



LEBANON THIS WEEK

In This Issue

Economic Indicators.....1
Capital Markets.....1
Lebanon in the News.....2

Fitch Ratings affirms Lebanon's sovereign ratings, outlook 'negative'

Cost of inaction mounting, waiting for favorable domestic and external conditions not a viable option

Average real GDP growth rate at 2.2% between 2011 and 2013 according to national accounts

Lebanon ranks 36th globally, third in Arab world in Internet freedoms

Airport activity up 4% in first 11 months of 2014

Fiscal deficit at 19% of expenditures in first eight months of 2014 when assuming \$841m in telecom revenues

Central Bank coordinating with Finance Ministry on new Eurobond issue

Association of Banks amends reference rates on US dollar and Lebanese pound lending

Customs receipts down 6% to \$1.2bn in first 10 months of 2014

Treasury transfers to Electricité du Liban up 10% in first half of 2014

Trade deficit widens by 3% to \$15bn in first 10 months of 2014, exports down by 19%

EU allocates €7.9m to NGOs to improve access to water in the North and the Bekaa regions

Corporate Highlights8

Insurance premiums up 6% to \$1.1bn in first nine months of 2014, claims and benefits rise by 13% to \$570m

New car sales down 26% month-on-month in November 2014

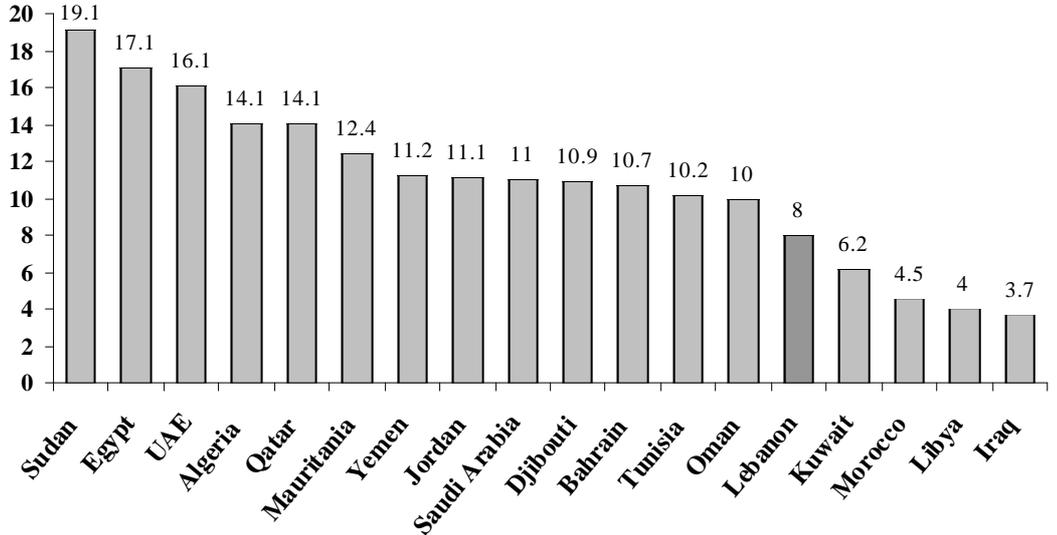
Kafalat loan guarantees down 5% to \$103m in first 11 months of 2014

Top five freight forwarders' import activity stagnates in first 10 months of 2014

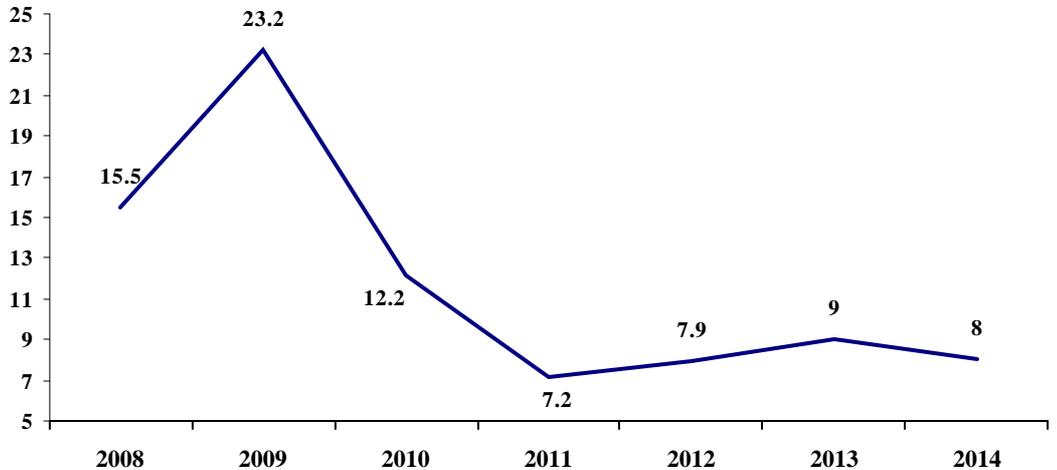
Ratio Highlights.....10
Risk Outlook10
Ratings & Outlook.....10

Charts of the Week

Projected Broad Money Growth in Arab Countries in 2014 (%)



Broad Money Growth in Lebanon (%)



Source: International Monetary Fund, Byblos Bank

Quote to Note

"Territorial disputes and political infighting will slow the pace of exploring and extracting offshore natural gas."

The Economist Intelligence Unit, on the opportunity cost of the political deadlock in Lebanon

Number of the Week

16: Number of times the Lebanese Parliament convened and failed to elect a President

Economic Indicators

| \$m (unless otherwise mentioned) | 2013 | Aug 13 | May 14 | June 14 | July 14 | Aug 14 | % Change* |
|---|-------------|---------------|---------------|----------------|----------------|---------------|------------------|
| Exports | 3,936 | 279 | 308 | 278 | 276 | 285 | 2.15 |
| Imports | 21,228 | 1,828 | 1,676 | 1,567 | 1,657 | 2,120 | 15.97 |
| Trade Balance | (17,292) | (1,549) | (1,368) | (1,289) | (1,381) | (1,835) | 18.46 |
| Balance of Payments | (1,128) | (223) | 520 | (561) | (85) | (564) | 152.91 |
| Checks Cleared in LBP | 17,047 | 1,354 | 1,619 | 1,518 | 1,454 | 1,558 | 15.09 |
| Checks Cleared in FC | 55,321 | 4,495 | 5,058 | 4,807 | 4,694 | 4,973 | 10.63 |
| Total Checks Cleared | 72,368 | 5,849 | 6,677 | 6,325 | 6,148 | 6,531 | 11.67 |
| Budget Deficit/Surplus | (4,220) | (551.43) | (170.31) | (187.36) | 238.07 | (318.75) | (42.20) |
| Primary Balance | (239.68) | (382.69) | 316.5 | 133.93 | 513.55 | (141.93) | (62.91) |
| Airport Passengers | 6,265,470 | 727,086 | 511,556 | 610,170 | 641,830 | 814,800 | 12.06 |

| \$bn (unless otherwise mentioned) | 2013 | Aug 13 | May 14 | June 14 | July 14 | Aug 14 | % Change* |
|--|--------------|---------------|---------------|----------------|----------------|---------------|------------------|
| BdL FX Reserves | 31.71 | 31.00 | 33.26 | 33.85 | 35.14 | 33.09 | 6.76 |
| <i>In months of Imports</i> | <i>17.65</i> | <i>16.96</i> | <i>19.84</i> | <i>21.60</i> | <i>21.21</i> | <i>15.61</i> | <i>(7.95)</i> |
| Public Debt | 63.46 | 60.50 | 65.08 | 65.71 | 65.62 | 65.86 | 8.86 |
| Net Public Debt | 53.18 | 51.73 | 54.92 | 55.17 | 55.17 | 55.59 | 7.46 |
| Bank Assets | 164.82 | 158.56 | 168.85 | 169.57 | 169.74 | 170.33 | 7.42 |
| Bank Deposits (Private Sector) | 136.21 | 131.38 | 138.85 | 140.35 | 141.32 | 141.52 | 7.71 |
| Bank Loans to Private Sector | 47.38 | 45.57 | 48.62 | 49.18 | 49.38 | 49.74 | 9.16 |
| Money Supply M2 | 45.60 | 44.42 | 46.81 | 46.89 | 47.28 | 47.48 | 6.88 |
| Money Supply M3 | 111.16 | 108.28 | 114.19 | 114.97 | 115.58 | 115.62 | 6.79 |
| LBP Lending Rate (%) | 7.29 | 7.24 | 7.48 | 7.45 | 7.36 | 7.21 | (3bps) |
| LBP Deposit Rate (%) | 5.44 | 5.47 | 5.50 | 5.49 | 5.54 | 5.51 | 4bps |
| USD Lending Rate (%) | 6.88 | 7.16 | 7.04 | 6.97 | 6.96 | 6.96 | (20bps) |
| USD Deposit Rate (%) | 2.95 | 2.91 | 3.01 | 2.98 | 3.02 | 3.13 | 22bps |
| %* Change in CPI** | 3.89 | 3.81 | 0.63 | 1.19 | 1.54 | 0.81 | (300bps) |

* 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 | Sovereign Eurobonds | Coupon % | Mid Price \$ | Mid Yield % |
|----------------------------------|------------------------|------------------|---------------------|--|----------------------------|-----------------|---------------------|--------------------|
| Solidere "A" | 11.48 | 0.61 | 241,757 | 10.13% | Jan 2015 | 5.875 | 100.20 | 3.39 |
| Solidere "B" | 11.41 | 0.44 | 87,291 | 6.54% | Apr 2015 | 10.000 | 103.00 | 2.38 |
| Byblos Common | 1.65 | 0.61 | 10,547 | 5.23% | Jan 2016 | 8.500 | 105.63 | 3.21 |
| Byblos Pref. 08 | 101.30 | 0.00 | 0 | 1.79% | Mar 2017 | 9.000 | 111.25 | 3.77 |
| Byblos Pref. 09 | 101.60 | 0.00 | 0 | 1.79% | Nov 2018 | 5.150 | 102.00 | 4.52 |
| BLOM GDR | 9.65 | 0.52 | 1,500 | 6.29% | May 2019 | 6.000 | 103.75 | 5.04 |
| BLOM Listed | 8.80 | 0.57 | 181,397 | 16.69% | Mar 2020 | 6.375 | 105.63 | 5.13 |
| Audi GDR | 6.54 | 0.62 | 486,260 | 6.66% | Apr 2021 | 8.250 | 115.25 | 5.37 |
| Audi Listed | 6.18 | (0.64) | 1,798,867 | 21.79% | Oct 2022 | 6.100 | 102.88 | 5.64 |
| HOLCIM | 16.21 | 8.07 | 2,843 | 2.79% | Nov 2026 | 6.600 | 103.50 | 6.18 |

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

Source: Byblos Bank Capital Markets

| | Dec 8-12 | Dec 1-5 | % Change | Nov 2014 | Nov 2013 | % Change |
|------------------------------|-----------------|----------------|-----------------|-----------------|-----------------|-----------------|
| Total Shares Traded | 2,867,825 | 469,006 | 511.47 | 3,438,292 | 15,046,249 | (77.15) |
| Total Value Traded | \$20,427,405 | \$3,589,295 | 469.12 | \$25,146,028 | \$108,272,444 | (76.78) |
| Market Capitalization | \$11.34bn | \$11.30bn | 0.37 | \$11.29bn | \$10.63bn | 6.18 |

Source: Beirut Stock Exchange (BSE)



Fitch Ratings affirms Lebanon's sovereign ratings, outlook 'negative'

Fitch Ratings affirmed Lebanon's long-term foreign and local currency Issuer Default Ratings (IDR) and short-term foreign currency IDR at 'B'. It also affirmed at 'B' the issue ratings on Lebanon's senior unsecured foreign and local currency bonds, and maintained the outlook on the long-term IDRs at 'negative'. Further, it affirmed the Country Ceiling at 'B'. The agency said that Lebanon's ratings reflect the high and rising public debt level, elevated political and geopolitical risks, a well-managed banking system, a credible exchange rate policy, as well as high levels of human development and GDP per capita.

The agency indicated that political risks and uncertainty have been high since the start of the Syrian conflict in 2011, with recurrent security incidents, rising domestic tensions and the political deadlock over the election of a president since May 2014. It considered that risks remain tilted to the downside despite a fragile political continuity and the commitment of domestic and regional stakeholders to maintain minimal stability in the country.

Fitch considered that any significant improvement in Lebanon's growth prospects is contingent on the resolution of the Syrian conflict. It expected real GDP growth to improve slightly from 1.5% in 2013 to 1.8% in 2014 due to a temporary pick-up in economic performance in the second quarter of the year, and the slight improvement in tourism and real estate activity. Further, it forecast the fiscal deficit at about 9.3% of GDP in 2014, similar to the 2013 level, because Parliament has not ratified the increase in public-sector salaries and because the pressure from the Syrian refugees on public expenditures has yet to materialize. It anticipated that the decline in global oil prices would reduce Treasury transfers to the state-owned and money-losing Electricité du Liban (EdL), which would keep the fiscal deficit at below 9% of GDP during the 2015-16 period.

It estimated the government's financing needs at more than 30% of GDP and the public debt level at above 143% of GDP at the end of 2014, reflecting the sustained deficit in the primary balance and low real GDP growth. But it noted that the steady inflow of deposits into the large, well-managed and liquid banking sector has helped finance these needs. It added that private sector deposits grew by 7.5% year-on-year in October 2014, reflecting the continued confidence of the Lebanese Diaspora in the domestic banking sector and in the currency peg to the US dollar, as well as the differential with international deposit yields. In turn, banks have channeled a share of these deposits into government financing. It pointed out that the financing of the government by domestic banks, along with the Central Bank's foreign currency reserves of \$33.1bn in October 2014, have allowed Lebanon to remain a net external creditor.

Fitch noted that it does not currently anticipate developments that would lead to an upgrade of the sovereign ratings. It indicated that it would downgrade the ratings if domestic political or security conditions deteriorate, in case of a significant outflow of deposits from the banking sector, or if the public debt's dynamics significantly worsen. The agency added that it could revise the outlook to 'stable' in case of growing confidence in the sustainability of the domestic political situation, a decrease in overall security risks associated with the Syrian conflict, or improved economic performance.

Cost of inaction mounting, waiting for favorable domestic and external conditions not a viable option

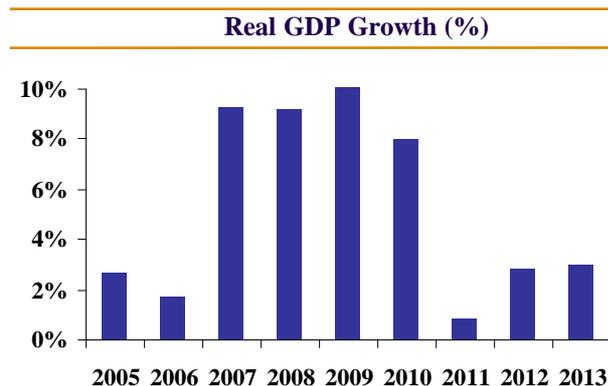
Following a staff visit earlier this month, the International Monetary Fund indicated that Lebanon's economic situation and prospects are very challenging, and that regional spillovers continue to dominate the country's near-term outlook and to undermine investors' confidence. It noted that the large number of Syrian refugees is weighing on the country's already weak public finances and on host communities, adding that international support is way below what the country needs given the scale of the problem. The Fund estimated real GDP growth in Lebanon at below 2% in 2014, a growth rate that it considered insufficient to reduce the rising levels of unemployment and poverty. It also pointed out that the prevailing political deadlock is disrupting policy-making and is preventing efforts to pass legislation. As such, the IMF called for immediate, cohesive and non-partisan political action to secure Lebanon's economic future, and for urgent and targeted efforts to put economic activity on a sustainable path. It considered that waiting for a more favorable external and domestic political environment is not a viable strategy, as the costs of inaction are rising.

The Fund expected the primary budget balance to shift from a deficit in 2013 to a small surplus in 2014 due to higher-than-projected telecom receipts, lower capital spending and delays in the ratification of the public-sector salary scale. But it urged authorities to implement long-lasting measures in order to put the country's public finances on a sustainable path, as the public debt level will exceed 140% of GDP by the end of the year. The IMF added that if Parliament ratifies a budget with reliable fiscal adjustment measures for 2015, it would be the first budget it ratifies in 10 years, would signal the authorities' commitment to reduce the public debt level, and would create the fiscal space for spending on needed social programs and infrastructure investment. It also called for reforming and investing in the electricity sector, in order to address the country's insufficient and inefficient electricity supply. It noted that this would significantly reduce the cost of doing business in Lebanon and enhance potential growth. It added that the ratification of pending decrees and legislation for the oil & gas sector would pave the way for tapping the country's prospective gas resources and would anchor Lebanon's reputation as a trusted investment partner.

In parallel, the IMF indicated that Lebanon's banking sector continues to attract deposits, which has helped the accumulation of foreign currency reserves and other liquid assets at the Central Bank that reached \$39bn at the end of November 2014. But it noted that banks' exposure to the government and to the Central Bank has increased. It considered that implementing a credible fiscal consolidation would reduce the government's reliance on the Central Bank's financing, especially in terms of foreign currency financing. It pointed out that the Central Bank has been proactively seeking to maintain financial stability and to stimulate economic activity through subsidized financial facilities, but it noted that the Bank's operations are taking a toll on its balance sheet.

Average real GDP growth rate at 2.2% between 2011 and 2013 according to national accounts

The Central Administration for Statistics (CAS) released national economic data covering 2012 and 2013 that provides official figures for gross domestic product (GDP) and its structure and components. It also revised its previous figures for 2011. The CAS estimated the size of the informal sector at around 30% of recorded output and included its estimate to cover the value of such activity, even though the precise level is uncertain. It also admitted that it could not produce a full set of sector accounts, especially for the households and non-financial corporate sectors, due to the limited amount of data on incomes. Further, the CAS stated that the estimates for 2012 and 2013 are subject to a wide range of uncertainty. It noted that the percentage change figures are rounded to the nearest 1% but cannot be considered as accurate to this degree. It attributed the uncertainty in part to the lack of regular surveys and detailed data on the costs of production, consumer spending, employment, visitors' expenditures and other transactions. It cautioned that its estimates are not as accurate as national accounts are supposed to be. The findings show that Lebanon's real GDP grew by 2.8% in 2012 and 3% in 2013. Also, the CAS revised its 2011 growth rate from 2% previously to 0.9%.



Source: Central Administration of Statistics

Lebanon's nominal GDP stood at \$40.1bn in 2011, \$44.1bn in 2012 and \$47.2bn in 2013. Spending on consumption totaled \$47.4bn in 2013 relative to \$46.1bn in 2012, and included \$41.5bn in household expenditures and \$5.9bn in government spending. Also, gross fixed capital formation by the private sector reached \$11.9bn and that of the public sector totaled \$0.9bn. The results show that private consumption rose by 2% in real terms in 2013, while public consumption remained unchanged year-on-year. Further, gross fixed capital formation by the private sector grew by 12% in real terms in 2013, while that of the public sector rose by 10%, leading to an 11% increase in gross fixed capital formation during the year.

In parallel, commercial trade & motor vehicle repairs accounted to 14.3% of value added in 2013, followed by real estate services (14%), the public administration (9.3%), manufacturing (7.6%), financial services (7.2%), education (6.5%), construction (6.2%), professional services (4.1%), agriculture & livestock (3.9%), mining & utilities (3.6%), transport (3.1%), health & social care (3%), information & communication (2.8%), hotels & restaurants (2.7%), personal & community services (2.5%) and administrative services (2.3%). Further, transport activity grew by 14% in real terms in 2013, followed by the health & social care (+12.8%), the construction sector (+7.4%), the real estate sector (+6.3%), the information & communication sector (+5.1%), financial services (+4.4%), the manufacturing sector (+4.1%), commercial trade & motor vehicles (+2.7%), mining & utilities (+1.7%), education (+1.3%) and agriculture & livestock (+0.1%). In contrast, activity in the public administration contracted by 1.3% in real terms in 2013, output in the administrative services regressed by 3.5%, activity in professional services fell by 3.6%, output in the hotels & restaurants sector dropped by 5%, and output in the personal & community services segment regressed by 6.6%.

| Gross Domestic Product (Expenditure components in billions of LBP) | | | | |
|---|-----------------|-----------------|-------------|------------|
| | 2012* | 2013* | % change in | |
| | | | price | real term |
| Gross domestic product at market prices | 66,481 | 71,185 | 3.9% | 3% |
| Total final consumption expenditure | 69,518 | 71,413 | 1% | 2% |
| by households | 60,788 | 62,534 | 1% | 2% |
| by government | 8,730 | 8,879 | 1% | 0% |
| Gross capital formation | 16,154 | 19,778 | 5% | 17% |
| Gross fixed capital formation | 16,493 | 19,355 | 5% | 11% |
| private | 15,290 | 17,967 | 5% | 12% |
| public | 1,203 | 1,387 | 5% | 10% |
| Acquisition less disposal of valuables | (339) | 423 | - | - |
| Net exports | (19,191) | (20,007) | - | - |
| Export of goods & services | 21,250 | 20,095 | -9% | 4% |
| Exports of goods (fob) | 7,048 | 6,007 | -27% | 17% |
| Exports of services | 14,203 | 14,088 | 1% | -2% |
| Import of goods & services | 40,442 | 40,102 | -7% | 7% |
| Imports of goods (fob) | 30,894 | 30,823 | -7% | 8% |
| Imports of services | 9,547 | 9,278 | -8% | 6% |

*at current prices

Source: Central Administration of Statistics



Lebanon ranks 36th globally, third in Arab world in Internet freedoms

In its annual report on Internet freedoms in 65 countries, independent think tank Freedom House ranked Lebanon in 36th place globally and in third place among 11 Arab countries in 2014. Lebanon also came in 11th place among 22 upper middle-income countries (UMICs) included in the survey. Lebanon came in 31st place globally and in third place among Arab countries in the 2013 survey.

The survey measures the level of Internet and digital media freedom across countries, as well as the access and openness of other digital means of transmitting information, mainly mobile phones and text messaging services. The survey covers the period from May 2013 to May 2014. A country's numerical rating is the sum of its rating on the Obstacles to Access category that varies between zero and 25 points, the Limit on Content category that ranges between zero and 35 points, and the Violations of Users' Rights category that varies between zero and 40 points. The survey provides a numerical rating for each country from zero to 100, with zero being the highest level of freedom. It categorizes each country's level of Internet freedom as 'Free,' 'Partly Free,' or 'Not Free' based on its numerical rating.

Globally, Lebanon's level of Internet freedoms is similar to that in Cambodia, is higher than in Jordan, Libya and Bangladesh, and is lower than in Malaysia, Zambia and Morocco. Lebanon also ranked ahead of Jordan, Libya and Azerbaijan, and came behind Mexico, Tunisia and Malaysia among UMICs. Regionally, Lebanon has lower level of Internet Freedom that only Tunisia and Morocco. Lebanon's score deteriorated from 45 points in the 2013 survey to 47 points in 2014, constituting the 10th steepest deterioration globally. Lebanon's score was better than the UMIC's average of 49.3 points, the non-GCC Arab countries' average of 54.9 points, the Arab average of 59.3 points, and the GCC countries' average score of 71 points. In contrast, Lebanon's score was worse than the global average of 45.5 points.

Lebanon tied with Azerbaijan, Cambodia, Turkey, the UAE and Vietnam, ranked ahead of Angola and Belarus, and came behind Rwanda and Zambia on the Obstacles to Access category. This category evaluates the infrastructural and economic barriers to Internet access, the legal and ownership control over Internet service providers, and the independence of regulatory bodies. Lebanon also tied with the UAE and came behind only Tunisia, Morocco, Jordan and Bahrain among Arab countries.

Further, Lebanon tied with Bangladesh, Egypt and Indonesia, ranked ahead of Zambia and Malaysia, and came behind Morocco and Ecuador on the Limits on Content category. This category measures the legal regulations on content, the technical filtering and blocking of websites, the self-censorship, the diversity of online news media, and the use of information and communication technologies for civic mobilization. Lebanon trailed only Tunisia, Libya and Morocco in the region.

Finally, Lebanon tied with Jordan, Libya and Venezuela, ranked ahead of Kazakhstan and Morocco, and came behind Malaysia and Singapore on the Violations of Users' Rights category. This category includes surveillance, privacy, and repercussions for online activity. Regionally, it tied with Libya and Jordan and ranked behind Tunisia.

| Freedom on the Net Index for 2014 | | | | |
|-----------------------------------|---------------|-----------|-------------|--------------------|
| | Overall Score | Arab Rank | Global Rank | Category |
| Tunisia | 39 | 1 | 27 | Partly Free |
| Morocco | 44 | 2 | 35 | Partly Free |
| Lebanon | 47 | 3 | 36 | Partly Free |
| Jordan | 48 | 4 | 38 | Partly Free |
| Libya | 48 | 4 | 38 | Partly Free |
| Egypt | 60 | 6 | 47 | Partly Free |
| Sudan | 65 | 7 | 53 | Not Free |
| UAE | 67 | 8 | 55 | Not Free |
| Saudi Arabia | 72 | 9 | 57 | Not Free |
| Bahrain | 74 | 10 | 58 | Not Free |
| Syria | 88 | 11 | 64 | Not Free |

Source: Freedom House, Byblos Research

Components of the 2014 Freedom on the Net Index for Lebanon

| Category | Global Rank | Arab Rank | UMICs Rank | Lebanon Score | Global Average Score | Arab Average Score | UMICs Average Score |
|---------------------------|-------------|-----------|------------|---------------|----------------------|--------------------|---------------------|
| Obstacles to Access | 40 | 5 | 12 | 14 | 11.5 | 15.0 | 12.8 |
| Limits on content | 32 | 4 | 11 | 12 | 13.7 | 16.7 | 15.1 |
| Violations of users right | 37 | 2 | 11 | 21 | 20.3 | 27.5 | 21.5 |

Source: Freedom House, Byblos Research

Airport activity up 4% in first 11 months of 2014

Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures, transit) totaled 5,996,677 in the first 11 months of 2014, constituting an increase of 4.2% from the same period last year. The total number of arriving passengers rose by 5.9% year-on-year to 2,923,059 in the first 11 months of the year compared to an increase of 4.4% in the same period of 2013. Also, the number of departing passengers increased by 2.7% year-on-year to 2,979,959 in the first 11 months of 2014 relative to an annual increase of 7.4% in the same period of 2013. In parallel, the airport's aircraft movement grew by 2.3% year-on-year to 58,992 take-offs and landings in the first 11 months of the year, compared to an annual drop of 0.8% in the same period of 2013. The HIA processed 85,674 metric tons of cargo in the first 11 months of 2014 that consisted of 84,980 tons of freight and 693 tons of mail.

Fiscal deficit at 19% of expenditures in first eight months of 2014 when assuming \$841m in telecom revenues

Figures released by the Finance Ministry show that the fiscal deficit reached \$1.7bn in the first eight months of 2014 and narrowed by 36.8% from \$2.6bn in the same period last year. The deficit was equivalent to 18.6% of total budget and Treasury expenditures compared to 29% of overall spending in the first eight months of 2013. Overall government expenditures reached \$8.9bn and decreased by 1.7% year-on-year, while total revenues rose by 12.6% to \$7.2bn. Budgetary expenditures increased by 4.8% to \$7.6bn and included \$1.4bn in transfers to Electricité du Liban and \$565.1m in outlays from previous years, while budget revenues rose by 5.1% to \$6.4bn. Tax revenues grew by 3.2% year-on-year to \$4.9bn, of which 31%, or \$1.5bn, were in VAT receipts that remained unchanged year-on-year. Tax revenues accounted for 77.4% of budgetary revenues and for 67.9% of total Treasury and budgetary receipts. Based on the Finance Ministry's own estimates, telecom receipts reached \$841.3m in the first eight months of 2014 compared to \$801.6m in the same period last year. On a cash basis for the two periods, public revenues increased by 13.7% year-on-year; while the fiscal deficit widened to \$2.5bn and was equivalent to 28.1% of expenditures.

The distribution of other tax revenues shows that receipts from taxes on income, profits & capital gains increased by 12.6% to \$1.5bn in the first eight months of 2014; revenues from customs regressed by 8.4% year-on-year to \$880.4m; receipts from property taxes rose by 8.8% to \$542.4m; revenues from taxes on goods & services grew by 5.3% to \$236.4m; and other tax receipts, mainly stamp fees, increased by 3.4% to \$216.9m. Further, the distribution of income tax revenues shows that receipts from taxes on profits accounted for 45.7% of total income tax receipts, followed by taxes on wages & salaries with 21.6%, taxes on interest deposits with 21% and the capital gains tax with 10%. Receipts from capital gains increased by 14.5%, income from the tax on profits rose by 14.2%, revenues from the taxes on wages & salaries grew by 10.9%, and receipts from tax on interest deposits rose by 9.2%.

Also, the distribution of property taxes shows that revenues from real estate registration fees increased by 8.6% to \$367m, receipts from built property taxes rose by 23.8% to \$111.6m and revenues from inheritance tax regressed by 9.6% to \$63.8m. In parallel, non-tax budgetary revenues rose by 12.3% to \$1.4bn, with revenues from government properties rising by 12.6% to \$1.1bn and administrative fees & charges growing by 9.8% to \$273.6m. Based on the ministry's assumption, receipts from telecom services accounted for 77.7% of income from government properties and for 58.5% of non-tax revenues.

Debt-servicing cost increased by 11.6% year-on-year to \$2.6bn in the first eight months of 2014. It accounted for 29.3% of total expenditures and for 34.3% of budgetary spending, and absorbed 36% of overall revenues and 41.1% of budgetary receipts. Interest payment on domestic debt grew by 15.2% year-on-year to \$1.6bn, while interest disbursement on foreign debt rose by 6.1% to \$920.3m. Also, the repayment of principal on foreign debt increased by 10.4% to \$121.1m. Excluding debt servicing, the primary budget balance posted a surplus of \$1.3bn, or 17.7% of budget expenditures compared to a surplus of \$1.1bn, or 15.3% of budget spending in the first eight months of 2013. The overall primary balance posted a surplus of \$951.3m or 10.7% of spending in the first eight months of 2014, relative to a deficit of \$284.1m or 3.14% of total expenditures in the same period last year.

| Fiscal Results in First Eight Months of 2014 | | |
|---|---|--|
| | Including Assumed Telecom Receipts | Excluding Assumed Telecom Receipts* |
| | US\$m | US\$m |
| Budget revenues | 6,355 | 5,513 |
| Tax revenues | 4,916 | 4,916 |
| Non-tax revenues | 1,439 | 579.4 |
| <i>of which Telecom revenues</i> | 841.3 | - |
| Budget expenditures | 7,615 | 7,615 |
| Budget Surplus/Deficit | (1,260) | (2,102) |
| <i>In % of budget expenditures</i> | <i>(16.6%)</i> | <i>(27.6%)</i> |
| Budget Primary Surplus | 1,348 | 507.1 |
| <i>In % of budget expenditures</i> | <i>17.7%</i> | <i>6.7%</i> |
| Treasury receipts | 886.9 | 886.9 |
| Treasury expenditures | 1,284 | 1,284 |
| Total Revenues | 7,242 | 6,400 |
| Total Expenditures | 8,899 | 8,899 |
| Total Deficit | (1,658) | (2,499) |
| <i>In % of total expenditures</i> | <i>(18.6%)</i> | <i>(28.1%)</i> |
| Total Primary Surplus/Deficit | 951.3 | 110 |
| <i>In % of total expenditures</i> | <i>10.7%</i> | <i>1.2%</i> |

* Cash basis

Source: Ministry of Finance, Byblos Research



Central Bank coordinating with Finance Ministry on new Eurobond issue

In the monthly meeting between the Central Bank and the Association of Banks in Lebanon (ABL), Governor Riad Salamé indicated that the currency market and the level of interest rates in Lebanon are stable, and that there is no pressure currently to raise interest rates. He considered that lower global oil prices would allow the Central Bank to stimulate economic activity rather than to focus on containing inflationary pressures. Governor Salamé informed banks that the Central Bank is coordinating with the Ministry of Finance to complete a Eurobond issue that the ministry is planning, as per the recently ratified law that allows the issuance of \$2.5bn in Eurobonds. In addition, Governor Salamé estimated the growth in banks' deposits at 6% in 2014, which is adequate to finance the similar growth in lending activity this year. He indicated that the stimulus package for 2015 would support economic activity, given that banks' lending is currently the main driver of growth in Lebanon.

Also, the ABL asked the Central Bank to review the latter's recent decision about allocating collective provisions and to allow banks to treat them as part of their reserves. Governor Salamé informed the ABL that the Bank plans to issue a revised circular that will allow banks to choose between collective provisions and reserves. He added that banks should have an adequate buffer to face unexpected risks. Further, Governor Salamé indicated that the Public Housing Corporation (PHC) has not paid its obligations to Lebanese banks as per the protocol signed between the PHC and the ABL. He called on banks to refrain from increasing interest rates on PHC loans' beneficiaries. He asked the ABL to estimate the value of housing loans guaranteed by the PHC and their distribution in order to provide a solution to this problem until the Finance Ministry transfers its dues to the PHC.

In parallel, Governor Salamé stated that the Central Bank of Lebanon cannot intervene with the Central Bank of Iraq (CBI) about the latter's decision to increase the capital of foreign banks operating in Iraq. He considered that such an increase protects banks and called on Lebanese banks to evaluate their position in the Iraqi market and to decide whether to maintain their operations in the country or to exit the market. He added that Lebanese banks operating in Iraq should communicate with the CBI to resolve their issues. Governor Salamé added that Lebanese banks in Iraq should increase their efforts to prevent their institutions from being used for money laundering or terrorist financing transactions.

Association of Banks amends reference rates 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 (BRR) in US dollars to 6.12% in January 2015 from 6.05% currently. The rate, considered as the reference rate for lending in foreign currency, replaced the London Inter-Bank Offering Rate (LIBOR) in 2009 as 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 8.71% in January from the current rate of 8.63%. The Beirut Reference Rate in US dollars and Lebanese pounds were adopted in March and May 2009, respectively. The ABL considers 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.

Customs receipts down 6% to \$1.2bn in first 10 months of 2014

Figures released by the Customs Directorate indicate that customs revenues reached \$1.17bn in the first 10 months of 2014, constituting a decrease of 6% from \$1.24bn in the same period last year. The Port of Beirut continues to be the main source of customs receipts, as it accounted for about 88% of the total in the first 10 months of the year. It was followed by the Hariri International Airport with 7.4%, the Port of Tripoli with 3.1%, the Port of Saida and the Masnaa crossing point with 0.7% each, and the Port of Tyre with 0.1%. Customs receipts from the value-added tax totaled \$1.15bn in the first 10 months of 2014, reflecting a decrease of 1.7% from \$1.17bn in the same period of 2013. The Port of Beirut accounted for 81.8% of such receipts, followed by the Hariri International Airport with 10.7%, the Port of Tripoli with 4.2%, the Masnaa crossing point with 2.3%, the Port of Saida with 0.9%, while the Port of Tyre and the Abboudieh and Arida crossing points had a 0.1% share each. As such, overall customs receipts reached \$2.3bn in the first 10 months of 2014, with the Port of Beirut accounting for 84.9% of the total, followed by the Hariri International Airport with 9%, the Port of Tripoli with 3.6%, the Masnaa crossing point with 1.5%, the Port of Saida with 0.8% and the Port of Tyre with 0.1%.

Treasury transfers to Electricité du Liban up 10% in first half of 2014

Figures released by the Finance Ministry show that Treasury transfers to Electricité du Liban (EdL) totaled \$1.04bn in the first half of 2014, constituting an increase of 10.2% from \$941.8m in the same period of 2013. The ministry said that reimbursements to the Kuwait Petroleum Corporation (KPC) and to Algerian energy conglomerate Sonatrach totaled \$1.03bn, or 99.1% of transfers in the covered period, while EdL's debt servicing represented \$9.7m or 0.9% of the total. It attributed the increase in transfers to a rise of \$113.4m, or 12.4%, in payments to KPC and Sonatrach during the covered period; given that debt servicing fell by \$17.1m, or 63.8% year-on-year. In parallel, the ministry said that the increase in payments to KPC and Sonatrach reflects a 47% year-on-year rise in the quantity of imported fuel oil, and a 7% growth in the quantity of imported gas oil. Also, it pointed out that EdL contributed just 3.9% of the repayments to the two oil suppliers during the covered period compared to 2.3% in the same period last year. EdL transfers accounted for 22.3% of primary expenditures in the first half of 2014, up from 19.5% in the same period of 2013. They constitute the third largest expenditures item after debt servicing and salaries & wages in overall fiscal spending. EdL transfers were equivalent to 5.3% of GDP in 2012 and to 4.6% of GDP in 2013.



Trade deficit widens by 3% to \$15bn in first 10 months of 2014, exports down by 19%

Total imports reached \$17.5bn in the first 10 months of 2014, constituting a decrease of 1.2% from the same period last year; while aggregate exports declined by 18.6% to \$2.8bn, leading to a trade deficit of \$14.7bn, up by 3% year-on-year. The widening of the deficit was due to a decrease of \$638.2m in exports year-on-year, given that imports fell by \$207.8m. The coverage ratio reached 16% in the first 10 months of 2014 compared to 19.4% in the same period last year, while it reached 16.2% in October 2014 relative to 15.5% in October 2013. The value of imported oil & mineral fuels rose by 4.5% year-on-year to \$4.3bn, and that of non-hydrocarbon imports dropped by 2.9% to \$13.1bn. Oil & mineral fuels accounted for 24.7% of total imports in the covered period compared to a share of 23.3% in the same period last year.

In volume terms, imports reached 13.1 million tons in the first 10 months of 2014, constituting a decrease of 0.9% from the same period last year; while exports posted a 22.4% decline to 1.9 million tons, leading to a trade deficit of 11.2 million tons in the covered period, up by 3.9% year-on-year. Imports of oil & mineral fuels increased by 10.1% year-on-year to 6.3 million tons, while non-hydrocarbon imports decreased by 9.4% annually to 6.8 million tons. Imported oil & mineral fuels accounted for 48.3% of total imports in the covered period compared to a share of 43.5% in the same period last year.

China was the main source of imports with \$2.1bn or 12.1% of the total in the first 10 months of 2014, followed by Italy with \$1.4bn (8.2%), France with \$1.1bn (6.5%), the United States with \$1.05bn (6%), Germany with \$1bn (5.9%), Russia with \$722.3m (4.1%) and Greece with \$643.2m (3.7%). Imports from Greece surged by 27.4% annually and those from China grew by 11.8%; while imports from the United States dropped by 21.2%, those from France regressed by 10.3%, imports from Russia fell by 7.4%, those from Italy declined by 2.4% and those from Germany decreased by 0.7%.

Further, Saudi Arabia was the main export destination of Lebanese merchandise with \$317.6m or 11.4% of the total, followed by South Africa with \$279.6m (10%), the UAE with \$269.7m (9.7%), Iraq with \$211.4m (7.6%), Syria with \$199.5m (7.1%), Turkey with \$129.6m (4.6%) and Jordan with \$107.3m (3.8%). Exports to Syria dropped by 56.8% year-on-year, those to South Africa declined by 26.8%, exports to Turkey regressed by 16.3%, those to Jordan fell by 10.5%, exports to Iraq decreased by 8.6% and those to the UAE fell by 4.5%; while exports to Saudi Arabia rose by 6% annually in the first 10 months of 2014.

Lebanon's main export product was jewelry at \$482m or 17.3% of the total, followed by prepared foodstuff with \$425.3m (15.2%), machinery & mechanical appliances with \$371.4m (13.3%), chemical products with \$320.3m (11.5%), base metals with \$319.4m (11.4%), and paper & paperboard with \$179.5m (6.4%). Re-exports totaled \$348m in the first 10 months of 2014 compared to \$203m in the same period last year.

EU allocates €7.9m to NGOs to improve access to water in the North and the Bekaa regions

The European Union signed with the international non-government organization (NGO) Première Urgence-Aide Médicale Internationale Association a €1.4m grant agreement to support the rehabilitation of water infrastructure for rural communities in the Akkar district. The two-year project aims to improve general access to safe water in the Arida and Cheikh Zennad villages through the construction of new water supply networks.

Also, the EU extended a €1.9m grant to Italian NGO Gruppo di Volontariato Civile Associazione to improve access to water services in communities hosting Syrian refugees in the North Bekaa Valley. The 24-month project aims to improve the access to water and sanitation facilities through the construction of water supply infrastructures in the Zabboud, Jabboulé and El Ain villages of the North Bekaa region, as well as by strengthening management capacities and increase users' awareness in the North Bekaa Valley.

Further, the EU signed a €3.5m grant contract with NGO World Vision to support water and sanitation in the Bekaa region. The 31-month project would provide access to safe water, sanitation facilities, and hygiene services to communities hosting Syrian refugees in the Bekaa, which would mitigate the water-related health risks.

In addition, the EU extended a €1.2m grant to NGO OXFAM in order to finance the rehabilitation and expansion of the water supply network in Chtaura. The two-year project would provide sustainable access to water for Lebanese households in Chtaura through the development of local water infrastructure and improved water management capacity.

Insurance premiums up 6% to \$1.1bn in first nine months of 2014, claims and benefits rise by 13% to \$570m

Figures released by the Association of Insurance Companies in Lebanon (ACAL) indicate that insurance premiums in Lebanon totaled \$1.13bn in the first nine months of 2014, constituting an increase of 5.8% from \$1.1bn in the same period of 2013. Premiums reached \$393m in the first quarter, \$411.5m in the second quarter and \$330.1m in the third quarter of 2014.

Medical insurance premiums totaled \$355.4m in the first nine months of the year and accounted for 31.3% of the sector's aggregate premiums. They were followed by life premiums with \$325.9m (28.7%), motor premiums with \$254.5m (22.4%), fire premiums with \$88.4m (7.8%), workmen compensation with \$31.5m (2.8%), cargo premiums with \$25.8m (2.3%), public liability premiums with \$13.4m (1.2%) and engineering premiums with \$5.7m (0.5%), while premiums from other categories reached \$33.9m or 3% of the total. Medical and fire premiums grew by 9% each annually in the first nine months of the year, life premiums and premiums from other categories rose by 6% each, motor premiums increased by 3%, and workmen compensation grew by 2%. In contrast, engineering premiums fell by 29%, public liability premiums decreased by 7% and cargo premiums regressed by 1% year-on-year.

In parallel, ACAL indicated that total benefits and claims paid by insurance companies stood at \$570.4m in the first nine months of 2014, constituting an increase of about 13% from the same period last year. Medical claims reached \$228.1m in the first nine months of 2014 and accounted for 40% of total payments. They were followed by life claims with \$145.9m (25.6%), motor policy payments with \$136.9m (24%), workmen's claims with \$19.7m (3.4%), fire claims with \$19m (3.3%), cargo claims with \$6.3m (1.1%), public liability claims with \$5.4m (1%) and engineering claims with \$1.9m (0.3%), while claims for other categories reached \$7.3m (1.3%). Public liability claims surged by 94% annually in the first nine months of the year, life claims improved by 85%, cargo claims rose by 48%, workmen claims increased by 18%, claims from other categories grew by 5% and medical claims rose by 4%. In contrast, fire claims dropped by 46%, engineering claims regressed by 2%, and motor claims remained unchanged year-on-year.

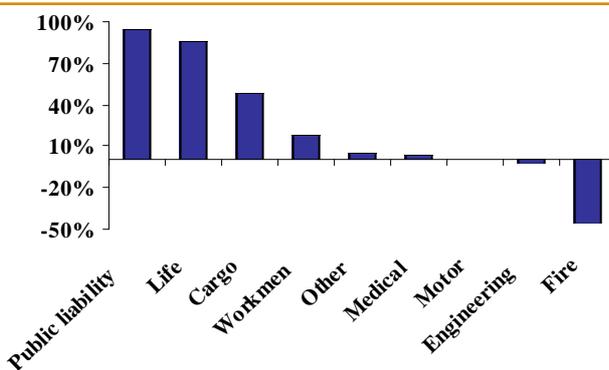
Further, unit-linked policies accounted for 56.7% of total life premiums and for 16.3% of the total number of life subject matters in the first nine months of 2014, while life protection plans represented 43.3% of total life premiums and 83.7% of the total number of life subject matters in the covered period. ACAL noted that medical insurance premiums covering Lebanese citizens rose by 10% to \$346m, while medical insurance premiums covering expatriates grew by 2% year-on-year to \$9.4m in the first nine months of the year. Finally, it indicated that non-compulsory motor insurance premiums increased by 2% year-on-year to \$215.3m, while compulsory motor insurance premiums rose by 6% annually to \$39.2m in the first nine months of 2014.

New car sales down 26% month-on-month in November 2014

Figures released by the Association of Automobile Importers in Lebanon (AIA) indicate that 34,522 new passenger cars were sold in the first 11 months of 2014, constituting an increase of 5.6% from 32,695 cars in the same period last year. It added that 2,438 new passenger cars were sold in November 2014, a decrease of 25.5% from 3,273 vehicles in the previous month. Korean cars accounted for 41.5% of total sales in the first 11 months, followed by Japanese cars with a 33.9% share, European automobiles with 18.3%, American vehicles with 4.8%, and Chinese cars with 1.4%. The number of Japanese cars sold rose by 29.3% year-on-year; while the number of Chinese cars sold declined by 27.8% from the same period last year, followed by American vehicles with a 6.1% drop, Korean cars with a 3.1% decrease and European automobiles with a 1.3% decline in sales. Kia is the leading brand in the Lebanese market with 7,769 cars sold in the first 11 months of 2014, followed by Hyundai with 6,552 cars sold, Toyota (4,520), Nissan (4,272), Renault (1,203), Mitsubishi (1,020) and Chevrolet (882). In parallel, 2,127 new commercial vehicles were sold in the first 11 months of 2014, constituting a rise of 2.4% from 2,078 vehicles sold in the same period last year and an increase of 5.9% from 2,009 vehicles in the first 11 months of 2012.

The AIA indicated that the combined number of registered new and imported used cars regressed by 22% month-on-month in November 2014. It added that the number of new and used cars sold in the first 11 months of 2014 dropped by 2% from the same period last year, and regressed by 8% from the first 11 months of 2012 and by 12% from the same period of 2011. It said that the luxury car segment accounted for only 3.5% of total new registered cars. It reiterated that about 90% of new cars sold were small automobiles that cost \$15,000 or less each. The number of new vehicles sold by the country's top five distributors reached 26,772 in the first 11 months of 2014 and accounted for 73% of new vehicles sold. NATCO sal sold 7,769 vehicles in the covered period, equivalent to 21.2% of the total, followed by Century Motor Co. sal with 6,692 (18.3%), Boustany United Machineries sal with 4,859 (13.3%), Rasamny Younis Motor Co. sal with 4,766 (13%) and Bassoul Heneme sal with 2,686 (7.3%).

Change in Claims Paid in First Nine Months of 2014*



*Percentage change from first nine months of 2013

Source: ACAL, Byblos Research

Kafalat loan guarantees down 5% to \$103m in first 11 months of 2014

Figures released by the Kafalat Corporation show that loans extended to small- and medium-size companies under the guarantee of Kafalat reached \$103.3m in the first 11 months of 2014, down by 4.5% from \$108.1m in the same period last year. The number of loan guarantees totaled 796 year-to-November compared to 801 in the first 11 months of 2013. The average loan size reached \$129,750 compared to \$134,948 in the same period of 2013. Mount Lebanon accounted for 42.3% of guarantees, followed by the Bekaa with 19.7%, the South with 12.2%, the North with 11.4%, Nabatieh with 10.6% and Beirut with 3.8%. The agricultural sector accounted for 48.2% of total guarantees, followed by industry with 35.2%, tourism with 11.2%, handicraft with 3% and specialized technologies with 2.4%. Kafalat is a state-sponsored organization that provides financial guarantees for loans up to \$400,000 earmarked for the setup 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. It also guarantees up to 90% of the loan amount for innovative start-ups and a similar percentage of the interest that accrues during the grace period.

Top five freight forwarders' import activity stagnates in first 10 months of 2014

Figures released by the Port of Beirut Authority show that overall import shipping operations by the top five freight forwarders reached 290,734 20-foot equivalent units (TEUs) in the first 10 months of 2014, constituting a drop of 0.4% from 291,988 TEUs in the same period last year. They accounted for 58.7% of the total import freight forwarding market during the covered period. Mediterranean Shipping Company (MSC) handled 96,570 TEUs in imports in the first 10 months of the year, equivalent to 19.5% share of the total freight forwarding import market. It was followed by Merit Shipping with 64,441 TEUs (13%), Sealine Group with 58,697 TEUs (11.8%), Metz Group with 39,883 TEUs (8%) and Gezairy Transport with 31,143 TEUs (6.3%). Further, Gezairy Transport registered the highest growth in import shipping among the top five freight forwarders at 62% year-on-year, while Sealine Group posted the steepest drop of 25.8% year-on-year.

In parallel, export shipping operations by the top five freight forwarders reached 54,242 TEUs in the first 10 months of 2014, constituting a decrease of 12.6% from 62,067 TEUs in the same period of 2013. They accounted for 93.5% of the total export freight forwarding market during the covered period. Merit shipping group handled 18,933 TEUs of freight, equivalent to a 32.6% share of the total freight forwarding Lebanese cargo export market. It was followed by Sealine group with 18,611 TEUs (32.1%), Metz Group with 9,292 TEUs (16%), MSC with 4,526 TEUs (7.8%) and Gezairy Transport with 2,880 TEUs (5%). Further, Metz Group registered the highest growth in export shipping among the top five freight forwarders at 79.8% year-on-year, while Sealine Group posted the steepest drop of 41.3% year-on-year.

Ratio Highlights

| (in % unless specified) | 2011 | 2012 | 2013 | Change* |
|--|--------|--------|--------|---------|
| Nominal GDP (\$bn) | 40.1 | 42.5 | 44.3 | |
| Public Debt in Foreign Currency / GDP | 52.2 | 57.4 | 58.9 | 150 |
| Public Debt in Local Currency / GDP | 81.7 | 78.3 | 84.3 | 600 |
| Gross Public Debt / GDP | 133.9 | 135.7 | 143.2 | 750 |
| Total Gross External Debt / GDP | 169.2 | 170.0 | 176.7 | 670 |
| Trade Balance / GDP | (39.7) | (39.5) | (39.0) | 50 |
| Exports / Imports | 21.2 | 21.1 | 18.6 | (250) |
| Fiscal Revenues / GDP | 23.3 | 22.1 | 21.3 | (80) |
| Fiscal Expenditures / GDP | 29.1 | 31.3 | 30.8 | (50) |
| Fiscal Balance / GDP | (5.9) | (9.2) | (9.5) | (30) |
| Primary Balance / GDP | 4.2 | (0.3) | (0.5) | (20) |
| Gross Foreign Currency Reserves / M2 | 79.2 | 69.4 | 69.6 | 20 |
| M3 / GDP | 242.6 | 244.6 | 250.8 | 620 |
| Commercial Banks Assets / GDP | 350.7 | 357.2 | 371.9 | 1,470 |
| Private Sector Deposits / GDP | 288.7 | 294.0 | 307.3 | 1,330 |
| Private Sector Loans / GDP | 98.3 | 102.2 | 106.9 | 470 |
| Private Sector Deposits Dollarization Rate | 65.9 | 64.8 | 66.1 | 130 |
| Private Sector Lending Dollarization Rate | 78.4 | 77.6 | 76.5 | (110) |

* Change in basis points 12/13

Source: Institute of International Finance, Association of Banks in Lebanon, International Monetary Fund, Byblos Research Estimates & Calculations

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

Risk Outlook

| Lebanon | Feb 2013 | Jan 2014 | Feb 2014 | Change* | Risk Level |
|-----------------------|----------|----------|----------|---------|------------|
| Political Risk Rating | 53.0 | 52.0 | 52.0 | ▼ | High |
| Financial Risk Rating | 35.0 | 38.0 | 38.0 | ▲ | Low |
| Economic Risk Rating | 34.0 | 27.0 | 27.0 | ▼ | High |
| Composite Risk Rating | 61.0 | 58.5 | 58.5 | ▼ | High |

| Regional Average | Feb 2013 | Jan 2014 | Feb 2014 | Change* | Risk Level |
|-----------------------|----------|----------|----------|---------|------------|
| Political Risk Rating | 58.6 | 58.4 | 58.4 | ▼ | High |
| Financial Risk Rating | 41.6 | 40.7 | 40.4 | ▼ | Very Low |
| Economic Risk Rating | 36.3 | 35.8 | 35.9 | ▼ | Low |
| Composite Risk Rating | 68.2 | 67.5 | 67.4 | ▼ | Moderate |

*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 | Negative | B1 | | Negative |
| Fitch Ratings | B | B | Negative | B | | Negative |
| Standard & Poor's | 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 | E+ | | Negative |
| EIU | | CCC | |

Source: Rating agencies

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