



LEBANON THIS WEEK

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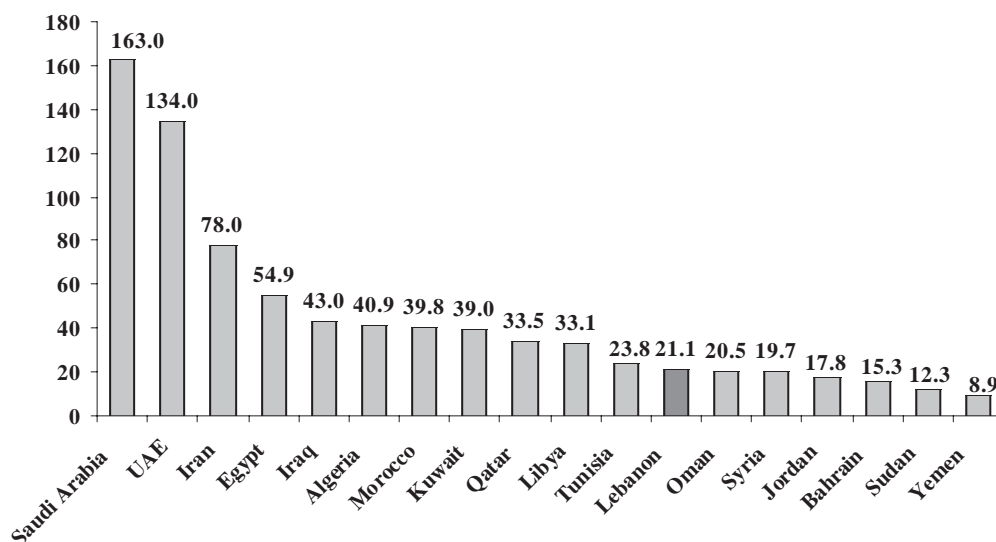
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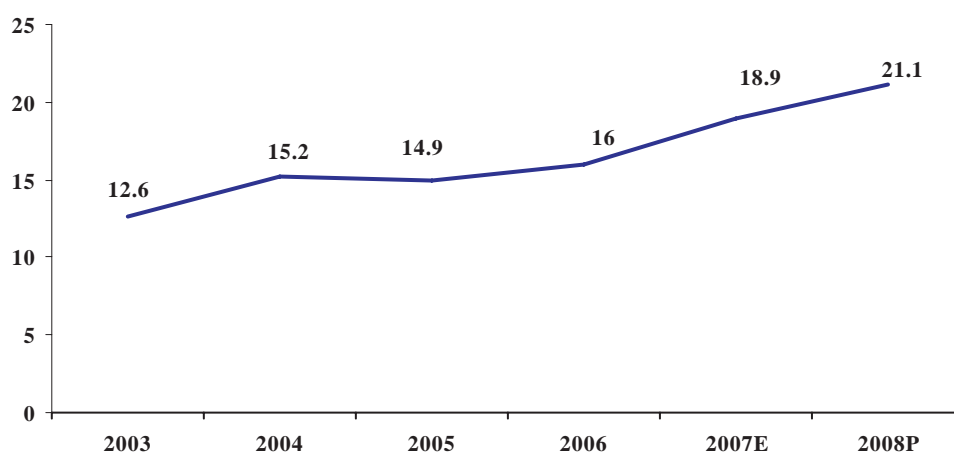
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Charts of the Week

Imports of Goods and Services to the Middle East & North Africa for 2008 (\$bn)



Imports of Goods and Services to Lebanon (\$bn)



Source: International Monetary Fund, May 2008

Quote to Note

“Emerging from economic stagnation and activating the economy require stability at the political and security levels.”

“Attracting investments and providing a favorable investment climate lead to reducing unemployment and containing emigration.”

President-elect Michel Suleiman, in his inaugural speech

Number of the Week

700,000: Number of tourists expected this summer in Lebanon, according to the Syndicate of Travel Agencies

Economic Indicators

\$m (unless otherwise mentioned)	Mar.2006	2006	Mar. 2007	2007	Feb.2008	Mar.2008	% Change*
Exports	206	2,282	214	2,816	311	302	41.1%
Imports	940	9,398	984	11,815	1,212	1,179	19.8%
Trade Balance	(734)	(7,116)	(770)	(8,999)	(901)	(877)	13.9%
Balance of Payments	310	2,795	63	2,036	543	(497)	(888.8%)
Checks Cleared in LBP	704	7,219	697	8,409	718	750	7.6%
Checks Cleared in FC	2,410	25,268	2,378	29,892	2,873	3,087	29.8%
Total Checks Cleared	3,114	32,487	3,075	38,301	3,591	3,837	46.2%
Budget Deficit	157	3,027	314	2,546	288	158	(49.7%)
Primary Balance	91	(4)	(3)	731	(27)	108	(3,700%)
Airport Passengers	224,058	2,825,138	241,564	3,408,834	212,231	270,188	11.8%

\$bn (unless otherwise mentioned)	Mar.2006	Dec.2006	Mar.2007	Dec.2007	Feb.2008	Mar.2008	% Change*
BdL FX Reserves	11.84	10.21	9.61	9.78	10.78	10.83	12.69%
<i>In months of Imports</i>	<i>12.59</i>	<i>11.30</i>	<i>9.77</i>	<i>9.19</i>	<i>8.89</i>	<i>9.18</i>	<i>(6.04%)</i>
Public Debt	38.00	40.37	41.18	42.06	42.88	43.09	4.64%
Net Public Debt	35.34	37.42	38.52	39.02	39.46	39.68	3.01%
Bank Assets	70.43	74.27	75.15	82.25	84.17	85.14	14.10%
Bank Deposits to Private Sector	58.24	60.69	61.08	67.29	69.18	69.09	13.11%
Bank Loans to Private Sector	17.63	18.92	19.45	20.42	21.82	22.46	15.47%
Money Supply M2	16.85	15.57	15.72	16.47	16.90	17.17	9.22%
Money Supply M3	50.32	53.23	54.19	59.83	61.11	61.58	13.64%
LBP Lending Rate (%)	10.18	10.37	10.56	10.10	9.94	9.92	(6.06%)
LBP Deposit Rate (%)	7.64	7.49	7.51	7.40	7.26	7.22	(3.86%)
USD Lending Rate (%)	8.39	8.55	8.47	8.02	7.71	7.57	(10.62%)
USD Deposit Rate (%)	4.20	4.76	4.88	4.69	4.20	3.84	(21.31%)
%* Change in CPI**	(0.14)	7.04	4.91	5.92	10.14	10.80	119.95%

* 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"	33.35	(5.15%)	1,149,237	23.57%	Oct.2009	10.250	103.75	7.22
Solidere "B"	33.20	(5.36%)	588,071	15.25%	Dec.2009	7.000	99.75	7.15
Byblos Common	2.71	(9.67%)	494,191	4.16%	Mar.2010	7.125	99.50	7.42
Byblos Priority	2.78	(8.55%)	367,175	4.05%	May 2011	7.875	99.88	7.92
BLOM GDR	101.50	(1.07%)	20,174	5.30%	Sep.2012	7.750	98.25	8.24
BLOM Listed	87.00	0.00%	0	4.41%	June 2013	8.625	100.75	8.44
Audi GDR	99.90	(2.15%)	18,583	6.94%	Apr.2015	10.000	105.88	8.83
Audi Listed	95.00	(3.06%)	18,000	22.09%	Jan.2016	8.500	98.50	8.77
HOLCIM	22.14	(5.71%)	13,772	3.05%	May 2016	11.625	115.00	8.93
					Apr.2021	8.250	95.75	8.81

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

Source: Byblos Capital Markets

	This Week	Last Week	% Change	May 2008	May 2007	% Change
Total Shares Traded	2,837,690	6,398,875	(55.70%)	12,254,353	5,003,483	144.92%
Total Value Traded	\$66,901,859	\$141,182,048	(52.61%)	\$275,797,021	\$87,519,630	215.13%
Market Capitalization	\$14.15bn	\$14.72bn	(3.88%)	\$14.15bn	\$8.64bn	63.83%

Source: Beirut Stock Exchange (BSE)



Oil imports is leading source of VAT collected at customs, wholesale trade is biggest source of VAT from internal activity

Figures issued by the Finance Ministry show that revenues from value-added tax (VAT) collected at customs accounted for 73.4% of overall VAT receipts in 2007, while the balance of 26.6% came from VAT collected from internal economic activity. VAT revenues collected at customs increased by 4.3 percentage points in 2007 from 69.1% of overall VAT receipts in 2006. VAT revenues collected at customs increased by 23% to \$954m in 2007, in line with the 25.7% increase in imports and reflecting higher prices of fuel and imports from Europe, while VAT receipts from internal economic activity were unchanged at \$346.4m last year.

Mineral fuels & oil accounted for 28% of VAT receipts collected at customs, making them the biggest source of such VAT revenues in 2007. They rose by 9% to \$265.3m in 2007. The nominal increase accounted for 13% of the total increase in VAT at imports. They were followed by VAT from vehicles with 12% of the total. Such receipts increased by 31% year-on-year to \$118m, in line with the 30% increase in the value of vehicle imports. VAT collected at customs from machinery & mechanical appliances increased by 24% to \$71.6m, accounting for 8% of VAT collected at customs in 2007. Electrical machinery ranked as the fourth most important source of VAT collected at customs, accounting for 5.9% of the total. VAT from this category rose by 30% year-on-year to \$56.4m, in line with the 32% increase in imports of electric machinery. VAT from the import of iron and steel rose by 58% to \$53.7m last year, accounting for 5.6% of VAT at imports as the value of iron and steel imported jumped by 59% in 2007.

Top 5 sources of VAT collected at Customs in 2007

	Share	Annual change
Mineral fuels & Oil	28.0%	9%
Vehicles	12.0%	31%
Machinery & Mechanical Appliances	8.0%	24%
Electrical Machinery	5.9%	30%
Iron & Steel	5.6%	58%

Source: Ministry of Finance

In parallel, wholesale trade accounted for 21% of VAT collected from internal economic activity, representing the biggest source of VAT revenues from internal activity in 2007. It rose by 18.2% year-on-year to \$72.3m. The increase in wholesale trade activity offset the decrease in VAT revenues from other areas. It was followed by retail trade, which accounted for 14% of total VAT receipts from internal activity. VAT from retail dropped 21.2% to \$46.8m in 2007, reflecting slower domestic activity. Retail trade was the biggest source of VAT revenues prior to 2006. Architectural & engineering services, advertising, and business and legal consulting accounted for 12% of VAT receipts in 2007, coming as the third biggest source of VAT from internal activities. They declined by 1.6% to \$41m last year.

Hotels and restaurants were the fourth biggest source of VAT from internal activities, with 8% of the total. VAT from hotels and restaurants rose by 1.2% year-on-year to \$28m. The slight increase reflects a combination of higher prices offsetting the lower number of tourists in 2007. Construction followed in fifth place with \$23.1m in VAT receipts, down 12.6% from 2006, and accounted for 7% of VAT from internal activity last year. Further, the sale, maintenance and repair of motor vehicles generated 4% of VAT receipts from internal activities, down from 5% in 2006. Real estate activities accounted for 3.4% of VAT receipts from internal activities in 2007, while manufacturing of food products & beverages represented 3.3% of the total. VAT from real estate rose by 30.8% to \$11.4m, while tax from food products & beverages was unchanged at \$11.6m. VAT collected from real estate is from commercial rent as the sale of real estate is VAT-exempt.

Also, VAT receipts from the manufacturing of other non-metallic mineral products rose by 53.6% annually to \$11.1m, accounting for 3.2% of the total, while post & telecommunications accounted for 3% or \$10.3m of VAT collected from internal activity in 2007. The VAT contribution from post & telecommunications is understated as it does not capture all the VAT raised from the telecom sector. As per the VAT law, a large fraction of VAT on telecom is directly transferred to municipalities, and hence is not captured in these figures. Other sources of VAT receipts accounted for 22% of the total.

Top 5 sources of VAT from Internal Activity in 2007

	Share	Annual change
Wholesale Trade	21%	18.2%
Retail Trade	14%	-21.2%
Consulting Activities	12%	-1.6%
Hotels & Restaurants	8%	1.2%
Construction	7%	-12.6%

Source: Ministry of Finance



Consumer Price Index up 0.7% in April 2008

The Central Administration of Statistics' Consumer Price Index indicates that inflation rose by nearly 0.7% in April 2008 from the previous month. Prices of clothes & footwear rose by 3.2%, constituting the biggest price rise among all categories in April on a monthly basis. They were followed by restaurants & Hotels with a 2.9% rise, transport (1.7%), health (1.0%), water, electricity & fuel (0.7%), and alcoholic beverages & tobacco (0.5%). In parallel, prices of recreation, amusement and culture declined by 3.1% in April.

The Consumer Price Index rose by 3.3% in the first four months of the year. Prices of food & non-alcoholic beverages increased by 11%, followed by prices at restaurants & hotels with a 10.6% rise, transport (6.9%), health care (2.2%) and water, electricity & gas (2%). Prices of clothing & footwear dropped by 10.3% in the first four months of 2008, followed by a decline of 1.7% in the prices of recreation, amusement & culture.

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.

CPI Change by Category		
	April 08	Year-to-April (%)
Clothing & footwear	3.2%	-10.3%
Restaurants & hotels	2.9%	10.6%
Transportation	1.7%	6.9%
Health	1.0%	2.2%
Water, electricity gas & other fuel	0.7%	2.0%
Alcoholic beverages & tobacco	0.5%	1.6%
Miscellaneous goods & services	0.4%	1.9%
Food & non alcoholic beverages	0.2%	11.0%
Housing	0.0%	0.0%
Education	0.0%	0.0%
Communication	0.0%	-0.1%
Furniture, household equipment & maintenance	-0.4%	1.2%
Entertainment & culture	-3.1%	-1.7%
Consumer Price Index	0.7%	3.3%

Source: Central Administration of Statistics

Industrial and commercial activity up in fourth quarter of 2007

The Central Bank's quarterly business survey indicates that industrial production increased significantly during the fourth quarter of 2007, with a balance of opinion standing at +4, compared to -25 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 -27 in the fourth quarter of 2006 to -1 in the same quarter of 2007.

The volume of sales in commercial activity also increased significantly during the fourth quarter of 2007, with a balance of opinion standing at +16 compared with -42 during the same quarter of 2006. Moreover, overall activity in the construction and public works sectors improved considerably in the last quarter of 2007, with a balance of opinion standing at -6, compared with -40 in the same quarter of 2006. A number of surveyed managers in the construction and public work sectors reported that ongoing projects rose at the end of the fourth of quarter of 2007, with a balance of opinion standing at -17, compared with -41 a year earlier.

Year-on-Year Evolution of Opinions		
Aggregate Results	Q4-06	Q4-07
Industrial production	-25	+4
Total demand for industrial goods	-27	-1
Commercial sales volume	-42	+16
Overall activity in construction and public works	-40	-6
Ongoing projects in construction and public works	-41	-17

Source: Central Bank Business Survey

Tourist arrivals up 2.6% in first four months of 2008

The number of incoming tourists to Lebanon totaled 277,054 in the first four months of 2008, up 2.6% from the same period last year. Arab visitors accounted for 90,394, or 32.6%, of total visitors in the year-to-April period, compared to 105,234 in the same period of 2007. They were followed by tourists from Europe with 28.7%, Asia with 19.3%, the Americas with 11.9%, Africa with 4.5% and Oceania with 2.9%. The number of tourists reached 83,276 in April 2008, constituting a decrease of 7% from 89,539 in April 2007. Arabs accounted for 32.5% of total visitors in April 2008, followed by Europeans with 29.7% of total.

Most tourists spending in Lebanon originates from Saudi Arabia and the UAE

According to Global Refund, the cash refund operator for international shoppers, visitors from Saudi Arabia and the UAE spent the most in Lebanon in the first four months of 2008, accounting for 15% of total tourist spending each, followed by tourists from Kuwait (10%), Jordan (7%) and France (6%). Beirut attracted 79% of total spending over the covered period, followed by the Metn area with 15% and the Keserwan region with 3%. Fashion and clothing accounted for 67% of total spending, followed by watches with 13%, home and garden with 5%, perfumes and cosmetics with 5%, and department stores with 3%.

Construction permits up 35% in first quarter of 2008

Figures released by the Association of Engineers of Beirut & Tripoli show that construction permits reached 2.16 million square meters in the first quarter of 2008, up 35% from 1.6 million square meters in the same period last year. Construction permits totaled 885,000 square meters in March 2008, up 44% year-on-year from 613,000 square meters in March 2007. In parallel, cement deliveries reached 863,837 tons in the first quarter of the year, an increase of 7.7% from 802,266 tons in the same period of 2007. Cement deliveries were driven by local demand in the construction sector and exports. Cement deliveries increased by 4.7% year-on-year to 351,856 tons in March 2008.

Subsidized interest loans reach \$1.9bn at end-2007

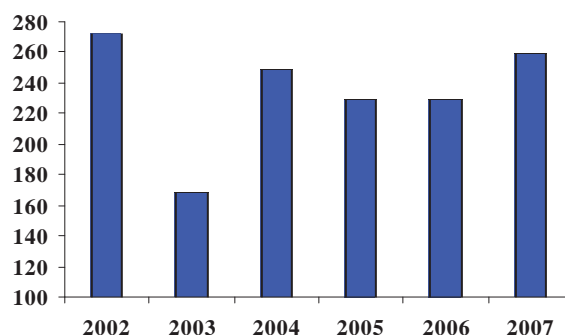
Figures released by the Central Bank show that the cumulative amount of subsidized interest loans to productive sectors in Lebanon reached \$1.9bn during the 1997-2007 period. The industrial sector accounted for \$1.14bn, or 60.1% of the total, followed by tourism with \$564.5m (29.7%), agriculture with \$161.3m (8.5%), specialized technology with \$32.2m (1.7%) and handicrafts with \$0.93m (0.05%). Subsidized interest loans rose by 13% to \$259m in 2007.

Subsidized medium- and long-term loans reached \$1.37bn, equivalent to 72.2% of the total at end-2007. Industry accounted for 61.1% of the total, followed by tourism with 34.1%, agriculture with 3.6% and specialized technologies with 1.2%. The program was established in the first quarter of 1997 and consists of a 5% to 7% subsidy on the interest for loans extended in foreign currencies to productive sectors.

Also, subsidized interest loans guaranteed by the Kafalat Corporation totaled \$401.6m, or 21.1% of the total. Industry accounted for 53.1% of Kafalat-backed subsidies, followed by agriculture with 27.4%, tourism with 15.4%, special technologies with 3.9% and handicrafts with 0.2%. Kafalat provides financial guarantees for loans of up to \$400,000 for small and medium-sized enterprises in productive sectors.

Further, interest subsidized under the protocol signed with the European Investment Bank totaled \$63.4m, or 3.3% of the total, with tourism accounting for 50.1% of the total, followed by industry with 46.5%, and agriculture with 3.3%. Finally, subsidized interest loans granted by leasing companies totaled \$64.4m at the end of 2007, or 3.4% of the total, with industry accounting for 96.5%, tourism with 3.4% and specialized technologies with 0.1% of such subsidies.

Subsidized Interest Loans (\$m)



Source: Central Bank of Lebanon

Banque de la Bekaa renamed Emirates Lebanon Bank, to get \$150m equity injection

The UAE-based Bank of Sharjah declared it is changing the name of its wholly-owned subsidiary from Banque de la Bekaa to Emirates Lebanon Bank. It added that it will recapitalize the bank by increasing its capital to \$50m, in addition to a cash contribution of \$100 million, boosting total equity to \$150m. Last July, Bank of Sharjah acquired Banque de la Bekaa from Fransabank for \$25m. It fully transferred the bank's operations to Fransabank while retaining the banking license as part of the agreement. The transaction represents Bank of Sharjah's first significant banking acquisition outside its home market. Bank of Sharjah plans to build its franchise throughout the Middle East and chose Lebanon as a platform for its future Levant operations. The bank posted net profits of \$24m in the first quarter of 2008 and its total assets reached \$3.4bn with a total equity of \$966m at end-March. Fransabank acquired Banque de la Bekaa in 2003 for \$28m.

Car sales in Lebanon rise by 78.8% in first four months of 2008

Figures released by the Association of Automobile Importers in Lebanon indicate that a total of 8,164 new passenger cars were sold in the first four months of 2008, an increase of 78.8% from the 4,567 vehicles sold in the same period last year. The number of cars sold in April 2008 reached 2,890.

Japanese cars accounted for 48.4% of total sales, followed by European automobiles with a 23.9% market share, Korean vehicles with 18.3%, American cars with 9.1% and Chinese vehicles with 0.3%. Further, American cars posted the biggest growth in sales with a 153.7% jump year-on-year, followed by Korean cars with a 107.9% rise, Japanese cars with 79.8%, and European vehicles with 47%. Japan's Nissan cars continue to lead all brands in the Lebanese market with 1,421 cars sold in the first four months of 2008, followed by Toyota with 1,335 cars sold, Kia with 1,216, Peugeot with 540, and Honda with 483.

Future Pipe Industries to list in London or on Euronext

Future Pipe Industries, a global manufacturer of fiberglass pipe systems and supplier of turnkey pipe systems, announced plans to list its shares in London or on Euronext this year through an initial public offering. Earlier this year, Future Pipe canceled a planned IPO on the Dubai International Financial Exchange (DIFX), citing conditions in the global capital markets as the reasons for its decision. The company planned to raise between \$420m and \$554.5m by selling 35% of the company's shares on the DIFX. Headquartered in Dubai, Future Pipe has 11 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. It derives 76% of its sales from the GCC. The Future Pipe Group, established by Lebanese businessman Fouad Makhzoumi in 1971 and fully owned by the Makhzoumi family, has an annual turnover of \$556m in 2007, shareholder equity of \$100m and employs over 3,000 persons around the world. The Lebanon part of the Group, Future Industries, was established in 1995 in the Akkar region of Northern Lebanon. It produces thermosetting pipes and fittings as well as thermo-plastic pipes, in addition to concrete pipes and rubber gaskets.

Kafalat loan guarantees up 113% in first quarter of 2008

Figures released by the Kafalat Corporation show that loans extended to small- and medium-size companies under the guarantee of Kafalat reached \$31.8m in the first quarter of 2008, up 113.3% from the same period last year, while the number of loan guarantees totaled 234, constituting a 65% increase from the first quarter of 2007. The average loan size was approximately \$136,000 compared to \$105,000 of the same period last year. Beirut and Mount Lebanon accounted for 55.6% of guarantees, followed by the Bekaa with 17.5% and the South & Nabatieh with 15%, and the North with 12%. The industrial sector accounted for 45.7% of total guarantees, followed by agriculture with 41% and tourism with 11.5%, and handicraft with 1.7%.

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.

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	Mar.2007	Feb.2008	Mar.2008	Change*	Risk Level
Political Risk Rating	56.0	55.5	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	58.2	57.7	57.7	▼	High

Regional Average	Mar.2007	Feb.2008	Mar.2008	Change*	Risk Level
Political Risk Rating	66.1	65.8	65.5	▼	Moderate
Financial Risk Rating	41.8	41.2	40.9	▼	Very Low
Economic Risk Rating	41.1	40.3	40.3	▼	Very Low
Composite Risk Rating	74.5	73.6	73.3	▼	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	Stable
Capital Intelligence	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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