



## LEBANON THIS WEEK

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MEA to start direct flights to Armenia

Moody's withdraws Banque BEMO's ratings

Arope's balance sheet at \$287m at end-2012

Fitch affirms ratings on Société Générale, outlook 'negative'

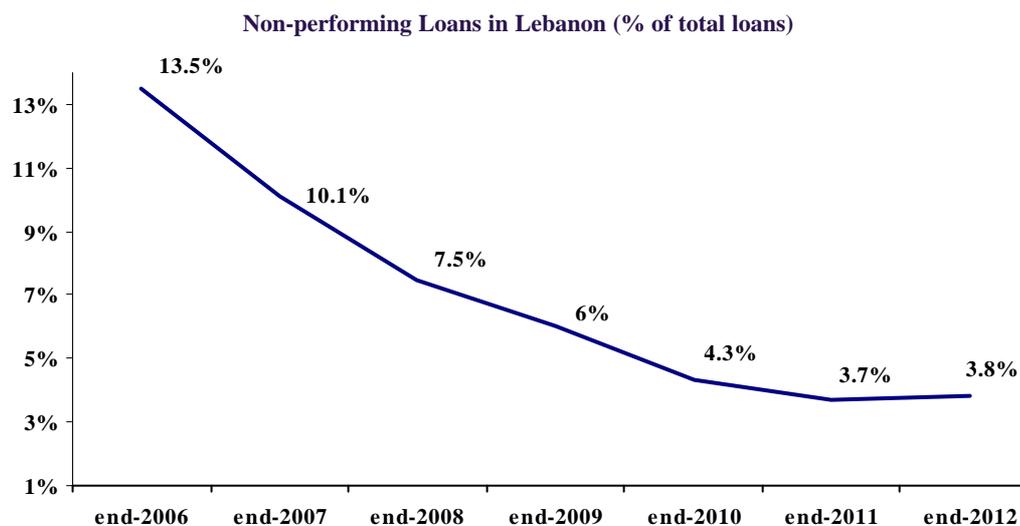
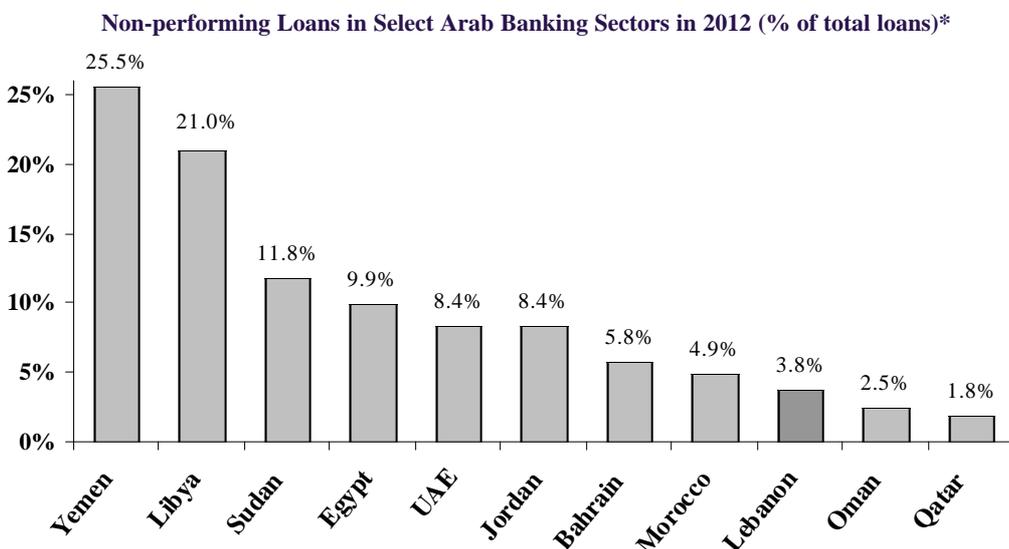
CMA CGM to face risks from the reallocation of manufacturing capacity to industrialized nations

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### Charts of the Week



\*90-day basis, latest available figures for 2012

Source: International Monetary Fund - May 2013, Byblos Bank

### Quote to Note

"The Lebanese real economy continues to under perform, as trade and investments are hit hard by the political uncertainty."

*Citigroup, on the rising opportunity cost of political instability on the Lebanese economy*

### Number of the Week

**LBP 31,195bn:** Amount of outstanding Lebanese pound-denominated Certificates of Deposits issued by the Central Bank as at March 2013

## Economic Indicators

<b>\$m (unless otherwise mentioned)</b>	<b>2011</b>	<b>Jan 12</b>	<b>2012</b>	<b>Nov 12</b>	<b>Dec 12</b>	<b>Jan 13</b>	<b>% Change*</b>
Exports	4,276	348	4,486	364	381	405	16.38
Imports	20,170	1,454	21,281	1,604	1,871	1,646	13.20
Trade Balance	(15,894)	(1,106)	(16,795)	(1,240)	(1,490)	(1,241)	12.21
Balance of Payments	(1,996)	(290)	(1,538)	179	312	383	(232.07)
Checks Cleared in LBP	14,251	1,246	14,976	1,287	1,337	1,305	4.77
Checks Cleared in FC	57,852	4,663	56,044	4,676	4,670	4,637	(0.56)
Total Checks Cleared	72,103	5,909	69,787	5,963	6,007	5,942	0.56
Budget Deficit/Surplus	(2,342)	(176.00)	(3,925)	(807.69)	(441.24)	(17.78)	(89.90)
Primary Balance	1,662	33.00	(109.87)	(369.47)	(174.33)	200.38	507.22
Airport Passengers	5,596,034	430,472	5,960,414	412,595	495,760	463,972	7.78

<b>\$bn (unless otherwise mentioned)</b>	<b>Dec 2011</b>	<b>Jan 12</b>	<b>Oct 12</b>	<b>Nov 12</b>	<b>Dec 12</b>	<b>Jan 13</b>	<b>% Change*</b>
BdL FX Reserves	30.82	30.74	29.46	29.79	29.97	30.96	0.72
<i>In months of Imports</i>	<i>18.51</i>	<i>21.14</i>	<i>16.61</i>	<i>18.57</i>	<i>16.02</i>	<i>18.81</i>	<i>(11.03)</i>
Public Debt	53.66	53.65	56.60	57.55	57.69	58.04	8.18
Net Public Debt	46.37	46.59	48.35	48.87	49.12	49.55	6.34
Bank Assets	140.58	142.85	149.38	150.38	151.88	153.11	7.18
Bank Deposits (Private Sector)	115.72	116.69	122.60	123.13	125.00	125.55	7.59
Bank Loans to Private Sector	39.38	40.51	42.76	42.94	43.45	43.72	7.93
Money Supply M2	38.90	39.09	42.31	42.67	43.17	43.28	10.71
Money Supply M3	97.23	97.49	102.43	102.89	104.01	104.13	6.81
LBP Lending Rate (%)	7.38	7.19	7.31	7.11	7.07	7.32	13b.p
LBP Deposit Rate (%)	5.63	5.60	5.43	5.38	5.41	5.43	(17b.p)
USD Lending Rate (%)	7.02	6.99	7.15	7.09	6.87	6.98	(1b.p)
USD Deposit Rate (%)	2.83	2.87	2.87	2.85	2.86	2.88	1b.p
%* Change in CPI**	4.27	4.47	7.75	6.97	4.68	4.32	(15b.p)

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

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

Sources: ABL, BdL

## Capital Markets

<b>Most Traded Stocks on BSE</b>	<b>Last Price (\$)</b>	<b>% Change*</b>	<b>Total Volume</b>	<b>Weight in Market Capitalization</b>
Solidere "A"	13.11	1.08	75,604	11.99%
Solidere "B"	13.10	2.42	41,952	7.79%
Byblos Common	1.56	(7.69)	86,029	5.13%
Byblos Pref. 08	101.00	(1.46)	7,680	1.85%
Byblos Pref. 09	101.00	(1.85)	14,311	1.85%
BLOM GDR	8.85	0.00	23,364	5.98%
BLOM Listed	8.40	0.00	30,257	16.51%
Audi GDR	6.75	0.00	0	6.30%
Audi Listed	6.56	(2.09)	24,524	20.98%
HOLCIM	16.12	4.00	3,400	2.88%

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

<b>Sovereign Eurobonds</b>	<b>Coupon %</b>	<b>Mid Price \$</b>	<b>Mid Yield %</b>
June 2013	8.625	100.30	4.46
Apr. 2014	7.375	103.55	3.30
Jan. 2015	5.875	103.00	3.97
Apr. 2015	10.00	111.25	3.87
Jan. 2016	8.500	110.00	4.46
Mar. 2017	9.000	114.13	4.90
Nov. 2018	5.150	100.00	5.15
Apr. 2021	8.250	113.25	6.11
Nov. 2026	6.600	100.50	6.54

Source: Byblos Bank Capital Markets

	<b>May 20-24</b>	<b>May 13-17</b>	<b>% Change</b>	<b>Apr 2013</b>	<b>Apr 2012</b>	<b>% Change</b>
<b>Total Shares Traded</b>	970,361	513,304	89.04	4,184,711	3,868,312	8.18
<b>Total Value Traded</b>	\$10,088,257	\$7,856,390	28.41	\$28,430,668	\$35,454,787	(19.81)
<b>Market Capitalization</b>	\$10.93bn	\$10.94bn	(0.05)	\$11.07bn	\$10.50bn	5.40

Source: Beirut Stock Exchange (BSE)



### Economic growth to lag regional peers, fiscal deficit to remain wide in 2013

In its semi-annual economic outlook for the Middle East and Central Asia region, the International Monetary Fund projected Lebanon's real GDP growth at 2% in 2013 compared to a growth rate of 3.1% for the Middle East & North Africa, 2.7% for the region's oil importers and 2.9% for Arab countries in transition excluding Libya. It also projected real GDP growth of 4% in 2014 compared to 3.7% for each of MENA countries and the region's oil importers, and 3.8% for Arab countries in transition ex-Libya. Lebanon's projected growth rate in 2013 would make it the third slowest economy in the Arab world along with Egypt, and ahead of only Sudan (1.2%) and Kuwait (1.1%). The Fund estimated the country's nominal GDP at \$43.8bn in 2013 relative to \$41.3bn in 2012, which would account for 7.9% of Arab oil importers' aggregate GDP. It projected Lebanon's inflation rate to average 6.7% in 2013 compared to 10.3% in MENA economies, 9.9% for the region's oil importers and 8.3% in Arab countries in transition ex-Libya. Also, it forecast broad money to grow by 8% this year and 10% next year, up from 7.9% in 2012.

In parallel, the Fund projected the government's fiscal balance to post a deficit of 9.7% of GDP in 2013 and 8.9% of GDP in 2014, relative to a deficit of 9% of GDP in 2012. It forecast government revenues at 23.2% of GDP in 2013 relative to 33.3% of GDP in the MENA countries, 24.7% of GDP for oil importers and 26.2% of GDP in Arab countries in transition, and estimated public expenditures at 33% of GDP compared to 31.9% of GDP for MENA countries, 34.2% of GDP for oil importers and 35.9% of GDP for Arab countries in transition. Further, it expected the public debt level to increase to 141.3% of GDP at end-2013 from 139.5% of GDP at end-2012. It also forecast total gross external debt at 173.8% of GDP at end-2013 and 171.9% of GDP at end-2014, down from 175.2% of GDP at end-2012 and compared to external debt in the MENA countries of 24.7% of GDP at the end of 2013 and 24.9% of GDP at the end of 2014.

The Fund estimated Lebanon's exports of goods & services to reach \$25.9bn in 2013 and \$27.6bn in 2014 compared to \$25.2bn in 2012, and for the imports of goods & services to increase to \$35.6bn in 2013 and \$37.2bn in 2014 from \$34.4bn in 2012. The IMF forecast the country's current account deficit at \$7bn or 16.1% of GDP in 2013, up from \$6.6bn or 16.1% of GDP in 2012, and compared to deficits of 5.7% of GDP for oil importers and 4.4% of GDP for Arab countries in transition ex-Libya. It also projected Lebanon's current account deficit at \$6.8bn or 14.6% of GDP in 2014. The Fund expected the country's gross official foreign currency reserves to reach \$34.7bn at end-2013 and \$39.1bn at end-2014, up from \$32.3bn at end-2012.

	Lebanon		Oil Importers		Arab Countries in Transition	
	2013P	2014P	2013P	2014P	2013P	2014P
Real GDP Growth (%)	2.0	4.0	2.7	3.7	2.9	3.8
Consumer Price Inflation (%) *	6.7	2.4	9.9	9.8	8.3	8.5
Fiscal Balance (% of GDP)	(9.7)	(8.9)	(8.9)	(7.0)	(9.1)	(7.0)
Public Debt (% of GDP)	141.3	141.7	81.4	78.9	73.3	71.9
Total Gross External Debt (% of GDP)	173.8	171.9	36.3	36.7	22.6	24.1
Current Account (% of GDP)	(16.1)	(14.6)	(5.7)	(4.9)	(4.4)	(3.8)

P: projected

\*Yearly average

Source: International Monetary Fund, May 2013

### High cost and poor service to limit demand for 4G telecom services

Business Monitor International indicated that the launch of the fourth-generation Long Term Evolution high-speed mobile telecommunications technology (4G-LTE) in Beirut is a positive development for Lebanon's telecommunications sector. It said that Orascom Telecom and Zain, which operate the state-owned networks MIC 1 and MIC 2, respectively, launched the service in Central Beirut. It expected Orascom Telecom to expand its 4G-LTE coverage to the Dbayeh, Jounieh and Kesrouan regions by November 2013; and to Tripoli, Saida and Zahlé by 2014. Zain announced that its 4G-LTE network will cover 80% of Beirut in a short period of time followed by a full coverage of the Lebanese capital by the end of 2013, before expanding to other parts of the country in 2014.

However, BMI noted that the government's monopoly over the telecommunications sector is limiting the investment and growth potential of the Lebanese mobile telecom market. It said that the lack of competition due to the government's ownership of the two available networks has kept tariffs at higher levels compared to other countries in the region and has slowed the pace of investment in new infrastructure and technology. Further, it noted that, more than one year after the launch of third generation high-speed mobile telecom technology (3G), subscribers still complain about slow network speeds and dropped calls, indicating that the two operators are not developing networks quickly enough to keep up with the rising demand. It considered that Lebanon's telecommunications market is one of the least developed in the Middle East & North Africa region, with a mobile penetration rate of just 86% in 2012. It added that there were 1.6 million smart phones in Lebanon when 3G was launched in late 2011. Further, BMI anticipated that 4G services in Lebanon will be considerably more expensive than in other countries in the region. It noted that both operators will sell 5 Gigabytes for \$69 and 10 Gigabytes for \$99. It noted that such prices exceed those offered in Saudi Arabia where 5 Gigabytes are sold for \$53 and an unlimited access is offered for \$93, as well as in Kuwait where 12 Gigabytes are sold for \$59 and 35 Gigabytes are offered for around \$86. As a result, it expected demand for 4G services in Lebanon to be minimal during the first phases of the launch, given the high price of smart phones that support such technology, the high prices of the service itself, and consumers' negative experience with the slow development of 3G networks.

### Lebanon's external debt posts 18th lowest returns in emerging markets, sixth lowest in the Middle East & Africa

Figures issued by Merrill Lynch indicate that Lebanon's external debt posted returns of 1.11% in the first four months of 2013, constituting the eighth lowest return among 34 markets in the Eastern Europe, the Middle East & Africa (EMEA) region as well as the 18th lowest return among the 61 emerging markets included in Merrill Lynch's Sovereign Plus Debt Index. Lebanon underperformed the EMEA region's returns of 1.42%, but outperformed the overall emerging markets returns of 0.92% in the first four months of 2013. Also, Lebanon's external debt outperformed the 0.9% returns posted by similarly-rated sovereigns.

Further, Lebanon's external debt posted the sixth lowest returns among 17 countries in the Middle East & Africa region in the first four months of the year, ahead of only South Africa (0.7%), Turkey (0.41%), Zambia (0.14%), Iraq (-1.46%), and Egypt (-5.36%). It was outperformed by Morocco (4.76%), the Ivory Coast (4.74%), Senegal (4.32%), Bahrain (3.98%), Jordan (3.43%), Gabon (2.45%), Tunisia (2.08%), Ghana (1.99%), Angola (1.45%), Namibia (1.4%), and Nigeria (1.23%). In US dollar terms, Lebanon's external debt posted returns of 1.11% in the first four months of 2013, tenth lowest in the EMEA region and 20th lowest among emerging markets.

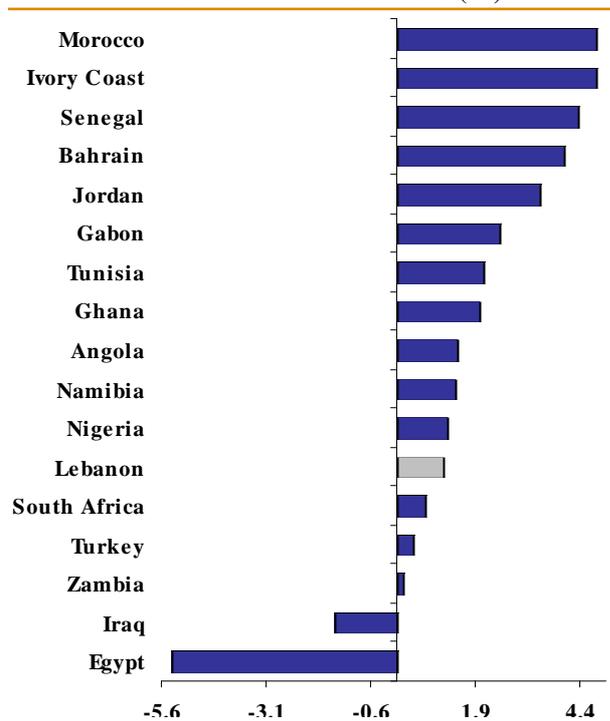
In parallel, Lebanon's external debt posted returns of -0.03% in April 2013, constituting the fourth lowest return in the EMEA region as well as in emerging markets during the covered month. Lebanon underperformed the EMEA returns of 2.85% and that of emerging markets of 3.07% as well as the 3.09% returns of similarly-rated sovereigns for the same month. Further, Lebanon's external debt posted the third lowest returns in the Middle East & Africa region in April 2013, ahead of only Angola (-0.04%) and Zambia (-0.93%). It underperformed Egypt (10.24%), Turkey (3.79%), South Africa (3.34%), Senegal (2.45%), Nigeria (2.2%), Jordan (2.1%), Morocco (2.03%), Namibia (1.52%), Bahrain (1.26%), Ghana (1.23%), Tunisia (1.21%), Gabon (0.96%), the Ivory Coast (0.64%) and Iraq (0.25%). Merrill Lynch said the spread on Lebanese Eurobonds ended April 2013 at 448 basis points, constituting the seventh widest spread in the EMEA region and the 15th widest among emerging markets. It was wider than the EMEA spread of 271 basis points as well as the emerging markets' overall spread of 282 basis points at end-April 2013. Lebanon has a weight of 3.66% on Merrill Lynch's Sovereign Plus Debt Index, the fifth highest in the EMEA universe and the 10th highest among emerging economies. Lebanon accounted for 7.5% of allocations in the EMEA region.

### Central Bank encourages banks to subscribe to upcoming long-term Treasury bills

In the monthly meeting between the Central Bank and the Association of Banks in Lebanon (ABL), Governor Riad Salamé indicated that the stock of deposits in Lebanon's banking sector continues to grow, mainly that of non-resident deposits. He noted that the balance of payments deficit narrowed to \$62m in the first quarter of the year from \$373m in the same quarter of 2012. He added that the Central Bank's large assets in foreign currency provide the necessary means to support domestic monetary stability. Further, Governor Salamé said that the Ministry of Finance plans to issue new Treasury bills denominated in Lebanese pound with a seven- and 10-years maturity that will be used to exchange T-bills that mature this coming June. He noted that the Central Bank would be ready to discount the Certificates of Deposits that banks hold, to help the latter subscribe to the new issuance. He added that it is in the interest of all parties to see the exchange succeed. He said that replacing CDs held by the banks by the new T-bills would not modify the risk profile of commercial banks.

In parallel, the ABL asked the Central Bank to renew the financial facilities it provided to Lebanese banks earlier this year as part of the stimulus package to boost lending activity and fuel economic growth. The stimulus package consisted of LBP2,210bn, or \$1.46bn, in the form of soft loans that the Central Bank is extending to commercial banks at a fixed interest rate of 1% per year. Governor Salamé indicated that the Central Bank will reassess the financial facilities based on loan applications it has received. He said that there is significant demand for loans to environmentally-friendly energy projects, and that the Bank will give priority to such demand as it will contribute to the decline in the country's energy imports. He added that a 1% decline in the energy import bill will save the Treasury \$60m. He considered that stimulating domestic energy projects would encourage the European Union to increase its support to Lebanon from the pre-set amount of €80m. He pointed out that real estate developers, which allocate part of their overall cost to develop environmentally-friendly energy facilities on new-built properties, can benefit from these loans at an almost flat interest rate. He added some banks are still not aware of these benefits. Further, the ABL indicated that Moody's Investors Service recent revision of the outlook on Lebanon's government bond rating to 'negative' from 'stable' unsettled the market. Also, the ABL requested that the Special Investigation Commission against Money Laundering and Terrorism Financing to provide banks with regular updates of the names removed from its Watch List.

### External Debt Performance in Middle East & Africa in First Four Months of 2013 (%)

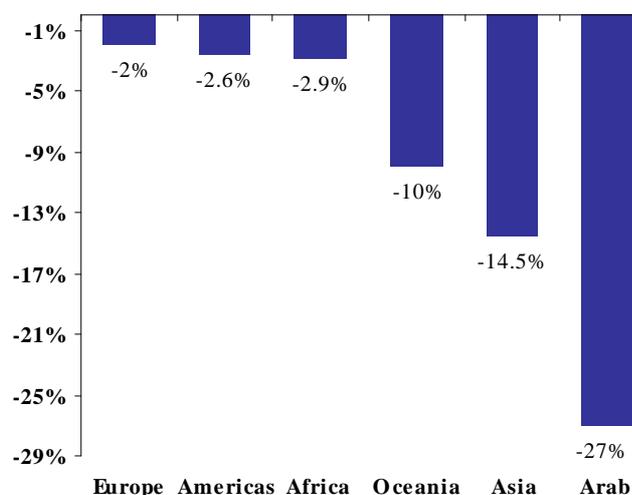


Source: Merrill Lynch, Byblos Research

### Number of tourists down 14% in first four months of 2013

The number of incoming tourists to Lebanon totaled 376,561 in the first four months of 2013, constituting a decrease of 13.9% from 437,490 tourists in the same period last year and a decline of 20.8% from 475,534 tourists during the first four months of 2011. Arab tourists accounted for 35% of total visitors in the first four months of the year, and were followed by visitors from Europe with 33.8%, the Americas with 13.4%, Asia with 10%, Africa with 4.8%, and Oceania with 2.9%. Also, tourists from Iraq accounted for 10.7% of visitors in the first four months of 2013, followed by visitors from France with 8.8%, Jordan with 6.8%, the United States with 6.6%, Egypt with 5.5%, and Canada with 4.6%. The number of Arab tourists declined by 27% year-on-year in the first four months of 2013, followed by visitors from Asia with a 14.5% decrease, Oceania (-10%), Africa (-2.9%), the Americas (-2.6%), and Europe (-2%). Further, the number of tourists from the UAE declined by 77.4% annually, followed by Saudi Arabia with a 55.4% decrease, Kuwait (-36.6%), Jordan (-18.1%), Turkey (-13.7%) and Egypt (-10.4%). In parallel, the number of tourists from Sweden rose by 18.6% annually, followed by those from Germany with a 6% rise, Iraq (+5.7%), and Brazil (+2.9%); while the number of tourists from Venezuela was almost unchanged in the covered period. Incoming tourists totaled 1.37 million in 2012, down 17.5% year-on-year.

**Number of Tourist Arrivals  
in First Four Months of 2013\***



\* year-on-year percentage change

Source: Ministry of Tourism, Byblos Research

### Trade deficit down 4.8% to \$5.8bn in first four months of 2013, volume of non-hydrocarbon imports up 9%

Total imports reached \$7.4bn in the first four months of 2013, constituting a decrease of 2.1% from the same period last year; while aggregate exports rose by 8.9% to \$1.6bn, leading to a trade deficit of \$5.8bn, down by 4.8% year-on-year. The narrowing of the deficit was mainly caused by a decline of \$160.3m in imports and an increase of \$131.7m in exports from the first four months of last year. The coverage ratio reached 21.8% in the first four months of 2013 compared to 19.6% in the same period last year, while it reached 22.3% in April 2013 relative to 20.6% in April 2012. The value of imported oil & mineral fuels fell by 27.3% year-on-year to \$1.9bn, and that of non-hydrocarbon imports rose by 11.4% to \$5.4bn.

In volume terms, imports reached 5.1 million tons in the first four months of 2013, constituting a decrease of 10.7% from the same period last year; while exports posted a 41.5% rise to one million ton, leading to a trade deficit of 4 million tons in the first four months of 2013, down by 18.2% year-on-year. Imports of oil & mineral fuels fell by 24.8% year-on-year to 2.5 million tons, while non-hydrocarbon imports increased by 9% annually to 2.6 million tons.

The United States was the main source of imports with \$735.7m or 10% of the total in the first four months of 2013, followed by China with \$615.5m (8.4%), Italy with \$569.1m (7.7%), Russia with \$507.8m (6.9%), France with \$492.3m (6.7%), Turkey with \$466.3m (6.3%) and Germany with \$432.8m (5.9%). Imports from Russia surged by 320.1% annually, those from Turkey increased by 33.1%, those from China grew by 19.3% and those from Germany rose by 18.1%; while imports from the United States dropped by 45.6%, those from France fell by 7.1% and those from Italy contracted by 1.6%. Syria was the main export destination with \$289m or 18% of the total, followed by South Africa with \$248.8m (15.5%), Saudi Arabia with \$131.2m (8.2%), the UAE with \$115.3m (7.2%), Switzerland with \$89.8m (5.6%), Iraq with \$76.6m (4.8%) and Turkey with \$69m (4.3%). Exports to Syria surged by 290.3% year-on-year in the first four months of 2013, those to Iraq grew by 53.7%, those to Saudi Arabia increased by 11.6% and those to Turkey rose by 8%, while exports to Switzerland dropped by 57.7%, those to South Africa fell by 18%, those to the UAE decreased by 5.8%.

### Customs receipts up 1.5% to \$491m in first four months of 2013

Figures released by the Customs Directorate indicated that customs revenues reached \$491m in the first four months of 2013, constituting an increase of 1.5% from \$483.6m in the same period of 2012. The Port of Beirut continues to be the main point of customs receipts, as it accounted for 87.9% of the total in the first four months, and was followed by the Hariri International Airport with 8.1%, the Port of Tripoli with 3.1%, the Masnaa crossing point with 0.6%, the Port of Tyre with 0.2% and the Port of Saida with 0.1%. Customs receipts from the value-added tax totaled \$445.8m in the first four months of 2013, up 14.1% from \$390.7m in the same period of 2012. The Port of Beirut accounted for 81.3% of such receipts, and was followed by the Hariri International Airport with 11.4%, the Port of Tripoli with 4.3%, the Masnaa crossing point with 2.4%, the Port of Saida with 0.3%, and the Port of Tyre and the crossing point of Abboudieh with 0.1%, each. As such, overall customs receipts reached \$936.4m in the first four months, with the Port of Beirut accounting for 84.8% of the total, followed by the Hariri International Airport with 9.7%, the Port of Tripoli with 3.7% and the Masnaa crossing point with 1.5%. In addition, other entry points represented the balance, with the ports of Saida and Tyre accounting for 0.2% each, and the crossing point of Abboudieh for 0.1%.

### **Central Bank discourages banks from financing PPP projects**

Central Bank Governor Riad Salamé considered that public-private partnerships (PPP) constitute the only available option for Lebanon to develop its infrastructure without increasing its debt level. But he anticipated that the use of PPP to finance infrastructure projects would face several challenges such as reaching a political consensus, the private sector's ongoing concern that the government would arbitrarily cancel projects even in the presence of signed contracts, and the public sector's concern that the private sector would exploit sectors that are considered part of the public good.

In parallel, Governor Salamé indicated that commercial banks in Lebanon would not invest in PPP projects, adding that the banks' activity should be focused on the allocation of credit to the economy and that their lending operations should avoid concentrations in order to reduce risks. He noted that the Central Bank will make sure that Lebanese banks comply with the Basel III capital and liquidity requirements, and that their private capital is being used to achieve compliance with Basel III standards rather than getting invested in long-term projects. He added that investment banks, financial institutions and brokerage firms could play a role in funding PPP projects through capital markets activities.

### **France extends timeline for release of Paris III loan**

Lebanon and France signed an agreement that extends the timeline to release a €70m long-term loan to Lebanon to November 30, 2014. The extension was due to Lebanon's delays in implementing reforms to its electricity sector, as the loan disbursement was contingent on these reforms. The €70m loan is the remaining amount of France's €500m commitment to Lebanon that were pledged at the Paris III donor conference held in January 2007. France's pledges consisted of €375m in budgetary support and €125m in private sector support. The current agreement constitutes the fourth time that Lebanon extends the timeline for the release of a French loan due to the lack of progress on reforms. The €500m conditional loan was divided in three disbursements with the last disbursement amounting to €100m, of which €30m were released in September 2012 after Lebanon drafted a detailed plan for the energy sector. In January 2007, external donors pledged a total of \$7.5bn in grants and soft loans at the Paris III donors' conference, of which \$1.6bn were received for direct budgetary support.

### **Real estate transactions down 9% in first four months of 2013**

Figures released by the Ministry of Finance indicate that the total number of real estate transactions reached 20,244 in the first four months of 2013, constituting a decrease of 8.6% from 22,141 deals in the same period last year, and compared to an annual decline of 6% in the first four months of 2012 and a drop of 10% year-on-year in the same period of 2011. Also, the aggregate value of real estate transactions totaled \$2.3bn in the first four months of 2013, constituting an increase of 6% from \$2.17bn in the same period last year. The value of real estate deals was \$2.45bn and \$2.9bn in the first four months of 2011 and 2010, respectively. In parallel, the average value per real estate transaction increased by 16% year-on-year to \$113,586 in the first four months of 2013, relative to an average value of \$97,959 in the same period of 2012 and \$103,917 in the first four months of 2011.

### **Coincident Indicator stagnates in March 2013**

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 273.9 points in March 2013 compared to 270.6 in February 2013 and 264.8 in March 2012. The Coincident Indicator, an average of 8 weighted economic indicators, increased by 1.2% month-on-month and year-on-year in March 2013. The indicator averaged 259.1 in the 12 months ending March 2013, compared to 258.3 in the 12 months ending February 2013 and to 258 in the 12 months ending March 2012. As a result, the average coincident indicator increased by a marginal 0.4% year-on-year and by 0.3% month-on-month, which reflects economic stagnation in real terms. In parallel, the indicator improved 12 times and regressed nine times in the month of March since 1993. The indicator reached an all-time high of 273.7 points in April 2012. It averaged 256.6 in 2012, 255.7 in 2011, 249.5 in 2010 and 225.9 in 2009.

### **Value of cleared checks down 0.6%, returned checks down 8.5% in first quarter of 2013**

The value of cleared checks reached \$17.3bn in the first quarter of 2013, constituting a marginal decrease of 0.6% year-on-year, compared to a rise of 2.3% in the same quarter of 2012 and a growth of 0.3% in the first quarter of 2011. The value of cleared checks in Lebanese pounds rose by 6% annually to the equivalent of \$3.8bn in the first quarter of 2013, while the value of cleared checks in US dollars dropped by 2.3% to \$13.5bn. The dollarization rate of cleared checks decreased to 78% from 79.3% in the same quarter of the previous year. Also, the value of returned checks in domestic and foreign currency declined by 8.5% to \$354m in the first quarter of 2013, relative to a rise of 19.1% in the same quarter of 2012 and decrease of 30.7% in the first quarter of 2011. In parallel, the number of cleared checks totaled 3.2 million checks in the first quarter of 2013, down by a marginal 0.3% from the same quarter last year. Also, the number of returned checks totaled 62,000 checks, down by 12.3% from 71,000 in the same quarter of 2012.

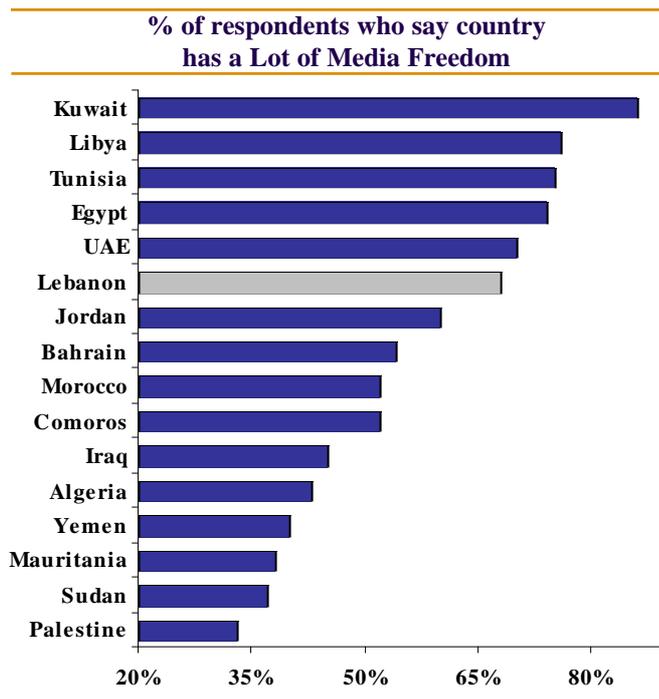
### Perception of media freedoms in Lebanon deteriorates

A survey conducted in 2012 by opinion polling and consulting firm Gallup on media freedom in 133 countries worldwide shows that 68% of Lebanese respondents said that the media in Lebanon has a lot of freedom, compared to 67% of participants worldwide who reported that the media in their countries has a lot of freedom. In comparison, 74% of respondents in Lebanon said that the media in Lebanon had a lot of freedom in the 2011 survey and 70% of participants in Lebanon shared similar views in the 2010 survey.

The share of respondents who perceived that the media in Lebanon has a lot of freedom was the 64th highest worldwide in the 2012 survey, while it was the 46th highest in the 2011 survey and the 50th highest in the 2010 survey. The perception of media freedoms in Lebanon was similar to the share of respondents in Brazil who said that the media in their countries has a lot of freedom in 2012. The share of Lebanese who perceived that the media in their country has a lot of freedom was also the sixth highest among 16 Arab countries included in the 2012 survey, while it was the third highest in the 2011 survey and the second highest in the 2010 survey. It was lower than the share of respondents considered said that the media does have a lot of freedom in Kuwait (86%), Libya (76%), Tunisia (75%), Egypt (74%) and the UAE (70%).

In parallel, 30% of survey participants said that the Lebanese media does not have a lot of freedom, compared to around 24% of respondents worldwide who considered that the media in their country does not have a lot of freedom. In comparison, 24% of respondents in Lebanon said that the media in Lebanon did not have a lot of freedom in the 2011 survey and 28% of participants in Lebanon shared similar views in the 2010 survey. The percentage of respondents who said that the media in Lebanon does not have a lot of freedom was the 40th highest worldwide in the 2012 survey, while it was the 65th highest in 2011. Also, it was the seventh highest among Arab states in the 2012 survey. It was similar to the share of survey participants in Bahrain and lower than the share of respondents who said that the media does not have a lot of freedom in Mauritania and Sudan (57% each), Palestine (56%), Algeria (53%), Iraq (52%) and Comoros (47%).

The survey's results are based on telephone and face-to-face interviews with approximately 1,000 adults per country that were conducted in 133 countries and territories in 2012. The survey in Lebanon was conducted through face-to-face interviews with 1,012 adults between September 22 and November 2, 2012.



Source: Gallup, Byblos Research

### Aggregate profits of listed banks down 2% in first quarter of 2013

Financial results issued by five banks listed on the Beirut Stock Exchange show that their aggregate net profits reached \$236.1m in the first quarter of 2013, constituting a decline of 1.9% from net earnings of \$240.7m in the same quarter last year and compared to a rise in net income of 2.6% in the first quarter of 2012. Further, the banks' aggregate pre-tax profits regressed by 3.9% year-on-year to \$291.5m in the first quarter of 2013. However, the average year-on-year change in profits before deducting taxes posted a slight growth of 1% in the first quarter of the year. The aggregate net interest income of the five banks reached \$575m in the first quarter of 2013, up 3.5% from \$555.7m in the same quarter of 2012; while their total net fees and commission income decreased by 2.1% to \$171.7m year-on-year. Total operating income of the listed banks reached \$996.9m in the first quarter of 2013, down 2.2% from \$1bn in the same quarter last year.

In parallel, the aggregate assets of the five banks increased by 2.8% from end-2012 and by 10.3% from end-March 2012 to \$133.5bn; while their total loans rose by 4.2% from end-2012 and by 15.8% from end-March 2012 to \$25.7bn. Also, the banks' total deposits rose by 2.7% from end-2012 and by 11.1% from end-March 2012 to \$74.1bn. The banks' collective loans to related parties dropped by 9% from end-2012 to \$279.6m, while the aggregate deposits from related parties declined by 2.3% from end-December 2012 to \$865.8m at end-March 2013.

Also, the five banks' aggregate loans-to-deposits ratio stood at 34.7% at end-March 2013, up from 34.2% at end-2012 and from 33.3% at end-March 2012. BLOM Bank posted the lowest loans-to-deposits ratio at 27.8% compared to 27.5% at end-March 2012; followed by Byblos Bank with a ratio of 29.4% relative to 30.8% at end-March 2012, Bank Audi with 40.3%, up from 36.4% at end-March 2012; Bank of Beirut with 39.7% relative to 41.3% at end-March 2012; and Banque BEMO with a 49.9% ratio, up from 48% at end-March 2012. Further, the banks' collective cost-to-income ratio stood at 46.8% in the first quarter of 2013 and increased from 42.8% in the same quarter last year. BLOM Bank posted the lowest cost-to-income ratio at 35.8% in the first quarter of 2013 compared to 33.3% at end-March 2012. It was followed by Byblos Bank with a ratio of 48.4%, up from 47.8% in the first quarter of the previous year; Bank Audi with 52%, up from 42.2% in the first quarter of 2012; Bank of Beirut with 55.7% relative to 57.7% in the first quarter of 2012, and Banque BEMO with a 71.3% ratio, down from 75% in the first quarter of last year.

Results of Listed Banks in First Quarter of 2013					
	Byblos	BLOM	Audi	BoB	BEMO
Net Profits	\$35.7m	\$87.1m	\$85.5m	\$26.2m	\$1.54m
% Change*	(7.5%)	3.6%	(9.5%)	19.2%	6.4%
Total Assets	\$17.60bn	\$25.11bn	\$33.28bn	\$11.06bn	\$1.49bn
% Change**	3.5%	0.2%	6.3%	(2.2%)	0.1%
Loans	\$4.03bn	\$6.06bn	\$11.59bn	\$3.44bn	\$0.62bn
% Change**	(2.2%)	0.5%	11.1%	(2.4%)	1.9%
Deposits	\$13.69bn	\$21.79bn	\$28.74bn	\$8.65bn	\$1.25bn
% Change**	2.3%	0.0%	7.2%	(3.3%)	(0.7%)

\*Year-on-year

\*\*Change from end-2012

### Balance sheet of investment banks down 4% year-on-year at end-March 2013

Figures released by the Central Bank show that the consolidated balance sheet of investment banks in Lebanon reached LBP5,993bn, or \$3.98bn, at the end of March 2013, constituting a decrease of 1% from the end of 2012 and a drop of 4.2% from a year earlier. Private sector deposits reached \$2.1bn at end-March, down by 3.5% from end-2012 and by 8.6% from end-March 2012. Resident deposits in foreign currencies reached \$965.8m, followed by resident deposits in Lebanese pounds at \$845.4m and non-resident deposits in foreign currencies at \$214.2m. Also, commitments to the financial sector reached \$539.4m at the end of March 2013, representing a decline of 5.3% from end-2012 and a marginal decrease of 0.1% year-on-year.

On the assets' side, investment banks' operations with commercial banks reached \$1.7bn at the end of the first quarter, down 11.3% from end-March 2013. Also, lending to the private sector reached \$1.19bn, constituting an increase of 2.8% year-on-year. Investments in government securities totaled \$716.4m at end-March, down by 6% from end-2012 and by 1.8% from a year earlier. Further, the aggregate capital account of investment banks reached \$963.1m at the end of March 2013, constituting an increase of 11.4% from a year earlier. There are 16 investment banks operating in Lebanon with a total of 21 branches as of June 2012.

### **Venture capital fund invests \$1.15m in three Lebanese startups**

The Building Block Equity Fund (BBEF), a venture capital fund, announced that it has invested \$1.15m in three Lebanese startups to help them expand their operations in the Middle East region. The BBEF, managed by Middle East Venture Partners, invested \$500,000 in the online book distribution company Cedar Books; \$400,000 in the fast food chain Shawarmanji; and \$250,000 in Arab recipe web portal Shahiya.com. The BBEF indicated that the companies were selected according to international standards pertaining to the strength of the business and the competence of its management team. The BBEF is an initiative of Bader, an organization launched by a group of local business leaders and entrepreneurs to raise awareness among Lebanese youth about the importance of entrepreneurship.

The BBEF was launched in 2006 to provide funding for SMEs. The fund aims to invest in Lebanese small and medium-size enterprises and startup companies that are related to the technology and services sectors. The investors in the fund are the European Investment Bank, Averroès Finance, several Lebanese banks, and members from the Bader organization. In 2009, BBEF executed its first transaction with a \$1m investment in Luceor SAS, a networking technology company. But it exited the investment soon after. In parallel, Bader indicated that it signed agreements with several banks to raise the fund's capital to \$15m from \$7.3m.

### **EFG Hermes' net income up 27% to \$15m in first quarter of 2013**

Regional investment bank EFG Hermes declared consolidated net income of EGP98m, or around \$14.5m, in the first quarter of 2013, constituting an increase of 27.3% from net profits of EGP77m in the same quarter last year and compared to net losses of EGP21m in the fourth quarter of 2012. Investment banking operations generated net losses of EGP18m, while commercial banking activity by Crédit Libanais posted net profits of EGP116m in the first three months of 2013. Total operating revenues reached EGP494m in the first quarter of 2013, up 10.5% quarter-on-quarter and 14.1% annually. EFG said that commercial banking revenues increased by 12.3% annually to EGP300m, while those of investment banking improved by 17% year-on-year to EGP194m. Fees and commissions of the investment bank rose 26% year-on-year to EGP158m, while they increased 8% quarter-on-quarter. It said that revenues generated from capital markets and treasury operations regressed by 13% year-on-year but rose by 201% quarter-on-quarter to EGP36m due to higher FX gains as the EGP devaluated sharply during the quarter. In parallel, EFG Hermes indicated that total consolidated assets reached EGP65.1bn, or \$9.6bn at the end of March 2013; relative to EGP59.5bn, or \$8.8bn at end-2012. It added that Crédit Libanais accounted for 61% of consolidated operating revenues in the first quarter of 2013.

EFG Hermes Holding SAE holds a 65% stake in Crédit Libanais and has a call option for an additional 25% interest in the bank. Crédit Libanais posted net profits of \$16.2m in the first quarter of 2013, constituting a decrease of 11.5% from the same quarter in 2012. Its total assets reached \$8bn at end-March 2013, constituting a 0.7% increase from end-2012; while its loans to customers stood at \$2.4bn at end-March 2013, up 6.8% from end-2012. The bank's deposits totaled \$7bn at the end of March 2013 and increased by 1.2% from end-2012.

### **Lebanese investor to invest up to \$800m in Khartoum by 2019**

Beirut-Based farmland investor GLB Invest announced that it will invest up to \$800m in Sudan to produce animal feed that will be sold to Saudi Arabia. It said that it had leased 78,000 hectares of land in the north of Khartoum for this purpose. It noted that it will produce and export 40,000 tons of animal feed to Saudi Arabia in 2013 and 250,000 tons in 2014. It added that the land's production capacity will gradually increase each year and will reach its maximum capacity of 750,000 tons by 2019. It pointed out that it has invested \$200m so far in the project, and estimated its total investment to range between \$750m and \$800m by 2019. In parallel, GLB Invest indicated that it is planning to plant 200,000 sunflower seeds in Sudan, which would be used to produce sunflower oil. It noted that most of the production will be sold on the Sudanese market, while the remaining quantities will be exported to neighboring countries. GLB Invest considered that the investment climate in Sudan is good despite the Central Bank of Sudan's restrictions on repatriating profits in hard currency.

### **MEA to start direct flights to Armenia**

National flag carrier Middle East Airlines (MEA) announced that it will launch direct flights between Beirut and Yerevan, the capital of Armenia, on July 5, 2013. MEA said that it will operate two roundtrip flights per week between the two cities, scheduled on Mondays and Fridays. It noted that each flight will have a maximum capacity of 126 passengers, with 24 passengers in business class and 102 in economy class. Direct flights between Lebanon and Yerevan were operated by Armenian carrier Armavia Air until the latter filed for bankruptcy and suspended its operations on March 29, 2013. MEA, which is 99% owned by the Central Bank of Lebanon, has currently a fleet of 18 modern Airbus planes and flies to more than 38 destinations in Europe, the Gulf region, the Middle East and Africa. Also, it signed last year a Memorandum of Understanding to purchase 10 new Airbus planes at an estimated cost of \$1bn. Earlier this month, Lebanon signed an MoU with Sudan that will allow direct flights between Beirut and Khartoum starting in September 2013. Also, the MoU stipulates that Lebanese flag carriers can use Sudan as a transit route to six other destinations in Africa that are Accra in Ghana, Abuja in Nigeria, Johannesburg in South Africa, Luanda in Angola, Libreville in Gabon and Kinshasa in the Democratic Republic of the Congo.

### **Moody's withdraws Banque BEMO's ratings**

Moody's Investors Service announced that it has withdrawn Banque BEMO's 'Baa1.lb' long-term and 'LB-2' short-term national scale ratings (NSR). It said that the long-term NSR had a 'negative' outlook at the time of the withdrawal. The agency indicated that it withdrew the ratings for its "own business reasons" and did not specify if it was upon the bank's request. The agency assigned the ratings to Banque BEMO in May 2008. The NSRs measure creditworthiness among debt issues and issuers within a country, which allows market participants to better differentiate relative risks. NSRs are only comparable with NSRs for other rated debt issues and issuers within the same country. The agency still rates Byblos Bank, BLOM Bank and Bank Audi.

### **Arope's balance sheet at \$287m at end-2012**

Arope Insurance sal released its audited balance sheet that shows total assets of \$286.6m at end-2012, up 8% from \$265.3m at end-2011. On the assets side, general company investments totaled \$171.3m, up 16.5% from \$147m at end-2011. They included \$49.1m in cash & cash equivalents, \$24.4m investments in subsidiaries and associates, \$81.3m in fixed income investments; and \$79.6m in blocked bank deposits and deposits with maturity of more than three months, of which \$63,018 blocked in favor of the Economy Ministry as guarantees.

Also, Unit-linked contracts investments totaled \$58.6m at end-2012, constituting a decrease of 11.6% from \$66.3m a year earlier, and were fully vested in cash and similar investments. Reinsurance share in technical reserves for the life and non-life categories amounted to \$15.3m and \$7.7m, respectively, constituting increases of 6% and 0.8%, respectively. Receivables under the insurance's direct and indirect business lines grew by 2.4% year-on-year to \$9.2m in 2012.

On the liabilities side, shareholders' equity totaled \$74.2m at end-2012, constituting a rise of 25.9% from \$58.9m a year earlier. Unit-linked technical reserves reached \$58.6m at the end of December 2012, constituting a decline of 11.6% from \$66.3m at end-2011. Also, technical reserves for the life segment rose by 28.3% year-on-year to \$40.6m, while technical reserves for the non-life category reached \$87.3m at end-December 2012 and increased by 2.3% from a year earlier. Non-life technical reserves included unearned premium reserves of \$73.3m that rose by 10.3%, outstanding claims reserves of \$12m that marginally regressed by 0.7%, and \$0.8m in reserves incurred but not reported that slightly decreased by 0.6% year-on-year. Further, provisions for risks and charges reached \$8.4m and rose by 3.6% from a year earlier.

### **Fitch affirms ratings on Société Générale, outlook 'negative'**

Fitch Ratings affirmed Société Générale's (SocGen) long-term Issuer Default Rating (IDR) at 'A+' and maintained the short-term IDR at 'F1+'. It also affirmed the bank's Viability Rating (VR) at 'a-'. It said that SocGen's long-term IDR has a 'negative' outlook, reflecting the outlook on France's long-term IDR. The agency indicated that SocGen's ratings are sensitive to a decrease in France's ability and willingness to provide support to the bank in case of need. It noted that an upgrade of the bank's ratings is unlikely, given expectations of diminishing sovereign support for banks in Europe and in the United States. Further, it said that the bank's VR reflects its solid and well-performing franchise in retail and commercial banking, its global franchise in equity derivatives and its focus on strengthening its balance sheet in terms of both liquidity and capital. It added that the VR is negatively affected by exposure through commercial bank subsidiaries in Central & Eastern Europe and in Russia, which are posting poor results as well as earnings volatility from the corporate and investment banking business. It said that further negative VR drivers include a high gross impaired loans ratio and a lower quality liquidity buffer compared to peers. Société Générale has a 19% stake in Société Générale de Banque au Liban sal.

### **CMA CGM to face risks from the reallocation of manufacturing capacity to industrialized nations**

Moody's Investors Service anticipated that falling oil imports by the United States, the return of some manufacturing capacity to industrialized nations, and advances in vessel design would significantly change the competitive landscape for global shipping companies such as the Lebanese-owned and France-based container shipping group CMA CGM, which would affect their creditworthiness in the next five years. It said companies' failure to proactively manage these risks would increase operating and financial pressure and eventually hurt their businesses. The agency pointed out that CMA CGM would be mainly affected by the partial return of manufacturing capacity back to industrialized nations, as it will cause a drop in transportation volumes on routes between Asia and the United States. It considered that companies in the container segment need to rebalance some of their capacity from long-haul trade to smaller vessels that are more suited to intra-Asia trade. Further, Moody's said that tightening environmental regulations and high fuel costs are strong incentives for shipping companies to invest in the new generation of "greener" vessels in order to cut operating expenses. But it noted that the lack of financing is a main constraint.

In March 2013, Moody's affirmed the corporate family rating of CMA CGM at 'B3' and the company's senior unsecured bond ratings at 'Caa1'. It also upgraded the firm's probability of default rating to 'B3' from 'Caa1'. It said that the ratings have a 'positive' outlook. It attributed the affirmation of the ratings to the stabilization of the company's credit profile following the recent closing of its financial restructuring, and to the benefits of improved operating environment and cost position in 2012. It said that the restructuring program has improved CMA CGM's liquidity position and reinforced its equity base. CMA CGM group is the third largest container shipping company in the world. It operates a fleet of 414 vessels with a total capacity of 1.45 million TEU and serves more than 400 ports around the world.



## Ratio Highlights

(in % unless specified)	2010	2011	2012	Change*
Nominal GDP (\$bn)	37.1	39.3	41.6	
Public Debt in Foreign Currency / GDP	55.5	53.2	58.7	550
Public Debt in Local Currency / GDP	86.2	83.2	80.2	(300)
Gross Public Debt / GDP	141.7	136.4	138.9	250
Total Gross External Debt / GDP	167.2	173.8	172.3	(150)
Trade Balance / GDP	(36.9)	(40.5)	(40.4)	10
Exports / Imports	23.7	21.2	21.1	(10)
Fiscal Revenues / GDP	24.8	23.7	22.8	(90)
Fiscal Expenditures / GDP	30.5	29.7	30.2	50
Fiscal Balance / GDP	(5.7)	(6.0)	(8.3)	(230)
Primary Balance / GDP	5.5	4.2	0.7	(350)
Gross Foreign Currency Reserves / M2	72.6	79.2	69.4	(980)
M3 / GDP	248.4	247.4	250.0	260
Commercial Banks Assets / GDP	347.3	357.4	365.6	820
Private Sector Deposits / GDP	289.0	294.4	300.5	610
Private Sector Loans / GDP	94.2	100.2	104.5	430
Private Sector Deposits Dollarization Rate	63.2	65.9	64.8	(110)
Private Sector Lending Dollarization Rate	80.3	78.4	77.6	(80)

\* Change in basis points 11/12

Source: Association of Banks in Lebanon, Institute of International Finance, International Monetary Fund, Ministry of Finance, 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	Negative	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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