



LEBANON THIS WEEK

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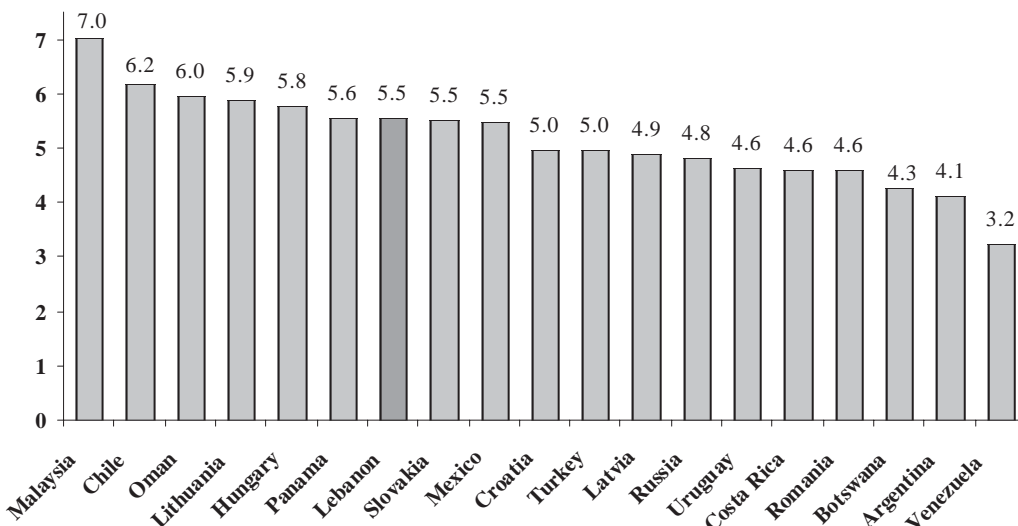
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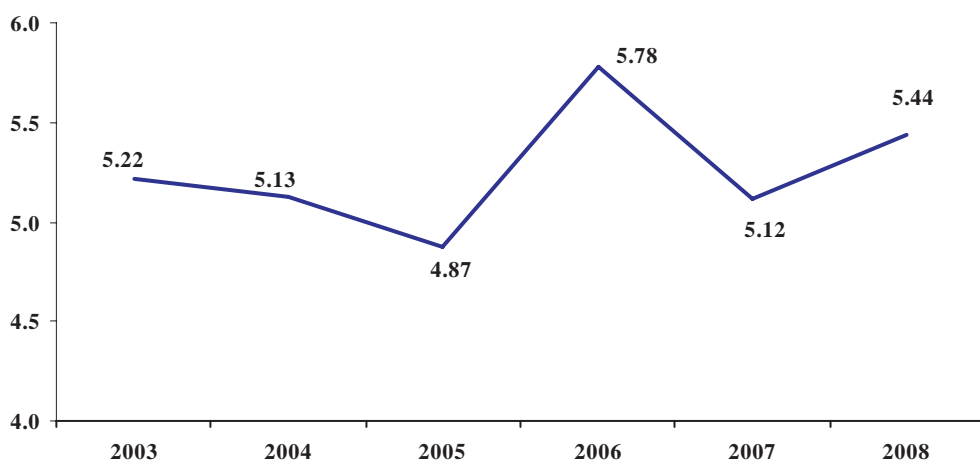
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Charts of the Week

Capital Access Index for Upper-Middle Income Countries for 2008



Capital Access Index for Lebanon



Source: Milken Institute

Quote to Note

“While the election results are good news in the short-term, much remains to be seen in a medium-term perspective as the economy is highly leveraged to political stability in Lebanon.”

Merrill Lynch, on the link between economic growth and political stability

Number of the Week

54%: Percentage of eligible Lebanese voters who participated in the June 7 parliamentary elections, according to the Ministry of Interior

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"	23.70	18.44	3,358,795	21.74%
Solidere "B"	23.57	17.67	627,675	14.05%
Byblos Common	1.86	3.33	265,790	3.70%
Byblos Priority	1.85	1.65	263,850	3.50%
Byblos Pref. 08	96.90	2.00	1,550	1.78%
BLOM GDR	71.90	5.74	28,247	4.87%
BLOM Listed	71.85	14.96	4,690	14.17%
Audi GDR	64.90	8.17	28,149	5.85%
Audi Listed	59.55	9.17	4,650	18.67%
HOLCIM	13.70	2.24	6,152	2.45%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Mar. 2010	7.125	101.88	4.44
May 2011	7.875	103.50	5.92
Mar. 2012	7.500	102.88	6.34
Sep. 2012	7.750	104.13	6.31
June 2013	8.625	105.50	7.03
Apr. 2015	10.000	109.75	7.89
Jan. 2016	8.500	102.25	8.05
May 2016	11.625	117.50	8.25
Mar. 2017	9.000	104.38	8.22
Apr. 2021	8.250	98.50	8.45

Source: Byblos Capital Markets

	This Week	Last Week	% Change	May 2009	May 2008	% Change
Total Shares Traded	4,589,898	1,042,745	340.17%	4,526,493	12,254,353	(63.06)
Total Value Traded	\$98,790,174	\$20,497,710	381.96%	\$70,679,284	\$275,797,021	(74.37)
Market Capitalization	\$10.90bn	\$9.82bn	10.96%	\$8.22bn	\$14.15bn	(30.08)

Source: Beirut Stock Exchange (BSE)



Growth forecast revised upwards to 4%, national unity Cabinet unlikely to implement reforms

Regional investment bank EFG Hermes revised upwards its estimate for real GDP growth in Lebanon from 3% to 4% in 2009, and kept its forecast at 3% for 2010. It said that further upgrades to its growth forecast will be contingent on a peaceful post-election period and a strong tourism season this summer. It indicated that the March 14 coalition successfully retained its majority in the June 7 parliamentary elections, but did not expect it to govern outside the framework of a national unity Cabinet. But EFG Hermes considered that a national unity Cabinet would not be able to implement significant economic reforms, such as privatizing the mobile phone licenses or restructuring the money-losing Electricité du Liban. It noted, however, that the election cycle should allow for greater fiscal discipline in 2010 and expected a fiscal deficit of 10.2% of GDP next year, down from an estimated 11.8% in 2009. It added that deposit growth for 2009 looks strong, as deposits rose by 14.7% annually in March, and should be sufficient to cover the 2009 fiscal deficit.

According to EFG Hermes, the picture on economic growth is still mixed, as the Central Bank's coincident indicator of economic activity shows growth slowing in February and March 2009 to an average of 8% year-on-year, down from 11.7% annually in the second half of 2008. Also, capital inflows are slowing, with a balance of payments deficit of \$367m in March, the first negative result since May 2008. In parallel, lending to the private sector is picking up, as credit rose 2.4% month-to-month in March 2009, after averaging 0.1% on a monthly basis in the previous six months stretching from September 2008 to February 2009. It noted that pre-election tensions did not apparently deter tourism or limited credit growth, adding that tourism is an important source of economic growth and support for the balance of payments. It considered that much of the increase in tourism arrival numbers is due to base effects after political instability in the first 5 months of 2008, as well as by non-resident Lebanese coming to vote.

Further, EFG Hermes projected the inflation rate at 4% at the end of 2009 and at 5% at end-2010. It forecast the annual growth of broad money at 9.4% in 2009 and 6.8% in 2010, while it projected private-sector lending to grow by 12% this year and 10% next year. It also forecast external debt to decline to 68.2% of GDP by end-2009 and to 64% of GDP by end-2010, and for domestic debt to rise to 95% of GDP at the end of this year and to 95.3% of GDP by the end of 2010.

Election results to boost confidence and private consumption, but not external demand

Business Monitor International (BMI) considered that the results of Lebanon's parliamentary elections are very positive for the economic outlook, adding that the government needs to implement reforms to create long-term sustainable growth, and that political risks remain. It expected economic growth at 2.3% in 2009 and 2.2% in 2010, and that growth would pick up to a relatively robust pace starting in 2011 if political and economic reforms are allowed to be implemented. It said that, while other countries now face rising political risks in the wake of the global economic downturn, Lebanon's political instability is already priced in, and investors have reacted positively to the election results based on the recent performance of the Beirut stock market. BMI considered that the other positive outcome of the elections, particularly in comparison with some other countries in the East Mediterranean region, is that the re-elected March 14 majority is ready and willing to reform. It noted that Lebanon has a strong legacy of business culture, and authorities have published numerous documents laying out plans to privatize failing state-owned entities, improve the taxation system and business environment and, most importantly, pay down the national debt. It warned, however, that much will depend on whether the government is able to implement these reforms, as it has not managed to pass the 2007, 2008 or 2009 budgets because of political opposition. It said that the most likely scenario would include some small-scale reforms and a rise in investor confidence, with larger decisions such as the privatization of Electricité du Liban not likely to be on the table until at least 2010.

According to BMI, Lebanon will feel the benefit of the election results primarily through a pick up in domestic demand, while external demand will continue to struggle. It said increased confidence in the political system will stimulate private consumption, but warned that the improvement will not come overnight given the unfavorable global environment. It forecast a 2% rise in real private consumption in 2009 and 2010, given the global slowdown and associated Lebanese job losses abroad. It said this growth could be slowed if the Finance Ministry wants to increase VAT from 10% to 12%, and the tax on interest rate deposits to 7% from 5%, as previously planned.

It noted that despite the domestic momentum, the government will be constrained in its ability to boost growth and external conditions will hurt the trade outlook. It expected exports of goods and services to contract by 2% in real terms in 2009 and imports to slow to 2%. It said imports are likely to remain subdued and exports might drop and potentially even move into negative territory if external demand remains low.

IDAL unveils plan to promote investment in Lebanon

The Investment Development Authority in Lebanon (IDAL) submitted to the Council of Ministers an action plan for attracting foreign investment to Lebanon. The plan proposes establishing special economic zones, improving IDAL's website, creating an economic brand identity for Lebanon, and promoting investments targeting Lebanese expatriates. In terms of special economic zones, the plan intends to choose sector-specific geographical regions in Lebanon to benefit from tax exemptions, custom facilities, and other organizational and regulatory facilities. It identified 5 sectors that qualify for the special economic zone arrangements such as medical tourism, media, technology, food industry and tourism.

Also, IDAL intends to improve the content and form of its website in order to offer a business gateway for prospective investors through the provision of relevant and timely economic, monetary, managerial, legislative, sectoral and social information. Further, the plan's creation of an economic identity includes the formation of a national committee to promote the economic identity of Lebanon, launch campaigns to improve Lebanon's perception abroad, and market investments in the country after the global financial crisis. Finally, the plan will try to promote investment opportunities targeting Lebanese expatriates in order to benefit from their expertise in different fields, as well as to amend some legislation that will encourage expatriates' capital inflows to Lebanon.

Net public debt at \$42.7bn at end-April 2009

Lebanon's gross public debt reached \$47.8bn at the end of April 2009, constituting an increase of 1.6% from end-2008 and a rise of 9.7% from end-April 2008. Domestic debt increased by 19.9% to \$26.4bn, while external debt decreased by 0.7% annually to \$21.4bn. Local currency debt accounted for 55.3% of gross public debt at end-April 2009 compared to 50.6% a year earlier, while foreign currency-denominated debt represented 44.7% of the total at the end of April relative to 49.4% a year earlier. Market-issued Eurobonds account for about 66% of external debt.

Commercial banks accounted for 59.1% of the local public debt at the end of April 2009 compared to 56.2% a year earlier. They were followed by the Central Bank with 25.3%, down from 27.1% at end-April 2008; while public agencies, financial institutions and the general public accounted for 15.6% of local debt relative to 16.7% a year earlier. Eurobond holders, foreign private sector loans and special T-bills in foreign currencies accounted for 86.5% of the external debt, followed by multilateral institutions with 7%, foreign governments with 4.5% and Paris II loans with 2%. Net public debt, which excludes the public sector's deposits at the Central Bank and at commercial banks from overall debt figures, increased annually by 6.8% to \$42.7bn. In parallel, the gross market debt accounted for about 66% of total public debt. Gross market debt is the total public debt less the portfolios of the Central Bank, the National Social Security Fund, bilateral and multilateral loans, as well as Paris II and Paris III related debt.

Balance of payments posts surplus of \$1.1bn in first 4 months of 2009

Central Bank figures show that Lebanon's balance of payments (BoP) posted a surplus of \$1.1bn in the first four months of 2009 compared to a deficit of \$141m in the same period last year. The BoP posted a surplus of \$839m in April compared to a deficit of \$367m in March and a surplus of \$73m in April 2008. The April 2009 surplus was caused by a rise of \$664m in the Central Bank's net foreign assets and an increase of \$175m in those of banks and financial institutions. The cumulative surplus over the first 4 months of 2009 was caused by a rise of \$2.4bn in the Central Bank's net foreign assets and a decline of \$1.3bn in those of banks and financial institutions. The balance of payments posted a cumulative surplus of \$3.5bn in 2008.

Cleared checks up 5.1% to \$16.2bn in first 4 months of 2009

The value of cleared checks increased by 5.1% to \$16.2bn in the first four months of 2009 compared to the same period of 2008. The value of cleared checks in Lebanese pounds rose by 15.2% to the equivalent of \$3.4bn, while the value of cleared checks in U.S. dollar rose by 2.7% to \$12.8bn. The dollarization rate of cleared checks decreased from 80.6% to 78.8% year-on-year.

Number of tourists up 69.2% in first 5 months of 2009

The number of incoming tourists to Lebanon totaled 569,724 in the first 5 months of 2009, constituting an increase of 69.2% from 336,721 tourists in the same period last year. Arab tourists accounted for 40.3% of total visitors and were followed by visitors from Europe with 24.1% and Asia with 17%. The number of tourists reached 135,306 in May 2009, constituting an increase of 126.8% from 59,667 in May 2008. Arabs accounted for 37.1% of total visitors in May 2009, followed by Europeans with 23.3% of total and American continent visitors with 16.3%. The significant rise in the number of tourists reflects a low-base effect from the very low activity in the first 5 months of 2008 due to deteriorating political and security conditions in the country.

Most tourist spending in Lebanon originates from Saudi Arabia in first 5 months of 2009

According to Global Refund, the cash refund operator for international shoppers, tourists from Saudi Arabia spent the most in Lebanon over the first 5 months of 2009, equivalent to 21% of total tourist spending, followed by tourists from Kuwait (13%), UAE (12%), Egypt (8%) and Jordan (7%). Beirut attracted 83% of total spending over the covered period, followed by the Metn area with 13% and the Keserwan region with 2%. Fashion & clothing accounted for 68% of total spending, followed by watches with 11%, perfume & cosmetics with 5%, home & garden with 5% and department stores with 4%.

Commercial banks' assets reach \$99.6bn at end-April 2009

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$99.6bn at the end of April 2009, up 5.7% from end-2008 and up 16.3% from end-April 2008. Private sector deposits totaled \$82.6bn, up 6.2% from end-2008 and up 17.8% from end-April 2008. Deposits increased by \$3.07bn in April, \$0.68bn in March and \$1.14bn in February, after declining by \$42m in January 2009. Deposits in Lebanese pounds rose by 13.3% from end-2008 and by 60% year-on-year, while deposits in foreign currencies increased by 3.1% from the end of last year and by 4.6% from end-April 2008. Non-resident foreign currency deposits reached \$11.7bn at end-April 2009, increasing by 12.2% from end-2008 and by 30.4% year-on-year. In parallel, deposits of non-resident banks reached \$4.16bn, down 3.4% from end-2008 and down 5.7% from end-April 2008. The dollarization rate of deposits reached 67.5% at end-April 2009, down from 69.6% at end-2008 and from 76.1% a year earlier. Further, the average deposit rate in Lebanese pounds reached 7.08% compared to 7.26% a year earlier, while the same rate in US dollars was 3.24%, down from 3.67% in April 2008.

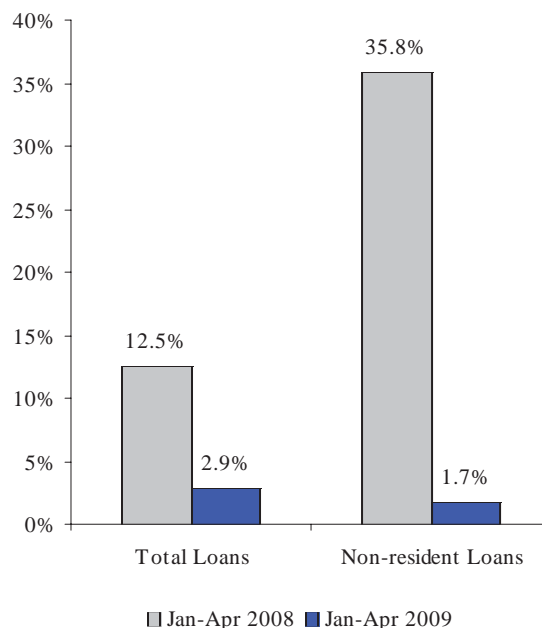
Loans to the private sector amounted to \$25.8bn, up 2.9% from end-2008 and up 11.3% year-on-year. Non-resident foreign currency loans reached \$4.1bn at end-April 2009, increasing by 1.7% from end-2008 and by 11.5% year-on-year. The dollarization rate in private sector lending reached 85.8% compared to 86.6% at end-2008 and 86.7% a year earlier. The average lending rate in

Lebanese pounds was 9.83% in April 2009 compared to 9.86% a year earlier, while the same average in US dollars was 7.21% compared to 7.42% in March 2008. Claims on the public sector stood at \$25.6bn, up 0.9% from end-2008 and 13% year-on-year, and accounted for 49.9% of the banking sector's total loans. The ratio of private sector loans to deposits in foreign currencies stood at 39.6%, well below the Central Bank's limit of 70%, and up from 37.3% a year earlier. In parallel, the same ratio in Lebanese pounds was 13.6% compared to 18.2% a year earlier. The ratio of total private sector loans to deposits stood at 31.2%, down from 32.8% a year earlier. The banks' aggregate capital base stood at \$7.34bn, up 3.4% from end-2008 and 14.7% from \$6.40bn in April 2008.

Beirut port revenues up 29% in first 5 months of 2009

Figures released by the Port of Beirut Authority show that port revenues amounted to \$63.5m in the first 5 months of 2009, up 29% from the same period of 2008. Freight activity reached 2.5 million tons in the first 5 months of 2009, up 5.6% compared to the same period of 2008. The number of ships reached 1,010, up 19.4% from a year earlier. Further, the port's revenues reached \$11.8m in May 2009, down 0.7% from the previous month. Freight activity increased by 21.4% to 572,000 tons and the number of ships increased by 5.5% to 211 ships in May 2009 from the previous month.

Growth in Private Sector Loans (%)



Source: Association of Banks in Lebanon

Beirut bourse approves trading and pricing of Byblos Bank's GDRs

The Beirut Stock Exchange approved the trading and pricing of Byblos Bank's Global Depository Receipts (GDRs) that are listed on the London Stock Exchange (LSE). Byblos Bank, one of Lebanon's top 3 banks, listed its GDRs on the London bourse on February 19th, 2009, making it the first Lebanese listing on the exchange in 12 years. Byblos Bank also became the 37th institution from the Middle East to list on the LSE. The GDR program, which was launched last February, consisted of giving holders of common shares the option to exchange every 50 shares for one GDR. Also, GDR holders have the same rights as holders of common shares, including all voting rights, dividend payments and participation in future capital increase, among other rights.

Byblos Bank posted net profits of \$25m in the first quarter of 2009, up 18.6% from the same period last year and constituting the highest profit growth among Lebanon's top 3 banks. It had total assets of \$11.6bn, loans of \$2.8bn and deposits of \$8.7bn at the end-March 2008. The Byblos Bank Group operates in Iraq, Syria, the United Arab Emirates, Sudan, Nigeria and Armenia, as well as in Belgium, France, the United Kingdom and Cyprus.

LAU in negotiations to acquire Rizk Hospital

The Lebanese American University (LAU), one of the largest private universities in Lebanon, is reportedly negotiating the acquisition of Rizk Hospital with the latter's shareholders. Negotiations started 8 months ago and are pending the valuation of the hospital, the approval of all existing shareholders, and the finalization of a full audit currently undertaken by U.S. auditors, the Joint Commission International and Harvard Medical International. The audit is currently reviewing the activities of the hospital, its infrastructure, and its medical equipments. Last March, the two sides signed a Memorandum of Understanding to allow LAU's Faculty of Medicine students to use Rizk Hospital for technical practice. LAU will launch its own faculty of Medicine in September 2009 in collaboration with Harvard Medical International.

Established in 1925, Rizk Hospital is one of the largest hospitals in the country and currently has around 150 doctors in most medical and surgical specialties, along with a large administrative, technical and nursing staff. Dr. Assaad Rizk holds an 85% stake, with the remaining 15% owned by 45 practicing doctors detaining at a least four shares each. Last year, Byblos Bank subscribed in full to a \$75m bond issued by LAU, which intends to use the proceeds to finance a variety of projects for a total cost of about \$120m, including new capital projects and a medical school building.

Banque BEMO distributes dividends

Banque BEMO, one of Lebanon's listed banks, announced that the Ordinary General Assembly held on May 30, 2009 approved the distribution of dividends for 2008. The bank will pay \$8 per share for shareholders carrying Preferred Shares 2006 Series and LBP225 per share for shareholders carrying common shares. The dividends will be paid net of a 5% distribution tax. The general assembly also approved the Board of Directors and the auditors' reports for 2008, as well as the financial statements for 2008. It also granted clearance to the Chairman and Board members for their administrative duties during 2008, and approved their remunerations for 2009. BEMO posted net profits of \$7.5m in 2008, down 2.7% from the previous year. It had total assets of \$0.91bn, loans of \$0.36bn and deposits of \$0.71bn at end-2008.

Huriya-MT Hjgaard wins bid for expansion of Beirut Port

Lebanese-Danish joint-venture Huriya-MT Hjgaard won the bid for the expansion of quay 16 container terminal in Beirut Port. The \$128.9m contract assigns Huriya-MT Hjgaard for the expansion of the terminals capacity by 400,000 new containers by 2012. The expansion will need 140,000 square meters of land. Huriya-MT Hjojgaard participated in the port rehabilitation in 1998. The expansion tender was launched last March and asked international and local companies to submit their specifications by April 30th.

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



Economic Research & Analysis Department
Byblos Bank Group
P.O. Box 11-5605
Beirut – Lebanon
Tel: (961) 1 338 100
Fax: (961) 1 217 774
E-mail: research@byblosbank.com.lb
www.byblosbank.com.lb

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BYBLOS BANK GROUP

LEBANON

Byblos Bank S.A.L
Achrafieh - Beirut
Elias Sarkis Avenue - Byblos Bank Tower
P.O.Box: 11-5605
Riad El Solh - Beirut 1107 2811 - Lebanon
Phone: (+961) 1 335200
Fax: (+961) 1 339436

SYRIA

Byblos Bank Syria S.A
Abu Roummaneh Head Office
Al Chaalan - Amine Loutfi Hafez Str.
P.O.Box: 5424 Damascus - Syria
Phone: (+ 963) 11 9292 - 3348240 / 1 / 2 / 3 / 4
Fax: (+ 963) 11 3348207
E-mail: byblosbanksyria@byblosbank.com

SUDAN

Byblos Bank Africa Ltd.
Khartoum - Sudan
El Amarat -Street 21
P.O.Box: 8121 El Amarat - Khartoum - Sudan
Phone: (+249) 183 566 444
Fax: (+249) 183 566 454
E-mail: byblosbankafrica@byblosbank.com

IRAQ

Erbil Branch, Kurdistan, Iraq
Street 60,
Near Sports Stadium
P.O.Box: 34 - 0383 Erbil - Iraq
Phone: (+ 964) 66 2233457 / 9
Fax: (+ 964) 66 2233458
E-mail: iraqbranch@byblosbank.com.lb

ARMENIA

Byblos Bank Armenia CJSC
18/3 Amiryan Street
Yerevan, 37500 - Republic of Armenia
Phone: (+374) 10 530 362
Fax: (+374) 10 535 296

NIGERIA

Byblos Bank Nigeria Representative Office
10-14 Bourdillon Road
Ikoyi, Lagos - Nigeria
Phone: (+ 234) 1 6653633
(+ 234) 1 8990799
E-mail: melamm@byblosbank.com.lb

BELGIUM

Byblos Bank Europe S.A
Bussels Head Office
10, Rue Montoyer
B-1000 Brussels - Belgium
Phone: (+32) 2 551 00 20
Fax: (+32) 2 513 05 26
E-mail: byblos.europe@byblosbankeur.com

ENGLAND

London Branch
Berkeley Square House - Suite 5
Berkeley Sq.
GB - London W1J 6BS - United Kingdom
Phone: (+44) 207 493 35 37
Fax: (+44) 207 493 12 33
E-mail: byblos.europe@byblosbankeur.com

FRANCE

Paris Branch
15 Rue Lord Byron
F- 75008 Paris - France
Phone: (+33) 1 45 63 10 01
Fax: (+33) 1 45 61 15 77
E-mail: byblos.europe@byblosbankeur.com

CYPRUS

Limassol Branch
1, Arch. Kyprianou / St. Andrew Street
P.O.Box 50218
3602 Limassol - Cyprus
Phone: (+357) 25 341433 / 4 / 5
Fax: (+357) 25 367139
E-mail: bybloscyprus@byblosbank.com

UNITED ARAB EMIRATES

Byblos Bank Abu Dhabi Representative Office
Intersection of Muroor and Electra Streets
P.O.Box: 73893 Abu Dhabi - UAE
Phone: (+ 971) 2 6336400
Fax: (+971) 2 6338400
E-mail: byblosbankuae@byblosbank.com