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LEBANON THIS WEEK

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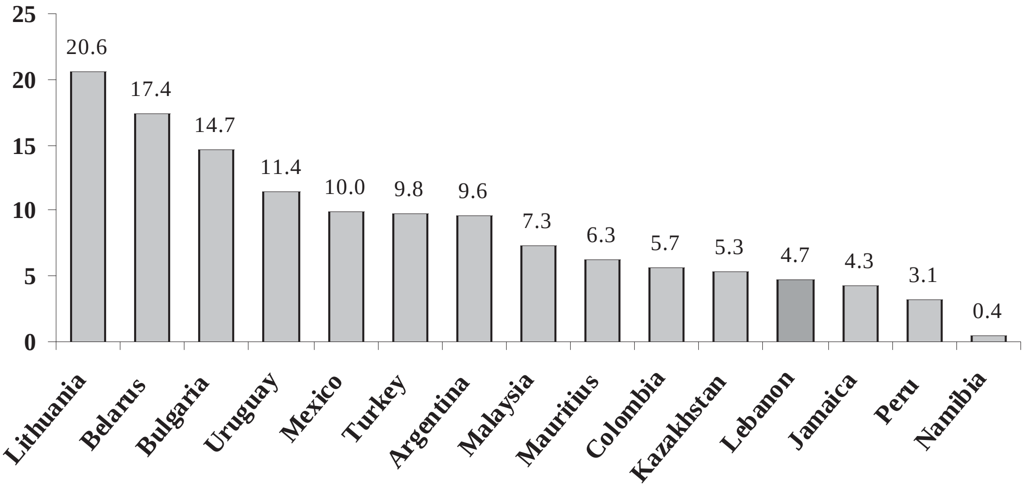
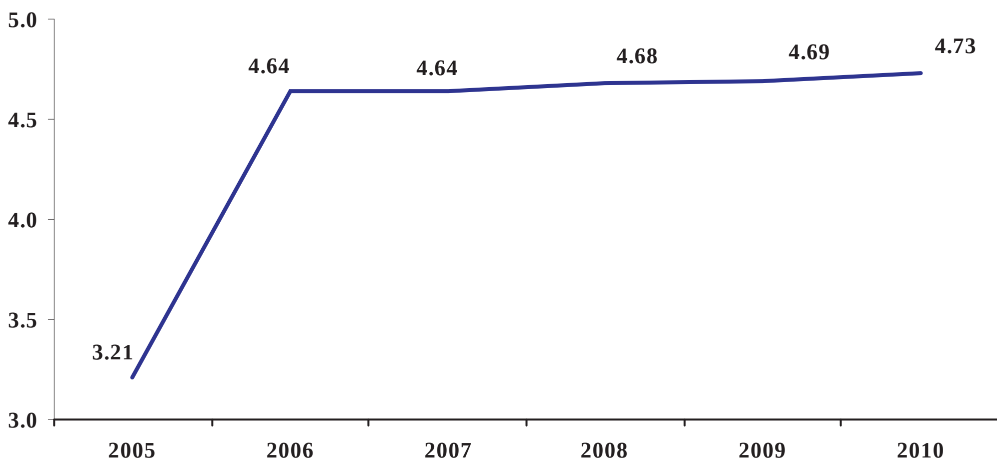
Fixed Broadband Penetration in Select Upper Middle Income Countries at end-2010 (subscriptions per 100 inhabitants)



Fixed Broadband Penetration in Lebanon (subscriptions per 100 inhabitants)



Source: International Telecommunication Union, Byblos Research

Quote to Note

"Maintaining security and stability in Lebanon will strengthen the country's ability to attract foreign investment, especially given the recent political and security developments in many countries of the region."

H.E. President Michel Suleiman, on a key requirement to attract foreign capital to Lebanon

Number of the Week

5.7%: Annual average real GDP growth per capita in Lebanon during the past five years, according to Fitch Ratings

Economic Indicators

$m *(unless otherwise mentioned)*	2009	May 10	2010	Mar 11	Apr 11	May 11	% Change*
Exports	3,486	371	4,256	354	375	377	1.62
Imports	16,241	1,369	17,956	1,631	1,501	1,578	15.27
Trade Balance	(12,755)	(998)	(13,700)	(1,277)	(1,126)	(1,201)	20.34
Balance of Payments	7,899	(195)	3,326	270	(199)	(199)	2.05
Checks Cleared in LBP	11,122	1,068	13,519	1,301	1,160	1,145	7.21
Checks Cleared in FC	45,270	4,677	53,925	4,798	4,485	4,495	(3.89)
Total Checks Cleared	56,392	5,745	67,444	6,099	5,645	5,640	(1.83)
Budget Deficit/Surplus	(2,960)	(183)	(2,892)	(548)	(301)	183	(200.05)
Primary Balance	1,078	137	1,232	(120)	163	455	232.19
Airport Passengers	4,986,544	420,212	5,552,260	347,795	466,640	420,133	(0.02)

$bn *(unless otherwise mentioned)*	Dec 2009	May 10	Feb 11	Mar 11	Apr 11	May 11	% Change*
BdL FX Reserves	25.66	27.32	28.42	28.54	28.76	28.44	4.10
In months of Imports	*18.6*	*19.96*	*23.33*	*17.40*	*19.16*	*18.02*	*(9.72)*
Public Debt	51.09	51.07	52.08	52.59	52.61	52.72	3.23
Net Public Debt	44.11	44.24	45.31	45.61	45.72	45.70	3.30
Bank Assets	115.25	120.69	130.06	132.49	133.80	134.04	11.06
Bank Deposits (Private Sector)	95.77	99.21	106.80	108.15	109.93	110.47	11.35
Bank Loans to Private Sector	28.37	31.44	35.70	36.43	36.81	37.45	19.12
Money Supply M2	34.16	37.43	37.03	37.14	37.48	37.22	(0.56)
Money Supply M3	82.08	86.04	92.01	92.76	94.20	94.11	9.38
LBP Lending Rate (%)	9.04	8.47	7.71	7.73	7.73	7.67	(80b.p.)
LBP Deposit Rate (%)	6.75	5.93	5.63	5.63	5.64	5.64	(29b.p.)
USD Lending Rate (%)	7.28	7.10	7.01	7.24	7.05	7.04	(6b.p)
USD Deposit Rate (%)	3.05	2.84	2.90	2.82	2.84	2.84	0b.p.
%* Change in CPI**	4.20	4.55	5.09	6.94	6.56	7.30	275b.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"	17.64	6.65	82,271	15.53%
Solidere "B"	17.50	6.58	56,135	10.02%
Byblos Common	1.68	(3.45)	224,500	5.32%
Byblos Pref. 08	100.10	0.00	0	1.76%
Byblos Pref. 09	100.10	0.10	1,750	1.76%
BLOM GDR	8.68	0.00	0	5.65%
BLOM Listed	8.40	(0.71)	69,100	15.90%
Audi GDR	7.30	(0.68)	72,813	6.34%
Audi Listed	6.94	(0.43)	63,500	21.30%
HOLCIM	16.40	2.50	3,500	2.82%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Aug. 2011	7.500	100.06	4.34
Mar. 2012	7.500	103.50	2.00
Sep. 2012	7.750	105.50	2.69
June 2013	8.625	109.75	3.28
Apr. 2014	7.375	109.00	3.85
Apr. 2015	10.00	118.38	4.59
Jan. 2016	8.500	115.00	4.74
Mar. 2017	9.000	118.50	5.18
Nov. 2018	5.150	98.63	5.38
Apr. 2021	8.250	117.00	5.92

Source: Byblos Capital Markets

	July 18-22	July 11-15	% Change	June 2011	June 2010	% Change
Total Shares Traded	580,419	905,494	(35.90)	2,792,846	5,167,659	(45.96)
Total Value Traded	$4,585,303	$13,320,553	(65.58)	$34,880,478	$47,678,154	(26.84)
Market Capitalization	$11.36bn	$11.23bn	1.12	$11.33bn	$12.50bn	(9.37)

Source: Beirut Stock Exchange (BSE)

Lebanon in the News

Lebanon is 83rd biggest exporter, 66th largest importer in first quarter of 2011

Figures issued by the World Trade Organization indicate that Lebanon ranked in 83rd place among 95 countries around the world and in last place among 10 Arab countries in terms of merchandise exports during the first quarter of 2011. Lebanon's regional ranking was unchanged from the same period last year, but its global rank dropped by one notch. Globally, Lebanon tied with Tanzania, ranked ahead of Iceland, Paraguay and Malta, and came behind El Salvador, Kenya, and the Dominican Republic. Lebanon's exports decreased marginally by 0.5% year-on-year compared to an increase of 22.3% for world exports and a rise of 36.3% for the exports of Arab countries included in the survey. Lebanese exports accounted for 0.03% of global exports and for 0.7% of aggregate Arab exports in the first quarter of 2011.

Further, Lebanon ranked in 66th place among 94 countries globally and in 7th place among 9 Arab countries included in the survey in terms of merchandise imports in the first quarter of 2011. Lebanon's ranking was unchanged regionally, but was up by one spot globally relative to the same period of 2010. Globally, Lebanon ranked ahead of Croatia, Serbia and Jordan, and came behind Tunisia, Ecuador and Kuwait. Regionally, Lebanon ranked ahead of Jordan and Bahrain and came behind Tunisia, Kuwait and Algeria. Lebanese imports increased by 4.5% year-on-year, compared to a rise of 21.5% for world imports and an increase of 7.3% for Arab imports. Lebanese imports accounted for 0.1% of global imports and for 6% of aggregate Arab imports in the first quarter of 2011.

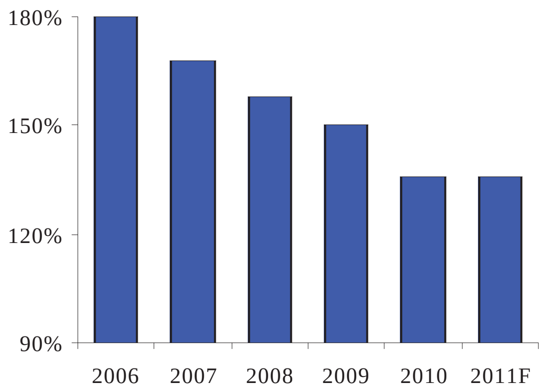
In parallel, Lebanon ranked in 77th place globally and in last place among 10 Arab countries in terms of the combined value of exports and imports in the first quarter of 2011. Lebanon's ranking dropped by six spots globally and by one notch among Arab economies from the same period last year. Globally, Lebanon ranked ahead of Dominican Republic, Kenya and Uruguay and came behind Bahrain, Latvia and Jordan. Lebanon's trade volume amounted to $5.97bn in the first quarter of 2011 compared to $5.77bn in the same period last year, reflecting an increase of 3.4% compared to a rise of 22% in global trade activity and an increase of 25.4% in Arab trade. Lebanon's trade activity accounted for 0.07% of global trade and for 2.4% of aggregate Arab trade in the first quarter of 2011.

Government to rollover Eurobond maturing in August

The Ministry of Finance indicated that Lebanon intends to roll over $$950m in Eurobonds maturing in August 2011 that include $750m in principal and $200m in interest. The ministry intends to tap the market to refinance the bond and has reportedly selected Citigroup and BLOM Bank sal to manage the issuance. The ministry is hoping that market appetite for high yielding securities will increase demand, given the U.S. Federal Reserve's decision to maintain interest rates at near zero. The $750m maturing bond is the last part of $2.1bn in maturing Eurobonds this year.

Last May, the government issued a $1bn dual-tranche Eurobond under the Republic of Lebanon's Global Medium Term Note Program in order to refinance a $1bn bond that matured in the same month. The first tranche consisted of an 8-year $650m bond that matures in May 2019 and carries a coupon rate of 6% paid semi-annually. The second tranche consisted of an 11-year $350m bond that matures in October 2022 and carries a coupon rate of 6.1% paid semi-annually. Byblos Bank sal, along with Fransabank sal and HSBC Bank, jointly lead-managed the Eurobond issue.

Total Government Debt (% of GDP)



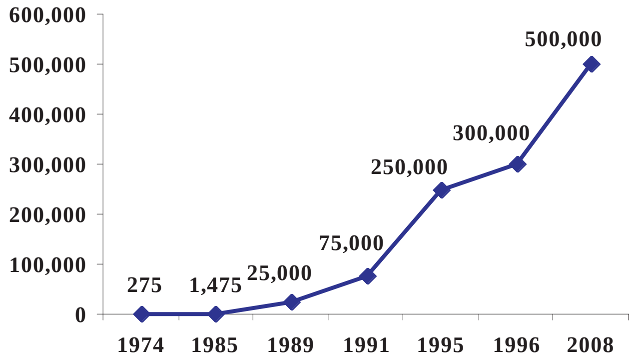
Source: Institute of International Finance

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. 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.

Labor federation requests raising minimum wage by 150%

The General Labor Confederation (GLC) asked the Lebanese government to increase the minimum wage by LBP750,000 to LBP1,250,000, which would constitute an increase of 150% in basic salaries. It also asked authorities to increase social benefits. The Association of Lebanese Industrialists rejected the proposal on the ground that the increase could not be borne employers in Lebanon. The association added that increasing the minimum wage without giving incentives to raising the level of productivity of Lebanese industry could lead to the closure of many factories and the layoff of workers. Further, the Federation of Chambers of Commerce, Industry & Agriculture announced its opposition to the GLC's proposal, and added that the raise could lead to the bankruptcy of 80% of private companies in Lebanon.

Evolution of the Minimum Wage (in Lebanese pounds)



The Council of Ministers raised in September 2008 the minimum wage by LBP200,000 or 66.7% to LBP500,000, and authorized a raise of LBP150,000 in retirees' pensions. Also, the Council of Ministers increased at the time the transportation allowance to LBP8,000 from LBP6,000 a day. The increases were paid retroactively as of May 1, 2008. The GLC aimed to raise the minimum wage to LBP960,000 in 2008, which would have constituted a 220% increase.

Proposal to renew Export Plus program

The Investment Development Authority of Lebanon (IDAL) proposed to renew its Export Plus program of agricultural exports subsidies under a new formula whereby the subsidies will be linked to the quality of the packaging of the products. It said the new program would cost $20m annually, equivalent to 75% of the cost of the program in 2007, and will include training and promotional sessions. The program expired at the end of last March but was extended for a four-month period until the end of July 2011. IDAL launched the Export Plus program in August 2001 to support agricultural exports. The program consists of a subsidy for the transport of agricultural goods based on the quantity exported and the destination. In April 2006, the government approved a 20% annual reduction in the subsidies until they are gradually phased out over a five-year period. The subsidies under the program average about $30m per year.

IDAL indicated that exports under the program accounted for 80% of Lebanon's aggregate agricultural exports during the 2001-10 period, of which 71% originated from the North and the Bekaa valley. It said that the amount of subsidies totaled $211m during the covered period, with subsidies peaking at $30m in 2004 and reaching a low of $9m in 2010. It added that the North received $72m in subsidies during the 2005-10 period, followed by the Bekaa region with $64m, Mount Lebanon with $19m, the South with $17m and Beirut with $3m. Further, it said that citrus products accounted for 24% of subsidized exports in 2010, followed by apples with 21%, potatoes with 18%, bananas with 16%, grapes with 6%, and lemon with 4%.

New center for medical waste management in Saida

Lebanese non-governmental organization Arc en ciel inaugurated a new center for medical waste management in Saida, which aims to treat hazardous hospital waste in Southern Lebanon. It said the center can process medical waste produced by 70% of hospital beds in the South. It added that the $750,000 project is funded by the Spanish Agency for International Development Cooperation and is implemented by Arc en ciel as part of its country-wide hazardous hospital waste management program. The Saida center constitutes Arc en ciel's fifth medical waste management facility, along with two centers in Beirut and one in each of Zgharta and Zahlé. Launched in 2003, the program manages the collection and processing of hazardous medical waste with the aim to reduce to zero the level of risk related to hazardous medical waste, while another part of the project deals with related research and development. The Ministry of Environment estimated the cost of environmental degradation in Lebanon at $565m per year, equivalent to 3.5% of GDP while it stated that the amount spent yearly to address health problems caused by pollution reached around $230m.

Lebanon in the News

Consumer Price Index up 6% annually in June

The Central Administration of Statistics' Consumer Price Index indicates that inflation increased by 6% in June 2011 from June 2010. Prices of clothing and footwear increased by 21.1%, followed by water, electricity, gas & other fuels (+13.1%), food & non-alcoholic beverages (+7.6%), education (+6.7%), restaurants & hotels (+6%), health care (5.9%), transportation (+5.8%), recreation & entertainment (+3.1%), miscellaneous goods & services (+1.7%), furnishings & household equipment (+1.3%) and alcoholic beverages & tobacco (+0.6%). In parallel, housing prices and communication remained unchanged year-on-year. Imported inflation accounts for about 70% of inflation in the country, as Lebanon has an import-based economy. Lebanon imports most of its energy needs and the value of imports historically has been equivalent to about five times that of exports.

The Consumer Price Index decreased by 0.4% in June 2011 from May 2011. Prices of recreation & entertainment increased by 0.6%, followed by furnishings & household equipment (0.4%), miscellaneous goods & services (0.2%), restaurants & hotels, health care and alcoholic beverages & tobacco (0.1% each). In parallel, transportation decreased by 2.1%, water, electricity, gas & other fuels and clothing & footwear prices decreased by 1.3% each and prices of food & non-alcoholic beverages regressed by 0.1%, while housing prices, communication, and education remained unchanged month-on-month. In parallel, the Consumer Price Index grew by 5.6% year-on-year in May and increased by 5.3% year-on-year in April.

Number of tourists down 20% in first half of 2011

The number of incoming tourists to Lebanon totaled 774,214 in the first half of 2011, constituting a decrease of 19.7% from 964,067 tourists in the same period last year, driven by annual declines in tourist arrivals of 23.1% in June, 29.1% in May, 20.4% in April, 14.3% in March, 17% in February and 7.6% in January. Arab tourists accounted for 31.9% of total visitors in the first half of the year, and were followed by visitors from Europe with 28.5%, Asia with 19.3%, the Americas with 13.5%, Africa with 3.6%, and Oceania with 3.2%. Tourists from Jordan accounted for 8.2% of total visitors in the first half of 2011, followed by visitors from France with 7.3%, the U.S. with 6.7%, Iraq with 6.4%, and Saudi Arabia with 5.7%. The number of tourists reached 177,916 in June 2011 compared to 231,212 in June 2010. Incoming tourists totaled 2.17 million in 2010, up 17% year-on-year.

Most categories of tourism spending in Lebanon regress in first half of 2011

Figures issued by Global Blue, the VAT refund operator for international shoppers, show that visitors from Saudi Arabia spent the most in Lebanon during the first six months of 2011, accounting for 20% of total tourists' spending. They were followed by visitors from the UAE with 11%, Kuwait with 9%, Syria with 8% and Egypt with 6%. Spending by visitors from the UAE rose by 10%, followed by visitors from France with 9% and Syria (2%), while spending by visitors from Egypt contracted by 22% followed by visitors from Jordan (-12%), Saudi Arabia (-6%), Qatar (-4%), and Kuwait (-3%). Beirut attracted 85% of total spending over the covered period, followed by the Metn area with 12%, the Keserwan region with 2% and Baabda with 1%. Fashion & clothing accounted for 70% of total spending, followed by watches with 10%, perfumes & cosmetics with 5%, home & garden products with 4%, department stores and souvenirs & gifts with 3% each, consumer electronics & household appliances with 2% and electronics & IT with 1%. Spending on perfumes & cosmetics increased by 23% in the first six months of 2011, followed by fashion & clothing with a 9% growth, consumer electronics & household appliance with a 6% growth, and home & garden with a 1% growth. Spending on electronics & IT decreased by 24% in the covered period, followed by watches with an 8% drop, souvenirs & gifts with a 2% contraction, and department stores with a 1% decline.

Cleared checks stagnate, returned checks down 7% in first five months of 2011

The value of cleared checks reached $28.3bn in the first five months of 2011, constituting a marginal decrease of 0.3% from the same period of 2010. The value of cleared checks in Lebanese pounds rose by 11.5% to the equivalent of $6bn, while the value of cleared checks in US dollars declined by 3% to $22.3bn. The dollarization rate of cleared checks decreased to 78.8% from 81.1% year-on-year. Also, the value of returned checks in domestic and foreign currency amounted to $611m in the first five months of 2011, down 7% from $657m in the same period last year. In parallel, the number of cleared checks totaled 5.2 million checks in the first five months of 2011, up 1.1% from the same period of 2010. Also, the number of returned checks increased by 9.5% to 104,000 checks in the first five months of 2011 compared to the same period of 2010.

Construction permits up 4% in first five months of 2011

Figures released by the Association of Engineers of Beirut & Tripoli show that construction permits reached 7 million square meters in the first five months of 2011, constituting an increase of 3.6% from 6.8 million square meters in the same period last year. Construction permits totaled 1.8 million square meters in May 2011, up 6.4% year-on-year from 1.7 million square meters in May 2010. In parallel, cement deliveries reached 2.1 million tons in the first five months of 2011, a decrease of 0.8% from 2.09 million tons in the same period last year. Cement deliveries reached 521,000 tons in May 2011, up 8.3 % from 481,000 tons in May 2010.

Lebanon in the News

Industrial exports increase by 4% to $1.4bn in first five months of 2011, imports down by 5% to $101.4m

Figures released by the Ministry of Industry show that industrial exports totaled $1.4bn in the first five months of 2011, constituting an increase of 3.9% from $1.3bn in the same period last year. Industrial exports reached $302.5m in May 2011, unchanged from April 2011 and increasing by 3.6% from May 2010. Pearls & precious or semi-precious stones accounted for $311m, or 22.3%, of total industrial exports in the first five months of the year, followed by base metals & articles of base metals with $250.4m (18%), and machinery and mechanical appliances with $219.6m (15.7%). Arab countries accounted for 38.4% of total industrial exports in April, followed by European countries with 23.2%. In parallel, industrial imports reached $101.4m in the first five months of the year, up 4.9% from the same period in 2010. Italy was the main source of such imports and accounted for 31.8% of total. It was followed by China with 15% and Germany with 9.4%. Further, imports of industrial equipment and machinery reached $24.2m in May 2011, increasing by 23.7% year-on-year. Italy was the main source of imports of industrial equipments, accounting for 23.6% of total, followed by the Netherlands with 12.6% and Germany with 11%.

Overdrafts account for 32% of bank credits, share of trade & services at 35% of utilized credits at end March 2011

Figures issued by the Central Bank about the distribution of bank credits by type show that overdrafts accounted for $12.9bn, or 31.6% of total private sector credits at the end of March 2011. They were followed by advances against real estate with $10.5bn (25.6%), advances against personal guarantees $7.2bn (17.6%), advances against cash collateral or bank guarantees $5.6bn (13.7%), advances against other real guarantees $2.7bn (6.6%), and advances against financial values $2bn (4.9%). In parallel, utilized credits by the private sector totaled $40.8bn at end-March 2011, with the trade & services sector accounting for $14.4bn, or 35.4% of such credits. It was followed by personal credits with $9.4bn (23.2), construction with $7bn (17.2%), industry with $4.7bn (11.5%), financial intermediaries with $3.4bn (8.4%) and agriculture with $386m (0.9%), while other sectors accounted for the remaining $1.4bn (3.4%). Also, wholesale trade represented 42.8% of trade & services credits, followed by real estate services with 20.3%, retail with 16.1%, transport & storage with 10.6%, hotels & restaurants with 7.6% and educational services with 2.6%.

Personal credits accounted for 77.9% of loan beneficiaries, followed by trade & services with 12.1% of beneficiaries, industry with 3.3%, construction with 1.5%, and financial intermediaries and agriculture with 0.8% each, while other sectors accounted for 3.6%. Further, the aggregate number of loan beneficiaries grew by 24.2% year-on-year to 366,568, while 83.4% of beneficiaries had loans ranging from LBP5m to LBP100m by end March-2011. Beirut and its suburbs accounted for 80.5% of bank credits and for 56.2% of beneficiaries. It was followed by Mount Lebanon with 8.4% of credits and 16.1% of beneficiaries; South Lebanon with 4% of credits and 8.4% of beneficiaries; North Lebanon with 3.9% of credits and 12.9% of beneficiaries; and the Bekaa with 3.1% of credits and 6.3% of beneficiaries.

Commercial activity retreats in first quarter of 2011

The Central Bank's quarterly business survey of opinions indicated that the volume of commercial sales decreased during the first quarter of 2011, with the balance of opinion standing at -27, compared to zero during the preceding quarter and to +22 during the same quarter of 2010. The business survey reflects the opinions of enterprise managers on their business activity in order to depict the evolution of a number of key economic variables. The balance of opinion for inventory levels in all commercial sub-sectors was -4 in the first quarter of the year compared to +8 in the same quarter last year. The balance of opinion is the difference between the proportion of surveyed managers who consider that there was an improvement in a particular indicator and the proportion of those who reported a decline in the same indicator.

Commercial Activity: year-on-year evolution of opinions

Aggregate results	**Q1-08**	**Q1-09**	**Q1-10**	**Q1-11**
Sales volume	-11	18	22	-27
Inventories of finished goods	3	12	8	-24
Q4-10 Regional results	**Beirut / Mount Lebanon**	**North**	**South**	**Bekaa**
Sales volume	-16	-48	-46	-21
Inventories of finished goods	0	-25	-10	8

Source: Central Bank Business Survey in first quarter 2011

Corporate Highlights

Moody's changes outlook on four banks to negative

Moody's Investors Service changed to 'negative' from 'stable' the outlooks on the 'D-' standalone bank financial strength ratings (BFSR) and the 'Ba3' global local-currency (GLC) deposit ratings of Bank Audi, BLOM Bank, Byblos Bank and Bank of Beirut. It also changed the outlooks on the banks' long-term national-scale ratings (NSRs) to 'negative' from 'stable' and affirmed the banks' long-term foreign-currency deposit ratings at 'B1'. The agency attributed its decision to the slowdown in the Lebanese economy in the first half of 2011 due to domestic political uncertainties and ongoing unrest in Syria, both of which have negatively affected domestic credit conditions and could weaken the banks' asset quality and profitability. It added that the negative outlook on Bank Audi and BLOM Bank also reflects material exposures to Egypt and Syria. It noted that Byblos Bank's exposure to countries that have recently experienced political turmoil is more moderate, while that of Bank of Beirut is limited.

The agency considered that increased domestic and regional uncertainties affect Lebanese banks' operating environment and put pressure on asset quality and performance. It said Lebanese economic growth is projected to slow to around 2.5% in 2011 from a yearly averge of over 7% in the past four years, which will weaken credit conditions in the banking system. It noted that the Lebanese banking sector has increased its exposure to Syria in recent years, as Bank Audi, BLOM Bank and, to a lesser extent, Byblos Bank all have exposures in Syria through subsidiaries. It added that Bank Audi and BLOM Bank also have exposures to Egypt, which is expected to experience a sharp economic slowdown in 2011 weighing on banks' asset quality and performance prospects, and where political risk remains elevated amid the ongoing political transition process. It said that there is typically a time lag between credit negative events and evidence of asset quality deterioration.

In parallel, Moody's said the four banks have very high liquidity levels and maintain sizable cash placements with international banks. Also, deposits at the four banks have historically shown a remarkable resilience during periods of heightened political tension, and inflows are expected to remain positive but to slowdown relative to previous years.

Moody's downgrades Banque Bemo's ratings, outlook negative

Moody's Investors Service downgraded Banque Bemo's long-term national-scale rating (NSR) to 'Aa3.lb' from 'Aa2.lb' and maintained the short-term NSR of 'LB-1'. The outlook on the ratings is 'negative'. It attributed the downgrade to the slowdown in the Lebanese economy so far this year and to elevated regional political risks, which exacerbate Bemo's intrinsic limitations of high single-party credit exposures, a modest franchise and marginal profitability. The agency said Bemo is vulnerable to deterioration in the credit standing of its large customers, given the bank's profile and the weakened domestic economic conditions. It added that the bank's asset quality is currently strong, but that it has very high single-party exposures, even before taking into account its exposure to the Lebanese sovereign. It noted that the bank's sovereign risk exposure is significantly below the levels of larger Lebanese banks, but it remains a multiple of its Tier 1 capital.

It added that Bemo's corporate banking focus results in thinner profitability metrics, and that profitability may not be able to absorb a plausible increase in provisioning charges. It said the bank reported an increase in profits in the first quarter, mainly due to provisioning write-backs, which reflected in part the very good performance of the Lebanese economy in prior years. It added that the bank's profitability is materially impacted by the performance of its 22% share in Syria's Bank Bemo Saudi Fransi (BBSF). It said BBSF's profits account for over a third of the bank's net income and for 12% of its net revenues due to Bemo's elevated cost structure. It noted that potential losses from the bank's Syrian subsidiary could have a significant impact on Bemo's performance. It added that Bemo's increase of its core capital last April improves the bank's capacity to tolerate asset-quality pressures. It noted that Bemo has comfortable liquidity ratios, including significant deposits with international banks.

Car sales down 4% in first half of 2011

Figures released by the Association of Automobile Importers in Lebanon indicate that a total of 15,211 new passenger cars were sold in the first half of 2011, constituting a decrease of 4.3% from the 15,892 cars sold in the same period last year. Korean cars accounted for 42.8% of total car sales, followed by Japanese cars with a 30.1% share, European automobiles with 21%, American vehicles with 5.4%, and Chinese cars with 0.7%. The number of Korean cars sold grew by 34.6 % year-on-year. In parallel, the number of Chinese cars sold posted a drop of 29.1% year-on-year, followed by Japanese autos with a 23.5% decrease, American vehicles with a 22.7% decline and European cars with a 17.2% drop. Kia is the leading brand in the Lebanese market with 4,037 cars sold in the first half of 2011, followed by Nissan with 2,606 cars sold, Hyundai with 2,467, Toyota with 678, Chevrolet with 586 cars sold, Renault with 510, and Peugeot with 465 cars. Further, a total of 1,088 new commercial vehicles were sold in the first half of 2011, down 25.6% from the 1,463 commercial vehicles sold in the same period last year.

Corporate Highlights

Start-up accelerator takes off

Seeqnce 2.0, a web and mobile start-up accelerator, announced the launch of its operations in Beirut. The start-up accelerator, which is modeled on international best practices, indicated that it provides an enhanced co-working space for entrepreneurs, alongside a collaborative environment for the digital innovation community. It added that it directs a program that takes start-ups from idea, to prototype, development, marketing, launch, funding, and growth. The accelerator is built around state-of-the-art co-working facilities and context-sensitive environments designed to facilitate learning, idea creation, innovation, acceleration, and integration. Seeqnce 2.0 is a follow up to the formation about one year ago of Seeqnce sal, a start-up catalyst. The latter was a platform that brought together entrepreneurs, mentors, investors, advisors, consultants, and partners.

Waste-to-energy technology to be implemented for first time in Lebanon

Lebanese paper-recycling company Sicomo and the Swedish firm energiprojekt AB signed a $2m contract to implement waste-to-energy technology that would help Sicomo turn waste plastics into hydrocarbons to fuel its plant with electricity and save on energy costs. Sicomo indicated that it spends $2m per year to ensure its supply of fuel and to compensate for the recurrent electricity blackouts in Lebanon. It said that such costs make the company's products less competitive in regional markets where competitors benefit from cheap energy cost or where energy is heavily subsidized. It added that Sukleen, the waste management company responsible for cleaning the streets of Beirut and Mount Lebanon, constitutes Sicomo's leading provider of paper and paperboard and should provide the plastic waste necessary to produce energy. Established in 1974, Sicomo is a recycled cardboard mill located in the Bekaa valley. The plant consists of an environmentally-friendly operation that produces a variety of cardboard products made with fully recycled waste papers. The mill's annual capacity exceeds 20,000 tons, with more than 80% of the output exported to markets in the Middle East, Europe and Africa.

Launch of massive real estate project north of Beirut

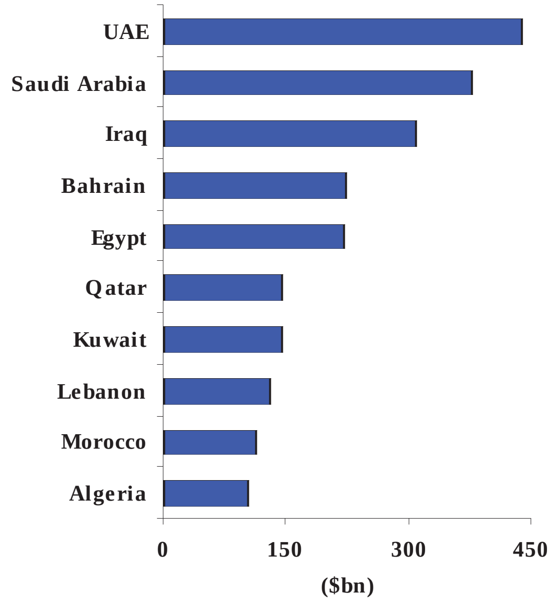
Société Joseph G. Khoury et Fils Holding and the Kuwait-based Majid Al Futaim Properties launched the first phase of Waterfront City, a massive mixed-use real estate development project located on the coastal town of Dbayeh north of Beirut. The project will include residential, commercial and leisure facilities that will be phased out gradually over the coming few years. It consists of seven buildings that will include 5,000 residential units of varying sizes, in addition to a commercial district, a shopping mall, a hotel, and dining and entertainment facilities. Waterfront City, which will cover a total of 193,000 square meters, is part of a one million square meter reclamation project completed in 1997. The two companies said that infrastructure, such as parks, roads, footpaths, lighting and security will be upgraded by the developer.

Ten Lebanese banks among top 100 Arab banks, Byblos Bank is 38th largest bank in the region

The Union of Arab Banks' 2011 survey of top 100 Arab banks included 10 Lebanese banks on its list. The survey ranked banks based on total assets at year-end 2010. Bank Audi came in 20th place, followed by BLOM Bank in 27th place, Byblos Bank in 38th place, Fransabank in 47th place, BankMed (48th), Banque Libano-Française (59th), Bank of Beirut (63rd), Crédit Libanais in (74th), Lebanese Canadian Bank (83rd) and Société Générale de Banque au Liban (84th). The total assets of the 10 Lebanese banks reached $123.2bn at end-2010, up 10% from end-2009. Also, the total assets of the 10 Lebanese banks accounted for 7% of the aggregate assets of the largest 100 Arab banks at end-2010, up from 6.8% at end-2009. Also, the aggregate loans of the 10 Lebanese banks accounted for 3.7% of total lending of the top 100 banks in 2010, up from 3.1% in 2009; while their total deposits represented 8.5% of the largest 100 Arab banks at end-2010 compared to 8.2% at end-2009. Further, the total profits of the 10 Lebanese banks reached $1.5bn in 2010, an increase by 22.3% from 2009, and accounted for 6% of the aggregate profits of the 100 Arab banks included in the survey.

In parallel, the survey indicated that the Lebanese banking sector was the eight largest in the region in terms of assets and accounted for 5.2% of the aggregate assets of all Arab banks at the end of last year. Banking sectors in the UAE, Saudi Arabia, Iraq, Bahrain, Egypt, Qatar and Kuwait had higher aggregate assets than the assets of banks operating in Lebanon.

Top 10 Arab Banking Sectors in Terms of Assets



Source: Union of Arab Banks

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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