



LEBANON THIS WEEK

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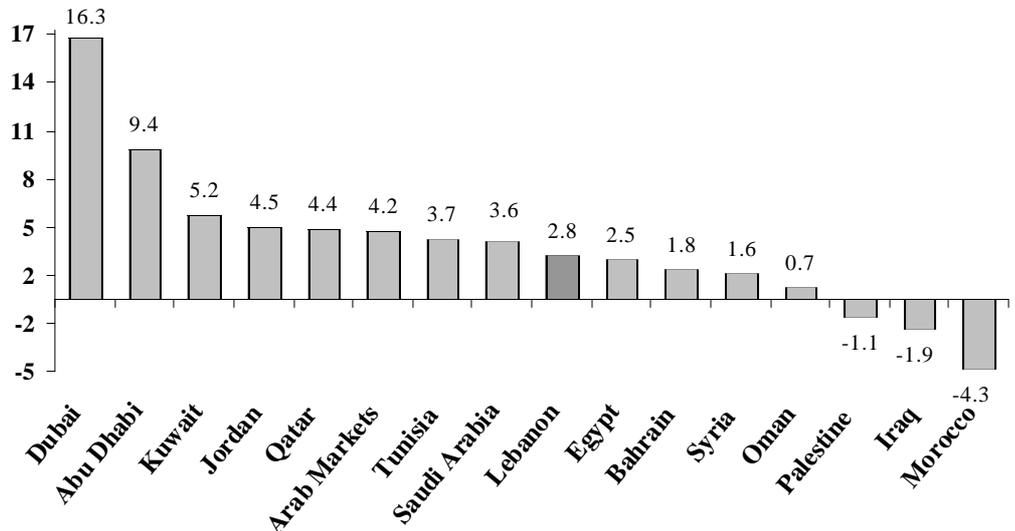
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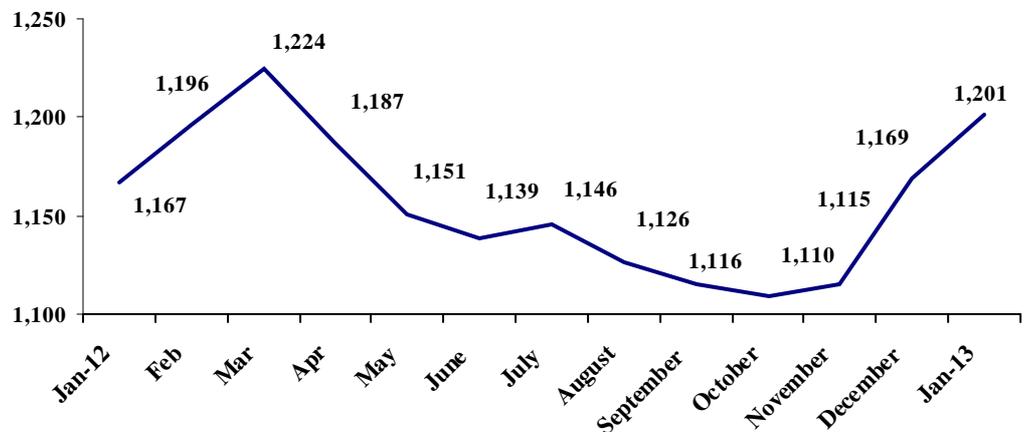
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Performance of Arab Stock Markets in January 2013 (% change)



Performance of the Beirut Stock Exchange



Source: Local Stock Markets, Dow Jones Indices, Byblos Bank

Quote to Note

"There are significant risks to the country's growth prospects from continued political instability and further escalation of regional unrest."

Fitch Ratings, on the main factors affecting Lebanon's economic outlook for this year

Number of the Week

70%: Percentage of Lebanese who consider that their tax revenues are used to fund the agenda of politicians, according to a World Bank survey

Economic Indicators

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

\$bn (unless otherwise mentioned)	Dec 2010	Sep 11	Jun 12	Jul 12	Aug 12	Sep 12	% Change*
BdL FX Reserves	28.60	30.62	29.26	29.64	29.54	29.99	(2.06)
<i>In months of Imports</i>	<i>19.46</i>	<i>17.09</i>	<i>17.08</i>	<i>17.05</i>	<i>16.57</i>	<i>18.41</i>	<i>(7.72)</i>
Public Debt	52.59	54.35	55.25	55.44	55.69	56.07	3.16
Net Public Debt	45.01	45.80	47.10	47.28	47.82	47.83	4.43
Bank Assets	128.93	138.42	145.90	145.51	147.05	148.36	7.18
Bank Deposits (Private Sector)	107.20	113.39	119.94	119.75	121.16	121.75	7.37
Bank Loans to Private Sector	34.93	38.76	41.70	41.49	41.72	42.29	9.11
Money Supply M2	39.40	37.68	41.00	41.19	41.63	41.81	10.96
Money Supply M3	92.15	95.63	100.36	100.50	101.08	101.50	6.14
LBP Lending Rate (%)	7.91	7.37	7.44	7.24	7.27	7.30	(7b.p.)
LBP Deposit Rate (%)	5.68	5.58	5.45	5.45	5.51	5.43	(15b.p.)
USD Lending Rate (%)	6.74	6.58	7.15	7.19	7.26	7.16	58b.p.
USD Deposit Rate (%)	2.80	2.84	2.78	2.84	2.84	2.83	(1b.p.)
%* Change in CPI**	6.19	5.27	4.72	4.72	5.85	8.26	299b.p.

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

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

Sources: ABL, BdL

Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization
Solidere "A"	12.89	(1.60)	71,940	11.88%
Solidere "B"	12.85	(1.53)	24,603	7.70%
Byblos Common	1.65	0.00	66,667	5.47%
Byblos Pref. 08	102.10	0.10	100	1.88%
Byblos Pref. 09	102.10	0.00	0	1.88%
BLOM GDR	8.38	0.96	89,319	5.71%
BLOM Listed	7.90	0.00	0	15.65%
Audi GDR	6.80	(2.86)	10,401	6.39%
Audi Listed	6.60	0.76	19,777	21.27%
HOLCIM	15.80	0.00	170	2.84%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
June 2013	8.625	102.75	1.19
Apr. 2014	7.375	106.25	2.03
Jan. 2015	5.875	104.63	3.39
Apr. 2015	10.00	113.75	3.50
Jan. 2016	8.500	112.25	4.06
Mar. 2017	9.000	116.38	4.59
Nov. 2018	5.150	101.00	4.95
Apr. 2021	8.250	116.50	5.70
Nov. 2026	6.600	103.75	6.19

Source: Byblos Bank Capital Markets

	Jan 28 - Feb 1	Jan 21-25	% Change	Jan 2013	Jan 2012	% Change
Total Shares Traded	297,737	1,646,491	(81.92)	2,975,129	4,698,553	(36.68)
Total Value Traded	\$2,612,771	\$4,619,810	(43.44)	\$15,350,339	\$30,077,732	(48.96)
Market Capitalization	\$10.85bn	\$10.76bn	0.90	\$10.85bn	\$10.29bn	5.47

Source: Beirut Stock Exchange (BSE)



Lebanon's divisive politics and institutional bickering are major obstacles to developing hydrocarbon resources

Citigroup indicated that Lebanon faces two scenarios, one positive and the other negative, in its prospects for the exploitation of its offshore hydrocarbon reserves. The positive scenario assumes the successful exploitation of Lebanon's potential offshore resources, which would result in a cheap domestic source of gas and trigger a major transformation in the country's economic outlook, given Lebanon's high reliance on energy imports. It said that the government's timetable for the start of commercial extraction by 2017 is not realistic and estimated that it is unlikely to start before 2020, given the prevailing divisive politics and the traditional institutional bickering in the country that would result in delays. It noted that this is reflected by the very long period it took authorities to appoint the six-man Petroleum Administration Board to oversee the tendering process. It added that it took more than two years from the ratification of the Petroleum Resources Law in August 2010 to appoint the board members. Still, it added that successful exploitation would particularly benefit the electricity sector, public finances and the external sector.

First, it said that the electricity sector in Lebanon suffers from a large gap between production and demand, which leads to rationing and blackouts, and forces households and businesses to fill the gap with private diesel generators. It noted that such inefficiencies and additional costs result in billions of dollars in annual losses to the economy. It attributed the inefficiencies of the electricity sector in part to the scarcity of natural gas. As a result, it pointed out that the availability of cheap domestic energy sources would reduce inefficiencies in the electricity sector, alleviate financial pressure and free up resources for maintenance and future investment.

Second, Citigroup said that commercial extraction of hydrocarbon resources would transform Lebanon's public finances. It pointed out that Lebanon's high reliance on energy imports constitutes a major drag on the economy, as the fuel import bill is equivalent to over 10% of GDP per year and Treasury transfers to Electricité du Liban (EdL) amount to 4% of GDP annually. It noted that the high fuel import bill is a key cause of the current account deficit, which makes the economy highly dependent on continued capital inflows. It noted that easing and potentially eliminating the losses at EdL would provide significant fiscal capacity to the government, mainly on the expenditures side. Also, it pointed out that the export of Lebanon's hydrocarbon resources would generate significant public revenues. As such, it said that Lebanon's energy independence would lead to a rise in revenues, which would significantly transform the dynamics of its public finances. It added that this would also strengthen Lebanon's debt, investment and growth sustainability, as it would accelerate the decline in the debt-to-GDP ratio.

Third, it considered that the exploitation of hydrocarbon sources would reduce Lebanon's external vulnerabilities and strengthen the sovereign's credit profile, which would have a positive impact on investment and long-term economic growth. It noted that this would immediately reduce imports by as much as 3% of GDP, while oil exports would significantly narrow the current account deficit. It anticipated that this would reduce the need to attract capital inflows to cover the current account outflows, as well as diminish risks to the exchange rate regime. However, Citigroup said that even if the exploration and extraction are implemented according to plan, their positive aspects will not materialize immediately. It noted that the government has a responsibility to actively enable the country's potential hydrocarbon resources to benefit the economy. It pointed out that problems in the electricity sector go well beyond the availability of gas and the scarcity of finances, and include losses in transmission and distribution, inadequate metering and monitoring of the grid, an inappropriate tariff system, governance issues at EdL, and politicization of the energy policy. It noted that these problems would limit any benefit to the electricity sector from the availability of gas.

In parallel, Citigroup's negative scenario assumes delays in the timeline for the exploration of offshore natural resources well beyond current expectations, and that many of the benefits from exploitation would remain out of reach indefinitely. It attributed this possibility to the traditional divisions in the country's political class and the volatile geopolitical situation in the region. It noted that the appointment of the Petroleum Administration Board has proven such a hotly debated political issue in Lebanon that it does not augur well for the timeliness of the process going forward. It noted that the Petroleum Administration and the Cabinet will have to take decisions at each stage in order to allow the process to move forward. Such decisions include the parameters for the tendering process, assessment of the bids, terms of contracts, award of contracts, and use of proceeds, among others. It considered that the process would face difficulties, major obstacles and uncertainties, given that political dysfunction in Lebanon has prevented the passage of something as basic and important as a national budget for the past seven years. It said that such risks would hamper efforts to exploit offshore resources and would prevent Lebanon from benefiting from the positive aspects of the exploration of its natural resources.

European Union pledges funds for public sector, vocational training and social justice

The European Commission announced that it has allocated €32m to finance three new programs in Lebanon that focus on improving the quality of the public sector, enhancing vocational training and education, and promoting social justice. It said that €12m will finance programs that stimulate sustainable growth and job opportunities; €12m will fund projects that promote social justice, and €8m will go to education reform programs that target community and labor-oriented schemes. In parallel, the European Investment Bank (EIB) and the Council for Development and Reconstruction (CDR) signed a €50m loan to support private sector investments in energy efficiency and renewable energy across Lebanon. Further, the EIB and the CDR signed a €75m loan to finance a project that would upgrade 10.3 kilometers of the coastal highway between Nahr El-Kalb and Tabarja north of Beirut. The loan would also finance the improvements of three link roads next to the highway. The Council of Ministers approved both loans on December 19, 2012.

Lebanon ranks 69th globally, third in Arab world in budget transparency

The International Budget Partnership's Open Budget Index for 2012 ranked Lebanon in 69th place among 100 countries globally and in third place among 9 Arab countries included in the survey. Lebanon ranked in 66th place among 94 countries globally and in third place among nine Arab countries in the 2010 survey. Lebanon also ranked in 23rd place among 26 Upper Middle Income countries (UMICs) included in the current survey. The index measures the timeliness and comprehensiveness of publicly-available budget information in eight key budget documents. The survey scores countries on a scale from zero to 100, with zero representing the lowest level of transparency and 100 the highest. Each country is classified as a provider of 'extensive' information, 'significant' information, 'some', 'minimal', 'scant' or 'no' information. A country's placement within a performance category was determined by averaging responses to 95 questions related to information contained in eight key budget documents that all countries should make available to the public. The documents are the Pre-Budget Statement, the Executive's Budget Proposal, the Enacted Budget, the Citizens' Budget, In-Year Reports, a Mid-Year Review, a Year-End Report, and an Audit Report. The 2012 Index assesses events, activities or developments that occurred prior to end-2011.

Arab Countries' Scores & Rankings			
Country	Transparency Level	Arab Rank	Global Rank
Jordan	57%	1	30
Morocco	38%	2	63
Lebanon	33%	3	69
Algeria	13%	4	82
Egypt	13%	4	82
Tunisia	11%	6	85
Yemen	11%	6	85
Iraq	4%	8	92
Saudi Arabia	1%	9	96

Source: International Budget Partnership

Globally, Lebanon has a more transparent budget than that of Ecuador, the Dominican Republic and Sao Tomé & Príncipe, and a less transparent budget than that of Macedonia, Timor-Leste and Thailand. It also has a more transparent budget than that of the Dominican Republic, Algeria and Fiji, and a less transparent budget than that of Macedonia, Venezuela and Serbia among UMICs. Lebanon's level of budget transparency reached 33% in 2012, regressing from 32% in 2010 and placing it in the category of governments that provide 'minimal' budgetary information along with 15 countries in this category. Its level of budget transparency came significantly below the global average of 43% and the UMICs' average of 48.6%, but was above the Arab average of 20.1%.

The International Budget Partnership (IBP) indicated that only the Executive's Budget Proposal, In-Year Reports and the Year-End Report are available to the public in Lebanon; the Audit Reports are available for internal use only; while the Finance Ministry does not produce a Pre-Budget Statement, the Citizens' Budget, the Enacted Budget and the Mid-Year Review. It noted that the government provides the public with minimal information on its budget and financial activities during the course of the fiscal year, which makes it challenging for citizens to hold the government accountable for its management of the public's money. The IBP considered that Lebanon should increase the comprehensiveness of the Executive's Budget Proposal by providing information in areas such as extra-budgetary funds, inter-governmental transfers, transfers to public corporations, quasi-fiscal activities, financial and non-financial assets, expenditure arrears, contingent and future liabilities, and donor assistance. It added that the budget proposal should include anticipated expenditures for at least two years beyond the budget year, as well as previous years' expenditures, detailed revenue estimates for at least two years prior to the budget year, debt information on previous years, debt composition, and macroeconomic forecasts and assumptions used in developing the budget. Also, it said that the budget should include information on the relationship between the government's budget and its policy and macroeconomic goals, and on policies that are intended to directly benefit the country's most impoverished populations. Finally, it noted that Lebanon should increase the comprehensiveness of the Year-End report by presenting audited data on the actual outcomes and explaining differences with original estimates. In parallel, the IBP added that Lebanon should empower its legislature and supreme audit institutions, as well as provide greater opportunities for the public to participate in the budget process.

Cabinet extends management contracts of mobile phone networks by one month

The Ministry of Telecommunications announced that the Cabinet extended by one month, until the end of February, the management contracts of Orascom Telecom and Zain, which operate Mobile Interim Company 1 (MIC 1) and MIC 2, respectively. The government previously extended the management contracts of both companies for a period of one year that started on February 1, 2012. During the one-month extension period, the Cabinet will study the ministry's new proposed structure for Lebanon's mobile phone sector, as well as two other suggestions. The first suggestion consists of extending the management contracts of Orascom Telecom and Zain for another three months, while the second option would allow the government to manage the sector over the same period of time, during which it would launch a bid to award the management contracts to two new mobile operators that would run the sector for the next five years.

The ministry's proposal consists of merging the mobile network infrastructures of the two existing state-owned operators into a single platform, and then licensing three to five private firms to operate as Mobile Virtual Network Operators that offer retail services to customers. Also, the model proposes government ownership of the single network infrastructure, with the possibility of floating a stake of up to 3% on the market. Business Monitor International indicated that the ministry's proposed structure for the mobile phone sector would meet the government's revenue targets, but is not likely to stimulate innovation or raise the usage of telecom services in the country. It considered that the proposed model fails to adopt privatization or to introduce competition to the market, mainly on the network operator level.

Hotel occupancy rate at 55%, room yields down 15% in 2012

Figures released by Hotel-CompSet, the market monitoring database of MKG Hospitality, show that the average occupancy rate at hotels in Lebanon was 54.9% in 2012, down from 60.1% in 2011. The occupancy rate at hotels in Lebanon fell by 5.2 percentage points, constituting the steepest decrease among 14 markets in the Middle East and North Africa region and relative to an average increase of 4.2 percentage points in the region. The occupancy rate at hotels in Lebanon was the sixth lowest in the region, and was higher than occupancy rates in Morocco (54.2%), Egypt (52.7%), Tunisia (45.9%), Bahrain (43.6%) and Yemen (34.2%). In comparison, it was the sixth highest in 2011, behind Saudi Arabia at 60.4%, Oman at 63.3%, Turkey at 64.2%, Qatar at 67.4%, and the UAE at 76.6%.

The average rate per room at hotels in Lebanon was \$189.7 in 2012, ranking Lebanon's hotels as the sixth most expensive in the region, behind Algeria with \$198.6, Bahrain with \$210.1, Qatar with \$210.9, Saudi Arabia with \$215.5 and Kuwait with \$225.4. The average rate per room at hotels in Lebanon decreased by 14.9% year-on-year and posted the steepest decrease among all markets in the region, compared to an average increase of 1% across the region. It was the second highest in the region in 2011 at \$223, behind only Kuwait at \$228.

Further, revenues per available room (RevPAR) in Lebanon were \$104.1 in 2012, down from \$134 in the previous year, and ranking in eighth place in the region. Lebanon's RevPAR fell by 22.3% year-on-year and posted the steepest decrease in the region, compared to a regional increase of 6.5%. Kuwait posted the highest average room rate in the region in 2012 at \$225.4, while the UAE posted the highest RevPAR and occupancy rate in the region at \$148.5 and at 78.8%, respectively. In parallel, the survey noted that the recovery in the performance of hotels in Lebanon will be difficult this year due to the negative impact of the Syrian crisis and to domestic political instability. It added that many countries continue to have strict travel warnings to Lebanon, including GCC countries that are preventing their citizens from visiting the country. MKG Hospitality is an observatory of the hotel and tourism industry in Europe, the Middle East and Africa region; while HotelCompSet covers over 11,000 corporate chain hotels that represent more than one million rooms.

Economic activity contracts in November 2012

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 260.8 points in November 2012 compared to 255.6 points in October 2012 and to 260.6 in Novembers 2011. The Coincident Indicator, an average of 8 weighted economic indicators, increased by 2% month-on-month and was unchanged year-on-year. The indicator averaged 256.8 in the 12-months ending November 2012, compared to 256.8 in the 12-months ending October 2012 and to 254.9 in the 12-months ending November 2011. As a result, the average coincident indicator increased by 0.8% year-on-year and remained unchanged month-on-month, which reflects economic contraction in real terms. The indicator posted its sixth increase this year in November after it grew by 5.6% in February, 0.3% in March, 3.4% in April, 5.9% in September and 5% in October. It also regressed five times so far this year, including a 5.9% fall in January and four consecutive monthly declines of 3.1% in May, 1.6% in June, 5.1% in July and 7.2% in August. In parallel, the indicator improved 15 times and regressed five times in the month of November since 1993. The indicator reached an all-time high of 273.7 points in April 2012. The indicator averaged 255.7 in 2011, 249.5 in 2010 and 225.9 in 2009.

Subsidized interest loans at \$426m in first half of 2012

Figures released by the Central Bank show that the amount of subsidized interest loans to productive sectors in Lebanon reached \$425.9m in the first half of 2012. The industrial sector accounted for \$222.6m, or 52.3% of the total, followed by tourism with \$170.9m (40.1%) and agriculture with \$32.4m (7.6%). Subsidized interest loans extended in 2011 totaled \$936.4m relative to \$746.9m in 2010 and \$498.9m in 2009. The cumulative amount of subsidized interest loans to productive sectors in Lebanon reached \$4.8bn between 1997 and June 2012. Subsidized medium & long-term loans reached \$354.7m in the first half of 2012, equivalent to 83.3% of the total. Industry accounted for 52.5% of total subsidized medium & long-term loans, followed by tourism with 43.5% and agriculture with 4%. 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 \$67.5m, or 15.9% of the total. Industry accounted for 48.2% of Kafalat-backed subsidies, followed by agriculture with 26.9% and tourism with 24.9%. Kafalat provides financial guarantees for loans of up to \$400,000 for small and medium-sized enterprises in productive sectors. Further, subsidized interest loans granted by leasing companies totaled \$3.2m in the first half of 2012, or 0.7% of the total. In addition, subsidized interest loans granted by the International Finance Corporation totaled \$0.5m, or 0.1% of the total. The latter two subsidized interest loans were extended in total to the industry sector.

Hotel Performance in 2012

	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
UAE	79	149	8.1
Turkey	67	110	7.3
Oman	67	115	0.8
Qatar	66	138	(7.6)
Saudi Arabia	65	141	12.0
Algeria	63	125	27.0
Jordan	62	90	17.3
Kuwait	60	136	0.2
South Africa	60	87	10.2
Lebanon	55	104	(22.3)
Morocco	54	85	0.3
Egypt	53	36	11.4
Tunisia	46	50	22.0
Bahrain	44	92	20.3
Yemen	34	39	116.7

Source: Hotel-CompSet, Byblos Research

Lebanon ranks 101st globally, third in MENA region in press freedom

In its 2013 survey on press freedoms in 179 countries, international organization Reporters Without Borders ranked Lebanon in 101st place worldwide and in third place among 23 countries in the Middle East and North Africa (MENA) region. Lebanon came in 93rd place globally and in fourth place regionally in the 2011-12 survey. The index measures the level of freedom that journalists and the media have in each country, as well as government efforts to respect press freedom. The survey reflects press freedom in each country based on events between December 2011 and November 2012. The index calculation was based on answers to a questionnaire that covers six general criteria. The first criteria covers pluralism and measures the level of opinion diversity in the media; followed by media independence; environment and self-censorship, which analyses the environment in which journalists work; the legislative framework; the transparency of the institutions and procedures that affect the production of news and information; and the quality of the infrastructure that supports the production of news and information. Reporters Without Borders assigns index scores in ascending order, thereby the lower the score the higher press freedom is in a given country.

Globally, Lebanon ranked a freer media than in Albania, the Maldives and Uganda, and a less free press than in Georgia, Mali and Mongolia. Lebanon received a score of 30.15 points in the 2013 survey, better than the Arab and MENA averages of 46.31 points and 46.92 points, respectively, and better than its score of 31.5 points in the 2011-12 survey, but worse than its scores of 20.5 points in 2010 and 15.42 points in 2009.

Lebanon's drop in the rankings was the third steepest in the MENA region, while its score posted the smallest increase. Reporters Without Borders indicated that the media in Lebanon became more polarized in 2012 due to the Syrian conflict, adding that Lebanese journalists are exposed to arbitrary Syrian conflict, adding that Lebanese journalists are exposed to arbitrary detention and mistreatment. The scores of 20 MENA countries improved, and those of Israel, Kuwait and Mauritania deteriorated; while the ranking of 10 countries improved, that of 10 countries regressed and three remained unchanged year-on-year. Finland has the highest level of press freedom globally, while Eritrea has the lowest level of media freedom worldwide.

Commercial activity stagnates in second quarter of 2012

The Central Bank's quarterly business survey of opinions indicated that the volume of commercial sales slightly increased during the second quarter of 2012 but remained very low in historical terms, with the balance of opinion standing at -6 compared to -12 during the preceding quarter and -4 during the same quarter of 2011. The balance of opinions was the worst in the Bekaa at -30, followed by Beirut & Mount Lebanon (-15), the South (-4) and the North (+6). The business survey reflects the opinions of enterprise managers about their business activity in order to depict the evolution of a number of key economic variables. The survey shows a decline in the sale of food items in the second quarter of 2012. The balance of opinion for the sales volume of food items regressed to 7 in the second quarter of 2012 from 15 in the preceding quarter. The balance of opinions for the sales of inter-industrial goods was -17 in the second quarter relative to -20 in the preceding period, while it was -21 for non-food products relative to -22 in the first quarter of 2012. The balance of opinion for inventory levels in all commercial sub-sectors was -4 in the second quarter of 2012 compared to +3 in the first quarter of last year and +4 in the second quarter of 2011. Opinions about the level of inventories were the highest in the Bekaa and the south where they reached 6 each, followed by Beirut & Mount Lebanon (-1) and the North (-17). The balance of opinion is the difference between the proportion of surveyed managers who consider that there was an improvement in a particular indicator and the proportion of those who reported a decline in the same indicator.

Commercial Activity: year-on-year evolution of opinions				
Aggregate results	Q2-09	Q2-10	Q2-11	Q2-12
Sales volume	30	24	-4	-6
Number of employees	13	9	2	-2
Inventories of finished goods	21	12	4	-4
Q2-12 Regional results	Beirut / Mount Lebanon	North	South	Bekaa
Sales volume	-15	6	-4	-30
Inventories of finished goods	-1	-17	6	6

Source: Central Bank Business Survey in second quarter 2012

Press Freedom Index Rankings & Scores			
	Score	MENA Rank	Global Rank
Mauritania	26.8	1	67
Kuwait	28.3	2	77
Lebanon	30.2	3	101
Qatar	32.9	4	110
Israel	33.0	5	112
UAE	33.5	6	114
Algeria	36.5	7	125
Libya	37.9	8	131
Jordan	38.5	9	134
Morocco	39.0	10	136
Tunisia	39.9	11	138
Oman	41.5	12	141
Palestine	43.1	13	146
Iraq	44.7	14	150
Turkey	46.6	15	154
Egypt	48.7	16	158
Saudi Arabia	56.9	17	163
Bahrain	62.8	18	165
Djibouti	67.4	19	167
Yemen	69.2	20	169
Sudan	70.1	21	170
Iran	73.4	22	174
Syria	78.5	23	176

Source: Reporters without Borders 2013

National Social Security Fund has 0.6 million subscribers and 0.73 million beneficiaries at end-2012

Figures issued by the National Social Security Fund (NSSF) indicate that there were 593,805 persons covered by the NSSF at end-2012, of whom 94.3% are Lebanese nationals and 5.7% are foreigners. The distribution of subscribers shows that there were 439,747 private sector employees who accounted for 74.1% of the total at end-2012, followed by 56,792 university students (9.6%), 36,226 taxi drivers that own their license (6.1%), 33,477 private sector teachers (5.6%), 12,782 optional subscribers (2.2%), 7,016 doctors (1.2%), 4,453 taxi drivers that rent their license (0.7%), 2,094 mayors (0.4%) and 1,081 bakers (0.2%). Also, there were 176,254 persons covered by the NSSF in the 20 to 30 year-old bracket, or 29.7% of the total. They were followed by 139,415 in the 31 to 40 year-old group (23.5%), 130,815 in the 41 to 50 year-old bracket (22%), 87,695 in the 51 to 60 year-old group (14.8%), 29,888 in the 64 and above year-old bracket (5%), 17,489 in the 61 to 64 year-old segment (2.9%), and 12,249 in the 20 year-old and younger bracket (2%).

Also, there were 728,944 beneficiaries from NSSF services. As such, there were 415,465 persons in the 20 year-old and younger bracket at end-2012, or 57% of total beneficiaries. They were followed by 108,613 individuals in the 60 year-old and older segment (14.9%), 61,018 in the 41 to 50 year-old group (8.4%), 59,925 in the 31 to 40 year-old bracket (8.2%), 50,398 in the 20 to 30 year-old group (6.9%) and 33,525 in the 51 to 60 year-old bracket (4.6%). Further, there were 51,794 registered companies at the NSSF at end the end of 2012, of which 44,173 firms, or 85.3% of the total, that have less than 10 employees. Also, there were 142 hospitals that have a working agreement with the NSSF at end-September 2012, in addition to 10,995 doctors, 2,780 pharmacies, 1,393 physiotherapists, 433 laboratories, and 220 imaging centers that have a similar deal.

Public-sector salaries and benefits up 7% in first eight months of 2012

Figures issued by the Ministry of Finance show that salaries, wages and related benefits paid to public-sector employees totaled \$1.7bn in the first eight months of 2012, constituting an increase of 7.1% from the same period in 2011. They represented the largest component of total primary spending and accounted for 30% of such expenditures in the first eight months of 2012. The figures include basic salaries, indemnities, allowances, contributions to the civil servants cooperatives, as well as contributions to other mutual funds providing health insurance for specific categories of civil servants, mainly judges, religious judges and Parliament employees. The payments exclude retirement and end-of-service indemnities as well as salaries, wages and benefits of employees at public institutions. Salaries and benefits of military personnel totaled \$1bn and accounted for 59.8% of the total, followed by educational personnel with \$369.5m or 21.6% of the total, civil staff with \$295.2m (17.3%), and customs employees with \$21.9m (1.3%). Also, the Lebanese Army's salaries totaled \$650.7m in the first eight months of 2012 and represented 63.6% of military personnel salaries and benefits. It was followed by salaries of the Internal Security Forces with \$282.6m (27.6%), General Security Forces with \$49.1m (4.8%), and State Security Forces with \$41.1m (4%). The ministry attributed the rise to a 30.3% increase in allowances and a 2% increase in basic salaries. It said basic salaries increased by \$21.2m to \$1.2bn due to a rise of \$62.4m in payments to educational personnel and an increase of \$21.2m in payments to civil personnel, which were partly offset by a drop of \$63m in payments to military personnel. It added that allowances increased by \$67m due to higher payments to the Army, the Internal Security Forces and the State Security Forces. Salaries, wages and related benefits paid to public sector employees represent the largest component of primary spending and accounted for 33% of such expenditures last year.

Overdrafts account for 30% of bank credits, share of trade & services at 35% of utilized credits at end-June 2012

Figures issued by the Central Bank about the distribution of bank credits by type show that overdrafts accounted for \$13.9bn, or 29.7% of total private sector credits at the end of June 2012. They were followed by advances against real estate with \$13.7bn (29.3%), advances against personal guarantees \$8.5bn (18.1%), advances against cash collateral or bank guarantees \$6bn (12.8%), advances against other real guarantees \$3bn (6.4%), and advances against financial values \$1.7bn (3.7%). In parallel, utilized credits by the private sector totaled \$46.9bn at end-June 2012, with the trade & services sector accounting for \$16.1bn, or 34.5% of such credits. It was followed by personal credits with \$12.1bn (25.9%), construction with \$8bn (17%), industry with \$5.4bn (11.5%), financial intermediaries with \$3.3bn (7.1%) and agriculture with \$452.9m (1%), while other sectors accounted for the remaining \$1.4bn (3.1%). Also, wholesale trade represented 41.6% of trade & services credits, followed by real estate services with 20.9%, retail with 16.1%, transport & storage with 9.7%, hotels & restaurants with 8.4% and educational services with 3.2%.

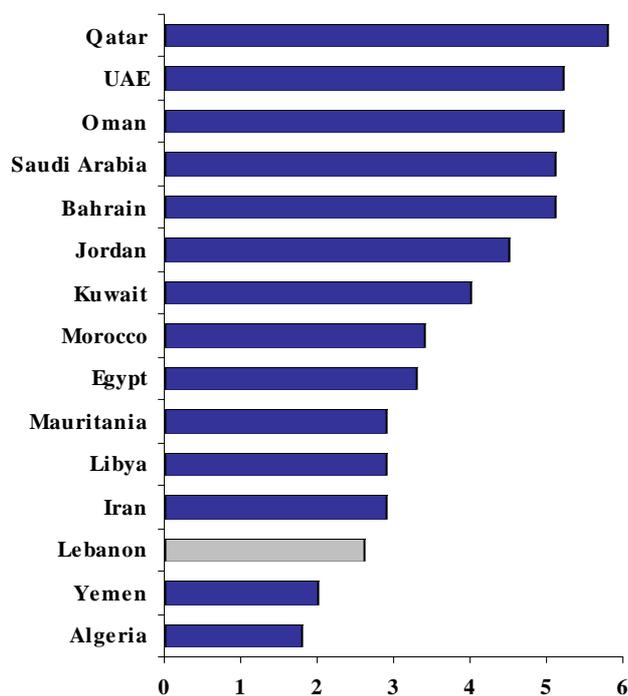
Personal credits attracted 77.1% of loan beneficiaries, followed by trade & services with 12.7% of beneficiaries, industry with 3.4%, construction with 1.6%, agriculture with 0.8%, financial intermediaries with 0.7%, while other sectors attracted the remaining 3.8%. Further, the aggregate number of loan beneficiaries grew by 9.7% year-on-year to 416,419, while 81.1% of beneficiaries had loans ranging from LBP5m to LBP100m by end-June 2012. Beirut and its suburbs accounted for 79.8% of bank credits and for 55.5% of beneficiaries. It was followed by Mount Lebanon with 9.1% of credits and 15.9% of beneficiaries; South Lebanon with 4.3% of credits and 8.8% of beneficiaries; North Lebanon with 3.8% of credits and 13.3% of beneficiaries; and the Bekaa with 2.9% of credits and 6.5% of beneficiaries.

Economy Ministry to upgrade trademark legislation

The Ministry of Economy & Trade indicated that it is drafting a new trademark law that would constitute an enhanced version of the existing legislation. It said that modifications will include changing the existing system for the deposit of patents and for challenging violations of intellectual property rights, and will incorporate the protection of non-conventional trademarks. It added that Lebanon intends to join a number of international treaties for trademark registration, particularly the Madrid System for the International Registration of Marks, which is based on the Madrid Protocol of 1989 and which is administered by the International Bureau of the World Intellectual Property Organization. It added that the law's modifications will align Lebanese laws with the standards of the trade-related aspects of intellectual property rights treaty (TRIPS). Also, the ministry announced that Lebanon is actively trying to join international treaties on the protection of intellectual property rights, trademarks and patents. The ministry considered that the enforcement of copyright protection laws in Lebanon would attract investments and raise the economy's competitiveness. Also, it called for the reduction in the registration, transfer and licensing fees of trademarks.

Lebanon is on the United States' 'Watch List' for serious infringement of intellectual property rights. The International Intellectual Property Alliance, an organization representing more than 1,900 companies that produce and distribute copyright-protected materials throughout the world, considers that the weak enforcement of intellectual property rights remains a significant obstacle to legitimate business in Lebanon despite the authorities' incremental progress in fighting violations. The World Economic Forum ranks Lebanon in 124th place among 144 countries in terms of intellectual property protection.

Intellectual Property Protection in MENA Countries for 2012-13



Source: World Economic Forum, Byblos Research

Corporate Highlights

Byblos Bank's profits at \$169m in 2012, primary liquidity at 67% of deposits

Byblos Bank sal, one of the top 3 banking and financial services groups in Lebanon, declared consolidated net profits of \$169.2m in 2012 relative to \$179.7m in 2011. Net interest income reached \$264.5m, down 6.1% year-on-year; while net fees & commission income stood at \$97m, up 1.1% from 2011. As a result, net operating income regressed by 1.3% to \$423.1m. The Bank's cost-to-income ratio decreased to 45.6% in 2012 from 47.8% in the previous year.

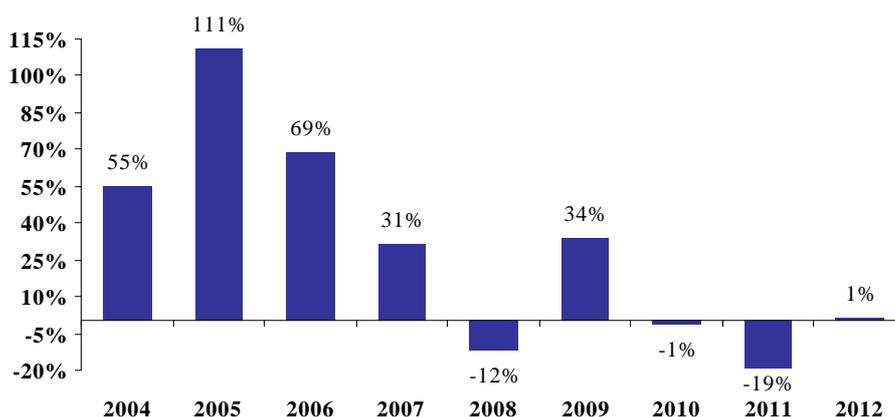
Total assets reached \$17bn at end-2012, constituting a rise of 2.5% from the end of 2011; while net loans & advances to customers rose by 3% year-on-year to reach \$4.1bn at end-2012. Net loans & advances to related parties stood at \$9.6m at end-2012, constituting a rise of 7.9% from end-2011. The Bank allocated, in 2012 provisions for credit losses of \$66.7m that included \$30.6m in collective provisions. Gross non-performing loans represented 4% of gross loans as at end-2012, and were covered up to 75.1% by specific provisions and reserved interest. Also, the coverage ratio reached 128.4% when accounting for specific and collective provisions, and represented 2.3% of net loans. The Bank's net non-performing loans, which represent NPLs net of specific provisions and reserved interest, reached 1.1% of net loans at the end of 2012.

Customers' deposits totaled \$13.4bn and increased by 4.4% from end-2011, with deposits from related parties reaching \$135.7m. The Bank's primary liquidity, representing dues from Central Banks and banks, totaled \$8.9bn and was equivalent to 66.6% of total deposits at the end-2012, which is one of the highest liquidity levels in the Lebanese banking sector. Also, the Bank's Basel III Capital Adequacy Ratio stood at 15.5%, one of the highest such ratios in the sector, compared to the minimum regulatory requirement of 12% for end-2015. Earnings per common ordinary share stood at LBP 354.91, equivalent to \$0.24 per share. The Bank's total equity reached \$1.9bn at end-2012. The Byblos Bank Group has a direct presence in Iraq, Syria, Sudan, the United Arab Emirates, Nigeria, Armenia and the Democratic Republic of Congo, as well as in Belgium, France, the United Kingdom and Cyprus.

Stock market activity down 49% to \$15m in January 2013

Figures released by the Beirut Stock Exchange indicate that total trading volume reached 3 million shares in January 2013, constituting a decrease of 36.7% from the same month last year; while aggregate turnover amounted to \$15.4m, down 49% from a turnover of \$30.1m in January 2012. Market capitalization increased by 5.5% from end-January 2012 to \$10.9bn, of which 76.7% was in banking stocks, followed by real estate stocks with 19.6%, industrial stocks with 3.1%, and 0.3% in each of fund stocks and trading stocks. The market liquidity ratio was 0.1% compared to 0.3% in the same month last year. Bank stocks accounted for 81.4% of aggregate trading volume in January, followed by real estate stocks with 17.5%, trading stocks with 1% and industrial stocks with 0.1%. In terms of the value of shares traded, banking stocks accounted for 55.3% of aggregate value, followed by real estate stocks with 43.9%, trading stocks with 0.6% and industrial stocks with 0.2%. The average daily traded volume for the month was 141,673 shares for an average daily value of \$0.7m. The figures reflect decreases of 39.7% in volume and 51.4% in value year-on-year.

Beirut Stock Exchange Market Capitalization (annual % change)



Source: Beirut Stock Exchange, Byblos Research

BankMed issues \$500m in Certificates of Deposit and \$225m in preferred shares

BankMed sal, one of Lebanon's top 10 banks, announced that it has issued a \$500m five-year Certificate of Deposit (CD) that carries a coupon rate of 5.375%. It said the funds will be earmarked towards general corporate purposes including the repayment of existing debt. Also, it raised \$225m through the issuance of five-year preferred shares that pay an annual dividend of 6.75% per share and that have a call option. It added that it has repaid a \$300m CD that was issued in December 2005 and carried a coupon rate of 7.625%. As such, the bank stated that it has raised its capital by \$725m and that its total shareholders' equity reached about \$1.25bn at end-2012. BankMed announced unaudited consolidated net profits of \$94.5m in the first nine months of 2012, up 4.8% from the same period last year. Total assets reached \$12.95bn at end-September 2012, constituting a 9.9% rise from end-2011 and a 6.5% increase from a year earlier; while loans & advances to customers increased by 10.5% from end-2011 and by 14.8% year-on-year to \$3.85bn. Also, customer deposits totaled \$9.2bn at end-September, growing by 15.2% from end-2011 and by 19.4% from a year earlier.

Corporate Highlights

Aggregate profits of listed banks down 2% in 2012

Financial results issued by five banks listed on the Beirut Stock Exchange show that their aggregate net profits reached \$965.9m in 2012, constituting a decline of 2.1% from net profits of \$986.6m in 2011 and compared to a rise in net income of 1.7% in 2011. Also, the banks' aggregate net profits reached \$246.8m in the fourth quarter of 2012, constituting a rise of 5% from \$235m in the previous quarter and a decline of 7.8% from \$267.7m in the fourth quarter of 2011. Further, the banks' aggregate net profits contracted by 2.5% year-on-year in the third quarter, remained unchanged in the second quarter and posted a rise of 2.7% in the first quarter of 2012. The profit figures exclude the one-time income of \$44.5m realized by Bank Audi from the sale of 81% of LIA Insurance sal. The aggregate net profits of the five listed banks would rise by 2.4% to \$1bn in 2012 when including the proceeds from the sale of LIA Insurance. The average year-on-year change in net profits of the five banks contracted by 3.7% in 2012 compared to an average decrease in net profits of 2.7% in 2011. The average year-on-year decline in net profits during the year was largely due to general and specific provisions taken by the banks as a precautionary measure in view of prevailing domestic and regional conditions. Further, the banks' aggregate pre-tax profits grew marginally by 0.5% year-on-year to \$1.22bn in 2012. However, the average year-on-year change in profits before deducting taxes posted a slight contraction of 0.1% in 2012. The aggregate net interest income of the five banks reached \$1.55bn in 2012, up 6.1% from \$1.46bn in 2011, while their total net fees and commission income increased by 3.8% to \$473.5m year-on-year. Total operating income of the listed banks reached \$2.7bn last year, up 10% from \$2.5bn in 2011.

In parallel, the aggregate assets of the five banks increased by 8% from end-2011 to \$86.1bn; while their total loans increased by 13.1% to \$24.7bn at end-2012. Also, the banks' total deposits rose by 8.1% from end-2011 to reach \$72.1bn. The banks' collective loans to related parties dropped by 3.9% from end-2011 to \$303.5m, while the aggregate deposits from related parties rose by 17.4% year-on-year to reach \$858m at end-2012.

Also, the five banks' aggregate loans-to-deposits ratio stood at 34.3% at end-2012, up from 32.8% at end-2011. BLOM Bank posted the lowest loans-to-deposits ratio at 27.7% compared to 27.6% at end-2011; followed by Byblos Bank with a ratio of 30.8% relative to 31.3% at end-2011, Bank Audi with 39%, up from 34.7% at end-2011; Bank of Beirut with 39.4% relative to 41.3% at end-2011; and Banque BEMO with a 49% ratio, up from 42.5% at end-2011. Further, the banks' collective cost-to-income ratio stood at 44.1% in 2012 and increased from 43.6% in the previous year. BLOM Bank posted the lowest cost-to-income ratio at 38.2% compared to 36.2% in 2011. It was followed by Byblos Bank with a ratio of 45.6% in 2012, down from 47.8% in the previous year; Bank Audi with 46.8%, up from 45.1% in 2011; Bank of Beirut with 50.3% unchanged from 2011, and Banque BEMO with a 72.1% ratio, down from 74.4% in 2011.

Results of Listed Banks in 2012					
	Byblos	BLOM	Audi*	BoB	BEMO
Net Profits	\$169.2m	\$335.4m	\$339.1m	\$116.9m	\$5.3m
% Change**	(5.9%)	1.2%	(7.2%)	12.9%	(19.4%)
Total Assets	\$17.01bn	\$25.02bn	\$31.31bn	\$11.31bn	\$1.49bn
% Change***	2.5%	8.0%	8.9%	16.2%	(2.4%)
Loans (1)	\$4.13bn	\$6.03bn	\$10.44bn	\$3.52bn	\$0.61bn
% Change***	3.0%	7.8%	21.4%	13.0%	11.3%
Deposits (1)	\$13.38bn	\$21.73bn	\$26.81bn	\$8.94bn	\$1.25bn
% Change***	4.4%	7.2%	8.1%	18.5%	(3.3%)

* Net Profits exclude proceeds from the sale of 81% of LIA insurance sal

**Year-on-year

***Change from end-2011

Net profits of insurance sector up 30% to \$112.3m in 2011, claims up 21% to \$608m

Figures released by the Insurance Control Commission (ICC) show that the aggregate net profits of 52 insurance companies operating in Lebanon reached \$112.3m in 2011, constituting an increase of 29.5% from \$86.7m in 2010. Net income from the life category reached \$64.3m in 2011 and increased by 11.5% year-on-year, while that of the non-life category amounted to \$48m and rose by 65.2% annually. In the life branch, the protection segment posted profits of \$43m in 2011, followed by the unit-linked life segment with \$12.9m and the life with savings segment with \$8.4m. In the non-life branch, health generated profits of \$20.4m, followed by accidents with \$10.2m, fire with \$8.1m, transportation with \$6.9m, motor compulsory with \$5.4m, miscellaneous categories with \$2.9m and credit, civil liabilities and C.A.R. with \$1.7m. In parallel, non-compulsory motor insurance posted losses of \$7.5m in 2011.

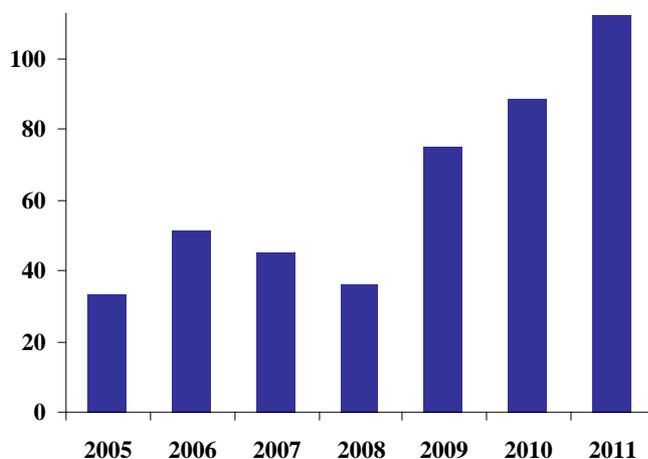
Further, gross written premiums increased by 8.5% to \$1.25bn in 2011 and included \$885.3m in non-life gross premiums that grew by 8.5% annually and \$364.3m in life gross premiums that rose by 8.4% year-on-year. Written premiums from the health segment totaled \$340.7m and accounted for 27% of the insurance sector aggregate premiums,

followed by motor non-compulsory insurance premiums with \$264.2m (21%), life insurance with savings with \$147.5m (12%), protection life insurance premiums with \$116.6m (9%), life with unit-linked with \$100.2m (8%), fire premiums with \$78.7m (6%), accidents with \$67m (5%), motor compulsory with \$52.8m (4%), transportation with \$35.4m (3%), premiums collected from others insurance categories with \$24.1m (2%) and premiums generated by miscellaneous insurance categories with \$22.5m (2%). MEDGULF led all insurers with \$124.5m in total premiums in 2011 and accounted for 10% of the sector's aggregate insurance premiums, followed by Allianz SNA with premiums of \$100.1m (8%), Metlife ALICO with \$97.1m (7.8%), AROPE with \$91m (7.3%), and LIA with \$81.4m (6.5%).

In parallel, paid claims totaled \$608.4m in 2011, constituting a rise of 20.8% from \$503.6m in 2010. Paid claims from the non-life category reached \$493.3m in 2011 and increased by 15.6% year-on-year, while claims for the life category amounted to \$115.1m and rose by 49.8% annually. Paid claims from the health segment accounted for 37.5% of total paid claims, followed by motor non-compulsory with 24%, fire with 9.1%, life insurance with unit-linked with 8.6%, life with savings with 7.2%, accidents with 4%, protection life with 3.1%, transportation with 2.4%, compulsory motor with 2.1%, other categories with 1.2%, and miscellaneous segments with 0.9%.

In parallel, the sector's loss ratio, or the ratio of claims incurred to earned gross premiums, was 53% in 2011; the commission ratio, or the ratio of acquisition cost to earned gross premiums, reached 17% at end-2011, the reinsurance ratio, or the ratio of net reinsurance income to earned gross premiums, stood at 2% in 2011, the expense ratio, or the ratio of other general expenses to earned gross premiums, was 13%, and the combined ratio, which is the aggregate ratio of the above four ratios, was 85% in 2011.

Net Profits of Insurance Companies (US\$m)



Source: Insurance Control Commission, Byblos Research

Ratio Highlights

(in % unless specified)	2009	2010	2011	Change*
Nominal GDP ⁽¹⁾ (\$bn)	34.7	37.1	39.1	
External Debt / GDP	61.3	55.4	53.5	(190)
Local Debt / GDP	86.0	86.3	83.7	(260)
Total Debt / GDP	147.2	141.8	137.2	(460)
Total External Debt / GDP	176.1	167.0	163.2	(380)
Trade Balance / GDP	(36.8)	(36.9)	(40.7)	(380)
Exports / Imports	21.5	23.7	21.2	(250)
Budget Revenues / GDP	24.3	22.7	22.7	(5)
Budget Expenditures / GDP	32.8	30.6	27.2	(342)
Budget Balance / GDP	(8.5)	(7.9)	(6.0)	191
Primary Balance / GDP	3.1	3.2	4.3	105
BdL FX Reserves / M2	74.0	77.1	78.8	172
M3 / GDP	236.5	248.4	248.7	30
Bank Assets / GDP	332.1	347.5	359.5	1,200
Bank Deposits / GDP	276.0	289.0	296.0	695
Private Sector Loans / GDP	81.8	94.2	100.7	650
Dollarization of Deposits	64.5	63.2	65.9	270
Dollarization of Loans	84.0	80.3	78.4	(190)

* Change in basis points 10/11

(1) Based on Ministry of Finance Estimations and the International Monetary Fund

Source: Association of Banks in Lebanon, Byblos Research Calculations

Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

Risk Outlook

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

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

*year-on-year

Source: The PRS Group, Byblos Research

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

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

Ratings & Outlook

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

Source: Rating agencies

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

Source: Rating agencies



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