



# LEBANON THIS WEEK

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Deposits at Syrian affiliates of Lebanese banks rise by 12%, loans decrease by 2% and net profits drop by 65% in first half of 2014

AUB, USJ and LAU among top Arab universities

Ciments Blancs' net income up 9% to \$1.7m in first half of 2014

IFC extends \$2m loan to support micro-finance

Bank Audi completes capital increase

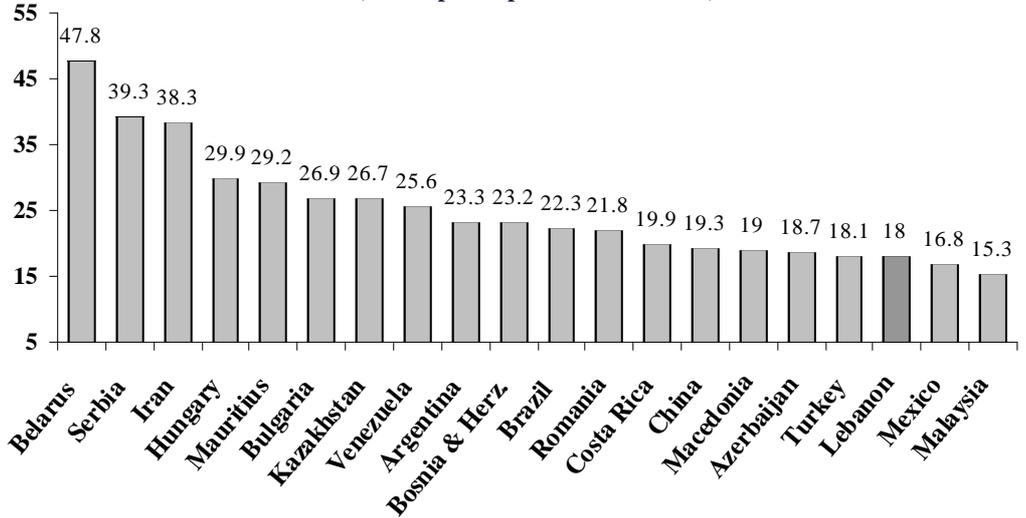
IBL's net income at \$28m in first half of 2014

Jammal Trust Bank's net profits at \$5.4m in 2013

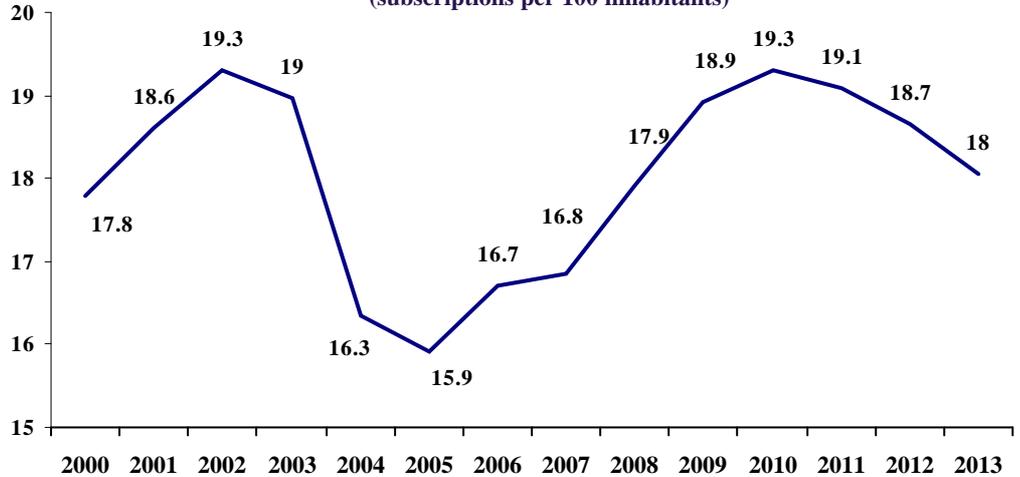
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## Charts of the Week

**Fixed Telephone Penetration Rate among Top 20 Upper-Middle Income Countries in 2013\***  
(subscriptions per 100 inhabitants)



**Fixed Telephone Penetration Rate in Lebanon**  
(subscriptions per 100 inhabitants)



\*Excluding countries with a nominal GDP of \$10bn or less

Source: International Telecommunication Union, Byblos Bank

## Quote to Note

"The political stalemate has triggered significant delays, and extraction is unlikely to start before at least 2017-2018."

*Fitch Ratings, on the opportunity cost of the authorities' inability to tap the country's oil and gas fields*

## Number of the Week

**37%:** Increase in Lebanon's population density to 520 persons per square kilometer due to the influx of refugees since the start of the Syrian conflict, according to the United Nations Development Program

## Economic Indicators

<b>\$m (unless otherwise mentioned)</b>	<b>2013</b>	<b>Mar 13</b>	<b>Dec 13</b>	<b>Jan 14</b>	<b>Feb 14</b>	<b>Mar 14</b>	<b>% Change*</b>
Exports	3,936	406	243	244	253	275	(32.27)
Imports	21,228	2,076	1,797	1,873	1,732	1,792	(13.68)
Trade Balance	(17,292)	(1,669)	(1,554)	(1,629)	(1,479)	(1,517)	(9.16)
Balance of Payments	(1,128)	(353)	534	(31)	194	139	(139.38)
Checks Cleared in LBP	17,047	1,286	1,562	1,502	1,394	1,520	18.27
Checks Cleared in FC	55,321	4,472	4,728	4,783	4,279	4,671	4.45
Total Checks Cleared	72,368	5,758	6,290	6,285	5,673	6,191	7.53
Budget Deficit/Surplus	(4,220)	(484.93)	(238.09)	(119.34)	(125.38)	(595.29)	22.76
Primary Balance	(239.68)	(75.10)	171	142.38	23.91	(128.09)	70.57
Airport Passengers	6,265,470	502,923	510,367	450,476	376,106	430,979	(14.31)

<b>\$bn (unless otherwise mentioned)</b>	<b>2013</b>	<b>Mar 13</b>	<b>Dec 13</b>	<b>Jan 14</b>	<b>Feb 14</b>	<b>Mar 14</b>	<b>% Change*</b>
BdL FX Reserves	31.71	30.36	31.71	32.25	33.40	33.63	10.77
<i>In months of Imports</i>	<i>17.65</i>	<i>14.62</i>	<i>17.65</i>	<i>17.64</i>	<i>19.28</i>	<i>18.77</i>	<i>28.33</i>
Public Debt	63.46	57.79	63.46	17.22	64.99	65.20	12.74
Net Public Debt	53.18	50.09	53.18	53.47	53.91	54.37	8.54
Bank Assets	164.82	155.44	164.82	164.43	166.01	166.50	7.12
Bank Deposits (Private Sector)	136.21	128.11	136.21	134.86	135.71	136.55	6.59
Bank Loans to Private Sector	47.38	44.71	47.38	47.04	47.39	48.14	7.67
Money Supply M2	45.60	43.76	45.60	45.74	46.05	46.34	5.90
Money Supply M3	111.16	105.85	111.16	110.93	111.67	112.29	6.08
LBP Lending Rate (%)	7.29	7.28	7.29	7.39	7.14	7.26	(2bps)
LBP Deposit Rate (%)	5.44	5.44	5.44	5.48	5.51	5.48	4bps
USD Lending Rate (%)	6.88	6.95	6.88	6.82	6.96	6.87	(8bps)
USD Deposit Rate (%)	2.95	2.97	2.95	2.95	2.96	2.96	(1bps)
%* Change in CPI**	3.89	4.57	3.89	2.52	0.86	(0.23)	(480bps)

\* Year-on-Year; \*\* Consumer Price Index

Note: b.p. i.e. basis point

Sources: ABL, BdL

## Capital Markets

<b>Most Traded Stocks on BSE</b>	<b>Last Price (\$)</b>	<b>% Change*</b>	<b>Total Volume</b>	<b>Weight in Market Capitalization</b>	<b>Sovereign Eurobonds</b>	<b>Coupon %</b>	<b>Mid Price \$</b>	<b>Mid Yield %</b>
Solidere "A"	11.96	(2.83)	59,473	10.86%	Jan 2015	5.875	100.90	3.03
Solidere "B"	11.97	(3.66)	18,233	7.00%	Apr 2015	10.000	104.25	2.80
Byblos Common	1.63	0.00	175,668	5.52%	Jan 2016	8.500	106.35	3.58
Byblos Pref. 08	100.60	0.00	250	1.87%	Mar 2017	9.000	112.15	3.86
Byblos Pref. 09	100.50	(0.10)	55	1.86%	Nov 2018	5.150	101.38	4.78
BLOM GDR	9.47	0.00	0	6.44%	May 2019	6.000	104.10	5.00
BLOM Listed	8.75	0.00	13,485	17.50%	Mar 2020	6.375	105.35	5.24
Audi GDR	6.39	0.00	0	6.09%	Apr 2021	8.250	115.75	5.37
Audi Listed	6.09	(0.16)	8,832	19.82%	Oct 2022	6.100	102.75	5.67
HOLCIM	14.50	0.00	6,500	2.63%	Nov 2026	6.600	102.75	6.27

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

Source: Byblos Bank Capital Markets

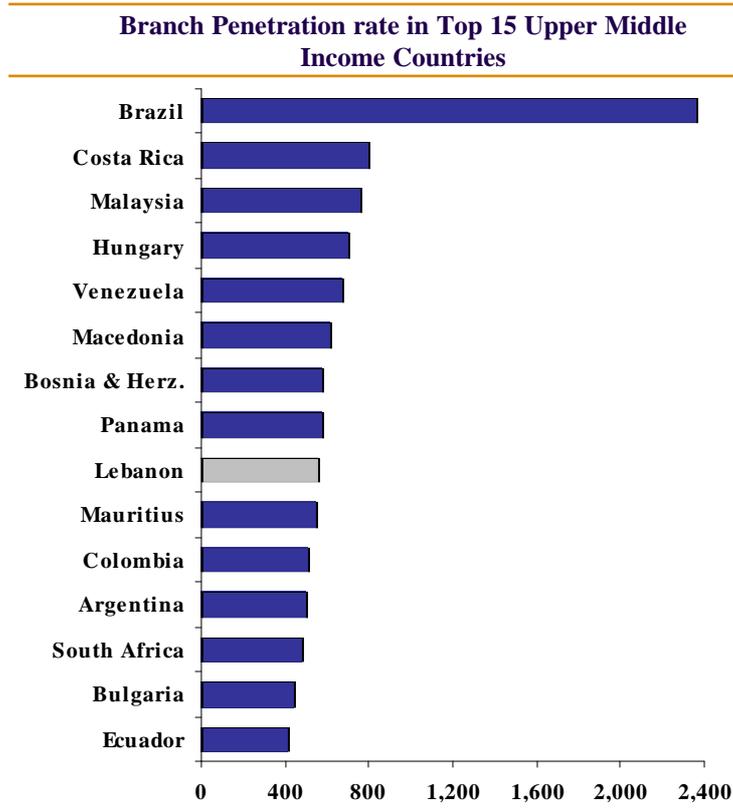
	<b>Sep 15-19</b>	<b>Sep 8-12</b>	<b>% Change</b>	<b>Aug 2014</b>	<b>Aug 2013</b>	<b>% Change</b>
<b>Total Shares Traded</b>	291,166	21,182,308	(98.63)	6,941,456	1,136,561	510.74
<b>Total Value Traded</b>	\$2,057,062	\$132,372,788	(98.45)	\$42,076,299	\$13,445,987	212.93
<b>Market Capitalization</b>	\$10.75bn	\$10.81bn	(0.62)	\$10.95bn	\$10.40bn	5.32

Source: Beirut Stock Exchange (BSE)



### Lebanon has 13th highest branch penetration rate in the world, 16th highest ATM penetration rate in 2013

Figures issued by the International Monetary Fund show that there were 101.8 branches per 1,000 square kilometers in Lebanon in 2013, constituting a rise of 2.5% from 99.3 branches per 1,000 square kilometers in 2012, and compared to 85.9 branches per 1,000 square kilometers in 2005. As a result, Lebanon had the 13th highest branch penetration rate among 177 countries worldwide with available figures for 2013, the third highest among 49 upper-middle income countries (UMICs) and the highest among 16 Arab countries. Globally, Lebanon had a higher penetration rate than Switzerland, Korea and the Netherlands, and a lower rate than Italy, Mauritius and Japan among economies with a GDP of \$10bn or more; while it ranked behind Mauritius among UMICs. Lebanon's branch penetration rate was higher than the global rate of 77 branches per 1,000 square kilometers in 2013 and significantly higher than the UMICs' rate and the Arab countries' rate of 22.4 and 13.8, respectively. Further, there were 30 branches per 100,000 adults in Lebanon in 2013, up 2.5% from 29.3 branches per 100,000 adults in 2012 and compared to 30.6 branches per 100,000 adults in 2005. As such, Lebanon had the 40th highest branch penetration rate among 177 countries globally, the 11th highest among 49 UMICs and the highest among Arab countries. Lebanon's branch penetration rate was higher than the global rate of 20.7, the UMICs' penetration rate of 25.3, and more than twice the Arab rate of 11.7 per 100,000 adults in 2013.



Source: International Monetary Fund, Byblos Research

In parallel, there were 148.2 ATMs per 1,000 square kilometers in Lebanon in 2013, constituting an increase of 5.8% from 140.1 ATM per 1,000 square kilometers in 2012 and compared to 92 ATMs per 1,000 square kilometers in 2005. The ATM penetration rate ranks Lebanon in 16th place among 168 countries, in third place among 49 UMICs and in first place among Arab countries. Globally, Lebanon had a higher penetration rate than Thailand, France and Austria, and a lower rate than Luxembourg, Switzerland and Italy among economies with a GDP of \$10bn or more. It also had a lower rate than only Mauritius among UMICs. Lebanon's ATM penetration rate was lower than the global average penetration rate of 297.4 but significantly higher than the UMICs' rate and the Arab region's rate of 41.3 and 34, respectively.

Further, there were 43.7 ATMs per 100,000 adults in Lebanon in 2013, up 5.8% from 41.3 ATMs per 100,000 adults in 2012 and compared to 32.7 ATMs per 100,000 adults in 2005. The ATM penetration rate ranks Lebanon in 73rd place among 168 countries globally, in 27th place among 49 UMICs and in fourth place among Arab countries. Lebanon had a lower penetration rate in this category than the global rate of 44.4 and the UMICs' average rate of 47.9, but a higher rate than the Arab penetration rate of 28.6. Also, there were 985 branches in Lebanon at the end of 2013, constituting a rise of 2.4% from 962 branches in 2012 and compared to 825 branches in 2005. As a result, Lebanon had the 66th highest number of branches among 179 countries globally, the 22nd highest among 49 UMICs and the seventh highest among Arab countries.

### Customs receipts down 10% to \$910m in first eight months of 2014

Figures released by the Customs Directorate indicate that customs revenues reached \$910.3m in the first eight months of 2014, constituting a decrease of 9.5% from \$1bn in the same period last year. The Port of Beirut continues to be the main point of customs receipts, as it accounted for 88.2% of the total in the first eight months of the year. It was followed by the Hariri International Airport with 7.3%, the Port of Tripoli with 3.1%, the Port of Saida and the Masnaa crossing point with 0.6% each, and the Port of Tyre with 0.1%. Customs receipts from the value added tax totaled \$912.8m in the first eight months of 2014, reflecting a decrease of 3.3% from \$943.5m in the same period of 2013. The Port of Beirut accounted for 82.2% of such receipts and was followed by the Hariri International Airport with 10.4%, the Port of Tripoli with 4.1%, the Masnaa crossing point with 2.1%, the Port of Saida with 0.9%, while the Port of Tyre and the Abboudieh and Arida crossing points had a 0.1% share each. As such, overall customs receipts reached \$1.8bn in the first eight months of 2014, with the Port of Beirut accounting for 85.2% of the total, followed by the Hariri International Airport with 8.9%, the Port of Tripoli with 3.6%, the Masnaa crossing point with 1.3% and the Port of Saida with 0.8%; while other entry points represented the balance.



### Lebanon ranks 115th globally, 12th in Arab region in credit ratings

In its semi-annual survey on the creditworthiness of 179 countries, *Institutional Investor* magazine ranked Lebanon in 115th place worldwide, in 35th place among 47 Upper-Middle Income Countries (UMICs) and in 12th place among 19 Arab countries in the September 2014 survey. In comparison, Lebanon ranked in 110th place globally and in 12th place regionally in March 2014, as well as in 116th place globally and in 13th place regionally in the September 2013 report. As such, Lebanon's ranking dropped by five spots from the March 2014 survey, constituting the 29th steepest decline globally, the 15th most significant drop among UMICs and the fourth steepest downturn among Arab countries.

The survey rates the creditworthiness of countries on a scale of zero to 100, with 100 representing countries with the least chance of debt default. The ratings are based on input provided by senior economists and sovereign risk analysts at leading global banks and money management and securities firms.

On a global basis, Lebanon's creditworthiness was better than that of Honduras, Venezuela and Papua New Guinea, and was weaker than that of Mozambique, Jamaica and Argentina. It ranked ahead of Venezuela, Belize and Belarus, and came behind Ecuador, Jamaica and Argentina among UMICs. Also, Lebanon's creditworthiness was better than that of only Egypt, Iraq, Djibouti, Mauritania, Yemen, Syria and Sudan among Arab countries.

Lebanon received a score of 30.7 points compared to 31.3 points in March 2014 and 29.6 points in September 2013. As such, its score declined by 1.9% from March 2014, the ninth steepest decrease regionally; and improved by 3.9% from September 2013, constituting the second highest increase among Arab countries. Lebanon's score was below the global average of 44.8 points, the UMICs' average of 44.3 points, and the Arab average of 43.5 points but above the non-GCC Arab countries' average score of 29.9 points. In comparison, the global average rating score improved by 1.3%, the Arab average score dropped by 1.1% from the March survey, while the score of non-GCC Arab countries decreased by 2.8% from six months earlier. The rankings of five Arab countries improved, 11 regressed and three remained unchanged, while the scores of eight countries improved and 11 declined from March 2014. Norway remained the country with the best creditworthiness in the world, while Somalia had the highest probability of default worldwide.

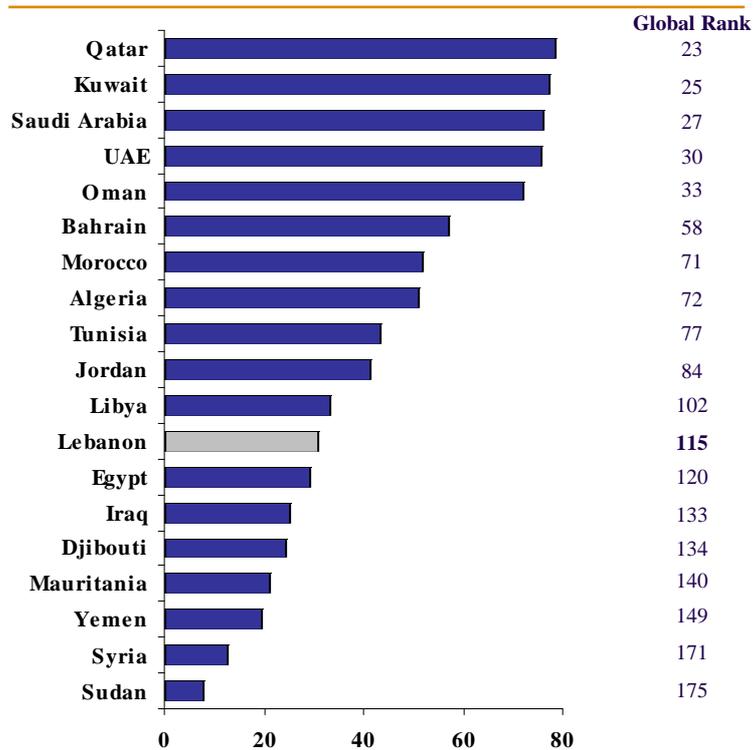
### Consumer Price Index up 2.7% year-on-year in August 2014

The Central Administration of Statistics' Consumer Price Index increased by 2.7% in August 2014 from August 2013. Prices of clothing & footwear increased by 20%, followed by alcoholic beverages & tobacco (+12.1%), the cost of education (+7.1%), recreation & entertainment (+5.3%), housing, water, electricity, gas & other fuels (+5%), healthcare costs (+3.8%), restaurants & hotels (+3.5%), food & non-alcoholic beverages and miscellaneous goods & services (+2.5% each), and furnishings & household equipment (+1.8%). In parallel, communication costs fell by 23.8% and transportation costs regressed by 0.9% year-on-year.

Further, the CPI increased by 0.2% in August 2014 from the previous month, unchanged from the same monthly increase in July 2014. The prices of clothing & footwear increased by 9.1% month-on-month in August 2014, followed by food & non-alcoholic beverages (+0.7%), communication costs (+0.3%), furnishing & household equipment (+0.2%) and miscellaneous goods & services, restaurants & hotels and alcoholic beverages & tobacco (+0.1% each); while transportation costs fell by 1.4% month-on-month, followed by healthcare costs (-0.9%), and housing, water, electricity, gas & other fuels (-0.3%). Further, the costs of education and recreation & entertainment were unchanged month-on-month. Also, imputed, new and old rents were unchanged from the preceding month.

Regionally, the CPI increased by 0.4% month-on-month in Beirut, and regressed by 0.6% in each of the Bekaa and Nabatieh regions, followed by the South (-0.4%) and the North (-0.3%); while it remained unchanged month-on-month in Mount Lebanon. Prices of food & non-alcoholic beverages rose by 2.1% in Beirut, by 1.2% in the North, by 1.1% in the South, by 0.8% in Nabatieh and by 0.6% in the Bekaa; while they remained unchanged in Mount Lebanon. The price of housing, water, electricity, gas & other fuels, as well as transportation and healthcare costs regressed across all regions. Communication costs rose by 0.9% in the South, by 0.6% in Beirut, by 0.5% in the North and by 0.4% in Nabatieh; while they remained unchanged from the previous month in each of Mount Lebanon and the Bekaa region. Also, the prices of clothing & footwear increased across all covered regions in August 2014.

### Arab Countries Scores & Rankings



Source: *Institutional Investor*, *Byblos Research*

### Central Bank amends anti-money laundering and terrorist financing regulations

The Central Bank of Lebanon issued Intermediate Circular 371 dated September 11, 2014, which amends Basic Circular 83 dated May 18, 2001 about the Regulations on the Control of Financial and Banking Operations for Fighting Money Laundering and Terrorist Financing (AML/CFT). The amendments require banks operating in Lebanon to assign an AML/CFT Branch Officer at each of their branches. The circular stipulates that the Branch Officer should have the proper qualifications and that his/her work should be independent from regular branch operations. Also, the person should refrain from engaging in any marketing-related or incentives-based activities. It noted that banks should establish at least two sections within the Compliance Unit to supervise the branches' compliance with the AML/CFT regulations. One section would supervise the operations of the bank's head office and branches in the Beirut area, and the other section would oversee the operations of all other branches across Lebanon.

The circular mandates the Branch Officer to verify that the branch's staff complies with all AML/CTF procedures and properly fills out Know-Your-Customer forms. He/she should also monitor cash and transfer transactions, as well as all other account-related transactions, especially non-face-to-face banking operations and transactions through ATM machines. Further, the officer would be responsible for raising awareness about AML/CFT procedures among the branch's staff, as well as for informing the Compliance Unit of any suspicious operation. The officer will have to submit periodic reports to the head of the section and to the Head of the Compliance Unit. In parallel, the Head of the Compliance Unit will evaluate the performance of the officer. The Central Bank gave banks until March 31, 2015 to implement the amendments.

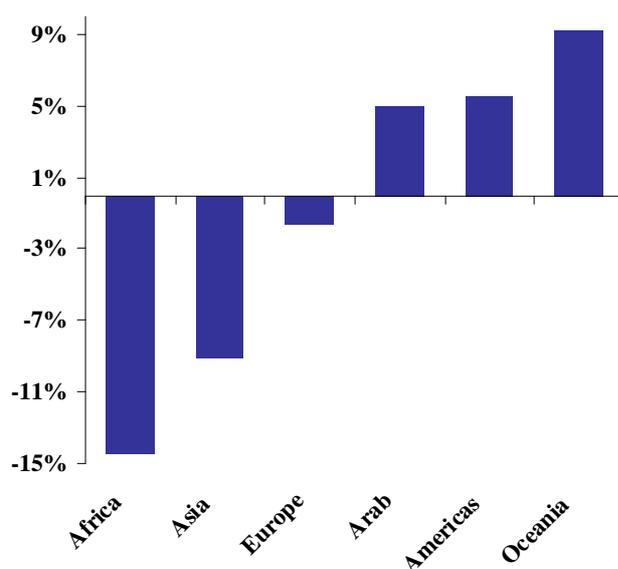
### Barclays affirms Lebanon's external debt at 'Neutral'

Barclays Capital maintained its recommendation on Lebanon's external debt to 'Neutral' in its emerging markets credit portfolio in September 2014. It also increased Lebanon's allocation in the portfolio from 3.6% in August to 3.7% at the end of September. Lebanon's external debt rating of 'Neutral' placed it in the same category as Argentina, Colombia, Hungary, Latvia, Lithuania, Mongolia, Pakistan, Peru, Russia, Uruguay and Vietnam. Lebanon's 'Neutral' recommendation compare well to the recommendation of 'Underweight' for the Europe, the Middle East & Africa (EMEA) region. Lebanese Eurobonds accounted for 5.5% of the portfolio's allocations in EMEA region, up from 4.5% in August 2014. Lebanon's allocation was the 15th highest among 31 sovereigns in the portfolio and the eighth highest among 15 credits in the EMEA region. In parallel, Lebanon's external debt posted returns of 7.6% in the first nine months of 2014, the ninth lowest among the 31 emerging markets included in Barclays Capital's portfolio of emerging markets debt. Lebanon outperformed the EMEA returns of 7.5% and underperformed the overall emerging markets returns of 8.2% in the covered period.

### Number of tourist arrivals up 1% in first eight months of 2014

The number of incoming tourists to Lebanon totaled 897,106 in the first eight months of 2014, constituting an increase of 0.7% from 891,079 tourists in the same period last year, a decline of 9.1% from 986,649 tourists in the first eight months of 2012 and a drop of 20.4% from 1,126,755 tourists in the same period of 2011. European tourists accounted for 34.2% of total visitors in the first eight months of 2014 and were followed by visitors from Arab countries with 31.9%, the Americas with 17.6%, Asia with 8.3%, Africa with 4.1% and Oceania with 3.7%. Also, tourists from Iraq accounted for 12.2% of total visitors in the covered period, followed by visitors from France with 9.4%, the United States with 9%, Canada with 6.2%, Jordan with 5.4% and Germany with 5.3%. The number of visitors from African countries declined by 14.4% year-on-year in the first eight months of 2014, followed by visitors from Asian countries with a 9.1% decrease and Europe (-1.6%); while the number of tourists from Oceania increased by 9.2%, followed by the Americas (+5.5%) and Arab countries (+5%). Further, the number of visitors from Turkey declined by 28.6% annually, followed by visitors from Venezuela with a 27.2% decrease, Jordan (-11%), England (-3.1%), France (-2%) and Saudi Arabia (-1.9%). In parallel, the number of tourists from Iraq rose by 19.1% annually, followed by visitors from the United States with an 8.3% increase, Germany and Italy (+8.2% each), Canada (+7.8%), Egypt (+5.2%), Sweden (+5.1%), Brazil (+2.6%), Kuwait (+1.6%) and the UAE (+1.1%) in the first eight months of the year.

Number of Tourist Arrivals in First Eight Months of 2014\*



\*year-on-year percentage change  
Source: Ministry of Tourism, Byblos Research

### Occupancy rate at Beirut hotels at 49%, room yields down 14% in first eight months of 2014

EY's benchmark survey of the Middle East hotel sector indicated that the average occupancy rate at hotels in Beirut was 49% in the first eight months of 2014, down from 54% in the same period last year and compared to an average rate of 63.4% in 11 Arab markets. The occupancy rate at Beirut hotels was the third lowest in the region during the covered period, unchanged from the first eight months of 2013. Cairo City posted the lowest occupancy rate of 31% in the first eight months of 2014, followed by Manama with an occupancy rate of 47%. Also, the occupancy rate at hotels in Beirut fell by five percentage points year-on-year, constituting the steepest decrease among the 11 Arab markets, and relative to an average increase of 3.2 percentage points for the region. Occupancy rates at Beirut hotels were 36% in January, 42% in February, 41% in March, 52% in April, 63% in May, 67% in June, 36% in July and 60% in August 2014; compared to 50% in January, 60% in February, 59% in March, 64% in April, 59% in May, 55% in June, 40% in July and 48% in August 2013.

The average rate per room at Beirut hotels was \$162 in the first eight months of 2014, ranking the capital's hotels as the 10th most expensive in the region. The average rate per room at Beirut hotels decreased by 4.5% year-on-year and posted the fourth steepest decline among all markets in the region, lower than Makkah (-22.7%), Madina (-8.3%) and Abu Dhabi (-4.9%). The average rate per room in Beirut came below the regional average of \$197.9, which decreased by 3.2% from the same period of 2013.

Further, revenues per available room (RevPAR) were \$81 in Beirut in the first eight months of 2014, down from \$93 in the same period of 2013, and came in tenth place in the region, higher than only Cairo City (\$27). Beirut's RevPAR fell by 13.6% year-on-year and posted the second steepest decrease among Arab markets, higher than only Makkah (-17.3%). Beirut posted RevPARs of \$60 in January, \$65 in February, \$62 in March, \$82 in April, \$97 in May, \$120 in June, \$62 in July and \$104 in August 2014. In comparison, RevPARs were \$87 in January, \$101 in February, \$99 in March, \$108 in April, \$102 in May, \$101 in June, \$65 in July and \$84 in August 2013. Jeddah posted the highest average room rate in the region at \$273, while Dubai posted the highest room yield of \$211. Also, Dubai and Madina posted the highest occupancy rate of 78% each in the first eight months of 2014.

### Number of real estate transactions up 3% in first eight months of 2014

Figures released by the Ministry of Finance indicate that the total number of real estate transactions reached 45,348 in the first eight months of 2014, constituting an increase of 3.3% from 43,883 deals in the same period of last year. In comparison, the number of real estate transactions dropped by 4.6% in the first eight months of 2013 and declined by 9.5% in the same period of 2012. Also, the aggregate value of real estate transactions totaled \$5.9bn in the first eight months of 2014, constituting a rise of 10.5% from \$5.3bn in the same period last year. The value of real estate deals was \$5.5bn in the first eight months of 2012 and \$5.2bn in the same period of 2011. In parallel, the average value per real estate transaction increased by 6.9% year-on-year to \$129,440 in the first eight months of 2014 relative to average values of \$121,049 in the same period of 2013 and \$119,299 in the first eight months of 2012.

There were 670 real estate transactions executed by foreigners in the first eight months of 2014, down 16.6% from 803 deals in the same period last year, and compared to an annual decrease of 8.1% in the first eight months of 2013 and an increase of 1.2% in the same period of 2012. In parallel, the number of real estate transactions by foreigners accounted for 1.5% of total real estate deals in the first eight months of 2014 relative to 1.8% in the same period of 2013 and 1.9% in the first eight months of 2012.

### Airport activity up 2% in first eight months of 2014

Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures, transit) totaled 4,379,002 in the first eight months of 2014, constituting an increase of 2.2% from the same period last year. The total number of arriving passengers rose by 4.9% year-on-year to 2,178,862 in the first eight months of the year compared to an increase of 4% in the same period of 2013. Also, the number of departing passengers dropped marginally by 0.3% year-on-year to 2,190,289 in the first eight months of 2014 relative to an annual increase of 9.9% in the same period of 2013. In parallel, the airport's aircraft movement grew by 1.7% year-on-year to 42,627 take-offs and landings in the first eight months of the year, compared to an annual drop of 1.9% in the same period of 2013. The HIA processed 63,883 metric tons of cargo in the first eight months of 2014 that consisted of 63,354 tons of freight and 529 tons of mail.

#### Hotel Performance in First Eight Months of 2014

	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Dubai	78	211	0.2
Jeddah	76	210	7.8
Doha	69	159	10.7
Abu Dhabi	76	144	(4.2)
Madina	78	143	7.7
Riyadh	66	142	9.1
Makkah	66	136	(17.3)
Amman	61	101	5.3
Manama	47	97	12.3
<b>Beirut</b>	<b>49</b>	<b>81</b>	<b>(13.6)</b>
Cairo City	31	27	16.1

Source: EY, Byblos Research

### **Interest rates to remain stable, demand for Eurobonds increases**

In the monthly meeting between the Central Bank and the Association of Banks in Lebanon (ABL), Governor Riad Salamé indicated that activity in the foreign exchange market is positive and balanced and that the Bank's free reserves grew in recent weeks. He expected interest rates in Lebanon to remain stable, as the U.S. Federal Reserve may or may not increase its policy rate starting next June, as the European Central Bank is not likely to raise interest rates before 2016-2017, and as Japan is following a zero interest rate policy. As such, he did not expect external market pressures that would lead to an increase of interest rates in Lebanon over the foreseeable future. Governor Salamé added that this is reflected by the spreads on sovereign Credit Default Swaps, which did not widen despite the adverse developments that the country is facing.

Governor Salamé pointed out that the Treasury has excess liquidity, while he said that the market was able to meet the government's financing needs without the Central Bank's intervention. He noted rising foreign demand for Lebanese Eurobonds, given the country's relative stability compared to other countries in the region such as Egypt, Turkey, Cyprus and others, and given that sovereign papers provide higher returns than those from Gulf Cooperation Council economies. He considered that the use of the Interbank market to acquire long-term notes could result in financial losses in case interest rates increase and bond prices and interest rates change as a result. Therefore, he advised banks to limit their use of leverage in acquiring such instruments. Further, he informed the ABL of the establishment of a Financial Stability Unit at the Central Bank to monitor credit concentration risks.

In parallel, the ABL expressed the need to form a joint committee that includes the ABL, the Central Bank and the Ministry of Finance. The committee would tackle tax issues related to the banks' off-balance sheet transactions and financial brokerage operations. The two sides stressed the need to coordinate with the Finance Ministry in order to prepare a draft law that would cover the numerous tax aspects in need of clarification or legislation.

## Corporate Highlights

### Deposits at Syrian affiliates of Lebanese banks rise by 12%, loans decrease by 2% and net profits drop by 65% in first half of 2014

Financial results issued by the affiliates of seven Lebanese banks operating in Syria show that their aggregate assets reached SYP435.9bn at the end of June 2014, constituting an increase of 8.9% from end-2013. The increase in banks' assets is due in part to an 11.8% rise in banks' short-term deposits at other local and foreign banks. In US dollar terms, the assets of the seven banks rose from \$2.8bn at the end of 2013 to \$2.9bn at the end of June 2014, constituting an increase of 3%.

The rise in overall assets was due to a 10.1% growth in the assets of Banque BEMO Saudi Fransi (+SYP11.8bn), an 11.7% rise in those of Bank of Syria & Overseas (+SYP10.7bn), a 10.7% surge in those of Fransabank Syria (+SYP4.6bn), a 12.8% improvement in those of Syria Gulf Bank, the affiliate of First National Bank (+SYP3.9bn), a 5.4% increase in those of Bank Audi Syria (+SYP2.9bn) and a 12.2% growth in those of Bank Al-Sharq, the affiliate of Banque Libano-Française (+SYP2.1bn); while it was partly offset by a 0.8% decrease in the assets of Byblos Bank Syria (-SYP367.4m). Also, the banks' loans totaled SYP86.5bn, or \$577.1m at end-June 2014, reflecting a drop of 1.9% from the end of 2013. The loans' decline was mainly caused by a contraction of 16% in the lending of Bank of Syria & Overseas (-SYP1.5bn), followed by a decrease of 5.7% in the loans of Banque BEMO Saudi Fransi (-SYP1.4bn), a drop of 9.1% in the lending of Syria Gulf Bank (-SYP1bn) and a 2.1% decline in the loans of Bank Audi Syria (-SYP391.8m). It was partly offset by a 16.2% rise in the lending of Fransabank Syria (+SYP1.3bn), a 7.1% surge in the loans of Byblos Bank Syria (+SYP0.8bn) and a 10.7% improvement in the lending of Bank Al-Sharq (+SYP0.5bn).

Also, the banks' total customer deposits reached SYP326bn at the end of June 2014, increasing by 11.8% from the end of 2013. In US dollar terms, customer deposits at the seven banks improved from \$2.1bn at the end of 2013 to \$2.2bn at the end of June 2014, constituting a rise of 5.7%. The increase was mainly prompted by an 11.1% rise in the deposits of Banque BEMO Saudi Fransi (+SYP11bn), followed by a 10.8% growth in those of Bank of Syria & Overseas (+SYP6.6bn), a 21.1% surge in those of Byblos Bank Syria (+SYP6.2bn), a 16.6% improvement in those of Fransabank Syria (+SYP3.5bn), a 13.1% increase in those of Syria Gulf Bank (+SYP3.3bn), a 4.9% rise in those of Bank Audi Syria (+SYP2.1bn) and a 12.4% growth in those of Bank Al-Sharq (+SYP1.7bn). The ratio of the banks' loans-to-customer deposits stood at 26.5% at end June 2014 compared to 30.2% at the end of 2013. Also, the aggregate shareholders' equity of the banks reached SYP43.2bn, or \$288.2m, at the end of June 2014, constituting an increase of 11.6% from end-2013.

In parallel, the aggregate net profits of the seven banks reached SYP4.5bn in the first half of 2014, constituting a decline of 65.3% from SYP13.1m in the same period last year. Also, the seven banks' net income amounted to SYP1.4bn in the first quarter of 2014 and reached SYP3.1bn in the second quarter of the year. The aggregate net profits of the seven banks would shift to a loss of SYP1.5bn, or \$10.1m, in the first half of 2014 when excluding foreign exchange gains on structural positions. The profits of Banque BEMO Saudi Fransi contracted by SYP2.7bn, followed by a decrease of SYP2.2bn in those of Fransabank Syria, a drop of SYP1.6bn in those of Bank Al-Sharq, a decline of SYP0.8bn in the net income of Bank Audi Syria and a contraction of SYP0.6bn in the profits of Byblos Bank Syria. In parallel, the net income of Syria Gulf Bank shifted from a gain of SYP28.2m to a loss of SYP0.9bn; while those of Bank of Syria & Overseas increased by SYP321.9m year-on-year. The aggregate net interest income of the banks reached SYP2.3bn in the first half of 2014, almost unchanged from the same period last year; while their total net fees & commission income decreased by 1% to SYP1.4bn. In US dollar terms, banks' net interest income totaled \$15.6m in the first half of the year, down 39% from \$25.6m in the first half of 2013; while their net fees & commission income stood at \$9.2m, a decline of 39.6% from \$15.3m in the same period last year. The banks' total operating income reached SYP10.4bn in the first half of 2014, a drop of 71.3% year-on-year; while total operating expenses reached SYP6.2bn in the first half of the year, down 75% from the same period last year. In US dollar terms, banks' operating income totaled \$70.9m in the first half of the year, constituting a decrease of 82.5% from \$404.7m in the same period last year; while their operating expenses stood at \$42.1m, down 84.8% from \$275.9m in the first half of 2013. The figures in US dollar reflect the prevailing official exchange rates during the covered period.

#### Results of Affiliates of Lebanese Banks in Syria for First Half of 2014 (in US\$)

	Banque BEMO Saudi Fransi	Bank of Syria & Overseas	Bank Audi Syria	Byblos Bank Syria	Fransabank Syria	Syria Gulf Bank	Bank Al-Sharq
Net Profits	\$9.0m	\$3.7m	\$9.3m	\$1.1m	\$11.3m	(\$5.9m)	\$2.6m
Total Assets	\$0.86bn	\$0.68bn	\$0.38bn	\$0.31bn	\$0.32bn	\$0.23bn	\$0.13bn
% Change**	10.1%	11.7%	5.4%	-0.8%	10.7%	12.8%	12.2%
Loans	\$150m	\$54m	\$121m	\$84m	\$62m	\$69m	\$36m
% Change**	-5.7%	-16.0%	-2.1%	7.1%	16.2%	-9.1%	10.7%
Customer Deposits	\$0.73bn	\$0.45bn	\$0.30bn	\$0.24bn	\$0.17bn	\$0.19bn	\$0.10bn
% Change**	11.1%	10.8%	4.9%	21.1%	16.6%	13.1%	12.4%

\*\*Change from end-2013

Source: Banks' financial statements



### **AUB, USJ and LAU among top Arab universities**

The QS World University Rankings for 2014/15 included three Lebanese universities among 800 ranked universities worldwide. The list ranked the American University of Beirut (AUB) in 249th place globally and in second place among 29 Arab universities included in the survey. AUB's score in this year's survey tied with Saudi Arabia's King Saud University. AUB's global rank improved by one spot from the preceding year, and its regional rank remained unchanged. AUB came in 250th place in the 2012 survey, in 300th place in 2011 and in 341st place in 2010. Also, the survey ranked Université Saint-Joseph (USJ) within the 551-600 range globally, along with Cairo University, Qatar University, Umm Al-Qura University and University of Sharjah in the region. USJ's rank was in the 601-650 range in the 2013 survey, in the 501-550 range globally in the 2012 list, in the 551-600 range in 2011, and above the 601st place in 2010. The QS World University Rankings included the Lebanese American University (LAU) for the first time in the 2014/15 survey. The list ranked LAU within the 651-700 range globally, along with the Jordan University of Science & Technology, University of Jordan and Abu Dhabi University in the region.

AUB received a score of 46.2 points compared to an average of 44 points for the top five universities in the region. The top ranked Arab university is King Fahd University of Petroleum & Minerals that came in 225th place globally, while the Massachusetts Institute of Technology ranked first worldwide and received a score of 100 points.

The rankings are based on a weighted average of six factors that are academic reputation with a 40% weight, faculty-to-student ratio and citations per faculty with 20% each, employer reputation with 10%, and international faculty ratio and international student ratio with 5% each. The QS World University Rankings are compiled by Quacquarelli Symonds Limited, a company specializing in education and study abroad.

### **Ciments Blancs' net income up 9% to \$1.7m in first half of 2014**

Société Libanaise des Ciments Blancs sal, an affiliate of Holcim Liban sal, declared net profits of \$1.7m in the first half of 2014, constituting an increase of 8.7% from net earnings of \$1.6m in the same period last year. The company generated total sales of \$7.9m in the first half of this year compared to \$7.1m in the same period of 2013. The firm's gross profit margin reached 37% in the first half of 2014 relative to 34.4% in the same period of 2013. Ciments Blancs' total assets reached \$23.7m at the end of June 2014, constituting an increase of 8.4% from \$21.9m at end-2013, while its shareholders' equity reached \$18.8m at end-June 2014 relative to \$17.1m at the end of 2013. The firm's current ratio, which is a measure of the company's ability to meet its short-term obligations, reached 2.27x at the end of June 2014 compared to 1.83x at end-2013 and from 2.23x at end-June 2013. The debt-to-equity ratio reached 26% at end-June 2014, relative to 27.8% at the end of 2013 and 22% at end-June 2013. Also, the firm's return on assets reached 14.3% on an annualized basis in the first half of 2014 relative to 14.6% in the same period of 2013; while its return on equity was 18% on an annualized basis relative to 17.8% in the first half of 2013. The company is engaged in the production and sale of white cement. The price of Ciments Blancs' Bearer shares closed at \$3.5 on September 26, 2014, unchanged from end-2013, while the price of Ciments Blancs' nominal shares closed at \$2.75 on September 26, down 15.1% from \$3.24 at end-2013.

### **IFC extends \$2m loan to support microfinance**

The International Finance Corporation, the private sector arm of the World Bank Group, announced that is extending a \$2m loan to the Lebanese Association for Development (Al Majmoua), the country's largest microfinance institution. The loan would allow Al Majmoua to grow its loan portfolio and expand its outreach to small business owners, including female entrepreneurs and poor individuals. About half of Al Majmoua's clients are located in the Bekaa, the north and the south regions. The investment is part of IFC's strategy in the Middle East and North Africa region to expand financial services to under-served regions and individuals. Established in 1994, Al Majmoua has a market share of about 50% and more than 46,000 active clients. The Economist Intelligence Unit's 2013 Global Microfinance Index ranked Lebanon in 40th place among 55 developing countries worldwide and in 11th place among 15 countries in the Middle East & Africa in terms of the environment for microfinance. Also, Lebanon came in 12th place among 17 Upper Middle Income Countries included in the survey.

### **Bank Audi completes capital increase**

Bank Audi sal, one of Lebanon's listed banks, announced that it raised its capital through the issuance of 50,000,000 common shares at a subscription price of \$6 per share. The bank's existing shareholders, including GDR holders, subscribed to \$240m worth of common shares and the International Finance Corporation, the private sector arm of the World Bank, acquired \$60m of the issuance. The bank pointed out that subscribers of the newly issued shares were allocated three warrants per common share, giving them the right to purchase shares in the bank's Turkish subsidiary Odea Bank. There were 149,528,847 warrants allocated to the subscribers of the new shares, which represents about 10% of Odea Bank's common shares. In parallel, the Extraordinary General Assembly of Bank Audi sal held on September 23, 2014 approved the increase of the bank's capital from LBP525.77bn, equivalent to \$348.9m, to LBP667.8bn or \$443m, through raising the nominal value per common share from LBP1,299 (\$0.86) per share to LBP1,650 (\$1.1) per share. The bank currently has 404,749,204 common shares; 1,250,000 Series "E" Preferred Shares; 1,500,000 Series "F" Preferred Shares; 1,500,000 Series "G" Preferred Shares; and 750,000 Series "H" Preferred Shares.



### **IBL's net income at \$28m in first half of 2014**

IBL Bank sal, one of Lebanon's top 14 banks, announced unaudited consolidated net profits of \$27.7m in the first half of 2014, up 13.4% from the same period last year. Net operating income grew by 11.8% year-on-year to \$52.9m, with net interest income decreasing by 11.8% to \$20.8m and net fees & commissions receipts falling by 1.4% to \$3.4m. Non-interest income accounted for 62.1% of total income, up from 51.7% in the first half of 2013; with net fees & commissions representing 9.8% of non-interest earnings, down from 13.4% in the first half of 2013. Further, the bank's interest margin was 0.86% in the first half of 2014 relative to 1.07% in the same period last year, and its net spread declined to 0.85% from 1.06% in the first half of 2013. Total operating expenditures increased by 7.8% to \$20.3m, with staff expenses growing by 1.3% to \$10.7m. Also, the bank's return on average assets reached 1.13% in the first half of 2014 on an annualized basis, up from 1.09% in the same period of 2013; while its return on average equity was 15.9% on an annualized basis relative to 15.7% in the first half of 2013. The cost-to-income ratio decreased to 36.9% in the first half from 38.5% in the same period last year.

In parallel, total assets reached \$5.1bn at the end of June 2014, constituting a 6.9% rise from end-2013 and an 11.1% increase from a year earlier; while loans & advances to customers, excluding loans & advances to related parties, grew by 15.9% from end-2013 and by 20.6% year-on-year to \$1bn. Also, customer deposits, excluding deposits from related parties, totaled \$4.6bn at end-June, reflecting a growth of 6.5% from end-2013 and a rise of 10.8% from a year earlier. The loans-to-deposits ratio increased to 22.7% at end-June 2014 from 21.2% a year earlier. Further, total shareholders' equity rose by 2.6% from end-2013 to \$340.4m at end-June 2014.

### **Jammal Trust Bank's net profits at \$5.4m in 2013**

Jammal Trust Bank sal posted audited consolidated net profits of \$5.4m in 2013, reflecting a rise of about 4 times from \$1.4m in 2012. Net interest income reached \$21.6m in 2013, up 15% from the preceding year; while net fees & commission income rose by 32.9% to \$4.9m year-on-year. Operating expenditures grew by 6.6% to \$24m, with staff expenses decreasing by 2.8% to \$9m. The bank's return on assets reached 0.65% in 2013 relative to 0.2% in 2012, while its return on equity was 8.5% last year, up from 2.4% in 2012.

In parallel, total assets reached \$827.3m at end-2013, constituting an increase of 23% from \$672m at end-2012; while loans & advances to customers, excluding loans & advances to related parties, increased by 26.5% year-on-year to \$324.9m. Also, customer deposits, excluding deposits from related parties, totaled \$721.8m at end-2013, growing by 20.2% from a year earlier. The bank's loans-to-deposits ratio increased to 51.1% in 2013 from 48.5% in the previous year. The bank's shareholders' equity rose by 8.7% year-on-year to \$63.8m at end-2013.

## Ratio Highlights

(in % unless specified)	2011	2012	2013	Change*
Nominal GDP (\$bn)	40.1	42.5	44.3	
Public Debt in Foreign Currency / GDP	52.2	57.4	58.9	150
Public Debt in Local Currency / GDP	81.7	78.3	84.3	600
Gross Public Debt / GDP	133.9	135.7	143.2	750
Total Gross External Debt / GDP	169.2	170.0	176.7	670
Trade Balance / GDP	(39.7)	(39.5)	(39.0)	50
Exports / Imports	21.2	21.1	18.6	(250)
Fiscal Revenues / GDP	23.3	22.1	21.3	(80)
Fiscal Expenditures / GDP	29.1	31.3	30.8	(50)
Fiscal Balance / GDP	(5.9)	(9.2)	(9.5)	(30)
Primary Balance / GDP	4.2	(0.3)	(0.5)	(20)
Gross Foreign Currency Reserves / M2	79.2	69.4	69.6	20
M3 / GDP	242.6	244.6	250.8	620
Commercial Banks Assets / GDP	350.7	357.2	371.9	1,470
Private Sector Deposits / GDP	288.7	294.0	307.3	1,330
Private Sector Loans / GDP	98.3	102.2	106.9	470
Private Sector Deposits Dollarization Rate	65.9	64.8	66.1	130
Private Sector Lending Dollarization Rate	78.4	77.6	76.5	(110)

\* Change in basis points 12/13

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

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

## Risk Outlook

Lebanon	Oct 2012	Sep 2013	Oct 2013	Change*	Risk Level
Political Risk Rating	53.5	52.5	52.5	▼	High
Financial Risk Rating	35.0	33.5	33.5	▼	Moderate
Economic Risk Rating	34.0	28.5	28.5	▼	High
Composite Risk Rating	61.2	57.25	57.25	▼	High

Regional Average	Oct 2012	Sep 2013	Oct 2013	Change*	Risk Level
Political Risk Rating	59.3	58.2	58.3	▼	High
Financial Risk Rating	41.8	41.2	41.2	▼	Very Low
Economic Risk Rating	36.2	36.8	36.6	▲	Low
Composite Risk Rating	68.6	68.1	68.0	▼	Moderate

\*year-on-year

Source: The PRS Group, Byblos Research

Note: Political & Composite Risk Ratings range from 0 to 100 (where 100 indicates the lowest risk)

Financial & Economic Risk ratings range from 0 to 50 (where 50 indicates the lowest risk)

## Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's	B1	NP	Negative	B1		Negative
Fitch Ratings	B	B	Negative	B		Negative
Standard & Poor's	B-	B	Stable	B-	B	Stable
Capital Intelligence	B	B	Stable	B	B	Stable

Source: Rating agencies

Banking Ratings	Banks' Financial Strength	Banking Sector Risk	Outlook
Moody's	E+		Negative
EIU		CCC	

Source: Rating agencies

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