



## LEBANON THIS WEEK

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Top five freight forwarders' import activity up 24% in first eight months of 2013

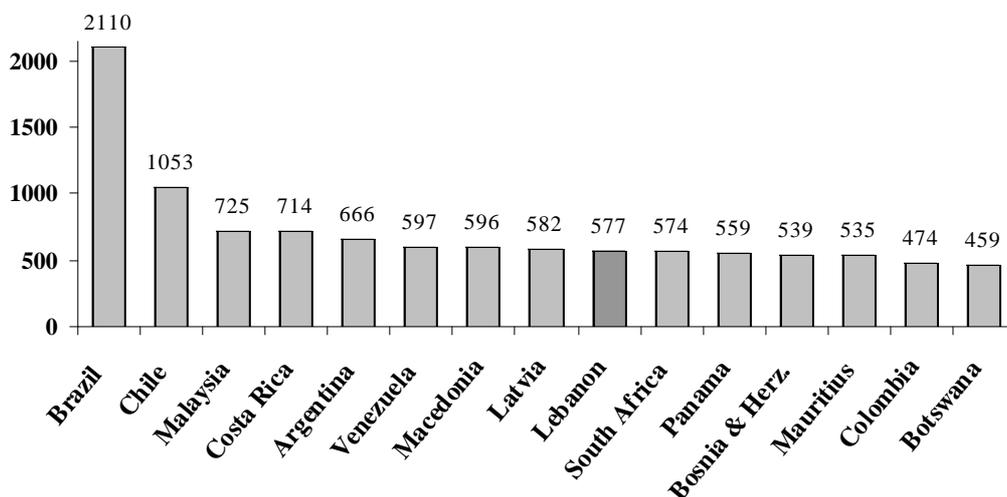
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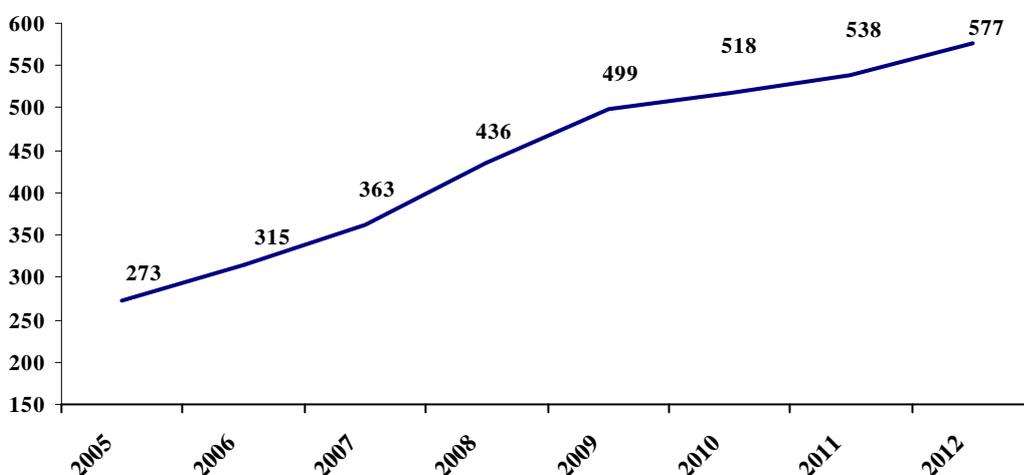
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### Charts of the Week

**Loan Accounts' Penetration Rate in Select Upper-Middle Income Countries in 2012**  
 (number of loan accounts at commercial banks per 1000 adults)



**Loan Accounts' Penetration Rate in Lebanon**  
 (number of loan accounts at commercial banks per 1000 adults)



Source: International Monetary Fund, Byblos Bank

### Quote to Note

"The Lebanese banking sector has traditionally enjoyed high capitalization, good profitability, and has proven resilient even to large shocks."

*The World Bank, on the strength of the banking sector in Lebanon*

### Number of the Week

**136:** Lebanon's rank out of 148 countries on the protection of intellectual property rights, according to the World Economic Forum's Global Competitiveness Index for 2013-14

## Economic Indicators

<b>\$m (unless otherwise mentioned)</b>	<b>2012</b>	<b>Jun 12</b>	<b>Mar 13</b>	<b>Apr 13</b>	<b>May 13</b>	<b>Jun 13</b>	<b>% Change*</b>
Exports	4,486	345	406	412	364	348	0.87
Imports	21,281	1,713	2,076	1,849	1,797	1,634	(4.61)
Trade Balance	(16,795)	(1,368)	(1,670)	(1,437)	(1,433)	(1,286)	(5.99)
Balance of Payments	(1,538)	(23)	(353)	44	(131)	(233)	914.8
Checks Cleared in LBP	14,976	1,283	1,286	1,473	1,457	1,444	12.55
Checks Cleared in FC	56,044	4,766	4,472	4,854	4,526	4,523	(5.10)
Total Checks Cleared	69,787	6,049	5,758	6,327	5,983	5,967	(1.36)
Budget Deficit/Surplus	(3,925)	8.14	(484.90)	(726.31)	(113.72)	(275.88)	-
Primary Balance	(109.87)	281.1	(75.10)	(264.63)	309.14	(23.19)	-
Airport Passengers	5,960,414	545,379	502,923	514,458	514,520	570,903	4.68

<b>\$bn (unless otherwise mentioned)</b>	<b>Dec 2012</b>	<b>Jun 12</b>	<b>Mar 13</b>	<b>Apr 13</b>	<b>May 13</b>	<b>Jun 13</b>	<b>% Change*</b>
BdL FX Reserves	29.97	29.26	30.36	30.66	31.36	31.72	8.39
<i>In months of Imports</i>	<i>16.02</i>	<i>17.08</i>	<i>14.62</i>	<i>16.58</i>	<i>17.45</i>	<i>19.41</i>	<i>13.6</i>
Public Debt	57.69	55.25	57.75	59.12	59.18	60.01	8.62
Net Public Debt	49.12	47.10	50.07	50.68	50.71	50.90	8.06
Bank Assets	151.88	145.90	155.44	155.11	156.61	157.95	8.26
Bank Deposits (Private Sector)	125.00	119.94	128.11	128.10	130.05	131.27	9.44
Bank Loans to Private Sector	43.45	41.70	44.70	44.08	44.42	44.84	7.53
Money Supply M2	43.62	41.00	43.76	43.93	44.16	44.20	7.80
Money Supply M3	104.71	100.36	105.85	106.18	106.77	107.31	6.93
LBP Lending Rate (%)	7.47	7.44	7.28	7.27	7.35	7.87	43b.p
LBP Deposit Rate (%)	5.46	5.45	5.44	5.43	5.49	5.39	(6b.p)
USD Lending Rate (%)	7.05	7.15	6.95	6.90	6.97	6.97	(18b.p)
USD Deposit Rate (%)	2.94	2.78	2.97	2.97	2.90	2.86	8b.p
%* Change in CPI**	3.66	4.72	4.57	2.94	2.43	3.72	(100b.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"	11.55	0.43	47,512	10.98%
Solidere "B"	11.37	(1.04)	23,687	7.03%
Byblos Common	1.50	0.00	165,471	5.13%
Byblos Pref. 08	100.00	0.20	70	1.90%
Byblos Pref. 09	100.20	0.00	521	1.91%
BLOM GDR	8.60	0.00	0	6.04%
BLOM Listed	8.25	0.00	15,250	16.86%
Audi GDR	6.49	0.00	0	6.29%
Audi Listed	6.15	0.82	10,090	20.45%
HOLCIM	14.98	4.61	1,611	2.78%

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	3.27
Jan. 2015	5.875	101.75	4.41
Apr. 2015	10.00	108.25	4.35
Jan. 2016	8.500	107.75	4.83
Mar. 2017	9.000	110.88	5.48
Nov. 2018	5.150	98.00	5.64
Apr. 2021	8.250	108.75	6.74
Nov. 2026	6.600	98.25	6.80

Source: Byblos Bank Capital Markets

	<b>Oct 7-11</b>	<b>Sep 30-Oct 4</b>	<b>% Change</b>	<b>Sep 2013</b>	<b>Sep 2012</b>	<b>% Change</b>
<b>Total Shares Traded</b>	273,091	588,073	(53.56)	1,866,526	2,108,718	(11.49)
<b>Total Value Traded</b>	\$1,572,674	\$3,885,732	(59.53)	\$14,728,227	\$16,363,982	(10.00)
<b>Market Capitalization</b>	\$10.52bn	\$10.49bn	0.28	\$10.54bn	\$10.02bn	5.28

Source: Beirut Stock Exchange (BSE)



### IMF projects real GDP in Lebanon at 1.5% in 2013, economy to post 32nd slowest growth rate in the world

The International Monetary Fund revised downwards its projection for real GDP growth in Lebanon to 1.5% in 2013 from a previous forecast of 2%; and compared to growth rates of 2.1% for the MENA region, 2.8% for the region's oil-importing economies and 1.9% for the Mashreq economies; as well as relative to growth rates of 4.5% in emerging & developing economies and of 2.9% for the global economy. The Fund indicated that political spillovers from the Syrian conflict and the rising number of Syrian refugees would continue to adversely affect confidence, deter tourism and weigh on economic activity. It added that this would damage Lebanon's public finances and put pressure on external balances.

Lebanon's projected growth rate in 2013 would make it the second slowest-growing economy among 19 countries in the MENA region, higher than only Kuwait (0.8%). Libya and Iran are the only regional economies that are set to contract this year, as the Fund forecast their real GDP to shrink by 5.1% and 1.5%, respectively. The IMF continues to exclude Syria from its forecasts. Lebanon would also be the 32nd slowest-growing economy in the world in 2013 when excluding contracting economies, as its growth rate would be similar to that of Estonia, Montenegro, Cape Verde and Russia.

The IMF also projected Lebanon's real GDP growth at 1.5% in 2014 compared to 3.8% in the MENA region, 3.1% for the region's oil-importing economies and 2.7% in the Mashreq countries. Lebanon's projected growth rate in 2014 would make it the second slowest-growing economy among 19 countries in the MENA region, higher than only Iran (1.3%). Also, it would be the 23rd slowest-growing economy globally and would tie with Ukraine, Croatia and the Czech Republic. The Fund forecast the average inflation rate in Lebanon at 6.3% in 2013, fifth highest among 19 countries in the region, and relative to 12.3% for the MENA region, 7.8% for oil-importing economies and 6.8% for the Mashreq region. Lebanon's inflation rate averaged 6.6% in 2012 and 5% in 2011.

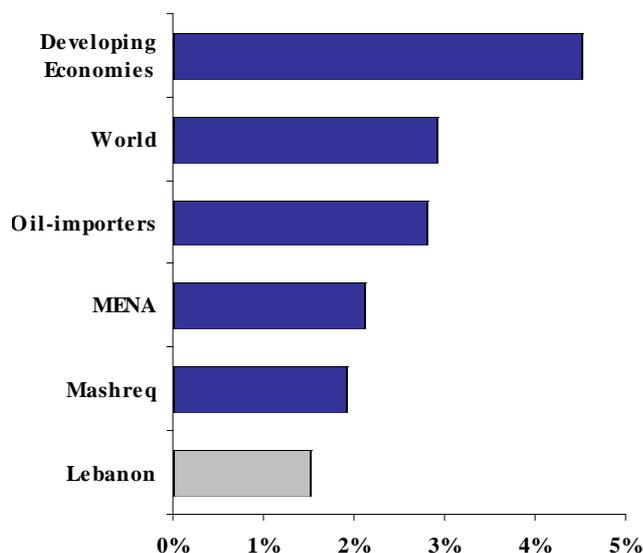
Further, the Fund projected Lebanon's current account deficit at 16.7% of GDP in 2013 compared to a surplus of 10.3% of GDP for the MENA region, a deficit of 6.7% for oil-importing economies and a deficit of 5.2% of GDP for the Mashreq countries. Lebanon posted current account deficits of 16.2% of GDP in 2012 and 12.4% of GDP in 2011. Lebanon's current account deficit for 2013 would be the 18th widest globally, while it would be the second widest in the MENA region, narrower than only Mauritania with a projected current account deficit of 34.3% of GDP. Also, it projected Lebanon's fiscal deficit at 10.4% of GDP in 2013 compared to deficits of 9% of GDP in 2012 and 6.1% of GDP in 2011. Lebanon's fiscal deficit would be the sixth widest globally, narrower than only Mongolia (-11.3% of GDP), Eritrea (-12.5% of GDP), Egypt (-14.7% of GDP), Venezuela (-15% of GDP) and Kiribati (-21.1% of GDP). It would also be the second widest deficit in the MENA region narrower than only Egypt.

In parallel, the IMF maintained its estimate of Lebanon's economic growth at 1.5% in 2012 compared to growth rates of 4.6% in the MENA region, 2.2% for the Mashreq economies and 2% for oil-importing economies, as well as relative to growth rates of 4.9% in emerging & developing economies and 3.2% for the world economy. Lebanon was the slowest-growing economy among 19 countries in the MENA region and the 23rd slowest-growing economy in the world in 2012.

### Balance of payments posts deficit of \$1.2bn in first eight months of 2013

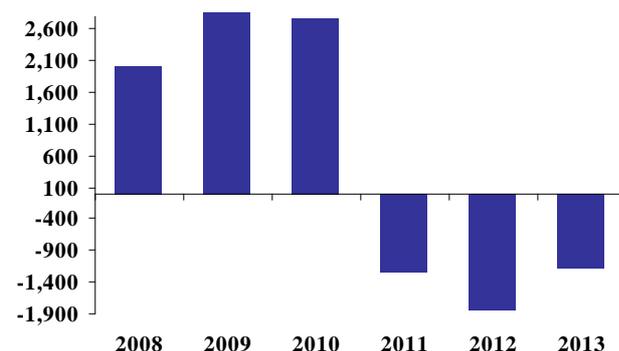
Central Bank figures show that Lebanon's balance of payments posted a deficit of \$1.18bn in the first eight months of 2013 compared to a deficit of \$1.8bn in the same period last year. The balance of payments posted a deficit of \$223m in August 2013 compared to a deficit of \$575.1m in July 2013 and a deficit of \$496.7m in August 2012. The August 2013 deficit was caused by a deficit of \$298.8m in the net foreign assets of the Central Bank, and was partly offset by a surplus of \$76m in those of banks and financial institutions. The cumulative deficit over the first eight months of 2013 was caused by a deficit of \$2.55bn in the banks and financial institutions' net foreign assets, and was partly offset by a surplus of \$1.37 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.

Projected Real GDP Growth in 2013 (%)



Source: International Monetary Fund, October 2013

Balance of Payments\* (US\$m)



\*in the first eight months of each year

Source: Central Bank of Lebanon

### Lebanon's external debt posts 18th highest return in emerging markets, fifth highest in the Middle East & Africa

Figures issued by Merrill Lynch indicate that Lebanon's external debt posted returns of -0.23% in the first nine months of 2013, constituting the 12th highest return among 35 markets in the Eastern Europe, the Middle East & Africa (EMEA) region as well as the 18th highest return among the 63 emerging markets included in Merrill Lynch's Sovereign Plus Debt Index. Lebanon outperformed the EMEA region's returns of -3.36% and the overall emerging markets returns of -5.87% in the first nine months of 2013. Also, Lebanon's external debt outperformed the -3.15% returns posted by sovereigns rated 'BB' and lower.

Further, Lebanon's external debt posted the fifth highest return among 18 countries in the Middle East & Africa region in the first nine months of the year, ahead of Tunisia (-0.49%), Bahrain (-2.06%), Gabon (-2.08%), Morocco (-2.64%), Rwanda (-4.55%), Egypt (-4.61%), Nigeria (-5.42%), Iraq (-5.72%), Senegal (-5.86%), Namibia (-6.2%), South Africa (-6.32%), Zambia (-8.14%) and Turkey (-9.25%). It was outperformed by the Ivory Coast (8.16%), Jordan (5.63%), Angola (1.78%), Ghana (-0.14%). In US dollar terms, Lebanon's external debt posted returns of -0.3% in the first nine months of 2013, 10th highest in the EMEA region and 16th highest among emerging markets.

In parallel, Lebanon's external debt posted returns of 0.44% in September 2013, constituting the fifth lowest return in the EMEA region and the 10th lowest return in emerging markets during the covered month. Lebanon underperformed the EMEA returns of 2.04% and those of emerging markets of 2.58% as well as the 1.95% returns of sovereigns rated 'BB' and lower for the same month.

Further, Lebanon's external debt posted the second lowest return in the Middle East & Africa region in September 2013. It was outperformed by Egypt (9.21%), Iraq (7.15%), Zambia (4.27%), Turkey (3.98%), South Africa (3.67%), Rwanda (3.21%), Morocco (3.15%), Bahrain (2.95%), Senegal (2.69%), Angola (1.73%), Nigeria (1.54%), Ghana (1.24%), Jordan (0.82%), Gabon (0.8%), Ivory Coast (0.65%) and Namibia (0.45%). It only outperformed Tunisia (-0.22%).

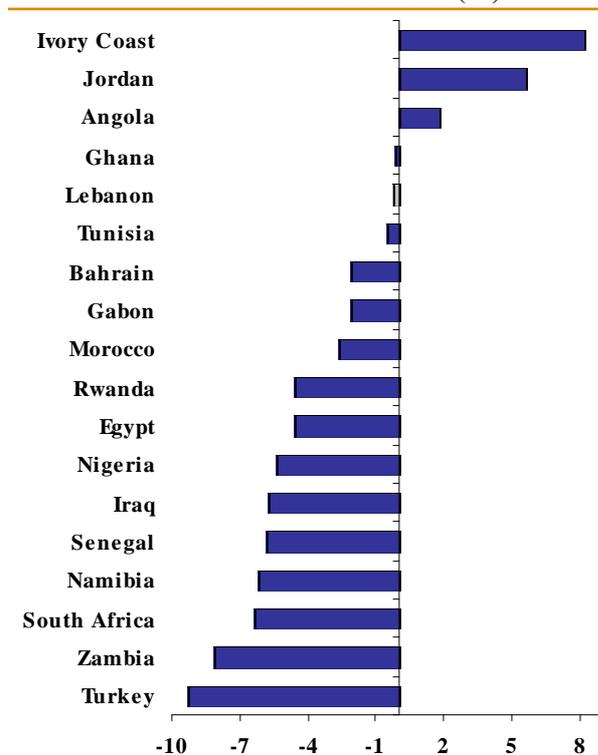
Merrill Lynch said the spread on Lebanese Eurobonds ended September 2013 at 470 basis points, constituting the 11th widest spread in the EMEA region and the 22nd widest among emerging markets. It was wider than the EMEA spread of 326 basis points as well as the emerging markets' overall spread of 346 basis points at end-September 2013. Lebanon has a weight of 3.94% on Merrill Lynch's Sovereign Plus Debt Index, the fourth highest in the EMEA universe and the ninth highest among emerging economies. Lebanon accounted for 7.7% of allocations in the EMEA region.

### Revenues through Port of Beirut nearly unchanged at \$1.83bn in first eight months of 2013

Figures released by the Port of Beirut show that overall receipts generated through the port reached \$1.83bn in the first eight months of 2013, constituting an increase of 0.4% from \$1.82bn in the same period last year. Customs receipts through the port totaled \$888.9m in the first eight months of the year, down 2.2% from \$909.1m in the same period of 2012; while receipts from the value-added tax declined by 0.4% to \$788.9m. Also, the port's overall revenues grew by 24.9% year-on-year to \$145.7m in the first eight months of 2013. Further, the Port of Beirut handled an aggregate weight of 5.5 million tons of freight in the first eight months of 2013, up by 14.5% from 4.8 million tons in the same period last year. Import freight accounted for 87.2% of the weight, while the remaining 12.8% was export cargo. A total of 1,416 ships docked the port in the first eight months of 2013, constituting an increase of 1.1% from 1,400 vessels in the same period last year.

In parallel, overall revenues generated through the Port of Tripoli reached \$76.4m in the first eight months of 2013, constituting a marginal drop of 0.3% from \$76.6m in the same period last year. Customs receipts through the port reached \$31.1m in the covered period, up 38.4% from \$22.5m in the same period last year; while receipts from the value-added tax reached \$38m and dropped by 19.5% from \$47.1m in the first eight months of 2012. The port's revenues rose by 4.3% year-on-year to \$7.3m in the first eight months of 2013. Further, the Port of Tripoli handled an aggregate weight of 942,322 tons of freight in the first eight months of 2013, up 15.8% from 813,838 tons in the same period last year. A total of 362 vessels docked at the port in the first eight months of 2013, constituting an increase of 17.9% from 307 ships in the same period last year.

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



Source: Merrill Lynch, Byblos Research

### Lebanon ranks 31st globally, third in Arab world in Internet freedoms

In its annual report on Internet freedoms in 60 countries, independent think tank Freedom House ranked Lebanon in 31st place globally and in third place among 11 Arab countries in 2013. Lebanon also came in 10th place among 21 upper middle-income countries (UMICs) included in the survey.

The survey measures the level of Internet and digital media freedom across countries as well as the access and openness of other digital means of transmitting information, mainly mobile phones and text messaging services. The survey covers the period from May 2012 to April 2013. A country's numerical rating is the sum of its rating on the Obstacles to Access category that varies between zero and 25 points, the Limit on Content category that ranges between zero and 35 points, and the Violations of User's Right category that varies between zero and 40 points. The survey provides a numerical rating from zero as most free to 100 as least free for each country, and categorizes each country's level of Internet freedom as 'Free,' 'Partly Free,' or 'Not Free' based on its numerical rating. Lebanon, along with Tunisia, Morocco, Libya, Jordan and Egypt are the only Arab countries where the Internet is considered to be 'Partly Free', while the Internet in the remaining five Arab countries came in the 'Not Free' category.

Globally, Lebanon's level of Internet freedoms is similar to that in Libya, is higher than in Jordan, Cambodia and India, and is lower than in Malaysia, Morocco and Malawi. Lebanon also tied with Libya, ranked ahead of Jordan, Turkey and Azerbaijan, and came behind Malaysia, Tunisia and Mexico among UMICs. Regionally, Lebanon tied with Libya and came behind only Tunisia and Morocco. Lebanon received a score of 45 points, better than the Arab average of 57.7 points, the Gulf Cooperation Council countries' average score of 69.3 points and the non-GCC Arab countries' average of 53.4 points. Lebanon's score was also better than the global and UMICs' averages of 45.4 points and 49.6 points, respectively.

Lebanon tied with Cambodia, Saudi Arabia and Vietnam, ranked ahead of Angola, India and Sri Lanka, and came behind the UAE, Azerbaijan and Bangladesh on the Obstacles to Access category. This category evaluates the infrastructural and economic barriers to Internet access, the legal and ownership control over Internet service providers, and the independence of regulatory bodies. Lebanon ranked ahead of Angola, Kazakhstan and Venezuela, and came behind Azerbaijan, Jordan and Turkey among UMICs. It also tied with Saudi Arabia and came ahead of only Egypt, Libya, Sudan and Syria among Arab countries.

Also, Lebanon tied with Mexico, Kyrgyzstan and Argentina, ranked ahead of Ecuador, Indonesia and Malawi, and came behind Libya, Armenia, and Tunisia on the Limits on Content category. This category measures the legal regulations on content, the technical filtering and blocking of websites, the self-censorship, the diversity of online news media, and the use of information and communication technologies for civic mobilization. Lebanon tied with Mexico and Argentina, ranked ahead of Ecuador, Jordan and Malaysia, and came behind Libya, Tunisia and Brazil among UMICs; while it trailed only Libya, Tunisia and Morocco in the region.

Finally, Lebanon tied with Tunisia, Venezuela and Kazakhstan, ranked ahead of Azerbaijan, Sri Lanka and Morocco, and came behind India, Jordan and Malaysia on the Violations of User's Right category. This category includes surveillance, privacy, and repercussions for online activity. Lebanon tied with Tunisia, Venezuela and Kazakhstan, ranked ahead of Azerbaijan, Thailand and Belarus and came behind Jordan, Malaysia and Turkey among UMICs. Regionally, it tied with Tunisia and ranked behind only Jordan and Libya.

Internet Freedom Index 2013				
	Overall Score	Arab Rank	Global Rank	Category
Tunisia	41	1	26	Partly Free
Morocco	42	2	28	Partly Free
<b>Lebanon</b>	<b>45</b>	<b>3</b>	<b>31</b>	<b>Partly Free</b>
Libya	45	3	31	Partly Free
Jordan	46	5	33	Partly Free
Egypt	60	6	45	Partly Free
Sudan	63	7	48	Not Free
UAE	66	8	49	Not Free
Saudi Arabia	70	9	52	Not Free
Bahrain	72	10	53	Not Free
Syria	85	11	57	Not Free

Source: Freedom House, Byblos Research

Components of the 2013 Internet Freedom Index for Lebanon

Category	Global Rank	Arab Rank	UMICs Rank	Lebanon Score	Global Average Score	Arab Average Score	UMICs Average Score
Obstacles to Access	38	6	9	14	11.7	14.6	13.1
Limits on content	24	4	13	10	13.7	15.9	15.4
Violations of users right	35	3	7	21	20.0	27.2	21.1

Source: Freedom House, Byblos Research

### Occupancy rate at Beirut hotels at 54%, room yields down 27% in first eight months of 2013

Ernst & Young's benchmark survey of the Middle East hotel sector indicated that the average occupancy rate at hotels in Beirut was 54% in the first eight months of 2013, down from 59% in the same period last year and compared to a rate of 63.3% in 16 Arab markets. The occupancy rate at Beirut hotels was the third lowest in the region in the covered period, while it was the fifth lowest in the first eight months of 2012. Cairo and Manama posted the lowest- and second-lowest occupancy rates of 26% and 41%, respectively, in the first eight months of this year. Occupancy rates at Beirut hotels were 49% in January, 60% in February, 58% in March, 65% in April, 59% in May, 55% in June, 40% in July, and 47% in August 2013, compared to 60% in January, 64% in February, 74% in March, 66% in April, 67% in May, 59% in June, 54% in July, and 35% in August 2012.

Also, the occupancy rate at hotels in Beirut fell by five percentage points year-on-year, constituting the fourth steepest decrease among 16 Arab markets, and relative to an average decrease of 1.4 percentage points for the region. Cairo posted the steepest decrease of 12 percentage points in the region, followed by Amman with an 11 percentage drop and Makkah with a nine percentage fall.

E&Y indicated that the average rate per room at Beirut hotels was \$167 in the first eight months of 2013, ranking the capital's hotels as the 11th most expensive in the region. The average rate per room at Beirut hotels decreased by 19.6% year-on-year and posted the steepest decrease among all markets in the region. The average rate per room in Beirut came below the regional average of \$193.8, which increased by 2.3% from the same period last year.

Further, revenues per available room (RevPAR) were \$91 in Beirut in the first eight months of the year, down from \$125 in the same period last year, and coming in 12th place in the region. Beirut's RevPAR fell by 27.2% year-on-year compared to an increase of 1.8% across the MENA region, and posted the steepest decrease in the region. Beirut posted RevPARs of \$82 in January, \$97 in February, \$93 in March, \$106 in April, \$98 in May, \$101 in June, \$67 in July, and \$86 in August 2013, compared to \$139 in January, \$131 in February, \$149 in March, \$138 in April, \$134 in May, \$132 in June, \$112 in July, and \$69 in August 2012. Makkah posted the highest average room rate in the region at \$304 and the highest RevPAR at \$233, while Jeddah and Dubai posted each the highest occupancy rate of 79% in the first eight months of 2013.

### Public-sector salaries and benefits up 10.5% in first five months of 2013

Figures issued by the Ministry of Finance show that salaries, wages and related benefits paid to public-sector employees totaled \$1.2bn in the first five months of 2013, constituting an increase of 10.5% from the same period last year. They represented the largest component of total primary spending and accounted for 28% of such expenditures in the covered period, down from 29% in the same period last year. The figures include basic salaries, indemnities, allowances, contributions to civil servants' cooperatives, as well as contributions to other mutual funds providing health insurance for specific categories of civil servants, mainly judges, religious judges and Parliament employees. The payments exclude retirement and end-of-service indemnities as well as salaries, wages and benefits of employees at public institutions. Salaries and benefits of military personnel totaled \$739m and accounted for 63% of the total, followed by education personnel with \$244.1m or 20.8% of the total, civil staff with \$175.8m (15%), and customs employees with \$13.9m (1.2%). The distribution of military personnel salaries and benefits shows that the Lebanese Army's salaries totaled \$473m in the first five months of the year and represented 64% of military personnel salaries and benefits. They were followed by salaries of the Internal Security Forces with \$211.6m (28.6%), General Security Forces with \$41.1m (5.6%), and State Security Forces with \$13.3m (1.8%).

The ministry attributed the increase in salaries, wages and related benefits paid to public-sector employees to a 16.1% annual rise, or \$118.7m, in basic salaries that reached \$857m due to the 2012 cost-of-living adjustment and retroactive payments. It said that, excluding such payments from the two compared periods, basic salaries would have increased by 26% to \$856.4m due in part to an increase in basic salaries of military personnel. Also, allowances remained unchanged from the same period last year with a total of \$179.1m, while indemnities rose by 15.7% to \$63.7m year-on-year. The breakdown of basic salaries shows a rise of \$92.9m in payments to military personnel, an increase of \$35.2m in payments to education personnel and a decrease of \$10m in payments to civil personnel.

#### Hotel Performance in First Eight Months of 2013

	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Jeddah	79	223	11.3
Dubai	79	213	7.4
Makkah	76	233	(5.1)
Abu Dhabi	75	153	9.7
Hurghada	69	26	31.4
Al Ain	69	95	11.6
Sharm El Shaikh	68	37	16.7
Madina	68	154	(4.5)
Muscat	65	136	4.3
Doha	65	166	(0.8)
Amman	61	96	(11.9)
Kuwait	59	175	14.5
Riyadh	59	131	1.4
<b>Beirut</b>	<b>54</b>	<b>91</b>	<b>(27.2)</b>
Manama	41	86	13.8
Cairo	26	24	(25.6)

Source: Ernst & Young, Byblos Research

### Greenfield FDI at \$11bn between 2003 and 2012, MENA countries account for 72% of total

Figures released by the World Bank show that the value of inward Greenfield foreign direct investment (FDI) projects in Lebanon totaled \$11bn between 2003 and 2012. Lebanon was the fourth smallest recipient of Greenfield FDI in nominal terms among 19 Arab economies during the covered period, ahead of only Kuwait and Yemen (\$9bn each), Djibouti (\$4bn) and the West Bank & Gaza (\$1bn). Lebanon was the third smallest recipient of Greenfield FDI among seven oil-importing economies in the MENA region, ahead of only Djibouti and the West Bank & Gaza. The value of Greenfield FDI in Lebanon accounted for 1.2% of total Greenfield FDI inflows to the MENA region and represented 4.6% of total flows to the region's oil-importing economies during the covered period. The FDI figures cover cross-border Greenfield projects that lead to the direct creation of jobs and capital investment. They include joint ventures when these transactions lead to a new physical Greenfield operation. The figures exclude mergers & acquisitions and other equity investments.

Further, MENA countries were the source of \$8bn in Greenfield FDI to Lebanon between 2003 and 2012, with the UAE accounting for half of this amount. As such, MENA countries accounted for 72.7% of the total value of inward Greenfield FDI in Lebanon during the covered period. Also, the United States was the source of \$1bn in Greenfield FDI to Lebanon; while other developed economies were the source of the remaining \$2bn. As such, investments from the U.S. represented 9.1% of total FDI in Lebanon, while other developed economies accounted for the remaining 18.2%. Developed countries with strong institutions and research & developments facilities invested \$1bn in Lebanon during the covered period.

The distribution of FDI by sectors shows that commercial services attracted \$5.6bn or 54% of the total value of Greenfield FDI projects in Lebanon during the 10-year period, followed by non-tradable sectors with \$3.2bn (31%), non-oil manufacturing sectors with \$1.2bn (11%), and resources & oil manufacturing sectors with \$0.4bn (4%).

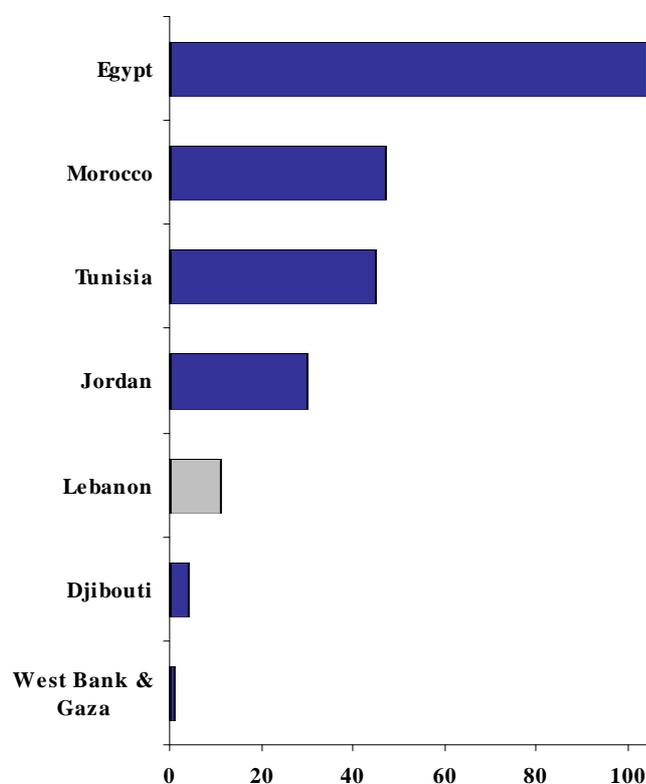
In parallel, Lebanon attracted 142 Greenfield FDI projects between 2003 and 2012, with an average capital investment of \$70m per project. Also, Greenfield FDI projects in Lebanon resulted in the creation of 30,000 jobs during the covered period, with each project creating on average 211 jobs. Also, every \$1bn in Greenfield FDI projects in Lebanon created 3,000 jobs on average. The World Bank attributed the high number of jobs created per \$1bn to the dominance of labor-intensive commercial services, such as tourism.

### Tourism spending in Lebanon down 6% in third quarter of 2013

Figures issued by Global Blue, the VAT refund operator for international shoppers, show that total spending by tourists in Lebanon decreased by 6% in the third quarter of 2013 compared to the same period last year. Visitors from the UAE accounted for 15% of total tourist expenditures in the third quarter, followed by visitors from Saudi Arabia with 13%, Nigeria with 6%, France with 5%, Kuwait, Egypt, Syria and Qatar with 4% each, Jordan and the United States with 3% each. Beirut attracted 78% of total spending in the third quarter of 2013, followed by the Metn area with 14%, Baabda with 4% and the Keserwan region with 2%. Fashion & clothing accounted for 71% of total spending in the third quarter of 2013, followed by watches & jewelry with 12%, home & garden and department stores with 4% each, souvenirs & gifts with 3% and consumer electronics & household appliances with 2%.

Spending by visitors from Nigeria increased by 38% from the same quarter of 2012, followed by expenditures by visitors from France (+24%) and the UAE (+14%); while spending by visitors from Syria contracted by 44%, followed by Kuwait (-39%), Jordan (-27%), the United States (-20%), Egypt (-16%), Saudi Arabia (-10%), and Qatar (-2%). Spending on souvenirs and gifts increased by 18% from the quarter period last year, followed by watches & jewelry (3%); while spending on household appliances fell by 14%, followed by department stores (-13%), home & garden products (-12%) and fashion & clothing (-7%). Also, the total number of refund transactions by visitors in the third quarter of the year fell by 11% from the quarter last year. The total number of refund transactions by visitors from Nigeria rose by 21% from the same quarter of 2012, followed by the UAE (8%) and France (4%); while the number of refund transactions by visitors from Syria decreased by 45%, followed by Kuwait (-40%), Jordan (-31%), Egypt (-24%), Saudi Arabia (-15%), the United States (-13%) and Qatar (-12%).

### Cumulative Inward Greenfield FDI in Oil-Importing Economies in 2003-2012 (US\$ billion)



Source: World Bank, Byblos Research

### Trade deficit down 1% to \$11.5bn in first eight months of 2013, volume of non-hydrocarbon imports up 3.7%

Total imports reached \$14.3bn in the first eight months of 2013, constituting a marginal decrease of 0.4% from the same period last year; while aggregate exports rose by 1.7% to \$2.9bn, leading to a trade deficit of \$11.5bn, down by 0.9% year-on-year. The narrowing of the deficit was caused by a decline of \$62.6m in imports and an increase of \$47.3m in exports from the first the eight months of last year. The coverage ratio reached 20% in the first eight months of 2013 compared to 19.6% in the same period last year, while it reached 15.3% in August 2013 relative to 19% in August 2012. The value of imported oil & mineral fuels fell by 20.1% year-on-year to \$3.4bn, and that of non-hydrocarbon imports rose by 7.7% to \$11bn. Imported oil & mineral fuels accounted for 23.5% of total imports in the covered period compared to a share of 29.3% in the same period last year.

In volume terms, imports reached 9.8 million tons in the first eight months of 2013, constituting a decrease of 7.8% from the same period last year; while exports posted a 28.2% rise to 2 million tons, leading to a trade deficit of 7.9 million tons in the first eight months of 2013, down by 13.8% year-on-year. Imports of oil & mineral fuels fell by 18% year-on-year to 4.6 million tons, while non-hydrocarbon imports increased by 3.7% annually to 5.2 million tons. Imported oil & mineral fuels accounted for 47% of total imports in the covered period compared to a share of 52.8% in the same period last year.

China was the main source of imports with \$1.4bn or 9.8% of the total in the first eight months of 2013, followed by Italy with \$1.2bn (8.3%), the United States with \$1.1bn (7.4%), France with \$1bn (7.3%), Turkey with \$874.3m (6.1%), Germany with \$851.5m (5.9%), and Russia with \$703.1m (4.9%). Imports from Russia surged by 196.7% annually, those from Turkey increased by 34%, those from China grew by 22.5%, those from Germany rose by 7.1% and those from Italy grew by 2.3%; while imports from the United States dropped by 46.6% and those from France fell by 0.7%.

Syria was the main export destination with \$425m or 14.8% of the total, followed by South Africa with \$341.9m (11.9%), Saudi Arabia with \$253.9m (8.8%), the UAE with \$222.9m (7.8%), Iraq with \$177.6m (6.2%), Switzerland with \$145.2m (5%), and Turkey with \$130.6m (4.5%). Exports to Syria surged by 158% year-on-year in the first eight months of 2013, those to Iraq grew by 41.8%, those to Turkey increased by 25.9% and those to Saudi Arabia rose by 4.2%, while exports to Switzerland dropped by 55.5%, those to South Africa fell by 35.7% and those to the UAE decreased by 7.1%.

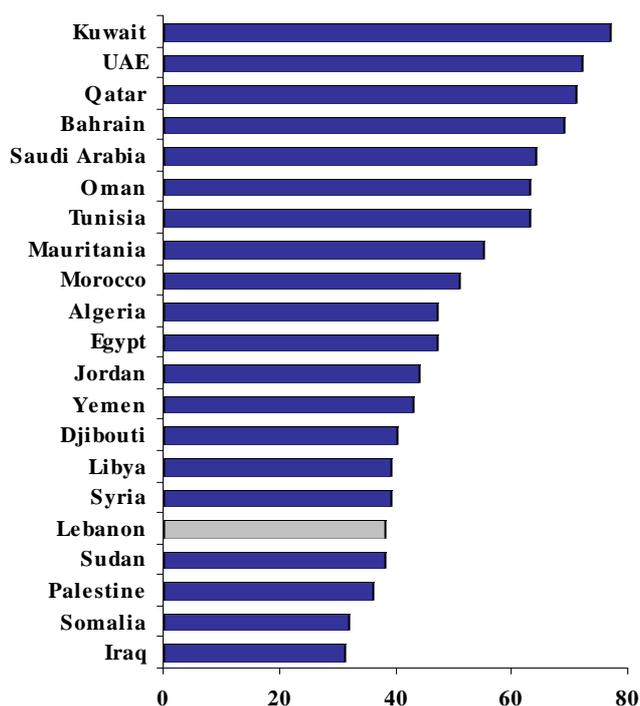
Lebanon's main export was jewelry at \$626.6m or 21.8% of the total, followed by base metals with \$383.1m (13.3%), machinery & mechanical appliances with \$364.7m (12.7%), mineral products with \$332.6m (11.6%), prepared foodstuff with \$285.8m (9.9%) and chemical products with \$229.1m (8%). Re-exports totaled \$159.5m in the first eight months of the year compared to \$178.6m in the same period last year.

### Lebanese passport holders can travel to 38 countries and territories worldwide without a visa

The 2013 Henley & Partners Visa Restrictions Index ranked Lebanon in 189th place among 199 countries and territories worldwide and in 17th place among 21 Arab countries. Lebanon ranked in 192nd place globally and in 18th place among Arab countries on the 2012 index. The Index ranks countries according to the number of countries and territories that their citizens can access without a visa. According to Henley & Partners, the global ranking reflects the international freedom of travel for the passport holders of various nations, as well as the international relations and status of individual countries relative to others.

The survey indicated that Lebanese passport holders are able to travel to 38 countries and territories worldwide without a visa as of July 2013, up from 35 countries and territories in 2012. The number of countries that Lebanese citizens are able to access without a visa is similar to that of the citizens of Kosovo, Sri Lanka and Sudan. Globally, Lebanon ranked ahead of only Nepal (37 destinations), Eritrea and the Palestinian Territory (36 destinations each), Pakistan and Somalia (32 destinations each), Iraq (31 destinations) and Afghanistan (28 destinations). Finland, Sweden and the United Kingdom tied for first place globally, as their citizens can access 173 destinations without a visa, while Kuwait came in first place regionally with visa-free access to 77 destinations worldwide.

Number of Visa-Free Destinations per Country



Source: Henley & Partners, Byblos Research

### **Byblos Bank is 39th largest bank in the region, 16 Lebanese banks among top 150 Arab banks**

*Al-Iktissad Wal-Aamal* magazine's annual survey of top 150 banks in the Arab world included 16 Lebanese banks on the list, none of which ranked among the top 25 Arab banks. The rankings are based on shareholders' equity at year-end 2012. Byblos Bank ranked in 39th place on the list, ahead of Commercial Bank of Dubai in the UAE, Al Ahli Bank of Kuwait and Burgan Bank in Kuwait. Byblos Bank's shareholders' equity was \$1.93bn at end-2012 and accounted for 14% of the aggregate shareholder's equity of the 16 Lebanese banks.

Other Lebanese banks on the list included Bank Audi in 27th place, followed by BLOM Bank in 33rd place, Fransabank in 47th place, BankMed (54th), Bank of Beirut (58th), Banque Libano-Française (69th), Crédit Libanais in (79th), Bank of Beirut and the Arab Countries (95th), and IBL Bank (108th). The total shareholders' equity of the 16 Lebanese banks reached \$13.7bn and accounted for 5.4% of the aggregate equity of the largest 150 Arab banks at end-2012.

In parallel, Byblos Bank-Syria ranked in 141st place on the list with shareholders' equity of \$91m at end-2012, down 1.5% from end-2011 and compared to a growth rate of 10.1% for the shareholder's equity of the top 150 banks. Byblos Bank-Syria's shareholder equity accounted for 10% of the aggregate shareholder's equity of the eight Syrian banks included in the survey.

### **Kafalat loan guarantees down 20% to \$87m in first nine months of 2013**

Figures released by the Kafalat Corporation show that loans extended to small- and medium-size companies under the guarantee of Kafalat reached \$87m in the first nine months of 2013, down 20.1% from \$108.9m in the same period last year. The number of loan guarantees totaled 641 year-to-September compared to 801 in the same period last year. The average loan size reached \$135,663 compared to \$135,936 in the first nine months of 2012. Mount Lebanon accounted for 39.8% of guarantees, followed by the Bekaa with 21.5%, the South with 12.8%, the North with 11.1%, Nabatieh with 8%, and Beirut with 6.9%. The agricultural sector accounted for 40.6% of total guarantees, followed by industry with 35%, tourism with 17%, handicraft with 4.8%, 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 startups and a similar percentage of the interest that accrues during the grace period.

### **Lebanon & Gulf Bank to issue preferred shares**

Lebanon & Gulf Bank, one of Lebanon's top 13 banks, plans to increase its Tier One capital by issuing preferred shares for a total issuance of \$23m. The Issue 2013 Preferred Shares is non-cumulative, perpetual and redeemable. Its issue price is \$100 per share, of which LBP20,000 (\$13.3) is par value and the remaining \$86.7 constitute the issue premium. Preferred Shares Issue 2013 are subject to a call option by the bank starting in five years and annually thereafter at a callable price of \$103.5 per share plus any declared but unpaid dividend. The Bank will pay an annual dividend of 7% per share pro rated to reflect the remaining period from the issue date to end-2013. The dividends are subject to a 10% withholding tax.

Lebanon & Gulf Bank posted unaudited consolidated net profits of \$11.2m in the first half of 2013, constituting an increase of 41.9% from the same period last year. Total assets reached \$2.5bn at end-June 2013, constituting an increase of 5.2% from end-2012 and a growth of 9.7% from a year earlier; while loans & advances to customers, excluding loans & advances to related parties, increased by 5.2% from end-2012 and by 22% year-on-year to \$956.3m. Also, customer deposits, excluding deposits from related parties, totaled \$2.2bn at end-June, growing by 4.5% from end-2012 and by 9.3% from a year earlier.

### **Top five freight forwarders' import activity up 24% in first eight months of 2013**

Figures released by the Port of Beirut Authority show that overall import shipping operations by the top five freight forwarders reached 238,616 20-foot equivalent units (TEUs) in the first eight months of 2013, constituting a rise of 24.4% from 191,740 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 82,364 TEUs in imports for the local market in the first eight months of the year, equivalent to 22.2% share of the total freight forwarding import market. It was followed by Sealine Group with 64,812 TEUs (17.5%), Merit Shipping with 48,069 TEUs (12.9%), Metz Group with 27,672 TEUs (7.5%) and Gezairy Transport with 15,699 TEUs (4.2%). Further, Sealine Group registered the highest growth in import shipping among the top five freight forwarders at 44.6% year-on-year, while Metz Group posted the slowest growth at 6.7% year-on-year.

In parallel, export shipping operations by the top five freight forwarders reached 48,968 TEUs in the first eight months of 2013, constituting an increase of 42.3% from 34,403 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 24,758 TEUs of freight, equivalent to 49.8% share of the total freight forwarding Lebanese cargo export market. It was followed by Merit Shipping with 14,687 TEUs (29.6%), MSC with 4,139 TEUs (8.3%), Metz Group with 3,391 TEUs (6.8%) and Gezairy Transport with 1,993 TEUs (4%). Further, Sealine Group registered the highest growth in export shipping among the top five freight forwarders at 49.8% year-on-year, while Gezairy Transport posted the least rise at 4% year-on-year.

## Corporate Highlights

### Lebanese insurers account for 12% of premiums generated in Arab world

The annual survey by *Al Bayan* magazine of the insurance market in the Arab world shows that the aggregate premiums generated in Lebanon and abroad by Lebanese insurance firms totaled \$2.67bn in 2012, constituting an increase of 7.8% from \$2.48bn in 2011. Premiums generated by 50 Lebanese insurers accounted for 11.5% of the total premiums generated by 335 Arab insurance firms last year, compared to 11.7% in 2011. Lebanese insurers held the fourth highest market share in premiums generated, coming behind Saudi Arabia firms with 19.5% of the market, firms in the UAE with 19% and insurers from Morocco with 12.6% of the total.

The MEDGULF Group was the top ranked Lebanese insurer with \$1.1bn in premiums generated domestically and abroad, and ranked in second place in the Arab world. It was followed by Arabia Insurance in 16th place regionally (\$362.3m), AROPE Insurance in 50th place (\$108.4m), Allianz SNA in 54th place (\$103.7m), Metlife Alico in 57th place (\$100.2m), Libano Suisse in 60th place (\$96.7m), Bankers Assurances in 65th place (\$91.3m), AXA Middle East in 70th place (\$85.1m), LIA in 73rd place (\$81.9m), Fidelity in 101st place (\$55.1m), ADIR in 103rd place (\$50.2m), Bancassurance in 108th place (\$42.3m), Mashrek Insurance in 136th place (\$36m), Assurex in 143rd place (\$31.9m), and Sécurité in 145th place (\$30.6m) as the top 15 Lebanese insurers.

In parallel, the survey included 14 Lebanese insurers among the top 150 Arab insurance firms in terms of assets. The MEDGULF Group ranked in 10th place with \$1.87bn in assets at the end of 2012. It was followed by Metlife Alico in 25th place (\$534m), Arabia Insurance in 32nd place (\$418.5m), Allianz SNA in 36th place (\$353.9m), LIA in 37th place (\$350.1m), AROPE in 41st place (\$337.6m), Bancassurance in 55th place (\$241.7m), ADIR in 76th place (\$170.4m), Libano Suisse in 78th place (\$161.5m), Bankers Assurances in 82nd place (\$155.8m), Union Nationale in 104th place (\$111m), CLA in 106th place (\$108.6m), SOGECAP in 119th place (\$94.1m) and AXA Middle East in 125th place (\$86.3m). The aggregate assets of the 14 Lebanese firms reached \$5bn at end-2012 and accounted for 8.1% of the aggregate assets of the top 150 Arab insurers.

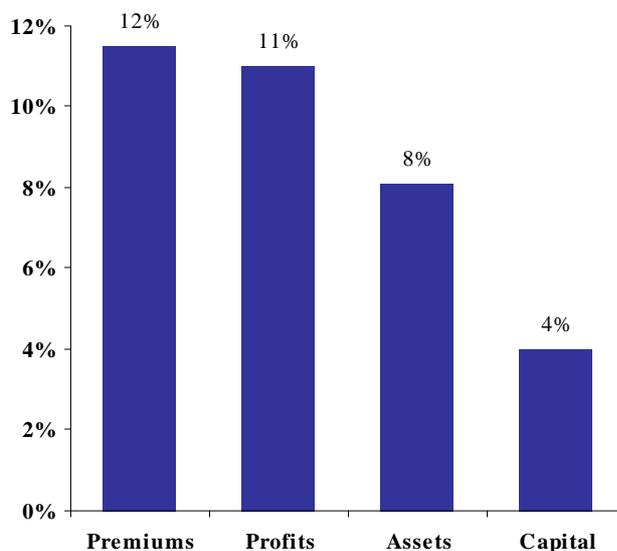
Further, the survey included 19 Lebanese insurers among the top 150 Arab insurance firms in terms of profits. The MEDGULF Group posted \$53.7m in profits in 2012, coming in seventh place regionally. It was followed by Metlife Alico with \$30.4m (15th), AROPE Insurance with \$17.5m (21st), LIA with \$12.9m (28th), Bancassurance with \$12.8m (29th), Arabia Insurance with \$11.4m (32nd), CLA with \$7.6m (52nd), Libano Suisse with \$7.1m (54th), ADIR with \$6.6m (59th) and Bankers Assurances with \$6.4m (60th) as the 10 most profitable Lebanese insurers. The aggregate profits of the 19 insurers reached \$198.5m in 2012 and accounted for 11% of the top 150 Arab insurance collective profits.

Also, the survey included six Lebanese insurance companies among the largest Arab insurers in terms of capital. The MEDGULF Group had \$156.2m in capital at end-2012, ranking in eighth place among 150 Arab insurers. It was followed by LIA with \$41.5m (66th), Arabia Insurance with \$34m (87th), AROPE Insurance with \$28.7m (97th), Allianz SNA with \$27.9m (98th), Union Nationale with \$19.3m (137th) and ADIR with \$16.6m (150th). The total capital of the six insurers reached \$324m at end-2012 and accounted for 4% of the combined capital of the top 150 Arab insurers.

### CreditBank increases stake in Armenian bank

CreditBank sal became the sole owner of the Yerevan-based Anelik Bank following its purchase of the remaining 10.05% stake that it did not own and that was held by Anelik Bank's former chairman. CreditBank is the single holder of the bank's 216,326 ordinary shares. The bank has 12 branches in Armenia, as well as a money transfer subsidiary in Moscow. CreditBank bought a 51% stake in Anelik Bank for 9bn Armenian drams, or about \$24m in 2009. It increased its stake in the bank to 69.5% in 2011 and to 89.95% in 2012.

Share of Lebanese Insurers in 2012 by Category



Source: *Al Bayan* magazine, Byblos Research

## 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	Dec 2011	Nov 2012	Dec 2012	Change*	Risk Level
Political Risk Rating	54.5	53.0	53.0	▼	High
Financial Risk Rating	35.0	35.0	35.0	↔	Low
Economic Risk Rating	34.0	34.0	34.0	↔	Moderate
Composite Risk Rating	61.7	61.0	61.0	▼	Moderate

Regional Average	Dec 2011	Nov 2012	Dec 2012	Change*	Risk Level
Political Risk Rating	60.6	59.2	59.0	▼	High
Financial Risk Rating	42.2	41.7	41.8	▼	Very Low
Economic Risk Rating	36.6	36.2	36.2	▼	Low
Composite Risk Rating	69.7	68.5	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		CCC	

Source: Rating agencies

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