



LEBANON THIS WEEK

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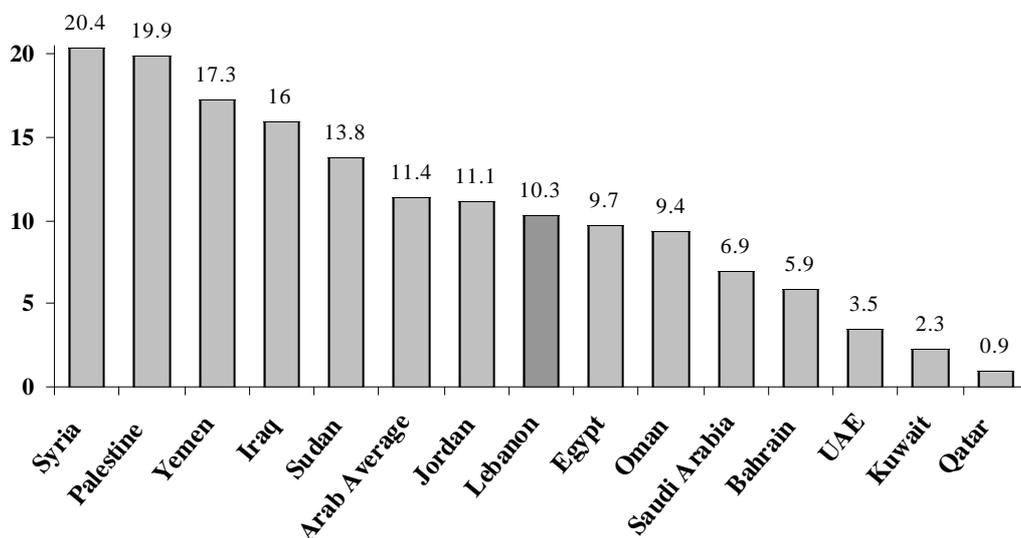
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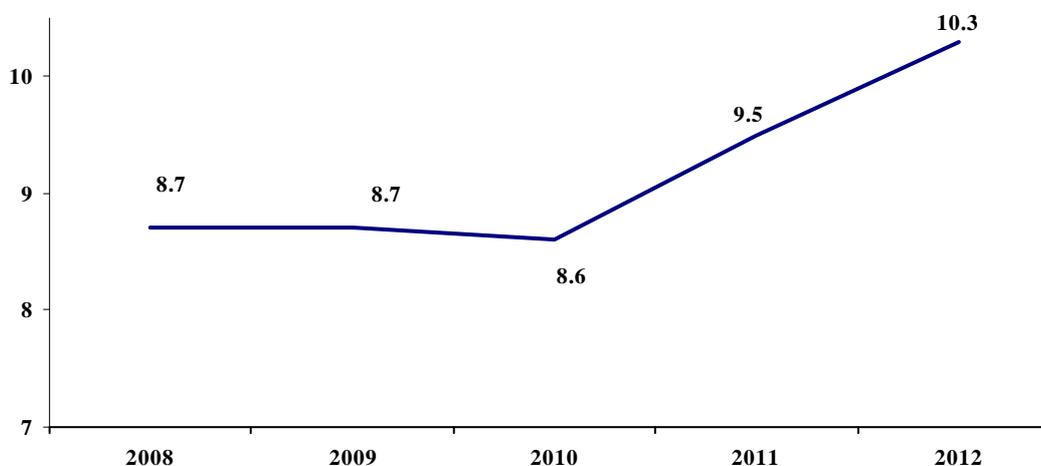
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Charts of the Week

Unemployment Rate in Select Arab Countries in 2012 (% of total labor force)



Unemployment Rate in Lebanon (% of total labor force)



Source: United Nations Economic and Social Commission for Western Asia, Byblos Bank

Quote to Note

"In the absence of structural reforms, the projected increase in the salaries of civil servants could further widen the fiscal deficit, raise the cost of domestic and foreign borrowing to finance the deficit, and further raise the unemployment rate."

The Institute of International Finance, on the risks of approving the across-the-board increase in the public-sector salary scale

Number of the Week

\$0.84bn: Decline in the Central Bank of Lebanon's gross foreign currency reserves during 2012

Economic Indicators

\$m (unless otherwise mentioned)	2010	Dec 11	2011	Oct 12	Nov 12	Dec 12	% Change*
Exports	4,256	338	4,276	441	364	381	12.72
Imports	17,956	1,665	20,170	1,774	1,604	1,871	12.37
Trade Balance	(13,700)	(1,327)	(15,894)	(1,333)	(1,240)	(1,490)	12.28
Balance of Payments	3,326	692	(1,996)	(97)	179	312	(54.90)
Checks Cleared in LBP	13,519	1,370	14,251	1,353	1,287	1,337	(2.37)
Checks Cleared in FC	53,925	5,091	57,852	4,732	4,676	4,670	(8.27)
Total Checks Cleared	67,444	6,461	72,103	6,085	5,963	6,007	(7.02)
Budget Deficit/Surplus	(2,894)	(391.00)	(2,342)	(617.49)	(807.69)	(441.24)	12.85
Primary Balance	1,231	(73.00)	1,662	(215.20)	(369.47)	(174.33)	138.81
Airport Passengers	5,512,435	445,968	5,596,034	470,190	412,595	495,760	11.16

\$bn (unless otherwise mentioned)	Dec 2010	Dec 11	Sep 12	Oct 12	Nov 12	Dec 12	% Change*
BdL FX Reserves	28.60	30.82	29.99	29.46	29.79	29.97	(2.76)
<i>In months of Imports</i>	<i>19.46</i>	<i>18.51</i>	<i>18.41</i>	<i>16.61</i>	<i>18.57</i>	<i>16.02</i>	<i>(13.46)</i>
Public Debt	52.59	53.66	56.07	56.60	57.55	57.69	7.51
Net Public Debt	45.01	46.37	47.83	48.35	48.87	49.12	5.93
Bank Assets	128.93	140.58	148.36	149.38	150.38	151.88	8.04
Bank Deposits (Private Sector)	107.20	115.72	121.75	122.60	123.13	125.00	8.02
Bank Loans to Private Sector	34.93	39.38	42.29	42.76	42.94	43.45	10.34
Money Supply M2	39.40	38.90	41.81	42.31	42.67	43.17	10.97
Money Supply M3	92.15	97.23	101.50	102.43	102.89	104.01	6.97
LBP Lending Rate (%)	7.91	7.38	7.30	7.31	7.11	7.07	(31b.p.)
LBP Deposit Rate (%)	5.68	5.63	5.43	5.43	5.38	5.41	(22b.p.)
USD Lending Rate (%)	6.74	7.02	7.16	7.15	7.09	6.87	(15b.p.)
USD Deposit Rate (%)	2.80	2.83	2.83	2.87	2.85	2.86	3b.p.
%* Change in CPI**	6.19	4.27	8.26	8.86	9.48	6.36	209b.p.

* Year-on-Year; ** Consumer Price Index

Note: b.p. i.e. basis point

Sources: ABL, BdL

Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization
Solidere "A"	12.55	0.56	86,088	11.48%
Solidere "B"	12.45	(0.48)	43,779	7.40%
Byblos Common	1.60	(3.03)	300,283	5.26%
Byblos Pref. 08	102.50	0.00	0	1.87%
Byblos Pref. 09	105.10	0.00	1,028	1.92%
BLOM GDR	8.50	0.00	14,617	5.74%
BLOM Listed	8.24	(0.36)	12,000	16.20%
Audi GDR	7.00	4.95	1,000	6.53%
Audi Listed	6.75	0.90	3,010,350	21.59%
HOLCIM	15.86	(3.88)	1,610	2.83%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
June 2013	8.625	101.98	0.70
Apr. 2014	7.375	105.25	2.36
Jan. 2015	5.875	104.50	3.30
Apr. 2015	10.00	113.50	3.28
Jan. 2016	8.500	110.50	4.50
Mar. 2017	9.000	115.13	4.80
Nov. 2018	5.150	100.13	5.12
Apr. 2021	8.250	115.13	5.85
Nov. 2026	6.600	103.06	6.26

Source: Byblos Bank Capital Markets

	Mar 11 - 15	Mar 4 - 8	% Change	Feb 2013	Feb 2012	% Change
Total Shares Traded	3,908,483	467,511	736.02	1,491,134	3,288,030	(54.65)
Total Value Traded	\$24,495,433	\$2,767,020	785.26	\$12,994,109	\$28,733,270	(54.78)
Market Capitalization	\$10.94bn	\$10.93bn	0.09	\$10.94bn	\$10.57bn	3.44

Source: Beirut Stock Exchange (BSE)



FDI in Lebanon down 68% to \$1.1bn in 2012, second steepest drop in emerging markets

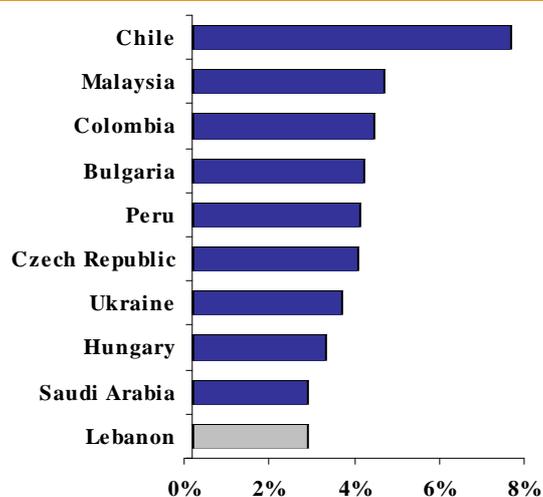
Figures released by the Institute of International Finance show that foreign direct investment (FDI) in Lebanon totaled \$1.1bn in 2012, constituting a decline of 68% from \$3.5bn in 2011 and compared to inflows of \$4.3bn in 2010 and \$4.8bn in 2009. The drop in FDI was the second steepest among emerging markets last year. FDI inflows to Lebanon accounted for 0.2% of total FDI in 30 emerging markets with available figures and for 2.8% of aggregate flows to seven countries in the Middle East and Africa (ME&A) region last year, relative to a share of 0.7% of total FDI inflows to emerging economies and of 7.9% of aggregate FDI inflows to the ME&A region in 2011. Lebanon was the fifth smallest recipient of FDI inflows last year among emerging markets, coming ahead of Poland, Venezuela, Ecuador and Romania; and the smallest recipient among countries in the ME&A region. It was the ninth smallest recipient among emerging markets and the fourth smallest among ME&A economies in 2011. Saudi Arabia (\$17.3bn) was the biggest recipient of FDI inflows in the ME&A region last year, while China (\$205bn) was the largest recipient among emerging economies.

In parallel, FDI outflows from Lebanon totaled \$650m in 2012, down 12.8% from \$745m in 2011 and compared to \$487m in 2010 and \$1.1bn in 2009. FDI outflows from Lebanon accounted for 0.3% of total FDI outflows from emerging markets and for 5.1% of aggregate outflows from ME&A economies last year, relative to a share of 0.4% of total FDI outflows from emerging economies and for 6.9% of aggregate outflows from the ME&A region in 2011. FDI outflows from Lebanon were the 11th lowest among emerging markets and the third lowest among ME&A countries in 2012, while they were the ninth lowest among emerging markets and the second lowest in the ME&A region in 2011.

Further, net FDI in Lebanon totaled \$462m in 2012, constituting a drop of 83.1% from \$2.7bn in 2011 and relative to \$3.8bn in 2010 and \$3.7bn in 2009. Net FDI flows to Lebanon accounted for 0.2% of total net FDI flows to emerging markets and for 1.7% of aggregate net flows of \$27.5bn in the ME&A region in 2012, relative to a share of 0.8% of net FDI to emerging economies and of 8.2% of net FDI to ME&A economies in 2011. Net FDI in Lebanon was the six lowest among emerging markets in 2012 and the lowest among countries in the ME&A region. It was the 13th lowest among emerging markets and the fourth lowest in the ME&A region in 2011. Saudi Arabia (\$12.8bn) was the biggest recipient of net FDI in the ME&A region last year, while China (\$135bn) was the largest recipient among emerging economies. The IIF projected FDI inflows to Lebanon at \$2.1bn and net FDI at \$1.3bn in 2013.

Further, FDI inflows to Lebanon were equivalent to 2.68% of GDP last year, second highest among the seven ME&A economies and the 10th highest such ratio among the 30 emerging markets. In comparison, FDI inflows to emerging markets economies were equivalent to 2.1% of their aggregate GDP last year, while inflows to ME&A states were equivalent to 2% of the region's total GDP. Further, net FDI in Lebanon was equivalent to 1.1% of GDP in 2012, the 15th highest share among emerging markets and the fourth highest share among ME&A economies, behind Saudi Arabia (2% of GDP), Nigeria (1.6% of GDP) and Morocco (1.5% of GDP). In comparison, net FDI to emerging market economies were equivalent to 1.1% of their aggregate GDP last year, while inflows to ME&A states were also equivalent to 1.1% of the seven countries' total GDP.

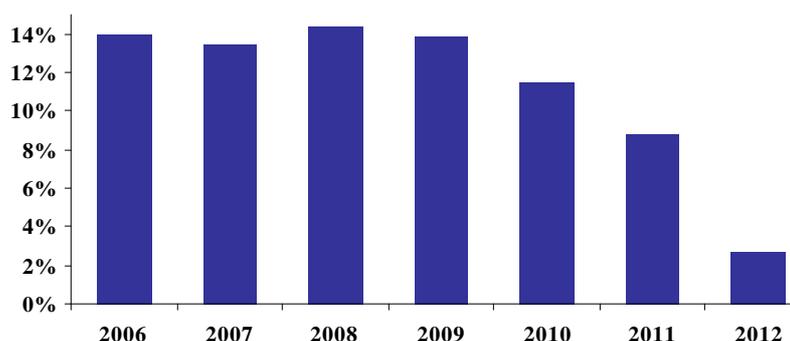
Top FDI Destinations in 2012* (% of GDP)



*in 30 Emerging Markets

Source: Institute of International Finance, Byblos Research

Foreign Direct Investment in Lebanon (% of GDP)



Source: Institute of International Finance, Byblos Research

Lebanon's external debt posts 22nd highest returns in emerging markets, fourth highest in the Middle East & Africa

Figures issued by Merrill Lynch indicate that Lebanon's external debt posted returns of 1.24% in the first two months of 2013, constituting the ninth highest return among 32 markets in the Eastern Europe, the Middle East & Africa (EMEA) region as well as the 22nd highest return among the 59 emerging markets included in Merrill Lynch's Sovereign Plus Debt Index. Lebanon outperformed the EMEA region's returns of -0.62%, as well the overall emerging markets returns of -1.38% in the first two months of 2013. Also, Lebanon's external debt outperformed the -1.41% returns posted by similarly-rated sovereigns.

Further, Lebanon's external debt posted the fourth highest returns among 17 countries in the Middle East & Africa region in the first two months of 2013, ahead of Jordan and Zambia (1.13% each), Gabon (0.92%), Senegal (0.38%), Tunisia (0.23%), Ghana (-0.07%), Angola (-0.41%), Namibia (-1.4%), Nigeria (-1.42%), Turkey (-1.89%), South Africa (-2.56%), Iraq (-2.75%) and Egypt (-6.06%). It was outperformed by the Ivory Coast (3.4%), Morocco (2.53%) and Bahrain (2%). In US dollar terms, Lebanon's external debt posted returns of 1.25% in the first two months of 2013, seventh highest in the EMEA region and 20th highest among emerging markets.

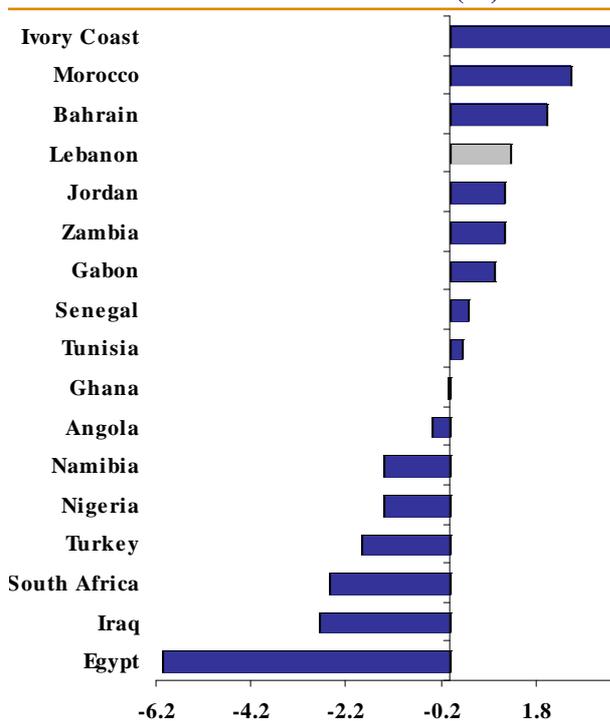
In parallel, Lebanon's external debt posted returns of 0.23% in February 2013, constituting the eighth highest return in the EMEA region and the 18th highest in emerging markets during the covered period. Lebanon outperformed the EMEA returns of -0.28% and that of emerging markets of -0.25% as well as the -0.24% returns of similarly-rated sovereigns for the same month. Further, Lebanon's external debt posted the fourth highest returns in the Middle East & Africa region in February 2013, similar to Jordan. It outperformed Bahrain and South Africa (0% each), Turkey (-0.31%), Tunisia (-0.91%), Ghana (-1.3%), Namibia (-1.37%), Zambia (-1.73%), Senegal (-2.65%), Angola (-2.77%), Nigeria (-2.88%), Egypt (-3.63%) and Iraq (-4.69%); underperformed Morocco (0.68%), Ivory Coast (0.65%) and Gabon (0.35%). Merrill Lynch said the spread on Lebanese Eurobonds ended February 2013 at 405 basis points, constituting the 13th widest spread in the EMEA region and 21st widest among emerging markets. It was wider than the EMEA spread of 276 basis points as well as the emerging markets overall spread of 286 basis points at end-February 2013. Lebanon has a weight of 3.73% on Merrill Lynch's Sovereign Plus Debt Index, fifth highest in the EMEA universe, and 10th highest among emerging economies. Lebanon accounted for 7.6% of the allocations in the EMEA region.

Lebanese banking sector has similar level of vulnerability as sectors in Qatar, France and Norway

In its annual risk assessment of 105 banking systems in advanced and emerging economies, Fitch Ratings maintained Lebanon's banking sector in the "moderate level of potential vulnerability" category along with 19 other banking systems on its Macro-prudential Indicator (MPI). The MPI tries to identify the build-up of potential stress in banking systems due to a specific set of circumstances. It aims to highlight potential systemic stress that could materialize up to three years after an early warning is first indicated. As such, it identifies instances of rapid real credit growth over successive two-year periods, along with growth in real property prices, an appreciation in the real exchange rate or a rise in real equity prices. Its assessment is based on three years of annual data, divided into two overlapping two-year periods, with a trigger in either period relevant to a country's MPI score. It said that an MPI score of '1' denotes low potential vulnerability, while a score of '2' reflects moderate vulnerability and a score of '3' denotes a high level of vulnerability to potential systemic stress. Fitch maintained Lebanon's MPI score at '2', following its upgrade last August from a score of '3' due to lower appreciation of the real exchange rate as well as to real private-sector credit growth remaining at below 15% in the past two years. Angola, Cameroon, Cyprus, Gabon, Ghana, Kenya, Qatar, Rwanda, Uganda and Zambia also came in the '2' category in the Middle East & Africa region. Other countries in this category included Finland, France, Norway, Sweden and the United Kingdom.

In parallel, the agency indicated that Lebanon's banking sector was among 33 banking systems that had a Banking System Indicator (BSI) of 'b'. The BSI is a measure of intrinsic banking system quality or strength, derived from Fitch's Viability Ratings for banks which replaced the agency's Individual Ratings for banks. It deliberately excludes potential support from shareholders or governments since the objective is to highlight systemic weakness that might trigger the need for such support. The BSI is a simple weighted average of bank VRs for at least two-thirds of banks in any banking system. Lebanon came in the 'b' category along with Egypt, Tunisia and Nigeria in the Middle East & Africa region, as well as with Argentina, Armenia, Kazakhstan, Lithuania and Ukraine, among others. Fitch said that the typical level of banking strength in developed countries is 'a', while that of emerging markets is in the range of 'bbb/bb/b'. Lebanon, Ecuador, Ireland, Portugal, Venezuela and Vietnam were the only countries with an MPI score of '2' and a BSI Strength of 'b'.

External Debt Performance in Middle East & Africa in First Two Months of 2013 (%)



Source: Merrill Lynch, Byblos Research

Lebanon ranks 107th globally, 13th in Arab region in credit ratings

In its semi-annual survey on the creditworthiness of 179 countries, *Institutional Investor* magazine ranked Lebanon in 107th place worldwide, in 31st place among 40 Upper-Middle Income Countries (UMICs) and in 13th place among 19 Arab countries in the March 2013 survey. In comparison, Lebanon ranked in 110th place globally, in 33rd place among UMICs and in 13th place regionally in September 2012, as well as in 105th place globally, in 31st place among UMICs and in 12th place regionally in the March 2012 report. The survey rates the creditworthiness of countries on a scale of zero to 100, with 100 representing countries with the least chance of debt default. The ratings are based on input provided by senior economists and sovereign risk analysts at leading global banks and money management and securities firms.

On a global basis, Lebanon ranked ahead of Mozambique, Argentina and Turkmenistan, and came behind Sri Lanka, Cape Verde and Kenya. Lebanon's ranking dropped by two spots from the March 2012 survey but improved by three spots from the September 2012 survey. Lebanon received a score of 30.2 points compared to 31.7 points in September 2012 and 32.5 points in March 2012. As such, its score declined by 4.7% from September 2012, the third steepest decrease regionally; and regressed by 7.1% from March 2012, constituting the fifth sharpest decline among Arab countries. In comparison, the global average rating score regressed by 1.6% and the Arab average score remained unchanged from the September survey, while the score of non-GCC Arab countries declined by a marginal 0.3% from six months earlier. Also, Lebanon's score was below the global average of 43.9 points and the UMICs' average of 46.2 points, as well as below the Arab average of 44.1 points and the non-GCC Arab countries' average score of 31.4 points. The rankings of 12 Arab countries improved, three regressed and four remained unchanged; while the scores of 11 countries improved and eight declined from September 2012. Norway remained the country with the best creditworthiness in the world, while Somalia had the highest probability of default worldwide.

Arab Countries Rankings & Scores

Country	Credit Rating	Arab Rank	Global Rank
Qatar	77.4	1	25
Kuwait	74.9	2	27
Saudi Arabia	74.3	3	28
UAE	74.1	4	29
Oman	69.8	5	35
Bahrain	58.3	6	51
Algeria	50.0	7	70
Morocco	49.7	8	71
Tunisia	45.4	9	74
Jordan	44.0	10	75
Libya	37.4	11	89
Egypt	35.1	12	96
Lebanon	30.2	13	107
Iraq	26.1	14	125
Mauritania	23.1	15	138
Djibouti	22.8	16	141
Yemen	18.5	17	156
Syria	15.5	18	166
Sudan	10.8	19	174

Source: *Institutional Investor*, *Byblos Research*

Electricity problems are obstacle to growth and development

Standard Chartered Bank projected Lebanon's real GDP growth at 2.5% in 2013 and estimated growth at 1.3% in 2012. It said that regional instability has increased domestic political divisions and has negatively affected domestic and foreign investors' confidence. It added that Lebanon is a service-oriented economy that is very dependent on sentiment and on final demand. As such, it pointed out that investment, real estate, tourism and consumption were severely hit last year by regional and domestic instability. Further, it considered that the economy's potential for higher growth will be limited by the ongoing poor security environment and by an upcoming tourism season that will not yield its full potential due to an unfavorable local holiday calendar. It cautioned that the slowdown in nominal GDP growth would reverse the downward trend in the public debt-to-GDP ratio.

Standard Chartered indicated that Lebanon's electricity problems represent a significant barrier to the country's growth and development. It said the indirect subsidy system, which is adopted to cover the shortfall of the state-owned Electricité du Liban (EdL), constitutes a significant drag on public finances. It estimated that Treasury transfers to EdL absorbed 20% of budget expenditures in 2012, and noted that this share would rise to 27% of spending when including EdL's debt servicing. Further, it pointed out that low access to electricity in Lebanon remains a major issue despite the rising energy bill, as companies and households rely on expensive private electricity generators to offset rationing and blackouts. It noted that authorities should implement an economically viable pricing system of electricity, redistribute the higher fee collection to the poorest segments of the population, and rehabilitate EdL's procedural management, such as enforcing payment collection and combating illegal electricity connections.

In parallel, it considered that the government's timetable for the start of commercial extraction of potential offshore gas reserves by 2017 is very ambitious, even in a best-case scenario, and estimated that extraction is more likely to start by 2020. It noted that the figures about potential reserves and financial revenues are disputed and regularly revised, with various feasibility studies being conducted. It said that the proper exploitation of hydrocarbon resources has the potential to change the outlook of Lebanese economy. But it noted that political divisions, the security environment, costs and technical difficulties would weigh on the prospects for the exploitation of reserves.

Fiscal deficit up 67.6% to \$3.9bn in 2012 when assuming \$1.4bn in telecom revenues

Figures released by the Finance Ministry show that the fiscal deficit reached \$3.9bn in 2012, up 67.6% from \$2.3bn in the previous year. The deficit was equivalent to 29.5% of total budget and Treasury expenditures compared to 20.1% of overall spending in 2011. Overall government expenditures reached \$13.3bn, up 14.1% year-on-year, while total revenues increased by 0.7% to \$9.4bn. Budgetary expenditures regressed by 4.5% to \$10.2bn and included \$2.3bn in transfers to Electricité du Liban and \$588.2m in outlays from previous years, while budget revenues rose by 0.9% to \$8.9bn. Tax revenues rose by 3.1% year-on-year to \$6.8bn, of which 32.2%, or \$2.2bn, were in VAT receipts that fell by 0.7% from 2011. Tax revenues accounted for 75.6% of budgetary revenues and for 71.9% of total Treasury and budget receipts. The Finance Ministry is basing its monthly fiscal results on the Telecommunications Ministry's estimate of telecom receipts which reached \$1.4bn last year, rather than on the Treasury actually receiving the funds from the Telecom Ministry. On a cash basis for the two compared periods, public revenues increased by 1.7% year-on-year; while the fiscal deficit rose by 39.4% to \$5.4bn, equivalent to 40.2% of expenditures.

The distribution of other tax revenues shows that receipts from taxes on income, profits & capital gains tax increased by 3.9% to \$1.7bn; customs revenues grew by 3.3% year-on-year to \$1.5bn; revenues from property taxes expanded by 4.2% to \$791.2m; other tax receipts, mainly stamp fees, grew by 5.2% to \$317.1m; and revenues from taxes on goods & services rose by 23% to \$313.9m. Further, the distribution of income tax revenues shows that the tax on profits accounted for 40% of total income tax receipts, followed by the tax on interest deposits with 25.7%, taxes on wages & salaries with 20.8%, and the capital gains tax with 11.8%. Income from capital gains tax grew by 21.9% and revenues from taxes on wages & salaries improved by 14.8%, while tax receipts on profits fell by 2.6% and income from the tax on interest regressed by 0.7%.

Also, the distribution of property taxes shows that revenues from real estate registration fees increased by 3.2% to \$577.4m and receipts from built property taxes grew by 23.2% to \$113.7m, while revenues from inheritance tax fell by 6.5% to \$100.1m. In parallel, non-tax budgetary revenues regressed by 5.3% to \$2.2bn, with revenues from government properties dropping by 5.6% to \$1.7bn and administrative fees & charges growing by 2.9% to \$389.5m. Based on the ministry's assumption, receipts from telecom services accounted for 85.2% of income from government properties and for 65.6% of non-tax revenues.

Debt servicing cost decreased by 3.5% to \$3.6bn last year. It accounted for 27.2% of total expenditures and for 35.7% of budgetary spending, and absorbed 38.5% of overall revenues and 40.5% of budgetary receipts. Interest payment on domestic debt declined by 6.2% to \$2.2bn, while interest disbursement on foreign debt rose by 1% to \$1.4bn. Repayment of principal on foreign debt fell by 22.3% to \$195.6m. Excluding debt servicing, the primary budget balance posted a surplus of \$2.6bn, or 25.6% of budget expenditures compared to a surplus of \$2.2bn, or 21% of budget spending in the previous year. The overall primary balance shifted to a deficit of \$110.1m or 0.8% of spending, from a surplus of \$1.7bn or 14.2% of total expenditures in 2011.

	Fiscal Results in 2012	
	Including Assumed Telecom Receipts	Excluding Assumed Telecom Receipts*
	US\$m	US\$m
Budget revenues	8,937	7,507
Tax revenues	6,758	6,758
Non-tax revenues	2,180	750
<i>of which Telecom revenues</i>	1,430	-
Budget expenditures	10,153	10,153
Budget Deficit	(1,216)	(2,646)
<i>In % of budget expenditures</i>	<i>(12%)</i>	<i>(26.1%)</i>
Budget Primary Surplus	2,600	1,170
<i>In % of budget expenditures</i>	<i>25.6%</i>	<i>11.5%</i>
Treasury receipts	458	458
Treasury expenditures	3,168	3,168
Total Revenues	9,396	7,966
Total Expenditures	13,321	13,321
Total Deficit	(3,925)	(5,355)
<i>In % of total expenditures</i>	<i>(29.5%)</i>	<i>(40.2%)</i>
Total Primary Deficit	(110)	(1,540)
<i>In % of total expenditures</i>	<i>(0.8%)</i>	<i>(11.6%)</i>

* Cash basis

Source: Ministry of Finance, Byblos Research



Lebanon ranks 72nd globally and 7th regionally in human development

The United Nations ranked Lebanon in 72nd place among 187 countries worldwide and in seventh place among 19 Arab countries on its Human Development Index (HDI) for 2012. Lebanon ranked in 72nd place worldwide and in sixth place in the region in 2011. Also, Lebanon ranked in 24th place among 46 Upper Middle Income Countries (UMICs) included in the 2012 index, unchanged from the previous year. The HDI measures the average achievements in a country in three basic dimensions of human development that are health, education and income. Lebanon was considered to have a 'high-level' of human development, unchanged from the previous report. Further, Lebanon was one of 47 countries worldwide that have a 'high-level' of human development. Norway ranked first globally while the Democratic Republic of the Congo and Niger came in last place in terms of human development.

Lebanon received a score of 0.745 points on the HDI in 2012 compared to a score of 0.744 in 2011, 0.743 in 2010, 0.739 in 2009, 0.734 in 2008, 0.728 in 2007, 0.721 in 2006 and 0.714 in 2005. Its score came above the global average of 0.694 points as well as above the Arab States' average of 0.652 points, but it was below the average score of countries that have a 'high-level' of human development of 0.758 points. On a global basis, Lebanon had a similar level of human development than Saint Kitts & Nevis, Georgia and Dominica, while it had a higher level of development than Iran, Peru and Ukraine, and a lower level of human development than Venezuela, Albania and Kazakhstan. Also, Lebanon had a similar level of human development than Saint Kitts & Nevis and Dominica; a higher level of human development than Iran, Peru and Macedonia; and a lower level of development than Venezuela, Albania and Kazakhstan among UMICs. Regionally, Lebanon had a lower level of human development than Libya Saudi Arabia Kuwait, Bahrain, the UAE, and Qatar. Figures on individual components of the index, such as life expectancy, mean years of schooling and expected years of schooling, show that Lebanon's results per category continue to be higher than corresponding global and Arab averages.

In parallel, Lebanon ranked in 78th place among 148 countries on the Gender Inequality Index (GII), which measures gender-based disadvantages in reproductive health, empowerment and the labor market. Lebanon also ranked in eighth place among 17 Arab countries and in 21st place among 33 UMICs. The GII's scores range from zero, which indicates that women and men fare equally, to one, which means that women fare as poorly as possible in all measured dimensions. Lebanon received a score of 0.433 points on the GII, better than the global and Arab averages of 0.555 points and 0.463 points, respectively, but worse than the average score of 0.376 points in countries that have a 'high-level' of human development.

In terms of demographic trends, the report projected Lebanon's population at 4.7 million by 2030, growing at an annual rate of 0.5% over the 2012-30 period. Further, it expected Lebanon's population to grow at an annual rate of 0.7% between 2010 and 2015 compared to an annual growth of 1.6% between 2000 and 2005. Further, it estimated Lebanon's urban population at 87.4% in 2012 compared to 86% in 2000 and relative to 57.2% for Arab states and 52.6% globally for the same year. Also, it estimated Lebanon's total dependency ratio, which is the ratio of Lebanese under 14 years and those 65 years and above to Lebanese between 15 years and 64 years, at 45.1% in 2012 relative to 59.4% in 2000. In comparison, the same ratio was 59.7% for Arab countries and 52% globally.

Human Development Index

Country	Human Development Index		Category *
	Arab Rank	Global Rank	
Qatar	1	36	Very High
UAE	2	41	Very High
Bahrain	3	48	High
Kuwait	4	54	High
Saudi Arabia	5	57	High
Libya	6	64	High
Lebanon	7	72	High
Oman	8	84	High
Algeria	9	93	High
Tunisia	10	94	High
Jordan	11	100	Medium
Palestine	12	110	Medium
Egypt	13	112	Medium
Syria	14	116	Medium
Morocco	15	130	Medium
Iraq	16	131	Medium
Yemen	17	160	Low
Djibouti	18	164	Low
Sudan	19	171	Low

*Level of human development

Source: UNDP, Byblos Research

Human Development Index Components

	Life expectancy at birth (years)	Mean years of schooling (years)	Expected years of schooling (years)	GNI per capita* (US\$)
Lebanon	72.8	7.9	13.9	12,364
Arab States	71.0	6.0	10.6	8,317
World	70.1	7.5	11.6	10,184

*At 2005 Purchasing Power Parity rate

Source: UNDP, Byblos Research



Agreements with Cyprus to increase Internet capacity and connectivity

The Ministry of Telecommunications announced that it has signed an agreement with the Cyprus Telecommunications Authority (Cyta) to acquire a 24% capacity in the Alexandros international submarine cable that connects Cyprus, Egypt and France. It indicated that the deal would give Lebanon access to an additional 700 Gigabits (GB) of bandwidth, to be added to the 200 GB currently accessed via the India-Middle East-Western Europe (IMEWE) submarine cable. It expected the deal to reduce wholesale prices for Internet providers, which would lead to a reduction of DSL rates for subscribers.

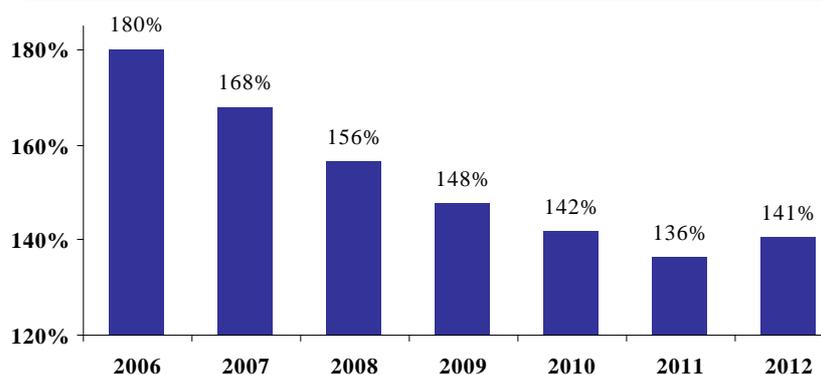
In parallel, the ministry and Cyta Global signed a non-binding Memorandum of Understanding (MoU) for the construction of the Europa system, a new high-capacity submarine cable between Cyprus and Lebanon. The Europa system is expected to be operational by 2015 and would provide a high-quality alternative route to the existing Cadmos cable system that currently connects Lebanon to Cyprus. Also, the Europa system would provide Internet connectivity to European destinations and beyond, as well as improve the connectivity between Europe and the Middle East. Cyta is the primary telecommunications provider in Cyprus.

Net public debt at \$49.5bn at end-January 2013

Lebanon's gross public debt reached \$58bn at the end of January 2013, constituting a rise of 0.6% from the end of 2012 and an increase of 8.1% from end-January 2012. Domestic debt totaled \$33.6bn at end-January, rising by 0.8% from end-2012 and increasing by 2.5% annually; while external debt stood at \$24.5bn, up by 0.3% from end-2012 and by 16.8% from a year earlier. The rise in external debt was caused by a swap operation in June 2012, when the Finance Ministry issued three new Eurobonds totaling \$2bn that were used for early redemption and cancellation of Lebanese pound-denominated Treasury bills held by the Central Bank of Lebanon. Local currency debt accounted for 57.8% of gross public debt at end-January 2013 compared to 61% a year earlier, while foreign currency-denominated debt represented 42.2% of the total at the end of January relative to 39% a year earlier. The weighted interest rate on outstanding Treasury bills was 6.54%, while the weighted interest rate on Eurobonds was 6.66% at the end of January. Further, the weighted life on Eurobonds was 5.97 years, while that on Treasury bills was 1,093 days.

Commercial banks accounted for 52.4% of the local public debt at the end of January 2013 compared to 50.7% a year earlier. They were followed by the Central Bank with 31%, down from 33.4% at end-January 2012; while public agencies, financial institutions and the general public accounted for 16.5% of local debt compared to 15.9% at end-January 2012. Eurobond holders, foreign private sector loans and special T-bills in foreign currencies accounted for 89.5% of the external debt, followed by multilateral institutions with 5.4%, foreign governments with 4.4%, and Paris II loans with 0.8%. Net public debt, which excludes the public sector's deposits at the Central Bank and at commercial banks from overall debt figures, increased annually by 6.5% to \$49.5bn. In parallel, the gross market debt accounted for about 64% of total public debt. Gross market debt is the total public debt less the portfolios of the Central Bank, the National Social Security Fund, bilateral and multilateral loans, as well as Paris II and Paris III related debt.

Gross Public Debt in Lebanon (% GDP)



Source: Institute of International Finance, Byblos Research

Payment cards reach 1.86 million, ATMs total 1,433 at end-2012

Figures released by the Central Bank show that the number of payment cards issued in Lebanon reached 1,861,849 cards at the end of 2012, constituting a 4.4% increase from end-2011, and compared to a 6.4% rise in 2011 and to a 2.8% growth in 2010. Resident cardholders accounted for 96% of total cards issued in Lebanon at end-2012. The distribution of payment cards by type shows that debit cards with residents accounted for 58.4% of the total, followed by credit cards with residents (22.9%), charge cards with residents (8.3%), resident prepaid cards (6.5%), non-resident debit cards (2.6%), non-resident credit cards (0.7%), non-resident charge cards (0.5%), and non-resident prepaid cards (0.2%). In parallel, the number of ATMs rose by 8.1% year-on-year to 1,433 machines at the end of 2012, compared to a growth of 3.2% in 2011 and a rise of 6.5% in 2010. The Greater Beirut area had 615 ATMs at end-2012, equivalent to 42.9% of the total, followed by Mount Lebanon with 420 (29.3%), the North with 140 (9.8%), the South with 123 (8.6%), the Bekaa with 109 (7.6%), and Nabatiyeh with 26 (1.8%).



Kafalat loan guarantees down 26% to \$16m in first two months of 2013

Figures released by the Kafalat Corporation show that loans extended to small- and medium-size companies under the guarantee of Kafalat reached \$15.8m in the first two months of 2013, down 25.6% from \$21.2m in the same period last year. The number of loan guarantees totaled 115 year-to-February compared to 148 in the same period last year. The average loan size reached \$137,288 compared to \$143,354 in the first two months of 2012. Mount Lebanon accounted for 43.5% of guarantees, followed by the Bekaa with 22.6%, the South & Nabatieh with 15.7%, the North with 10.4%, and Beirut with 7.8%. The industrial sector accounted for 38.3% of total guarantees, followed by agriculture with 36.5%, tourism with 16.5%, handicraft with 5.2%, and specialized technologies with 3.5%. 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.

Car sales up 6% in first two months of 2013

Figures released by the Association of Automobile Importers in Lebanon (AIA) indicate that a total of 4,723 new passenger cars were sold in the first two months of 2013, constituting an increase of 5.7% from the 4,467 cars sold in the same period last year. Korean cars accounted for 46.7% of total sales, followed by Japanese cars with a 22.6% share, European automobiles with 22%, American vehicles with 6.6%, and Chinese cars with 2%. Chinese cars posted the highest growth in sales with a 244.4% rise year-on-year, followed by Korean cars with a 12.8% increase, and European cars with a 0.48% rise, while Japanese cars posted a 5.8% drop in sales year-on-year. In parallel, the number of American cars remained unchanged from the same period last year. Kia is the leading brand in the Lebanese market with 1,275 cars sold in the first two months of 2013, followed by Hyundai with 932, Nissan with 555 cars sold, Toyota (243), Chevrolet (170), Volkswagen (141), and Renault (139). In parallel, a total of 315 new commercial vehicles were sold in the first two months of 2013, down 15.3% from the 372 vehicles sold in the same period last year, but up 11.3% from the 283 vehicles sold in the first two months of 2011.

Top eight freight forwarders' activity improves in 2012

Figures released by the Port of Beirut Authority show that overall import shipping operations by the top eight freight forwarders reached 309,331 TEUs in 2012, constituting a rise of 11.8% from 276,685 TEUs in 2011. They accounted for 60.6% of the total import freight forwarding market during the covered period. Mediterranean Shipping Company (MSC) handled 100,090 20-foot equivalent units (TEUs) in imports in 2012, equivalent to 19.6% share of the total freight forwarding import market. It was followed by Sealine Group with 73,969 TEUs (14.5%), Merit Shipping with 58,763 TEUs (11.5%), Metz Group with 36,181 TEUs (7.1%), Gezairy Transport with 21,504 TEUs (4.2%), El Fil shipping with 9,461 TEUs (1.9%), Edouard Cordahi with 7,460 TEUs (1.5%) and MAERSK with 1,903 TEUs (0.4%). Further, Sealine Group registered the highest growth in import shipping among freight forwarders at 70.4% year-on-year, while MAERSK posted the steepest contraction at 94.8% year-on-year. In parallel, export shipping operations by the top eight freight forwarders reached 57,441 TEUs in 2012, constituting an increase of 24.2% from 46,246 TEUs in 2011. They accounted for 61.3% of the total export freight forwarding market during the covered period. Sealine Group handled 22,778 TEUs of freight, equivalent to 24.3% share of the total freight forwarding export market. It was followed by Merit Shipping with 21,421 TEUs (22.9%), MSC with 5,142 TEUs (5.5%), Metz Group with 3,278 TEUs (3.5%), Gezairy Transport with 3,092 TEUs (3.3%), Edouard Cordahi with 636 TEUs (0.7%), MAERSK with 562 TEUs and El Fil shipping with 532 TEUs (0.6% each). Further, Sealine Group registered the highest growth in export shipping among all freight forwarders at 377.4% year-on-year, while MEARSK posted the steepest drop of 96.7% year-on-year.

Moody's affirms Holcim's ratings, outlook revised to 'stable' from 'negative'

Moody's Investors Service affirmed the short- and long-term issuer ratings of the Swiss-based building materials company Holcim Ltd at 'P-2' and 'Baa2', respectively. It also revised the outlook on all ratings to 'stable' from 'negative'. Holcim Ltd is the parent company of Holcim Liban sal and holds a 52% stake in the Lebanese firm. The agency attributed the outlook revision to the company's stronger operating performance and cash flow generation since November 2011. It said that the group's credit metrics improved significantly over the past five quarters mainly due to management's focus on cash flow generation, a moderate reduction in capital expenditures, and lower cash dividends. It added that improving market conditions in the United States and the supportive trading environment in emerging markets stimulated Holcim's stronger cash flow generation. Also, it pointed out that the change in the ratings' outlook reflects Holcim's commitment to avoid the deterioration in its credit metrics and the generation of negative free cash flows. In parallel, it anticipated that supportive market conditions will continue to benefit the group in 2013. It expected Holcim to post modest growth in volumes, mainly driven by Asia-Pacific, Latin America, and North America. It pointed out that the company has adequate levels of liquidity and forecast operating cash flow generation in the next year to be sufficient to meet its obligations. Holcim Liban posted net profits of \$9.1m in the first half of 2012, constituting a decrease of 54.3% from \$20m in the same period of the previous year. The firm's net sales totaled \$89.8m in the first half of 2012, down 7.5% from \$97.1m in the first half of 2011. Holcim's total assets reached \$283.5m at end-June 2012, constituting a decrease of 5.7% from \$300.6m at end-2011; while its shareholders' equity was \$197.8m at end-June 2012 relative to \$215.2m at the end of the previous year. The company's total loans and borrowings reached \$11.5m at the end of June 2012, down 8.8% from \$12.6m at end-2011; while its banks' balance and cash fell by 51% to \$11.8m at the end of June 2012 from \$24.1m at the end of 2011. The firm is engaged in the production and sale of cement and other related services.

Insurance premiums up 4% to \$1.3bn in 2012, claims and benefits paid at \$650m

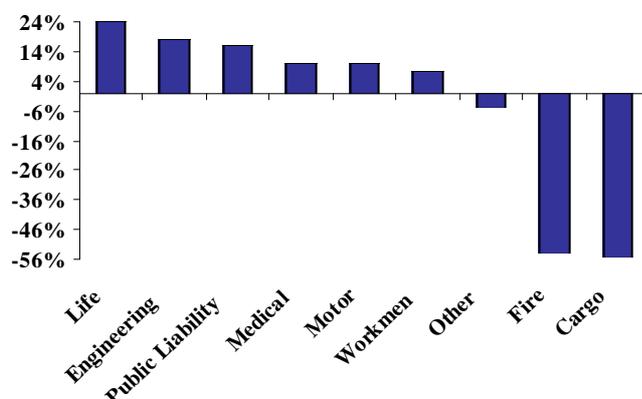
Figures released by the Association of Insurance Companies in Lebanon (ACAL) indicate that insurance premiums generated in Lebanon totaled \$1.3bn in 2012, constituting an increase of 4% from \$1.25bn in 2011. Insurance premiums reached \$318.3m in the first quarter, \$362.2m in the second quarter, \$286.4m in the third quarter and \$328.4m in the fourth quarter last year. Aggregate premiums increased by 3.6% in the first quarter of 2012 from the same quarter of 2011 and rose by 11.5% annually in the second quarter, while they contracted by 0.3% year-on-year in the third quarter and grew by 0.8% annually in the last quarter of 2012. Non-life premiums totaled \$918.3m last year and rose by 3.5% from 2011, while life premiums reached \$377.1m and grew by 4.6% year-on-year.

Further, life insurance premiums accounted for 29.1% of the sector's aggregate premiums. They were followed by medical premiums with \$363.5m (28.1%), motor premiums with \$324.5m (25%), fire premiums with \$90.6m (7%), other categories with \$38.5m (3%), workmen's compensation with \$38.2m (2.9%), cargo with \$34.7m (2.7%), public liability with \$17.2m (1.3%) and engineering with \$11.1m (0.9%). Engineering premiums surged by 47% last year, fire premiums rose by 10%, cargo premiums grew by 8%, workmen compensation and public liability premiums improved by 7% each, life premiums increased by 4.6%, premiums from other categories grew by 5% and medical premiums rose by 4%; while motor premiums contracted by 1% last year.

In parallel, ACAL indicated that total benefits and claims paid by insurance companies stood at \$650.2m in 2012, constituting an increase of 6% from 2011. Benefits and claims paid for the non-life categories totaled \$508.3m last year and grew by a marginal 0.5% from 2011; while those in the life category amounted to \$141.9m in 2012 and increased 23.8% annually. Medical claims totaled \$258m in 2012 and accounted for 39.7% of total claims, followed by motor claims with \$179.5m (27.6%), life claims with \$141.9m (21.8%), fire claims with \$27.1m (4.2%), workmen's claims with \$21.1m (3.2%), benefits and claims from other categories with \$6.9m (1.1%), cargo claims with \$6.4m (1%), public liability claims \$6.2m (1%), and engineering claims with \$3.3m (0.5%).

Further, unit-linked policies accounted for 59.6% of total life premiums and for 35.5% of the total number of life contracts in 2012; while life protection plans represented 40.4% of total life premiums and 64.5% of the total number of life contracts last year. ACAL noted that medical insurance premiums covering expatriates grew by 6% to \$10.6m last year, while medical insurance premiums covering Lebanese citizens rose by 4% at \$352.9m. Finally, it indicated that compulsory motor insurance premiums rose by 1% to \$55.1m in 2012, while non-compulsory motor insurance premiums declined by 1% to \$269.4m.

Change in Claims Paid in 2012 (%)



Source: Association of Insurance Companies in Lebanon

Ratio Highlights

(in % unless specified)	2010	2011	2012	Change*
Nominal GDP (\$bn)	37.1	39.3	41.6	
Public Debt in Foreign Currency / GDP	55.5	53.2	58.7	550
Public Debt in Local Currency / GDP	86.2	83.2	80.2	(300)
Gross Public Debt / GDP	141.7	136.4	138.9	250
Total Gross External Debt / GDP	167.2	173.8	172.3	(150)
Trade Balance / GDP	(36.9)	(40.5)	(40.4)	10
Exports / Imports	23.7	21.2	21.1	(10)
Fiscal Revenues / GDP	24.8	23.7	22.8	(90)
Fiscal Expenditures / GDP	30.5	29.7	30.2	50
Fiscal Balance / GDP	(5.7)	(6.0)	(8.3)	(230)
Primary Balance / GDP	5.5	4.2	0.7	(350)
Gross Foreign Currency Reserves / M2	72.6	79.2	69.4	(980)
M3 / GDP	248.4	247.4	250.0	260
Commercial Banks Assets / GDP	347.3	357.4	365.6	820
Private Sector Deposits / GDP	289.0	294.4	300.5	610
Private Sector Loans / GDP	94.2	100.2	104.5	430
Private Sector Deposits Dollarization Rate	63.2	65.9	64.8	(110)
Private Sector Lending Dollarization Rate	80.3	78.4	77.6	(80)

* Change in basis points 11/12

Source: Association of Banks in Lebanon, Institute of International Finance, International Monetary Fund, Ministry of Finance, 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	Apr 2011	Mar 2012	Apr 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	Apr 2011	Mar 2012	Apr 2012	Change*	Risk Level
Political Risk Rating	60.5	60.5	60.3	▼	Moderate
Financial Risk Rating	41.8	42.1	42.1	▲	Very Low
Economic Risk Rating	37.5	37.3	37.2	▼	Low
Composite Risk Rating	69.9	69.9	69.8	▼	Low

*year-on-year

Source: The PRS Group, Byblos Research

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

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

Ratings & Outlook

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

Source: Rating agencies

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

Source: Rating agencies



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