

LEBANON THIS WEEK

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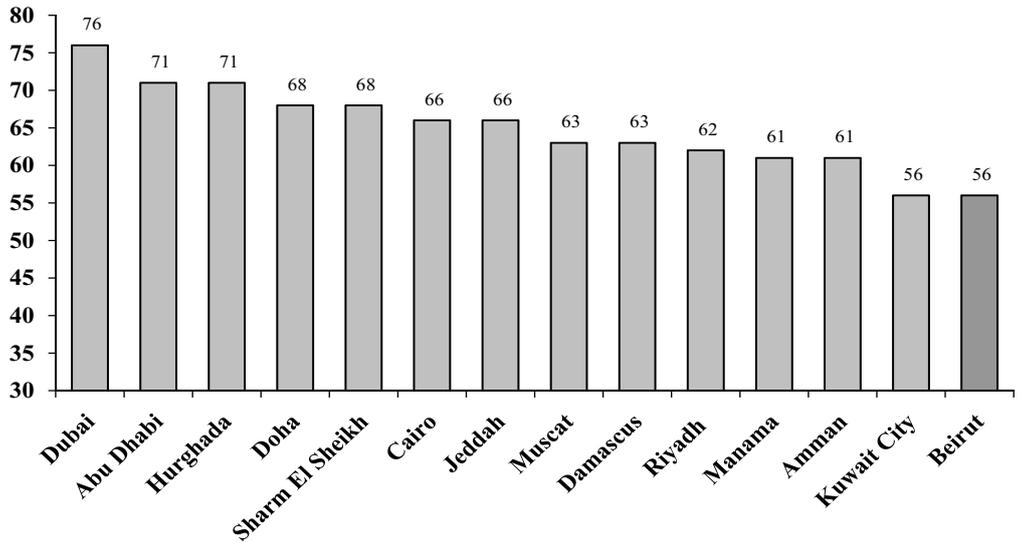
New car sales up 3% in first four months of 2016

LIA's net profits up 9% to \$15m in 2015

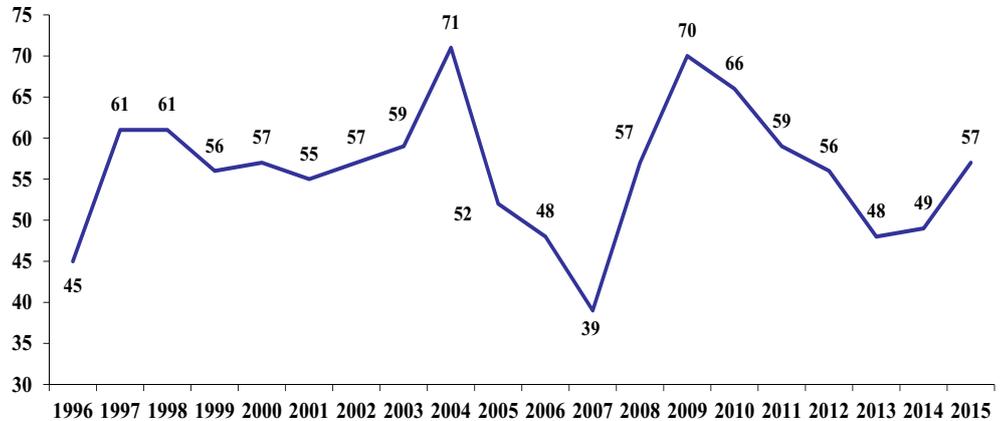
Solidere's consolidated net losses at \$87m in 2015

Charts of the Week

Average Annual Occupancy Rates at Hotels in Select Arab Cities during the 1995-2015 period (%)



Occupancy Rates at Hotels in Beirut (%)



Source: HVS, Byblos Bank

Quote to Note

"We will particularly be focusing on education, women, infrastructure, institutions and sustainability."

The United Nations, on its sustainable development goals for Lebanon in 2016

Number of the Week

39: Number of times since May 2014 that the Lebanese Parliament convened and failed to elect a President

Lebanon in the News

\$m (unless otherwise mentioned)	2014	Dec 2014	Sep 2015	Oct 2015	Nov 2015	Dec 2015	% Change*
Exports	3,313	268	243	261	222	236	(11.94)
Imports	20,494	1,649	1,434	1,467	1,539	1,841	11.64
Trade Balance	(17,181)	(1,381)	(1,191)	(1,206)	(1,317)	(1,605)	16.22
Balance of Payments	(1,408)	(116)	(122)	(396)	(816)	(372)	220.7
Checks Cleared in LBP	18,143	1,599	1,587	1,700	1,507	1,709	6.89
Checks Cleared in FC	56,348	4,692	4,151	4,552	3,987	4,265	(9.10)
Total Checks Cleared	74,491	6,291	5,738	6,252	5,494	5,974	(5.04)
Budget Deficit/Surplus	(3,073)	(48.82)	(619.44)	10.56	(643.40)	(711.58)	1357.7
Primary Balance	1,307	281.94	(121.58)	486.02	(95.30)	(338.61)	-
Airport Passengers***	6,567,647	573,229	750,290	575,660	501,204	616,249	7.50

\$bn (unless otherwise mentioned)	2014	Dec 2014	Sep 2015	Oct 2015	Nov 2015	Dec 2015	% Change*
BdL FX Reserves	32.40	32.40	32.02	33.25	31.77	30.64	(5.45)
<i>In months of Imports</i>	<i>18.97</i>	<i>19.65</i>	<i>22.33</i>	<i>22.67</i>	<i>20.64</i>	<i>16.64</i>	<i>(15.31)</i>
Public Debt	66.57	66.57	68.72	69.05	70.44	70.31	5.62
Bank Assets	175.70	175.70	181.34	182.27	183.18	185.99	5.86
Bank Deposits (Private Sector)	144.43	144.43	149.11	149.36	149.81	151.59	4.96
Bank Loans to Private Sector	50.90	50.90	52.61	52.99	53.22	54.22	6.53
Money Supply M2	48.69	48.69	51.54	51.64	51.75	52.15	7.11
Money Supply M3	117.68	117.68	122.08	122.05	122.45	123.62	5.05
LBP Lending Rate (%)	7.49	7.49	7.08	7.13	6.93	7.45	(4bps)
LBP Deposit Rate (%)	5.56	5.56	5.57	5.67	5.56	5.56	-
USD Lending Rate (%)	6.97	6.97	7.19	7.05	7.15	7.06	9bps
USD Deposit Rate (%)	3.07	3.07	3.14	3.20	3.17	3.17	10bps
Consumer Price Index**	0.59	(1.66)	(0.64)	0.41	(0.17)	1.40	-

* Year-on-Year ** Year-on-Year percentage change

***includes arrivals, departures, transit

Note: bps i.e. basis points

Source: Association of Banks in Lebanon, Banque du Liban, Ministry of Finance, Byblos Research

Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization
Audi GDR	5.99	3.28	1,715,755	6.22%
Byblos Common	1.63	(0.61)	166,363	5.30%
BLOM GDR	10.31	(0.77)	108,430	6.89%
BLOM Listed	10.12	0.70	44,449	19.66%
Solidere "A"	9.84	(0.10)	41,658	8.89%
Audi Listed	5.90	0.68	19,344	21.31%
Solidere "B"	9.90	0.10	12,285	5.82%
Byblos Pref. 09	100.20	0.00	2,277	1.81%
HOLCIM	14.47	1.19	1,270	2.55%
Byblos Pref. 08	100.90	0.90	1,160	1.82%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Mar 2017	9.00	103.38	4.85
Nov 2018	5.15	100.13	5.10
May 2019	6.00	101.50	5.45
Mar 2020	6.38	102.13	5.74
Apr 2021	8.25	109.88	5.90
Oct 2022	6.10	100.00	6.10
Jun 2025	6.25	98.13	6.53
Nov 2026	6.60	99.88	6.62
Feb 2030	6.65	98.50	6.82
Nov 2035	7.05	100.75	6.98

Source: Byblos Bank Capital Markets

	May 9-13	May 2-6	% Change	April 2016	April 2015	% Change
Total Shares Traded	2,155,922	730,298	195.21	3,131,933	1,018,275	207.57
Total Value Traded	\$14,524,456	\$4,851,588	199.38	\$34,700,460	\$10,508,586	230.21
Market Capitalization	\$11.07bn	\$11.03bn	0.32	\$11.05bn	\$11.56bn	(4.406)

Source: Beirut Stock Exchange (BSE)



Telecommunication sector in 16th place in MENA region in terms of risks-rewards

BMI Research ranked Lebanon in 16th place among 18 countries in the Middle East & North Africa (MENA) region on its Telecommunications Risks/Rewards Rating (RRR) for the third quarter of 2016. Lebanon's rank was unchanged from the second quarter of the year. Lebanon received a score of 37.2 points, below the region's average of 46.2 points.

The RRR is a weighted average of the 'Rewards' sub-rating that has a weight of 70% and the 'Risks' sub-rating that has a weight of 30%. The sub-ratings cover risks and rewards on the industry and country levels. The 'Rewards' sub-rating evaluates the size and the growth potential of a country's telecom market, as well as the country's broader economic and socio-demographic characteristics that impact the development of the telecom industry. The Industry Rewards category has a weight of 65% and the Country Rewards category has a weight of 35%. The 'Risks' sub-rating assesses specific threats to the telecom sector as well as risks related to the country's domestic political and economic profile that could affect the realization of expected returns in the telecom industry. The Industry Risks category has a weight of 40% and the Country Risks category has a weight of 60%. Ratings are on a scale from zero to 100, with a score of 100 reflecting the highest rating.

Lebanon came in last place on the Industry Rewards category, which reflects the low level of competition in the telecom sector. Lebanon received a score of 21.3 points on this category, well below the region's average score of 36.6 points. Further, Lebanon came, along with Kuwait, in 13th place on the Industry Risks category, better than only Iran, Syria, Yemen and Libya. It received a score of 30 points on this category, lower than the MENA region's average score of 43.3 points.

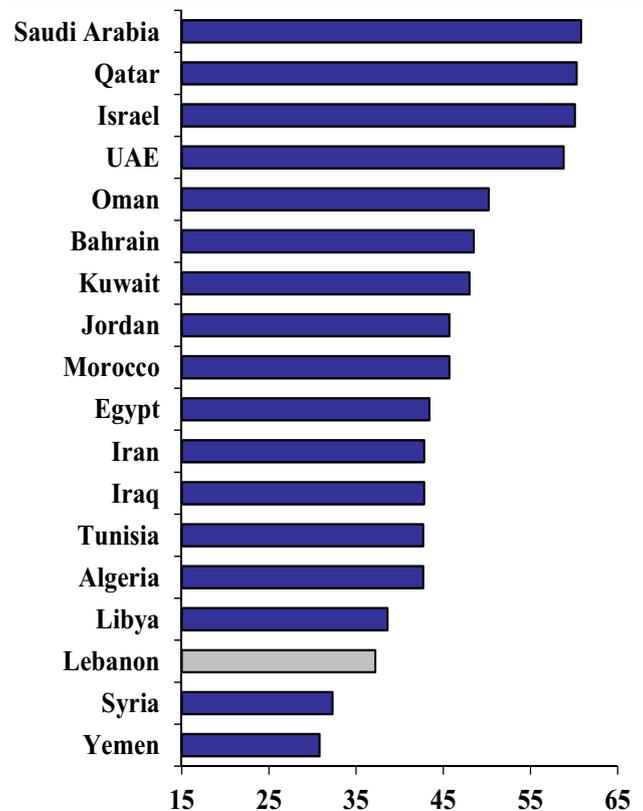
In parallel, Lebanon came in sixth place on the Country Rewards category, behind Israel, Kuwait, Qatar, Bahrain and the UAE. It received a score of 66.7 points on this category, higher than the region's average score of 61.5 points. In contrast, Lebanon came in 14th place on the Country Risks category, better than only Iraq, Libya, Syria and Yemen. Lebanon received a score of 44.8 points on this category relative to the MENA region's average score of 53.1 points.

Agreement to support Lebanese exports to European Union

The Netherlands-based Center for the Promotion of Imports from developing countries (CBI) signed a Memorandum of Understanding (MoU) with the Investment Development Authority of Lebanon (IDAL), along with the Chamber of Commerce, Industry and Agriculture of Beirut & Mount Lebanon, to improve the accessibility of Lebanese exports to European Union (EU) countries. Under the agreement, the CBI will offer technical assistance, including training and capacity building, among other support, to Lebanese producers and exporters. The assistance would mainly focus on enhancing the export environment of Lebanese agricultural and agro-food products to the EU market. The cooperation is expected to last until the end of 2016, and can be renewed in case of need.

The CBI is part of the Netherlands Enterprise Agency and is commissioned by the Ministry of Foreign Affairs of the Netherlands to support producers and exporters from developing countries to enter the EU market. It contributes to sustainable economic development in developing countries through the expansion of exports from these economies. Lebanese exports to the EU market accounted for 14% of total Lebanese exports in the first quarter of 2016, for 11.6% in full year 2015 and for 11.1% in full year 2014.

Telecommunications Risk/Reward Ratings for Third Quarter 2016



Source: BMI Research, Byblos Research

Lebanon's external debt posts 16th lowest return in emerging markets, second lowest in the Middle East & Africa

Figures issued by Merrill Lynch indicate that Lebanon's external debt posted a return of 2.69% in the first four months of 2016, constituting the 10th lowest return among 40 markets in the Central & Eastern Europe and the Middle East & Africa (CEEMEA) region, as well as the 16th lowest return among 71 emerging markets included in Merrill Lynch's External Debt EM Sovereign Index. Lebanon underperformed the overall emerging markets' return of 6% during the covered period. Further, Lebanon's external debt posted the second lowest return among 23 countries in the Middle East & Africa region in the covered period, ahead of only Bahrain (+2.01%).

In parallel, Lebanon's external debt posted a return of 1.1% in April 2016, constituting the 14th lowest return in the CEEMEA region and the 25th lowest in emerging markets during the covered month. Lebanon underperformed the emerging markets' return of 1.45% in April 2016.

Further, Lebanon's external debt posted the eighth lowest return in the Middle East & Africa region in April 2016, ahead of Israel (+0.81%), South Africa (+0.66%), Kenya and Qatar (+0.57% each), Jordan (+0.36%), Zambia (+0.34%) and the Ivory Coast (+0.05%). It underperformed Angola (+6.41%), Gabon (+5.72%), Cameroon (+4.79%), Iraq (+4%), Tunisia (+3.51%), Namibia (+1.93%), Rwanda (+1.84%), Bahrain (+1.66%), Ghana (+1.62%), Senegal (+1.48%), Nigeria (+1.43%), Egypt and Turkey (+1.24% each), Morocco (+1.21%) and the UAE (+1.16%).

Merrill Lynch indicated that the spread on Lebanese Eurobonds ended April 2016 at 483 basis points compared to 396 basis points at end-April 2015, constituting the 20th widest spread in the CEEMEA region and the 28th widest among emerging markets. It was wider than the emerging markets' overall spread of 320 basis points at the end of April 2016. Lebanon has a weight of 3.13% on Merrill Lynch's External Debt EM Sovereign Index, the fourth largest weight in the CEEMEA universe and the ninth largest among emerging economies. Lebanon accounted for 5.9% of allocations in the CEEMEA region.

Airport passengers up 6% in first four months of 2016

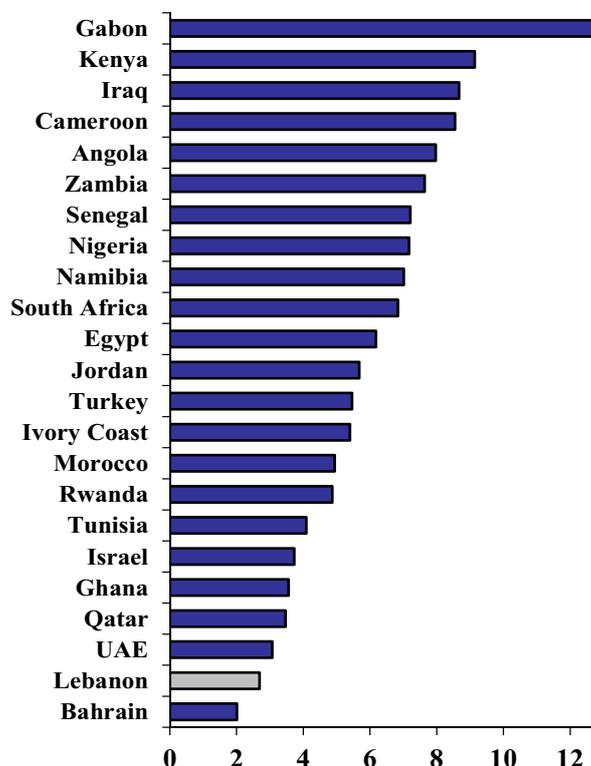
Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures, transit) totaled 2,081,538 in the first four months of 2016, constituting an increase of 5.5% from 1,973,166 passengers in the same period last year. The total number of arriving passengers rose by 5.5% year-on-year to 1,006,559 in the first four months of 2016, compared to an increase of 10.8% in the same period of 2015 and to a decrease of 1.2% in the first four months of 2014. Also, the number of departing passengers grew by 5.3% year-on-year to 1,069,193 in the first four months of 2016, relative to an increase of 8.7% in the same period of 2015 and to a drop of 7.5% in the first four months of 2014.

In parallel, the airport's aircraft activity grew by 7.4% year-on-year to 21,356 take-offs and landings in the first four months of 2016, compared to an increase of 4.5% in the first four months last year and to a decrease of 0.6% in the same period of 2014. In addition, the HIA processed 25,745 metric tons of freight in the first four months of 2016 that consisted of 17,042 tons of import freight and 8,703 tons of export freight. Middle East Airlines had 7,405 flights in the first four months of 2016 and accounted for 34.7% of HIA's total aircraft movement.

Value of cleared checks nearly unchanged, returned checks down 16% in first quarter of 2016

The value of cleared checks reached \$16.9bn in the first quarter of 2016, constituting a marginal decrease of 0.4% from \$17bn in the same quarter of 2015, and compared to a drop of 6.6% in the first quarter of 2015 and an increase of 5.1% in the same quarter of 2014. The value of cleared checks in Lebanese pounds increased by 9.8% annually to the equivalent of \$4.9bn, while the value of cleared checks in US dollars declined by 4% to \$12bn in the first quarter of 2016. The dollarization rate of cleared checks decreased to 71.3% from 73.9% in the first quarter of 2015. Further, there were three million cleared checks in the first quarter of 2016, nearly unchanged from the same quarter last year. In parallel, the value of returned checks in domestic and foreign currency was \$349m in the first quarter of 2016 compared to \$415m in the first quarter of 2015 and \$357m in the first quarter of 2014. This reflected a drop of 15.9% year-on-year in the first quarter of 2016 relative to an increase of 16.2% in the same quarter of 2015 and of 0.8% in the first quarter of 2014. Also, there were 55,200 returned checks in the covered quarter, down by 12% from 62,700 in the first quarter of 2015.

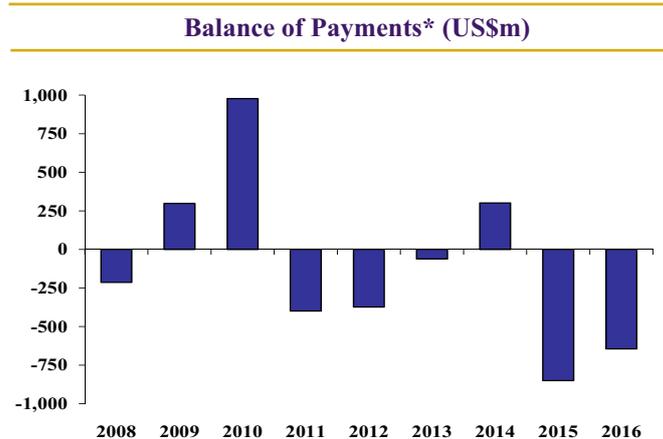
External Debt Performance in the Middle East & Africa in First Four Months of 2016 (%)



Source: Merrill Lynch, Byblos Research

Balance of payments posts deficit of \$644m in first quarter of 2016

Central Bank figures show that Lebanon's balance of payments posted a deficit of \$644.2m in the first quarter of 2016 compared to a deficit of \$850.2m in the same quarter of 2015. The balance of payments posted a deficit of \$287.9m in March 2016 compared to a surplus of \$362.6m in February and a deficit of \$417.4m in March 2015. The March 2016 deficit was caused by a decrease of \$613.6m in the net foreign assets of the Central Bank, and was partially offset by a rise of \$325.7m in those of banks and financial institutions. The cumulative deficit over the first quarter of 2016 was caused by decreases of \$407.1m in the net foreign assets of the Central Bank and of \$237.1m in those of banks and financial institutions. The balance of payments posted surpluses of \$7.9bn in 2009 and \$3.3bn in 2010, and deficits of \$2bn in 2011, \$1.5bn in 2012, \$1.1bn in 2013, \$1.4bn in 2014 and \$3.4bn in 2015.



**in the first quarter of each year*

Source: Central Bank of Lebanon

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 from 6.24% in May to 6.31% starting in June 2016. The rate, considered as the reference rate for lending in foreign currency, replaced the London Interbank Offered 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 BRR in Lebanese pounds to 8.69% in June from the May rate of 8.66%. The BRR in US dollars and Lebanese pounds was 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.

Central Bank tightens anti-money laundering and terrorist financing regulations

The Central Bank of Lebanon issued Intermediate Circular 421 on May 4, 2016 that amends the regulations on the control of financial and banking operations for fighting money laundering and terrorist financing (AML/CFT).

First, the circular stipulates that banks should adopt a risk-based approach to classify non-banking financial institutions that perform cash transfers through electronic means, as well as specialized lending entities known as "comptoirs". The assessment classifies these customers according to 'low', 'medium' and 'high' AML/CFT risk levels. The circular added the two categories to the list of bank customers that use cash in their operations, such as money, gold, precious stone and cars dealers, as well as restaurants and night-clubs and real estate companies, among others. Also, it asked banks to apply the same risk-based approach to classify non-profit organizations, especially those that are newly-established and that do not have clear programs or clear funding.

Second, the circular required banks to establish an AML/CFT Board Committee to be composed of at least three members of the Board of Directors, which would replace the current AML/CFT Special Committee that is made from senior executives. It stipulates that the Committee's Chairman should be an independent board member. It noted that the AML/CFT Board Committee will support the Board of Directors in its duties and supervisory roles with respect to fighting money laundering and terrorist financing, and related risks. Also, the Committee would review, from a risk-based approach, the reports submitted by the Compliance Unit and the Internal Audit Unit about adopted procedures, unusual operations and high-risk accounts regarding cash deposits and withdrawals, and transfers and exemptions from filling Cash Transaction Slips (CTS), among others.

Third, the circular assigned to the AML/CFT Board Committee the duties that were previously the responsibility of the AML/CFT Special Committee. These duties include the proper implementation and effectiveness of AML/CFT procedures and regulations, periodical reviews of the effectiveness of AML/CFT procedures and regulations, and approving the opening of accounts for money dealers, among others.

Fourth, the circular required Lebanese banks to conduct due diligence on the customers of any of their branches abroad when executing an operation or opening an account in Lebanon for these customers, even if the foreign branches are also conducting due diligence. The circular granted banks one year to establish the AML/CFT Board Committee.



Central Bank stresses commitment to policy of monetary stability

In the monthly meeting between the Central Bank and the Association of Banks in Lebanon (ABL), Governor Riad Salamé reiterated the Central Bank's commitment to the policy of monetary stability, including the stability of interest and exchange rates. He indicated that the recent \$1bn Eurobond issuance was successful, and that the Bank did not have to subscribe to it. Further, he informed the ABL that the Financial Action Task Force (FATF) for the Middle East & North Africa region said in February 2016 that Lebanon has completed all the required procedures and regulations about anti-money laundering and combating the financing of terrorism. In addition, he noted that the Ministry of Finance informed the Organization for Economic Cooperation and Development (OECD) that Lebanon is committed to the exchange of tax information with OECD member countries. As such, he refuted reports about listing Lebanon among non-cooperative countries and jurisdictions.

Further, the ABL indicated that the recent visit by a delegation of bank executives to the United States was successful, as the delegation met with executive officers at correspondent banks, with officials at the U.S. Department of the Treasury and the U.S. State Department, as well as with committees in the U.S. Congress. Governor Salamé hoped that the ABL would organize visits to Europe as well, in order to complement the meetings he personally conducted with European supervisory and monetary authorities. He noted that the European pressure on foreign banks is mostly related to tax evasion. He considered that the automatic exchange of tax information is much easier than applying the U.S. Foreign Account Tax Compliance Act (FATCA), given that the exchange of tax information covers European citizens who reside in Europe and who are generating income in Lebanon. He added that tax cooperation with European authorities does not eliminate banking secrecy in the Lebanese banking sector because only 3,000 to 4,000 bank accounts, out of millions accounts, may be affected by the exchange of tax information. He pointed out that a new banking culture is spreading globally and that the Lebanese banking sector should adapt to the change.

In parallel, Governor Salamé asked banks to follow the implementation mechanism of the U.S. Hizballah International Financing Prevention Act of 2015 that the Bank stipulated in Basic Circular 137, especially the need to inform the Special Investigation Commission against money laundering and terrorism financing about a bank's reasons for refraining to open or for closing a bank account of clients considered suspicious under the U.S. Act. He stressed that the implementation of the U.S. Act must not negatively affect financial inclusion in Lebanon. In addition, Governor Salamé hoped that banks would conduct individual visits to meet with compliance officers at correspondent banks in the U.S. and in Europe.

Government extends maritime transport subsidies for exported products, as 67% of earmarked funds remain undisbursed

The Cabinet approved the extension to the Maritime Lebanese Exports Bridge (M.LEB) program until the end of March 2017, as 66.7% of the originally earmarked funds of \$13.9m are still available for disbursement. The program subsidizes part of the additional costs that Lebanese exporters would incur when shipping their products by sea rather than via traditional land routes. The Cabinet initially ratified the maritime export subsidy decree in August 2015 following the closure of the Nassib border crossing on the Syrian-Jordanian border, which was the only remaining open land route for the transport of goods from Lebanon and Syria to Jordan and Gulf Cooperation Council (GCC) countries.

The subsidies, which are disbursed through the Investment Development Authority of Lebanon (IDAL), allocate between LBP4.5m (\$2,985) and LBP6m (\$3,900) per truck filled with Lebanese-made goods, depending on the nature of the vessel and the maritime route it adopts. The program currently facilitates the weekly transport of about 80 trucks from Lebanese ports to Saudi Arabia's Duba Port and Jordan's Port of Aqaba. It aims to ensure the flow of Lebanese products to Arab markets, mainly GCC countries and Jordan. IDAL indicated that total exports through the M.LEB program reached 25,500 tons of Lebanese industrial and agricultural products from September 2015 until February 2016.

Lebanese exports to GCC countries accounted for 27.4% of total exports of Lebanese products in the first quarter of 2016, for 29.1% of the total in full year 2015 and for 27.8% in full year 2014. Exports to Saudi Arabia represented 11.6% of total Lebanese exports in the first quarter of the year, followed by the UAE (9.4%), Qatar (2.9%), Kuwait (2.2%), Oman (0.9%) and Bahrain (0.5%).

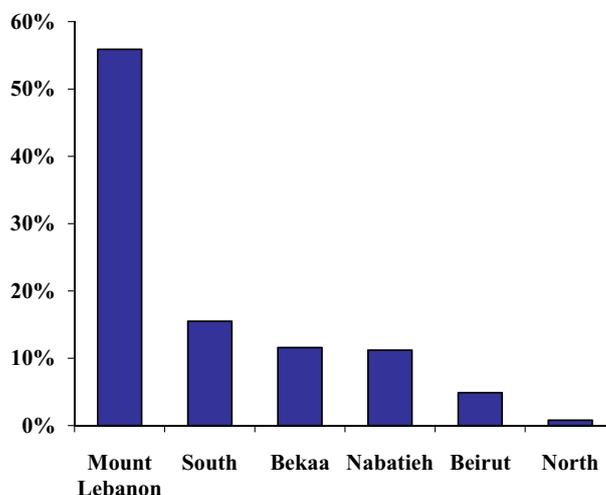


Residential buildings represent 81% of construction permits for new buildings in 2015, Mount Lebanon accounts for 61% of the total

Figures released by the Order of Engineers & Architects of Beirut show that the surface area of construction permits for new buildings totaled 6.62 million square meters (sqm) in 2015, constituting a decrease of 13.7% from 7.67 million sqm in 2014. The surface area of construction permits for new residential buildings was 5.4 million sqm last year and accounted for 81.4% of the total. It was followed by commercial buildings with 553,628 sqm (8.4%), industrial- and agricultural-related buildings with 251,081 sqm (3.8%), general service buildings such as hospitals and schools with 165,780 sqm (2.5%), hotel- and tourism-related buildings with 136,199 sqm (2.1%) and general purpose buildings with 126,918 sqm (1.9%). The distribution of the surface area of construction permits for new residential buildings shows that Mount Lebanon accounted for 60.5% of the total, followed by the South with 13.8%, Beirut with 8.9%, the Bekaa with 7.9%, Nabatieh with 7.8% and the North with 1.2%.

In parallel, the Order of Engineers & Architects issued 6,302 authorizations to start construction work in 2015, constituting a decrease of 7% from 6,779 in 2014 and relative to a decline of 3.4% in 2014. All construction permits for new buildings, as well as modifications or extensions of buildings and for restorations are subject to the mandatory authorization for the start of the actual construction. Applications for the authorizations should be filed during a period of up to one year after receiving the construction permit, depending on the surface area of the project. Mount Lebanon accounted for 42.5% of total authorizations in 2015, followed by the South (22.5%), Nabatieh (18.7%), the Bekaa (13.7%), Beirut (1.6%) and the North (1.1%). In parallel, the surface area of issued authorizations reached 7.7 million sqm last year, constituting a decrease of 6.1% from 8.2 million sqm in 2014 and compared to a decline of 0.8% in 2014. Mount Lebanon accounted for 4.3 million sqm or 55.9% of the total in 2015. It was followed by the South with 1.2 million sqm (15.5%), the Bekaa with 892,895 sqm (11.6%), Nabatieh with 859,772 sqm (11.2%), Beirut with 380,319 sqm (4.9%) and the North with 64,692 sqm (0.8%).

Regional Distribution of Authorizations to Start Construction Work in 2015*



* surface area

Source: Order of Engineers & Architects of Beirut, Byblos Research

Lebanon commits to sharing financial accounts information to tackle tax evasion

The Organization for Economic Cooperation and Development (OECD) and the Global Forum on Transparency and Exchange of Information for Tax Purposes announced that Lebanon has committed to share financial account information automatically with other countries starting in September 2018. Lebanon, along with 100 other jurisdictions worldwide, has committed to join the global effort to tackle tax evasion in accordance with the Common Reporting Standard (CRS) that was approved by the OECD Council in July 2014.

The CRS calls on authorities to obtain information from financial institutions under their jurisdictions and to automatically exchange the information with other jurisdictions on an annual basis. It specifies the financial account information to be exchanged, the financial institutions required to report the data, the different types of accounts and taxpayers covered, as well as the common due diligence procedures to be followed by financial institutions.

Also, Lebanon joined the Global Forum, which monitors the implementation of tax transparency standards to ensure the effective and timely delivery of the commitment made, the confidentiality of information exchanged and the areas where support is needed. Also the Forum assists developing country, like Lebanon, to ensure that they can receive the benefits of the ongoing global move to the automatic exchange of financial account information.

In November 2015, the Lebanese Parliament ratified Law 43 about the exchange of tax information, which stipulates that the request of information related to tax evasion or tax fraud must be submitted to the Ministry of Finance by its foreign counterpart or foreign tax authority. The law noted that the request needs to be based, either on a conclusive court verdict that convicts the accused subject of tax fraud or evasion, or on irrefutable evidence and facts demonstrating that the subject has committed tax fraud or evasion. In addition, the request should include information about the subject's related accounts at banks operating in Lebanon. The law indicates that if the requested information is protected by the Banking Secrecy Law, then the Finance Ministry should submit a request to the Special Investigation Commission against money laundering and terrorism financing to acquire such information, along with its recommendations on the case. The law covers tax fraud or tax evasion that occurred after November 24, 2015.



Lebanon is 77th largest importer, 115th biggest exporter in the world in 2015

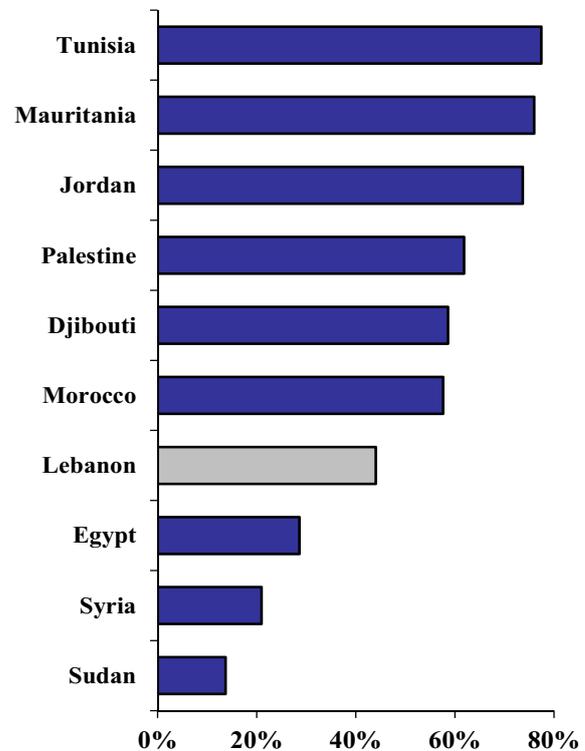
Figures issued by the United Nations Conference on Trade and Development (UNCTAD) indicate that Lebanon ranked in 115th place among 218 countries and jurisdictions worldwide and in 14th place among 20 Arab countries in terms of merchandise exports in 2015. Lebanon's global rank improved by two spots from 117th place in 2014, while its rank among Arab countries rose by one spot from 15th place in the preceding year. Lebanon also ranked in 36th place among 53 upper middle-income countries (UMICs) in 2015, unchanged from the preceding year. Globally, Lebanon exported more than Ethiopia, North Korea and Cameroon, and less than Cuba, Mozambique and Namibia. Also, it exported more than Mauritius and less than Namibia among UMICs. Lebanon had higher exports than only Sudan, Syria, Mauritania, Palestine, Yemen and Djibouti among Arab countries.

Lebanon's exports totaled \$4bn in 2015, constituting a decrease of 12.5% from \$4.6bn in 2014 and a decline of 29.4% from the peak of \$5.7bn in 2011, and compared to a drop of 13.2% for world exports, a contraction of 9.7% for UMICs' exports and a decline of 36.1% for the exports of Arab countries. In comparison, exports of oil-importing Arab countries decreased by 16.3% in 2015. Also, Lebanese exports declined by a compound annual growth rate (CAGR) of 8.4% between 2011 and 2015, compared to a CAGR of +12.2% during the 2007-11 period. They accounted for 0.02% of global exports, for 0.1% of total UMICs' exports and for 0.5% of aggregate Arab exports in 2015.

In parallel, Lebanon ranked in 77th place globally and in 12th place among Arab countries in terms of merchandise imports in 2015. Lebanon's global rank regressed by two spots from 75th place in 2014, while its rank among Arab economies was unchanged year-on-year. Lebanon also ranked in 22nd place among UMICs in 2015, unchanged from the preceding year. Globally, Lebanon had higher imports than Serbia, Guatemala and the Dominican Republic, and lower imports than Ethiopia, Sri Lanka and Panama. It also had more imports than Serbia and less than Panama among UMICs. Regionally, Lebanon had higher imports than Libya, Yemen, Bahrain, Sudan, Palestine, Syria, Mauritania and Djibouti.

Imports to Lebanon totaled \$18.4bn in 2015, their lowest level since 2010, and dropped by 12.8% from \$21.1bn in 2014 and by 16.3% from the peak of \$22bn in 2013. In comparison, global imports fell by 12.3% in 2015, imports to UMICs decreased by 13.6%, imports to Arab countries declined by 5.5% and imports to oil-importing Arab countries fell by 12.7% last year. Lebanese imports accounted for 0.1% of global imports, for 0.5% of total UMICs imports and for 2.2% of aggregate Arab imports in 2015.

Imports and Exports of Arab Oil-Importing Countries in 2015 (% of GDP)



Source: UNCTAD, IMF, IIF, BMI Research, Byblos Research

Byblos Bank acquires Banque Pharaon & Chiha

Byblos Bank sal, one of the top banking and financial services groups in Lebanon, announced that it acquired 99.18% of the shares of Banque Pharaon & Chiha sal for \$91m. The Bank indicated that the acquisition was completed following the transfer of Lebanon-based ZR Group's shares and rights to Byblos Bank under share purchasing agreements previously inked with the former shareholders of Banque Pharaon & Chiha. It said that the deal was based on a valuation of 100% of the issued share capital of Banque Pharaon & Chiha. Byblos Bank indicated that the second phase of the deal, or the merger through absorption, still awaits the Central Bank's approval. It added that ZR Group has received the preliminary approval of the Central Bank to acquire directly, or through a holding company registered for this purpose, up to 5.6% of Byblos Bank's common shares for a price equivalent to 125% of Byblos Bank's audited book value per share as at the end of 2015. Founded in 1876, Banque Pharaon & Chiha is the oldest bank in Lebanon. It has five branches, 100 employees, 30,000 accounts and deposits of \$242m as at the end of 2015.

Byblos Bank posted unaudited net profits of \$33.8m in the first quarter 2016, constituting an increase of 3.1% from \$32.8m in the first quarter of 2015. Also, the Bank's pre-tax profits grew by 14.3% year-on-year to \$45.9m in the covered quarter. In parallel, the Bank's aggregate assets reached \$20.1bn at the end of March 2016 and grew by 1% from end-2015. Net loans & advances to customers, including those to related parties, totaled \$4.9bn at the end of March and regressed by 1% from end-2015. The Bank's customer deposits, including those from related parties, totaled \$16.73bn at the end of March 2016 and grew by 0.6% from the end of 2015. Total shareholders' equity was \$1.74bn at end-March 2016, up by 1.5% from end-2015. The Bank's capital adequacy ratio stood at 17.7% at the end of 2015 according to Basel III criteria, and is significantly above the minimum regulatory requirement of 12% for 2016 and one of the highest such ratios in the Lebanese banking sector. The Byblos Bank Group has a direct presence in Iraq, Syria, Sudan, the United Arab Emirates, Nigeria, Armenia and the Democratic Republic of Congo, as well as in Belgium, France, the United Kingdom and Cyprus.

Byblos Bank's Local and International Acquisitions

1997	Acquisition of Banque Beyrouth pour le Commerce sal
1999	Acquisition of Bank of Nova Scotia's Lebanon branch
2000	Acquisition of Wedge Bank Middle East's Lebanon branch Acquisition of assets of ING Barings' Lebanon branch
2002	Acquisition of assets and liabilities of ABN AMRO Bank N.V.'s Lebanon branch
2007	Acquisition of Armenia's International Trade Bank, renamed Byblos Bank Armenia C.J.S.C. in 2008
2008	Acquisition of Unicredit Banca Di Roma's Lebanon branch
2010	Acquisition of a 66.7% stake in Solidaire Banque Internationale, a bank incorporated in the Democratic Republic of Congo, now renamed Byblos Bank RDC S.A.

Source: Byblos Bank

Arope Insurance distributes dividends for 2015, payout ratio at 45.3%

Arope Insurance sal announced that its Ordinary General Assembly held on March 21, 2016 approved the distribution of LBP12.96bn, or \$8.6m, in dividends for 2015, which is equivalent to a 45.3% payout ratio. Arope indicated that it paid gross dividends of LBP900 (\$0.6) per share to holders of nominal shares, net of a 10% withholding starting on May 9, 2016. The company's share capital consists of 14.4 million shares, with BLOM Bank sal holding an 88.93% stake, followed by global reinsurance company SCOR SE with a 9.89% stake and other shareholders with the remaining 1.18%.

Arope posted audited consolidated net profits of \$19m in 2015, up by 2.8% from \$18.5m in 2014. Total assets reached \$391.8m at the end of 2015 and grew by 5.2% from a year earlier. Also, the firm paid \$34.8m in claims last year relative to \$32.8m in 2014. Shareholders' equity reached \$125.6m at the end of 2015 and increased by 11.3% from end-2014.

Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked Arope Insurance in sixth and eighth place in 2015 in terms of life and non-life premiums, respectively. The firm's life premiums amounted to \$38.2m in 2015, constituting a drop of 7.1% from a year earlier; while its non-life premiums increased by 2.5% year-on-year to \$57m. It had an 8.1% share of the local life market and a 5.4% share of the non-life market.



Commercial banks' assets reach \$188bn at the end of March 2016

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$187.7bn at the end of March 2016, constituting an increase of 0.9% from the end of 2015 and a rise of 6% from end-March 2015. Loans extended to the private sector reached \$55.1bn at the end of March 2016, reflecting a growth of 1.5% from the end of 2015 and an increase of 7.6% from end-March 2015. Loans to the resident private sector totaled \$48.6bn and grew by 1.1% from the end of 2015 and by 6.3% year-on-year; while credit to the non-resident private sector reached \$6.5bn, and expanded by 4.7% from end-2015 and by 18.9% from end-March 2015. In nominal terms, credit to the private sector rose by \$830.5m in the first quarter of 2016 relative to a growth of \$244.8m in the first quarter of 2015. Lending to the resident private sector grew by \$537.3m in the first quarter of 2016 relative to an increase of \$331.7m in the same quarter of 2015, while credit to the non-resident private sector expanded by \$293.2m in the first quarter of 2016 compared to a decrease of \$86.9m in the same quarter of 2015. In addition, claims on non-resident banks reached \$10.5bn at the end of March 2016, down by 8.8% from the end of 2015 and by 3.4% from a year earlier. In parallel, claims on the public sector stood at \$38.2bn at the end of March, up by 1% from end-2015 and down by 2% from end-March 2015. The dollarization rate in private sector lending regressed to 74.8% at the end of March 2016 from 75.2% a year earlier. Further, the average lending rate in Lebanese pounds was 8.62% in March 2016, while the same average in US dollars stood at 7.36%.

In parallel, private sector deposits totaled \$152.4bn at the end of March 2016, up by 0.6% from the end of 2015 and by 4.8% from end-March 2015. Deposits in Lebanese pounds reached \$53.6bn, growing by 0.7% from end-2015 and by 6.1% from a year earlier; while deposits in foreign currency totaled \$98.8bn, constituting a rise of 0.5% from the end of 2015 and an increase of 4.1% from end-March 2015. Aggregate non-resident deposits reached \$31.8bn at the end of March and declined by 0.2% from end-2015, while they grew by 3.1% from a year earlier. In nominal terms, total private sector deposits regressed by \$88.9m in January and by \$80.9m in February, while they grew by \$1bn in March 2016. In comparison, they declined by \$274m in January, and increased by \$577.8m in February and by \$731.7m in March 2015. As such, total private sector deposits rose by \$856.4m in the first quarter of 2016 compared to an increase of \$1.04bn in the same quarter of 2015. Resident private sector deposits grew by \$928.7m in the first quarter of 2016 relative to a rise of \$522.7m in the same quarter of 2015; while non-resident deposits regressed by \$72.3m in the first quarter of this year compared to a rise of \$512.8m in the first quarter of 2015. Further, deposits of non-resident banks reached \$6.3bn at the end of March 2016, down by 3% from end-2015 and up by 11.3% from a year earlier.

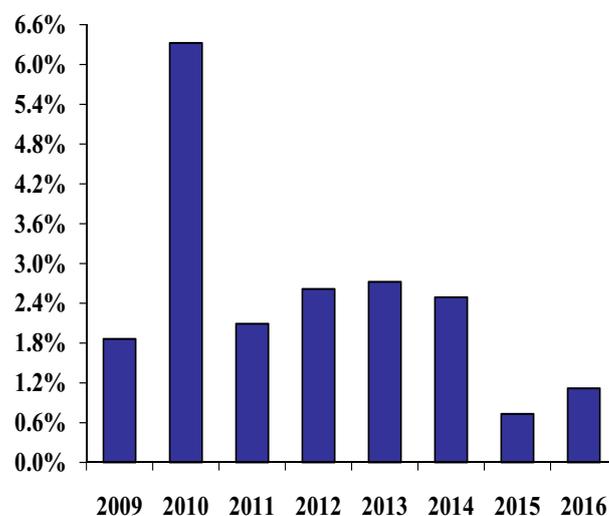
The dollarization rate of deposits reached 64.8% at the end of March 2016, down from 65.3% a year earlier. Further, the average deposit rate in Lebanese pounds was 5.59% in March 2016, while the same rate in US dollars was 3.27%. In addition, the ratio of private sector loans-to-deposits in foreign currency stood at 41.7%, well below the Central Bank's limit of 70% and compared to 40.5% a year earlier. In comparison, the same ratio in Lebanese pounds was 25.8% at end-March 2016, up from 25.1% at the end of March 2015. The ratio of total private sector loans-to-deposits was 36.1% relative to 35.2% a year earlier. The banks' aggregate capital base stood at \$16.6bn, down by 0.3% from end-2015 and up by 5.3% from \$15.8bn at end-March 2015.

Lebanese Swiss Bank to raise capital to \$60m

The Extraordinary General Assembly of the Lebanese Swiss Bank sal that was held in February 2016 approved the increase of the bank's capital from LBP70bn, equivalent to \$46.43m, to LBP90bn or \$59.7m. The capital increase, which received the approval of the Central Bank on April 21, will be implemented through the issuance of 200 million new nominal shares at a par value of LBP100 per share. Holders of current shares have the priority to subscribe to the new shares in a proportion equivalent to the percentage of shares they currently own. The subscription period started on May 5 and will last until May 28, 2016.

The Lebanese Swiss Bank posted unaudited net profits of \$9.3m in 2015 relative to \$13.3m in 2014. Its assets reached \$1.75bn at the end of 2015 and grew by 8.6% from a year earlier. Net loans & advances to customers stood at \$424.5m at the end of 2015, up by 8.5% from end-2014. Also, customer deposits totaled \$1.58bn at end-2015 and increased by 9.3% year-on-year.

Resident Private Sector Lending Growth* (% Change)



* in the first quarter of each year

Source: Association of Banks in Lebanon, Byblos Research

New car sales up 3% in first four months of 2016

Figures released by the Association of Automobile Importers in Lebanon (AIA) show that dealers sold 11,099 new passenger cars in the first four months of 2016, constituting an increase of 3.3% from 10,741 cars sold in the same period of 2015. Consumers purchased 2,411 new cars in January, 2,793 automobiles in February, 2,786 cars in March and 3,109 vehicles in April 2016. Japanese automobiles accounted for 37.3% of total sales in the first four months of 2016, followed by Korean cars with a 34.7% share, European automobiles (21.9%), American vehicles (5.8%) and Chinese cars (0.4%). The sales of new American vehicles increased by 14.7% year-on-year in the covered period, sales of European automobiles rose by 9.6% and sales of Korean cars improved by 2.9%; while the number of Chinese cars sold dropped by 45.1% year-on-year and sales of Japanese cars regressed by 0.3%. Kia is the leading brand in the Lebanese market with 2,230 vehicles sold in the first four months of 2016, followed by Hyundai with 1,601 in new car sales, Toyota (1,558), Nissan (1,100), Renault (568) and Mitsubishi (455). In parallel, 810 new commercial vehicles, were sold in the first four months of 2016, up by 19.5% from 678 vehicles sold in the same period of 2015. Overall, car dealers sold 11,909 new passenger automobiles and commercial vehicles in the first four months of 2016, constituting a rise of 4.3% from 11,419 cars sold in the same period of 2015. The AIA indicated that, even though the sale of new cars increased in the first four months of 2016, 90% of new cars sold were small-engine automobiles with a low selling price.

In parallel, the number of new vehicles sold by Lebanon's top five distributors reached 8,134 in the first four months of 2016 and accounted for 68.3% of new car sales. NATCO sal sold 2,230 vehicles, equivalent to 18.7% of the total, followed by Boustany United Machineries sal with 1,772 vehicles (14.9%), Century Motor Co. sal with 1,631 (13.7%), Rasamny Younis Motor Co. sal with 1,325 (11.1%) and Bassoul Heneiné sal with 1,176 (9.9%).

LIA's net profits up 9% to \$15m in 2015

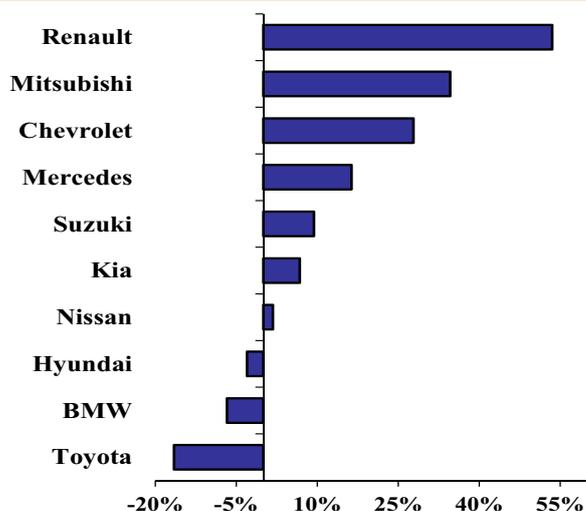
LIA Insurance sal announced audited net profits of \$15.2m in 2015, constituting an increase of 8.5% from net earnings of \$14m in 2014. Net premiums rose by 43.5% to \$95.1m last year. Total revenues reached \$106m in 2015, up by 37.7% from the preceding year; while net benefits and claims paid to beneficiaries grew by 65.3% to \$65.1m in 2015. Also, commission expenses rose by 11.9% to \$13.1m in 2015 and administrative expenses increased by 3.2% to \$8.5m last year.

The company's audited balance sheet shows total assets of \$408.2m at the end of 2015, constituting a decrease of 3.1% from \$421.1m at end-2014. On the assets side, general company investments, which include capitalization investment contracts, totaled \$320.2m at end-2015, down by 2.7% from \$329.1m at end-2014. They included \$92.3m in fixed income investments, \$45.4m in cash & cash equivalents, \$6.4m in investments in subsidiaries and associates and \$4.7m in variable income investments. They also included \$165.8m in blocked bank deposits and deposits with maturity of more than three months, of which \$2.1m, or 1.3%, were blocked in favor of the Economy Ministry as guarantees. Further, the reinsurance share in technical reserves for the life category rose by 11.3% to \$12.8m in 2015; while those for the non-life category dropped by 38.9% to \$18m last year.

On the liabilities side, technical reserves for the life segment decreased by 5% to \$240.1m in 2015, while technical reserves for the non-life category reached \$60.3m at end-2015 and decreased by 10.6% from the preceding year. Non-life technical reserves included unearned premium reserves of \$40.1m that rose by 11.6% and outstanding claims reserves of \$17.7m that decreased by 38.8%. Provisions for risks and charges reached \$3m and rose by 8.5% from a year earlier. Also, the firm's shareholders' equity totaled \$89m at the end of 2015 and rose by 6.7% from a year earlier.

Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked LIA in fifth and seventh place in 2015 in terms of life and non-life premiums, respectively. The firm's life premiums amounted to \$38.9m at the end of 2015, constituting a drop of 3.5% from a year earlier; while its non-life premiums increased by 6.5% year-on-year to \$59.5m. It had an 8.3% share of the life market and a 5.6% share of the local non-life market. LIA had a 6.4% share of the overall insurance market and ranked in fifth place in total premiums in 2015.

Sales of Top 10 Car Brands in four months of 2016
(% change*)



* from the period of 2015

Source: AIA, Byblos Research



Solidere's consolidated net losses at \$87m in 2015

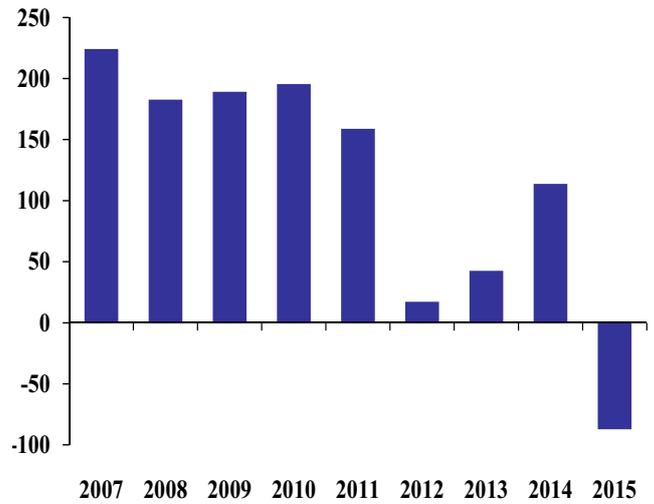
Solidere, The Lebanese Company for the Development and Reconstruction of Beirut Central District sal, announced consolidated audited net losses of \$87.2m in 2015 relative to net profits of \$113.7m in 2014. The consolidated results reflect Solidere's standalone financials and those of its subsidiaries (the Group), which include Solidere International Limited, Solidere Management Services sal, BCD Cinemas sal, Beirut Waterfront Development sal and Beirut Hospitality Company Holding sal. Solidere International Limited generated net profits of \$61.9m in 2015, down by 8% from \$67.3m in 2014. In parallel, Solidere's standalone financials show net losses of \$118.9m last year compared to net profits of \$96.9m in 2014.

Solidere attributed the losses in 2015 to weaker investor appetite for real estate in Lebanon and to the cancellation of two land sales contracts signed in previous years following the investors' failure to settle their obligations. It added that it earmarked \$82m in provisions, in line with the approved accounting laws. It also provisioned additional funds in case of any delays or failure to receive future installments from other sales and rental contracts. The Group's consolidated revenues from land and real estate sales regressed by 84.2% to \$26.8m in 2015, while revenues from rented properties decreased by 7.3% to \$57m last year. Also, the consolidated revenues from services rendered increased by 15% to \$7m last year. The Group recorded total net operating revenues of \$55.4m in 2015, down by 69.4% year-on-year. In parallel, Solidere Group general and administrative expenses decreased by 1.3% in 2015 to \$33.9m.

Solidere Group stated that its consolidated assets reached \$2.92bn at the end of 2015 and decreased by 1.6% from \$2.96bn at end-2014, with the inventory of land and projects in progress totaling \$1.13bn. In parallel, the firm's non-consolidated assets totaled \$2.79bn at the end of 2015, down by 2.6% from end-2014. The firm noted that it still owns a land bank of 1.75 million square meters with a market value estimated at about \$6.8bn, as well as a portfolio of built rental properties valued at about \$1.4bn based on the prevailing market prices. The Group's consolidated shareholders' equity totaled \$1.96bn at the end of 2015, down by 5.2% from \$2.06bn at end-2014.

Solidere's standalone liquid holdings in cash and securities totaled \$664m last year, while its outstanding loans owed to banks were at about \$683m, equivalent to about 7% of the firm's assets at market value. It indicated that, in early 2016, it began implementing a program to gradually reduce its indebtedness. It added that it has signed in early 2016 several new land sales contracts worth \$158m, and is currently negotiating additional land sales. It expected its revenues from real estate sales to reach at least \$200m in 2016, which would positively affect the company's profitability.

Solidere Net Profits* (US\$m)



*on a consolidated basis

Source: Solidere Financial Statements

Ratio Highlights

(in % unless specified)	2013	2014	2015	Change*
Nominal GDP (\$bn)	47.2	49.4	50.9	
Public Debt in Foreign Currency / GDP	55.3	51.9	53.2	134
Public Debt in Local Currency / GDP	79.1	83.0	85.0	203
Gross Public Debt / GDP	134.4	134.8	138.2	337
Total Gross External Debt / GDP**	163.8	165.1	162.4	(270)
Trade Balance / GDP	(36.6)	(34.8)	(29.7)	512
Exports / Imports	18.5	16.2	16.6	41
Fiscal Revenues / GDP	19.9	22.0	18.8	(322)
Fiscal Expenditures / GDP	28.9	28.3	26.6	(167)
Fiscal Balance / GDP	(8.9)	(6.2)	(7.8)	(154)
Primary Balance / GDP	(0.5)	2.6	1.4	(122)
Gross Foreign Currency Reserves / M2	69.5	66.5	58.7	(780)
M3 / GDP	235.4	238.4	243.0	462
Commercial Banks Assets / GDP	349.0	355.9	365.6	968
Private Sector Deposits / GDP	288.4	292.6	298.0	540
Private Sector Loans / GDP	100.3	103.1	106.6	348
Private Sector Deposits Dollarization Rate	66.1	65.7	64.9	(83)
Private Sector Lending Dollarization Rate	76.5	75.6	74.8	(73)

* Change in basis points 14/15

**Includes portion of public debt owed to non-residents, liabilities to non-resident banks, non-resident deposits (estimated by the IMF), Bank for International Settlements' claims on Lebanese non-banks

Source: Association of Banks in Lebanon, Institute of International Finance, International Monetary Fund, World Bank, Byblos Research Estimates & Calculations
Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

Risk Metrics

Lebanon	May 2014	Apr 2015	May 2015	Change**	Risk Level
Political Risk Rating	52.0	55.0	55.0	▼	High
Financial Risk Rating	38.0	39.0	39.0	▼	Low
Economic Risk Rating	27.0	33.0	33.0	▼	Moderate
Composite Risk Rating	58.5	63.5	63.5	▼	Moderate

MENA Average*	May 2014	Apr 2015	May 2015	Change**	Risk Level
Political Risk Rating	58.0	57.2	57.3	▲	High
Financial Risk Rating	40.2	39.6	39.6	▲	Low
Economic Risk Rating	35.7	33.9	33.1	▲	Moderate
Composite Risk Rating	67.0	65.3	65.0	▲	Moderate

*excluding Lebanon

**year-on-year change in risk

Source: The PRS Group, Byblos Research

Note: Political & Composite Risk Ratings range from 0 to 100 (where 100 indicates the lowest risk)

Financial & Economic Risk ratings range from 0 to 50 (where 50 indicates the lowest risk)

Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's	B2	NP	Negative	B2		Negative
Fitch Ratings	B	B	Negative	B		Negative
Standard & Poor's	B-	B	Negative	B-	B	Negative
Capital Intelligence	B	B	Negative	B	B	Negative

Source: Rating agencies

Banking Ratings	Banks' Financial Strength	Banking Sector Risk	Outlook
Moody's	E+		Negative



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