

# LEBANON THIS WEEK

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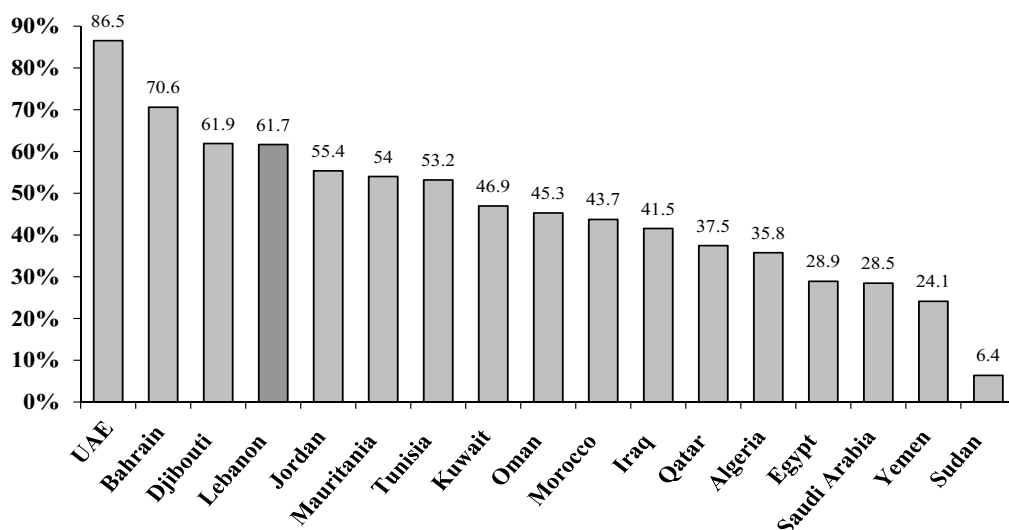
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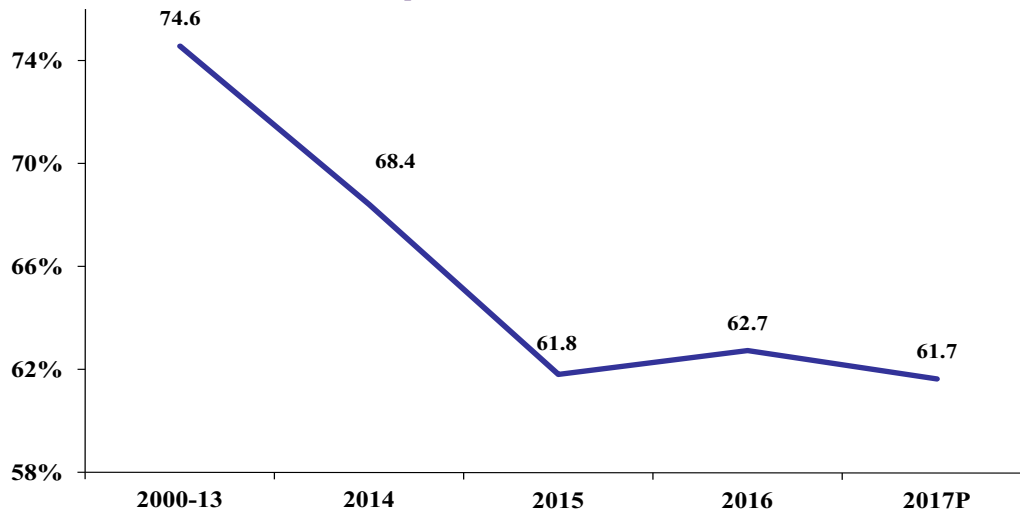
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## Charts of the Week

Projected Imports of Goods & Services to Arab Countries in 2017 (% of GDP)



Lebanon's Imports of Goods & Services (% of GDP)



Source: International Monetary Fund - October 2017, Institute of International Finance, Byblos Bank

## Quote to Note

"The confidence in the Lebanese pound will remain strong and the peg to the dollar will be maintained."

*The Institute of International Finance, on the stability of the exchange rate*

## Number of the Week

**45:** Lebanon's rank out of 137 countries on the soundness of its banks, according to the World Economic Forum's Global Competitiveness Index for 2017-18

## Lebanon in the News

\$m (unless otherwise mentioned)	2016	Jun 2016	Mar 2017	Apr 2017	May 2017	Jun 2017	% Change*
Exports	2,977	280	275	235	240	230	(17.96)
Imports	18,705	1,533	1,699	1,414	1,559	1,454	(5.15)
Trade Balance	(15,728)	(1,253)	(1,425)	(1,178)	(1,320)	(1,224)	(2.29)
Balance of Payments	1,238	(13)	46	(321)	(592)	(758)	5730.77
Checks Cleared in LBP	19,892	1,577	1,981	1,643	1,769	1,681	6.59
Checks Cleared in FC	48,160	4,076	4,198	3,693	3,904	3,882	(4.76)
Total Checks Cleared	68,052	5,653	6,179	5,336	5,673	5,563	(1.59)
Budget Deficit/Surplus	(3,667.15)	(168.55)	(477.46)	(131.85)	550.56	(496.83)	194.76
Primary Balance	1,297.65	198.14	58.51	309.55	1,192.83	(71.52)	-
Airport Passengers***	7,610,231	572,461	518,443	720,843	601,253	652,852	14.04

\$bn (unless otherwise mentioned)	2016	Jun 2016	Mar 2017	Apr 2017	May 2017	Jun 2017	% Change*
BdL FX Reserves	34.03	33.20	33.91	33.53	32.75	33.89	2.08
In months of Imports	21.83	21.65	19.96	23.72	21.00	23.31	7.63
Public Debt	74.89	72.90	77.18	76.93	76.72	76.45	4.87
Bank Assets	204.31	190.36	205.76	206.13	206.89	208.16	9.35
Bank Deposits (Private Sector)	162.50	154.66	164.35	165.49	166.14	167.73	8.45
Bank Loans to Private Sector	57.18	55.88	57.18	57.59	57.87	58.42	4.54
Money Supply M2	54.68	53.25	54.75	54.79	54.73	55.12	3.52
Money Supply M3	132.80	126.38	134.27	135.24	136.11	137.51	8.80
LBP Lending Rate (%)****	8.23	8.31	8.43	8.33	8.48	8.39	8bps
LBP Deposit Rate (%)	5.56	5.56	5.57	5.54	5.57	5.51	(5bps)
USD Lending Rate (%)	7.35	7.20	7.32	7.22	7.36	7.27	7bps
USD Deposit Rate (%)	3.52	3.31	3.53	3.62	3.62	3.58	27bps
Consumer Price Index**	(0.80)	(1.00)	5.10	4.40	4.30	3.50	-

\* 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"	7.44	(0.80)	370,019	6.98%
Byblos Common	1.53	(4.38)	188,288	8.12%
Solidere "B"	7.46	(1.84)	127,193	4.55%
Audi GDR	5.70	(2.56)	108,180	6.42%
BLOM GDR	10.97	(4.53)	103,975	7.61%
BLOM Listed	10.85	(1.09)	89,662	21.89%
Audi Listed	5.50	(8.33)	53,074	20.63%
HOLCIM	14.50	7.33	7,856	2.66%
Byblos Pref. 08	101.50	(0.49)	2,010	1.91%
Byblos Pref. 09	102.10	(0.10)	1,563	1.92%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Dec 2017	4.00	99.92	4.61
Nov 2018	5.15	97.75	7.59
May 2019	6.00	97.25	7.99
Mar 2020	6.38	96.25	8.19
Oct 2022	6.10	92.50	7.99
Jun 2025	6.25	90.00	8.04
Nov 2026	6.60	90.50	8.11
Feb 2030	6.65	88.50	8.15
Apr 2031	7.00	90.88	8.13
Nov 2035	7.05	89.50	8.27

Source: Byblos Bank Capital Markets

	Nov 13-17	Nov 6-10	% Change	October 2017	October 2016	% Change
Total shares traded	1,068,070	880,172	21.3	8,915,465	22,970,630	(61.2)
Total value traded	\$8,882,450	\$10,102,716	(12.1)	\$78,667,175	\$169,756,567	(53.7)
Market capitalization	\$10.66bn	\$10.97bn	(2.91)	\$11.27bn	\$11.87bn	(5)

Source: Beirut Stock Exchange (BSE)



### Total private net wealth in Lebanon at \$98.7bn, 70th highest worldwide and 11th highest in the Arab world

Global investment bank Credit Suisse estimated the aggregate net wealth of Lebanese citizens at \$98.7bn at the end of June 2017, constituting an increase of 2.6% from \$96.2bn a year earlier. Lebanon's total private net wealth peaked at \$99.9bn at the end of 2010 and regressed to \$92.5bn at the end of 2011, then it gradually rose to about \$95bn at the end of June 2015. The aggregate net wealth of Lebanese citizens at the end of June 2017 was the 70th highest among 171 countries and jurisdictions, and the 11th highest among 18 Arab countries. It was also the 19th highest among 49 upper middle-income countries (UMICs) included in the survey.

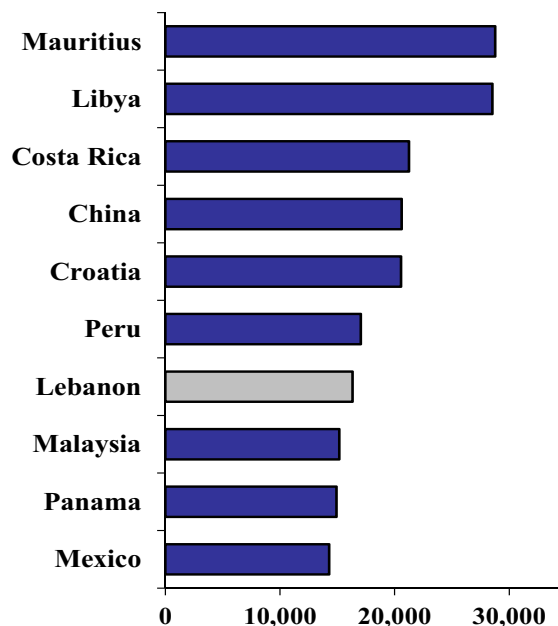
Credit Suisse defines a country's net wealth as the sum of its population's marketable value of financial and non-financial assets less its aggregate personal debt, with non-financial assets consisting mainly of real estate holdings. It excluded a country's stock of human capital as well as its stock of public assets and liabilities, such as the public debt. The investment bank provided annual data for the period between 2000 and 2015, and semi-annual figures for each of 2016 and 2017.

Globally, Lebanon's net wealth was higher than the wealth of Cyprus (\$92.1bn), Venezuela (\$91.3bn) and Croatia (\$86.4bn), and lower than the wealth of Costa Rica (\$103.8bn), Bulgaria (\$101bn) and Uruguay (\$99.6bn). It was higher than that of Venezuela, Croatia and Panama (\$60.7bn), and lower than that of Ecuador (\$132.2bn), Costa Rica and Bulgaria among UMICs. Regionally, it was higher than the net wealth of Jordan (\$68.3bn), Yemen (\$41bn), Bahrain (\$33.5bn), Sudan (\$30.7bn), Syria (\$10.5bn), Mauritania (\$3bn) and Djibouti (\$2.4bn).

Lebanon's total net wealth accounted for 0.04% of the global net wealth, for 0.2% of the UMICs' aggregate net wealth and for 3.1% of the Arab region's cumulative net wealth at end-June 2017. American citizens had the world's highest aggregate net wealth at \$93.6 trillion, while citizens of Saudi Arabia accumulated \$771.5bn as at the end of June 2017, the highest in the Arab world. The total net wealth in Lebanon included \$71.3bn in financial wealth at the end of June 2017 that increased by 3% year-on-year, \$74.7bn in non-financial wealth that grew by 7.4% from a year earlier, and \$47.3bn in personal debt that rose by 11% from end-June 2016.

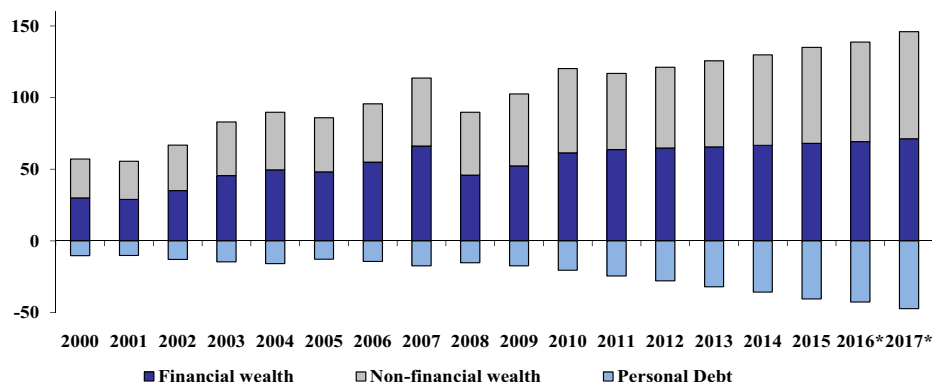
Further, net wealth per capita in Lebanon stood at \$16,327 at the end of June 2017, up by 0.6% from \$16,224 at end-June 2016 and compared to a peak of \$23,036 at the end of 2010. Lebanon's net wealth per capita was the 57th highest globally, the seventh highest among UMICs and the eighth highest among Arab countries at the end of June 2017. Globally, Lebanon's net wealth per capita at end-June 2017 was higher than the wealth per capita of Malaysia (\$15,177), Dominica (\$15,152) and Panama (\$14,924), and lower than that of Croatia (\$20,556) and Peru (\$17,054). It was also lower than the wealth per capita of Mauritius (\$28,771), Libya (\$28,532), Costa Rica (\$21,252), China (\$20,618), Croatia and Peru among UMICs. Regionally, it was lower than the net wealth per capita of Qatar (\$83,806), Kuwait (\$71,190), the UAE (\$65,596), Libya (\$28,533), Oman (\$25,064), Saudi Arabia (\$23,661) and Bahrain (\$22,991). Iceland has the world's highest net wealth per capita at \$587,649, while Qatar is the wealthiest Arab country on a per capita basis.

### Countries with Highest Net Wealth per Capita in UMICs



Source: Credit Suisse, Byblos Research

### Wealth in Lebanon (\$bn)



\*at the end of June of each year

Source: Credit Suisse, Byblos Research



### **High levels of foreign currency liquidity in banking system to maintain stability**

Banque du Liban's (BdL) Governor Riad Salamé indicated that BdL has the full capacity to maintain stability in the financial market despite the political crisis that followed the sudden resignation of Prime Minister Saad Hariri on November 4. He noted that Lebanon is going through a political crisis and not a monetary or liquidity crisis. As such, he expected confidence in the Lebanese pound to remain strong and for the currency peg to the US dollar to be maintained, supported by BdL's high level of foreign currency reserves. He anticipated the financial sector to be able to weather the political crisis without any special measures or initiatives from BdL.

Further, Governor Salamé expected the high levels of foreign currency liquidity at commercial banks and at BdL to continue to support stability in Lebanon. In addition, he confirmed BdL's willingness and capacity to maintain the stability of the Lebanese pound against the US dollar, given the benefits of the currency peg to the economy and to social stability. He indicated that the currency market in Lebanon witnessed normal and expected conversions of deposits from Lebanese pounds to US dollars in the week following PM Hariri's resignation. He added that the level of capital outflows has surprised positively so far, as only \$800m of what the BdL refers to as "hot money" were withdrawn since the resignation of PM Hariri, reflecting the resilience of the banking system. He noted that Lebanon's banking sector usually has a maximum of \$3bn in "hot money" at any given time.

Also, he stated that Lebanese Eurobonds have weakened since the crisis began and that the market reaction was based on thin trading volumes. But he noted that the Eurobonds have pared losses after PM Hariri announced he would return to Lebanon. He added that Lebanese Eurobonds are currently undervalued and expected their performance to improve once the political crisis recedes.

Further, Governor Salamé indicated that BdL has conducted pre-emptive financial operations with commercial banks during the previous two years in an attempt to increase foreign currency reserves, maintain the stability of the currency and support the banks' capital reserves. He said that these operations have translated into a significant growth in deposits and foreign currency reserves. He added that BdL's assets support the exchange rate and interest rate stability. He noted that BdL sets its monetary policy on the basis of financial and economic indicators, but also takes into consideration political and security risks that he considered to be very important. He said that BdL's assets in foreign currency stand currently at more than \$43bn, enabling it to maintain control over the foreign currency market.

In parallel, Governor Salamé pointed out that the Ministry of Finance has planned, prior to the current political crisis, to swap \$1.7bn in Eurobonds with BdL. He said that BdL would pay for the Eurobonds by transferring Lebanese pounds-denominated bonds held in its portfolio to the Finance Ministry.

In addition, he stated that the banking sector is well capitalized, and that the financial engineering operations conducted last year have enabled the banks to constitute the funds they need to meet international accounting standard IFRS9 and to reach a solvency ratio of 15% according to the Basel III capital requirements. He anticipated the banks to remain well-prepared to face credit risks in case of an economic slowdown. Also, he indicated that Lebanon has developed an efficient compliance system that allows it to abide by international laws, which preserves Lebanon's integration in the global financial system.

Finally, Governor Salamé indicated that Lebanon has historically weathered serious political and security crises that have exposed the financial sector to live stress tests. But he said that the banking system has proved to be resilient and will prove it once again. He reiterated that the credit capacity of the government and the banking sector remains strong.

### **Régie signs agreement to produce international cigarette brands**

The Régie Libanaise des Tabacs & Tombacs signed a partnership agreement with Philip Morris International (PMI), an international tobacco company, to manufacture in Lebanon Marlboro Medium, Marlboro Next, Marlboro Soft, Marlboro Touch and Marlboro Gold. The local production of Marlboro Medium and Marlboro Next is expected to start in December 2017, while that of Marlboro Soft, Marlboro Touch and Marlboro Gold is set to begin in March 2018. The partnership agreement would allow the Régie to produce exclusively for the Lebanese market, and to expand to other markets in the region at a later stage. The Régie noted that it also hopes to start manufacturing e-cigarettes in Lebanon as it develops its partnership with PMI. Philip Morris International manufactures six different cigarette brands that are Marlboro, Longbeach, ST Dupont Paris, Dji Sam Soe 234, U Mild and L&M.

In November 2016, the Régie signed an agreement with Imperial Tobacco, a subsidiary of British multinational company Imperial Brands plc, to manufacture Gitanes Blondes, Gauloises and West cigarette brands in Lebanon. The Régie Libanaise des Tabacs & Tombacs is a public organization controlled by the Lebanese Ministry of Finance. It aims to manage the plantation, manufacturing, trade and transport of tobacco in Lebanon.

In parallel, a study issued by the AUB Tobacco Control Research Group estimated the direct cost of smoking in Lebanon at \$262.1m, which includes the cost of smoking-related diseases at \$146.7m, productivity-related costs at \$102.2m, and environmental degradation costs at \$13.6m. Further, it estimated the indirect costs of smoking due to tobacco-related deaths at \$64.6m. As a result, it estimated the annual net losses of smoking to the Lebanese economy at \$55.4m.

### Lebanon has eighth highest branch penetration rate world-wide, 15th highest ATM penetration rate in 2016

Figures issued by the International Monetary Fund show that there were 108.1 branches of commercial banks per 1,000 square kilometers in Lebanon in 2016, constituting an increase of 1.3% from 106.7 branches per 1,000 square kilometers in 2015, and compared to 85.9 branches per 1,000 square kilometers in 2005. As a result, Lebanon had the eighth highest branch penetration rate among 149 countries and jurisdictions worldwide with available figures for 2016, the second highest among 44 upper middle-income countries (UMICs) and the highest among 11 Arab countries.

Globally, Lebanon had a higher branch penetration rate than Japan, Mauritius and Italy, and a lower rate than Singapore, Malta and Luxembourg among economies with a GDP of \$10bn or more; while it came first among UMICs with a GDP of \$10bn or more. Lebanon's branch penetration rate in 2016 was higher than the global rate of 87.4 branches per 1,000 square kilometers, and significantly higher than the UMICs' rate of 21.8 branches per 1,000 square kilometers and the Arab countries' rate of 18 branches per 1,000 square kilometers.

Further, there were 24 bank branches per 100,000 adults in Lebanon in 2016, down 1.9% from 25 branches per 100,000 adults in 2015, and compared to 31 branches per 100,000 adults in 2005. As such, Lebanon had the 40th highest branch penetration rate among 149 countries and jurisdictions globally, the 12th highest among 44 UMICs and the second highest among 11 Arab countries. Lebanon's branch penetration rate was higher than the global rate of 20.7 branches per 100,000 adults, the UMICs' penetration rate of 23.6 branches per 100,000 adults and the Arab rate of 12.2 branches per 100,000 adults.

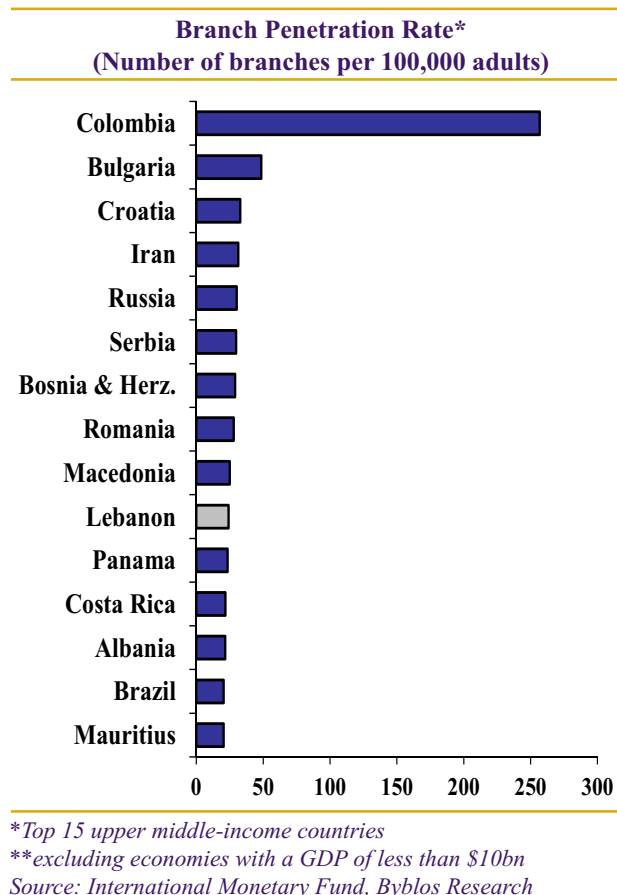
In parallel, there were 175.3 automated teller machines (ATMs) per 1,000 square kilometers in Lebanon in 2016, constituting an increase of 5% from 166.9 ATMs per 1,000 square kilometers in 2015, and compared to 92 ATMs per 1,000 square kilometers in 2005. The ATM penetration rate ranks Lebanon in 15th place among 145 countries and jurisdictions worldwide, in third place among 45 UMICs and in first place among 10 Arab countries. Globally, Lebanon had a higher penetration rate than Italy, Portugal and Thailand and a lower rate than Mauritius, Netherlands and Switzerland among economies with a GDP of \$10bn or more. It also had a lower rate than only Mauritius among UMICs with a GDP of \$10bn or more. Lebanon's ATM penetration rate was lower than the global average penetration rate of 456.3 ATMs per 1,000 square kilometers, but was significantly higher than the UMICs' rate of 48.3 ATMs per 1,000 square kilometers and the Arab region's rate of 51.2 ATMs per 1,000 square kilometers.

Further, there were 39.1 ATMs per 100,000 adults in Lebanon in 2016, up 1.8% from 38.4 ATMs per 100,000 adults in 2015, and compared to 32.7 ATMs per 100,000 adults in 2005. The ATM penetration rate ranks Lebanon in 83rd place among 146 countries and jurisdictions globally, in 33rd place among 45 UMICs and in fifth place among 10 Arab countries. Lebanon had a lower penetration rate in this category than the global rate of 53.9 ATMs per 100,000 adults and the UMICs' average rate of 57.4 ATMs per 100,000 adults, while it had a higher rate than the Arab penetration rate of 38.4 ATMs per 100,000 adults.

### Airport passengers up 9% in first 10 months of 2017

Figures released by the Beirut-Rafic Hariri International Airport show that 7,016,089 passengers utilized the airport (arrivals, departures and transit) in the first 10 months of 2017, constituting an increase of 8.7% from 6,456,291 passengers in the same period of 2016. The number of arriving passengers grew by 9.1% year-on-year to 3,484,037 in the first 10 months of 2017, compared to an increase of 7.3% in the same period of last year and to a rise of 9.4% in the first 10 months of 2015. Also, the number of departing passengers grew by 8.4% year-on-year to 3,527,748 in the first 10 months of 2017, relative to an increase of 4.3% in the same period of last year and to a rise of 10% in the first 10 months of 2015.

In parallel, the airport's aircraft activity grew by 0.6% year-on-year to 60,112 take-offs and landings in the first 10 months of 2017, compared to an increase of 4% in the same period of 2016 and to a growth of 6% in the first 10 months of 2015. In addition, the HIA processed 79,446 metric tons of freight in the first 10 months of 2017 that consisted of 45,671 tons of import freight and 33,774 tons of export freight. Middle East Airlines had 21,219 flights in the first 10 months of 2017 and accounted for 35.3% of HIA's total aircraft activity.





### **Average value per real estate transaction up 4% in first 10 months of 2017**

Figures released by the Ministry of Finance indicate that there were 60,276 real estate transactions in the first 10 months of 2017, constituting an increase of 16.6% from 51,707 deals in the same period of 2016. In comparison, the number of real estate transactions grew by 1.2% year-on-year in the first 10 months of 2016, while it decreased by 12.1% in same period of 2015. There were 8,283 real estate transactions in October 2017, increasing by 94% from 4,270 deals in September 2017 and by 41.4% from 5,859 deals in October 2016. Further, there were 12,612 real estate transactions in the Baabda area in the first 10 months of 2017, representing 21% of the total. The North followed with 9,638 transactions (16%), then the Zahlé region with 6,977 deals (11.6%), the Metn district with 6,756 transactions (11.2%), the South with 6,450 deals (10.7%), the Keserwan area with 6,174 transactions (10.2%), the Nabatieh region with 5,498 deals (9.1%) and Beirut with 4,271 transactions (7.1%).

Also, the aggregate value of real estate transactions reached \$8.2bn in the first 10 months of 2017 and increased by 21.2% from \$6.7bn in the same period of 2016. In comparison, the value of real estate deals increased by 4.1% in the first 10 months of 2016 relative to the same period of 2015, while it declined by 12.5% year-on-year in the first 10 months of 2015. The value of real estate transactions reached \$1.1bn in October 2017, up by 109.5% from \$541.2m in September 2017 and by 85.7% from \$610.5m in the same month last year. Further, the value of real estate transactions in Beirut reached \$2.3bn and accounted for 27.8% of the total in the first 10 months of 2017. The Baabda district followed with \$1.7bn (21%), then the Metn region with \$1.5bn (18.1%), the Keserwan area with \$852.5m (10.5%), the North with \$629.8m (7.7%), the South with \$591.9m (7.3%), the Zahlé area with \$320.1m (3.9%) and the Nabatieh region with \$245.4m (3%).

In parallel, the average value per real estate transaction was \$135,289 in the first 10 months of 2017, up by 4% from an average value of \$130,131 in the same period of 2016 and relative to \$126,514 in the first 10 months of 2015. Further, there were 1087 real estate transactions executed by foreigners in the first 10 months of 2017, up by 26.5% from 859 deals in the same period of 2016, and compared to an annual decrease of 24.2% in the first 10 months of 2016 and a rise of 25.7% in the same period of 2015.

The number of real estate transactions by foreigners accounted for 1.8% of total real estate deals in the first 10 months of 2017 compared to 1.7% of deals in the same period of 2016 and to 2.2% of deals in the first 10 months of 2015. Further, 28.4% of the real estate transactions executed by foreigners were in the Baabda district in the first 10 months of 2017, followed by the South (15.7%), Beirut (15.5%), Metn region (13%), Zahlé (8.6%), the North and Keserwan (8.5% each), and the Nabatieh region (1.8%).

### **Revenues through Port of Beirut down by 3% to \$179m in first nine months of 2017**

Figures released by the Port of Beirut show that the port's overall revenues were \$178.6m in the first nine months of 2017, constituting a decrease of 3.2% from \$184.5m in the same period of 2016. The Port of Beirut handled an aggregate freight of 6.4 million tons in the covered period, down by 3% from 6.6 million tons in the first nine months of 2016. Imported freight amounted to 5.6 million tons in the first nine months of 2017 and accounted for 87.8% of the total, while the remaining 779,000 tons, or 12.2%, consisted of export cargo. A total of 1,410 ships docked at the port in the covered period compared to 1,552 vessels in the first nine months of 2016.

In parallel, revenues generated through the Port of Tripoli reached \$12.4m in the first nine months of 2017, constituting an increase of 12.9% from \$11m in the same period of 2016. The Port of Tripoli handled an aggregate of 1,500,087 tons of freight in the covered period, up by 9.7% from 1,367,538 tons in the first nine months of 2016. Imported freight amounted to 1,176,764 tons and accounted for 78.4% of the total, while the remaining 323,323 tons, or 21.6%, were export cargo. A total of 598 vessels docked at the port in the first nine months of 2017, constituting a decrease of 0.5% from 601 ships in the same period of 2016.

### **Term savings attract 89% of customer deposits at end-June 2017**

Figures issued by Banque du Liban about the distribution of bank deposits show that term savings were the preferred type of account for resident and non-resident depositors in Lebanese pounds and in foreign currencies at the end of June 2017. Term saving deposits in all currencies reached \$149.28bn at the end of June 2017, constituting an increase of 9.3% from \$136.5bn at end-June 2016. Also, they accounted for 89% of deposits in Lebanese pounds and foreign currencies at end-June 2017 relative to an 88.3% share a year earlier.

In parallel, term saving deposits in foreign currencies totaled \$70.5bn and accounted for 86.3% of resident deposits in foreign currencies at end-June 2017. They were followed by checking and current accounts with \$9.8bn (12%), sight saving accounts with \$1.2bn (1.5%) and other creditor accounts with \$198.7m (0.2%). Further, term saving accounts attracted the equivalent of \$47bn, or 91.6% of resident deposits in Lebanese pounds, followed by checking and current accounts with \$3.6bn (7.1%), then sight saving accounts with \$630.8m (1.2%) and other creditor accounts with \$83m (0.2%).

Non-residents also favored term saving accounts, as their term deposits in foreign currencies totaled \$27.5bn and accounted for 91% of their deposits in foreign currencies at the end of June 2017. Current accounts followed with \$2.2bn (7.4%), then other creditor accounts with \$266.7m (0.9%) and sight saving accounts with \$241m (0.8%). Further, term saving accounts attracted the equivalent of \$4.4bn, or 96.6% of non-resident deposits in Lebanese pounds. Checking and current accounts followed with \$124.2m (2.7%), then sight saving accounts with the equivalent of \$31.9m (0.7%) and other creditor accounts with \$0.21m (0.005%).

Beirut and its suburbs attracted 69.1% of private sector deposits and 47.6% of depositors at the end of June 2017. Mount Lebanon followed with 14% of deposits and 18.8% of beneficiaries, then South Lebanon with 6.6% of deposits and 12.6% of depositors, North Lebanon with 5.8% of deposits and 12.2% of depositors, and the Bekaa with 4.6% of deposits and 8.8% of depositors.

### Lebanon ranks 36th globally, third in Arab world in Internet freedom

Independent think tank Freedom House ranked Lebanon in 36th place among 65 countries globally and in third place among 11 Arab countries in terms of Internet freedom for 2017. Lebanon also came in eighth place among 19 upper middle-income countries (UMICs) included in the survey. Lebanon's global and regional ranks were unchanged from the 2016 survey, while its rank among UMICs improved by one spot year-on-year.

The survey measures the level of Internet and digital media freedom across countries, as well as the access and openness of other digital means of transmitting information, mainly mobile phones and text messaging services. The survey covers the period from June 1, 2016 to May 31, 2017. A country's numerical rating is the sum of its rating on the Obstacles to Access category that varies between zero and 25 points, the Limit on Content category that ranges between zero and 35 points, and the Violations of Users' Rights category that varies between zero and 40 points. The survey provides a numerical rating for each country from zero to 100, with zero being the highest level of freedom. It categorizes each country's level of Internet freedom as 'Free,' 'Partly Free,' or 'Not Free' based on its numerical rating.

Globally, Lebanon's level of Internet freedom is higher than in Indonesia, Cambodia and Rwanda, and is lower than in Malaysia, Ukraine and Morocco. Lebanon's score stood at 46 in 2017, relative to a score of 45 in the 2016 survey. It was better than the global average of 47.3 points, the UMIC's average of 54.7 points, the non-GCC Arab countries' average of 56.8 points, the Arab average of 60.5 points, and the GCC countries' average score of 70.7 points.

Lebanon tied with Angola, Belarus, Saudi Arabia and Vietnam on the Obstacles to Access category. This category evaluates the infrastructural and economic barriers to Internet access, the legal and ownership control over Internet service providers, and the independence of regulatory bodies. Lebanon also came behind Tunisia, Bahrain, Morocco, Jordan and the UAE among Arab countries. The survey indicated that Lebanon continues to struggle with poor telecommunications infrastructure, slow Internet speed, an urban-rural digital divide, and a lack of competition in the information and communications technology (ICT) sector. It noted that the new government has outlined proposals to increase Internet speeds and decrease the cost of broadband.

Further, Lebanon tied with Libya, Sri Lanka and Zambia on the Limits on Content category. This category measures the legal regulations on content, the technical filtering and blocking of websites, the self-censorship, the diversity of online news media, and the use of information and communication technologies for civic mobilization. Lebanon trailed only Tunisia and Morocco among Arab countries. The survey indicated that Lebanon does not engage in significant filtering of Internet content, and that it retains one of the most diverse digital landscapes in the Arab world.

Finally, Lebanon tied with India, Malaysia, Mexico, Tunisia and Ukraine on the Violations of Users' Rights category. This category includes surveillance, privacy, and repercussions for online activity. Regionally, Lebanon trailed only Tunisia in the Arab region on this category. The survey indicated that the country's weak legal environment, the lack of personal data laws and regulations, excessive interrogations by the Cybercrime Bureau and ongoing surveillance remain a serious threat to users' rights. It added that Lebanon lacks a legal framework for online media.

Freedom on the Net Index for 2017				
	Overall Score	Arab Rank	Global Rank	Category
Tunisia	38	1	23	Partly Free
Morocco	45	2	34	Partly Free
<b>Lebanon</b>	<b>46</b>	<b>3</b>	<b>36</b>	<b>Partly Free</b>
Jordan	53	4	39	Partly Free
Libya	54	5	41	Partly Free
Sudan	64	6	48	Not Free
Egypt	68	7	54	Not Free
UAE	69	8	55	Not Free
Bahrain	71	9	56	Not Free
Saudi Arabia	72	10	58	Not Free
Syria	86	11	63	Not Free

Source: Freedom House, Byblos Research

Components of the 2017 Freedom on the Net Index for Lebanon							
	Global Rank	Arab Rank	UMIC Rank	Lebanon Score	Global Avg Score	Arab Avg Score	UMIC Avg Score
Obstacle to Access	46	6	5	14	10.5	14.5	12.4
Limits on Content	29	3	6	12	14.5	17.7	17.3
Violation of User Rights	27	2	5	20	22.1	28.3	25.0

Source: Freedom House, Byblos Research

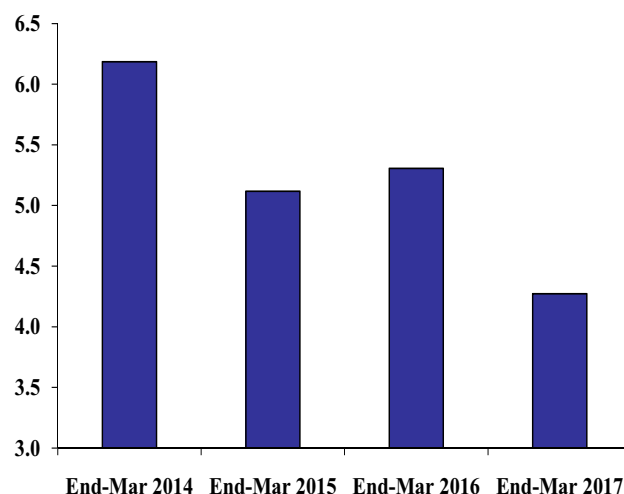
### Foreign investments of financial sector down 20% to \$4.3bn at end-March 2017

Figures issued by Banque du Liban show that the net investment portfolio of Lebanese banks and financial institutions in foreign debt and equity securities totaled \$4.27bn at the end of March 2017, constituting a decrease of 19.6% from \$5.3bn at the end of March 2016. Investments in long-term debt securities reached \$2.35bn at end of March 2017 and accounted for 55.1% of the total, followed by investments in equities at \$1.89bn (44.1%) and in short-term debt securities at \$34.4m (0.8%). According to Banque du Liban, the figures cover the net assets of resident banks and financial institutions in foreign tradable debt and equity instruments. They help provide a clearer picture about the flow of funds from Lebanon and, therefore, about the balance of payments.

Commercial banks' net portfolio of long-term debt securities, including banks' investments for their own account, on behalf of their clients and on a custodial basis, totaled \$1.44bn and accounted for 61% of the financial sector's aggregate investments in such securities at the end of March 2017. Medium- and long-term banks followed with \$649.6m (27.6%), then insurance companies with \$152.8m (6.5%) and financial institutions with \$114.5m (4.9%). In parallel, commercial banks represented 91.1% of investments in short-term debt securities, followed by insurance companies with 4.6%, medium- and long-term banks with 3.1%, and financial institutions with 1.2%. Further, commercial banks' investments in equities reached \$764.3m and accounted for 40.5% of the financial sector's investments in such securities. Medium- and long-term banks followed with \$691.6m (36.7%), financial institutions with \$309.5m (16.4%), insurance companies with \$116.7m (6.2%) and financial intermediaries with \$3.3m (0.2%).

The distribution of investments by destination shows that the United States was the main recipient of equity investments by banks and financial institutions operating in Lebanon with \$628m, or 33.3% of the total, at end of March 2017. Bahrain followed with equity investments worth \$247m (13.1%), then Luxembourg with \$188.3m (10%), France with \$182m (9.7%) and Jordan with \$124m (6.6%), while other countries accounted for the remaining 27.4% of total equity investments. In parallel, the United States received \$480.5m or 20.4% of investments in long-term debt securities, followed by the United Kingdom with \$465.7m (19.8%), France with \$218.8m (9.3%), Germany with \$213.1m (9.1%) and the Cayman Islands with \$130.2m (5.5%), while other countries accounted for the remaining 35.9%. Further, Bahrain accounted for 45.1% of investments by Lebanese banks and financial institutions in short-term debt securities, followed by Jordan (18.5%), Australia (17.7%), Venezuela (5.6%), and the European Union (2.5%), while other countries represented the remaining 10.6% of investments in short-term debt securities.

Foreign Investments of Financial Sector (US\$bn)



Source: Central Bank, Byblos Research



### Lebanon generated 5% of insurance premiums in Arab world in 2016

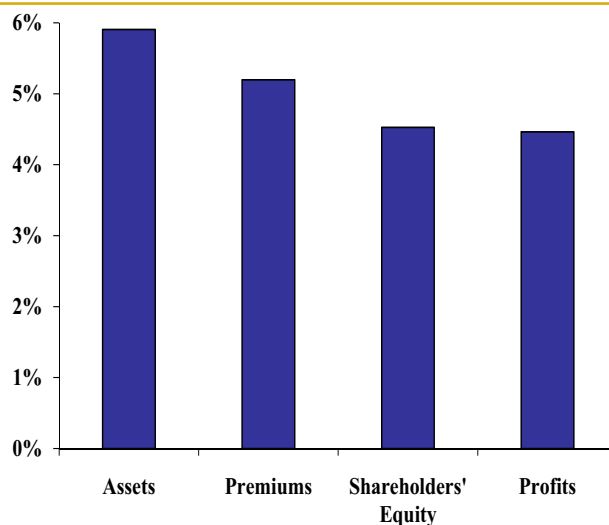
The annual survey by *Al Bayan* magazine of the insurance market in the Arab world shows that premiums written in the Lebanese market accounted for 5.2% of the total premiums generated in the Arab region's insurance market in 2016, compared to 5.3% in 2015. Aggregate premiums generated in the Lebanese market totaled \$1.65bn in 2016, constituting an increase of 4.4% from \$1.58bn in 2015. Further, the Lebanese insurance market had the fifth highest level of premiums written among the 19 Arab insurance markets included in the survey, unchanged from the previous year, behind Saudi Arabia (\$9.5bn), the UAE (\$6.6bn), Morocco (\$3.4bn) and Qatar (\$2.5bn).

Also, the aggregate assets of insurers in the Lebanese market reached \$5bn at the end of 2016, constituting an increase of 2.4% from \$4.9bn a year earlier, and representing 5.9% of the total assets of insurers in the Arab region. Also, the total assets of firms operating in Lebanon were the fifth highest among Arab countries, unchanged from the previous year, behind Morocco (\$19.4bn), Saudi Arabia (\$14.4bn), the UAE (\$13.7bn), and Qatar (\$13bn).

Further, the total shareholders' equity of insurers in the Lebanese market reached \$1.15bn at end-2016, up by 6.7% from \$1.1bn at end-2015, and accounted for 4.5% of the combined shareholders' equity of insurers operating in the Arab world. The total capital of companies operating in Lebanon was the seventh highest in the region, behind Morocco (\$5.1bn), Qatar (\$4.8bn), the UAE (\$4.3bn), Saudi Arabia (\$3.6bn), Egypt (\$1.5bn) and Kuwait (\$1.2bn).

In addition, the aggregate profits of insurers in the Lebanese market stood at \$140.2m in 2016, up by 15% from \$122.1m in the previous year, and represented 4.5% of the aggregate net profits of insurers in the region. Net profits generated in the Lebanese insurance market were the sixth highest among insurers operating in the Arab world, behind profits generated by insurers in Egypt (\$1.2bn), Saudi Arabia (\$540.4m), Morocco (\$334.2m), Qatar (\$276.4m) and the UAE (\$259.4m).

Market Share of Lebanese Insurers in 2016\*



\*as a % of insurers operating in Arab region

Source: Al-Bayan, Byblos Research

### Top five freight forwarders' import activity up 1% in first nine months of 2017, export activity down 4%

Figures released by the Port of Beirut show that overall import shipping operations by the top five freight forwarders through the port reached 267,647 20-foot equivalent units (TEUs) in the first nine months of 2017, constituting an increase of 0.7% from 265,795 TEUs in the same period of 2016. The five freight forwarders accounted for 84.1% of imports to the Lebanese market and for 57.3% of the total import freight forwarding market in the covered period. Mediterranean Shipping Company (MSC) handled 86,728 TEUs in imports in the first nine months of 2017, equivalent to an 18.6% share of the total freight forwarding import market. Merit Shipping followed with 52,112 TEUs (11.2%), then Sealine Group with 47,614 TEUs (10.2%), Metz Group with 45,011 TEUs (9.6%) and Gezairy Transport with 36,182 TEUs (7.7%). Further, Gezairy Transport registered a 9.6% year-on-year increase in import shipping, the highest growth rate among the top five freight forwarders, while Metz Group posted the only decline at 15.5% in the first nine months of the year.

In parallel, export shipping operations by the top five freight forwarders through the Port of Beirut reached 62,628 TEUs in the first nine months of 2017, constituting a decrease of 4.4% from 65,482 TEUs in the same period last year. The five freight forwarders accounted for 86.8% of exported Lebanese cargo and for 13.6% of the total export freight forwarding market in the covered period. Merit Shipping handled 30,496 TEUs of freight in the first nine months of 2017, equivalent to 42.3% of the Lebanese cargo export market. Metz Group followed with 13,847 TEUs (19.2%), then Sealine Group with 11,101 TEUs (15.4%), MSC with 3,822 TEUs (5.3%) and Gezairy Transport with 3,362 TEUs (4.7%). Further, Gezairy Transport posted a 15.1% year-on-year increase in export shipping, the highest growth rate among the top five freight forwarders, while Sealine Group posted a decrease of 14.2%, the steepest decline in the covered period.

### Balance sheet of investment banks up 6.4% in first nine months of 2017

Figures released by Banque du Liban show that the consolidated balance sheet of investment banks in Lebanon reached LBP7,547bn, or \$5bn, at the end of September 2017, constituting an increase of 6.4% from \$4.7bn at end-2016 and a rise of 10% from \$4.55bn at end-September 2016. The cash balance and deposits of investment banks at commercial banks reached \$2.28bn at the end of September 2017, increasing by 4.8% from \$2.17bn at end-2016 and by 6.7% from \$2.13bn at end-September 2016. Also, claims on the private sector totaled \$1.58bn, constituting an increase of 9.2% from \$1.45bn at end-2016 and a rise of 12.6% from \$1.4bn a year earlier. Investments in government securities reached \$704.5m at the end of September 2017, up by a marginal 0.1% from \$703.5m at end-2016 and by 9.3% from \$644.8m a year earlier.

On the liabilities' side, private sector deposits totaled \$1.95bn at the end of September 2017, down by 1.3% from end-2016 and by 3.9% from a year earlier. Resident deposits in foreign currency stood at \$898.5m, followed by resident deposits in Lebanese pounds at \$772m, nonresident deposits in foreign currency at \$215.7m and non-resident deposits in Lebanese pounds at \$66m. Liabilities to the public sector reached \$184.8m at end-September 2017, constituting a decrease of 12.5% from \$211.1m at the end of 2016 and a decline of 4.9% from \$194.3m at end-September 2016. Also, commitments to the financial sector totaled \$1.03bn at the end of September 2017, reflecting an increase of 16.4% from \$882.9m at end-2016 and a rise of 29.3% from \$795m a year earlier. Further, the aggregate capital account of investment banks was \$1.57bn at end-September 2017, up by 14.9% from \$1.36bn at the end of 2016 and by 16.9% from \$1.34bn a year earlier. There were 16 investment banks in Lebanon with a total of 21 branches as of June 2017.

### IBL's net earnings at \$46m in first half of 2017

IBL Bank sal, one of Lebanon's top 14 banks, announced unaudited consolidated net profits of \$45.8m in the first half of 2017, constituting an increase of 19.4% from the same period last year. Net operating income rose by 9.3% year-on-year to \$79.7m in the first half of 2017, with net interest income growing by 26.1% to \$48.9m and net fees & commissions receipts increasing by 14.4% year-on-year to \$3m. Non-interest income accounted for 6.5% of total income in the first half of 2017, down from 16.4% a year earlier; with net fees & commissions representing 56.4% of non-interest earnings relative to 18.5% in the first half of 2016. Further, the bank's interest margin was 2.24% in the first half of 2017 relative to 2.49% in the same period last year; while its spread reached 2.22% relative to 2.46% in the same period of 2016. Total operating expenditures increased by 2.7% to \$25.2m, with staff expenses rising by 3.5% to \$12.8m, and administrative & other operating expenditures growing by 2.9% to \$11m. Also, the bank's return on average assets was 1.34% in June 2017 on an annualized basis relative to 1.31% in June 2016; while its return on average equity reached 17.58% in June 2017 relative to 17.54% in June 2016. The cost-to-income ratio was 31% in the first half of 2017, up from 28.5% in the same period of 2016.

In parallel, total assets reached \$6.9bn at the end of June 2017, up by 1.8% from end-2016, while loans & advances to customers, excluding those to related parties, regressed by 6% from end-2016 to \$976.8m. Also, customer deposits, excluding those from related parties, totaled \$5.7bn at the end of June 2017 and grew by 2% from end-2016. The loans-to-deposits ratio decreased to 17.1% at the end of June 2017 from 20% a year earlier. In parallel, the bank's shareholders' equity grew by 8.1% from end-2016 to \$541.6m at the end of June 2017.

## 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	Dec 2015	Nov 2016	Dec 2016	Change**	Risk Level
Political Risk Rating	54.5	54.5	55	▼	High
Financial Risk Rating	39.0	36.5	36.5	▲	Low
Economic Risk Rating	30.5	30.5	30.5	✂	Moderate
Composite Risk Rating	60.75	60.75	61.0	▼	Moderate

MENA Average*	Dec 2015	Nov 2016	Dec 2016	Change**	Risk Level
Political Risk Rating	57.7	57.6	57.6	▲	High
Financial Risk Rating	39.6	38.1	38.3	▲	Low
Economic Risk Rating	30.2	29.6	29.6	▲	High
Composite Risk Rating	63.8	62.6	62.8	▲	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	B3	NP	Negative	B3		Stable
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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