

## LEBANON THIS WEEK

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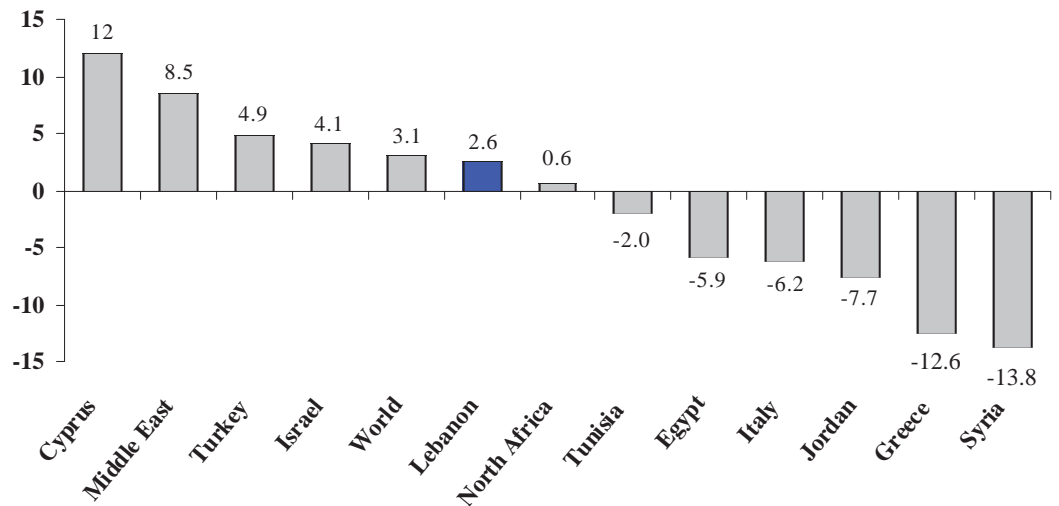
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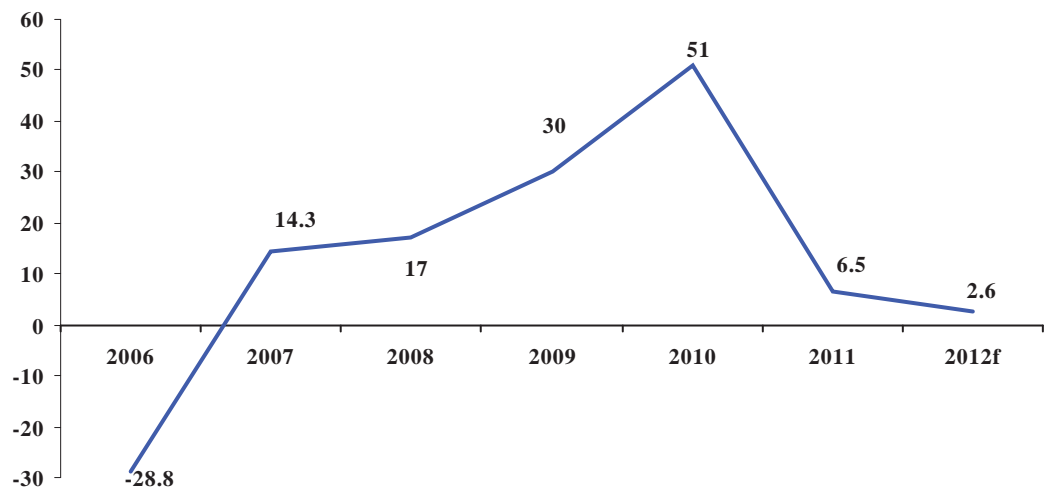
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### Charts of the Week

Projected Travel & Tourism Investment Growth Rate in 2012 (%)



Travel & Tourism Investment Growth Rate in Lebanon (%)



Source: World Travel & Tourism Council, Byblos Bank

### Quote to Note

"With the political crisis in Syria escalating, downside risks to Lebanon's growth and external position have considerably exacerbated."

*Barclays Capital, on the impact of the Syrian crisis on the Lebanese economy*

### Number of the Week

**82:** Beirut's rank among 117 cities worldwide in terms of global appeal to international companies, according to the Economist Intelligence Unit's Global City Competitiveness Index

## Economic Indicators

| <b>\$m</b> (unless otherwise mentioned) | <b>2009</b> | <b>Dec 10</b> | <b>2010</b> | <b>Sep 11</b> | <b>Oct 11</b> | <b>Dec 11</b> | <b>% Change*</b> |
|---|-------------|---------------|-------------|---------------|---------------|---------------|------------------|
| Exports                                 | 3,486       | 487           | 4,256       | 334           | 351           | 338           | (30.60)          |
| Imports                                 | 16,241      | 1,470         | 17,956      | 1,792         | 2,508         | 1,665         | 13.27            |
| Trade Balance                           | (12,755)    | (983)         | (13,700)    | (1,458)       | (2,157)       | (1,327)       | 34.99            |
| Balance of Payments                     | 7,899       | 1,243         | 3,326       | (302)         | (590)         | 692           | (44.33)          |
| Checks Cleared in LBP                   | 11,122      | 1,278         | 13,519      | 1,147         | 1,233         | 1,370         | 7.20             |
| Checks Cleared in FC                    | 45,270      | 4,370         | 53,925      | 5,181         | 5,123         | 5,094         | 16.57            |
| Total Checks Cleared                    | 56,392      | 5,648         | 67,444      | 6,328         | 6,356         | 6,464         | 14.45            |
| Budget Deficit/Surplus                  | (2,960)     | (62)          | (2,892)     | (419)         | (118)         | (391)         | 531.32           |
| Primary Balance                         | 1,078       | 276           | 1,232       | 44            | 280           | (73)          | (126.57)         |
| Airport Passengers                      | 4,986,544   | 369,735       | 5,552,260   | 582,383       | 448,620       | 441,214       | 19.33            |

| <b>\$bn</b> (unless otherwise mentioned) | <b>Dec 2009</b> | <b>Dec 10</b> | <b>Aug 11</b> | <b>Sep 11</b> | <b>Oct 11</b> | <b>Dec 11</b> | <b>% Change*</b> |
|--|-----------------|---------------|---------------|---------------|---------------|---------------|------------------|
| BdL FX Reserves                          | 25.66           | 28.60         | 30.64         | 30.62         | 30.51         | 30.82         | 7.74             |
| <i>In months of Imports</i>              | 18.6            | 19.46         | 17.82         | 17.09         | 12.17         | 18.51         | (4.87)           |
| Public Debt                              | 51.09           | 52.59         | 53.40         | 54.35         | 54.22         | 53.64         | 2.00             |
| Net Public Debt                          | 44.11           | 45.01         | 45.71         | 45.80         | 45.78         | 46.35         | 2.98             |
| Bank Assets                              | 115.25          | 128.93        | 138.06        | 138.42        | 139.54        | 140.58        | 9.04             |
| Bank Deposits (Private Sector)           | 95.77           | 107.20        | 112.95        | 113.39        | 114.19        | 115.72        | 7.95             |
| Bank Loans to Private Sector             | 28.37           | 34.93         | 38.92         | 38.76         | 39.22         | 39.38         | 12.74            |
| Money Supply M2                          | 34.16           | 39.40         | 37.35         | 37.68         | 37.90         | 38.90         | (1.27)           |
| Money Supply M3                          | 82.08           | 92.15         | 95.21         | 95.63         | 92.26         | 97.23         | 5.51             |
| LBP Lending Rate (%)                     | 9.04            | 7.91          | 7.53          | 7.37          | 7.27          | 7.38          | (53b.p.)         |
| LBP Deposit Rate (%)                     | 6.75            | 5.68          | 5.53          | 5.58          | 5.60          | 5.63          | (5b.p.)          |
| USD Lending Rate (%)                     | 7.28            | 6.74          | 7.16          | 6.92          | 7.10          | 7.02          | 28b.p            |
| USD Deposit Rate (%)                     | 3.05            | 2.80          | 2.80          | 2.84          | 2.82          | 2.83          | 3b.p.            |
| %* Change in CPI**                       | 4.20            | 6.19          | 6.49          | 5.27          | 3.14          | 4.27          | (192b.p.)        |

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

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

Sources: ABL, BdL

## Capital Markets

| <b>Most Traded Stocks on BSE</b> | <b>Last Price (\$)</b> | <b>% Change*</b> | <b>Total Volume</b> | <b>Weight in Market Capitalization</b> |
|----------------------------------|------------------------|------------------|---------------------|--|
| Solidere "A"                     | 14.15                  | (0.91)           | 85,658              | 13.32%                                 |
| Solidere "B"                     | 14.01                  | (1.13)           | 13,067              | 8.57%                                  |
| Byblos Common                    | 1.71                   | (0.58)           | 48,929              | 5.79%                                  |
| Byblos Pref. 08                  | 105.00                 | (0.10)           | 1,000               | 1.98%                                  |
| Byblos Pref. 09                  | 106.00                 | 2.81             | 3,083               | 2.00%                                  |
| BLOM GDR                         | 8.00                   | 0.25             | 26,010              | 5.56%                                  |
| BLOM Listed                      | 7.65                   | 0.00             | 0                   | 15.48%                                 |
| Audi GDR                         | 6.30                   | (5.97)           | 53,860              | 5.93%                                  |
| Audi Listed                      | 6.07                   | (6.62)           | 13,053              | 19.96%                                 |
| HOLCIM                           | 16.50                  | 0.00             | 0                   | 3.03%                                  |

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

| <b>Sovereign Eurobonds</b> | <b>Coupon %</b> | <b>Mid Price \$</b> | <b>Mid Yield %</b> |
|----------------------------|-----------------|---------------------|--------------------|
| Sep. 2012                  | 7.750           | 100.25              | 7.11               |
| June 2013                  | 8.625           | 107.00              | 2.71               |
| Apr. 2014                  | 7.375           | 107.50              | 3.51               |
| Jan. 2015                  | 5.875           | 104.25              | 4.24               |
| Apr. 2015                  | 10.00           | 117.75              | 3.80               |
| Jan. 2016                  | 8.500           | 114.50              | 4.31               |
| Mar. 2017                  | 9.000           | 119.00              | 4.67               |
| Nov. 2018                  | 5.150           | 100.88              | 4.99               |
| Apr. 2021                  | 8.250           | 119.00              | 5.55               |
| Nov. 2026                  | 6.600           | 102.50              | 6.34               |

Source: Byblos Bank Capital Markets

|                              | <b>April 2-5</b> | <b>March 26-30</b> | <b>% Change</b> | <b>March 2012</b> | <b>March 2011</b> | <b>% Change</b> |
|------------------------------|------------------|--------------------|-----------------|-------------------|-------------------|-----------------|
| <b>Total Shares Traded</b>   | 252,582          | 2,922,829          | (91.36)         | 5,403,251         | 12,601,873        | (57.12)         |
| <b>Total Value Traded</b>    | \$2,808,959      | \$19,824,398       | (85.83)         | \$31,601,350      | \$72,865,526      | (56.63)         |
| <b>Market Capitalization</b> | \$10.63bn        | \$10.84bn          | (1.96)          | \$10.84bn         | \$12.09bn         | (10.39)         |

Source: Beirut Stock Exchange (BSE)



### Lebanon ranks 95th globally, 11th among Arab countries in ICT readiness

The World Economic Forum/INSEAD Business School's Networked Readiness Index for 2012 ranked Lebanon in 95th place among 142 countries around the world and in 11th place among 15 Arab countries. Lebanon also came in 27th place among 33 upper-middle income countries (UMICs) included in the survey. The index reflects the factors driving networked readiness, which is the capacity of countries to fully benefit from new information and communication technologies (ICT) in their competitiveness strategies and their citizens' daily lives. The index is a composite of four sub-indices that cover the environment for ICT, the readiness of a society to use ICT, the actual usage by the main stakeholders, and the impact that ICT generates on the economy and society. The WEF and INSEAD added a fourth sub-index this year, which prevents comparisons of the index's new results with previous years.

Globally, Lebanon ranked ahead of Ecuador, Ghana and Guatemala and came behind Armenia, Kenya and Argentina. Lebanon received a score of 3.49 points, lower than the global average of 3.96 points, the Arab average of 3.82 points, and the UMIC's average of 3.83 points.

Lebanon ranked ahead of Peru, Colombia and Mongolia, and came behind Uganda, Costa Rica and Cambodia on the Environment Sub-Index. This category measures

the friendliness of a country's market and regulatory framework to support high levels of ICT uptake and the development of entrepreneurship and innovation. Regionally, Lebanon ranked ahead of Syria, Yemen and Mauritania, and came behind Egypt, Morocco, and Kuwait. It also ranked ahead of Peru and behind Costa Rica among UMICs.

Also, Lebanon ranked ahead of Armenia, Ecuador and the Dominican Republic, and came behind Algeria, Brunei Darussalam and Vietnam on the Readiness Sub-Index. This category measures the degree of a society preparedness to make good use of an affordable ICT infrastructure and digital content. Regionally, Lebanon ranked ahead of Morocco, Syria and Yemen, and came behind Algeria, Egypt and Oman. It also ranked ahead of the Dominican Republic and behind Algeria among UMICs.

Further, Lebanon came ahead of Namibia, Pakistan and Bangladesh, and ranked behind Iran, Venezuela and Suriname on the Usage Sub-Index. This category assesses the efforts of individuals, businesses, and the government to increase their capacity to use ICT, as well as their actual use in their day-to-day activities with other agents. Regionally, Lebanon ranked ahead of Syria, Algeria and Mauritania, and came behind Egypt, Morocco and Kuwait. It also ranked ahead of Namibia and behind Iran among UMICs.

Finally, Lebanon came ahead of Bosnia & Herzegovina, Benin and Venezuela, and ranked behind Tajikistan, El Salvador and Guyana on the Impact Sub-Index. This category was added this year to the index and measures the broad economic and social impacts accruing from ICT to boost competitiveness and well-being. It also reflects the transformation towards an ICT- and technology-savvy economy and society. Regionally, Lebanon ranked ahead of Morocco, Syria and Mauritania, and came behind Kuwait, Egypt and Jordan. It also ranked ahead of Bosnia & Herzegovina and behind Botswana among UMICs. Sweden had the highest networked readiness globally, while Haiti was the least ready worldwide.

| Networked Readiness Index 2012 |             |             |           |
|--------------------------------|-------------|-------------|-----------|
|                                | Score       | Global Rank | Arab Rank |
| Bahrain                        | 4.90        | 27          | 1         |
| Qatar                          | 4.81        | 28          | 2         |
| UAE                            | 4.77        | 30          | 3         |
| Saudi Arabia                   | 4.62        | 34          | 4         |
| Oman                           | 4.35        | 40          | 5         |
| Jordan                         | 4.17        | 47          | 6         |
| Tunisia                        | 4.12        | 50          | 7         |
| Kuwait                         | 3.95        | 62          | 8         |
| Egypt                          | 3.77        | 79          | 9         |
| Morocco                        | 3.56        | 91          | 10        |
| <b>Lebanon</b>                 | <b>3.49</b> | <b>95</b>   | <b>11</b> |
| Algeria                        | 3.01        | 118         | 12        |
| Syria                          | 2.85        | 129         | 13        |
| Mauritania                     | 2.55        | 139         | 14        |
| Yemen                          | 2.41        | 141         | 15        |

Source: World Economic Forum

### Lebanon's Rankings & Scores on the Components of the Networked Readiness Index 2012

|                                      | Global Rank | Arab Rank | UMIC Rank | Lebanon Score | Global Avge Score | Arab Avge Score | UMIC Avge Score |
|--------------------------------------|-------------|-----------|-----------|---------------|-------------------|-----------------|-----------------|
| <b>Environment</b>                   | <b>92</b>   | <b>11</b> | <b>22</b> | <b>3.64</b>   | <b>3.98</b>       | <b>3.97</b>     | <b>3.80</b>     |
| Political and regulatory environment | 129         | 13        | 30        | 2.78          | 4.15              | 3.73            | 3.58            |
| Business and innovation environment  | 42          | 6         | 4         | 4.5           | 4.18              | 4.22            | 4.02            |
| <b>Readiness</b>                     | <b>89</b>   | <b>11</b> | <b>26</b> | <b>4.31</b>   | <b>4.52</b>       | <b>4.39</b>     | <b>4.58</b>     |
| Infrastructure and digital content   | 95          | 11        | 29        | 3.22          | 4.08              | 3.93            | 3.96            |
| Affordability                        | 99          | 11        | 27        | 4.06          | 4.77              | 4.55            | 4.90            |
| Skills                               | 33          | 2         | 4         | 5.65          | 4.73              | 4.70            | 4.88            |
| <b>Usage</b>                         | <b>105</b>  | <b>11</b> | <b>31</b> | <b>3.02</b>   | <b>3.47</b>       | <b>3.56</b>     | <b>3.52</b>     |
| Individual usage                     | 68          | 8         | 19        | 3.25          | 3.65              | 3.38            | 3.33            |
| Business usage                       | 94          | 10        | 24        | 3.33          | 3.19              | 3.47            | 3.47            |
| Government usage                     | 138         | 14        | 33        | 2.47          | 3.57              | 3.85            | 3.76            |
| <b>Impact</b>                        | <b>104</b>  | <b>10</b> | <b>26</b> | <b>2.99</b>   | <b>3.64</b>       | <b>3.35</b>     | <b>3.41</b>     |
| Economic impacts                     | 92          | 9         | 24        | 2.97          | 3.45              | 3.02            | 3.17            |
| Social impacts                       | 114         | 11        | 29        | 3.00          | 3.83              | 3.69            | 3.65            |

Source: World Economic Forum, Byblos Research

### **Government's obligations to the NSSF at \$550m at end-February 2012**

Figures issued by the National Social Security Fund (NSSF) show that there are 551,168 Lebanese who are covered by the NSSF and around 1.26 million persons who benefit from its services. Private sector employees accounted for 388,069 or 70.4% of the total at end-February 2012, followed by university students with 53,000 (9.6%), taxi drivers with 41,102 (7.5%), private sector teachers with 35,063 (6.4%), optional subscribers with 14,024 (2.5%), and public sector employees 10,225 (2%). There were 50,750 registered companies at the NSSF at the end of February 2012, including 43,056 firms that employ less than 10 employees, 7,570 firms that employ 10 employees or more, and 124 public institutions. Also, there were 142 hospitals that have a working agreement with the NSSF at end-February 2012, in addition to 10,846 doctors, 2,703 pharmacies, 1,364 physiotherapists, 427 laboratories, and 209 imaging centers that have a similar deal.

The NSSF indicated that human and financial resources constitute its main challenges. It said that the accumulated financial obligations of the government towards the NSSF stood at LBP829bn, or \$550m at end-2011, and included dues of LBP187bn for 2011, LBP183bn for 2010 and LBP176bn for 2009. The accumulated government's financial obligations towards the NSSF were LBP762bn at end-2010, LBP679bn at end-2009, and LBP743bn at end-2008. In comparison, the government paid to the NSSF LBP120bn in 2011, LBP100bn in 2010, and LBP240bn in 2009.

Further, NSSF figures show a deficit of LBP37.9bn in the Sickness & Maternity category in the first 9 months of 2011, compared to a deficit of LBP71.5bn in full year 2010. This category posted just two annual surpluses during the 2001-11 period, that are a surplus of LBP12bn in 2009 and a surplus of LBP27.9bn in 2005. As a result, the accumulated deficit in the category reached LBP431.4bn at end-September 2011 compared to an accumulated surplus of LBP415.6 at end-2000. Also, the Family Benefits category recorded a deficit of LBP35.6bn in the first 9 months of 2011, relative to a deficit of LBP39.3bn in 2010. and did not post an annual surplus since 2000. The accumulated deficit in this category till end-September 2011 reached LBP373.4bn relative to an accumulated surplus of LBP219.6 at end-2000. Further, the End-of-Service category posted a surplus of around LBP640.7bn in the first 9 months of 2011, while the accumulated surplus in this category till end-September 2011 reached LBP7,703.6bn relative to a cumulative surplus of LBP1,746.4bn at end-2000.

In parallel, the NSSF said that human resources issues include understaffing, as 45% of the positions are vacant; the high age of employees, which exceeds 51 years on average; and a lack of expertise in the automation, public relations, medical administration, and funds' management and investment fields.

### **Telecom ministry unveils plan to increase Internet capacity**

The Ministry of Telecommunications announced plans to increase the country's Internet capacity to 33 Gigabits per second from the current 23 Gigabits per second. It indicated that the rise in Internet speed will come from the full use of the 120 Gigabits that became available to Lebanon from the India-Middle East-Western Europe (IMEWE) submarine cable. Lebanon subscribed to the IMWEWE cable in December 2010 but started in June 2011 to use the cable's bandwidth in a limited way. The ministry added that it aims to connect Lebanon to a new international cable linked to Cyprus, which would help Lebanon benefit from an additional 700 Gigabits per second. In parallel, the ministry submitted to the government a request for amendments to the tariff decree governing DSL. The first amendment requests granting DSL subscribers unlimited nighttime usage between 12:00 am and 7:00 am; and the second amendment aims to reduce the charges on users who exceed their download quotas of DSL consumption.

### **Central Bank foreign assets up 0.6% to \$32.4bn in first quarter of 2012**

The Central Bank's interim balance sheet reached \$72.8bn at the end of March 2012 compared to \$70.3bn at the end of 2011 and to \$60.4bn at end-March 2011. Assets in foreign currencies increased by 0.6% in the first quarter of the year to \$32.4bn from \$32.24bn at the end of 2011. Assets in foreign currencies increased by \$141.5m in March and by \$118.8m in February, while they declined by \$72.6m in January 2012. This resulted in an aggregate increase of \$187.6m in the first quarter of 2012. Further, assets in foreign currencies rose by \$2bn, or 6.6%, year-on-year.

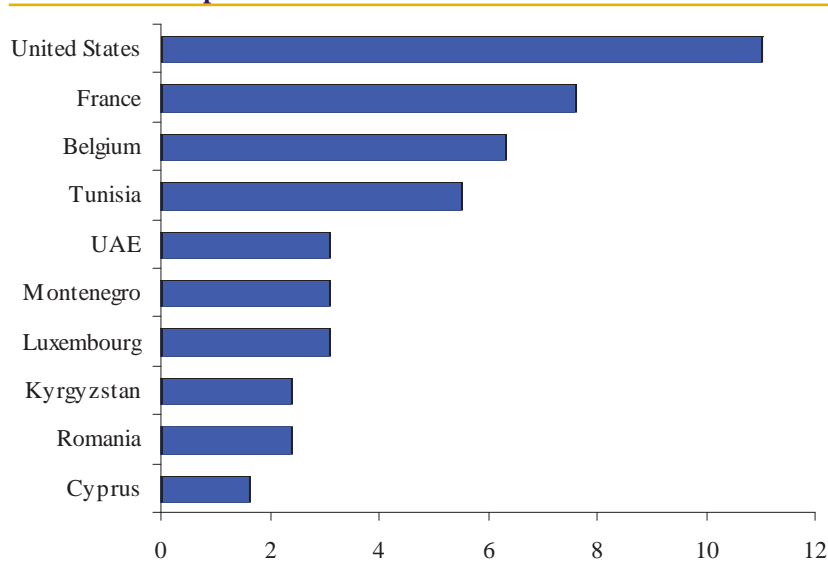
The value of the Central Bank's gold reserves increased by 6.5% in the first quarter of 2012 and by 16% year-on-year to \$15.3bn, compared to the peak of \$16.7bn reached at end-August 2011. Its securities portfolio increased by 9.7% in the first quarter and by 33.2% annually to \$12.7bn. Further, deposits of the financial sector rose by \$2.4bn, or 4.9%, in the first 3 months of the year and by \$7.2bn or 16% annually to \$51.4bn reflecting the slowdown in capital inflows into the banking sector; while deposits of the public sector declined by 3.5% year-to-March and by 5.7% year-on-year to \$5.1bn. Assets in foreign currencies increased by \$1.63bn in 2011, \$2.3bn in 2010, \$8.3bn in 2009, and \$7.34bn in 2008.

### Central Bank lifts secrecy on 18 cases suspected of money laundering

The Special Investigation Commission (SIC) against money laundering issued its 11th annual report detailing its activities in tracing dirty money in Lebanon in 2011. Established by the Central Bank of Lebanon as an independent legal entity, the commission's mandate is to investigate suspected money-laundering operations and to monitor compliance with the rules and procedures of the anti-money laundering law, Law 318, passed in April 2001 by the Lebanese Parliament. The report indicated that the SIC received 335 suspected cases in 2011, of which 235 cases, or 70%, were local cases and 100 cases, or 30%, were referred from abroad. The SIC referred to judicial authorities 157 suspected cases, while 50 cases are still pending and the remaining 128 cases did not fall within the framework of Law 318. As a result, authorities lifted the banking secrecy on 18 cases, of which five cases were referred from foreign governments and organizations and 13 cases from domestic sources. The SIC investigated a total of 189 out of 245 cases in 2010, 77 out of 202 suspected cases in 2009, 67 out of 226 cases in 2008, 54 out of 234 cases in 2007 and 70 out of 185 cases in 2006.

Counterfeiting and forgery accounted for 12.7% of reported cases, followed by terrorism & transfer of funds with 8.5%, embezzlement of private funds with 6.1%, narcotics trade with 4.5%, embezzlement of public funds with 2.8%, and organized crimes with 0.4%, while the remaining 65% of cases were not categorized. In cases related to terrorism, local sources provided four names (four cases), the United Nations supplied 42 names (14 cases), and financial investigative units provided 25 names (three cases). The SIC also examined a number of institutions to ensure compliance with Law 318. It covered 24 commercial banks, equivalent to 34.8% of the total, 19 insurance companies (35.2%), 18 financial institutions (34%), 117 money dealers (29.5%) and three brokerage firms (21.4%). Further, Europe was the main source of requests to Lebanese authorities, as it accounted for 52 requests, equivalent to 41% of the total, followed by the United Nations with 19%, North America with 12%, the Middle East & the Arabian Gulf with 8.7%, Africa with 7.9%, Latin America with 4.7%, Asia with 4%, and Australia with 3.1%.

**Top 10 foreign sources of money laundering cases reported to Lebanese authorities in 2011\***



\* % of total requests

Source: Special Investigation Commission

### Customs receipts down 8% to \$125m in January 2012

Figures released by the Customs Directorate indicated that customs revenues reached \$125.2 in January 2012, constituting a decline of 7.8% from \$136m in the same month of 2011. The Port of Beirut continues to be the main point of customs receipts, as it accounted for 88.5% of the total last year, and was followed by the Hariri International Airport with 6.5%, the Port of Tripoli with 2%, the Masnaa crossing point with 1.7%, the Port of Saida with 0.6%, the crossing point of Abboudieh by 0.5% and the Port of Tyre with 0.2%. Customs receipts from the value-added tax totaled \$131.1m in January 2012, constituting an increase of 15.7% year-on-year. The Port of Beirut accounted for 81% of such receipts, and was followed by the Hariri International Airport with 7%, the Masnaa crossing point with 5%, the Port of Tripoli with 4.8% and the Port of Saida with 2% of the total. As such, overall customs receipts reached \$256.3 last year, with the Port of Beirut accounting for 84.6% of the total. It was followed by the Hariri International Airport with 6.7% and the Port of Tripoli and the Masnaa crossing point with 3.4% each. In addition, other entry points represented the balance, with the port of Saida accounting for 1.4%, the crossing point of Abboudieh for 0.3%, and the port of Tyre for 0.2%.

### **Net public debt at \$47bn at end-February 2012**

Lebanon's gross public debt reached \$53.9bn at the end of February 2012, constituting a marginal rise of 0.6% from end-2011 and an increase of 3.6% from end-February 2011. Domestic debt reached \$33bn at end-February, up by 0.7% from end-2011 and by 6% annually, while external debt stood at \$21bn, up by 0.4% from end-2011 and unchanged from a year earlier. Local currency debt accounted for 61.1% of gross public debt at end-February 2012 compared to 59.7% a year earlier, while foreign currency-denominated debt represented 38.9% of the total at the end of February relative to 40.3% a year earlier. The weighted interest rate on outstanding Treasury bills was 6.75%, while the weighted interest rate on Eurobonds was 7.04% at the end of February. Further, the weighted life on Eurobonds was 5.57 years, while that on Treasury bills was 951 days.

Commercial banks accounted for 50% of the local public debt at the end of February 2012 compared to 52.6% a year earlier. They were followed by the Central Bank with 34.3%, up from 30.9% at end-February 2011; while public agencies, financial institutions and the general public accounted for 15.7% of local debt, compared to 16.5% in February 2011. Eurobond holders, foreign private sector loans and special T-bills in foreign currencies accounted for 87.1% of the external debt, followed by multilateral institutions with 6.6%, foreign governments with 4.8%, and Paris II loans with 1%. Net public debt, which excludes the public sector's deposits at the Central Bank and at commercial banks from overall debt figures, increased annually by 3.1% to \$46.7bn. In parallel, the gross market debt accounted for about 62% 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.

### **Trade deficit down 23% to \$1.4bn in January 2012, volume of non-hydrocarbon imports down 12%**

Total imports reached \$1.5bn in January 2012, constituting a decrease of 16% from the same month last year; while aggregate exports rose by 17% to \$348m, leading to a trade deficit of \$1.1bn, down 23% from \$1.4bn in January 2011. The narrowing of the trade balance was driven by a drop of \$275m in imports and an increase of \$51m in exports. Imports of oil and mineral fuels dropped by 52% year-on-year to \$256m, while non-hydrocarbon imports increased marginally by 1% to \$1.2bn. In volume terms, imports reached 962 million tons in January 2012, constituting a decrease of 39% from the same month last year; while exports posted a 37% drop to 161 million tons in the covered period, leading to a trade deficit of 801 million tons, down 39% year-on-year. The volume of both imports and exports posted their lowest levels in five years in January 2012. Imports of oil and mineral fuels decreased by 63% year-on-year to 310 million tons, while non-hydrocarbon imports contracted by 11.8% to 652 million tons. The coverage ratio reached 23.9% in January 2012 compared to 17.2% in the same month last year.

The decrease in imports was mainly due to a lower mineral fuels & oil bill. The decrease in the energy import bill was offset by an increase of \$24m, or 22%, in imports of unwrought & semi-manufactured gold, diamonds, precious stones & metals, which reflected an increase in prices, as the import volume of these products fell by around 21% year-on-year. Similarly, imports of pharmaceutical products increased by 23%, or \$16m in January, and rose by 37% in volume terms. The increase in exports was mainly driven by the rise in international gold and silver prices, with exports of unwrought gold, un-mounted diamond, & precious metals increasing in value by 101% or \$84m in January and decreasing by 14% in volume terms. Excluding this item, exports dropped in value by 15% or \$33m and in volume by 37% due to a decline in exports to Arab countries. Exports to Arab countries dropped by 28%, largely due to a 40% drop in exports to the UAE, a 72% decrease in exports to Egypt and a 60% fall in exports to Iraq.

Italy was the main source of imports with \$153m or 11% of the total, followed by China with \$127m (9%), France with \$120m (8%), the United States with \$106m (7%), and Germany with \$83m (6%). Imports from the U.S. dropped by 36% year-on-year, those from Germany by 12%, from China by 6%, from France by 5%, and from Italy by 1%. Switzerland was the main export destination with \$71m or 20% of the total, followed by Saudi Arabia with \$22m (7%), the UAE with \$20m (7%), Turkey with \$19m (5%), Syria with \$16m (5%) and Iraq with \$7m (2%). Exports to Switzerland rose by 65%; while exports to Iraq dropped by 59%, they fell by 25% to the UAE, contracted by 19% to Turkey, regressed by 12% to Saudi Arabia, and decreased by 9% to Syria. Lebanon's main export was jewelry at \$167m or 48% of the total, followed by base metals with \$44m (13%), machinery & mechanical appliances with \$34m (10%), prepared foodstuff with \$28m (8%) and chemical products with \$14m (4%). Re-exports totaled \$18m in January 2012 compared to \$20m in the same month last year.

### **Treasury transfers to Electricité du Liban up 46% in 2011**

Figures released by the Finance Ministry show that Treasury transfers to the money-losing state-owned utility Electricité du Liban (EdL) totaled \$1.7bn in 2011, constituting an increase of 46% from 2010. The ministry said that reimbursements to the Kuwait Petroleum Corporation (KPC) and to Algerian energy conglomerate Sonatrach accounted for \$1.6bn, or 94% of transfers in the covered period; and reimbursements to the Egyptian Natural Gas Holding Company (Egas) accounted for \$36.4m or 2.1% of transfers; while EdL's debt servicing represented \$66.7m or 3.8% of the total. The ministry attributed the increase in transfers to a \$541.3m rise in payments for fuel and gas oil purchases and to a \$36.4m in payments for natural gas to Egas. It said that payments for fuel and gas oil purchases posted a 49% increase in 2011, reflecting a 31% rise in average oil prices according to which the payments were made, as well as a 17% rise in the volume of gas oil supplied by KPC and Sonatrach. It indicated that EdL contributed just 5.4% of the total oil bill in 2011 compared to 12.9% in 2010. The ministry noted that EdL's financial contribution last year is in line with that of 2008. EdL transfers accounted for 22.7% of primary expenditures in 2011, constituting the second highest share of primary spending in the last five years after the peak in 2008, and relative to 17% in 2010. EdL transfers constitute the third largest expenditures item after debt servicing and salaries & wages in overall fiscal spending. Transfers to EdL were equivalent to 3% of GDP in 2010 compared to 4.3% of GDP in 2009 and to 5.4% of GDP in 2008.

### **Italy grants €2.2m to support religious tourism and municipal reforms**

Italy extended to Lebanon a €14,000 grant and signed a Memorandum of Understanding with the Ministry of Tourism to support the development of religious tourism in the country. The project aims to create new opportunities for economic development through the promotion of religious tourism itineraries in Lebanon. It also plans to include Lebanon among the international destinations for cultural and religious tourism. The project will be jointly implemented by the Ministry of Tourism, the Presidency of the Council of Ministers, and the Italian Development Cooperation. Further, Italy extended a €1.75m grant to the Ministry of Interior & Municipalities in support of municipal finance reforms. The initiative aims to increase the management capacities of municipalities, both at the central and local levels, as well as to provide complementary funding to improve service delivery at the local level.

In parallel, the Chinese government extended a \$7.5m grant to the Council for Development & Reconstruction to help finance economic and technical cooperation projects between the two countries. Further, the Ministry of Finance, the Ministry of Energy & Water, and the Kuwait Fund for Arab Economic Development (KFAED) signed a loan agreement for \$47m for the construction of sewer systems, including wastewater treatment plants, in the Marjeyoun-Khiam and Chakra areas of the South; as well as to build reuse systems for irrigation purposes.

### Byblos Bank announces dividends for 2011

The Board of Directors of Byblos Bank sal announced that it will propose to the Ordinary General Assembly the distribution of dividends for 2011 as follows: LBP 200 per share for holders of common shares; as well as \$8 per share for holders of Series 2008 Preferred Shares and Series 2009 Preferred Shares. Also, the Bank will propose LBP 200 per share in US dollars for GDR holders. Upon the General Assembly's approval, the shares' dividends will be paid starting April 18, 2012 net of a 5% distribution tax; while the GDRs' dividends will be paid starting April 25, 2012 through Bank of New York Mellon, after deducting the 5% tax. In parallel, the Board of Directors of Byblos Bank sal invited its shareholders to its Annual General Assembly to be held on April 10, 2012. The agenda of the meeting includes hearing the Board of Directors and the auditors' reports for 2011, approving the financial statements of 2011, granting clearance to the Chairman and Board members for their administrative duties during 2011, and electing a new Board of Directors for the financial year 2012.

Byblos Bank maintains a Capital Adequacy Ratio (CAR) well above the Basel II criteria, as its Common Equity CAR reached 9.64% at end-2011, above the 8% minimum required ratio by Basel III. Also, the bank's Net Tier One CAR was 13.29% at end-2011, compared to the minimum Basel III required ratio of 10%; while the Bank's Total Equity CAR reached 13.61% relative to the 12% minimum required ratio by 2015. The CAR figures do not incorporate the Bank's profits for 2011. Byblos Bank declared consolidated net profits of \$179.7m in 2011, constituting an increase of 1.2% from \$177.7m in 2010. Total assets reached \$16.6bn at end-2011, constituting a rise of 8.6% from the end of 2010; while net loans & advances to customers increased by 6.3% to \$4bn at end-2011. Customers' deposits totaled \$12.7bn, increasing by 7.6% from end-2010. The Byblos Bank Group has a direct presence in Syria, Sudan, Iraq, the United Arab Emirates, Nigeria and Armenia, as well as in Belgium, France, the United Kingdom, and Cyprus.

### Banks' financial strength ratings placed on review for possible downgrade

Moody's Investors Service placed on review for possible downgrade the 'Ba3' local currency long-term deposit rating and the 'D' standalone bank financial strength ratings (BFSRs) of Bank Audi, BLOM Bank, and Byblos Bank. It also placed on review for possible downgrade the 'Aa1.lb' national scale long-term deposit ratings of Bank Audi and BLOM Bank as well as Byblos Bank's national scale long-term deposit rating of 'Aa2.lb' and its foreign currency subordinated debt rating of 'B1'. The agency's review of the ratings of the three Lebanese banks is part of a broader review of the standalone credit assessment of 14 banks in Lebanon, Jordan, Pakistan and Ukraine.

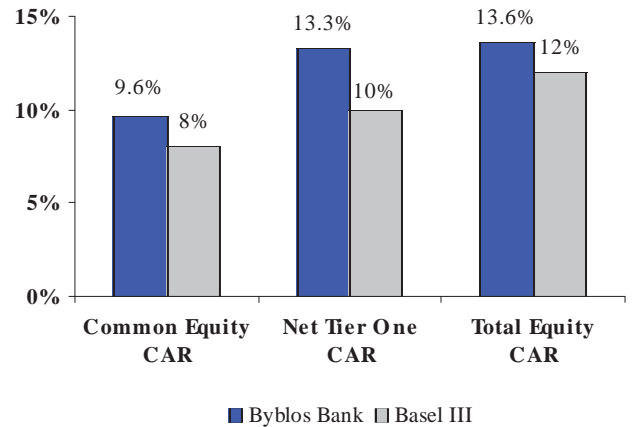
The agency said that its decision reflects its revised assessment of the linkage between the credit profiles of sovereigns and financial institutions. It noted that the creditworthiness of banks with low cross-border operational diversification and/or with high balance sheet exposure to sovereign debt is closely linked to the country's credit strength where the bank is domiciled. Therefore the banks are unlikely to have standalone credit assessments above the sovereign rating, given that the standalone credit assessment is considered to be the lowest credit risk in the local market or currency.

Moody's indicated that it will assess the degree to which the three Lebanese banks' standalone credit profile is correlated with that of the sovereign. It will take into account the extent to which the banks' business depends on the domestic macroeconomic and financial environment; the degree of reliance on market-based, and therefore more confidence-sensitive, funding; and direct or indirect exposures to domestic sovereign debt compared with the banks' capital bases.

Moody's considers that the key rating drivers are the level of cross-border diversification of the banks' operations; the level of balance-sheet exposure to domestic sovereign debt, compared with their capital bases; franchise resilience and intrinsic strength within the operating environment; shareholder composition and the rating of the parent bank incorporated in Moody's joint-default analysis; and/or the assumptions for systemic support available to a bank in case of need.

The agency noted that the three banks' 'B1/Not Prime' foreign currency long and short-term deposit ratings, 'Not Prime' local currency short-term rating and 'LB-1' national scale short-term deposit rating will not be affected by the review. Moody's expects to conclude the review within three months.

### Byblos Bank CAR at end-2011 vs Basel III Targets



Source: Byblos Bank

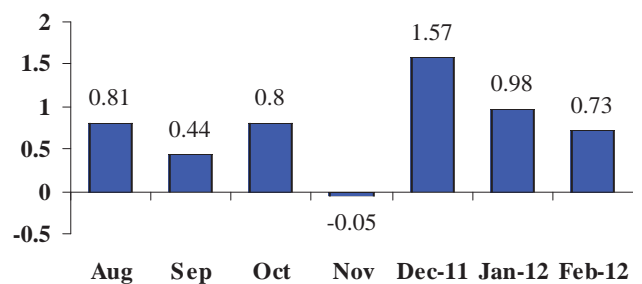
### Kafalat loan guarantees down 21% in first quarter of 2012

Figures released by the Kafalat Corporation show that loans extended to small- and medium-size companies under the guarantee of Kafalat reached \$33m in the first quarter of 2012, down 21.2% from \$41.9m in the same quarter last year. The number of loan guarantees totaled 240 year-to-March compared to 301 in the same quarter last year. The average loan size reached \$137,491 compared to \$139,183 in the first quarter of 2011. Mount Lebanon accounted for 43.8% of guarantees, followed by the South & Nabatieh with 42%, the North with 16.3%, the Bekaa with 15.4% and Beirut with 7.1%. The industrial sector accounted for 36.7% of total guarantees, followed by agriculture with 36.3%, tourism with 20%, handicraft with 5.8%, and specialized technologies with 1.3%. Kafalat is a state-sponsored organization that provides financial guarantees for loans up to \$400,000 earmarked for the set up and expansion of small and medium-size companies in productive sectors. It guarantees up to 75% of the loan amount and a similar percentage of the interest that accrues during the grace period.

### Commercial banks' assets reach \$144bn at end-February 2012

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$144.1bn at the end of February 2012, constituting an increase of 2.5% from end-2011 and a rise of 10.8% from end-February 2011. Private sector deposits totaled \$117.4bn, increasing by 1.5% from end-2011 and rising by 10% from a year earlier. Deposits in Lebanese pounds reached \$40.4bn, up by 2.3% from end-2011 and 9.7% year-on-year; while deposits in foreign currencies totaled \$77.1bn, up by 1% from end-2011, and 10% from end-February 2011. Non-resident foreign currency deposits totaled \$19bn at end-February 2012 and grew by 2.3% from end-2011 and by 22.4% year-on-year. Total private sector deposits increased by \$725m in February and by \$976m in January 2012, compared to a rise of \$673m in February and a decline of \$1.1bn in January 2011. In parallel, deposits of non-resident banks reached \$6.7bn, and increased by 15% from end-2011 and by 16.7% year-on-year. The dollarization rate of deposits reached 65.6% at the end of February, unchanged from a year earlier. Further, the average deposit rate in Lebanese pounds reached 5.47% in February, down from 5.63% a year earlier, while the same rate in US dollars was 2.87% compared to 2.9% in February 2011.

Private Sector Deposit Change (\$bn)



Source: Association of Banks in Lebanon

Loans to the private sector totaled \$40.45bn at end-February, constituting an increase of 2.7% from end-2011 and a rise of 13.3% year-on-year. Lending to the resident private sector totaled \$34.6bn and increased by 1.1% from end-2011, while lending to the non-resident private sector reached \$5.9bn and rose by 13.9% from end-2011. The dollarization rate in private sector lending reached 78.5% in February compared to 80.3% a year earlier. The average lending rate in Lebanese pounds was 7.07% in February 2012 compared to 7.71% a year earlier, while the same average in US dollars was 7.13% compared to 7.01% in February 2012. In addition, claims on non-resident banks reached \$15bn at end-February, posting an increase of 2.6% from end-2011. Claims on the public sector stood at \$29.1bn, up 5.6% year-on-year but down 0.5% from end-2011. The ratio of private sector loans to deposits in foreign currencies stood at 41.2%, well below the Central Bank's limit of 70%, and compared to 41% a year earlier. In parallel, the same ratio in Lebanese pounds was 21.6%, up from 19% a year earlier. The ratio of total private sector loans to deposits was 34.4% compared to 33.4% a year earlier. The banks' aggregate capital base stood at \$10.8bn, up by 15.1% from \$9.4bn in February 2011.

### Fransabank's profits up 8% to \$158m in 2011

Fransabank sal, one of Lebanon's top 10 banks, announced unaudited consolidated net profits of \$157.8m in 2011, up 8.3% from 2010. Net operating income rose by 13% year on year to \$387.2m, with net interest income increasing by 9.8% to \$280.8m and net fee & commission income growing by 24.9% to \$57.8m year-on-year. Non-interest income accounted for 27.3% of total income, down from 30.6% in 2010. The bank's interest margin was 2.53% last year relative to 2.3% in 2010, and its net spread improved to 2.38% from 2.17% in the previous year. Also, operating expenditures increased by 24.5% to \$217m year-on-year, with staff expenses increasing by 25.7% to \$134.1m. The cost-to-income ratio increased to 49.7% in 2011 from 48.3% in the previous year. Total assets reached \$14.5bn at end-2011, constituting an 18.1% rise from end-2010, while net loans & advances to customers increased by 43% year-on-year to \$4.35bn. Net doubtful loans were equivalent to 1.64% of gross loans and to 6.5% of equity at end-2011. Customer deposits totaled \$11.6bn at end-2011, constituting an increase of 17.2% from end-2010. The bank's return on average assets declined from 1.26% in 2010 to 1.18% in 2011; and its return on average equity decreased from 12.34% in 2010 to 12.24% in 2011.

## Ratio Highlights

| (in % unless specified)           | 2009   | 2010   | 2011   | Change* |
|-----------------------------------|--------|--------|--------|---------|
| Nominal GDP <sup>(1)</sup> (\$bn) | 34.7   | 37.1   | 39.1   |         |
| External Debt / GDP               | 61.3   | 55.4   | 53.5   | (190)   |
| Local Debt / GDP                  | 86.0   | 86.3   | 83.7   | (260)   |
| Total Debt / GDP                  | 147.2  | 141.8  | 137.2  | (460)   |
| Total External Debt / GDP         | 176.1  | 167.0  | 163.2  | (380)   |
| Trade Balance / GDP               | (36.8) | (36.9) | (40.7) | (380)   |
| Exports / Imports                 | 21.5   | 23.7   | 21.2   | (250)   |
| Budget Revenues / GDP             | 24.3   | 22.7   | 22.7   | (5)     |
| Budget Expenditures / GDP         | 32.8   | 30.6   | 27.2   | (342)   |
| Budget Balance / GDP              | (8.5)  | (7.9)  | (6.0)  | 191     |
| Primary Balance / GDP             | 3.1    | 3.2    | 4.3    | 105     |
| BdL FX Reserves / M2              | 74.0   | 77.1   | 78.8   | 172     |
| M3 / GDP                          | 236.5  | 248.4  | 248.7  | 30      |
| Bank Assets / GDP                 | 332.1  | 347.5  | 359.5  | 1,200   |
| Bank Deposits / GDP               | 276.0  | 289.0  | 296.0  | 695     |
| Private Sector Loans / GDP        | 81.8   | 94.2   | 100.7  | 650     |
| Dollarization of Deposits         | 64.5   | 63.2   | 65.9   | 270     |
| Dollarization of Loans            | 84.0   | 80.3   | 78.4   | (190)   |

\* Change in basis points 10/11

(1) Based on Ministry of Finance Estimations and the International Monetary Fund

Source: Association of Banks in Lebanon, Byblos Research Calculations

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

## Risk Outlook

| Lebanon               | July 2010 | June 2011 | July 2011 | Change* | Risk Level |
|-----------------------|-----------|-----------|-----------|---------|------------|
| Political Risk Rating | 59.5      | 55.5      | 55.5      | ▼       | High       |
| Financial Risk Rating | 28.0      | 28.5      | 28.5      | ▲       | High       |
| Economic Risk Rating  | 35.5      | 32.5      | 32.5      | ▼       | Moderate   |
| Composite Risk Rating | 61.5      | 58.2      | 58.2      | ▼       | High       |

| Regional Average      | July 2010 | June 2011 | July 2011 | Change* | Risk Level |
|-----------------------|-----------|-----------|-----------|---------|------------|
| Political Risk Rating | 64.7      | 59.9      | 59.8      | ▼       | Moderate   |
| Financial Risk Rating | 42.1      | 42.0      | 42.1      | ↔       | Very Low   |
| Economic Risk Rating  | 38.3      | 36.6      | 36.8      | ▼       | Low        |
| Composite Risk Rating | 72.5      | 69.3      | 69.4      | ▼       | Moderate   |

\*year-on-year

Source: The PRS Group, Byblos Research

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

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

## Ratings & Outlook

| Sovereign Ratings    | Foreign Currency |    |         | Local Currency |    |         |
|----------------------|------------------|----|---------|----------------|----|---------|
|                      | LT               | ST | Outlook | LT             | ST | Outlook |
| Moody's              | B1               | NP | Stable  | B2             |    | Stable  |
| Fitch Ratings        | B                | B  | Stable  | B              |    | Stable  |
| Standard & Poor's    | B                | B  | Stable  | B              | B  | Stable  |
| Capital Intelligence | B                | B  | Stable  | B              | B  | Stable  |

Source: Rating agencies

| Banking Ratings | Banks' Financial Strength | Banking Sector Risk | Outlook  |
|-----------------|---------------------------|---------------------|----------|
| Moody's         | D-                        |                     | Negative |
| EIU             |                           | B                   | Stable   |

Source: Rating agencies



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