248.76	2.33%
Ministry of Culture	12,538,995.69	14,729,883.91	17.47%
Ministry of the Environment	3,687,562.19	3,777,114.43	2.43%
Ministry of the Displaced	4,127,965.51	4,145,207.30	0.42%
Ministry of Youth and Sports	8,868,988.39	16,444,776.12	85.42%
Ministry of Social Affairs	68,639,531.67	71,266,135.99	3.83%
Ministry of Industry	2,901,094.53	2,804,245.44	-3.34%
Debt Obligations	3,084,577,114.43	4,272,636,815.92	38.52%
Retirement Salaries and EOS	689,883,913.76	862,354,892.21	25.00%
Budget Reserve	121,621,710.78	640,451,769.82	426.59%
Support to Public Instiutions		1,234,494,195.69	
General Budget Total	**7,611,940,298.51**	**10,815,257,048.09**	**42.08%**

Source: Ministry of Finance, Credit Libanais Research Unit

On the revenue side, the realization rate for the 2008 revenues reached 98.46% through the month of October, implying that actual revenue collection for the year 2008 may have exceeded the amount anticipated in the 2008 budget law. Revenues are projected to increase by an annual 36.10% in 2009, propelled mainly by a whopping 108.87% rally in revenues from the Ministry of Telecommunications on the back of improved pricing schemes for landline, prepaid and postpaid mobile lines which will unquestionably broaden the networks' customer bases. VAT revenues and revenues from profit taxes are also expected to appreciate by 17.86% and 36.69% as economic activity revitalizes.

The following tables compare the 2008 budget law with actual realized revenues through October 2008 and the 2009 budget law:

in Millions of U.S. Dollars

Revenue Type	Realized Through October 2008	2008 Budget Anticpated Revenues	2009 Budget Anticpated Revenues	As a % of Total Revenues (2009)
Profit Tax, Income Tax and Tax on Movable Capital	935.72	989.72	1,256.38	16.63%
of which Profit Tax	390.22	329.02	449.75	5.95%
of which Tax on Interest Savings	260.97	414.59	410.61	5.44%
Property Tax	418.12	354.89	465.67	6.16%
Tax on Services and Commodities	2,068.83	2,374.13	3,025.54	40.05%
of which Tax on Petroleum Derivatives	4.62	332.34	563.85	7.46%
of which VAT revenues	1,486.06	1,552.24	1,829.52	24.22%
Custom Revenues	372.12	358.21	473.63	6.27%
Other Tax Revenues	192.34	191.04	244.11	3.23%
Total Tax Revenues	**3,987.14**	**4,267.99**	**5,465.34**	**72.34%**
Revenues From Public Enterprises and Institutions	1,175.50	869.65	1,596.68	21.13%
of which Revenues from the Ministry of Telecommunications	1,000.14	665.34	1,389.72	18.39%
of which Revenues from Casino du Liban	87.72	102.82	82.92	1.10%
Administrative Revenue Dues	245.64	282.59	314.43	4.16%
Penalties & Confiscations	3.58	3.32	3.98	0.05%
Other Non-Tax Revenues	53.44	127.36	174.46	2.31%
Total Non-Tax Revenues	**1,478.17**	**1,282.92**	**2,089.55**	**27.66%**
Total Budget Revenues	**5,465.30**	**5,550.91**	**7,554.89**	**100.00%**

Source: The Lebanese Ministry of Finance

Revenue Type	Realization Rate (Year-To-October 2008/ Anticipated 2008)	Annual Revenue Growth (Anticipated 2009/ Anticipated 2008)
Profit Tax, Income Tax and Tax on Movable Capital	94.54%	26.94%
of which Profit Tax	118.60%	36.69%
of which Tax on Interest Savings	62.95%	-0.96%
Property Tax	117.82%	31.21%
Tax on Services and Commodities	87.14%	27.44%
of which Tax on Petroleum Derivatives	1.39%	69.66%
of which VAT revenues	95.74%	17.86%
Custom Revenues	103.88%	32.22%
Total Tax Revenues	**93.42%**	**28.05%**
Revenues From Public Enterprises and Institutions	135.17%	83.60%
of which Revenues from the Ministry of Telecommu	150.32%	108.87%
Total Non-Tax Revenues	**115.22%**	**62.87%**
Total Budget Revenues	**98.46%**	**36.10%**

Source: The Lebanese Ministry of Finance

5) Foreign Aid

Foreign aid channeled through international aid conferences played a vital role in sustaining the Lebanese economy during periods of crisis and in reducing the cost of debt, given the fact that the bulk of foreign aid came in the form of soft loans and grants. All four international aid conferences in the post-war period were held during the current decade, as foreign donors were reluctant to extend financial support previously, casting doubts over the Lebanese government's ability to honor its obligations and repay its debt during periods of political bickering. The following section sheds the light on the international aid conferences held in the post-war period:

Paris I Conference: The Paris I international aid conference was convened on February 27, 2001 at the Elysée Palace in Paris under the auspices of then French President Jacques Chirac, Mr. Romano Prodi (EU Commissioner at that time), Mr.

James Wolfensohn (World Bank President at the time), European Investment Bank Vice-President at that time in addition to other leading European, French and Lebanese officials. The outcome of the conference was some €500 million in total financial aid geared towards financing development projects in Lebanon [44].

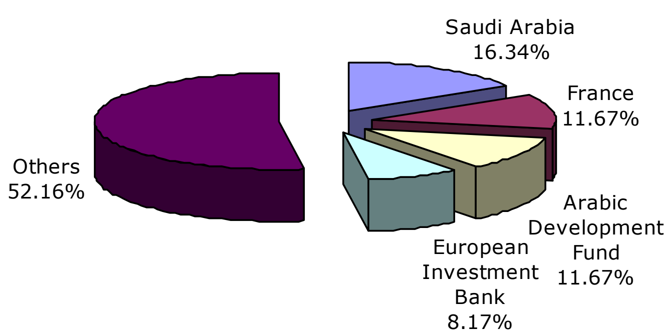
Paris II Conference: The Paris II conference was held during late November 2002 at the Elysée Palace in Paris and was attended by prominent Arab, European and international officials, namely the then prime ministers of France, Canada, Spain, Denmark, Malaysia, Italy, Belgium, Qatar and Germany, in addition to the Foreign Minster of Saudi Arabia and the United States' Assistant Secretary of State. Lebanon managed to raise some $4.3 billion out of which $3 billion were allocated to the government and $1.3 billion geared towards financing diverse projects sponsored mainly by the European Investment Bank and Arab development funds [44].

The following table depicts the breakdown of the Paris II pledges by Country/Organization:

Country/Organiztion	Size of Pledge (in millions of USD)
Saudi Arabia	700
France	500
Arab Development Fund	500
European Investment Bank	350
Malaysia	300
Kuwait	300
United Arab Emirates	300
Bahrain	200
Canada	200
Italy	200
World Bank	200
Qatar	200
European Union	100
Arab Monetary Fund	100
Belgium	70
Oman	50
Kuwaiti Development Fund	15
Total	**4,285**

Source:MondayMorning

Breakdown of Paris II Pledges



A successful Paris II summit together with renewed efforts by the government to address existing fiscal imbalances prompted Standard & Poor's Rating Services to revise its outlook on the Republic of Lebanon to "Stable" from "Negative" during the week of December 20, 2002. Long-term and short-term ratings of "B-" and "C" respectively were unchanged [45].

[44] The Lebanese Ministry of Finance, Credit Libanais Research Unit

Stockholm Conference for Lebanon's Early Recovery: The Stockholm conference was convened in the aftermath of the July 2006 Israeli aggression on Lebanon in an endeavor to address early recovery and humanitarian needs estimated $537 million. The conference, which was held in the Swedish Capital with 40 Governments and 20 institutions participating, resulted in some $896 million pledges from donor countries. The $896 million figure does not include financial aid from Saudi Arabia and Kuwait which together totaled $800 million.

The following tables list the projects in need for financing and the contributions amounts by Country [45]:

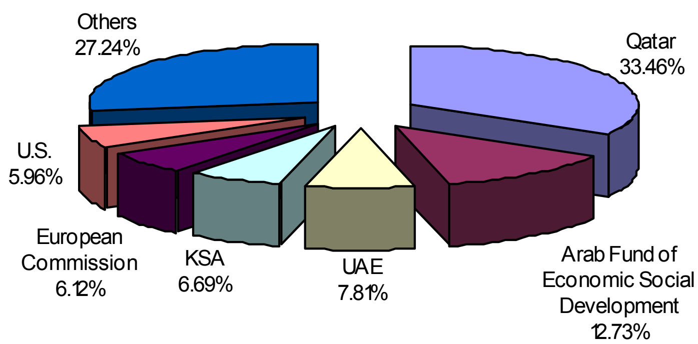
Projects	USD Million
Prefabricated Houses	75
Unexploded Bombs	4.15
Electricity	114
Telecommunication	134
Transport	484
Infrastructure	152
Health, Education, Water	87
Environment	53
Palestinian Refugee Camps	3
Agriculture	34
Industry	220

Source: Credit Libanais Weekly Market Watch

Source	USD Million	% Contribution
Qatar	300	33.48%
Arab Fund of Economic and Social Development	114	12.72%
UAE	70	7.81%
Saudi Arabia	60	6.70%
USA	55	6.14%
EU	54	6.03%
Italy	38	4.24%
Spain	34	3.79%
Germany	28	3.13%
France	26	2.90%
Sweden	20	2.23%
Other	97	10.83%
Total	**896**	**100.00%**

Source: Credit Libanais Weekly Market Watch

Breakdown of Stockholm Conference Pledges by Donor



Paris III Conference: The Paris III conference, which was held on January 25, 2007, was the most successful donors' meeting in terms of amassed donor support, with pledges attaining a staggering $7.532 billion. In its Paris III paper titled "Recovery, Reconstruction and Reform", the Lebanese government pledged to undertake some reform measures that aim at revitalizing the economy, creating job opportunities, containing public debt and maintaining social and political stability.

Out of the $7.532 billion pledged by donors during the Paris III summit, total agreements signed have reached $5.583 billion as at March 31, 2009. Of the total $5.583 billion, $2.134 billion is in the form of *Budgetary Support*, $1.431 billion is geared to provide support to the *Private Sector*, $1.233 billion for *Project Financing*, $43 million for *Support through the Central Bank*, $327 million is reserved for *In-Kind contribution*, $317 million for *Support through the United Nations* and $99 million for

[45] Credit Libanais Weekly Market Watch

Support through Civil Society Organizations (CSOs). It is worth noting that the pledged amount for project financing is $3.481 billion, while private sector pledges was set at $1.463 billion [46].

The following table reveals the allocation of pledges by type of support by the end of the first quarter of 2009 [46]:

In Millions of USD	**Updated Status of Pledges by Type of Support**		
Donor	**Pledged**	**Signed**	**Received**
Budget Support*	1,737	2,134	1,492
Banque du Liban	43	43	43
Project Support	3,481	1,233	107**
In Kind	362	327	303
Private sector support	1,463	1,431	819
Support through the UN	334	317	317
Support through civil society organizations	99	99	99
Under review / unrealized	12		
Total	**7,532**	**5,583**	**3,179**

* Includes Malaysia debt transaction for $500 million

** Not all information is available on donor implemented projects

Source: The Lebanese Ministry of Finance - Paris III- Ninth Progress Report

Out of the total agreements signed ($5.583 billion), 76.05% ($4.246 billion) were in the form of soft loans while the remaining 23.95% ($1.337 billion) came as grants.

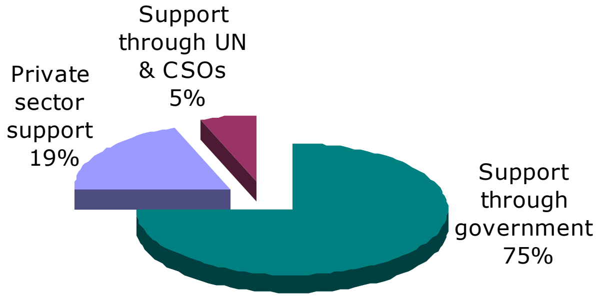
The subsequent table further details the total grants and soft loans signed with each of the donors [46]:

In Millions of USD	**Updated Signed Grants and Loan Agreements**			
Donor	**Total Pledged**	**Grants Signed**	**Loans Signed**	**Total Signed**
European Investment Bank	1,248		891	891
Saudi Arabia	1,100	100		100
World Bank Group	975		475	475
United States	890	770	220	990
Arab Fund for Economic & Social Development	750		442	442
France	650		599	599
European Commission	486	167	65	232
United Arab Emirates	300		300	300
Islamic Development Bank	250	5	245	250
Arab Monetary Fund	250		375	375
Italy	156	52		52
Germany	134	57	21	78
International Monetary Fund	77		77	77
Spain	53	48		48
Egypt	44	15		15
United Kingdom	35	35		35
Belgium	26	13		13
Turkey	20	20		20
Canada	17	2		2
Norway	15	15		15
Oman	10	10		10
Other	47	28		28
Malaysia			500	500
IMF (EPCA II)			37	37
Total	**7,532**	**1,337**	**4,246**	**5,583**

Source: The Lebanese Ministry of Finance - Paris III- Ninth Progress Report

[46] The Lebanese Ministry of Finance, Credit Libanais Weekly Market Watch

The following pie chart depicts the allocation of Paris III pledges in the first quarter of 2009 [47]:



Nature of Pledges	Pledged Amounts ($ Million)
Private Sector	$1,463
Budgetary Support of which:	$1,737
- Grant from Saudi Arabia	*$100*
- Loan from the World Bank	*$300*
- Loan from the UAE	*$300*
- Grant from the U.S.	*$250*
- Oman	*$10*
- Arab Monetary Fund	*$107*
- Greece	*$1.20*
- France	*$488*
- Slovenia	*$0.13*
-European Commission	*$104.00*
-International Monetary Fund (EPCA I)	*$77.00*
Project Financing	$3,481
Support For The Central Bank	$43
In-Kind	$362
Total Pledges Signed to date	**$5,583**

Source: The Lebanese Ministry of Finance

It is worth noting that a significant part of Paris III pledges were conditional upon the commitment of the Lebanese government to implement a reform program, which includes among other things, the privatization of the telecommunications and energy sectors. Since the dawn of the decade, the Lebanese government took a series of steps geared towards the implementation of the privatization process. In 2001, the Higher Council for Privatization (HCP) was established through the adoption of privatization law 228 dated May 2000. The HCP is the authority in charge of planning and implementing privatization programs for the government's assets namely EDL, Société des Eaux de Beyrouth and other water companies, the Beirut International Airport and port companies, the land line and the two mobile networks. The government, however, focuses on both the telecommunications and power sectors, being considered as the largest government's assets. Privatization aims, in the first place, at reducing the government's debt burden and the fiscal deficit and helps promote the country's capital markets [47].

The advantages of privatization include, among other things, the following [47]:

- Promoting growth
- Reducing debt and Fiscal Deficit
- Promoting the country's capital markets

[47] The Lebanese Ministry of Finance, Credit Libanais Weekly Market Watch

- Improving the reliability, quality and costs of public services
- Reducing operating costs through increased efficiency of operations
- Expanding the range of products and services offered to customers
- Introducing competition

Moreover, and following the Paris III conference, the government appointed the members of the Telecommunications Regulatory Authority (TRA), which is an independent government agency in charge of liberalizing, regulating and developing telecommunications in Lebanon, through encouraging competition and transparency. TRA started operating in March 2007.

Privatization, however, remains a subject of debate between various political forces, with some parties advocating the privatization of the administration of said enterprises while others arguing for implementing reform at said enterprises (namely the EDL), which could raise their intrinsic value significantly.

C. Monetary Policy

It is widely recognized that the Lebanese Central Bank Governor, and through orchestrating an efficient monetary policy and crucial interventions, was and continues to be a regulator of the Lebanese economy, fostering growth when deemed necessary and shielding the Lebanese economy during times of crisis. This has earned him praise and admiration from international institutions and rating agencies. Unsurprisingly, the Lebanese Central Bank Governor, Mr. Riad Salameh, managed to scoop five Euromoney awards, namely "*Best Central Bank Governor in the Arab World*" in 1996, "*Best Central Bank Governor of the Year*" in 2003, "Best Central Bank Governor in the Middle East" in 2005 under the umbrella of the Euromoney award for emerging markets, and "*Best Central Bank Governor in the World*" in 2006 which was allocated for the first time to an Arab figure, with the lattermost prize being awarded for his effective monetary handling during the July 2006 war. Furthermore, Mr. Salameh earned two awards from the Banker Magazine, with the latest being in 2008 for shielding the Lebanese economy and banking sector from the global financial crisis. Moreover, Arab Bankers Association of North Africa (ABANA) awarded Banque Du Liban's Governor Mr. Riad Salameh the "Best Achievement Award", one year after being named the "World's Best Central Bank Governor" by the Euromoney magazine [48].

The Central Bank's monetary policy pivots around, among other things, controlling reserve requirements for commercial banks, controlling interest rate levels in the economy, boosting liquidity, monitoring banks' credit risk, maintaining a pegged exchange rate to the U.S. Dollar and containing inflation within acceptable bounds.

Furthermore, the Lebanese Central Bank has successfully played a pivotal role in tailoring a set of circulars that aim at accelerating the pace of growth of various sectors of the economy. This includes a range of subsidies that could attain 700 basis points on IFC, BEI, KAFALAT and subsidized loans extended to the tourism, agricultural, industrial, handicrafts and information technology sectors. The Central Bank was always keen on aiding the government in structuring its debt by the means of issuing certificates of deposit and reducing its large debt overhang through launching an initiative with the coordination of commercial banks in which the latter

[48] Central Bank: Governor's Bureau, Credit Libanais Market Watch

agreed to subscribe in non-interest bearing treasury bills for a total consideration of $3.7 billion. The Central Bank also placed emphasis on safeguarding the asset quality of the Lebanese banking sector and shielding it from any possible crises through efficiently confining the allowable scope of investments away from exotic and toxic financial instruments. The following section lists the set of circulars, among others, put into effect by the Lebanese Central Bank that immunized the Lebanese banking sector against the latest financial turmoil [49]:

- **Circular number 27 dated 28/6/1996:** Lebanese banks are prohibited from dealing with derivative instruments except for hedging purposes.
- **Circular number 171 dated 23/6/2008:** Lebanese banks are permitted to trade with only BBB or higher rated bonds with the trading value capped at 50% of the Bank's capital. Furthermore, banks are allowed to participate only in capital guaranteed "A rated or higher" structured products up to 25% of a bank's capital.
- **Circular number 170 dated 23/6/2008:** Lebanese banks must obtain the prior consent of the Lebanese Central Bank prior to marketing any type of financial instruments.
- **Circular number 177 dated 21/7/2008:** Banks must not extend real estate loans whose values exceed 60% of the desired property or real estate project under construction. Concurrently, banks are prohibited from practicing real estate brokerage or real estate arbitrage activities.
- **Memo 13/2007 in 21/7/2008:** Banks are required to report the value of their foreign investment portfolios as well as evaluating the respective portfolio's profits or losses on a regular and consistent basis.
- **Memo 22/2008 in 15/9/2008:** Banks are asked to report the value of financial instruments' included on their books and those of their clients' accounts on a regular quarterly basis.

All of the aforementioned factors combined, reflected a robust performance for the Lebanese economy amid the global financial turmoil, at the time when global economies were succumbing to the global recessionary environment, posting near zero and even negative growth rates in real terms.

The table on the following page, and according to the IMF May 2009 World Economic Outlook, compares the anticipated growth of the Lebanese economy with that of major international and regional counterparts [50]:

[49] Banque Du Liban, Credit Libanais Research Unit, [50] IMF

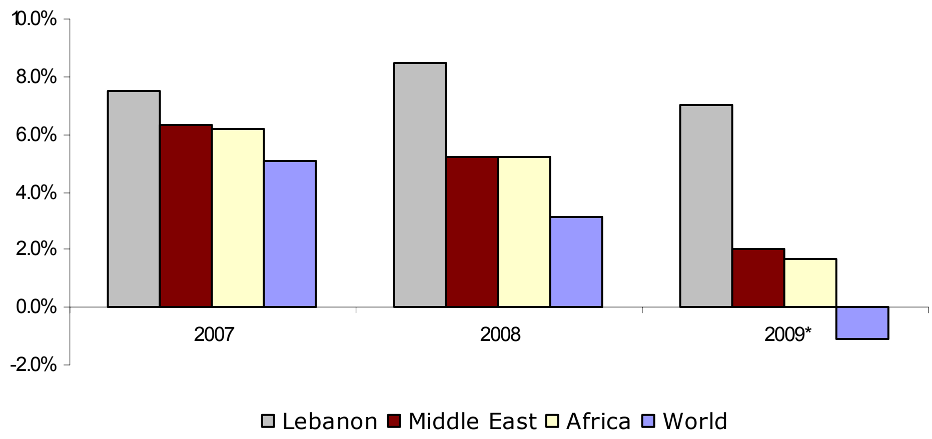
Real GDP Year-on-Year Growth in (%)

	2007	2008	2009*
Lebanon	**7.5**	**8.5**	**7.0**
World	**5.1**	**3.1**	**-1.1**
Advanced economies	2.7	0.8	-3.4
United States	**2.0**	**1.1**	**-2.7**
Euro area	**2.7**	**0.8**	**-4.2**
Germany	2.5	1.3	-5.3
France	2.3	0.3	-2.4
Italy	1.6	-1.0	-5.1
Spain	3.7	1.2	-3.8
Japan	**2.3**	**-0.7**	**-5.4**
United Kingdom	2.6	0.7	-4.4
Canada	2.5	0.4	-2.5
Other advanced economies	4.7	1.6	-2.1
Newly industrialized Asian economies	5.7	1.5	-2.4
Emerging and developing economies	**8.3**	**6.0**	**1.7**
Africa	**6.2**	**5.2**	**1.7**
Sub-Sahara	6.9	5.5	1.3
Central and eastern Europe	5.4	3.0	-5.0
Commonwealth of Independent States	8.6	5.5	-6.7
Russia	**8.1**	**5.6**	**-7.5**
Excluding Russia	9.8	5.4	-4.7
Developing Asia	10.6	7.6	6.2
China	13.0	9.0	8.5
India	9.4	7.3	5.4
ASEAN-5	6.3	4.8	0.7
Middle East	**6.3**	**5.2**	**2.0**
Western Hemisphere	5.7	4.2	-2.5
Brazil	5.7	5.1	-0.7
Mexico	3.3	1.3	-7.3

* Projected Growth

Source: IMF October 2009 World Economic Outlook, Credit Libanais Research Unit

Comparative Economic Growth



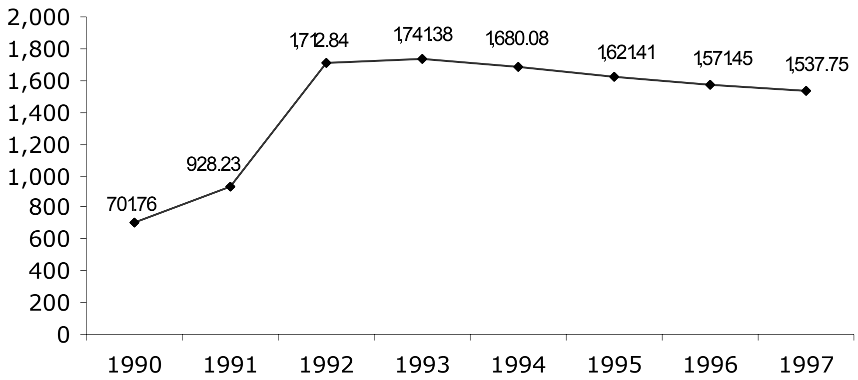
As portrayed by the above table and chart, the performance of the Lebanese economy over the 2007-2009 period outperforms that of major global economies, indicating the success of the Lebanese Central Bank in averting the global turmoil.

1) Exchange Rate Regime

One of the top priorities of the Lebanese Central Bank in the post-Taef accord period was appreciating the Lebanese Pound (LBP) to acceptable levels against the U.S. Dollar and stabilizing the exchange rate thereafter. In order to achieve its objective, the Central Bank resorted to issuing high-yielding LBP denominated treasury bills in an attempt to lure investors to forego any possible depreciation in the value of the Lebanese Pound. The strategy, coupled with the re-established level of confidence following the formation of a new government in 1992, yielded a resounding success, with the value of the Lebanese Pound appreciating from above 2,527.75/$ in September 1992 to 1,507.5/$ in December 1997, a level that was maintained afterwards, unperturbed by the recurrent wars, political tensions and economic setbacks. Said success however, came at a cost, with sky-high interest rates playing a major role in fueling Lebanon's debt burden [51].

The following chart illustrates the evolution of the LBP/USD exchange rate since the early post war years until December 1997, the date when the LBP was pegged to the U.S. Dollar at today's prevailing exchange rate of LBP 1507.5/$:

Evolution of Average LBP/USD Exchange Rate



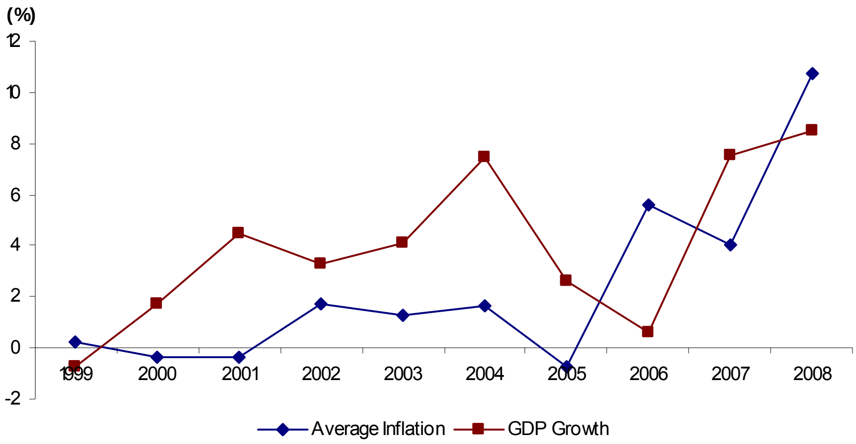
In an effort to stabilize the peg at the 1,507.5 level, however, the Central Bank was occasionally compelled to interfere as buyer or seller of the U.S. Dollar. At times of crisis, the Lebanese Central Bank interfered in an effort to match the excess demand for the U.S. Dollar with the objective of keeping the exchange rate within narrow bands. This can be observed during the period when late Prime Minister Rafik Hariri was assassinated and the strained political situation that followed suit, when foreign assets were depleted by some 19.22% ($2.25 billion) in a matter of eight weeks, from $11.705 billion on January 31, 2005 to $9.455 billion on April 15, 2005. In times of a relaxed political situation, however, the Central Bank interferes in the market as buyer of the U.S. Dollar, matching the excess supply of the greenback, thus stabilizing the exchange rate. Currently, the Lebanese Central Bank continues to shore up foreign assets, benefiting from the relative calm on the political scene and robust tourism season, with its portfolio of foreign assets attaining the $25.69 billion mark (59.67% of net public debt in 2008) as at end of September 2009 [51].

[51] Banque Du Liban

2) Inflation

Another major impasse facing the Lebanese Central Bank in the post war period was the high inflationary environment which corroded the purchasing power of an already depreciating Lebanese Pound. The Central Bank, however, succeeded in taming inflation markedly from triple digits in 1992 to single digit levels as of 1996. Inflation pursued its downward momentum, yet at a slower pace than earlier, before reaching near zero levels in 1999. Inflation fell afterwards from near zero levels in 1999 to negative grounds in 2000 and 2001, averaging -0.1606% over the 1999-2001 period, as the economy stagnated. Inflation remained moderate over the four-year period between 2002 and 2005, with prices expanding at an average rate of 1% before burgeoning to 5.57%, 4.057% and 10.758% in 2006, 2007 and 2008 respectively fueled by a rally in World commodity prices. The following diagram sketches GDP growth against average year-on-year inflation over the 1999-2008 period [52]:

Average Inflation vs GDP Growth



Source: IMF, World Economic Outlook

3) Monetary Aggregates

On the monetary level front, the aggregate monetary level "M4" expanded broadly over the last couple of years, thanks to the influx of money from the Gulf region following the recent oil boom which drove the per barrel price of oil to above the $147/barrel mark. It is worth noting that the increase in commodity prices had a ripple effect on the inflationary front, with the sizeable influx of money from the Gulf in terms of tourism spending and investments in the real estate sector playing a major role in spurring inflation and driving real estate prices to record highs.

The aggregate monetary level "M4" expanded at a compounded annual growth rate (CAGR) of 9.25% over the 2003-2008 period and at a CAGR of 29.41% during the latest oil boom period extending between 2006 and 2008.

Before further elaborating on this section, it is necessary to define the components of each of the four monetary aggregates [53]:

[52] IMF, [53] Banque Du Liban

M1: Money in Circulation + Demand Deposits
M2: M1+ Term and Saving Deposits in LBP
M3: M2 + Deposits Denominated in Foreign Currencies
M4: M3 + Non-Banking Sector Treasury Bills
M2 - M1: Term and Saving Deposits in LBP
M3 – M2: Deposits Denominated in Foreign Currencies

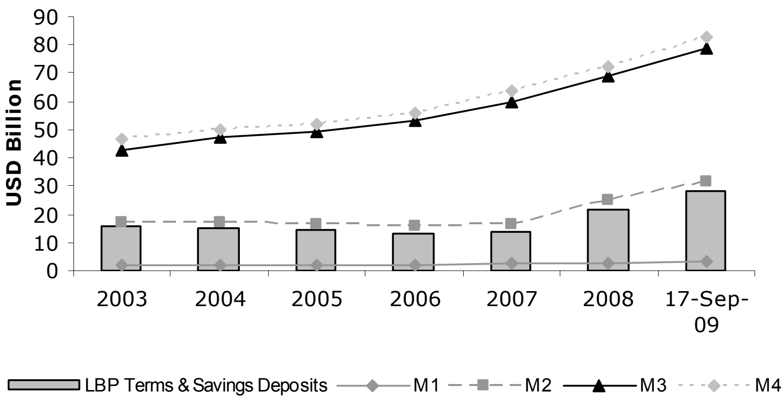
The following section depicts the evolution of the various monetary components over the last half decade:

In Billions of U.S. Dollars

	2003	2004	2005	2006	2007	2008	17-Sep-09	CAGR (2003-2008)
M1	1.89	2.01	1.96	2.20	2.36	2.83	3.05	**8.44%**
M2	17.40	17.23	16.23	15.57	16.47	24.76	31.37	**7.31%**
M3	42.91	47.30	49.38	53.23	59.83	68.66	78.55	**9.86%**
M4	46.63	49.63	51.59	56.08	63.56	72.58	83.04	**9.25%**
(M2 - M1)	15.51	15.22	14.27	13.37	14.11	21.93	28.32	**7.16%**
(M3-M2)	25.51	30.07	33.16	37.66	43.36	43.90	47.18	**11.47%**

Source: Banque Du Liban, Credit Libanais Research Unit

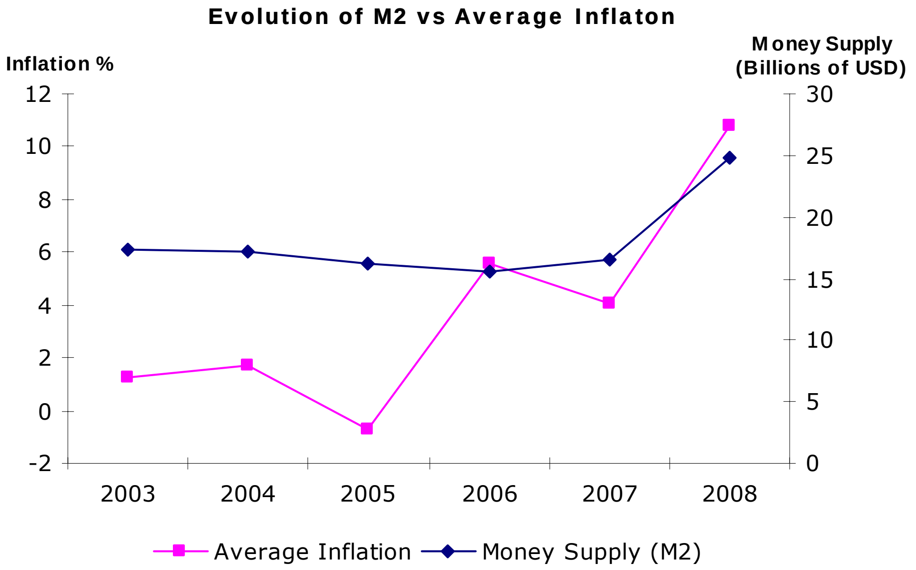
Evolution of Monetary Levels



When screening the above table and graph, we can notice that growth in deposits denominated in Foreign Currencies (M3 - M2) outpaced growth in term and saving deposits in LBP over the last half decade as turbulent political, economic and security conditions drifted investors towards deposits in foreign currencies, which normally provide a hedge against any possible devaluation of the Lebanese Pound. This case was most evidently demonstrated during the 2005-2006 period, which was marred by a series of political assassinations and an atrocious Israeli aggression, with term and saving deposits in LBP regressing by 12.16% from $15.22 billion by year-end 2004 to $13.37 billion two years later. On the other hand, deposits denominated in foreign currencies grew by a stunning 30.78% over the same period, implying that some investors opted to convert into foreign currency deposits. As at the beginning of 2007, however, and as economic prospects started to improve with the convention of the Stockholm and Paris III conferences, growth in LBP term and saving deposits evidently outpaced the growth in deposits denominated in foreign currencies, reflecting the restored level of confidence in the economy. More particularly and over the period ranging between December 2007 and mid September 2009, LBP deposits skyrocketed by a dazzling 100.70% from $14.11 billion to $28.32 billion, while foreign currency deposits posted a timid 8.80% growth over the same period [54].

[54] Banque Du Liban

The pace in money supply growth was undoubtedly one of the main factors triggering inflation. Furthermore, statistical data unveil a strong positive correlation between average inflation and various levels of money supply, with the strongest correlation being with M1 at (94.12%), followed by lower, yet significant correlations with M4, M3 and M2 at 87.86%, 86.74% and 77.12% respectively.



Source: Credit Libanais Research Unit

D. External Sector

1) Balance of Trade

Lebanon's balance of trade, which lies on the current account side of Lebanon's balance of payments under the goods' section, has been in recurrent deficits over the past half decade. This is attributed to the scarcity of natural resources at first, in addition to a combination of socio-economic forces undermining the growth of the agricultural and industrial sectors, listed previously. More worryingly, it is also noticeable that Lebanon's balance of trade deficit has been on the rise recently, widening from $5.644 billion in 2003 to $8.999 billion in 2007 before surging to $12.658 billion in 2008 [55].

In Millions of USD	2003	2004	2005	2006	2007	2008	Jul-09
Exports	1,524	1,747	1,880	2,283	2,816	3,478	2,003
Imports	7,168	9,397	9,340	9,398	11,815	16,137	9,300
Trade Deficit	**(5,644)**	**(7,650)**	**(7,460)**	**(7,115)**	**(8,999)**	**(12,658)**	**(7,297)**

Source : Banque Du Liban, Higher Customs Council

The increase in the balance of trade deficit in recent years, and especially in 2008, can be explained by the latest rally in oil and commodity prices coupled with the appreciation of the Euro against the U.S. Dollar, to which the LBP is pegged, given the fact that a significant portion of Lebanon's imports come from Europe.

[55] Banque Du Liban, Higher Customs Council

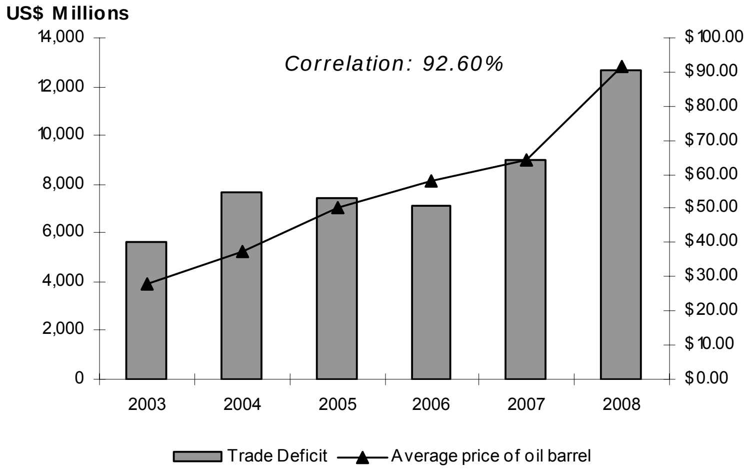
The following table portrays the evolution of Lebanon's balance of trade deficit against the evolution in the average $/barrel price of oil and average EUR/USD exchange rate [56]:

	2003	2004	2005	2006	2007	2008
Trade Deficit (in millions of USD)	5,644.27	7,649.93	7,460.10	7,115.06	8,999.02	12,658.35
Average USD/Eur exchange rate	1.1321	1.2473	1.2454	1.2562	1.3707	1.4713
Average price of oil barrel	$27.69	$37.66	$50.04	$58.30	$64.20	$91.48

Source: Banque Du Liban, Reuters, Credit Libanais Research Unit

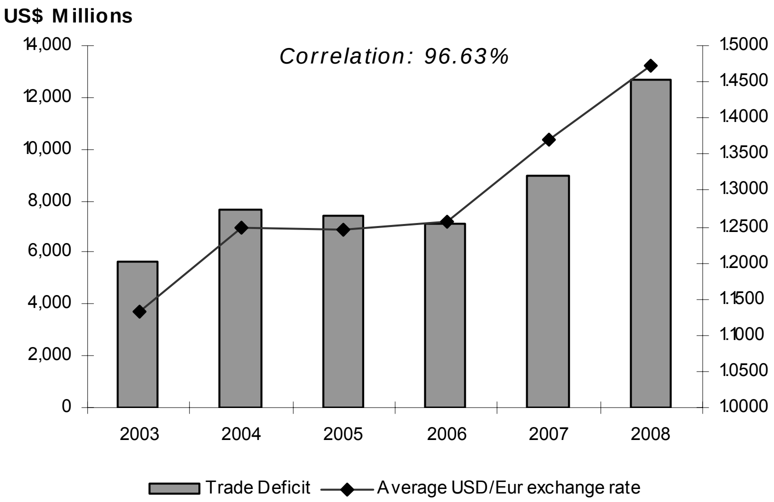
The following charts uncover the high positive correlation between Lebanon's expanding balance of trade deficit on the one hand and the rocketing oil prices and appreciating Euro exchange rate on the other:

Evolution of trade deficit vs oil prices



Source: Credit Libanais Research Unit

Evolution of trade deficit vs USD/Eur exchange rate



Source: Credit Libanais Research Unit

[56] Banque Du Liban, Reuters

Lebanon's total imports over the last five years soared by 125.13% from $7.168 billion to $16.137 billion. The reasons underlying increase surge in imports are two-fold: an increase in the size of imports on the back of demographic purposes coupled with the aforesaid rally in global commodity prices and appreciation of the Euro. The United States of America took the lion's share in terms of countries exporting to Lebanon in 2008, partly owing to the depreciation of the U.S. Dollar which favored American goods over similar European ones, with an aggregate value of $1.85 billion (11.46%), followed by China, France, Italy, Germany and Turkey with respective shares of 8.62%, 8.27%, 6.87%, 6.36% and 4.33%.

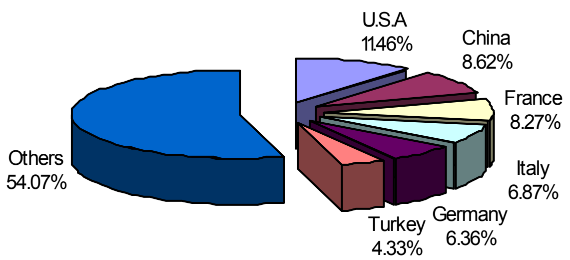
Major Import Sources in 2008		
U.S.A	$1,850 million	11.46%
China	$1,391 million	8.62%
France	$1,335 million	8.27%
Italy	$1,109 million	6.87%
Germany	$1,027 million	6.36%
Turkey	$699 million	4.33%
Others	$8,726 million	54.07%

Source: The Lebanese Ministry of Finance, Higher Customs Council

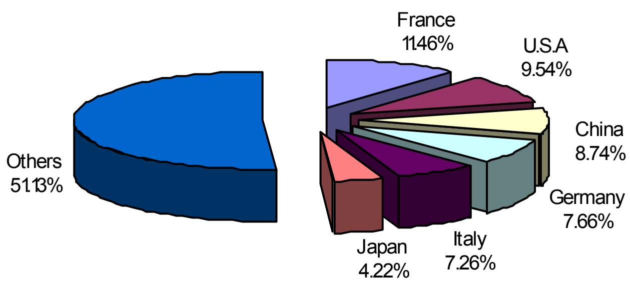
Major Import Sources Through July 2009		
France	$1,066 million	11.46%
U.S.A	$887 million	9.54%
China	$813 million	8.74%
Germany	$712 million	7.66%
Italy	$675 million	7.26%
Japan	$392 million	4.22%
Others	$4,755 million	51.13%

Source: The Lebanese Ministry of Finance, Higher Customs Council

Major Import Sources In 2008



Major Import Sources Through July 2009



On the opposite side of the balance of trade, the United Arab Emirates and Switzerland were the major destinations for Lebanon's exports in 2008 at respective rates of 9.95% and 9.46%, with Iraq following, at an aggregate value of $269 million (7.73%).This is further illustrated in the following section:

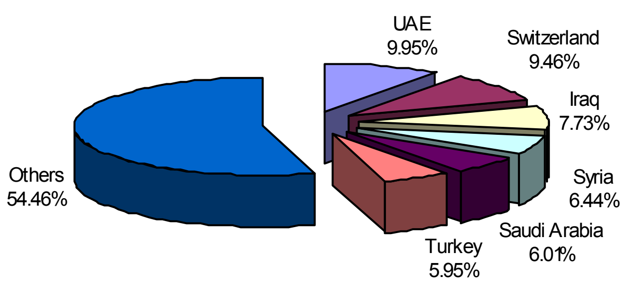
Major Export Destinations in 2008		
UAE	$346 million	9.95%
Switzerland	$329 million	9.46%
Iraq	$269 million	7.73%
Syria	$224 million	6.44%
Saudi Arabia	$209 million	6.01%
Turkey	$207 million	5.95%
Others	$1,894 million	54.46%

Source: The Lebanese Ministry of Finance, Higher Customs Council

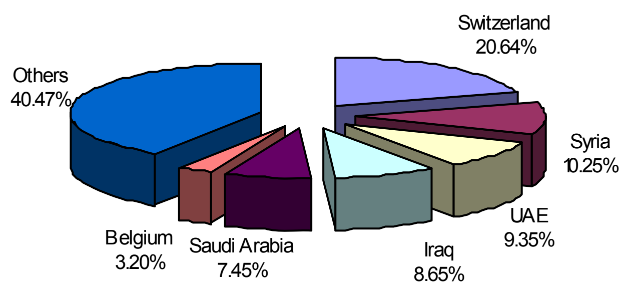
Major Export Destinations Through July 2009		
Switzerland	$413 million	20.62%
Syria	$205 million	10.23%
UAE	$187 million	9.34%
Iraq	$173 million	8.64%
Saudi Arabia	$149 million	7.44%
Belgium	$64 million	3.20%
Others	$812 million	40.42%

Source: The Lebanese Ministry of Finance, Higher Customs Council

Major Export Destinations In 2008



Major Export Destinations Through July 2009



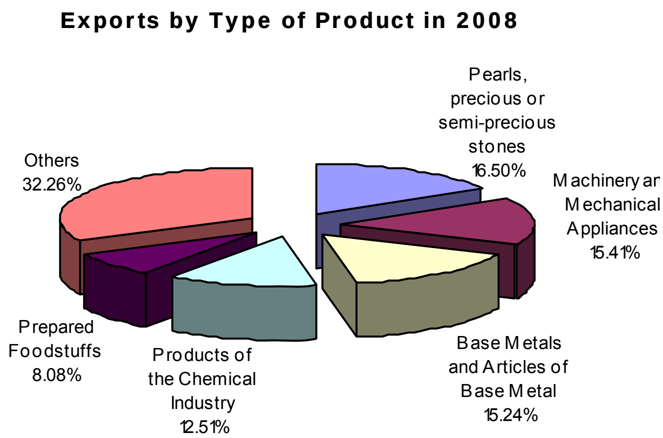
In 2008, Lebanon mainly exported pearls, precious or semi precious stones ($574 million) followed by machinery and mechanical appliances ($536 million) and base metals and articles of base metal ($530 million). This is further illustrated in the following table:

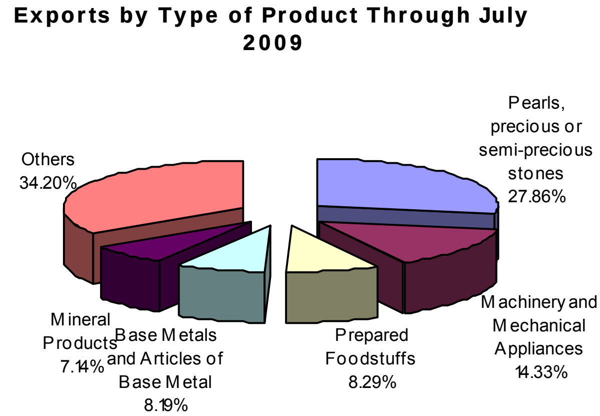
Exports by Type of Product in 2008	
Pearls, precious or semi-precious stones	$574 million
Machinery and Mechanical Appliances	$536 million
Base Metals and Articles of Base Metal	$530 million
Products of the Chemical Industry	$435 million
Prepared Foodstuffs	$281 million
Others	$1,122 million

Source: The Lebanese Ministry of Finance, Higher Customs Council

Exports by Type of Product Through July 2009	
Pearls, precious or semi-precious stones	$558 million
Machinery and Mechanical Appliances	$287 million
Prepared Foodstuffs	$166 million
Base Metals and Articles of Base Metal	$164 million
Mineral Products	$143 million
Others	$685 million

Source: The Lebanese Ministry of Finance, Higher Customs Council





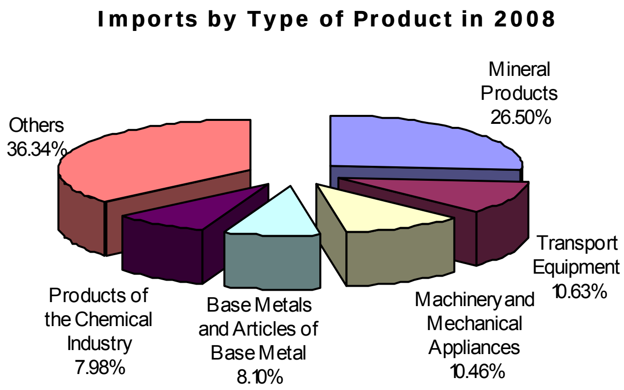
In parallel, mineral products accounted for the largest share (26.5%) of Lebanon's imports in 2008, followed by transport equipment (10.63%) and machinery and mechanical appliances (10.46%).

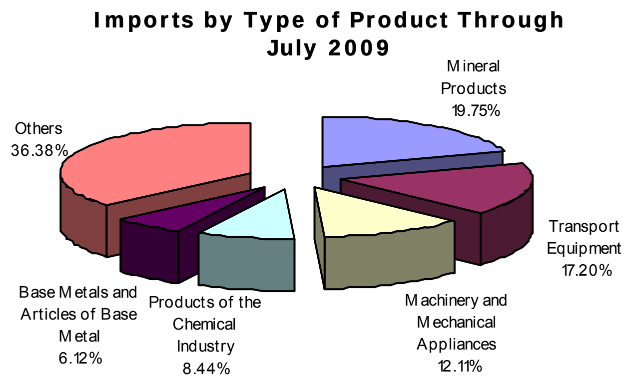
Imports by Type of Product in 2008	
Mineral Products	$4,276 million
Transport Equipment	$1,715 million
Machinery and Mechanical Appliances	$1,688 million
Base Metals and Articles of Base Metal	$1,307 million
Products of the Chemical Industry	$1,287 million
Others	$5,864 million

Source: The Lebanese Ministry of Finance, Higher Customs Council

Imports by Type of Product Through July 2009	
Mineral Products	$1,837 million
Transport Equipment	$1,600 million
Machinery and Mechanical Appliances	$1,126 million
Products of the Chemical Industry	$785 million
Base Metals and Articles of Base Metal	$569 million
Others	$3,383 million

Source: The Lebanese Ministry of Finance, Higher Customs Council



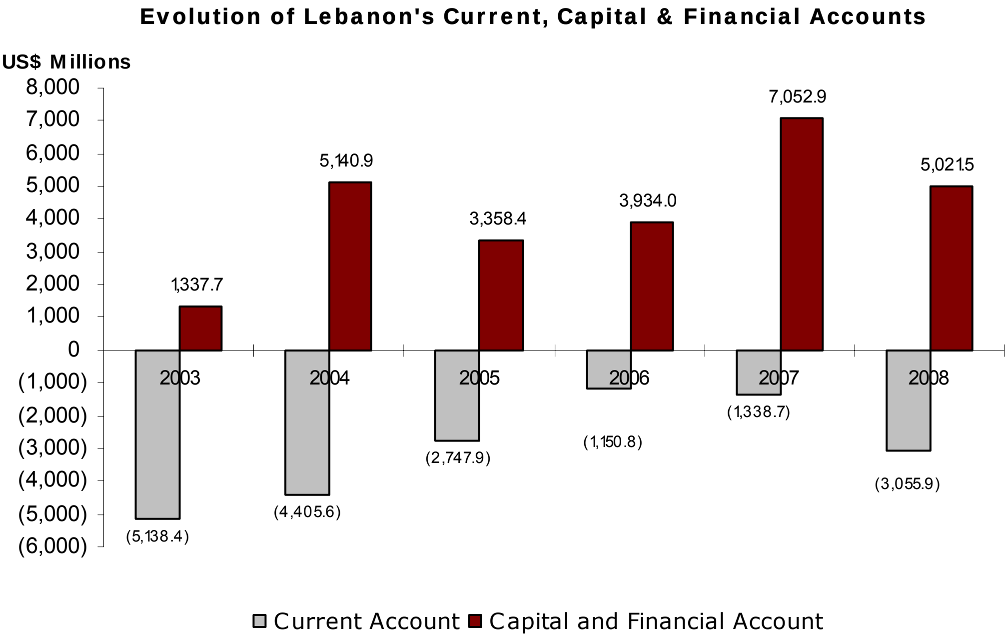


2) Balance of Payments

The following table provides a snapshot on Lebanon's balance of payment over the period 2003-2008:

In millions of USD	2003	2004	2005	2006	2007	2008
Current Account	**(5,138.4)**	**(4,405.6)**	**(2,747.9)**	**(1,150.8)**	**(1,338.7)**	**(3,055.9)**
Goods	**(5,003.1)**	**(6,778.1)**	**(6,587.7)**	**(6,149.5)**	**(7,859.0)**	**(11,210.6)**
Credit	1,998.2	2,396.7	2,651.5	3,195.3	4,067.4	5,096.4
Debit	(7,001.3)	(9,174.8)	(9,239.2)	(9,344.8)	(11,926.4)	(16,307.0)
General Merchandise	(5,267.0)	(6,708.2)	(6,467.1)	(6,613.0)	(8,005.5)	(11,425.6)
Exports FOB	1,377.8	1,868.0	2,157.8	2,266.5	3,191.8	3,638.8
Imports FOB	(6,644.8)	(8,576.2)	(8,624.9)	(8,879.5)	(11,197.3)	(15,064.3)
Goods for processing	34.5	36.3	12.2	97.0	8.8	252.2
Repairs on goods	(2.3)	(2.3)	(1.7)	(1.2)	0.0	0.0
Non-monetary gold	191.8	(149.8)	(213.8)	299.7	48.8	(193.7)
Services	**2,973.8**	**1,474.3**	**2,963.5**	**2,845.7**	**3,016.5**	**5,533.7**
Credit	9,462.0	9,703.9	10,858.3	11,579.8	13,004.8	18,944.6
Debit	(6,488.1)	(8,229.6)	(7,894.9)	(8,734.2)	(9,988.3)	(13,410.9)
Transportation services	(493.5)	(708.9)	(894.5)	(1,023.7)	(1,139.5)	(1,406.2)
Travel services	3,430.9	2,241.4	2,623.6	1,974.7	2,352.5	3,627.8
Communication services	66.1	26.3	102.1	88.2	39.6	77.9
Insurance services	(93.4)	(35.3)	(38.7)	(71.7)	(22.6)	(19.4)
Financial services (other than insurance)	20.6	30.4	48.2	109.3	85.7	85.9
Miscellaneous services	40.3	(85.3)	1,119.8	1,768.1	1,706.2	3,171.3
Government services	2.8	5.8	3.0	1.0	(4.7)	(3.1)
Income	**(3,437.6)**	**(817.6)**	**(186.4)**	**183.6**	**740.1**	**(76.9)**
Credit	1,398.7	1,060.3	1,732.5	2,439.6	3,112.8	2,707.7
Debit	(4,836.3)	(1,877.9)	(1,918.9)	(2,256.0)	(2,372.7)	(2,784.6)
Compensation of employees	391.9	(250.7)	(63.8)	(82.0)	149.7	615.8
Investment income	(3,829.5)	(566.9)	(122.6)	265.6	590.4	(692.7)
Direct investment	17.9	(27.3)	26.0	(17.4)	4.7	0.0
Portfolio investment	(3,663.2)	(438.1)	(383.2)	(397.2)	(444.4)	(376.9)
Other investment	(184.1)	(101.6)	234.5	680.3	1,030.1	(315.7)
Current transfers	**328.5**	**1,715.9**	**1,062.7**	**1,969.4**	**2,763.7**	**2,697.9**
Credit	4,079.1	5,325.2	4,399.4	5,157.5	5,218.5	6,068.9
Debit	(3,750.7)	(3,609.4)	(3,336.7)	(3,188.1)	(2,454.8)	(3,371.0)
General government	3.7	6.0	0.1	109.2	3.3	29.7
Other sectors	324.8	1,709.9	1,062.6	1,860.2	2,760.4	2,668.2
Workers' remittances	270.0	1,609.5	976.4	1,839.5	2,652.7	2,536.4
Other transfers	54.8	100.4	86.2	20.6	107.7	131.8
Capital and Financial Account	**1,337.7**	**5,140.9**	**3,358.4**	**3,934.0**	**7,052.9**	**5,021.5**
Capital account	**29.3**	**50.4**	**27.4**	**1,940.4**	**589.7**	**409.5**
Credit	30.0	53.7	27.4	1,944.4	590.7	409.9
Debit	(0.7)	(3.3)	0.0	(4.0)	(1.0)	(0.4)
Capital Transfers	29.3	50.4	27.4	1,940.4	589.7	409.5
Financial account	**1,308.4**	**5,090.5**	**3,331.0**	**1,993.6**	**6,463.2**	**4,612.0**
Direct investment						
Abroad	(611.0)	(827.1)	(715.5)	(874.7)	(848.1)	(986.6)
In reporting economy	2,860.0	1,898.8	2,623.5	2,674.5	2,731.0	3,606.4
Portfolio investment						
Assets	(773.2)	(614.3)	(111.8)	(358.3)	(1,461.5)	(396.0)
Equity securities	(254.3)	(348.9)	(151.7)	(205.8)	(410.4)	(371.3)
Debt securities	(519.0)	(265.4)	39.9	(152.5)	(1,051.1)	(24.7)
Liabilities	644.0	(93.0)	647.7	2,023.7	1,730.3	1,215.5
Equity securities	207.4	147.6	1,435.6	550.8	791.1	465.7
Debt securities	436.6	(240.6)	(788.0)	1,472.9	939.3	749.9
Other investment						
Assets	2,802.8	3,125.5	2,637.8	(1,598.3)	525.7	8,413.3
Loans	1,562.4	4,540.7	3,645.1	4,980.8	5,204.8	4,943.0
Currency and deposits	1,240.4	(1,415.2)	(1,007.2)	(6,579.1)	(4,679.1)	3,470.0
Liabilities	1,421.4	819.0	(1,295.6)	373.2	3,199.3	136.3
Loans	487.9	(105.1)	(367.9)	(170.9)	235.5	84.9
Currency and deposits	933.6	924.1	(927.6)	544.1	2,963.8	51.3
Reserve Assets	**(5,035.7)**	**781.6**	**(455.1)**	**(246.6)**	**586.6**	**(7,377.0)**
Net errors and omissions	**3,800.7**	**(735.3)**	**(610.5)**	**(2,783.3)**	**(5,714.2)**	**(1,965.6)**

Source: BDL- Quarterly Report



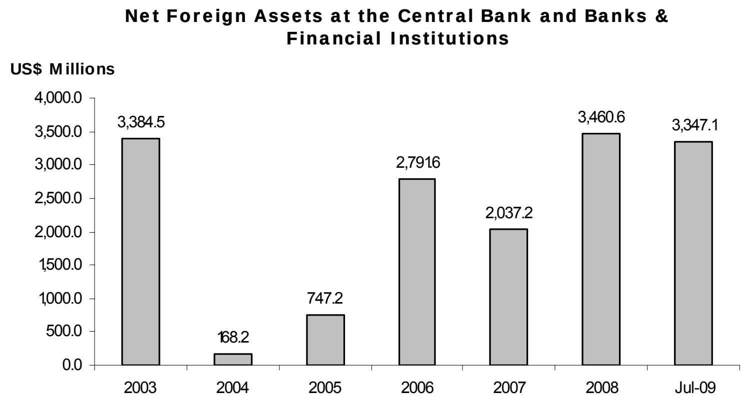
As depicted by the chart above, the recurrent deficit in the current account is compensated and overwhelmed by the healthy surplus in the capital and financial account over the recent years. The surge in the capital and financial account, especially in 2007 when the surplus exceeded the $7 billion level, can be attributed to the influx of donors support (grants and soft loans) in the aftermath of the Paris III summit as well as the Stockholm conference. Another vital factor contributing to the upswing in the capital and financial account is the previously discussed accumulation of foreign assets by the Lebanese Central Bank.

In this context, the net foreign assets account at the Central Bank and at banks and financial institutions, which constitutes a substantial part of Lebanon's balance of payments, remained in positive grounds over the last couple of years albeit hovering between a minimum of $168.2 million in 2004 and a maximum of $3,460 million in 2008 as depicted by the table and chart below:

In Millions of USD

Year	Central Bank	Banks & Fianancial Institutions	Total
2003	5,036.5	(1,652.0)	3,384.5
2004	(780.8)	949.0	168.2
2005	478.2	269.0	747.2
2006	246.6	2,545.0	2,791.6
2007	(830.8)	2,868.0	2,037.2
2008	7,282.6	(3,822.0)	3,460.6
Jul-09	5,033.1	(1,686.0)	3,347.1

Source: Banque Du Liban



3) Foreign Direct Investment (FDI)

The fifth edition of the IMF's Balance of Payments Manual (BPM5) defines FDI "as a category of international investment that reflects the objective of a resident in one economy (the direct investor) obtaining a lasting interest in an enterprise resident in another economy (the direct investment enterprise)". The lasting interest implies the existence of a long-term relationship between the direct investor and the direct investment enterprise, and a significant degree of influence by the investor on the management of the enterprise. A direct investment relationship is established when the direct investor has acquired 10% or more of the ordinary shares or voting power of an enterprise abroad [57].

According to the Foreign Direct Investment Report prepared by the Economic and Social Commission for Western Asia (ESCWA), Lebanon is categorized as "smaller high performing economy" in terms of FDI attraction. In terms of ranking, Lebanon falls in the second category along with Bahrain, Jordan, Oman and Qatar. The first category (high performing countries) includes Egypt, Saudi Arabia and the United Arab Emirates while the third category (below potential economies) is comprised of Kuwait, Syria, Palestine and Yemen [58].

The Government agency IDAL ("Investment Development Authority of Lebanon"), established in 1994, helped foreign investors set up in Lebanon. Lebanon's FDI has been on a roller-coaster trend over the last couple of years, peaking at $3,485.7 million in 2007 before dropping to $3,198 billion in 2008 on the back of the global financial turmoil. Arab FDI inflows contributed around 95.90% and 97.67% of total 2006 and 2007 FDI respectively.

In Millions of USD	2003	2004	2005	2006	2007	2008
Foreign Direct Investment size	2,997.0	1,993.0	2,791.0	2,320.8	3,485.7	3,198.0
FDI/GDP	15.13%	9.28%	12.77%	10.34%	13.92%	11.05%

Source: UNCTAD-World Investment Report 2008, IDAL-Investors Support & Information Center/Lebanon Investment Climate 2008, The Lebanese Ministry of Finance, Credit Libanais Research Unit

Lebanon's FDI/GDP ratio is considered to be one of the highest in the ESCWA region, outpacing the average FDI/GDP ratio of the ESCWA region of 5.99% in 2006.

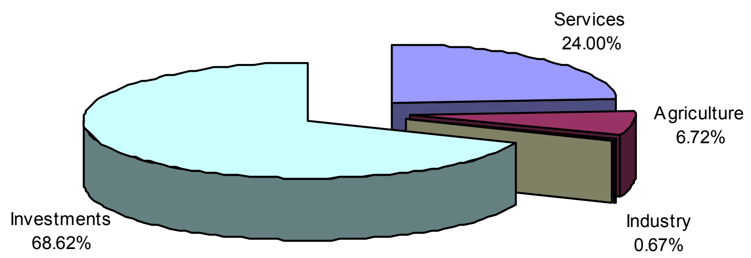
Based on the following table and chart, which list the breakdown of FDI to the various sectors of the Lebanese economy over the last three years, it is obvious that the bulk of FDI is geared towards the real estate and residential sectors, followed by the services sector as follows:

Sector	Distribution of FDI by Size (USD Million)		
	2006	2007	2008
Services	**974.80**	**1,237.40**	**767.50**
Tourism	565.4	494.9	658.9
Education & Hospitilization	-	-	83.7
Media	-	-	13.0
Trade	-	-	11.9
Financial	409.4	742.5	-
Agriculture	**23.2**	**52.3**	**214.8**
Industry	**46.4**	**104.6**	**21.3**
Others (Investments)	**1,276.4**	**2,091.5**	**2,194.30**
Real Estate	-	-	1,382.50
Residential			811.80
Total	**2,320.80**	**3,485.80**	**3,197.90**

Source: UNCTAD-World Investment Report 2008, Credit Libanais Research Unit IDAL-Investors Support & Information Center/Lebanon Investment Climate 2008

[57] IMF : Balance of Payments Manual , [58] ESCWA: Foreign Direct Investment Report

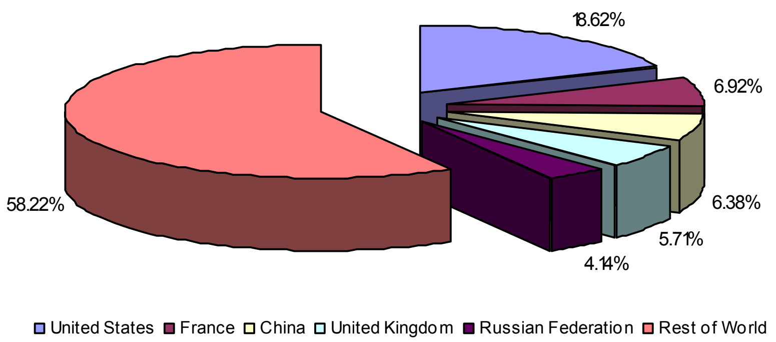
Breakdown of FDI in 2008



It is worth noting that the above figures are calculated based on IDAL's FDI statistics which contradict the more recent FDI figures published by UNCTAD's *World Investment Report 2009* which have been adopted in the cover page.

In mid September 2009, UNCTAD published the *2009 World Investment Report* according to which Lebanon managed to post a staggering 32.04% increase in FDI (Foreign Direct Investment) inflows during the year 2008, notwithstanding the global credit crunch which saw global FDI inflows shrink by 14.22%. More particularly, global FDI inflows fell from $1.978 trillion in 2007 to $1.697 trillion in 2008 and are expected to skid below the $1.2 trillion mark in 2009 on the back of the global financial crisis which drained some major FDI resources. The West Asia region, however, revealed a 16.29% surge in FDI inflows to $90.26 billion in 2008 from $77.61 billion in 2007, fueled by a 57.18% growth in FDI inflows to Saudi Arabia to $38.223 billion. Lebanon was no exception, recording the fourth largest growth in the West Asia region, with FDI inflows burgeoning to $3.606 billion in 2008 from $2.731 billion in 2007, propelled by FDI inflows to the real estate sector. Globally, the United States remained the major destination for FDI Inflows in 2008 ($316.11 billion), followed by France ($117.51 billion), China ($108.31 billion), United Kingdom ($96.94 billion) and the Russian Federation ($70.32 billion). On the annual change front, the Russian Federation and China emerged as the biggest gainers among economic giants, with respective FDI growth rates of 27.69% and 29.68%, implying a change in the trend of FDI destinations from developed economies to emerging markets [59].

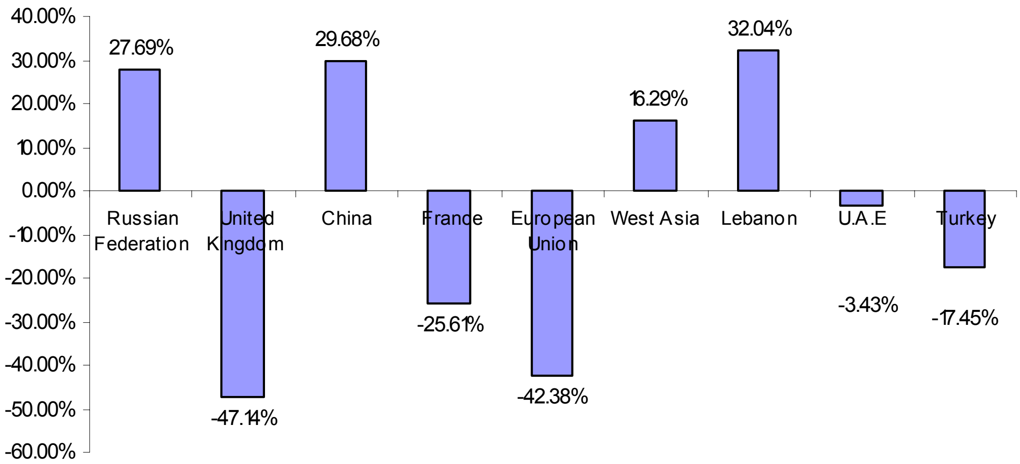
Breakdown of FDI Destinations in 2008



Source: UNCTAD World Investment Report 2009, Credit Libanais Research Unit

[59] UNCTAD: World Investment Report 2009

Annual Change In FDI Inflows (2008)



Source: UNCTAD World Investment Report 2009, Credit Libanais Research Unit

The Lebanese government offers investment incentives for projects that accentuate economic growth including but not limited to [60]:

- There are no restrictions on foreign investments in Lebanon. However, real estate investments in Lebanon by foreigners is capped at 3,000 sqm in the aggregate;

- There are no restrictions on the transfer of money into or out of the country (free capital mobility);

- There is no capping on foreign ownership in a Lebanese company;

- An investment made in Lebanon can benefit from the risk mitigation advantage offered by the Inter-Arab Investment Guarantee Corporation and the National Investments Guarantee Corporation which guarantee inter-Arab and national investments up to a certain extent;

- Projects benefiting from a "package deal contract" between the investors and the Lebanese Government, as defined by the Investment Development Authority of Lebanon (IDAL), will be fully exempted from taxes on profits and dividend distribution for a period of 10 years, in addition to a maximum 50% reduction in permit fees for construction works binding said projects. Said package deal projects in agreement with the Lebanese Government (as represented by IDAL) will benefit from a package of other incentives as well including lower work and residence permit fees, and exemption on land registrations fees. It is worth noting that IDAL has succeeded in 2007 to provide support for projects worth $150 million, pointing to some $3.485 billion of Arab investments in Lebanon in 2007 up from $2.2 billion in 2006;

- A reduction in customs to 2% pertaining to the import of machinery, equipment, spare parts and building materials binding the startup of a new manufacturing plant;

- A reduction in customs on imported raw materials in the agricultural sector to 2%;

[60] Credit Libanais Research Unit, IDAL

- Imported hotel equipment and transportation buses of travel agencies are exempted from custom duties provided they meet certain criteria;

- Investment promotion agreements signed between the Republic of Lebanon and the Governments of other countries support and sponsor investments in Lebanon and facilitate the business climate of the promoter while protecting him from illegal or unethical proceedings he may have suffered. Such agreements strive to equip the investments made in Lebanon with a fair and equitable working environment while compensating for any losses incurred and offer the investor the freedom to repatriate his capital; and

- Lebanon's fiscal system protects investors from double taxation by netting out any taxes incurred on investments in Lebanon from compulsory taxes borne by the foreign investor in his country of origin.

E. IMF Article IV Consultation with Lebanon

The Executive Board of the International Monetary Fund (IMF) concluded the 2009 Article IV consultation with Lebanon on April 15, 2009. The IMF report stated that Lebanon has demonstrated remarkable resilience against the prevailing financial turmoil, posting a real GDP growth in excess of 8% in 2008, an inflation rate below the 4% mark as of January 2009, a primary fiscal balance of 0.5% of GDP and a debt-to-GDP ratio easing to 162% by year-end 2008 down from 168% a year before. The report attributed said strong microeconomic performance to the improved political and investment environment brought upon in the aftermath of the Doha agreement. The report, however, indicated that real economic growth in Lebanon is expected to fall to 3% in 2009, owing mainly to an expected drop in tourism revenues, exports activity, expatriates' remittances and foreign direct investment in Lebanon. The IMF, however, upwardly revised its GDP growth estimate to 7% in real terms in September 2009. The report urged the Lebanese government to implement the reform measures pledged to international donors during the Paris III convention, namely boosting government revenues by increasing the Value-Added Tax from 10% to 15%, ending the government's support to Electricité Du Liban (EDL) and privatizing the telecommunications sector. Furthermore, the report praised the high level of liquidity at Lebanese banks, yet commented that Lebanese banks remain vulnerable on the back of their high exposure to sovereign debt, maturity mismatches, and still high deposit dollarization rate. Finally, the report anticipated remittances from Lebanese expatriates to slow by 12-25% in the 2009-2010 period.
In a related news and in the perspective of the aforementioned IMF latest staff visit, which was conducted between September 10 and September 18, 2009, the IMF delegation commented that inflation pressure has watered down and is expected to remain contained in accordance with the projected inflation level at major trading partners. The mission also highlighted other positive indicators namely the declining, albeit high, debt to GDP ratio which reached 153% in June 2009 coupled with BDL's continuously growing international reserves portfolio which reached $24.8 billion as at end of August 2009. The IMF staff also indicated that the government succeeded in meeting the EPCA (Emergency Post Conflict Assistance) program primary balance target while surpassing the EPCA program net borrowing ceiling by 44% (LBP 2.6 trillion).

F. Recap of Lebanon's Major Indicators

Recap of Lebanon's Major Indicators	2003	2004	2005	2006	2007	2008	2009
MACROECONOMIC INDICATORS							
GDP ($ Million)	19,795	21,465	21,861	22,438	25,047	28,942	31,298*
Real GDP Growth Rate	4.14%	7.45%	1.10%	0.60%	7.50%	8.50%	7.00%*
GDP Per Capita ($)	5,559	5,949	5,988	6,059.88*	6,677*	7,616.62*	8,131.6*
Net Foreign Direct Investment ($ Million)	2,997	1,993	2,624	2,675	2,731	3,606	N.A
FDI/GDP Ratio	15.14%	9.28%	12.00%	11.92%	10.90%	12.46%	N.A
INDUSTRY							
Industrial Exports ($ Million)	1,087	1,467	1,667	1,738	2,361	2,994	1,516 (4)
Industrial Exports/Total Exports Ratio	71.33%	83.97%	88.67%	76.13%	83.84%	86.08%	75.69%
Import of Industrial Machinery ($ Million)	109	142	137	130	163	188	120 (4)
Import of Industrial Machinery/Total Imports Ratio	1.52%	1.51%	1.47%	1.38%	1.38%	1.17%	1.29%
TOURISM							
Arab Tourists Arrivals	438,203	545,150	451,430	456,889	400,082	549,463	541,324 (5)
Africa Tourists Arrivals	22,398	20,180	16,160	20,541	48,071	34,144	27,251 (5)
U.S. Tourists Arrivals	120,429	152,075	136,907	129,274	121,596	176,647	169,127 (5)
Asia Tourists Arrivals	134,164	173,897	177,809	164,053	137,832	181,006	184,411 (5)
Europe Tourists Arrivals	266,691	338,475	316,083	267,142	277,337	347,495	310,369 (5)
Others Tourists Arrivals	66,755	48,692	41,135	33,659	32,154	43,796	52,463 (5)
Total Number of Tourists	**1,015,793**	**1,278,469**	**1,139,524**	**1,062,635**	**1,017,072**	**1,332,551**	**1,284,945**
Growth in Tax-Free Spending	N.A	N.A	2%	-15%	17%	56%	14% (5)
REAL ESTATE							
Value of Real Estate Transactions ($ Million)	2,882.5	2,882.9	3,295.8	3,120.4	4,175.0	6,443.7	2,456.5 (3)
Number of Real Estate Sales Transactions	48,657	52,700	51,564	51,027	67,689	85,025	33,830 (3)
Construction Permits (000 sqm)	7,196	7,719	7,928	7,532	7,919	14,281	6,258 (5)
Cement Delivery (000 tons)	2,704	2,729	3,040	3,423	3,945	4,219	2,887 (4)
TRANSPORTATION							
Beirut Port Activity							
Freight Activity(000 Tons)	4,767	5,060	4,476	4,226	5,318	5,746	4,257 (5)
Number of Vessels	2,333	2,366	2,229	1,829	2,187	2,055	1,612 (5)
Number of Containers	115,034	137,492	464,976	594,601	947,265	861,931	680,913 (5)
Beirut Airport Activity							
Number of Planes	34,468	39,023	38,198	32,980	39,052	32,685 (1)	N.A
Number of Passengers	2,718,000	3,200,000	3,177,000	2,739,606	3,408,834	3,869,607	3,321,918 (5)
FOREIGN TRADE							
Imports ($ Million)	7,168	9,397	9,340	9,398	11,815	16,137	9,300 (4)
Exports ($ Million)	1,524	1,747	1,880	2,283	2,816	3,478	2,003 (4)
Trade Balance ($ Million)	(5,644)	(7,650)	(7,460)	(7,115)	(8,999)	(12,658)	(7,297) (4)
Exports/Imports	21.26%	18.59%	20.13%	24.29%	23.83%	21.55%	21.54%
BALANCE OF PAYMENTS							
BOP at BDL and Banks & Financial Inst ($ Million)	3,385	168	747	2,792	2,037	3,460.60	3,347.1 (4)
Foreign Assets ($ Billion)	12.18	11.48	11.66	12.97	12.39	19.73	25.69 (7)
Foreign Currency Reserves ($ Billion)	10.20	9.49	9.85	10.21	9.78	17.062	22.01 (4)
PUBLIC FINANCE							
Government Expenditures ($ Million)	7,027	6,992	6,768	7,880	8,350	9,922	6,802 (4)
Government Revenues ($ Million)	4,415	4,984	4,912	4,853	5,804	7,000	5,087 (4)
Budget Deficit / Surplus ($ Million)	(1,719)	(817)	(543)	(1,688)	(1,311)	(789)	3 (4)
Budget Primary Deficit / Surplus ($ Million)	1,515	1,851	1,802	1,335	1,787	2,730	2,244 (4)
Total Deficit ($ Million)	(2,612)	(2,008)	(1,856)	(3,027)	(2,546)	(2,921)	(1,715) (4)
Deficit / Total Expenditures Ratio	37.17%	28.71%	27.42%	38.42%	30.49%	29.45%	25.22%
Deficit / GDP Ratio	13.20%	9.35%	8.61%	13.49%	10.16%	10.10%	N.A
Debt Service / GDP Ratio	16.33%	12.43%	10.88%	13.47%	13.08%	12.16%	N.A
EDL Support / GDP Ratio	-	-	-	4.05%	3.92%	5.57%	N.A
External Debt ($ Billion)	15.56	18.38	19.13	20.33	21.21	21.15	21.30 (4)
Net Domestic Debt ($ Billion)	15.80	14.60	15.62	17.09	17.81	20.35	21.75 (4)
Net Public Debt ($ Billion)	31.36	32.98	34.76	37.42	39.02	41.50	43.05 (4)
Gross Public Debt/GDP Ratio	168.50%	167.00%	175.70%	179.90%	167.80%	162.50%	N.A
MONETARY AGGREGATES & INFLATION							
M1 ($ Billion)	1.89	2.01	1.96	2.20	2.36	2.83	3.05 (6)
M2 ($ Billion)	17.40	17.23	16.23	15.57	16.47	24.76	31.37 (6)
M3 ($ Billion)	42.91	47.30	49.38	53.23	59.83	68.66	78.55 (6)
M4 ($ Billion)	46.63	49.63	51.59	56.08	63.56	72.58	83.04 (6)
(M2-M1) ($ Billion)	15.51	15.22	14.27	13.37	14.11	21.93	28.32 (6)
Monetization Level (M2/GDP Ratio)	87.90%	80.27%	74.24%	69.39%	65.76%	85.55%	N.A
Consumer Price Index	136.75	102.48	99.63	107.24	113.59	120.81	124.54 (4)
change in CPI (%)	3.00%	1.70%	-2.60%	5.60%	9.30%	6.36%	
BANKING SYSTEM							
Number of Commercial Banks	52	53	54	54	54	56	56 (2)
Number of Branches	809	802	926	977	847	860	862 (2)
Number of Employees	15,714	16,281	17,480	18,945	---	---	
Total Assets ($ Million)	59,895	67,786	70,325	76,179	82,255	94,255	105,384 (4)
Total Deposits ($ Million)	49,362	55,835	58,117	61,541	68,059	78,663	88,528 (4)
Deposits of the Private Sector ($ Million)	48,483	54,853	56,986	60,494	67,288	77,780	87,687 (4)
Deposits of the Public Sector ($ Million)	879	982	1,131	1,047	771	883	841 (4)
Loans to the Private Sector ($ Million)	14,929	15,934	16,230	17,201	17,753	21,062	22,631 (4)
Claims on the Public Sector ($ Million)	21,006	24,156	26,696	31,192	32,424	38,314	26,259 (4)
Total Shareholders Equity ($ Million)	4,530	4,941	6,172	7,688	8,555	9,858	
Customer Loans/Customer Deposits	30.24%	28.54%	27.93%	27.95%	26.08%	26.78%	25.56%
Customer Loans/Total Assets	24.93%	23.51%	23.08%	22.58%	21.58%	22.35%	21.47%
Dollarization Rate	65.02%	68.78%	71.71%	75.16%	76.46%	68.79%	65.77% (4)
Net Interest Income ($Million)	1,074.78	1,088.39	1,203.61	1,544.31	1,845.44	2,361.98	N.A
Net Fees and Commissions Income ($Million)	260.24	302.82	354.38	401.24	488.85	595.89	N.A
Net Profit - After Tax ($ Million)	448.30	463.42	580.47	753.51	961.99	1,218.85	N.A
ROE	11.14%	10.22%	10.71%	10.98%	11.79%	13.20%	N.A
ROA	0.75%	0.68%	0.77%	0.91%	1.02%	1.13%	N.A
Exchange Rate (LBP to USD)	1,507.50	1,507.50	1,507.50	1,507.50	1,507.50	1,507.50	1,507.50

** Figures Reflect IMF Estimates*

(1) As At End of September 2008 - **(2)** As At End of March 2009 - **(3)** As At End of June 2009 - **(4)** As At End of July 2009 - **(5)** As At End of August 2009 **(6)** As At September 17, 2009, **(7)** As At End of September 2009

Source: Credit libanais Research Unit

G. Comparative Positioning Matrix

The following matrix sheds the light on Lebanon's scores in an array of renowned International reports:

Comparative Positionning Matrix

World Bank's Aggregate Governance Indicators	2007		2008		Ranking Progress
	Score	Lebanon's Rank Over 212	Score	Lebanon's Rank Over 212	
Voice & Accountability	-0.45	35	-0.40	36	↑
Political Stability and Absence of Violence/Terrorism	-2.22	3	-1.94	4	↑
Government Effectiveness	-0.59	31	-0.64	31	↔
Regulatory Quality	-0.21	48	-0.20	48	↔
Rule of Law	-0.74	26	-0.73	26	↔
Control of Corruption	-0.69	28	-0.83	20	↓

Source: World Bank Group

Doing Business Report	2009 Report	2010 Report	Ranking Progress
	Lebanon's Rank Over 181 Countries	Lebanon's Rank Over 183 Countries	
Ease of Doing Business	**99**	**108**	↓
Starting a Business	98	108	↓
Dealing With Construction	121	125	↓
Employing Workers	58	66	↓
Registering Property	102	111	↓
Getting Credit	84	87	↓
Protecting Investors	88	93	↓
Paying Taxes	45	34	↑
Trading Across Borders	83	95	↓
Enforcing Contracts	118	121	↓
Closing a Business	121	124	↓

Source: World Bank Group

Democracy Index	2007		2008		Ranking Progress
	Score	Lebanon's Rank Over 167	Score	Lebanon's Rank Over 167	
Democracy Index	5.82 Hybrid Regime	85	5.62 Hybrid Regime	89	↓

Source: Economist Intelligence Unit

Press Freedom Index	2007		2008		Ranking Progress
	Score	Lebanon's Rank Over 169	Score	Lebanon's Rank Over 173	
Press Freedom Index	28.75	98	14	66	↑

Source: Reporters Without Borders

Global E-Gov Readiness Index	2005		2008		Ranking Progress
	Score	Lebanon's Rank Over 169 Countries	Score	Lebanon's Rank Over 169 Countries	
Global E-Gov Readiness Index	0.456	71	0.484	74	↓

Source: EUN E-Government Survey 2008

According to the World Bank Group's "Doing Business 2010" report, Lebanon ranked 108 over 183 countries in terms of "Ease of Doing Business" during the period June 2008-May 2009.

IV. Sectors of The Lebanese Economy

A. Agriculture

Lebanon's moderate Mediterranean climate, which is distinguished by four equally distributed seasons throughout the year, is a main reason behind the diversity of its agricultural production, with output including but not limited to cereals, fruits and vegetables, olives, apples and tobacco, sheep and goats herding. Lebanon's cultivated area is estimated to have reached 277 thousands hectares in 2007 [61] with 20% to 30% [62] of Lebanon's entire labor force working in the agricultural sector according to year 2004 statistics.

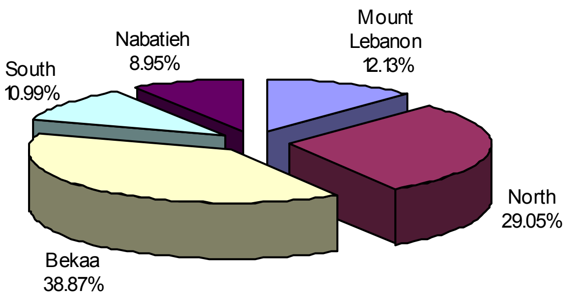
In 2007, agricultural production reached $1.95 billion, contributing to some 6.22% of the country's GDP. More particularly, agricultural production in Lebanon grew from $1,260.36 million in 2003 to $1,952.90 million in 2007, progressing at a compounded annual growth rate (CAGR) of 11.57%.

in Millions of USD	Agricultural Production					
	2003	**2004**	**2005**	**2006**	**2007**	**CAGR**
Plant	906.14	1,024.21	955.89	1,288.89	1,429.52	12.07%
Animal	354.23	369.49	365.51	403.32	523.38	10.25%
Total	**1,260.36**	**1,393.70**	**1,321.39**	**1,692.21**	**1,952.90**	**11.57%**

Source: The Lebanese Ministry of Agriculture, Credit Libanais Research Unit

Agricultural production is mainly concentrated in the Bekaa valley, which accounts for 38.87% of total cultivated land, thanks to the plain nature of its terrain and easy accessibility to water resources, with two major rivers (the Litani river and Orontes river) originating from it.

Geographical Distribution of Cutlivated Land in 2007



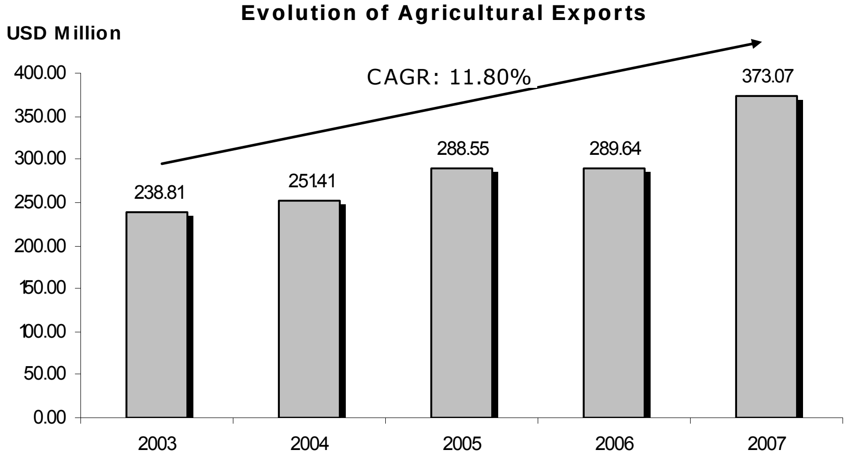
Source: The Lebanese Ministry of Agriculture

Concurrently, Lebanon's aggregate agricultural exports grew at a CAGR of 11.80%, at nearly the same pace of growth of agricultural production, from $238.81 million in 2003 to $373.07 million in 2007, constituting 13.19% of total exports [63].

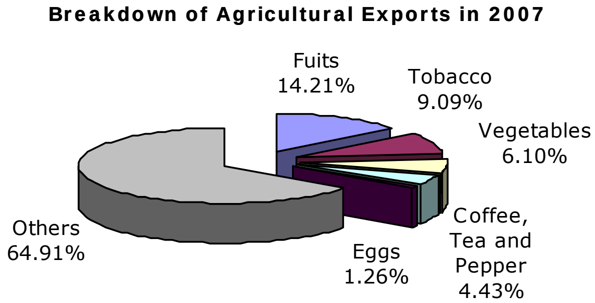
in Millions of USD	Agricultural Exports					
	2003	**2004**	**2005**	**2006**	**2007**	**CAGR**
Plant	232.17	246.10	281.73	279.85	360.83	11.65%
Animal	6.63	5.31	6.82	9.78	12.24	16.55%
Total	**238.81**	**251.41**	**288.55**	**289.64**	**373.07**	**11.80%**

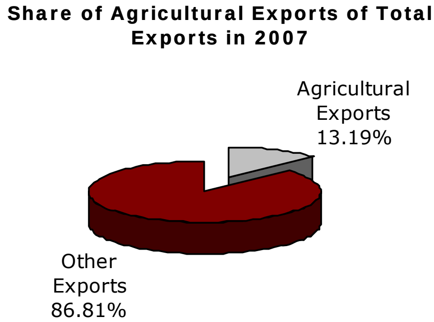
Source: The Lebanese Ministry of Agriculture, Credit Libanais Research Unit

[61] The Lebanese Ministry of Agriculture (2006 and 2007 reports), [62] The Lebanese Ministry of Agriculture (2004 report), [63] The Lebanese Ministry of Agriculture



In 2007, agricultural exports constituted around 13.19% of total exports, with exports of fruits occupying the first place with a share of 14.21% ($53.01 million) of total agricultural exports, followed by tobacco and vegetables with respective contributions of 9.09% ($33.91 million) and 6.10% ($22.75 million) [63].



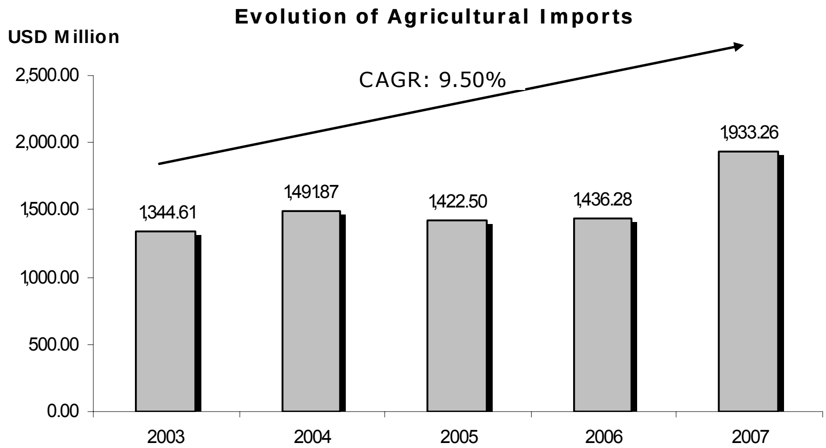


Source: The Lebanese Ministry of Agriculture

On the imports front, Lebanon's agricultural imports aggregated to $1,933.26 million in 2007, some 16.36% of total imports, up from $1,344.61 million in 2003 [64].

in Millions of USD	Agricultural Imports					
	2003	**2004**	**2005**	**2006**	**2007**	**CAGR**
Plant	929.35	1,042.12	997.19	994.22	1,435.63	11.48%
Animal	415.26	449.75	425.32	442.06	497.63	4.63%
Total	**1,344.61**	**1,491.87**	**1,422.50**	**1,436.28**	**1,933.26**	**9.50%**

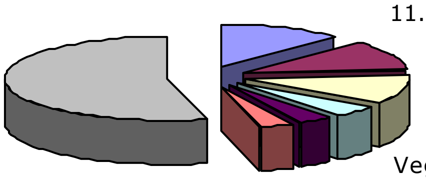
Source: The Lebanese Ministry of Agriculture, Credit Libanais Research Unit



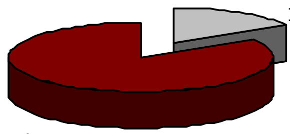
[64] The Lebanese Ministry of Agriculture

Imports of meat occupied the first place in 2007, with a share of 12.34% ($238.54 million) of total agricultural imports, followed by cereals and dairy products at respective rates of 11.56% ($223.40 million) and 10.96% ($211.95 million) [65].

Breakdown of Agricultural Imports in 2007



Share of Agricultural Imports of Total Imports in 2007



Source: The Lebanese Ministry of Agriculture

Lebanon is not agriculturally self-sufficient for a variety of reasons, namely the scarcity of land resources, and hence, must rely on food imports in the first place. Consequently, the Lebanese government took several measures and incentives in an endeavor to assure the development of the agricultural sector in Lebanon.

In this perspective, the Lebanese government launched in 2001, through IDAL, the *"Export Plus"* program with the objective of strengthening the Lebanese agricultural sector by boosting agricultural exports, tapping new export markets, improving the quality of agricultural products to meet with international standards and transferring technology and know-how to farmers.

Agricultural exports through IDAL's *"Export Plus"* program recorded a healthy CAGR of 4.63% in the 2003-2008 period, from 356,254 tons in 2003 to 446,777 tons in 2008. Agricultural exports, however, stalled by 6.07% to 162,988 tons in the first five months of 2009 in comparison with 173,512 during the same period in 2008. During the 2003-May 2009 period, Saudi Arabia was the prime exports destination accounting for 23.14% of total exports volume, followed by Syria and Kuwait at respective rates of 19.88% and 16.19% [66].

Geographical Distribution of Agricultural Exports (In Tons)

Importing Country	2003	2004	2005	2006	2007	2008	May-09	Grand Total	Country's Share
Saudi Arabia	97,901	124,517	94,004	85,670	96,220	92,062	27,314	617,688	23.14%
Syria	64,517	79,219	68,638	62,785	109,119	93,186	53,034	530,498	19.88%
Kuwait	66,263	81,127	63,000	59,592	73,019	65,534	23,451	431,986	16.19%
U.A.E	39,769	57,962	46,157	44,913	46,423	51,601	11,923	298,748	11.19%
Jordan	42,980	44,968	39,859	33,415	41,823	47,976	9,561	260,582	9.76%
Egypt	14,886	34,423	35,168	43,098	42,770	34,983	12,518	217,846	8.16%
Oman	9,110	16,986	16,233	13,328	14,402	15,449	4,889	90,397	3.39%
Qatar	9,310	12,728	10,253	10,999	13,450	14,715	5,394	76,849	2.88%
Foreign Countries	3,312	3,418	10,932	6,786	15,923	14,533	7,226	62,130	2.33%
Bahrain	8,099	8,492	6,931	5,736	8,773	7,991	2,967	48,989	1.84%
Iraq	107	3,989	5,651	2,263	7,390	8,747	4,711	32,858	1.23%
Yemen	0	274	47	45	23	0	0	389	0.01%
Total	**356,254**	**468,103**	**396,873**	**368,630**	**469,335**	**446,777**	**162,988**	**2,668,960**	**100.00%**

Source: Investment Development Authority for Lebanon (IDAL), Credit Libanais Research Unit

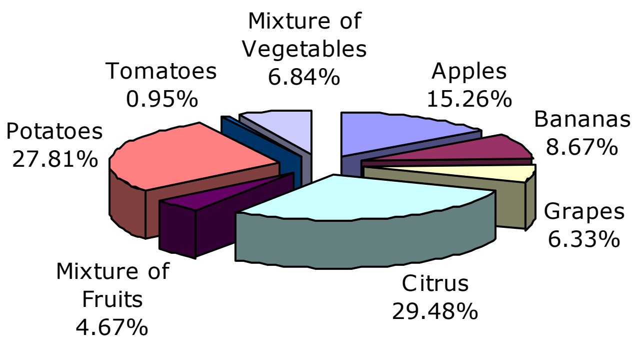
[65] The Lebanese Ministry of Agriculture, [66] IDAL

Exports of citrus occupied the first place, with a share of 29.48% (786,738 tons) of total agricultural exports through the *"Export Plus"* program in the 2003-May 2009 period, followed by potatoes and apples with respective contributions of 27.81% (742,127 tons) and 15.26% (407,340 tons) [67].

Agricultural Exports By Product (In Tons)							
Importing Country	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**May-09**
Apples	35,218	69,823	58,945	68,376	74,795	72,789	27,394
Bananas	17,865	32,167	26,586	26,411	42,948	56,035	29,259
Grapes	34,086	30,261	27,365	26,654	23,893	21,454	5,260
Citrus	105,868	117,792	108,724	85,391	154,314	130,674	83,975
Mixture of Fruits	20,031	26,072	17,601	25,415	20,020	13,209	2,214
Potatoes	108,233	146,199	128,562	108,196	120,251	122,766	7,920
Tomatoes	6,610	8,344	3,477	2,214	2,965	1,740	89
Mixture of Vegetables	28,343	37,445	25,613	25,973	30,149	28,110	6,877
Total	**356,254**	**468,103**	**396,873**	**368,630**	**469,335**	**446,777**	**162,988**

Source: Investment Development Authority for Lebanon (IDAL), Credit Libanais Research Unit

Agricultural Exports By Product Through "Export Plus" During the Period 2003-May 2009



It is worth noting that the significant growth in Lebanese exports over the last decade owes in the first place to IDAL's *"Export Plus"* program, with average exports in the period following the launch of said program (2003-2007) attaining $288.29 million, way above the average exports' figure of $132.75 million recorded during the period preceding the launch of the program (1997-2000) [67].

The following section lists the major attributes of Lebanon's agricultural sector as well as the main challenges facing the sector in accordance with a study published by the Lebanese Ministry of Agriculture in 2004:

Main Attributes[68]

The major attributes of the Lebanese agricultural sector include, among other things:

- Suitable climate which supports the growth of a variety of agricultural products;
- Availability of water resources;
- Soil fertility; and
- Some firms were able to make giant technological leaps, enabling them to improve productivity and efficiency.

[67] IDAL, [68] the Lebanese Ministry of Agriculture (2006 and 2007 reports)

Main Challenges [69]

On the other hand, Lebanon's agricultural sector faces numerous challenges, which hinder its development. The main problems facing the agricultural sector in Lebanon include, among others:

- Small and fragmentized land parcels (less than 2 hectares each);
- High production costs coupled with an aging workforce;
- Adoption of agricultural methods that are of limited efficiency;
- Lack of the government's support with budget allocation to the Ministry of Agriculture standing at a marginal 0.23% in the 2009 budget law;
- The presence of monopolistic wholesale traders;
- Water pollution;
- High transportation costs;
- Lack of marketing infrastructure;
- Internal migration of workforce from rural areas to the capital and major cities; and
- Focus on real estate projects at the expense of harvested land, with the latter deemed to be less profitable.

B. Industry

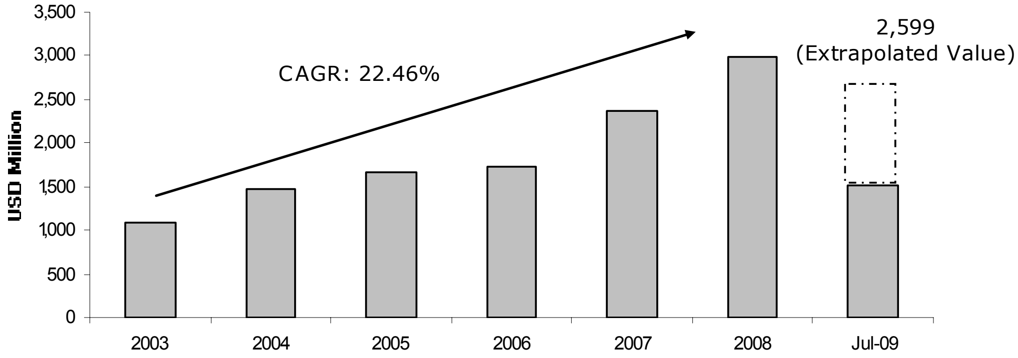
The Lebanese industrial sector ranked fourth in terms of contribution to GDP according to the "Economic Accounts of Lebanon 2006-2007" and the Ministry of Economy and Trade, with its share standing at 9.48% of total output in 2007 [70]. The Lebanese industrial sector currently faces a barrage of challenges of which we name unfavorable economic circumstances, high production costs and absence of adequate legislation.

in Millions of USD	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*	*Jul-09*
Industrial Exports	1,087	1,467	1,667	1,738	2,361	2,994	1,516
Industrial Imports of Equipment and Machinery	109	142	137	130	163	188	120

Source: The Lebanese Ministry of Industry, Credit Libanais Research Unit

According to the Ministry of Industry, Lebanon's industrial exports, which accounted for some 86.08% of total exports in 2008, progressed at a CAGR of 22.46% over the 2003-2008 period to attain $2,994 million in 2008, and $1,516 million in the first seven months of 2009.

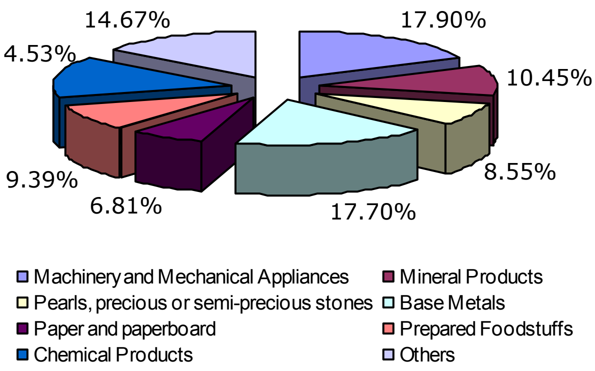
Evolution of Industrial Exports



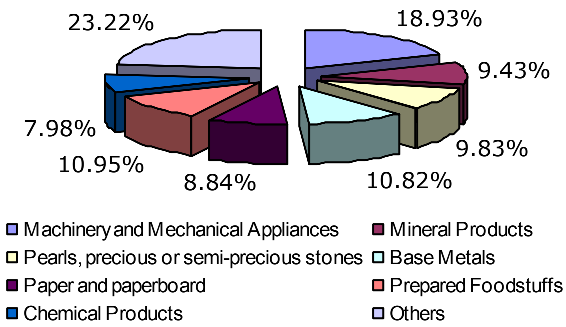
[69] the Lebanese Ministry of Agriculture (2006 and 2007 reports), [70] The Lebanese Ministry of Industry

Exports of machinery and mechanical appliances occupied the first place up to July 2009, with a share of 18.93% ($287 million) of total industrial exports, followed by prepared foodstuffs with a contribution of 10.95% ($166 million) [71].

Breakdown of Industrial Exports in 2008

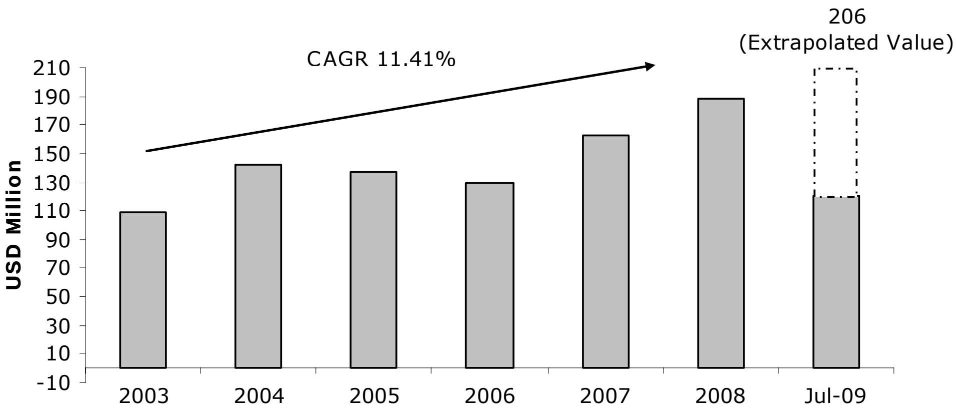


Breakdown of Industrial Exports Through July 2009



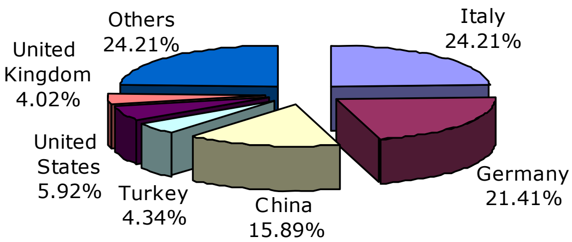
Industrial imports of equipment & machinery, on the other hand rose from $109 million in 2003 to $188 million in 2008, yielding a CAGR of 11.41% over the 2003-2008 period [71].

Evolution of Industrial Imports of Equipment and Machinery

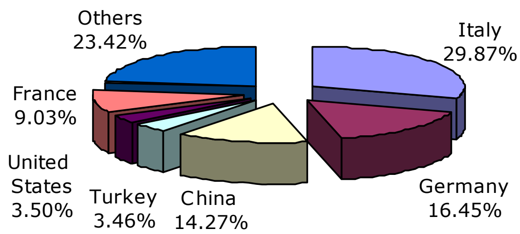


During the first seven months of 2009, Italy was the main import source, constituting alone around 29.87% ($35.84 million) of total industrial imports of equipment & machinery, followed by Germany and China at respective rates of 16.45% ($19.74 million) and 14.27% ($17.12 million).

Industrial Imports of Equipment and Machinery in 2008

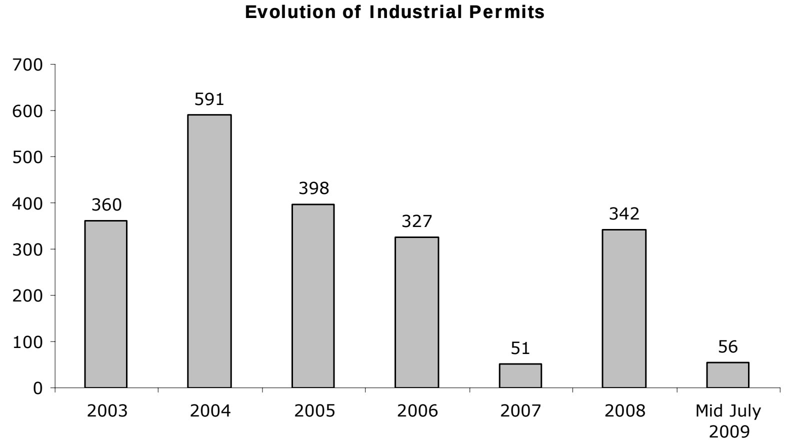


Industrial Imports of Equipment and Machinery Through July 2009



[71] The Lebanese Ministry of Industry

The number of new industrial permits, which can be considered as an indicator of economic activity, has been fluctuating over the last five years in tandem with the volatile political and economic environment. Industrial permits rose from 360 in 2003 to 591 in 2004, in correlation with the recovering economic activity, before dwindling over the next 3 years to a mere 51 in 2007 on the back of the lacklsuter political climate that followed the Hariri assasination and the Israeli hostilities on Lebanon in July 2006. Industrial permits reached 56 in mid July 2009, down from 342 as at end of 2008 [72].

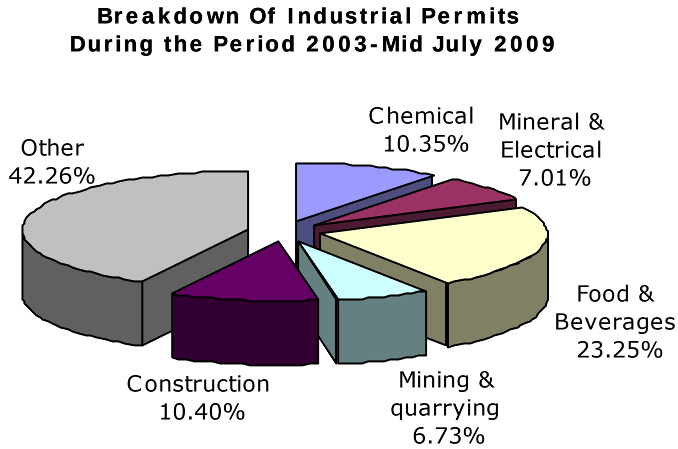


We can notice from the table below that industrial permits for food and beverage industries occupied the first place over the 2003-mid July 2009 period, with a share of 25.15% (86 permits) of total permits in 2008, followed by permits for construction and chemical industries at respective rates of 14.91% (51 permits) and 9.65% (33 permits) in 2008 [72].

Breakdown Of Industrial Permits

	2003	2004	2005	2006	2007	2008	Mid Jul-09	Grand Total
Chemical	43	56	40	33	7	33	8	220
Mineral & Electrical	24	51	34	21	2	10	7	149
Food & Beverages	80	149	85	70	11	86	13	494
Mining & quarrying	22	25	20	39	8	27	2	143
Construction	38	40	39	39	6	51	8	221
Other	153	270	180	125	17	135	18	898
Total	**360**	**591**	**398**	**327**	**51**	**342**	**56**	**2,125**

Source: The Lebanese Ministry of Industry, Credit Libanais Research Unit



[72] The Lebanese Ministry of Industry

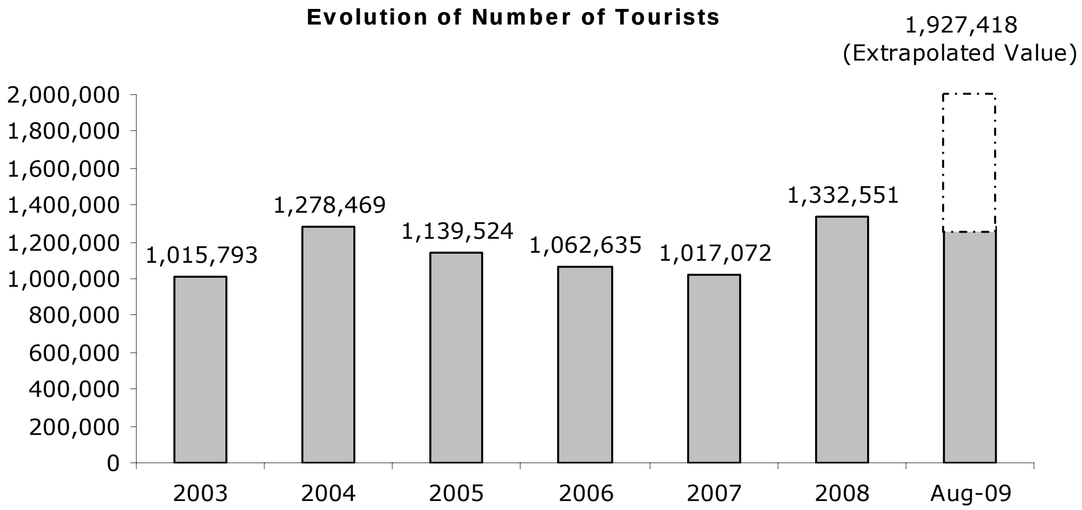
C. Hospitality & Tourism

Prior to the eruption of the war, the tourism sector was a major contributor to economic growth in Lebanon. The share of the tourism sector in Lebanon's Gross Domestic Product "GDP" rose from 11.7% in 1965 to nearly 20% in 1974, just before the outbreak of the war. According to the Lebanese Ministry of tourism, the tourism sector contributed some 9% to 11% to Lebanon's Gross Domestic Product in the year 2007, outperforming the GDP growth rate for the period under consideration.

However, the year 2009 budget law reveals a relatively small share allocated to the Ministry of Tourism. In other words, the expenditures' allocation among ministries for the year 2009 revolve around a budgeted expenditure of LBP 11.23 billion ($7.44 million) for the Ministry of Tourism, representing a slim 0.07% of the year 2009 budget law.

Lebanese Ministry of Tourism statistics point to a strong, albeit unstable, growth in number of tourists to 1,332,551 tourists in 2008, from 1,015,793 in 2003. During the first eight months of 2009, the number of tourists arriving to Lebanon soared by 45.07% to 1,284,945, up from 885,729 in the same period last year, with expectations to eclipse last year’s figure, should the prevailing political stability persist.

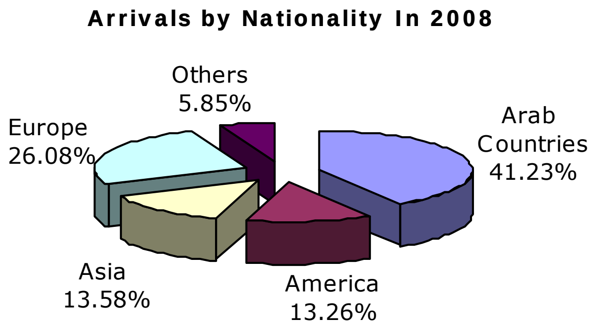
The following section portrays the evolution of the number of tourists since 2003 [73]:

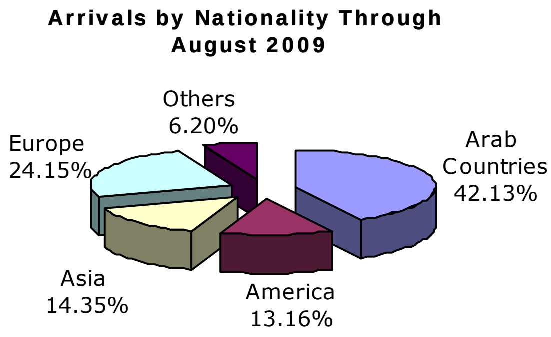


Source:The Lebanese Ministry of Tourism, Credit Libanais Research Unit

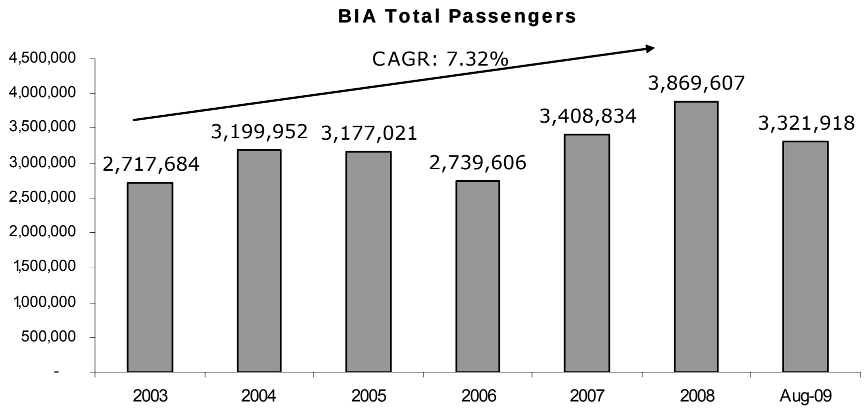
As conveyed by the charts on the following page, tourists from Arab countries account for the largest share of incoming tourists with a share of 41.23% in 2008 and 42.13% as at end of August 2009 owing in part to the similar traditions and values coupled with a much more moderate climate and especially during the summer season.

[73] The Lebanese Ministry of Tourism



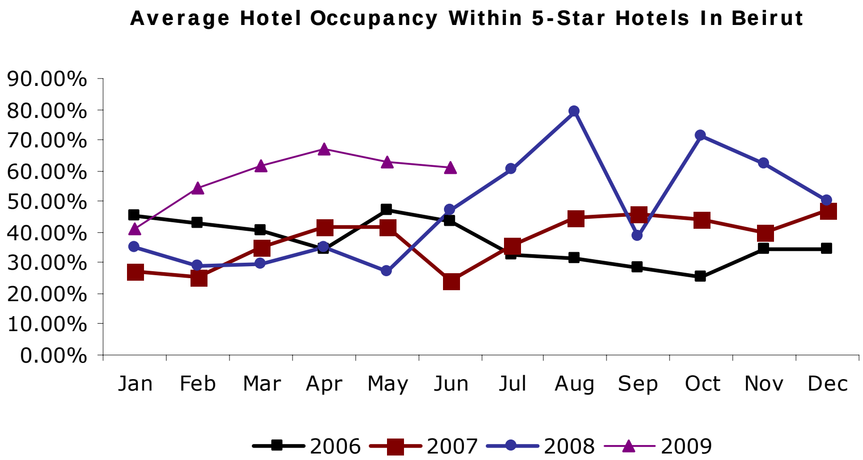


Concurrently, the Beirut International Airport (BIA) activity showed a moderate momentum over the period 2003-2008, with the number of passengers crawling at a CAGR of 7.32%, from 2,717,684 passengers in 2003 to 3,869,607 in 2008. During the first eight months of 2009, number of passengers traveling through the Beirut Airport rebounded by 25.36% y-o-y to 3,321,918, owing to the more relaxed and stable political arena added the unprecedented influx of Lebanese expatriates during the June parliamentary elections [74].



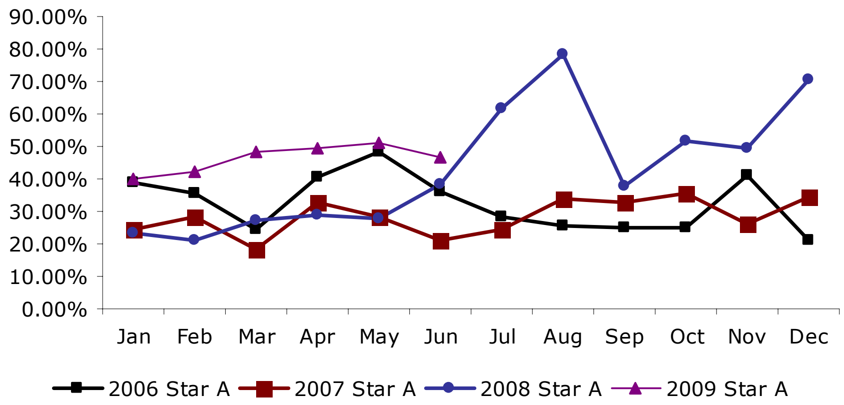
Source: Banque Du Liban, Beirut International Airport, Credit Libanais Research Unit

The average occupancy rate for hotels operating in Lebanon tend to fluctuate during a given year, only to peak during the summer season and feast period in the neighboring Arab countries. The average occupancy for 5-star hotels in Beirut has been seasonally fluctuating between 29% and 80% in 2008, reaching its peak in August following the Doha accord in May. Hotel average occupancy, however, bounced back in the first half of 2009, averaging 58.06% as at end of June [75].



[74] Assafir, Credit Libanais Weekly Market Watch, [75] The Lebanese Ministry of Tourism

Average Hotel Occupancy Within 4-Star A Hotels In Beirut



In the same perspective, and according to Deloitte Touche Tohmatsu's latest report on hotel Performance in the Middle East titled "Riding out the storm", Beirut achieved the sharpest growth in the world in revenue per available room (revPAR) by the end of July 2009, reporting an astounding 107.2% annual increase in revPAR to $137. Furthermore, hotel average occupancy rate increased by 58.3% to 69.8% through July 2009. It is worth noting that Beirut also occupied the first place in the Middle East in terms of growth in revPAR in 2008 which soared by 101.1% to $95.

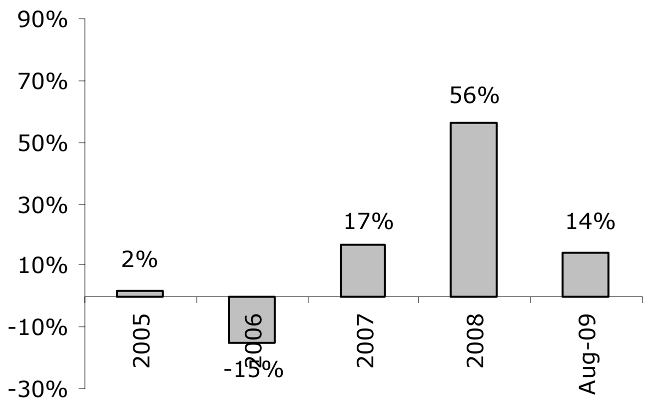
Middle East Hotel Performance

City	Occupancy(%)	Occupancy(%) Change	revPAR (USD)	revPAR % Change
Middle East	62.8	-10.2	126.90	-17.7
Abu Dhabi	77.6	-6.9	233.44	4.0
Beirut	**69.8**	**58.3**	**137.00**	**107.2**
Jeddah	69.5	1.2	122.79	18.5
Muscat	54.9	-23.1	150.61	-12.5

Soruce: Deloitte - STR Global

In a related news, and according to the Global Refund's reports, Lebanon's tax-free shopping gained a slim 2% in 2005 as the tourism season was hampered by the assassination of the Prime Minister Mr. Rafic Hariri. Tax-free shopping plunged by 15% in 2006 following the Israeli aggression on Lebanon in July. Lebanon's tax-free spending, however, recouped its dull momentum in subsequent years, scoring a notorious 56% appreciation in 2008 followed by 14% as at end of August 2009 [76].

Growth in Tax-Free Spending

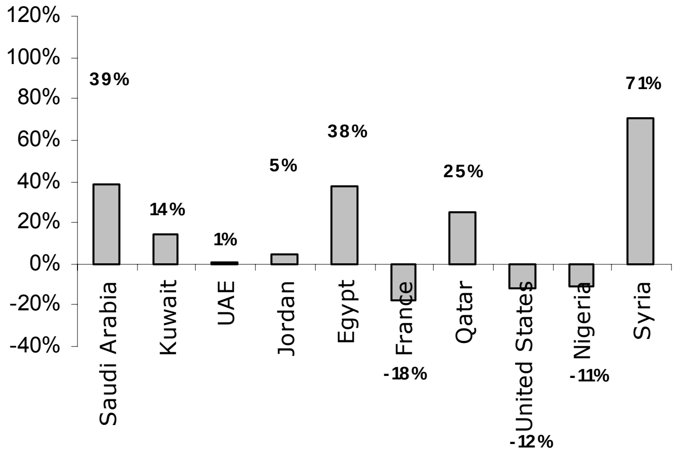


Source: Global Refund, Credit Libanais Research Unit

[76] Global Refund

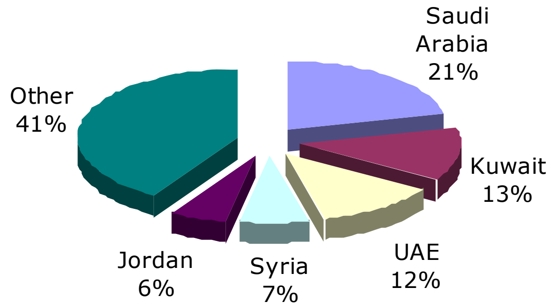
As for the distribution of tax-free spending, tourists from Saudi Arabia accounted for the largest portion (21%) of tourist spending through August 2009, significantly outpacing spending by Kuwaiti and U.A.E nationals (13% and 12% respectively) [77].

Annual Growth in Spending YTD August 2009



Source: Global Refund

Total Spending Distribution by Area of Residence - YTD August 2009 -



Source: Global Refund

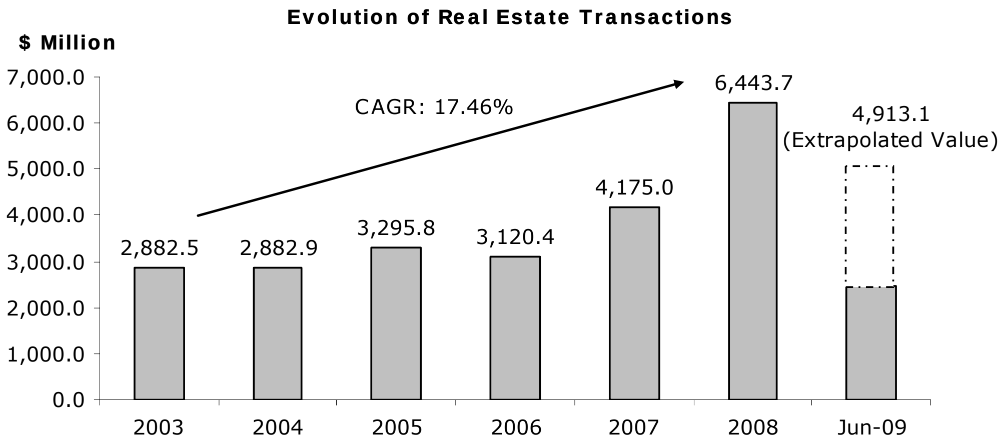
D. Real Estate & Construction

In the post-war period, Lebanon witnessed a boom in the Lebanese real estate sector which contributed to around 10.73% of Lebanon's GDP in 2007. In its efforts to complement the boom in the private sector construction activities, the Government has established the Council for Development and Reconstruction (CDR). The CDR is responsible for preparing and monitoring the implementation of public investment projects as well as attracting foreign investments. The CDR played a major role in financing the reconstruction plan of the Lebanese infrastructure in the aftermath of the war devastations through foreign financing facilities from 35 different financing resources. It is worth noting that during the period ranging between 1992 and 2008 the CDR had managed to secure some $8.593 billion in financing in the form of grants, soft loans, commercial loans, export credits and commercial loans. The bulk (49.06%) of foreign financing was directed at rehabilitating the Lebanese infrastructure which was obliterated during the Lebanese civil war. Asides developing the physical infrastructure, the CDR paid special attention to the rehabilitation of the country’s social infrastructure (education, public health and housing compensation) [78].

1) Demand Aggregates

In the past few years, the Lebanese real estate sector witnessed a healthy growth driven by a mix of fundamental factors including the surge in liquidity in the Arab region, added the reform measures pledged by the Lebanese Government towards international donors during the Paris II and Paris III Donors' meetings, coupled with drastic fiscal and monetary measures undertaken by the Lebanese Government. The value of property transaction has grown at a compounded annual growth rate of 17.46% over the period extending between 2003 and 2008 to reach $6.44 billion as year end 2008 and $2.46 billion as at end of June 2009 [79].

[77] Global Refund, [78] The Council for Development and Reconstruction, [79] Databank.Infopro, Credit Libanais Research Unit



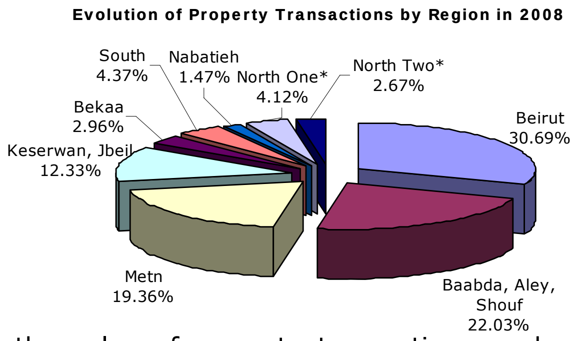
The following table portrays the evolution of the values of property transactions by region for the period 2003-2008:

Value of Property Transactions - USD Million						
Cities	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Beirut	675.1	1090.1	1073.3	1065.2	1561.8	1977.3
Baabda, Aley, Shouf	619.6	692.4	758.7	723.2	921.1	1419.8
Metn	417.6	424.5	664.2	515.0	674.5	1247.4
Keserwan, Jbeil	248.7	245.0	297.9	356.9	389.5	794.6
Bekaa	67.3	99.3	76.3	93.6	118.1	191.0
South	680.3	118.6	169.3	119.4	181.4	281.3
Nabatieh	24.8	35.9	45.6	40.0	64.2	94.7
North One*	93.2	117.9	119.5	138.7	178.5	265.6
North Two*	55.9	59.2	91.0	68.4	85.9	172.0
Total	**2,882.5**	**2,882.9**	**3,295.8**	**3,120.4**	**4,175.0**	**6,443.7**

*Tripoli, Aakkar

**Batroun, Koura, ehden, Becharreh

Source: Central Administration for Statistics - Databank.Infopro



As reflected by the preceding table, the value of property transactions peaked in 2008, especially in the period that followed the Doha Accord in May 2008, at $6,443.7 million, 54.34% above 2007 figures at a time when most real estate markets in the Arab region suffered substantial losses owing to the global financial turmoil. Real estate activity maintained a healthy momentum in the first half of 2009 with total transactions valued at $2,456.5 million. This is further elaborated in the following table:

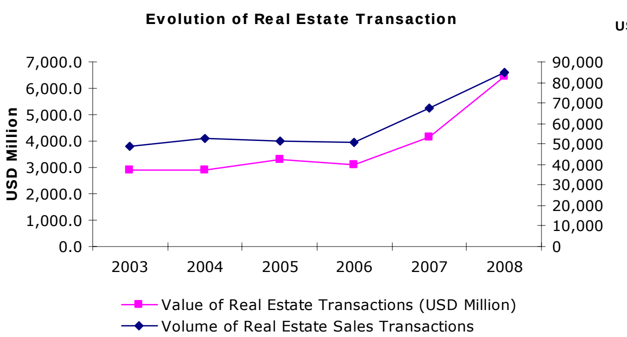
Real Estate Transactions							
	2003	**2004**	**2005**	**2006**	**2007**	**2008**	**Jun-09**
Value of Real Estate Transactions (USD Million)	2,882.5	2,882.9	3,295.8	3,120.4	4,175.0	6,443.7	2,456.5
Number Of Real Estate Sales Transactions	48,657	52,700	51,564	51,027	67,689	85,025	33,830
Average Value Per Sale Transaction (USD Thousands)	59.2	54.7	63.9	61.2	61.7	75.8	72.6

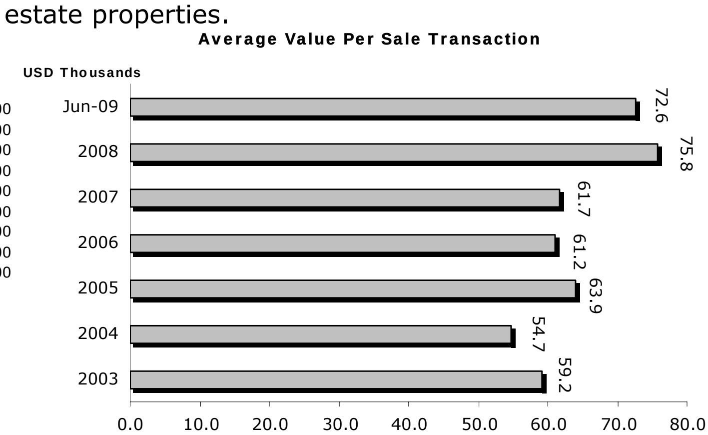
Source: Central Administration for Statistics - Databank.Infopro, Audi-Saradar Research Unit

During the period extending between 2005 and the Israeli War which stroke Lebanon in July 2006, demand remained mostly unaffected by the deteriorating events. Afterwards, however, the real estate market bounced back in early 2007 and 2008 with 67,689 and 85,025 real estate transactions respectively despite the propagating World financial crisis that hit regional and global markets. The number of real estate transactions reached 33,830 in the first half of 2009. Some real estate experts, however, perceive this as a negative indicator, considering Arab investments as speculative in nature. Said speculation tends to overestimate demand and subsequently inflates real estate prices.

The Lebanese real estate market flourished between 2005 and 2006, thanks to the influx of Arab and Lebanese expatriates' investments. After incurring massive losses in the Gulf stock market, Arab investors opted to direct the excess liquidity from the recent oil boom to the relatively safer real estate markets.

In 2008, the Doha accord followed by the election of President Michel Sleiman, and the formation of a national unity Government relaxed the political and investment climate and bolstered the demand for real estate properties.





2) Supply Aggregates

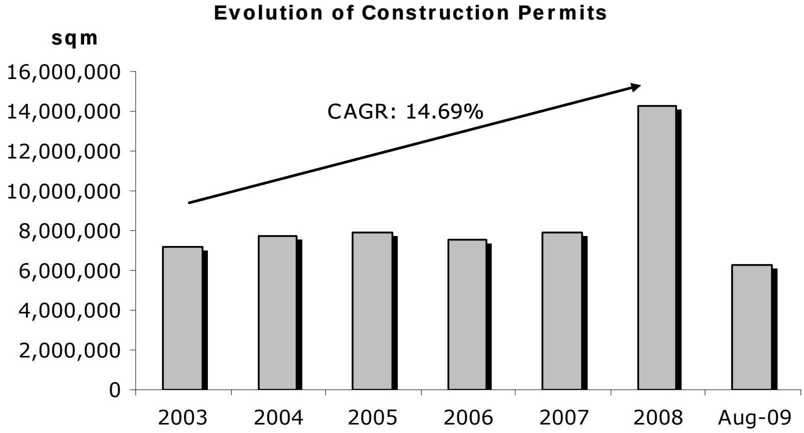
Construction permits and cement deliveries are the main indicators of property development and supply. Lebanon's registered construction permits posted a healthy 98.46% upswing during the 2003-2008 period to reach 14,280,853 sqm in 2008 up from 7,195,675 sqm in 2003. On a yearly basis, construction permits expanded by a stunning 80.34% up from 7,919,013 sqm in 2007, with construction permits in the month of December alone standing at 4,835,710 sqm [80]. Said increase can be attributed to the fact that the Order of Engineers announced during the year 2008 its intention to levy new fees on construction permits effective January 2009.

The table on the following page sketches the evolution of construction permits for the period 2006-August 2009:

[80] Order of Engineers

Evolution of Construction Permits								
Cities	2006		2007		2008		Aug-09	
	Number	Area (m²)	Number	Area (m²)	Number	Area (m²)	Number	Area (m²)
Beirut	1,077	1,445,479	953	1,610,503	1,046	2,147,756	647	589,268
Mt. Lebanon	5,111	4,284,540	5,214	4,349,891	6,436	8,433,758	4,297	3,707,466
North	161	147,808	145	157,068	194	194,622	84	245,828
Bekaa	770	529,420	814	576,382	1,200	953,387	755	479,692
South	1,278	719,583	1,348	815,609	2,125	1,742,896	1,350	797,578
Nabatieh	894	405,307	852	409,560	1,325	808,434	853	438,800
Total	**9,291**	**7,532,137**	**9,326**	**7,919,013**	**12,326**	**14,280,853**	**7,986**	**6,258,632**

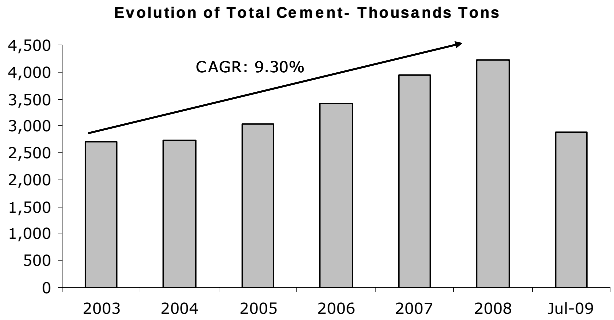
Source: Order of Engineers, Credit Libanais Research Unit

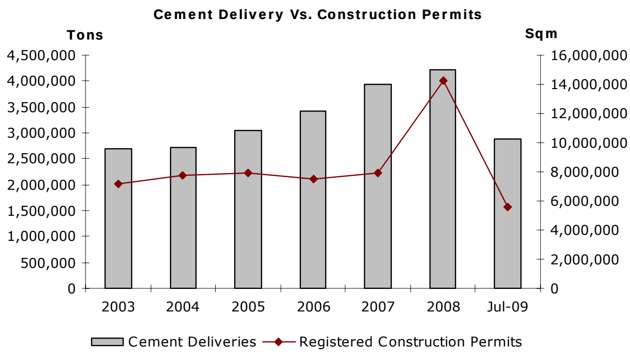


Concurrently, cement deliveries, the coincident indicator of construction activity, rose by a CAGR of 9.30% over the 2003-2008 period to reach 4,219,257 tons in 2008 and 2,887,026 tons during the first seven months of 2009 [81].

Evolution of Total Cement in Thousands of Tons						
2003	2004	2005	2006	2007	2008	Jul-09
2,704	2,729	3,040	3,423	3,945	4,219	2,887

Source: Banque Du Liban





3) The Lebanese Company for the Development and Reconstruction of Beirut Central District (Solidere)

The Lebanese Company for the Development and Reconstruction of Beirut Central District (Solidere), which is the largest real estate developer in Lebanon and one of the largest in the Middle East, was incorporated on May 25, 1994 with a mission to rebuild and redevelop the Beirut Central District ("BCD") after the ravages of the war.

Solidere is a publicly listed corporation with a built-up area estimated at 4.69 sqm.

[81] Banque Du Liban

The reconstruction of the BCD included two phases: the first phase (1994-2004) centered upon the infrastructure and rehabilitation works, while the second phase (2005-2020) focuses on the launching and completion of several projects.

The Lebanese Company for the Development and Reconstruction of Beirut Central District "Solidere" also launched on June 7, 2007 Solidere International Limited (SI), a real estate development company incorporated in the Dubai International Financial Center with a capital of $700 million, of which the Solidere Board of Directors has approved a $165 million cash contribution, with the remaining $535 million raised through a private placement transaction [82].

In the first quarter of 2006, Solidere's effective land sales were worth $1.1 billion, which is equivalent to all prior land sales since the inception of the Company. Land in the BCD was priced at $1,400 to $1,600 per square meter. The figure, however, fell dramatically during the second quarter of 2006 following the opposition strike and political clashes which lasted until the first half of 2008. Since the Doha accord in May 2008, the price of land parcels in the BCD witnessed a significant increase, reaching $2,400 to $5,500 per square meters.

E. The Lebanese Banking Sector

1) Overview

Lebanon's banking sector, which is considered to be the backbone of the Lebanese economy, responds rapidly and efficiently to the financing needs of the domestic economy and provides a wide range of conventional as well as high quality modern financial services for resident and non resident clients.

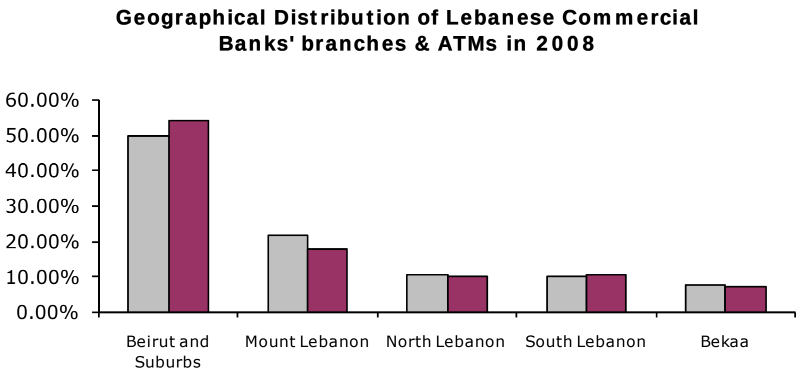
In the mid 1990s, the Central Bank of Lebanon helped smooth banking sector operations through consolidation activities by means of mergers and acquisitions. The Lebanese banking sector is also characterized by an efficient banking secrecy law, a free exchange system, and a free movement and repatriation of capital. In the past several years, the banking sector witnessed a significant improvement in investing in human capital, latest information and communication technologies, internal auditing, risk management a control systems, and money laundering compliance units. Indeed the banking sector succeeded in:

- Developing branch network to a total of 862 branches [83] (as at end of March 2009), on the scale of around 4,660 residents per branch;
- Applying IT and telecom networks;
- Implementing adequate human resource training programs;
- The enforcement of internal audit through adequate procedures.

As for the geographical distribution of branches and ATMs, the greater Beirut region occupies the highest concentration, constituting alone 54.40% of banks' total branches and 49.74% of banks' total ATMs network in 2008, followed by Mount Lebanon at rates of 17.90% of total branches and 21.67% of total ATMs [84] .

[82] Solidere, [83] BDL Quarterly: Q1 2009, [84] ABL Annual Report, Banque Du Liban

The following chart sketches the distribution of the banking sector's branches and ATM networks in 2008:



Source: BDL, ABL

Lebanon's banking sector deposits and assets have grown markedly over the past few years, while at the same time banks continued to expand locally, regionally and globally. The strong performance of banks owes in the first place to the significant expansion efforts witnessed in recent years. In the past couple of years, Lebanese banks looked for geographical diversification of branches outside the country on the back of the sluggish economy, saturated market and squeezed interest margins. Banks succeeded in obtaining licenses across the Middle East and North Africa region, from Algeria in the West to Iraq in the East. Lebanese banks strived to reinforce their domestic positions and equity base through sequential capital increases and local and regional acquisitions.

The Lebanese banking system comprises [85]:

- 53 commercial banks, of which 4 are Islamic banks [85], spread over 862 branches as at the first quarter of 2009.
- 12 investment banks spread over 17 branches as at March 2009.
- 1,168 ATMs, on the scale of around 3,450 residents per ATM (as at end of July 2009).

The following table outlines the banking and financial sectors' structure during 2007, 2008 and the first quarter of 2009:

	2007	2008	Mar-09
Commercial Banks			
Total Number	54	53	53
o/w Islamic Banks	4	4	4
o/w Foreign Banks	10	9	9
Number of Branches	847	860	862
Investment Banks			
Total Number	12	12	12
Number of Branches	17	17	17
Financial Institutions			
Total Number	43	45	45
Number of Branches	48	50	50
Financial Intermediaires			
Total Number	10	11	12
Leasing Companies			
Total Number	2	2	2

Source: BDL Quarterly Bulletin, ABL-Annual Report 2008

[85] BDL Quarterly Report

According to BilanBanques, Lebanese banks are categorized under 4 groups, namely Alpha, Beta, Gamma, and Delta, in accordance with the size of customer deposits [86]:

- Alpha group (deposits over USD 2 billion);
- Beta group (deposits ranging between USD 500 million and USD 2 billion);
- Gamma group (deposits ranging between USD 200 million and USD 500 million);
- Delta Group (deposits below USD 200 million).

Alpha Group	Beta Group	Gamma Group	Delta Group
Bank Audi s.a.l - Audi Saradar Group	Al-Mawarid Bank s.a.l	Ahli International Bank s.a.l	Al-Baraka Bank Lebanon (B.B.L.) (Islamic Bank) s.a.l
Bank of Beirut s.a.l	Arab Bank Plc	Banque de l'Industrie et du Travail s.a.l	Arab African International Bank
BankMed s.a.l	Audi Saradar Investment Bank s.a.l	Banque Misr Liban s.a.l	Arab Investment Bank s.a.l
Banque Libano-Française s.a.l	Audi Saradar Private Bank s.a.l	BLOM Invest Bank s.a.l	Bank of Beirut Invest s.a.l
BBAC s.a.l	B.L.C. Bank s.a.l	Byblos Invest Bank s.a.l	Banque de Crédit National s.a.l
BLOM Bank s.a.l	Bank of Kuwait and the Arab World s.a.l	Federal Bank of Lebanon s.a.l	Banque de l'Habitat s.a.l
Byblos Bank s.a.l	Banque Bemo s.a.l	Jammal Trust Bank s.a.l	Banque Lati s.a.l
Crédit Libanais s.a.l	CreditBank s.a.l	Lebanese Swiss Bank s.a.l	Banque Pharaon et Chiha s.a.l
Fransabank s.a.l	Credit Libanais Investment Bank s.a.l	MEAB s.a.l	BLOM Development Bank s.a.l
Lebanese Canadian Bank s.a.l	Emirates Lebanon Bank s.a.l	National Bank of Kuwait (Lebanon) s.a.l	Citibank N.A.
Société Générale de Banque au Liban s.a.l - SGBL	First National Bank s.a.l	North Africa Commercial Bank s.a.l	FFA Private Bank s.a.l
	HSBC Bank Middle East Limited		Finance Bank s.a.l
	IBL Bank s.a.l		Fransa Invest Bank s.a.l
	Lebanon and Gulf Bank s.a.l		Habib Bank Limited
	Société Nouvelle de la Banque de Syrie et du Liban s.a.l		Méditerranée Investment Bank s.a.l
			Near East Commercial Bank s.a.l
			Rafidain Bank
			Saudi Lebanese Bank s.a.l
			Standard Chartered Bank s.a.l
			The Saudi National Commercial Bank
			The Syrian Lebanese Commercial Bank s.a.l

Source: BilanBanques 2009

2) Consolidated Balance Sheet

The Lebanese banking sector demonstrated strong resilience to political tensions and to the global turmoil, showing a healthy growth in the past few years, and by the certification of the IMF and the Lebanese Central Bank. More recently, the IMF and in its June 2009 Emergency Post-Conflict Assistance (EPCA) report on Lebanon, noted that the banking sector, which is considered to be one of the pillars of the Lebanese economy and an element of confidence, emerged unscathed from the global financial crisis in terms of liquidity and capitalization, requiring no assistance or intervention from the government. Moreover, the report commented that commercial banks' deposits remained robust, with the deposit dollarization rate regressing on the back of a regained level of confidence, resulting from the stable political situation, coupled with a luring interest rate differential for the Lebanese Pound over the U.S. Dollar.

The table on the following page sketches the consolidated balance sheet of commercial banks operating in Lebanon during the period 2003-July 2009 [87]:

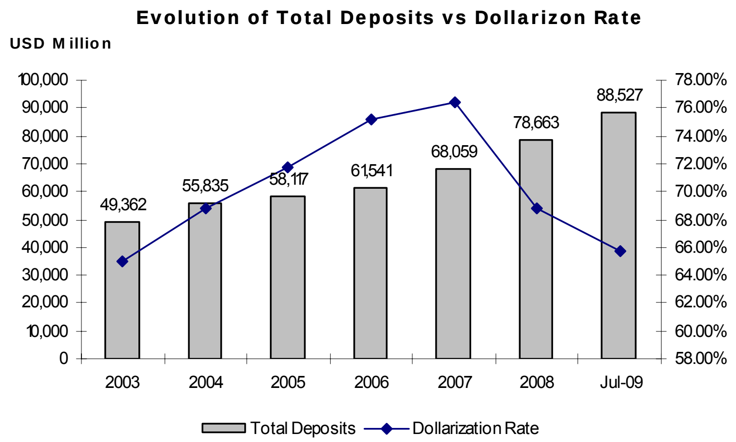
[86] BilanBanques 2009, [87] ABL

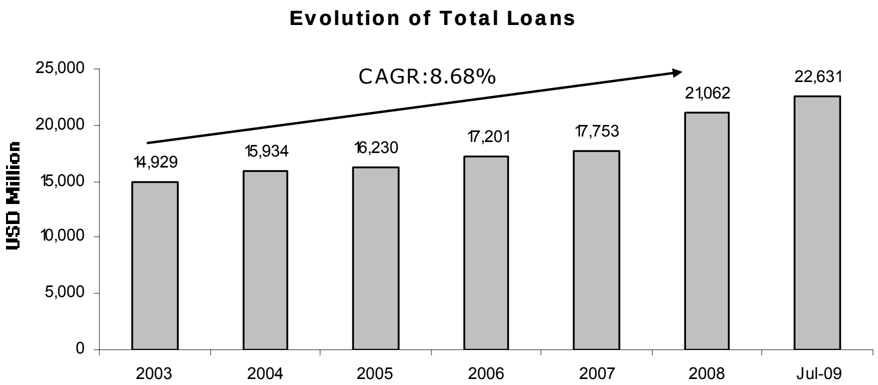
In Millions of USD	2003	2004	2005	2006	2007	2008	Jul-09	As a % of July-09 Assets
Assets								
1- Deposits of Commercial Banks at BDL	**18,671**	**19,690**	**20,375**	**19,328**	**19,628**	**25,731**	**32,766**	**31.09%**
2- Claims on Resident Private Sector	**14,929**	**15,934**	**16,230**	**17,201**	**17,753**	**21,062**	**22,631**	**21.47%**
in LBP	2,462	2,831	2,856	3,163	2,779	3,362	3,911	3.71%
in FC	12,468	13,102	13,374	14,038	14,973	17,700	18,720	17.76%
3- Claims on Public Sector	**13,934**	**16,024**	**17,709**	**20,691**	**21,508**	**25,416**	**26,259**	**24.92%**
in LBP	7,569	7,232	8,402	10,017	10,433	15,062	14,488	13.75%
in FC	6,365	8,792	9,307	10,674	11,075	10,354	11,771	11.17%
4- Foreign Assets	**9,906**	**13,553**	**13,278**	**16,440**	**20,710**	**19,127**	**20,349**	**19.31%**
o/w Claims on Non Resident Banks	8,053	110,584	10,475	12,236	14,553	11,390	12,050	11.43%
5- Other Assets	**2,454**	**2,586**	**2,732**	**2,519**	**2,656**	**2,919**	**3,379**	**3.21%**
Total Assets	**59,895**	**67,786**	**70,325**	**76,179**	**82,255**	**94,255**	**105,384**	**100%**
Liabilities								
6- Resident Private Sector Deposits	**40,773**	**45,286**	**47,517**	**51,321**	**57,699**	**66,274**	**73,405**	**69.65%**
in LBP	15,583	15,487	14,622	13,984	14,781	22,759	27,742	26.32%
in FC	25,190	29,798	32,896	37,337	42,918	43,515	45,663	43.33%
7- Public Sector Deposits	**879**	**982**	**1,131**	**1,047**	**771**	**883**	**841**	**0.80%**
8- Deposits of Non Resident Private Sector	**7,710**	**9,567**	**9,469**	**9,173**	**9,589**	**11,506**	**14,281**	**13.55%**
in LBP	806	961	689	253	468	907	1,719	1.63%
in FC	6,904	8,606	8,780	8,919	9,121	10,599	12,563	11.92%
9- Deposits of Non Resident Banks	**1,591**	**2,529**	**2,165**	**2,810**	**4,052**	**4,305**	**4,428**	**4.20%**
10- Capital Accounts	**3,648**	**3,853**	**4,253**	**5,783**	**6,261**	**7,101**	**7,533**	**7.15%**
11- Other Liabilities	**5,295**	**5,568**	**5,791**	**6,045**	**3,883**	**4,186**	**4,896**	**4.65%**
Total Liabilities	**59,895**	**67,786**	**70,325**	**76,179**	**82,255**	**94,255**	**105,384**	**100%**

Source: ABL

In Millions of USD	2003	2004	2005	2006	2007	2008	Jul-09
Total Deposits	49,362	55,835	58,117	61,541	68,059	78,663	88,527
Total Loans and Claims	28,864	31,958	33,939	37,892	39,261	46,478	48,890
Dollarization Rate	**65.02%**	**68.78%**	**71.71%**	**75.16%**	**76.46%**	**68.79%**	**65.77%**

Source: ABL



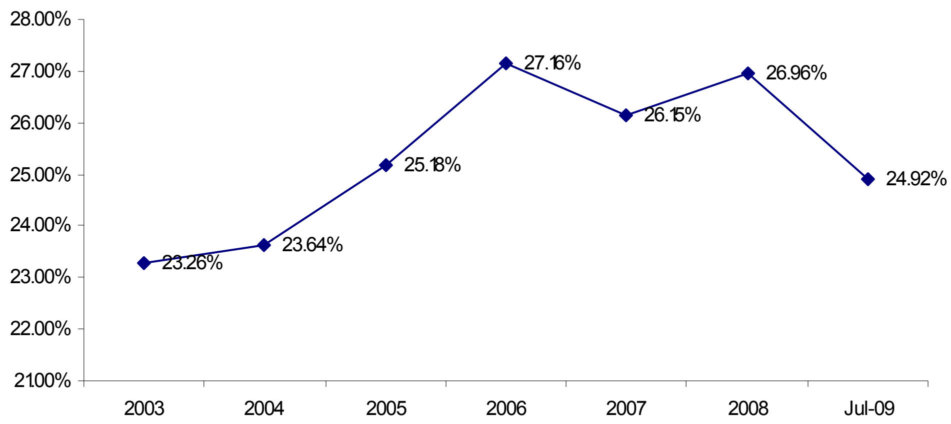


Remarks:

- The consolidated balance sheet of Lebanese banks reveals that Lebanese banks allocate a significant portion of their balance sheet to investments in government debt securities. Claims on the Public Sector, which include banks investments in treasury bills (LBP) and government securities, expanded at an accelerating pace (CAGR of 12.77%) over the 2003-2008 period to reach $25.416 billion in 2008 (a whopping 26.97% of total assets) and $26.26 billion through July 2009. It is worth highlighting that Moody's Investors Service, the international rating agency, recently commented that banks' large exposure to government securities may put banks at risk in the event of default.

- The consolidated balance sheet also reveals an impressive 11.81% expansion in total consolidated assets to $105.38 billion over the seven-month period ending July 2009, after posting a CAGR of 9.49% over the five-year period ending 2008. The 11.81% growth in total assets over a short period of seven months, at a time when other regional and international banks were facing asset quality deterioration problems, can only serve to indicate the strength of the Lebanese banking sector and its immunity to shocks.

Claims on Public Sector / Total Consolidated Assets



Source: ABL

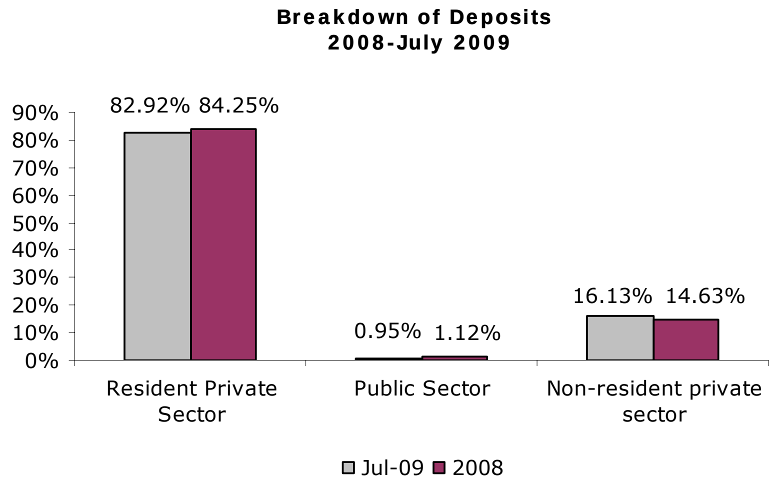
- On the liabilities side, we can notice that LBP deposits grew at a faster pace than deposits in foreign currencies over the 2006-July 2009 period. More particularly, LBP Resident Private Sector deposits progressed by 98.38% over the 2006-July 2009 period to $27.742 billion, while Foreign Currency Private Sector deposits grew at a much lower 22.30% over the same period. At the same time, LBP deposits of the Non Resident Private Sector reported a 578.27% growth as compared to a 40.84% growth by Foreign Currency deposits of the Non Resident Private Sector. This inevitably led to a sharp drop in the deposit dollarization rate from 75.16% in 2006 to 65.77% as at end of July 2009, further reiterating the level of confidence in the Lebanese Pound.

It is worth noting that the Lebanese banking sector has witnessed in 2008 a unique inflow of foreign remittances from Lebanese expatriates living namely in the Gulf region, with some 43.1% reported annual expansion in foreign inflows to $5.65 billion through July 2008, up from $3.95 billion in the same period in 2007. In the second half of 2008, and notwithstanding the global financial turmoil which stroke financial institutions worldwide, the Lebanese banking sector preserved its solid standing with some $500 million influx during the one-week period which followed the bankruptcy filing of Lehman Brothers, according to the Lebanese Central Bank Governor. Furthermore, the Lebanese Central Bank Governor announced, and during an interview in early September 2009, that cash inflows into the Lebanese economy aggregated to $16 billion over the last twelve months, out of which 90% were converted to the Lebanese Pound.

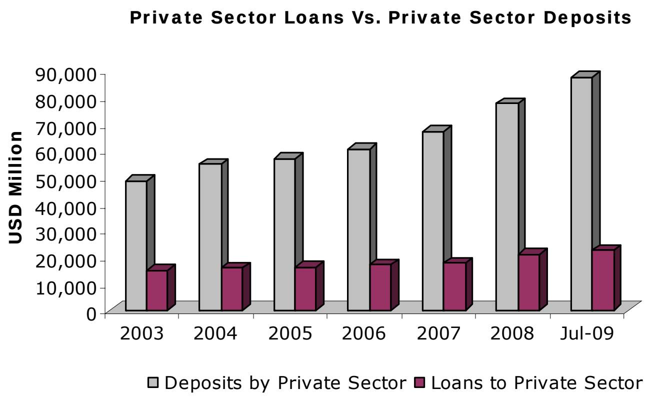
in Millions of USD	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**Jul-09**
Loans to Private Sector	14,929	15,934	16,230	17,201	17,753	21,062	22,631
Claims on Public Sector	13,934	16,024	17,709	20,691	21,508	25,416	26,259
Total Loans and Claims	**28,864**	**31,958**	**33,939**	**37,892**	**39,261**	**46,478**	**48,890**
Deposits by Private Sector	48,483	54,853	56,986	60,494	67,288	77,780	87,686
Deposits by Public Sector	879	982	1,131	1,047	771	883	841
Total Banking Sector Deposits	**49,362**	**55,835**	**58,117**	**61,541**	**68,059**	**78,663**	**88,527**

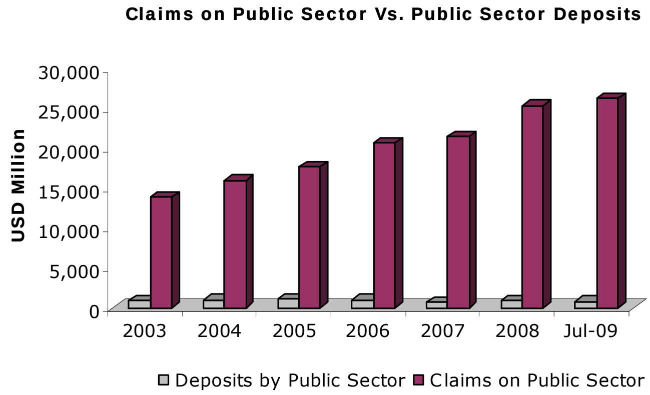
Source: ABL

The following diagram depicts the evolution of customer deposits, by sector, during the 2008-July 2009 period:

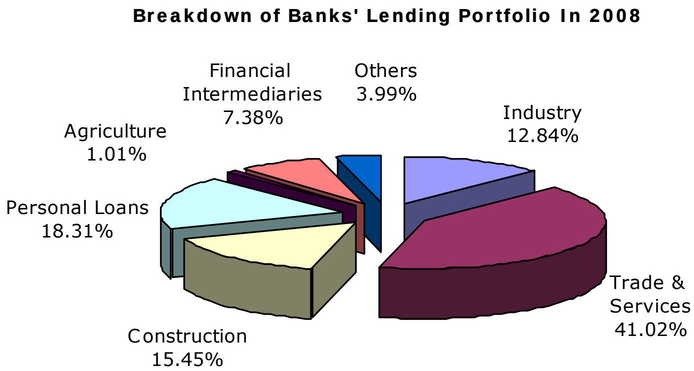


The following charts convey the evolution of total banking sector loans and deposits over the 2003-July 2009 period:

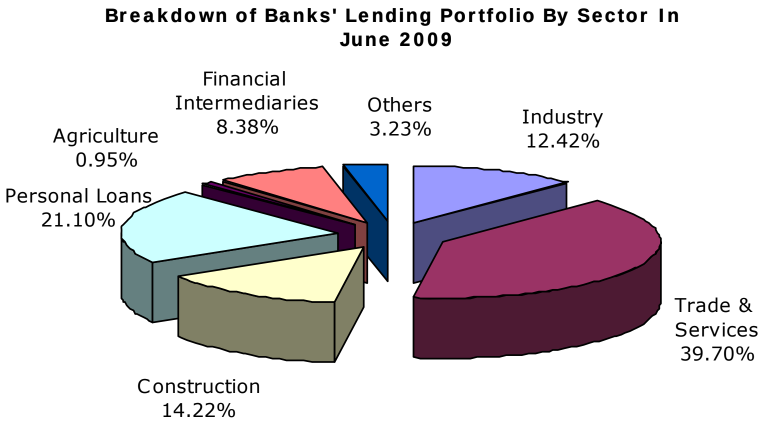




The breakdown of banking system loans and investments by sector reveals a heavy concentration (39.70%) in the "trade and services" sector in June 2009, followed by "personal loans", "construction", and "industry" at respective rates of 21.10%, 14.22% and 12.42%. The following charts depict the distribution of banks' credits by sectors in 2008 and June 2009 [88]:



Source: ABL

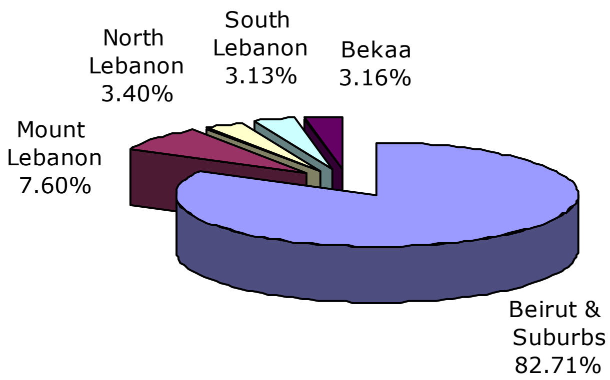


Source: Al Mustaqbal Newspaper

As for the geographical distribution of banks' lending portfolio, the greater Beirut region, the heart of Lebanon's economic activity, occupies the highest concentration, constituting alone 80.97% of banks' consolidated lending as at end of June 2009, followed by Mount Lebanon and North Lebanon at respective rates of 8.48% and 3.41%. The following charts sketch the distribution of banks' credits by region in 2008 and June 2009 [88]:

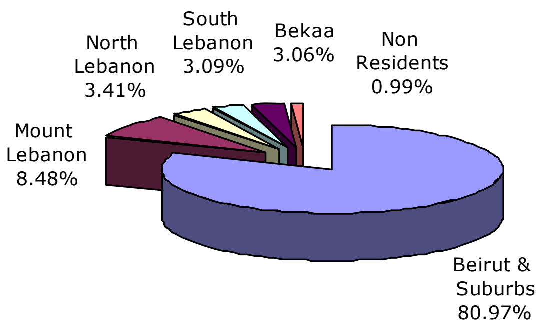
[88] AL Mustaqbal Newspaper, ABL

Breakdown of Banks' Lending Portfolio by Region In 2008



Source: ABL

Breakdown of Banks' Lending Portfolio by Region In June 2009

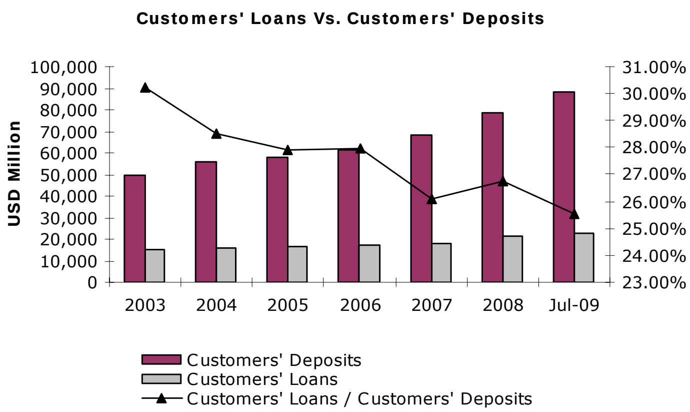


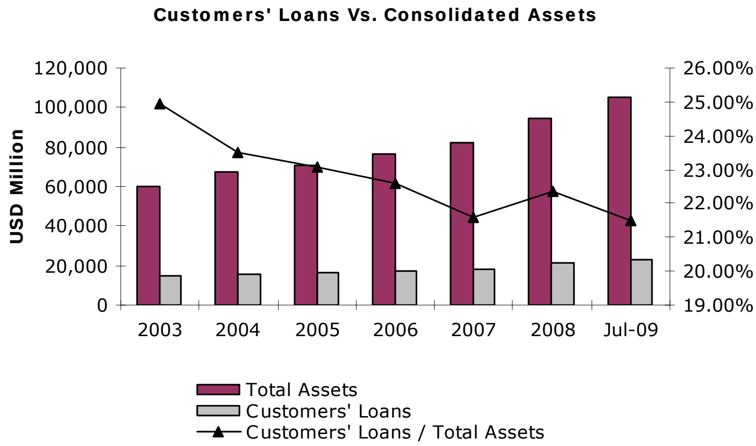
Source: Al Mustaqbal Newspaper

On the liquidity front, the ratio of customers' loans to customers' deposits in the Lebanese banking sector regressed from 30.24% in 2003 to 26.78% in 2008 before easing to 25.56% in July 2009. Concurrently, the customers' loans to total assets ratio fell from 24.93% in 2003 to 22.35% in 2008 and 21.47% in July 2009. This increase in liquidity, however, didn't come at the expense of profitability which remained on a steady rise throughout the period. It is worth noting, that the drop in the customer loan's to total assets ratio can be partly attributed to the expansion of several Lebanese banks towards neighboring, regional and international markets.

in Millions of USD	2003	2004	2005	2006	2007	2008	Jul-09
Customers' Deposits	49,362	55,835	58,117	61,541	68,059	78,663	88,527
Customers' Loans	14,929	15,934	16,230	17,201	17,753	21,062	22,631
Customers' Loans / Customers' Deposits	**30.24%**	**28.54%**	**27.93%**	**27.95%**	**26.08%**	**26.78%**	**25.56%**
Total Assets	59,895	67,786	70,325	76,179	82,255	94,255	105,384
Customers' Loans / Total Assets	**24.93%**	**23.51%**	**23.08%**	**22.58%**	**21.58%**	**22.35%**	**21.47%**

Source: ABL





3) Banking Sector Profitability

The Lebanese banking sector has demonstrated strong resilience to economic and political shocks, complementing its robust balance sheet growth with healthy profitability levels. More particularly, the banking sector witnessed a significant growth in net profits over the past years which attained $1,218.85 million in 2008, up from $961.99 million in 2007 and $448.30 million in 2003. Net interest income rose by a CAGR of 17.06% over the 2003-2008 period to $2.36 billion in 2008 from $1.07 billion in 2003. Net fees and commissions income followed suit, posting a CAGR of 18.02% over the same period to $595.89 million in 2008. Return on average equity hit the 13.20% mark in 2008, in comparison with 11.79% in 2007 while return on average assets advanced from 1.02% in 2007 to 1.13% in 2008. Net interest income constituted 71.79% of Lebanese banks' total operating income in 2008, while net commissions' share stood at 18.11% [89].

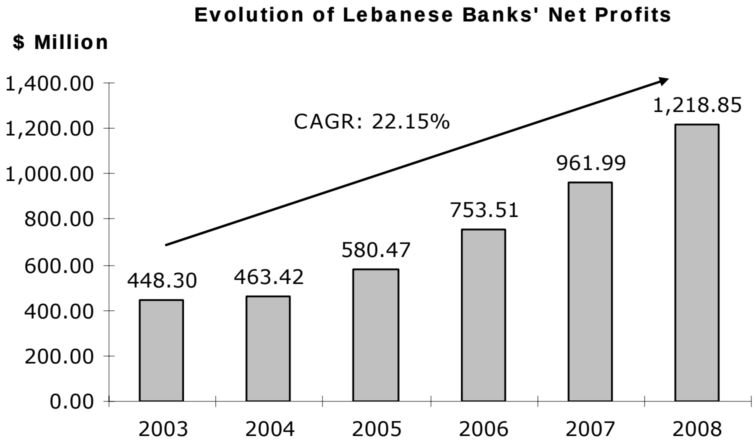
The following section captures the evolution of major parameters in the consolidated profit and loss statement of the Lebanese banking sector:

Snapshot on Banking Sector's Consolidated Profit and Loss Statement

In millions of USD	2003	2004	2005	2006	2007	2008	CAGR
Net Interest Income	1,074.78	1,088.39	1,203.61	1,544.31	1,845.44	2,361.98	17.06%
Net Fees & Commissions Income	260.24	302.82	354.38	401.24	488.85	595.89	18.02%
Total Operating Expenses	1,004.50	1,068.28	1,163.81	1,326.19	1,432.57	1,753.66	11.79%
Net Income- Before tax	567.47	579.77	727.30	935.08	1,152.70	1,458.25	20.78%
Net Profit - After tax	**448.30**	**463.42**	**580.47**	**753.51**	**961.99**	**1,218.85**	**22.15%**

Source: BilanBanques

[89] BilanBanques



4) Banking Sector Rating Highlights

- In 2008, the soundness of the banking sector was reflected by the outlook upgrade by the international rating agency, Capital Intelligence, to "Stable" on Bank Audi-Saradar, BBAC, BLOM Bank, Byblos Bank, Credit Libanais and Fransabank in late July. Moody's Investors Service praised as well in its December rating update, the Lebanese banking sector's resilience to the global turmoil, preserving its "B3" long-term bank deposits' rating and "D-" financial strength rating with "Stable" outlook.

- In April 2009, Moody's Investors Service upgraded the long term foreign currency rating of four Lebanese banks (BLOM Bank, Byblos Bank, Bank Audi -Saradar and Bank of Beirut) to "B2" from "B3".

- In June 2009, Moody's Investors Service placed under review the global local currency "GLC" deposit ratings of "Ba2" for BLOM Bank, Byblos Bank and Bank Audi-Saradar for possible downgrade. Said evaluation is mainly based on the level of "systemic support" the Lebanese government is able to provide to the banking system especially with the global financial crisis. Moody's kept the three Lebanese banks' financial strength rating unchanged at "D-".

- In July 2009, Capital Intelligence upgraded the long term foreign currency rating of six Lebanese banks, namely Bank Audi-Saradar, BBAC, BLOM Bank, Byblos bank, Credit Libanais and Fransabank from "B-"to "B", with "Stable" outlook.

The following table captures the latest ratings assigned by Moody's and Capital Intelligence [90]:

Lebanese Banks' Latest Ratings

Rated Banks	Moody's Investors Service			Capital Intelligence	
	Long Term Foreign Currency	Financial Strength	Outlook	Long Term Foreign Currency	Outlook
Bank Audi-Sardar	B2	D-	Rating Under Review	B	Stable
BLOM Bank	B2	D-	Rating Under Review	B	Stable
Credit Libanais	-	-	-	B	Stable
Byblos Bank	B2	D-	Rating Under Review	B	Stable
BBAC	-	-	-	B	Stable
Fransabank	-	-	-	B	Stable
Bank of Beirut	B2	D-	Stable	-	-

Sources: Moody's Investors Service, Capital Intellgince

[90] Moody's, Capital Intelligence, Credit Libanais Weekly Market Watch

5) Activities Associated with the Banking Sector

a) Check Clearing

The value of cleared checks, an indicator of economic activity, expanded by a CAGR of 12.13% over the period extending from 2003 till 2008 to firm at $52.50 billion in 2008 and $35.48 billion through August 2009. Similarly, the total value of returned checks, which may be a symptom of economic distress, increased to $0.91 billion in 2008. This is further illustrated in the following table:

Value of Check Clearing Activity (All Values are in USD Million)

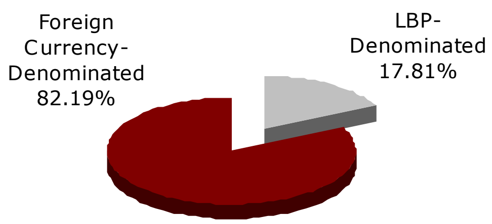
	2003	2004	2005	2006	2007	2008	Aug-09	CAGR (2003-2008)
LBP-Denominated	8,809	9,100	8,183	7,219	8,408	9,348	7,209	1.19%
Returned LBP-Denominated	*159*	*145*	*159*	*156*	*122*	*157*	*104*	*-0.17%*
Foreign Currency-Denominated	20,807	23,616	25,457	25,270	29,890	43,151	28,273	15.71%
Returned Foreign Currency-Denomina	*640*	*519*	*577*	*628*	*558*	*753*	*552*	*3.31%*
Total Cleared Checks	**29,616**	**32,716**	**33,640**	**32,489**	**38,298**	**52,499**	**35,482**	**12.13%**
Total Returned Checks	**799**	**664**	**736**	**784**	**680**	**910**	**656**	**2.65%**

Source: BDL, ABL

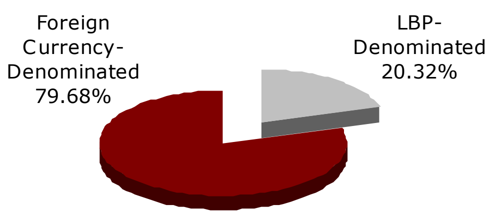
The share of returned checks of the total value of cleared checks dropped significantly from 2.7% in 2003 to 1.73% in 2008, indicating that the rise in the value of returned checks was merely a natural result of the increase in check clearing activity, and not a sign of economic distress.

Of the total value of cleared checks in 2008, 17.81% were denominated in Lebanese Pound while the remaining 82.19% were in foreign currencies.

Breakdown of Clearing Activity By Value In 2008



Breakdown of Clearing Activity By Value Through August 2009



As far as volume is concerned, the number of cleared checks attained 11.51 million in 2008, up from 10.68 million in 2003, posting a CAGR of 1.51% during the period. On the other hand, the total volume of returned checks skidded by a CAGR of 6.54% to 202,092 in 2008, down from 283,439 in 2003. This is further captured by the following table:

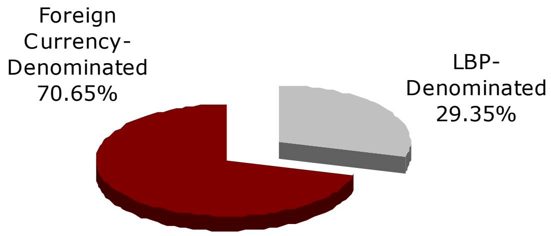
Volume of Check Clearing Activity

	2003	2004	2005	2006	2007	2008	Aug-09	CAGR (2003-2008)
LBP-Denominated	3,458,605	3,655,624	3,422,308	3,053,966	3,403,623	3,377,498	2,225,998	-0.47%
Returned LBP-Denominated	*64,833*	*66,719*	*64,869*	*69,844*	*51,246*	*54,135*	*32,412*	*-3.54%*
Foreign Currency-Denominated	7,217,267	7,322,711	7,388,245	6,933,212	7,390,866	8,129,088	5,786,811	2.41%
Returned Foreign Currency-Denominated	*218,606*	*186,754*	*186,796*	*221,986*	*151,666*	*147,957*	*106,798*	*-7.51%*
Total Cleared Checks	**10,675,872**	**10,978,335**	**10,810,553**	**9,987,178**	**10,794,489**	**11,506,586**	**8,012,809**	**1.51%**
Total Returned Checks	**283,439**	**253,473**	**251,665**	**291,830**	**202,912**	**202,092**	**139,210**	**-6.54%**

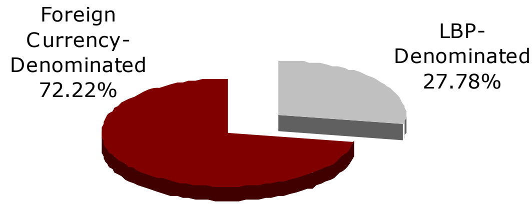
Source: BDL, ABL

Of the total volume of cleared checks in 2008, 29.35% were denominated in Lebanese Pound while the remaining 70.65% were denominated in foreign currencies.

Breakdown of Clearing Activity By Volume In 2008



Breakdown of Clearing Activity By Volume Through August 2009

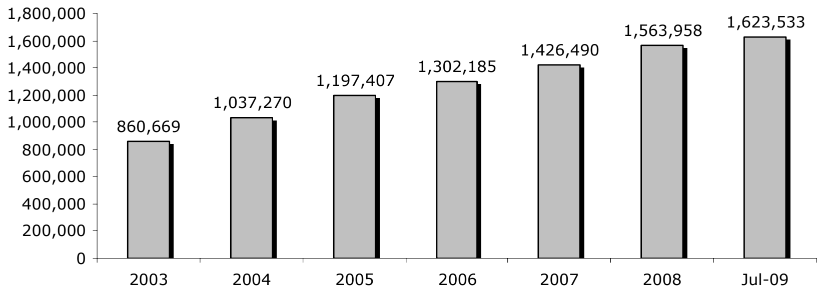


b) Payment Cards

Lebanese banks are renowned for their investments in state of the art technologies and for implementing the latest IT platforms in their quest to keep pace with the latest technological developments. Accordingly, Lebanese banks have continuously invested in electronic banking services (internet, mobile, WAP, TV and SMS banking, etc.) and succeeded in promoting the plastic cards (debit cards, credit cards, etc.) business in Lebanon. Plastic cards circulating in Lebanon include, but are not limited to, MasterCard, Visa and American Express.

According to BDL statistics, the number of payment cards in Lebanon (debit and credit cards) rose to 1,623,533 cards as at end of July 2009, up from 1,563,958 in 2008 and a mere 860,669 in 2003.

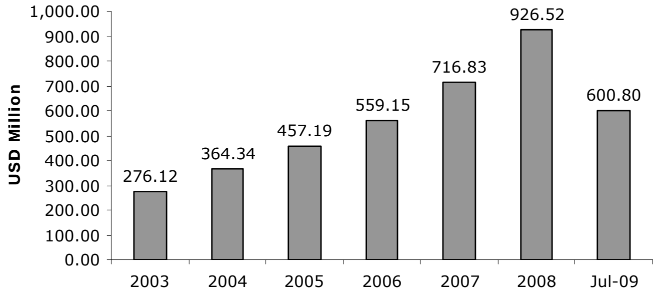
Evolution In The Number of Payment Cards



Source: BDL

Concurrently, the value of domestic card payments by residents advanced to $926.52 million in 2008 up from $716.83 million in 2007 and $276.12 million in 2003. The value of domestic card payments aggregated to $600.80 million in the first seven months of 2009.

Evolution of Domestic Card Payments By Residents



Lebanese banks opted to better serve their clientele through an extensive ATM network with the ultimate aim of shortening distances for customers willing to perform basic banking operations.

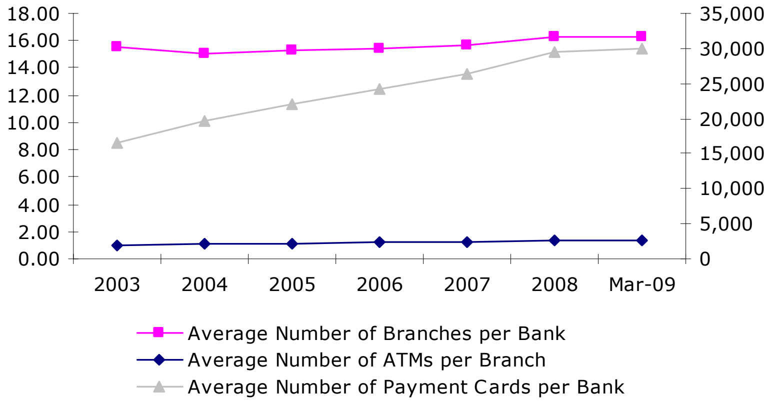
Accordingly, Lebanon's ATM network grew steadily in the last couple of years. The number of ATMs grew at a compounded annual growth rate (CAGR) of 7.91% to 1,140 machines in 2008, up from 779 machines in 2003, only to rise to 1,168 machines through July 2009 [91].

Three Major companies manage the ATM network in Lebanon namely International Payment Network (IPN), CreditCard Services Company (CSC) and Centre De Traitment Monétique (CTM).

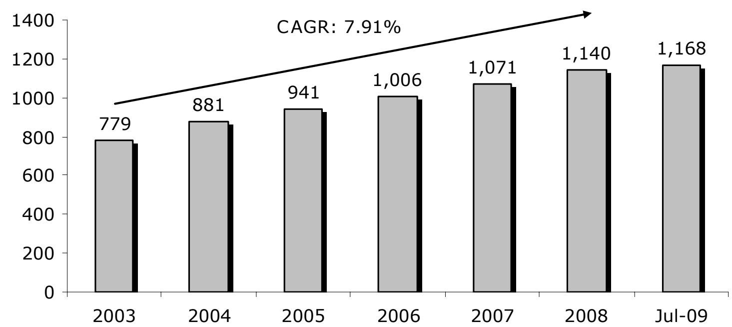
The growth in the ATM network streamlined with the increasing number of branches on the scale of around one ATM per branch as outlined by the following table:

	2003	2004	2005	2006	2007	2008	Mar-09
Number of Commercial Banks	52	53	54	54	54	53	53
o/w foreign banks	10	10	10	10	10	9	9
Number of Branches	809	799	825	830	847	860	862
o/w foreign branches	40	38	38	34	34	29	29
Number of ATMs	782	881	941	1,006	1,071	1,140	1,139
Number of Payment Cards	860,669	1,037,270	1,197,407	1,302,185	1,426,490	1,563,958	1,592,633
Number of Points of Sales Terminals	32,813	33,274	34,298	36,636	39,304	38,231	40,619
Average Number of Branches per Bank	15.56	15.08	15.28	15.37	15.69	16.23	16.26
Average Number of ATMs per Branch	0.97	1.10	1.14	1.21	1.26	1.33	1.32
Average Number of Payment Cards per Bank	16,551	19,571	22,174	24,115	26,416	29,509	30,050

Source: Banque Du Liban Quarterly Reports, Credit Libanais Research Unit

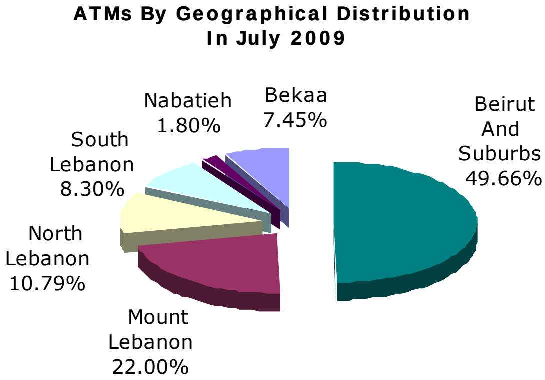


Evolution In The Number of ATMs



[91] Banque Du Liban

The geographical distribution of the ATM network reveals that the greater Beirut region continues to occupy the highest concentration, with some 580 machines, constituting alone 49.66% of Lebanon's total ATM network as at end of July 2009.

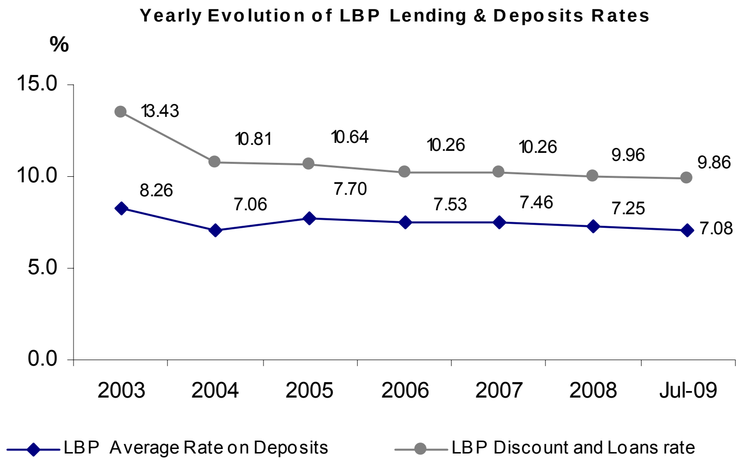


c) Interest Rate Environment

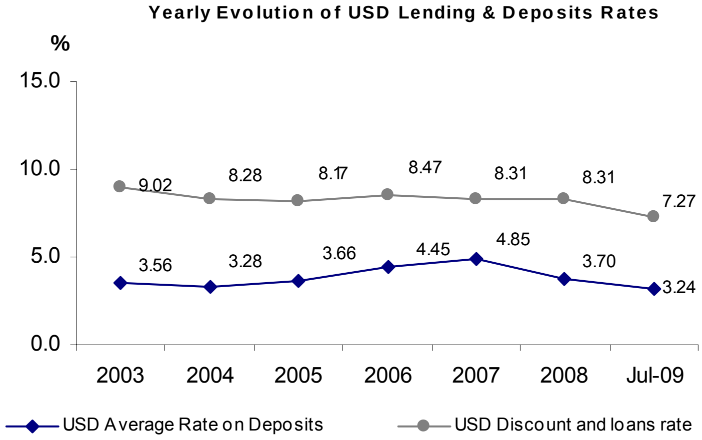
As outlined by the following table, interest rates on securities of various types and maturities have been on the decline since 2003. More particularly, the average interest rate on Lebanese Pound denominated deposits contracted to 7.08% in the first seven months of 2009, down from 7.25% in 2008 and 8.26% in 2003. Similarly, the average interest rate on U.S. Dollar denominated deposits fell to 3.24% up to July 2009 down from 3.70% in 2008, mimicking the global interest dampening trend and the successive rate cuts by the U.S. Federal Reserve to near zero levels. Commercial banks' discount and lending rate was no exception tumbling to 9.86% on LBP denominated loans in the first seven months of 2009, down from 9.96% in 2008 and 13.43% in 2003. This is further elaborated in the section on the following page [92]:

Lebanon's Average Interest Rates	2003	2004	2005	2006	2007	2008	Jul-09
LBP Average Rate on Deposits (LBP)	8.26	7.06	7.70	7.53	7.46	7.25	7.08
ISD Average Rate on Deposits (USD)	3.56	3.28	3.66	4.45	4.85	3.70	3.24
Term Saving and Deposits Rate (LBP)	8.69	7.37	8.15	7.98	7.97	7.70	7.42
Term Saving and Deposits Rate (USD)	4.00	3.67	4.05	4.93	5.37	4.15	3.65
Discount and Loans Rate (LBP)	13.43	10.81	10.64	10.26	10.26	9.96	9.86
Discount and Loans Rate (USD)	9.02	8.28	8.17	8.47	8.31	8.31	7.27

Source: Banque Du Liban

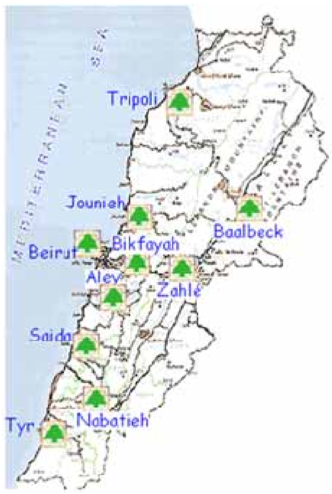


[92] Banque Du Liban



6) The Lebanese Central Bank

The Central Bank of Lebanon, BDL, was established under the umbrella of Decree No 13513 dated August 1963. The Central Bank is managed by a Governor assisted by 4 Vice Governors. The Central Bank of Lebanon has a total of 10 branches spread over: Beirut, Tripoli, Jounieh, Saida, Tyr, Nabatieh, Zahlé, Baalbeck, Aley and Bikfaya.



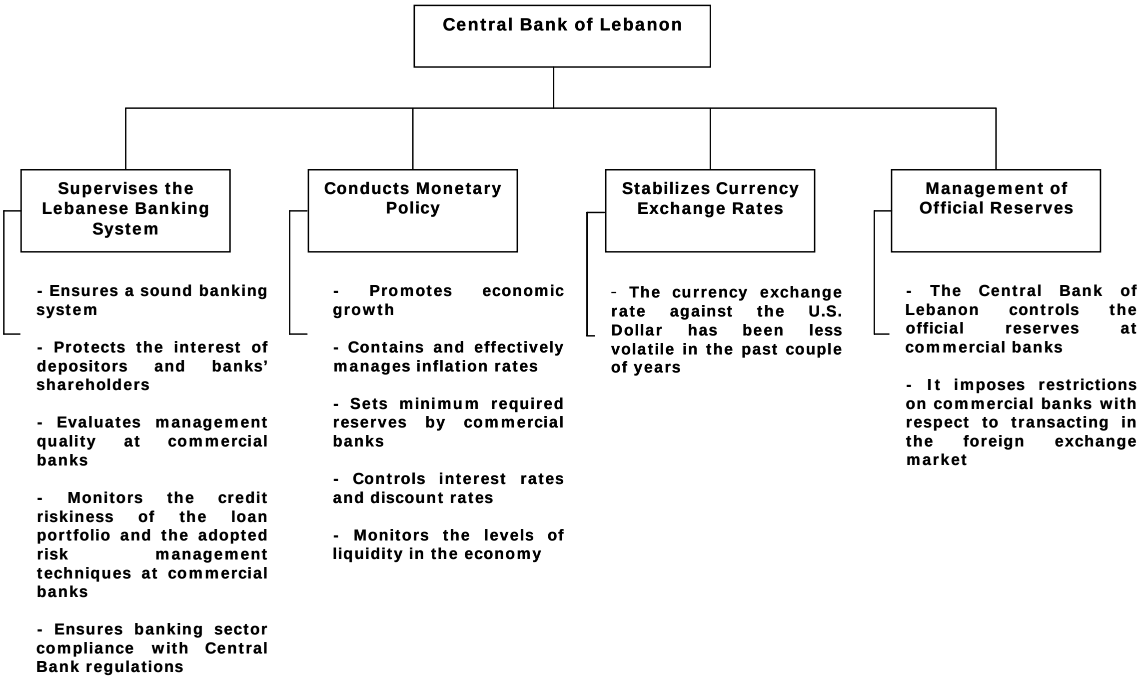
Source: Banque du Liban

a) The Role of the Lebanese Central Bank

The Central Bank utilizes a wide range of instruments, including reserve requirements on Lebanese Pound deposits with commercial banks, liquidity requirements on U.S. Dollar deposits with commercial banks and treasury bills repurchase and swap agreements with commercial banks as well as Lebanese Pound denominated certificates of deposits issued by the Central Bank.

The Central Bank provides a wide range of services for banks, financial institutions and the Lebanese government. The diagram on the following page highlights the principle functions of the Central Bank of Lebanon [93]:

[93] Banque Du Liban



b) Regulations Binding the Operations of Commercial Banks in Lebanon

Banking Activities in Lebanon are governed and construed by the code of Commerce, the code of Money and Credit and Central Bank decisions. Commercial banks operating in Lebanon should abide by the laws and regulations set forth by Banque Du Liban and the Banking Control Commission, which was established in 1967 to supervise banking activities [94]:

➢ *Reserve Requirements (Decision No 7835 dated June 2001)*
All banks, except investment banks and commercial banks extending medium and long term loans, must maintain a legal reserve requirement at the Central Bank of Lebanon calculated on the following basis:

- 25% of the weekly average of Lebanese Pound denominated demand deposits.
- 15% of the weekly average of Lebanese Pound denominated term deposits.

According to the Central Bank decision No 7694 dated 18 October 2000, commercial banks should maintain 40% of their free tier I capital in liquid assets.

According to the Central Bank decision No 7693 dated 18 October 2000, commercial banks should maintain a minimum of 10% of foreign currency deposits, debt securities, certificates of deposits and loans granted by the financial sector in liquid assets for a maturity of one year or less.

➢ *Capital Adequacy (Law No 6939 dated 25 March 1998)*
Over the period March 1995-March 1998, commercial banks were compelled to maintain a minimum capital adequacy ratio of 8%, in accordance with the requirements of the Basel I committee. In September 1999, the Central Bank required banks to raise their BIS capital adequacy ratio to 10% by December 31, 2000, and 12% by December 31, 2001. The Central Bank decision No 9302 dated April 1, 2006, compelled banks to start applying the Basel II norms for the calculation of their capital adequacy ratios effective starting January 2008.

[94] Credit Libanais Research Unit, Banque Du Liban

➢ *Reserves for Unspecified Risks (Decision No 7129 dated 15 October 1998)*

According to the Central Bank Circular 50, commercial banks are required to constitute reserves for unspecified risks, ranging between 0.2% and 0.3% p.a. in terms of risk weighted asset.

➢ *Credit Limit (Decision No 7055 dated August 1998)*

The Central Bank caps the loans to a single borrower at 20% of a bank's shareholders' equity.

c) Subsidies

In an endeavor to encourage lending and stimulate economic activity, the Lebanese Central Bank offers a range of subsidies that could attain 700 basis points on IFC, BEI, Kafalat and subsidized loans extended to the tourism, agricultural, industrial, handicrafts and information technology sectors. Furthermore, the Lebanese Central Bank issued in early 2009 intermediary circular 185 which weighs LBP financing more favorably by lowering the reserve requirements on LBP credit facilities by 60% during the 2009-2010 period, consenting commercial banks to exploit the recent dip in the deposit dollarization rate to 65.77% as at end of July 2009.

The following table depicts the various types of subsidized loans:

	Subsidized Loan	BEI Loan	IFC Loan	Kafalat Loan	
				Kafalat Basic	Kafalat Plus
Tenor	Up to 7 years	Up to 10 years	Up to 7 years	Up to 7 years	Up to 7 years
Grace Period	up to 2 years	up to 3 years	Up to 2 years	6 months-1 year	6 months-1 year
Size of Loan		€50,000-€10 million	\$50,000-\$2 million max: 80% of existing capital expenditures max: 40% of working capital	up to \$200,000	up to \$400,000
Maximum Interest	LBP : two-year T-bill yield + 1% USD: three-month Libor + 7%	BEI cost of funding + spread 50 basis points per annum + margin of 155 basis points	LBP: 40% of one-year T-bill yield + 3.85% USD: three-month Libor + 7%	LBP: 5.83% USD: 7.00%	LBP: 5.83% USD: 7.00%
Eligibility	Legal Entitty	Legal Entity	Legal Entity Registered since at least 3 years Profit in the last 2 years		S.A.L or S.A.R.L Debt/Equity not to exceed 70 / 30 Contribution of at least 20% of the project
Commission	No commission	No commission	on LBP : 2‰ every 3 months + 2.25% on ½ of the loan amount on USD: 2.25% on ½ of the loan amount	2.5% on 75% of the Loan	2.5% on 85% of the Loan
Risk Bearer	The Bank	The Bank	50%: IFC 50%: The Bank	75% Kafalat 25% The Bank	85% Kafalat 15% The Bank
Sectors	Agriculture Industry Tourism Handicrafts Specialized technology		Agriculture Industry Tourism Handicrafts Specialized technology Trade - not subsidized	Agriculture Industry Tourism Handicrafts Specialized technology	Agriculture Industry Tourism Handicrafts Specialized technology

Source: Credit Libanais Corporate Banking Department

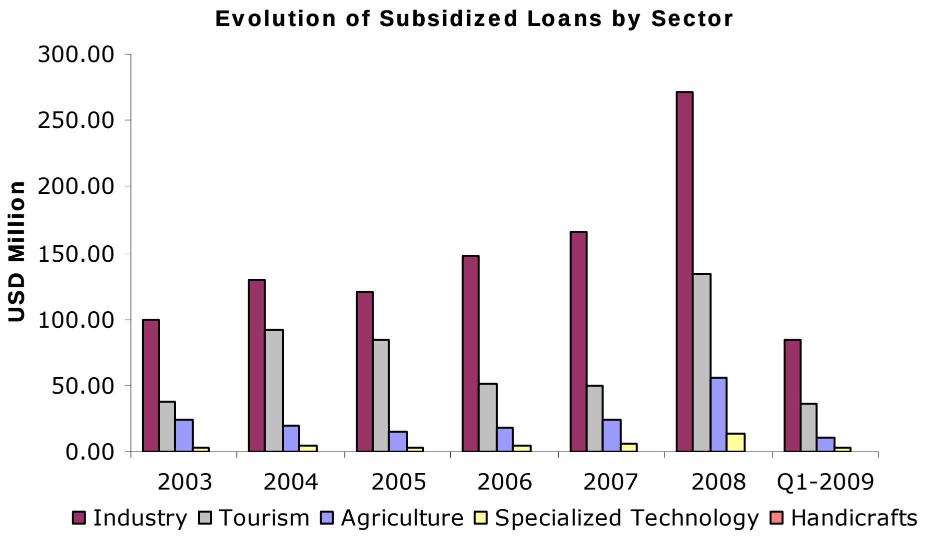
The subsidized loans' portfolio has grown at a compounded annual growth rate of 23.64% over the period extending between 2003 and 2008, reaching $474.89 million as at year end 2008 and $134.99 million in the first quarter of 2009 [95].

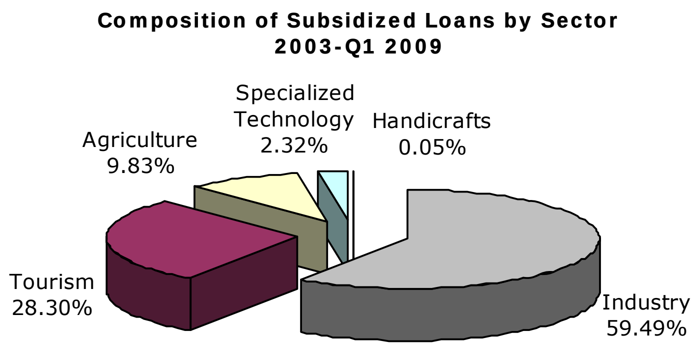
in Millions of USD	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**Q1-2009**
Industry	98.97	129.09	120.53	147.66	166.17	270.78	85.11
Tourism	37.15	91.54	83.85	51.01	50.15	134.33	36.35
Agriculture	24.41	19.70	15.12	18.37	24.81	55.72	10.15
Specialized Technology	3.65	5.04	3.18	3.98	6.70	14.06	3.12
Handicrafts	0.20	0.27	0.07	0.07	0.00	0.00	0.33
Total Subsidized Loans	**164.98**	**245.64**	**222.75**	**221.16**	**247.83**	**474.96**	**134.99**

Source: Banque Du Liban- Quarterly Report, Credit Libanais Research Unit

The breakdown of banking system subsidized loans and investments by sector reveals a heavy concentration in "Industrial" loans, constituting 59.49% of the total subsidized loans' portfolio during the period 2003-Q1 2009, followed by "Tourism", "Agriculture", and "Specialized Technology" sectors at respective rates of 28.30%, 9.83% and 2.32%.

The following chart depicts the distribution of banks' subsidized credits by sector during the period 2003-Q1 2009:





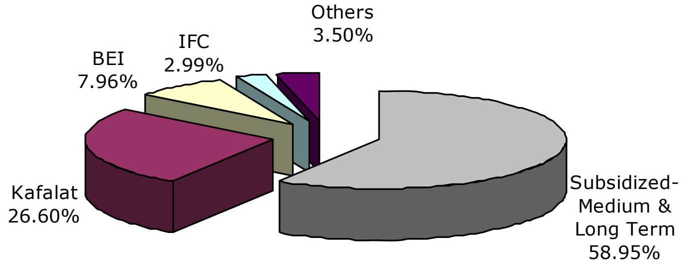
[95] Banque Du Liban Quarterly Bulletin

The following table and chart reflect the distribution of banks' subsidized credits by type of loan during the period 2003-Q1 2009:

in Millions of USD	2003	2004	2005	2006	2007	2008	Q1-2009
Subsidized-Medium & Long Term	92.67	138.18	165.51	166.10	131.41	239.80	75.75
Kafalat	53.07	62.35	50.95	48.36	86.70	124.58	29.52
BEI	10.61	37.61	1.99	2.99	19.04	51.41	12.67
IFC						38.28	12.87
Others	8.62	7.50	4.31	3.71	10.68	20.90	4.18
Total	**164.98**	**245.64**	**222.75**	**221.16**	**247.83**	**474.96**	**134.99**

Source: Banque Du Liban - Quarterly Report

Composition of Subsidized Loans by Type of Loan 2003-Q1 2009



It is worth noting in this context that Kafalat is a Lebanese financial company, owned by the National Institute for the Guarantee of Deposits (75%) together with fifty Lebanese banks (25%). The company helps small and medium sized enterprises (SMEs) by providing loan guarantees for economically viable business plans/ feasibility studies operating in the following sectors [96]:

- Industry
- Agriculture
- Tourism
- Traditional Crafts
- High Technology

Statistics released by the government-subsidized program "KAFALAT" reveal a sharp contraction in guarantees to 536 and 541 in 2005 and 2006 down from 2,669 and 3,396 in 2003 and 2004. This, however, comes as no surprise given the huge impact brought upon by the assassination of Mr. Rafik Hariri (2005) and the 2006 Israeli aggressions. Subsequently, and as economic activity started to kick in, the number Kafalat loans rose steadily to reach 908 in 2008 and 673 in the first eight months of 2009.

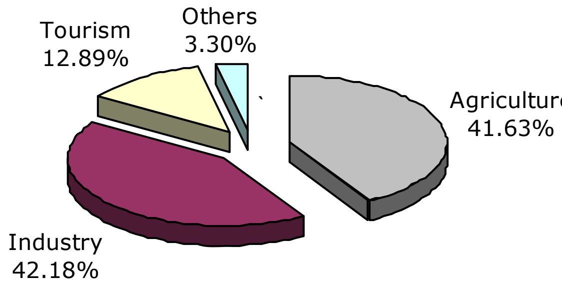
	2003	2004	2005	2006	2007	2008	Aug-09	Total
Agriculture	1,319	1,573	187	202	314	378	303	4,276
Industry	954	1,276	260	248	349	383	255	3,725
Tourism	237	345	75	73	79	117	80	1,006
Others	159	202	14	18	41	30	35	499
Total	**2,669**	**3,396**	**536**	**541**	**783**	**908**	**673**	**9,506**
Value of Guarantees (USD Million)	**190.44**	**263.16**	**52.82**	**50.55**	**92.87**	**126.17**	**88.84**	
Average Value per Guarantee (USD Million)	**0.07**	**0.08**	**0.10**	**0.09**	**0.12**	**0.14**	**0.13**	

Source: Kafalat

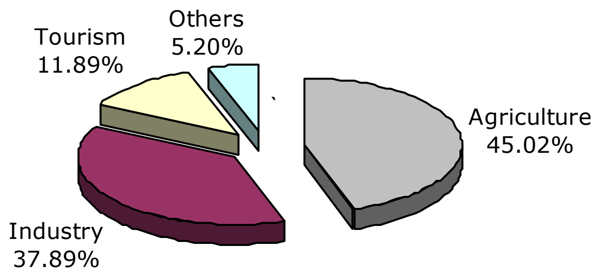
[96] Kafalat

The substantial (45.02%) majority of issued Kafalat loans was allocated over the Agricultural sector through July 2009, followed by the Industrial and Tourism sectors at respective stakes of 37.89% and 11.89%.

Breakdown of Kafalat Loans By Sector In 2008



Breakdown of Kafalat Loans By Sector Through August 2009



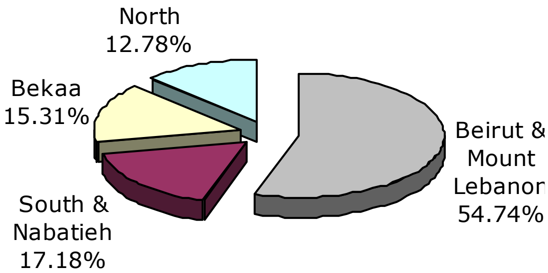
On the other hand, the breakdown of Kafalat loans by region unveils a heavy concentration in the "Beirut and Mount Lebanon" region, which accounted for a 52.60% stake of total Kafalat loans during the first eight months of 2009, followed by the "South and Nabatieh", "Bekaa", and "North" regions at respective rates of 19.17%, 15.16% and 13.08%.

This is further elaborated in the section on the following page:

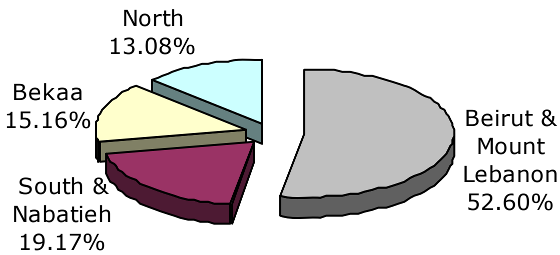
	2003	2004	2005	2006	2007	2008	Aug-09	Total
Beirut & Mount Lebanon	1,206	1,606	297	277	399	497	354	4,636
South & Nabatieh	831	954	84	78	139	156	129	2,371
Bekaa	408	530	106	107	164	139	102	1,556
North	224	306	49	79	81	116	88	943
Total	**2,669**	**3,396**	**536**	**541**	**783**	**908**	**673**	**9,506**

Source: Kafalat

Breakdown Of Kafalat Loans By Region In 2008



Breakdown Of Kafalat Loans By Region Through August 2009



d) Fighting Money Laundering

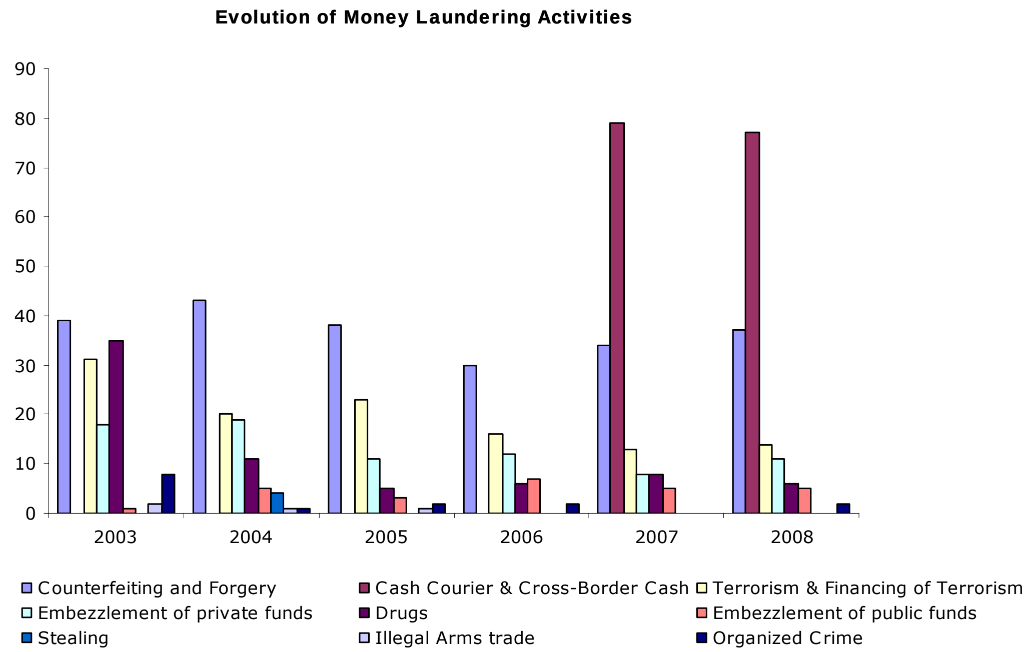
Money Laundering activities have widely expanded in the latest years on the back of the globalization trend which substantially increased the number of financial operations carried across the world. The Financial Action Task Force's (FATF), a 29 member international group that works to combat money laundering, placed Lebanon on the list of Non-Cooperating Countries and Territories (NCCT) to combat money laundering until early 2002 considering Lebanon's banking secrecy Law as an obstacle to fight money laundering activities. In the purpose of removing Lebanon from the NCCT list, the "Special Investigation Commission" (SIC) was established in April 2001 by passing a special law, "law number 318" dated April 20, 2001. The Commission has the exclusive right to lift banking secrecy for use by the competent authorities and the Higher Banking Commission. In June 2002, The FATF removed Lebanon from the List of Non-Cooperating Countries and Territories (NCCT), thanks to the procedures enacted by the government and the Lebanese Central Bank to control money flows within Lebanese banks.

Reports published by the Special Investigation Commission (SIC) show that the total number of suspected money laundering-related cases fell from 272 in 2003 to 226 in 2008, of which 69.03% were domestic cases and 30.97% foreign. Accordingly, the Lebanese judicial authorities ordered in 2008 the removal of banking secrecy on 67 of said cases [97].

The following section portrays the nature and evolution of investigated cases:

Nature of Cases	2003	2004	2005	2006	2007	2008
Counterfeiting and Forgery	39	43	38	30	34	37
Cash Courier & Cross-Border Cash	0	0	0	0	79	77
Terrorism & Financing of Terrorism	31	20	23	16	13	14
Embezzlement of private funds	18	19	11	12	8	11
Drugs	35	11	5	6	8	6
Embezzlement of public funds	1	5	3	7	5	5
Stealing	0	4	0	0	0	0
Illegal Arms trade	2	1	1	0	0	0
Organized Crime	8	1	2	2	0	2
Undefined	138	95	112	112	87	74
Total	**272**	**199**	**195**	**185**	**234**	**226**

Source: Special Investigation Commission



e) Central Bank's Balance Sheet

The following section exposes the evolution and breakdown of the Lebanese Central Bank's Balance Sheet over the period 2003-September 2009 [98]:

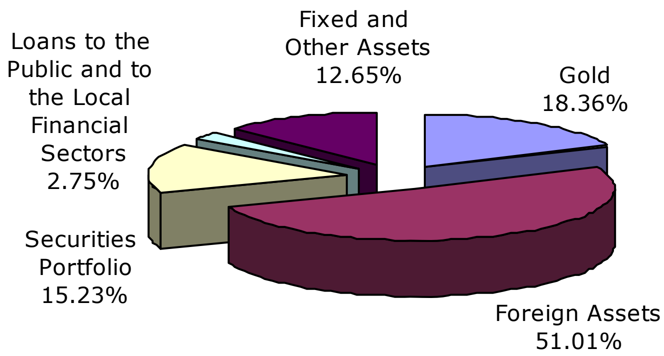
[97] Kafalat, [98] Banque Du Liban

In Millions of USD	2003	2004	2005	2006	2007	2008	Sep-09
Assets							
Gold	3,834	4,006	4,736	5,807	7,640	8,032	9,246
Foreign Assets	12,181	11,483	11,657	12,975	12,395	19,732	25,688
o/w Foreign Currency Reserves	10,197	9,494	9,845	10,207	9,778	17,062	22,012*
Securities Portfolio	6,447	7,421	7,963	6,539	6,207	6,570	7,669
Loans to Public Sector	204	302	301	295	269	240	209
Loans to Local Financial Sector	1,212	1,233	1,234	1,251	1,122	1,025	1,175
Valuation Adjustment	0	0	0	0	0	0	0
Other Assets	777	1,599	2,605	3,430	4,341	4,209	6,093
Fixed Assets	176	254	308	288	289	271	279
Total Assets	**24,831**	**26,298**	**28,805**	**30,585**	**32,262**	**40,079**	**50,359**
Liabilities							
Currency in Circulation Outside BDL	1,139	1,183	1,151	1,334	1,453	1,657	1,782
Financial Sector Deposits	20,800	21,655	22,726	22,188	22,804	28,227	36,234
Public Sector Deposits	1,123	1,910	2,577	1,900	2,231	4,640	4,588
Valuation Adjustment	428	247	923	2,073	2,017	2,389	3,669
Other Liabilities	71	43	355	1,780	1,955	1,567	2,524
Capital Accounts	1,270	1,260	1,072	1,310	1,801	1,599	1,562
Total Liabilities	**24,831**	**26,298**	**28,805**	**30,585**	**32,262**	**40,079**	**50,359**

* As At End of July, 2009

Source: Banque Du Liban

Breakdown of BDL's Assets As At September 2009



As depicted by the chart above, the bulk of the Central Bank's balance sheet is concentrated in foreign assets, which embrace foreign currency reserves along with an investment portfolio in foreign securities. BDL's foreign assets rose from $12.18 billion in 2003 to $25.69 billion in September 2009, moving in tandem with the sustained inflows of foreign capital into the country. Moreover, the increase in foreign assets in general, and foreign currency reserves in particular is directly proportional to the Central Bank's intervention to absorb the excess supply of U.S. Dollars as depositors are shifting into the higher yielding domestic currency.

The high level of foreign currency reserves, which constituted some 89.9% of Lebanon's foreign assets portfolio as at end of July 2009, fosters an increasing level of confidence in the economy and helps narrow the Pound's volatility. Furthermore, and according to the IMF Working Paper titled "Are Emerging Asia's Reserves Really

Too High?”, empirical evidence shows that shoring reserves contributes to a great extent to tightening spreads and consequently alleviating the debt burden. More particularly, the IMF paper deduces that a 100 basis points increase in the reserves/GDP ratio below a 49% threshold leads to 43 basis point drop in spreads.

The following table highlights some of the important reserve adequacy ratios in addition to their respective thresholds, beyond which accumulating reserves would not lead to any reductions in spreads, along with the spread elasticity, which determines the resulting drop in interest rate spreads for every 1% increase in the ratio.

Reserve Adequacy Ratio	Spread Elasticity	Threshold	Reserve Adequacy Benchmark [1]
Foreign Reserves/GDP	43%	49%	
Foreign Reserves/Months of Imports	33%	6.3 months	3 months
Foreign Reserves/M2 [2]	46%	28%	10-20% [3]
Foreign Reserves/Short Term Debt [4]	31%	125-534% [5]	100%

Source: IMF Working Paper: Are Emerging Asia's Reserves Really Too High?

(1) Minimum Required Level

(2) Measures resilience to outflows from an economy's banking system

(3) The benchmark range is set at 5-10% for countries with a flexible exchange regime and at 10-20% for countries with a fixed exchange regime, which is the case of Lebanon

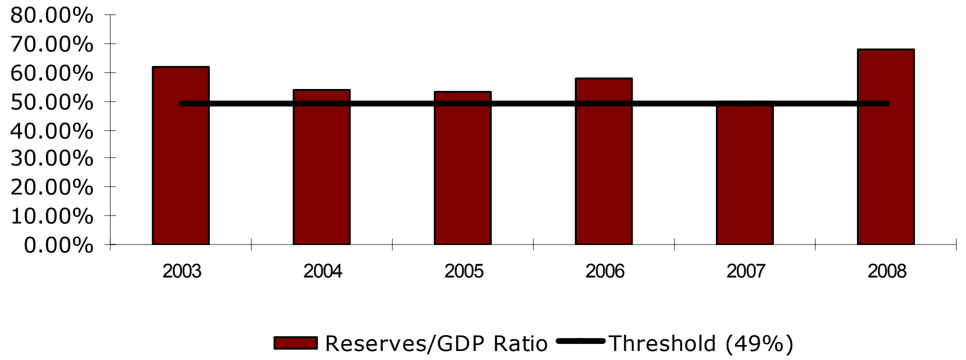
(4) Measures vulnerability to a capital account crisis

(5) The ratio should fall within the 125%-534% range if it were to have any impact on spread elasticity

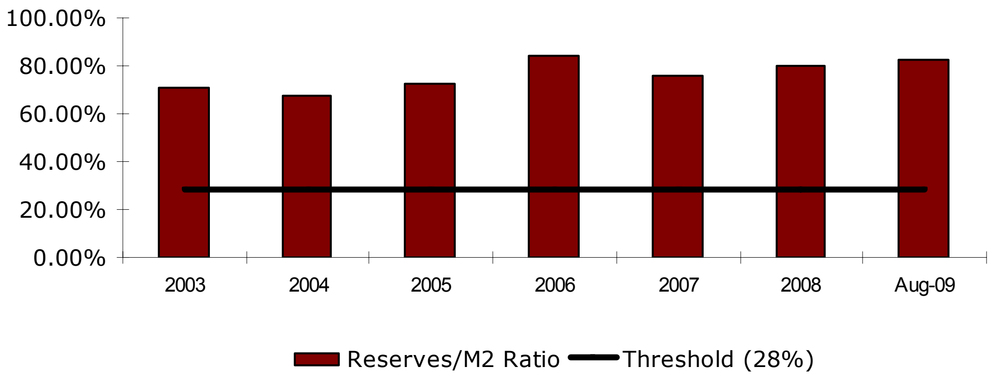
To illustrate an example from the above table and according to the IMF working paper, a country with a Foreign Reserves/M2 ratio below the 28% threshold, would benefit from a 0.46% drop in interest rate spreads for every 1% increase in the Foreign Reserves/M2 ratio.

The following table illustrates the adequacy of Lebanon’s reserves, by comparing reserve ratios to the maximum thresholds set by the IMF paper:

Lebanon's Reserves/GDP-Ratio Adequacy



Lebanon's Reserves / M2-Ratio Adequacy



As we can observe from the above charts, Lebanon's reserve adequacy ratios lie way above their respective thresholds, implying that, and according to empirical evidence, Lebanon may not be able to benefit from further accumulation of foreign reserves on the interest spread front. Moreover, the shoring up of reserves over the threshold at the Central Bank entails an opportunity cost equal to the difference between the return on capital and that on reserves.

Gold reserves, which reached $9.25 billion as at end of September 2009, tend to be moderately volatile given the fact that they are marked to market in accordance with the market price of the Gold commodity on international commodity markets. It is highly improbable, however, that the Central Bank will sell any of its gold reserves, to what of it represents of psychological confidence in the Lebanese Pound and to the fact that the Central Bank needs the approval of the Lebanese parliament before resorting to such an action.

Banque Du Liban's Reserves

Key Figures - USD Millions	2003	2004	2005	2006	2007	2008	Sep-09
Foreign Assets	12,181	11,483	11,657	12,975	12,395	19,732	25,688
o/w Foreign Currency Reserves	10,197	9,494	9,845	10,207	9,778	17,062	22,012*
Gold Reserves	3,834	4,006	4,736	5,807	7,640	8,032	9,246
Total Reserves	16,015	15,489	16,394	18,782	20,035	27,764	34,934

* As At End of July, 2009

Source: Banque Du Liban

7) Regional Expansion of the Lebanese Banking Sector

In the past couple of years, Lebanese banks looked for geographical diversification of branches outside the country on the back of the sluggish economy, saturated market and squeezed interest margins. Banks succeeded in obtaining licenses across the Middle East and North Africa region, from Algeria in the West to Iraq in the East. Lebanese banks reinforced their domestic positions and grew their balance sheets through sequential capital increases and local and regional acquisitions.

The underlying strategy was to exploit developing regional markets and reap the benefits of promising banking prospects in new markets, given the high liquidity overhang at domestic banks added the limited quality investment opportunities domestically.

The following table lists major foreign branches/ representative offices of Lebanese banks:

Name of the Bank	Foreign Branches / Representative Offices
Bank Audi s.a.l - Audi Saradar Group	Jordan, Syria, K.S.A., Egypt, Switzerland, France, Sudan, Qatar, U.A.E
BLOM Bank s.a.l	France, U.A.E, U.K., Romania, Switzerland, Syria, Egypt, Qatar, K.S.A.
Byblos Bank s.a.l	Cyprus, Iraq
BankMed s.a.l	Switzerland, Turkey, K.S.A., Cyprus
Banque Libano-Française s.a.l	France, Syria
Fransabank s.a.l	Syria
Bank of Beirut s.a.l	U.K. , Cyprus, Oman, Iraq, Nigeria
Credit Libanais s.a.l	Canada, Cyprus, Bahrain
Lebanese Canadian Bank s.a.l	Canada
BBAC s.a.l	Cyprus, U.A.E.
IBL Bank s.a.l	Brazil, Iraq
Jammal Trust Bank s.a.l	Egypt, U.K., Côte d'ivoire, Nigeria
Lebanon and Gulf Bank s.a.l	Cyprus

Source: Credit Libanais Research Unit

F. Financial Institutions

1) Overview

As at the end of 2008, the Lebanese financial institutions' market comprised some 48 institutions, up from 33 in 2006 and some 29 in 2004 [99].

Lebanese financial institutions' operations include, among other things [99]:

- Financial intermediation;
- Fiduciary operations;
- Establishment, management and marketing of mutual funds;
- Leasing operations;
- Real Estate management; and
- Issuing of financial securities

Lebanese financial institutions' main sources of funds include:

- Internal sources: capital, retained earning, reserves.
- External sources: Bond issues, long term loans, lines of credit from banks.
- Fiduciary sources

[99] Financial Markets Handbook

The following tables depict the consolidated balance sheet and income statement of financial institutions operating in Lebanon during the period 2003-July 2009 [100]:

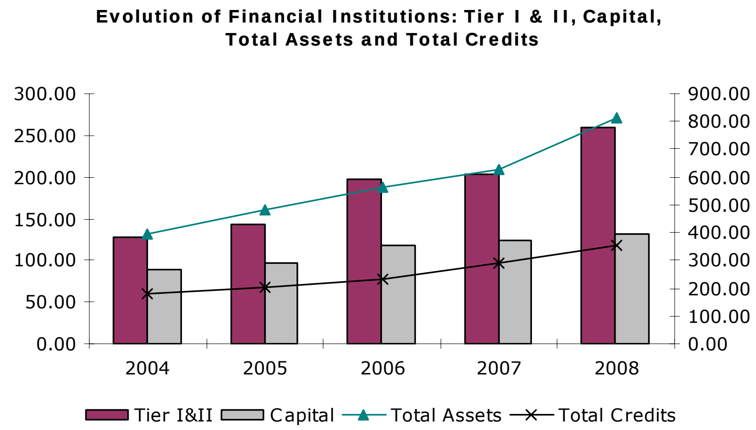
Financial Institutions Consolidated Balance Sheet							
In Millions of USD	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**Jul-09**
Assets							
Cash and Banks	118.38	119.97	148.95	195.80	179.02	248.36	266.62
Claims on private sector	188.80	211.74	232.12	260.98	333.11	412.14	425.12
Claims on public sector	33.39	48.15	85.94	84.17	90.88	130.80	126.27
Other items	20.25	14.57	14.05	24.77	24.61	23.69	30.70
Total Assets	**360.82**	**394.43**	**481.06**	**565.72**	**627.63**	**814.98**	**848.71**
Liabilities							
Liabilities to the private sector	74.39	86.34	80.41	113.23	100.99	150.81	151.63
Liabilities to the financial sector	130.63	131.42	199.11	196.03	262.14	350.16	360.59
Other financial liabilities	7.16	7.39	6.98	8.38	7.88	9.03	9.58
Capital Accounts	115.54	130.65	145.24	182.99	193.34	227.12	246.51
Other items	33.09	38.64	49.33	65.09	63.29	77.86	80.39
Total Liabilities	**360.82**	**394.43**	**481.06**	**565.72**	**627.63**	**814.98**	**848.71**

Source: BDL

The following section highlights key balance sheet items at Lebanese financial institutions during the period 2004-2008 [101]:

In Millions of USD	**2004**	**2005**	**2006**	**2007**	**2008**
Tier I & II	127.82	143.20	197.65	202.74	258.53
Capital	89.34	97.19	118.82	124.30	131.02
Total Assets	394.43	481.06	565.72	627.63	814.98
Total Credits	177.61	202.75	234.40	287.64	351.84

Source: Financial Markets Handbook , BDL



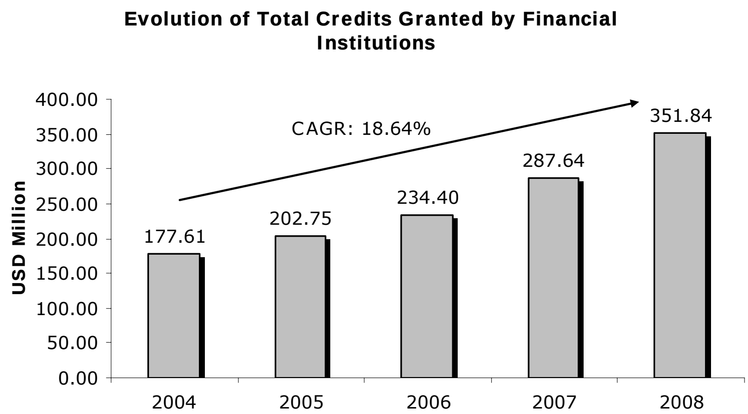
On the balance sheet front, total assets of Lebanese financial institutions expanded by a CAGR of 17.70% to $814.98 million in 2008, up from $360.82 million in 2003.

[100] Banque Du Liban, [101] Financial Markets Handbook

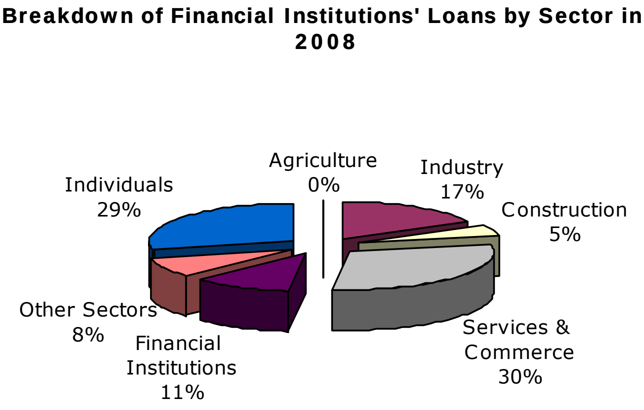
In Millions of USD	2004	2005	2006	2007	2008
Tier I & II / Total Assets	32.41%	29.77%	34.94%	32.30%	31.72%
Capital / Total Assets	22.65%	20.20%	21.00%	19.80%	16.08%
Total Credits / Total Assets	45.03%	42.15%	41.43%	45.83%	43.17%
Total Credits/ Tier I & II	138.96%	141.59%	118.59%	141.88%	136.10%
Total Credits / Capital	198.81%	208.60%	197.26%	231.41%	268.55%

Source: Financial Markets Handbook , BDL

As captured by the above tables, total credits extended by Lebanese financial institutions accumulated to $351.84 million in 2008 from $177.61 million in 2004. The loans to capital ratio stood at 268.55% in 2008 while the loans to total assets ratio decelerated to 136.10% down from 141.88% in 2007 and 138.96% in 2004.



The majority (30%) of the financial institutions' loan portfolio was allocated over the "Services & Commerce" sector in 2008, followed by loans to individuals (29%) and credits to the industrial sector (17%).



Financial Markets Handbook

On the income statement front, Lebanese financial institutions' profitability grew at 28.79% p.a. over the 2003-2007 period to $28.81 million as at end of 2007, significantly above the $10.47 million mark reached in 2003.

Financial Institutions Consolidated Profit & Loss Statement					
In Millions of USD	2003	2004	2005	2006	2007
Net profit from interest	16.48	12.55	21.94	25.27	27.66
Net profit from commission	17.59	22.35	32.22	32.30	32.08
Net income from financial operations	3.27	3.31	5.85	0.89	2.70
Revenues	57.71	69.85	94.50	104.75	111.69
Expenses	45.12	59.74	68.79	89.36	82.88
Net Profit	10.47	7.49	20.23	15.38	28.81

Source: Financial Markets Handbook

The following table sketches Key financial ratios for Lebanese financial institutions during the 2003-2007 period:

Key Financial Ratios					
In Millions of USD	2003	2004	2005	2006	2007
Expenses/Revenues	78.19%	85.52%	72.79%	85.31%	74.20%
Net profit/Capital	12.40%	8.38%	20.82%	12.95%	23.18%
Average Return on Assets (ROA)	2.96%	1.95%	4.05%	2.72%	4.59%
Average Return on Equities (ROE)	9.01%	5.86%	14.13%	8.52%	14.21%
Total Capital/Total Assets	23.90%	23.28%	20.19%	21.00%	19.78%
Total Credit/Total Assets	44.47%	46.28%	42.12%	41.43%	45.78%
Total Credit/Capital	186.08%	198.81%	208.60%	197.26%	231.41%

Source: Financial Markets Handbook

2) Activities

Following is a list of the major activities and services that can be offered by a Lebanese Financial Institution in accordance with the Lebanese Central Bank's set of laws and regulations (circulars No.29, 32, 36, 49, 2, 62, 67, 43, 93, 61, 71, 63, 66, 79, 83, 96, 111, 114, 115, 116, 118, 122, 123, 130, 137, 80, 157, 159, 162, 166, 169, 170, 171, 172, 175, 177 and 181) [102]:

- Fiduciary Operations: Lebanese financial institutions can act as a trustee under these set of conditions:

  - Tier I capital should not be less than $3,316,750 (LBP 5 billion).
  - Tier I capital should not fall below 5% of the total trust estate formed.
  - The institution should assign a special independent unit to complete fiduciary operations.

It is worth noting that Lebanese banks and financial institutions are allowed by fiduciary operations to invest part of their clients trust portfolios in certificates of deposits issued by Banque Du Liban.

- Establishing, managing and marketing of mutual funds: under which financial institutions must assign a special independent unit to carry out these operations in compliance with the "internal control system".

- Brokerage Operations: brokerage activities include intermediation on the Beirut Stock Exchange (BSE) for the benefit of the clients whose portfolios are managed

[102] Financial Markets Handbook, Credit Libanais Research Unit

by the financial institution.

- Loans, Investments & Participations: loans, investments and participations require the prior approval, on a case by case basis, of credit and investment committees as well as the review of the risk aspects of said loans and investments by the risk departments. Extended loans to an individual borrower should:
    - Not exceed 40% of the borrower's net financial fixed assets
    - Not exceed 5% of the financial institutions equity

- Small Loans: Small loans can be granted in Lebanese Pound to individuals or companies not exceeding 4 persons. These loans should be geared towards the development of productive investments or investments in tourism, trade and service-related industries. The amount of such loans should be capped at $6,633.5 (LBP 10 million) per individual loan, and should be repaid within a maximum of 3 years.

Financial institutions are prohibited from accepting or financing any kind of foreign debt and are restricted from granting lines of credit and opening debtor and creditor accounts denominated in LBP for a non-resident financial sector.

3) Laws & Regulations

Lebanese financial institutions are compelled to comply with all circulars and resolutions issued by the Lebanese Central Bank and related thereto. The section below lists the major requirements and binding regulations set forth by Banque Du Liban that govern the operations of Lebanese financial institutions [103]:

- Financial institutions must have a minimum paid up capital of LBP 2 billions ($1.326 million);
- All shares must be nominal shares
- Any transfer of shares representing more than 10% of total share ownership is subject to the prior consent of Banque Du Liban;
- Legal reserves requirements are set at 10% of annual profits;
- In case of losses, the institution should constitute its capital within a six-month period;
- Financial institutions can maintain foreign exchange trading position not exceeding a ratio of 5% of tier I capital, provided that the total foreign exchange position does not exceed 40% of tier I capital;
- In the event the financial institution is not directly or indirectly owned by a Bank, it can hold a credit FX fixed position, denominated in LBP, not exceeding 60% of its net Tier I capital;
- The financial institution must launch operations within a maximum period of 6 months from the approval date.

The following section highlights key restrictions binding the daily operations of a Lebanese financial institution:

- Not allowed to receive deposits;
- Not allowed to open financial securities or joint accounts between the financial

[103] Financial Markets Handbook, Banque Du Liban, Credit Libanais Research Unit

institution and its customers;
- Not allowed to merge the customer financial securities or accounts with its own accounts or those of a third party;
- Prohibited from engaging in trade and industry related activities (only credit, brokerage and fiduciary activities are allowed).

G. Telecommunications Sector

The Lebanese telecommunications sector is often labeled as "Lebanon's Oil" given the amount of revenues it generates to the treasury. In the first half of 2009, the Ministry's revenues totaled some $770 million, i.e. 55.4% of the $1.39 billion projected for the full year 2009 as stipulated by the 2009 Budget law.

In November 2008, and as a part of a major reform plan, the Lebanese Ministry of Telecommunications slashed various charges on land lines in endeavor to attract new subscribers to the landline network. The installation fee of a new land line was cut from LBP 212,000 ($140.63) to LBP 50,000 ($33.17) while the Integrated Services Digital Network (ISDN) installation and monthly subscription fees were slashed from LBP 200,000 ($132.67) and LBP 50,000 ($33.17) to LBP 75,000 ($49.75) and LBP 25,000 ($16.58) respectively. Furthermore, the night time charge of land line calls was reduced from LBP 49/minute ($0.0325) to LBP 28/minute ($0.0186) [104].

The following table captures some of the differences between old and new land lines' rates:

Land Line		
	Old Fees	**New Fees**
Installation fee	$140.63	$33.17
ISDN installation	$132.67	$49.75
ISDN monthly subscription	$33.17	$16.58
Night time per-minute rate	$0.03	$0.02
Per-minute rate	$0.13	$0.11

Source: Credit Libanais Weekly Market Watch

In February 2009, the Ministry of Telecommunications cut the prices for postpaid cards. Monthly subscriptions were cut by 40%, from $25 to $15, while the per-minute rates were no exception, lowered by 16% to $0.11 per minute from $0.13 previously. In addition, all fees for extra options including "waiting Call", "Call Divert" and "Clip" were reduced in the same context.

In April 2009, the Lebanese Ministry of Telecommunications introduced new cheaper pricing schemes on prepaid cards. More particularly, the prices of a one-month duration prepaid cards was significantly cut from $45 to $25, a substantial 44% reduction, with the per-minute cost slashed by 28% to $0.36, down from $0.50. Furthermore, the ministry took the proper measure to reorganize prepaid cards' distribution in an endeavor to halt black market selling activity and unify prices.

The tables on the following page portray some of the differences between old and new mobile rates for both postpaid and prepaid cards:

[104] Ministry of Telecommunications, Credit Libanais Weekly Market Watch

Postpaid Cards		
	Old Fees	**New Fees**
Monthly Subscription	$25.00	$15.00
Per-minute rate	$0.13	$0.11
Local SMS	$0.20	$0.09
International SMS	$0.30	$0.18
MMS	$0.60	$0.30
Clip+ Waiting Call + Call divert	$9.00	$5.00

Source: Credit Libanais Weekly Market Watch

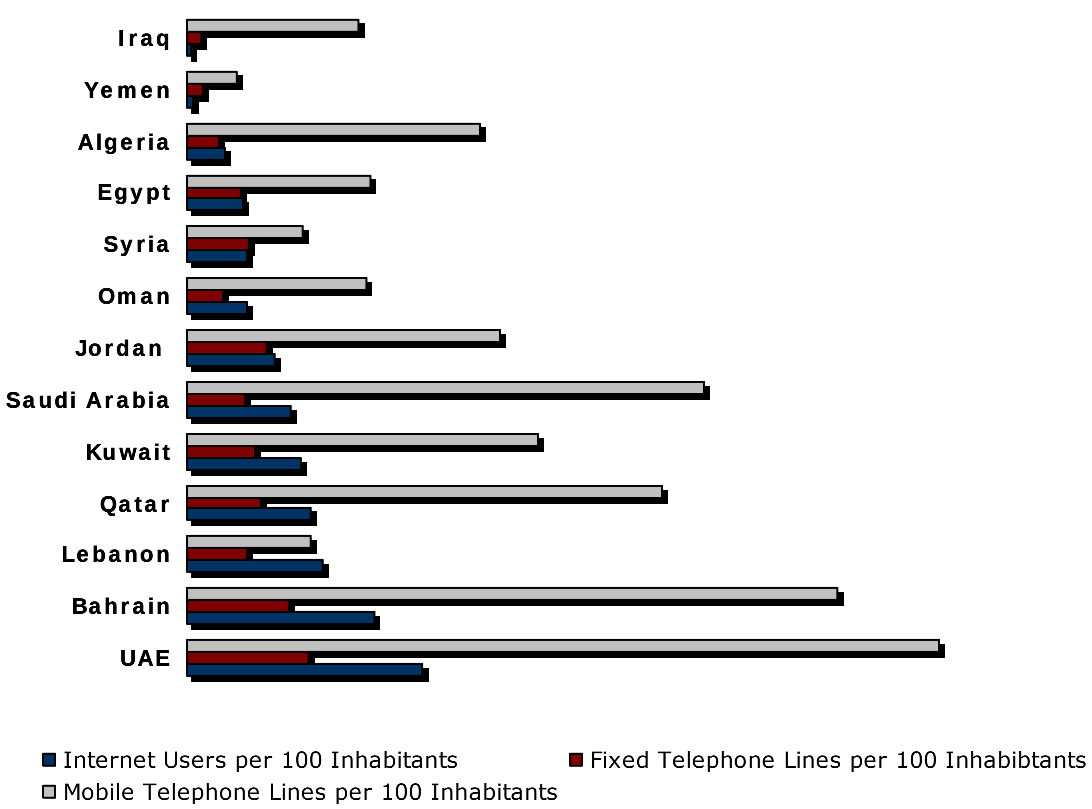
Prepaid Cards		
	Old Fees	**New Fees**
One-month duration	$45.00	$25.00
Per-minute rate	$0.50	$0.36

Source: Credit Libanais Weekly Market Watch

According to the Ministry of Telecommunication, said new policies are expected to spur market activity and raise the number of subscribers, which is expected to reach 3 million subscribers as at end of 2009.

On the statistical aspect and according to the International Telecommunications Union, Lebanon's penetration rate in the telecommunications sector included 37.72 internet users, 16.76 fixed lines and 34.1 mobile telephone lines per 100 inhabitants during the year 2008.

Information and Communication Technology Indicators for MENA Countries in 2008



Source: International Telecommunications Union, Executive Magazine

H. Automotive Sector

Lebanon's automotive sector is considered as one of the major contributors to the services' component of GDP. There is no local or international vehicle manufacturing or assembly plants in Lebanon. The vehicle market in Lebanon is divided into two markets: (a) the market for brand new vehicles sold through appointed distributors by the manufacturing companies and sub-dealers and (b) the market for used vehicles and trade-ins sold by individuals, used vehicle retailers and vehicle dealers. Vehicles in the Lebanese market are imported mainly from Europe, the United States, Korea and Japan and cover more or less all types of makes and models with certain exceptions such as the Mahindra, made in China.

Vehicles are divided into different types including: (i) luxury vehicles, (ii) economy vehicles, (iii) sedans, (iv) sport utility vehicles (SUV or 4x4 vehicles), (v) sports and grand tourism vehicles and (vi) commercial vehicles (minivans, vans, pick-ups, trucks, buses and minibuses).

It is worth noting that the Lebanese market evidenced a surge in the number of car leasing and rental companies in the past couple of years. This was marked by a boost in the number of leased cars as well as purchased cars under a leasing agreement.

Vehicle dealers generally require a down payment equivalent to a minimum of 15% of the value of the new vehicle. Most vehicle dealers also accept to trade-in an old vehicle as a down payment for a brand new vehicle. Vehicle dealers then undertake to resell the traded-in vehicle. The government imposed a law in 1992 forbidding the import of vehicles that are more than 8 years old from the date of manufacturing, which resulted in a considerable growth in the trade-in market.

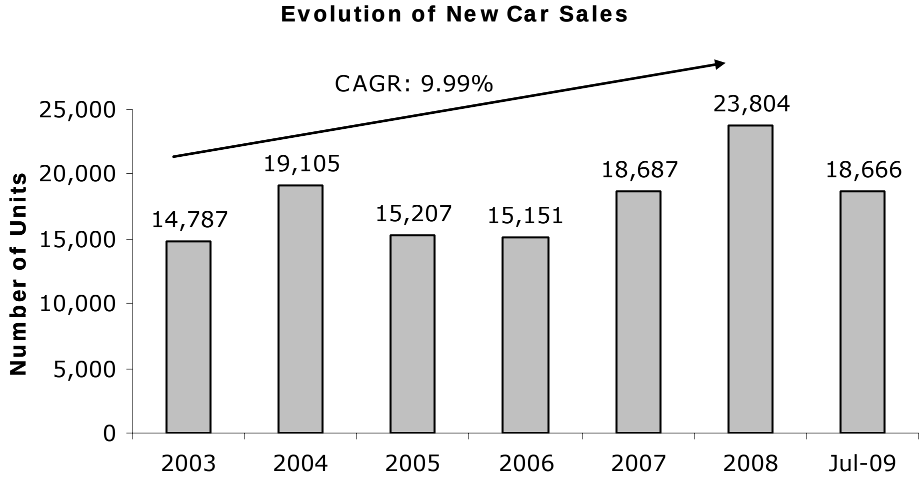
The spare parts market is growing in importance as more car owners opt to keep their vehicles longer. There are no spare parts manufacturers in Lebanon. Some auto companies re-export spare parts and accessories to countries like Nigeria, Saudi Arabia and the United Arab Emirates.

The number of vehicles in circulation has increased considerably over the last 20 years with more households possessing in excess of one vehicle.

The following table and chart depict the evolution of new car sales in units in Lebanon over the period 2003 – July 2009:

New Car Sales	2003	2004	2005	2006	2007	2008	Jul-09	CAGR 2003-2008
Number of Units	14,787	19,105	15,207	15,151	18,687	23,804	18,666	9.99%

Source: Association des Importateurs d'Automobiles au Liban



New car sales gained momentum starting year 2001, thanks to the introduction of credit facilities, financing schemes and the services of car leasing, which encouraged the low and the middle income segment to purchase new cars. The number of new cars sold increased from 14,787 cars in 2003 to a record high of 23,804 in 2008 and 18,666 as at end of July 2009. The growth in new car sales, however, was interrupted during the period 2005-2006 on the back of the turbulence in the economic and political environments.

Currently, over 30 appointed vehicle distributors operate in the new vehicle retail market in Lebanon. Some distributors have entered into agreements with one vehicle manufacturing company while others have entered into agreements with various manufacturing companies to satisfy all consumer tastes and preferences [105].

The following table highlights the distribution of new car sales, from 2003 to July 2009, by country of origin:

Manufacturing Country	2003	2004	2005	2006	2007	2008	Jul-09
Europe	47.41%	46.53%	42.75%	33.94%	27.91%	26.10%	26.14%
Japan	41.99%	37.10%	35.27%	41.61%	46.90%	45.84%	47.97%
Korea	7.37%	11.01%	14.32%	15.96%	17.30%	19.00%	18.05%
America	2.82%	5.04%	7.44%	8.14%	7.39%	8.71%	7.01%
China and Others	0.41%	0.31%	0.22%	0.35%	0.50%	0.34%	0.83%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Association des Importateurs d'Automobiles au Liban

I. Other Public Enterprises

1) The Beirut International Airport

The Beirut International Airport (BIA) is the only commercial operating airport in Lebanon. Management of the BIA is handled by the Directorate General of Civil Aviation (DGCA) which operates under the authority of the Ministry of Public Works and Transport. In 1994, a ten-year reconstruction program was launched for the rehabilitation and development of the airport at a cost of $450 million [106]. The Beirut International Airport is now considered as one of the top airports in the Middle East.

[105] Credit Libanais Research Unit, [106] Beirut International Airport

The Beirut airport freight activity has been on the rise lately and particularly over the last three years, rising to 67.62 million tons in 2008 from 62.29 million tons in 2003, at a CAGR of 9.15% over the 2006-2008 period. This is further illustrated in the following table:

Beirut International Airport							
	2003	2004	2005	2006	2007	2008	CAGR
Freight Activity(000 Tons)	65,674	62,080	62,294	56,758	60,606	67,618	0.59%
Total Passengers (000)	2,718	3,200	3,177	2,740	3,409	3,870	7.32%
Number of Planes	34,468	39,023	38,198	32,980	39,052	32,685 (1)	

(1) As at end of September 2008

Source: Beirut Airport - DataBank.infopro

2) The Beirut Port

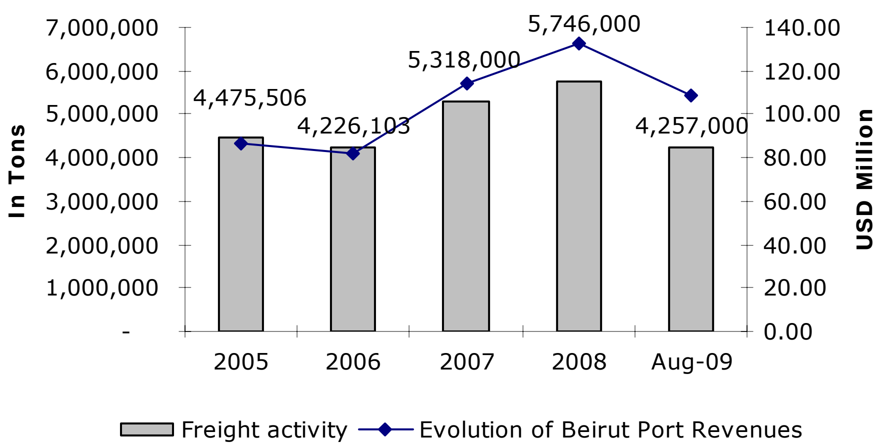
The Beirut port was opened in 1887 and operated by the "Gestion et Exploitation du Port de Beyrouth" (GEPB). Since the end of the war, a plan for the reconstruction and expansion of the Beirut port was set with the endeavor of accelerating its activity.

The Beirut port freight activity rose at a CAGR of 8.68% to 5.746 million tons in 2008, from 4.476 million tons in 2005. Freight activity stood at 4.26 million tons through August 2009. The number of vessels dropped from 2,229 in 2005 to 2,055 in 2008 and hit 1,612 vessels in the first eight months of 2009. Beirut port revenues have been accumulating steam at a CAGR of 29.07% since 2005 to $132.55 million by year-end 2008. This is further illustrated in the following table [107]:

	2005	2006	2007	2008	Aug-09	CAGR
Freight Activity(000 Tons)	4,476	4,226	5,318	5,746	4,257	8.68%
Number of Vessels	2,229	1,829	2,187	2,055	1,612	
Number of Imported Cars	36,885	34,343	47,644	96,850	64,898	37.96%
Number of Containers	464,976	594,601	947,265	861,931	680,913	22.84%
Revenues($Million)	86.34	82.05	113.91	132.55	108.26	15.36%

Source: Beirut Port

Beirut Port Activity



[107] Beirut Port

V. The Beirut Stock Exchange

A. Description of Existing markets

The Beirut Stock Exchange (BSE) is divided into three distinct markets, depending on the size of the capital of the company whose shares are publicly traded. The following sub-markets exist in the Beirut Stock Exchange [108]:

- An Official Market: eligible for companies with a paid-up capital in excess of USD 3 million (in Lebanese Pound equivalent) and a minimum of three years of operations. The BSE requires companies aiming to be listed on the official market to float at least 25% of their shares to the public, and to limit ownership of traded shares to at least 50 shareholders. It is worth noting that in the event the listed company is a bank, the minimum requirement of publicly traded shares rises to one third (33.33%) of the bank's issued shares.

- A Junior Market: Which is more convenient for companies with a paid-up capital in excess of USD 1 million (in Lebanese Pound equivalent). The BSE also requires companies wishing to be listed on the junior market to float at least 25% of their shares to the public, and limit ownership of traded shares to at least 50 shareholders.

- An Over The Counter (OTC) Market: Suitable for companies with a paid-up capital in excess of USD 100,000 (in Lebanese Pound equivalent).

As far as the clearing activity is concerned, the Lebanese Central Bank established MIDCLEAR s.a.l in 1994, acting in its capacity as the official clearinghouse for all trading activities that take place on the Beirut Stock Exchange. The company acts as a central depository, settlement and clearing agent for listed companies. Furthermore, it acts as a central depository for commercial banks in Lebanon, pursuant to Law 308 / 2001, whereby proofs of ownership, trading, transfers, share pledges, and the institution of security interests and other rights over the bank's shares are all affected through the records of MIDCLEAR.

B. Listed Companies

Following is an exhaustive list of the companies whose shares are currently traded on the Beirut Stock Exchange's Official market, by sector and number of shares outstanding:

Real Estate Stocks	Listed Shares	Total Shares	% Shares Listed
Solidere "A"	100,000,000	100,000,000	**100.00%**
Solidere "B"	65,000,000	65,000,000	**100.00%**

[108] The Beirut Stock Exchange

Manufacturing Stocks	Listed Shares	Total Shares	% Shares Listed
Holcim Liban	19,516,040	19,516,040	**100.00%**
Ciment Blancs Bearer	6,000,000	6,000,000	**100.00%**
Ciment Blancs Nominal	3,000,000	3,000,000	**100.00%**
Uniceramic Nominal "A"	4,290,000	4,290,000	**100.00%**
Uniceramic Bearer "C"	8,580,000	8,580,000	**100.00%**

It is worth noting that the Beirut Stock Exchange announced that trading and pricing of Uniceramic's "Nominal A" and "Bearer C" shares were suspended on September 18, 2009 on the back of the company's bankruptcy.

Banking Stocks	Listed Shares	Total Shares	% Shares Listed
BLC "C" Shares	50,900,000	152,700,000	**33.33%**
Banque Audi Listed Shares	34,189,389	34,189,389	**100.00%**
Banque Audi GDR	9,829,902	9,829,902	**100.00%**
Bank Audi Preferred "D"	1,250,000	1,250,000	**100.00%**
Bank Of Beirut "C" Shares	14,949,792	44,849,375	**33.33%**
Bank Of Beirut Preferred "C"	2,920,000	2,920,000	**100.00%**
Bank Of Beirut Preferred "D"	4,000,000	4,000,000	**100.00%**
Byblos Bank "C" Shares	217,112,557	217,112,557	**100.00%**
Byblos Bank Preferred Class 2008	2,000,000	2,000,000	**100.00%**
Byblos Bank Priority Shares	206,023,723	206,023,723	**100.00%**
BEMO Bank-Listed shares	5,400,000	16,000,000	**33.75%**
BEMO Bank Preferred Shares	200,000	200,000	**100.00%**
BLOM Bank GDR	7,389,601	7,389,601	**100.00%**
BLOM Bank Listed Shares	21,500,000	21,500,000	**100.00%**
BLOM Bank Preferred "2004"	750,000	750,000	**100.00%**
BLOM Bank Preferred "2005"	1,000,000	1,000,000	**100.00%**

Investment Funds	Listed Shares	Total Shares	% Shares Listed
Beirut Preferred Fund	325,756	325,756	**100.00%**

Source: The Beirut Stock Exchange, Credit Libanais Research Unit

As for the Over the Counter Market (OTC), Byblos Bank GDR is the only listed stock with 1,033,042 outstanding shares.

C. Trading Mechanism

The Beirut Stock Exchange-Official market adopted a continuous trading system since late October 2000. The current trading mechanism can be described as follows [109]:

- A *pre-opening stage* from 9:00 a.m. until 9:30 a.m. during which the fixing price will be construed as the opening price for the continuous trading stage;

- An *opening auction stage* which runs at 9:30 a.m. during which orders for financial instruments are matched by the BSE.

- A *continuous trading stage* starting from 9:30 a.m. until 12:30 p.m.

- A closing stage, scheduled at 12:30 p.m. during which the market reveals the closing prices for each traded stock based on placed and executed orders made throughout the trading sessions.

[109] The Beirut Stock Exchange, Credit Libanais Research Unit

It is worth noting that the current imposed limits on daily price fluctuations are set at 10% for upward price movements and 10% for downward price movements, with room for increasing the permissible daily price fluctuations to ±15%% for "Solidere" shares only .

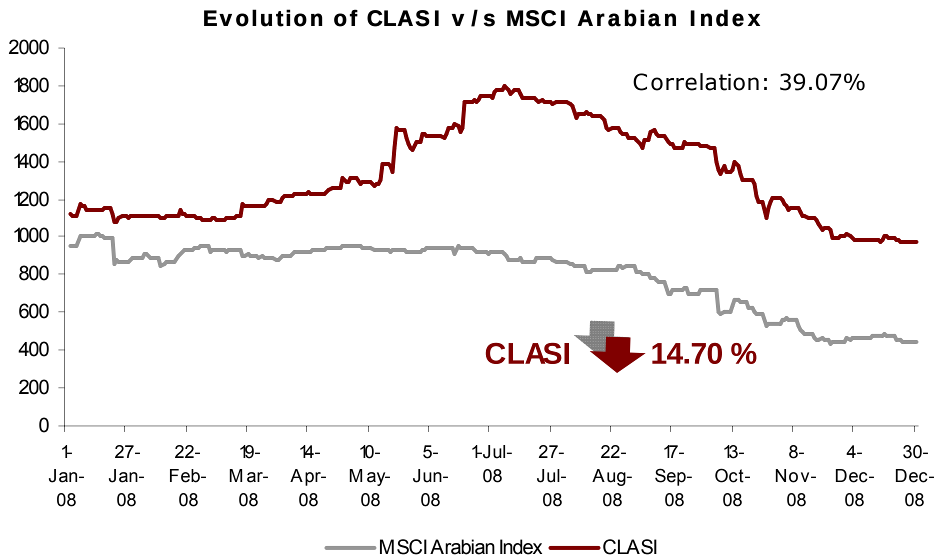
D. Performance of the Beirut Stock Exchange in 2008

The Lebanese economy experienced mixed fortunes during 2008 on the back of a varied level of political stability coupled with a roller-coaster trend adopted by global equity and commodity markets. The first part of the year, extending to May, witnessed escalating political tensions which peaked during the military clashes between different Lebanese factions in the first half of May.

The Doha accord in May, however, came to put an end to the military clashes and organize political turmoil. The Doha accord was followed by the election of a consensus President and by the formation of a national unity government, restoring as such political stability and confidence in the economy. Consequently, the Lebanese stock market gained some stimulus, with the Credit Libanais Aggregate Stock Index (CLASI) hitting its record high of 1,801.01 points on July 7, 2008.
The month of September was earmarked by the start of the global financial crisis that plagued several international banking systems across the globe and stirred a wave of bankruptcy filings. This has dragged global equity and commodity markets in a precipitous slide and pushed major world economies into recessionary periods despite several global multi-billion dollar bailout plans. The Lebanese equity market moved in tandem with global equity markets, with the Credit Libanais Aggregate Stock Index submerging below the 1,000 level to a year-low of 973.53 on December 15, 2008.

Indices Performance

	Inception Date	Inception Value	Value on January 1, 2008	Value on December 31, 2008	% Change in 2008	% Change since Inception	Year High	Year Low	All Time High	All Time Low
Credit Libanais Aggregate Stock Index	Oct-06	1,000	1,143.80	975.63	-14.70%	-2.44%	1,801.01	973.53	1,801.01	861.93
Credit Libanais Financial Sector Stock Index	Oct-06	1,000	1,125.35	1,036.49	-7.90%	3.65%	1666.64	1,035.67	1,666.64	869.14
Credit Libanais Construction Sector Stock Index	Oct-06	1,000	1,169.93	855.93	-26.84%	-14.41%	1948.82	848.11	1,948.82	806.41

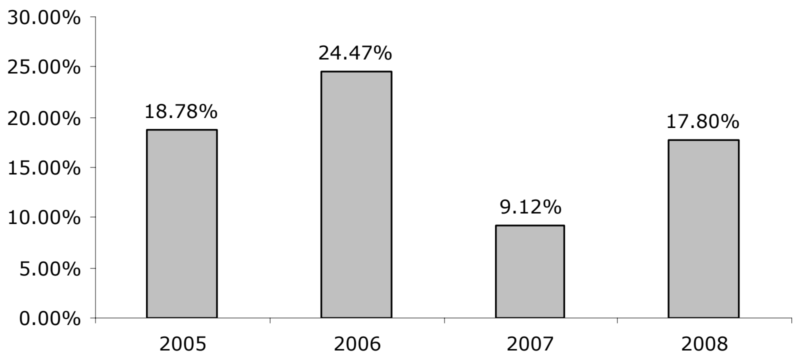


Trading activity watered down in 2008 with 105.52 million shares changing hands, in comparison with 114.24 million shares in 2007. Value traded, however, rose markedly to $1.71 billion up from $993.80 million in 2007. Nevertheless, the performance of the BSE over the period 2005-2008 remained sluggish as portrayed by the shy ratio of value traded/market capitalization which hovered between 18.78% in 2005 and 17.80% in 2008 [110].

	2005	2006	2007	2008	Y-o-Y % Change
Total Traded Volume (000)	89,744	134,847	114,238	105,518	-7.63%
Total Traded Value ($ 000)	923,420	2,031,885	993,797	1,710,415	72.11%
Market Capitalization ($ million)	4,917	8,304	10,894	9,609	-11.80%

Source: The Beirut Stock Exchange, Credit Libanais Research Unit

Evolution of Value Traded / Market Capitalization



The following table captures the performance of listed stocks on the Beirut Stock Exchange during the year 2008:

LEBANESE EQUITIES

	Closing	%change	High	Low	Yearly Volume Traded (000)	Yearly Value Traded (000)	Total Outstanding Shares (000)	Market Capitalisation ($ million)
BEIRUT STOCK EXCHANGE								
Solidere A	$16.54	-27.61%	$40.00	$16.15	30,088	850,389	100,000	$1,654
Solidere B	$16.70	-27.36%	$39.93	$16.25	13,836	404,578	65,000	$1,086
BLC "C"	$1.90	-74.63%	$7.50	$1.37	36,346	55,624	50,900	$97
Banque Audi Listed Shares	$52.00	-25.71%	$98.00	$52.00	913	72,082	34,189	$1,778
Banque Audi GDR	$53.45	-30.58%	$105.00	$53.45	1,180	103,056	9,830	$525
Bank Audi Preferred "C"	$25.25	-3.99%	$27.25	$25.00	157	3,991	4,000	$101
Bank Audi Preferred "D"	$100.00	-1.38%	$105.50	$100.00	48	4,914	1,250	$125
Bank Of Beirut "C"	$18.25	50.83%	$18.50	$11.55	1,636	24,463	13,536	$247
Bank Of Beirut Preferred "B"	$12.10	5.22%	$12.10	$11.50	618	7,399	3,000	$36
Bank Of Beirut Preferred "C"	$25.50	2.62%	$25.65	$24.85	165	4,196	2,920	$74
Bank Of Beirut Preferred "D"	$25.25	1.00%	$25.30	$25.00	96	2,414	4,000	$101
Byblos Bank "C"	$1.60	-27.60%	$3.23	$1.58	9,965	23,601	217,113	$347
Byblos Bank Preferred	$104.00	-0.10%	$105.20	$101.00	26	2,671	1,000	$104
Byblos Bank Preferred Class 2008	$97.90	-2.10%	$100.00	$97.90	6	631	2,000	$196
Byblos Bank Priority	$1.64	-25.45%	$3.10	$1.54	5,760	14,102	206,024	$338
BEMO Bank-Listed shares	$4.83	9.77%	$5.00	$4.00	429	2,003	5,400	$26
BEMO Bank Preferred	$100.00	-1.96%	$102.00	$100.00	33	3,350	200	$20
BLOM Bank GDR	$72.85	-18.24%	$109.90	$66.05	884	83,682	7,390	$538
BLOM Bank Listed Shares	$74.75	-11.01%	$100.00	$70.00	268	23,024	21,500	$1,607
BLOM Bank Preferred "2002"	Delisted	-	$102.00	$102.00	1	122		
BLOM Bank Preferred "2004"	$101.00	-0.20%	$103.00	$100.70	58	5,917	750	$76
BLOM Bank Preferred "2005"	$101.70	0.49%	$101.70	$101.20	23	2,372	1,000	$102
RYMCO	$2.10	40.00%	$2.10	$1.50	2,190	3,904	10,920	$23
Holcim Liban	$15.93	-20.39%	$25.10	$14.50	276	5,547	19,516	$311
Ciment Blancs Bearer	$2.09	10.00%	$2.15	$1.90	206	403	6,000	$13
Ciment Blancs Nominal	$1.90	0.00%	$1.90	$1.90	5	10	3,000	$6
Uniceramic Nominal "A"	$0.11	0.00%	$0.11	$0.11	234	26	4,290	$0
Uniceramic Bearer "C"	$1.70	0.00%			-	-	8,580	$15
Beirut Global Income	Delisted	-	$105.50	$101.00	7	723		
Beirut Preferred Fund	$100.20	0.10%	$104.50	$100.00	30	3,001	326	$33
Beirut Lira Fund (LBP)	Delisted	-	106,000	101,700	12	1,239,377		
Beirut Golden Income (LBP)	112,200	2.47%	112,200	102,000	20	2,110,258	410	46,002

[110] The Beirut Stock Exchange

The Lebanese Stock Exchange was the best performing bourse among major Arab stock exchanges in 2008 with the Bahrain and Kuwait stock markets ranking second and third respectively. This is further elaborated by the following table [111]:

PERFORMANCE OF REGIONAL STOCK MARKET INDICES

Country	Index	End of 2008	Beginning of 2008	Net Change	% Change
Lebanon	**.CLASI**	**975.63**	**1,143.80**	**(168.17)**	**-14.70%**
Bahrain	.BAX	1,804.07	2,743.87	(939.80)	-34.25%
United Arab Emirates	.ADX	2,281.86	4,671.01	(2,389.15)	-51.15%
Saudi Arabia	.TASI	3,170.95	9,221.29	(6,050.34)	-65.61%
Kuwait	.KWSE	7,782.60	12,507.70	(4,725.10)	-37.78%
Oman	.MSI	5,441.12	9,179.64	(3,738.52)	-40.73%
Egypt	.CCSI	1,573.11	3,474.07	(1,900.96)	-54.72%

Source: Reuters, Credit Libanais Research Unit

E. Performance of the Beirut Stock Exchange in 2009

1) Analysis of trading activity Through August 2009

The following table sketches the activity spotted on the Beirut Stock Exchange – Official market, during the first eight months of 2009 (January through August):

Banking Stocks	Traded Volume	Traded Value	Currency	Avg. Traded Vol./Day	Avg. Traded Val./Day
BLC "C"	1,638	3,395	USD	10	21
Banque Audi Listed Shares	409,471	21,594,979	USD	2,528	133,302
Banque Audi GDR	281,347	14,372,009	USD	1,737	88,716
Bank Audi Preferred "C" - Delisted -	6,262	161,559	USD	39	997
Bank Audi Preferred "D"	26,712	2,678,194	USD	165	16,532
Bank Of Beirut "C"	27,838	507,786	USD	172	3,134
Bank Of Beirut Preferred "C"	42,520	1,103,545	USD	262	6,812
Bank Of Beirut Preferred "D"	72,400	1,843,335	USD	447	11,379
Byblos Bank "C"	56,684,119	97,088,698	USD	349,902	599,313
Byblos Bank Preferred - Delisted -	6,068	619,106	USD	37	3,822
Byblos Bank Preferred Class 2008	37,460	3,633,589	USD	231	22,430
Byblos Bank GDR (OTC Market)	4,144	367,873	USD	26	2,271
Byblos Bank Priority	2,025,451	3,647,383	USD	12,503	22,515
BEMO Bank-Listed shares	1,107,126	4,879,193	USD	6,834	30,118
BEMO Bank Preferred	1,500	141,850	USD	9	876
BLOM Bank GDR	370,262	25,052,368	USD	2,286	154,644
BLOM Bank Listed Shares	329,861	20,705,744	USD	2,036	127,813
BLOM Bank Preferred "2004"	19,385	1,955,178	USD	120	12,069
BLOM Bank Preferred "2005"	24,000	2,443,130	USD	148	15,081
Total	**61,477,564**	**202,798,914**	**USD**	**379,491**	**1,251,845**

Source: The Beirut Stock Exchange

Manufacturing Stocks	Traded Volume	Traded Value	Currency	Avg. Traded Vol./Day	Avg. Traded Val./Day
Holcim Liban	88,460	1,148,580	USD	546	7,090
Ciment Blancs Bearer	6,680	14,028	USD	41	87
Ciment Blancs Nominal	0	0	USD	0	0
Uniceramic Nominal "A"	70,394	4,224	USD	435	26
Uniceramic Bearer "C"	229,500	22,950	USD	1,417	142
Total	**395,034**	**1,189,782**	**USD**	**2,438**	**7,344**

Source: The Beirut Stock Exchange

[111] The Beirut Stock Exchange, Reuters

Real Estate Stocks	Traded Volume	Traded Value	Currency	Avg. Traded Vol. / Day	Avg. Traded Val. / Day
Solidere "A"	15,859,665	343,057,278	USD	97,899	2,117,638
Solidere "B"	7,231,650	143,422,345	USD	44,640	885,323
Total	**23,091,315**	**486,479,623**	**USD**	**142,539**	**3,002,961**

Source: The Beirut Stock Exchange

Investment Funds	Traded Volume	Traded Value	Currency	Avg. Traded Vol. / Day	Avg. Traded Val. / Day
Beirut Preferred Fund	3,860	399,850	USD	24	2,468
Beirut Golden Income - Delisted -	27	2,951,400	LBP	0	18,219
Total	**3,887**	**401,808**	**USD**	**24**	**2,480**

Source: The Beirut Stock Exchange

Retail / Trading Stocks	Traded Volume	Traded Value	Currency	Avg. Traded Vol. / Day	Avg. Traded Val. / Day
RYMCO	3,400	10,710	USD	21	66
Total	**3,400**	**10,710**	**USD**	**21**	**66**

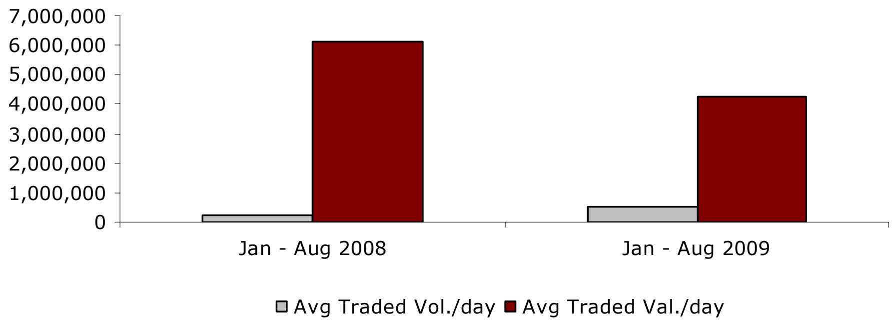
Source: The Beirut Stock Exchange

January - August 2009	Traded Volume	Traded Value	Trading days	Avg. Traded Vol. / Day	Avg. Traded Val. / Day
Total Beirut Stock Exchange	**84,971,200**	**690,880,837**	**162**	**524,514**	**4,264,697**

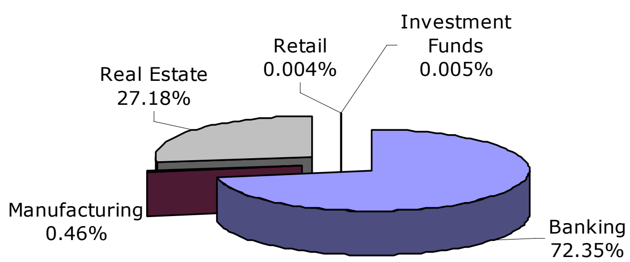
Source: The Beirut Stock Exchange

	Jan - Aug 2008	Jan - Aug 2009	y-o-y % Change
Avg Traded Vol./day	257,128	524,514	103.99%
Avg Traded Val./day	6,106,128	4,264,697	-30.16%

The conflicting results in the above table, which show a 103.99% y-o-y expansion in the average traded volume/day and a 30.16% contraction in average traded value/day, can only be explained by the plunge in local equity prices amid the prevailing financial turmoil.

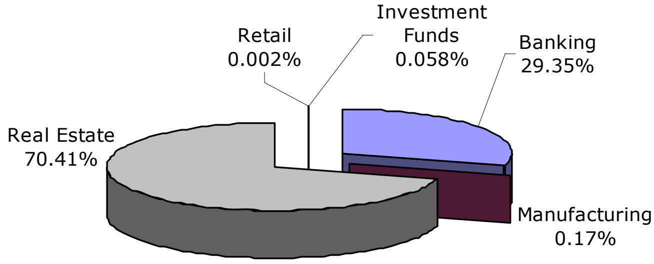


The banking sector dominated trades during the period under consideration, with a 72.35% stake of total traded volume during the first eight months of 2009. More particularly, a total of 61,477,564 banking stocks were traded, out of a total market volume of 84,971,200. The real estate sector followed suit with some 23,091,315 shares traded and a relative stake of 27.18% of total volume during the period.



As far as traded value is concerned, the real state sector led other sectors with a market share of 70.41% of the total traded value of USD 629,880,837 in the first eight months of 2009. This was followed by banking and manufacturing stocks, with relative contributions of 29.35% and 0.17% of the total Beirut Stock Exchange traded value during the period.

Traded Volue - January-August 2009



2) Evolution of Market Capitalization of Listed Stocks

On the capitalization front, the Beirut Stock Exchange has witnessed a sizeable increase in market capitalization owing to the listing of new stocks, GDRs and investment funds, as well as the listing by some Lebanese banks of new Preferred shares' series.

The table on the following page illustrates the evolution of market capitalization, by sector, over the period 2007-August 2009:

Banking Stocks	2007 Shares Outstanding (000)	2007 Closing Price	2007 Market Cap. USD Millions	2008 Shares Outstanding (000)	2008 Closing Price	2008 Market Cap. USD Millions	Aug-09 Shares Outstanding (000)	Aug-09 Closing Price	Aug-09 Market Cap. USD Millions
BLC "C"	50,900	8.00	407.20	50,900	1.90	96.71	50,900	2.11	107.40
Banque Audi Listed Shares	32,902	70.00	2,303.14	34,189	52.00	1,777.85	34,189	59.95	2,049.65
Banque Audi GDR	9,830	76.25	749.54	9,830	53.45	525.41	9,830	68.00	668.44
Bank Audi Preferred "C"	4,000	26.30	105.20	4,000	25.25	101.00			
Bank Audi Preferred "D"	1,250	101.40	126.75	1,250	100.00	125.00	1,250	100.30	125.38
Bank Of Beirut "C"	13,536	12.75	172.58	13,536	18.25	247.03	14,950	18.40	275.08
Bank Of Beirut Preferred Class B	3,000	11.50	34.50	3,000	12.10	36.30			
Bank Of Beirut Preferred Class C	2,920	24.89	72.68	2,920	25.50	74.46	2,920	25.50	74.46
Bank Of Beirut Preferred "D"				4,000	25.25	101.00	4,000	25.50	102.00
Byblos Bank "C"	205,024	2.22	455.15	217,113	1.60	347.38	217,113	1.75	379.95
Byblos Bank Preferred	1,000	103.10	103.10	1,000	104.00	104.00			
Byblos Bank Preferred Class 2008				2,000	97.90	195.80	2,000	96.60	193.20
Byblos Bank Priority	206,024	2.21	455.31	206,024	1.64	337.88	206,024	1.75	360.54
Byblos Bank GDR							1,033	90.00	92.97
BEMO Bank-Listed shares	5,400	4.04	21.82	5,400	4.83	26.08	5,400	4.50	24.30
BEMO Bank Preferred	200	100.00	20.00	200	100.00	20.00	200	100.00	20.00
BLOM Bank GDR	7,390	90.20	666.54	7,390	72.85	538.33	7,390	79.00	583.78
BLOM Bank Listed Shares	7,167	84.00	602.03	21,500	74.75	1,607.13	21,500	70.00	1,505.00
BLOM Bank Preferred "2002"	750	102.00	76.50			0.00			
BLOM Bank Preferred "2004"	750	101.00	75.75	750	101.00	75.75	750	101.00	75.75
BLOM Bank Preferred "2005"	1,000	101.20	101.20	1,000	101.70	101.70	1,000	101.50	101.50
Total	**553,042**		**6,548.99**	**586,001**		**6,438.81**	**580,448**		**6,739.39**

Industrial	Shares Outstanding (000)	Closing Price	Market Cap. USD Millions	Shares Outstanding (000)	Closing Price	Market Cap. USD Millions	Shares Outstanding (000)	Closing Price	Market Cap. USD Millions
Holcim Liban	19,516	20.75	404.96	19,516	15.93	310.89	19,516	12.00	234.19
Ciment Blancs Bearer	6,000	1.80	10.80	6,000	2.09	12.54	6,000	2.10	12.60
Ciment Blancs Nominal	3,000	1.40	4.20	3,000	1.90	5.70	3,000	1.90	5.70
Uniceramic Nominal "A"	4,290	0.45	1.93	4,290	0.11	0.47	4,290	0.06	0.26
Uniceramic Bearer "C"	8,580	1.70	14.59	8,580	1.70	14.59	8,580	0.10	0.86
Total	**41,386**		**436.47**	**41,386**		**344.19**	**41,386**		**253.61**

Real Estate	Shares Outstanding (000)	Closing Price	Market Cap. USD Millions	Shares Outstanding (000)	Closing Price	Market Cap. USD Millions	Shares Outstanding (000)	Closing Price	Market Cap. USD Millions
Solidere "A"	100,000	23.03	2,303.00	100,000	16.54	1,654.00	100,000	24.18	2,418.00
Solidere "B"	65,000	22.70	1,475.50	65,000	16.70	1,085.50	65,000	24.02	1,561.30
Total	**165,000**		**3,778.50**	**165,000**		**2,739.50**	**165,000**		**3,979.30**

Investment Funds	Shares Outstanding (000)	Closing Price	Market Cap. USD Millions	Shares Outstanding (000)	Closing Price	Market Cap. USD Millions	Shares Outstanding (000)	Closing Price	Market Cap. USD Millions
Beirut Global Income Fund	340	101.00	34.34						
Beirut Preferred Fund	326	100.10	32.63	326	100.20	32.67	326	103.00	33.55
Beirut Lira Fund (LBP)	275	104,000.00	18.97						
Beirut Golden Income (LBP)	410	110,700.00	30.11	410	112,200.00	30.52			
Total	**1,351**		**116.05**	**736**		**63.18**	**326**		**33.55**

Retail/Trading Stocks	Shares Outstanding (000)	Closing Price	Market Cap. USD Millions	Shares Outstanding (000)	Closing Price	Market Cap. USD Millions	Shares Outstanding (000)	Closing Price	Market Cap. USD Millions
Rymco	10,400	1.35	14.04	10,920	2.10	22.93	10,920	3.15	34.40
Total	**10,400**		**14.04**	**10,920**		**22.93**	**10,920**		**34.40**

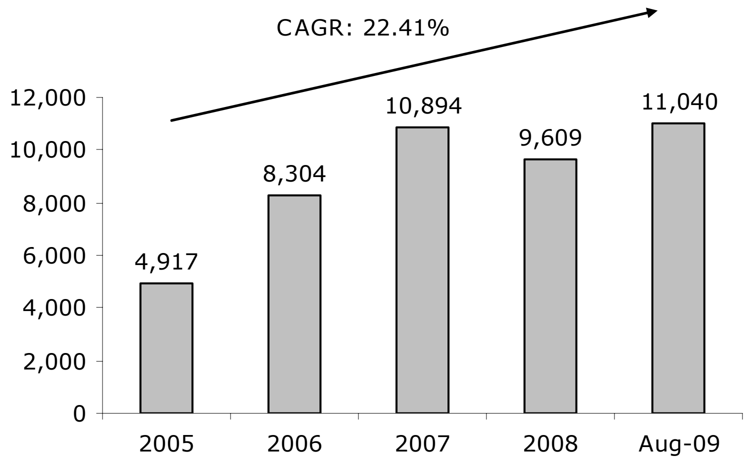
Soruce: The Beirut Stock Exchange, Credit Libanais Research Unit

Total Stock Market	**2005**	**2006**	**2007**	**2008**	**Aug-09**
Shares Outstanding (000)	618,764	962,772	771,179	804,043	798,080
Market Capitalization (USD Millions)	4,917	8,304	10,894	9,609	11,040

Soruce: The Beirut Stock Exchange, Credit Libanais Research Unit

Market Capitalization advanced to $11.04 billion in August 2009 up from $9.61 billion in 2008 and $10.89 billion in 2007. The compounded annual growth rate in market capitalization stood at 22.41% over the period 2005-August 2009 as reflected by the chart on the following page:

Evolution of Market Capitalization



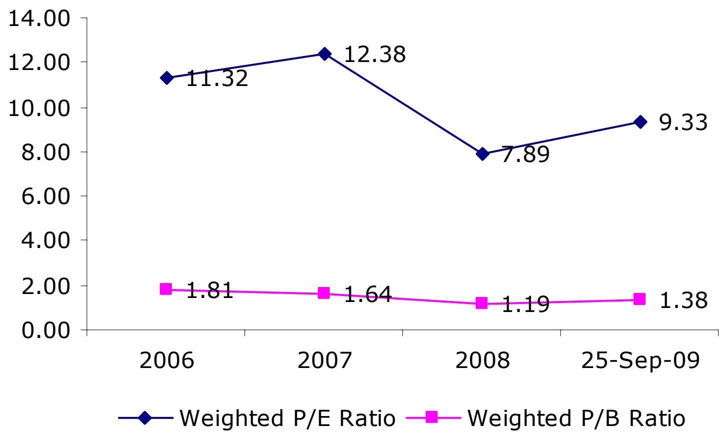
3) Evolution of Relative Valuation Benchmarks of Listed Banking Stocks:

The following section sheds the light on the evolution of the weighted average price to book (P/B) and price to earning (P/E) ratios of listed banking stocks over the period 2006-September 2009 [112]:

	2006	2007	2008	25-Sep-09
Weighted P/E Ratio	11.32	12.38	7.89	9.33
Weighted P/B Ratio	1.81	1.64	1.19	1.38

Source: Credit Libanais Research Unit

Evolution of Relative Valuation Benchmarks



As conveyed by the above analysis, listed banking stocks' weighted P/B ratio fell from 1.81 in 2006 to 1.64 in 2007 and 1.19 in 2008. Said downward trend is partly attributed to the positive, though moderate, correlation of the Beirut Stock Exchange with global equity markets, particularly since the onset of the global financial crisis starting the second half of 2008. The weighted P/B ratio, however, bounced back to 1.38 as of the closing prices of September 25, 2009, as the global economy has started to demonstrate signs of imminent recovery coupled with the more relaxed domestic political and economic climates.

[112] The Beirut Stock Exchange, Credit Libanais Research Unit

VI. Measures To Sustain Economic Growth

One cannot deny that the series of crippling wars and aggressions which stroke Lebanon for over the last thirty five years have hampered the country's human and physical infrastructure and aggravated the socio-economic and political bickering with which the country continues to struggle today.

Nevertheless, it is imperative to note that Lebanon has been going through a complex maze of political and socio-economical conflicts ever since the early French colonization in the 1920s when the modern state of Lebanon was formed and hostile allegations on parts of its territories have been claimed.

In light of this, and taking into account Lebanon's demographic constitution, geographical positioning on the map, added the many local, regional and international efforts and agreements (including the Taif agreement introduced in 1991) to reunite and rebuild the country, Lebanon's reconstitution and reconstruction should pivot around three main pillars [113]:

On the political front, it is inevitable to engineer a fair and equitable power-sharing structure, with a unified political culture between Lebanon's various religious sects in an endeavor to bond national identity.

On the economic side, many factors have contributed to the pre-war economic growth, which has averaged around 7% in real terms. These included, among other things, a free market laissez-faire economy, a strong dependence on trade and services (around 58% of GDP in the pre-war period), liberal working and investment environment, a strong, sound and solid banking system, ease and speed of entrepreneurial activities, a strong and transparent judicial system and proficient human capital. It is however worth highlighting that economists criticized Lebanon's pre-war healthy economic growth by being particularly dependant on one core tertiary sector, namely trade, and lacked the cohesion and contribution of the public sector, and thus was fragile to any unexpected hostilities.

In this perspective, and by bridging the pre-war economic growth with the post-war repercussions, namely physical devastations of productive sectors and civil infrastructure, the migration of intellectual human capital and the mounting public debt and crippling budget imbalances accumulated in the reconstruction phase, sustaining growth should center upon maximizing GDP growth in real terms and increasing the contributions of the various economic sectors (not only the tertiary sector) to GDP growth while reducing any inconsistent concentration and reliance on any one sector.

[113] Credit Libanais Research Unit

Thus, the economic plan for the reconstitution of Lebanon should be geared towards the further development of the tourism sector, stimulating the growth of the agricultural sector, strengthening the foundation of higher education institutions, reinforcing consultancy and advisory services, and emphasizing the role Lebanon can strategically play through its geographical positioning as a hub between Europe and the Arab countries.

Furthermore, it is imperative to stress on the importance of accelerating the pace of economic reforms pledged during the international donors' conferences. This includes, among other things, the privatization of some state-owned enterprises, including Electricité Du Liban (EDL), which according to the Lebanese Ministry of Finance and the World Bank has been a major drain on public finances. Said vital procedure, however, should be preceded by a reform plan, like the one recently applied to the telecommunications sector, adding to its value and thus generating more revenues for the government.

On the bureaucracy front, it is vital to emphasize the role of a properly functioning bureaucratic system in placing Lebanon on the right track. Notwithstanding the prolonged war which plagued the country for almost two decades, Lebanon's bureaucratic infrastructure surprisingly continued to function, yet its role in promulgating social stability and order was impaired to a certain extent.

Accordingly, the reengineering of Lebanon's bureaucratic infrastructure remains a must, particularly on the public sector front, to foster a healthier and more credible investment and operating environment. The outcomes of said system can be sensed via higher level of transparency between the public and private sectors, appropriate hierarchical influences in public enterprises, improved collection of taxes, enhanced enforceability of laws and regulations, and entrenched infrastructure to fight against corruption.

In summary, the following section sheds the light on a set of measures to ensure that the prevailing pace of vivid economic growth is sustainable:

- Ensuring political and socio-economic stability;

- Providing an attractive investment climate to attract capital and promote investments;

- Sustain a commitment to open trade and investment policies, which are essential to economic growth and prosperity (G-7 nations strategy). Thus, any stimulus plan should avoid protectionism measures;

- Advocate free inter-Arab trade and promulgate laws of judicial flexibility to foster economic growth, with Lebanon being characterized as a free laissez-faire economy. Thus any plan should strive to capitalize on the similarity in investment and economic cultures with the Arab world, and capitalize on liberal policies for investment and commerce. The key objective is to ensure ease and speed of entrepreneurial activities through a properly functioning bureaucratic system;

- Strive to increase the contributions of the various economic sectors (not only the tertiary sector) to GDP growth and reducing any inconsistent concentration and reliance on any one sector;

- Embark in a juridical and legal reform plan that aims at minimizing the amount of time needed to resolve legal issues, facilitate the paperwork and cumbersome procedures binding the establishment of a business, especially that Lebanon was ranked 108^{th} globally in the 2010 Ease of Doing Business Index prepared by the World Bank group. A possible alternative is to consider the electronic government platform, which substantially reduces the unnecessary paperwork, shortens transaction time, can help track transactions electronically, and cultivates a healthier flow of new investments;

- Creating job opportunities both in the private and public sector through the privatization of some public sector enterprises;

- Enforcing laws and other investment legislations more efficiently in an endeavor to attract new capital;

- Creating a legislative and economic environment;

- Adopting a law to fight against corruption to ensure proper functioning of the bureaucratic system;

- Adopting best international practices within companies;

- Enforcing copyright and trademarks' protection laws;

- Instituting new treaties with international governments that offer investment incentives and drivers for Lebanese nationals living abroad, including for example tax reductions and tax exemption incentives;

- Promoting the role of Lebanese educational centers and universities in attracting the Lebanese Diaspora;

- Hosting international conferences and receptions in Lebanon and inviting the Lebanese Diaspora to participate at lower participation rates;

- Establishing government-funded specialized banks geared at funding infrastructure development;

- Promulgating new laws that fight corruption;

- Creating electronic communication networks governed by professional associations in specific industries (banking, commerce and manufacturing) with the endeavor of grouping professional Lebanese talent from around the Globe;

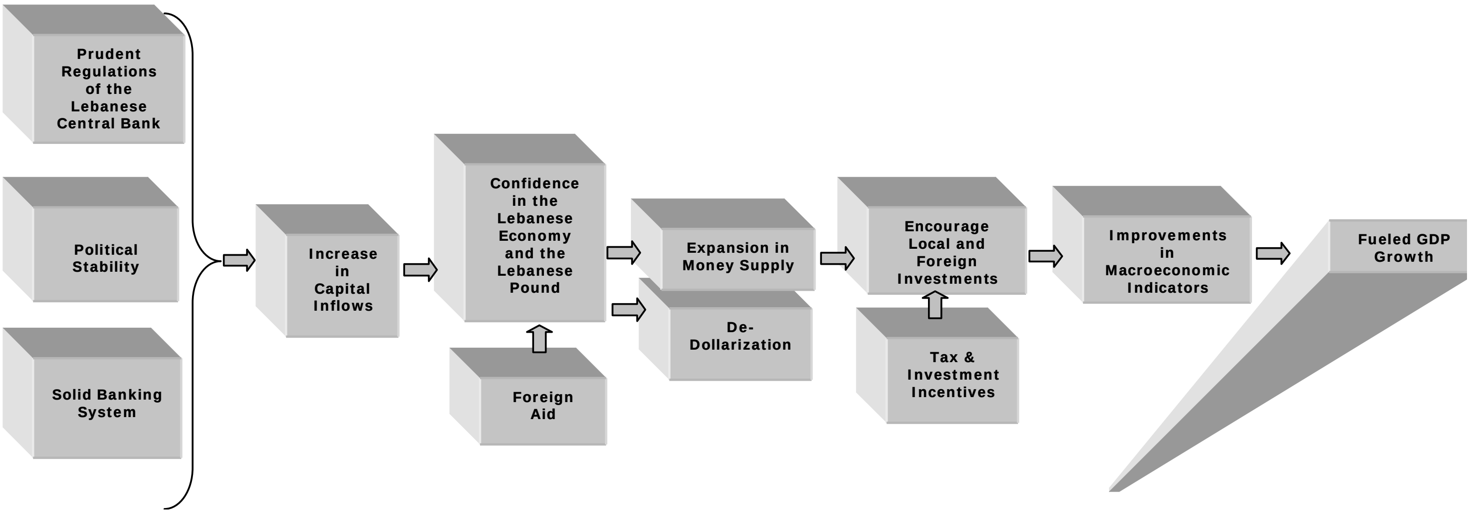
- Signing treaties with countries to avoid double taxation (ex: the recent one signed with Slovakia) which helps attract investments and capital;

- Accelerating the accession of Lebanon into the World Trade Organization as well as signing trade agreements with Arab and International countries aiming at removing, or at the very least reducing, tariffs, quotas and taxes, which are proven to inflict a deadweight loss on the economy;

- Promoting the institution of highly developed and specialized hospitals and medical centers in an attempt to limit the prevailing brain drainage; and

- Encouraging companies and institutions to establish Defined Benefit and/or Defined Contribution pension plans, which helps provide a steady income for employees upon retirement and acts as a liquidity buffer in times of turbulent economic environments.

VII. Lebanon's Economic Model



CONTACTS

RESEARCH **U**NIT	Sofil Center – Beirut - Lebanon		
	TEL: 01-200028/9 Fax: 01-326786		

RESEARCH **T**EAM	Fadlo I. Choueiri, CFA	fchoueiri@creditlibanais.com.lb	961-1-200 028 EXT: 235
	Jad Abi Haidar	jabihaidar@creditlibanais.com.lb	961-1-200 028 EXT. 251
	Rim Fayad	rfayad@creditlibanais.com.lb	961-1-200 028 EXT. 230