



# LEBANON THIS WEEK

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Construction permits down 13% in first nine months of 2012

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### Corporate Highlights .....8

Byblos Bank invites shareholders to an Extraordinary General Assembly

Stock market activity down 21% to \$382m in first 11 months of 2012

EFG Hermes' net income down 27% to \$18m in first nine months of 2012

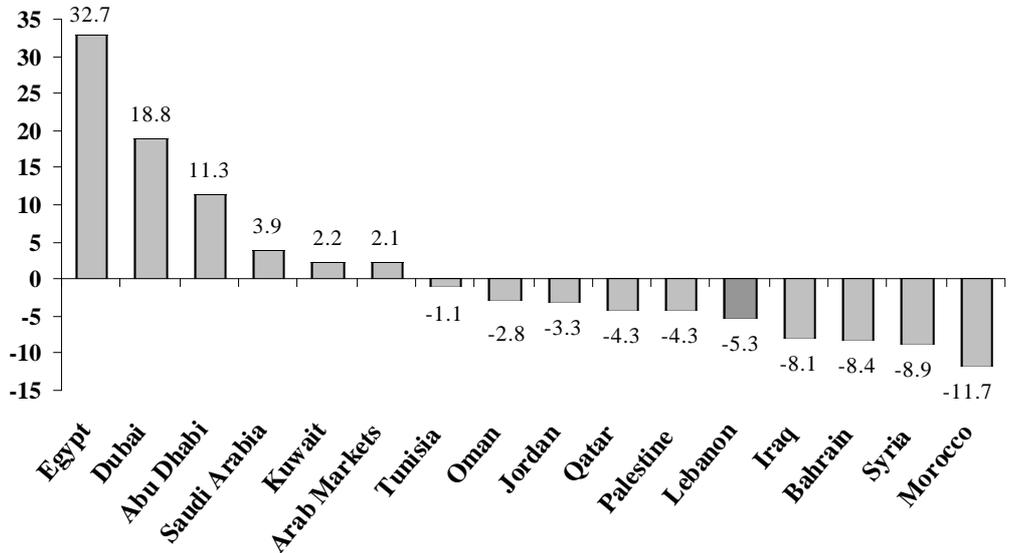
BLC Bank's net profits down 36% to \$24m in first nine months of 2012

Net losses at \$3.1m, loss ratio at 58.2% in 2011 for motor insurance segment

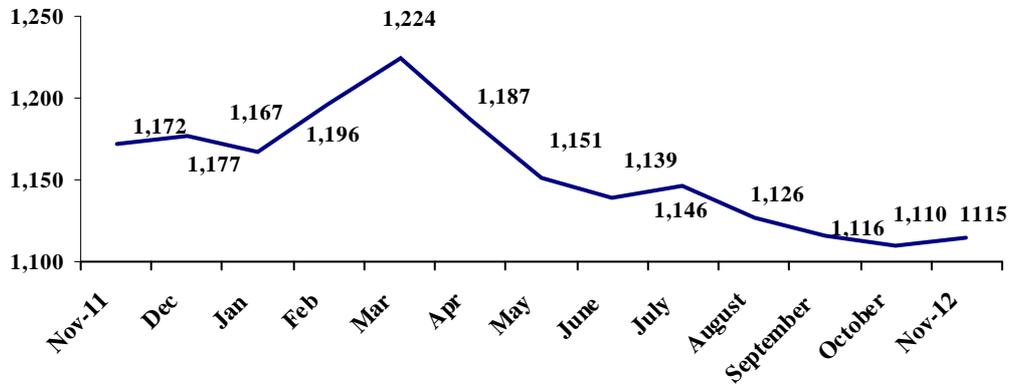
Investors acquire Khoury Home Group from founding family

## Charts of the Week

Performance of Arab Stock Markets in the First 11 Months of 2012 (% change)



Performance of the Beirut Stock Exchange



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

## Quote to Note

"There have been some technical concerns ahead of the tenders because of depth, with the areas to be offered having depths of more than 2,200 meters."

*The Economist Intelligence Unit, on the reason for the limited initial interest of international oil companies in Lebanon's offshore exploration bids*

## Number of the Week

**50%:** Percentage of Lebanese who are unaware how much they spend per week, according to a World Bank survey

## 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"	12.27	0.16	200,037	12.26%
Solidere "B"	12.20	0.49	15,447	7.93%
Byblos Common	1.50	(0.66)	21,008	5.39%
Byblos Pref. 08	102.60	(0.10)	50	2.05%
Byblos Pref. 09	103.70	0.00	0	2.07%
BLOM GDR	7.80	0.00	93,421	5.76%
BLOM Listed	7.40	0.00	25,000	15.90%
Audi GDR	5.97	2.23	10,950	6.06%
Audi Listed	5.50	(0.36)	7,610	19.23%
HOLCIM	15.55	(0.38)	3,431	3.03%

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

<b>Sovereign Eurobonds</b>	<b>Coupon %</b>	<b>Mid Price \$</b>	<b>Mid Yield %</b>
June 2013	8.625	103.75	1.87
Apr. 2014	7.375	107.38	1.92
Jan. 2015	5.875	104.00	3.90
Apr. 2015	10.00	114.25	3.75
Jan. 2016	8.500	112.38	4.25
Mar. 2017	9.000	116.50	4.72
Nov. 2018	5.150	100.25	5.10
Apr. 2021	8.250	115.88	5.83
Nov. 2026	6.600	101.75	6.41

Source: Byblos Bank Capital Markets

	<b>Nov 26-30</b>	<b>Nov 19-23</b>	<b>% Change</b>	<b>Nov 2012</b>	<b>Nov 2011</b>	<b>% Change</b>
<b>Total Shares Traded</b>	627,234	156,226	301.49	1,823,939	1,749,640	4.25
<b>Total Value Traded</b>	\$4,768,858	\$2,111,031	125.90	\$17,978,280	\$18,185,633	(1.14)
<b>Market Capitalization</b>	\$10.01bn	\$10.00bn	0.06	\$10.01bn	\$10.26bn	(2.47)

Source: Beirut Stock Exchange (BSE)



### Lebanon ranks 37th worldwide, 8th among Arab countries in the ease of paying taxes

The PricewaterhouseCoopers/World Bank Index of Paying Taxes for 2013 ranked Lebanon in 37th place among 185 countries worldwide and in eighth place among 19 Arab countries included in the survey. Lebanon came in the 41st place among 183 countries and in ninth place among 19 Arab countries in the 2012 survey. Lebanon also ranked in eighth place among the 44 Upper Middle Income countries (UMICs) included in the current survey.

The index measures a firm's mandatory taxes and contribution that have a direct impact on its income. It is intended to reflect the overall tax burden that a standard business incurs. The composite index is based on three sub-indices that cover the number of tax payments by business, the total tax compliance time, and the total tax rate as a percentage of commercial profits. The sub-indices are divided into corporate, labor and other tax sub-categories. The sub-indices are equally weighted to produce an overall ranking for each economy for the ease of paying taxes.

Globally, Lebanon ranked ahead of Sweden, Botswana and Tonga, and came immediately behind Chile, Jordan and Spain. It ranked ahead of Botswana, Saint Lucia and Suriname, and came behind Chile, South Africa and Macedonia among UMICs.

Lebanon tied with Switzerland and Syria, ranked ahead of Iran and Afghanistan, and came behind Azerbaijan and Croatia on the Number of Tax Payments Sub-Index. This component measures the total number of taxes and contributions paid, the method of payment, the frequency of payments, and the number of agencies involved in the tax compliance process. Lebanon also ranked ahead of Iran and Costa Rica and came behind Azerbaijan and Turkey among UMICs in this category. The survey shows that a standard Lebanese business pays its corporate taxes once a year, performs 12 labor tax payments per year, and pays all of its other mandatory taxes and contributions six times a year. In comparison, businesses in non-GCC Arab countries pay corporate taxes 2.4 times, labor taxes 12.4 times and other mandatory taxes 12.6 times per year, relative to global averages of 3.4 times, 10.5 times and 13.2 times per year, respectively.

Further, Lebanon tied with Sudan, ranked ahead of Haiti and Cape Verde, and came behind Russia and the United States on the Compliance Time Sub-Index, which measures the time a firm needs to prepare, file and pay its taxes. It also ranked ahead of Kazakhstan and Suriname, and came behind Russia and Lithuania among UMICs. A standard Lebanese firm needs 100 hours per year to process its labor taxes, and 40 hours per year to prepare, file and pay each of its corporate and consumption taxes. In comparison, it takes a standard firm in non-GCC Arab countries 78.1 hours to prepare, file and pay its corporate taxes; 95.2 hours for its labor taxes and 100.9 hours for its consumption taxes, compared to worldwide averages of 68.5 hours, 96.5 hours and 102.5 hours, respectively.

Finally, Lebanon tied with Switzerland, ranked ahead of Israel and the Maldives, and came behind South Korea and Trinidad & Tobago on the Total Tax Rate Sub-Index. This indicator measures the amount of all taxes and mandatory contributions borne by a business, expressed as a percentage of commercial profits. It also came ahead of South Africa and Serbia, and ranked behind Bulgaria and Kazakhstan among UMICs. The corporate tax rate for a standard Lebanese business represents 6.1% of its commercial profits, the labor tax rate is equivalent to 24.1% of its commercial profits, and the non-corporate and non-labor tax rates represent zero percent of profits. In comparison, the tax rate as a percentage of commercial profits in a standard firm in non-GCC Arab countries is 14% for corporate tax, 18.4% for labor tax and 9.6% for non-corporate tax, compared to global averages of 16.4%, 16.2% and 12.1%, respectively.

#### Ease of Paying Taxes Rankings for 2013

Country	Arab Rank	Global Rank
UAE	1	1
Qatar	2	2
Saudi Arabia	3	3
Bahrain	4	7
Oman	5	10
Kuwait	6	11
Jordan	7	35
<b>Lebanon</b>	<b>8</b>	<b>37</b>
West Bank & Gaza	9	55
Tunisia	10	62
Iraq	11	65
Djibouti	12	67
Sudan	13	101
Morocco	14	110
Syria	15	111
Yemen	16	113
Egypt	17	145
Algeria	18	170
Mauritania	19	177

Source: PricewaterhouseCoopers, World Bank, Byblos Research

#### Components of the 2013 Ease of Paying Taxes Index for Lebanon

	Global Rank	Arab Rank	UMICs Rank	Lebanon	Global Average	Arab Average	UMICs Average
Number of Tax Payments	71	10	19	19	27.2	21.4	25.8
Time to Comply*	65	11	14	180	267.5	204.8	317.3
Total Tax Rate**	44	10	13	30.2	44.7	33.3	42.6

\*Measured in hours \*\*As a percentage of commercial profits

Source: PricewaterhouseCoopers, World Bank, Byblos Research

### **Weak institutions and poor government finances are main sources of vulnerability**

In its annual sovereign assessment on Lebanon, Moody's Investors Service indicated that Lebanon's 'B1' government bond rating reflects the country's reduced growth prospects, high government debt level, and persistent fiscal and current account deficits. But it noted that the rating is supported by the resilience of domestic banks and the large foreign exchange liquidity in the banking system. The agency indicated that its sovereign methodology is based on ranking countries on four factors that are Economic Strength, Institutional Strength, Government Financial Strength, and Susceptibility to Event Risk.

Moody's estimated Lebanon's Economic Strength to be 'moderate', reflecting the country's small size, per capita income, and fragile economic framework. Other countries with the same assessment include Egypt, Turkey, Lithuania and Costa Rica. It said that the Lebanese economy has significant growth potential but is sensitive to political events. It noted that the economy is heavily reliant on the financial sector, which contributes 33% of GDP, the tourism sector and remittances inflows. It considered that the Lebanese economy faces a number of structural weaknesses, mainly a weak basic infrastructure that suffers from under-investment and inefficient management. It added that the government's capital expenditures are very low at less than 4% of GDP, given that debt servicing consumes around 41% of public revenues. It noted that the economy continues to suffer from heavy electricity shortages due to the lack of long-term investment in the sector and an inefficient energy subsidy system. In parallel, it said that Lebanon's large financial sector, with assets equivalent to 354% of GDP at end-2011, is relatively insulated from geopolitical developments.

In parallel, the agency assessed Lebanon's Institutional Strength as 'low', similar to that of Egypt, Cyprus, Albania and the Philippines. It noted that this category evaluates a government's ability and willingness to pursue policies that support full and timely debt payments. It pointed out that the fragility of successive governments prevented much-needed structural reforms, such as reforming Electricité du Liban (EdL) and privatizing the mobile phone networks, among others. But it said that the government has never defaulted on its debt servicing despite serious political and economic shocks.

Further, the agency evaluated Lebanon's Government Financial Strength as 'low', which reflects a very high debt burden and large fiscal deficits. But it added that a favorable creditor base that poses limited rollover risk mitigates this factor. Other similarly-ranked countries include Egypt and Spain. It said that Lebanon's public finance metrics remain very weak despite some improvement in recent years. It noted that Lebanon posted the third largest debt level among rated sovereigns with a debt-to-GDP ratio of 126% at end-2011; and has the weakest debt affordability ratio, as interest payments consumed 41% of revenues in 2011. It added that the poor financial condition of EdL is weighing on the government's revenues and expenditures. But it noted that the domestic banking sector continues to be a reliable source of funding for the government despite the wide budget deficits, large public debt burden, and the poor track record of fiscal reforms. It added that the banking sector acts as the government's primary creditor, absorbing around 59% of the country's gross debt.

Finally, Moody's ranked Lebanon's Susceptibility to Event Risk at 'very high', similar to Bosnia & Herzegovina and Saint Vincent. It noted that this factor assesses a country's vulnerability to adverse shocks that would materially impact the government's creditworthiness. It attributed Lebanon's very high sensitivity to event risks to divisions within its political class and its unstable geopolitical location. It noted that economic activity and the dollarization rate of deposits react rapidly to political volatility. But it pointed out that confidence in the Lebanese pound remains strong, as conservative bank regulations enabled the Central Bank of Lebanon to accumulate a large cushion of foreign exchange reserves, which acts as a signal of confidence for non-resident depositors.

### **Central Bank working on economic stimulus package**

Central Bank Governor Riad Salamé announced that the Central Bank is preparing a package of economic measures to stimulate the economy, given that it has been severely affected by the conflict in Syria and by diminished external demand. Governor Salamé said that the stimulus package would include incentives to stimulate housing loans, loans to productive sectors, and loans for renewable energy. He added that the mortgage incentives would be for new loans and that the program would be in place for at least a year. He noted that more details on the stimulus package will be available by the end of 2012.

He said that the Syrian conflict has negatively affected investment sentiment and consumer confidence in Lebanon. He added that the unstable domestic environment and the ongoing unrest in Syria are weighing on several sectors of the Lebanese economy, mainly the external and tourism sectors. He projected Lebanon's real GDP growth at 2% in 2012, inflation at 6% and deposits growth at 7%. He attributed the growth in deposits mainly to domestic depositors. In parallel, Governor Salamé said that the Central Bank did not inject foreign currency in the exchange market since August 2011, while he estimated foreign currency purchases at over \$1.5bn.

### Lebanon ranks fifth in Arab world in economic freedom

The Fraser Institute's annual Index of Economic Freedom in the Arab World ranked Lebanon in fifth place in 2012 among 17 countries included in the survey, up from sixth place in 2011 and from seventh place in 2010. The index measures the degree of economic freedom in each country on the basis of 18 variables that are divided into five broad factors of economic freedom. The factors measure the size of government, legal structure and security of property rights, access to sound money, freedom to trade internationally, and the regulation of credit, labor and business. Lebanon received a score of 7.6 points on a scale of 0 to 10, up from 7.5 points in 2011 and 7.4 points in 2010, and higher than the Arab average of 7.1 points.

Lebanon ranked first on the Size of Government category, unchanged from 2011, which reflects the small size of the government relative to its economy. Also, Lebanon tied with Jordan in third place, ranked behind Bahrain and Kuwait, and came ahead of Saudi Arabia on the Access to Sound Money category, which measures the extent that a nation's currency is sound and holds its value over time. It ranked second in the region on this category in each of 2011 and 2010.

In parallel, Lebanon ranked behind Comoros and ahead of Egypt on the Legal Structure & Security of Property Rights category. This category examines whether laws, primarily dealing with economic matters, are fairly and transparently applied in a timely manner, and whether property rights and contracting are protected by the rule of law.

Also, Lebanon tied with Mauritania, ranked behind Egypt, and came ahead of Syria on the Freedom to Trade Internationally category, which measures the extent to which businesses and individuals can freely trade with their counterparts in other nations. Further, Lebanon tied with Saudi Arabia, ranked behind Oman and ahead of Jordan in terms of Regulation of Credit, Labor and Business. This category measures the extent to which the regulatory burden hinders the formation or advancement of businesses, the free movement of labor, and ability to obtain or advance credit.

The Fraser Institute is a Canada-based independent research organization whose mission is to study and measure the impact of competitive markets and government intervention on the welfare of individuals. The 2012 survey is based on figures for end-2010, while the 2011 survey is based on updated figures for 2009.

### Consumer Price Index up 11% annually in October 2012

The Central Administration of Statistics' Consumer Price Index indicates that inflation increased by 11.1% in October 2012 from October 2011. Prices of housing increased by 44.1%, followed by education (+14.5%), alcoholic beverages & tobacco (+9%), water, electricity, gas & other fuels (+7.7%), recreation & entertainment (+7.1%), food & non-alcoholic beverages (+6.3%), clothing & footwear (+5%), transportation (4.8%), restaurants & hotels (+4.7%), miscellaneous goods & services (+3.7%), furnishings & household equipment (1.5%), and healthcare (+0.5%); while communication prices remained unchanged year-on-year. The increase in annual inflation is mainly attributed to a 44% one-off upward adjustment in the cost of housing, which remained unchanged in the CPI for the past three years. The CAS implemented the correction in housing prices in July 2012.

The Consumer Price Index rose by 1.5% in October 2012 from September 2012. Prices of education increased by 14.5%, followed by recreation & entertainment (+4.3%), food & non-alcoholic beverages and clothing & footwear (+1.2%, each), healthcare (+1.1%), restaurants & hotels (+0.3%), furnishings & household equipment, and water, electricity, gas & other fuels (+0.1%, each); while prices of transportation decreased by 1.3% month-on-month and those of alcoholic beverages & tobacco by 0.2%. Further, the cost of housing, communication and miscellaneous goods & services remained unchanged month-on-month. The Consumer Price Index grew by 10.3% year-on-year in September 2012, 9.3% annually in August 2012 and by 8.9% year-on-year in July 2012.

### Airport passengers up 7% in first 10 months of 2012

Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures, transit) totaled 5,052,059 in the first 10 months of 2012, constituting an increase of 6.6% from the same period last year. The total number of flights reached 53,294 in the first 10 months of 2012, down 0.1% year-on-year. Also, the HIA processed 69,265 metric tons of cargo in the first 10 months of 2012, of which 68,638 tons of freight and 628 tons of mail.

### Index of Arab Economic Freedom for 2012

Country	Score	Rank
Bahrain	8.1	1
UAE	8.1	1
Jordan	7.9	3
Kuwait	7.8	4
<b>Lebanon</b>	<b>7.6</b>	<b>5</b>
Oman	7.6	5
Qatar	7.4	7
Saudi Arabia	7.3	8
Yemen	7.2	9
Comoros	6.8	10
Tunisia	6.8	10
Egypt	6.7	12
Djibouti	6.6	13
Morocco	6.5	14
Syria	6.2	15
Mauritania	6	16
Algeria	5.7	17

Source: Fraser Institute, Byblos Research

### Lebanon's Rankings & Scores by Category

Category	Rank	Score
Size of Government	1	8.8
Access to Sound Money	3	9.0
Regulation of Credit, Labor & Business	3	8.1
Freedom to Trade Internationally	12	7.9
Legal Structure & Security of Property Rights	12	6.1

Source: Fraser Institute, Byblos Research

### Expatriates' remittances to Lebanon at \$7.56bn in 2012, 10th highest among developing economies and second highest in Arab world

The World Bank estimated expatriates' remittances inflows to Lebanon at \$7.58bn in 2012, constituting a marginal decrease of 0.4% from \$7.61bn in 2011. Lebanon, along with Mexico (-0.3%) are the only two countries among the 10 largest recipients of remittances in developing economies to post a contraction in flows this year. In comparison, remittances inflows to Arab countries are projected to increase by 8.3%, flows to developing countries would rise by 6.5%, while remittance inflows to Upper Middle Income Countries (UMICs) are expected to drop by 1.7% in 2012. Remittance inflows to Lebanon have been flat since 2009 compared to a compound annual growth rate of 13.4% during the 2005-08 period

Lebanon is the 16th largest recipient of remittances globally and the 10th largest recipient among developing economies in 2012. Also, Lebanon is the second largest recipient of remittances among 14 Arab countries included in the survey, and is the second largest recipient of remittances among 42 Upper Middle Income Countries (UMICs) covered by the survey.

Globally, Lebanon is expected to receive more remittances than Italy, Indonesia and Poland, and less than the United Kingdom, Vietnam and Belgium this year. It is also forecast to receive more remittances than Indonesia, Morocco and Ukraine and less than Vietnam, Bangladesh and Pakistan among developing economies. Lebanon is the second-biggest recipient of remittances regionally behind Egypt and the second largest among UMICs behind Mexico.

Remittances inflows to Lebanon account for 1.4% of the global inflow of remittances in 2012, relative to 1.5% in 2011, 1.6% in 2010 and 1.7% in 2009; while they represent 1.9% of aggregate remittances to developing economies this year, down from 2% in 2011, 2.2% in 2010 and 2.4% in 2009. They also account for 16% of remittance inflows to Arab countries in 2012 compared to 17.4% in 2011, 18.4% in 2010 and 21.5% in 2009. Further, they represent 9.5% of remittance inflows to UMICs in 2012 relative to 9.4% in 2011, 10% in 2010 and 9.7% in 2009.

In parallel, the World Bank estimated expatriates' remittances to Lebanon to be equivalent to 18% of GDP in 2011, the ninth highest such ratio in the world behind Tajikistan, Liberia, Kyrgyz Republic, Lesotho, Moldova, Nepal, Samoa and Haiti. Further, expatriates' remittances to Lebanon would be equivalent to 18.1% of GDP in 2012, the ninth highest such ratio globally. The World Bank projected remittances inflows to Arab countries at \$47.4bn and to developing countries at \$406bn in 2012. It projected the flow of remittances to the MENA region to increase by 5.5% to \$50bn in 2013, constituting the slowest growth rate among all developing regions. It forecast inflows to developing economies to rise by 7.9% to \$438bn in 2013.

### Hotel occupancy rate at 39% in October

Figures released by STR Global show that the occupancy rate at Beirut hotels reached 38.5% in October 2012, the average daily rate (ADR) stood at \$159.34 and the revenue per available room (RevPAR) amounted to \$61.36. STR said the RevPAR at Beirut hotels regressed by 47.6% annually, the occupancy rates dropped by 37.7% year-on-year, and the ADR fell by 15.9% from the same month last year. It noted that Lebanon posted the steepest year-on-year contraction on all three indicators in the Middle East. It pointed out that the RevPAR posted double-digit increases in the first five months of the year, while they have been on a downward trend since June 2012. The occupancy rate at hotels in the Middle East was 68.6% during the covered month relative to 66.6% in October 2011, the ADR was \$246.44 up 13.3% from \$217.53 in October 2011 and the RevPAR was \$168.95 up 16.7% from \$144.77 in the same month last year. Also, the occupancy rate at hotels in North Africa was 59.4% in October 2012 relative to 53.9% in the same month last year, the ADR was \$93.02, down 0.4% from \$93.37 in the same month last year and the RevPAR was \$55.29, up 9.9% from \$50.29 in October 2011.

### Iran grants \$40m for dam construction

The Lebanese Ministry of Energy announced that its Iranian counterpart will extend a \$40m grant for the construction of a water dam and a sanitary water system in the Batroun area of northern Lebanon. The Energy Ministry said that Tehran will assign an Iranian company for the planning of the dam and will ask a Lebanese firm to be in charge of the construction. It added that the project is expected to be completed within three years from the start of construction operations. International sanctions on Iran prohibit banks, including banks operating in Lebanon, from receiving funds from Iran's financial system.

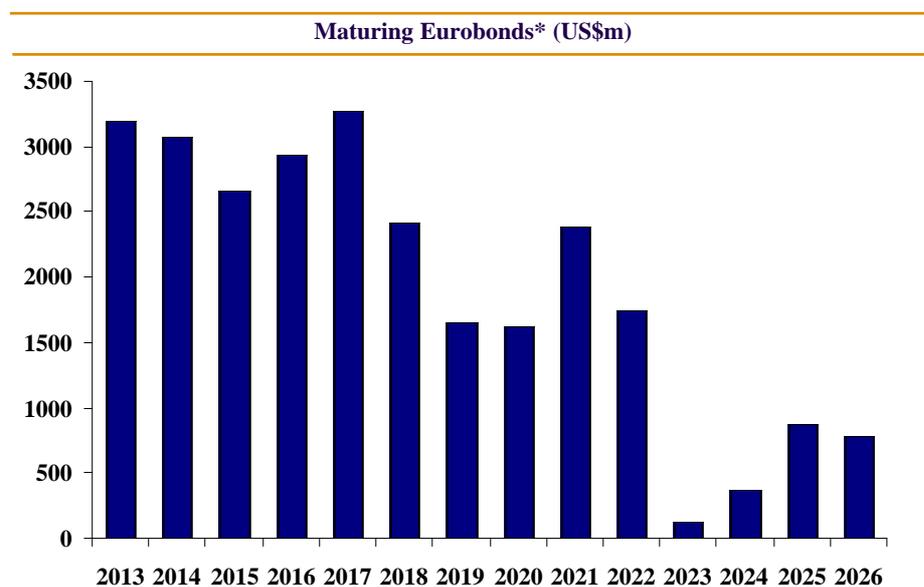
### Top 10 Recipients of Remittance Inflows in Developing Economies in 2012

Country	US\$bn	Growth	
		Rate	% of GDP
India	69.8	10.8%	3.5%
China	66.3	8.0%	0.8%
Philippines	24.3	5.5%	10.1%
Mexico	23.5	-0.3%	2.0%
Nigeria	20.6	0.0%	7.6%
Egypt	18.0	25.5%	7.0%
Pakistan	13.9	13.6%	6.0%
Bangladesh	13.7	13.8%	11.6%
Vietnam	9.1	5.3%	6.6%
<b>Lebanon</b>	<b>7.6</b>	<b>-0.4%</b>	<b>18.1%</b>

Source: World Bank, International Monetary Fund, Byblos Research

### Finance Ministry completes Eurobond exchange

The Lebanese Republic completed successfully a voluntary debt exchange offer for all Eurobonds maturing in 2013 for new and longer-dated notes under its Global Medium-Term Note Program. A total of \$1.52bn in Eurobonds mature in 2013, including an \$875m bond that matures in March 2013 and carries a coupon rate of 9.125%, and a \$650m bond due in June 2013 that has a coupon rate of 8.25%. The Republic issued a \$525m Eurobond that matures in November 2018 and carries a 5.15% fixed coupon rate, of which \$185.3m were issued through the exchange and \$339.7m were newly-issued notes. It also issued a \$500m Eurobond that matures in January 2023 with a coupon of 6%, of which \$384.9m were issued through the exchange and \$115.1m were newly-issued paper. Further, it issued a \$500m Eurobond that matures in November 2027 and carries a coupon of 6.75%, of which \$131.2m were issued through the exchange and \$368.8m were newly-issued bonds. The 6% coupon rate on the January 2023 Eurobond is the lowest-ever interest rate for a Lebanese Eurobond with a maturity of 10 years or longer. In parallel, a total of \$701.4m, or 46%, of the maturing bonds were exchanged. The March 2013 Eurobond had \$391.4m replaced for a 44.7% exchange rate, and the June 2013 Eurobond had \$310m swapped for a 47.7% replacement rate. The debt exchange aims to extend the maturity profile of the public debt, proactively conduct liability management operations, and increase Lebanon's financial flexibility. Byblos Bank sal, BLOM Bank sal and Credit Suisse were the Lead Managers of the exchange.



\*Including coupon maturities

Source: Ministry of Finance, September 2012

### Public-sector salaries and benefits up 5% in first half of 2012

Figures issued by the Ministry of Finance show that salaries, wages and related benefits paid to public-sector employees totaled \$1.3bn in the first half of 2012, constituting an increase of 4.8% from the same period last year. They represented the largest component of total primary spending and accounted for 21% of such expenditures in the first half of 2012. The figures include basic salaries, indemnities, allowances, contributions to the civil servants cooperatives, as well as contributions to other mutual funds providing health insurance for specific categories of civil servants, mainly judges, religious judges, and Parliament employees. The payments exclude retirement and end-of-service indemnities as well as salaries, wages and benefits of employees at public institutions. Salaries and benefits of military personnel totaled \$758.9m and accounted for 59.7% of the total, followed by educational personnel with \$254.1m or 20% of the total, civil staff with \$239.5m (18.8%), and customs employees with \$17.9m (1.4%). Also, the Lebanese Army's salaries totaled \$480.3m in the first half of 2012 and represented 63.3% of military personnel salaries and benefits. It was followed by salaries of the Internal Security Forces with \$207m (27.3%), General Security Forces with \$36.5m (4.8%), and State Security Forces with \$35.2m (4.6%). The ministry attributed the rise to a 17.6% increase in allowances while basic salaries fell by 3% and indemnities remained unchanged. It said basic salaries decreased by \$27.9m to \$888.3m due to a drop of \$72.3m in payments to military personnel, which was partly offset by an increase of \$26.5m in payments to educational personnel and a \$17.2m rise in payments to civilian personnel. It added that allowances increased by \$30.5m due to higher payments to the Army, the Internal Security Forces and the State Security Forces. Salaries, wages and related benefits paid to public sector employees represent the largest component of primary spending and accounted for 33% of such expenditures last year.

### **Value of cleared checks down 2%, returned checks up 7% in first nine months of 2012**

The value of cleared checks reached \$51.7bn in the first nine months of 2012, constituting a decrease of 1.7% from the same period last year and a rise of 1.6% from the first nine months of 2010. The value of cleared checks in Lebanese pounds rose by 3.7% annually to the equivalent of \$11bn in the first nine months of 2012, while the value of cleared checks in US dollars decreased by 2.7% to \$42bn. The dollarization rate of cleared checks decreased to 81.1% from 81.9% in the same period last year. Also, the value of returned checks in domestic and foreign currency amounted to \$1.1bn in the first nine months of 2012, increasing by 6.6% from the same period of 2011 and by 6.9% from the first nine months of 2010. In parallel, the number of cleared checks totaled 9.7 million checks in the first nine months of 2012, unchanged from the same period of 2011. Also, the number of returned checks totaled 211,000 checks and rose by 8.2% in the covered period.

### **Construction permits down 13% in first nine months of 2012**

Figures released by the Association of Engineers of Beirut & Tripoli show that construction permits issued in the first nine months of 2012 reached 10.7 million square meters, constituting a decrease of 13.4% from 12.4 million square meters in the same period last year. Construction permits totaled 1.1 million square meters in September 2012, down 10% year-on-year from 1.2 million square meters in September 2011. In parallel, cement deliveries reached 3.9 million tons in the first nine months of 2012, down 5.8% from the same period last year. Cement deliveries reached 517,000 tons in September 2012, up 11.2% from 465,000 tons in September 2011.

### **Industrial exports down 11% to \$2.2bn in first nine months of 2012**

Figures released by the Ministry of Industry show that industrial exports totaled \$2.2bn in the first nine months of 2012, constituting a decrease of 11.3% from the same period last year. Industrial exports reached \$253.1m in September 2012, up 23.6% from \$204.7 in August 2012 but down 3.8% from \$263.1m in September 2011. Machinery & mechanical appliances accounted for \$364.4m, or 16.6% of total industrial exports in the first nine months of the year, followed by pearls & precious or semi-precious stones with \$351.6m (16%), and base metals & articles of base metals with \$326.1m (14.8%). Arab countries accounted for 53.4% of total industrial exports in September, followed by European countries with 16.2%, Asian countries with 12.5%, and African countries with 11%.

In parallel, industrial imports reached \$220.2m in the first nine months of the year, up 25% from the same period in 2011. Italy was the main source of such imports and accounted for 23.1% of the total. It was followed by China with 17.3% and Germany with 12.5%. Further, imports of industrial equipment and machinery reached \$18.8m in September 2012, increasing by 12.3% year-on-year. China was the main source of imports of industrial equipments, accounting for 22.6% of the total, followed by Italy with 17.8% and Germany with 16.5%.

### **Byblos Bank invites shareholders to an Extraordinary General Assembly**

The Board of Directors of Byblos Bank sal, one of the top three banking and financial services groups in Lebanon, invited its shareholders to an Extraordinary General Assembly to be held on December 12, 2012. The agenda of the meeting includes the verification of the issuance of a 10-year convertible bond of between \$150m and \$300m that will carry an annual coupon rate of 6.5% to be paid quarterly. The bond will be issued before the end of 2012 and will mature in 2022. The bond's issuance is subject to the approval of the Central Bank of Lebanon. Subscribers will have the right to convert their holdings, in whole or in part, into common shares or into global depository receipts (GDRs) during each year of the bond's life. In case investors decide to exercise their option to convert, they will have the right to exchange their notes for Byblos Bank shares at a price of \$2.50 per share. In addition, subscribers will have preemptive rights to subscribe to any capital increase by Byblos Bank as well as to any new issue of convertible loans or convertible bonds by the Bank. The agenda also includes the approval of the Bank's capital increase and conditions. Previous fixed income securities issued by Byblos Bank include a 10-year \$150m subordinated note issued in April 2011, a 10-year \$100m subordinated note issued in July 2002 and a 5-year \$200m convertible bond issued in November 2007. The new bond, which will not be listed on any stock exchange, will replace notes that mature this year.

Byblos Bank sal declared consolidated net profits of \$122.6m in the first nine months of 2012 relative to \$128.1m in the same period last year. Aggregate assets reached \$16.9bn, net loans amounted to \$4.1bn, and customers' deposits totaled \$13.4bn at end-September 2012. The Bank's total equity reached \$1.6bn at end-September 2012, while earnings per common ordinary share were LBP 252.92, equivalent to \$0.17 per share. Also, the Bank's Basel III Capital Adequacy Ratio stood at 13%, one of the highest in the sector, compared to the minimum regulatory requirement of 12% for end-2015. The Bank's liquidity ratio reached 68.8% at end-September 2012. In parallel, net non-performing loans represented 1.7% of net loans, with the coverage ratio reaching 98.6% when accounting for collective provisions. 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 \$382m in first 11 months of 2012**

Figures released by the Beirut Stock Exchange indicate that total trading volume reached 49.6 million shares in the first 11 months of 2012, constituting a decrease of 27% from the same period last year; while aggregate turnover amounted to \$381.9m, down 21% from a turnover of \$481m in the first 11 months of 2011. Market capitalization decreased by 2.7% from end-2011 and by 2.5% from end-November 2011 to \$10bn, of which 75.9% was in banking stocks, 20.2% in real estate stocks, 3.3% in industrial stocks, 0.3% in fund stocks, and 0.2% in trading stocks. The market liquidity ratio was 3.8%, down from 4.7% in the same period last year. Bank stocks accounted for 76.4% of aggregate trading volume in the first 11 months of the year, followed by real estate stocks with 18.4%, trading stocks with 5%, and industrial stocks with 0.2%. In terms of value of shares traded, banking stocks accounted for 66.5% of aggregate value, followed by real estate stocks with 31.6%, trading stocks with 1.5% and industrial stocks with 0.3%. The average daily traded volume for the period was 217,359 shares for an average daily value of \$1.7m. The figures reflect decreases of 29.2% in volume and 23% in value year-on-year.

### **EFG Hermes' net income down 27% to \$18m in first nine months of 2012**

Regional investment bank EFG Hermes declared consolidated net income of EGP107m, or around \$17.8m, in the first nine months of 2012, constituting a decrease of 27.2% from net profits of EGP146.9m in the same period last year. Investment banking operations generated net losses of EGP76m, while commercial banking activity by Crédit Libanais posted net profits of EGP182m in the covered period. Total operating revenues reached EGP471m in the third quarter of 2012, down 1% quarter-on-quarter, up by 19% annually. The firm said commercial banking revenues increased by 15.3% annually to EGP844m, while those from investment banking contracted by 1% year-on-year to EGP537m in the first nine months of 2012. Fees and commissions of the investment bank fell by 7% year-on-year to EGP447m; while revenues generated from capital markets and treasury operations rose by 55% year-on-year to EGP90m in the first nine months of 2012. In parallel, EFG Hermes indicated that the total consolidated assets reached EGP56.4bn, or \$9.4bn at the end of September 2012; relative to EGP52.5bn, or \$8.7bn at end-2011. It added that Crédit Libanais accounted for 63% of consolidated operating revenues in the third quarter of 2012.

EFG Hermes Holding SAE holds a 65% stake in Crédit Libanais sal and has a call option for an additional 25% interest in the bank. Crédit Libanais posted net profits of \$51.2m in the first nine months of 2012, unchanged from the same period of 2011. Its total assets reached \$7.7bn at end-September 2012, a 7.6% increase from end-2011; while its loans stood at \$2.2bn at end-September, up 11.6% from end-2011. The bank's deposits totaled \$6.5bn at end-September, up 6.4% from the end of the preceding year.

### BLC Bank's net profits down 36% to \$24m in first nine months of 2012

BLC Bank sal, one of Lebanon's listed banks, announced unaudited net profits of \$23.7m in the first nine months of 2012, down 36% from \$37m in the same period last year. Net interest income rose by 10.2% to \$76.1m, while net fees & commission income increased by 7.8% to \$13.8m and net interest gains on trading portfolio reached \$4.4m in the first nine months of 2012 compared to \$2.8m in the same period last year. Administrative expenses increased by 21.1% to \$19.6m and staff costs rose by 9.6% to \$36.8m year-on-year. Total assets reached \$4.8bn at end-September 2012, up 9.8% from end-2011; while loans & advances to customers increased by 16.4% to \$1.8bn at end-September 2012. The bank held \$58.6m in assets acquired in satisfaction of loans at end-September 2012, down from \$60.6m at end-2011. Also, customer deposits totaled \$4bn constituting an increase of 11.7% from end-2011. BLC Bank is part of the Fransabank Group.

### Net losses at \$3.1m, loss ratio at 58.2% in 2011 for motor insurance segment

Figures released by the Association of Insurance Companies in Lebanon (ACAL) show that the aggregate net losses from the motor category of insurance companies operating in Lebanon reached \$3.1m in 2011, relative to net losses of \$7.4m in 2010, \$21.5m in 2009 and \$21.5m in 2008. Motor premiums and similar revenues increased by 15.6% to \$301m in 2011 and represented 25.2% of total insurance premiums and similar revenues. Written premiums from the motor category rose by 4.9% to \$327.5bn in 2011 and accounted for 26.4% of the sector's total written premiums, while net premiums from the motor category increased by 4.2% to \$210m and represented 21.6% of the sector's aggregate net premium. Also, net investment income reached \$14.4m last year, down 4.5% from the preceding year. In parallel, the motor segment's paid claims increased by 8.2% to \$163.7m in 2011 and accounted for 26.9% of the insurance sector's aggregate paid claims last year; while overall claim expenses rose by 10.1% to \$175m in 2011. Further, net reinsurance expenses reached \$6.8m in 2011, up 6.2% from 6.4m in 2010; while ceded premiums rose by 1.3% to \$12.9m and paid reinsurance benefits fell by 9.2% to \$5.2m. Also, general insurance expenses increased by 15.5% to \$131.1m in 2011, as brokerage expenses rose by 17.2% to \$85.9m and administration costs increased by 8% to \$38.9m in 2011.

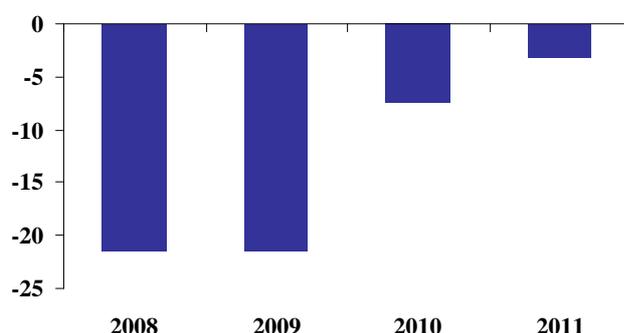
In parallel, the loss ratio of the motor category, or the ratio of claims incurred to earned gross premiums, was 58.2% in 2011 compared to 61.1% in 2010 and to 50.3% for the sector's overall ratio last year. Also, the commission ratio for the motor category, or the ratio of acquisition cost to earned gross premiums, reached 28.4% at end-2011 relative to 26.9% at end-2010 and to 16.6% for the sector last year. Further, the motor segment's reinsurance ratio, or the ratio of net reinsurance income to earned gross premiums, increased to 2.3% in 2011 from 2.5% in 2010, and was above the insurance sector's ratio of 2.2%. The expense ratio, or the ratio of other general expenses to earned gross premiums, stood at 15.2% in 2011 compared to 16.7% in 2010 and to the insurance sector's ratio of 13%. Finally, the combined ratio of the motor category, which is the aggregate ratio of the above four ratios, was 104% in 2011 compared to 107.2% in 2010 and relative to the insurance sector's ratio of 84.9%.

### CMA CGM's net profits at \$310m in first nine months of 2012

The Lebanese-owned and France-based container shipping group CMA CGM declared net profit of \$310m in the first nine months of 2012, compared to profits of \$13.2m in the same period last year. The firm posted net profits of \$371m in the third quarter and \$187m in the second quarter of 2012 relative to net losses of \$248m in the first quarter of the year. Earnings before interest, taxes, depreciation and amortization (EBITDA) totaled \$617m in the third quarter relative to \$460m in the second quarter and a negative EBITDA of \$31m in the first quarter of 2012. The firm generated revenues of \$4.2bn in the third quarter of the year relative to revenues of \$4.1bn in the second quarter and \$3.6bn in the first quarter of the year. It said that volumes carried totaled 2.7 million twenty-foot equivalent unit (TEU) in the third quarter of the year, unchanged from the second quarter and relative to 2.6 million TEU in the first quarter of the year. CMA CGM indicated that its financial restructuring plan generated \$550m in savings in the first nine months of the year.

In parallel, CMA CGM announced that it has reached a deal 'in principle' with its 72 creditor banks over the restructuring of \$4.6bn worth of debt. It said that it will divest some of its assets as part of negotiations with its creditors, including the sale and leaseback of around 100 vessels. Also, the Saadé family agreed in October 2012 to dilute its stake to 70% in a deal to inject \$250m into the group. CMA CGM's total debt stood at \$5.7bn at end-September 2012, including \$1.1bn in outstanding bonds. Rating agencies have downgraded CMA CGM's ratings because of the company's financial difficulties.

### Net Losses of the Motor Insurance Segment (US\$m)



Source: Association of Insurance Companies in Lebanon

### **Investors acquire Khoury Home Group from founding family**

The EuroMena II private equity fund and Syrian investor Mr. Moussa Farhan announced that they have acquired all of the Khoury family's shares in home appliances and retail electronics group Khoury Home Appliances sal. The stake was reportedly sold for about \$36m, as the Khoury Group was valued at between \$50m and \$55m. The initial payment will total \$2.5m, while the remaining amount will be reportedly disbursed over three years at a rate of \$930,000 per month. The Khoury family held a 55% stake in the Khoury Home Group, Mr. Farhan held a 24% stake, and EuroMena II had a 20% share in the venture. As a result of the sale, Mr. Farhan will hold a 70% stake in the Group relative to a 30% share for EuroMena II. The transaction includes all companies of the group and its real estate holdings, in addition to the business itself. Khoury Home is expected to keep its brand name and identity over the near term. Mr. Farhan plans to sell 40% of its stake in two years to individual investors. Also, EuroMena II and Mr. Farhan intend to consolidate their shares in one holding company that will control the majority of the group's shares, with the remaining shares to be held by a number of individual investors. The Beirut-based \$70m EuroMena II fund is managed by the Capital Trust Group and invests in companies across the Middle East and North Africa.

In 2011, EuroMena II invested about \$13.5m through a capital increase in Khoury Home Appliances sal. The capital increase aimed at financing Khoury Home's expansion plans in Lebanon and across the Arab world. Also, Khoury Home acquired Houkayem Brothers sarl in 2011, a direct competitor and one of the largest retail chains of home appliances in Lebanon. Khoury Home Appliances sal inaugurated in June 2002 the first-of-its-kind megastore for home appliances in Lebanon and the largest such retail outlet in the Arab world at the time. The megastore offers under one roof more than 250 brand names covering home appliances such as refrigerators, washers, dryers, air conditioners, and other 'white goods'; as well as audio-visual products such as TVs, video recorders, DVD players, hi-fi systems, personal and portable hi-fi, in-car entertainment products and other 'brown goods'. It also offers kitchens, built-in appliances, tableware, personal computers, photography equipment, mobile phones and accessories. The outlet also extends on-the-spot credit facilities on most purchases.

## 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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