

LEBANON THIS WEEK

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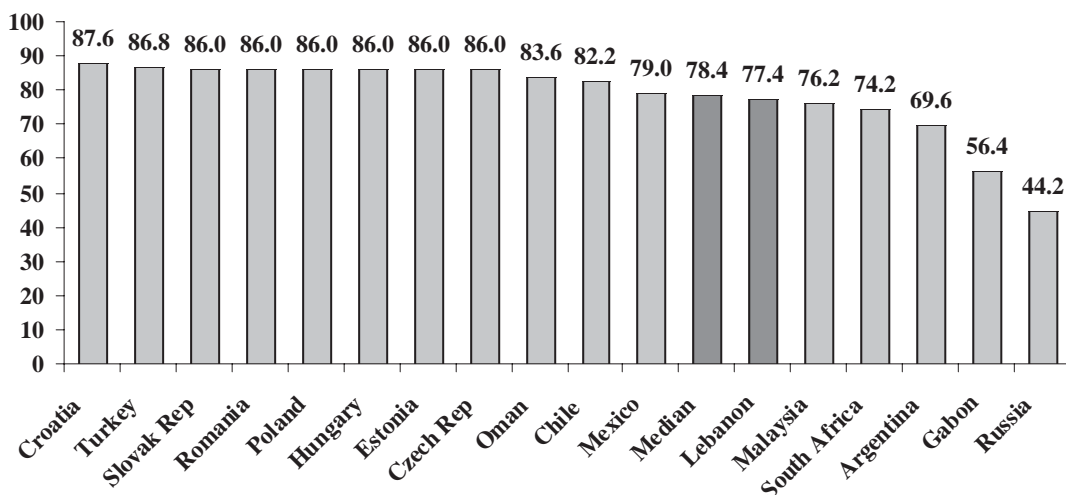
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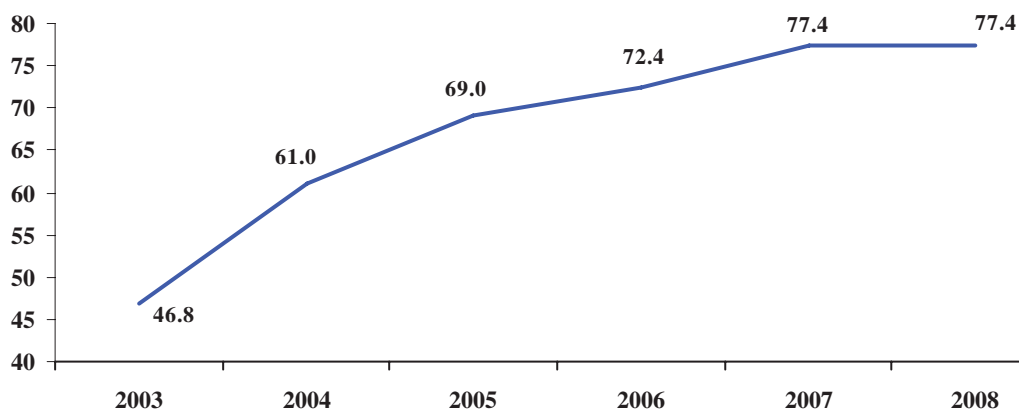
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Charts of the Week

Index for Trade Freedom for Upper-middle-income Countries in 2008 (%)



Index for Trade Freedom for Lebanon (%)



Source: Heritage Foundation/Wall Street Journal, 2008

Quote to Note

“It will lead to a contraction in economic activity and an increase in interest rates.”

Central Bank Governor Riad Salameh, responding to certain proposals to liberalize the exchange rate as a way to reduce the size of the public debt.

Number of the Week

\$928m: The outstanding value of certificates of deposits, Eurobonds and subordinated debt issued by commercial banks as at the end of February 2008, according to the Association of Banks in Lebanon

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	Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Solidere "A"	22.11	(1.78%)	344,081	18.91%	Oct.2009	10.250	103.50	7.73
Solidere "B"	22.18	(0.89%)	116,613	12.33%	Dec.2009	7.000	99.00	7.64
Byblos Common	2.24	0.90%	212,000	3.93%	Mar.2010	7.125	98.88	7.77
Byblos Priority	2.28	0.44%	3,000	4.02%	May 2011	7.875	98.38	8.48
BLOM GDR	94.55	3.62%	19,294	5.98%	Sep.2012	7.750	96.25	8.79
BLOM Listed	83.00	3.75%	35,000	5.09%	June 2013	8.625	99.00	8.87
Audi GDR	95.00	7.04%	30,423	7.99%	Apr.2015	10.000	105.25	8.98
Audi Listed	88.90	7.76%	29,522	25.02%	Jan.2016	8.500	96.88	9.07
HOLCIM	19.70	0.05%	4,100	3.29%	May 2016	11.625	114.00	9.14
					Apr.2021	8.250	93.00	9.18

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

Source: Byblos Capital Markets

	This Week	Last Week	% Change	March 2008	March 2007	% Change
Total Shares Traded	809,927	687,847	17.75%	2,427,822	5,095,259	(52.35%)
Total Value Traded	\$21,297,944	\$15,213,059	40.00%	\$49,644,713	\$66,067,897	(24.86%)
Market Capitalization	\$11.69bn	\$11.42bn	2.38%	\$11.36bn	\$8.56bn	32.69%

Source: Beirut Stock Exchange (BSE)



Lebanon in the News

Lebanon ranks in 48th place globally and 7th in the MENA region on Capital Access Index

The Milken Institute ranked Lebanon in 48th place among 122 countries worldwide and 7th among 14 countries in the Middle East & North Africa region on the Capital Access Index. Lebanon ranked in 33rd place globally and in 4th place regionally in the previous survey. Also, Lebanon ranked in 14th place among 23 Upper Middle-Income Countries (UMICs) included in the survey, down from 6th place in the previous year. The index measures how well countries support economic activity by providing businesses with access to domestic and foreign capital. The index serves to help nations understand the financing barriers that could reduce their global competitiveness. The index is based on 56 structural and qualitative variables grouped into 7 categories that constitute the pillars of access to capital by companies and entrepreneurs. Countries are assigned a score ranging from zero to 10, with 10 being the best score an economy can receive.

Globally, Lebanon ranked ahead of Russia, Peru and Turkey and came behind Slovenia, China and the Slovak Republic. It came ahead of Russia and Turkey and ranked behind the Slovak Republic and Oman among UMICs. Lebanon received a score of 5.12 points, above the global average of 4.73 points, the MENA average of 4.68 points and the Arab average of 4.56 points, but below the average of 5.35 points for UMICs. Lebanon's score declined by 11.4% from 2006 but improved by 5.11% from 2005.

Lebanon ranked ahead of Germany and behind Panama on the Macroeconomic Environment Sub-Index. This category reflects the extent to which a country's macroeconomic environment is favorable to running and financing a business. It ranked ahead of Chile and behind Panama among UMICs, and came ahead of Israel and behind Kuwait in the MENA region.

Lebanon ranked ahead of Slovenia and behind Zambia on the Institutional Environment Sub-Index, which reflects the availability of institutions to support and enhance business-financing activities. This includes enforceable property rights and an efficient judicial system. It ranked ahead of Panama and behind Costa Rica among UMICs, and came ahead of the UAE and behind Morocco in the MENA region. Also, Lebanon ranked ahead of Bolivia and behind the Central African Republic on the Financial & Banking Institutions Sub-Index. It ranked ahead of Romania and behind Argentina among UMICs and came ahead of Saudi Arabia and behind Iran in the MENA region.

Lebanon ranked ahead of Macedonia and behind Malawi on the Equity Market Development Sub-Index, which reflects the extent to which business operations are financed through the stock market. Globally, It ranked ahead of the Slovak Republic and behind Costa Rica among UMICs, and came ahead of Iran and behind Tunisia in the MENA region. Also, Lebanon tied with Argentina, Jamaica and Lithuania, and came ahead of Turkey and behind Ukraine on the Bond Market Development Sub-Index, which shows the importance of bond financing of business operations. It tied with Argentina and Lithuania, while it ranked ahead of Turkey and behind Croatia among UMICs. It also ranked ahead of Kuwait and behind Israel in the MENA region.

Lebanon tied with Brazil, Indonesia and Costa Rica, while it ranked ahead of Macedonia and came behind the Philippines on the Alternative Sources of Capital Sub-Index. This category measures a country's use of financing pools such as private placements and venture capital. Lebanon tied with Costa Rica, ranked ahead of the Slovak Republic and behind Uruguay among UMICs. It also ranked ahead of Saudi Arabia and behind Kuwait in the MENA region. Finally, Lebanon tied with South Korea, while it ranked ahead of Latvia and behind Russia on the International Funding Sub-Index, which measures the level of foreign capital available to local businesses. It also ranked ahead of Latvia and behind Russia among UMICs, and came ahead of Jordan and behind Israel in the MENA region.

MENA Countries Rankings & Scores

Country	Score	MENA Rank	Global Rank
Israel	7.15	1	12
UAE	6.13	2	29
Kuwait	6.09	3	32
Saudi Arabia	5.73	4	36
Oman	5.36	5	42
Jordan	5.14	6	47
Lebanon	5.12	7	48
Tunisia	4.60	8	59
Egypt	4.36	9	65
Morocco	4.08	10	71
Iran	3.71	11	80
Syria	2.78	12	103
Yemen	2.68	13	104
Mauritania	2.63	14	105

Source: Milken Institute, Byblos Research

Components of Capital Access Index for Lebanon

Sub-Index	Global Rank	MENA Rank	UMIC Rank	Lebanon Score	Global Average Score	MENA Average Score	UMIC Average Score
Macroeconomic Environment	24	4	10	7.8	60.5	6.78	5.35
Institutional Environment	56	10	16	5.27	5.39	5.43	5.70
Financial & Banking Institutions	73	10	20	3.56	4.6	4.03	5.40
Equity Market Development	81	10	21	1.83	3.41	3.74	3.56
Bond Market Development	46	3	11	4.5	3.47	3.45	4.55
Alternative Sources of Capital	50	4	15	3.25	3.1	2.75	3.7
International Funding	24	2	5	5.33	3.1	3.98	4.74

Source: Milken Institute, Byblos Research



Central Bank foreign assets increase by 8% to \$13.4bn in first quarter of 2008

The Central Bank's interim balance sheet reached \$34.48bn at the end of the first quarter of 2008, compared to \$32.3bn at the end of 2007 and to \$31.5bn at the end of March 2007. Assets in foreign currencies increased by 8% in the first quarter of the year to \$13.39bn, up from \$12.39bn at the end of 2007. Assets in foreign currencies increased by \$137.5m in March, \$995.5m in February and declined by \$136.4m in January. This resulted in an aggregate increase of \$996.6m, or 8%, in the first three months of 2008. Further, assets in foreign currencies rose by \$826.6m, or 6.6%, year-on-year.

The bank's gold reserves increased by 12.8% in the first quarter and by 41% year-on-year to \$8.62bn on the strength of the global rise in gold prices, while its securities portfolio declined by 0.8% quarterly and by 14% annually to \$6.15bn. The double-digit decline in the securities portfolio reflects in part the operation conducted by the Central Bank and the Finance Ministry last year related to the differential in the book and market values of gold, whereby the Central Bank has to disburse 80% of this differential to the ministry. Instead, the ministry has forgone the accrued sum of \$1.4bn in exchange for the bank writing off the equivalent amount of its holdings of domestic debt. Further, deposits of the financial sector rose by \$752.7m, or 3.3% quarterly and by \$902m, or 4%, annually to \$23.56bn due to capital inflows into the banking sector, while deposits of the public sector rose by 14.6% quarterly and by 37.4% year-on-year to \$2.56bn. Assets in foreign currencies declined by \$580m in 2007 and increased by \$1.32bn in 2006.

Consumer Price Index up 5.63% in first quarter of 2008

Consumer advocacy group Consumer Lebanon indicated that its Consumer Price Index rose by 5.63% during the first quarter of 2008. The index, launched in July 2006, is based on a basket of 160 products divided in 12 categories. The prices of vegetables rose by 28.73%, followed by fruits with an 11% increase, and meat with a 14% rise. In parallel, prices of dairy products decreased by 10% during the first quarter of 2008. The Consumer Association said cumulative inflation reached 43% over the past 21 months.

Balance of payments posts surplus of \$283.5m year-to-February

Central Bank figures show that Lebanon's balance of payments (BoP) posted a surplus of \$283.5m in the first 2 months of 2008 compared to a deficit of \$163m in the same period last year. The BoP posted a surplus of \$542.7m in February compared to a deficit of \$259.2m in January and a surplus of \$147.4m in February 2007. The February 2008 surplus was caused by a rise of \$945.7m in the Central Bank's net foreign assets and a decline of \$403m in those of banks and financial institutions. The cumulative surplus over the first 2 months of 2008 was caused by a surplus of \$936.6m in the Central Bank's net foreign assets and a decline of \$653.1m in those of banks and financial institutions. The balance of payments posted a surplus of \$2.04bn in 2007.

Net public debt at \$39.3bn at end of February 2008

Figures issued by the Finance Ministry show that Lebanon's gross public debt reached \$42.74bn at the end of February, constituting an increase of 1.7% from the end of 2007 and a rise of 4.8% from \$40.8bn at end-February 2007. Domestic debt increased by 2.8% in the first 2 months of the year and rose by 5% year-on-year to \$21.4bn, while external debt rose by 0.6% from end-2007 and by 4.7% annually to \$21.33bn.

Commercial banks accounted for 54.8% of domestic debt, followed by the Central Bank with 27.8%, and public agencies, financial institutions and individual investors with 17.4%. Multilateral institutions accounted for 7% of external debt, foreign governments for 3.8%, while Eurobond holders, foreign private sector loans, Paris II loans and special T-bills in foreign currencies accounted for the other 89.2%. 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 3.2% to \$39.3bn.

Foreign currency-denominated debt accounted for 49.6% of gross public debt, while local currency debt represented 50.4% of the total. Gross public debt was equivalent to 171% of GDP at end-2007, down from 178% at end-2006, while gross market debt represented 103.3% of GDP. Gross market debt excludes the portfolios of the Central Bank, the National Social Security Fund, bilateral and multilateral loans, and Paris II and Paris III-related debt from overall debt figures.

Coincident Indicator rises by 8.5% year-on-year in January

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 192.6 points in January 2008 compared to 187.6 points in December 2007 and 177.5 points in January 2007. The Coincident Indicator, an average of 8 weighted economic indicators, rose by 2.7% month-on-month and by 8.5% on an annual basis. The coincident indicator averaged 181.2 in the 12 months ending January 2008 compared to 171.7 points for the same period ending January 2007. Further, the coincident indicator posted its highest value in January 2008 since May 2006, reflecting a sustained pick up in activity since November 2007. It also registered the second highest value in the history of the index. The indicator averaged 180 points in 2007 compared to 171.6 points in 2006 and 172.6 points in 2005.

Industrial and commercial activity up in third quarter of 2007

According to the Central Bank's business survey, industrial production increased significantly during the third quarter of 2007, with a balance of opinion standing at +11, compared to -64 during the same quarter of 2006. The business survey reflects the opinions of enterprise managers on the evolution of their businesses, in order to depict the evolution of a number of key economic variables. The balance of opinion for overall demand for industrial goods increased from -60 in the third quarter of 2006 to +7 in the same quarter of 2007.

For commercial activity, the volume of sales also increased significantly during the third quarter of 2007, with a balance of opinion standing at +8 compared with -73 during the same quarter of 2006. Moreover, overall activity in the construction and public works sectors improved significantly in the third quarter of 2007, with a balance of opinion standing at -7, compared with -49 in the same quarter of 2006. A number of surveyed managers reported that, in the construction and public work sectors, ongoing projects rose at the end of the third quarter of 2007, with a balance of opinion standing at -20, compared with -46 a year earlier.

Year-on-Year Evolutions of Opinions		
Aggregate Results	Q3-06	Q3-07
Industrial production	-64	+11
Total demand for industrial goods	-60	+7
Commercial sales volume	-73	+8
Overall activity in construction and public works	-49	-7
Ongoing projects in construction and public works	-46	-20

Source: Central Bank Business Survey

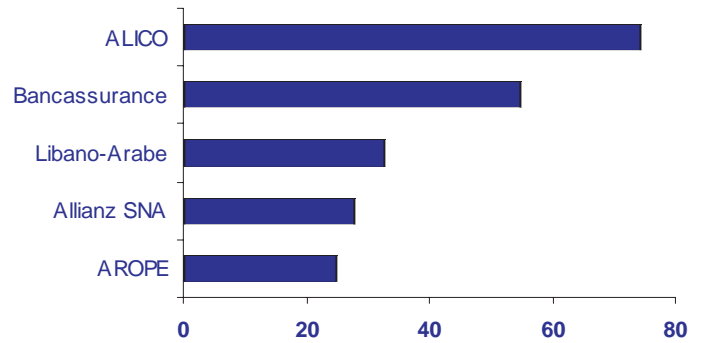
Corporate Highlights

Life premiums post 33% rise to \$278.4m in 2007

The annual survey by *Al-Bayan* magazine of the insurance sector in Lebanon show that total life premiums reached \$278.4m in 2007 constituting a rise of 33.1% from \$209m in 2006 and compared to a growth rate of 3.5% in 2006. Life premiums totaled \$202m in 2005 and \$180m in 2004. A total of 19 firms posted double-digit growth rates with an additional one registering a triple-digit rise in life premiums.

American Life Insurance Company (ALICO) maintained its market lead with \$74.25 million in life premiums, equivalent to a 26.7% market share but down from 34% in 2006. It was followed by Bancassurance with \$54.7m, Libano-Arabe with \$32.3m, Allianz SNA with \$27.8m, AROPE with \$24.6m and ADIR with \$13.3m. All of the top 10 life insurers posted increases in their premiums, with Bancassurance recording the biggest year-on-year rise at 134%. There were 3 advances and 3 declines among the top 10 providers of life insurance, while the rankings of 4 insurers were unchanged. The top 5 life insurers in Lebanon control 76.8% of the market compared to 75% in the previous year. Their aggregate premiums reached \$213.7m last year compared to \$157m in 2006. *Al-Bayan's* survey shows that overall life and non-life premiums rose by 16% to \$761m in 2007, with life premiums accounting for 36.7% of the total.

Life premiums of the Top 5 Insurers in 2007 (\$m)



Source: *Al Bayan Magazine*

Byblos Bank lists additional shares on Beirut bourse

The Beirut Stock Exchange approved the listing of 12,088,834 common shares for Byblos Bank as part of a \$27m capital increase that took place earlier this year, bringing the Bank's total listed common shares to 217,112,557 shares. The capital increase took place through the issuance of 12,088,834 shares at a par value of LP1,200 per share for a total of LP14.5bn, or \$9.6m as paid in capital, with the balance going to additional paid-in capital. As a result, the Bank's new capital increased to \$337.6m. The Extraordinary General Assembly of Byblos Bank held on January 24, 2008 approved the capital increase as part of the \$200m convertible bond that was fully subscribed and closed in November 2007. The bond has a 5-year maturity during which subscribers can ask every three months to convert their subordinated debt into Byblos Bank common shares for the price of \$2.25 per share. The convertible bond is the first-of-its kind convertible debt instrument to be issued by a Lebanese bank.

RYMCO's profits up 338% to \$4.5m in 2007

Automobile dealer Rasamny Younis Motor Co. sal (RYMCO) declared net profits of \$4.47m in 2007, up 338% from \$1.02m in 2006. Sales revenues (net of discounts) totaled \$117.8m, posting a 76% increase year-on-year, while net earnings from servicing an repairs, or 'garage income', increased by 15.8% to \$2.26m. General and administrative expenses increased 30% to \$2.93m while overall operating charges rose by 17.7% to \$8.64m.

RYMCO's total assets and total equity amounted to \$83m and \$42.6m at the end of 2007 respectively, compared to \$79.2m and \$38.2m at the end of 2006. The firm increased its capital in 2007 from LP25bn (\$16.6m) to LP26bn (\$17.2m) through transferring reserves to current capital and issuing new shares at a nominal value of LP1,000 (\$0.66) each. Annualized earnings per share stood at 17 cents compared to 4 cents in 2006. RYMCO is the only car retailer listed on the Beirut bourse. It had a 21% market share in new cars registered in 2007, the highest among car dealerships in the country.

Lebanon is second Arab country to acquire Internet Exchange Point infrastructure

Lebanon has installed the Internet Exchange Point (IXP) infrastructure with the objectives of lowering costs and improving the speed and efficiency of Internet traffic flow throughout the country. IXP allows different Internet service providers to exchange Internet traffic between their networks by means of mutual agreements, which allows traffic to be exchanged without cost. The primary purpose of an IXP is to allow networks to interconnect directly, via the exchange, rather than through one or more third-party networks. The equipments have been offered by Cisco, one of three major IT companies in the US-Lebanon Partnership Fund. Internet providers linked to the IXP are Cyberia, IDM, Moscanet/Wise, New-Com Sotel, Terranet and Solidere BBN, for a market size of 950,000 users. Egypt and Israel are the only countries the region that already acquired that infrastructure.

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	Feb.2007	Jan.2008	Feb.2008	Change*	Risk Level
Political Risk Rating	55.5	56.5	55.5	↔	High
Financial Risk Rating	31.5	31.5	31.5	↔	Moderate
Economic Risk Rating	29.0	28.5	28.5	↓	High
Composite Risk Rating	58.0	58.5	57.7	↓	High

Regional Average	Feb.2007	Jan.2008	Feb.2008	Change*	Risk Level
Political Risk Rating	66.2	65.7	65.8	↓	Moderate
Financial Risk Rating	41.8	41.2	41.2	↓	Very Low
Economic Risk Rating	41.0	40.3	40.3	↓	Very Low
Composite Risk Rating	74.5	73.6	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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