



# LEBANON THIS WEEK

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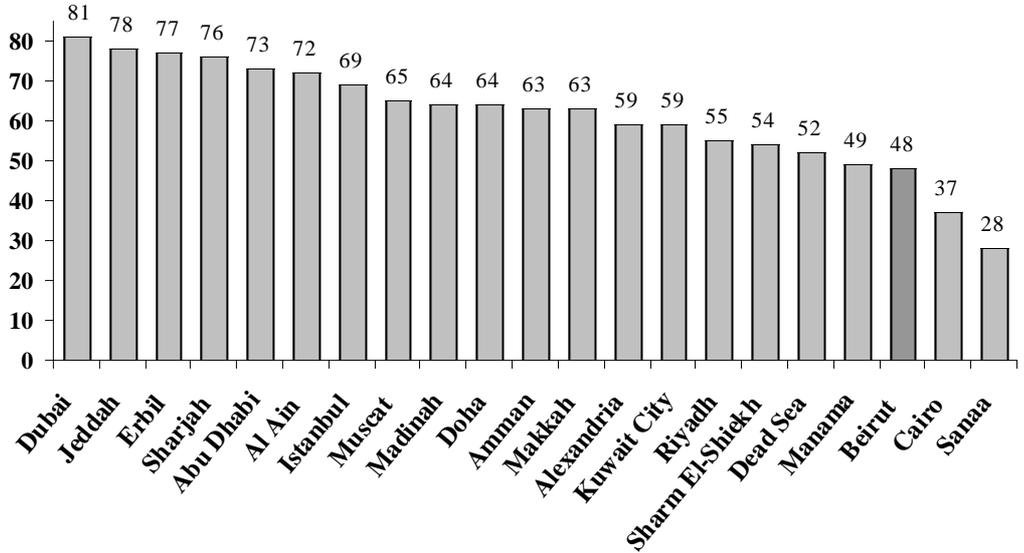
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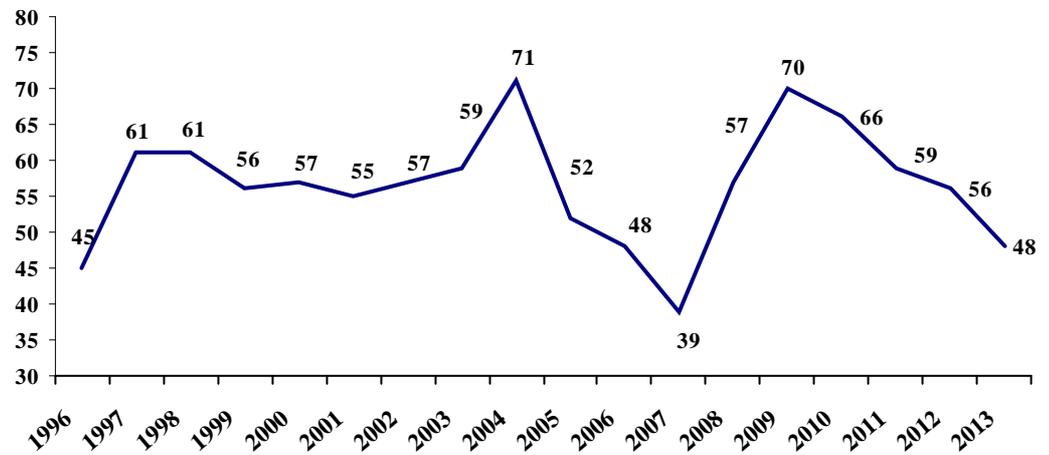
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## Charts of the Week

Occupancy Rates at Hotels in Select MENA Cities in 2013 (%)



Occupancy Rates at Hotels in Beirut (%)



Source: HVS, Byblos Bank

## Quote to Note

"We do not expect policy progress, as the Cabinet faces the twin challenges of security and upcoming elections."

*Citigroup, on the Cabinet's limited decision-making margin in terms of economic policy*

## Number of the Week

**10,000:** Number of Cedar trees that Byblos Bank will plant in the Shouf Biosphere Reserve over the coming three years, as part of the Byblos Bank/Shouf Reserve Bio-Corridor Reforestation Initiative

## Economic Indicators

<b>\$m (unless otherwise mentioned)</b>	<b>2012</b>	<b>Dec 12</b>	<b>Sep 13</b>	<b>Oct 13</b>	<b>Nov 13</b>	<b>Dec 13</b>	<b>% Change*</b>
Exports	4,486	381	288	391	263	243	(36.22)
Imports	21,281	1,871	1,565	1,757	1,772	1,797	(3.96)
Trade Balance	(16,795)	(1,490)	(1,277)	(1,366)	(1,509)	(1,554)	4.30
Balance of Payments	(1,538)	312	504	(794)	(192)	534	71.15
Checks Cleared in LBP	14,976	1,337	1,473	1,516	1,451	1,562	16.83
Checks Cleared in FC	56,044	4,670	4,513	4,698	4,584	4,728	1.24
Total Checks Cleared	69,787	6,007	5,986	6,214	6,035	6,290	4.71
Budget Deficit/Surplus	(3,925)	(132.36)	(668.16)	(228.92)	(126.15)	(137.58)	3.94
Primary Balance	(109.87)	134.56	(262.33)	233.07	340.22	171.23	27.26
Airport Passengers	5,960,414	495,760	539,297	524,741	407,869	510,367	2.95

<b>\$bn (unless otherwise mentioned)</b>	<b>Dec 2012</b>	<b>Dec 12</b>	<b>Sep 13</b>	<b>Oct 13</b>	<b>Nov 13</b>	<b>Dec 13</b>	<b>% Change*</b>
BdL FX Reserves	29.97	29.97	32.03	31.86	31.78	31.70	5.77
<i>In months of Imports</i>	<i>16.02</i>	<i>16.02</i>	<i>20.47</i>	<i>18.13</i>	<i>17.93</i>	<i>17.64</i>	<i>10.13</i>
Public Debt	57.69	57.69	62.39	62.44	63.26	63.46	10.01
Net Public Debt	49.12	49.12	52.15	52.50	52.75	53.18	8.28
Bank Assets	151.88	151.88	159.26	160.63	161.92	164.82	8.52
Bank Deposits (Private Sector)	124.99	124.99	131.26	132.10	133.15	136.21	8.97
Bank Loans to Private Sector	43.45	43.45	45.88	46.50	46.81	47.38	9.05
Money Supply M2	43.17	43.17	44.49	44.72	45.05	45.60	5.63
Money Supply M3	104.01	104.01	108.49	109.02	109.34	111.16	6.87
LBP Lending Rate (%)	7.07	7.07	7.36	7.59	7.01	7.29	22b.p
LBP Deposit Rate (%)	5.41	5.41	5.37	5.44	5.47	5.44	3b.p
USD Lending Rate (%)	6.87	6.87	6.95	6.85	6.88	6.88	1b.p
USD Deposit Rate (%)	2.86	2.86	2.91	2.94	2.97	2.95	9b.p
%* Change in CPI**	4.68	4.68	4.81	5.04	4.96	3.89	(79b.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>	<b>Sovereign Eurobonds</b>	<b>Coupon %</b>	<b>Mid Price \$</b>	<b>Mid Yield %</b>
Solidere "A"	13.50	(1.82)	67,074	12.18%	Jan 2015	5.875	101.00	4.16
Solidere "B"	13.47	(0.22)	40,349	7.90%	Apr 2015	10.000	105.75	3.27
Byblos Common	1.58	(1.25)	52,574	5.13%	Jan 2016	8.500	107.75	3.50
Byblos Pref. 08	100.00	0.00	2,930	1.80%	Mar 2017	9.000	113.63	3.78
Byblos Pref. 09	100.00	(0.10)	7,595	1.80%	Nov 2018	5.150	100.50	5.02
BLOM GDR	9.27	(0.32)	351,115	6.18%	May 2019	6.000	103.75	5.13
BLOM Listed	8.80	(1.12)	390,630	17.07%	Mar 2020	6.375	105.25	5.30
Audi GDR	6.56	0.00	0	6.07%	Apr 2021	8.250	115.50	5.50
Audi Listed	6.10	(2.09)	2,800	19.25%	Oct 2022	6.100	102.00	5.79
HOLCIM	14.80	0.00	0	2.61%	Nov 2026	6.600	102.13	6.35

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

Source: Byblos Bank Capital Markets

	<b>June 2-6</b>	<b>May 26-30</b>	<b>% Change</b>	<b>May 2014</b>	<b>May 2013</b>	<b>% Change</b>
<b>Total Shares Traded</b>	975,554	1,845,830	(47.15)	3,204,699	3,775,206	(15.11)
<b>Total Value Traded</b>	\$10,106,809	\$9,626,152	4.99	\$32,279,807	\$30,561,605	5.62
<b>Market Capitalization</b>	\$11.08bn	\$11.19bn	(0.97)	\$11.19bn	\$10.71bn	4.45

Source: Beirut Stock Exchange (BSE)



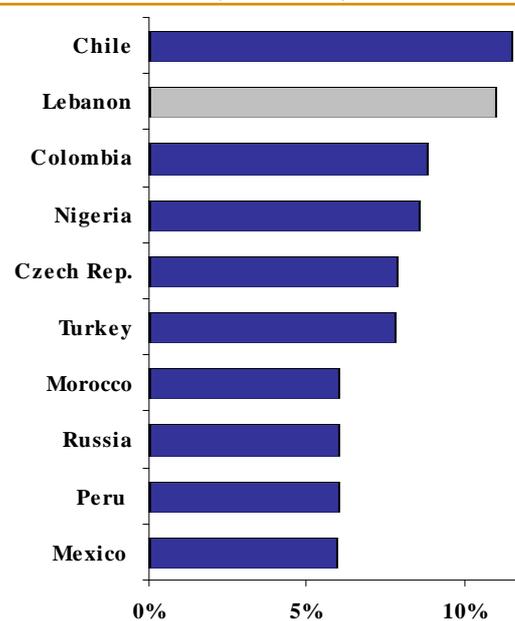
### Net private capital inflows to Lebanon drop by 30% to \$4.9bn in 2013, equivalent to 11% of GDP

The Institute of International Finance estimated net private capital inflows to Lebanon at \$4.9bn in 2013, constituting a decrease of 30% from \$6.9bn in 2012, and compared to inflows of \$7.5bn in 2011, \$4.9bn in 2010 and a peak of \$12bn in 2009. Lebanon posted the 11th steepest decline in net capital inflows among 30 emerging markets with available figures, while it posted the second steepest decline among seven countries in the Middle East & Africa (ME&A), better than only South Africa (-44.5%). The IIF attributed the decline in net private capital inflows to Lebanon to a drop of 22.4% in FDI inflows from \$3.7bn in 2012 to \$2.9bn in 2013, as well as to a decrease of 18% in the deposits of non-resident banks from about \$10bn in 2012 to \$8.2bn in 2013. In parallel, non-resident non-financial private sector deposits increased from \$2.8 billion in 2012 to \$4.4 billion in 2013, which mitigated the drop in flows of the previous two items.

Net private capital inflows to Lebanon accounted for 0.4% of total net private capital inflows to emerging markets and for 5.6% of aggregate flows to ME&A economies in 2013. Lebanon was the 11th smallest recipient of capital flows among emerging markets and the second smallest among countries in the ME&A region ahead of Egypt (\$2.8bn). Further, net private capital inflows to Lebanon were equivalent to 11% of GDP in 2013, the second highest ratio among emerging markets behind only Chile (11.5% of GDP), and the highest among ME&A economies.

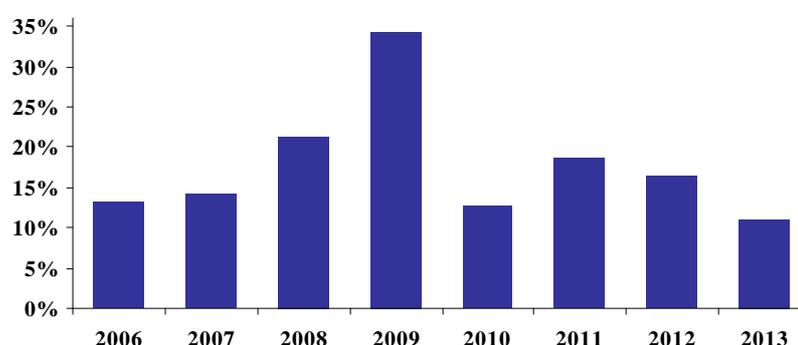
In parallel, the IIF's preliminary estimates projected net private capital inflows to Lebanon at \$5.2bn in 2014. The IIF based its forecast on the assumptions that the presidential elections would take place, and that the political environment and security conditions would improve. Under this scenario, net private capital inflows to Lebanon would account for 0.5% of total capital inflows to emerging markets and for 5.4% of aggregate flows to the ME&A region this year. Net private capital inflows to Lebanon would be the ninth smallest among emerging markets this year, while they would be the third lowest in the ME&A region, behind only Egypt (\$4.1bn) and Morocco (\$4.5bn). Further, net private capital inflows to Lebanon are expected to be equivalent to 11.2% of GDP in 2014, the second highest among emerging markets, behind only Chile (11.5% of GDP), and the highest among ME&A economies.

Net Capital Inflows in 2013\*  
(% of GDP)



\*Top 10 countries among 30 Emerging Markets  
Source: Institute of International Finance, Byblos Research

Net Private Capital Inflows to Lebanon (% of GDP)



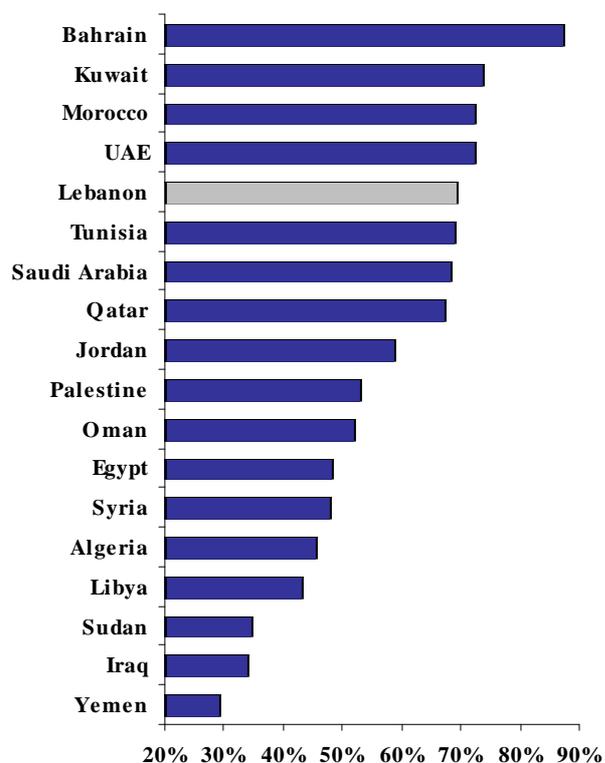
Source: Institute of International Finance, Byblos Research

### Number of Internet users at 3.2 million in 2017, Internet penetration to reach 69%

The Dubai-based ICT market research firm MADAR Research & Development projected the number of Internet users in Lebanon at 3.2 million in 2017 compared to two million users in 2012. The number of Internet users in Lebanon would account for 4.1% of total Internet users in the Levant region in 2017 relative to a share of 4.6% in 2012, while they would account for 1.6% of total Arab users in 2017 compared to a share of 1.8% in 2012. The number of Internet users in Lebanon would grow at a compound annual growth rate (CAGR) of 10% during the 2012-17 period compared to a CAGR of 12.1% for users in the Levant and a CAGR of 11.2% for Arab users, and relative to a CAGR of 8.5% for users in the Gulf Cooperation Council (GCC) countries. Lebanon would post the second-slowest CAGR among 18 Arab countries, similar to that of the UAE, Jordan and Morocco, and higher than that of Bahrain, Saudi Arabia and Kuwait (+8% each).

In parallel, the Internet penetration rate in Lebanon, or the number of Internet users to the total population, would reach 69.2% at the end of 2017 compared to a penetration rate of 45.1% at the end of 2012. In comparison, Internet penetration in the Levant would rise to 50% at the end of 2017 from 28.5% at the end of 2012, while that of Arab countries would increase to 51.4% from 31.9% at the end of 2012. Also, Internet penetration in GCC economies would rise to 66.8% at the end of 2017 from 53.6% at the end of 2012. Lebanon would have the fifth highest penetration rate among Arab countries by 2017, lower than only Bahrain (87.4%), Kuwait (73.7%), Morocco (72.4%) and the UAE (72.2%). In comparison, the Internet penetration rate in Lebanon was the seventh-highest among Arab countries in 2012, lower than only Bahrain (65.7%), Kuwait (59.3%), the UAE (57.2%), Qatar (54.9%), Saudi Arabia (53.4%) and Morocco (47.4%).

### Internet Penetration at end-2017



Source: Madar Research & Development, Byblos Research

### Draft budget for 2014 projects fiscal deficit at 35% of expenditures, equivalent to 11% of GDP

The Ministry of Finance issued the 2014 draft budget that shows expenditures at \$14.55bn and revenues of \$9.46bn. The figures constitute increases of 6.6% and 0.4%, respectively, from the achieved fiscal results in 2013. The 2014 budget deficit would widen by 20.6% to reach \$5.1bn and would be equivalent to 34.9% of overall spending. The ministry based its 2014 budget projections on a real GDP growth rate of 2%, an average inflation rate of 3.6%, and a nominal GDP of LBP 71,608bn or \$47.5bn in 2014. According to the Ministry of Finance, expenditures would be equivalent to 30.6% of GDP and revenues to 19.9% of GDP. But when using the nominal GDP figure of the International Monetary Fund, expenditures would account for 32% of GDP and revenues would be equivalent to 20.8% of GDP. The ministry estimated the deficit at 10.7% of GDP in 2014 relative to 9.3% of GDP in 2013, but the deficit would widen to 11.2% of GDP this year from 9.5% of GDP last year based on IMF figures.

On the expenditures side, the ministry forecast current expenditure at \$13.1bn in 2014, equivalent to 90.2% of total expenditures. They would account for 27.6% of GDP, according to the Finance Ministry, and for 28.9% of GDP when using the estimated GDP of the IMF. The distribution of expenditures shows that wages & salaries would account once again for the largest share of current spending. Also, the ministry projected debt servicing at \$3.9bn in 2014, equivalent to 26.9% of total expenditures. The latter would account for 8.2% of GDP when using the ministry figure and to 8.6% of GDP according to the IMF. In parallel, subsidies to Electricité du Liban would remain nearly unchanged year-on-year at \$2bn, equivalent to 4.3% of GDP according to the Finance Ministry and to 4.5% of GDP when using IMF data. The ministry estimated capital expenditures at \$1.4bn this year, equivalent to 9.8% of total expenditures or 3% of GDP. The ministry indicated that it did not include the cost of the public-sector salary scale and wage increase in the 2014 draft budget, but that it would include it if Parliament ratifies the related draft law. On the revenues side, the draft budget assumed that tax receipts would total \$7.2bn and non-tax revenues would reach \$2.28bn. The figures reflect increases of 7% and 5%, respectively, from the outcome in 2013. Tax revenues would be equivalent to 15.1% of GDP when using ministry data and to 15.8% of GDP according to the IMF.

### Lebanon's external debt posts 12th lowest return in emerging markets, fourth lowest in the Middle East & Africa

Figures issued by Merrill Lynch indicate that Lebanon's external debt posted returns of 4.98% in the first five months of 2014, constituting the 10th lowest return among 36 markets in the Eastern Europe, the Middle East & Africa (EMEA) region as well as the 12th lowest return among the 65 emerging markets included in Merrill Lynch's Sovereign Plus Debt Index. Lebanon underperformed the EMEA region's returns of 7.19%, the overall emerging markets returns of 8.28% and the 8.26% returns posted by sovereigns rated 'BB' and lower during the covered period.

Further, Lebanon's external debt posted the fourth lowest return among 19 countries in the Middle East & Africa region in the covered period, ahead of Jordan (+2.23%), Angola (+4.69%) and Morocco (+4.76%). It was outperformed by Egypt (+15.59%), Iraq (+14.97%), Tunisia (+12.8%), Turkey (+12.56%), Gabon (+12.21%), Mozambique (+10.6%), Bahrain (+10.37%), Rwanda (+10.21%), the Ivory Coast (+10.1%), Namibia (+9.03%), Zambia (+8.99%), South Africa (+7.51%), Senegal (+5.92%), Ghana (+5.25%) and Nigeria (+5.09%). In US dollar terms, Lebanon's external debt posted returns of 4.95% in the first five months of 2014, constituting the eighth lowest in the EMEA region and the 10th lowest among emerging markets.

In parallel, Lebanon's external debt posted returns of 1.63% in May 2014, and constituted the ninth lowest return in the EMEA region and the 17th lowest return in emerging markets during the covered month. Lebanon underperformed the EMEA returns of 3.3%, those of emerging markets of 2.96%, and the 2.69% 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 May 2014 and outperformed Jordan (+0.68%). It was outperformed by Iraq (+7.13%), Ghana (+5.45%), Morocco (+4.76%), Egypt (+4.39%), Zambia (+4.36%), the Ivory Coast (+4.27%), Namibia (+4.26%), Mozambique (+3.91%), Gabon (+3.49%), Bahrain (+3.42%), Nigeria (+2.66%), Turkey (+2.45%), South Africa (+2.14%), Angola (+2.12%), Rwanda (+1.99%), Senegal (+1.92%) and Tunisia (+1.79%).

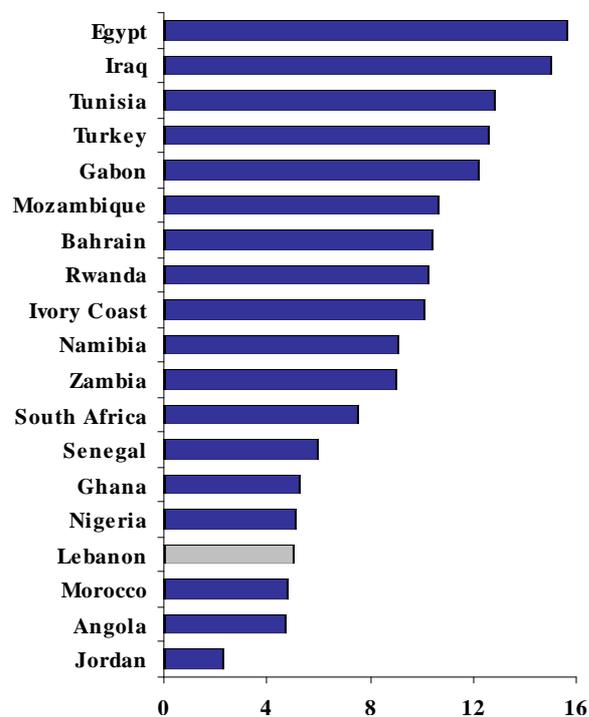
Merrill Lynch indicated that the spread on Lebanese Eurobonds ended May 2014 at 384 basis points, constituting the 10th widest spread in the EMEA region and the 20th widest among emerging markets. It was wider than the EMEA spread of 265 basis points as well as the emerging markets' overall spread of 288 basis points at end-May 2014. Lebanon has a weight of 3.89% 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 7.6% of allocations in the EMEA region.

### Net public debt at \$54.6bn at end-April 2014

Lebanon's gross public debt reached \$64.8bn at the end of April 2014, constituting a rise of 2.1% from the end of 2013 and an increase of 9.6% from end-April 2013. Domestic debt totaled \$38.7bn at the end of April, rising by 3.7% from end-2013 and increasing by 17.3% annually; while external debt stood at \$26.1bn, constituting marginal decreases of 0.2% from end-2013 and 0.1% from a year earlier. Local currency debt accounted for 59.8% of gross public debt at the end of April 2014 compared to 55.9% a year earlier, while foreign currency-denominated debt represented 40.2% of the total at end-April 2014 relative to 44.2% a year earlier. The weighted interest rate on outstanding Treasury bills was 6.87%, and that on Eurobonds was 6.39% at the end of April 2014. Further, the weighted life on Eurobonds was 5.87 years, while that on Treasury bills was 1,211 days.

Commercial banks accounted for 52.3% of the local public debt at the end of April 2014 compared to 50.6% a year earlier. They were followed by the Central Bank with 30.2%, down from 31.3% at end-April 2013; while public agencies, financial institutions and the general public accounted for 17.5% of local debt compared to 18% at end-April 2013. Eurobond holders, foreign private sector loans and special T-bills in foreign currencies accounted for 90.5% of the external debt, followed by multilateral institutions with 4.6%, foreign governments with 4.5%, and Paris II loans with 0.4%. The net public debt, which excludes the public sector's deposits at the Central Bank and at commercial banks from overall debt figures, increased annually by 7.8% to \$54.6bn. 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.

### External Debt Performance in Middle East & Africa in First Five Months of 2014 (%)



Source: Merrill Lynch, Byblos Research

### Occupancy rate at Beirut hotels at 42%, room yields down 32% in first four months of 2014

EY's benchmark survey of the Middle East hotel sector indicated that the average occupancy rate at hotels in Beirut was 42% in the first four months of 2014, down from 58% in the same period last year and compared to an average rate of 66.1% in 12 Arab markets. The occupancy rate at Beirut hotels was the second lowest in the region in the covered period, while it was the third lowest in the first four months of 2013. Cairo posted the lowest occupancy rate of 27% in the covered period. Also, the occupancy rate at hotels in Beirut fell by 16 percentage points year-on-year, constituting the steepest decrease among the 12 Arab markets, and relative to an average increase of 1.2 percentage points for the region. Occupancy rates at Beirut hotels were 36% in January, 42% in February, 41% in March and 52% in April 2014; compared to 50% in January, 60% in February, 59% in March and 64% in April 2013.

The average rate per room at Beirut hotels was \$156 in the first four months of 2014, ranking the capital's hotels as the 10th most expensive in the region. The average rate per room at Beirut hotels decreased by 7% year-on-year and posted the fourth steepest decline among all markets in the region better than only Makkah (-16.7%), Madina (-8.4%) and Sharm El Shaikh (-7.6%). The average rate per room in Beirut came below the regional average of \$188.3, which decreased by 3.4% from the same period of 2013.

Further, revenues per available room (RevPAR) were \$67 in Beirut in the first four months of 2014, down from \$98 in the same period of 2013, and came in 10th place in the region, higher than only Sharm El Shaikh (\$27) and Cairo (\$22). Beirut's RevPAR fell by 31.9% year-on-year and posted the steepest decrease among Arab markets. Beirut posted RevPARs of \$60 in January, \$65 in February, \$62 in March and \$82 in April 2014; compared to \$87 in January, \$101 in February, \$99 in March and \$108 in April 2013. Dubai posted the highest average room rate in the region at \$324, and the highest occupancy rate of 87%, as well as the highest room yield of \$284 in the first four months of 2014.

#### Hotel Performance in First Four Months of 2014

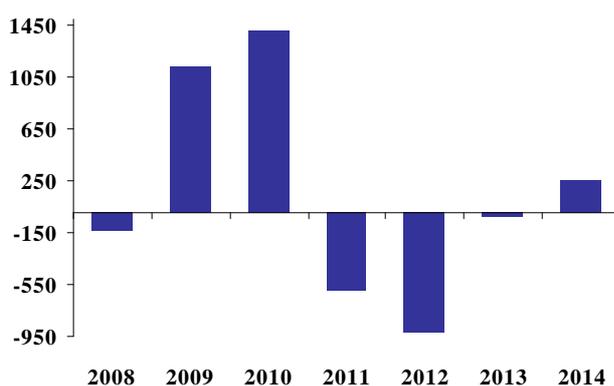
	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Dubai	87	284	3.60
Madina	82	151	2.60
Makkah	82	136	(4.70)
Abu Dhabi	82	181	(6.50)
Jeddah	77	207	8.80
Riyadh	73	162	7.90
Doha	71	169	1.70
Amman	63	101	5.80
Sharm El Shaikh	56	27	(16.10)
Manama	51	107	1.00
<b>Beirut</b>	<b>42</b>	<b>67</b>	<b>(31.90)</b>
Cairo	27	22	(6.90)

Source: EY, Byblos Research

### Balance of payments posts surplus of \$256m in first four months of 2014

Central Bank figures show that Lebanon's balance of payments posted a surplus of \$256m in the first four months of 2014 compared to a deficit of \$17.9m in the same period last year. The balance of payments posted a deficit of \$45.4m in April 2014 compared to a surplus of \$139m in March 2014 and a surplus of \$44.3m in April 2013. The April 2014 deficit was caused by a deficit of \$144m in the net foreign assets of the Central Bank, and was partly offset by a surplus of \$98.6m in those of banks and financial institutions. The cumulative surplus over the first four months of 2014 was caused by a surplus of \$1.3bn in the Central Bank's net foreign assets, and was partly offset by a deficit of \$995.2m in those of banks and financial institutions. The balance of payments posted surpluses of \$7.9bn in 2009 and \$3.3bn in 2010 and deficits of \$2bn in 2011, \$1.54bn in 2012 and \$1.1bn in 2013.

#### Balance of Payments\* (US\$m)



\*in the first four months of each year

Source: Central Bank of Lebanon

### Telecom sector in last place in MENA region in terms of risks-rewards

Business Monitor International ranked Lebanon in last place among 16 countries in the Middle East and North Africa region on its Telecommunications Risks/Rewards Rating (RRR) for the third quarter of 2014. Lebanon received a score of 39.9 points compared to the region's average of 50.7 points. BMI included Lebanon for the first time in its RRR for the MENA region.

The RRR is a weighted average of the 'Rewards' sub-rating that has a weight of 70% and the 'Risks' sub-rating that has a weight of 30%. The sub-ratings cover risks and rewards on the industry and country levels. The 'Rewards' sub-rating evaluates the size and the growth potential of a country's telecom market as well as the country's broader economic and socio-demographic characteristics that impact the development of the telecom industry. The Industry Rewards category has a weight of 60% and the Country Rewards category has a weight of 30%. The 'Risks' sub-rating assesses specific threats to the telecom sector as well as risks related to the domestic political and economic profile that could affect the realization of expected returns in the telecom industry. The Industry Risks category has a weight of 40% and the Country Risks category has a weight of 60%. Ratings are on a scale from zero to 100, with a score of 100 reflecting the highest rating.

BMI indicated that it ranked Lebanon in last place on its RRR due to the country's low scores on the Industry Rewards and Industry Risks categories. It said that previous governments have failed to liberalize the telecommunications sectors, while the current government has yet to show signs of liberalizing the sector, which would weigh negatively on Lebanon's RRR in the foreseeable future. Also, Lebanon came in last place on the Industry Rewards category, which reflects the low level of competition in the telecom sector, the sector's weak growth outlook of about 2.6% annually between 2014 and 2018, and the country's relatively small population. It pointed out that the lack of competition maintains an elevated average return per user (ARPU), which would normally improve the country's Industry Rewards score. But it noted that poor competition in Lebanon results in a lack of incentive to develop value-added services and a relatively low mobile phone penetration rate that stood at 90.4% at end-2013.

Further, Lebanon came in 14th place on the Industry Risks category, better than only Iran and Libya. BMI indicated that Lebanon has a tightly controlled telecommunications sector, given that the government retains full ownership of the two mobile operators, Mobile Interim Company 1 (MIC 1) and Mobile Interim Company 2 (MIC 2). It noted that the government's ownership of the networks eliminates any incentive for competition. In parallel, Lebanon came in eighth place on the Country Rewards category, reflecting Lebanon's better economic outlook than most North African countries. Also, Lebanon came in 13th place on the Country Risks category, better than only Tunisia, Morocco and Jordan.

### Telecommunications Risk/Reward Rating

Country	Score	Rank
Israel	65.4	1
Saudi Arabia	64.6	2
Qatar	60.2	3
UAE	57.7	4
Kuwait	54.8	5
Bahrain	51.6	6
Oman	51.3	7
Morocco	47.8	8
Libya	47.4	9
Iraq	47.2	10
Jordan	46.5	11
Egypt	45.3	12
Algeria	44.8	13
Iran	44.5	14
Tunisia	41.7	15
<b>Lebanon</b>	<b>39.9</b>	<b>16</b>

Source: Business Monitor International

### Commercial banks' assets reach \$168bn at end-April 2014

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$168bn at the end of April 2014, constituting an increase of 2% from the end of 2013 and a rise of 8.3% from end-April 2013. Private sector deposits totaled \$138.2bn, increasing by a marginal 1.5% from the end of 2013 and by 7.9% from end-April 2013. Deposits in Lebanese pounds reached \$47.4bn and rose by 2.8% from end-2013 and by 5.9% from end-April 2013; while deposits in foreign currencies totaled \$90.8bn, constituting increases of 0.8% from end-2013 and 9% from a year earlier. Non-resident foreign currency deposits totaled \$24.5bn at the end of April 2014, declining by 2.4% from the end of 2013 and growing by 13.1% year-on-year. Total non-resident deposits reached \$28bn at the end of April 2014 and dropped by 1.8% from end-2013, but they increased by 11.9% from a year earlier. Total private sector deposits decreased by \$1.3bn in January but increased by \$848.4m in February, by \$843.8m in March and by \$1.6bn in April 2014, while they rose by \$558m in January, by \$744.9m in February and by \$1.8bn in March but decreased by \$11.3m in April 2013. In parallel, deposits of non-resident banks reached \$5.3bn at the end of April 2014 and increased by 6.8% from end-2013, but they declined by 7.6% from a year earlier. The dollarization rate of deposits reached 65.7% at the end of April 2014 relative to 66.1% at end-2013 and 65.1% a year earlier. Further, the average deposit rate in Lebanese pounds reached 5.47% at end-April 2014 relative to 5.43% a year earlier, while the same rate in US dollars was 3%, up from 2.97% in April 2013.

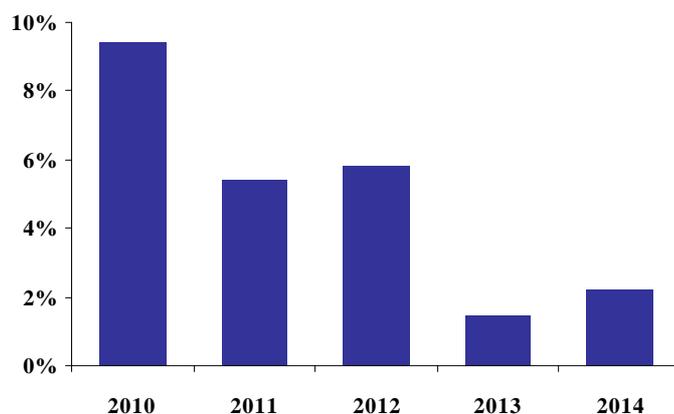
Loans to the private sector totaled \$48.4bn, constituting an increase of 2.2% from end-2013 and a rise of 9.9% from a year earlier. Lending to the resident private sector totaled \$42.8bn, increasing by 3.2% from the end of 2013 and by 10.6% year-on-year; while credit to the non-resident private sector reached \$5.6bn and fell by 4.6% from end-2013 but increased by 4.8% from end-April 2013. The dollarization rate in private sector lending regressed to 76.1% at end-April 2014 from 77.3% a year earlier. The average lending rate in Lebanese pounds was 7.18% in April 2014 compared to 7.27% a year earlier, while the same average in US dollars was 6.92% compared to 6.9% in April 2013. In addition, claims on non-resident banks reached \$13.2bn at end-April 2014, posting a decrease of 5.6% from end-2013 and an increase of 4% from a year earlier. Claims on the public sector stood at \$37.7bn, almost unchanged from end-2013 and constituting a rise of 16.8% year-on-year. The ratio of private sector loans-to-deposits in foreign currencies stood at 40.6%, well below the Central Bank's limit of 70%, and compared to 40.9% a year earlier. In parallel, the same ratio in Lebanese pounds was 24.4%, up from 22.3% at the end of April 2013. The ratio of total private sector loans-to-deposits was 35% compared to 34.4% a year earlier. The banks' aggregate capital base stood at \$14.9bn, up by 2.4% from the previous month and by 15.5% from \$12.9bn in April 2013.

### Profits of top 14 banks down 3% to \$429m in first quarter of 2014

The unaudited consolidated net profits of the Alpha Group of banks reached \$428.9m in the first quarter of 2014, down by 2.6% from the same quarter last year and compared to a rise of 15.5% in the first quarter of 2013. The Alpha Group consists of 14 banks with deposits in excess of \$2bn each. Total net operating income rose by 3.1% in the first quarter of 2014 to \$1.1bn, with aggregate net interest income increasing by 11.6% to \$777.5m and net fees & commissions receipts rising by 13.9% year-on-year to \$205.1m. Also, non-interest income accounted for 32.8% of total income in the first quarter of 2014, down from 38.8% in the same quarter last year; with net fees & commissions earnings representing 51.9% of non-interest income in the covered quarter, up from 38.6% in the first quarter of 2013. The net interest spread was 1.82% in the first quarter of 2014, nearly unchanged from the same quarter of 2013. Also, total operating expenditures increased by 8.2% to \$621.3m in the first quarter of the year, with staff expenses rising by 9.2% to \$350.8m. Further, the cost-to-income ratio increased to 51.5% in the first quarter of 2014 relative to 47.8% in the same quarter last year. The banks' total assets reached \$179bn at end-March 2014, constituting a rise of 1.5% from end-2013. Further, aggregate loans & advances to customers rose by 2.2% from end-2013 to \$54.6bn, while credits extended to related parties grew by a marginal 0.9% to \$554.9m at end-March 2014. Also, customer deposits totaled \$146.7bn at end-March 2014, constituting a rise of 1.5% from end-2013; while deposits from related parties decreased by 22.3% to \$2bn at end-March 2014. The banks' total shareholders' equity reached \$15.7bn at end-March 2014, constituting a rise of 2.7% from end-2013.

In parallel, the banks' loans-to-deposits ratio increased to 37.1% at end-March 2014 from 35.4% a year earlier. The ratio of loans-to-deposits in local currency reached 21.4% at end-March 2014 compared to 19.6% at end-March 2013, while that in foreign currency was 43.9% at the end of March 2014 relative to 42.5% a year earlier. Also, the banks' return on average assets reached 0.97% in the first quarter of 2014 relative to 1.09% in the same quarter last year; while their return on average equity was 10.63% compared to 11.83% in the first quarter of 2013. Further, the net primary liquidity-to-deposits ratio reached 30.43% at end-March 2014, up from 32.8% at end-March 2013. The banks' aggregate equity-to-assets ratio reached 8.78% at end-March 2014, almost unchanged from a year earlier. Also, the collective provisions-to-net loans ratio increased to 1.13% at end-March 2014 relative to 1.08% a year earlier.

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



\*in the first four months of each year

Source: Association of Banks in Lebanon, Byblos Research

### **BankMed's net profits at \$30m in first quarter of 2014**

BankMed sal, one of Lebanon's top 10 banks, announced unaudited consolidated net profits of \$29.5m in the first quarter of 2014, constituting a decrease of 5.2% from the same quarter last year. Net operating income fell by 6% year-on-year to \$99.8m, with net interest income rising by 11.8% to \$58.1m and net fees & commissions receipts expanding by 103.8% to \$19m. Non-interest income accounted for 38.4% of total income, down from 56.2% in the first quarter of 2013, with net fees & commissions representing 48.2% of non-interest earnings up from 13% in the same quarter last year. Further, the bank's interest margin improved to 2.04% in the covered quarter from 1.95% in the first quarter of 2013; while its net spread rose to 1.86% from 1.76% in the same period last year. Total operating expenditures fell by 6.9% to \$65.6m, with staff expenses increasing by 4.3% to \$34.2m. Also, the bank's return on average assets reached 0.87% in the first quarter of 2014 on an annualized basis, down from 0.98% in the same quarter last year; while its return on average equity was 8.47% relative to 9.26% in the first quarter of 2013. The cost-to-income ratio rose to 64% in the first quarter of 2014 relative to 55.3% in the same quarter last year.

In parallel, total assets reached \$13.3bn at end-March 2014, constituting a 3.6% decrease from end-2013 and a 3.6% increase from end-March 2013; while loans & advances to customers, excluding loans & advances to related parties, grew by 1.4% from end-2013 and by 5.9% from the first quarter of 2013 to \$4.4bn. Also, customer deposits, excluding deposits from related parties, totaled \$9.8bn at end-March 2014, constituting a decrease of 4.8% from end-2013 and a rise of 3% from end-March 2013. The loans-to-deposits ratio declined to 43.8% at end-March 2014 from 44.7% a year earlier. In parallel, the bank's total shareholders' equity was unchanged at \$1.34bn at end-March 2014.

### **Outlook on MedGulf Group's ratings revised to 'negative'**

Standard & Poor's revised the outlook from 'stable' to 'negative' on the 'A' counterparty credit and financial strength ratings of the Bahrain-based Mediterranean & Gulf Insurance & Reinsurance Co. B.S.C. (MedGulf Bahrain). The agency indicated that it has rated MedGulf Bahrain on a consolidated basis, which includes the insurer's subsidiaries and affiliates. MedGulf Bahrain is the parent company of MedGulf Lebanon sal. S&P attributed the outlook revision to the groups' significant losses last year that totaled \$62m and that were mainly due to prudent reserve strengthening at MedGulf KSA. It added that the group's risk-based capital adequacy deteriorated to the low end of the 'BBB' rating level as a result of the losses. But it anticipated that the group's capital and earnings would remain strong and would continue to support its financial risk profile. It considered that MedGulf Bahrain's prospective earnings and conservative dividend policy would be sufficient to rebuild its risk-based capital to very strong levels by 2016. It forecast MedGulf Bahrain's combined ratio at 95% and its return on equity (ROE) at 11% in 2014, leading to net profits of at least SAR200m or \$53.3m. It anticipated the group's combined ratio to improve to 93% and its ROE to reach about 15% during the 2015-16 period, resulting in an annual average net income of at least SAR350m or \$93.3m during the covered period. It expected MedGulf Bahrain to retain the majority of its earnings over the next two years. It cautioned that MedGulf Bahrain might not be able to rebuild its capital adequacy to prior levels over the next two years. As such, it said that it would downgrade the ratings in the event of lower-than-expected-earnings and if the group fails to rebuild its capital adequacy to a very strong level by 2016.

The MedGulf Group operates in Lebanon through the Mediterranean and Gulf Insurance & Reinsurance Co. sal, which is the largest insurer by premiums in the local market. It also operates in Saudi Arabia through the publicly-traded Mediterranean and Gulf Cooperative Insurance & Reinsurance Company KSA, one of the largest insurers in the kingdom. The group also operates in Bahrain and Jordan through MedGulf subsidiaries. Its other operations include Third Party Administrator MEDIVISA, which manages and services the medical portfolio of MedGulf in its main markets; risk manager Addison Bradley; and Motion, which specializes in motor claim administration. In April 2011, Saudi Oger Ltd, the conglomerate owned by the family of late Prime Minister Rafiq Hariri, sold its 51% stake in the MEDGULF Group to SLH Holding. In June 2012, the International Finance Corporation acquired a stake in MedGulf for \$124m to help the firm extend its health and commercial risk insurance services across the region. In June 2013, the Japan-based financial services group ORIX Corporation acquired a 25.7% stake for around \$225m.

### **SGBL's net income at \$40m in first three months of 2014**

Société Générale de Banque au Liban (SGBL) sal, one of Lebanon's top 10 banks, announced unaudited consolidated net profits of \$40.1m in the first quarter of 2014, up 33.5% from the same quarter last year. Net operating income grew by 22.2% year-on-year to \$86.5m, with net interest income increasing by 25.3% to \$63.8m and net fees & commissions receipts rising by 5% to \$12m year-on-year. Non-interest income accounted for 30.7% of total income, up from 28.6% in the same quarter last year; with net fees & commissions accounting for 41.9% of non-interest earnings down from 55.1% in the first quarter of 2013. Further, the bank's interest margin was 2.1% in the first quarter of the year relative to 1.9% in the same quarter last year; while its spread rose to 1.96% from 1.8% in the first quarter of 2013. Total operating expenditures increased by 8% to \$38.1m, with staff expenses rising by 8.1% to \$20.2m. Also, the bank's return on average assets reached 1.2% in the first quarter of 2014 on an annualized basis relative to 1% in the same quarter last year; while its return on average equity was 14.6% on an annualized basis relative to 15.5% in the first quarter of 2013. The cost-to-income ratio decreased to 40.9% in the first quarter from 48.7% in the same quarter last year. In parallel, total assets reached \$13.3bn at end-March 2014, constituting a 2.6% rise from end-2013 and a 13.5% increase from a year earlier; while loans & advances to customers, excluding loans & advances to related parties, grew by 1.3% from end-2013 and by 6.6% from a year earlier to \$3.1bn. Also, customer deposits, excluding deposits from related parties, totaled \$10.3bn at end-March 2014, constituting an increase of 1.5% from end-2013 and a rise of 10.4% from a year earlier. The loans-to-deposits ratio fell to 30.5% at end-March 2014 from 31.4% a year earlier. In parallel, the bank's shareholder equity rose by 3.8% from end-2013 to \$1.1bn at end-March 2014.

### **BBAC's net profits down 1% to \$13m in first quarter of 2014**

The Bank of Beirut and the Arab Countries (BBAC) sal, one of Lebanon's top 10 banks, announced unaudited consolidated net profits of \$12.7m in the first quarter of 2014, reflecting a marginal decline of 0.8% from the same quarter last year. Net operating income grew by 5.4% year-on-year to \$30.2m, with net interest income increasing by 7% to \$20.1m and net fees & commissions receipts rising by 7.2% year-on-year to \$4.8m. Non-interest income accounted for 37% of total income, down from 38.5% in the same quarter last year; with net fees & commissions representing 40.8% of non-interest earnings up from 38.2% in the first quarter of 2013. Further, the bank's interest margin was 1.64% in the first quarter of the year relative to 1.6% in the same quarter last year; while its spread rose marginally to 1.59% from 1.55% in the first quarter of 2013. Total operating expenditures increased by 12.1% to \$15.6m, with staff expenses growing by 10.9% to \$9.7m. Also, the bank's return on average assets reached 1% in the first quarter of 2014 on an annualized basis relative to 1.06% in the same quarter last year; while its return on average equity was 11.6% on an annualized basis relative to 12.6% in the first quarter of 2013. The cost-to-income ratio rose to 49.1% in the first quarter from 45.7% in the same quarter last year.

In parallel, total assets reached \$5bn at end-March 2014, constituting a 2% decrease from end-2013 and a 4.7% increase from a year earlier; while loans & advances to customers, excluding loans & advances to related parties, fell by 2.4% from end-2013 but grew by 11.6% from a year earlier to \$1.3bn. Also, customer deposits, excluding deposits from related parties, totaled \$4.4bn at end-March 2014, constituting a marginal decrease of 0.7% from end-2013 and a rise of 4.8% from a year earlier. The loans-to-deposits ratio rose to 29.4% at end-March 2014 from 27.6% a year earlier. In parallel, the bank's shareholder equity rose by 3.1% from end-2013 to \$425.9m at end-March 2014.

### **BLC Bank approves dividends for 2013**

BLC Bank sal announced that its Ordinary General Assembly held on May 15, 2014 approved the distribution of dividends for 2013. The bank will allocate a gross dividend payment of \$7.6m to the holders of preferred shares. BLC indicated that the dividends were determined after taking into consideration the 10% legal reserve requirements, the \$6.9m in reserves against various banking risks, as well as \$4.7m in provisions covering repossessed real estate collateral and \$1.3m in free reserves to mainly cover debt provisions. The dividends will be paid net of a 5% withholding tax. The bank currently has 51,033,333 common shares, 400,000 preferred shares class A, 550,000 preferred shares class B and 350,000 preferred shares class C listed on the Beirut Stock Exchange.

BLC Bank sal, one of Lebanon's listed banks, announced audited consolidated net profits of \$42.1m in 2013 relative to net earnings of \$33.3m in 2012. Total assets reached \$5.13bn at end-2013, constituting a marginal rise of 0.8% from a year earlier; while loans & advances to customers increased by 5.6% year-on-year to \$1.9bn at end-2013. Further, customer deposits totaled \$4.3bn at end-2013, nearly unchanged from end-2012. BLC Bank is part of the Fransabank Group.

## Ratio Highlights

(in % unless specified)	2011	2012	2013	Change*
Nominal GDP (\$bn)	40.1	42.5	44.3	
Public Debt in Foreign Currency / GDP	52.2	57.4	59.0	160
Public Debt in Local Currency / GDP	81.6	78.4	84.4	600
Gross Public Debt / GDP	133.9	135.7	143.4	770
Total Gross External Debt / GDP	169.0	169.9	172.7	280
Trade Balance / GDP	(34.7)	(34.6)	(32.8)	180
Exports / Imports	27.9	27.6	27.0	(60)
Fiscal Revenues / GDP	23.3	22.1	20.9	(120)
Fiscal Expenditures / GDP	29.1	31.4	32.1	70
Fiscal Balance / GDP	(5.9)	(9.3)	(11.2)	(190)
Primary Balance / GDP	4.1	(0.3)	(2.5)	(220)
Gross Foreign Currency Reserves / M2	79.2	69.4	70.6	120
M3 / GDP	242.5	244.7	248.9	420
Commercial Banks Assets / GDP	350.6	357.4	372.4	1,500
Private Sector Deposits / GDP	288.6	294.1	307.7	1,360
Private Sector Loans / GDP	98.2	102.2	107.0	480
Private Sector Deposits Dollarization Rate	65.9	64.8	66.1	130
Private Sector Lending Dollarization Rate	78.4	77.6	76.5	(110)

\* Change in basis points 12/13

Source: Institute of International Finance, Association of Banks in Lebanon, International Monetary Fund, Byblos Research Estimates & Calculations

Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

## Risk Outlook

Lebanon	Aug 2012	July 2013	Aug 2013	Change*	Risk Level
Political Risk Rating	53.5	53.0	52.5	▼	High
Financial Risk Rating	35.0	33.5	33.5	▼	Moderate
Economic Risk Rating	34.0	28.5	28.5	▼	High
Composite Risk Rating	61.2	57.5	57.2	▼	High

Regional Average	Aug 2012	July 2013	Aug 2013	Change*	Risk Level
Political Risk Rating	59.7	58.3	58.2	▼	High
Financial Risk Rating	41.2	41.3	41.3	▼	Very Low
Economic Risk Rating	36.3	36.6	36.2	▼	Low
Composite Risk Rating	68.6	68.1	67.8	▼	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	B1		Negative
Fitch Ratings	B	B	Negative	B		Negative
Standard & Poor's	B-	B	Stable	B-	B	Stable
Capital Intelligence	B	B	Stable	B	B	Stable

Source: Rating agencies

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

Source: Rating agencies

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