



## LEBANON THIS WEEK

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Kafalat loan guarantees down 16% to \$129m in first 11 months of 2012

Fransabank's net profits down 12% to \$107m in first nine months of 2012

SGBL increases capital by \$325m

IBL's profits rise 21% to \$37m in first nine months of 2012

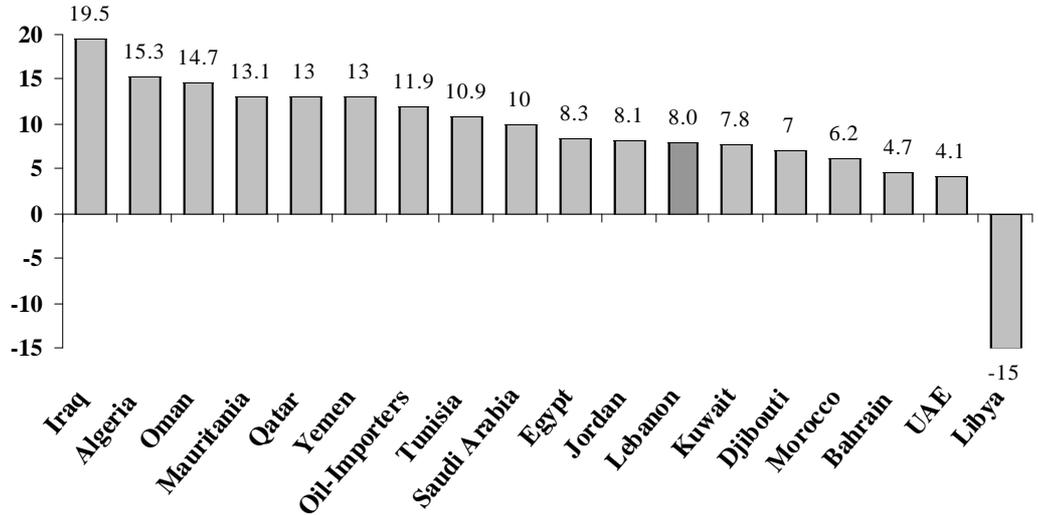
Net profit at \$6.3m, loss ratio at 34.4% in 2011 for cargo insurance segment

HSBC Bank Middle East's ratings affirmed

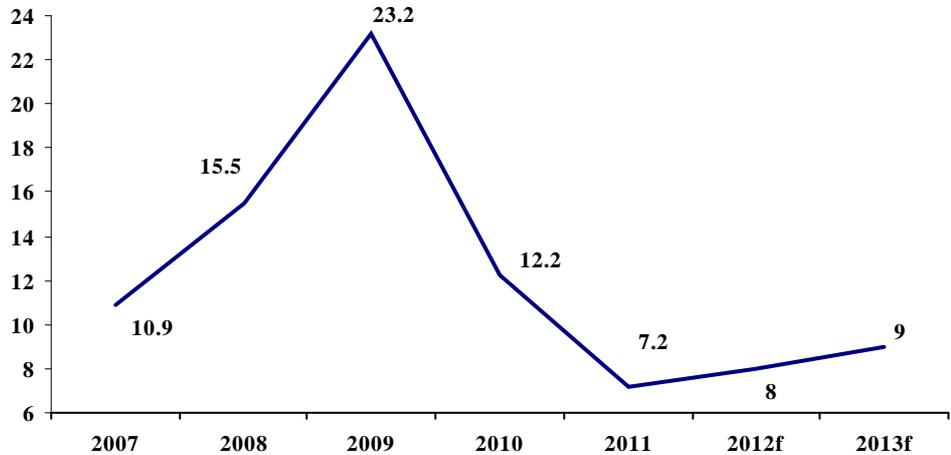
Foreign investments of financial sector at \$5.4bn at end-March 2012, commercial banks account for 75% of debt securities and for 39% of equity investments

### Charts of the Week

Projected Broad Money Growth in Arab Countries in 2012 (%)



Broad Money Growth in Lebanon (%)



Source: International Monetary Fund, Byblos Bank

### Quote to Note

"Lebanese banks will continue to benefit from a stable deposit base, with minor reliance on market funding."

*Moody's Investors Service, on a key strength of the Lebanese banking sector*

### Number of the Week

**6.4%:** Overall salary increase in the Lebanese private sector in 2012, according to global human resource consultants Aon Hewitt

## 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"	13.10	6.85	167,475	12.59%
Solidere "B"	13.11	6.59	74,846	8.19%
Byblos Common	1.58	4.64	238,434	5.46%
Byblos Pref. 08	101.70	0.00	0	1.96%
Byblos Pref. 09	103.00	1.28	102	1.98%
BLOM GDR	7.80	0.00	88,655	5.54%
BLOM Listed	7.63	3.11	1,500	15.77%
Audi GDR	6.00	0.00	33,140	5.88%
Audi Listed	5.98	6.79	36,696	20.11%
HOLCIM	15.00	(1.64)	600	2.81%

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	103.69	1.25
Apr. 2014	7.375	107.31	1.74
Jan. 2015	5.875	104.50	3.60
Apr. 2015	10.00	114.25	3.62
Jan. 2016	8.500	112.00	4.30
Mar. 2017	9.000	116.50	4.67
Nov. 2018	5.150	100.50	5.05
Apr. 2021	8.250	115.70	5.84
Nov. 2026	6.600	101.50	6.44

Source: Byblos Bank Capital Markets

	<b>Dec 10-14</b>	<b>Dec 3-7</b>	<b>% Change</b>	<b>Nov 2012</b>	<b>Nov 2011</b>	<b>% Change</b>
<b>Total Shares Traded</b>	659,793	2,657,947	(75.18)	1,823,939	1,749,640	4.25
<b>Total Value Traded</b>	\$5,255,038	\$10,300,623	(48.98)	\$17,978,278	\$18,185,633	(1.14)
<b>Market Capitalization</b>	\$10.40bn	\$10.05bn	3.53	\$10.01bn	\$10.26bn	(2.47)

Source: Beirut Stock Exchange (BSE)



### Real GDP growth rate revised downwards to 0.6% for 2012, economic prospects for 2013 depend on security conditions, effective governance and reforms

The Institute of International Finance revised downwards its projection for real GDP growth in Lebanon to 0.6% for 2012 from a September forecast of 1.2%, and compared to an estimated growth rate of 1.8% in 2011 and 7% in 2010. It attributed the sharp slowdown in economic activity to the rise in domestic political tensions and the deterioration in security conditions in the country, which adversely affected domestic and foreign investments, exports, tourism receipts and FDI inflows. Further, it projected real GDP growth to range between 1% and 3.5% in 2013 depending on the unfolding scenarios.

The IIF's first scenario projects economic growth at 3.5% in 2013 in case the political class reaches consensus on an effective Cabinet, Lebanon's domestic security improves, and structural reforms are implemented. Under this scenario, it assumes that the cost of the across-the-board adjustment to the salary scale of public-sector employees would total \$1bn, equivalent to 2.5% of GDP, instead of the planned \$1.5bn; and that authorities would significantly improve tax collection and compliance. It said that a stable political environment, along with the implementation of structural reforms that include addressing the problems of the electricity sector, would move the economy to a sustainable and high growth path beyond 2013 and would help lower the public debt to more sustainable levels. It noted that achieving fiscal sustainability would require the implementation of an appropriate tax policy and of tax administration reforms, among others. It added that the composition of public spending would have to shift towards growth-enhancing capital investment, supported by improvement in public financial management. Under this scenario, it forecast Lebanon's fiscal deficit to widen to 8.9% of GDP in 2013 compared to an estimated deficit of 7.4% of GDP in 2012, and for the debt level to decline to 133% of GDP from an estimated 137% of GDP in 2012.

The IIF's second scenario projects real GDP growth at 1% in 2013 on the assumption that domestic security conditions would not improve and that the cost of the across-the-board adjustment to the salary scale of public-sector employees would total \$1.5bn. The scenario also assumes that the government fails to implement near- and medium-term fiscal consolidation, which would worsen existing debt sustainability concerns. Under this scenario, it forecast the fiscal deficit to significantly widen to 11.4% of GDP and for the debt level to increase to 141% of GDP in 2013.

The IIF indicated that the two scenarios assume that the government will implement the adjustment to the salary scale of public-sector employees, which would require the government to raise additional revenues to finance the planned increase. It noted that raising taxes in the context of weak economic activity would not be appropriate. Instead, it suggested for authorities to improve tax collection and fight tax evasion; raise the valued-added tax on selected goods such as cars and luxury items; impose fines on illegally-built seaside properties; impose a capital gains tax on real estate transactions; and raise taxes on tobacco products. Further, the two scenarios also assume a peak in the transfers to Electricité du Liban (EdL) of \$2.4bn in 2012, equivalent to 5.8% of GDP and 18% of projected expenditures. It noted that transfers to EdL can be reduced through improvement in fees collection and a gradual increase in electricity tariffs to cost-recovery levels, as the current tariffs are based on low global oil prices.

The IIF said that Lebanon continues to face serious and long-term vulnerabilities, given its high debt-to-GDP ratio. It noted that the large financing requirements of the country's wide external current account and fiscal deficits lead to significant exposure to market conditions. It added that the government is financing its debt through bank deposits from residents and the Lebanese Diaspora, and from long-term foreign investors. It highlighted the need to maintain sufficient inflows of foreign capital, mainly FDI inflows and non-resident deposits, to finance the widening twin deficits. It added that this would require improvement in the political environment and the domestic security situation.



Source: Institute of International Finance

	Main Economic Indicators				
	2010	2011	2012	2013	
				Scen. A	Scen. B
Real GDP growth (%)	7.0	1.8	0.6	3.5	1.0
CPI inflation (average, %)	5.3	6.0	5.4	5.6	6.3
FDI (% of GDP)	11.5	8.8	2.6	4.7	2.4
Current account balance (% of GDP)	(20.1)	(13.1)	(16.7)	(14.8)	(16.2)
Fiscal balance (% of GDP)	(5.7)	(6.0)	(7.4)	(8.9)	(11.4)
Primary balance (% of GDP)	5.5	4.2	2.1	0.7	(1.8)
Government debt (% of GDP)	142	136	137	133	141

Source: Institute of International Finance, December 2012

### Policy stalemate and weak growth to aggravate public finance vulnerabilities

Barclays Capital indicated that spillovers from Syria continue to weigh on economic activity in Lebanon and to aggravate the policy stalemate and political divisions in the country. It said that high frequency indicators, such as the Coincident Indicator, tourist arrivals, as well as the number of construction permits and cement deliveries, reflect weakening overall economic activity. It added that domestic consumption and investment remain subdued, as reflected by a modest rise in credit growth and a contraction in the rate of import growth. It said that credit growth was almost flat in the third quarter of the year compared with the previous quarter, but declined significantly from the third quarter of 2011. It noted that the balance-of-payments deficit is widening and that the primary fiscal surplus is eroding, which is limiting the margin for policy maneuvering. It said that net capital inflows are increasingly falling short of financing the trade deficit.

In parallel, Barclays Capital considered that weak growth and policy deadlock continue to weigh on public finances. It noted that subdued revenue growth and increasing spending led to a significant widening in the budget deficit so far this year. It added that the primary surplus is declining, which would significantly increase vulnerabilities and reverse the public debt's dynamics. It pointed out that the estimated \$1.5bn cost of the adjustment to the salary scale of public-sector employees represents about 40% of the 2011 fiscal deficit. It cautioned that the implementation of this adjustment would increase the budget's rigidity and would weaken fiscal sustainability, even if payments were disbursed over a four-year period.

Barclays Capital said that Lebanon lacks, for the seventh consecutive year, a proper policy framework to guide fiscal and economic policies over the medium-term. It noted that the government has not presented yet the draft 2013 budget for discussion, and that it is not likely to do so in the coming weeks. It added that this would lead to the extension into 2013 of the current fiscal performance pattern, which has been characterized by subdued increase in revenues and accelerating public spending, largely in the form of current expenditures. It expected this trend to widen the fiscal deficit to at least 8% of GDP in 2013 relative to an estimated deficit of 7.5% of GDP this year. It forecast the public debt level to stabilize at around 135.5% of GDP in 2013 in view of the anticipated erosion of the primary surpluses and especially if the public-sector salary adjustment is enacted.

Key Macroeconomic Indicators				
	2010	2011	2012F	2013F
<b>Activity</b>				
Real GDP (% yoy)	7.0	1.5	1.8	2.5
CPI (% average)	4.5	5.0	6.1	5.8
<b>External Sector</b>				
Current account balance (\$bn)	(3.6)	(5.5)	(6.9)	(7.0)
Current account balance (% of GDP)	(9.6)	(14)	(16.5)	(15.8)
Net FDI (\$bn)	3.8	3.4	2.3	2.5
Gross external debt (% of GDP)	161.6	158.8	160.0	162.6
Foreign reserves (\$bn)	31.5	33.7	35.0	36.0
<b>Public Sector</b>				
Fiscal balance (% of GDP)	(7.7)	(6.1)	(7.5)	(8.0)
Primary balance (including grants) (% of GDP)	2.8	3.4	1.5	0.6
Gross public debt (% of GDP)	141.7	137.4	135.8	135.5

Source: Barclays Capital, December 2012

### Electricity-generating ships cleared to reach Lebanon next year

The Ministry of Energy & Water announced that it has made a down payment to Turkish firm Karadeniz for the leasing of two electricity-generating ships, as per the signed contracts between the two sides. It expected the first ship to arrive in four months and for the second ship to arrive in six months. The ships were supposed to arrive in November this year and March of next year, but their respective arrivals have been delayed because the Lebanese government did not disburse the down payment at the time. The ministry previously announced that the \$360m agreement will provide Lebanon with electricity supply of 270 megawatts through two ships. However, the new supply would not increase electricity generation in the country, as it aims to offset the planned suspension of production at existing power plants during their rehabilitation. Originally, the ships were supposed to reach Lebanon ahead of the summer 2012 season in order to alleviate increased demand for electricity during the summer months. The ministry added that the electricity-generating ships would produce electricity at a rate of \$0.06 per kilowatt hour, significantly lower than the \$0.17 per kilowatt hour produced locally by Electricité du Liban (EdL). Further, the ministry claimed that the agreement would allow EdL to generate fuel savings ranging from \$30m to \$130m a year. Lebanon's current electricity production stands at around 1,500 megawatts annually, while demand exceeds 2,400 megawatts per year.

### Occupancy at Beirut hotels at 56%, room yields down 10% in first 10 months of 2012

Ernst & Young's benchmark survey of the Middle East hotel sector indicated that the average occupancy rate at hotels in Beirut was 56% in the first 10 months of 2012, unchanged from the same period last year. The occupancy rate at Beirut hotels was the fifth lowest among 21 markets in the region, while it was the seventh lowest in the same period last year. Occupancy rates at Beirut hotels were 60% in January, 64% in February, 74% in March, 66% in April, 67% in May, 58% in June, 53% in July, 34% in August 2012, 46% in September and 39% in October 2012. compared to 44% in January, 42% in February, 53% in March, 61% in April, 58% in May, 62% in June, 67% in July, 31% in August, 76% in September and 65% in October 2011.

The survey said that the average rate per room at Beirut hotels was \$198 in the first 10 months of 2012, ranking the capital's hotels as the 11th most expensive in the region. The average rate per room at Beirut hotels decreased by 9.7% year-on-year, and posted the fourth steepest decrease among all markets in the region. The average rate per room in Beirut came above the regional average of \$186.1, which increased by a marginal 0.6% from the same period last year.

Further, revenues per available room (RevPAR) were \$112 in Beirut in the 10 months of 2012, down from \$124 in the same period last year, and ranking it in 12th place in the region. Beirut's RevPAR fell by 9.6% year-on-year, compared to an increase of 6.6% across the region, and posted the second steepest decrease in the region. Beirut posted RevPARs of \$139 in January, \$131 in February, \$149 in March, \$139 in April, \$134 in May, \$119 in June, \$103 in July, \$62 in August, \$79 in September and \$68 in October 2012, compared to \$99 in January, \$84 in February, \$107 in March, \$103 in April, \$117 in May, \$142 in June, \$184 in July, \$63 in August, \$187 in September and \$134 in October 2011. Dubai-Beach posted the highest average room rate in the region at \$339 and the highest RevPAR at \$264, while Dubai-Apartments posted the highest occupancy rate at 86% in the first 10 months of 2012.

### Central Bank to submit framework for new subsidized loans by year-end

In the monthly meeting between the Central Bank and the Association of Banks in Lebanon (ABL), Governor Riad Salamé indicated the need to re-launch subsidized loans given their importance in stimulating economic activity and given that banks have lent all their freed reserve requirements. He noted that the Central Bank is studying a new framework for subsidized loans based on providing credit lines to banks. He added that the framework will be submitted to the Central Bank's Central Council for approval before the end of the year. Further, Governor Salamé stated that banks took adequate provisions related to their exposure to the Syrian market and to Syrian clients, and that the banking sector has overcome the pressures to comply with international sanctions on certain countries. Also, he noted that the Central Bank did not inject foreign currency in the exchange market since August 2011. He highlighted the need to maintain interest rates at their current levels in order to attract and maintain deposits at banks, and due to their positive effect on liquidity. He attributed the \$2bn deficit in the balance of payments to the increase in imports that might be related to re-export activity to Syria. He added that capital inflows that would cover the re-export activity are not reflected in the balance of payments.

In parallel, he attributed the Central Bank's decision to reduce the limit of total credits granted by a bank to its board members, largest shareholders and their families from 5% to 2% of its shareholders' equity to the need to increase governance and transparency, as well as to unacceptable excesses at some banks. He added that the limit will be reduced to 1% of shareholders' equity in case a bank does not comply with the new measures. He also stressed that financial collateral and guarantees submitted by related parties should not bear interest rates.

Hotel Performance in First 10 Months of 2012			
	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Dubai Apartments	86	104	12.8
Jeddah	81	197	20.7
Makkah	80	253	13.3
Dubai City	80	154	13.5
Dubai Overall	79	192	12.0
Dubai Beach	77	264	7.7
Abu Dhabi	75	138	(10.6)
Amman	73	109	34.9
Hurghada	71	24	3.7
Madina	70	161	23.6
Sharm Shaikh	68	33	17.9
Muscat	66	134	(1.5)
Al Ain	63	88	(4.0)
Doha	60	155	(6.3)
Cairo Pyramids	58	69	3.3
Riyadh	58	129	(3.4)
<b>Beirut</b>	<b>56</b>	<b>112</b>	<b>(9.6)</b>
Kuwait	51	145	(4.3)
Cairo Overall	41	42	3.1
Cairo City	39	38	3.1
Manama	38	82	22.7

Source: Ernst & Young, Byblos Research

### **Public-sector salaries and benefits up 3% in first seven months of 2012**

Figures issued by the Ministry of Finance show that salaries, wages and related benefits paid to public-sector employees totaled \$1.47bn in the first seven months of 2012, constituting an increase of 2.6% from the same period last year. They represented the largest component of total primary spending and accounted for 20% of such expenditures in the first seven months 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 \$886.9m and accounted for 60.5% of the total, followed by educational personnel with \$286.6m or 19.5% of the total, civil staff with \$272.6m (18.6%), and customs employees with \$20.6m (1.4%). Also, the Lebanese Army's salaries totaled \$565.2m in the first seven months of 2012 and represented 63.7% of military personnel salaries and benefits. It was followed by salaries of the Internal Security Forces with \$207m (27.2%), General Security Forces with \$42.5m (4.8%), and State Security Forces with \$37.8m (4.3%). The ministry attributed the rise to an 18.1% increase in allowances, while basic salaries fell by 3.6% and indemnities declined by 0.9%. It said basic salaries decreased by \$38.5m to \$1bn due to a drop of \$67.7m in payments to military personnel, which was partly offset by an increase of \$18.6m in payments to civilian personnel and a \$11.3m rise in payments to educational personnel. It added that allowances increased by \$37.1m 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.

### **Treasury transfers to Electricité du Liban up 63% in first seven months of 2012**

Figures released by the Finance Ministry show that Treasury transfers to Electricité du Liban totaled \$1.24bn in the first seven months of 2012, constituting an increase of 63% from \$759m in the same period last year. The ministry said that reimbursements to the Kuwait Petroleum Corporation (KPC) and to Algerian energy conglomerate Sonatrach totaled \$1.2bn, or 96.6% of transfers year-to-July; while EdL's debt servicing represented the remaining \$42m or 3.4%. It attributed the increase to a rise of \$512.8m, or 75%, in payments to KPC and Sonatrach during the covered period, and to an increase in debt servicing by \$2m, or 5% year-on-year. It said that the rise in payments to KPC and Sonatrach reflects a significant increase in the average international oil price according to which the 2012 payments were made. It added that the average oil price for the 2012 payments is 35% higher than the corresponding average price in 2011. As such, it noted the amount of the reimbursements to KPC and Sonatrach implies that any fluctuations in international oil prices are bound to have an impact on Treasury transfers to EdL. It pointed out that EdL contributed just 2.5% of repayments to the two oil suppliers during the covered period compared to 8.5% in same period last year. EdL transfers accounted for 24.5% of primary expenditures in the first seven months of 2012, constituting the highest share of primary spending in the last three years, and compared to 18% in the same period of 2011. EdL transfers constitute the third largest expenditures item after debt servicing and salaries & wages in overall fiscal spending.

### **Central Bank extends deadline for money dealers to raise their capital**

The Central Bank issued Intermediate Circular 309 related to Basic Circular 4, extending the deadline for the increase in the capital of money dealers from the initial date of December 7, 2012 till the end of June 2013. Basic Circular 4 dated December 7, 2011 stipulated that "Category A" money dealer institutions have to raise their capital to LBP750m from LBP250m; "Category B" firms established after December 7 2011, have to increase their capital to LBP500m from LBP100m; and Category B" firms established before December 7 2011, have to increase their capital to LBP250m from LBP100m. It said that "Category B" firms established before December 7 2011 are not allowed to buy and sell coins, gold bullions and traveler checks unless their capital exceeded LBP500m, and noted that real estate classified under fixed assets should not exceed 50% of their capital. The Central Bank defined money dealer institutions in Category A as firms that are allowed to deal with cash, transfers, checks, traveler checks and precious metals. It defines Category B money dealers as firms that are allowed to deal with in cash and traveler checks of up to \$10,000, uncollected traveler checks, and precious metal bars not exceeding 1,000 grams each. There were 393 money dealers in Lebanon at the end of 2009, according to the latest available figures from the Central Bank. Last year, the Central Bank issued a set of circulars about the operations of money dealers in Lebanon in order to deter their usage for money laundering and terrorism financing.

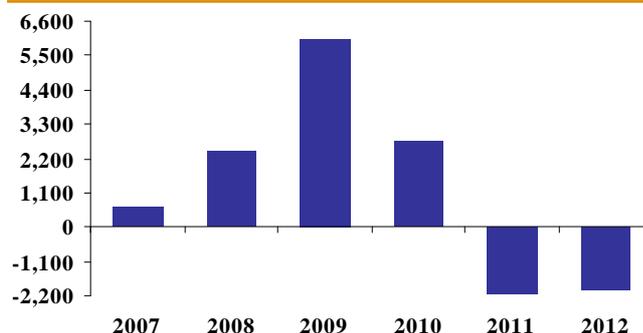
### **Launch of transparency observatory**

The Ministry of Tourism launched the Lebanese Observatory for Transparency that aims to fight corruption, raise the level of transparency, and identify achievements and practices in transparency that would constitute a role model for the community. It said that the observatory hopes to attract Lebanon's youth to discuss and debate methods and policies that would help fight corruption and, therefore, raise confidence in the country's institutions and values. It noted that the direct cost of corruption in Lebanon reaches billions of dollars annually, and that the country's performance on corruption indicators is among the lowest globally. It pointed out that transparency requires adopting wise and transparent practices at the governmental level, as well as in the public and private sectors. It added that ministries and public institutions should be held accountable for their actions. The World Bank's Control of Corruption indicator, which is a measure of a country's level of corruption, ranks Lebanon in 171st place globally and in 15th place among 20 Arab countries. Further, the World Justice Project's Absence of Corruption Factor ranks Lebanon in 62nd place among 97 countries globally and in sixth place among seven Arab countries. Also, the World Economic Forum's Global Competitiveness Index ranks Lebanon in 123rd place among 144 countries worldwide on the diversion of public fund to companies, individuals, or groups due to corruption; and in 132nd place globally on irregular payments and bribes connected with imports and exports, public utilities, annual tax payments, awarding of public contracts and licenses, and obtaining favorable judicial decisions.

### Balance of payments posts deficit of \$2bn in first 10 months of 2012

Central Bank figures show that Lebanon's balance of payments posted a deficit of \$2.03bn in the first 10 months of 2012 compared to a deficit of \$2.13bn in the same period last year. The balance of payments posted a deficit of \$97m in October compared to a deficit of \$92.2m in September 2012 and a deficit of \$589.8m in October 2011. The October 2012 deficit was caused by a deficit of \$154m in the net foreign assets of banks and financial institutions and was partly offset by a surplus of \$57m in those of the Central Bank. The cumulative deficit over the first 10 months of 2012 was caused by a surplus of \$824.9m in the Central Bank's net foreign assets and a deficit of \$2.86bn in those of banks and financial institutions. The balance of payments posted a deficit of \$2bn in 2011 and surpluses of \$3.3bn in 2010, \$7.9bn in 2009 and \$3.5bn in 2008.

Balance of Payments\* (US\$m)



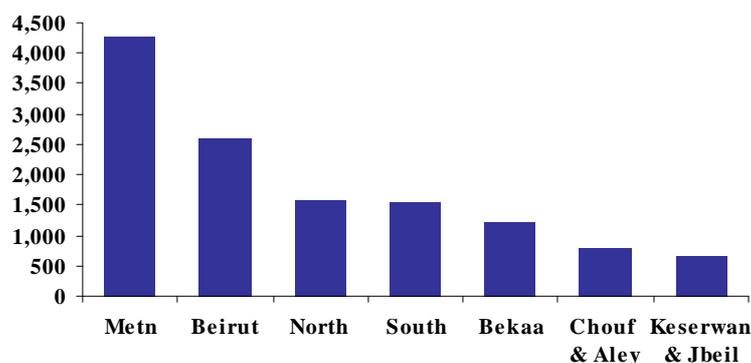
\* in the first 10 months of each year

Source: Central Bank of Lebanon

### Lebanon has 164 hospitals with 15,342 beds, 82% of hospitals and beds are private

Figures compiled by Université Saint-Joseph, the World Health Organization and the Ministry of Public Health show that there were 164 private and public hospitals in Lebanon in 2011, that include 135 private hospitals, 28 public ones and a single military hospital. Further, 116 private hospitals accommodate patients for short- and medium-term stays and 19 private hospitals admit them for long-term stays, while all public hospitals admit patients for short- and medium-term stays. Also, Lebanese hospitals had a total of 15,342 beds at the end of 2011, including 12,648 beds, or 82.4% of the total, at private hospitals; 2,550 beds (16.6% of the total) at public hospitals; and 144 beds (1% of the total) at the military hospital. Further, there were 54 private hospitals in Lebanon with 50 beds or less, 45 private hospitals that have between 51 and 100 beds; 26 private hospitals that have between 101 and 200 beds; and 10 private hospitals that have more than 200 beds. In parallel, there were 13 university hospitals in Lebanon last year, of which 12 were private and one was public.

Distribution of Beds at Private Hospitals per Region



Source: Université Saint-Joseph, World Health Organization, the Ministry of Public Health

The geographical distribution of hospitals shows that the Metn area had 44 private and public hospitals, and accounted for 26.8% of total hospitals in Lebanon last year. It was followed by the North with 28 hospitals (17.1%), the Bekaa with 24 hospitals (14.6%), Beirut with 22 hospitals (13.4%), the South with 20 hospitals (12.2%), the Chouf and Aley areas with 12 hospitals (7.3%), the Keserwan and Jbeil region with 9 hospitals (5.5%), and Nabatieh with 5 hospitals (3%). Further, Metn hospitals had 4,686 beds or 30.5% of total hospital beds in Lebanon in 2011, followed by Beirut with 3,350 beds (21.8%), the North with 2,027 beds (13.2%), the South with 1,766 (11.5%), the Bekaa with 1,701 beds (11.1%), the Chouf and Aley areas with 782 beds (5.1%), the Keserwan and Jbeil region with 665 beds (4.3%) and Nabatieh with 365 beds (2.4%).

Further, the Metn area had 38 private hospitals with 4,256 beds and 6 public hospitals with 430 beds. It was followed by the North with 21 private hospitals (1,572 beds) and 7 public hospitals (455 beds), Beirut with 19 private hospitals (2,611 beds) and 2 public hospitals (595 beds), the Bekaa with 19 private hospitals (1,231 beds) and 5 public hospitals (470 beds) and the South with 17 private hospitals (1,531 beds) and 3 public hospitals (235 beds). All hospitals in the Chouf and Aley regions are private and those in Nabatieh are public.

### **Byblos Bank General Assembly approves issuance of convertible bond**

The Extraordinary General Assembly of Byblos Bank sal, held on December 12, 2012, approved the issuance of a 10-year convertible bond of up to \$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. 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. Also, the Assembly approved the Bank's capital increase in several stages. In addition, subscribers to the bond will have pre-emptive 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 Bank will use the funds to maintain high solvency ratios in accordance with Basel III requirements, to obtain long-term funding at acceptable rates, to replace notes that mature this year, and to finance its growth in domestic and foreign markets. Following the issuance, the Bank's Tier One and Tier Two capital will reach \$1.855 billion.

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 has 569,515,040 shares that include 565,515,040 Common Shares, 2 million Series 2008 Preferred Shares and 2 million Series 2009 Preferred Shares.

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. 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. 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.

### **Kafalat loan guarantees down 16% to \$129m in first 11 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 \$128.5m in the first eleven months of 2012, down 15.5% from \$151.9m in the same period last year. The number of loan guarantees totaled 953 in the first eleven months of 2012 compared to 1182 in the same period last year. The average loan size reached \$134,786 compared to \$128,553 in the first eleven months of 2011. Mount Lebanon accounted for 41.3% of guarantees, followed by the South & Nabatieh with 22.3%, the Bekaa with 16.9%, the North with 13.4%, and Beirut with 6.2%. The agricultural sector accounted for 38.9% of total guarantees, followed by industry with 37.4%, tourism with 17.9%, handicraft with 4.5%, and specialized technologies with 1.4%. 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. It also guarantees up to 90% of the loan amount for innovative start ups and a similar percentage of the interest that accrues during the grace period.

### **Fransabank's net profits down 12% to \$107m in first nine months of 2012**

Fransabank sal, one of Lebanon's top 10 banks, announced unaudited consolidated net profits of \$107.1m in the first nine months of 2012, down 12.4% from the same period last year. Net operating income grew by 4.2% year-on-year to \$306.6m, with net interest income increasing by 22% to \$245m and net fees & commissions receipts decreasing by 2.9% to \$41.3m year-on-year. Non-interest income accounted for 22% of total income, down from 27.8% in the first nine months of 2011; with net fees & commissions accounting for 56.2% of non-interest earnings. Further, the bank's interest margin was 2.5% in the first nine months of 2012 relative to 2.48% in the same period of 2011, while its net spread rose marginally to 2.35% from 2.33% in the same period last year. Total operating expenditures increased by 10.2% to \$177.1m, with staff expenses increasing by 9.2% to \$111m. Also, the bank's return on average assets reached 0.96% in September 2012 on an annualized basis, relative to 1.24% a year earlier; while its return on average equity was 10.7% on an annualized basis relative to 12.8% in September 2011. The cost-to-income ratio increased to 53% in the covered period from 50.4% in the same period last year. In parallel, total assets reached \$15.2bn at end-September 2012, constituting a 5.3% rise from end-2011 and a 7.7% increase from a year earlier, while loans & advances to customers grew by 7% from end-2011 and by 7.7% year-on-year to \$4.6bn. Also, customer deposits totaled \$12.5bn at end-September, constituting an increase of 8.3% from end-2011 and a rise of 8.8% from the same period last year. The loans-to-deposits ratio regressed to 37.2% at end-September 2012 from 37.6% a year earlier.

### **SGBL increases capital by \$325m**

Société Générale de Banque au Liban (SGBL) sal announced that it has raised its capital by \$325m in order to expand and reinforce its domestic and regional operations. It said that the capital increase was injected using three different methods. The first \$100m capital injection, or 30.8% of the total, consisted of an increase in the existing shareholders' holdings without any contributions from new subscribers. The second \$100m, or 30.8% of the aggregate injection, was capitalized from this year's retained earnings based on estimated profits of \$115m for 2012. Further, the final \$125m, or 38.4% of the increase, came through the issuance of preferred shares with an annual yield of 7% per share. SGBL announced unaudited consolidated net profits of \$90.2m in the first nine months of 2012, up 29.8% from the same period last year. Total assets reached \$10.6bn at end-September 2012 unchanged from end-2011, while loans & advances to customers were flat at \$2.9bn during the same period. Also, customer deposits totaled \$8.5bn at end-September, constituting a drop of 0.6% from end-2011.

### **IBL's profits rise 21% to \$37m in first nine months of 2012**

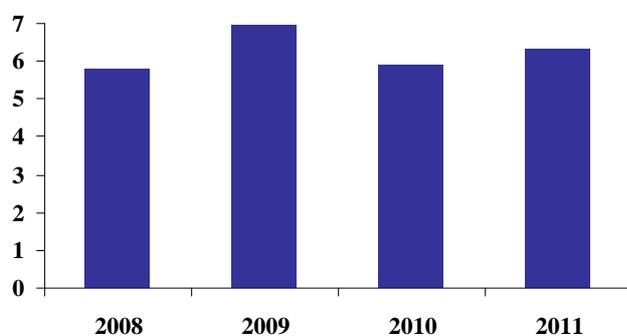
IBL Bank sal, one of Lebanon's top 12 banks, announced unaudited consolidated net profits of \$36.5m in the first nine months of 2012, up 21.3% from the same period last year. Net operating income rose by 16.7% year-on-year to \$64.7m, with net interest income increasing by 141.7% to \$47.8m and net fees & commissions receipts rising by 13% to \$3.4m. Non-interest income accounted for 29.4% of total income, down from 65.3% in the first nine months of 2011, with net fees & commissions representing 17% of non-interest earnings. Further, the bank's interest margin was 1.61% in the first nine months of 2012 relative to 0.79% in the same period last year; while its net spread increased to 1.59% from 0.78% in the first nine months of 2011. Total operating expenditures increased by 15.7% to \$23.9m, with staff expenses growing by 17.4% to \$14m. Also, the bank's return on average assets reached 1.21% in September 2012 on an annualized basis, relative to 1.19% a year earlier; while its return on average equity was 17.3% relative to 16.5% in September 2011. The cost-to-income ratio regressed to 35.3% in the covered period from 36.3% in the same period last year. In parallel, total assets reached \$4.2bn at end-September 2012, constituting an 11% rise from end-2011 and a 19.7% increase from a year earlier; while loans & advances to customers increased by 37.1% from end-2011 and by 45.7% year-on-year to \$847.7m. Also, customer deposits totaled \$3.8bn at end-September, growing by 9.7% from end-2011 and by 18.9% from a year earlier. The loans-to-deposits ratio increased to 22.8% at end-September 2012 from 18.75% a year earlier.

### **Net profit at \$6.3m, loss ratio at 34.4% in 2011 for cargo insurance segment**

Figures released by the Association of Insurance Companies in Lebanon (ACAL) show that the aggregate net profit from the cargo category of insurance companies operating in Lebanon reached \$6.3m in 2011, relative to net profits of \$5.9m in 2010, \$6.9m in 2009 and \$5.8m in 2008. Cargo premiums and similar revenues decreased by 0.3% to \$31.3m in 2011 and represented 2.6% of total insurance premiums and similar revenues. Written premiums from the cargo category declined by 5.2% to \$29.8m in 2011 and accounted for 2.4% of the sector's total written premiums, while net premiums from the cargo category decreased by 3.6% to \$21.4m and represented 2.2% of the sector's aggregate net premium. Also, net investment income reached \$1.2m last year, down 14% from the preceding year. In parallel, the cargo segment's paid claims decreased by 38.1% to \$13.7m in 2011 and accounted for 2.3% of the insurance sector's aggregate paid claims last year; while overall claim expenses dropped by 58.8% to \$10.8m in 2011. Further, net reinsurance expense declined by 139.6% to \$4.2m in 2011; while ceded premiums rose by 2.7% to \$17.1m and paid reinsurance benefits fell by 41.3% to \$11.4m. Also, general insurance expenses decreased by 0.8% to \$10.6m in 2011, as brokerage expenses dropped by 8.7% to \$5m and administration costs decreased by 0.1% to \$4m in 2011.

In parallel, the loss ratio of the cargo category, or the ratio of claims incurred to earned gross premiums, was 34.4% in 2011 compared to 83.1% in 2010 and to 53.1% for the sector's overall ratio last year. Also, the commission ratio for the cargo category, or the ratio of acquisition cost to earned gross premiums, reached 17.8% at end-2011 relative to 17.9% at end-2010 and to 16.6% for the sector last year. Further, the cargo segment's reinsurance ratio, or the ratio of net reinsurance income to earned gross premiums, decreased to 13.3% in 2011 from 33.6% in 2010, and was significantly higher than the insurance sector's ratio of 2.2%. The expense ratio, or the ratio of other general expenses to earned gross premiums, slightly decreased to 16% in 2011 and was above the insurance sector's ratio of 13%. Finally, the combined ratio of the cargo category, which is the aggregate ratio of the above four ratios, was 81.5% in 2011 compared to 83.5% in 2010 and relative to the insurance sector's ratio of 85%.

### **Net Profits of the Cargo Insurance Segment (US\$m)**



Source: Association of Insurance Companies in Lebanon

### HSBC Bank Middle East's ratings affirmed

Fitch Ratings affirmed HSBC Bank Middle East's (HBME) long-term Issuer Default Rating (IDR) at 'AA-' with a 'stable' outlook. It also affirmed HBME's short-term IDR at 'F1' and Viability Rating (VR) at 'bbb'. It said that the bank's ratings reflect the extremely high probability of support that would be provided by its parent HSBC Holdings, in case of need. It attributed the ability and willingness of HSBC Holdings to support HBME to the latter's strategic importance to the group. It noted that HBME is core to the group's international banking strategy and that a default of a core subsidiary would have significant reputational issues for HSBC. Further, it pointed out that HBME's ratings are supported by its regional position and high level of strategic and operational integration, mainly in its business franchise, risk management, as well as liquidity and capital management policies. In parallel, Fitch downgraded the long-term Issuer Default Rating (IDR) of HSBC Holdings to 'AA-' from 'AA' and revised the outlook to 'stable' from 'negative'. HBME is a wholly-owned subsidiary of HSBC Holdings. It operates through a network of branches and affiliates in 13 countries in the region that include Lebanon, Jordan, the UAE, Oman, Bahrain, Qatar, Kuwait, Pakistan, and the Palestinian Territories. HSBC was established in Lebanon in 1946 and operates in the country through three branches located in the Beirut area.

### Foreign investments of financial sector at \$5.4bn at end-March 2012, commercial banks account for 75% of debt securities and for 39% of equity investments

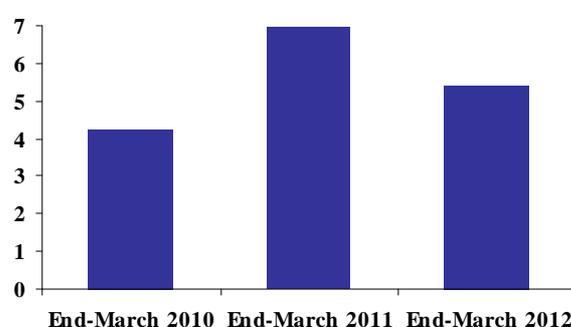
Figures issued by the Central Bank show that the net investment portfolio of Lebanese banks and financial institutions in foreign debt and equity securities totaled \$5.4bn at end-March 2012, constituting a decrease of 22.2% from \$6.94bn at end-March 2011. Investments in long-term debt securities totaled \$3.2bn at end-March 2012, accounting for 58.6% of the total, followed by investments in equities with \$2.18bn, or 40.4% of the total, while short-term debt securities accounted for \$54.4m or 1% of the total. According to the Central Bank, the figures cover the net assets of resident financial institutions in tradable debt and equity instruments of non-resident issuers. They help provide a clearer picture about the flow of funds from Lebanon and, therefore, about balance of payments data.

The distribution of investments by institutions indicates that commercial banks' net portfolio in foreign long-term debt securities totaled \$2.4bn, accounting for 75% of total investments in such securities at end-March 2012. The figure includes banks' investment for their own account, on behalf of their clients and on a custodial basis. They were followed by medium and long-term banks with \$740.6m (23.4%), financial institutions with \$46.9m (1.5%) and insurance firms with \$2.8m (0.09%). Commercial banks also represented 93.4% of investments in short-term debt securities, followed distantly by medium and long-term banks with 5.2% and financial institutions with 1.3%.

In parallel, commercial banks' net assets in equity securities totaled \$852.5m, accounting for 39.1% of total investments in such securities. They were followed by financial institutions with \$697.1m (32%), medium and long-term banks with \$557.7m (25.6%), insurance companies with \$71.6m (3.3%) and financial intermediaries with \$1.6m (0.07%).

The distribution of investments by destination shows that the United States was the leading recipient of equity investments by financial institutions operating in Lebanon, reaching \$923m and accounting for 42.3% of the total at end-March 2012. It was followed by the United Kingdom with \$344m (15.8%), Bahrain with \$236.5m (10.8%), Jordan with \$117.4m (5.4%) and France with \$110.9m (5.1%), while other countries accounted for the remaining 20.6%. In parallel, the United Kingdom accounted \$824.9m, or 26.1% of investments in long-term debt securities, followed by the United States with \$596m (18.9%), the UAE with \$330.6m (10.5%), France with \$276.1m (8.7%), and Qatar with \$146.8m (4.6%), while other countries accounted for the remaining 31.2%. Further, Switzerland accounted for 38.7% of investments in short-term debt securities, followed by the United Kingdom with 25.2% and the UAE with 11.7%.

### Foreign Investments of Financial Sector (US\$bn)



Source: Central Bank, Byblos Research

## 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	Mar 2011	Feb 2012	Mar 2012	Change*	Risk Level
Political Risk Rating	55.5	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	58.2	62.2	62.2	▲	Moderate

Regional Average	Mar 2011	Feb 2012	Mar 2012	Change*	Risk Level
Political Risk Rating	60.7	60.4	60.5	▼	Moderate
Financial Risk Rating	41.9	42.2	42.1	▲	Very Low
Economic Risk Rating	37.6	37.3	37.3	▼	Low
Composite Risk Rating	70.1	70.0	69.9	▼	Moderate

\*year-on-year

Source: The PRS Group, Byblos Research

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

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

## Ratings & Outlook

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