

## COUNTRY RISK WEEKLY BULLETIN

### NEWS HEADLINES

#### WORLD

##### Global private equity firms raise \$589bn in 2016

Bain & Company indicated that the total amount of capital raised by private equity (PE) firms worldwide reached \$589bn in 2016, down by 1.5% from \$598bn in 2015 and relative to a peak of \$688bn raised in 2008. It said that PE funds raised their target amounts and conducted their final close at a faster than ever pace in 2016. In parallel, it said that the aggregate value of buyout-backed exits totaled \$328bn in 2016, down by 22.5% from \$423bn in 2015 and by 28.4% from an all-time peak of \$458bn in 2014. It pointed out that the decrease was due to fewer assets in the pipeline ready for exit rather than a worsening exit environment, with median holding periods at around five years. It indicated that dry powder held by PE funds, or the committed but undeployed amount of capital available to invest in portfolio companies, reached a record high of \$1.47 trillion in 2016 relative to \$1.38 trillion in 2015. It added that the value of global buyout deals totaled \$257bn, as buyout dry powder increased to a record high of \$534bn, or 36.4% of dry powder held by PE funds, and the debt market remained accommodating. Bain noted that factors that made deal making challenging in 2016 include high asset valuations, rigid competition from corporate buyers, subdued macro-economic activity and political uncertainties across regions. It added that buyout returns continued to outperform public market benchmarks across regions.

Source: Bain & Company

#### MENA

##### Level of global connectedness varies across Arab world

The DHL's 2016 Global Connectedness Index indicated that the UAE was the most connected country among 11 Arab countries and ranked in 10th place among 140 countries globally. Qatar followed in 35th place globally, then Saudi Arabia (39th), Bahrain (40th) and Oman (46th). In contrast, Tunisia (80th), Morocco (82nd) and Egypt (114th) were the least connected economies in the Arab region. The Index reflects a country's level of globalization in terms of the size and the geographical distribution of the flow of trade, capital, information and people. The Index is a composite of two sub-indicators that are the Depth Sub-Indicator and the Breadth Sub-Indicator, each measured on a scale of zero to 50 points. As such, a country's overall score on the GCI ranges from zero to 100 points, with a higher score reflecting a better performance in terms of global connectedness. The Arab region's average score stood at 53.1 points, up from its average score of 52.7 points on the 2015 Index and above the global average of 48 points. Also, GCC and non-GCC Arab countries had average scores of 60 points and 44.9 points, respectively. The overall scores of six Arab countries regressed, while those of five economies improved from the previous survey. Further, the UAE (8th), Oman (15th) and Bahrain (22nd) were the top ranked Arab countries on the Depth Sub-Indicator; while Saudi Arabia (27th), the UAE (38th), and Oman (40th) were the top ranked countries on the Breadth Sub-Indicator.

Source: DHL, Byblos Research

#### EMERGING MARKETS

##### Trading in Credit Default Swaps up 3% to 1,322bn in 2016

Trading in emerging markets Credit Default Swaps (CDS) reached \$306bn in the fourth quarter of 2016, constituting a 19% decrease from \$376bn in the third quarter of 2016 and an increase of 21% from \$254bn in the fourth quarter of 2015. Overall, CDS trading totaled \$1,322bn in 2016, up by 3.4% from \$1,288bn in 2015. Trading reached \$363bn in the first quarter, \$286bn in the second quarter, and \$376bn in the third quarter of 2016. The most frequently-traded sovereign CDS contracts in the fourth quarter of 2016 were those of Mexico at \$36bn, followed by Brazil at \$35bn and Turkey at \$31bn. As such, traded sovereign CDS contracts on Mexico accounted for 11.8% of total trading in emerging markets CDS in the covered quarter, followed by CDS contracts on Brazil (11.4%) and Turkey (10.1%). The most frequently-traded corporate CDS contracts in the fourth quarter of 2016 were those of Venezuela's PDVSA at \$2bn, which accounted for 0.7% of total trading in emerging markets CDS. The survey covered data on CDS contracts for 21 emerging economies and nine emerging market corporate issuers, as well as from 13 major international banks and broker-dealers.

Source: EMTA

#### AFRICA

##### Sub-Saharan Africa's sovereign borrowing from commercial sources at \$43bn in 2017

S&P Global Ratings projected the aggregate long-term sovereign borrowing from commercial sources by the 17 countries that it rates in Sub-Saharan Africa (SSA) at \$42.8bn in 2017, which would constitute a decrease of 18.9% from \$52.8bn in 2016. It attributed the expected drop in borrowing to the substantial depreciation of currencies across SSA countries, to subdued domestic economic activity and to fiscal consolidation in large sovereign borrowers such as Angola and South Africa. Angola is forecast to account for 35.2% of commercial long-term borrowing in 2017, followed by South Africa (29.1%), Nigeria (17.3%) and Kenya (7.8%). S&P said that \$20bn, or about 46.5% of total sovereign borrowing, would be used to refinance maturing long-term debt, which would result in net commercial borrowing requirements of \$23bn in 2017. In parallel, the agency expected the total sovereign commercial debt stock of the 17 countries to increase from \$304bn at end-2016 to \$323bn at the end of 2017, and to consist of \$52bn in short-term debt and of \$271bn in medium- and long-term debt. South Africa would account for 49% of the commercial debt stock at end-2017, followed by Angola (15.6%), Nigeria (12.8%) and Kenya (6.7%). Further, gross long-term sovereign commercial borrowing would be equivalent to 3.7% of the aggregate GDP of the 17 economies this year, while the total commercial debt stock would be equivalent to 28.2% of their GDP. S&P expected the region's Eurobond issuance in 2017 to require higher premiums given the challenging macroeconomic conditions for many SSA sovereigns, the subdued outlook for commodity prices, and rising interest rates in advanced economies.

Source: S&P Global Ratings

# POLITICAL RISK OVERVIEW - February 2017

## EGYPT

President Abdel Fattah el-Sisi swore in nine new ministers on February 16 in a Cabinet reshuffle, including the agriculture, education and transport ministers. Also, President el-Sisi appointed five new governors to each of the Alexandria, Beheira, Daqahlia, Qalyubiya and the New Valley governorates. Egyptian armed forces killed 14 suspected Sinai Province militants and arrested 10 others in a raid in central Sinai. Islamic State (IS) militants have reportedly claimed responsibility for firing multiple rockets at Israel's port town of Eilat from the Sinai Peninsula. Israel withdrew its ambassador to Egypt amid fears for his safety. The Egyptian Parliament stripped the chairman of the Parliament's human rights committee of his membership on accusations of leaking confidential documents to international institutions and forging the signatures of his colleagues, among other reasons.

## IRAN

The U.S. Administration imposed new sanctions on 25 persons and entities involved in Iran's ballistic missile test. In a defiant response to the new sanctions imposed by the U.S., Iran held a military exercise on February 4 to test home-made missile systems, radars, command and control systems, and cyber-warfare systems. Also, Iranian naval forces launched on February 26 the final stage of a large-scale military drill in the Indian Ocean to enhance the country's defense capabilities.

## IRAQ

U.S.-backed Iraqi forces launched a large-scale military operation on February 19 to recapture the besieged western side of Mosul from Islamic State (IS) militants. Iraqi forces seized 17 IS-held villages near the Mosul airport, hours after launching the offensive. They also took control of the Mosul airport and the nearby Ghazlani military base on February 23, and advanced into the city's south-eastern districts. IS militants claimed responsibility for twin suicide bombings that killed 14 individuals in eastern Mosul. Iraqi forces seized on February 27 al-Jawsaq district in western Mosul and the city's southernmost bridge across the Tigris river. IS suicide bombers continued their attacks in and around Baghdad. Violence and acts of terrorism in Iraq led to 392 civilian deaths and 613 injuries in February 2017.

## DEM REP CONGO

Security threats re-emerged in the DRC amid heightened uncertainty about the country's political future. The death of the country's main opposition leader Etienne Tshisekedi suspended the talks between the ruling party and the opposition over the implementation of the December 31 agreement. Ethnic violence persisted in eastern DRC, as the Army reportedly killed 16 M23 rebels in North Kivu. The Front for Patriotic Resistance in Ituri (FRPI) militiamen attacked an Army position in Kaswara village in Ituri province, killing two soldiers. The United Nations indicated that security forces targeting the Kamwina Nsapu militia group killed at least 101 people between February 9 and 13 in central Congo. In retaliation, Kamwina Nsapu militiamen burnt down several government buildings and authorities' private properties in the central part of the country.

## LIBYA

The country remains unstable as car bombings in and around the city of Benghazi continued. The Egyptian government's attempts to mediate a peace deal between Tripoli-based Prime Minister Fayeze al-Serraj and General Khalifa Haftar failed after the latter refused to meet al-Serraj. Instead, PM al-Serraj and General Haftar met separately with Egypt's chief of staff General Mahmoud Hegazy in Cairo. Al-Serraj signed a memorandum of understanding (MoU) with Italy aimed at stemming the flow of migrants heading to Europe from Libyan shores. Anti-Serraj factions in Tripoli claimed that PM al-Serraj did not have the authority to sign the MoU and have appealed against it in court.

## SOUTH SUDAN

Clashes between government and rebel forces in the Upper Nile State forced the International Organization for Migration to suspend its humanitarian aid operations. Fighting between government forces and the Sudan People's Liberation Army-In Opposition (SPLA-IO) rebels erupted in various areas on the west bank of the River Nile in the Upper Nile State. The SPLA-IO accused government forces of looting and burning villages around Yuai in the Jonglei State. President Salva Kiir formed a high-level committee to make the needed preparations for the relocation of the country's capital city from Juba to Ramciel.

## SUDAN

Seven cattle herders from the Hawazma tribe were killed and one was injured near Al-Hujairat area in South Kordofan, which led to clashes between government forces and the Sudan People's Liberation Movement-North (SPLM-N) in mid-February. The SPLM-N claimed that it was not responsible for the incident, and that its army does not have a presence in the Al-Hujairat area. The Sudanese army and its allied militia started on February 21 a new military offensive on the SPLM-N in South Kordofan, breaching the declared joint ceasefire of January. The SPLM-N accused the Sudanese government forces of attacking its position in South Kordofan and called on the regional and international communities to condemn the attack, claiming that the area is heavily inhabited by civilians. The UN contributed \$21m to the 2017 Sudan Humanitarian Fund to help address growing humanitarian needs in Sudan.

## SYRIA

The ceasefire agreement between President Bashar al-Assad's regime and some armed opposition groups since the end of 2016 has remained in effect. However, violence continued in several areas in the run-up to the fourth round of the Geneva talks that started on February 23rd. The UN-led negotiations about the war in Syria got off to a delayed start following disputes over the participation of the Syrian opposition. Hei'at Tahrir al-Sham (HTS), a new alliance dominated by salafi-jihadist Fath al-Sham, took territory from rival rebels in west Aleppo. Regime forces resumed in early February airstrikes in parts of the Homs and Idlib provinces and made efforts to gain ground in the eastern Ghouta suburb of Damascus. The non-jihadist rebel group Ahrar al-Sham and its allies launched raids in rural areas around Lattakia and Hama. Also, diverse rebel groups, including Ahrar al-Sham, HTS and local factions launched an offensive in Daraa city near the border with Jordan. An Islamic State (IS)-linked group seized several towns near the borders with Israel and Jordan. The Kurdish People's Protection Units and fellow members of the Syrian Democratic Forces captured territory around the IS-held city of Raqqa in the northeast to cut IS supply lines.

## TUNISIA

Prime Minister Youssef Chahed conducted a partial Cabinet reshuffle that involved two ministers and a Secretariat of State. He replaced Civil Service Minister and former leader of Tunisia's General Labour Union (UGTT) Abid el-Briki with Khalil Ghariani, a member of the Tunisian Union of Industry, Trade and Handicrafts association. The UGTT denounced the replacement as provocative, and accused the government of seeking to impose IMF-backed austerity measures and called for strikes.

## YEMEN

Yemeni government forces regained control over the Red Sea coast city of al-Mokha in the Taiz province from the Iran-backed Huthi rebels, a development that paves the way for Yemeni troops to reclaim the country's port city of Hodeidah. Huthi rebels and forces allied to former President Ali Abdullah Saleh killed the Yemeni Army's second in command, Major General Ahmed Saif al-Yafei, near Mokha.

Source: International Crisis Group, Newswires



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# OUTLOOK

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## IRAQ

### Non-oil activity to grow by 2.5% in 2017

The Institute of International Finance projected Iraq's real GDP growth to decelerate from 6.1% in 2016 to 1% in 2017 due to a slowdown in hydrocarbon production following two years of strong growth. It expected hydrocarbon output to contract by 0.3% in 2017 following a growth rate of 12.8% in 2016 due to lower oil production in the context of the November 2016 OPEC agreement, and in the absence of adequate investment in the hydrocarbon sector. As such, it forecast hydrocarbon production to remain at about 4.5 million barrels b/d in the short term. Further, it anticipated non-hydrocarbon sector activity to grow by 2.5% in 2017, following three consecutive years of contraction, mainly due to improved economic prospects in case of the liberation of Mosul. It projected the inflation rate to average 3.8% in 2017 relative to an average rate of 0.9% in 2016.

In parallel, the IIF noted that Iraq's economic reform program, supported by the IMF's \$5.3bn three-year Stand-By Arrangement, aims mainly to address the country's financing needs during the 2016-18 period, to ensure fiscal and debt sustainability and to enhance financial sector stability. It said that Iraq's 2017 budget paves the way for restoring fiscal balance over the medium term, supported by the gradual rise in global oil prices. As such, it forecast the fiscal deficit to narrow from 10.6% of GDP in 2016 to 5.3% of GDP in 2017, and for the breakeven fiscal oil price to drop from a peak of \$114 p/b in 2013 to \$59 p/b in 2017. It projected the public debt level to regress from 80% of GDP at end-2016 to 78.6% of GDP at the end of 2017. In parallel, it expected the current account deficit to narrow from 8.6% of GDP in 2016 to 4.9% of GDP this year, and anticipated that foreign currency reserves would decline from \$43bn at end-2016 to \$39bn at end-2017.

*Source: Institute of International Finance*

## ANGOLA

### Currency adjustment unlikely in the short term

Citi considered that the Banco Nacional de Angola (BNA) is unlikely to make further exchange rate adjustments due to the country's high inflation rate and elevated external debt level. It indicated that these challenges would be hard to overcome in the short term and would limit the country's ability to take full advantage of higher oil prices in coming years. It noted that the inflation rate has increased sharply to 42% at the end of 2016, reflecting the significant currency depreciation since June 2014, the limited availability of foreign currency, as well as the pricing of many goods based on the parallel market exchange rate. It added that the elevated inflation rate is challenging given the upcoming general elections scheduled for August 2017.

Further, Citi considered that the devaluation of the Angolan kwanza has had a major impact on the country's debt ratios, given that over 90% of the external debt stock is denominated in foreign currency. It noted that the public-sector debt level has more than doubled from 32.9% of GDP in 2013 to 71.6% of GDP in 2016. Citi pointed out that Angola can meet its debt service obligations in the context of the current oil prices and the country's oil production levels. But it noted that the country's debt servicing ca-

capacity could quickly deteriorate in case of a price or production shock. It said that Angola is not likely to resort to an economic program supported by the International Monetary Fund, as authorities would have to allow the currency to further depreciate in order to be eligible for the program. It noted that the modest recovery in oil prices would allow authorities to delay an exchange rate adjustment and maintain current policies.

In parallel, Citi pointed out that Angola is facing a banking sector crisis. It noted that five out of the country's largest banks in terms of assets are undercapitalized. It estimated non-performing loans at around \$6bn, or 6% of GDP, at the end of 2016. It said that three of Angola's largest banks face specific problems and require restructuring and further capital injections. It added that problems at the Banco de Popenca e Credito could have wider economic implications, given that the bank currently pays a large portion of civil servant salaries.

*Source: Citi*

## TURKEY

### Subdued economic activity amid high external vulnerabilities

Merrill Lynch projected Turkey's real GDP growth to decelerate slightly from 2.2% in 2016 to 2% in 2017, despite an accommodative fiscal policy, mainly due to the country's persistent large external vulnerabilities. It noted that declining external debt rollover rates, weaker portfolio inflows and large external financing needs continue to increase the pressure on the Turkish lira. It expected the inflation rate to average 9.9% in 2017 compared to an average rate of 7.8% last year, due to the high pass-through of the exchange rate depreciation to prices, the 8% hike in the minimum wage, the adjustment in administered domestic prices, and higher global energy prices. It anticipated the Central Bank of Turkey to continue to tighten its monetary policy in 2017 and to use several tools to target the inflation rate and ease the pressure on the lira.

In parallel, Merrill Lynch pointed out that Turkey has sufficient fiscal space to cushion any negative shocks, given its low public debt level and narrow budget deficit. It added that authorities are using this space to offset part of the weakening economic activity, to alleviate the pressure on corporate and banks' balance sheets, and to provide room for potential materialization of contingent liabilities. It expected the budget deficit to widen from 0.6% of GDP in 2016 to 2.3% of GDP this year due to weaker economic activity. Further, it indicated that some of the government's 2017 budget measures aim to support credit and ease the pressure on the lira. It said that the government has started providing government guarantees to address a potential increase in non-performing loans of small- and medium-sized enterprises and exporters. Also, it expected the recently created Turkish Wealth Fund to finance large off-budget public infrastructure projects.

In parallel, Merrill Lynch forecast the current account deficit to widen from 3.9% of GDP in 2016 to 4.4% of GDP in 2017 due to rising energy prices. It expected a slow recovery in the tourism sector due to volatile security conditions, despite the removal of Russian sanctions.

*Source: Merrill Lynch*



# ECONOMY & TRADE

## EGYPT

### Elevated risks related to the implementation of IMF program

Capital Intelligence Ratings affirmed Egypt's long-term foreign and local currency sovereign ratings at 'B-' with a 'stable' outlook. It attributed the affirmation of the ratings to reduced pressure on foreign currency reserves and the easing of foreign currency shortages following the \$12bn agreement with the IMF. Also, it noted that the affirmation takes into account the stabilization of short-term financing risks following Egypt's return to international markets, the country's relatively low external debt level, the government's commitment to fiscal reforms, the improvement in domestic security conditions and the relative resilience of the banking sector. It considered implementation risks related to the IMF program to be high, given the depth and the socially-sensitive nature of many of the planned reforms, such as the full reversal of food and oil subsidies and the introduction of new taxes. It noted that future disbursements would be at risk in case of delays in the implementation of reforms or if the government misses any of its target under the program, which would result in renewed financing risks. Further, CI indicated that Egypt's public finances remain weak. It noted that the fiscal outlook has slightly improved, and it expected the fiscal deficit to average about 9% of GDP in the fiscal years 2016/17 and 2017/18. It added that the public debt level exceeded 94% of GDP at the end of June 2016, and expected it to gradually decline after FY2017/18.

Source: Capital Intelligence Ratings

## TUNISIA

### Delay of IMF disbursement is credit negative

Moody's Investors Service indicated that the International Monetary Fund postponed the disbursement of \$350m in aid to Tunisia due to the country's lack of progress in implementing reforms related to public-sector wages, taxes and state-owned banks. It noted that the disbursement was originally scheduled for December 2016 under the IMF's \$2.9bn Extended Fund Facility. It considered the delay in the IMF disbursement to be credit negative for Tunisia, as it reflects the decline in government effectiveness and the government's liquidity risk. It said that a significant delay in the disbursement of budgetary support by multilateral sources would increase the risk of a funding gap in 2017, given that these funding sources contributed about 25% of the government's gross borrowing that reached 8.5% of GDP in 2016. It noted that authorities would have to tap international capital markets at a higher cost than multilateral funding in case of reduced external financial support. However, Moody's pointed out that authorities are planning to implement the required reforms in order to meet the IMF requirements by the third review scheduled at end-March 2017, and to ensure the disbursement of both the second and third tranches. It indicated that the government has announced a three-year hiring freeze for public-sector workers except for security personnel, and plans for voluntary early retirement in order to reduce the public-sector wage bill from 14.4% of GDP in 2016 to about 14% of GDP by the end of 2017. Further, it noted that the government is considering several options for state-owned banks, including a merger among banks, strategic partnerships with other banks or privatization.

Source: Moody's Investors Service

## IRAQ

### Ratings affirmed at 'B-', outlook revised to 'stable'

Fitch Ratings affirmed at 'B-' Iraq's long-term foreign currency Issuer Default Rating (IDR) and revised the outlook from 'negative' to 'stable'. It also maintained the short-term foreign currency IDR at 'B' and the Country Ceiling at 'B-'. It attributed the outlook revision to the improvement in Iraq's fiscal position due to higher-than-expected global oil prices and reduced public spending. It projected Iraq's fiscal deficit to narrow from an estimated 8.1% of GDP in 2016 to 5.1% of GDP in 2017, which would reduce the country's financing needs this year. It added that authorities expect to rely less on indirect monetary financing by the Central Bank of Iraq. It said that external financing in 2017 will mainly consist of loans from the IMF, the World Bank, bilateral project loans and a \$1bn U.S.-guaranteed Eurobond, among other sources. Also, it forecast the government debt level to decline from 62.7% of GDP in 2016 to an average of 61% of GDP annually during the 2017-18 period. In parallel, Fitch noted that the IMF program has provided Iraq with a useful policy framework and has paved the way for additional financing options. But it considered that progress has been slow in a number of areas, such as the valuation of arrears, due in part to capacity constraints. Further, it pointed out that the ratings reflect political instability and insecurity in the country, which are among the highest of any Fitch-rated sovereign, as well as corruption, government ineffectiveness, weak institutions, and the country's underdeveloped and weak banking sector.

Source: Fitch Ratings

## QATAR

### Sovereign ratings affirmed, outlook revised to 'negative' on deteriorating external position

S&P Global Ratings affirmed Qatar's long-term foreign and local currency ratings at 'AA', and revised the outlook on the ratings from 'stable' to 'negative' due to increased risks to the country's external position. It anticipated that Qatar's external position could further deteriorate in case the growth in external debt continues to exceed that of external liquid assets. It said that the country's external liquidity position has weakened due to the rapid growth in the external public debt as well as in the banks' foreign liabilities, which has increased the country's external financing needs. It projected Qatar's gross external financing needs to increase from 166.6% of current account receipts (CARs) plus usable reserves in 2016 to 196.4% of CARs plus usable reserves in 2017. But it expected the government's liquid assets to remain substantial at around 170% of GDP this year. Further, it indicated that the current account balance has shifted from a surplus of 8.2% of GDP in 2015 to a deficit of 4.1% of GDP in 2016, mainly due to lower-than-expected gas production and higher capital imports related to the ongoing infrastructure development program. But it expected the current account deficit to narrow to 2.7% of GDP this year due to higher hydrocarbon prices. Further, it projected the fiscal deficit to narrow from 2.6% of GDP last year to 1.5% of GDP in 2017, supported by higher fiscal revenues. It said that authorities would cover their financing needs through further debt issuance rather than by tapping their foreign assets.

Source: S&P Global Ratings



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# BANKING

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## MENA

### Banks to face challenges in 2017

S&P Global Ratings expected the credit profile of banking systems in the Levant and North Africa region to continue to face challenges in 2017 as a result of the banks' sovereign exposure, foreign currency risks, asset quality, asset concentration risks, as well as from political risks and limited economic growth. First, it said that the banks' exposure to their respective sovereign is high and is the most significant risk that they face during 2017. It noted that the banks' exposure is highest in Egypt, with the banks' holding of government debt equivalent to 456% of their shareholders' equity as at the end of 2015, followed by Lebanon (316%), Jordan (161%), Morocco (104%) and Tunisia (80%). It added that Moroccan and Tunisian banks are less exposed to sovereign risk, but are vulnerable to their domestic operating environment and sovereign creditworthiness. Second, it pointed out that foreign currency exposure is moderate for banks in the region. It noted that the Central Bank of Egypt's decision to float the Egyptian pound in November 2016 would have a limited impact on the balance sheet of domestic banks. Also, it noted that geographically-diversified banks in Jordan and Lebanon are exposed to foreign exchange risks through their foreign subsidiaries and branches. Third, it said that banks in the region are mainly exposed to large corporates, which reflects high borrower concentration risks. It added that the banks' high exposure to the real estate sector is another source of single borrower risk. Fourth, it noted that banks in the region, except for those in Tunisia, have high loan-loss reserves amid rising asset quality risks.

Source: S&P Global Ratings

## SAUDI ARABIA

### Banking sector outlook revised to 'stable'

Moody's Investors Service revised its outlook on Saudi Arabia's banking system from 'negative' to 'stable'. It attributed the outlook revision to easing funding pressures and high risk-absorption buffers, as it considered that the banks' credit profiles would remain broadly stable in the coming 12 to 18 months. It anticipated economic activity to gradually recover over the coming 12 to 18 months, supported by increased government spending, which would improve the banks' liquidity and funding conditions. It added that liquidity injection from international sovereign debt issuance and the clearing of large volumes of overdue payments to contractors in the fourth quarter of 2016 would further improve access to funding. But it expected deposit growth to remain low until economic activity significantly accelerates in 2018. Further, the agency projected credit growth to remain low at 3% in 2017 and to gradually pick up from 2018 onwards, in line with the recovery in economic activity. It forecast the non-performing loans ratio to increase from 1.4% at end-September 2016 to 2.5% in the next 12 to 18 months. But it considered that Saudi banks would maintain the highest level of loan-loss provisioning coverage in the region, even though they remain vulnerable to elevated single-party exposures to the corporate sector. In parallel, Moody's anticipated that banks would maintain a solid operating performance, supported by stable margins, low operating costs and easing pressure on funding costs.

Source: Moody's Investors Service

## IRAN

### Banking sector in need of deep reforms

The International Monetary Fund indicated that the balance sheets of Iranian banks are very weak and that their capital position is low due to a legacy of government payment arrears, directed and connected lending, and poor risk management practices. It said that the banking sector's non-performing loans ratio was at around 12% at the end of March 2015, but it noted that the ratio would be higher in the absence of the recent regulations that allowed the rollover of overdue loans. Also, it pointed out that the sector's capital adequacy ratio regressed from 8.4% at end-March 2012 to 5.8% at the end of March 2015. It noted that state-owned banks, which account for 16% of the banking sector's aggregate assets, require substantial capital, given their negative average capital adequacy ratio. Further, it said that the banks' profitability is constrained by the high cost of funds and the cap on lending interest rates. It added that distressed banks aggressively compete for funds, which puts pressure on interbank and deposit rates, keeps lending rates elevated, and increases the banks' reliance on the Central Bank of Iran for financing. The IMF indicated that authorities have started to address the prevailing weaknesses in the banking sector by requesting banks to retain profits and raise capital, and by making progress to clear the government's arrears to banks that are estimated at 10.6% of GDP. Further, it urged authorities to restructure and recapitalize banks through the administration and supervision of distressed banks, an asset quality review of all banks, a forward-looking analysis of the banks' capital needs, the recapitalization of state-owned banks, and the continued payment of arrears.

Source: International Monetary Fund

## TURKEY

### New risk-weighting measures are credit negative for banking sector

Moody's Investors Service considered that the Turkish Banking Regulation and Supervision Agency's (BRSA) plan to reduce the risk weightings of Turkish banks' foreign currency reserves from 100% to zero percent is credit negative for the banking system. It noted that the new risk-weighting measures reverse the risk weighting implemented in early 2016, which was compliant with the Basel Committee's international standards. It said that the new measures would reduce risk-weighted assets and would increase capital ratios by 100 to 150 basis points without changing the risk profile of banks' assets. Moody's pointed out that the BRSA's announcement is in line with its previous initiatives that allow banks to restructure their non-performing loans and reduce their provisioning requirements in order to increase lending and support economic activity. It noted that high lending growth would support the banks' profitability, but it could be accompanied by increased leverage and declining capital buffers. It said that this would be credit negative for banks given the expected deterioration in their asset quality and the decline in internal capital generation. Moody's noted that the banks' capital is vulnerable to additional lira depreciation, given the level of the banks' assets in foreign currency.

Source: Moody's Investors Service



# ENERGY / COMMODITIES

## Oil prices to increase gradually in 2017

ICE Brent crude oil front-month prices rose by about 2.8% from a three-month low of \$50.92 per barrel (p/b) to \$52.35 p/b in intra-day trading on March 16, 2017. The rebound in oil prices was mainly due to a weaker US dollar despite the U.S. Federal Reserve's decision to raise interest rates on March 15, and following an unexpected drop in U.S. crude oil inventories after nine consecutive increases, which improved market sentiment. The rise in U.S. interest rates has had a limited impact on the US dollar, as some traders had expected a more hawkish stance regarding the pace of the U.S. monetary tightening cycle. As such, the US dollar's weakness supported dollar-priced commodities such as oil. In parallel, oil prices were supported by the International Energy Agency's projection that OPEC members' oil production cuts could move the global oil market into a production deficit in the first half of 2017. Overall, oil investors remain concerned about the long-term impact of the OPEC deal and the ability of OPEC members to continue with the cuts as planned, as well as the developments in U.S. oil production. Brent oil prices are forecast to average \$54.7 p/b in the first quarter, \$56.8 p/b in the second quarter, \$58.7 p/b in the third quarter and \$60.17 p/b in the fourth quarter of 2017. Overall, oil prices are projected to increase from an average of \$45.1 p/b in 2016 to \$57.4 p/b in 2017.

Source: Thomson Reuters, Goldman Sachs, Byblos Research

## OPEC's oil output nearly unchanged in 2017

The Institute of International Finance projected crude oil production of the Organization of Petroleum Exporting Countries (OPEC) to average 32.5 million barrels per day (b/d) in 2017, nearly unchanged from 32.59 million b/d in 2016. The IIF estimated Saudi Arabia's oil output at 10.2 million b/d in 2017, equivalent to 31% of OPEC's total oil production in 2017, followed by Iraq with 4.3 million b/d (13%), Iran with 3.8 million b/d (11%), the UAE with 2.9 million b/d (9%) and Kuwait with 2.8 million b/d (8.6%). In parallel, the IIF projected OPEC's natural gas liquids production at 6.86 million b/d in 2017, up by 2% from 6.71 million b/d in 2016.

Source: Institute of International Finance, Byblos Research

## M&A in renewable energy up 2.2 times in 2016

EY indicated that the deal value of mergers & acquisitions in the renewable energy industry across the Middle East & Africa region reached \$5.8bn in 2016, up by 2.2 times from \$2.6bn in 2015 and relative to \$463m in 2014. It noted that new renewable energy investments across the Middle East & Africa reached \$53bn since 2011. Further, it pointed out that the region requires 267 gigawatts in additional power capacity to meet its growing power demand by 2030.

Source: EY, Byblos Research

## OPEC's oil basket price up 2% in February 2017

The oil reference basket price of the Organization of Petroleum Exporting Countries (OPEC) reached \$53.4 per barrel (p/b) in February 2017, up by 1.9% from \$52.4 p/b in the preceding month. Abu Dhabi's Murban crude oil posted the highest price among the basket's components at \$56.3 p/b, followed by Nigeria's Bonny Light at \$55.24 p/b and Angola's Girassol at \$55.21 p/b. All 14 prices included in the OPEC reference basket posted monthly increases of \$0.2 p/b to \$1.4 p/b in February 2017.

Source: OPEC, Byblos Research

## Base Metals: Copper prices to rise by 13% in 2017

LME Copper three-month future prices rose by 3.1% from a week earlier to close at \$5,864 a ton on March 15, 2017, as the world's two largest copper mines in Chile and Indonesia suspended production and as Chinese demand for the metal continues to grow. Global copper consumption is projected to reach 23.1 million tons in 2017, up by 2.5% from 22.5 million tons in 2016, due to increased demand in mature economies such as Canada, Japan and the United States, as well as in emerging markets such as Brazil and Russia. The increase in demand also reflects expectations of continued global infrastructure spending, which would offset the impact of the slowdown in the property sector in 2017. In parallel, global refined copper production is projected to reach 23.3 million tons in 2017, up by 2.1% from 22.8 million tons in 2016, due to expectations of continuing supply disruptions. Overall, the copper market is forecast to be oversupplied by 136,000 tons in 2017 relative to a production surplus of 213,000 tons in 2016. Further, prices are projected to average \$5,500 a ton in 2017, which would constitute an increase of 12.9% from \$4,870 a ton in 2016.

Source: Thomson Reuters GFMS, Byblos Research

## Precious Metals: Gold demand to rise in 2017 amid higher coin & bar consumption

The gold bullion spot price surged from a six-week low of \$1,200 a troy ounce on March 15 to about \$1,230 an ounce in intra-day trading on March 16, 2017, following the U.S. Federal Reserve's decision to raise interest rates a day earlier, as investors had anticipated the 0.25% interest rate increase on March 15. The metal's global physical demand is forecast to rise by 1.5% to 3,400.3 tons in 2017, supported by a year-on-year rise of 6.5% in coin & bar demand. In parallel, global gold output is projected to drop by 3.6% to 4,360.6 tons in 2017, mainly due to a year-on-year decline in mine production. Overall, the physical gold market balance is expected to post a surplus of 960.3 tons in 2017 compared to a surplus of 1,176.5 tons in 2016. Further, gold prices are forecast to average \$1,259 an ounce in 2017, slightly higher than the average of \$1,250 an ounce in 2016, given expectations of further U.S. interest rate hikes and continued geopolitical uncertainties.

Source: Thomson Reuters GFMS, Byblos Research

Gold Bullion Prices vs. U.S. Federal Funds Rate



# 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 Negative	B1 Negative	B Negative	-	B+ Negative	-7.1	70.1	96.8*	85.0**	7.3	14.4	-11.6	2.6
Egypt	B- Stable	B3 Stable	B Stable	B- Stable	B- Stable	-10.1	93.5	21.1	206.8	11.5	302.8	-5.2	2.4
Ethiopia	B Stable	B1 Stable	B Stable	-	B+ Stable	-3.0	55.4	29.0*	159.6	4.3	634.6	-10.7	4.1
Ghana	B- Stable	B3 Stable	B Negative	-	B+ Negative	-3.9	74.1	44.7	110.4**	10.3	371.8	-7.2	7.7
Ivory Coast	-	Ba3 Stable	B+ Stable	-	B+ Stable	-3.1	33.0	34.1	62.9	2.7	169.6	-1.8	3.3
Libya	-	-	B Stable	-	B- Negative	-35.4	83.0	16.5	51.6	-	-	-48.7	-9.6
Dem Rep Congo	B- Negative	B3 Stable	-	-	CCC Stable	1.1	19.8	16.6*	41.6	2.1	6.5	-14.2	4.5
Morocco	BBB- Stable	Ba1 Positive	BBB- Stable	-	BBB Stable	-3.5	56.5	39.2	124.8	19.9	185.6	-0.5	2.6
Nigeria	B Stable	B1 Negative	B+ Negative	-	B+ Negative	-4.7	13.3	5.5	62.5	0.7	63.2	-3.1	1.2
Sudan	-	-	-	-	CC Negative	-1.7	58.3	53.2	-	-	-	-6.3	1.3
Tunisia	-	Ba3 Negative	B+ Stable	-	BB+ Stable	-5.1	57.8	80.7	165.6	15.7	423.9	-8.7	4.2
Burkina Faso	B- Stable	-	-	-	B+ Stable	-3.0	32.6	23.2*	-	-	-	-5.3	2.3
Rwanda	B Stable	B2 Stable	B Positive	-	B+ Stable	-3.1	41.5	34.4*	-	-	-	-14.2	4.1
<b>Middle East</b>													
Bahrain	BB- Stable	Ba2 Stable	BB+ Stable	BB+ Stable	BBB- Negative	-14.7	73.2	127.6	239.3	24.6	-	-2.1	-0.2
Iran	-	-	-	BB- Stable	BB- Positive	-2.6	17.5	2.2	8.8	-	-	-2.6	-
Iraq	B- Stable	(P)Caa1 Stable	B- Stable	-	CC+ Stable	-11.3	71.4	59.1	158.8	-	-	-2.8	-
Jordan	BB- Negative	B1 Stable	-	BB- Stable	BB+ Stable	-3.4	90.4	64.5	141.2**	10.5	177.3	-6.4	5.5
Kuwait	AA Stable	Aa2 Negative	AA Stable	AA- Stable	AA- Stable	-2.4	12.8	36.1	61.9	10.5	107.6	-2.1	-8.4
Lebanon	B- Stable	B2 Negative	B- Stable	B Negative	B- Stable	-7.8	142.6	175.4	207.2**	23.4	151.1	-21.3	5.9
Oman	BBB Negative	Baa1 Stable	BBB Stable	BBB+ Stable	BBB Negative	-15.2	25.6	27.5	48.4	5.6	-	-22.4	-1.0
Qatar	AA Negative	Aa2 Negative	AA Stable	AA- Negative	AA- Stable	-2.9	41.6	110.9	213.8	24.9	-	-2.0	-1.8
Saudi Arabia	A- Stable	A1 Stable	AA- Negative	A+ Stable	AA- Stable	-11.7	17.6	19.7	60.7	4.2	-	-11.0	0.8
Syria	-	-	-	-	C Negative	-	-	36.5	-	-	-	-	0.6
UAE	-	Aa2 Negative	-	AA- Stable	AA- Stable	-6.4	64.9	51.2	54.2	4.0	313.8	-0.3	1.1
Yemen	-	-	-	-	CCC Negative	-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	0.75-1.00	15-Mar-17	Raised 25bps	03-May-17
Eurozone	Refi Rate	0.00	09-Mar-17	No change	27-Apr-17
UK	Bank Rate	0.25	16-Mar-17	No change	05-May-17
Japan	O/N Call Rate	-0.10	16-Mar-17	No change	27-Apr-17
Australia	Cash Rate	1.5	07-Mar-17	No change	04-Apr-17
New Zealand	Cash Rate	1.75	09-Feb-17	No change	23-Mar-17
Switzerland	3 month Libor target	-1.25-(-0.25)	15-Dec-16	No change	17-Mar-17
Canada	Overnight rate	0.50	01-Mar-17	No change	12-Apr-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	15-Mar-17	No change	N/A
Taiwan	Discount Rate	1.375	22-Dec-16	No change	24-Mar-17
South Korea	Base Rate	1.25	23-Feb-17	No change	13-Apr-17
Malaysia	O/N Policy Rate	3.00	02-Mar-17	No change	12-May-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	16-Feb-17	No change	17-Mar-17
Turkey	Base Rate	8.00	16-Mar-17	No change	26-Apr-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	30-Mar-17
Mexico	Target Rate	6.25	09-Feb-17	Raised 50bps	30-Mar-17
Brazil	Selic Rate	12.25	22-Feb-17	Cut 75bps	12-Apr-17
Armenia	Refi Rate	6.00	14-Feb-17	Cut 25bps	28-Mar-17
Romania	Policy Rate	1.75	07-Feb-17	No change	31-Mar-17
Bulgaria	Base Interest	0.00	01-Mar-17	No change	31-Mar-17
Kazakhstan	Repo Rate	11.00	20-Feb-17	Cut 100bps	10-Apr-17
Ukraine	Discount Rate	14.00	02-Mar-17	No change	13-Apr-17
Russia	Refi Rate	10.00	03-Feb-17	No change	24-Mar-17



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