



LEBANON THIS WEEK

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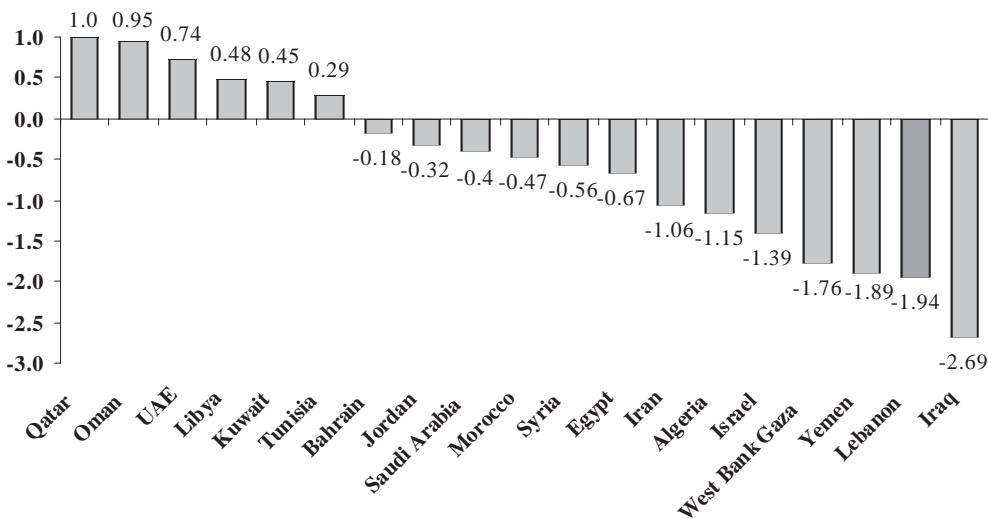
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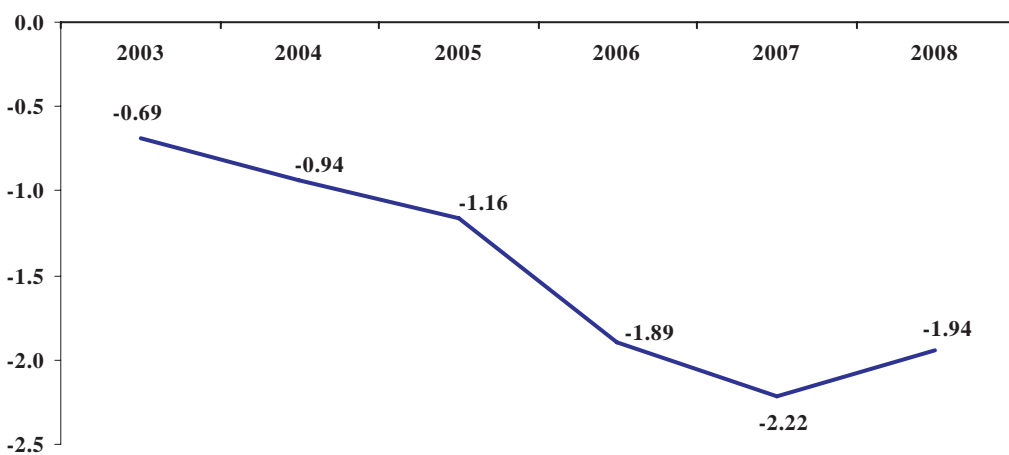
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Charts of the Week

Political Stability & Absence of Violence Indicator for MENA Countries in 2008



Political Stability & Absence of Violence Indicator for Lebanon



Source: World Bank Governance Indicators, 2009

Quote to Note

“Liquid and consistently profitable even during periodic bouts of instability, Lebanese banks have so far withstood the effects of the global credit crunch.”

Fitch Ratings, on the resilience of the Lebanese banking sector

Number of the Week

\$404m: Arab direct investments in the Lebanese services sector during 2008, according to the Arab Investment & Export Credit Guarantee Corporation

Economic Indicators

\$m (unless otherwise mentioned)	2007	May 08	2008	Mar. 2009	Apr. 2009	May 09	% Change*
Exports	2,816	267	3,478	270	231	292	9.36
Imports	11,815	1,305	16,133	1,138	1,797	1,242	(4.83)
Trade Balance	(8,999)	(1,038)	(12,655)	(868)	(1,566)	(950)	(8.48)
Balance of Payments	2,036	(416)	3,462	(367)	839	521	225.2
Checks Cleared in LBP	8,409	749	9,350	899	804	928	23.89
Checks Cleared in FC	29,893	3,470	43,174	3,294	3,222	3,497	0.78
Total Checks Cleared	38,302	4,219	52,524	4,148	4,026	4,425	4.88
Budget Deficit/Surplus	(2,546)	(370)	(2,921)	(508)	(76)	(198)	(46.49)
Primary Balance	731	(78)	597	(110)	363	64	182.05
Airport Passengers	3,408,834	199,789	4,085,334	302,709	392,556	345,278	72.82

\$bn (unless otherwise mentioned)	Dec. 2007	May 2008	Feb. 2009	Mar. 09	Apr. 09	May 09	% Change*
BdL FX Reserves	9.78	11.92	18.23	18.66	19.33	20.22	69.63
<i>In months of Imports</i>	<i>9.19</i>	<i>9.13</i>	<i>17.62</i>	<i>16.40</i>	<i>10.75</i>	<i>16.28</i>	<i>78.31</i>
Public Debt	42.03	43.56	47.20	47.85	47.77	47.73	9.57
Net Public Debt	39.03	40.12	41.88	42.34	42.69	42.77	6.61
Bank Assets	82.26	86.20	95.11	97.94	99.63	101.65	17.92
Bank Deposits (Private Sector)	67.29	70.55	78.88	80.50	82.62	84.35	19.56
Bank Loans to Private Sector	20.42	23.20	24.94	25.45	25.76	26.07	12.37
Money Supply M2	16.47	18.44	26.23	26.86	27.77	28.15	52.66
Money Supply M3	59.83	62.66	69.41	70.52	72.28	73.58	17.43
LBP Lending Rate (%)	10.10	9.72	10.03	10.10	9.83	9.79	7b.p.
LBP Deposit Rate (%)	7.40	7.27	7.13	7.10	7.08	7.06	(21b.p.)
USD Lending Rate (%)	8.02	7.43	7.28	7.32	7.21	7.28	(15b.p.)
USD Deposit Rate (%)	4.69	3.61	3.25	3.26	3.24	3.22	(39b.p.)
%* Change in CPI**	5.92	12.99	2.80	3.51	2.00	2.15	(1,084b.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"	24.90	(4.19)	750,065	21.88%
Solidere "B"	24.91	(3.82)	179,221	14.23%
Byblos Common	1.88	(3.59)	50,239	3.59%
Byblos Priority	1.90	(4.04)	6,000	3.44%
Byblos Pref. 08	97.90	0.00	0	1.72%
BLOM GDR	79.90	(0.37)	6,470	5.19%
BLOM Listed	74.00	0.00	0	13.98%
Audi GDR	66.40	(1.04)	2,096	5.73%
Audi Listed	62.00	1.56	5,065	18.62%
HOLCIM	12.25	(0.89)	431	2.10%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Mar. 2010	7.125	102.50	2.63
May 2011	7.875	105.63	4.53
Mar. 2012	7.500	105.50	5.21
Sep. 2012	7.750	106.50	5.42
June 2013	8.625	108.38	6.15
Apr. 2015	10.000	112.88	7.20
Jan. 2016	8.500	106.63	7.20
May 2016	11.625	122.00	7.42
Mar. 2017	9.000	110.75	7.14
Apr. 2021	8.250	104.75	7.63

Source: Byblos Capital Markets

	This Week	Last Week	% Change	July 2009	July 2008	% Change
Total Shares Traded	1,987,055	1,942,718	2.28	6,492,987	5,686,000	14.19
Total Value Traded	\$28,694,259	\$42,716,166	(32.83)	\$153,033,909	\$171,614,296	(10.83)
Market Capitalization	\$11.38bn	\$11.56bn	(1.52)	\$11.56bn	\$15.94bn	(27.51)

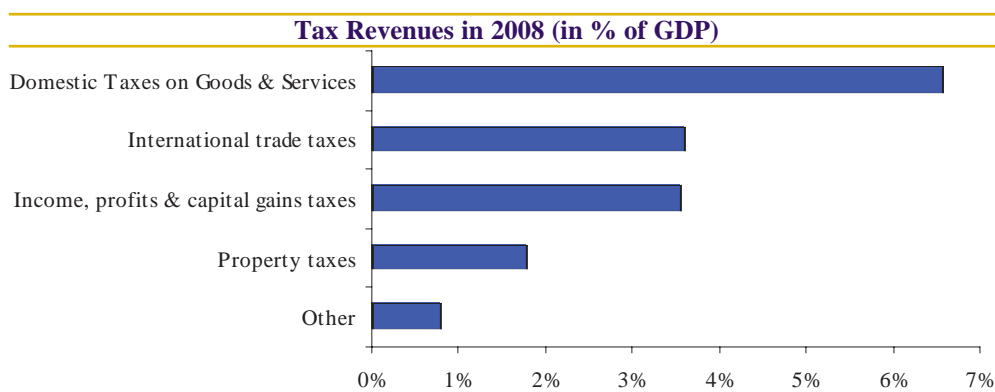
Source: Beirut Stock Exchange (BSE)



VAT is largest source of tax receipts, banks and financial firms are biggest institutional taxpayer in Lebanon

Figures issued by the Ministry of Finance show that fiscal revenues, excluding grants, were equivalent to 23.9% of GDP in 2008, up from 23.2% of GDP in 2007. Tax revenues were equivalent to 16.3% of GDP, up from 14.8% of GDP in the previous year, while non-tax budgetary revenues amounted to 5.9% of GDP compared to 6.7% of GDP in 2007.

The distribution of tax revenues in 2008 indicates that domestic taxes on goods & services totaled \$1.9bn, constituting 40.3% of total tax receipts. They were followed by taxes on international trade with \$1.1bn, or 22.1% of the total; taxes on income, profits & capital with \$1.04bn, or 21.8% of the total; taxes on property with \$0.5bn, or 10.9% of the total, while the balance of nearly 5% originated from fiscal stamp fees. Tax revenues rose by 28.7% in 2008, largely driven by an estimated 17% nominal growth of GDP in 2008. Taxes on property posted a 47.6% increase year-on-year, followed by domestic taxes on goods & services with a 30.1% jump, fiscal stamp fees with a 29% improvement, taxes on international trade with a 27.3% growth, and taxes on income, profits & capital with a 19.6% rise. The ministry attributed the improved tax performance in 2008 to better economic activity, a boom in the real estate market, the good state of the financial sector, the growth in imports and the expansion of domestic consumption.



Value-added tax was equivalent to 5.9% of GDP in 2008, up from 5.3% of GDP in 2007, and accounted for 89.3% of domestic taxes on goods and services, with the balance divided between car registration fees (6.8%) and passenger departure tax (3.7%). Further, the breakdown of taxes on income, profits & capital shows that corporate income tax totaled \$616m and represented 39.4% of the total, followed by tax on interest income with \$485m (31%), taxes on wages & salaries with \$273m (17.5%), and taxes on capital gains & dividends with \$170m (10.9%). In parallel, real estate registration fees totaled \$580m and represented 73.8% of property taxes, with built property tax at \$130m or 16.5% of the total. Also, the excise tax totaled \$902m and accounted for 56.8% of taxes on international trade, while customs revenues reached \$686m for a 43.2% share.

The distribution of corporate income tax shows that financial institutions accounted for 28.4% of the total, down from 29.5%, and constituting by far the largest single taxpayer by source. They were followed distantly by real estate activities with a 12.1% share, wholesale trade of household appliances with 3.1%, sales of vehicles with 2.9%, telecommunications with 2.8%, manufacturing of cement products and wholesale trade of food products & tobacco with 2.7% each, wholesale trade of fuel products and derivatives with 2.6%, business consultancy with 2.4%, manufacturing of fertilizers with 2%, while all other categories represented the remaining 38.3%.

In parallel, the distribution of non-tax budgetary receipts shows that income from public institutions and government properties accounted for 77.6% of the total, followed by administrative fees & charges with 18.5%, and other non-tax income with 3.6%. Telecom revenues represented 85.5% of income from public institutions and government properties.

Top 10 Sources of Corporate Income Tax*		
	Share	Annual Change
Financial Intermediaries	28.4%	18.5%
Real Estate Activities	12.1%	24.5%
Wholesale Trade of Household Appliances	3.1%	17.4%
Sales of Vehicles	2.9%	72.8%
Telecommunications	2.8%	15.5%
Manufacturing of Cement & like products	2.7%	0.5%
Wholesale Trade of Food Products & Tobacco	2.7%	52.5%
Wholesale Trade of Fuel Products & derivatives	2.6%	11.0%
Business Consultancy	2.4%	(16.1%)
Manufacturing of Fertilizers & like products	2.0%	81.7%
Other	38.3%	27.4%
Total	100%	23.1%

*Realized in 2007 and collected in 2008

Source: Ministry of Finance



Growth at 4% in 2009, fiscal deficit to widen to 12.4% of GDP

Figures released by the Ara Regional investment bank EFG Hermes maintained its growth forecast at 4% in 2009 and 3% for 2010, adding that the Lebanese economy is enjoying a year of strong growth. It did not expect a serious worsening in the political environment in 2009, adding that the formation of a new Cabinet may result in a short-term market lift and anticipated economic trends to remain broadly favorable into 2010. It considered that economic performance was positive in the first half of the year due to continuing capital inflows and relative political stability. It said the balance of payments showed a surplus of \$1.7bn in the first 5 months of the year, equivalent to 5.5% of 2009 GDP, despite the widening of the trade deficit by 1.3% year-on-year. It noted that the surplus was due to strong services income and increased capital inflows, as non-trade flows rose 55% annually to \$6.4bn. It added that solid growth in tourism and apparently strong remittance inflows, despite unfavorable economic conditions in the GCC, are supporting relative current account strength. It stated that confidence in the Lebanese banking sector and the relative political stability have encouraged Lebanese expatriates to continue transferring funds. Also, high interest rate differential on Lebanese pound deposit rates encouraged capital inflows, while deposit dollarization fell to 67% in May, its lowest level since August 2004. As a result, deposits increased by \$6.6bn year-to-May to \$84bn, representing an annual growth of 20%.

EFG Hermes said the fiscal balance also showed signs of improvement, reflecting the favorable overall economic environment. Tax revenues rose by 35% year-on-year in the first 5 months of 2009 due partly to increased taxes on fuel consumption after oil prices fell dramatically in the first part of the year. It noted that expenditures rose 19% year-on-year, partially driven by a delayed effect of lower oil prices on subsidies to state-owned Electricité du Liban. It expected more relief on public expenditures in the second half of the year with the lagged effect coming through, but warned that higher oil prices pose a risk to these assumptions. It forecast a fiscal deficit of 12.4% of GDP in 2009 due to increased spending on wages and other social programs in an election year. 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 8.1% in 2009 and 6.7% in 2010, while it projected private-sector lending to grow by 8% 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.

Italy to finance more than €m in development projects in Lebanon

Italy's Ministry of Foreign Affairs approved more than €m of new financing for 12 projects in Lebanon in the fields of cultural heritage, health care, fire prevention and support to administrative decentralization. The projects include €1.5m for a wastewater treatment project, €1m to encourage resettlement of villages in the Chouf region, €0.95m for forest fire fighting equipment, and €0.89m for an irrigation system in the Baalbek plain. Funding will also be allocated to various municipal services, justice reform assistance, entrepreneurial training, refugee hospital services, and a new transplant center at the Rafic Hariri Public Hospital. The financing, of which €5.5m are a grant and €1.5m in soft loans, bring total Italian commitment to Lebanon since the 2006 war to €12m.

Airport passengers up 29% in first 7 months of 2009

Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures, transit) amounted to 2.7 million in the first 7 months of 2009, up 28.9% from the same period last year. Passengers from the UAE accounted for 19.4% of the total, followed by those from Saudi Arabia with 10.6%, France with 10.4%, Kuwait with 8.4% and Egypt with 6.3%. The total number of flights reached 31,108 in the first 7 months of 2009, up 31.4% year-on-year. Also, the HIA processed 41,073 metric tons of cargo, of which 40,464 tons of freight and 609 tons of mail. The total cargo processed in the first 7 months of 2009 increased by 11.3% compared to the same period of 2008.

Fiscal deficit up 18% to \$1.55bn in first half of 2009

Figures released by the Finance Ministry show that the fiscal deficit reached \$1.55bn in the first half of 2009, up 18% from the same period last year. The deficit was equivalent to 26.8% of total budget and Treasury expenditures compared to 27.7% in the same period of 2008. Overall government expenditures reached \$5.81bn, up 21.9% year-on-year, while total revenues increased by 23.4% to \$4.26bn over the covered period. Tax revenues improved by 33.6% year-on-year to \$3.04bn, of which 30%, or \$913m, were in VAT receipts that posted a 16.1% annual rise. Tax revenues accounted for 75.5% of budgetary revenues and for 71.5% of total Treasury and budget receipts.

Debt servicing increased by 14.6% year-on-year to \$1.85bn, accounting for 31.8% of total expenditures and for 45.1% of budgetary spending. It absorbed 43.4% of overall revenues and 45.9% of fiscal receipts. Excluding debt servicing, the budget primary surplus reached \$1.87bn, or 45.6% of budget expenditures compared to a surplus of \$1.39bn, or 39.7% a year earlier. The overall primary surplus reached \$388.8m, or 6.7% of total spending compared to a surplus of \$428.8m, or 8.9% of total expenditures, a year earlier.

Balance of payments posts surplus of \$2.1bn in first half of 2009

Central Bank figures show that Lebanon's balance of payments (BoP) posted a surplus of \$2.1bn in the first half of 2009 compared to a surplus of \$83m in the same period last year. The BoP posted a surplus of \$443.3m in June compared to a surplus of \$521m in May and to a surplus of \$640m in June 2008. The June 2009 surplus was caused by a rise of \$383.8m in the Central Bank's net foreign assets and an increase of \$59.5m in those of banks and financial institutions. The cumulative surplus over the first 6 months of 2009 was caused by a rise of \$3.6bn in the Central Bank's net foreign assets and a decline of \$1.5bn in those of banks and financial institutions. The balance of payments posted a cumulative surplus of \$3.5bn in 2008.

Construction permits up 23% in first half of 2009

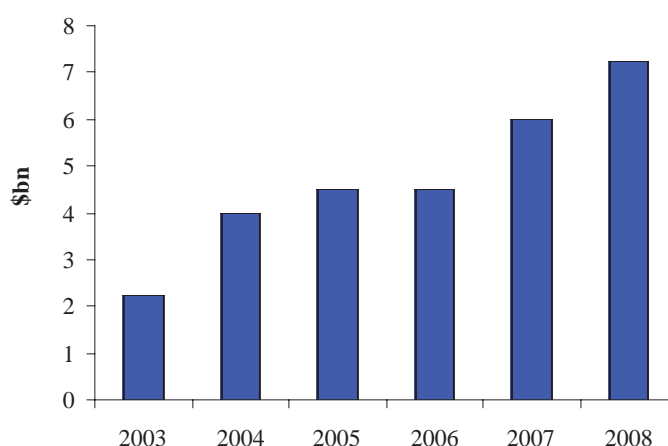
Figures released by the Association of Engineers of Beirut & Tripoli show that construction permits reached 6.3 million square meters in the first half of 2009, up 23% from 5.1 million square meters in the same period last year. Construction permits totaled 2.02 million square meters in June 2009, up 94% year-on-year from 1.04 million square meters in June 2008. In parallel, cement deliveries reached 1.9 million tons in the first 5 months of the year, an increase of 18.4% from 1.6 million tons in the same period of 2008. Cement deliveries were driven by local demand in the construction sector and by exports. Cement deliveries increased by 31.3% year-on-year to 503,158 tons in May 2009.

Money dealers exported \$7.2bn in cash in 2008

Figures released by the Central Bank show that there was 385 money dealers in Lebanon at the end of 2008, up from 380 in 2007 and 355 at year-end 2006. Mount Lebanon had 106 money dealers, accounting for 27.5% of the total, followed by Beirut with 99 (25.7%), the Bekaa with 72 (18.7%), the North with 66 (17%), and the South with 42 (11%). There were 48 money dealers with paid in capital of LBP250m and 337 dealers with paid in capital of LBP100m at end-2008. In addition to their normal activities, the money dealers are authorized to export and import cash bank notes.

The total value of bank notes exported from Lebanon by money dealers totaled \$7.22bn in 2008, constituting an increase of 20% from \$6bn in 2007. Exported bank notes totaled \$4.5bn in each of 2006 and 2005, \$3.98bn in 2004 and \$2.23bn in 2003. In parallel, imported bank notes by money dealers totaled \$164m in 2008, up 39% from \$118m in 2007. Imported bank notes totaled \$111 in 2006, \$158m in 2005, \$110m in 2004 and \$170m in 2003. Exported bank notes totaled \$3.3bn in the first half of 2009 and \$3.9bn in the second half of the year. US Dollar bank notes accounted for 47.5% of total exported bank notes in the first half of 2009 and for 47.8% in the second half of the year. They were followed by European currencies with 35% in the first half and 32.7% in the second half of the year, and Arab currencies with 17.3% in the first half and 19.3% in the second half of 2009.

Exported Bank Notes from Lebanon (\$bn)



Source: Central Bank, Byblos Research

Corporate Highlights

MEDGULF's net profits down 25.3% to \$42m in 2008

The Mediterranean & Gulf Insurance & Reinsurance Co. (MEDGULF), one of the largest insurers in Lebanon and the Middle East, declared net profits of \$41.9m in 2008, constituting a decline of 25.3% from \$56m 2007. MEDGULF posted net profits of \$33.8m in 2006, \$22.3m in 2005 and \$12.3m in 2004. The figures represent the firm's consolidated results in Lebanon, Jordan, Saudi Arabia, Bahrain, Egypt, the UAE, Turkey and the United Kingdom. Net revenues increased by 29.7% to \$352.9m last year, while net underwriting profits rose by 45.8% year-on-year to \$93.6m. The insurer generated net premiums of \$408.7m in 2008, up 42.6% from \$286.6m in 2007. Net premiums totaled \$230.3m in 2006, \$212.2m in 2005 and \$132.1m in 2004.

MEDGULF's total assets reached \$757.8m at end-2008, up 15% year-on-year, of which account receivables related to net premiums and re-insurers rose by 47.2% to \$229.1m over the same period. The firm's shareholders equity totaled \$237.3m at end-2008, up 6.2% from end-2007, and its retained earnings rose by 36% to \$145m. Technical reserves totaled \$414.7m, up 37.3% from \$302m in 2007. Provisions for unrealized premiums reached \$256.9m in 2008, up 50.8% from the previous year, while provisions for outstanding claims stood at \$151.7m, up 19.4% year-on-year. Also, provisions for the life fund totaled \$6.1m and accounted for 1.5% of overall technical reserves. Further, reinsurers' share of technical reserves rose by 14.4% to \$121.5m, while provisions for risks and charges grew by 4% to \$5.5m.

MEDGULF's premiums generated in Lebanon totaled \$83m in 2008, accounting for 16% of the firm's aggregate gross premiums that reached \$516m last year. It generated \$76m locally in non-life premiums last year, ranking it first in the Lebanese market.

AIG to spin off ALICO through IPO

American International Group Inc, the largest insurance group in the world, intends to spin off its insurance subsidiary American Life Insurance Company (ALICO) through an initial public offering (IPO) and public listing as part of its plan to pay \$182.5bn in debt to the US government. ALICO, one of AIG's most profitable subsidiaries, sells life and health insurance, wealth management and retirement plans in more than 55 countries and regions, including Japan, Western, Central & Eastern Europe, the Middle East, South Asia, Latin America and the Caribbean. It has more than \$89bn in assets under management. ALICO is the largest provider of life insurance in Lebanon with \$77.5m in premiums generated in 2008, accounting for 26.7% of the Lebanese life insurance market, down from 63% in 2000. AIG said the final decision on the IPO will depend on market conditions and, if it goes forward, ALICO will have a separate board of directors and management team.

AIG initially planned to sell its international life businesses, including ALICO, American International Assurance Co., AIG Star and AIG Edison. But it later acknowledged that the worldwide economic downturn, combined with the size and complexity of AIG's businesses, hampered those plans. Last June, AIG entered into an agreement with the Federal Reserve Bank of New York to create separate special purpose vehicles to hold the equity of ALICO as part of a plan for a possible IPO and listing on the New York Stock Exchange. AIG is going to contribute the equity of ALICO to a special purpose vehicle in which the Federal Reserve will receive preferred interests of \$9bn.

The US-based AIG nearly collapsed last year when the financial crisis forced it to make payments tied to Credit Default Swaps it previously sold to banks. CDS are a type of insurance policy against default on securities that grew in recent years into an unregulated nominal market of about \$62,000bn, and where AIG sold about 80% of these policies. As global financial markets collapsed last fall, AIG received an \$85bn loan from the U.S. government to avoid bankruptcy. The insurer's rescue package has since expanded to about \$182.5bn and included more time and a lower interest rate on the loan.

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 07/08

(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	Jun 2008	May 2009	Jun 2009	Change*	Risk Level
Political Risk Rating	57.0	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	58.5	57.5	57.5	▼	High

Regional Average	Jun 2008	May 2009	Jun 2009	Change*	Risk Level
Political Risk Rating	65.5	65.3	65.1	▼	Moderate
Financial Risk Rating	41.3	41.6	41.5	▲	Very Low
Economic Risk Rating	39.6	36.0	34.6	▼	Moderate
Composite Risk Rating	73.2	71.4	70.6	▼	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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