



# LEBANON THIS WEEK

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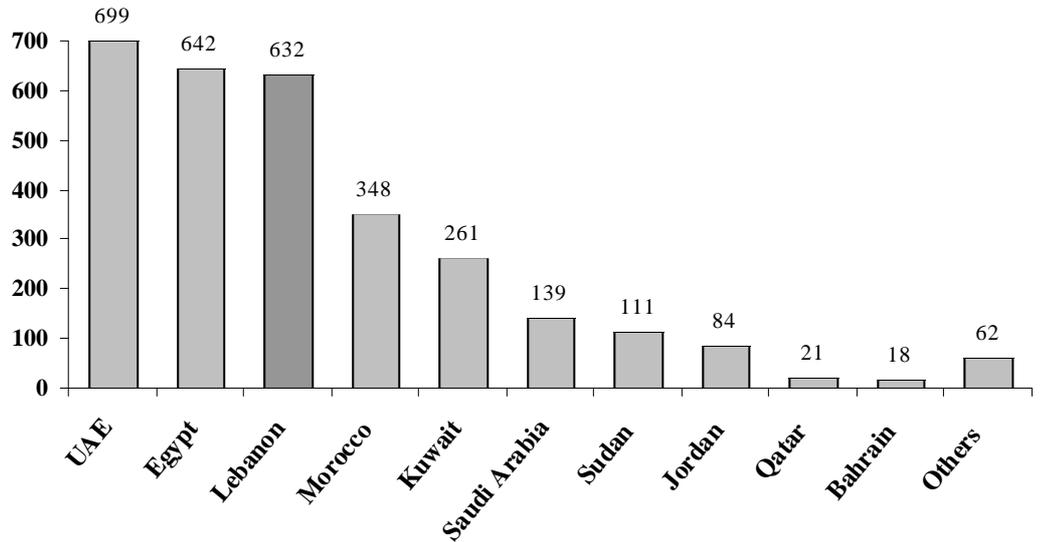
Banque Libano-Française declares dividends for 2014

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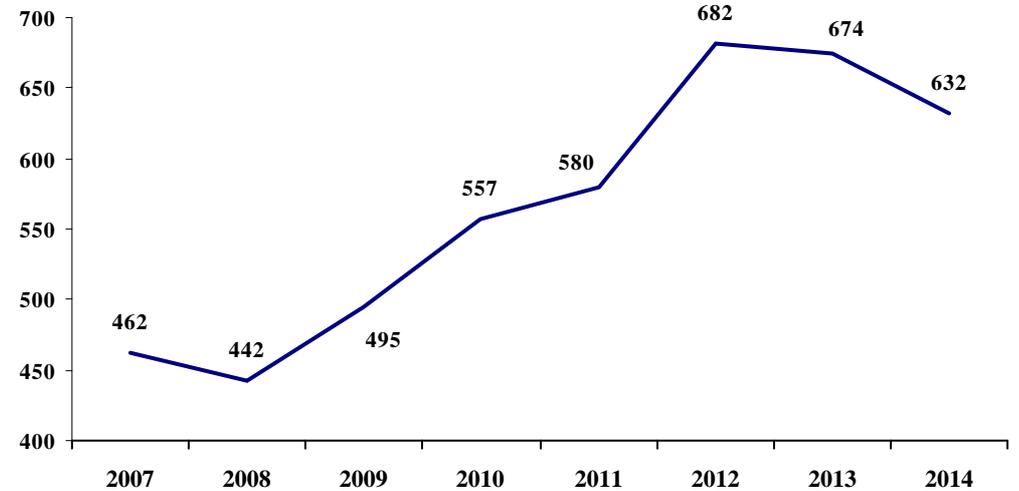
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## Charts of the Week

Number of Television Commercials Produced in Arab Countries in 2014



Number of Television Commercials Produced in Lebanon



Source: MartPoint Marketing Research Consultants, Byblos Research

## Quote to Note

"The net benefits for Lebanon of lower oil prices could be partly offset by an internal political environment that is not conducive to implementing structural reforms."

*Standard & Poor's, on the opportunity cost of political complacency*

## Number of the Week

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

## Lebanon in the News

<b>\$m (unless otherwise mentioned)</b>	<b>2013</b>	<b>Dec 13</b>	<b>Sep 14</b>	<b>Oct 14</b>	<b>Nov 14</b>	<b>Dec 14</b>	<b>% Change*</b>
Exports	3,936	243	282	279	248	268	10.29
Imports	21,228	1,797	1,671	1,724	1,393	1,649	(8.24)
Trade Balance	(17,292)	(1,554)	(1,389)	(1,445)	(1,145)	(1,381)	(11.13)
Balance of Payments	(1,128)	534	131	(566)	(424)	(116)	-
Checks Cleared in LBP	17,047	1,562	1,553	1,587	1,415	1,599	2.37
Checks Cleared in FC	55,321	4,728	4,852	4,730	4,367	4,692	(0.76)
Total Checks Cleared	72,368	6,290	6,405	6,317	5,782	6,291	0.02
Budget Deficit/Surplus	(4,220)	(238.09)	(564.21)	(216.28)	(585.95)	23.00	-
Primary Balance	(239.68)	70.72	(84.64)	258.98	(100.54)	281.94	298.6
Airport Passengers	6,265,470	510,367	640,546	549,726	427,403	573,229	12.32

<b>\$bn (unless otherwise mentioned)</b>	<b>2013</b>	<b>Dec 13</b>	<b>Sep 14</b>	<b>Oct 14</b>	<b>Nov 14</b>	<b>Dec 14</b>	<b>% Change*</b>
BdL FX Reserves	31.71	31.71	32.34	33.09	33.87	32.40	2.19
<i>In months of Imports</i>	<i>17.65</i>	<i>17.65</i>	<i>19.35</i>	<i>19.19</i>	<i>24.32</i>	<i>19.65</i>	<i>11.36</i>
Public Debt	63.46	63.49	65.97	66.21	66.64	66.56	4.84
Net Public Debt	53.18	53.21	55.89	56.23	56.71	57.30	7.69
Bank Assets	164.82	164.82	171.34	171.27	172.21	175.70	6.60
Bank Deposits (Private Sector)	136.21	136.21	142.02	142.04	142.74	144.43	6.03
Bank Loans to Private Sector	47.38	47.38	49.95	50.10	50.51	50.90	7.42
Money Supply M2	45.60	45.60	47.90	47.82	48.07	48.69	6.78
Money Supply M3	111.16	111.16	116.07	116.02	116.47	117.68	5.87
LBP Lending Rate (%)	7.29	7.29	7.08	7.29	6.96	7.49	20bps
LBP Deposit Rate (%)	5.44	5.44	5.51	5.58	5.55	5.56	12bps
USD Lending Rate (%)	6.88	6.88	6.94	6.95	7.01	6.97	9bps
USD Deposit Rate (%)	2.95	2.95	3.04	3.12	3.10	3.07	12bps
Consumer Price Index**	3.89	3.89	1.24	(0.27)	0.48	(1.66)	-

\* Year-on-Year

\*\* Year-on-Year percentage change

Note: bps i.e. basis point

Source: Association of Banks in Lebanon, Banque du Liban, Byblos Research

## 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"	11.13	1.00	117,262	9.65%	Apr 2015	10.000	99.95	26.69
Solidere "B"	11.05	(0.63)	18,132	6.23%	Jan 2016	8.500	103.19	3.97
Byblos Common	1.75	0.57	22,000	5.46%	Mar 2017	9.000	108.50	4.28
Byblos Pref. 08	101.10	(1.37)	160	1.75%	Nov 2018	5.150	101.25	4.76
Byblos Pref. 09	102.60	0.20	500	1.78%	May 2019	6.000	103.25	5.10
BLOM GDR	9.93	(1.19)	5,222	6.36%	Mar 2020	6.375	105.00	5.20
BLOM Listed	9.30	(5.10)	27,759	17.34%	Apr 2021	8.250	114.00	5.46
Audi GDR	6.60	0.00	46,867	6.65%	Oct 2022	6.100	102.50	5.68
Audi Listed	6.10	(2.40)	60,087	21.15%	Jun 2025	6.250	101.50	6.05
HOLCIM	16.25	0.00	2,200	2.75%	Nov 2026	6.600	103.88	6.13

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

Source: Byblos Bank Capital Markets

	<b>Apr 20-24</b>	<b>Apr 13-17</b>	<b>% Change</b>	<b>Mar 2015</b>	<b>Mar 2014</b>	<b>% Change</b>
<b>Total Shares Traded</b>	307,232	273,950	12.15	10,015,512	8,071,585	24.08
<b>Total Value Traded</b>	\$3,208,251	\$2,797,948	14.66	\$74,663,510	\$42,927,320	73.93
<b>Market Capitalization</b>	\$11.53bn	\$11.70bn	(1.44)	\$11.94bn	\$11.13bn	7.24

Source: Beirut Stock Exchange (BSE)



### Modest improvement of consumer confidence in Lebanon in second half of 2014

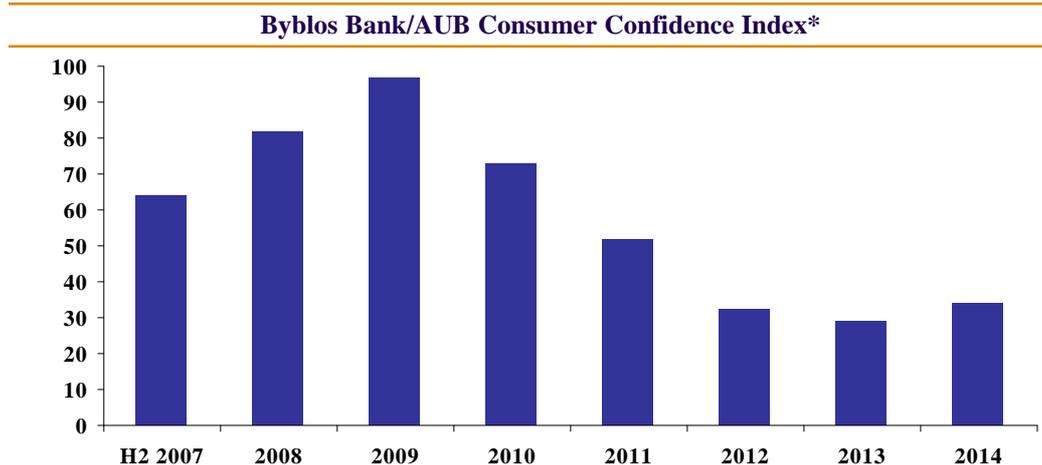
The level of consumer confidence in Lebanon improved in relative terms in the second half of 2014, as reflected by the results of the Byblos Bank/AUB Consumer Confidence Index for the third and fourth quarters of the year. The Index improved by 2.5% in July, declined by 5.4% in August and by 6.6% in September, grew by 2.8% in October and by 47% in November, and regressed by 20.2% in December 2014. The Index reached 45.5 points in November, its highest score since July 2012. The Index regressed by 9.8% in the third quarter to a monthly average of 32.2, and grew by 17% to an average of 37.6 in the fourth quarter of 2014. Also, the Index posted an average monthly value of 34.9 during the second half of 2014, increasing by a modest 4.6% from the first half of the year.

The repeated failure of the Lebanese Parliament to elect a President and the resulting institutional paralysis, the Lebanese Army's military confrontation with terrorist groups in the Bekaa in August 2014 and the ensuing abduction of 34 Lebanese military and security personnel; along with the persisting high level of political uncertainties in the country and socio-economic spillovers from the Syrian crisis, combined to negatively affect the confidence of Lebanese consumers during the third quarter of 2014. But several political and economic events led consumer sentiment to improve during the fourth quarter of 2014. On the political front, the countrywide crack-down on suspected terrorists by security forces and the overall improvement in security conditions, the launch of a food safety campaign by the Ministry of Public Health in November, and the announcement of a dialogue between opposed political parties, gave some reprieve to consumers. In addition, on the economic front, the Ministry of Telecommunications' decision to reduce telecom tariffs by 30%, and the pass-through to consumers of the 50% drop in global oil prices, provided some relief to the strained budgets of households. Despite the Index's improvement in the fourth quarter, the results of the third and fourth quarters of 2014 remained consistent with the ongoing trend of low household confidence since the first quarter of 2012.

The results of the full year show that consumer confidence improved in relative terms in 2014. The Index posted a monthly average of 34.1 in 2014, reflecting an increase of 17.6% from 29 in 2013 and constituting the first annual rise since 2009. However, the increase is also due to low-base effects and does not denote a reversal of trends, as the Index grew from a record low in 2013, while the 2014 results still constitute a drop of 65% from the peak year of 2009.

The Byblos Bank/AUB Present Situation Index and the Byblos Bank/AUB Expectations Index increased in relative terms in the second half of 2014. But the near-term expectations of consumers were generally lower than their views of their prevailing conditions during the second half of 2014, in line with results since the first half of 2012. The results also show that male consumers had a relatively higher level of confidence than their female counterparts in the second half of 2014, while consumers in the 21 to 29 year-old bracket posted a higher level of confidence than citizens in other age brackets during the second half of 2014. Also, households with an income of \$2,500 or more per month had a higher level of confidence than those earning less. Moreover, private sector employees had a higher level of confidence than public sector employees, the self-employed, the unemployed and housewives in the second half of the year. In addition, consumers in the North posted the highest confidence level across administrative districts, or mohafaza, in the second half of 2014, followed by consumers in Mount Lebanon, the South, the Bekaa and Beirut. Further, Christian consumers had a higher level of confidence than those from other religious affiliations during the covered period, followed by Shiite, Sunni and Druze consumers.

The Byblos Bank/AUB Consumer Confidence Index is a measure of the sentiment and expectations of Lebanese consumers towards the economy and their own financial situation. The Index is composed of two sub-indices, the Byblos Bank/AUB Present Situation Index and the Byblos Bank/AUB Expectations Index. The first sub-Index covers the current economic and financial conditions of Lebanese consumers, and the second one addresses their outlook over the coming six months. The Index has been calculated on a monthly basis since July 2007, with January 2009 as its base month. It is based on a nationally representative survey of 1,200 face-to-face interviews with adult males and females living throughout Lebanon. The monthly field survey is conducted by Statistics Lebanon, a market research and opinion-polling firm.



\* Monthly average Index for the period

Source: Byblos Research, based on surveys conducted by Statistics Lebanon

### Lebanon's external debt posts 13th lowest return in emerging markets, third lowest in the Middle East & Africa

Figures issued by Merrill Lynch indicate that Lebanon's external debt posted returns of 0.78% in the first quarter of 2015, constituting the fifth lowest return among 37 markets in the Central & Eastern Europe and the Middle East & Africa (CEEMEA) region, as well as the 13th lowest return among the 68 emerging markets included in Merrill Lynch's External Debt EM Sovereign Index. Lebanon underperformed the overall emerging markets return of 2.13% during the covered quarter. Further, Lebanon's external debt posted the third lowest return among 21 countries in the Middle East & Africa region in the covered period, ahead of only Gabon (0.36%) and Zambia (-0.62%).

In parallel, Lebanon's external debt posted returns of 0.23% in March 2015, constituting the 17th highest return in the CEEMEA region and the 31st highest return in emerging markets during the covered month. Lebanon underperformed the CEEMEA returns of 0.64%, those of emerging markets of 0.42% and the -0.29% return posted by 'B'-rated sovereigns in March 2015.

Further, Lebanon's external debt posted the 10th highest return in the Middle East & Africa region in March 2015. It outperformed the Ivory Coast (+0.22%), Turkey (+0.13%), Tunisia (+0.06%), South Africa (+0.04%), the UAE (zero percent), Rwanda (-1.01%), Bahrain (-1.14%), Zambia (-1.26%), Ghana (-1.38%), Gabon (-1.77%) and Senegal (-1.91%). It was outperformed by Nigeria (+2.77%), Angola (+1.43%), Namibia (+1.11%), Iraq (+1.02%), Israel (+0.63%), Morocco (+0.6%), Egypt (+0.47%), Qatar (+0.33%) and Kenya (+0.25%).

Merrill Lynch indicated that the spread on Lebanese Eurobonds ended March 2015 at 427 basis points, constituting the 12th widest spread in the CEEMEA region and the 21st widest among emerging markets. It was wider than the emerging markets' overall spread of 314 basis points at the end of March 2015. Lebanon has a weight of 3.53% on Merrill Lynch's External Debt EM Sovereign Index, the fifth highest in the CEEMEA universe and the 10th highest among emerging economies. Lebanon accounted for 6.5% of allocations in the CEEMEA region.

### Association of Banks amends reference rates on US dollar and Lebanese pound lending

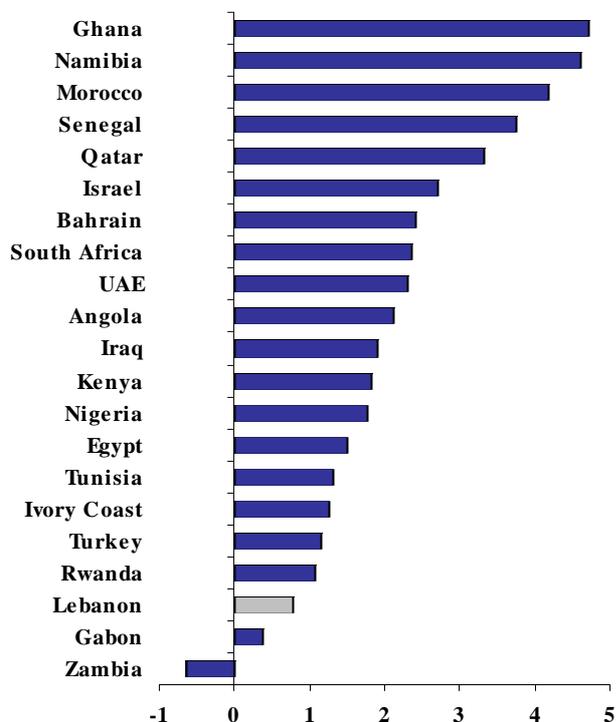
The Association of Banks in Lebanon (ABL) recommended to its member banks to increase the Beirut Reference Rate (BRR) in US dollars to 6.14% in May 2015 from 6.12% currently. The rate, considered as the reference rate for lending in foreign currency, replaced the London Inter-Bank Offering Rate (LIBOR) in 2009 as the ABL considered that the LIBOR no longer accurately reflects the cost of funding and lending in Lebanon. Additionally, the ABL recommended to its member banks to increase the BRR in Lebanese pounds to 8.72% in May from the current rate of 8.69%. The BRR in US dollars and Lebanese pounds was adopted in March and May 2009, respectively. The ABL considers that the BRR does not replace the Beirut Prime Lending Rate in each currency, but constitutes the basis to calculate the prime rate after adding the cost of liquidity and refinancing, credit risks and the profitability of banks to the prime lending rate.

### Value of real estate transactions down 21% to \$1.6bn in first quarter of 2015

Figures released by the Ministry of Finance indicate that the number of real estate transactions totaled 12,948 in the first quarter of 2015, constituting a decrease of 18.2% from 15,834 deals in the same quarter of 2014. In comparison, the number of real estate transactions rose by 16.3% in the first quarter of 2014 and dropped by 18.9% in the same quarter of 2013. Also, the aggregate value of real estate transactions reached \$1.6bn in the first quarter of 2015, constituting a drop of 21% from \$2.1bn in the same quarter of 2014. In comparison, the value of real estate deals totaled \$1.5bn in the first quarter of 2013 and \$1.2bn in the same quarter of 2012.

In parallel, the average value per real estate transaction dropped by 3.4% year-on-year to \$125,363 in the first quarter of 2015, relative to an average value of \$129,763 in the same quarter of 2014 and \$111,130 in the first quarter of 2013. Further, there were 307 real estate transactions executed by foreigners in the first quarter of 2015, increasing by 30.6% from 235 deals in the same quarter of 2014, and compared to an annual rise of 7.3% in the first quarter of 2014 and a drop of 32.6% in the same quarter of 2013. The number of real estate transactions by foreigners accounted for 2.4% of total real estate deals in the first quarter of 2015, up from 1.5% in the same quarter last year and from 1.6% in the first quarter of 2013.

### External Debt Performance in the Middle East & Africa in First Quarter 2015 (%)



Source: Merrill Lynch, Byblos Research

### **Lebanon's sovereign ratings affirmed, outlook 'stable'**

Capital Intelligence affirmed Lebanon's long- and short-term foreign and local currency sovereign ratings at 'B' with a 'stable' outlook. It indicated that Lebanon's ratings reflect its adequate international liquidity and especially the level of its foreign currency reserves, which constitutes a buffer against external economic shocks. It noted that foreign currency reserves and other liquid foreign assets stood at \$39.2bn at the end of February 2015 and were equivalent to 80% of GDP and to about 1.5 times the country's high external financing needs. The agency considered that deposits from the Lebanese Diaspora, which are equivalent to about 120% of GDP, support the accumulation of foreign reserves, are the main source to cover the current account deficit, and indirectly allow the government to finance its fiscal deficit. It added that non-resident deposit inflows have remained stable during previous periods of political instability, and continue to grow so far this year despite the rise in domestic and regional tensions. It noted that the level of official foreign currency reserves is adequate in case of moderate shocks, but could be insufficient in the event of large-scale currency conversions and deposit outflows.

Further, the agency said that the government benefits from a supportive domestic banking sector and continues to roll over maturing external debt maturities on favorable terms and for longer maturities. It noted, however, that the heavy reliance of external and government financing on the banking sector constitutes a major vulnerability for the Lebanese economy and is one of the main constraints on the ratings. It considered that the Central Bank's foreign currency reserves are adequate to face mild shocks, but could prove insufficient in case of large-scale currency conversions and deposit withdrawals.

Capital Intelligence considered that Lebanon's refinancing risks remain high, with the government's gross financing requirements equivalent to about 32% of GDP in 2014. It noted that the high level of external financing needs reflects a wide current account deficit of about 21% of GDP and an elevated external debt level equivalent to 240% of current account receipts. It also forecast the fiscal deficit at 11% of GDP in 2015-16 in the absence of serious fiscal consolidation measures and reforms.

It pointed out that the government relies on the domestic banking system to meet the bulk of its financing needs, which makes it vulnerable to a political or economic shock that would adversely affect the risk appetite of local banks or the confidence of depositors. But it considered that, in the absence of such shocks, the government would be able to manage its financing needs in the short-term due to the soundness of the banking system. It added that, in case of a funding gap, the government would probably borrow from the Central Bank and draw from its deposits that are equivalent to 12% of GDP, but it considered neither of these options to be a sustainable form of financing.

### **Trade deficit down 30% to \$2.2bn in first two months of 2015**

Total imports reached \$2.7bn in the first two months of 2015, constituting a decrease of 26.2% from the same period of 2014; while aggregate exports dropped by 2.1% to \$486.4m, leading to a trade deficit of \$2.2bn, down by 30% year-on-year. The narrowing of the deficit was due to a decrease of \$943.6m in imports year-on-year, given that exports fell by \$10.4m. The coverage ratio reached 18.3% in the first two months of 2015 compared to 13.8% in the same period last year, while it reached 17.9% in February 2015 relative to 14.6% in February 2014. The import bill dropped across all import categories. The value of imported oil & mineral fuels declined by \$587.4m, or 54% year-on-year, to \$500.5m, and that of base metals fell by \$106.6m, or 34.4%, to \$202.8m in the first two months of 2015. Also, the value of non-hydrocarbon imports decreased by 14.2% to \$2.2bn. Oil & mineral fuels accounted for 18.8% of total imports in the covered period compared to a share of 30.2% in the first two months of 2014.

In volume terms, imports reached 2.3 million tons in the first two months of 2015, constituting a decrease of 16.8% from 2.8 million tons in the same period last year; while exports rose by 17.7% to 0.3 million tons. Imports of oil & mineral fuels dropped by 18.2% year-on-year to 1.1 million tons, while non-hydrocarbon imports declined by 15.4% annually to 1.2 million tons. Imported oil & mineral fuels accounted for 49% of total imports in the covered period relative to a 50% share in the first two months of 2014.

China was the main source of imports with \$349.6m or 13.1% of the total in the first two months of 2015, followed by Russia with \$178.4m (6.7%), Italy with \$160.3m (6%), Germany with \$154.6m (5.8%), France with \$153.5m (5.8%), Greece with \$137.9m (5.2%) and the United States with \$131.8m (5%). Imports from Russia surged by 89.5% annually and those from France increased by 5.6%; while imports from the United States dropped by 63%, those from Italy fell by 42.2%, imports from Greece regressed by 28.5%, those from China declined by 24.5% and imports from Germany decreased by 8.4%.

Further, Saudi Arabia was the main export destination of Lebanese merchandise with \$60m or 12.3% of total exports, followed by the UAE with \$54.3m (11.2%), Syria with \$37.7m (7.8%), Iraq with \$36.3m (7.5%), South Africa with \$31.4m (6.5%), Egypt with \$16.8m (3.5%) and Jordan with \$15m (3.1%). Exports to Egypt surged by 74.1% year-on-year in the first two months of 2015, those to Saudi Arabia increased by 17.9% and exports to the UAE rose by 11.6%; while exports to South Africa dropped by 41.6% year-on-year, those to Jordan declined by 21.5%, exports to Iraq decreased by 4.2% and those to Syria regressed by 0.7%.

### Lebanon ranks 120th globally, 14th in MENA region in country risk

In its quarterly survey of the country risk level in 186 countries, the Euromoney Group ranked Lebanon in 120th place worldwide and in 14th place among 22 countries in the Middle East & North Africa region in the first quarter of 2015. Also, Lebanon came in 37th place among 52 upper middle-income countries (UMICs) included in the survey. Lebanon's global rank regressed by two spots from 118th place in each of the third and fourth quarters of 2014, by eight spots from 112th place in the second quarter of 2014 and by seven spots from 113th place in the first quarter of 2014. The survey evaluates individual country risk by assigning a weighting to six categories that cover Political Risks, Economic Performance, Access to Bank Finance & Capital Markets, Debt Indicators, Credit Ratings, and Structural Assessments.

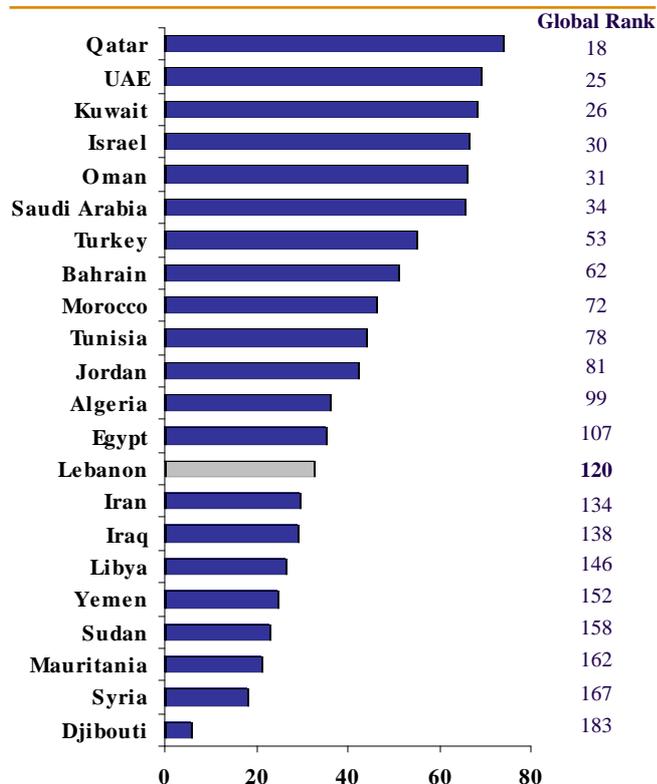
Globally, Lebanon had a lower country risk level than that of Greece, Bangladesh and Cameroon, and a higher risk level than that of the Ivory Coast, Uganda and Papua New Guinea among economies with a GDP of \$10bn or more. It also ranked ahead of Argentina and behind Jamaica among UMICs. Lebanon's global rank regressed by four spots on the Credit Ratings category and by one spot on the Access to Bank Finance & Capital Markets category. Lebanon's global rank was unchanged on each of the Political Risks, Economic Performance, Structural Assessments and Debt Indicators categories from the preceding quarter.

In parallel, Lebanon received a score of 32.7 points, constituting a decrease of 0.6% from 32.89 points in the fourth quarter of 2014 and a drop of 5.7% from 34.66 points in the first quarter of 2014. Lebanon's score came below the global average score of 42.6 points, the UMICs' average score of 39.4 points and the MENA average of 42.2 points. Also, its score came below the Arab average score of 40.9 points and the Gulf Cooperation Council (GCC) countries' average score of 65.5 points, but was above the average score of non-GCC Arab countries of 29.5 points.

Lebanon's score on the Credit Ratings category regressed by 16.8% from the fourth quarter of 2014; while its score on each of the Political Risks, Economic Performance, Structural Assessments, Debt Indicators and Access to Bank Finance & Capital Markets categories was unchanged from the fourth quarter of 2014.

Lebanon ranked ahead of Honduras and behind Guatemala globally, while it came ahead of Algeria and behind Egypt regionally on the Political Risks category. Also, it ranked ahead of Myanmar and behind Bangladesh worldwide, and came ahead of Libya and behind Tunisia regionally in terms of Economic Performance. Further, Lebanon ranked ahead of Morocco and behind Kazakhstan globally, and came ahead of Morocco and behind Bahrain regionally on the Structural Assessments category. Finally, Lebanon ranked ahead of Mozambique and behind Iraq and Nicaragua globally, and came ahead of only Mauritania and Djibouti regionally on the Debt Indicators category.

### MENA Countries Rankings & Scores



Source: Euromoney, Byblos Research

### Country Risk Indicators for Lebanon - First Quarter 2015

	Weighting (%)	Score	MENA Rank	Global Rank	MENA Avg Score	Global Avg Score
Political Risks	30	10.53	13	128	12.31	13.78
Economic Performance	30	12.65	14	112	13.80	13.44
Structural Assessments	10	5.06	9	66	4.40	4.02
Debt Indicators	10	2.69	20	161	5.19	4.58
Credit Rating	10	1.04	12	111	3.09	3.13
Access to Bank Finance & Capital Markets	10	0.75	14	139	3.37	3.59

Source: Euromoney, Byblos Research

### Narrowing of fiscal deficit in 2014 does not mask structural imbalances

The World Bank estimated Lebanon's fiscal deficit to have narrowed from 9.5% of GDP in 2013 to 7.2% of GDP in 2014, as the primary fiscal balance shifted from a deficit of 0.9% of GDP in 2013 to a surplus of 1.8% of GDP in 2014, the first such surplus since 2011. It attributed the improvement in the primary balance to higher public revenues, especially non-tax receipts. It estimated that public revenues rose by 2.4 percentage points of GDP in 2014 to 23.7% of GDP. However, the Bank indicated that the rise in public revenues and the subsequent improvement in the fiscal and primary balances reflect one-off revenues rather than policy actions. It added that the one-time receipts consist mainly of the transfer to the Treasury of telecom arrears for the 2010-13 period. In addition, it estimated that primary spending fell by 0.3 percentage points of GDP in 2014, but it considered that expenditures should have been significantly higher, given that authorities did not transfer to municipalities the latter's share from telecom receipts, which is equivalent to 1% of GDP. It noted that, once transferred, these receipts would count as expenditures, which would drastically reverse the technical fiscal improvement of 2014. In addition, the Bank estimated Lebanon's public debt level to have increased from 143.1% of GDP in 2013 to 145.7% of GDP in 2014, the third consecutive annual rise. It noted that debt servicing cost increased last year, especially the cost of financing the Lebanese pound-denominated portion of the debt. It attributed the rise to the large gap between the average effective real interest rate of 3.3% at which Lebanon borrows, and the economy's real GDP growth of 2% in 2014. It pointed out that the large gap offsets the benefit of a primary fiscal surplus in 2014.

In parallel, the Bank expected Lebanon's fiscal position to remain largely unchanged in 2015 as higher debt servicing costs and lower public revenues would offset the reduced Treasury transfers to Electricité du Liban (EdL) from lower global oil prices. It projected the fiscal deficit to widen marginally to 7.5% of GDP in 2015 and for the primary surplus to slightly narrow to 1.5% of GDP. It expected public revenues to drop by 1.5 percentage points of GDP to 22.2% of GDP in 2015, as the impact of the one-off transfer of telecom arrears is limited to 2014. It noted that this would offset in part the reduced transfers to EdL and the improvement in tax collection. Further, it anticipated debt servicing to increase due to the expected rise in U.S. interest rates. As such, it forecast the public debt level to maintain its upward trend and to reach 151.8% of GDP at the end of 2015. The Bank indicated that Lebanon's public finances would remain structurally weak and would continue to deteriorate as long as authorities do not implement fiscal reforms. It pointed out that Parliament has not ratified a budget since 2005 and that the authorities have not officially closed the fiscal accounts since 1993. It said that the government has largely spent through Treasury advances and ad-hoc measures, which leaves fiscal policy without an anchor. It noted that Lebanon's fiscal policy has been missing a medium-term perspective, even prior to 2005. It considered that the lack of proper fiscal oversight, and the extra-budgetary public entities that receive significant government funding, help develop a culture of non-transparency in fiscal affairs.

### Occupancy rate at Beirut hotels at 53%, room yields up 47% in first quarter of 2015

EY's benchmark survey of the hotel sector in the Middle East indicated that the average occupancy rate at hotels in Beirut was 53% in the first quarter of 2015, up from 39% in the same quarter of 2014 and compared to an average rate of 66% in 11 Arab markets included in the survey. The occupancy rate at Beirut hotels was the fourth lowest in the region in the covered quarter, while it was the second lowest in the first quarter of 2014. Cairo posted the lowest occupancy rate of 46% in the first quarter of 2015, followed by Manama (48%) and Amman (50%). Also, the occupancy rate at hotels in Beirut rose by 14 percentage points year-on-year, constituting the second highest increase among the 11 Arab markets, behind only Cairo (+16%), and relative to an average rise of 1.9 percentage points for the region. Occupancy rates at Beirut hotels were 50% in January, 55% in February and 54% in March 2015, compared to 36% in January, 41% in February and 40% in March 2014.

#### Hotel Sector Performance in First Quarter of 2015

	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Dubai	87	268	(6.4)
Doha	76	204	22.2
Jeddah	74	192	2.4
Abu Dhabi	81	182	1.1
Kuwait	58	156	(10.3)
Madina	81	155	8.9
Riyadh	71	155	(1.8)
Manama	48	93	(8.1)
<b>Beirut</b>	<b>53</b>	<b>92</b>	<b>46.5</b>
Amman	50	79	(18.7)
Cairo	46	48	106.6

Source: EY, Byblos Research

The average rate per room at Beirut hotels was \$172 in the first quarter of 2015, ranking the capital's hotels as the third least expensive in the region, relative to Amman (\$155) and Cairo (\$103). The average rate per room at Beirut hotels rose by 8% year-on-year and posted the fourth highest growth among all markets in the region, as it underperformed only Cairo (+35.4%), Doha (+11.5%) and Madina (+10.5%). The average rate per room in Beirut came below the regional average of \$213.6, which increased by 1.4% from the same quarter of 2014.

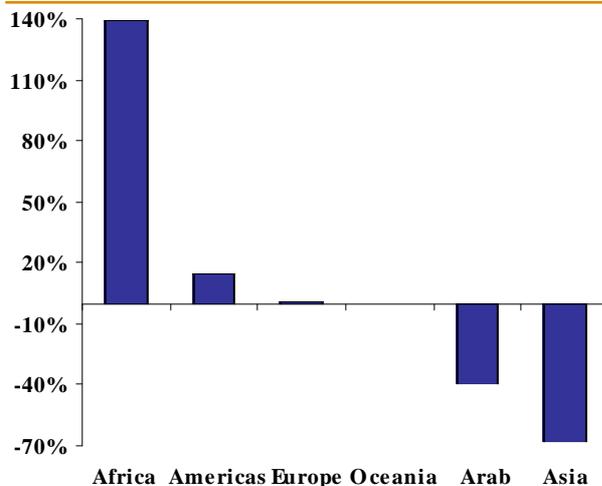
Further, revenues per available room (RevPAR) were \$92 in Beirut in the first quarter of 2015, up from \$63 in the same quarter of 2014, and came in ninth place in the region, higher than only Amman (\$79) and Cairo (\$48). Beirut's RevPAR surged by 46.5% year-on-year and posted the second highest increase among Arab markets, relative to a growth rate of 106.6% in Cairo. Beirut posted RevPARs of \$92 in January, \$93 in February and \$91 in March 2015, compared to \$64 in January, \$68 in February and \$57 in March 2014. Further, Dubai posted the highest average rate per room in the region at \$307, the highest occupancy rate at 87% and the highest room yield at \$268 in the first quarter of 2015.

### Tourist arrivals up 23% in first quarter of 2015

The number of incoming tourists to Lebanon totaled 282,256 in the first quarter of 2015, constituting an increase of 23.1% from 229,252 tourists in the same quarter of 2014, a rise of 2.8% from 274,663 tourists in the first quarter of 2013 and a drop of 10.1% from 313,854 tourists in the same quarter of 2012. Arab tourists accounted for 36.2% of total visitors in the first quarter of 2015, followed by visitors from European countries with 31.6%, the Americas with 14.1%, Asia with 9.6%, Africa with 5.4% and Oceania with 3%. Also, tourists from Iraq accounted for 14% of total visitors in the first quarter of 2015, followed by visitors from France with 8.1%, the United States with 7.1%, Egypt with 5.9%, Jordan with 5.3%, Canada with 4.9% and Saudi Arabia with 4.6%. The number of visitors from Oceanian countries increased by 38.7% in the first quarter of 2015, followed by visitors from Africa (+35.5%), the Arab region (+28.2%), the Americas (+20.6%), Europe (+19%) and Asia (+13.1%).

In parallel, the number of tourists from Saudi Arabia surged by 104.5% year-on-year in the first quarter of 2015, followed by visitors from the UAE with an 86.1% rise, Kuwait (+52.1%), Turkey (+50.8%), Germany (+27.4%), Iraq (+24.4%), Brazil (+23.2%), the United States and Canada (+22.1% each), England (+21.7%), Egypt (+16.4%), Sweden (+15.3%), France (+13.5%), Italy (+8%) and Jordan (+6.6%). In contrast, the number of visitors from Venezuela declined by 15.4% annually in the first quarter of 2015.

**Change in the Number of Tourist Arrivals from Main Sources in the first quarter of 2015\***



\* from first quarter of 2010

Source: Ministry of Tourism, Byblos Research

### Consumer Price Index down 3.4% year-on-year in March 2015

The Central Administration of Statistics' Consumer Price Index declined by 3.4% in the first quarter of 2015 from the same period last year and regressed by 2.7% from the fourth quarter of 2014. Also, the CPI decreased by 3.4% in March 2015 from March 2014. Prices of clothing & footwear increased by 13.8% in March year-on-year, followed by actual rent (+8.9%), prices of alcoholic beverages & tobacco (+4.6%), the cost of education (+4.5%), prices at restaurants & hotels (+2.1%), imputed rent (+1.9%), miscellaneous goods & services and furnishings & household equipment (+1.4% each); while the cost of recreation & entertainment was nearly unchanged. The distribution of actual rent shows that old rents rose by 20.1% year-on-year in March 2015, while new rents increased by 1.8% annually during the covered month. In contrast, communication costs fell by 24% in March 2015, followed by water, electricity, gas & other fuels (-14.3%), transportation costs (-11.7%), healthcare costs (-5.2%) and prices of food & non-alcoholic beverages (-1%).

Further, the CPI increased by 1.2% in March 2015 from the preceding month, relative to a month-on-month increase of 0.1% in February 2015. Prices of clothing & footwear increased by 10.2% month-on-month in March 2015, followed by the cost of water, electricity, gas & other fuels (+4%), transportation costs (+3.6%), and imputed rent, actual rent and prices at restaurants & hotels (+0.1% each). The cost of recreation & entertainment fell by 1.6% month-on-month, followed by food & non-alcoholic beverages prices and healthcare costs (-0.8% each), alcoholic beverages & tobacco and communication costs (-0.2% each) and miscellaneous goods & services (-0.1%). The cost of education and that of furnishings & household equipment were nearly unchanged month-on-month. Also, the Fuel Price Index increased by 10.1% month-on-month in March 2015, while the Education Price Index was unchanged from February 2015.

In parallel, the CPI increased by 3.6% month-on-month in the Bekaa region, by 1.9% in the South, by 1.1% in the North, by 0.9% in Nabatieh, by 0.8% in Mount Lebanon and by 0.4% in Beirut. In addition, transportation costs increased by 5.6% in Nabatieh, by 5.3% in the Bekaa region, by 3.9% in the South, by 3.5% in Mount Lebanon, by 3.3% in the North and by 2.3% in Beirut. The cost of housing, water, electricity, gas & other fuels rose across all regions, while the prices of food & non-alcoholic beverages, and the costs of healthcare and communication decreased across all regions. Also, the prices of clothing & footwear increased by 39% in the Bekaa region, by 27.3% in the South, by 6.1% in Mount Lebanon, by 4.6% in Beirut, and by 3.8% in the North; while they decreased by 3.4% in Nabatieh.

### Byblos Bank announces dividends for 2014, invites shareholders to General Assembly

The Board of Directors of Byblos Bank announced that it will propose to the bank's Annual Ordinary General Assembly the distribution of dividends of LBP200 (\$0.13) per share to holders of common shares, and of \$8 (LBP12,060) per share to the holders of Preferred Shares Class 2008 and Preferred Shares Class 2009. Also, the Bank plans to pay in US dollars the equivalent of LBP200 per share to GDR holders through the Bank of New York Mellon. Upon the General Assembly's approval, the dividends on common and preferred shares will be paid starting on May 22nd net of a 5% withholding tax, while those on GDRs will be disbursed starting on May 27, 2015 after deducting the withholding tax and other expenses. Byblos Bank's share capital consists of 565,515,040 common shares, 2,000,000 preferred shares Class 2008 and 2,000,000 preferred shares Class 2009. In parallel, the Board of Directors of Byblos Bank invited its shareholders to attend its Annual General Assembly on May 15, 2015. The agenda of the meeting includes examining the Board of Directors' and the auditors' general reports for 2014, approving the financial statements of 2014, granting clearance to the Chairman and Board members for their administrative duties during 2014, electing a new Board of Directors, appointing auditors, and determining the remuneration of the auditors and the emoluments of the Board members and Board Committee members for 2015.

Byblos Bank declared consolidated net profits of \$175.7m in 2014, constituting a rise of 12.5% from \$156.2m in 2013. Total assets reached \$19bn at end-2014, constituting a rise of 3% from the end of 2013; while net loans & advances to customers rose by 4.8% year-on-year to \$4.7bn at end-2014. Byblos Bank maintained strong financial buffers to mitigate unexpected risks and to counter economic volatility. Customers' deposits totaled \$15.5bn and increased by 6.5% from end-2013. The bank's net non-performing loans, or NPLs net of specific provisions and reserved interest, were equivalent to 0.94% of net loans at the end of 2014. Also, the NPL coverage ratio, including collective provisions, was 120% at the end of 2014. The bank's capital adequacy ratio stood at 16.5% at end-June 2014 according to Basel III criteria, which is significantly above the minimum regulatory requirements of 11.5% for 2014 and one of the highest such ratios in the Lebanese banking sector. The bank's return on average assets improved from 0.88% in 2013 to 0.94% in 2014; while its return on average common equity rose from 9.8% in 2013 to 11.07% in 2014. The Byblos Bank Group has a direct presence in Syria, Sudan, Iraq, the United Arab Emirates, the Democratic Republic of Congo, Nigeria and Armenia, as well as in Belgium, France, the United Kingdom, and Cyprus.

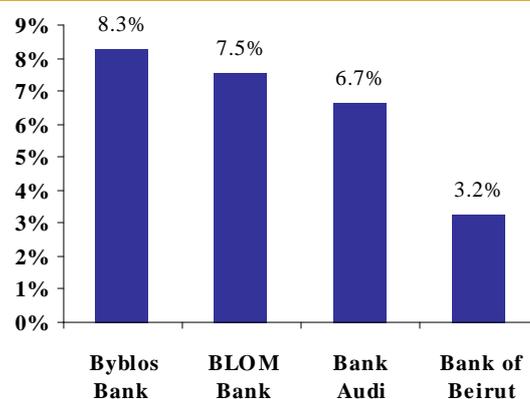
### Venture capital firm raises \$15m for ICT fund

The venture capital firm Middle East Venture Partners Holding sal (MEVP) announced the first closing of the Middle East Venture Fund II (MEVF II) with investor commitments of \$15m. MEVF II aims to raise an additional \$15m by the end of June 2015 for a fund size of \$30m. It intends to invest between \$500,000 and \$3m in first round financing in 12 early-stage technology and mobile businesses that operate in the Middle East & North Africa region's Information & Communication Technology (ICT) sector.

MEVF II has already approved four investments for an aggregate amount of about \$5m. The fund invested in YouGotAGift.com, an online marketplace specializing in digital gift cards in the Middle East. It also provided equity funding to Lamsa, an Arabic digital library tailored for children between one and seven years old; as well as to The Luxury Closet, an online marketplace that sells pre-owned luxury items at a discounted price; and to Altibbi, a digital medical content platform that offers several online medical services in Arabic.

MEVF II's limited partners include Zain Group, the Kuwaiti mobile telecommunications company; the Choueiry Group, a media representation group in the Middle East; and Mr. Osman Sultan, Chief Executive Officer of UAE telecom operator du; among others. MEVP has invested in more than 25 technology companies since 2010, and has more than \$75m in assets under management. It invests in the early and growth stages of innovative companies.

### Gross Dividend Yield on Common Shares\*



\* for closing market prices at end-2014

Source: Banks' releases, Byblos Research

### **Kafalat loan guarantees down 27% to \$20m in first quarter of 2015**

Figures released by the Kafalat Corporation show that loans extended to small- and medium-size companies under the guarantee of Kafalat reached \$19.6m in the first quarter of 2015, constituting a decline of 27% from \$26.8m in the same quarter of 2014. Kafalat provided 143 loan guarantees year-to-March 2015, down 31.6% from 209 in the same quarter of 2014. The average loan size reached \$136,739 compared to \$128,217 in the first quarter of 2014. Mount Lebanon accounted for 44.1% of the total number of guarantees, followed by the Bekaa with 18.9%, the South and the North with 11.9% each, Nabatieh with 9.8% and Beirut with 3.5%. The agricultural sector accounted for 46.2% of the total number of guarantees, followed by the industrial sector with 35%, tourism with 9.8%, handicraft with 6.3% and specialized technologies with 2.8%. Kafalat is a state-sponsored organization that provides financial guarantees for loans of up to \$400,000 earmarked for the setup and expansion of small- and medium-size companies in productive sectors. It guarantees up to 75% of the loan amount and a similar percentage of the interest that accrues during the grace period. It also guarantees up to 90% of the loan amount for innovative start-ups and a similar percentage of the interest that accrues during the grace period.

### **Banque Libano-Française declares dividends for 2014**

Banque Libano-Française sal announced that its Ordinary General Assembly held on April 21, 2015 approved the distribution of preferred dividends for 2014. The bank will pay gross dividends of \$8 (LBP12,060) per share for shareholders carrying Preferred Shares Series 2 and \$7 (LBP10,553) per share for holders of Preferred Shares Series 3. The dividends will be paid net of a 5% withholding tax, as the bank will reimburse the holders of Preferred Shares for the difference between the 10% withholding rate and the rate for which the shares would have been taxed if they were listed on the Beirut Stock Exchange. The Bank began paying dividends on April 24, 2015.

BLF posted unaudited consolidated net profits of \$102.1m in 2014. Its assets reached \$11.3bn at end-2014; while loans & advances to customers, excluding loans & advances to related parties, rose by 11.2% from end-2013 to \$4bn at the end of 2014. Also, customer deposits, excluding deposits from related parties, totaled \$9.4bn at end-2014, up by 0.5% year-on-year.

### **Top five freight forwarders' import activity down 12% in first two months of 2015**

Figures released by the Port of Beirut Authority show that overall import shipping operations by the top five freight forwarders through the port reached 48,461 20-foot equivalent units (TEUs) in the first two months of 2015, constituting a decline of 12.3% from 55,254 TEUs in the same period last year. They accounted for 61.8% of the total import freight forwarding market and for 94.4% of imports to the Lebanese market during the covered month.

Mediterranean Shipping Company (MSC) handled 16,557 TEUs in imports in the first two months of 2015, equivalent to a 21.1% share of the total freight forwarding import market. It was followed by Merit Shipping with 11,663 TEUs (14.9%), Sealine Group with 9,757 TEUs (12.4%), Metz Group with 7,124 TEUs (9.1%) and Gezairy Transport with 3,360 TEUs (4.3%). Further, Merit Shipping registered the highest growth in import shipping among the top five freight forwarders at 2.6% year-on-year, while Gezairy Transport posted the steepest decline at 41.3%.

In parallel, export shipping operations by the top five freight forwarders through the Port of Beirut reached 8,979 TEUs in the first two months of 2015, constituting a decrease of 10.5% from 10,034 TEUs in the same period last year. They accounted for 11.7% of the total export freight forwarding market and for 99.2% of exported Lebanese cargo during the first two months of 2015. Sealine Group handled 3,103 TEUs of freight, equivalent to 34.3% of the Lebanese cargo export market. It was followed by Merit Shipping with 2,759 TEUs (30.5%), Metz Group with 1,889 TEUs (20.9%), MSC with 719 TEUs (7.9%) and Gezairy Transport with 509 TEUs (5.6%). Further, Gezairy Transport registered the highest growth in export shipping among the top five freight forwarders at 40.6% year-on-year, while MSC posted the steepest drop of 27.4%.

## Ratio Highlights

(in % unless specified)	2012	2013	2014	Change*
Nominal GDP (\$bn)	42.9	45.4	47.5	
Public Debt in Foreign Currency / GDP	56.8	57.5	53.9	(362)
Public Debt in Local Currency / GDP	77.6	82.3	86.2	397
Gross Public Debt / GDP	134.5	139.8	140.1	35
Total Gross External Debt / GDP**	166.8	168.7	173.1	440
Trade Balance / GDP	(39.2)	(37.8)	(36.2)	163
Exports / Imports	21.1	19.1	16.1	(295)
Fiscal Revenues / GDP	22.1	20.4	22.6	217
Fiscal Expenditures / GDP	30.7	29.3	29.0	-35
Fiscal Balance / GDP	(8.6)	(9.0)	(6.4)	262
Primary Balance / GDP	(0.3)	(0.5)	2.7	321
Gross Foreign Currency Reserves / M2	69.4	69.5	66.5	(299)
M3 / GDP	242.5	244.8	247.7	290
Commercial Banks Assets / GDP	354.0	363.0	369.9	685
Private Sector Deposits / GDP	291.4	300.0	304.1	404
Private Sector Loans / GDP	101.3	104.4	107.2	279
Private Sector Deposits Dollarization Rate	64.8	66.1	65.7	(43)
Private Sector Lending Dollarization Rate	77.6	76.5	75.6	(98)

\* Change in basis points 13/14

\*\*Includes portion of public debt owed to non-residents, liabilities to non-resident banks, non-resident deposits (estimated by the IMF), Bank for International Settlements' claims on Lebanese non-banks

Source: Association of Banks in Lebanon, International Monetary Fund, Institute of International Finance, 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	Apr 2013	Mar 2014	Apr 2014	Change*	Risk Level
Political Risk Rating	53.0	52.0	52.0	▲	High
Financial Risk Rating	35.0	38.0	38.0	▼	Low
Economic Risk Rating	34.0	27.0	27.0	▲	High
Composite Risk Rating	61.0	58.5	58.5	▲	High

Regional Average	Apr 2013	Mar 2014	Apr 2014	Change*	Risk Level
Political Risk Rating	58.6	58.3	58.3	▲	High
Financial Risk Rating	41.5	40.5	40.7	▲	Very Low
Economic Risk Rating	36.3	35.9	36.1	▲	Low
Composite Risk Rating	68.2	67.3	67.5	▲	Moderate

\*year-on-year change in risk

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	B2	NP	Negative	B2		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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