

## LEBANON THIS WEEK

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Commercial banks' assets reach \$147bn at end-August 2012

IBL's net profits up 20% to \$23m in first half of 2012

First National Bank's profits up 14% to \$9m in first half of 2012

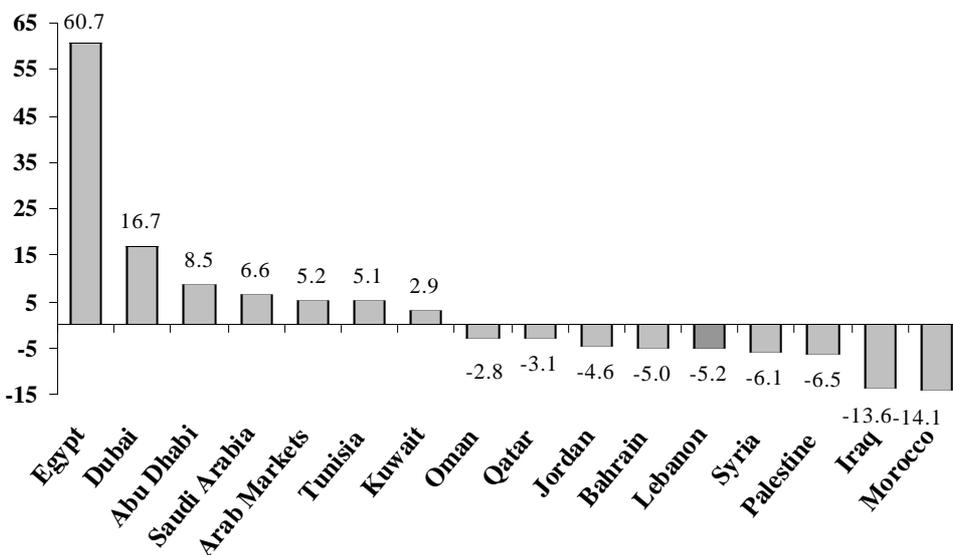
Solidere International files arbitration claim against Egyptian partner

Al Mashrek's shareholder equity up 21% to \$21m in 2011

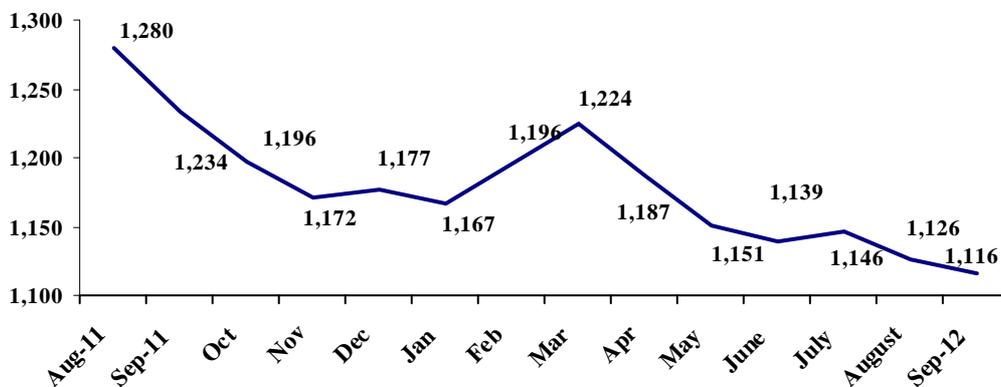
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### Charts of the Week

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



Performance of the Beirut Stock Exchange



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

### Quote to Note

"Decisions to raise spending and impose taxes in the absence of a clear macro-fiscal framework will only heighten macroeconomic and fiscal risks."

*Barclays Capital, on the expected impact of the government's recent tax-and-spend decisions*

### Number of the Week

**127:** Lebanon's rank among 144 countries in terms of wasteful spending by the government, according to the World Economic Forum's Global Competitiveness Index for 2012-13

## Economic Indicators

<b>\$m (unless otherwise mentioned)</b>	<b>2010</b>	<b>Jul 11</b>	<b>2011</b>	<b>May 12</b>	<b>Jun 12</b>	<b>Jul 12</b>	<b>% Change*</b>
Exports	4,256	415	4,276	355	345	317	(23.61)
Imports	17,956	1,679	20,170	1,645	1,713	1,739	3.57
Trade Balance	(13,700)	(1,264)	(15,894)	(1,290)	(1,368)	(1,422)	12.50
Balance of Payments	3,326	(307)	(1,996)	(82)	(23)	(322)	4.89
Checks Cleared in LBP	13,519	1,218	14,251	1,196	1,283	1,311	7.64
Checks Cleared in FC	53,925	5,939	57,852	4,746	4,766	5,150	(13.29)
Total Checks Cleared	67,444	7,157	72,103	5,942	6,049	6,461	(9.72)
Budget Deficit/Surplus	(2,894)	67.1	(2,342)	(50)	8.1	(36.01)	(153.67)
Primary Balance	1,231	314	1,662	300	281	158.69	(49.53)
Airport Passengers	5,512,435	702,265	5,596,034	438,570	545,379	640,615	(8.78)

<b>\$bn (unless otherwise mentioned)</b>	<b>Dec 2010</b>	<b>Jul 11</b>	<b>Mar 12</b>	<b>May 12</b>	<b>Jun 12</b>	<b>Jul 12</b>	<b>% Change*</b>
BdL FX Reserves	28.60	28.91	30.99	29.57	29.26	29.64	2.54
<i>In months of Imports</i>	<i>19.46</i>	<i>17.22</i>	<i>17.99</i>	<i>17.98</i>	<i>17.08</i>	<i>17.05</i>	<i>(1.00)</i>
Public Debt	52.59	52.80	54.08	55.12	55.25	55.44	5.01
Net Public Debt	45.01	45.50	46.91	47.17	47.10	47.28	3.91
Bank Assets	128.93	136.88	144.73	144.86	145.90	145.51	6.30
Bank Deposits (Private Sector)	107.20	112.14	118.22	118.90	119.94	119.75	6.79
Bank Loans to Private Sector	34.93	38.34	41.00	41.89	41.70	41.49	8.21
Money Supply M2	39.40	36.84	40.04	41.74	41.00	41.19	11.81
Money Supply M3	92.15	94.65	98.94	99.96	100.36	100.50	6.18
LBP Lending Rate (%)	7.91	7.33	7.16	7.34	7.44	7.24	(9b.p.)
LBP Deposit Rate (%)	5.68	5.59	5.46	5.49	5.45	5.45	(14b.p.)
USD Lending Rate (%)	6.74	7.03	7.06	7.12	7.15	7.19	16b.p.
USD Deposit Rate (%)	2.80	2.86	2.83	2.83	2.78	2.84	(2b.p.)
%* Change in CPI**	6.19	6.28	4.40	6.36	4.72	4.72	(156b.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"	12.75	1.11	90,984	12.71%
Solidere "B"	12.58	0.32	22,663	8.15%
Byblos Common	1.49	(0.67)	213,467	5.34%
Byblos Pref. 08	102.30	0.00	0	2.04%
Byblos Pref. 09	103.20	0.10	5,899	2.06%
BLOM GDR	7.80	0.00	42,200	5.74%
BLOM Listed	7.40	0.00	4,097	15.85%
Audi GDR	5.95	7.79	4,310	6.02%
Audi Listed	5.39	(2.00)	305,031	18.77%
HOLCIM	15.51	0.00	100	3.02%

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

<b>Sovereign Eurobonds</b>	<b>Coupon %</b>	<b>Mid Price \$</b>	<b>Mid Yield %</b>
June 2013	8.625	104.75	1.74
Apr. 2014	7.375	107.25	2.47
Jan. 2015	5.875	104.50	3.79
Apr. 2015	10.00	114.63	3.90
Jan. 2016	8.500	112.50	4.37
Mar. 2017	9.000	116.75	4.78
Nov. 2018	5.150	100.50	5.06
Apr. 2021	8.250	116.63	5.75
Nov. 2026	6.600	102.50	6.33

Source: Byblos Bank Capital Markets

	<b>Oct 1 - 5</b>	<b>Sep 24 - 28</b>	<b>% Change</b>	<b>Sep 2012</b>	<b>Sep 2011</b>	<b>% Change</b>
<b>Total Shares Traded</b>	816,322	1,036,489	(21.24)	2,108,718	3,302,725	(36.15)
<b>Total Value Traded</b>	\$6,161,340	\$6,811,404	(9.54)	\$16,363,982	\$28,432,176	(42.45)
<b>Market Capitalization</b>	\$10.03bn	\$10.02bn	0.19	\$10.02bn	\$10.65bn	(5.92)

Source: Beirut Stock Exchange (BSE)



### Lebanon ranks 98th globally, 13th in MENA region in country risk

In its quarterly survey of the country risk of 184 countries, *Euromoney* magazine ranked Lebanon in 98th place worldwide and in 13th place among 22 countries in the Middle East & North Africa region in the third quarter of 2012. Also, Lebanon came in 27th place among 43 upper middle income countries (UMICs) included in the survey.

Lebanon ranked in 94th place globally and in 13th place regionally in the second quarter of 2012, and in 91st place globally and in 12th place regionally in the first quarter of 2012. 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 Uganda, Zambia and Bolivia, and came behind Guatemala, Tanzania and Nigeria. It also ranked ahead of Suriname and behind Albania among UMICs. Lebanon's rank on Debt Indicators and Credit Ratings remained unchanged from the preceding quarter, while its rank on the Access to Bank Finance & Capital Markets regressed by 27 spots, and that on Economic Performance retreated by two spots from the previous quarter. Also, Lebanon's rank on the Structural Assessments categories improved by three spots and that on Political Risks advanced by two spots from the previous quarter.

In parallel, Lebanon received a score of 37.63 points, constituting a decline of 2.5% from 39.41 in the second quarter and a drop of by 2.4% from 38.58 points in the first quarter. Lebanon's score came below the Gulf Cooperation Council (GCC) countries' average score of 65.1 points, the MENA average of 42.64 points and the global average of 42.34 points. Also, its score came below the Arab average score of 41.50 points and the UMICs' average score of 41.38 points, but was above the average score of non-GCC Arab countries of 30.6 points.

Lebanon's score remained unchanged on the Credit Ratings and on the Debt Indicators categories. Its score on the Access to Bank Finance & Capital Markets declined by 40% and that on the Economic Performance category dropped by 0.5% from the previous quarter, while its scores on the Political Risks category rose by 0.9% and on the Structural Assessments category increased by 0.4% from the second quarter of 2012.

Lebanon ranked ahead of Vietnam and behind St. Lucia globally, while it came ahead of Algeria and behind Bahrain regionally on the Political Risks category. Also, it ranked ahead of Mongolia and behind Papua New Guinea worldwide, and came ahead of Morocco and behind Iraq regionally in terms of Economic Performance. Further, Lebanon ranked ahead of China and behind Tunisia globally, and came ahead of Bahrain and behind Tunisia regionally on the Structural Assessments category. Finally, Lebanon ranked ahead of Georgia and behind Nicaragua globally, and came ahead of the UAE and behind Turkey regionally on the Debt Indicators category.

### MENA Countries Rankings & Scores

	Score	MENA Rank	Global Rank
Qatar	74.45	1	17
Kuwait	69.08	2	25
Israel	67.73	3	27
Oman	66.20	4	29
Saudi Arabia	65.10	5	32
UAE	61.06	6	36
Turkey	57.51	7	47
Bahrain	54.58	8	57
Tunisia	46.70	9	73
Morocco	46.32	10	74
Jordan	44.77	11	77
Algeria	40.38	12	85
<b>Lebanon</b>	<b>37.63</b>	<b>13</b>	<b>98</b>
Egypt	34.08	14	113
Iraq	29.32	15	130
Libya	28.02	16	134
Iran	24.35	17	143
Sudan	24.28	18	144
Yemen	22.66	19	150
Mauritania	19.66	20	155
Syria	18.49	21	160
Djibouti	5.72	22	180

Source: *Euromoney, Byblos Research*

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

	Weighting (%)	Score	MENA Rank	Global Rank	MENA Avg Score	Global Avg Score
Political Risk	30	11.35	12	111	12.61	13.90
Economic Performance	30	14.21	11	89	14.2	13.31
Structural Assessments	10	5.44	8	55	4.54	3.89
Debt Indicators	10	3.70	14	122	3.90	4.11
Credit Rating	10	1.46	12	109	3.24	3.22
Access to Bank Finance & Capital Markets	10	1.50	16	125	4.15	3.91

Source: *Euromoney, Byblos Research*

### Pharmaceuticals market at \$1.3bn in 2012, growth projected at 7.6% over the 2011-2016 period

Business Monitor International estimated the size of Lebanon's pharmaceuticals market at \$1.28bn in 2012, constituting an increase of 6.4% from \$1.2bn in 2011. It forecast the market size to reach \$1.73bn in 2016 and to grow at a compound annual rate (CAGR) of 7.6% during the 2011-2016 period. It said that further price restrictions similar to those imposed in 2009 and renewed political unrest in the region constitute the main risks to the outlook. It forecast Lebanon's per-capita spending on pharmaceutical products at \$297.5 in 2012 relative to \$281.7 in 2011, and expected such spending to increase to \$402.4 in 2016 and to post a CAGR of 7.4% during the 2011-16 period. It said that spending on pharmaceuticals was equivalent to 2.94% of GDP last year, which ranks Lebanon in seventh place globally behind a number of small African states where international aid is distorting pharmaceutical purchasing patterns. It forecast spending on pharmaceuticals to be equivalent to 2.91% of GDP in 2012, 2.87% of GDP in 2013 and 2.8% of GDP in 2014.

In parallel, BMI indicated that 70% of the Lebanese market consists of imported pharmaceuticals, and expected the market to remain almost entirely reliant on imports. It said there are about 6,000 types of drugs on the local market, with 80% of them imported by about 50 firms from more than 508 factories in 25 countries. It noted that domestic production represents 10% of the market in volume terms but less than 4% of the market in value terms.

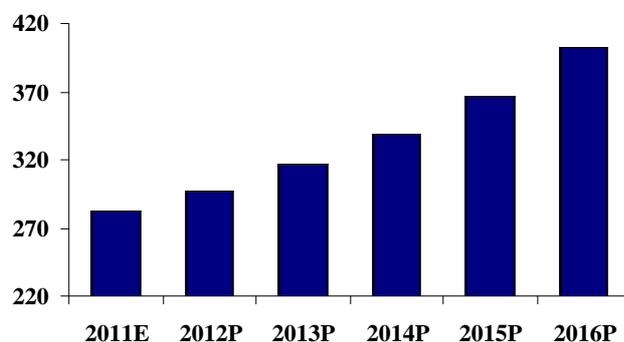
It estimated that prescription medicines represented around 73% of total market value last year. It attributed the high share of prescription medicines to the widespread use of patented drugs, which account for 66% of total spending on prescription drugs, and to the relatively high prices of generic drugs. But it expected cost-containment pressures and patent expirations to contribute to higher usage of non-patented medicines in the future. Further, it said that medicines represent around 41% of healthcare spending in Lebanon. It anticipated this share to remain high through 2021 and to be supported by the use of more modern medicines, demographic and epidemiological factors, and the expansion of healthcare insurance coverage. But it noted that reforms to the insurance and health coverage system would encourage the prescription of generic drugs, while a serious control of the sale of counterfeit medicines would lead to a fall in the proportion of healthcare spending on medicines.

In parallel, BMI considered that the sector's weaknesses include weak protection of intellectual property rights, counterfeiting, government drug pricing regulations that are hampering foreign direct investment; and an over-dependence on imports leading to little reinvestment in the sector's development. However, it pointed out that the sector presents significant opportunities due to the growth potential of the patented medicines segment, the government's desire to encourage local production, and rising local demand for pharmaceutical products. In contrast, it said that the government's resistance to reforming domestic patent law, continued concerns over counterfeiting, parallel imports that are undercutting locally-manufactured products, and price cuts on selected products constitute the main threats to the sector's development.

### Barclays downgrades Lebanon's external debt to 'Neutral'

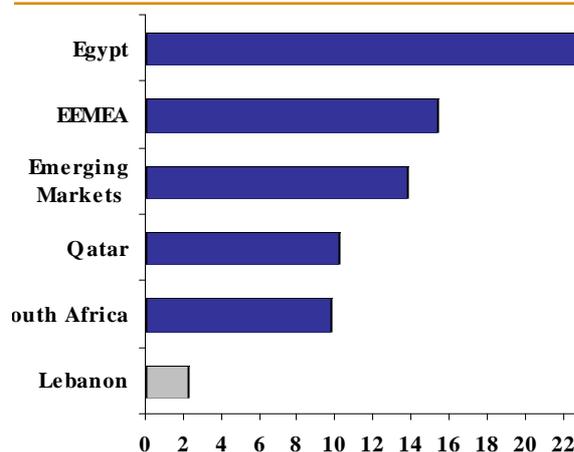
Barclays Capital downgraded its recommendation on Lebanon's external debt to 'Neutral' in its emerging markets credit portfolio in September 2012 from 'Overweight' in June 2012. It also decreased Lebanon's allocation to 2.4% in the portfolio from 3.5% in June. Lebanon's external debt rating of 'neutral' placed it in the same category as the Philippines, Turkey, Egypt, Mexico and Colombia. Lebanon's 'Neutral' recommendation does not compare well to the recommendation of 'Overweight' for Europe, the Middle East & Africa (EMEA) region. Lebanon is represented in the portfolio by the April 2021 Eurobond. Lebanon accounted for 5.5% of the allocations in the Europe, the Middle East & Africa (EMEA) region, down from 8.3% in June 2012. Lebanon's allocation was the 13th highest among 26 sovereigns in the portfolio and the fifth highest among 12 credits in the EMEA region. In parallel, Lebanon's external debt posted returns of 2.2% in the first nine months of 2012, the lowest among the 26 emerging markets included in Barclays Capital's portfolio. Lebanon underperformed the EMEA returns of 15.4% and the overall emerging markets returns of 13.8% in the covered period.

Pharmaceutical Sales Per Capita (US\$)



Sources: Business Monitor International

External Debt Performance in First Nine Months of 2012 (%)

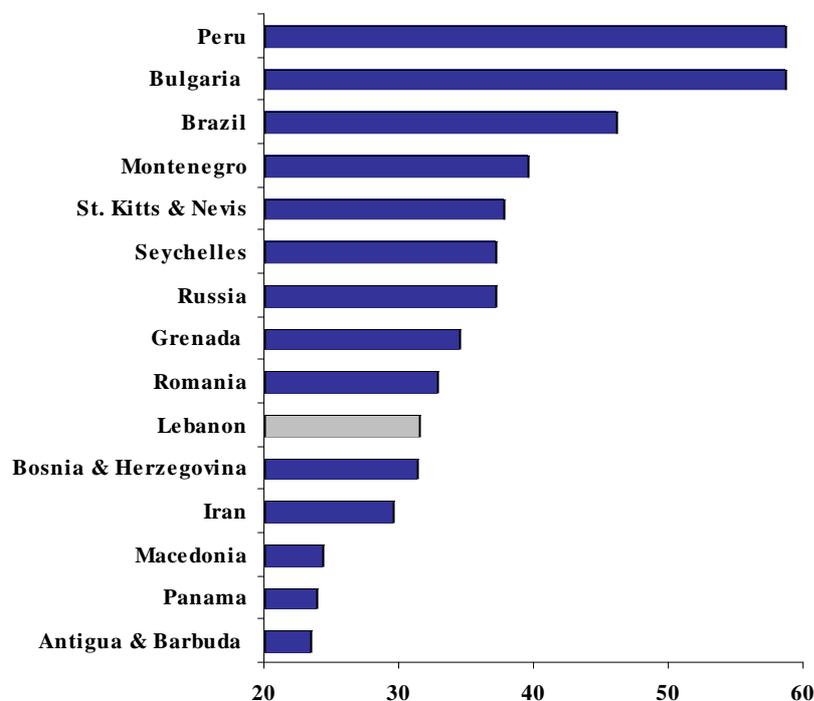


Source: Barclays Capital, Byblos Research

### Lebanon has 13th highest branch penetration rate in the world, 17th highest ATM penetration rate in 2011

Figures issued by the International Monetary Fund show that there were 97.9 branches per 1,000 square kilometers in Lebanon in 2011, constituting a rise of 17.5% from 83.3 branches per 1,000 square kilometers in 2004. As a result, Lebanon had the 13th highest branch penetration rate per 1,000 square kilometers among 158 countries worldwide, the second highest among 42 UMICs and the highest among Arab countries. Globally, Lebanon ranked ahead of Aruba and the Netherlands, and came behind Cyprus and Japan. It also ranked ahead of Saint Kitts & Nevis and came behind Mauritius among UMICs. Lebanon's branch penetration rate was higher than the global rate of 76 branches per 1,000 square kilometers in 2011 and more than four times higher than the UMICs' rate and the Arab countries' rate of 20.4 and 16.8, respectively. Further, there were 31.5 branches per 100,000 adults in Lebanon in 2011, up 6.1% from 29.7 branches per 100,000 adults in 2004. As such, Lebanon had the 33rd highest branch penetration rate per 100,000 adults among 160 countries globally, the 10th highest among 42 UMICs and the highest among Arab countries. Lebanon's branch penetration rate was higher than the global rate of 19.7; the UMICs' penetration rate of 21.3; and more than double the Arab rate of 12.7 per 100,000 adults in 2011.

**Branch Penetration rate in Top 15 Upper Middle Income Countries (Number of branches per 100,000 adults)**



Source: International Monetary Fund, Byblos Research

In parallel, there were 129.6 ATMs per 1,000 square kilometers in Lebanon in 2011, constituting an increase of 50.5% from 86.1 ATM per 1,000 square kilometers in 2004. The ATM penetration rate per 1,000 square kilometers ranks Lebanon in 17th place among 149 countries with available figures for 2011, in second place among 43 upper-middle income countries (UMICs) and in first place among 17 Arab countries. Globally, Lebanon ranked ahead of Saint Kitts & Nevis and Spain, and came behind the Maldives and Switzerland. It also ranked ahead of Saint Kitts & Nevis and came behind Mauritius among UMICs. Lebanon's ATM penetration rate was lower than the global average penetration rate of 268.1 and more than three times higher than the UMIC's rate and the Arab region's rate of 37.5 and 26.2, respectively. Further, there were 41.7 ATMs per 100,000 adults in Lebanon in 2011, up 35.8% from 30.7 ATMs per 100,000 adults in 2004. The ATM penetration rate per 100,000 adults ranks Lebanon in 68th place among 150 countries globally, in 25th place among 43 UMICs and in fifth place among 17 Arab countries. Lebanon had a lower penetration rate in this category than the global rate of 46.1 and the UMICs' average rate of 48.1, but a higher one than the Arab average penetration rate of 24.7.

Also, there were 948 branches in Lebanon in 2011, constituting a rise of 18.6% from 799 branches in 2004. As a result Lebanon had the 58th highest number of branches among 162 countries globally, the 17th highest among 42 UMICs and the fifth highest among Arab countries. Globally, Lebanon ranked ahead of Ethiopia and Cyprus, and came behind Bosnia & Herzegovina and Honduras. It also ranked ahead of Costa Rica and behind Bosnia & Herzegovina among UMICs; while it came ahead of Syria and behind Algeria in the region. Lebanon's number of branches was lower than the average global rate of 4,081.4 branches in 2011 and the UMIC's rate of 4,776.2 but higher than the Arab countries' average of 829.4.

### Construction permits down 13% in first seven months of 2012

Figures released by the Association of Engineers of Beirut & Tripoli show that construction permits issued in the first seven months of 2012 reached 8.7 million square meters, constituting a decrease of 12.7% from 10 million square meters in the same period last year. Construction permits totaled 1.19 million square meters in July 2012, down 2.7% year-on-year from 1.22 million square meters in July 2011. In parallel, cement deliveries reached 3.1 million tons in the first seven months of 2012, down 5.4% from the same period last year. Cement deliveries reached 489,000 tons in July 2012, down 16.7% from 587,000 tons in July 2011.

### **Economic growth to slow to 1.5% in 2012**

Standard Chartered Bank revised downward Lebanon's real economic growth to 1.5% for 2012 from a previous forecast of 3.5%. It attributed the growth revision to the deterioration of the political situation, spillovers of regional instability, and a poor tourist season. It said that most GCC countries issued travel warnings to their citizens to avoid traveling to Lebanon for security reasons, which has negatively affected the tourism sector. It noted that Lebanon's GDP drivers are unusually volatile and growth can come to a sudden stop, as was the case in 2011 when the economy decelerated to 1.8% after years of annual average growth of 7% to 8%. It said that Lebanon is a service-oriented economy that is very dependent on sentiment and on final demand. It noted that consumer confidence dropped in the first half of 2012 due to the spillover of regional unrest into the country and the poor tourist season, which affected overall sentiment. In parallel, it pointed out that spreads on Lebanese Eurobonds and five-year credit default swaps tightened over the past three months, but noted that spreads remain elevated and continue to reflect the risk premium from geopolitical concerns. It expected the Lebanese banking sector to be able to easily rollover maturing sovereign debt and support the Eurobond market, as long as the banks remain cash rich and continue to attract deposits. In parallel, Standard Chartered projected the fiscal deficit at 7% of GDP this year relative to 7.5% of GDP last year, and forecast the current account deficit to narrow to 16% of GDP in 2012 from 17.5% of GDP in 2011. It anticipated the inflation rate at 5% this year and at 5.5% in 2013.

### **Net public debt at \$48bn at end-August 2012**

Lebanon's gross public debt reached \$55.7bn at the end of August 2012, constituting a rise of 3.8% from the end of 2011 and an increase of 4.3% from end-August 2011. Domestic debt reached \$32.6bn at end-August, declining by 0.4% from end-2011 and increasing by 1.4% annually; while external debt stood at \$23.1bn, up by 10.4% from end-2011 and by 8.5% from a year earlier. The rise in external debt was caused by a swap operation in June when the Finance Ministry issued three new Eurobonds totaling \$2bn that were used for early redemption and cancellation of Lebanese pound-denominated Treasury bills held by the Central Bank of Lebanon. Local currency debt accounted for 58.5% of gross public debt at end-August 2012 compared to 60.1% a year earlier, while foreign currency-denominated debt represented 41.5% of the total at the end of August relative to 39.9% a year earlier. The weighted interest rate on outstanding Treasury bills was 6.63%, while the weighted interest rate on Eurobonds was 6.85% at the end of July. Further, the weighted life on Eurobonds was 5.70 years, while that on Treasury bills was 901 days.

Commercial banks accounted for 51.8% of the local public debt at the end of August 2012 compared to 48.4% a year earlier. They were followed by the Central Bank with 31.5%, down from 35.4% at end-August 2011; while public agencies, financial institutions and the general public accounted for 16.7% of local debt compared to 16.2% in August 2011. Eurobond holders, foreign private sector loans and special T-bills in foreign currencies accounted for 89.1% of the external debt, followed by multilateral institutions with 5.7%, foreign governments with 4.5%, and Paris II loans with 0.8%. 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 4.6% to \$47.8bn. In parallel, the gross market debt accounted for about 64% 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.

### **Four fifth of Lebanese citizens do not have access to information from public institutions**

A public opinion survey about the ease of accessing information from public institutions in Lebanon showed that 81.5% of respondents consider that they do not have adequate access to information. Also, 49% of survey participants said that it is very difficult to access information in Lebanon and 12.5% think that it is impossible to get information from public institutions. The survey aims to assess the awareness of Lebanese citizens about their rights and the information they need to exercise those rights. The study also evaluated the impact of the absence of an Access to Information law (ATI) on civil life.

The survey found that 85.1% of respondents consider that access to information is a right, but they noted that information is accessed through influence, bribery and the use of socioeconomic clout. The study shows that 74.8% of respondents acknowledged that political connections are the most efficient way to obtain information, while 61.7% of them consider that bribing public-sector employees and officials to be the easiest way to get information. Further, 42.5% of respondents stated that social status helps them get information.

The study indicated that 57.3% of surveyed citizens hold the government responsible for not facilitating access to information, and 43.6% held political parties and politicians liable. Also, 44.4% of respondents blamed Lebanese citizens for not taken any action to improve access to information.

In parallel, 45.5% of respondents agree that the lack of an ATI law weakens democratic institutions, prevents citizen from monitoring their government, and makes it difficult to hold public officials accountable for their performance. Additionally, 42.6% of respondents considered that the lack of an ATI law negatively impacts business and professional life. Finally, the survey revealed that 78.8% of respondents did not hear about the Access to Information draft law of 2009. The survey was commissioned by the Lebanese Transparency Association and funded by the World Bank. It was conducted in August 2012 on a sample of 1,155 individuals by the Carthage Center for Research & Information.

### Fiscal deficit up 46.5% to \$1.2bn in first seven months of 2012 when assuming \$836.3m in telecom revenues

Figures released by the Finance Ministry show that the fiscal deficit reached \$1.2bn in the first seven months of 2012, up 46.5% from \$798m in the same period last year. The deficit was equivalent to 16.3% of total budget and Treasury expenditures compared to 12.4% of overall spending in the same period last year. Overall government expenditures reached \$7.2bn, up 10.7% year-on-year, while total revenues increased by 5.7% to \$6bn. Budgetary expenditures regressed by 1.6% to \$5.9bn and included \$1.2bn in transfers to Electricité du Liban and \$352.2m in outlays from previous years, while budget revenues rose by 6.4% to \$5.7bn. Tax revenues rose by 8.1% year-on-year to \$4.4bn, of which 31.7%, or \$1.4bn, were in VAT receipts that grew by 7% from the same period of 2011. Tax revenues accounted for 77.4% of budgetary revenues and for 74% of total Treasury and budget receipts. The Finance Ministry is basing its monthly fiscal results on the Telecommunications Ministry's estimate of telecom receipts which reached \$836.3m in the first seven months of the year, rather than on the Treasury actually receiving the funds from the Telecom Ministry. On a cash basis for the two compared periods, public revenues increased by 6.5% year-on-year; while the fiscal deficit rose by 23% to \$2bn, equivalent to 28% of expenditures. The ministry decided to include telecom revenues in the fiscal results for the first seven months of 2011, even though it has excluded them in the comparative results of each of the first five months of the year.

The distribution of other tax revenues shows that receipts from taxes on income, profits & capital gains increased by 7.5% to \$1.3bn; customs revenues grew by 4.1% year-on-year to \$868.6m; revenues from property taxes expanded by 11.2% to \$453.7m; other tax receipts, mainly stamp fees, grew by 8.6% to \$197.2m, and revenues from taxes on goods & services rose by 42.7% to \$176.4m. Further, the distribution of income tax revenues shows that the tax on profits accounted for 47.9% of total income tax receipts, followed by the tax on interest deposits with 19.4%, taxes on wages & salaries with 19.2%, and the capital gains tax with 12.1%. Tax receipts on profits increased by 50.5%, income from the tax on interest rose by 21.2%, revenues from taxes on wages & salaries improved by 17.6%, and income from capital gains taxes grew by 9.7%. Also, the distribution of property taxes shows that revenues from real estate registration fees increased by 4.5% to \$315m, receipts from built property taxes grew by 32.6% to \$82.1m, and revenues from inheritance tax rose by 26.9% to \$56.6m.

In parallel, non-tax budgetary revenues rose by 1% to \$1.3bn, with revenues from government properties dropping by 2.1% to \$1bn and administrative fees & charges growing by 13% to \$225.5m. Based on the ministry's assumption, receipts from telecommunications services accounted for 83.4% of income from government properties and for 64.8% of non-tax revenues.

Debt servicing decreased by 5.4% year-on-year to \$2bn during the covered period. It accounted for 28% of total expenditures and for 33.6% of budgetary spending, and absorbed 33.3% of overall revenues and 35% of budgetary receipts. Interest payment on domestic debt declined by 5.6% to \$1.3bn, while interest disbursement on foreign debt regressed by 4.9% to \$728.2m. Repayment of principal on foreign debt fell by 12.3% to \$105.7m. Excluding debt servicing, the primary budget balance posted a surplus of \$1.9bn, or 49.1% of budget expenditures compared to a surplus of \$1.6bn, or 41.2% of budget spending in the same period last year. The overall primary balance posted a surplus of \$931.3m, or 13% of spending, relative to a surplus of \$1.4bn or 22.1% of total expenditures in the same period last year.

#### Fiscal Results in First Seven Months of 2012

	Including Assumed Telecom Receipts	Excluding Assumed Telecom Receipts*
	US\$m	US\$m
Budget revenues	5,715	4,879
Tax revenues	4,425	4,425
Non-tax revenues	1,290	454
<i>of which Telecom revenues</i>	836	-
Budget expenditures	5,934	5,934
<b>Budget Deficit</b>	<b>(219)</b>	<b>(1,055)</b>
<i>In % of budget expenditures</i>	<i>(3.7%)</i>	<i>(17.8%)</i>
<b>Budget Primary Surplus</b>	<b>1,881</b>	<b>1,045</b>
<i>In % of budget expenditures</i>	<i>31.7%</i>	<i>17.6%</i>
Treasury receipts	268	268
Treasury expenditures	1,218	1,218
Total Revenues	5,983	5,147
Total Expenditures	7,152	7,152
<b>Total Deficit</b>	<b>(1,169)</b>	<b>(2,005)</b>
<i>In % of total expenditures</i>	<i>(16.3%)</i>	<i>(28%)</i>
<b>Total Primary Surplus</b>	<b>931</b>	<b>95</b>
<i>In % of total expenditures</i>	<i>13%</i>	<i>1.3%</i>

\* Cash basis

Source: Ministry of Finance, Byblos Research



### **Central Bank foreign assets up 9% to \$35bn in first 9 months of 2012**

The Central Bank's interim balance sheet reached \$77.4bn at the end of September 2012 compared to \$70.3bn at the end of 2011 and to \$70.8bn at end-June 2011. Assets in foreign currencies totaled \$35.1bn at the end of September, increasing by 8.9% in the first nine months of the year from \$32.2bn at the end of 2011. Assets in foreign currencies increased by \$202.6m in August, \$2.29bn in June, \$615.5m in April, \$141.5m in March and by \$118.8m in February; while they declined by \$174.6m in September, \$144.7m in July, \$122.75m in May and by \$72.6m in January 2012. This resulted in an aggregate increase of nearly \$2.86bn in the first 9 months of the year, with increases of \$187.6m in the first quarter and of \$2.79bn in the second quarter of 2012, and a decline of \$116.6m in the third quarter of the year. Further, assets in foreign currencies rose by \$5.4bn, or 18%, year-on-year. The rise of foreign assets in June is due to the issuance by the Finance Ministry on June 12, 2012 of three new Eurobonds totaling \$2bn that were used for early redemption and cancellation of Lebanese pound-denominated Treasury bills held by the Central Bank.

The value of the Central Bank's gold reserves increased by 14% in the first 9 months of 2012 and by 10% year-on-year to \$16.42bn, compared to the peak of \$16.7bn reached at end-August 2011. Its securities portfolio dropped by 1.2% in the first three quarters of the year and by 0.3% annually to \$11.4bn. Further, deposits of the financial sector rose by \$4.5bn, or 9.2%, in the first 9 months of the year and by \$6.6bn or 14.1% annually to \$53.5bn; while deposits of the public sector increased by 11.9% year-to-September and contracted by 12.2% year-on-year to \$5.93bn. Assets in foreign currencies increased by \$1.6bn in 2011, \$2.3bn in 2010, \$8.3bn in 2009, and \$7.3bn in 2008.

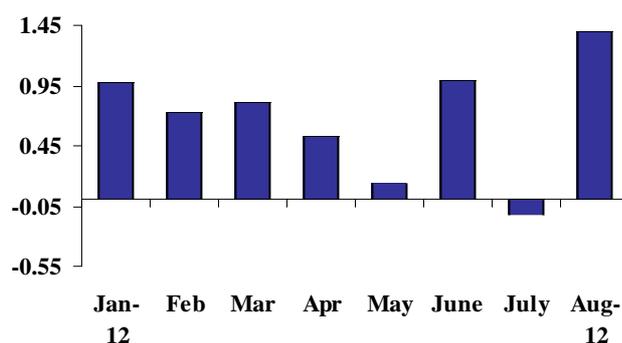
### Kafalat loan guarantees down 13% to \$109m in first nine months of 2012

Figures released by the Kafalat Corporation show that loans extended to small- and medium-size companies under the guarantee of Kafalat reached \$108.9m in the first nine months of 2012, down 12.6% from \$124.6m in the same period last year. The number of loan guarantees totaled 801 in the first nine months of 2012 compared to 971 in the same period last year. The average loan size reached \$135,936 compared to \$128,278 in the first nine months of 2011. Mount Lebanon accounted for 41.3% of guarantees, the followed by the South & Nabatieh with 21.6%, the Bekaa with 16.1%, the North with 14.6%, and Beirut with 6.5%. The industrial sector accounted for 38.3% of total guarantees, followed by agriculture with 37.5%, tourism with 19.5%, handicraft with 3.6%, 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 \$147bn at end-August 2012

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$147bn at the end of August 2012, constituting an increase of 4.6% from end-2011 and a rise of 6.5% from end-August 2011. Private sector deposits totaled \$121.2bn, increasing by 4.7% from end-2011 and rising by 7.3% from a year earlier. Deposits in Lebanese pounds reached \$42.6bn and rose by 8% from end-2011 and by 12.7% year-on-year; while deposits in foreign currencies totaled \$78.6bn and increased by 3% from end-2011 and by 4.5% from end-August 2011. Non-resident foreign currency deposits totaled \$19.7bn at the end of August 2012, up 6% from end-2011 and by 9.5% from a year earlier. Total non-resident deposits reached \$22.9bn at end-August 2012 and grew by 7.5% from end-2011 and by 11.5% from a year earlier. Total private sector deposits increased by \$1.4bn in August, decreased by \$130m in July, and increased by \$985.4m in June, \$141.3m in May, \$533m in April, \$806.7m in March, \$725.7m in February and by \$976m in January 2012; compared to a rise \$813m in August, \$656.7m in July, \$1bn in June, \$539m in May, \$1.8bn in April, \$1.3bn in March, \$673m in February and a decline of \$1.1bn in January 2011. In parallel, deposits of non-resident banks reached \$5.7bn in August, as they increased by 2.7% from end-2011 and declined by 12.4% year-on-year. The dollarization rate of deposits reached 64.9% at the end of August, down from 66.6% a year earlier. Further, the average deposit rate in Lebanese pounds reached 5.51% in August relative 5.53% a year earlier; while the same rate in US dollars was 2.84%, down from 2.8% in August 2011.

### Private Sector Deposit Change (US\$bn)



Source: Association of Banks in Lebanon

Loans to the private sector totaled \$41.7bn at end-August, constituting an increase of 6% from end-2011 and a rise of 7.2% from a year earlier. Lending to the resident private sector totaled \$36.5bn and increased by 6.7% from end-2011, while lending to the non-resident private sector reached \$5.6bn and rose by 1.1% from end-2011. The dollarization rate in private sector lending reached 77.4% in August compared to 79.4% a year earlier. The average lending rate in Lebanese pounds was 7.27% in August 2012 compared to 7.53% a year earlier, while the same average in US dollars was 7.26% compared to 7.16% in August 2011. In addition, claims on non-resident banks reached \$12.9bn at end-August, posting a decrease of 12% from end-2011. Claims on the public sector stood at \$29.9bn, constituting an increase of 8.1% from a year earlier and of 2.4% from end-2011. The ratio of private sector loans-to-deposits in foreign currencies stood at 41.1%, well below the Central Bank's limit of 70%, and unchanged from a year earlier. In parallel, the same ratio in Lebanese pounds was 22.1%, slightly up from 21.2% a year earlier. The ratio of total private sector loans to deposits was 34.4% compared to 34.5% a year earlier. The banks' aggregate capital base stood at \$11.9bn, up by 14.1% from \$10.4bn in August 2011.

### IBL's net profits up 20% to \$23m in first half of 2012

IBL Bank announced unaudited consolidated net profits of \$23m in the first half of 2012, up 19.8% from the same period last year. Net operating income grew by 16.8% year-on-year to \$41.4m, with net interest income increasing by 150.7% to \$30.1m and net fees & commissions receipts decreasing by 28.3% to \$1.8m. Non-interest income accounted for 31.4% of total income, down from 67.1% in the first half of 2011; with net fees & commissions representing 12.9% of non-interest earnings. Further, the bank's interest margin was 1.55% in the first half of 2012 relative to 0.72% in same period of 2011, and its net spread rose to 1.52% from 0.71% in the same period last year. Total operating expenditures increased by 20.6% to \$15.7m, with staff expenses growing by 22.3% to \$9.6m. Also, the bank's return on average assets reached 1.16% in June 2012 on an annualized basis, relative to 1.14% a year earlier; while its return on average equity was 15.3% on an annualized basis relative to 16% in June 2011. The cost-to-income ratio increased to 35.8% in the first half relative to 35.6% in the same period last year.

In parallel, total assets reached \$4.1bn at end-June 2012, constituting a 7.9% rise from end-2011 and a 17.6% increase from a year earlier; while loans & advances to customers grew by 31.4% in the first half of the year to \$812.5m. Also, customer deposits totaled \$3.7bn at end-June, reflecting growth of 6.5% from end-2011 and a rise of 16.7% from a year earlier. The loans-to-deposits ratio increased to 22.5% at end-June 2012 from 17.6% a year earlier.

### **First National Bank's profits up 14% to \$9m in first half of 2012**

First National Bank, one of Lebanon's top 12 banks, announced unaudited consolidated net profits of \$8.9m in the first half of 2012, up 13.5% from the same period last year. Net operating income rose by 14.3% year-on-year to \$31.3m, with net interest income increasing by 40.3% to \$27.3m and net fees & commissions receipts decreasing by 17.2% to \$2.2m. Non-interest income accounted for 21.4% of total income, up from 21.3% in the first half of 2011; with net fees & commissions representing 30.3% of non-interest earnings. Further, the bank's interest margin was 1.89% in the first half of 2012 relative to 1.77% in the same period last year; while its net spread increased to 1.84% from 1.72% in the first half of 2011. Total operating expenditures increased by 17.6% to \$20.9m, with staff expenses growing by 8.3% to \$11.3m. Also, the bank's return on average assets reached 0.6% in June 2012 on an annualized basis, relative to 0.61% a year earlier; while its return on average equity was 9.02% relative to 8.27% in June 2011. The cost-to-income ratio regressed to 60.2% in the first half relative to 63.4% in the same period last year.

In parallel, total assets reached \$3.1bn at end-June 2012, constituting a 10.4% rise from end-2011 and a 20.5% increase from a year earlier; while loans & advances to customers increased by 7.5% from end-2011 and by 14.2% year-on-year to \$813.3m. Also, customer deposits totaled \$2.4bn at end-June, growing by 9.6% from end-2011 and by 19.5% from a year earlier. The loans-to-deposits ratio decreased to 33% at end-June 2012 from 34.8% a year earlier.

### **Solidere International files arbitration claim against Egyptian partner**

Solidere International, the Dubai-based affiliate of Solidere, the Lebanese Company for the Development and Reconstruction of the Beirut Central District, filed an arbitration claim against Egypt-based real estate development company Six of October Development & Investment Company (SODIC). Solidere is seeking EGP237.5m, or \$39m, from SODIC as it claims that the latter failed to meet its contractual obligations. Solidere's action came after SODIC filed a similar claim in an attempt to cancel two agreements signed in 2007 and 2008 with Solidere to sub-develop a 250,000 square meters plot. SODIC said that it would pay EGP160m if it loses the arbitration case. SODIC and Solidere had planned to invest around EGP22bn or \$3.6bn to develop two projects in Egypt, with the first project being a residential and business district called Westown that is scheduled for completion by 2015; and the second project called Eastown, which is the subject of SODIC's arbitration claim.

### **Al Mashrek's shareholder equity up 21% to \$21m in 2011**

Al Mashrek Insurance & Reinsurance sal released its audited balance sheet that shows total assets of \$54.5m at end-2011, constituting an increase of 16.1% from \$46.9m at end-2010. On the assets side, general company investments totaled \$37.9m and increased by 27% from end-2010. They included \$20m in land and real estate, \$8.7m in cash and cash equivalent; \$3m in blocked bank deposits and deposits with maturity of more than three months, of which \$2.7m blocked in favor of the Economy Ministry as guarantees; and \$0.4m in policy loans. Also, reinsurance share in technical reserves for the life category reached \$0.7m at end-2011 and increased by 95.2% year-on-year, while that of the non-life category amounted to \$2.7m and decreased by 26.4% annually.

On the liabilities side, shareholders' equity totaled \$21.1m at end-2011, constituting an increase of 20.9% from \$17.5m a year earlier. Also, technical reserves for the life segment increased by 30.7% year-on-year to \$2.5m, while those for the non-life category reached \$20.4m at end-2011 and increased by 21.1% from end-2010. Non-life technical reserves included unearned premium reserves of \$14.2m that increased by 18.4%, outstanding claims reserves of \$4.4m that grew by 21.6%, and \$0.5m in reserves incurred but not reported that rose by 218.8% year-on-year. Further, provisions for risks and charges reached \$0.9m and declined by 1.1% from a year earlier.

*Al-Bayan* magazine's annual survey of the insurance sector in Lebanon ranked Al Mashrek in 22nd and ninth place in 2011 in terms of life and non-life premiums, respectively. The firm's non-life premiums reached \$30.2m and its life premiums amounted to \$1.1m in 2011, constituting increases of 39.4% and 11.8% year-on-year, respectively. It had a 3.5% share of the local non-life market a 0.3% share of the life market.

## 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	Feb 2011	Jan 2012	Feb 2012	Change*	Risk Level
Political Risk Rating	56.5	55.5	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	62.2	62.2	▲	Moderate

Regional Average	Feb 2011	Jan 2012	Feb 2012	Change*	Risk Level
Political Risk Rating	62.6	60.5	60.4	▼	Moderate
Financial Risk Rating	42.2	42.3	42.2	↔	Very Low
Economic Risk Rating	38.0	37.1	37.3	▼	Low
Composite Risk Rating	71.4	69.9	70.0	▼	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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