



# LEBANON THIS WEEK

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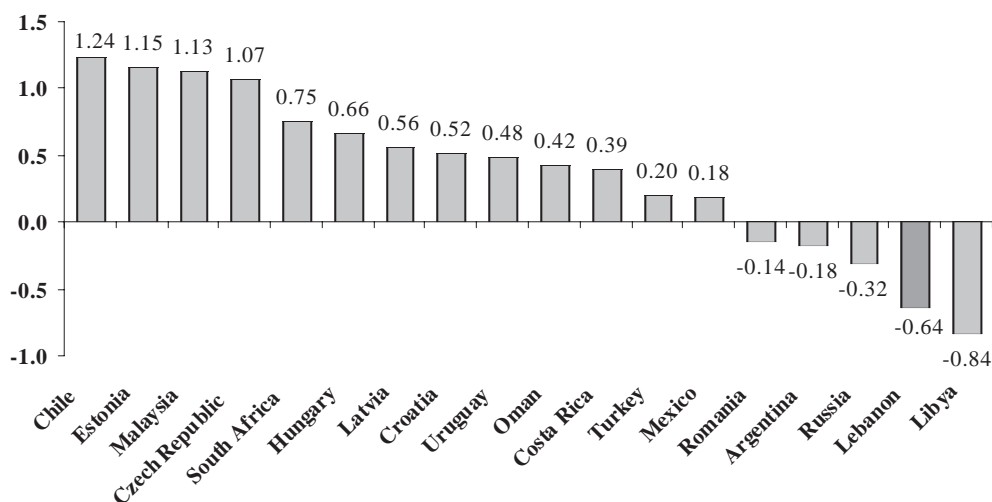
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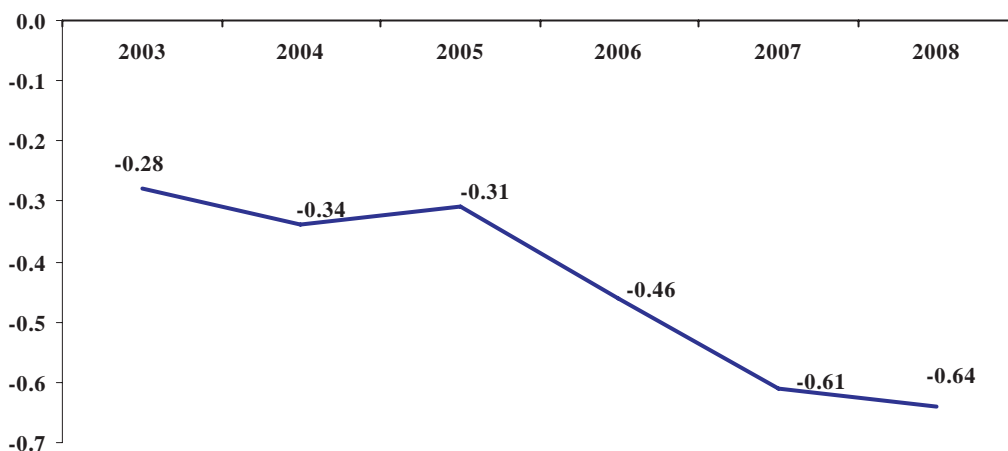
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## Charts of the Week

Government Effectiveness for Upper Middle-Income Countries in 2008



Government Effectiveness Indicator for Lebanon



Source: World Bank Governance Indicators, 2009

## Quote to Note

“This national unity structure will delay difficult reforms”

*Regional investment bank EFG Hermes, on the likely impact of a coalition Cabinet grouping all major political factions in Lebanon*

## Number of the Week

**\$20.2bn:** The Central Bank of Lebanon’s gross foreign currency reserves at the end of May 2009, as estimated by the Association of Banks in Lebanon

## Economic Indicators

<b>\$m (unless otherwise mentioned)</b>	<b>2007</b>	<b>Apr. 08</b>	<b>2008</b>	<b>Feb.2009</b>	<b>Mar. 2009</b>	<b>Apr. 09</b>	<b>% Change*</b>
Exports	2,816	279	3,478	449	270	231	(17.20)
Imports	11,815	1,310	16,133	1,035	1,138	1,797	37.17
Trade Balance	(8,999)	(1,031)	(12,655)	(586)	(868)	(1,566)	51.89
Balance of Payments	2,036	73	3,462	300	(367)	839	1,049
Checks Cleared in LBP	8,409	755	9,350	815	899	804	6.49
Checks Cleared in FC	29,893	3,374	43,174	2,872	3,294	3,222	(4.5)
Total Checks Cleared	38,302	4,129	52,524	3,687	4,148	4,026	(2.49)
Budget Deficit/Surplus	(2,546)	(399)	(2,921)	(326)	(508)	(76)	(80.95)
Primary Balance	731	(13)	597	(82)	(110)	363	(2,892)
Airport Passengers	3,408,834	290,562	4,085,334	276,825	302,709	392,556	35.10

<b>\$bn (unless otherwise mentioned)</b>	<b>Dec. 2007</b>	<b>Apr. 2008</b>	<b>Jan. 2009</b>	<b>Feb. 2009</b>	<b>Mar. 09</b>	<b>Apr. 09</b>	<b>% Change*</b>
BdL FX Reserves	9.78	11.39	17.59	18.23	18.66	19.33	69.71
<i>In months of Imports</i>	9.19	8.70	16.48	17.62	16.40	10.75	23.56
Public Debt	42.03	43.54	46.99	47.20	47.85	47.77	9.71
Net Public Debt	39.03	39.98	41.43	41.88	42.34	42.69	6.78
Bank Assets	82.26	85.63	93.79	95.11	97.94	99.63	16.35
Bank Deposits (Private Sector)	67.29	70.13	77.74	78.88	80.50	82.62	17.81
Bank Loans to Private Sector	20.42	22.98	24.96	24.94	25.45	25.76	12.10
Money Supply M2	16.47	17.85	25.41	26.23	26.86	27.77	55.57
Money Supply M3	59.83	62.72	68.62	69.41	70.52	72.28	15.24
LBP Lending Rate (%)	10.10	9.86	10.07	10.03	10.10	9.83	(3b.p.)
LBP Deposit Rate (%)	7.40	7.26	7.22	7.13	7.10	7.08	(18b.p.)
USD Lending Rate (%)	8.02	7.42	7.35	7.28	7.32	7.21	(21b.p.)
USD Deposit Rate (%)	4.69	3.67	3.31	3.25	3.26	3.24	(43b.p.)
%* Change in CPI**	5.92	12.20	4.03	2.80	3.51	2.00	(1,020b.p.)

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

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

Sources: ABL, BdL

## Capital Markets

<b>Most Traded Stocks on BSE</b>	<b>Last Price (\$)</b>	<b>% Change*</b>	<b>Total Volume</b>	<b>Weight in Market Capitalization</b>	<b>Sovereign Eurobonds</b>	<b>Coupon %</b>	<b>Mid Price \$</b>	<b>Mid Yield %</b>
Solidere "A"	22.64	(15.14)	703,618	20.79%	Mar. 2010	7.125	101.50	4.71
Solidere "B"	22.90	(14.01)	286,275	13.67%	May 2011	7.875	104.50	5.28
Byblos Common	1.85	(1.07)	35,364	3.69%	Mar. 2012	7.500	104.50	5.66
Byblos Priority	1.86	(2.11)	43,972	3.52%	Sep. 2012	7.750	105.00	5.98
Byblos Pref. 08	97.90	(0.61)	500	1.80%	June 2013	8.625	107.25	6.50
BLOM GDR	77.10	0.13	12,358	5.23%	Apr. 2015	10.000	111.00	7.61
BLOM Listed	72.65	0.90	2,410	14.34%	Jan. 2016	8.500	104.25	7.66
Audi GDR	65.60	(5.88)	4,912	5.92%	May 2016	11.625	119.50	7.87
Audi Listed	60.00	0.00	4,108	18.84%	Mar. 2017	9.000	108.25	7.56
HOLCIM	13.24	1.30	567	2.37%	Apr. 2021	8.250	102.50	7.92

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

Source: Byblos Capital Markets

	<b>This Week</b>	<b>Last Week</b>	<b>% Change</b>	<b>June 2009</b>	<b>June 2008</b>	<b>% Change</b>
<b>Total Shares Traded</b>	1,104,889	1,493,816	(26.04%)	8,778,166	5,263,747	66.77
<b>Total Value Traded</b>	\$27,026,678	\$35,585,754	(24.05%)	\$174,823,842	\$167,096,917	4.62
<b>Market Capitalization</b>	\$10.89bn	\$11.60bn	(6.13%)	\$11.31bn	\$16.23bn	(30.30)

Source: Beirut Stock Exchange (BSE)



### Beirut is 41st most expensive city in the world, 6th most expensive in MENA region

The annual survey on the cost of living in 143 cities around the world by Mercer Human Resource Consulting ranked Beirut as the 41st most expensive city worldwide and 6th most expensive among 15 cities surveyed in the Middle East and North Africa region in 2009. It was also considered as the 4th most expensive city among the Upper Middle Income Countries (UMICs) included in the survey. Beirut was the 80th most expensive city in the world and 7th most expensive in the region in 2008, and was the 63rd costliest globally and 5th costliest in the MENA region in the 2007 survey. The study measures the comparative cost of over 200 items in each location, including the cost of housing, food, clothing and household goods, as well as transportation and entertainment. It compares the cost of high-end items that are important to expatriates and their employers such as upscale residential areas and entertainment venues. New York City served as the benchmark for other cities with a score of 100. The survey is conducted annually to help multinational companies determine compensation allowances for their expatriate workers.

On a global basis, Beirut tied with Brussels in Belgium and Honolulu in the USA, ranked immediately behind Luxembourg, Barcelona and Algiers, and was considered more expensive than Almaty in Kazakhstan, Miami and St.Petersburg. Among UMICs, Beirut was considered less expensive than Moscow, Caracas in Venezuela and Bratislava in Slovakia, while it was considered more expensive than St.Petersburg, Istanbul and Riga in Latvia. Beirut received a score of 81.6 points, up 1% from 80.8 points in 2008. Its score came below the global average of 82.1 points but above the UMICs average of 76.6 points as well as above the MENA and Arab averages of 80.6 points and 77.7 points, respectively.

Beirut's ranking declined by 39 spots in 2009, the 8th biggest drop in the world along with Shenzhen in China and Abu Dhabi, and the third biggest drop in the region after Cairo that declined by 44 spots and Tehran that regressed by 41 spots. Mercer said the significant decline in Beirut's ranking was not due to the increase in the cost of living in Beirut as such, but relates to the massive swings of currencies worldwide. It noted that the weakening of many currencies against the U.S dollar led to the increase in the relative cost of living of the cities that have currencies pegged to the dollar. The scores of 8 cities in the MENA region increased and 7 declined, while the rankings of 2 cities increased and 13 declined. Tokyo replaced Moscow as the world's most expensive with a score of 143.7 points and Johannesburg in South Africa is the cheapest city with an index score of 49.6 points.

### Positive momentum for capital markets, deadlock in Cabinet formation is key risk

In its first update on the Lebanese economy since the parliamentary elections, Barclays Capital indicated that bank deposit growth and record foreign currency reserves at the Central Bank reflect an overall positive momentum that is supported by a sustained inflow of capital and strengthened performance of the banking system during the first half of the year. But it warned that a delay in the formation of a new Cabinet remains the major risk that could overshadow a rather positive outlook over the coming two quarters. Barclays stated that the balance of payment surplus is reflecting a positive dynamic, as the cumulative trade deficit stabilized and capital inflows increased significantly in the first 5 months of the year. It noted that capital inflows consisted of remittance flows, FDI and portfolio investment in Lebanese equities and bonds.

Barclays Capital considered that the post-elections positive sentiment and the prospects of a national unity Cabinet in the next few weeks are likely to support growing interest in Lebanese-based assets. It noted that the downside risk is a stalemate in forming the new Cabinet as well as a producing Cabinet where the opposition retains the right of a blocking vote in line with the outgoing government. It considered that the latter scenario could cast doubt on the ability of Lebanon to progress on the much-needed critical economic and fiscal reforms. In parallel, it said Lebanese Eurobonds remain the most resilient in Emerging Europe the Middle East & Africa since their prices are supported by demand from local banks. As a result, the volatility of the spreads remains low, making the credit a good hedge and an attractive option from a risk-reward profile as shown by its recent performance. It said upside on Lebanese assets beyond that depends on the outcome of the Cabinet formation, particularly its composition and its announced reform program, including signs of an emerging consensus about the sale of the mobile phone licenses and privatization in the energy sector. It warned that the risks of a deadlock in the formation of the new government would be more political and security tensions and further pressure on public finances.

#### Cost of Living Rankings & Scores 2009

City	Score	MENA Rank	Global Rank
Tel Aviv	91.9	1	17
Dubai	90.1	2	20
Abu Dhabi	86.7	3	26
Tehran	84.1	4	33
Algiers	81.7	5	40
<b>Beirut</b>	<b>81.6</b>	<b>6</b>	<b>41</b>
Amman	79.8	7	52
Cairo	78.5	8	57
Kuwait	73.2	9	77
Limassol	73.1	10	78
Casablanca	72.1	11	80
Manama	71.8	12	82
Saudi Arabia	70.5	13	90
Jeddah	66.1	14	109
Tunis	58.4	15	134

Source: Mercer Consulting, 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 decrease the Beirut Reference Rate in US dollars by one basis point to 5.23% from 5.24% previously. The rate, considered as the 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 Reference Rate in Lebanese pounds by four basis points to 8.92% from 8.96% previously. The Beirut Reference Rate in US dollars and Lebanese pounds were adopted in March and May 2009, respectively. The ABL indicated 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. The prime lending rate for US dollar and Lebanese pounds are 8.25% and 10% respectively.

### **Coincident Indicator drops by 4% month-on-month in May**

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 227.5 points in May 2009 compared to 236.5 points in April and 187.1 points in May 2008. The Coincident Indicator, an average of 8 weighted economic indicators, regressed by 3.8% month-on-month and rose by 8.5% in the first 5 months of 2009 and by 21.6% on an annual basis. The indicator averaged 209.3 points in the 12-months ending May 2009 compared to 205.9 points in the 12-months ending April 2009 and to 185.6 points in the 12-months ending May 2008. As a result, the average coincident indicator rose by 12.8% year-on-year. The indicator posted its second best performance ever in May 2009, after posting its best performance ever in April 2009 when it surpassed the previous peak of 215.3 points reached in January of this year. However, the May results revert to the trend of monthly declines in activity that took place in February and March, leaving January and April as the only two months with a pick up in activity this year. The indicator improved 7 times and regressed 10 times in the month of May since 1993. The indicator averaged 198.4 points in 2008, 180 points in 2007 and 171.6 points in 2006.

### **Balance of payments posts surplus of \$1.7bn in first 5 months of 2009**

Central Bank figures show that Lebanon's balance of payments (BoP) posted a surplus of \$1.66bn in the first 5 months of 2009 compared to a deficit of \$557m in the same period last year. The BoP posted a surplus of \$521m in May compared to a surplus of \$839m in April and to a deficit of \$416m in May 2008. The May 2009 surplus was caused by a rise of \$809m in the Central Bank's net foreign assets and an increase of \$288m in those of banks and financial institutions. The cumulative surplus over the first 5 months of 2009 was caused by a rise of \$3.3bn in the Central Bank's net foreign assets and a decline of \$1.6bn 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 \$20.6bn in first 5 months of 2009**

The value of cleared checks totaled \$20.6bn in the first 5 months of 2009, constituting an increase of 5.1% from the same period last year. The value of cleared checks in Lebanese pounds rose by 17% to the equivalent of \$4.4bn, while the value of cleared checks in U.S. dollar rose by 2.2% to \$16.3bn. The dollarization rate of cleared checks decreased from 81% to 78.8% year-on-year.

## Corporate Highlights

### Byblos Bank posts biggest rise in Tier One capital and highest jump in rankings among Lebanese banks included in Top 1000 banks in the world

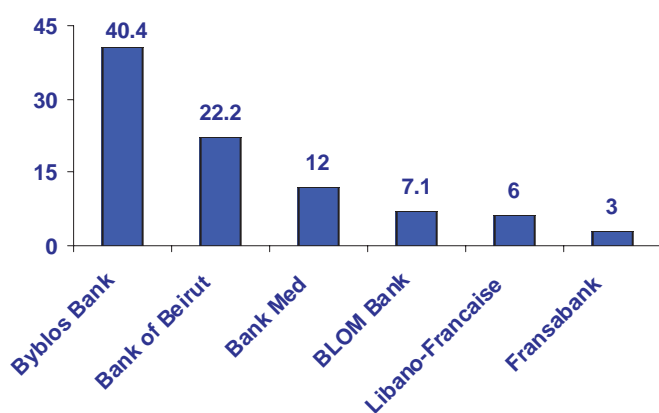
In its 2009 survey of the Top 1000 commercial banks in the world, *The Banker* magazine included 8 Lebanese banks on the list, unchanged from last year, none of which ranked in the Top 25 banks in the Middle East. The rankings are based on Tier One capital at year-end 2008 as defined by the Basel Bank for International Settlements. *The Banker* said the definition is stricter than total shareholders' equity and covers only the core of a bank's strength, namely the shareholders' equity available to cover actual or potential losses. Two Lebanese banks did not report end-2008 figures so their rankings were based on end-2007 results.

Four Lebanese banks improved their ranking in the 2009 survey, with Byblos Bank jumping 63 places and posting the biggest year-on-year improvement in the standings among its Lebanese peers and the 20th highest among Arab banks. Byblos Bank also posted the highest rise in Tier One capital in 2008 among Lebanese banks and the 15th highest among Arab banks.

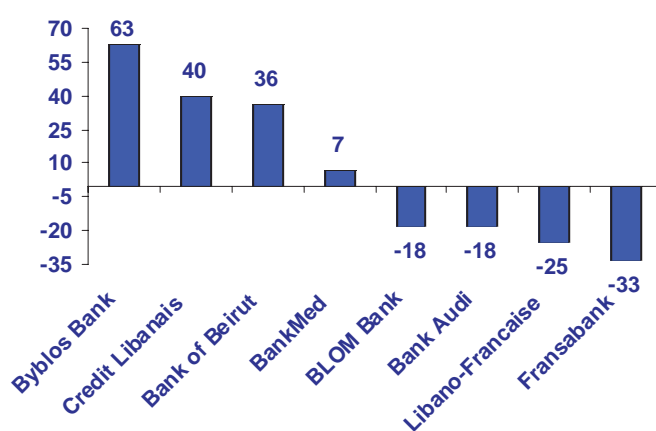
Byblos Bank improved its ranking by 63 spots and came in 482nd place, Bank of Beirut rose by 36 spots to 736th place, and BankMed rose by 7 spots to 758th place. Globally, Byblos Bank ranked ahead of Germany's Badische Beamtenbank and Hong Kong's CITIC Ka Wah Bank, and came behind Banco del Estado de Chile and Italy's Findomestic Banca. In parallel, Fransabank dropped by 33 places to the 756th spot, Banque Libano-Française regressed by 25 spots to 750th place, and BLOM Bank dropped by 18 places to the 415th position. Among banks that did not report end-2008 figures, Crédit Libanais rose by 40 spots (917th) and Bank Audi fell by 18 spots (354th).

Further, Byblos Bank posted the biggest annual increase in Tier One capital with a 40.4% rise, followed by Bank of Beirut with 22.2%, Crédit Libanais with 12.7%, BankMed with 12%, BLOM Bank with 7.1%, Banque Libano-Française with 6%, and Fransabank with 3.1%. Further, the Tier One capital of Lebanese banks reporting end-2008 figures totaled \$4.34bn, with BLOM Bank accounting for 30.2% of the total, followed by Byblos Bank with 24.7%, Bank of Beirut with 11.7%, Banque Libano-Française with 11.3%, Fransabank with 9.6% and BankMed with 11%. The figures issued by *The Banker* also indicate that Byblos Bank's Tier One capital-to-assets ratio reached 9.52% at end-2008, posting the highest such ratio among the 8 Lebanese banks included in the survey.

Rise in Tier One Capital in 2008\* (%)



Change in ranking among Top 1000 Banks in 2008



\*Banks reporting end-2008 Tier One Capital

Source: *The Banker* magazine, *Byblos Research*

### Byblos Bank invites shareholders to an Extraordinary General Assembly

The Board of Directors of Byblos Bank has invited the Bank's shareholders to an Extraordinary General Assembly to be held on August 1st, 2009. The agenda of the meeting includes confirmation of the redemption of the Bank's Series 2003 Preferred Shares, as well as the approval of the Bank's capital increase. The capital increase will take place through the issuance of preferred shares and from the deduction of LBP3.05bn from the bank's reserves. The General Assembly will also determine the amount, terms, conditions and details of this increase. Byblos Bank's profits 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.



### Commercial banks' assets reach \$101.7bn at end-May 2009

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$101.7bn at the end of May 2009, up 7.8% from end-2008 and up 17.9% from end-May 2008. Private sector deposits totaled \$84.3bn, up 8.5% from end-2008 and up 19.6% from end-May 2008. Deposits increased by \$1.73bn in May, \$2.12bn in April, \$1.62bn in March and \$1.14bn in February, after declining by \$42m in January 2009. Deposits in Lebanese pounds rose by 16.3% from end-2008 and by 58.6% year-on-year, while deposits in foreign currencies increased by 5.1% from the end of last year and by 6.8% from end-May 2008. Non-resident foreign currency deposits reached \$11.9bn at end-May 2009, increasing by 11.8% from end-2008 and by 25.5% year-on-year. In parallel, deposits of non-resident banks reached \$4.24bn, down 1.4% from end-2008 and up 3.8% from end-May 2008. The dollarization rate of deposits reached 67.4% at end-May 2009, down from 69.6% at end-2008 and from 75.4% a year earlier. Further, the average deposit rate in Lebanese pounds reached 7.06% compared to 7.27% a year earlier, while the same rate in US dollars was 3.22%, down from 3.61% in May 2008.

Loans to the private sector amounted to \$26.1bn, up 4.1% from end-2008 and up 11.9% year-on-year. Non-resident foreign currency loans reached \$3.9bn at end-May 2009, decreasing by 0.6% from end-2008 and increasing by 13.5% year-on-year. The dollarization rate in private sector lending reached 85.8% compared to 86.6% at end-2008 and 87.3% a year earlier. The average lending rate in Lebanese pounds was 9.79% in May 2009 compared to 9.72% a year earlier, while the same average in US dollars was 7.28% compared to 7.43% in May 2008. Claims on the public sector stood at \$25.5bn, up 0.4% from end-2008 and 13.6% year-on-year, and accounted for 49.5% of the banking sector's total loans. The ratio of private sector loans to deposits in foreign currencies stood at 39.3%, well below the Central Bank's limit of 70%, and up from 38.2% a year earlier. In parallel, the same ratio in Lebanese pounds was 13.5% compared to 17.9% a year earlier. The ratio of total private sector loans to deposits stood at 30.9%, down from 33% a year earlier. The banks' aggregate capital base stood at \$7.34bn, up 3.4% from end-2008 and 12.2% from \$6.54bn in May 2008.

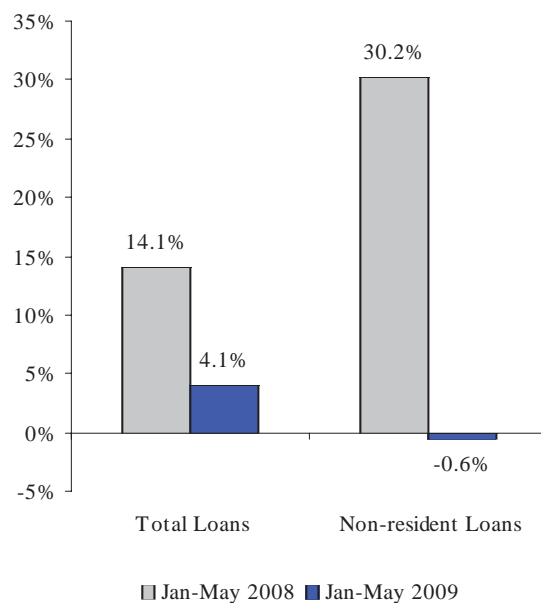
### Holcim's net profits up 26% to \$20m in 2008

Cement producer Holcim Liban sal posted net profits of \$19.53m in 2008, up 26.1% from \$15.49m in 2007. The firm's net sales increased by 22.3% to \$166.56, while its inventory increased by 6% to \$33.9m in 2008. Holcim's total assets and total equity amounted to \$312.7m and \$197.8m respectively as at end-December 2008, compared to \$309.5m and \$191.9m as at end 2007. The company's total loans and borrowings decreased by 5.5% to \$52.9m in 2008, while its banks balance and cash increased by 108.6% to \$10m. The company is engaged in the production and sale of cement and other related services. Holcim Liban is majority-owned by the Swiss-based Holcim Ltd. and its shares are listed on the Beirut Stock Exchange. Last April, Fitch Ratings downgraded the Swiss-based building materials company Holcim Ltd's Long-term Issuer Default (IDR) and senior unsecured ratings to 'BBB' from 'BBB+', and assigned a 'negative' outlook to the long term ratings as a result of the effects of the global recession. Also, Moody's Investors Service downgraded Holcim's 'Baa1' long-term issuer and unsecured rating to 'Baa2' and changed the outlook to 'stable'.

### Ciments Blancs posts 21% rise in net profits to \$3.2m in 2008

Société Libanaise des Ciments Blancs sal, an affiliate of Holcim Liban sal, declared net profits of \$3.24m in 2008, up 21.1% from \$2.68m in 2007. The company generated sales worth \$13.2m in 2008 compared to \$10.7m in 2007, and its inventory increased by 49.3% to \$2.3m year-on-year. Gross profits increased by 16.5% to \$4.4m year-on-year. The firm's total assets reached \$19.4m as at end-2008 relative to \$18.9m at end-2007. Total equity amounted to \$15.6m as at end- 2008, up from \$14.7m at end-2007. Earnings per share reached \$0.36 compared to \$0.30 a year earlier.

### Growth in Private Sector Loans (%)



Source: Association of Banks in Lebanon

## Ratio Highlights

(in % unless specified)	2006	2007	2008	Change*
Nominal GDP <sup>(1)</sup> (\$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	Apr 2008	Mar 2009	Apr 2009	Change*	Risk Level
Political Risk Rating	55.5	57.5	57.5	▲	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	57.7	57.7	↔	High

Regional Average	Apr 2008	Mar 2009	Apr 2009	Change*	Risk Level
Political Risk Rating	65.5	65.7	65.4	▼	Moderate
Financial Risk Rating	40.9	41.2	41.4	▲	Very Low
Economic Risk Rating	40.3	37.3	37.0	▼	Low
Composite Risk Rating	73.3	72.1	71.9	▼	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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