

LEBANON THIS WEEK

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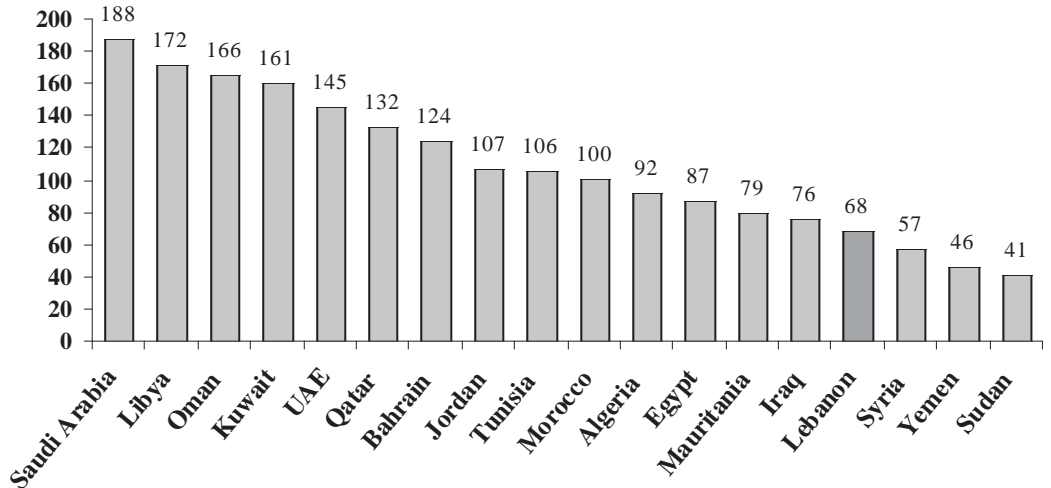
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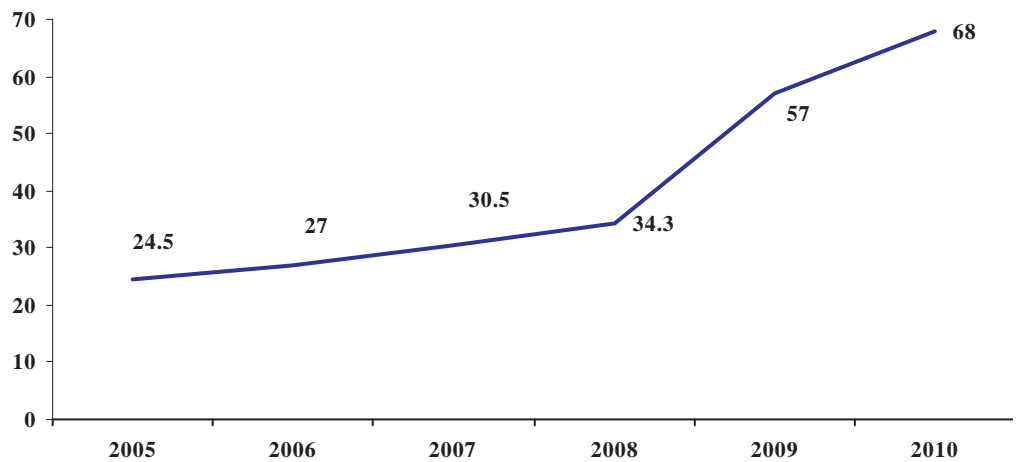
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Charts of the Week

Mobile Cellular Penetration in Arab Countries at end-2010
(subscriptions per 100 inhabitants)



Mobile Cellular Penetration in Lebanon (subscriptions per 100 inhabitants)



Source: International Telecommunication Union, Byblos Research

Quote to Note

"Privatizing state enterprises will remain a sensitive issue owing to ideological differences and vested interests."

The Economist Intelligence Unit, on the real reasons behind the delay in privatizing state-owned enterprises

Number of the Week

75: Lebanon's rank among 125 countries in terms of the availability and quality of infrastructure that encourages innovative activities, according to the World Economic Forum's Global Innovation Index

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
<i>In months of Imports</i>	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 25-29	July 18-22	% Change	July 2011	July 2010	% Change
Total Shares Traded	443,133	580,419	(23.65)	3,194,076	9,412,692	(66.07)
Total Value Traded	\$6,594,586	\$4,585,303	43.82	\$33,654,544	\$117,692,424	(71.40)
Market Capitalization	\$11.25bn	\$11.23bn	0.15	\$11.30bn	\$12.51bn	(9.64)

Source: Beirut Stock Exchange (BSE)



Lebanon's brand perception deteriorates in second quarter of 2011

The Nation Brand Perception Index (NBPI) ranked Lebanon in 190th place among 200 countries and territories around the world and in 15th place among 20 countries in the Middle East & North Africa region in the second quarter of 2011. Lebanon also came in 44th place among 46 upper-middle income countries (UMICs) included in the survey. Lebanon ranked in 174th place globally and in 9th place regionally in the first quarter of 2011. The NBPI analyzes international perceptions of a country's brand. It covers the tone, whether positive or negative, and frequency of mentions in the international media. The survey said the number of times a country is mentioned reflects the strength of the brand, but not necessarily its quality. The index is based on a quarterly analysis of millions of mentions of countries in hundreds of thousands of news articles in 38 prominent global media sources. The index scores rely both on the overall quality of the media coverage and the prominence of the country, determined by the number of country references or mentions.

Globally, Lebanon ranked ahead of Ukraine, Greece and Iran and came behind Bosnia & Herzegovina, Cambodia and Côte d'Ivoire in the second quarter. It also ranked ahead of Iran and Libya, and behind Bosnia & Herzegovina and Serbia among UMICs. Lebanon received a score of 29.9 points in the second quarter of 2011, below the global and UMIC averages of 52.2 points and 49.6 points respectively, and the MENA and Arab averages of 39.1 points and 39.8 points respectively. Lebanon was one of 10 Arab countries whose score regressed, and one of 12 countries whose rank declined in the second quarter. Lebanon's score decreased by 31% quarter-to-quarter and by 28% from the second quarter of 2010. Lebanon's score declined by 13.3 points quarter-to-quarter, and posted the second steepest decline in the Arab world behind Syria whose score dropped by 37.1 points. Malaysia had the best nation brand perception in the world with a score of 91 points and Syria the worst brand perception with a score of -2.3 points.

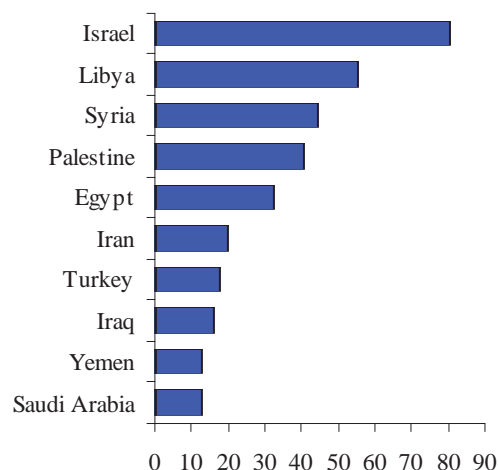
In parallel, Lebanon was the 50th most mentioned country in the international media in the second quarter of 2011, the 13th most mentioned country from the MENA region and the 10th most mentioned among UMICs. Globally, Lebanon was mentioned more than Ukraine, Kuwait and the UAE, and less than Cambodia, Sri Lanka and Tunisia. It was also mentioned more than Cuba and Argentina and less than Serbia and Mexico among UMICs. Lebanon was mentioned 7,231 times in the international media, below the global average mentions of 16,114 times, the MENA average mentions of 19,336 times and the Arab average mentions of 13,735 times, but above the UMICs' average mentions of 6,636 times. Lebanon's number of mentions in the second quarter of 2011 was lower than its 9,574 mentions in the preceding quarter and its 7,603 mentions in the second quarter of 2010.

MENA Scores & Rankings in Q2-2011

	Score	MENA Rank	Global Rank
Kuwait	65.2	1	14
UAE	64.6	2	15
Qatar	59.2	3	20
Oman	51.7	4	67
Jordan	50.7	5	110
Turkey	48.8	6	157
Israel	48.2	7	161
Algeria	47.0	8	163
Morocco	44.1	9	169
Palestine	42.8	10	172
Saudi Arabia	42.1	11	175
Bahrain	40.9	12	178
Egypt	37.9	13	180
Tunisia	36.6	14	184
Lebanon	29.9	15	190
Iran	26.1	16	193
Yemen	18.2	17	195
Iraq	16.1	18	196
Libya	13.5	19	197
Syria	-2.3	20	200

Source: East West Communications, Byblos Research

Top 10 MENA countries mentioned in global media in Q2-2011 (thousands of times)



Economic activity declines in May, overall slowdown trend continues

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 258.5 points in May 2011 compared to 269.9 points in April 2011 and 250.8 in May 2010. The Coincident Indicator, an average of 8 weighted economic indicators, regressed by 4.2% in May and grew by 3.1% year-on-year. The indicator averaged 250.7 in the 12-months ending May 2011 compared to 250 in the 12-months ending April 2011 and to 239.4 in the 12-months ending May 2010. As a result, the average coincident indicator increased marginally by 0.3% month-on-month and rose by 4.7% year-on-year, which reflects economic stagnation in real terms. The indicator posted its third decline this year, as it regressed by 4.4% in February and 0.4% in January. The indicator reached an all-time high in April after peaking at 266.7 last November, but has been on the decline in December, January and February. Further, the month-on-month decrease in May constituted the third steepest decline ever for the indicator for the covered month. In parallel, the indicator improved 7 times and regressed 12 times in the month of May since 1993. The indicator averaged 249.5 in 2010 and 225.9 in 2009.

Lebanon ranks 16th globally in FDI performance, net inflows at \$4.2bn in 2010

Figures released by the United Nations Conference on Trade and Development (UNCTAD) show that foreign direct investment (FDI) in Lebanon totaled \$4.96bn in 2010, constituting an increase of 3.1% from \$4.8bn in 2009. FDI inflows to Lebanon totaled \$4.3bn in 2008 and \$3.4bn in 2007.

Lebanon was the fourth largest recipient of FDI in nominal terms among 20 Arab countries, the sixth largest among the 23 economies of the MENA region, and the fourth largest in West Asia in 2010. Further, net FDI inflows to Lebanon totaled \$4.2bn in 2010, making the country the fourth largest destination of net inflows in the Arab world.

Also, Lebanon posted the fourth highest growth rate in FDI among Arab countries and the seventh highest in the MENA region last year. Lebanon was one of 4 Arab countries and 7 MENA countries that saw an increase in FDI in 2010. In comparison, aggregate FDI to Arab economies declined by 13.2% year-on-year and FDI to West Asia dropped by 24.3%, while FDI to developing economies grew by 12.3% and global FDI increased by 5%. In parallel, Lebanon ranked in 16th place globally and was the only Arab economy among the top 20 worldwide on the Inward FDI Performance Index, while it ranked in 74th place globally and in 10th place in the Arab world on the Inward FDI Potential Index.

FDI inflows to Lebanon accounted for 7.5% of total FDI in Arab countries and for 5.9% of inflows to the MENA region in 2010, compared to 6.3% in the Arab world and 5.2% regionally in 2009. They also represented 8.5% of total flows to the 13 countries that form West Asia, 0.86% of FDI inflows to developing countries, and 0.4% of global foreign direct investment in 2010.

Further, FDI flows to Lebanon were equivalent to 12.6% of GDP in 2010, highest in the Arab world, and were equivalent to 69.4% of gross fixed capital formation, the second highest such ratio in the region after Libya. In comparison, FDI flows as a percentage of gross fixed capital formation were equivalent to 12.6% in West Asian economies, 29.1% in developing economies and 9.1% on a global basis in 2010.

In addition, net cross-border M&A purchases in Lebanon reached \$0.3m in 2010 compared to \$283m in 2009 and -\$233m in 2008, reflecting the differential between the acquisition price of companies abroad by Lebanon-based entities and the value of sales of foreign affiliates of locally-based entities. Lebanon was the source of 6 cross-border M&A purchases in 2010 and 3 such deals in the first 5 months of 2011. Further, net cross-border M&A sales in Lebanon reached \$642m in 2010, reflecting the differential between the value of sales of local companies to foreign entities and the value of sales of foreign affiliates in the local economy. The UNCTAD did not record any net cross-border M&A sales in Lebanon in 2009, while such sales reached \$108m in 2008. Lebanon was the source of 3 cross-border M&A sales in 2010 compared to zero sales in 2009 and in the first 5 months of 2011.

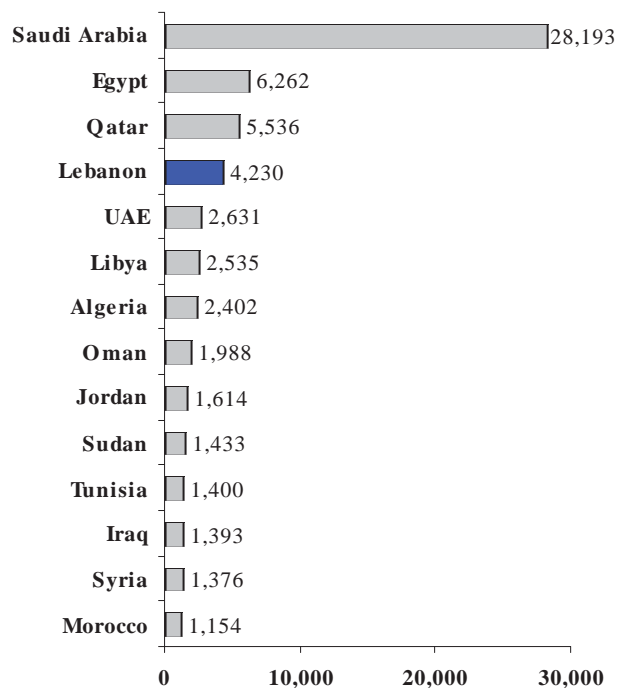
Further, there were 32 Greenfield FDI projects in Lebanon in 2010 relative to 27 in 2009 and 11 in the first 4 months of 2011. In comparison, Lebanon was the source of 14 Greenfield FDI projects in 2010 relative to 4 projects in 2009 and two projects in the first four months of 2011. Global FDI reached \$1,244bn, while FDI inflows to developing economies totaled \$573.6bn in 2010.

Foreign Direct Investment in Arab Countries (\$m)

	2010	2009	Change (%)
Saudi Arabia	28,105	32,100	(12%)
Egypt	6,386	6,712	(5%)
Qatar	5,534	8,125	(32%)
Lebanon	4,955	4,804	3%
UAE	3,948	4,003	(1%)
Libya	3,833	2,674	43%
Algeria	2,291	2,761	(17%)
Oman	2,045	1,471	39%
Jordan	1,704	2,430	(30%)
Sudan	1,600	2,682	(40%)
Tunisia	1,513	1,688	(10%)
Iraq	1,426	1,452	(2%)
Syria	1,381	1,434	(4%)
Morocco	1,304	1,952	(33%)
Bahrain	156	257	(39%)
Palestine	115	265	(57%)
Kuwait	81	1,114	(93%)
Djibouti	27	100	(73%)
Mauritania	14	(38)	136%
Yemen	(329)	129	(355%)
Total	66,088	76,111	(13%)

Source: UNCTAD, Byblos Research

Net FDI inflows in 2010 (US\$m)



Source: UNCTAD, Byblos Research

Successful exchange of maturing Eurobond

The Ministry of Finance issued a \$1.2bn dual-tranche Eurobond under the Republic of Lebanon's Global Medium Term Note Program to refinance \$943m in Eurobonds maturing in August 2011 that include \$750m in principal and \$193m in interest. The first series consists of a 5-year \$500m issue that matures on November 2, 2016 and carries a coupon rate of 4.75% to be paid semi-annually. The second series was a \$700m re-opening of the 6.1% coupon Eurobond due in October 2022, with the new series carrying a coupon rate of 6.2% to be paid semi-annually. The ministry said the size of the issuance was increased due to the high level of demand that exceeded three times the initial amount. The \$750m maturing bond is the last part of \$2.1bn in maturing Eurobonds this year. The exchange is the second US dollar market transaction executed by the Lebanese Republic in 2011 to refinance maturing debt.

Last May, the government issued a \$1bn dual-tranche Eurobond 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.

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.

EU grants €14m to support agriculture sector

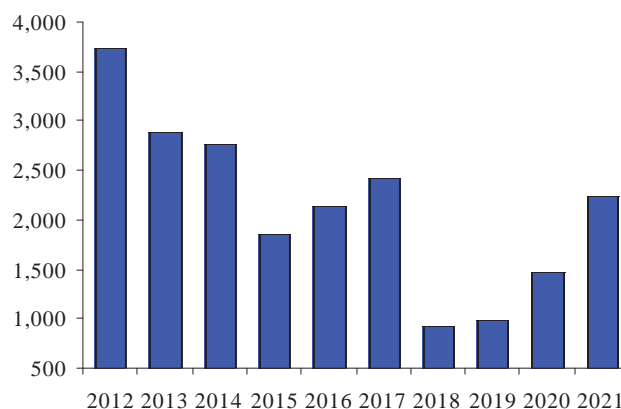
The Ministry of Agriculture and the European Union signed a €14m grant agreement to fund a four-year agricultural and rural development program. The ministry indicated that the agreement aims to support the implementation of its agricultural reform policy, which seeks to improve the overall performance of the sector as well as to achieve sustainable food security and strengthen the income of rural and agricultural communities. The program is expected to enhance the ministry's capacity to design, implement and monitor agricultural policies, improve the quality and competitiveness of agricultural products, and accelerate the economic development of farmers and agricultural cooperatives by increasing their access to credit and infrastructure. It noted that the EU would allocate €3.5m to the Kafalat Corporation to increase the number of guarantees offered to farmers. It said that such facilities would improve the current loans' conditions by allowing farmers to either take 10-year loans with a three-year grace period or three-year loans with a grace period of six months; while the cost of the loan will reach 2% only as the Central Bank will subsidize the interest rate. The ministry indicated that it will be responsible for the implementation of the program, in coordination with the Council for Development and Reconstruction.

Term savings attract 87% of customer deposits

Figures issued by the Central Bank about the distribution of bank deposits show that term savings was the preferred type of account for resident and non-resident bank clients in Lebanese pounds as well as in foreign currencies at the end March 2011. Term saving deposits accounted for \$45.2bn, or 81.9% of resident deposits in foreign currencies and were followed by checking and current accounts with \$8bn (14.5%), sight saving accounts with \$1.5bn (2.7%) and other creditor accounts with \$495.9m (0.9%). Further, term saving accounts attracted \$32.1bn, or 92.7%, of resident deposits in Lebanese pounds, followed by checking and current accounts with \$2bn (5.9%) and sight saving accounts with \$470m (1.4%). Non-residents also favored term saving accounts, which accounted for \$14bn, or 87.2%, of their foreign currency deposits and for \$2.3bn, or 97.5%, of their Lebanese pound deposits. Term saving deposits in all currencies totaled \$93.5bn at end-March 2011, accounting for 86.5% of deposits in Lebanese pounds and foreign currencies.

In parallel, Beirut and its suburbs accounted for 68.9% of private sector deposits and for 49.4% of depositors. It was followed by Mount Lebanon with 13% of deposits and 17.2% of beneficiaries; South Lebanon with 6.8% of deposits and 11.8% of beneficiaries; North Lebanon with 6.2% of deposits and 13.7% of depositors; and the Bekaa with 5% of deposits and 7.9% of beneficiaries.

Outstanding Lebanese Eurobonds (\$m)



Source: Ministry of Finance

Foreign investments of financial sector at \$5.8bn at end-March 2011, commercial banks account for 62% of debt securities and for 45% of equity investments

Figures issued by the Central Bank show that the net investment portfolio of Lebanese banks and financial institutions in foreign debt and equity securities totaled \$5.8bn at end-March 2011, constituting an increase of 10.4% from \$5.24bn at end-March 2010. Investments in long-term debt securities totaled \$4.1bn at end-March 2011, accounting for 70% of the total, followed by investments in equities with \$1.69bn, or 29.1% of the total, while short-term debt securities accounted for \$53.1m or 0.9% of the total. According to the Central Bank, the figures cover the net assets of resident financial institutions in tradable debt and equity instruments of non-resident issuers. They help provide a clearer picture about the flow of funds from Lebanon and, therefore, about balance of payments data.

The distribution of investments by institutions indicates that commercial banks' net portfolio in foreign long-term debt securities totaled \$2.5bn, accounting for 61.8% of total investments in such securities at end-March 2011. The figure includes banks' investment for their own account, on behalf of their clients and on a custodial basis. They were followed by financial intermediaries with \$670.8m (16.5%), medium and long-term banks with \$628.1m (15.5%), financial institutions with \$249.3m (6.1%) and insurance firms with \$2.5m (0.04%). Commercial banks also represented 94.4% of investments in short-term debt securities, followed distantly by financial institutions with 2.9% and medium and long-term banks with 2.8%.

In parallel, commercial banks' net assets in equity securities totaled \$761.1m, accounting for 45.1% of total investments in such securities. They were followed by medium and long-term banks with \$540.2m (32%), financial institutions with \$279.9m (16.6%), financial intermediaries with \$68.5m (4.1%) and insurance companies with \$37.1m (2.2%).

The distribution of investments by destination shows that the United States was the leading recipient of equity investments by financial institutions operating in Lebanon, reaching \$446.5m and accounting for 26.4% of the total at end-March 2011. It was followed by the United Kingdom with \$337.6m (20%), France with \$192.7m (11.4%), Bahrain with \$181.9m (10.8%) and Jordan with \$87.6m (5.2%), while other countries accounted for the remaining 26.2%. In parallel, the United States accounted \$1.11bn, or 27.3% of investments in long-term debt securities, followed by the United Kingdom with \$776m (19.1%), France with \$348.6m (8.6%), the UAE with \$268.1m (6.6%), and Qatar with \$247.7m (6.1%), while other countries accounted for the remaining 32.3%. Further, the United States accounted for 46% of investments in short-term debt securities, followed by the United Kingdom with 28.3% and Switzerland with 10.4%.

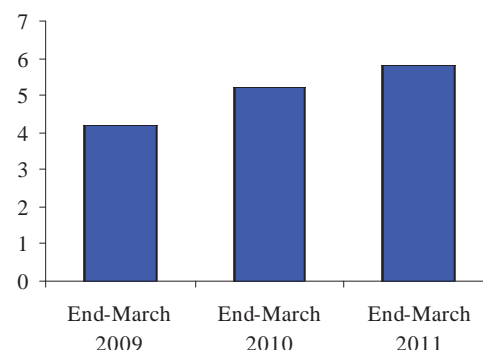
Subsidized interest loans at \$242m in first quarter of 2011

Figures released by the Central Bank show that the amount of subsidized interest loans to productive sectors in Lebanon reached \$241.5m in the first quarter of 2011. The industrial sector accounted for \$112.2m, or (46.4%) of the total, followed by tourism with \$106.5m (44.1%), agriculture with \$20.6m (8.5%) and specialized technology with \$2.2m (0.9%). Subsidized interest loans extended in 2010 totaled \$767.6m relative to \$539m in 2009 and \$463.2m in 2008. The cumulative amount of subsidized interest loans to productive sectors in Lebanon reached \$3.82bn between 1997 and March 2011.

Subsidized medium & long-term loans reached \$189.7m in the first quarter of 2011, equivalent to 78.6% of the total. Tourism accounted for 47.8% of total subsidized medium & long-term loans, followed by industry with 45.7%, agriculture with 5.8% and specialized technologies with 0.6%. The program was established in the first quarter of 1997 and consists of a 5% to 7% subsidy on the interest for loans extended in foreign currencies to productive sectors. Also, subsidized interest loans guaranteed by the Kafalat Corporation totaled \$38.3m, or 15.9% of the total. Industry accounted for 40.5% of Kafalat-backed subsidies, followed by tourism with 32%, agriculture with 24.7% and special technologies with 2.8%. Kafalat provides financial guarantees for loans of up to \$400,000 for small and medium-sized enterprises in productive sectors.

Further, subsidized interest loans granted by leasing companies totaled \$5.1m in the first quarter of 2011, or 2.1% of the total. In addition, subsidized interest loans granted by the International Finance Corporation totaled \$4.5m, or 1.9% of the total while interest subsidized under the protocol signed with the European Investment Bank totaled \$3.9m, or 1.6% of the total. The latter three subsidized interest loans were extended in total to the industry sector.

Foreign Investments of Financial Sector (\$bn)



Source: Central Bank, Byblos Research

Construction and public work activity down in first quarter of 2011

The Central Bank's quarterly business survey indicated that construction activity decreased during the first quarter of 2011, with a balance of opinion standing at -9, compared to +19 during the same quarter of 2010. The business survey reflects the opinions of enterprise managers on the evolution of their businesses, in order to depict the evolution of a number of key economic variables. The balance of opinion for public works stood at -25 in the first quarter of 2011 compared to -9 in the same quarter of 2010. Also, the balance of opinion for general construction activity decreased to -11 during the first quarter of 2011, compared to +13 during the same quarter of 2010. Further, the balance of opinion for construction costs reached +52, up from +49 in the same period of 2010. 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.

Construction and Public Work Activity: evolution of opinions				
Aggregate results	Q1-08	Q1-09	Q1-10	Q1-11
General activity	-5	0	13	-11
Construction	-1	2	19	-9
Public work	-29	-10	-9	-25
Portfolio of projects	-19	-8	5	-7
Construction costs	64	16	49	52
Investments (% of yes)	34%	33%	39%	30%

Source: Central Bank Business Survey in first quarter 2010

Economic & Social Fund finances 401 projects in first quarter

The Economic & Social Fund for Development (ESFD) indicated that it has financed 401 projects worth \$4.9m and created 109 new job opportunities in the first quarter of 2011. The ESFD's mission is to alleviate poverty and mitigate the social impact on marginalized and disadvantaged groups in Lebanon. It provides financial and technical support to micro and small enterprises through financial intermediaries to finance projects in deprived and poor regions of the country. The ESFD said that it has extended 5,848 loans totaling \$51m since the launch of its operations in 2002. The services sector was the primary beneficiary with 2,220 extended loans, followed by trade with 2,048 loans, industry with 941 loans and agriculture with 639 loans. Regionally, the Nabatieh area was the beneficiary of 1,649 loans, followed by Mount Lebanon with 1,353 loans, North Lebanon (1,146), the Bekaa (723), South Lebanon (717) and Beirut (260). The ESFD was established in November 2000 with the signing of a financing agreement between the European Commission and the Lebanese government, and started its operations in June 2002. It is an autonomous entity directly attached to the Council for Development & Reconstruction, and will become a permanent public institution for poverty alleviation in Lebanon by the end of the current financing agreement. The ESFD is funded by €25m from the European Union and €6m from the Lebanese government while an additional fund of €6m was mobilized from the European Commission. Since the launching of its mainstream activities, the ESFD has committed approximately 97% of EC initial funds through contracts with implementing partners. The ESFD said it has helped create 3,542 jobs since its establishment.

Byblos Bank's profits up 16% to \$84m in first half of 2011

Byblos Bank sal, one of the top 3 banking and financial services groups in Lebanon, declared consolidated net profits of \$84m in the first half of 2011, constituting an increase of 16.2% from \$72.3m in the same period last year. Net interest income reached \$145.1m, up 12.5% year-on-year; while net fees & commission income increased by 16.2% to \$48.1m and net trading income increased by 36% to \$14.7m in the first half of 2011. As a result, operating income rose by 10.2% year-on-year to \$225.2m. Also, the Bank's cost-to-income ratio decreased considerably to 47% in the first half of 2011 from 49.8% for the same period in 2010. Total assets reached \$16.5bn at end-June 2011, constituting a rise of 8.2% from the end of 2010; while net loans & advances to customers increased by 4.1% to \$3.9bn at end-June 2011. Gross non-performing loans accounted for 2.2% of gross loans at end-June 2011, and were covered by 161% in provisions. Customers' deposits totaled \$12.6bn, increasing by 5.9% from end-2010. The Bank's total equity reached \$1.57bn at end-June 2011.

The Bank's return on average assets stood at 1.06% compared to 1.02% a year earlier, and its return on average common equity reached 11.08% relative to 12.31% in the same period last year. Earnings per common ordinary share rose by 1.4% to LBP 173.8, equivalent to \$0.12 per share. Also, the Bank's capital adequacy ratio stood at 14.75% according to Basel II criteria. The Bank continued to maintain a high level of immediate liquidity, as short-term placements with banks increased by 13.4% during the first half of 2011 and represented 30.8% of customers' deposits at end-June 2011, as well as 46.9% of deposits when including dues from the Central Bank. The Byblos Bank Group has a direct presence in Iraq, Syria, Sudan, the United Arab Emirates, Nigeria, Armenia and the Democratic Republic of Congo, as well as in Belgium, France, the United Kingdom and Cyprus.

Stock market activity down 76% to \$374m in first seven months of 2011

Figures released by the Beirut Stock Exchange indicate that total trading volume reached 56.4 million shares in the first seven months of 2011, constituting a decrease of 57.8% from the same period last year; while aggregate turnover amounted to \$374.4m, down 76.3% from a turnover of \$1.58bn in the first seven months of 2010. Market capitalization decreased by 9.6% from end-July 2010 to \$11.3bn, of which 71.2% was in banking stocks and 25.2% in real estate stocks, followed by industrial stocks with 3%, investment funds with 0.3% and trading stocks with 0.1%. The market liquidity ratio was 3% compared to 12.6% a year earlier. Bank stocks accounted for 82.5% of aggregate trading volume year-to-July, followed by real estate stocks with 16%. In terms of value of shares traded, banking stocks accounted for 53.9% of aggregate value, followed by real estate stocks with 43.6%, investment funds with 1.2%, industrial stocks with 0.9% and the trading sector with 0.5%. The average daily traded volume for the period was 399,786 shares for an average daily value of \$2.7m. The figures reflect decreases of 57.5% in volume and 76.1% in value year-on-year.

Downtown Beirut has 395 real estate projects totaling three million square meters

Solidere sal, the Lebanese Company for the Development and Reconstruction of the Beirut Central District, indicated that a total of 395 development projects representing about three million square meters of built-up area are at various stages of development in the Beirut Central District. It said 263 projects have been completed, 37 are under construction, 7 are under restoration, 23 are awaiting permits, 51 are under study, 9 are inactive and 4 have been sold. Also, the projects completed represent 1.3 million square meters of built-up area and account for 42% of the total; those under study cover 956,000 sqm; projects under construction total 326,000 sqm; projects awaiting permits reached 226,000 sqm; those that have been sold amount to 224,500 sqm; inactive projects represent 23,201 sqm; and projects being restored consist of 19,500 sqm.

Solidere announced consolidated net profits of \$195.5m in 2010, up 3.3% from \$189.2m in 2009. The firm's gross profit margin was 76.7% relative to 73.6% a year earlier. The consolidated results cover operations in Lebanon and those of the firm's Dubai-based affiliate Solidere International. The company recorded total net operating revenues of \$272.8m, up 16.5% year-on-year. Revenues from land and real estate sales rose by 10.5% to \$337.2m in 2010, while revenues from rental properties increased by 51% to \$41.2m year-on-year. Sales backlog totaled \$77.5m in 2010 compared to \$428.5m in 2009. Solidere stated that its consolidated assets totaled \$2.6bn and increased by 8.4% from end-2009, as inventory of land and projects in progress totaled \$1.1bn at end-2010 slightly down from \$1.12bn a year earlier. Bank overdrafts and short term facilities reached \$472.5m compared to \$253.7m at the end of 2009. Solidere's earnings per share reached \$1.285 in 2010 compared to \$1.235 in the previous year.

BankMed's net income up 13% to \$59m in first half of 2011

BankMed sal, one of Lebanon's top 10 banks, announced unaudited consolidated net profits of \$59.4m in the first half of 2011, up 13% from the same period last year. Operating profit rose by 21% to \$70m, with net interest income increasing by 23% to \$106m and net fees & commission income growing by 36.5% to \$25.7m year-on-year. Also, operating expenditures increased by 7.7% to \$103m, with staff expenses increasing by 14% to \$48.2m. Total assets reached \$11.4bn at end-June 2011, constituting a 2% rise from end-2010; with loans & advances to customers increasing by 11.3% from end-2010 to \$3.2bn, and loans to related parties rising by 8.5% to \$689m. The bank said its non-performing loans were covered by 219% in provisions. Customer deposits totaled \$7.8bn at end-June, unchanged from end-2010, with the loans-to-deposits ratio reaching 43% at end-June relative to 40.1% at end-2010. Also, shareholders' equity reached \$897m, constituting a decrease of 18.7% from the end of 2010. The bank's capital adequacy ratio stood at 11.1% according to Basel II criteria.



Corporate Highlights

Aggregate profits of listed banks rise 8% in first half of 2011

Financial results issued by five banks listed on the Beirut Stock Exchange show that their aggregate net profits reached \$480.2m in the first half of 2011, constituting an increase of 8.3% from \$443.3m in the same period last year, and compared to an increase of 20.4% in the first half of 2010. Byblos Bank posted the highest growth in profits, assets and deposits among the top three banks. The average growth of the net profits of the five banks reached 6.5% in the first half of 2011, constituting a deceleration from the average growth in net profits of 23.2% posted in the first half of 2010. The aggregate net interest income of the five banks reached \$735.2m in the first half of 2011, up 13.3% from \$648.8m in the same period last year, while their total net fees and commission income increased by 13.3% to \$226.6m year-on-year. Total operating income of the listed banks reached \$1.18bn in the first half of 2011, up 11.2% from \$1.06bn in the same period last year.

In parallel, the aggregate assets of the five banks rose by 4.6% from end-2010 and by 10.2% from end-June 2010 to \$79bn, while their total loans, excluding loans to related parties, increased by 7.2% from end-2010 and by 19.4% from end-June 2010 to \$21.5bn. Also, the banks' customer deposits rose by 4.8% from end-2010 and by 11% from end-June 2010 to reach \$65.8bn. BLOM Bank posted the lowest loans-to-deposits ratio at 27.3% compared to 25% at end-June 2010, followed by Byblos Bank with a ratio of 31.3% unchanged from a year earlier, Bank Audi with 33.5% relative to 32.1% at end-June 2010, Bank of Beirut with 45.5% compared to 37.2% a year earlier, and Banque BEMO with a 48.8% ratio relative to 44.2% at end-June 2010.

Results of Listed Banks for First Half of 2011					
	Byblos	BLOM	Audi	BoB	BEMO
Net Profits	\$84m	\$163.6m	\$179.1m	\$48.7m	\$4.9m
% Change*	16.2%	4.6%	10.8%	1.2%	(0.2%)
Total Assets	\$16.54bn	\$23.10bn	\$29.08bn	\$8.95bn	\$1.36bn
% Change**	8.2%	3.4%	1.4%	11.9%	12.4%
Loans (1)	\$3.92bn	\$5.53bn	\$8.41bn	\$3.12bn	\$0.53bn
% Change**	4.1%	6.9%	0.2%	38.4%	11.5%
Deposits (1)	\$12.50bn	\$20.28bn	\$25.07bn	\$6.87bn	\$1.08bn
% Change**	5.8%	4.3%	1.6%	17.7%	8.1%

*Year-on-year

**Change from end-2010

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

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-		Negative
EIU		B	Stable

Source: Rating agencies



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