

## LEBANON THIS WEEK

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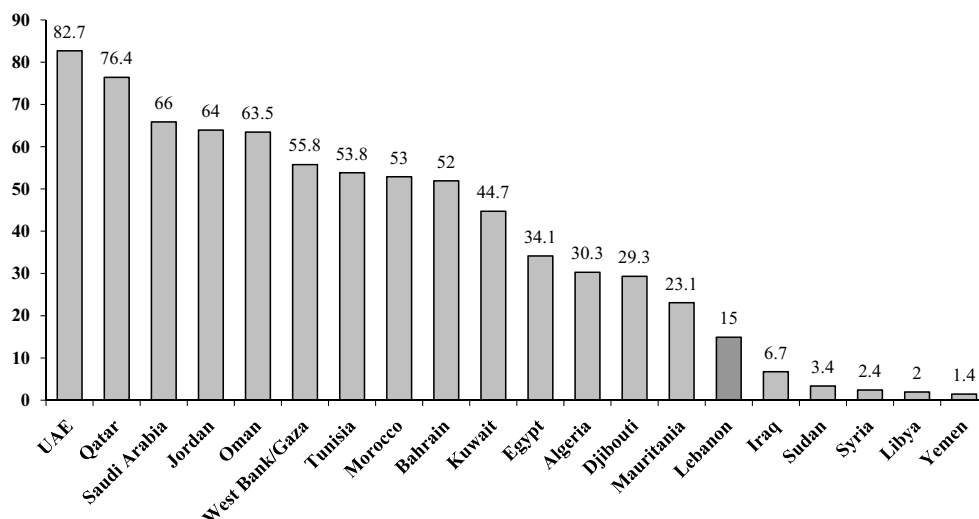
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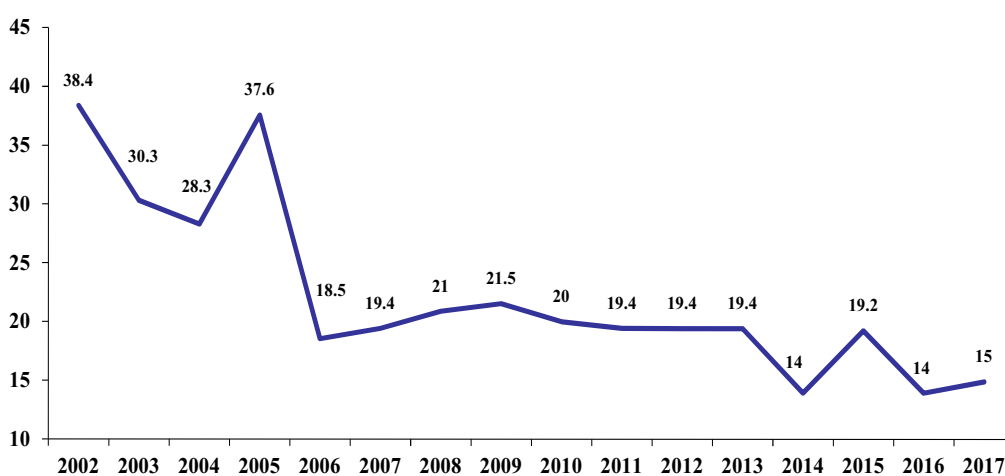
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### Charts of the Week

Percentile Rank of Arab Countries on the Control of Corruption Indicator in 2017 (%)



Percentile Rank of Lebanon on the Control of Corruption Indicator (%)



Source: World Bank Governance Indicators, Byblos Bank

### Quote to Note

"More needs to be done to address shortages in the quality and timeliness of national and fiscal accounts."

*The Institute of International Finance, on the need to upgrade and expand Lebanon's statistical system*

### Number of the Week

**\$2.65bn:** Aggregate amount of Lebanese Eurobonds that mature in 2019, according to the Association of Banks in Lebanon

## Lebanon in the News

\$m (unless otherwise mentioned)	2017	Apr 2017	Jan 2018	Feb 2018	Mar 2018	Apr 2018	% Change*
Exports	2,844	235	283	248	283	256	8.94
Imports	23,130	1,467	1,705	1,436	1,669	1,564	6.61
Trade Balance	(20,286)	(1,232)	(1,422)	(1,188)	(1,386)	(1,308)	6.17
Balance of Payments	(156)	(321)	237	(80)	(355)	(557)	73.52
Checks Cleared in LBP	21,677	1,644	1,733	1,686	1,876	1,698	3.27
Checks Cleared in FC	46,578	3,693	3,973	3,480	3,866	3,606	(2.36)
Total Checks Cleared	68,255	5,337	5,706	5,166	5,742	5,304	(0.62)
Budget Deficit/Surplus	(3,300.82)	(131.85)	(318.96)	(407.93)	(934.62)	(35.21)	(73.30)
Budget Primary Balance	1,882.86	309.55	(46.38)	(145.03)	(364.17)	407.15	31.53
Airport Passengers***	8,235,845	720,843	597,768	504,974	626,074	730,739	1.37

\$bn (unless otherwise mentioned)	2017	Apr 2017	Jan 2018	Feb 2018	Mar 2018	Apr 2018	% Change*
BdL FX Reserves	35.80	33.53	35.25	34.39	34.28	34.74	3.62
In months of Imports	18.57	22.85	20.67	23.95	20.54	22.21	(2.81)
Public Debt	79.52	76.94	80.39	81.54	81.87	81.75	6.25
Bank Assets	219.86	206.13	219.86	223.07	224.57	226.30	9.79
Bank Deposits (Private Sector)	168.66	165.49	169.14	170.45	171.18	171.41	3.58
Bank Loans to Private Sector	59.69	57.05	59.02	59.03	59.03	59.02	3.45
Money Supply M2	52.48	54.86	52.88	53.44	53.65	53.53	(2.43)
Money Supply M3	138.38	135.74	138.62	139.34	139.74	140.04	3.16
LBP Lending Rate (%)****	8.09	8.33	8.56	8.67	8.95	8.99	66bps
LBP Deposit Rate (%)	6.41	5.54	6.53	6.51	6.64	6.64	110bps
USD Lending Rate (%)	7.67	7.22	7.74	7.90	7.89	7.82	60bps
USD Deposit Rate (%)	3.89	3.62	3.91	3.96	4.04	4.10	48bps
Consumer Price Index**	4.4	4.4	5.6	5.2	5.4	5.8	135.7bps

\* 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	Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Solidere "A"	5.91	(1.50)	506,623	6.10%	Nov 2018	5.15	99.25	11.59
Audi Listed	5.05	0.00	59,295	20.84%	May 2019	6.00	97.13	10.77
Audi GDR	5.00	(1.96)	50,407	6.19%	Mar 2020	6.38	94.25	10.79
BLOM Listed	9.20	0.00	46,301	20.42%	Oct 2022	6.10	85.00	10.81
Solidere "B"	5.98	2.05	18,519	4.01%	Jun 2025	6.25	79.00	10.72
BLOM GDR	9.21	1.21	14,917	7.03%	Nov 2026	6.60	77.75	10.76
Byblos Common	1.40	0.00	8,654	8.17%	Feb 2030	6.65	74.50	10.54
Byblos Pref. 08	70.00	(0.07)	1,725	1.45%	Apr 2031	7.00	74.75	10.70
HOLCIM	16.60	0.00	-	3.35%	Nov 2035	7.05	74.50	10.24
Byblos Pref. 09	84.90	0.00	-	1.75%	Mar 2037	7.25	74.88	10.32

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

Source: Byblos Bank Capital Markets

	Sep 24-28	Sep 17-21	% Change	September 2018	September 2017	% Change
Total shares traded	737,551	690,206	6.9	3,153,549	7,527,126	(58.1)
Total value traded	\$4,745,879	\$5,690,438	(16.6)	\$25,051,528	\$49,770,271	(49.7)
Market capitalization	\$9.68bn	\$9.7bn	(0.2)	\$9.68bn	\$11.36bn	(14.7)

Source: Beirut Stock Exchange (BSE)



### Lebanon has 31st highest loan penetration rate, 56th highest deposit penetration rate in the world at end-2017

Figures issued by the International Monetary Fund show that there were 238.7 borrowers per 1,000 adults at commercial banks in Lebanon at the end of 2017, constituting an increase of 2% from 234.1 borrowers per 1,000 adults in 2016 and compared to 217 borrowers per 1,000 adults in 2007. The borrowers' penetration rate ranked Lebanon in 25th place globally among 62 countries with available figures for 2017, in eighth place among 17 upper middle-income countries (UMICs), and in second place among six Arab countries with available data. Globally, Lebanon had a higher penetration rate than Latvia, Kuwait and Romania, and a lower rate than Costa Rica, Qatar and Colombia among economies with a GDP of \$10bn or more. It also had a higher penetration rate than Romania, the Dominican Republic, Peru, Albania and Algeria among UMICs, while it had a lower rate than only Qatar among Arab countries.

Further, there were 432.8 loan accounts per 1,000 adults at Lebanese commercial banks in 2017, up from 415.4 loan accounts per 1,000 adults in 2016 and compared to 366.3 loan accounts per 1,000 adults in 2007. The loan penetration rate ranks Lebanon in 31st place among 76 countries globally with available figures for 2017, in ninth place among 24 UMICs, and in second place among Arab economies.

In parallel, there were 618.7 depositors per 1,000 adults at Lebanese commercial banks in 2017, constituting a decline from 622.5 depositors per 1,000 adults in 2016 and compared to 787.5 depositors per 1,000 adults in 2007. As a result, Lebanon had the 37th highest depositors' penetration rate among 54 countries worldwide with available figures for 2017, the lowest among 14 UMICs and the fourth largest among five Arab countries. Globally, Lebanon had a higher depositors' penetration rate than Palestine, Laos and Kyrgyzstan, and a lower rate than Italy, Brazil and Ghana.

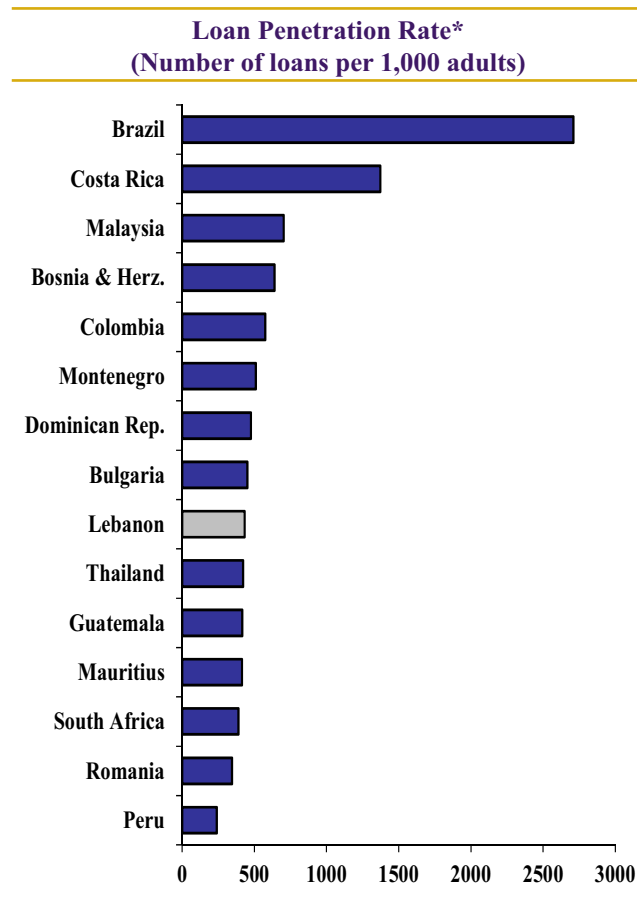
Further, there were 1,054 deposit accounts per 1,000 adults at commercial banks in Lebanon in 2017, up from 1,046 deposit accounts per 1,000 adults in 2016 and compared to 1,149 deposit accounts per 1,000 adults in 2007. As such, Lebanon had the 56th highest deposit account penetration rate among 88 countries worldwide with available figures for 2017, the 17th highest among 24 UMICs and the fourth highest among eight Arab countries.

Further, there were 1.12 million borrowers and 2.02 million loan accounts at commercial banks in Lebanon at the end of 2017. Resident private sector loans were equivalent to 104.5% of GDP at the end of 2017, according to the IMF, the 15th highest such ratio among 128 countries globally, the second largest among 38 UMICs and the third largest among 13 Arab countries. Also, there were 2.89 million depositors and 4.93 million deposit accounts at commercial banks in Lebanon at the end of 2017. Resident private sector deposits were equivalent to 257.5% of GDP in 2017, the second highest ratio among 128 economies globally, as well as the largest among 38 UMICs and among 13 Arab countries.

### Parliament approves allocation of \$66m to subsidize housing loans

The Lebanese Parliament enacted a law that would allocate a total of LBP100bn, or \$66m, from the 2018 budget to cover interest subsidies on housing loans to limited-income persons through the Public Corporation for Housing. Details about the law and subsidy mechanism are not yet published. Banque du Liban (BdL) and commercial banks had been subsidizing interest rates on housing loans since 2009, but the available funds to subsidize mortgages dried up in early 2018. Governor Riad Salamé reiterated several times that housing policy falls within the government's responsibility and not the responsibility of BdL, which prompted Parliament to approve the law.

In January 2018, BdL allocated LBP750bn in subsidies for housing loans under its LBP1,500bn, or \$1bn, stimulus package for 2018. In March 2018, BdL issued Intermediate Circular 487 that allowed banks that exceeded their individual quotas for housing loans subsidies in Lebanese pounds for 2018 to benefit for one-time only from the subsidies that BdL pays on housing loans, since most banks exhausted their 2018 quotas. BdL indicated that banks would benefit from this facility on a first-come first-served basis, provided that each bank does not exceed its individual quota for 2019 that BdL will set.



\* Upper middle-income countries with highest penetration rates  
Source: International Monetary Fund, Byblos Research

## Level of economic freedom in Lebanon stagnates

The Fraser Institute's 2018 Index of Economic Freedom ranked Lebanon in 74th place among 162 countries globally and in fifth place among 18 Arab economies. It also ranked Lebanon in 16th place among 42 upper middle-income countries (UMICs) included in the survey. Based on the same set of countries, Lebanon's global and regional ranks were unchanged from the 2017 survey.

The index measures the extent that a country's policies and institutions support economic freedom. It includes 42 variables distributed into five broad factors of economic freedom that are the Size of Government, the Legal System & Property Rights, Access to Sound Money, Freedom to Trade Internationally, and the Regulation of Credit, Labor & Business. A country's overall score ranges between zero to 10, with a higher score reflecting a higher level of economic freedom.

Lebanon received a score of 6.99 points, down by a marginal 0.3% from 7.01 points in the 2017 survey. Lebanon's score was higher than the global average of 6.8 points and the UMICs' average score of 6.66 points in 2018. It also came above the Arab average score of 6.29 points and the average score of the non-Gulf Cooperation Council (GCC) economies of 5.89 points, but below the GCC countries' score of 7.1 points.

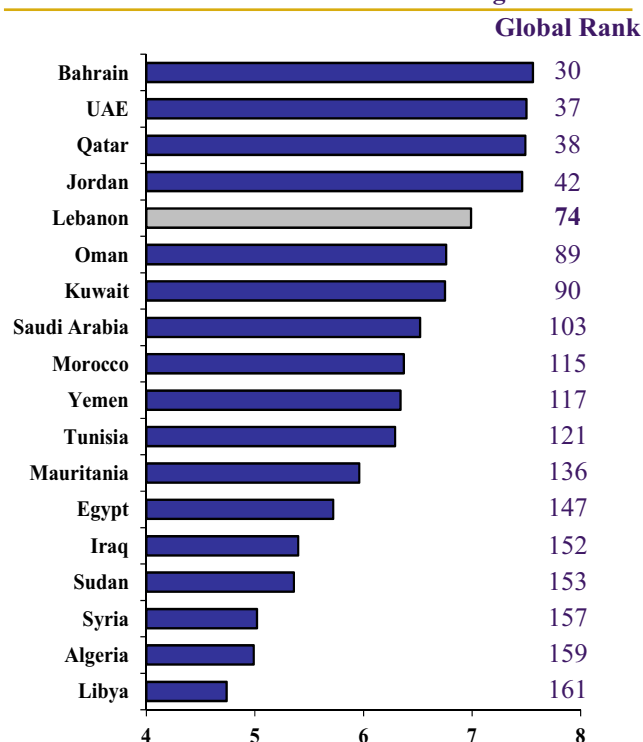
Lebanon's score on the Legal System & Property Rights indicator declined by 2.4% from the 2017 survey, its score on the Size of Government indicator decreased by 1.3% year-on-year, and its score on the Freedom to Trade Internationally indicator regressed by 1.1% from the 2017 survey. In contrast, Lebanon's score on the Regulation of Credit, Labor & Business indicator improved by 1.5% year-on-year, while its score on the Access to Sound Money indicator increased by 1.3% from the 2017 survey.

Globally, Lebanon had a higher level of economic freedom than Croatia, Paraguay and Brunei Darussalam, and a lower level than Slovenia, Montenegro and Bhutan. Also, it ranked ahead of Paraguay and behind Montenegro among UMICs.

Further, Lebanon ranked ahead of Indonesia and behind Panama on the Access to Sound Money category, which reflects the consistency of monetary policy with long-term price stability, as well as the ease of using other currencies via domestic and foreign bank accounts. Lebanon came in third place, behind Costa Rica and Peru, among UMICs, and in first place among Arab countries on this category.

In addition, Lebanon ranked ahead of Egypt and behind Mozambique on the Legal System & Property Rights category. This category assesses the judicial independence, the protection of property rights, the integrity of the legal system and the legal enforcement of contracts, among other factors. Also, Lebanon ranked ahead of Gabon and behind the Dominican Republic among UMICs, while it came ahead of only Egypt, Mauritania, Syria, Libya, Yemen, Sudan and Iraq in the Arab world on this category. The survey noted that countries with major deficiencies in this category are unlikely to economically prosper, regardless of their performance in the other four categories. The Fraser Institute is a Canada-based independent research organization whose mission is to study and measure the impact of competitive markets and government intervention on the welfare of individuals.

**Index of Economic Freedom for 2018  
Arab Countries Scores & Rankings**



Source: Fraser Institute, Byblos Research

**Components of the 2018 Economic Freedom Index for Lebanon**

	Global Rank	Arab Rank	UMIC Rank	Lebanon Score	Global Avg Score	Arab Avg Score	UMIC Avg Score
Size of Government	3	2	2	8.67	6.48	6.33	6.61
Access to Sound Money	12	1	3	9.69	8.24	7.95	8.08
Regulation of Credit, Labor & Business	142	13	37	5.83	7.02	6.45	6.82
Freedom to Trade Internationally	102	9	28	6.82	7.02	6.23	6.99
Legal System & Property Rights	124	11	35	3.95	5.21	4.49	4.83

Source: Fraser Institute, Byblos Research



### **Banque du Liban reiterates commitment to exchange rate stability**

In the monthly meeting between Banque du Liban (BdL), the Banking Control Commission of Lebanon (BCCL) and the Association of Banks in Lebanon (ABL), Governor Riad Salamé indicated that the currency market is stable and that BdL is committed to its policy of exchange rate stability. He noted that the fluctuations in interest rates are determined by the market. Governor Riad Salamé indicated that the spreads on Credit Default Swaps (CDS) on Lebanon's sovereign Eurobonds have narrowed to below 700 basis points from more than 900 basis points previously, which reflects a more realistic assessment of the securities portfolio. He noted that foreign demand for Lebanese Eurobonds persists and is mostly for long-term instruments that have maturities of up to 2024. He attributed the drop in the prices of short-term Eurobonds, or those that mature in 2019, to the reassessment of their holders of Lebanon's ability to refinance the Eurobonds amid the delays in the formation of the government. He said that the CDS spreads are affected by the very limited volume of transactions on Lebanese Eurobonds and by the ability of some market players to manipulate them. The ABL indicated that banks should complement BdL's efforts to calm the markets for the benefit of the country and the banking sector.

In parallel, the ABL requested from BdL some clarifications about Intermediate Circular 503 that limits a commercial bank's net lending to the private sector in Lebanese pounds to 25% of its aggregate deposits in the same currency. It asked BdL to exempt housing loans in Lebanese pounds from the limit, as it would be difficult for banks to abide by the ceiling, given their protocols about housing loans with several bodies, such as the Lebanese Army and the judiciary. Governor Salamé indicated that BdL will not amend the 25% limit and asked banks to comply with the circular by the end of 2019. He reiterated that housing policy is the responsibility of the government and not BdL. He said that BdL is unable, under current circumstances, to continue injecting liquidity in Lebanese pounds that could be used to a large extent to increase demand for US dollars. He noted that liquidity in foreign currency is tight in the region. He added that yields on Egyptian Treasury bills range between 18% and 19%, while Turkey increased its policy rate to 24%. In this context, he pointed out that BdL has strong and valid reasons to implement Intermediate Circular 503 and that banks should increase their efforts to raise their deposits in Lebanese pounds, in case they want to extend more loans in the local currency.

In parallel, Governor Salamé indicated that interest rates in Lebanon are more favorable than in many emerging markets. He expected deposits to grow by more than 4% in 2018, which is adequate under current circumstances. He added that loans to the private sector reached about \$58bn, which is elevated relative to the size of the economy.

### **Parliament enacts pending draft laws related to commitments at CEDRE conference**

The Lebanese Parliament enacted pending draft laws on September 24 and 25, 2018, with most of the voted laws related to reform commitments made by Lebanese authorities at the CEDRE conference.

The Parliament ratified the Judicial Mediation Law that gives disputed parties the option of suspending a court case by choosing a mediator that would help the parties reach a solution, which could reduce the cost and time of settling disputes in court. Also, Parliament enacted the draft law on transparency in the oil and gas sector. The latter requires ministries to publish and distribute a list of documents that include Exploration and Production Agreements signed with oil and gas consortiums, as well as information that covers all the phases of the upstream sector in Lebanon's offshore territorial waters, from the pre-qualification phase to the abandonment phase.

In addition, Parliament enacted a draft law on electronic transactions and personal data, which seeks to establish the Signatures and E-Services Authority and to set the legal basis for electronic signature and e-commerce, among others. It also approved a law that grants the government the right of legislation in the customs field. Further, it enacted a law that protects whistleblowers in corruption-related matters. Also, it ratified the Arms Trade Treaty bill that regulates international trade in conventional arms and prevents their illicit trade.

Further, Parliament ratified the Integrated Solid Waste Management Law that aims to reduce waste as well as to promote recycling, sorting from the source, composting and the disposal of chemically-inactive waste materials. The law stipulates that the Ministry of Environment should prepare a national strategy for solid waste management within one year from enacting the law. The law also focuses on decentralizing the responsibility for solid waste management to municipalities and requires the latter to submit a project for solid waste management to the ministry within six months from approving the national strategy. The law forbids the dumping or burning of solid waste.

In parallel, Parliament approved three loans from the World Bank. It approved a \$200m concessional loan to finance the Roads and Employment Project, a \$120m loan to support several healthcare facilities across Lebanon, and a \$6m loan to finance the fiscal management project at the Ministry of Finance. In addition, Parliament ratified an \$80m loan from the European Investment Bank to finance the wastewater project in Nahr el Ghadir basin, and a \$50m loan from the Kuwait Fund for Arab Economic Development to finance two wastewater treatment systems in the Chouf.

Also, Parliament allowed Lebanon to increase its contribution to the Islamic Corporation for the Development of the Private Sector, while it approved amendments to the offshore companies law and to Law 250 that is related to the establishment of the Constitutional Council.





### Lebanon ranks 23rd globally in terms of healthcare system efficiency

The Bloomberg Health Efficiency Index for 2018 ranked Lebanon in 23rd place among 56 countries around the world and in second place among four Arab countries included in the survey. The index assesses the efficiency of a country's healthcare system and is based on a weighted average of three categories that are Life Expectancy (60%), Relative Health Expenditures (30%) and Absolute Health Expenditures (10%). A country's overall efficiency score ranges between zero and 100, with a higher score reflecting a more efficient healthcare system. The index is based on data from the World Bank, the World Health Organization, the United Nations Population Division, the International Monetary Fund, and the U.S.-based non-profit organization Social Progress Imperative.

Globally, Lebanon's healthcare system is more efficient than systems in Poland, Costa Rica and Turkey, but less efficient than in China, Mexico and Sweden. Lebanon received a score of 53 points on the index, which is higher than the global average of 50.1 points and the Arab countries' average score of 43.6 points. Hong Kong has the most efficient healthcare system globally with a score of 87.3 points, while Bulgaria came in last place and received a score of 29.4 points.

Also, the Lebanese population has a life expectancy of 79.4 years, ranking the country in 27th place globally and in first place among Arab countries on the Life Expectancy category. Globally, Lebanon came ahead of Chile (79.3 years), the U.S. (78.7 years) and the Czech Republic (78.6 years), while it trailed Germany (80.6 years), Taiwan (79.7 years) and Costa Rica (79.6 years) on this category.

Further, Lebanon's healthcare expenditures are equivalent to 7.43% of GDP, which ranks the country in 29th place globally and in first place among Arab economies on the Relative Health Expenditures category. This category measures a country's total healthcare expenditures relative to the size of its economy. Globally, Lebanon ranked ahead of South Korea (7.4% of GDP), the Czech Republic (7.3% of GDP) and Hungary (7.2% of GDP), and came behind Chile (8.1% of GDP), Ireland (7.8% of GDP) and Iran (7.6% of GDP).

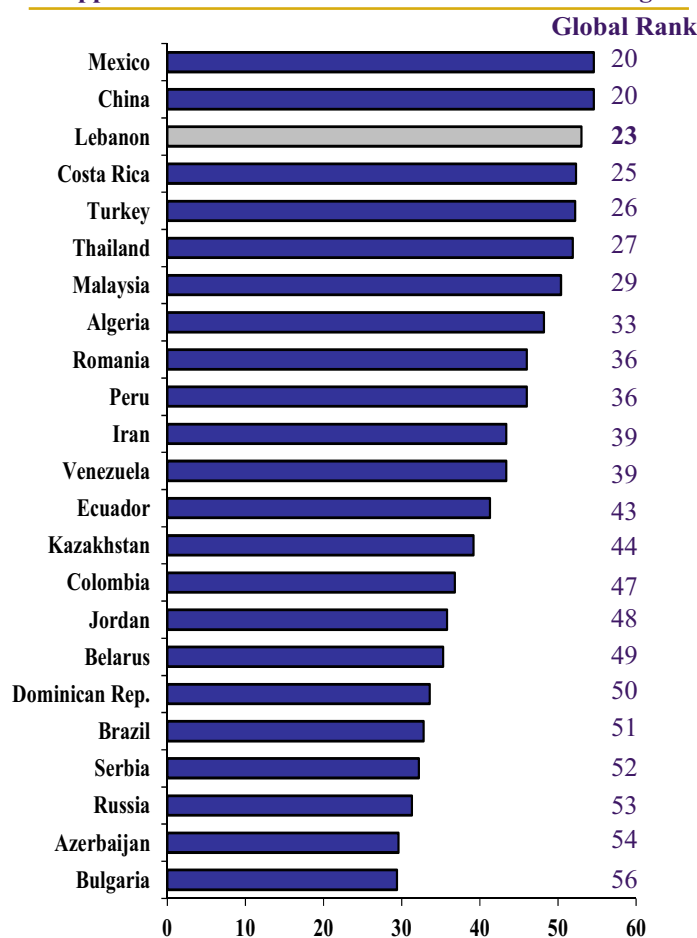
In addition, Lebanon's healthcare spending per capita stood at \$645, ranking the country in 37th place globally and in second place among Arab economies, after Saudi Arabia, on the Absolute Health Expenditures category. This category measures a country's health expenditure per capita at current prices. Lebanon ranked ahead of Bulgaria (\$572), Mexico (\$535) and Ecuador (\$530), and came behind Hungary (\$894), Poland (\$797) and Brazil (\$780) on this category.

### Value of cleared checks down 4%, returned checks up 5.4% in first eight months of 2018

The value of cleared checks reached \$44.1bn in the first eight months of 2018, constituting a decline of 3.7% from \$45.8bn in the same period of 2017. In comparison, the value of cleared checks grew by 2.1% in the first eight months of 2017 and regressed by 2.7% year-on-year in the same period of 2016. The value of cleared checks in Lebanese pounds increased by a marginal 0.6% year-on-year to the equivalent of \$14.3bn in the first eight months of 2018, while the value of cleared checks in US dollars declined by 5.6% to \$29.8bn in the covered period. The dollarization rate of cleared checks regressed from 69% in the first eight months of 2017 to 67.6% in the same period of 2018. There were 7.9 million cleared checks in the first eight months of 2018, down by 4% from 8.2 million in the same period of 2017.

In parallel, the value of returned checks in domestic and foreign currency was \$1bn in the first eight months of 2018 compared to \$963.7m in the same period of 2017 and relative to \$972m in the first eight months of 2016. This constituted an increase of 5.4% year-on-year in the first eight months of 2018 relative to decreases of 1% in the same period of 2017 and of 5.3% in the first eight months of 2016. Also, there were 177,002 returned checks in the first eight months of 2018, up by 15.6% from 153,162 returned checks in the same period of 2017.

### Bloomberg Health Efficiency Index for 2018 Upper-Middle Income Countries' Scores & Rankings



Source: Bloomberg, Byblos Research

### Gross public debt at \$83bn at end-July 2018

Lebanon's gross public debt reached \$82.9bn at the end of July 2018, constituting an increase of 4.2% from \$79.5bn at the end of 2017 and a rise of 7.8% from \$76.9bn at end-July 2017. In nominal terms, the gross public debt grew by \$3.37bn in the first seven months of 2018 relative to an increase of \$2bn in the same period of 2017. Debt denominated in Lebanese pounds totaled \$47.7bn at end-July 2018, down by 3% from the end of 2017 and up by 1% from end-July 2017; while debt denominated in foreign currency stood at \$35.2bn, constituting a growth of 16% from end-2017 and an increase of 18.6% from end-July 2017. In May 2018, the Finance Ministry issued \$5.5bn in Lebanese Eurobonds and exchanged them with LBP8,250bn worth of Lebanese pound-denominated Treasury bills from Banque du Liban's (BdL) portfolio in order to reduce the cost of debt servicing, which explains the growth in foreign-currency debt. Local currency debt accounted for 57.5% of the gross public debt at the end of July 2018 compared to 61.3% a year earlier, while foreign currency-denominated debt represented the balance of 42.5% relative to 38.7% at end-July 2017. The weighted interest rate on outstanding Treasury bills was 6.42% and that on Eurobonds was 6.73% in July 2018. Further, the weighted life on Eurobonds was 7.87 years, while it was 1,462 days on Treasury bills.

Commercial banks held 40.2% of the public debt as at end-July 2018 relative to 45% of the total at end-July 2017. BdL held 47.5% of the Lebanese pound-denominated public debt at the end of July 2018 relative to 45.8% a year earlier, while commercial banks held 36.9% of the local debt compared to 38.7% at end-July 2017. Also, public agencies, financial institutions and the public held 15.6% of the local debt at end-July 2018 relative to 15.5% a year earlier. Further, holders of Eurobonds and special T-bills in foreign currencies accounted for 93.9% of foreign currency-denominated debt holders at the end of July 2018, followed by multilateral institutions with 3.8% and foreign governments with 2.3%. In addition, the net public debt, which excludes public sector deposits at BdL and at commercial banks from overall debt figures, grew by 8.8% annually to \$72.5bn at end-July 2018. Further, the gross market debt accounted for about 62.2% of the total public debt. Gross market debt is the total public debt less the portfolios of the BdL, the National Social Security Fund, bilateral and multilateral loans, as well as Paris II related debt.

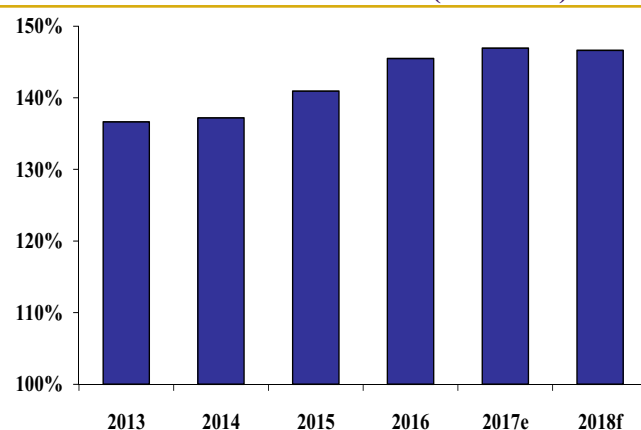
### Banque du Liban issues circular about AML/CFT

Banque du Liban (BdL) issued Intermediate Circular 146 on September 19, 2018 that amends Basic Circular 83 dated May 18, 2001 about the Regulations on the Control of Financial and Banking Operations for Fighting Money Laundering and Terrorist Financing (AML/CFT). The circular asked banks to immediately inform the Special Investigation Commission (SIC) against money laundering and terrorism financing about any measures they intend to take under laws and regulations related to AML/CFT. Measures include the freezing or closing of a bank account, or the refusal to deal with a client or open an account for a potential customer. The circular stipulates that banks should justify their actions.

The main regulation about the fight against money laundering and terrorism financing activities Lebanon is Law 44 that Parliament enacted in November 2015, replacing Law 318 dated April 2001. Law 44 expanded the sources of illicit funds that were included in Law 318 and broadened the definition of money laundering activity. It considered the crime of money laundering as an independent offense that does not require a primary crime for conviction. It stipulated that any person who undertakes money-laundering operations, or intervenes or participates in such operations, will be punished by imprisonment.

Law 44 indicated that banks, financial institutions, leasing companies and institutions that issue and promote charge or credit cards, or institutions that deal with electronic money transfers, along with financial intermediation institutions, collective investment schemes, and any institution subject to a license or to the supervision of BdL, must abide by the a set of regulatory obligations. These institutions need to conduct due diligence on their permanent clients in terms of identity verification based on official documents and reliable information. Also, they need to apply the same identity verification process to transient clients when the value of the client's operation or series of operations exceeds an amount determined by BdL. They must also verify, through official documents, the identity and address of each client, and must keep for a period of no less than five years copies of these documents, as well as copies of the operation-related documents. In addition, they need to monitor specific signs that could point to potential transactions related to money laundering or terrorist financing. In parallel, the law stipulated that institutions that are not subject to the Banking Secrecy Law of 1956, including insurance companies, must keep special records about operations that exceed an amount determined by the SIC.

Lebanon's Gross Public Debt (% of GDP)



Source: Institute of International Finance

### Lebanon is fourth largest recipient of IMF technical assistance in Middle East region

The International Monetary Fund's Middle East Technical Assistance Center (METAC) indicated that Lebanon received 8.7% of the center's overall allocation of technical assistance delivery during the fiscal year that ended in April 2018. Lebanon was the fourth largest recipient of such assistance behind Egypt (14.6%), Sudan (10.3%) and Tunisia (10.2%), while it received more assistance than Jordan (8.3%), Djibouti (7.3%) and Iraq (6.8%). Lebanon received 33.5 person weeks (PWs), or 167.5 days' worth of assistance in FY2018, up from 27.5 PWs in FY2017 and compared to 35.5 PWs in FY2016.

Lebanon received 14 PWs, or 70 days, in support for public revenue administration, which accounted for 41.8% of the technical assistance that Lebanon received, and for 14.1% of METAC's total support for revenue administration. The center assessed the Lebanese tax administration's system and identified the strengths and weaknesses in administering core taxes. It also evaluated the authorities' current reform efforts, and provided input to adjust their current reform framework.

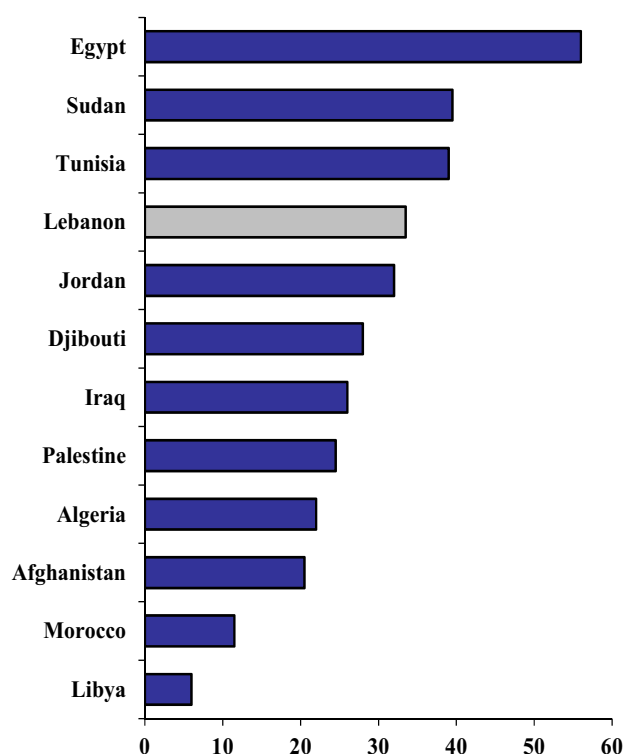
In parallel, Lebanon received 8.5 PWs, or 42.5 days, in public financial management assistance, which account for 25.4% of the technical assistance it received and for 9.1% of METAC's regional assistance for public financial management. METAC held a seminar for the Ministry of Finance that focused on the convergence of the Lebanese government's financial reporting with international standards. It also provided technical advice to improve the overall quality of financial reporting, fiscal transparency, and accountability of financial reporting practices. Further, the mission helped authorities develop a short-term roadmap to improve their adherence to fiscal transparency standards related to fiscal risk management.

Also, Lebanon received 8 PWs, or 40 days, in statistical support, which account for 24% of the total assistance it received and for 8.8% of the center's overall macroeconomic support in the region in FY2018. METAC helped the Central Administration of Statistics (CAS) and Banque du Liban to reconcile trade data in the national accounts and in the balance of payments statistics. It continued to assist the CAS to improve its compilation of the Consumer Price Index, especially on how to treat missing prices and rent prices, as well as on how to enhance the weighting system and data collection methods. Also, it encouraged the CAS to improve its analysis in the monthly CPI press release by identifying the key variables that impact the overall change in the CPI. In addition, the mission helped the CAS develop a Producer Price Index for Lebanon.

Further, Lebanon received 3 PWs, or 15 days, in banking supervision assistance, accounting for 9% of its technical assistance and for 3.3% of METAC's bank supervision activity in the region. METAC held training sessions for the supervisors of the Banking Control Commission of Lebanon (BCCL) in order to improve the risk-management capacities of the BCCL. The training focused on the concepts and practices of stress-testing implemented by banks, and their role in the Internal Capital Adequacy Assessment Process.

The IMF established METAC in Beirut in October 2004 to serve Afghanistan, Algeria, Djibouti, Egypt, Iraq, Jordan, Lebanon, Libya, Morocco, Palestine, Sudan, Syria, Tunisia, and Yemen. The center's mandate is to assist in capacity-building, facilitate the reform process in member countries, and support the region's integration in the world economy.

Technical Assistance by Person Weeks in FY2018



Source: International Monetary Fund, METAC, Byblos Research



### Stock market index down 30% in first nine months of 2018

Figures released by the Beirut Stock Exchange (BSE) indicate that the trading volume reached 65,480,134 shares in the first nine months of 2018, constituting an increase of 4.4% from 62,693,799 shares traded in the same period of 2017; while aggregate turnover amounted to \$487.7m, down by 6.9% from a turnover of \$523.6m in the first nine months of 2017. Market capitalization regressed by 14.7% from the end of September 2017 to \$9.68bn, with banking stocks accounting for 86% of the total, followed by real estate equities (10.1%), industrial shares (3.6%) and trading firms' equities (0.3%). The market liquidity ratio was 5% in the covered period compared to 4.6% in the first nine months of 2017.

Banking stocks accounted for 81.1% of the aggregate trading volume in the first nine months of 2018, followed by real estate equities with 16.4%, industrial shares with 2.1% and trading stocks with 0.4%. Also, banking stocks represented 77.7% of the aggregate value of shares traded, followed by real estate equities with 18.2%, industrial stocks with 3.9% and trading stocks with 0.2%. The average daily traded volume for the period was 367,866 shares for an average daily value of \$2.7m. The figures reflect an increase of 5.6% in average volume, and a decline of 5.8% in the average value in the first nine months of the year. In parallel, the Capital Markets Authority's Market Value-Weighted Index for stocks traded on the BSE dropped by 30.3% in the first nine months of 2018, while the CMA's Banks Market Value-Weighted Index regressed by 23.3% in the covered period.

### Net profits of motor insurance segment at \$4.4m 2017

Figures released by the Insurance Control Commission (ICC) show that the motor segment of the insurance sector posted total profits of \$4.4m in 2017 relative to net losses of \$2.2m in 2016. The 'Non-Compulsory Motor' line posted net gains of \$4.8m in 2017, up from \$55,058 in profits in 2016, while the 'Compulsory Motor' line accrued losses of \$371,476 in 2017 relative to losses of \$2.3m in 2016. Total gross written premiums in the motor insurance segment reached \$323m in 2017 and regressed by 10.8% from the previous year. The 'Non-Compulsory Motor' line accounted for 83% of the segment's aggregate premiums and the 'Compulsory Motor' line represented the other 17%. Also, total paid claims totaled \$176.7m in 2017, constituting a drop of 11.4% from \$199.5m in 2016. The motor insurance segment was the second-largest segment in the non-life insurance category in 2017 with a 21.2% share of total non-life premiums, behind the health insurance segment.

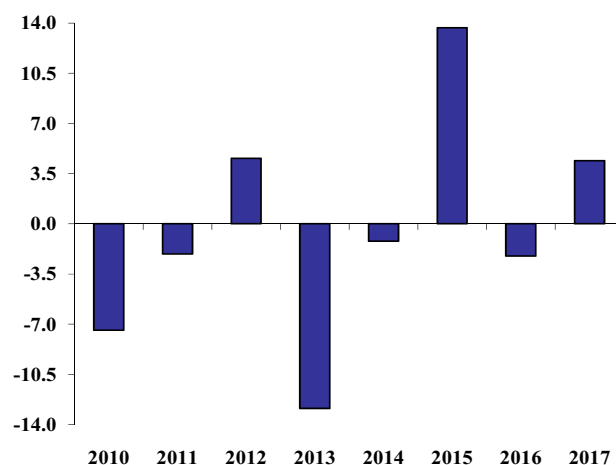
The written premiums in the 'Non-Compulsory Motor' line dropped by 10.2% to \$268.2m in 2017, with the top five companies generating 46.3% of the line's premiums. Paid claims in the 'Non-Compulsory Motor' line declined by 11.1% to \$162.9m in 2017 and the number of claims regressed by 1.2% to 386,658 in 2017.

In addition, the loss ratio of the 'Third Party Liability' segment of the 'Non-Compulsory Motor' line, or the ratio of claims incurred to earned gross premiums, was 68.6% in 2017; the commission ratio, or the ratio of acquisition cost to earned gross premiums, reached 24.1%; the expense ratio, or the ratio of other general expenses to earned gross premiums, was 15.4%; and the reinsurance ratio, or the ratio of net reinsurance income to earned gross premiums, reached 1.7% in 2017. As such, the average technical combined loss ratio, which is the aggregate of the above four ratios, reached 109.7% in 2017 relative to 102.9% in 2016.

Further, the loss ratio of the 'Own Damage and Other Complementary Risks' segment of the 'Non-Compulsory Motor' line was 58.7%, the commission ratio reached 26.1%, the expense ratio was 14.6% and the reinsurance ratio reached 1.3% in 2017. As such, the average combined loss ratio for the section was 100.7% in 2017 compared to 102.7% in 2016.

In parallel, the written premiums in the 'Compulsory Motor' line declined by 13.7% to \$54.7m in 2017, with the top five companies generating premiums equivalent to about 59% of the line's total premiums. Paid claims in the 'Compulsory Motor' section decreased by 15.4% to \$13.8m in 2017, with the number of claims regressing by 2.1% to 5,795 in 2017. The loss ratio of the 'Compulsory Motor' line was 52.1%, the commission ratio reached 38.8%, the expense ratio was 12.9% and the reinsurance ratio reached -2% in 2017. As such, the average combined loss ratio for the line reached 101.9% in 2017 relative to 103.5% in 2016.

Net Profits of Motor Insurance Segment (US\$m)



Source: Insurance Control Commission, Byblos Research

### Net income of top 15 banks down 8% to \$1.1bn in first half of 2018, ROAA at 0.9% and ROAE at 10%

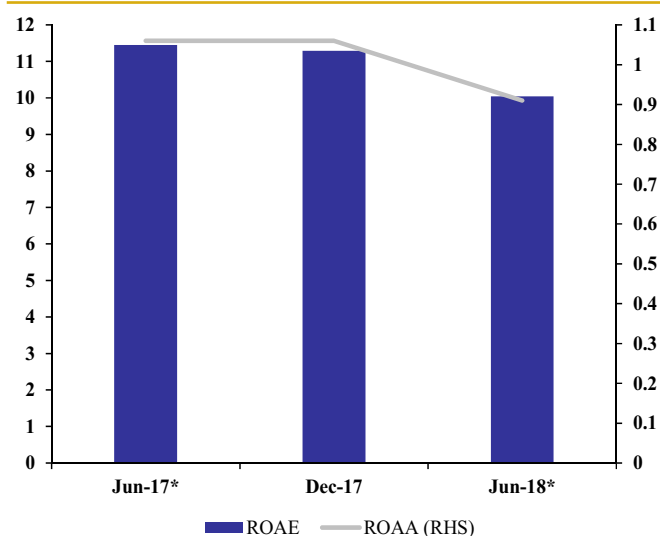
The unaudited consolidated net profits of the Alpha Group of banks reached \$1.08bn in the first half of 2018, constituting a decrease of 8.1% from net earnings of \$1.17bn in the same period of 2017. The Alpha Group consists of 15 banks with deposits in excess of \$2bn each. The decline in the banks' net profits reflects an annual decrease of \$153.9m in net gains on financial assets, a drop of \$123.4m in net gains on financial investments and a decline of \$61.8m in other operating income, which were partly offset by an annual increase of \$300m in net interest income and a decline of \$30.3m in operating expenses. Aggregate net operating income regressed by 0.8% year-on-year to \$2.7bn in the first half of 2018. The banks' net interest income grew by 15.8% to \$2.2bn, while their net fees & commissions improved by 0.7% to \$446.1m. In addition, net gains on financial assets at fair value decreased by 53.2% year-on-year to \$135.6m in the first half of 2018, with net interest income from financial assets dropping by 47.6% to \$68.7m and net profits on foreign exchange increasing by 7.8% to \$72.1m. Also, net gains on financial investments decreased by 87.4% year-on-year to \$17.8m in the first half of 2018. Non-interest income accounted for 21.5% of total income in the first half of 2018, down from 33% in the same period last year; with net fees & commissions representing 72% of non-interest income, up from 44.3% in the first half of 2017. Also, the net interest spread was 1.9% in the first half of 2018 relative to 1.84% in the same period last year.

In parallel, total operating expenditures regressed by 2.1% year-on-year to \$1.4bn in the first half of 2018, with staff expenses declining by 1.7% to \$830.4m and administrative & other operating expenses decreasing by 2.5% to \$516.2m. Further, the cost-to-income ratio was 50% in the first half of 2018, up from 48.7% in the first half of 2017. The banks' return on average assets was 0.91% in June 2018 on an annualized basis relative to 1.06% in June 2017, while their return on average equity was 10.04% in June 2018 on an annualized basis compared to 11.45% in June 2017.

The banks' total assets reached \$244.1bn at the end of June 2018, constituting an increase of 4.8% from end-2017 and a rise of 8.9% from end-June 2017. Net loans & advances to customers totaled \$63.6bn, down by 3.4% from end-2017 and by 4.6% from the end of June 2017; while credit extended to related parties regressed by 0.4% from end-2017 to \$538.1m at the end of June 2018. Customer deposits reached \$179.6bn at the end of June 2018, up by 0.4% from end-2017 and by 0.6% from a year earlier; while deposits from related parties totaled \$3.35bn at end-June 2018, down by 7.1% from end-2017 and by 13.1% from a year earlier. The banks' shareholders equity reached \$21.3bn at the end of June 2018 and decreased by 2.1% from end-2017.

In parallel, the banks' loans-to-deposits ratio decreased from 36.9% at the end of June 2017 to 35% at end-June 2018. The loans-to-deposits ratio in local currency was 28.5% compared to 26.3% at end-June 2017, while the ratio in foreign currency was 37.7% at the end of June 2018 relative to 41.3% a year earlier. Further, the primary liquidity-to-assets ratio was 42.5% at the end of June 2018, up from 35.9% at end-June 2017. In addition, the banks' gross doubtful loans-to-gross loans ratio increased from 5.86% at end-June 2017 to 6.41% at the end of June 2018. Also, the loan-loss reserves on doubtful loans covered 74.9% of gross doubtful loans at end-June 2018, up from a coverage of 71.8% a year earlier. Further, the ratio of collective provisions-to-net loans decreased from 1.62% at the end of June 2017 to 1.21% at end-June 2018.

Profitability Metrics of Top 15 Banks (%)



Source: Bankdata Financial Services, Byblos Research

### First National Bank's net earnings at \$14m in first half of 2018

First National Bank sal, one of Lebanon's top 15 banks in terms of deposits, announced unaudited consolidated net profits of \$14.1m in the first half of 2018, constituting an increase of 3.9% from net earnings of \$13.6m in same period of 2017. Net operating income grew by 3.5% year-on-year to \$48.7m in the covered period, with net interest income increasing by 45.7% to \$37.5m and net fees & commissions receipts decreasing by 12.7% to \$3.4m. Non-interest income accounted for 15.2% of total income in the half of 2018, up from 14.4% in the same period last year; with net fees & commissions representing 45.8% of non-interest earnings relative to 57.2% in the first half of 2017. Further, the bank's interest margin was 1.73% in the first half of 2018 relative to 1.88% in the same period last year; while its spread reached 1.64% in the covered period compared to 1.78% in the first half of 2017. Total operating expenditures grew by 4.3% to \$31.6m year-on-year in first half of 2018, with staff expenses increasing by 6.8% to \$19.5m and administrative & other operating expenditures unchanged from a year earlier at \$10.2m. Also, the bank's return on average assets was 0.56% in June 2018 on an annualized basis relative to 0.6% in June 2017, while its return on average equity reached 6.5% on an annualized basis compared to 6.42% in June 2017. The bank's cost-to-income ratio increased from 64% in the first half of 2017 to 64.7% in the same period of 2018.

In parallel, total assets reached \$5.2bn at the end of June 2018, up by 6.7% from end-2017, while loans & advances to customers, excluding those to related parties, decreased by 9% from end-2017 to \$930.4m. Also, customer deposits, excluding those from related parties, totaled \$3.8bn at end-June 2018 and increased by 0.7% from the end of 2017. The loans-to-deposits ratio stood at 24.9% at the end of June 2018, compared to 29.3% at end-June 2017. Further, the bank's shareholders' equity reached \$423.5m at end-June 2018, down by 5.4% from end-2017.

### UFA posts net losses of \$0.8m in 2017

UFA Assurances sal announced audited net losses of \$0.8m in 2017, relative to net profits of \$0.6m in 2016. Its audited balance sheet shows total assets of \$44.6m at the end of 2017, up by 12.3% from \$39.7m at end-2016. On the assets side, general company investments reached \$21.6m and increased by 12.9% from a year earlier. They included \$4.9m in cash & cash equivalents, \$3.1m in investments in subsidiaries and associates, \$1.5m in variable income investments, \$1m in fixed income investments and \$0.5m in land and real estate investments. Also, the firm blocked \$10.5m as bank deposits and deposits with maturity of more than three months, of which \$7.3m, or 69.3%, were blocked in favor of the Economy Ministry as guarantees. Also, the reinsurance's share in technical reserves for the life category declined by 40% to \$0.3m in 2017, while the share of the non-life segment increased by 21.5% to \$2m last year.

On the liabilities side, technical reserves for the life segment decreased by 24.7% to \$0.7m in 2017, while technical reserves for the non-life segment reached \$24.4m at end-2017 and grew by 30.2% from a year earlier. Non-life technical reserves included unearned premium reserves of \$17.8m that increased by 31.6%, outstanding claims reserves of \$2.9m that grew by 15.8%, and \$1.5m in premium deficiency reserves that rose by 37.9% year-on-year. Provisions for risks and charges reached \$1m at end-2017 and decreased by 15.3% from a year earlier. Further, the firm's shareholders' equity totaled \$14.5m at end-2017 and declined by 8.4% from 2016.

*Al-Bayan* magazine's annual survey of the insurance sector in Lebanon ranked UFA in 14th and 28th place in 2017 in terms of non-life and life premiums, respectively. The firm's non-life premiums rose by 26.7% to \$28m in 2017, while its life premiums amounted to \$0.77m and dropped by 3.8% from 2016. It had a 2.5% share of the local non-life market and a 0.1% share of the life market in 2017.

## Ratio Highlights

(in % unless specified)	2015	2016	2017e	Change*
Nominal GDP (\$bn)	49.5	49.7	52.5	
Public Debt in Foreign Currency / GDP	54.7	56.6	57.9	1.30
Public Debt in Local Currency / GDP	87.4	94.1	93.6	(0.54)
Gross Public Debt / GDP	142.1	150.7	151.5	0.76
Total Gross External Debt / GDP	175.8	183.9	185.6	1.70
Trade Balance / GDP	(31.6)	(32.5)	(31.9)	0.60
Exports / Imports	15.9	15.6	14.5	(1.04)
Fiscal Revenues / GDP	19.3	20.0	22.1	2.17
Fiscal Expenditures / GDP	27.3	29.9	29.3	(0.62)
Fiscal Balance / GDP	(8.0)	(9.9)	(7.2)	2.79
Primary Balance / GDP	1.5	0.0	2.7	2.68
Gross Foreign Currency Reserves / M2	58.7	62.2	68.2	5.98
M3 / GDP	249.7	267.2	263.6	(3.61)
Commercial Banks Assets / GDP	375.7	411.1	418.8	7.69
Private Sector Deposits / GDP	306.2	327.0	321.3	(5.69)
Private Sector Loans / GDP	109.5	115.0	114.9	(0.16)
Private Sector Deposits Dollarization Rate	64.9	65.8	68.7	2.88
Private Sector Lending Dollarization Rate	74.8	72.6	71.0	(1.61)

\*Change in percentage points 16/17

\*\*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 2016	Nov 2017	Dec 2017	Change**	Risk Level
Political Risk Rating	55	54.5	55	➔	High
Financial Risk Rating	36.5	33.0	33.0	▲	Moderate
Economic Risk Rating	30.5	27.5	28.5	▲	High
Composite Risk Rating	61.0	57.5	58.25	▲	High

MENA Average*	Dec 2016	Nov 2017	Dec 2017	Change**	Risk Level
Political Risk Rating	57.6	58.0	58.2	▼	High
Financial Risk Rating	38.3	38.5	38.5	▼	Low
Economic Risk Rating	29.6	31.0	30.9	▼	Moderate
Composite Risk Rating	62.8	63.8	63.9	▼	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	Stable	B3		Stable
Fitch Ratings	B-	B	Stable	B-		Stable
Standard & Poor's	B-	B	Stable	B-	B	Stable
Capital Intelligence Ratings	B	B	Stable	B	B	Stable

Source: Rating agencies

Banking Ratings	Outlook
Moody's	Stable

Source: Moody's Investor Services





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