

LEBANON THIS WEEK

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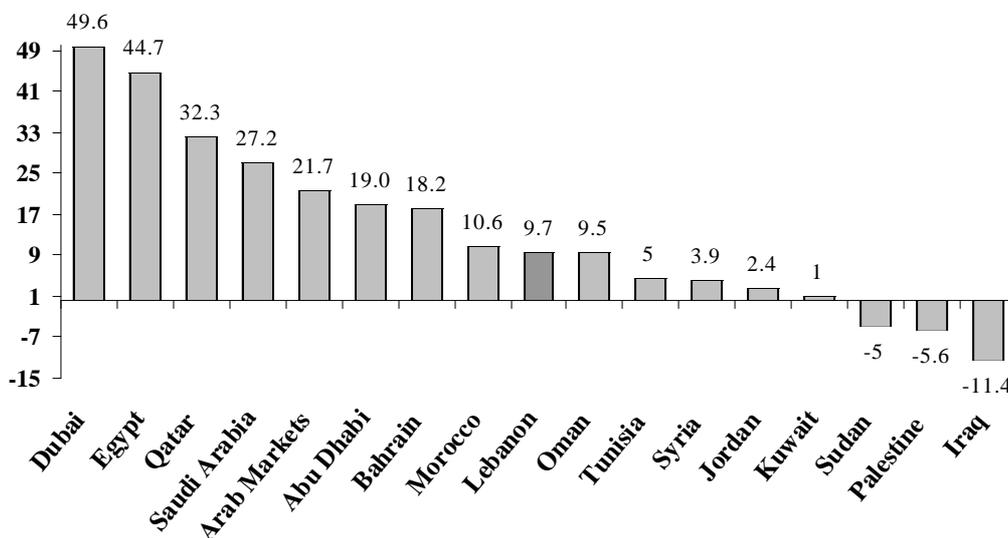
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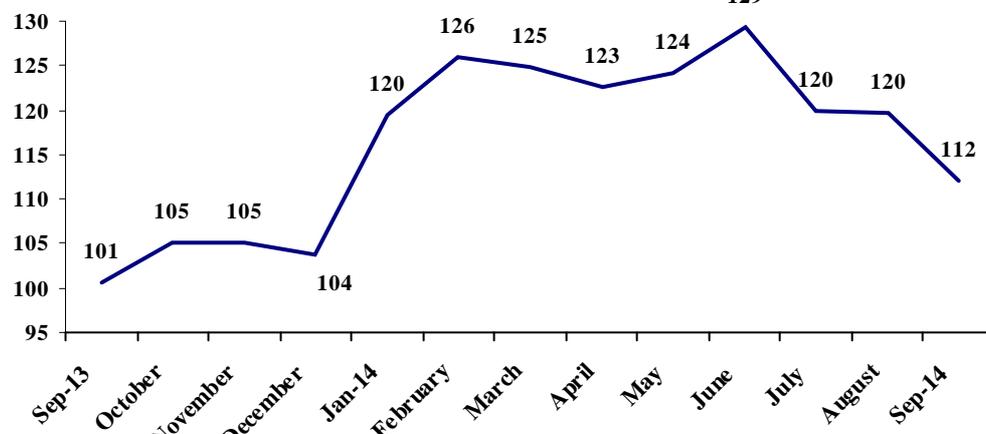
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Charts of the Week

Performance of Arab Stock Markets in the First Nine Months of 2014 (% change)



Performance of the Beirut Stock Exchange*



*Banque du Liban Market Value Weighted Index

Source: Local Stock Markets, Dow Jones Indices, Banque du Liban, Byblos Bank

Quote to Note

"Domestic factors are affecting the growth outlook as much as what is happening externally."

Masood Ahmed, Director of the International Monetary Fund's Middle East & Central Asia Department, on the causes of the economic slowdown in Lebanon

Number of the Week

13: Number of times the Lebanese Parliament convened and failed to elect a President

Economic Indicators

\$m (unless otherwise mentioned)	2013	Mar 13	Dec 13	Jan 14	Feb 14	Mar 14	% Change*
Exports	3,936	406	243	244	253	275	(32.27)
Imports	21,228	2,076	1,797	1,873	1,732	1,792	(13.68)
Trade Balance	(17,292)	(1,669)	(1,554)	(1,629)	(1,479)	(1,517)	(9.16)
Balance of Payments	(1,128)	(353)	534	(31)	194	139	(139.38)
Checks Cleared in LBP	17,047	1,286	1,562	1,502	1,394	1,520	18.27
Checks Cleared in FC	55,321	4,472	4,728	4,783	4,279	4,671	4.45
Total Checks Cleared	72,368	5,758	6,290	6,285	5,673	6,191	7.53
Budget Deficit/Surplus	(4,220)	(484.93)	(238.09)	(119.34)	(125.38)	(595.29)	22.76
Primary Balance	(239.68)	(75.10)	171	142.38	23.91	(128.09)	70.57
Airport Passengers	6,265,470	502,923	510,367	450,476	376,106	430,979	(14.31)
\$bn (unless otherwise mentioned)	2013	Mar 13	Dec 13	Jan 14	Feb 14	Mar 14	% Change*
BdL FX Reserves	31.71	30.36	31.71	32.25	33.40	33.63	10.77
<i>In months of Imports</i>	<i>17.65</i>	<i>14.62</i>	<i>17.65</i>	<i>17.64</i>	<i>19.28</i>	<i>18.77</i>	<i>28.33</i>
Public Debt	63.46	57.79	63.46	17.22	64.99	65.20	12.74
Net Public Debt	53.18	50.09	53.18	53.47	53.91	54.37	8.54
Bank Assets	164.82	155.44	164.82	164.43	166.01	166.50	7.12
Bank Deposits (Private Sector)	136.21	128.11	136.21	134.86	135.71	136.55	6.59
Bank Loans to Private Sector	47.38	44.71	47.38	47.04	47.39	48.14	7.67
Money Supply M2	45.60	43.76	45.60	45.74	46.05	46.34	5.90
Money Supply M3	111.16	105.85	111.16	110.93	111.67	112.29	6.08
LBP Lending Rate (%)	7.29	7.28	7.29	7.39	7.14	7.26	(2bps)
LBP Deposit Rate (%)	5.44	5.44	5.44	5.48	5.51	5.48	4bps
USD Lending Rate (%)	6.88	6.95	6.88	6.82	6.96	6.87	(8bps)
USD Deposit Rate (%)	2.95	2.97	2.95	2.95	2.96	2.96	(1bps)
%* Change in CPI**	3.89	4.57	3.89	2.52	0.86	(0.23)	(480bps)

* 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	Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Solidere "A"	12.05	(0.50)	68,050	10.88%	Jan 2015	5.875	100.88	2.32
Solidere "B"	11.97	(0.25)	5,597	7.02%	Apr 2015	10.000	103.94	2.45
Byblos Common	1.67	2.45	5,000	5.42%	Jan 2016	8.500	106.24	3.39
Byblos Pref. 08	101.00	0.30	650	1.82%	Mar 2017	9.000	111.50	3.99
Byblos Pref. 09	100.80	0.30	5,430	1.82%	Nov 2018	5.150	101.50	4.74
BLOM GDR	9.45	(0.53)	3,200	6.30%	May 2019	6.000	103.88	5.04
BLOM Listed	8.75	0.00	73,635	16.98%	Mar 2020	6.375	105.00	5.30
Audi GDR	6.07	(1.30)	492,731	5.62%	Apr 2021	8.250	115.25	5.43
Audi Listed	6.00	0.00	30,000	21.65%	Oct 2022	6.100	102.13	5.76
HOLCIM	15.00	(0.07)	725	2.64%	Nov 2026	6.600	102.75	6.27

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

Source: Byblos Bank Capital Markets

	Oct 6-10	Sep 29 - Oct 3	% Change	Sept 2014	Sept 2013	% Change
Total Shares Traded	701,918	12,736,647	(94.49)	35,353,319	1,866,526	1794.07
Total Value Traded	\$5,940,290	\$77,956,983	(92.38)	\$228,108,320	\$14,728,227	1448.78
Market Capitalization	\$11.08bn	\$11.07bn	0.03	\$11.07bn	\$10.54bn	5.04

Source: Beirut Stock Exchange (BSE)



Expatriates' remittances to Lebanon at \$7.7bn in 2014, 13th highest among developing economies and second highest in Arab world

The World Bank projected expatriates' remittance inflows to Lebanon at \$7.67bn in 2014, constituting an increase of 1.6% from \$7.55bn in 2013, and compared to inflows of \$6.92bn in 2012 and of \$6.91bn in 2011. The Bank also revised upward its 2013 estimate for remittance inflows to Lebanon from an April estimate of \$7.2bn.

Lebanon would post the 12th highest growth rate in remittance flows among the 15 largest recipients of remittances in developing economies this year, better than India (+1.5%), Egypt (+0.9%) and Ukraine (-6.9%). In comparison, the World Bank forecast remittance inflows to developing countries to rise by 5.1%, flows to Arab countries would increase by 2.4% and inflows to Upper Middle Income Countries (UMICs) to grow by 6.2% in 2014.

Lebanon would be the 18th largest recipient of remittances globally and the 13th largest recipient among 135 developing economies in 2014. Also, it would be the second largest recipient of remittances among 16 Arab countries and the third biggest recipient among 48 UMICs.

Globally, Lebanon would receive more remittances than Russia (\$7.33bn), Sri Lanka (\$7.2bn) and Morocco (\$6.82bn), and less than Poland (\$7.96bn), Italy (\$8.22bn) and Indonesia (\$8.35bn). It would receive more remittances than Russia, Sri Lanka and Morocco, and less than Poland, Indonesia and Ukraine (\$9bn) among developing economies. Remittance inflows to Lebanon would be second only to Egypt (\$18bn) among Arab countries, and lower than those to China (\$64.1bn) and Mexico (\$24.2bn) among UMICs.

Remittance inflows to Lebanon would account for 1.3% of the global inflow of remittances in 2014 relative to 1.4% in 2013 and 1.3% in 2012. They would represent 1.7% of aggregate remittances to developing economies this year relative to 1.8% in 2013 and 1.7% in 2012, while they would account for 15.2% of remittance inflows to Arab countries in 2014 relative to 15.3% in 2013 and 14.1% in 2012. They would also represent 4.7% of remittance inflows to UMICs in 2014 relative to 4.9% in 2013 and 4.7% in 2012.

Further, expatriates' remittances to Lebanon would be equivalent to 16.2% of GDP in 2014, similar to Jamaica, and constituting the 13th highest such ratio in the world. It would come behind Tajikistan (39.1% of GDP), Nepal (31.7% of GDP), the Kyrgyz Republic (31% of GDP), Moldova (25.3% of GDP), Armenia (24.4% of GDP), Lesotho (22.2% of GDP), Haiti (21.9% of GDP), The Gambia (21.1% of GDP), Liberia (18.6% of GDP), Honduras (17.2% of GDP), El Salvador (17% of GDP), and Samoa (16.8% of GDP). Expatriates' remittances to Lebanon were equivalent to 16.8% of GDP in 2013 and 16.1% of GDP in 2012. The World Bank forecast remittance inflows to Arab countries at \$50.46bn in 2014, equivalent to about 2.1% of the region's GDP this year.

Net public debt at \$55.6bn at end-August 2014

Lebanon's gross public debt reached \$65.86bn at the end of August 2014, constituting a rise of 3.7% from \$63.47bn at the end of 2013 and an increase of 8.9% from \$60.5bn at end-August 2013. Domestic debt totaled \$39.74bn at end-August, rising by 6.4% from end-2013 and by 16.1% annually; while external debt stood at \$26.1bn, constituting marginal drops of 0.1% from the end of 2013 and of 0.5% from a year earlier. Local currency debt accounted for 60.4% of gross public debt at the end of August 2014 compared to 56.6% a year earlier, while foreign currency-denominated debt represented 39.6% of the total at end-August relative to 43.4% a year earlier. The weighted interest rate on outstanding Treasury bills was 6.89% and that on Eurobonds was 6.38% at the end of August 2014. Further, the weighted life on Eurobonds was 5.64 years, while that on Treasury bills was 1,194 days.

Commercial banks accounted for 52% of the local public debt at the end of August 2014 compared to 50.3% a year earlier. They were followed by the Central Bank with 30.7%, down from 32.2% at end-August 2013; while public agencies, financial institutions and the public accounted for 17.2% of local debt compared to 17.5% at the end of August last year. Eurobond holders, foreign private sector loans and special T-bills in foreign currencies accounted for 90.5% of the external debt; followed by foreign governments with 4.9%; multilateral institutions with 4.3%; 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 7.5% to \$55.6bn. 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.

Top 15 Recipients of Remittance Inflows in Developing Economies in 2014

Country	US\$bn	Growth Rate	% of GDP
India	71.00	1.5%	3.5%
China	64.14	7.8%	0.6%
Philippines	28.38	6.3%	9.8%
Mexico	24.23	5.2%	1.9%
Nigeria	21.29	1.9%	3.6%
Egypt	18.00	0.9%	6.3%
Pakistan	17.06	16.6%	7.4%
Bangladesh	15.05	8.6%	8.1%
Vietnam	11.40	3.7%	6.1%
Ukraine	9.00	-6.9%	6.7%
Indonesia	8.35	9.7%	1.0%
Poland	7.96	14%	1.4%
Lebanon	7.67	1.6%	16.2%
Russia	7.33	8.5%	0.4%
Sri Lanka	7.20	12.1%	10.1%

Source: World Bank, IMF, Byblos Research

Standard & Poor's affirms sovereign rating at 'B-', maintains outlook at 'stable'

Standard & Poor's affirmed Lebanon's long- and short-term foreign and local currency sovereign credit ratings at 'B-/B' and maintained the 'stable' outlook on the long-term ratings. It also affirmed the country's transfer and convertibility assessment at 'B+', the senior unsecured debt rating at 'B-' and the short-term debt at 'B'. It said that the 'stable' outlook reflects sustained deposit inflows into the Lebanese financial system, which would allow the government to meet its financing needs this year despite the difficult internal and external political environments. It pointed out that the government's debt servicing capacity is heavily dependent on the strength of deposit inflows that have remained stable during periods of domestic political vacuums, regional instability and rising spillovers from the Syrian crisis. It considered that the current growth rate of private sector deposits would be sufficient to allow the banking sector to finance the wide fiscal deficit and to meet credit demand from the private sector. However, it noted that the dependence of the government on a single source to finance its needs is a structural weakness that increases the country's vulnerabilities to adverse business, financial and economic conditions.

It added that confidence in the Lebanese financial system remains strong and is not likely to be significantly affected by domestic political developments, except in the case of a major escalation of local unrest. It pointed out that the external and internal political and macroeconomic shocks that Lebanon has faced since early 2011 have not led to material deposit outflows. Further, the agency noted that the balance of payments, with its large trade deficits, remains vulnerable in both the current and financial accounts. It estimated Lebanon's gross external financing needs to increase gradually from 104% of current account receipts (CARs) and usable reserves in 2014 to 110.7% in 2017. It expected liquid external assets to exceed the external debt by 70.8% of CARs this year and to reach 47.8% of CARs by 2017.

In parallel, S&P indicated that heightened security risks and rising concerns about the potential impact of regional spillovers on the local economy have offset most of the positive gains in consumer and business confidence that took place during the first half of the year. It did not anticipate a significant rebound in tourism, in financial & trade services, or in FDI if the regional turmoil persists. As such, it did not expect Lebanon's macroeconomic fundamentals or creditworthiness to improve materially as long as regional conditions remain unstable, despite the stability of bank deposits and the stimulus packages of the Central Bank. It anticipated that policy-making would remain constrained by the divisive political environment, and noted that weak institutional and governance effectiveness are key rating weaknesses.

Further, S&P indicated that public finances remain weak and forecast the fiscal deficit to widen from 9.4% of GDP in 2013 to 10% of GDP in 2014. It noted that the expected widening of the deficit excludes the proposed salary-scale adjustment for the public sector, which would cost an estimated 2% of GDP. It noted that the proposed revenue measures focus on increasing various taxes, which will put further pressure on the economy and the banking system. It noted that the government has reached its limit for borrowing in foreign currencies and can only refinance maturing foreign currency debt. It expected the Central Bank to continue providing the government with foreign currency in case of need, if the Parliament does not ratify a new borrowing law. S&P cautioned that it would downgrade the ratings if the political and economic situation deteriorates to the point where it would halt deposit growth, or if public finances deteriorate significantly.

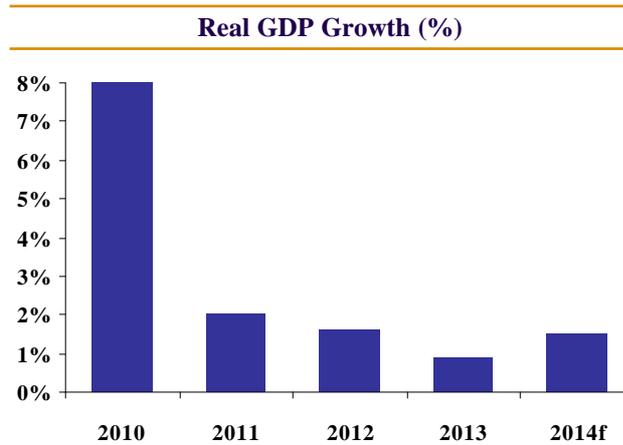
World Bank approves \$474m loan to finance water infrastructure

The World Bank approved a \$474m concessional loan to finance the Water Supply Augmentation (WSA) project, which supports the development of the water sector in the Greater Beirut and Mount Lebanon area and the management of sustainable water resources. The soft loan is for 20 years and has a five-year grace period. Further, the project would be co-financed by a \$128m loan from the Islamic Development Bank and by \$15m from the Lebanese government. The \$617m WSA project consists of the construction of the Bisri dam in the south with a storage capacity of 125 million cubic meters of water and its related 26 kilometer underground pipeline. The dam would secure potable water to Lebanon's largest urban area, and would directly benefit over 1.6 million persons. The WSA project also aims to reduce water consumption from illegal wells, as well as from expensive tanker trucks and bottled water.

In parallel, the World Bank would provide technical assistance to public agencies to implement international best practices for dam safety, to manage sustainable water resources and to mitigate environment and social impacts. The project will be implemented over nine years, which consist of two years for preparation, five years for construction activities and another two years for monitoring operations in conformity with international standards. The project awaits the approval of both the Lebanese Cabinet and Parliament. Lebanon currently stores 6% of its water resources, compared to a water storage rate of 85% for the Middle East & North Africa region, while residents of the Greater Beirut and Mount Lebanon area pay up to 15% of their total household expenditure to secure water to their homes.

Economic growth at 1.5% in 2014, output losses equivalent to 9% of GDP in 2011-14

The Institute of International Finance projected Lebanon's real GDP growth at 1.5% in 2014 compared to growth rates of 0.9% in 2013 and 1.6% in 2012. It attributed the modest performance of the economy to prevailing domestic and regional uncertainties. It said that most macroeconomic indicators have posted significant declines in real terms in the first eight months of 2014, except for the real estate sector, leading to the private sector and resident deposits. It noted that the large number of Syrian refugees is discouraging tourism activity and private investments, and is worsening the external and public finance imbalances. It expected private investment to be stagnant this year and forecast additional contractions in exports of goods and services. It said that spillovers from regional instability have prevented politicians from reaching a national consensus on key issues.



Source: Institute of International Finance, October 2014

It pointed out that the government's inability to take decisive measures to narrow the fiscal deficit by reducing subsidies to the money-losing Electricité du Liban has weakened the economic outlook. It considered that authorities would face substantial challenges to achieve moderate growth rates and that Lebanon's economic outlook remains subject to large uncertainties as long as the fighting in Syria continues and political turmoil in the region persists. Further, the IIF projected the economy's aggregate output losses at \$17.1bn between 2011 and 2014, which is equivalent to 8.9% of the country's cumulative GDP during the covered period.

In parallel, the IIF forecast the fiscal deficit to widen from 9.4% of GDP in 2013 to 10.5% of GDP in 2014 and 10.8% of GDP in 2015, reflecting higher spending and lower tax revenues from subdued economic activity. It projected the primary deficit to widen from 0.9% of GDP in 2013 to 1.5% of GDP in 2014 and 1.8% of GDP in 2015. As such, it expected the public debt level to rise from 142% of GDP in 2013 to 146% of GDP in 2014 and 147% of GDP in 2015. However, the IIF indicated that Lebanon's highly liquid banking sector and solid credit record have allowed the country to meet its financing needs. It noted that authorities have never defaulted on their debt or missed a coupon payment despite frequent political turmoil. It pointed out that the average spreads on five-year sovereign credit default swaps for Lebanon decreased from 450 basis points at the end of 2012 to 353bps in mid-September 2014 despite the rise in the debt level. But it cautioned that a failure to implement fiscal consolidation would worsen existing debt sustainability concerns.

Further, it said that the Lebanese banking system has been resilient to regional tensions and to the continued slowdown in domestic economic activity, due to its depositor base and the stable remittance inflows from the Lebanese Diaspora. It noted that the Lebanese pound remains stable and the Central Bank's foreign exchange reserves continue to increase. It indicated that the sector's loans-to-deposits ratio stands at about 35%, reflecting a comfortable level of liquidity. However, it pointed out that banks' profitability has deteriorated despite the decline in provisioning for non-performing loans.

Central Bank's foreign assets up 9% to \$38.3bn in first nine months of 2014

The Central Bank's interim balance sheet reached \$85.3bn at the end of September 2014 compared to \$77bn at the end of 2013 and to \$78.6bn at the end of September 2013. Assets in foreign currency reached \$38.3bn at the end of September 2014, constituting an increase of 8.6% from \$35.3bn at the end of 2013 and a rise of 7.3% from \$35.7bn at the end of September 2013. Assets in foreign currency increased by \$329m in January, by \$595.7m in February, \$81.6m in March, \$254m in May, \$697.3m in June, \$700.4m in July, \$285.7m in August and \$369.7m in September, while they decreased by \$181.6m in April 2014. This resulted in an aggregate increase of \$3.1bn in the first nine months of 2014. In parallel, gross foreign currency reserves of the Central Bank reached \$35.1bn at the end of July 2014, according to the latest available figure, reflecting a rise of 12.4% from \$31.27bn a year earlier.

The value of the Central Bank's gold reserves improved by 2.7% in the first nine months of 2014 but regressed by 7.5% year-on-year to \$11.4bn, compared to the peak of \$16.7bn reached at the end of August 2011. Its securities portfolio increased by 7.8% in the first nine months to \$13.2bn. Further, deposits of the financial sector rose by \$7.9bn, or 13.8%, in the first nine months of the year and by \$9.4bn or 16.8% annually to \$65.3bn; while deposits of the public sector decreased by 1.1% year-to-September and dropped by 1.9% year-on-year to \$7.2bn. Assets in foreign currency decreased by \$445.1m in 2013 and increased by \$3.5bn in 2012, \$1.63bn in 2011, \$2.3bn in 2010, \$8.3bn in 2009 and \$7.34bn in 2008.

Competitiveness of Lebanon's cellular market improves in 2014

The Cellular Competition Intensity Index for 2014 ranked Lebanon in 17th place among 19 countries in the Arab world, up from 19th place in 2013, 18th place in 2012, and 19th place in each of 2010 and 2011. The index uses a relative approach, as it rates the intensity level of competition in the region's cellular markets by comparing the state of every market relative to the other markets. As such, even if a market's absolute level of competition improved, its score on the index will also depend on how other markets developed during the same period of time. The index, designed by the Arab Advisors Group, takes into account nine categories, with each category assigned a weight based on its importance as an indicator of competitive behavior. The categories include the number of licensed and expected operators in 2014, the number of working operators, the market share of the largest operator, the number of prepaid plans, the number of post-paid plans, the availability of smartphone plans, the availability of corporate offers, the availability of 3G/4G LTE services, and the availability of international long distance (ILD) competition.

Lebanon was among seven countries that posted increases in their rankings from 2013, along with Algeria, Bahrain, Iraq, Kuwait, Qatar and Tunisia. The rankings of Egypt, Libya, Mauritania, Morocco, Oman, Sudan and the UAE declined, while those of Jordan, Palestine, Saudi Arabia, Syria and Yemen remained unchanged. Also, Lebanon received a score of 40.76% in 2014, up from 40.71% in 2013 and 38.84% in 2012, but significantly below the regional

average of 56.9%. Lebanon's score increased by 0.05 percentage points and posted the sixth largest increase regionally compared to a drop of 2.02 percentage points for the Arab average. Lebanon was among six Arab countries that posted increases in their score. The Arab Advisors Group considered that Saudi Arabia has the most competitive cellular market in the region, as it hosts four operational and licensed mobile network operators, in addition to one mobile virtual network operator. It also offers smartphone plans, corporate offers, 4G LTE services and ILD competition.

Cellular Competition Intensity Index 2014		
	Score (%)	Rank
Saudi Arabia	75.86	1
Jordan	73.16	2
Palestine	71.28	3
Iraq	66.65	4
Egypt	63.8	5
Bahrain	62.17	6
Tunisia	60.33	7
Morocco	60.13	8
Oman	59.43	9
Algeria	58.44	10
Kuwait	56.68	11
Sudan	56.49	12
Yemen	56.01	13
Mauritania	55.97	14
Qatar	49.12	15
UAE	48.76	16
Lebanon	40.76	17
Syria	34.45	18
Libya	31.12	19

Source: Arab Advisors Group

Launch of survey for natural resource exploration

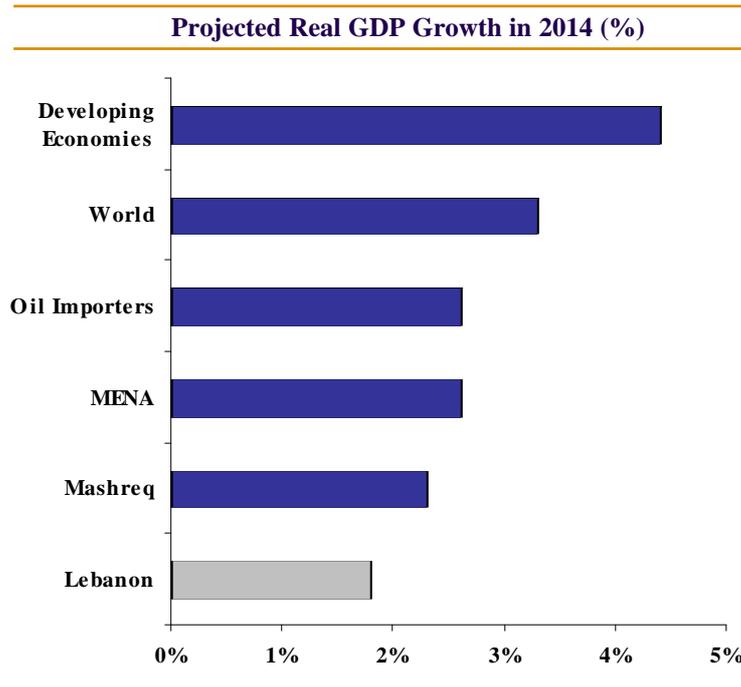
The U.S. firm NEOS GeoSolutions Inc. launched a geological and geophysical survey to study Lebanon's onshore natural resource exploration potential. The project is conducted in collaboration with Qatar's Petroserv Limited with the support of the Lebanese Army and Air Force, as well as the Petroleum Administration. NEOS will use two airplanes equipped with advanced sensors to collect information on the earth's surface and subsurface in order to determine the existence of onshore oil and gas deposits and to estimate their quantity. The first phase of the survey would cover 6,000 square kilometers in the northern part of the country, equivalent to 57.4% of Lebanon's surface area. The airborne survey is projected to last 60 days. NEOS indicated that it will send all the acquired data to the United States, where it will be analyzed and sent back to the Ministry of Energy & Water and to the Petroleum Administration. It added that multinational oil companies would also be able to have access to the gathered data.

In February 2013, the Ministry of Energy & Water and Spectrum announced an initiative to begin a two-dimensional onshore seismic survey to assemble data on potential locations of petroleum and gas deposits within the Lebanese territory. British firm Spectrum Energy & Information Technology conducted in April 2014 the second phase of a two-dimensional onshore seismic survey that mainly covered the territory along the Lebanese coast. It noted that data from the first phase, which covered the territory between Batroun and Aynata in Northern Lebanon and the region between Aley in Mount Lebanon and Kfar Zabad in Zahlé, was promising and has attracted interest from international oil companies. The survey provided advanced information about prospective oil and gas deposits in covered areas. Spectrum completed the first phase of the survey towards the end of last year.

In October 2011, the Cabinet approved the start of onshore oil exploration in Lebanon, as it authorized the launch of a tender process to survey the Lebanese territory and locate areas with potential oil deposits. It also recommended the preparation of a draft law that regulates oil exploration on Lebanese soil, followed by a tender process for onshore exploration. The decisions constituted at the time the government's first official step for launching onshore oil exploration.

IMF projects real GDP in Lebanon at 1.8% in 2014, economy to post 34th slowest growth rate in the world

The International Monetary Fund maintained its projection for real GDP growth in Lebanon at 1.8% in 2014 compared to a growth rate of 1.5% in 2013. In comparison, it forecast real GDP growth rates of 2.6% for the MENA region, 2.6% for the region's oil-importing economies and 2.3% for the Mashreq economies; as well as growth rates of 4.4% in emerging & developing economies and of 3.3% for the global economy in 2014. The Fund indicated that the ongoing domestic political deadlock and spillovers from the Syrian conflict have dampened confidence and activity in Lebanon. It added that the large number of Syrian refugees is negatively affecting domestic security conditions, is increasing the unemployment rate in the informal sector, and is weighing on the already deteriorating public finances. Lebanon's projected growth rate in 2014 would make it the third slowest-growing economy among 19 countries in the MENA region when excluding contracting economies, better than only Iran (1.5%) and Kuwait (1.4%). Lebanon would also be the 34th slowest-growing economy in the world in 2014 when excluding contracting economies, while it would be the 20th slowest-growing economy among emerging markets. The growth projection took place in July and, therefore, does not take into consideration the deterioration of security conditions that started in August 2014.



Source: International Monetary Fund, October 2014

The Fund forecast the average inflation rate in Lebanon at 3.5% in 2014 relative to 7.5% for the MENA region, 10% for oil-importing economies and 9.1% for the Mashreq region. Lebanon's average inflation rate would be the ninth-highest among 19 countries in the region. Lebanon's inflation rate averaged 5.9% in 2012 and 3.2% in 2013. Further, it projected Lebanon's current account deficit at 12.7% of GDP in 2014 compared to a surplus of 8.6% of GDP for the MENA region and deficits of 4.7% for oil-importing economies and of 3% of GDP for the Mashreq countries. Lebanon posted current account deficits of 12.7% of GDP in 2012 and 12.9% of GDP in 2013. Lebanon's current account deficit for 2014 would be the 30th widest globally, while it would be the fourth widest in the MENA region, narrower than only Mauritania (-26.8% of GDP), Libya (-27.1% of GDP) and Djibouti (-31.4% of GDP).

In parallel, the IMF projected Lebanon's economic growth at 2.5% in 2015 compared to growth rates of 3.8% for the MENA region, 3.7% for oil-importing economies and 3.5% for the Mashreq economies, as well as relative to growth rates of 5% in emerging & developing economies and 3.8% for the world economy. Lebanon's projected growth rate in 2015 would make it the fourth slowest-growing economy among 19 countries in the MENA region, better than only Iraq (1.5%), Kuwait (1.8%) and Iran (2.2%). Also, it would be the 50th slowest-growing economy in the world and the 31st slowest-growing economy among emerging markets in 2015.

Telecom reforms underway

The Ministry of Telecommunications launched the "One Stop Shop" joint project with state-owned Ogero as part of a series of initiatives to modernize and reform the telecom sector. Ogero manages and operates Lebanon's fixed line telecommunications networks and provides Internet services. The project allows Lebanon's two mobile operators, Touch and Alfa, to set up points of sales (POS) in Ogero's service distribution centers. The initiative would allow citizens to settle their fixed and mobile bills, as well as to subscribe to new landline and Internet services, and to receive after-sale services, among others, in any of Ogero's branches. The project will be implemented over three phases, with the first phase involving the renovation of eight Ogero branches before the end of 2014. The ministry indicated that the new POS would provide citizens and firms with flexibility, convenience and efficiency when dealing with telecom-related issues. Ogero currently has more than 50 service distribution centers across the country.

Value of cleared checks up 4%, returned checks down 1% in first eight months of 2014

The value of cleared checks reached \$48.3bn in the first eight months of 2014, constituting an increase of 3.8% from the same period last year, and compared to a rise of 1.2% in the first eight months of 2013 and to a decrease of 0.8% in the same period of 2012. The value of cleared checks in Lebanese pounds rose by 8.8% annually to the equivalent of \$12bn in the first eight months of 2014, while the value of cleared checks in US dollars increased by 2.8% to \$37.8bn. The dollarization rate of cleared checks decreased to 78.3% from 79.2% in the first eight months of 2013. Also, the value of returned checks in domestic and foreign currencies decreased by 1.4% year-on-year to \$992m in the first eight months of 2014, compared to an annual drop of 2.8% in the same period of 2013 and an annual increase of 9.8% in the first eight months of 2012. In parallel, the number of cleared checks totaled 8.6 million checks in the first eight months of 2014, down by 2.2% from the same period last year. Also, the number of returned checks totaled 167,000 checks, down 6.5% from the first eight months of 2013.

Tourism spending in Lebanon down 1% in first nine months of 2014

Figures issued by Global Blue, the VAT refund operator for international shoppers, show that total spending by tourists in Lebanon increased by 9% in the third quarter of 2014 from the same quarter last year. Visitors from Saudi Arabia accounted for 13% of total tourist expenditures in the third quarter of 2014, followed by visitors from the UAE with 12%, Kuwait with 7%, Syria with 5%, Egypt, Qatar, Nigeria, France and the United States with 4% each, and Jordan with 3%. Beirut attracted 79% of total spending in the covered quarter, followed by the Metn area with 13%, Baabda with 4% and the Keserwan region with 2%. Fashion & clothing accounted for 73% of total spending in the third quarter of 2014, followed by watches & jewelry with 10%, home & garden products, department stores and souvenirs & gifts with 4% each, and consumer electronics & household appliances with 2%.

Spending by visitors from Kuwait increased by 75% year-on-year in the third quarter of 2014, followed by those from Syria (+45%), Jordan (+18%), the United States (+17%), Egypt (+13%), Saudi Arabia (+12%) and Qatar (+6%). In contrast, spending by visitors from Nigeria contracted by 25% year-on-year, those from the UAE fell by 12% and expenditures by visitors from France fell by 6% from the same quarter last year. Spending on consumer electronics & household appliances rose by 20% from the third quarter of 2013, followed by home & garden products (+16%), souvenirs & gifts (+14%), fashion & clothing (+10%) and department stores (+7%); while spending on watches and jewelry regressed by 8% year-on-year.

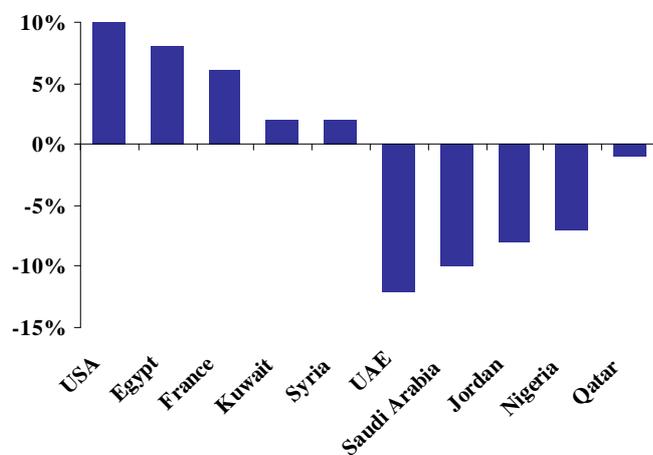
Also, the total number of refund transactions by visitors increased by 3% annually in the third quarter of 2014. The total number of refund transactions by visitors from Kuwait rose by 71% from the same quarter of 2013, followed by those from Syria (+23%), Egypt and Saudi Arabia (+14% each), the United States (+5%), and Jordan and Qatar (+3% each). In contrast, the number of refund transactions by visitors from Nigeria decreased by 27%, followed by those from the UAE (-13%) and France (-10%).

In parallel, total spending by tourists in Lebanon decreased by 1% year-on-year in the first nine months of 2014. Spending by visitors from the United States rose by 10%, followed by Egypt (+8%), France (+6%) and Kuwait (+2%); while spending by visitors from the UAE contracted by 12%, followed by visitors from Saudi Arabia (-10%), Jordan (-8%), Nigeria (-7%) and Qatar (-1%). Also, the total number of refund transactions by visitors contracted by 3% year-on-year in the first nine months of 2014. The number of refund transactions by visitors from Kuwait increased by 10% in the first nine months of the year, followed by those from Egypt (+9%), the United States (+6%) and Syria (+5%). In contrast, refund transactions by visitors from the UAE fell by 17%, followed by those from Jordan (-14%), Nigeria (-12%), Saudi Arabia (-10%), France (-3%) and Qatar (-2%).

Balance of payments posts deficit of \$433m in first eight months of 2014

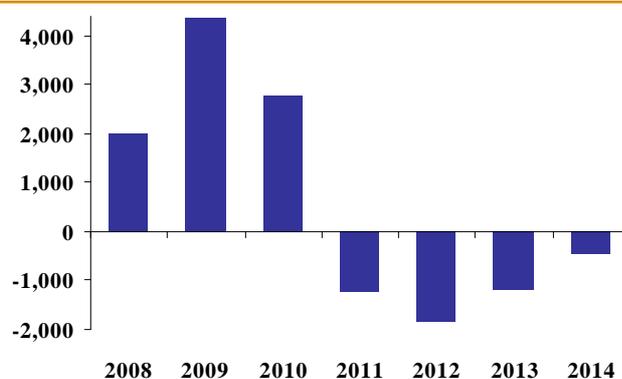
Central Bank figures show that Lebanon's balance of payments posted a deficit of \$432.9m in the first eight months of 2014 compared to a deficit of \$1.2bn in the same period last year. The balance of payments posted a deficit of \$563.9m in August 2014 compared to deficits of \$84.7m in July 2014 and \$223m in August 2013. The August 2014 deficit was caused by a deficit of \$1.1bn in the net foreign assets of banks and financial institutions, and was partly offset by a surplus of \$544.9m in those of the Central Bank. The cumulative deficit over the first eight months of 2014 was caused by a deficit of \$4.7bn in the net foreign assets of banks and financial institutions, and was partly offset by a surplus of \$4.3bn in those of the Central Bank. The balance of payments posted surpluses of \$7.9bn in 2009 and \$3.3bn in 2010 and deficits of \$2bn in 2011, \$1.5bn in 2012 and \$1.1bn in 2013.

Total Spending by Visitors in First Nine Months of 2014 (Annual Percentage Change)



Source: Global Blue, Byblos Research

Balance of Payments* (US\$m)



*in the first eight months of each year

Source: Central Bank of Lebanon

Trade deficit widens by 3% to \$12bn in first eight months of 2014, exports down by 23%

Total imports reached \$14.1bn in the first eight months of 2014, constituting a decrease of 2% from the same period last year; while aggregate exports declined by 22.7% to \$2.2bn, leading to a trade deficit of \$11.8bn, up by 3.2% year-on-year. The widening of the deficit was caused by a decrease of \$650.6m in exports from the same period of 2013, given that imports fell by \$280.8m. The coverage ratio reached 15.8% in the first eight months of 2014 compared to 20% in the same period last year; while it reached 13.4% in August 2014 relative to 15.3% in August 2013. The value of imported oil & mineral fuels rose by 5.6% year-on-year to \$3.6bn, and that of non-hydrocarbon imports dropped by 4.3% to \$10.5bn. Imported oil & mineral fuels accounted for 25.3% of total imports in the covered period compared to a share of 23.5% in the same period last year.

In volume terms, imports reached 10.5 million tons in the first eight months of 2014, constituting an increase of 6.4% from the same period last year; while exports posted a 30.1% decline to 1.4 million tons, leading to a trade deficit of 9.1 million tons in the first eight months of 2014, up by 15.5% year-on-year. Imports of oil & mineral fuels increased by 10.9% year-on-year to 5.1 million tons, while non-hydrocarbon imports increased by 2.4% annually to 5.3 million tons. Imported oil & mineral fuels accounted for 49% of total imports in the covered period compared to a share of 47% in the same period last year.

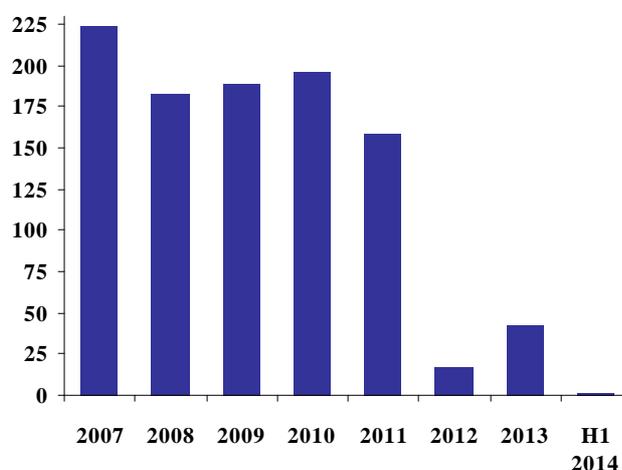
China was the main source of imports with \$1.6bn or 11.7% of the total in the first eight months of 2014, followed by Italy with \$1.2bn (8.5%), France with \$934.7m (6.6%), the United States with \$874.5m (6.2%), Germany with \$829.1m (5.9%), Russia with \$560.7m (4%) and Belgium with \$515.6m (3.7%). Imports from Belgium surged by 190% annually and those from China grew by 17.2%; while imports from Russia dropped by 20.2%, imports from the United States fell by 17.3%, those from France regressed by 10.2%, imports from Germany decreased by 2.6% and those from Italy declined marginally by 0.1%. Further, Saudi Arabia was the main export destination with \$245.3m or 11.1% of the total, followed by South Africa with \$239.4m (10.8%), the UAE with \$210m (9.5%), Iraq with \$166.3m (7.5%), Syria with \$152.7m (6.9%), Turkey with \$101.5m (4.6%) and Jordan with \$84.8m (3.8%). Exports to Syria dropped by 64.1% year-on-year in the first eight months of 2014, those to South Africa declined by 30%, exports to Turkey regressed by 21.3%, those to Jordan fell by 8.2%, exports to Iraq decreased by 6.4%, those to the UAE fell by 5.7% and those to Saudi Arabia dropped by 3.4% annually.

Lebanon's main export product was jewelry at \$399m or 18% of the total, followed by prepared foodstuff with \$341.8m (15.4%), machinery & mechanical appliances with \$296.9m (13.4%), base metals with \$255.3m (11.5%), chemical products with \$255.1m (11.5%) and paper & paperboard with \$139.2m (6.3%). Re-exports totaled \$273.2m in the first eight months of 2014 compared to \$159.5m in the same period last year.

Solidere's consolidated net income at \$0.6m in first half of 2014

Solidere, The Lebanese Company for the Development and Reconstruction of Beirut Central District sal, announced consolidated unaudited net profits of \$0.63m in the first half of 2014 relative to net earnings of \$42.6m in full year 2013. The consolidated results reflect Solidere's standalone financials and those of its subsidiaries, which include Solidere International Limited, Solidere Management Service sal and Beirut Hospitality Company Holding sal. In parallel, the firm's non-consolidated net losses reached \$1.8m in the first half of the year relative to net profits of \$39.7m in 2013 as a whole. The firm's consolidated revenues from land and real estate sales reached \$6.4m in the first half of 2014 and revenues from rental properties were \$27.5m, while income from services rendered totaled \$3.6m in the covered period. Also, on a consolidated basis, the firm recorded total net operating revenues of \$21.4m in the first half of the year, while the company's general and administrative expenses reached \$18.7m in the covered period. Solidere is Lebanon's largest firm in terms of market capitalization.

Solidere Net Profits (US\$m)



Source: Solidere Financial Statements

Solidere stated that its consolidated assets reached \$2.86bn at the end of June 2014 and decreased by 0.5% from end-2013, with the inventory of land and projects in progress totaling \$1.15bn relative to \$1.14bn at the end of 2013. In parallel, the firm's non-consolidated assets totaled \$2.77bn at the end of June 2014, down 0.5% from end-2013. It indicated that, on a consolidated basis, its bank overdrafts and short & medium term facilities reached \$573.3m at end-June compared to \$552.8m at the end of 2013. The firm's consolidated shareholder equity totaled \$1.95bn at the end of June 2014, nearly unchanged from end-2013. Solidere owns 4.3 million shares of its Dubai-based affiliate Solidere International Limited, or the equivalent of 39% of the company's capital.

Stock market activity up 143% to \$517m in first nine months of 2014

Figures released by the Beirut Stock Exchange indicate that total trading volume reached 75.8 million shares in the first nine months of 2014, constituting an increase of 144.3% from the same period of 2013; while aggregate turnover amounted to \$517.2m, up 143% from a turnover of \$212.9m in the first nine months of 2013. Market capitalization increased by 5% from end-September 2013 to \$11.1bn, of which 78.3% was in banking stocks, followed by real estate stocks with 18.4%, industrial stocks with 3% and trading stocks with 0.3%. The market liquidity ratio was 4.7% compared to 2% in the first nine months of 2013. Banking stocks accounted for 92.6% of aggregate trading volume in the first nine months of the year, followed by real estate stocks with 7.1%, trading with 0.2% and industrial stocks with 0.1%. Also, banking stocks accounted for 81.8% of the aggregate value of traded shares, followed by real estate stocks with 13.6%, and trading and industrial stocks with 0.1% each. The average daily traded volume for the period was 416,227 shares for an average daily value of \$2.8m. The figures reflect increases of 142.9% in volume and 141.6% in value year-on-year.

Kafalat loan guarantees nearly unchanged at \$87m in first nine months of 2014

Figures released by the Kafalat Corporation show that loans extended to small- and medium-size companies under the guarantee of Kafalat reached \$87m in the first nine months of 2014, nearly unchanged from the same period last year. The number of loan guarantees totaled 671 year-to-September compared to 641 in the first nine months of 2013. The average loan size reached \$129,677 compared to \$135,663 in the same period of 2013. Mount Lebanon accounted for 43.2% of guarantees, followed by the Bekaa with 18.6%, the South with 12.1%, the North with 11.5%, Nabatieh with 10.1% and Beirut with 4.5%. The agricultural sector accounted for 47.4% of total guarantees, followed by industry with 34.6%, tourism with 12.1%, handicraft with 3.3% and specialized technologies with 2.7%. 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.

Commercial banks' assets reach \$170.3bn at end-August 2014

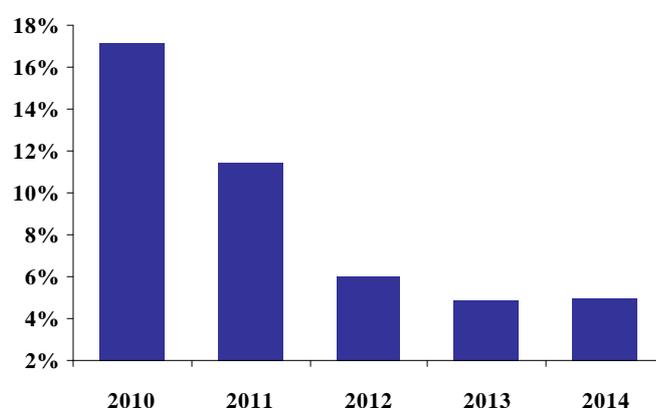
The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$170.3bn at the end of August 2014, constituting an increase of 3.3% from the end of 2013 and a rise of 7.4% from end-August 2013. Private sector deposits totaled \$141.5bn, increasing by 3.9% from the end of 2013 and by 7.7% from a year earlier. Deposits in Lebanese pounds reached \$48.3bn and rose by 4.7% from end-2013 and by 7.3% from end-August 2013; while deposits in foreign currencies totaled \$93.2bn, constituting a rise of 3.5% from end-2013 and an increase of 8% from a year earlier. Non-resident foreign currency deposits totaled \$25.65bn at the end of August 2014, increasing by 2.1% from end-2013 and growing by 11% year-on-year. Total non-resident deposits reached \$29.28bn at the end of August and rose by 2.8% from end-2013 and by 11% 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, by \$650.7m in May, by \$1.5bn in June, by \$965.8m in July and by \$200.3m in August 2014. In comparison, they rose by \$558m in January, by \$744.9m in February, by \$1.8bn in March, by \$2bn in May, by \$1.2bn in June and by \$203m in August, but declined by \$11.3m in April and by \$87.6m in July 2013. In parallel, deposits of non-resident banks reached \$5.43bn at the end of August 2014 and increased by 8.4% from end-2013 and by 10.3% from a year earlier. The dollarization rate of deposits reached 65.9% at the end of August, down from 66.1% at end-2013 and relative to 65.7% a year earlier. Further, the average deposit rate in Lebanese pounds was 5.51% in August 2014 relative to 5.47% in the same month of last year, while the same rate in US dollars was 3.13% compared to 2.91% in August 2013.

Loans to the private sector totaled \$49.74bn at end-August 2014, constituting an increase of 5% from the end of 2013 and a rise of 9.2% from a year earlier. In nominal terms, credit to the private sector rose by \$2.36bn in the first eight months of 2014 relative to an increase of \$2.12bn in the same period last year. Lending to the resident private sector totaled \$44.17bn, growing by 6.4% from the end of 2013 and by 9.7% year-on-year; while credit to the non-resident private sector reached \$5.57bn, decreasing by 5.3% from end-2013 and rising by 5% from end-August 2013. The dollarization rate in private sector lending declined to 75.8% at the end of August 2014 from 76.9% a year earlier. The average lending rate in Lebanese pounds was 7.21% in August 2014 compared to 7.24% in the same month last year, while the same average in US dollars was 6.96%, down from 7.16% in August 2013. In addition, claims on non-resident banks reached \$11.1bn at end-August 2014, posting decreases of 20.7% from end-2013 and of 16.2% from a year earlier. Claims on the public sector stood at \$38bn at the end of August, up by 1% from the end of 2013 and by 15% year-on-year. The ratio of private sector loans-to-deposits in foreign currencies stood at 40.5%, well below the Central Bank's limit of 70%, and compared to 40.6% a year earlier. In parallel, the same ratio in Lebanese pounds was 24.9% at end-August 2014, up from 23.4% at the end of August 2013. The ratio of total private sector loans-to-deposits was 35.1% compared to 34.7% a year earlier. The banks' aggregate capital base stood at \$15bn, up by 5.7% from \$14.2bn at end-2013 and by 10.2% from \$13.63bn at end-August 2013.

Parliament ratifies loan to support seed and early growth firms

The Lebanese Parliament approved a \$30m soft loan from the World Bank as part of a pilot program to support innovation in small- and medium-size enterprises (SMEs) in the country. The initiative consists of establishing an iSME fund with a capital of \$27.5m to support innovation at SMEs. The fund will provide \$25m in equity investments to finance qualified seed- and early growth-stage firms. It will also extend \$2.5m to entrepreneurs to develop new business ideas. In parallel, entrepreneurs would have to secure matching funds from a private-sector investor in order to qualify for equity investment from the iSME fund. The remaining \$2.5m of the initiative will support the program's management, strategic training activities, and promotional and marketing efforts. The World Bank loan is for 17 years and has a six-year grace period. The program will be implemented by the Kafalat Corporation, a state-sponsored organization that provides financial guarantees for loans up to \$400,000 earmarked for the set up and expansion of small and medium-size companies in productive sectors.

Private Sector Lending Growth* (% Change)



*in the first eight months of each year

Source: Association of Banks in Lebanon, Byblos Research

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	58.9	150
Public Debt in Local Currency / GDP	81.7	78.3	84.3	600
Gross Public Debt / GDP	133.9	135.7	143.2	750
Total Gross External Debt / GDP	169.2	170.0	176.7	670
Trade Balance / GDP	(39.7)	(39.5)	(39.0)	50
Exports / Imports	21.2	21.1	18.6	(250)
Fiscal Revenues / GDP	23.3	22.1	21.3	(80)
Fiscal Expenditures / GDP	29.1	31.3	30.8	(50)
Fiscal Balance / GDP	(5.9)	(9.2)	(9.5)	(30)
Primary Balance / GDP	4.2	(0.3)	(0.5)	(20)
Gross Foreign Currency Reserves / M2	79.2	69.4	69.6	20
M3 / GDP	242.6	244.6	250.8	620
Commercial Banks Assets / GDP	350.7	357.2	371.9	1,470
Private Sector Deposits / GDP	288.7	294.0	307.3	1,330
Private Sector Loans / GDP	98.3	102.2	106.9	470
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	Jan 2013	Dec 2013	Jan 2014	Change*	Risk Level
Political Risk Rating	53.0	52.5	52.0	▼	High
Financial Risk Rating	35.0	38.0	38.0	▲	Low
Economic Risk Rating	34.0	27.0	27.0	▼	High
Composite Risk Rating	61.0	58.75	58.5	▼	High

Regional Average	Jan 2013	Dec 2013	Jan 2014	Change*	Risk Level
Political Risk Rating	58.9	58.3	58.4	▼	High
Financial Risk Rating	41.7	40.9	40.7	▼	Very Low
Economic Risk Rating	36.2	37.1	35.8	▼	Low
Composite Risk Rating	68.4	68.2	67.5	▼	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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