

## LEBANON THIS WEEK

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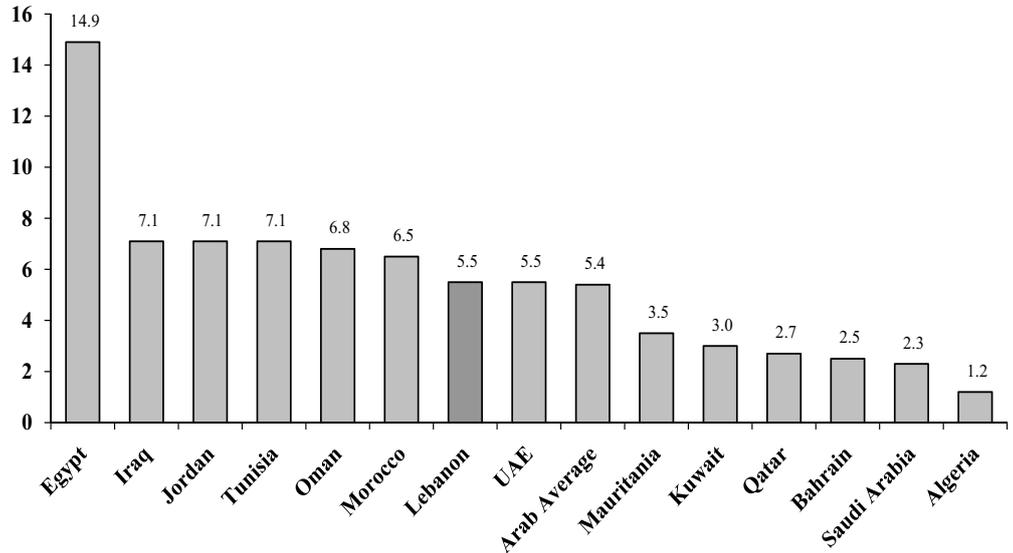
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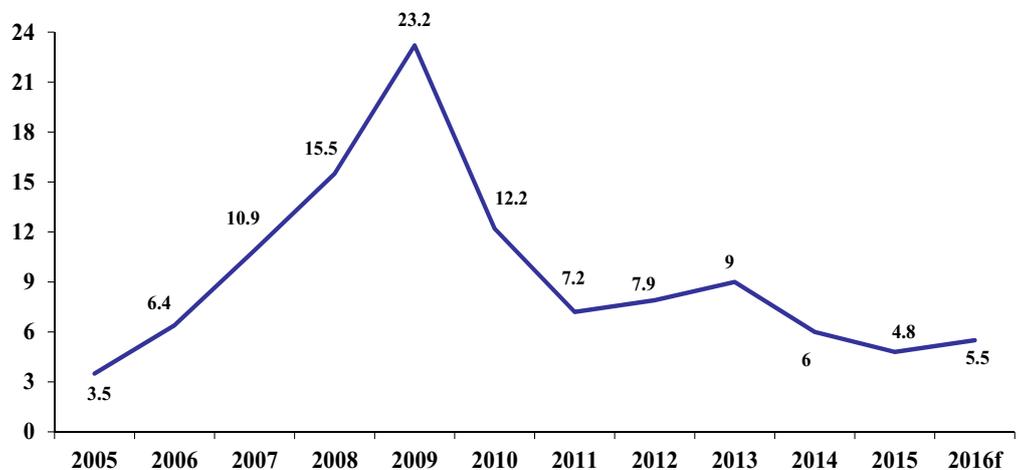
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### Charts of the Week

Projected Broad Money Growth in Arab Countries in 2016 (%)



Broad Money Growth in Lebanon (%)



Source: International Monetary Fund - April 2016, Byblos Bank

### Quote to Note

"Mismanagement of the power sector imposes major costs on the economy."

*Citi, on the urgent need to restructure and reform the electricity sector in Lebanon*

### Number of the Week

**736:** Number of days since May 24, 2014 that Lebanon has been without a President, as at May 28, 2016

## 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
Byblos Common	1.62	(0.61)	241,811	5.29%
BLOM GDR	10.30	1.48	66,022	6.91%
Solidere "A"	9.79	(1.41)	38,665	8.89%
Audi GDR	6.00	0.00	31,243	6.26%
BLOM Listed	9.95	(1.00)	24,393	19.42%
Solidere "B"	9.99	1.94	19,189	5.90%
Audi Listed	5.90	(0.84)	18,890	21.42%
Byblos Pref. 08	100.10	0.00	2,122	1.82%
Byblos Pref. 09	100.20	0.10	1,929	1.82%
HOLCIM	14.46	(0.07)	100	2.56%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Mar 2017	9.00	103.38	4.75
Nov 2018	5.15	100.13	5.10
May 2019	6.00	101.50	5.45
Mar 2020	6.38	102.25	5.70
Apr 2021	8.25	110.13	5.84
Oct 2022	6.10	99.90	6.12
Jun 2025	6.25	98.25	6.51
Nov 2026	6.60	99.88	6.62
Feb 2030	6.65	98.50	6.82
Nov 2035	7.05	100.25	7.03

Source: Byblos Bank Capital Markets

	May 23-27	May 16-20	% Change	April 2016	April 2015	% Change
<b>Total Shares Traded</b>	514,875	866,944	(40.61)	3,131,933	1,018,275	207.57
<b>Total Value Traded</b>	\$3,595,769	\$7,819,733	(54.02)	\$34,700,460	\$10,508,586	230.21
<b>Market Capitalization</b>	\$11.01bn	\$11.05bn	(0.35)	\$11.05bn	\$11.56bn	(4.406)

Source: Beirut Stock Exchange (BSE)



### Lebanon's piracy rate at 70% in 2015, 37th highest globally and sixth highest in MENA region

The U.S.-based Business Software Alliance (BSA), an industry group representing the world's leading computer software developers, estimated the software piracy rate in Lebanon at 70% in 2015 compared to 71% in 2013 and 2011 and 72% in 2009. As such, Lebanon had the 37th highest piracy level among 111 countries worldwide and the sixth highest among 17 countries in the Middle East & North Africa (MENA) region. Also, Lebanon had the 14th highest piracy rate among 32 upper middle-income countries (UMICs) included in the survey. The survey covered operating systems; systems software such as databases and security packages; business applications; and consumer applications such as games, personal finance and reference software.

Globally, Lebanon's software piracy rate was similar to that of China, and was higher than rates in Argentina (69%), Thailand (69%) and Ecuador (68%), and lower than rates in Albania (73%), Kazakhstan (73%) and Panama (72%). Further, Lebanon's piracy rate was similar to that of China, and came higher than rates in Thailand and Ecuador and lower than rates in Kazakhstan and Panama among UMICs. Lebanon's software piracy rate was significantly higher than the global rate of 39% and the Middle East & Africa rate of 57%. Zimbabwe and Libya had the highest piracy rates in the world at 90% each and the United States had the lowest rate at 17% in 2015, while Libya had the highest piracy rate and South Africa the lowest rate at 33% in 2015 among UMICs. Piracy rates in the MENA region increased in two countries, regressed in 12 economies and were unchanged in three countries from 2013.

In parallel, software piracy-related losses in Lebanon totaled \$65m in 2015, unchanged from 2013 and compared to losses of \$52m in 2011 and \$46m in 2009. As such, Lebanon posted the 72nd highest piracy-related dollar losses worldwide, the 22nd highest losses among the UMICs and the 10th highest losses in the MENA region. Globally, Lebanon's piracy-related dollar losses were similar to those in Libya, and came higher than those in El Salvador (\$63m), Oman (\$59m) and Uruguay (\$57m), and lower than losses in Belarus (\$76m), Qatar (\$72m) and New Zealand (\$66m). Its losses were similar to those in Libya, and came higher than losses in Serbia, Tunisia, Jordan, Bosnia & Herzegovina, Botswana, Macedonia, Albania, Mauritius and Montenegro among UMICs; while they were similar to losses in Libya and higher than those in Oman, Morocco, Tunisia, Jordan, Bahrain and Yemen regionally. Lebanon's piracy-related dollar losses accounted for 0.1% of global losses, for 0.4% of UMICs' losses, for 3.3% of MENA losses and for 1.8% of losses in the Middle East & Africa region.

### Central Bank swaps local-currency Treasury bonds with Eurobonds

The Ministry of Finance indicated that it swapped Lebanese pound-denominated Treasury bonds from the Central Bank's portfolio with \$2bn worth of Eurobonds. It indicated that this process would reduce the average interest rate from 7.53% on the local-currency bonds to 6.59% on the newly-issued bonds. In addition, the swap would lengthen the average debt maturity from 7.92 years for local-currency bonds to 9.89 years for the Eurobonds, without changing the value of the public debt stock or the Central Bank's share of the public debt. Also, the ministry indicated that the swap would provide additional monetary tools to the Central Bank in order to manage liquidity in the capital markets. Following the swap operation, Lebanon's public debt would consist of 59% in local-currency debt and 41% in foreign currency-denominated debt relative to 61.6% and 38.4%, respectively, at end-March 2016.

The ministry indicated that the first series of the newly-issued bonds consists of a six-year \$500m Eurobond that matures in 2022 and that carries an annual coupon rate of 6.25%, the second series consists of a seven-year \$500m Eurobond that is due in 2023 and that carries an annual coupon rate of 6.4%, while the third series consists of a 13-year \$1bn Eurobond that matures in 2029 and that carries an annual coupon rate of 6.85%.

Lebanon's gross public debt reached \$71bn at the end of March 2016, constituting an increase of 1% from \$70.3bn at the end of 2015 and a rise of 2.3% from \$69.4bn at end-March 2015. In nominal terms, the gross public debt grew by \$717.1m in the first quarter of 2016 relative to an increase of \$2.87bn in the same quarter of 2015. Domestic debt totaled \$43.8bn at end-March 2016, growing by 1.3% from end-2015 and by 4.4% from end-March 2015; while debt in foreign currency stood at \$27.25bn, constituting an increase of 0.7% from end-2015 and a decline of 0.8% from a year earlier.

### Software Piracy in MENA region in 2015

Country	Piracy Rate	Global Rank	Losses (US\$m)
Libya	90%	1	65
Yemen	87%	4	11
Iraq	85%	8	120
Algeria	83%	15	84
Tunisia	74%	33	49
<b>Lebanon</b>	<b>70%</b>	<b>37</b>	<b>65</b>
Morocco	65%	46	57
Egypt	61%	52	157
Oman	60%	53	59
Turkey	58%	57	291
Kuwait	58%	57	94
Jordan	56%	61	34
Bahrain	54%	62	34
Saudi Arabia	49%	69	412
Qatar	48%	71	72
UAE	34%	89	226
Israel	29%	95	161

Source: Business Software Alliance, Byblos Research

### Central Bank lifts secrecy on 28 cases suspected of money laundering

The Special Investigation Commission (SIC) against money laundering and terrorism financing issued its 15th annual report detailing its activities in tracing dirty money in Lebanon in 2015. Established by the Central Bank of Lebanon as an independent legal entity, the SIC's mandate is to investigate suspected money-laundering operations and to monitor compliance with the rules and procedures of Law 318, the anti-money laundering law that was ratified by the Lebanese Parliament in April 2001.

The report indicated that the SIC received 432 suspected cases in 2015. It received 331 cases, or 76.6% of the total from local sources, and 101 cases, or 23.4%, were from abroad. The SIC referred 157 suspected cases to the judicial authorities, while 97 cases are still pending and the remaining 178 cases did not fall within the framework of Law 318. As a result, authorities lifted the banking secrecy on 28 cases, of which one case was referred from foreign governments and organizations, and 27 cases from domestic sources. In comparison, the SIC investigated a total of 72 out of 277 cases in 2014, 137 out of 301 cases in 2013, 191 out of 284 cases in 2012, 285 out of 335 cases in 2011 and 119 out of 245 cases in 2010. Embezzlement of private funds accounted for 28.5% of reported cases in 2015, followed by counterfeiting & forgery with 9.2%, terrorism & transfer of funds with 7.3%, corruption with 5.4%, narcotics trade with 3.3%, organized crime with 1% and embezzlement of public funds with 0.3%, while the remaining 45% of cases were not categorized.

In cases related to terrorism, foreign sources provided 118 names (16 cases), while local sources provided 24 names (11 cases). Among foreign sources, financial investigation units supplied 67 names (six cases), followed by the United Nations Security Council with 34 names (eight cases), foreign ministries with 16 names (one case) and foreign law enforcement authorities with one name (one case). Among local sources, the police supplied 14 names (five cases), banks reported five names (three cases), various ministries provided three names (two cases), and money transfer operators supplied two names (one case).

In parallel, the SIC received 289 suspicious transaction reports, 215 requests of assistance and 55 cross-border cash reports, while the SIC's Compliance Unit reported 63 cases. Europe was the main source of foreign requests to Lebanese authorities, as it accounted for 37% of total requests for assistance, followed by North America (19%), the Middle East & the Arabian Gulf (15.3%), Australia and the United Nations (7.2% each), Africa (4.6%), Asia (4.5%), South America (3.6%) and New Zealand (1.8%).

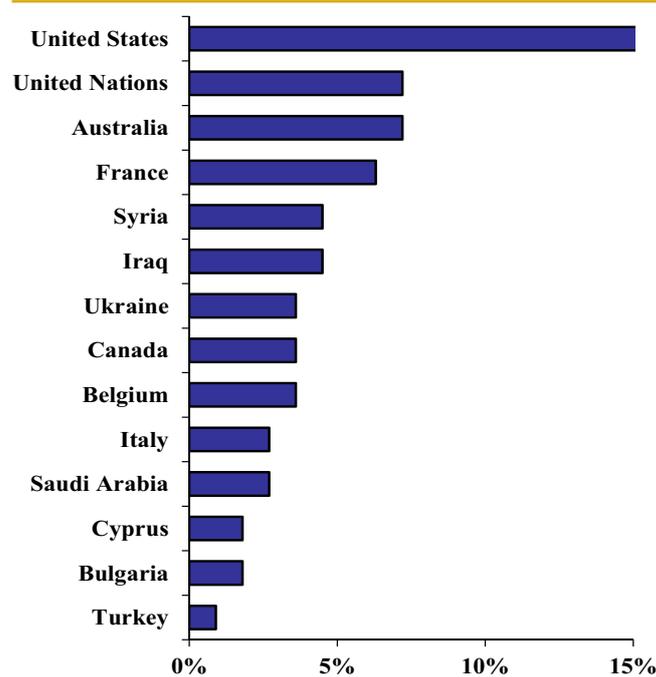
The SIC's Compliance Unit examined a number of institutions in order to ensure their full compliance with Law 318. It covered seven money transfer operators, equivalent to 64% of reporting money transfer operators in Lebanon, 28 insurance companies (55%), 17 financial institutions (33%), 22 banks (32%) and three brokerage firms (25%).

On November 24, 2015, the Lebanese Parliament ratified Law 44 that replaced Law 318. The new law expanded the sources of illicit funds that were included in Law 318 and broadened the definition of money laundering activity.

### Coincident Indicator up 4% in the 12 months ending March 2016

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 296.1 points in March 2016 compared to 294.6 in February 2016 and 279.7 in March 2015. The Coincident Indicator, an average of 8 weighted economic indicators, increased by 0.5% month-on-month and by 5.9% year-on-year in March 2016. The indicator averaged 290 in the first quarter of 2016, up 7% from 271 in the same quarter of 2015. Also, the indicator averaged 283.4 in the 12 months ending March 2016, compared to 282 in the 12 months ending February 2016 and 272.2 in the 12 months ending March 2015. As a result, the average coincident indicator increased by 0.5% month-on-month and by 4.1% year-on-year. In parallel, the indicator improved 14 times and regressed 10 times on a monthly basis in the month of March since 1993. It averaged 249.5 in 2010, 255.7 in 2011, 256.6 points in 2012, 264.7 points in 2013, 273.2 points in 2014 and 278.6 in 2015.

### Main Sources of Foreign Request for Assistance\*



\*% of total foreign requests

Source: Special Investigation Commission, Byblos Research

### Central Bank clarifies implementation mechanism of U.S. Act

In the monthly meeting between the Central Bank and the Association of Banks in Lebanon (ABL), Governor Riad Salamé indicated that Basic Circular 137, which details the mechanism that Lebanese banks and financial institutions need to adopt in order to comply with the Hizballah International Financing Prevention Act of 2015, requires banks to provide the Central Bank with a detailed explanation when they decide to close a bank account of a client that is considered suspicious under the U.S. Act. He noted that the Central Bank is not allowed to have access to clients' accounts. As such, he said that the Special Investigation Commission (SIC) against money laundering and terrorism financing will draft a detailed mechanism that will help banks deal with deposit accounts. He added that the Banking Control Commission of Lebanon (BCCL) has issued a circular that will help banks deal with loan accounts of clients under suspicion under the U.S. Act.

During the meeting, the SIC indicated that banks should inform it when they suspect a bank account and should submit to the SIC a statement of account, as well as a detailed explanation for their decision. It noted that the bank can close the account, 30 days after informing the SIC, if it does not receive feedback from the SIC. It added that the 30 days period can be renewed once, during which the account will continue to be operational. The SIC pointed out that it will draft, in cooperation with banks, a list of criteria and explanations that banks should follow when classifying suspicious bank accounts under the U.S. Act. It noted that the aforementioned mechanism does not apply to persons, institutions and organizations on the Office of Foreign Assets Control's (OFAC) Specially Designated Nationals List, and that banks should immediately suspend business operations with moral and physical entities on the OFAC list. Governor Salamé indicated that banks don't have to follow this procedure when they agree with clients to close their accounts, and that banks should only provide the details to the SIC in order for the latter to add them to its database. He pointed out that, when closing a bank account, the client can receive the balance in the form of a check or cash.

Governor Salamé noted that Lebanon is committed to abide by the U.S. Act and that the supervisory authorities are discussing the implementation mechanism and the need to comply with it in a fair manner by using several indicators, such as the account's volume of activity and its significance. He noted that correspondent banks have suspended operations with some foreign banks due to their de-risking policy, and that many of them reassess their business operations with foreign institutions and the latter's compliance department. He encouraged Lebanese banks to deal with several correspondent banks and to frequently visit them and meet their compliance officers.

### Occupancy rate at Beirut hotels at 54%, room yields down 20% in the first four months of 2016

EY's benchmark survey of the hotel sector in the Middle East indicated that the average occupancy rate at hotels in Beirut was 54% in the first four months of 2016, down from 55% in the same period of 2015 and compared to an average rate of 64.9% in 14 Arab markets included in the survey. The occupancy rate at Beirut hotels was the fourth lowest in the region in the first four months of 2016, while it was the third lowest in the same period of 2015. Kuwait City posted the lowest occupancy rate of 43% in the covered period, followed by Amman (50%) and Makkah (53%). Also, the occupancy rate at hotels in Beirut dropped by one percentage point year-on-year, constituting, along with Muscat, the smallest decrease among 11 Arab markets that posted a decline in their occupancy rates. In comparison, the average occupancy rate in Arab markets fell by 2.7 percentage points year-on-year in the first four months of 2016. Occupancy rates at Beirut hotels were 53% in January, 57% in February, 51% in March and 55% in April 2016, compared to 50% in January, 56% in February, 56% in March and 58% in April 2015.

The average rate per room at Beirut hotels was \$136 in the first four months of 2016, ranking the capital's hotels as the second least expensive in the region relative to Cairo (\$126). The average rate per room at Beirut hotels regressed by 17.8% year-on-year and posted the steepest drop among all markets in the region. The average rate per room in Beirut came below the regional average of \$195.1 that decreased by 5.5% from the same period of 2015.

Further, revenues per available room (RevPAR) were \$74 in Beirut in the first four months of 2016, down from \$92 in the same period of 2015, and were the lowest in the region. Beirut's RevPAR decreased by 20% year-on-year and posted the second steepest decline among Arab markets, relative to a contraction of 23.8% in Kuwait City. Beirut posted RevPARs of \$79 in January, \$78 in February, \$68 in March and \$72 in April 2016, compared to \$92 in January, \$91 in February \$90 in March and \$97 in April 2015. Dubai posted the highest average rate per room in the region at \$287, the highest occupancy rate at 86% and the highest room yield at \$249 in the first four months of 2016.

#### Hotel Sector Performance in First Four Months of 2016

	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Dubai	86	249	(10.2)
Jeddah	68	168	(11.9)
Doha	72	163	(18.5)
Muscat	76	158	(13.7)
Madina	68	137	(12.9)
Riyadh	66	134	(13.9)
Kuwait City	43	121	(23.8)
Manama	57	118	(0.7)
Abu Dhabi	82	116	(19.6)
Ras Al Khaimah	74	114	11.7
Makkah	53	91	(9.9)
Amman	50	79	(10.4)
Cairo	60	76	57.1
<b>Beirut</b>	<b>54</b>	<b>74</b>	<b>(20)</b>

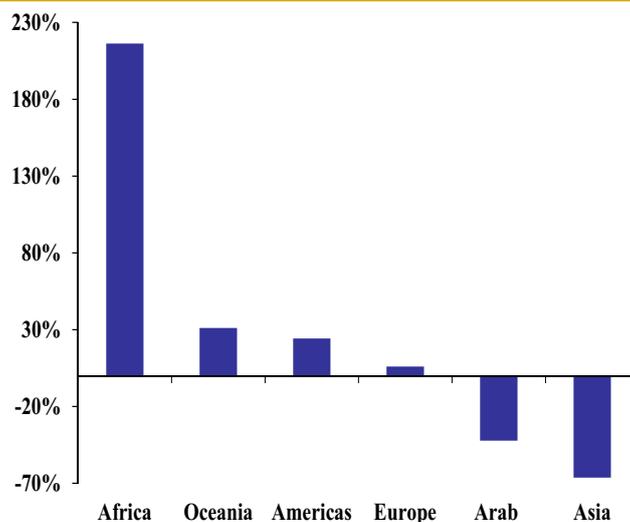
Source: EY, Byblos Research

### Tourist arrivals up 8% in first four months of 2016

The number of incoming tourists to Lebanon totaled 428,897 in the first four months of 2016, constituting an increase of 7.5% from 398,959 tourists in the same period of 2015, but a drop of 23.8% from 562,623 tourists in the first four months of 2010. Visitors from European countries accounted for 33.4% of total visitors in the first four months of 2016, followed by visitors from Arab countries with 32.7%, the Americas with 14.7%, Asia with 8.8%, Africa with 6.6% and Oceania with 3.7%. Also, tourists from Iraq accounted for 14.2% of total visitors in the covered period, followed by visitors from France with 8.8%, the U.S. with 7.4%, Egypt with 6%, Jordan with 5.4%, Canada with 5.2%, Germany with 4.3% and England with 4.1%.

In parallel, the number of visitors from African countries increased by 35.3% in the first four months of 2016, followed by visitors from Oceania (+16.8%), Europe (+10.3%), the Americas (+9.2%), Asia (+1.6%) and the Arab region (+0.8%). On a country basis, the number of tourists from England surged by 18% year-on-year in the first four months of 2016, followed by visitors from Iraq (+15.4%), Sweden (+14.6%), the U.S. (+10.7%), Germany (+10.4%), Venezuela (+9.8%), Turkey (+9.7%), Egypt (+9.4%), Canada (+9%), France (+7.8%), Jordan (+7.7%), and Italy (+1). In contrast, the number of visitors from the UAE declined by 50.8% annually, followed by those from Saudi Arabia (-39.1%), Kuwait (-35.4%) and Brazil (-0.9%).

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



\*from the same period of 2010

Source: Ministry of Tourism, Byblos Research

### Trade deficit widens by 16% to \$5.4bn in first four months of 2016

The total value of imports reached \$6.2bn in the first four months of 2016, constituting an increase of 11.1% from the same period of 2015; while the aggregate value of exports declined by 10.9% to \$871.4m. As such, the trade deficit widened by 15.7% year-on-year to \$5.4bn in the first four months of 2016 due to an increase of \$620.8m in imports and to a drop of \$106.9m in exports. The coverage ratio was 14% in the first four months of 2016 compared to 17.4% in the same period of 2015, while it reached 14.7% in April 2016 relative to 16.3% in the same month of 2015. The increase in imports reflects a rise of \$636.5m, or 68.2%, in the value of imported oil & mineral fuels to \$1.6bn in the first four months of 2016. The value of oil & mineral fuels accounted for 25.2% of total imports in the covered period compared to a share of 16.6% in the first four months of 2015.

In volume terms, imports reached 6.1 million tons in the first four months of 2016 compared to 4.8 million tons in the same period of 2015, while exports regressed by 15.3% annually to 481,629 tons in the covered period. In parallel, imports of oil & mineral fuels increased by 57.3% year-on-year to 3.2 million tons, while non-hydrocarbon imports grew by 2.7% annually to 2.8 million tons. Imported oil & mineral fuels accounted for 53.2% of total imports in the covered period relative to a 42.6% share in the first four months of 2015.

China was the main source of imports with \$658m, or 10.6% of the total, in the first four months of 2016, followed by the United States with \$488.5m (7.8%), Italy with \$470.2m (7.5%), the Netherlands with \$461.3m (7.4%), Germany with \$349.4m (5.6%) and Russia with \$283m (4.5%). Imports from the Netherlands rose by 6.2 times annually in the first four months of 2016, those from the United States increased by 63.2% and imports from Italy grew by 27.1%; while imports from Russia declined by 10.3%, those from Germany decreased by 3.3% and imports from China regressed by 1.2% year-on-year. In parallel, the Port of Beirut was the entry point for 75.2% of Lebanon's imports in the first four months of 2016, followed by the Hariri International Airport (17.6%), the Port of Tripoli (4.7%), the Port of Saida (1.5%), the Arida crossing point (0.5%), the Masnaa crossing point (0.4%), and the Abboudieh and Tyre crossing points (0.1% each).

Further, Saudi Arabia was the main export destination of Lebanese merchandise with \$103m, or 11.8% of total exports, followed by South Africa with \$102.4m (11.8%), the UAE with \$80m (9.2%), Syria with \$56.8m (6.5%), Iraq with \$53m (6.1%) and Jordan with \$33.7m (3.9%). Exports to South Africa grew by 44.6% and those to Jordan rose by 5.6%, while exports to Iraq dropped by 34.7%, those to the UAE regressed by 22.8%, exports to Saudi Arabia contracted by 20.6% and those to Syria decreased by 11.3%.

Lebanon's main exports were prepared foodstuff with \$154.8m and accounted for 17.8% of the total. They were followed by jewelry with \$149.8m (17.2%), machinery & mechanical appliances with \$121m (14%), chemical products with \$101.5m (11.7%), base metals with \$87.8m (10.1%), vegetable products with \$48.9m (5.6%) and plastics & rubber with \$42.9m (4.9%). In parallel, the Port of Beirut accounted for 55.5% of Lebanon's total exports in the first four months of the year, followed by the Hariri International Airport (30%), the Port of Tripoli (7.5%), the Masnaa crossing point (3.4%), the Arida crossing point (2.2%), the Abboudieh crossing point (0.8%) and the Port of Saida (0.6%). In parallel, re-exports totaled \$156.5m in the first four months of 2016 compared to \$127.6m in the same period of 2015.



### Utilized credits by private sector at \$61bn at end-2015, advances against real estate account for 35% of total

Figures issued by the Central Bank show that utilized credits by the private sector from commercial banks and financial institutions totaled \$61.54bn at the end of 2015, constituting an increase of 7% from \$57.3bn at the end of 2014. The distribution of credits by type shows that advances against real estate totaled \$21.6bn and accounted for 35.1% of total private sector utilized credits at the end of 2015. They were followed by overdrafts with \$17.35bn (28.2%), advances against personal guarantees with \$11.3bn (18.3%), advances against cash collateral or bank guarantees with \$7.6bn (12.4%), advances against other real guarantees with \$2.5bn (4.1%) and advances against financial values with \$1.2bn (2%). Trade & services accounted for \$20.56bn or 33.4% of utilized credits at the end of 2015, followed by personal credits with \$18bn (29.2%), construction with \$10.8bn (17.6%), industry with \$6.2bn (10.1%), financial intermediaries with \$3.6bn (5.9%) and agriculture with \$705.5m (1.1%), while other sectors accounted for the remaining \$1.64bn (2.7%).

Also, the distribution of utilized credits in trade & services shows that wholesale trade accounted for 42.3% of overall trade & services credits, followed by real estate services with 20.1%, retail with 16.5%, transport & storage with 8.5%, hotels & restaurants with 7.5% and educational services with 5%. Personal credits accounted for 84.5% of loan beneficiaries, followed by trade & services with 10.6% of beneficiaries, industry with 2.9%, construction with 1.4%, agriculture with 1% and financial intermediaries with 0.6%, while other sectors attracted the remaining 3.5%. The aggregate number of total loan beneficiaries grew by 14.2% year-on-year to 570,140; while 73.6% of beneficiaries had loans ranging from LBP5m to LBP100m by the end of 2015. Beirut and its suburbs accounted for 76.5% of bank credits and for 54.7% of beneficiaries. It was followed by Mount Lebanon with 11.8% of credits and 17.6% of beneficiaries, South Lebanon with 4.5% of credits and 9.9% of beneficiaries, North Lebanon with 4.1% of credits and 10.8% of beneficiaries, and the Bekaa with 3.1% of credits and 7.1% of beneficiaries. In parallel, the off-balance sheet liabilities of banks and financial institutions totaled \$103bn at the end of 2015, and grew by 6.6% from \$96.63bn a year earlier. They included endorsement & guarantees at \$95bn, or 92.3% of the total, followed by letters of undertaking at \$2.85bn (2.8%) and commitment on notes at \$2.37bn (2.3%).

### Treasury transfers to Electricité du Liban down 44% to \$1.1bn in 2015

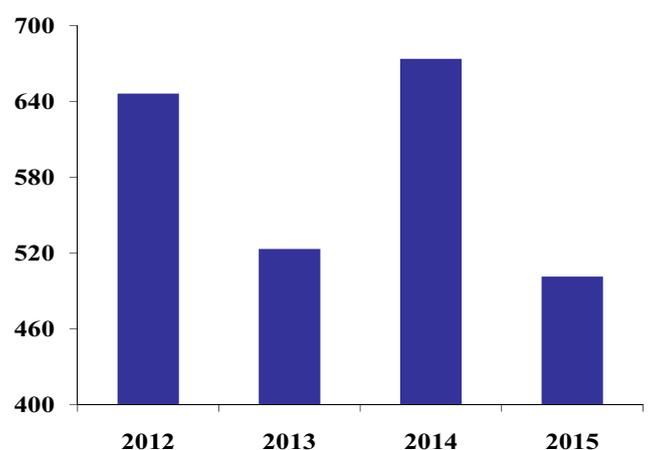
Figures released by the Finance Ministry show that Treasury transfers to Electricité du Liban (EdL) totaled \$1.13bn in 2015, constituting a drop of 44.3% from \$2.04bn in 2014. The ministry indicated that transfers to EdL for 2015 are calculated on a cash basis and adjusted the 2014 figures for comparative purposes. The ministry said that reimbursements to the Kuwait Petroleum Corporation (KPC) and to the Algerian energy conglomerate Sonatrach totaled \$1.12bn, or 98.3% of transfers last year, while EdL's debt servicing represented the balance of \$19.2m, or 1.7% of the total. It attributed the decline in transfers to a decrease of \$900.2m, or 44.7%, in payments to KPC and Sonatrach during 2015, as well as to a drop of \$2.1m, or 10%, in debt servicing. The ministry said that the decline in payments to KPC and Sonatrach reflects a 47.7% year-on-year decrease in oil prices at the time the oil contracts were executed. Also, it pointed out that EdL contributed to 4.8% of the repayments to the two oil suppliers in 2015, up from 1.9% in 2014. EdL transfers accounted for 12.8% of primary expenditures last year compared to 21.3% in 2014. They constituted the third largest expenditures item after debt servicing and public sector salaries & wages in overall fiscal spending. EdL transfers were equivalent to 5.1% of GDP in 2012, 4.3% of GDP in 2013, 4.1% of GDP in 2014 and to 2.7% of GDP in 2015.

### Subsidized interest loans down 26% to \$501m in 2015

Figures released by the Central Bank show that the amount of subsidized interest loans to productive sectors in Lebanon totaled \$501.4m in 2015, down by 25.6% from \$673.8m in 2014. The industrial sector benefited from \$317.5m in subsidized interest loans, equivalent to 63.3% of the total, followed by tourism with \$114m (22.7%) and agriculture with \$69.9m (13.9%). The cumulative amount of subsidized interest loans to productive sectors in Lebanon totaled \$6.55bn between 1997 and December 2015. Subsidized medium & long-term loans amounted to \$398.9m in 2015, equivalent to 79.6% of the total. The industrial sector accounted for 65.5% of subsidized medium & long-term loans, followed by tourism with 25.6% and agriculture with 8.9%. The program was established in the first quarter of 1997 and consists of a 5% to 7% subsidy on the interest charged on loans extended to productive sectors.

Also, subsidized interest loans guaranteed by the Kafalat Corporation reached \$87.6m, or 17.5% of the total, in 2015. The industrial sector received 47.2% of Kafalat-backed subsidies, followed by the agriculture industry with 39.1% and the tourism sector with 13.7%. Kafalat provides financial guarantees for loans of up to \$400,000 for small and medium-sized enterprises in productive sectors. In parallel, subsidized interest loans granted by leasing companies amounted to \$14.9m in 2015, or 3% of the total, and were extended in full to the industrial sector.

Subsidized Interest Loans (US\$m)



Source: Central Bank, Byblos Research

### Commercial activity deteriorates in fourth quarter of 2015

The Central Bank's quarterly business survey of opinions shows that the volume of commercial sales regressed quarter-on-quarter during the fourth quarter of 2015, with the balance of opinions standing at -17 compared to -2 during the preceding quarter and to -3 during the fourth quarter of 2014. The business survey reflects the opinions of enterprise managers about their business activity in order to depict the evolution of a number of key economic variables. The balance of opinions was the lowest in the North at -25, followed by Beirut & Mount Lebanon (-21), the Bekaa (-9) and the South (+11). The survey shows that the balance of opinions for the sales volume of food items was +2 in the fourth quarter of 2015 relative to +6 in the preceding quarter and to +10 in the same quarter of 2014. The balance of opinions about the sales of non-food products was -24 in the fourth quarter compared to zero in the preceding quarter and to -7 in the fourth quarter of 2014; while it was -25 for inter-industrial goods, relative to -17 in the third quarter of 2015 and to -12 in the fourth quarter of 2014. Also, the balance of opinions for inventory levels in all commercial sub-sectors was -11 in the fourth quarter of 2015, compared to -8 in the third quarter and to -3 in the fourth quarter of 2014. Opinions about the level of inventories were the lowest in the North as they reached -34, followed by the South (-15), the Bekaa (-8) and Beirut & Mount Lebanon (-2). The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in an indicator and the proportion of those who reported a decline in the same indicator.

<b>Commercial Activity: year-on-year evolution of opinions</b>				
<b>Aggregate results</b>	<b>Q4-12</b>	<b>Q4-13</b>	<b>Q4-14</b>	<b>Q4-15</b>
Sales volume	-13	-14	-3	-17
Number of employees	-3	-6	0	-6
Inventories of finished goods	-4	-6	-3	-11
<b>Q4-15 Regional results</b>	<b>Beirut / Mount Lebanon</b>	<b>North</b>	<b>South</b>	<b>Bekaa</b>
Sales volume	-21	-25	11	-9
Inventories of finished goods	-2	-34	-15	-8

*Source: Central Bank business survey for fourth quarter of 2015*

### Byblos Bank's ratings affirmed

Capital Intelligence affirmed Byblos Bank's long- and short-term foreign currency ratings at 'B', and the Bank's Financial Strength Rating (FSR) at 'BBB-'. It maintained the Support Level at '3', given the high likelihood of official support, in case of need, due to Byblos Bank's systemic importance. It said the outlook on all the ratings is 'negative' and noted that the foreign currency ratings continue to be constrained by Lebanon's sovereign ratings.

The agency pointed out that Byblos Bank's FSR is supported by its strong and improved capital adequacy, sound loan-loss reserve coverage of non-performing loans (NPLs), comfortable liquidity level, and good franchise. It indicated that the Bank's customer deposits grew in 2015 despite strong competition, mainly due to its strong franchise. It said that Byblos Bank has good access to capital markets, which has allowed it to diversify its sources of funding more significantly than most Lebanese banks. Further, it noted that the bank's NPL ratio decreased significantly in 2015 due to higher transfers of fully provisioned NPLs off the balance sheet, as well as to higher write-offs. It added that the Bank's loan-loss reserve coverage remained very sound and among the highest in the sector.

Further, the agency pointed out that the Bank's net profits and return on average assets regressed in 2015 due to higher provisioning. But it considered that the Bank continues to have an adequate loss-absorption capacity for unexpected losses. It noted that the Bank's FSR is constrained by factors such as the exposure to the sovereign, the country risk level and slow economic growth. It indicated that Byblos Bank follows a universal banking model, offers services in commercial and retail banking through one of the largest branch networks in Lebanon, and operates in 11 markets abroad.

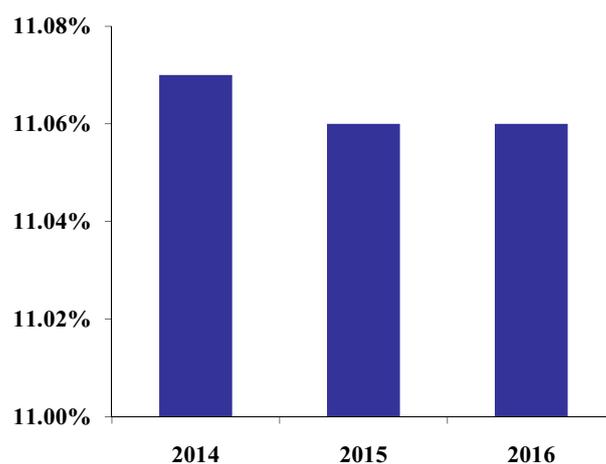
### Net profits of top 14 banks up 7% to \$510m in first quarter of 2016, profitability stagnates

The unaudited consolidated net profits of the Alpha Group of banks reached \$510.1m in the first quarter of 2016, constituting an increase of 6.5% from net earnings of \$479.1m in the same quarter of 2015. The Alpha Group consists of 14 banks with deposits in excess of \$2bn each. Total net operating income increased by 7.7% year-on-year to \$1.37bn, with aggregate net interest income rising by 8.2% to \$912.9m and net fees & commissions expanding by 11.2% to \$216.2m. Also, net gains on financial assets at fair value grew by 7.7% year-on-year to \$190.7m in the first quarter of 2016. Non-interest income accounted for 33.6% of total income in the first quarter of 2016, down from 36.5% in the same quarter last year; with net fees & commissions representing 43.4% of non-interest income, up from 37.2% in the first quarter of 2015. Also, the net interest spread rose to 1.93% in the first quarter from 1.87% in the same quarter last year. In parallel, total operating expenditures grew by 8.8% year-on-year in the first quarter of 2016 to \$739.6m, with staff expenses rising by 6.5% to \$406.7m and administrative & other operating expenses increasing by 12.4% to \$280.5m. Further, the cost-to-income ratio was 49.9% in the first quarter of this year, up from 47.5% in the same quarter of 2015. The banks' return on average assets was 1% in March 2016 on an annualized basis relative to 0.99% in March 2015; while their return on average equity was unchanged at 11.06% in March 2016.

The Alpha Group of banks' total assets reached \$203.5bn at the end of March 2016, constituting a marginal decrease of 0.1% from end-2015 and a rise of 4.9% from end-March 2015. Net loans & advances to customers totaled \$63.5bn, up by 0.9% from end-2015; while credit extended to related parties regressed by 14.3% to \$681.7m at end-March 2016. Customer deposits totaled \$163.7bn at the end of March 2016, reflecting a decline of 0.5% from end-2015; while deposits from related parties regressed by 6.1% to \$3.5bn at end-March 2016. The banks' shareholders equity reached \$18.7bn at the end of March 2016 and increased by 2.4% from end-2015.

In parallel, the banks' loans-to-deposits ratio increased from 36.9% at the end of March 2015 to 38.4% at end-March 2016. The loans-to-deposits ratio in local currency was 23% compared to 22.3% at end-March 2015, while that in foreign currency was 45.2% at the end of March 2016 relative to 43.2% a year earlier. Further, the primary liquidity-to-assets ratio was 30.6% at the end of March 2016, down from 31.9% at end-March 2015. The banks' gross doubtful loans-to-gross loans ratio fell from 5.75% at end-March 2015 to 5.62% at the end of March 2016. Also, the loan-loss reserves on doubtful loans covered 73.6% of gross doubtful loans at end-March 2016, down from a coverage of 76.7% a year earlier. Further, the ratio of collective provisions-to-net loans decreased from 1.24% at the end of March 2015 to 1.17% at the end of March 2016.

### Return on Average Equity\*



\*in the first quarter of each year

Source: Bankdata Financial Services, Byblos Research

### **First National Bank's net earnings down 2% to \$7.4m in first quarter of 2016**

First National Bank sal, one of Lebanon's top 14 banks, announced unaudited consolidated net profits of \$7.4m in the first quarter of 2016, constituting a decrease of 1.9% from the same quarter last year. Net operating income was nearly unchanged year-on-year at \$23.3m in the first quarter of the year, with net interest income decreasing by 1.5% to \$11.3m and net fees & commissions receipts dropping by 34% year-on-year to \$2.5m. Non-interest income accounted for 17.4% of total income, down from 28.4% in the same quarter last year; with net fees & commissions representing 61% of non-interest earnings, up from 56.6% in the first quarter of 2015. Further, the bank's interest margin was 1.93% in the first quarter of 2016 relative to 1.8% in the same quarter last year; while its interest spread was at 1.85% in the first quarter of 2016, up from 1.72% in the same quarter of 2015. Total operating expenditures decreased by 2.2% to \$14.5m, with staff expenses rising by 3.4% to \$9.1m. Also, the bank's return on average assets regressed to 0.71% in March 2016 on an annualized basis from 0.78% in March 2015; while its return on average equity decreased to 7.33% on an annualized basis from 10.22% in March 2015. The cost-to-income ratio declined to 62.15% in the first quarter of the year from 63.62% in the same quarter of 2015.

In parallel, total assets reached \$4.2bn at end-March 2016, constituting an increase of 1.9% from end-2015 and a rise of 10.3% from a year earlier. Loans & advances to customers, excluding those to related parties, grew by 3.8% from end-2015 and by 1.8% from a year earlier to \$924.3m. Also, customer deposits, excluding those from related parties, totaled \$3.23bn at the end of March and increased by 2.2% from end-2015 and by 7.4% from a year earlier. The loans-to-deposits ratio regressed to 29.1% at end-March 2016 from 29.6% a year earlier. In parallel, the bank's shareholder equity rose by 3.3% from the end of 2015 to \$410.2m at end-March 2016.

### **Bank of Beirut to raise capital through issuance of common and preferred shares**

The Extraordinary General Assembly of Bank of Beirut sal that was held on May 26, 2016 approved the increase of the bank's capital from LBP105.4bn, equivalent to \$69.9m, to LBP109.38bn or \$72.6m, through the issuance of 2,717,500 new common shares at a par value of LBP1,460 (\$0.97) per share. Also, the bank approved another capital increase of LBP5.84bn to LBP115.22bn (\$76.4m) through the issuance of 4,000,000 Series "K" Preferred Shares. The shares will have an issue price of \$25 per share, of which LBP1,460 is par value and the remaining \$93.37 constitutes the issue premium. The Series "K" Preferred Shares are redeemable, non-cumulative and perpetual, and will carry an annual dividend rate of 6.5% of the issue price, with the annual payment being contingent on the availability of sufficient declared net profits. The dividends will be disbursed net of a 5% withholding tax. Bank of Beirut has the option to call the shares after the Ordinary General Assembly meets to approve the financials for fiscal year 2021, and every two years thereafter, at a callable price of \$25 per share plus any declared but unpaid dividends. The Series "K" shares will be listed on the Beirut Stock Exchange, in line with previous issuances.

Following the issuance of the common and preferred shares, the bank's share capital would consist of 78,916,900 shares that include 53,184,900 common shares; 4,762,000 Priority Shares Series 2014; 3,570,000 Series "G" Preferred Shares; 5,400,000 Series "H" Preferred Shares, 5,000,000 Series "I" Preferred Shares, 3,000,000 Series "J" Preferred Shares and 4,000,000 Series "K" Preferred Shares. Bank of Beirut posted unaudited net profits of \$43.8m in the first quarter of 2016. Total assets reached \$16bn; while loans & advances to customers, excluding loans & advances to related parties, reached \$4.27bn at end-March 2016. Also, customer deposits, excluding deposits from related parties, totaled \$11.85bn at the end of March 2016.

## 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	May 2014	Apr 2015	May 2015	Change**	Risk Level
Political Risk Rating	52.0	55.0	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	63.5	63.5	▼	Moderate

MENA Average*	May 2014	Apr 2015	May 2015	Change**	Risk Level
Political Risk Rating	58.0	57.2	57.3	▲	High
Financial Risk Rating	40.2	39.6	39.6	▲	Low
Economic Risk Rating	35.7	33.9	33.1	▲	Moderate
Composite Risk Rating	67.0	65.3	65.0	▲	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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