

LEBANON THIS WEEK

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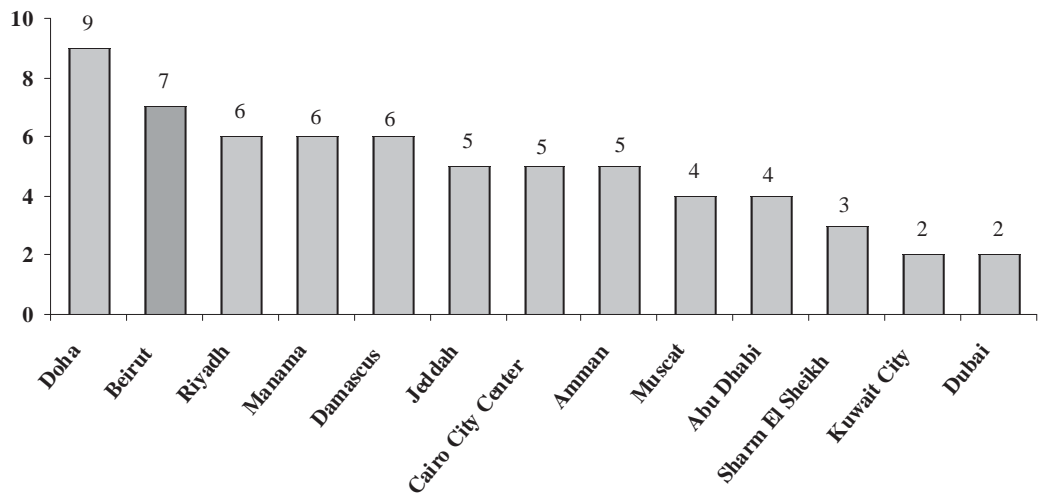
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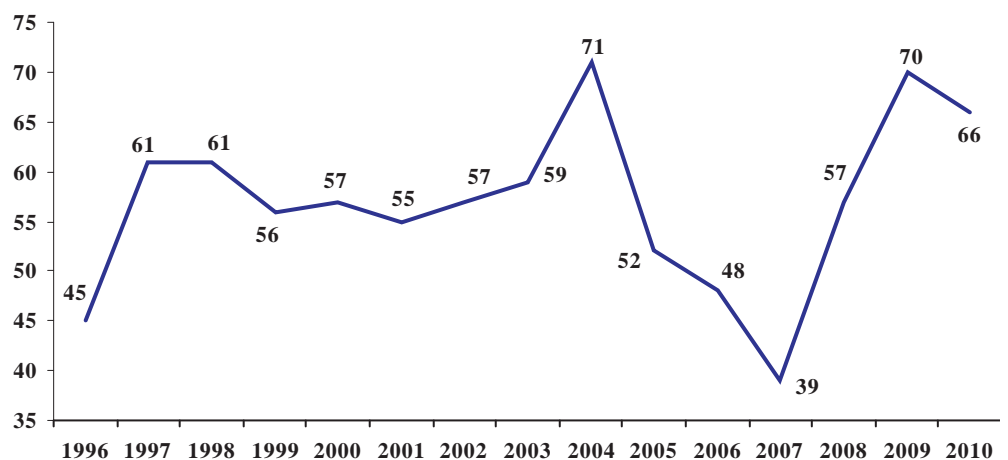
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Charts of the Week

Compound Annual Growth Rate of Revenue Per Available Room in Arab Cities (1994-2010 period in %)



Revenue Per Available Room at Hotels in Beirut (\$US)



Source: HVS Research, Byblos Research

Quote to Note

"Work hard, save a lot of money and borrow little."

Central Bank Governor Riad Salamé's career advice to a group of foreign students visiting Lebanon

Number of the Week

136: Lebanon's rank out of 139 countries in terms of protected areas as a percentage of total land, according to the World Economic Forum's Tourism & Travel Competitiveness 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 | Sovereign Eurobonds | Coupon % | Mid Price \$ | Mid Yield % |
|----------------------------------|------------------------|------------------|---------------------|--|----------------------------|-----------------|---------------------|--------------------|
| Solidere "A" | 15.65 | (4.69) | 157,971 | 14.07% | Mar. 2012 | 7.500 | 102.38 | 3.13 |
| Solidere "B" | 15.56 | (5.58) | 34,081 | 9.09% | Sep. 2012 | 7.750 | 105.00 | 2.74 |
| Byblos Common | 1.65 | 0.61 | 484,293 | 5.33% | June 2013 | 8.625 | 109.25 | 3.30 |
| Byblos Pref. 08 | 100.50 | 0.00 | 0 | 1.81% | Apr. 2014 | 7.375 | 108.88 | 3.78 |
| Byblos Pref. 09 | 100.00 | (0.60) | 15,945 | 1.81% | Apr. 2015 | 10.00 | 120.00 | 4.05 |
| BLOM GDR | 8.51 | (0.93) | 9,500 | 5.65% | Jan. 2016 | 8.500 | 115.88 | 4.47 |
| BLOM Listed | 8.20 | 2.12 | 1,000 | 15.84% | Mar. 2017 | 9.000 | 119.25 | 4.99 |
| Audi GDR | 7.16 | (0.28) | 49,760 | 6.34% | Nov. 2018 | 5.150 | 99.50 | 5.23 |
| Audi Listed | 6.88 | 0.00 | 0 | 21.55% | Apr. 2021 | 8.250 | 117.50 | 5.84 |
| HOLCIM | 17.09 | 0.53 | 200 | 3.00% | Oct. 2022 | 6.100 | 100.11 | 6.09 |

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

Source: Byblos Capital Markets

| | August 22-26 | August 16-19 | % Change | July 2011 | July 2010 | % Change |
|------------------------------|---------------------|---------------------|-----------------|------------------|------------------|-----------------|
| Total Shares Traded | 818,512 | 719,881 | 13.70 | 3,194,076 | 9,412,692 | (66.07) |
| Total Value Traded | \$7,067,402 | \$7,690,263 | (8.10) | \$33,654,544 | \$117,692,424 | (71.40) |
| Market Capitalization | \$11.13bn | \$11.22bn | (0.86) | \$11.30bn | \$12.51bn | (9.64) |

Source: Beirut Stock Exchange (BSE)



Real GDP growth at 2.8% in 2011, fourth slowest economy in Middle East & Africa

Citigroup projected economic growth in Lebanon at 2.8% in 2011 compared to 6% in 2010 and relative to growth of 5.1% in the Middle East & Africa (ME&A) region, 6% in emerging economies and 3.1% for the world economy for this year. It also forecast Lebanon's real GDP growth at 3.5% in 2012 compared to 5.2% in the ME&A region and 5.8% in emerging economies, as well as compared to growth of 3.2% for the world economy. Lebanon's projected growth rate in 2011 would make it the fourth slowest-growing economy in the ME&A region ahead of only the UAE at 2.2%, Egypt at 1.4% and Bahrain at 1%; while it would make it the seventh slowest-growing economy among 54 emerging countries, ahead of the UAE, Czech Republic, Hungary, Romania, Egypt and Bahrain. Also, Lebanon would be one of nine economies in the ME&A region and among 29 emerging economies to expand at a slower pace than in 2010.

Further, Citigroup forecast the inflation rate in Lebanon at 3.4% this year, fourth lowest in the region, relative to 4% in 2010 and compared to inflation of 5.9% for the ME&A region and 6.4% for emerging economies. It also expected inflation to reach 4% in 2012 compared to 6.3% in the ME&A region and 5.7% in emerging economies. In parallel, it projected Lebanon's current account deficit at 16.7% of GDP in 2011, up from a deficit of 13% of GDP in 2010 and compared to surpluses of 5% of GDP for the ME&A region and 1.7% of GDP for emerging economies for this year. Lebanon's current account balance would post the widest deficit this year among the 54 emerging market economies included in Citigroup's universe. It expected Lebanon's current account deficit to narrow to 11.7% of GDP in 2012, still the widest in emerging markets, compared to surpluses of 4.5% of GDP for the ME&A region and 1.2% of GDP for emerging economies. Also, Citigroup forecast Lebanon's fiscal deficit to widen to 10.8% of GDP this year from 7.4% of GDP last year, compared to deficits of 0.5% for the ME&A region and 2.3% of GDP for emerging economies. The deficit would be the widest among the emerging economies covered by the forecasts. It also expected the country's fiscal deficit to reach 8.9% of GDP in 2012 relative to deficits of 0.4% and 2.2% for the ME&A region and emerging economies, respectively.

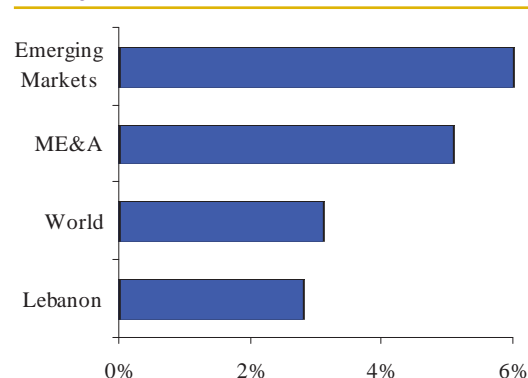
In parallel, Standard Chartered Bank projected Lebanon's real GDP growth at 3% in 2011 and 5% in 2012 compared to growth of 7.5% in 2010. Lebanon's projected growth rate in 2011 would make it the third-slowest growing economy in the Middle East and North Africa (MENA) region, ahead of only Egypt at 1.4% and Tunisia at -0.5%. It forecast Lebanon's inflation rate to reach 6% in 2011 and 5.4% in 2012 compared to 5% in 2010. Lebanon's inflation rate this year is expected to be the fourth highest in the MENA region behind Turkey at 6.7%, Saudi Arabia at 7% and Egypt at 12.2%. Further, it expected Lebanon's current account deficit to narrow to 15% of GDP in 2011 and 14.5% of GDP in 2012 from a deficit of 16% of GDP in 2010.

Retail real estate rental prices stable in most areas in Achrafieh

Property advisory firm RAMCO indicated that the Estimated Rental Values (ERV) of retail space in Achrafieh range between \$300 per sqm and \$2,000 per sqm per year, depending on the location. It identified ABC Mall to be at the high end of the scale with ERVs between \$1,500 and \$2,000 per sqm per year. The mall is followed by Charles Malek Avenue with ERVs at \$700 to \$800 per sqm per year, followed by Sassine Square with ERVs between \$500 to \$600 per sqm, Gemmayzeh with ERVs of \$400 to \$500 sqm per year, Furn El Hayek with \$300 to \$500 sqm per year, and the Monot and Sodeco areas with \$200 to \$500 per sqm. It said that retail prices have stabilized in most areas of Achrafieh except for ABC Mall and Sassine area, where prices continue to be on a steady rise.

RAMCO indicated that demand for retail space in Achrafieh comes from food & beverage outlets such as restaurants and pubs, banks, boutiques, and art galleries. It added that the retail geography in Achrafieh is considered to be a shopping, entertainment, dining and clubbing destination in Lebanon. It said that ABC Mall is the most sought after destination by retailers, and that demand for space on Charles Malek Avenue comes mostly from banks and restaurants. But it attributed the existence of available space in the prime areas of Achrafieh to over-priced locations or the inability to turn such space into a restaurant. It also said that popular destinations are almost fully saturated, which is forcing newcomers to locate away from them, as reflected by the growing occupancy rate in side streets located close to ABC Mall and in the Mar Mikhael area.

Projected Real GDP Growth in 2011 (%)



Source: Citigroup

Energy cost, exchange-rate fluctuations and price competition are biggest hurdles to Lebanese industry's productivity and competitiveness

An opinion survey of 100 senior executives in the Lebanese industrial sector identified energy cost, price competition and exchange-rate fluctuations as the main obstacles to the sector's productivity and competitiveness. The survey was conducted in the first four months of 2011 by the Center of Economic Research at the Chamber of Commerce, Industry & Agriculture of Beirut and Mount Lebanon. The previous executive opinion survey was conducted in 2004.

On the production level, 43% of respondents considered that the high cost of energy constituted the most important factor that affected their productivity, 22% cited labor cost, and 19% identified expensive raw materials as the main obstacles to productivity. The survey noted that participants did not consider corruption in the public administration to be the most important obstacle to productivity. In terms of labor, 30% of industrialists cited the low skills level as the major problem in the labor market, 22% identified high wages, and 20% referred to the lack of industrial discipline.

Further, 52% of respondents identified price competition to be the most important factor hindering their access to export markets, 13% cited inadequate export promotion and 10% of respondents blamed trade protectionism. Also, according to 39% of respondents, import competition was the most important factor that affected their ability to sell their products in the Lebanese market, while 20% of participants cited illegal imports, and 15% of respondents identified low purchasing power as major obstacles to sell locally. The survey indicated that 56% of respondents cited exchange-rate fluctuations as the most important cause for the deterioration of their competitive position due to higher cost of imported raw materials. Also, only 12% said exchange-rate fluctuations improved their competitive positioning in export markets, and 11% said currency changes improved their pricing domestically. In parallel, the survey showed that 34% of respondents cited the high cost of bank credit as the main factor affecting access to finance, 24% of participants referred to excessive collateral required by banks, and 19% named the limited access to subsidized financing as the most important factors affecting access to credit.

In parallel, 50% of surveyed industrialists ranked product differentiation and characteristics, 29% cited reduced production cost, 9% identified market positioning, and 5% cited marketing strategies as the most important factors to gain a competitive edge.

The distribution of surveyed enterprises show that food processing accounted for 20% of respondents, followed by construction materials with 16%, chemicals (10%), paper and electrical industries (9%), plastics (6%), textiles and furniture (5% each), machinery and printing & publishing (3% each), cosmetics (2%), and metal works and ammunitions (1% each). Also, 24% of surveyed enterprises had more than 250 employees; 22% employed between 100 and 250 persons; 35% had between 30 and 100 staff members; and 19% had between 10 and 30 laborers.

| Obstacles to Industrial Activity in Lebanon (% of respondents) | | |
|---|-------------|-------------|
| | 2004 | 2011 |
| Access to export markets | | |
| Price competition | 44% | 52% |
| Administrative impediments | 28% | 9% |
| Protectionist measures | 11% | 10% |
| Labor problems | | |
| High wages | 42% | 22% |
| Lack of industrial discipline | 22% | 20% |
| Low level of skills | 17% | 30% |
| Position in the local market | | |
| Import competition | 42% | 39% |
| Low purchasing power | 25% | 15% |
| Illegal imports | 17% | 20% |
| Productivity | | |
| High cost of energy | 56% | 43% |
| Sub-optimal production volume | 14% | 3% |
| Inefficient public administration | 11% | 4% |
| Access to financing | | |
| Bank credit is expensive | 53% | 34% |
| Access to subsidized financing is limited | 25% | 19% |
| Bank credit requires excessive collateral | 6% | 24% |
| Own resources are already invested | 6% | 5% |

Source: *Industry in Lebanon 2011 Executive Opinion Survey*

Credit and debit cards reach 1.73 million cards, ATMs total 1,327 at end-June 2011

Figures released by the Central Bank of Lebanon show that the number of credit and debit cards issued in Lebanon reached 1,734,173 cards at the end of June 2011, constituting a 3.4% increase from end-2010, and a 6.3% rise on a yearly basis. Resident cardholders accounted for 97.2% of total cards issued in Lebanon. The distribution of payment cards by type shows that debit cards with residents accounted for 63.7% of the total, followed by credit cards with residents (23.7%), charge cards with residents (7.4%), resident prepaid cards (2.3%), non-resident debit cards (2.1%), non-resident charge cards (0.4%), non-resident credit cards (0.2%), and non-resident prepaid cards (0.1%). The number of ATMs rose by 1.5% to 1,327 machines on a quarterly basis and by 6.8% from 1,242 ATMs at the end of June 2010. The Greater Beirut area had 642 ATMs, accounting for 48.4% of the total, followed by Mount Lebanon with 313 (23.6%), the North with 133 (10%), the South with 115 (8.7%), the Bekaa with 97 (7.3%), and Nabatiyeh with 27 (2%). Further, the aggregate number of point of sales accepting payment cards reached 49,802 by the end of June 2011, increasing by 1.5% on a quarterly basis and by 4.3% annually.

The average monthly domestic payment by residents totaled \$133.8m in the second quarter of 2011, increasing by 11.5% quarter-to-quarter and rising by 26.8% from the second quarter of 2010, while the average monthly payment and cash withdrawal abroad by residents increased by 13.5% quarter-to-quarter to \$78.8m and by 15.7% from the second quarter of 2010. Further, the average monthly value of cash withdrawals by residents using ATMs increased quarterly by 9.7% and rose by 12.5% from the same quarter of the previous year to \$464.2m, while average monthly withdrawals by non-residents rose by 15.8% to \$6.7m quarter-to-quarter and increased by 6.7% from the same period last year. Also, the average monthly purchases in Lebanon by non-residents rose by 23.1% quarter-to-quarter and increased by 21.7% annually to \$2.2m. Domestic card payments by residents in Lebanese pounds accounted for 12.8% of aggregate payments in all currencies, while local currency withdrawals by residents represented 67.5% of the total in the second quarter of 2011.

| Number and Usage of Payment Cards in Lebanon | | | |
|---|------------------|------------------|---------------|
| | H1-2011 | H1-2010 | Change |
| Cards | | | |
| With residents | 1,685,408 | 1,586,002 | 6.3% |
| With non-residents | 48,765 | 44,943 | 8.5% |
| Total | 1,734,173 | 1,630,945 | 6.3% |
| ATMs | 1,327 | 1,242 | 6.8% |
| Points of Sales | 49,802 | 47,733 | 4.3% |
| Purchases (in US\$m) | | | |
| by residents in Lebanon | 761.4 | 614.8 | 23.9% |
| <i>% in Lebanese pounds</i> | <i>12.8%</i> | <i>10.5%</i> | |
| by non-residents in Lebanon | 12.2 | 10.6 | 15.0% |
| by residents outside Lebanon* | 444.5 | 386.4 | 15.0% |
| Cash withdrawal (in US\$m) | | | |
| by residents in Lebanon | 2,662.5 | 2,364.9 | 12.6% |
| <i>% in Lebanese pounds</i> | <i>67.3%</i> | <i>66.5%</i> | |
| by non-residents in Lebanon | 37.2 | 35.0 | 6.5% |

* including cash withdrawals

Source: Central Bank of Lebanon, Byblos Research

Internet access rates to drop by 80%

The Cabinet approved a decree aimed at reducing the prices of bandwidth telecommunications lines, or leased lines (E1), to an average of \$322 per line, down from current prices of more than \$2,000 each. It also approved the increase in Internet speed by four to eight times from current levels. The Ministry of Telecommunications announced that the decree will come into effect at the start of October and that Internet service providers will implement the new package by then, which is expected to translate into an 80% drop in DSL Internet prices for end users. The decree also listed the maximum prices that ISPs may charge end-users. The rise in Internet speed will come from starting to use the full 120 Giga bits that became available to Lebanon from the India-Middle East-Western Europe (IMEWE) submarine cable. The country currently uses 10 Giga bits from the cable. Lebanon subscribed to the IMEWE cable last December but started only in June to use its bandwidth in a limited way. The IMEWE is a 13,000-kilometer ultra high capacity fiber optic submarine cable system, which links India and Europe through the Middle East. Lebanon incurred a cost of \$45m to be connected to IMEWE.

Earlier this year, Speedtest.net's Household Download Index ranked Lebanon in last place among 169 countries around the world in terms of Internet download speed. Also, Lebanon posted the worst performance on the Household Upload Index, ranking last globally. Lebanon's average download speed was 0.49 Mbps, well below the global average download speed of 9.14 Mbps and the Arab average of 4.74 Mbps. Further, its average upload speed was 0.1 Mbps, well below the global average of 2.55 Mbps, the Arab average of 0.85 Mbps and the upper middle-income countries' average of 4 Mbps. In parallel, figures show that the average download speed by Internet Service Providers in the country ranged between 0.29 Mbps and 0.78 Mbps, while the average upload speed fluctuated between 0.03 Mbps and 0.26 Mbps.

Consumer Price Index up 5.8% annually in July

The Central Administration of Statistics' Consumer Price Index indicates that inflation increased by 5.8% in July 2011 from July 2010. Prices of clothing and footwear increased by 16.1%, followed by water, electricity, gas & other fuels (+13.6%), food & non-alcoholic beverages (+7.4%), health care (+7.3%), education (+6.7%), restaurants & hotels (+5.6%), transportation (+5.5%), recreation & entertainment (+3.1%), miscellaneous goods & services (+1.8%), furnishings & household equipment (+1.4%) and alcoholic beverages & tobacco (+0.5%). In parallel, housing prices and communication remained unchanged year-on-year. Imported inflation accounts for about 70% of inflation in the country, as Lebanon has an import-based economy. Lebanon imports most of its energy needs and the value of imports historically has been equivalent to about five times that of exports.

The Consumer Price Index decreased by 0.1% in July 2011 from June 2011. Prices of health care increased by 1.8%, followed by miscellaneous goods & services and water, electricity, gas & other fuels (+0.2% each), and furnishings & household equipment (+0.1%). Further, prices of clothing & footwear decreased by 2.9%, followed by transportation cost (-0.3%), and prices at restaurants & hotels (-0.1%); while the cost of housing, recreation & entertainment, communication, alcoholic beverages & tobacco, food & non-alcoholic beverages, and education remained unchanged month-on-month. In parallel, the Consumer Price Index grew by 6% year-on-year in June and increased by 5.6% year-on-year in May.

Industrial exports increase by 3% to \$1.7bn in first half of 2011, imports up by 8.8% to \$123.1m

Figures released by the Ministry of Industry show that industrial exports totaled \$1.7bn in the first half of 2011, constituting an increase of 3% from \$1.66bn in the same period last year. Industrial exports reached \$314.3m in June 2011, up 3.9% from \$302.5m in May 2011 and decreasing by 0.5% from June 2010. Pearls & precious or semi-precious stones accounted for \$377.6m, or 22.1%, of total industrial exports in the first six months of the year, followed by base metals & articles of base metals with \$308.7m (18.1%), and machinery and mechanical appliances with \$273.4m (16%). Arab countries accounted for 37.3% of total industrial exports in June, followed by European countries with 18.9%. In parallel, industrial imports reached \$123.1m in the first half of the year, up 8.8% from the same period in 2010. Italy was the main source of such imports and accounted for 32.1% of total. It was followed by China with 14.7% and Germany with 11.4%. Further, imports of industrial equipment and machinery reached \$21.6m in June 2011, increasing by 30.9% year-on-year. Italy was the main source of imports of industrial equipments, accounting for 33.7% of total, followed by Germany with 20.6% and China with 13.8%.

Banque Libano-Française posts \$31m in first half profits

Banque Libano-Française sal, one of Lebanon's top 10 banks, posted unaudited consolidated net profits of \$31.2m in the first half of 2011, constituting a decrease of 15.5% from the same period last year. Net operating income rose by 1.5% to \$97.7m, with net interest income increasing by 4.9% to \$72.3m and non-interest receipts growing by 5.2% to \$31.3m year-on-year. Also, operating expenditures increased by 12.7% to \$59.1m, with staff expenses increasing by 9.8% to \$33.9m. Total assets reached \$9.2bn at end-June 2011, constituting a 18.2% rise from end-June 2010 and a 5.7% rise from end-2010, while loans & advances to customers increased by 18% year-on-year and by 5.7% from end-2010 to \$3.1bn. Customer deposits totaled \$7.7bn at end-June, constituting an increase of 19.7% from a year earlier and a growth of 3.8% from end-2010.

Assafir sells 20% stake, plans to sell additional 29% share

The daily Arabic newspaper *Assafir* announced that it has offered 49% of its shares to outside investors and that it sold a 20% stake to a Syrian-American businessman for \$7.5m. It indicated that it is continuing to seek investors for the 29% stake, with the original owner keeping a 51% stake. It said that opening up the capital and attracting new investors will help improve and expand the publication, and added that its editorial policy will not be affected by the transaction. Established in 1974, *Assafir* has 150 part-time and full-time employees and owns its printing press, the Arab Research Center. There are 15 dailies published in Lebanon, which include 12 newspapers in Arabic, two in French and one in English. Last year, a survey by consulting firm Value Partners and media services company Zenith Optimedia indicated that newspapers remain the dominant form of news consumption in Lebanon, with 46% of survey respondents saying they use print newspapers only. Newspapers attracted \$37m, or 20.6%, of real advertising expenditures in the Lebanese market in 2010, after television and billboard advertising. Spending on newspaper ads rose by 10% last year, constituting the slowest growth among all media advertising.

BBAC's profits up 11% to \$25m in first half of 2011

BBAC sal posted unaudited consolidated net profits of \$24.5m in the first half of 2011, constituting an increase of 11.4% from the same period last year. Net operating income rose by 13.3% to \$53.3m, with net interest income decreasing marginally by 0.07% to \$32.4m and non-interest receipts increasing by 37.4% to \$15.3m year-on-year. Also, operating expenditures increased by 17.2% to \$25.2m, with staff expenses increasing by 11.5% to \$14.5m. Total assets reached \$4.3bn at end-June 2011, constituting a 11.2% rise from end-June 2010 and a 3.9% rise from end-2010, while loans & advances to customers increased by 26.8% year-on-year and by 14% from end-2010 to \$989.5m. Customer deposits totaled \$3.8bn at end-June, constituting an increase of 2.9% from end-2010 and a growth of 11.5% from a year earlier. In addition, the net interest spread decreased to 1.54% in the first half of 2011 from 1.71% in the same period last year. The banks' net return on average assets reached 1.17% on an annualized basis, up from 1.16% a year earlier; while net return on average equity was 15.75% relative to 14.69% in the first half of 2010. Further, the cost-to-income ratio increased to 52.82% in the first half of 2011 from 49.35% in the same period last year.

CreditBank increases stake in Armenian bank

CreditBank sal increased its stake in the Yerevan-based Anelik Bank from 51% to 69.5% by purchasing the entire stake of 12.25% from a shareholder and a partial stake of 6.25% from another investor. The bank stated that it aims to increase the geographic expansion of its money transfer system to reach the Arab world. Anelik Bank ranked in fifth place among commercial banks operating in Armenia in terms of authorized capital that reached AMD14.3bn at end-July 2011. Its assets totaled AMD63.6bn at the end of July. The bank has 11 branches in Armenia, as well as a money transfer subsidiary in Moscow. CreditBank bought a 51% stake in Anelik Bank for 9bn Armenian drams, or about \$24m, in 2009.

IBL Bank's net income up 32% to \$19m in first half of 2011

IBL Bank sal posted unaudited consolidated net profits of \$19.2m in the first half of 2011, constituting an increase of 32.1% from the same period last year. Net operating income rose by 28% to \$36.7m, with net interest income increasing by 14.7% to \$27.1m and non-interest receipts increasing by 75.8% to \$10.5m year-on-year. Also, operating expenditures increased by 28.5% to \$14.3m, with staff expenses increasing by 23.6% to \$7.8m. Total assets reached \$3.5bn at end-June 2011, constituting a 15.9% rise from end-June 2010 and a 8.3% rise from end-2010, while loans & advances to customers increased by 45% year-on-year and by 15.6% from end-2010 to \$570.1m. Customer deposits totaled \$3.2bn at end-June, constituting an increase of 8.1% from end-2010 and a growth of 18% from a year earlier. In addition, the net interest spread decreased to 1.61% in the first half of 2011 from 1.68% in the same period last year. The banks' net return on average assets reached 1.14% on an annualized basis, up from 1.03% a year earlier; while net return on average equity was 16.83% relative to 13.19% in the first half of 2010. Further, the cost-to-income ratio increased to 38.04% in the first half of 2011 from 37.6% in the same period last year.

Corporate Highlights

First National Bank's profits down 4.6% to \$7.8m in first half of 2011

First National Bank sal posted unaudited consolidated net profits of \$7.8m in the first half of 2011, constituting a decrease of 4.6% from the same period last year. Net operating income rose by 4.7% to \$28m, with net interest income increasing by 9.7% to \$22.5m and non-interest receipts decreasing by 11.6% to \$6m year-on-year. Also, operating expenditures increased by 9.4% to \$18.3m, with staff expenses increasing by 14.4% to \$10.4m. Total assets reached \$2.6bn at end-June 2011, constituting a 9.5% rise from end-June 2010 and a 1.7% rise from end-2010, while loans & advances to customers increased by 27.5% year-on-year and by 15.9% from end-2010 to \$730.6m. Customer deposits totaled \$2.1bn at end-June, constituting an increase of 5.2% from end-2010 and a growth of 17.3% from a year earlier. In addition, the net interest spread decreased to 1.76% in the first half of 2011 from 1.82% in the same period last year. The banks' net return on average assets reached 0.61% on an annualized basis, down from 0.73% a year earlier; while net return on average equity was 8.47% relative to 9% in the first half of 2010. Further, the cost-to-income ratio increased to 64.24% in the first half of 2011 from 61.32% in the same period last year.

HSBC to close three branches in Lebanon

HSBC Bank reportedly plans to halt operations in three of its branches in Lebanon as part of a global restructuring program that the bank announced in early August. The bank declared that it will cut 30,000 jobs worldwide by 2013 as part of a wide-ranging cost-cutting program to improve profitability. The bank expects to save up to \$3.5bn from its restructuring plan over the next two years. HSBC was established in Lebanon in 1946 and operates in the country through five branches located in the Beirut area. HSBC ranks in 17th place in assets, 16th place in deposits, and in 14th place in loans and advances in the Lebanese market. Last month, Fitch Ratings downgraded HSBC Bank Middle East's (HBME) Individual Rating to 'C' and removed it from Rating Watch Negative. It attributed the downgrade of the Individual Rating to the bank's weakened asset quality, exposure to government-related entities in Dubai and the stressed real estate sector in the UAE, as well as the elevated political risks in the region, which may affect some of its operations.

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



Economic Research & Analysis Department
Byblos Bank Group
P.O. Box 11-5605
Beirut – Lebanon
Tel: (961) 1 338 100
Fax: (961) 1 217 774
E-mail: research@byblosbank.com.lb
www.byblosbank.com

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BYBLOS BANK GROUP

LEBANON

Byblos Bank S.A.L
Achrafieh - Beirut
Elias Sarkis Avenue - Byblos Bank Tower
P.O.Box: 11-5605
Riad El Solh - Beirut 1107 2811 - Lebanon
Phone: (+ 961) 1 335200
Fax: (+ 961) 1 339436

SYRIA

Byblos Bank Syria S.A
Abu Roummaneh Head Office
Al Chaalan - Amine Loutfi Hafez Str.
P.O.Box: 5424 Damascus - Syria
Phone: (+ 963) 11 9292 - 3348240 / 1 / 2 / 3 / 4
Fax: (+ 963) 11 3348207
E-mail: byblosbanksyria@byblosbank.com

IRAQ

Erbil Branch, Kurdistan, Iraq
Street 60,
Near Sports Stadium
P.O.Box: 34 - 0383 Erbil - Iraq
Phone: (+ 964) 66 2233457 / 9
Fax: (+ 964) 66 2233458
E-mail: iraqbranch@byblosbank.com.lb

Baghdad Branch, Iraq
Karada - Salman Faeq Street
Facing Al Sheruk Building
P.O.Box: 3085 Al Elweyah - Iraq
Phone: (+ 964) 1 7177493
(+ 964) 1 7177294
E-mail: aabdelkader@byblosbank.com

UNITED ARAB EMIRATES

Byblos Bank Abu Dhabi Representative Office
Intersection of Muroor and Electra Streets
P.O.Box: 73893 Abu Dhabi - UAE
Phone: (+ 971) 2 6336400
Fax: (+ 971) 2 6338400
E-mail: byblosbankuae@byblosbank.com

ARMENIA

Byblos Bank Armenia CJSC
18/3 Amiryan Street
Yerevan, 37500 - Republic of Armenia
Phone: (+ 374) 10 530 362
Fax: (+ 374) 10 535 296

CYPRUS

Limassol Branch
1, Arch. Kyprianou / St. Andrew Street
P.O.Box 50218
3602 Limassol - Cyprus
Phone: (+ 357) 25 341433 / 4 / 5
Fax: (+ 357) 25 367139
E-mail: bybloscyprus@byblosbank.com

BELGIUM

Byblos Bank Europe S.A
European Head Office
10, Rue Montoyer
B-1000 Brussels - Belgium
Phone: (+ 32) 2 551 00 20
Fax: (+ 32) 2 513 05 26
E-mail: byblos.europe@byblosbankeur.com

UNITED KINGDOM

London Branch
Berkeley Square House - Suite 5
Berkeley Sq.
GB - London W1J 6BS - United Kingdom
Phone: (+ 44) 207 493 35 37
Fax: (+ 44) 207 493 12 33
E-mail: byblos.europe@byblosbankeur.com

FRANCE

Paris Branch
15 Rue Lord Byron
F- 75008 Paris - France
Phone: (+ 33) 1 45 63 10 01
Fax: (+ 33) 1 45 61 15 77
E-mail: byblos.europe@byblosbankeur.com

SUDAN

Byblos Bank Africa Ltd.
Khartoum - Sudan
El Amarat -Street 21
P.O.Box: 8121 El Amarat - Khartoum - Sudan
Phone: (+ 249) 183 566 444
Fax: (+ 249) 183 566 454
E-mail: byblosbankafrica@byblosbank.com

NIGERIA

Byblos Bank Nigeria Representative Office
10-14 Bourdillon Road
Ikoyi, Lagos - Nigeria
Phone: (+ 234) 1 6653633
(+ 234) 1 8990799
E-mail: nigeriarepresentativeoffice@byblosbank.com.lb

DEMOCRATIC REPUBLIC OF CONGO

Byblos Bank RDC
4, Avenue du Marche
C/Gombe, Kinshasa, Democratic Republic of Congo
Phone: (+ 243) 817 070701
(+ 243) 991 009001
E-mail: melamm@byblosbank.com.lb

ADIR INSURANCE

Dora Highway - Aya Commercial Center
P.O.Box: 90-1446
Jdeidet El Metn - 1202 2119 Lebanon
Phone: (+ 961) 1 256290
Fax: (+ 961) 1 256293