

LEBANON THIS WEEK

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EFG Hermes' net income down 53% to \$10m in first half of 2013

Balance sheet of financial institutions up 11% in first half of 2013

HSBC to stop offering wealth management products in Lebanon

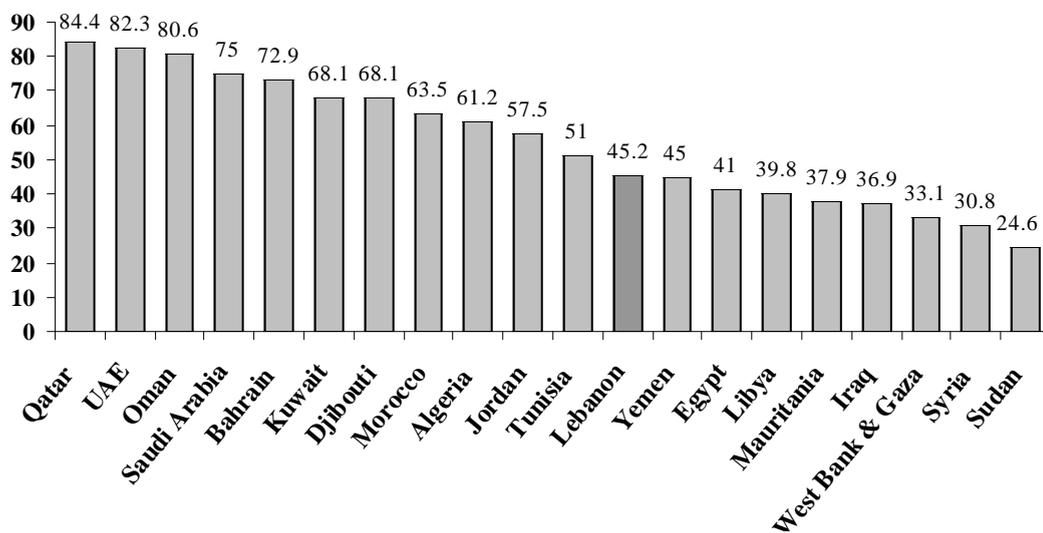
BankMed's profits up 6% to \$68m in first half of 2013

SGBL's net income up 2.8% to \$60m in first half of 2013

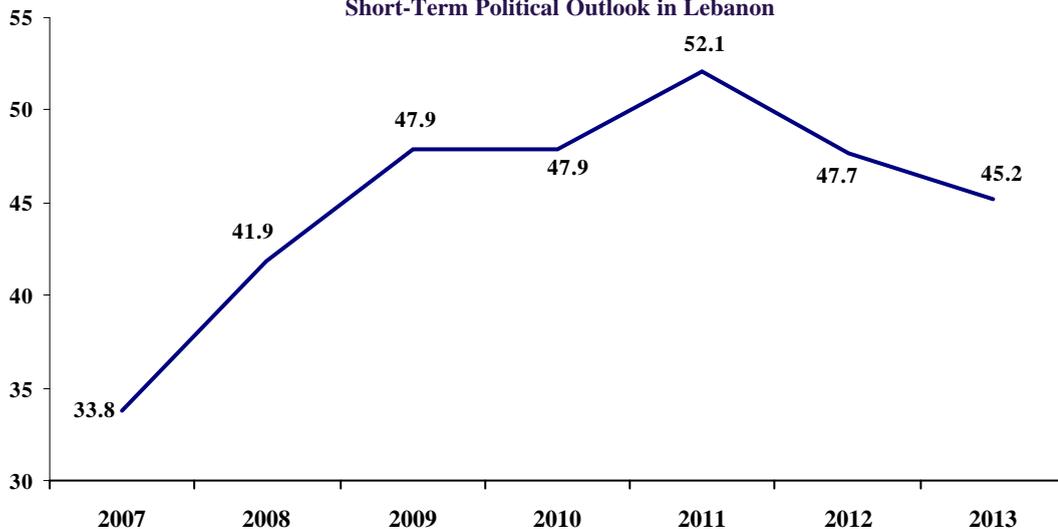
Al Mashrek's shareholders' equity up 8% to \$23m in 2012

Charts of the Week

Short-Term Political Outlook in Arab Countries in 2013



Short-Term Political Outlook in Lebanon



* Scores range between zero and 100 with 100 being best, zero worst

Source: Business Monitor International, Byblos Bank

Quote to Note

"The delay over forming a government may deter some international firms from participating in the sector, given Lebanon's propensity towards political instability."

The Economist Intelligence Unit, on the impact of delays in the Cabinet's formation on foreign oil & gas firms' involvement in offshore exploration and production

Number of the Week

148: Lebanon's rank out of 148 countries in terms of the public's trust in politicians, according the World Economic Forum's Global Competitiveness Index for 2013-14

Economic Indicators

\$m (unless otherwise mentioned)	2012	May 12	Feb 13	Mar 13	Apr 13	May 13	% Change*
Exports	4,486	355	381	406	412	364	2.54
Imports	21,281	1,645	1,791	2,076	1,849	1,797	9.24
Trade Balance	(16,795)	(1,290)	(1,410)	(1,670)	(1,437)	(1,433)	11.09
Balance of Payments	(1,538)	(82)	(92)	(353)	44	(131)	59.76
Checks Cleared in LBP	14,976	1,196	1,213	1,286	1,473	1,457	21.82
Checks Cleared in FC	56,044	4,746	4,353	4,472	4,854	4,526	(4.64)
Total Checks Cleared	69,787	5,942	5,566	5,758	6,327	5,983	0.69
Budget Deficit/Surplus	(3,925)	(50.00)	(279.91)	(484.90)	(726.31)	(113.72)	127.4
Primary Balance	(109.87)	300.0	(130.10)	(75.10)	(264.63)	309.14	3.05
Airport Passengers	5,960,414	438,570	402,517	502,923	514,458	514,520	17.32

\$bn (unless otherwise mentioned)	Dec 2012	May 12	Feb 13	Mar 13	Apr 13	May 13	% Change*
BdL FX Reserves	29.97	29.57	30.34	30.36	30.66	31.36	6.06
<i>In months of Imports</i>	16.02	17.98	16.94	14.62	16.58	17.45	(2.91)
Public Debt	57.69	55.15	58.08	57.75	59.12	59.18	7.31
Net Public Debt	49.12	47.20	49.95	50.07	50.68	50.71	7.44
Bank Assets	151.88	144.86	153.97	155.44	155.11	156.61	8.11
Bank Deposits (Private Sector)	125.00	118.90	126.30	128.11	128.10	130.05	9.38
Bank Loans to Private Sector	43.45	41.89	43.95	44.70	44.08	44.42	6.04
Money Supply M2	43.62	40.74	43.62	43.76	43.93	44.16	8.39
Money Supply M3	104.71	99.96	104.71	105.85	106.18	106.77	6.82
LBP Lending Rate (%)	7.47	7.34	7.47	7.28	7.27	7.35	1b.p
LBP Deposit Rate (%)	5.46	5.49	5.46	5.44	5.43	5.49	-
USD Lending Rate (%)	7.05	7.12	7.05	6.95	6.90	6.97	(15b.p)
USD Deposit Rate (%)	2.94	2.83	2.94	2.97	2.97	2.90	7b.p
%* Change in CPI**	3.66	6.02	4.42	4.57	2.94	2.43	(359b.p)

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

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

Sources: ABL, BdL

Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization
Solidere "A"	10.90	(1.00)	71,165	10.51%
Solidere "B"	10.82	1.88	16,031	6.78%
Byblos Common	1.47	(1.34)	26,373	5.10%
Byblos Pref. 08	100.00	0.00	577	1.93%
Byblos Pref. 09	100.00	0.00	0	1.93%
BLOM GDR	8.50	0.00	139,179	6.06%
BLOM Listed	8.26	(0.12)	6,374	17.13%
Audi GDR	6.29	0.00	0	6.19%
Audi Listed	6.10	(2.40)	268,019	20.58%
HOLCIM	15.68	0.00	0	2.95%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Apr. 2014	7.375	102.25	3.51
Jan. 2015	5.875	102.10	4.25
Apr. 2015	10.00	108.75	4.36
Jan. 2016	8.500	107.69	5.00
Mar. 2017	9.000	110.00	5.82
Nov. 2018	5.150	98.00	5.60
Apr. 2021	8.250	108.56	6.79
Nov. 2026	6.600	95.50	7.13

Source: Byblos Bank Capital Markets

	Sep 2-6	Aug 26-30	% Change	Aug 2013	Aug 2012	% Change
Total Shares Traded	538,560	505,963	6.44	1,136,561	2,124,597	(46.50)
Total Value Traded	\$4,250,310	\$4,302,986	(1.22)	\$13,445,987	\$25,488,402	(47.25)
Market Capitalization	\$10.37bn	\$10.40bn	(0.28)	\$10.40bn	\$10.10bn	2.94

Source: Beirut Stock Exchange (BSE)



Lebanon ranks 103rd globally, 11th among Arab countries in global competitiveness

The World Economic Forum ranked Lebanon in 103rd place among 148 countries globally and in 11th place among 15 Arab countries on its Global Competitiveness Index for 2013-14. It also ranked in 35th place among 42 upper-middle income countries (UMICs) included in the survey. Lebanon came in 91st place globally, in ninth place regionally, and in 26th place among UMICs in the 2012-13 survey. Lebanon's rank declined by 12 spots from the previous survey, constituting the seventh steepest decline globally and the steepest drop in the Arab world. It ranked in 92nd place globally in the 2010-11 survey when it was included for the first time in the index and came in 89th place in the 2011-12 survey.

The index measures national competitiveness and highlights its micro and macroeconomic foundation. It measures a country's and its enterprises' ability to compete in global markets, based on the supporting institutions, infrastructure, economic policies, education and healthcare systems, the country's capacity for innovation and overall market efficiency, and the sophistication of domestic markets and local business practices. The index is based on 12 pillars that are grouped in three sub-indices that measure Basic Requirements, Efficiency & Innovation, and Sophistication.

Globally, the Lebanese economy is considered to be more competitive than the economies of Argentina, the Dominican Republic and Suriname, and less competitive than those of Guyana, Serbia and Algeria. Also, it is considered to be more competitive than the economies of only Argentina, the Dominican Republic, Suriname, Libya, Gabon, Venezuela and Angola among UMICs. Lebanon received a score of 3.77 points, down from 3.88 points in last year's survey, and lower than the global average of 4.18 points, the UMICs' average of 4.15 points and the Arab average of 4.17 points. But Lebanon's score was better than the average score of non-GCC Arab countries of 3.72 points.

The World Economic Forum indicated that Lebanon ranked well in its assessments of healthcare and primary education, higher education & training, financial market development, and business sophistication. However, it continues to rank poorly in terms of infrastructure, macroeconomic stability, the supporting institutional environment, and innovation.

Lebanon ranked ahead of Liberia and Ghana and came behind Benin and Zimbabwe on the Basic Requirements Sub-Index, which covers institutions, infrastructure, the macroeconomic environment and health & primary education. Lebanon's global rank regressed by 10 spots and its score retreated by 4.2% on the sub-index from last year's survey. Further, Lebanon ranked ahead of only Venezuela and Angola among UMICs; while it came ahead of only Mauritania and Yemen among Arab countries.

Also, Lebanon ranked ahead of Macedonia and Kuwait, and came behind Vietnam and Kenya on the Efficiency Sub-Index that covers higher education, the market efficiency of goods and labor, financial market development, technological readiness and market size. Lebanon's global rank worsened by nine spots and its score decreased by 2.2% on the sub-index from last year's survey. Lebanon ranked ahead of Macedonia and Uruguay and came behind Montenegro and Jordan among UMICs; while it came behind only Qatar, the UAE, Saudi Arabia, Bahrain, Oman and Jordan in the Arab world.

Further, Lebanon ranked ahead of the Dominican Republic and Trinidad & Tobago and came behind Bosnia & Herzegovina and Armenia on the Innovation & Sophistication Sub-Index, which covers business sophistication and innovation. Lebanon's worldwide rank regressed by nine spots and its score retreated by 0.3% on the sub-index from last year's survey. Lebanon ranked ahead of the Dominican Republic and Macedonia and came behind Bosnia & Herzegovina and Kazakhstan among UMICs; while it came ahead of Morocco, Kuwait, Egypt, Mauritania, Yemen, Libya and Algeria in the Arab world.

Global Competitiveness Index 2013-14			
	Overall Score	Arab Rank	Global Rank
Qatar	5.24	1	13
UAE	5.11	2	19
Saudi Arabia	5.10	3	20
Oman	4.64	4	33
Kuwait	4.56	5	36
Bahrain	4.45	6	43
Jordan	4.20	7	68
Morocco	4.11	8	77
Tunisia	4.06	9	83
Algeria	3.79	10	100
Lebanon	3.77	11	103
Libya	3.73	12	108
Egypt	3.63	13	118
Mauritania	3.19	14	141
Yemen	2.98	15	145

Source: World Economic Forum, Byblos Research

Components of the Global Competitiveness Index 2013-14

Category	Global Rank	Arab Rank	UMIC Rank	Lebanon Score	Global Average Score	Arab Average Score	UMIC Average Score
Basic Requirements	126	13	40	3.63	4.52	4.69	4.51
Efficiency	75	7	23	3.97	4.05	3.92	3.99
Innovation & Sophistication	90	8	26	3.40	3.73	3.57	3.51

Source: World Economic Forum, Byblos Research



Lebanon's external debt posts 17th highest return in emerging markets, fifth highest in the Middle East & Africa

Figures issued by Merrill Lynch indicate that Lebanon's external debt posted returns of -0.67% in the first eight months of 2013, constituting the 12th highest return among 35 markets in the Eastern Europe, the Middle East & Africa (EMEA) region as well as the 17th highest return among the 63 emerging markets included in Merrill Lynch's Sovereign Plus Debt Index. Lebanon outperformed the EMEA region's returns of -5.29% and the overall emerging markets returns of -8.24% in the first eight months of 2013. Also, Lebanon's external debt outperformed the -5.01% returns posted by sovereigns rated 'BB' and lower.

Further, Lebanon's external debt posted the fifth highest return among 18 countries in the Middle East & Africa region in the first eight months of the year, ahead of Ghana (-1.36%), Gabon (-2.85%), Bahrain (-4.86%), Morocco (-5.61%), Namibia (-6.61%), Nigeria (-6.86%), Rwanda (-7.53%), Senegal (-8.33%), South Africa (-9.63%), Zambia (-11.89%), Iraq (-12.01%), Egypt (-12.65%) and Turkey (-12.72%). It was outperformed by the Ivory Coast (7.47%), Jordan (4.77%), Angola (0.06%) and Tunisia (-0.27%). In US dollar terms, Lebanon's external debt posted returns of -0.66% in the first eight months of 2013, eighth highest in the EMEA region and 13th highest among emerging markets.

In parallel, Lebanon's external debt posted returns of -1.19% in August 2013, constituting the 21st highest return in the EMEA region and the 29th highest return in emerging markets during the covered month. Lebanon outperformed the EMEA returns of -1.74% and those of emerging markets of -2.3% as well as the -1.62% returns of sovereigns rated 'BB' and lower for the same month.

Further, Lebanon's external debt posted the ninth highest return in the Middle East & Africa region in August 2013. It outperformed Namibia and Tunisia (-1.48% each), South Africa (-2.59%), Bahrain (-3%), Morocco (-3.34%), Zambia (-3.94%), Rwanda (-4.07%), Turkey (-4.11%) and Iraq (-4.77%). It was outperformed by Egypt (1.43%), Jordan (0.83%), Ivory Coast (0.65%), Angola (-0.15%), Nigeria (-0.2%), Ghana (-0.26%), Gabon (-0.48%) and Senegal (-0.6%).

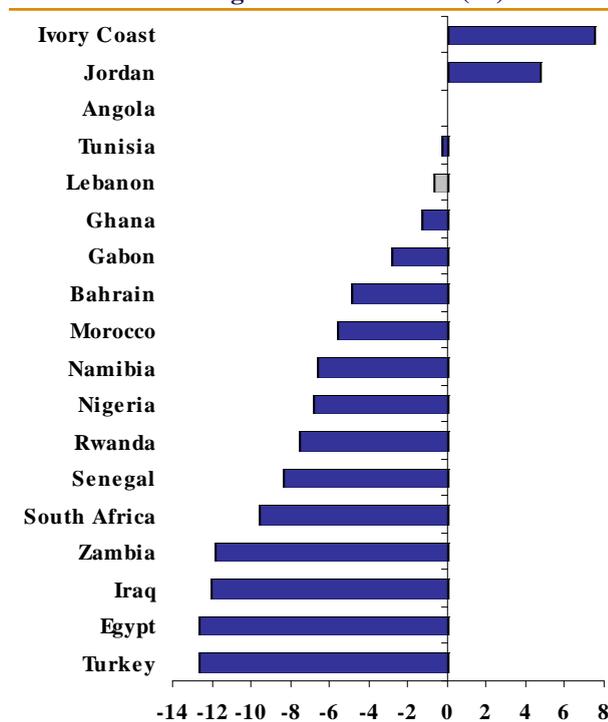
In parallel, Merrill Lynch said the spread on Lebanese Eurobonds ended August 2013 at 452 basis points, constituting the 13th widest spread in the EMEA region and the 24th widest among emerging markets. It was wider than the EMEA spread of 340 basis points as well as the emerging markets' overall spread of 363 basis points at end-August 2013. Lebanon has a weight of 4.08% on Merrill Lynch's Sovereign Plus Debt Index, the fourth highest in the EMEA universe and the 10th highest among emerging economies. Lebanon accounted for 8.1% of allocations in the EMEA region.

Energy Ministry extends deadline for oil and gas exploration bids

The Ministry of Energy & Water announced that it has extended from November 4, 2013 to December 10, 2013 the deadline for pre-qualified firms to submit their offers for Lebanon's first licensing round for offshore oil and gas exploration and production. The ministry started accepting bids on May 2, 2013. It attributed the delay to the government's failure to ratify two decrees that are required to set the guidelines for exploration and production sharing agreements, in order to allow Lebanon to grant exploration and production licenses. It noted that the first decree establishes a model exploration and production sharing contract, while the second one specifies the number of blocks that will be auctioned. It added that the ministry and the Petroleum Administration have approved a decree to auction 10 separate blocks off Lebanon's coast and submitted it to the Cabinet for endorsement. But it noted that the Cabinet resigned last March before discussing the decree. It said that blocks 1, 4, 5, 6 and 9 would be available for bidding once the government holds a session to endorse the two decrees. It pointed out that it would further extend the deadline if authorities fail to endorse the decrees before November 2013.

The list of pre-qualified companies includes 12 operators and 34 non-operators. The pre-qualified operators are the United States' Exxon Mobil, Chevron and Anadarko Petroleum Corporation, France's Total, Anglo-Dutch's Royal-Dutch Shell, Italy's Eni, Brazil's Petrobras, Malaysia's Petronas, Spain's Repsol, Denmark's Maersk, Norway's Statoil and Japan's INPEX. The ministry previously expected the bids' evaluation to be completed in January 2014 and for negotiations and contracts to be signed with the selected firms in February of the same year. It said that awarded contracts will cover 10 plots with a size ranging between 1,259 square kilometers and 2,374 square kilometers each. It anticipated the exploration process to take up to 18 months from the contracts' signing date. It previously estimated that drilling would begin by the end of 2015, followed by the development phase in 2016 and production thereafter.

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



Source: Merrill Lynch, Byblos Research

Greenfield FDI from Lebanon up 31% to \$393m in 2012

Figures compiled by fDi Markets and released by the United Nations Conference on Trade and Development (UNCTAD) show that the value of outward Greenfield FDI projects from Lebanon totaled \$392.6m in 2012, constituting an increase of 30.6% from \$300.5m in 2011. Greenfield foreign FDI projects from Lebanon totaled \$638.7m in 2009 and \$246.4m in 2010. Lebanon was the sixth smallest source of Greenfield FDI in nominal terms among 13 Arab countries, ahead of only Algeria (\$200m), Oman (\$100.9m), Morocco (\$12.2m), Yemen (\$9.4m) and Mauritania (\$9.2m). Lebanon was the 61st largest source of Greenfield FDI among 112 countries in 2012, while it was the 67th largest source in 2011.

Also, Lebanon posted the fourth highest increase in outward Greenfield FDI projects among Arab countries, with only Egypt (+3199%), Jordan (+1906%) and Algeria (54.3%) showing larger increases. Lebanon was one of six Arab countries that posted a rise outward Greenfield FDI in 2012. In comparison, the value of outward Greenfield FDI projects from Arab economies declined by 14% year-on-year; while outward Greenfield FDI from developing economies decreased by 23.2% and global Greenfield FDI fell by 33%.

The value of outward Greenfield FDI projects from Lebanon accounted for 1.1% of total Greenfield FDI projects from Arab countries last year compared to 0.7% in 2011. It also represented 0.2% of total Greenfield projects from developing countries and 0.06% of global outward Greenfield FDI in 2012. Further, Greenfield FDI from Lebanon was equivalent to 0.9% of GDP in 2012, up from 0.4% of GDP in 2011, the sixth highest ratio in the Arab world and compared to 1.6% of GDP for the aggregate of Arab countries. Lebanon attracted \$201m in Greenfield FDI inflows last year, which resulted in net Greenfield FDI flows of -\$191m in 2012. Lebanon was among four Arab countries to post net Greenfield FDI outflows, along with Qatar (-\$6.6bn), the UAE (-\$4.7bn) and Kuwait (-\$279m).

Further, Lebanon was the source of 28 Greenfield FDI projects in 2012 compared to nine projects in 2011, 20 projects in 2010 and seven projects in 2009. It was sixth largest source of Greenfield FDI projects among Arab countries, less than only the UAE with 331 projects, Saudi Arabia with 78 projects, Kuwait with 38 projects, Bahrain with 35 projects and Qatar with 29 projects. The number of Greenfield FDI projects from Lebanon accounted for 4.8% of total number Greenfield FDI projects from Arab countries last year relative to a share of 1.9% in 2011.

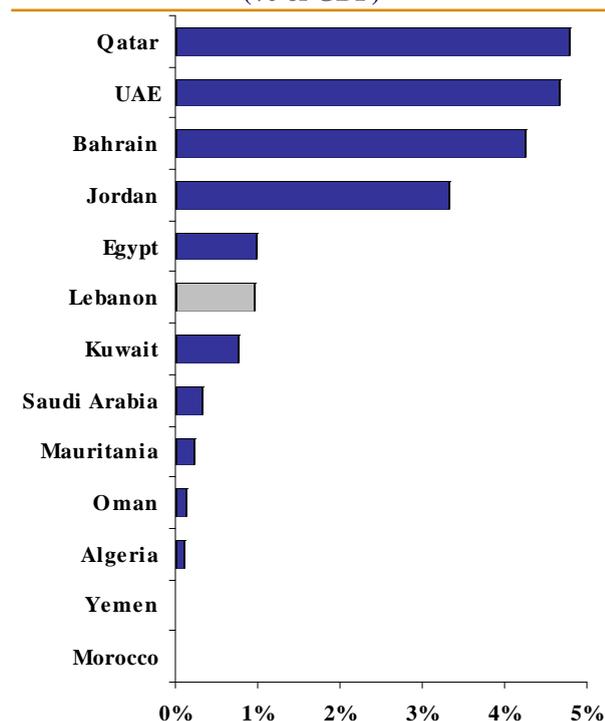
The FDI figures cover cross-border Greenfield projects that lead to the direct creation of jobs and capital investment. They include joint ventures when these transactions lead to a new physical Greenfield operation. The figures exclude mergers and acquisitions and other equity investments. fDi Markets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

Greenfield FDI from Arab Countries (\$m)

	2011	2012	Change (%)
UAE	15,954	16,711	5%
Qatar	13,044	8,749	(33%)
Egypt	76	2,523	3199%
Saudi Arabia	5,027	2,389	(52%)
Kuwait	4,502	1,331	(70%)
Bahrain	912	1,145	26%
Jordan	52	1,037	1906%
Lebanon	301	392.6	31%
Algeria	130	200.0	54%
Oman	165	100.9	54%
Morocco	87	12.2	(86%)
Yemen	-	9.4	n/a
Mauritania	-	9.2	n/a
Total	40,249	34,609	(14%)

Source: fDi Markets, UNCTAD, Byblos Research

Greenfield FDI from Arab Countries in 2012 (% of GDP)



Source: Source: fDi Markets, UNCTAD, Byblos Research, International Monetary Fund.

Trade deficit down 2.1% to \$10bn in first seven months of 2013, volume of non-hydrocarbon imports up 1.8%

Total imports reached \$12.5bn in the first seven months of 2013, constituting a marginal decrease of 0.9% from the same period last year; while aggregate exports rose by 4.3% to \$2.6bn, leading to a trade deficit of \$9.9bn, down by 2.1% year-on-year. The narrowing of the deficit was caused by a decline of \$108.3m in imports and an increase of \$107m in exports from the first the seven months of last year. The coverage ratio reached 20.7% in the first seven months of 2013 compared to 19.7% in the same period last year, while it reached 16.3% in July 2013 relative to 18.2% in July 2012. The value of imported oil & mineral fuels fell by 18.1% year-on-year to \$3bn, and that of non-hydrocarbon imports rose by 6.3% to \$9.5bn. Imported oil & mineral fuels accounted for 24.3% of total imports in the covered period compared to a share of 29.5% in the same period last year.

In volume terms, imports reached 8.6 million tons in the first seven months of 2013, constituting a decrease of 8.5% from the same period last year; while exports posted a 31.8% rise to 1.8 million tons, leading to a trade deficit of 6.9 million tons in the first seven months of 2013, down by 15.1% year-on-year. Imports of oil & mineral fuels fell by 17.5% year-on-year to 4.1 million tons, while non-hydrocarbon imports increased by 1.8% annually to 4.5 million tons. Imported oil & mineral fuels accounted for 47.8% of total imports in the covered period compared to a share of 53.1% in the same period last year.

China was the main source of imports with \$1.1bn or 9.1% of the total in the first seven months of 2013, followed by Italy with \$1bn (8.2%), the United States with \$976.4m (7.8%), France with \$903m (7.2%), Germany with \$752.3m (6%), Turkey with \$677.3m (5.4%) and Russia with \$672.4m (5.4%). Imports from Russia surged by 226.8% annually, those from Turkey increased by 18.5%, those from China grew by 14.4%, those from Germany rose by 7.3% and those from Italy grew by 3.4%; while imports from the United States dropped by 44.2% and those from France fell by 2.4%. Syria was the main export destination with \$408.9m or 15.8% of the total, followed by South Africa with \$316.8m (12.2%), Saudi Arabia with \$230.5m (8.9%), the UAE with \$197.3m (7.6%), Iraq with \$151.4m (5.8%), Switzerland with \$138.2m (5.3%), and Turkey with \$119.2m (4.6%). Exports to Syria surged by 177.7% year-on-year in the first seven months of 2013, those to Iraq grew by 44.7%, those to Turkey increased by 29.1% and those to Saudi Arabia rose by 6.4%, while exports to Switzerland dropped by 50.2%, those to South Africa fell by 32% and those to the UAE decreased by 7.4%.

Lebanon's main export was jewelry at \$578.8m or 22.3% of the total, followed by base metals with \$347.2m (13.4%), mineral products with \$325.8m (12.6%), machinery & mechanical appliances with \$310.4m (12%), prepared foodstuff with \$257m (10%) and chemical products with \$119.4m (4.6%). Re-exports totaled \$142m in the first seven months of the year compared to \$153m in the same period last year.

Customs receipts down 4% to \$876m in first seven months of 2013

Figures released by the Customs Directorate indicated that customs revenues reached \$876.3m in the first seven months of 2013, constituting a decrease of 3.6% from \$908.8m in the same period of 2012. The Port of Beirut continues to be the main point of customs receipts, as it accounted for 88.3% of the total in the covered period, and was followed by the Hariri International Airport with 7.6%, the Port of Tripoli with 3.1%, the Masnaa crossing point with 0.5%, the Port of Saida with 0.3% and the Port of Tyre with 0.2%.

Customs receipts from the value-added tax totaled \$812.6m in the first seven months of 2013, down 8.1% from \$884.2m in the same period of 2012. The Port of Beirut accounted for 82.2% of such receipts, and was followed by the Hariri International Airport with 10.9%, the Port of Tripoli with 4.1%, the Masnaa crossing point with 2%, the Port of Saida with 0.5%, and the Port of Tyre and the crossing point of Abboudieh with 0.1% each. As such, overall customs receipts reached \$1.7bn in the first seven months, with the Port of Beirut accounting for 85.4% of the total, followed by the Hariri International Airport with 9.2%, the Port of Tripoli with 3.6% and the Masnaa crossing point with 1.2%. In addition, other entry points represented the balance, with the port of Saida accounting for 0.4%, the port of Tyre for 0.2% and the crossing point of Abboudieh for 0.1%.

Coincident Indicator flat in June 2013

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 265.5 points in June 2013 compared to 272.7 in May 2013 and 261 in June 2012. The Coincident Indicator, an average of 8 weighted economic indicators, decreased by 2.6% month-on-month and rose by 1.7% year-on-year in June 2013. The indicator averaged 259.9 in the 12 months ending June 2013, compared to 259.5 in the 12 months ending May 2013 and 258.8 in the 12 months ending June 2012. As a result, the average coincident indicator increased by a marginal 0.1% month-on-month and by 0.4% year-on-year, which reflects economic stagnation. In parallel, the indicator improved 12 times and regressed nine times in the month of June 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.

Launch of tax electronic payment system

The Ministry of Finance announced that Lebanese citizens and companies would be able to file and pay their taxes online starting from September 10, 2013. The ministry indicated that the launch of the electronic payment system would simplify and facilitate the current tax payment procedures. It said that taxpayers would be able to complete their tax transactions and payments 24 hours a day and seven days a week in total confidentiality. Taxpayers can use credit cards to settle their tax bill through the ministry's website or would have the option to process their taxes through the websites of Lebanese commercial banks. The e-payment system is part of the electronic government initiative and is meant to be time efficient, reduce paperwork and help reduce corruption.

Fiscal deficit up 42.2% to \$1.6bn in first five months 2013 when assuming \$508m in telecom revenues

Figures released by the Finance Ministry show that the fiscal deficit reached \$1.6bn in the first five months of 2013 and widened by 42.2% from \$1.1bn in the same period last year. The deficit was equivalent to 27.9% of total budget and Treasury expenditures compared to 21.8% of overall spending in the first five months of 2012. Overall government expenditures reached \$5.8bn, up 11% year-on-year, while total revenues increased by 2.3% to \$4.2bn. Budgetary expenditures rose by 4.6% to \$4.6bn and included \$870.2m in transfers to Electricité du Liban and \$260.3m in outlays from previous years, while budget revenues increased by a marginal 0.6% to \$3.9bn. Tax revenues increased by 4.7% year-on-year to \$3.1bn, of which 30.6%, or \$952.1m, were in VAT receipts that fell by 3.6% from the first five months of 2012. Tax revenues accounted for 78.7% of budgetary revenues and for 74.2% of total Treasury and budget receipts. The Finance Ministry is basing its monthly fiscal results on the Telecommunications Ministry's estimate of telecom receipts that reached \$508.3m in the first five months of 2013, rather than on the Treasury actually receiving the funds from the Telecom Ministry. On a cash basis for the two compared periods, public revenues increased by 5.1% year-on-year; while the fiscal deficit rose by 23% to \$2.1bn, equivalent to 36.7% of expenditures.

The distribution of other tax revenues shows that receipts from taxes on income, profits & capital gains tax increased by 26.6% to \$995.6m in the first five months of 2013; customs revenues grew by 0.3% year-on-year to \$598.3m; revenues from property taxes fell by 8.5% to \$301m; revenues from taxes on goods & services decreased by 1.3% to \$129.4m; and other tax receipts, mainly stamp fees, decreased by 5.7% to \$132m. Further, the distribution of income tax revenues shows that the tax on profits accounted for 50.6% of total income tax receipts, followed by taxes on wages & salaries with 20.5%, the tax on interest deposits with 18.6% and the capital gains tax with 9.1%. Income from the tax on profits increased by 72.7%, taxes on wages & salaries improved by 16.7% and the tax on interest rose by 1%; while the income from capital gains tax decreased by 24.4%.

Also, the distribution of property taxes shows that revenues from real estate registration fees decreased by 12.1% to \$192.9m and revenues from inheritance tax fell by 12% to \$34.5m; while receipts from built property taxes rose by 4.7% to \$73.4m. In parallel, non-tax budgetary revenues regressed by 12% to \$839.7m, with revenues from government properties dropping by 14.4% to \$630.1m and administrative fees & charges decreasing by 4.8% to \$164.2m. Based on the ministry's assumption, receipts from telecom services accounted for 80.7% of income from government properties and for 60.5% of non-tax revenues.

Debt-servicing cost increased by 1.8% year-on-year to \$1.7bn in the first five months of 2013. It accounted for 28.6% of total expenditures and for 36.3% of budgetary spending, and absorbed 39.7% of overall revenues and 42.1% of budgetary receipts. Interest payment on domestic debt remained unchanged year-on-year at \$950m, while interest disbursement on foreign debt rose by 7% to \$642.4m. Repayment of principal on foreign debt fell by 14% to \$70m. Excluding debt servicing, the primary budget balance posted a surplus of \$1bn, or 22.7% of budget expenditures compared to a surplus of \$1.2bn, or 27.1% of budget spending in the same period last year. The overall primary balance posted a surplus of \$39.7m or 0.7% of spending, relative to a surplus of \$491.5m or 9.4% of total expenditures in the same period of 2012.

Fiscal Results in First Five Months of 2013		
	Including Assumed Telecom Receipts	Excluding Assumed Telecom Receipts*
	US\$m	US\$m
Budget revenues	3,948	3,440
Tax revenues	3,108	3,108
Non-tax revenues	839.7	331.4
<i>of which Telecom revenues</i>	508.3	-
Budget expenditures	4,574	4,574
Budget Surplus/Deficit	(625.8)	(1,134)
<i>In % of budget expenditures</i>	<i>(13.7%)</i>	<i>(24.8%)</i>
Budget Primary Surplus	1,037	528.2
<i>In % of budget expenditures</i>	<i>22.7%</i>	<i>11.5%</i>
Treasury receipts	239.6	239.6
Treasury expenditures	1,237	1,237
Total Revenues	4,188	3,679
Total Expenditures	5,810	5,810
Total Deficit	(1,623)	(2,131)
<i>In % of total expenditures</i>	<i>(27.9%)</i>	<i>(36.7%)</i>
Total Primary Surplus/Deficit	(39.7)	(468.6)
<i>In % of total expenditures</i>	<i>(0.7%)</i>	<i>(8.1%)</i>

* Cash basis

Source: Ministry of Finance, Byblos Research

Construction permits down 14% in first seven months of 2013

Figures released by the Association of Engineers of Beirut & Tripoli show that construction permits issued in the first seven months of 2013 reached 7.58 million square meters, constituting a decrease of 13.8% year-on-year, compared to a drop of 12.5% in the same period last year and a decline of 1% in the first seven months of 2011. Mount Lebanon accounted for 3.42 million square meters or 45.1% of total construction permits in the covered period. It was followed by the North with 1.67 million square meters (22%), the Bekaa with 802,613 square meters (10.6%), South Lebanon with 721,154 square meters (9.5%), Nabatieh with 592,772 square meters (7.8%), and Beirut with 375,136 square meters (4.9%). In parallel, cement deliveries totaled 2.66 million tons in the first half of 2013 and increased by 2.7% annually relative to decreases of 2.9% in the same period of 2012 and 2011.

Value of cleared checks up 2%, returned checks down 4% in first half of 2013

The value of cleared checks reached \$35.5bn in the first half of 2013, constituting an increase of 2.1% year-on-year, compared to a rise of 2% in the same period of 2012 and a marginal increase of 0.2% in the first half of 2011. The value of cleared checks in Lebanese pounds rose by 13.2% annually to the equivalent of \$8.2bn in the first half of 2013, while the value of cleared checks in US dollars regressed by 0.8% to \$27.4bn. The dollarization rate of cleared checks decreased to 77% from 79.2% in the same period of the previous year. Also, the value of returned checks in domestic and foreign currency declined by 4.1% to \$735m in the first half of 2013, relative to a rise of 8% in the same period of 2012 and a decrease of 5.9% in the first half of 2011. In parallel, the number of cleared checks totaled 6.5 million checks in the first half of 2013, up 1.6% from the same period last year. Also, the number of returned checks totaled 130,000 checks, down by 6.5% from 139,000 in the same period of 2012.

Central Bank bans usage of Lebanese securities by correspondent banks

The Central Bank of Lebanon issued Intermediate Circular 333 on August 23, 2013 that amends Basic Circular 62 dated April 15, 1999. The circular prohibits Lebanon-based banks and financial institutions from allowing their correspondent banks or depositaries abroad to utilize securities that they deposit in these entities or that they submit as collateral for financing operations, including repo agreements. The securities consist of Treasury bills issued by the Lebanese government, Certificate of Deposits issued by the Central Bank of Lebanon, or Credit-Linked Notes. It asked banks and financial institutions based in Lebanon to include this clause in all agreements with their correspondent banks or depositaries.

In parallel, the Central Bank issued Intermediate Circular 334 on August 23, 2013 that amends Basic Circular 81 dated February 21, 2001. The circular prohibits major shareholders, board members and general managers of banks and financial institutions operating in Lebanon from benefiting directly or indirectly from credit facilities, loans and advances from the institutions' foreign entities. The ban also applies to family members of the stakeholders.

Corporate Highlights

Profits of top 13 banks up 1.3% to \$855.3m in first half of 2013

The unaudited consolidated net profits of the Alpha Group of banks reached \$855.3m in the first half of 2013, constituting an increase of 1.3% from the same period last year. In comparison, the net income of the banks increased by 7.7% in the first half of 2012. The Alpha Group consists of 13 banks with deposits in excess of \$2bn each. Total net operating income rose by 6.8% to \$2.2bn, with aggregate net interest income increasing by 1.6% to \$1.4bn and net fees & commissions receipts rising by 2.8% to \$372.9m year-on-year. Also, non-interest income accounted for 40% of total income in the first half of the year, up from 37.2% in the same period last year; with net fees & commissions earnings representing 38.2% of non-interest income in the first half of 2013, down from 42.65% in the same period last year. The net interest spread decreased to 1.83% in the first half of 2013 from 1.95% in the same period last year. Also, total operating expenditures increased by 8.6% year-on-year to \$1.2bn, with staff expenses rising by 7.9% to \$633.4m. Further, the cost-to-income ratio increased to 47.45% in the first half of 2013 relative to 46.7% in the same period last year.

The banks' total assets reached \$163.7bn at end-June 2013, constituting a rise 3.8% from end-2012. Further, aggregate loans & advances to customers rose by 7% from end-2012 to \$47.9bn, while credits extended to related parties fell by 38% to \$7.7m at end-June 2013. Also, customer deposits totaled \$134.8bn at end-June 2013, constituting a rise of 4% from end-2012; while deposits from related parties rose by 29% to \$3bn at end-June 2013.

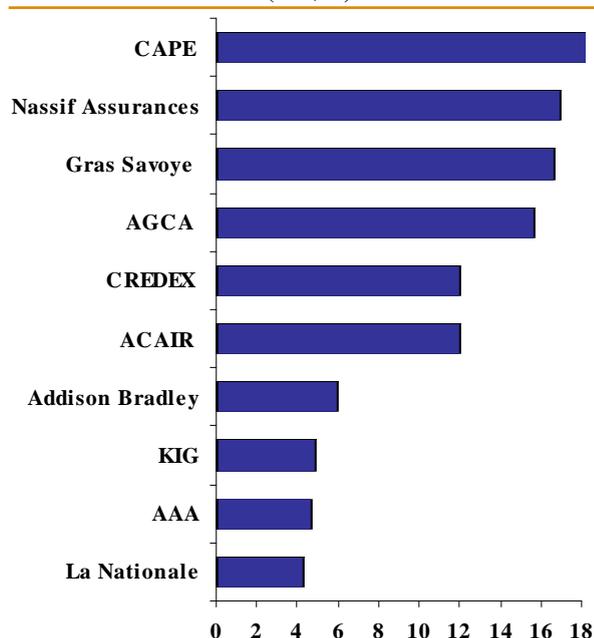
In parallel, the banks' loans-to-deposits ratio increased to 35.2% at end-June 2013 from 34.6% a year earlier. The ratio of loans-to-deposits in local currency reached 19.6% at end-June 2013 compared to 18.9% at end-June 2012, while that in foreign currency was 42% at the end of June 2013 relative to 41.7% a year earlier. Also, the banks' return on average assets reached 1.06% in June 2013 on an annualized basis relative to 1.09% a year earlier; while their return on average equity was 11.84% on an annualized basis compared to 12.37% in June 2012. Further, the net primary liquidity-to-deposits ratio reached 32.8% at end-June 2013, up from 32.4% at end-2012. The banks' aggregate equity-to-assets ratio rose to 8.34% at end-June 2013 compared to 8.24% a year earlier. Also, the collective provisions-to-net loans ratio decreased to 1.09% at end-June 2013 relative to 1.2% a year earlier.

Premiums generated by insurance brokers up by 6% to \$203m in 2012

The annual survey by *Al-Bayan* magazine of insurance brokers in Lebanon showed that total premiums generated by independent brokers reached \$202.9m in 2012, constituting an increase of 6% from \$191.4m in 2011. Independent brokers generated 15.4% of total insurance premiums written in 2012. Broker CAPE came in first place with \$23m in premiums generated, equivalent to 11.3% of the total. It was followed by Nassif Assurances with \$16.9m (8.3%), Gras Savoye with \$16.6m (8.2%); AGCA with \$15.6m (7.7%), ACAIR and CREDEX with \$12m each (5.9% each) as the top five brokers in Lebanon. The survey covered 86 independent brokers in 2012.

In parallel, Al-Mawarid Brokerage registered the highest jump from the previous year with a 60% rise in premiums and ranked in 13th place in this year's survey. Seven of the top 10 brokers posted increases in their premiums, with ACAIR and Khazzaka Insurance Group recording the biggest year-on-year rise at 30.4% and 20% respectively, while AGCA registered a 9% decline in premiums. Also, CREDEX and La Nationale's premiums remained unchanged year-on-year. The top 10 insurance brokers controlled 57% of the market and their aggregate premiums reached \$115.7m last year compared to a 57.1% share and premiums of \$109.2m in 2011. Further, 36 brokers generated premiums of \$1m or more, 16 brokers had premiums ranging from \$0.5m to \$1m, and the remaining 34 brokers posted premiums of less than \$0.5m each.

Top 10 Insurance Brokers by Premiums in 2012 (US\$m)



Source: *Al-Bayan* magazine, Byblos Research

EFG Hermes' net income down 53% to \$10m in first half of 2013

Regional investment bank EFG Hermes declared consolidated net income of EGP69m, or around \$10.2m, in the first half of 2013, constituting a decrease of 53.4% from net profits of EGP148.3m in the same period last year. Investment banking operations generated net losses of EGP160m, while commercial banking activity by Crédit Libanais posted net profits of EGP229m in the first half of 2013. Total operating revenues reached EGP1bn in the first half of 2013, up 9.9% annually. EFG said that commercial banking revenues increased by 14.2% annually to EGP627m, while those of investment banking improved by 3.3% year-on-year to EGP373m. Fees and commissions of the investment bank dropped 2.3% year-on-year to EGP305m, while they decreased 6.3% quarter-on-quarter in the second quarter of the year. It said that revenues generated from capital markets and treasury operations increased by 38.8% year-on-year to EGP68m due to higher gains on foreign exchange as the Egyptian pound devaluated sharply against the US dollar during the period. In parallel, EFG Hermes indicated that total consolidated assets reached EGP65.9bn, or \$9.4bn at the end of June 2013; relative to EGP59.5bn, or \$8.8bn at end-2012. It added that Crédit Libanais accounted for 62.7% of consolidated operating revenues in the first half 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 \$33.9m in the first half of 2013, constituting a decrease of 4.8% from the same period in 2012. Its total assets reached \$8bn at end-June 2013, constituting a 1% increase from end-2012; while its loans to customers stood at \$2.4bn at end-June 2013, up 8.3% from end-2012. The bank's deposits totaled \$7bn at the end of June 2013 and increased by 0.9% from end-2012.

Balance sheet of financial institutions up 11% in first half of 2013

Figures released by the Central Bank show that the consolidated balance sheet of financial institutions in Lebanon reached LBP2,092bn, or \$1.4bn, at the end of June 2013, constituting an increase of 11.2% from end-2012 and a rise of 22.9% from end-June 2012. Liabilities to the private sector reached \$284.5m, increasing by 30.8% from end-2012 and by 3.9% from end-June 2012. Further, commitments to the financial sector totaled \$636.8m at the end of June 2013, representing a rise of 9.6% from the end of last year, and an increase of 40.6% from end-June 2012.

On the assets' side, financial institutions' operations with commercial banks reached \$520.6m at the end of June 2013, up 9.9% in the first half of the year and 24.2% from a year earlier. Lending to the private sector totaled \$746.2m, and increased by 17.1% from end-2012 and by 28.3% from end-June 2012. Also, investments in government securities totaled \$120.3m as at end-June 2013, decreasing by 12.5% in the first half of the year, but rising by 12.6% from end-June 2012. Further, the aggregate capital account of financial institutions reached \$376.7m at end-June 2013, constituting an increase of 6.1% from end-2012 and a rise of 16% from a year earlier. There were 53 financial institutions in Lebanon with a total of 59 branches as of December 2012.

HSBC to stop offering wealth management products in Lebanon

HSBC Holding announced that it will stop offering wealth management products in Lebanon as part of the bank's strategy to exit small or less profitable operations globally. It said that the bank's decision will come into effect on October 7, 2013 and will also affect Jordan and Bahrain. It noted that existing customers will continue to receive basic services and their wealth management-related investments will be maintained until maturity. HSBC Holdings has a direct presence in the Middle East through its wholly-owned subsidiary HSBC Bank Middle East. It operates through a network of branches and affiliates in 13 countries in the region that include Lebanon, Jordan, the UAE, Oman, Bahrain, Qatar, Kuwait, Pakistan, and the Palestinian Territories. HSBC Bank Middle East has cut its retail banking business in some countries in the Middle East region, including Lebanon, Jordan and Bahrain. In 2011, HSBC Bank closed three of its branches in Lebanon.

BankMed's profits up 6% to \$68m in first half of 2013

BankMed, one of Lebanon's top 10 banks, announced unaudited consolidated net profits of \$67.9m in the first half of 2013, constituting an increase of 5.9% from the same period last year. Net operating income rose by 6.4% year-on-year to \$217.1m, with net interest income decreasing by 8.8% to \$106.5m and net fees & commissions receipts expanded by 21.2% to \$29.4m. Non-interest income accounted for 54.9% of total income, up from 51.7% in the first half of 2012, with net fees & commissions representing 21.1% of non-interest earnings down from 18.5% in the first half of 2012. Further, the bank's interest margin was 1.91% in the first half of 2013 relative to 2.16% in the same period last year; while its net spread fell to 1.74% from 1.96% in the first half of 2012. Total operating expenditures increased by 13.1% to \$142.6m, with staff expenses decreasing by 3.1% to \$66.8m. Also, the bank's return on average assets reached 1.03% in June 2013 on an annualized basis, unchanged from that of the previous year; while its return on average equity was 10.07% relative to 12.13% in June 2012. The cost-to-income ratio rose to 56.2% in the first half relative to 49.8% in the same period last year.

In parallel, total assets reached \$13.8bn at end-June 2013, constituting a 10.2% increase from end-2012 and a 4.6% rise from a year earlier; while loans & advances to customers, excluding loans & advances to related parties, increased by 1.1% from end-2012 and by 6.1% year-on-year to \$4.1bn. Also, customer deposits, excluding deposits to related parties, totaled \$9.5bn at end-June, growing by 3.5% from end-2012 and by 2.4% from a year earlier. The loans-to-deposits ratio decreased to 38.5% at end-June 2013 from 43.5% a year earlier.

SGBL's net income up 2.8% to \$60m in first half of 2013

Société Générale de Banque au Liban (SGBL) sal, one of Lebanon's top 10 banks, announced unaudited consolidated net profits of \$60m in the first half of 2013, up 2.85% from the same period last year. Net operating income grew by 4.7% year-on-year to \$145m, with net interest income increasing by 5.4% to \$106.6m and net fees & commissions receipts dropping by 2% to \$25m year-on-year. Non-interest income accounted for 28.2% of total income, down from 28.4% in the same period last year; with net fees & commissions accounting for 58.4% of non-interest earnings ,down from 61.45% in the first half of 2012. Further, the bank's interest margin was 2% in the first half of the year relative to 2.15% in the same period last year; while its spread fell to 1.9% from 2% in the first half of 2012. Total operating expenditures increased by 2.7% to \$77.9m, with staff expenses dropping by 2% to \$37.6m. Also, the bank's return on average assets reached 1.04% in June 2013 on an annualized basis relative to 1.13% a year earlier; while its return on average equity was 15.43% on an annualized basis relative to 22.3% a year earlier. The cost-to-income ratio dropped to 51.3% in the first half from 51.9% in the same period last year.

In parallel, total assets reached \$11.7bn at end-June 2013, constituting a 4.1% rise from end-2012 and a 15.7% increase from a year earlier; while loans & advances to customers, excluding loans & advances to related parties, grew by 2.3% from end-2012 and by 3.8% from a year earlier to \$2.9bn. Also, customer deposits, excluding deposits to related parties, totaled \$9.3bn at end-June 2013, constituting an increase of 3.3% from end-2012 and a rise of 14.4% from a year earlier. The loans-to-deposits ratio fell to 32.1% at end-June 2013 from 35.3% a year earlier.

Al Mashrek's shareholders' equity up 8% to \$23m in 2012

Al Mashrek insurance and reinsurance sal released its audited balance sheet that shows total assets of \$62.6m at the end of 2012, constituting an increase of 15% from \$54.5m at end-2011. On the assets side, general company investments totaled \$33.6m and increased by 7.7% from a year earlier. They included \$14.4m in land and real estate; \$2.8m investments in subsidiaries and associates; and \$6.7m in cash and cash equivalent; as well as \$4.9m in blocked bank deposits and deposits with maturity of more than three months, of which \$4.5m were blocked in favor of the Economy Ministry as guarantees. Also, reinsurance share in technical reserves for the life and non-life categories amounted to \$0.7m and \$4.6m, respectively, constituting a decrease of 1.6% and an increase of 67.3%, respectively.

On the liabilities & shareholder equity's side, technical reserves for the life segment rose by 0.8% year-on-year to \$2.5m, while technical reserves for the non-life category reached \$25.6m at end-2012 and increased by 25.1% from a year earlier. Non-life technical reserves included unearned premium reserves of \$17.4m that rose by 22.8%, outstanding claims reserves of \$6.1m that increased by 36.9% year-on-year, and \$0.5m in reserves incurred but not reported that grew by 8% year-on-year. Shareholders' equity totaled \$22.8m at end-2012, up by 8% from a year earlier. Further, provisions for risks and charges reached \$1m and increased by 7.4% from a year earlier.

Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked Al Mashrek in 22nd and ninth place in 2012 in terms of life and non-life premiums, respectively. The firm's life premiums reached \$1.5m and non-life premiums amounted to \$34.5m, constituting increases of 34.5% and 14%, respectively. It had a 0.4% share of the life market and a 3.7% 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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