

## LEBANON THIS WEEK

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BankMed's profits up 7% to \$31m in first quarter of 2013

SGBL's net income up 1.7% to \$30m in first quarter of 2013

LIA's balance sheet at \$350m at end-2012

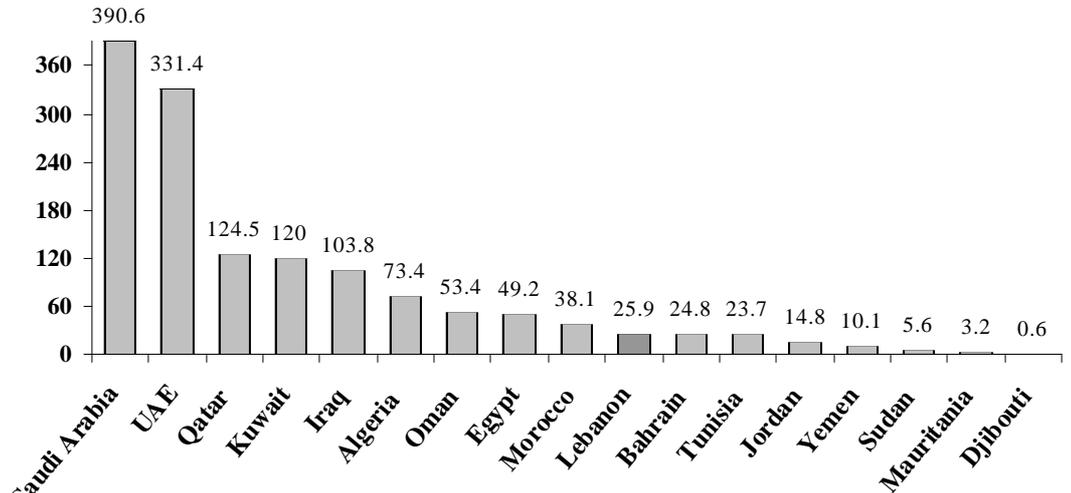
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### Charts of the Week

Projected Exports of Goods & Services from Arab Countries in 2013 (US\$bn)



Exports of Goods & Services from Lebanon (US\$bn)



Source: International Monetary Fund - May 2013, Byblos Bank

### Quote to Note

"Domestic political stability will represent a pivotal factor to reverse the deterioration in consumer and business confidence."

*JPMorgan Chase Bank, on the importance of political stability in Lebanon for economic growth and confidence*

### Number of the Week

**9%:** Penetration rate of electronic commerce among Internet users in Lebanon, according to a survey by Ipsos MediaCT

## Economic Indicators

<b>\$m (unless otherwise mentioned)</b>	<b>2011</b>	<b>Feb 12</b>	<b>2012</b>	<b>Dec 12</b>	<b>Jan 13</b>	<b>Feb 13</b>	<b>% Change*</b>
Exports	4,276	429	4,486	381	405	381	(11.19)
Imports	20,170	2,799	21,281	1,604	1,871	1,791	(36.01)
Trade Balance	(15,894)	(2,370)	(16,795)	(1,490)	(1,241)	(1,410)	(40.51)
Balance of Payments	(1,996)	(134)	(1,538)	312	383	(92)	(31.62)
Checks Cleared in LBP	14,251	1,152	14,976	1,337	1,305	1,213	5.30
Checks Cleared in FC	57,852	4,272	56,044	4,670	4,637	4,353	1.90
Total Checks Cleared	72,103	5,424	69,787	6,007	5,942	5,566	2.62
Budget Deficit/Surplus	(2,342)	(181.00)	(3,925)	(441.24)	(17.78)	(279.91)	54.65
Primary Balance	1,662	11.00	(109.87)	(174.33)	200.38	(130.10)	n/a
Airport Passengers	5,596,034	374,252	5,960,414	495,760	463,972	402,517	7.55

<b>\$bn (unless otherwise mentioned)</b>	<b>Dec 2011</b>	<b>Feb 12</b>	<b>Nov 12</b>	<b>Dec 12</b>	<b>Jan 13</b>	<b>Feb 13</b>	<b>% Change*</b>
BdL FX Reserves	30.82	30.76	29.79	29.97	30.96	30.34	(1.37)
<i>In months of Imports</i>	<i>18.51</i>	<i>10.99</i>	<i>18.57</i>	<i>16.02</i>	<i>18.81</i>	<i>16.94</i>	<i>54.15</i>
Public Debt	53.66	53.94	57.55	57.69	58.04	58.08	7.67
Net Public Debt	46.37	46.74	48.87	49.12	49.55	49.95	6.87
Bank Assets	140.58	144.11	150.38	151.88	153.11	153.97	6.84
Bank Deposits (Private Sector)	115.72	117.42	123.13	125.00	125.55	126.30	7.56
Bank Loans to Private Sector	39.38	40.45	42.94	43.45	43.72	43.95	8.65
Money Supply M2	38.90	39.46	42.67	43.17	43.28	43.62	10.54
Money Supply M3	97.23	98.13	102.89	104.01	104.13	104.71	6.71
LBP Lending Rate (%)	7.38	7.07	7.11	7.07	7.32	7.47	40b.p
LBP Deposit Rate (%)	5.63	5.47	5.38	5.41	5.43	5.46	(1b.p)
USD Lending Rate (%)	7.02	7.13	7.09	6.87	6.98	7.05	(8b.p)
USD Deposit Rate (%)	2.83	2.87	2.85	2.86	2.88	2.94	7b.p
%* Change in CPI**	4.27	3.71	6.97	4.68	4.32	3.66	(5b.p)

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

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

Sources: ABL, BdL

## Capital Markets

<b>Most Traded Stocks on BSE</b>	<b>Last Price (\$)</b>	<b>% Change*</b>	<b>Total Volume</b>	<b>Weight in Market Capitalization</b>
Solidere "A"	12.38	(0.96)	63,562	11.62%
Solidere "B"	12.31	(1.52)	23,562	7.51%
Byblos Common	1.53	(1.29)	302,175	5.16%
Byblos Pref. 08	100.00	0.00	4,600	1.88%
Byblos Pref. 09	100.50	(0.50)	3,389	1.89%
BLOM GDR	8.80	(0.56)	690	6.10%
BLOM Listed	8.25	(0.72)	157,512	16.65%
Audi GDR	6.83	0.00	0	6.54%
Audi Listed	6.30	(0.32)	23,660	20.68%
HOLCIM	15.35	(0.00)	0	2.81%

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

<b>Sovereign Eurobonds</b>	<b>Coupon %</b>	<b>Mid Price \$</b>	<b>Mid Yield %</b>
June 2013	8.625	100.00	8.29
Apr. 2014	7.375	103.53	3.15
Jan. 2015	5.875	102.75	4.09
Apr. 2015	10.00	110.50	4.14
Jan. 2016	8.500	109.25	4.70
Mar. 2017	9.000	112.00	5.45
Nov. 2018	5.150	98.13	5.55
Apr. 2021	8.250	111.00	6.44
Nov. 2026	6.600	99.25	6.69

Source: Byblos Bank Capital Markets

	<b>June 3-7</b>	<b>May 27-31</b>	<b>% Change</b>	<b>May 2013</b>	<b>May 2012</b>	<b>% Change</b>
<b>Total Shares Traded</b>	624,816	668,510	(6.54)	3,775,206	6,344,289	(40.49)
<b>Total Value Traded</b>	\$4,888,882	\$5,217,239	(6.29)	\$30,561,605	\$43,064,303	(29.03)
<b>Market Capitalization</b>	\$10.65bn	\$10.71bn	(0.57)	\$10.71bn	\$10.20bn	5.06

Source: Beirut Stock Exchange (BSE)



### Beirut's competitiveness to regress by 2025

The Economist Intelligence Unit's Global City Competitiveness Index for 2025 shows that Beirut would rank in 118th place among 120 cities by 2025, which means that Beirut would be the third least competitive city among the surveyed cities in 12 years' time. The index ranked Beirut in 117th place in the 2012 survey, which positioned it as the fourth least competitive city last year. Also, Beirut's rank would regress by one spot from ninth place in 2012 among 11 cities in the MENA region to 10th place in 2025, while it would remain in last place among nine Arab cities by 2025. The index, which benchmarks the competitiveness of 120 cities across the world in 2012 and in 2025, ranks cities according to their ability to attract capital, businesses, talent and visitors. It utilizes 27 qualitative and five quantitative indicators that are grouped under eight categories, which are Economic Strength, Physical Capital, Institutional Effectiveness, Human Capital, Financial Maturity, Global Appeal, Social & Cultural Character, and Environment & Natural Hazards. The EIU selected the cities on the basis of their size and regional economic importance.

Globally, Beirut is expected to be more competitive than only Lagos and Tehran in 2025; while Alexandria in Egypt, Dhaka in Bangladesh, and Guadalajara in Mexico would rank immediately ahead of Beirut on the index. Beirut's score would increase from 30 points in 2012 to 32.4 points in 2025, but it would remain lower than the global average of 51.5 points, the MENA average of 46.8 points and the Arab cities' average of 48.2 points. Beirut would be more competitive than only Tehran in the MENA region in 2025.

In parallel, the index shows that Dubai, Doha and Qatar would remain the most competitive Arab cities in 2025. Globally, the survey noted that New York City would replace Singapore as the most competitive city in 12 years' time, London would improve by four spots to second place, and Singapore would replace Tokyo as the third most competitive city in 2025.

### Gasoline prices in Lebanon are 22nd highest in the world as a share of per capita income

The price of 20 liters of gasoline in Lebanon as a percentage of the daily income per capita was the 22nd highest among 61 countries in the world, based on the prices of gasoline between January 3 and January 18, 2013. The price of a gallon of gasoline in Lebanon was equivalent to 78.5% of the country's daily income per capita, which was similar to that of Greece, higher than that of Czech Republic at 73.7%, Malta at 71.5% and Chile at 71.2%; and lower than that of Estonia (78.7%), Brazil (81.5%) and Argentina (83.1%). Lebanon also ranked in 12th place among 18 upper middle-income countries (UMICs) included in the survey, higher than Chile, Iran (63.1%) and Mexico (58.7%); and lower than Brazil, Argentina and Latvia (95%). Also, the price of 20 liters of gasoline in Lebanon as a percentage of per capita daily income was the highest among five Arab countries included in the survey. It was marginally higher than Egypt (66.6%), but significantly higher than in oil producers the UAE (5.2%), Saudi Arabia (3.7%), and Kuwait (3.5%). Pakistan was the most expensive country for gasoline based on per capita income, as the price of 20 liters of gasoline was equivalent to 592.3% of daily per capita income; while Venezuela was the least expensive country with a ratio of 1%.

In parallel, the price of 20 liters of gasoline in Lebanon was the 14th cheapest among the 61 countries included in the survey. The price of a gallon of gasoline in Lebanon was \$22.2 between January 3 and January 18, higher than prices in Pakistan at \$21, Indonesia at \$19.4 and Russia at \$18.3; but lower than prices in Thailand at \$23.4, Colombia at \$24.9 and China at \$25. The price of 20 liters of gasoline in Lebanon was lower than the 61-country average of \$31.6 and the UMICs' average of \$25.9, but higher than the five Arab countries' average of \$8.8. Turkey ranked as the most expensive country in the world for gasoline in nominal terms, as the price of 20 liters of gasoline was \$52.3, while Venezuela has the cheapest gasoline globally at \$0.3 per 20 liters. The figures for Lebanon were calculated by Byblos Research based on the International Monetary Fund's estimates of GDP per capita for 2012, while those for the other countries were compiled by Bloomberg.

### Airport passengers up 9% in first five months of 2013

Figures released by the Hariri International Airport (HIA) show that the number of airport passengers (arrivals, departures, transit) totaled 2,402,685 in the first five months of 2013, constituting an increase of 8.7% from the same period last year. The total number of arriving passengers grew by 4.4% year-on-year to 1,127,930 in the first five months of 2013, compared to an annual rise of 14.6% in the same period of 2012 and a drop of 1% year-on-year in the first five months of 2011. Also, the number of departing passengers rose by 14.8% year-on-year to 1,267,634 in the first five months of 2013, relative to an annual increase of 16.8% in the same period of 2012 and a decline of 1.9% year-on-year in the first five months of 2011. In parallel, the airport's aircraft movements dropped by 2.6% to 24,336 take-offs and landings in the first five months of 2013, compared to an annual rise of 2.9% in the same period of 2012 and a drop of 2.3% year-on-year in the first five months of 2011. The HIA processed 42,881.9 metric tons of cargo in the first five months of 2013 that consisted of 42,560.3 tons of freight and 321.6 tons of mail.

### Global City Competitiveness Index in 2025

	Overall Score	MENA Rank	Global Rank
Dubai	61.3	1	23
Abu Dhabi	57.2	2	39
Doha	61.1	3	24
Tel Aviv	56.1	4	41
Kuwait City	51.7	5	63
Muscat	51.4	6	64
Riyadh	45.3	7	87
Cairo	38.5	8	106
Alexandria	34.6	9	117
<b>Beirut</b>	<b>32.4</b>	<b>10</b>	<b>118</b>
Tehran	25.0	11	120

Source: EIU, Byblos Research

### Mass grocery retail market at \$2.7bn in 2013

Business Monitor International projected the size of Lebanon's mass grocery retail market at \$2.7bn in 2013, constituting an increase of 5.4% from \$2.5bn in 2012. It forecast the market to grow at a compound annual rate (CAGR) of 8.7% during the 2013-17 period and to reach \$3.8bn in 2017. It also forecast Lebanon's per-capita spending on retail grocery products at \$615.1 in 2013, constituting an increase of 4.6% from \$588.2 in 2012. It anticipated per-capita spending on grocery retail products to rise by a CAGR of 7.7% during the covered period and to reach \$851 in 2017. It noted that continued economic expansion and investment by existing retailers would help drive mass grocery retail sales in Lebanon.

BMI considered that Lebanon's overall grocery market is underdeveloped, as independent small retailers account for around 70% of total grocery sales, while mass grocery retailers represent the remaining 30%. It estimated that there are 169 supermarkets and six hypermarkets in Lebanon at the end of 2012, compared to 146 supermarkets in 2003. It expected supermarket sales to account for 88.1% of total

mass retail sales this year and hypermarket sales to represent the remaining 11.9%. It projected supermarket sales at \$2.3bn in 2013, up 5.3% from \$2.2bn in 2012, and hypermarket sales at \$0.3bn, up 5.9% year-on-year. It forecast supermarket sales to grow at a CAGR of 9.1% between 2012 and 2017 and for hypermarket sales to post a CAGR of 5.9% during the covered period. It anticipated that supermarkets will remain the main source of sales for Lebanon's mass grocery retail market between 2012 and 2017.

In parallel, BMI considered that the sector's weaknesses include the relatively small size of the Lebanese population that would limit the market's long-term growth potential, an underdeveloped internal trade system, relatively low consumption per capita compared to GCC countries, competition from lower-priced goods imported from neighboring countries, as well as red tape and bureaucracy. However, it pointed out that the sector presents significant opportunities due to the continued dominance of independent retailers; the possibility to open smaller convenience and discount outlets outside Beirut that would offer lower-income consumers quality products at competitive prices and introduce yet more consumers to the concept of modern retailing; and low consumer confidence that would create opportunities for private label products. It noted that businesses that intend to invest in Lebanon's food retail sector would face several challenges despite the opportunities that the sector presents, such as domestic security concerns, corruption and regional unrest.

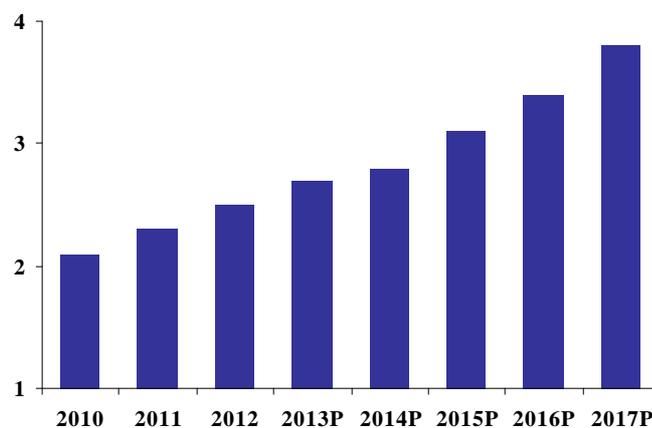
### Central Bank confident of banking sector stability despite deteriorating operating environment

The Central Bank projected real GDP growth in Lebanon at between 2% and 4% in 2013 compared to average growth rates of 2% between 2011 and 2012 and 8% during the 2008-10 period. It said that the ongoing conflict in Syria continues to disrupt trade routes and negatively affect the tourism sector. It noted that negative spillovers from the slowdown in tourism activity on other economic sectors have weighed on the country's overall economic performance. Further, it considered that the current regional and domestic political climate has not been supportive of major fiscal initiatives. It noted that the government's key challenge consists of reducing the fiscal deficit to international norms and to simultaneously maintain macroeconomic stability and lay the foundation for a more dynamic economy.

However, the Central Bank considered that the Lebanese economy remains resilient due to the Bank's policy of monetary stability, a solid banking sector, loyal investors and sustained remittance inflows from the Lebanese Diaspora. It noted that the Bank's strategy of maintaining a large stock of assets in foreign currency as a precautionary measure allows Lebanon to deal with any crisis that would face its economy. It added that its assets in foreign currency currently exceed \$36bn, making it the second largest holder of such assets among economies in the Middle East and North Africa. Further, it said that the stimulus package that it launched earlier this year aims to stimulate economic growth by supporting domestic demand, which would offset the decline in regional demand. It noted that the package will not lead to inflationary pressure. It added that it is targeting an inflation level of 4% this year even if the government implements a 2% increase in wages of public-sector employees.

In parallel, the Central Bank indicated that the Lebanese banking sector is still reporting a healthy performance despite the challenging operating environment and the slight decrease in the sector's profits. It considered that Lebanon's financial sector is not likely to face negative shocks this year despite the domestic economic slowdown and regional instability. It said that Lebanese banks have been able to weather several internal and external crises in the past, and have so far successfully absorbed the negative repercussions of regional unrest. It noted that Lebanese banks' high liquidity ratios have allowed them to continue to provide credit to the Lebanese market. It added that Lebanese banks' Basel III Capital Adequacy Ratio exceeds 10% and that they sufficiently increased their provisions to cover potential losses from foreign operations.

Mass Grocery Retail Market Size (US\$bn)



Source: Business Monitor International, Byblos Research

### Cigarette consumption in Lebanon up by 475% between 1990 and 2012, second fastest growth rate in the world

The UK-based independent research firm ERC Group estimated that cigarette consumption in Lebanon was 2,379 cigarettes per person in 2012 compared to a global consumption rate of 882 cigarettes per person. As a result, cigarette consumption in Lebanon was around 119 packs per capita or around 10 packs per person per month last year. It noted that cigarette consumption per person in Lebanon grew by around 475% between 1990 and 2012, constituting the second highest rate of increase globally after only Myanmar where cigarette consumption rose by 675% during the same period. In comparison, cigarette consumption per person worldwide fell by 11.7% between 1990 and 2012. The growth rate of per capita cigarette consumption in Lebanon was higher than that in Vietnam, Nepal, Bangladesh, Mozambique and Kuwait where each posted increases of between 100% and 200% during the covered period. It was also higher than that in Russia, Trinidad & Tobago and Sudan where each posted increases slightly below 100% between 1990 and 2012.

The firm pointed out that Lebanon had the second highest level of cigarette consumption per person among the 10 countries that posted the highest increases in cigarette consumption per capita between 1990 and 2012. Per capita cigarette consumption in Lebanon was lower than only in Russia where consumption was 2,596 cigarettes per capita (CPC), but was higher than that in Kuwait with 1,774 cigarettes per capita, Vietnam with 1,084 CPC, Trinidad & Tobago with 1,053 CPC, Nepal with 438 CPC, Bangladesh with 422 CPC, Myanmar with 282 CPC, Mozambique with 217 CPC and Sudan with 110 CPC. Serbia had the highest cigarette consumption per person globally at 3,323 cigarettes in 2012.

In comparison, Hong Kong posted the steepest decline in cigarette consumption per person of around 70% between 1990 and 2012. It was followed by Panama, Lithuania, Venezuela, Honduras, Dominican Republic, Latvia, United Kingdom, New Zealand and Estonia with drops of at least 60% each. Among 10 countries with the steepest declines, Estonia had the highest per capita cigarette consumption at 1,063 cigarettes, followed by Latvia with 731 CPC, Lithuania with 652 CPC, the United Kingdom with 620 CPC, New Zealand with 484 CPC, Hong Kong with 371 CPC, Venezuela with 260 CPC, the Dominican Republic with 225 CPC, Honduras with 184 CPC and Panama with 94 CPC.

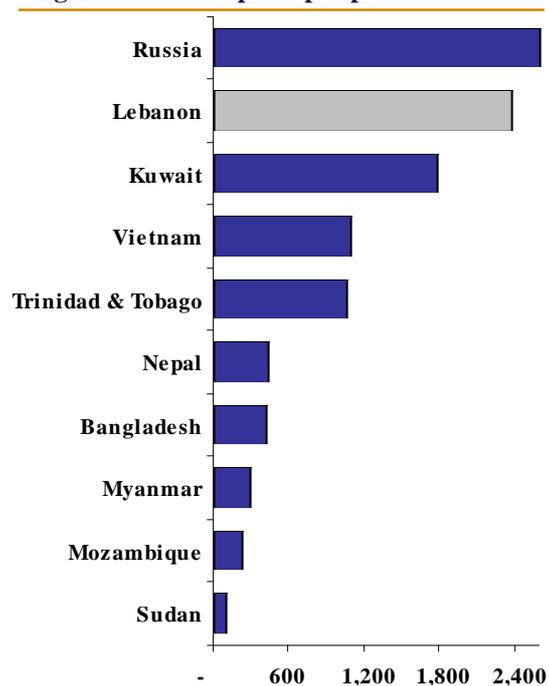
### Banking Control Commission calls on banks to initiate capital adequacy assessment process

The Banking Control Commission (BCC) issued memorandum 7/2013 in which it called on banks operating in Lebanon to initiate an Internal Capital Adequacy Assessment Process (ICAAP) as per the first principal of the second pillar of Basel II. It noted that banks have until the end of September 2013 to submit their results to the BCC. It said that the ICAAP aims to facilitate a bank's board of directors' ongoing assessment of risks that the bank faces, as well as to evaluate the techniques and tools that a bank uses to minimize these risks, and the bank's minimum capital ratio that is currently required and that would be required in the future to cover unexpected losses. As such, it considered that the ICAAP would constitute the most important step in the establishment of a bank's risk strategy.

It pointed out that the ICAAP should be prepared in collaboration with all the concerned departments, mainly the Risk Committee, the Audit Committee, the Finance Division, the Risk Management Division, the Internal Audit Division, and any other division, department, unit, or external source selected by the bank. It noted that banks have to analyze the results of their assessment report and take appropriate measures with regard to their strategic decisions; the quality of their internal capital's components; the improvement of their internal governance; and the improvement of their risk management policies. It added that the ICAAP needs to cover the bank and all its related entities in Lebanon and abroad.

In addition, it indicated that banks are required to define available capital resources and their components, present a list of risks they are exposed to, and identify the needed capital resources to cover these risks. It said that the techniques used to minimize risks should not be limited to those indicated in the first pillar of Basel II, but can include physical collateral such as real estate to minimize credit risk or insurance contracts to minimize operational risk. It indicated that the required capital to cover credit, market and operational risks can be limited to those required by the first pillar of Basel II. Also, it pointed out that the ICAAP should include the allocation of capital to face the generic, specific and systematic risks, and meet the bank's future needs. It added that banks are required to start forming a capital conservation buffer. But it noted that the ICAAP does not require the allocation of capital to face liquidity risks.

Cigarette Consumption per person in 2012\*



\*among 10 fastest-growing markets in 1990-2012  
Source: ERC Statistics, Byblos Research

### Net public debt at \$50.7bn at end-April 2013

Lebanon's gross public debt reached \$59.1bn at the end of April 2013, constituting a rise of 2.4% from the end of 2012 and an increase of 7.3% from end-April 2012. Domestic debt totaled \$33bn at end-April, down by 0.8% from end-2012 and by 2.1% annually; while external debt stood at \$26.1bn, increasing by 6.9% from end-2012 and by 22.2% from a year earlier. Local currency debt accounted for 55.9% of gross public debt at end-April 2013 compared to 61.3% a year earlier, while foreign currency-denominated debt represented 44.1% of the total at the end of April relative to 38.7% a year earlier. The weighted interest rate on outstanding Treasury bills was 6.59%, while the weighted interest rate on Eurobonds was 6.52% at the end of April. Further, the weighted life on Eurobonds was 6.09 years, while that on Treasury bills was 1,062 days.

Commercial banks accounted for 50.6% of the local public debt at the end of April 2013 compared to 47.7% a year earlier. They were followed by the Central Bank with 31.3%, down from 36.5% at end-April 2012; while public agencies, financial institutions and the general public accounted for 18% of local debt compared to 15.8% at end-April 2012. Eurobond holders, foreign private sector loans and special T-bills in foreign currencies accounted for 90.5% of the external debt, followed by multilateral institutions with 4.9%, foreign governments with 3.9%, and Paris II loans with 0.6%. The 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 7.4% to \$50.7bn. 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.

### Ministry of Finance issues LBP440bn in Treasury bonds

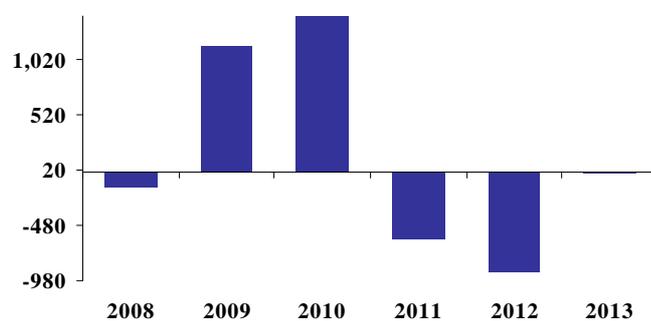
The Ministry of Finance issued LBP439.8bn in dual-tranche Treasury bonds to refinance debt that matures in June 2013. The first series consisted of a 10-year LBP378.6bn bond that matures in May 2023 and carries a coupon rate of 8.24% to be paid semi-annually, while the second series consisted of an 8-year LBP61.2bn bond that matures in May 2021 and carries a coupon rate of 7.8% to be paid semi-annually. Last month, Governor Riad Salamé said that the Central Bank would be ready to discount the Certificates of Deposits that banks hold to help the latter subscribe to the new issuance. He added that it is in the interest of all parties to see the exchange succeed. He said that replacing part of the CDs held by banks with the new bonds would not modify the risk profile of commercial banks.

The ministry issued Lebanese-pound denominated securities with a 10-year maturity for the first time in September 2012. There were LBP49,027bn, or \$32.5bn, in outstanding government securities denominated in Lebanese pounds as at the end of April 2013. The three-year maturities total LBP19,667bn and account for 40.1% of the total, followed by five-year maturities of LBP11,597bn (23.7%), seven-year maturities of LBP8,978bn (18.3%), two-year maturities of LBP3,851bn (7.9%), eight-year maturities of LBP1,916bn (3.9%), 10-year maturities of LBP1,151bn (2.3%), one year maturities of LBP911bn (1.9%), six-month maturities of LBP730bn (1.5%) and three-month maturities of LBP226bn (0.5%). The weighted interest on outstanding Treasury bills was 6.59% and their weighted life was 1,062 days at end-April 2013.

### Balance of payments posts deficit of \$18m in first four months of 2013

Central Bank figures show that Lebanon's balance of payments posted a deficit of \$17.9m in the first four months of 2013 compared to a deficit of \$916.1m in the same period last year. The balance of payments posted a surplus of \$44.3m in April compared to a deficit of \$353m in March 2013 and a deficit of \$542.9m in April 2012. The April 2013 surplus was caused by a surplus of \$660.7m in the net foreign assets of the Central Bank and a deficit of \$616m in those of the banks and financial institutions. The cumulative deficit over the first four months of 2013 was caused by a deficit of \$2.84bn in the banks and financial institutions' net foreign assets and was partly offset by a surplus of \$2.82bn in those of the Central Bank. The balance of payments posted deficits of \$1.54bn in 2012 and \$2bn in 2011, and surpluses of \$3.3bn in 2010 and \$7.9bn in 2009.

Balance of Payments\* (US\$m)



\*in the first four months of each year  
Source: Central Bank of Lebanon

### Fiscal deficit down 17% to \$298m in first two months of 2013 when assuming \$225.4m in telecom revenues

Figures released by the Finance Ministry show that the fiscal deficit reached \$297.7m in the first two months of 2013, constituting a decline of 16.5% from \$356.7m in the same period last year. The deficit was equivalent to 16.1% of total budget and Treasury expenditures compared to 18.1% of overall spending in the same period of 2012. Overall government expenditures reached \$1.9bn, down 5.9% year-on-year, while total revenues decreased by 3.5% to \$1.6bn. Budgetary expenditures regressed by 5.4% to \$1.5bn and included \$289.1m in transfers to Electricité du Liban and \$166.1m in outlays from previous years, while budget revenues decreased by 5.3% to \$1.5bn. Tax revenues declined by 3.1% year-on-year to \$1.1bn, of which 36.3%, or \$411.1m, were in VAT receipts that fell by 7.1% from the same period of 2012. Tax revenues accounted for 77.5% of budgetary revenues and for 72.7% of total Treasury and budget receipts. The Finance Ministry is basing its monthly fiscal results on the Telecommunications Ministry's estimate of telecom receipts of \$225.4m in the first two months of 2013, rather than on the Treasury actually receiving the funds from the Telecom Ministry. On a cash basis for the two compared periods, public revenues decreased by 3.4% year-on-year; while the fiscal deficit regressed by 11.7% to \$523.1m, equivalent to 28.2% of expenditures.

Debt-servicing cost decreased by 8.2% year-on-year to \$368m during the covered period. It accounted for 19.8% of total expenditures and for 25.4% of budgetary spending, and absorbed 23.6% of overall revenues and 25.2% of budgetary receipts. Interest payment on domestic debt declined by 6.3% to \$268.7m, while interest disbursement on external debt regressed by 6.1% to \$76.5m. Repayment of principal on foreign debt fell by 30.2% to \$22.7m. Excluding debt servicing, the primary budget balance posted a surplus of \$379.3m, or 26.2% of budget expenditures compared to a surplus of \$410.7m, or 26.8% of budget spending in the same period last year. The overall primary balance posted a surplus of \$70.3m, or 3.8% of spending, relative to a surplus of \$44m or 2.2% of total expenditures in the same period of 2012.

Fiscal Results in first two months of 2013		
	Including Assumed Telecom Receipts	Excluding Assumed Telecom Receipts*
	US\$m	US\$m
Budget revenues	1,461	1,236
Tax revenues	1,133	1,133
Non-tax revenues	328.7	103.3
<i>of which Telecom revenues</i>	225.4	-
Budget expenditures	1,450	1,450
<b>Budget Surplus/Deficit</b>	<b>11.4</b>	<b>(214)</b>
<i>In % of budget expenditures</i>	0.78%	(14.8%)
<b>Budget Primary Surplus</b>	<b>379.3</b>	<b>153.9</b>
<i>In % of budget expenditures</i>	26.2%	10.6%
Treasury receipts	95.9	95.9
Treasury expenditures	404.9	404.9
Total Revenues	1,557	1,332
Total Expenditures	1,855	1,855
<b>Total Deficit</b>	<b>(297.7)</b>	<b>(523.1)</b>
<i>In % of total expenditures</i>	(16.1%)	(28.2%)
<b>Total Primary Surplus/Deficit</b>	<b>70.3</b>	<b>(155.1)</b>
<i>In % of total expenditures</i>	3.8%	(8.4%)

\* Cash basis

Source: Ministry of Finance, Byblos Research

### Commercial banks' assets reach \$155.1bn at end-April 2013

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$155.1bn at the end of April 2013, constituting an increase of 2.1% from the end of 2012 and a rise of 7.2% from end-April 2012. Private sector deposits totaled \$128.1bn, increasing by 2.5% from end-2012 and by 7.9% from end-April 2012. Deposits in Lebanese pounds reached \$44.8bn and rose by 1.8% from end-2012 and by 8.1% from end-April 2012; while deposits in foreign currencies totaled \$83.3bn and increased by 2.9% from end-2012 and by 7.7% from a year earlier. Non-resident foreign currency deposits totaled \$21.7bn at the end of April 2013, up by 4.4% from the end of 2012 and by 16.3% year-on-year. Total non-resident deposits reached \$25bn at the end of April 2013 and grew by 3.8% from end-2012 and by 15.3% from a year earlier. Total private sector deposits decreased by \$11.3m in April, and increased by \$1.8bn in March, \$745m in February and by \$558m in January 2013, compared to rises of \$533m in April, \$806m in March, \$725.3m in February and \$976m January 2012. In parallel, deposits of non-resident banks reached \$5.8bn at the end of April 2013 and decreased by 1.9% from end-2012 and by 11.6% from a year earlier. The dollarization rate of deposits reached 65.1% at the end of April 2013 relative to 64.8% at end-2012 and 65.1% a year earlier. Further, the average deposit rate in Lebanese pounds reached 5.43% at end-April 2013 relative 5.42% a year earlier; while the same rate in US dollars was 2.97%, up from 2.84% in April 2012.

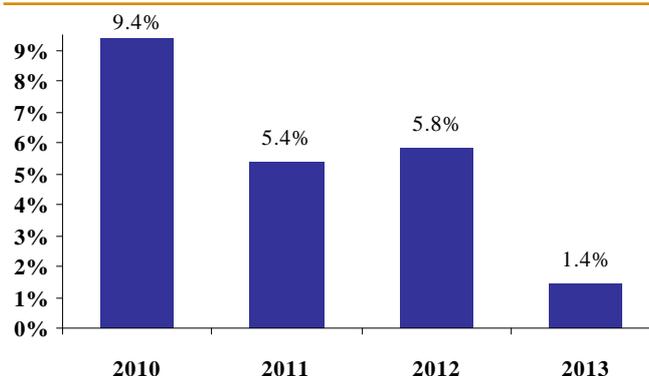
Loans to the private sector totaled \$44.1bn, constituting an increase of 1.4% from end-2012 and a rise of 5.8% from a year earlier. Lending to the resident private sector totaled \$38.7bn and increased by 2.3% from end-2012 and by 8.5% year-on-year, while credit to the non-resident private sector reached \$5.4bn and decreased by 4.6% from end-2012 and by 10.7% from end-April 2012. The dollarization rate in private sector lending regressed to 77.3% at end-April 2013 from 78.5% a year earlier. The average lending rate in Lebanese pounds was 7.27% in April 2013 compared to 7.49% a year earlier, while the same average in US dollars was 6.9% compared to 7.1% in April 2012. In addition, claims on non-resident banks reached \$12.7bn at end-April 2013, posting a decrease of 12% from end-2012 and a decline of 1.8% from a year earlier. Claims on the public sector stood at \$32.3bn, constituting an increase of 3.7% from end-2012 and a rise of 11.3% year-on-year. The ratio of private sector loans-to-deposits in foreign currencies stood at 40.9%, down from 42.2% at end-April 2012, and well below the Central Bank's limit of 70%. In parallel, the same ratio in Lebanese pounds was 22.3%, up from 21.7% at the end of April 2012. The ratio of total private sector loans to deposits was 34.4% at the end of April compared to 35.1% a year earlier. The banks' aggregate capital base stood at \$12.9bn, up 1.8% month-on-month and increased by 12.1% from \$11.5bn in April 2012.

### Profits of top 13 banks up 16% to \$431m in first quarter of 2013

The unaudited consolidated net profits of the Alpha Group of banks reached \$431.3m in the first quarter of 2013, constituting an increase of 15.5% from the same quarter last year. The Alpha Group consists of 13 banks with deposits in excess of \$2bn each. Total net operating income rose by 8.8% to \$1.1bn, with aggregate net interest income increasing by 1.6% to \$684.8m and net fees & commissions receipts declining by 2.1% to \$176m year-on-year. Also, non-interest income accounted for 39.1% of total income in the first quarter of the year, up from 38.5% in the same quarter last year; with net fees & commissions earnings representing 38.3% of non-interest income in the first quarter of 2013, down from 40.9% in the same quarter last year. The net interest spread decreased to 1.8% in the first quarter of 2013 from 1.91% in the same quarter last year. Also, total operating expenditures increased by 6.2% year-on-year to \$566.6m, with staff expenses rising by 5.9% to \$312.3m. Further, the cost-to-income ratio increased to 48.2% in the first quarter of 2013 relative to 46.8% in the same quarter last year. The banks' total assets reached \$161.4bn at end-March 2013, constituting a 2.4% growth from end-March 2012. Further, aggregate loans & advances to customers rose by 3.6% from end-2012 to \$46.4bn, while credits extended to related parties grew by 2.9% to \$952.5m at end-March 2013. Also, customer deposits totaled \$132.9bn at end-March 2013, constituting a rise of 2.4% from end-2012; while deposits from related parties decreased by 6.6% to \$2.1bn at end-March 2013.

In parallel, the banks' loans-to-deposits ratio increased to 35.1% at end-March 2013 from 34.6% a year earlier. The ratio of loans-to-deposits in local currency reached 19.2% at end-March 2013 compared to 18.6% at end-March 2012, while that in foreign currency was 42.2% at the end of March 2013 relative to 41.7% a year earlier. Also, the banks' return on average assets reached 1.08% in March 2013 on an annualized basis, relative to 1.01% a year earlier; while their return on average equity was 12% on an annualized basis relative to 11.64% in March 2012. Further, the net primary liquidity-to-deposits ratio reached 32.8% at end-March 2013, up from 32.4% at end-2012. The banks' aggregate equity-to-assets ratio rose to 8.61% at end-March 2013 compared to 8.38% a year earlier. Also, the collective provisions-to-net loans ratio decreased to 1.05% at end-March 2013 relative to 1.17% a year earlier.

### Private Sector Lending Growth\* (% Change)



\*in first four months of each year

Source: Association of Banks in Lebanon, Byblos Research

### **BankMed's profits up 7% to \$31m in first quarter of 2013**

BankMed sal, one of Lebanon's top 10 banks, announced unaudited consolidated net profits of \$31.1m in the first quarter of 2013, up 7% from the same quarter last year. Net operating income rose by 7.2% year-on-year to \$106.2m, with net interest income decreasing by 15.7% to \$51.9m and net fees & commissions receipts dropping by 36.7% to \$9.3m. Non-interest income accounted for 56.2% of total income, up from 40.6% in the first quarter of 2012, with net fees & commissions representing 13% of non-interest earnings down from 33.5% in the first quarter of 2012. Further, the bank's interest margin was 1.95% in the first quarter of 2013 relative to 2.23% in the same quarter last year; while its net spread fell to 1.76% from 2.03% in the first quarter of 2012. Total operating expenditures increased by 12.2% to \$70.5m, with staff expenses decreasing by 9.2% to \$32.8m. Also, the bank's return on average assets reached 0.98% in March 2013 on an annualized basis, relative to 0.92% a year earlier; while its return on average equity was 9.26% relative to 11.04% in March 2012. The cost-to-income ratio regressed to 55.3% in the first quarter relative to 58.1% in the same quarter last year.

In parallel, total assets reached \$12.8bn at end-March 2013, constituting a 2.6% increase from end-2012 and a 5.6% decrease from a year earlier; while loans & advances to customers, excluding loans & advances to related parties, increased by 2.5% from end-2012 and by 12.6% year-on-year to \$4.1bn. Also, customer deposits, excluding deposits to related parties, totaled \$9.5bn at end-March, growing by 3.1% from end-2012 and by 4.3% from a year earlier. The loans-to-deposits ratio decreased to 44.7% at end-March 2013 from 45.3% a year earlier.

### **SGBL's net income up 1.7% to \$30m in first quarter of 2013**

Société Générale de Banque au Liban (SGBL) sal, one of Lebanon's top 10 banks, announced unaudited consolidated net profits of \$30m in the first quarter of 2013, up 1.7% from the same quarter last year. Net operating income grew by 3.4% year-on-year to \$70.8m, with net interest income increasing by 5.4% to \$50.3m and net fees & commissions receipts dropping by 6.3% to \$11.8m year-on-year. Non-interest income accounted for 29.5% of total income, down from 32.7% in the same quarter last year; with net fees & commissions accounting for 55.4% of non-interest earnings up from 52.9% in the first quarter of 2012. Further, the bank's interest margin was 1.86% in the first quarter of the year relative to 1.99% in the same quarter last year; while its spread fell to 1.78% from 1.87% in the first quarter of 2012. Total operating expenditures increased by 4.3% to \$38.3m, with staff expenses dropping by 3.5% to \$18.7m. Also, the bank's return on average assets reached 1.04% in March 2013 on an annualized basis relative to 1.12% a year earlier; while its return on average equity was 16.35% on an annualized basis relative to 22.08% in the first quarter of 2012. The cost-to-income ratio increased to 52.9% in the first quarter from 50.3% in the same quarter last year.

In parallel, total assets reached \$11.8bn at end-March 2013, constituting a 4.2% rise from end-2012 and a 12.3% increase from a year earlier; while loans & advances to customers, excluding loans & advances to related parties, grew marginally by 0.9% from end-2012 and by 1.4% from a year earlier to \$2.9bn. Also, customer deposits, excluding deposits to related parties, totaled \$9.4bn at end-March 2013, constituting an increase of 4% from end-2012 and a rise of 10% from a year earlier. The loans-to-deposits ratio fell to 31.4% at end-March 2013 from 34.1% a year earlier.

### **LIA's balance sheet at \$350m at end-2012**

LIA Insurance sal, which is 81% owned by Moroccan firm Saham Finances, released its audited balance sheet that shows total assets of \$350.1m at the end of 2012 compared to \$304m a year earlier. On the assets side, general company investments totaled \$147.2m, up 14.6% from \$128.5m at end-2011. They included \$36.7m in fixed income investments, \$23.9m in cash & cash equivalents, \$6m investments in subsidiaries and associates; and \$74m in blocked bank deposits and deposits with maturity of more than three months, of which \$2.1m were blocked in favor of the Economy Ministry as guarantees.

Also, Unit-linked contracts investments totaled \$149.2m at end-2012, constituting a rise of 15.3% from \$129.4m a year earlier. They included \$93.5m in cash & similar investments and \$55.5m in fixed income investments. Reinsurance share in technical reserves for the life and non-life categories amounted to \$7.9m and \$25.2m, respectively, constituting increases of 109.5% and 3.2%, respectively. Receivables under the insurance's direct and indirect business lines grew by 19.6% year-on-year to \$11m in 2012.

On the liabilities side, shareholders' equity totaled \$73.6m at end-2012 and rose by 7.4% from \$68.5m a year earlier. Unit-linked technical reserves reached \$149.2m at the end of December 2012, constituting an increase of 15.3% from \$129.4m at end-2011. Also, technical reserves for the life segment rose by 32.5% year-on-year to \$60.1m, while technical reserves for the non-life category reached \$51.4m at end-December 2012 and increased by 6.2% from a year earlier. Non-life technical reserves included unearned premium reserves of \$26.1m that rose by 12.1%, outstanding claims reserves of \$21.6m that increased by 4%, and \$0.5m in reserves incurred but not reported that improved by 4.2% year-on-year. Provisions for risks and charges reached \$1.6m and regressed by 10.5% from a year earlier.

*Al-Bayan* magazine's annual survey of the insurance sector in Lebanon ranked LIA in fourth and eighth place in 2012 in terms of life and non-life premiums, respectively. The firm's life premiums reached \$41.6m, constituting a decrease of 10.3% from a year earlier; while non-life premiums amounted to \$40.3m and rose by 10.9% from 2011. It had a 10.6% share of the life market and a 4.3% share of the local non-life market.



### **Ratings affirmed on Standard Chartered Bank, outlook remains 'negative'**

Standard & Poor's affirmed the issuer credit ratings on Standard Chartered Bank (SCB) at 'AA-/A-1+', and on Standard Chartered PLC, the group's holding company, at 'A+/A-1'. The agency kept the 'negative' outlook on all the ratings. It noted that the group's revenues are geographically diversified, as about 18% of its total revenues originate from operations in Hong Kong, around 8% to 12% come from each of Singapore, India and Korea, while remaining revenues are generated mainly from operations in the rest of Asia-Pacific, the Middle East, and Africa. It said that SCB is less affected by negative developments in the U.K. banking system than peers that have significant domestic operations. As such, it considered that a downgrade of SCB's 'aa-' group credit profile (GCP) is not likely in the event of a downward revision of the agency's assessment of the U.K. banking industry. The agency pointed out that it would lower SCB's GCP to 'a' if a severe economic slowdown in the bank's key markets substantially reduces its revenue growth and weighs on its asset quality, credit costs, and profitability. Standard Chartered Bank has been present in the Lebanese market since 1999 when it acquired Metropolitan Bank sal. It operates through its fully-owned subsidiary Standard Chartered Bank sal and has three branches in the country.

### **Medgulf KSA raises capital by \$53.3m**

The Mediterranean & Gulf Cooperative Insurance & Reinsurance Company KSA (Medgulf), a member of the MEDGULF Group, announced that it has raised its capital from SAR800m or \$213.3m, to SAR1,000m or \$266.7 through the issuance of a bonus share for every four shares owned by shareholders registered in the Shareholders' Registry. As such, it noted that it will increase its number of shares from 80 million shares to 100 million shares through the issuance of 20 million shares worth SAR200m (\$53.3m). It added that the company will finance the capital increase from the retained profits at end-2012, and will use the capital increase to support the expansion of the company's activity.

The MEDGULF Group, which started its activities in the 1980s in Lebanon, is a leading regional insurance company with operations in Lebanon, Saudi Arabia, Bahrain, the UAE, Jordan, Turkey and the United Kingdom. It operates in Lebanon through Mediterranean and Gulf Insurance & Reinsurance Co. sal, which is the largest insurer by premiums in the market. Premiums generated in Lebanon stood at \$114m in 2012, with \$100.8m in non-life premiums and \$13.2m in life premiums. The firm ranked in first place in non-life premiums and in eighth place in life premiums in the Lebanese insurance market in 2012. In April 2011, Saudi Oger Ltd, the conglomerate owned by the family of late Prime Minister Rafiq Hariri, sold its 51% stake in the MEDGULF Group to LFZ Holding, the investment vehicle of MEDGULF's shareholder and CEO Lutfi El-Zain.

## 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	Negative	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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