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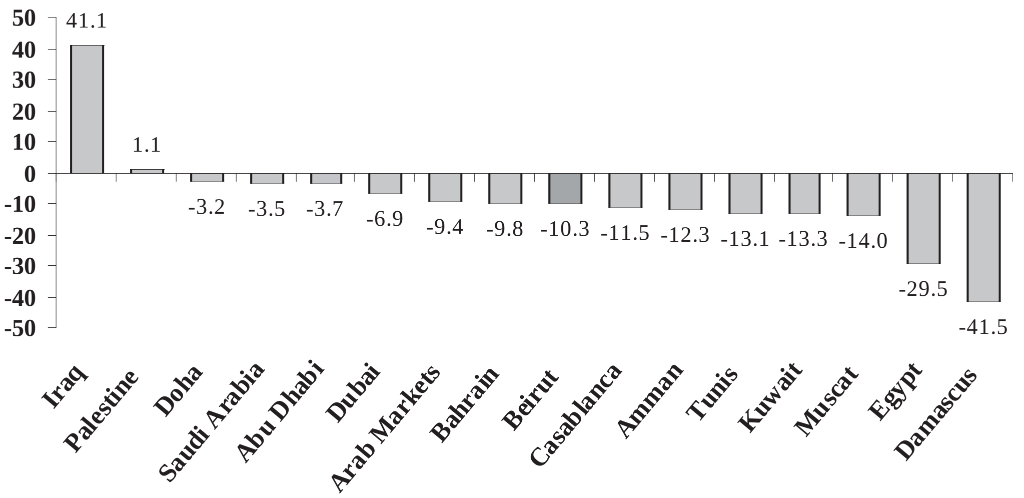
BYBLOS BANK SAL
Economic Research & Analysis Department

LEBANON THIS WEEK

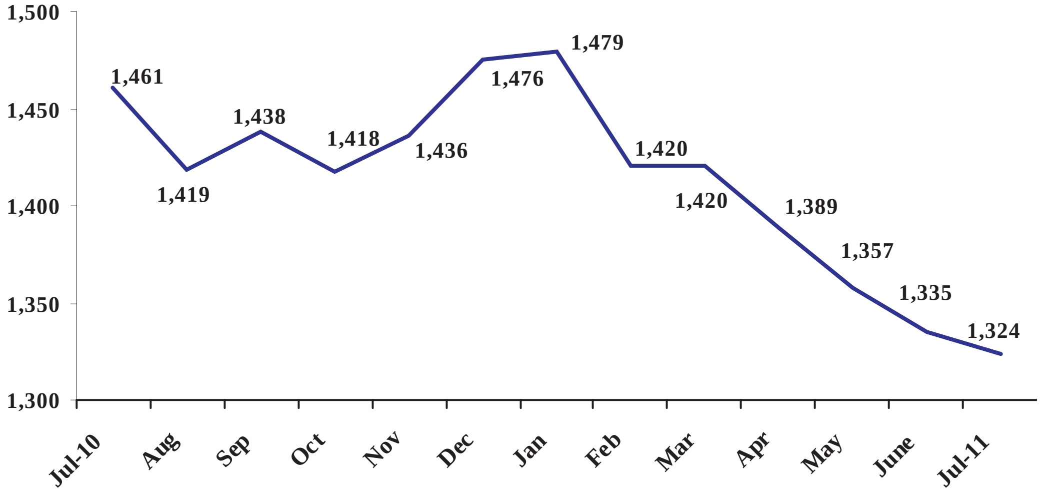
In This Issue

Charts of the Week

Performance of Arab Stock Markets in the First Seven Months of 2011 (% Change)



Performance of the Beirut Stock Market



Source: Local Stock Markets, Byblos Research, Dow Jones Indices

Quote to Note

"With the lack of structural reforms, lower growth may come along with increasing public sector indebtedness."

Merrill Lynch, on the consequences of further delays in much-needed reforms on public finances

Number of the Week

10.8%: Net foreign direct investment in Lebanon in 2010 as a percentage of GDP, the highest such rate in the Arab world, according to the UN Conference on Trade and Development

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"	16.82	(0.71)	330,774	15.01%
Solidere "B"	16.80	(0.88)	40,210	9.74%
Byblos Common	1.66	(0.60)	64,573	5.32%
Byblos Pref. 08	100.10	0.00	0	1.79%
Byblos Pref. 09	100.00	0.00	4,163	1.79%
BLOM GDR	8.63	(0.58)	52,547	5.69%
BLOM Listed	8.40	0.00	0	16.11%
Audi GDR	7.32	0.41	6,400	6.44%
Audi Listed	6.95	0.14	25,000	21.61%
HOLCIM	16.08	(2.55)	3,968	2.80%

*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	1.86
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	4.73
Mar. 2017	9.000	118.50	5.17
Nov. 2018	5.150	98.63	5.38
Apr. 2021	8.250	117.00	5.92

Source: Byblos Capital Markets

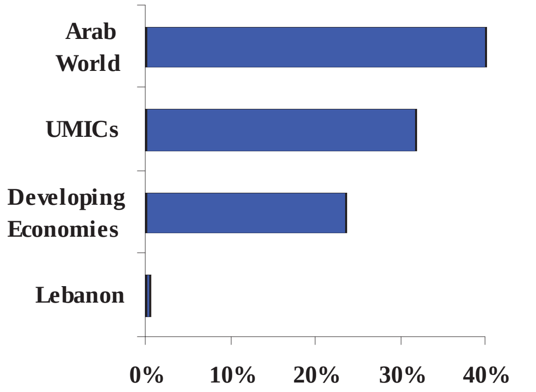
	August 1-5	July 25-29	% Change	July 2011	July 2010	% Change
Total Shares Traded	541,261	443,133	22.14	3,194,076	9,412,692	(66.07)
Total Value Traded	$7,894,650	$6,594,586	19.71	$33,654,544	$117,692,424	(71.40)
Market Capitalization	$11.21bn	$11.25bn	(0.34)	$11.30bn	$12.51bn	(9.64)

Source: Beirut Stock Exchange (BSE)

Broadband penetration trails developing world and same-income economies

Figures released by the International Telecommunication Union indicate that Lebanon ranked in 100th place among 222 countries at the end of 2010 in terms of fixed broadband penetration, which is the number of subscribers to the service per 100 inhabitants. Lebanon's rank regressed by 7 spots from 2009. Lebanon also came in fifth place among 20 Arab countries and ranked in 31st place among 47 upper middle income countries (UMICs) included in the survey. Lebanon's rank among UMICs regressed by 5 spots from the previous year and was unchanged in the Arab world. On a global basis, Lebanon ranked ahead of Tunisia, Jamaica and Vietnam, and came immediately behind the Maldives, Georgia and Kazakhstan. Also, Lebanon ranked ahead of Jamaica, the Dominican Republic and Albania, and came behind Kazakhstan, Venezuela and Azerbaijan among UMICs. Lebanon had 4.73 fixed broadband subscriptions per 100 inhabitants in 2010, below the global average of 10.2 subscriptions per 100 inhabitants and the UMICs' average of 8 subscriptions per 100 inhabitants. Fixed broadband penetration in Lebanon grew by a compound annual growth rate (CAGR) of 0.5% during the 2006-2010 period compared to a CAGR of 40% in Arab countries, 31.7% in UMICs and 23.6% in developing economies.

Growth of Broadband Penetration in 2006-2010



Source: ITU, Byblos Research

In parallel, Lebanon ranked in 100th place in terms of Internet penetration last year, which represents the number of Internet users per 100 inhabitants. Lebanon also ranked in 11th place among Arab countries and in 30th position among UMICs. Lebanon's rank improved by 12 spots worldwide and by three places among UMICs year-on-year. On a global basis, Lebanon tied with Mexico, ranked ahead of Cape Verde, Guyana and Nigeria, and came behind Suriname, Belarus and Grenada. Also, it tied with Mexico, ranked ahead of Jamaica, Mauritius and Cuba, and came behind Suriname, Belarus and Grenada among UMICs. Lebanon had 31 Internet users per 100 inhabitants in 2010, below the global average of 35.4 users and the Arab average of 31.8 users but similar to the UMIC's average 30.6 subscriptions. Internet users in Lebanon grew by a CAGR of 20% during the 2006-2010 period compared to a CAGR of 22.4% for developing economies, 21.9% for Arab countries and 11.7% for UMICs.

Parliament approves law on maritime borders

The Lebanese Parliament ratified a draft law that demarcates Lebanon's maritime border with Israel and Cyprus, and that specifies the borders of the country's Exclusive Economic Zone. The law comes after the Lebanese government accused Israel of seeking to annex a large part of Lebanon's territorial waters in an area that is likely to contain significant oil and gas reserves. Last month, the Israeli Cabinet approved the demarcation of its northern maritime border, but the Lebanese authorities declared that Israel had incorporated into its version a 17-kilometer long line that had been left undefined in Lebanon's 2007 agreement with Cyprus, thereby adding parts of Lebanese territory to Israel's claimed economic zone and infringing on Lebanon's Exclusive Economic Zone by 854 square kilometers.

The Lebanese Parliament ratified in August 2010 a draft law that authorizes for the first time offshore oil and gas exploration and drilling. The law provides the basis to apply an international law called Production Sharing Agreement (PSA), essential in the production sharing deals that usually take place between states and international oil companies. The Ministry of Energy & Water indicated that the first licensing round for offshore gas exploration would take place at the end of 2011. The United States Geological Survey (USGS) estimated that the Levant Basin Province has a mean of 1.7 billion barrels of recoverable oil and a mean of 122 trillion cubic feet of recoverable gas. The Levant Basin Province encompasses approximately 83,000 square kilometers of the eastern Mediterranean area off the coasts of Lebanon, Syria, Cyprus and Israel. The USGS stressed that the estimates represent technically-recoverable oil and gas resources, and are not estimates of economically-recoverable resources.

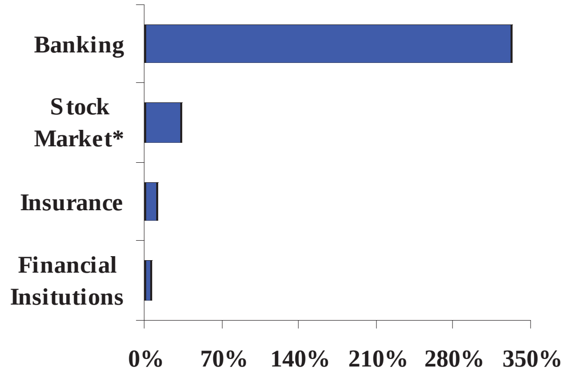
Approval of bilateral investment treaty with Syria

The Lebanese Parliament ratified an agreement between Lebanon and Syria that aims to promote private investments between the two signatory nations in each other's territory. The accord creates a legal framework whereby foreign investors and investments are granted the most favorable treatment between the Most Favored National Treatment and the National Treatment in the host country. It also forbids discriminatory measures of any kind; and guarantees fair and equitable treatment as well as full protection and security to foreign investments in both countries. Lebanon originally signed the agreement with Syria in January 1997 and ratified it in July of the same year. But the two countries signed a new agreement in July 2010, which replaced the previous one. Lebanon has bilateral investment treaties with 51 countries and the OPEC Fund for International Development.

Parliament ratifies capital markets law

The Lebanese Parliament ratified the Capital Markets Law that aims to regulate and supervise the activities of capital markets in Lebanon. The legislation aims to create an adequate legal framework conductive to the organization and development of the Lebanese financial markets, in line with international standards and norms. It was first drafted five years ago and has been amended may times to reflect the latest developments in the global financial system. It stipulates the formation of the National Council for Financial Markets in Lebanon which would organize, regulate and control capital markets as well as market participants and the trading of securities. It also explicitly bans insider trading, which is the personal exploitation of information in capital trading. The law stipulates that the Council's functions would be similar to those of the U.S. Securities and Exchange Commission, and that the Council will have a large degree of autonomy in setting its policies. The Council will be headed by the Governor of the Central Bank and will consist of seven members, with five members appointed from the private sector. The law was drafted by the Central Bank of Lebanon's Commission for the Modernization and Development of Financial and Banking Laws.

Financial Sector in Lebanon (Assets as % of GDP)

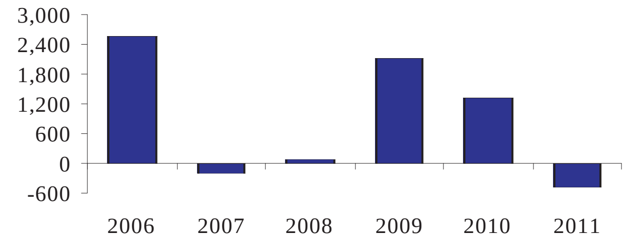


**Market capitalization-to-GDP*
Source: Byblos Research

Balance of payments posts deficit of $480m in first half of 2011

Central Bank figures show that Lebanon's balance of payments posted a deficit of $479m in the first half of 2011 compared to a surplus of $1.3bn in the same period last year. The balance of payments posted a surplus of $563.8m in June compared to deficit of $445.2m in May 2011 and a surplus of $105.8m in June 2010. The June 2011 surplus was caused by a surplus of $672m in the net foreign assets of banks and financial institutions and a deficit of $108.4 in those of the Central Bank. The cumulative deficit over the first six months of 2011 was caused by a deficit of $444.1m in the Central Bank's net foreign assets and a deficit of $35m 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.

Balance of Payments* ($m)



** in first six months of the year*
Source: Central Bank

Parliament ratifies loan and cooperation agreements

The Lebanese Parliament ratified a loan agreement with the Kuwait Fund for Arab Economic Development to finance the construction of the Kaismani dam in Baabda, and another agreement with the OPEC Fund for International Development to finance sustainable agricultural development program in rural areas. Further, The Parliament approved an agreement with the Islamic Development Bank to finance a water supply and sanitation project in Akkar. It also endorsed a Memorandum of Understanding signed with Jordan for agricultural cooperation, and another MoU with Qatar on tourism cooperation. Further, it ratified a law that aims to accelerate the separation of civil and commercial litigation whose value do not exceed the equivalent to thirty times the minimum wage.

Customs receipts down 22% to $741m in first half of 2011

Figures released by the Customs Directorate indicated that customs revenues reached $741.2m in the first half of 2011, down 21.8% from $947.9m in the same period last year. Customs revenues totaled $132m in June 2011, up 10.6% from the previous month but down 26.8% from $180.4m in June 2010. The Port of Beirut continues to be the main point of customs receipts, as it accounted for 86.3% of the total during the first six months of the year, and was followed by the Hariri International Airport with 7.2%, the Port of Tripoli with 3.2%, and the Masnaa crossing point with 2.3% of the total. Customs receipts from the value-added tax totaled $705m year-to-June. The Port of Beirut accounted for 75.5% of such receipts, and was followed by the Hariri International Airport with 9%, the Port of Tripoli with 7% and the Masnaa crossing point with 6.3%. As such, overall customs receipts reached $1.4bn year-to-June, with the Port of Beirut accounting for 81% of the total, and was followed by the Hariri International Airport with 8.1%, the Port of Tripoli with 5.1%, and the Masnaa crossing point with 4.2% of the total. In addition, other entry points accounted for the balance, with the port of Saida for 1.1%, the crossing point of Abboudieh for 0.4%, and the port of Tyre for 0.2%. Overall customs receipts reached $256.8m in June 2011 when including revenues from the value-added tax that totaled $124.9m in the same period.

Trade deficit up 10% to $7.1bn in the first half of 2011, volume of non-hydrocarbon imports down 2%

Total imports reached $9.2bn in the first half of 2011, constituting an increase of 8% from the same period last year, while aggregate exports remained flat at $2.1bn, leading to a trade deficit of $7.1bn, up 10% year-on-year. Imports of oil and mineral fuels increased by 8% year-on-year to $1.7bn, and non-hydrocarbon imports grew by 6% to $7.5bn. In volume terms, imports reached 6.6 million tons in the first half of 2011, constituting a decrease of 6.1% from the same period last year; while exports increased by 1.8% to 1.5 million tons in the same period, leading to a trade deficit of 5.13 million tons, down 8.2% year-on-year. Imports of oil and mineral fuels decreased by 13.2% year-on-year to 2.2 million tons, while non-hydrocarbon imports dropped by 1.9% annually to 4.4 million tons. The rise in the value of oil imports was mainly driven by higher international oil prices; while the increase in non-oil imports was mostly due to a rise in the value of Lebanon's main imported products, such as a 25% rise in the prices of aircraft engines, boilers, machinery & mechanical appliances; a 22% increase in the prices of pharmaceutical products; and a 6% rise in the value of vehicles & accessories and cranes & lorries. The trade deficit was $1.2bn in June 2011, up 9% from the same month last year. Imports averaged $1.54bn and exports averaged $353m on a monthly basis year-to-June, resulting in an average monthly trade deficit of $1.2bn during the covered period. The coverage ratio reached 22.9% in the first half compared to 24.6% in the same period last year, while it reached 26.2% in June 2011 relative to 26.6% in June last year.

Italy was the main source of imports with $895m or 10% of the total, followed by the United States, with $841m (9%), China with $789m (9%), France with $714m (8%) and Germany with $569m (6%). Imports from Italy rose by 28% year-on-year and from France by 19%; while imports from the U.S. dropped by 12%, from Germany by 10%, and from China by 4% during the covered period. Switzerland was the main export destination with $217m or 10% of the total, followed by the UAE with $163m (8%), Saudi Arabia with $160m (8%), Turkey with $150m (7%), Iraq with $123m (6%) and Syria $95m (4%). Exports to Saudi Arabia and Turkey rose by 30% each, while exports to the UAE dropped by 22%, exports to Syria declined by 14%, exports to Switzerland dropped by 13% and exports to Iraq regressed by 8%. Lebanon's main export was jewelry at $697m or 33% of the total, followed by base metals with $309m (15%), machinery and mechanical appliances with $273m (13%), prepared foodstuff with $182m (9%) and chemical products with $174m (8%). Re-exports totaled $379m in the first half, compared to $69m in the same period last year.

Opened letters of credits at $1.28bn for imports and $0.84bn for exports in first quarter of 2011

Figures issued by the Central Bank indicate that the value of letters of credits opened to finance imports to Lebanon totaled $1.28bn in the first quarter of 2011 compared to $1.26bn in the same period last year. Also, utilized credits for imports totaled $1.13bn in the first quarter 2011, down 2.7% from $1.16bn in utilized credits in the same period last year. They accounted for 88% of opened LCs in the first quarter of 2011 compared to 92% in the same period last year. In addition, outstanding import credits totaled $1.1bn at end-March 2011 compared to $1bn at end-March 2010. Further, the aggregate value of inward bills for collection totaled $532m in the first quarter of 2011 compared to $486m in the first quarter of 2010. Outstanding bills for collection reached $177m in March 2011 relative to $136m at end-March 2010.

In parallel, the value of documentary letters of credits opened to finance exports from Lebanon totaled $836m in the first quarter of 2011, constituting a decrease of 13% from $956m in the same period last year. Utilized credits for exports totaled $658m in the first quarter of 2011, down 32% from $973m of utilized credits in the same period of 2010. Further, outstanding export credits totaled $1.25bn in March 2011, up from $1.24bn in March 2010 and compared to $1.13bn at end-December 2010. The aggregate value of outward bills for collection totaled $1.11bn in the first quarter of 2011, up 1.6% from $1.1bn in the same period of 2010. The outstanding value of outwards bills for collection reached $377m at end-March 2011 relative to $390.3m at the end of December 2010 and $322m at March 2010.

Byblos Bank offers high value for investor on earning generation capacity and potential in foreign markets

FFA Private Bank rated the shares of Byblos Bank sal at "Market Weight" and estimated the fair value of the share price over the near term at $1.90, implying a 14.5% upside from its August 5 closing price. It said Byblos Bank is well-positioned in its domestic market and has solid fundamentals, as reflected by its sustained earnings generation, sizeable liquidity buffers, solid capitalization, and superior asset quality metrics such as a well-contained NPLs ratio and superior coverage, all of which validate management's prudent approach. It expected the Bank to gradually improve its assets and earnings mix across markets, as management accelerates its regional and international expansion through branch roll-out and penetration of new markets with significant growth potential.

FFA expected the Bank's profitability and key balance sheet indicators to grow at a healthy pace. It forecast the loan portfolio to expand by a CAGR of 10% during the 2010-12 period, and for lending growth to benefit from the Bank's efforts at sourcing deposits given its solid domestic franchise and redeployment of liquidity in attractive venues. It also projected the Bank's profits to grow at a CAGR of 11% over the covered period, driven by sustained balance sheet growth, gradually easing pressures on interest spreads, continued generation of fees & commissions, and improvement in cost efficiencies. It expected the contribution of fees & commission income, which currently stands at 18% of total earnings, to gradually increase over time, given management's strategy to reduce dependence on interest revenues, as well as due to sustained lending activity, the focus on trade finance, and the well-established insurance entity ADIR. It also anticipated earnings generation to benefit from a gradual improvement in cost efficiencies as the Bank leverages its cost base to generate more revenues. In parallel, FFA indicated that Byblos Bank has the potential to generate more value for investors with the acceleration of its regional expansion strategy. It noted that, despite the political and security turmoil in Syria, the Group's Syrian affiliate did not see any deposit outflows, in contrast to the Bank's main peers that have been witnessing outflows from their Syrian entities so far this year. It added that, unlike its Lebanese peers, Byblos Bank has no exposure to the troubled Egyptian market.

Byblos Bank Syria to increase capital

Byblos Bank Syria, the Syrian affiliate of the Byblos Bank Group, announced plans to increase its capital by SYP2bn through the issuance of 4,000,000 shares at a par value of SYP500 per share. Following the increase, the Bank's capital will reach SYP6.12bn, or about $129m. The Bank's existing shareholders will have the priority to subscribe to the capital increase in a proportion equivalent to 48.54% of their actual shares until August 16, 2011. Shareholders who do not wish to exercise their priority right may sell in whole or in part their right to purchase the new shares between August 18, 2011 and September 9, 2011. The general subscription period will start on September 14, 2011 and end on October 3, 2011. Byblos Bank Syria's shares are listed on the Damascus Securities Exchange. The major shareholders in Byblos Bank Syria are Byblos Bank sal with a 41.5% stake, followed by the OPEC Fund for International Development with a 7.5% share, Mr. Nader Kalai and Mr. Ammar Sharif with a 5% stake each, Mr. Mohammad Al Dandashi with a 4.28% share, Mr. Mou'taz Al Sawwaf with a 3.21% stake, Mr. Samir Hassan with a 1.02% share and Mr. André Abou Hamad with a 0.5% stake. Byblos Bank Syria posted net profits of $2.2m in the first half of 2011, up 9.5% from the same period last year. It had total assets of $988m, loans of $493m and customers' deposits of $792m at end-June 2011. The Bank's assets rose by 10%, loans increased by 4% and customers' deposits grew by 11.8% in the first half of 2011. The Byblos Bank Group has a direct presence in Lebanon, Syria, Iraq, Sudan, the United Arab Emirates, Nigeria, Armenia and the Democratic Republic of Congo, as well as in Belgium, France, the United Kingdom and Cyprus.

Venture capital fund announces three investments

The Beirut-based venture capital fund Berytech Fund announced several transactions that consist of an investment in Yalla Play, a gaming platform that is compatible with social networking sites; and an investment ButterflEye, a producer of water-proof goggles that measure a swimmer's heartbeat rates using infrared technology. It also invested in the web texting software Wext, which is designed to be used on mobile phones or on computers, but at a low cost and with a 5,000-character limit. Established in May 2008, the Berytech Fund invests in early-stage technology companies, providing equity capital and strategic guidance. The fund invests between $100,000 and $1.2m per firm. The Berytech Fund has about $6m in assets under management and was established by five banks, Univeristé Saint Joseph and three firms and investors in the ICT sector. In December 2010, the Fund invested $1.2m in ElementN, a technology firm specialized in mobile and web-based e-business technology and solutions. Also, in October 2010, Berytech Fund announced the acquisition of a 35% stake in Dermander, a new technology start-up focused on online digital image processing. It also invested in Active Identity, a technology start-up specialized in UHF Radio Frequency Identification.

In parallel, the business incubator Berytech signed a Memorandum of Understanding (MoU) with the Lebanese Association for Social & Economic Development (LASED) to cooperate in the promotion of the media and creative industries. The MoU includes the identification and the diagnosis of the problems facing these industries, in addition to setting goals and requirements for the implementation of strategic plans.

Corporate Highlights

Profits up 22% at Syrian affiliates of Lebanese banks, assets fall 8.4% and deposits drop 16%

Financial results issued by the affiliates of seven Lebanese banks operating in Syria show that their aggregate assets reached SYP359bn, or $7.6bn, at the end of June 2011, constituting a decrease of 8.4% from end-2010. The decline was due to an average drop of 16% in the assets of Banque BEMO Saudi Fransi, Bank Audi Syria and Bank of Syria & Overseas, the three largest private commercial banks by assets. The banks' loans totaled SYP145bn, or $3bn at end-June, reflecting a drop of 2.6% from the end of 2010. The loans' decline was mainly caused by an average contraction of 17.3% in the lending of Bank Audi Syria and Bank of Syria & Overseas in the first half of the year. Also, the banks' customer deposits reached SYP280bn, or $5.9bn at the end of June, regressing by 16% in the first half of the year. The drop was prompted by an averge contraction of 21.5% in the deposits of Banque BEMO Saudi Fransi, Bank Audi Syria and Bank of Syria & Overseas. Banque BEMO Saudi Fransi's deposits contracted by 23.9% year-to-June, and posted the steepest drop among the affiliates of Lebanese banks operating in Syria in the covered period. It was followed by Bank Audi Syria with a 22.7% drop in deposits, Bank of Syria & Overseas with a 17.8% decline, and Fransabank Syria with a decrease of 15.8%. In parallel, Bank Al-Sharq, the affiliate of Banque Libano-Française, saw deposit growth of 30.8%; followed by Byblos Bank Syria with an increase of 11.8%, and Syria Gulf Bank with a 10.4% rise. The ratio of the banks' loans-to-customer deposits stood at 51.8% at end-June 2011 compared to 44.7% at the end of 2010. Also, the aggregate shareholders equity of the banks reached SYP29bn, or $609.4m, at end-June, constituting an increase of 4.5% from end-2010.

In parallel, the aggregate net profits of the seven banks reached SYP1.2bn, or $25.8m in the first half of 2011, constituting an increase of 22.2% from SYP1bn in the same period last year. The aggregate net interest income of the banks reached SYP3.8bn, or $79.2m, in the first half of 2011, up 33.8% from the same period last year; while their total net fees & commission income increased by 14.8% to SYP1bn, or $21.6m. The banks' total operating income reached SYP5.4bn, or $114m in the first half of 2011, up 27.5% year-on-year. The increase in net income is mainly attributed to an average rise of 10.4% in the profits of Banque BEMO Saudi Fransi and Bank Byblos Syria, in addition to the shift from a loss to a profit for Syria Gulf Bank, the affiliate of First National Bank sal, as well as to a rise from a very low base in Fransbank Syria's profits. Profit growth was slowed by Bank Al-Sharq's results where losses more than doubled to SYP68.2m year-on-year; as well as by Bank Audi Syria and Bank of Syria & Overseas as the profits of the two banks grew by less than 2% on average.

Results of Affiliates of Lebanese Banks in Syria for First Half of 2011

	Banque BEMO Saudi Fransi	Bank of Syria & Overseas	Bank Audi Syria	Byblos Bank Syria	Syria Gulf Bank	Fransabank Syria	Bank Al-Sharq
Net Profits	$9.1m	$7.2m	$7.3m	$2.2m	$1.1m	$0.4m	($1.4m)
% Change*	11.3%	1.5%	2.0%	9.5%	140.4%	31,232.6%	116.7%
Total Assets	$2.03bn	$1.65bn	$1.66bn	$0.99bn	$0.42bn	$0.56bn	$0.26bn
% Change**	-16.2%	-14.9%	-16.2%	10.1%	27.1%	12.4%	31.7%
Loans (1)	$753m	$526m	$691m	$493m	$246m	$228m	$120m
% Change**	-3.0%	-17.7%	-16.8%	4.4%	56.4%	24.0%	55.4%
Customer Deposits	$1.66bn	$1.45bn	$1.33bn	$0.79bn	$0.28bn	$0.23bn	$0.16bn
% Change**	-23.9%	-17.8%	-22.7%	11.8%	10.4%	-15.8%	30.8%

**Year-on-year*
***Change from end-2010*
Source: Banks' financial statements

Solidere to pay $147m in dividends for 2010

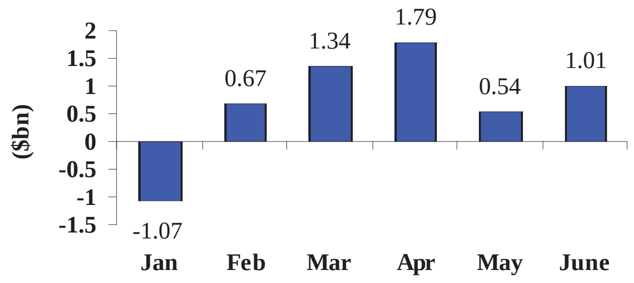
Solidere, the Lebanese Company for the Development and Reconstruction of the Beirut Central District and Lebanon's largest firm in terms of market capitalization, announced the distribution of $147m in dividends for 2010, of which $61m will be paid in cash and $86m will be distributed as shares. The firm will pay $0.4 per share for Class A and Class B shares and will distribute one share for every 30 shares. The dividends were approved at the firm's Ordinary General Assembly held on August 1st. The total dividends payment reflects a payout ratio of 74.8%.

Solidere posted net profits of $196.4m from its Lebanese operations in 2010, up 7.8% from $182.2m in 2009. Revenues from land and real estate sales rose by 10.5% to $337.2m in 2010, while revenues from rental properties increased by 51.4% to $41.2m year-on-year. Also, income from services increased 164% annually to $8.3m in 2010. Further, the firm recorded total net operating revenues of $272.2m, up 16.4% year-on-year. Solidere stated that its assets totaled $2.53bn and increased by 8.2% from end-2009, as inventory of land and projects in progress totaled $1.1bn at end-2010 slightly down from $1.11bn a year earlier. Solidere's earnings per share reached $1.19 in 2010 compared to $1.15 in the previous year. Solidere stated that the majority of property sales revenues registered in 2010 came from sales concluded in previous years and with their contracts completed in 2010. It added that the company did not sign new sales contracts in 2010, and that it still owns a land bank of 1.9 million square meters that is valued at about $7.5bn based on prevailing market prices. Also, the value of its built property amounts to about $1.2bn, in addition to cash and securities totaling approximately $576m. It noted that the market value of the firm's 12.7 million shares that it holds in Treasury amounts to $229m.

Corporate Highlights

Commercial banks' assets reach $135bn at end-June 2011

Private sector deposit change in first half of 2011



Source: Association of Banks in Lebanon

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached $135.4bn at the end of June 2011, constituting an increase of 5.1% from end-2010 and a rise of 11.3% from end-June 2010. Private sector deposits totaled $111.5bn, increasing by 4% from end-2010 and rising by 11.4% from a year earlier. Deposits in Lebanese pounds reached $37bn, down 6.1% from end-2010 and 1.2% year-on-year, while deposits in foreign currencies reached $74.4bn and rose by 9.9% from the end of last year and by 18.9% from end-June 2010. Non-resident foreign currency deposits totaled $17.5bn at end-June 2011, up by 12.2% from end-2010 and by 22.2% year-on-year. Total private sector deposits decreased by $1.1bn in January, and rose by $673m in February, $1.34bn in March, $1.79bn in April, $539m in May and $1bn in June 2011. In parallel, deposits of non-resident banks reached $5.7bn, an increase of 26.7% from end-2010 and of 12.7% year-on-year. The dollarization rate of deposits reached 66.8% at the end of June relative to 63.2% at end-2010 and 62.5% at end-June 2010. Further, the average deposit rate in Lebanese pounds reached 5.62% in June compared to 5.83% a year earlier, while the same rate in US dollars was 2.81%, up from 2.75% from June 2010.

Loans to the private sector totaled $37.3bn at end-June, constituting an increase of 6.7% from end-2010 and up 17.5% year-on-year. Lending to the non-resident private sector reached $4.9bn and rose by 6.4% from end-2010. The dollarization rate in private sector lending reached 79.3%, marginally down from 80.3% at end-2010 and compared to 81.9% a year earlier. The average lending rate in Lebanese pounds was 7.59% in June 2011 compared to 8.37% a year earlier, while the same average in US dollars was 6.98% compared to 7.03% in June 2010. In addition, claims on non-resident banks reached $18bn at end-June, posting an increase of 13.8% from end-2010. Claims on the public sector stood at $27.6bn, down 5.1% year-on-year and 5.7% from end-2010, and accounted for 42.6% of the banking sector's total claims. The ratio of private sector loans to deposits in foreign currencies stood at 39.7%, well below the Central Bank's limit of 70%, and below the ratio of 41.5% a year earlier. In parallel, the same ratio in Lebanese pounds was 20.9%, up from 15.3% a year earlier. The ratio of total private sector loans to deposits was 33.4% compared to 31.7% a year earlier. The banks' aggregate capital base stood at $10.4bn, up by 12.3% from end-2010 and 15.7% from $9bn in June 2010.

Private equity fund acquires 7% stake in First National Bank

The EuroMena II private equity fund announced that it has acquired 930,000 shares for $20.5m in First National Bank sal (FNB). The fund's acquisition is equivalent to 7% of the bank's capital, making it one of FNB's largest shareholders. The Beirut-based $90m fund is managed by the Capital Trust Group and invests in companies across the Middle East and North Africa. In March 2008, EuroMena I, another Capital Trust fund, invested $6m in IBL Bank sal and has exited its investment since then.

FNB announced unaudited consolidated net profits of $3.5m in the first quarter of 2011, down 34% from the same period last year. Net operating income decreased by 5.4% to $14m, with net interest income increasing by 12% to $10.7m and non interest receipts contracting by 39% to $3.2m year-on-year. Total assets reached $2.6bn at end-March, constituting a 0.8% rise from end-2010, while loans & advances to customers increased by 27.6% in the first quarter to $681.6m. Customer deposits totaled $2.1bn at end-March 2011, up 21% from end-2010. The bank's shareholders' equity reached $138.2m, down 27% in the first quarter of the year.

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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