



## LEBANON THIS WEEK

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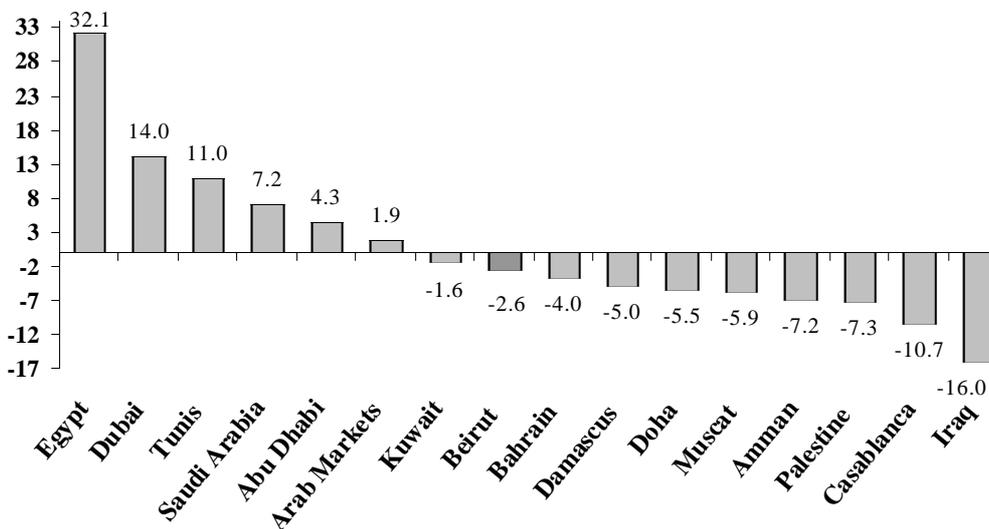
Bank Audi's exposure to Europe equivalent to 135% of its tangible shareholders' equity

Solidere to pay cash and share dividends for 2011

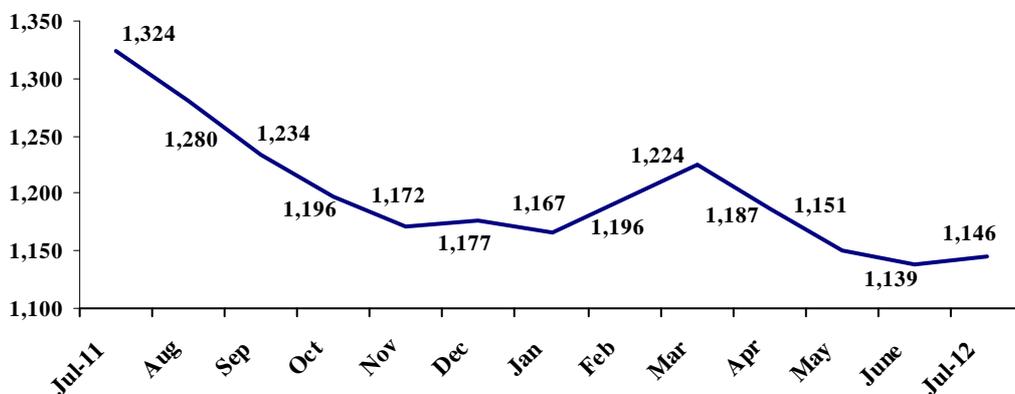
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### Charts of the Week

Performance of Arab Stock Markets in the First Seven Months of 2012 (% Change)



Performance of the Beirut Stock Exchange



Source: Local Stock Markets, Dow Jones Indices, Byblos Bank

### Quote to Note

"Banking sector capacity in Lebanon is set to grow at a rate that far exceeds the accumulation of the government's financing requirements."

*Citigroup, on the ability of the Lebanese banking sector to meet the financing needs of the public sector over the 2012-16 period*

### Number of the Week

**58:** Lebanon's rank among 147 jurisdictions on the clarity of the administration, interpretation and enforcement of its regulations related to investment in the oil and gas sector, according to the Fraser Institute's 2012 Global Petroleum Survey

## Economic Indicators

<b>\$m (unless otherwise mentioned)</b>	<b>2010</b>	<b>Apr 11</b>	<b>2011</b>	<b>Feb 12</b>	<b>Mar 12</b>	<b>Apr 12</b>	<b>% Change*</b>
Exports	4,256	375	4,276	429	377	319	(14.93)
Imports	17,956	1,501	20,170	2,799	1,723	1,548	3.13
Trade Balance	(13,700)	(1,126)	(15,894)	(2,370)	(1,346)	(1,229)	9.15
Balance of Payments	3,326	(199)	(1,996)	(134)	51	(543)	172.86
Checks Cleared in LBP	13,519	1,160	14,251	1,152	1,192	1,154	(0.52)
Checks Cleared in FC	53,925	4,488	57,852	4,272	4,844	4,286	(4.50)
Total Checks Cleared	67,444	5,648	72,103	5,424	6,036	5,440	(3.68)
Budget Deficit/Surplus	(2,894)	(301)	(2,342)	(181)	(312)	(422)	40.33
Primary Balance	1,231	163	1,662	11	133	15	(90.98)
Airport Passengers	5,512,435	461,517	5,596,034	374,252	438,570	518,723	12.40

<b>\$bn (unless otherwise mentioned)</b>	<b>Dec 2010</b>	<b>Apr 11</b>	<b>Jan 12</b>	<b>Feb 12</b>	<b>Mar 12</b>	<b>Apr 12</b>	<b>% Change*</b>
BdL FX Reserves	28.60	28.76	30.74	30.76	30.99	31.76	10.43
<i>In months of Imports</i>	<i>19.46</i>	<i>19.16</i>	<i>21.14</i>	<i>10.99</i>	<i>17.99</i>	<i>20.52</i>	<i>7.08</i>
Public Debt	52.59	52.63	53.65	53.94	54.08	55.04	4.58
Net Public Debt	45.01	45.74	46.54	46.74	46.91	47.18	3.15
Bank Assets	128.93	133.80	142.85	144.11	144.73	144.71	8.15
Bank Deposits (Private Sector)	107.20	109.93	116.69	117.42	118.22	118.75	8.02
Bank Loans to Private Sector	34.93	36.81	40.51	40.45	41.00	41.67	13.20
Money Supply M2	39.40	37.48	39.09	39.46	40.04	40.46	7.95
Money Supply M3	92.15	94.20	97.49	98.13	98.94	99.77	5.91
LBP Lending Rate (%)	7.91	7.73	7.19	7.07	7.16	7.49	(24b.p.)
LBP Deposit Rate (%)	5.68	5.64	5.60	5.47	5.46	5.42	(22b.p.)
USD Lending Rate (%)	6.74	7.05	6.99	7.13	7.06	7.10	5b.p.
USD Deposit Rate (%)	2.80	2.84	2.87	2.87	2.83	2.84	0b.p.
%* Change in CPI**	6.19	6.56	4.47	3.71	4.40	6.03	(53b.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"	13.72	(0.07)	48,007	13.39%
Solidere "B"	13.94	2.58	26,265	8.84%
Byblos Common	1.54	0.00	29,845	5.40%
Byblos Pref. 08	100.00	0.00	0	1.95%
Byblos Pref. 09	101.60	0.99	1,076	1.98%
BLOM GDR	7.84	0.00	0	5.65%
BLOM Listed	7.40	0.00	0	15.52%
Audi GDR	6.00	0.00	0	5.94%
Audi Listed	5.37	(3.24)	41,000	18.31%
HOLCIM	16.00	(0.00)	0	3.05%

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	100.06	6.76
June 2013	8.625	103.38	4.60
Apr. 2014	7.375	104.00	4.87
Jan. 2015	5.875	102.00	4.99
Apr. 2015	10.00	113.00	4.83
Jan. 2016	8.500	110.00	5.29
Mar. 2017	9.000	114.00	5.52
Nov. 2018	5.150	98.50	5.44
Apr. 2021	8.250	112.00	6.42
Nov. 2026	6.600	99.00	6.71

Source: Byblos Bank Capital Markets

	<b>July 30-Aug 3</b>	<b>July 23-27</b>	<b>% Change</b>	<b>July 2012</b>	<b>July 2011</b>	<b>% Change</b>
<b>Total Shares Traded</b>	229,250	463,030	(50.49)	9,425,884	3,194,076	195.11
<b>Total Value Traded</b>	\$2,437,668	\$4,893,323	(50.18)	\$61,478,786	\$33,654,544	82.68
<b>Market Capitalization</b>	\$10.25bn	\$10.28bn	(0.29)	\$10.25bn	\$11.30bn	(9.31)

Source: Beirut Stock Exchange (BSE)



### **Syrian crisis taking its toll on Lebanese economy, draft budget unlikely to be ratified**

Citigroup indicated that the escalation of the Syrian crisis has started to take a greater toll on the Lebanese economy. It said that the closure of border crossings in July cut off important overland trade routes for the export of Lebanese agricultural produce, while the volume of industrial exports declined as insurance costs and a strong US dollar reduced the competitiveness of such exports. Further, it pointed out that the electricity crisis in Lebanon is also damaging the economy. It noted that the government signed a deal with Turkey to lease electricity-generating ships to reduce the shortfall in supply. But it added that the ships will not be operational until after the summer peak demand. It said that this is forcing Lebanese businesses to use private power generators, which is a costly and inefficient option, and which constitutes a significant burden on economic activity.

In parallel, Citigroup pointed out that the revised 2012 draft budget is unlikely to be approved by Parliament, despite having been endorsed by the Cabinet. It said that the revised budget excluded the proposed tax hikes in the original draft budget, which raises questions about the sources of financing of the public sector's wage and salary increases. It added that ongoing protests within the education and electricity sectors over salaries may result in further increases in expenditures this year. It expected Lebanon's fiscal deficit to widen to 7.9% of GDP in 2012 from 5.7% of GDP in 2011, as public spending will still rise, especially because of the Treasury's transfers to Electricité du Liban. It noted that its forecast is based on the assumption that the dispute over the spending bill will not limit the government's expenditures plans significantly. Also, it indicated that fiscal results improved in 2011 from stronger revenues and lower expenditures. It said revenues rose by 1% of GDP last year due exclusively to rising receipts from the telecommunications sector. But it noted that the inclusion of these receipts in the budget figures is controversial, given that the actual cash does not reach the ministry of finance until the end of the year, and only after certain deductions have been made.

In parallel, Citigroup said that some holders of Lebanese Eurobonds sold their holdings in the past two months. It considered that fears of spillovers of the Syrian crisis after the recent rise in violence in parts of the country, as well as the government's plan to issue \$2bn in Eurobonds, may have caused the sell-off. It noted that the effect of these two factors is likely to subside in the coming weeks, which would lead to a reversal in the recent underperformance of the bonds. Also, it did not anticipate the bond issuance to be the start of a borrowing cycle by the government. Further, it indicated that sovereign risks in Lebanon remain elevated, but noted that they have not deteriorated in recent weeks. It added that the risks are not fully reflected in the spreads on Lebanese sovereign bonds compared to other emerging markets with a similar credit risk profile. It attributed this trend to the strong liquidity in the domestic banking sector, which is the primary buyer of Lebanese Eurobonds.

### **Lebanon ranks 136th globally, 16th in MENA region on peace index**

The 2012 Global Peace Index ranked Lebanon in 136th place among 158 countries globally and in 16th place among 22 countries in the Middle East and North Africa region. It also ranked Lebanon in 33rd place among 36 upper-middle income countries (UMICs) included in the survey. Lebanon ranked in 137th place among 153 countries globally and in 16th place among 20 countries regionally in the 2011 survey. The GPI ranks countries by their 'absence of violence', using metrics that combine both internal and external factors. The index is based on 23 indicators and is a composite of two sub-indices that measure internal peace, carrying a weight of 60%, and external peace with a weight of 40%. The index was developed by the Economist Intelligence Unit and the Institute for Economics and Peace.

Globally, Lebanon is considered to be more peaceful than Ethiopia, Burundi and Myanmar, and less peaceful than the Philippines, Côte d'Ivoire and Mexico. It is also considered to be more peaceful than Colombia, Libya and Russia, and less peaceful than Turkey, Azerbaijan and Mexico among UMICs. Lebanon received a score of 2.46 points, worse than the global average of 2.02 points, the UMIC average of 2.04 points and the MENA average score of 2.29 points. The survey indicated that the MENA region is currently the least peaceful region in the world, reflecting the turmoil and instability caused by the Arab Spring. It added that if the world had been completely peaceful in 2011, the economic benefit would have reached an estimated \$9 trillion.

### **Global Peace Index Rankings & Scores 2012**

	Score	MENA Rank	Global Rank
Qatar	1.40	1	12
UAE	1.79	2	46
Kuwait	1.79	3	47
Morocco	1.87	4	54
Djibouti	1.88	5	56
Oman	1.89	6	59
Jordan	1.90	7	62
Tunisia	1.96	8	72
Saudi Arabia	2.18	9	106
Egypt	2.22	10	111
Bahrain	2.25	11	118
Algeria	2.26	12	121
Mauritania	2.30	13	125
Iran	2.32	14	128
Turkey	2.34	15	130
<b>Lebanon</b>	<b>2.46</b>	<b>16</b>	<b>136</b>
Yemen	2.60	17	143
Libya	2.83	18	147
Syria	2.83	18	147
Israel	2.84	20	150
Iraq	3.19	21	155
Sudan	3.19	22	156

Source: EIU, Institute for Economics and Peace

### Lebanon ranks 94th globally, 13th in MENA region in country risk

In its quarterly survey of the country risk of 184 countries, *Euromoney* magazine ranked Lebanon in 94th place worldwide and in 13th place among 22 countries in the Middle East & North Africa region in the second quarter of 2012. Also, Lebanon came in 26th place among 44 upper middle income countries (UMICs) included in the survey.

Lebanon ranked in 91st place globally and in 12th place regionally in the first quarter of 2012, and in 84th place globally and in 11th place regionally in the fourth quarter of 2011. The survey evaluates individual country risk by assigning a weighting to six categories that cover Political Risks, Economic Performance, Access to Bank Finance & Capital Markets, Debt Indicators, Credit Ratings, and Structural Assessments.

Globally, Lebanon ranked ahead of Albania, Guatemala and Tanzania, and came behind Angola, Honduras and Ukraine. It also ranked ahead of Albania and behind Seychelles among UMICs. Lebanon's rank on the Access to Bank Finance & Capital Markets, Debt Indicators, Credit Ratings and the Structural Assessments categories remained unchanged from the preceding quarter, while its rank on Economic Performance regressed by nine spots, and that on Political Risks retreated by eight spots from the previous quarter.

In parallel, Lebanon received a score of 38.58 points, below the global average of 42.19 points and the MENA average of 42.15 points. Also, its score came below the Arab average score of 41.12 points and the UMICs' average score of 40.64 points.

Lebanon's score remained unchanged on the Credit Ratings, on the Access to Bank Finance & Capital Markets and on the Debt Indicators categories. Its score on the Economic Performance category dropped by 3.5% from the previous quarter, while its scores on the Political Risks category regressed by 2.3% and on the Structural Assessments category fell by 0.9% from the first quarter of 2012.

Lebanon ranked ahead of Vietnam and behind Malawi globally, while it came ahead of Algeria and behind Morocco regionally on the Political Risks category. Also, it ranked ahead of Honduras and behind Iceland worldwide, while it came ahead of Morocco and behind Iraq regionally in Economic Performance. Further, Lebanon ranked ahead of Georgia and behind Colombia globally, and came ahead of Saudi Arabia and behind Bahrain regionally on the Structural Assessments category. Finally, Lebanon ranked ahead of Georgia and behind Nicaragua globally, and came ahead of UAE and behind Turkey regionally on the Debt Indicators category.

### MENA Countries Rankings & Scores

	Score	MENA Rank	Global Rank
Qatar	73.05	1	20
Kuwait	66.93	2	28
Oman	66.73	3	30
Israel	66.56	4	31
Saudi Arabia	64.12	5	33
UAE	60.99	6	38
Bahrain	55.59	7	53
Turkey	55.11	8	56
Tunisia	47.08	9	71
Morocco	45.33	10	74
Jordan	44.51	11	76
Algeria	39.94	12	88
<b>Lebanon</b>	<b>38.58</b>	<b>13</b>	<b>94</b>
Egypt	34.89	14	110
Iraq	28.94	15	130
Libya	26.47	16	138
Iran	24.39	17	143
Sudan	24.11	18	144
Yemen	21.38	19	150
Syria	19.38	20	156
Mauritania	17.48	21	159
Djibouti	5.72	22	179

Source: *Euromoney*, *Byblos Research*

### Country Risk Indicators for Lebanon - Second Quarter 2012

	Weighting (%)	Score	MENA Rank	Global Rank	MENA Avg Score	Global Avg Score
Political Risk	30	11.25	12	113	12.57	13.91
Economic Performance	30	14.27	11	87	14.20	13.31
Structural Assessments	10	5.42	9	58	4.44	3.87
Debt Indicators	10	3.70	14	122	3.90	4.11
Credit Rating	10	1.46	13	109	3.27	3.25
Access to Bank Finance & Capital Markets	10	2.50	13	98	3.77	3.73

Source: *Euromoney*, *Byblos Research*

### Parliamentary committee approves 50% tax cut on revenues from industrial exports

Parliament's Finance & Budget Committee approved a draft law that exempts industrial exports from 50% of the income tax. The Ministry of Industry previously stated that the tax reduction will allow industries to increase export-oriented production, reduce prices of exported merchandise, and encourage mergers and acquisitions among smaller firms. It added that the decision is expected to raise the liquidity of companies, encourage investments in the industrial sector, and help create new jobs. The law was endorsed by the Cabinet on March 28, 2012 and awaits Parliament's ratification. Figures released by the Ministry of Industry show that industrial exports totaled \$1.3bn in the first five months of 2012, constituting a decrease of 2.3% from the same period last year. Pearls & precious or semi-precious stones accounted for \$279.8m, or 21.8% of total industrial exports in the first five months of the year, followed by machinery & mechanical appliances with \$214.1m (16.7%), and base metals & articles of base metals with \$183.6m (14.3%).



### Occupancy at Beirut hotels at 65%, room yields up 21% in first half of 2012

Ernst & Young's benchmark survey of the Middle East hotel sector indicated that the average occupancy rate at hotels in Beirut was 65% in the first half of 2012 compared to 54% in the same period last year. The occupancy rate at Beirut hotels was the 11th highest among 21 markets in the region, while it was the seventh lowest in the same period last year. Occupancy rates at Beirut hotels were 60% in January, 64% in February, 74% in March, 66% in April, 67% in May and 58% in June 2012 compared to 44% in January, 42% in February, 53% in March, 61% in April, 58% in May and 62% in June 2011.

The survey said the average rate per room at Beirut hotels was \$207 in the first half of 2012, ranking the capital's hotels as the eighth most expensive in the region. The average rate per room at Beirut hotels decreased by 0.1% year-on-year, and posted the 14th lowest decrease among all markets in the region. The average rate per room in Beirut came above the regional average of \$181.80, which dropped by 0.5% from \$182.70 in the same period last year.

Further, revenues per available room (RevPAR) were \$135 in Beirut in the first half of 2012, up from \$112 in the same period last year, and ranking it in 11th place in the region. Beirut's RevPAR increased 20.9% year-on-year, compared to an increase of 7.6% across the region, and posted the fifth highest increase in the region. The year-on-year increase in RevPAR at Beirut hotels is due mainly to base effects, given the very low figures in the same period of 2011. Beirut posted RevPARs of \$139 in January, \$131 in February, \$149 in March, \$139 in April, \$134 in May and \$119 in June 2012 compared to \$99 in January, \$84 in February, \$107 in March, \$103 in April, \$117 in May and \$142 in June 2011. Dubai-Beach posted the highest average room rate in the region at \$371 and the highest RevPAR at \$302, while Dubai-Apartments posted the highest occupancy rate at 89% in the first half of 2012.

### Council of Ministers approves plan for solar-powered street lighting systems

The Council of Ministers approved a \$2m plan to launch an initiative for installing Solar Photovoltaic street lighting systems across Lebanon. The Ministry of Energy & Water is expected to launch a national bid in the near future for the purchase of Solar Photovoltaic street lighting. The approved plan is the fourth out of five phases in the national strategy for public street lighting systems. The first phase included raising awareness on the maintenance of street lighting systems, the second phase stipulated the distribution of photo-cells and timers to municipalities, and the third phase dictated the upgrade of technical specifications.

The Ministry of Energy & Water announced in August 2010 plans to launch a national initiative for the efficient use of public street lighting systems in Lebanon. The initiative is in line with the requirements of the electricity plan approved by the Council of Ministers, and follows the different steps of the National Energy Efficiency and Renewable Energy Action (NEEREA) 2011-2015. The ultimate goal of the initiative is to set up a national mechanism to move towards solar-powered street lighting systems. The Central Bank launched NEEREA in 2010, to support the financing of energy efficiency and renewable energy projects across Lebanon through commercial banks. Also, the United Nations Development Program (UNDP) is cooperating with the Central Bank to provide a complete funding mechanism that allows organizations from different sectors to implement models of energy conservation.

Hotel Performance in First Half of 2012			
	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Dubai Apartments	89	111	12.8
Dubai City	86	167	13.5
Makkah	85	172	5.1
Dubai Overall	84	212	12.7
Jeddah	81	188	19.1
Dubai Beach	81	302	8.1
Amman	79	118	46.5
Abu Dhabi	78	154	(11.1)
Madina	73	117	25.8
Muscat	71	147	1.4
<b>Beirut</b>	<b>65</b>	<b>135</b>	<b>20.9</b>
Riyadh	64	146	(2.5)
Sharam Shaikh	63	29	22.6
Al Ain	63	89	(6.9)
Hurghada	62	19	2.0
Doha	62	166	(8.0)
Cairo Pyramids	58	71	7.0
Kuwait	53	147	(5.6)
Cairo Overall	41	43	(3.5)
Cairo City	39	38	(6.2)
Manama	38	87	47.6

Source: Ernst & Young, Byblos Research

### Lebanon ranks fourth as exporter and 15th as importer in terms of export credit insurance contracts

Figures issued by the Arab Investment & Export Credit Guarantee Corporation (Dhaman) indicate that Lebanon ranked fourth among 14 Arab countries in the value of overall export credit insurance contracts signed in 2011, unchanged from 2010. Dhaman provides insurance coverage to Arab and non-Arab investments to its member countries against non-commercial risks, as well as insurance against commercial and non-commercial risks for inter-Arab and worldwide Arab export credits. Lebanon signed \$101.2m worth of export credit insurance contracts issued by Dhaman in 2011, which accounted for 7% of the total value of Dhaman contracts in the Arab world. Lebanon came behind Saudi Arabia that signed \$484m worth of contracts, or 33.6% of the total, Kuwait with \$320.6m (22.3%) and Jordan with \$118.5m (8.2%). Also, Lebanon signed more export credit insurance contracts than Tunisia \$78.9m (5.5%), Egypt with \$72.9m (5.1%), the UAE with \$50.3m (3.5%), Syria with \$38.7m (2.7%), Algeria with \$35.3m (2.5%), Oman with \$10.6m and Qatar with \$10m (0.7% each). Further, Lebanon signed \$404m worth of export credit insurance contracts during the 2007-2011 period, fourth highest among Arab states, and accounted for 8.3% of the total value of such contracts.

In parallel, Lebanon ranked in 15th place among 16 Arab countries in the value of overall import credit insurance contracts issued by Dhaman in 2011. It signed \$28.7m worth of such contracts last year, representing 2.4% of the total value of import credit insurance contracts in the Arab world. The value of contracts signed by Lebanon was higher than only Oman, which signed \$20.8m worth of import credit contracts, or 1.7% of the total. Also, Lebanon signed \$100.6m worth of import credit insurance during the 2007-2011 period, which accounted for 2.1% of the total value of such contracts. It ranked ahead of Oman that signed \$66.3m worth of contracts during the covered period, or 1.4% of the total.

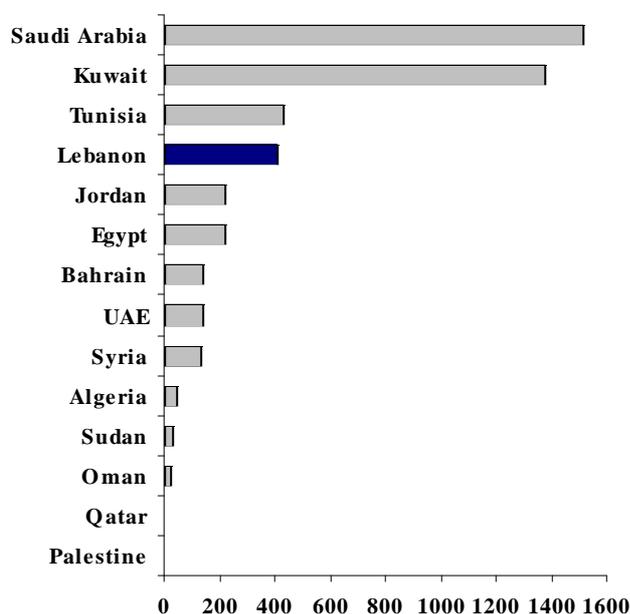
Further, Lebanon had \$2.5m in total current export credit insurance contracts issued by Dhaman as at end-2011, which accounted for 0.6% of overall current contracts of Arab countries. Lebanon ranked in 13th place among 16 Arab countries in terms of current contracts, ahead of Qatar with \$2.4m (0.6%), Jordan with \$2m (0.5%) and Oman with \$0.9m (0.2%).

### Formation of Financial Markets Authority's board of directors

The Cabinet appointed three persons to the seven-member board of directors of the Financial Markets Authority (FMA), thereby completing the full board membership. The Cabinet-appointed members are Mr. Sami Saliba, CFO of BBAC Bank; Mr. Firas Safieddine, a capital markets expert, and Mr. Fadi Fakih, an expert in financial affairs. The other members of the FMA board are the Director General of the Ministry of Finance, Mr. Alain Biffani; the Director General of the Ministry of Economy & Trade, which is a currently vacant position; and the Chairman of the Banking Control Commission, Mr. Usama Mikdashi. The FMA is chaired by the Governor of the Central Bank Mr. Riad Salamé.

The Financial Markets Authority was established through the Capital Markets Law, which was ratified by the Lebanese Parliament in August 2011. The law aims to regulate and supervise the activities of capital markets in Lebanon. Also, the legislation aims to create an adequate legal framework conducive to the organization and development of the Lebanese financial markets, in line with international standards and norms. It explicitly bans insider trading, which is the personal exploitation of information in capital markets trading. The law stipulates that the FMA's functions would be similar to those of the U.S. Securities and Exchange Commission, and that it will have a large degree of autonomy in setting its policies. The law was drafted by the Central Bank of Lebanon's Commission for the Modernization and Development of Financial and Banking Laws.

### Overall Export Credit Insurance Contracts to Arab Countries during 2007-2011 period (US\$m)



Source: Arab Investment & Export Credit Guarantee Corporation (Dhaman), Byblos Research

### Three quarters of Beirut residents say the city does not have affordable housing, 86% claim cost of living is high

A survey conducted by regional job portal Bayt.com indicated that 42% of Lebanese residing in Beirut consider that the availability of jobs in the capital is "poor", the highest percentage among respondents in 20 cities in the Middle East and North Africa. Also, 20% of participants labeled the availability of jobs in Beirut as "bad", the sixth highest percentage among cities in the region, while 30% of respondents consider it to be "average" and 4% of survey participants view the availability of jobs in Beirut as "excellent". As such, 62% of Lebanese respondents consider that the availability of jobs in Beirut is "poor" or "bad", the highest such percentage in the region. Beirut was followed by Amman and Aleppo where 60% of respondents in each city share the same view about the availability of jobs in their cities. The survey asked participants to rank a number of factors about the city where they reside on a five-point scale ranging from "bad" to "excellent". The survey was conducted between June 24 and July 4, 2012 in Abu Dhabi, Aleppo, Alexandria, Algiers, Amman, Beirut, Cairo, Casablanca, Damascus, Doha, Dubai, Jeddah, Kuwait City, Manama, Marrakech, Muscat, Rabat, Riyadh, Sharjah and Tunis. The survey covered a sample of 113 respondents in Beirut.

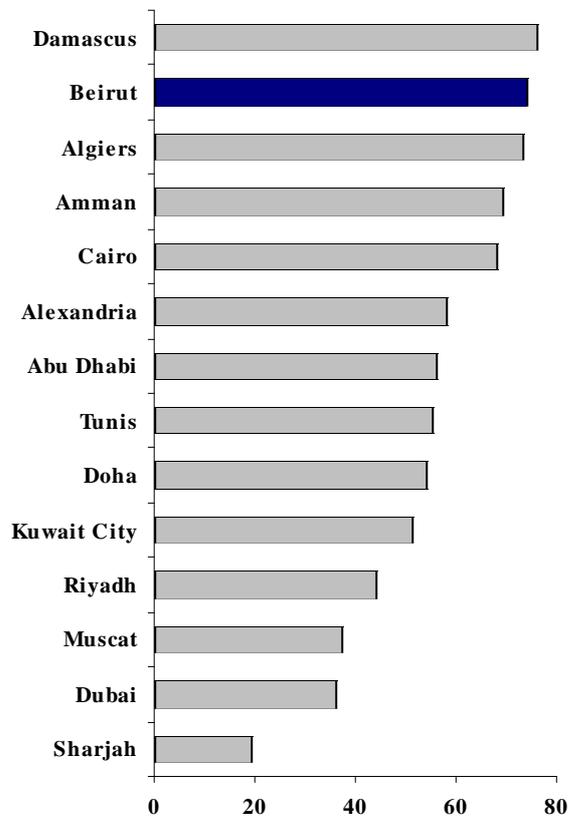
Further, the survey revealed that 47% of Lebanese respondents consider that the availability of affordable housing in Beirut is "bad", the third highest percentage in the region behind Damascus and Algiers where 58% and 51% of residents, respectively, share the same opinion about affordable housing in their city. Overall, 74% of Lebanese respondents believe that the availability of affordable housing in Beirut is "poor" or "bad", the second highest percentage after Damascus where 76% of its residents share a similar view about their city. Also, 86% of Beirut residents think that the cost of living in the city is "high" or "very high", the highest such percentage in the MENA region by far.

In parallel, the survey said that Beirut was among the top five cities in the region on 12 everyday life elements that affect residents' life in the city. Beirut was highly rated on the availability and quality of health care facilities, the availability of a wide range of entertainment venues, the availability and quality of educational facilities, and the ease of access to convenience stores in residential areas. However, the survey revealed that Beirut's residents consider as major issues the lack of walkways and footpaths for pedestrians, traffic congestion, the poor accessibility and the quality of public transportation system, the poor availability of utility systems, and the non-existence of parks and community gardens.

### Finance Ministry to propose revenue measures to cover raise of public sector salaries

The Ministry of Finance intends to recommend a set of measures aiming to raise revenues to cover the estimated \$1bn in additional expenditures from the implementation of the public sector wages and salaries increases. It considered that the suggested proposals would generate additional revenues to the Treasury without having a major impact on Lebanese citizens. The suggestions reportedly include the imposition of a fee on the owners of private electricity generators equivalent to \$1 for every kva, an increase in car registrations fees (*Mécanique*), and a rise in stamp fees required to complete official transactions. The suggestions also include imposing special fees on new luxury cars, as well as increasing the fees on maritime properties and on some luxury products. Further, it intends to improve customs duty collection in order to reduce waste and fight tariffs evasion at the Port of Beirut, the Hariri International Airport, and the land border crossings.

Availability of Affordable Housing  
(% responding 'bad' and 'poor' availability)



Source: Bayt.com

### Fiscal deficit down 6.2% to \$1.1bn in first five months of 2012 when assuming \$593m in telecom revenues

Figures released by the Finance Ministry show that the fiscal deficit reached \$1.14bn in the first five months of 2012, down 6.2% from \$1.22bn in the same period last year. The deficit was equivalent to 21.8% of total budget and Treasury expenditures compared to 25.5% of overall spending in the same period last year. Overall government expenditures reached \$5.2bn, up 9.7% year-on-year, while total revenues increased by 15.1% to \$4.1bn. Budgetary expenditures regressed by 2.3% to \$4.4bn and included \$934.7m in transfers to Electricité du Liban and \$349.4m in outlays from previous years, while budget revenues rose by 16.9% to \$3.9bn. Tax revenues fell by 1.4% year-on-year to \$3bn, of which 33.2%, or \$987.5m, were in VAT receipts that grew by 10.1% from the same period last year. Tax revenues accounted for 75.7% of budgetary revenues and for 72.5% of total Treasury and budget receipts. The narrowing of the deficit and the increase in revenues is due to the inclusion of \$593.4m in telecommunications receipts in budget revenues. The Finance Ministry is basing its monthly fiscal results on the Telecommunications Ministry's estimate of telecom receipts, rather than on the Treasury actually receiving the funds from the Telecom Ministry. On a cash basis, public revenues dropped by 1.6% and the fiscal deficit rose by 42.7% to \$1.7bn, equivalent to 33.1% of expenditures.

The distribution of other tax revenues shows that income, profits & capital gains tax receipts fell by 23% to \$786.2m; customs revenues grew by 2.4% year-on-year to \$596.5m; revenues from property taxes increased by 9.4% to \$328.8m; and other tax receipts, mainly stamp fees, grew by 10.6% to \$140m. Further, the distribution of income tax revenues shows that the tax on profits accounted for 37.1% of total income tax receipts, followed by taxes on interest deposits with 23.3%, taxes on wages & salaries with 22.2% and capital gains tax with 15.2%. Income from capital gains taxes grew by 45.2% and revenues from taxes on wages & salaries improved by 16.1%, while tax receipts on profits dropped by 50.1% and income from the tax on interest fell by 1%. Also, the distribution of property taxes shows that revenues from real estate registration fees increased by 5% to \$219.5m, receipts from built property taxes grew by 25.6% to \$70.1m, and revenues from inheritance tax rose by 9.3% to \$39.2m.

In parallel, non-tax budgetary revenues rose by 176.1% to \$954.7m, with revenues from government properties increasing by 342.3% to \$736.1m and administrative fees & charges growing by 20.1% to \$172.5m. Based on the ministry's assumption, receipts from telecommunications services, which account for 80.6% of income from government properties and for 62.2% of non-tax revenues, stood at \$593.4m in the first five months of 2012. Debt servicing decreased by 3.3% year-on-year to \$1.6bn, and accounted for 29.6% of total expenditures and for 35.5% of budgetary spending. It absorbed 37.9% of overall revenues and 39.5% of budgetary receipts. Interest payment on domestic debt declined by 2.3% to \$949.8m, while interest disbursement on foreign debt regressed by 4.9% to \$601.1m. Repayment of principal on foreign debt fell by 3.7% to \$81.4m. Excluding debt servicing, the primary budget balance posted a surplus of \$1.1bn, or 39.1% of budget expenditures compared to a surplus of \$572.6m, or 20.6% of budget spending in the same period last year. The overall primary balance posted a surplus of \$491.5m, or 9.4% of spending, relative to a surplus of \$743m or 9.9% of total expenditures in the same period last year.

Fiscal Results in First Five Months of 2012				
	Including Assumed Telecom Receipts		Excluding Assumed Telecom Receipts*	
	US\$m	year-on-year % change	US\$m	year-on-year % change
Budget revenues	3,925	16.9%	3,331	(0.8%)
Tax revenues	2,970	(1.4%)	2,970	(1.4%)
Non-tax revenues	955	176.1%	361	4.5%
<i>of which Telecom revenues</i>	593		-	-
Budget expenditures	4,373	(2.3%)	4,373	(2.3%)
<b>Budget Deficit</b>	<b>(448)</b>	<b>(59.9%)</b>	<b>(1,041)</b>	<b>(6.7%)</b>
<i>In % of budget expenditures</i>	<i>(10.2%)</i>		<i>(23.8%)</i>	
<b>Budget Primary Surplus</b>	<b>1,184</b>	<b>106.8%</b>	<b>591</b>	<b>3.2%</b>
<i>In % of budget expenditures</i>	<i>27.1%</i>		<i>13.5%</i>	
Treasury receipts	169	(14.8%)	169	(14.8%)
Treasury expenditures	862	189.0%	862	189.0%
Total Revenues	4,094	15.1%	3,501	(1.6%)
Total Expenditures	5,235	9.7%	5,235	9.7%
<b>Total Deficit</b>	<b>(1,141)</b>	<b>(6.1%)</b>	<b>(1,734)</b>	<b>42.7%</b>
<i>In % of total expenditures</i>	<i>(21.8%)</i>		<i>(33.1%)</i>	
<b>Total Primary Surplus</b>	<b>491</b>	<b>3.9%</b>	<b>(102)</b>	<b>(121.6%)</b>
<i>In % of total expenditures</i>	<i>9.4%</i>		<i>(2.0%)</i>	

\* Cash basis

Source: Ministry of Finance, Byblos Research



## Corporate Highlights

### **Byblos Bank's profits at \$80m in first half of 2012, primary liquidity at 68% of deposits**

Byblos Bank sal, one of the top 3 banking and financial services groups in Lebanon, declared consolidated net profits of \$80.37m in the first half of 2012, unchanged from \$80.43m in the same period last year. Net interest income reached \$124.8m, down 14% year-on-year; while net fees & commission income increased by 5.4% to \$50.7m. As a result, operating income rose by 3.3% year-on-year to \$228.2m. Also, the Bank's cost-to-income ratio decreased to 50.2% at end-June 2012 from 50.6% a year earlier.

Total assets reached \$16.6bn at end-June 2012, almost unchanged from the end of 2011 and constituting a rise of 0.3% from end-June 2011; while net loans & advances to customers rose by 2.2% from end-2011 and by 4.3% from end-June 2011 to \$4.1bn at end-June 2012. The Bank allocated during the first half of 2012 provisions for credit losses of \$23.1m that included \$8.4m in collective provisions. Gross non-performing loans represented 3.94% of gross loans as at end-June 2012, and were covered up to 70.8% by specific provisions and reserved interest. Also, the coverage ratio reaches 111.7% when accounting for collective provisions, and represented 1.69% of net loans. The Bank's net non-performing loans, which represent NPLs net of specific provisions and reserved interest, reached 1.2% of net loans at the end of June 2012.

Customers' deposits totaled \$13.1bn, increasing by 3.3% from end-2011 and by 5.1% from end-June 2011. The Bank's primary liquidity, representing dues from Central Banks and banks, totaled \$9.1bn and was equivalent to 68.7% of total deposits at the end of June 2012, which is one of the highest liquidity levels in the Lebanese banking sector. Also, the Bank's Basel III Capital Adequacy Ratio stood at 13.3%, one of the highest in the sector, compared to the minimum regulatory requirement of 12% for end-2015. Earnings per common ordinary share rose by 1.1% to LBP 164.75, equivalent to \$0.11 per share. The Bank's total equity reached \$1.56bn at end-June 2012. The Byblos Bank Group has a direct presence in Iraq, Syria, Sudan, the United Arab Emirates, Nigeria, Armenia and the Democratic Republic of Congo, as well as in Belgium, France, the United Kingdom and Cyprus.

### **Stock market activity down 21% to \$297m in first seven months of 2012**

Figures released by the Beirut Stock Exchange indicate that total trading volume reached 40.2 million shares in the first seven months of 2012, constituting a decrease of 29% from the same period last year, while aggregate turnover amounted to \$296.6m, down 21% from a turnover of \$374.4m in the first seven months of 2011. Market capitalization decreased by 9.3% from end-July 2011 to \$10.2bn, of which 73.9% was in banking stocks, 22.2% in real estate stocks, 3.3% in industrial stocks, 0.33% in fund stocks, and 0.26% in trading stocks. The market liquidity ratio was 2.9%, down from 3.3% in the same period last year. Bank stocks accounted for 77.3% of aggregate trading volume in the first seven months of the year, followed by real estate stocks with 16.8%, trading stocks with 5.7%, and industrial stocks with 0.2%. In terms of value of shares traded, banking stocks accounted for 67.3% of aggregate value, followed by real estate stocks with 30.6% trading stocks with 1.8% and industrial stocks with 0.3%. The average daily traded volume for the period was 277,138 shares for an average daily value of \$2m. The figures reflect decreases of 30.7% in volume and 23% in value year-on-year.

### **Capital Intelligence affirms Fransabank ratings**

Capital Intelligence affirmed Fransabank's long- and short-term foreign currency ratings of 'B' and 'B', respectively. It also affirmed the bank's Financial Strength Rating at 'BB+' and the support level at '3'. It maintained the outlook for all the ratings at 'stable', adding that they continue to be restrained by Lebanon's sovereign ratings. Capital Intelligence affirmed in June the ratings of Byblos Bank, BLOM Bank, BBAC, Crédit Libanais and Bank Audi at 'B', with a 'stable' outlook on all the ratings. It said that Fransabank's ratings reflect the bank's good income generation, as well as its franchise and supportive shareholders, despite the relative weakening of its asset quality and capital adequacy. It noted that the ratings are constrained by the bank's high exposure to Lebanese sovereign debt. It added that the ratings are vulnerable to slippage in asset quality or loss reserve coverage, and would come under pressure if capital adequacy does not improve and liquidity continues to tighten.

In parallel, Capital Intelligence said that the group, which includes Fransabank sal and BLC Bank sal, posted above average growth in loans, deposits and net profit last year despite the economic slowdown in Lebanon and heavier loss provisions. It noted that the bank's exposure to Syria, despite being limited and contained, requires continued provisioning and management attention. It added that bank's overall liquidity weakened, reflecting the high ongoing loans' growth in Lebanon, along with the acquisition of USB Bank in Cyprus in 2011. It added that the bank's operating profitability, driven by strong net interest margin and good volume growth, declined last year because of high growth in operating costs due to the consolidation with USB Bank.

### Aggregate profits of listed banks up 1% in first half of 2012

Financial results issued by five banks listed on the Beirut Stock Exchange show that their aggregate net profits reached \$484m in the first half of 2012, constituting an increase of 1.3% from \$477.8m in the same period last year and compared to a rise in net income of 7.8% in the first half of 2011. Also, the banks' aggregate net profits reached \$243.4m in the second quarter of 2012, constituting an increase of 1.2% from \$240.6m in the previous quarter, and similar to their net income in the second quarter of 2011. The profit figures exclude the one-time income of \$44.5m realized from the sale of 81% of LIA insurance by Bank Audi. The average year-on-year change in net profits of the five banks contracted by 14.9% in the first half of 2012 compared to an average growth in net profits of 6.5% in the first half of 2011. The average year-on-year decline in net profits during the first half of this year is due largely to general and specific provisions taken by the banks as a precautionary measure in view of prevailing conditions. Further, the average year-on-year change in net profits of the five banks contracted by 26.5% in the second quarter of 2012, compared to an average contraction in net profits of 7.5% in the first quarter of 2012. The aggregate net interest income of the five banks reached \$754.2m in the first half of 2012, up 3.3% from \$730.1m in the same period last year, while their total net fees and commission income increased by 6.4% to \$237.7m year-on-year. Total operating income of the listed banks reached \$1.3bn in the first half of 2012, up 12.8% from \$1.2bn in the same period last year.

In parallel, the aggregate assets of the five banks rose by 1% from end-2011 and by 1.9% from end-June 2011 to \$80.6bn, while their total loans, excluding loans to related parties, increased by 4.1% from end-2011 and by 5.2% from end-June 2011 to \$22.6bn. Also, the banks' customer deposits rose by 1.2% from end-2011 and by 1.4% from end-June 2011 to reach \$66.7bn. BLOM Bank posted the lowest loans-to-deposits ratio at 28% compared to 27.3% at end-June 2011, followed by Byblos Bank with a ratio of 31.1% compared to 31.3% at end-June 2011, Bank Audi with 36.6% up from 33.5% at end-June 2011, Bank of Beirut with 44.1% relative to 45.5% a year earlier, and Banque BEMO with a 49.1% ratio up from 48.8% at end-June 2011.

Results of Listed Banks in First Half of 2012					
	Byblos	BLOM	Audi*	BoB	BEMO
Net Profits	\$80.4m	\$165.4m	\$185.6m	\$52.0m	\$0.71m
% Change**	(0.1%)	1.1%	2.9%	6.9%	(85.4%)
Total Assets	\$16.59bn	\$23.82bn	\$28.79bn	\$9.89bn	\$1.48bn
% Change***	(0.1%)	2.8%	0.2%	1.6%	(3.1%)
Loans (1)	\$4.09bn	\$5.78bn	\$8.88bn	\$3.31bn	\$0.56bn
% Change***	2.2%	3.9%	5.5%	3.4%	2.9%
Deposits (1)	\$13.14bn	\$20.68bn	\$24.27bn	\$7.50bn	\$1.15bn
% Change***	3.3%	2.7%	(1.4%)	1.2%	3.3%

\* Net Profits exclude proceeds from the sale of 81% of LIA insurance sal

\*\*Year-on-year

\*\*\*Change from end-2011

(1) Customer Loans and Deposits, excluding related parties' Loans and Deposits

### Bank Audi's exposure to Europe equivalent to 135% of its tangible shareholders' equity

Deutsche Bank estimated Bank Audi's exposure to Europe at 11.1% of its total assets, significantly above the average exposure of 5.4% of total assets of 20 banks in the Middle East and North Africa region. Bank Audi's exposure as a share of its total assets was the second highest among 20 banks in the MENA region, after Qatar National Bank whose exposure was equivalent to 12.8% of its assets. Bank Audi's inter-bank exposure to Europe represented 8.3% of its total assets at end-2011, the highest such share among the 20 Arab banks under coverage and significantly above their average of 2.7%. Also, the bank's exposure to Europe in terms of loans stood at 1.8% of its total assets at end-2011, similar to the regional average and constituting the third highest such exposure among the 20 banks examined. Also, the bank's investments exposure to Europe reached 1% of its assets at end-2011, below the regional average of 1.5%, and constituted the ninth highest such exposure among the 20 banks.

According to Deutsche Bank, Bank Audi's exposure to Europe was equivalent to 135% of its tangible shareholders' equity at end-2011, the highest among the 20 banks and significantly above their average of 39% of tangible shareholders' equity. The bank's inter-bank exposure to Europe stood at 102% of its tangible shareholders' equity at end-2011, the highest such exposure among the 20 banks in the region, and above their average of 19%. Also, the bank's exposure to Europe in terms of loans represented 22% of its tangible shareholders' equity at end-2011, third highest among the 20 banks and above their average exposure of 14% of tangible shareholders' equity. Further, the bank's investments exposure to Europe reached 12% of its tangible shareholders' equity at end-2011, the seventh highest such exposure among the 20 banks and above their average exposure of 11% of tangible shareholders' equity.

## Corporate Highlights

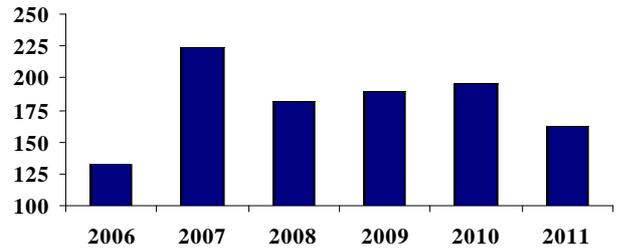
### Solidere to pay cash and share dividends for 2011

Solidere, the Lebanese Company for the Development and Reconstruction of the Beirut Central District and Lebanon's largest firm in terms of market capitalization, announced the distribution of dividends for 2011. The firm will pay \$0.25 per share for Class A and Class B shares and will distribute one share for every 50 shares held by stakeholders. The dividends were approved at the firm's Ordinary General Assembly held on July 30th. The share dividends and the cash dividends will be distributed starting on October 15, 2012.

Solidere posted net profits of \$162.6m in 2011, constituting a decline of 17.3% from \$196.5m in 2010. Revenues from land and real estate sales declined by 28.3% to \$241.7m in 2011, while revenues from rental properties increased by 21% to \$50m. Further, income from services decreased 42.6% annually to \$4.8m in 2011. Also, the firm recorded total net operating revenues of \$230.6m, down 15.3% year-

recorded total net operating revenues of \$230.6m, down 15.3% year-on-year. Solidere's consolidated assets totaled \$2.7bn and increased by 6.3% from end-2010, as inventory of land and projects in progress reached \$1.13bn at end-2011, slightly up from \$1.1bn a year earlier. The firm's earnings per share declined to \$0.98 in 2011 compared to \$1.19 in the previous year. It stated that the majority of property sales revenues registered in 2011 came from sales concluded in previous years and with their contracts completed in 2011. It added that it still owns a land bank of 1.9 million square meters that is valued at about \$8bn based on prevailing market prices. Also, the value of its built properties amounted to about \$1.2bn, while its holdings in cash and securities totaled approximately \$716m. It added that the market value of the firm's 7.7 million shares that it holds in Treasury totals \$100m. Solidere also owns 4.3 million shares of its Dubai-based affiliate Solidere International, or the equivalent of 39% of the capital of the company, which are worth at least \$550m.

Solidere net profits (US\$m)



Source: Solidere

## 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	Jan 2011	Dec 2011	Jan 2012	Change*	Risk Level
Political Risk Rating	56.5	54.5	55.5	▼	High
Financial Risk Rating	28.5	35.0	35.0	▲	Low
Economic Risk Rating	32.5	34.0	34.0	▲	Moderate
Composite Risk Rating	58.7	61.7	62.2	▲	Moderate

Regional Average	Jan 2011	Dec 2011	Jan 2012	Change*	Risk Level
Political Risk Rating	63.6	60.6	60.5	▼	Moderate
Financial Risk Rating	42.3	42.2	42.3	↔	Very Low
Economic Risk Rating	38.1	36.6	37.1	▼	Low
Composite Risk Rating	72.0	69.7	69.9	▼	Low

\*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	Negative	B	B	Negative
Capital Intelligence	B	B	Stable	B	B	Stable

Source: Rating agencies

Banking Ratings	Banks' Financial Strength	Banking Sector Risk	Outlook
Moody's	E+		Negative
EIU		B	Stable

Source: Rating agencies



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