

## COUNTRY RISK WEEKLY BULLETIN

### NEWS HEADLINES

#### WORLD

##### Private equity funds raise \$347bn in 2016

Research provider Preqin indicated that dry powder held by private equity (PE) funds, or the amount of capital available to invest in portfolio companies, reached \$820bn at the end of 2016, up 8.6% from \$755bn at end-2015. It added that 830 PE funds held a final close during 2016 and raised a total of \$347bn in capital, up 5.5% from \$329bn in 2015. The survey pointed out that the total capital raised in 2016, which includes final and interim closes, reached \$94bn in the first quarter, \$117bn in the second quarter, \$83bn in the third quarter and \$79bn in the fourth quarter of 2016. It said that the average size of PE funds closed in 2016 reached an all-time high of \$471m in 2016. It noted that PE accounted for 57% of all private capital raised in 2016, up from 52% in the preceding year. It added that the increased demand from limited partners has been supported by continued high net distributions, which have caused limited partners to reinvest capital back into PE in order to maintain their allocations. The survey considered that 95% of investors believe that their PE portfolios have met or exceeded performance expectations over the past 12 months, up from 81% in December 2011. In parallel, it said that total assets under management of the PE industry reached a record-high of \$2.49 trillion at the end of June 2016. It noted that PE investors have seen annualized returns of 16.4% in the three years to June 2016.

Source: Preqin

#### EMERGING MARKETS

##### Tight lending conditions in fourth quarter of 2016

The Emerging Markets Lending Conditions Index reached 48 points in the fourth quarter of 2016 relative to 45.8 in the preceding quarter. Four out of the five components of the Index remained below the threshold of 50 for the fifth consecutive quarter, reflecting tight lending conditions. The Trade Finance Index increased to 50.51 in the fourth quarter of 2016 from 49.2 in the preceding quarter, while the Demand for Loans Index improved to 49.6 in the fourth quarter from 45.7 in the third quarter of 2016, as demand for commercial loans and mortgages increased. Also, the Non-Performing Loans (NPLs) Index rose to 47.3 in the covered quarter from 43.4 in the second quarter of 2016, which reflects an increase in NPLs in most regions. Further, the Credit Standards Index improved to 46.7 in the fourth quarter from 45.2 in the third quarter of 2016, while the Funding Conditions Index declined to 45.8 in the fourth quarter of 2016 from 46.2 in the previous quarter, reflecting tight international liquidity conditions. In parallel, the Lending Conditions Index in Emerging Europe was at 51.41 in the covered quarter compared to 51.9 in the third quarter of 2016, while it improved in Emerging Asia to 48.9 in the fourth quarter of 2016 from 42.4 in the previous quarter. In addition, the Lending Conditions Index for Latin America increased to 47.85 in the fourth quarter of the year from 47.1 in the preceding quarter, while it improved in the Middle East & North Africa region to 44 in the fourth quarter from 40.1 in the previous quarter. The index for Sub-Saharan Africa deteriorated to 43.5 from 44.5 in the second quarter of 2016.

Source: Institute of International Finance

##### Sovereign credit quality broadly stable over past five years

S&P Global Ratings indicated that the average sovereign rating of the 20 emerging markets (EM) with the highest level of outstanding commercial debt stood at slightly below 'BB+' as of December 2016. It said that overall sovereign creditworthiness across the 20 EMs has remained broadly stable over the past five years. It noted that 55% of the covered sovereigns had an investment-grade rating at end-2016, up from 50% in June 2016 following the upgrade of Hungary to investment-grade in September 2016. It added that it upgraded the sovereign ratings of Argentina in May 2016 and of Pakistan in October 2016, but they remain in the speculative-grade range. S&P indicated that 65% of the ratings were in the 'BBB' and 'BB' categories at end-2016, down from 70% at the end of June 2011. It added that 25% of the ratings were in the 'B' or 'CCC' categories at end-2016, up from 15% at end-June 2011, which reflects a deterioration in the credit quality of EM sovereigns that are rated at the lower end of the group's range. S&P said that the average sovereign rating becomes closer to 'BBB+' when the ratings are weighted by nominal GDP, largely due to China, which is rated 'AA-' and that accounts for more than one-third of the aggregate GDP of the 20 countries. It noted that the number of sovereigns with a 'negative' outlook on their ratings dropped from nine to six in the second half of 2016. It added that 13 out of the 20 EM countries carry a 'stable' outlook on their sovereign ratings, while only Indonesia has a 'positive' outlook on its ratings.

Source: S&P Global Ratings

#### MENA

##### Developing and retaining talent varies across Arab world

The INSEAD Global Talent Competitiveness Index (GTCI) for 2017 ranked the UAE in 19th place among 118 countries globally and in first place among 12 Arab countries. Qatar followed in 21st place, then Saudi Arabia (42nd), Bahrain (47th), Kuwait (57th), Jordan (58th), Oman (59th), Lebanon (62nd), Tunisia (77th), Egypt (88th), Morocco (96th) and Algeria (107th). The GTCI measures a country's ability to attract, develop and retain talent. It is a composite of six pillars grouped in two sub-indices that are the Talent Competitiveness Input Sub-Index and the Talent Competitiveness Output Sub-Index. A higher score on the index reflects a country's better performance in terms of talent competitiveness. The Arab countries' average score stood at 45.31 points, lower than the global average score of 46.84 points. Also, the Arab economies' average score was higher than the average score of Latin & Central America and the Caribbean (41.2 points), Central & Southern Africa (35.6 points) and Sub-Saharan Africa (34 points). In parallel, the UAE (16th), Qatar (19th) and Bahrain (31st) were the top ranked Arab countries on the Talent Competitiveness Input Sub-Index that covers the policies, resources and efforts that a country can use to promote its talent competitiveness. Further, the UAE (35th), Qatar (39th) and Lebanon (50th) led Arab countries on the Talent Competitiveness Output Sub-Index, which measures the quality of talent that results from domestic policies, resources and efforts.

Source: INSEAD, Byblos Research

# POLITICAL RISK OVERVIEW - January 2017

## EGYPT

The Sinai Province militant group, which pledged allegiance to the Islamic State in 2014, claimed responsibility for two attacks in the northern Sinai city of al-Arish that killed 15 Egyptian police officers and soldiers and injured more than 12 people, including civilians. Egypt's Supreme Administrative Court issued a final ruling on January 16 against President Abdel Fattah el-Sisi's decision to hand over two Red Sea islands to Saudi Arabia. Unknown gunmen killed eight policemen in an attack on a security checkpoint in al-Wadi al-Jadid governorate in the southwestern part of the country.

## IRAN

The sixth meeting of the Joint Comprehensive Plan of Action (JCPOA) between Iran and the P5+1 was held in Vienna on January 10, 2017. During the meeting, Iran agreed to new measures to decrease its stockpile of enriched uranium below the limit set by the nuclear agreement. The measures include a plan to "clean out" a nuclear facility in the Esfahan province and remove and degrade enriched uranium. Iran reiterated its stance that the U.S. Senate's 10-year extension of the Iran Sanctions Act in December 2016 is a violation of the United States' commitments under the JCPOA. Iran's Revolutionary Guards carried out a medium-range ballistic missile test in late January, in an apparent violation of UN Resolution 2231. The UN Security Council held an emergency meeting at the request of the U.S. to discuss Iran's latest ballistic missile test and recommended the matter to be studied on a committee level. Former President Akbar Hashemi Rafsanjani died on January 8 after suffering a heart attack.

## IRAQ

The Iraqi Army, backed by US-led coalition warplanes and allied militias, made progress in the military offensive to fully retake the city of Mosul from the Islamic State (IS) militant group. Prime Minister Haider al-Abadi officially declared on January 25 that the eastern part of Mosul has been fully liberated from the IS and expected the battle for the western half of the city to be a lot more difficult. Prime Minister al-Abadi indicated that Iraq will not retaliate against U.S. President Donald Trump's travel ban because it does not want to lose Washington's backing in its battle against the IS militant group. Violence and acts of terrorism in Iraq led to 403 civilian deaths and 924 injuries in January 2017.

## DEM REP CONGO

Political parties continued talks about transitional arrangements following the December 31 agreement between the ruling party and the opposition. The talks follow President Joseph Kabila's refusal to step down at the end of his constitutional mandate on December 19, 2016 after 16 years in office. Parties failed to agree on a roadmap by the January 28 deadline set by the mediator, the National Episcopal Conference of Congo (CENCO), which would have paved the way towards credible, transparent and peaceful elections. Contentious issues include the appointment of the prime minister and the formation of a government. Armed violence continued in different parts of the country.

## LIBYA

General Khalifa Haftar, opposed to the UN-backed Government of National Accord (GNA), made military and diplomatic gains during the month. General Haftar's Libyan National Army (LNA) declared victory over the Islamic State (IS) in the Ganfouda district, one of the few districts in Benghazi under IS-control. General Haftar spoke with Russian Defense Minister Sergei Shoigu via video conference from a Russian aircraft carrier, reportedly about pressing issues in the fight against terrorism. Internal divisions in the UN-backed Presidential Council (PC) worsened after a deputy leader of Libya's GNA, Musa al-Koni, announced his resignation. He stated that the PC had failed to deal with urgent problems arising from years of conflict and political disarray.

## SOUTH SUDAN

Heavy fighting between government and rebel forces broke out in the Upper Nile state in late January. The UN Mission in South Sudan urged warring parties to immediately cease hostilities and fully implement the compromise peace agreement. Members of the Sudan People's Liberation Army-in-Opposition (SPLA-IO) condemned President Salva Kiir's unilateral decision to add four new states to the existing 28 states. They considered the decision to be part of a sustained campaign to derail the peace process. President Salva Kiir met with Egyptian President Abdel Fattah el-Sisi in Cairo to discuss the peace process in South Sudan and ways to improve mutual cooperation.

## SUDAN

The U.S. government partially lifted economic sanctions on Sudan effective January 17, due to Sudan's marked decline in offensive military activity, pledge to maintain a cessation of hostilities in domestic conflict areas, steps toward improving humanitarian access throughout the country, and cooperation with the U.S. on counterterrorism and addressing regional conflicts. The executive order has a six-month review period and sanctions may be reinstated on July 12, 2017 if Sudan fails to keep its commitments. The Sudanese government extended in mid-January the ceasefire in Darfur, South Kordofan and Blue Nile states for another six months. The opposition Umma Party leader Sadiq al-Mahdi returned to Khartoum on January 26 after over two years in exile, and vowed to support the peace process and democratic reforms in the country.

## SYRIA

Violence declined in northwestern Syria following a ceasefire agreement reached in late December between President Bashar al-Assad's regime and the opposition. However, regime forces sustained in January their offensive against opposition fighters outside Damascus. Also, clashes between jihadist and non-jihadist opposition factions continued. Russia, Turkey and Iran agreed in Kazakhstan's capital Astana to set up a trilateral body to monitor and enforce the ceasefire in Syria. Regime and non-jihadist opposition groups attended the talks, but neither party endorsed the agreement. Regime forces said on January 29 that they recaptured the Wadi Barada valley near Damascus from opposition fighters. Fath al-Sham and four other jihadist factions formed on January 28 a new alliance named Tahrir al-Sham. Islamic State (IS) fighters broke through regime defensive lines in the city of Deir al-Zour after months of stalemate, surrounding a military airport and cutting off food supplies to the city. Saudi Arabia's King Salman bin Abdulaziz Al Saud agreed with U.S. President Donald Trump to support safe zones in Syria. The regime noted that the establishment of safe zones without its consent would constitute a "violation of sovereignty."

## TUNISIA

Hundreds of protesters clashed with police on the sixth anniversary of the 2011 popular uprising in several cities. Demonstrators demanded the government to provide them with job opportunities. Some demonstrators have reportedly blocked the road and stoned the convoy of President Beji Caid Essebsi in the city of Gafsa. Social unrest calmed after negotiations between protestors and political parties began.

## YEMEN

The Saudi-led coalition and aligned Yemeni troops renewed efforts to seize territory from the Huthi-Saleh faction in an effort to reset political negotiations. The coalition launched a new military offensive against Huthi rebels and forces supporting former President Ali Abdullah Saleh to retake an area in the southwest bordering the Bab al-Mandeb strait. They also raised military pressure in the north including in Saada, Hajjah, Jawf and Marib governorates.

*Source: International Crisis Group, Newswires*



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# OUTLOOK

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## GCC

### Non-hydrocarbon growth to pick up to 2.4% in 2017

The Institute of International Finance projected real GDP growth in the economies of the Gulf Cooperation Council (GCC) to decelerate from 1.9% in 2016 to 1.6% in 2017, as sustained low global oil prices and the resulting fiscal adjustment continue to weigh on economic activity. It forecast hydrocarbon output to contract by 0.2% in 2017 compared to a growth rate of 2.5% last year, due to a drop in oil production following the OPEC agreement. It expected non-hydrocarbon growth to pick up from 1.6% in 2016 to 2.4% in 2017, reflecting the easing in fiscal consolidation, the gradual recovery in oil prices and the progress in reforms. But it anticipated challenges from tight financial conditions and exchange rate appreciation to pose challenges for non-oil activity. Further, it forecast the average inflation rate in GCC economies at 2.7% in 2017 relative to 2.9% in 2016. The IIF considered that risks to the outlook include a weaker-than-expected rise in oil prices, slower implementation of reforms, and a faster-than-anticipated increase in U.S. interest rates.

In parallel, the IIF indicated that governments in the GCC region have implemented fiscal reforms, mainly by reducing capital spending and cutting fuel subsidies, to adjust to the low oil price environment. It expected fiscal consolidation to decelerate in coming years, as authorities would focus on mobilizing non-oil revenues, such as raising public service fees, introducing a 5% value-added tax and privatizing public-sector assets. It noted that fiscal reforms would put the region's fiscal position on a more sustainable path over the medium term, provided that oil prices recover gradually to \$60 per barrel by 2020. It forecast the GCC's aggregate fiscal deficit to narrow from 10.3% of GDP in 2016 to 5% of GDP in 2017, while it projected their aggregate current account balance to shift from a deficit of 2.2% of GDP last year to a surplus of 1.8% of GDP this year. It forecast the GCC's net foreign assets to decline from \$2.15 trillion, or 155% of GDP, at end-2016 to \$2.1 trillion, or 141% of GDP, at end-2017.

*Source: Institute of International Finance*

## TURKEY

### Economic outlook to face downside risks

The International Monetary Fund projected Turkey's real GDP to slightly accelerate from 2.7% in 2016 to 2.9% in 2017, mainly supported by an increase in domestic consumption. It expected population growth, higher wages and increased public expenditures to support consumption growth this year, while it anticipated the fiscal incentives and loosening macro-prudential policies to increase investment. Also, it said that improved relations with Russia, along with the depreciation of the Turkish lira, would support net exports. But it noted that security concerns would prevent a full recovery in tourism activity. It anticipated Turkey's growth prospects to remain below potential during the 2016-18 period, as the domestic political turmoil, uncertainty about the future of relations between Turkey and the European Union, worsening security conditions and geopolitical tensions would weigh on domestic demand. It added that political uncertainty and volatile global financing conditions are weakening the Turkish lira and increasing the cost of external financing.

In parallel, the Fund considered that the authorities' main challenge is to avoid an excessive slowdown in economic activity, address the external imbalances and reduce the inflation rate that reached 8% in 2016. It added that a moderate fiscal loosening is appropriate, but that it should be accompanied by a credible medium-term consolidation plan. It estimated that an increase in spending of about 0.5% of GDP in 2017 would support domestic demand without worsening the external imbalances. Also, it called on authorities to tighten the monetary policy in order to control the sharp depreciation of the lira, contain high and rising inflation, and weather the high external pressures. It projected the current account deficit to widen from 4.5% of GDP in 2016 to 5.3% of GDP in 2017. Further, the Fund indicated that the Turkish economy continues to face significant downside risks, including elevated external financing needs, large foreign currency-denominated debt of non-financial corporates, a weak business climate, and geopolitical and security challenges.

*Source: International Monetary Fund*

## ANGOLA

### Economic activity to remain subdued in 2017

BNP Paribas indicated that the low oil price environment and the adjustment process have significantly affected Angola's economy due to its high dependence on the hydrocarbon sector. It noted that economic activity has slowed down from more than 10% annually during the 2003-13 period to flat growth in 2016, amid shortages of foreign currency and substantial cuts in public spending. It did not expect the increase in global oil prices to be strong enough to allow the government to significantly raise public spending and support economic activity. As such, it projected real GDP growth at 1.6% in 2017. Also, it forecast the inflation rate to average 30% in 2017 compared to an average of 32.4% in 2016 and 10.3% in 2015.

In parallel, BNP Paribas expected the fiscal deficit to slightly widen from 5.5% of GDP in 2016 to 5.7% of GDP in 2017. It indicated that Angola's fiscal metrics deteriorated significantly over the past three years, even though authorities reduced primary spending by more than 40% in real terms in 2015 and by an additional 20% in 2016. It estimated that the high inflation rate and the negative interest rate should help contain the increase in the public debt ratio, which it forecast to regress from 77.4% of GDP in 2016 to 66% of GDP in 2017. Also, it said that the government's foreign assets, which include \$4.5bn in the sovereign wealth fund and \$9.5bn in deposits at local banks, would cover about 80% of the debt servicing cost in 2017.

Further, BNP Paribas projected the current account deficit to narrow from 12% of GDP in 2016 to 8.5% of GDP in 2017. It anticipated foreign capital inflows to remain subdued due to weak growth prospects, regulatory shortcomings, shortages of foreign currency and a difficult business climate. It forecast foreign currency reserves to fall from \$20bn, or seven months of import cover, in 2016 to \$18bn, or six months of import cover in 2017. It noted that the Banco Nacional de Angola has allowed the kwanza to depreciate by 70% from AOA97.8 per dollar in September 2014 to about AOA166 per dollar currently. It expected the currency to continue trading at current levels throughout the year.

*Source: BNP Paribas*



# ECONOMY & TRADE

## GCC

### Corporate governance lags global standards

S&P Global Ratings' assessment of management and governance (M&G) of rated companies in the Gulf Cooperation Council (GCC) countries shows that corporate governance continues to be a critical weakness in the region. It noted that only two out of the 33 rated GGC-based corporates have strong M&G scores. Overall, it pointed out that 6% of rated GCC corporates have strong M&G scores, 36% of them have satisfactory results, 52% have fair M&G standards and 6% have weak M&G scores. In comparison, 9% of rated corporates in Europe, the Middle East and Africa have strong M&G scores and 42% have satisfactory M&G standards. S&P said that M&G scores are usually linked to rating levels, which means that higher rated companies normally have higher M&G standards. However, it indicated that GCC corporates, which have relatively high ratings by global standards, have M&G scores that are below the global average. It added that government-related entities (GREs) and privately-owned corporations in the GCC, including family-owned firms, have similar M&G standards. It attributed the weak governance at GCC corporates to the lack of independence of the board of directors, insufficient oversight and scrutiny of key enterprise risks, as well as weak transparency and disclosure practices. The agency considered that lagging governance standards can deter international investors. It said that effective governance practices take time to be implemented and require a cultural change in the way companies do business.

Source: S&P Global Ratings

## KUWAIT

### Agencies affirm sovereign ratings

S&P Global Ratings affirmed at 'AA' Kuwait's long-term foreign and local currency sovereign credit ratings, and at 'A-1+' its short-term ratings, with a 'stable' outlook. It indicated that the ratings are supported by Kuwait's elevated fiscal, external and household wealth despite a subdued oil price environment, but are constrained by the country's reliance on the oil sector as well as by regional geopolitical tensions. The agency projected economic growth to decelerate from 3.6% in 2016 to 1.5% in 2017 due to a 5% drop in domestic oil production under the OPEC deal, but it expected growth to average 2.5% annually during the 2017-20 period. Further, it estimated the fiscal deficit to widen from 17.5% of GDP in the fiscal year that ended in March 2016 to 19% of GDP in FY2016/17, due to higher capital expenditures. It forecast the deficit to narrow to 5% of GDP by FY2019/20 in case oil production and prices increase. It expected the government to finance its deficits by drawing down from the Kuwait Investment Authority's \$590bn in assets, and by issuing debt, which would increase the public debt level from 23% of GDP in FY2016/17 to 26% of GDP in FY2020/21. Further, S&P expected the current account surplus to gradually increase from 0.8% of GDP in 2016 to 7.1% of GDP in 2020, in line with the recovery in oil prices. In parallel, Capital Intelligence Ratings affirmed at 'AA-' Kuwait's long-term ratings. It indicated that Kuwait's public finances have weathered the low oil price environment and are in a better position than most GCC peers due to the country's large financial buffers and substantial room for borrowing.

Source: S&P Global Ratings, Capital Intelligence Ratings

## TUNISIA

### Sovereign ratings downgraded, outlook 'stable'

Fitch Ratings downgraded Tunisia's long-term foreign and local currency Issuer Default Ratings (IDRs) from 'BB-' to 'B+', with a 'stable' outlook. It also revised the Country Ceiling down from 'BB' to 'BB-'. It attributed the downgrades to the collapse of the tourism sector, which is a key driver of economic growth and a major source of foreign currency, to weaker growth prospects, as well as to the deterioration in public and external finances. Further, it estimated that the fiscal deficit widened from 5.2% of GDP in 2015 to 6.4% of GDP in 2016, and exceeded the budget target by about two percentage points. It considered that the prolonged negotiations process for the 2017 budget reduced confidence in the government's ability to meet future targets. As such, it forecast the fiscal deficit to remain wide at about 6% of GDP during the 2017-18 period, while it expected the government debt level to rise from 64% of GDP in 2016 to more than 70% of GDP in 2018. In addition, Fitch estimated that the government will need to borrow the equivalent of 7% of GDP from external sources, in addition to 2.8% of GDP in domestic financing, to cover its budget needs in 2017. It said that 63% of the debt burden is denominated in foreign currency and that the depreciation of the Tunisian dinar in 2016 resulted in a 13% increase in the foreign debt stock, or 4.3% of GDP. In parallel, the International Monetary Fund said that significant macroeconomic challenges persist. It noted that the public-sector wage bill relative to GDP is among the highest in the world, while the current account deficit continues to be wide. It urged authorities to avoid a deterioration in public finances, increase public investment, and accelerate reforms.

Source: Fitch Ratings, International Monetary Fund

## DEM REP CONGO

### Sovereign ratings affirmed, outlook 'negative'

S&P Global Ratings affirmed at 'B-/B' the Democratic Republic of Congo's long- and short-term sovereign credit ratings, and maintained the 'negative' outlook on the long-term ratings. It indicated that the ratings are constrained by weak institutions, poor governance, heightened political uncertainties, low income levels, very low level of foreign currency reserves, as well as limited fiscal receipts and financing sources. But it said that the ratings are supported by a low public debt level, which it forecast at 15.4% of GDP in 2017. Further, S&P reduced the DRC's real GDP growth forecast to 2.5% in 2017 from 5% previously as a result of high political and social risks associated with uncertainties over the delayed presidential elections. It projected the inflation rate at 7% in 2017 relative to 3.2% last year, due to the sharp depreciation of the Congolese franc. Further, it said that the DRC's external liquidity has weakened significantly following the drop in copper prices and the political deadlock. It expected foreign currency reserves to further decline from \$572bn, or 1.3 months of current account payments (CAPs) in 2016, to \$233bn, or 0.6 months of CAPs in 2017, due to lower current account receipts, weaker FDI inflows and the government's limited ability to raise external funds. In parallel, it added that authorities have so far used their deposits at the Banque Centrale du Congo and at banks to partially finance the fiscal deficit, and expected this trend to continue in 2017 given the lack of other financing options.

Source: S&P Global Ratings



# BANKING

## EMERGING MARKETS

### Negative rating actions outweigh positive ones in second half of 2016

Fitch Ratings indicated that it downgraded 34 banks worldwide in the second half of 2016, including 28 banks in emerging economies and six banks in developed countries. It indicated that banks in the Middle East & Africa accounted for 47% of total downgrades, followed by banks in Emerging Americas and Europe (15% each), Developed Europe (12%), and Developed Asia Pacific and Emerging Asia (6% each). In contrast, it upgraded 28 banks globally in the second half of 2016, including 25 banks in emerging economies and three banks in developed countries. The agency said that banks in Emerging Europe accounted for 57% of upgrades globally, followed by banks in Emerging Asia (14%), Emerging Americas (11%), the Middle East & Africa (7%), as well as banks in Developed Europe, Americas and Asia Pacific (4% each). It attributed its rating actions on banks in emerging markets mainly to a reassessment of the credit strength of the respective sovereigns. It added that banks in the Middle East & Africa region have been severely affected by downgrades due to the low oil price and weak operating environment. Further, Fitch said that 30% of the banks' ratings in emerging markets have a 'negative' outlook and only 2% have a 'positive' outlook, relative to 12% of banks in developed markets that have a 'negative' outlook on their ratings and 8% with a 'positive' outlook.

Source: Fitch Ratings

## SAUDI ARABIA

### Banks' rising provisioning charges erode profits

Moody's Investors Service indicated that the net profits of banks in Saudi Arabia reached SAR40.36bn, or \$10.76bn, in 2016, constituting a decline of 5.4% from 2015, mainly due to rising provisioning charges. It attributed the rise in provisions to asset quality challenges amid the low oil price environment. Also, it said that net interest income rose by 8.7% in 2016 as banks strengthened their gross margins to absorb the increase in the cost of funding in the second half of 2016. But it noted that the growth in net interest receipts was offset by a decrease of 6.1% in non-interest income in 2016 as a result of reduced trade flows and lower equity trading volumes. Further, the agency estimated that lending growth decelerated from 8.2% in 2015 to 1.8% in 2016, mainly due to a 3% contraction in the banks' lending activity in the second half of 2016. It noted that lending at the start of 2016 was temporarily supported by an increase in short-term loans to contractors that were affected by payment delays from the Saudi government. It said that the government paid about \$28bn to contractors in the fourth quarter of 2016, which led to large repayments to banks. It added that the repayment to contractors, along with the \$17.5bn Eurobond issuance and accommodative monetary policy measures, increased the banking sector's deposits by 0.9% in 2016. It pointed out that the contraction in lending activity in the second half of 2016 and the easing of liquidity conditions in the fourth quarter have improved the loans-to-deposits ratio to 83% at end-2016 from 87% at end-June 2016. It anticipated the cost of risk to continue to rise.

Source: Moody's Investors Service, Saudi Arabian Monetary Agency

## MOROCCO

### Risk-weighted capital adequacy ratio at 13.7%, NPLs on the rise

The International Monetary Fund indicated that Moroccan banks are adequately capitalized, but it considered rising non-performing loans (NPLs), elevated credit concentration risks and the expansion of Moroccan banks in Sub-Saharan Africa to be sources of concerns. It indicated that the Moroccan banking sector's risk-weighted capital adequacy ratio reached 13.7% at end-June 2016, unchanged from end-2015, while the sector's Tier-One capital ratio stood at 11.1% at end-June 2016 relative to 11.4% at end-2015. In addition, the sector's liquid assets represented 13.1% of total assets at the end of September 2016 relative to 16.2% at the end of 2015 and 13.3% at the end of 2014; while they were equivalent to 16.8% of total short-term liabilities at end-September 2016 compared to 17.7% at end-2014. Further, the banks' lending to the private sector accounted for 91% of total loans, while foreign currency loans represented 2.6% of total loans at end-September 2016. The sector's deposit-to-loan ratio was 105% at end-September 2016 relative to 104.3% at the end of 2015 and 100.8% at end-2014. Also, the sector's NPL ratio was 8% at the end of September 2016, up from 7.4% at end-2015 and 6.9% at the end of 2014, driven by weak economic activity. The specific provisions-to-NPLs ratio was 68% at end-September 2016, unchanged from end-2015. In parallel, the banks' return on assets was 1.1% on an annualized basis in June 2016 relative to 0.8% in 2015; while their annualized return on equity was 11.7% in June 2016 compared to 9.1% in 2015.

Source: International Monetary Fund, Bank Al-Maghrib

## TURKEY

### Ratings of 18 banks downgraded following sovereign downgrade

Fitch Ratings downgraded from 'BBB' to 'BBB-' the long-term foreign currency issuer default ratings (IDRs) of Turkiye Garanti Bankasi, Turk Ekonomi Bankasi (TEB), ING Bank (INGBT), ICBC Turkey Bank, Kuveyt Turk Katilim Bankasi, Burgan Bank, Turkiye Finans Katilim Bankasi, Finansbank, Alternatifbank (ABank) and Yapi ve Kredi Bankasi (YKB). It also lowered from 'BBB-' to 'BB+' the long-term IDRs of Akbank, Ziraat Bankasi, Turkiye Vakiflar Bankasi (Vakif), Turkiye Kalkinma Bankasi (TKB), Turkiye Halk Bankasi, Turkiye Ihracat Kredi Bankasi (Turk Eximbank), Turkiye Is Bankasi (Isbank) and Turkiye Sinai Kalkinma Bankasi (TSKB), with a 'stable' outlook on the 18 banks' ratings. The agency noted that the downgrades follow its similar action on the sovereign ratings. It said that the downgrades reflect the country's weakening operating environment, the government's reduced capacity to provide support to the banks in case of need, as well as a lower Country Ceiling that implies an increase in transfer and convertibility risks. Also, it downgraded from 'bbb-' to 'bb+' the Viability Ratings (VRs) of Ziraat, Halk, Vakif, Garanti, YKB, TEB, Finansbank, Akbank and Isbank, reflecting the impact of the weaker domestic operating environment on their asset quality, performance, capital and liquidity buffers. In parallel, it noted that the 'stable' outlook reflects limited risks of further downgrades in the near term.

Source: Fitch Ratings



# ENERGY / COMMODITIES

## Crude oil market to rebalance by 2018

ICE Brent crude oil front-month prices closed at \$55.1 per barrel (p/b) on February 7, 2017, constituting a decrease of 3.1% from \$56.8 p/b at the end of 2016. The decrease in oil prices was mainly due to a stronger US dollar, a large increase in U.S. crude inventories and signs of slowing demand for oil from China, which have offset the impact of the oil production cuts by the Organization of the Petroleum Exporting Countries (OPEC) and non-OPEC countries. The American Petroleum Institute reported an unexpected increase of 14.2 million barrels in U.S. crude oil stocks last week, compared to analysts' expectations of an increase of 2.5 million barrels. Also, oil prices came under pressure after the U.S. Energy Information Administration reduced its global oil demand growth forecast to 1.62 million barrels per day (b/d) in 2017, and increased its projection for U.S. crude oil production to 9.5 million b/d this year. Still, the EIA expected the oil market to rebalance in 2017, as the current oversupply in the market would gradually recede. Overall, Brent oil prices are forecast to average \$54.5 p/b in 2017, while WTI oil prices are expected to average of \$53.5 p/b this year. In parallel, the Bloomberg WTI Crude Oil Total Return Sub-Index grew by 3.5% in January 2017, while the Brent Crude Oil Sub-Index improved by 3.5% from end-2016.

Source: Thomson Reuters, U.S. EIA, Bloomberg Indexes

## Middle East's jewelry demand down 16% in 2016

The Middle East region's demand for jewelry totaled 193.1 tons in 2016, constituting a decrease of 15.6% from 228.8 tons in 2015, and accounted for 9.5% of global jewelry demand. The drop in jewelry in the region was due to lower oil prices, along with a range of market-specific issues. Consumption of gold jewelry in Saudi Arabia reached 56.4 tons in 2016 and accounted for 29.2% of the region's total demand. It was followed by the UAE with 43 tons (22.3% of the total), Iran with 41 tons (21.2% of the total) and Egypt with 25.5 tons (13.2% of the total).

Source: World Gold Council, Byblos Research

## Lebanon re-opens first offshore oil and gas licensing round

Lebanon's Ministry of Energy & Water re-launched the country's first offshore licensing round for oil and gas exploration in late January 2017. It noted that five out of 10 blocks are open for bidding during the first licensing round. The ministry pointed out that oil and gas firms can submit their files starting February 2 until March 31, 2017 for pre-qualification. It added that the bid round will close on September 15, 2017 and expected to sign the agreements with the successful bidders by November 15, 2017.

Source: Ministry of Energy & Water

## South Sudan to double oil output in FY2017/18

South Sudan aims to increase its oil production by 2.2 times to 290,000 barrels per day (b/d) in fiscal year 2017/18 that starts in July, a level higher than the 245,000 b/d recorded just before the conflict erupted in December 2013. The country's current oil production is estimated at 130,000 b/d, down significantly from a peak output of 350,000 b/d in 2011. South Sudan, a landlocked country, currently pays oil transit fees to Sudan in order to export its oil. South Sudan became independent from Sudan in July 2011 after decades of civil war.

Source: Bloomberg, Thomson Reuters

## Base Metals: Copper prices to rise in coming years due to mine production cuts

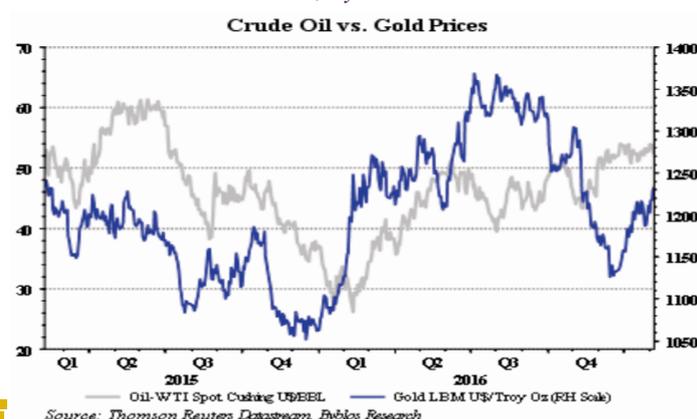
LME copper three-month future prices closed at \$5,795 per metric ton on February 7, 2017, up by 4.7% from end-2016. The rise in the metal's price reflects a strike by Chilean miners that is due to begin on February 8, 2017 at the world's largest copper mine. Further, the metal's prices are forecast to increase from an average of \$4,870 a ton in 2016 to \$5,500 a ton in 2017, with higher levels of copper prices during the first half of the year, and to increase further to 5,800 a ton in 2018. The anticipated rise in prices is supported by an expected increase in infrastructure spending in China and in the U.S in the coming years. Also, global copper mine production is expected to increase only marginally in 2017 due to expectations of production cuts in Chile, China and Indonesia, and the lack of new major mine projects in 2017. However, downside pressure on the metal's price could come in part from the continuing economic slowdown in emerging markets, especially in China, the world's largest consumer of copper.

Source: Thomson Reuters GFMS, Byblos Research

## Precious Metals: Gold prices up 8% in 2016

Gold Bullion spot prices averaged \$1,250.8 a troy ounce in 2016, constituting a rise of 7.8% from an average of \$1,160.1 an ounce in 2015, partly due to a four-year high level in investment demand. Prices averaged \$1,182.6 a troy ounce in the first quarter, \$1,259.6 an ounce in the second quarter, \$1,334.8 a troy ounce in the third quarter and \$1,221.6 an ounce in the fourth quarter of 2016. Global gold supply grew by 4.8% year-on-year to 4,570.8 tons in 2016, with mine production accounting for 70.8% of the total. Total mine supply was nearly unchanged year-on-year at 3,236 tons and recycled gold rose by 17.2% to 1,308.5 tons in 2016. In parallel, global gold demand increased by 2.2% year-on-year to a three-year high of 4,308.7 tons in 2016, driven in part by political and economic uncertainties in the U.S. and Europe, and a 70% annual increase in investment demand. Demand for gold jewelry reached a seven-year low of 2,041.6 tons in 2016, constituting a decline of 14.5% from 2,338.6 tons in 2015. The decrease in jewelry consumption reflects rising gold prices during 2016 as well as China's softening economy and India's changing policy framework. Gold jewelry accounted for 47.4% of total demand, followed by investment demand with 36.2% of the total, purchases by Central Banks (8.9%) and demand from the technology sector (7.5%). Also, central banks were net purchasers of gold for the seventh consecutive year in 2016, but demand from central banks was the lowest since 2010.

Source: World Gold Council, Byblos Research



# COUNTRY RISK METRICS

Countries	LT Foreign currency rating					Central gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	External debt/ Exports (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
	S&P	Moody's	Fitch	CI	IHS								
<b>Africa</b>													
Algeria	-	-	-	-	BB+	-11.2	24.6	4.2	18.9	2.2	-	-11.1	1.0
Angola	B	B1	B	-	B+	-7.1	70.1	96.8*	85.0**	7.3	14.4	-11.6	2.6
Egypt	B-	B3	B	B-	B-	-10.1	93.5	21.1	206.8	11.5	302.8	-5.2	2.4
Ethiopia	B	B1	B	-	B+	-3.0	55.4	29.0*	159.6	4.3	634.6	-10.7	4.1
Ghana	B-	B3	B	-	B+	-3.9	74.1	44.7	110.4**	10.3	371.8	-7.2	7.7
Ivory Coast	-	Ba3	B+	-	B+	-3.1	33.0	34.1	62.9	2.7	169.6	-1.8	3.3
Libya	-	-	B	-	B-	-35.4	83.0	16.5	51.6	-	-	-48.7	-9.6
Dem Rep Congo	B-	B3	-	-	CCC	1.1	19.8	16.6*	41.6	2.1	6.5	-14.2	4.5
Morocco	BBB-	Ba1	BBB-	-	BBB	-3.5	56.5	39.2	124.8	19.9	185.6	-0.5	2.6
Nigeria	B	B1	B+	-	B+	-4.7	13.3	5.5	62.5	0.7	63.2	-3.1	1.2
Sudan	-	-	-	-	CC	-1.7	58.3	53.2	-	-	-	-6.3	1.3
Tunisia	-	Ba3	B+	-	BB+	-5.1	57.8	80.7	165.6	15.7	423.9	-8.7	4.2
Burkina Faso	B-	-	-	-	B+	-3.0	32.6	23.2*	-	-	-	-5.3	2.3
Rwanda	B	B2	B	-	B+	-3.1	41.5	34.4*	-	-	-	-14.2	4.1
<b>Middle East</b>													
Bahrain	BB-	Ba2	BB+	BB+	BBB-	-14.7	73.2	127.6	239.3	24.6	-	-2.1	-0.2
Iran	-	-	-	BB-	BB-	-2.6	17.5	2.2	8.8	-	-	-2.6	-
Iraq	B-	(P)Caa1	B-	-	CC+	-11.3	71.4	59.1	158.8	-	-	-2.8	-
Jordan	BB-	B1	-	BB-	BB+	-3.4	90.4	64.5	141.2**	10.5	177.3	-6.4	5.5
Kuwait	AA	Aa2	AA	AA-	AA-	-2.4	12.8	36.1	61.9	10.5	107.6	-2.1	-8.4
Lebanon	B-	B2	B-	B	B-	-7.8	142.6	175.4	207.2**	23.4	151.1	-21.3	5.9
Oman	BBB	Baa1	BBB	A-	BBB	-15.2	25.6	27.5	48.4	5.6	-	-22.4	-1.0
Qatar	AA	Aa2	AA	AA-	AA-	-2.9	41.6	110.9	213.8	24.9	-	-2.0	-1.8
Saudi Arabia	A-	A1	AA-	A+	AA-	-11.7	17.6	19.7	60.7	4.2	-	-11.0	0.8
Syria	-	-	-	-	C	-	-	36.5	-	-	-	-	0.6
UAE	-	Aa2	-	AA-	AA-	-6.4	64.9	51.2	54.2	4.0	313.8	-0.3	1.1
Yemen	-	-	-	-	CCC	-10.0	67.3	17.3	-	-	197.2	-7.0	-0.2

# COUNTRY RISK METRICS

Countries	LT Foreign currency rating					Central govt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	External debt/ Exports (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
	S&P	Moody's	Fitch	CI	IHS								
<b>Asia</b>													
Armenia	-	B1	B+	-	B-	-4.1	48.5	78.6	168.2	23.6	612.8	-4.3	3.8
	-	Stable	Stable	-	Stable								
China	AA-	Aa3	A+	-	A	-2.6	41.0	5.1	21.5	3.9	53.5	2.6	1.7
	Stable	Stable	Stable	-	Stable								
India	BBB-	Baa3	BBB-	-	BBB	-6.2	47.5	22.4	111.9	7.3	156.2	-0.6	1.0
	Stable	Positive	Stable	-	Stable								
Kazakhstan	BBB-	Baa2	BBB+	-	BBB-	-4.0	22.1	151.2	325.8	33.6	824.6	-4.0	3.5
	Negative	CWN***	Stable	-	Negative								
<b>Central &amp; Eastern Europe</b>													
Bulgaria	BBB	Baa2	BBB-	-	BBB	-1.5	33.5	88.9	117.6	28.0	236.3	3.4	2.5
	Negative	Stable	Stable	-	Stable								
Romania	BBB-	Baa3	BBB-	-	BBB-	-3.9	42.9	53.0	121.9	14.4	224.0	1.1	1.7
	Stable	Negative	Stable	-	Positive								
Russia	BB+	Baa3	BBB-	-	BB+	-3.1	13.6	37.9	114.5	19.6	150.3	4.9	-1.7
	Negative	CWN***	Negative	-	Negative								
Turkey	BB	Ba1	BB+	BB+	BB-	-2.4	33.5	57.3	215.0	19.8	405.8	-4.1	0.7
	Negative	Stable	Stable	Stable	Negative								
Ukraine	CCC	Caa3	CCC	-	B-	-4.2	69.9	127.1	235.3	22.4	663.6	0.4	1.1
	Negative	Negative	-	-	Stable								

\*to official creditors

\*\* external debt/current account receipts

\*\*\*Credit Watch Negative

Source: Institute of International Finance; International Monetary Fund; IHS Global Insight; Moody's Investors Service; Byblos Research - The above figures are estimates for 2016



## SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	0.50-0.75	01-Feb-17	No change	15-Mar-17
Eurozone	Refi Rate	0.00	01-Feb-17	No change	09-Mar-17
UK	Bank Rate	0.25	02-Feb-17	No change	16-Mar-17
Japan	O/N Call Rate	-0.10	31-Jan-17	No change	16-Mar-17
Australia	Cash Rate	1.5	07-Feb-17	No change	N/A
New Zealand	Cash Rate	1.75	09-Nov-16	Cut 25bps	09-Feb-17
Switzerland	3 month Libor target	-1.25-(-0.25)	15-Dec-16	No change	17-Mar-17
Canada	Overnight rate	0.50	20-Jan-17	No change	01-Mar-17
<b>Emerging Markets</b>					
China	One-year lending rate	4.35	17-Dec-15	Cut 25bps	N/A
Hong Kong	Base Rate	1.00	01-Feb-17	No change	N/A
Taiwan	Discount Rate	1.375	22-Dec-16	No change	24-Mar-17
South Korea	Base Rate	1.25	14-Jan-17	No change	23-Feb-17
Malaysia	O/N Policy Rate	3.00	19-Jan-17	No change	02-Mar-17
Thailand	1D Repo	1.50	08-Feb-17	No change	29-Mar-17
India	Reverse repo rate	6.25	08-Feb-17	No change	06-Apr-17
UAE	Overnight repo rate	1.25	17-Dec-15	Raised 25bps	N/A
Saudi Arabia	Reverse repo rate	0.75	15-Dec-16	Raised 25bps	N/A
Egypt	Overnight Deposit	14.75	27-Jan-17	No change	16-Feb-17
Turkey	Base Rate	8.00	24-Jan-17	No change	16-Mar-17
South Africa	Repo rate	7.00	24-Jan-17	No change	30-Mar-17
Kenya	Central Bank Rate	10.00	30-Jan-17	No change	21-Mar-17
Nigeria	Monetary Policy Rate	14.00	24-Jan-17	No change	21-Mar-17
Ghana	Prime Rate	25.50	20-Jan-17	No change	27-Mar-17
Angola	Base rate	16.00	31-Jan-17	No change	27-Feb-17
Mexico	Target Rate	5.75	15-Dec-16	Raised 50bps	09-Feb-17
Brazil	Selic Rate	13.00	20-Jan-17	Cut 75bps	22-Feb-17
Armenia	Refi Rate	6.25	27-Dec-16	Cut 25bps	14-Feb-17
Romania	Policy Rate	1.75	07-Feb-17	No change	31-Mar-17
Bulgaria	Base Interest	0.00	01-Feb-17	No change	01-Mar-17
Kazakhstan	Repo Rate	12.00	09-Jan-16	No change	20-Feb-17
Ukraine	Discount Rate	14.00	26-Jan-17	No change	02-Mar-17
Russia	Refi Rate	10.00	03-Feb-17	No change	24-Mar-17



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