



LEBANON THIS WEEK

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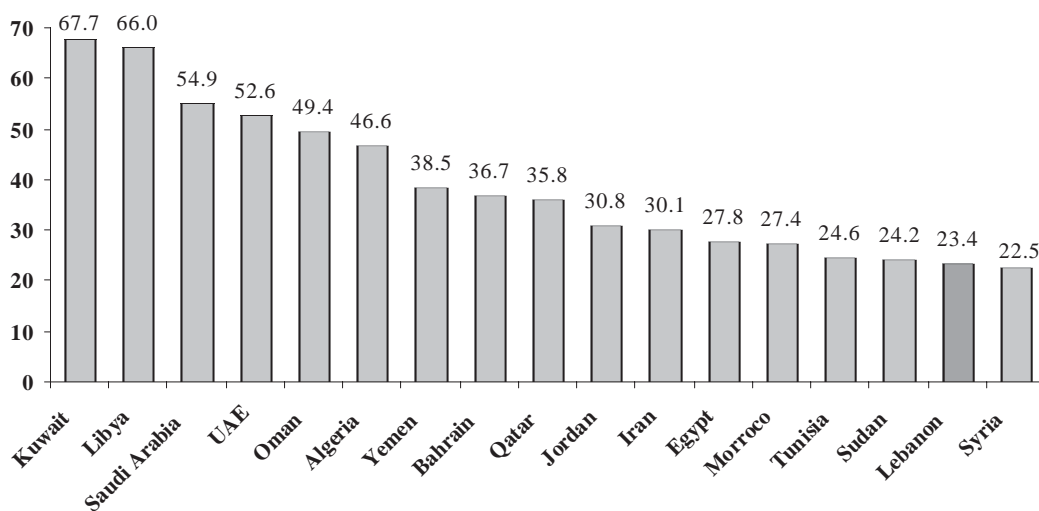
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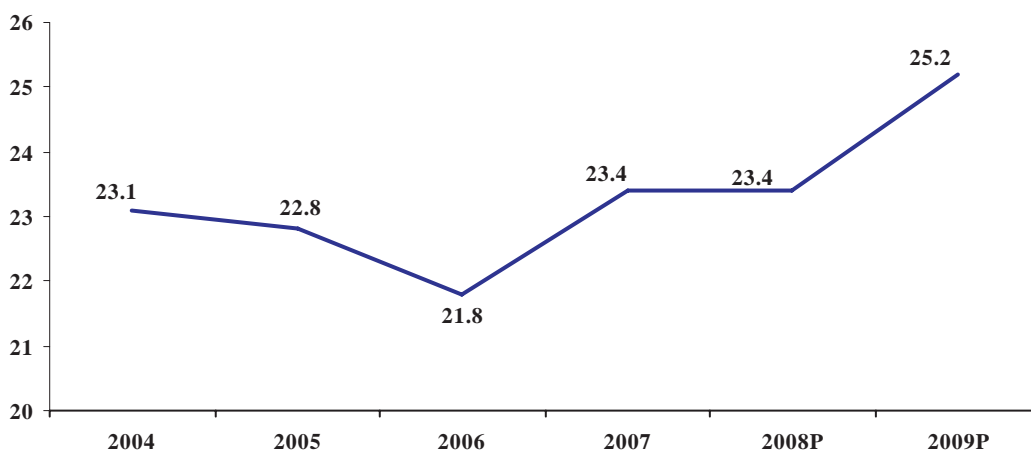
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Charts of the Week

Total Government Revenues in the MENA region for 2008* (% of GDP)



Total Government Revenues in Lebanon* (% of GDP)



*Excluding grants

Source: International Monetary Fund

Quote to Note

“The Lebanese economy could be affected by what happens to the economies of the region.”

Finance Minister Mohamad Shatah, on the linkages between the local economy and the economies of the Gulf Cooperation Council, in light of the global financial crisis

Number of the Week

\$3m: Amount pledged by the Association of Banks in Lebanon to the national campaign to fight and prevent forest fires across the country

Economic Indicators

\$m (unless otherwise mentioned)	Sep. 2007	Jan-Sep 07	2007	Aug 2008	Sep. 2008	Jan-Sep 08	% Change*
Exports	273	2,024	2,816	283	307	2,644	30.6
Imports	942	8,504	11,815	1,417	1,470	11,844	39.3
Trade Balance	(669)	(6,480)	(8,999)	(1,134)	(1,163)	(9,200)	41.9
Balance of Payments	290	580	2,036	402	200	2,213	281.55
Checks Cleared in LBP	679	6,174	8,409	773	757	6,905	11.83
Checks Cleared in FC	2,594	21,343	29,883	4,282	4,062	32,509	52.32
Total Checks Cleared	3,273	27,517	38,292	5,055	4,819	39,415	43.24
Budget Deficit/Surplus	(270)	(1,814)	(2,546)	(246)	(319)	(2,011)	10.86
Primary Balance	32	574	731	(27)	32	595	3.65
Airport Passengers	317,142	2,573,061	3,408,834	547,237	365,805	3,015,677	17.21

\$bn (unless otherwise mentioned)	Dec. 2006	Sep. 2007	Dec. 2007	July 2008	Aug. 2008	Sep. 2008	% Change*
BdL FX Reserves	10.21	10.27	9.78	14.18	15.13	15.32	50.05
<i>In months of Imports</i>	<i>11.30</i>	<i>10.90</i>	<i>9.19</i>	<i>8.63</i>	<i>10.68</i>	<i>10.42</i>	<i>(4.40)</i>
Public Debt	40.37	40.70	42.03	44.65	45.39	45.71	13.23
Net Public Debt	37.42	38.41	39.03	40.52	40.69	40.89	6.46
Bank Assets	74.27	81.62	82.26	90.15	90.70	91.73	12.39
Bank Deposits (Private Sector)	60.69	65.68	67.29	74.19	75.02	75.13	14.39
Bank Loans to Private Sector	17.02	19.55	20.42	24.19	24.77	24.80	26.85
Money Supply M2	15.57	16.60	16.47	20.27	21.28	22.12	33.25
Money Supply M3	53.23	58.88	59.83	65.25	66.14	66.44	12.84
LBP Lending Rate (%)	10.37	10.25	10.10	10.13	9.96	9.98	(27b.p.)
LBP Deposit Rate (%)	7.49	7.47	7.40	7.23	7.23	7.18	(29b.p.)
USD Lending Rate (%)	8.55	8.25	8.02	7.32	7.17	7.37	(88b.p.)
USD Deposit Rate (%)	4.76	4.91	4.69	3.50	3.55	3.57	(134b.p.)
%* Change in CPI**	7.04	3.05	5.92	13.92	13.52	(2.06)	(511b.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"	16.66	(5.56)	294,429	17.20%
Solidere "B"	16.87	(2.65)	95,151	11.32%
Byblos Common	1.65	0.61	566,400	3.70%
Byblos Priority	1.64	(2.38)	41,001	3.49%
BLOM GDR	68.40	(2.08)	7,830	5.22%
BLOM Listed	75.00	0.00	0	16.65%
Audi GDR	54.10	(3.65)	9,460	5.49%
Audi Listed	53.95	(2.44)	11,852	19.04%
HOLCIM	14.71	(0.27)	4,135	2.96%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Oct.2009	10.250	101.00	8.98
Dec.2009	7.000	98.00	9.05
Mar.2010	7.125	97.75	9.03
May 2011	7.875	97.00	9.26
Sep.2012	7.750	94.50	9.52
June 2013	8.625	95.00	10.02
Apr.2015	10.000	98.75	10.27
Jan.2016	8.500	90.38	10.44
May 2016	11.625	106.00	10.45
Apr.2021	8.250	82.00	10.94

Source: Byblos Capital Markets

	This Week	Last Week	% Change	Nov. 2008	Nov. 2007	% Change
Total Shares Traded	1,297,125	1,244,949	4.19	4,098,570	8,641,715	(52.57)
Total Value Traded	\$10,293,512	\$20,624,297	(50.09)	\$68,636,890	\$92,377,622	(25.70)
Market Capitalization	\$9.69bn	\$9.88bn	(1.99)	\$9.88bn	\$10.52bn	(6.04)

Source: Beirut Stock Exchange (BSE)



No noticeable direct effects of global financial crisis on Lebanon, economic growth to slow to 3.5% in 2009 as public debt remains key challenge

In its first report on the Lebanese economy since the global financial crisis, the Institute of International Finance (IIF) indicated that there are no noticeable direct effects of the global financial turmoil on Lebanon and that sovereign spreads have increased less than in other emerging markets in October and November 2008. It said Lebanese banks have few direct links to foreign counterparts affected by the current financial market turmoil, while the regulatory framework has limited the banks' exposure to structured products that have been at the core of the global crisis. It added that the banking system remains well-capitalized and highly liquid, as deposits account for more than 80% of the banks' liabilities and the sector's current net foreign assets total \$4bn. It said that deposits have increased regularly, mostly from the Lebanese Diaspora, with the sector's loans-to-deposits ratio one of the lowest in the region at 35%.

The IIF said that macroeconomic developments have improved significantly since the Doha Accord last May, but warned that the main risk to the outlook is mainly from a potential deterioration in the political and security situation in the run-up to the May 2009 parliamentary elections. It projected economic growth at 5.5% in 2008 and at 3.5% in 2009, adding that the spillover from the global economic slowdown could adversely affect tourism and construction activity. It noted that consumer price inflation peaked in July 2008 at 14% year-on-year, reflecting the sharp rise in commodity prices, and then declined to 10% in September. It expected inflation to average 12% in 2008 before receding to 7.5% in 2009.

The IIF considered that fiscal performance improved in 2008 and estimated the primary surplus to slightly exceed 2% of GDP this year. It cautioned that the overall fiscal deficit, while narrowing, remains very large due to the continued large interest payments on the public debt, and projected a deficit of 9.8% of GDP in 2008. It expected further fiscal consolidation in 2009 with some improvement in revenues and reduction in transfers to the money-losing Electricité du Liban due to the sharp decline in oil prices. As a result, it forecast the fiscal deficit at 9% of GDP in 2009.

According to the IIF, Lebanon's large public debt remains the country's core macroeconomic vulnerability even though it has declined in recent years. It said the country has been able to sustain exceptionally high debt-to-GDP ratios, mainly due to the ability of local banks to finance the government deficit by using continued increase in bank deposits. It said the government faces sizeable gross financing needs of \$5.5bn in 2009, but expected it to meet those needs mostly from the market and donors. It forecast the public debt to decline to 165% of GDP by the end of 2008 and 140% of GDP by end-2009. Finally, the IIF noted that the external current account deficit is set to widen to around 12.9% of GDP this year and 13.1% of GDP in 2009, but expected gross official reserves to increase to about \$17.5bn in 2008 and \$21.7bn in 2009.

Country Forecast Summary			
	2007	2008F	2009F
Real GDP growth (%)	4.0	5.5	3.5
Consumer prices (avge) (%)	4.1	12.0	7.5
Fiscal balance (% of GDP)	-11.1	-9.8	-9.0
Current-account balance (% of GDP)	-12.6	-12.9	-13.1
External debt (% of GDP)	197	189	175
Public debt (% of GDP)	171	165	140
Gross Reserves (\$bn)	11.5	17.5	21.7
<i>months of import cover</i>	5.7	6.3	6.6
<i>% of short-term external debt</i>	29.9	31.5	34.5

Source: Institute of International Finance

Economic outlook contingent on political stability

Regional investment bank Global Investment House estimated real GDP growth in Lebanon at 3.5% in 2008, up from 1.5% in 2007. It said the outlook for 2008 and beyond has improved from recent years based on the assumption of easing political tensions in addition to better performance of the services sector, especially financial services and tourism. It added that this positive assessment would be supported by the implementation of the reform agenda that covers debt management, containing the fiscal deficit, tax reform, privatization, and controlling inflation. Global Investment House considered that the main risk facing the economy is the ability to control political risk, as internal tensions will play a major role in preventing or encouraging the implementation of reforms, and consequently will impact overall economic performance. It said the global credit crunch can hurt Lebanon by slowing down the process of telecom privatization. It noted that privatization could help the government in two major ways. First, it would reduce the liabilities of the government, as the latter would not have to bear the losses made by state-owned entities. Second, revenues generated from privatization would help the government retire part of its debt, thereby reducing debt servicing cost and the fiscal deficit.

Banks ask Central Bank to lift reserve requirements on Lebanese pound lending, express concern about size of public sector financing needs

In its monthly meeting with the Central Bank of Lebanon and the Banking Control Commission, the Association of Banks in Lebanon (ABL) noted the need to stimulate lending in Lebanese pounds in view of rising liquidity in the local currency and diminishing liquidity in US dollars. As such, the Association suggested for the Central Bank to lift reserve requirements on Lebanese pound lending in order to avoid high lending rates in the local currency. The ABL also raised the issue of the public sector's financing needs for 2009 that exceed \$4bn. It noted that donor support from the Paris III conference is expected at \$700m and that the privatization process of state-owned assets has not matured yet, while the interest of international capital markets may be limited due to the ongoing global financial crisis.

Governor Salameh indicated that the government's financing needs can be divided between exchanging maturities held by banks, which do not constitute an added burden for the banks, and debt servicing in foreign currency; while the remaining gap can be easily covered by the Central Bank due to its high level of foreign reserves. Mr. Salameh also noted that banks should individually agree with their auditors to classify Eurobonds in one of three categories, given changes to International Financial Reporting Standards that allow certain reclassifications of assets in order to avoid Fair Value Accounting. He said banks can classify Eurobonds as "held to maturity", or reclassify them as "receivables & loans", or maintain the bonds' valuations at their July 31, 2008 valuation.

In parallel, Governor Salameh noted that Lebanese banks have enough liquidity in Lebanese pounds and US dollars to increase private sector lending by 10%, which is what is needed to achieve significant economic growth in 2009. He said that the continued conversion to Lebanese pounds is an important indicator of confidence in monetary stability. He emphasized the stability of interest rates, and asked banks not to increase their US dollar lending rates, adding that the Beirut dollar market is not related to the London Inter-Bank Offered Rate (LIBOR). He added that the Central Bank will look into a mechanism to lift reserve requirements on Lebanese pound lending, but only for new projects to be launched in 2009. He hoped for this mechanism to be in place by the end of this year so it can be implemented at the start of 2009.

Ministry of Health launches "Good Governance in Medicine" project

The Lebanese Ministry of Health (MOH), with the support of the World Health Organization (WHO), launched the "Good Governance in Medicine" project that aims to fight corruption in the selection, acquisition, distribution, and pricing of medicine. To ensure a better quality of the medicines distributed in the Lebanese market, the MOH will work with Customs to impose tighter control over parallel imports and launch an awareness campaign relative to counterfeit medicines. In parallel, quality control will be imposed over medicines produced in Lebanon. The project recommends the use of laboratories affiliated to universities or the establishment of a modern laboratory to perform the basic analysis of medicine. In addition, the project will plan the computerization of health data as well as the increased use of information technology to improve cooperation between the parties involved in the medicine supply chain. Finally, the project aims to improve the control over prices of medicines via the publication of a general medicines' price list on the MOH website.

TRA launches new website

The Telecommunications Regulatory Authority (TRA) launched a new website that aims to improve interaction between the TRA and individuals and companies involved in the field of communication and information technology in Lebanon. The new site was partially funded by a \$100,000 grant from the United States Agency for International Development (USAID), while the TRA invested \$65,000 in the project. The TRA is an independent agency whose mandate is to liberalize, regulate and develop the telecommunications sector in Lebanon.

Balance of payments posts surplus of \$2.4bn in first 10 months of 2008

Central Bank figures show that Lebanon's balance of payments posted a cumulative surplus of \$2.4bn in the first 10 months of 2008 compared to a surplus of \$625m in the same period last year. The cumulative surplus resulted from an increase of \$6.5bn in the Central Bank's net foreign assets combined with a decrease of \$4.1bn in those of banks and financial institutions. The balance of payments posted a surplus of \$231m in October following a surplus of \$200m in September and compared to a surplus of \$45m in October 2007. The October 2008 surplus was caused by an increase of \$1.04bn in the Central Bank's net foreign assets and a decline of \$812m in those of banks and financial institutions.

Net public debt at \$40.8bn at end of October 2008

Lebanon's gross public debt reached \$46.2bn at the end of October 2008, constituting an increase of 9.9% in the first 10 months of the year and a rise of 12.2% from \$41.2bn at end-October 2007. Domestic debt increased by 20.1% year-to-October and rose by 21.5% year-on-year to \$25bn, while external debt decreased by 0.1% in the first 10 months of the year and grew by 2.9% annually to \$21.2bn. Local currency debt accounted for 54.1% of gross public debt compared to 50% at end-October 2007, while foreign currency-denominated debt represented 45.9% of the total at end-October 2008 relative to 50% a year earlier. 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 5.6% to \$40.8bn.



Fiscal deficit at \$2.1bn in first 10 months of 2008

Figures released by the Finance Ministry show that the fiscal deficit reached \$2.08bn in the first 10 months of 2008, up 0.06% from the same period last year. The deficit was equivalent to 26.1% of total budget and Treasury expenditures compared to 29.8% in the same period of 2007. Overall government expenditures reached \$7.96bn, up 14.2% year-on-year, while total revenues increased by 20.2% to \$5.88bn over the covered period. Tax revenues improved by 26.3% year-on-year to \$3.99bn, of which 37.3%, or \$1.49bn, were in VAT receipts that posted a 29.5% annual rise. Tax revenues accounted for 72.9% of budgetary revenues and for 67.8% of total Treasury and budget receipts. The fiscal deficit reached 7.53% of expenditures in October 2008 compared to 36.5% in September 2008 and a fiscal deficit of 32.9% in October 2007. Debt servicing increased by 5.9% year-on-year to \$2.78bn, accounting for 46.2% of total expenditures and for 34.9% of budgetary spending. It absorbed 50.8% of overall revenues and 47.3% of budgetary receipts. Excluding debt servicing, the primary surplus reached \$2.42bn, or 40.3% of budget expenditures compared to a surplus of \$1.65bn, or 29.4% a year earlier. The overall primary surplus reached \$892m, or 11.2% of total spending compared to a surplus of \$670m, or 9.62% of total expenditures, a year earlier.

Airport passengers up 19.8% year-on-year

Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures, transit) amounted to 3.68 million in the first 11 months of 2008, up 19.8% from the same period last year. Airport passengers for November 2008 reached 315,696, down 10.3% from October 2008 and up 40% from November 2007. Airport passengers from the UAE accounted for 18.5% of total passengers in November 2008, followed by passengers from France with 15%, Saudi Arabia with 12% and Kuwait with 6.9%.

Byblos Bank's General Assembly approves purchase of Unicredit Banca Di Roma assets in Lebanon

The Extraordinary General Assembly of Byblos Bank sal that was held on December 1, 2008 approved the purchase of the assets, rights, liabilities and obligations of the Lebanese branch of the Unicredit Banca Di Roma SpA. The local branch of Unicredit Banca Di Roma had total assets of \$80m, loans of \$25.5m and customer deposits of \$66m at the end of 2007. It ranked in 40th place in assets, 38th in loans & discount, and 38th in deposits in the Lebanese banking sector at the end of last year. Byblos Bank posted net profits of \$79.1m in the first 9 months of 2009, constituting an increase of 30.5% from the same period last year. Its assets reached \$10.86bn at end-September 2008, increasing by 14.5% from end-2007, while its deposits reached \$8bn, growing by 10.9% from end-2007. The Byblos Bank Group operates in Iraq, Syria, the United Arab Emirates, Sudan, Nigeria and Armenia, as well as in Belgium, France, the United Kingdom, and Cyprus.

RYMCO's profits up 165% to \$8.2m in first 9 months of 2008

Automobile dealer Rasamny Younis Motor Co. sal (RYMCO) declared net profits of \$8.2m in the first 9 months of 2008, up 165% from \$3.1m in the same period last year. Sales revenues net of discounts totaled \$137.5m, posting a 67.3% increase year-on-year, while net earnings from servicing and repairs, or 'garage income', increased by 29.6% to \$2.3m. General and administrative expenses increased by 42.4% to \$2.6m while overall operating charges rose by 36% to \$8.2m over the covered period. RYMCO's total assets and total equity amounted to \$120.7m and \$49.7m, respectively, at the end of September 2008, compared to \$83m and \$42.6m as at end-December 2007.

RYMCO had a 21% market share in new cars registered in the first 9 months of 2008, the highest among car dealerships in the country, and is the only car retailer listed on the bourse. The firm increased its capital in July 2008 from \$17.2m to \$18.1m through transferring reserves to current capital and issuing new shares at a nominal value of LP1,000 (\$0.66) each. The Beirut Stock Exchange approved the listing of 520,000 Class 'B' additional shares issued by RYMCO and the trading began on October 23, 2008.

Commercial banks' assets reach \$90.4bn at end of October 2008

The Association of Banks in Lebanon released the consolidated balance sheet of commercial banks showing that total assets reached \$90.4bn at the end of October 2008, up 9.9% from end-December 2007 and up by 12% from the end of October 2007. Private sector deposits totaled \$74.8bn, an increase of 11.2% from the end of last year and a rise of 12.9% from October 2007, but down from \$75.1bn at end-September 2008. Deposits in Lebanese pounds rose by 44.7% from end-2007 and by 43.3% year-on-year, while deposits in foreign currencies increased by 1.3% from end-2007 and by 3.6% from end-October 2007. Non-resident foreign currency deposits reached \$9.9bn at end-October 2008, increasing by 8.2% from end-2007 and by 10.8% year-on-year. In parallel, deposits of non-resident banks declined by \$927m, or 20.5%, in October and by \$458m, or 11.3%, in the first 10 months of the year. The dollarization rate of deposits reached 70.5% at end-October 2008, down from 77.3% at end-2007. Further, the average deposit rate in Lebanese pounds reached 7.28% compared to 7.43% a year earlier, while the same rate in US dollars was 3.54%, down from 4.81% in October 2007.

Loans to the private sector amounted to \$24.6bn, up by 20.5% from December 2007 and by 24.5% year-on-year. The dollarization rate in private sector lending reached 86.9% compared to 86.3% a year earlier. The average lending rate in Lebanese pounds was 9.9% in October 2008 compared to 10.27% a year earlier, while the same average in US dollars was 7.53% compared to 8.24% in October 2007. Claims on the public sector stood at \$24.5bn, up 17% year-on-year and up 13.9% from December 2007, and accounted for 49.9% of the banking sector's total loans. The ratio of private sector loans to deposits in foreign currencies stood at 40.6%, well below the Central Bank's limit of 70%, and up from 33.5% a year earlier. In parallel, the same ratio in Lebanese pounds was 14.6% compared to 17.6% a year earlier. The ratio of total private sector loans to deposits stood at 32.9%, up from 29.8% a year earlier. The banks' aggregate capital base stood at \$7.1bn, up 21.3% from \$5.9bn in October 2007.

Ratio Highlights

(in % unless specified)	2006	2007	Change*	Q3-2008
Nominal GDP ⁽¹⁾ (\$bn)	22.7	24.6		27.75
External Debt / GDP	89.9	86.4	(350)	77.4
Local Debt / GDP	88.1	84.6	(350)	87.3
Total Debt / GDP	178.4	171.0	(740)	164.7
Trade Balance / GDP	(31.3)	(36.6)	(530)	(33.2)
Exports / Imports	24.3	23.8	(50)	22.3
Budget Revenues / GDP	19.4	23.6	420	18.2
Budget Expenditures / GDP	30.8	33.9	310	25.4
Budget Balance / GDP	(11.5)	(10.3)	120	(7.2)
Primary Balance / GDP	0.4	2.9	250	2.1
BdL FX Reserves / M2	65.6	59.6	(600)	69.3
M3 / GDP	234.4	243.2	880	239.4
Bank Assets / GDP	327.2	334.4	720	330.6
Bank Deposits / GDP	267.4	273.5	610	270.7
Private Sector Loans / GDP	67.4	72.2	480	89.4
Dollarization of Deposits	76.2	77.3	110	72.0
Dollarization of Loans	84.0	84.3	30	87.2

* Change in basis points 06/07

(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	Oct 2007	Sep 2008	Oct 2008	Change*	Risk Level
Political Risk Rating	56.0	57.5	57.5	▲	High
Financial Risk Rating	31.5	28.0	28.0	▼	High
Economic Risk Rating	29.0	30.0	30.0	▲	Moderate
Composite Risk Rating	58.2	57.7	57.7	▼	High

Regional Average	Oct 2007	Sep 2008	Oct 2008	Change*	Risk Level
Political Risk Rating	65.7	65.7	65.6	▼	Moderate
Financial Risk Rating	41.3	41.2	41.1	▼	Very Low
Economic Risk Rating	40.1	39.3	39.0	▼	Low
Composite Risk Rating	73.6	73.0	72.0	▼	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	B-	C	Stable	B-	C	Stable
Capital Intelligence	B-	B	Stable	B-	B	Stable

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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