



LEBANON THIS WEEK

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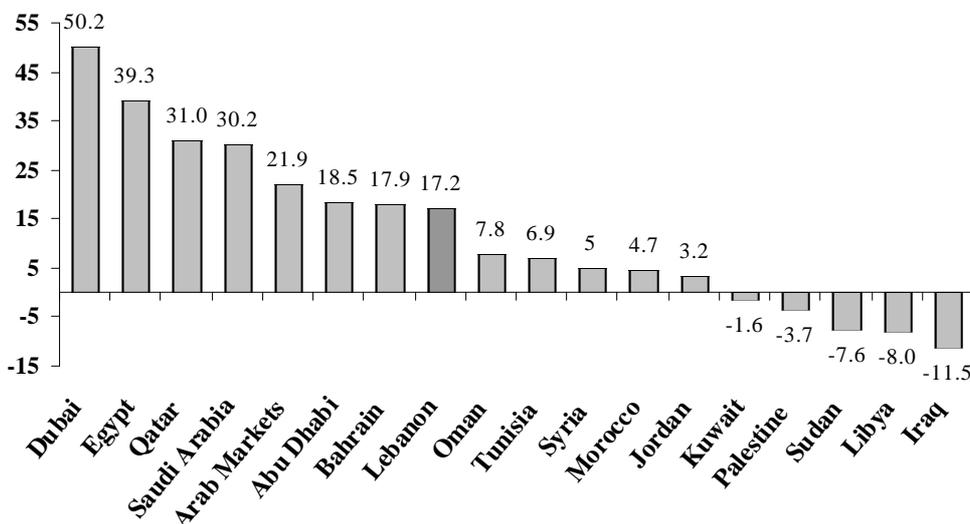
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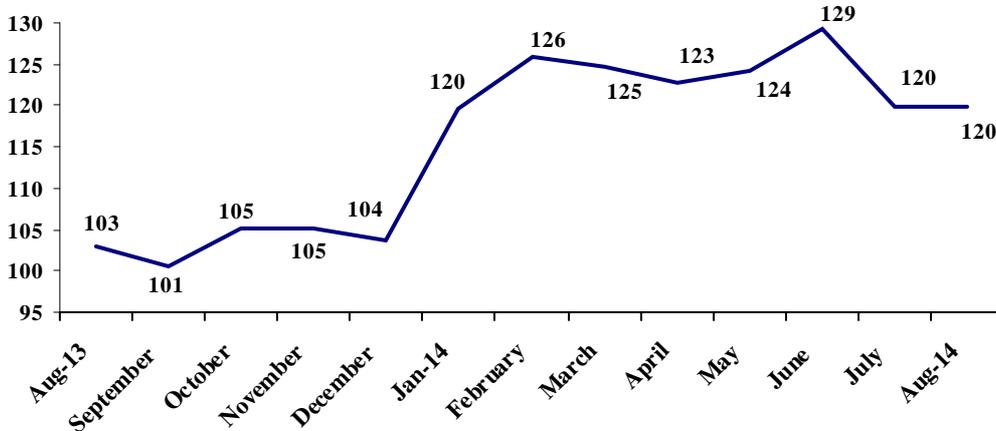
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Charts of the Week

Performance of Arab Stock Markets in the First Eight 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

"The political infighting is diverting attention away from the significant economic challenges facing the country."

Global risk consultants Dun & Bradstreet, on the opportunity costs of institutional paralysis in Lebanon

Number of the Week

1.18 million: Number of Syrian refugees in Lebanon who registered or are awaiting registration with the Office of the UN High Commissioner for Refugees as of August 29, 2014

Economic Indicators

\$m (unless otherwise mentioned)	2013	Mar 13	Dec 13	Jan 14	Feb 14	Mar 14	% Change*
Exports	3,936	406	243	244	253	275	(32.27)
Imports	21,228	2,076	1,797	1,873	1,732	1,792	(13.68)
Trade Balance	(17,292)	(1,669)	(1,554)	(1,629)	(1,479)	(1,517)	(9.16)
Balance of Payments	(1,128)	(353)	534	(31)	194	139	(139.38)
Checks Cleared in LBP	17,047	1,286	1,562	1,502	1,394	1,520	18.27
Checks Cleared in FC	55,321	4,472	4,728	4,783	4,279	4,671	4.45
Total Checks Cleared	72,368	5,758	6,290	6,285	5,673	6,191	7.53
Budget Deficit/Surplus	(4,220)	(484.93)	(238.09)	(119.34)	(125.38)	(595.29)	22.76
Primary Balance	(239.68)	(75.10)	171	142.38	23.91	(128.09)	70.57
Airport Passengers	6,265,470	502,923	510,367	450,476	376,106	430,979	(14.31)

\$bn (unless otherwise mentioned)	2013	Mar 13	Dec 13	Jan 14	Feb 14	Mar 14	% Change*
BdL FX Reserves	31.71	30.36	31.71	32.25	33.40	33.63	10.77
<i>In months of Imports</i>	<i>17.65</i>	<i>14.62</i>	<i>17.65</i>	<i>17.64</i>	<i>19.28</i>	<i>18.77</i>	<i>28.33</i>
Public Debt	63.46	57.79	63.46	17.22	64.99	65.20	12.74
Net Public Debt	53.18	50.09	53.18	53.47	53.91	54.37	8.54
Bank Assets	164.82	155.44	164.82	164.43	166.01	166.50	7.12
Bank Deposits (Private Sector)	136.21	128.11	136.21	134.86	135.71	136.55	6.59
Bank Loans to Private Sector	47.38	44.71	47.38	47.04	47.39	48.14	7.67
Money Supply M2	45.60	43.76	45.60	45.74	46.05	46.34	5.90
Money Supply M3	111.16	105.85	111.16	110.93	111.67	112.29	6.08
LBP Lending Rate (%)	7.29	7.28	7.29	7.39	7.14	7.26	(2bps)
LBP Deposit Rate (%)	5.44	5.44	5.44	5.48	5.51	5.48	4bps
USD Lending Rate (%)	6.88	6.95	6.88	6.82	6.96	6.87	(8bps)
USD Deposit Rate (%)	2.95	2.97	2.95	2.95	2.96	2.96	(1bps)
%* Change in CPI**	3.89	4.57	3.89	2.52	0.86	(0.23)	(480bps)

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

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

Sources: ABL, BdL

Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization	Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Solidere "A"	12.56	(0.48)	113,360	11.54%	Jan 2015	5.875	100.90	3.35
Solidere "B"	12.61	0.72	13,728	7.53%	Apr 2015	10.000	104.13	3.44
Byblos Common	1.64	1.23	35,902	5.42%	Jan 2016	8.500	106.60	3.54
Byblos Pref. 08	100.60	(0.40)	1,800	1.85%	Mar 2017	9.000	112.50	3.80
Byblos Pref. 09	100.10	(0.40)	1,015	1.84%	Nov 2018	5.150	101.50	4.75
BLOM GDR	9.35	0.00	45,854	6.35%	May 2019	6.000	104.00	5.03
BLOM Listed	8.75	0.00	56,986	17.28%	Mar 2020	6.375	105.60	5.19
Audi GDR	6.30	0.00	19,030	5.93%	Apr 2021	8.250	115.88	5.36
Audi Listed	6.09	(2.87)	50,126	19.57%	Oct 2022	6.100	102.50	5.71
HOLCIM	14.50	(3.33)	1,313	2.60%	Nov 2026	6.600	103.50	6.19

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

Source: Byblos Bank Capital Markets

	Sep1-5	Aug 25-29	% Change	Aug 2014	Aug 2013	% Change
Total Shares Traded	344,614	3,456,537	(90.03)	6,941,456	1,136,561	510.74
Total Value Traded	\$3,513,192	\$14,171,758	(75.21)	\$42,076,299	\$13,445,987	212.93
Market Capitalization	\$10.89bn	\$10.95bn	(0.57)	\$10.95bn	\$10.40bn	5.32

Source: Beirut Stock Exchange (BSE)



Lebanon ranks 113th globally, 11th among Arab countries in global competitiveness

The World Economic Forum ranked Lebanon in 113th place among 144 countries globally and in 11th place among 15 Arab countries on its Global Competitiveness Index for 2014-15. It also ranked in 34th place among 37 upper-middle income countries (UMICs) included in the survey. Lebanon came in 103rd place globally, in 11th place regionally, and in 30th place among UMICs in the 2013-14 survey. Lebanon's global rank regressed by 10 spots from the previous survey, constituting the seventh steepest decline globally. The only countries that posted a steeper decline in their rankings are Libya (-18 spots), Guyana (-15 spots), Oman (-13 spots), Seychelles and Laos (-12 spots each) and India (-11 spots). Also, Lebanon ranked in 91st place globally and in ninth place regionally in the 2012-13 survey.

The index measures national competitiveness and highlights the country's micro and macroeconomic foundations. It measures a country's and its enterprises' ability to compete in global markets based on the quality of its institutions, infrastructure, macroeconomic environment, education and healthcare systems, as well as on the country's capacity for innovation and overall market efficiency, and the sophistication of domestic markets and local business practices. The index is based on 12 pillars that are grouped in three sub-indices that measure Basic Requirements, Efficiency Enhancers, and Innovation & Sophistication factors.

Global Competitiveness Index 2014-15			
	Overall Score	Arab Rank	Global Rank
UAE	5.33	1	12
Qatar	5.24	2	16
Saudi Arabia	5.06	3	24
Kuwait	4.51	4	40
Bahrain	4.48	5	44
Oman	4.46	6	46
Jordan	4.25	7	64
Morocco	4.21	8	72
Algeria	4.08	9	79
Tunisia	3.96	10	87
Lebanon	3.68	11	113
Egypt	3.60	12	119
Libya	3.48	13	126
Mauritania	3.00	14	141
Yemen	2.96	15	142

Source: World Economic Forum, Byblos Research

Globally, the Lebanese economy is considered to be more competitive than the economies of Cape Verde, Côte d'Ivoire and Cameroon, and less competitive than those of Senegal, Ghana and Suriname. Also, it is considered to be more competitive than the economies of only Libya, Venezuela and Angola among UMICs. Lebanon received a score of 3.68 points, down from 3.77 points in last year's survey, and lower than the global average of 4.21 points, the UMICs' average of 4.13 points, the Arab average of 4.15 points, the GCC average score of 4.85 points and that of non-GCC Arab countries of 3.69 points. Lebanon's score fell for the third consecutive year, as it declined from 3.95 points in the 2011-12 index to 3.88 points in the 2012-13 index and to 3.77 points in the 2013-14 survey.

The World Economic Forum indicated that Lebanon ranked well in its assessments of healthcare and primary education, higher education & training, goods market efficiency, business sophistication, and market size. However, it continues to rank poorly in terms of infrastructure, macroeconomic stability, the supporting institutional environment, labor market efficiency, and innovation.

Lebanon ranked ahead of Mali and Madagascar and came behind Uganda and the Gambia on the Basic Requirements Sub-Index, which covers institutions, infrastructure, the macroeconomic environment and health & primary education. Lebanon's global rank regressed by one spot and its score retreated by 2.2% on the sub-index from last year's survey. Further, Lebanon ranked ahead of only Venezuela and Angola among UMICs; while it came ahead of only Mauritania and Yemen among Arab countries.

Also, Lebanon ranked ahead of Zambia and Armenia, and came behind Botswana and Kuwait on the Efficiency Enhancers Sub-Index that covers higher education & training, the market efficiency of goods and labor, financial market development, technological readiness and market size. Lebanon's global rank worsened by 10 spots and its score decreased by 2.8% on the sub-index from last year's survey. Lebanon ranked ahead of the Dominican Republic and Argentina and came behind Serbia and Botswana among UMICs; while it came ahead of only Tunisia, Egypt, Algeria, Libya, Yemen and Mauritania in the Arab world.

Further, Lebanon ranked ahead of Iran and Nigeria and came behind Peru and Armenia on the Innovation & Sophistication Sub-Index, which covers business sophistication and innovation. Lebanon's worldwide rank regressed by 11 spots and its score retreated by 2.1% on the sub-index from last year's survey. Lebanon ranked ahead of Iran and Bulgaria and came behind Argentina and Peru among UMICs; while it came ahead of Egypt, Algeria, Yemen, Mauritania and Libya in the Arab world.

Components of the 2014-15 Global Competitiveness Index for Lebanon							
Category	Global Rank	Arab Rank	UMIC Rank	Lebanon Score	Global Average Score	Arab Average Score	UMIC Average Score
Basic Requirements	127	13	35	3.55	4.55	4.65	4.47
Efficiency	85	9	24	3.86	4.08	3.91	3.98
Innovation & Sophistication	101	10	26	3.33	3.75	3.55	3.49

Source: World Economic Forum, Byblos Research



Lebanon ranks third as exporter and sixth as importer in terms of export credit insurance contracts

Figures issued by the Arab Investment & Export Credit Guarantee Corporation (Dhaman) indicate that Lebanon ranked third among nine Arab countries in the value of overall export credit insurance contracts signed in 2013. Dhaman provides insurance coverage to Arab and non-Arab investments to its member countries against non-commercial risks, as well as insurance against commercial and non-commercial risks for inter-Arab and worldwide Arab export credits. Lebanon signed \$102.1m worth of export credit insurance contracts issued by Dhaman in 2013, which accounted for 6.8% of the total value of Dhaman contracts worldwide and for 9.5% of the total in the Arab world. Lebanon came behind Saudi Arabia that signed \$547.5m worth of contracts, or 51.1% of the regional total and Kuwait with \$217.6m (20.3%). Also, Lebanon signed more export credit insurance contracts than the UAE with \$87.8m (8.2%), Jordan with \$55.2m (5.2%), Syria with \$33.8m (3.2%), Egypt with \$22.3m (2.1%), Tunisia with \$4.2m (0.4%) and Palestine with \$0.7m (0.1%).

In parallel, Lebanon ranked in sixth place among 18 Arab countries in the value of overall import credit insurance contracts issued by Dhaman in 2013. It signed \$79.3m worth of such contracts last year, representing 6.1% of the global value of import credit insurance contracts and 7.4% of the total in the Arab world. The value of contracts signed by Lebanon was lower than only Egypt, which signed \$207.9m worth of import credit contracts (19.5% of the regional total), the UAE with \$103m (9.6%), Saudi Arabia with \$99.2m (9.3%), Libya with \$92.2m (8.6%) and Algeria with \$83.4m (7.8%).

Further, Lebanon had \$32.7m in total current export credit insurance contracts issued by Dhaman as at the end of 2013, which accounted for 8.3% of global current contracts and for 10.9% of total current contracts of Arab countries. Lebanon ranked in sixth place among 17 Arab countries in terms of current contracts, behind only Algeria with \$52.5m (17.5%), Libya with \$45.7m (15.2%), Sudan with \$44.2m (14.7%), Yemen with \$41.3m (13.7%) and Syria with \$35.3m (11.7%).

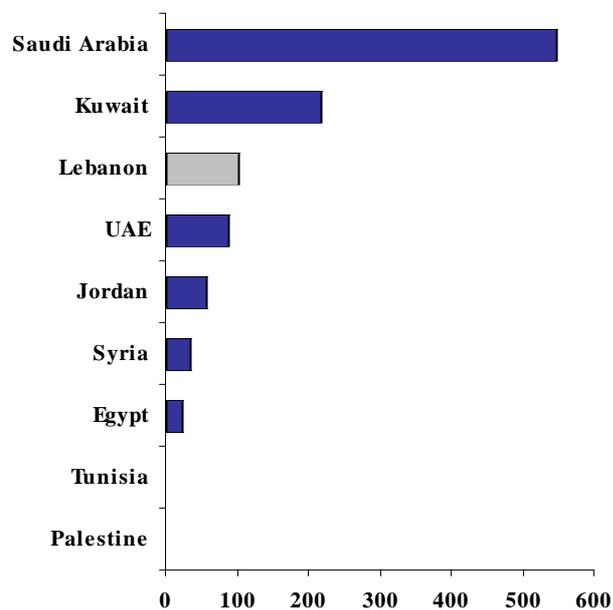
Confidence is key to stability of monetary and financial markets

Central Bank Governor Riad Salamé projected real GDP growth in Lebanon to range between 1.5% and 2% in 2014 despite the challenging domestic political and security conditions, and anticipated that the average inflation rate would not exceed 4% this year. He said that sustained confidence constitutes a key element in preserving economic and financial stability in the country as well as in stimulating economic activity. He indicated that the monetary situation in the country is stable, adding that markets did not register requests to convert deposits from Lebanese pounds to the US dollar. He noted that this reflects confidence in the Lebanese economy. He expected the currency to remain stable, adding that the Central Bank will continue to intervene in the market to preserve the stability of the currency in case of need. He indicated that interest rates in Lebanon are unlikely to increase despite global expectations of a rise in U.S. interest rates in coming months. He noted that yields on Lebanese Eurobonds declined and that interest rates on debt instruments reflect sovereign ratings of 'BB+' or 'BBB' compared to the current rating of 'B-'.

Further, Governor Salamé pointed out that bank deposits rose by 6% annually so far this year from a high base of about \$140bn at the start of the year. He considered that this growth rate is normal, given the large stock of deposits in the banking sector. He said that credit to the private sector rose by about 7% annually so far this year, mainly driven by the Central Bank's lending facilities. He noted that about half of a household's income goes for the reimbursement of personal debt, and considered that this share is adequate and that personal loans do not constitute a risk to the banking sector. He indicated that the Central Bank issued a circular that regulates such lending in order to avoid the accumulation of risks.

Governor Salamé reiterated that Lebanon is compliant with international standards in its banking and financial operations, and that the Central Bank is committed to combat money laundering. In parallel, he encouraged the government to privatize the Beirut Stock Exchange, given that the privatization would increase liquidity in the bourse and would promote the listing of companies. He considered that the stock market could constitute an exit strategy for start-ups funded by banks.

Export Credit Insurance Contracts to Arab Countries in 2013 (US\$m)



Source: Arab Investment & Export Credit Guarantee Corporation (Dhaman), Byblos Research

Pharmaceuticals market to reach \$1.5bn in 2014, share of generic drugs to rise

Business Monitor International projected the size of the pharmaceuticals market in Lebanon at \$1.48bn in 2014, constituting an increase of 8.4% from \$1.36bn in 2013. It expected the market to grow at a compound annual growth rate (CAGR) of 9.1% during the 2013-18 period and to reach \$1.8bn by 2018. Further, it expected per-capita spending on pharmaceutical products in Lebanon to rise by 0.9% to \$285.2 in 2014. It also forecast per-capita spending on pharmaceuticals to reach \$292 in 2015 and to grow to \$345.5 in 2018, constituting a CAGR of 4.1% during the 2013-18 period.

Further, it estimated that spending on pharmaceuticals would be equivalent to 3.1% of GDP in 2014 compared to 3% of GDP in each of 2012 and 2013. It forecast such spending to remain at about 3% of GDP annually during the 2015-18 period, but it noted that this spending level would remain among the highest in the world. It attributed the elevated expenditures on pharmaceuticals in Lebanon to the market's high reliance on imported pharmaceuticals and on over-prescription of medicine in the country. It considered that the lack of consolidation among importers has maintained medicine prices at high levels and has reduced the competitiveness of distributors. Further, BMI expected spending on medicines to represent around 39.3% of healthcare expenditures in Lebanon in 2014 relative to 39.7% in 2013 and 41.4% in 2012, and to reach 37.8% of spending in 2018.

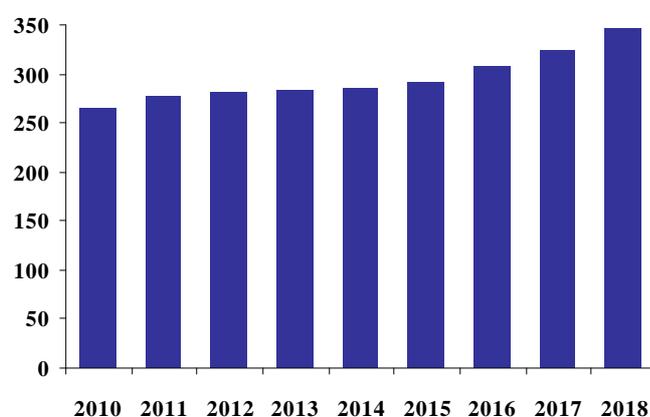
In parallel, BMI projected prescription medicines to represent around 73.8% of the market this year and forecast Over-the-Counter medicine sales to account for the balance of 26.2%. It attributed the high share of prescription medicines to the widespread use of patented drugs. It noted that patented drugs would account for 62.6% of total spending on prescription drugs and for 46.2% of expenditures on pharmaceutical products in 2014. But it expected the usage of non-patented medicines to increase in coming years, mainly due to rising awareness about generic medicines. It said that deficiencies in the intellectual property system in Lebanon would prevent the prescription drugs market from reaching its full potential, with foreign firms often reluctant to launch their latest medicines in the market. It noted that Lebanese companies are allowed to register and market unauthorized copies of original innovative products due to the lack of effective data exclusivity and patent linkage systems. It projected expenditures on generic drugs to increase by a CAGR of 12.4% compared to a CAGR of 7.8% for patented drugs during the 2013-18 period. As such, it said that the share of spending on patented drugs would decline to 58.4% of total spending on prescription drugs and to 43.8% of overall expenditures on pharmaceutical products by 2018, while the share of generic drugs would rise to 41.6% and 31.2%, respectively.

BMI considered that the sector's weaknesses include weak protection of intellectual property rights, counterfeiting, government drug pricing regulations that are hampering foreign direct investment, as well as an over-dependence on imports, which are leading to little reinvestment in the sector's development. However, it pointed out that the sector presents significant opportunities due to the government's desire to encourage local production, continuing elevated demand for pharmaceutical products, and the potential for a decline in prices. In contrast, it said that the government's reluctance to reforming the domestic patent law, persisting concerns over counterfeiting, parallel imports that are undercutting locally manufactured products, price cuts on selected products, and domestic and regional unrest constitute the main threats to the sector's development.

Balance of payments posts surplus of \$131m in first seven months of 2014

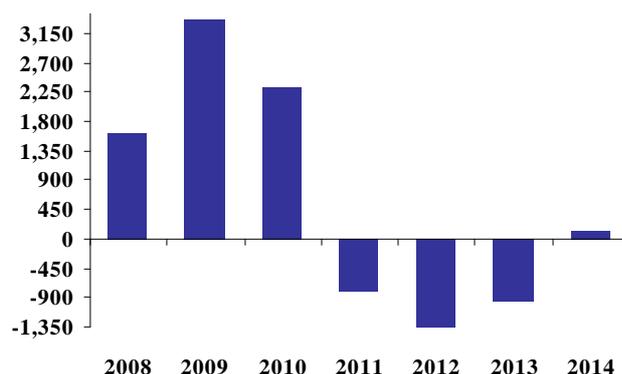
Central Bank figures show that Lebanon's balance of payments posted a surplus of \$131m in the first seven months of 2014 compared to a deficit of \$957.2m in the same period last year. The balance of payments posted a deficit of \$84.7m in July 2014 compared to deficits of \$560.7m in June 2014 and \$575.1m in July 2013. The July 2014 deficit was caused by a deficit of \$754.2m in the net foreign assets of banks and financial institutions, and was partly offset by a surplus of \$669.5m in those of the Central Bank. The cumulative surplus over the first seven months of 2014 was caused by a surplus of \$3.7bn in the Central Bank's net foreign assets, and was partly offset by a deficit of \$3.6bn 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, \$1.5bn in 2012 and \$1.1bn in 2013.

Pharmaceutical Sales Per Capita (US\$)



Sources: Business Monitor International

Balance of Payments* (US\$m)



*in the first seven months of each year

Source: Central Bank of Lebanon

Occupancy rate at Beirut hotels at 48%, room yields down 18% in first seven months of 2014

EY's benchmark survey of the Middle East hotel sector indicated that the average occupancy rate at hotels in Beirut was 48% in the first seven months of 2014, down from 55% in the same period last year and compared to an average rate of 62.5% in 11 Arab markets. The occupancy rate at Beirut hotels was the third lowest in the region in the covered period, unchanged from the first seven months of 2013. Cairo City posted the lowest occupancy rate of 28% in the first seven months of 2014, followed by Manama with an occupancy rate of 47%. Also, the occupancy rate at hotels in Beirut fell by seven percentage points year-on-year, constituting, along with Sharm el Sheikh, the steepest decrease among the 11 Arab markets, and relative to an average increase of 1.1 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, 67% in June and 36% in July 2014; compared to 50% in January, 60% in February, 59% in March, 64% in April, 59% in May, 55% in June and 40% in July 2013.

The average rate per room at Beirut hotels was \$161 in the first seven months of 2014, ranking the capital's hotels as the ninth most expensive in the region. The average rate per room at Beirut hotels decreased by 5.3% year-on-year and posted the second steepest decline among all markets in the region, lower than only Madina (-7.3%). The average rate per room in Beirut came below the regional average of \$185.2, which decreased marginally by 0.5% from the same period of 2013.

Further, revenues per available room (RevPAR) were \$77 in Beirut in the first seven months of 2014, down from \$94 in the same period of 2013, and came in ninth place in the region, higher than only Sharm El Sheikh (\$25) and Cairo City (\$24). Beirut's RevPAR fell by 18.3% 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, \$120 in June and \$62 in July 2014. In comparison, RevPARs were \$87 in January, \$101 in February, \$99 in March, \$108 in April, \$102 in May, \$101 in June and \$65 in July 2013. Dubai posted the highest average room rate in the region at \$280 and the highest room yield of \$220, while Madina posted the highest occupancy rate of 80% in the first seven months of 2014.

Net public debt at \$55.2bn at end-July 2014

Lebanon's gross public debt reached \$65.6bn at the end of July 2014, constituting a rise of 3.4% from the end of 2013 and an increase of 8.9% from end-July 2013. Domestic debt totaled \$39.55bn at end-July, rising by 5.9% from end-2013 and by 16.1% annually; while external debt stood at \$26.1bn, constituting marginal drops of 0.3% from the end of 2013 and of 0.5% from a year earlier. Local currency debt accounted for 60.3% of gross public debt at the end of July 2014 compared to 56.5% a year earlier, while foreign currency-denominated debt represented 39.7% of the total at end-July relative to 43.5% a year earlier. The weighted interest rate on outstanding Treasury bills was 6.89%, and that on Eurobonds was 6.38% at the end of July 2014. Further, the weighted life on Eurobonds was 5.73 years, while that on Treasury bills was 1,196 days.

Commercial banks accounted for 52.3% of the local public debt at the end of July 2014 compared to 50.4% a year earlier. They were followed by the Central Bank with 30.2%, down from 31.9% at end-July 2013; while public agencies, financial institutions and the public accounted for 17.5% of local debt compared to 17.7% at end-July 2013. Eurobond holders, foreign private sector loans and special T-bills in foreign currencies accounted for 90.3% of the external debt; followed by foreign governments with 4.9%; multilateral institutions with 4.3%; 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 7.9% to \$55.17bn. 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.

Value of cleared checks up 3%, returned checks down 3% in first seven months of 2014

The value of cleared checks reached \$43.3bn in the first seven months of 2014, constituting an increase of 3.1% from the same period last year, and compared to a rise of 1.8% in the first seven months of 2013 and to a marginal decrease of 0.1% in the same period of 2012. The value of cleared checks in Lebanese pounds rose by 7.9% annually to the equivalent of \$10.5bn in the first seven months of 2014, while the value of cleared checks in US dollars increased by 1.7% to \$32.8bn. The dollarization rate of cleared checks decreased to 75.9% from 76.9% in the first seven months of 2013. Also, the value of returned checks in domestic and foreign currencies decreased by 3.2% year-on-year to \$848m in the first seven months of 2014, compared to an annual drop of 1.5% in the same period of 2013 and an annual increase of 7.6% in the first seven months of 2012. In parallel, the number of cleared checks totaled 7.5 million checks in the first seven months of 2014, down 3.2% from the same period last year. Also, the number of returned checks totaled 143,000 checks, down 7.7% from the first seven months of 2013.

Hotel Performance in First Seven Months of 2014

	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Dubai	78	220	0.7
Jeddah	77	211	7.5
Doha	70	163	8.3
Abu Dhabi	77	151	(4.9)
Riyadh	68	149	7.3
Madina	80	146	8.5
Amman	61	100	4.8
Manama	47	97	7.8
Beirut	48	77	(18.3)
Sharm El Sheikh	53	25	(14.6)
Cairo City	28	24	(3.5)

Source: EY, Byblos Research

Fiscal deficit widens by 7% to \$840m in first quarter of 2014 when assuming \$322m in telecom revenues

Figures released by the Finance Ministry show that the fiscal deficit reached \$840m in the first quarter of 2014 and widened by 7.3% from \$782.6m in the same quarter last year. The deficit was equivalent to 25.7% of total budget and Treasury expenditures compared to 26% of overall spending in the first quarter of 2013. Overall government expenditures reached \$3.3bn and increased by 8.6% year-on-year, while total revenues rose by 9% to \$2.4bn. Budgetary expenditures increased by 17.8% to \$2.9bn and included \$524.8m in transfers to Electricité du Liban and \$500m in outlays from previous years, while budget revenues rose by 6.1% to \$2.2bn. Tax revenues increased by 4.4% year-on-year to \$1.7bn, of which 33.9%, or \$561.7m, were in VAT receipts that rose by 5.6% from the same period of 2013. Tax revenues accounted for 74.5% of budgetary revenues and for 68.3% of total Treasury and budgetary receipts. Based on the Finance Ministry's own estimates, Telecom receipts reached \$322m in the first quarter of 2014 compared to \$348m in the same quarter last year. On a cash basis for the two compared periods, public revenues increased by 12.1% year-on-year; while the fiscal deficit widened to \$1.2bn and was equivalent to 35.6% of expenditures.

The distribution of other tax revenues shows that receipts from taxes on income, profits & capital gains increased by 18.6% to \$432.6m in the first quarter of 2014; customs revenues regressed by 14.8% year-on-year to \$301m; revenues from property taxes rose by 28.2% to \$229.9m; revenues from taxes on goods & services fell by 38.8% to \$52m; and other tax receipts, mainly stamp fees, rose by 10.6% to \$78.3m. Further, the distribution of income tax revenues shows that tax on profits accounted for 32.6% of total income tax receipts, followed by taxes on wages and salaries with 30.6%, the tax on interest deposits with 26.2% and the capital gains tax with 6.6%. Income from the tax on profits rose by 30.1%, receipts from capital gains tax increased by 19.3%, revenues from the taxes on wages & salaries grew by 13.8% and receipts from tax on interest deposits rose by 3.7%.

Also, the distribution of property taxes shows that revenues from real estate registration fees increased by 26.7% to \$124m, receipts from built property taxes rose by 33.5% to \$79.8m and revenues from inheritance tax grew by 20.4% to \$26.1m. In parallel, non-tax budgetary revenues rose by 11.3% to \$566.1m, with revenues from government properties rising by 11.1% to \$433.4m and administrative fees & charges growing by 14.1% to \$107.5m. Based on the ministry's assumption, receipts from telecom services accounted for 74.3% of income from government properties and for 56.9% of non-tax revenues.

Debt-servicing cost increased by 13% year-on-year to \$878.2m in the first quarter 2014. It accounted for 27% of total expenditures and for 30.2% of budgetary spending, and absorbed 36.2% of overall revenues and 39.5% of budgetary receipts. Interest payment on domestic debt rose by 17% year-on-year to \$616.7m, while interest disbursement on foreign debt rose by 4.2% to \$227.4m. Repayment of principal on foreign debt increased by 5.8% to \$34.1m. Excluding debt servicing, the primary budget balance posted a surplus of \$190.5m, or 6.6% of budget expenditures compared to a surplus of \$402m, or 16.3% of budget spending in the first quarter of 2013. The overall primary balance posted a surplus of \$38.2m or 1.2% of spending in the first quarter of 2014, relative to a deficit of \$4.8m or 0.2% of total expenditures in the same quarter last year.

Fiscal Results in First Quarter of 2014		
	Including Assumed Telecom Receipts	Excluding Assumed Telecom Receipts*
	US\$m	US\$m
Budget revenues	2,222	1,900
Tax revenues	1,656	1,656
Non-tax revenues	566.1	244.1
<i>of which Telecom revenues</i>	321.9	-
Budget expenditures	2,909	2,909
Budget Surplus/Deficit	(687.7)	(1,010)
<i>In % of budget expenditures</i>	<i>(23.6%)</i>	<i>(34.7%)</i>
Budget Primary Surplus	190.5	(131.4)
<i>In % of budget expenditures</i>	<i>6.6%</i>	<i>(4.5%)</i>
Treasury receipts	41.8	41.8
Treasury expenditures	356.3	356.3
Total Revenues	2,426	2,104
Total Expenditures	3,266	3,266
Total Deficit	(840)	(1,162)
<i>In % of total expenditures</i>	<i>(25.7%)</i>	<i>(35.6%)</i>
Total Primary Surplus/Deficit	38.2	(283.7)
<i>In % of total expenditures</i>	<i>1.2%</i>	<i>(8.7%)</i>

* Cash basis

Source: Ministry of Finance, Byblos Research



Commercial banks' assets reach \$170bn at end-July 2014

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$169.7bn at the end of July 2014, constituting an increase of 3% from the end of 2013 and a rise of 7.6% from end-July 2013. Private sector deposits totaled \$141.3bn, increasing by 3.8% from the end of 2013 and by 7.7% from a year earlier. Deposits in Lebanese pounds reached \$47.9bn and rose by 3.9% from end-2013 and by 6.9% from end-July 2013; while deposits in foreign currencies totaled \$93.4bn, constituting a rise of 3.7% from end-2013 and an increase of 8.2% from a year earlier. Non-resident foreign currency deposits totaled \$25.6bn at the end of July 2014, increasing by 2% from end-2013 and growing by 7.6% year-on-year. Total non-resident deposits reached \$29.2bn at the end of July and rose by 2.6% from end-2013 and by 7.9% 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, by \$1.6bn in April, by \$650.7m in May, by \$1.5bn in June and by \$965.8m in July 2014. In comparison, they rose by \$558m in January, by \$744.9m in February, by \$1.8bn in March, by \$2bn in May and by \$1.2bn in June, but declined by \$11.3m in April and by \$87.6m in July 2013. In parallel, deposits of non-resident banks reached \$5.3bn at the end of July 2014 and increased by 5.9% from end-2013 and by 8.4% from a year earlier. The dollarization rate of deposits reached 66.1% at the end of July, unchanged from end-2013 and relative to 65.8% a year earlier. Further, the average deposit rate in Lebanese pounds was 5.54% in July 2014 relative to 5.43% in the same month of last year, while the same rate in US dollars was 3.02% compared to 2.89% in July 2013.

Loans to the private sector totaled \$49.38bn, constituting an increase of 4.2% from the end of 2013 and a rise of 9.3% from a year earlier. In nominal terms, credit to the private sector rose by \$2bn in the first seven months of 2014 relative to an increase of \$1.7bn in the same period last year. Lending to the resident private sector totaled \$43.8bn, growing by 5.6% from the end of 2013 and by 10.2% year-on-year; while credit to the non-resident private sector reached \$5.5bn, decreasing by 5.7% from end-2013 and rising by 2.7% from end-July 2013. The dollarization rate in private sector lending declined to 75.9% at the end of July 2014 from 77% a year earlier. The average lending rate in Lebanese pounds was 7.36% in July 2014 compared to 7.13% in the same month last year, while the same average in US dollars was 6.96%, down from 7.02% in July 2013. In addition, claims on non-resident banks reached \$12bn at end-July 2014, posting decreases of 14.1% from end-2013 and of 12.4% from a year earlier. Claims on the public sector stood at \$37.7bn at end-July, unchanged from the end of 2013 and constituting a rise of 14.7% year-on-year. The ratio of private sector loans-to-deposits in foreign currencies stood at 40.1%, well below the Central Bank's limit of 70%, and compared to 40.3% a year earlier. In parallel, the same ratio in Lebanese pounds was 24.8% at end-July 2014, up from 23.2% at the end of July 2013. The ratio of total private sector loans-to-deposits was 34.9% compared to 34.4% a year earlier. The banks' aggregate capital base stood at \$15.1bn, down 0.9% from the previous month but up by 11.1% from \$13.56bn at end-July 2013.

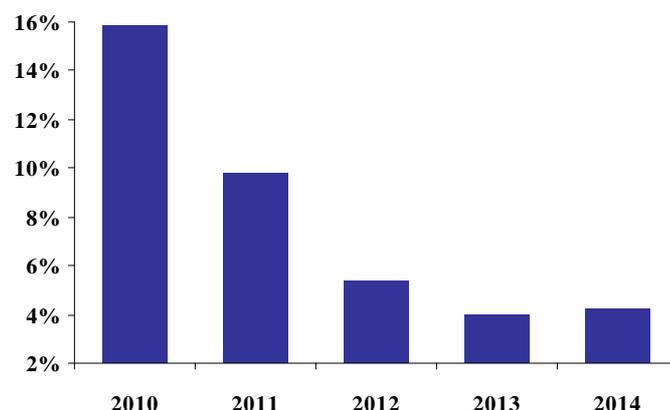
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CMA CGM's net profits down 65% to \$94m in second quarter of 2014

The Lebanese-owned and France-based container shipping group CMA CGM declared net profits of \$94m in the second quarter of 2014 compared to consolidated profits of \$268m in the same quarter of 2013. The firm noted that the income generated in the second quarter of 2013 included a non-recurring \$248m in proceeds from the sale of a 49% stake in its port terminal operations subsidiary Terminal Link. Core earnings before interest and taxes (EBIT) totaled \$204m in the second quarter of the year, rising by 18.7% year-on-year. As such, core EBIT margin rose from 4.2% in the second quarter of 2013 to 4.9% in the covered quarter. The firm generated revenues of \$4.2bn in the second quarter of 2014, up 3.7% from \$4.1bn in the same quarter last year, with volumes carried rising by 8% to 3.1 million twenty-foot equivalent unit (TEU). CMA CGM attributed the sustainable growth in volumes to the development of the Asia-Europe, Africa and Asia-Pacific lines. It added that it reduced the costs per TEU by 4.8%, mainly through the fall of fuel costs by 9.3% due to the combined effects of lower bunker consumption per unit and more moderate bunker prices. It expected to maintain its operating performance in the third quarter of 2014 as high volumes at this time of the year would help increase current rates. CMA CGM is the third largest container shipping company in the world. It operates a fleet of 430 vessels with a turnover of \$15.9bn and serves more than 400 ports around the world.

In May 2014, Standard & Poor's upgraded the long-term corporate credit rating of CMA CGM to 'B+' from 'B' with a 'stable' outlook. It also upgraded to 'B-' from 'CCC+' the company's senior unsecured notes. It attributed the upgrades to its reassessment of the company's financial policy to 'neutral' from 'negative'. It noted that the company's leverage has substantially moderated and that its financial policy would maintain its credit ratios broadly in line with those projected under normal operating and financial conditions. It noted that CMA CGM's financial policy shifted over the past two years towards more predictable and balanced growth strategies and acquisition plans. It expected the company to continue to reduce costs and to maintain a substantial cash balance in excess of \$1bn, which would be used to offset the volatility within the shipping industry.

Private Sector Lending Growth* (% Change)



*in the first seven months of each year

Source: Association of Banks in Lebanon, Byblos Research

Profits of top 14 banks up 5% to \$910.5m in first half of 2014

The unaudited consolidated net profits of the Alpha Group of banks reached \$910.5m in the first half of 2014, constituting an increase of 4.8% from the same period last year. In comparison, the net income of the banks increased by 1.3% in the first half of 2013. The Alpha Group consists of 14 banks with deposits in excess of \$2bn each. Total net operating income rose by 7.5% to \$2.4bn, with aggregate net interest income increasing by 11.2% to \$1.6bn and net fees & commissions receipts rising by 11.1% to \$422m year-on-year. Also, non-interest income accounted for 34.5% of total income in the first half of the year, down from 39.4% in the same period last year; with net fees & commissions earnings representing 48.2% of non-interest income in the first half of 2014, up from 38.7% in the same period last year. The net interest spread decreased to 1.84% in the first half of 2014 from 1.85% in the same period last year. Also, total operating expenditures increased by 10.1% year-on-year to \$1.3bn, with staff expenses rising by 12.8% to \$732.5m. Further, the cost-to-income ratio increased to 50.98% in the first half of 2014 from 47.14% in the same period last year. The banks' total assets reached \$184.4bn at end-June 2014, constituting a rise of 4.6% from end-2013. Further, aggregate loans & advances to customers rose by 7% from end-2013 to \$57.2bn, while credits extended to related parties fell by 4.6% to \$541.6m at end-June 2014. Also, customer deposits totaled \$151.4bn at the end of June 2014, constituting an increase of 4.8% from end-2013; while deposits from related parties dropped by 4.9% to \$2.5bn at end-June 2014. The banks' shareholders' equity rose by 1.9% from end-2013 to \$15.6bn at end-June 2014.

In parallel, the banks' loans-to-deposits ratio increased to 37.5% at end-June 2014 from 35.4% a year earlier. The ratio of loans-to-deposits in local currency reached 22% compared to 19.9% at end-June 2013, while that in foreign currency was 44% at the end of June 2014 relative to 42.3% a year earlier. Also, the banks' return on average assets reached 1.01% in June 2014 on an annualized basis relative to 1.06% a year earlier; while their return on average equity was 11.46% on an annualized basis compared to 11.92% in June 2013. Further, the net primary liquidity-to-deposits ratio reached 32% at end-June 2014, down from 32.7% at end-June 2013. The banks' aggregate equity-to-assets ratio fell to 8.45% at end-June 2014 from 8.55% a year earlier. Also, the collective provisions-to-net loans ratio increased to 1.21% from 1.17% at end-June 2013.

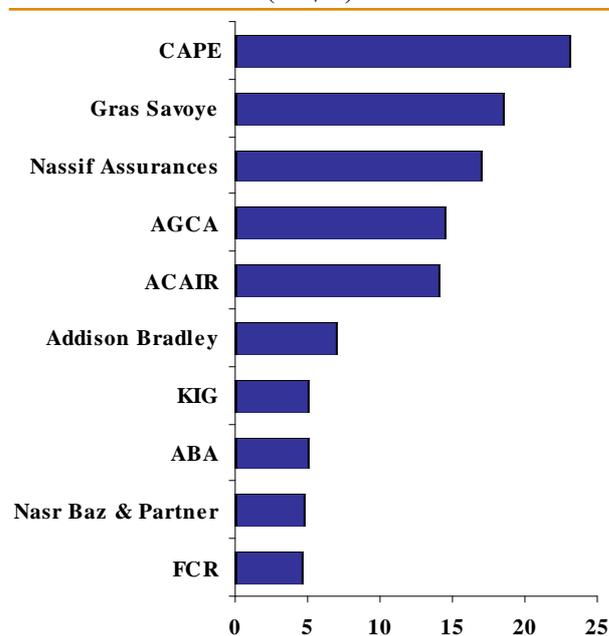
Premiums generated by independent insurance brokers nearly unchanged in 2013

The annual survey by *Al-Bayan* magazine of insurance brokers in Lebanon showed that total premiums generated by independent brokers operating across the country reached \$203.5m in 2013, constituting a marginal increase of 0.3% from \$202.9m in 2012. The figures cover premiums generated by 85 active independent brokers out of 120 independent brokers in the market. Also, they exclude premiums generated by brokers affiliated with commercial banks.

The brokers included in the survey generated 14.5% of total insurance premiums written in 2013 relative to 15.4% of the total in 2012. Cape Insurance Broker came in first place with \$23m in premiums generated last year, equivalent to 11.3% of the total. It was followed by Gras Savoye with \$18.5m (9.1%), AGCA with \$17.5m (8.6%), Nassif Assurances with \$16.9m (8.3%) and ACAIR with \$14m (6.9%) as the top five brokers in the survey.

In parallel, Agence Bathiche pour l'Assurance (ABA) posted a 66.7% rise in premiums, the highest growth among brokers year-on-year, and ranked in eighth place in the 2013 survey. Eight of the top 10 brokers posted increases in their premiums, while the premiums generated by Cape Insurance Broker and Nassif Assurances' remained unchanged year-on-year. The top 10 insurance brokers generated \$116.2m in premiums last year and accounted for 57.1% of the total, nearly unchanged from \$115.7m and a share of 57% in 2012. Further, 33 brokers generated more than \$1m in premiums, 18 brokers had premiums ranging from \$0.5m to \$1m, and the remaining 34 brokers posted premiums of less than \$0.5m each.

Top 10 Insurance Brokers by Premiums in 2013 (US\$m)



Source: *Al-Bayan* magazine, Byblos Research

BankMed's profits up 8% to \$70m in first half of 2014

BankMed sal, one of Lebanon's top 10 banks, announced unaudited consolidated net profits of \$69.9m in the first half of 2014, constituting an increase of 8.1% from the same period last year. Net operating income fell by 2.7% year-on-year to \$211.2m, with net interest income increasing by 15.3% to \$122.8m and net fees & commissions receipts expanding by 15.3% to \$33.9m. Non-interest income accounted for 40.1% of total income, down from 54.9% in the first half of 2013, with net fees & commissions representing 38% of non-interest earnings, up from 21.1% in the first half of 2013. Further, the bank's interest margin was 2.1% in the first half of 2014 relative to 1.9% in the same period last year; while its net spread rose to 1.9% from 1.74% in the first half of 2013. Total operating expenditures decreased by 7.5% to \$131.9m, with staff expenses increasing by 7.1% to \$71.6m. Also, the bank's return on average assets reached 1% in June 2014, on an annualized basis, compared to 0.98% in June 2013; while its return on average equity was 9.9% relative to 9.8% in June 2013. The cost-to-income ratio rose to 59.2% in the first half of 2014 relative to 56.2% in the same period last year.

In parallel, total assets reached \$14.3bn at end-June 2014, constituting a 3.6% increase from end the of 2013 and from a year earlier; while loans & advances to customers, excluding loans & advances to related parties, increased by 3.7% from end-2013 and by 9.8% year-on-year to \$4.5bn. Also, customer deposits, excluding deposits from related parties, totaled \$10.6bn at end-June, growing by 3.4% from end-2013 and by 11.5% from a year earlier. The loans-to-deposits ratio increased to 41.6% at end-June 2014 from 38.5% a year earlier. Further, shareholders' equity rose by 4.1% from end-2013 to \$1.4bn at end-June 2014.

Fidelity's net income down 48% to \$2m in 2013

Fidelity Assurance & Reinsurance Co. sal announced audited net profits of \$2m in 2013, constituting a decrease of 48% from \$3.9m in 2012. Its audited balance sheet shows total assets of \$71m at the end of 2013, up 15.6% from end-2012. On the assets side, general company investments totaled \$39.4m and increased by 16.3% from end-2012. They included \$13.1m in cash & cash equivalent; \$7.4m in land and real estate investments; \$2m in variable income investments and \$13.9m in deposits with maturity of more than three months, of which \$2.2m were blocked in favor of the Economy Ministry as guarantees. Also, the reinsurance's share in technical reserves for the life category grew by 5.2% year-on-year to \$0.6m, while that for the non-life segment remained unchanged at \$2.8m from the previous year.

On the liabilities side, technical reserves for the life segment increased by 33.5% year-on-year to \$7.8m, while technical reserves for the non-life segment reached \$31.7m at end-2013 and increased by 20.6% from a year earlier. Non-life technical reserves included unearned premium reserves of \$22.2m that rose by 13.4%, outstanding claims reserves of \$7.5m that grew by 22.9% and \$1.1m in reserves incurred but not reported that increased by 227.3% year-on-year. Provisions for risks and charges reached \$1.1m and rose by 32.9% from a year earlier. Further, the firm's shareholders' equity totaled \$15.4m at end-2013 and grew by 9.7% from the preceding year.

Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked Fidelity Assurance & Reinsurance Co. sal in fifth and 15th place in 2013 in terms of non-life and life premiums, respectively. The firm's non-life premiums rose by 13.4% year-on-year to \$56.5m in 2013, while life premiums amounted to \$5.2m and declined by 1.1% from 2012. It had a 5.7% share of the local non-life market and a 1.2% share of the 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

Economic Research & Analysis Department
Byblos Bank Group
P.O. Box 11-5605
Beirut – Lebanon
Tel: (961) 1 338 100
Fax: (961) 1 217 774
E-mail: research@byblosbank.com.lb
www.byblosbank.com

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BYBLOS BANK GROUP

LEBANON

Byblos Bank S.A.L
Achrafieh - Beirut
Elias Sarkis Avenue - Byblos Bank Tower
P.O.Box: 11-5605 Riad El Solh - Beirut 1107 2811- Lebanon
Phone: (+ 961) 1 335200
Fax: (+ 961) 1 339436

SYRIA

Byblos Bank Syria S.A.
Damascus Head Office
Al Chaalan - Amine Loutfi Hafez Street
P.O.Box: 5424 Damascus - Syria
Phone: (+ 963) 11 9292 - 3348240/1/2/3/4
Fax: (+ 963) 11 3348205
E-mail: byblosbanksyria@byblosbank.com

IRAQ

Erbil Branch, Kurdistan, Iraq
Street 60, Near Sports Stadium
P.O.Box: 34 - 0383 Erbil - Iraq
Phone: (+ 964) 66 2233457/8/9 - 2560017/9
E-mail: erbilbranch@byblosbank.com.lb

Baghdad Branch, Iraq
Al Karrada - Salman Faeq Street
Al Wahda District, No. 904/14, Facing Al Shuruk Building
P.O.Box: 3085 Badalat Al Olwiya - Iraq
Phone: (+ 964) 770 6527807 / (+ 964) 780 9133031/2
E-mail: baghdadbranch@byblosbank.com.lb

Basra Branch, Iraq
Intersection of July 14th, Manawi Basha Street, Al Basra - Iraq
Phone: (+ 964) 770 4931900 / (+ 964) 770 4931919
E-mail: basrabranch@byblosbank.com.lb

UNITED ARAB EMIRATES

Byblos Bank Abu Dhabi Representative Office
Intersection of Muroor and Electra Streets
P.O.Box: 73893 Abu Dhabi - UAE
Phone: (+ 971) 2 6336050 - 2 6336400
Fax: (+ 971) 2 6338400
E-mail: abudhabirepoffice@byblosbank.com.lb

ARMENIA

Byblos Bank Armenia CJSC
18/3 Amiryan Street - Area 0002
Yerevan - Republic of Armenia
Phone: (+ 374) 10 530362
Fax: (+ 374) 10 535296
E-mail: infoarm@byblosbank.com

CYPRUS

Limassol Branch
1, Archbishop Kyprianou Street, Loucaides Building
P.O.Box 50218
3602 Limassol - Cyprus
Phone: (+ 357) 25 341433/4/5
Fax: (+ 357) 25 367139
E-mail: byblosbankcyprus@byblosbank.com.lb

BELGIUM

Byblos Bank Europe S.A.
Brussels Head Office
Rue Montoyer 10
Bte. 3, 1000 Brussels - Belgium
Phone: (+ 32) 2 551 00 20
Fax: (+ 32) 2 513 05 26
E-mail: byblos.europe@byblosbankeur.com

UNITED KINGDOM

Byblos Bank Europe S.A., London Branch
Berkeley Square House
Berkeley Square
GB - London W1J 6BS - United Kingdom
Phone: (+ 44) 20 8518 8100
Fax: (+ 44) 20 8518 8129
E-mail: byblos.london@byblosbankeur.com

FRANCE

Byblos Bank Europe S.A., Paris Branch
15 Rue Lord Byron
F- 75008 Paris - France
Phone: (+33) 1 45 63 10 01
Fax: (+33) 1 45 61 15 77
E-mail: byblos.europe@byblosbankeur.com

SUDAN

Byblos Bank Africa
Khartoum Head Office
Intersection of Mac Nimer and Baladiyya Streets
P.O.Box: 8121 - Khartoum - Sudan
Phone: (+ 249) 1 56 552 222
Fax: (+ 249) 1 56 552 220
E-mail: byblosbankafrica@byblosbank.com

NIGERIA

Byblos Bank Nigeria Representative Office
161C Rafu Taylor Close - Off Idejo Street
Victoria Island, Lagos - Nigeria
Phone: (+ 234) 706 112 5800
(+ 234) 808 839 9122
E-mail: nigeriarepresentativeoffice@byblosbank.com.lb

DEMOCRATIC REPUBLIC OF CONGO

Byblos Bank RDC S.A.R.L
Avenue du Marché No. 4
Kinshasa-Gombe, Democratic Republic of Congo
Phone: (+ 243) 81 7070701
(+ 243) 99 1009001
E-mail: byblosbankrdc@byblosbank.com

ADIR INSURANCE

Dora Highway - Aya Commercial Center
P.O.Box: 90-1446
Jdeidet El Metn - 1202 2119 Lebanon
Phone: (+ 961) 1 256290
Fax: (+ 961) 1 256293