



LEBANON THIS WEEK

In This Issue

Economic Indicators.....1

Capital Markets.....1

Lebanon in the News.....2

World Bank ranks Lebanon in 66th place globally and 8th in the MENA region on readiness for Knowledge Economy

Moody's changes Lebanon's ratings outlook to stable

Lebanon included in new Merrill Lynch Frontier Index

New price index shows inflation at 0.4% in February

Beirut Port revenues up 20% in first two months of 2008

Trade deficit up 33.3% to \$1.7bn in first two months of 2008

Tourist arrivals up 15% in first two months of 2008

Central Bank lifts bank secrecy of 54 cases suspected of money laundering

Corporate Highlights.....5

Moody's changes outlook on Lebanese banks to 'stable' from 'negative'

S&P says regional expansion could help improve bank ratings

ATFP grants Byblos \$25m credit line

Future Pipe Industries to list on DIFX

EuroMena I fund takes stake in Intercontinental Bank of Lebanon

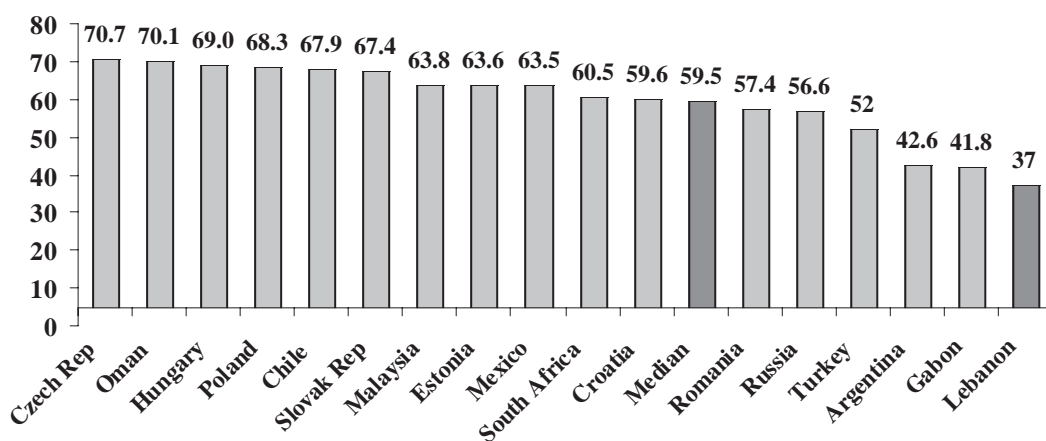
Ratio Highlights.....6

Risk Outlook.....6

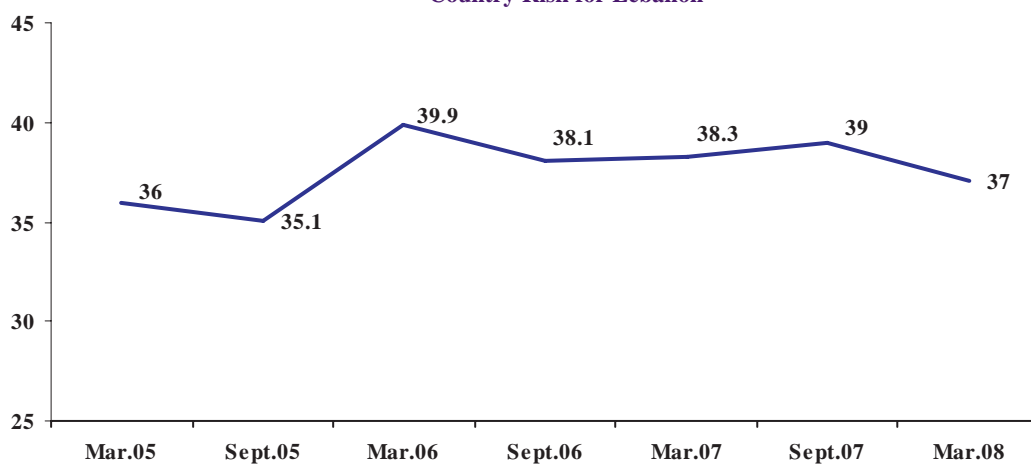
Ratings & Outlook.....6

Charts of the Week

Country Risk for Upper-middle-income Countries in March 2008



Country Risk for Lebanon



Source: Euromoney, March 2008

Quote to Note

“The purchasing power of the Lebanese currency has declined by 10% to 15% last year.”

Central Bank Governor Riad Salameh, on the impact of imported inflation and the weakening of the US dollar

Number of the Week

13.4%: Commercial banks' holdings of Lebanese Eurobonds, as a percentage of the banks' consolidated assets as at end-January 2008

Economic Indicators

\$m (unless otherwise mentioned)	Jan.2006	2006	Jan. 2007	Dec.2007	2007	Jan.2008	% Change*
Exports	145	2,282	189	241	2,816	262	38.62%
Imports	642	9,398	887	1,064	11,815	1,107	24.80%
Trade Balance	(498)	(7,116)	(698)	(823)	(8,999)	(845)	21.06%
Balance of Payments	391	2,795	(310)	864	2,036	(259)	(16.45%)
Checks Cleared in LBP	599	7,219	704	682	8,409	509	(27.70%)
Checks Cleared in FC	2,167	25,268	2,205	2,769	29,883	2,062	(6.48%)
Total Checks Cleared	2,766	32,487	2,909	3,451	38,292	2,571	(11.62%)
Budget Deficit	2	3,039	12	155	2,546	77	541.67%
Primary Balance	180	(17)	176	92	731	180	2.27%
Airport Passengers	313,265	2,825,138	258,966	334,486	3,408,834	275,128	6.24%

\$bn (unless otherwise mentioned)	Jan.2006	Dec.2006	Jan.2007	Nov.2007	Dec.2007	Jan. 2008	% Change*
BdL FX Reserves	11.69	10.21	10.46	9.75	9.78	9.79	(6.40%)
<i>In months of Imports</i>	<i>18.20</i>	<i>11.30</i>	<i>11.80</i>	<i>9.25</i>	<i>9.19</i>	<i>8.84</i>	<i>(25.08%)</i>
Public Debt	38.55	40.37	40.67	41.84	42.06	42.31	4.03%
Net Public Debt	34.87	37.42	37.77	38.94	39.02	39.16	3.68%
Bank Assets	68.92	74.27	73.40	80.11	82.25	83.07	13.18%
Bank Deposits	57.07	60.69	60.11	65.94	67.29	68.08	13.26%
Bank Loans to Private Sector	14.70	15.32	15.38	17.65	17.75	18.24	18.59%
Money Supply M2	16.51	15.57	15.40	16.27	16.47	16.55	7.47%
Money Supply M3	49.74	53.23	53.19	58.75	59.83	60.28	13.33%
LBP Lending Rate (%)	10.13	10.34	10.19	10.24	10.14	10.06	(13b.p.)
LBP Deposit Rate (%)	7.62	7.49	7.48	7.42	7.40	7.37	(11b.p.)
USD Lending Rate (%)	8.40	8.50	8.50	8.22	8.16	8.05	(45b.p.)
USD Deposit Rate (%)	4.13	4.71	4.76	4.84	4.75	4.67	(9b.p.)
%* Change in CPI**	1.00	7.04	7.06	5.07	5.92	5.68	(138b.p.)

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

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

Sources: ABL, BdL

Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization
Solidere "A"	22.51	5.58%	352,559	19.71%
Solidere "B"	22.38	5.02%	50,986	12.74%
Byblos Common	2.22	0.00%	108,737	3.99%
Byblos Priority	2.27	2.25%	97,388	4.10%
BLOM GDR	91.25	(0.27%)	1,000	5.90%
BLOM Listed	80.00	(1.90%)	34,000	5.02%
Audi GDR	88.75	2.90%	23,633	7.64%
Audi Listed	82.50	2.48%	1,996	23.77%
HOLCIM	19.69	0.15%	2,955	3.37%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Oct.2009	10.250	102.75	8.28
Dec.2009	7.000	97.75	8.44
Mar.2010	7.125	98.25	8.12
May 2011	7.875	98.00	8.61
Sep.2012	7.750	96.25	8.79
June 2013	8.625	98.50	8.99
Apr.2015	10.000	105.25	8.98
Jan.2016	8.500	96.88	9.07
May 2016	11.625	114.00	9.14
Apr.2021	8.250	93.00	9.18

Source: Byblos Capital Markets

	This Week	Last Week	% Change	February 2008	February 2007	% Change
Total Shares Traded	687,847	339,359	102.69%	2,398,001	3,315,263	(27.67%)
Total Value Traded	\$15,213,059	\$12,757,881	19.24%	\$43,415,200	\$56,573,571	(23.26%)
Market Capitalization	\$11.42bn	\$11.14bn	2.50%	\$10.54bn	\$8.18bn	28.86%

Source: Beirut Stock Exchange (BSE)



World Bank ranks Lebanon in 66th place globally and 8th in the MENA region on readiness for Knowledge Economy

The World Bank ranked Lebanon in 66th place among 140 countries worldwide and 8th among 17 countries in the Middle East & North Africa region on the Knowledge Economy Index (KEI). Lebanon ranked in 50th place globally and in 4th place regionally in the previous survey, which covered 1995. Also, Lebanon ranked in 24th place among 27 upper middle-income countries (UMICs) included in the survey, down from 18th place in the previous survey. The index represents the overall level of development of a country towards the Knowledge Economy. It takes into account whether a country's environment is conducive for knowledge to be used effectively for economic development. The index is based on 83 structural and qualitative variables grouped into four categories that constitute the pillars of the Knowledge Economy. The four pillars are Economic Incentive & Institutional Regime, Education & Human Resources, the Innovation System, and Information & Communication Technology (ICT). The survey calculated the scores of individual countries on a population-weighted basis, with scores ranging from zero to 10, with 10 being the best score an economy can receive.

Globally, Lebanon ranked ahead of Panama, Serbia & Montenegro and Moldova and came behind Jamaica, Mauritius and Belarus. It came ahead of Panama and Venezuela and ranked behind Mauritius and Oman among UMICs. Lebanon received a score of 5.03 points, below the global average of 5.93 points, the UMICs' average of 6.50 points and the MENA average of 5.30 points, but above the average of 4.13 points for countries with a medium level of human development.

Lebanon ranked in 75th place globally, down from 72nd place in the previous survey, on the Economic Incentives Sub-Index. This category represents the ability to provide incentives for the efficient use of existing and new knowledge and the flourishing of entrepreneurship. Globally, Lebanon ranked ahead of Peru and came behind Nicaragua. It ranked ahead of Russia and behind Panama among UMICs, and came ahead of Egypt and behind Tunisia in the MENA region.

Lebanon ranked in 71st place globally, down from 55th place, on the Innovation Sub-Index. This category reflects whether a country has an efficient innovation system of firms, research centers, universities, consultants and other organizations to tap into the growing stock of global knowledge, assimilate and adapt it to local needs, and create new technology. Globally, Lebanon ranked ahead of Moldova and came behind Trinidad & Tobago. It ranked ahead of Botswana and behind Trinidad & Tobago among UMICs, while it came ahead of Morocco and behind Tunisia in the MENA region.

Lebanon ranked in 56th place globally, up from 58th place, on the Education & Human Resources Sub-Index. This category reflects the level of an educated and skilled population to create, share, and use knowledge effectively. Globally, Lebanon ranked ahead of Brazil and came behind Guyana. It ranked ahead of Venezuela and behind Romania among UMICs, and it came ahead of Qatar and behind Bahrain in the MENA region.

Lebanon ranked in 62nd place globally, down from 58th place in the previous survey, on the ICT Sub-Index. This category reflects the available level of information and communication technology to facilitate the effective creation, dissemination, and processing of information. Globally, Lebanon ranked ahead of Serbia & Montenegro and came behind Trinidad & Tobago. It ranked ahead of South Africa and behind Trinidad & Tobago among UMICs, while it came ahead of Tunisia and behind Saudi Arabia in the MENA region.

MENA Countries Rankings & Scores

Country	Score	MENA Rank	Global Rank
Israel	8.16	1	24
Qatar	6.17	2	50
Kuwait	6.01	3	51
UAE	5.78	4	40
Bahrain	5.58	5	34
Jordan	5.19	6	67
Oman	5.12	7	72
Lebanon	5.03	8	54
Saudi Arabia	4.76	9	68
Tunisia	4.52	10	76
Egypt	3.93	11	81
Morocco	3.30	12	94
Iran	3.09	13	102
Algeria	3.07	14	107
Syria	2.82	15	108
Yemen	1.62	16	120
Djibouti	0.79	17	113

Source: World Bank, Byblos Research

Components of the Knowledge Economy Index for Lebanon

Sub-Index	Global Rank	MENA Rank	UMICs Rank	Lebanon Score	Global Average Score	MENA Average Score	UMIC Average Score	Medium Human Dev Avge Score
Economic Incentives	75	10	24	4.36	5.11	4.33	6.20	3.50
Innovation	71	9	24	4.40	8.0	7.27	7.03	5.07
Education & HR	56	3	16	5.74	4.21	3.78	6.10	3.79
ICT	62	7	22	5.64	6.38	5.82	6.66	4.17

Source: World Bank, Byblos Research

Moody's changes Lebanon's ratings outlook to stable

Moody's Investors Service changed the outlook on Lebanon's ratings to 'stable' from 'negative'. The change applies to the government's 'B3' local and foreign currency bond ratings, the 'B3' country ceiling for foreign currency bank deposits and the 'B2' country ceiling for foreign currency bonds. The agency attributed the change in outlook to the resilience of Lebanon's public finances in the face of numerous political shocks, adding that public finances have improved modestly since the end of 2006 and the government's short-term funding needs are manageable. Moody's added that Lebanon's sovereign ratings can withstand severe political volatility at their current low level despite the possibility of further adverse political events.

Moody's changed the sovereign ratings outlook to 'negative' from 'stable' in November 2006 because it believed the marked deterioration in the domestic political environment could negatively affect the government's repayment capacity. It noted, however, that the government's large debt burden has eased somewhat in the past 18 months, the wide fiscal deficit has narrowed and, most importantly, local banks have remained willing and able to provide financing as their committed deposit base has continued to grow. Therefore, the government does not face significant difficulties in rolling over maturing debt in either local or foreign currency. The agency said it is well aware of the fragility of the country's political and economic environment and the deep structural fiscal weaknesses, but it believes that these risks are captured by its already low ratings for Lebanon.

Lebanon included in new Merrill Lynch Frontier Index

Global investment and financial services firm Merrill Lynch included Lebanon in its new ML Frontier Index. The new index contains the 50 largest and most liquid stocks from 17 developing markets in Eastern & Central Europe, the Middle East, Africa and Asia. Merrill Lynch noted that these markets are less exposed to swings in the global economy and less correlated with other equity markets, providing institutional investors with distinct diversification and risk reduction benefits at a time when global equity markets are increasingly volatile. Lebanon's weight in the index is 0.5% and is represented by Solidere 'A' shares. The Middle East accounts for 50% of the index weight, followed by Asia with 22.6%, Europe with 14.1% and Africa with 13.3%. The UAE, Kuwait, Pakistan, Cyprus and Nigeria have the highest country weightings in the new index, while the UAE has the largest number of stocks included. Banking accounts for 39.4% of the total, followed by financial services with 25.7%, oil & gas with 13.6%, technology with 5.2%, and industrial goods & services with 4.9% as the biggest sector constituents. Stocks are weighted according to their liquidity-adjusted market capitalization, subject to a 10% maximum weight for any one of the constituents.

New price index shows inflation at 0.4% in February

The Central Administration of Statistics' consumer price index indicates that inflation rose by nearly 0.4% in February from the previous month. Prices of food & non-alcoholic beverages rose by 5.5%, constituting the biggest price rise among all categories in February on a monthly basis. They were followed by restaurants & hotels with a 1.7% rise, recreation, amusement & culture (1.2%), transportation (1%), furnishing & household equipment (0.6%), and health care (0.4%). In parallel, prices of clothing & footwear declined by 13.9% month-to-month, followed by communication (-0.2%), alcoholic beverages & tobacco (-0.1%), and other goods & services (-0.1%). Prices of housing, education, water, electricity, gas & other fuels were unchanged in February.

The Central Administration of Statistics launched recently the new monthly consumer price index with a base month of December 2007. The new CPI replaced the one developed in 1997 and is based on the national survey of household living conditions covering 2004 and 2005. The weighting of various categories was modified and the computation method was also changed to integrate prices set in various regions of Lebanon instead of just covering the greater Beirut area. The modernization of the index took place with the help of the International Monetary Fund's Middle East Technical Assistance Center, which is based in Beirut

CPI Weight Change by Category

	2007	1997
Housing, water, electricity & fuel	25.7%	8.8%
Food & non alcoholic beverages	19.9%	32.3%
Transport	12.3%	9.8%
Education	7.7%	13.4%
Health	6.8%	8.8%
Clothes & shoes	6.2%	6.3%
Telecommunications	4.8%	1.5%
Other products & services	4.2%	3.5%
Furniture, household equipment & maintenance	3.9%	7.9%
Entertainment & culture	3.7%	2.0%
Restaurants & hotels	2.7%	3.4%
Alcoholic beverages & tobacco	2.1%	2.3%

Source: Central Administration of Statistics

Beirut Port revenues up 20% in first two months of 2008

The Port of Beirut stated that port revenues amounted to \$18.9m in the first two months of 2008, up 20.2% from the same period in 2007. The freight activity reached 971,000 tons in the first two months of 2008, up by 23% compared to the same period in 2007. The number of ships reached 341, down 9.8% compared to 2007. The port's revenues reached \$9.5m and \$9.4m, respectively, in January and February 2008.

Trade deficit up 33.3% to \$1.7bn in first two months of 2008

Imports rose by 35% to \$2.3bn while exports increased by 40.4% to \$573m in the first two months of 2008, leading to a trade deficit of \$1.7bn, up 33.3% year-on-year. The coverage ratio reached 24.7% in the first 2 months of the year compared to 23.8% in the same period last year. The trade deficit reached \$901m in February 2008, rising by 47.5% from February 2007.

The United States was the main source of imports with \$339m or 15% of the total, followed by Italy with \$221m (10%), China with \$193m (8%), France with \$191 (8%) and Germany with \$124m (5%). Switzerland was the main export destination with \$118m or 21% of the total, followed by the UAE with \$52m (9%), Turkey with \$33m (6%), Syria with \$31m (5%) and Iraq with \$28m (5%). Lebanon's main export was jewelry at \$158m or 28% of total exports, followed by mineral products with \$100m (17%), machinery & appliances with \$69m (12%), chemical products with \$56m (10%), and food & beverages with \$45m (8%). Re-exports totaled \$45m in the first 2 months of 2008, up 114% from \$21m in the first 2 months of 2007. Part of the rise in overall imports is attributed to the jump of global oil prices and of food prices, as well as to the weakening of the US dollar.

Tourist arrivals up 15% in first two months of 2008

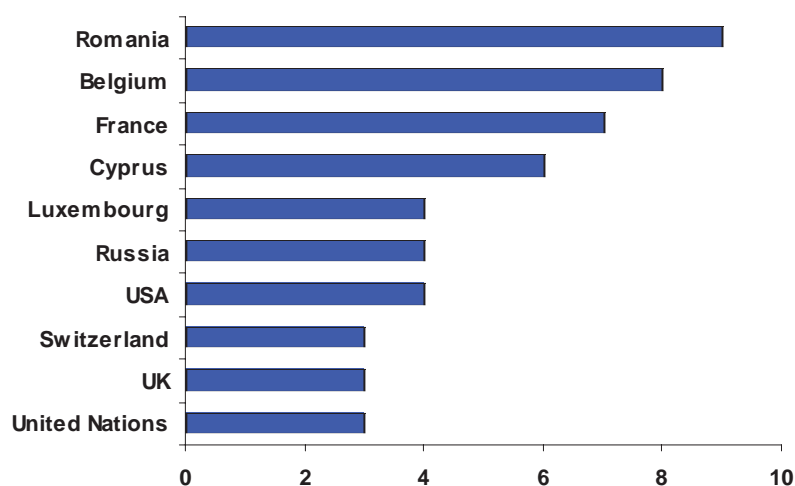
The number of incoming tourists to Lebanon totaled 115,400 in the first two months of 2008, up 15% from the same period last year. Arab visitors accounted for 41,928, or 36.3%, of total visitors in the year-to-February period, compared to 39,999 in the same period of 2007. They were followed by tourists from Europe with 28.8%, Asia with 15.2%, the Americas with 11.6%, Africa with 5.1% and Oceania with 3%. The number of tourists reached 52,413 in February 2008, constituting an increase of 10.9% from 47,256 in February 2007. Arabs accounted for 33.8% of total visitors in February 2008, followed by Europeans with 31.6% of total.

Central Bank lifts bank secrecy of 54 cases suspected of money laundering

The Special Investigation Commission (SIC) against money laundering issued its 7th annual report detailing its activities in tracing dirty money in Lebanon. Established by the Central Bank of Lebanon as an independent legal entity, the commission's mandate is to investigate suspected money-laundering operations and to monitor compliance with the rules and procedures of the anti-money laundering law, Law 318, passed in April 2001 by the Lebanese Parliament. The report indicated that the SIC received a total of 234 suspected cases in 2007, of which 152 cases, or 65%, were referred by domestic sources and 82 cases, or 35%, were referred from abroad. The SIC referred to judicial authorities 54 suspected cases of money laundering, while 43 cases are still pending and the remaining 137 cases did not fall within the framework of Law 318. As a result, authorities lifted the banking secrecy of the 54 cases, of which 47 were referred from foreign governments and organizations and 7 from domestic sources. The SIC investigated a total of 70 out of 185 suspected cases in 2006 and 88 out of 195 cases in 2005.

Cash couriers accounted for 33.8% of reported cases, followed by counterfeiting and forgery with 14.3%, terrorism with 5.6%, drugs and embezzlement of private funds with 3.4% each, and embezzlement of public funds with 2.1%, while the remaining 37% of cases were not categorized. In cases related to terrorism, local sources provided 237 names (6 cases), the United Nations supplied 5 names (3 cases) and the U.S. embassy in Lebanon forwarded 3 names (one case). The SIC referred 239 names and 6 cases to judicial authorities. The SIC also examined a number of institutions to ensure compliance with Law 318. It covered 53 money dealers, equivalent to 14% of the total, 21 insurance firms (36%), 20 banks (31%), and 15 financial institutions (38%).

Top 10 foreign sources of money laundering cases reported to Lebanese authorities in 2007



Source: Special Investigation Commission

Moody's changes outlook on Lebanese banks to 'stable' from 'negative'

Moody's Investors Service changed the outlook on the B3/Not Prime foreign currency deposit ratings of Byblos Bank, BLOM Bank, Bank of Beirut and Bank Audi to 'stable' from 'negative'. It also changed the outlook on Byblos Bank's 'B2' foreign currency senior and subordinated debt ratings to 'stable' from 'negative'. The agency attributed the change in the outlooks to the revision of the sovereign rating outlook to 'stable' from 'negative' earlier this week. It said Lebanese banks continue to be heavily exposed to the sovereign, although to a lower degree than in the past. Therefore, any improvement in the currently fragile political situation that could have a positive impact on Lebanon's ratings would also prove beneficial for the banks' ratings. It added that banks with significant franchises outside Lebanon, and with an increasingly higher level of earnings from their international operations, are likely to see upward pressure on their individual ratings. However, the banks' still heavy reliance on Lebanese sovereign debt and their overall sovereign exposure relative to their equity constrain any rating upgrades in the near future.

S&P says regional expansion could help improve bank ratings

Rating agency Standard & Poor's stated that the main obstacle to better ratings for Lebanese banks continues to be their high direct exposure to the risks inherent in operating in Lebanon, adding that the government's high indebtedness, fiscal deficit, and fragile political stability pose a serious threat to any bank in the system. The agency lowered the country's sovereign rating to 'CCC+' last January to reflect the current political deadlock, and lowered correspondingly the ratings of BLOM Bank, BankMed and Bank Audi due to their high exposure to sovereign risk. It added that the banks' ratings are supported by steady growth in business and profits, improvement in loan quality, and good management. S&P noted that the ratings on both the sovereign and the banks could be raised with a reduction of political tensions that would lead to the election of a president and the formation of a cabinet, as well as with the implementation of the reforms pledged at the Paris III conference. It added that banks' ratings may improve over the long term in case their regional expansion succeeds in reducing their dependency on government debt.

ATFP extends to Byblos Bank \$25m credit line

The Arab Trade Financing Program (ATFP) extended to Byblos Bank a credit line of \$25m for the financing of trade between Lebanon and other countries. The ATFP is a pan-Arab financial institution that promotes inter-Arab trade and aims to improve the competitiveness of Arab exports. Lebanon's industrial exports increased 14% to \$184m last January from the same month a year earlier.

Future Pipe Industries to list on DIFX

Future Pipe Industries, a global manufacturer of fiberglass pipe systems and supplier of turnkey pipe systems, plans to list its shares on the Dubai International Financial Exchange (DIFX) in the second quarter of the year. FPI has manufacturing plants in Lebanon, the UAE, Qatar, Oman, Egypt, Saudi Arabia, the United States and the Netherlands, as well as a presence on five continents. The Future Pipe Group, established by Lebanese businessman Fouad Makhzoumi in 1971 and fully owned by the Makhzoumi family, has an annual turnover in excess of \$300m, shareholder equity of \$100m and employs over 3,000 persons around the world. The Lebanon part of the Group, Future Pipe Industries sal, was established in 1995 in the Akkar region of Northern Lebanon. It produces thermosetting pipes and fittings as well as thermoplastic pipes, in addition to concrete pipes and rubber gaskets. The Group plans to use proceeds from its IPO to expand its operations.

EuroMena I fund takes stake in Intercontinental Bank of Lebanon

The EuroMena I private equity fund invested \$6m in the Intercontinental Bank of Lebanon sal (IBL) through its participation in the bank's \$20m capital increase. EuroMena I is a \$63m private equity fund launched by Capital Trust and managed out of Beirut. It has closed 7 investments throughout the MENA region over the past 19 months of operation. Capital Trust plans to launch EuroMena II, a \$200m to \$250m fund by June 2008. IBL ranks in 11th place among Lebanese banks in terms of assets. It has 13 branches in Lebanon and is trying to expand in the region.

Ratio Highlights

	2005	2006	2007	Change*
Nominal GDP ⁽¹⁾ (\$bn)	21.5	22.7	24.6	
External Debt / GDP	89.3	89.9	86.4	(350)
Local Debt / GDP	89.8	88.1	84.6	(350)
Total Debt / GDP	179.1	178.4	171.0	(740)
Trade Balance / GDP	(34.9)	(31.3)	(36.6)	(530)
Exports / Imports	20.1	24.3	23.8	(50)
Revenues / GDP	22.8	19.4	23.6	420
Expenditures / GDP	31.6	30.8	33.9	310
Budget Balance / GDP	(8.8)	(11.5)	(10.3)	120
Primary Balance / GDP	2.3	0.4	2.9	250
BdL FX Reserves / M2	60.7	65.6	59.6	(600)
M3 / GDP	229.8	234.4	243.2	880
Bank Assets / GDP	318.8	327.2	334.4	720
Bank Deposits / GDP	265.1	267.4	273.5	610
Private Sector Loans / GDP	67.3	67.4	72.2	480
Dollarization of Deposits	73.1	76.2	77.3	110
Dollarization of Loans	84.5	84.0	84.3	30

* Change in basis points 06/07

(1) Based on Ministry of Finance Estimations

Source: 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	Jan.2007	Dec.2007	Jan.2008	Change*	Risk Level
Political Risk Rating	55.5	56.5	56.5	▲	High
Financial Risk Rating	31.5	31.5	31.5	↔	Moderate
Economic Risk Rating	29.0	29.0	28.5	▼	High
Composite Risk Rating	58.0	58.5	58.2	▲	High

Regional Average	Jan.2007	Dec.2007	Jan.2008	Change*	Risk Level
Political Risk Rating	66.3	65.6	65.7	▼	Moderate
Financial Risk Rating	41.6	41.3	41.2	▼	Very Low
Economic Risk Rating	41.3	40.0	40.3	▼	Very Low
Composite Risk Rating	74.7	73.5	73.6	▼	Low

*year-on-year

Source: The PRS Group, Byblos Research

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

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

Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's	B3	NP	Stable			
Fitch	B-	B	Stable	B-		
S&P	CCC+	C	Stable	CCC+	C	Negative
CI	B-	B	Negative	B-	B	Negative

Source: Rating agencies

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

Source: Rating agencies



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