



## LEBANON THIS WEEK

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Kafalat loan guarantees down 21.4% to \$74.7m in first eight of 2013

AUB and USJ among top Arab universities

InterContinental Hotels Group opens its first extended-stay hotel in Lebanon

Top five freight forwarders' activity up 27% in first seven months of 2013

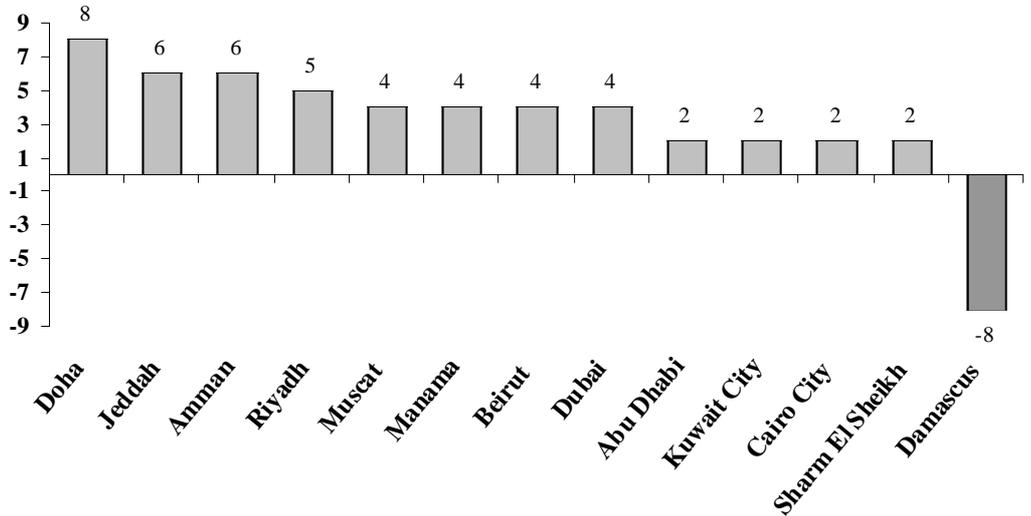
Banque Libano-Française posts \$46.8m in first half profits

UFA's shareholders' equity up 10% to \$10m in 2012

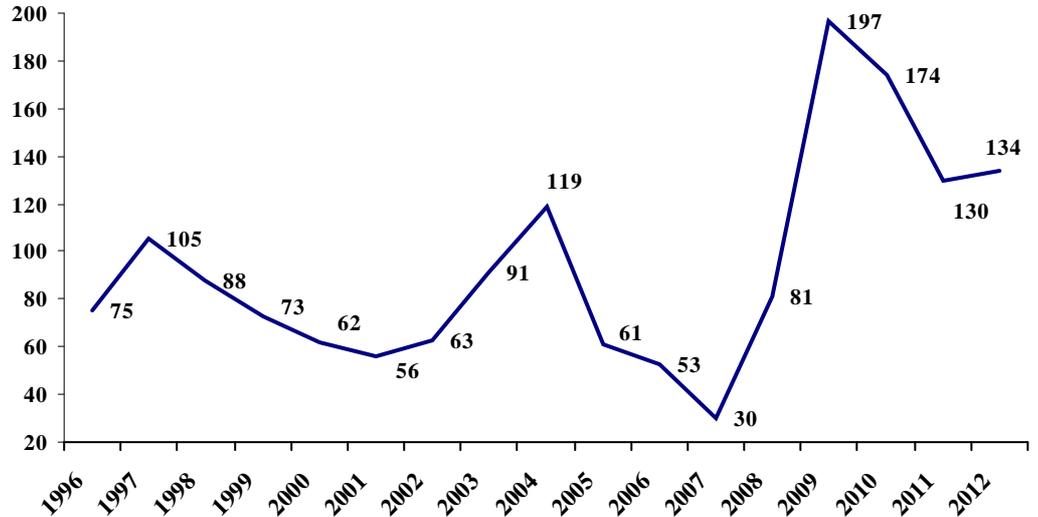
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### Charts of the Week

Compound Annual Growth Rate of Revenue Per Available Room in Arab Cities in 1994-2012 (%)



Revenue Per Available Room at Hotels in Beirut (US\$)



Source: HVS Research, Byblos Bank

### Quote to Note

"Weak economic activity, combined with a widening fiscal deficit, have further constrained the government's fiscal space."

*The World Bank, on one outcome from the lack of political will to control public spending*

### Number of the Week

**148:** Lebanon's rank out of 148 countries on the quality of electricity supply, according to the World Economic Forum's Global Competitiveness Index for 2013-2014

## Economic Indicators

<b>\$m (unless otherwise mentioned)</b>	<b>2012</b>	<b>May 12</b>	<b>Feb 13</b>	<b>Mar 13</b>	<b>Apr 13</b>	<b>May 13</b>	<b>% Change*</b>
Exports	4,486	355	381	406	412	364	2.54
Imports	21,281	1,645	1,791	2,076	1,849	1,797	9.24
Trade Balance	(16,795)	(1,290)	(1,410)	(1,670)	(1,437)	(1,433)	11.09
Balance of Payments	(1,538)	(82)	(92)	(353)	44	(131)	59.76
Checks Cleared in LBP	14,976	1,196	1,213	1,286	1,473	1,457	21.82
Checks Cleared in FC	56,044	4,746	4,353	4,472	4,854	4,526	(4.64)
Total Checks Cleared	69,787	5,942	5,566	5,758	6,327	5,983	0.69
Budget Deficit/Surplus	(3,925)	(50.00)	(279.91)	(484.90)	(726.31)	(113.72)	127.4
Primary Balance	(109.87)	300.0	(130.10)	(75.10)	(264.63)	309.14	3.05
Airport Passengers	5,960,414	438,570	402,517	502,923	514,458	514,520	17.32

<b>\$bn (unless otherwise mentioned)</b>	<b>Dec 2012</b>	<b>May 12</b>	<b>Feb 13</b>	<b>Mar 13</b>	<b>Apr 13</b>	<b>May 13</b>	<b>% Change*</b>
BdL FX Reserves	29.97	29.57	30.34	30.36	30.66	31.36	6.06
<i>In months of Imports</i>	<i>16.02</i>	<i>17.98</i>	<i>16.94</i>	<i>14.62</i>	<i>16.58</i>	<i>17.45</i>	<i>(2.91)</i>
Public Debt	57.69	55.15	58.08	57.75	59.12	59.18	7.31
Net Public Debt	49.12	47.20	49.95	50.07	50.68	50.71	7.44
Bank Assets	151.88	144.86	153.97	155.44	155.11	156.61	8.11
Bank Deposits (Private Sector)	125.00	118.90	126.30	128.11	128.10	130.05	9.38
Bank Loans to Private Sector	43.45	41.89	43.95	44.70	44.08	44.42	6.04
Money Supply M2	43.62	40.74	43.62	43.76	43.93	44.16	8.39
Money Supply M3	104.71	99.96	104.71	105.85	106.18	106.77	6.82
LBP Lending Rate (%)	7.47	7.34	7.47	7.28	7.27	7.35	1b.p
LBP Deposit Rate (%)	5.46	5.49	5.46	5.44	5.43	5.49	-
USD Lending Rate (%)	7.05	7.12	7.05	6.95	6.90	6.97	(15b.p)
USD Deposit Rate (%)	2.94	2.83	2.94	2.97	2.97	2.90	7b.p
%* Change in CPI**	3.66	6.02	4.42	4.57	2.94	2.43	(359b.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"	10.92	0.18	79,519	10.49%
Solidere "B"	11.00	1.66	26,106	6.87%
Byblos Common	1.48	0.68	297,457	5.11%
Byblos Pref. 08	100.00	0.00	0	1.92%
Byblos Pref. 09	100.00	0.00	10,931	1.92%
BLOM GDR	8.50	0.00	30,102	6.04%
BLOM Listed	8.25	(0.12)	30,000	17.05%
Audi GDR	6.29	0.00	0	6.17%
Audi Listed	6.16	0.98	900	20.71%
HOLCIM	15.68	0.00	0	2.94%

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

<b>Sovereign Eurobonds</b>	<b>Coupon %</b>	<b>Mid Price \$</b>	<b>Mid Yield %</b>
Apr. 2014	7.375	102.00	4.02
Jan. 2015	5.875	102.13	4.21
Apr. 2015	10.00	109.00	4.14
Jan. 2016	8.500	108.00	4.83
Mar. 2017	9.000	110.00	5.81
Nov. 2018	5.150	96.50	5.95
Apr. 2021	8.250	108.75	6.75
Nov. 2026	6.600	95.75	7.10

Source: Byblos Bank Capital Markets

	<b>Sep 9-13</b>	<b>Sep 2-6</b>	<b>% Change</b>	<b>Aug 2013</b>	<b>Aug 2012</b>	<b>% Change</b>
<b>Total Shares Traded</b>	541,522	538,560	0.55	1,136,561	2,124,597	(46.50)
<b>Total Value Traded</b>	\$5,214,380	\$4,250,310	22.68	\$13,445,987	\$25,488,402	(47.25)
<b>Market Capitalization</b>	\$10.41bn	\$10.37bn	0.08	\$10.40bn	\$10.10bn	2.94

Source: Beirut Stock Exchange (BSE)



### Lebanon ranks 112th worldwide, 12th among Arab countries in Country risk assessment

Business Monitor International's (BMI) composite country risk ratings for 2013 ranked Lebanon in 112th place among 159 countries globally and in 12th place among 20 Arab countries. Lebanon received a score of 46.3 points, lower than the global average of 54.8 points and the Arab average of 48.8 points. BMI's composite rating is a weighted average of the long-term political and economic ratings, the short-term political and economic ratings, and the business environment rating. Ratings are on a scale from zero to 100, with a score of 100 reflecting the best rating.

Lebanon ranked in 110th place among 176 countries worldwide and in 11th place among 20 Arab countries on the long-term political rating. This category, which is a broad indicator of political stability, assesses the factors that generate uncertainties over the state's ability to fulfill its functions and over policy predictability across governments. Lebanon received a score of 56.4 points, unchanged since 2011, but significantly down from 60.4 points in 2010. BMI said the score reflects a weak political system with significant challenges due to weak institutions, corruption or social problems. Regionally, Lebanon has a better score than Djibouti, Egypt, Iraq, Yemen, Mauritania, West Bank & Gaza, Sudan, Libya and Syria.

Further, Lebanon ranked in 150th place among 176 countries globally and in 12th place in the Arab world on the short-term political rating. This category measures the prospects for short-term stability defined as the government's ability to propose, pass, implement and enforce its chosen legislation over the next two calendar years. Lebanon's score on the short-term political rating fell to 45.2 points in 2013 from 47.7 points in 2012 and 52.1 points in 2011. Its score on this category reflects a government system that is inherently unstable due in part to corruption or social problems. Regionally, Lebanon has a better score than only Yemen, Egypt, Libya, Mauritania, Iraq, West Bank & Gaza, Syria and Sudan.

In parallel, Lebanon ranked in 106th place among 173 countries globally and in 14th place in the Arab world on the long-term economic rating. This category assesses the degree to which a country can bring about non-inflationary growth with contained fiscal and external deficits and manageable debt ratios. Lebanon's score on the long-term economic rating decreased to 46.6 points in 2013 from 48.3 points in 2012. BMI considered that Lebanon's economic profile indicates ongoing vulnerabilities, with limited prospect of solid and sustainable growth. Regionally, Lebanon has a better score than only West Bank & Gaza, Djibouti, Mauritania, Yemen, Syria and Sudan.

Also, Lebanon ranked in 144th place among 173 countries globally and in 15th place among 20 Arab countries on the short-term economic rating. This category evaluates current economic health and provides to some extent an early warning system of financial vulnerability. Lebanon's score on the short-term economic outlook rating improved from 35.6 points in 2012 and 33.8 points in 2011. Lebanon's score indicates that economic weaknesses outweigh strengths, and that the economy is vulnerable to new domestic or external shocks. Regionally, Lebanon has a better score than only Yemen, Mauritania, Syria, Djibouti and Sudan. Finally, Lebanon ranked in 88th place among 170 countries globally and in 11th among Arab countries on the business environment rating. This category evaluates the characteristics of the state that place physical or non-physical constraints on private sector business operations. It is a broad indicator of the investment climate, and covers the quality of infrastructure, corruption and red tape, the tax system, government intervention in the economy, and the economy's openness. Lebanon's score on the business environment rating was unchanged from last year, but was up from 41.5 points in 2011.

### Country Risk Rankings & Scores

	Score	Arab Rank
Qatar	69.4	1
Saudi Arabia	67.7	2
Oman	66.5	3
UAE	66.2	4
Kuwait	64.8	5
Bahrain	63.6	6
Morocco	53.9	7
Jordan	51.4	8
Algeria	50.7	9
Tunisia	50.6	10
Egypt	47.0	11
<b>Lebanon</b>	<b>46.3</b>	<b>12</b>
Iraq	42.9	13
Libya	40.0	14
Djibouti	38.0	15
West Bank & Gaza	35.8	16
Yemen	34.6	17
Mauritania	32.2	18
Syria	30.5	19
Sudan	24.1	20

Source: Business Monitor International

### Components of the Composite Country Risk Ratings for Lebanon

	Global Rank	Arab Rank	Lebanon Score	Global Ave Score	Arab Ave Score
Short-term political	150	12	45.2	63.8	54.9
Long-term political	110	11	56.4	61.6	52.8
Short-term economy	144	15	36.7	52.9	50.2
Long-term economy	106	14	46.6	52.5	47.8
Business environment	88	11	46.5	47.9	43.6

Source: Business Monitor International, Byblos Research



### Usage of hotels and furnished apartments down 22.5% in 2012

Figures compiled by the Ministry of Tourism show that a total of 572,911 persons used hotels and furnished apartments in Lebanon and spent 1,611,390 nights in such facilities in 2012, constituting decreases of 22.5% and 7.5%, respectively, from 2011 figures. As a result, clients stayed an average of 2.81 nights per person last year compared to 2.36 nights in 2011, 2.4 nights in 2010, 2.54 nights in 2009, 2.29 nights in 2008, 2.23 nights in 2007 and 2.46 nights per person in 2006. The 2012 figures constitute the second annual contraction in the number of persons who used hotels and furnished apartments and in the number of nights spent since 2007, when the total number of clients decreased by 5.8% and the total nights spent declined by 14.4% from 2006 figures.

Arab nationals, including Lebanese citizens, accounted for 66.1% of total clients and for 64% of aggregate nights in 2012, down from 70.7% of total clients and of 65.6% of aggregate nights in 2011, and compared to 69.8% of total clients and 64.5% of aggregate nights in 2010, 73.4% of total clients and 70.2% of aggregate nights in 2009, and 74.4% of total clients and 70.6% of aggregate nights spent in 2008.

The distribution of clients by country at hotels and furnished apartments indicates that Lebanon accounted for 97,615 clients, or 17% of the total, down from 20% in 2011. It was followed by Iraq with 52,191 clients (9.1%), Saudi Arabia with 44,893 (7.8%), Jordan with 38,973 (6.8%), Syria with 38,631 (6.7%), France with 28,224 (4.9%), Kuwait with 26,292 (4.6%), Egypt with 24,315 (4.2%), the UAE with 19,887 (3.5%) and the United States with 18,665 (3.3%). The number of Saudi Arabian clients at hotels and furnished apartments decreased by 44.8% in 2012 from the previous year, while clients from Lebanon declined by 34%, clients from Jordan dropped by 31.1%, those from Iraq decreased by 18.3%, and the number of clients from Syria regressed by 2.7% year-on-year. Further, Lebanon accounted for 16.5% of the total number of nights spent, followed by Syria with 8.4%, Iraq with 8.1%, Saudi Arabia with 6.9% and Jordan with 6.1%. In comparison, Lebanon accounted for 19% of the total number of nights spent in 2011, followed by Saudi Arabia with 10%, Iraq with 7%, Jordan with 6.5%, and Syria with 5.3%.

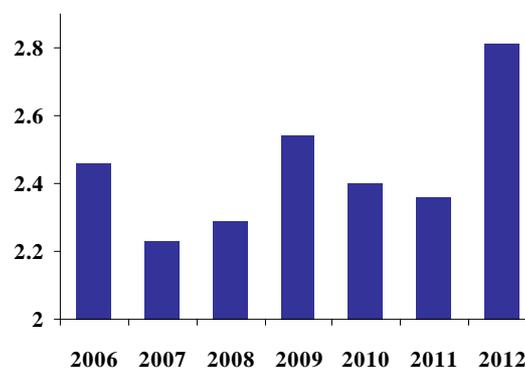
In parallel, the length of stay per person for Arab nationals shows that nationals from Morocco stayed an average of 6.51 nights per person, followed by Oman (4.79), Palestine (4.56), Libya (3.93), Mauritania (3.52), Syria (3.51), Djibouti (3.5), Sudan (3.18), Yemen (3.04), Algeria (2.97), Tunisia (2.79), Qatar (2.7), Egypt (2.69), Jordan (2.52), Saudi Arabia and Iraq (2.49 each), the UAE (2.47), Kuwait (2.4) and Bahrain (1.85). The report has separate entries for Dubai and Abu Dhabi where nationals from Dubai totaled 1,341 and spent 2.14 nights per person, and those from Abu Dhabi reached 555 and spent 3.95 nights per person. In parallel, the length of stay per person for non-Arab visitors shows that nationals from Moldova stayed an average of 19.14 nights per person, followed by Belarus (17.47), Uzbekistan (16.95), Kyrgyzstan (11.92), Dominica (11.78) and Bahamas (10). The top 5 countries accounted for 47.5% of clients and 46.1% of total nights spent, while the top 10 countries accounted for 68% of clients and 64.7% of total nights spent in 2012.

### Length of Stay of Top 10 Countries in 2012

Country	Total nights	Average night per person
<b>Lebanon</b>	<b>266,388</b>	<b>2.73</b>
Syria	135,711	3.51
Iraq	129,740	2.49
Saudi Arabia	111,896	2.49
Jordan	98,335	2.52
France	76,026	2.69
Egypt	65,297	2.69
Kuwait	63,007	2.40
UAE	49,172	2.47
USA	47,524	2.55

Source: Ministry of Tourism, Byblos Research

### Average Stay in Lebanon's Hotels and Furnished Apartments (nights per person)



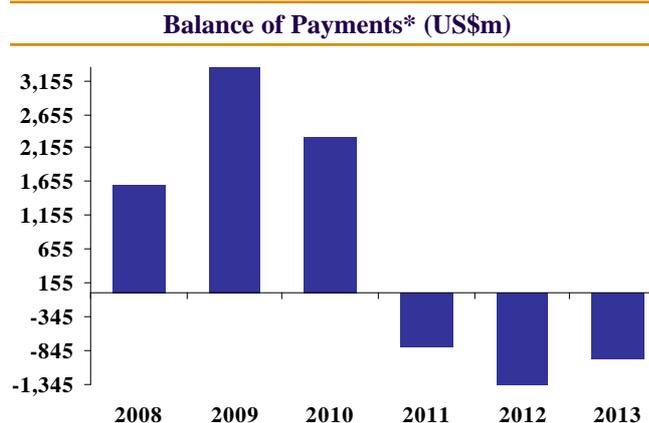
Source: Ministry of Tourism, Byblos Research

### Association of Banks amends reference rate on US dollar and Lebanese pound lending

The Association of Banks in Lebanon (ABL) recommended to its member banks to decrease the Beirut Reference Rate (BRR) in US dollars to 5.86% in October 2013, from 5.91% currently. The rate, considered as the reference rate for lending in foreign currency, replaced in 2009 the London Inter-Bank Offering Rate (LIBOR) since the ABL considered that the LIBOR no longer accurately reflects the cost of funding and lending in Lebanon. Additionally, the ABL recommended to its member banks to increase the Beirut Reference Rate in Lebanese pounds to 8.55% in October from 8.53% currently. The Beirut Reference Rate in US dollars and Lebanese pounds were adopted in March and May 2009, respectively. The ABL indicated that the BRR does not replace the Beirut Prime Lending Rate in each currency, but constitutes the basis to calculate the prime rate after adding the cost of liquidity and refinancing, credit risks, and the profitability of banks to the prime lending rate.

### Balance of payments posts deficit of \$957m in first seven months of 2013

Central Bank figures show that Lebanon's balance of payments posted a deficit of \$957.2m in the first seven months of 2013 compared to a deficit of \$1.3bn in the same period last year. The balance of payments posted a deficit of \$575.1m in July 2013 compared to a deficit of \$233.4m in June 2013 and a deficit of \$321.7m in July 2012. The July 2013 deficit was caused by a deficit of \$789.5m in the net foreign assets of the Central Bank and a surplus of \$214.4m in those of banks and financial institutions. The cumulative deficit over the first seven months of 2013 was caused by a deficit of \$2.63bn in the banks and financial institutions' net foreign assets, and was partly offset by a surplus of \$1.67bn 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.



*\*in the first seven months of each year*

*Source: Central Bank of Lebanon*

### Net public debt at \$51bn at end-July 2013

Lebanon's gross public debt reached \$60.2bn at the end of July 2013, constituting a rise of 4.4% from the end of 2012 and an increase of 8.6% from end-July 2012. Domestic debt totaled \$34bn at end-July, up by 2.3% from end-2012 and by 5% annually; while external debt stood at \$26.2bn, increasing by 7.3% from end-2012 and by 13.6% from a year earlier. Local currency debt accounted for 56.5% of the gross public debt at the end of July 2013 compared to 58.5% a year earlier, while foreign currency-denominated debt represented 43.5% of the total at the end of July relative to 41.5% a year earlier. The weighted interest rate on outstanding Treasury bills was 6.7%, while the weighted interest rate on Eurobonds was 6.49% at the end of July. Further, the weighted life on Eurobonds was 5.99 years, while that on Treasury bills was 1,149 days.

Commercial banks accounted for 54.4% of the total public debt at the end of July 2013 compared to 53.5% a year earlier. They were followed by the Central Bank with a 23% share relative to 23.9% at end-July 2012; public agencies, financial institutions and the general public with 12.4% relative to 11.4% a year earlier; bilateral and multilateral loans with 4.1% of the total debt compared to 4.6% a year earlier; while the remaining 6.1% debt was held by other parties relative to 6.6% of the total at end-July 2012. Residents held 89.8% of the total public debt at end-July 2013 relative to 88.8% a year earlier; while non-residents held 10.2% of the total at end-July 2013 compared to 11.2% at end-July 2012. 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 8.2% to \$51.1bn. In parallel, the gross market debt accounted for about 65% 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.

### Revenues through Port of Beirut down 1% to \$1.58bn in first seven months of 2013

Figures released by the Port of Beirut show that overall receipts generated through the port reached \$1.58bn in the first seven months of 2013, constituting a decrease of 1% from \$1.6bn in the same period last year. Customs receipts through the port totaled \$773.7m in the first seven months of the year, down 3.1% from \$798.4m in the same period of 2012; while receipts from the value-added tax declined by 2.6% to \$680.1m. Also, the port's overall revenues grew by 26.1% year-on-year to \$126.7m in the first seven months of 2013. Further, the Port of Beirut handled an aggregate weight of 4.8 million tons of freight in the first seven months of 2013, up by 16.5% from 4.1 million tons in the same period last year. Import freight accounted for 86.9% of the weight, while the remaining 13.1% was export cargo. A total of 1,240 ships docked the port in the first seven months of 2013, constituting an increase of 3.2% from 1,202 vessels in the same period last year.

In parallel, overall revenues generated through the Port of Tripoli reached \$67.4m in the first seven months of 2013, constituting a drop of 1.6% from \$68.5m in the same period last year. Customs receipts through the port reached \$27.4m in the covered period, up 41.4% from \$19.4m in the same period last year; while receipts from the value-added tax reached \$33.5m and dropped by 21.8% from \$42.8m in the first seven months of 2012. The port's revenues rose by 3.3% year-on-year to \$6.48m in the first seven months of 2013. Further, the Port of Tripoli handled an aggregate weight of 825,185 tons of freight in the first seven months of 2013, up 14.3% from 721,971 tons in the same period last year. A total of 314 vessels docked the port in the first seven months of 2013, constituting an increase of 24.6% from 252 ships in the same period last year.

### Construction and public work activity declines in first quarter of 2013

The Central Bank's quarterly business survey indicated that construction activity continued to regress during the first quarter of 2013, as the balance of opinions stood at -23, compared to -19 during the preceding quarter and -16 during the same quarter of 2012. The balance of opinions shows that construction activity was the lowest in the North at -36, followed by Beirut & Mount Lebanon (-29), the South (-7) and the Bekaa (zero). The business survey reflects the opinions of enterprise managers on the evolution of their businesses, in order to depict the evolution of a number of key economic variables. The balance of opinions for public works stood at -27 in the first quarter of 2013 compared to -14 in the preceding quarter and -33 in the same quarter of 2012. Opinions about the level of public works were the lowest in the North at -63, followed by Beirut & Mount Lebanon (-30), the Bekaa (zero) and the South (+60).

In parallel, the balance of opinions for the portfolio of projects was -19 in the first quarter of 2013 relative to -25 during the preceding quarter, and compared to -7 in the same quarter of 2012. The balance of opinions on the portfolio of projects was the lowest in the North at -44, followed by Beirut & Mount Lebanon (-34), the South (+6) and the Bekaa (+37). Also, the balance of opinions for general construction activity was -24 during the first quarter of 2013, compared to -21 in both of the preceding quarter and the first quarter of 2012. Further, the balance of opinion for construction costs reached +31, unchanged from the preceding quarter and compared to +34 in the same quarter of 2012. The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in a particular indicator and the proportion of those who reported a decline in the same indicator.

Construction and Public Work Activity: evolution of opinions				
Aggregate results	Q1-10	Q1-11	Q1-12	Q1-13
General activity	13	-11	-21	-24
Construction	19	-9	-16	-23
Public work	-9	-25	-33	-27
Portfolio of projects	5	-7	-7	-19
Construction costs	49	52	34	31
Investments (% of yes)	39%	30%	29%	38%

Source: Central Bank Business Survey in first quarter 2013

### Agricultural exports up 5.5% to 192,000 tons in first half of 2013

Figures released by the Lebanese Farmers Association show that agricultural exports reached 192,000 tons in the first half of 2013, constituting an increase of 5.5% from the same period last year and compared to decreases of 2.1% and 14.3% from the same period of 2011 and 2010, respectively.

It said that citrus exports totaled 54,500 tons in the first half of 2013, constituting a decline of 23% from the same period last year and a drop of 37.5% from the first half of 2010 due to a rise in shipping costs through Syria. Also, it indicated that banana exports reached 33,800 tons in the first six months of the year and regressed by 15% year-on-year compared a drop of 33.6% from the same period of 2010, as the Syrian market used to import about 80% of banana exports from Lebanon prior to the uprising. It noted that apple exports reached 43,500 tons and grew by about 80% year-on-year compared to a rise of 31% from the same period of 2010 as apple prices were relatively lower this season, which led suppliers to export more and take advantage of increasing profit margins. Further, potato exports reached 31,500 tons in the first half of 2013, up by 184% from the same period last year and compared to a rise of 27.7% from the first half of 2010, as regional demand rose substantially due to weak production capacities in Syria, Jordan and Egypt.

In parallel, the European Commission (EC) granted Lebanon the right to export 50,000 tons of potatoes to the European Union, reversing a long-standing export prohibition. Lebanon would benefit from the duty free quota under the EU-Lebanon Association Agreement. The EC indicated that it will mainly import potatoes originating from the two most important Lebanese agricultural production regions of Akkar and the Bekaa.

### Central Bank authorizes extension of loan maturities

The Central Bank of Lebanon issued Intermediate Circular 335 on September 7, 2013 that amends Basic Circular 80 dated January 2, 2001. The circular allows the extension of subsidized loans that were approved prior to September 1, 2013 to a maximum of 10 years. It added that the extension would not affect the estimated value of the subsidy prior to the extension. Previously, subsidized loans' period ranged between five and seven years, with the exception of Kafalat's "tree program" that finances arboriculture activities and that has a loan period of up to 10 years. The decision is meant to reduce the loan payments of beneficiaries by extending the loan's maturity. The amount of subsidized interest loans to productive sectors in Lebanon reached \$101.3m in the first quarter of 2013. The industrial sector accounted for \$53.8m, or 53.1% of the total, followed by tourism with \$39.3m (38.8%) and agriculture with \$8.2m (8.1%). Subsidized interest loans extended in 2012 totaled \$696m relative to \$930.7m in 2011, \$737.6m in 2010 and \$492.3m in 2009. The cumulative amount of subsidized interest loans to productive sectors in Lebanon reached \$5.2bn between 1997 and March 2013. Subsidized medium & long-term loans reached \$80.4m in 2012, equivalent to 79.4% of the total; subsidized interest loans guaranteed by the Kafalat Corporation totaled \$20.3m, or 20% of the total and subsidized interest loans granted by leasing companies totaled \$0.6m in the first quarter of the year, or 0.6% of the total.



### Lebanese citizens are 97th happiest people in the world, 12th happiest in MENA region

The United Nations Sustainable Development Solutions Network's survey on the level of happiness in 156 countries worldwide ranked Lebanon as the 97th happiest country globally and the 12th happiest nation among 20 countries in the Middle East & North Africa (MENA) region. The UN's measure of happiness is based on annual polls conducted by opinion polling and consulting firm Gallup between 2010 and 2012, with the results converted into a numerical score for each country. Lebanon ranked in 78th place among 135 countries worldwide on data covering the 2005-07 period. Lebanon's rank would drop by seven spot to 85th place when using countries that have data for both the 2005-07 and the 2010-12 periods. Respondents were asked to evaluate their current lives by imagining life as a ladder, with the best possible life for them as a 10, and the worst possible life as a zero. The poll typically interviews 1,000 respondents per country in each survey year.

Globally, Lebanese citizens are considered to be happier than the citizens of Lesotho, Morocco and Swaziland, but less happy than the citizens of South Africa, the Dominican Republic and Mozambique. Also, the Lebanese are considered to be happier than the citizens of Morocco, Tunisia, Iraq, Palestine, Iran, Egypt, Yemen and Syria among MENA countries. Lebanon received a score of 4.931 points, down from 5.071 points in last year's survey, and lower than the global average of 5.158 points and the MENA region's average score of 4.841 points.

The decomposition of happiness in Lebanon shows that GDP per capita explains around 22% of Lebanese citizens' overall happiness, followed by social support or having someone to count on in times of trouble with around 20%, expectations of a healthy life with about 14%, freedom to make life choices and generosity or donating money to a charity with around 6% each, and perceptions of corruption with about 1%.

Lebanon was one of 53 nations globally and one of seven countries in the MENA region to post a decrease in their level of happiness. The decline in Lebanon's happiness level was the 13th smallest worldwide and the smallest in the region. The level of happiness increased the most in Angola, while it posted the steepest decline in Egypt. The citizens of Denmark remained the happiest worldwide, while those of Togo were the least happy globally.

### Office space under construction in Beirut at 147,871 square meters, Ashrafieh accounts for 66% of total space

Figures released by Property advisory firm RAMCO show that a total of 32 office projects are currently under construction in Beirut, equivalent to an aggregate of 147,871 square meters of new office space. The firm noted that 18 out of the 32 office projects, or 56.3% of the total, are currently under construction in Ashrafieh in the Corniche el Nahr, Adlieh and Badaro areas. They represent a total of 97,491 square meters, or 65.9% of total upcoming offices in Beirut, while the asking price averages \$3,500 per sqm.

It added that 10 out of the 32 office projects, or 31.3% of the total, are currently under construction in Ras Beirut, and include two office buildings in the Hamra and Clemenceau areas to cater the needs of medical clinics located near major medical centers. Also, the firm indicated that eight out of the 10 office projects in Ras Beirut are located on lower levels of residential towers. The new developments represent a total of 25,307 square meters with an average asking price between \$5,000 per sqm and \$5,500 per sqm. Also, it indicated that four out of the 32 office projects, or 12.5% of the total, are currently being built in the Beirut Central District and are equivalent to 25,073 square meters. It said that 75% of these developments will be placed on the rental market, while the remaining 25% would be sold at an average asking price of \$7,000 per sqm. RAMCO noted that commercial projects became financially attractive to developers following the residential market slowdown. It added that the price of office space increased due to the scarcity of new and modern office supply on the market. Moreover, it indicated that demand for small offices is stable.

#### World Happiness Rankings & Scores

	Score	MENA Rank	Global Rank
Israel	7.30	1	11
UAE	7.14	2	14
Oman	6.85	3	23
Qatar	6.67	4	27
Kuwait	6.52	5	32
Saudi Arabia	6.48	6	33
Algeria	5.42	7	73
Jordan	5.41	8	74
Turkey	5.35	9	77
Libya	5.34	10	78
Bahrain	5.31	11	79
<b>Lebanon</b>	<b>4.93</b>	<b>12</b>	<b>97</b>
Morocco	4.89	13	99
Tunisia	4.83	14	104
Iraq	4.82	15	105
Palestine	4.70	16	113
Iran	4.64	17	115
Egypt	4.27	18	130
Yemen	4.05	19	142
Syria	3.89	20	148

Source: United Nations

### Car sales up 4.3% in first eight months of 2013

Figures released by the Association of Automobile Importers in Lebanon (AIA) indicate that a total of 24,008 new passenger cars were sold in the first eight months of 2013, constituting an increase of 4.3% from 23,012 cars sold in the same period last year. Korean cars accounted for 46.6% of total sales, followed by Japanese cars with a 26.4% share, European automobiles with 19.5%, American vehicles with 5.6%, and Chinese cars with 2%. Chinese cars posted the highest growth in sales with a 66.3% rise year-on-year, followed by Korean cars with a 9.5% increase, and Japanese cars with a 0.2% rise. In parallel, American cars posted a 5.3% contraction in sales year-on-year, followed by European cars with a 2.1% decrease. Kia is the leading brand in the Lebanese market with 6,423 cars sold in the first eight months of 2013, followed by Hyundai with 4,746 cars sold, Nissan with 3,210 cars, Toyota (1,279), Chevrolet (764), Renault (678) and Mitsubishi (545). In parallel, a total of 1,534 new commercial vehicles were sold in the first eight months of 2013, up 1.2% from the 1,516 vehicles sold in the same period last year, and up by 9.3% from 1,403 vehicles sold in the same period of 2011.

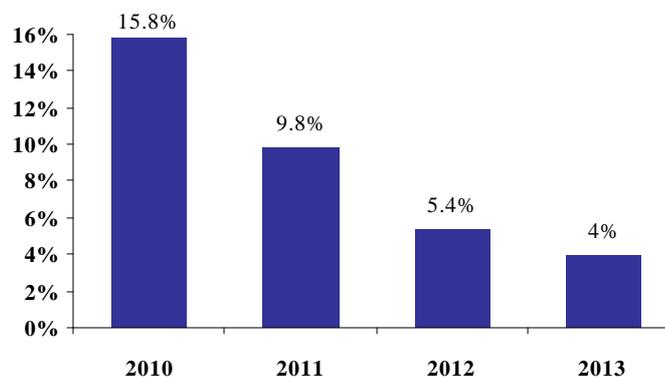
The AIA indicated that the combined number of registered new and imported used cars in the first eight months of 2013 decreased by about 8% from a year earlier. It noted that about 91% of new cars sold during the covered period were small automobiles that cost about \$11,000 each. It noted that the trend towards buying smaller cars is due to the high prices of gasoline, the lack of proper public transportation, and fierce competition among car dealers. It added that this translates into lower sales figures and, consequently, a decline in dealers' income.

### Commercial banks' assets reach \$157.8bn at end-July 2013

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$157.8bn at the end of July 2013, constituting an increase of 3.9% from the end of 2012 and a rise of 8.5% from end-July 2012. Private sector deposits totaled \$131.2bn, increasing by 4.9% from end-2012 and by 9.5% from end-July 2012. Deposits in Lebanese pounds reached \$44.8bn and rose by 2% from end-2012 and by 6.3% from end-July 2012; while deposits in foreign currencies totaled \$86.3bn and increased by 6.6% from end-2012 and by 11.3% from a year earlier. Non-resident foreign currency deposits totaled \$23.9bn at the end of July 2013, up by 14.6% from the end of 2012 and by 26.6% year-on-year. Total non-resident deposits reached \$27.1bn at the end of July 2013 and grew by 12.4% from end-2012 and by 23.4% from a year earlier. Total private sector deposits increased by \$558.2m in January, \$745m in February, \$1.8bn in March, \$1.95bn in May and \$1.2bn in June; while they decreased by \$11.3m in April and by \$88m in July 2013. In comparison, they rose by \$976m January, \$726m in February, \$806m in March, \$533m in April, \$141.3m in May and \$986m in June; while they declined by \$130m in July 2012. In parallel, deposits of non-resident banks reached \$4.9bn at the end of July 2013 and decreased by 17.1% from end-2012 and by 17.8% from a year earlier. The dollarization rate of deposits reached 65.8% at the end of July 2013 up from 64.8% at end-2012 as well as a year earlier. Further, the average deposit rate in Lebanese pounds reached 5.43% at end-July 2013, down from 5.45% a year earlier; while the same rate in US dollars was 2.89%, up from 2.84% in July 2012.

Loans to the private sector totaled \$45.2bn, constituting an increase of 4% from end-2012 and a rise of 8.9% from a year earlier. Lending to the resident private sector totaled \$39.8bn and increased by 5.1% from end-2012 and by 9.9% year-on-year, while credit to the non-resident private sector reached \$5.4bn and decreased by 3.7% from end-2012 and increased by 1.8% from end-July 2012. The dollarization rate in private sector lending regressed to 77% at end-July 2013 from 77.7% a year earlier. The average lending rate in Lebanese pounds was 7.13% in July 2013 compared to 7.24% a year earlier, while the same average in US dollars was 7.02% compared to 7.19% in July 2012. In addition, claims on non-resident banks reached \$13.7bn at end-July 2013, posting a decrease of 4.9% from end-2012 and a rise of 6.6% from a year earlier. Claims on the public sector stood at \$32.9bn, constituting an increase of 5.6% from end-2012 and a rise of 10.9% year-on-year. The ratio of private sector loans-to-deposits in foreign currencies stood at 40.3%, down from 41.5% at end-July 2012, and well below the Central Bank's limit of 70%. In parallel, the same ratio in Lebanese pounds was 23.2%, up from 22% at the end of July 2012. The ratio of total private sector loans to deposits was 34.4% at the end of July compared to 34.6% a year earlier. The banks' aggregate capital base stood at \$13.6bn, up by 0.2% month-on-month and by 14.2% from \$11.9bn in July 2012.

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



\*in first seven months of each year

Source: Association of Banks in Lebanon, Byblos Research

### **Kafalat loan guarantees down 21.4% to \$74.7m in first eight of 2013**

Figures released by the Kafalat Corporation show that loans extended to small- and medium-size companies under the guarantee of Kafalat reached \$74.7m in the first eight months of 2013, down 21.4% from \$95m in the same period last year. The number of loan guarantees totaled 536 year-to-August compared to 692 in the same period last year. The average loan size reached \$139,330 compared to \$137,356 in the first eight months of 2012. Mount Lebanon accounted for 38.8% of guarantees, followed by the Bekaa with 22.8%, the South with 12.1%, the North with 10.8%, Nabatieh with 7.8%, and Beirut with 7.7%. The agricultural sector accounted for 40.5% of total guarantees, followed by industry with 34%, tourism with 17.5%, handicraft with 5.4%, and specialized technologies with 2.6%. 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.

### **AUB and USJ among top Arab universities**

The QS World University Rankings for 2013 included two Lebanese universities among 800 ranked universities worldwide. The list ranked the American University of Beirut (AUB) in 250th place globally and in second place among 26 Arab universities included in the survey. AUB's global rank was unchanged from the preceding year, but its regional rank improved by one spot. AUB came in 300th place in the 2011 survey and in 341st place on the 2010 list. Also, the survey ranked Université Saint-Joseph (USJ) within the 601-650 range globally, along with Abu Dhabi University, King Khalid University and Ain Shams University in the region. USJ's rank was in the 501-550 range globally in the 2012 list, in the 551-600 range in the 2011 list, and above 601st place on the 2010 list. AUB received a score of 45.1 points compared to an average of 42.5 points for the top five universities in the region. The top ranked Arab university is King Saud University which came in 216th place globally; while the Massachusetts Institute of Technology ranked first worldwide and received a score of 100 points.

The rankings are based on a weighted average of six factors that are academic reputation with a 40% weight, faculty-to-student ratio and citations per faculty with 20% each, employer reputation with 10%, and international faculty ratio and international student ratio with 5% each. QS World University Rankings is prepared by Quacquarelli Symonds since 2004, a company specializing in education and study abroad.

### **InterContinental Hotels Group opens its first extended-stay hotel in Lebanon**

InterContinental Hotels Group (IHG) announced the opening of its first international extended-stay hotel in Lebanon. The 121-suite Staybridge Suites Beirut, located in Verdun Street, offers fully furnished studio suites as well as one- and two-bedroom apartments. IHG's hotel portfolio in Lebanon includes three InterContinental hotels, a Crown Plaza hotel and a Holiday Inn hotel. Staybridge Suites Beirut constitutes IHG's third Staybridge Suites hotel in the Middle East region after Staybridge Suites Cairo that was inaugurated in 2008 and Staybridge Suites Abu Dhabi that was opened in 2009.

### **Top five freight forwarders' activity up 27% in first seven months of 2013**

Figures released by the Port of Beirut Authority show that overall import shipping operations by the top five freight forwarders reached 209,670 20-foot equivalent units (TEUs) in the first seven months of 2013, constituting a rise of 26.9% from 165,254 TEUs in the same period last year. They accounted for 64.3% of the total import freight forwarding market during the covered period. Mediterranean Shipping Company (MSC) handled 71,269 TEUs in imports for the local market in the first seven months of the year, equivalent to 21.9% share of the total freight forwarding import market. It was followed by Sealine Group with 57,459 TEUs (17.6%), Merit Shipping with 42,234 TEUs (13%), Metz Group with 24,916 TEUs (7.6%) and Gezairy Transport with 13,792 TEUs (4.2%). Further, Gulf Agency registered the highest growth in import shipping among freight forwarders at 62.7% year-on-year, while MAERSK posted the steepest contraction at 98.3% year-on-year.

In parallel, export shipping operations by the top five freight forwarders reached 44,250 TEUs in the first seven months of 2013, constituting an increase of 50.4% from 29,423 TEUs in the same period of 2012. They accounted for 98.6% of the total export freight forwarding market full with Lebanese cargo during the covered period. Sealine Group handled 22,223 TEUs of freight, equivalent to 49.5% share of the total freight forwarding Lebanese cargo export market. It was followed by Merit Shipping with 13,688 TEUs (30.5%), MSC with 3,684 TEUs (8.2%), Metz Group with 2,747 TEUs (6.1%) and Gezairy Transport with 1,908 TEUs (4.3%). Further, Sealine Group registered the highest growth in export shipping among all freight forwarders at 127.1% year-on-year, while Gulf Agency posted the steepest drop of 77.5% year-on-year.

### **Banque Libano-Française posts \$46.8m in first half profits**

Banque Libano-Française sal, one of Lebanon's top 10 banks, posted unaudited consolidated net profits of \$46.8m in the first half of 2013, constituting an increase of 49.7% from the same period last year. Net operating income rose by 15.6% to \$112.5m, with net interest income increasing by 1.4% to \$81.7m and net fee & commission receipts remaining almost unchanged from a year earlier at \$19.9m. Non-interest income accounted for 31.2% of total income, down from 31.9% in the first half of 2012; with net fees & commissions accounting for 50.8% of non-interest earnings. Further, the bank's interest margin was 1.69% in the first half of 2013 relative to 1.65% in same period of 2012; while its net spread increased to 1.65% from 1.59% in the same period last year. Total operating expenditures remained almost unchanged at \$58.4m, with staff expenses increasing by 0.9% to \$34.5m. Also, the bank's return on average assets reached 0.9% at end-June 2013 on an annualized basis, relative to 0.61% a year earlier; while its return on average equity was 10.4% on an annualized basis relative to 7.6% at end-June 2012. The bank's cost-to-income ratio dropped to 46.7% in the first half relative to 49.3% in the same period last year.

In parallel, total assets reached \$10.4bn at end-June 2013, constituting an 2.6% rise from end-June 2012 and a decline of 0.2% rise from end-2012, while loans & advances to customers, excluding loans & advances to related parties, increased by 1.6% year-on-year and by 3% from end-2012 to \$3.4bn. Also, Customer deposits, excluding deposits to related parties, totaled \$9bn at end-June, constituting an increase of 2.8% from a year earlier and a growth of 2% from end-2012. The loans-to-deposits ratio declined to 38.5% at end-June 2012 from 39.1% a year earlier.

### **UFA's shareholders' equity up 10% to \$10m in 2012**

UFA Assurances sal released its audited balance sheet that shows total assets of \$29.1m at the end of 2012, constituting a decrease of 7.3% from \$31.4m at end-2011. On the assets side, general company investments totaled \$13.3m and decreased by 13.7% from a year earlier. They included \$0.3m in fixed income investments that rose by 22.5% annually, \$5.1m in deposits with maturity of more than three months, \$3.5m in land and real estate, \$0.8m investments in subsidiaries and associates; as well as \$2.4m in cash and cash equivalent. Also, reinsurance share in technical reserves for the life and non-life categories amounted to \$58,973 and \$1.3m, respectively, constituting an increase of 2.6% and a decrease of 2.2% respectively.

On the liabilities & shareholder equity's side, technical reserves for the life segment increased by 0.9% year-on-year to \$0.3m, while technical reserves for the non-life category reached \$14m at end-2012 and decreased by 20.4% from a year earlier. Non-life technical reserves included unearned premium reserves of \$11m that declined by 18.6%, outstanding claims reserves of \$2m that regressed by 0.6% year-on-year, and \$0.6m in reserves incurred but not reported that increased by 156.5% year-on-year. Shareholders' equity totaled \$9.7m at end-2012, up by 10% from a year earlier. Further, provisions for risks and charges reached \$1.1m and rose by 265% from a year earlier.

*Al-Bayan* magazine's annual survey of the insurance sector in Lebanon ranked UFA in 30th and 21st place in 2012 in terms of life and non-life premiums, respectively. The firm's life premiums reached \$0.46m and non-life premiums amounted to \$12.6m, constituting increases of 12.2% and 0.2%, respectively. It had a 0.1% share of the life market and a 1.4% share of the local non-life market.

## 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	Sep 2011	Aug 2012	Sep 2012	Change*	Risk Level
Political Risk Rating	55.5	53.5	53.5	▼	High
Financial Risk Rating	33.5	35.0	35.0	▲	Low
Economic Risk Rating	24.0	34.0	34.0	▲	Moderate
Composite Risk Rating	56.5	61.2	61.2	▲	Moderate

Regional Average	Sep 2011	Aug 2012	Sep 2012	Change*	Risk Level
Political Risk Rating	59.3	59.7	59.3	↔	High
Financial Risk Rating	42.3	41.2	41.7	▼	Very Low
Economic Risk Rating	36.9	36.3	36.2	▼	Low
Composite Risk Rating	69.2	68.6	68.5	▼	Moderate

\*year-on-year

Source: The PRS Group, Byblos Research

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

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

## Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's	B1	NP	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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