



## LEBANON THIS WEEK

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Aggregate profits of publicly-listed banks up 3% in first half of 2014

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Electronics distribution firm raises funds through securitization

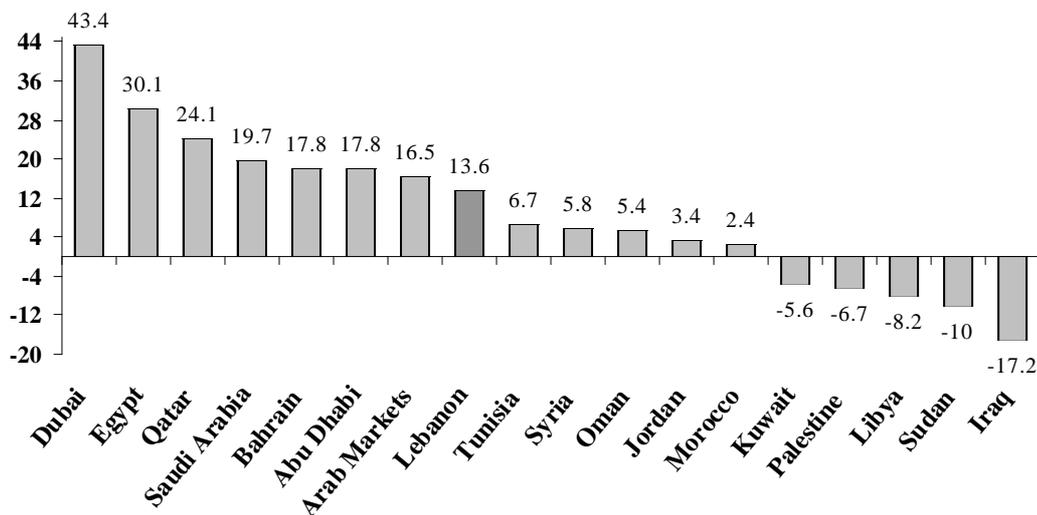
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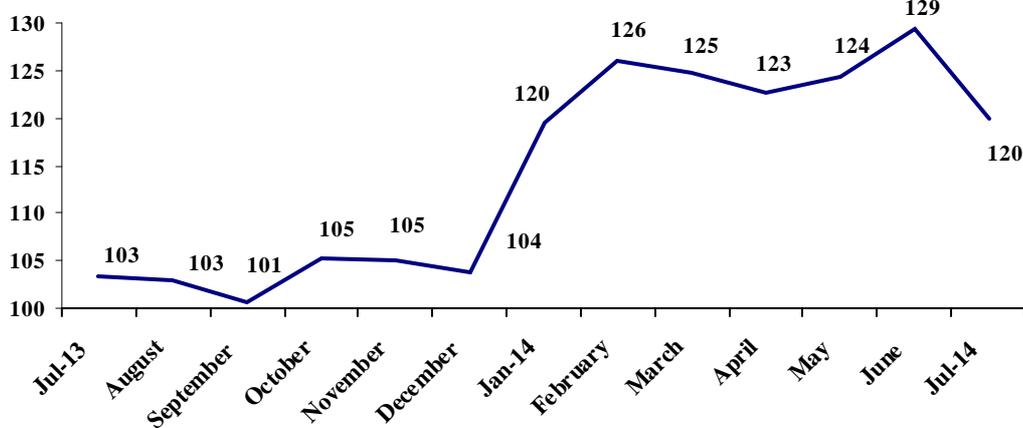
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### Charts of the Week

Performance of Arab Stock Markets in the First Seven Months of 2014 (% change)



Performance of the Beirut Stock Exchange\*



\* Banque du Liban Market Value Weighted Index

Source: Local Stock Markets, Dow Jones Indices, Banque du Liban, Byblos Bank

### Quote to Note

"Reliable and timely statistics are necessary for the effectiveness, transparency and accountability of policy-making."

*The International Monetary Fund, on Lebanon's weak statistical database*

### Number of the Week

**1.21%:**

The spread between the cost of funds and the weighted return on the uses of funds in US dollar at commercial banks in Lebanon as at May 2014, according to the Association of Banks in Lebanon

## Economic Indicators

<b>\$m (unless otherwise mentioned)</b>	<b>2013</b>	<b>Feb 13</b>	<b>Nov 13</b>	<b>Dec 13</b>	<b>Jan 14</b>	<b>Feb 14</b>	<b>% Change*</b>
Exports	3,936	381	263	243	244	253	(33.60)
Imports	21,228	1,791	1,772	1,797	1,873	1,732	(3.29)
Trade Balance	(17,292)	(1,410)	(1,509)	(1,554)	(1,629)	(1,479)	(4.89)
Balance of Payments	(1,128)	(92)	(192)	534	(31)	194	-
Checks Cleared in LBP	17,047	1,213	1,451	1,562	1,502	1,410	16.24
Checks Cleared in FC	55,321	4,353	4,584	4,728	4,783	4,369	0.37
Total Checks Cleared	72,368	5,566	6,035	6,290	6,285	5,779	3.82
Budget Deficit/Surplus	(4,220)	(279.91)	(463.41)	(238.09)	(119.34)	(125.38)	55.21
Primary Balance	(239.68)	(130.13)	2.97	70.72	142.38	23.91	-
Airport Passengers	6,265,470	403,968	407,869	510,367	450,476	376,106	(6.90)
<b>\$bn (unless otherwise mentioned)</b>	<b>Dec 2013</b>	<b>Feb 13</b>	<b>Nov 13</b>	<b>Dec 13</b>	<b>Jan 14</b>	<b>Feb 14</b>	<b>% Change*</b>
BdL FX Reserves	31.71	30.34	31.78	31.71	32.25	33.40	10.08
<i>In months of Imports</i>	<i>17.64</i>	<i>16.94</i>	<i>17.94</i>	<i>17.64</i>	<i>17.22</i>	<i>19.29</i>	<i>13.87</i>
Public Debt	63.46	58.08	63.26	63.46	63.94	64.99	11.90
Net Public Debt	53.18	49.95	52.75	53.18	53.47	53.91	7.92
Bank Assets	164.82	153.97	161.92	164.82	164.43	166.01	7.82
Bank Deposits (Private Sector)	136.21	126.30	133.15	136.21	134.86	135.71	7.45
Bank Loans to Private Sector	47.38	43.95	46.81	47.38	47.04	47.39	7.83
Money Supply M2	45.60	43.62	45.05	45.60	45.74	46.05	5.57
Money Supply M3	111.16	104.71	109.34	111.16	110.93	111.67	6.65
LBP Lending Rate (%)	7.29	7.47	7.01	7.29	7.39	7.14	(4bps)
LBP Deposit Rate (%)	5.44	5.46	5.47	5.44	5.48	5.51	1bps
USD Lending Rate (%)	6.88	7.05	6.88	6.88	6.82	6.96	(1bps)
USD Deposit Rate (%)	2.95	2.94	2.97	2.95	2.95	2.96	1bps
%* Change in CPI**	3.89	4.42	4.96	3.89	2.52	0.86	(81bps)

\* 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"	12.86	3.13	10,687	11.71%	Jan 2015	5.875	101.24	3.04
Solidere "B"	12.62	0.96	3,931	7.47%	Apr 2015	10.000	104.81	3.19
Byblos Common	1.62	0.00	0	5.30%	Jan 2016	8.500	107.25	3.35
Byblos Pref. 08	100.50	(0.10)	2,500	1.83%	Mar 2017	9.000	112.50	3.94
Byblos Pref. 09	100.00	0.00	0	1.82%	Nov 2018	5.150	101.00	4.89
BLOM GDR	9.35	0.00	0	6.29%	May 2019	6.000	104.13	5.02
BLOM Listed	8.75	0.00	0	17.13%	Mar 2020	6.375	105.50	5.23
Audi GDR	6.21	0.00	0	5.79%	Apr 2021	8.250	115.50	5.45
Audi Listed	6.30	(0.79)	40,069	20.06%	Oct 2022	6.100	102.25	5.75
HOLCIM	13.76	0.00	0	2.44%	Nov 2026	6.600	102.50	6.30

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

Source: Byblos Bank Capital Markets

	<b>July 31-Aug 1</b>	<b>July 21-25</b>	<b>% Change</b>	<b>July 2014</b>	<b>July 2013</b>	<b>% Change</b>
<b>Total Shares Traded</b>	57,187	468,312	(87.79)	3,616,820	7,014,320	(48.44)
<b>Total Value Traded</b>	\$688,052	\$4,577,102	(84.97)	\$19,622,207	\$30,195,961	(35.02)
<b>Market Capitalization</b>	\$10.98bn	\$10.95bn	0.27	\$10.94bn	\$10.56bn	3.57

Source: Beirut Stock Exchange (BSE)



### IMF calls for broad-based reforms to avoid further economic weakening, deterioration in public finances and loss of competitiveness

In its Article IV Consultation report on Lebanon, the International Monetary Fund indicated that macroeconomic conditions in the country have deteriorated across-the-board over the past two years, and expected economic activity to remain weak in the absence of a resolution to the Syrian conflict. It noted that domestic political uncertainties and the conflict in Syria continue to weigh on the country's difficult economic situation, and projected Lebanon's real GDP growth rate at 1.8% in 2014 and at 2.5% in 2015 compared to a growth rate of 1.5% in 2013. It considered that downside risks include further weakening of public finances, delays in the implementation of structural reforms and higher global interest rates. It cautioned that the materialization of these risks could further decelerate economic activity and increase the government's financing costs, which would result in adverse effects on debt dynamics. It added that these risks would trigger a loss of confidence, which would negatively affect the banking sector's deposits and dollarization rates as well as the Central Bank's foreign currency reserves. It said that the authorities' failure to address infrastructure bottlenecks would reduce Lebanon's competitiveness and growth potential. It pointed out that higher-than-expected increases in global interest rates could lead to higher interest rates in Lebanon. In turn, rising financing costs would negatively affect public finances and the banking sector.

In parallel, the IMF forecast the fiscal deficit to widen from 9.2% of GDP in 2013 to 11.1% of GDP in 2014 and to 11.9% of GDP in 2015. The Fund's baseline scenario assumes that the government will start paying the salary scale adjustment for the public sector in the second half of 2014 without installments and with retroactive payment as of July 1, 2014. It assumed that the proposed measures to finance the increase in public-sector wages would be implemented in January 2015. It noted that the revenue measures in the related draft law are insufficient to offset the higher spending. It cautioned that the current policies would result in a permanent increase in public spending of 1.4% of GDP annually and would keep the fiscal deficit in double-digits in coming years. It anticipated that the primary budget deficit would widen from 0.8% of GDP in 2013 to 2.4% of GDP in 2014 and to 2.5% of GDP in 2015. It expected the money-losing Electricité du Liban (EdL) to continue to be a significant drag on public finances in the absence of reforms to the electricity sector and without increases in tariffs. It estimated that the primary budget deficit could gradually narrow after 2015 if Treasury transfers to EdL decline due to a drop in global oil prices over the medium-term. But it cautioned that authorities should not rely on savings from lower global oil prices, as the latter are subject to significant uncertainties.

In parallel, the Fund expected risks to the public debt's sustainability to increase under the prevailing policies. It projected the public debt level to rise from 141% of GDP in 2013 to 145% of GDP in 2014 and to 148% of GDP in 2015; while it forecast the government's gross financing needs to reach 31% of GDP in 2014 and 29% of GDP in 2015. It cautioned that the upward trend in the debt level and the increase in the government's financing needs would expose the country to significant debt vulnerabilities. It urged authorities to proactively implement fiscal consolidation through a credible and balanced adjustment strategy, in order to reestablish primary surpluses and to reduce the public debt level. Further, the Fund indicated that the government has been increasingly borrowing in foreign currency from the Central Bank through overdraft facilities, given that the government reached its ceiling on new foreign currency borrowing. It noted that the government's borrowing from the Central Bank reached \$6.6bn, or 14% of GDP, at the end of April 2014. It called on Parliament to raise the ceiling on new foreign currency borrowing in order to reduce the government's reliance on the Central Bank. It indicated that the Ministry of Telecommunication should transfer telecom receipts to the Treasury on a regular and timely basis.

In parallel, the IMF indicated that the banking sector has been resilient so far, but is facing an increasingly challenging environment. It said that the banks' exposure to the sovereign has increased and that opportunities for credit to the private sector are currently limited, while regional instability has stopped the banks' expansion in neighboring countries. It noted that the banks' profitability has deteriorated with a current average return on assets of about 1%. It added that non-performing loans remain low and that their provisioning has declined. However, it noted that deposits have continued to grow at about 7% to 8% a year, and that liquidity buffers are strong.

Key Macroeconomic Indicators					
	2011	2012e	2013F	2014F	2015F
Real GDP (% yoy)	2.0	2.5	1.5	1.8	2.5
CPI (% average)	7.2	5.9	3.2	3.1	4.0
Fiscal balance (% of GDP)	(5.9)	(8.6)	(9.2)	(11.1)	(11.9)
Primary balance (% of GDP)	3.5	(0.2)	(0.8)	(2.4)	(2.5)
Gross public debt (% of GDP)	134	134	141	145	148
Credit to the resident private sector (% yoy)	12.9	10.5	9.6	7.1	6.9
Three-year Treasury bill yield (%)	6.0	6.5	6.6	6.7	7.0
Five-year Eurobond yield (%)	5.2	5.0	5.4	5.7	6.1
Current account balance (% of GDP)	(12.8)	(12.7)	(12.8)	(12.6)	(12.2)
Total external debt (% of GDP)	169	168	174	177	177
Gross reserves (% of short-term external debt)	53.8	51.5	49.6	47.6	45.9
Gross reserves (% of total banking system deposits)	27.3	25.7	24.9	23.8	22.8

Source: International Monetary Fund, August 2014



### Lebanon ranks 77th globally, eighth among Arab countries in terms of innovation

The Global Innovation Index for 2014 ranked Lebanon in 77th place among 143 countries around the world and in eighth place among 14 Arab countries. Lebanon also came in 23rd place among 38 upper-middle income countries (UMICs) included in the survey. Lebanon ranked in 75th place globally among 142 countries in the 2013 survey and in eighth place among 15 Arab countries. The index measures innovation in a broad sense and includes scientific innovation as well as social and business innovation. It rates the innovation level of each country on a scale from zero to 100, with a score of 100 reflecting the most innovative economy. The index is a composite of 81 variables that are grouped into two sub-indices, the Innovation Input Sub-Index and the Innovation Output Sub-Index. The countries included in the index represent 92.9% of the world's population and 98.3% of global GDP. The index is co-published by Cornell University, the INSEAD Business School and the World Intellectual Property Organization.

Globally, Lebanon has a higher innovation level than Tunisia, Kazakhstan and Guyana, and is less innovative than Georgia, Oman and India. Regionally, it has a higher level of innovation than Tunisia, Morocco, Egypt, Algeria, Yemen and Sudan. It also ranked ahead of Tunisia and behind Peru among UMICs. Lebanon received a score of 33.6 points, which came below the global average of 36.9 points and the UMIC's average of 34.76 points, but was higher than the Arab average of 32.27 points. Also, its score came below the Gulf Cooperation Council (GCC) countries' average of 38.42 points, but was above the average of non-GCC Arab countries of 27.66 points.

In parallel, Lebanon ranked ahead of Mexico, Brazil and Panama, and came behind Colombia, Oman and Peru on the Innovation Input Sub-Index. This category covers the elements of the national economy that enable innovative activities, such as institutions, human capital & research, infrastructure, market sophistication, and business sophistication. Regionally, Lebanon ranked behind only the UAE, Qatar, Saudi Arabia, Bahrain and Oman. It also ranked ahead of Mexico and behind Peru among UMICs.

Further, Lebanon ranked ahead of Oman, Guatemala and Trinidad & Tobago, while it came behind Bosnia & Herzegovina, Gambia and Venezuela on the Innovation Output Sub-Index. This category reflects the results of innovative activities within the economy such as technology, knowledge and creativity. Regionally, Lebanon ranked ahead of only Oman, Algeria, Yemen and Sudan; while it ranked ahead of Kazakhstan and behind Venezuela among UMICs. Switzerland has the highest innovation level worldwide with an average score of 64.8 points, while Sudan has the lowest innovation level with an average score of 12.7 points.

Global Innovation Index 2014			
	Score	Arab Rank	Global Rank
UAE	43.2	1	36
Saudi Arabia	41.6	2	38
Qatar	40.3	3	47
Bahrain	36.3	4	62
Jordan	36.2	5	64
Kuwait	35.2	6	69
Oman	33.9	7	75
<b>Lebanon</b>	<b>33.6</b>	<b>8</b>	<b>77</b>
Tunisia	32.9	9	78
Morocco	32.2	10	84
Egypt	30.0	11	99
Algeria	24.2	12	133
Yemen	19.5	13	141
Sudan	12.7	14	143

Source: INSEAD, Byblos Research

### Components of the 2014 Global Innovation Index

	Global Rank	Arab Rank	UMIC Rank	Lebanon Score	Global Avg Score	Arab Avg Score	UMIC Avg Score
<b>Innovation Input</b>	61	6	14	42.2	42.8	39.7	40.6
Institutions	81	10	24	58.1	62.5	58.4	58.9
Human Capital & Research	50	4	11	34.4	31.0	29.8	29.6
Infrastructure	77	10	24	34.9	37.1	37.7	36.4
Market Sophistication	95	7	21	44.6	50.2	43.8	47.3
Business Sophistication	38	3	6	39.1	33.3	28.8	30.9
<b>Innovation Output</b>	95	10	28	25.0	31.0	24.9	28.9
Knowledge & Technology Outputs	96	7	26	22.6	29.2	21.7	26.9
Creative Outputs	93	9	28	27.4	32.8	28.1	30.9

Source: INSEAD, Byblos Research

### Lebanon has 65th highest level of human development globally, eighth highest among Arab countries

The United Nations ranked Lebanon in 65th place among 187 countries worldwide and in eighth place among 20 Arab countries on its Human Development Index (HDI) for 2013. Lebanon's global and regional ranks were unchanged from 2012. Also, Lebanon ranked in 12th place among 52 Upper Middle Income Countries (UMICs) included in the 2013 index. The HDI measures the average achievements in a country in three basic dimensions of human development that are health, education and income. The United Nations considered that Lebanon has a 'high-level' of human development, unchanged from the preceding year. Further, Lebanon was one of 53 countries worldwide that have a 'high-level' of human development. Norway ranked first globally, while Niger came in last place in terms of human development.

Lebanon received a score of 0.765 points on the HDI in 2013 compared to a score of 0.764 points in each of 2012 and 2011, 0.759 points in 2010, 0.750 points in 2008 and 0.741 points in 2005. Its score came above the global average of 0.702 points, the Arab states' average of 0.682 points and the average score of 0.735 points for countries that have a 'high-level' of human development. On a global basis, Lebanon had a similar level of human development than Panama, while it had a higher level of development than Venezuela, Costa Rica and Turkey, and a lower level of human development than Malaysia, Mauritius and Trinidad & Tobago. Also, Lebanon had a similar level of human development than Panama, a higher level than Venezuela, and a lower level of development than Mauritius among UMICs. Regionally, Lebanon had a lower level of human development than Qatar, Saudi Arabia, the UAE, Bahrain, Libya and Oman. Figures on individual components of the index, such as life expectancy, mean years of schooling and expected years of schooling show that Lebanon's results per category continue to be higher than corresponding global and Arab averages.

In parallel, Lebanon ranked in 80th place among 152 countries on the Gender Inequality Index (GII), which measures gender-based disadvantages in reproductive health, empowerment and the labor market. Lebanon also ranked in eighth place among 18 Arab countries and in 23rd place among 41 UMICs. The GII's scores range from zero, which indicates that women and men fare equally, to one, which means that women fare as poorly as possible in all measured dimensions. Lebanon received a score of 0.413 points on the GII, better than the global and Arab averages of 0.451 points and 0.546 points, respectively, but worse than the average score of 0.315 points in countries that have a 'high-level' of human development.

In terms of demographic trends, the United Nations projected Lebanon's young age dependency ratio, which is the ratio of Lebanese aged below 14 years to the total population aged between 15 and 64 years, at 27.1% in 2015. In comparison, it forecast the young age dependency ratio at 28.7% in countries that have a 'high-level' of human development, at 49.5% worldwide and at 50.8% in Arab countries. Further, it projected Lebanon's old age dependency ratio, which is the ratio of Lebanese who are older than 65 years to the population aged between 15 and 64 years, at 12.3% in 2015. In comparison, it forecast the old age dependency ratio at 12.9% in countries that have a 'high-level' of human development, at 12.5% globally and at 6.8% in Arab countries.

#### Human Development Index

Country	Arab Rank	Global Rank	Category *
Qatar	1	31	Very High
Saudi Arabia	2	34	Very High
UAE	3	40	Very High
Bahrain	4	44	Very High
Kuwait	5	46	Very High
Libya	6	55	High
Oman	7	56	High
<b>Lebanon</b>	<b>8</b>	<b>65</b>	<b>High</b>
Jordan	9	77	High
Tunisia	10	90	High
Algeria	11	93	High
Palestine	12	107	High
Egypt	13	110	Medium
Syria	14	118	Medium
Iraq	15	120	Medium
Morocco	16	129	Medium
Yemen	17	154	Low
Mauritania	18	161	Low
Sudan	19	166	Low
Djibouti	20	170	Low

\*Level of human development

Source: UNDP, Byblos Research

#### Components of the 2014 Human Development Index

	Life expectancy at birth (years)	Mean years of schooling (years)	Expected years of schooling (years)	GNI per capita* (US\$)
Lebanon	80	7.9	13.2	16,263
Arab States	70.2	6.3	11.8	15,817
World	70.8	7.7	12.2	13,723

\*At 2011 Purchasing Power Parity rate

Source: UNDP, Byblos Research

### Occupancy rate at Beirut hotels at 49%, room yields down 20% in first half of 2014

EY's benchmark survey of the Middle East hotel sector indicated that the average occupancy rate at hotels in Beirut was 49% in the first half of 2014, down from 58% in the same period last year and compared to an average rate of 64.2% in 13 Arab markets. The occupancy rate at Beirut hotels was, along with Manama, the third lowest in the region in the covered period, unchanged from the first half of 2013. Cairo posted the lowest occupancy rate of 29% in the first half of 2014, followed by Kuwait City with an occupancy rate of 48%. Also, the occupancy rate at hotels in Beirut fell by nine percentage points year-on-year, constituting the second steepest decrease among the 13 Arab markets, and relative to an average increase of 0.8 percentage points for the region. Occupancy rates at Beirut hotels were 36% in January, 42% in February, 41% in March, 52% in April, 63% in May and 67% in June 2014; compared to 50% in January, 60% in February, 59% in March, 64% in April, 59% in May and 55% in June 2013.

The average rate per room at Beirut hotels was \$160 in the first half 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 6.4% year-on-year and posted the third steepest decline among all markets in the region, better than only Madina (-9.4%) and Makkah (-17.4%). The average rate per room in Beirut came below the regional average of \$195.7, which decreased marginally by 0.4% from the same period of 2013.

Further, revenues per available room (RevPAR) were \$80 in Beirut in the first half of 2014, down from \$99 in the same period of 2013, and came in 11th place in the region, higher than only Sharm El Sheikh (\$25) and Cairo (\$24). Beirut's RevPAR fell by 19.8% year-on-year and posted the steepest decrease among Arab markets. Beirut posted RevPARs of \$60 in January, \$65 in February, \$62 in March, \$82 in April, \$97 in May and \$120 in June 2014 compared to \$87 in January, \$101 in February, \$99 in March, \$108 in April, \$102 in May and \$101 in June 2013. Kuwait City posted the highest average room rate in the region at \$335, while Dubai posted the highest occupancy rate of 84% and the highest room yield of \$244 in the first half of 2014.

### Consumer Price Index down 0.7% in June 2014

The Central Administration of Statistics' (CAS) Consumer Price Index for Lebanon decreased by a marginal 0.7% in June 2014 from May 2014 compared to a month-on-month decline of 0.3% in May 2014. The cost of housing, water, electricity, gas & other fuels increased by 2% month-on-month in June 2014, followed by recreation & entertainment costs (+0.6%), furnishing & household equipment (+0.3%) and miscellaneous goods & services (+0.2%); while communication costs fell by 20.9%, followed by clothing & footwear (-1.9%), food and non-alcoholic beverages (-0.6%), health care and transportation costs (-0.3% each) and alcoholic beverages & tobacco (-0.1%). Further, the cost of education and prices of restaurants & hotels were unchanged month-on-month in June 2014. Imputed, new and old rents were unchanged from the preceding month.

Regionally, the CPI decreased by 0.7% in the Bekaa region, followed by Nabatieh (-0.6%), Beirut (-0.5%), the South and Mount Lebanon (-0.3% each) and the North (-0.2%). Prices of food & non-alcoholic beverages increased by 0.6% in the South, while they fell by 1.5% in each of Nabatieh and the Bekaa, followed by Mount Lebanon (-0.8%) and Beirut and the North (-0.2% each). The cost of housing, water, electricity, gas & other fuels rose across all region, while transportation costs, healthcare and communication prices fell across regions. The prices of clothing & footwear decreased by 2.7% in Mount Lebanon, by 2.2% in Beirut and by 2% in the North, while they increased by 0.2% in the South and remained unchanged in each of the Bekaa and Nabatieh.

### Customs receipts down 11% to \$657m in first half of 2014

Figures released by the Customs Directorate indicate that customs revenues reached \$656.9m in the first half of 2014, constituting a decrease of 11.3% from \$740.3m in the same period last year. The Port of Beirut continues to be the main point of customs receipts, as it accounted for 87.9% of the total in the first half of the year. It was followed by the Hariri International Airport with 7.8%, the Port of Tripoli with 3.1%, the Port of Saida with 0.6%, the Masnaa crossing point with 0.5% and the Port of Tyre with 0.1%. Customs receipts from the value added tax totaled \$674.9m in the first half of 2014, reflecting a decrease of 1.4% from \$684.4m in the same period of 2013. The Port of Beirut accounted for 82.1% of such receipts, and was followed by the Hariri International Airport with 10.8%, the Port of Tripoli with 4%, the Masnaa crossing point with 2%, the Port of Saida with 0.9% and the Port of Tyre and the crossing points of both Abboudieh and Arida with 0.1% each. As such, overall customs receipts reached \$1.3bn in the first half of 2014, with the Port of Beirut accounting for 84.9% of the total, followed by the Hariri International Airport with 9.3%, the Port of Tripoli with 3.6%, the Masnaa crossing point with 1.3% and the Port of Saida with 0.7%; while other entry points represented the balance.

#### Hotel Performance in First Half of 2014

	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Dubai	84	244	1.5%
Abu Dhabi	81	164	(4.7%)
Madina	80	141	4.8%
Jeddah	78	213	9.4%
Doha	73	173	7.3%
Riyadh	73	160	10.4%
Makkah	72	115	(8.9%)
Amman	66	108	8.5%
Sharm El Shaikh	53	25	(17.0%)
Manama	49	103	7.2%
<b>Beirut</b>	<b>49</b>	<b>80</b>	<b>(19.8%)</b>
Kuwait City	48	163	(9.2%)
Cairo	29	24	(7.4%)

Source: EY, Byblos Research

### **Central Bank to support the government's foreign currency needs, calls for stricter monitoring of deposit flows**

In the monthly meeting between the Central Bank and the Association of Banks in Lebanon (ABL), Governor Riad Salamé indicated that deposit inflows into the banking sector improved in June and forecast total deposits to grow by about 5% to 6% in 2014. He noted that the expected growth rate in deposits supports the stability of interest rates and of the foreign exchange market.

Governor Salamé responded to media reports that the government is running out of funds to pay its expenditures by pointing out that government deposits at the Central Bank are high enough to meet the government's financing needs without the Bank's intervention. He added that the Central Bank agreed to provide the government with the necessary funds in foreign currency to settle the latter's obligations in foreign currency, given that the government reached its borrowing ceiling and requires Parliament's authorization for such borrowing. He considered that supporting the government's needs in foreign currency would not weaken the Central Bank's balance sheet, and added that the Bank decided to increase the issuance of Certificate of Deposits in foreign currency and to accept additional bank deposits in foreign currency despite the high interest rates on such deposits. He said that this process would continue until the current constitutional vacuum is filled.

Further, Governor Salamé indicated that the designation of the Cyprus-based FBME Bank as a primary money laundering concern by the U.S. Treasury Department would not have any implications on the Federal Bank of Lebanon. He said that the Saab Financial Group owns FBME Bank and the Federal Bank of Lebanon, but he noted that the Federal Bank of Lebanon is an independent entity and is compliant with the requirements of the Lebanese monetary and regulatory authorities. He called for greater diligence and for stricter monitoring of the movement of funds in the Lebanese banking sector, given the costly fines that would ensue on non-compliant banks. He encouraged Lebanese banks to communicate with correspondent banks and their compliance units in order to avoid unexpected decisions. He expected global monitoring and compliance requirements to become stricter, which is requiring banks to take all the necessary measures and to strengthen their technical procedures. He called for higher scrutiny, especially when opening a new bank account, and said that banks should not accept clients that were refused by other banks operating in Lebanon.

In parallel, the ABL indicated that the Public Housing Corporation (PHC) has not paid its obligations to Lebanese banks since 2012 as per the protocol signed between the PHC and the ABL. It expressed concerns about the rising deficit at the PHC. It suggested to securitize PHC's customer loans and for banks to buy these loans through low-interest loans from the Central Bank or by freeing reserve requirements at the Bank. However, Governor Salamé declined the ABL's suggestion, given that the Bank is not part of the protocol signed between the two entities. He added that the Central Bank would not provide banks with additional liquidity other than what it offered through its stimulus package. Governor Salamé and the ABL agreed that the latter would seek to change the terms of the protocol signed with the PHC, which would result in clients paying back the loan and the interest rates directly to the bank under a new payment schedule. They also concluded that banks should be more cautious about extending additional loans under the protocol signed with the PHC until this issue is resolved.

## Corporate Highlights

### **Byblos Bank's profits at \$70m in first half of 2014, NPLs ratio at 0.8%**

Byblos Bank sal, one of the top banking and financial services groups in Lebanon, declared unaudited consolidated net profits of \$69.5m in the first half of 2014 relative to \$75.7m in the same period last year. Net interest income reached \$117.4m in the first half compared to \$119.2m in the same period of 2013; while net fees & commission income stood at \$44.4m relative to \$42.7m in the first half of 2013. Net operating income totaled \$199.3m in the first half of 2014, constituting a rise of 2% from \$195.4m in the same period of last year. The Bank's cost-to-income ratio was 51.7% in the first half of the year relative to 43.9% in the same period of 2013.

Total assets reached \$18.63bn at the end of June 2014, constituting a rise of 0.8% from the end of 2013; while net loans & advances to customers grew by 2.3% from end-2013 to \$4.6bn at end-June. Net loans & advances to related parties stood at \$14.8m at end-June 2014, up by 7.3% from end-2013. The Bank's net non-performing loans, which represent NPLs net of specific provisions and reserved interest, reached 0.8% of net loans at the end of June 2014, all of which are fully covered when collective provisions are taken into account. Also, the NPLs' coverage ratio reached 126% when accounting for specific and collective provisions and reserved interest. The Bank's capital adequacy ratio stood at 16% at end-2013 according to Basel III criteria, which is above the 12% minimum regulatory requirement and one of the highest such ratios in the sector.

Customer deposits totaled \$15.1bn and increased by 3.4% from the end of 2013, while deposits from related parties rose by 15.7% to \$212.1m at end-June. The Bank's shareholders' equity totaled \$1.6bn at end-June 2014. The Byblos Bank Group has a direct presence in Iraq, Syria, Sudan, the United Arab Emirates, Nigeria, Armenia and the Democratic Republic of Congo, as well as in Belgium, France, the United Kingdom and Cyprus.

### **Stock market activity up 34% to \$247m in first seven months of 2014**

Figures released by the Beirut Stock Exchange indicate that total trading volume reached 33.5 million shares in the first seven months of 2014, constituting an increase of 19.5% from the same period of 2013, while aggregate turnover amounted to \$247m, up 33.7% from a turnover of \$184.7m in the first seven months of 2013. Market capitalization increased by 3.6% from end-July 2013 to \$10.94bn, of which 78.3% was in banking stocks, followed by real estate stocks with 18.7%, industrial stocks with 2.7% and trading stocks with 0.3%. The market liquidity ratio was 2.3% compared to 1.7% in the first seven months of 2013. Banking stocks accounted for 86.3% of aggregate trading volume in the first seven months of the year, followed by real estate stocks with 13.3%, trading with 0.3% and industrial stocks with 0.1%. Also, banking stocks accounted for 67% of the aggregate value of traded shares, followed by real estate stocks with 23.5%, and trading and industrial stocks with 0.1% each. The average daily traded volume for the period was 238,990 shares for an average daily value of \$1.8m. The figures reflect increases of 21.2% in volume and 35.6% in value year-on-year.

### **Car sales up 8% in first half of 2014**

Figures released by the Association of Automobile Importers in Lebanon (AIA) indicate that a total of 18,388 new passenger cars were sold in the first half of 2014, constituting an increase of 7.5% from the 17,110 cars sold in the same period last year. Korean cars accounted for 43.6% of total sales, followed by Japanese cars with a 32.6% share, European automobiles with 17.8%, American vehicles with 4.5%, and Chinese cars with 1.4%. The number of Japanese cars sold rose by 42.8% year-on-year, constituting the highest rise in new car sales; while the number of new Chinese cars sold declined by 13.5% from the same period of last year, followed by American vehicles with a 13.3% fall, European automobiles with a 5.3% decrease and Korean cars with a 2% drop in sales. Kia is the leading brand in the Lebanese market with 4,445 cars sold in the first half of 2014, followed by Hyundai with 3,576, Nissan with 2,402 cars sold, Toyota (2,110), Renault (638), Mitsubishi (521) and Chevrolet (423). In parallel, 1,167 new commercial vehicles were sold in the first half of 2014, constituting a drop of 2.5% from 1,197 vehicles sold in the same period of last year and a marginal increase of 0.6% from 1,160 vehicles sold in the first half of 2012.

The number of new vehicles sold by the country's top five distributors reached 14,471 in the first half of 2014 and accounted for 74% of new vehicles sold. NATCO sal sold 4,445 vehicles in the covered period, equivalent to 22.7% of the total, followed by Century Motor Co. sal with 3,665 (18.7%), Rasamny Younis Motor Co. sal with 2,633 (13.5%), Boustany United Machineries sal with 2,324 (11.9%), and Bassoul Heneine sal with 1,404 (7.2%). The AIA indicated that the combined number of registered new and imported used cars in the first half of 2014 remained nearly unchanged from the first half of 2013, but decreased by 8.2% from the same period of 2012. It said that the luxury car segment accounted for only 3.5% of total new registered cars. It reiterated that about 90% of new cars sold were small automobiles that cost on average about \$11,000 each.

### **Launch of \$25m fund to support job creation in Tripoli**

Former Prime Minister Najib Mikati announced the launch of a \$25m venture capital fund named Theemar Tripoli Fund, in July 2014. The fund aims to promote economic development and create job opportunities in Tripoli. Theemar plans to invest between \$250,000 and \$2m per firm in Tripoli-based start-ups and scale-ups, particularly in the information & communications technology sector, creative industries, the food & beverage industry, as well as in the green and healthcare sectors. In addition, the fund aims to invest in 20 to 30 companies, and targets an internal rate of return between 20% and 30% contingent on the portfolio's sector distribution. Theemar expects to actively manage its portfolio of companies by offering operational and managerial assistance and expertise, among others, when necessary. Also, the fund intends to hold its investments for a five-year period.



### Aggregate profits of publicly-listed banks up 3% in first half of 2014

Financial results issued by the six banks listed on the Beirut Stock Exchange show that their aggregate net profits reached \$545.6m in the first half of 2014, constituting a rise of 3.1% from net earnings of \$529.2m in the same period of last year. The banks' net profits reached \$290.9m in the second quarter of 2014 compared to \$278.6m in the same quarter of last year and relative to \$254.8m in the first quarter of 2014. Further, the banks' aggregate pre-tax profits grew by 4.3% year-on-year to \$676.3m in the first half of 2014. The aggregate net interest income of publicly-listed banks reached \$948.8m in the first half of 2014, up 12.9% from \$840.5m in the same period of 2013; while their total net fees and commission income increased by 15.3% to \$276.8m year-on-year. The total operating income of the banks reached \$1.53bn in the first half of 2014, up 2% from \$1.5bn in the same period of 2013. In parallel, the banks' aggregate assets rose by 5.1% from end-2013 and by 12% from end-June 2013 to \$106.2bn; while their total loans, including those to related parties, grew by 6.8% from end-2013 and by 19.1% from end-June 2013 to \$34bn. Also, the banks' total deposits, including those from related parties, increased by 5.5% from end-2013 and by 11.5% from end-June 2013 to \$88.85bn.

Also, the six banks' aggregate loans-to-deposits ratio stood at 38.3% at the end of June 2014, up from 37.8% at end-2013 and from 35.8% at end-June 2013. BLOM Bank posted the lowest loans-to-deposits ratio at 28.8% compared to 27.2% at end-June 2013; followed by Byblos Bank with a ratio of 30.2% relative to 29.2% a year earlier, Bank of Beirut with 38.1% relative to 37.7% at end-June 2013; BLC Bank with 44.5% compared to 42.1% a year earlier; Bank Audi with 47.2%, up from 43.6% at end-June 2013; and Banque BEMO with a 51.3% ratio, up from 48.2% at end-June 2013. Further, the banks' collective cost-to-income ratio stood at 50.3% in the first half of 2014 and increased from 44.8% in the same period last year. BLOM Bank posted the lowest cost-to-income ratio at 39.8% in the first half of 2014 compared to 35.5% at end-June 2013. It was followed by Bank of Beirut with 47.8%, down from 48.3% in the first half of 2013; Byblos Bank with a ratio of 51.7% relative to 43.9% in the first half of the previous year; BLC Bank with 53.3% compared to 57.2% in the first half of 2013; Bank Audi with 56.6%, up from 49.3% in the first half of the preceding year; and Banque BEMO with a 69% ratio, up from 68.6% in the first half of last year.

#### Results of Listed Banks in First Half 2014

	Byblos	BLOM	Audi	BoB	BEMO	BLC
Net Profits	\$69.5m	\$179.2m	\$189.8m	\$77.9m	\$5.98m	\$23.27m
% Change*	(8.1%)	1.9%	0.9%	12.8%	93.3%	33.2%
Total Assets	\$18.63bn	\$27.37bn	\$39.26bn	\$13.99bn	\$1.52bn	\$5.47bn
% Change**	0.8%	4.7%	8.5%	2.7%	2.1%	6.6%
Loans	\$4.62bn	\$6.76bn	\$16.03bn	\$4.0bn	\$0.65bn	\$1.94bn
% Change**	2.4%	6.5%	9%	5.4%	6.8%	3.4%
Deposits	\$15.27bn	\$23.48bn	\$33.96bn	\$10.51bn	\$1.27bn	\$4.36bn
% Change**	3.6%	4%	9.2%	1.9%	4.7%	1.3%

\*Year-on-year

\*\*Change from end-2013

Source: Banks' financial statements, Byblos Research

### RYMCO to distribute dividends for 2013, payout ratio at 66%

The Ordinary General Assembly of automobile dealer Rasamny Younis Motor Co. sal (RYMCO) held on June 26, 2014 approved the distribution of LBP3.77bn, or \$2.5m, in dividends to common shareholders for 2013. The dividend distribution is equivalent to a payout ratio of 66.1% and to LBP138 (\$0.09) per share. The dividends will be paid net of a 5% withholding tax for publicly-listed shares and net of a 10% tax for those that are not publicly listed. In parallel, the Ordinary General Assembly decided to grant an annual net remuneration of \$12,000 for each member of the Board of Directors for the financial year 2014, contingent on attending 60% or more of the meetings.

RYMCO announced audited consolidated net profits of \$3.8m in 2013, constituting a rise of 64.3% from 2012. The firm's consolidated assets reached \$157.8m at the end of 2013, reflecting an increase of 3.2% from a year earlier. The company's consolidated inventories, which mostly consist of cars and spare parts, reached \$57.2m at end-2013, constituting a rise of 14.2% year-on-year. Total shareholders' equity reached \$52m at end-2013, reflecting a decline of 1.1% from the preceding year. RYMCO is the only car retailer listed on the Beirut bourse with 10.92 million shares outstanding. Its share price closed at \$3.19 on August 1, 2014, down by 8.9% from \$3.5 at end-2013.

### **Electronics distribution firm raises funds through securitization**

CTC sal, a distributor of electronic products in Lebanon, raised \$7m through a revolving securitization transaction of \$8.24m in trade receivables. The securitization fund, SS-Fund 3 SIF, issued two classes of notes, with \$5m in senior Class A having an expected weighted average life of 4.1 years; and \$2m worth of Class B notes that are subordinated to Class A notes with a weighted average life of 4.3 years. Class A Investors will receive an annual fixed coupon rate that is 125 basis points lower than those of Class B holders. The coupon payments will be paid to investors on a quarterly basis. The transaction was authorized by the Capital Markets Authority and was fully subscribed to by local investors. In addition, the deal provides for a four-year replenishing period during which additional receivables could be financed through the structure, bringing the total expected financing provided to CTC over the life of the transaction to about \$70m. The deal represents the second time that CTC sal has tapped the securitization market. Established in 1978, CTC is the exclusive distributor of Samsung Electronics in Lebanon. CTC sal is part of AC Holding, a Lebanese private group held by the Cherfane family. The deal was structured, arranged and led by BSEC, a wholly-owned subsidiary of Banque BEMO sal, in cooperation with FFA Private Bank sal.

### **NECB's net profits down 38% to \$0.9m in 2013**

The Near East Commercial Bank sal (NECB) announced audited net profits of \$0.86m in 2013, down by 38.4% from net earnings of \$1.4m in 2012. Total operating income grew by 32.8% year-on-year to \$12.9m in 2013, with net interest income increasing by 29.9% to \$7.3m and net fees & commissions receipts rising by 39.4% to \$3.7m. In parallel, the bank's total operating expenditures rose by 9.8% to \$11.4m, with staff expenses growing by 6.9% to \$6.7m and administrative expenses increasing by 13.8% to \$4.1m. As such, the cost-to-income ratio decreased to 88.2% in 2013 from 106.7% a year earlier. The bank's return on assets reached 0.22% in 2013 relative to 0.37% in the preceding year, while its return on equity was 1.7% last year compared to 5.64% in 2012.

In parallel, total assets reached \$397.3m at the end of 2013, constituting a rise of 4.8% from end-2012; while loans & advances to customers, excluding loans & advances to related parties, decreased marginally by 0.5% to \$87.5m. Also, customer deposits, excluding deposits from related parties, totaled \$315.7m at end-2013, reflecting a decline of 1.4% from a year earlier. The loans-to-deposits ratio reached 27.5% at end-2013 compared to 26% at end-2012. The bank's total shareholders' equity rose by 104.1% from end-2012 to \$50.7m at end-2013. NECB's shareholders are Saradar Holding sal with a 51% stake, followed by the Swiss-based Wiederkehr Group with a 39% share and Mr. Carlos Ghosn with a 9% stake.

In July 2014, NECB and Banque de L'Industrie et du Travail sal announced their merger to form a new entity named BIT Bank sal. The shareholders of NECB will hold 51% of the new bank's capital, while the shareholders of Banque de L'Industrie et du Travail will hold the remaining 49%. BIT Bank's total capital will stand at \$200m. BIT Bank will have a total of 19 branches across the country that consist of Banque de L'Industrie et du Travail's 13 branches and NECB's six branches. The deal is subject to the approval of the Central Bank of Lebanon. The latter will withdraw NECB's license following the completion of the merger.

### **North Assurance's income at \$1.2m in 2013**

North Assurance sal announced audited net profits of \$1.2m in 2013, constituting an increase of 59.2% from net earnings of \$0.7m in 2012. Its audited balance sheet shows total assets of \$27.4m at the end of 2013, up 0.7% from \$27.2m at end-2012. On the assets side, general company investments totaled \$17.8m at end-2013 and increased by 4.1% from a year earlier. They included \$9.9m in land and real estate investments, \$5m in cash & cash equivalents and \$2.2m in blocked bank deposits and deposits with maturity of more than three months, the majority of which were blocked in favor of the Economy Ministry as guarantees. Also, reinsurance share in technical reserves for the life and non-life categories amounted to \$87,929 and \$1m, respectively, constituting decreases of 81.3% and 16% respectively.

On the liabilities side, technical reserves for the life segment decreased by 68.2% year-on-year to \$0.2m, while technical reserves for the non-life category reached \$12.4m at end-2013 and dropped by 2% from a year earlier. Non-life technical reserves included unearned premium reserves of \$8.6m that declined by 3.8%, outstanding claims reserves of \$2.4m that decreased by 2.4% year-on-year, and \$1.1m in premium deficiency reserves that remained unchanged year-on-year. Provisions for risks and charges reached \$0.2m and increased by 5.9% from the previous year. Also, the firm's shareholders' equity totaled \$10.6m at end-2013, up by 10.1% from \$9.6m a year earlier.

*Al-Bayan* magazine's annual survey of the insurance sector in Lebanon ranked North Assurance in 27th and 24th place in 2013 in terms of life and non-life premiums, respectively. The firm's life premiums reached \$0.6m, unchanged from a year earlier; while its non-life premiums amounted to \$10.8m, constituting an increase of 6.3% year-on-year. It had a 0.2% share of the life market and a 1.1% share of the local non-life market.

## 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	58.9	150
Public Debt in Local Currency / GDP	81.7	78.3	84.3	600
Gross Public Debt / GDP	133.9	135.7	143.2	750
Total Gross External Debt / GDP	169.2	170.0	176.7	670
Trade Balance / GDP	(39.7)	(39.5)	(39.0)	50
Exports / Imports	21.2	21.1	18.6	(250)
Fiscal Revenues / GDP	23.3	22.1	21.3	(80)
Fiscal Expenditures / GDP	29.1	31.3	30.8	(50)
Fiscal Balance / GDP	(5.9)	(9.2)	(9.5)	(30)
Primary Balance / GDP	4.2	(0.3)	(0.5)	(20)
Gross Foreign Currency Reserves / M2	79.2	69.4	69.6	20
M3 / GDP	242.6	244.6	250.8	620
Commercial Banks Assets / GDP	350.7	357.2	371.9	1,470
Private Sector Deposits / GDP	288.7	294.0	307.3	1,330
Private Sector Loans / GDP	98.3	102.2	106.9	470
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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