

LEBANON THIS WEEK

In This Issue

Economic Indicators.....1

Capital Markets.....1

Lebanon in the News.....2

US maintains Lebanon on Watch List of intellectual property rights protection, cites significant progress in fighting violations

Stock market activity down 42% to \$301.2m in first 5 months of 2009

Merrill Lynch maintains its recommendation on Lebanese Eurobonds to 'Market Weight', Eurobonds performance slows down in April

Germany to extend €15.2m for infrastructure projects

Government approves plan to counter impact of global crisis

Corporate Highlights5

Byblos Bank to redeem Series 2003 Preferred Shares

Moody's places deposit ratings of three banks on review for possible downgrade

Launch of Corporate Governance guidelines for private and publicly-traded firms in Lebanon

TMA to resume operations

Solidere announces General Assembly

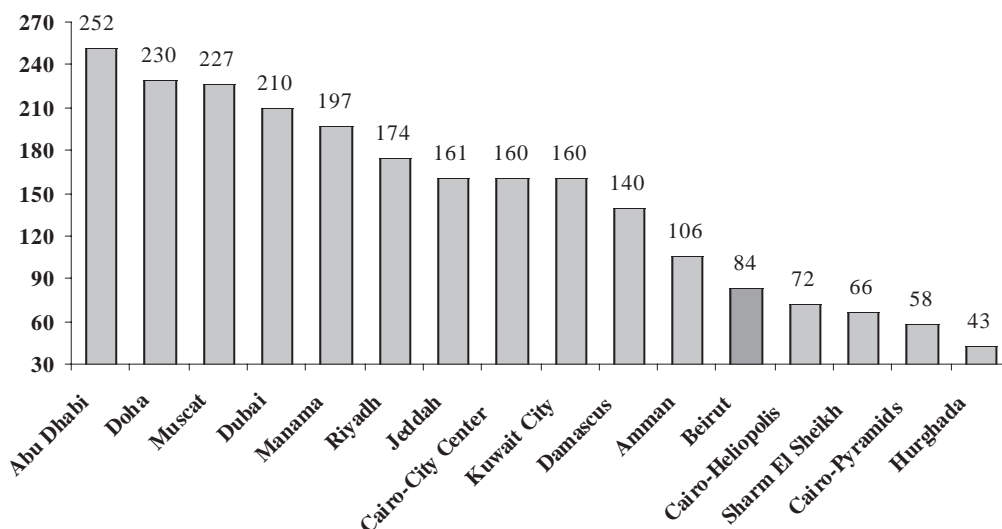
Ratio Highlights..... 6

Risk Outlook.....6

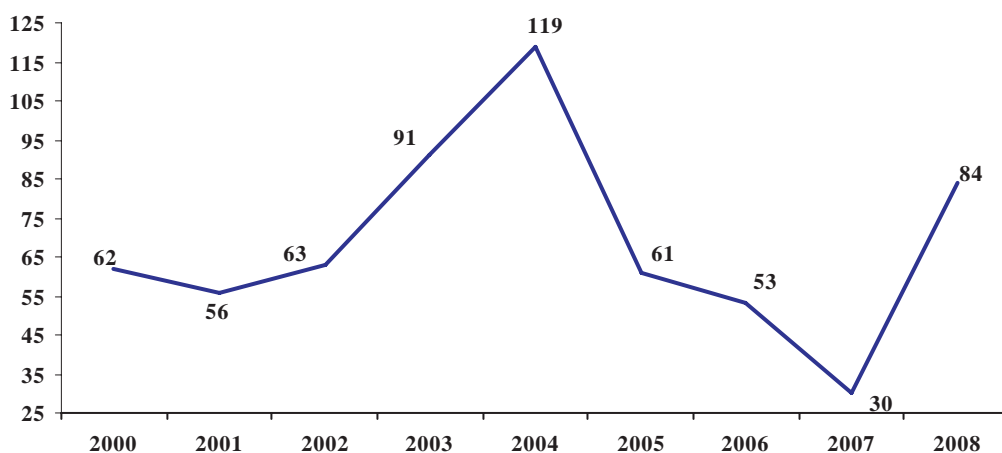
Ratings & Outlook.....6

Charts of the Week

Revenue per Available Hotel Room in Arab Cities for 2008 (US\$)



Revenue per Available Room at Hotels in Beirut (US\$)



Source: HVS

Quote to Note

“We believe that the WTO will offer the Lebanese private sector a platform to grow further its international trade, and from which it can reap tremendous development potential.”

Minister of Economy & Trade Mohammad Safadi, on the benefits of Lebanon joining the World Trade Organization

Number of the Week

3.7%: Projected transfers from the Treasury to Eletricité du Liban in 2009, in percent of GDP, excluding principal and interest payments paid on behalf of EdL

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"	18.28	(3.79)	197,922	19.72%
Solidere "B"	18.39	(1.87)	101,307	12.90%
Byblos Common	1.74	(3.87)	124,697	4.08%
Byblos Priority	1.70	(8.11)	7000	3.78%
Byblos Pref. 08	99.60	(0.30)	250	2.15%
BLOM GDR	63.80	(0.31)	4,275	5.09%
BLOM Listed	62.50	(3.85)	20,081	14.50%
Audi GDR	51.40	0.88	4,159	5.68%
Audi Listed	49.83	4.07	3,845	18.38%
HOLCIM	13.71	9.16	300	2.89%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Mar. 2010	7.125	101.75	4.75
May 2011	7.875	102.25	6.37
Mar. 2012	7.500	102.00	6.70
Sep. 2012	7.750	102.38	6.92
June 2013	8.625	104.88	7.22
Apr. 2015	10.000	109.00	8.00
Jan. 2016	8.500	102.38	8.03
May 2016	11.625	117.50	8.26
Mar. 2017	9.000	104.13	8.27
Apr. 2021	8.250	98.00	8.52

Source: Byblos Capital Markets

	This Week	Last Week	% Change	May 2009	May 2008	% Change
Total Shares Traded	520,586	596,368	(12.71)	4,526,493	12,254,353	(63.06)
Total Value Traded	\$8,220,868	\$8,652,179	(4.98)	\$70,679,284	\$275,797,021	(74.37)
Market Capitalization	\$9.22bn	\$9.42bn	(1.59)	\$8.22bn	\$14.15bn	(30.08)

Source: Beirut Stock Exchange (BSE)



US maintains Lebanon on Watch List of intellectual property rights protection, cites significant progress in fighting violations

In its annual Special 301 review of the state of intellectual property rights (IPR) protection and enforcement around the world, the Office of the United States Trade Representative (USTR) maintained Lebanon on the Watch List, along with 32 other countries and jurisdictions. The USTR placed Lebanon on the Watch List in 1999 and then downgraded it to the more critical Priority Watch List in 2001 where it remained till 2007. It then upgraded Lebanon to the Watch List in 2008. Piracy-related losses incurred in Lebanon by copyright-based industries totaled \$31m in 2008, compared to \$26.8m in 2007 \$25.6m in 2006. The USTR also included 12 countries this year on its Priority Watch List. Countries from the Middle East & Africa on the 2009 Watch List include Egypt, Kuwait, Lebanon, Saudi Arabia and Turkey, while Algeria and Israel remained on the Priority Watch List.

The USTR indicated that Lebanon made significant progress in 2008 on the long-standing problem of cable piracy through the efforts of several ministries and law enforcement agencies cooperating with the private sector, resulting in at least 80% of the 600 to 800 pirate cable operators signing licenses to become legitimate cable providers. It added that the U.S. copyright industries have highlighted continued cooperation with the Cyber Crime and Intellectual Property Rights Bureau at Lebanon's Internal Security Forces. However, it expressed concerns about continuing weak enforcement against the piracy of books, music, films, and software in the country. It also stressed on the growing problem of counterfeit pharmaceutical products in Lebanon, and about inadequate protection against unfair commercial use of data generated to obtain marketing approval for pharmaceutical products. In parallel, the United States urged Lebanon to improve IPR protection and enforcement in the coming year. It called on Lebanese authorities to provide opportunities for IPR training to its prosecutors and judges, and to encourage the courts to issue deterrent-level sentences for IPR crimes. The U.S. also pledged to work with Lebanon to strengthen its IPR laws and improve its enforcement regime through Lebanon's WTO accession process, a pending review under the U.S. Generalized System of Preferences, and other bilateral areas.

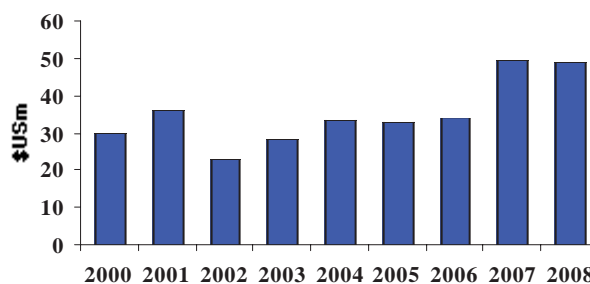
The Generalized System of Preferences (GSP) trade program provides unilateral duty-free access of goods from Lebanon and other developing countries to the U.S. market based on "the adequate and effective protection of intellectual property rights". Lebanon exported \$48.6m worth of duty-free products to the United States in 2008, equivalent to 49.1% of its total exports to the U.S. The USTR "accepted for review" in September 2003 a petition from the International Intellectual Property Alliance (IIPA) to have the U.S. government evaluate whether to suspend some or all of Lebanon's benefits under the GSP trade program for failure to adequately protect copyrights. But the IIPA shelved its recommendation last year due to the improvement in enforcement, and encouraged U.S. authorities to provide the Lebanese government with some additional time, while continuing to monitor progress in key problem areas.

Stock market activity down 42% to \$301.2m in first 5 months of 2009

Figures released by the Beirut Stock Exchange indicate that total trading volume reached 65.9 million shares in the first 5 months of 2009, an increase of 160% year-on-year, while aggregate turnover amounted to \$301.2m, down 42% from a turnover of \$522.3m in the same period last year. Market capitalization decreased by 35% to \$9.3bn year-on-year, of which 63% was in banking stocks and 33% in Solidere stocks. The market liquidity ratio was 3.2% compared to 3.7% for the same period of 2008.

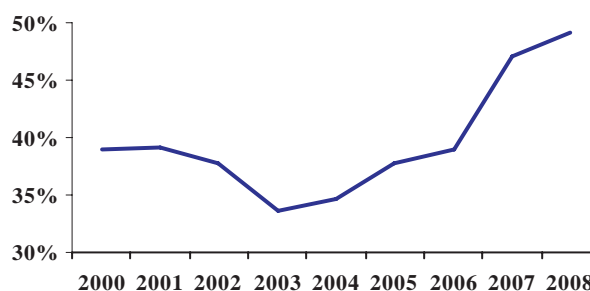
Bank stocks accounted for 85.8% of aggregate trading volume in the first 5 months of 2009, followed by Solidere's stocks with 13.7%. In terms of value of shares traded, banking stocks accounted for 50.5% of aggregate value, followed by Solidere stocks with 49.2%. The average daily traded volume for the period was 686,092 shares for an average daily value of \$3.2m. The figures reflect an increase of 166% in volume and an increase of 2.1% in value year-on-year. The significant rise in volume is due to activity related to the GDR exchange program launched by Byblos Bank in February, which consisted of giving holders of common shares the option to exchange every 50 shares for one Global Depository Receipt.

Lebanese exports to the U.S. under the GSP program in US\$m



Source: IIPA, Byblos Research

Percentage of Lebanese exports to the U.S. under the GSP program



Source: IIPA, Byblos Research

Merrill Lynch maintains its recommendation on Lebanese Eurobonds to 'Market Weight', Eurobonds performance slows down in April

Merrill Lynch maintained its recommendation on Lebanon's external debt to 'Market Weight' in its model portfolio of emerging markets debt and reduced Lebanon's market weight by 1.4 percentage point to 6% in May from 7.4% in April, after raising it by 0.4 percentage point in March and by 2.2 percentage points last November due to the performance of Lebanese Eurobonds, specifically since the spread of financial turmoil to emerging markets in September. Merrill Lynch upgraded its recommendation to 'Market Weight' from 'Underweight' following the Doha Accord last May.

Lebanon's external debt rating of 'Market Weight' placed Lebanon in the same category as Russia and Argentina. Lebanon's Market Weight compares well with the Under Weight recommendation on the Europe, the Middle East & Africa (EMEA) region and to the Under Weight recommendation for similarly-rated countries. Merrill Lynch increased Lebanon's weight in the portfolio to 7.3% in March after decreasing it earlier in the year to 6.9% from 7.7% in November, but still up from 5.5% in September and 5.6% in May. Lebanon had just a 1.5% weight in March 2008, a higher allocation of only Iraq. Lebanon is represented in the portfolio by the Republic March 2013 Eurobond. Lebanon accounted for 24.8% of the allocations in the EMEA region in May, up from 25.6% in April, 25% in March, 21.8% in February, 24% in November, and significantly up from 19% in September and from 14.6% in May 2008. Lebanon's allocation is the 8th highest among countries in the portfolio, down from 6th highest in April and 5th highest in March but up from 9th highest last September.

Emerging Markets External Debt Portfolio		
Country	Bonds	Weight (%)
Brazil	Brazil '17s	10.5
Indonesia	Indonesia '18s	10.2
Russia	Russia '18s	9.9
Turkey	Turkey '18s	8.8
Philippines	Philippines '16Ns	7.9
Mexico	Mexico '31	7.9
Venezuela	Venezuela '18Ns	6.7
Lebanon	Lebanon '13s	6.0
Peru	Peru '37s	5.4
Colombia	Colombia '17s	4.4
Panama	Panama '36s	2.8
Uruguay	Uruguay '22s	1.6
Argentina	Pars	1.5
South Africa	South Africa '14s	1.3
Jamaica	Jamaica '17s	0.8
El Salvador	El Salvador '23s	0.6
Ivory Coast	FLIRB's	0.6
Iraq	Iraq '28s	0.5
Cash		12.6
Total		100

Source: Merrill Lynch, May 2009

In parallel, Lebanon's external debt posted the 12th highest return at 10.12% among 19 markets in the EMEA region in the first 4 months of 2009, as well as the 21st best return among the 39 emerging markets included in Merrill Lynch's Sovereign Plus Debt Index. Lebanon underperformed the EMEA returns of 11.19% but outperformed the overall emerging market returns of 8.62% in the cover period. Also, Lebanon's external debt underperformed the 12.11% returns posted by similarly-rated sovereigns during the first 4 months of the year, while it posted the 10th best performance at 10.03% in the EMEA region and the 19th best performance in emerging markets in US dollar terms. Further, Lebanon's external debt posted the 8th highest returns among 9 countries in the Middle East & Africa region during the covered, as it came ahead of Egypt with 6.02% but behind Ghana with 34.73%, Iraq with 32.88%, Gabon with 24.25%, Morocco with 17.33%, South Africa with 13.01%, and Tunisia with 11.01%. Also, it posted returns of 0.76% in April, ahead of Egypt (0.65%) and Morocco (-0.06%), but behind Ghana (21.03%), Gabon (9.45%), Iraq (8.76%), South Africa (3.41%) and Tunisia (2.68%).

Further, Lebanon's external debt posted the 17th highest return in the EMEA region and the 34th highest return in emerging markets during April 2009. It underperformed the EMEA returns of 4.99%, the emerging markets returns of 4.78% and the 6.35% returns of similarly-rated sovereigns for the same month. Merrill Lynch said the spread on Lebanese Eurobonds ended April 2009 at 588 basis points, 10th narrowest in the EMEA region and 20th narrowest among emerging markets. It was wider than the EMEA spread of 498 basis points and the emerging markets overall spread of 499 basis points as at end-April 2009.

Germany to extend €15.2m for infrastructure projects

The Council for Development and Reconstruction (CDR) signed three agreements with Germany totaling €15.2m financing agreements with Germany. The agreements stipulate that Germany will finance several environmental and water resources projects across the country. The projects will improve the quality of water from the Jeita spring, help reduce the environmental and economic effects of the July 2006 war, and rehabilitate the water and sanitation infrastructure in the Naher Al Bared area.

Government approves plan to counter impact of global crisis

The Council of Ministers approved a two-year plan intended to mitigate the impact of the global financial crisis on the Lebanese economy. It also created an inter-ministerial committee to prepare the necessary legislative and regulatory requirements. The plan intends to inject liquidity in the market, stimulate public and private investment and support employment. In terms of liquidity injection, the plan indicates that various measures already taken, such as the retroactive salary increases in the public sector, the payments of the indemnities for the July 2006 war and the government's payment to hospitals and contractors, would help generate total liquidity equivalent to 10% of GDP and support local consumption without leading to massive inflation. The plan's public investment component indicates that the government intends to accelerate public projects and infrastructure works that are implemented by the Council of Development & Reconstruction and financed through foreign soft loans. It also pledged to accelerate the ratification of draft laws to release soft loans of about \$600m earmarked to finance public projects.

The plan's private investment component proposes to accelerate the disbursement of loans pledged at the Paris III donor conference that are earmarked to support the private sector. It also intends to improve the business climate through the cancellation of certain taxes and fees that do not provide significant income to the government. Further, it will provide custom exemptions in 2009 and 2010 for imported alternative energy equipment. The plan also calls for the formation of a unit reporting to the Prime Minister's office to monitor the impact of the global crisis on Lebanon and to follow up on implementation of the plan. In terms of employment support, the plan proposes to exempt employers from National Social Security dues for jobs created in 2009 and 2010, and for the government to cover these fees for two years only. It also proposes to provide funding facilities and tax exemptions for businesses that create high value added and new job opportunities.



Byblos Bank to redeem Series 2003 Preferred Shares

Byblos Bank sal announced that it will exercise its call option on its Series 2003 Preferred Shares, as per the shares' original issuance conditions in March 2003. As a result, Series 2003 Preferred Shares will be de-listed from the Beirut Stock Exchange as of May 27, 2009. The Bank, which will start buying back the Series 2003 Preferred Shares, issued one million such shares in 2003 at a par value of \$100 each. Last week, the Ordinary General Assembly of Byblos Bank sal approved the distribution of dividends for 2008 that included \$12 per share for shareholders carrying Series 2003 Preferred Shares. Byblos Bank's net income rose by 18.6% to \$25m in the first quarter of 2009, 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.

Moody's places deposit ratings of three banks on review for possible downgrade

Moody's Investors Service placed on review for possible downgrade the 'Ba2' global local currency (GLC) deposit ratings of Bank Audi, BLOM Bank and Byblos Bank, adding that the banks' all other ratings are not affected by this action. The agency said the review of the GLC ratings will look at the extent to which the Lebanese government's ability to provide support to its banking system, if needed, is converging with the government's own debt-servicing capacity in light of the ongoing global economic and credit crisis. It added that the current GLC deposit ratings of the banks receive a one-notch uplift due to systemic support. Moody's indicated that it will consider in its assessment factors such as the size of the banking system relative to government resources, the level of stress in the banking system, the foreign currency obligations of the banking sector relative to the government's own foreign exchange resources, and changes to the government's political patterns and priorities.

Moody's indicated that most governments are as likely, if not more likely, to support their banking systems as they are to service their own debt. However, as the financial crisis continues, the capacity of countries and their respective central banks to support their banks is increasingly constrained by each government's respective debt capacity. As such, the agency will be reassessing the level of systemic support for the three banks to determine whether the support they might receive needs to be further aligned to the government's local currency bond rating. In parallel, the agency said the 'D-' Banking Financial Strength Ratings of Byblos Bank, BLOM Bank and Bank Audi remain unaffected and carry a 'stable' outlook. It noted the banks' adequate capitalization that enables them to absorb a level of stress in line with Moody's expected loss assumptions. Moody's upgraded in April the banks' long-term foreign currency deposit ratings to 'B2' from 'B3' with a 'stable' outlook, in line with the sovereign upgrade. It also upgraded Byblos Bank's foreign currency senior and subordinated bond ratings to 'B1' from 'B2'.

Launch of Corporate Governance guidelines for private and publicly-traded firms in Lebanon

The Lebanese Corporate Governance Task Force of the Lebanese Transparency Association launched the first Reference Guidebook on the Corporate Governance (CG) of family-owned enterprises (FOEs) in Lebanon. The Guidebook aims to provide FOEs with guidelines on the implementation of CG principles, toolkits on practical aspects of CG and best practices, and actual case studies in Lebanon. In parallel, the Task Force issued a set of Corporate Governance guidelines for companies listed on the Beirut Stock Exchange in order to help them comply with best governance practices. The two documents reflect efforts to promote the culture and practice of corporate governance in Lebanon, and are inspired by various national and international sources of good governance. CG consists of the sum of practices, procedures and behaviors related to the day-to-day guidance and oversight of a business. It aligns the interests of the firm's management, its board, shareholders and other stakeholders. Empirical evidence shows the positive correlation between good CG and firm performance, as CG can result in better flow of information, improved risk management and increased shareholder confidence, among others. In turn, this can translate into reduced cost of capital for the firm and higher returns for shareholders.

TMA to resume operations

Cargo airline Trans Mediterranean Airlines sal (TMA) announced plans to resume its operations and pledged to pay all of its \$60m dues to its former and actual pilots and to the government. Bought by Lebanese businessman Mazen Bsar last February, TMA's current assets include five Boeing 707 planes, a head office, hangars and maintenance equipment at the Hariri International Airport, as well as offices in Paris and Rome. TMA has been grounded since mid-2005 and all of its bilateral transportation agreements have been suspended. In addition, its current fleet is considered outdated and was put out of service in most countries. It currently has 180 employees and a few pilots. Established in 1953, TMA was the first cargo airline in the Middle East and the Arab world to establish direct shipping lines to the United States, and the first regional carrier to have direct shipping lines between Japan and the United States. The company's new management also aims to create a training center for freight operations.

Solidere announces General Assembly

The Board of Directors of Solidere sal invited its shareholders to its Annual General Assembly to be held on June 17, 2009. The agenda of the meeting includes hearing the Board of Directors and the auditors' reports for 2008, approving the financial statements of 2008, granting clearance to the Chairman and Board members for their administrative duties during 2008, electing a new Board of Directors for the financial year 2009, appointing auditors for the financial year 2009, and negotiating the establishment of a new company, mainly owned by Solidere sal, to acquire the Beirut Souks project.

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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