



# LEBANON THIS WEEK

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Assets of Syrian affiliates of Lebanese banks increase by 56% and deposits rise by 46% in the first half of 2013

Housing Bank's net profits up 10% to \$16m in 2012

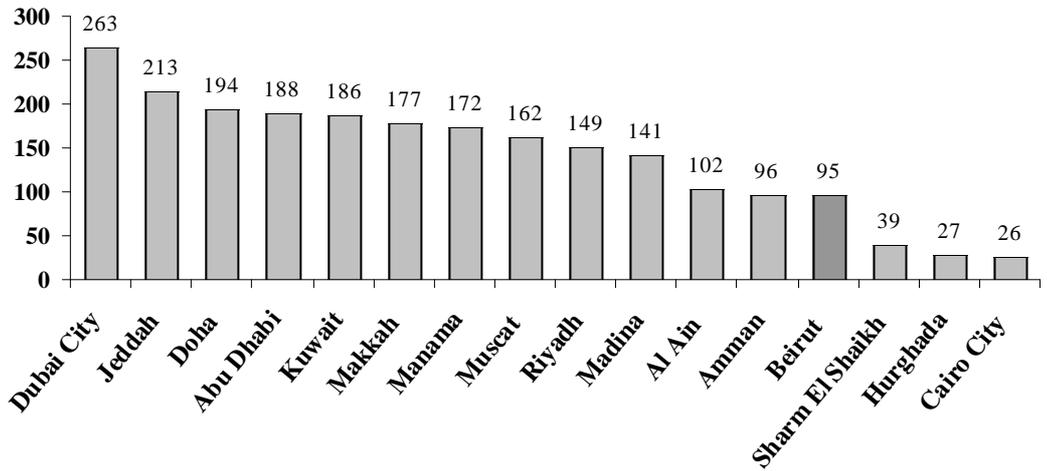
Top five freight forwarders' activity up 27% in first half of 2013

Arabia Insurance's net income up 15% to \$9.6m in 2012

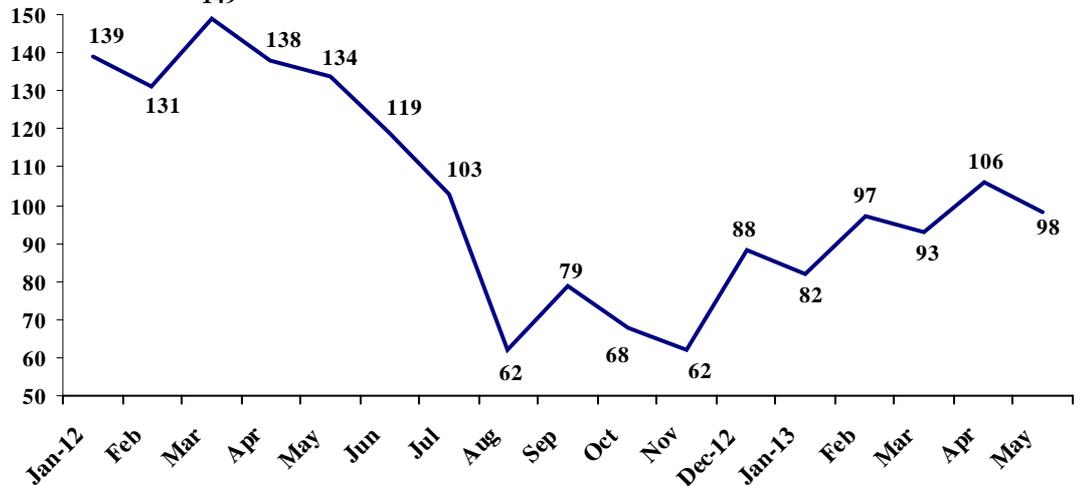
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## Charts of the Week

Revenue per Available Room at Hotels in Arab Cities in First Five Months of 2013 (US\$)



Revenue per Available Room at Hotels in Beirut (US\$)



Source: Ernst & Young, Byblos Bank

## Quote to Note

"As an indicator of the government's sensitivity to the poor performance of the economy, it has not published official GDP data since 2010."

*The Economist Intelligence Unit, on one of the reasons behind the delay in publishing national account figures*

## Number of the Week

**\$1bn:** Average monthly growth of private sector deposits in the Lebanese banking sector during the first half of 2013

## Economic Indicators

<b>\$m (unless otherwise mentioned)</b>	<b>2011</b>	<b>Apr 12</b>	<b>2012</b>	<b>Feb 13</b>	<b>Mar 13</b>	<b>Apr 13</b>	<b>% Change*</b>
Exports	4,276	319	4,486	381	406	412	29.15
Imports	20,170	1,548	21,281	1,791	2,076	1,849	19.44
Trade Balance	(15,894)	(1,229)	(16,795)	(1,410)	(1,670)	(1,437)	16.92
Balance of Payments	(1,996)	(543)	(1,538)	(92)	(353)	44	n/a
Checks Cleared in LBP	14,251	1,154	14,976	1,213	1,286	1,473	27.64
Checks Cleared in FC	57,852	4,284	56,044	4,353	4,472	4,854	13.31
Total Checks Cleared	72,103	5,438	69,787	5,566	5,758	6,327	16.35
Budget Deficit/Surplus	(2,342)	(422.0)	(3,925)	(279.91)	(484.90)	(726.31)	72.11
Primary Balance	1,662	15.00	(109.87)	(130.10)	(75.10)	(264.63)	n/a
Airport Passengers	5,596,034	518,723	5,960,414	402,517	502,923	514,458	(0.82)

<b>\$bn (unless otherwise mentioned)</b>	<b>Dec 2011</b>	<b>Apr 12</b>	<b>Dec 12</b>	<b>Feb 13</b>	<b>Mar 13</b>	<b>Apr 13</b>	<b>% Change*</b>
BdL FX Reserves	30.82	31.76	29.97	30.34	30.36	30.66	(3.47)
<i>In months of Imports</i>	<i>18.51</i>	<i>20.52</i>	<i>16.02</i>	<i>16.94</i>	<i>14.62</i>	<i>16.58</i>	<i>(19.18)</i>
Public Debt	53.66	55.04	57.69	58.08	57.75	59.12	7.41
Net Public Debt	46.37	47.18	49.12	49.95	50.07	50.68	7.43
Bank Assets	140.58	144.71	151.88	153.97	155.44	155.11	7.19
Bank Deposits (Private Sector)	115.72	118.75	125.00	126.30	128.11	128.10	7.87
Bank Loans to Private Sector	39.38	41.67	43.45	43.95	44.70	44.08	5.77
Money Supply M2	38.90	40.46	43.17	43.62	43.76	43.93	8.58
Money Supply M3	97.23	99.77	104.01	104.71	105.85	106.18	6.42
LBP Lending Rate (%)	7.38	7.49	7.07	7.47	7.28	7.27	22b.p
LBP Deposit Rate (%)	5.63	5.42	5.41	5.46	5.44	5.43	(1b.p)
USD Lending Rate (%)	7.02	7.10	6.87	7.05	6.95	6.90	(20b.p)
USD Deposit Rate (%)	2.83	2.84	2.86	2.94	2.97	2.97	13b.p
%* Change in CPI**	4.27	6.03	4.68	3.66	9.17	4.48	(155b.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"	11.23	0.18	40,598	10.74%
Solidere "B"	11.28	1.26	22,747	7.01%
Byblos Common	1.54	1.32	106,650	5.29%
Byblos Pref. 08	100.10	0.10	250	1.91%
Byblos Pref. 09	100.10	0.00	880	1.91%
BLOM GDR	8.65	0.00	0	6.11%
BLOM Listed	8.25	(0.24)	10,000	16.96%
Audi GDR	6.26	0.00	0	6.11%
Audi Listed	6.15	(1.60)	33,980	20.57%
HOLCIM	15.68	0.00	0	2.93%

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

<b>Sovereign Eurobonds</b>	<b>Coupon %</b>	<b>Mid Price \$</b>	<b>Mid Yield %</b>
Apr. 2014	7.375	102.63	3.13
Jan. 2015	5.875	102.00	4.37
Apr. 2015	10.00	109.25	4.17
Jan. 2016	8.500	108.50	4.70
Mar. 2017	9.000	112.00	5.26
Nov. 2018	5.150	98.25	5.54
Apr. 2021	8.250	111.00	6.40
Nov. 2026	6.600	98.00	6.83

Source: Byblos Bank Capital Markets

	<b>Aug 19-23</b>	<b>Aug 12-16</b>	<b>% Change</b>	<b>July 2013</b>	<b>July 2012</b>	<b>% Change</b>
<b>Total Shares Traded</b>	232,285	56,242	313.01	7,014,320	9,494,611	(26.12)
<b>Total Value Traded</b>	\$2,203,483	\$1,774,889	24.15	\$30,195,961	\$62,270,730	(51.51)
<b>Market Capitalization</b>	\$10.46bn	\$10.47bn	(0.16)	\$10.56bn	\$10.25bn	3.01

Source: Beirut Stock Exchange (BSE)



### Greenfield FDI projects down 62% to \$201m in 2012

Figures compiled by fDi Markets and released by the United Nations Conference on Trade and Development (UNCTAD) show that the value of inward Greenfield foreign direct investment (FDI) projects in Lebanon totaled \$201.4m in 2012, constituting a decrease of 62.1% from \$531.3m in 2011. Greenfield foreign FDI projects in Lebanon totaled \$1.3bn in 2010, \$1.8bn in 2009 and \$1.3bn in 2008. Lebanon was the fifth smallest recipient of Greenfield FDI in nominal terms among 19 Arab countries, ahead of only Libya (\$98m), Sudan (\$66m), Djibouti (\$25m) and Syria (\$10m). Lebanon was the 125th highest recipient of Greenfield FDI among 175 countries in 2012, while it was the 114th highest recipient in 2011.

Also, Lebanon posted the fourth steepest drop in inward Greenfield FDI among Arab countries last year, with only Syria (-99.2%), Iraq (-90.8%) and Morocco (-74.2%) posting steeper declines. Lebanon was one of 10 Arab economies that saw a fall in inward Greenfield FDI in 2012. In comparison, the value of inward Greenfield FDI projects to Arab economies declined by 30.7% year-on-year, while inward Greenfield FDI projects to developing economies decreased by 38.2% and global FDI fell by 33%.

The value of Greenfield foreign FDI projects in Lebanon accounted for 0.4% of total Greenfield foreign FDI projects in Arab countries last year, down from 0.7% in 2011. It also represented 0.06% of total flows to developing countries and 0.03% of global FDI in 2012. Further, the value of Greenfield FDI projects in Lebanon was equivalent to 0.5% of GDP in 2012, down from 1.4% of GDP in 2011, and constituting the fourth lowest ratio in the Arab world.

Further, Lebanon attracted 19 Greenfield FDI projects in 2012 compared to 26 projects in 2011, 30 projects in 2010, 28 projects in 2009 and nine projects in 2008. It attracted the eighth smallest number of FDI projects among Arab countries last year, more than in Algeria with 17 projects, Libya with 10 projects, Sudan with eight projects, Mauritania with four projects, Yemen and Djibouti with two projects each, and Syria with one project. The number of Greenfield FDI projects in Lebanon accounted for 1.9% of total Greenfield FDI projects in Arab countries last year relative to a share of 2.3% in 2011.

The FDI figures cover cross-border Greenfield projects that lead to the direct creation of jobs and capital investment. They include joint ventures when these transactions lead to a new physical Greenfield operation. The figures exclude mergers and acquisitions and other equity investments. fDi Markets is a database that tracks cross-border Greenfield investments across the world, and is owned by the Financial Times Group.

### Central Bank authorizes commercial banks to invest in technology start-ups

The Central Bank of Lebanon amended Basic Circular 6116 dated March 7, 1996 related to financial facilities that the Central Bank can provide for banks and financial institutions operating in Lebanon. The circular stipulates that banks operating in Lebanon can have access to interest free financial facilities from the Central Bank over a maximum period of seven years, provided that banks invest an equal amount in the capital of start-up companies, incubators and accelerators. It added that these companies must be part of the knowledge economy sector, support socio-economic development, create jobs, and enhance intellectual capital. Also, the companies must be incorporated in Lebanon, and must not be offshore or financial firms.

The circular stipulated that banks can hold shares in the firms for a maximum of seven years, except in cases where the Central Bank approves longer periods. Also, the Central Bank can allow several banks to invest in the same firm, and for banks to invest in investment funds, such as venture capital funds, that invest in such firms. The circular limited banks' participation in the capital of a start-up to 80% of this capital but the bank can exceed this limit by granting to the firm's founders stock options on the shares that exceed the bank's limit. Further, banks can invest up to 3% of their private funds in new companies, with a 10% limit per firm of this percentage. But the Central Bank may allow banks to exceed both limits. The circular indicates that banks must play an active role in the invested companies through supporting their management, growth and development.

In parallel, the circular stipulated that banks must invest the financial facilities extended by the Central Bank in Lebanese Treasury bills or in securities approved by the Bank. The net returns on this investment must be equivalent to 75% of the bank's funds that are invested in the firms, which constitutes a guarantee of the funds the banks are investing in the start-ups. Further, the profits generated by a bank from the sale of its shares in a firm must be split with the Central Bank, with the other 50% to be either reinvested within six months in other firms or allocated to the bank's capital.

Greenfield FDI in Arab Countries (\$m)			
	2011	2012	Change (%)
UAE	11,623	12,053	3.7%
Egypt	6,247	10,205	63.3%
Saudi Arabia	15,766	8,390	(46.8%)
Oman	8,043	4,970	(38.2%)
Bahrain	3,931	3,535	(10.1%)
Algeria	1,204	2,370	96.9%
Qatar	4,362	2,172	(50.2%)
Jordan	3,250	1,713	(47.3%)
Tunisia	1,602	1,426	(11.0%)
Morocco	4,354	1,125	(74.2%)
Kuwait	494	1,051	112.9%
Iraq	10,597	976	(90.8%)
Yemen	11	366	3170.5%
Mauritania	279	361	29.4%
<b>Lebanon</b>	<b>531</b>	<b>201</b>	<b>(62.1%)</b>
Libya	49	98	98.8%
Sudan	58	66	13.8%
Djibouti	-	25	n/a
Syria	1,315	10	(99.2%)
<b>Total</b>	<b>73,718</b>	<b>51,114</b>	<b>(30.7%)</b>

Source: fDi Markets, UNCTAD, Byblos Research

### **Pharmaceuticals association requests maintaining Lebanon on global black list over lack of adequate intellectual property protection**

The Pharmaceutical Research and Manufacturers of America (PhRMA), an organization grouping the largest U.S. pharmaceutical companies, asked the United States Trade Representative to maintain Lebanon on the 2013 Priority Watch List over the lack of adequate intellectual property protection in the Lebanese pharmaceutical market. Lebanon is one of 15 countries that PhRMA recommended for the Priority Watch List. The list includes Algeria from the region. Also, the less critical Watch List includes Saudi Arabia, Tunisia and Israel from the region.

PhRMA identified ineffective regulatory data protection, regulatory barriers, and parallel imports as the three key issues of concern in the Lebanese pharmaceutical market. It said that Lebanon is required to prevent unfair commercial use of pharmaceutical data as a World Trade Organization applicant. But it noted that Lebanon does not currently provide protection for clinical data submitted in seeking regulatory approval. It noted that Lebanon passed a new industrial property law in 2000, which represented a major improvement over the 1924 law. It said the 2000 law provides 20 years of product patent protection, as well as incentives for foreign direct investment and technology transfer, specifically for the pharmaceutical sector. But it considered that the patent law does not provide sufficient pipeline or transitional patent protection, even though it improved the environment for innovation in the country and provided a good basis for Lebanon's accession to the WTO. It noted that the law provides only a partial definition of confidential information, leaving the identification of such information to interpretation by the courts. Further, it said that the Economy Ministry considers that the publication of any data in a medical journal and on the Internet constitutes a disclosure of the data. However, PhRMA noted that this should not be perceived as giving up the rights in underlying proprietary data, and that relying on those publications for marketing approval is an unfair commercial use of the data. PhRMA indicated that the list of countries with inadequate patent protection mechanisms includes Algeria, Israel, Saudi Arabia, Tunisia and Turkey from the region.

Second, PhRMA pointed out that regulatory barriers constitute another concern in Lebanon's pharmaceutical market. It said that the absence of clear criteria to distinguish between innovative and generic medicines is an ongoing concern in the Lebanese market. It noted that the Ministry of Health has not implemented an effective regulatory system to technically monitor and confirm bioequivalence studies submitted for approval. It added that the drug registration committee currently assesses a registration file based on a set of requirements according to a well-defined checklist and ensures that all sections required are included. As such, PhRMA recommended the establishment of a central laboratory to validate the quality of medicines and bioequivalence, and to create a system to track post-marketing quality concerns in Lebanon. Further, it said that innovative products are subject to more onerous requirements than generics. It noted that Lebanon's current registration system is discriminatory against imported products, which must undergo longer regulatory approval timelines. It added that local manufacturers of 'copy' products and importers of unauthorized copies are able to register with the Health Ministry.

Third, PhRMA cited parallel importation as one of the local pharmaceutical market's key challenges. It noted that grey market medicinal products, with their attendant risks to patients, remain an issue in the country. It considered that the new drug registration regime allows for parallel importation of pharmaceuticals through special import licenses granted by the Health Ministry. It said that parallel importation presents risks to Lebanese patients by facilitating the import of counterfeit, sub-standard or uncontrolled pharmaceuticals. It noted that the trade in counterfeit pharmaceutical products persists and may become a significant public health issue in Lebanon despite the Health Ministry's efforts to detect counterfeit products and to publicly disclose information about them. It added that consumers find it difficult to distinguish counterfeit or sub-standard products from authentic medicine.

### **Central Bank raises limit of subsidized loans to environmentally-friendly projects**

The Central Bank of Lebanon issued Intermediate Circular 328 on August 5, 2013 that amends Basic Circular 84 dated June 2, 2001. The circular stipulates that the Central Bank, in cooperation with the European Union, will start to subsidize loans of \$5m or less that are extended to finance environmentally-friendly energy projects that have a maturity of 10 years or less. Prior to the modification, only loans of \$1m or less for such projects benefited from the subsidy. Also, the circular indicates that banks will benefit from a reduction of their reserve requirements for loans extended under Kafalat's "tree program" that finances arboriculture activities. The circular frees 100% of reserve requirements to be used for loans extended under Kafalat's "tree program" once the subsidy on the interest rate expires, and provided that interest and commissions do not exceed 3% following the end of the subsidy period. Interest rates subsidies are valid for up to seven year, while the loan period under the "tree program" is up to 10 years. Previously banks were able to utilize 60% of their reserve requirements for loans extended in Lebanese pound under Kafalat guarantees.

### Employers more reluctant to recruit in coming three months

A survey conducted by regional job portal Bayt.com indicates that employers in Lebanon are less likely to recruit staff in the coming three months as well as in the coming 12 months that they did at the beginning of the year. The survey was conducted in June and July 2013, and interviewed about 3,430 persons residing in the MENA region and in Pakistan. The firm had a sample of only 120 respondents in Lebanon, which mitigates the results.

Results of the survey show that 27% of respondents in Lebanon plan to "definitely hire" in the next three months compared to 38% of respondents who were planning to do the same in the January 2013 survey. In comparison, 30% of respondents in the region are planning to "definitely hire" in the next three months. Hiring expectations of firms in Lebanon came as the sixth lowest among 14 economies covered by the survey, similar to Algeria, and were higher than in Egypt (22%), Bahrain (20%), Tunisia (19%), Syria (18%) and Morocco (17%). Hiring expectations of firms in Lebanon were the second highest among 14 economies in the January 2013 survey.

Further, 23% of respondents in Lebanon said they are "likely to recruit" in the next three months compared 25% of participants who had the same opinion in the January 2013 survey. In comparison, 25% of responding firms across the region are "likely to recruit" in the next three months. Lebanon has the fourth lowest percentage in the region in this category, tying with Kuwait and Oman, and coming higher than only Morocco (21%), Bahrain (18%) and Pakistan (17%). Lebanon had the fifth lowest percentage in the region in this category in the January 2013 survey.

However, 23% of responding firms in Lebanon do not plan to recruit new employees in the coming three months compared to 17% of responding firms that did not plan to recruit in the January 2013 survey. In comparison, only 15% of respondents across the region do not plan to recruit in the coming three months. Lebanon has the third highest percentage in this category among economies covered by the survey, with Syria and Bahrain having a lower share of respondents who do not plan to recruit at 35% and 28%, respectively.

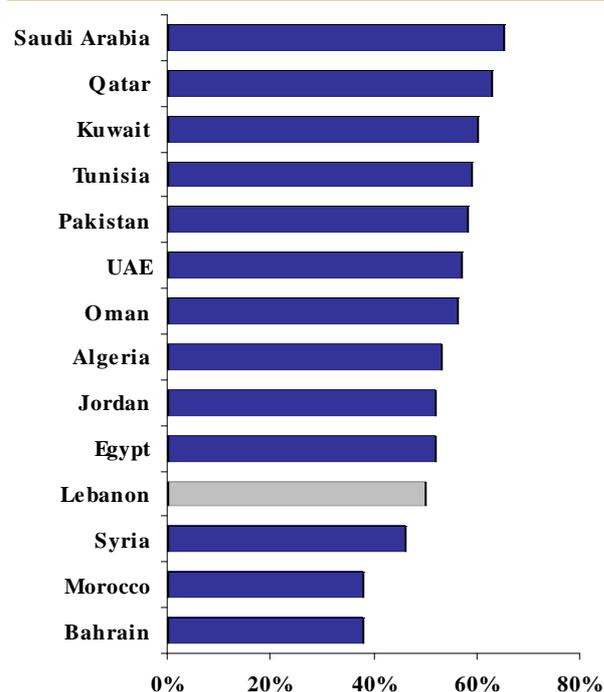
Further, 24% of respondents in Lebanon plan to "definitely hire" in the next 12 months, down from 35% of respondents in the January 2013 survey and 36% of participants in the August 2012 survey. In comparison, 31% of responding firms in the region plan to "definitely hire" in the next 12 months. Hiring expectations of firms in Lebanon are the third lowest among the 14 economies covered, tying with Morocco, and came higher than only than results in Tunisia (23%) and Syria (16%). Hiring expectations of firms in Lebanon were the fourth highest in the January 2013 survey.

In parallel, results of the survey show that employers in Lebanon look mostly for candidates with the ability to manage a team, followed by computer skills, sales and marketing experience, mid-level experience of 3 to 7 years, engineers and administrative experience. Further, employers in Lebanon considered that the most important requirement for a job candidate is to have good communication skills in English and Arabic, followed by having good negotiations skills, being able to work under pressure, being creative, and being flexible and a team player. The survey shows that respondents in Lebanon think that the banking and finance sector is attracting the top talent in the country, followed by advertising, construction, telecommunication and business consultancy.

### Central Bank frees reserve requirements for construction loans

The Central Bank of Lebanon issued Intermediate Circular 326 on August 5, 2013, which amends Basic Circular 84 dated June 2, 2001. The circular frees 60% of the banks' reserve requirements on loans to build or buy a house. The circular indicates that Lebanon should be the primary residence of the beneficiary of the loans and that the beneficiary is not allowed to sell the acquired or built house before seven years from the approval of the loan. The modifications prohibit the beneficiary of the loan to use the built or acquired house as collateral for another loan or to increase the amount of the original loan extended by the bank. The circular called on banks to verify that previously extended housing loans are in line with the new guidelines. Prior to the modifications, banks benefited from a reduction on their reserve requirements for loans extended to buy an existing house only.

### % of respondents who will "definitely recruit" or are "likely to recruit" in the next three months



Source: Bayt.com

### Lebanon ranks 83rd globally, 10th in Arab world on positive peace index

The 2013 Positive Peace Index ranked Lebanon in 83rd place among 126 countries globally and in 12th place among 15 Arab countries. It also ranked Lebanon in 28th place among 34 upper-middle income countries (UMICs) included in the survey.

The PPI measures the strength of institutions, attitudes and structures of 126 nations to determine their capacity to create and maintain a peaceful society. The index is based on 24 indicators that are grouped in eight pillars that are a Well-Functioning Government, a Sound Business Environment, an Equitable Distribution of Resources, Acceptance of the Rights of Others, Good Relations with Neighbors, the Free Flow of Information, High Levels of Human Capital, and Low Levels of Corruption. The PPI rates the level of positive peace on a scale from one to five, with a score closer to one representing a higher positive peace level. The index was developed by the Economist Intelligence Unit and the Institute for Economics and Peace.

Globally, Lebanon's level of positive peace came higher than that of Ecuador, Algeria and the Philippines and is lower than in Azerbaijan, China and Russia. Also, the level of positive peace in Lebanon is better than in Algeria, Egypt, Syria, Mauritania and Yemen in the Arab region; while it is better than in Ecuador, Algeria, Gabon, Belarus, Venezuela and Iran among UMICs. The survey placed Lebanon in the 'low' state of positive peace category, along with Morocco, Saudi Arabia, Algeria, Egypt, Syria, and Mauritania from the region. Lebanon received a score of 3.255 points, worse than the global average score of 2.809 points, the UMICs' average of 2.876 points and the Arab average score of 3.061 points.

Lebanon ranked ahead of Zambia, Algeria and Mali, and came behind Senegal, Guyana and the Dominican Republic on the Well Functioning Government pillar. This category covers government effectiveness, the rule of law and the political culture. Regionally, Lebanon ranked ahead of only Algeria, Yemen and Mauritania; while it came ahead of Algeria and ranked behind the Dominican Republic among UMICs.

Also, Lebanon ranked ahead of Bahrain, Cambodia and Mozambique, and came behind Thailand, China and Senegal on the Acceptance of the Rights of Others pillar. This category covers the hostility to foreigners, private property rights and gender inequality. Regionally, Lebanon ranked ahead of 12 countries and behind Kuwait and the UAE; while it came ahead Azerbaijan and ranked behind Thailand among UMICs.

In addition, Lebanon came ahead of only the Democratic Republic of Congo, Nigeria, Mauritania, Ethiopia and Yemen on the Good Relations with Neighbors pillar. The category reflects the level of satisfaction with community, regional integration and intergroup cohesion. Regionally, Lebanon ranked ahead of only Mauritania and Yemen, while it came in last place among UMICs. Further, Lebanon ranked ahead of Colombia, India and the Philippines and came behind Sierra Leone, Mozambique and the UAE on the Free Flow of Information pillar, which reflects press freedom and mobile phone penetration. Lebanon came ahead of 10 countries in the region; while it ranked ahead of Colombia and behind Ecuador among UMICs.

#### Arab Rankings & Scores

	Score	Arab Rank	Global Rank
Qatar	2.365	2	37
UAE	2.412	3	38
Kuwait	2.678	4	45
Bahrain	2.706	5	46
Oman	2.718	6	47
Tunisia	2.912	7	58
Jordan	3.011	8	65
Morocco	3.077	10	70
Saudi Arabia	3.096	11	71
<b>Lebanon</b>	<b>3.255</b>	<b>12</b>	<b>83</b>
Algeria	3.263	13	85
Egypt	3.338	14	91
Syria	3.444	15	102
Mauritania	3.661	17	114
Yemen	4.001	18	124

Source: EIU, Institute for Economics and Peace

#### Pillars of the Positive Peace Index for Lebanon

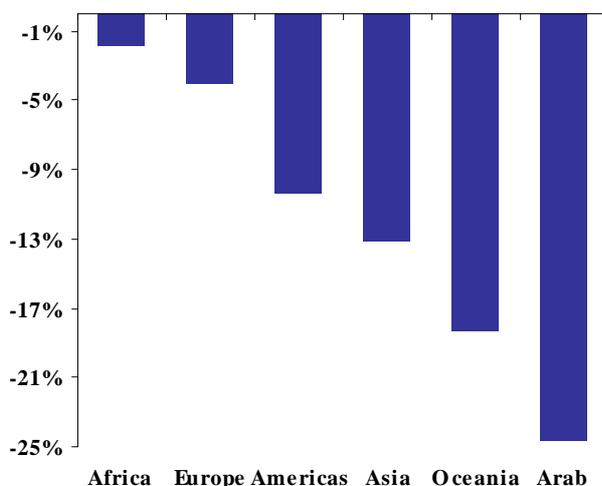
	Global Rank	Arab Rank	UMICs Rank	Lebanon Score	Global Avg Score	Arab Avg Score	UMICs Avg Score
Well Functioning Government	84	12	25	3.769	3.234	3.461	3.453
Sound Business Environment	70	9	24	3.659	3.281	3.169	3.338
Equitable Distribution of Resources	70	13	24	2.204	2.403	1.969	2.060
Acceptance of the Rights of Others	81	3	25	3.364	2.941	3.844	3.090
Good Relations with Neighbours	121	13	34	4.268	2.697	3.095	2.752
Free Flow of Information	77	5	19	3.089	2.689	3.384	2.805
High Levels of Human Capital	54	1	15	2.936	3.052	3.367	3.075
Low Levels of Corruption	108	14	31	4.544	3.496	3.737	3.673

Source: Economist Intelligence Unit, Institute for Economics and Peace, Byblos Research

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

The number of incoming tourists to Lebanon totaled 753,786 in the first seven months of 2013, constituting a decrease of 13.5% from 871,720 tourists in the same period last year and a decline of 24.2% from 993,867 tourists during the first seven months of 2011. European tourists accounted for 34.9% of total visitors in the first seven months of the year and were followed by visitors from Arab countries with 30.5%, the Americas with 16.6%, Asia with 9.6%, Africa with 5%, and Oceania with 3.3%. Also, tourists from Iraq accounted for 10% of visitors in the first seven months of 2013, followed by visitors from France with 9.3%, the United States with 8.4%, Jordan with 6.1%, Canada with 5.7%, and Egypt with 4.7%. The number of Arab tourists declined by 24.7% year-on-year in the first seven months of 2013, followed by visitors from Oceania with an 18.3% decrease, Asia (-13.1%), the Americas (-10.4%), Europe (-4%) and Africa (-1.8%). Further, the number of tourists from the UAE declined by 74% annually, followed by Saudi Arabia with a 54.2% decrease, Kuwait (-40.7%), Jordan (-19.2%), the United States (-11.6%), Canada (-9.3%), Egypt (-9%), Turkey (-8.6%), Italy and Venezuela (-6.5% each), Brazil (-6.3%), England (-4.6%), France (-3.5%), Germany (-2.9%), and Sweden (-2%). In parallel, the number of tourists from Iraq rose by 3.7% annually. Incoming tourists totaled 1.37 million in 2012, down 17.5% year-on-year and constituting the fourth steepest decline in the world.

### Number of Tourist Arrivals in Seven Months of 2013\*



\* year-on-year percentage change

Source: Ministry of Tourism, Byblos Research

### Consumer Price Index up 2% annually in July 2013

The Central Administration of Statistics' Consumer Price Index increased by 2% in July 2013 from July 2012. The cost of education increased by 14.6%, followed by prices of alcoholic beverages & tobacco (+14.1%), restaurants & hotels (+5.2%), recreation & entertainment (+5.1%), water, electricity, gas & other fuels (+2.4%), food & non-alcoholic beverages and furnishings & household equipment (+1.9% each), healthcare costs (+1.8%) and miscellaneous goods & services (+1.7%); while prices of clothing & footwear fell by 6.7% and transportation costs decreased by 0.4%. Further, housing and communication prices remained unchanged year-on-year.

The Consumer Price Index remained unchanged in July 2013 from June 2013. The cost of health-care rose by 1%, followed by prices of water, electricity, gas & other fuels (+0.9%), transportation (+0.7%), recreation & entertainment (+0.4%), restaurants & hotels and miscellaneous goods & services (+0.3% each) and alcoholic beverages & tobacco (+0.1%); while prices of clothing & footwear fell by 4.2% and those of food & non-alcoholic beverages decreased by 0.1%. Further, the cost of housing, furnishings & household equipment, communication and education remained unchanged month-on-month.

The CAS resumed the calculation of the CPI in June 2013 after a five-month suspension that was caused by a political decision by the Council of Ministers. It said that it did not collect prices in the first five months of 2013, which resulted in the lack of data for the CPI series during those months. As such, it calculated the average prices of all products collected in 2012 in order to account for temporarily missing prices, seasonal unavailability, and permanently missing items. It then used these averages to calculate the index results for June 2013 onwards.

### Industrial exports up 13% to \$1.74bn in first half of 2013

Figures released by the Ministry of Industry show that industrial exports totaled \$1.74bn in the first half of 2013, constituting an increase of 13.3% from \$1.54bn in the same period last year. Industrial exports reached \$284.1m in June 2013, down by 4.1% from \$296.1m in May 2013 but up by 12.3% from \$252.9m in June 2012. Mineral products accounted for \$317.7m, or 18.2% of total industrial exports in the first half of the year, followed by base metals & articles of base metals with \$307.3m (17.6%), and machinery & mechanical appliances with \$264.7m (15.2%). Arab countries accounted for 58% of total industrial exports in June, followed by Asian countries with 15.5%, African economies with 12.2% and European countries with 11.1%. In parallel, industrial imports reached \$166m in the first half of the year, up 14.4% from \$145.1m in the same period of 2012. Italy was the main source of such imports and accounted for 21.8% of the total. It was followed by Germany with 17.2% and China with 14.2%. Further, imports of industrial equipment and machinery reached \$25m in June 2013, down by about 12.1% from \$28.5m in the same month last year. Italy was the main source of imports of industrial equipments and accounted for 30.9% of total industrial imports during the covered month, followed by Germany with 14.6% and China with 12.8%.

### Revenues through Port of Beirut down 1.8% to \$1.33bn in first half of 2013

Figures released by the Port of Beirut show that overall receipts generated through the port reached \$1.33bn in the first half of 2013, constituting a decrease of 1.8% from \$1.35bn in the same period last year. Customs receipts through the port totaled \$654m in the first half of the year, down 1.7% from \$665m in the same period of 2012; while receipts from the value-added tax declined by 5.8% to \$563.4m. Also, the port's overall revenues grew by 24.5% year-on-year to \$105.9m in the first half of 2013. Further, the Port of Beirut handled an aggregate weight of 4.1 million tons of freight in the first half of 2013, up by 17.4% from 3.5 million tons in the same period last year. Import freight accounted for 87.2% of the weight, while the remaining 12.8% was export cargo. A total of 1,058 ships docked the port in the first half of 2013, constituting an increase of 4.5% from 1,012 vessels in the same period last year.

In parallel, overall revenues generated through the Port of Tripoli reached \$57.5m in the first half of 2013, constituting a drop of 5% from \$60.6m in the same period last year. Customs receipts through the port reached \$23.1m in the covered period, up 41.2% from \$16.4m in the same period last year; while receipts from the value-added tax reached \$28.8m and dropped by 25.4% from \$38.6m in the first half of 2012. The port's revenues rose by 0.6% year-on-year to \$5.63m in the first half of 2013. Further, the Port of Tripoli handled an aggregate weight of 726,997 tons of freight in the first half of 2013, up 21.9% from 596,429 tons in the same period last year. A total of 266 vessels docked the port in the first half of 2013, an increase of 33% from 200 ships in the same period last year.

### Advances against real estate account for 31% of bank credits, share of trade & services at 35% of utilized credits at end-March 2013

Figures issued by the Central Bank about the distribution of bank credits by type show that advances against real estate accounted for \$15.4bn, or 30.8% of total private sector credits at the end of March 2013. They were followed by overdrafts with \$14.3bn (28.6%), advances against personal guarantees \$8.8bn (17.6%), advances against cash collateral or bank guarantees \$6.6bn (13.3%), advances against other real guarantees \$3bn (6%), and advances against financial values \$1.8bn (3.6%). In parallel, utilized credits by the private sector totaled \$49.95bn at end-March 2013, with the trade & services sector accounting for \$17.28bn, or 34.6% of such credits. It was followed by personal credits with \$13.36bn (26.7%), construction with \$8.4bn (16.9%), industry with \$5.5bn (11.1%), financial intermediaries with \$3.4bn (6.8%) and agriculture with \$481m (1%), while other sectors accounted for the remaining \$1.5bn (3%). Also, wholesale trade represented 42.4% of trade & services credits, followed by real estate services with 20.6%, retail with 15.6%, transport & storage with 9.6%, hotels & restaurants with 8.5% and educational services with 3.3%.

Personal credits attracted 77% of loan beneficiaries, followed by trade & services with 12.6% of beneficiaries, industry with 3.4%, construction with 1.7%, agriculture with 0.9%, financial intermediaries with 0.7%, while other sectors attracted the remaining 3.8%. Further, the aggregate number of loan beneficiaries grew by 8.6% year-on-year to 441,498, while 79% of beneficiaries had loans ranging from LBP5m to LBP100m by end-March 2013. Beirut and its suburbs accounted for 79.1% of bank credits and for 53.6% of beneficiaries. It was followed by Mount Lebanon with 9.8% of credits and 16.4% of beneficiaries; South Lebanon with 4.2% of credits and 8.8% of beneficiaries; North Lebanon with 3.9% of credits and 14.6% of beneficiaries; and the Bekaa with 3% of credits and 6.6% of beneficiaries.

### Commercial activity declines in first quarter of 2013

The Central Bank's quarterly business survey of opinions indicated that the volume of commercial sales decreased during the first quarter of 2013 and remained very low relative to historical levels, with the balance of opinion standing at -17 compared to -13 during the preceding quarter and -12 during the same quarter of 2012. 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 balance of opinions was the lowest in the North at -37, followed by the Bekaa (-22), Beirut & Mount Lebanon (-16), and the South (+22). The survey shows that the balance of opinion for the sales volume of food items was 2 in the first quarter of 2013 relative to one in the preceding quarter and compared to 15 in the same quarter of 2012. The balance of opinions for the sales of inter-industrial goods was -20 in the first quarter relative to -18 in the preceding period and was unchanged from the first quarter of 2012; while it was -26 for non-food products, down from -18 in the fourth quarter of 2012 and from -22 in the same quarter of 2012. Also, the balance of opinion for inventory levels in all commercial sub-sectors was -3 in the first quarter of 2013 compared to +1 in the preceding quarter and +3 in the first quarter of 2012. Opinions about the level of inventories were the highest in the Bekaa where they reached 21, followed by Beirut & Mount Lebanon (+3), the South (-17) and the North (-33). The balance of opinion is the difference between the proportion of surveyed managers who consider that there was an improvement in an indicator and the proportion of those who reported a decline in the same indicator.

Commercial Activity: year-on-year evolution of opinions				
Aggregate results	Q1-10	Q1-11	Q1-12	Q1-13
Sales volume	22	-27	-12	-17
Number of employees	12	1	1	-4
Inventories of finished goods	8	-4	3	-3
Q4-12 Regional results	Beirut / Mount Lebanon	North	South	Bekaa
Sales volume	-16	-37	22	-22
Inventories of finished goods	3	-33	-17	21

### Assets of Syrian affiliates of Lebanese banks increase by 56% and deposits rise by 46% in the first half of 2013

Financial results issued by the affiliates of seven Lebanese banks operating in Syria show that their aggregate assets reached SYP483.8bn, or \$4.7bn, at the end of June 2013, constituting an increase of 56% from end-2012. The increase in banks' assets was due in part to a 190% rise in banks' short-term deposits at other local and foreign banks. The rise in overall assets was due to a 90.7% growth in the assets of Bank of Syria & Overseas (+SYP51.5bn), a 53.3% rise in those of Banque BEMO Saudi Fransi (+SYP44.7bn), an 84.6% surge in those of Fransabank Syria (+SYP28.6bn), a 47.4% improvements in those of Byblos Bank Syria (+SYP20.6bn), a 26% increase in those of Bank Audi Syria (+SYP12.9bn), a 47.1% growth in those of Syria Gulf Bank, the affiliate of First National Bank (+SYP12.3bn) and an 18.7% rise in those of Bank Al-Sharq, the affiliate of Banque Libano-Française (+SYP3.1bn). Also, the banks' loans totaled SYP96.3bn, or \$939.7m at end-June 2013, reflecting a drop of 11.4% from the end of 2012. The loans' decline was mainly caused by a contraction of 32.4% in the lending of Byblos Bank Syria (-SYP5.5bn), followed by a decrease of 22.9% in the loans of Bank of Syria & Overseas (-SYP3.1bn), a drop of 11.5% in the lending of Banque BEMO Saudi Fransi (-SYP3bn), a 13.7% drop in the loans of Bank Al-Sharq (-SYP933.5m), a 4.4% decline in the lending of Bank Audi Syria (-SYP921.7m) and a 0.6% decrease in the loans of Fransabank Syria (-SYP65m). In parallel, the loan book of Syria Gulf Bank increased by 9.6% (+SYP1.3bn) from end-2012.

Also, the banks' total customer deposits reached SYP330.2bn, or \$3.2bn at the end of June 2013, increasing by 45.6% from the end of 2012. The increase was mainly prompted by a 53.3% rise in the deposits of Banque BEMO Saudi Fransi (+SYP37.4bn), followed by a 50% growth in those of Bank of Syria & Overseas (+SYP24.2bn), an 86.8% surge in those of Syria Gulf Bank (+SYP14.2bn), a 71.9% improvement in those of Fransabank Syria (+SYP11.7bn), a 19.4% increase in those of Bank Audi Syria (+SYP7.5bn), a 24.1% rise in those of Byblos Bank Syria (+SYP6.2bn) and a 20% growth in those of Bank Al-Sharq (+SYP2.2bn). The ratio of the banks' loans-to-customer deposits stood at 29.2% at end June 2013 compared to 47.9% at the end of 2012. Also, the aggregate shareholders' equity of the banks reached SYP48.4bn, or \$472.3m, at the end of June 2013, constituting an increase of 37.3% from end-2012.

In parallel, the aggregate net profits of the seven banks reached SYP13.1bn or \$146.7m in the first half of 2013, constituting an increase of 590.6% from SYP1.9bn in the same period last year. The surge in net income is mainly attributed to a significant increase in the unrealized net foreign exchange gains on structural positions from SYP3.7bn in the first half of 2012 to SYP31.4bn in the first half of 2013. When these foreign exchange gains on structural positions are excluded, the aggregate net profits of the seven banks shift into a loss of SYP18.3bn, or \$205.3m in the first half of 2013. The profits of Banque BEMO Saudi Fransi surged by 1538% (+SYP3.8bn), followed by a rise of 839.6% in those of Fransabank Syria (+SYP3.4bn), an increase of 647.6% in those of Bank Al-Sharq (+SYP1.7bn), a growth of 215.9% in those of Bank Audi Syria (+SYP1.5bn), an improvement of 1738% in those of Byblos Bank Syria (+SYP740.8m) and a rise of 95.5% in those of Bank of Syria & Overseas (+SYP104.8m). In parallel, the profits of Syria Gulf Bank contracted by 78.6% (-SYP10.4m). The aggregate net interest income of the banks reached SYP2.3bn, or \$25.6m, in the first half of 2013, down 31.2% from the same period last year; while their total net fees & commission income increased by 36.8% to SYP1.4bn, or \$15.3m. The banks' total operating income reached SYP36.1bn, or \$404.7m in the first half of 2013, up 316.1% year-on-year; while total operating expenses reached SYP24.6bn, or \$275.9m in the first half of the year, up 265.2% from the same period last year. The figures in US dollar reflect the prevailing official exchange rates during the covered period.

#### Results of Affiliates of Lebanese Banks in Syria for First Half of 2013 (in SYP)

	Banque BEMO Saudi Fransi	Bank of Syria & Overseas	Byblos Bank Syria	Bank Audi Syria	Fransabank Syria	Syria Gulf Bank	Bank Al-Sharq
Net Profits	4,054m	214m	783m	2,179m	3,862m	28m	1,977m
% Change*	1538%	95.5%	1738.3%	215.9%	839.6%	-78.6%	647.6%
Total Assets	128,570m	108,240m	64,176m	62,609m	62,395m	38,380m	19,417m
% Change**	53.3%	90.7%	47.4%	26.0%	84.6%	47.1%	18.7%
Loans	23,394m	10,629m	11,518m	19,832m	10,673m	14,392m	5,880m
% Change**	-11.5%	-22.9%	-32.4%	-4.4%	-0.6%	9.6%	-13.7%
Customer Deposits	107,443m	72,749m	31,996m	46,159m	28,054m	30,501m	13,331m
% Change**	53.3%	49.9%	24.1%	19.4%	71.9%	86.8%	19.9%

\*Year-on-year

\*\*Change from end-2012

Source: Banks' financial statements

### **Housing Bank's net profits up 10% to \$16m in 2012**

The Housing Bank sal posted audited net profits of \$15.7m in 2012, constituting an increase of 9.5% from \$14.3m in 2011. Net operating income grew by 9.3% year-on-year to \$24.3m in 2012, with net interest income rising by 2.4% to \$22.7m and net fees & commissions receipts increasing by 216.5% to \$2.2m year-on-year. Total operating expenditures rose by 9.6% to \$6.2m in 2012, with staff expenses rising by 13.6% to \$4.5m and general & administrative expenses increasing by a marginal 0.2% year-on-year to \$1.2m. The bank's cost-to-income ratio increased to 24.7% in 2012 from 24.5% a year earlier.

In parallel, total assets reached \$644.9m at end-2012, constituting a 0.9% decrease from \$650.8m at end-2011; while loans & advances to customers, excluding loans & advances to related parties, increased by 6.6% year-on-year to \$482.1m. Also, customer deposits, excluding deposits to related parties, totaled \$130.9m at end-2012, growing by 3.9% from a year earlier. The bank's total shareholders' equity grew by 9% year-on-year to \$149.3m at end-2012. The Housing Bank, whose capital is \$33.2m, is owned by commercial banks, local insurance companies and the government, with the latter holding 20% of the bank's capital. It extends long-term loans to build new residences or to buy exiting units as well as loans for housing repairs.

### **Top five freight forwarders' activity up 27% in first half of 2013**

Figures released by the Port of Beirut Authority show that overall import shipping operations by the top five freight forwarders reached 176,813 20-foot equivalent units (TEUs) in the first half of 2013, constituting a rise of 26.8% from 139,420 TEUs in the same period last year. They accounted for 64% of the total import freight forwarding market during the covered period. Mediterranean Shipping Company (MSC) handled 61,460 TEUs in imports in the first half of the year, equivalent to 22.3% share of the total freight forwarding import market. It was followed by Sealine Group with 48,744 TEUs (17.7%), Merit Shipping with 34,470 TEUs (12.5%), Metz Group with 21,056 TEUs (7.6%) and Gezairy Transport with 11,083 TEUs (4%). Further, Sealine Group registered the highest growth in import shipping among freight forwarders at 51.2% year-on-year, while MAERSK posted the steepest contraction at 98.3% year-on-year.

In parallel, export shipping operations by the top five freight forwarders reached 37,223 TEUs in the first half of 2013, constituting an increase of 48.5% from 25,074 TEUs in the same period of 2012. They accounted for 98.6% of the total export freight forwarding market full with Lebanese cargo during the covered period. Sealine Group handled 18,678 TEUs of freight, equivalent to 49.5% share of the total freight forwarding Lebanese cargo export market. It was followed by Merit Shipping with 11,890 TEUs (31.5%), MSC with 3,261 TEUs (8.6%), Gezairy Transport with 1,701 TEUs and Metz Group with 1,693 TEUs (4.5% each). Further, Sealine Group registered the highest growth in export shipping among all freight forwarders at 125.2% year-on-year, while the Edouard Cordahi Shipping Agency posted the steepest drop of 59.9% year-on-year.

### **Arabia Insurance's net income up 15% to \$9.6m in 2012**

Arabia Insurance Company sal declared audited consolidated net income of \$9.6m in 2012, constituting an increase of 14.8% from \$8.4m in 2011. The firm's profits from the non-life segment grew by 23.2% year-on-year to \$7.5m, while those from life insurance declined by 7.2% to \$2.1m in 2012. The firm's return on average equity reached 7% last year, up from 6.7% in 2011.

In parallel, Arabia's audited balance sheet shows that consolidated assets reached \$418.5m at the end of 2012, up 4.2% from \$401.7m a year earlier. On the assets side, general company investments totaled \$235m and increased by 13.7% from end-2011. They included \$74.7m in variable income investments; \$18.3m in fixed income investments; and \$72.6m in blocked bank deposits and deposits with maturity of more than three month. Also, unit-linked contract investments totaled \$33.5m at end-2012, constituting an increase of 26.8% from \$26.4m a year earlier. They included \$17.5m of placements in mutual funds and \$16m in cash & similar investments. Unit-linked investment in mutual funds rose by 78.8% and cash & similar investments regressed by 3.8% year-on-year.

On the liabilities & shareholder equity's side, unit-linked technical reserves reached \$42.5m at end-2012, constituting a rise of 14.1% from \$37.3m a year earlier. Also, technical reserves for the life segment increased by 0.8% year-on-year to \$8.2m, while technical reserves for the non-life category reached \$161.4m at end-2012 and decreased by 2.7% from a year earlier. Non-life technical reserves included unearned premium reserves of \$76.1m that rose by 3.7% and outstanding claims reserves of \$83.4m that declined by 7.7% year-on-year. Shareholders' equity totaled \$149.9m at end-2012, up by 20.3% from a year earlier. Further, provisions for risks and charges reached \$5.5m and rose by 1.2% from a year earlier.

*Al-Bayan* magazine's annual survey of the insurance sector in Lebanon ranked Arabia Insurance Company in 18th and 10th place in 2012 in terms of life and non-life premiums, respectively. The firm's life premiums reached \$2.6m and non-life premiums amounted to \$28.4m, constituting increases of 9% and 9.7%, respectively. It had a 0.7% share of the life market and a 3.1% share of the local non-life market.

## 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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