

## LEBANON THIS WEEK

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Stock market index down by 10% in first four months of 2017

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Aggregate net profits of listed banks up 3.2% in first quarter of 2017

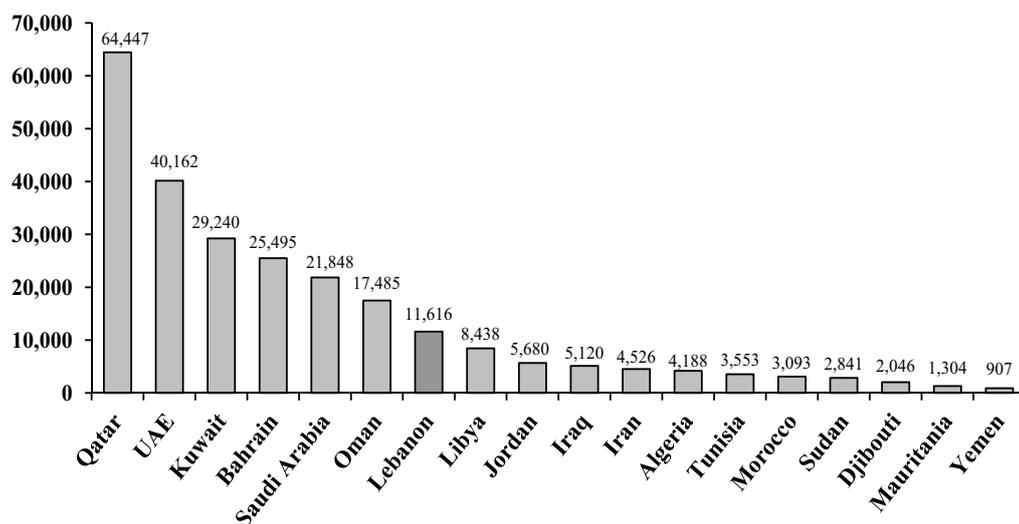
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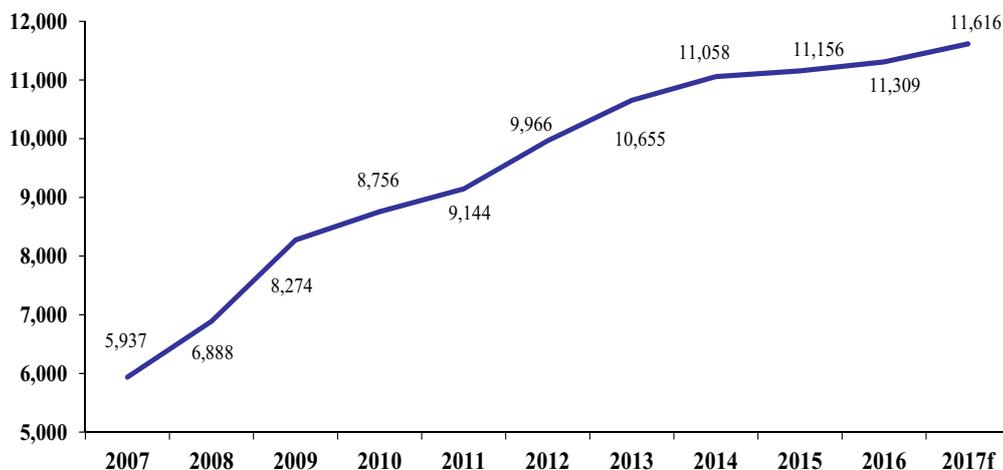
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### Charts of the Week

Projected GDP per capita in the Middle East & North Africa in 2017\*



GDP per capita in Lebanon\*



\*in US dollar at current prices  
Source: International Monetary Fund - April 2017, Byblos Research

### Quote to Note

"Adequate deposits growth, exchange rate stability, and remittance inflows from the large Lebanese Diaspora will continue to help sustain macroeconomic and financial stability."

*The Institute of International Finance, on the needed factors for economic stability in Lebanon*

### Number of the Week

**-22.5%:** Decline in the number of car accidents since the Lebanese Internal Security Forces began implementing on April 22, 2015 the Road Safety Law of 2012

## Lebanon in the News

\$m (unless otherwise mentioned)	2015	Dec 2015	Sep 2016	Oct 2016	Nov 2016	Dec 2016	% Change*
Exports	2,952	236	254	257	247	244	3.4
Imports	18,069	1,841	1,448	1,479	1,450	1,536	(16.6)
Trade Balance	(15,117)	(1,605)	(1,194)	(1,222)	(1,203)	(1,292)	(19.5)
Balance of Payments	(3,354)	(372)	189	(680)	453	910	-
Checks Cleared in LBP	18,714	1,709	1,722	1,780	1,684	1,879	10.0
Checks Cleared in FC	50,845	4,265	4,054	4,216	3,968	3,880	(9.0)
Total Checks Cleared	69,559	5,974	5,776	5,996	5,652	5,759	(3.6)
Budget Deficit/Surplus	(3,952)	(711.58)	(548.00)	(163.91)	(706.12)	(513.35)	(27.86)
Primary Balance	724.40	(338.61)	(29.21)	281.60	(40.58)	(111.56)	(67.05)
Airport Passengers***	7,240,397	616,258	819,886	554,122	555,931	598,009	(3.0)

\$bn (unless otherwise mentioned)	2015	Dec 2015	Sep 2016	Oct 2016	Nov 2016	Dec 2016	% Change*
BdL Gross FX Reserves	30.64	30.64	34.17	34.74	34.38	34.03	11.06
<i>In months of Imports</i>	20.35	16.64	23.60	23.49	23.71	22.15	33.1
Public Debt	70.33	70.33	74.73	74.52	74.55	74.89	6.48
Bank Assets	185.99	185.99	198.07	199.67	200.95	204.3	9.85
Bank Deposits (Private Sector)	151.59	151.59	158.15	157.66	159.19	162.5	7.20
Bank Loans to Private Sector	54.22	54.22	56.65	56.69	56.49	57.18	5.45
Money Supply M2	52.15	52.15	54.17	53.83	54.12	54.68	4.84
Money Supply M3	123.62	123.62	129.12	128.74	130.04	132.8	7.42
LBP Lending Rate (%)****	7.45	7.45	8.44	8.35	8.26	8.23	78bps
LBP Deposit Rate (%)	5.56	5.56	5.58	5.53	5.54	5.56	-
USD Lending Rate (%)	7.06	7.06	7.20	7.06	7.16	7.35	29bps
USD Deposit Rate (%)	3.17	3.17	3.43	3.43	3.48	3.52	35bps
Consumer Price Index**	(3.75)	(3.40)	1.03	1.13	1.78	3.14	-

\* Year-on-Year \*\* Year-on-Year percentage change \*\*\*includes arrivals, departures, transit

\*\*\*\* Starting January 2016, lending rates in Lebanese pounds are reported before any subsidy or facility from reserve requirements according to Intermediate Circular No 389, and as such they are not comparable year-on-year

Note: bps i.e. basis points

Source: Association of Banks in Lebanon, Banque du Liban, Ministry of Finance, Central Administration of Statistics, Byblos Research

## Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization
Audi Listed	6.35	(0.78)	520,718	21.57%
BLOM Listed	10.70	1.71	383,699	19.55%
Solidere "A"	8.50	2.29	292,525	7.22%
BLOM GDR	11.70	(0.34)	96,342	7.35%
Byblos Common	1.75	0.00	37,055	8.41%
Solidere "B"	8.50	0.24	32,100	4.70%
HOLCIM	12.09	4.40	24,296	2.01%
Audi GDR	6.46	(1.37)	6,361	6.58%
Byblos Pref. 08	103.10	0.00	-	1.75%
Byblos Pref. 09	103.00	0.00	-	1.75%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Dec 2017	4.00	99.75	4.61
Nov 2018	5.15	101.25	4.30
May 2019	6.00	102.63	4.64
Mar 2020	6.38	103.88	4.90
Apr 2021	8.25	111.00	5.13
Oct 2022	6.10	102.75	5.51
Jun 2025	6.25	99.88	6.27
Nov 2026	6.60	101.00	6.46
Feb 2030	6.65	99.63	6.69
Nov 2035	7.05	100.13	7.04

Source: Byblos Bank Capital Markets

	April 24-28	April 18-21	% Change	April 2017	April 2016	% Change
<b>Total shares traded</b>	1,592,434	483,173	229.6	5,417,218	3,131,933	73.0
<b>Total value traded</b>	\$16,388,370	\$6,614,197	147.8	\$35,834,027	\$34,700,460	3.3
<b>Market capitalization</b>	\$11.77bn	\$11.73bn	0.3	\$11.77bn	\$11.05bn	6.5

Source: Beirut Stock Exchange (BSE)



### Lebanon ranks in eighth place among Arab countries on renewable energy index

The 2016 Arab Future Energy Index (AFEX) ranked Lebanon in eighth place among 20 Arab countries, unchanged from its rank in the 2015 survey. The Index measures the commitment of Arab countries to develop financially, socially, and environmentally-sustainable energy systems through the wider deployment of renewable energy solutions. It is based on 28 quantitative and qualitative indicators grouped in four categories that are Market Structure, Policy Framework, Institutional Capacity, and Finance & Investment. The index's scores range from 0% to 100%, with a higher score reflecting a better investment climate for the development of renewable energy. The index is issued by the Regional Center for Renewable Energy and Energy Efficiency (RCREEE), an intergovernmental organization that aims to enable and increase the adoption of renewable energy and energy efficiency practices in the Arab region.

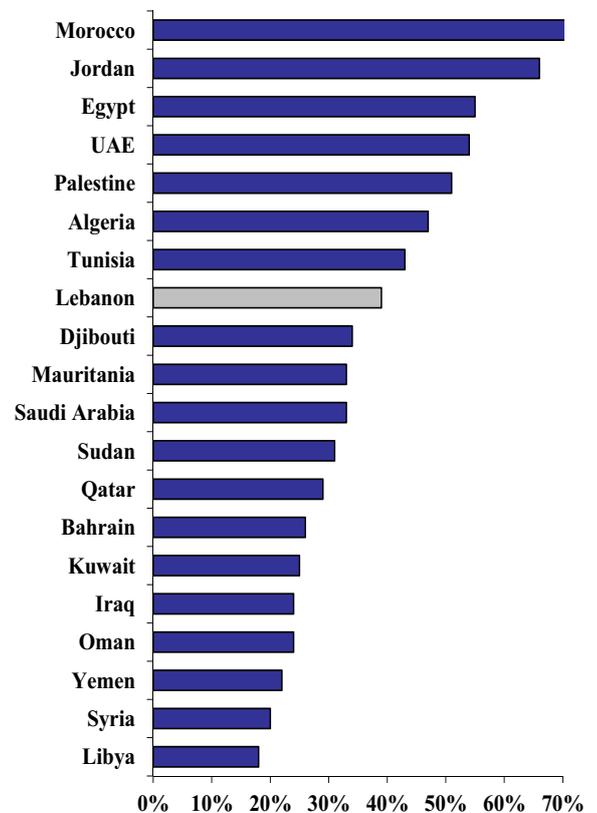
Lebanon made more progress in 2016 in the development of renewable energy than Djibouti, Mauritania and Saudi Arabia, but trailed Palestine, Algeria and Tunisia in the deployment of renewable energy. Lebanon received a score of 39%, above the simple average of 37.3% of the 20 Arab countries included in the survey. Further, Lebanon's score was higher than the Gulf Cooperation Council (GCC) countries' average score of 31.8%, but was lower than the score of 39.6% among non-GCC Arab countries. Also, Lebanon's score rose by 13 percentage points from 26% in the 2015 survey, which constitutes, along with Algeria and the UAE, the second best improvement, behind Egypt.

The survey also noted that Lebanon started financing small-scale projects through the National Energy Efficiency and Renewable Energy Action, which is a national financing mechanism initiated by Banque du Liban to finance green energy projects in the country. However, it said that Lebanon lacks the required independent regulatory authority to grant power generation licenses to private companies. It added that Lebanon has a suitable market for the development of decentralized solar energy generation projects. Further, it pointed out that the Lebanese government should introduce additional legal channels to support private sector participation in both utility scale and small-scale power generation projects.

Lebanon tied with Palestine, ranked ahead of Tunisia, Mauritania and Saudi Arabia, and came behind Jordan, the UAE and Algeria on the Market Structure category, which assesses the ease for private investors in accessing the power generation market. It also ranked ahead of the UAE, Mauritania and Algeria, and trailed Egypt, Djibouti and Tunisia on the Policy Framework category, which measures the overall political commitment to support renewable energy development.

Further, Lebanon tied with Palestine, ranked ahead of Oman, Sudan and Iraq, and came behind Bahrain, Mauritania and Kuwait on the Institutional Capacity category. It assesses a country's institutional capacity to design and implement renewable energy policies, and to provide institutional support for private developers in the deployment of renewable energy. Finally, Lebanon ranked ahead of Qatar, Yemen and Saudi Arabia, and trailed Egypt, Djibouti and Sudan on the Finance & Investment category, which evaluates the financial incentives available to private renewable energy firms and measures private investment growth in the sector.

**2016 Arab Future Energy Index  
Country Rankings & Scores**



Source: Regional Center for Renewable Energy and Energy Efficiency, Byblos Research

**Lebanon's Performance on 2016 Arab Future Energy Index**

	Lebanon Score	Lebanon Rank	Arab Avge Score*
Market Structure	45%	6	34.0%
Policy Framework	41%	7	34.3%
Institutional Capacity	46%	12	49.5%
Finance & Investment	24%	10	31.0%

\* simple average

Source: Regional Center for Renewable Energy and Energy Efficiency, Byblos Research



### **Lebanese economy in need of reforms to mitigate risks**

The World Bank considered that the recent political breakthrough in Lebanon constitutes a unique opportunity to mitigate the risks that the economy faces and to address longstanding development challenges. It indicated that Lebanon's elevated public debt level, wide fiscal and current account deficits, and highly dollarized economy with a pegged exchange rate present significant macroeconomic vulnerabilities. It added that the Syrian conflict, which has taken a toll on the Lebanese economy, has exacerbated macroeconomic risks and increased the need for reforms. In this context, it identified priority measures that authorities can implement over the short term, such as ratifying the 2017 budget, endorsing the public procurement law of 2013, reforming the electricity sector, ratifying an amended version of the public-private partnership law, establishing a public transportation system and improving the business environment.

In parallel, the Bank projected Lebanon's real GDP growth at 2.5% in 2017, in case the political environment in the country does not deteriorate and reverts back to political paralysis, and if spillovers from the Syrian conflict continue to be contained. It estimated that an improved political climate in the country and functioning public institutions would not be sufficient for economic growth to reach its potential. It added that achieving potential growth is contingent on the resolution of the conflict in Syria and the implementation of a strong and credible reform program. It forecast real GDP growth in Lebanon to remain at about 2.5% over the medium term, if current conditions prevail.

Further, the Bank indicated that Lebanon is exposed to significant refinancing risks, given its elevated public debt level and wide fiscal and current account deficits. It projected the fiscal deficit to remain at about 10% of GDP during the 2017-18 period in the absence of reforms, which would increase the debt level from 158% of GDP in 2016 to 166% of GDP in 2017 and 170% of GDP in 2018. Also, it forecast the current account deficit to be at about 19% of GDP over the coming two years, reflecting a large deficit in the trade balance. It indicated that Lebanon could face challenges in attracting sufficient capital, especially bank deposits, to finance its fiscal and current account deficits amid decelerating deposit inflows, rising interest rates in the United States, and subdued economic activity in Gulf Cooperation Council countries. It considered that Banque du Liban's initiatives to manage economic and financial challenges facing the country constitute a temporary reprieve.

### **Fifty three companies qualify for hydrocarbon licensing round**

The Ministry of Energy & Water announced that eight oil & gas companies have pre-qualified to participate in Lebanon's first licensing round for offshore oil & gas exploration and production. It said that the pre-qualified firms include one operator, which is India's ONGC Videsh Limited, and seven non-operators. The pre-qualified non-operators are Russia's Lukoil, Malaysia's Sapurakencana Energy SDN BHD, Algeria's Sonatrach International Petroleum Exploration & Production Corporation, Qatar Petroleum International, Iran's Petropars, Russia's Novatek and Britain's New Age African Global Energy. The ministry pointed out that the Lebanese consortium Vega Petroleum Limited/Edgo Energy Limited/Petroleb and Egypt's Advanced Energy Systems did not qualify for the first licensing round.

Further, the ministry indicated that the 45 companies that were pre-qualified in 2013 have updated their applications and were accepted for the bidding round. As such, a total of 53 companies were pre-qualified to participate in the first licensing round for offshore oil & gas exploration and production in Lebanon.

In parallel, the Lebanese Petroleum Administration (LPA) pointed out that the pre-qualified companies have until September 15, 2017 to submit their bids on the five blocks that are open for bidding. It added that three of the open blocks are located in the South, one in the North of Beirut and another in the North of the country. The LPA expects to publish the list of applicants for each block on September 22, 2017 and it will have until October 16, 2017 to evaluate the companies' filings and submit a report to the Minister of Energy & Water who, in turn, will refer it to the Council of Ministers for discussion. The Council of Ministers would then select the winning firms and will mandate the Minister of Energy & Water to sign the exploration and production agreements (EPA) with the selected companies starting on November 15, 2017. The EPA is an agreement between the government and pre-qualified oil companies that provides the petroleum right holders the exclusive rights to explore, develop and produce oil and gas in Lebanon's offshore Exclusive Economic Zone. The ministry anticipated the exploration process to take between 18 months and up to five years from the contracts' signing date.

### **Government cancels census on displaced Syrians in Lebanon**

The Ministry of Social Affairs announced that it terminated the two-year National Program for Monitoring Population Movements and Emergency Response, which aimed to determine the number and locations of displaced Syrians in Lebanon. Prior to the program's expiration at the end of 2016, the new Minister of Social Affairs extended it for four months ending in April 2017 in order to assess the overall program.

The ministry's assessment showed that the project is overstaffed, as it employed 387 persons, significantly higher than the intended staff of 200 workers. It added that the project surveyed 250,000 displaced Syrians, or 85,000 Syrian households in two years, out of about 1.5 million Syrian refugees in Lebanon. Further, the ministry said that it has already spent the \$3.3m in financing allocated to the project and stressed that another extension would not allow the program to reach its desired objectives. It noted that the fieldworkers and supervisors under the program would be laid off at the end of April 2017.

According to the United Nations High Commissioner for Refugees (UNHCR), there were 1,011,366 Syrians, or 235,024 households, in Lebanon at the end of 2016. Also, there were 361,104 Syrians in the Bekaa, 280,170 in Beirut, 252,369 Syrians in the North and 117,723 displaced Syrians in the South.

### Lebanon ranks 99th globally, third among Arab countries in terms of press freedom

In its 2017 survey about press freedom in 180 countries, international organization Reporters Without Borders ranked Lebanon in 99th place worldwide and in third place among 20 Arab countries. In comparison, Lebanon came in 98th place globally and in third place regionally in each of the 2015 and 2016 surveys.

The index measures the level of freedom that journalists and the media have in each country, as well as government efforts to respect press freedom. The index's calculation is based on answers to a questionnaire that covers seven general criteria. The criteria assess the level of opinion diversity in the media, media independence, self-censorship and the work environment of journalists, the legislative framework, the transparency of the institutions and procedures that affect the production of news and information, the quality of the infrastructure that supports the production of news and information, as well as the level of violence and abuses during the surveyed period. Reporters Without Borders assigns index scores from zero to 100, with a lower score reflecting a higher level of press freedom in a given country.

Globally, Lebanon has a higher level of press freedom than Nepal, Ukraine and Brazil, and a lower level of freedom than Kenya, Panama and Tunisia among economies with a GDP of \$10bn or more. Lebanon received a score of 33.01 points in the 2017 survey, constituting a deterioration of 3.3% from 31.95 points in the 2016 survey. Lebanon's score was better than the global average score of 38.72 points and the average score of 48.75 points among countries in the Middle East & North Africa region.

The level of press freedom in Lebanon places it, along with 59 other countries worldwide, in the category of countries with "noticeable problems". Also, Lebanon was among four Arab countries that came in the "noticeable problems" category, while eight Arab states came in the category of countries with a "difficult situation" and the remaining eight sovereigns were in the "very serious problems" category.

In parallel, Lebanon was among 80 countries worldwide whose rank declined from the 2016 survey, while the rank of 72 countries improved, and that of 28 sovereigns was unchanged year-on-year. Also, Lebanon was among 13 Arab countries whose rank regressed, while the rank of two economies improved and that of five countries was unchanged from the 2016 survey. Norway has the highest level of press freedom globally, while North Korea has the lowest level of media freedom worldwide in the 2017 survey.

### Value of real estate transactions up 10% in first quarter of 2017

Figures released by the Ministry of Finance indicate that there were 17,081 real estate transactions in the first quarter of 2017, constituting an increase of 14% from 14,985 deals in the same quarter of 2016. In comparison, the number of real estate transactions rose by 15.7% year-on-year in the first quarter of 2016, while it decreased by 18.2% in the first three months of 2015. There were 3,371 real estate transactions in the Baabda area in the first quarter of 2017, representing 19.7% of the total. The North followed with 2,914 transactions (17.1%), then the Zahlé region with 2,020 transactions (11.8%), the Metn district with 1,836 transactions (10.7%), the South with 1,753 transactions (10.3%), the Keserwan area with 1,750 transactions (10.2%), Nabatieh with 1,650 transactions (9.7%) and Beirut with 1,248 transactions (7.3%).

Also, the aggregate value of real estate transactions reached \$2.34bn in the first quarter of 2017 and increased by 10% from \$2.13bn in the same period of 2016. In comparison, the value of real estate deals increased by 31.1% in the first quarter of 2016 relative to the same quarter of 2015, while it declined by 21% year-on-year in the first three months of 2015. The value of real estate transactions in Beirut reached \$647m and accounted for 27.7% of the total in the first quarter of 2017. The Baabda district followed with \$487.7m (20.8%), then the Metn region with \$386.9m (16.5%), the Keserwan area with \$253m (10.8%), the North with \$212.4m (9.1%), the South with \$173.6m (7.4%), the Zahlé area with \$80.2m (3.4%) and Nabatieh with \$71.6m (3.1%).

In parallel, the average value per real estate transaction was \$136,975 in the first quarter of 2017, down by 3.5% from an average value of \$142,002 in the same quarter of 2016 and relative to \$125,363 in the first quarter of 2015. Further, there were 282 real estate transactions executed by foreigners in the first quarter of 2017, reflecting an increase of 17.5% from 240 deals in the first three months of 2016, and compared to an annual decrease of 21.8% in the first quarter of 2016 and a rise of 30.6% in the same period of 2015. The number of real estate transactions by foreigners accounted for 1.7% of total real estate deals in the first quarter of 2017 compared to 1.6% of deals in the same period of 2016 and to 2.4% of deals in the first quarter of 2015. In parallel, 31% of the real estate transactions executed by foreigners were in the Baabda district in the first quarter of 2017, followed by the Metn region (15.2%), Beirut (14.5%), the South (11.7%), Zahlé (10.3%), the Keserwan area (9.6%), the North (6.4%) and Nabatieh (1.4%).

#### Press Freedom Index for 2017

	Score	Arab Rank	Global Rank	Change in Rank
Mauritania	26.49	1	55	-7
Tunisia	32.22	2	97	-1
<b>Lebanon</b>	<b>33.01</b>	<b>3</b>	<b>99</b>	<b>-1</b>
Kuwait	33.61	4	104	-1
UAE	39.39	5	119	-
Qatar	39.83	6	123	-6
Oman	40.46	7	126	-1
Morocco	42.42	8	133	-2
Algeria	42.83	9	134	-5
Palestine	42.9	10	135	-3
Jordan	43.24	11	138	-3
Iraq	54.03	12	158	-
Egypt	55.78	13	161	-2
Libya	56.81	14	163	1
Bahrain	58.88	15	164	-2
Yemen	65.8	16	166	4
Saudi Arabia	66.02	17	168	-3
Djibouti	70.54	18	172	-
Sudan	73.56	19	174	-
Syria	81.49	20	177	-

Source: Reporters Without Borders, Byblos Research

### Payment cards reach 2.8 million at the end of 2016, ATMs total 1,793

Figures released by the Banque du Liban show that the number of payment cards issued in Lebanon reached 2,763,712 cards at the end of 2016, down by 1.1% from end-September 2016 and constituting a marginal increase of 0.3% from the end of 2015. Cards held by residents accounted for 96.9% of total cards issued in Lebanon at end-2016. The distribution of payment cards by type shows that debit cards with residents reached 1,614,590 and accounted for 58.4% of the total, followed by credit cards with residents at 537,319 (19.4%), prepaid cards with residents at 382,684 (13.8%), charge cards with residents at 143,971 (5.2%), debit cards held by non-residents at 52,937 (1.9%), credit cards with non-residents at 17,375 (0.6%), charge cards held by non-residents at 8,121 (0.3%) and prepaid cards with non-residents at 6,715 (0.2%). As such, there were 55 payment cards per 100 inhabitants in Lebanon at the end of 2016.

Further, the aggregate number of points-of-sales accepting payment cards reached 38,644 at the end of 2016, constituting a decrease of 6.3% from end-September 2016 and a decline of 0.7% from end-2015. As a result, there were 3.7 points-of-sales per square kilometer in Lebanon at the end of 2016.

In parallel, the number of ATMs across Lebanon totaled 1,793 at the end of 2016, constituting an increase of 1.2% from end-September 2016 and a growth of 5% from the end of 2015. The Greater Beirut area had 716 ATMs at end-2016, equivalent to 40% of the total; followed by Mount Lebanon with 592 ATMs (33%); the North with 186 ATMs (10.4%); the South with 142 ATMs (7.9%); the Bekaa with 125 ATMs (7%) and Nabatieh with 32 ATMs (1.8%). As such, there were 171 ATMs per 1,000 square kilometers in Lebanon at the end of 2016.

### Banque du Liban issues circular on Islamic banking activity in Lebanon

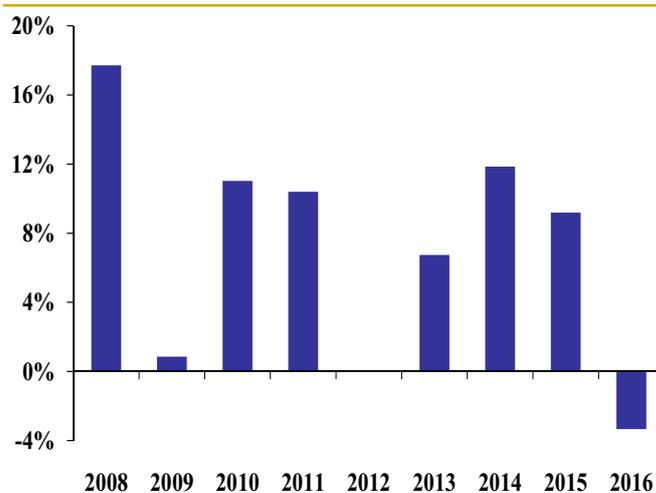
Banque du Liban (BdL) issued Intermediate Circular 455 on April 10, 2017 that amends Basic Circular 94 issued on August 26, 2004 about the practice of Islamic banking activity in Lebanon. The amended circular defines three types of deposits accepted by Islamic banks operating in the country, which are current accounts and deposits compliant with Article 307 of the Lebanese Commercial Code, as well as Mudaraba contracts and Wakala contracts. It also clarified the elements that should be included in all deposit contracts, such as the amount deposited, the terms of its use and its maturity date, as well as the share of each party in the profits, among other elements. In addition, it noted that Mudaraba contracts have to include a clause that stipulates how investment risk reserves (IRR) and profit equalization reserves (PER) should be appropriated from investment returns, and how to incorporate them into the Islamic bank's balance sheet. Further, the circular identified the accounting methods related to earnings from deposits linked to the banks' annual and operation results, and to the profit and loss sharing percentages.

In parallel, the circular stipulated that, in addition to the minimum regulatory requirements imposed by the BdL on non-Islamic financial institutions, Islamic banks should set aside an IRR account as a cushion against future losses incurred from the investments of funds through Mudaraba contracts. As such, it required banks to earmark at least 10% of their annual net investment earnings after deducting the share of the Mudarib, or the Islamic financial intermediary in this case, until the cumulative amount in the IRR account reaches 20% of total investments. In addition, the circular mandated Islamic financial institutions to create a PER account that they can tap in case the returns on their investments are lower than market returns. Such reserves are appropriated out of the Mudaraba income before deducting the share of the Mudarib, until the PER account is equivalent to 5% of total investments.

Finally, the circular pointed out that IRR and PER funds can only be invested in financial instruments offered by the BdL. It added that any or all profits accrued from such investments should be reinvested in the IRR and PER accounts, after the Islamic bank deducts a brokerage fee of up to 10% of investment profits. In the event of a bank's closure, the IRR and PER funds can only be disposed of according to Shariah compliant methods.

A Mudaraba contract is a profit and loss partnership where one partner provides the capital to the other, or Mudarib, for investment purposes. The investment account holder (IAH) provides 100% of the capital and the Mudarib provides his/her specialized knowledge to invest the capital and manage the investment project. Profits generated are shared between the parties according to a pre-agreed ratio. However, if the investment incurred a loss, then the IAH will lose his capital, and the Mudarib party will lose the time and effort invested in the project.

### Growth in the Number of Credit Cards Held by Residents\*



\*at year-end

Source: Central Bank of Lebanon, Byblos Research

### **ESFD guaranteed 144 loans in first quarter of 2017**

The Economic & Social Fund for Development (ESFD) indicated that it guaranteed 144 loans for a total of LBP3.7bn, or \$2.45m, to small- and medium-sized enterprises in the first quarter of 2017. Overall, the ESFD guaranteed 9,534 loans for an aggregate value of LBP172.5bn (\$114.4m) between 2003 and the first quarter of 2017. Mount Lebanon accounted for 28.8% of the total number of loans guaranteed by the ESFD since 2003, followed by Nabatieh (22.3%), the North (17.8%), the South (13.6%), the Bekaa (12.6%) and Beirut (4.8%). The ESFD has guaranteed 3,692 loans, or 38.7% of the total, to the services sector; followed by the trade sector with 3,443 loans (36.1%); the industrial sector with 1,405 loans (14.7%) and the agricultural sector with 994 loans (10.4%). It claims that it has helped create 131 new jobs in the first quarter of 2017 and a total of 7,663 new jobs since 2003.

The ESFD guarantees 50% of the loan principal and accrued interest for 120 days. It provides financial and technical support to small and medium-sized enterprises, through financial intermediaries, to finance projects in poor regions of the country. The ESFD was established in November 2000 based on the signing of a financing agreement between the European Commission and the Lebanese government through the Council for Development & Reconstruction. The ESFD is funded by the European Union and the Lebanese government.

### **Coincident Indicator up 3.5% year-on-year in first two months 2017**

The Banque du Liban's Coincident Indicator, an index of economic activity in Lebanon, reached 305.3 points in February 2017 compared to 297.2 in January 2017 and 294.9 in February 2016. The Coincident Indicator, an average of 8 weighted economic indicators, increased by 2.7% month-on-month and by 3.5% year-on-year in February 2017. The indicator averaged 301.3 in the first two months of 2017, up by 4.8% from 287.4 in the same period of 2016. Also, the indicator averaged 291.9 in the 12 months ending February 2017, compared to 291 in the 12-month period ending January 2017 and 282.1 in the 12 months ending February 2016. As a result, the 12-month average coincident indicator grew by 0.3% month-on-month and by 3.5% year-on-year. In parallel, the indicator regressed 13 times and improved 12 times on a monthly basis in the month of February since 1993. It averaged 249.5 points in 2010, 255.7 points in 2011, 256.6 points in 2012, 264.7 points in 2013, 273.2 points in 2014, 278.6 points in 2015 and 289.5 points in 2016.

### **Revenues through Port of Beirut at \$39m in first two months of 2017**

Figures released by the Port of Beirut show that the port's overall revenues were \$38.9m in the first two months of 2017, unchanged from the same period of 2016. The Port of Beirut handled an aggregate freight of 1.34 million tons in the covered period, nearly unchanged from 1.33 million tons in the first two months of 2016. Imported freight amounted to 1.19 million tons in the first two months of 2017 and accounted for 88.6% of the total, while the remaining 153,000 tons, or 11.4%, consisted of export cargo. A total of 291 ships docked at the port in the covered period compared to 313 vessels in the first two months of 2016.

In parallel, revenues generated through the Port of Tripoli reached \$3.34m in the first two months of 2017, constituting an increase of 11.9% from \$3m in the same period of 2016. The Port of Tripoli handled an aggregate of 348,800 tons of freight in the covered period, constituting a decrease of 7.8% from 378,392 tons in the first two months of 2016. Imported freight amounted to 276,934 tons and accounted for 79.4% of the total, while the remaining 71,866 tons, or 20.6%, were export cargo. A total of 132 vessels docked at the port in the first two months of 2017, constituting a marginal increase of 0.8% from 131 ships in the same period of 2016.

### **Industrial exports down 12% to \$176m in January 2017**

Figures released by the Ministry of Industry show that industrial exports totaled \$175.9m in January 2017, down by 18.7% from \$216.3m in December 2016 and by 11.8% from \$199.5m in January 2016. Exports of machinery & mechanical appliances totaled \$42.5m and accounted for 24.2% of aggregate industrial exports in January 2017, followed by prepared foodstuffs with \$33.1m (18.8%), base metals with \$26.1m (14.8%), chemical products with \$22.2m (12.6%), and paper and paper-related articles with \$11.1m (6.3%). Arab countries were the destination of 59.6% of Lebanese industrial exports in January 2017, followed by European economies with 13.7%, African countries with 10.7%, Asian economies with 10.6%, countries in the Americas with 3.7%, and markets in the Oceania with 0.5%. On a country basis, the UAE was the main destination of Lebanese industrial exports and accounted for 10.8% of the total in January 2017, followed by Syria with 9.8%, Iraq with 8.8%, Saudi Arabia with 8.4% and Libya with 4.8%. In January 2017, 12 Arab states, nine European economies, seven African countries, five Asian economies and two countries in the Americas imported \$1m or more each in industrial products from Lebanon.

In parallel, imports of industrial equipment and machinery reached \$21m in January 2017, down by 17.1% from \$25.3m in January 2016. Italy was the main source of such imports with \$7.8m and accounted for 37.3% of the total in the covered month, followed by China with \$3.3m (15.6%) and Germany with \$2.7m (13%).

### **Byblos Bank's net profits at \$29m in first quarter of 2017, capital adequacy ratio at 18%**

Byblos Bank sal, one of the top banking and financial services groups in Lebanon, declared unaudited net profits of \$28.7m in the first quarter of 2017, compared to \$33.8m in the first quarter of 2016. The Bank attributed the decline in profits mainly to the deconsolidation of Byblos Bank Syria and Byblos Bank Africa (the Sudan subsidiary) from the overall balance sheet of Byblos Bank sal, as well as to a lower risk appetite in some overseas markets.

The Bank's net interest income reached \$71.5m in the first three months of 2017 compared to \$66.4m in the same quarter of 2016; while net fees & commissions income stood at \$21.3m relative to \$20.1m in the first quarter of last year. Net operating income totaled \$96.7 in the first quarter of 2017, relative to 26.1% from \$130.7m in the same quarter of 2016. In parallel, total operating expenses reached \$57.8m in the first quarter of 2017, compared to 32% from \$84.9m in the same period last year, with personnel expenses accounting for 58.3% of the total in the first three months of this year.

The Bank's aggregate assets reached \$21.3bn at the end of March 2017 and increased by 2.2% from end-2016. Also, net loans & advances to customers totaled \$5.2bn at the end of March and rose by a marginal 0.3% from end-2016, while net loans & advances to related parties stood at \$13.6m. The Bank's total deposits reached \$17.4bn at the end of March 2017 and grew by 2% from the end of 2016, with deposits from related parties standing at \$229.5m. In parallel, the Bank's total equity reached \$2.1bn at end-March 2017, up by 1.5% from end-2016 and by 5.5% from the end of March 2016.

Byblos Bank maintained strong financial buffers to mitigate unexpected risks and to counter economic volatility. The Bank's capital adequacy ratio stood at 18% at the end of 2016 according to Basel III criteria, and is significantly above the minimum regulatory requirement of 15% for end-2018 and one of the highest such ratios in the Lebanese banking sector. It also maintained a high level of immediate foreign-currency liquidity, which amounted to 20% of liquidity in foreign currency at the end of March 2017, in the form of short-term placements with investment- and above investment-grade institutions, at levels exceeding each of the local and international benchmarks. The Byblos Bank Group has a direct presence in Belgium, France, the United Kingdom, Cyprus, the United Arab Emirates, Nigeria, Armenia and the Democratic Republic of Congo, as well as in Iraq, Sudan and Syria.

### **Stock market index down by 10% in first four months of 2017**

Figures released by the Beirut Stock Exchange (BSE) indicate that trading volume reached 18,565,372 shares in the first four months of 2017, constituting a decrease of 49.8% from 36,989,347 shares traded in the same period of 2016; while aggregate turnover amounted to \$143.5m, down by 57.6% from a turnover of \$338.5m in the first four months of 2016. Market capitalization grew by 6.5% from the end of April 2016 to \$11.8bn, with banking stocks accounting for 85.6% of the total, followed by real estate shares (11.9%), industrial firms (2.2%) and trading stocks (0.3%). The market liquidity ratio was 1.2% in the covered period compared to 3.1% in the first four months of 2016.

Banking stocks accounted for 59.5% of the aggregate trading volume in the first four months of the year, followed by real estate equities with 22.9%, trading stocks for 16.9% and industrial shares with 0.7%. Also, banking stocks represented 65% of the aggregate value of shares traded, followed by real estate equities with 27.6%, trading stocks with 6.7% and industrial stocks with 0.7%. The average daily traded volume for the period was 235,005 shares for an average daily value of \$1.8m. The figures reflect year-on-year decreases of 49.8% and 57.6% in volume and in value, respectively. In parallel, the Capital Markets Authority's Market Value-Weighted Index for stocks traded on the BSE regressed by 9.5% in the first four months of 2017, while the CMA's Banks Market Value-Weighted Index grew by 9.5% in the covered period.

### **Banque Libano-Française pays dividendes for 2016**

Banque Libano-Française sal announced that its Ordinary General Assembly held on April 27, 2017 approved the distribution of dividends for 2016. The bank earmarked gross dividends of \$7 (LBP10,553) per share for shareholders carrying Preferred Shares Series 4 and \$6.625 (LBP9,987) for those carrying Preferred Shares Series 5. The dividends are paid net of a 5% withholding tax, as the bank reimburses the holders of preferred shares for the difference between the 10% withholding rate and the rate for which the shares would have been taxed had they been listed on the Beirut Stock Exchange. The Bank started disbursing the dividends on April 29, 2017. BLF's share capital consists of 1,500,000 Preferred Shares Series 4 and 1,500,000 Preferred Shares Series 5.

BLF posted unaudited consolidated net profits of \$110.8m in 2016, up by 5.8% from net earnings of \$104.7m in 2015. Its assets reached \$12.7bn at the end of 2016, constituting an increase of 9.7% from a year earlier; while loans & advances to customers, excluding loans & advances to related parties, grew by 0.6% from end-2015 to \$4.2bn. Also, customer deposits, excluding those from related parties, totaled \$10.2bn at the end of 2016, and expanded by 6.5% from end-2015.

### Aggregate net profits of listed banks up 3.2% in first quarter of 2017

Financial results issued by the six banks listed on the Beirut Stock Exchange show that their aggregate net profits reached \$315.7m in the first quarter of 2017, constituting an increase of 2.2% from net earnings of \$308.9m in the same quarter last year. Further, the banks' aggregate pre-tax profits grew by 4.6% year-on-year to \$387.9m in the covered quarter. The aggregate net interest income of the six banks totaled \$593.8m in the first three months of 2017, up by 6.5% from \$557.4m in the same quarter of 2016; while their receipts from total net fees & commission declined by 1.2% year-on-year to \$145.6m. The total operating income of the listed banks reached \$835.3m in the covered quarter and decreased by 3.4% from \$864.9m in the same quarter last year. The banks' collective cost-to-income ratio regressed from 51% in the first three months of last year to 49.6% in the first quarter of 2017.

In parallel, the aggregate assets of the publicly-listed banks grew by a marginal 0.4% from end-2016 to \$119.8bn at the end of March 2017; while their total loans, including those to related parties, regressed by 0.5% to \$36.7bn. Also, total deposits, including those from related parties, increased by 0.7% from end-2016 to \$97.3bn at end-March 2017. Further, the banks' aggregate shareholders' equity improved by 1.1% from end-2016 to \$11.6bn at the end of March 2017.

The six banks' aggregate loans-to-deposits ratio stood at 37.7% at the end of March 2017, down from 38.2% at end-2016. BLOM Bank had the lowest loans-to-deposits ratio at 28.2% compared to 28.9% at end-2016; followed by Byblos Bank with a ratio of 29.8% at end-March 2017 relative to 30.3%, Bank of Beirut with 38.5%, up from 37.9% at the end of 2016; BLC Bank with 40.3% at end-March 2017 compared to 39.4%; Bank Audi with 47.2% at end-March 2017, relative to 47.9% at the end of 2016; and Banque BEMO with 49.9% at end-March 2017 compared to 47.5% at end-2016.

Results of Listed Banks in First Quarter of 2017						
	Audi	BLOM	Byblos	BoB	BLC	BEMO
Net Profits (\$m)	110.2	112.0	28.7	50.2	10.5	4.0
% Change*	-	3.5%	-14.9%	17.0%	13.9%	6.8%
Total Assets (\$bn)	43.9	30.2	21.3	16.9	5.7	1.8
% Change**	-0.8%	2.1%	2.2%	-1.7%	-0.4%	0.3%
Loans (\$bn)	17.0	7.1	5.2	4.8	1.9	0.7
% Change**	-1.4%	-0.7%	0.3%	0.8%	1.1%	5.1%
Deposits (\$bn)	36.0	25.3	17.4	12.5	4.6	1.5
% Change**	-	1.8%	2.0%	-0.7%	-1.2%	-

\* year-on-year

\*\*Change from end-2016

Source: Banks' financial statements, Byblos Research

### Creditbank's net earnings at \$42m in 2016

Creditbank sal, one of Lebanon's top 14 banks, announced unaudited consolidated net profits of \$42.1m in 2016, constituting an increase of 19.3% from net earnings of \$35.3m in 2015. Net operating income grew by 22% to \$124.3m in 2016, with net interest income decreasing by 7.8% to \$66.3m and net fees & commissions receipts declining by 3.8% year-on-year to \$13.7m. Non-interest income accounted for 50.7% of total income, up from 37.2% in the previous year; with net fees & commissions representing 20.1% of non-interest earnings relative to 33.5% in 2015. Further, the bank's interest margin was 2.04% in 2016 relative to 2.38% in 2015; while its spread reached 1.94% in 2016 compared to 2.28% in 2015. Total operating expenditures increased by 23.8% to \$74.7m in 2016, with administrative & other operating expenditures growing by 66.7% to \$40.4m and staff expenses declining by 4.7% to \$31.5m. Also, the bank's return on average assets was 1.23% in 2016 relative to 1.12% in 2015, while its return on average equity regressed to 13.83% from 14.4% in 2015. The cost-to-income ratio increased from 52.7% in 2015 to 55.5% in 2016.

In parallel, total assets reached \$3.5bn at the end of 2016, constituting an increase of 5.6% from a year earlier. Loans & advances to customers, excluding those to related parties, grew by 7.9% from end-2015 to \$1.8bn. Also, customer deposits, excluding those from related parties, totaled \$3bn at the end of 2016 and expanded by 5.4% from end-2015. The loans-to-deposits ratio increased from 59.6% at the end of 2015 to 61.1% at end-2016. In parallel, the bank's shareholders' equity stood at \$328.9bn at the end of 2016, up by 17.7% from end-2015.

### Bank Audi's dividend payout ratio at 49% for 2016

Bank Audi sal, one of Lebanon's listed banks, announced that its Ordinary General Assembly held on April 10, 2017 approved the distribution of dividends for 2016. The bank will distribute gross dividends of \$230.2m to the holders of common shares and preferred shares, equivalent to a total dividend payout ratio of 49%. This compares to a total dividend payout ratio of 54.4% for 2013, 54.3% for 2014 and 45.3% in 2015. The bearers of common shares will receive a gross amount of \$199.9m, equivalent to LBP753.8 (\$0.5) per share. Also, the bank will pay a gross dividend of \$6 per share to each of the holders of Preferred Shares Series F and Preferred Shares Series G; while it will disburse \$6.5 per share to the holders of Preferred Shares Series H and \$3 per share to the holders of Preferred Shares Series I. The bank started paying dividends on preferred and common shares on April 18, 2017 net of a 5% withholding tax. The bank posted unaudited consolidated net profits of \$470.1m in 2016.

## Ratio Highlights

(in % unless specified)	2014	2015	2016e	Change*
Nominal GDP (\$bn)	50.0	51.1	52.0	
Public Debt in Foreign Currency / GDP	51.2	53.0	54.2	1.26
Public Debt in Local Currency / GDP	81.9	84.6	89.6	4.98
Gross Public Debt / GDP	133.1	137.6	144.0	6.42
Total Gross External Debt / GDP**	170.0	174.7	176.6	1.90
Trade Balance / GDP	(34.4)	(29.5)	(30.0)	(0.47)
Exports / Imports	16.2	16.6	16.1	(0.49)
Fiscal Revenues / GDP	21.8	18.7	19.1	0.30
Fiscal Expenditures / GDP	27.9	26.5	28.6	2.1
Fiscal Balance / GDP	(6.1)	(7.7)	(9.5)	(1.8)
Primary Balance / GDP	2.6	1.4	0.04	(1.4)
Gross Foreign Currency Reserves / M2	66.5	58.7	62.7	3.94
M3 / GDP	235.4	241.9	250.0	8.11
Commercial Banks Assets / GDP	351.4	364.0	392.9	28.9
Private Sector Deposits / GDP	288.9	296.6	312.5	15.8
Private Sector Loans / GDP	101.8	106.1	108.7	3.85
Private Sector Deposits Dollarization Rate	65.7	64.9	65.0	0.10
Private Sector Lending Dollarization Rate	75.6	74.8	73.6	(1.23)

\*Change in percentage points 15/16

\*\*Includes portion of public debt owed to non-residents, liabilities to non-resident banks, non-resident deposits (estimated by the IMF), Bank for International Settlements' claims on Lebanese non-banks

Source: Association of Banks in Lebanon, Institute of International Finance, International Monetary Fund, World Bank, Byblos Research Estimates & Calculations  
Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

## Risk Metrics

Lebanon	Apr 2015	Mar 2016	Apr 2016	Change**	Risk Level
Political Risk Rating	55.0	54.5	55.5	▼	High
Financial Risk Rating	39.0	36.5	36.5	▲	Low
Economic Risk Rating	33.0	30.5	30.5	▲	Moderate
Composite Risk Rating	63.5	60.75	61.25	▲	Moderate

MENA Average*	Apr 2015	Mar 2016	Apr 2016	Change**	Risk Level
Political Risk Rating	57.2	57.7	57.7	▼	High
Financial Risk Rating	39.4	40.0	39.7	▼	Low
Economic Risk Rating	33.9	31.6	31.1	▲	Moderate
Composite Risk Rating	65.3	64.6	64.3	▲	Moderate

\*excluding Lebanon

\*\*year-on-year change in risk

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	B2	NP	Negative	B2		Negative
Fitch Ratings	B-	B	Stable	B-		Stable
Standard & Poor's	B-	B	Stable	B-	B	Stable
Capital Intelligence	B	B	Stable	B	B	Stable

Source: Rating agencies

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



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