



# LEBANON THIS WEEK

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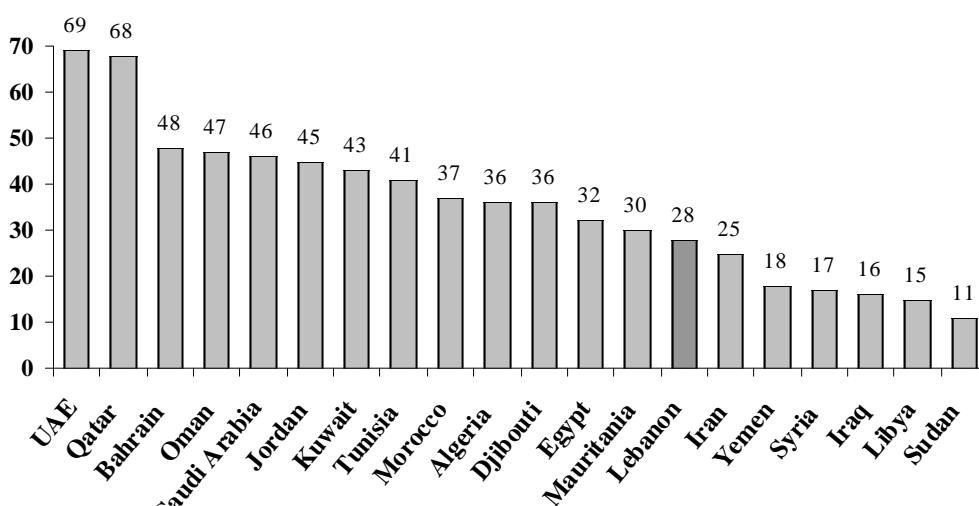
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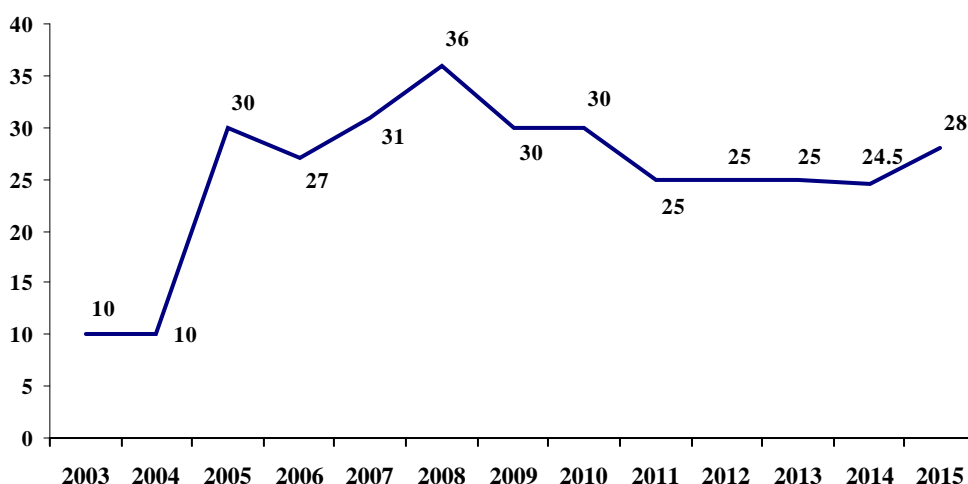
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## Charts of the Week

Freedom from Corruption Index in MENA Countries in 2015



Freedom from Corruption Index for Lebanon



Source: Heritage Foundation/Wall Street Journal Index of Economic Freedom, Byblos Bank

## Quote to Note

"The fall in oil prices provides some near-term relief to Lebanon's twin deficits."

*Citigroup, on the expected narrowing of the fiscal and current account deficits in 2015 from the drop in global oil prices*

## Number of the Week

**12%:** Return on average equity of the Lebanese banking sector in 2014

## Lebanon in the News

\$m (unless otherwise mentioned)	2013	Nov 13	Aug 14	Sep 14	Oct 14	Nov 14	% Change*
Exports	3,936	263	285	282	279	248	(5.70)
Imports	21,228	1,772	2,120	1,671	1,724	1,393	(21.39)
Trade Balance	(17,292)	(1,509)	(1,835)	(1,389)	(1,445)	(1,145)	(24.12)
Balance of Payments	(1,128)	(192)	(564)	131	(566)	(424)	120.83
Checks Cleared in LBP	17,047	1,451	1,558	1,553	1,587	1,415	(2.49)
Checks Cleared in FC	55,321	4,584	4,973	4,852	4,730	4,367	(4.73)
Total Checks Cleared	72,368	6,035	6,531	6,405	6,317	5,782	(4.19)
Budget Deficit/Surplus	(4,220)	(463.41)	(318.75)	(564.21)	(216.28)	(585.95)	(26.44)
Primary Balance	(239.68)	2.97	(141.93)	(84.64)	258.98	(100.54)	-
Airport Passengers	6,265,470	407,869	814,800	640,546	549,726	427,403	4.79

\$bn (unless otherwise mentioned)	2013	Nov 13	Aug 14	Sep 14	Oct 14	Nov 14	% Change*
BdL FX Reserves	31.71	31.78	33.09	32.34	33.09	33.87	6.58
<i>In months of Imports</i>	<i>17.65</i>	<i>17.93</i>	<i>15.61</i>	<i>19.35</i>	<i>19.19</i>	<i>24.32</i>	<i>35.58</i>
Public Debt	63.46	63.26	65.86	65.97	66.21	66.64	5.34
Net Public Debt	53.18	52.75	55.59	55.89	56.23	56.71	7.51
Bank Assets	164.82	161.92	170.33	171.34	171.27	172.21	6.36
Bank Deposits (Private Sector)	136.21	133.15	141.52	142.02	142.04	142.74	7.20
Bank Loans to Private Sector	47.38	46.81	49.74	49.95	50.10	50.51	7.90
Money Supply M2	45.60	45.05	47.48	47.90	47.82	48.07	6.70
Money Supply M3	111.16	109.34	115.62	116.07	116.02	116.47	6.52
LBP Lending Rate (%)	7.29	7.01	7.21	7.08	7.29	6.96	(5bps)
LBP Deposit Rate (%)	5.44	5.47	5.51	5.51	5.58	5.55	8bps
USD Lending Rate (%)	6.88	6.88	6.96	6.94	6.95	7.01	13bps
USD Deposit Rate (%)	2.95	2.97	3.13	3.04	3.12	3.10	13bps
Consumer Price Index**	3.89	4.96	0.81	1.24	(0.27)	0.48	-

\* Year-on-Year

\*\* Year-on-Year percentage change

Note: bps i.e. basis point

Source: Association of Banks in Lebanon, Banque du Liban, Byblos Research

## 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"	11.44	1.60	45,545	9.67%	Apr 2015	10.000	100.90	2.69
Solidere "B"	11.36	1.88	28,735	6.24%	Jan 2016	8.500	102.88	5.01
Byblos Common	1.70	1.19	108,436	5.16%	Mar 2017	9.000	108.50	4.56
Byblos Pref. 08	102.20	0.20	30	1.73%	Nov 2018	5.150	100.88	4.89
Byblos Pref. 09	102.20	0.00	0	1.73%	May 2019	6.000	102.75	5.26
BLOM GDR	10.00	1.42	12,000	6.24%	Mar 2020	6.375	103.75	5.51
BLOM Listed	9.15	0.55	2,665	16.62%	Apr 2021	8.250	112.75	5.74
Audi GDR	7.22	(0.41)	34,000	7.09%	Oct 2022	6.100	102.00	5.77
Audi Listed	6.75	0.00	38,944	22.80%	Jun 2025	6.250	100.88	6.13
HOLCIM	15.00	0.00	0	2.47%	Nov 2026	6.600	103.25	6.20

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

Source: Byblos Bank Capital Markets

	Mar 2-6	Feb 23-27	% Change	Feb 2015	Feb 2014	% Change
<b>Total Shares Traded</b>	270,355	563,915	(52.06)	21,880,303	6,037,763	262.39
<b>Total Value Traded</b>	\$1,681,489	\$9,590,872	(82.47)	\$156,374,053	\$43,140,999	262.47
<b>Market Capitalization</b>	\$11.84bn	\$11.77bn	0.52	\$11.77bn	\$11.30bn	4.21

Source: Beirut Stock Exchange (BSE)



### Lebanon has the 32nd best healthcare outcome globally

The Economist Intelligence Unit's analysis of healthcare outcomes and spending on healthcare in 166 countries shows that Lebanon achieved a relatively high healthcare outcome at a low cost. Healthcare outcome is the impact of healthcare provision on the health status of the population.

Lebanon came in 135th place among 166 countries on the EIU's Healthcare Outcome Index, which means that Lebanon has the 32nd best healthcare outcome globally. Also, Lebanon has the third best healthcare outcome among 22 countries in the Middle East & North Africa (MENA) region and the second best among 43 upper-middle income countries (UMICs) included in the survey. The Outcome Index is based on four health indicators that are the disability-adjusted life years, the health-adjusted life expectancy, adult mortality, and life expectancy at the age of 60 years. A country's score on the index ranges between zero and 100 points, with higher scores indicating better outcomes.

Globally, Lebanon has a better healthcare outcome than the United States, Kuwait and the Czech Republic, and a worse outcome than Slovenia, Qatar and Denmark. Also, Lebanon's healthcare outcome trailed that of Israel and Qatar in the MENA region, and of Costa Rica among UMICs. The EIU divided the countries into six tiers

according to their overall population health outcomes. Lebanon received a score of 85.9 points and came in the Tier Two group, along with 27 other countries. Lebanon ranked in fourth place among the Tier Two group of countries, behind Slovenia, Qatar and Denmark.

In parallel, the EIU estimated spending on healthcare per capita in Lebanon at \$684 per year, the 10th lowest among the Tier Two group of countries with the same level of healthcare outcome. As such, Lebanon achieved the fourth best healthcare outcome among the Tier Two group of countries despite its relatively low level of spending on healthcare. Also, spending on healthcare per capita in Lebanon is the 55th highest in the world, the seventh highest among MENA countries and the sixth highest among UMICs. The difference between Lebanon's global rank on the Healthcare Outcome Index and its rank in terms of per capita spending on healthcare is 23 spots, the sixth highest among the Tier Two group of countries behind only Ecuador (41 spots), Peru (40 spots), Tunisia (38 spots), China (34 spots) and Cuba (27 spots). The wide difference between the two ranks means that Lebanon's performance in terms of healthcare outcome significantly exceeds the spending on healthcare per capita.

Further, the EIU estimated that increasing Lebanon's score by one point on the Healthcare Outcome Index would require an \$8 rise in the spending on healthcare per capita in the country, which is the ninth lowest cost per "outcome point" among the Tier Two group of countries. In comparison, it takes on average \$13.3 globally and \$17 among the Tier Two countries to increase by one point a country's ranking on the index, while it takes \$6.8 among UMICs and \$7.9 in MENA countries to achieve the same increase. The cost per "outcome point" in Lebanon was the 63rd highest in the world, the eighth highest in the region and the 12th highest among UMICs.

### Net public debt at \$57.4bn at end-January 2015

Lebanon's gross public debt reached \$66.6bn at the end of January 2015, unchanged from the end of 2014 and constituting an increase of 4.1% from \$64bn at end-January 2014. Domestic debt totaled \$41.3bn at end-January 2015, rising by 0.8% from end-2014 and by 9.2% annually; while debt in foreign currency stood at \$25.3bn, constituting a decrease of 1.2% from the end of 2014 and a decline of 3.3% from a year earlier. Local currency debt accounted for 62% of gross public debt at the end of January 2015 compared to 59.1% a year earlier, while foreign currency-denominated debt represented 38% of the total relative to 40.9% a year earlier. The weighted interest rate on outstanding Treasury bills was 6.9% and that on Eurobonds was 6.41% at the end of January 2015. Further, the weighted life on Eurobonds was 5.33 years, while that on Treasury bills was 1,171 days.

Commercial banks accounted for 50.4% of the local public debt at the end of January 2015 compared to 53% a year earlier. They were followed by the Central Bank with 32.7%, up from 30.3% at end-January 2014; while public agencies, financial institutions and the public accounted for 16.9% of local debt compared to 16.7% at the end of January 2014. Eurobond holders, foreign private sector loans and special T-bills in foreign currencies accounted for 91% of foreign-currency denominated debt, followed by foreign governments with 4.7%, multilateral institutions with 4%, and Paris II loans with 0.3%. The net public debt, which excludes public sector deposits at the Central Bank and at commercial banks from overall debt figures, increased by 7.4% year-on-year to \$57.4bn. 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.

Healthcare Outcome Index*			
	Tier Two Countries Score	Tier Two Countries Rank**	Per Capita Healthcare Spending
Slovenia	87.0	138	\$1,941
Qatar	86.9	137	\$2,275
Denmark	86.2	136	\$6,307
<b>Lebanon</b>	<b>85.9</b>	<b>135</b>	<b>\$684</b>
United States	85.5	134	\$9,216
Kuwait	85.0	133	\$1,144
Czech Republic	82.7	132	\$1,419
Bahamas	82.3	131	\$1,657
Bahrain	82.1	130	\$958
Ecuador	81.9	129	\$376
Brunei Darussalam	81.8	128	\$951
Peru	81.7	127	\$338
Cuba	81.6	126	\$484
Barbados	81.0	125	\$941

\* Top 10 Tier Two countries

\*\* A higher rank indicates a better healthcare outcome

Source: Economist Intelligence Unit, Byblos Research

### Lebanon's external debt posts 11th lowest return in emerging markets, third lowest in the Middle East & Africa

Figures issued by Merrill Lynch indicate that Lebanon's external debt posted returns of 0.55% in the first two months of 2015, constituting the sixth lowest return among 38 markets in the Central & Eastern Europe and the Middle East & Africa (CEEMEA) region, as well as the 11th lowest return among the 70 emerging markets included in Merrill Lynch's External Debt EM Sovereign Index. Lebanon underperformed the overall emerging markets returns of 1.71% during the covered period.

Further, Lebanon's external debt posted the third lowest return among 22 countries in the Middle East & Africa region in the covered period, ahead of only Nigeria (-0.97%) and Mozambique (-2.01%).

In parallel, Lebanon's external debt posted returns of 0.61% in February 2015, constituting the 14th lowest return in the CEEMEA region and the 29th lowest return in emerging markets during the covered month. Lebanon outperformed the CEEMEA returns of 0.59%, but it underperformed those of emerging markets of 0.66% and the 1.89% returns posted by 'B'-rated sovereigns in February 2015.

Further, Lebanon's external debt posted the ninth lowest return in the Middle East & Africa region in February 2015. It outperformed Tunisia (+0.46%), Morocco (+0.22%), South Africa and Israel (zero percent each), the UAE (-0.1%), Qatar (-0.51%), Egypt (-0.57%) and Turkey (-1.78%). It was outperformed by Ghana (+10.4%), Iraq (+4.68%), Zambia and Nigeria (+3.73% each), Gabon (+2.67%), Angola (+2.62%), Rwanda and Mozambique (+2.36% each), Kenya (+1.88%), Senegal (+1.4%), the Ivory Coast (+1.31%), Namibia (+0.64%) and Bahrain (+0.63%).

Merrill Lynch indicated that the spread on Lebanese Eurobonds ended February 2015 at 408 basis points, constituting the 14th widest spread in the CEEMEA region and the 24th widest among emerging markets. It was wider than the emerging markets' overall spread of 305 basis points at the end of February 2015. Lebanon has a weight of 3.24% on Merrill Lynch's External Debt EM Sovereign Index, the fifth highest in the CEEMEA universe and the 10th highest among emerging economies. Lebanon accounted for 6% of allocations in the CEEMEA region.

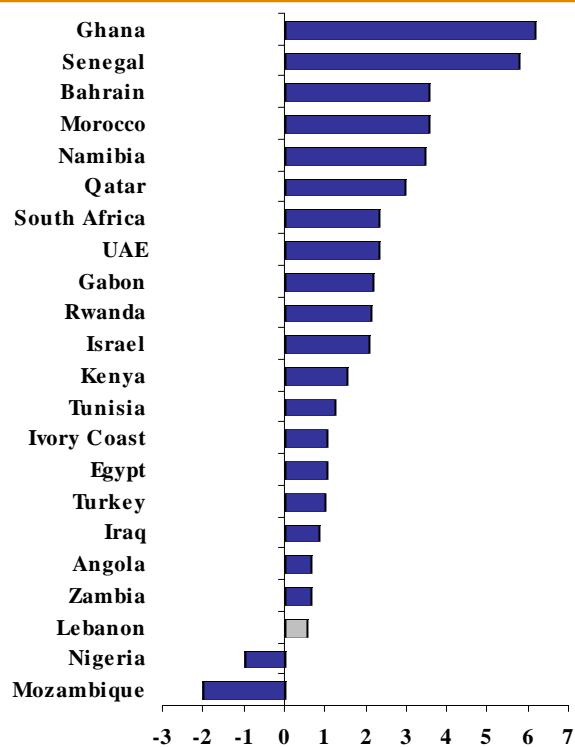
### Ninety percent of Lebanese unsatisfied with the functioning of the country's political system

A survey conducted by the U.S.-based opinion polling think tank Pew Research Center indicated that 90% of Lebanese are dissatisfied with the way the political system in the country is working, the highest share among 31 emerging countries covered in the survey. The share of participants in Lebanon who are not satisfied with the way the country's political systems functions is significantly higher than the median of 52% in emerging countries and of 61% in the Middle East & North Africa (MENA) region.

The survey showed that 55% of Lebanese are "very dissatisfied" with their political system, the highest share among the 31 countries and compared to a median of 21% in emerging countries and of 33% in the MENA region. Further, 35% of respondents in Lebanon said that they are "somewhat dissatisfied" with the country's political system, the seventh highest share among emerging economies similar to the share of respondents in Brazil who had similar views about their country's political system. The share of participants in Lebanon who are "somewhat dissatisfied" with the country's political system is lower than only Thailand (46%), Indonesia (41%), Poland (40%), Chile (38%), and Egypt and Peru (36% each). Also, it came higher than the median of 27% in emerging countries and of 28% in the MENA region.

The survey was conducted between April and May 2014 as part of the Pew Research Center's Global Attitudes Project. The survey's results are based on face-to-face interviews with 1,000 Lebanese who are 18 years or older.

### External Debt Performance in the Middle East & Africa in First Two Months 2015 (%)



Source: Merrill Lynch, Byblos Research

### Office space under construction in Beirut at 195,694 square meters, Ashrafieh accounts for 67% of the total

Figures released by Property advisory firm RAMCO show that a total of 37 office projects are currently under construction in Beirut, equivalent to an aggregate of 195,694 square meters (sqm). The firm noted that 11 out of the 37 office projects, or 29% of the total, are part of mixed-use projects that offer offices on the lower floors and residential apartments on the upper floors. The firm indicated that the office stock under construction has increased by 32% since September 2013. It noted that some developers have shifted to office projects given the stagnating residential market. The study covered the office stock offered for rent or sale, and excluded office projects for private companies' own usage.

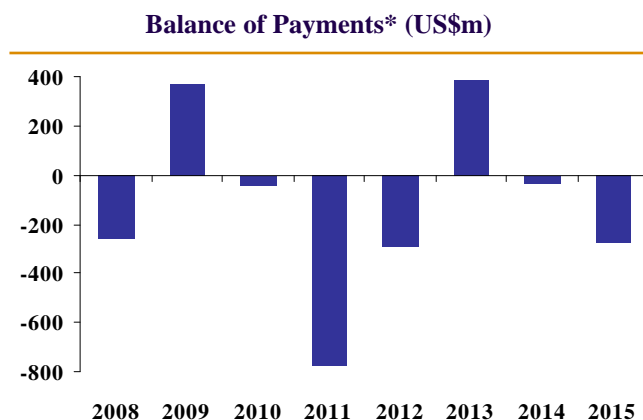
The firm noted that 23 out of the 37 office projects, or 62% of the total, are currently under construction in the Ashrafieh's areas of the Corniche el Nahr, Adlieh and Badaro. It added that the axis that links the National Museum to the area of Fiat hosts 11 projects that are currently under construction. The new developments in Ashrafieh represent a total of 130,752 sqm, or 67% of the total upcoming office space in Beirut, with an average project size of 5,684 sqm and with an asking price that ranges from \$3,500 per sqm to \$5,500 per sqm. RAMCO anticipated that the southeastern part of Ashrafieh would become an important business destination by 2017 or 2018, given the new office projects in the pipeline to be launched this year. It considered that the southeastern part of Ashrafieh would become a serious competitor to traditional office hubs such as the Beirut Central District, Ras Beirut and Charles Malek Avenue.

Also, the firm indicated that nine out of the 37 office projects, or 24% of the total, are currently under construction in Western Beirut, mainly in the Hamra, Bachoura, and UNESCO areas. They represent a total of 21,611 sqm, or 11% of total upcoming offices in Beirut, with an average project size of 2,401 sqm. The asking price ranges between \$5,000 per sqm and \$5,500 per sqm and covers offices that are offered with basic finishing.

Finally, RAMCO said that five out of the 37 office projects, or 14% of the total, are currently being built in the Beirut Central District and are equivalent to 43,331 sqm. The average project size in the Beirut Central District is 8,666 sqm. It said that the asking sales price for a first floor office offered core and shell varies between \$5,500 per sqm and \$7,500 per sqm.

### Balance of payments posts deficit of \$280m in January 2015

Central Bank figures show that Lebanon's balance of payments posted a deficit of \$280.2m in January 2015 compared to deficits of \$115.5m in December 2014 and \$31.3m in January 2014. The January 2015 deficit was caused by a deficit of \$637.4m in the net foreign assets of banks and financial institutions, which was partly offset by a surplus of \$357.2m in those of the Central Bank. 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, \$1.1bn in 2013 and \$1.4bn in 2014.



\* in the month of January of each year

Source: Central Bank of Lebanon

### Tourism ministry launches initiatives to vitalize sector

The Ministry of Tourism launched the "ana" initiative that aims to increase ties between members of the Lebanese Diaspora and their home country. The program plans to encourage around 10 million individuals of Lebanese descents to visit Lebanon at least once in their lives. The ministry has set incentive packages that include discounted airfares, as well as transportation and accommodation at exclusive prices. The final version of the project will be developed and launched in the coming months in collaboration with the United Nations World Tourism Organization (UNWTO).

In parallel, stakeholders in the tourism sector, including the Tourism Ministry and private sector participants, signed the Global Code of Ethics for Tourism (GCET) with the UNWTO. The code is a comprehensive set of principles designed to guide key players in the tourism industry. The GCET aims to help maximize the benefits of the tourism sector while minimizing its potentially negative impact on the environment, cultural heritage and societies across the globe.



### Fiscal deficit at 24% of expenditures in first 11 months of 2014 when assuming \$1.2bn in telecom revenues

Figures released by the Finance Ministry show that the fiscal deficit reached \$3bn in the first 11 months of 2014 and narrowed by 24.1% from \$4bn in the same period of 2013. The deficit was equivalent to 24.3% of total budget and Treasury expenditures compared to 31.9% of overall spending in the first 11 months of 2013. Overall government expenditures reached \$12.4bn and decreased by 0.6% year-on-year, while total revenues rose by 10.4% to \$9.4bn. Budgetary expenditures increased by 12.5% to \$10.9bn and included \$1.8bn in transfers to Electricité du Liban and \$572m in outlays from previous years, while budget revenues rose by 4.6% to \$8.4bn. Tax revenues grew by 3.1% year-on-year to \$6.4bn, of which 32.2%, or \$2.1bn in VAT receipts that grew by 0.6% year-on-year. Tax revenues accounted for 76.7% of budgetary revenues and for 68.6% of total Treasury and budgetary receipts. Based on the Finance Ministry's own estimates, telecom receipts reached \$1.2bn in the first 11 months of 2014 compared to \$1.1bn in the same period of 2013. On a cash basis, public revenues stood at \$7.2bn; while the fiscal deficit widened to \$4.2bn and was equivalent to 33.8% of expenditures.

The distribution of other tax revenues shows that receipts from taxes on income, profits & capital gains increased by 11.8% to \$1.8bn in the first 11 months of 2014; revenues from customs regressed by 5.6% year-on-year to \$1.2bn; receipts from property taxes rose by 5.3% to \$736.3m; revenues from taxes on goods & services grew by 4.7% to \$308.3m; and other tax receipts, mainly stamp fees, increased by 4.3% to \$299.8m. Further, the distribution of income tax revenues shows that receipts from taxes on profits accounted for 40.6% of total income tax receipts, followed by the tax on interest deposits with 24.4%, taxes on wages & salaries with 23.6%, and the capital gains tax with 9.4%. Receipts from the tax on profits increased by 14.4%, income from capital gains rose by 11.9%, revenues from the taxes on wages & salaries grew by 11.3%, and receipts from the tax on interest deposits rose by 7.3%.

Also, the distribution of property taxes shows that revenues from real estate registration fees increased by 4.4% to \$511.2m, receipts from built property taxes rose by 24.2% to \$133m and revenues from the inheritance tax regressed by 10.4% to \$92.1m. In parallel, non-tax budgetary receipts rose by 10% to \$2bn, with revenues from government properties rising by 8.6% to \$1.5bn and administrative fees & charges growing by 11.1% to \$386.6m. Based on the ministry's assumption, receipts from telecom services accounted for 80.6% of income from government properties and for 60.1% of non-tax revenues.

Debt servicing totaled \$4bn in the first 11 months of 2014, up by 10.3% year-on-year. It accounted for 32.6% of total expenditures and for 37.2% of budgetary spending, and absorbed 43% of overall revenues and 48.2% of budgetary receipts. Interest payments on domestic debt rose by 17.7% year-on-year to \$2.4bn, while interest disbursements on foreign debt grew by 2% to \$1.5bn. Also, the repayment of principal on foreign debt regressed by 5.7% to \$172m. Excluding debt servicing, the primary budget balance posted a surplus of \$1.6bn, or 14.4% of budget expenditures, compared to a surplus of \$2bn, or 21.1% of budget spending in the first 11 months of 2013. The overall primary balance posted a surplus of \$1bn or 8.2% of spending in the first 11 months of 2014, relative to a deficit of \$310.4m or 2.5% of total expenditures in the same period of 2013.

<b>Fiscal Results in First 11 Months of 2014</b>		
	<b>Including Assumed Telecom Receipts</b>	<b>Excluding Assumed Telecom Receipts*</b>
	<b>US\$m</b>	<b>US\$m</b>
Budget revenues	8,405	7,229
Tax revenues	6,449	6,449
Non-tax revenues	1,956	780.3
<i>of which Telecom revenues</i>	<i>1,176</i>	<i>-</i>
Budget expenditures	10,883	10,883
<b>Budget Surplus/Deficit</b>	<b>(2,478)</b>	<b>(3,654)</b>
<i>In % of budget expenditures</i>	<i>(22.8%)</i>	<i>(33.6%)</i>
<b>Budget Primary Surplus</b>	<b>1,571</b>	<b>395</b>
<i>In % of budget expenditures</i>	<i>14.4%</i>	<i>3.6%</i>
Treasury receipts	1,001	1,001
Treasury expenditures	1,546	1,546
Total Revenues	9,406	8,230
Total Expenditures	12,430	12,430
<b>Total Deficit</b>	<b>(3,024)</b>	<b>(4,200)</b>
<i>In % of total expenditures</i>	<i>(24.3%)</i>	<i>(33.8%)</i>
<b>Total Primary Surplus/Deficit</b>	<b>1,025</b>	<b>(150.6)</b>
<i>In % of total expenditures</i>	<i>8.3%</i>	<i>(1.2%)</i>

\* Cash basis

Source: Ministry of Finance, Byblos Research



### Lebanon represented in *Forbes* magazine's list of world billionaires

*Forbes* magazine's annual survey of the world's billionaires for 2015 included seven persons from Lebanon, up from six persons in the 2014 survey. The list included four family members of the late Prime Minister Rafiq Hariri, two members of the Mikati family and a new entrant from the Mouawad family. The survey ranked former Prime Minister Najib Mikati and his brother Taha Mikati in 534th place, down from 520th place in 2014, with an estimated net fortune of \$3.3bn each relative to \$3.1bn in the 2013 survey. They were followed by Mr. Bahaa Hariri in 810th place with a net fortune of \$2.3bn, down from 796th place and up from a net fortune of \$2.2bn in last year's survey. Former Prime Minister Saad Hariri ranked in 1250th place, down from 1154th place in the 2014 survey, with an estimated net fortune of \$1.5bn that remained unchanged year-on-year. The 2015 survey included for the first time Mr. Robert Mouawad who ranked in 1312nd place with an estimated net fortune of \$1.45bn. In parallel, Mr. Ayman Hariri and his brother Mr. Fahd Hariri came in 1638th place, down from 1372nd place in 2014, while their net worth regressed to \$1.1bn each from \$1.2bn each in last year's survey. The survey ranks individuals according to their assets, including stakes in public and private companies, real estate, yachts, art and cash, and takes into consideration their debt stock estimates.

*Forbes* said the Mikati brothers founded the telecommunications firm Investcom in 1982 and sold most of their stake to South Africa's MTN Group in 2006 for \$3.6bn in cash and stocks, but they remain MTN's single largest shareholder through their holding company M1 Group. The Beirut-based M1 Group has also investments in real estate, jet leasing, apparel and food distribution. In parallel, it said that Mr. Bahaa Hariri has massive investments in Jordan and his real estate holding company Horizon Group is developing, in partnership with the Jordanian government, part of downtown Amman into a new commercial and residential area. He is also a majority owner of Global Express, a logistics company. It noted that former PM Saad Hariri is the Chairman and CEO of Saudi Oger and that Mr. Ayman Hariri is involved in running the company. It pointed out that Mr. Fahd Hariri is an architect and develops residential buildings in Beirut. It indicated that Mr. Robert Mouawad expanded his family business in jewelry manufacturing and currently has around 20 stores in the Middle East, Asia, Switzerland and Los Angeles. He is also owner of Robert Mouawad Real Estate Group and is currently developing luxury residences on a man-made island in Bahrain.

The aggregate fortune of the seven Lebanese included on the 2015 *Forbes* list reached \$14.1bn. The wealthiest man in the Middle East is Saudi Prince al-Waleed bin-Talal who ranked in 34th place globally with an estimated net worth of \$22.6bn relative to \$20.4bn in the 2014 survey. The richest man in the world is Mr. Bill Gates with an estimated fortune of \$79.2bn. The number of billionaires in the 2015 list reached an all-time high of 1,826 individuals compared to 1,645 billionaires in the 2014 survey, while their aggregate net worth reached a record high of \$7.05 trillion, up from \$6.4 trillion in 2014. About two-thirds of the billionaires built their own fortunes, 12.6% inherited their wealth and 22.2% have been adding on to fortunes they received.

#### Billionaires of Lebanese descent on *Forbes'* 2015 list of the world's richest people

Name	Rank	Worth (\$bn)	Trend*	Source	Country
Carlos Slim Helu	2	77.1	up	Telecom	Mexico
Joseph Safra	52	17.3	up	Banking	Brazil
Joe Jamail Jr.	1118	1.7	up	Law	USA
Alfredo Harp Helu & Family	1324	1.4	down	Banking	Mexico

\*in wealth

Source: *Forbes Magazine*, *Byblos Research*

### Value of cleared checks down 7%, returned checks up 32% in January 2015

The value of cleared checks reached \$5.8bn in January 2015, constituting a decrease of 7.4% year-on-year, and compared to increases of 5.8% in January 2014 and of 0.5% in January 2013. The value of cleared checks in Lebanese pounds fell by 0.8% annually to the equivalent of \$1.5bn, while the value of cleared checks in US dollars declined by 9.5% to \$4.3bn in January 2015. The dollarization rate of cleared checks decreased to 74.4% from 76.1% in January 2014. Also, the value of returned checks in domestic and foreign currency grew by 32% year-on-year to \$165m in January 2015, relative to annual increases of 0.8% in January 2014 and of 1.6% in January 2013. In parallel, the number of cleared checks totaled one million checks in January 2015, down 5.5% from the same month last year. Also, the number of returned checks totaled 23,500 checks, up 9.3% from 21,500 checks in January 2014.

### Construction and public work activity deteriorates in second quarter of 2014

The Central Bank's quarterly business survey shows that construction activity continued to deteriorate in relative terms during the second quarter of 2014, as the balance of opinions stood at -22, compared to -14 in the preceding quarter and to -11 in the same quarter of 2013. The balance of opinions indicates that construction activity was the lowest in Beirut & Mount Lebanon at -39, followed by the Bekaa (-21), the South (-20) and the North (+10). The business survey reflects the opinions of enterprise managers about the evolution of their businesses, in order to depict the evolution of a number of key economic variables. The balance of opinions for public works stood at -24 in the second quarter of 2014 compared to -19 in the preceding quarter and to -3 in the same quarter of 2013. Opinions about the level of public works were the lowest in the Bekaa at -33, followed by Beirut & Mount Lebanon (-25), the North (-12) and the South (zero).

In parallel, the balance of opinions for the portfolio of projects was -24 in the second quarter of 2014 relative to -20 in the preceding quarter, and compared to -6 in the same quarter of 2013. The balance of opinions on the portfolio of projects was the lowest in Beirut & Mount Lebanon at -38, followed by the South (-20), the North (-15) and the Bekaa (-6). Also, the balance of opinions for general construction activity was -18 in the second quarter of 2014, compared to -14 in the preceding quarter and to -12 in the second quarter of 2013. Further, the balance of opinions for construction costs reached +29 in the covered quarter compared to +19 in the preceding quarter and to +37 in the same quarter of 2013. The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in a particular indicator and the proportion of those who reported a decline in the same indicator.

<b>Construction and Public Work Activity: evolution of opinions</b>				
<b>Aggregate results</b>	<b>Q2-11</b>	<b>Q2-12</b>	<b>Q2-13</b>	<b>Q2-14</b>
General activity	-9	-10	-11	-22
Construction	-7	-5	-12	-18
Public work	-28	-22	-3	-24
Portfolio of projects	-14	-7	-6	-24
Construction costs	35	37	37	29
Investments (% of yes)	35%	37%	37%	38%

Source: Central Bank Business Survey for Second Quarter 2014



### Commercial banks' assets reach \$176bn at end of January 2015

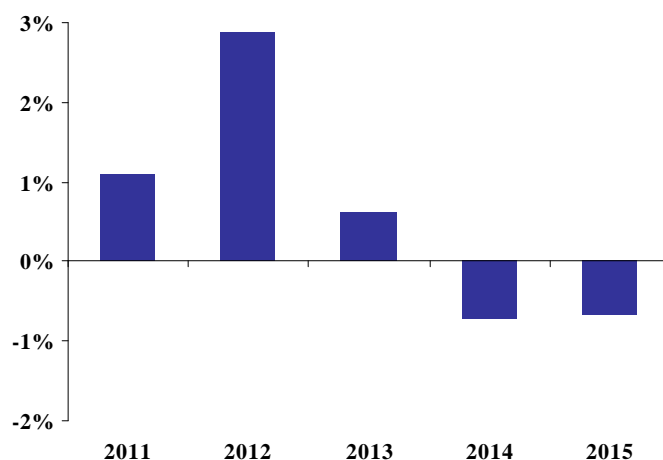
The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$175.7bn at the end of January 2015, unchanged from the end of 2014 and constituting an increase of 6.9% from end-January 2014. Private sector deposits totaled \$144.2bn, decreasing by 0.2% from the end of 2014 and rising by 6.9% from a year earlier. Deposits in Lebanese pounds reached \$49.7bn and rose by 0.4% from end-2014 and by 7.1% from end-January 2014; while deposits in foreign currency totaled \$94.4bn, constituting a drop of 0.5% from the end of 2014 and an increase of 6.8% from a year earlier. Non-resident foreign currency deposits totaled \$26.5bn at the end of January 2015, increasing by 0.2% from end-2014 and growing by 11.1% year-on-year. Total non-resident deposits reached \$30.4bn at the end of January and rose by 0.3% from end-2014 and by 11.7% from a year earlier. Total private sector deposits decreased by \$274m in January 2015, while they rose by \$1.7bn in December 2014 and declined by \$1.3bn in January 2014. In parallel, deposits of non-resident banks reached \$6bn at the end of January 2015 and increased by 3.2% from end-2014 and by 15.2% from a year earlier. The dollarization rate of deposits reached 65.5% at the end of January 2015, down from 65.7% at end-2014 and 65.6% from a year earlier. Further, the average deposit rate in Lebanese pounds was 5.57% in January 2015 relative to 5.48% in the same month of 2014, while the same rate in US dollars was 3.1% compared to 2.95% in January 2014.

Loans to the private sector reached \$50.6bn at the end of January 2015, constituting a drop of 0.7% from the end of 2014 and a rise of 7.5% from a year earlier. In nominal terms, credit to the private sector declined by \$338.3m in January 2015 relative to a decrease of \$341m in the same month of 2014. Lending to the resident private sector totaled \$45.3bn, regressing by 0.2% from the end of 2014 and increasing by 9.5% year-on-year; while credit to the non-resident private sector reached \$5.3bn, falling by 4.4% from end-2014 and by 6.9% from end-January 2014. The dollarization rate in private sector lending regressed to 75.3% at the end of January 2015 from 76.2% a year earlier. The average lending rate in Lebanese pounds was 7.26% in January 2015 compared to 7.39% in the same month of 2014, while the same average in US dollars was 6.96%, up from 6.82% in January 2014. In addition, claims on non-resident banks reached \$12.2bn at the end of January 2015, posting a marginal rise of 0.2% from end-2014 and a decline of 2.8% from a year earlier. In parallel, claims on the public sector stood at \$37.2bn at the end of January 2015, down by 0.5% from the end of 2014 and by 2.1% year-on-year. The ratio of private sector loans-to-deposits in foreign currency stood at 40.3%, well below the Central Bank's limit of 70%, and compared to 40.5% a year earlier. In parallel, the same ratio in Lebanese pounds was 25.1% at end-January 2015, up from 24.2% at the end of January 2014. The ratio of total private sector loans-to-deposits was 35.1% compared to 34.9% a year earlier. The banks' aggregate capital base stood at \$15.7bn, nearly unchanged from end-2014 and up by 10.3% from \$14.3bn at end-January 2014.

### British regulator fines Bank of Beirut's subsidiary for inadequate compliance

The United Kingdom's Financial Conduct Authority (FCA) fined Bank of Beirut (UK), the United Kingdom's subsidiary of Bank of Beirut sal, £2.1m, or about \$3.2m, and prohibited the bank for a period of 126 days from acquiring new customers from high-risk jurisdictions. The FCA said that Bank of Beirut "repeatedly provided it with misleading information" after it asked it to address "concerns regarding the bank's financial crime systems and controls". The FCA indicated that the culture at Bank of Beirut has "insufficient consideration for risk or regulations", despite the high risk that the bank might be exploited to facilitate financial crimes. It added that it identified serious deficiencies in the bank's implementation of anti-money laundering and financial crime procedures. The FCA also fined the bank's former compliance officer £19,600 and its internal auditor £9,900 because they failed to deal with the FCA "in an open and cooperative way when responding to queries about the actions taken to mitigate financial crime risks". The bank settled with the FCA at an early stage of the investigation, which qualified it for a 30% discount that reduced the fine from £3m and the restriction period from 180 days. The FCA indicated that the principal activities of Bank of Beirut (UK) are the provision of trade finance, correspondent banking and commercial and retail banking services. The bank has less than 1,000 customers who are predominantly from countries that are perceived to be higher risk jurisdictions from a financial crime perspective. Bank of Beirut (UK) had total assets of £321m as at end-2011, the latest available figures.

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



\* in the month of January of each year

Source: Association of Banks in Lebanon, Byblos Research

### **Standard & Poor's says rated banks have adequate liquidity**

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In its annual assessment of the three Lebanese banks that it rates, Standard & Poor's indicated that the ratings on BLOM Bank sal reflect the bank's "adequate" business position, "moderate" capital & earnings, "moderate" risk position, "average" funding and "adequate" liquidity; while those on BankMed sal reflect its "adequate" business position, "weak" capital & earnings, "moderate" risk position, "average" funding, and "adequate" liquidity. It added that the ratings on Bank Audi sal reflect the bank's "strong" business position, "weak" capital & earnings, "moderate" risk position, "average" funding and "adequate" liquidity. The agency indicated that the three banks' asset allocation strategy is constrained by their ongoing financing of the Lebanese government's needs.

S&P pointed out that the "adequate" business position of BLOM Bank is supported by its stable customer franchise, as well as by its good management and revenue generation; while BankMed's business position reflects its improving customer franchise and geographic diversification, good management and resilient revenue generation. It expected domestic activities to be the main driver of BLOM Bank's asset and revenue growth over the medium-term, given the difficult political and economic environment in the region. In parallel, it considered that BankMed is closing the retail lending gap with its main competitors, and is gradually reducing relative weaknesses in terms of lower earnings diversification and franchise strengths. It expected BankMed's related-party financing to remain substantial and to be guaranteed by deposits. It said that Bank Audi's "strong" business position largely reflects its ability to build a resilient and diversified revenues base, both domestically and abroad.

S&P said that BLOM Bank's "moderate" capital & earnings reflect the agency's expectations that the risk-adjusted capital ratio would remain at about 5% over the next 12 to 18 months. It forecast BLOM Bank's lending and assets to post high single-digit growth rates and for its net interest margins and cost-to-income ratio to be stable. It added that BLOM Bank's pre-provision profitability is sound, which would enable it to absorb higher provisioning in case of need. It indicated that Bank Audi and BankMed's "weak" capital & earnings reflect the agency's expectations that the risk-adjusted capital ratio would remain close to 4.5% at BankMed and would grow to 4% at Bank Audi over the next 12 to 18 months. It anticipated that BankMed's capital adequacy ratios would improve in the short-term following the issuance of \$150m in preferred shares, but it noted that the growth in risk-weighted assets would outpace internal capital generation capacity in the next 12 to 18 months.

Further, S&P said that the three banks' risk position is "moderate" due to their high exposure to the Lebanese sovereign. It noted that Bank Audi's exposure to the sovereign was about 3.8 times its common shareholders' equity, that of BLOM Bank stood at about 3.4 times and that of BankMed reached 2.6 times its common shareholders' equity at the end of 2013. It anticipated that regional and domestic operating conditions would continue to test the three banks' asset-quality. In parallel, it pointed out that the banks' liquidity is "moderate" despite their high liquidity ratios, given that sovereign debt instruments account for a big share of the banks' liquid assets, and the bank's ability to liquidate these instruments could be uncertain during stress periods.

### **Cedrus Bank to increase capital to \$60m**

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Cedrus Invest Bank sal, a Lebanese investment bank, finalized the acquisition of Standard Chartered Bank sal on February 27, 2015 to form a new separate entity named Cedrus Bank sal. The deal was valued at about \$23m. Following the acquisition, Cedrus Bank indicated that it will raise its equity capital by more than four times to \$60m. But details of the capital increase were not disclosed. Cedrus Bank's main shareholders consist of Cedrus Invest Bank sal with an 85% share and Mr. Nicolas Chammas with the remaining 15% stake. The Bank has a total of three branches in Dbayeh, Achrafieh and Verdun.

### **MetLife's ratings affirmed, outlook revised from 'stable' to 'positive'**

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Standard & Poor's affirmed the 'A-' long-term counterparty credit rating on MetLife Inc., the holding company of the MetLife Group, and revised the outlook to 'positive' from 'stable'. MetLife, through its subsidiaries and affiliates, is a global provider of insurance, annuities and employee benefits programs. It acquired American Life Insurance Company (ALICO) in 2010. MetLife Alico is the largest provider of life insurance products in Lebanon.

S&P attributed the outlook revision to MetLife Inc's improving fixed-charge coverage ratio that reached about 800% in 2014, to its geographically diversified operations and to its cash and liquid assets that are well in excess of its obligation. It noted that the company's operating performance has improved in the past few years, supported by its geographic diversification and by the de-risking of its operations in the United States. Further, it said that the company had about \$6.1bn in cash and cash equivalents at the end of 2014 after all of its ongoing obligations, shareholder dividends and share buybacks.

MetLife Alico announced audited net profits of \$33.2m for the fiscal year ending in November 2013, up 9.6% from net earnings of \$30.3m in the previous fiscal year. Its audited balance sheet for Lebanon shows total assets of \$554.7m at end-November 2013, up 4.4% from a year earlier. *Al-Bayan* magazine's annual survey of the insurance sector in Lebanon ranked MetLife Alico in first place in 2013 in terms of life premiums. The firm's life premiums reached \$75m in 2013 and rose by 2.5% from 2012. It had an 18% share of the life market in 2013.



## Ratio Highlights

(in % unless specified)	2012	2013	2014	Change*
Nominal GDP (\$bn)	43.3	46.2	48.2	
Public Debt in Foreign Currency / GDP	56.3	56.6	53.1	(346)
Public Debt in Local Currency / GDP	76.9	80.9	85.0	413
Gross Public Debt / GDP	133.2	137.4	138.1	68
Total Gross External Debt / GDP**	166.8	168.7	173.1	440
Trade Balance / GDP	(38.8)	(37.4)	(35.6)	178
Exports / Imports	21.1	18.5	16.2	(238)
Fiscal Revenues / GDP	22.1	18.5	20.8	40
Fiscal Expenditures / GDP	30.7	29.3	29.3	-
Fiscal Balance / GDP	(8.6)	(9.0)	(8.5)	50
Primary Balance / GDP	(0.3)	(0.5)	1.4	-
Gross Foreign Currency Reserves / M2	69.4	69.5	66.5	(299)
M3 / GDP	240.2	240.6	244.1	354
Commercial Banks Assets / GDP	350.8	356.8	364.5	776
Private Sector Deposits / GDP	288.7	294.8	299.6	482
Private Sector Loans / GDP	100.4	102.6	105.6	304
Private Sector Deposits Dollarization Rate	64.8	66.1	65.7	(43)
Private Sector Lending Dollarization Rate	77.6	76.5	75.6	(98)

\* Change in basis points 13/14

\*\*Includes portion of public debt owed to non-residents, liabilities to non-resident banks, non-resident deposits (estimated by the IMF), Bank for International Settlements' claims on Lebanese non-banks

Source: Association of Banks in Lebanon, International Monetary Fund, Institute of International Finance, 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	Apr 2013	Mar 2014	Apr 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	Apr 2013	Mar 2014	Apr 2014	Change*	Risk Level
Political Risk Rating	58.6	58.3	58.3	▲	High
Financial Risk Rating	41.5	40.5	40.7	▲	Very Low
Economic Risk Rating	36.3	35.9	36.1	▲	Low
Composite Risk Rating	68.2	67.3	67.5	▲	Moderate

\*year-on-year change in risk

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	B2	NP	Negative	B2		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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