

## LEBANON THIS WEEK

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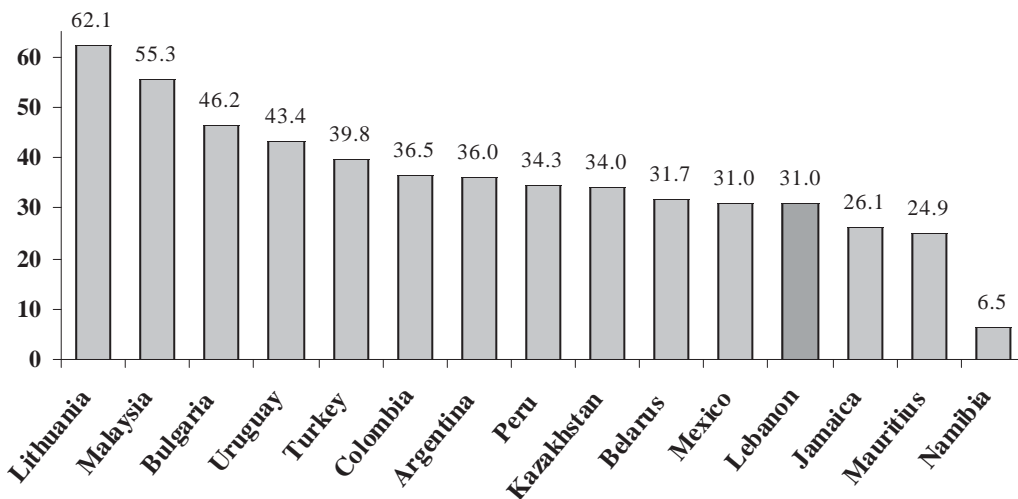
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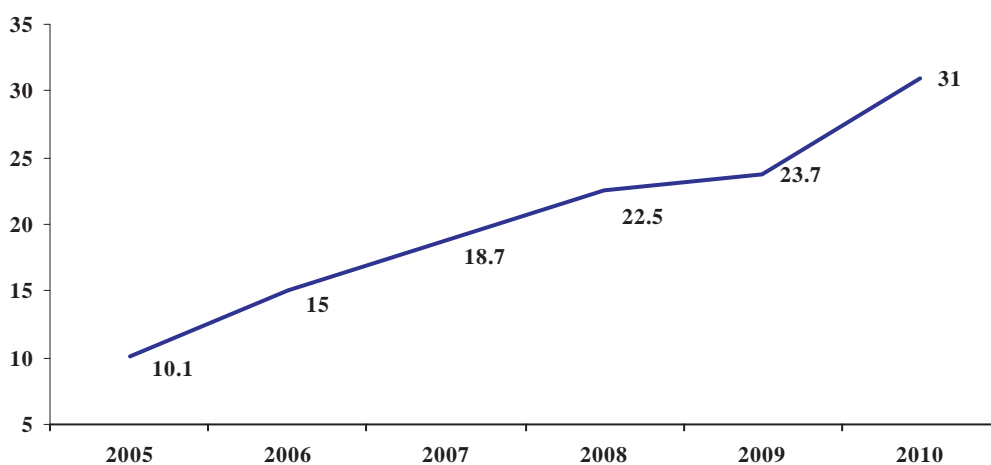
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### Charts of the Week

**Internet Penetration in Select Upper Middle Income Countries at end-2010**  
(subscriptions per 100 inhabitants)



**Internet Penetration in Lebanon (subscriptions per 100 inhabitants)**



Source: International Telecommunication Union , Byblos Research

### Quote to Note

"There will need to be substantial reforms if the debt burden is to be reduced."

*HSBC Bank, on the key requirement to reduce the nominal size of Lebanon's public debt*

### Number of the Week

**\$28.3bn:** The Central Bank of Lebanon's gross foreign currency reserves at the end of June 2011, as estimated by the Association of Banks in Lebanon

## Economic Indicators

<b>\$m (unless otherwise mentioned)</b>	<b>2009</b>	<b>May 10</b>	<b>2010</b>	<b>Mar 11</b>	<b>Apr 11</b>	<b>May 11</b>	<b>% Change*</b>
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)

<b>\$bn (unless otherwise mentioned)</b>	<b>Dec 2009</b>	<b>May 10</b>	<b>Feb 11</b>	<b>Mar 11</b>	<b>Apr 11</b>	<b>May 11</b>	<b>% Change*</b>
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

<b>Most Traded Stocks on BSE</b>	<b>Last Price (\$)</b>	<b>% Change*</b>	<b>Total Volume</b>	<b>Weight in Market Capitalization</b>	<b>Sovereign Eurobonds</b>	<b>Coupon %</b>	<b>Mid Price \$</b>	<b>Mid Yield %</b>
Solidere "A"	16.72	(0.59)	194,856	14.82%	Mar. 2012	7.500	102.38	3.39
Solidere "B"	16.73	(0.42)	288,695	9.64%	Sep. 2012	7.750	105.00	2.90
Byblos Common	1.66	0.00	64,573	5.29%	June 2013	8.625	109.25	3.40
Byblos Pref. 08	100.50	0.40	5,980	1.78%	Apr. 2014	7.375	108.88	3.83
Byblos Pref. 09	100.50	0.50	304	1.78%	Apr. 2015	10.00	119.88	4.13
BLOM GDR	8.55	(0.93)	22,860	5.60%	Jan. 2016	8.500	115.75	4.53
BLOM Listed	8.03	(4.40)	16,250	15.30%	Mar. 2017	9.000	119.25	5.01
Audi GDR	7.19	(1.78)	169,820	6.28%	Nov. 2018	5.150	99.13	5.30
Audi Listed	6.88	(1.01)	726,050	21.25%	Apr. 2021	8.250	117.63	5.83
HOLCIM	16.49	2.55	27,352	2.85%	Oct. 2022	6.100	100.06	6.09

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

Source: Byblos Capital Markets

	<b>August 8-12</b>	<b>August 1-5</b>	<b>% Change</b>	<b>July 2011</b>	<b>July 2010</b>	<b>% Change</b>
<b>Total Shares Traded</b>	1,504,560	541,261	177.97	3,194,076	9,412,692	(66.07)
<b>Total Value Traded</b>	\$15,748,354	\$7,894,650	99.48	\$33,654,544	\$117,692,424	(71.40)
<b>Market Capitalization</b>	\$11.28bn	\$11.21bn	0.31	\$11.30bn	\$12.51bn	(9.64)

Source: Beirut Stock Exchange (BSE)



### Growth outlook depends on political environment and government stability

Regional investment bank EFG Hermes maintained its real GDP growth forecast for Lebanon at 3.5% for 2011, adding that the growth environment remains weak pending improvement in sentiment and in the political climate. It noted that growth may not reach this level in case political uncertainty persists, Syrian events escalate further, and the opposition resorts to country-wide demonstrations. It considered that the Lebanese economy can make up in the second half of 2011 some of the lost growth opportunities during the first half of the year, depending on the efficiency of the new government and on improved sentiment, as well as if the national dialogue is revived and political tensions ease off. It said the pickup in economic activity could be fuelled by consumption, delayed investments, and improvement in the tourism and construction sectors.

EFG Hermes indicated that the new government faces a busy agenda. It said that, in addition to the challenging political environment that continues to dampen economic sentiment, the government will have to finalize and pass the 2012 budget law before the end of the year in order to address rising socio-economic pressures. It considered that the budget has a better chance of being finalized this year, as the Cabinet is less divided than in previous governments, which will likely pave the way for it to function more efficiently. Also, the government will try to avoid giving the opposition excuses to challenge it. It noted that if the 2012 budget law is passed by Parliament, it will be the first budget to be ratified since 2005 and would be a positive step, as it could open the door for long overdue public investment expenditures, depending on the government's stability.

It added that the formulation of a fiscal policy and the implementation of a budget might help balance the impact of rising socio-economic pressures. It noted that another challenge to the government consists of dealing with unions, as socio-economic conditions continue to toughen. It noted that the General Labor Confederation reiterated in July its demands for reforms to help low-income families amid rising inflation. It said the GLC's most challenging demand was an immediate increase in salaries for private and public sector employees, and an adjustment of the monthly minimum wage to LBP1,200,000, which would constitute a 60% increase from the current level. Additionally, there are calls for the elimination of fuel and oil taxes and fees as inflationary pressures continue due to higher oil prices.

EFG Hermes raised its 2011 annual average inflation forecast to 5.5% from 4.5% previously, given the increase in prices. It said the increase in inflation has been largely due to a rise in food prices, which averaged 7% year-on-year in the first half of 2011, as well as from the increase in fuel and clothing prices. It said that the caretaker government reduced last February taxes on gasoline by LBP5,000 for each 20 litres in an attempt to limit fuel price inflation; but the measure was short-lived as international fuel prices continued to rise.

	Macroeconomic Indicators				
	2008	2009	2010E	2011F	2012F
<b>Real Sector</b>					
Real GDP Growth Rate (%)	9.3	8.5	6.5	3.5	4.8
CPI Inflation (yoy % average)	10.0	3.0	3.9	5.5	4.6
<b>External Sector</b>					
Trade balance (\$bn)	(12.7)	(12.7)	(13.9)	(16.2)	(16.9)
Current account balance (% of GDP)	(10.2)	(8.0)	(10.6)	(12.2)	(12.1)
BdL NFAs (ex-gold) (\$bn)	16.6	25.3	28.4	29.3	30.2
<b>Fiscal Sector</b>					
Fiscal balance (% of GDP)	(9.7)	(8.4)	(7.4)	(9.2)	(8.4)
Net domestic debt (% of GDP)	67.9	65.4	63.4	60.0	53.8
External debt (% of GDP)	70.7	61.0	53.4	50.4	47.1
<b>Financial Sector</b>					
Broad money growth (yoy %)	14.8	19.5	12.3	14.3	10.0
Private sector credit growth (yoy %)	20.7	14.8	24.4	15.0	18.0

Source: EFG Hermes

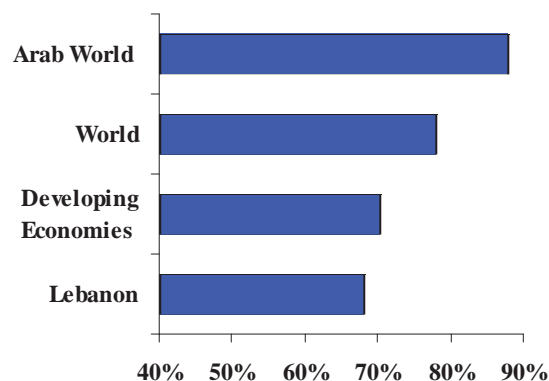
### Economic activity stagnates in June, overall slowdown trend continues

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 261.8 points in June 2011 compared to 258.5 in May 2011 and 249.9 in June 2010. The Coincident Indicator, an average of 8 weighted economic indicators, grew by 1.3% in June and increased by 4.8% year-on-year. The indicator averaged 251.7 in the 12-months ending June 2011 compared to 250.7 in the 12-months ending May 2011 and to 241.1 in the 12-months ending June 2010. As a result, the average coincident indicator increased marginally by 0.4% month-on-month and rose by 4.4% year-on-year, which reflects economic stagnation in real terms. The indicator posted its third increase this year, as it grew by 4% in March and 6.7% in April. The indicator reached an all-time high in April after peaking at 266.7 last November, but has been on the decline in December, January, February and May. Further, the month-on-month increase in June constituted the seventh highest growth ever for the indicator for the covered month. In parallel, the indicator improved 12 times and regressed 7 times in the month of June since 1993. The indicator averaged 249.5 in 2010 and 225.9 in 2009.

### Mobile cellular penetration trails developing world and same-income economies

Figures released by the International Telecommunication Union indicate that Lebanon ranked in 144th place among 210 countries at the end of 2010 in terms of mobile cellular penetration, which is the number of subscribers to the service per 100 inhabitants. Lebanon's rank regressed by two spots from 2009. Lebanon also came in 15th place among 20 Arab countries and ranked in 43rd place among 46 upper middle income countries (UMICs) included in the survey. Lebanon's rank was unchanged among UMICs and in the Arab world from the previous year. On a global basis, Lebanon ranked ahead of Namibia, Senegal and Costa Rica, and came behind Canada, Montserrat and Palau. Also, it ranked ahead of Namibia, Costa Rica and Cuba and came behind Palau, Bosnia & Herzegovina and Mexico among UMICs. Lebanon had 68 mobile subscriptions per 100 inhabitants in 2010, below the global average of 78 subscriptions per 100 inhabitants and the Arab average of 88 subscriptions per 100 inhabitants. Mobile cellular penetration in Lebanon grew by a compound annual growth rate (CAGR) of 26% during the 2006-2010 period compared to a CAGR of 23.4% for developing economies and 22.3% for Arab countries.

Mobile Cellular Penetration at end-2010



Source: ITU, Byblos Research

In parallel, Lebanon ranked in 92nd place among 218 countries in terms of fixed telephone lines penetration last year, which represents the number of subscriptions to fixed telephone lines per 100 inhabitants. Lebanon also ranked in first place among Arab countries and in 24th position among 48 UMICs. Lebanon's rank improved by 15 spots worldwide, and by four places among UMICs and Arab countries year-on-year. On a global basis, Lebanon ranked ahead of Czech Republic, Romania and Kuwait, and came behind Brazil, Trinidad & Tobago and China. Also, it ranked ahead of Romania, Chile and Macedonia, and came behind Brazil, Lithuania and Turkey among UMICs. Lebanon had 21 fixed telephone lines subscribers per 100 inhabitants in 2010, above the global average of 17.2 subscriptions and the Arab average of 9.8 subscribers per 100 inhabitants. Fixed telephone lines penetration in Lebanon grew by a CAGR of 6% during the 2006-2010 period, compared to a CAGR of -2.2% for developing economies and 0.5% for Arab countries.

### Real estate market hit by domestic and regional political uncertainties

Property advisory firm RAMCO indicated that the real estate market in Lebanon has gone through its worst quarter of the past five years, as very few apartments in the upper-end of the residential segment were sold and a limited number of land transactions took place. It attributed the deepening of the market's already existing stagnation to the five-month political crisis over the government's formation, the uncertainty created by regional political turmoil, and the tensions surrounding the Special Tribunal for Lebanon. It added that buyers are aware that time is on their side in the current environment, and are often willing to wait for the right opportunity to come along. It expressed concern about the continuous increase in the asking prices of land plots, even though such prices are unreasonable compared to the achievable selling prices of finished units. It noted that the price of land cannot keep climbing indefinitely, as land owners who are genuine about selling will eventually re-align their expectations with market realities.

It noted that demand exists for smaller apartments with sizes of 100 sqm to 250 sqm at prices ranging between \$500,000 and \$800,000 each, while demand for large and expensive high-end apartments in prime addresses has been limited. It said two projects covering nearly 1,000 sqm each were recently placed on the market and were sold in a short period of time because they offered small-sized apartments at a fair market price.

In parallel, RAMCO indicated that Grade A, purpose-built offices are in very short supply in Beirut. It said the only available purpose-built prime office spaces are located in the Beirut Central District (BCD), which is attracting leading local and international companies. It said the BCD has a clear market leadership in this segment, as the Estimated Rental Values (ERV) are at \$325 to \$375 per sqm per year in the Park Avenue area and at \$275 to \$325 per sqm per year in the Beirut Souks area. It added that the second most coveted business address is Achrafieh, where the Tabaris/Charles Malek Avenue region offers some high-end office buildings at ERV between \$250 and \$275 per sqm per year. It also noted that Verdun and Clemenceau in the western part of Beirut offer good quality office spaces. It estimated the ERV in Verdun at \$250 to \$275 per sqm per year and in Clemenceau at \$225 to \$250 per sqm per year.

### Lebanese investments in Armenia down 20% to \$17.4m in 2010

Figures issued by the National Statistical Service of Armenia (NSSA) indicate that the aggregate value of Lebanese investments in Armenia reached \$17.4m in 2010, constituting a drop of 20% from about \$21m 2009. Foreign direct investment accounted for \$11.2m, or 64%, of total Lebanese investments in Armenia last year, with the balance in portfolio and other investments. The NSSA said that investments were mainly in the banking and insurance sectors, as well as in the real estate and services sectors. It added that Byblos Bank Armenia and Anelik Bank are among the largest Lebanese investments in Armenia.

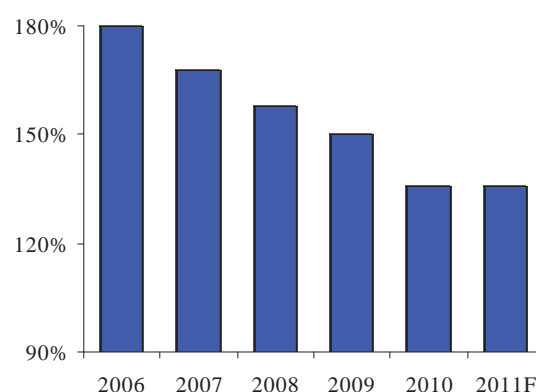
Byblos Bank was the first Lebanese bank to establish a direct presence in Armenia with its acquisition of a 100% stake in the Yerevan-based International Trade Bank in 2007. Byblos Bank Armenia operates as an independent subsidiary of the Byblos Bank Group and mainly focuses on commercial and retail activities, as well as serves the needs of the Armenian Diaspora across the world. CreditBank bought a 51% stake in Anelik Bank for about \$24m in 2009.

### Net public debt at \$46bn at end-June 2011

Lebanon's gross public debt reached \$52.5bn at the end of June 2011, unchanged from end-2010, and constituting an increase of 3% from end-June 2010. Domestic debt increased by 5.5% to \$31.8bn, while external debt decreased by 0.7% annually to \$20.7bn. Local currency debt accounted for 60.6% of gross public debt at end-June 2011 compared to 59.1% a year earlier, while foreign currency-denominated debt represented 39.4% of the total at the end of June relative to 40.9% a year earlier. The weighted interest rate on outstanding Treasury bills was 7.27%, while the weighted interest rate on Eurobonds was 7.21% at the end of June. Further, the weighted life on Eurobonds was 5 years, while that on Treasury bills was 841 days.

Commercial banks accounted for 50.2% of the local public debt at the end of June 2011 compared to 60.3% a year earlier. They were followed by the Central Bank with 33.3%, up from 23.3% at end-June 2010; while public agencies, financial institutions and the general public accounted for 16.5% of local debt, compared to 16.4% in June 2010. Eurobond holders, foreign private sector loans and special T-bills in foreign currencies accounted for 86.5% of the external debt, followed by multilateral institutions with 7.2%, foreign governments with 4.9%, and Paris II loans with 1.4%. Net public debt, which excludes the public sector's deposits at the Central Bank and at commercial banks from overall debt figures, increased annually by 3.3% to \$45.6bn. In parallel, the gross market debt accounted for about 63% of total public debt. Gross market debt is the total public debt less the portfolios of the Central Bank, the National Social Security Fund, bilateral and multilateral loans, as well as Paris II and Paris III related debt.

### Total Government Debt (% of GDP)



Source: Institute of International Finance

### EIB encourages Lebanon to benefit from support for private sector and PPPs

The European Investment Bank (EIB) encouraged the Lebanese government to take advantage of the €1bn increase in the bank's lending ceiling for its partner countries in the Mediterranean region. The EIB also encouraged the Ministry of Finance to take advantage of the increase in the bank's support for the private sector and for private-public partnerships, and ensure that the assistance to the private sector is reviewed and developed specifically through credit investments. Further, the bank reaffirmed its readiness to adopt a comprehensive strategy to support the economic transformation and transition process of partner countries. It said that such support targets faster job creation, with a particular emphasis on micro-, small- and medium-sized enterprises, and focuses on balanced regional development and cohesion.

### Airport activity stagnates in first half of 2011

Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures and transit) totaled 2,429,297 in the first half of 2011, unchanged from the same period last year. The UAE accounted for 468,609 passengers, or 19.3% of total passenger activity. It was followed by Saudi Arabia with 285,610 passengers, or 11.8% of the total; France with 237,573 travelers (9.8%) and Turkey with 177,188 travelers (7.3%). The total number of flights reached 29,600 in the first half of 2011, down 3.2% year-on-year. Middle East Airlines registered 9,730 flights, accounting for 32.9% of the total. It was distantly followed by Royal Jordanian Airlines with 1,416 flights or 4.8% of the total, Qatar Airways with 1,090 flights, Etihad Airways with 930 flights, Fly Dubai with 875 flights, and Saudi Arabian Airlines with 846 flights. The UAE was the biggest source and destination of traffic to Lebanon, as aircraft movement to and from the UAE totaled 4,384 flights, accounting for 14.8% of the total. Also, the HIA processed 34,731 metric tons of cargo in the first half of 2011, of which 34,254 tons of freight and 477 tons of mail. MEA processed 10,410 tons of freight, of which 10,205 tons in regular freight and 205 tons in mail.



### EU reaffirms support for reforms in Lebanon

The European Union extended a €14m grant to the Ministry of Agriculture to fund a four-year agricultural and rural development program. The grant aims to support the performance of the Lebanese agricultural sector through the improvement of agricultural guidance, infrastructure, loans as well as equipment supply to the ministry. Further, the EU indicated that it will earmark €3.5m to the Kafalat Corporation to increase the percentage of guarantees the latter offers to farmers. In parallel, Spain announced a €5m annual Cooperation Program for Lebanon that will focus on education, women's rights, hospital management, protection and rights of citizen, elections, culture, flood risk management, as well as the reconstruction of Naher-El Bared Palestinian refugee camp. Further, the International Fund for Agricultural Development announced that it allocated a \$10m loan from the Spanish Food Security Trust Fund to the Lebanese government.

In parallel, the European Union reaffirmed its commitment to Lebanon, as it announced an increase of up to €1.24bn in the European Neighborhood Policy budget for the 2011-13 period. It said that it plans to support the independence of the judiciary, electoral and administrative reforms, as well as the creation of jobs and the establishment of small- and medium-sized enterprises in Lebanon. It added that it will also create a Civil Society Facility and a European Endowment for Democracy to strengthen the partnership with Lebanese civil society. The EU noted that the additional funding will be allocated to support political and economic reforms in partner countries.

### Construction permits up 5% in first half of 2011

Figures released by the Association of Engineers of Beirut & Tripoli show that construction permits issued in the first half of 2011 reached 8.8 million square meters, constituting an increase of 4.8% from 8.4 million square meters in the same period last year. Construction permits totaled 1.8 million square meters in June 2011, up 9.8% year-on-year from 1.6 million square meters in June 2010. In parallel, cement deliveries reached 2.7 million tons in the first half of 2011, an increase of 2.9% from 2.6 million tons in the same period last year. Cement deliveries reached 585,000 tons in June 2011, up 18.1% from 495,000 tons in June 2010.

### Industrial activity down in first quarter of 2011

The Central Bank's quarterly business survey indicated that industrial production declined during the first quarter of 2011, with a balance of opinion standing at -21, compared to +20 during the same quarter of 2010. The business survey reflects the opinions of enterprise managers on the evolution of their businesses, in order to depict the evolution of a number of key economic variables. The balance of opinion for overall demand for industrial goods stood at -29 in the first quarter of 2011 compared to +15 in the same quarter of 2010. Also, the balance of opinion for foreign demand contracted to -19 during the first quarter of 2011, compared to +8 in the same period of 2010. The balance of opinion is the difference between the proportion of surveyed managers who consider that there was an improvement in a particular indicator and the proportion of those who reported a decline in the same indicator.

Industrial Activity: Evolution of opinions				
Aggregate results	Q1-08	Q1-09	Q1-10	Q1-11
Production	-4	4	20	-21
Total demand	-8	0	15	-29
Foreign demand	12	-7	8	-19
Volume of investments	10	13	19	4
Inventories of finished goods	-10	4	9	-9
Inventories of raw material	-5	-2	1	0
Registered orders	-12	-7	6	-24

Source: Central Bank Business Survey Q1-11

### **U.S. imposes sanctions on Syrian-owned Lebanese bank**

The U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) imposed sanctions on the Beirut-based Syrian Lebanese Commercial Bank (SLCB) as part of new sanctions imposed on two Syrian entities. The sanctions freeze the assets of the bank in U.S. jurisdictions, and prohibit U.S. nationals and companies from engaging in any transactions with the designated bank. SLCB is the Lebanese subsidiary of the Commercial Bank of Syria (CBS), the state-owned and largest bank in Syria. The sanctions on SLCB came as part of wider U.S. sanctions on the Commercial Bank of Syria and Syriatel, the largest mobile phone operator in Syria. The U.S. Treasury Department said the sanctions target the financial infrastructure that is helping provide support to the Syrian regime's illicit activities. It noted that it sanctioned the CBS for providing financial services to Syria's Scientific Studies and Research Center and North Korea's Tanchon Commercial Bank, which were designated in 2005 for supporting the proliferation of weapons of mass destruction. SLCB is owned by the CBS as well as by the Syrian state-owned Syrian Insurance Company and Banque du Crédit Populaire. SLCB has three branches and is one of the smaller banks operating in Lebanon. It accounts for 0.4% of assets, 0.3% of loans, and 0.1% of deposits of the Lebanese banking sector.

### **Kafalat loan guarantees down 7.5% year-on-year to \$93m in first seven months of 2011**

Figures released by the Kafalat Corporation show that loans extended to small- and medium-sized companies under the guarantee of Kafalat reached \$93.3m in the first seven months of 2011, down 7.5% from \$100.9m in the same period last year. The number of loan guarantees totaled 691 year-to-July compared to 852 in the same period last year. The average loan size reached \$134,992 compared to \$118,413 in the first seven months of 2010. Mount Lebanon accounted for 43.6% of guarantees, followed by the South & Nabatieh with 18.7%, the North with 14.9%, the Bekaa with 16.5% and Beirut with 6.4%. The industrial sector accounted for 44% of total guarantees, followed by agriculture with 40%, tourism with 15% and handicraft with 1%. Kafalat is a state-sponsored organization that provides financial guarantees for loans up to \$400,000 earmarked for the set up and expansion of small and medium-sized companies in productive sectors. It guarantees up to 75% of the loan amount and a similar percentage of the interest that accrues during the grace period.

### **Beirut bourse approves trading and pricing of BLOM Bank's preferred shares**

The Beirut Stock Exchange (BSE) approved the listing, trading and pricing of BLOM Bank's 20 million Preferred Shares Series 2011 starting on August 11, 2011. BLOM issued the shares last month at a par value of LBP1,200 (\$0.8) per share and an issue price of \$10 each. Holders of the shares will receive \$0.7 in annual dividends per share. Last June, BLOM Bank announced that it will redeem all of its 7.5 million Preferred Shares Series 2004 and its 10 million Preferred Shares Series 2005. BLOM will have 215 million common shares, 20 million preferred shares, and 73,896,010 Global Depository Receipts listed on the Beirut bourse. BLOM Bank posted net profits of \$163.6m in the first half of 2011, up 4.6% from the previous year. It had total assets of \$23.1bn, loans of \$5.5bn and aggregate deposits of \$20.3bn at end-June 2011.

### **Balance sheet of investment banks posts 15% decrease year-on-year at end-March**

Figures released by the Central Bank show that the consolidated balance sheet of investment banks in Lebanon reached LBP7,188bn, or \$4.77bn, at the end of March 2011, constituting a decrease of 15% from a year earlier. Private sector deposits reached \$2.83bn at end-March, down 22% from end-March 2010. Resident deposits in Lebanese pounds reached \$1.34bn, followed by resident deposits in foreign currencies at \$1.03bn and non-resident deposits in foreign currencies at \$299.4m. Also, commitments to the financial sector reached \$613m at the end of March 2011, representing a decrease of 8.7% year-on-year.

On the assets' side, investment banks' operations with commercial banks reached \$2.4bn at the end of the first quarter, down 17.8% from end-March 2010. Lending to the private sector reached \$1.07bn, constituting an increase of 0.9% year-on-year. Investments in government securities totaled \$905m as at end-March, down 31.5% from a year earlier. Further, the aggregate capital account of investment banks reached \$758m at the end of March 2011, up 20.4% from a year earlier. There are 14 investment banks operating in Lebanon with a total of 19 branches.

### **Balance sheet of financial institutions up 5% year-on-year at end-March**

Figures released by the Central Bank show that the consolidated balance sheet of financial institutions in Lebanon reached LBP1,576bn, or \$1.05bn, at the end of March 2011, constituting an increase of 4.7% from end-March 2010. Liabilities to the private sector reached \$278m, up 21.8% from end-March 2010. Further, commitments to the financial sector reached \$395m at end-March 2011, representing a growth of 7.1% from a year earlier.

On the assets' side, financial institutions' operations with commercial banks reached \$359m at the end of the first quarter of 2011, up 7.1% year-on-year. Lending to the private sector reached \$564m, constituting an increase of 13.6% from the end of March 2010. Also, investments in government securities totaled \$99.6m at the end of March 2011, down 22.8% from a year earlier. Further, the aggregate capital account of financial institutions reached \$265m at end-March 2011, down 5% from end-March 2010. There are 52 financial institutions in Lebanon with a total of 57 branches.



## Ratio Highlights

(in % unless specified)	2007	2008	2009	Change*
Nominal GDP <sup>(1)</sup> (\$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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