



LEBANON THIS WEEK

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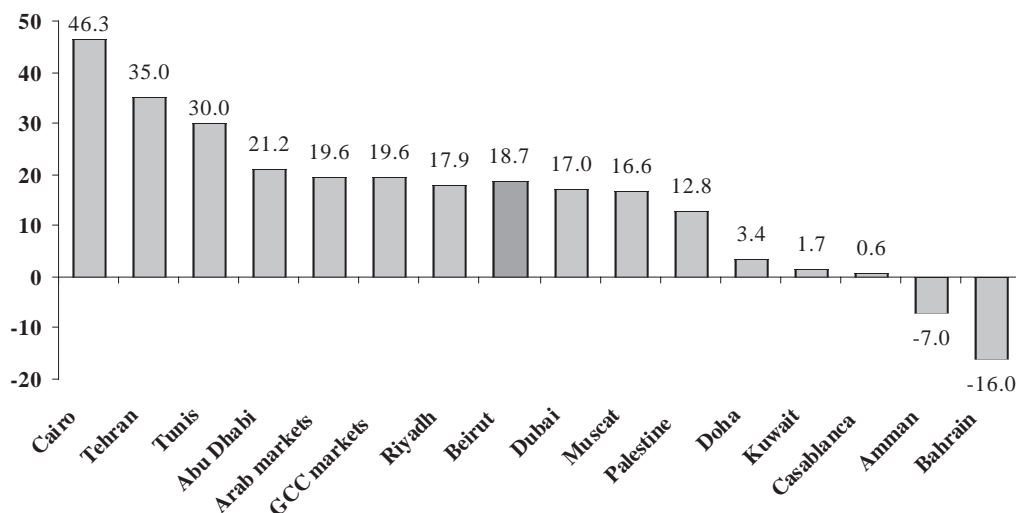
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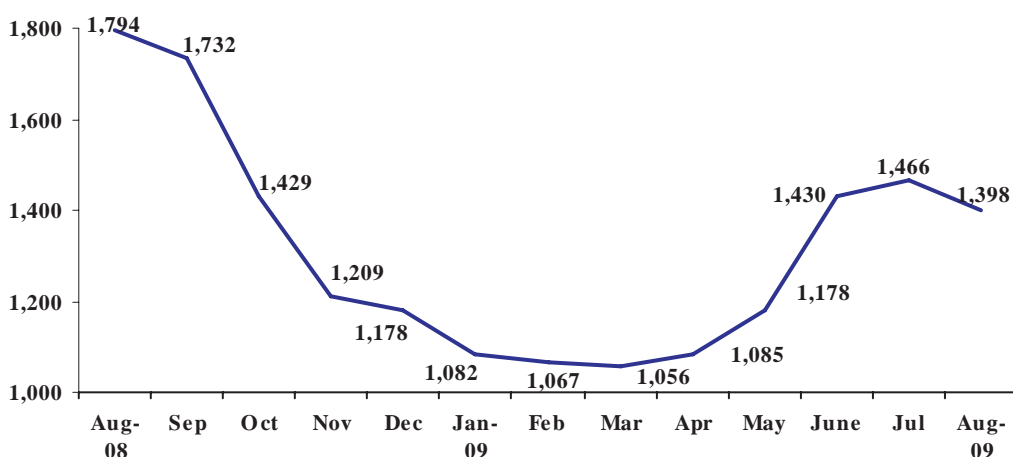
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Charts of the Week

Performance of MENA Stock Markets in the First Eight Months of 2009 (%)



Performance of the Beirut Stock Market*



*BLOM Stock Index
Source: Local Stock Markets

Quote to Note

“Further fiscal expansion would run the risk of eroding market confidence and thus lead to heightened financing risks.”

The International Monetary Fund, on the risks associated to the widening fiscal deficit

Number of the Week

\$22bn: The Central Bank of Lebanon’s gross foreign currency reserves at the end of July 2009, as estimated by the Association of Banks in Lebanon

Economic Indicators

| \$m (unless otherwise mentioned) | 2007 | June 08 | 2008 | April 2009 | May 2009 | June 09 | % Change* |
|---|-------------|----------------|-------------|-------------------|-----------------|----------------|------------------|
| Exports | 2,816 | 325 | 3,478 | 231 | 292 | 249 | (23.38) |
| Imports | 11,815 | 1,201 | 16,133 | 1,797 | 1,242 | 1,551 | 29.14 |
| Trade Balance | (8,999) | (876) | (12,655) | (1,566) | (950) | (1,302) | 48.63 |
| Balance of Payments | 2,036 | 640 | 3,462 | 839 | 521 | 443 | (30.78) |
| Checks Cleared in LBP | 8,409 | 790 | 9,350 | 804 | 928 | 873 | 10.51 |
| Checks Cleared in FC | 29,893 | 3,986 | 43,174 | 3,222 | 3,497 | 3,658 | (8.23) |
| Total Checks Cleared | 38,302 | 4,776 | 52,524 | 4,026 | 4,425 | 4,531 | (5.13) |
| Budget Deficit/Surplus | (2,546) | 39 | (2,921) | (76) | (198) | (151) | (487.18) |
| Primary Balance | 731 | 264 | 597 | 363 | 64 | 161 | (39.02) |
| Airport Passengers | 3,408,834 | 363,818 | 4,085,334 | 392,556 | 348,510 | 460,223 | 26.50 |

| \$bn (unless otherwise mentioned) | Dec. 2007 | June 2008 | Mar. 2009 | April 09 | May 09 | June 09 | % Change* |
|--|------------------|------------------|------------------|-----------------|---------------|----------------|------------------|
| BdL FX Reserves | 9.78 | 12.62 | 18.66 | 19.33 | 20.22 | 20.62 | 63.39 |
| <i>In months of Imports</i> | <i>9.19</i> | <i>10.51</i> | <i>16.40</i> | <i>10.75</i> | <i>16.28</i> | <i>13.29</i> | <i>26.45</i> |
| Public Debt | 42.03 | 44.49 | 47.85 | 47.77 | 47.73 | 47.31 | 6.34 |
| Net Public Debt | 39.03 | 40.40 | 42.34 | 42.69 | 42.77 | 42.96 | 6.44 |
| Bank Assets | 82.26 | 88.45 | 97.94 | 99.63 | 101.65 | 103.62 | 17.15 |
| Bank Deposits (Private Sector) | 67.29 | 72.09 | 80.50 | 82.62 | 84.35 | 85.78 | 18.99 |
| Bank Loans to Private Sector | 20.42 | 23.68 | 25.45 | 25.76 | 26.07 | 26.07 | 10.09 |
| Money Supply M2 | 16.47 | 19.30 | 26.86 | 27.77 | 28.15 | 29.07 | 50.62 |
| Money Supply M3 | 59.83 | 63.55 | 70.52 | 72.28 | 73.58 | 74.68 | 17.51 |
| LBP Lending Rate (%) | 10.10 | 10.09 | 10.10 | 9.83 | 9.79 | 9.76 | (33b.p.) |
| LBP Deposit Rate (%) | 7.40 | 7.25 | 7.10 | 7.08 | 7.06 | 6.96 | (29b.p.) |
| USD Lending Rate (%) | 8.02 | 7.28 | 7.32 | 7.21 | 7.28 | 7.24 | (4b.p.) |
| USD Deposit Rate (%) | 4.69 | 3.55 | 3.26 | 3.24 | 3.22 | 3.18 | (37b.p.) |
| %* Change in CPI** | 5.92 | 12.43 | 3.51 | 2.00 | 1.88 | 3.31 | (912b.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" | 23.84 | 1.19 | 209,112 | 21.62% |
| Solidere "B" | 23.79 | 1.19 | 54,902 | 14.03% |
| Byblos Common | 1.73 | (1.14) | 16,000 | 3.41% |
| Byblos Priority | 1.70 | (2.86) | 584,700 | 3.18% |
| Byblos Pref. 08 | 96.60 | 0.00 | 0 | 1.75% |
| BLOM GDR | 79.65 | 1.21 | 5,147 | 5.34% |
| BLOM Listed | 72.00 | (4.00) | 8,539 | 14.04% |
| Audi GDR | 65.00 | (1.52) | 338 | 5.80% |
| Audi Listed | 60.50 | 0.00 | 1,656 | 18.76% |
| HOLCIM | 12.55 | 4.50 | 1,260 | 2.22% |

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

| Sovereign Eurobonds | Coupon % | Mid Price \$ | Mid Yield % |
|----------------------------|-----------------|---------------------|--------------------|
| Mar. 2010 | 7.125 | 102.50 | 1.94 |
| May 2011 | 7.875 | 105.63 | 4.59 |
| Mar. 2012 | 7.500 | 106.00 | 4.94 |
| Sep. 2012 | 7.750 | 106.88 | 5.26 |
| June 2013 | 8.625 | 109.00 | 5.93 |
| Apr. 2015 | 10.000 | 113.50 | 7.05 |
| Jan. 2016 | 8.500 | 107.75 | 6.97 |
| May 2016 | 11.625 | 122.88 | 7.24 |
| Mar. 2017 | 9.000 | 111.00 | 7.09 |
| Apr. 2021 | 8.250 | 105.75 | 7.50 |

Source: Byblos Capital Markets

| | This Week | Last Week | % Change | August 2009 | August 2008 | % Change |
|------------------------------|------------------|------------------|-----------------|--------------------|--------------------|-----------------|
| Total Shares Traded | 887,164 | 509,041 | 74.28 | 3,835,239 | 4,198,145 | (8.64) |
| Total Value Traded | \$8,740,175 | \$11,146,829 | (21.59) | \$61,835,814 | \$130,205,400 | (52.51) |
| Market Capitalization | \$11.02bn | \$11.05bn | (0.22) | \$11.04bn | \$14.29bn | (22.74) |

Source: Beirut Stock Exchange (BSE)



Finance Ministry projects current expenditures to rise by 34% and capital expenditures to rise by 37% in 2009 budget proposal

Figures issued by the Ministry of Finance in its budget proposal for 2009 indicate that budget expenditures would reach LBP16,304bn this year, or \$10.82bn, constituting an increase of 42% from 2008. It estimated current expenditures, excluding transfers to state utility Electricité du Liban (EDL), to rise by 34% to LBP13,196bn, or \$8.75bn, and for capital expenditures to rise by 37% to LBP846bn, or \$561m year-on-year. It forecast interest payments & financial charges to increase by 30% and to represent 45.8% of current expenditures, for salaries & wages to rise by 49.2% and to account for 28.5% of such expenditures, and for subsidies & transfers (excluding transfers to EDL) to grow by 31.5% year-on-year and account for 17.2% of current spending. In parallel, it expected construction expenditures to increase by 32% and account for 57.4% of capital expenditures and for maintenance expenses to grow by 43% and account for 17.1% of aggregate capital spending in 2009, while it projected equipment expenses to increase by 35% year-on-year and to account for 11.1% of total capital expenditures. In parallel, it forecast transfers to EDL to rise by 84% year-on-year to \$1.23bn and to represent 11.4% of total expenditures. The ministry's figures indicate that current expenditures would be equivalent to 28.1% of GDP in 2009, up from 22.7% of GDP in 2008, while capital expenditures would be equivalent to 1.7% of GDP in 2009 slightly up from 1.4% of GDP in 2008. Further, transfers to EDL are expected rise from 2.3% of GDP in 2008 to 4% of GDP in 2009. As a result, total expenditures in the 2009 budget are expected to rise by \$3.2bn, or 10.3% of GDP.

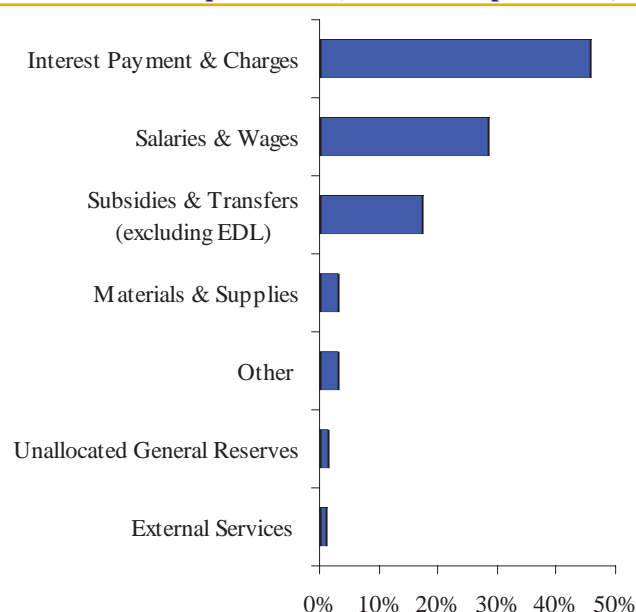
The ministry said its public expenditures assumptions are based on the policy measures taken by the government to compensate public sector employees for the increase in the cost of living. As such, the expenditures forecast included the 66% increase in the public sector monthly minimum wage to LBP500,000, and the salary and wage increase by LBP 200,000 in the public sector, as well as the monthly retirement pay increase by LBP170,000 in the public sector. It also took into account the re-valuation of the salary and wage scale in the public sector by 5% for each grade, and the increase of the daily transport allowance by salary and wage income from LBP6,000 to LBP8,000. It also contained an allocation to start covering the provisions for the retroactive implementation of the LBP300,000 minimum salary to the years 1996, 1997 and 1998.

Lebanon ranks 83rd globally, 15th in MENA region in nominal GDP

The World Bank ranked Lebanon in 83rd place among 186 countries and 15th in the Middle East and North Africa region in terms of nominal gross domestic product for 2008. Lebanon also ranked in 21st place among 38 upper middle-income countries (UMICs) included in the survey. The World Bank estimated Lebanon's nominal GDP at \$28.6bn in 2008, accounting for 0.05% of global GDP, 0.3% of the aggregate GDP of upper middle-income countries, as well as for 1.3% of total GDP in the MENA region and for 1.4 % of the GDP of Arab economies.

Globally, Lebanon ranked ahead of Uzbekistan, Yemen and Ethiopia and came immediately behind Latvia, Uruguay and Costa Rica. Also, Lebanon ranked ahead of Trinidad & Tobago, Estonia and Panama and behind Latvia, Uruguay and Costa Rica among UMICs. Regionally, it came ahead of Yemen, Bahrain, and Jordan, while it ranked immediately behind Syria, Oman and Tunisia. The World Bank estimated global nominal GDP at \$60.1 trillion, with the United States having the largest economy in the world at \$14.2 trillion and Kiribati having the smallest economy with a GDP of \$131m in 2008.

2009 Current Expenditures (% of total expenditures)



Source: Ministry of Finance

Nominal GDP Rankings for 2008

| Country | Nominal GDP (US\$bn) | MENA Rank | Global Rank |
|----------------|----------------------|-----------|-------------|
| Saudi Arabia | 467.6 | 1 | 23 |
| Iran | 385.1 | 2 | 26 |
| Israel | 199.5 | 3 | 41 |
| Algeria | 173.9 | 4 | 45 |
| UAE | 163.3 | 5 | 49 |
| Egypt | 162.8 | 6 | 50 |
| Kuwait | 112.1 | 7 | 55 |
| Libya | 99.9 | 8 | 56 |
| Morocco | 86.3 | 9 | 59 |
| Sudan | 58.4 | 10 | 64 |
| Syria | 55.2 | 11 | 65 |
| Qatar | 52.7 | 12 | 68 |
| Tunisia | 40.2 | 13 | 76 |
| Oman | 35.7 | 14 | 78 |
| Lebanon | 28.7 | 15 | 83 |
| Yemen | 26.6 | 16 | 85 |
| Jordan | 20.0 | 17 | 95 |
| Bahrain | 15.8 | 18 | 104 |

Source: World Bank, Byblos Research

Foreign investments of financial sector at \$4.4bn at end-2008, commercial banks account for 78% of debt securities and 49% of equity investments

Figures issued by the Central Bank show that the net investment portfolio of Lebanese banks and financial institutions in foreign debt and equity securities totaled \$4.37bn at the end of 2008, constituting a decrease of 17.3% from \$4.94bn at the end of June 2008 and an increase of 10% from \$3.88bn at end-2007. Such investments totaled \$2.39bn at end-2006 and \$2.04bn at end-2005. Investments in long term debt securities totaled \$2.25bn at end-2008, accounting 52.6% of the total, followed by investments in equities with \$1.97bn, or 46% of the total, while short term debt securities accounted for \$58.6m or 1.4% of the total. According to the Central Bank, the figures cover the net assets of resident financial institutions in tradable debt and equity instruments of non-resident issuers. They help provide a clearer picture about the flow of funds from Lebanon and, therefore, about balance of payments data.

The distribution of investments by institutions indicates that commercial banks' net portfolio in foreign long-term debt securities totaled \$1.75bn, accounting for 78% of total investments in such securities at the end of 2008. The figure includes banks' investment for their own account, for their clients and on a custodial basis. They were followed by medium and long-term banks with \$338m (15%), financial institutions with \$154.4m (6.9%), financial intermediaries with \$3m (1.3%), and insurance firms with \$0.9m (0.04%). Commercial banks also represented 89% of investments in short-term debt securities, followed distantly by financial institutions with 9.4%.

In parallel, commercial banks' net assets in equity securities totaled \$963.3m, accounting for 49% of total investments in such securities. They were followed by financial institutions with \$827.3m (42.1%), medium and long-term banks with \$163.3m (8.3%), insurance firms with \$7.83m (0.4%), and financial intermediaries with \$4.1m (0.2%).

The distribution of investments by destination shows that the United States was the leading recipient of equity investments by financial institutions operating in Lebanon, reaching \$856m and accounting for 43.5% of the total at end-2008. It was followed by Egypt with \$311m (15.8%), France with \$220.7m (11.2%), Jordan with \$111.7m (5.7%) and Saudi Arabia with \$80.6m (4.1%), while other countries accounted for the remaining 19.6%. In parallel, the United Kingdom accounted \$551.3m, or 24.5% of investments in long-term debt securities, followed by the United States with \$511.2m (22.7%), the UAE with \$180.8m (8%), Switzerland with \$131.7m (5.9%) and Iceland with \$126.3m (5.6%), while other countries accounted for the remaining 33%. Further, the United Kingdom accounted for 32.5% of investments in short-term debt securities, followed by the United States with 30% and the UAE with 26.4%.

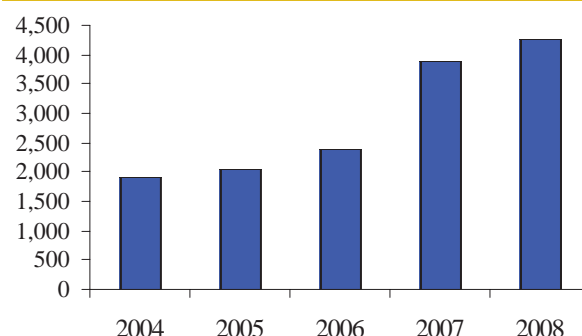
Lebanon to receive Egyptian gas by mid-September

The Energy & Water Resources Ministry declared that Lebanon will begin receiving natural gas from Egypt starting in mid-September. Earlier this year, the ministry signed an agreement enabling Lebanon to receive natural gas from Egypt through the Pan-Arab Natural Gas Pipeline. The \$1.2bn pipeline has a length of 1,200 kilometers and will transport about 600 million cubic meters of gas annually from Egypt. Lebanon will route the gas to one of the turbines in the \$300m Beddawi power station near Tripoli that has been running on fuel oil since 1996. The Beddawi plant, which has an annual output of 450 megawatts, generates one third of Lebanon's total electricity production and meets 25% of the country's needs. Egypt's supply of natural gas to Lebanon is expected to play a major environmental and financial role as well as to increase the productivity of the power production units. It will reduce the cost of electricity production given that the agreement has set a fixed gas price regardless of global price fluctuations. In addition, the use of natural gas as a substitute of energy supply will decrease the demand for fuel oil and will help reduce the \$1.2bn annual fuel subsidies paid by the government as well as domestic retail fuel prices.

European Commission to finance €8m infrastructure program, grants €18m for socio-economic support

The Ministry of Finance indicated that the European Commission (EC) will fund an €8m technical assistance program for infrastructure projects, named Support Program for Infrastructure Sector Strategies and Alternative Financing (SISSAF). The program is part of the European Neighborhood Policy program for 2010 and is expected to be implemented in early 2011 following the signature of the financing agreement in mid-2010. In addition, the EC signed an €18m grant agreement with the Council for Development & Reconstruction for socio-economic support in North Lebanon as at July 20, 2009. Further, the Lebanon Recovery Fund, established by the United Nations in 2006 to support Lebanon's post-war recovery, has committed funding of \$45.8m for 24 projects as at end-June 2009. Four projects have been completed to date for an amount of \$5.8m. The fund covers priority areas, including agriculture, education, women, the disabled, and involves various agencies.

Foreign Investments of Financial Sector
(US\$m, end of period)



Stock market activity down 30% to \$691m in first 8 months of 2009

Figures released by the Beirut Stock Exchange indicate that total trading volume reached 85 million shares in the first 8 months of 2009, an increase of 110% year-on-year, while aggregate turnover amounted to \$690.8m, down 30.3% from a turnover of \$991.2m in the same period last year. Market capitalization decreased by 22.7% to \$11.04bn year-on-year, of which 62.8% was in banking stocks, 33.5% in Solidere stocks and 3% in industrial stocks. The market liquidity ratio was 6.3%, down from 6.9% in the same period of 2008.

Bank stocks accounted for 72.35% of aggregate trading volume in the first 8 months of 2009, followed by Solidere's stocks with 27.18%, industrial stocks with 0.46% and funds with 0.01%. In terms of value of shares traded, Solidere stocks accounted for 70.41% of aggregate value, followed by banking stocks with 29.35%, industrial stocks with 0.17% and funds with 0.07%. The average daily traded volume for the period was 527,771 shares for an average daily value of \$4.3m. The figures reflect an increase of 110% in volume and a decrease of 30.3% 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.

BLC Bank to buy Banque Lati

BLC Bank sal, one of Lebanon's listed banks, has reportedly reached an agreement with the Central Bank of Lebanon to acquire Banque Lati sal for about \$24m. The Central Bank put Banque Lati up for sale through an auction after it found irregularities related to an earlier sale of the bank to two Qatari and two Saudi investors. Four banks were competing to buy Banque Lati, but the Central Bank approved the sale to BLC Bank because it offered the highest price. Banque Lati ranks in 41st place in assets, loans and deposits in the Lebanese market. It had assets of \$79.6m, deposits of \$60m, and capital of \$11.8m at end-2008. BLC Bank posted un-audited net profits of \$16.4m in the first half of 2009, up 22.3% from the same period last year. Its assets and deposits reached \$1.97bn and \$1.73bn, respectively, at the end of 2008. In August 2007, Fransabank acquired 97.52% of BLC Bank sal from the Qatari Supreme Council for Economic Affairs. It then sold a 23.7% stake in BLC to the Maurice Sehnaoui Group in April 2008.

Amadeus establishes presence in Beirut

The Amadeus IT Group, a global provider of technology and distribution solutions for the travel and tourism industry, opened a subsidiary in Beirut. Amadeus Lebanon plans to offer solutions and services to the Lebanese travel agency community. The Group was established in 1987 by Air France, Lufthansa, Iberia, and SAS as a global distribution system company. It is currently present in 217 markets and its systems serve about 102,200 travel agency locations and 36,600 airline sales offices around the world.

Airport passengers up 25.4% to 3.3 million in first 8 months of 2009

Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures, transit) totaled 3.3 million in the first 8 months of 2009, up 25.4% from the same period last year. Passengers from the UAE accounted for 19.1% of the total, followed by those from Saudi Arabia with 10.7%, France with 10%, Kuwait with 8.3% and Egypt with 6%. The total number of flights reached 37,114 in the first 8 months of 2009, up 29.2% year-on-year. Also, the HIA processed 47,221 metric tons of cargo, of which 46,548 tons of freight and 673 tons of mail. The total cargo processed in the first 8 months of 2009 increased by 9.6% compared to the same period of 2008.

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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