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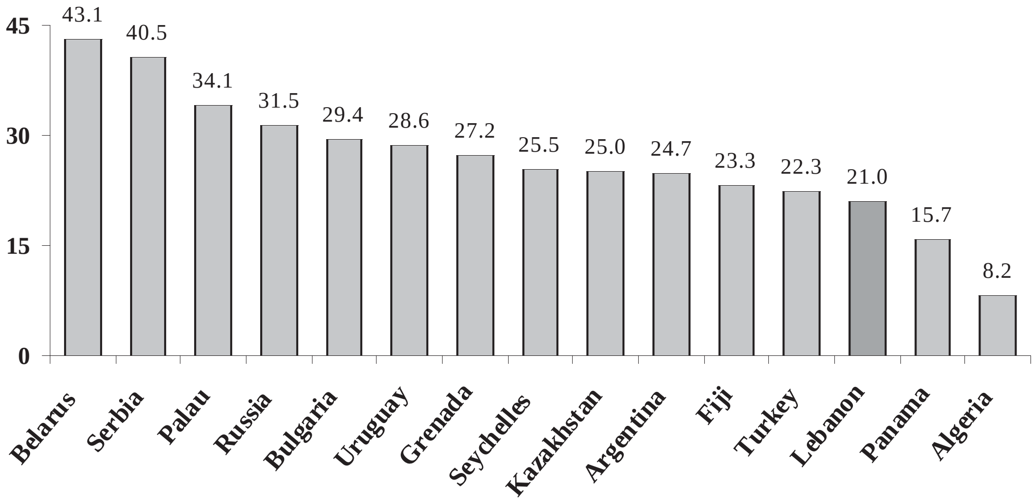
LEBANON THIS WEEK

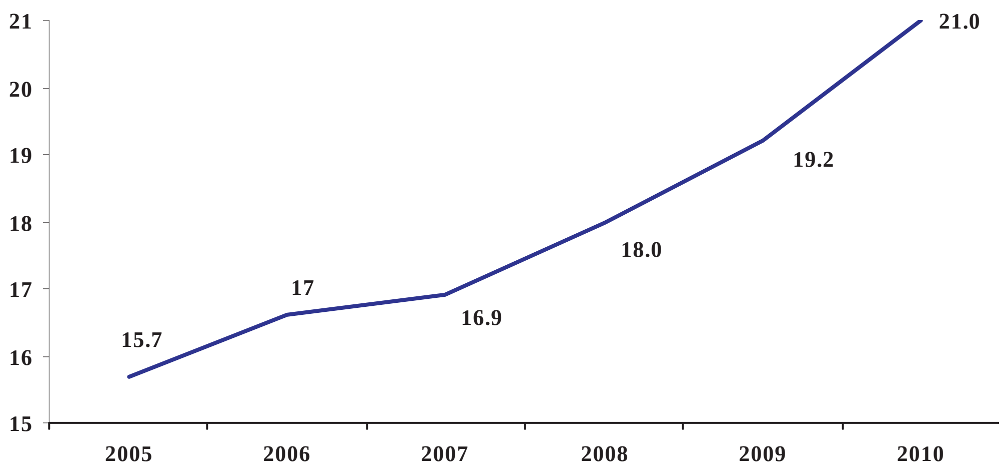
In This Issue

Charts of the Week

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



Fixed Telephone Lines Penetration in Lebanon (subscriptions per 100 inhabitants)



Source: International Telecommunication Union, Byblos Research

Quote to Note

"The impact on confidence could slow the economy in the second half of the year and widen the fiscal deficit."

Global financial services firm J.P. Morgan, on the consequences of a rise in domestic political tensions

Number of the Week

15%: Share of the Lebanese banking sector's profits from foreign operations, according to Central Bank Governor Riad Salamé

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"	16.42	(1.79)	111,064	14.63%
Solidere "B"	16.48	(1.49)	28,372	9.54%
Byblos Common	1.64	(1.20)	40,408	5.25%
Byblos Pref. 08	100.50	0.00	35	1.79%
Byblos Pref. 09	100.60	0.10	312	1.79%
BLOM GDR	8.59	0.47	16,402	5.66%
BLOM Listed	8.03	0.00	0	15.38%
Audi GDR	7.18	(0.14)	45,715	6.31%
Audi Listed	6.88	0.00	0	21.36%
HOLCIM	17.00	3.09	250	2.96%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Mar. 2012	7.500	102.38	3.25
Sep. 2012	7.750	105.00	2.82
June 2013	8.625	109.25	3.35
Apr. 2014	7.375	108.88	3.81
Apr. 2015	10.00	119.88	4.11
Jan. 2016	8.500	115.75	4.51
Mar. 2017	9.000	119.25	5.00
Nov. 2018	5.150	99.13	5.30
Apr. 2021	8.250	117.44	5.85
Oct. 2022	6.100	100.06	6.09

Source: Byblos Capital Markets

	August 16-19	August 8-12	% Change	July 2011	July 2010	% Change
Total Shares Traded	719,881	1,504,560	(52.15)	3,194,076	9,412,692	(66.07)
Total Value Traded	$7,690,263	$15,748,354	(51.17)	$33,654,544	$117,692,424	(71.40)
Market Capitalization	$11.22bn	$11.28bn	(0.51)	$11.30bn	$12.51bn	(9.64)

Source: Beirut Stock Exchange (BSE)

Lebanon in the News

Lebanese banking sector has similar level of vulnerability as sectors in Qatar, China and Cyprus

In its annual risk assessment of 86 banking systems in advanced and emerging economies, Fitch Ratings indicated that Lebanon's banking sector was among 28 banking systems that came in the 'low strength' category on its Banking System Indicator (BSI). The BSI is a measure of intrinsic banking system quality or strength, derived from Fitch's long-standing Individual Ratings for banks. It deliberately excludes potential support from shareholders or governments since the objective is to highlight systemic weakness that might trigger the need for such support. The BSI measures system quality or strength on a scale ranging from 'A' representing very high quality or strength, through 'B' (high), 'C' (adequate), 'D' (low) and 'E' (very low). Lebanon came in the 'D' category along with Egypt, Morocco and Benin in the Middle East & Africa region, as well as with Belgium, China, Croatia, Ecuador, Hungary, Luxembourg, the Philippines and Russia, among others. Fitch said that the typical level of banking strength in developed countries varies between 'high' and 'adequate', while that of emerging markets is slightly lower and varies between 'adequate' and 'low'.

In parallel, the agency placed Lebanon's banking sector among 8 banking systems with a 'high level of potential vulnerability', coming in the lowest category on Fitch's Macro-prudential Indicator (MPI). The MPI tries to identify the build-up of potential stress in banking systems due to a specific set of circumstances. As such, it identifies instances of rapid real credit growth over successive two-year periods, along with growth in real house prices, in the real exchange rate or in real equity prices. Its assessment is based on three years of annual data, divided into two overlapping two-year periods, with a trigger in either period relevant to a country's MPI score. It said that an MPI score of '1' denotes low potential vulnerability, while a score of '2' reflects moderate vulnerability and a score of '3' denotes a high level of vulnerability to potential systemic stress. Lebanon received a score of '3', down from '1' a year earlier. Qatar and Nigeria also came in the '3' category in the Middle East & Africa region. Other countries in this category included China, Hong Kong, Iceland, Cyprus, Azerbaijan and Vietnam. Lebanon and China were the only two countries with an MPI score of '3' and a BSI Strength of 'D'.

Fitch indicated that Lebanon was the only country that recorded a decline in its MPI classification from a year earlier. It said the change was driven by growth of nominal private sector credit growth that exceeded 24% in 2010, bringing the two-year average real credit growth in 2009-2010 to almost 20%, which is above the 15% trigger. Also, the real exchange rate appreciated by 7.1% in 2009 and continued to appreciate in 2010, bringing the two-year average real appreciation above the 4% trigger level. It added the change in Lebanon's MPI was supported by double-digit property price growth in Beirut in recent years. It noted, however, that credit growth has slowed sharply in 2011, along with the economy, and that property price appreciation has been driven more by foreign investment than bank lending, wich mitigates risks to the banking system from the property sector.

Energy Ministry requests $1.2bn for power plants

The Ministry of Energy & Water submitted a request to Parliament to borrow LBP 1,773bn, or $1.18bn to finance the production, transport and distribution of 700 Megawatts during the 2011-14 period. The amount includes $850.4m to build production plants, $247m for five transportation lines, $38.5m for 30 distribution lines, and $40m to be spent on studies and consulting. Further, the figures shows that $274.6m will be spent in 2011, $571m in 2012, $227.5m in 2013, and $102.2m in 2014. The request is supposed to be part of a five-year plan endorsed by the Lebanese Cabinet in July 2010 to reform the electricity sector, but was submitted separately.

The plan consists of 10 inter-related initiatives that cover infrastructure, demand and the regulatory framework. The plan prioritizes energy sources that are environmentally-friendly such as gas and renewable energy, and includes the establishment of infrastructure for liquefied petroleum gas and the construction of a pipeline along the coast. The plan expects power production to reach 4,000 megawatts by 2014 and 5,000 megawatts starting in 2015, with round-the-clock electricity supply by 2014. It also stipulates improving the transmission and distribution network, restructuring tariffs, and reducing technical losses. The ministry estimated the plan's cost at $4.87bn, to be funded by the state, the private sector and donors. According to the ministry, the plan would gradually reduce the sector's overall losses, which it estimates at $4.4bn for 2010, to break-even point by 2014. It noted that the state could start generating profits by 2015, and that losses would rise to $9.5bn by then if the plan is not implemented. The plan stressed the need to amend exiting laws as a prerequisite to establish a clear regulatory framework, called for the corporatization of Electricité du Liban, and for the adoption of a public-private partnerships (PPP) law.

Proposed Spending on Electricity (US$m)

	2011	2012	2013	2014
Production	255.4	510.1	84.9	-
Transportation	-	27.1	122.7	96.9
Distribution	12.6	13.9	11.9	-
Consulting & Studies	6.6	19.9	8.0	5.3
Total	**274.6**	**571.0**	**227.5**	**102.2**

Source: Ministry of Energy & Water

Fiscal deficit down 5% to $909m in first half of 2011 when assuming $704m in telecom revenues

Figures released by the Finance Ministry show that the fiscal deficit reached $865.3m in the first half of 2011, down 4.8% from $908.7m in the same period last year. The deficit was equivalent to 15.4% of total budget and Treasury expenditures compared to 17.3% in the same period of 2010. Overall government expenditures reached $5.63bn, up 7.3% year-on-year, while total revenues increased by 9.8% to $4.77bn. Budgetary expenditures rose by 9.2% to $5.28bn and included $684.2m in transfers to Electricité du Liban and $604m in outlays from previous years, while budget revenues rose by 10% to $4.53bn. Tax revenues contracted by 2.6% year-on-year to $3.43bn, of which 30%, or $1bn, were in VAT receipts that regressed by 1% from the same period last year. Tax revenues accounted for 75.6% of budgetary revenues and for 72% of total Treasury and budget receipts. The narrowing of the deficit and the increase in revenues is due to the inclusion of $704m in telecommunications receipts in budget revenues. The figure is based on the Telecommunications Ministry's assumption that telecom receipts would total $704m in the first half of the year, rather than on the Treasury actually receiving the transfers from the Telecom Ministry.

The distribution of other tax revenues shows that customs revenues declined by 22.4% year-on-year to $708.2m, income, profits & capital gains tax receipts grew by 18.4% to $1.1bn, revenues from property taxes decreased by 5.3% to $356m, and other tax receipts, mainly stamp fees, regressed by 2.7% to $146m. Further, the distribution of income tax revenues shows that taxes on profits accounted for 57% of total income tax receipts, followed by the tax on interest deposits with 20% taxes on wages & salaries with 14%, and capital gains tax with 9%. Revenues from taxes on profits increased by 24.8% year-on-year, income from the tax on interest rose by 5.3%, tax receipts on wages & salaries improved by 17.2%, and income from capital gains tax grew by 13.3%. Also, the distribution of property taxes shows that revenues from real estate registration fees regressed by 9% to $257m, built property taxes decreased by 12% to $55.5m, and revenues from inheritance tax grew by 49% to $40.4m. In parallel, non-tax budgetary revenues rose by 84% to $1.1bn, with revenues from government properties increasing by 125% to $886m and administrative fees & charges growing by 1.6% to $173m. Based on the ministry's assumption, receipts from telecommunications services, accounted for 79.5% of income from government properties and for 63.7% of non-tax revenues, and jumped by 221% to $704.3m in the first half of 2011.

Debt servicing decreased by 0.5% year-on-year to $1.9bn, and accounted for 33.8% of total expenditures and for 36% of budgetary spending. It absorbed 40% of overall revenues and 42% of budgetary receipts. Interest payment on domestic debt grew by 0.2% to $1.2bn, while interest disbursement on foreign debt contracted by 1.7% to $714m. Repayment of principal on foreign debt increased by 3% to $95.6m. Excluding debt servicing, the primary balance posted a surplus of $1.25bn, or 23.7% of budget expenditures compared to a surplus of $1.3bn, or 26.7% of budget spending in the same period last year. The overall primary balance posted a surplus of $1.13bn, or 20% of spending, relative to a surplus of $1.1bn or 21% of total expenditures in the first half of 2010.

Fiscal Results in First Half of 2011

	Including Assumed Telecom Receipts		**Excluding Assumed Telecom Receipts***	
	US$m	**year-on-year % change**	**US$m**	**year-on-year % change**
Budget revenues	4,534	10.1%	3,830	-7.0%
Tax revenues	3,428	-2.6%	3,428	-2.6%
Non-tax revenues	1,106	83.9%	402	-33.2%
of which Telecom revenues	704	220.7%	-	-
Budget expenditures	5,278	9.2%	5,278	9.2%
Budget Deficit	**(744)**	**4.0%**	**(1,448)**	**102.4%**
In % of budget expenditures	*-14.1%*		*-27.4%*	
Budget Primary Surplus	**1,253**	**-2.8%**	**549**	**-57.4%**
In % of budget expenditures	*23.7%*		*10.4%*	
Treasury receipts	233	4.3%	233	4.3%
Treasury expenditures	354	-15.0%	354	-15.0%
Total Revenues	4,767	9.8%	4,063	-6.4%
Total Expenditures	5,632	7.3%	5,632	7.3%
Total Deficit	**(865)**	**-4.8%**	**(1,570)**	**72.7%**
In % of total expenditures	*-15.4%*		*-27.9%*	
Total Primary Surplus	**1,132**	**3.3%**	**428**	**-61.0%**
In % of total expenditures	***20.1%***		*7.6%*	

** Cash basis*

Source: Ministry of Finance, Byblos Research

Lebanon in the News

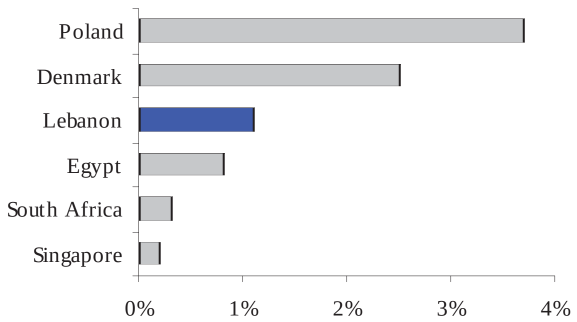
Finance Ministry to stop tax settlements starting January 2012

The Ministry of Finance announced that it will no longer accept settlements for tax violations that take place after July 2011, and that it will no longer accept any settlement with taxpayers on the amount of related fines and penalties starting January 2012. It also called on taxpayers to settle their tax irregularities before the end of September, which is the expiration date of the rules that govern the settlement fees and penalties of tax irregularities according to the tax law. The ministry attributed its decision to the trend among certain taxpayers to abuse the system and avoid paying their tax obligations on time due to the repeated reduction in the amount of related fines and penalties in cases of delays. It added that this abuse is unfair to those who abide by the deadlines and pay their taxes on time, as it gives the impression that the system is rewarding delinquent taxpayers by providing them with constant opportunities to settle their dues at reduced penalties. It also encouraged taxpayers with irregularities to take the initiative and amend the tax declarations that they already submitted voluntarily to the ministry and to file taxes for the periods that they skipped, as well to pay their dues and take advantage of reduced penalties. It advised taxpayers with irregularities to settle their dues before the ministry's tax audit singles them out.

Parliament passes anti-smoking law

The Lebanese Parliament endorsed the tobacco control law that aims to reduce smoking in Lebanon. The law prohibits smoking in indoor and outdoor public areas such as restaurants, pubs, cafés, offices, schools and hospitals; and bans all forms of tobacco advertisements such as TV, billboards and magazine advertisements; as well as tobacco firms' sponsorship of concerts and other events. It also requires larger graphic warnings on cigarette packs. Lebanon became the third Arab country, along with the UAE and Syria, to ban smoking in public places. The law defined a public place as all indoor and outdoor public areas, as well as all areas of social use, including public transportation. The law also bans smoking in the workplace at both public and private institutions, as well as at airports and places of worship. Also, the law stipulates that hotels are allowed to allocate 20% of their room capacity for smokers provided that they abide by health standards from the Health Ministry.

Cost of Smoking (% of GDP)



Source: AUB Tobacco Control Research Group

Further, the law imposes penalties ranging between LBP1m and LBP3m on owners and managers of public establishments if their clients are caught smoking inside, and a fine of LBP100,000 on individuals caught smoking in public spaces. The police and inspectors from the Ministry of Health and the Directorate of Consumer Protection will be responsible for monitoring the execution of the law. The law's implementation will take place gradually based on the type of the establishment, as owners of tourist establishments, including restaurants, pubs and hotels have a period of one year to comply before enforcement begins. However, the ban will go into effect in two weeks at indoor public areas like hospitals, schools, and public transportation; while tobacco advertising will be banned in six months.

A study issued by the AUB Tobacco Control Research Group last year estimated that Lebanese aged 18 years and above smoke 2,979 cigarettes per year on a per capita basis, as males consume 4,228 cigarettes per year and females consume 1,807 cigarettes annually on average. As a result, Lebanon has one of the highest adult cigarette consumption rates in the world at 12.4 packs per person per month, compared to 3.7 packs per month in France, 3.5 packs in Jordan and 1.7 packs in Singapore. The report said 53% of adults in the country smoke cigarettes or water-pipes, as 43% of Lebanese male adults and 28% of female adults are cigarette smokers, and 26% of males and 23.3% of females are water-pipe smokers.

The study conservatively estimated the direct and indirect cost of smoking on the Lebanese economy at $326.7m, excluding the impact of second hand smoke on non-smokers. It calculated the direct cost of smoking at $262.1m, which includes the cost of smoking-related diseases at $146.7m, productivity-related costs at $102.2m, and environmental degradation costs at $13.6m. Further, it estimated the indirect costs of smoking due to tobacco-related deaths at $64.6m. As a result, it estimated the net losses of smoking to the Lebanese economy at $55.4m, equivalent to about 1.1% of GDP in 2008 and compared to 1.5% of GDP in Denmark, 0.8% of GDP in Egypt and 0.3% of GDP in Singapore.

EU announces €33m to support reforms

The European Union announced a €33m cooperation package with Beirut, as part of its 2011 Annual Action Program for Lebanon that covers municipal finance, environmental governance and justice. The program will allocate €20m to modernize and support the administration of municipalities through the provision of new training and expertise. It will also improve service delivery at the municipal level by raising the effectiveness and efficiency of local management and by strengthening the municipal finance system. Also, the program will earmark €8m to support the Environment Ministry to better plan and implement environmental policies and to reform environmental governance. Further, it will allocate €5m to reform the Lebanese justice system by training clerks and by initiating a national debate about the independence of the judiciary.

Lebanon in the News

New Export Plus program finalized

The ministerial committee in charge of reviewing the Export Plus agricultural subsidies program finalized its report on the program in its new format. The Investment Development Authority of Lebanon (IDAL) had proposed to renew its Export Plus program under a new formula under a new formula whereby the subsidies will be linked to the quality of the packaging of the products. The new plan aims to increase the competitiveness of Lebanese exports in global markets by focusing on production, packaging and marketing. The new Export Plus aims to increase the volume of Lebanese exports, maintain traditional markets such as Arab markets, target promising new markets with a heavy Diapsora presence, increase consumer confidence in local products, and develop the technological capacity of producers. The cost of the new program is estimated at LBP 50bn per year. The new plan provides tax and financial incentives to farmers, exporters and agricultural cooperatives; initiates promotional campaigns for Lebanese agricultural products in select target markets with potential; and modernizes agricultural production and packaging in order to meet international standards. The new plan will be submitted to the Cabinet for approval.

IDAL launched the Export Plus program in August 2001 to support agricultural exports. It consisted 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 were gradually phased out over a five-year period. The program expired at the end of last March but was extended for a four-month period until the end of July 2011. 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. The amount of subsidies totaled $211m during the covered period, peaking at $30m in 2004 and reaching a low of $9m in 2010.

Airport activity stagnates in first 7 month of 2011

Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures and transit) totaled 3,131,562 in the first seven months of 2011, up 0.6% from the same period last year. The UAE accounted for 579,595 passengers, or 18.5% of total passenger activity. It was followed by Saudi Arabia with 363,232 passengers, or 11.6% of the total; France with 303,920 travelers (9.7%) and Turkey with 238,747 travelers (7.6%). The total number of flights reached 36,037 in the first seven months of 2011, down 2.7% year-on-year. Middle East Airlines registered 11,823 flights, accounting for 32.8% of the total. It was distantly followed by Royal Jordanian Airlines with 1,688 flights or 4.7% of the total, Qatar Airways with 1,277 flights, Etihad Airways with 1,090 flights, Fly Dubai with 1,060 flights, and Saudi Arabian Airlines with 1,017 flights. The UAE was the biggest source and destination of traffic to Lebanon, as aircraft movement to and from the UAE totaled 5,224 flights, accounting for 14.5% of the total. Also, the HIA processed 41,164 metric tons of cargo in the first seven months of 2011, of which 40,624 tons of freight and 540 tons of mail. MEA processed 12,278 tons of freight, of which 12,050 tons in regular freight and 228 tons in mail.

Torusim spending in Lebanon rise by 13% year-to-July

Figures issued by Global Blue, the VAT refund operator for international shoppers, show that total spending by tourists in Lebanon increased by 13% year-to-July, as visitors from Saudi Arabia spent the most during the first seven months of 2011 and accounted for 21% of total tourists' spending. They were followed by visitors from the UAE with 11%, Kuwait with 10%, Syria with 8% and Egypt with 6%. Spending by visitors from the UAE rose by 18%, followed by visitors from France with 16%, Qatar (12%), Syria (9%), Kuwait (5%) and Saudi Arabia (3%); while spending by visitors from Egypt contracted by 18% followed by visitors from Jordan (-7%). Beirut attracted 84% 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 and department stores with 4% each, souvenirs & gifts with 3%, consumer electronics & household appliances with 2% and electronics & IT with 1%. Spending on perfumes & cosmetics increased by 34% year-to-July, followed by fashion & clothing with a 18% growth, consumer electronics & household appliance with a 15% rise, home & garden with a 10% increase, and department stores and souvenirs & gifts with an increase of 6% each. Meanwhile, spending on electronics & IT decreased by 17% in the covered period, followed by watches with an 8% drop.

Energy Ministry to launch solar-powered street lighting initiative

The Ministry of Energy & Water plans to launch a new national initiative for the efficient use of public street lighting systems in Lebanon. The initiative is in line with the requirements of the electricity plan approved by the Council of Ministers, and follows the different steps of the National Energy Efficiency and Renewable Energy Action (NEEREA) 2011-2015. The ultimate goal of the initiative is to set up a national mechanism to move towards solar-powered street lighting systems. Last year, the Central Bank launched NEEREA to support the financing of energy efficiency and renewable energy projects across Lebanon through commercial banks. Also, the United Nations Development Program (UNDP) is cooperating with the Central Bank to provide a complete funding mechanism that allows organizations from different sectors to implement models of energy conservation for the first time in Lebanon. Lebanon plans to raise the contribution of sustainable energy to 12% of its total energy demand by 2020.

Corporate Highlights

Profits of top 12 banks up 7% to $781m in first half of 2011

The unaudited consolidated net profits of the Alpha Group of banks reached $781.3m in the first half of 2011, constituting an increase of 7% from the same period last year. The Alpha Group consists of 12 banks with deposits in excess of $2bn each. Total net operating income rose by 10% to $1.9bn, with aggregate net interest income increasing by 13.7% to $1.3bn and non-interest receipts growing by 8.8% to $700.6m year-on-year. The net interest spread rose marginally to 1.95% in the first half of 2011 from 1.91% in the same period last year. Also, total operating expenditures increased by 12.3% year-on-year to $955.1m, with staff expenses increasing by 15.1% to $528.8m. The banks' total assets reached $135.3bn at end-June, constituting a 5.8% increase from end-2010; while aggregate loans & advances rose by 10.3% during the first half to $38bn. Customer deposits totaled $113.4bn at the end of June, constituting an increase of 6% from end-2010. The banks' net return on average assets reached 1.19% on an annualized basis relative to 1.24% at end-June 2010; while net return on average equity was 13.41% relative to 13.32% at end-June 2010. Further, the cost-to-income ratio increased to 48.21% in the first half of 2011 from 48.04% in the same period last year.

Car sales down 5.5% in first 7 months of 2011

Figures released by the Association of Automobile Importers in Lebanon indicate that a total of 18,556 new passenger cars were sold in the first seven months of 2011, constituting a decrease of 5.5% from the 19,639 cars sold in the same period last year. Korean cars accounted for 42.4% of total car sales, followed by Japanese cars with a 30.3% share, European automobiles with 20.9%, American vehicles with 5.6%, and Chinese cars with 0.7%. The number of Korean cars sold grew by 31.1 % year-on-year. In parallel, the number of Chinese cars sold posted a drop of 27.8% year-on-year, followed by Japanese autos with a 25.1% decrease, European cars with a 17.5% drop and American vehicles with a 15.6% decline. Kia is the leading brand in the Lebanese market with 4,855 cars sold in the first seven months of 2011, followed by Nissan with 3,284 cars sold, Hyundai with 3,005, Toyota with 806, Chevrolet with 740 cars sold, Renault with 666, and Peugeot with 570 cars. In parallel, a total of 1,256 new commercial vehicles were sold in the first seven months of 2011, down 26.2% from the 1,702 commercial vehicles sold in the same period last year.

Fransabank's profits up 16% to $80m in first half of 2011

Fransabank sal, one of Lebanon's top 10 banks, announced unaudited consolidated net profits of $80.3m in the first half of 2011, up 15.8% from the same period last year. Net operating income rose by 21.4% year-on-year to $207.2m, with net interest income increasing by 24.7% to $151m and non-interest receipts increasing by 25.3% to $61.4m year-on-year. Also, operating expenditures increased by 24.4% to $106.7m, with staff expenses increasing by 28.3% to $67.7m. Total assets reached $13.6bn at end-June, constituting a 10.8% rise from end-2010, while loans & advances increased by 28.8% in the first half of 2011 to $4bn. Customer deposits totaled $11.3bn at end-June, up 11.6% from end-2010.

SGBL's profits down 1% to $50m in first half of 2011

Société Générale de Banque au Liban (SGBL) sal, one of Lebanon's top 10 banks, announced unaudited consolidated net profits of $49.8m in the first half of 2011, down 0.9% from the same period last year. Net operating income decreased by 2% year-on-year to $103.8m, with net interest income increasing by 19.9% to $64.4m and non-interest receipts decreasing by 38.6% to $33m year-on-year. Also, operating expenditures increased by 2.8% to $50.7m, with staff expenses decreasing by 1.3% to $28m. Total assets reached $6.2bn at end-June, constituting a 21.3% rise from end-2010, while loans & advances increased by 11.1% in the first half to $1.6bn. Customer deposits totaled $5bn at end-June, up 23% from end-2010.

EGF Hermes' net income down 80% to $19.5m in first half of 2011

Regional investment bank EFG Hermes declared consolidated net income of EGP115m, or $19.5m, in the first half of 2011, constituting a decrease of 80% from the same period last year.Net profits reached EGP78.9m in the second quarter of 2011, up 119% quarter-on-quarter from EGP36 in the first quarter of the year. Total operating revenues reached EGP877m in the first half of 2011, down 38% year-on-year. It attributed the year-on-year decline in the Group's profits to the one-off capital gain of EGP716.6m realized from the sale of its stake in Bank Audi sal in the first quarter of last year.

In parallel, EFG Hermes indicated that the acquisition of Crédit Libanais has further expanded its balance sheet, as total consolidated assets reached EGP48.6bn, or $8.2bn as at end-June 2011, with the bank contributing EGP40.6bn or 83.5% of the total. Also, consolidated shareholders' equity stood at EGP8.45bn, with Crédit Libanais contributing EGP2.98bn or 35.2% of the total. It added that Crédit Libanais accounted for 52% of consolidated revenues in the second quarter of 2011 relative to 59% in the first quarter of the year and 54% in the fourth quarter of 2010.

Last August, EFG Hermes Holding SAE announced the acquisition of a 65% stake in Crédit Libanais sal for $542m. It has a call option for an additional 25% interest in the bank, and will have the right to exercise the call option over a two-year period at its sole discretion and at the same terms, including pricing, as those applicable to the acquisition of the initial stake. EFG Hermes said the transaction transforms it from an investment company with an investment banking platform into a universal bank. Crédit Libanais sal, one of Lebanon's top 10 banks, posted net profits of $33.2m in the first half of 2011, constituting a decrease of 11% from the same period last year. Its total assets reached $6.9bn at end-June, constituting a 6.3% rise from end-2010 and its customer deposits totaled $6bn at end-June, up 6.4% from the end of last 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	Apr 2010	Mar 2011	Apr 2011	Change*	Risk Level
Political Risk Rating	58.5	55.5	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	58.2	58.2	▼	High

Regional Average	Apr 2010	Mar 2011	Apr 2011	Change*	Risk Level
Political Risk Rating	64.8	60.7	60.5	▼	Moderate
Financial Risk Rating	42.0	41.9	41.8	▼	Very Low
Economic Risk Rating	37.1	37.6	37.5	▲	Low
Composite Risk Rating	71.9	70.1	69.9	▼	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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