



LEBANON THIS WEEK

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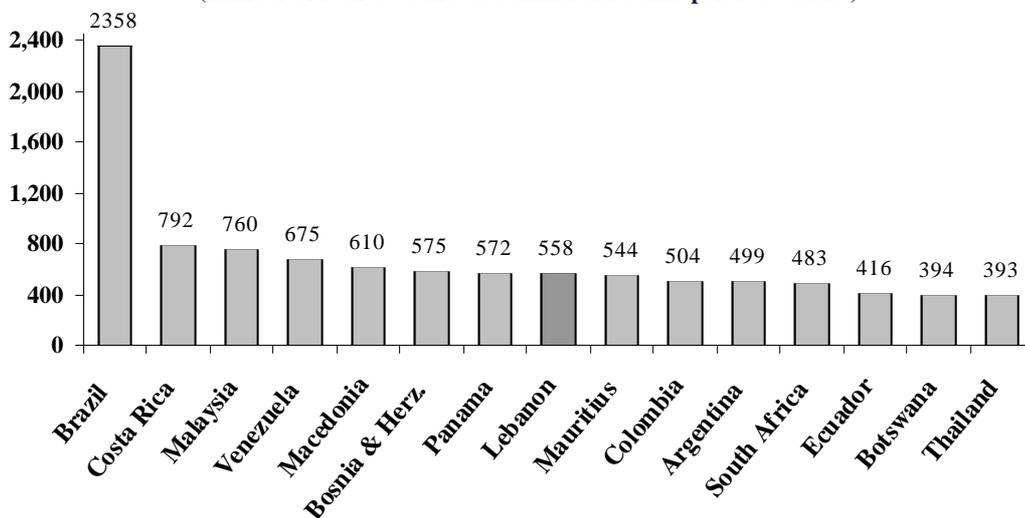
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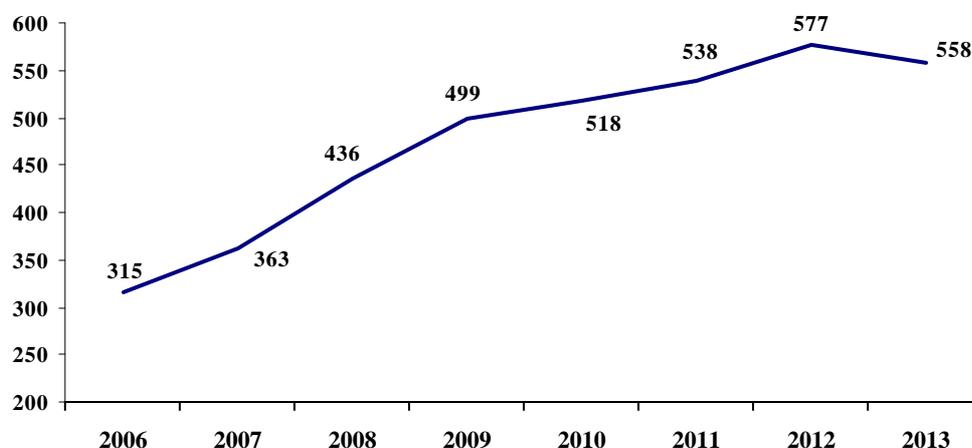
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Charts of the Week

Loan Accounts' Penetration Rate in Select Upper-Middle Income Countries in 2013
 (number of loan accounts at commercial banks per 1000 adults)



Loan Accounts' Penetration Rate in Lebanon
 (number of loan accounts at commercial banks per 1000 adults)



Source: International Monetary Fund, Byblos Bank

Quote to Note

"Governance issues will continue to hamper the Lebanese economy for the foreseeable future."

Citigroup, on the economic costs of the political paralysis in the country

Number of the Week

\$1,705: Per capita remittance inflows to Lebanon in 2014

Economic Indicators

\$m (unless otherwise mentioned)	2013	June 13	Mar 14	April 14	May 14	June 14	% Change*
Exports	3,936	348	275	300	308	278	(20.11)
Imports	21,228	1,634	1,791	1,641	1,676	1,567	(4.10)
Trade Balance	(17,292)	(1,286)	(1,516)	(1,341)	(1,368)	(1,289)	0.23
Balance of Payments	(1,128)	(233)	139	(45)	520	(561)	140.77
Checks Cleared in LBP	17,047	1,444	1,520	1,447	1,619	1,518	5.12
Checks Cleared in FC	55,321	4,523	4,671	4,545	5,058	4,807	6.28
Total Checks Cleared	72,368	5,967	6,191	5,992	6,677	6,325	6.00
Budget Deficit/Surplus	(4,220)	(275.89)	(595.29)	(379.21)	(170.31)	(187.36)	(32.09)
Primary Balance	(239.68)	(23.19)	(128.1)	91.02	316.5	(133.93)	(677.53)
Airport Passengers	6,265,470	571,831	430,979	542,544	511,556	610,170	6.70

\$bn (unless otherwise mentioned)	2013	June 13	Mar 14	April 14	May 14	June 14	% Change*
BdL FX Reserves	31.71	31.72	33.63	33.71	33.26	33.85	6.72
<i>In months of Imports</i>	<i>17.65</i>	<i>19.41</i>	<i>18.78</i>	<i>20.54</i>	<i>19.84</i>	<i>21.60</i>	<i>11.28</i>
Public Debt	63.46	60.02	65.15	64.86	65.08	65.71	9.48
Net Public Debt	53.18	50.90	54.37	54.67	54.92	55.17	8.39
Bank Assets	164.82	157.95	166.50	168.05	168.85	169.57	7.36
Bank Deposits (Private Sector)	136.21	131.30	136.55	138.20	138.85	140.35	6.89
Bank Loans to Private Sector	47.38	44.84	48.14	48.42	48.62	49.18	9.68
Money Supply M2	45.60	44.20	46.34	46.56	46.81	46.89	6.09
Money Supply M3	111.16	107.31	112.29	113.43	114.19	114.97	7.14
LBP Lending Rate (%)	7.29	7.87	7.26	7.18	7.48	7.45	(42bps)
LBP Deposit Rate (%)	5.44	5.39	5.48	5.47	5.50	5.49	10bps
USD Lending Rate (%)	6.88	6.97	6.87	6.92	7.04	6.97	-
USD Deposit Rate (%)	2.95	2.86	2.96	3.00	3.01	2.98	12bps
%* Change in CPI**	3.89	3.72	(0.23)	(0.03)	0.63	1.19	(253bps)

* 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"	11.89	(1.33)	68,238	10.68%	Jan 2015	5.875	100.63	3.13
Solidere "B"	11.84	(1.09)	10,816	6.91%	Apr 2015	10.000	103.45	3.14
Byblos Common	1.63	(2.40)	575,632	5.26%	Jan 2016	8.500	106.25	3.32
Byblos Pref. 08	100.80	(0.20)	10,200	1.81%	Mar 2017	9.000	111.50	3.96
Byblos Pref. 09	100.80	0.00	5,844	1.81%	Nov 2018	5.150	101.25	4.81
BLOM GDR	9.35	(1.06)	32,000	6.21%	May 2019	6.000	103.60	5.11
BLOM Listed	8.75	0.00	128,715	16.90%	Mar 2020	6.375	104.88	5.32
Audi GDR	6.10	0.49	31,330	5.62%	Apr 2021	8.250	114.88	5.49
Audi Listed	6.00	0.00	15,000	21.54%	Oct 2022	6.100	102.13	5.76
HOLCIM	15.50	3.33	260	2.72%	Nov 2026	6.600	101.88	6.37

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

Source: Byblos Bank Capital Markets

	Oct 13-17	Oct 6-10	% Change	Sept 2014	Sept 2013	% Change
Total Shares Traded	907,169	701,918	29.24	35,353,319	1,866,526	1794.07
Total Value Traded	\$5,611,792	\$5,940,290	(5.53)	\$228,108,320	\$14,728,227	1448.78
Market Capitalization	\$11.13bn	\$11.08bn	0.53	\$11.07bn	\$10.54bn	5.04

Source: Beirut Stock Exchange (BSE)



Lebanon ranks 118th 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 118th place worldwide and in 14th place among 22 countries in the Middle East & North Africa region in the third quarter of 2014. Also, Lebanon came in 38th place among 52 upper middle-income countries (UMICs) included in the survey. Lebanon's global rank regressed by six spots from 112th place in the second quarter of 2014, by five spots from 113th place in the first quarter of 2014, by 16 spots from 102nd place in the fourth quarter of 2013 and by 23 spots from 95th place in the third 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 Uganda, Egypt and Bangladesh, and a higher risk level than that of Papua New Guinea, Jamaica and the Ivory Coast among economies with a GDP of \$10bn or more. It also ranked ahead of Argentina and behind Jamaica among UMICs. Lebanon's global rank regressed by 28 spots from the previous quarter on the Access to Bank Finance & Capital Markets category, by two spots on each of the Structural Assessments and Credit Ratings categories and by one spot on the Debt Indicators category, while it improved by one spot on the Economic Performance category. Lebanon's global rank remained unchanged on the Political Risks category from the preceding quarter.

In parallel, Lebanon received a score of 32.39 points, constituting a decrease of 5% from 34.1 points in the second quarter of 2014 and a drop of 14.1% from 37.69 points in the third quarter of 2013. Lebanon's score came below the global average score of 42.19 points, the UMICs' average score of 39.23 points and the MENA average of 42.26 points. Also, its score came below the Arab average score of 41.27 points and the Gulf Cooperation Council (GCC) countries' average of 66.13 points, but was above the score of non-GCC Arab countries of 29.79 points.

Lebanon's score dropped by 66.7% from the second quarter of 2014 on the Access to Bank Finance & Capital Markets category, by 1.3% on the Structural Assessments category, by 0.8% on the Economic Performance category and by 0.3% on the Political Risks category. Lebanon's score on the Debt Indicators and Credit Ratings categories was unchanged from the second quarter of 2014.

Lebanon ranked ahead of Nigeria and behind Egypt globally, while it came ahead of Algeria and behind Egypt regionally on the Political Risks category. Also, it ranked ahead of Kenya and behind Mauritius worldwide, and came ahead of Libya and behind Tunisia regionally in terms of Economic Performance. Further, Lebanon ranked ahead of Latvia and behind Peru globally, and came ahead of Morocco and behind Bahrain regionally on the Structural Assessments category. Finally, Lebanon ranked ahead of Laos and behind Armenia globally, and came ahead of only Mauritania regionally on the Debt Indicators category.

MENA Countries Rankings & Scores

	Score	MENA Rank	Global Rank
Qatar	74.24	1	18
UAE	69.32	2	24
Kuwait	69.11	3	25
Oman	66.19	4	29
Saudi Arabia	65.42	5	32
Israel	65.38	6	33
Turkey	54.23	7	51
Bahrain	52.50	8	58
Morocco	43.94	9	73
Tunisia	43.14	10	78
Jordan	42.73	11	80
Algeria	39.14	12	89
Libya	33.81	13	111
Lebanon	32.39	14	118
Egypt	31.18	15	120
Iraq	28.90	16	132
Iran	26.16	17	146
Yemen	24.47	18	153
Mauritania	20.96	19	161
Sudan	20.86	20	162
Syria	20.02	21	165
Djibouti	5.72	22	184

Source: *Euromoney*, *Byblos Research*

Country Risk Indicators for Lebanon - Third Quarter 2014

	Weighting (%)	Score	MENA Rank	Global Rank	MENA Ave Score	Global Ave Score
Political Risks	30	10.54	13	127	12.37	13.92
Economic Performance	30	12.76	14	108	14.62	14.26
Structural Assessments	10	5.12	9	64	4.63	4.38
Debt Indicators	10	2.00	20	162	5.54	4.33
Credit Ratings	10	1.25	12	108	5.29	4.52
Access to Bank Finance & Capital Markets	10	0.75	14	138	3.59	3.96

Source: *Euromoney*, *Byblos Research*

Level of economic freedom regresses significantly

The Fraser Institute's Index of Economic Freedom for 2014 ranked Lebanon in 60th place among 152 countries globally and in seventh place among 14 Arab economies. It also ranked Lebanon in 10th place among 39 Upper Middle Income Countries (UMICs) included in the survey. Lebanon came in 39th place globally and in fifth place regionally in the 2013 survey. Lebanon's rank regressed by 21 spots, constituting the second steepest decrease globally after Spain, whose rank dropped by 23 spots. The deterioration in Lebanon's rank was due to a drop in its rank across four of the five sub-indicators that constitute the index.

The index measures the extent that a country's policies and institutions are supportive of economic freedom. The index includes 42 variables that are divided into five broad factors of economic freedom that are the Size of Government, the Legal System & Property Rights, Access to Sound Money, Freedom to Trade Internationally, and the Regulation of Credit, Labor & Business.

Globally, Lebanon had a similar level of economic freedom than El Salvador, a higher level of economic freedom than Albania, Brunei Darussalam and Jamaica, and a lower level than Uganda, France and Kuwait. Also, the Lebanese economy was less free than the economies of Mauritius, Jordan, Peru, Costa Rica, Romania, Montenegro, Bulgaria, Hungary and Botswana among UMICs.

Lebanon received a score of 7.19 points on a scale of zero to 10, down from 7.42 points in 2013. Lebanon's score regressed by 0.23 points, or 3.1%, constituting the seventh steepest decline in the world. Lebanon's score was below the average score of the Gulf Cooperation Council economies of 7.46 points, but higher than the Arab average of 6.9 points, the global average of 6.85 points, the UMICs' average score of 6.70 points and the non-GCC Arab countries' score of 6.50 points. Lebanon's score on Size of the Government fell by 7.9% from the 2013 survey, that on the Legal System & Property Rights decreased by 7.7%, its score on the Regulation of Credit, Labor & Business regressed by 1.7% and that on the Access to Sound Money dropped by 0.5%; while the country's score on the Freedom to Trade Internationally rose by 0.3% year-on-year.

Lebanon ranked ahead of the Philippines and Sierra Leone and came behind Pakistan and Albania on the Size of Government category, which indicates the level of the country's reliance on the political process to allocate resources, goods, and services. Lebanon ranked behind only Albania among UMICs and came first among Arab countries.

Further, Lebanon ranked ahead of Armenia and the United States and came behind Romania and Canada on the Access to Sound Money category, which reflects the consistency of monetary policy with long-term price stability, as well as the ease of using other currencies via domestic and foreign bank accounts. Lebanon ranked behind Albania, Hungary, Bulgaria, Mauritius, the Dominican Republic, Montenegro and Romania among UMICs, and came first among Arab countries.

In parallel, Lebanon ranked ahead of Sierra Leone and Benin and came behind Bolivia and Guatemala on the Legal System & Property Rights category. This category measures the level of property rights protection. Also, Lebanon ranked ahead of Gabon, the Dominican Republic, Colombia, Argentina, Angola and Venezuela among UMICs; while it ranked ahead of only Egypt and Yemen in the Arab world. The survey noted that countries with major deficiencies in this category are unlikely to prosper, regardless of their performance in the other four categories.

Also, Lebanon ranked ahead of Tunisia and Paraguay and came behind Ecuador and Cambodia on the Freedom to Trade Internationally category, which measures the impact of tariffs, quotas, hidden administrative restraints, and controls on exchange rates and capital on international trade. Lebanon ranked ahead of Tunisia and behind Ecuador among UMICs; while ranked ahead of just Tunisia, Yemen, Mauritania, Egypt, Saudi Arabia and Algeria in the region. The Fraser Institute is a Canada-based independent research organization whose mission is to study and measure the impact of competitive markets and government intervention on the welfare of individuals.

Economic Freedom Index 2014			
	Overall Score	Arab Rank	Global Rank
UAE	8.05	1	6
Jordan	7.86	2	9
Qatar	7.78	3	15
Bahrain	7.57	4	25
Oman	7.34	5	45
Kuwait	7.20	6	59
Lebanon	7.19	7	60
Saudi Arabia	6.84	8	87
Tunisia	6.68	9	96
Morocco	6.45	10	113
Yemen	6.34	11	118
Mauritania	6.32	12	120
Egypt	6.27	13	122
Algeria	5.09	14	148

Source: Fraser Institute, Byblos Research

Components of the 2014 Economic Freedom Index for Lebanon

Category	Global Rank	Arab Rank	UMIC Rank	Lebanon Score	Global Avge Score	Arab Avge Score	UMIC Avge Score
Size of Government	11	1	2	8.30	6.50	6.49	6.51
Access to Sound Money	39	1	8	9.37	8.14	7.96	7.96
Regulation of Credit, Labor & Business	97	9	24	6.84	7.08	7.16	6.97
Freedom to Trade Internationally	78	8	20	7.08	7.01	7.08	6.85
Legal System & Property Rights	117	12	33	4.36	5.52	5.95	5.22

Source: Fraser Institute, Byblos Research

Lebanon's CDS spreads widen by 4.4% in third quarter of 2014

Figures released by CDS and bond pricing firm S&P Capital IQ show that the average spreads on five-year credit default swaps (CDS) for Lebanon ended the third quarter of 2014 at 363.6 basis points. This reflects a widening of 15.2bps from 348.4bps at the end of the second quarter of 2014, a narrowing of 21.6bps from 385.2bps at the end of the first quarter of 2014, and a tightening of 31.4bps from 395bps at the end of 2013. Credit Default Swaps represent the cost of insuring government bonds against default and have become a reflection of perceived credit risk. As such, it cost around \$363,600 a year at the end of September to insure a notional \$10m of Lebanese sovereign debt against default for five years, down from \$395,600 a year earlier.

The firm noted that Lebanon's 5-year CDS spreads were the eighth widest among 74 countries during the third quarter of the year. They were tighter than Venezuela's spreads of 1,675.4bps, Ukraine (1,363.1bps), Pakistan (697.6bps), Greece (541.7bps), El Salvador (422.2bps) and Cyprus (370.8bps). It noted that Argentina defaulted on its debt. It said that Lebanon's CDS spreads widened by 4.4% from the preceding quarter.

Further, S&P Capital IQ indicated that Lebanon ended the third quarter of 2014 with a five-year cumulative probability of default (CPD) of 23.4%, up from 22.5% at the end of the second quarter of 2014, but down from 24.6% at the end of the first quarter of 2014 and from 25.15% at the end of 2013. S&P Capital IQ said that the CPD quantifies the probability of an issuer being unable to honor its debt obligations over a given time period. It added that the CPD is a function of the market's recovery level, which varies according to several factors and distance to default. It calculates the CPD using an industry standard model and proprietary credit data.

Lebanon's CPD at the end of September 2014 shows that Lebanese debt was the eighth riskiest globally, but it was less risky than the debt of Argentina (defaulted), Venezuela (65.8%), Ukraine (59%), Pakistan (40.1%), Greece (38.7%), Cyprus (27.8%) and El Salvador (26.3%). S&P Capital IQ maintained Lebanon among the top 10 riskiest sovereigns for the third consecutive quarter. Norway, Sweden and the United States had the lowest CPD among the 74 sovereigns covered in the survey, with rates of 1.1%, 1.2% and 1.5%, respectively.

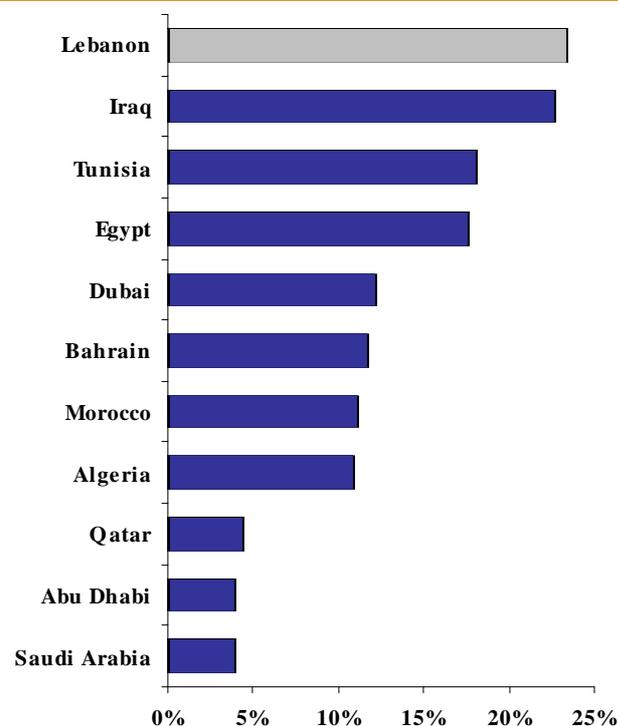
Number of real estate transactions up 4% in first nine months of 2014

Figures released by the Ministry of Finance indicate that the total number of real estate transactions reached 51,975 in the first nine months of 2014, constituting an increase of 4.2% from 49,876 deals in the same period of last year. In comparison, the number of real estate transactions dropped by 5.2% in the first nine months of 2013 and declined by 9.2% in the same period of 2012. Also, the aggregate value of real estate transactions totaled \$6.7bn in the first nine months of 2014, constituting a rise of 10.6% from \$6bn in the same period last year. The value of real estate deals was \$6.2bn in the first nine months of 2012 and \$6bn in the same period of 2011. In parallel, the average value per real estate transaction increased by 6.1% year-on-year to \$128,382 in the first nine months of 2014 relative to average values of \$120,990 in the same period of 2013 and \$118,044 in the first nine months of 2012. There were 795 real estate transactions executed by foreigners in the first nine months of 2014, down 12% from 903 deals in the same period last year, and compared to an annual decrease of 8% in the first nine months of 2013 and an increase of 1.3% in the same period of 2012. In parallel, the number of real estate transactions by foreigners accounted for 1.5% of total real estate deals in the first nine months of 2014 relative to 1.8% in the same period of 2013 and 1.9% in the first nine months of 2012.

Airport activity up 4% in first nine months of 2014

Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures, transit) totaled 5,019,548 in the first nine months of 2014, constituting an increase of 4.1% from the same period last year. The total number of arriving passengers rose by 6.7% year-on-year to 2,460,276 in the first nine months of the year compared to an increase of 3.4% in the same period of 2013. Also, the number of departing passengers rose by 1.7% year-on-year to 2,548,577 in the first nine months of 2014 relative to an annual increase of 8.5% in the same period of 2013. In parallel, the airport's aircraft movement grew by 2.4% year-on-year to 48,551 take-offs and landings in the first nine months of the year, compared to an annual drop of 1.4% in the same period of 2013. The HIA processed 71,446 metric tons of cargo in the first nine months of 2014 that consisted of 70,861 tons of freight and 586 tons of mail.

Cumulative Probability of Default in the Arab World (at end-September 2014)



Source: S&P Capital IQ, Byblos Research

Lebanon's external debt posts 22nd lowest return in emerging markets, sixth lowest in the Middle East & Africa

Figures issued by Merrill Lynch indicate that Lebanon's external debt posted returns of 7.6% in the first nine months of 2014, constituting the 15th lowest return among 38 markets in the Eastern Europe, the Middle East & Africa (EMEA) region as well as the 22nd lowest return among the 67 emerging markets included in Merrill Lynch's Sovereign Plus Debt Index. Lebanon outperformed the EMEA region's returns of 7.42%, but underperformed the overall emerging markets returns of 8.15% and the 8.18% returns posted by sovereigns rated 'BB' and lower during the covered period.

Further, Lebanon's external debt posted the sixth lowest return among 19 countries in the Middle East & Africa region in the covered period, ahead of Jordan (+3.66%), Angola (+4.59%), Nigeria (+6.09%), South Africa (+6.73%) and Mozambique (+6.79%). It was outperformed by Egypt (+18.27%), Zambia (+16.29%), Tunisia (+15.06%), Rwanda (+14.49%), Morocco (+12.50%), Turkey (+12.21%), Gabon (+10.93%), Iraq and Bahrain (+10.52% each), Ghana (+10.48%), the Ivory Coast (+10.45%), Senegal (+10.09%) and Namibia (+7.88%). In US dollar terms, Lebanon's external debt posted returns of 7.59% in the first nine months of 2014, constituting the 11th lowest in the EMEA region and the 18th lowest among emerging markets.

In parallel, Lebanon's external debt posted returns of 0.66% in September 2014, and constituted the eighth highest return in the EMEA region and the 13th highest return in emerging markets during the covered month. Lebanon outperformed the EMEA returns of -0.9%, those of emerging markets of -1.92% and those of sovereigns rated 'BB' and lower of -1.89% for the same month.

Further, Lebanon's external debt posted the fourth highest return in the Middle East & Africa region in September 2014 and was outperformed by Ghana (+3.44%), Iraq (+1.52%) and Rwanda (+0.76%). It outperformed Egypt (+0.34%), Jordan (+0.27%), Mozambique (-0.09%), Tunisia (-0.16%), Morocco (-0.33%), Bahrain (-0.8%), Nigeria (-0.9%), Angola (-1.04%), Senegal (-1.41%), Namibia (-1.62%), Zambia (-1.75%), South Africa (-1.85%), Gabon (-2.01%), Turkey (-2.87%) and the Ivory Coast (-3.52%).

Merrill Lynch indicated that the spread on Lebanese Eurobonds ended September 2014 at 353 basis points, constituting the 14th widest spread in the EMEA region and the 25th widest among emerging markets. It was wider than the EMEA spread of 298 basis points as well as the emerging markets' overall spread of 309 basis points at end-September 2014. Lebanon has a weight of 3.87% on Merrill Lynch's Sovereign Plus Debt Index, the fourth highest in the EMEA universe and the ninth highest among emerging economies. Lebanon accounted for 7.6% of allocations in the EMEA region.

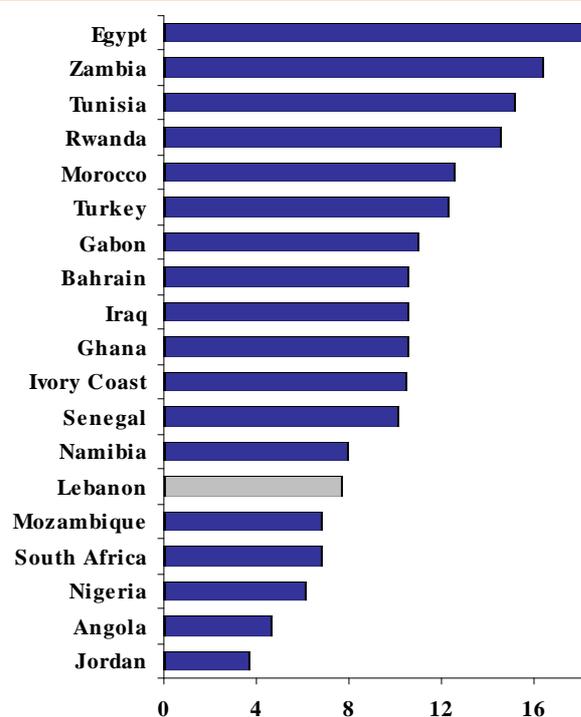
Coincident Indicator continues to reflect economic slowdown

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 248.4 points in July 2014 compared to 273.4 in June 2014 and 248.7 in July 2013. The Coincident Indicator, an average of 8 weighted economic indicators, decreased by 9.1% month-on-month and by a marginal 0.1% year-on-year in July 2014. The indicator averaged 268.7 in the 12 months ending July 2014, unchanged from the 12 months ending June 2014 and relative to 260 in the 12 months ending July 2013. As a result, the average coincident indicator remained unchanged month-on-month and rose by 3.4% year-on-year. Also, the indicator averaged 273.6 in the first seven months of 2014 compared to 277.8 in the first half of the year and 266.8 in the first seven months of 2013. As a result, the average coincident indicator dropped by 1.5% month-on-month and rose by 2.6% year-on-year during the covered period. In parallel, the indicator improved eight times and regressed 14 times in the month of July since 1993. It averaged 225.9 in 2009, 249.5 in 2010, 255.7 in 2011, 256.6 in 2012 and 264.7 points in 2013.

EU provides up to €159m to support priority sectors over 2014-16

The Ministry of Economy & Trade signed a Memorandum of Understanding with the European Commission (EC) through the Single Support Framework, which sets priorities and financial allocations to Lebanon over the 2014-16 period. The EU would allocate between €30m and €59m over three years to support the development of three priority sectors. First, 40% of the funds would be earmarked to promote sustainable economic development and protect vulnerable groups. Second, 20% would go to reinforce social cohesion, as well as to promote sustainable and transparent management of energy and natural resources. Third, 15% of the funds will be allocated to the reforms of the justice and security systems. Further, 25% would finance general technical assistance and support civil society.

External Debt Performance in Middle East & Africa in First Nine Months of 2014 (%)



Source: Merrill Lynch, Byblos Research

Real GDP growth projected at 1.5% in 2014, second slowest in MENA region

The World Bank projected Lebanon's real GDP growth at 1.5% for 2014, compared to growth rates of 3% in the Middle East & North Africa region and 0.7% in the developing countries of the MENA region. Lebanon's expected growth rate for 2014 would make it, along with Iran, the second slowest-growing economy among 19 countries in the MENA region, better than only Kuwait (+1.4%). The Bank indicated that the intensification of the conflict in Syria and the rising number of Syrian refugees have negatively affected the Lebanese economy. It noted that spillovers from the Syrian conflict would continue to be a drag on growth, which is expected to remain below potential over the near term. It considered that an intensification of turmoil in the region constitutes the main risk to the outlook and that domestic political paralysis is preventing Lebanese authorities from effectively addressing this challenge. It forecast the inflation rate in Lebanon at 1.5% in 2014 compared to 2.7% in 2013, and relative to a projected rate of 3.4% in 2015.

Also, it forecast Lebanon's fiscal deficit to widen from 9.4% of GDP in 2013 to 10.2% of GDP in 2014, compared to a surplus of 1.3% of GDP for the MENA region and a deficit of 5.9% of GDP for the region's developing economies. Lebanon's projected fiscal deficit for 2014 would be the sixth widest in the region behind Morocco and Libya (-11.1% of GDP each), Egypt (-11.8% of GDP), the West Bank & Gaza (-13.5% of GDP) and Jordan (-14.7% of GDP). The Bank expected Lebanon's primary deficit to widen from 0.5% of GDP in 2013 to 1.2% of GDP this year, constituting the third consecutive annual primary deficit. It anticipated that the deterioration in the fiscal and primary deficits would increase the public debt level to 149% of GDP in 2014 from 143.1% of GDP in 2013.

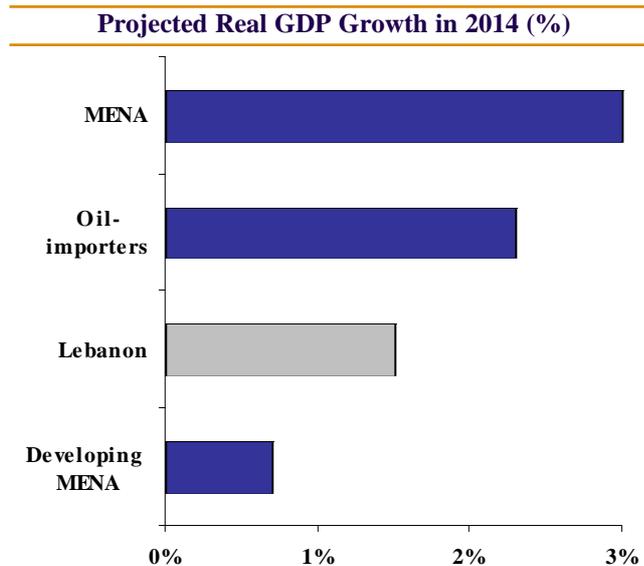
Further, the World Bank forecast Lebanon's current account deficit to slightly narrow to 8.3% of GDP in 2014 from an estimated deficit of 8.5% of GDP last year, and compared to a surplus of 7.8% of GDP for the MENA region and a deficit of 1.4% of GDP for the region's developing countries. Lebanon's projected current account deficit would be the seventh widest in the region behind Tunisia (-9.1% of GDP), Syria (-11% of GDP), Jordan (-11.3% of GDP), Libya (-29.6% of GDP), Djibouti (-33% of GDP), and the West Bank & Gaza (-37.5% of GDP). It noted that wide spreads between domestic and international interest rates have helped attract sufficient deposit inflows to Lebanese banks to maintain solid liquidity buffers, adding that Lebanon remains dependent on robust capital inflows to support its balance of payments.

In parallel, the World Bank forecast Lebanon's real GDP growth at 2% in 2015 compared to growth rates of 5.2% in the MENA region and 5.4% in the region's developing economies. Lebanon's expected growth rate for 2015 would make it the third slowest-growing economy in the region behind Iraq (1.5%) and Kuwait (1.8%). Further, it projected Lebanon's fiscal deficit to reach 11.2% of GDP in 2015 compared to a surplus of 0.1% of GDP for the MENA region and a deficit of 4.7% of GDP for the region's developing economies. Also, it forecast Lebanon's current account deficit at 8% of GDP in 2015, relative to a surplus of 5.6% of GDP for the MENA region and a deficit of 1.5% of GDP in the region's developing countries.

Revenues through Port of Beirut down 7% to \$1.7bn in first eight months of 2014

Figures released by the Port of Beirut show that overall receipts generated through the port reached \$1.7bn in the first eight months of 2014, constituting a decrease of 7% from the same period of 2013. Customs receipts through the port totaled \$803m in the first eight months of 2014, down 9.7% from \$888.9m in the same period of 2013; while receipts from the value-added tax reached \$750.7m, down 4.8% from the first eight months of 2013. Also, the port's overall revenues totaled \$141.7m in the first eight months of 2014, down by 2.8% from the same period of 2013. Further, the Port of Beirut handled an aggregate freight of 5.6 million tons in the first eight months of 2014, up by 1.2% from 5.5 million tons in the same period last year. Import freight accounted for 88.8% of the total, while the remaining 11.2% was export cargo. A total of 1,333 ships docked at the port in the first eight months of 2014 compared to 1,416 vessels in the same period of 2013.

In parallel, overall revenues generated through the Port of Tripoli reached \$73.2m in the first eight months of 2014, constituting a drop of 4.1% from \$76.4m in the same period of 2013. Customs receipts through the port reached \$28m in the covered period, down 10% from \$31.1m in the first eight months of 2013; while receipts from the value-added tax reached \$37.6m and declined by 0.9% from \$38m in the first eight months of 2013. The port's revenues rose by 4.2% year-on-year to \$7.6m in the first eight months of 2014. Further, the Port of Tripoli handled an aggregate weight of 796,730 tons of freight in the first eight months of the year, constituting a decrease of 15.5% from 942,322 tons in the same period of 2013. A total of 365 vessels docked at the port in the first eight months of 2014, constituting a marginal increase of 0.8% from 362 ships in the same period last year.



Source: World Bank, Byblos Research

Fiscal deficit narrows by 17% to \$1.6bn in first half of 2014 when assuming \$624m in telecom revenues

Figures released by the Finance Ministry show that the fiscal deficit reached \$1.6bn in the first half of 2014 and narrowed by 16.9% from \$1.9bn in the same period last year. The deficit was equivalent to 23.1% of total budget and Treasury expenditures compared to 28.1% of overall spending in the first half of 2013. Overall government expenditures reached \$6.8bn and increased by 0.9% year-on-year, while total revenues rose by 7.9% to \$5.2bn. Budgetary expenditures increased by 7.8% to \$5.7bn and included \$1bn in transfers to Electricité du Liban and \$557.4m in outlays from previous years, while budget revenues rose by 6.9% to \$4.9bn. Tax revenues increased by 5.7% year-on-year to \$3.8bn, of which 28.6%, or \$1.1bn, were in VAT receipts that rose by 1.2% from the same period of 2013. Tax revenues accounted for 77.6% of budgetary revenues and for 72.6% of total Treasury and budgetary receipts. Based on the Finance Ministry's own estimates, Telecom receipts reached \$624.1m in the first half of 2014 compared to \$599.1m in the same period last year. On a cash basis for the two compared periods, public revenues increased by 8.4% year-on-year; while the fiscal deficit widened to \$2.2bn and was equivalent to 32.3% of expenditures.

The distribution of other tax revenues shows that receipts from taxes on income, profits & capital gains increased by 13.3% to \$1.3bn in the first half of 2014; revenues from customs regressed by 9.7% year-on-year to \$638.1m; revenues from property taxes rose by 17.8% to \$430.3m; revenues from taxes on goods & services grew by 25% to \$189.1m; and other tax receipts, mainly stamp fees, increased by 3.5% to \$156.5m. Further, the distribution of income tax revenues shows that receipts from taxes on profits accounted for 52.2% of total income tax receipts, followed by taxes on wages and salaries, and taxes on interest deposits with 17.9% each, and the capital gains tax with 10%. Receipts from capital gains increased by 15.2%, income from the tax on profits rose by 14.5%, revenues from the taxes on wages & salaries grew by 13% and receipts from tax on interest deposits rose by 7.8%.

Also, the distribution of property taxes shows that revenues from real estate registration fees increased by 15.8% to \$283.3m, receipts from built property taxes rose by 22.2% to \$98.3m and revenues from inheritance tax grew by 21.2% to \$48.7m. In parallel, non-tax budgetary revenues rose by 11.2% to \$1.1bn, with revenues from government properties rising by 12.4% to \$830.5m and administrative fees & charges growing by 7.5% to \$206.5m. Based on the ministry's assumption, receipts from telecom services accounted for 75.2% of income from government properties and for 56.9% of non-tax revenues.

Debt-servicing cost increased by 12.6% year-on-year to \$2.2m in the first half of 2014. It accounted for 31.6% of total expenditures and for 37.6% of budgetary spending, and absorbed 41.2% of overall revenues and 44% of budgetary receipts. Interest payment on domestic debt rose by 15.9% year-on-year to \$1.3bn, while interest disbursement on foreign debt rose by 8.6% to \$808.9m. Repayment of principal on foreign debt increased by 4.7% to \$80.7m. Excluding debt servicing, the primary budget balance posted a surplus of \$1.3bn, or 23.1% of budget expenditures compared to a surplus of \$1.2m, or 22.2% of budget spending in the first half of 2013. The overall primary balance posted a surplus of \$579.6m or 8.5% of spending in the first half of 2014, relative to a surplus of \$16.5m or 0.2% of total expenditures in the same period last year.

	Fiscal Results in First Half of 2014	
	Including Assumed Telecom Receipts	Excluding Assumed Telecom Receipts*
	US\$m	US\$m
Budget revenues	4,901	4,277
Tax revenues	3,805	3,805
Non-tax revenues	1,096	472.1
<i>of which Telecom revenues</i>	624.1	-
Budget expenditures	5,735	5,735
Budget Surplus/Deficit	(833.9)	(1,458)
<i>In % of budget expenditures</i>	<i>(14.5%)</i>	<i>(25.4%)</i>
Budget Primary Surplus	1,323	698.5
<i>In % of budget expenditures</i>	<i>23.1%</i>	<i>12.2%</i>
Treasury receipts	337.4	337.4
Treasury expenditures	1,080	1,080
Total Revenues	5,238	4,614
Total Expenditures	6,815	6,815
Total Deficit	(1,577)	(2,201)
<i>In % of total expenditures</i>	<i>(23.1%)</i>	<i>(32.3%)</i>
Total Primary Surplus/Deficit	579.6	(44.5)
<i>In % of total expenditures</i>	<i>8.5%</i>	<i>(0.7%)</i>

* Cash basis

Source: Ministry of Finance, Byblos Research



New and used car sales down 5% month-on-month in September 2014

Figures released by the Association of Automobile Importers in Lebanon (AIA) indicate that 28,811 new passenger cars were sold in the first nine months of 2014, constituting an increase of 8.3% from 26,601 cars in the same period last year. It added that 3,454 new passenger cars were sold in September 2014, increasing by 3% from 3,353 vehicles in the previous month. Korean cars accounted for 42.5% of total sales in the first nine months, followed by Japanese cars with a 33.2% share, European automobiles with 18.2%, American vehicles with 4.6%, and Chinese cars with 1.5%. The number of Japanese cars sold rose by 35.2% year-on-year, constituting the highest rise in new car sales, followed by European cars with a 0.9% rise; while the number of new Chinese cars sold declined by 18.4% from the same period last year, followed by American vehicles with a 9.2% fall, and Korean cars with a 0.8% drop in sales. Kia is the leading brand in the Lebanese market with 6,597 cars sold in the first nine months of 2014, followed by Hyundai with 5,637, Nissan with 3,628 cars sold, Toyota (3,517), Renault (1,011), Mitsubishi (838) and Chevrolet (702). In parallel, 1,728 new commercial vehicles were sold in the first nine months of 2014, constituting a rise of 0.8% from 1,714 vehicles sold in the same period last year and an increase of 2.2% from 1,690 vehicles in the first nine months of 2012.

The AIA indicated that the combined number of registered new and imported used cars dropped by 5% month-on-month in September 2014, and stagnated in the first nine months of 2014 compared to the same period of 2013. It added that used and new car sales regressed by 7% from the first nine months of 2012 and by 12% from the same period of 2011. It said that the luxury car segment accounted for only 3.5% of total new registered cars. It reiterated that about 90% of new cars sold were small automobiles that cost less than \$15,000 each. The number of new vehicles sold by the country's top five distributors reached 22,358 in the first nine months of 2014 and accounted for 73.2% of new vehicles sold. NATCO sal sold 6,597 vehicles in the covered period, equivalent to 21.6% of the total, followed by Century Motor Co. sal with 5,753 (18.8%), Rasamny Younis Motor Co. sal with 3,996 (13.1%), Boustany United Machineries sal with 3,801 (12.4%), and Bassoul Heneine sal with 2,211 (7.2%).

Top five freight forwarders' import activity down 1% in first eight months of 2014

Figures released by the Port of Beirut Authority show that overall import shipping operations by the top five freight forwarders reached 235,456 20-foot equivalent units (TEUs) in the first eight months of 2014, constituting a drop of 1.3% from 238,616 TEUs in the same period last year. They accounted for 58.5% of the total import freight forwarding market during the covered period. Mediterranean Shipping Company (MSC) handled 78,705 TEUs in imports for the local market in the first eight months of the year, equivalent to 19.6% share of the total freight forwarding import market. It was followed by Merit Shipping with 51,428 TEUs (12.8%), Sealine Group with 47,725 TEUs (11.9%), Metz Group with 32,549 TEUs (8.1%) and Gezairy Transport with 25,049 TEUs (6.2%). Further, Gezairy Transport registered the highest growth in import shipping among the top five freight forwarders at 59.6% year-on-year, while Sealine Group posted the steepest drop of 26.4% year-on-year.

In parallel, export shipping operations by the top five freight forwarders reached 41,791 TEUs in the first eight months of 2014, constituting a decrease of 14.7% from 48,968 TEUs in the same period of 2013. They accounted for 94.6% of the total export freight forwarding market during the covered period. Sealine Group handled 14,657 TEUs of freight, equivalent to 33.2% share of the total freight forwarding Lebanese cargo export market. It was followed by Merit Shipping with 14,607 TEUs (33.1%), Metz Group with 6,810 TEUs (15.4%), MSC with 3,655 TEUs (8.3%) and Gezairy Transport with 2,062 TEUs (4.7%). Further, Metz Group registered the highest growth in export shipping among the top five freight forwarders at 100.8% year-on-year, while Sealine Group posted the steepest drop of 40.8% year-on-year.

First National Bank's net income up 1% to \$13.4m in first half of 2014

First National Bank sal, one of Lebanon's top 14 banks, announced unaudited consolidated net profits of \$13.4m in the first half of 2014, up 1% from the same period last year. Net operating income rose by 2.3% year-on-year to \$39.2m, with net interest income decreasing by 13.1% to \$22.9m and net fees & commissions receipts dropping by 17.6% to \$3.2m. Non-interest income accounted for 22.1% of total income, up from 20% in the first half of 2013, with net fees & commissions representing 35.4% of non-interest earnings down from 49.3% in the first half of 2013. Further, the bank's interest margin was 1.8% in the first half of 2014 relative to 1.9% in the same period last year; while its net spread fell to 1.75% from 1.84% in the first half of 2013. Total operating expenditures increased by 4.3% to \$23.3m, with staff expenses rising by 10.4% to \$14.1m. Also, the bank's return on average assets reached 0.74% in June 2014 on an annualized basis, relative to 0.77% a year earlier; while its return on average equity was 10.1% on an annualized basis relative to 10.8% in June 2013. The cost-to-income ratio rose to 57% in the first half relative from 56.7% in the same period last year.

In parallel, total assets reached \$3.7bn at end-June 2014, constituting a 4.5% increase from end-2013 and a 6.7% growth from a year earlier; while loans & advances to customers, excluding loans & advances to related parties, increased by 2.4% from end-2013 and rose by 4.3% year-on-year to \$0.9bn. Also, customer deposits, excluding deposits from related parties, totaled \$3bn at end-June, rising by 4.4% from end-2013 and by 8.7% from a year earlier. The loans-to-deposits ratio decreased to 29.8% at end-June 2014 from 31.4% a year earlier. Further, the bank's shareholders' equity rose by 8% from end-2013 to \$269.7m at end-June 2014.

CreditBank's net profits at \$11m in first half of 2014

CreditBank sal, one of Lebanon's top 14 banks, announced unaudited consolidated net profits of \$11.2m in the first half of 2014, constituting an increase of 37.2% from the same period last year. Net operating income grew by 21.6% year-on-year to \$41.5m, with net interest income rising by 19.3% to \$29.7m and net fees & commissions receipts decreasing by 5.3% to \$6.9m. Non-interest income accounted for 32.6% of total income, up from 30.4% in the first half of last year, with net fees & commissions accounting for 48.1% of non-interest earnings, down from 67.2% in the covered period of 2013. Further, the bank's interest margin improved to 2.27% in the first half of the year from 2.24% in the same period last year, and its spread increased to 2.19% from 2.15% in the covered period last year. Total operating expenditures increased by 16% to \$27.6m, with staff expenses growing by 10.8% to \$16m. Also, the bank's return on average assets reached 0.8% on an annualized basis in June 2014 compared to 0.7% in June 2013; while its return on average equity was 10.45% relative to 9.36% on an annualized basis in June 2013. The cost-to-income ratio was 62.6% in the first half of 2014 compared to 66.6% in the same period last year. In parallel, total assets reached \$2.8bn at the end of June 2014, constituting a 5.3% rise from end-2013 and a 15.1% increase from a year earlier; while loans & advances to customers, excluding loans & advances to related parties, rose by 13.5% from end-2013 and by 22.7% from end-June 2013 to \$1.5bn. Also, customer deposits, excluding deposits from related parties, totaled \$2.4bn at end-June 2014, reflecting growth of 4.5% from end-2013 and of 16.8% from a year earlier. The loans-to-deposits ratio was 61.7% at end-June 2014, up from 58.7% a year earlier. Further, total shareholders' equity rose by 1.1% from end-2013 to \$209.6m at end-June 2014.

Central Bank sets remuneration guidelines for banks

The Central Bank of Lebanon issued Basic Circular 133 dated August 6, 2014 about the remunerations and bonuses awarded to employees of the banking sector in Lebanon. The circular mandates all banks to draft a remuneration policy that should be approved by each bank's board of directors. Remunerations include any form of benefits, bonuses and cash and non-cash disbursements, including salaries, allowances and end-of-service indemnities. The circular noted that the remuneration policy should cover part-time and full-time bank employees in Lebanon and abroad. It added that the value and timing of the remuneration should be in line with the bank's strategy and should be linked to the employee's performance. It indicated that the disbursed remunerations must not affect the bank's current or future financial position. It pointed out that the remunerations should be based on the bank's overall performance, as well as on the performance of the staff and their respective departments and units. It added that the remuneration policy should aim to attract and retain qualified employees and should detail clawback and deferrals conditions.

Further, the circular mandated each bank to form a remuneration committee from non-executive board members. It noted that the Central Bank can, on a case-by-case basis and after consulting with the Banking Control Commission, exempt certain banks from forming a remuneration committee. It added that the exemption would be based on the size of the bank and other considerations. In this case, the board of directors would undertake the functions of the remuneration committee, which covers setting a remuneration policy and system, supervising the implementation of this policy and reviewing the remuneration procedures, among others. Also, the circular stipulates that the board of directors of each Lebanese bank should adopt an objective and transparent system to evaluate its staff. It noted that banks should publish in their annual report the formation of the remuneration committee, the scope of its powers and the remuneration policy.

Banking sector's net profits flat in 2013, ROAE and ROAA regress

The consolidated net profits of banks operating in Lebanon totaled \$1.89bn in 2013, nearly unchanged from \$1.88bn in 2012. Net operating income rose by 5.2% to \$5.1bn in 2013, with aggregate net interest income increasing by 5.7% to \$3.45bn and net fees & commissions receipts rising by 4.2% to \$904.3m year-on-year. Non-interest income accounted for 34.57% of total income in 2013, down from 35.45% in the preceding year, with net fees & commissions representing 47.4% of non-interest receipts. The net interest spread decreased to 1.9% in 2013 from 1.96% in the preceding year. Total operating expenditures increased by 8.4% year-on-year to \$2.86bn in 2013, with staff expenses rising by 8.3% to \$1.56bn and administrative & other operating expenses growing by 10% to \$1.1bn. Further, the cost-to-income ratio increased from 49.65% in 2012 to 51.82% last year. The sector's return on average assets regressed from 1.07% in 2012 to 1% in 2013; while its return on average equity declined from 12.08% in 2012 to 11.09% in 2013.

The sector's total assets reached \$199bn at the end of 2013, constituting a rise of 9.7% from end-2012. Portfolio securities accounted for 35% of total assets at end-2013, followed by loans and liquid assets with 31% each, and fixed assets and other assets with 2% each. Further, aggregate loans & advances to customers rose by 16.2% from end-2012 to \$61bn, while credit extended to related parties decreased by 25% year-on-year to \$935.6m at end-2013. Corporate loans accounted for 40.6% of total net lending to customers at the end of 2013 compared to 42% a year earlier. They were followed by lending to small- and medium-sized enterprises with 18.9% relative to 17.1% at end-2012; housing loans with 13.4% of the total compared to 13.1% a year earlier; and retail credit with 12.2% of the total relative to 12.9% at end-2012. Also, customer deposits reached \$161.1bn at the end of 2013 and rose by 9.5% from a year earlier; while deposits from related parties increased by 12.8% to \$3.2bn at end-2013.

In parallel, the banks' loans-to-deposits ratio increased to 37.7% at end-2013 from 35.9% a year earlier. The ratio of loans-to-deposits in local currency reached 22.8% at end-2013 compared to 20.6% at end-2012, while that in foreign currency was 44.2% at the end of 2013 relative to 42.9% a year earlier. Further, the primary liquidity-to-assets ratio regressed from 31.3% at the end of 2012 to 30.7% at end-2013. The banks' gross doubtful loans-to-gross loans ratio regressed to 6.8% at end-2013 from 7.1% a year earlier. Also, the collective provisions-to-net loans ratio was 1.1% at the end of 2013 compared to 1% at end-2012. The banks' capital adequacy ratio stood at 14.28% at the end of 2013, up from 13.83% at end-2012, according to Basel II criteria.

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	Feb 2013	Jan 2014	Feb 2014	Change*	Risk Level
Political Risk Rating	53.0	52.0	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	58.5	58.5	▼	High

Regional Average	Feb 2013	Jan 2014	Feb 2014	Change*	Risk Level
Political Risk Rating	58.6	58.4	58.4	▼	High
Financial Risk Rating	41.6	40.7	40.4	▼	Very Low
Economic Risk Rating	36.3	35.8	35.9	▼	Low
Composite Risk Rating	68.2	67.5	67.4	▼	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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