

LEBANON THIS WEEK

In This Issue

Economic Indicators.....1

Capital Markets.....1

Lebanon in the News.....2

FDI in Lebanon at 12.6% of GDP in 2010, highest in the Arab world

Balance of payments posts deficit of \$1bn in first five months of 2011

Fitch affirms Lebanon's sovereign ratings, main risk is sustained outflow of deposits

Economy Ministry pledges to protect intellectual property rights

Lebanon ranks 66th globally, 6th in Arab world in insurance premiums

Net public debt at \$46bn at end-May 2011

Lebanon ranks 49th globally, 5th among Arab countries in terms of innovation

Lebanon approves International Aid Transparency Initiative, UN fund to support public health

Corporate Highlights6

Nine Lebanese banks among Top 1000 banks in the world, Lebanon has best loans-to-deposits ratio globally

Commercial banks' assets reach \$134bn at end-May 2011

Fitch downgrades Individual Rating of HSBC Middle East, affirms other ratings

RYMCO announces General Assembly

Bank Audi to raise capital by issuing common shares

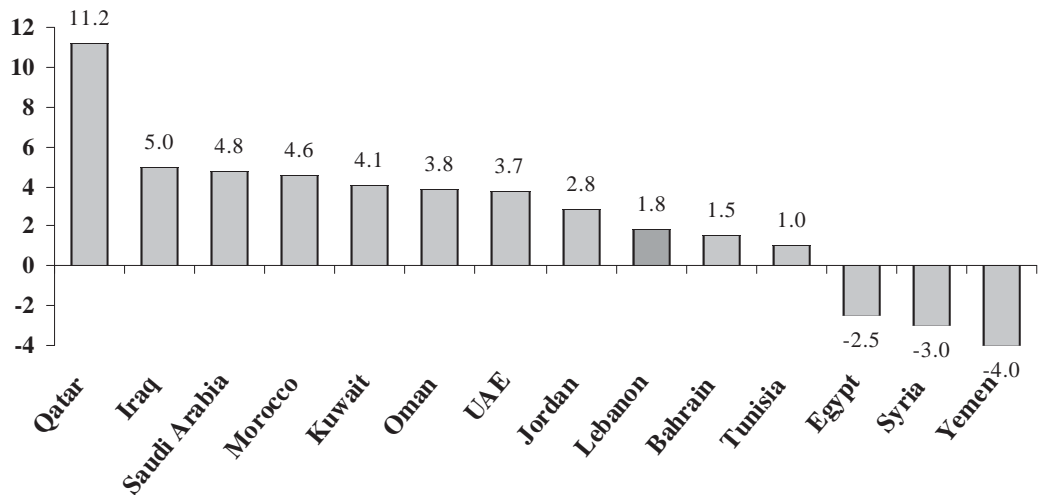
Ratio Highlights.....8

Risk Outlook.....8

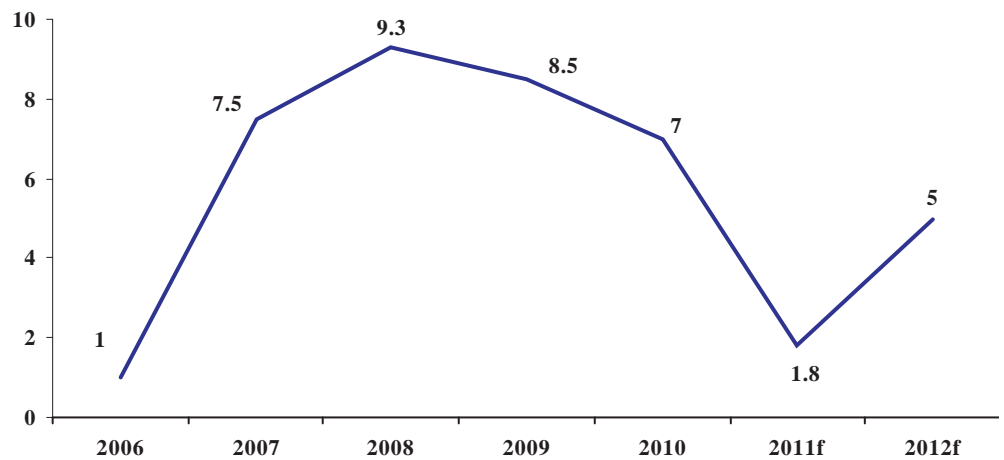
Ratings & Outlook.....8

Charts of the Week

Projected Real Non-Oil GDP Growth in Arab Countries for 2011 (%)



Real GDP Growth in Lebanon (%)



Source: Barclays Capital, Institute of International Finance

Quote to Note

"While the formation of a new Cabinet in principle should bring positive momentum to the economy, heightened political volatility on the back of the Special Tribunal for Lebanon's decision may undermine a quick recovery."

Barclays Capital, on the potential impact of recent political developments on economic activity

Number of the Week

53%: Percentage of members of Parliament who gave their vote of confidence to the new Cabinet

Economic Indicators

\$m (unless otherwise mentioned)	2009	Apr 10	2010	Feb 11	Mar 11	Apr 11	% Change*
Exports	3,486	328	4,256	304	354	375	14.33
Imports	16,241	1,377	17,956	1,218	1,631	1,501	9.01
Trade Balance	(12,755)	(1,049)	(13,700)	(914)	(1,277)	(1,126)	7.34
Balance of Payments	7,899	424	3,326	104	270	(199)	(146.93)
Checks Cleared in LBP	11,122	1,058	13,519	1,172	1,301	1,160	9.64
Checks Cleared in FC	45,270	4,615	53,925	4,094	4,798	4,485	(2.82)
Total Checks Cleared	56,392	5,673	67,444	5,266	6,099	5,645	(0.49)
Budget Deficit/Surplus	(2,960)	(110)	(2,892)	(501)	(548)	(301)	173.64
Primary Balance	1,078	291	1,232	(266)	(120)	163	(43.99)
Airport Passengers	4,986,544	438,328	5,552,260	307,134	347,795	466,640	6.46

\$bn (unless otherwise mentioned)	Dec 2009	Apr 10	Dec 10	Feb 11	Mar 11	Apr 11	% Change*
BdL FX Reserves	25.66	27.32	28.60	28.42	28.54	28.76	5.27
<i>In months of Imports</i>	18.6	14.04	19.4	23.33	17.40	19.16	36.47
Public Debt	51.09	51.49	52.59	52.08	52.59	52.61	2.18
Net Public Debt	44.11	44.34	45.01	45.31	45.61	45.72	3.11
Bank Assets	115.25	120.64	128.93	130.06	132.49	133.80	10.91
Bank Deposits (Private Sector)	95.77	99.13	107.20	106.80	108.15	109.93	10.89
Bank Loans to Private Sector	28.37	31.04	34.93	35.70	36.43	36.81	18.59
Money Supply M2	34.16	36.72	39.40	37.03	37.14	37.48	2.07
Money Supply M3	82.08	85.75	92.15	92.01	92.76	94.20	9.85
LBP Lending Rate (%)	9.04	8.48	7.91	7.71	7.73	7.73	(75b.p.)
LBP Deposit Rate (%)	6.75	6.00	5.68	5.63	5.63	5.64	(36b.p.)
USD Lending Rate (%)	7.28	7.10	6.74	7.01	7.24	7.05	(5b.p.)
USD Deposit Rate (%)	3.05	2.84	2.80	2.90	2.82	2.84	0b.p.
%* Change in CPI**	4.20	4.46	6.19	5.09	6.94	6.56	210b.p.

* Year-on-Year; ** Consumer Price Index

Note: b.p. i.e. basis point

Sources: ABL, BdL

Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization
Solidere "A"	16.98	(1.62)	216,991	15.08%
Solidere "B"	16.91	(2.25)	52,590	9.76%
Byblos Common	1.69	0.60	122,666	5.40%
Byblos Pref. 08	100.00	0.00	250	1.78%
Byblos Pref. 09	100.00	0.00	200	1.78%
BLOM GDR	8.46	(1.63)	17,300	5.55%
BLOM Listed	8.48	0.00	0	16.19%
Audi GDR	7.40	0.82	15,000	6.48%
Audi Listed	6.94	0.43	10,000	21.48%
HOLCIM	16.06	0.31	8,713	2.78%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Aug. 2011	7.500	100.23	3.13
Mar. 2012	7.500	103.13	2.84
Sep. 2012	7.750	105.00	3.28
June 2013	8.625	109.13	3.70
Apr. 2014	7.375	108.88	3.94
Apr. 2015	10.00	117.63	4.84
Jan. 2016	8.500	114.25	4.94
Mar. 2017	9.000	117.56	5.37
Nov. 2018	5.150	98.25	5.44
Apr. 2021	8.250	115.88	6.07

Source: Byblos Capital Markets

	July 4-8	June 27-July 1	% Change	June 2011	June 2010	% Change
Total Shares Traded	1,115,273	498,983	123.51	2,792,846	5,167,659	(45.96)
Total Value Traded	\$8,055,094	\$5,164,891	55.96	\$34,880,478	\$47,678,154	(26.84)
Market Capitalization	\$11.26bn	\$11.30bn	(0.36)	\$11.33bn	\$12.50bn	(9.37)

Source: Beirut Stock Exchange (BSE)



FDI in Lebanon at 12.6% of GDP in 2010, highest in the Arab world

Figures issued by the Arab Investment and Export & Guarantee Corporation (AIEGC) show that foreign direct investment (FDI) in Lebanon totaled \$4.96bn in 2010, constituting an increase of 3.2% from \$4.8bn in 2009. Also, FDI inflows to Lebanon came above the \$3.6bn in average FDI inflows per Arab country in 2010.

Lebanon was the fourth largest recipient of FDI in nominal terms among 18 Arab countries in 2010, unchanged from 2009. Also, Lebanon posted the fifth highest growth rate in FDI among Arab countries and the second highest rate among the top 5 recipients of FDI last year, and was one of 5 Arab economies that saw an increase in FDI in 2010. In contrast, aggregate FDI to Arab economies declined by 23.4% year-on-year, global FDI increased by 0.7%, FDI to developing economies grew by 9.7%, and FDI in West Asia decreased by 16.3% in 2010.

FDI inflows to Lebanon accounted for 7.7% of total FDI in Arab countries in 2010 compared to 5.7% of aggregate inflows in 2009. They also represented 8.7% of total flows to West Asia relative to 7% in 2009. FDI inflows to Lebanon accounted for 0.94% of FDI flows to developing countries and for 0.44% of global FDI in 2010, compared to 1% of FDI inflows to developing countries and for 0.43% of global FDI in 2009.

Further, FDI inflows to Lebanon were equivalent to 12.6% of GDP in 2010, highest in the Arab world, but down from 13.7% of GDP in 2009. Lebanon came ahead of Jordan at 6.2% of GDP, Sudan at 5.4% of GDP, and Qatar at 5.1% of GDP in 2010.

In parallel, aggregate FDI to Lebanon reached \$28.1bn during the 2000-2009 period, accounting for 6.3% of total FDI in the Arab world and making it the fourth biggest Arab recipient of FDI during the covered period. FDI inflows to Lebanon represented 3.7% of FDI to developing economies and 1.9% of global FDI inflows in the 2000-2009 period. Further, FDI outflows from Lebanon totaled \$6.1bn during the 2000-2009 period, accounting for 3.4% of such outflows from the Arab world and making it the sixth biggest Arab source of FDI during the covered period. As a result, net FDI to Lebanon reached \$22bn and averaged \$2.2bn per year during the covered period.

Balance of payments posts deficit of \$1bn in first five months of 2011

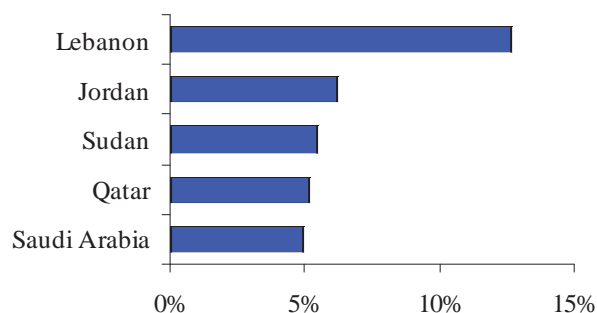
Central Bank figures show that Lebanon's balance of payments posted a deficit of \$1bn in the first five months of 2011 compared to a surplus of \$1.2bn in the same period last year. The balance of payments posted a deficit of \$445.2m in May compared to deficit of \$198.6m in April 2011 and \$194.8m in May 2010. The May 2011 deficit was caused by a deficit of \$249.6m in the Central Bank's net foreign assets and a deficit of \$196m in those of banks and financial institutions. The cumulative deficit over the first five months of 2011 was caused by a deficit of \$336m in the Central Bank's net foreign assets and a deficit of \$707m in those of banks and financial institutions. The balance of payments posted cumulative surpluses of \$3.3bn in 2010, \$7.9bn in 2009 and \$3.5bn in 2008.

Foreign Direct Investment in Arab Countries (\$m)

	2010	2009	Change (%)
Saudi Arabia	21,560	36,458	-41%
Qatar	6,594	8,722	-24%
Egypt	6,386	6,712	-5%
Lebanon	4,955	4,804	3%
Morocco	4,362	3,134	39%
UAE	3,948	4,003	-1%
Sudan	3,689	4,633	-20%
Libya	3,114	2,674	16%
Algeria	2,050	2,540	-19%
Iraq	1,948	1,452	34%
Syria	1,850	2,570	-28%
Jordan	1,703	2,429	-30%
Tunisia	1,590	1,688	-6%
Yemen	196	655	-70%
Bahrain	156	257	-39%
Kuwait	80	1,112	-93%
Mauritania	57	(3)	
Djibouti	40	100	-60%
Total Arab	64,278	83,940	-23.4%

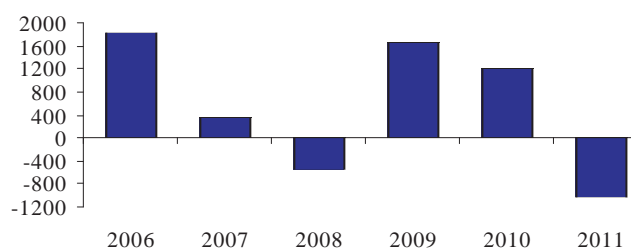
Source: AIEGC, Byblos Research

Top 5 FDI recipients in 2010 (% of GDP)



Source: AIEGC, Byblos Research

Balance of Payments*



* in first five months of the year

Source: Central Bank

Fitch affirms Lebanon's sovereign ratings, main risk is sustained outflow of deposits

Fitch Ratings affirmed Lebanon's long-term foreign and local currency Issuer Default Ratings (IDR) at 'B' and its short-term foreign currency IDR at 'B' with a 'stable' outlook. It also affirmed the Country Ceiling at 'B'. The agency attributed its decision to the fact that Lebanon's substantial foreign exchange reserves, lower debt levels and reduced interest costs partially offset the risks of political instability, growth deceleration and worsening public finances in 2011. It added that the already low ratings incorporate a measure of tolerance for political volatility. It noted, however, that an outbreak of violence due to internal political strife or a spillover of tensions from Syria could put the ratings under negative pressure.

It said the collapse of the national unity government in January and the wave of Arab uprisings caused a drop in confidence, a deceleration in non-resident deposit inflows, a contraction in tourism activity and property sales, a rise in dollarization, and a balance of payments deficit. As a result, Fitch projected real GDP growth to slow to 2.5% this year from the 7% to 8% range posted in the 2008-2010 period. It expressed concern about the deteriorating situation in Syria, given its potential to further impact confidence and economic prospects. It noted, however, that the formation of the new government might restore some stability and could improve the economic and fiscal outlook for the second half of the year. It added that the stability of the exchange rate is especially relevant due to the high dollarization rate and Lebanon's vulnerability to political and external shocks.

It projected the fiscal deficit to widen to between 9%-10% of GDP in 2011 from 8% of GDP in 2010 due to the cut in gasoline taxes, slowing consumption and investment, and an increase in public spending. It expected the debt level to stabilize at less than 135% of GDP in 2011, but noted that it would still remain the third highest of all Fitch-rated sovereigns after Japan and Greece. It said that Lebanon's creditworthiness would improve with a substantial reduction in sovereign debt through fiscal discipline and strong growth; while an increase in the debt level would cause a ratings downgrade. It noted that the debt's sustainability is supported by the size and depth of the local banking sector, which is the main holder of Lebanese paper, and added that the sector's resilience underpins the stability of public finances and is vital to the ratings.

Fitch considered that the primary risk to Lebanon's ratings is a sustained outflow of deposits prompted by political instability. It noted that deposit flight in the wake of the Hariri assassination in 2005 and the war with Israel in 2006 were temporary, and that deposits tend to return relatively quickly. Also, it considered that the refusal of Hezbollah to cooperate with the Special Tribunal for Lebanon could inflame domestic tensions and curtail government effectiveness; while the worsening of the unrest in Syria could adversely affect the country.

Economy Ministry pledges to protect intellectual property rights

Economy & Trade Minister Nicolas Nahhas pledged to protect intellectual property rights (IPRs) in Lebanon in order to support creative industries and the sectors and activities that depend on IPR protection. He added that this would take place through ratifying and effectively implementing related national and international legislation. He also pledged to modernize and upgrade existing IPR legislation to align it with international agreements and treaties, specifically with the trade-related aspects of intellectual property rights agreement (TRIPS). He said that the ministry will review the registration fees of trademarks and IPRs for small and medium-size enterprises in order to encourage the registration of marks. He noted that the ministry is working for Lebanon to join several international IPR agreements such as the Patent Cooperation Treaty (PCT) and the Madrid Protocol related to the Madrid Agreement Concerning the International Registration of Marks. The Council of Ministers approved on February 20, 2007 Lebanon's request to join the PCT and sent it to Parliament for ratification; while it approved on October 27, 2007 the ministry's request to ratify the Madrid Protocol and sent it to Parliament in November of that year. He added that joining these treaties will reduce the cost and facilitate the registration and protection of trademarks, copyrights and patents. Minister Nahhas noted the importance of trademarks for the Lebanese economy, as the ministry's Intellectual Property Protection Office registered 6,800 trademarks, 345 patents, 193 copyrights, 111 fees and industrial designs, and 205 intellectual and artistic works in 2010. In parallel, he indicated that the ministry plan to cooperate with the World Intellectual Property Organization (WIPO) to develop a framework that would protect Lebanese trademarks across the Arab world.

The International Intellectual Property Alliance, an organization representing more than 1,900 companies that produce and distribute copyright-protected materials throughout the world, stated earlier this year that piracy remains a significant obstacle to legitimate business in Lebanon. Also, the Business Software Alliance, an industry group representing the world's leading computer software developers, ranked Lebanon in 39th place worldwide and fifth in the Middle East and North Africa region in terms of software piracy rate in 2010. Lebanon's piracy rate reached 72% last year, significantly higher than the global rate of 42% and the Middle East & Africa rate of 58%. Piracy-related losses in the country totaled \$49m in 2010, compared to \$46m in 2009. Further, the Office of the United States Trade Representative (USTR) maintains Lebanon on its Watch List of intellectual right protection.

Lebanon ranks 66th globally, 6th in Arab world in insurance premiums

Swiss Re's annual survey of the global insurance market indicated that Lebanon ranked in 66th place among 147 markets in terms of nominal premiums generated in 2010. Lebanon also came in 6th place among 12 Arab markets included in the survey. Lebanon ranked in 64th place globally and in 5th place regionally in the 2009 survey. Lebanon generated \$1.1bn in total premiums last year, accounting for 0.02% of global premiums, for 0.17% of premiums generated in emerging markets and for 3.2% of premiums generated in the Middle East & Central Asia region. Globally, Lebanon ranked ahead of Bangladesh and Kazakhstan and behind Cyprus and Ecuador, while it came ahead of Qatar and behind Algeria regionally.

Lebanon generated \$262m in life premiums in 2010, ranking it in 66th place globally and 5th place in the Arab world, compared to 67th place globally and unchanged regionally from the 2009 survey. Globally, Lebanon ranked ahead of Jamaica and Trinidad & Tobago and behind Sri Lanka and Kenya, while it came behind Saudi Arabia and ahead of Bahrain regionally. Life premiums generated in Lebanon accounted for 0.01% of global life premiums, for 0.07% of such premiums generated in emerging markets and for 3.2% of life premiums generated in the Middle East & Central Asia region in 2010. Further, Lebanon generated \$812m in non-life premiums last year, ranking it in 64th place globally and in 7th place among Arab countries. Its global and regional ranks were unchanged from the 2009 survey. Globally, Lebanon ranked ahead of the Philippines and Panama, and came behind Kazakhstan and Vietnam, while it came ahead of Tunisia and behind Qatar in the region. Non-life premiums generated in the Lebanese market accounted for 0.04% of global life premiums, for 0.3% of such premiums generated in emerging markets and for 3.2% of non-life premiums generated in the Middle East & Central Asia region.

In parallel, Swiss Re estimated Lebanon's insurance density, or premiums per capita, at \$252.5 in 2010, ranking it in 52nd place globally and in 5th place in the Arab world. Lebanon ranked in 51st place globally and in 4th place in the Arab world in terms of insurance density in 2009. Globally, it ranked ahead of Argentina and Kuwait and behind Oman and Panama, while regionally it came ahead of Kuwait and behind Oman. Insurance density in Lebanon reached \$61.6 and \$190.9 in the life and non-life categories, respectively, in 2010. Further, insurance penetration in Lebanon, or premiums relative to the size of the economy, reached 2.8% of GDP last year, ranking it in 52nd place globally and in third place in the Arab world. Globally, Lebanon came ahead of El Salvador and Bulgaria, and behind Bahrain and Argentina, while it came ahead of Jordan and behind Bahrain in the region. Lebanon ranked in 48th place globally and in first place in the Arab world in terms of insurance penetration in 2009. Lebanon posted penetration rates of 0.7% of GDP and 2.1% of GDP in the life and non-life categories, respectively, last year.

Net public debt at \$46bn at end-May 2011

Lebanon's gross public debt reached \$52.7bn at the end of May 2011, unchanged from end-2010, and constituting an increase of 3.2% from end-May 2010. Domestic debt increased by 5.9% to \$31.9bn, while external debt decreased by 0.7% annually to \$20.8bn. Local currency debt accounted for 60.5% of gross public debt at end-May 2011 compared to 59% a year earlier, while foreign currency-denominated debt represented 39.5% of the total at the end of May relative to 41.1% a year earlier. The weighted interest rate on outstanding Treasury bills was 7.4%, while the weighted interest rate on Eurobonds was 7.19% at the end of May. Further, the weighted life on Eurobonds was 5.05 years, while that on Treasury bills was 839 days.

Commercial banks accounted for 52.7% of the local public debt at the end of May 2011 compared to 60.2% a year earlier. They were followed by the Central Bank with 31%, up from 23.1% at end-May 2010; while public agencies, financial institutions and the general public accounted for 16.4% of local debt, compared to 16.8% in May 2010. Eurobond holders, foreign private sector loans and special T-bills in foreign currencies accounted for 86.5% of the external debt, followed by multilateral institutions with 7.2%, foreign governments with 4.9%, and Paris II loans with 1.4%. Net public debt, which excludes the public sector's deposits at the Central Bank and at commercial banks from overall debt figures, increased annually by 3.3% to \$45.7bn. In parallel, the gross market debt accounted for about 63% of total public debt. Gross market debt is the total public debt less the portfolios of the Central Bank, the National Social Security Fund, bilateral and multilateral loans, as well as Paris II and Paris III related debt.

Insurance Density in MENA region in 2010 (Premiums per Capita in US\$)

	Life	Non-Life	Total	Rank
Israel	766.3	767.7	1,534.0	28
UAE	198.8	1,049.3	1,248.1	31
Qatar	n/a	618.8	618.8	37
Bahrain	150.6	376.4	527.0	39
Oman	44.3	216.5	260.8	51
Lebanon	61.6	190.9	252.5	52
Kuwait	48.9	186.6	235.5	54
Saudi Arabia	13.0	165.4	178.4	59
Jordan	7.8	81.3	89.1	68
Morocco	25.6	54.5	80.0	71
Tunisia	9.9	64.9	74.8	73
Iran	4.7	63.1	67.8	75
Algeria	2.5	30.3	32.8	81
Egypt	7.7	11.1	18.8	84

Source: Swiss Re, Byblos Research

Lebanon ranks 49th globally, 5th among Arab countries in terms of innovation

INSEAD's Global Innovation Index (GII) for 2011 ranked Lebanon in 49th place among 125 countries around the world and in fifth place among 15 Arab countries. Lebanon also came in seventh place among 30 upper-middle income countries (UMICs) included in the survey. INSEAD included Lebanon for the first time this year in the index. Globally, Lebanon ranked ahead of Romania, Vietnam and Kuwait, and came behind Thailand, Brazil and Bahrain. Lebanon received a score of 37.11 points, higher than the global average of 36.7 points as well as above the Arab average of 32.6 points, the MENA average of 34.45 points and the UMIC's average of 33.4 points. The index rates the innovation level of each country on a scale of 0 to 100, with 100 being the most innovative market. The survey noted that the index measures innovation in a broad sense to include social and business innovations, as well as scientific innovation. It covers the innovation input and output of countries; including an economy's institutions, human capital & research, infrastructure, market and business sophistication; as well as scientific and creative outputs. The countries included in the index represent 93.2% of the world's population and 98% of the world's GDP.

Lebanon ranked ahead of Trinidad and Tobago, Russia and Panama, and came behind Jordan, Romania and Bosnia & Herzegovina on the Innovation Input Sub-Index. This category covers the elements of the national economy that enable innovative activities, such as institutions, human capital and research, infrastructure, market sophistication, and business sophistication. Regionally, Lebanon ranked ahead of Tunisia, Morocco and Egypt and behind Jordan, Kuwait and Saudi Arabia. It also ranked ahead of Russia and behind Romania among UMICs. Further, Lebanon ranked ahead of Vietnam, Bulgaria and India, and came behind Argentina, Italy and Serbia on the Innovation Output Sub-Index. This category captures the existing level of scientific and creative outputs in a country. Regionally, Lebanon ranked third behind Jordan and Qatar, while it ranked ahead of Bulgaria and behind Argentina among UMICs.

In parallel, Lebanon ranked in 23rd place globally and in 6th place among 30 UMICs on the Innovation Efficiency Index, which is the ratio of the Output Sub-Index over the Input Sub-Index. Globally, it ranked ahead of Paraguay and South Korea and was preceded by Israel and Sri Lanka. Also, Lebanon ranked ahead of Turkey and Costa Rica and came behind Iran and Serbia among UMICs.

Global Innovation Index 2011

	Score	Arab Rank	Global Rank
Qatar	47.74	1	26
UAE	41.99	2	34
Jordan	38.43	3	41
Bahrain	37.80	4	46
Lebanon	37.11	5	49
Kuwait	36.64	6	52
Saudi Arabia	36.44	7	54
Oman	35.51	8	57
Tunisia	33.89	9	66
Egypt	29.21	10	87
Morocco	28.73	11	94
Syria	24.82	12	115
Yemen	20.72	13	123
Sudan	20.36	14	124
Algeria	19.79	15	125

Source: INSEAD

Lebanon's Rankings & Scores on the Components of the 2011 Global Innovation Index

	Global Rank	Arab Rank	UMIC Rank	Lebanon Score	Global Avg Score	Arab Avg Score	UMIC Avg Score
Innovation Input	81	11	22	3.62	3.95	3.88	3.75
Institutions	45	7	7	4.37	4.15	4.23	3.97
Human Capital & Research	126	13	31	3.12	4.18	4.05	3.90
Infrastructure	66	8	16	3.37	3.54	3.38	3.37
Market Sophistication	32	5	3	5.29	4.77	5.00	4.78
Business Sophistication	32	5	3	5.29	4.77	5.00	4.78
Innovation Output	100	11	27	2.82	3.47	3.36	3.27
Scientific Outputs	88	11	27	3.01	3.65	3.61	3.46
Creative Outputs	91	10	25	2.79	3.19	2.90	2.97

Source: INSEAD, Byblos Research

Lebanon approves International Aid Transparency Initiative, UN fund to support public health

The Ministry of Finance approved the International Aid Transparency Initiative (IATI), a voluntary, multi-stakeholder initiative that includes donors, partner countries and civil society organizations. IATI aims to improve the access to, and use of information about aid spending. In parallel, the United Nations Population Fund and the Ministry of Public Health signed a two-year project that aims to support national efforts to reach the Millennium Development Goal related to improving maternal health. Further, the Spanish Agency for International Development Cooperation announced the completion of a \$750,000 center for medical waste management in southern town of Sinniq.

Corporate Highlights

Nine Lebanese banks among Top 1000 banks in the world, Lebanon has best loans-to-deposits ratio globally

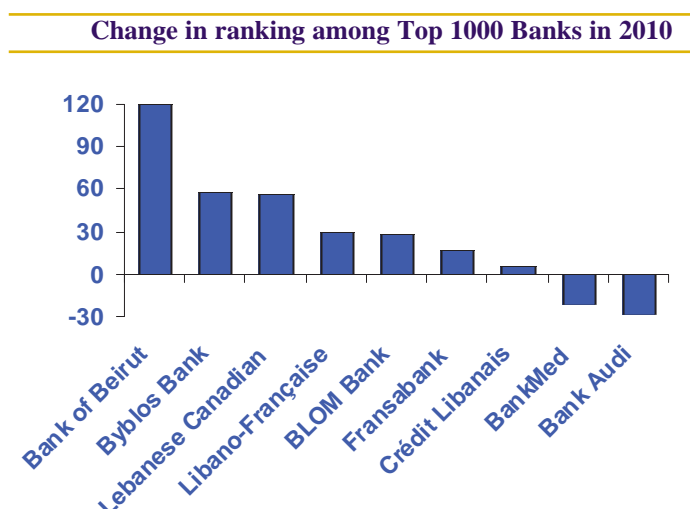
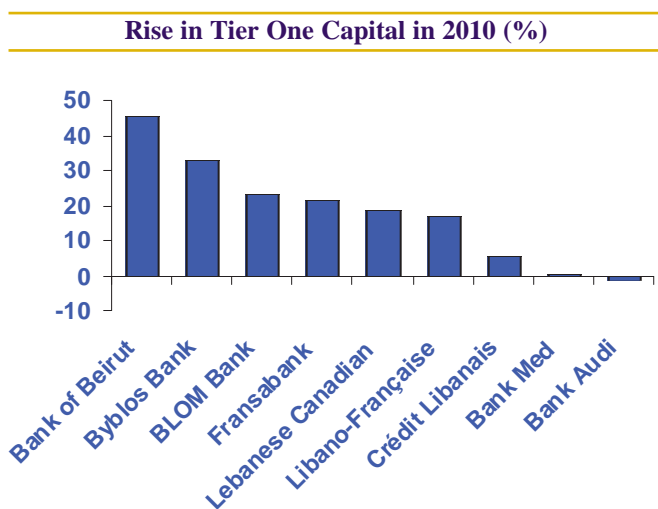
In its 2011 survey of the Top 1000 commercial banks in the world, *The Banker* magazine included 9 Lebanese banks on the list, unchanged from last year, none of which ranked among the top 25 banks in the Middle East. The rankings are based on Tier One capital at year-end 2010 as defined by the Basel Bank for International Settlements. *The Banker* said the definition is stricter than total shareholders' equity and covers only the core of a bank's strength, namely the shareholders' equity available to cover actual or potential losses.

Seven Lebanese banks improved their ranking in the 2011 survey, with Byblos Bank jumping 58 places and posting the biggest year-on-year improvement in the standings among the top three Lebanese banks, and the second highest among its Lebanese peers included in the survey. Globally, Byblos Bank ranked ahead of Gulf Bank in Kuwait and Malaysia's Eon Bank, and was preceded by Migros Bank in Switzerland and Banco Davivienda in Columbia. Also, Byblos Bank posted the highest rise in Tier One capital in 2010 among Lebanese banks whose Tier One capital exceeds \$1bn, and the second highest rise among the 9 Lebanese banks included in the rankings. Further, Byblos Bank's Tier One capital-to-assets ratio reached 8.83% at end-2010, posting the highest such ratio among the top 3 Lebanese banks.

Bank of Beirut's rank rose by 120 spots to 633rd place, Byblos Bank improved its ranking by 58 spots and came in 448th place, the Lebanese-Canadian Bank increased by 57 spots to 912th place, Banque Libano-Française improved by 29 places to 672nd place, BLOM Bank rose by 28 notches to 362nd place, Fransabank jumped by 16 places to 609th place, and Crédit Libanais rose by 5 spots to 859th place. In parallel, Bank Audi dropped by 29 places to the 355th position and posted the steepest decline among the 9 banks included in the rankings; while BankMed regressed by 21 notches to the 659th spot.

Further, Bank of Beirut's Tier One capital increased by 45.3% year-on-year, followed by Byblos Bank with a jump of 33%, BLOM Bank with a rise of 23%, Fransabank with growth of 21.7%, Lebanese Canadian Bank with a surge of 18.6%, Banque Libano-Française with an improvement of 16.7%, Crédit Libanais with an increase of 5.7%, and BankMed with a marginal growth of 0.1%. In contrast, Bank Audi's Tier One capital contracted by 1.2%, constituting the only drop among the 9 Lebanese banks included in the survey.

The aggregate Tier One capital of the 9 Lebanese banks totaled \$8.67bn at end-2010, constituting an increase of 15% from the previous year compared to a 10% rise in the Tier One capital of the Top 1000 banks. Also, Lebanon had the best loans-to-deposits ratio at 41.85% among countries represented by the Top 1000 banks. Further, the profits-to-Tier One capital ratio of the Lebanese banks reached 19.9% in 2010 compared to 13% for the Top 1000 banks. In addition, Lebanon ranked in 18th place globally and in third place in the Arab world in terms of profits on average capital in 2010. Lebanon's ratio of 21% came behind Morocco with 25.5% and Qatar with 24.3% in the region. The 9 Lebanese banks accounted for 0.15% of the Tier One capital of the Top 1000 banks, for 0.11% of their total assets and for 0.24% of their aggregate pre-tax profits.

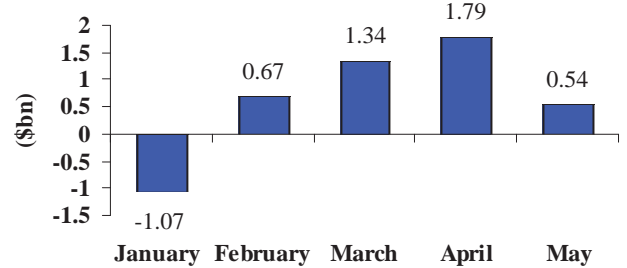


Source: *The Banker* magazine, Byblos Research

Commercial banks' assets reach \$134bn at end-May 2011

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$134bn at the end of May 2011, constituting an increase of 4% from end-2010 and a rise of 11.1% from end-May 2010. Private sector deposits totaled \$110.5bn, increasing by 3.1% from end-2010 and rising by 11.4% from a year earlier. Deposits in Lebanese pounds reached \$37.1bn, down 6.1% from end-2010 but up 0.2% year-on-year, while deposits in foreign currencies reached \$73.4bn and rose by 8.3% from the end of last year and by 18% from end-May 2010. Non-resident foreign currency deposits totaled \$17bn at end-May 2011, up by 9.1% from end-2010 and by 21.1% year-on-year. Total private sector deposits decreased by \$1.1bn in January, rose by \$673m in February and grew by \$1.34bn in March, \$1.79bn in April and \$539m in May 2011. In parallel, deposits of non-resident banks reached \$6.2bn, an increase of 38.4% from end-2010 and of 16% year-on-year. The dollarization rate of deposits reached 66.4% at the end of May relative to 63.2% at end-2010 and 62.7% at end-May 2010. Further, the average deposit rate in Lebanese pounds reached 5.64% in May compared to 5.93% a year earlier, while the same rate in US dollars was 2.84%, unchanged from May 2010.

Private sector deposit change in first 5 months of 2011



Source: Association of Banks in Lebanon

Loans to the private sector totaled \$37.4bn at end-May, constituting an increase of 7.2% from end-2010 and up 19.1% year-on-year. Lending to the non-resident private sector reached \$5.43bn and rose by 17.7% from end-2010. The dollarization rate in private sector lending reached 79.8%, marginally down from 80.3% at end-2010 and compared to 82.5% a year earlier. The average lending rate in Lebanese pounds was 7.67% in May 2011 compared to 8.47% a year earlier, while the same average in US dollars was 7.04% compared to 7.1% in May 2010. In addition, claims on non-resident banks reached \$17bn at end-May, posting an increase of 7.2% from end-2010. Claims on the public sector stood at \$28.3bn, down 2.2% year-on-year and 3.4% from end-2010, and accounted for 43.1% of the banking sector's total claims. The ratio of private sector loans to deposits in foreign currencies stood at 40.7%, well below the Central Bank's limit of 70%, and below the ratio of 41.7% a year earlier. In parallel, the same ratio in Lebanese pounds was 20.4%, up from 14.9% a year earlier. The ratio of total private sector loans to deposits was at 33.9% compared to 31.7% a year earlier. The banks' aggregate capital base stood at \$10.5bn, up by 13.3% from end-2010 and 22.1% from \$8.6bn in May 2010.

Fitch downgrades Individual Rating of HSBC Middle East, affirms other ratings

Fitch Ratings downgraded HSBC Bank Middle East's (HBME) Individual Rating to 'C' and removed it from Rating Watch Negative. It also affirmed the bank's Long-term Issuer Default Rating (IDR) at 'AA-', Short-term IDR at 'F1+', and Support Rating at '1', as well as the senior unsecured notes at 'AA-'. It said the outlook for the long-term rating is 'stable'. HBME is a wholly-owned subsidiary of HSBC Holdings plc. It operates through a network of 47 branches in Lebanon, Jordan, the UAE, Oman, Bahrain, Qatar, Kuwait, Pakistan, and the Palestinian Territories. The bank operates in Lebanon through 5 branches. The agency said the ratings are underpinned by an extremely high probability of support from its parent company. It attributed the downgrade of the Individual Rating reflects to the bank's weakened asset quality, exposure to government-related entities in Dubai and the stressed real estate sector in the UAE, as well as the elevated political risks in the region, which may affect some of its operations. It added that the Individual Rating also reflects HBME's regional franchise, its sound liquidity as well as the benefits of being part of the HSBC Group.

Fitch noted that the bank's asset quality weakened further in 2010, partly due to the classification of certain Dubai government-related entities as impaired. It expected earning growth to be challenging for HBME in 2011 due to the unrest in the MENA region and to fewer lending opportunities in the UAE. The agency added that core earnings continue to provide the bank with good loss absorption capacity against further possible increases in NPLs, given the bank's adequate level of provisioning. It considered that NPLs may have peaked, but that asset quality could remain under pressure in 2011. HBME ranks in 17th place in assets, 16th place in deposits, and in 14th place in loans and advances in the Lebanese market.

RYMCO announces General Assembly

The Board of Directors of Rasamny Younis Motor Co. sal (RYMCO) invited its shareholders to its Ordinary General Assembly to be held on August 8, 2011. The agenda of the meeting includes hearing the Board of Directors and the auditors' reports for 2010, approving the financial statements of 2010, granting clearance to the Chairman and Board members for their administrative duties during 2010, as well as other issues. RYMCO declared net profits of \$0.4m in 2010, constituting a decline of 80.7% from \$2.1m in 2009. Its total assets and total equity amounted to \$156.5m and \$52.2m at the end of 2010, respectively, compared to \$137.2m and \$51.8m at the end of 2009. RYMCO is the only car retailer listed on the Beirut bourse.

Bank Audi to raise capital by issuing common shares

Bank Audi sal, one of Lebanon's top 3 banks, invited its shareholders to an Extraordinary General Assembly to be held on July 25, 2011 to discuss the increase of the bank's share capital through the issuance of 1,326,490 common shares for shareholders who exercised their stock options. It added that, once issuance is approved, these common shares will be listed on the Beirut Stock Exchange.



Ratio Highlights

(in % unless specified)	2007	2008	2009	Change*
Nominal GDP ⁽¹⁾ (\$bn)	25.0	29.9	34.9	
External Debt / GDP	84.9	70.7	60.9	(980)
Local Debt / GDP	83.2	86.5	85.5	(100)
Total Debt / GDP	168.1	157.3	146.4	(1,090)
Total External Debt / GDP	194	172	169.2	(280)
Trade Balance / GDP	(36.0)	(42.3)	(36.5)	580
Exports / Imports	23.8	21.6	21.5	(10)
Budget Revenues / GDP	23.2	21.7	22.9	120
Budget Expenditures / GDP	33.4	24.5	24.8	30
Budget Balance / GDP	(10.2)	(2.7)	(1.9)	80
Primary Balance / GDP	2.9	2.0	3.1	110
BdL FX Reserves / M2	59.4	67.5	71.2	370
M3 / GDP	239.3	229.6	235.2	560
Bank Assets / GDP	329.0	315.2	330.2	1,500
Bank Deposits / GDP	269.1	260.1	274.4	1,430
Private Sector Loans / GDP	81.7	83.7	81.3	(240)
Dollarization of Deposits	77.3	69.6	64.5	(510)
Dollarization of Loans	86.4	86.6	84.0	(260)

* Change in basis points 08/09

(1) Based on Ministry of Finance Estimations and the International Monetary Fund

Source: Association of Banks in Lebanon, Byblos Research Calculations

Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

Risk Outlook

Lebanon	Mar 2010	Feb 2011	Mar 2011	Change*	Risk Level
Political Risk Rating	58.5	56.5	55.5	▼	High
Financial Risk Rating	28.0	28.5	28.5	▲	High
Economic Risk Rating	35.5	32.5	32.5	▼	Moderate
Composite Risk Rating	61.0	58.7	58.2	▼	High

Regional Average	Mar 2010	Feb 2011	Mar 2011	Change*	Risk Level
Political Risk Rating	64.9	62.6	60.7	▼	Moderate
Financial Risk Rating	42.2	42.2	41.9	▼	Very Low
Economic Risk Rating	36.8	38.0	37.6	▲	Low
Composite Risk Rating	71.9	71.4	70.1	▼	Low

*year-on-year

Source: The PRS Group, Byblos Research

Note: Political & Composite Risk Ratings range from 0 to 100 (where 100 indicates the lowest risk)

Financial & Economic Risk ratings range from 0 to 50 (where 50 indicates the lowest risk)

Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's	B1	NP	Stable	B2		Stable
Fitch	B	B	Stable	B		Stable
S&P	B	B	Stable	B	B	Stable
Capital Intelligence	B	B	Stable	B	B	Stable

Source: Rating agencies

Banking Ratings	Banks' Financial Strength	Banking Sector Risk	Outlook
Moody's	D-		Stable
EIU		B	Stable

Source: Rating agencies



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