

## LEBANON THIS WEEK

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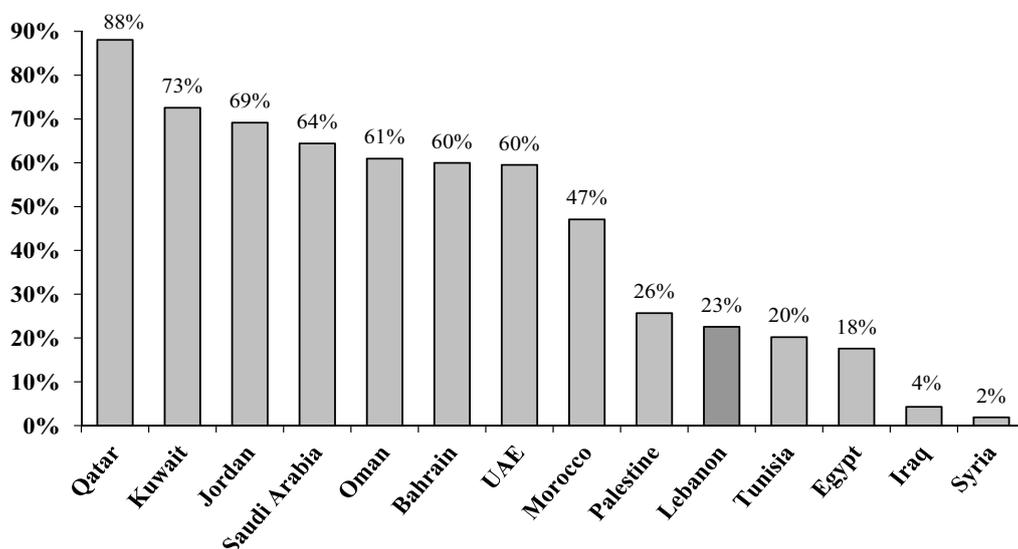
Cedrus Bank increases capital by \$10m

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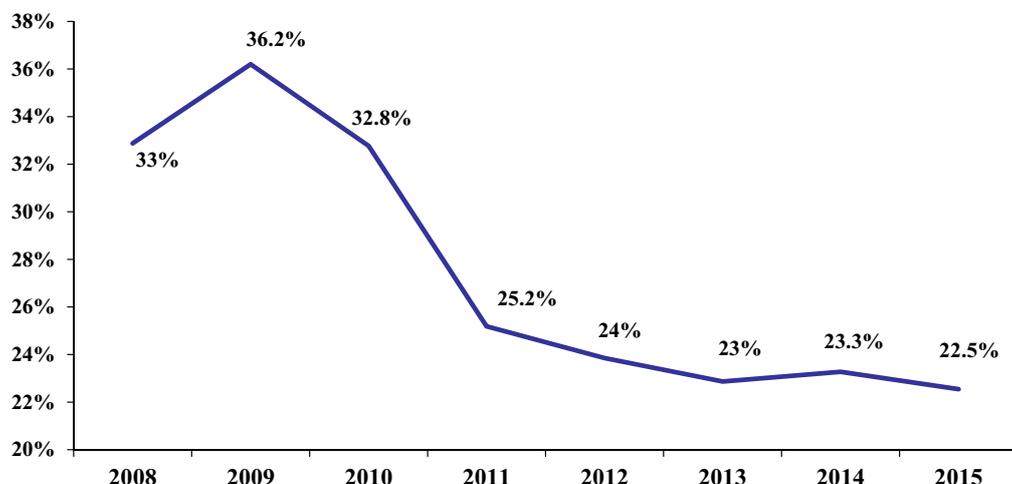
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### Charts of the Week

Stock Market Capitalization in Select Arab Countries in 2015 (% of GDP)



Stock Market Capitalization in Lebanon (% of GDP)



Source: Local Stock Exchanges, International Monetary Fund, Institute of International Finance, Arab Monetary Fund, Oanda.com, BMI Research, Byblos Bank

### Quote to Note

"Lebanon has maintained strong external liquidity despite persistently large current account deficits."

*Fitch Ratings, on Lebanon's high level of assets in foreign currency*

### Number of the Week

**\$12m:** Cost of cybercrimes in Lebanon in 2015, according to the Special Investigation Commission against Money Laundering and Terrorism Financing

## Lebanon in the News

\$m (unless otherwise mentioned)	2014	Sep 2014	June 2015	July 2015	Aug 2015	Sep 2015	% Change*
Exports	3,313	282	281	218	219	243	(13.83)
Imports	20,494	1,671	1,690	1,527	1,479	1,434	(14.18)
Trade Balance	(17,181)	(1,389)	(1,409)	(1,309)	(1,260)	(1,191)	(14.25)
Balance of Payments	(1,408)	131	(794)	2	(332)	(122)	-
Checks Cleared in LBP	18,143	1,553	1,593	1,484	1,597	1,587	2.18
Checks Cleared in FC	56,348	4,852	4,504	3,979	4,294	4,151	(14.45)
Total Checks Cleared	74,491	6,405	6,097	5,463	5,891	5,738	(10.42)
Budget Deficit/Surplus	(3,073)	(564.21)	(64.56)	(72.97)	(131.05)	(619.44)	9.79
Primary Balance	1,307	(84.64)	289.34	198.84	119.82	(121.58)	43.65
Airport Passengers***	6,567,647	640,698	594,221	791,162	893,708	750,290	17.11

\$bn (unless otherwise mentioned)	2014	Sep 2014	June 2015	July 2015	Aug 2015	Sep 2015	% Change*
BdL FX Reserves	32.40	32.34	34.11	33.65	32.77	32.02	(0.97)
<i>In months of Imports</i>	<i>18.97</i>	<i>19.35</i>	<i>20.18</i>	<i>22.04</i>	<i>22.15</i>	<i>22.33</i>	<i>15.40</i>
Public Debt	66.58	66.00	69.02	69.19	68.89	68.72	4.12
Net Public Debt	57.31	55.92	59.46	59.56	59.91	60.40	8.02
Bank Assets	175.70	171.34	180.08	179.91	181.62	181.34	5.84
Bank Deposits (Private Sector)	144.43	142.02	148.58	148.39	149.63	149.11	4.99
Bank Loans to Private Sector	50.90	49.95	51.74	52.06	52.41	52.61	5.33
Money Supply M2	48.69	47.90	50.59	50.74	51.08	51.54	7.61
Money Supply M3	117.68	116.07	120.46	120.82	121.52	122.08	5.18
LBP Lending Rate (%)	7.49	7.08	7.12	6.90	6.89	7.08	-
LBP Deposit Rate (%)	5.56	5.51	5.51	5.58	5.61	5.57	6bps
USD Lending Rate (%)	6.97	6.94	7.03	7.09	7.12	7.19	25bps
USD Deposit Rate (%)	3.07	3.04	3.16	3.17	3.19	3.14	10bps
Consumer Price Index**	0.59	1.24	(0.38)	(1.11)	1.02	(0.64)	-

\* Year-on-Year \*\* Year-on-Year percentage change

\*\*\*includes arrivals, departures, transit

Note: bps i.e. basis points

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

## Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization
Byblos Common	1.62	0.00	137,589	5.27%
BLOM GDR	9.70	0.00	109,856	6.49%
Audi GDR	6.00	0.00	59,300	6.31%
Audi Listed	6.00	(0.83)	26,124	21.71%
Solidere "A"	10.05	0.70	24,917	9.10%
Solidere "B"	9.91	0.81	6,475	5.83%
Byblos Pref. 09	101.10	0.50	5,962	1.83%
BLOM Listed	9.50	0.53	604	18.49%
Byblos Pref. 08	101.30	0.10	250	1.83%
HOLCIM	14.45	0.00	0	2.55%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Jan 2016	8.500	100.00	8.16
Mar 2017	9.000	104.75	4.80
Nov 2018	5.150	99.60	5.30
May 2019	6.000	100.00	6.00
Mar 2020	6.375	100.88	6.13
Apr 2021	8.250	108.50	6.32
Oct 2022	6.100	97.88	6.49
Jun 2025	6.250	97.00	6.68
Nov 2026	6.600	98.00	6.86
Feb 2030	6.650	97.00	6.99

Source: Byblos Bank Capital Markets

	Jan 11-15	Jan 4-8	% Change	December 2015	December 2014	% Change
<b>Total Shares Traded</b>	407,003	1,471,126	(72.33)	4,158,263	10,832,896	(61.61)
<b>Total Value Traded</b>	\$3,829,914	\$9,559,535	(59.94)	\$32,073,440	\$69,469,519	(53.83)
<b>Market Capitalization</b>	\$11.05bn	\$11.04bn	0.03	\$11.22bn	\$11.22bn	(0.02)

Source: Beirut Stock Exchange (BSE)



## Lebanon ranks 122nd 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 122nd place worldwide and in 14th place among 22 countries in the Middle East & North Africa (MENA) region in the fourth quarter of 2015. Also, Lebanon came in 38th place among 52 upper middle-income countries (UMICs) included in the survey. Lebanon's global rank regressed by two spots from 120th place in the third quarter of 2015 and by four spots from 118th place in the fourth quarter of 2014. Lebanon's regional rank has not changed since the fourth quarter of 2013. 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.

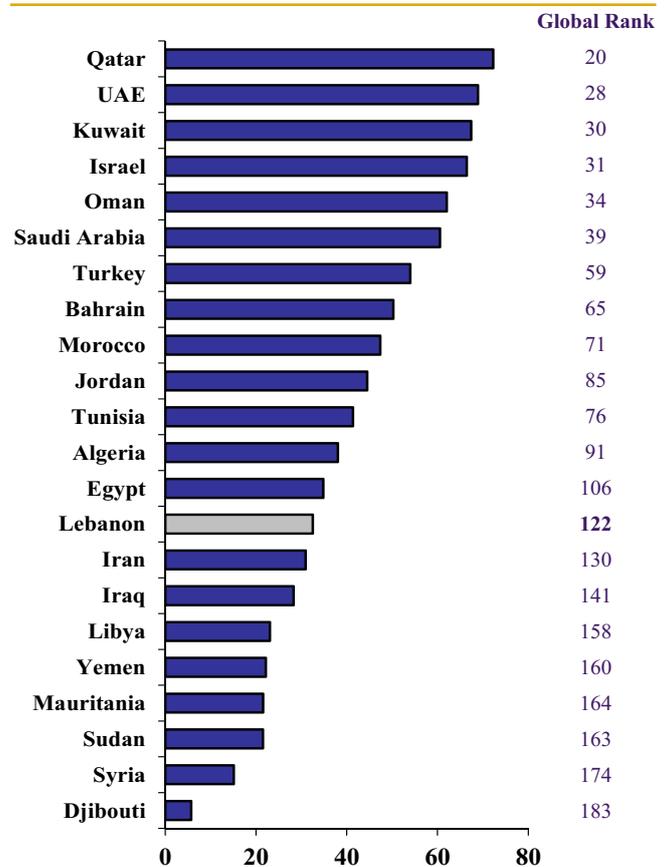
Globally, Lebanon had a lower country risk level than Bangladesh, Papua New Guinea and Argentina, and a higher risk level than Greece, Uganda and Jamaica among economies with a GDP of \$10bn or more. It also ranked ahead of Iran and behind Jamaica among UMICs. Lebanon's global rank regressed by three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

In parallel, Lebanon received a score of 32.52 points, constituting decreases of 1% from 32.84 points in the third quarter of 2015 and of 1.1% from 32.89 points in the fourth quarter of 2014. Lebanon's score came below the global average score of 42.9 points, the UMICs' average of 39.7 points and the MENA average score of 41.3 points. Also, its score came below the Arab average score of 39.9 points and the Gulf Cooperation Council (GCC) countries' average score of 63.6 points, but was above the average score of non-GCC Arab countries of 28.9 points.

Lebanon's score regressed by 15.6% quarter-on-quarter on the Debt Indicators category, while its score on the Economic Performance category improved by a marginal 0.5%. Also, its score on each of the Structural Assessment, Political Risks, Credit Ratings and Access to Bank Finance & Capital Market categories was unchanged from the third quarter of 2015.

Lebanon ranked ahead of Honduras and behind Algeria globally, while it came ahead of Mauritania and behind Algeria regionally on the Political Risks category. Also, it ranked ahead of Nicaragua and behind Myanmar worldwide, and came ahead of Libya and behind Iraq regionally in terms of Economic Performance. Further, Lebanon came ahead of Kazakhstan and behind Panama globally, and ranked ahead of Morocco and behind Bahrain regionally on the Structural Assessment category. Finally, Lebanon ranked ahead of Cambodia and behind Albania globally, and came ahead of Iraq and behind Jordan regionally on the Debt Indicators category.

**MENA Countries Rankings & Scores in Fourth Quarter of 2015**



Source: Euromoney, Byblos Research

**Country Risk Indicators for Lebanon - Fourth Quarter 2015**

	Weighting (%)	Score	MENA Rank	Global Rank	MENA Avg Score	Global Avg Score
Political Risks	30	10.26	14	130	12.19	13.76
Economic Performance	30	12.39	14	115	13.45	13.41
Structural Assessments	10	5.09	9	66	4.36	4.03
Debt Indicators	10	2.27	16	164	4.47	4.71
Credit Rating	10	1.04	12	113	3.07	3.14
Access to Bank Finance & Capital Markets	10	1.50	14	122	3.77	3.88

Source: Euromoney, Byblos Research



### Lebanon's external debt posts 21st highest return in emerging markets, second highest in the Middle East & Africa

Figures issued by Merrill Lynch indicate that Lebanon's external debt posted returns of 2.91% in 2015, constituting the 11th highest return among 41 markets in the Central & Eastern Europe and the Middle East & Africa (CEEMEA) region, as well as the 21st highest return among the 73 emerging markets included in Merrill Lynch's External Debt EM Sovereign Index. Lebanon outperformed the overall emerging markets return of 0.84% during 2015. Further, Lebanon's external debt posted the second highest return among 24 countries in the Middle East & Africa region in 2015, behind Qatar (+3.28%).

In parallel, Lebanon's external debt posted returns of 1.62% in December 2015, constituting the highest return in emerging markets during the covered month. Lebanon outperformed the overall emerging markets return of -1.15% in December 2015.

Further, Lebanon's external debt posted the highest return in the Middle East & Africa region in December 2015. It outperformed Jordan (+1.02%), Egypt (+0.86%), Bahrain (+0.79%), Morocco (+0.46%), the UAE (+0.04%), Turkey (+0.02%), Tunisia (-0.55%), Israel (-0.61%), Qatar (-0.69%), Rwanda (-0.8%), the Ivory Coast (-0.93%), Senegal (-2.37%), Kenya (-2.72%), Namibia (-2.96%), Nigeria (-3.84%), South Africa (-4.07%), Cameroon (-4.4%), Angola (-4.64%), Ghana (-4.75%), Iraq (-6%), Gabon (-6.23%) and Zambia (-6.98%).

Merrill Lynch indicated that the spread on Lebanese Eurobonds ended December 2015 at 448 basis points, constituting the 20th widest spread in the CEEMEA region and the 32nd widest among emerging markets.

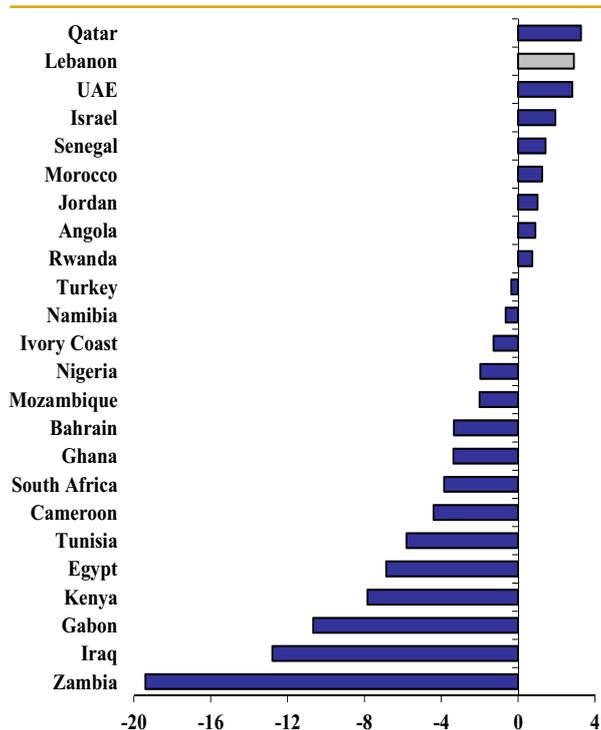
It was wider than the emerging markets' overall spread of 331 basis points at the end of 2015. Lebanon has a weight of 3.4% on Merrill Lynch's External Debt EM Sovereign Index, the fourth largest weight in the CEEMEA universe and the ninth biggest among emerging economies. Lebanon accounted for 6.1% of allocations in the CEEMEA region.

### Number of new construction permits and surface area decline by 9% each in 2015

The Orders of Engineers & Architects of Beirut and of Tripoli issued 15,108 new construction permits in 2015, constituting a decrease of 9.3% from 16,663 permits in 2014 and relative to a drop of 0.4% in 2014. Mount Lebanon accounted for 42% of newly issued construction permits in 2015, followed by South Lebanon with 17.1%, Nabatieh with 13.3%, the Bekaa with 10.3%, the North with 10.2% and Beirut with 5.3%. The remaining 1.8% represents permits issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon. The number of new construction permits issued for Mount Lebanon dropped by 12.5% year-on-year in 2015, followed by the South (-9.1%), the North (-8.7%), Nabatieh (-6%), Beirut (-4.1%) and the Bekaa (-3.8%); while permits issued for regions located outside northern Lebanon declined by 7.9% year-on-year.

Further, the surface area of granted construction permits in 2015 reached 12.3 million square meters (sqm), reflecting a drop of 8.9% from the previous year. In comparison, the surface area of granted construction permits grew by 4.8% year-on-year in 2014. Mount Lebanon accounted for 5.9 million sqm, or 47.9% of total area, last year. It was followed by the North with 1.6 million sqm (13.2%), the South with 1.5 million sqm (12.3%), Nabatieh with 1.03 million sqm (8.3%), the Bekaa with 1.01 million sqm (8.2%) and Beirut with 668,030 sqm (5.4%). The remaining 571,755 sqm, or 4.6% of the total, represent the surface area of permits that were issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon. The surface area of construction permits issued for Beirut decreased by 28.8% annually in 2015, followed by the North (-10.3%), the South (-8.3%), the Bekaa (-7.3%), Nabatieh (-7.2%) and Mount Lebanon (-5.6%); while the surface area of granted construction permits for regions located outside northern Lebanon declined by 14.9% year-on-year.

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



Source: Merrill Lynch, Byblos Research

### Tourist spending in Lebanon up 2% in 2015

Figures issued by Global Blue, the VAT refund operator for international shoppers, show that total spending by tourists in Lebanon increased by 2% in 2015. Visitors from Saudi Arabia accounted for 15% of total tourist expenditures in 2015, followed by visitors from the UAE with 14%, Kuwait and Egypt with 6% each, Jordan and France with 5% each, Qatar, Syria and the United States with 4% each, and Iraq and Nigeria with 3% each; while visitors from other countries accounted for the remaining 31%. Beirut attracted 81% of total spending in 2015, followed by the Metn area with 12%, the Baabda district with 4% and the Keserwan region with 3%. Fashion & clothing accounted for 71% of total expenditures in 2015, followed by watches & jewelry with 16%, home & garden products with 4%, spending at department stores with 3%, and souvenirs & gifts and consumer electronics & household appliances with 1% each.

Spending by visitors from Qatar increased by 21% in 2015, followed by those from the United States (+18%), Jordan (+14%), the UAE (+12%) and Saudi Arabia (+5%); while spending by visitors from Syria contracted by 23%, followed by those from Kuwait (-16%), Nigeria (-9%), Egypt (-4%), France (-3%) and Iraq (-1%). Also, the total number of refund transactions by visitors were unchanged in 2015 from the preceding year. The number of refund transactions by visitors from Qatar increased by 21% in 2015, followed by those from Jordan (+11%), the UAE (+8%), the United States (+7%) and Iraq (+6%). In contrast, refund transactions by visitors from Syria fell by 24%, followed by those from Kuwait (-17%), Nigeria (-3%), and Egypt (-1%); while spending by visitors from Saudi Arabia and France were unchanged year-on-year.

In parallel, total spending by tourists in Lebanon decreased by 9% year-on-year in the fourth quarter of 2015. Spending by visitors from Qatar increased by 26% year-on-year in the fourth quarter of 2015, followed by those from the UAE (+6%) and the United States and Syria (+2% each). In contrast, spending by visitors from Kuwait contracted by 44% year-on-year, followed by those from France (-34%), Jordan and Egypt (-26% each), Saudi Arabia (-24%), Iraq (-21%) and Nigeria (-16%). In parallel, expenditures on watches & jewelry rose by 23% from the fourth quarter of 2014; while spending on consumer electronics & household appliances dropped by 28%, followed by expenditures on home & garden products (-22%), fashion & clothing (-14%), souvenirs & gifts (-13%) and that in department stores (-12%). Also, the total number of refund transactions by visitors decreased by 16% annually in the fourth quarter of 2015. The total number of refund transactions by visitors from Qatar rose by 13% year-on-year in the fourth quarter of 2015 and those by visitors from the United States increased by 3%. In contrast, the number of refund transactions by visitors from Kuwait decreased by 47% from the fourth quarter of 2014, followed by Nigeria (-30%), Egypt (-29%), Iraq (-27%), Jordan (-26%), Saudi Arabia (-24%), France (-13%), Syria (-3%) and the UAE (-1%).

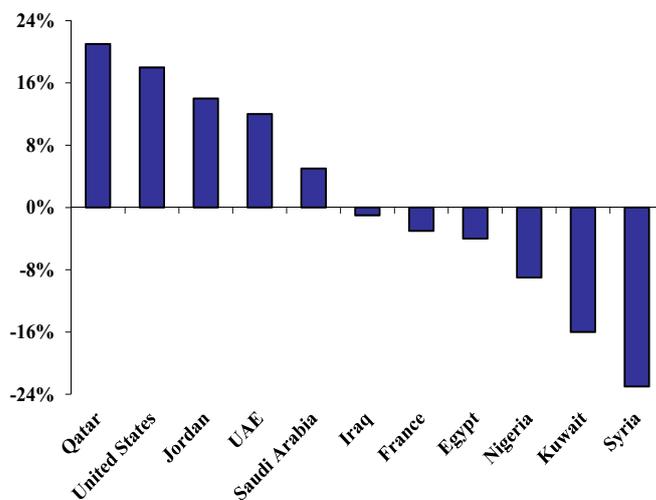
### Launch of projects to upgrade solid waste management capacity

The Office of Minister of State for Administrative Reforms (OMSAR) and the European Commission launched in January 2016 two projects, named "SWAM I" and "SWAM II", to upgrade Lebanon's solid waste management capacity. The EUR14m "SWAM I" and the EUR21m "SWAM II" projects are fully-funded by the European Union and are expected to be finalized by 2020. The objective of the projects is to help mitigate the impact of the Syrian refugee influx on Lebanese host communities by alleviating tensions related to health and environmental hazards, and by upgrading the provision of basic services related to solid waste management.

Under the two programs, seven new sanitary landfills will be built in the Bekaa, Nabatieh, North and South Lebanon regions and an existing landfill in Zahlé will be expanded. Also, eight solid waste treatment plants will be established, in order to sort, recycle or compost solid waste, as well as help dispose of medical waste. Further, disposal and collection equipment will be distributed to municipalities in the regions covered by the program. In parallel, the program will provide long-term technical assistance to support the project's implementation and ensure the sustainability of its results. The program will not cover the municipalities of Beirut and Mount Lebanon, as waste-disposal firm Sukleen was responsible for cleaning the streets of the two regions when the programs were drafted.

The two programs are part of the EU's support for a long-term solution to solid waste management in Lebanon. The EUR77.6m plan that started in 2004 is expected to continue until 2020 and would allow for the treatment of more than 2,395 tons of solid waste per day, equivalent to 43.5% of overall solid waste production in the country. About 540 municipalities are expected to benefit from the EU intervention.

**Total Spending by Visitors in 2015  
(Percentage Change)**



Source: Global Blue, Byblos Research

### **Central Bank extends period for freeing reserve requirements**

The Central Bank of Lebanon issued Intermediate Circular 409 on January 4, 2016, which amends Basic Circular 84 dated June 2, 2001, about the banks' reserve requirements. The circular extended from December 2015 to the end of 2016 the period during which banks in Lebanon can free 60% of their reserve requirements on unsubsidized loans.

The circular covers unsubsidized loans that were extended after January 1, 2012 and that are used to finance new projects or develop existing ones, or to build or buy a house. The circular indicates that the acquired or built houses should be the primary residence of the beneficiary of the loans and that the beneficiary is not allowed to sell this house before seven years from the loan's approval. It noted that the mortgage should not exceed LBP800m (\$530,700), and that the beneficiary of the loan is not allowed to take another loan to pay for the purchased unit. Also, the acquired or built house cannot be used as collateral for another loan. The circular indicated that the mortgage period should not exceed 30 years, while that of a non-housing loan should not exceed 15 years. It added that the annual interest rates and fees should not exceed 40% of the yield on one-year Treasury bills plus 3%.

### **Net public debt at \$61bn at end-November 2015**

Lebanon's gross public debt reached \$70.4bn at the end of November 2015, constituting an increase of 5.8% from the end of 2014 and a rise of 5.7% from \$66.6bn at end-November 2014. Domestic debt totaled \$43.3bn at the end of November 2015, rising by 5.7% from end-2014 and by 6% year-on-year; while debt in foreign currency stood at \$27.1bn, constituting increases of 5.9% from the end of 2014 and of 5.3% from a year earlier. Local currency debt accounted for 61.5% of gross public debt at the end of November 2015 compared to 61.3% a year earlier, while foreign currency-denominated debt represented the balance of 38.5% relative to 38.7% a year earlier. The weighted interest rate on outstanding Treasury bills was 6.93% and that on Eurobonds was 6.43% in November 2015. Further, the weighted life on Eurobonds was 6.14 years, while that on Treasury bills was 1,218 days.

Commercial banks held 46.6% of the Lebanese pound-denominated public debt at the end of November 2015 compared to 51% a year earlier. They were followed by the Central Bank with 36.6%, up from 32% at end-November 2014; while public agencies, financial institutions and the public accounted for 16.8% of local debt compared to 17% a year earlier. Also, Eurobond holders, foreign private sector loans and special T-bills in foreign currencies accounted for 92.4% of foreign-currency denominated debt, followed by foreign governments with 3.8%, multilateral institutions with 3.6% and Paris II loans with 0.2%. In parallel, commercial banks accounted for about 53.8% of the total public debt, followed by the Central Bank with a 24.2% share; public agencies, financial institutions and the general public with 12.4%; bilateral and multilateral loans with 3.1% of the total debt; while the remaining 6.5% debt is held by other parties. Residents held about 90.4% of the total public debt; while non-residents held 9.6% of the total. The net public debt, which excludes public sector deposits at the Central Bank and at commercial banks from overall debt figures, grew by 7.5% year-on-year to \$60.9bn at end-November 2015. In parallel, the gross market debt accounted for about 65% of total public debt. Gross market debt is the total public debt less the portfolios of the Central Bank, the National Social Security Fund, bilateral and multilateral loans, as well as Paris II and Paris III related debt.

### **Compensation of public-sector personnel up 15% in first half of 2015, absorbs 34% of fiscal spending**

Figures issued by the Ministry of Finance show that the compensation of public-sector personnel totaled \$2.3bn in the first half of 2015, constituting an increase of 14.7% from \$2bn in the same period of 2014. Salaries, wages and related benefits accounted for 65.6% of the total in the first half of the year, followed by retirement benefits (24.6%), transfers to public institutions to cover salaries (5.5%) and end-of-service indemnities (4.2%). The increase in personnel cost reflects a rise across all of its components. Personnel cost represented the largest component of total primary spending and accounted for 65% of such expenditures in the first half of 2015 compared to 54% in the same period of 2014. Also, personnel cost absorbed 34% of total fiscal spending in the covered period, up from 29% in the same period of 2014.

In parallel, salaries, wages and related benefits paid to public-sector employees totaled \$1.5bn in the first half of 2015, constituting an increase of 8.4% from the same period of 2014. This category includes basic salaries, employment benefits, allowances, contributions to civil servants' cooperatives, as well as contributions to other mutual funds providing health insurance for specific categories of civil servants, mainly judges, religious judges and employees at the Parliament.

Salaries and benefits of military personnel reached \$1bn and accounted for 66.3% of salaries, wages and related benefits paid in the public sector, followed by educational personnel with \$283.3m (18.7%), civil staff with \$153.2m (10.1%), the government's contribution to the employees' cooperative with \$62.4m (4.1%) and customs employees with \$10m (0.7%). Also, the Lebanese Army's salaries totaled \$627m in the first half of 2015 and represented 62.6% of military personnel's salaries and benefits. They were followed by the salaries of the Internal Security Forces with \$284.6m (28.4%), those of the General Security Forces with \$70.3m (7%) and the State Security Forces with \$20m (2%). The overall increase in salaries, wages and related benefits paid to public-sector employees reflects a rise of \$77m in allowances, an expansion of \$40.5m in basic salaries, an increase of \$1.3m in other payments given to non-military bodies, such as bonuses, and a growth of \$0.7m in employment benefits. The increase in allowances was allocated almost in full to military personnel. Overall, basic salaries grew by 3.9% year-on-year to \$1.1bn in the first half of 2015, allowances increased by 41.4% to \$262.7m, other payments rose by 1.6% to \$83m and employment benefits expanded by 1% to \$70.3m.

### **Trade deficit narrows by 15% to \$13.5bn in first 11 months of 2015**

The total value of imports reached \$16.2bn in the first 11 months of 2015, constituting a decrease of 13.9% from the same period of 2014; while the aggregate value of exports dropped by 10.8% to \$2.7bn. As such, the trade deficit narrowed by 14.5% year-on-year to \$13.5bn. The narrowing of the deficit was due to a decrease of \$2.6bn in imports, given that exports fell by \$328.8m year-on-year. The coverage ratio was 16.7% in the first 11 months of 2015 compared to 16.2% in the same period of 2014, while it reached 14.4% in November 2015 relative to 18.2% in November 2014. The Port of Beirut was the entry point of 71.4% of Lebanon's imports in the covered period, followed by the Hariri International Airport with 19.3%, the Port of Tripoli with 5.7%, the Port of Saida with 2.2% and the Masnaa crossing point with 0.8%. In parallel, the Port of Beirut was the exit point of 51.3% of Lebanon's exports, followed by the Hariri International Airport with 27.8%, the Port of Tripoli with 8.8%, the Masnaa crossing point with 6.4% and the Abboudieh crossing point with 3.3%.

The value of imported oil & mineral fuels declined by \$1.7bn, or 37.8%, year-on-year, to \$2.8bn; while non-hydrocarbon imports regressed by 6.2% to \$13.4bn. Also, the value of imported base metals fell by \$276m, or 20.3%, to \$1.1bn in the first 11 months of 2015, and those of jewelry dropped by \$161.7m, or 18%, to \$738m in the covered period. The value of oil & mineral fuels accounted for 17.5% of total imports in the first 11 months of 2015 compared to a share of 24.2% in the same period of 2014.

In volume terms, imports reached 14 million tons in the first 11 months of 2015, constituting a decrease of 1% from 14.1 million tons in the same period of 2014; while exports regressed by 12.7% to 1.8 million tons. Imports of oil & mineral fuels dropped by 4.6% year-on-year to 6.5 million tons, while non-hydrocarbon imports grew by 2.3% annually to 7.5 million tons. Imported oil & mineral fuels accounted for 46.2% of total imports in the covered period relative to a 47.9% share in the first 11 months of 2014.

China was the main source of imports with \$1.9bn or 11.8% of the total in the first 11 months of 2015, followed by Italy with \$1.2bn (7.3%), Germany with \$1.1bn (6.9%), France with \$977.2m (6%), the United States with \$935.4m (5.8%), Russia with \$775.7m (4.8%) and Greece with \$719.8m (4.4%). Imports from Italy regressed by 22.9% year-on-year in the first 11 months of 2015, those from France fell by 18.4%, imports from the United States decreased by 17%, those from China regressed by 16%, imports from Germany declined by 2.5%, those from Greece dropped by 1.5% and those from Russia decreased by 0.5% year-on-year.

Further, Saudi Arabia was the main export destination of Lebanese merchandise with \$325.1m or 12% of total exports, followed by the UAE with \$288.1m (10.6%), Iraq with \$201m (7.4%), Syria with \$193.1m (7.1%), South Africa with \$185.3m (6.8%), Jordan with \$103.9m (3.8%) and Egypt with \$82.1m (3%). Exports to Egypt grew by 11.2% year-on-year in the first 11 months of 2015; while exports to South Africa dropped by 36.4% year-on-year, those to Iraq fell by 14.8%, exports to Jordan decreased by 13.3%, those to Syria regressed by 12.5%, exports to Saudi Arabia fell by 6.1% and those to the UAE declined by 1%.

Lebanon's main exports were prepared foodstuff with \$444.6m, or 16.4% of the total, followed by jewelry with \$407.3m (15%), machinery & mechanical appliances with \$378.8m (13.9%), chemical products with \$373.5m (13.8%), base metals with \$292m (10.7%), vegetable products with \$166m (6.1%) and paper & paperboard products with \$146.8m (5.4%). In parallel, re-exports totaled \$453.4m in the first 11 months of 2015 compared to \$380.6m in the same period of 2014.

### **Term savings attract 88% of customer deposits at end-June 2015**

Figures issued by the Central Bank about the distribution of bank deposits show that term savings was the preferred type of account for resident and non-resident depositors in Lebanese pounds as well as in foreign currencies, at the end of June 2015. Term saving deposits in all currencies reached \$130.7bn at end-June 2015 and accounted for 88% of deposits in Lebanese pounds and foreign currencies.

In parallel, term saving deposits in foreign currencies totaled \$58.1bn and accounted for 83.8% of resident deposits in foreign currencies. They were followed by checking and current accounts with \$9.7bn (14%), sight saving accounts with \$1.4bn (2%) and other creditor accounts with \$107.9m (0.2%). Further, term saving accounts attracted the equivalent of \$43.8bn, or 92% of resident deposits in Lebanese pounds, followed by checking and current accounts with the equivalent of \$3.2bn (6.7%), sight saving accounts with the equivalent of \$542.6m (1.1%) and other creditor accounts with \$52.2m (0.1%). Non-residents also favored term saving accounts, as their term deposits in foreign currencies totaled \$24.7bn and accounted for 90.1% of their deposits in foreign currencies. Also, non-residents deposits in local currency reached the equivalent of \$4.1bn or 96.8% of their Lebanese pound deposits.

In parallel, Beirut and its suburbs attracted 69.1% of private sector deposits and 48.4% of depositors. It was followed by Mount Lebanon with 13.8% of deposits and 18.5% of beneficiaries; South Lebanon with 6.5% of deposits and 12.3% of depositors; North Lebanon with 5.8% of deposits and 12.2% of depositors; and the Bekaa with 4.8% of deposits and 8.7% of depositors.



**CDR completes \$8bn in projects between 1992 and 2014**

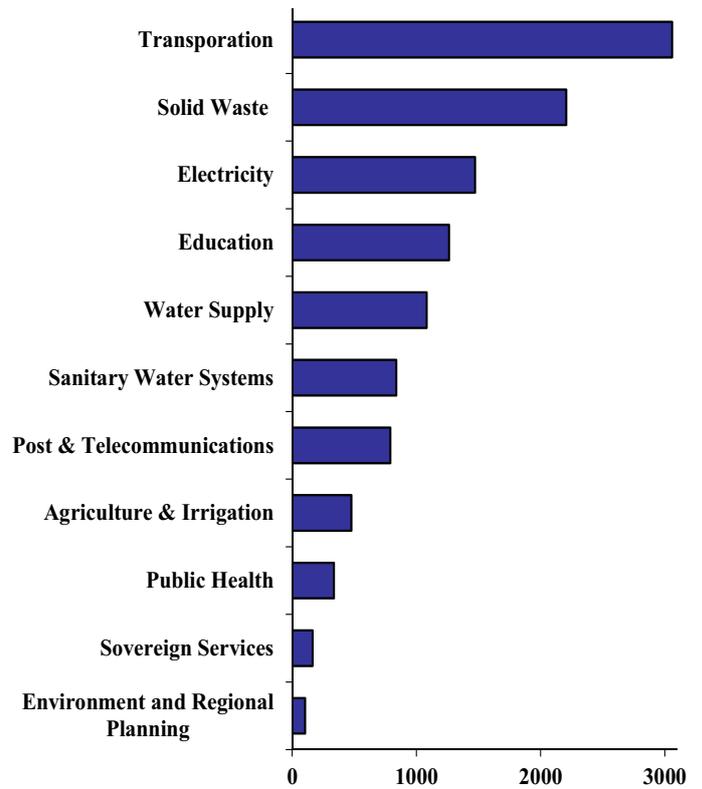
The Council for Development and Reconstruction (CDR) indicated that it signed contracts for an aggregate value of \$12.5bn during the 1992-2014 period. About \$8bn in projects, or 64% of the total, were completed during the covered period, while projects valued at about \$4.5bn are underway. The transportation sector attracted \$3bn of signed contracts, or 24.5% of the total, during the covered period, followed by the solid waste sector with \$2.2bn (17.7%), the electricity sector with \$1.47bn (11.8%), education with \$1.26bn (10.1%), water supply with \$1bn (8.7%), post & telecommunications with \$798.5m (6.4%), sanitary water systems with \$838m (6.7%), agriculture & irrigation with \$476.3m (3.8%), public health with \$335.5m (2.7%); sovereign services, such as the construction of new government facilities and the improvement of existing ones, with \$163.6m (1.3%); environment & regional planning with \$103.7m (0.8%); and social & economic affairs with \$66.6m; while other sectors attracted \$625.2m (5%) during the covered period.

Further, the CDR said that foreign funding totaled \$5bn and included \$1.28bn for electricity projects, \$1.1bn for transportation, \$720m for water supply, \$538.6m for education projects, \$469.4m for sanitation projects, \$277m for agriculture & irrigation, \$218.4m for public health, \$82.2m for environment & regional planning, \$33.6m for the solid waste sector, \$33.3m for post & telecommunications, \$24.3m for social & economic affairs and \$10.3m for sovereign services; while other sectors attracted \$239.3m in foreign funding during the covered period.

In parallel, the CDR pointed out that loans and grants, which were ratified, signed and approved between 1992 and 2014, amounted to \$10.45bn, with loans reaching \$7.32bn, or 69.7% of the total, and grants at \$3.18bn or 30.3% of the total. The CDR adopts a general policy to secure soft loans for social services sectors and commercial loans for projects in productive sectors. The infrastructure sector attracted 35% of loans and grants between 1992 and 2014; followed by social sectors such as education, public health, housing, youth & sports and the environment with 25.5% of the total; basic services such as potable water, sanitation and solid waste with 20.8%; and productive sectors and other sectors such as agriculture, irrigation, private sector services, administration, industry and tourism with 18.7%.

The Arab Fund for Economic & Social Development provided 14.5% of overall financing during the covered period, followed by the World Bank with 13.1%, the Kuwait Fund For Arab Economic Development (11.1%), the European Investment Bank (10.5%), the Saudi Fund for Development (9%), the Islamic Development Bank (8.7%), the European Union (7.3%), the Italian government (5.6%), the French government and the French Development Agency (4.1%), Qatar (3.1%), commercial banks (2.8%), the United States and Germany (1.7% each), and Japan (1.6%).

**Contracts Awarded between 1992 and 2014 (US\$m)**



Source: Council for Development & Reconstruction, Byblos Research

### **Standard & Poor's maintains assessment of Lebanese banking sector**

Standard & Poor's maintained Lebanon's Banking Industry Country Risk Assessment (BICRA) at 'Group 8', its economic risk score at '9' and its industry risk score at '7'. The BICRA framework evaluates and compares global banking systems, and covers a country's rated and unrated financial institutions. It assigns scores to banking systems on a scale from one to 10, with 'Group 1' including the least risky banking sectors. Other countries in BICRA 'Group 8' include Azerbaijan, Bolivia, Croatia, Georgia, Hungary, Kazakhstan, Paraguay, Russia, Sri Lanka, and Uzbekistan.

S&P indicated that Lebanon's economic risk score reflects its "extremely high risks" in terms of economic resilience, its "very high risks" in terms of credit risk in the economy, and its "high risks" in economic imbalances. It said that Lebanon's political divisions, which are blocking long-term reforms and public investment, as well as regional uncertainties, mainly the conflict in Syria, are preventing the economy from achieving its growth potential and are reducing domestic lending opportunities for banks. It expected political risks to remain elevated and to continue to be a significant weakness for the economy, given the latter's high vulnerability to internal and external political shocks.

Further, the agency considered that Lebanese banks' exposure to the sovereign constitutes the key credit risk for the banks. It noted that domestic banks use large and resilient deposit inflows to subscribe to sovereign bonds. It added that this is allowing the government to finance its structurally high fiscal deficit, but is inflating the banks' balance sheets and is exposing them to a single large borrower. In parallel, S&P anticipated asset quality in certain sectors to deteriorate due to the prevailing conditions in the country and in the region. It noted that lending quality metrics do not reflect the actual situation, because banks have offered some payment flexibility to private sector customers that face difficulties. But it considered that banks are prepared to deal with some deterioration in their asset quality metrics. It added that the loan-loss coverage ratio is adequate and could enable the banks to cushion the impact of the sustained high cost of risk. The agency pointed out that the trend for economic risk in Lebanon is "negative", given the rising risks related to the banks' exposure to the sovereign and the weak economic prospects for the coming two years.

S&P indicated that Lebanon's industry risk score reflects the downgrading of its system-wide funding risks to "very high risks" from "high risks", and of maintaining its assessment of institutional framework and competitive dynamics at "high risks". It said that Lebanon has an adequate track record of regulation and supervision, along with favorable interest rates, which support the banks' ability to attract steady flows of deposits and support the government's financing needs. It added that the sector's competitive landscape is crowded, but is largely concentrated among 12 banks.

Further, it noted that resilient retail deposits constitute the bulk of the banking sector's funding. But it added that the deterioration in domestic public finances and poor growth prospects are increasing banks' reliance on Lebanese expatriates for funds in foreign currency. S&P classified the Lebanese government's propensity to support the domestic banking sector as "uncertain", given the size of the banking sector, the government's large debt stock, the chronic wide current account deficit and the lack of financial flexibility. The agency pointed out that the trend for industry risk in Lebanon is "negative", given the rise in system-wide funding risks.

### **EFG Hermes' net income up 2% to \$70m in first nine months of 2015**

Regional investment bank EFG Hermes declared consolidated net income of EGP536.5m, or about \$70.3m in the first nine months of 2015, up by 2% from a net profit of EGP526m in the same period of 2014. The Group's net profits after deducting tax and minority interest (NPAT) reached EGP381m, or about \$50m in the first nine months of 2015, reflecting a decrease of 6.4% from EGP407.1m in the same period of 2014. Investment banking operations generated a NPAT of EGP156m or 41% of the Group's total NPAT, while commercial banking activity by Crédit Libanais posted a NPAT of EGP225m or 59% of the total in the first nine months of 2015. In parallel, total operating expenses of the investment banking segment decreased by 8.3% year-on-year to EGP486m in the first nine months of 2015 due to lower staff expenses. The decline in employee expenses maps the management strategy of linking revenue to compensation, with employee expenses decreasing by 14% year-on-year to EGP344m. The Group's net operating profit margin was 41% in the first nine months of 2015, down from 42% in the same period of 2014. EFG Hermes indicated that its total consolidated assets reached EGP89bn, or about \$11.7bn, at the end of September 2015 relative to EGP75.66bn at end-2014.

EFG Hermes Holding SAE holds a 65% stake in Crédit Libanais sal. The Lebanese bank posted unaudited net profits of \$53.7m in the first nine months of 2015, while the bank's cost-to-income ratio, including extraordinary items, was 55.4% in the first nine months of 2015. Its total assets reached \$9.75bn at the end of September 2015; while loans to customers stood at \$3bn. The bank's deposits reached \$8.3bn at the end of September 2015.

### Net profits of the life insurance category up 6% to \$92.3m in 2014, combined ratio at 74.7%

Figures released by the Association of Insurance Companies in Lebanon (ACAL) show that the net profits generated by the life insurance segment in Lebanon reached \$92.3m in 2014, constituting an increase of 6.4% from \$86.7m in 2013. The segment's net profit margin improved from 21.3% in 2013 to 21.7% in 2014, relative to a margin of 9.6% for the total insurance sector in 2014. The life insurance category contributed 65.2% of the insurance sector's aggregate net profits for the year. Further, gross written premiums from the life category rose by 4% to \$431.8m in 2014 and accounted for 29.5% of the sector's aggregate premiums, the highest such share among insurance segments in the country. Net life premiums rose by 3.4% to \$403m, policy fees increased by 9.2% to \$18.5m, and the cost of policies rose by 16.7% to \$10.3m.

Further, net investment income from the life category reached \$81.1m in 2014 and increased by 1.8% from 2013. In parallel, paid claims for the life category totaled \$199m in 2014, constituting a rise of 21.2% from \$164.1m in 2013. The change in technical reserves totaled \$126.4m in 2014, down by 8.3% annually, partly due to a 15.3% drop in the change in mathematical reserves. Also, policyholders' dividends reached \$1.1m in 2014, constituting a decrease of 71.3% from \$4m in 2013. The net reinsurance expense rose by 36.5% to \$21.7m in 2014, mainly due to a 7.4% rise in premiums ceded. General insurance expenditures totaled \$93.6m in 2014 compared to \$88.6m in 2013, and included \$38.7m in administration costs that accounted for 41.4% of the total insurance expenses and \$38.6m in brokerage expenses that represented 41.3% of the total.

In parallel, the loss ratio, or the ratio of claims incurred to earned gross premiums, of the life insurance category was 47.3% in 2014; the commission ratio, or the ratio of acquisition cost to earned gross premiums, reached 12%; the reinsurance ratio, or the ratio of net reinsurance income to earned gross premiums, was 5.2%; and the expense ratio, or the ratio of other general expenses to earned gross premiums, reached 10.2% in 2014. As such, the average technical combined loss ratio, which is the aggregate ratio of the above four ratios, reached 74.7% in 2014. In comparison, the loss ratio was 42.2%, the commission ratio reached 11.9%, the reinsurance ratio was 4%, the expense ratio reached 10.2% and the combined loss ratio stood at 68.2% in 2013.

### Cedrus Bank increases capital by \$10m

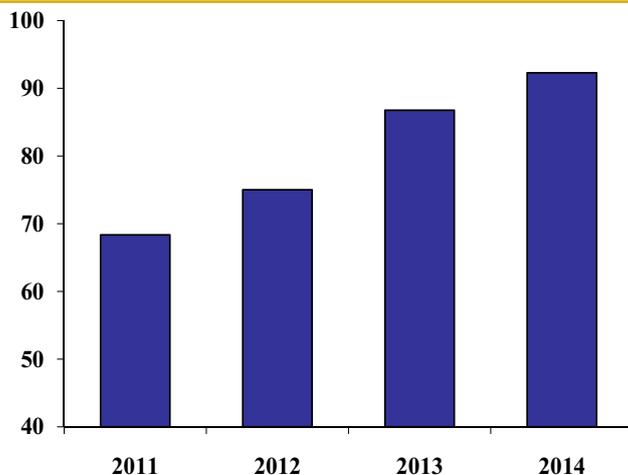
Cedrus Bank sal announced that it raised its capital from LBP12bn (\$8m) to LBP27bn (\$17.9m) through the issuance of 1.5 million new nominal ordinary shares for a par value of LBP10,000 (\$6.6). The capital increase was approved by the bank's Extraordinary General Assembly on November 4, 2015 and was executed on December 29, 2015. The new issuance raised to 2.7 million the total number of nominal ordinary shares. The new shares will not be listed on the Beirut Stock Exchange.

Cedrus Bank sal was established in February 2015 through the acquisition of Standard Chartered Bank sal and its retail banking business in Lebanon by Cedrus Invest Bank sal, a Lebanese investment bank. Cedrus Bank's main shareholders consist of Cedrus Invest Bank sal with an 85% share and Mr. Nicolas Chammas with the remaining 15% stake. The Bank has three branches in Lebanon.

### SGBL raises capital to \$16m

Société Générale de Banque au Liban sal (SGBL) raised in January 2016 its capital from LBP24.24bn to LBP24.26bn, or \$16.1m, by increasing the book value of its common and preferred shares from LBP233,000 (\$154.6) to LBP258,000 (\$171.1) per share. The capital increase, which received the necessary approvals in 2015, followed the redemption and cancellation of 10,000 Series 2010 Preferred Shares in June 2015. SGBL posted unaudited consolidated net profits of \$120.8m in the first nine months of 2015, relative to \$120.4m in the same period of 2014. Its assets reached \$15.75bn; while its net loans & advances to customers, excluding loans & advances to related parties, stood at \$3.87bn at the end of September 2015. Also, customer deposits, excluding deposits from related parties, totaled \$11.8bn at end-September 2015.

Net Profits from the Life Insurance Segment (US\$m)



Source: ACAL, Byblos Research

## Ratio Highlights

(in % unless specified)	2013	2014	2015f	Change*
Nominal GDP (\$bn)	46.1	48.2	49.8	
Public Debt in Foreign Currency / GDP	56.7	53.1	55.2	205
Public Debt in Local Currency / GDP	81.0	85.0	85.0	(1)
Gross Public Debt / GDP	137.7	138.1	140.1	204
Total Gross External Debt / GDP**	163.8	165.1	162.4	(270)
Trade Balance / GDP	(37.5)	(35.6)	(33.5)	217
Exports / Imports	18.5	16.2	15.3	(83)
Fiscal Revenues / GDP	20.4	22.6	20.9	(161)
Fiscal Expenditures / GDP	29.6	28.9	28.5	(43)
Fiscal Balance / GDP	(9.2)	(6.4)	(7.6)	(118)
Primary Balance / GDP	(0.5)	2.7	2.1	(61)
Gross Foreign Currency Reserves / M2	69.5	66.5	66.8	30
M3 / GDP	241.0	244.1	246.9	284
Commercial Banks Assets / GDP	357.4	364.4	368.8	435
Private Sector Deposits / GDP	295.4	299.6	303.2	367
Private Sector Loans / GDP	102.7	105.6	107.2	161
Private Sector Deposits Dollarization Rate	66.1	65.7	64.6	(109)
Private Sector Lending Dollarization Rate	76.5	75.6	74.6	(92)

\* Change in basis points 14/15

\*\*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, Institute of International Finance, International Monetary Fund, World Bank, Byblos Research Estimates & Calculations  
Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

## Risk Metrics

Lebanon	Feb 2014	Jan 2015	Feb 2015	Change**	Risk Level
Political Risk Rating	52.0	53.5	54.5	▼	High
Financial Risk Rating	38.0	39.0	39.0	▼	Low
Economic Risk Rating	27.0	33.0	33.0	▼	Moderate
Composite Risk Rating	58.5	62.8	63.3	▼	Moderate

MENA Average*	Feb 2014	Jan 2015	Feb 2015	Change**	Risk Level
Political Risk Rating	58.1	57.8	57.9	▲	High
Financial Risk Rating	40.7	40.1	40.1	▲	Very Low
Economic Risk Rating	35.5	35.1	34.8	▲	Moderate
Composite Risk Rating	67.1	66.5	66.4	▲	Moderate

\*excluding Lebanon

\*\*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	Negative	B-	B	Negative
Capital Intelligence	B	B	Negative	B	B	Negative

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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