

## LEBANON THIS WEEK

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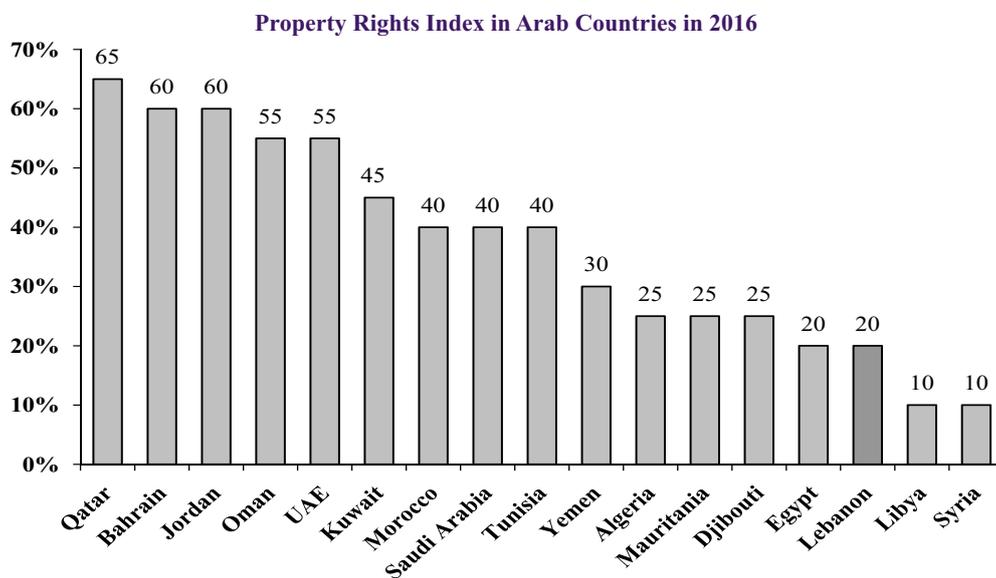
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### Charts of the Week



Source: Heritage Foundation/Wall Street Journal 2016 Index of Economic Freedom, Byblos Research

### Quote to Note

"There are substantial shortcomings and material gaps in the dissemination of macro-economic data and reporting delays."

*Standard & Poor's, on the weak statistical infrastructure in Lebanon*

### Number of the Week

**240:** Number of days it took the Council of Ministers to agree on a solution to the waste management crisis in the country

## Lebanon in the News

\$m (unless otherwise mentioned)	2014	Dec 2014	Sep 2015	Oct 2015	Nov 2015	Dec 2015	% Change*
Exports	3,313	268	243	261	222	236	(11.94)
Imports	20,494	1,649	1,434	1,467	1,539	1,841	11.64
Trade Balance	(17,181)	(1,381)	(1,191)	(1,206)	(1,317)	(1,605)	16.22
Balance of Payments	(1,408)	(116)	(122)	(396)	(816)	(372)	220.7
Checks Cleared in LBP	18,143	1,599	1,587	1,700	1,507	1,709	6.89
Checks Cleared in FC	56,348	4,692	4,151	4,552	3,987	4,265	(9.10)
Total Checks Cleared	74,491	6,291	5,738	6,252	5,494	5,974	(5.04)
Budget Deficit/Surplus	(3,073)	(48.82)	(619.44)	10.56	(643.40)	(711.58)	1357.7
Primary Balance	1,307	281.94	(121.58)	486.02	(95.30)	(338.61)	-
Airport Passengers***	6,567,647	573,229	750,290	575,660	501,204	616,249	7.50

\$bn (unless otherwise mentioned)	2014	Dec 2014	Sep 2015	Oct 2015	Nov 2015	Dec 2015	% Change*
BdL FX Reserves	32.40	32.40	32.02	33.25	31.77	30.64	(5.45)
<i>In months of Imports</i>	<i>18.97</i>	<i>19.65</i>	<i>22.33</i>	<i>22.67</i>	<i>20.64</i>	<i>16.64</i>	<i>(15.31)</i>
Public Debt	66.57	66.57	68.72	69.05	70.44	70.31	5.62
Bank Assets	175.70	175.70	181.34	182.27	183.18	185.99	5.86
Bank Deposits (Private Sector)	144.43	144.43	149.11	149.36	149.81	151.59	4.96
Bank Loans to Private Sector	50.90	50.90	52.61	52.99	53.22	54.22	6.53
Money Supply M2	48.69	48.69	51.54	51.64	51.75	52.15	7.11
Money Supply M3	117.68	117.68	122.08	122.05	122.45	123.62	5.05
LBP Lending Rate (%)	7.49	7.49	7.08	7.13	6.93	7.45	(4bps)
LBP Deposit Rate (%)	5.56	5.56	5.57	5.67	5.56	5.56	-
USD Lending Rate (%)	6.97	6.97	7.19	7.05	7.15	7.06	9bps
USD Deposit Rate (%)	3.07	3.07	3.14	3.20	3.17	3.17	10bps
Consumer Price Index**	0.59	(1.66)	(0.64)	0.41	(0.17)	1.40	-

\* 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
Audi GDR	6.25	4.17	1,747,000	6.48%
Audi Listed	6.25	2.46	470,015	22.52%
BLOM GDR	10.15	0.50	82,367	6.76%
Byblos Common	1.64	(1.80)	21,110	5.31%
Solidere "A"	9.60	(0.72)	14,388	8.65%
Solidere "B"	9.51	(1.76)	1,208	5.57%
Byblos Pref. 08	101.60	0.49	420	1.83%
BLOM Listed	9.65	0.00	0	18.70%
HOLCIM	14.40	0.00	0	2.53%
Byblos Pref. 09	101.40	0.00	0	1.83%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Mar 2017	9.000	103.83	5.01
Nov 2018	5.150	99.60	5.31
May 2019	6.000	100.75	5.73
Mar 2020	6.375	101.50	5.94
Apr 2021	8.250	108.88	6.18
Oct 2022	6.100	98.88	6.31
Jun 2025	6.250	97.50	6.61
Nov 2026	6.600	98.50	6.80
Feb 2030	6.650	97.75	6.90
Nov 2035	7.050	99.75	7.07

Source: Byblos Bank Capital Markets

	Mar 14-18	Mar 7-11	% Change	February 2016	February 2015	% Change
<b>Total Shares Traded</b>	2,336,708	549,075	325.57	4,962,188	21,880,303	(77.32)
<b>Total Value Traded</b>	\$14,926,289	\$3,490,5291	327.62	\$42,938,846	\$156,374,053	(72.54)
<b>Market Capitalization</b>	\$11.10bn	\$11.10bn	(0.04)	\$11.09bn	\$11.77bn	(5.79)

Source: Beirut Stock Exchange (BSE)



### Beirut ranks 118th worldwide, sixth among Arab cities in quality of living

The 2016 Quality of Life Index, produced by crowd-sourced global database Numbeo, ranked Beirut in 118th place among 143 cities around the world, as well as in 26th place among 35 cities in upper middle-income countries (UMICs) and in sixth place among seven Arab cities. Based on the same set of cities included in the 2015 and 2016 surveys, Beirut's rank rose by nine spots from 116th place in 2015 to 107th place in 2016, reflecting a year-on-year improvement in the quality of living in Beirut. Numbeo assesses the quality of living in each city based on a Purchasing Power Index, a Pollution Index, a Property Price-to-Income ratio, a Consumer Price Index, a Safety Index, a Healthcare Index, a Traffic Commute Time Index and a Climate Index. A higher score represents a better quality of life. Numbeo relies on Internet user inputs and collects data from official sources to compute the indices.

According to the index, the quality of life in Beirut is better than in Chennai in India, Bogota in Colombia and Lima in Peru; while it is worse than in Mexico City, Porto Alegre in Brazil and Hong Kong. In addition, the quality of life in Beirut is better than Cairo only in the Arab world. Beirut received a score of 106 points, lower than the global average of 146.8 points, the UMICs' average of 125.7 points and the Arab average of 132.6 points. Canberra in Australia has the highest quality of life worldwide, while Ho Chi Minh City in Vietnam has the lowest globally.

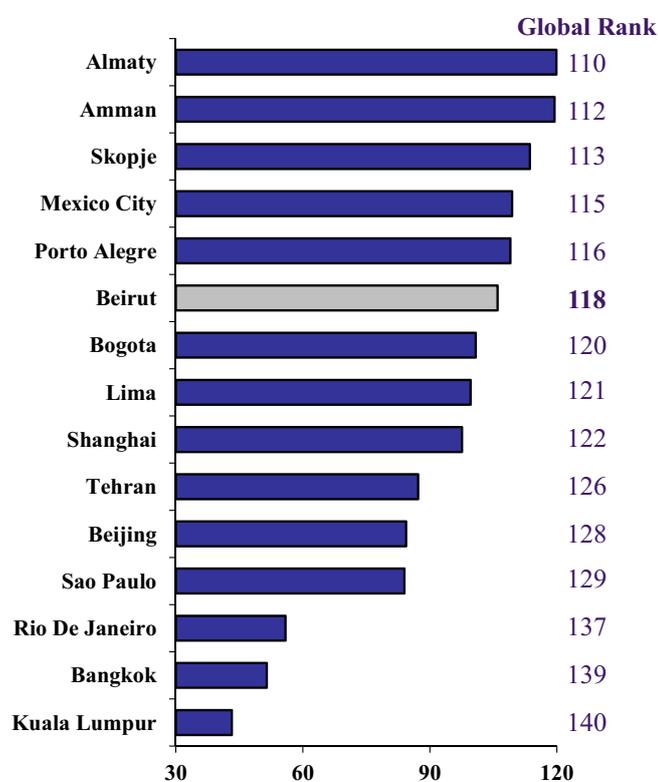
In parallel, Beirut ranked ahead of Mexico City, Athens and Moscow, while it came behind Timisoara in Romania, Izmir in Turkey and Sofia in Bulgaria on the Purchasing Power Index, which is an estimate of consumer goods prices and includes rent in a given city. Also, the purchasing power in Beirut is higher than in Mexico City and lower than in Sofia among UMICs, and higher than in Amman and Cairo among Arab cities.

Further, Beirut ranked ahead of St Petersburg in Russia, Teheran and Tbilisi in Georgia, and came behind Lima, Stockholm and Brasilia on the Property Price-to-Income Ratio, which measures the affordability of buying an apartment in a city. Also, Beirut ranked ahead of Tehran and came behind Brasilia among UMICs, while it came in last place among Arab cities.

In addition, Beirut ranked ahead of Davao in the Philippines, Istanbul and Sydney, and came behind San Francisco, Ottawa and Brno in the Czech Republic on the Healthcare Index. This category estimates the overall quality of the healthcare system, including the availability and expertise of healthcare professionals, equipment and costs. Beirut came behind only Izmir, Bangkok in Thailand, Bursa in Turkey and Cape Town in South Africa among UMICs, while it ranked behind only Riyadh among Arab cities.

Finally, Beirut ranked ahead of Stockholm, Vancouver in Canada and Bursa in Turkey, and came behind Bucharest in Romania, Milan and Lima on the Traffic Commute Time Index. This category reflects the time people spend when commuting to work, as well as the exposure to pollution from traffic and the overall inefficiencies of the traffic system. Beirut came ahead of Bursa and behind Lima among UMICs, while it came behind Abu Dhabi, Dubai and Doha among Arab cities.

Scores & Rankings of UMICs\* on the 2016 Quality of Life Index



\* Bottom 15 UMICs

Source: Numbeo, Byblos Research

Components of the 2016 Quality of Life Index for Lebanon

	Global Rank	Arab Rank	UMICs Rank	Lebanon Score	Global Avg Score	Arab Avg Score	UMICs Avg Score
Purchasing Power Index*	107	5	16	65.42	99.1	110.2	72.7
Safety Index*	107	6	20	48.85	56.6	65.6	47.7
Health Care Index*	48	2	5	71.94	66.3	64.2	60.4
Consumer Price Index	86	5	35	66.37	58.7	58.7	41.1
Property Price-to-Income Ratio	109	7	25	15.05	12.0	7.9	13.3
Traffic Commute Time Index	89	4	18	39.57	37.4	40.2	39.3
Pollution Index	139	6	35	92.99	52.6	76.3	65.0
Climate Index*	61	3	20	73.42	59.6	41.1	66.1

\*Higher score reflects better performance

Source: Numbeo, Byblos Research



### Tourist arrivals up 9% in first two months of 2016

The number of incoming tourists to Lebanon totaled 191,808 in the first two months of 2016, constituting an increase of 9.1% from 175,859 tourists in the same period of 2015, but a drop of 18.3% from 234,801 tourists in the first two months of 2010. Visitors from Arab countries accounted for 35.5% of total visitors in the first two months of 2016, followed by visitors from European countries with 31.5%, the Americas with 14.2%, Asia with 9.3%, Africa with 6.8% and Oceania with 2.6%. Also, tourists from Iraq accounted for 14.2% of total visitors in the covered period, followed by visitors from France with 8.3%, the U.S. with 7.1%, Egypt with 6.4%, Jordan with 5.5%, Canada with 5%, England with 3.7% and Germany with 3.6%.

In parallel, the number of visitors from African countries increased by 43% in the first two months of 2016, followed by visitors from the Americas (+11.9%), Oceania (+11.2%), Europe (+9.3%), Asia (+7.3%) and the Arab region (+3.4%). On a country basis, the number of tourists from Jordan surged by 16.8% year-on-year in the first two months of 2016, followed by visitors from Egypt (+15.5%), Canada (+14.2%), the U.S. (+14%), Germany (+12.1%), England (+11.6%), Turkey (+11%), France (+8.6%), Iraq (+4.6%), Sweden (+2.8%), Italy (+0.7%) and Brazil (+0.3%). In contrast, the number of visitors from Saudi Arabia declined by 19.1% annually, followed by those from Kuwait (-16.1%), Venezuela (-5.2%) and the UAE (-0.7%).

### Lack of progress in negotiations for WTO membership

The World Trade Organization (WTO) indicated that Lebanon can overcome the technical obstacles facing its accession to the WTO, given that tariff and non-tariff barriers in the country are relatively low and adjustable. It considered that Lebanon could achieve membership status in the WTO within a 12-month period, in case local political parties reach a consensus on the issue. Lebanon applied for WTO accession in January 1999 but Lebanese governments have not made any concrete progress on the accession procedures since the seventh round of talks that were held in October 2009. The WTO previously noted that the delays give the perception that Lebanese authorities lack the commitment to join the global trade body.

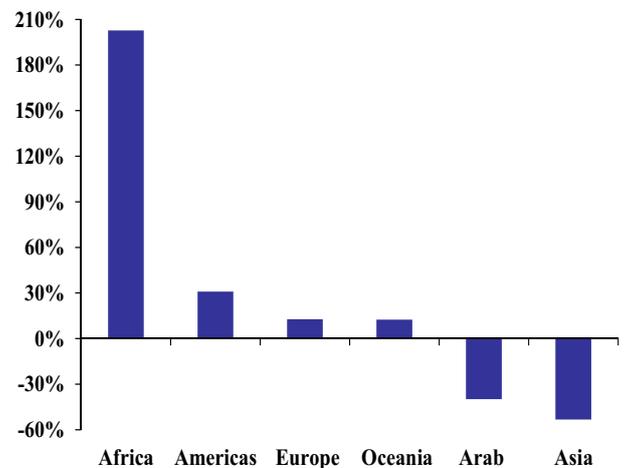
In parallel, the Ministry of Economy & Trade indicated that it intends to revive the WTO negotiations process. It attributed the delays to the lack of a political consensus on the issue, to the non-implementation of required procedures from the concerned ministries and authorities such as the ratification of the related laws in Parliament. It said that the Lebanese government needs to implement several legislative reforms to further liberalize the economy. Also, it noted that the government will have to update and ratify several international agreements related to intellectual property, such as the Stockholm Convention that established the World Intellectual Property Organization of 1967, among other legislation. It pointed out that Parliament did not ratify any legislation related to Lebanon's accession to the WTO.

The WTO had 162 active members worldwide as at the end of November 2015. In addition, 22 countries have an observer status, including Algeria, Iraq, Lebanon, Libya, Sudan and Syria. Further, Bahrain, Djibouti, Egypt, Jordan, Morocco, Oman, Qatar, Tunisia, Saudi Arabia, Yemen and the UAE are already WTO members.

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

The Association of Banks in Lebanon (ABL) recommended its member banks to increase the Beirut Reference Rate (BRR) in US dollars to 6.26% starting in April 2016 from 6.21% in March. The rate, considered as the reference rate for lending in foreign currency, replaced the London Interbank Offered 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 reduce the BRR in Lebanese pounds to 8.61% in April from the March rate of 8.71%. 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.

### Change in the Number of Tourist Arrivals from Main Sources in First Two Months of 2016\*



\* from the same period of 2010

Source: Ministry of Tourism, Byblos Research

### Trade deficit widens by 13% to \$2.5bn in first two months of 2016

The total value of imports reached \$2.9bn in the first two months of 2016, constituting an increase of 7.9% from the same period of 2015; while the aggregate value of exports declined by 14.9% to \$414m. As such, the trade deficit widened by 13% year-on-year to \$2.46bn in the first two months of 2016 due to an increase of \$211.2m in imports and to a drop of \$72.4m in exports. The coverage ratio was 14.4% in the first two months of 2016 compared to 18.3% in the same period of 2015, while it reached 16.6% in February 2016 relative to 17.9% in the same month of 2015.

The increase in imports reflects a rise of \$191m, or 38.2%, in the value of imported oil & mineral fuels to \$691.6m in the first two months of 2016 and a growth of \$20.1m, or 0.9%, in the value of non-hydrocarbon imports to \$2.18bn. The value of oil & mineral fuels accounted for 24.1% of total imports in the covered period compared to a share of 18.8% in the same period of 2015.

In volume terms, imports reached 2.9 million tons in the first two months of 2016 compared to 2.34 million tons in the same period of 2015; while exports regressed by 29.8% annually to 228,192 tons in the covered period. In parallel, imports of oil & mineral fuels increased by 30.8% year-on-year to 1.5 million tons, while non-hydrocarbon imports grew by 16.8% annually to 1.4 million tons. Imported oil & mineral fuels accounted for 52% of total imports in the covered period relative to a 49% share in the same period of 2015.

China was the main source of imports with \$329.7m or 11.5% of the total in the first two months of 2016, followed by Italy with \$217m (7.6%), the Netherlands with \$207.7m (7.2%), the United States with \$165m (5.7%), Russia with \$161m (5.6%) and Germany with \$154.4m (5.4%).

Imports from the Netherlands rose by 5.1 times annually in the first two months of 2016, those from Italy grew by 35.5% and imports from the United States increased by 25.1%, while imports from Russia declined by 9.8%, those from China dropped by 5.7% and imports from Germany were nearly unchanged year-on-year. The Port of Beirut was the entry point for 75% of Lebanon's imports in the first two months of 2016, followed by the Hariri International Airport (17.7%), the Port of Tripoli (5.1%), the Port of Saida (1.1%), the Arida crossing point (0.5%) and the Masnaa crossing point (0.4%).

Further, South Africa was the main export destination of Lebanese merchandise with \$45.1m or 10.9% of total exports, followed by Saudi Arabia with \$42.4m (10.2%), the UAE with \$40.9m (9.9%), Syria with \$28.4m (6.9%) and Iraq with \$25.2m (6.1%). Exports to South Africa increased by 43.6%, while exports to Iraq dropped by 30.5%, those to Saudi Arabia regressed by 29.4%, exports to Syria decreased by 24.8% and those to the UAE contracted by 24.6%. Lebanon's main exports were jewelry with \$70m, or 16.9% of the total, followed by prepared foodstuff with \$67.6m (16.3%), machinery & mechanical appliances with \$61.3m (14.8%), chemical products with \$48.3m (11.7%), base metals with \$40m (9.6%), vegetable products with \$26m (6.3%) and paper & paperboard products with \$23.6m (5.7%). The Port of Beirut accounted for 53.2% of Lebanon's total exports, followed by the Hariri International Airport (31.7%), the Port of Tripoli (7.8%), the Masnaa crossing point (3.6%), the Arida crossing point (2.2%), the Abboudieh crossing point (0.9%) and the Port of Saida (0.4%). In parallel, re-exports totaled \$77.1m in the first two months of 2016 compared to \$59.4m in the same period of 2015.

### Gross public debt at \$70.6bn at end-January 2016

Lebanon's gross public debt reached \$70.6bn at the end of January 2016, constituting an increase of 0.4% from \$70.3bn at the end of 2015 and a rise of 6.1% from \$66.6bn at end-January 2015. In nominal terms, the public debt grew by \$297.2m in January 2016 relative to an increase of \$6.6m in January 2015. Domestic debt totaled \$43.5bn at end-January 2016, growing by 0.5% in the first month of the year and by 5.3% from end-January 2015; while debt in foreign currency stood at \$27.1bn, nearly unchanged from end-2015 and constituting a rise of 7.3% from a year earlier. Local currency debt accounted for 61.6% of gross public debt at the end of January 2016 compared to 62% a year earlier, while foreign currency-denominated debt represented the balance of 38.4% relative to 38% at end-January 2015. The weighted interest rate on outstanding Treasury bills was 6.93% and that on Eurobonds was 6.4% in January 2016. Further, the weighted life on Eurobonds was 6.12 years, while that on Treasury bills was 1,217 days.

Commercial banks held 44.5% of the Lebanese pound-denominated public debt at the end of January 2016 compared to 50.4% a year earlier. They were followed by the Central Bank with 38.7%, up from 32.7% at end-January 2015; while public agencies, financial institutions and the public accounted for 16.8% of local debt relative to 16.9% a year earlier. Also, Eurobond holders and special T-bills in foreign currencies accounted for 92.3% 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, 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.

### **Fiscal deficit widens by 29% to \$4bn in 2015, equivalent to 29% of expenditures and 8% of GDP**

Figures released by the Finance Ministry show that the fiscal deficit reached \$4bn in 2015 and widened by 28.6% from \$3.1bn in 2014. The deficit was equivalent to 29.2% of total budget and Treasury expenditures compared to 22% of overall spending in 2014. Government expenditures reached \$13.5bn, down by 3% from 2014, while revenues regressed by 12% annually to \$9.6bn. As such, the \$423.8m drop in public spending last year did not offset the \$1.3bn fall in total revenues. The decrease in government revenues is mainly due to a 24.1% drop in non-tax receipts to \$2.2bn and to a 51.8% decline in Treasury receipts to \$530.6m. Also, the decline in non-tax receipts reflects a 34% drop in revenues generated from government properties to \$1.53bn, as receipts from telecom services decreased by 38.7% to \$1.23bn and accounted for 80.4% of income from government properties and for 56.3% of non-tax budgetary revenues. The decrease in telecom and Treasury transfers resulted from the one-time transfer by the Treasury in 2014 of \$853m in telecom receipts for the 2010-13 period.

Budgetary expenditures regressed by 2.1% to \$12bn in 2015, and included \$1.13bn in transfers to Electricité du Liban that fell by 45.8% year-on-year and \$908.5m in outlays from previous years that rose by 10.6% year-on-year; while budgetary revenues declined by 7.5% to \$9bn last year. Tax receipts regressed by 0.6% to \$6.9bn, of which 30.6%, or \$2.1bn, were in VAT receipts that decreased by 4.3% year-on-year. Tax revenues accounted for 75.8% of budgetary revenues and for 71.6% of total Treasury and budgetary receipts. The distribution of other tax revenues shows that receipts from taxes on income, profits & capital gains grew by 3.3% to \$1.9bn in 2015; revenues from customs increased by 1.1% to \$1.4bn; receipts from property taxes regressed by 5.3% to \$782.2m; revenues from taxes on goods & services rose by 9.6% to \$370m; and other tax receipts, mainly stamp fees, declined by 2.3% to \$320.6m.

The distribution of income tax shows that receipts from taxes on profits accounted for 38.2% of total income tax receipts in 2015, followed by the tax on interest deposits with 26.6%, taxes on wages & salaries with 23.1%, and the capital gains tax with 9.8%. Receipts from the capital gains tax grew by 8.2%, those from the tax on interest deposits increased by 7.9% and revenues from taxes on wages & salaries improved by 3.8%; while taxes on profits regressed by 1.5% in 2015. Also, the distribution of property taxes shows that revenues from real estate registration fees dropped by 10.7% to \$513.1m in 2015, while receipts from built property taxes increased by 9.8% to \$158.5m and revenues from the inheritance tax grew by 3.8% to \$110.7m.

In parallel, debt servicing totaled \$4.7bn in 2015 and increased by 6.8% year-on-year. It accounted for 34.6% of total expenditures and for 38.9% of budgetary spending, while it absorbed 48.8% of overall revenues and 51.7% of budgetary receipts. Interest payments on Lebanese pound-denominated debt grew by 10% to \$2.9bn in 2015, while debt servicing on foreign currency debt grew by 0.6% to \$1.6bn. Also, the repayment of principal on foreign debt rose by 14% to \$218m last year. Excluding debt servicing, the primary budget balance posted a surplus of \$1.71bn in 2015, or 14.3% of budgetary expenditures, and narrowed by 9.7% from a surplus of \$1.89bn, or 15.4% of budgetary spending, in 2014. The overall primary balance posted a surplus of \$724.4m, or 5.4% of spending, in 2015, and narrowed by 44.6% from a surplus of \$1.3bn, or 9.4% of total expenditures, in 2014.

<b>Comparative Fiscal Results</b>		
	<b>2014</b>	<b>2015</b>
	<b>(% of GDP)</b>	<b>(% of GDP)</b>
Budget revenues	19.8%	17.8%
Tax revenues	14%	13.5%
Non-tax revenues	5.9%	4.3%
<i>of which Telecom revenues</i>	<i>4.1%</i>	<i>2.4%</i>
Budget expenditures	24.8%	23.6%
<b>Budget Surplus/Deficit</b>	<b>(5%)</b>	<b>(5.8%)</b>
<b>Budget Primary Surplus</b>	<b>3.8%</b>	<b>3.4%</b>
Treasury Receipts	2.2%	1%
Treasury Expenditures	3.4%	3%
Total Revenues	22%	18.8%
Total Expenditures	28.3%	26.6%
<b>Total Deficit</b>	<b>(6.2%)</b>	<b>(7.8%)</b>
<b>Total Primary Surplus/Deficit</b>	<b>2.6%</b>	<b>1.4%</b>

*Source: Ministry of Finance, Byblos Research*

### Lebanese citizens are 93rd happiest people in the world, 12th happiest in MENA region

The United Nations Sustainable Development Solutions Network's survey about the level of happiness in 157 countries worldwide ranked Lebanon as the 93rd happiest country globally and the 12th happiest nation among 21 countries in the Middle East & North Africa (MENA) region. Also, Lebanon came in 29th place among 41 upper middle-income countries (UMICs) included in the survey.

The UN's measure of happiness is based on annual polls that were conducted by opinion polling and consulting firm Gallup between 2013 and 2015, with the results converted into a numerical score for each country. Respondents were asked to evaluate their current lives by imagining life as a ladder and to assign a score accordingly, with the best possible life for them as a 10 and the worst possible life as zero. The poll typically interviews 1,000 respondents per country in each year's survey.

In parallel, Lebanon came in 75th place among 126 countries in the world on data covering the 2005-07 period. Lebanon's rank would drop by four spots when using countries that have data for both the 2005-07 and the 2013-15 periods. This would constitute, along with Belarus, Ireland, Malawi and the United States, the 39th steepest decline globally. Lebanon was one of 57 nations globally and one of seven countries in the MENA region to post a decrease in their level of happiness between the 2005-07 survey and the 2013-15 survey.

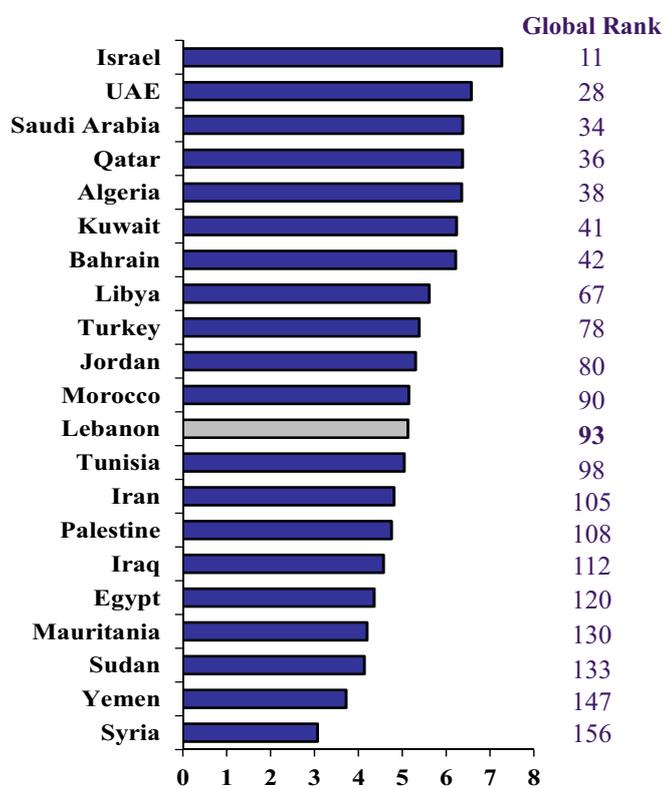
Globally, the survey's results show that Lebanese citizens are considered to be happier than the citizens of Portugal, Macedonia and Vietnam, but less happy than the citizens of Morocco, Hungary and Pakistan. Also, they are considered to be happier than the citizens of Macedonia, Tunisia and Mongolia, and less happy than those of Bosnia & Herzegovina, Montenegro and the Dominican Republic among UMICs; while they are happier than the citizens of Tunisia, Iran, Palestine, Iraq, Egypt, Mauritania, Sudan, Yemen and Syria in the MENA region. Lebanon received a score of 5.129 points for the 2013-15 period, up from 5.071 points during the 2005-07 period.

The decomposition of happiness in Lebanon shows that GDP per capita explains around 22% of Lebanese citizens' overall happiness, the 30th highest share globally. Expectations of a healthy life follow with 15% (11th highest share), then social support or having someone to count on in times of trouble with 13% (32nd lowest share globally), freedom to make life choices with 5.1% (40th lowest share), generosity or donating money to charity with 4.6% (70th highest share), and perceptions of corruption with 1% (14th lowest share). The citizens of Denmark are the happiest worldwide, while those of Burundi are the unhappiest globally.

### Development of Internet infrastructure underway

The state-owned mobile phone network Mobile Interim Company 1 (MIC 1) signed a contract with Swedish multinational corporation Ericsson and the Finnish company Nokia to deploy the 4.5G LTE advanced mobile network technology across Lebanon. The Cairo-based Orascom Telecom has been managing the MIC 1 network since 2009 under the Alfa brand. It indicated that around 1,300 stations will be installed to cover 99.7% of the Lebanese territory with the 4.5G technology. The initiative aims to increase Internet speed in Lebanon to up to 300 megabits per second. The project is expected to be completed by the end of September 2016, and is part of the Ministry of Telecommunications' \$600m digital telecom vision that was launched in July 2015 to modernize the telecommunication sector by 2020. The initiative will raise the ability of Alfa subscribers to consume 5.3 times more data in 2020, or 80,000 Terabyte (TB) per year, relative to 15,000 TB per year currently. The Ministry of Telecommunications indicated in mid-2015 that only 16% of Lebanon is covered by 4G technology, while most of the country is still working on 2G and 3G technologies. In parallel, Alfa signed a Memorandum of Understanding with Ericsson and Nokia in order to prepare for the deployment of the 5G network in Lebanon by mid-2018.

### MENA Countries Scores & Rankings



Source: United Nations, Byblos Research

### **Central Bank prohibits financial institutions from dealing with bearer shares**

The Central Bank of Lebanon issued Intermediate Circular 411 on February 29, 2016, which prohibits banks, financial institutions, money dealers and leasing companies in Lebanon from dealing with entities that have bearer shares in their capital.

The circular prohibited these institutions from conducting any type of on- or off-balance sheet transactions with companies or mutual funds that have a capital that consists in full or in part of bearer shares, or with companies or mutual funds that are owned by entities with capital that consists in full or in part of bearer shares. In January 2016, Governor Riad Salamé indicated that several countries are cancelling bearer shares whose owner may not be identifiable in order to ensure that these shares are not used for money laundering activities. He added that it is preferable that banks in Lebanon do not accept bearer shares, even if they can identify the beneficial owner of the shares. He said that this falls within the standards of the OECD and that Lebanese banks should comply by these standards by 2017. He also noted that banks and real estate companies are not allowed to raise money through the issuance of bearer shares.

Further, the circular mandated leasing companies to abide by Law 44 about combating money laundering and the financing of terrorism, as well as with the related rules and regulations issued by the Central Bank. Banks and financial institution have until the end of February 2018 to take the necessary measures to abide by Intermediate Circular 411.

### **New industrial licenses up 20% in 2015**

The Ministry of Industry issued 696 new licenses for industrial establishments in 2015, constituting an increase of 20.4% from 578 licenses in 2014. The ministry issued 357 licenses in the first half of 2015, up by 38.4% from the same period of 2014; and granted 339 licenses in the second half of the year, constituting a rise of 5.9% from the second half of 2014. It issued 130 licenses in the first quarter, 227 licenses in the second quarter, 167 licenses in the third quarter and 172 licenses in the fourth quarter of 2015. Construction licenses accounted for 38.2% of issued licenses in 2015, followed by investment licenses with 20.7% and construction & investment licenses with 18.8%.

The ministry issued 395 new licenses for Mount Lebanon in 2015, or 56.8% of the total; followed by the Bekaa with 126 licenses (18.1%); the North with 63 licenses (9.1%); the South with 51 licenses (7.3%); Nabatieh with 46 licenses (6.6%) and Beirut with 15 licenses (2.2%). Further, the ministry issued 203 licenses in the food processing sector, or 29.2% of the total; followed by construction materials with 119 licenses (17.1%); the chemicals industry with 70 licenses (10.1%); mining & quarrying products with 50 licenses (7.2%); rubber & plastics with 45 licenses (6.5%); metal products & electrical appliances with 41 licenses (5.9%); the furniture & wood sector with 26 licenses (3.7%); and the publishing, printing & media industry with 25 licenses (3.6%).

### New car sales up 14% in first two months of 2016

Figures released by the Association of Automobile Importers in Lebanon (AIA) indicate that dealers sold 5,204 new passenger cars in the first two months of 2016, constituting a rise of 13.6% from 4,579 cars sold in the same period of 2015. Japanese automobiles accounted for 37.2% of total sales in the first two months of 2016, followed by Korean cars with a 33.8% share, European automobiles (23.9%), American vehicles (4.8%) and Chinese cars (0.3%). The sales of new Korean vehicles increased by 26.1% year-on-year in the covered period, sales of European automobiles rose by 10.6%, sales of Japanese cars improved by 8.3% and sales of American vehicles grew by 1.2%; while the number of Chinese cars sold dropped by 33.3%. Kia is the leading brand in the Lebanese market with 1,065 vehicles sold in the first two months of 2016, followed by Toyota with 819 in new car sales, Hyundai (683), Nissan (377), Renault (301) and Suzuki (226). In parallel, 382 new vehicles, used for commercial purposes, were sold in the first two months of 2016, up by 23.2% from 310 vehicles sold in the same period of 2015. Overall, car dealers sold 5,586 new passenger automobiles and commercial purposes vehicles in the first two months of 2016, constituting a rise of 14.3% from 4,889 cars sold in the same period of 2015. The AIA indicated that, even though the sale of new cars increased in the first two months of 2016, 90% of new cars sold were small-engine automobiles with a low selling price.

In parallel, the number of new vehicles sold by Lebanon's top five distributors reached 3,789 in the first two months of 2016 and accounted for 67.8% of new car sales. NATCO sal sold 1,065 vehicles, equivalent to 19.1% of the total, followed by Boustany United Machineries sal with 899 vehicles (16.1%), Century Motor Co. sal with 692 (12.4%), Bassoul Heneiné sal with 657 (11.8%) and Rasamny Younis Motor Co. sal with 476 (8.5%).

### National Commercial Bank exits Lebanese market

The National Commercial Bank SJSC (NCB), Saudi Arabia's largest bank in terms of assets, announced that it is ending its operations in Lebanon due to low financial returns at its two branches in the country. The NCB received the regulatory approval to exit the Lebanese market from the Central Bank of Lebanon on February 15, 2016. It pointed out that its two branches in Lebanon are part of the NCB International Banking Segment and their closure will not have an impact on NCB's current financial statements.

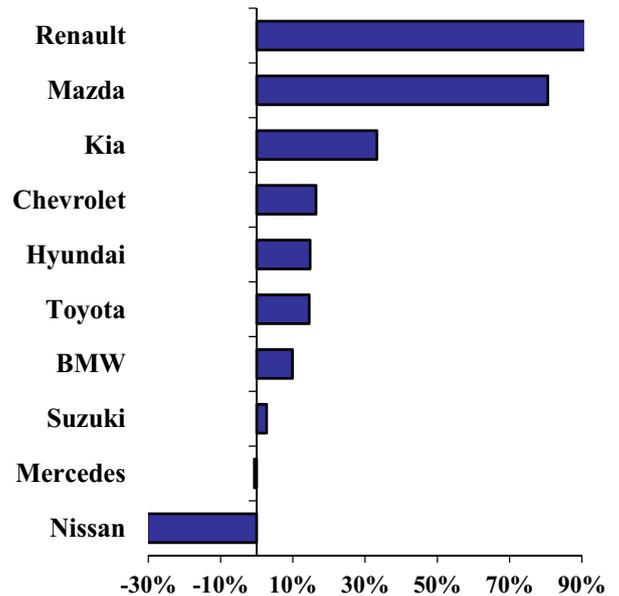
NCB's unaudited financial results from its operations in Lebanon show net profits of \$1.68m in 2014, according to the latest available figures. Its assets reached \$90.3m at the end of 2014; while loans & advances to customers, excluding loans & advances to related parties, totaled \$0.2m at the end of 2014. Customer deposits, excluding deposits from related parties, amounted to \$59.8m at end-2014.

### Credit Bank completes capital increase

Credit Bank sal announced that it raised its capital from LBP80.23bn (\$53.2m) to LBP159.62bn (\$105.9m) through the issuance of 106,780 new common shares at a par value of LBP50,000 (\$33.2) each and by increasing the par value per outstanding share from LBP26,000 to LBP50,000. The bank's Extraordinary General Assembly validated and ratified the capital increase on January 22, 2016. The new shares will not be listed on the Beirut Stock Exchange, in line with previous issuances.

The bank's share capital currently consists of 2,242,383 common shares, as well as 200,000 Preferred Shares Series 2, 300,000 Preferred Shares Series 3, 200,000 Preferred Shares Series 4 and 250,000 Preferred Shares Series 5. Credit Bank posted unaudited consolidated net profits of \$36.5m in 2015. Its assets reached \$3.32bn at the end of 2015; while loans & advances to customers, excluding loans & advances to related parties, amounted to \$1.68bn at the end of 2015. Also, customer deposits, excluding deposits from related parties, totaled \$2.8bn at end-2015.

Sales of Top 10 Car Brands in First Two Months (% change\*)



\* from the first two months of 2015  
Source: AIA, Byblos Research

### Profitability of top 14 banks stagnates in 2015, ROAA at 1.02% and ROAE at 11.5%

The unaudited consolidated net profits of the Alpha Group of banks reached \$2bn in 2015, constituting an increase of 8.6% from net earnings of \$1.87bn in 2014. In comparison, the banks' net income grew by 9.1% in 2014. The Alpha Group consists of 14 banks with deposits in excess of \$2bn each. Total net operating income increased by 6.5% year-on-year to \$5.2bn, with aggregate net interest income rising by 5.9% to \$3.5bn and net fees & commissions expanding by 2.2% to \$886.3m. Also, net gains on financial assets at fair value grew by 25.5% to \$646.9m in 2015. Non-interest income accounted for 33.3% of total income in 2015, down from 33.8% in the preceding year; with net fees & commissions representing 46.8% of non-interest income, down from 48.3% in 2014. Also, the interest spread was unchanged year-on-year at 1.9% in 2015. In parallel, total operating expenditures grew by 4.5% in 2015 to \$2.77bn, with staff expenses posting a rise of 1.9% to \$1.54bn and administrative & other operating expenses increasing by 7.3% to \$1bn. Further, the cost-to-income ratio was 48.7% in 2015, down from 49.9% in 2014. The banks' return on average assets was 1.02% in 2015, nearly unchanged from 1.01% in the preceding year; while their return on average equity was 11.55% in 2014 compared to 11.5% last year.

The Alpha Group of banks' total assets reached \$203.8bn at the end of 2015, constituting an increase of 4.8% from end-2014 and relative to a rise of 10.3% in 2014. Net loans & advances to customers totaled \$62.9bn, up by 4% from a year earlier, while credit extended to related parties expanded by 47.5% to \$795.6m at end-2015. Customer deposits totaled \$164.6bn at the end of 2015, reflecting an increase of 4.6% from end-2014, while deposits from related parties rose by 3.9% to \$3.7bn at end-2015. The banks' shareholders equity reached \$18.2bn at the end of 2015 and increased by 6.1% from end-2014.

In parallel, the banks' loans-to-deposits ratio increased slightly from 37.5% at the end of 2014 to 37.9% at end-2015. The loans-to-deposits ratio in local currency was 22.9% compared to 22.4% at end-2014, while that in foreign currency was 44.3% at the end of 2015 relative to 43.7% a year earlier. Further, the primary liquidity-to-assets ratio was 31.4% at the end of 2015 compared to 32.6% at end-2014. The banks' gross doubtful loans-to-gross loans ratio fell from 5.77% at end-2014 to 5.41% at the end of 2015. Also, the loan-loss reserves on doubtful loans covered 75.1% of gross doubtful loans at end-2015, down from a coverage of 76.1% a year earlier. Further, the ratio of collective provisions-to-net loans increased from 1.04% at end-2014 to 1.15% at the end of 2015.

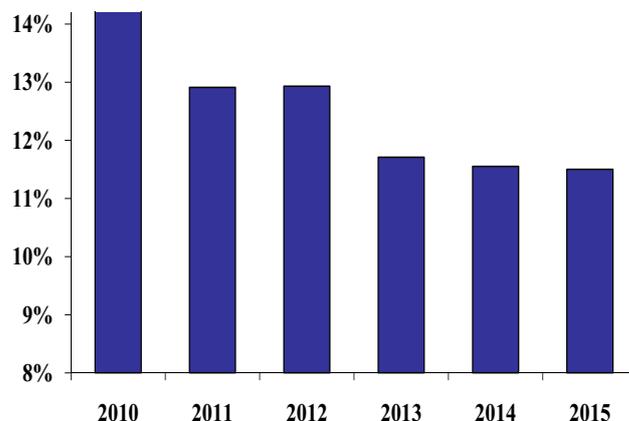
### BCI acquires majority stake in Italian polyurethane systems manufacturer

The UAE-based BCI Holding SA, the specialty chemicals subsidiary of Lebanon-based Unimetco Holding sal, announced that it acquired a 70% stake in the Italian firm Polysystem Srl. BCI indicated that it will integrate Polysystem within its European subsidiary BCI-Polyurethanes Europe Srl, and that it earmarked EUR30m for its operations in Europe. The deal will help BCI meet part of the growing demand for polyurethane and applications in Europe. BCI is one of only 40 polyurethane companies operating in the world. It is part of the Baalbaki Group sal, an industrial and commercial group operating in the Middle East since 1957. Established in 2000, Polysystem Srl is a manufacturer of polyurethane systems with a capacity to produce more than 20,000 metric tons of polyurethane systems.

### MEAB increases capital by \$20m

MEAB sal (Middle East & Africa Bank) announced that it raised its capital from LBP156bn (\$103.5m) to LBP186bn (\$123.4m) through the issuance of 3,000,000 new common shares at a par value of LBP10,000 (\$6.63) each. The bank's Extraordinary General Assembly validated and ratified the capital increase on February 16, 2016. MEAB's share capital currently consists of 18,600,000 common shares that are privately held. MEAB posted unaudited consolidated net profits of \$15.6m in 2014, according to the latest available figures. Its assets reached \$1.82bn at the end of 2014; while loans & advances to customers, excluding loans & advances to related parties, amounted to \$1bn at the end of 2014. Also, customer deposits, excluding deposits from related parties, totaled \$1.5bn at end-2014.

Return on Average Equity



Source: Bankdata Financial Services, Byblos Research

### **Suspension of several real estate projects**

Property advisory firm RAMCO indicated that developers have put on hold or cancelled several projects in Beirut in recent months, due in part to the slowdown in the real estate market. It noted that the five largest cancelled or postponed projects consisted of more than 81,000 square meters (sqm) of residential area.

First, it noted that the Deck 32 project was launched in 2012 on Spears Street in the Qantari area of Beirut, but it was stopped in early 2015 at the excavation stage. The project was going to offer 91 residential units ranging between 200 and 250 sqm each for a total of 20,800 sqm of residential space, with a starting asking sales price of \$4,500 per sqm.

Second, it indicated that the Bella Casa project in the Adlieh area of Beirut was announced in 2012 and was taken off the market in early 2014. It was going to consist of 182 residential units with a total surface area of 35,000 sqm and a starting asking price of \$2,800 per sqm. The project was on the market for two years through an aggressive marketing campaign, but construction did not start on the site. Third, it pointed out that L'Armonial project was launched in 2008 in the Abdel Wahab El Inglisi area of Ashrafiyah, and was near completion before construction works stopped in 2014. It consists of 25 units and 13,200 sqm of luxury residential space.

Fourth, it noted that the Beb Beirut project on Debbas Square in the Beirut Central District was launched in 2011 but it was suspended at the end of 2014. It was going to offer 12,000 sqm of built up area distributed across 63 units over 14 floors. It was also going to include about 3,000 sqm of commercial space.

Fifth, it said that the Landmark project in the Beirut Central District was launched in 2004. However, construction works stopped after a few months of the launch due to archeological digs and the site has been closed since 2013. The project consisted of a mixed-use complex that was supposed to include a 43-floor residential tower, a hotel, as well as a commercial gallery of about 20,000 sqm of leasable space.

### **EFG Hermes to sell stake in Crédit Libanais**

The Board of Directors of the Egyptian investment bank EFG Hermes indicated on March 17 that it has approved the necessary steps to sell 9,408,749 shares in Crédit Libanais sal at a gross price of \$33 per share to a consortium of Lebanese and Arab investors. It added that it intends to conclude an irrevocable underwriting agreement with Crédit Libanais Investment Bank sal (CLIB), a wholly owned subsidiary of the Lebanese bank, to sell to CLIB its remaining 5,506,134 shares in Crédit Libanais at the same price by the end of May 2017. The deal is still contingent on several conditions, including the approval of the Central Bank of Lebanon by the end of June 2016. Following regulatory approvals, EFG would have sold its entire share in the Lebanese bank for a gross value of \$492.2m.

EFG Hermes Holding SAE currently holds a 63.7% stake in Crédit Libanais sal. The Lebanese bank posted unaudited net profits of \$66.6m in 2015, constituting a rise of 3.7% year-on-year. The bank's return on average assets was 0.7% in 2015 relative to 0.73% in 2014; while its return on average equity was 9.1% last year compared to 9.2% in 2014. The bank's cost-to-income ratio was 58% in 2015 compared to 59.4% a year earlier. Its total assets reached \$9.94bn at the end of 2015 and increased by 8.4% from end-2014; while loans to customers stood at \$2.96bn, up by 4.4% from end-2014. The bank's deposits totaled \$8.1bn at the end of 2015 and increased by 8.9% from end-2014.



## Ratio Highlights

(in % unless specified)	2013	2014	2015	Change*
Nominal GDP (\$bn)	47.2	49.4	50.9	
Public Debt in Foreign Currency / GDP	55.3	51.9	53.2	134
Public Debt in Local Currency / GDP	79.1	83.0	85.0	203
Gross Public Debt / GDP	134.4	134.8	138.2	337
Total Gross External Debt / GDP**	163.8	165.1	162.4	(270)
Trade Balance / GDP	(36.6)	(34.8)	(29.7)	512
Exports / Imports	18.5	16.2	16.6	41
Fiscal Revenues / GDP	19.9	22.0	18.8	(322)
Fiscal Expenditures / GDP	28.9	28.3	26.6	(167)
Fiscal Balance / GDP	(8.9)	(6.2)	(7.8)	(154)
Primary Balance / GDP	(0.5)	2.6	1.4	(122)
Gross Foreign Currency Reserves / M2	69.5	66.5	58.7	(780)
M3 / GDP	235.4	238.4	243.0	462
Commercial Banks Assets / GDP	349.0	355.9	365.6	968
Private Sector Deposits / GDP	288.4	292.6	298.0	540
Private Sector Loans / GDP	100.3	103.1	106.6	348
Private Sector Deposits Dollarization Rate	66.1	65.7	64.9	(83)
Private Sector Lending Dollarization Rate	76.5	75.6	74.8	(73)

\* 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	Apr 2014	Mar 2015	Apr 2015	Change**	Risk Level
Political Risk Rating	52.0	54.5	55.0	▼	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	63.25	63.5	▼	Moderate

MENA Average*	Apr 2014	Mar 2015	Apr 2015	Change**	Risk Level
Political Risk Rating	58.0	57.9	57.2	▲	High
Financial Risk Rating	40.4	39.6	39.4	▲	Low
Economic Risk Rating	35.7	34.4	33.9	▲	Moderate
Composite Risk Rating	67.0	65.9	65.3	▲	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



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