

## LEBANON THIS WEEK

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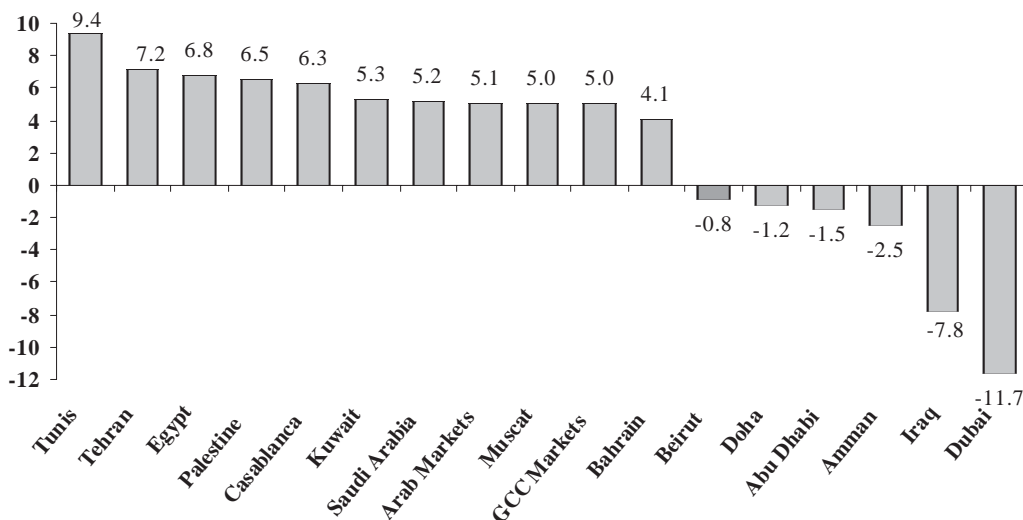
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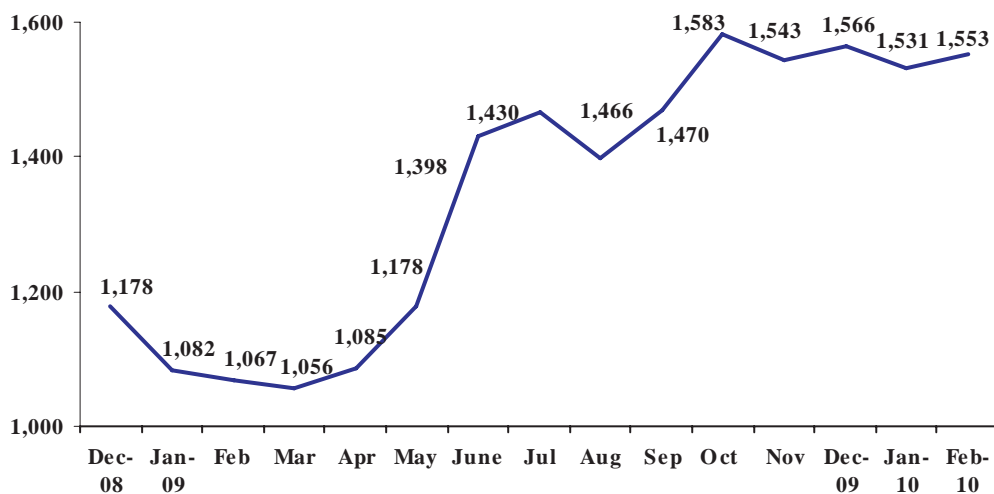
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### Charts of the Week

Performance of MENA Stock Markets in First Two Months of 2010 (%)



Performance of the Beirut Stock Market\*



\*BLOM Stock Index

Source: Local Stock Markets

### Quote to Note

“Fiscal consolidation remains uncertain in the medium-term despite some degree of political consensus and stability achieved in late 2009.”

*Commerzbank, on the skepticism and uncertainty surrounding the implementation of much-needed structural reforms*

### Number of the Week

**\$1.52bn:** Amount allocated in the 2010 budget to support the state-owned and money-losing Electricité du Liban, according to the Ministry of Finance

## Economic Indicators

<b>\$m (unless otherwise mentioned)</b>	<b>2007</b>	<b>Dec 2008</b>	<b>2008</b>	<b>Oct 09</b>	<b>Nov 09</b>	<b>Dec 09</b>	<b>% Change*</b>
Exports	2,816	251	3,478	327	339	364	45.02
Imports	11,815	1,135	16,133	1,291	1,581	1,380	21.58
Trade Balance	(8,999)	(884)	(12,655)	(964)	( 1,242)	(1,016)	14.93
Balance of Payments	2,036	714	3,462	1,167	280	1,610	125.49
Checks Cleared in LBP	8,409	831	9,350	1,102	850	1,061	27.68
Checks Cleared in FC	29,893	3,184	43,174	4,600	3,752	4,756	49.37
Total Checks Cleared	38,302	4,015	52,524	5,702	4,602	5,817	44.88
Budget Deficit/Surplus	(2,546)	(332)	(2,921)	( 190)	( 179)	(368)	10.84
Primary Balance	731	48	597	210	101	72	50.00
Airport Passengers	3,408,834	419,329	4,085,334	388,771	380,342	738,211	76.05
<b>\$bn (unless otherwise mentioned)</b>	<b>Dec 2007</b>	<b>Dec 2008</b>	<b>Sep 09</b>	<b>Oct 09</b>	<b>Nov 09</b>	<b>Dec 09</b>	<b>% Change*</b>
BdL FX Reserves	9.78	17.06	23.21	24.12	24.81	25.66	50.41
<i>In months of Imports</i>	<i>9.19</i>	<i>15.03</i>	<i>18.57</i>	<i>18.68</i>	<i>15.69</i>	<i>18.59</i>	<i>23.68</i>
Public Debt	42.03	47.02	49.18	49.90	50.46	51.09	8.65
Net Public Debt	39.03	41.49	43.61	43.74	44.01	44.11	6.31
Bank Assets	82.26	94.25	109.90	111.57	113.57	115.25	22.28
Bank Deposits (Private Sector)	67.29	77.78	91.19	92.44	94.06	95.77	23.13
Bank Loans to Private Sector	20.42	25.04	27.89	28.09	28.81	28.37	13.30
Money Supply M2	16.47	24.76	31.57	32.36	33.19	34.16	37.96
Money Supply M3	59.83	68.66	78.73	79.71	81.04	82.08	19.54
LBP Lending Rate (%)	10.10	9.95	9.22	9.15	9.13	9.04	(91b.p.)
LBP Deposit Rate (%)	7.40	7.22	6.94	6.86	6.81	6.75	(47b.p.)
USD Lending Rate (%)	8.02	7.47	7.24	7.28	7.25	7.28	(19b.p.)
USD Deposit Rate (%)	4.69	3.33	3.16	3.18	3.07	3.05	(28b.p.)
%* Change in CPI**	5.92	6.36	1.99	1.66	4.47	4.20	(216b.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>
Solidere "A"	22.05	0.18	133,238	17.27%
Solidere "B"	22.74	2.90	66,582	11.34%
Byblos Common	2.07	(0.96)	112,199	3.45%
Byblos Priority	2.11	0.48	41,000	3.34%
Byblos Pref. 08	103.60	0.58	1,473	1.59%
BLOM GDR	97.00	2.65	19,788	5.50%
BLOM Listed	91.00	1.11	40,626	15.02%
Audi GDR	90.00	0.50	10,560	7.02%
Audi Listed	86.95	(0.06)	2,000	22.97%
HOLCIM	12.28	1.91	3,555	1.84%

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

<b>Sovereign Eurobonds</b>	<b>Coupon %</b>	<b>Mid Price \$</b>	<b>Mid Yield %</b>
Nov. 2010	6.875	103.25	1.98
May 2011	7.875	105.75	2.94
Mar. 2012	7.500	107.88	3.44
Sep. 2012	7.750	109.63	3.67
June 2013	8.625	113.13	4.29
Apr. 2015	10.000	120.25	5.42
Jan. 2016	8.500	115.25	5.42
May 2016	11.625	130.25	5.73
Mar. 2017	9.000	119.25	5.64
Apr. 2021	8.250	113.50	6.52

Source: Byblos Capital Markets

	<b>Mar 1-5, 2010</b>	<b>Feb 22-25, 2010</b>	<b>% Change</b>	<b>February 2010</b>	<b>February 2009</b>	<b>% Change</b>
<b>Total Shares Traded</b>	436,006	669,486	(34.87)	55,216,126	54,105,555	2.05
<b>Total Value Traded</b>	\$11,845,895	\$9,605,879	23.32	\$158,807,366	\$115,261,712	37.78
<b>Market Capitalization</b>	\$13.03bn	\$12.89bn	1.04	\$12.89bn	\$8.55bn	50.76

Source: Beirut Stock Exchange (BSE)



### Lebanon ranks 82nd globally, 9th in Arab world on ICT Development Index

The International Telecommunication Union's 2010 Information & Communication Technology (ICT) Development Index in 159 countries ranked Lebanon in 82nd place worldwide and 9th among 19 Arab countries. Lebanon also ranked in 26th place among 28 upper middle income countries (UMICs) included in the survey. Lebanon ranked in 78th place globally, in 7th place regionally and in 25th place among UMICs in the previous survey. The index quantifies and tracks the digital divide among economies and measures a country's progress toward becoming an information society. The index is a composite of three sub-indices that measure the level of access, usage and skills of ICT in a country.

Lebanon received a score of 3.17 points, up 5% from the previous survey and constituting the 14th highest growth rate among Arab countries. Its score came below the global average of 3.58 points and the UMICs' average of 4.18 points, but above the Arab average of 3.11 points. On a global basis, Lebanon ranked ahead of Albania, Iran and Tunisia and came behind Azerbaijan, Georgia and China. It also ranked ahead of South Africa and behind Libya among UMICs as well as ahead of Tunisia and behind Libya in the Arab world. Lebanon was one of 47 countries with a 'Medium' level of ICT development. The rankings of 7 Arab countries increased, 9 regressed and 3 were unchanged while the scores of all Arab countries improved year-on-year.

Lebanon ranked ahead of Paraguay and behind Tunisia on the ICT Access Sub-Index. This category measures the access to fixed telephone lines, mobile cellular subscriptions, international Internet bandwidth users, the proportion of households with a computer and the proportion of households with Internet access at home. Also, Lebanon ranked ahead of South Africa and behind Mexico among UMICs and came ahead of Algeria and behind Tunisia in the region. Lebanon also ranked globally ahead of Jordan and behind Tunisia on the ICT Use Sub-Index. This category reflects the Internet users, the fixed broadband Internet subscribers, and the mobile broadband subscribers. It came ahead of Oman and behind Libya among UMICs. Further, Lebanon ranked ahead of Moldova and behind Armenia on the ICT Skills Sub-Category. This category reflects the adult literacy rate, and the secondary and tertiary gross enrolment ratios. Regionally, Lebanon ranked ahead of Jordan and behind Libya, while it came ahead of Costa Rica and behind Venezuela among UMICs.

ICT Development Index				
	Score	Global Rank	Arab Rank	Category
UAE	6.11	29	1	High
Bahrain	5.67	33	2	High
Qatar	4.68	45	3	Upper
Saudi Arabia	4.24	52	4	Upper
Kuwait	3.64	65	5	Upper
Oman	3.45	71	6	Medium
Jordan	3.33	74	7	Medium
Libya	3.24	78	8	Medium
<b>Lebanon</b>	<b>3.17</b>	<b>82</b>	<b>9</b>	<b>Medium</b>
Tunisia	3.06	85	10	Medium
Syria	2.76	93	11	Medium
Egypt	2.70	96	12	Medium
Morocco	2.68	97	13	Medium
Algeria	2.65	100	14	Medium
Djibouti	1.57	125	15	Low
Mauritania	1.57	126	16	Low
Sudan	1.57	127	17	Low
Yemen	1.52	129	18	Low
Comoros	1.46	134	19	Low

Source: International Telecommunication Union, Byblos Research

Components of the ICT Development Index for Lebanon							
Sub-Index	Global Rank	Arab Rank	UMIC Rank	Lebanon Score	Global Average Score	Arab Average Score	UMIC Average Score
Access	92	10	25	3.20	4.07	3.75	4.78
Use	78	8	25	1.03	1.70	1.11	1.85
Skills	57	2	17	7.42	6.37	5.82	7.63

Source: International Telecommunication Union, Byblos Research

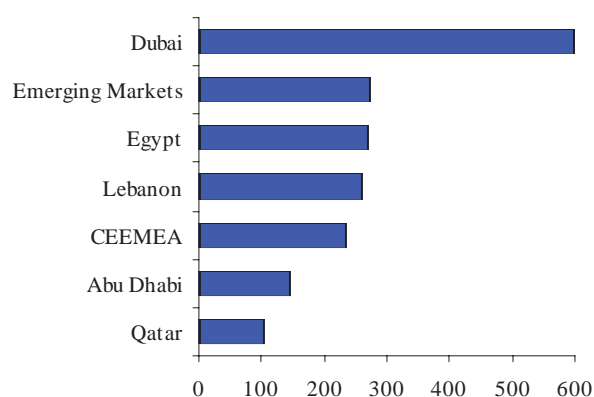
### ABL recommends ceiling on Lebanese pound deposit rates

The Board of Directors of the Association of Banks in Lebanon encouraged banks to maintain a ceiling of 6.25% on Lebanese pound deposit rates. It said the decision is due to the continued conversion of deposits to Lebanese pounds as well as to the Treasury's decision to suspend the issuance of Treasury bills and to the large amounts of Treasury bills that mature in the coming months. It added that the Central Bank's new issuance of Certificates of Deposits is equivalent to less than 15% of the available liquidity in Lebanese pounds, while banks continue to pay high interest rates on new and existing Lebanese pound deposits. It noted that the returns on two-year Treasury bills are currently lower than the cost of funds in Lebanese pounds, which has led to negative spreads since last August. The negative spreads have widened on a monthly basis from -0.12% last August to -0.67% in January of this year. The previous period where spreads turned negative was in March, April and May 2005, following the assassination of Prime Minister Rafic Hariri. The ABL previously said that rates on deposits should reflect the returns on investment from the local fixed income market, which account for a substantial part of the banks' placements. The ABL also plans to recommend a ceiling on US dollar deposit rates.

### Lebanon's has 11th widest spread in emerging markets on five-year Credit Default Swaps

The spread on five-year Credit Default Swaps (CDS) for Lebanon reached 257 basis points at the end of February, compared to spreads of 270 bps for Emerging Markets and to 234 bps for the Central & Eastern Europe, the Middle East & Africa (CEEMEA) region. Lebanon's spreads were the 11th widest among 36 emerging markets, the seventh widest among 19 countries in the CEEMEA region, and the narrowest among similarly-rated sovereigns. Lebanon's spreads were narrower than Romania (259 bps) and wider than Croatia and Hungary (234 bps each). Credit Default Swaps represent the cost of insuring government bonds against default and have become a reflection of perceived credit risk. As such, it cost around \$257,000 a year at end-February to insure a notional \$10m of Lebanese sovereign debt against default for five years. CDS are tradable, over-the-counter derivatives that function like a default insurance contract for debt. If a borrower defaults, the protection buyer is paid compensation by the protection seller. So the wider the spread, the bigger the perception of default and the more expensive it becomes to buy insurance against potential default.

Five-year CDS spreads at end-February 2010



Source: Bloomberg, Byblos Research

Lebanon's spread narrowed by 266 bps from the end of February 2009 compared to a narrowing of 580 bps for emerging markets spreads year-on-year. Lebanon's spread narrowed by the 22nd biggest margin in emerging markets and by the 14th biggest margin in the CEEMEA region, as well by the smallest margin among similarly-rated sovereigns during the 12-months ending February 2010. Further, Lebanon's spreads narrowed by 22 bps in the first two months of 2010 compared to a narrowing of 11 bps for emerging markets spreads. Lebanon's spreads narrowed by the 7th biggest margin in emerging markets and by the 6th biggest margin in the CEEMEA region, as well by the fourth highest margin among similarly-rated sovereigns during the first two months of 2010. In parallel, the spreads of 23 emerging market economies widened during the same period, including those of 6 sovereigns widened in the CEEMEA region. Lebanon's CDS spread peaked at 543.8 bps on February 17, 2009 for the 12 months ending February 2010.

### Central Bank resumes issuance of Certificates of Deposits

The Central Bank announced that it will resume the sale of Certificates of Deposits (CDs) in Lebanese pounds in order to absorb the excess liquidity in the market and to maintain inflation under control, as its objective is to keep the inflation rate at 4% this year. It said it plans sell about LBP 350bn, or \$232m, in CDs; including five-year CDs that carry a rate of 7.3%, and seven-year CDs with a choice of either an 8% fixed rate or a 6.5% variable rate. As such, the Central Bank sold LBP 121bn in five-year CDs, LBP 203bn in seven-year CDs at a fixed rate, and LBP 26bn in seven-year CDs at a variable rate. Demand for the CDs was seven times larger than the amount put on sale, leading the Central Bank to accept only 13.75% of the offers. The amount of outstanding CDs issued by the Central Bank totaled LBP 21,611bn, or \$14.3bn, at the end of January 2010, up from LBP 9,035bn at the end of 2008.

### Energy Ministry conveys plan for electricity sector

The Minister of Energy & Hydraulic Resources, Gebran Bassil, indicated that the electricity sector in Lebanon is suffering from several problems that are the absence of a strategic policy for the sector, a lack of sector legislation, low levels of investments and of production, the high cost of production, the shortage of managerial skills at Electricité du Liban, in addition to losses that amount to 40% and include 25% losses from the theft of electricity, 15% in technical losses and 5% in losses from collection. He added that his plan for the sector incorporates 10 points. First, providing the means to increase electricity production over the short term due to expectations of severe shortages during the summer season, while replacing and rehabilitating old electricity plants over the medium term. Second, prepare a plan for electricity to be produced by independent power producers with the goal of producing 5,000 megawatts by 2015. Third, diversifying energy sources by increasingly relying on liquid and natural gas and building plant that can receive gas. Fourth, expanding the transportation network, which currently has a capacity of less than 1,500 megawatts. Fifth, improving distribution and collection. Sixth, beginning in 2011 the medium-term plan to rehabilitate the networks. Seventh, installing remote counters. Eighth, restructuring tariffs to take into considerations low-income citizen and productive sectors. Ninth, increase the usage of renewable energy; and tenth, managing demand through rationalizing the usage of electricity and by having preferential rates for daytime and nighttime usage.

In parallel, the minister announced the formation of a committee consisting of the ministry, the electricity concessionaires, and Electricité du Liban that would try to find solutions to the outstanding problems between EdL and the concessionaires. There are currently concessionaires in Zahlé, Jbeil, Bhamdoun and Qadisha.

### **Council of Ministers approves appointment of new Banking Control Commission**

The Council of Ministers approved the appointment of four new members and renewed the term of a fifth member of the Banking Control Commission (BCC) for a five-year term. The BCC supervises banks, financial institutions, money dealers, brokerage firms and leasing companies operating in Lebanon. It performs its supervisory functions as an independent body, but in close coordination with the Governor of the Central Bank. The law stipulates that the members should include a specialist in banking, finance, or university academic as Chairman; a member nominated by the Association of Banks in Lebanon; a member nominated by the National Deposit Guarantee Institution; and two members with appropriate professional backgrounds. The new BCC Chairman is Mr. Oussama Mekdashy who has been working at BankMed. The other four executive directors are Mr. Ahmad Safa who is with the Lebanese-Canadian Bank, Mr. Sami Azar who is with Credit Libanais, and Mr. Mounir Liyan who has been working at Fransabank in France. Further, the term of Dr. Amine Awad was renewed, as he was already an executive director of the BCC since 2000. The five positions have been vacant since the end of last January when the term of the BCC expired, as disagreements among political figures over the appointments delayed the process. According to the rules, the Minister of Finance proposes the would-be members. They are then appointed by decree signed by the Finance Minister and sanctioned by the Council of Ministers for a renewable five-year term.

### **New Eurobond issue oversubscribed, Treasury bills issuance suspended**

The Ministry of Finance declared that it raised its Eurobond issue to \$1.2bn from \$1bn originally due to increase demand, as the issue was three times oversubscribed. The new issue has a 10-year maturity of March 2020 and carries a coupon rate of 6.375% paid semi-annually. Domestic subscribers, mainly commercial banks, accounted for 70% of subscriptions and were allocated amounts on a pro-rata basis, with the balance of 30% subscribed by non-resident institutions. The ministry previously announced that it is issuing new Eurobonds under the Republic of Lebanon's Global Medium Term Note Program, and that proceeds will be used to refinance upcoming maturities in March. The government has \$2.15bn in Eurobonds maturing this year, of which \$1.1bn mature this month. In parallel, the ministry announced that it will suspend temporarily the issuance of Lebanese pound-denominated Treasury bills, as it plans to use its excess liquidity to finance the government's operations.

### **Net public debt at \$44bn at end-January 2010**

Lebanon's gross public debt reached \$51.6bn at the end of January 2010, up 1.1% from \$51.1bn at end-2009, and constituting an increase of 9.9% from end-January 2009. Domestic debt increased by 16.6% to \$30.4bn, while external debt increased by 1.5% annually to \$21.3bn. Local currency debt accounted for 58.8% of gross public debt at end-January 2010 compared to 55.4% at end-January 2009, while foreign currency-denominated debt represented 41.2% of the total relative to 44.6% a year earlier. Market issued Eurobonds account for about 67% of external debt.

Commercial banks accounted for about 60% of the total public debt at the end of 2010 compared to 56% at the end of 2009. They were followed by the Central Bank with 19% relative to 20.1% at end-2009; while public agencies, financial institutions and the general public accounted for 10.5% of the debt relative to 9.7% at end-2009. Further, multilateral and bilateral loans represented 5.6% of the debt compared to 6.2% at end-2009, while other holders accounted for the remaining 5.1%. In parallel, residents held 89.3% of the public debt at the end of 2010, up from 85.7% at end-2009. 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 5.9% to \$43.9bn. In parallel, the gross market debt accounted for about 65% 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.

### **Fiscal deficit at 2.3% of expenditures in January 2010**

Figures released by the Finance Ministry show that the fiscal deficit reached \$17.7m in January 2010 compared to \$300m in January 2009. The deficit was equivalent to 2.3% of total budget and Treasury expenditures compared to 27.3% in January 2009. Overall government expenditures reached \$770.4m, down 30.8% year-on-year, while total revenues decreased by 7.5% to \$752.7m in January 2009. Tax revenues improved by 11% year-on-year to \$646.2m, of which 41.3%, or \$267m, were in VAT receipts that posted a 12% annual rise. Tax revenues accounted for 93.2% of budgetary revenues and for 85.8% of total Treasury and budget receipts. The distribution of other tax revenues show that income tax receipts grew by 14.5% to \$148m, customs revenues were nearly unchanged year-on-year at \$141.4m, real estate registration fees improved by 78% to \$39m, stamp fees increased by 8% to \$29.6m, income from taxes on goods & services rose by 10.8% to \$16.3m. Also, revenues from inheritance tax regressed by 14.3% to \$2.6m and revenues from built property taxes dropped by 59.7% to \$2.3m. Further, the distribution of income tax revenues shows that taxes on wages & salaries accounted for 43% of total income tax receipts, followed by tax on interest with 28%, and taxes on profits with 23%. In parallel, non-tax budgetary revenues contracted by 75.4% to \$46.8m, with administrative fees & charges declining by 11% to \$27.5m and revenues from government properties dropping by 91.4% to \$13.1m.

Debt servicing regressed by 26% year-on-year to \$212.5m, accounting for 27.6% of total expenditures and for 32% of budgetary spending. It absorbed 28.2% of overall revenues and 30.7% of budgetary receipts. Excluding debt servicing, the primary surplus reached \$248.2m, or 37.4% of budget expenditures compared to a surplus of \$410m, or 62.5% a year earlier. The overall primary surplus reached \$201.2m, or 26.2% of total spending compared to a deficit of \$7m, or 0.6% of total expenditures a year earlier.

### **Balance of payments posts deficit of \$44m in January 2010**

Central Bank figures show that Lebanon's balance of payments posted a deficit of \$44m in January 2010 compared to a surplus of \$1.6bn in December 2009 and a surplus of \$364m in January 2009. The deficit resulted from an increase of \$1.18bn in the Central Bank's net foreign assets combined with a decrease of \$1.23bn in those of banks and financial institutions. The balance of payments posted a cumulative surplus of \$7.9bn in 2009 and \$3.5bn in 2008.

### **Construction permits down 78% in January 2010**

Figures released by the Association of Engineers of Beirut & Tripoli show that construction permits reached 644,000 square meters in January 2010, down 78% from 2.93 million square in December 2009 and up 147.7% from 260,000 square meters in January 2009. In parallel, cement deliveries reached 319,000 tons in December 2009, a decrease of 17.8% from 388,000 tons in November 2009 and an increase of 10.4% from 289,000 tons in December 2008.

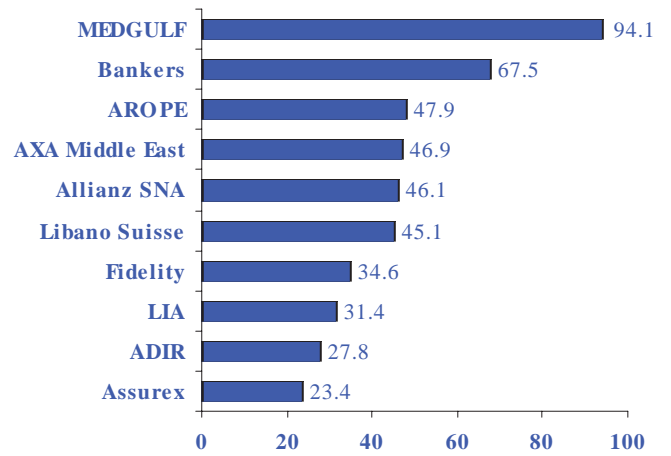
### **New loans for infrastructure and capacity building**

The Italian Development Cooperation Office in Lebanon approved a grant of €452,000 to the Ministry of Finance for a capacity building program in public procurement. The project aims at upgrading the skills of civil servants to better manage the public procurement function. Also, the Kuwait Fund for Arab Economic Development announced that it would provide a loan of \$18m to finance the construction of a water dam and reservoir in the Falougha area in Mount Lebanon. The reservoir would cover the water needs of 35 towns in Mount Lebanon. In parallel, the Lebanese Parliament approved a \$70m loan from the World Bank as additional financing for the Urban Transport Development Project, and a \$215m framework agreement with the Islamic Development Bank for projects in various sectors, including water and wastewater, infrastructure, health care, schools, and the rehabilitation of roads.

### Total non-life premiums post 22% rise to \$720m in 2009

The annual survey by *Al-Bayan* magazine of the insurance sector in Lebanon showed that total non-life premiums generated in the Lebanese insurance companies reached \$720m in 2009, constituting an increase of 21.9% from \$590.5m in 2008, and compared to growth rates 22.4% in 2008, 8% in 2007 and 4.7% in 2006. Non-life premiums totaled \$482.65m in 2007 and \$446.8m in 2006. MEDGULF maintained its first place with \$94.1m in non-life premiums, followed by Bankers with \$67.5 million, AROPE with \$47.8m, AXA Middle East with \$46.9m, and Allianz SNA with \$46.1m as the top 5 non-life insurers. LCI registered the highest jump in the rankings from last year among the top 40 insurers, moving from 39th to 33rd place and posted the highest growth in premiums among all insurers in the survey at 130% year-on-year. Byblos Bank's insurance affiliate ADIR registered a 101.4% rise in premiums, posting the biggest jump among the top 30 insurers and the biggest jump in non-life premiums among insurers that are partly of fully-owned are partly of fully-owned by banks. It ranked in 9th place, up four spots from the previous year. The survey attributed the significant rise in non-life premiums last year to the increase in comprehensive car insurance related to auto loans for new cars sold, as this category replaced health insurance as the main source of premiums for the sector.

Non-Life Premiums of the Top 10 Insurers in 2009 (\$m)



There were 7 advances and 6 declines among the top 20 insurers, while the rankings of 7 insurers were unchanged. Nine of the top 10 insurers were unchanged from 2008, with ADIR improving by four spots to 9th place and ALICO dropping by three spots to 13th place. All of the top 10 insurers posted increases in their premiums with one posting a triple-digit rise and 8 of them saw a double digit rise. ADIR and AROPE recorded the biggest year-on-year rise at 101.4% and 39% respectively, while AXA Middle East's premiums rose by 7.5%. The rankings of the top 5 insurers saw one change, with AROPE improving to third place from sixth place in 2008, while AXA Middle East and Allianz SNA regressed by one spot each to fourth and fifth place, respectively. There was one advance, one new entry, and four declines in the rankings of the top 10 firms. The top 10 insurers controlled 65% of the market last year compared to 64.4%, 63.3% in 2007 and 63.9% in 2006, while the top 20 insurers represented 86% of premiums compared to 85.3% in 2008 and 84% in 2007. The aggregate non-life premiums of the top 10 insurers reached \$464.8m in 2009 compared to \$380.4m in 2008 and \$305.6m in 2007.

### Top 5 agencies account for 79% of imported and 90.4% of exported containers in 2009

Figures released by the Port of Beirut Authority show that the number of imported twenty-foot equivalent units (Teus) containers, totaled 277,782 in 2009, constituting an increase of 9% from the previous year, while the number of exported containers totaled 39,221, down 15% from 2008. The MSC agency was the biggest importer of containers last year, as it processed 86,700 Teus in 2009, equivalent to 31.2% of the total. It was followed by Merit Shipping with 52,327 Teus or 19% of the total; Maersk Lebanon with 33,785 containers (12%), Seatrans with 25,907 containers (9.3%); and Feeder Shipping with 19,829 containers (7%) as the top 5 agencies. The rankings of four of the top 5 agencies were unchanged from the previous year, as MSC, Merit Shipping and Maersk Lebanon maintained their top 3 positions year-on-year, while Seatrans advanced two spots from 6th place in 2008 to 4th place in 2009, and Feeder Shipping kept its 5th place. The top 5 agents accounted for 78.7% of total imported containers last year.

In parallel, Maersk Lebanon was the biggest exporter of containers last year, as it processed 11,787 Teus, equivalent to 30.1% of aggregate containers exported from the Beirut port. It was closely followed by Merit Shipping with 11,757 containers (30%), MSC with 6,951 Teus (17.7%), Seatrans with 3,040 Teus (7.8%), and Feeder Shipping with 1,905 containers (4.9%). The top 5 agencies accounted for 90.4% of total exported containers last year. The rankings of three of the top 5 agencies changed from the previous year, as Maersk Lebanon and Merit Shipping exchanged first and second places, and Feeder Shipping rose from 7th place in 2009 to 5th place last year, while MSC and Seatrans maintained their third and fourth places, respectively.

### MEA to operate direct flights to Brussels and Erbil

National flag carrier Middle East Airlines (MEA) confirmed that it will launch three flights a week from Beirut to Brussels starting on June 21 of this year. The decision came after the Brussels-based Belgian-Lebanese Business Council submitted a report to MEA's management last year showing demand for such direct flights between Lebanon and Belgium. MEA noted that the flights will be seasonal and will be operational during the summer months only, similar to other direct flights to Nice, Copenhagen and Berlin. MEA also stated that it will start in April 2010 four direct weekly flights between Beirut and Erbil, the capital of Kurdistan in Iraq. MEA currently serves 28 destinations and will receive two new Airbus planes in 2010 and an additional one in 2011, expanding its fleet to 16 aircraft. The Central Bank owns a 99% stake in the carrier, which intends to raise \$250m through an initial public offering of 25% of its capital later this year.

### Iraqi banks interested in Lebanese market

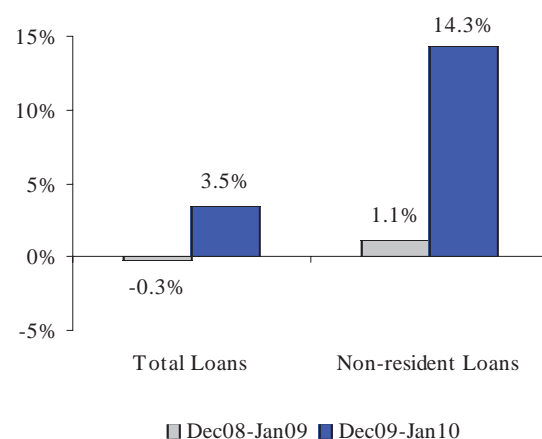
The Commercial Bank of Iraq, the largest private bank in Iraq, intends to open a branch in Beirut as part of its regional and international expansion plan, that includes branches in London and Istanbul, with the aim to serve Iraq's private sector companies and retail clients. The Bahrain-based Ahli United Bank has a 49% stake in the Commercial Bank of Iraq. In parallel, Al-Bilad Islamic Bank for Investment & Finance, one of seven Iraqi Islamic banks, is reportedly planning to establish a direct presence in Lebanon and has applied to the Central Bank for a license. The bank's local operation intends to have a capital of \$140m. There are currently four Islamic banks operating in Lebanon.

### Commercial banks' assets reach \$116.5bn at end-January 2010

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$116.5bn at the end of January 2010, up 1.1% from end-December 2009 and up 24.2% from end-January 2009. Private sector deposits totaled \$96bn, up 0.2% from end-December 2009 and up 23.5% from end-January 2009. Deposits in Lebanese pounds rose by 2.4% from end-2009 and by 42.5% year-on-year, while deposits in foreign currencies decreased by 0.9% from end-2009 but increased by 14.7% from end-January 2009. In parallel, deposits of non-resident banks reached \$4.8bn, up 5.3% from end-December 2009 and up 40.9% from end-January 2009. The dollarization rate of deposits reached 63.7% at end-January 2010, down from 64.5% at end-December 2009 and from 68.6% at end-January 2009. Further, the average deposit rate in Lebanese pounds reached 6.61% compared to 7.22% a year earlier, while the same rate in US dollars was 3.04%, down from 3.31% in January 2009.

Loans to the private sector amounted to \$29.4bn, up 3.5% from end-December 2009 and up 17.6% year-on-year. The dollarization rate in private sector lending reached 84%, unchanged from end-2009 and compared to 86.3% a year earlier. The average lending rate in Lebanese pounds was 8.91% in January 2010 compared to 10.07% a year earlier, while the same average in US dollars was 7.26% compared to 7.35% in January 2009. Claims on the public sector stood at \$30.1bn, up 20.4% year-on-year and up 3.5% from December 2009, and accounted for 50.6% of the banking sector's total loans. The ratio of private sector loans to deposits in foreign currencies stood at 40.4%, well below the Central Bank's limit of 70%, and unchanged from a year earlier. In parallel, the same ratio in Lebanese pounds was 13.4% compared to 14% a year earlier. The ratio of total private sector loans to deposits stood at 30.6%, down from 32.1% a year earlier. The banks' aggregate capital base stood at \$7.84bn, down 1.4% from December 2009 and up 9.3% from \$7.17bn in January 2009.

### Growth in Private Sector Loans (%)



Source: Association of Banks in Lebanon

## Ratio Highlights

(in % unless specified)	2007	2008	2009	Change*
Nominal GDP <sup>(1)</sup> (\$bn)	25.0	29.3	32.7	
External Debt / GDP	84.9	72.2	65.0	(720)
Local Debt / GDP	83.2	88.3	91.2	290
Total Debt / GDP	168.1	160.5	156.2	(430)
Trade Balance / GDP	(36.0)	(43.2)	(39.0)	420
Exports / Imports	23.8	21.6	21.5	(10)
Budget Revenues / GDP	23.2	24.0	25.8	180
Budget Expenditures / GDP	33.4	33.9	34.8	90
Budget Balance / GDP	(10.2)	(10.0)	(9.0)	100
Primary Balance / GDP	2.9	2.0	3.3	130
BdL FX Reserves / M2	59.4	68.9	75.1	620
M3 / GDP	239.3	234.3	251.0	1,670
Bank Assets / GDP	329.0	321.7	352.4	3,070
Bank Deposits / GDP	269.1	265.5	292.9	2,740
Private Sector Loans / GDP	81.7	85.5	86.8	130
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	Dec 2008	Nov 2009	Dec 2009	Change*	Risk Level
Political Risk Rating	57.5	57.0	57.0	▼	High
Financial Risk Rating	28.0	28.0	28.0	↔	High
Economic Risk Rating	30.0	35.5	35.5	▲	Low
Composite Risk Rating	57.7	60.2	60.2	▲	Moderate

Regional Average	Dec 2008	Nov 2009	Dec 2009	Change*	Risk Level
Political Risk Rating	65.6	64.9	64.7	▼	Moderate
Financial Risk Rating	41.8	42.0	42.1	▲	Very Low
Economic Risk Rating	39.5	34.8	35.2	▼	Low
Composite Risk Rating	73.4	70.8	70.9	▼	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	B2	NP	Positive	B2		Positive
Fitch	B-	B	Stable	B-		
S&P	B	B	Positive	B	B	Positive
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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