



## LEBANON THIS WEEK

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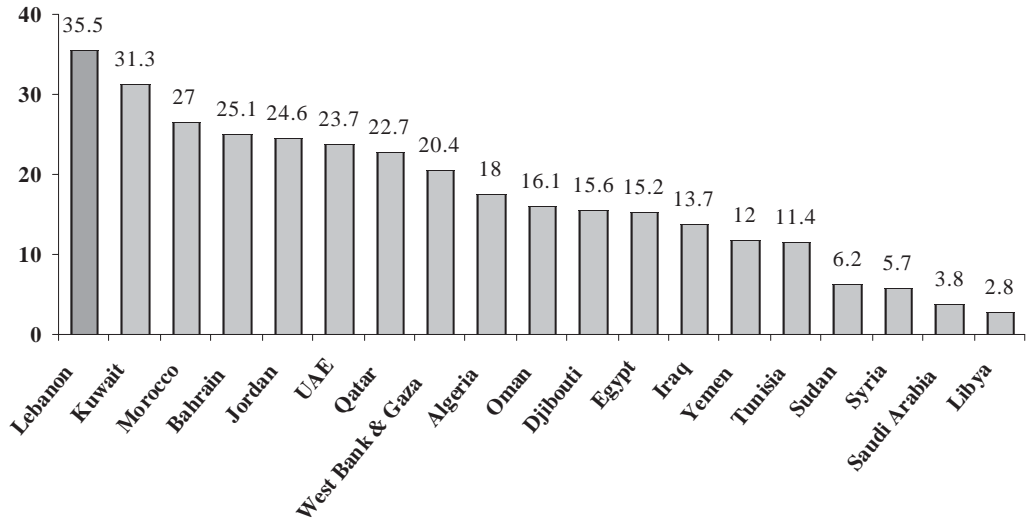
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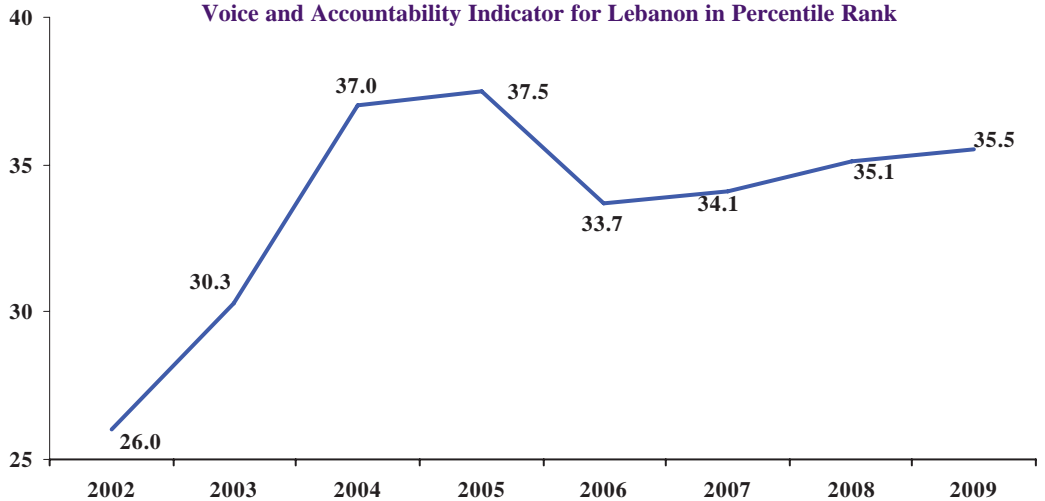
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### Charts of the Week

Voice and Accountability Indicator of Arab Countries in Percentile Rank



Voice and Accountability Indicator for Lebanon in Percentile Rank



Source: World Bank Governance Indicators

### Quote to Note

"In the absence of a new government, urgent structural reforms will be postponed, jeopardizing prospects for rapid medium-term growth."

*The Institute of International Finance, on the cost of delays in the government's formation*

### Number of the Week

**10.1%:** Increase in the cost of living in Lebanon during 2010, according to consumer advocacy group Consumers Lebanon

## 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>
Solidere "A"	19.55	3.44	81,446	15.05%
Solidere "B"	19.18	0.95	36,958	9.84%
Byblos Common	1.92	1.05	40,567	5.44%
Byblos Priority	1.92	1.59	15,000	3.10%
Byblos Pref. 08	103.00	0.00	0	1.64%
BLOM GDR	10.00	1.01	213,845	5.83%
BLOM Listed	9.50	(6.77)	243,499	17.45%
Audi GDR	7.90	(0.75)	30,208	5.94%
Audi Listed	7.60	(1.81)	60,954	21.48%
HOLCIM	16.90	2.36	1,375	2.57%

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

<b>Sovereign Eurobonds</b>	<b>Coupon %</b>	<b>Mid Price \$</b>	<b>Mid Yield %</b>
May 2011	7.875	101.06	3.71
Mar. 2012	7.500	103.56	4.13
Sep. 2012	7.750	105.00	4.40
June 2013	8.625	109.00	4.54
Apr. 2014	7.375	107.50	4.79
Jan. 2016	8.500	118.00	5.16
May 2016	11.625	113.00	5.45
Mar. 2017	9.000	116.25	5.80
Nov. 2018	5.150	96.50	5.71
Apr. 2021	8.250	115.38	6.19

Source: Byblos Capital Markets

	<b>Feb. 7-Feb. 11</b>	<b>Jan. 31-Feb. 4</b>	<b>% Change</b>	<b>January 2011</b>	<b>January 2010</b>	<b>% Change</b>
<b>Total Shares Traded</b>	742,982	4,593,898	(83.83)	5,322,427	12,057,977	(55.9)
<b>Total Value Traded</b>	\$7,944,441	\$4,593,898	(36.60)	\$47,601,150	\$961,719,141	(95.1)
<b>Market Capitalization</b>	\$12.46bn	\$12.55bn	(0.78)	\$12.66bn	\$12.65bn	0.1

Source: Beirut Stock Exchange (BSE)



### Lebanon's brand perception improves in fourth quarter of 2010

The Nation Brand Perception Index (NBPI) ranked Lebanon in 181st place among 200 countries and territories around the world and in 17th place among 20 countries in the Middle East & North Africa region in the fourth quarter of 2010. Lebanon also came in 35th place among 38 upper-middle income countries (UMICs) included in the survey. Lebanon ranked in 194th place globally and in 18th place regionally in the third quarter of 2010. Lebanon ranked in 186th place overall for the full year, ahead of Rwanda and behind Sudan and in 17th place regionally. It received a score of 33.9 points, below the global and regional averages of 49.9 and 46.5 points, respectively. The NBPI analyzes international perceptions of a country's brand. It covers the tone, whether positive or negative, and frequency of mentions in the international media. It said the number of times a country is mentioned reflects the strength of the brand, but not necessarily its quality. The index is based on a quarterly analysis of millions of mentions of countries in hundreds of thousands of news articles in 38 prominent global media sources. The index scores rely both on the overall quality of the media coverage and the prominence of the country, determined by the number of country references or mentions.

Globally, Lebanon ranked ahead of Bosnia and Herzegovina, Ghana and Ivory Coast and came behind Rwanda, Serbia and Palestine in the fourth quarter. It also ranked ahead of Hungary and Poland, and behind Romania and Libya among UMICs. Lebanon received a score of 42.9 points in the fourth quarter of 2010, below the global and UMICs averages of 50.1 points and 51.7 points respectively, the MENA average of 46.4 points and the Arab average of 47.3 points. Lebanon's score increased by 59.5% quarter-to-quarter but decreased by 19.2% from the fourth quarter of 2009. Singapore had the best nation brand perception in the world with a score of 96.9 points and Iraq the worst brand perception with a score of 3.3 points.

In parallel, Lebanon was the 45th most mentioned country in the international media in the fourth quarter of 2010, the 9th most mentioned country from the MENA region and the 7th most mentioned among UMICs. Globally, Lebanon was mentioned more than Poland, Denmark and Yemen, and less than Vietnam, Haiti and the Czech Republic. It was also mentioned more than Poland and Chile and less than the Czech Republic and Turkey among UMICs. It was the 36th most mentioned country in the third quarter and the 55th most mentioned in the second quarter of 2010. Lebanon was mentioned 9,296 times in the international media, below the global average mentions of 19,270 times, the MENA average mentions of 14,258 times, but above the Arab average mentions of 7,843 times and the UMICs' average mentions of 6,499 times. Lebanon's number of mentions in the fourth quarter of 2010 was lower than its 13,521 mentions in the preceding quarter but higher than its 7,603 mentions in the second quarter of 2010. Also, Lebanon ranked in 48th place globally and in ninth place regionally for the full year 2010, when it was mentioned 37,461 times, below the global average mentions 81,165 times and the MENA average mentions of 67,168 times.

### Labor Ministry regulates foreign household employment

Caretaker Labor Minister Boutros Harb signed a ministerial decree to simplify administrative paperwork related to foreign and local workers' employment in Lebanon. The decree aims to reduce bureaucratic red tape for such procedures from 10 signatures needed to four signatures, which would save time for the employer and help prevent corruption. The decree also stipulates the installation of a computerized system that automatically validates completed applications and rejects incomplete or illegal applications, in order to enhance transparency in procedures.

In parallel, the minister unveiled a draft law to regulate the relationship between foreign workers in Lebanon and their employers. The law addresses the working conditions of about 111,000 foreigners, mostly females, who work at Lebanese households as maids. The law stipulates 60 working hours per week for foreign workers at households, nine continuous rest hours and one day off per week. It also requires employers to pay end-of-service compensation equivalent to one month's salary for every year of employment of up to five years, and 65% of a month's salary for every year afterwards. Further, an employer is prohibited from recruiting foreign household workers if it is found guilty of a misdemeanor or felony against a foreign employee. The law is expected to ensure a minimum living standard for foreign household help in Lebanon, especially that several governments have prohibited their nationals from seeking household employment in Lebanon due to inadequate working conditions.

### MENA Scores & Rankings in Q4-2010

	Score	MENA Rank	Global Rank
Qatar	72.4	1	5
Kuwait	63.4	2	18
UAE	63.3	3	19
Turkey	58.9	4	26
Oman	57.0	5	28
Bahrain	53.9	6	35
Tunisia	50.2	7	100
Morocco	49.9	8	120
Jordan	49.5	9	131
Algeria	48.1	10	151
Syria	48.1	11	152
Libya	47.1	12	160
Saudi Arabia	46.0	13	168
Israel	45.7	14	171
Egypt	44.4	15	175
Palestine	43.7	16	178
<b>Lebanon</b>	<b>42.9</b>	<b>17</b>	<b>181</b>
Iran	20.3	18	195
Yemen	19.1	19	196
Iraq	3.3	20	200

Source: East West Communications, Byblos Research

### **Growth at 7% to 8% in 2010, key challenge is reducing fiscal deficit**

The Central Bank indicated that the Lebanese economy expanded at a fast pace in 2010, backed by growing confidence and large capital inflows, and estimated economic growth in Lebanon at between 7% and 8% last year. It also estimated inflation at around 4.5% last year, within the set target of 5%. It said the BdL's continuous commitment to the stability of the Lebanese pound's exchange rate to the U.S. dollar plays a pivotal role in maintaining financial and price stability. It noted that its strategy of maintaining a high level of assets in foreign currencies proved to be essential times of crisis. Further, the Central Bank stated that interest rates are in line with market tendencies, and are currently at an appropriate level to attract capital inflows, reduce the dollarization rate and strengthen the external position. It noted that the massive capital inflows to the Lebanese economy over the past three years have helped interest rates decline. Also, the interest rate differential reduced the level of dollarization from 77% at end-2007 to 69% at end-2008, and to a low of around 63% at end-2010. The Central Bank said the balance of payments posted a cumulative surplus of \$3.5bn in 2010, adding that remittance inflows from the Lebanese Diaspora represent an important and continuous source of external funding that supports the domestic economy.

In parallel, the Central Bank said the banking sector remains profitable, is highly liquid and well-capitalized, and banks have clean balance sheets. It noted that deposits have increased by 10% last year and that Lebanon attracted the largest share of bank deposits in the MENA region in 2010. Further, credit to the private sector rose by 22% last year despite global credit tightening, which is the highest growth rate in the region. It added that the average capital adequacy ratio of banks in Lebanon exceeded 12%, with banks fully abiding by Basle II standards. It said Lebanese banks have a high level of liquidity, and the structure and quality of their capital is generally in line with the outlook of the Basle III standards. It expressed its intention to set a target for banks' top-quality capital reserves that is higher than the Basle III level. It encouraged further consolidation in banking sector, and reiterated its opposition to mergers or acquisitions among the country's top 11 banks.

In parallel, the Central Bank considered that the main challenge for Lebanon is the recurrent widening of the fiscal deficit, rather than the high level of the public debt. It said the public debt does not pose a threat to the economy as long as the flow of funds to Lebanon remains high. As such, it indicated that the country's main challenge is to reduce the size of the fiscal deficit by maintaining high growth rates, which depends heavily on implementing structural reforms and improving the country's infrastructure. It added that the high level of liquidity in the banking sector would help privatization programs succeed, and encouraged the government to involve the private sector in new projects, especially in the energy field.

### **Association of Banks amends reference rate on US dollar and Lebanese pound lending**

The Association of Banks in Lebanon (ABL) recommended to its member banks to increase the Beirut Reference Rate in US dollars to 4.72% from 4.67% previously starting in March 2011. The rate, considered as the reference rate for lending in foreign currency, replaced in 2009 the London Inter-Bank Offering Rate (LIBOR) since the ABL considered that the LIBOR no longer accurately reflects the cost of funding and lending in Lebanon. Additionally, the ABL recommended to its member banks to increase the Beirut Reference Rate in Lebanese pounds to 7.27% from 7.26% previously. The Beirut Reference Rate in US dollars and Lebanese pounds were adopted in March and May 2009, respectively. The ABL indicated that the BRR does not replace the Beirut Prime Lending Rate in each currency, but constitutes the basis to calculate the prime rate after adding the cost of liquidity and refinancing, credit risks, and the profitability of banks to the prime lending rate.

### **Finance Ministry and LTA issue first Citizen Budget**

The Ministry of Finance, in cooperation with the Lebanese Transparency Association (LTA), issued Lebanon's first Citizen Budget as part of ongoing efforts to promote transparency and accountability in public finance. The document aims to summarize and simplify the national budget in order to make it more accessible to citizens. It includes the main figures in the draft budget, and explains in simple terms the various sources and uses of public revenues. It focuses on sectors that deal with the citizens' daily needs, such as health-care, education, social security and electricity, among others. It also helps citizens monitor the quality of government services relative to the level of public spending on such services. The ministry's initiative aims to provide citizens with a tool that would encourage them to engage in a constructive dialogue about national budget issues and priorities. The budget was produced based on feedback from interviews conducted by LTA researchers with citizens, experts and selected non-governmental organizations on issues of potential interests and concerns to citizens in the context of the national budget. Lebanon becomes one of only 19 other countries that produce a citizen budget. The ministry intends to issue a Citizen Budget on an annual basis. LTA is the local chapter of Transparency International.

### **Central Bank signs MoU with Turkish counterpart**

The Central Bank of Lebanon and the Central Bank of the Republic of Turkey signed a Memorandum of Understanding and Cooperation to promote the exchange of training expertise between the two entities. The agreement is part of a regional program to develop personnel expertise in the management of monetary and financial policies as well as banking supervision. In 2009, The Central Bank of Lebanon's Banking Control Commission (BCC) and the UAE Securities & Commodities Authority (SCA) signed an MoU to facilitate and encourage collaboration in monitoring activities. The MoU stipulated the setting up of a framework for collaboration between the staff of the two entities and for information exchange within the rules and regulations related to capital markets

### Lebanon ranks fourth among Arab countries in Facebook user penetration

Figures issued by the Dubai School of Government indicate that Lebanon had 983,380 Facebook users at the end of 2010, accounting for 4.6% of aggregate users in the Arab world. As such, Lebanon ranked in eighth place among 22 Arab countries in the number of users of the social site, behind Egypt, Saudi Arabia, Morocco, the UAE, Tunisia, Algeria and Jordan.

The Facebook usage penetration rate in Lebanon, or the ratio of the site's users to the total population, was 23.11% at end-2010, significantly higher than the Arab average of 6.77%. Lebanon ranked in fourth place in the Arab world in usage penetration, behind only the UAE, Bahrain and Qatar. Also, the survey classified Lebanon as an 'Emerging Market' in terms of Facebook usage penetration, along with Kuwait, Tunisia, Jordan, Saudi Arabia and Palestine. It placed the UAE, Bahrain and Qatar in the 'Top Performer' category, and the remaining 13 Arab countries in the 'Developing Users' category.

The user age distribution shows that 69% of Lebanon's Facebook users are between 15 and 29 years old compared to an Arab average of 75% for the same age bracket. Somalia has the highest proportion of users in this age bracket at 84% and the UAE the lowest ratio at 55%. Also, 66.7% of Facebook users in Lebanon that are over-15-years old fall within the 15 to 29-year age bracket, while 47% of Lebanon's over-15 population is within the same age bracket. Further, females accounted for 45% of overall users in Lebanon, constituting the highest such ratio in the Arab world. The survey said Lebanon is the most gender-balanced user of the Arab countries, followed closely by Bahrain, Jordan and Tunisia, while at the other end of the spectrum Facebook users in Somalia and Yemen are overwhelmingly male. The gender breakdown in the Arab region indicates an average 2:1 ratio of male to female users.

Further, Internet penetration in Lebanon was 23.7% per 100 users, almost similar to the Facebook user penetration; which means that Lebanon's Facebook users represent 97.6% of Internet users in the country, the third highest ratio in the Arab world behind Iraq at 119% and Djibouti at 175%.

### Treasury transfers to Electricité du Liban down 20% in 2010

Figures released by the Finance Ministry show that Treasury transfers to Electricité du Liban totaled \$1.2bn in 2010, constituting a decrease of 20% from \$1.5bn in the previous year. It said that reimbursements to the Kuwait Petroleum Corporation (KPC) and to Algerian energy conglomerate Sonatrach accounted for \$1.1bn or 92.1% of transfers in 2010, EdL's debt servicing represented 5.6% and the Egyptian Natural Gas Holding Company's reimbursements reached 2.3%. It attributed the 20% drop to a decline of \$288.6m in payments to KPC and Sonatrach in 2010, and to a decrease in debt servicing by \$18.6m. It added that the decline is also rooted in a 28% drop in imported gas oil quantities as a result of the import from Egypt of commercial quantities of natural gas, a substitute for KPC and Sonatrach's gasoil. It said, however, that the decline in imported gas oil quantities was partly offset by a 6% increase in fuel oil imports in 2010 and by an overall average oil price that is higher than the 2009 average. EdL transfers accounted for 16.6% of primary expenditures in 2010, compared to 20.4% in 2009, which reflects a lower level of transfers in 2010. EdL transfers constitute the third largest expenditures item after debt servicing and salaries & wages in overall fiscal spending. Transfers to EdL were equivalent to 3% of GDP in 2010 compared to 4.3% of GDP in 2009 and to 5.4% of GDP in 2008. The ministry considered that any fluctuation in international oil prices as well an increase in consumed oil quantities are expected to affect Treasury transfers to EdL.

### Construction permits up 23% in 2010

Figures released by the Association of Engineers of Beirut & Tripoli show that construction permits reached 17.6 million square meters in 2010, constituting an increase of 22.7% from 14.4 million square meters in the previous year. Newly-issued construction permits totaled 1.93 million square meters in December 2010, down 34% year-on-year from 2.93 million square meters in December 2009. In parallel, cement deliveries reached 5.2 million tons in 2010, a rise of 6.7% from 4.9 million tons in 2009. Cement deliveries reached 399,621 tons in December 2010, up 25.2% from 319,094 tons in December 2009.

### Facebook Users and Penetration at end-2010

	Penetration rate (%)	Number of Users	Arab Rank
UAE	45.38	2,135,960	1
Bahrain	34.27	276,580	2
Qatar	33.95	512,060	3
<b>Lebanon</b>	<b>23.11</b>	<b>983,380</b>	<b>4</b>
Kuwait	20.64	629,700	5
Tunisia	17.55	1,820,880	6
Jordan	17.06	1,104,340	7
Saudi Arabia	12.24	3,213,420	8
Palestine	10.76	474,400	9
Morocco	7.55	2,446,300	10
Oman	7.55	219,320	11
Egypt	5.49	4,634,600	12
Djibouti	5.24	46,040	13
Algeria	3.99	1,413,280	14
Libya	3.98	260,400	15
Iraq	1.26	397,140	16
Mauritania	1.19	40,000	17
Syria	1.07	241,859	18
Comoros	0.9	6,240	19
Sudan	0.74	319,624	20
Yemen	0.74	179,400	21
Somalia	0.08	6,940	22

Source: Dubai School of Government

### **Egyptian crisis affects agricultural exports and electricity supply**

The Lebanese Farmers Association declared that the export of Lebanese apples to Egypt has been severely affected by the Egyptian political crisis, as the Egyptian market is the main destination of Lebanese apples. It added that traders as well as farmers were affected by the Egyptian unrest, as traders bought the harvest months before the start of the instabilities. It said that delays in export procedures to Egypt, mainly at the border, left the industry with 8,000 tons of apples in stocks, and added that it would be difficult to find an alternative destination for the harvest. Lebanon's apple exports to Egypt reached \$13m and accounted for 74% of total Lebanese production in 2010 compared to \$11m or 79% in 2009 and \$10m or 77% in 2008. In parallel, state-owned utility Electricité du Liban stated that the country's electricity supply has declined by up to 120 Megawatts of imported Egyptian electricity. It attributed the supply shortage to a gas terminal explosion in Egypt's northern Sinai Peninsula that forced Egypt to cut off natural gas supplies to Jordan, forcing the latter to use electricity destined to Lebanon to meet its needs. The decrease in electricity supply from Egypt caused a two-hour increase in electricity rationing across most of the country.

### **Telecom Regulatory Authority to cooperate with Turkish counterpart**

The Lebanese Telecommunication Regulatory Authority and the Turkish Information and Communication Technologies Authority signed a Memorandum of Understanding to promote bilateral relations. The agreement is expected to support expertise exchanges in various fields such as consumers' protection, data traffic laws, quality services, Internet protocols, information and network protection, and the implementation of technological innovation incentives for electronic communications. Further, the two authorities agreed to strengthen cooperation through information's exchange, staff training and conducting workshops and bilateral conferences

### **Car sales up 8.2% year-on-year in January 2011**

Figures released by the Association of Automobile Importers in Lebanon indicate that a total of 1,944 new passenger cars were sold in January 2011, constituting an increase of 8.2% from the 1,797 cars sold in the same month last year. Korean cars accounted for 34.4% of total sales, followed by Japanese cars with a 29% share, European automobiles with 28.4%, American vehicles with 7.5%, and Chinese cars with 0.7%. Korean cars posted the highest growth in sales with a 47.4% rise year-on-year, followed by European cars with a 16% rise. In parallel, Chinese cars posted a drop of 31.6% in sales year-on-year, followed by Japanese cars with a 17.3% decrease and American cars with a 12.1% decline. Kia is the leading brand in the Lebanese market with 454 cars sold in the first month of 2011, followed by Nissan with 262, Hyundai with 214 cars sold, Chevrolet (97), Toyota (91), Mitsubishi (58), and Peugeot with (74).

### **Kafalat loan guarantees at \$17m in January 2011**

Figures released by the Kafalat Corporation show that loans extended to small- and medium-size companies under the guarantee of Kafalat reached \$16.8m in January 2011, up 3% from \$16.3m in the same month last year. The number of loan guarantees totalled 103 in the covered period compared to 134 in January 2010. The average loan size reached \$163,038 compared to \$121,717 same month last year. Mount Lebanon accounted for 49.5% of guarantees, followed the South & Nabatieh with 18.5%, the North with 16.5%, the Bekaa with 9.7% and Beirut with 5.8%. The agriculture sector accounted for 35% of total guarantees, followed by industries with 34%, tourism with 28.2%, and specialized technologies with 1.9%. 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.

### **Fitch affirms Allianz ratings at 'AA-', outlook stable**

Fitch Ratings affirmed Germany-based Allianz SE's Insurer Financial Strength (IFS) rating and Long-term Issuer Default Rating (IDR) at 'AA-', with a 'stable' outlook. It also affirmed the IFS ratings of the main Allianz subsidiaries at 'AA'. The group fully owns Allianz-SNA, one of Lebanon's largest insurance firms. It attributed its decision to the strong quality of Allianz group's investment and capital composition, leading to strong 2010 results. It also expected the profitability from the non-life business to improve in 2011, as the group management continues to focus on underwriting discipline. The agency said Allianz's ratings reflect the group's strong technical profitability, strong and improved consolidated group capital position, broad diversification by geography and by product, and solid business position in its key markets. It added that the group's ratings benefit from an investment mix of sound credit quality. Partially offsetting these rating factors is the currently suppressed technical profitability in the non-life business segment, partly driven by claims due to severe weather related events and natural catastrophes in 2010. It noted that a further substantial increase in capitalization following a stabilization of the economic environment, and a significant sustainable improvement in the group's combined ratio could lead to an upgrade. The group is active in both the non-life and life/health businesses as well as in asset management and has a strong business position and franchise. Allianz SNA generated total premiums of \$95.1m in 2009 that include \$49m in life premiums and \$46.1m in non-life premiums. It ranked in second and fifth place in life and non-life premiums, respectively, in 2009.

### **HORECA extends franchise to Saudi Arabia**

The Lebanese company Hospitality Services sal, the organizer of the annual hospitality and food & beverage exhibition HORECA, signed a franchise agreement with the Saudi Event Management and Marketing Company (SEMARK) to organize HORECA in Saudi Arabia. HORECA KSA is expected to provide business and networking opportunities to GCC businesses and consumers. Launched in Lebanon in 1993, HORECA has a franchise in Kuwait, while Hospitality Services has been organizing the International Hospitality Forum in Jordan for the past 10 years. HORECA Lebanon is the leading annual exhibit for the hospitality, and food & beverage sector. The 2010 edition saw the participation of 250 companies and attracted more than 15,000 visitors.

### **Central Bank expresses confidence in Lebanese Canadian Bank**

Central Bank Governor Riad Salameh declared that the Lebanese Canadian Bank sal (LCB) is in compliance with Lebanese and international anti-money laundering regulations, and with the circulars issued by the Central Bank and the Special Investigation Commission against money laundering. He added that Central Bank fully supports LCB and has confidence in its management. The governor's statement came in light of a decision by the U.S. Department of the Treasury to identify the LCB and its subsidiaries as a financial institution of primary money laundry concerns. The U.S. Treasury attributed its decision to the bank's alleged role in facilitating the money laundering activities of an international narcotics trafficking and money laundering network. It added that the network has used accounts at the bank to launder hundreds of millions of dollars monthly. Also, the U.S. Treasury's Financial Crimes Enforcement Network (FinCEN) filed a proposal to prohibit U.S. financial institutions from opening or maintaining correspondent or payable-through accounts for LCB. The U.S. Treasury added that it will work with the Central Bank of Lebanon and Lebanese authorities to address these concerns. LCB denied any involvement in the alleged accusations and affirmed it would fully cooperate with the authorities. LCB declared consolidated net profits of \$43.4m in the first 9 months of 2010, constituting an increase of 99.4% from the same period of the previous year. Total assets reached \$5.8bn at end-September 2010, up 12% from end-2009, while loans & advances to customers jumped by 36% from end-2009 to \$1.7bn. Customer deposits totaled \$5.1bn at end-September, constituting an increase of 15.3% from end-2009.

## 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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