



# LEBANON THIS WEEK

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ADIR's net profits up 33% to \$9m in 2013

Solidere's consolidated net income up 147% to \$43m in 2013

Commercial banks' assets reach \$169bn at end-May 2014

HOLCIM Liban announces dividends for 2013, payout ratio at 90%

Ciments Blancs approves dividends for 2013

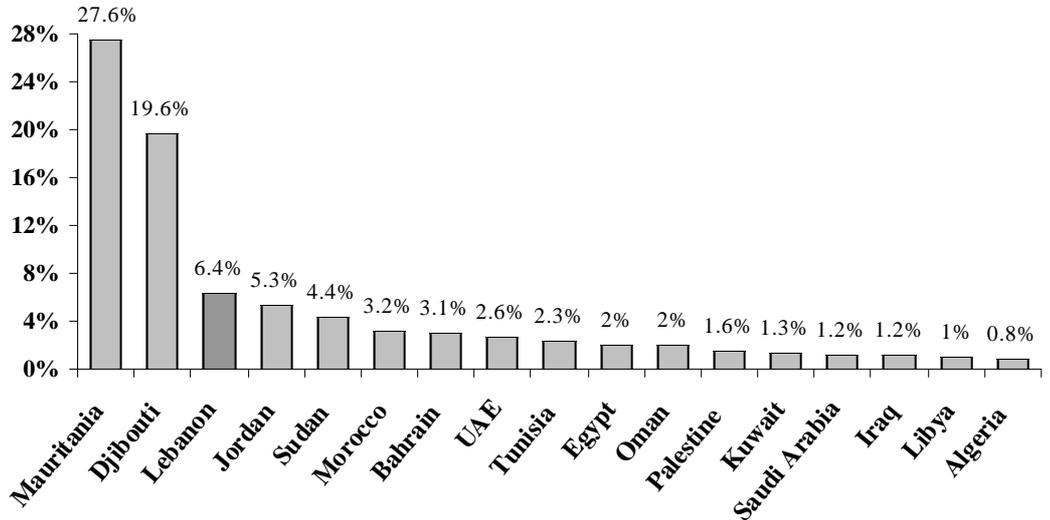
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Arabia Insurance posts net losses of \$6.6m in 2013

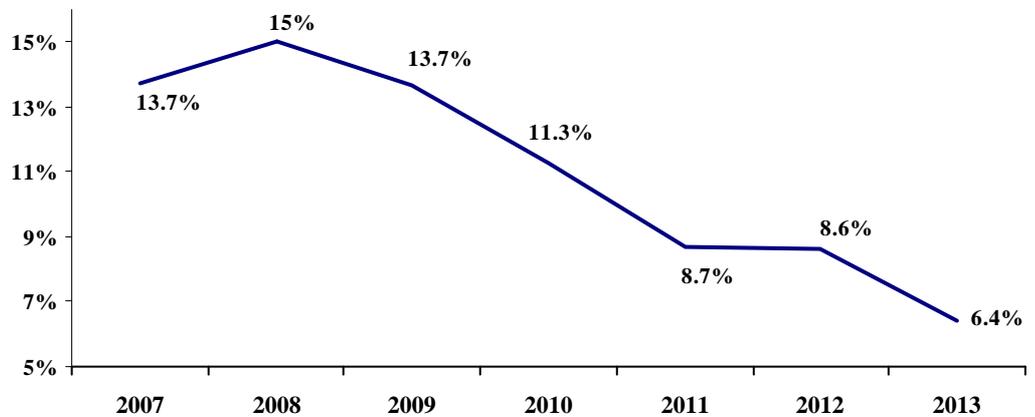
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## Charts of the Week

Foreign Direct Investments in Arab Countries in 2013 (% of GDP)



Foreign Direct Investments in Lebanon (% of GDP)



Source: UNCTAD, International Monetary Fund, Byblos Research

## Quote to Note

"Tax increases risk applying the brakes on an economy which is barely growing."

*Citigroup, on the impact of proposed tax hikes to cover the cost of the public sector's salary scale adjustment*

## Number of the Week

**\$200m:** Amount of projects financed under the National Energy Efficiency and Renewable Energy Action by the end of 2014, as forecast by the Lebanese Center for Energy Conservation

## Economic Indicators

<b>\$m</b> (unless otherwise mentioned)	<b>2013</b>	<b>Feb 13</b>	<b>Nov 13</b>	<b>Dec 13</b>	<b>Jan 14</b>	<b>Feb 14</b>	<b>% Change*</b>
Exports	3,936	381	263	243	244	253	(33.60)
Imports	21,228	1,791	1,772	1,797	1,873	1,732	(3.29)
Trade Balance	(17,292)	(1,410)	(1,509)	(1,554)	(1,629)	(1,479)	(4.89)
Balance of Payments	(1,128)	(92)	(192)	534	(31)	194	-
Checks Cleared in LBP	17,047	1,213	1,451	1,562	1,502	1,410	16.24
Checks Cleared in FC	55,321	4,353	4,584	4,728	4,783	4,369	0.37
Total Checks Cleared	72,368	5,566	6,035	6,290	6,285	5,779	3.82
Budget Deficit/Surplus	(4,220)	(279.91)	(463.41)	(238.09)	(119.34)	(125.38)	55.21
Primary Balance	(239.68)	(130.13)	2.97	70.72	142.38	23.91	-
Airport Passengers	6,265,470	403,968	407,869	510,367	450,476	376,106	(6.90)

<b>\$bn</b> (unless otherwise mentioned)	<b>Dec 2013</b>	<b>Feb 13</b>	<b>Nov 13</b>	<b>Dec 13</b>	<b>Jan 14</b>	<b>Feb 14</b>	<b>% Change*</b>
BdL FX Reserves	31.71	30.34	31.78	31.71	32.25	33.40	10.08
<i>In months of Imports</i>	<i>17.64</i>	<i>16.94</i>	<i>17.94</i>	<i>17.64</i>	<i>17.22</i>	<i>19.29</i>	<i>13.87</i>
Public Debt	63.46	58.08	63.26	63.46	63.94	64.99	11.90
Net Public Debt	53.18	49.95	52.75	53.18	53.47	53.91	7.92
Bank Assets	164.82	153.97	161.92	164.82	164.43	166.01	7.82
Bank Deposits (Private Sector)	136.21	126.30	133.15	136.21	134.86	135.71	7.45
Bank Loans to Private Sector	47.38	43.95	46.81	47.38	47.04	47.39	7.83
Money Supply M2	45.60	43.62	45.05	45.60	45.74	46.05	5.57
Money Supply M3	111.16	104.71	109.34	111.16	110.93	111.67	6.65
LBP Lending Rate (%)	7.29	7.47	7.01	7.29	7.39	7.14	(4bps)
LBP Deposit Rate (%)	5.44	5.46	5.47	5.44	5.48	5.51	1bps
USD Lending Rate (%)	6.88	7.05	6.88	6.88	6.82	6.96	(1bps)
USD Deposit Rate (%)	2.95	2.94	2.97	2.95	2.95	2.96	1bps
%* Change in CPI**	3.89	4.42	4.96	3.89	2.52	0.86	(81bps)

\* 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"	12.65	(2.69)	44,737	11.46%
Solidere "B"	12.72	(2.23)	19,539	7.49%
Byblos Common	1.60	(1.23)	2,068,268	5.21%
Byblos Pref. 08	100.50	0.30	3,006	1.82%
Byblos Pref. 09	101.00	1.00	626	1.83%
BLOM GDR	9.35	0.00	5,000	6.26%
BLOM Listed	8.80	0.00	0	17.14%
Audi GDR	6.60	(4.35)	12,330	6.13%
Audi Listed	6.35	0.79	210,000	20.12%
HOLCIM	13.97	0.00	0	2.47%

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

<b>Sovereign Eurobonds</b>	<b>Coupon %</b>	<b>Mid Price \$</b>	<b>Mid Yield %</b>
Jan 2015	5.875	101.00	3.84
Apr 2015	10.000	105.25	3.11
Jan 2016	8.500	107.50	3.37
Mar 2017	9.000	112.00	4.21
Nov 2018	5.150	100.50	5.02
May 2019	6.000	103.75	5.12
Mar 2020	6.375	105.25	5.29
Apr 2021	8.250	115.13	5.53
Oct 2022	6.100	102.13	5.77
Nov 2026	6.600	102.00	6.36

Source: Byblos Bank Capital Markets

	<b>July 7-11</b>	<b>June 30-July 4</b>	<b>% Change</b>	<b>June 2014</b>	<b>June 2013</b>	<b>% Change</b>
<b>Total Shares Traded</b>	2,408,748	310,571	675.59	7,410,380	3,583,569	106.79
<b>Total Value Traded</b>	\$6,852,985	\$4,367,705	56.90	\$57,889,844	\$35,442,685	63.33
<b>Market Capitalization</b>	\$11.04bn	\$11.23bn	(0.66)	\$11.21bn	\$10.24bn	9.53

Source: Beirut Stock Exchange (BSE)



### Lebanon ranks 112th globally, 14th in MENA region in country risk

In its quarterly survey of the country risk level in 186 countries, *Euromoney* magazine ranked Lebanon in 112th place worldwide and in 14th place among 22 countries in the Middle East & North Africa region in the second quarter of 2014. Also, Lebanon came in 36th place among 52 upper middle-income countries (UMICs) included in the survey. Lebanon's global rank improved by one spot from 113th place in the first quarter of 2014, while it regressed by 10 spots from 102nd place in the fourth quarter of 2013, by 17 spots from 95th place in the third quarter and by 16 spots from 96th place in the second quarter of last year. The survey evaluates individual country risk by assigning a weighting to six categories that cover Political Risks, Economic Performance, Access to Bank Finance & Capital Markets, Debt Indicators, Credit Ratings, and Structural Assessments.

Globally, Lebanon had a lower country risk level than that of Albania, Jamaica and Liberia, and a higher risk level than that of Libya, Mozambique and Tanzania. It also ranked ahead of Albania and behind Libya among UMICs. Lebanon's global rank regressed by five spots on the Economic Performance category and by one spot on each of Political Risks, Structural Assessments and Credit Ratings categories. Lebanon's global rank remained unchanged on the Debt Indicators and on the Access to Bank Finance & Capital Markets categories from the preceding quarter.

In parallel, Lebanon received a score of 34.1 points, constituting a decrease of 1.6% from 34.66 points in the first quarter of 2014 and a decline of 10.9% from 38.26 points in the second quarter of 2013. Lebanon's score came below the global average score of 42.61 points, the UMICs' average score of 39.73 points and the MENA average of 42.89 points. Also, its score came below the Arab average score of 41.86 points and the Gulf Cooperation Council (GCC) countries' average score of 66.66 points, but was above the average score of non-GCC Arab countries of 30.41 points.

Lebanon's score on the Economic Performance category dropped by 2% from the first quarter of 2014, while its score on each of the Structural Assessments and Political Risks category decreased by 1.9% quarter-on-quarter. Lebanon's score on the Access to Bank Finance & Capital Markets, Debt Indicators and Credit Rating categories remained unchanged from the first quarter of 2014.

Lebanon ranked ahead of Nigeria and behind Benin globally, while it came ahead of Egypt and behind Bahrain regionally on the Political Risk category. Also, it ranked ahead of the Bahamas and behind Spain worldwide, and came ahead of Libya and behind Tunisia regionally in terms of Economic Performance. Further, Lebanon ranked ahead of India and behind Barbados globally, and came ahead of Saudi Arabia and behind Bahrain regionally on the Structural Assessments category. Finally, Lebanon tied with Montenegro and Micronesia, ranked ahead of Guyana and behind Armenia globally, and came ahead of only Mauritania and Djibouti regionally on the Debt Indicators category.

### MENA Countries Rankings & Scores

	Score	MENA Rank	Global Rank
Qatar	74.49	1	17
Kuwait	71.32	2	21
UAE	69.29	3	24
Israel	66.80	4	31
Saudi Arabia	65.75	5	33
Oman	65.49	6	34
Turkey	54.70	7	52
Bahrain	53.61	8	54
Morocco	44.58	9	74
Jordan	43.67	10	78
Tunisia	43.51	11	79
Algeria	39.21	12	88
Libya	34.69	13	109
<b>Lebanon</b>	<b>34.10</b>	<b>14</b>	<b>112</b>
Egypt	33.18	15	118
Iraq	30.53	16	130
Iran	26.75	17	147
Yemen	24.52	18	154
Sudan	20.72	19	165
Mauritania	20.71	20	166
Syria	20.17	21	167
Djibouti	5.72	22	184

Source: *Euromoney*, *Byblos Research*

### Country Risk Indicators for Lebanon - Second Quarter 2014

	Weighting (%)	Score	MENA Rank	Global Rank	MENA Avg Score	Global Avg Score
Political Risk	30	10.57	12	127	12.44	13.79
Economic Performance	30	12.86	14	109	14.02	13.59
Structural Assessments	10	5.19	9	62	4.45	4.01
Debt Indicators	10	2.0	20	161	5.29	4.26
Credit Rating	10	1.25	12	106	3.13	3.14
Access to Bank Finance & Capital Markets	10	2.25	13	110	3.56	3.81

Source: *Euromoney*, *Byblos Research*

### Lebanon faces political and fiscal risks

Merrill Lynch considered that political risks and the implementation of the public sector's salary scale adjustment as the main risks that Lebanon is currently facing. First, it said that Lebanon's political outlook is contingent on regional political developments, especially in Syria. It noted that the vacuum at the presidential level could last over an extended period of time, and that the Parliamentary elections scheduled in November could be delayed. It indicated that the need for economic reforms is not a priority for Lebanese politicians, and cited the lack of political will to address the electricity sector's elevated fiscal burden as an example. Second, it pointed out that the potential increase in public-sector wages constitutes the main fiscal risk, given the already weak state of public finances. It noted that the proposal to raise the public sector's wages and salaries lacks transparency, as it is not clear if it would be disbursed in installments or retroactively, or if it would be fully or partially funded by the proposed revenue measures that aim to finance it. It considered that the Parliament is unlikely to ratify the related draft law in the near-term, given the concerns of the monetary authorities and the ongoing political deadlock that has paralyzed legislative action. In addition, it expected public finance imbalances to remain high, even without the ratification of the public-sector salary scale. It said that the wide fiscal deficit would have additional adverse implications on the public debt's dynamics. In parallel, it considered that the potential imposition of U.S. sanctions on specific Lebanese financial institutions or on the banking sector is a "low probability event". It noted that the regulatory responses of Lebanese authorities to previous money laundering allegations were quick and adequate, which safeguarded the banking sector's reputation and regulatory compliance.

Merrill Lynch indicated that the Lebanese financial sector mitigates risks to the economy. It said that the Central Bank's level of foreign currency reserves is appropriate. It noted that the Central Bank sold about \$4bn from its Eurobonds portfolio since October 2013 in anticipation of a potential volatile year and in order to have a stronger and more liquid foreign exchange position. It said that deposits at commercial banks continue to grow at about 6% annually, which would support the banks' financing of the deficit. It added that, unless there is a decline in the government's borrowing needs, the Central Bank would continue financing part of the deficit.

In parallel, it indicated that the Lebanese economy continues to be affected significantly by spillovers from the Syrian conflict, and that the rising number of Syrian refugees constitutes a major long-term challenge. It considered that the negative impact of the rising number of refugees on confidence and on security outweighs the positive impact of higher consumption spending, and added that the allocation of cash vouchers to refugees by international agencies is stimulating the informal economy. It pointed out that the direct budgetary impact of Syrian refugees has been limited so far to a small rise in educational, healthcare and other spending; while the impact on Electricité du Liban is limited by supply constraints.

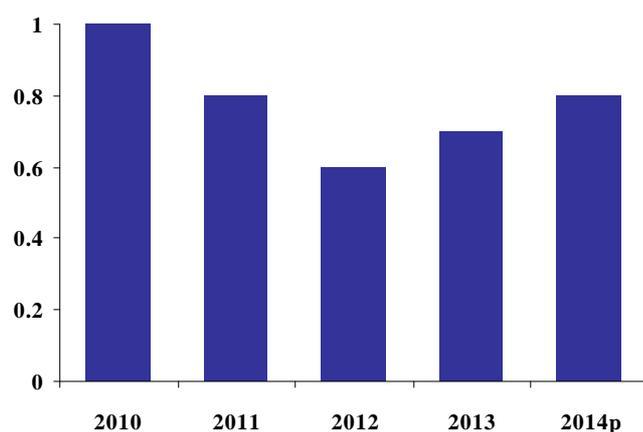
### Lebanon ranks ninth in the Middle East & Africa in expected visitor spending for 2014

The MasterCard Worldwide Index of Global Destination Cities for 2014 ranked Beirut in ninth place among 21 cities in the Middle East & Africa (ME&A) region in terms of expected spending by visitors in 2014. The survey ranks destination cities in terms of the total number of international overnight arrivals and cross-border spending. It defines international overnight arrivals as visitors who stay in a particular city for at least one night, while it refers to visitors' expenditures as the total amount that visitors spend in the destination city, excluding spending on airline tickets.

The survey projected visitors' spending in Beirut at \$0.8bn in 2014, constituting a rise of 7.8% from \$0.7bn in 2013 and compared to \$0.6bn in 2012, \$0.8bn in 2011 and \$1bn in 2010. Spending by visitors in Beirut this year would be similar to spending in Egypt and lower than such expenditures in Dubai (\$10.9bn), Riyadh (\$4.1bn), Johannesburg (\$3.2bn), Cape Town (\$2.3bn), Abu Dhabi (\$1.9bn), Tel Aviv (\$1.5bn) and Amman (\$0.9bn). The growth rate in international visitor spending in Beirut would be the sixth highest among the top 10 destination cities by tourist spending in the ME&A region this year. It would be lower than Abu Dhabi (+15.8%), Casablanca (+14.8%), Tel Aviv (+12%), Amman (+9.8%) and Dubai (+9%).

In parallel, the survey forecast the number of overnight visitors to Beirut at 0.7 million in 2014. Beirut would receive the fewest number of overnight visitors among the top 10 destination cities by visitors' spending in the ME&A region in 2014. The expected number of international overnight arrivals in 2014 would be the highest in Dubai at 12 million visitors among ME&A cities, followed by Riyadh at 5.6 million and Johannesburg at 4.3 million.

Spending by Visitors in Lebanon (US\$bn)



Sources: MasterCard, Byblos Research

### Lebanon is seventh riskiest emerging market in terms of acquiring, leasing or operating office space

A survey by property consultants Cushman & Wakefield to evaluate the risks of acquiring, leasing or operating office space in 42 emerging and frontier markets ranked Lebanon as the seventh riskiest market overall, and the second riskiest market among 12 Arab countries included in the study. Lebanon was also the third riskiest market among 14 Upper-Middle Income Countries (UMICs) included in the survey. The firm indicated that it compared the risks and opportunities in the 42 office locations in order for occupiers and investors to gain insights about which markets provide the best opportunity for their organizations.

The firm used a weighted Risk Index to rank countries based on four key risks of acquiring, leasing or operating office space that are Transparency Risks, Geopolitical Risks, Corruption Risks, and Health & Safety Risks. The index is based on published data about operating conditions in a given country, such as the level of transparency, of corruption, and of economic and political stability. The firm also incorporated in the index the results of a survey about the top tier property operators in each region. The index's results aim to determine the operating environment as well as the ease and speed of acquiring office space in a market.

Globally, acquiring office space in Lebanon was easier and more transparent than in Libya, Angola, Myanmar, the Democratic Republic of Congo, Zimbabwe and Honduras; while it was less risky than in Libya among Arab countries. Also, acquiring office space in Lebanon was less risky than in Libya and Angola among UMICs. In terms of market dynamics, Lebanon received a score of one point out of a maximum of five points on the market's transparency, two points on the speed of leasing transactions, three points each on the level of bureaucracy and on the ease of owning a property, and four points on the ease of leasing a property. As such, the survey identified the poor reliability and accessibility of market information as well as the slow transactions process as the main market risks in Lebanon.

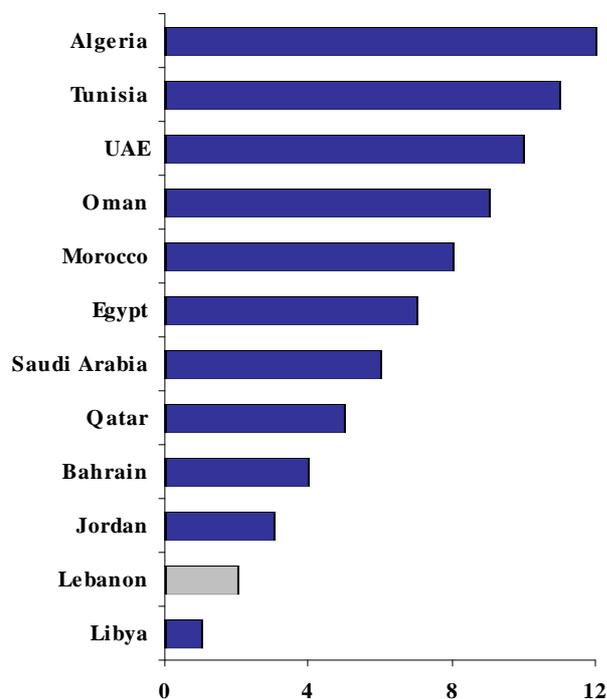
Cushman & Wakefield indicated that Beirut is the main office market in the country. It said that occupier demand is currently subdued, with the majority of tenants focused on consolidation and are increasingly cost conscious. But it noted that the market suffers from a general lack of supply, especially in terms of prime office space. It expected activity in the office market in Lebanon to remain subdued over the remainder of 2014, reflecting the prevailing economic conditions and the ongoing security issues that are weighing on business confidence. It expected occupiers to remain cautious in terms of expansion plans, with many of them adopting a "wait and see" approach until conditions improve. It considered that domestic instability would negatively affect projects in the pipeline, with most plans either postponed or cancelled. As such, it anticipated that the available prime office space would remain increasingly scarce until conditions become calmer and business confidence returns.

### French Development Agency's commitments to Lebanon up 17% to €69m in 2013

Figures released by the French Development Agency (AFD) indicate that the AFD Group's financial commitments to Lebanon totaled €69.2m in 2013, constituting an increase of 16.9% from €59.2m in 2012. It said that its commitments to Lebanon included €65m in loans that rose by 15% from €56.5m in 2012, and €4.2m in grants & subsidies that grew by 55.6% from €2.7m in 2012. Lebanon was the fourth largest recipient of AFD support among 11 Mediterranean and Middle Eastern countries, behind only Turkey (€348.5m), Morocco (€254.3m) and Egypt (€80m).

The AFD pointed out that it has financed five projects in Lebanon in 2013. It extended a €30m loan to the Lebanese government to finance energy efficiency projects. Also, it allocated a €21m loan and a €0.7m grant to the government to support the modernization of the Conservatoire National des Arts et Métiers and the Ecole Normale de Beyrouth. Further, the AFD committed €3m to non-governmental organizations to help them assist Syrian refugees and host communities in the country. The AFD also allocated a €0.5m grant to finance an agricultural project in South Lebanon. In parallel, Proparco, the private sector arm of the AFD, extended a €14m loan to CreditBank to promote the access to finance of small- and medium-sized enterprises.

Ranking of Arab Markets from Least Risky to Riskiest



Source: Cushman & Wakefield, Byblos Research

### **Lebanon has four million phone subscriptions as at June 2014**

Figures released by the state-owned mobile phone networks Alfa and Touch show that there were four million mobile phone subscriptions in Lebanon at the end of June 2014. Touch has 2.1 million mobile phone subscriptions, representing a 53% market share; while Alfa has 1.9 million subscriptions and a 47% share. In parallel, there were 2.35 million subscriptions to data services at the end of June 2014, equivalent to about 60% of mobile phone subscriptions. Touch has 1.3 million subscriptions to data services it provides, equivalent to about 62% of its total mobile phone subscriptions; while Alfa has 1.05 million subscriptions to its data services, or about 55% of its total mobile subscription base. Further, Alfa indicated that 70% of its mobile phone subscribers have a Smartphone. The Kuwaiti mobile telecommunications provider Zain has been running Touch since June 2004 and the Cairo-based Global Telecom Holding has been managing Alfa since January 2008.

The Ministry of Telecommunications lowered the tariffs on mobile phone services starting in June 2014. It reduced call tariffs for pre-paid mobile subscribers by 30.6% from \$0.36 per minute to \$0.25 and lowered the cost of text messaging by 44.4% from \$0.09 per message to \$0.05. Also, postpaid mobile subscribers started receiving an extra 60 minutes of call time as part of their \$15 monthly subscription fee. Further, the ministry doubled or tripled subscribers' mobile 3G capacity, but maintained current prices unchanged, which effectively amounts to a reduction in rates.

### **Net public debt at \$54.6bn at end-May 2014**

Lebanon's gross public debt reached \$65.1bn at the end of May 2014, constituting a rise of 2.5% from the end of 2013 and an increase of 9.9% from end-May 2013. Domestic debt totaled \$38.8bn at end-May, rising by 4% from end-2013 and increasing by 16.8% annually; while external debt stood at \$26.2bn, constituting a marginal rise of 0.4% from end-2013 and an increase of 1% from a year earlier. Local currency debt accounted for 59.7% of gross public debt at end-May 2014 compared to 56.1% a year earlier, while foreign currency-denominated debt represented 40.3% of the total at end-May 2014 relative to 43.9% a year earlier. The weighted interest rate on outstanding Treasury bills was 6.87%, and that on Eurobonds was 6.37% at the end of May 2014. Further, the weighted life on Eurobonds was 5.86 years, while that on Treasury bills was 1,190 days.

Commercial banks accounted for 52.1% of the local public debt at the end of May 2014 compared to 49.9% a year earlier. They were followed by the Central Bank with 30.3%, down from 32.3% at end-May 2013; while public agencies, financial institutions and the general public accounted for 17.6% of local debt compared to 17.7% at end-May 2013. Eurobond holders, foreign private sector loans and special T-bills in foreign currencies accounted for 90.2% of the external debt, followed by foreign governments with 4.8%, multilateral institutions with 4.5%, and Paris II loans with 0.4%. The net public debt, which excludes the public sector's deposits at the Central Bank and at commercial banks from overall debt figures, increased annually by 7.7% to \$54.6bn. In parallel, the gross market debt accounted for about 65% of total public debt. Gross market debt is the total public debt less the portfolios of the Central Bank, the National Social Security Fund, bilateral and multilateral loans, as well as Paris II and Paris III related debt.

### **Revenues through Port of Beirut down 8% to \$1bn in first five months of 2014**

Figures released by the Port of Beirut show that overall receipts generated through the port reached \$1bn in the first five months of 2014, constituting a decrease of 7.8% from the same period of 2013. Customs receipts through the port totaled \$477m in the first five months of 2014, down 13.8% from \$553.3m in the same period of 2013; while receipts from the value added tax reached \$457.6m, down 2.3% from the first five months of 2013. Also, the port's overall revenues totaled \$87.9m in the first five months of 2014, up 1% from the same period of 2013. Further, the Port of Beirut handled an aggregate of 3.6 million tons of freight in the first five months of 2014, up by 5.9% from 3.4 million tons in the same period of the preceding year. Import freight accounted for 89.8% of the total, while the remaining 10.2% was export cargo. A total of 837 ships docked at the port in the first five months of 2014 compared to 887 vessels in the same period of the previous year.

In parallel, overall revenues generated through the Port of Tripoli reached \$45.5m in the first five months of 2014, constituting a drop of 3.8% from \$47.3m in the same period of 2013. Customs receipts through the port reached \$16.9m in the covered period, down 13.1% from \$19.5m in the first five months of the previous year; while receipts from the value-added tax reached \$23.5m and rose by 2.6% from \$22.9m in the first five months of 2013. The port's revenues rose by 2.9% year-on-year to \$5.1m in the first five months of 2014. Further, the Port of Tripoli handled an aggregate weight of 391,116 tons of freight in the first five months of the year, constituting a decrease of 33.4% from 586,827 tons in the same period of 2013. A total of 216 vessels docked at the port in the first five months of 2014, constituting a decrease of 1.4% from 219 ships in the same period of the preceding year.

### Tourism spending in Lebanon down 6% in first half of 2014

Figures issued by Global Blue, the VAT refund operator for international shoppers, show that total spending by tourists in Lebanon increased by 6% in the second quarter of 2014 from the same quarter last year. Visitors from Saudi Arabia accounted for 16% of total tourist expenditures in the second quarter of 2014, followed by visitors from the UAE with 12%, Kuwait with 9%, Egypt with 8%, Syria with 7%, Jordan with 5%, Qatar and France with 4% each, and Nigeria and the United States with 3% each. Beirut attracted 82% of total spending in the covered quarter, followed by the Metn area with 12%, Baabda with 3% and the Keserwan region with 1%. Fashion & clothing accounted for 73% of total spending in the second quarter of 2014, followed by watches & jewelry with 11%, home & garden products with 4%, department stores and souvenirs & gifts with 3% each, and consumer electronics & household appliances with 1%.

Spending by visitors from Qatar increased by 43% year-on-year in the second quarter of 2014, followed by those from Kuwait (+21%), Egypt (+18%), the United States (+17%), Saudi Arabia (+13%), Nigeria (+8%) and Syria (+6%). In contrast, spending by visitors from the UAE contracted by 9% year-on-year and those from Jordan fell by 4%; while expenditures by visitors from France were unchanged from the same quarter last year. Spending on watches and jewelry rose by 19% from the second quarter of 2013, followed by department stores (+15%), home & garden products (+13%) and fashion & clothing (+4%); while spending on souvenirs & gifts regressed by 17%, and those on consumer electronics & household appliances decreased by 2% year-on-year. Also, the total number of refund transactions by visitors in the second quarter of 2014 increased by 5% annually. The total number of refund transactions by visitors from Kuwait rose by 31% from the same quarter of 2013, followed by Egypt (+19%), Syria and Qatar (+13% each), the United States (+10%), Saudi Arabia (+6%) and France (+5%). In contrast, the number of refund transactions by visitors from the UAE decreased by 17%, followed by Nigeria (-6%) and Jordan (-1%).

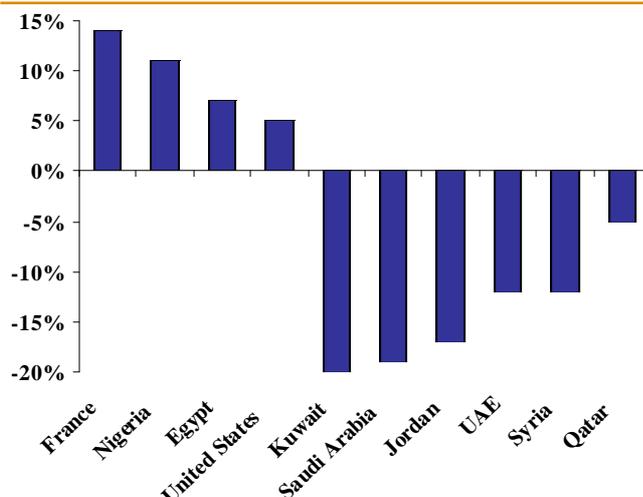
In parallel, total spending by tourists in Lebanon decreased by 6% year-on-year in the first half of 2014. Spending by visitors from France rose by 14%, followed by Nigeria (+11%), Egypt (+7%) and the United States (+5%); while spending by visitors from Kuwait contracted by 20%, followed by visitors from Saudi Arabia (-19%), Jordan (-17%), Syria and the UAE (-12% each), and Qatar (-5%). Also, the total number of refund transactions by visitors contracted by 7% year-on-year in the first half of 2014. The number of refund transactions by visitors from Egypt increased by 7% in the first half of the year, followed by those from Nigeria and the United States (+6% each) and France (+2%). In contrast, refund transactions by visitors from Saudi Arabia fell by 23%, followed by those from the UAE and Jordan (-20% each), Kuwait (-14%), Qatar (-7%) and Syria (-2%).

### Public-sector salaries and benefits up 1% in January 2014

Figures issued by the Ministry of Finance show that salaries, wages and related benefits paid to public-sector employees totaled \$238.8m in January 2014, constituting an increase of 0.6% from the same month last year. They represented the largest component of total primary spending and accounted for 26% of such expenditures in January 2014 compared to 29% in January 2013. The figures include basic salaries, indemnities, allowances, contributions to civil servants' cooperatives, as well as contributions to other mutual funds providing health insurance for specific categories of civil servants, mainly judges, religious judges and Parliament employees. The payments exclude retirement and end-of-service indemnities as well as salaries, wages and benefits of employees at public institutions. Salaries and benefits of military personnel reached \$157.2m and accounted for 65.8% of the total, followed by educational personnel with \$43.8m (18.3%), civil staff with \$27.2m (11.4%), government contribution to employees cooperative with \$9.3m (3.9%) and customs employees with \$2m (0.8%). The distribution of military personnel salaries and benefits shows that the Lebanese Army's salaries totaled \$90.9m in January 2014 and represented 57.8% of the military personnel's salaries and benefits. They were followed by salaries of the Internal Security Forces with \$49.8 (31.6%), General Security Forces with \$13.3m (8.4%), and State Security Forces with \$3.3m (2.1%).

The overall increase in salaries, wages and related benefits paid to public-sector employees reflects a \$6.6m rise in allowances, a \$2.7m increase in other payments to public employees and a \$0.7m rise in basic salaries, which were offset by a \$5.3m drop in indemnities. The rise in basic salaries reflects a \$6m increase in the basic salaries of military personnel that was offset by a decline of \$4.6m in outlays to educational personnel and a drop of \$1.3m in payments to civil service personnel. Overall, basic salaries rose by 0.4% year-on-year to \$175.8m in January 2014, allowances increased by 22.2% to \$36.5m, other expenses expanded by 23.5% to \$13.9m and indemnities fell by 30.8% to \$11.9m.

Total Spending by Visitors in First Half of 2014  
(Annual Change)



Source: Global Blue, Byblos Research

### Lebanon's piracy rate at 71% in 2013, 38th highest globally and sixth highest in MENA region

The U.S.-based Business Software Alliance (BSA), an industry group representing the world's leading computer software developers, estimated the software piracy rate in Lebanon at 71% in 2013, unchanged from 2011, and compared to 72% in 2009 and 73% in 2007. As such, Lebanon had the 38th highest piracy level among 111 countries worldwide and the sixth highest among 17 countries in the Middle East & North Africa region (MENA). Also, Lebanon had the 15th highest piracy rate among the 33 upper middle-income countries (UMICs) included in the survey. The survey covered operating systems; systems software such as databases and security packages; business applications; and consumer applications such as games, personal finance and reference software.

Globally, Lebanon's software piracy rate was similar to that of Thailand, and was higher than rates in the Philippines, Serbia and Argentina, and lower than rates in Kazakhstan, China and Panama. Further, Lebanon's piracy rate was similar to that of Thailand, and came higher than rates in Argentina and Serbia and lower than rates in China and Panama among UMICs. Lebanon's software piracy rate was significantly higher than the global rate of 43% and the Middle East & Africa rate of 59%. Zimbabwe had the highest piracy rate in the world at 91% and the United States had the lowest rate at 18% in 2013, while Libya had the highest piracy rate at 89% and South Africa had the lowest rate at 34% in 2013 among UMICs. Piracy rates in the MENA region increased in three countries from 2011, regressed in 11 economies, and remained unchanged in three countries.

In parallel, software piracy-related losses in Lebanon totaled \$65m in 2013, constituting an increase of 35% from \$52m in 2011, and compared to losses of \$46m in 2009 and \$44m in 2007. As such, Lebanon posted the 78th highest piracy-related dollar losses worldwide, the 26th highest losses among the UMICs and the 12th highest losses in the MENA region. Globally, Lebanon's piracy-related dollar losses were similar to those in Oman, and came higher than those in Croatia, Moldova and Libya, and lower than losses in Morocco, Slovakia and Tunisia. Its losses were higher than losses in Libya, Jordan, Bosnia, Botswana, Albania, Montenegro and Mauritius among UMICs. Lebanon's piracy-related dollar losses accounted for 0.1% of global losses, for 0.3% of UMIC losses, for 2.8% of MENA losses, and for 1.5% of losses in the Middle East & Africa region.

### Software Piracy in MENA region in 2013

Country	Piracy Rate	Global Rank	Losses (US\$m)
Libya	89%	4	50
Yemen	87%	6	9
Iraq	86%	8	116
Algeria	85%	11	102
Tunisia	75%	31	66
<b>Lebanon</b>	<b>71%</b>	<b>38</b>	<b>65</b>
Morocco	66%	45	69
Egypt	62%	51	198
Oman	60%	55	65
Turkey	60%	55	504
Kuwait	58%	60	97
Jordan	57%	61	35
Bahrain	53%	65	27
Saudi Arabia	50%	71	421
Qatar	49%	73	77
UAE	36%	89	230
Israel	30%	95	177

Source: Business Software Alliance, Byblos Research

### ADIR's net profits up 33% to \$9m in 2013

ADIR Insurance sal, the insurance affiliate of the Byblos Bank Group, announced audited net profits of \$8.8m in 2013, constituting an increase of 32.5% from net earnings of \$6.6m in 2012. Its audited balance sheet shows total assets of \$200.3m at the end of 2013, constituting a rise of 17.5% from \$170.4m at end-2012. On the assets side, general company investments totaled \$85.8m and increased by 12.9% from \$76m at end-2012. They included \$11m in cash & cash equivalents, \$22.4m in fixed income investments; and \$47.5m in blocked bank deposits and deposits with maturity of more than three months, of which \$2.9m were blocked in favor of the Economy Ministry as guarantees.

Also, unit-linked contracts investments totaled \$88.2m at end-2013, and rose by 23.4% from \$71.5m a year earlier. They included \$42.8m in fixed income investments, \$13.4m in placements in mutual funds, and \$32.1m in cash & similar investments. Unit-linked investment in fixed income instruments rose by 25.3%, placements in mutual funds increased by 33.4%, and cash & similar investments grew by 17.4% year-on-year. Reinsurance share in technical reserves for the life and non-life categories amounted to \$15.5m and \$2.4m, respectively, constituting increases of 17.1% and 29.5%, respectively.

On the liabilities side, unit-linked technical reserves reached \$84.7m at the end of 2013, constituting a rise of 23.5% from \$68.6m at end-2012. Also, technical reserves for the life segment grew by 16.7% year-on-year to \$23.8m, while technical reserves for the non-life category reached \$30.9m at end-2013 and increased by 1% from a year earlier. Non-life technical reserves included unearned premium reserves of \$23.9m that dropped by 2.5%, and outstanding claims reserves of \$3.1m that increased by 14%. They also included premium deficiency reserves of \$2.6m that remained unchanged, and \$0.9m in reserves incurred but not reported that increased by 60.9% year-on-year. Provisions for risks and charges reached \$1.2m and rose by 50.9% from the previous year. Further, the debt for funds held under reinsurance treaties reached \$15.6m at end-2013, constituting an increase of 18.5% from \$13.2m at end-2012. Also, the firm's shareholders' equity totaled \$34.4m at end-2013 and rose by 19% from \$28.9m a year earlier.

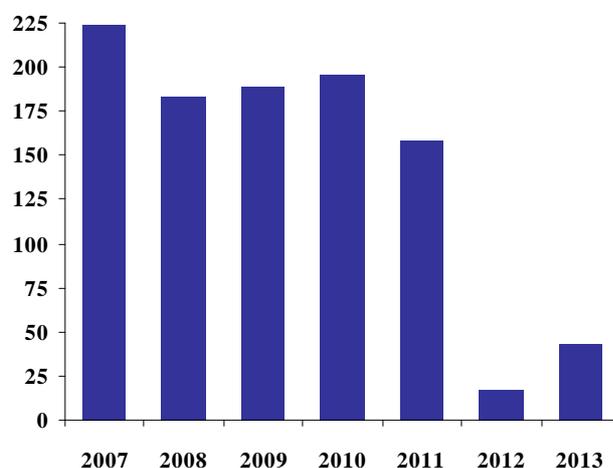
*Al-Bayan* magazine's annual survey of the insurance sector in Lebanon ranked ADIR in sixth and 14th place in 2013 in terms of life and non-life premiums, respectively. The firm's life premiums grew by 10.1% year-on-year to \$33.9m, while its non-life premiums decreased marginally by 0.4% to \$19.8m in 2013. It had an 8.1% share of the life market and a 2% share of the local non-life market.

### Solidere's consolidated net income up 147% to \$43m in 2013

Solidere, The Lebanese Company for the Development and Reconstruction of Beirut Central District sal, announced consolidated audited net profits of \$42.6m in 2013, constituting an increase of 147.1% from \$17.2m in 2012. The consolidated results reflect Solidere's standalone financials and those of its subsidiaries, which include the Beirut Waterfront Development, Beirut Real Estate Management & Services, and Solidere International Limited. In parallel, the firm's non-consolidated net profits reached \$39.7m last year, constituting a rise of 147.4% from \$16m in the previous year. The firm's consolidated revenues from land and real estate sales grew by 91.4% to \$94.9m in 2013, while revenues from rental properties declined by 5.1% year-on-year to \$51.6m. Further, income from services rendered grew by 23.2% year-on-year to \$8m in 2013. Also, on a consolidated basis, the firm recorded total net operating revenues of \$109.5m, up 53.4% year-on-year. In parallel, the company's general and administrative expenses decreased by 15.8% in 2013 to \$30.9m. It said that it intends to further lower its administrative and operating expenses as it postponed and/or canceled numerous activities and developmental projects that were scheduled to be implemented during the coming five years. Solidere is Lebanon's largest firm in terms of market capitalization.

Solidere stated that its consolidated assets reached \$2.87bn at end-2013 and increased by 1.3% from end-2012, with the inventory of land and projects in progress totaling \$1.14bn relative to \$1.2bn a year earlier. In parallel, the firm's non-consolidated assets totaled \$2.78bn at end-2013, up 1.4% from a year earlier. It indicated that, on a consolidated basis, its Bank overdrafts and short & medium term facilities reached \$552.8m compared to \$633m at the end of 2012. It added that revenues improved in 2013 despite slow macro-economic conditions and regional and domestic political uncertainties that had a negative impact on real estate sales and investment sentiment. It noted that it still owns a land bank of 1.8 million square meters that is valued at about \$7.2bn based on prevailing market prices. Also, the value of its built properties amounted to about \$1.5bn at end-2013, while it holds combined cash & bank balances of \$176.7m. The aggregate total of Solidere's holdings in cash and securities totaled \$670m last year, while the firms' outstanding loans from banks totaled \$673m, equivalent to about 7% of the firm's assets at market value. The firm's consolidated shareholders' equity totaled \$1.95bn at the end of 2013, up 2.2% from a year earlier. Solidere owns 4.3 million shares of its Dubai-based affiliate Solidere International Limited, or the equivalent of 39% of the company's capital.

Solidere Net Profits (US\$m)



Source: Solidere Financial Statements

### Commercial banks' assets reach \$169bn at end-May 2014

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$169.2bn at the end of May 2014, constituting an increase of 2.7% from the end of 2013 and a rise of 8% from end-May 2013. Private sector deposits totaled \$138.9bn, increasing by 1.9% from the end of 2013 and by 6.8% from a year earlier. Deposits in Lebanese pounds reached \$47.6bn and rose by 3.1% from end-2013 and by 5.8% from end-May 2013; while deposits in foreign currencies totaled \$91.3bn, constituting a rise of 1.3% from end-2013 and an increase of 7.3% from a year earlier. Non-resident foreign currency deposits totaled \$24.5bn at the end of May 2014, declining by 2.6% from the end of 2013 and growing by 5.9% year-on-year. Total non-resident deposits reached \$27.9bn at the end of May 2014 and dropped by 1.9% from end-2013, while they increased by 5.7% from a year earlier. Total private sector deposits decreased by \$1.3bn in January but increased by \$848.4m in February, by \$843.8m in March, by \$1.6bn in April and by \$650.7m in May 2014. They rose by \$558m in January, by \$744.9m in February, by \$1.8bn in March, by \$2bn in May and decreased by \$11.3m in April 2013. In parallel, deposits of non-resident banks reached \$5.5bn at the end of May 2014 and increased by 9.5% from end-2013 and by 7.4% from a year earlier. The dollarization rate of deposits reached 65.7% at the end of May 2014 relative to 66.1% at end-2013 and 65.4% a year earlier. Further, the average deposit rate in Lebanese pounds was 5.5% at the end of May 2014 relative to 5.49% a year earlier, while the same rate in US dollars was 3.01% compared to 2.9% in May 2013.

Loans to the private sector totaled \$49bn, constituting an increase of 3.4% from the end of 2013 and a rise of 10.3% from a year earlier. Lending to the resident private sector totaled \$43.3bn, growing by 4.4% from end-2013 and by 11.3% year-on-year; while credit to the non-resident private sector reached \$5.6bn and fell by 4.2% from end-2013 relative to an increase of 2.6% from end-May 2013. The dollarization rate in private sector lending regressed to 76.1% at the end of May 2014 from 77.1% a year earlier. The average lending rate in Lebanese pounds was 7.48% in May 2014 compared to 7.35% a year earlier, while the same average in US dollars was 7.04% compared to 6.97% in May 2013. In addition, claims on non-resident banks reached \$13.1bn at end-May 2014, posting decreases of 6.4% from end-2013 and of 2.3% from a year earlier. Claims on the public sector stood at \$37.4bn, constituting a marginal decrease of 0.6% from end-2013 and a rise of 16% year-on-year. The ratio of private sector loans-to-deposits in foreign currencies stood at 40.8%, well below the Central Bank's limit of 70%, and compared to 40.3% a year earlier. In parallel, the same ratio in Lebanese pounds was 24.6%, up from 22.6% at the end of May 2013. The ratio of total private sector loans-to-deposits was 35.3% compared to 34.2% a year earlier. The banks' aggregate capital base stood at \$15.1bn, up by 1.5% from the previous month and by 14.2% from \$13.2bn in May 2013.

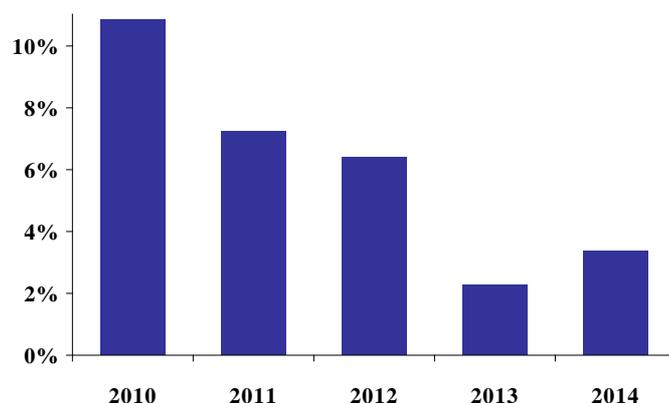
### HOLCIM Liban announces dividends for 2013, payout ratio at 90%

The Ordinary General Assembly of HOLCIM Liban sal, which was held on June 11, 2014, approved the distribution of LBP29.6bn, or \$19.6m in dividends to holders of common shares for 2013. The dividends' distribution is equivalent to LBP1,515.8 (\$1) per share and to a payout ratio of 89.9%. The dividends will be paid starting on July 25, 2014 net of a 5% withholding tax. HOLCIM Liban posted net profits of \$21.8m in 2013, constituting an increase of 15.3% from \$18.9m in 2012. The firm's sales totaled \$190m in 2013, up 1.7% from \$186.8m in the previous year. HOLCIM's total assets reached \$292.1m at end-2013, constituting an increase of 4% from \$280.8m at end-2012; while its shareholders' equity was \$212.3m at end-2013 relative to \$206.7m at the end of 2012. HOLCIM Liban has 19.5 million shares listed on the Beirut Stock Exchange. The firm is engaged in the production and sale of cement and other related services. HOLCIM's share price closed at \$13.97 on July 11th, constituting a decrease of 10.3% from \$15.58 at end-2013.

### Ciments Blancs approves dividends for 2013

The Ordinary General Assembly of Société Libanaise des Ciments Blancs sal, which was held on June 18, 2014, approved the distribution of LBP4.6bn, or \$3.1m in dividends to holders of common shares for 2013. The dividends are equivalent to LBP515.8 (\$0.34) per share and to a payout ratio of 90.5%. The dividends will be paid starting on July 25, 2014 net of a 5% withholding tax. Ciments Blancs, which is an affiliate of HOLCIM Liban, posted net profits of \$3.4m in 2013, constituting an increase of 29.1% from net earnings of \$2.6m in 2012. The company generated total sales of \$14.5m last year, nearly unchanged from 2012. The firm's total assets reached \$21.9m at the end of 2013, increasing by 8.4% from \$20.2m at end-2012. Ciments Blancs has 6 million bearer shares and 3 million nominal shares listed on the Beirut Stock Exchange. The firm's bearer share price closed at \$3.5 on July 11th, unchanged from end-2013; while its nominal share price closed at \$2.75, constituting a decrease of 15.1% from \$3.24 at end-2013.

### Private Sector Lending Growth\* (% Change)



\*in the first five months of each year

Source: Association of Banks in Lebanon, Byblos Research

### **Kafalat loan guarantees up 5% to \$57m in first half of 2014**

Figures released by the Kafalat Corporation show that loans extended to small- and medium-size companies under the guarantee of Kafalat reached \$56.5m in the first half of 2014, up 4.7% from \$54m in the first half last year. The number of loan guarantees totaled 438 year-to-June compared to 388 in the first half of 2013. The average loan size reached \$129,053 compared to \$139,126 in the first half of 2013. Mount Lebanon accounted for 42.9% of guarantees, followed by the Bekaa with 21%, the North with 11.2%, Nabatieh with 11%, the South with 9.4% and Beirut with 4.6%. The agricultural sector accounted for 49.5% of total guarantees, followed by industry with 34.3%, tourism with 9.8% and handicraft and specialized technologies with 3.2% each. Kafalat is a state-sponsored organization that provides financial guarantees for loans up to \$400,000 earmarked for the setup and expansion of small and medium-size companies in productive sectors. It guarantees up to 75% of the loan amount and a similar percentage of the interest that accrues during the grace period. It also guarantees up to 90% of the loan amount for innovative start-ups and a similar percentage of the interest that accrues during the grace period.

### **Arabia Insurance posts net losses of \$6.6m in 2013**

Arabia Insurance Company sal announced audited net losses of \$6.6m in 2013 compared to net profits of \$9.5m in 2012. Its audited balance sheet shows total assets of \$379m at the end of 2013, down 9% from \$416.4m a year earlier. On the assets side, general company investments totaled \$211m and decreased by 9.7% from end-2012. They included \$68m in variable income investments, \$44.8m in cash & cash equivalents, \$21.8m in fixed income investments, and \$66.3m in blocked bank deposits and deposits with maturity of more than three months.

Also, unit-linked contract investments totaled \$19.2m at end-2013, constituting a decrease of 42.4% from \$33.3m a year earlier. They included \$18m of placements in mutual funds that rose by 34% year-on-year. Reinsurance share in technical reserves for the life category grew by 76.4% year-on-year to \$3m, while that for the non-life category regressed by 10.8% to \$41.8m in 2013.

On the liabilities side, unit-linked technical reserves reached \$19.3m at end-2013, constituting a drop of 54.3% from \$42.3m a year earlier. Also, technical reserves for the life segment increased by 162.8% year-on-year to \$21.5m, while technical reserves for the non-life category reached \$156.2m at end-2013 and decreased by 1.6% from a year earlier. Non-life technical reserves included unearned premium reserves of \$67.3m that dropped by 11.1% and outstanding claims reserves of \$80.5m that declined by 3% year-on-year. Provisions for risks and charges reached \$6.7m and rose by 21.9% from a year earlier. Further, the firm's shareholders' equity totaled \$122m at end-2013, down by 18.2% from a year earlier.

*Al-Bayan* magazine's annual survey of the insurance sector in Lebanon ranked Arabia Insurance Company in 17th and 12th place in 2013 in terms of life and non-life premiums, respectively. The firm's life premiums remained unchanged at \$2.6m in 2013, while non-life premiums regressed by 19.4% year-on-year to \$22.9m. It had a 0.6% share of the life market and a 2.3% share of the local non-life market.

## Ratio Highlights

(in % unless specified)	2011	2012	2013	Change*
Nominal GDP (\$bn)	40.1	42.5	44.3	
Public Debt in Foreign Currency / GDP	52.2	57.4	59.0	160
Public Debt in Local Currency / GDP	81.6	78.4	84.4	600
Gross Public Debt / GDP	133.9	135.7	143.4	770
Total Gross External Debt / GDP	169.0	169.9	172.7	280
Trade Balance / GDP	(34.7)	(34.6)	(32.8)	180
Exports / Imports	27.9	27.6	27.0	(60)
Fiscal Revenues / GDP	23.3	22.1	20.9	(120)
Fiscal Expenditures / GDP	29.1	31.4	32.1	70
Fiscal Balance / GDP	(5.9)	(9.3)	(11.2)	(190)
Primary Balance / GDP	4.1	(0.3)	(2.5)	(220)
Gross Foreign Currency Reserves / M2	79.2	69.4	70.6	120
M3 / GDP	242.5	244.7	248.9	420
Commercial Banks Assets / GDP	350.6	357.4	372.4	1,500
Private Sector Deposits / GDP	288.6	294.1	307.7	1,360
Private Sector Loans / GDP	98.2	102.2	107.0	480
Private Sector Deposits Dollarization Rate	65.9	64.8	66.1	130
Private Sector Lending Dollarization Rate	78.4	77.6	76.5	(110)

\* Change in basis points 12/13

Source: Institute of International Finance, Association of Banks in Lebanon, International Monetary Fund, Byblos Research Estimates & Calculations

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

## Risk Outlook

Lebanon	Aug 2012	July 2013	Aug 2013	Change*	Risk Level
Political Risk Rating	53.5	53.0	52.5	▼	High
Financial Risk Rating	35.0	33.5	33.5	▼	Moderate
Economic Risk Rating	34.0	28.5	28.5	▼	High
Composite Risk Rating	61.2	57.5	57.2	▼	High

Regional Average	Aug 2012	July 2013	Aug 2013	Change*	Risk Level
Political Risk Rating	59.7	58.3	58.2	▼	High
Financial Risk Rating	41.2	41.3	41.3	▼	Very Low
Economic Risk Rating	36.3	36.6	36.2	▼	Low
Composite Risk Rating	68.6	68.1	67.8	▼	Moderate

\*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	B1		Negative
Fitch Ratings	B	B	Negative	B		Negative
Standard & Poor's	B-	B	Stable	B-	B	Stable
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		CCC	

Source: Rating agencies

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