



LEBANON THIS WEEK

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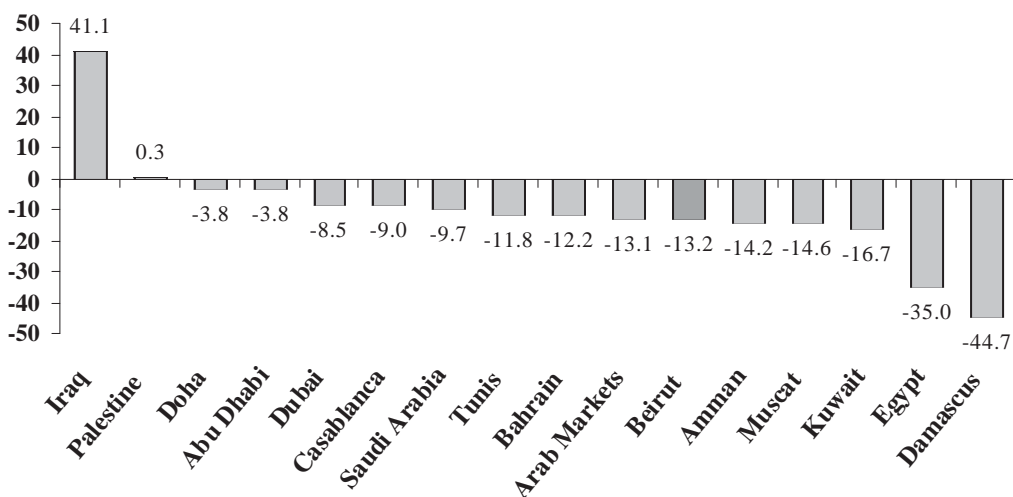
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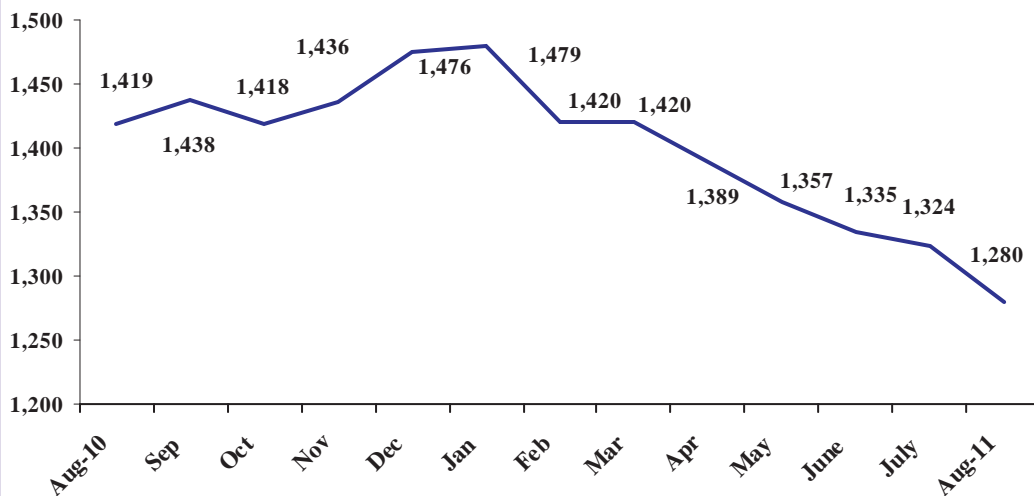
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Charts of the Week

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



Performance of the Beirut Stock Market



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

Quote to Note

"In the absence of a 2011 budget, we expect the *ad hoc* spending of ministries to continue for the remainder of the year, adding to the deficit."

The Economist Intelligence Unit, on the impact of a lack of a ratified budget for the sixth consecutive year

Number of the Week

28.7%: Increase in the value of the Central Bank of Lebanon's gold reserves in the first 8 months of 2011 to a record high \$16.75bn

Economic Indicators

| \$m (unless otherwise mentioned) | 2009 | June 10 | 2010 | Apr 11 | May 11 | June 11 | % Change* |
|----------------------------------|-----------|---------|-----------|---------|---------|---------|-----------|
| Exports | 3,486 | 385 | 4,256 | 375 | 377 | 411 | 6.75 |
| Imports | 16,241 | 1,449 | 17,956 | 1,501 | 1,578 | 1,571 | 8.42 |
| Trade Balance | (12,755) | (1,064) | (13,700) | (1,126) | (1,201) | (1,160) | 9.02 |
| Balance of Payments | 7,899 | 106 | 3,326 | (199) | (199) | 564 | 432.08 |
| Checks Cleared in LBP | 11,122 | 1,674 | 13,519 | 1,160 | 1,145 | 1,156 | (30.94) |
| Checks Cleared in FC | 45,270 | 4,609 | 53,925 | 4,485 | 4,495 | 4,716 | 2.32 |
| Total Checks Cleared | 56,392 | 6,283 | 67,444 | 5,645 | 5,640 | 5,872 | (6.54) |
| Budget Deficit/Surplus | (2,960) | (52) | (2,892) | (301) | 183 | 350 | (773.08) |
| Primary Balance | 1,078 | 279 | 1,232 | 163 | 455 | 459 | 64.52 |
| Airport Passengers | 4,986,544 | 497,647 | 5,552,260 | 466,640 | 420,133 | 517,860 | 4.06 |

| \$bn (unless otherwise mentioned) | Dec 2009 | June 10 | Mar 11 | Apr 11 | May 11 | June 11 | % Change* |
|-----------------------------------|----------|---------|--------|--------|--------|---------|-----------|
| BdL FX Reserves | 25.66 | 27.42 | 28.54 | 28.76 | 28.44 | 28.33 | 3.32 |
| <i>In months of Imports</i> | 18.6 | 18.92 | 17.40 | 19.16 | 18.02 | 18.03 | (4.70) |
| Public Debt | 51.09 | 51.00 | 52.59 | 52.61 | 52.72 | 52.52 | 2.98 |
| Net Public Debt | 44.11 | 44.13 | 45.61 | 45.72 | 45.70 | 45.6 | 3.33 |
| Bank Assets | 115.25 | 121.68 | 132.49 | 133.80 | 134.04 | 135.43 | 11.30 |
| Bank Deposits (Private Sector) | 95.77 | 100.12 | 108.15 | 109.93 | 110.47 | 111.48 | 11.35 |
| Bank Loans to Private Sector | 28.37 | 31.71 | 36.43 | 36.81 | 37.45 | 37.26 | 17.50 |
| Money Supply M2 | 34.16 | 38.02 | 37.14 | 37.48 | 37.22 | 36.61 | (3.71) |
| Money Supply M3 | 82.08 | 86.74 | 92.76 | 94.20 | 94.11 | 94.23 | 8.64 |
| LBP Lending Rate (%) | 9.04 | 8.37 | 7.73 | 7.73 | 7.67 | 7.59 | (78b.p.) |
| LBP Deposit Rate (%) | 6.75 | 5.83 | 5.63 | 5.64 | 5.64 | 5.62 | (21b.p.) |
| USD Lending Rate (%) | 7.28 | 7.03 | 7.24 | 7.05 | 7.04 | 6.98 | (5b.p.) |
| USD Deposit Rate (%) | 3.05 | 2.75 | 2.82 | 2.84 | 2.84 | 2.81 | 6b.p. |
| %* Change in CPI** | 4.20 | 3.98 | 6.94 | 6.56 | 7.30 | 6.16 | 218b.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" | 15.71 | 0.38 | 69,131 | 14.11% |
| Solidere "B" | 15.71 | 0.96 | 22,399 | 9.17% |
| Byblos Common | 1.71 | 3.64 | 18,116 | 5.52% |
| Byblos Pref. 08 | 100.50 | 0.00 | 0 | 1.81% |
| Byblos Pref. 09 | 100.00 | 0.00 | 0 | 1.81% |
| BLOM GDR | 8.51 | 0.00 | 0 | 5.65% |
| BLOM Listed | 8.20 | 0.00 | 0 | 15.83% |
| Audi GDR | 7.15 | (0.14) | 31,680 | 6.33% |
| Audi Listed | 6.78 | (1.45) | 500,000 | 21.22% |
| HOLCIM | 16.80 | (1.70) | 84 | 2.94% |

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

| Sovereign Eurobonds | Coupon % | Mid Price \$ | Mid Yield % |
|---------------------|----------|--------------|-------------|
| Mar. 2012 | 7.500 | 102.38 | 2.96 |
| Sep. 2012 | 7.750 | 105.00 | 2.64 |
| June 2013 | 8.625 | 109.25 | 3.24 |
| Apr. 2014 | 7.375 | 108.88 | 3.76 |
| Apr. 2015 | 10.00 | 120.00 | 4.02 |
| Jan. 2016 | 8.500 | 115.88 | 4.45 |
| Mar. 2017 | 9.000 | 119.25 | 4.98 |
| Nov. 2018 | 5.150 | 99.50 | 5.23 |
| Apr. 2021 | 8.250 | 117.63 | 5.83 |
| Oct. 2022 | 6.100 | 100.10 | 6.09 |

Source: Byblos Capital Markets

| | Aug 29- Sep2 | August 22-26 | % Change | August 2011 | August 2010 | % Change |
|------------------------------|--------------|--------------|----------|--------------|--------------|----------|
| Total Shares Traded | 642,760 | 818,512 | (21.47) | 4,130,284 | 2,924,222 | 41.24 |
| Total Value Traded | \$5,126,038 | \$7,067,402 | (27.47) | \$42,508,858 | \$35,867,053 | 18.52 |
| Market Capitalization | \$11.13bn | \$11.13bn | (0.07) | \$11.08bn | \$12.19bn | (9.06) |

Source: Beirut Stock Exchange (BSE)



Beirut has 37th most expensive retail rent in the world

The 2011 survey of the world's most expensive retail rental locations in 63 cities around the world by property consultants Cushman & Wakefield ranked Beirut as the 37th most expensive city worldwide, the third most expensive among 13 cities in the Middle East & Africa region, and the most expensive among 10 Arab cities included in the rankings. Beirut was the 30th most expensive city worldwide, the most expensive city in the Middle East & Africa region, and the most expensive Arab city in the 2010 survey. It ranked as the 33rd most expensive city globally and the second most expensive in the Middle East & Africa region in 2009. The study evaluates retail rent prices in 278 locations in 63 countries around the world. On a global basis, the rent of retail space in Beirut was less costly than in Luxembourg, Bogota and Stockholm and more expensive than in Santiago, Hanoi, and Budapest. The most expensive retail location in Beirut was ABC Center in Achrafieh at €1,379 per square meter per year in 2011, or around \$2,000 per sqm, which is lower than the global average of €2,582 per sqm and higher than the Middle East & Africa average of €14 per sqm. According to Cushman & Wakefield, Lebanon was one of two countries in the Middle East & Africa region that posted increases in prime rents in the 12 months to June 2011, as rental values in the top shopping areas of Beirut proved resilient to external turmoil. It said that food retailers remain active and several luxury brands have opened new outlets in Beirut. It added, however, that overall demand has stagnated as retailers are cautious due to the political instability in the country. It noted that, although tenants' positions have strengthened when negotiating new leases, rental levels in prime locations are still being revised upward upon lease renewal.

Lebanon accounted for four of the top 10 most expensive rental locations in the Middle East & Africa region. ABC Center in Achrafieh ranked as the fourth most expensive location in the region in terms of retail rent prices, followed by Kaslik in seventh place at €1,035 per sqm (\$1,500 per sqm), Verdun Street in eighth place at €966 per sqm (\$1,400 per sqm), the Beirut Central District in 10th place at €897 per sqm (\$1,300 per sqm) and Hamra Street in 16th place at €586 per sqm (\$850 per sqm). In parallel, two locations in Lebanon ranked among the seven locations in the Middle East & Africa region that posted rental growth. ABC Center in Achrafieh posted the fastest growth in the region with a 33.3% rise in rent in the 12 months ending June 2011 and Kaslik posted the fifth highest rental growth at 7.1% year-on-year; while rents in the Beirut Central District dropped by 13.3% and regressed in Hamra Street by 5.6%, while they were unchanged in Verdun Street. The survey noted that rental values in the Middle East & Africa region did not witness the positive trend seen elsewhere, as prime retail rents either declined or remained stable in most countries during the covered period, with only Lebanon and Israel posting increases. Retail rents grew by an average of 0.01% in the Middle East & Africa year-on-year, as rents increased in seven locations, declined in eight other locations, and were unchanged in 12 locations. New York's Fifth Avenue is the world's most expensive retail location at €16,704 per sqm a year.

| Top 10 Rental Locations in the Middle East & Africa | | |
|---|---------------------------|-----------------|
| City | Location | Rent (€/sqm/yr) |
| Tel Aviv | Ramat Aviv | 2,433 |
| Tel Aviv | Dizengoff Shopping Center | 1,500 |
| Jerusalem | Malcha Shopping Center | 1,470 |
| Beirut | ABC Center Achrafieh | 1,379 |
| Tel Aviv | Azrieli Shopping Center | 1,243 |
| Tel Aviv | Ayalon Shopping Center | 1,216 |
| Kaslik | Kaslik Street | 1,035 |
| Beirut | Verdun Street | 966 |
| Kuwait City | Raya Mall | 905 |
| Beirut | Beirut Cenral District | 897 |

Source: Cushman & Wakefield 2011

Lebanon bans the import of used vehicles unfit for driving

The Customs Directorate issued a memorandum prohibiting the import of used vehicles unfit for driving and that pose a threat to public safety. It requested a thorough assessment of the documents and reports of imported used vehicles issued by the country of origin. Further, it said that car inspection stations should closely monitor used imported vehicles that have been damaged by an accident to ensure that such vehicles are fit for driving and do not require further repairs. More specifically, the Customs Directorate banned the import of vehicles that have a Carfax report labeling them as 'salvage' cars, or that have a technical inspection report that gives them a similar rating from countries that do not issue Carfax reports. Carfax is a commercial web-based service that generates vehicle history reports on used cars and light trucks for the American and Canadian markets. It places in the 'salvage' category vehicles that are damaged to the extent that the cost of repairing them exceeds 75% of their pre-damage value. Lebanon imported 24,714 used vehicles in the first 7 months of 2011 for an aggregate value of \$348.7m. Germany accounted 46% of the number of such vehicles, followed by the U.S. with 20.4%, and the United Kingdom with 8.3%. Large-engine vehicles accounted for 35.5% of the total and medium-engine vehicles accounted for 48.8%.

Occupancy at Beirut hotels at 55%, room yields down 36% in first 7 months of 2011

Ernst & Young's benchmark survey of the Middle East hotel sector indicated that the average occupancy rate at hotels in Beirut was 55% in the first 7 months of 2011, decreasing from 74% in the same period last year. The occupancy rate at Beirut hotels was the sixth lowest among 21 markets in the region, while it was the ninth highest in the first 7 months of 2010. The survey said the average rate per room at Beirut hotels was \$219 in the first 7 months of 2011, ranking the capital's hotels as the seventh most expensive in the region.

The average rate per room at Beirut hotels decreased by 15.8% year-on-year and posted the second steepest decrease among all markets in the region, behind Hurghada in Egypt. The average rate per room in Beirut came above the regional average of \$181, which declined by 1.4% from \$183 in the same period of 2010. Occupancy rates at Beirut hotels were 44% in January, 42% in February, 53% in March, 61% in April, 58% in May, 62% in June and 67% in July, compared to 64% in January, 76% in February, 68% in March, 79% in April, 71% in May, 77% in June and 80% in July 2010.

Further, revenues per available room (RevPAR) were \$123 in Beirut in the first 7 months of 2011, down from \$192 in the same period last year, ranking it in 11th place in the region behind Muscat, Dubai City and Riyadh and ahead of Al Ain, Dubai Apartments and Madina. Beirut's RevPAR was down 36.3% year-on-year, compared to a decrease of 10.6% across the region. Beirut posted RevPARs of \$99 in January, \$84 in February, \$107 in March, \$120 in April, \$119 in May, \$142 in June and \$184 in July compared to RevPARs of \$160 in January, \$209 in February, \$155 in March, \$208 in April, \$158 in May, \$188 in June and \$270 in July 2010. Dubai Beach posted the highest average room rate in the region at \$324 and the highest RevPAR at \$272, while Dubai Apartments posted the highest occupancy rate at 85% in the first 7 months of the year.

| Hotel Performance in first 7 months of 2011 | | | |
|---|--------------------|---------------|-----------------|
| | Occupancy Rate (%) | RevPAR (US\$) | RevPAR % change |
| Dubai Apartments | 85 | 98 | 0.6 |
| Dubai Beach | 83 | 272 | 11.1 |
| Dubai Overall | 82 | 183 | 8.1 |
| Dubai City | 81 | 142 | 5.6 |
| Makkah | 79 | 155 | 9.2 |
| Abu Dhabi | 77 | 165 | (3.9) |
| Jeddah | 72 | 154 | 0.8 |
| Al Ain | 70 | 112 | (9.4) |
| Madina | 69 | 94 | 4.9 |
| Doha | 66 | 176 | (6.9) |
| Muscat | 65 | 135 | (4.8) |
| Riyadh | 62 | 146 | 6.3 |
| Amman | 58 | 84 | (13.3) |
| Kuwait | 56 | 156 | 5.1 |
| Hurghada | 55 | 20 | (45.6) |
| Beirut | 55 | 123 | (36.3) |
| Cairo Pyramids | 52 | 69 | (23.7) |
| Sharm Shaikh | 48 | 25 | (51.4) |
| Cairo Overall | 36 | 46 | (46.8) |
| Cairo City | 34 | 43 | (50.4) |
| Manama | 28 | 66 | (60.8) |

Source: Ernst & Young, Byblos Research

British-Lebanese consortium to bid for oil and gas drilling rights

The Beirut-based contracting firm Consolidated Contractors Company (CCC), along with the U.K.-based energy firms Cairn Energy PLC and Cove Energy, announced the formation of a consortium to bid for the rights to drill for oil and gas off the coast of Lebanon. Cairn indicated that Lebanon's offshore waters provide an opportunity for gas drilling, and minimized the impact of the maritime border dispute between Israel and Lebanon on offshore drilling operations and prospects. Based in Edinburgh, Scotland, Cairn Energy PLC is one of Europe's largest independent oil and gas exploration and production companies. It explores for, discovers, develops and produces oil and gas assets globally. Currently, Cairn has interests across South Asia, offshore Greenland and in the Mediterranean; and its market capitalization is about \$10.5bn. The London-based Cove Energy identifies and acquires oil and gas assets in the early phase of the upstream life-cycle, and develops them into marketable opportunities for the medium and larger oil and utility companies. The company's geographic focus is in Africa and the Mediterranean. CCC is the largest engineering and construction company in the Middle East and the 19th largest in the world.

Last March, The Ministry of Energy & Water signed an agreement with French consulting firm Beicip-Franlab to prepare the tender process for offshore oil and gas exploration. Beicip-Franlab, in partnership with the Norwegian government's program, "Oil for Development" and the Norwegian company Petroleum Geo-Services (PGS), is expected to finalize 27 decrees and present them to the Cabinet for approval. Beicip-Franlab will be in charge of the technical aspect of the bidding process, the Norwegian program will be responsible for the legal and institutional aspects, and PGS will manage the marketing and promotional sides. In August 2010, the Lebanese Parliament ratified 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 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.

Industrial policy should focus on reducing local costs and raising customs duties

An opinion survey of 100 senior executives in the Lebanese industrial sector identified raising production capacity as their preferred choice for domestic expansion, and cited joint ventures and relocation as the favorite options for foreign expansion.

A total of 34% of surveyed industrialists indicated that the reduction of local production costs should be the most important objective of the government's industrial policy, 30% of respondents cited having protectionist barriers through higher customs duties, 16% preferred a policy based on export incentives, 3% wanted protectionist barriers through restrictions on import licenses and quantities, 4% want industrial policy to focus on investment incentives, 3% favor free trade, 2% support the free movement of labor, and just 1% want a policy that focuses on upgrading the infrastructure or protecting intellectual property rights.

Further, 38% of surveyed industrialists considered that the free trade agreement with Arab countries has a favorable impact on Lebanese industry, while 29% of respondents stated that the agreement had a detrimental effect on the sector. Also, only 6% of participants cited favorably Lebanon's trade agreement with the European Union, and just 5% viewed positively Lebanon's access to the World Trade Organization. Moreover, 3% of respondents considered that bilateral trade agreements are positive for Lebanese industry, while another 3% viewed negatively these agreements.

In terms of domestic expansion, 77% of surveyed industrialists identified raising production capacity as their preferred choice, 9% of respondents cited subcontracting, 5% referred to acquisitions, and 4% named partnerships as their first option to expand domestically. When it comes to international expansion, 17% of respondents considered joint ventures with foreign firms, another 17% opted for de-location, and a further 17% cited integration within a global network. Further, 12% of respondents preferred outsourcing and 12% identified franchising as their favorite means to expand abroad.

In parallel, 29% of surveyed industrialists identified market studies as the most important service they expect from business support institutions, 23% of respondents considered the dissemination of information as the main function of such centers, another 17% cited technical advice, and 9% considered that support institutions should primarily provide financial advice. Also, 51% of respondents said they resort to bank credit to finance the expansion of production capacity, while 28% cited financing working capital and 17% identified projects as the main reasons to get loans. 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.

| Institutional Framework of Industry in Lebanon (% of respondents) | | |
|---|------|------|
| | 2004 | 2011 |
| Industrial policy | | |
| Seeking to reduce local costs | 44% | 34% |
| Protection through customs duties | 28% | 30% |
| Favoring free trade | 8% | 3% |
| Impact of trade agreements | | |
| FTA with Arab countries has a detrimental impact | 39% | 29% |
| FTA with Arab countries has a favorable impact | 28% | 38% |
| Euro Med agreement has a favorable impact | 8% | 6% |
| Business support institutions | | |
| Market studies | 33% | 29% |
| Technical advice | 19% | 17% |
| Information | 19% | 23% |
| Financial advice | 8% | 9% |

Source: *Industry in Lebanon 2011 Executive Opinion Survey*

Lebanon is 11th least resilient country to political risks among 25 emerging markets

Merrill Lynch ranked Lebanon as the 11th least resilient country to political risks among 25 emerging markets and developing economies in the Middle East, Africa, Eastern Europe and Central Asia. It calculated the level of political risks by using 18 sub-indices that cover public governance and transparency, the level of democracy, GDP per capita, inflation, the poverty level, unemployment, demographic characteristics, and economic competitiveness and the business environment. Merrill Lynch ranked in 25th place the most resilient country to political risks and in first place the least resilient system. Lebanon had a higher level of political risks than Turkey, Morocco and Kazakhstan, but a lower level of risks than Russia, Nigeria and eight Arab countries. Regionally, Merrill Lynch considered that Turkey, Morocco, Oman, Bahrain, Kuwait, the UAE and Qatar have systems that are more resilient to political risks than Lebanon. It considered that the Czech Republic is the most resilient country to political risks in its covered universe, and rated Nigeria as the least resilient to political shocks.

In terms of governance and transparency, Lebanon had the sixth most developed democratic system and the eighth strongest system of voice and accountability among the 25 countries. However, Lebanon had the fourth-lowest level of government effectiveness, the third-lowest level of political stability, the sixth lowest level in terms of the rule of law, the ninth lowest level of regulatory quality, and was the seventh weakest regarding the control of corruption. In terms of economic dynamics, Lebanon had the fifth freest economy but the fourth least competitive economy and the 19th most difficult business environment among the 25 countries. It also had the 11th lowest level of overall unemployment and the seventh highest level of youth unemployment. Further, Lebanon had the 14th highest GDP per capita, but the fourth highest percentage of the population below the poverty line. It also had the 14th highest inflation rate but the 11th highest level of food inflation. Further, it had the 11th highest percentage of the population under the age of 30.

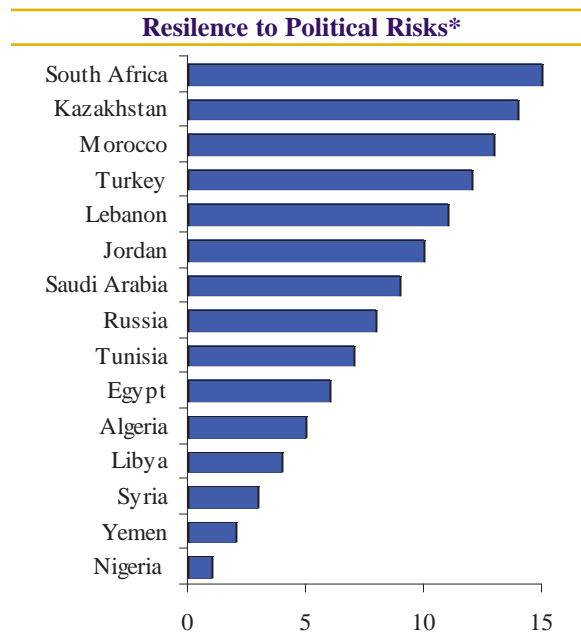
IFC provides technical support to environmental rating system

The International Finance Corporation (IFC), the private sector arm of the World Bank Group, indicated that it is providing support to the Lebanon Green Building Council's ARZ Green Building Rating System. The new rating system is a tool to encourage owners of commercial buildings in Lebanon to undertake renovations that save money and reduce greenhouse gas emissions. The IFC is providing technical assistance to the project, which will help commercial building owners in the country assess their structures' impact on the environment and recommend changes to reduce energy and water waste. The new system will rate buildings as certified, bronze, silver or gold. The IFC expected that the ARZ rating system, once widely adopted, will encourage building owners and facility managers to achieve ever-higher certification levels that will help attract tenants and clients. IFC's Lebanon Green Building Project is co-funded by Japan.

Earlier this year, the IFC launched a sustainable energy finance initiative in Lebanon that aims to develop financial products that help Lebanese companies use resources more efficiently and protect the environment. It estimated that high energy costs and unsustainable practices cost Lebanese businesses more than \$400m annually in lost profits, in addition to their negative impact on the local environment. The IFC indicated that the initiative aims at expanding access to finance for projects that will save energy and other resources, and promote the efficient use of energy.

Cleared checks stagnate, returned checks down 6% in first half of 2011

The value of cleared checks reached \$34.1bn in the first half of 2011, constituting a marginal decrease of 0.2% from the same period of 2010. The value of cleared checks in Lebanese pounds rose by 10.2% to the equivalent of \$7.1bn, while the value of cleared checks in US dollars declined by 2.1% to \$27bn. The dollarization rate of cleared checks decreased to 79.1% from 81% in the same period last year. Also, the value of returned checks in domestic and foreign currency amounted to \$709m in the first half of 2011, down 5.8% from \$753m in the same period last year. In parallel, the number of cleared checks totaled 6.4 million checks in the first half of 2011, up 1.2% from the same period of 2010. Also, the number of returned checks increased by 9.7% year-on-year to 124,000 checks in the first half of 2011.



*1=least resilient, 25=most resilient

Source: Merrill Lynch

Byblos Bank's 10-year Eurobond raises \$300m

Byblos Bank sal, one of the top 3 banking and financial services groups in Lebanon, announced that subscriptions to its 10-year US dollar-denominated Eurobond reached \$300m, twice the original target of \$150m. The size of the issue was raised to \$300m in order to meet the high demand for the bond. Retail investors accounted for 59% of subscriptions, while institutional investors subscribed to 41% of the total. The bond carries an annual coupon rate of 7% to be paid semi-annually. The Bank will use the net proceeds from the issue for general corporate purposes. The bond, which matures in 2021, will be listed on the Beirut Stock Exchange as well as on the Luxembourg or another international stock market. Further, it will have a secondary market and holders will be able to sell at any moment at market prices. The issue constitutes the largest corporate bond issuance in Lebanon in recent years, and demonstrates that Lebanese institutions with sound and conservative management, and with a clear vision, remain attractive to retail and institutional investors despite ongoing domestic and regional political uncertainties. Previous fixed income securities issued by Byblos Bank include a 10-year \$100m subordinated note issued in July 2002 and a 5-year \$200m convertible bond issued in November 2007.

Byblos Bank sal declared consolidated net profits of \$84m in the first half of 2011, up 16.2% from \$72.3m in the same period last year and constituting the biggest rise in profits among Lebanon's top 3 banks in the covered period. Net interest income reached \$145.1m, up 12.5% year-on-year; while net fees & commission income increased by 16.2% to \$48.1m and net trading income increased by 36% to \$14.7m in the first half of 2011. As a result, operating income rose by 10.2% year-on-year to \$225.2m. Also, the Bank's cost-to-income ratio decreased considerably to 47% in the first half of 2011 from 49.8% in the same period of 2010. Total assets reached \$16.5bn at end-June 2011, constituting a rise of 8.2% from the end of 2010; while net loans & advances to customers increased by 4.1% to \$3.9bn at end-June 2011. Customers' deposits totaled \$12.5bn, increasing by 5.8% from end-2010. The Bank's total equity reached \$1.57bn at end-June 2011. The Bank continued to maintain a high level of immediate liquidity, as short-term placements with banks increased by 13.4% during the first half of 2011 and represented 30.8% of customers' deposits at end-June 2011, as well as 46.9% of deposits when including dues from the Central Bank. Also, the Bank's capital adequacy ratio stood at 14.75% according to Basel II criteria. The Byblos Bank Group has a direct presence in Iraq, Syria, Sudan, the United Arab Emirates, Nigeria, Armenia and the Democratic Republic of Congo, as well as in Belgium, France, the United Kingdom and Cyprus.

Stock market activity down 74% to \$417m in first eight months of 2011

Figures released by the Beirut Stock Exchange indicate that total trading volume reached 60.5 million shares in the first eight months of 2011, constituting a decrease of 55.7% from the same period last year; while aggregate turnover amounted to \$416.9m, down 74.2% from a turnover of \$1.61bn in the first eight months of 2010. Market capitalization decreased by 9.1% from end-August 2010 to \$11.1bn, of which 73.1% was in banking stocks, followed by real estate stocks with 23.2%, industrial stocks with 3.2%, investment funds with 0.3% and trading stocks with 0.3%. The market liquidity ratio was 3.8% compared to 13.3% a year earlier. Bank stocks accounted for 81.6% of aggregate trading volume year-to-August, followed by real estate stocks with 16.9%, trading stocks with 1%, industrial stocks with 0.4% and investment funds with 0.1%. In terms of value of shares traded, banking stocks accounted for 53.5% of aggregate value, followed by real estate stocks with 44%, investment funds with 1.1%, industrial stocks with 0.9% and the trading sector with 0.5%. The average daily traded volume for the period was 375,777 shares for an average daily value of \$2.6m. The figures reflect decreases of 54.9% in volume and 73.7% in value year-on-year.

CMA CGM's profits at \$237m on revenues of \$7.3bn in first half of 2011

The Lebanese-owned and France-based container shipping group CMA CGM declared net profits of \$237m in the first half of 2011, constituting a decline of 72% from \$849m in the same period last year. Earnings before interest and taxes totaled \$592m year-to-June, down 33.3% from \$887m during the first 6 months of 2010. CMA CGM had revenues of \$7.3bn in the first half of 2011, up 8% from \$6.8bn in the same period last year. It said that volumes carried increased by 9% to 4.8 million twenty-foot equivalent unit (TEU) in the first half of the year, and that freight rates were stable on most of the group's lines. It added that the return on invested capital stood at 11.3% in the first half of 2011 and that the Group continues to implement its cost-cutting strategy started in 2009 and 2010. CMA CGM expected to continue developing its strategic positions in emerging markets, with a focus on Russia and India, and to expand in Latin America.

It indicated that the group strengthened its balance sheet by issuing \$500m in convertible bonds to the Turkish holding firm Yildirim Group and raised an aggregate \$945m through two bond issues denominated in dollars and euros. Last May, Moody's Investors Service changed from 'provisional' to 'definitive' CMA CGM's 'Ba3' corporate family rating (CFR) and default probability rating (PDR), as well as the 'B2' senior unsecured bond rating on the firm's \$909.3m equivalent notes. It said all ratings have a 'stable' outlook. The agency assigned the ratings on a 'provisional' basis because they were contingent on CMA CGM's successful conclusion of its financial restructuring and issuance of the two bond issues. CMA CGM, which owns 390 ships and employs 16,400 people, has some \$5bn in debt following the worst downturn in container shipping history and a series of steep losses from hedging deals on oil prices.

Corporate Highlights

Circuit Empire to expand outside the capital

The Lebanese movie theater chain and movie distributor Circuit Empire announced a \$4.5m investment to operate 10 movie theaters in the Bekaa region. It said that the multiplex would host 1,800 cinema-goers and would be part of the Cascade Village, a new 200,000 square meters mixed-use real estate project. It expected the multiplex, which will be operational in the autumn of 2012, to support the group's new expansion strategy outside the capital. Last March, Circuit Empire announced a \$9m investment to operate 14 movie theaters in Erbil, the capital of the Regional Government of Kurdistan in Iraq. It said that the multiplex would host 2,500 cinema-goers and would be part of Erbil's Family Mall. It noted that the Erbil operation constitutes the group's first overseas expansion. It expects to implement two additional projects in Kurdistan. Established in 1996, the group operates 33 movie theaters in Lebanon and plans to open 14 new theaters in the Beirut Souks.

BLC Bank's net income up 12% to \$24m in first half of 2011

BLC Bank sal, one of Lebanon's listed banks, announced unaudited net profits of \$24.2m in the first half of 2011, up 11.7% from the same period last year. Net interest income rose by 55% to \$44.4m, while net fees & commission income increased by 40.4% to \$8m and net interest gains on trading portfolio reached \$1.7m in the first half of 2011 compared to \$1.8m in the same period last year. Administrative expenses increased by 59% to \$10.6m and staff costs rose by 59% to \$21.6m year-on-year. Total assets reached \$4.2bn at end-June 2011, up 34% from end-2010; while loans & advances to customers increased by 92% to \$1.3bn at end-June 2011. The bank held \$61.8m in assets acquired in satisfaction of loans at end-June 2011, down from \$63.8m at end-2010. Customer deposits totaled \$3.5bn constituting an increase of 33.6% from end-2010. BLC Bank is part of the Fransabank Group.

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