

LEBANON THIS WEEK

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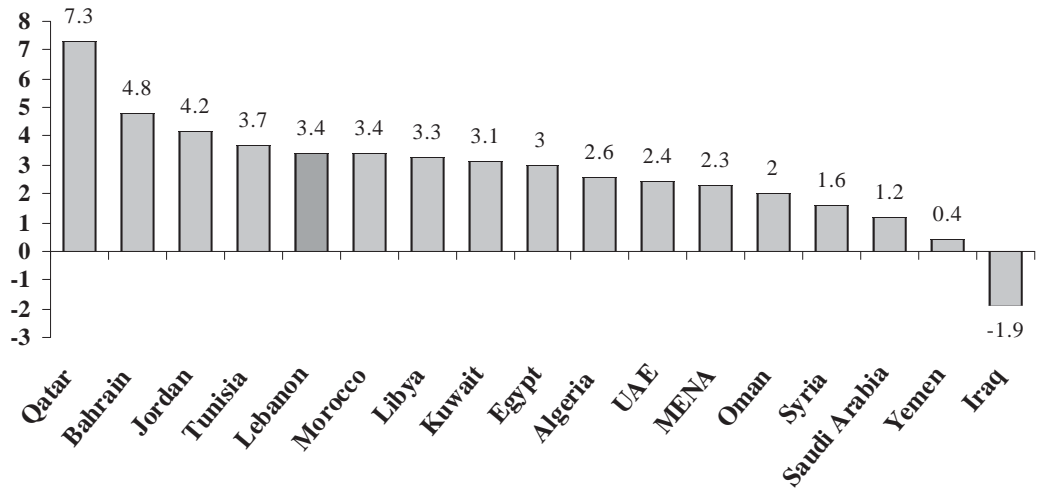
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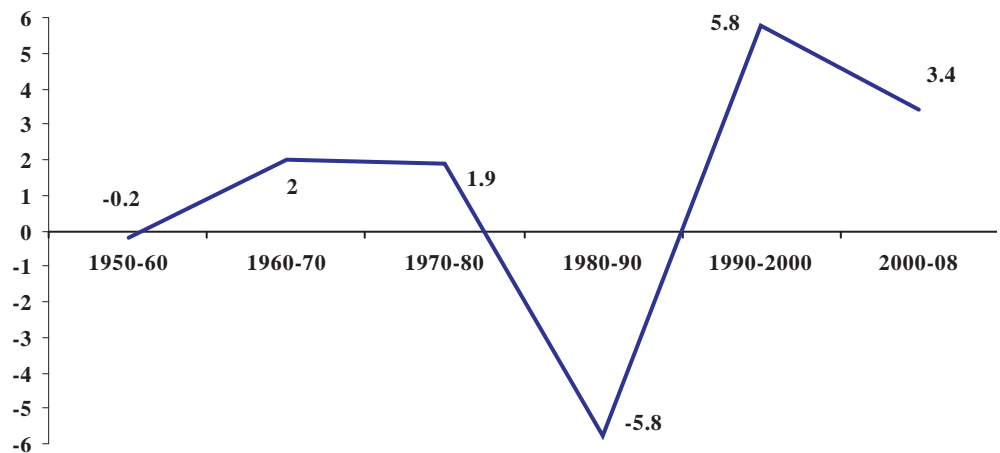
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Charts of the Week

Growth in Real GDP per Capita in Arab Countries in 2000-08 Period (% , per year)



Growth in Real GDP per Capita in Lebanon (% , per year)



Source: Economist Intelligence Unit, Byblos Research

Quote to Note

"The news is likely to lead to a short-term rally in Lebanese equities, which have been in the doldrums since mid-2010."

Regional investment bank EFG Hermes, on the potential impact of the government's formation on the local stock market

Number of the Week

140: Number of days that were needed to form the newly-announced government, compared to 132 days that were required to form the previous Cabinet

Economic Indicators

\$m (unless otherwise mentioned)	2009	Mar 10	2010	Jan 11	Feb 11	Mar 11	% Change*
Exports	3,486	374	4,256	297	304	354	(5.35)
Imports	16,241	1,934	17,956	1,729	1,218	1,631	(15.67)
Trade Balance	(12,755)	(1,560)	(13,700)	(1,432)	(914)	(1,277)	(18.14)
Balance of Payments	7,899	264	3,326	(772)	104	270	2.27
Checks Cleared in LBP	11,122	1,187	13,519	1,206	1,172	1,301	9.60
Checks Cleared in FC	45,270	5,302	53,925	4,404	4,094	4,798	(9.51)
Total Checks Cleared	56,392	6,489	67,444	5,610	5,266	6,099	(6.01)
Budget Deficit/Surplus	(2,960)	(377)	(2,892)	(48)	(501)	(548)	45.36
Primary Balance	1,078	62	1,232	202	(266)	(120)	(293.55)
Airport Passengers	4,986,544	363,742	5,552,260	369,735	307,134	247,795	(4.38)

\$bn (unless otherwise mentioned)	Dec 2009	Mar 10	Dec 10	Jan 11	Feb 11	Mar 11	% Change*
BdL FX Reserves	25.66	27.17	28.60	28.30	28.42	28.54	5.04
<i>In months of Imports</i>	18.6	14.04	19.4	16.3	23.33	17.40	23.93
Public Debt	51.09	51.46	52.59	52.29	52.08	52.59	2.20
Net Public Debt	44.11	44.40	45.01	44.95	45.31	45.61	2.73
Bank Assets	115.25	119.91	128.93	128.41	130.06	132.49	10.49
Bank Deposits (Private Sector)	95.77	98.14	107.20	106.13	106.80	108.15	10.20
Bank Loans to Private Sector	28.37	30.71	34.93	35.31	35.70	36.43	18.63
Money Supply M2	34.16	36.23	39.40	37.12	37.03	37.14	4.55
Money Supply M3	82.08	84.96	92.15	91.57	92.01	92.76	9.86
LBP Lending Rate (%)	9.04	8.69	7.91	7.71	7.71	7.73	(96b.p.)
LBP Deposit Rate (%)	6.75	6.11	5.68	5.63	5.63	5.63	(48b.p.)
USD Lending Rate (%)	7.28	7.01	6.74	7.14	7.01	7.24	23b.p.
USD Deposit Rate (%)	3.05	2.86	2.80	2.84	2.90	2.82	(4b.p.)
%* Change in CPI**	4.20	5.04	6.19	6.92	5.09	6.94	190b.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"	17.81	(3.26)	609,237	15.19%
Solidere "B"	17.73	(3.11)	24,862	9.83%
Byblos Common	1.75	1.16	130,439	5.37%
Byblos Pref. 08	100.00	0.00	15,370	1.71%
Byblos Pref. 09	100.00	0.00	1,000	1.71%
BLOM GDR	8.93	0.34	3,210	5.63%
BLOM Listed	8.50	0.00	0	15.59%
Audi GDR	7.69	2.12	391,973	6.47%
Audi Listed	7.00	0.29	10,977	20.80%
HOLCIM	17.60	0.57	4,379	2.93%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Aug. 2011	7.500	100.40	3.79
Mar. 2012	7.500	103.13	3.20
Sep. 2012	7.750	105.00	3.48
June 2013	8.625	109.00	3.89
Apr. 2014	7.375	109.00	3.96
Apr. 2015	10.00	117.50	4.94
Jan. 2016	8.500	113.75	5.09
Mar. 2017	9.000	117.38	5.44
Nov. 2018	5.150	97.50	5.57
Apr. 2021	8.250	115.38	6.14

Source: Byblos Capital Markets

	June 13-17	June 6-10	% Change	May 2011	May 2010	% Change
Total Shares Traded	1,199,943	408,224	193.94	6,771,576	16,963,146	(60.08)
Total Value Traded	\$16,509,508	\$4,699,663	251.29	\$62,013,242	\$149,074,321	(58.04)
Market Capitalization	\$11.73bn	\$11.78bn	(0.47)	\$11.69bn	\$12.84bn	(8.96)

Source: Beirut Stock Exchange (BSE)



Expatriates' remittances to Lebanon revised upward to \$8.4bn in 2010, 8th highest among developing economies and highest in MENA region

The World Bank revised upward its estimate for expatriates' remittances inflows to Lebanon to \$8.4bn in 2010 from a forecast of \$8.2bn last November. As a result, the growth of remittance flows to Lebanon year-on-year increased to 11.3% from a November estimate of 8.2%. Lebanon posted the second fastest growth rate in remittances among the 10 largest recipients in developing economies last year, behind only Vietnam where remittance flows grew by 17% year-on-year. However, the World Bank said remittance inflows to Lebanon grew by 6.5% in 2010 when adjusted for inflation in local currency. As such, Lebanon posted the second fastest growth of remittance flows in real local currency terms among the 10 largest recipients of remittances in developing economies last year. Vietnam ranked first among developing countries with a growth of 16.4% in real terms.

Lebanon was the 12th largest recipient of remittances globally, the 8th largest recipient among developing economies, and the largest in the MENA region in 2010. It ranked ahead of Egypt and Vietnam, and behind Pakistan and Nigeria among developing economies. Also, Lebanon was the largest recipient of remittances among 17 countries in the Middle East and North Africa region as well as among 14 Arab countries included in the survey. Further, Lebanon was the second largest recipient of remittances among 42 Upper Middle Income Countries (UMICs) covered by the survey. It ranked ahead of Russia, Serbia and Romania, and came only behind Mexico among UMICs.

Remittances inflows to Lebanon accounted for 1.9% of the global inflow of remittances in 2010, relative to 1.8% in 2009 and 1.6% in 2008; while they represent 2.6% of aggregate remittances to developing economies last year, up from 2.5% in 2009 and 2.2% in 2008. They also account for 21.7% of remittance inflows to Arab countries and for 22% of total remittance flows to the MENA region in 2010. Further, they represented 10.6% of remittance inflows to UMICs in 2010 relative to 9.7% in 2009 and 7.8% in 2008. Also, the 11.6% nominal rise in remittances to Lebanon in 2010 is significantly higher than the 6.2% growth in inflows to the MENA region, the 5.6% increase for developing countries, the 2.5% rise for UMICs, and the global growth of 5.4% last year.

In parallel, the World Bank estimated expatriates' remittances to Lebanon to be equivalent to 21.9% of GDP in 2009, the 7th highest such ratio in the world behind Moldova, Nepal, Lesotho, Samoa, Tonga and Tajikistan as well as the highest among the top 10 recipients in developing economies. The World Bank projected the flow of remittances to the MENA region to increase by 3.4% to \$37bn in 2011, constituting the slowest growth rate among all developing regions. It forecast inflows to developing economies to reach \$349bn this year and to increase by 7.3% from 2010.

New government has limited opportunity for economic progress

Citigroup expressed concerns about the effectiveness and longevity of the new government, given its composition and the volatile regional political climate. But it said that it is unlikely to be less effective than the previous Cabinet, and may actually make some progress on the economic policy front. It noted that the finance and economy portfolios are held by loyalists to Mr. Mikati, which provides reassurance to investors that the business-oriented Prime Minister is in charge of economic policy. It added that the one-sided political representation of the Cabinet may mean a more harmonious internal working of the government. It considered that the national unity government of PM Hariri was paralyzed by gridlock over the key issue of the Special Tribunal for Lebanon, which made cooperation in any area impossible among opposing factions represented in the Cabinet. It added that the relatively shallower differences between political factions comprising the new government may help reduce internal frictions and facilitate cooperation among ministers.

In parallel, the Economist Intelligence Unit indicated that the formation of the new government, five months after the Hariri Cabinet was brought down by Hezbollah and its allies, seems to be related to broader regional political calculations. It added that Prime Minister Mikati is likely to try to inject some purpose into his government's economic policy, but the circumstances of its formation suggest that there will be limited progress. It stated that the Lebanese system has shown that it can function without a properly constituted government, at least in the sense of managing day-to-day financial operations. It noted, however, that the chronic paralysis of the political system means that there is no chance of any serious policy-making on major issues such as energy, major capital projects, or the structure of the telecoms sector, among others, which constitutes a heavy drag on economic performance.

Top 10 Recipients of Remittance Inflows in Developing Economies in 2010

Country	US\$bn	Growth	
		Rate*	% of GDP
India	53.1	-10.4%	3.5%
China	51.3	1.0%	0.9%
Mexico	22.0	-10.0%	2.1%
Philippines	21.4	-1.4%	11.3%
Bangladesh	10.8	-4.3%	10.3%
Nigeria	10.0	-7.7%	4.6%
Pakistan	9.7	3.7%	5.5%
Lebanon	8.4	6.5%	21.4%
Vietnam	8.0	16.4%	7.7%
Egypt	7.7	-2.2%	3.5%

*in local currency adjusted for inflation

Source: World Bank, International Monetary Fund, Byblos Research

Cabinet formation could shift focus to pressing economic issues, growth not to exceed 3% in 2011

Merrill Lynch indicated that the formation of the Lebanese Cabinet after a five-month long deadlock reflects regional geopolitical considerations rather than domestic economic imperatives. It noted, however, that the Cabinet's birth could stop the deterioration in economic performance in the second half of 2011, but expressed caution over the near-term. It said the Cabinet's formation could allow the shifting of attention towards pressing domestic issues. It expected the mandate of Central Bank Governor Salameh, due to expire at end-July, to be renewed. It also anticipated telecom revenues to be re-incorporated in the budget, as they have not been consistently transferred to the Treasury since 2009 given the political feud between the Telecommunications Minister and the Ministry of Finance. It said the transfers could amount to \$1.5bn, or about 3% of GDP, which would reduce the projected fiscal deficit for 2011 from above 10% of GDP towards 8% of GDP, but it still would be higher by 1% of GDP from the 2010 deficit. Further, it anticipated the Cabinet to push for the ratification of the 2010 and 2011 budgets, but did not expect any capital expenditures to materialize this year.

In parallel, Merrill Lynch indicated that regional unrest, low consumer and business confidence, and disappointing tourism and commercial activity have led to a severe and broad-based economic slow down in the first half of 2011. It said the first quarter results of the coincident indicator point towards real GDP growth of 2% to 3% for the full year, even if the second half of 2011 sees a significant rebound in economic activity. It added that, after five years of annual surpluses, the balance of payments has shifted to a deficit of \$0.6bn in the first four months of the year compared to a surplus of \$1.4bn in the same period last year. It attributed the deficit to a wider trade deficit from a higher commodity import bill as well as to a slowdown in non-resident deposit growth and capital inflows into the real estate sector.

It added that political instability and a slowing economy took their toll on fiscal performance, as the fiscal deficit doubled, which drove the primary surplus close to zero over the first four months of 2011. It said tax revenues declined by 3.7% year-on-year, driven by weakness in VAT receipts as well as a plunge in non-tax revenues, the latter reflecting the deadlock over the transfer of telecom receipts. It noted that the reduction in the gasoline excise tax by 50% last February could lead to revenue losses of about \$350m or 0.8% of GDP for the year. Also, it indicated that the increase in the wage bill and in the transfers to Electricité du Liban have contributed to a 12% rise in public expenditures. It noticed a decrease in commercial banks' holdings of domestic debt and an increase in the Central Bank's holdings of Treasury bills since August 2010 amid the rise in political risks.

World Bank approves grant to improve water resources

The World Bank's Global Environment Facility approved a \$4.6m grant to improve water resource and agricultural management in Lebanon as well as in Jordan, Tunisia, Morocco and the Arab Water Council. It noted that the grant will finance the hardware, software and technical assistance required for the application of various remote sensing and earth observation decision-support tools to address water resources and agriculture management. It expected the project to increase both access and capacity to monitor environmental factors that contribute to droughts, floods, forest fires and other serious events. It said that farmers and families constitute the direct beneficiaries of the program, as they will be able to make better decisions about when to select, plant and harvest their crops so that they maximize their crop yields and avoid crop failures.

Lebanon to resume imports of vegetable products from EU

The Ministry of Agriculture lifted the ban on the import of vegetables from the European Union and reassured consumers that imported vegetables are tested periodically. The ministry recently banned temporarily the import of vegetables from the European Union due to the spread of the E-Coli bacteria in EU vegetable products, mainly in Germany, that caused the death of several persons. The lifting of the ban came after the EU urged Lebanon to change its decision, as it considered the ban to be both disproportionate in terms of the potential risk and scientifically unjustified. Lebanon imported \$716m in vegetables in 2010 that included \$113m from the EU, while it exported \$154m in vegetables, including \$8m to the EU. As such, Lebanon imported around 16% of its vegetables products from the EU last year.

Most categories of tourism spending in Lebanon regress in first five months of 2011

Figures issued by Global Blue, the VAT refund operator for international shoppers, show that visitors from Saudi Arabia spent the most in Lebanon during the first five months of 2011, accounting for 20% of total tourists' spending. They were followed by visitors from the UAE with 12%, Kuwait with 9%, Syria with 8% and Egypt with 6%. Spending by visitors from the UAE rose by 9%, followed by visitors from France with 4%, while spending by visitors from Egypt contracted by 27%, followed by visitors from Jordan (-16%), Saudi Arabia (-10%), Qatar and Kuwait (-5% each), and Syria (-1%). Beirut attracted 85% of total spending over the covered period, followed by the Metn area with 11%, the Keserwan region with 2% and Baabda with 1%. Fashion & clothing accounted for 70% of total spending, followed by watches with 10%, perfumes & cosmetics with 5%, home & garden products and department stores with 4% each, souvenirs & gifts with 3% and electronics & IT and consumer electronics & household appliances with 2% each. Spending on perfumes & cosmetics increased by 23% in the first five months of 2011, followed by fashion & clothing with a 6% growth. Spending on electronics & IT decreased by 22% in the covered period, followed by watches with a 9% drop, home & garden with an 8% fall, souvenirs & gifts with a 5% contraction, department stores with a 3% decline and consumer electronics & household appliances with a 1% decrease.



Average annual hotel occupancy rate at 54% during past 15 years, hotel sector remains underdeveloped

The annual survey of the Middle East hotel sector by global hotel consulting firm HVS indicated that the average occupancy rate at Beirut hotels was 54% during the 1996-2010 period, constituting the second lowest rate among 16 Arab cities for which complete data is available over the covered period. The survey added that the average rate per room at Beirut hotels grew by a compound annual growth rate (CAGR) of 3% during the covered period, posting the fourth lowest increase in the region, similar to Cairo Heliopolis and Sharm El Sheikh. Further, revenues per available room (RevPAR) increased by a CAGR of 7% constituting the second largest increase across the region after Doha.

In parallel, HVS said that the average occupancy rate at Beirut hotels was 66% in 2010, which ranked Beirut in 19th place among 52 Arab cities covered by the survey. Beirut had a similar hotel occupancy rate as Manama, Doha and Fujairah last year. Also, the occupancy rate at Beirut hotels decreased by 4 percentage points in 2010 from the previous year, compared to a contraction of one percentage point for the region. The survey pointed out that Beirut was among 27 cities that posted a decline in occupancy rates and had the 14th steepest drop in the region. However, the occupancy rate at Beirut hotels in 2010 was the third highest rate in Lebanon since 1994, following the 71% rate posted in 2004 and the 70% rate posted in 2009.

Also, HVS said that the average rate per room at Beirut hotels reached \$263 in 2010 relative to \$171 for the region. It added that the average rate per room in Beirut regressed by 6% year-on-year compared to a contraction of 8% in the Middle East. It noted that Beirut was among 31 Arab cities that posted a contraction in room rates, while its rate decline was the 19th steepest in the Middle East. The average room rate at Beirut hotels in 2010 was the highest in the region, as well as the second highest in Lebanon during the previous 15 years, as average room rates reached \$281 in 2009.

Further, HVS indicated that revenues per available room (RevPAR) reached \$174 in 2010, down 11% year-on-year and compared to the regional average of \$104. The decrease in RevPAR in Beirut constituted the 18th steepest decline last year among 31 Arab cities that posted a contraction. But Beirut hotels realized the highest RevPAR in the region last year, as well as the second highest in Lebanon during the previous 15 years after posting \$194 in 2009.

HVS said that the hotel sector in Beirut and across the country remains undersupplied and underdeveloped, which provides opportunities for investors and developers. It noted that Beirut posted a fall in its occupancy rate last year despite an increase in the number of visitors to the city. It added that Beirut had the fifth highest number of five-star hotels and hotel rooms in the region, behind Qatar, Abu Dhabi, Cairo and Dubai. Further, it said that Beirut attracts a balanced share of both corporate and leisure demand, as well as a large share of visitors from Europe.

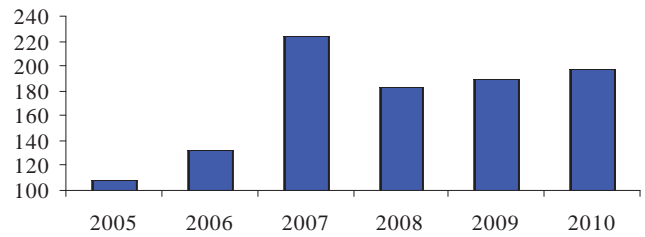
Hotel Performance in the Middle East during 1996-2010			
	Avge Annual Occupancy Rate (%)	Room Rate CAGR (%)	RevPar CAGR (%)
Dubai	72	2	2
Cairo Heliopolis	71	3	4
Cairo City Center	69	5	5
Hurgada	69	-2	2
Sharm El Sheikh	68	3	3
Abu Dhabi	68	4	4
Damascus	67	5	6
Cairo Pyramids	65	4	7
Muscat	64	5	4
Doha	64	8	9
Manama	62	6	6
Jeddah	61	4	5
Riyadh	61	6	6
Amman	58	5	5
Beirut	54	3	7
Kuwait City	52	1	2

Source: HVS, Byblos Research

Solidere's net income up 7.8% to \$196m in 2010

Solidere, the Lebanese Company for the Development and Reconstruction of the Beirut Central District and Lebanon's largest firm in terms of market capitalization, announced net profits of \$196.5m in 2010, up 7.8% from \$182.2m in 2009. Revenues from land and real estate sales rose by 10.5% to \$337.2m in 2010, while revenues from rental properties increased by 51.4% year-on-year to \$41.2m. Also, income from services increased 164% annually to \$8.3m in 2010. Further, the firm recorded total net operating revenues of \$272.2m, up 16.4% year-on-year. Solidere stated that its consolidated assets totaled \$2.53bn and increased by 8.2% from end-2009, as inventory of land and projects in progress totaled \$1.1bn at end-2010 slightly down from \$1.1bn a year earlier. Bank overdrafts and short term facilities reached \$470.3m compared to \$253.4m at the end of 2009. Solidere's earnings per share reached \$1.1908 in 2010 compared to \$1.1044 in the previous year.

Solidere net profits (\$m)



Source: Solidere

Solidere stated that the majority of property sales revenues registered in 2010 came from sales concluded in previous years and with their contracts completed in 2010. It added that the company did not sign new sales contracts in 2010, adding that it still owns a land bank of 1.9 million square meters that is valued at about \$7.5bn based on prevailing market prices. Also, the value of its built properties amounted to about \$1.2bn, while its holdings in cash and securities totaled approximately \$576m. It added that the market value of the firm's 12.7 million shares that it holds in Treasury amounts to \$229m. Solidere also owns 4.3 million shares of its Dubai-based affiliate Solidere International, or the equivalent of 39% of the capital of the company, worth at least \$550m.

Car sales down 7% in first five months of 2011

Figures released by the Association of Automobile Importers in Lebanon indicate that a total of 11,737 new passenger cars were sold in the first five months of 2011, constituting a decrease of 6.6% from the 12,562 cars sold in the same period last year. Korean cars accounted for 41.8% of total car sales, followed by Japanese cars with a 29.8% share, European automobiles with 22%, American vehicles with 5.7%, and Chinese cars with 0.7%. The number of Korean cars sold grew by 32.7% year-on-year. In parallel, the number of Chinese cars sold posted a drop of 37.7% year-on-year, followed by Japanese autos with a 26.1% decrease, American vehicles with a 22.9% decline and European cars with a 17.6% retreat. Kia is the leading brand in the Lebanese market with 2,940 cars sold in the first five months of 2011, followed by Hyundai with 1,964, Nissan with 1,888 cars sold, Toyota with 564, Chevrolet with 476 cars sold, Renault with 402, and Peugeot with 348 cars.

Kafalat loan guarantees down 13% to \$52m in first four months of 2011

Figures released by the Kafalat Corporation show that loans extended to small- and medium-size companies under the guarantee of Kafalat reached \$52.1m in the first four months of 2011, down 12.5% from \$59.6m in the same period last year. The number of loan guarantees totaled 381 year-to-April compared to 507 in the same period last year. The average loan size reached \$136,795 compared to \$117,506 in the first four months of 2010. Mount Lebanon accounted for 42.8% of guarantees, followed by the South & Nabatieh with 20%, the North with 17.6%, the Bekaa with 12.9% and Beirut with 6.6%. The industrial sector accounted for 41.7% of total guarantees, followed by agriculture with 37.3%, tourism with 17.3%, specialized technologies with 2.1% and handicraft with 1.6%. 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-size 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.

BLOM Bank redeems Preferred Shares Series 2004 and 2005

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. The redemption was approved by the bank's Extraordinary General Assembly and by the Central Bank of Lebanon. Also, the bank said it will increase its capital by \$22.8m to \$171.1m. Following the redemption, the Preferred Shares Series 2004 and 2005 will be canceled and de-listed from the Beirut bourse. BLOM Bank distributed 2009 dividends of \$8.5 per share for shareholders carrying Preferred Shares Series 2004 and \$9.5 per share for shareholders carrying Preferred Shares Series 2005. BLOM posted net profits of \$82.1m in the first quarter of 2011, up 11.3% from the previous year. It had total assets of \$22.8bn, loans of \$5.4bn and aggregate deposits of \$19.7bn at end-March 2011.

First National Bank announces 2010 dividends for preferred shares

First National Bank sal announced that its Ordinary General Assembly held on June 10, 2011 approved the distribution of 2010 dividends for Preferred Shares Series A, equivalent to \$8.25 per share. First National Bank posted unaudited consolidated net profits of \$3.5m in the first quarter of 2011, constituting a decrease of 33.6% from the same period last year. Net operating income declined by 5.4% to \$13.6m in the first quarter of the year, with net interest income increasing by 12.1% to \$10.7m and non-interest receipts declining by 38.8% to \$3.2m year-on-year. Also, operating expenditures increased by 13% to \$9.1m, with staff expenses increasing by 15.2% to \$5.2m. Total assets reached \$2.55bn at end-March 2011, constituting an 11% rise from end-March 2010 and a 0.74% rise from end-2010; while loans & advances to customers increased by 27.6% year-on-year and rose by 8.2% from end-2010 to \$681.6m. Customer deposits totaled \$2.1bn at end-March, constituting an increase of 4.1% from end-2010 and a growth of 20.8% from a year earlier. The bank's shareholders' equity reached \$138.2m at end-March, down 16.2% in the first quarter of the year.

IBL Bank to pay dividends for preferred shares

IBL Bank sal, one of Lebanon's top 12 banks, announced that its Ordinary General Assembly held on June 9, 2011 approved the distribution of 2010 dividends for Preferred Shares Series A, equivalent to 12% of the issue price per share. IBL posted unaudited consolidated net profits of \$8.2m in the first quarter of 2011, constituting an increase of 54% from the same period last year. Net operating income rose by 37.6% in the first quarter of the year to \$16.9m, with net interest income increasing by 37.2% to \$14.7m and non-interest receipts rising by 29.4% to \$2.55m year-on-year. Also, operating expenditures increased by 29.1% to \$7.1m, with staff expenses increasing by 23.3% to \$3.9m. Total assets reached \$3.4bn at end-March 2011, constituting a 4.3% rise from end-2010 and a 16.8% increase from end-March 2010, while loans & advances to customers increased by 5.5% from end-2010 and 43.4% year-on-year to \$537.5m. Customer deposits totaled \$3.1bn at end-March, constituting an increase of 3.6% from end-2010 and a growth of 22.4% from a year earlier. The bank's shareholders' equity reached \$223.5m at end-March, up 2.2% in the first quarter of the year.

EGF Hermes' net income up 13% to \$6m in first quarter of 2011

Regional investment bank EFG Hermes declared consolidated net income of EGP36m, or \$6m, in the first quarter of 2011, constituting an increase of 12.5% from the fourth quarter last year and a decrease of 93% from the same period last year. Total operating revenues reached EGP410.5m in the first quarter, down 26% quarter-on-quarter and 72% year-on-year. It attributed the year-on-year decline in the Group's operating revenues and profits to the one-off capital gain of EGP716.6m realized from the sale of its stake in Bank Audi sal in the first quarter of last year. It added that revenues increase by 17% year-on-year when excluding the capital gain amount.

In parallel, EFG Hermes indicated that the acquisition of Crédit Libanais has further expanded its balance sheet, with total consolidated assets reaching EGP49.1bn, or \$8.23bn as at end-March 2011, with the bank contributing EGP40.3bn or 82.2% of the total. Also, consolidated shareholders' equity stood at EGP8.43bn, with Crédit Libanais contributing EGP2.9bn or 34.7% of the total. It added that Crédit Libanais accounted for 59% of consolidated revenues in the first quarter compared to 51.4% and 54% in the third and fourth quarters of 2010, respectively.

Last August, EFG Hermes Holding SAE announced the acquisition of a 65% stake in Crédit Libanais sal for \$542m. It has a call option for an additional 25% interest in the bank, and will have the right to exercise the call option over a two-year period at its sole discretion and at the same terms, including pricing, as those applicable to the acquisition of the initial 65% stake. EFG Hermes said the transaction transforms it from an investment company with an investment banking platform into a universal bank. Crédit Libanais sal, one of Lebanon's top 10 banks, posted net profits of \$17m in the first quarter of 2011, constituting an increase of 3% from March 2010. Its total assets reached \$6.8bn at end-March, constituting a 21.4% rise from end-March 2010 and its customer deposits totaled \$5.9bn at end-March, up 21.2% year-on-year.

Société Générale's ratings placed on review for possible downgrade

Moody's Investors Service placed the 'C+/A2' standalone financial strength rating and 'Aa2' long-term debt and deposit ratings of Société Générale SA (SocGen) on review for possible downgrade. The French banking group holds a 19% stake in Société Générale de Banque au Liban sal (SGBL). It attributed its decision to SocGen's credit exposure to the Greek government's debt and the Greek private sector, and to the potential for inconsistency between the current rating levels and the impact of a possible Greek default or restructuring. It said the review will also assess the likelihood of future support by the French government.

The agency said SocGen has a majority stake in General Bank of Greece (Geniki), and faces risks from its private sector credit exposure in the country. It noted that Geniki's net loans totaled €3.4bn at end-March 2011, compared to SocGen's consolidated Core Tier One capital of €29.4bn. It added that SocGen carried €2.5bn in Greek government debt at end-March 2011, which means that a default or restructuring of Greek government bonds would be material for the bank. Moody's said its review will focus on the potential impact of the various scenarios on the bank's profitability, capital and funding. It will also re-assess the systemic support assumptions currently factored into the long-term ratings to reflect the post-crisis support environment.

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	Feb 2010	Jan 2011	Feb 2011	Change*	Risk Level
Political Risk Rating	57.5	56.5	56.5	▼	High
Financial Risk Rating	28.0	28.5	28.5	▲	High
Economic Risk Rating	35.5	32.5	32.5	▼	Moderate
Composite Risk Rating	60.5	58.7	58.7	▼	High

Regional Average	Feb 2010	Jan 2011	Feb 2011	Change*	Risk Level
Political Risk Rating	64.7	63.6	62.6	▼	Moderate
Financial Risk Rating	42.1	42.3	42.2	▲	Very Low
Economic Risk Rating	35.7	38.1	38.0	▲	Low
Composite Risk Rating	71.2	72.0	71.4	▲	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-		Stable
EIU		B	Stable

Source: Rating agencies



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