



## LEBANON THIS WEEK

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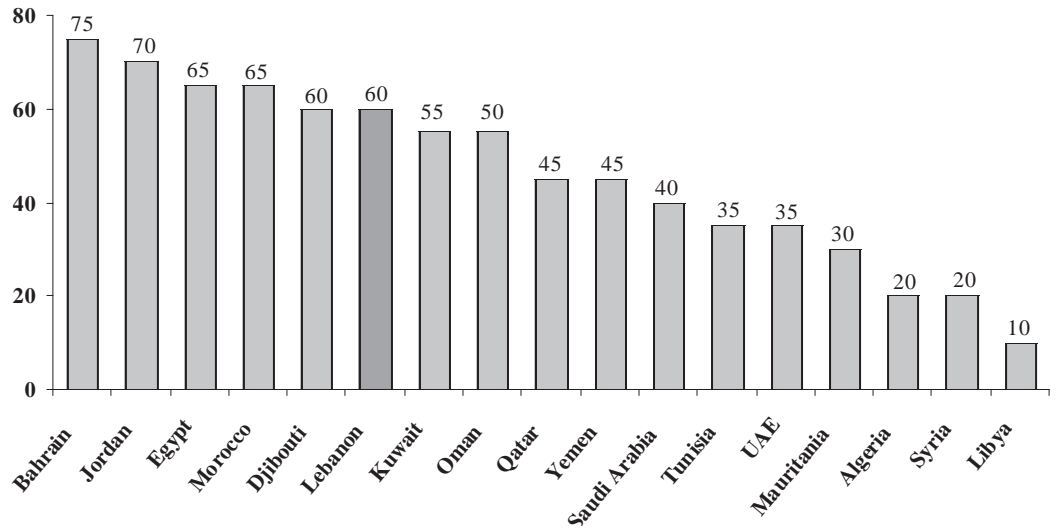
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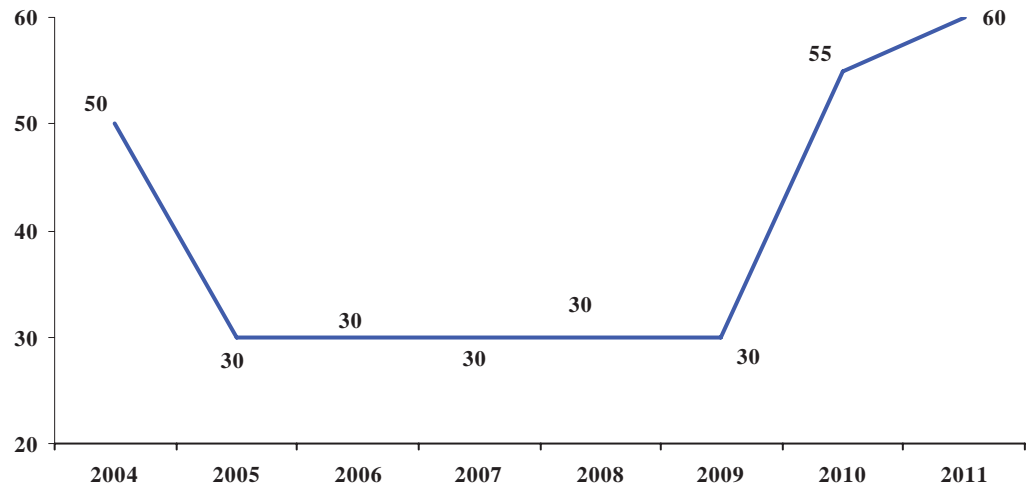
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### Charts of the Week

Investment Freedom Level of Arab Countries in 2011 (%)



Investment Freedom Level of Lebanon (%)



Source: Heritage Foundation/ Wall Street Journal

### Quote to Note

“As Lebanon is heavily reliant on its services sector, any disruption to stability, and particularly to inflows of capital, will have a major impact both on economic growth and the shape of any economy policy”

*The Economist Intelligence Unit, on the link between political stability and economic performance*

### Number of the Week

**53%:** The percentage of members of Parliament who endorsed Mr. Najib Mikati's candidacy for Prime Minister

## Economic Indicators

<b>\$m (unless otherwise mentioned)</b>	<b>2008</b>	<b>Nov 09</b>	<b>2009</b>	<b>Sep10</b>	<b>Oct 10</b>	<b>Nov 10</b>	<b>% Change*</b>
Exports	3,478	339	3,486	290	435	316	(6.78)
Imports	16,133	1,581	16,241	1,310	1,486	1,811	14.55
Trade Balance	(12,655)	(1,242)	(12,755)	(1,020)	(1,051)	(1,495)	20.37
Balance of Payments	3,462	280	7,899	186	(185)	(673)	(340.36)
Checks Cleared in LBP	9,350	850	11,122	1,124	1,849	1,626	91.29
Checks Cleared in FC	43,174	3,752	45,270	4,037	4,526	4,048	7.89
Total Checks Cleared	52,524	4,602	56,392	5,161	6,375	5,674	23.29
Budget Deficit/Surplus	(2,921)	(179)	(2,960)	(472)	(460)	(328)	83.24
Primary Balance	597	101	1,078	(44)	(118)	(32)	(131.68)
Airport Passengers	4,085,334	380,342	4,986,544	550,421	417,378	467,131	22.82
<b>\$bn (unless otherwise mentioned)</b>	<b>Dec 2008</b>	<b>Nov 09</b>	<b>July 10</b>	<b>Sep 10</b>	<b>Oct 10</b>	<b>Nov 10</b>	<b>% Change*</b>
BdL FX Reserves	17.06	24.81	27.42	28.46	28.20	27.74	11.81
<i>In months of Imports</i>	<i>15.03</i>	<i>15.69</i>	<i>18.92</i>	<i>21.7</i>	<i>18.9</i>	<i>15.3</i>	<i>(2.49)</i>
Public Debt	47.02	50.46	51.00	50.85	51.13	51.77	2.60
Net Public Debt	41.49	44.01	44.13	44.64	44.93	44.92	2.07
Bank Assets	94.25	113.57	121.68	126.74	126.65	127.57	12.33
Bank Deposits (Private Sector)	77.78	94.06	100.12	103.85	104.18	105.02	11.65
Bank Loans to Private Sector	25.04	28.81	31.71	33.82	34.39	34.92	21.21
Money Supply M2	24.76	33.19	38.02	39.32	39.31	39.31	18.44
Money Supply M3	68.66	81.04	86.74	90.06	90.57	91.00	12.29
LBP Lending Rate (%)	9.95	9.13	8.37	8.11	8.15	7.98	(115b.p.)
LBP Deposit Rate (%)	7.22	6.81	5.83	5.70	5.72	5.68	(113b.p.)
USD Lending Rate (%)	7.47	7.25	7.03	7.24	7.08	6.96	(29b.p.)
USD Deposit Rate (%)	3.33	3.07	2.75	2.78	2.81	2.80	(27b.p.)
%* Change in CPI**	6.36	4.47	7.42	7.15	8.69	10.82	635b.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"	19.67	8.20	346,300	15.31%	May 2011	7.875	101.00	4.46
Solidere "B"	19.35	6.55	149,617	9.79%	Mar. 2012	7.500	551.00	5.47
Byblos Common	1.92	6.67	185,107	5.37%	Sep. 2012	7.750	106.00	3.84
Byblos Priority	1.91	3.24	643,451	3.06%	June 2013	8.625	109.00	4.59
Byblos Pref. 08	103.00	0.00	20	1.60%	Apr. 2015	10.000	117.50	5.32
BLOM GDR	10.34	0.88	77,826	5.95%	Jan. 2016	8.500	113.00	5.47
BLOM Listed	10.37	1.17	132,259	17.36%	May 2016	11.625	127.50	5.30
Audi GDR	8.20	(3.64)	57,041	5.98%	Mar. 2017	9.000	116.50	5.77
Audi Listed	7.99	2.44	65,193	21.68%	Nov. 2018	5.150	96.00	5.80
HOLCIM	16.50	(2.94)	2,463	2.51%	Apr. 2021	8.250	115.00	6.24

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

Source: Byblos Capital Markets

	<b>January 24-28</b>	<b>January 17-21</b>	<b>% Change</b>	<b>December 2010</b>	<b>December 2009</b>	<b>% Change</b>
<b>Total Shares Traded</b>	1,689,257	733,916	130.17	3,399,412	3,174,705	7.1
<b>Total Value Traded</b>	\$14,708,158	\$733,916	104.00	\$33,080,487	\$49,395,829	(33.0)
<b>Market Capitalization</b>	\$12.85bn	\$12.50bn	2.78	\$12.68bn	\$12.84bn	(1.3)

Source: Beirut Stock Exchange (BSE)



### Sustainable investments at \$125m, Lebanon ranks last in region in market readiness

The International Finance Corporation estimated the volume of sustainable investments (SI) in Lebanon at \$125m, accounting for 0.2% of overall SI in the Middle East & North Africa region. It said that when excluding the amount of Shari'ah-compliant investment, SI in Lebanon would reach \$25m, equivalent of 0.15% of the region's SI ex-Shari'ah investment. The IFC defines sustainable investment as investment techniques that integrate environmental, social and governance (ESG) value drivers into financial research and investment processes. Also, the IFC ranked Lebanon in last place in the MENA region on its Market Preparedness Index, which evaluates market readiness for SI in 11 Arab countries. The index rates the SI readiness of each country on a scale of 0 to 100, with 100% being the most ready market. Lebanon received a score of 35%, significantly below the Arab average of 41.3%. The assessment of market preparedness covers two main components that are investment, ESG regulations & country performance; and ESG disclosure. The first component carries a weight of 66.7% and the second sub-index has a 33.3% weight in the index. The IFC said Lebanon, like other Levant countries, is still at an early developmental stage for SI readiness and practices.

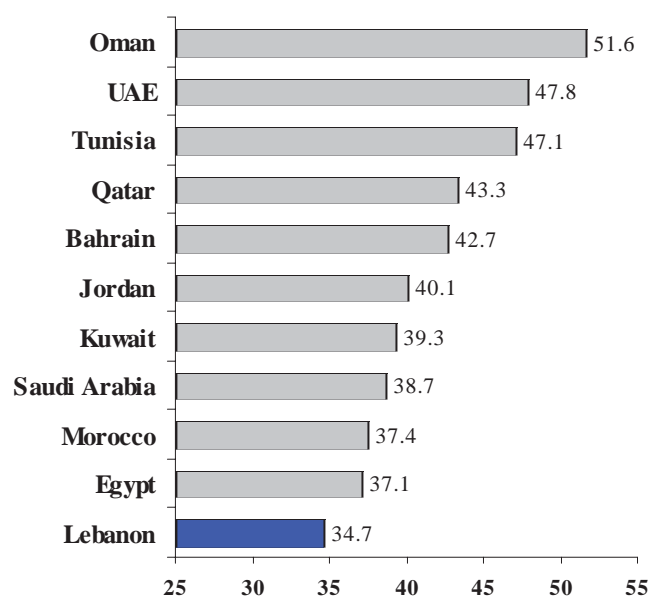
Lebanon tied with Morocco in last place in the MENA region on the Investment, ESG Regulations & Country Performance Sub-Index. Lebanon came in last place with a score of 46% on the Investment Laws and Regulation category. The survey said the impact of investment regulations on SI depends on the ease of investment, clear regulatory frameworks, type of investment incentives provided, level of foreign investment and level of domestic investment, among others. Also, Lebanon ranked in last place regionally on the Corporate Governance laws and Regulations & Performance category. It came in 10th place ahead of Morocco on the corporate governance laws & regulations segment and in last place in terms of corporate governance performance. It received a weighted score of 49% on the overall category compared to a regional average of 61%. The survey said sound corporate governance regulations and practices can have a significant impact on investment flows by building confidence and building a stronger reputation for investors. It noted that this could lead to increased access to capital and lower cost of equity. Further, Lebanon ranked in 6th place on the Environmental, Regulations & Performance category, ahead of Saudi Arabia, Bahrain, Morocco, Kuwait and Egypt. It received a weighted score of 55% compared to a regional average of 57%. The IFC said regulations that aim to protect the local environment and that are strictly enforced represent strong drivers to accelerate SI, with the potential to influence corporate behavior towards sustainability practices. Finally, Lebanon ranked in third place on the Social Regulations & Performance category, tying with Bahrain and Qatar. It received a score of 57% relative to the regional average of 61%. The survey said the social development of a country and the process of safeguarding citizens' rights are the building blocks for fostering socially responsible investment.

In parallel, Lebanon tied with Bahrain, Kuwait and Qatar in last place on the ESG Disclosure Sub-Index, which reflects the level of corporate ESG reporting by companies, and commitments to international voluntary arrangements by asset managers. The IFC said disclosure of ESG performance is essential to SI activity, as it is the primary source of ESG data. It noted that companies that are transparent are more likely to be valued by SI investors as well as by general investors and stakeholders.

### Support for Iraqi refugees in Lebanon at \$13m in 2011

The United Nations High Commission for Refugees (UNHCR) estimated Lebanon's need to support registered Iraqi refugees at \$13.1m in 2011. Lebanon's office has already raised \$9.1m from the U.S., the European Union and other European countries, and aims to raise more funds from Arab countries according to *Le Commerce du Levant*. The UNHCR estimates the number of Iraqi refugees registered in Lebanon at around 8,285, placing Lebanon as the third largest host country after Syria and Jordan. It added that the number of Iraqi refugees in Lebanon tripled since 2007, although 2,000 Iraqis left Lebanon to the U.S., Canada and Australia while only 47 returned to Iraq in 2010. The Lebanese government approved in September 2010 a decree allowing Iraqi refugees to obtain a one-year residence permit, but the decree has yet to be implemented. The UNHCR announced an inter-agency appeal for \$280m to support over 190,000 Iraqi refugees living in the region

Market Preparedness Level (%)



Source: International Finance Corporation, Byblos Research

### Lebanon ranks 43rd globally, 16th in developing countries in terms of outstanding external debt

Figures released by the Bank for International Settlements (BIS) show that Lebanon's external debt totaled \$23.7bn at the end of September 2010, ranking it in 43rd place globally and in 16th place among developing countries. Lebanon also ranked in 7th place among 15 offshore centers and 4th among 20 countries in the Middle East & Africa region. The figure represents the outstanding amount of international debt securities issued by both public and private institutions residing in the country. Lebanon accounted for 0.09% of the world's and for 2.1% of developing countries' outstanding external debt. Globally, Lebanon came ahead of Czech Republic, Colombia and China and behind Qatar, South Africa and Switzerland.

Lebanon's outstanding external debt increased by 0.1% in the first nine months of 2010 compared to an increase of 8.9% in developing countries and a 1.2% rise in offshore centers. It totaled \$23.66bn at the end of 2009. Lebanon's stock of external debt at end-September 2010 was above the average of \$16.8bn per country for developing countries.

Lebanon accounted for 1.5% of offshore centers' total external debt, ranking ahead of Panama and behind the West Indies. Further, Lebanon accounted for 15.8% of international debt securities in the Middle East & Africa region, ahead of Israel with \$16.4bn and behind Qatar with \$25.7bn. The outstanding amount of international debt securities in all offshore centers totaled \$1,530.4bn, while that of developing countries reached \$1,109.9bn as at end-September 2010. The UAE had the highest outstanding external debt in the Middle East & Africa region with \$52.6bn as at end-September 2010.

In parallel, Lebanon's net debt issuance totaled \$67 million in the first 9 months of 2010, ranking it in 63rd place globally and in 34th place among developing countries. Globally, it came ahead of Liechtenstein, Aruba and Uruguay and behind Barbados, Nigeria and Panama. Lebanon's net debt issuance in the first 9 months of 2010 was lower than the global average net issuance of \$12.1bn and the average net issuance in developing countries of \$2bn. It accounted for 0.7% of the Middle East & Africa's net issues. Qatar was the highest net issuer in the Middle East & Africa region in the first 9 months of 2010 with \$3.9bn.

International Debt Securities as at September 2010		
Offshore centers	Outstanding Amount (\$bn)	Rank
Cayman Islands	1,145.8	1
Netherlands Antilles	98.9	2
Bermuda	75.9	3
Singapore	56.0	4
Hong Kong	55.6	5
West Indies, UK	33.0	6
<b>Lebanon</b>	<b>23.7</b>	<b>7</b>
Panama	10.9	8
Bahamas	10.3	9
Bahrain	7.0	10

Source: Bank for International Settlements, Byblos Research

International Debt Securities (\$bn)			
Top 10 ME&A issuers	Outstanding Amount End- September 2010	Net Issuance End- September 2010	Net Issuance 2009
UAE	52.6	-2.4	8.7
South Africa	26.2	3.5	1.0
Qatar	25.7	3.9	10.5
<b>Lebanon</b>	<b>23.7</b>	<b>0.1</b>	<b>-0.4</b>
Israel	16.4	2.1	0.6
Saudi Arabia	7.8	0.2	2.4
Egypt	6.0	1.5	0.3
Tunisia	3.4	-0.4	-0.2
Iraq	2.7	-	-
Côte d'Ivoire	2.6	1.5	-

Source: Bank for International Settlements, Byblos Research

### Telecommunications Ministry expects 3G services in seven months

The Ministry of Telecommunications launched a project to upgrade Lebanon's telecom network to third generation technologies (3G). The implementation of the 3G service is expected to increase by 70 times the speed of current mobile Internet services. It said the upgraded network will have the capacity to provide high-speed mobile Internet to up to 850,000 subscribers to the network, and medium-level speed to 1.5 million subscribers. The ministry indicated that the overall investment costs for the network upgrade total \$80.3m, including \$15.7m in maintenance fees, a \$36.2m contract with Ericsson to upgrade the MIC1 network operated by Alfa, a \$25.6m contract with the Chinese firm Huawei to upgrade the MIC2 network operated by MTC Touch, and a \$2.7m contract with Nokia Siemens to provide equipments. The network upgrade is expected to be finalized in seven months. In parallel, the ministry announced the extension of the Alfa and MTC Touch operating contracts for one year.

### Lebanese economy at emerging stage for mergers & acquisitions

The Cass Business School's M&A Maturity Index ranked Lebanon in 13th place among 18 Arab countries, and classified Lebanon as an 'emerging' market for mergers and acquisitions (M&A). The index evaluates 175 countries' capacity to attract and sustain M&A activity based on regulatory, economic, financial, political, technological and socio-cultural factors. It classifies countries in three stages of developments for M&A that are 'mature', 'transitional' and 'emerging', with the latter category reflecting the lowest maturity level. The index rates the M&A maturity level of countries on a scale of zero to 100, with 100% being the highest maturity level. Lebanon received a score of 39%, below the global average of 71% and the Arab average of 49%.

Lebanon ranked in 15th place regionally on the Economic Factors category. The survey noted that existing firms as well as new entrants would benefit from high growth potential as a result of Lebanon's strong GDP growth. Also, Lebanon came in 9th place among Arab countries on the Financial Factors category, as firms are expected to benefit from the easy access to domestic banking credit in the country, which would lead to business expansion.

Further, Lebanon came in 15th place in the Arab world on the Political Factors category. The survey considered that the weak political situation would cause high uncertainty and risk for investors. It added that the low level of corruption controls in Lebanon leads to a high level of uncertainty around transactions and future business operations. In addition, Lebanon tied with Yemen in 12th place on the Regulatory Factors category. The survey stated that the country's low tax level reduces the risk of taxation as a major constraint for transactions and future business operations.

Lebanon ranked in fourth place regionally on the Socio-Cultural Factors category. The study considered that the high level of education and training of Lebanon's workforce would lead to high economic potential. Finally, Lebanon tied with Syria and Kuwait in eighth place on the Technological Factors category.

### Launch of wind power project

The National Wind Atlas project, an initiative intended to raise the country's output of sustainable energy, was launched under the Country Energy Efficiency and Renewable Energy Demonstration Project for the Recovery of Lebanon (CEDRO). The initiative estimates that utilizing wind power could generate up to 6.1 gigawatts each year, or about 75% of the country's 2010 electricity consumption. CEDRO is managed by the United Nations Development Program (UNDP) program in partnership with the Ministry of Energy & Water, Ministry of Finance, and the Council for Development & Reconstruction. It was established in October 2007 and has a five-year mandate and a budget of \$9.73m funded by the Lebanon Recovery Fund. The UNDP hopes that the Wind Atlas project could help the country raise the contribution of sustainable energy to 12% of its total energy demand by 2020. Last June, the Central Bank of Lebanon and the UNDP signed a memorandum of understanding for technical cooperation to launch a national initiative for energy efficiency and renewable energies (NEEREA). The MoU includes a complete funding mechanism that allows organizations from different sectors to implement models of energy conservation for the first time in Lebanon.

### Lebanon purchases 25,000 tons of wheat in anticipation of price increases

The Ministry of Economy & Trade purchased 25,000 tons of wheat at \$368 per ton in anticipation of record-high prices in global wheat markets. It expected the amount to meet local needs for at least three months, in addition to wheat traders' existing stocks that can meet two months of local demand. Lebanon suspended wheat exports starting on August 13, 2010 as a precautionary measure aimed at protecting the domestic wheat market in light of developments in the international wheat markets. Last summer's drought and unusual heat in Russia forced authorities to halt wheat exports following reports that 20% of this year's harvest has been destroyed, raising global prices, as Russia is the world's third largest wheat producer after the United States and Australia. Lebanon imports 450,000 tons of wheat and exports 50,000 tons of wheat annually.

### Arab Countries M&A Scores and Maturity Levels

Country	Score	Maturity Level
UAE	70%	Transitional
Tunisia	62%	Transitional
Qatar	60%	Transitional
Saudi Arabia	58%	Transitional
Bahrain	56%	Transitional
Mauritania	55%	Transitional
Kuwait	53%	Transitional
Oman	53%	Transitional
Morocco	52%	Transitional
Jordan	51%	Transitional
Egypt	48%	Emerging
Sudan	40%	Emerging
<b>Lebanon</b>	<b>39%</b>	<b>Emerging</b>
Iraq	34%	Emerging
Syria	33%	Emerging
Algeria	29%	Emerging
Libya	29%	Emerging
Yemen	27%	Emerging

Source: Cass Business School, Byblos Research

### Components of the Maturity Index for Lebanon

	Lebanon Score	Arab Average
Economic Factors	50%	65%
Financial Factors	46%	46%
Political Factors	13%	49%
Regulatory Factors	38%	48%
Sociocultural Factors	63%	57%
Technological Factors	25%	29%

Source: Cass Business School, Byblos Research

### Central Bank tightens anti-terrorism financing measures

The Central Bank of Lebanon issued Intermediary Circular 241 modifying Basic Circular 83 by explicitly adding "terrorism financing" to Basic Decision No 7818 dealing with anti-money laundering procedures at banks and financial institutions. As such, the modified circular's title becomes Regulations on the Control of Financial and Banking Operations for Fighting Money Laundering and the Financing of Terrorism. The new directives ask banks to supervise operations with their customers to avoid involvement in the financing through several measures. These measures include essentially the same explicit procedures that existed for detecting and preventing money laundering activity. They cover, among others, verifying the identity and activities of foreign correspondent banks; exercising control on their operations with clients to avoid involvement in money laundering or terrorism financing operations; Know Your Customer procedures, especially for determining the economic right owner; verifying the identity of all resident or non-resident permanent and transient clients, notably when opening any type of account and for lending operations; and for cashier's operations exceeding \$10,000 or the equivalent in any other currency.

Lebanon's Parliament voted Law 381 in April 2001 to combat money laundering while maintaining the country's banking secrecy. The law established an independent Special Investigation Commission (SIC) against money laundering. The SIC received 202 suspected cases of money laundering in 2009 and referred to judicial authorities 77 cases. As a result, authorities lifted banking secrecy on 14 cases, of which two cases were referred from foreign governments and organizations and 12 cases from domestic sources. Counterfeiting and forgery accounted for 24% of reported cases, followed by terrorism & transfer of funds with 8.2%, embezzlement of private funds with 7%, drugs with 4.1%, embezzlement of public funds with 2.3%, organized crimes with 1.8% and illegal weapons trafficking with 0.6%, while the remaining 52% of cases were not categorized.

### Lebanon ranks 118th globally, first in Arab world in political freedoms

In its annual survey on political freedoms in 194 countries, non-profit organization Freedom House ranked Lebanon in 118th place worldwide and first among 19 Arab countries in 2011. Lebanon also ranked in 30th place among the 37 Upper Middle Income countries (UMICs) included in the survey. Lebanon came in 115th place globally and first regionally in the 2010 survey. The survey rates each country on political rights and on civil liberties based on a scale of one to 7, with one representing the highest degree of freedom and 7 the lowest level. The combined average of each country's ratings determines an overall status of 'Free', 'Partly Free', or 'Not Free'.

Globally, Lebanon tied with eight countries that include Nepal, Guatemala and Nigeria. It ranked ahead of Pakistan, Thailand and Kosovo and came behind 14 tied countries that include Georgia, Colombia and Bangladesh. It also tied with Malaysia, came ahead of Venezuela and Russia and behind Turkey and Mexico among UMICs. Lebanon came in the 'Partly Free' category, unchanged from the previous year. Lebanon's level of freedom was unchanged this year at four points, below the global average of 3.3 points and the UMICs average of 2.4 points, but better than the MENA and Arab levels of 5.2, and 5.6 points respectively.

Lebanon tied with 16 countries that include Singapore, Togo and Guinea, and came immediately behind 17 tied countries such as Kenya and Georgia on the Political Rights Sub-Index, which reflects the citizens' ability to participate freely in the political process. It tied with Morocco and Iraq, and ranked behind Kuwait only in the Arab region. Lebanon's level of Political Rights reached 5 points, below the global average of 3.4 points and the UMICs' average of 2.4 points, but above the MENA and Arab levels of 5.5 and 6 points respectively.

Lebanon tied with 31 countries that include Ukraine, Senegal and Paraguay, and ranked a behind 31 tied countries like Panama, South Africa and Jamaica on the Civil Liberties Sub-Index. This category reflects the freedoms of expression and belief, associational and organizational rights, rule of law, and personal autonomy. Lebanon ranked first in the Arab region on this category. Lebanon's level of civil liberties reached 3 points, above the global average of 3.2 points, but below the UMICs average of 2.4 points, and above the MENA and Arab levels of 4.9 and 5.2 points respectively.

#### Arab Countries' Scores & Rankings

Country	Score	Arab		Global	Category
		Rank	Rank		
<b>Lebanon</b>	<b>4.0</b>	<b>1</b>	<b>118</b>		<b>Partly Free</b>
Morocco	4.5	2	127		Partly Free
Kuwait	4.5	2	127		Partly Free
Algeria	5.5	4	148		Not Free
Bahrain	5.5	4	148		Not Free
Djibouti	5.5	4	148		Not Free
Egypt	5.5	4	148		Not Free
Jordan	5.5	4	148		Not Free
Mauritania	5.5	4	148		Not Free
Oman	5.5	4	148		Not Free
Qatar	5.5	4	148		Not Free
UAE	5.5	4	148		Not Free
Yemen	5.5	4	148		Not Free
Iraq	5.5	4	148		Not Free
Tunisia	6.0	15	169		Not Free
Saudi Arabia	6.5	16	178		Not Free
Syria	6.5	16	178		Not Free
Libya	7.0	18	186		Not Free
Sudan	7.0	18	186		Not Free

Source: Freedom House 2011

### **Economy Ministry bans repatriation of rejected Lebanese exports**

The Ministry of Economy & Trade announced the implementation of a 2009 law prohibiting the return of Lebanese exported goods that were declined by destination countries. It stated that the law addresses specific situations such as fraud, damaged products, products with toxic substance and products that do not conform to international standards. The law exempts inadequately labeled products and goods that do not cause harm to consumers. The ministry expected the exporting firm to bear the costs of disposing of the returned merchandise or of freight charges in case the ministry allows the products' repatriation to Lebanon, as well as to notify the Consumer Protection Department.

### **Trade deficit up 7% to \$13.7bn, non-oil imports rise by 10% 2010**

Total imports reached \$18bn in 2010, constituting an increase of 10.6% in 2009, while aggregate exports rose by 22% to \$4.25bn, leading to a trade deficit of \$13.7bn, up 7% year-on-year. Imports of oil and mineral fuels increased by 14% year-on-year to nearly \$3.7bn, while non-hydrocarbon imports grew by 10% to \$14bn. The rise of non-oil imports was mainly driven by higher imports of natural or cultured pearls, reactors, boilers, machinery and mechanical appliances, iron and steel and pharmaceutical products. The coverage ratio reached 23.7% in 2010 compared to 21.45% in the previous year. The trade deficit was \$983m in December 2010, down 3.2% from the same month of the previous year. Imports averaged \$1.5bn and exports averaged \$354m on a monthly basis in 2010, resulting in an average monthly trade deficit of \$1.14bn during the year.

In volume terms, imports reached 15 million tons 2010, constituting an increase of 3% from 2009, while exports rose by 5% to 3.1 million tons in the same period, leading to a trade deficit of 11.9 million tons, up 2% year-on-year. Imports of oil and mineral fuels decreased by 8% year-on-year to nearly 6 million tons, while non-hydrocarbon imports rose by 11% annually to 9 million tons.

The United States was the main source of imports with \$1.9bn or 11% of the total, followed by China with \$1.6bn (9%), Italy with \$1.4bn (8%), Germany with \$1.26bn (7%) and France with \$1.2bn (7%). Imports from Germany rose by 20% year-on-year from France by 18%, from Italy by 10%, from China by 3%, while imports from the U.S. dropped by 3% for the covered period. Switzerland was the main export destination with \$502m or 12% of the total, followed by the UAE with \$418m (10%), Iraq with \$267m (6%), Saudi Arabia with \$246m (6%) and Turkey with \$231m (5%). Exports to Turkey rose by 120%, to the UAE by 26% year-on-year, to Saudi Arabia by 1%, while exports to Switzerland declined by 35%, to Syria by 2% and Iraq by 1%. Lebanon's main export was jewelry at \$1,109m or 26% of total exports, followed by machinery and mechanical appliances with \$742m (17%), base metals with \$460m (11%), prepared foodstuff with \$324m (8%) and chemical products with \$310m (7%). Re-exports totaled \$153m in 2010, up 6.25% from \$144m last year.

### **Customs receipts up 5% to \$1.9bn in 2010**

Customs revenues reached \$1.93bn in 2010, up 5.2% from \$1.83bn in 2009. Custom revenues totaled \$150m in December compared to \$153.6m in November 2010 and to \$155.2m in December 2009. The Port of Beirut continues to be the main point of customs receipts, accounting for 87.8% of the total 2010, and was followed by the Hariri International Airport with 5.5%, the Port of Tripoli with 3.3%, and the Masnaa crossing point with 2% of the total. Customs receipts from the value-added tax totaled \$1.5bn last year, up 9.5% from \$1.37bn in 2009. The Port of Beirut accounted for 75.6% of such receipts, and was followed by the Hariri International Airport with 8.8%, the Port of Tripoli with 6.8%, and the Masnaa crossing point with 6.1% of the total. As such, overall custom receipts reached \$3.42bn in 2010, with the Port of Beirut accounting for 82.5% of the total, and was followed by the Hariri International Airport with 6.9%, the Port of Tripoli with 4.8%, and the Masnaa crossing point with 3.8% of the total. In addition, other entry points accounted for the balance, with the port of Saida for 1.5%, the port of Tyr for 0.2%, and the crossing points of Abboudieh, Arida and Kaa for the rest. Overall customs receipts reached \$276m in December 2010 when including revenues from the value-added tax that totaled \$125.8m in the same period. Total customs receipts declined by 4.3% month-on-month.

### Byblos Bank's profits up 22.5% to \$178m in 2010

Byblos Bank sal, one of Lebanon's top 3 banking and financial services groups in Lebanon, declared consolidated net profits of \$178.4m in 2010, constituting an increase of 22.5% from \$145.6m in 2009. Net interest income reached \$282.5m, up 10% from 2009, while net fees & commission income increased by 9.4% to \$84.7m and net trading income dropped by 41.5% to \$14.6m in 2010. As a result, operating income rose by 20% to \$455.3m. Total assets reached \$15.3bn at the end of 2010, constituting a rise of 12.6% from the end of 2009, while net loans & advances to customers increased by 18% to \$3.76bn at end-2010. Customers' deposits totaled \$11.8bn, up 16% from end-2009. The Bank's total equity reached \$1.6bn at end-2010, up 25.4% from end-2009. Earnings per common ordinary share rose by 4.6% to LBP 401.6, equivalent to \$0.27 per share, and earnings per common priority share increased by 4.1% to LBP 449.98, or \$0.3 per share. The Byblos Bank Group has a direct presence in Iraq, Syria, Sudan, the United Arab Emirates, Nigeria, Armenia and the Democratic Republic of Congo, as well as in Belgium, France, the United Kingdom and Cyprus.

### Bank of Beirut acquires Australian bank

Bank of Beirut sal agreed to acquire an 85% stake in Laiki Bank (Australia) Ltd for €104.3m. Laiki Bank is owned by the Cyprus-based group Marfin Popular Bank Public Co Ltd (MPB). MPB will retain a 15% share in Laiki Bank and has an option to sell its remaining stake to Bank of Beirut after February 2013. Laiki Bank (Australia) Ltd was incorporated in 2001 and offers banking services and products to the Cypriot and Greek communities in Australia through a network of 10 branches and 125 employees. It had total assets of €80m, loans of €43m and deposits of €65m at end-September 2010. MPB indicated that it has also agreed to a strategic cooperation with Bank of Beirut regarding the operations of the two banks in Australia, Cyprus and Lebanon. Bank of Beirut has already received the necessary approval from the Australian Prudential Regulatory Authority and MPB obtained the approval of the Central Bank of Cyprus. The transaction's completion is subject to the approval of the Central Bank of Lebanon. The transaction represents a multiple of approximately 1.67 times of the net book value of Laiki Bank at end-September 2010. MBP is the second largest banking group in Cyprus with a 15% market share in loans and a 19% share in deposits. It is also present in Greece, Russia, Ukraine, Romania, Serbia, the UK, Malta, Estonia and Australia.

### Muhanna Rating Services takes rating actions on insurance firms

In its annual set of ratings of insurance firms in the Arab world, insurance rating agency i.e. Muhanna & co Rating Services reaffirmed the 'A' financial strength rating of ADIR Insurance sal, the insurance affiliate of the Byblos Bank Group. ADIR came in the 'secure' category, which includes insurers with a sound and balanced capacity to meet policyholders' obligations. It said the financial strength of ADIR is based on good levels of liquidity and underwriting profitability. Further, the agency upgraded Arabia Insurance Company's financial strength rating to 'A+' from 'A' due to a decrease in the firm's underwriting exposure and a decline in its combined ratio. It said the rating is based on a good level of underwriting exposure, good liquidity and average underwriting profitability. It also reaffirmed the Mediterranean & Gulf Insurance and Reinsurance Co. sal (MEDGULF Lebanon) financial strength rating of 'A-' based on an improved but still high level of underwriting exposure and good underwriting profitability.

The agency kept the financial strength rating of Crédit Libanais d'Assurance (CLA) at 'BBB+' and of LIA at 'A+' due to good levels of underwriting exposure and underwriting profitability. It also maintained the rating of Arab Lebanese Insurance Group (ALIG) at 'BBB-' due to high levels underwriting exposure and unfavorable underwriting profitability. It kept the ratings of Arab Re at 'BBB', with the firm's rating based on a good level of underwriting exposure but an unfavorable level of underwriting profitability. Further, the agency assigned a rating of 'BBB' to Capital Insurance & Reinsurance Company sal based on a high level of underwriting exposure and good level of underwriting profitability. In parallel, it downgraded the rating of United Commercial Assurance sal to 'BBB+' from 'A-' due to an increase in underwriting exposure, adding that the rating is based on good liquidity, good underwriting profitability and a high level of underwriting exposure. It also downgraded the ratings of Victoire Insurance Co sal to 'BBB-' from 'BBB+' due to a rise in underwriting exposure, an increase in the combined ratio and a decrease in liquidity. It said the firm's rating is based on very high underwriting exposure, low liquidity and unfavorable underwriting profitability.

### French firm to introduce mobile phone banking services

French company PayMobey SA announced plans to introduce mobile phone banking services in Lebanon, which would allow bank customers to use their cellular phones to make payments, transfer money within and outside Lebanon, withdraw money from ATMs and pay dues, bonds or bills. It will also allow for Real Time Processing, or the immediate implementation of banking operations, and provides services in multiple languages and currencies, in addition to other advanced services. PayMobey SA is a subsidiary of French Group Happydoo SA that specializes in Internet traffic management, electronic wallets and online bank systems.

### Malaysian firm gets power plants contract

The Energy Ministry announced that YTL Corporation Berhad, a Malaysian group that specializes on the ownership and management of regulated utilities and other infrastructural assets, won the operation and maintenance contract for the Zahrani and Deir Ammar power plants. YTL Power is expected to succeed Keloco, the Lebanese subsidiary of the Korea Electric Power Corporation, whose contract expires in February 2011. Also, the new contract is expected to increase Lebanon's power generation capacity by 50 Megawatts. The ministry did not disclose the value of the new contract. The Zahrani and Deir Ammar power plants generate 900 Megawatts and account for 60% of Lebanon's total 1,500 Megawatts output.



## 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	Oct 2009	Sep 2010	Oct 2010	Change*	Risk Level
Political Risk Rating	56.5	59.5	58.5	▲	High
Financial Risk Rating	28.0	28.0	28.0	↔	High
Economic Risk Rating	35.5	35.5	35.5	↔	Low
Composite Risk Rating	60.0	61.5	61.0	▲	Moderate

Regional Average	Oct 2009	Sep 2010	Oct 2010	Change*	Risk Level
Political Risk Rating	65.1	64.6	64.5	▼	Moderate
Financial Risk Rating	42.0	42.2	42.3	▲	Very Low
Economic Risk Rating	34.8	38.2	38.2	▲	Low
Composite Risk Rating	70.9	72.5	72.5	▲	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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