

LEBANON THIS WEEK

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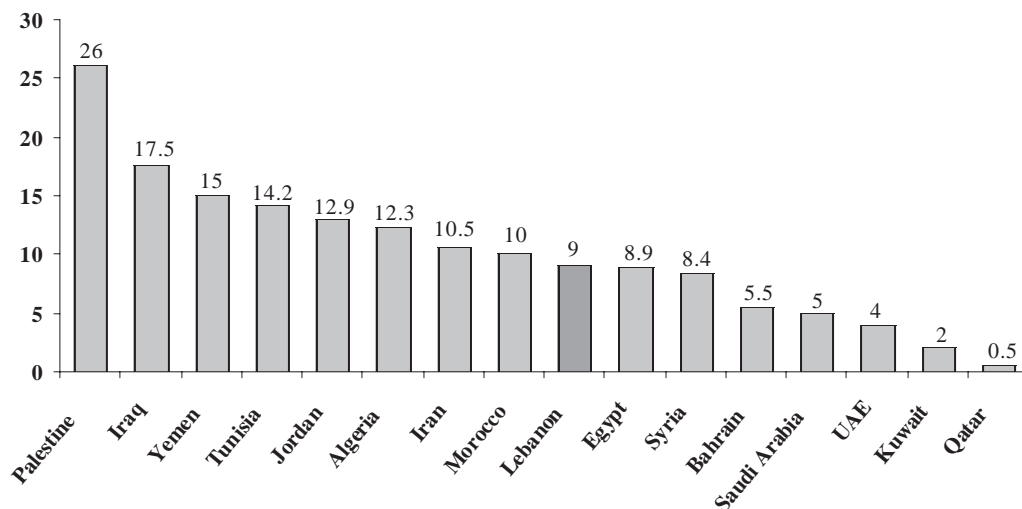
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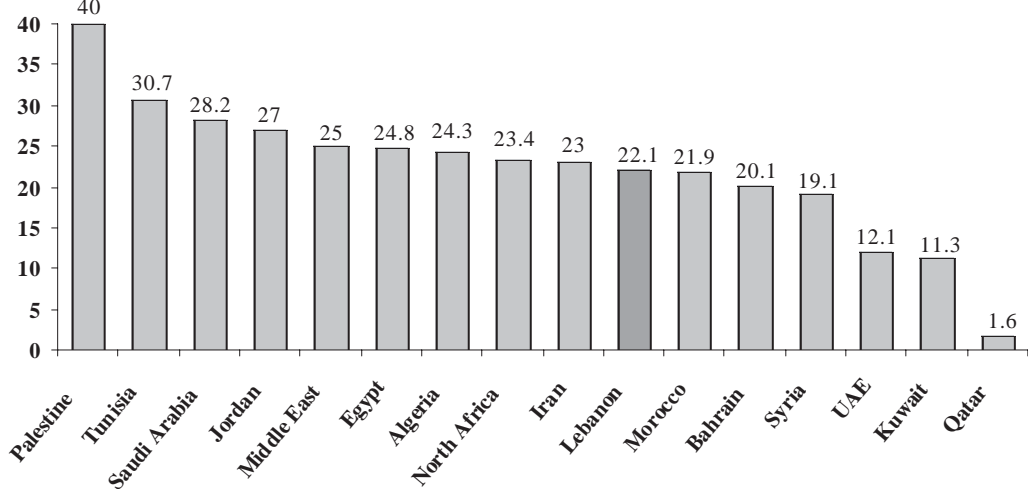
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Charts of the Week

Unemployment Rate in MENA Countries (%)



Youth Unemployment Rate in MENA Countries* (%)



* Percentage of labor force aged 15-24 years who are unemployed.

Source: Credit Suisse, International Labor Organization

Quote to Note

"This illustrates the fact that Lebanon's economy is much more than its territory, and that the role of the Diaspora is essential to explain economic activity in the country."

The International Monetary Fund, on the large current and capital transfers from Lebanese expatriates that yield a 150% of GDP level of disposable income

Number of the Week

\$21.5bn: The rise in 2010 of the net worth of Mexican investor of Lebanese origin Carlos Slim Helu, according to *Forbes* magazine

Economic Indicators

\$m (unless otherwise mentioned)	2008	Dec 09	2009	Oct 10	Nov 10	Dec 10	% Change*
Exports	3,478	364	3,486	435	316	487	33.79
Imports	16,133	1,380	16,241	1,486	1,811	1,470	6.52
Trade Balance	(12,655)	(1,016)	(12,755)	(1,051)	(1,495)	(983)	(3.25)
Balance of Payments	3,462	1,610	7,899	(185)	(673)	1,243	(22.80)
Checks Cleared in LBP	9,350	1,061	11,122	1,227	1,079	1,278	20.45
Checks Cleared in FC	43,174	4,756	45,270	4,526	4,048	4,370	(8.12)
Total Checks Cleared	52,524	5,817	56,392	5,753	5,127	5,648	(2.91)
Budget Deficit/Surplus	(2,921)	(368)	(2,960)	(460)	(352)	(62)	(83.15)
Primary Balance	597	72	1,078	(118)	(32)	276	283.33
Airport Passengers	4,085,334	738,211	4,986,544	417,378	467,131	369,735	(49.91)

\$bn (unless otherwise mentioned)	Dec 2008	Dec 09	Sep 10	Oct 10	Nov 10	Dec 10	% Change*
BdL FX Reserves	17.06	25.66	28.46	28.20	27.74	28.60	11.46
<i>In months of Imports</i>	<i>15.03</i>	<i>18.59</i>	<i>21.7</i>	<i>18.9</i>	<i>15.3</i>	<i>19.4</i>	<i>4.36</i>
Public Debt	47.02	51.09	50.85	51.13	51.77	52.59	2.94
Net Public Debt	41.49	44.11	44.64	44.93	44.92	45.01	2.04
Bank Assets	94.25	115.25	126.74	126.65	127.57	128.93	11.87
Bank Deposits (Private Sector)	77.78	95.77	103.85	104.18	105.02	107.20	11.93
Bank Loans to Private Sector	25.04	28.37	33.82	34.39	34.92	34.93	23.12
Money Supply M2	24.76	34.16	39.32	39.31	39.31	39.40	15.34
Money Supply M3	68.66	82.08	90.06	90.57	91.00	92.15	12.27
LBP Lending Rate (%)	9.95	9.04	8.11	8.15	7.98	7.91	(113b.p.)
LBP Deposit Rate (%)	7.22	6.75	5.70	5.72	5.68	5.68	(107b.p.)
USD Lending Rate (%)	7.47	7.28	7.24	7.08	6.96	6.74	(54b.p.)
USD Deposit Rate (%)	3.33	3.05	2.78	2.81	2.80	2.80	(25b.p.)
%* Change in CPI**	6.36	4.20	7.15	8.69	10.82	10.65	645b.p.

* Year-on-Year; ** Consumer Price Index

Note: b.p. i.e. basis point

Sources: ABL, BdL

Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization
Solidere "A"	18.22	(0.82)	134,162	15.20%
Solidere "B"	18.13	(0.82)	46,584	9.83%
Byblos Common	1.90	(1.04)	104,034	5.70%
Byblos Priority	1.89	(1.05)	50,000	3.25%
Byblos Pref. 08	104.00	0.00	0	1.74%
BLOM GDR	10.00	0.00	45,500	6.17%
BLOM Listed	9.10	0.00	10,350	16.32%
Audi GDR	7.61	0.00	143,052	5.95%
Audi Listed	7.17	0.28	0	20.85%
HOLCIM	16.56	0.30	216	2.70%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
May 2011	7.875	100.75	3.62
Mar. 2012	7.500	103.88	3.57
Sep. 2012	7.750	105.75	4.06
June 2013	8.625	109.00	4.40
Apr. 2014	7.375	108.00	4.56
Jan. 2016	8.500	118.00	5.09
May 2016	11.625	112.75	5.47
Mar. 2017	9.000	115.75	5.86
Nov. 2018	5.150	97.00	5.64
Apr. 2021	8.250	114.50	6.29

Source: Byblos Capital Markets

	March 7-11	Feb. 28- Mar. 4	% Change	February 2011	February 2010	% Change
Total Shares Traded	618,795	1,250,799	(50.53)	7,279,483	55,216,126	(86.82)
Total Value Traded	\$7,427,040	\$9,358,867	(20.64)	\$29,306,533	\$158,807,366	(81.55)
Market Capitalization	\$11.98bn	\$12.01bn	(0.23)	\$12.68bn	\$12.84bn	(6.43)

Source: Beirut Stock Exchange (BSE)



Cost of sending remittances to Lebanon drops in third quarter of 2010

Figures issued by the World Bank show that the cost of sending remittances from the United States to Lebanon reached 13.1% in the third quarter of 2010 for a \$200 transfer, almost unchanged from 13.2% in the first quarter of last year, but constituting a decline from 14.3% in the third quarter of 2009. In comparison, the global average cost to send remittances reached 8.9% for a \$200 transfer in the third quarter of 2010, down from 9.4% in the third quarter of 2009. Also, the cost of sending \$500 from the U.S. to Lebanon reached 5.7% in the third quarter of 2010, down from 5.74% in the first quarter of 2010 and 5.9% in the third quarter of 2009. The cost includes the transaction fee and exchange rate margin, and represents the average cost of transferring money through commercial banks and money transfer operators (MTOs). In nominal terms, the cost of sending \$200 and \$500 from the U.S. to Lebanon is \$26 and \$28.5, respectively. In parallel, the cost of sending remittances from Germany to Lebanon reached 15.66% in the third quarter of 2010 for a transfer of €160, or about \$200, constituting an increase from 13.78% in the third quarter of 2009. Also, the cost of sending €390, or about \$500, from Germany to Lebanon reached 7.7% in the third quarter of 2010, up from 6.55% in the third quarter of 2009. In nominal terms, the cost of sending €160 and €390 from Germany to Lebanon costs €25 and €30, respectively.

In parallel, Lebanon ranked as the most expensive destination for remittances from the U.S. among 24 countries with available data. It was the seventh most expensive for sending \$500. The data covered 11 countries in Latin & Central America, seven countries in East and Southeast Asia, three countries in the Caribbean, and two countries in Africa, in addition to Lebanon in the Middle East. The United States is the sixth largest source of inward electronic cash transfers to Lebanon, accounting for 6% or \$66m of such transfers in 2009.

The World Bank indicated that the global average cost for sending remittances through commercial banks was 12.8% in the third quarter of 2010 for a \$200 transfer, making them the costliest channel, while the average cost at post offices and money transfer operators (MTOs) was the cheapest at 8.8% and 7.1%, respectively. In comparison, the average cost to send remittances through commercial banks to Lebanon was 19.2% and the average cost through MTOs was 5.8% in the third quarter of last year. MTOs account for 70% of all cash electronic transactions to Lebanon, followed by money dealers with 22.4% and commercial banks with 7.5% in 2009.

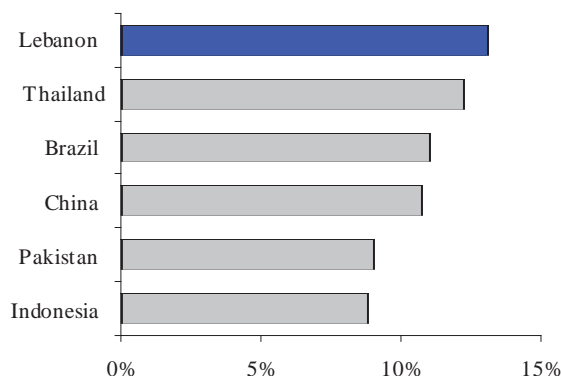
The World Bank noted that the average total cost of sending remittances to countries in South Asia, Latin America, and Europe and Central Asia is lower than the global average cost. In parallel, the average total cost of sending remittances to East Asia & the Pacific, Sub Saharan Africa and the Middle East & North Africa is higher than the global average. It noted that transferring remittances to South Asia and Latin America is the least costly among all regions. It said that the costliest corridor for remittances is from Tanzania to Kenya and Tanzania to Rwanda at 47.3% for a \$200 transfer, followed by Australia to Papua New Guinea at 39.2%, while the cheapest channel is from the UAE to Pakistan at 3.24% followed by Singapore to the Philippines at 4.84%.

Draft law against international tax evasion in the work

Central Bank Governor Riad Salamé indicated that the Bank is preparing in cooperation with the relevant authorities a draft law that would support the domestic fight against international tax evasion. He added that the Group of 20 mandated the Organization of Economic Cooperation and Development (OECD) to evaluate anti tax-evasion systems around the world, including in Lebanon. He noted that an OECD delegation was supposed to visit Lebanon earlier this year for this purpose, but postponed its trip after the resignation of the government. He stressed the need to cooperate with international parties on this issue, based on proper procedures and on specific requests for names and account numbers. Separately, the governor revealed that a new draft law for anti-money laundering and combating the financing of terrorism is being prepared, with the aim to strengthen the existing law. He previously declared that a draft law is needed to better regulate and supervise the operations of foreign exchange bureaus and to have proper procedures at Lebanon's entry points to regulate declarations of incoming and outgoing cash transfers.

In parallel, Governor Salamé suggested for commercial banks to exchange some of their holdings of certificates of deposits (CDs) in Lebanese pounds with Treasury bills of corresponding maturities. The proposal came in light of the reluctance of banks to subscribe to recent issues of Treasury bills and given that the balance of the Treasury's account at the Central Bank is declining. The Central Bank proposed for 7-year CDs issued by the Bank to be exchanged for 7-year Treasury bonds that carry a 7.9% rate. As such, the Treasury would improve its balance over the medium term. He said the exchange can take place irrespective of the maturity of CDs that banks would like to exchange. He added that the exchange will be based on the initial price of the securities and not based on the yield curve. He also ruled out any repo operations involving dollar-denominated CDs.

Costliest destinations of remittances from the U.S.



Source: World Bank, Byblos Research

Copyright violations remain a significant obstacle to legitimate business in Lebanon

The International Intellectual Property Alliance (IIPA), an organization representing more than 1,900 companies that produce and distribute copyright-protected materials throughout the world, asked the United States Trade Representative to keep Lebanon on the Watch List for serious infringements of intellectual property rights and severe copyright problems. The alliance's request is part of its overall recommendations to the U.S. authorities in the annual 'Special 301' review of copyright piracy and market access problems in 40 countries. Lebanon is one of 19 countries recommended for the Watch List that includes Egypt, Kuwait, Saudi Arabia, Israel and Turkey from the region.

The IIPA stated that piracy remains a significant obstacle to legitimate business in Lebanon despite the authorities' incremental progress in fighting piracy, and added that piracy challenges remained largely unchanged in 2010. It cited problems like end-user piracy of business software that continues to cause enormous losses to software companies; book piracy in the form of illegal photocopying on and around university campuses; retail piracy of all kinds of copyright materials such as movies, music and entertainment software; cable and pay TV piracy; growing Internet-based and mobile device piracy; hard-disk loading of software onto computers at points of sale; and the sale of circumvention devices such as pay TV decoders. It indicated that the level of software piracy in Lebanon was at 72% in 2010, and that software piracy-related losses totaled \$28m last year. It added that Lebanese courts continue to be a weak link in enforcing intellectual property rights as court processes, from prosecutorial preparation to judicial process, do not deter further infringements or provide adequate compensation against piracy. It said that prosecutors do not take actions without complaints from right holders and do not employ tools that would strengthen their work. In parallel, it noted that enforcement cooperation is good between the private sector and the Ministry of Interior's Cyber Crime and Intellectual Property Rights Bureau Unit (CCIPRB), as the latter has provided raid support upon request. It noted that copyrights are important to Lebanon's economy and would contribute even more to the economy if intellectual property rights were more effectively enforced. It said that it is important for Lebanon to establish the proper legal framework for copyright protection and fully implement the laws to reduce piracy and foster growth in the country's creative sectors.

The IIPA noted that the Lebanese government has been working on amendments to its 1999 Copyright Law and related laws in order to implement the relevant international treaties related to its accession to the World Trade Organization. It said the current law provides a sound basis for IPR protection, but includes several deficiencies that must be addressed and that would lead to a more effective statute. It added that the Lebanese Parliament has ratified in March 2010 the WIPO Copyright Treaty (WCT) and WIPO Performances and Phonograms Treaty (WPPT).

The IIPA called on the Lebanese government to take several actions that would yield immediate benefits to copyright industries. It said authorities need to ensure that the Cyber Crime and Intellectual Property Rights Bureau Unit continues to actively run raids against piracy targets on request, including end-user software piracy; and to provide the unit with ex officio raiding authority, authority to employ investigative techniques to detect piracy, and a regular operating budget. Further, it asked authorities to ensure that draft amendments to the Lebanese Copyright Law are compatible with major international copyright treaties, including the TRIPS Agreement, the WCT and the WPPT. Also, it encouraged authorities to pass accession legislation to permit Lebanon to join the Berne Convention and to deposit the ministerial acts of ratification of the WCT and WPPT with WIPO in Geneva. Finally, it urged training and technical assistance to raise awareness among Lebanese officials about the importance of intellectual property laws and their enforcement in Lebanon, including commitments under the international treaties; and to encourage them to employ effective tools for deterrent enforcement.

Lebanon has slowest download and upload Internet speed in the world

Speedtest.net's Household Download Index ranked Lebanon in last place among 169 countries around the world in terms of Internet download speed. Also, Lebanon posted the worst performance on the Household Upload Index, ranking last globally. The Household Download and Upload indices are based on millions of test results covering the period between February 4 and March 5, 2011. The Download Index compares and ranks consumer download speeds around the globe, while the Upload Index compares and ranks consumer upload speeds. The value of each index is the rolling mean throughput in Megabyte per second (Mbps) over the covered period, where the mean distance between the client and the server is less than 186.4km. The indices are compiled by Internet speed testing firm Speedtest.net.

The Household Download Index placed Lebanon behind Bolivia, Malawi and Iran on a global basis; and behind Iraq and Sudan among Arab countries. Lebanon's average download speed was 0.49 Mbps, well below the global average download speed of 9.14 Mbps and the Arab average of 4.74 Mbps. Further, the Household Download Index ranked Lebanon immediately behind Tajikistan, the Reunion Island and Bolivia; and behind Sudan and Iraq in the Arab world. Lebanon's average upload speed was 0.1 Mbps, well below the global average 2.55 Mbps, the Arab average of 0.85 Mbps and the upper middle-income countries' average of 4 Mbps. In parallel, figures show that the average download speed by Internet Service Providers in the country ranged between 0.78 Mbps and 0.29 Mbps, while the average upload speed fluctuated between 0.26 Mbps and 0.03Mbps.



Rising political tensions affecting economic outlook

Regional investment bank EFG Hermes maintained its economic growth forecast for Lebanon at 5% for 2011 compared to growth of 6.5% in 2010, adding that risks are clearly to the downside. It estimated that the direct economic impact of the collapse of the Hariri government was minimal, given that the country has been living in a state of paralysis since the middle of 2010. It said that rising concerns about the country's political stability towards the end of 2010 has lowered confidence in the economy and started affecting economic activity. It noted that Lebanon's service-based economy will likely feel the pinch of a slowing tourism sector, especially that Arab tourists constitute by far the majority of tourists, which may pose serious downside risks to the country's growth prospects.

EFG Hermes considered that the main challenges for the upcoming new government revolve around its relationship with the Special Tribunal for Lebanon (STL) and the response of the international community, especially the United States. It expected the short-term outlook for Lebanon to remain uncertain, given that political tensions will remain until a solution is reached between the different political parties on the STL and its findings.

It indicated that the Central Bank is in a good position to prevent any structural crises, as it has accumulated gross foreign reserves that reached \$28bn at end-2010, equivalent to 77% of GDP, which allows authorities to manage capital flight. It added that the risk of substantial dollarization is overplayed and saw limited downside risks from the current dollarization level, with historical incidents showing a minimal rise in dollarization following major political conflicts. It noted that the banking system remains very liquid, with a loans-to-deposits ratio of 28% at end-2010, which should ensure the availability of domestic as well as foreign financing of the fiscal deficit.

Country Forecast Summary				
	2010E	2011F	2012F	2013F
Real Sector				
Real GDP growth (% yoy)	6.5	5.0	5.2	5.7
CPI inflation (% yoy, avg.)	3.9	4.5	4.2	4.5
External Sector				
Trade balance (\$bn)	(13.8)	(14.8)	(16.2)	(18.5)
Current account balance (% of GDP)	(10.6)	(10.8)	(11.4)	(13.0)
Gross reserves (\$bn)	28.4	29.8	31.2	33.5
Fiscal Sector				
Fiscal balance (% of GDP)	(7.7)	(7.2)	(7.1)	(7.3)
Net domestic debt (% of GDP)	64.1	58.3	53.3	45.3
External debt (% of GDP)	57.6	52.8	48.3	43.8
Financial Sector				
Broad money growth (% yoy)	12.3	14.1	9.9	12.3
Private sector credit growth (% yoy)	24.4	15.0	18.0	20.0

Source: EFG Hermes

Airport passengers down 4.5% in first two months of 2011

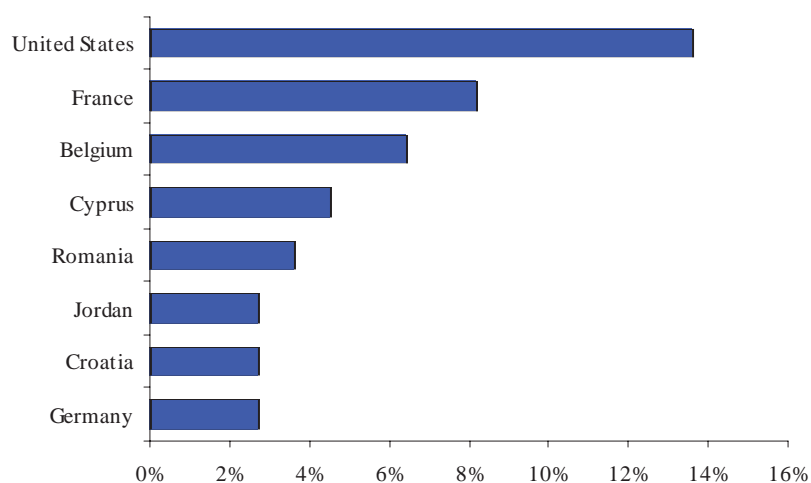
Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures, transit) totaled 676,869 in the first two months of 2011, down 4.5% year-on-year. The UAE accounted for 142,745 passengers, or 21.1% of total passenger activity. It was followed by Saudi Arabia with 75,000 passengers, or 11.1% of the total, France with 65,819 travelers (9.7%) and Kuwait with 44,603 travelers (6.6%). The total number of flights reached 9,549 in the first two months of 2011, down 1% year-on-year. Middle East Airlines registered 3,076 flights, accounting for 32.2% of the total. It was distantly followed by Royal Jordanian Airlines with 442 flights or 4.6% of the total, Qatar Airways with 356 flights, Etihad Airways with 302 flights, Fly Dubai with 278 flights, and Saudi Arabian Airlines with 269 flights. The UAE was the biggest source and destination of traffic to Lebanon, as aircraft movement to and from the UAE totaled 1,426 flights, accounting for 14.9% of the total. Also, the HIA processed 9,902 metric tons of cargo in the first two months of 2011, of which 9,721 tons of freight and 181 tons of mail. MEA processed 3,052 tons of freight, of which 2,970 tons in regular freight and 82 tons in mail.

Central Bank lifts secrecy on 23 cases suspected of money laundering

The Special Investigation Commission (SIC) against money laundering issued its 10th annual report detailing its activities in tracing dirty money in Lebanon in 2010. Established by the Central Bank of Lebanon as an independent legal entity, the commission's mandate is to investigate suspected money-laundering operations and to monitor compliance with the rules and procedures of the anti-money laundering law, Law 318, passed in April 2001 by the Lebanese Parliament. The report indicated that the SIC received 245 suspected cases in 2010, of which 160 cases, or 65.3%, were local cases and 85 cases, or 34.7%, were referred from abroad. The SIC referred to judicial authorities 119 suspected cases of money laundering, while 56 cases are still pending and the remaining 70 cases did not fall within the framework of Law 318. As a result, authorities lifted the banking secrecy on 23 cases, of which two cases were referred from foreign governments and organizations and 21 cases from domestic sources. The SIC investigated a total of 77 out of 202 suspected cases in 2009, 67 out of 226 cases in 2008, 54 out of 234 cases in 2007 and 70 out of 185 cases in 2006.

Counterfeiting and forgery accounted for 21.3% of reported cases, followed by terrorism & transfer of funds with 12.8%, narcotics trade with 4.3%, embezzlement of private funds with 3.2%, organized crimes with 1.6%, and embezzlement of public funds and illegal weapons trafficking with 0.5% each, while the remaining 55.8% of cases were not categorized. In cases related to terrorism, local sources provided 21 names (12 cases), the United Nations supplied 61 names (4 cases), foreign embassies forwarded 15 names (3 cases), and financial investigative units provided 6 names (3 cases). The SIC also examined a number of institutions to ensure compliance with Law 318. It covered 23 commercial banks, equivalent to 34.3% of the total, 34 insurance companies (63%), six brokerage firms (54.5%), 18 financial institutions (36%), and 73 currency exchanges (17.9%). Further, Europe was the main source of requests to Lebanese authorities, as it accounted for 51 requests, equivalent to 46.4% of the total, followed by North America and Latin America with 17.3%, the United Nations with 15.5%, the Middle East & the Arabian Gulf with 10%, Australia with 5.4%, Asia with 3.6% and Africa with 1.8% each.

Top 8 foreign sources of money laundering cases reported to Lebanese authorities in 2010



Source: Special Investigation Commission

Customs receipts at \$136m in January

Customs revenues reached \$135.9m in January 2011 compared to \$150m in December 2010 and \$146.3m in January 2010. The Port of Beirut continues to be the main point of customs receipts, accounting for 86.6% of the total in January, and was followed by the Hariri International Airport with 5.6%, the Port of Tripoli with 4.6%, and the Masnaa crossing point with 1.9%. Also, customs receipts from the value-added tax totaled \$113.2m in January compared to \$124m in December and \$115.4m in January 2010. The Port of Beirut accounted for 74.8% of such receipts in January, and was followed by the Port of Tripoli with 9.3%, the Hariri International Airport with 7.9%, and the Masnaa crossing point with 6.3% of the total. As such, overall customs receipts reached \$249.1m in January, with the Port of Beirut accounting for 81.3% of the total. It was followed by the Port of Tripoli and the Hariri International Airport with 6.7% each, and the Masnaa crossing point with 3.9% of the total. In addition, other entry points accounted for the balance of 1.4%, with the ports of Saida and Tyr accounting for 1% and the crossing points of Abboudieh, Arida and Kaa for 0.4%.

Lebanon represented in *Forbes* magazine list of world billionaires

Forbes magazine's annual survey of the world's billionaires for 2011 included on its list 6 persons from Lebanon, unchanged from 2010, and had 4 members from the family of the late Prime Minister Rafiq Hariri and two members of the Mikati family. The survey ranked Prime Minister Najib Mikati and his brother Taha Mikati in 409th place with a net worth of \$2.8bn each, down from 374th place but up from \$2.5bn each in 2010. They were followed by Mr. Bahaa Hariri in 459th place with a fortune of \$2.5bn, down from 316th place and \$3bn in the previous year. Former Prime Minister Saad Hariri ranked in 595th place with an estimated fortune of \$2bn, down from 536th place but up from \$1.9bn in 2010, while Mr. Ayman Hariri and his brother Fahd Hariri came in 833rd place with \$1.5bn each, down from 721st place but up from \$1.4bn each last year.

Forbes said the Mikati brothers founded telecommunications firm Investcom in 1982, listed it in London and Dubai in 2005, and sold a stake to South Africa's MTN Group for \$5.5bn in 2006. They then formed M1 Group, a Beirut-based conglomerate that owns stakes in telecom, oil exploration, airlines, banking, manufacturing, and clothing companies around the world. It added that M1 Group also owns prime real estate in New York and London worth an estimated \$1bn. The magazine said the Hariri family's wealth is derived from investments in Saudi Arabia and many other countries in Europe, Africa and the Middle East in banking, real estate, tourism, telecommunications and media. It added that PM Hariri bought his brother Bahaa's share in Saudi Oger in January 2008 and currently owns 50% of the company. It said that Mr. Bahaa Hariri derives the bulk of his fortune from investments and real estate, and has expanded into logistics and transportation. The aggregate fortune of the six Lebanese included on the list increased by 3% to \$13.1bn in 2010. The wealthiest man in the Middle East is Saudi Prince al-Waleed bin-Talal who ranked in 26th place globally with \$19.6bn, up from \$19.4bn in 2010. The richest man in the world is Mexican of Lebanese descent Carlos Slim Helu with \$74bn. The number of billionaires in the world increased to 1,210 this year from 1,011 last year, and their average net worth rose by 6.3% to \$3.7bn.

Billionaires of Lebanese descent on *Forbes*' 2011 list of the world's richest people

Name	Rank	Worth (\$bn)	Trend	Source	Country
Carlos Slim Helu	1	74.0	up	Telecom	Mexico
Joseph Safra	68	11.4	up	Banking	Brazil
Moise Safra	488	2.4	up	Banking	Brazil
Joseph Jamail Jr.	833	1.5	unchanged	Banking	Mexico
Alfredo Harp Helu	1140	1.5	unchanged	Law	USA

Source: *Forbes Magazine, Byblos Research*

Trade deficit up 54% to \$1.4bn, non-oil imports rise by 17% in January

Total imports reached \$1.73bn in January 2011, constituting an increase of 39% from the same period last year, while aggregate exports decreased by 5% to \$297m, leading to a trade deficit of \$1.4bn, up 54% year-on-year. The January deficit was the highest one-month deficit in five years as imports increased and exports decreased. Imports of oil and mineral fuels increased by 140% year-on-year to nearly \$538m, while non-hydrocarbon imports grew by 17% to \$1.2bn. The rise of non-oil imports was mainly driven by higher imports of live animals & animal products and unwrought & semi-manufactured gold, diamonds, precious stones & metals which increased by \$34m and 23m respectively. The level of nominal imports, including or excluding mineral fuel and oil, reached in January is considered the highest in five years. The coverage ratio reached 17% in January compared to 25% in January last year.

In volume terms, imports reached 1.6 million tons in January 2011, constituting an increase of 43% from January 2010, while exports contracted by 7% to 255,000 tons in the same period, leading to a trade deficit of 1.3 million tons, up 60% year-on-year. Imports of oil and mineral fuels increased by 126% year-on-year to nearly 828,000 tons, while non-hydrocarbon imports rose by 1% annually to 739,000 tons.

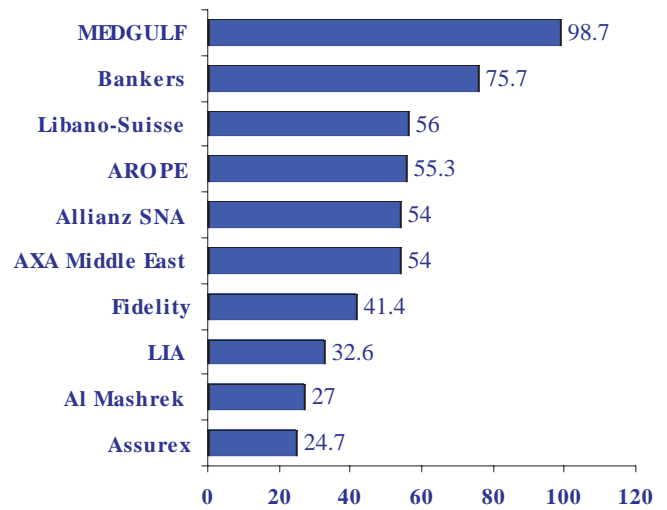
The United States was the main source of imports with \$335m or 19% of the total, followed by France with \$122m (7%), China with \$120m (7%), Italy with \$111m (6%) and Germany with \$79m (5%). Imports from the U.S. rose by 110% year-on-year and from France by 23% while imports from Germany dropped by 25%, from China by 12% and from Italy by 5% for the covered period. The UAE was the main export destination with \$33m or 11% of the total, followed by Switzerland with \$28m (10%), Turkey with \$23m (8%), Saudi Arabia with \$21m (7%) and Iraq with \$17m (6%). Exports to Turkey rose by 21%, to Saudi Arabia by 3% while exports to Switzerland declined by 32%, to Iraq by 23%, Syria by 18% and the UAE by 4%. Lebanon's main export was jewelry at \$83m or 28% of total exports, followed by base metals with \$51m (17%), machinery and mechanical appliances with \$46m (16%), prepared food-stuff with \$25m (9%) and chemical products with \$11m (4%). Re-exports totaled \$23m in January, unchanged from the same period last year.

Total non-life premiums post 12% rise to \$808m in 2010

The annual survey by *Al-Bayan* magazine of the insurance sector in Lebanon showed that total non-life premiums generated in the Lebanese market reached \$808.1m in 2010, constituting an increase of 12.3% from \$720m in 2009, and compared to growth rates of 22% in 2009 and 22.4% in 2008. Non-life premiums totaled \$590.5m in 2008 and \$482.7m in 2007. Non-life insurance penetration was equivalent to 2.1% of GDP while insurance density was at about \$202 per capita in 2010. MEDGULF maintained its first place with \$98.7m in non-life premiums, followed by Bankers with \$75.7m, Libano-Suisse with \$56m, AROPE with \$55.3m, and AXA Middle East with \$54m as the top 5 non-life insurers. Arabia Insurance registered the highest jump in the rankings from last year, moving from 18th to 13th place, while Beyrtus posted the highest growth in premiums among all insurers in the survey at 72% year-on-year. Byblos Bank's insurance affiliate ADIR came in 14th place and remained among the top 15 firms with \$18.2m in non-life premiums.

There were 7 advances and 7 declines among the top 20 insurers, while the rankings of the other 6 insurers were unchanged. Five of the top 10 the rankings of other 6 insurers were unchanged. Five of the top 10 insurers were unchanged from 2009, with Al Mashrek improving by two spots to 9th place. All of the top 10 insurers posted increases in their premiums with 8 of them posting a double digit rise. Libano-Suisse and Fidelity recorded the biggest year-on-year increases at 24% and 20% respectively, while Arabia Insurance's non-life premiums grew by 47.5%, highest among the top 20 insurers. The rankings of the top 5 insurers saw one change, with Libano-Suisse improving to third place from sixth place in 2009 and Allianz SNA dropping from 5th to 6th place, while AROPE and AXA Middle East regressed by one spot each to fourth and fifth place, respectively. There were two advances, one new entry, and three declines in the rankings of the top 10 firms. The top 10 insurers controlled 64.3% of the market last year compared to 65% in 2009 and 64.4% in 2008, while the top 20 insurers represented 85.4% of premiums compared to 86% in 2009 and 85.3% in 2008. The aggregate non-life premiums of the top 10 insurers reached \$519.8m in 2010 compared to \$464.8m in 2009 and \$380.4m in 2008.

Non-Life Premiums of the Top 10 Insurers in 2010 (\$m)



Source: *Al-Bayan*

Car sales up 7.2% year-on-year in first two months of 2011

Figures released by the Association of Automobile Importers in Lebanon indicate that a total of 3,796 new passenger cars were sold in the first two months of 2011, constituting an increase of 7.2% from the 3,542 cars sold in the same period last year. Korean cars accounted for 38.9% of total sales, followed by Japanese cars with a 28.7% share, European automobiles with 25.3%, American vehicles with 6.5%, and Chinese cars with 0.6%. Korean cars posted a growth of 59% year-on-year followed by European cars with a 3.4% rise. In parallel, Chinese cars posted a drop of 39.5% in sales year-on-year, followed by American cars with a 19.1% decrease and Japanese cars with an 18.9% decline. Kia is the leading brand in the Lebanese market with 938 cars sold in the first two months of 2011, followed by Hyundai with 538, Nissan with 513 cars sold, Toyota with 200, Chevrolet with 163 cars sold, Peugeot each with 132, and Renault with 123 cars.

Kafalat loan guarantees reach \$27m in first two months of 2011

Figures released by the Kafalat Corporation show that loans extended to small- and medium-size companies under the guarantee of Kafalat reached \$26.8m in the first two months 2011, down 6.5% from \$28.7m in the same period last year. The number of loan guarantees totaled 186 year-to-February compared to 271 in the same period last year. The average loan size reached \$144,261 compared to \$105,911 in the first two months of 2010. Mount Lebanon accounted for 45.7% of guarantees, followed by the South & Nabatieh with 20%, the North with 16.1%, Bekaa with 11.3% and Beirut with 7%. The agriculture sector accounted for 37.1% of total guarantees, followed by industry with 36%, tourism with 22%, specialized technologies with 2.7% and handicraft with 2.2%. 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.

Circuit Empire to expand in Kurdistan

The Lebanese movie theater chain and movie distributor Circuit Empire announced a \$9m investment to operate 14 movie theaters in Erbil, the capital of the Regional Government of Kurdistan in Iraq. It said that the multiplex would host 2,500 cinema-goers and would be part of Erbil's Family Mall. It noted that the Erbil operation constitutes the group's first overseas expansion. It stated that the underdeveloped cinema market in Erbil, along with Kurdistan's stability, offers an expansion opportunity for the group. It expects to implement two additional projects in Kurdistan. Established in 1996, the group operates 33 movie theaters in Lebanon and plans to open 14 new theaters in the Beirut Souks.



Khoury Home and Houkayem Brothers merge

Khoury Home Appliances sal and Houkayem Brothers sarl, two of the largest retail chains of electronics and home appliances in Lebanon, have reportedly agreed to merge their operations. Each of the companies has five show rooms, with plans to open four additional ones. Houkayem Brothers' show rooms will continue to operate normally, with Khoury Homes managing its former competitor's operations.

Khoury Home Appliances sal inaugurated in June 2002 the first-of-its-kind megastore for home appliances in Lebanon and the largest such retail outlet in the Arab world at the time. The megastore offers under one roof more than 250 brand names covering home appliances such as refrigerators, washers, dryers, air conditioners, and other 'white goods'; as well as audio-visual products such as TVs, video recorders, DVD players, hi-fi systems, personal and portable hi-fi, in-car entertainment products and other 'brown goods'. It also offers kitchens, built-in appliances, tableware, personal computers, photography equipment, mobile phones and accessories. The outlet also extends on-the-spot credit facilities on most purchases. The investment in the megastore totaled \$3m. Khoury Home Appliances employs about 200 persons and Houkayem Brothers has nearly 60 employees. Khoury Home Appliances is owned by the Khoury family, who has been a wholesaler of home appliances since 1984, while Houkayem Brothers sarl is owned by the Houkayem family.

Banque BEMO to raise capital

The Extraordinary General Assembly of Banque BEMO sarl held on January 31, 2011 approved the bank's capital increase by LBP 46bn to LBP 62.2bn. The capital increase will take place through the issuance of 46 million common shares at a par value of LBP 1,000 per share. Existing shareholders will receive 16 million free shares distributed on a pro rata basis. Further, current shareholders will have priority in subscribing to the remaining 30 million shares, and can renounce their subscription right to other shareholders or to non-shareholders. Last December, Moody's Investors Service placed Banque Bemo's 'Aa2.lb' long-term national scale rating on review for possible downgrade. It attributed the decision to the bank's need to further strengthen its core capitalization; as well as to weakening recurring earnings power and profitability metrics, and its high single-party credit exposure. Banque BEMO posted net profits of \$10.2m in 2010, constituting an increase of 16% from the previous year. Total assets reached \$1.21bn, up 0.8% from end-2009 and customer loans & advances rose by 18% to \$0.47bn. Customer deposits grew by 6.3% year-on-year to \$1bn at end-2010.

Solidere launches tourism project in Ajman

Solidere sarl, the Lebanese Company for the Development and Reconstruction of the Beirut Central District and Lebanon's largest firm in terms of market capitalization, announced the launch of a new tourism project in Ajman, in the United Arab Emirates. The project consists of building six residential tower blocks between 22 and 45 floors high each, as well as hotels, restaurants, a free port, a marina and a golf course. The project will be built on a 7-kilometer stretch along the Ajman beach. Solidere announced net profits of \$182.2m in 2009 compared to \$183.6m in 2008. When including the profits of its Dubai-based affiliate Solidere International (SI), Solidere's consolidated net income becomes \$189.2m, up 3.6% from \$182.7m in 2008. Solidere owns 38.2% of SI, which is developing several projects in Saudi Arabia, the UAE and Egypt.

Ratio Highlights

(in % unless specified)	2007	2008	2009	Change*
Nominal GDP ⁽¹⁾ (\$bn)	25.0	29.9	34.9	
External Debt / GDP	84.9	70.7	60.9	(980)
Local Debt / GDP	83.2	86.5	85.5	(100)
Total Debt / GDP	168.1	157.3	146.4	(1,090)
Total External Debt / GDP	194	172	169.2	(280)
Trade Balance / GDP	(36.0)	(42.3)	(36.5)	580
Exports / Imports	23.8	21.6	21.5	(10)
Budget Revenues / GDP	23.2	21.7	22.9	120
Budget Expenditures / GDP	33.4	24.5	24.8	30
Budget Balance / GDP	(10.2)	(2.7)	(1.9)	80
Primary Balance / GDP	2.9	2.0	3.1	110
BdL FX Reserves / M2	59.4	67.5	71.2	370
M3 / GDP	239.3	229.6	235.2	560
Bank Assets / GDP	329.0	315.2	330.2	1,500
Bank Deposits / GDP	269.1	260.1	274.4	1,430
Private Sector Loans / GDP	81.7	83.7	81.3	(240)
Dollarization of Deposits	77.3	69.6	64.5	(510)
Dollarization of Loans	86.4	86.6	84.0	(260)

* Change in basis points 08/09

(1) Based on Ministry of Finance Estimations and the International Monetary Fund

Source: Association of Banks in Lebanon, Byblos Research Calculations

Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

Risk Outlook

Lebanon	Nov 2009	Oct 2010	Nov 2010	Change*	Risk Level
Political Risk Rating	57.0	58.5	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	60.2	61.0	61.0	▲	Moderate

Regional Average	Nov 2009	Oct 2010	Nov 2010	Change*	Risk Level
Political Risk Rating	64.9	64.5	64.4	▼	Moderate
Financial Risk Rating	42.0	42.3	42.3	▲	Very Low
Economic Risk Rating	34.8	38.2	38.0	▲	Low
Composite Risk Rating	70.8	72.5	72.3	▲	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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