

## LEBANON THIS WEEK

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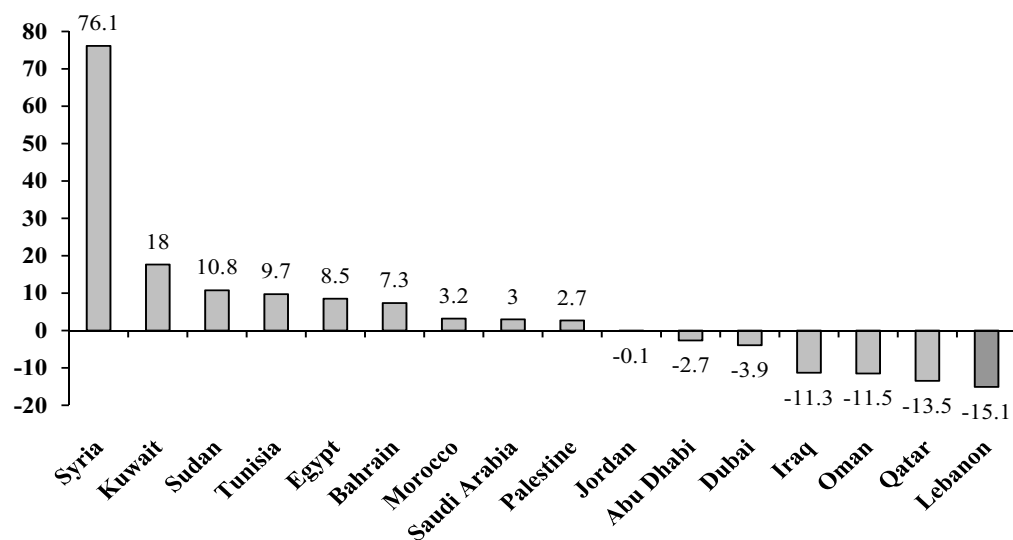
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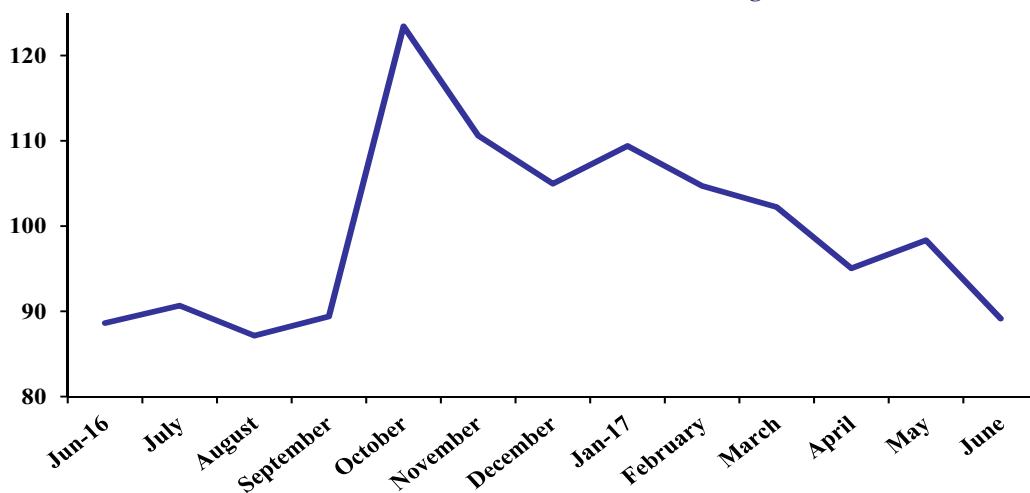
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### Charts of the Week

Performance of Arab Stock Markets in First Half of 2017 (% change)



Performance of the Beirut Stock Exchange\*



\*Capital Markets Authority Value Weighted Index end of month values

Source: Local Stock Markets, Capital Markets Authority, Byblos Bank

### Quote to Note

"Lebanon's endemic traffic congestion problem is estimated to cost the economy the equivalent of an estimated 8% of GDP annually."

*The World Bank, on the urgent need to upgrade the country's road network*

### Number of the Week

**1.45%:** The spread between the weighted average cost of funds and the weighted return on the uses of funds in US dollars at commercial banks in Lebanon as at April 2017, according to the Association of Banks in Lebanon

## Lebanon in the News

\$m (unless otherwise mentioned)	2015	Dec 2015	Sep 2016	Oct 2016	Nov 2016	Dec 2016	% Change*
Exports	2,952	236	254	257	247	244	3.4
Imports	18,069	1,841	1,448	1,479	1,450	1,536	(16.6)
Trade Balance	(15,117)	(1,605)	(1,194)	(1,222)	(1,203)	(1,292)	(19.5)
Balance of Payments	(3,354)	(372)	189	(680)	453	910	-
Checks Cleared in LBP	18,714	1,709	1,722	1,780	1,684	1,879	10.0
Checks Cleared in FC	50,845	4,265	4,054	4,216	3,968	3,880	(9.0)
Total Checks Cleared	69,559	5,974	5,776	5,996	5,652	5,759	(3.6)
Budget Deficit/Surplus	(3,952)	(711.58)	(548.00)	(163.91)	(706.12)	(513.35)	(27.86)
Primary Balance	724.40	(338.61)	(29.21)	281.60	(40.58)	(111.56)	(67.05)
Airport Passengers***	7,240,397	616,258	819,886	554,122	555,931	598,009	(3.0)

\$bn (unless otherwise mentioned)	2015	Dec 2015	Sep 2016	Oct 2016	Nov 2016	Dec 2016	% Change*
BdL Gross FX Reserves	30.64	30.64	34.17	34.74	34.38	34.03	11.06
<i>In months of Imports</i>	20.35	16.64	23.60	23.49	23.71	22.15	33.1
Public Debt	70.33	70.33	74.73	74.52	74.55	74.89	6.48
Bank Assets	185.99	185.99	198.07	199.67	200.95	204.3	9.85
Bank Deposits (Private Sector)	151.59	151.59	158.15	157.66	159.19	162.5	7.20
Bank Loans to Private Sector	54.22	54.22	56.65	56.69	56.49	57.18	5.45
Money Supply M2	52.15	52.15	54.17	53.83	54.12	54.68	4.84
Money Supply M3	123.62	123.62	129.12	128.74	130.04	132.8	7.42
LBP Lending Rate (%)****	7.45	7.45	8.44	8.35	8.26	8.23	78bps
LBP Deposit Rate (%)	5.56	5.56	5.58	5.53	5.54	5.56	-
USD Lending Rate (%)	7.06	7.06	7.20	7.06	7.16	7.35	29bps
USD Deposit Rate (%)	3.17	3.17	3.43	3.43	3.48	3.52	35bps
Consumer Price Index**	(3.75)	(3.40)	1.03	1.13	1.78	3.14	-

\* Year-on-Year \*\* Year-on-Year percentage change \*\*\*includes arrivals, departures, transit

\*\*\*\* Starting January 2016, lending rates in Lebanese pounds are reported before any subsidy or facility from reserve requirements according to Intermediate Circular No 389, and as such they are not comparable year-on-year

Note: bps i.e. basis points

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"	7.70	-0.52%	558,668	6.64%
BLOM Listed	11.23	0.27%	432,460	20.81%
BLOM GDR	12.15	0.83%	54,981	7.74%
Solidere "B"	7.66	-2.17%	20,902	4.29%
Byblos Common	1.63	-1.81%	25,262	7.94%
Audi GDR	6.15	-0.32%	25,038	6.36%
HOLCIM	12.50	-9.09%	2,040	2.10%
Byblos Pref. 08	101.10	0.00%	3,250	1.74%
Audi Listed	6.20	3.33%	2,000	21.36%
Byblos Pref. 09	101.20	-0.30%	3,386	1.74%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Dec 2017	4.00	99.50	5.08
Nov 2018	5.15	100.13	5.05
May 2019	6.00	101.00	5.42
Mar 2020	6.38	101.38	5.81
Oct 2022	6.10	99.38	6.24
Jun 2025	6.25	97.75	6.62
Nov 2026	6.60	98.88	6.76
Feb 2030	6.65	97.13	7.00
Apr 2031	7.00	99.25	7.08
Nov 2035	7.05	98.00	7.25

Source: Byblos Bank Capital Markets

	Jul 3-7	June 28-30	% Change	June 2017	June 2016	% Change
Total shares traded	1,381,155	815,377	69.4	4,057,384	2,859,053	41.9
Total value traded	\$17,053,361	\$7,543,964	126	\$45,447,025	\$22,365,431	103.2
Market capitalization	\$11.60bn	\$11.57bn	0.3	\$11.57bn	\$11.03bn	4.8

Source: Beirut Stock Exchange (BSE)



### Lebanon ranks 62nd globally, sixth in Arab world in insurance premiums in 2016

Swiss Re's annual survey of the global insurance market indicated that Lebanon ranked in 62nd place among the largest 88 markets in terms of premiums generated in 2016 and came in sixth place among 11 Arab markets included in the survey. Lebanon ranked in 61st place globally and in sixth place among Arab countries in 2015. Lebanon generated \$1.57bn in total premiums in 2016, constituting a rise of 3.2% in nominal terms and an increase of 4% in real terms from the preceding year. Total premiums generated in Lebanon last year accounted for 0.03% of global premiums, for 0.3% of premiums generated in emerging markets excluding China, and for 2.9% of premiums generated in the Middle East & Central Asia region. Globally, insurance premiums generated in Lebanon were higher than those produced in Panama (\$1.4bn), Macao (\$1.39bn) and Ukraine (\$1.3bn), while they were lower than those generated in Kenya (\$1.9bn), Bangladesh (\$1.67bn) and Ecuador (\$1.62bn). Also, aggregate premiums in the Lebanese insurance market were higher than those generated in Algeria (\$1.21bn), Oman (\$1.2bn), Kuwait (\$1.1bn), Tunisia (\$824m) and Jordan (\$803m) among Arab countries.

#### Insurance Density in Arab Countries in 2016 (Premiums per Capita in US\$)

	Life	Non-Life	Total	Rank
Qatar	20.5	1267.8	1288.3	29
UAE	263.5	838.5	1102	32
Saudi Arabia	8.6	300.8	309.4	52
Kuwait	46.1	234.3	280.4	54
<b>Lebanon</b>	<b>82.2</b>	<b>186.4</b>	<b>268.6</b>	<b>56</b>
Oman	31.5	230.9	262.4	57
Jordan	11.9	92.2	104.1	67
Morocco	41.9	60.4	102.3	69
Tunisia	13.2	59.3	72.5	73
Algeria	2.5	27.4	30	83
Egypt	11	11.9	22.8	84

Source: Swiss Re, Byblos Research

Lebanon generated \$1.09bn in non-life premiums last year, ranking it in 61st place among the 88 markets and in seventh place among Arab countries. Lebanon's global and regional rank in terms of non-life premiums were unchanged year-on-year. Non-life premiums generated in Lebanon rose by 2.4% in nominal terms and by 3.3% in real terms in 2016. Globally, non-life premiums generated in Lebanon were higher than those produced in Oman and Panama (\$1.05bn each) and Costa Rica (\$1.03bn), and lower than those generated in Kenya (\$1.19bn), and Egypt and Algeria (\$1.11bn each). Non-life premiums generated in the Lebanese market accounted for 0.05% of global non-life premiums, for 0.5% of such premiums generated in emerging markets excluding China, and for 2.7% of non-life premiums generated in the Middle East & Central Asia region in 2016.

Further, Lebanon generated \$482m in life premiums in 2016, ranking it in 62nd place globally and in fourth place in the Arab world. It came in 61st place worldwide and in fourth place regionally in 2015. Life premiums generated in the Lebanese market grew by 4.9% in nominal terms and by 5.7% in real terms last year. Globally, life premiums generated in Lebanon were higher than those produced in Sri Lanka (\$440m), Croatia (\$429m) and Romania (\$415m), and lower than those generated in Mauritius (\$552m), Namibia (\$535m) and Uruguay (489m). Life premiums in Lebanon accounted for 0.02% of global life premiums, for 0.2% of such premiums in emerging markets excluding China, and for 3.7% of life premiums produced in the Middle East & Central Asia region in 2016.

In parallel, Swiss Re estimated Lebanon's insurance density, or premiums per capita, at \$268.6 in 2016 relative to \$260 in 2015, which ranks the local market in 56th place globally and in fifth place in the Arab world. Lebanon had a higher insurance density than Oman (\$262.4), Costa Rica (\$250.4) and Mexico (\$189.4), and a lower density than Croatia (\$307.2), Kuwait (\$280.4) and Jamaica (\$269.4). The survey estimated Lebanon's non-life density at \$186.4 and life density at \$82.2 in 2016.

Also, the survey estimated the insurance penetration rate in Lebanon, or premiums relative to the size of the economy, at 3.32% of GDP in 2016 relative to 3.42% of GDP in 2015, ranking it in 44th place among the 88 covered markets and in second place in the Arab world. Lebanon had a higher insurance penetration rate than the Czech Republic (3.13% of GDP), Poland (2.91% of GDP) and the UAE (2.87% of GDP), and a lower rate than Brazil (4.04% of GDP), India (3.49% of GDP) and Morocco (3.48%). Lebanon posted penetration rates of 1.02% of GDP and 2.3% of GDP in the life and non-life categories, respectively, in 2016.

### Coincident Indicator up 5% year-on-year in first four months of 2017

Banque du Liban's Coincident Indicator, an index of economic activity in Lebanon, reached 317.6 points in April 2017 compared to 306.2 in March 2017 and 298 in April 2016. The Coincident Indicator, an average of 8 weighted economic indicators, increased by 3.7% month-on-month and by 6.6% year-on-year in April 2017. The indicator averaged 306.6 in the first four months of 2017, up by 4.9% from 292.3 in the same period of 2016. Also, the indicator averaged 294.3 in the 12 months ending April 2017, compared to 292.7 in the 12-month period ending March 2017 and 284.3 in the 12 months ending April 2016. As a result, the 12-month average coincident indicator grew by 0.6% month-on-month and by 3.5% year-on-year. In parallel, the indicator improved 19 times and regressed six times on a monthly basis in the month of April since 1993. It averaged 249.5 points in 2010, 255.7 points in 2011, 256.6 points in 2012, 264.7 points in 2013, 273.2 points in 2014, 278.6 points in 2015 and 289.5 points in 2016.



### Merrill Lynch maintains Lebanon's external debt at Marketweight, Eurobonds post 35th lowest return in EMs

Figures issued by Merrill Lynch indicate that Lebanon's external debt posted a return of 5.95% in the first half of 2017, constituting the 24th lowest return among 44 markets in the Central & Eastern Europe and the Middle East & Africa (CEEMEA) region, as well as the 35th lowest return among 76 emerging markets included in Merrill Lynch's External Debt EM Sovereign Index. Lebanon outperformed the overall emerging markets' return of 5.63% during the covered period. Further, Lebanon's external debt posted the 10th lowest return among 27 countries in the Middle East & Africa region in the first half of the year, ahead of Saudi Arabia (+5.73%), Morocco (+5.32%), Bahrain (+3.46%), the UAE (+3.26%), Israel (+3.18%), Oman (+3.02%), South Africa (+2.91%), Qatar (+1.91%) and Kuwait (+1.43%).

In parallel, Merrill Lynch maintained its recommendation for Lebanon's external debt at "Marketweight" in its emerging markets portfolio. It attributed its decision to the performance of Lebanese Eurobonds and to the positive bias in case structural reforms are implemented.

Further, Lebanon's external debt posted a return of -0.43% in June 2017, constituting the 14th lowest return in the CEEMEA region, and the 17th lowest in emerging markets during the covered month. Lebanon underperformed the emerging markets' return of -0.2% in June 2017. It also posted the 12th lowest return in the Middle East & Africa region in June 2017.

In parallel, Merrill Lynch indicated that the option-adjusted spread on Lebanese Eurobonds was 426 basis points at the end of June 2017 compared to 532 basis points at end-June 2016, and constituted the 11th widest spread in the CEEMEA region and the 19th widest among emerging markets. The spread on Lebanese Eurobonds was wider than the emerging markets' overall spread of 272 basis points at the end of June 2017.

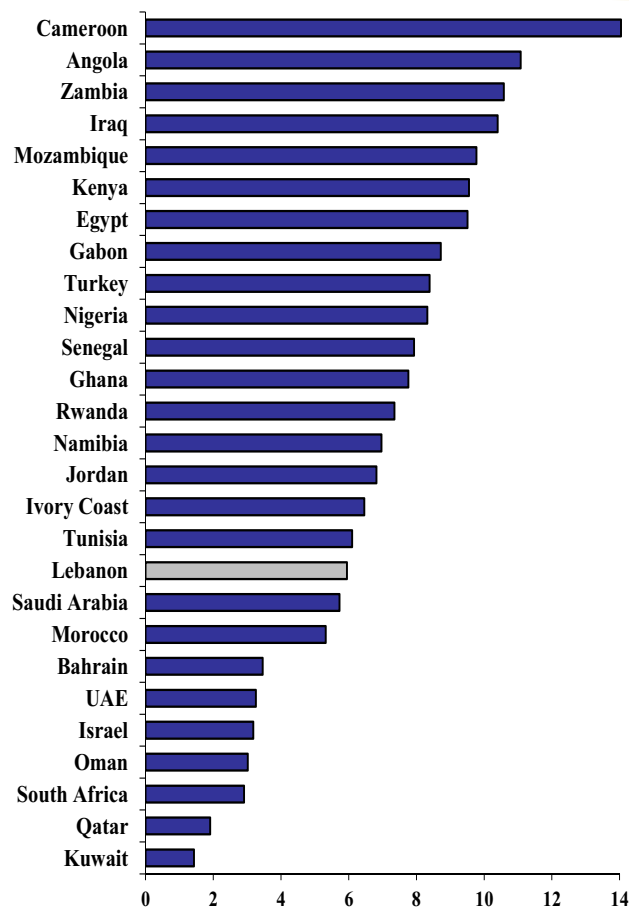
Lebanon has a weight of 2.7% on Merrill Lynch's External Debt EM Sovereign Index, the fifth largest weight in the CEEMEA universe and the 11th largest among emerging economies. Lebanon accounted for 5.1% of allocations in the CEEMEA region.

### Lebanon "Largely Compliant" with exchange of tax information standard

The Global Forum on Transparency and Exchange of Information for Tax Purposes assigned to Lebanon a provisional rating of "Largely Compliant" about the good progress that Lebanese authorities made in implementing the Exchange of Information on Request (EOIR) standard. The Forum reviewed Lebanon under the Fast-Track process and will conduct a full review in the near term. As such, Lebanon will be excluded from the G20 international blacklist for countries failing to meet international tax transparency standards.

In parallel, Lebanon signed in May 2017 the Multilateral Convention on Mutual Administrative Assistance in tax Matters (MAC), which is a main tool for international tax cooperation. The MAC provides administrative assistance about tax issues, including the exchange of information on request, and the automatic exchange and assistance in tax collection, among other services. It also serves as the main tool for implementing the Standard for Automatic Exchange of Financial Account Information in Tax Matters that was developed by the Organization for Economic Co-operation and Development (OECD) and G20 countries. In addition, Lebanon signed in May 2017 the Common Reporting Standard Multilateral Competent Authority Agreement (CRS MCAA), which re-confirms its commitment to implement the automatic exchange of financial account information in September 2018.

External Debt Performance in the Middle East & Africa in First Half of 2017 (%)



Source: Merrill Lynch, Byblos Research

### Cost of living in Beirut is 282nd highest in the world, fourth highest among Arab cities

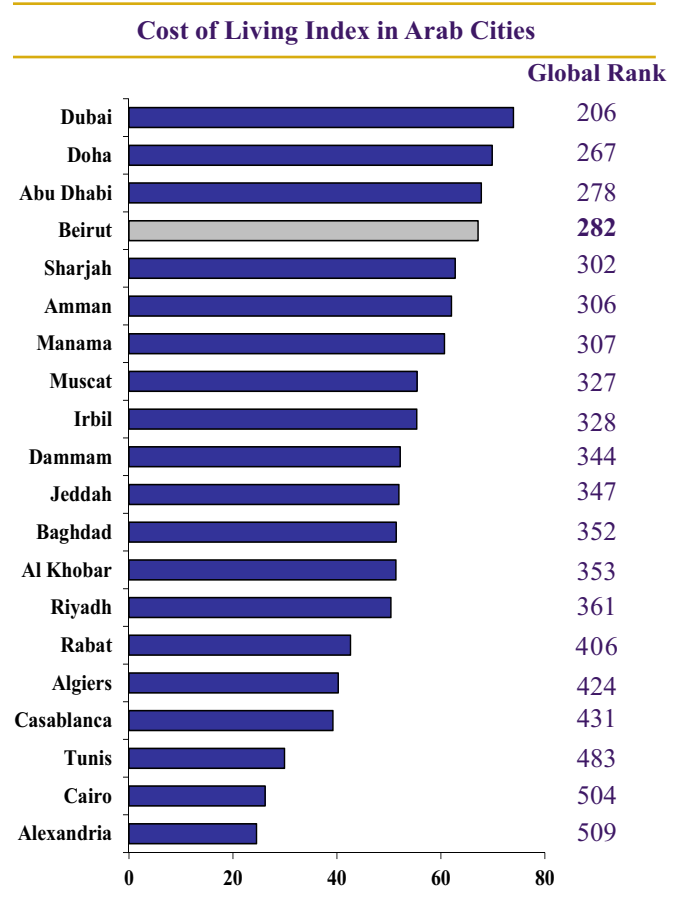
The Mid-2017 Cost of Living Index, produced by crowd-sourced global database Numbeo, ranked the cost of living in Beirut as the 282nd highest among 511 cities around the world, as well as the fourth highest among 20 Arab cities and the second highest among 91 cities in upper middle-income countries (UMICs). Based on the same cities included in the January 2017 and mid-year surveys, Beirut's rank regressed by 9 spots from 244th place in the January survey to 253rd place in the mid-year 2017 survey. The Cost of Living Index is a relative indicator of consumer goods price, including groceries, restaurants, transportation and utilities. Numbeo benchmarks the Index against New York City. It also issues a Rent Index, which is an estimation of apartment rents in a city compared to New York City rents. Numbeo relies on residents' inputs and uses data from official sources to compute the indices.

According to the Cost of Living Index, consumer goods in Beirut are more expensive than in Knoxville in the U.S., Accra in Ghana and Leipzig in Germany; while they are less costly than in Madrid, Oklahoma City in the U.S. and Bremen in Germany. Also, the cost of consumer goods in Beirut is lower than only in Dubai, Doha and Abu Dhabi in the Arab world, while it is lower than only in Jamaica's capital Kingston among UMICs. Zurich ranked as the most expensive city and Thiruvananthapuram in India as the least expensive city globally. Beirut received a score of 67.1 points, which means that prices in Beirut are 32.9% lower than those in New York City.

In parallel, the Rent Index ranked Beirut in 115th place globally, in fourth place among Arab cities and in second place to Shanghai in China among cities in UMICs. Globally, renting an apartment in Beirut is more expensive than in Asheville, Salt Lake City and Richmond in the U.S.; while it is less expensive than in Detroit in the U.S., Jerusalem and Wellington in New Zealand. Further, Dubai, Abu Dhabi and Doha are the only Arab cities that have more expensive rents than Beirut. San Francisco has the highest apartment rents in the world, while rent in Valenzuela in the Philippines is the lowest globally. Lebanon received a score of 36.7 points on the index, which means that rent in Lebanon is 63.3% less expensive than in New York City.

Also, the Groceries Index, which is an estimate of grocery prices in a city compared to New York City, ranked Beirut in 322nd place globally, in eighth place among Arab cities and in 16th place among 91 cities in UMICs. Globally, groceries in Beirut are more expensive than in Bremen, San Salvador in El Salvador and Selangor in Malaysia; while they are cheaper than in Muscat, Granada in Spain and Buenos Aires. In addition, groceries in Beirut are less expensive than in Dubai, Manama, Doha, Abu Dhabi, Sharjah, Amman and Muscat among Arab cities. Lebanon received a score of 51.3 points, which means that groceries in Beirut are 48.7% less expensive than they are in New York City.

Finally, the Restaurant Index, which compares the prices of meals and drinks at restaurants and pubs relative to New York City, ranked Beirut in 268th place globally, in fourth place among Arab cities and in first place among cities in UMICs. Globally, meals and drinks at restaurants and pubs in Beirut are more expensive than in Huntsville and Ann Arbor in the U.S. and Kingston in Canada; while they are cheaper than in Louisville and Fort Myers in the U.S. and Aachen in Germany. Also, Doha, Dubai and Abu Dhabi are the only Arab cities with more expensive restaurants than Beirut. The Lebanese capital received a score of 63.7 points on the index, which means that prices at restaurants and pubs in Beirut are 36.3% less expensive than they are in New York City.

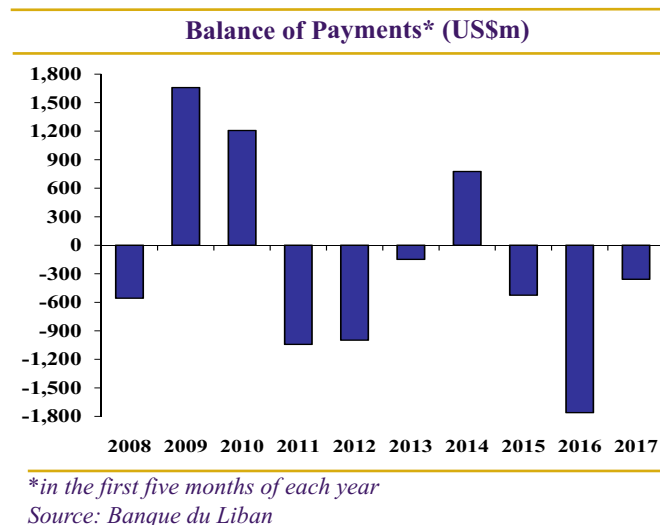


Source: Numbeo, Byblos Research



### Balance of payments posts deficit of \$358m in first five months of 2017

Figures issued by Banque du Liban show that Lebanon's balance of payments posted a deficit of \$357.6m in the first five months of 2017 compared to a deficit of \$1.76bn in the same period of 2016. The balance of payments posted a deficit of \$591.5m in May 2017 compared to deficits of \$320.9m in April 2017 and of \$861.6m in May 2016. The May 2017 deficit was caused by a decrease of \$675.7m in the net foreign assets of Banque du Liban, which was marginally offset by a rise of \$84.2m in those of banks and financial institutions. The cumulative deficit over the first five months of 2017 was caused by a decrease of \$2.1bn in the net foreign assets of Banque du Liban that was partly offset by an increase of \$1.75bn in those of banks and financial institutions. The balance of payments posted surpluses of \$7.9bn in 2009, \$3.3bn in 2010 and \$1.2bn in 2016, and deficits of \$2bn in 2011, \$1.5bn in 2012, \$1.1bn in 2013, \$1.4bn in 2014 and \$3.4bn in 2015.



### Value of real estate transactions up 11% in first five months of 2017

Figures released by the Ministry of Finance indicate that there were 28,768 real estate transactions in the first five months of 2017, constituting an increase of 14.7% from 25,079 deals in the same period of 2016. In comparison, the number of real estate transactions rose by 8.4% year-on-year in the first five months of 2016, while it decreased by 18.7% in the first five months of 2015. There were 5,957 real estate transactions in the Baabda area in the first five months of 2017, representing 20.7% of the total. The North followed with 4,809 transactions (16.7%), then the Zahlé region with 3,378 deals (11.7%), the Metn district with 3,122 transactions (10.9%), the South with 2,916 deals and the Keserwan area with 2,905 transactions (10.1% each), Nabatieh with 2,664 transactions (9.3%) and Beirut with 2,092 transactions (7.3%).

Also, the aggregate value of real estate transactions reached \$3.8bn in the first five months of 2017 and increased by 11.4% from \$3.4bn in the same period of 2016. In comparison, the value of real estate deals increased by 17.8% in the first five months of 2016 relative to the same period of 2015, while it declined by 24% year-on-year in the first five months of 2015. The value of real estate transactions in Beirut reached \$1bn and accounted for 26.2% of the total in the first five months of 2017. The Baabda district followed with \$817.6m (21.4%), then the Metn region with \$678.5m (17.8%), the Keserwan area with \$398.1m (10.4%), the North with \$330m (8.6%), the South with \$301.2m (7.9%), the Zahlé area with \$138.8m (3.6%) and Nabatieh with \$113.9m (3%).

In parallel, the average value per real estate transaction was \$132,757 in the first five months of 2017, down by 2.8% from an average value of \$136,648 in the same period of 2016 and relative to \$125,746 in the first five months of 2015. Further, there were 500 real estate transactions executed by foreigners in the first five months of 2017, reflecting an increase of 21.4% from 412 deals in the same period of 2016, and compared to an annual decrease of 24.4% in the first five months of 2016 and a rise of 27% in the same period of 2015.

The number of real estate transactions by foreigners accounted for 1.7% of total real estate deals in the first five months of 2017 compared to 1.6% of deals in the same period of 2016 and to 2.4% of deals in the first five months of 2015. Further, 27.8% of the real estate transactions executed by foreigners were in the Baabda district in the first five months of 2017, followed by the Metn region (15.4%), Beirut (14.8%), the South (13.2%), Zahlé (10.4%), the Keserwan area (8.8%), the North (8.4%) and Nabatieh (1.2%).

### Government signs \$100m World Bank loan to strengthen education sector

The Ministry of Finance signed a \$100m loan with the World Bank to finance the Reaching All Children with Education (RACE 2) project. The project aims to strengthen the long-term capacity of the Lebanese educational system, improve educational services, as well as raise the quality of education in Lebanon in response to the Syrian refugee crisis. The loan is for 38 years and has a six-year grace period. In addition to the loan, funding for the project includes a grant of \$100m from the World Bank's Lebanon Syrian Crisis Multi-Donor Trust Fund, and a grant of \$4m from other institutions.

The RACE 2 project aims to ensure that children have equal opportunities to attend public schools and to enhance the quality of the learning environment. Also, the project seeks to improve the Ministry of Education & Higher Education's and the Center for Educational Research & Development's capacity to plan, budget, deliver, monitor and evaluate education services.

### Banque du Liban reiterates stability of exchange and interest rates

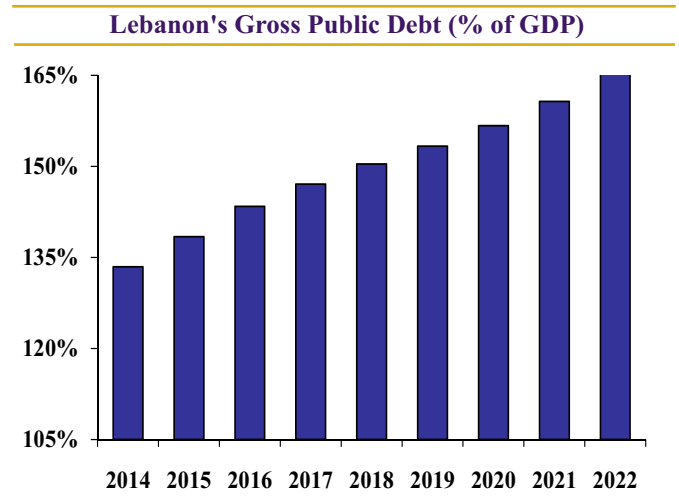
In the monthly meeting between Banque du Liban (BdL) and the Association of Banks in Lebanon (ABL), Governor Riad Salamé reiterated that the BdL is maintaining its policy of exchange rate and interest rate stability. He noted that local markets will take into consideration the recent increase in U.S. interest rates by 25 basis points and an expected similar increase by the end of 2017. He said that the Lebanese government does not need to issue new Lebanese pound-denominated Treasury bonds in the near term, given its sufficient cash balance in the local currency.

In parallel, Governor Salamé indicated that the BdL continues to monitor and follow up on any development related to the possible imposition of new U.S. sanctions on Lebanese entities. He noted that lobbying by the Lebanese financial sector in the U.S. would be more beneficial during September and October 2017, as the U.S. Congress would be in recess during most of July and August. He expected correspondent banking relationships with Lebanese banks to continue to be normal. He added that financial authorities in Lebanon are coordinating with their European counterparts in order to prevent any tightening of sanctions from their side.

In addition, the ABL raised the issue of the implementation of the exchange of tax information law with other countries. Governor Salamé indicated that the Ministry of Finance is the designated party responsible for the automatic exchange of tax information. He noted that the BdL will issue a circular that will detail the mechanism of exchanging tax information and that will be based on the ministry's executive decree. He added that the Special Investigation Commission against money laundering and terrorism financing will send the requested information through encrypted messages to the Finance Ministry, which will provide additional protection of the exchanged information.

### Gross public debt at \$77bn at end-May 2017

Lebanon's gross public debt reached \$76.7bn at the end of May 2017, constituting an increase of 2.4% from \$74.9bn at the end of 2016 and a rise of 7.3% from \$71.5bn at end-May 2016. In nominal terms, the gross public debt grew by \$1.8bn in the first five months of 2017 relative to an increase of \$1.16bn in the same period of 2016. Debt denominated in Lebanese pounds totaled \$47bn at end-May 2017, growing by 0.6% from the end of 2016 and by 10.7% from end-May 2016; while debt denominated in foreign currency stood at \$29.7bn, constituting an increase of 5.5% from end-2016 and a rise of 2.3% from a year earlier. Local currency debt accounted for 61.3% of the gross public debt at the end of May 2017 compared to 59.4% a year earlier, while foreign currency-denominated debt represented the balance of 38.7% relative to 40.6% at end-May 2016. The weighted interest rate on outstanding Treasury bills was 6.9% and that on Eurobonds was 6.38% in May 2017. Further, the weighted life on Eurobonds was 7.02 years, while that on Treasury bills was 1,332 days.



Source: International Monetary Fund, Byblos Research

Commercial banks held 48.8% of the public debt as at end-May 2017 relative to 52.5% of the total at the end of May 2016. Commercial banks held 45.7% of the Lebanese pound-denominated public debt at the end of May 2017 relative to 44.9% a year earlier, while Banque du Liban held 39.2% of the local debt compared to 38.2% at end-May 2016. Also, public agencies, financial institutions and the public held 15.1% of the local debt at end-May 2017, down from 17% a year earlier. Further, holders of Eurobonds and special T-bills in foreign currencies accounted for 92.7% of foreign currency-denominated debt holders at the end of May 2017, followed by multilateral institutions with 4.2% and foreign governments with 3%. In addition, the net public debt, which excludes public sector deposits at Banque du Liban and at commercial banks from overall debt figures, grew by 6.1% annually to \$66.5bn at end-May 2017. In parallel, the gross market debt accounted for about 62% of the total public debt. Gross market debt is the total public debt less the portfolios of Banque du Liban, the National Social Security Fund, bilateral and multilateral loans, as well as Paris II related debt.

In parallel, S&P Global Ratings rates Lebanon's long-term foreign and local currency sovereign credit ratings at 'B-'. But the agency's Credit Default Swap Market Derived Signal Score, an indicator of risk appetite by foreign investors, shows that Lebanon's sovereign debt is considered by the market to have a 'B' risk level, which is one notch higher than the S&P rating as at July 6, 2017.

### **Banque du Liban's foreign assets up 1% to \$41bn in first half of 2017**

Banque du Liban's (BdL) interim balance sheet totaled \$105.2bn at the end of June 2017, constituting an increase of 2.8% from \$102.3bn at end-2016 and a rise of 6.1% from \$99.1bn at the end of June 2016. Assets in foreign currency reached \$41.1bn at the end of June 2017, reflecting a growth of 0.9% from \$40.7bn at end-2016 and an increase of 13.3% from \$36.3bn at the end of June 2016. Assets in foreign currency rose by \$335.2m in January, by \$362.2m in February and by \$2.3bn in June, while they declined by \$1.3bn in March, by \$829.6m in April and by \$481.1m in May 2017. This resulted in an aggregate increase of \$378.9m in the first half of 2017. In comparison, the BdL's assets in foreign currency increased by \$997m in the first half of 2015 and declined by \$814.9m in the same period of 2016.

In parallel, the value of gold reserves at the BdL rose by 7.2% from the end of 2016, but fell by 5.5% year-on-year to \$11.48bn. The value of gold reserves reached a peak of \$16.7bn at the end of August 2011. Also, the securities portfolio of the BdL grew by 5.2% year-on-year to \$25.2bn at end-June 2017. Further, deposits of the financial sector reached \$84.5bn at the end of June 2017 and increased by \$342m, or by a marginal 0.4%, from the end of 2016, while they grew by \$5.9bn, or 7.5% from end-June 2016. In comparison, public sector deposits totaled \$5.84bn at the end of June 2017 and increased by \$326.1m or 5.9% from end-2016, while they decreased by \$386.1m or 6.2% year-on-year.

### **Trade deficit narrows by 0.5% to \$6.7bn in first five months of 2017**

The total value of imports reached \$7.9bn in the first five months of 2017, constituting an increase of 0.8% from the same period of 2016; while the aggregate value of exports grew by 8.9% to reach \$1.2bn in the covered period. As such, the trade deficit narrowed by 0.5% to \$6.7bn in the first five months of 2017 due to an increase of \$98.1m in exports, which was partly offset by a \$62.8m rise in imports. The growth in exports mainly reflects an expansion of \$70.6m, or 33.8%, in the value of jewelry exports in the first five months of the year; a rise of \$25.5m, or 4.3 times, in the value of exported mineral products; and an increase of \$22.5m, or 20.2%, in the value of base metals exports. In addition, the growth in imports reflects mainly an increase of \$92m, or 24.2%, in the value of imported jewelry; a rise of \$65.3m, or 9.5%, in the value of imported vehicles, aircraft and vessels; an expansion of \$64.8m, or 13.9%, in the value of imported base metals; an increase of \$58.5m, or 15.2%, in the value of imported vegetable products; and a growth of \$55.7m, or 10.2%, in the value of imported prepared foodstuff in the first five months of 2017. The value of imported oil & mineral fuels decreased by \$299.8m, or 15.6%, to \$1.6bn in the first five months of 2017 and accounted for 20.5% of total imports in the covered period, compared to a share of 24.4% in the first five months of 2016. Further, the coverage ratio was 15.2% in the first five months of 2017 compared to 14.1% in the same period of 2016, while it reached 15.4% in May 2017 relative to 14.6% in the same month of 2016.

In volume terms, imports reached 7.63 million tons in the first five months of 2017, compared to 7.58 million tons in the same period last year, while exports jumped by 30.3% annually to 790,258 tons in the covered period. Imports of oil & mineral fuels regressed by 0.8% year-on-year to 4 million tons, while non-hydrocarbon imports increased by 2.4% annually to 3.6 million tons. Also, imported oil & mineral fuels accounted for 52.4% of total imports in the first five months of 2017 relative to a 53.2% share in the same period last year.

Lebanon's main non-hydrocarbon imports were chemical products that reached \$869.7m in the first five months of 2017 and accounted for 11% of the total. They were followed by machinery & mechanical appliances at \$785.1m (9.9%), vehicles, aircraft & vessels at \$752m (9.5%), prepared foodstuff at \$603.8m (7.6%), base metals at \$531.1m (6.7%), jewelry at \$472.3m (6%) and vegetable products at \$442.2m (5.6%). In parallel, the Port of Beirut was the entry point for 70.8% of Lebanon's merchandise imports in the first five months of 2017, followed by the Hariri International Airport (19.1%), the Port of Tripoli (7.1%), the Port of Saida (2.1%), the Arida crossing point (0.4%), the Masnaa crossing point (0.3%) and the Abboudieh and Tyre crossing points (0.1% each).

China was the main source of imports with \$755m, or 9.5% of the total, in the first five months of 2017, followed by Italy with \$617m (7.8%), Greece with \$610m (7.7%), Germany with \$507.3m (6.4%), the United States with \$491m (6.2%) and Russia with \$361.8m (4.6%). Imports from Greece grew by 1.7 times year-on-year in the first five months of 2017, those from Russia increased by 14.8%, imported goods from Germany rose by 11.3% and those from Italy improved by 3%; while imported goods from the United States decreased by 15.9% and those from China regressed by 10.1% year-on-year.

In parallel, Lebanon's main exports were jewelry at \$279.7m in the first five months of 2017 and accounted for 23.2% of the total. They were followed by prepared foodstuff at \$203.5m (16.9%), base metals at \$133.7m (11.1%), machinery & mechanical appliances at \$133m (11%), chemical products at \$126.2m (10.5%), vegetable products at \$60.4m (5%), paper products at \$56.3m (4.7%) and plastics & rubber at \$55.2m (4.6%). The Port of Beirut was the exit point for 49.1% of Lebanon's total exports in the first five months of 2017, followed by the Hariri International Airport (33.2%), the Port of Tripoli (7.6%), the Masnaa crossing point (4.3%), the Arida crossing point (4.1%), the Abboudieh crossing point (0.9%) and the Port of Saida (0.8%). Re-exports totaled \$327.1m in the first five months of 2017 compared to \$214.1m in the same period of 2016.

South Africa was the main export destination of Lebanese merchandise with \$156m, or 12.9% of total exports in the first five months of 2017, followed by Syria with \$113.5m (9.4%), Saudi Arabia and the UAE with \$102.6m each (8.5% each), Switzerland with \$71.8m (6%) and Iraq with \$71.2m (5.9%). Exports to Switzerland jumped by 3.2 times in the first five months of 2017, those to Syria expanded by 60.4%, exports to South Africa increased by 12.5% and those to Iraq grew by 4.5%, while exports to Saudi Arabia decreased by 17.2% and those to the UAE fell by 2.2%.



### Structural reforms needed to reduce public finance imbalances

The Institute of International Finance reduced its projection for Lebanon's real GDP growth to 1.7% in 2017 from a forecast of 3% in February. It noted that the positive political developments in the country in the fourth quarter of last year have eased the political deadlock but have not yielded any meaningful initiative to address the wide fiscal deficit and elevated public debt level. It estimated a subdued real GDP growth rate of about 1% in the first half of 2017, but it anticipated a modest pickup in activity in the second half of the year in case exports of goods and services improve. It pointed out that Lebanon's vulnerabilities have become more pronounced, and expected them to further increase in case of further delays in the implementation of reforms. It noted that the Lebanese economy continues to face chronic structural challenges, such as wide fiscal and current account deficits, deteriorating infrastructure and governance issues, which have prevented a quick return to higher and sustainable economic growth rates.

In parallel, the IIF projected Lebanon's fiscal deficit to narrow from 9.8% of GDP in 2016 to 8.5% of GDP in 2017. It attributed the narrowing of the deficit to a one-off increase of \$750m, or 1.4% of GDP, in tax receipts from the revenues that banks generated from the swap operations that Banque du Liban (BdL) conducted with commercial banks last year. It cautioned that the 2017 deficit would reach 11% of GDP in case authorities implement the public-sector salary scale increase without the mobilization of additional tax revenues. Further, it expected the public debt level to grow from 150.8% of GDP in 2016 to 151.6% of GDP in 2017, given that the anticipated narrowing of the deficit this year would be insufficient to reduce the debt level. It noted that risks from Lebanon's elevated public debt level are contained due to the country's adequate reserves in foreign currency and the support that a highly liquid banking system provides to the government.

In parallel, the IIF indicated that confidence persists in the stability of the Lebanese pound and the exchange rate peg to the US dollar. It added that the current spreads between interest rates in Lebanon and the LIBOR are sufficiently wide to continue to attract adequate deposits from Lebanese expatriates. But it considered that the BdL may need to increase interest rates, in line with the expected additional increases in the U.S. interest rates this year, in case deposit inflows slow down.

Lebanon's Main Economic Indicators					
	2014	2015	2016(e)	2017(f)	2018(f)
Real GDP growth (%)	2.0	0.8	1.2	1.7	2.7
CPI inflation, average (%)	1.9	(3.8)	(0.8)	3.3	3.6
Fiscal balance, % of GDP	(6.4)	(8.0)	(9.8)	(8.5)	(11.0)
Government debt, % of GDP	1392	142.2	150.8	151.6	153.2
Current account balance, % of GDP	(24.5)	(16.3)	(19.3)	(19.4)	(19.5)
Official reserves, \$bn	39.6	38.8	43.3	41.5	41.0
Nominal GDP, \$bn	47.8	49.5	49.9	52.6	56.0

Source: Institute of International Finance, July 2017

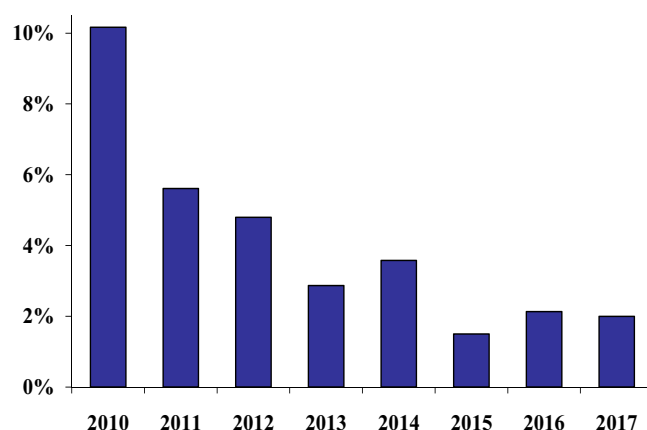
### Byblos Bank signs €100m credit line with EIB to support SMEs

The European Investment Bank (EIB) extended a €100m credit line to Byblos Bank to finance small- and medium-sized enterprises (SMEs) and mid-cap companies in Lebanon. Byblos Bank will use the loan to support SMEs operating in productive sectors such as industry, tourism, services, healthcare, energy, telecommunications, information technology, higher education, as well as firms in the knowledge-based economy. The new credit line comes under the EIB's Private Sector Support Facility. The amount of the loan represents about 40% of the total amount of credit that the EIB extended recently to Lebanese banks. The credit line constitutes Byblos Bank's fourth line from the EIB, following €45m extended in 2014, €50m allocated in 2005 and €60m extended in 2007 for a total of \$310m over the 12-year period. In 2005, Byblos Bank became the first private sector entity in the Near East and the second among Mediterranean partner countries to benefit from a credit line from the EIB without a state guarantee. Byblos Bank's net loans & advances to customers totaled \$5.2bn at the end of March 2017 and accounted for about 10% of total lending to the private sector in Lebanon.

### Commercial banks' assets reach \$206bn at the end of May 2017

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached \$206.9bn at the end of May 2017, constituting an increase of 1.3% from the end of 2016 and a growth of 9.7% from end-May 2016. Loans extended to the private sector totaled \$57.9bn at the end of May 2017, up by 1.2% from end-2016 and by 4.2% from a year earlier. Loans to the resident private sector totaled \$52.1bn, constituting an increase of 2% from end-2016 and a rise of 6.1% year-on-year; while credit to the non-resident private sector reached \$5.8bn at end-May 2017 and regressed by 5.3% from end-2016 and by 9.9% from a year earlier. In nominal terms, credit to the private sector grew by \$694.5m in the first five months of 2017 relative to an increase of \$1.3bn in the same period of 2016. Lending to the resident private sector increased by \$1bn in the first five months of 2017, similar to the same period of 2016, while credit to the non-resident private sector regressed by \$324.4m in the first five months of the year compared to an increase of \$275.3m in the same period of 2016. The dollarization rate in private sector lending regressed to 71.2% at end-May 2017 from 74.6% a year earlier.

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



\* in the first five months of each year

Source: Association of Banks in Lebanon, Byblos Research

In addition, claims on non-resident banks reached \$14bn at the end of May 2017 and grew by 24.8% from \$11.24bn at the end of 2016, while claims on the public sector stood at \$37.4bn at end-May 2017, up by 7.8% from end-2016. The average lending rate in Lebanese pounds was 8.48% in May 2017, while the same rate in US dollars stood at 7.36%. Further, the deposits of commercial banks at Banque du Liban totaled \$85.5bn at end-May 2017, constituting a decline of 4.3% from end-2016 and an increase of 17.1% from a year earlier.

In parallel, private sector deposits of the non-financial sector totaled \$166.1bn at the end of May 2017, increasing by 2.2% from the end of 2016 and by 8% from a year earlier. Deposits in Lebanese pounds reached \$55.5bn at end-May 2017, nearly unchanged from end-2016 and up by 2.5% year-on-year; while deposits in foreign currencies totaled \$110.6bn and increased by 3.4% from end-2016 and by 10.9% from end-May 2016. Aggregate non-resident deposits reached \$34.3bn at the end of May 2017, up by 1.1% from end-2016 and by 7.2% from a year earlier. In nominal terms, private sector deposits grew by \$239.5m in January, by \$1.12bn in February, by \$492.9m in March, by \$1.13bn in April and by \$655.4m in May 2017. As such, total private sector deposits rose by \$3.65bn in the first five months of 2017 compared to an increase of \$2.3bn in the same period of 2016. Resident private sector deposits grew by \$3.27bn in the first five months of 2017 relative to a growth of \$2.13bn in the same period of 2016, while non-resident deposits rose by \$376.8m in the first five months of the year compared to an increase of \$167.2m in the same period of 2016. Further, foreign-currency deposits grew by \$3.67bn in the first five months of 2017 relative to an increase of \$1.36bn in the same period of 2016.

In parallel, deposits of non-resident banks reached \$6.5bn at the end of May 2017 and increased by 3.6% from end-2016 and by 5.5% from a year earlier. The dollarization rate of deposits was 66.6% at the end of May 2017 relative to 66.4% at end-April 2017 and compared to 64.8% a year earlier. Further, the average deposit rate in Lebanese pounds was 5.57% in May 2017 compared to 5.58% a year earlier, while the same rate in US dollars was 3.62% relative to 3.26% in May 2016.

The ratio of private sector loans-to-deposits in foreign currency stood at 37.2%, well below Banque du Liban's limit of 70% and compared to 41.5% a year earlier. The same ratio in Lebanese pounds was 30% at end-May 2017 relative to 26.1% at the end of May 2016. As such, the ratio of total private sector loans-to-deposits reached 34.8%, down from 36.1% at end-May 2016. The banks' aggregate capital base stood at \$18.7bn at end-May 2017, up by 2.4% from \$18.2bn at the end of 2016.

### **Cedrus Invest Bank completes capital increase**

Cedrus Invest Bank sal, the holding company of Cedrus Bank sal, announced that it raised its capital from LBP319.03bn (\$211.6m) to LBP337.9bn (\$224.2m) through the issuance of 16,983 new nominal shares at a par value of LBP1,111,725 (\$737.5) per share. The bank's Extraordinary General Assembly verified the capital increase on May 26, 2017. The new shares will not be listed on the Beirut Stock Exchange, in line with previous issuances.

Following the issuance, the bank's share capital consists of 303,954 nominal shares. Cedrus Invest Bank posted audited net profits of \$7.1m in 2016 relative to net earnings of \$6m in 2015. Its aggregate assets reached \$246.5m at the end of 2016 compared to \$177.4m at end-2015. Established in 2011, Cedrus Invest Bank has more than \$500m in assets under management.

### **Ciments Blancs approves dividends for 2016**

The Ordinary General Assembly of Société Libanaise des Ciments Blancs sal (SLCB) that was held on June 22, 2017 approved gross dividend distribution of LBP6.57bn, or \$4.36m, to common shareholders for 2016, which is equivalent to LBP730 (\$0.48) per share and to a payout ratio of nearly 100%. The dividends will be paid on July 24, 2017 net of a 5% withholding tax. The company is engaged in the production and sale of white cement. Ciments Blancs currently has 9 million shares listed on the Beirut Stock Exchange, split between bearer and nominal shares. Shareholders have until November 3, 2017 to exchange their bearer shares into nominal securities, as bearer shares will be delisted afterwards from the Beirut Stock Exchange. The price of Ciments Blancs' bearer shares closed at \$3.58 per share on July 7, 2017, up by 10.1% from \$3.25 per share at the end of 2016, while the price of the firm's nominal shares closed at \$1.57 per share on July 7, unchanged from end-2016.

Ciments Blancs, which is an affiliate of Holcim (Liban) sal, declared net profits of \$4.4m in 2016, constituting an increase of 51.2% from net earnings of \$2.9m in 2015. The company generated total sales of \$12.2m last year relative to \$12.8m in 2015. The firm's total assets reached \$24.5m at the end of 2016, and decreased by 1.9% from \$25m at end-2015.

## Ratio Highlights

(in % unless specified)	2014	2015	2016e	Change*
Nominal GDP (\$bn)	50.0	51.1	52.0	
Public Debt in Foreign Currency / GDP	51.2	53.0	54.2	1.26
Public Debt in Local Currency / GDP	81.9	84.6	89.6	4.98
Gross Public Debt / GDP	133.1	137.6	144.0	6.42
Total Gross External Debt / GDP**	170.0	174.7	176.6	1.90
Trade Balance / GDP	(34.4)	(29.5)	(30.0)	(0.47)
Exports / Imports	16.2	16.6	16.1	(0.49)
Fiscal Revenues / GDP	21.8	18.7	19.1	0.30
Fiscal Expenditures / GDP	27.9	26.5	28.6	2.1
Fiscal Balance / GDP	(6.1)	(7.7)	(9.5)	(1.8)
Primary Balance / GDP	2.6	1.4	0.04	(1.4)
Gross Foreign Currency Reserves / M2	66.5	58.7	62.7	3.94
M3 / GDP	235.4	241.9	250.0	8.11
Commercial Banks Assets / GDP	351.4	364.0	392.9	28.9
Private Sector Deposits / GDP	288.9	296.6	312.5	15.8
Private Sector Loans / GDP	101.8	106.1	108.7	3.85
Private Sector Deposits Dollarization Rate	65.7	64.9	65.0	0.10
Private Sector Lending Dollarization Rate	75.6	74.8	73.6	(1.23)

\*Change in percentage points 15/16

\*\*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, Institute of International Finance, International Monetary Fund, World Bank, Byblos Research Estimates & Calculations

Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

## Risk Metrics

Lebanon	July 2015	June 2016	July 2016	Change**	Risk Level
Political Risk Rating	54.5	55.0	55.0	▼	High
Financial Risk Rating	39.0	36.5	36.5	▲	Low
Economic Risk Rating	33.0	30.5	30.5	▲	Moderate
Composite Risk Rating	63.25	61.0	61.0	▲	Moderate

MENA Average*	July 2015	June 2016	July 2016	Change**	Risk Level
Political Risk Rating	57.5	57.6	57.5	➔	High
Financial Risk Rating	39.4	39.2	38.8	▲	Low
Economic Risk Rating	32.0	30.0	29.7	▲	High
Composite Risk Rating	64.5	63.4	63.0	▲	Moderate

\*excluding Lebanon

\*\*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	Stable	B-		Stable
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





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

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# BYBLOS BANK GROUP

## LEBANON

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

## SYRIA

---

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

## IRAQ

---

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

Sulaymaniyah Branch, Kurdistan, Iraq  
Salem street, Kurdistan Mall - Sulaymaniyah  
Phone: (+ 964) 773 042 1010 / (+ 964) 773 041 1010

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

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

## UNITED ARAB EMIRATES

---

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

## ARMENIA

---

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

## CYPRUS

---

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

## BELGIUM

---

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

## UNITED KINGDOM

---

Byblos Bank Europe S.A., London Branch  
Berkeley Square House  
Berkeley Square  
GB - London W1J 6BS - United Kingdom  
Phone: (+ 44) 20 7518 8100  
Fax: (+ 44) 20 7518 8129  
E-mail: byblos.london@byblosbankeur.com

## FRANCE

---

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

## SUDAN

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

## NIGERIA

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

## DEMOCRATIC REPUBLIC OF CONGO

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

## ADIR INSURANCE

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

