



# LEBANON THIS WEEK

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Ratings affirmed on Standard Chartered Bank

Insurance premiums up 6% to \$967m in first nine months of 2012, claims and benefits at \$450m

Lebanese contractors awarded first phase of Waterfront City project

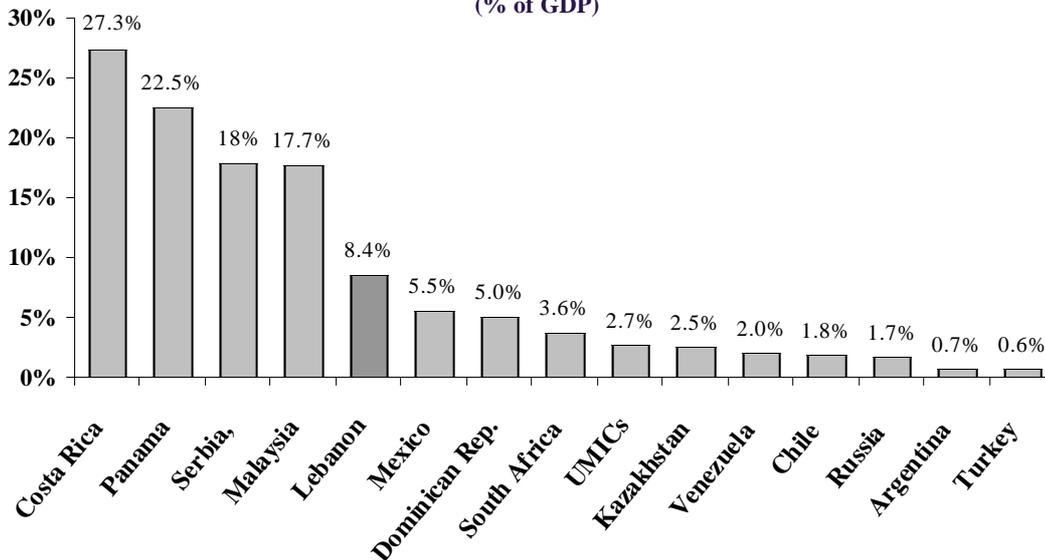
Two five-star hotels up for sale, two four-star hotels shut down

MEA to buy 10 aircraft from Airbus for \$1.05bn

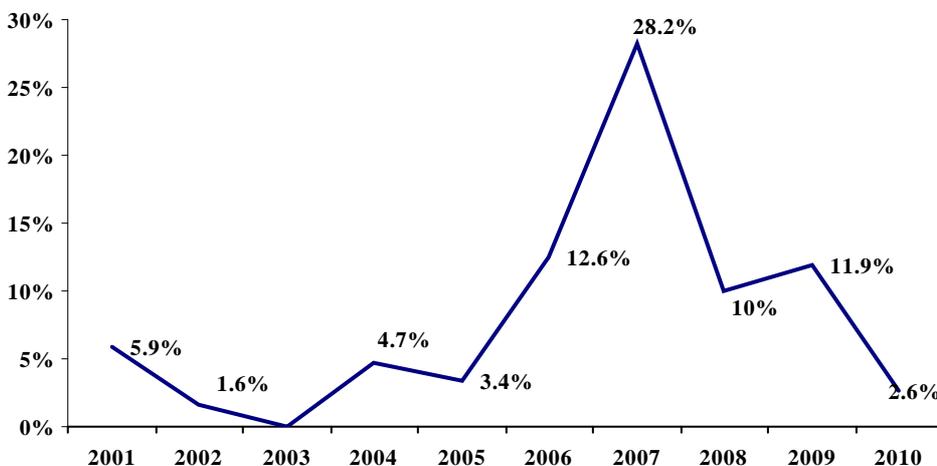
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## Charts of the Week

**Cumulative Illicit Financial Outflows from Selected UMICs during the 2001-10 period (% of GDP)**



**Illicit Financial Outflows from Lebanon (% of GDP)**



Source: Global Financial Integrity, International Monetary Fund, Byblos Bank

## Quote to Note

"Lebanon's record of regulation and supervision is adequate."

*Standard & Poor's, on the banking sector's well-developed regulatory and supervisory system*

## Number of the Week

**6%:** Projected salary increase in 2013 in the Lebanese private sector, according to global human resource consultants Aon Hewitt

## Economic Indicators

| <b>\$m (unless otherwise mentioned)</b> | <b>2010</b> | <b>Sep 11</b> | <b>2011</b> | <b>Jul 12</b> | <b>Aug 12</b> | <b>Sep 12</b> | <b>% Change*</b> |
|---|-------------|---------------|-------------|---------------|---------------|---------------|------------------|
| Exports                                 | 4,256       | 334           | 4,276       | 317           | 339           | 471           | 41.02            |
| Imports                                 | 17,956      | 1,792         | 20,170      | 1,739         | 1,782         | 1,629         | (9.10)           |
| Trade Balance                           | (13,700)    | (1,458)       | (15,894)    | (1,422)       | (1,443)       | (1,158)       | (20.58)          |
| Balance of Payments                     | 3,326       | (302)         | (1,996)     | (322)         | (497)         | (92)          | (69.54)          |
| Checks Cleared in LBP                   | 13,519      | 1,147         | 14,251      | 1,311         | 1,233         | 1,233         | 7.50             |
| Checks Cleared in FC                    | 53,925      | 5,181         | 57,852      | 5,150         | 4,657         | 4,580         | (11.60)          |
| Total Checks Cleared                    | 67,444      | 6,328         | 72,103      | 6,461         | 5,890         | 5,813         | (8.14)           |
| Budget Deficit/Surplus                  | (2,894)     | (419)         | (2,342)     | 36.01         | (320.35)      | (569.85)      | 36.00            |
| Primary Balance                         | 1,231       | 44            | 1,662       | 158.69        | (143.82)      | (138.20)      | (414.09)         |
| Airport Passengers                      | 5,512,435   | 582,383       | 5,596,034   | 640,615       | 624,525       | 542,920       | (-6.78)          |

| <b>\$bn (unless otherwise mentioned)</b> | <b>Dec 2010</b> | <b>Sep 11</b> | <b>Jun 12</b> | <b>Jul 12</b> | <b>Aug 12</b> | <b>Sep 12</b> | <b>% Change*</b> |
|--|-----------------|---------------|---------------|---------------|---------------|---------------|------------------|
| BdL FX Reserves                          | 28.60           | 30.62         | 29.26         | 29.64         | 29.54         | 29.99         | (2.06)           |
| <i>In months of Imports</i>              | <i>19.46</i>    | <i>17.09</i>  | <i>17.08</i>  | <i>17.05</i>  | <i>16.57</i>  | <i>18.41</i>  | <i>(7.72)</i>    |
| Public Debt                              | 52.59           | 54.35         | 55.25         | 55.44         | 55.69         | 56.07         | 3.16             |
| Net Public Debt                          | 45.01           | 45.80         | 47.10         | 47.28         | 47.82         | 47.83         | 4.43             |
| Bank Assets                              | 128.93          | 138.42        | 145.90        | 145.51        | 147.05        | 148.36        | 7.18             |
| Bank Deposits (Private Sector)           | 107.20          | 113.39        | 119.94        | 119.75        | 121.16        | 121.75        | 7.37             |
| Bank Loans to Private Sector             | 34.93           | 38.76         | 41.70         | 41.49         | 41.72         | 42.29         | 9.11             |
| Money Supply M2                          | 39.40           | 37.68         | 41.00         | 41.19         | 41.63         | 41.81         | 10.96            |
| Money Supply M3                          | 92.15           | 95.63         | 100.36        | 100.50        | 101.08        | 101.50        | 6.14             |
| LBP Lending Rate (%)                     | 7.91            | 7.37          | 7.44          | 7.24          | 7.27          | 7.30          | (7b.p.)          |
| LBP Deposit Rate (%)                     | 5.68            | 5.58          | 5.45          | 5.45          | 5.51          | 5.43          | (15b.p.)         |
| USD Lending Rate (%)                     | 6.74            | 6.58          | 7.15          | 7.19          | 7.26          | 7.16          | 58b.p.           |
| USD Deposit Rate (%)                     | 2.80            | 2.84          | 2.78          | 2.84          | 2.84          | 2.83          | (1b.p.)          |
| %* Change in CPI**                       | 6.19            | 5.27          | 4.72          | 4.72          | 5.85          | 8.26          | 299b.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"                     | 12.82                  | (0.16)           | 57,276              | 12.25%                                 |
| Solidere "B"                     | 12.78                  | (0.54)           | 29,969              | 7.94%                                  |
| Byblos Common                    | 1.61                   | 0.63             | 110,827             | 5.53%                                  |
| Byblos Pref. 08                  | 102.10                 | 0.00             | 0                   | 1.95%                                  |
| Byblos Pref. 09                  | 102.10                 | 0.00             | 0                   | 1.95%                                  |
| BLOM GDR                         | 8.14                   | 1.75             | 68,692              | 5.75%                                  |
| BLOM Listed                      | 7.92                   | 0.25             | 31,277              | 16.27%                                 |
| Audi GDR                         | 6.40                   | 3.90             | 10,778              | 6.24%                                  |
| Audi Listed                      | 6.15                   | (0.97)           | 48,982              | 20.55%                                 |
| HOLCIM                           | 15.80                  | 0.32             | 1,000               | 2.95%                                  |

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

| <b>Sovereign Eurobonds</b> | <b>Coupon %</b> | <b>Mid Price \$</b> | <b>Mid Yield %</b> |
|----------------------------|-----------------|---------------------|--------------------|
| June 2013                  | 8.625           | 103.25              | 1.04               |
| Apr. 2014                  | 7.375           | 106.75              | 1.87               |
| Jan. 2015                  | 5.875           | 104.25              | 3.66               |
| Apr. 2015                  | 10.00           | 114.00              | 3.54               |
| Jan. 2016                  | 8.500           | 112.25              | 4.14               |
| Mar. 2017                  | 9.000           | 116.75              | 4.55               |
| Nov. 2018                  | 5.150           | 100.50              | 5.05               |
| Apr. 2021                  | 8.250           | 116.50              | 5.71               |
| Nov. 2026                  | 6.600           | 102.50              | 6.33               |

Source: Byblos Bank Capital Markets

|                              | <b>Jan 7-11</b> | <b>Jan 2-4</b> | <b>% Change</b> | <b>Dec 2012</b> | <b>Dec 2011</b> | <b>% Change</b> |
|------------------------------|-----------------|----------------|-----------------|-----------------|-----------------|-----------------|
| <b>Total Shares Traded</b>   | 384,801         | 188,782        | 103.83          | 6,388,172       | 9,690,284       | (34.08)         |
| <b>Total Value Traded</b>    | \$2,781,688     | \$1,466,653    | 89.66           | \$32,380,726    | \$34,336,260    | (5.70)          |
| <b>Market Capitalization</b> | \$10.47bn       | \$10.45bn      | 0.18            | \$10.42bn       | \$10.29bn       | 1.32            |

Source: Beirut Stock Exchange (BSE)



### Lebanon ranks 91st globally, 9th among Arab countries in economic freedom, economy downgraded to "mostly unfree"

The Heritage Foundation/*Wall Street Journal* Index of Economic Freedom for 2013, a broad indicator of economic freedom in 177 countries, ranked Lebanon in 91st place worldwide and in ninth place among 15 Arab countries. Lebanon also ranked in 27th place among the 41 Upper Middle Income countries (UMICs) included in the survey. Lebanon ranked in 90th place globally and in ninth place regionally on the 2012 index. The index evaluates individual economies on the basis 10 broad factors of economic freedom that are equally weighted.

Globally, Lebanon ranked ahead of the Gambia, Zambia and Serbia and came behind Morocco, the Kyrgyz Republic and Azerbaijan. It also came ahead of Serbia, Gabon and Brazil and behind Azerbaijan, the Dominican Republic and Namibia among UMICs.

Lebanon's level of economic freedom decreased to 59.5% in 2013 from 60.1% in 2012 mainly due to declines in property rights, business freedom, and labor freedom. The survey indicated that Lebanon's judiciary is weak and vulnerable to political interference. It noted that trials, particularly of commercial cases, drag on for years. It added that the Lebanese law provides for some protection of intellectual property rights, but piracy remains a significant problem. Also, it pointed out that Lebanon's labor market is rigid. As a result, the survey lowered Lebanon's economic freedom status to the "mostly unfree" category from the "moderately free" category as its score fell below the 60% required to remain in the "moderately free" category. Lebanon was upgraded to the "moderately free" category in the 2011 survey from the "mostly unfree" category where it remained for more than 10 years. Lebanon's 2013 score was below the global level of economic freedom of 59.6%, the Arab level of 61.5%, and UMICs' level of 60.7%.

Lebanon ranked ahead of Indonesia and behind Guatemala globally, while it came ahead of only Mauritania and Djibouti regionally on the Business Freedom sub-index, which reflects the ability to create, operate and close an enterprise. The survey said that Lebanon's entrepreneurial framework lacks transparency and efficiency. It noted that completing licensing requirements takes more than 200 days and costs over three times the level of average annual income.

In parallel, Lebanon tied with six countries that include Japan, Macedonia and Nicaragua on the Investment Freedom sub-index, which is an assessment of the free flow of capital. Regionally, it came ahead of Oman and behind Djibouti. The survey noted that domestic political instability and the arbitrary and non-transparent interpretation of laws continue to impede foreign investment in Lebanon. Also, Lebanon ranked ahead of Moldova and came behind Mexico globally; and ranked ahead of Jordan and behind Yemen regionally on the Trade Freedom sub-index. This category measures the absence of tariff and non-tariff barriers that affect imports and exports of goods and services. The survey noted that Lebanon's trade-weighted average tariff rate is 4.8%.

Also, Lebanon ranked ahead of Uzbekistan and behind Cambodia globally, while it came ahead of Egypt and behind Yemen regionally on the Fiscal Freedom sub-index, which measures the tax burden of government. The survey estimated the tax burden at 17.2% of GDP, the 99th highest globally and the fourth highest among Arab countries. Further, Lebanon ranked ahead of Nigeria and behind Mauritania globally, while it came ahead of Yemen and behind Mauritania among Arab countries on the Government Spending sub-index.

### Arab Countries Rankings & Scores

| Country        | Arab Rank | Global Rank | Score        |
|----------------|-----------|-------------|--------------|
| Bahrain        | 1         | 12          | 75.50%       |
| Qatar          | 2         | 27          | 71.3%        |
| UAE            | 3         | 28          | 71.1%        |
| Jordan         | 4         | 33          | 70.4%        |
| Oman           | 5         | 45          | 68.1%        |
| Kuwait         | 6         | 66          | 63.1%        |
| Saudi Arabia   | 7         | 82          | 60.6%        |
| Morocco        | 8         | 90          | 59.6%        |
| <b>Lebanon</b> | <b>9</b>  | <b>91</b>   | <b>59.5%</b> |
| Tunisia        | 10        | 107         | 57.0%        |
| Yemen          | 11        | 113         | 55.9%        |
| Egypt          | 12        | 125         | 54.8%        |
| Djibouti       | 13        | 127         | 53.9%        |
| Mauritania     | 14        | 134         | 52.3%        |
| Algeria        | 15        | 145         | 49.6%        |

Source: Heritage Foundation 2013, Byblos Research

### Economic Freedom in Lebanon by Category

|                         | Arab Rank | Global Rank | Lebanon Score | Change in Score | Arab Average | Global Average |
|-------------------------|-----------|-------------|---------------|-----------------|--------------|----------------|
| Business Freedom        | 13        | 142         | 50.3%         | ▼               | 63.7%        | 64.6%          |
| Trade Freedom           | 5         | 67          | 80.4%         | ↔               | 74.5%        | 74.5%          |
| Fiscal Freedom          | 9         | 27          | 90.8%         | ↔               | 89.7%        | 77.2%          |
| Government Spending     | 4         | 66          | 74.2%         | ▲               | 66.8%        | 61.1%          |
| Monetary Freedom        | 8         | 75          | 76.5%         | ▼               | 74.3%        | 73.7%          |
| Investment Freedom      | 5         | 72          | 60.0%         | ↔               | 51.3%        | 52.2%          |
| Financial Freedom       | 2         | 40          | 60.0%         | ↔               | 50.0%        | 48.8%          |
| Property Rights         | 15        | 141         | 20.0%         | ▼               | 42.0%        | 43.4%          |
| Freedom from Corruption | 13        | 131         | 25.0%         | ↔               | 40.3%        | 40.6%          |
| Labor Freedom           | 10        | 102         | 57.2%         | ▼               | 62.6%        | 60.6%          |

Source: Heritage Foundation 2013, Byblos Research

### Lebanon ranks 100th globally, 13th in MENA region in country risk

In its quarterly survey of the country risk of 184 countries, *Euromoney* magazine ranked Lebanon in 100th place worldwide and in 13th place among 22 countries in the Middle East & North Africa region in the fourth quarter of 2012. Also, Lebanon came in 27th place among 44 upper middle income countries (UMICs) included in the survey.

Lebanon's global rank continued its declining trend in the fourth quarter of last year, as it regressed from 98th place in the third quarter of 2012, from 94th place in the second quarter of last year, and from 91st place in the first quarter of the year, as well as from 84th place in the fourth quarter of 2011. Also, Lebanon's regional rank was unchanged from the third and second quarters of last year, but regressed from 12th place in the first quarter of 2012 and from 11th place in the fourth quarter of 2011. The survey evaluates individual country risk by assigning a weighting to six categories that cover Political Risks, Economic Performance, Access to Bank Finance & Capital Markets, Debt Indicators, Credit Ratings, and Structural Assessments.

Globally, Lebanon had a lower country risk level than that of Suriname, Mozambique and Papua New Guinea, and a higher risk level than that of Guatemala, Tanzania and Zambia. It also ranked ahead of Suriname and behind Albania among UMICs. Lebanon's rank on the Access to Bank Finance & Capital Markets and Credit Ratings remained unchanged from the preceding quarter, while its rank on the Debt Indicators regressed by 16 spots. Also, its rank on Economic Performance and Structural Assessments categories retreated by two spots each from the preceding quarter, while that on Political Risks regressed by one spot from the third quarter.

In parallel, Lebanon received a score of 36.75 points, constituting a decline of 2.3% from 37.63 points in the third quarter, a drop of 6.8% from 39.41 points in the second quarter, a fall of 4.8% from 38.58 points in the first quarter of 2012 and a decrease of 13.9% from 42.67 points in the fourth quarter of 2011. Lebanon's score came below the Gulf Cooperation Council (GCC) countries' average score of 66.9 points, the MENA average of 43.49 points and the global average score of 42.83 points. Also, its score came below the Arab average score of 42.57 points and the UMICs' average score of 41.83 points, but was above the average score of non-GCC Arab countries of 31.34 points.

Lebanon's score remained unchanged on the Credit Ratings, on the Access to Bank Finance & Capital Markets and on the Structural Assessments categories. Its score on the Debt Indicators declined by 16.5% and that on the Economic Performance category dropped by 1.8% from the previous quarter, while its score on the Political Risks category declined by 0.2% from the third quarter of 2012.

Lebanon ranked ahead of Sierra Leone and behind Madagascar globally, while it came ahead of Algeria and behind Bahrain regionally on the Political Risks category. Also, it ranked ahead of Morocco and behind Mongolia worldwide, and came ahead of Morocco and behind Algeria regionally in terms of Economic Performance. Further, Lebanon ranked ahead of Gabon and behind China globally, and came ahead of Bahrain and behind Tunisia regionally on the Structural Assessments category. Finally, Lebanon ranked ahead of Guinea and behind Turkey globally, and came ahead of Libya and behind Turkey regionally on the Debt Indicators category.

### MENA Countries Rankings & Scores

|                | Score        | MENA Rank | Global Rank |
|----------------|--------------|-----------|-------------|
| Qatar          | 73.48        | 1         | 18          |
| Kuwait         | 71.63        | 2         | 22          |
| Oman           | 67.79        | 3         | 27          |
| Saudi Arabia   | 67.27        | 4         | 28          |
| Israel         | 66.56        | 5         | 29          |
| UAE            | 66.21        | 6         | 31          |
| Turkey         | 57.01        | 7         | 48          |
| Bahrain        | 55.01        | 8         | 57          |
| Tunisia        | 45.95        | 9         | 73          |
| Morocco        | 45.78        | 10        | 74          |
| Jordan         | 44.02        | 11        | 78          |
| Algeria        | 40.20        | 12        | 85          |
| <b>Lebanon</b> | <b>36.75</b> | <b>13</b> | <b>100</b>  |
| Egypt          | 33.17        | 14        | 116         |
| Iraq           | 29.82        | 15        | 128         |
| Libya          | 28.11        | 16        | 138         |
| Yemen          | 27.90        | 17        | 139         |
| Iran           | 24.30        | 18        | 149         |
| Mauritania     | 23.43        | 19        | 154         |
| Syria          | 23.36        | 20        | 155         |
| Sudan          | 23.27        | 21        | 156         |
| Djibouti       | 5.72         | 22        | 181         |

Source: *Euromoney, Byblos Research*

### Country Risk Indicators for Lebanon - Fourth Quarter 2012

|  | Weighting (%) | Score | MENA Rank | Global Rank | MENA Avg Score | Global Avg Score |
|--|---------------|-------|-----------|-------------|----------------|------------------|
| Political Risk                           | 30            | 11.33 | 12        | 112         | 12.59          | 13.96            |
| Economic Performance                     | 30            | 13.95 | 11        | 91          | 14.17          | 13.52            |
| Structural Assessments                   | 10            | 5.44  | 8         | 57          | 4.54           | 3.98             |
| Debt Indicators                          | 10            | 3.09  | 18        | 138         | 4.8            | 4.23             |
| Credit Rating                            | 10            | 1.46  | 12        | 109         | 3.24           | 3.22             |
| Access to Bank Finance & Capital Markets | 10            | 1.5   | 16        | 125         | 4.15           | 3.91             |

Source: *Euromoney, Byblos Research*

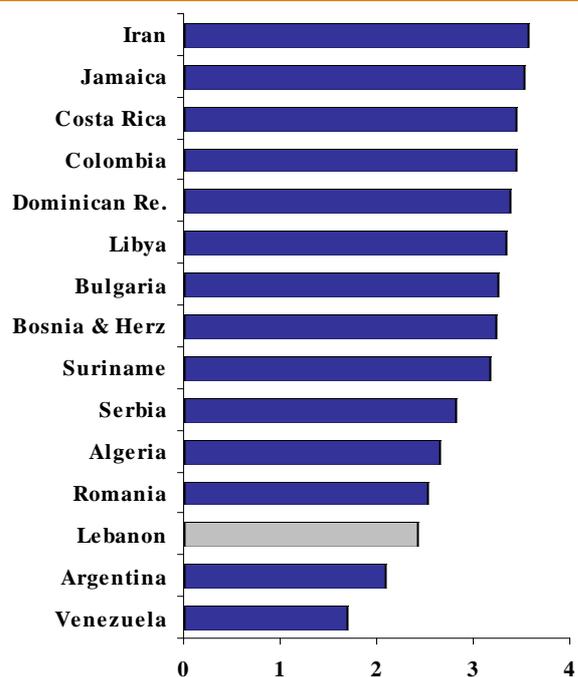
### Lebanese government is poorly prepared to face global risks

The World Economic Forum ranked Lebanon in 129th place among 139 countries worldwide, in 33rd place among 35 Upper-Middle Income Countries (UMICs) and in 13th place among 14 Arab countries on the government's effectiveness in managing risks. The results were derived from an Executive Opinion Survey conducted through online interviews between January and June 2012.

The survey asked respondents from 139 countries to assess their national government's overall risk management effectiveness of monitoring, preparing for, responding to, and mitigating against major global risks. The range of risks included natural disasters, climate change, pandemics and financial crisis. Scores range between one and seven, with one reflecting a government that is not effective in managing major global risks and seven reflecting an effective government in managing major global risks.

Globally, the Lebanese government's overall risk management effectiveness was better than that of Madagascar, Paraguay and El Salvador and worse than that of Honduras, Zimbabwe and Pakistan. The Lebanese government risk management effectiveness was only better than Argentina and Venezuela among UMICs and surpassed that of just Yemen among Arab countries. The Lebanese government received a score of 2.42 points on its risk management efficiency, coming below the global average score of 3.72 points, the UMICs average score of 3.76 points and the Arab countries' average score of 3.89 points.

### Governments' Risk Management Effectiveness\*



\* in bottom 15 UMICs

Source: World Economic Forum 2013

### Upgrade of existing hydroelectric plants to raise generation capacity to 282 MW, new plants could add 233 MW

The Ministry of Energy & Water indicated that the rehabilitation and upgrade of 13 existing hydroelectric plants will increase the available hydro generation capacity in Lebanon from 190 Megawatts to 282 Megawatts. It added that the yearly production of existing hydro plants would increase from 918 Gigawatt Hour to 1,047 Gigawatt Hour. It said that the 13 current hydro plants are located next to five river streams across the country, including three plants on the Litani and Awali rivers with net installed capacity of 199 Megawatts, three plants on the Nahr Ibrahim river (32 Megawatts), four plants on the Wadi Kadisha river (21 Megawatts), two on Nahr Al Bared (17 Megawatts) and one on the Safa spring (13 Megawatts).

The ministry indicated that it identified 32 new potential sites that would host new hydroelectric plants. It said that new plants would generate 263 Megawatts or annual production of 1,271 Gigawatt Hour for a total cost of \$667m under a Run of River scheme; and 368 Megawatts or 1,363 Gigawatt Hour per year for a total cost of \$772m under a Peak scheme. It noted that Run of River scheme harvests the normal river, while a Peak scheme can only be used when large storage reservoirs such as dams are constructed on the river stream. It added that cost figures for Peak schemes exclude the construction costs of dams.

It pointed out that 25 sites out of the 32 are economically viable with minimum selling tariff less than \$0.12 per kilowatt hour. It said that, under a Run of River scheme, these sites would produce 233 Megawatts or 1,126 Gigawatt Hour per year for a total cost of \$560m, while under a Peak scheme, they would generate 315 Megawatts or 1,217 Gigawatt Hour per year for a total cost of \$665m. The World Bank's figures show that only 4.5% of electricity produced in Lebanon is generated by hydropower, relative to 4.9% in MENA countries and 21.6% in Upper Middle-Income countries.

### Estimated property damages from terrorist incidents in Lebanon at \$5m in 2011

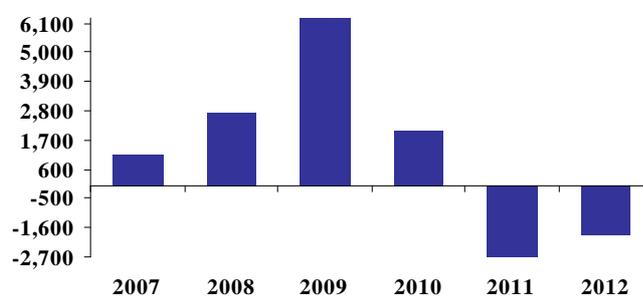
The Institute for Economics & Peace, a Sydney-based independent, non-profit research organization, estimated property damages from terrorist incidents in Lebanon at \$5m in 2011, the 19th highest level among 51 countries around the world that experienced property losses from terrorism, the fourth highest among 10 Upper Middle Income Countries (UMICs) and the sixth highest among 12 Arab countries that suffered property damages from such incidents in 2011. The Institute used the Global Terrorism Database's definition of terrorism, which captures relatively minor incidents that may only involve few injuries and a very small amount of property damage. Globally, the estimated property damages from terrorist incidents in Lebanon in 2011 were similar to those in Indonesia and Sudan, higher than those in the Democratic Republic of Congo (\$4m), Greece (\$4m) and Chile (\$4m), and lower than those in Kenya (\$8m) and Egypt (\$9m). Also, the estimated property damages from such incidents in Lebanon were higher than those in Algeria, Iran and Chile and lower than those in Turkey, Colombia and Russia among UMICs; and were lesser than those in Egypt, Syria and Somalia in the Arab world. Further, the estimated property losses from terrorist incidents in Lebanon accounted for 2.9% of total property damages from terrorist incidents in UMICs, for 0.6% of aggregate losses in Arab countries and for 0.3% of global property damage from terrorist incidents in 2011.

In parallel, the Institute's Global Terrorism Index ranked Lebanon in 31st place among 158 countries globally, in sixth place among 36 UMICs and in eighth place among 20 Arab countries. The index captures the direct and relative impact of terrorism worldwide in terms of its effect on lives lost, injuries and property damages. It also takes into account the residual effects of terrorism in terms of emotional wounds and fear. The GTI ranks countries based on four weighted indicators that are the total number of fatalities from terrorism, total number of incidents, total number of related injuries, and the estimated property damage. Globally, Lebanon was more affected by terrorism than Belarus, Myanmar and Côte d'Ivoire, and less affected than Uganda, Indonesia and the United Kingdom. Also, the impact of terrorism in Lebanon was higher than that in Belarus, Kazakhstan and Chile and lower than that in Turkey, Iran and Algeria among UMICs. Lebanon was more affected by terrorism than Morocco, Saudi Arabia and Qatar, and less affected than Egypt, Algeria and Syria among Arab countries. Lebanon received a score of 4.48 points, above the Arab average score of 3.32 points, the global average of 1.98 points and the UMICs average score of 1.59 points.

### Balance of payments posts deficit of \$1.85bn in first 11 months of 2012

Central Bank figures show that Lebanon's balance of payments posted a deficit of \$1.85bn in the first 11 months of 2012 compared to a deficit of \$2.69bn in the same period of the previous year. The balance of payments posted a surplus of \$179.6m in November 2012 compared to a deficit of \$97m in October 2012 and a deficit of \$558.9m in November 2011. The November 2012 surplus was caused by a surplus of \$729.2m in the net foreign assets of the Central Bank and was partly offset by a deficit of \$550m in those of the banks and financial institutions. The cumulative deficit over the first 11 months of 2012 was caused by a surplus of \$1.55bn in the Central Bank's net foreign assets and a deficit of \$3.4bn 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\* (US\$m)



\* in the first 11 months of each year  
Source: Central Bank of Lebanon

### Industrial exports down 12% to \$2.4bn in first 10 months of 2012

Figures released by the Ministry of Industry show that industrial exports totaled \$2.4bn in the first 10 months of 2012, constituting a decrease of 11.5% from the same period of the previous year. Industrial exports reached \$241.9m in October 2012, decreasing by 4.4% from \$253.1 in September 2012 and declining by 13.1% from \$278.5m in October 2011. Machinery & mechanical appliances accounted for \$400.5m, or 16.4% of total industrial exports in the first 10 months of the year, followed by base metals & articles of base metals with \$378.4m (15.5%) and pearls & precious or semi-precious stones with \$365.3m (15%). Arab countries accounted for 53.1% of total industrial exports in October, followed by Asian countries with 15.4%, European countries with 13.3% and African countries with 12.8%.

In parallel, industrial imports reached \$239.4m in the first 10 months of 2012, up 20.5% from the same period in 2011. Italy was the main source of such imports and accounted for 22.5% of the total. It was followed by China with 17.2% and Germany with 12.3%. Further, imports of industrial equipment and machinery reached \$19.1m in October 2012, decreasing by 14.5% year-on-year. Italy was the main source of imports of industrial equipments, accounting for 15.9% of the total, followed by China with 15.7% and the United States with 13.1%.

### **Net public debt at \$48.9bn at end-November 2012**

Lebanon's gross public debt reached \$57.6bn at the end of November 2012, constituting a rise of 7.3% from the end of 2011 and an increase of 6.5% from end-November 2011. Domestic debt totaled \$34bn at end-November, rising by 4% from end-2011 and increasing by 3.2% annually; while external debt stood at \$23.5bn, up by 12.3% from end-2011 and by 11.5% from a year earlier. The rise in external debt was caused by a swap operation in June when the Finance Ministry issued three new Eurobonds totaling \$2bn that were used for early redemption and cancellation of Lebanese pound-denominated Treasury bills held by the Central Bank of Lebanon. Local currency debt accounted for 59.2% of gross public debt at end-November 2012 compared to 61% a year earlier, while foreign currency-denominated debt represented 40.8% of the total at the end of November relative to 39% a year earlier. The weighted interest rate on outstanding Treasury bills was 6.54%, while the weighted interest rate on Eurobonds was 6.71% at the end of November. Further, the weighted life on Eurobonds was 6.06 years, while that on Treasury bills was 1,100 days.

Commercial banks accounted for 52% of the local public debt at the end of November 2012 compared to 51.4% a year earlier. They were followed by the Central Bank with 32.2%, down from 32.9% at end-November 2011; while public agencies, financial institutions and the general public accounted for 15.8% of local debt compared to 15.7% in November 2011. Eurobond holders, foreign private sector loans and special T-bills in foreign currencies accounted for 89.2% of the external debt, followed by multilateral institutions with 5.6%, foreign governments with 4.5%, and Paris II loans with 0.8%. Net public debt, which excludes the public sector's deposits at the Central Bank and at commercial banks from overall debt figures, increased annually by 6% to \$48.9bn. In parallel, the gross market debt accounted for about 64% of total public debt. Gross market debt is the total public debt less the portfolios of the Central Bank, the National Social Security Fund, bilateral and multilateral loans, as well as Paris II and Paris III related debt.

### **Treasury transfers to Electricité du Liban up 62% in first eight months of 2012**

Figures released by the Finance Ministry show that Treasury transfers to Electricité du Liban totaled \$1.44bn in the first eight months of 2012, constituting an increase of 61.8% from \$890.2m in the same period of the previous year. The ministry said that reimbursements to the Kuwait Petroleum Corporation (KPC) and to Algerian energy conglomerate Sonatrach totaled \$1.39bn, or 96.5% of transfers year-to-August; while EdL's debt servicing represented the remaining \$51.1m or 3.5%. It attributed the increase to a rise of \$549.3m, or 65%, in payments to KPC and Sonatrach during the covered period, and to an increase in debt servicing by \$1.3m, or 3% year-on-year. It said that the rise in payments to KPC and Sonatrach reflects a significant increase in the average international oil price according to which the 2012 payments were made. It added that the average oil price for the 2012 payments is 33% higher than the corresponding average price in 2011. As such, it noted the amount of the reimbursements to KPC and Sonatrach implies that any fluctuations in international oil prices are bound to have an impact on Treasury transfers to EdL. It pointed out that EdL contributed just 3.4% of repayments to the two oil suppliers during the covered period compared to 7.9% in same period of the previous year. EdL transfers accounted for 24.9% of primary expenditures in the first eight months of 2012, constituting the highest share of primary spending in the last three years, and compared to 18.8% in the same period of 2011. EdL transfers constitute the third largest expenditures item after debt servicing and salaries & wages in overall fiscal spending.

### Commercial banks' assets reach \$150bn at end-November 2012

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$150.4bn at the end of November 2012, constituting an increase of 7% from end-2011 and a rise of 7.9% from end-November 2011. Private sector deposits totaled \$123.1bn, increasing by 6.4% from end-2011 and rising by 7.9% from a year earlier. Deposits in Lebanese pounds reached \$43.6bn and rose by 10.6% from end-2011 and by 11.6% year-on-year; while deposits in foreign currencies totaled \$79.5bn and increased by 4.2% from end-2011 and by 5.9% from end-November 2011. Non-resident foreign currency deposits totaled \$19.9bn at the end of November 2012, up by 7.4% from end-2011 and by 11.7% from a year earlier. Total non-resident deposits reached \$23.2bn at end-November 2012 and grew by 9.1% from end-2011 and by 13.2% from a year earlier. Total private sector deposits increased by \$528.7m in November, \$845m in October, \$590m in September, \$1.4bn in August, \$985.4m in June, \$141.3m in May, \$533m in April, \$806.7m in March, \$725.7m in February and by \$976m in January 2012, while they decreased by \$130m in July. In comparison, deposits rose by \$798.7m in October, \$440m in September, \$813m in August, \$656.7m in July, \$1bn in June, \$539m in May, \$1.8bn in April, \$1.3bn in March and \$673m in February, while they declined by \$1.1bn in January and by \$46m in November 2011. In parallel, deposits of non-resident banks reached \$6.2bn in November, as they increased by 6.9% from end-2011 and declined by 4.6% year-on-year. The dollarization rate of deposits reached 64.6% at the end of November, down from 65.8% a year earlier. Further, the average deposit rate in Lebanese pounds reached 5.38% in November relative 5.59% a year earlier; while the same rate in US dollars was 2.85%, up from 2.84% in November 2011.

Loans to the private sector totaled \$42.9bn at end-November, constituting an increase of 9% from end-2011 and a rise of 8.4% from a year earlier. Lending to the resident private sector totaled \$37.6bn and increased by 10% from end-2011, while lending to the non-resident private sector reached \$5.3bn and rose by 2.9% from end-2011. The dollarization rate in private sector lending reached 77.5% in November compared to 78.7% a year earlier. The average lending rate in Lebanese pounds was 7.11% in November 2012 compared to 7.31% a year earlier, while the same average in US dollars was 7.09% compared to 6.99% in November 2011. In addition, claims on non-resident banks reached \$12.9bn at end-November, posting a decrease of 11.9% from end-2011. Claims on the public sector stood at \$30.8bn, constituting an increase of 4.5% from a year earlier and of 5.4% from end-2011. The ratio of private sector loans-to-deposits in foreign currencies stood at 41.9%, well below the Central Bank's limit of 70%, and compared to 41.5% a year earlier. In parallel, the same ratio in Lebanese pounds was 22.1%, up from 21.5% a year earlier. The ratio of total private sector loans to deposits was 34.9% compared to 34.7% a year earlier. The banks' aggregate capital base stood at \$12.1bn, up by 15.3% from \$10.5bn in November 2011.

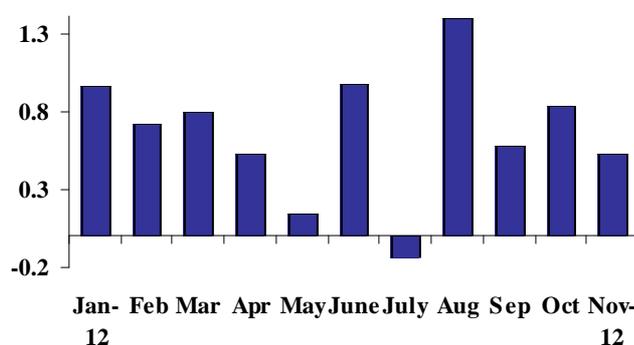
### Kafalat loan guarantees down 16% to \$138m in 2012

Figures released by the Kafalat Corporation show that loans extended to small- and medium-size companies under the guarantee of Kafalat reached \$138m in 2012, down 16.4% from \$165m in 2011. The number of loan guarantees totaled 1,025 in 2012 compared to 1,272 in 2011; while average loan size reached \$134,553 compared to \$129,720 in 2011. Mount Lebanon accounted for 41.4% of guarantees, followed by the South & Nabatieh with 21.7%, the Bekaa with 17.5%, the North with 13.6%, and Beirut with 6.1%. The agricultural sector accounted for 38.7% of total guarantees, followed by industry with 38.2%, tourism with 17.3%, handicraft with 4.5%, and specialized technologies with 1.4%. Kafalat is a state-sponsored organization that provides financial guarantees for loans up to \$400,000 earmarked for the set up and expansion of small and medium-size companies in productive sectors. It guarantees up to 75% of the loan amount and a similar percentage of the interest that accrues during the grace period. It also guarantees up to 90% of the loan amount for innovative start ups and a similar percentage of the interest that accrues during the grace period.

### Ratings affirmed on Standard Chartered Bank

Standard & Poor's affirmed the issuer credit ratings on Standard Chartered Bank (SCB) at 'AA-/A-1+', and on Standard Chartered PLC, the group's holding company, at 'A+/A-1'. It also affirmed the issuer credit ratings on Standard Chartered (China) at 'AA-/A-1+' and on Standard Chartered (Taiwan) at 'A+/A-1'. The agency revised the outlook on all the ratings to 'negative' from 'stable'. It said that SCB's 'a+' stand-alone credit profile reflects the bank's strong business position, adequate capital and earnings, strong risk position, above-average funding, and strong liquidity. It noted that the group's performance remains solid and that it would be well-placed to withstand the slowdown in global economic conditions. S&P indicated that it would lower lower SCB's stand-alone credit profile to 'a' if a severe economic slowdown in the bank's key markets substantially depresses its revenue growth and weighs on its asset quality, credit costs, and profitability. It added that it would downgrade SCB's stand-alone credit profile if any unexpected legal and regulatory action threatens the bank's reputation, revenue-generating capability, or profitability. Standard Chartered Bank has been present in the Lebanese market since 1999 when it acquired Metropolitan Bank sal. It operates through its fully-owned subsidiary Standard Chartered Bank sal and has three branches in the country.

### Private Sector Deposits Change (US\$bn)



Source: Association of Banks in Lebanon

### Insurance premiums up 6% to \$967m in first nine months of 2012, claims and benefits at \$450m

Figures released by the Association of Insurance Companies in Lebanon (ACAL) indicate that insurance premiums generated in Lebanon totaled \$966.8m in the first nine months of 2012, constituting an increase of 5.8% from \$914.1m in the same period of the previous year. Also, insurance premiums reached \$286.5m in the third quarter of last year, down by 21% from the second quarter of 2012 and by 0.3% from the same quarter of 2011. Aggregate premiums reached \$318.3m in the first quarter of 2012, up by 5.2% from the same quarter of 2011; while they stood at \$362m in the second quarter and rose by 11.6% from the same period of the previous year.

The fire and life categories were the main drivers of premium growth in the first nine months of 2012 as they posted increases of 13% and 10%, respectively, compared to growth of 7% for workmen insurance premiums, 6% for medical premiums and 4% for cargo premiums; while motor premiums contracted by 2% in the covered period.

Further, motor insurance premiums reached \$83.8m in the third quarter and accounted for 29.2% of the sector's aggregate premiums. They were followed by life premiums with \$78.8m (27.5%), medical premiums with \$71m (24.8%), fire premiums with \$21.3m (7.4%), workmen compensation premiums with \$8.5m (3%) and cargo premiums with \$7.8m (2.7%). Motor premiums increased by 0.6% quarter-on-quarter in the third quarter of 2012, while medical premiums dropped by 38.3%, life premiums declined by 25.1%, workmen insurance premiums regressed by 17.8%, cargo premiums decreased by 13% and fire premiums dropped by 3.4%.

In parallel, ACAL indicated that total benefits and claims paid by insurance companies stood at \$450m in the first nine months of 2012, constituting an increase of 13% from the same period in 2011. Claims and benefits paid grew by 22.7% year-on-year to \$164m in the third quarter of 2012. Medical claims totaled \$186.2m in the first nine months and accounted for 41.4% of total claims, followed by motor claims with \$130.8m (29.1%), life claims with \$84m (18.7%), fire claims with \$18.5m (4.1%), workmen's claims with \$14.1m (3.1%), cargo claims with \$4.6m (1%), public liability claims \$4.3m (1%), and engineering claims with \$2.6m (0.6%). Benefits and claims from other categories reached \$30.4m and accounted for 6.8% of the total.

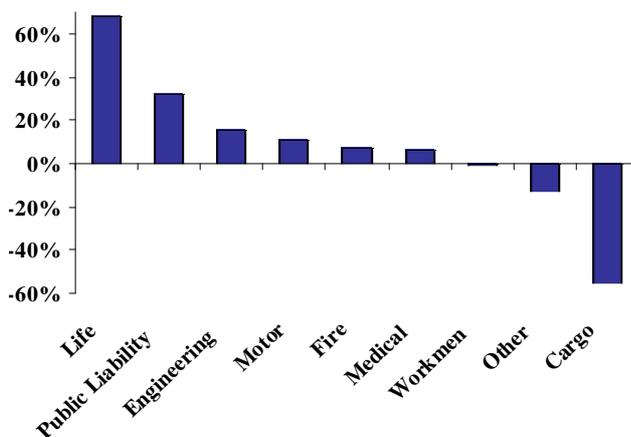
Also, medical claims reached \$63.4m in the third quarter of 2012 and accounted for 38.7% of total payments, followed by motor policies payments with \$42.4m (25.8%), life claims with \$39.5m (24.1%), fire claims with \$8.7m (5.3%), workmen's claims with \$4.6m (2.8%), and cargo with \$2.1m (1.3%). Cargo claims rose by 123.5% quarter-on-quarter and fire claims increased by 110.6%, while life claims grew by 81.1% and engineering claims rose by 60.5% from the previous quarter. In contrast, credit claims fell by 94%, civil liability claims dropped by 59.4%, motor claims decreased by 4.5% and workmen insurance claims regressed by 2.2% quarter-on-quarter.

Further, unit-linked policies accounted for 58.6% of total life premiums and for 22.3% of the total number of life contracts in the first nine months of the year; while life protection plans represented 41.4% of total life premiums and 77.7% of the total number of life contracts in the covered period. ACAL noted that medical insurance premiums covering expatriates grew by 7% year-on-year to \$8m in the first nine months, while medical insurance premiums covering Lebanese citizens rose by 6% at \$276.4m. Finally, it indicated that compulsory motor insurance premiums regressed by 1% annually to \$40.6m in the first nine months of 2012, while non-compulsory motor insurance premiums declined by 3% year-on-year to \$202m.

### Lebanese contractors awarded first phase of Waterfront City project

The UAE-based conglomerate Majid Al Futtaim Group announced that it had awarded a Lebanese-based joint venture between Arabian Construction Company and Matta et Associés asl a \$225m contract to build the first phase of the Waterfront City project located in Dbayeh north of Beirut. The first phase of the project, which is forecast to be completed by early 2015, will consist of residential and retail properties, including apartments, shops, restaurants and new public space. The \$2bn project is expected to be executed in four phases over the next 15 years. The project will cover 250,000 square meters of land. It consists of seven buildings that will include 5,000 residential units of varying sizes, in addition to a commercial district, a shopping mall, a hotel, and dining and entertainment facilities. The Waterfront City project is the second investment for Majid Al Futtaim Group is also building the Beirut City Center shopping in the Hazmieh suburb of Beirut. ACC is a civil, infrastructure, heavy, electrical and mechanical contractor for residential and commercial buildings, as well as for power and desalination plants. It is a subsidiary of the Arab Construction Group Holding, which has subsidiaries in Saudi Arabia, Qatar, Egypt, Syria and Pakistan and has worked on major projects across the Arab world. Established in 1944, Matta et Associés is a contracting company working in the field of building construction and public works.

Change in Claims Paid in First 9 Months of 2012 (%)



Source: Association of Insurance Companies in Lebanon

### **Two five-star hotels up for sale, two four-star hotels shut down**

Dubai-based conglomerate Al Habtoor Group announced that it is considering selling its assets in Lebanon, including two five-star hotels and a shopping mall, after it was approached by regional investors. The group's chairman, Mr. Khalaf Al Habtoor, indicated that several regional investment firms have inquired about purchasing the Hilton Beirut Metropolitan Palace, the Hilton Beirut Habtoor Grand and the Le Mall shopping center. The Hilton Beirut Habtoor Grand has 195 rooms, the largest conference hall in Beirut, and a health spa; while the Hilton Beirut Metropolitan Palace comprises 183 rooms and suites, a business center, five large meeting facilities, and four restaurants. They cost \$150 million and \$100 million to build, respectively. Hilton Hotel & Resorts signed a management agreement with Al Habtoor Group to manage both hotels in October 2011.

In parallel, the Hotels' Owners Association announced that the Acropolis Hotel and the Century Park Hotel, two medium-size four-star hotels in the Kaslik area north of Beirut, have closed their operations after suffering financial losses. It said that most hotels across Lebanon have experienced substantial drops in their occupancy rate levels and have reduced their operational costs by laying-off employees and sealing off floors. It warned from potential more closures if the drop in the number of tourist arrivals continues. Several Arab Gulf and European countries issued travel warnings to their nationals from visiting Lebanon after the deterioration of security conditions in the country last year. Tourist arrivals to Lebanon decreased by 17.7% in the first 11 months of 2012 from the same period of the previous year and dropped by 37.7% from the first 11 months of 2010. Also, the occupancy rate at Beirut hotels dropped by 47.2% year-on-year and reached 35.1% in November 2012, the lowest monthly hotel occupancy rate since May 2008.

### **MEA to buy 10 aircraft from Airbus for \$1.05bn**

National flag carrier Middle East Airlines (MEA) signed a contract with Airbus to buy 10 A320neo Family airplanes for \$1.05bn, consisting of five A321neo and five A320neo planes. The contract follows a Memorandum of Understanding between MEA and Airbus for the purchase of 10 new Airbus planes signed in July 2012. MEA did not specify how it will fund the deal. It said the new aircraft will allow the company to benefit from fuel savings and cost effectiveness. The Central Bank owns a 99% stake in the airline. MEA has currently a fleet of 18 modern Airbus planes, flies to more than 38 destinations, and is part of the global airline alliance SkyTeam.

The Cabinet approved on September 5, 2012 the extension of MEA's exclusive rights for 12 years ending in September 2024. The airline's monopoly was last renewed for 20 years in 1992 and was about to expire on September 14 of last year. MEA was seeking exclusivity rights for another 20 years, so the 12 year-renewal is a compromise from the firm's original request. But the extension of the exclusive rights will ensure that the airline would not face competition before 2024.

In parallel, MEA said that the outlook for profits in 2013 is not promising due to the domestic political and economic conditions and the significant decline in passengers, particularly from and to Arab Gulf countries. It is expecting to post flat profits in 2012, given the sharp drop in the number of tourists to Lebanon last year. MEA announced operating profits of \$40m in 2011, constituting a drop of 56% from \$90.6m in 2010. It posted operating profits of \$118.3m in 2009 and \$101.1m in 2008. It is not possible to independently verify the actual financial state of MEA, as it does not publish its detailed balance sheet or income statement.

## 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               | Apr 2011 | Mar 2012 | Apr 2012 | Change* | Risk Level |
|-----------------------|----------|----------|----------|---------|------------|
| Political Risk Rating | 55.5     | 55.5     | 55.5     | ↔       | High       |
| Financial Risk Rating | 28.5     | 35.0     | 35.0     | ▲       | Low        |
| Economic Risk Rating  | 32.5     | 34.0     | 34.0     | ▲       | Moderate   |
| Composite Risk Rating | 58.2     | 62.2     | 62.2     | ▲       | Moderate   |

| Regional Average      | Apr 2011 | Mar 2012 | Apr 2012 | Change* | Risk Level |
|-----------------------|----------|----------|----------|---------|------------|
| Political Risk Rating | 60.5     | 60.5     | 60.3     | ▼       | Moderate   |
| Financial Risk Rating | 41.8     | 42.1     | 42.1     | ▲       | Very Low   |
| Economic Risk Rating  | 37.5     | 37.3     | 37.2     | ▼       | Low        |
| Composite Risk Rating | 69.9     | 69.9     | 69.8     | ▼       | Low        |

\*year-on-year

Source: The PRS Group, Byblos Research

Note: Political & Composite Risk Ratings range from 0 to 100 (where 100 indicates the lowest risk)

Financial & Economic Risk ratings range from 0 to 50 (where 50 indicates the lowest risk)

## Ratings & Outlook

| Sovereign Ratings    | Foreign Currency |    |          | Local Currency |    |          |
|----------------------|------------------|----|----------|----------------|----|----------|
|                      | LT               | ST | Outlook  | LT             | ST | Outlook  |
| Moody's              | B1               | NP | Stable   | B2             |    | Stable   |
| Fitch Ratings        | B                | B  | Stable   | B              |    | Stable   |
| Standard & Poor's    | B                | B  | Negative | B              | B  | Negative |
| Capital Intelligence | B                | B  | Stable   | B              | B  | Stable   |

Source: Rating agencies

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

Source: Rating agencies



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