



In memory of the victims of  
the Beirut Port explosion



**BYBLOS BANK** SAL

Economic Research & Analysis Department

Issue 644 | August 10-15, 2020

## LEBANON THIS WEEK

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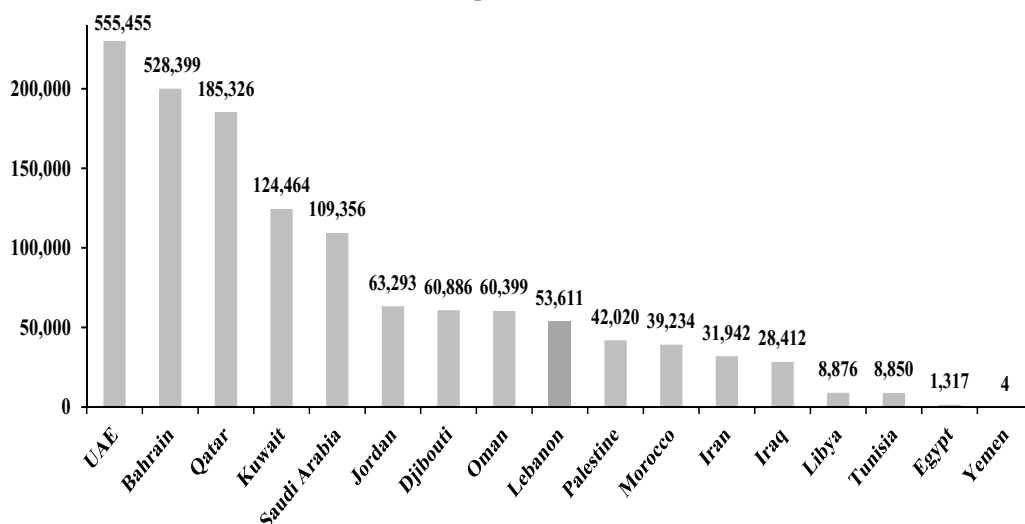
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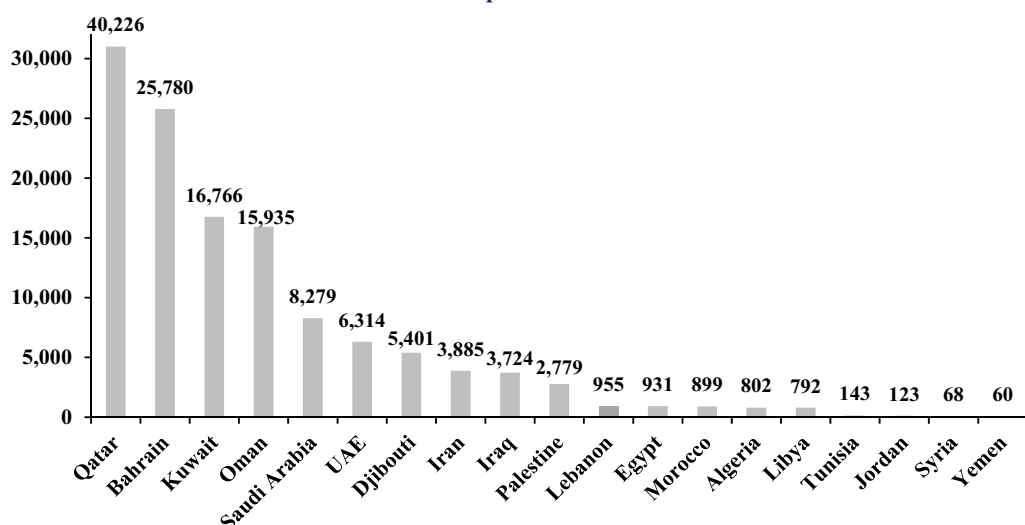
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### Charts of the Week

Number of Total COVID-19 Tests per One Million Persons in MENA Countries\*



Number of Total COVID-19 Cases per One Million Persons in MENA Countries\*



\*as of August 9, 2020

Source: World Bank Group, Byblos Bank

### Quote to Note

"The recent massive explosion in Beirut is calling additional attention to a pervasive culture of negligence, corruption, and complacency of the ruling class, which sunk the country into its worst economic and financial crisis."

*The Institute of International Finance, on the root cause of the devastating explosion at the Port of Beirut*

### Number of the Week

**91%:** Percentage of Lebanese who considered that their personal financial condition deteriorated in the first half of 2020, according to the June 2020 survey of the Byblos Bank/AUB Consumer Confidence Index

## Lebanon in the News

\$m (unless otherwise mentioned)	2019	Jan-May 2019	Jan-May 2020	% Change*	May-19	Apr-20	May-20
Exports	3,731	1,440	1,335	(7.3)	319	171	251
Imports	19,239	8,762	4,349	(50.4)	2,456	745	674
Trade Balance	(15,508)	(7,322)	(3,014)	(58.8)	(2,137)	(574)	(423)
Balance of Payments	(5,851)	(5,187)	(2,191)	(57.8)	(1,882)	(241)	(888)
Checks Cleared in LBP	22,146	8,732	7,748	(11.3)	1,623	998	1,105
Checks Cleared in FC	34,827	14,677	13,847	(5.7)	2,529	1,948	1,467
Total Checks Cleared	56,973	23,409	21,595	(7.7)	4,152	2,946	2,572
Fiscal Deficit/Surplus**	(5,837)	(1,380)	(1,751)	26.9	(1,006)	(96)	(247)
Primary Balance**	(287)	23	(596)	-	(60)	79	(120)
Airport Passengers	8,684,937	3,139,690	1,191,376	(62.1)	572,876	6,029	20,253
Consumer Price Index	2.9	3.6	28.6	2500bps	3.5	46.6	56.5

\$bn (unless otherwise mentioned)	Dec-19	May-19	Feb-20	Mar-20	Apr-20	May-20	% Change*
BdL FX Reserves	29.55	29.72	28.34	28.23	27.37	26.44	(11.0)
In months of Imports	21.95	12.10	29.80	34.18	36.76	39.24	224.3
Public Debt	91.64	85.35	92.24	92.60	92.87	93.14	9.1
Bank Assets	216.78***	253.63	210.34	208.55	205.75	203.84	(19.6)
Bank Deposits (Private Sector)	158.86	170.85	151.71	149.59	147.52	146.30	(14.4)
Bank Loans to Private Sector	49.77	56.32	46.08	45.02	43.90	42.91	(23.8)
Money Supply M2	42.11	49.23	39.59	39.60	38.64	38.78	(21.2)
Money Supply M3	134.55	139.33	130.95	130.34	129.52	129.67	(6.9)
LBP Lending Rate (%)	9.09	10.75	9.33	9.41	9.29	8.45	(230bps)
LBP Deposit Rate (%)	7.36	8.72	5.81	5.13	5.06	4.63	(409bps)
USD Lending Rate (%)	10.84	9.54	9.11	8.55	7.79	7.90	(164bps)
USD Deposit Rate (%)	4.62	5.79	3.22	2.53	2.32	1.99	(380bps)

\*year-on-year \*\*year-to-date figures reflect results for first four months of each year \*\*\*The decline in assets in December 2019 is mainly due to the "netting" on the assets and liabilities' sides of the consolidated balance sheet of commercial banks as part of the implementation of international accounting standard IFRS 7

Source: Association of Banks in Lebanon, Banque du Liban, Ministry of Finance, Central Administration of Statistics, Byblos Research

## Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization
Solidere "A"	14.23	0.14	247,509	22.99%
Solidere "B"	14.25	(1.72)	49,928	14.96%
Audi Listed	0.96	0.00	2,568	9.13%
BLOM Listed	2.81	(11.64)	500	9.76%
Byblos Pref. 08	49.89	0.00	-	1.61%
BLOM GDR	2.25	0.00	-	2.69%
Byblos Common	0.37	0.00	-	3.38%
HOLCIM	12.10	0.00	-	3.82%
Audi GDR	1.39	0.00	-	2.69%
Byblos Pref. 09	52.75	0.00	-	1.70%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Apr 2021	8.25	17.88	552.01
Oct 2022	6.10	17.13	102.77
Jan 2023	6.00	16.25	90.16
Jun 2025	6.25	16.25	41.52
Nov 2026	6.60	15.88	31.59
Feb 2030	6.65	15.75	20.38
Apr 2031	7.00	15.88	18.00
May 2033	8.20	15.25	15.31
Nov 2035	7.05	15.88	12.48
Mar 2037	7.25	17.38	10.83

Source: Byblos Bank Capital Markets, Refinitiv

	Aug 10-14	Aug 4	% Change	Jul 2020	Jul 2019	% Change
Total shares traded	300,505	82,160	266	2,315,343	1,969,484	17.6
Total value traded	\$4,170,371	\$1,159,843	260	\$29,362,947	\$9,821,149	199.0
Market capitalization	\$6.19bn	\$6.28bn	(15.5)	\$6.20bn	\$8.21bn	(24.5)

Source: Beirut Stock Exchange (BSE)



### **Preliminary assessment shows heavy damage to hospitals, schools and residential buildings from Beirut Port explosion**

The United Nations' Office for the Coordination of Humanitarian Affairs (OCHA) in Lebanon, in collaboration with humanitarian partners, assessed the impact of the explosion at the Port of Beirut on the healthcare system, education, shelter and food security, among others, as at August 13. It also highlighted the needs and the humanitarian response in those areas.

It indicated that the Lebanese Red Cross, in collaboration with the Governor of Beirut and the Municipality of Beirut, conducted a rapid assessment that identified Achrafieh, Gemmayzeh, Mar Mikhael, and Qarantina as priority districts that are in need of shelter support. It estimated that 29,771 apartments, where 89,313 individuals live, have minor damages; while 17,100 apartments that house 51,300 persons sustained moderate damages, and 1,144 buildings where 30,660 individuals live, suffered heavy damages. It pointed out that the UN-Habitat is conducting an assessment of 70 evacuated buildings in the Mar Mikhael and Qarantina areas, and is also providing municipal and volunteering engineers with a mobile application to help them conduct the rapid building assessment, which aims to identify the most affected geographic areas and the level of damage. It added that the UN-Habitat is then planning to give "cash-for-rent" subsidies of \$800 per family to around 800 of the most vulnerable families that had to evacuate their homes in the two areas, in order to cover housing needs for four to five months.

It said that the impact of the economic crisis on the livelihood and savings of many Lebanese will weigh on people's ability to repair their homes. It anticipated the prices of construction and repair materials to increase, given the high inflation rate in the country. As a result, it expected that the most vulnerable households will face prolonged displacement, or live in unsafe conditions without basic services such as water and electricity. Still, it noted that more than 55% of the houses assessed were rented, which makes it easier for the affected individuals to move elsewhere.

In parallel, it indicated that the World Health Organization (WHO) estimated that six major hospitals and more than 20 clinics suffered partial or heavy structural damage from the explosion. It added that the building of the Beirut Governmental Hospital in Qarantina has been designated as insecure, and that the hospital staff is prohibited from entering the facility. It said that the Lebanese think-tank Connecting Research to Development (CRD), with the help of the WHO, conducted a rapid health assessment of 55 primary healthcare centers (PHCs) in Beirut. The field survey found that 37% of PHCs sustained moderate-to-serious-damage and need rehabilitation, while 13% had injured healthcare workers. The results also showed that 47% of PHCs in Beirut are capable of delivering full routine healthcare services, while around 55% of these facilities need new equipment.

The OCHA pointed out that support in the healthcare sector is currently focused on primary healthcare, mental health and mobile medical units (MMUs). It noted that there is a need for additional support to ensure that the remaining medical facilities can continue to provide primary healthcare and mental health support, as well as to manage the ongoing COVID-19 pandemic, which is currently spreading at an increasing pace in the country. It added that maternity healthcare requires further support, in order to ensure that the 400 babies that are expected to be born in Beirut in the next month are delivered safely.

Moreover, the OHCA indicated that preliminary results from an assessment conducted by the UNICEF and the Water Establishment of Beirut & Mount Lebanon did not find major damages to the main water network. However, it said that access to clean water for many households was interrupted in residential buildings due to the damages. It added that a survey of 558 affected buildings found that only 337 were accessible and occupied and that 225 of these buildings did not have access to water.

In addition, the assessment showed that more than 120 schools were damaged, which may affect the learning opportunities of about 50,000 Lebanese and non-Lebanese children. It said that ongoing assessments indicated that 20 public technical and vocational education and training schools, attended by about 8,000 adolescents and young persons, were also damaged in the blast. The OCHA cautioned that the explosion at the Port of Beirut will exacerbate food insecurity, which was already significant due to the coronavirus pandemic and the prolonged socio-economic crisis in Lebanon. Finally, it pointed out that efforts are ongoing to support the national response to the explosion, and that humanitarian stakeholders are conducting further assessments of the damages and of the immediate humanitarian needs across affected areas. It anticipated that cash programs will play an important role in responding to multi-sectoral needs, given the large amount of in-kind assistance provided so far.

### **Finance Ministry to settle over LBP60bn in dues to private hospitals and doctors**

The Ministry of Finance announced that it settled on August 13, 2020 the arrears of the Ministry of Public Health to private hospitals for 2019 and the fees due to doctors. It noted that these arrears amounted to LBP37bn. The ministry also agreed to pay the healthcare-related arrears of the Ministry of National Defense, which consist of hospitalization allowances at private hospitals and the fees due to doctors. It noted that it will transfer the funds, which stood at LBP24.1bn, to the accounts of the concerned parties in the coming week.

According to the Syndicate of Private Hospital Owners in Lebanon, the government owes private hospitals more than LBP2 trillion, equivalent to more than \$1.35bn at the official exchange rate. In April 2020, Parliament approved the payment of LBP450bn in arrears from the Ministry of Public Health, the Lebanese Army and the Internal Security Forces to private hospitals for 2019. However, the disbursement of these funds has been slow. On July 8, 2020, the ministry approved to pay LBP96.7bn in dues to private hospitals for 2019. Figures issued by the Ministry of Finance show that government transfers to hospitals rose by 4.3 times to \$169.2m in the first four months of 2020, mainly due to the COVID-19 outbreak. Transfers to hospitals accounted for 3.8% of current expenditures, and for 3.5% of public spending in the covered period.

### Banque du Liban's foreign assets at \$30bn, gold reserves at \$18bn at mid-August 2020

Banque du Liban's (BdL) interim balance sheet reached \$154.9bn on August 15, 2020, constituting an increase of 0.5% from \$154.1bn at the end of July 2020 and a rise of 9.6% from \$141.4bn at end-December 2019.

Assets in foreign currency reached \$30bn at mid-August 2020, representing a decline of 2.3% from \$30.7bn at end-July 2020 and a drop of 19.6% from \$37.3bn at end-2019. They included \$5.03bn in Lebanese Eurobonds at mid-August 2020 relative to \$5.7bn at the end of 2019.

BdL's assets in foreign currency, excluding Lebanese Eurobonds, stood at \$24.9bn at mid-August 2020, decreasing by \$709m from the end of July 2020. They declined by \$613.3m in January 2020, by \$684.6m in February, by \$67m in March, by \$812m in April, by \$907m in May, by \$558m in June, and by \$2.3bn in July, resulting in a cumulative drop of \$6.6bn so far in 2020. They also fell by \$10.5bn between the end of August 2019 and mid-August 2020.

The decline in BdL's assets in foreign currency, excluding Lebanese Eurobonds, is largely due to the fact that BdL has paid, at the request of the government, maturing Eurobonds and external debt servicing until early March 2020, to deposit outflows, as well as to the financing of the imports of hydrocarbons, wheat and medicine and, more recently, to BdL's intervention in the currency market. BdL's assets in foreign currency, including Lebanese Eurobonds, decreased by \$7.3bn since the start of 2020 and by \$8.7bn between the end of August 2019 and mid-August 2020.

In addition, the value of BdL's gold reserves reached \$18bn at mid-August 2020, constituting a decline of 0.4% from end-July 2020 and a rise of 28.9% from \$13.9bn at end-2019. The value of gold reserves exceeded their previous peak of \$16.75bn at the end of August 2011. Also, the securities portfolio of BdL totaled \$39bn at mid-August 2020 and increased by 2.6% from the end of 2019. In addition, loans to the local financial sector regressed by 2.2% from end-2019 to \$14.6bn at mid-August 2020. Further, deposits of the financial sector stood at \$109.8bn at mid-August 2020, and declined by \$2.2bn from end-2019. Also, public sector deposits at BdL totaled \$4.7bn at mid-August 2020 and regressed by \$717m from end-2019.

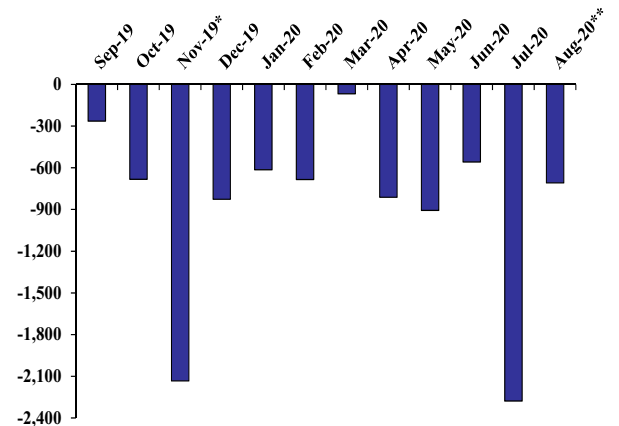
### Reforms must expand beyond restructuring of sovereign debt

Global investment bank JPMorgan Chase considered that Lebanese authorities should demonstrate a clear commitment to the needed structural reforms in order to unlock the large external financial assistance that Lebanon is seeking, including a funded program from the International Monetary Fund. It noted that the IMF called on authorities to restore the solvency of public finances and ensure debt sustainability, to restore the soundness of the financial system, to pass a legislation that formalizes capital controls, and to reduce the losses of state-owned enterprises. It added that the IMF support could be conditioned on a political stance that is more accepted by Western and Gulf Cooperation Council countries. In addition, it pointed out that the international community has gathered support for Lebanon following the explosion at the Port of Beirut, with pledges amounting to between \$300m and 400m and in-kind assistance of various goods.

The investment bank expected Lebanon's real GDP to shrink by more than 17% in 2020, following the explosion, compared to an earlier forecast of a 14% contraction. It noted that, prior to the blast, the economy was struggling under the financial crisis and the impact of the coronavirus pandemic. It pointed out that the pandemic weighed on the services sector, which significantly reduced foreign currency inflows and, in turn, weakened the exchange rate of the Lebanese pound on the parallel market from LBP2,110 against the US dollar at the end of 2019 to about LBP7,700 per dollar in July 2020. Consequently, it noted that the inflation rate rose to 90% in June from a year earlier, while Banque du Liban's (BdL) efforts to support the exchange rate have further depleted foreign currency reserves, with BdL's liquid foreign assets declining from \$36bn two years ago to less than \$20bn currently.

JPMorgan Chase considered that Lebanese authorities need to urgently implement reforms that include, but are not limited to, the restructuring of the sovereign debt, as well as access external financial support in order to restore confidence amid the sharp retreat in economic activity. It noted that the government adopted an economic reform program in April, which included the gradual removal of the currency peg to the US dollar, a plan for the restructuring of the sovereign debt and the banking sector, as well as structural reforms, with the aim of reaching an agreement with the IMF. It noted that, under the plan, authorities intend to reduce the public debt level to 102.8% of GDP by the end of 2020 and to devalue the official exchange rate to LBP3,500 per US dollar. It added that these targets are consistent with a 70% haircut on Eurobonds and a 40% haircut on Treasury bills. It highlighted downside risks for Eurobond holders, as it considered that the haircut on Eurobonds could be steeper in case the government chose to include only the Treasury bills held by BdL and banks in the restructuring of the domestic debt. However, it said that the pandemic and political disputes have halted the progress on the government's plan, and added that the renewed political void following the government's resignation is raising doubts on the possibility of implementing the plan.

Change in Gross Foreign Currency Reserves (US\$m)



\*BdL paid \$2.1bn in external public debt servicing in November

\*\*as of mid-August 2020

Source: Banque du Liban

### Opened letters of credit at \$294m for imports and \$126m for exports in first half of 2020

Figures released by Banque du Liban show that the amount of letters of credit (LCs) opened to finance imports to Lebanon totaled \$293.5m in the first half of 2020, constituting a decrease of 90.8% from \$3.2bn in the first half of 2019. The significant decline in the amount of LCs in the first half of the year is due to stricter requirements imposed by correspondent banks following the downgrade of Lebanon's sovereign ratings and to importers' increased challenges in meeting these requirements.

Further, utilized credits for imports reached \$368.4m in the first half of 2020, constituting a decline of 87.4% from \$2.9bn in the same period of 2019, and equivalent to 125.5% of opened LCs for imports in the covered period. Also, outstanding import credits stood at \$158.6m at the end of June 2020 compared to \$1bn a year earlier. In addition, the aggregate amount of inward bills for collection reached \$163.6m in the first half of 2020, down by 66% from \$481.4m in the same period of 2019. The outstanding amount of inward bills for collection was \$31m at the end of June 2020 relative to \$49.4m at end-June 2019.

In parallel, the amount of documentary letters of credit opened to finance exports from Lebanon totaled \$125.7m in the first half of 2020, constituting a decrease of 92.3% from \$1.6bn in the first half of 2019. Further, utilized credits for exports reached \$314.2m in the first half of the year, down by 78.2% from \$1.4bn in used credits in the same period of 2019, and equivalent to 250% of opened LCs for exports in the covered period. Also, outstanding export credits stood at \$255.4m at the end of June 2020 compared to \$885.7m a year earlier. In addition, the aggregate amount of outward bills for collection amounted to \$157m in the first half of 2020, constituting a decline of 70.6% from \$534.1m in the same period of 2019. The outstanding amount of outward bills for collection reached \$249.4m at the end of June 2020 relative to \$402.1m at end-June 2019.

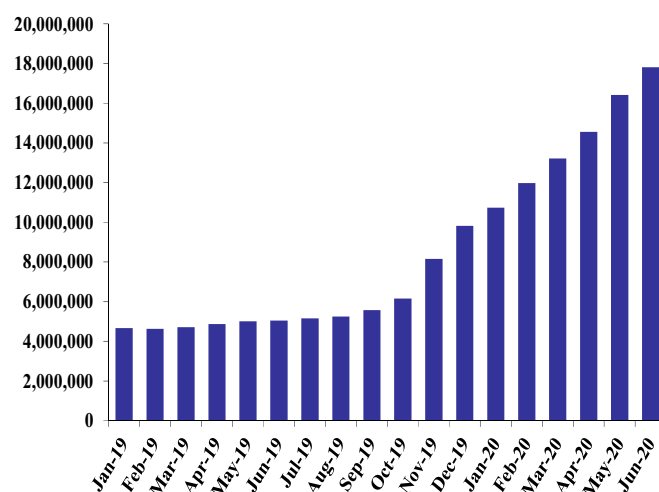
### Broad money supply down 3.7%, currency in circulation up 82% in first half of 2020

Figures released by Banque du Liban show that money supply M1, which includes currency in circulation and demand deposits in Lebanese pounds, reached LBP27,009bn at the end of June 2020, constituting an increase of 62.5% from LBP16,620bn at the end of 2019 and a rise of 150.4% from LBP10,788bn at end-June 2019. Currency in circulation stood at LBP17,817bn at the end of June 2020, up by 81.5% from LBP9,818bn at end-2019 and by 253% from LBP5,049bn at end-June 2019. Also, demand deposits in local currency stood at LBP9,192bn at the end of June 2020, constituting an increase of 35.1% from end-2019 and a rise of 60.2% from end-June 2019. Money supply M1 rose by 8.8% in June from LBP24,829bn at end-May 2020, with currency in circulation growing by 8.5% and demand deposits in local currency expanding by 9.3% month-on-month. The increase in money supply largely reflects the migration of term deposits to demand deposits, as well as the shift to a cash based economy.

In addition, money supply M2, which includes M1 and term deposits in Lebanese pounds, reached LBP58,829bn at the end of June 2020, constituting a decrease of 7.3% from LBP63,484bn at the end of 2019 and a decline of 20.5% from LBP74,039bn a year earlier. Term deposits in Lebanese pounds totaled LBP31,820bn at the end of June 2020, down by 32.1% from LBP46,864bn at end-2019 and by 49.7% from LBP63,252bn at end-June 2019. Money supply M2 grew by a marginal 0.6% in June from LBP58,467bn at end-May 2020, with term deposits in local currency declining by 5.4% month-on-month.

Further, broad money supply M3, which includes M2, deposits in foreign currency and debt securities issued by the banking sector, reached LBP195,236bn at the end of June 2020, constituting a decrease of 3.7% from LBP202,831bn at the end of 2019 and a decline of 7.4% from LBP210,938bn at end-June 2019. Deposits in foreign currency totaled LBP135,914bn at the end of June 2020, declining by 2.2% from end-2019 and by 0.5% from a year earlier. Also, debt securities issued by the banking sector amounted to LBP493bn at the end of June 2020, compared to LBP437bn at the end of 2019 and to LBP307bn at end-June 2019. Money supply M3 was nearly unchanged from LBP195,473 at the end of May 2020, with deposits in foreign currency regressing by 0.4% and debt securities issued by the banking sector decreasing by 10.2% month-on-month. In parallel, M3 declined by LBP7,595bn in the first half of 2020, due to a drop of LBP11,141bn in claims on the private sector, a decrease of LBP7,073bn in net claims on the public sector and a contraction of LBP121bn in the net foreign assets of deposit-taking institutions, which were partly offset by a rise of LBP10,741bn in other net items.

Currency in Circulation (LBP Millions)



Source: Banque du Liban, Byblos Research

## Net foreign assets of financial sector down by \$2.5bn in first half of 2020

Figures issued by Banque du Liban (BdL) show that the net foreign assets of the financial sector, which are a proxy for Lebanon's balance of payments, declined by \$2.5bn in the first half of 2020 compared to a decrease of \$5.39bn in the same period of 2019. The cumulative deficit in the first half of the year was caused by a drop of \$4.43bn in the net foreign assets of BdL, which was partly offset by an increase of \$1.93bn in those of banks and financial institutions. Further, the net foreign assets of the financial sector regressed by \$307m in June 2020 compared to a decline of \$887.7m in May 2020 and to a decrease of \$204.3m in June 2019. The decline in June 2020 was caused by a drop of \$555.8m in the net foreign assets of BdL and an increase of \$248.8m in those of banks and financial institutions.

The cumulative increase in the banks' net foreign assets is due to the steeper decline of their foreign liabilities relative to the decrease of their foreign assets. The drop in foreign liabilities was driven to a large extent by a decrease in non-resident deposits and in non-resident financial liabilities; while the decline in the banks' foreign assets was mostly due to a contraction of the banks' deposits with non-resident financial institutions and central banks, as well as to a decline of their claims on non-resident customers. In parallel, the decrease in BdL's net foreign assets was due in part to the financing of necessity imports, such as hydrocarbons, medicine and wheat.

In comparison, the net foreign assets of the financial sector grew by \$1.2bn in 2016, while they decreased by \$155.7m in 2017, by \$4.8bn in 2018 and by \$5.85bn in 2019. They declined by the equivalent of 11.2% of GDP in 2019, 8.8% of GDP in 2018 and 0.3% of GDP in 2017, relative to an increase equivalent to 2.4% of GDP in 2016.

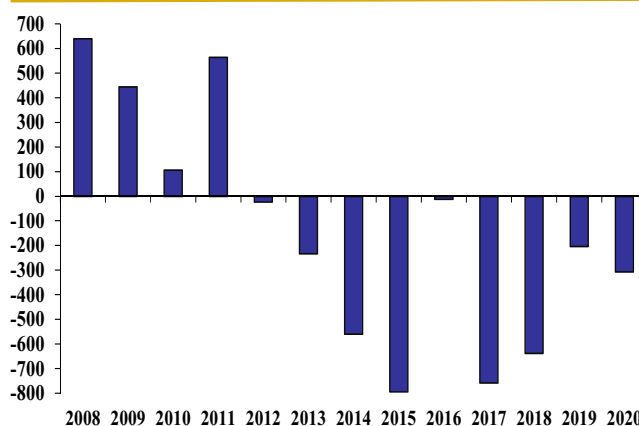
## Number of airport passengers down 73% in first seven months of 2020

Figures released by the Beirut-Rafic Hariri International Airport (HIA) show that 1,356,905 passengers utilized the airport (arrivals, departures and transit) in the first seven months of 2020, constituting a decline of 73.1% from 5,036,237 passengers in the same period of 2019. The number of arriving passengers decreased by 74.8% to 651,745 in the first seven months of 2020, compared to an increase of 2.2% in the same period last year and to a rise of 9.4% in the first seven months of 2018. Also, the number of departing passengers fell by 71.7% to 684,671 in the first seven months of 2020, relative to an increase of 4.8% in the same period of 2019 and to a rise of 7.2% in the first seven months of 2018.

In parallel, the airport's aircraft activity regressed by 65% to 14,588 take-offs and landings in the covered period, relative to a growth of 1.1% in the same period of 2019 and to an increase of 3.5% in the first seven months of 2018. In addition, the HIA processed 30,324 metric tons of freight in the first seven months of 2020 that consisted of 13,551 tons of import freight and 16,773 tons of export freight. Middle East Airlines had 5,653 flights in the first seven months of 2020 and accounted for 38.8% of HIA's total aircraft activity.

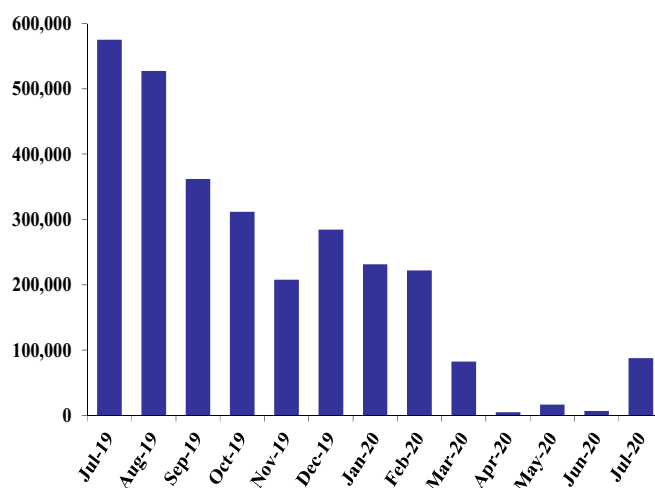
The significant decline in the number of airport passengers and aircraft activity is mainly due to the closure of the airport between March 18, 2020 and the end of June, as well as to the lockdown measures and the closure of airports in several countries in response to the outbreak of the coronavirus worldwide. However, the number of passengers that utilized the airport increased by nearly 10 times month-on-month to reach 150,234 in July 2020, as the airport resumed its partial activity on July 1. Also, the airport's aircraft activity registered a significant increase from 653 take-offs and landings in June to 1,884 in July. Still, the number of passengers that utilized the airport fell by 85.8% from 1,059,267 passengers in July 2019, while aircraft activity dropped by 76.5% from 8,010 take-offs and landings in July 2019.

Change in Net Foreign Assets of Financial Sector in June of Each Year (US\$m)



Source: Banque du Liban

Number of Arriving Passengers



Source: Beirut-Rafic Hariri International Airport

### Eighty seven percent of Treasury securities in Lebanese pounds have five-year maturities or longer

Figures released by the Association of Banks in Lebanon (ABL) show that the face value of outstanding Treasury securities denominated in Lebanese pounds reached LBP86,726bn, or the equivalent of \$57.5bn at the official exchange rate, at the end of June 2020, compared to LBP79,228bn, or \$52.6bn, at the end of June 2019. The weighted interest rate on Lebanese Treasury securities denominated in Lebanese pounds was 6.5% in June 2020 compared to 6.38% in June 2019.

The distribution of outstanding Treasury securities denominated in Lebanese pounds at end-June 2020 shows that 15-year Treasury bonds accounted for 1.6%, or LBP1,417bn, of aggregate securities in Lebanese pounds; 12-year Treasury securities represented 3.5% of the total (LBP3,076bn); and 10-year Treasury bonds had a share of 37.7% (LBP32,690bn). Also, the share of eight-year Treasury securities was 2.1% (LBP1,832bn), seven-year Treasury bonds represented 18.6% (LBP16,109bn), five-year Treasury securities accounted for 23% (LBP19,899bn), the share of three-year Treasury bonds was 10.4% (LBP8,992bn), two-year Treasury bills represented 2% (LBP1,636bn), one-year T-bills accounted for 1.1% (LBP962bn), the share of six-month T-bills was 0.08% (LBP66bn), and three-month T-bills represented 0.05% (LBP47bn) of the total. As such, 63.6% of outstanding Treasury securities have seven-year maturities or longer and 86.5% have five-year maturities or more.

In parallel, LBP584bn in outstanding Treasury securities denominated in Lebanese pounds matured in June 2020, of which 37.8% were five-year Treasury bonds, 34.4% were one-year T-bills, 13.4% were three-year Treasury bonds, 8.7% were two-year Treasury securities, 2.4% were six-month Treasury bills, 2.2% were three-month T-bills, and 1% were seven-year Treasury securities. According to ABL, LBP6,414bn, or the equivalent of \$4.3bn of outstanding Treasury bonds in Lebanese pounds, will mature in the second half of 2020, while LBP9,551bn (\$6.3bn) will come due in 2021 and LBP9,585bn (\$6.4bn) will mature in 2022.

### Advertising association launches initiative to revive sector

Lebanon's Advertising Association (AA) launched on July 27, 2020 a multi-media communication campaign under the slogan "Ana Ou3lin" to help revive the advertising sector in the country. The slogan reflects a double meaning of "I advertise" and "I declare", with the latter referring to Lebanon's centennial. The campaign aims to support advertisers in weathering the prevailing challenging economic environment. The AA launched the initiative amid a growing number of vacant billboards, a declining number of advertising campaigns on TV and radio stations, and nearly non-existing advertising in newspapers.

The association indicated that the campaign will last through August and September 2020, and intends to fill empty advertising spots on media outlets. It noted that the campaign will offer competitive advertising packages at a price of around LBP60m per advertising package to 18 advertisers that stopped spending on advertising because of the current economic crisis. The ads should be registered under the trademark "Ana Ou3lin", and will be exempt from General Security fees.

In their annual survey of the advertising market in the Arab world, *ArabAd* magazine and research firm Ipsos estimated net advertising expenditures in Lebanon at \$133m in 2019, which constitutes a decline of 38% from 2018. Television attracted \$62m or 46.6% of estimated net advertising expenditures in 2019, followed by outdoor billboards with \$30m (22.6%), online media with \$25m (18.8%), print publications with \$8m (6%), radio stations with \$7m (5.3%), and cinemas with \$1m (0.8%).

Newspapers, radio stations and billboards have been facing increasingly challenging conditions in Lebanon. The Lebanese English-language newspaper *The Daily Star* announced the temporary suspension of its printed edition in January 2020, amid the decline in its advertising revenues in the last quarter of 2019. In February 2019, *Al-Mustaqbal* newspaper suspended its printed edition after 20 years of publishing. In September 2018, *Al-Anwar* daily stopped publishing printed copies after nearly 60 years in the market, while pan-Arab newspaper *Al-Hayat* closed its Beirut offices in June 2018 and suspended its printed edition. Also, the daily *As-Safir* newspaper ended its operations in December 2016, and *Al-Balad* ceased its operations in June 2018. In addition, *Al-Ittihad* newspaper closed in December 2017 after only two months of operations. In parallel, English-language radio station Radio One closed down on February 1, 2020 after 37 years of airtime, partly due to the prevailing economic crisis in Lebanon, among other factors.

## Number of real estate transactions up 48% in first seven months of 2020

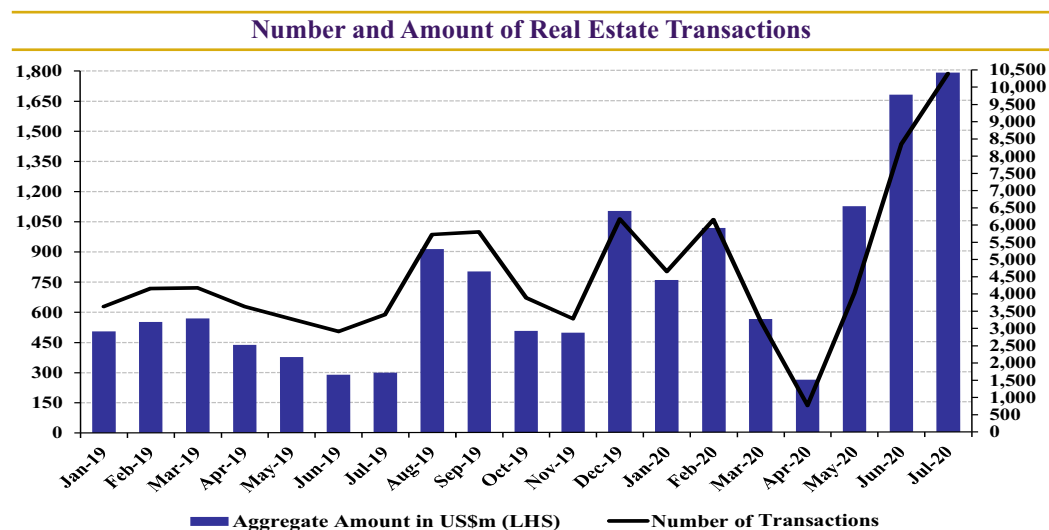
Figures released by the Ministry of Finance show that 37,609 real estate transactions took place in the first seven months of 2020, constituting an increase of 48.2% from 25,384 deals in the same period of 2019. In comparison, there were 33,199 real estate transactions in the first seven months of 2018 and 39,910 real estate deals in the same period of 2017. The number of transactions reached 10,393 in July 2020, up from 8,339 in June, and relative to 3,427 deals in July 2019. The increase in real estate activity in July 2020 mainly reflects the continuous migration of some deposits out of the banking sector towards real estate. Also, the normalization of activity in public agencies and departments, as the government lifted the lockdown measures that it enforced following the outbreak of the coronavirus, affected the processing of transactions in March, April, and partially in May.

Further, there were 7,153 real estate transactions in the Baabda area in the first seven months of 2020, representing 19% of the total. The Metn district followed with 4,937 deals (13.1%), then the North with 4,883 transactions (13%), the South with 4,800 deals (12.8%), the Keserwan region with 4,611 transactions (12.3%), the Zahlé area with 4,000 deals (10.6%), Beirut with 3,212 transactions (8.5%), and the Nabatieh area with 2,993 deals (8%).

The aggregate amount of real estate transactions reached \$7.18bn in the first seven months of 2020 and increased by 137.5% from \$3.02bn in the same period of 2019. In comparison, the amount of real estate deals regressed by 33.6% in the first seven months of 2019 and declined by 15.4% in the same period of 2018. The amount of transactions reached \$1.79bn in July 2020, up from \$1.68bn in June 2020 and from \$298.2m in July 2019. Further, the value of real estate transactions in Beirut totaled \$2.57bn and accounted for 35.8% of the total in the first seven months of 2020. The Metn district followed with \$1.23bn (17.2%), then the Baabda region with \$1.22bn (17%), the Keserwan area with \$819.1m (11.4%), the South with \$580.9m (8.1%), the North with \$333.6m (4.6%), the Zahlé area with \$223.6m (3.1%), and the Nabatieh region with \$165.3m (2.3%). The amount of real estate transactions in Beirut increased by 185% in the first seven months of 2020, followed by deals in the Keserwan region (+172%), the Baabda area (+145%), the South (+139%), the Metn district (+99.4%), the Nabatieh region (+85%), the Zahlé area (+80%), and the North (+54.2%).

In parallel, the average amount per real estate transaction was \$191,001 in the first seven months of 2020, up by 60.3% from an average of \$119,147 in the same period of 2019 and relative to an average of \$137,267 in the first seven months of 2018. Further, there were 533 real estate transactions executed by foreigners in the first seven months of 2020, compared to 553 deals in the same period of 2019 and to 669 transactions in the first seven months of 2018. The number of real estate deals by foreigners accounted for 1.4% of total real estate transactions in the covered period, down from 2.2% in the first seven months of 2019 and from 2% in the same period of 2018.

Further, 24.4% of real estate transactions executed by foreigners in the first seven months of 2020 were in the Baabda area, followed by Beirut (23.6%), the Metn district (18%), the South (9.6%), the Keserwan region (7.7%), the North and the Zahlé area (7.3% each), and the Nabatieh region (2.1%). Iraqi citizens accounted for 31% of the amount of real estate transactions executed by foreigners in July 2020, followed by Qataris (25%), Saudi citizens (18%), Syrian nationals (10.7%), and Russian citizens (4.2%).



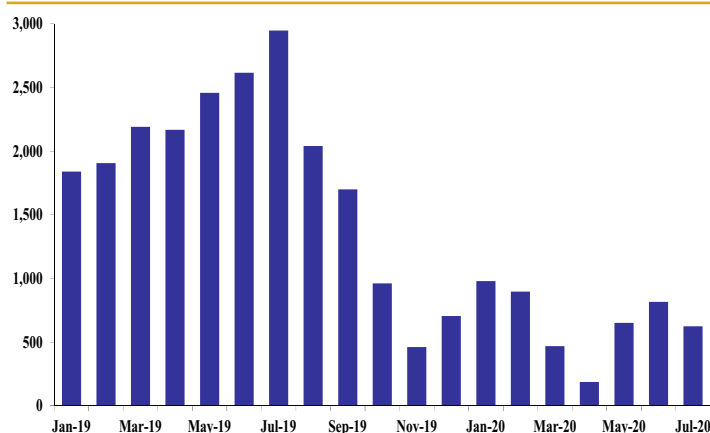
Source: Ministry of Finance, Byblos Research

### New car sales down 71% in first seven months of 2020

Figures released by the Association of Automobile Importers (AAI) in Lebanon show that dealers sold 4,622 new passenger cars in the first seven months of 2020, constituting a drop of 71.3% from 16,124 cars sold in the same period of 2019. Individuals and institutional clients purchased 979 new cars in January, 897 new vehicles in February, 468 new automobiles in March, 188 new cars in April, 651 new vehicles in May, 815 new automobiles in June, and 624 new cars in July 2020. In comparison, clients bought 1,838 new vehicles in January, 1,906 new automobiles in February, 2,190 new cars in March, 2,168 new vehicles in April, 2,458 new automobiles in May, 2,616 new cars in June, and 2,948 new vehicles in July 2019.

The market for new passenger cars in Lebanon has been facing increasing challenges in the past few years, including economic contraction, job insecurity, reduced purchasing power of consumers, as well as more stringent requirements for car loans. In addition, the market has been affected by the measures that banks had to put in place since last October, as well as by the outbreak of the coronavirus in the country and the related general mobilization measures. Further, the AAI estimated that importers of new cars incurred damages estimated at tens of millions of dollars as a result of the explosion at the Port of Beirut on August 4, 2020. It anticipated that a number of car distributors could close down and that car sales could further deteriorate in coming months. The association stopped releasing its monthly data on car sales by brand, distributor and source country since January 2020.

Number of Passenger Cars Sold



Source: Association of Automobile Importers

### Stock market capitalization down 25% to \$6.2bn at end of July 2020

Figures released by the Beirut Stock Exchange (BSE) indicate that the trading volume reached 37,155,212 shares in the first seven months of 2020, constituting a decline of 80.4% from 189,467,757 shares traded in the same period last year; while aggregate turnover amounted to \$153m, down by 81.2% from a turnover of \$811.5m in the first seven months of 2019. The sharp decline in trading volume and turnover in the first seven months of 2020 came from a high base in the same period last year, which saw eight block trades in the shares of three listed companies. The market capitalization of the BSE reached \$6.2bn at the end of July 2020, and regressed by 20% from \$7.8bn at the end of 2019 and by 24.5% from \$8.2bn at end-July 2019, with banking stocks accounting for 58.2% of the total, followed by real estate equities (36.8%), industrial shares (4.5%), and trading firms' equities (0.6%). The market liquidity ratio was 2.5% in the covered period compared to 10% in the first seven months of 2019.

Banking stocks accounted for 72.1% of trading volume in the first seven months of 2020, followed by real estate equities with 27.5%, industrial shares with 0.2%, and trading firms' equities with 0.1%. Also, real estate equities accounted for 70.5% of the aggregate value of shares traded, followed by banking stocks with 29.2%, industrial stocks with 0.2%, and trading firms' equities with 0.1%. The average daily traded volume for the period was 273,200 shares for an average daily amount of \$1.1m. The figures reflect a year-on-year decrease of 80.2% in average daily traded volume, and an annual drop of 81% in the average amount in the first seven months of the year.

### Balance sheet of financial institutions down 11.5% in first half of 2020

Figures released by Banque du Liban show that the consolidated balance sheet of financial institutions in Lebanon totaled LBP1,845bn, or \$1.22bn at the end of June 2020, constituting a decrease of 11.5% from LBP2,084bn (\$1.38bn) at the end of 2019, and a decline of 16.6% from LBP2,213bn (\$1.47bn) at the end of June 2019.

On the assets side, claims on resident customers amounted to \$538.6m at the end of June 2020, down by 13.7% from the end of 2019 and by 22.2% from end-June 2019, while claims on non-resident customers stood at \$18.6m at end-June 2020 and decreased by 60.6% from the end of 2019 and by 65% from a year earlier. In addition, claims on the resident financial sector reached \$299.2m at end-June 2020, down by 2.4% from end-2019 and by 7.2% from end-June 2019; while claims on the non-resident financial sector totaled \$25.1m at the end of June 2020 and dropped by 51% from end-2019 and by 47% from a year earlier. Also, claims on the public sector stood at \$4.7m at end-June 2020, constituting a decrease of 9.3% from end-2019 and of 7.7% from the end of June 2019; while the securities portfolio, which includes Lebanese Treasury bills and Eurobonds, amounted to \$87.4m at end-June 2020 and regressed by 2.7% from end-2019 and by 16.6% from a year earlier. In parallel, currency and deposits with local and foreign central banks reached \$51.1m at the end of June 2020 and increased by 25% from \$40.9m at end-June 2019.

On the liabilities side, deposits of resident customers stood at \$146.3m at the end of June 2020, constituting a decrease of 14.5% from end-2019 and of 6.5% from the end of June 2019; while deposits of non-resident customers reached \$4.8m at the end of June 2020 and dropped by 72.2% from end-2019 and by 76.3% from a year earlier. Liabilities to the resident financial sector amounted to \$177.5m at end-June 2020 and declined by 20.6% from end-2019 and by 46% from end-June 2019; while liabilities to the non-resident financial sector regressed by 25% from end-2019 to \$93.6m. Also, public sector deposits rose by 22% in the first half of 2020 to \$4.8m, while issued debt securities totaled \$110.5m at end-June 2020, and declined by 1.2% from end-2019 and by 9.8% from the end of June 2019. Further, the aggregate capital account of financial institutions was \$467.7m at the end of June 2020, and decreased by 3.8% from the end of 2019 and by 4% from the end of June 2019.

### **BLOM Bank announces intention to sell subsidiary in Egypt**

BLOM Bank sal announced its intention to sell its subsidiary BLOM Bank Egypt sae, and attributed its decision to the deteriorating economic conditions in Lebanon. It added that revenues from the sale will help it source funds to increase its capital, in line with Banque du Liban's (BdL) Intermediate Circular 532 dated November 4, 2019. The circular requested banks to raise their capital base by the equivalent of 20% of their Common Equity Tier One at the end of 2018.

The bank indicated that it received the approval from the Central Bank of Egypt to begin the due diligence process on the possible sale of its stake in BLOM Bank Egypt. It noted that the completion of the sale will also depend on the approval of BLOM Bank's Board of Directors. Also, it has reportedly hired financial services group CI Capital to advise on the sale transaction. Emirates NBD Bank announced that it is in initial talks with BLOM Bank to potentially acquire its subsidiary in Egypt. BLOM Bank Egypt has 41 branches across the country and a paid up capital of EGP2bn, or \$126m.

BLOM Bank sal declared net profits of \$115.4m in 2019, constituting a decline of 77.4% from \$511.6m in 2018. It attributed the decline to the impact of the financial and economic crisis in Lebanon on the bank's performance. It indicated that the profits for 2019 mostly came from its units outside of Lebanon, while its branches in the country did not generate any profits last year due to the provisions booked in accordance with BdL's circulars to cover for credit risks arising from the prevailing conditions in financial markets. Also, the bank's aggregate assets reached \$33.3bn at the end of 2019, declining by 9.4% from \$36.7bn at end-2018. Net loans & advances to customers totaled \$5.8bn at the end of 2019, down by 18.8% from \$7.1bn at end-2018, while customer deposits amounted to \$26.1bn, and decreased by 2.7%, or by \$724m, from end-2018.

### **Byblos Bank publishes financial results for 2019**

Byblos Bank sal declared audited consolidated net losses of \$121.5m in 2019 relative to profits of \$164.1m in 2018, constituting the Bank's first annual losses since its inception about 60 years ago. It indicated that several converging factors, such as the government's substantially wide budget deficit and its unsustainable public debt level, as well as the rising cost of living and the nationwide protests since October 2019, caused unprecedented losses in the Lebanese banking sector last year. It pointed out that these factors, along with customers rushing to withdraw their deposits, weighed on the liquidity levels of banks, which, in turn, prompted the imposition of capital control measures. It added that the downgrade of Lebanon's credit ratings and the significant decline in the prices of Lebanese Eurobonds led regulatory authorities to require banks to allocate important provisions for possible losses.

Specifically, Byblos Bank allocated "collective provisions" for expected credit losses on its portfolio of Lebanese Eurobonds, on its foreign-currency placements with Banque du Liban (BdL), and on its customers' loan portfolio. The Bank pointed out that, over the past few years, it has been prudently taking "general provisions", which are still unused and can be readily deployed to absorb any additional losses in coming years. It said that these "general provisions" stood at around \$93m as at end-2019.

The Bank's net interest income reached \$240m in 2019 compared to \$328.2m in 2018; while revenues from net fees & commissions stood at \$95.6m last year relative to \$96.2m in 2018. The Bank's net operating income totaled \$129m in 2019 relative to \$455.8m in the previous year. In parallel, Byblos Bank's operating expenditures reached \$227.3m in 2019 relative to \$252m in 2018, with personnel cost accounting for 54.6% of the total.

Also, the Bank's aggregate assets reached \$21.9bn at the end of 2019 relative to \$25bn at end-2018. The decline in assets in 2019 is mainly due to the "netting" on the assets and liabilities' sides of the balance sheet by \$3.03bn of the Bank's deposits at BdL and the related loans from BdL. Net loans & advances to customers totaled \$4.5bn at the end of 2019 compared to \$5.4bn at end-2018, which reflects the deterioration in the economic and financial conditions in the country, while net loans & advances to related parties reached \$16.3m. Further, customer deposits amounted to \$17.2bn and deposits from related parties stood at \$149.7m at the end of 2019. As a result, aggregate deposits stood at \$17.4bn at end-2019 compared to \$18.5bn a year earlier. In parallel, the Bank's equity was \$1.95bn at the end of 2019 relative to \$2.2bn at end-2018, due to the losses incurred last year.

The Bank noted that offshore liquidity remained at an acceptable level in light of the prevailing situation, which validates the Board of Directors' conservative strategy in previous years that has favored liquidity and asset quality over short-term profits. It indicated that it will maintain its prudent policies in anticipation of additional challenges, while its teams will continue to look for ways to protect, as much as possible, its customers, its employees, and its shareholders.



## Ratio Highlights

(in % unless specified)	2017	2018	2019	Change*
Nominal GDP (\$bn)	53.1	55.0	51.7	(3.3)
Public Debt in Foreign Currency / GDP	57.2	60.9	64.6	3.71
Public Debt in Local Currency / GDP	92.5	94.0	110.9	16.95
Gross Public Debt / GDP	149.7	154.9	175.6	20.66
Total Gross External Debt / GDP**	190.3	192.8	196.3	3.50
Trade Balance / GDP	(31.5)	(31.0)	(29.7)	1.27
Exports / Imports	14.5	14.8	19.4	4.62
Fiscal Revenues / GDP	21.9	21.0	19.5	(1.53)
Fiscal Expenditures / GDP	28.9	32.4	29.7	(2.62)
Fiscal Balance / GDP	(7.1)	(11.4)	(10.3)	1.09
Primary Balance / GDP	2.7	(1.2)	(0.5)	0.65
Gross Foreign Currency Reserves / M2	68.2	63.8	70.2	6.38
M3 / GDP	260.8	257.1	257.7	0.59
Commercial Banks Assets / GDP	413.7	453.9	415.3	(38.64)***
Private Sector Deposits / GDP	317.4	317.1	304.3	(12.76)
Private Sector Loans / GDP****	112.3	108.1	95.3	(12.71)
Private Sector Deposits Dollarization Rate	68.7	70.6	76.0	5.41
Private Sector Lending Dollarization Rate	68.6	69.2	68.7	(0.50)

\*change in percentage points 19/18; \*\*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; \*\*\*The decline in assets in 2019 is mainly due to the "netting" on the assets and liabilities' sides of the consolidated balance sheet of commercial banks as part of the implementation of international accounting standard IFRS 7; \*\*\*\* in January 2018, Lebanese banks started reporting their financials based on international accounting standard IFRS 9, and revised the 2017 figures accordingly  
Source: Association of Banks in Lebanon, Institute of International Finance, Central Administration of Statistics, Byblos Research Estimates & Calculations  
Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

## National Accounts, Prices and Exchange Rates

	2018	2019e	2020f
Nominal GDP (LBP trillion)	82.8	81.4	142.0
Nominal GDP (US\$ bn)	55.0	51.7	32.7
Real GDP growth, % change	-1.9	-7.3	-23.5
Private consumption	-1.3	-7.1	-17.1
Public consumption	6.7	1.5	-47.7
Gross fixed capital	-1.8	-10.7	-33.3
Exports of goods and services	0.5	-5.0	-35.1
Imports of goods and services	1.1	-4.5	-36.3
Consumer prices, %, average	6.1	2.9	95.4
Official exchange rate, average, LBP/US\$	1,507.5	1,507.5	1,507.5
Parallel exchange rate, average, LBP/US\$	n/a	1,620	5,587
Weighted average exchange rate LBP/US\$	1,507.5	1,575	4,283

Source: Institute of International Finance- August 9, 2020

## Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's Investors Service	C	NP	-	C		-
Fitch Ratings	RD	C	-	CC	C	-
S&P Global Ratings	SD	SD	-	CC	C	Negative
Capital Intelligence Ratings	SD	SD	-	C-	C	Negative

\*for downgrade

\*\*CreditWatch negative

Source: Rating agencies

Banking Sector Ratings	Outlook
Moody's Investors Service	Negative

Source: Moody's Investors Service

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