



## LEBANON THIS WEEK

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Byblos Bank's pre-tax profits up 8% to \$142m in first nine months of 2014

Stock market activity up 96% to \$567m in first 10 months of 2014

Venture capital fund raises \$56m to invest in knowledge economy start-ups

Aggregate profits of publicly listed banks up 6% in first nine months of 2014

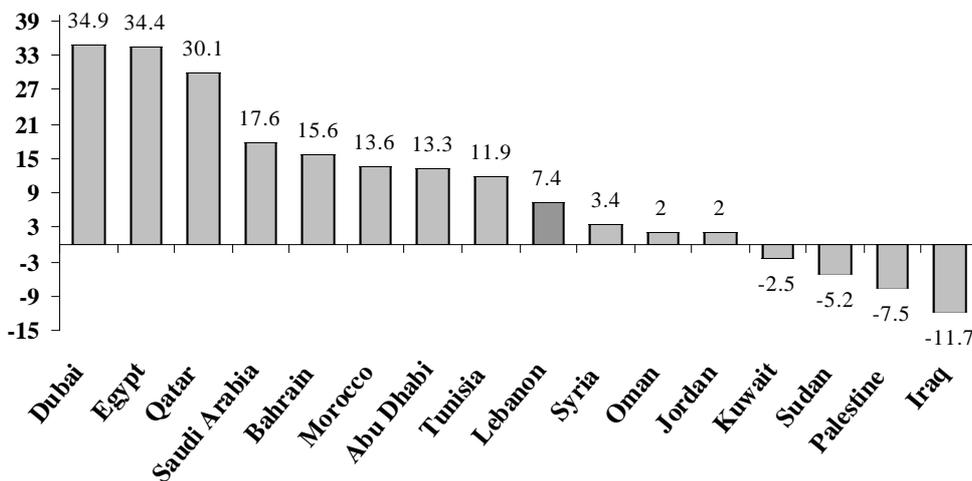
Banque de L'Habitat raises its capital by \$33m

Net profits of the life insurance category up 16% to \$87m in 2013, combined ratio at 68%

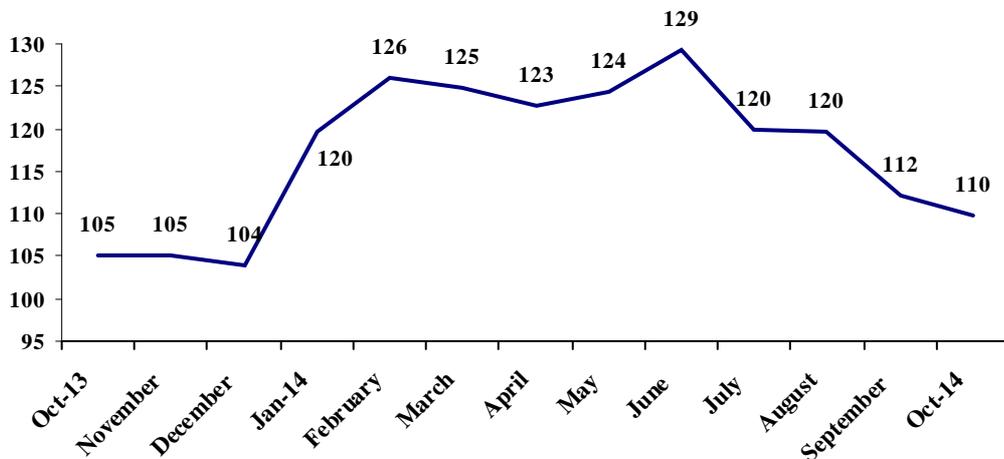
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### Charts of the Week

Performance of Arab Stock Markets in the First 10 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 external and internal political and macroeconomic shocks that Lebanon has faced since early 2011 have not led to material deposit outflows."

*Standard & Poor's, on the confidence of depositors in the Lebanese banking system*

### Number of the Week

**14:** Number of times the Lebanese Parliament convened and failed to elect a President

## Economic Indicators

<b>\$m (unless otherwise mentioned)</b>	<b>2013</b>	<b>June 13</b>	<b>Mar 14</b>	<b>April 14</b>	<b>May 14</b>	<b>June 14</b>	<b>% Change*</b>
Exports	3,936	348	275	300	308	278	(20.11)
Imports	21,228	1,634	1,791	1,641	1,676	1,567	(4.10)
Trade Balance	(17,292)	(1,286)	(1,516)	(1,341)	(1,368)	(1,289)	0.23
Balance of Payments	(1,128)	(233)	139	(45)	520	(561)	140.77
Checks Cleared in LBP	17,047	1,444	1,520	1,447	1,619	1,518	5.12
Checks Cleared in FC	55,321	4,523	4,671	4,545	5,058	4,807	6.28
Total Checks Cleared	72,368	5,967	6,191	5,992	6,677	6,325	6.00
Budget Deficit/Surplus	(4,220)	(275.89)	(595.29)	(379.21)	(170.31)	(187.36)	(32.09)
Primary Balance	(239.68)	(23.19)	(128.1)	91.02	316.5	(133.93)	(677.53)
Airport Passengers	6,265,470	571,831	430,979	542,544	511,556	610,170	6.70
<b>\$bn (unless otherwise mentioned)</b>	<b>2013</b>	<b>June 13</b>	<b>Mar 14</b>	<b>April 14</b>	<b>May 14</b>	<b>June 14</b>	<b>% Change*</b>
BdL FX Reserves	31.71	31.72	33.63	33.71	33.26	33.85	6.72
<i>In months of Imports</i>	<i>17.65</i>	<i>19.41</i>	<i>18.78</i>	<i>20.54</i>	<i>19.84</i>	<i>21.60</i>	<i>11.28</i>
Public Debt	63.46	60.02	65.15	64.86	65.08	65.71	9.48
Net Public Debt	53.18	50.90	54.37	54.67	54.92	55.17	8.39
Bank Assets	164.82	157.95	166.50	168.05	168.85	169.57	7.36
Bank Deposits (Private Sector)	136.21	131.30	136.55	138.20	138.85	140.35	6.89
Bank Loans to Private Sector	47.38	44.84	48.14	48.42	48.62	49.18	9.68
Money Supply M2	45.60	44.20	46.34	46.56	46.81	46.89	6.09
Money Supply M3	111.16	107.31	112.29	113.43	114.19	114.97	7.14
LBP Lending Rate (%)	7.29	7.87	7.26	7.18	7.48	7.45	(42bps)
LBP Deposit Rate (%)	5.44	5.39	5.48	5.47	5.50	5.49	10bps
USD Lending Rate (%)	6.88	6.97	6.87	6.92	7.04	6.97	-
USD Deposit Rate (%)	2.95	2.86	2.96	3.00	3.01	2.98	12bps
%* Change in CPI**	3.89	3.72	(0.23)	(0.03)	0.63	1.19	(253bps)

\* 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"	11.39	(1.39)	122,394	10.11%	Jan 2015	5.875	100.63	2.65
Solidere "B"	11.39	(0.18)	17,943	6.57%	Apr 2015	10.000	103.38	2.80
Byblos Common	1.64	1.86	29,589	5.23%	Jan 2016	8.500	105.94	3.42
Byblos Pref. 08	100.80	(0.10)	2,020	1.79%	Mar 2017	9.000	111.38	3.94
Byblos Pref. 09	101.30	0.40	1,468	1.80%	Nov 2018	5.150	101.35	4.78
BLOM GDR	9.35	0.00	9,220	6.13%	May 2019	6.000	103.60	5.10
BLOM Listed	8.80	0.57	102,561	16.79%	Mar 2020	6.375	105.38	5.21
Audi GDR	6.49	5.19	221	5.90%	Apr 2021	8.250	115.38	5.39
Audi Listed	6.38	6.33	369,677	22.63%	Oct 2022	6.100	102.63	5.68
HOLCIM	15.49	3.27	1,033	2.68%	Nov 2026	6.600	102.50	6.30

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

Source: Byblos Bank Capital Markets

	<b>Oct 27-31</b>	<b>Oct 20-24</b>	<b>% Change</b>	<b>Oct 2014</b>	<b>Oct 2013</b>	<b>% Change</b>
<b>Total Shares Traded</b>	743,820	1,254,151	(40.69)	6,765,726	2,166,463	212.29
<b>Total Value Traded</b>	\$7,222,591	\$11,228,712	(35.68)	\$49,594,656	\$23,954,302	107.04
<b>Market Capitalization</b>	\$11.27bn	\$11.06bn	1.87	\$11.27bn	\$10.53bn	7.00

Source: Beirut Stock Exchange (BSE)



### Lebanon ranks 104th globally, ninth among Arab countries on ease of doing business

The World Bank/International Finance Corporation Doing Business 2015 report ranked Lebanon in 104th place among 189 countries worldwide and in ninth place among 21 Arab countries in terms of ease of doing business. Lebanon's rank regressed by two spots from 102nd place in the 2014 survey, while its regional rank remained unchanged year-on-year. Lebanon also came in 33rd place among 51 Upper-Middle Income Countries included in the 2015 survey. The index is a composite of 10 sub-indices of business regulations that track the time and cost to meet government requirements in business start-up, expansion, operations and insolvency. The ease of doing business rankings in the 2015 survey are based on the distance to the frontier (DTF) score, instead of the percentile rank that was used in the previous surveys. The DTF score measures the gap between an economy's current performance and the best performer around the world on each sub-index. The DTF scores range from zero to 100, with a score of 100 representing the "frontier", or the best performer. The historical data was updated accordingly. Lebanon's DTF score is 60.6 in the 2015 survey, unchanged from the previous survey and denoting the absence of reforms.

Globally, Lebanon had a better business environment than Bosnia & Herzegovina, Nepal and El Salvador, and a weaker business climate than Honduras, the Kyrgyz Republic and Brunei Darussalam among economies with a GDP of \$10bn or more. It also ranked ahead of Bosnia & Herzegovina and Ecuador, and came behind Dominica and Serbia among UMICs. The World Bank noted that Lebanon did not implement this year any reforms that would have made it easier to do business in the country.

Lebanon ranked ahead of Nicaragua and El Salvador, and came behind Costa Rica and Benin globally on the Starting a Business indicator. It came behind Morocco, the UAE, Egypt, Jordan, Tunisia, Qatar and Saudi Arabia regionally. Entrepreneurs need five steps to start a business in Lebanon compared to a global average of seven procedures, an average of eight procedures in Arab countries and an average of five steps in OECD economies. Also, it takes nine days to start a business in Lebanon compared a global average of 22.3 days, an average of 18.7 days in Arab countries and to an average of 9.2 days in OECD states. The World Bank did not register any reform to the process of starting a business in Lebanon since 2011. Lebanon's DTF score reached 80.8 on this indicator compared to 80.25 in the 2014 survey, and came above the average of 76.6 among Arab countries.

Also, Lebanon ranked ahead of Bolivia and Israel, and came behind Sierra Leone and Saudi Arabia worldwide on the Enforcing Contracts indicator. It ranked behind Tunisia, Morocco, Yemen, Mauritania, Qatar, the West Bank & Gaza and Saudi Arabia in the Arab world. A firm in Lebanon requires 37 procedures and 721 days to enforce commercial contracts, compared to a global average of 38 procedures and 625.1 days, an average of 45 procedures and 658.6 days in the Arab world, and 32 procedures and 539.5 days in OECD economies. Further, enforcing a contract in Lebanon costs 30.8% of the claim compared to 33.7% worldwide, to 27.4% in the region and to 21.4% of the claim in OECD states. Lebanon's DTF score was 55.4 in the 2015 survey, unchanged from the previous survey, and came above the average of 50.7 for Arab countries.

Further, Lebanon ranked ahead of Jordan and the Philippines, and came behind Ethiopia and Venezuela on the Registering Property indicator; while it ranked ahead of Jordan, Iraq, Morocco, Syria, Djibouti, Algeria and Libya in the region. Registering a property in Lebanon takes 25 days and costs 5.9% of the value of the property compared to a global average of 49.5 days and 5.9% of property value, an average of 31.6 days and 5.5% of the property value in Arab countries, and an average of 24 days and 4.2% of the property value in OECD economies. Entrepreneurs need eight steps to register a property in Lebanon compared to an average of six procedures worldwide and in Arab countries, and an average of five steps in OECD economies. Lebanon's DTF score was 63.69 on this indicator, almost unchanged from the 2014 survey, and came below the Arab average of 67.83 points.

#### Ease of Doing Business in 2015

Country	DTF Score	Arab Rank	Global Rank
UAE	76.81	22	1
Saudi Arabia	69.99	49	2
Qatar	69.96	50	3
Bahrain	69.00	53	4
Tunisia	67.35	60	5
Oman	66.39	66	6
Morocco	65.06	71	7
Kuwait	63.11	86	8
<b>Lebanon</b>	<b>60.61</b>	<b>104</b>	<b>9</b>
Egypt	59.54	112	10
Jordan	58.40	117	11
Yemen	54.84	137	12
West Bank & Gaza	53.62	143	13
Algeria	50.69	154	14
Djibouti	50.48	155	15
Iraq	50.36	156	16
Comoro Islands	49.56	159	17
Sudan	49.55	160	18
Syria	46.51	175	19
Mauritania	44.21	176	20
Libya	33.35	188	21

Source: World Bank Group, Byblos Research

#### Lebanon's Rankings by Category in 2015

Indicator	Arab Rank	Global Rank	Change in Rank
Starting a business	8	119	-7
Dealing with			
Construction permits	18	164	-5
Getting Electricity	7	57	-4
Registering Property	14	106	-2
Getting Credit	6	116	-5
Protecting Investors	7	106	-4
Paying Taxes	7	40	-5
Trading Across Borders	10	97	-1
Enforcing Contracts	8	110	0
Resolving Insolvency	11	136	-3

Source: World Bank Group, Byblos Research

### Economic outlook vulnerable to regional developments

HSBC Bank projected Lebanon's real GDP growth at 0.3% in 2014 and at 1.3% in 2015 compared to growth rates of 0.1% in 2013 and 2.5% in 2012. It said that heightened political and security risks have been weighing heavily on economic activity since late 2011. It noted that these risks affected the tourism, real estate and construction sectors the most. It expected private consumption and investment activity to pick up in 2015, but it noted that the potential improvement is because consumers and investors have become accustomed to prevailing risks, rather than to the start of a more favorable trend. It forecast private consumption to grow by 1.5% in real terms in 2014 and by 2% in 2015 relative to a growth rate of 2% in 2013, and expected total investment to be stagnant this year and to grow by 1% in 2015 relative to no growth in 2013. It anticipated real GDP growth to average below 2% annually between 2014 and 2016, almost four percentage points below the pre-unrest growth levels.

It pointed out that the modest improvement in Lebanon's economic outlook for 2015 is vulnerable to worsening political developments in Syria and Iraq. It considered that the elevated internal tensions are weighing on confidence and are obstructing the political process, especially the election of a new President. It noted that Lebanon is still without a budget despite the formation of a new government earlier this year, reflecting the limits of the policy-making process. As such, it forecast the fiscal deficit to widen from 9.2% of GDP in 2013 to 10.9% of GDP in 2014, the first double-digit deficit since 2008, and to reach 11.5% of GDP in 2015. But it anticipated that the primary deficit would narrow from 0.9% of GDP in 2013 to 0.5% of GDP in 2014 and 0.3% of GDP in 2015. It pointed out that sustained deposit inflows from the Lebanese Diaspora support the currency and allow banks to continue to finance the fiscal deficit. It expected the Lebanese lira and interest rates to remain stable despite the weak economic and political environments, provided sustained deposit inflows.

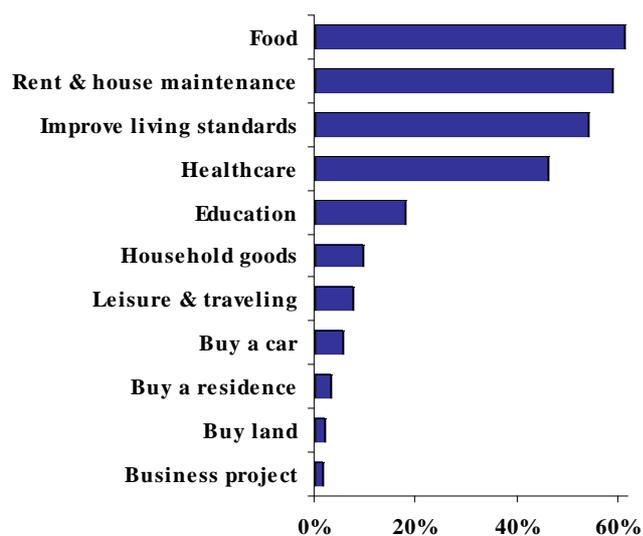
### Expatriates' remittances account for 37% of Lebanese households' income, funds are mostly spent on day-to-day needs

A survey conducted by Université Saint-Joseph indicates that Lebanese households who receive transfers from abroad have an annual income of LPB34,719m, equivalent to \$23,031, and that the transfers account for 40.2% of the families' overall income. The distribution of foreign transfers shows that 92% consist of expatriates' remittances, 1.3% are generated from pensions and 0.9% come from returns on capital and savings, while exceptional revenues represent the balance of 5.8%. In comparison, the annual income of families who do not receive funds from abroad is LBP33,195m, the equivalent of \$22,020. As such, the survey noted that revenues from work represent 44.6% of the total income of households receiving external transfers, while income from work accounts for 75.8% of the total income of households that are not recipients of external transfers.

Further, the survey shows that 61.4% of households that receive foreign transfers use these funds to buy food, 58.9% spend the money on rent and house maintenance fees, 53.9% noted that transfers help them improve their living standards, 46% of households acknowledged that transfers cover healthcare expenses, and 18% said the funds help them cover education fees. In addition, 9.4% of households utilize the transfers to buy and repair furniture and household goods, 7.6% spend the money on leisure and traveling, 5.6% use them to buy a car, 3.2% noted that transfers help them to acquire a residence and 1.6% said they channel the transfers to a business project, while 2% use the funds to buy land.

In addition, the survey revealed that 41.4% of students in families receiving external transfers rely in part or in full on these transfers to pay their tuition and 43.3% of them rely on the household's income to cover the tuition fees, while 74.8% of students in household without external transfers rely on their families to pay for their tuition. Also, 40.6% of households that receive external transfers use the latter to pay their private medical insurance policy. In parallel, the survey indicates that 10.5% of households that receive external transfers still have to borrow money to cover their consumption needs, compared to 20.6% of households without external transfers who borrow money to meet their needs. The survey was conducted in 2012 and covered a sample of 2,000 Lebanese households as well as 3,356 Lebanese living abroad who are related to the households covered in the survey.

Household Spending of Foreign Transfers\*



\* multiple answers per respondent

Source: Université Saint-Joseph, Byblos Research

### Economic growth to lag regional peers, fiscal deficit to widen to 11% of GDP in 2014

In its semi-annual regional economic outlook for the Middle East and Central Asia region, the International Monetary Fund maintained its projection for Lebanon's real GDP growth at 1.8% in 2014 compared to a growth rate of 2.6% for each of the Middle East & North Africa region and the region's oil importers, and 2.5% for Arab countries in transition excluding Libya. It also projected real GDP growth of 2.5% in 2015 compared to 3.8% for each of MENA countries and Arab countries in transition ex-Libya, and 3.7% for the region's oil importing economies. Lebanon's projected growth rate in 2014 would make it the second-slowest growing economy in the Arab world, ahead of only Kuwait (1.4%), when excluding the contracting economies of Iraq and Libya.

The Fund estimated the country's nominal GDP at \$47.5bn in 2014 and \$50.8bn in 2015 relative to \$45bn in 2013, which would account for 7.8% and 7.7% of Arab oil importers' aggregate GDP, in 2014 and 2015, respectively. It projected Lebanon's inflation rate to average 3.5% in 2014 compared to 7.9% in MENA economies, 10.8% for the region's oil importers and 8.3% in Arab countries in transition ex-Libya. It also anticipated the country's inflation rate to average 4% in 2015 compared to 8.2% in the MENA region, 10.6% for the region's oil importers and 10.1% in Arab countries in transition ex-Libya. Also, it forecast broad money to grow by 8% this year and next year, down from 9% in 2013.

In parallel, the Fund projected the government's fiscal deficit to widen from 9.2% of GDP in 2013 to 11.1% of GDP in 2014 and 12% of GDP in 2015. It forecast government revenues at 20.8% of GDP in 2014 relative to 32.8% of GDP in the MENA countries, 22.6% of GDP for oil importers and 23.8% of GDP in Arab countries in transition. It also estimated public expenditures at 32% of GDP in 2014 compared to 34.1% of GDP for MENA countries, 34.6% of GDP for oil importers and 36.7% of GDP for Arab countries in transition. Further, it expected the public debt level to increase from 141% of GDP at the end of 2013 to 145% of GDP at end-2014 and 147.4% of GDP at end-2015. It also forecast total gross external debt at 176.4% of GDP at the end of 2014 and 176.5% of GDP at end-2015, up from 173.8% of GDP at end-2013 and compared to external debt in the MENA countries of 26.5% of GDP at the end of 2014 and 25.8% of GDP at the end of 2015.

The Fund estimated Lebanon's exports of goods & services to grow from \$25bn in 2013 to \$26.2bn in 2014 and \$27.7bn in 2015, and for the imports of goods & services to increase from \$32.5bn in 2013 to \$34.2bn in 2014 and \$35.8bn in 2015. The IMF forecast the country's current account deficit at \$6bn or 12.7% of GDP in 2014, compared to \$5.8bn or 12.9% of GDP in 2013, and relative to deficits of 4.7% of GDP for oil importers and 3.2% of GDP for Arab countries in transition ex-Libya. It also projected Lebanon's current account deficit at \$6.2bn or 12.3% of GDP in 2015. The Fund expected the country's gross official foreign currency reserves to increase from \$33.9bn at the end of 2013 to \$34.7bn at end-2014 and \$35.9bn at end-2015.

	Lebanon		Oil Importers		Arab Countries in Transition	
	2014P	2015P	2014P	2015P	2014P	2015P
Real GDP Growth (%)	1.8	2.5	2.6	3.7	2.5	3.8
Consumer Price Inflation (%) *	3.5	4.0	10.8	10.6	8.3	10.1
Fiscal Balance (% of GDP)	(11.1)	(12.0)	(9.3)	(8.5)	(9.9)	(8.9)
Public Debt (% of GDP)	144.9	147.4	88.0	88.5	82.1	82.9
Total Gross External Debt (% of GDP)	176.4	176.5	43.5	43.6	26.5	25.8
Current Account (% of GDP)	(12.7)	(12.3)	(4.7)	(5.9)	(3.2)	(4.5)

P: projected

\*Yearly average

Source: International Monetary Fund, October 2014

### Customs receipts down 8% to \$1bn in first nine months of 2014

Figures released by the Customs Directorate indicate that customs revenues reached \$1bn in the first nine months of 2014, constituting a decrease of 7.7% from \$1.1bn in the same period last year. The Port of Beirut continues to be the main source of customs receipts, as it accounted for 87.9% of the total in the first nine months of the year. It was followed by the Hariri International Airport with 7.4%, the Port of Tripoli with 3.1%, the Port of Saida and the Masnaa crossing point with 0.7% each, and the Port of Tyre with 0.1%. Customs receipts from the value-added tax totaled \$1bn in the first nine months of 2014, reflecting a decrease of 2.1% from \$1.1bn in the same period of 2013. The Port of Beirut accounted for 82% of such receipts and was followed by the Hariri International Airport with 10.6%, the Port of Tripoli with 4.2%, the Masnaa crossing point with 2.2%, the Port of Saida with 0.9%, while the Port of Tyre and the Abboudieh and Arida crossing points had a 0.1% share each. As such, overall customs receipts reached \$2.1bn in the first nine months of 2014, with the Port of Beirut accounting for 85% of the total, followed by the Hariri International Airport with 9%, the Port of Tripoli with 3.6%, the Masnaa crossing point with 1.4%, the Port of Saida with 0.8% and the Port of Tyre with 0.1%.

### Occupancy rate at Beirut hotels at 50%, room yields down 9% in first nine months of 2014

EY's benchmark survey of the Middle East hotel sector indicated that the average occupancy rate at hotels in Beirut was 50% in the first nine months of 2014, down from 52% in the same period last year and compared to an average rate of 61.7% in 11 Arab markets. The occupancy rate at Beirut hotels was the fourth lowest in the region during the covered period, while it was the third lowest in the region in the first nine months of 2013. Cairo City posted the lowest occupancy rate of 32% in the first nine months of 2014, followed by Kuwait City with an occupancy rate of 46%, and Manama with an occupancy rate of 47%. Also, the occupancy rate at hotels in Beirut fell by two percentage points year-on-year, constituting the second steepest decrease among the 11 Arab markets, and relative to an average increase of 2.2 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, 36% in July, 60% in August and 56% in September 2014;. In comparison, it was 50% in January, 60% in February, 59% in March, 64% in April, 59% in May, 55% in June, 40% in July, 48% in August and 35% in September 2013.

The average rate per room at Beirut hotels was \$162 in the first nine months of 2014, ranking the capital's hotels as the 10th most expensive in the region. The average rate per room at Beirut hotels decreased by 4.2% year-on-year and posted the third steepest decline among all markets in the region, relative to Madina (-4.9%) and Abu Dhabi (-4.7%). The average rate per room in Beirut came below the regional average of \$206.9, which increased by 1.7% from the same period of 2013.

Further, revenues per available room (RevPAR) were \$81 in Beirut in the first nine months of 2014, down from \$89 in the same period of 2013, and came in 10th place in the region, higher than only Cairo City (\$28). Beirut's RevPAR fell by 8.5% year-on-year and posted the second steepest decrease among Arab markets, stronger than Kuwait City (-9.6%) only. Beirut posted RevPARs of \$60 in January, \$65 in February, \$62 in March, \$82 in April, \$97 in May, \$120 in June, \$62 in July, \$104 in August and \$89 in September 2014. In comparison, RevPARs were \$87 in January, \$101 in February, \$99 in March, \$108 in April, \$102 in May, \$101 in June, \$65 in July, \$84 in August and \$55 in September 2013. Kuwait City posted the highest average room rate in the region at \$309, while Jeddah posted the highest room yield of \$212. Also, Jeddah, Madina and Dubai posted the highest occupancy rates of 77% each in the first nine months of 2014.

### Advances against real estate account for 33% of bank credits, share of trade & services at 35% of utilized credits at end-March 2014

Figures issued by the Central Bank about the distribution of bank credits by type show that advances against real estate totaled \$17.7bn and accounted for 33% of total private sector credits at the end of March 2014. They were followed by overdrafts with \$15.3bn (28.6%), advances against personal guarantees \$9.9bn (18.4%), advances against cash collateral or bank guarantees \$6.5bn (12.2%), advances against other real guarantees \$2.9bn (5.4%), and advances against financial values \$1.3bn (2.4%). In parallel, utilized credits by the private sector totaled \$53.5bn at end-March 2014, with the trade & services sector accounting for \$18.7bn, or 34.9% of such credits. They were followed by personal credits with \$15.2bn (28.5%), construction with \$9bn (16.8%), industry with \$5.9bn (11.1%), financial intermediaries with \$2.7bn (5.1%) and agriculture with \$565.3m (1.1%), while other sectors accounted for the remaining \$1.4bn (2.6%).

Also, wholesale trade represented 43.5% of trade & services credits, followed by real estate services with 20.7%, retail with 16.3%, hotels & restaurants with 8.8%, transport & storage with 7.7%, and educational services with 3%. Personal credits attracted 76.7% of loan beneficiaries, followed by trade & services with 12.7% of beneficiaries, industry with 3.3%, construction with 1.7%, agriculture with 0.9%, financial intermediaries with 0.7%, while other sectors attracted the remaining 4.1%. Further, the aggregate number of loan beneficiaries grew by 7.5% year-on-year to 474,714, while 77% of beneficiaries had loans ranging from LBP5m to LBP100m by end-March 2014. Beirut and its suburbs accounted for 77.5% of bank credits and for 55.6% of beneficiaries. It was followed by Mount Lebanon with 11.1% of credits and 17.4% of beneficiaries; South Lebanon with 4.5% of credits and 9.5% of beneficiaries; North Lebanon with 3.9% of credits and 10.4% of beneficiaries; and the Bekaa with 3.1% of credits and 7.1% of beneficiaries.

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

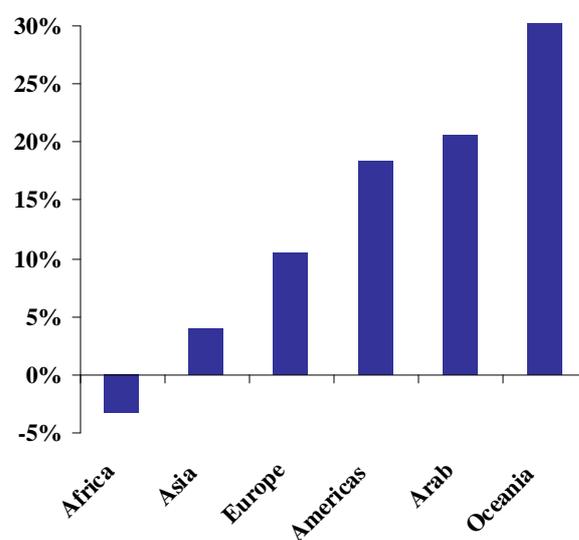
	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Jeddah	77	212	8.7
Dubai	77	205	(0.2)
Doha	70	160	12.2
Madina	77	146	12.5
Kuwait City	46	144	(9.6)
Riyadh	66	143	8.6
Abu Dhabi	76	142	(3.2)
Amman	61	100	4.5
Manama	47	97	12.3
<b>Beirut</b>	<b>50</b>	<b>81</b>	<b>(8.5)</b>
Cairo City	32	28	27.3

Source: EY, Byblos Research

### Tourist arrivals up 4% in first nine months of 2014

The number of incoming tourists to Lebanon totaled 1,018,541 in the first nine months of 2014, constituting an increase of 4.2% from 977,380 tourists in the same period last year, a decline of 6.2% from 1,086,319 tourists in the first nine months of 2012 and a drop of 20.2% from 1,276,110 tourists in the same period of 2011. In parallel, the number of incoming tourists to Lebanon totaled 433,307 in the third quarter of 2014, up 21.7% from 355,982 in the preceding quarter and 22.6% from 353,516 in the same quarter of 2013. European tourists accounted for 33.9% of total visitors in the first nine months of 2014 and were followed by visitors from Arab countries with 32.3%, the Americas with 17.4%, Asia with 8.3%, Africa with 4.1% and Oceania with 3.9%. Also, tourists from Iraq accounted for 12.7% of total visitors in the covered period, followed by visitors from France with 9.2%, the United States with 8.9%, Canada with 6.1%, Jordan with 5.4% and Germany with 5.3%. The number of visitors from Oceania increased by 30.1% year-on-year in the first nine months of 2014, followed by Arab countries (+20.6%), the Americas (+18.3%), Europe (+10.5%) and Asian countries (+3.9%); while the number of tourists from African countries decreased by 3.3% from the first nine months of 2013. Further, the number of visitors from Turkey declined by 43.8% annually, followed by visitors from Venezuela with a 26.5% decrease and Jordan with an 8.3% drop. In parallel, the number of tourists from Iraq rose by 25% annually, followed by visitors from Italy with an 11.6% increase, the United States (+11.5%), Germany and Canada (+10.5% each), Sweden (+9.3%), the UAE (+7.7%), Saudi Arabia (+7.5%), Kuwait (+7%), Egypt (+6.3%), Brazil (+3.9%), France (+1.2%) and England (+0.5%).

Number of Tourist Arrivals in First Nine Months of 2014\*



\*year-on-year percentage change

Source: Ministry of Tourism, Byblos Research

### Commercial activity still slow in first quarter of 2014

The Central Bank's quarterly business survey of opinions indicated that the decline in the volume of commercial sales slowed down during the first quarter of 2014 but remained low relative to historical levels, with the balance of opinion standing at -11 compared to -14 during the preceding quarter and -17 during the first quarter of 2013. The business survey reflects the opinions of enterprise managers about their business activity in order to depict the evolution of a number of key economic variables. The balance of opinions was the lowest in the Bekaa at -40, followed by Beirut & Mount Lebanon (-14), the North (zero), and the South (+36). The survey shows that the balance of opinions for the sales volume of food items was +12 in the first quarter of 2014 relative to +6 in the preceding quarter and compared to +2 in the same quarter of 2013.

The balance of opinions for the sales of inter-industrial goods was -13 in the first quarter compared to -20 in the preceding period and in the first quarter of 2013; while it was -23 for non-food products, relative to -21 in the fourth quarter of 2013 and to -26 in the first quarter of 2013. Also, the balance of opinions for inventory levels in all commercial sub-sectors was -5 in the first quarter of 2014 compared to -6 in the preceding quarter and -3 in the first quarter of 2013. Opinions about the level of inventories were the highest in Beirut & Mount Lebanon where they reached -3, followed by the South (-8), the Bekaa (-11), and the North (-12). The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in an indicator and the proportion of those who reported a decline in the same indicator.

Commercial Activity: year-on-year evolution of opinions

Aggregate results	Q1-11	Q1-12	Q1-13	Q1-14
Sales volume	-27	-12	-17	-11
Number of employees	1	1	-4	-4
Inventories of finished goods	-4	3	-3	-5
Q1-14 Regional results	Beirut / Mount Lebanon	North	South	Bekaa
Sales volume	-14	0	36	-40
Inventories of finished goods	-3	-12	-8	-11

Source: Central Bank business survey for first quarter of 2014

### **Byblos Bank's pre-tax profits up 8% to \$142m in first nine months of 2014**

Byblos Bank sal, one of the top banking and financial services groups in Lebanon, declared unaudited consolidated pre-tax profits of \$142m in the first nine months of the year, constituting an increase of 7.6% from \$131.9m in the same period last year. The Bank posted net profits of \$112.8m in the first nine months of 2014 relative to \$113.6m in the same period last year. Net interest income reached \$179.8m in the first nine months and grew by 1.9% from \$176.4m in the same period of 2013; while net fees & commissions income stood at \$67.8m relative to \$67m in the first nine months of 2013. Net operating income totaled \$310m in the first nine months of 2014, constituting a rise of 6.2% from \$291.6m in the same period of 2013.

Total assets reached \$19bn at the end of September 2014 and rose by 2.6% from the end of 2013; while net loans & advances to customers grew by 5% from end-2013 to \$4.72bn at end-September. Net loans & advances to related parties stood at \$16.7m at end-September 2014, up by 8.8% from end-2013. The Bank's net non-performing loans, which represent NPLs net of specific provisions and reserved interest, reached 0.7% of total loans at the end of September 2014. Also, the NPLs' coverage ratio reached 132% when accounting for specific and collective provisions and reserved interest. The Bank's capital adequacy ratio stood at 16.5% at end-June 2014 according to Basel III criteria, which is above the 12% minimum regulatory requirement and one of the highest such ratios in the Lebanese banking sector.

Customer deposits totaled \$15.4bn at the end of September and increased by 5.6% from the end of 2013, while deposits from related parties totaled \$212.2m at end-September and rose by 16.6% year-on-year. The Bank's shareholder equity totaled \$1.63bn at the end of September 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 96% to \$567m in first 10 months of 2014**

Figures released by the Beirut Stock Exchange indicate that total trading volume reached 82.5 million shares in the first 10 months of 2014, constituting an increase of 148.7% from the same period of 2013; while aggregate turnover amounted to \$566.8m, up 96% from a turnover of \$236.8m in the first 10 months of 2013. Market capitalization increased by 7% from end-October 2013 to \$11.3bn, of which 80.1% was in banking stocks, followed by real estate stocks with 16.7%, industrial stocks with 2.9% and trading stocks with 0.3%. The market liquidity ratio was 5% compared to 2.2% in the first 10 months of 2013. Banking stocks accounted for 92.6% of aggregate trading volume in the first 10 months of the year, followed by real estate stocks with 7.1%, trading with 0.2% and industrial stocks with 0.1%. Also, banking stocks accounted for 82.4% of the aggregate value of traded shares, followed by real estate stocks with 13.3%, and trading and industrial stocks with 0.1% each. The average daily traded volume for the period was 404,505 shares for an average daily value of \$2.8m. The figures reflect increases of 145.1% in volume and 135.8% in value year-on-year.

### **Venture capital fund raises \$56m to invest in knowledge economy start-ups**

The venture capital firm Middle East Venture Partners Holding sal (MEVP) announced the IMPACT Fund's first closing, with investor commitments of \$56m. Initially launched in December 2013, the IMPACT Fund is the first venture capital fund to be established as a result of the Central Bank of Lebanon's Intermediate Circular 331 that was issued in August 2013. The circular authorized commercial banks operating in Lebanon to invest up to 3% of their private funds in the capital of start-up firms in the knowledge economy, with a 10% limit per firm of this percentage. The fund plans to invest between \$0.5m and \$5m per firm in Lebanese knowledge-based startups, mainly in the information & communications technology sector and in other creative industries. The fund has set a timetable of up to five years to invest its capital.

In parallel, the fund's investment committee approved five investments for an aggregate of \$12.5m, four of which have been finalized. The fund invested \$3m in Mobinets, a telecom software provider that specializes in next generation smart Operation Support Systems solutions. It also committed \$2m to Fuel Powered, an online platform with multiplayer functionalities that allows mobile gamers to compete with each other; and pledged an undisclosed amount to Fadel Partners, a provider of intellectual property management software and solutions. The fund also announced a \$1.5m investment in Klangoo, the owner of Magnet, which is a text analysis technology. Further, it will invest \$4m by the end of 2014 in Bookwitty, an international online book distribution company. The IMPACT Fund has received investment commitments from BLOM Invest Bank sal, BankMed sal, Bank Audi sal, Fransabank sal, Crédit Libanais Investment Bank sal and Al-Mawarid Bank sal. MEVP expects other banks to participate in the fund's second closing in the middle of November 2014.

### Aggregate profits of publicly listed banks up 6% in first nine months of 2014

Financial results issued by the six banks listed on the Beirut Stock Exchange show that their aggregate net profits reached \$799.2m in the first nine months of 2014, constituting an increase of 6.4% from net earnings of \$751m in the same period of last year. The banks' unaudited net profits reached \$253.6m in the third quarter of 2014, down 12.7% from \$290.9m in the second quarter and relative to \$254.8m in the first quarter of 2014. Further, the banks' aggregate pre-tax profits grew by 8.6% year-on-year to \$1bn in the first nine months of 2014. The aggregate net interest income of publicly-listed banks reached \$1.47bn in the first nine months of the year, up 14% from \$1.29bn in the same period of 2013; while their total net fees and commission income grew by 19.5% to \$425.2m year-on-year. The banks' total operating income reached \$2.34bn in the first nine months, up 8% from \$2.16bn in the same period of 2013.

In parallel, the aggregate assets of listed banks rose by 6% from the end of 2013 and by 10.8% from end-September 2013 to \$107.1bn; while their total loans, including those to related parties, grew by 7.7% from end-2013 and by 14.4% from end-September 2013 to \$34.3bn. Also, total deposits, including those from related parties, increased by 5.7% from end-2013 and by 10.3% from a year earlier to \$89bn at the end of September.

Also, the six banks' aggregate loans-to-deposits ratio stood at 38.5% at the end of September 2014, up from 37.8% at end-2013 and from 37.1% a year earlier. BLOM Bank posted the lowest loans-to-deposits ratio at 29.4% compared to 27.9% at end-September 2013; followed by Byblos Bank with a ratio of 30.4% relative to 29.6% a year earlier, Bank of Beirut with 39.1% compared to 38.2% at end-September 2013; BLC Bank with 46.1% relative to 43.6% a year earlier; Bank Audi with 47%, up from 43.6% at end-September 2013; and Banque BEMO with a 51.3% ratio relative to 46% a year earlier.

Further, the banks' collective cost-to-income ratio stood at 49.8% in the first nine months of 2014 and increased from 46.7% in the same period last year. BLOM Bank posted the lowest cost-to-income ratio among listed banks at 40% in the first nine months of 2014 compared to 37.1% at end-September 2013. It was followed by Bank of Beirut with 46.9%, down from 47.9% in the first nine months of 2013; Byblos Bank with a ratio of 50.2% relative to 46.1% in the same period last year; BLC Bank with 53.2% compared to 56.2% in the first nine months of 2013; Bank Audi with 55.9%, up from 52.1% in the same period last year; and Banque BEMO with a 65.4% ratio, down from 67.8% in the first nine months of 2013.

Results of Listed Banks in First Nine Months of 2014						
	Byblos	BLOM	Audi	BoB	BEMO	BLC
Net Profits	\$112.8m	\$269.3m	\$271.7m	\$102.54m	\$8.95m	\$33.98m
% Change*	(0.7%)	2.5%	6.8%	10.9%	127%	42%
Total Assets	\$18.97bn	\$27.5bn	\$39.89bn	\$13.94bn	\$1.46bn	\$5.33bn
% Change**	2.6%	5.2%	10.2%	2.4%	(1.5%)	3.9%
Loans	\$4.74bn	\$6.96bn	\$15.93bn	\$4.07bn	\$0.67bn	\$1.94bn
% Change**	5%	9.8%	8.2%	7.2%	9.9%	3.4%
Deposits	\$15.59bn	\$23.71bn	\$33.92bn	\$10.41bn	\$1.22bn	\$4.21bn
% Change**	5.7%	5%	9.1%	0.9%	0.2%	(2.1%)

\*Year-on-year

\*\*Change from end-2013

Source: Banks' financial statements, Byblos Research

### Banque de L'Habitat raises its capital by \$33m

Banque de L'Habitat sal announced that it is raising its capital by LBP50bn (\$33.17m) to LBP100bn or \$66.3m, through the transfer of funds from its legal and statutory reserves and its retained earnings. The bank's Extraordinary General Assembly approved the capital increase on October 9, 2014.

Banque de L'Habitat posted audited net profits of \$16.1m in 2013 relative to \$15.7m in 2012. Total assets reached \$643.7m at the end of 2013, constituting a marginal decrease of 0.2% from \$644.9m at end-2012; while loans & advances to customers, excluding loans & advances to related parties, increased by 3.9% year-on-year to \$501.1m. Customer deposits, excluding deposits from related parties, totaled \$140.8m at end-2013 and grew by 7.5% from a year earlier. The bank's shareholder equity rose by 8.5% year-on-year to \$162.1m at end-2013. Commercial banks own 80% of Banque de l'Habitat and the Lebanese government holds the balance of 20%. The bank extends long-term loans in Lebanese pounds to buy a house, build new residences and renovate a home, as well as to finance housing cooperatives.

## Corporate Highlights

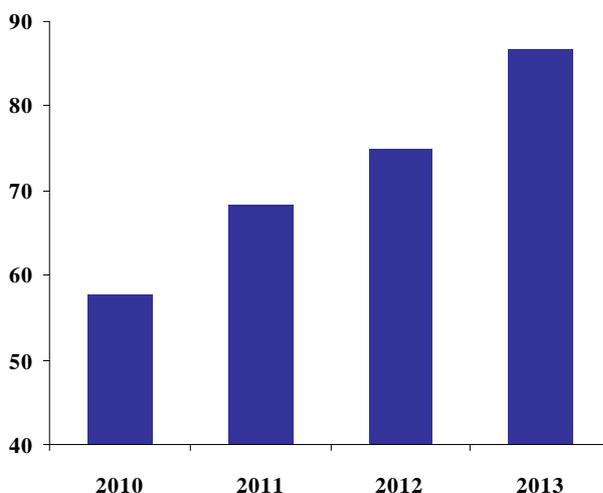
### Net profits of the life insurance category up 16% to \$87m in 2013, combined ratio at 68%

Figures released by the Association of Insurance Companies in Lebanon (ACAL) show that the net profits generated by the life insurance segment in Lebanon reached \$86.7m in 2013, constituting an increase of 15.6% from \$75m in 2012. The segment's net profit margin improved from 19.8% in 2012 to 21.3% in 2013, relative to a margin of 8% for the insurance sector last year. The life insurance category contributed 76.2% of the insurance sector's aggregate net profits for the year. Further, gross written premiums from the life category rose by 7.6% to \$415.4m in 2013 and accounted for 29.6% of the insurance sector's aggregate premiums, the highest such share among insurance segments in the country. Net premiums rose by 7.3% to \$389.6m, policy fees increased by 16.1% year-on-year to \$17m, and the cost of policies rose by 2.5% to \$8.9m.

Further, net investment income from the life category reached \$79.6m in 2013 and increased by 1.9% year-on-year, as gross investment income rose by \$4.2m. In parallel, paid claims for the life category totaled \$164.1m in 2013, constituting a rise of 10% from \$149.2m in 2012. The change in technical reserves totaled \$137.8m in 2013, up by 34.2% annually, partly due to a 42.4% rise in the change in mathematical reserves. Also, policyholders' dividend reached \$4m in 2013, constituting a rise of 10% from \$3.9m in 2012. The change in technical reserves totaled \$137.8m in 2013, up by 34.2% annually, partly due to a 42.4% rise in the change in mathematical reserves. Also, policyholders' dividend reached \$4m in 2013, constituting an increase of 2.3% from \$3.9m in 2012. The net reinsurance expense decreased by 47.6% to \$15.9m in 2013, mainly due to a 70% drop in the reinsurance share of premiums reserves. General insurance expenses totaled \$88.6m in 2013 compared to \$82.2m in 2012, and included \$39.4m in brokerage expenses that accounted for 44.5% of the total insurance expenses and \$36.3m in administration costs that represented 40.9% of the total.

In parallel, the loss ratio, or the ratio of claims incurred to earned gross premiums, of the life insurance category was 42.2% in 2013; the commission ratio, or the ratio of acquisition cost to earned gross premiums, reached 11.9%; the reinsurance ratio, or the ratio of net reinsurance income to earned gross premiums, was 4%; and the expense ratio, or the ratio of other general expenses to earned gross premiums, reached 10.2% in 2013. As such, the average technical combined loss ratio, which is the aggregate ratio of the above four ratios, reached 68.2% in 2013 compared to 70.8% in 2012.

### Net Profits from the Life Insurance Segment (US\$m)



Source: ACAL, Byblos Research

## 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	Feb 2013	Jan 2014	Feb 2014	Change*	Risk Level
Political Risk Rating	53.0	52.0	52.0	▼	High
Financial Risk Rating	35.0	38.0	38.0	▲	Low
Economic Risk Rating	34.0	27.0	27.0	▼	High
Composite Risk Rating	61.0	58.5	58.5	▼	High

Regional Average	Feb 2013	Jan 2014	Feb 2014	Change*	Risk Level
Political Risk Rating	58.6	58.4	58.4	▼	High
Financial Risk Rating	41.6	40.7	40.4	▼	Very Low
Economic Risk Rating	36.3	35.8	35.9	▼	Low
Composite Risk Rating	68.2	67.5	67.4	▼	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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