

## LEBANON THIS WEEK

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EGF Hermes' net income down 81% to \$23m in 2011

Private equity fund acquires 51% stake in Egyptian hospital

Life premiums post 4% rise to \$370m in 2011

BLC Bank announces dividends for 2011

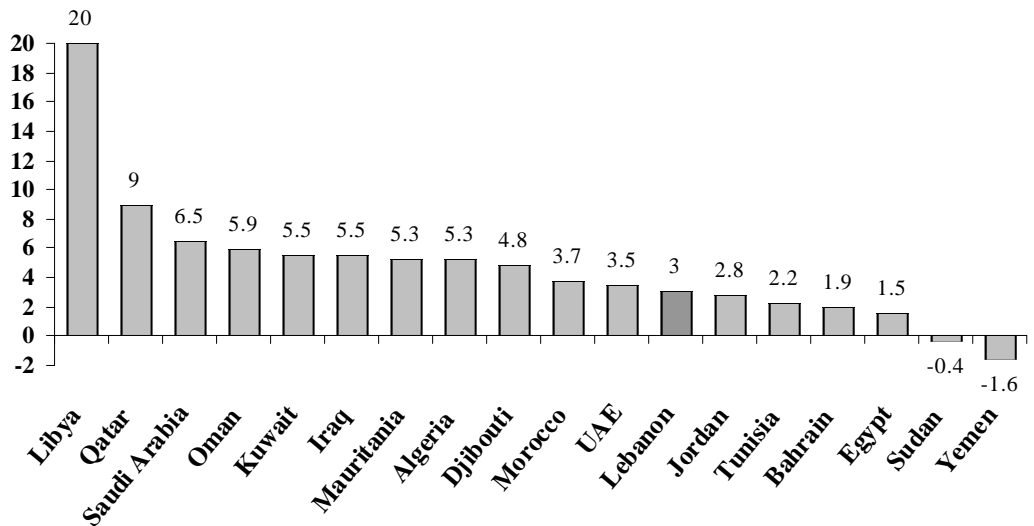
BBAC raises \$80m in preferred shares

IBL Bank's net income up 15% to \$41m in 2011

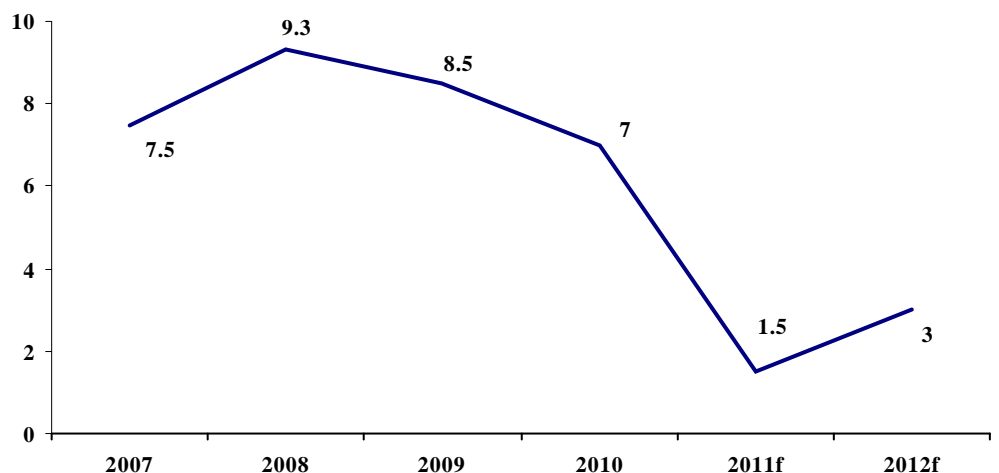
Bank Audi to issue preferred shares

### Charts of the Week

Projected Non-Oil Real GDP Growth Rate of Arab Countries in 2012 (%)



Real GDP Growth Rate in Lebanon (%)



Source: International Monetary Fund - April 2012, Byblos Bank

### Quote to Note

"Lebanon will continue to be affected by negative spillovers from Syria."

*The International Monetary Fund, in its most recent update of the Middle East & North Africa's economic outlook*

### Number of the Week

**138:** Lebanon's rank among 142 countries in terms of the government's efforts to increase usage of information & communication technology, according to the World Economic Forum/INSEAD's Networked Readiness Index for 2012

## Economic Indicators

| <b>\$m (unless otherwise mentioned)</b> | <b>2009</b> | <b>Dec 10</b> | <b>2010</b> | <b>Sep 11</b> | <b>Oct 11</b> | <b>Dec 11</b> | <b>% Change*</b> |
|---|-------------|---------------|-------------|---------------|---------------|---------------|------------------|
| Exports                                 | 3,486       | 487           | 4,256       | 334           | 351           | 338           | (30.60)          |
| Imports                                 | 16,241      | 1,470         | 17,956      | 1,792         | 2,508         | 1,665         | 13.27            |
| Trade Balance                           | (12,755)    | (983)         | (13,700)    | (1,458)       | (2,157)       | (1,327)       | 34.99            |
| Balance of Payments                     | 7,899       | 1,243         | 3,326       | (302)         | (590)         | 692           | (44.33)          |
| Checks Cleared in LBP                   | 11,122      | 1,278         | 13,519      | 1,147         | 1,233         | 1,370         | 7.20             |
| Checks Cleared in FC                    | 45,270      | 4,370         | 53,925      | 5,181         | 5,123         | 5,094         | 16.57            |
| Total Checks Cleared                    | 56,392      | 5,648         | 67,444      | 6,328         | 6,356         | 6,464         | 14.45            |
| Budget Deficit/Surplus                  | (2,960)     | (62)          | (2,892)     | (419)         | (118)         | (391)         | 531.32           |
| Primary Balance                         | 1,078       | 276           | 1,232       | 44            | 280           | (73)          | (126.57)         |
| Airport Passengers                      | 4,986,544   | 369,735       | 5,552,260   | 582,383       | 448,620       | 441,214       | 19.33            |

| <b>\$bn (unless otherwise mentioned)</b> | <b>Dec 2009</b> | <b>Dec 10</b> | <b>Aug 11</b> | <b>Sep 11</b> | <b>Oct 11</b> | <b>Dec 11</b> | <b>% Change*</b> |
|--|-----------------|---------------|---------------|---------------|---------------|---------------|------------------|
| BdL FX Reserves                          | 25.66           | 28.60         | 30.64         | 30.62         | 30.51         | 30.82         | 7.74             |
| <i>In months of Imports</i>              | 18.6            | 19.46         | 17.82         | 17.09         | 12.17         | 18.51         | (4.87)           |
| Public Debt                              | 51.09           | 52.59         | 53.40         | 54.35         | 54.22         | 53.64         | 2.00             |
| Net Public Debt                          | 44.11           | 45.01         | 45.71         | 45.80         | 45.78         | 46.35         | 2.98             |
| Bank Assets                              | 115.25          | 128.93        | 138.06        | 138.42        | 139.54        | 140.58        | 9.04             |
| Bank Deposits (Private Sector)           | 95.77           | 107.20        | 112.95        | 113.39        | 114.19        | 115.72        | 7.95             |
| Bank Loans to Private Sector             | 28.37           | 34.93         | 38.92         | 38.76         | 39.22         | 39.38         | 12.74            |
| Money Supply M2                          | 34.16           | 39.40         | 37.35         | 37.68         | 37.90         | 38.90         | (1.27)           |
| Money Supply M3                          | 82.08           | 92.15         | 95.21         | 95.63         | 92.26         | 97.23         | 5.51             |
| LBP Lending Rate (%)                     | 9.04            | 7.91          | 7.53          | 7.37          | 7.27          | 7.38          | (53b.p.)         |
| LBP Deposit Rate (%)                     | 6.75            | 5.68          | 5.53          | 5.58          | 5.60          | 5.63          | (5b.p.)          |
| USD Lending Rate (%)                     | 7.28            | 6.74          | 7.16          | 6.92          | 7.10          | 7.02          | 28b.p            |
| USD Deposit Rate (%)                     | 3.05            | 2.80          | 2.80          | 2.84          | 2.82          | 2.83          | 3b.p.            |
| %* Change in CPI**                       | 4.20            | 6.19          | 6.49          | 5.27          | 3.14          | 4.27          | (192b.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> |
|----------------------------------|------------------------|------------------|---------------------|--|
| Solidere "A"                     | 13.26                  | (5.69)           | 355,973             | 12.76%                                 |
| Solidere "B"                     | 13.14                  | (7.01)           | 112,722             | 8.22%                                  |
| Byblos Common                    | 1.61                   | 0.63             | 74,413              | 5.57%                                  |
| Byblos Pref. 08                  | 101.00                 | 1.00             | 11,590              | 1.94%                                  |
| Byblos Pref. 09                  | 101.00                 | 1.00             | 13,927              | 1.94%                                  |
| BLOM GDR                         | 7.94                   | (0.75)           | 25,684              | 5.64%                                  |
| BLOM Listed                      | 7.75                   | 1.31             | 18,582              | 16.03%                                 |
| Audi GDR                         | 6.30                   | 0.00             | 10                  | 6.07%                                  |
| Audi Listed                      | 5.98                   | (0.33)           | 54,854              | 20.10%                                 |
| HOLCIM                           | 16.99                  | 2.97             | 734                 | 3.19%                                  |

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

| <b>Sovereign Eurobonds</b> | <b>Coupon %</b> | <b>Mid Price \$</b> | <b>Mid Yield %</b> |
|----------------------------|-----------------|---------------------|--------------------|
| Sep. 2012                  | 7.750           | 100.13              | 7.37               |
| June 2013                  | 8.625           | 107.00              | 2.55               |
| Apr. 2014                  | 7.375           | 107.63              | 3.39               |
| Jan. 2015                  | 5.875           | 104.50              | 4.12               |
| Apr. 2015                  | 10.00           | 117.50              | 3.82               |
| Jan. 2016                  | 8.500           | 114.25              | 4.35               |
| Mar. 2017                  | 9.000           | 118.35              | 4.78               |
| Nov. 2018                  | 5.150           | 100.50              | 5.06               |
| Apr. 2021                  | 8.250           | 118.50              | 5.61               |
| Nov. 2026                  | 6.600           | 102.50              | 6.34               |

Source: Byblos Bank Capital Markets

|                              | <b>April 17-20</b> | <b>April 10-12</b> | <b>% Change</b> | <b>March 2012</b> | <b>March 2011</b> | <b>% Change</b> |
|------------------------------|--------------------|--------------------|-----------------|-------------------|-------------------|-----------------|
| <b>Total Shares Traded</b>   | 684,445            | 1,154,047          | (40.69)         | 5,403,251         | 12,601,873        | (57.12)         |
| <b>Total Value Traded</b>    | \$10,447,775       | \$6,449,892        | 61.98           | \$31,601,350      | \$72,865,526      | (56.63)         |
| <b>Market Capitalization</b> | \$10.40bn          | \$10.51bn          | (1.14)          | \$10.84bn         | \$12.09bn         | (10.39)         |

Source: Beirut Stock Exchange (BSE)



### IMF revises downwards Lebanon's real GDP growth to 3% in 2012, economy to post 103rd fastest growth rate in the world

In its semi-annual economic outlook for the Middle East and Central Asia region, the International Monetary Fund revised downwards to 3% its projection of Lebanon's real GDP growth for 2012 from a February forecast of 3.5%. It projected real GDP growth of 4.2% for the Middle East and North Africa region, 2.2% for the region's oil importers and 1.8% in Mashreq countries in 2012. It also forecast Lebanon's real GDP growth at 4% in 2013 compared to 3.7% in MENA countries, 3.6% for oil importers and 3.4% in Mashreq economies. Lebanon's projected growth rate in 2012 would make it the eighth fastest growing economy in the Arab world. Also, Lebanon would be the 103rd fastest growing economy in the world in 2012, and would grow at a similar rate than that of Australia, Brazil, Belarus and Ukraine.

The Fund estimated the country's nominal GDP at \$41.8bn in 2012 relative to \$39bn in 2011, which would account for 12.8% of the Mashreq region's aggregate GDP this year. It projected Lebanon's inflation rate to average 4% in 2012 compared to 10% in MENA economies, 7.7% for the region's oil importers and 9.8% in Mashreq countries. Also, it forecast broad money to grow by 9% in each of 2012 and 2013, up from 7.2% in 2011.

In parallel, the IMF projected the government's fiscal balance to post a deficit of 8.1% of GDP in 2012 and 8% of GDP in 2013, relative to a deficit of 5.6% of GDP in 2011. It forecast government revenues at 24.2% of GDP in 2012 relative to 35.3% of GDP in the MENA countries, 24.8% of GDP for oil importers and 23.2% of GDP in the Mashreq region; and estimated public expenditures at 32.4% of GDP in 2012 compared to 32.2% of GDP for MENA countries, 33.8% of GDP for oil importers and 33.7% of GDP for the Mashreq region.

Also, it expected the public debt to decrease to 135.3% of GDP at end-2012 from 136.2% of GDP at end-2011. It forecast the total gross external debt at 175.8% of GDP at end-2012 and 176.2% of GDP at end-2013, up from 174.5% of GDP at end-2011 and compared to external debt in the MENA countries of 24.3% of GDP at the end of 2012 and 24.6% of GDP at the end of 2013.

Further, the Fund estimated Lebanon's exports of goods & services to reach \$26.4bn in 2012 and \$28.4bn in 2013 compared to \$25.3bn in 2011, and for imports of goods & services to increase to \$34.6bn in 2012 and \$36.9bn in 2013 from \$33bn in 2011. The IMF forecast the country's current account deficit at \$5.9bn or 14.2% of GDP in 2012, up from \$5.6bn or 14.4% of GDP in 2011, and compared to deficits of 5.3% of GDP for oil importers and 4.7% of GDP for the Mashreq economies. It also projected Lebanon's current account deficit at \$6bn, or 13.4% of GDP in 2013. The Fund expected the country's gross official reserves to reach \$35.3bn at end-2012 and \$37.6bn at end-2013, up from \$31.9bn at end-2011.

|                               | Lebanon |        | Oil Importers |       | Mashreq |       |
|-------------------------------|---------|--------|---------------|-------|---------|-------|
|                               | 2012P   | 2013P  | 2012P         | 2013P | 2012P   | 2013P |
| Real GDP Growth (%)           | 3.0     | 4.0    | 2.2           | 3.6   | 1.8     | 3.4   |
| Consumer Price Inflation (%)* | 4.0     | 3.3    | 7.7           | 8.3   | 9.8     | 10.7  |
| Fiscal Balance (% of GDP)     | (8.1)   | (8.0)  | (8.3)         | (6.8) | (9.5)   | (7.7) |
| Total Debt (% of GDP)         | 135.3   | 133.8  | 74.6          | 74.4  | 84.5    | 82.9  |
| External Debt (% of GDP)      | 175.8   | 176.2  | 35.9          | 38.0  | 35.9    | 39.0  |
| Current Account (% of GDP)    | (14.2)  | (13.4) | (5.3)         | (4.9) | (4.7)   | (4.1) |

P: projected

\*Yearly average

Source: International Monetary Fund, April 2012

### Economic activity to remain slow in coming months

Business Monitor International indicated that the Lebanese economy continues to suffer from the impact of regional unrest as reflected by recently released indicators. It pointed out that the Central Bank's monthly Coincident Indicator contracted by 1.8% year-on-year in January 2012, which pushed the three-month moving average to a nine-month low of -0.1%. It noted that the Coincident Indicator is a measure for the underlying health of the economy given the absence of timely official GDP data. It added that the number of transactions in points-of-sale expanded by just 0.7% year-on-year in January 2012 relative to growth of 0.4% in December 2011, which reflects ongoing weakness in private consumption. It indicated that the growth in the three-month moving average of cement deliveries and construction permits reached a multi-year low of -11.1% and -7.7% year-on-year, respectively, in January. BMI considered that the current economic slowdown is broad based, with consumption, trade and investment indicators all pointing to an economy fluctuating on the edge of recession. It said that Lebanon's economy has been affected by the ongoing crisis in Syria despite having avoided any incidence of large-scale public unrest associated with the Arab Spring. It expected economic activity to remain depressed in the coming months given the low prospects for a lasting resolution to the Syrian conflict over the near term. However, it anticipated the ongoing rise in global oil prices to have a positive impact on the Lebanese economy through higher remittance inflows, an increase in bank deposits, and a rise in investments from Gulf countries.



### **Lebanon's CDS spreads tighten by 4% in first quarter of 2012**

Figures released by CDS and bond pricing firm CMA Datavision show that spreads on 5-year credit default swaps (CDS) for Lebanon ended the first quarter of 2012 at 446.3 basis points, which constitutes a tightening of 19.2bps, or 4.1%, from 465.5bps at the end of the fourth quarter of 2011. The firm noted that the performance of Lebanon's 5-year CDS spreads was the fifth worst globally during the first quarter and came ahead of the Netherlands whose CDS spreads tightened by 2.5%, Portugal (-1.7%), Ukraine whose spreads were unchanged, and Spain, whose CDS spreads widened by 13.7%.

Further, CMA Datavision indicated that Lebanon ended the first quarter of 2012 with a five-year cumulative probability of default (CPD) of 27.5%, almost unchanged from 27.6% at the end of the fourth quarter of 2011. It said the CPD quantifies the probability of an issuer being unable to honor its debt obligations over a given time period. It added that the CPD is a function of the market's recovery level, which varies according to several factors and distance to default. It calculates the CPD using an industry standard model and proprietary credit data.

Lebanon's CPD at end-March shows that Lebanese debt was less risky than 11 other sovereigns such as Italy (29.7%), Spain (32.1%), Egypt (32.8%), Ukraine (45.6%), and Cyprus (63.7%). Norway, the United States and Switzerland had the lowest CPDs among the 68 sovereigns covered in the survey, with rates of 2%, 2.7% and 3.6%, respectively.

Further, the CMA Datavision downgraded Lebanon's rating to 'CMA\_b+' from 'CMA\_bb', as part of a series of downgrades for most of the region's sovereigns. The ratings are based on the firm's proprietary CMA Implied Ratings methodology. It downgraded the rating of Egypt to 'CMA\_b' from 'CMA\_b+', that of Iraq to 'CMA\_bb-' from 'CMA\_bb', and Bahrain to 'CMA\_bb' from 'CMA\_bb+'. It also reduced the ratings of each of Tunisia and Morocco to 'CMA\_bbb-' from 'CMA\_bbb+', that of Israel to 'CMA\_bbb+' from 'CMA\_a', and the ratings of each of Qatar, Saudi Arabia and Abu Dhabi to 'CMA\_a+' from 'CMA\_aa'. It only maintained the ratings of Turkey and Dubai at 'CMA\_bbb' and 'CMA\_bb', respectively, during the first quarter of the year.

### **Central Bank asks banks to comply with international sanctions in cross-border operations**

The Central Bank of Lebanon issued Basic Circular 126 that calls for banks and financial institutions operating in Lebanon to strictly enforce measures to combat money laundering and terrorism financing, particularly for customers who request cross-border transactions with correspondent banks. It stipulated that banks and financial institutions should follow a risk-based approach by verifying the identity of individuals or companies involved in the transaction and those that have economic ownership, as well as by developing procedures to continuously monitor the related operations and accounts. Also, the circular requested banks to update their databases related to anti-money laundering and terrorism financing information, and to notify the Special Investigation Commission about suspicious transactions. The circular stressed that banks and financial institutions operating in Lebanon must conform to all sanctions imposed by international organizations and states on countries where the correspondent entity is located, as well as on the correspondents themselves. As such, it urged Lebanese institutions to exercise extreme caution in identifying the economic owners of the transactions. It added that banks and financial institutions should monitor the transactions payable through accounts at correspondent banks and to apply strict due diligence processes. The Central Bank noted that auditors should verify the compliance of banks and financial institutions with the content of the circular, and should include their findings in their regular reports about compliance with anti-money laundering and terrorism financing measures.

### **Central Bank expects bank deposits to grow by 8% in 2012**

In its monthly meeting with the Association of Banks in Lebanon (ABL), Central Bank Governor Riad Salamé expected deposits in the banking sector to grow by 8% in 2012 and stressed the importance of continuing to attract capital to Lebanon given the ongoing deficit in the balance of payments. He said that the US dollar is being bought in the market at the lower end of the band and that the Central Bank has purchased about \$700m in foreign currencies since the start of the year. He noted that interest rates in Lebanon are lower than those in similarly-rated countries and are equivalent to those in better-rated sovereigns. He attributed the deficit in the balance of payments to the increase in the dollar value of imports due to the rise of global oil prices as well as to the slowdown in capital inflows. He did not expect the deficit to affect financial stability in the country given the foreign currency savings accumulated over the past few years.

In parallel, Governor Salamé indicated that he is discussing with the United States' Internal Revenue Service (IRS) the possibility for the Central Bank to play the role of agent on behalf of the Lebanese banking sector regarding the application of the U.S. Foreign Account Tax Compliance Act (FACTA), rather than having each bank reach a separate agreement with the IRS. He added that the Special Investigation Commission against Money Laundering and Terrorism Financing can play this role without having to amend or ratify any new or existing laws. FACTA seeks to identify U.S. taxpayers who have accounts at non-U.S. financial institutions, and aims to enforce reporting of those accounts through withholding. It requires non-U.S. financial institutions to enter into compliance agreements with the U.S. Treasury by June 30, 2013 and to identify and report U.S. accounts annually. But the ABL noted that banks need to start reviewing clients' accounts given that it is a time-consuming process, and need to begin buying and adopting new IT systems that would help implement the new law. It added that the number of clients in Lebanon is limited compared to the number of clients and accounts in Switzerland or Luxembourg, or in other financial centers.



### Lebanon's external debt posts 13th lowest returns in emerging markets, third lowest in the Middle East & Africa

Figures issued by Merrill Lynch indicate that Lebanon's external debt posted returns of 2.1% in the first quarter of 2012, constituting the fifth lowest return among 29 markets in the Eastern Europe, the Middle East & Africa (EMEA) region as well as the 13th lowest return among the 52 emerging markets included in Merrill Lynch's Sovereign Plus Debt Index. Lebanon underperformed the EMEA region's returns of 4.83%, as well the overall emerging markets returns of 4.64% during the covered quarter. Also, Lebanon's external debt underperformed the 6.31% returns posted by similarly-rated sovereigns.

Further, Lebanon's external debt posted the third lowest returns among 13 countries in the Middle East & Africa region in the first quarter of 2012, ahead of only South Africa (1.75%) and Tunisia (1.59%). It was outperformed by Senegal (11.67%), Egypt (11.36%), Gabon (8.46%), Nigeria (7.14%), Ghana (6.39%), Iraq (4.71%), Bahrain (4.4%), Namibia (4.01%), Jordan (3.69%) and Morocco (3.21%). In US dollar terms, Lebanon's external debt posted returns of 2.1% in the first quarter of 2012, fourth lowest in the EMEA region and 12th lowest among emerging markets.

In parallel, Lebanon's external debt posted returns of 0.61% in March, constituting the seventh lowest return in the EMEA region and the 21st lowest return in emerging markets during the covered month. It underperformed the EMEA returns of 0.85% but outperformed the emerging markets returns of 0.15%, as well as the -0.71% returns of similarly-rated sovereigns for the same month. Regionally, it outperformed South Africa (-0.7%) and underperformed Iraq (9.25%), Senegal (8.73%), Ghana (3.45%), Gabon (3.38%), Nigeria (2.96%), Egypt (2.9%), Jordan (2.44%), Namibia (1.86%), Morocco (1.68%), Tunisia (1.18%) and Bahrain (1.13%).

Merrill Lynch said the spread on Lebanese Eurobonds ended March 2012 at 352 basis points, constituting the 13th narrowest in the EMEA region and 25th narrowest among emerging markets. It was narrower than the EMEA spread of 403 basis points but similar to the emerging markets overall spread of 353 basis points at end-March 2012.

Lebanon has a weight of 3.46% on Merrill Lynch's Sovereign Plus Debt Index, fourth highest in the EMEA universe behind Turkey (10.99%), Russia (8.19%) and Hungary (3.61%), and 10th highest among emerging markets. Lebanon accounted for 8.3% of the allocations in the EMEA region.

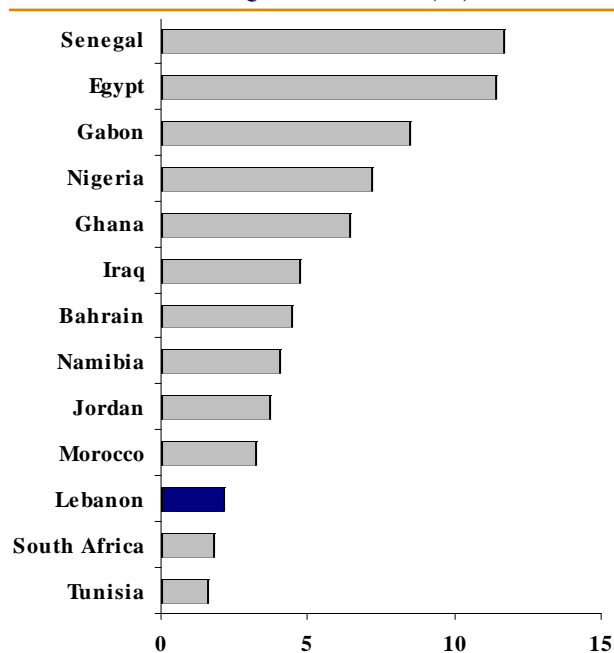
### Association of Banks amends reference rate on US dollar and Lebanese pound lending

The Association of Banks in Lebanon (ABL) recommended to its member banks to increase the Beirut Reference Rate (BRR) in US dollars to 5.77% in May 2012 from 5.31% currently. The rate, considered as the reference rate for lending in foreign currency, replaced in 2009 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 to 8.46% in May from 8.66% currently. 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.

### Civil society advocates food safety measures

A group of economic associations, trade unions and civil society organizations that work on food safety issued a series of recommendations to the government, the public, and institutions involved in the food sector. The document urged the government to issue a comprehensive law to regulate the food industry. The group recommended establishing a food safety body that consolidates the work of ministries and other public entities involved in the sector. It also urged authorities to draft a Consumer Protection Law that would include the formation of a National Council for Consumer Protection and the establishment of a consumer protection court. Further, the group proposed tightening customs surveillance on imported foodstuffs, building new slaughterhouses in all districts, and closing down any business that repeatedly violates food safety laws. It called on municipalities to become more active in supervising the food sector. The recommendations came in the wake of the recent discovery of large quantities of defective food products in the local market.

### External Debt Performance in Middle East & Africa in First Quarter of 2012 (%)



Source: Merrill Lynch, Byblos Research

### Fiscal deficit down 35% to \$357m in first two months of 2012 when assuming \$236m in telecom revenues

Figures released by the Finance Ministry show that the fiscal deficit reached \$356.7m in the first two months of 2012, down 35% from \$549.2m in the same period last year. The deficit was equivalent to 18.1% of total budget and Treasury expenditures compared to 30.7% of overall spending in the same period last year. Overall government expenditures reached \$2bn, up 10% year-on-year, while total revenues increased by 30% to \$1.5bn. Budgetary expenditures dropped by 10% to \$1.5bn and included \$360.7m in transfers to Electricité du Liban and \$324.2m in outlays from previous years, while budget revenues rose by 34% to \$1.5bn. Tax revenues increased by 12.8% year-on-year to \$1.2bn, of which 37.8%, or \$442.4m, were in VAT receipts that grew by 16.2% from the same period last year. Tax revenues accounted for 75.8% of budgetary revenues and for 72.5% of total Treasury and budget receipts. The narrowing of the deficit and the increase in revenues is due to the inclusion of \$236m in telecommunications receipts in budget-revenues. The Finance Ministry is basing its monthly fiscal results on the Telecommunications Ministry's estimate of telecom receipts, rather than on the Treasury actually receiving the funds from the Telecom Ministry. On a cash basis, public revenues increased by 11% and the fiscal deficit widened by 8% to \$592.4m, equivalent to 30% of expenditures.

The distribution of other tax revenues shows that customs revenues declined by 1.4% year-on-year to \$231.4m; income, profits & capital gains tax receipts grew by 22.7% to \$285.3m; revenues from property taxes increased by 7% to \$112m; and other tax receipts, mainly stamp fees, grew by 13.6% to \$60.7m. Further, the distribution of income tax revenues shows that taxes on wages & salaries accounted for 32.6% of total income tax receipts, followed by the tax on interest deposits with 28.6%, taxes on profits with 21.3% and capital gains tax with 14.8%. Income from capital gains taxes grew by 276.3%, revenues from taxes on profits increased by 19.4% year-on-year, tax receipts on wages & salaries improved 15%, while income from the tax on interest fell by 5.2%. Also, the distribution of property taxes shows that revenues from real estate registration fees regressed by a marginal 0.1% to \$83.8m, while receipts from built property taxes increased by 38.5% to \$14.5m, and revenues from inheritance tax grew by 30.8% to \$13.7m. In parallel, non-tax budgetary revenues rose by 226% to \$373m, with revenues from government properties increasing by 496% to \$284.2m and administrative fees & charges growing by 27.2% to \$68.3m. Based on the ministry's assumption, receipts from telecommunications services, which account for 83% of income from government properties and for 63.2% of non-tax revenues, stood at \$235.7m in the first two months of 2012.

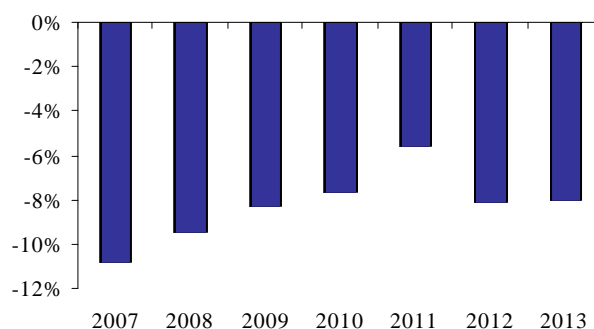
Debt servicing decreased by 26% year-on-year to \$368.2m, and accounted for 18.7% of total expenditures and for 24% of budgetary spending. It absorbed 22.8% of overall revenues and 24% of budgetary receipts. Interest payment on domestic debt declined by 25.4% to \$286.7m, while interest disbursement on foreign debt regressed by 27.6% to \$81.5m. Repayment of principal on foreign debt increased by 16.3% to \$32.5m. Excluding debt servicing, the primary budget balance posted a surplus of \$410.7m, or 26.8% of budget expenditures compared to a deficit of \$27.4, or 1.6% of budget spending in the same period last year. The overall primary balance posted a surplus of \$44m, or 2.2% of spending, relative to a deficit of \$24.5bn or 1.4% of total expenditures in the same quarter last year.

### Tourism spending in Lebanon up 36% in first quarter of 2012 due to low base effect

Figures issued by Global Blue, the VAT refund operator for international shoppers, show that total spending by tourists in Lebanon increased by 36% in the first quarter of 2012, as visitors from Saudi Arabia spent the most and accounted for 22% of total tourist spending in January. They were followed by visitors from the UAE with 12%, Kuwait with 9%, Egypt with 7% and Syria with 5%. Spending by visitors from Saudi Arabia rose by 63%, followed by visitors from Qatar (+61%), Egypt (+54%), Kuwait (+45%), the UAE (+40%), Jordan (+24%) and Nigeria (+15%); while spending by visitors from Syria contracted by 15%. Also, the number of refund transactions by visitors from Saudi Arabia rose by 65% during the quarter, followed by visitors from Kuwait (+49%), Qatar (+41%), the UAE (+29%), Egypt (+24%), Jordan (+13%), the U.S. (+4%) and Nigeria (+3%); while refund transactions by visitors from Syria contracted by 20%, followed by France (-7%). The general increase in spending is due to the low base effect that resulted from the severe contraction of tourism activity in most of 2011, and especially in the first half of the year.

Beirut attracted 86% of total spending during the first quarter of 2012, followed by the Metn area with 11%, the Keserwan region with 2%, and Baabda with 1%. Fashion & clothing accounted for 74% of total spending, followed by watches with 12%, home & garden products, department stores and souvenirs & gifts with 3% each, consumer electronics & household appliances, electronics & IT and sports equipments & clothing with 1% each. Spending on sports equipment & clothing increased by 63%, followed by souvenirs & gifts with a 51% growth, watches (+44%), fashion & clothing (+40%), department stores (+24%) and consumer electronics & household appliances (+12%). Expenditures on electronics & IT decreased by 9% in the first month of 2012. Spending on home & garden equipments remained unchanged in the covered period.

Lebanon's Fiscal Balance (% of GDP)



Source: International Monetary Fund, April 2012

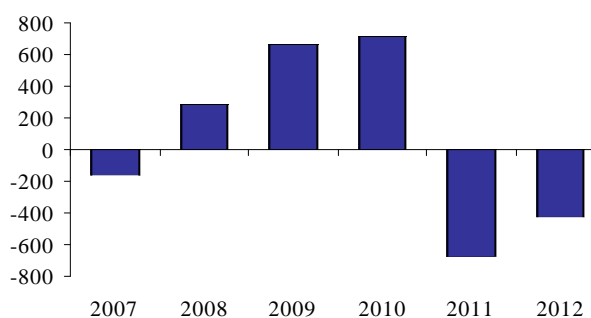
### Number of tourists down 8% in first quarter of 2012

The number of incoming tourists to Lebanon totaled 313,854 in the first quarter of 2012, constituting a decrease of 7.9% from 340,670 tourists during the same period last year. Arab tourists accounted for 43.2% of total visitors in the first three months of the year, and were followed by visitors from Europe with 28%, the Americas with 11.3%, Asia with 10.8%, Africa with 4.4%, and Oceania with 2.4%. The number of African tourists increased by 25.4% annually in the first quarter of 2012, followed by Arab tourists with a 19% increase, and tourists from the Americas with a rise of 7.7%. In parallel, the number of tourists from Asia declined by 60.7% annually, those from Oceania dropped by 4.2%, and tourists from Europe decreased by 1.5%. Also, tourists from Saudi Arabia accounted for 9.9% of total visitors in March 2012, followed by visitors from Iraq with 8.6%, France and Jordan with 6.3% each, and the United States with 5.7%. Incoming tourists totaled 1.66 million in 2011, down 24% year-on-year.

### Balance of payments posts deficit of \$424m in first two months of 2012

Central Bank figures show that Lebanon's balance of payments posted a deficit of \$423.9m in the first two months of 2012 compared to a deficit of \$668.8m in the same period last year. The balance of payments posted a deficit of \$134.1m in February compared to a deficit \$289.8m in January 2012 and a surplus of \$103.3m in February 2011. The February 2012 deficit was caused by a deficit of \$108m in the net foreign assets of banks and financial institutions and a surplus of \$26.6m in those of the Central Bank. The cumulative deficit over the first two months of 2012 was caused by a deficit of \$129.6m in the Central Bank's net foreign assets and a deficit of \$295m in those of banks and financial institutions. The balance of payments posted a deficit of \$2bn in 2011 and surpluses of \$3.3bn in 2010, \$7.9bn in 2009 and \$3.5bn in 2008.

Balance of Payments\* (\$m)



\* in the first two months of each year

Source: Central Bank

### Majority of salary packages in Lebanon includes benefits

A survey conducted by regional job portal Bayt.com indicated that 46% of salary packages in Lebanon consist of a basic salary only; 38% of packages include a basic salary in addition to benefits such as housing, transport and children's education allowance; and 16% of local packages include a basic salary, benefits and commissions. In comparison, 36% of income packages in the Arab world consist of a basic salary only; 45% include a basic salary and benefits; and 19% include a basic salary, benefits and commissions. The survey covered a sample of about 16,067 professionals holding jobs in the UAE, Saudi Arabia, Qatar, Kuwait, Oman, Bahrain, Jordan, Egypt, Algeria, Tunisia, Morocco, Lebanon, and Syria. The survey covered a sample of 381 respondents in Lebanon.

Also, the survey found that 63% of Lebanese surveyed said they are moderately satisfied about their current salary; 33% of respondents were not satisfied; and 4% of respondents expressed a high level of satisfaction about their present salary. In comparison, 58% of persons surveyed across the Arab world expressed moderate satisfaction about their salary, 38% of respondents were not content, and 4% were highly satisfied. Further, the survey indicated that 59% of persons polled in Lebanon consider that their pay is lower than their counterparts at other companies in the same industry, 24% believe that their salary package is competitive with the market, and 4% think that their income is higher than their counterparts in the same sector.

In parallel, it noted that 37% of Lebanese surveyed acknowledged that they did not receive a raise in the past 12 months, while 46% of respondents said that they received a raise of up to 15%; and 12% of respondents stated that their income rose by more than 15% in the past 12 months. Further, it said that 23% of Lebanese expect a raise of more than 15% in the next 12 months; followed by 19% who expect a raise between 6% and 10%; 18% who do not expect a raise; 12% who expect a raise between 1% and 5%; and 12% who expect a raise between 11% and 15%. It pointed out that 64% of respondents consider that salaries in Lebanon are increasing, 23% said that salaries are unchanged, and 8% acknowledged that salaries are decreasing. The survey's results for Lebanon are mitigated by the fact that the sample size is not representative enough and that the survey was conducted via the Internet, which is not the most reliable methodology for opinion polling.

### Byblos Bank to pay \$107m in dividends, payout ratio at 60%

The Ordinary General Assembly of Byblos Bank sal held on April 10, 2012 approved the Bank's proposed distribution of \$107.2m in dividends for 2011, representing a payout ratio of 59.64% on a consolidated basis. The Bank will pay LBP 200 per share for holders of Common Shares; and \$8 per share for holders of Preferred Shares Class 2008 and Preferred Shares Class 2009. The shares' dividends will be paid starting April 18, 2012 net of a 5% distribution tax. Also, the Bank will pay LBP 200 per share in US dollars for GDR holders starting April 25, 2012 through Bank of New York Mellon after deducting the 5% tax. Byblos Bank has 565,515,040 Common Shares, 2,000,000 Preferred Shares Class 2008, 2,000,000 Preferred Shares Class 2009, and 1,309,078 GDRs listed on the Beirut Stock Exchange. In parallel, the Assembly approved the election to the Board of Directors of Dr. Guy Quaden, former Governor of the National Bank of Belgium and current board member of the Bank for International Settlements; Ms. Marie-Hélène Loison, Deputy CEO of PROPARCO, the private sector arm of the French Development Agency; and Dr. Henry Azzam, former Chairman and CEO of Deutsche Bank Middle East. The three new board members replace Dr. Samir Makdessi, Dr. Nasser Saidi, and Dr. Hassan Monla.

Byblos Bank declared consolidated net profits of \$179.7m in 2011, constituting an increase of 1.2% from \$177.7m in 2010. Total assets reached \$16.6bn at end-2011, constituting a rise of 8.6% from the end of 2010; while net loans & advances to customers increased by 6.3% to \$4bn at end-2011. Customers' deposits totaled \$12.7bn, increasing by 7.6% from end-2010. Byblos Bank's Common Equity Capital Adequacy Ratio (CAR) reached 9.64% at end-2011, above the 8% minimum required ratio by Basel III. Also, the Bank's Net Tier One CAR was 13.3% at end-2011 compared to the minimum Basel III required ratio of 10%; while the Bank's Total Equity CAR reached 13.61% relative to the 12% minimum required ratio by 2015. The CAR figures do not incorporate the Bank's profits for 2011. The Byblos Bank Group has a direct presence in Syria, Sudan, Iraq, the United Arab Emirates, Nigeria and Armenia, as well as in Belgium, France, the United Kingdom, and Cyprus.

### EGF Hermes' net income down 81% to \$23m in 2011

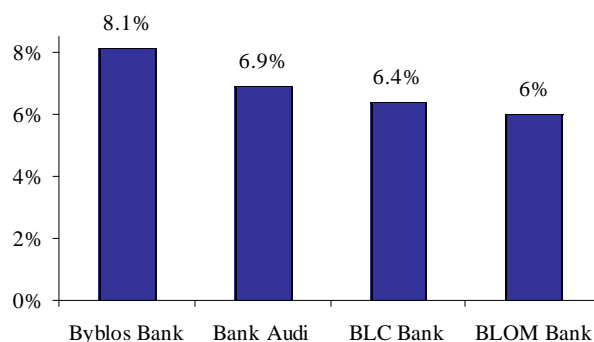
Regional investment bank EFG Hermes declared consolidated net income of EGP133m, or around \$22m, in 2011, constituting a decrease of 81.3% from EGP708m 2010. Investment banking operations generated net losses of EGP102m while commercial banking activity by Crédit Libanais posted net profit of EGP234m in 2011. Total operating revenues reached EGP1,690m in 2011, down 31.4% from EGP2,463 in 2010. It said that investment banking revenues contracted by 65% year-on-year to EGP668m, and by 44% year-on-year when excluding the one-off capital gain from the sale of Bank Audi's stake of EGP716.6m in 2010. It attributed the decline in investment banking revenues to a drop in income generated from different divisions, which includes brokerage, investment banking, asset management, capital markets and treasury operations. In parallel, EFG Hermes indicated that the acquisition of Crédit Libanais has further expanded its balance sheet, as total consolidated assets reached EGP52.5bn, or \$8.7bn as at end-2011, with the bank contributing \$7.2bn or around 83% of the total. It added that Crédit Libanais accounted for 60.5% of consolidated operating revenues in 2011.

EFG Hermes Holding SAE announced in August 2010 the acquisition of a 65% stake in Crédit Libanais sal for \$542m. It has a call option for an additional 25% interest in the bank and the right to exercise the call option over a two-year period at its sole discretion and at the same terms, including pricing, as those applicable to the acquisition of the initial stake. Crédit Libanais sal, one of Lebanon's top 10 banks, posted net profits of \$64.9m in 2011, constituting a decrease of 18% from \$79.1m in 2010. Its total assets reached \$7.2bn at end-December, constituting a 10% rise from end-2010 and its customer deposits totaled \$6.3bn at end-December, up 11.5% from the end of the preceding year while its aggregate loans stood at \$2bn at end-December up 19.5% from end-2010.

### Private equity fund acquires 51% stake in Egyptian hospital

The EuroMena II private equity fund acquired a 51% share in Al-Oyoun Al-Dawali Hospital, an Egyptian eye-surgery hospital group. The investment is aimed at expanding the group into a number of MENA countries. The Beirut-based \$100m EuroMena II fund is managed by the Capital Trust Group and invests in companies across the Middle East and North Africa region. Last October, it invested \$13.5m in home appliances and retail electronics group Khoury Home Appliances sal.

### Gross Dividend Yield on Common Shares\*



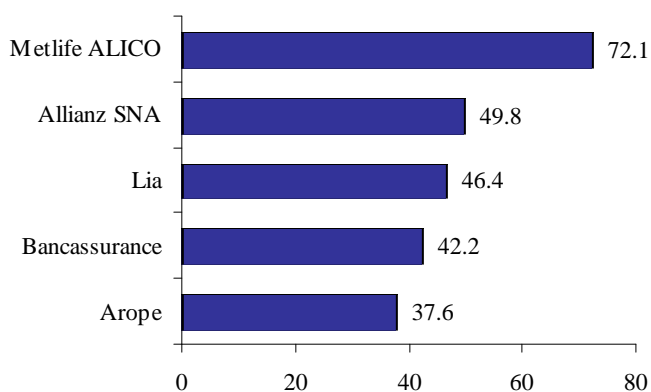
\* for closing prices at end-2011

Source: Beirut Stock Exchange, Banks' releases

### Life premiums post 4% rise to \$370m in 2011

The annual survey by *Al-Bayan* magazine of the insurance sector in Lebanon indicates that total life premiums reached \$369.8m in 2011, constituting an increase of 4% compared to a growth rate of 14.5% in 2010. Life premiums totaled \$355.8m in 2010, \$311m in 2009 and \$290m in 2008. Life insurance penetration was equivalent to 0.91% of GDP, while insurance density reached about \$84.4 per capita in 2011. Metlife ALICO maintained its market lead with \$72.1m in life premiums, equivalent to a 19.5% market share and down from 19.9% in 2010, 22.4% in 2009, 26.7% in each of 2008 and 2007 and 34% in 2006. It was followed by Allianz SNA with \$49.8m, LIA with \$46.4m, Bancassurance with \$42.2m, and AROPE with \$37.6m as the top 5 providers of life insurers in Lebanon. Beirut Life, previously known as ALIG Life, registered the highest jump in the rankings from last year, moving from 29th to 20th place and posted the highest growth in life premiums among all insurers in the survey at 275% year-on-year.

Life Premiums of the Top 5 Insurers in 2011 (\$m)



Source: *Al-Bayan*

A total of 20 out of 31 providers of life insurance posted increases in their life premiums, as 15 posted double-digit growth rates, one firm registered a triple-digit rise in life premiums, and the rest had single-digit growth. Also, nine firms saw a decline in their life premiums and the premiums of two firms were unchanged. Further, seven of the top 10 life insurers posted increases in their premiums. Byblos Bank's insurance affiliate ADIR registered a 17.3% rise in life premiums, posting the third best performance among the top 10 providers of life insurance and the second best among providers that are majority-owned by banks. In parallel, Bankers posted a 64% drop in its premiums, constituting the steepest fall among the top 10 firms, followed by MEDGULF with a 16.3% decrease.

The rankings of five of the top 10 firms were unchanged from 2010, while LIA improved by two spots to third place, SOGECAP Liban rose from 9th to 7th place, and CLA moved from 11th to 9th place. In parallel, Bancassurance declined by one spot to fourth place and AROPE regressed from fourth to fifth place. The survey said the top 10 insurers in Lebanon accounted for 89% of the life premium market, while the top 20 firms generated 98% of life premiums in 2011. The top 5 life insurers in Lebanon accounted for 67% of the market in 2010 compared to 59% in 2010, 64.8% in 2009, 73% in 2008 and 76.8% in 2007. Their aggregate premiums reached \$248.1m compared to 210.3m in 2010, \$201.4m in 2009, \$212.7m in 2008 and \$213.7m in 2007.

Further, *Al-Bayan's* survey shows that overall life and non-life premiums rose by 6% to \$1.24bn in 2011, compared to a growth rate of 13% in 2010, with life premiums accounting for 29.8% of the total. It said the top 10 insurers in Lebanon accounted for 65.4% of the combined life and non-life market, while the top 20 firms accounted for 85.7% of aggregate premiums in 2011. MEDGULF led all insurers with \$117.2m in total premiums, followed by Allianz SNA with premiums of \$100m. Overall insurance penetration was equivalent to approximately 3.1% of GDP, while insurance density reached about \$283 per capita in 2011.

### BLC Bank announces dividends for 2011

BLC Bank announced that its Ordinary General Assembly held on March 21, 2012 approved the distribution of \$17.7m in dividends for 2011, equivalent to a 36.8% payout ratio and LBP 175 per share. It said the dividends were determined after taking into consideration the 10% legal reserve requirements, the \$4.74m in reserves against various banking risks, as well as \$2.1m in provisions covering repossessed real estate collateral, and \$10.9m in free reserves to cover debt provisions. BLC Bank, one of Lebanon's listed banks, announced unaudited net profits of \$48.1m in 2011, up 6.2% from 2010. Total assets reached \$4.4bn at end-2011 up 42.4% from end-2010, while loans & advances to customers increased by 123% to \$1.53bn. Customer deposits totaled \$3.6bn, an increase of 38.9% from end-2010.

### BBAC raises \$80m in preferred shares

BBAC, one of Lebanon's top 12 banks, announced that it has completed and closed the offering of 8 million preferred shares at an issue price of \$10 per share, resulting in a total placement of \$80m. The Preferred Shares Series B (Tier 1) are non-cumulative, perpetual and redeemable. Holders of the preferred shares will receive a dividend of 7% annually per share. BBAC posted unaudited consolidated net profits of \$38.6m in 2011, up 0.3% from 2010. Total assets reached \$4.3bn at end-2011, constituting a 5.2% rise from end-2010, while loans & advances to customers increased by 24.1% year-on-year to \$1.1bn. Customer deposits totaled \$3.8bn at end-2011, constituting an increase of 5% from end-2010.

### **IBL Bank's net income up 15% to \$41m in 2011**

IBL Bank sal posted unaudited consolidated net profits of \$41.3m in 2011, up 15.1% from 2010. Net operating income rose by 16.4% to \$77.1m, with net interest income rising by 22.7% to \$60.3m and net fees & commission income dropping by 57.5% to \$2.1m year-on-year. Non-interest income accounted for 25% of total income, down from 27.6% in 2010. The bank's interest margin was 1.74% last year relative to 1.71% in 2010, and its net spread improved to 1.71% from 1.68% in the previous year. Also, operating expenditures increased by 22.7% to \$29m year-on-year, with staff expenses increasing by 19.4% to \$15.8m. The cost-to-income ratio increased to 36.2% in 2011 from 35% in the previous year. Total assets reached \$3.8bn at end-2011, constituting a 17.5% rise from end-2010, while net loans & advances to customers increased by 28.7% year-on-year to \$618.2m. Net doubtful loans were equivalent to 1% of gross loans and to 2.6% of equity. Customer deposits totaled \$3.45bn at end-2011, constituting an increase of 17.7% from end-2010. The bank's return on average assets declined from 1.23% in 2010 to 1.17% in 2011; and its return on average equity decreased from 17.24% in 2010 to 16.94% in 2011.

### **Bank Audi to issue preferred shares**

Bank Audi sal, one of Lebanon's listed banks, announced plans to issue 1.5 million new Series F Preferred Shares at a par value of \$100 and a nominal value of LBP 1,254 per share. The shares are non-cumulative and will pay an annual dividend of 4% per share for fiscal year 2012 and 6% per share annually afterwards, while the bank will have a call option after the fifth year of issuance. The issuance will contribute to increase the bank's capital to LBP 457.3bn from LBP 455.4bn. The share will be listed on the Beirut Stock Exchange. In parallel, the bank's Ordinary General Assembly held on April 10, 2012 approved dividends distribution of \$6 per share for shareholders carrying Preferred Shares Series E; \$0.775 per share for shareholders carrying Preferred Shares Series D; and LP603 (\$0.40) per share for shareholders carrying common shares. Dividends will be paid net of a 5% withholding tax.

## Ratio Highlights

| (in % unless specified)           | 2009   | 2010   | 2011   | Change* |
|-----------------------------------|--------|--------|--------|---------|
| Nominal GDP <sup>(1)</sup> (\$bn) | 34.7   | 37.1   | 39.1   |         |
| External Debt / GDP               | 61.3   | 55.4   | 53.5   | (190)   |
| Local Debt / GDP                  | 86.0   | 86.3   | 83.7   | (260)   |
| Total Debt / GDP                  | 147.2  | 141.8  | 137.2  | (460)   |
| Total External Debt / GDP         | 176.1  | 167.0  | 163.2  | (380)   |
| Trade Balance / GDP               | (36.8) | (36.9) | (40.7) | (380)   |
| Exports / Imports                 | 21.5   | 23.7   | 21.2   | (250)   |
| Budget Revenues / GDP             | 24.3   | 22.7   | 22.7   | (5)     |
| Budget Expenditures / GDP         | 32.8   | 30.6   | 27.2   | (342)   |
| Budget Balance / GDP              | (8.5)  | (7.9)  | (6.0)  | 191     |
| Primary Balance / GDP             | 3.1    | 3.2    | 4.3    | 105     |
| BdL FX Reserves / M2              | 74.0   | 77.1   | 78.8   | 172     |
| M3 / GDP                          | 236.5  | 248.4  | 248.7  | 30      |
| Bank Assets / GDP                 | 332.1  | 347.5  | 359.5  | 1,200   |
| Bank Deposits / GDP               | 276.0  | 289.0  | 296.0  | 695     |
| Private Sector Loans / GDP        | 81.8   | 94.2   | 100.7  | 650     |
| Dollarization of Deposits         | 64.5   | 63.2   | 65.9   | 270     |
| Dollarization of Loans            | 84.0   | 80.3   | 78.4   | (190)   |

\* Change in basis points 10/11

(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               | July 2010 | June 2011 | July 2011 | Change* | Risk Level |
|-----------------------|-----------|-----------|-----------|---------|------------|
| Political Risk Rating | 59.5      | 55.5      | 55.5      | ▼       | High       |
| Financial Risk Rating | 28.0      | 28.5      | 28.5      | ▲       | High       |
| Economic Risk Rating  | 35.5      | 32.5      | 32.5      | ▼       | Moderate   |
| Composite Risk Rating | 61.5      | 58.2      | 58.2      | ▼       | High       |

| Regional Average      | July 2010 | June 2011 | July 2011 | Change* | Risk Level |
|-----------------------|-----------|-----------|-----------|---------|------------|
| Political Risk Rating | 64.7      | 59.9      | 59.8      | ▼       | Moderate   |
| Financial Risk Rating | 42.1      | 42.0      | 42.1      | ↔       | Very Low   |
| Economic Risk Rating  | 38.3      | 36.6      | 36.8      | ▼       | Low        |
| Composite Risk Rating | 72.5      | 69.3      | 69.4      | ▼       | Moderate   |

\*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              | B1               | NP | Stable  | B2             |    | Stable  |
| Fitch Ratings        | B                | B  | Stable  | B              |    | Stable  |
| Standard & Poor's    | B                | B  | Stable  | B              | B  | Stable  |
| Capital Intelligence | B                | B  | Stable  | B              | B  | Stable  |

Source: Rating agencies

| Banking Ratings | Banks' Financial Strength | Banking Sector Risk | Outlook  |
|-----------------|---------------------------|---------------------|----------|
| Moody's         | D-                        |                     | Negative |
| EIU             |                           | B                   | Stable   |

Source: Rating agencies



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