



LEBANON THIS WEEK

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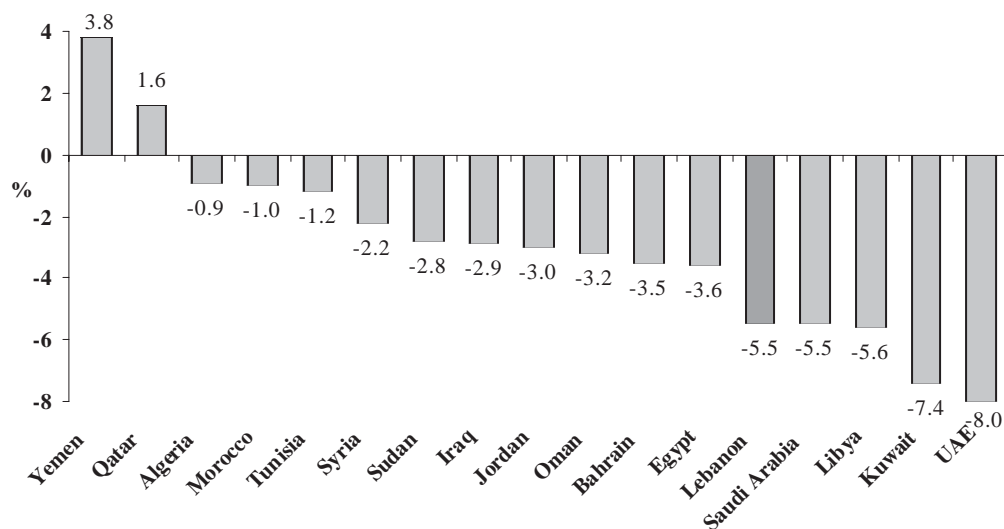
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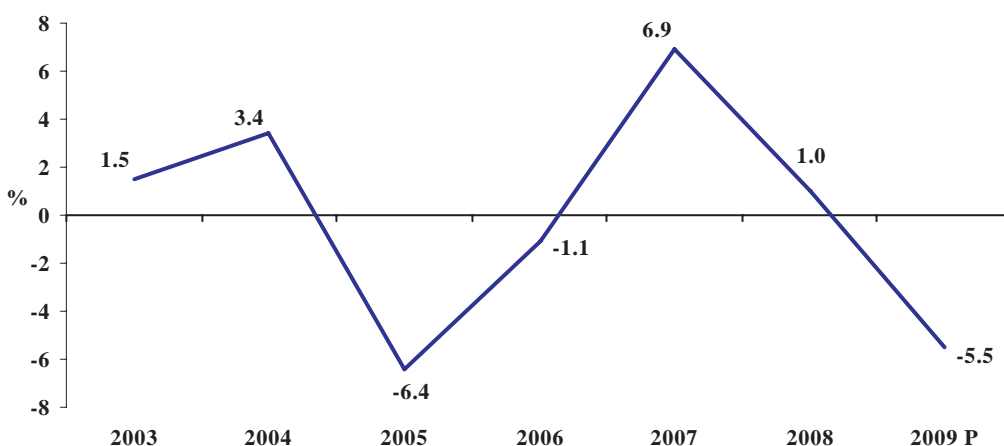
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Charts of the Week

Variation in real GDP growth rates between 2008 and 2009 in the MENA region (%)



Annual variation in real GDP growth rates in Lebanon (%)



Source: International Monetary Fund

Quote to Note

“After having weathered different episodes of political instability since 2005 throughout mid-2008, the Lebanese banking sector remained once again resilient and did not experience any major shock following the global financial turmoil.”

Regional investment bank EFG Hermes, on the strength of Lebanese banks in the face of the global economic and financial crisis

Number of the Week

\$8.6bn: Increase in the Central Bank’s assets in foreign currencies in the 12 months ending May 15, 2009, leading to a record \$22.8bn as at mid-May

Economic Indicators

\$m (unless otherwise mentioned)	2007	Mar. 08	2008	Jan.2009	Feb. 2009	Mar. 09	% Change*
Exports	2,816	302	3,478	281	449	270	(10.60)
Imports	11,815	1,179	16,133	1,067	1,035	1,138	(3.48)
Trade Balance	(8,999)	(877)	(12,655)	(786)	(586)	(868)	(1.03)
Balance of Payments	2,036	(497)	3,462	364	300	(367)	(26.16)
Checks Cleared in LBP	8,409	750	9,350	927	815	899	19.87
Checks Cleared in FC	29,893	3,087	43,174	3,434	2,872	3,294	6.71
Total Checks Cleared	38,302	3,837	52,524	4,361	3,687	4,148	8.11
Budget Deficit/Surplus	(2,546)	158	(2,921)	(305)	(326)	(508)	(421.52)
Primary Balance	731	108	597	(7)	(82)	(110)	(201.85)
Airport Passengers	3,408,834	270,188	4,085,334	307,127	276,825	302,709	12.04

\$bn (unless otherwise mentioned)	Dec. 2007	Mar.08	Dec. 2008	Jan. 2009	Feb. 2009	Mar. 09	% Change*
BdL FX Reserves	9.78	10.83	17.06	17.59	18.23	18.66	72.30
<i>In months of Imports</i>	<i>9.19</i>	<i>9.18</i>	<i>15.03</i>	<i>16.48</i>	<i>17.62</i>	<i>16.40</i>	<i>78.65</i>
Public Debt	42.03	43.09	47.01	46.99	47.20	47.85	11.05
Net Public Debt	39.03	39.68	41.49	41.43	41.88	42.34	6.70
Bank Assets	82.26	85.14	94.25	93.79	95.11	97.94	15.03
Bank Deposits (Private Sector)	67.29	69.09	77.78	77.74	78.88	80.50	16.51
Bank Loans to Private Sector	20.42	22.46	25.04	24.96	24.94	25.45	13.31
Money Supply M2	16.47	17.17	24.76	25.41	26.23	26.86	56.44
Money Supply M3	59.83	61.58	68.66	68.62	69.41	70.52	14.52
LBP Lending Rate (%)	10.10	9.92	9.95	10.07	10.03	10.10	1.8b.p.
LBP Deposit Rate (%)	7.40	7.22	7.22	7.22	7.13	7.10	(1.7b.p.)
USD Lending Rate (%)	8.02	7.57	7.47	7.35	7.28	7.32	(3.3b.p.)
USD Deposit Rate (%)	4.69	3.84	3.33	3.31	3.25	3.26	(15.1b.p.)
%* Change in CPI**	5.92	10.80	6.36	4.03	4.60	2.10	(80.6b.p.)

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

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

Sources: ABL, BdL

Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization
Solidere "A"	19.00	3.09	226,454	20.17%
Solidere "B"	18.74	2.01	102,044	12.93%
Byblos Common	1.81	(5.73)	94,408	4.17%
Byblos Priority	1.85	(2.12)	36,600	4.05%
Byblos Pref. 08	99.90	4.72	300	2.12%
BLOM GDR	64.00	(0.85)	19,148	5.02%
BLOM Listed	65.00	0.00	0	14.84%
Audi GDR	50.95	5.40	10,415	5.32%
Audi Listed	47.88	1.81	3,930	17.38%
HOLCIM	12.56	(6.89)	467	2.60%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Mar. 2010	7.125	101.75	4.84
May 2011	7.875	102.75	6.39
Mar. 2012	7.500	101.88	6.76
Sep. 2012	7.750	102.25	6.97
June 2013	8.625	104.00	7.47
Apr. 2015	10.000	108.75	8.11
Jan. 2016	8.500	102.00	8.10
May 2016	11.625	116.50	8.45
Mar. 2017	9.000	103.38	8.40
Apr. 2021	8.250	95.38	8.89

Source: Byblos Capital Markets

	This Week	Last Week	% Change	April 2009	April 2008	% Change
Total Shares Traded	560,368	1,056,152	(43.53)	2,614,635	3,953,335	(33.86)
Total Value Traded	\$8,652,179	\$17,588,156	(50.81)	\$42,197,348	\$75,774,862	(44.31)
Market Capitalization	\$9.42bn	\$9.33bn	0.98	\$8.61bn	\$12.31bn	(30.08)

Source: Beirut Stock Exchange (BSE)



Lebanon ranks 122nd globally, 14th in MENA region in terms of financial health

In its 2009 survey on the financial health of 184 countries, *The Banker* magazine's World Financial Health Index (WFHI) ranked Lebanon in 122nd place among 184 countries around the world and in 14th place among 18 countries in the Middle East and North Africa region. Lebanon also came in 27th place among 36 upper middle-income countries (UMICs) included in the survey. The WFHI evaluated a country's ability to weather the current financial crisis on the basis of 25 indicators that were divided into four broad categories of Economic Stability, Overall Indebtedness, Financial Sector Stability and Government Finances. The survey shows that countries with lower levels of borrowing are more insulated from the financial crisis, while developing countries that are less leveraged than developed economies have a lower probability of being affected by a deep credit crunch.

On a global basis, Lebanon ranked ahead of Vietnam, Malta and Cameroon, and came behind Montenegro, Afghanistan and Burkina Faso. It also ranked ahead of Equatorial Guinea, Seychelles and St. Vincent & the Grenadines, and came behind Panama, Libya and Mauritius among UMICs. Lebanon received a score of 283.7 points, below the global average of 339.9 points and the UMICs average of 362.7 points, as well as below the MENA average of 368.3 points and the Arab average of 361.8 points. Norway ranked best globally and Zimbabwe came in last place worldwide.

Lebanon ranked ahead of Cameroon and Portugal and behind Honduras and Malawi on the Economic Stability category. Further, it ranked ahead of Lithuania and South Africa and behind Argentina and Mexico among UMICs, while it came ahead of Israel and Morocco and behind Jordan and the UAE in the region. Also, Lebanon ranked ahead of Austria and the United Kingdom, and behind Kazakhstan and Montenegro on the Financial Sector Stability category. It came ahead of Jamaica and Malaysia and behind Romania and Montenegro among UMICs, and ahead of Iraq and behind Jordan and Algeria in the region.

Also, Lebanon ranked ahead of Taiwan and Japan and behind Botswana and Togo on the Government Finances category. It came ahead of Brazil and Serbia and behind Botswana and Jamaica among UMICs, while it ranked ahead of the UAE and Egypt and behind Morocco and Libya in the region. Finally, Lebanon ranked ahead of Mali and Tonga and behind Mongolia and Nepal in terms of Overall Indebtedness. It also ranked ahead of St. Vincent & the Grenadines and Grenada and behind St Lucia and Suriname among UMICs, while it came ahead of Iraq and behind Morocco in the region.

MENA Countries Rankings & Scores

Country	Score	MENA Rank	Global Rank
Kuwait	535.8	1	3
Qatar	489.9	2	13
Israel	441.8	3	38
UAE	425.6	4	51
Algeria	421.0	5	55
Tunisia	416.6	6	60
Jordan	406.0	7	70
Morocco	400.3	8	75
Iran	399.0	9	76
Saudi Arabia	387.8	10	83
Oman	385.5	11	85
Libya	351.9	12	97
Egypt	333.4	13	106
Lebanon	283.7	14	122
Yemen	283.4	15	123
Syria	275.3	16	127
Bahrain	273.0	17	129
Iraq	119.8	18	182

Source: *The Banker*, Byblos Research

Components of World Financial Health Index for Lebanon

Category	Rank			Score			
	Global Rank	MENA Rank	UMICs Rank	Lebanon Score	Global Average Score	MENA Average Score	UMICs Average Score
Economic Stability	125	17	25	90.6	102.3	123.8	100.4
Indebtness	144	17	31	97.8	130.7	141.7	142.6
Financial Sector Stability	68	6	22	78.7	57.6	57.4	67.4
Government Finances	105	9	23	16.6	50.0	45.3	52.3

Source: *The Banker*, Byblos Research

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

The Association of Banks in Lebanon (ABL) recommended to its member banks to increase the Beirut Cost Rate (BCR) in US dollars by 3 basis points to 5.27% from 5.24% previously. The rate, considered as the new reference rate for lending in foreign currency, replaced earlier this year the London Inter-Bank Offering Rate (LIBOR) since the ABL considered that the LIBOR no longer accurately reflects the cost of funding and lending in Lebanon. Additionally, the ABL recommended to its member banks to decrease the Beirut Cost Rate in Lebanese pounds by one basis point to 8.99% from 9% previously. The Beirut Cost Rate for US dollar and Lebanese pounds were adopted in March and May 2009 respectively. The ABL indicated that the BCR 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. The BCR is calculated by adding the banks' operating cost and the average cost on term deposits in both currencies in the Beirut market, and takes into consideration the private sector lending in each of the currencies. The prime Lending rate for US dollar and Lebanese pounds are 8.25% and 10% respectively.



Central Bank stresses on maintaining high liquidity at banks

In its monthly meeting with the Association of Banks in Lebanon, Central Bank Governor Riad Salameh called on commercial banks to maintain a high level of liquidity, even if it has to be at the expense of profits, as 2009 continues to be a challenging year regionally and internationally. He also encouraged banks to take advantage of their high profits in 2008 to strengthen their capital base and increase their reserves by limiting dividend distribution to 25% of profits, adding that some banks may exceed this limit by up to 2% depending on their solvency level. He noted that this policy falls within the context of counter-cyclical measures implemented by central banks around the world. In parallel, he pointed to the continuing conversions of deposits from foreign currencies into Lebanese pounds, adding that the Central Bank is coordinating with the Finance Ministry through the issuance of Certificates of Deposits and Treasury bills in order for the conversions not to affect monetary stability, as such conversions are taking place in large amounts and in a short period of time.

Consumer Price Index up 1.8% annually in April 2009

The Central Administration of Statistics' Consumer Price Index indicates that inflation rose by 1.8% in April 2009 from April 2008. Prices at restaurants & hotels increased by 14.1%, followed by prices of clothing & footwear with 12.8%, furniture & household equipment (+5.5%), food & non-alcoholic beverages (+5.4%), housing (+4.8%), education (+4.1%), recreation & entertainment (+2.2%), and miscellaneous goods & services (+2.2%). Prices of water, electricity, gas & other fuels regressed by 16.4%, followed by prices of alcoholic beverages & tobacco (-1.3%), communications (-0.7%), health care (-0.4%), and transportation (-0.2%).

The Consumer Price Index decreased by 0.4% in April 2009 compared to March 2009. Prices of transportation increased by 3.1%, followed by water, electricity, gas & other fuels with 2.1%, and furniture & household equipment (+0.1%). Prices of food and non-alcoholic beverages decreased by 0.8%, followed by prices of health care (-0.4%), recreation & entertainment (-0.1%), and communication (-0.1%). Prices of alcoholic beverages & tobacco, clothing & footwear, housing, education remained unchanged month-to-month.

Number of tourists up 56.8% in first 4 months of 2009

The number of incoming tourists to Lebanon totaled 434,418 in the first 4 months of 2009, constituting an increase of 56.8% from 277,054 tourists in the same period of 2008. Arab tourists accounted for 41.2% of total visitors and were followed by visitors from Europe with 24.4% and Asia with 18%. The number of tourists reached 136,739 in April 2009, constituting an increase of 64.2% from 83,276 in April 2008. Arabs accounted for 41.1% of total visitors in April 2009, followed by Europeans with 29.1% of total and Asian visitors with 13.2%.

Industrial exports down 1% to \$695m in first quarter of 2009

Figures released by the Ministry of Industry show that industrial exports reached \$695m over the first quarter of 2009, down 1.14% from \$703m during the same period of 2008. Industrial exports reached \$216m in March 2009, down by 20.6% compared to February 2009 and down by 18.8% compared to March 2008.

Machinery and mechanical appliances accounted for \$126m, or 18.1% of total industrial exports in the first quarter of 2009, followed by exports of mineral products mechanical appliances at \$120m (17.3%), and pearls & precious stones at \$70m (10.1%). Imports of industrial equipment and machinery reached \$54.1m in the first quarter of 2009, up 51.1% from the same period last year. Italy was the main source of imports of industrial equipments, accounting for 30.1% of total, followed by Germany with 16.5% and France with 15%.

Byblos Bank announces dividends for 2008

The Ordinary General Assembly of Byblos Bank held on May 22, 2009 approved the distribution of dividends for 2008 as follows: LBP 157.9 per share for shareholders carrying common shares; LBP 157.9 per share and 4% of the share's nominal value (LBP 48 per share) for shareholders carrying Priority Shares; \$12 per share for shareholders carrying Series 2003 Preferred Shares and \$3.35 per share for shareholders carrying Series 2008 Preferred Shares. The dividends will be paid starting May 22, 2009 net of a 5% distribution tax. In parallel, the General Assembly approved the election of Mr. Sami Haddad, former Minister of Economy & Trade, to Byblos Bank's Board of Directors. Mr. Haddad is already Chairman & General Manager of Byblos Invest, the investment banking arm of the Byblos Bank Group. Byblos Bank's net income rose by 23% to \$122m in 2008, posting the highest increase in profits among the country's top 3 banks. Its profits rose by 18.6% to \$25m in the first quarter of 2009, also posting the highest increase among the top 3 banks. It had total assets of \$11.6bn, loans of \$2.8bn and deposits of \$8.7bn at the end-March 2008.

Lebanese banks have most attractive valuations in MENA region

Regional investment bank EFG Hermes indicated that the valuation of Lebanese banks remains the cheapest in the Middle East & North Africa region despite the narrowing of the valuation gap between Lebanese banks and MENA banks. It said that current multiples of the top 3 Lebanese banks do not reflect their lower risk profile, strong franchises, growing regional operations and high quality managements, adding that a significant upgrade of their ratings will be contingent on a material improvement in Lebanon's economic and political dynamics. The firm issued a "Buy" recommendation on the stocks of Byblos Bank and BLOM Bank.

EFG Hermes said Byblos Bank, BLOM Bank and Bank Audi posted an 11% average earnings growth in the first quarter of this year due to cost containment and moderate provisioning charges, and despite a softening in the growth rates of loans and lower net interest spreads. It added that their loan book has remained stagnant in the first quarter, reflecting the very cautious approach by Lebanese banks in the current economic environment and despite the high level of banks' liquidity. It noted that net interest income growth was positive in the first quarter relative to the same period last year due to the relatively strong year-on-year loan growth, especially for Byblos Bank that saw a strong 40% annual increase in its net interest income. It added that the banks' net interest spreads have narrowed on a quarterly basis given the much lower level of US dollar Libor during the first quarter compared to the previous quarter, and given their very high liquid balance sheets, as a large proportion of interest-earning assets being placed in US dollar short-term bank placements. It did not expect an improvement in net interest spreads for the remainder of the year as it forecast a 6% annual lending growth. It said fee income growth has slowed down from the high growth rates seen in 2007-08 although it has remained resilient during the first quarter of this year. It expected banks to post only a moderate increase in net profit this year given the anticipated compression in net interest spreads in 2009.

EFG Hermes noted that deposit growth has been strong in the first quarter of 2009, and expected that lower levels of liquidity both globally and in the region to result in a slowdown in deposit growth to 8% in 2009 relative to 16% in 2008. It said Lebanese banks have traditionally followed fairly conservative lending practices, but expected credit quality to deteriorate in the late part of 2009, in line with its forecast for other MENA banking systems. It expected NPL ratios to increase from an average of 3.5% in 2008 to around 4% in 2010 due to higher level of loan loss provisioning charges in 2009 and a decline in investment provisioning charges.

Banking Sector Valuations*				
Country	P/E	P/B	ROE	Div Yield
Egypt	7.5	1.8	26.0%	4.0%
Kuwait	13.3	2.2	17.0%	3.9%
Lebanon	7.8	1.2	18.0%	5.0%
Morocco	20.0	3.3	17.4%	1.8%
Qatar	8.8	1.7	20.8%	3.2%
Saudi Arabia	13.0	2.5	19.9%	3.4%
UAE	5.9	0.9	15.9%	3.9%
MENA	12.0	1.9	17.7%	3.6%

*2009 forecast

Source: EFG-Hermes

BankMed's profits up 74.3% to \$70.1m in 2008

BankMed, one of Lebanon top 5 banks, announced net profits of \$70.1m in 2008, up 74.3% from \$40.2m in 2007. Net interest income rose by 79.4% to \$175.1m, while net fee & commission receipts increased by 45.5% to \$39m and net interest gains on its trading portfolio dropped by 61.2% to \$6.3m in 2008 from \$16.3m in 2007. General administrative expenses increased by 40% to \$173.6m and staff costs rose by 44.2% to \$78.5m. Total assets reached \$9.55bn at end-2008, constituting a 4.5% rise from end-2007, while loans & advances to customers increased by 23.5% to \$2.2bn. Customers' deposits rose by 14.1% from end-2007 to \$5.8bn. The bank's equity dropped by 1.6% to \$721.5m in 2008 due to the steep decline of 56.1% in the bank's reserves for revaluation of financial instruments.

Venture capital fund announces first transaction

The Building Block Equity Fund, a Beirut-based venture capital fund, announced its first transaction with a \$1m investment in Luceor SAS, a networking technology company. Established in France by a group of Lebanese expatriates in 2005, Luceor SAS has developed a wireless technology for multiple security systems applications. The fund's investment will support Luceor SAS plan for regional expansion, and will help it establish a sister company based in Lebanon to be named Luceor Technology Services sal. The latter will be responsible for the maintenance, testing, and research & development of Luceor applications, and is expected to create 25 job opportunities in Lebanon during the first 18 months of operations.

The Building Block Equity Fund aims to invest in small and medium-size enterprises in Lebanon, especially in the fields of information technology and services. It raised \$17m in capital which is expected to reach \$20m. The investors in the fund are the European Investment Bank with 22.5% of the shares of the fund, Averroès Finance with 24.2%, 8 Lebanese banks, and members from the Bader organization. Bader was launched about two years ago by a group of local business leaders and entrepreneurs to raise awareness among Lebanese youth about the importance of entrepreneurship.

Banque Bemo to issue \$40m in subordinated debt

Banque Bemo sal announced that its Extraordinary General Assembly approved the issuance of \$40m in subordinated debt through the issuance of 4,000 bonds at a par value of \$10,000 each. The bonds, which are non-convertible, will have a 5-year maturity and carry a coupon rate of 7% paid semi-annually. Banque Bemo previously issued \$15m in subordinated debt that matures on July 26, 2009. Banque Bemo's net income rose by 27% to \$2.5m in the first quarter of 2009. It had total assets of \$1bn and deposits of \$0.8bn at the end-March 2009.

Car sales up 6.2% in first 4 months of 2009

Figures released by the Association of Automobile Importers in Lebanon indicate that a total of 8,671 new passenger cars were sold in the first 4 months of 2009, constituting an increase of 6.21% from the 8,164 cars sold in the same period of 2008. Japanese cars accounted for 48.7% of total sales, followed by European automobiles with a 27% market share, Korean cars with 17%, American vehicles with 7.2%, and Chinese vehicles with 0.1%. European cars posted the biggest growth in sales with a 20.2% jump year-on-year, followed by Japanese cars with a 6.9% rise. American cars posted a 16.4% decrease in sales and Korean cars posted a 1.9% decrease in sales. Nissan is the leading brand in the Lebanese market with 1,815 cars sold in the first 4 months of 2009, followed by Toyota with 1,413 cars sold, Kia with 967, Peugeot with 541, Hyundai with 491, BMW with 415 and Honda with 389.

Bank of Beirut to list additional shares on Beirut bourse

The Beirut Stock Exchange approved the listing of 1,413,847 additional common shares issued by Bank of Beirut with trading to begin on May 25, 2009. The listing will bring the bank's total listed shares to nearly 20.5 million out of a total of 54.2 million shares with a par value of LBP 1,200 each. Bank of Beirut's net income was flat at \$13.6m in the first quarter of 2009. It had total assets of \$5.9bn deposits of \$4.1bn at end-March 2009.

Ratio Highlights

(in % unless specified)	2006	2007	2008	Change*
Nominal GDP ⁽¹⁾ (\$bn)	22.7	24.6	28.8	
External Debt / GDP	89.9	86.4	73.4	(1,300)
Local Debt / GDP	88.1	84.6	89.8	520
Total Debt / GDP	178.4	171.0	163.2	(780)
Trade Balance / GDP	(31.3)	(36.6)	(43.9)	(730)
Exports / Imports	24.3	23.8	21.6	(220)
Budget Revenues / GDP	19.4	23.6	24.4	80
Budget Expenditures / GDP	30.8	33.9	34.5	60
Budget Balance / GDP	(11.5)	(10.3)	(10.1)	20
Primary Balance / GDP	0.4	2.9	2.1	(80)
BdL FX Reserves / M2	65.6	59.6	68.9	930
M3 / GDP	234.4	243.2	238.4	(480)
Bank Assets / GDP	327.2	334.4	327.3	(710)
Bank Deposits / GDP	267.4	273.5	270.1	(340)
Private Sector Loans / GDP	67.4	72.2	86.9	1,470
Dollarization of Deposits	76.2	77.3	69.6	(770)
Dollarization of Loans	84.0	84.3	86.6	230

* Change in basis points 06/07

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

Source: Association of Banks in Lebanon, Byblos Research Calculations

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

Risk Outlook

Lebanon	Feb 2008	Jan 2009	Feb 2009	Change*	Risk Level
Political Risk Rating	55.5	57.0	57.0	▲	High
Financial Risk Rating	31.5	28.0	28.0	▼	High
Economic Risk Rating	28.5	30.0	30.0	▲	Moderate
Composite Risk Rating	57.7	57.5	57.5	▼	High

Regional Average	Feb 2008	Jan 2009	Feb 2009	Change*	Risk Level
Political Risk Rating	65.8	65.6	65.7	▼	Moderate
Financial Risk Rating	41.2	41.7	41.1	▼	Very Low
Economic Risk Rating	40.3	39.3	38.9	▼	Low
Composite Risk Rating	73.6	73.3	72.8	▼	Low

*year-on-year

Source: The PRS Group, Byblos Research

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

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

Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's	B2	NP	Stable			
Fitch	B-	B	Stable	B-		
S&P	B-	C	Stable	B-	C	Stable
Capital Intelligence	B-	B	Stable	B-	B	Stable

Source: Rating agencies

Banking Ratings	Banks' Financial Strength	Banking Sector Risk	Outlook
Moody's	D-		Stable
EIU		B	Stable

Source: Rating agencies



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