

## LEBANON THIS WEEK

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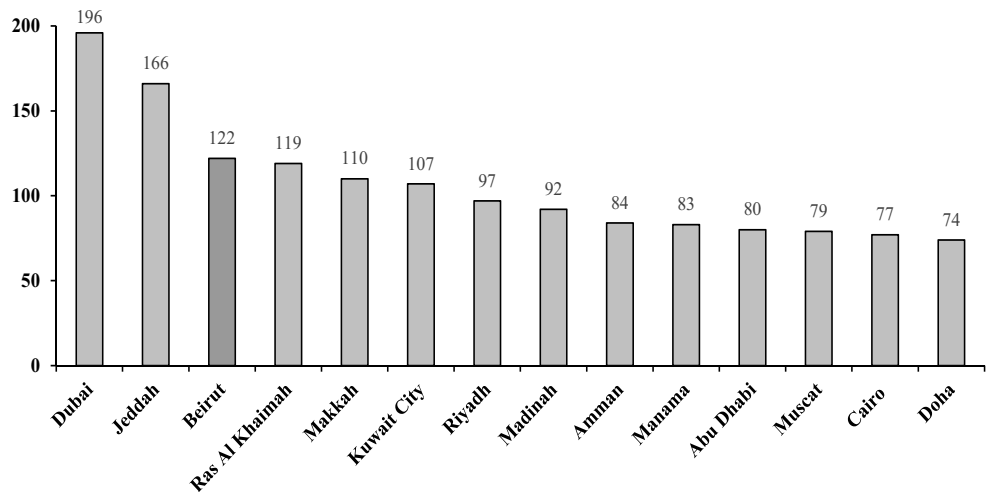
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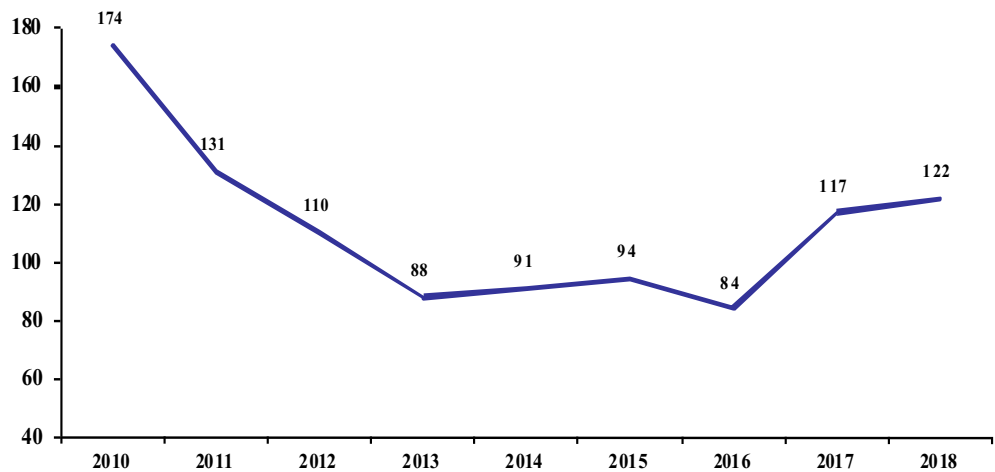
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### Charts of the Week

Revenues Per Available Room (RevPAR) at Hotels in Select Arab Cities in 2018\* (US\$)



Revenues Per Available Room (RevPAR) at Hotels in Beirut\* (US\$)



\*at four- and five-star hotels

Source: EY, Byblos Research

### Quote to Note

"We see substantial shortcomings and material gaps in the dissemination of macroeconomic data and reporting delays."

*S&P Global Ratings, on the need to upgrade Lebanon's statistical system*

### Number of the Week

**\$9.45bn:** Lebanon's current account deficit in the first nine months of 2018, according to Banque du Liban

## Lebanon in the News

\$m (unless otherwise mentioned)	2017	2018	% Change*	Jan-18	Nov-18	Dec-18	Jan-19
Exports	2,844	2,952	3.81	283	242	246	236
Imports	19,582	19,980	2.03	1,705	1,536	1569	1405
Trade Balance	(16,738)	(17,028)	1.73	(1,422)	(1,294)	(1,323)	(1,169)
Balance of Payments	(156)	(4,823)	2997.74	237	(954)	(748)	(1,380)
Checks Cleared in LBP	21,677	22,133	2.11	1,967	1,875	2,024	1,856
Checks Cleared in FC	46,578	44,436	(4.60)	3952	3,481	3,455	3,046
Total Checks Cleared	68,255	66,569	(2.47)	5,919	5,356	5,479	4,902
Fiscal Deficit/Surplus**	(3,756)	(5,809)	-	(379)	(1,075)	-	-
Primary Balance**	1,428	(490.7)	-	(106)	(89.1)	-	-
Airport Passengers***	8,235,845	8,842,442	7.37	597,768	628,205	677,845	606,761
Consumer Price Index****	4.4	6.07	163bps	5.6	5.8	4.0	3.2

\$bn (unless otherwise mentioned)	Dec-17	Jan-18	Oct-18	Nov-18	Dec-18	Jan-19	% Change*
BdL FX Reserves	35.81	35.25	34.62	33.56	32.51	31.93	(9.41)
In months of Imports	18.57	20.67	20.15	21.85	20.72	22.73	9.97
Public Debt	79.53	80.40	84.04	83.66	85.14	85.32	6.12
Bank Assets	219.86	222.59	242.61	246.51	249.48	248.88	11.81
Bank Deposits (Private Sector)	168.66	169.14	173.25	173.19	174.28	172.11	1.75
Bank Loans to Private Sector	59.69	59.02	59.15	59.21	59.39	58.14	(1.48)
Money Supply M2	52.51	52.88	52.06	51.55	50.96	49.79	(5.84)
Money Supply M3	138.62	138.62	140.24	140.32	141.29	139.59	0.70
LBP Lending Rate (%)	8.09	8.56	9.60	10.15	9.97	10.41	185bps
LBP Deposit Rate (%)	6.41	6.53	7.74	7.97	8.30	8.93	240bps
USD Lending Rate (%)	7.67	7.74	8.30	8.57	8.57	8.89	115bps
USD Deposit Rate (%)	3.89	3.91	4.63	4.90	5.15	5.58	167bps

\*year-on-year \*\* 2018 figures are for first 11 months of the year \*\*\*includes arrivals, departures, transit \*\*\*\*year-on-year percentage change

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"	6.07	(2.25)	50,753	6.42%
Solidere "B"	6.02	(5.49)	26,906	4.14%
Audi Listed	5.00	(7.41)	11,580	21.15%
BLOM GDR	9.12	0.00	10,239	7.13%
Audi GDR	5.00	0.00	6,804	6.34%
Byblos Common	1.33	0.00	5,000	7.96%
Byblos Pref. 09	76.90	9.86	700	1.63%
HOLCIM	15.30	(1.29)	83	3.16%
BLOM Listed	8.90	0.00	-	20.25%
Byblos Pref. 08	76.00	0.00	-	1.61%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
May 2019	6.00	99.13	10.96
Mar 2020	6.38	96.00	10.80
Apr 2021	8.25	93.63	11.81
Oct 2022	6.10	86.13	10.92
Jun 2025	6.25	82.38	10.13
Nov 2026	6.60	81.13	10.20
Feb 2030	6.65	77.50	10.09
Apr 2031	7.00	77.75	10.25
Nov 2035	7.05	77.50	9.82
Mar 2037	7.25	77.75	9.93

Source: Byblos Bank Capital Markets

	Mar 11-15	Mar 4-8	% Change	February 2019	February 2018	% Change
Total shares traded	114,065	980,279	(88.4)	121,955,414	5,480,337	2,125
Total value traded	\$905,439	\$7,400,180	(87.8)	\$569,916,249	\$43,415,304	1,213
Market capitalization	\$9.45bn	\$9.64bn	(1.94)	\$9.34bn	\$11.65bn	(19.8)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Mar 8, 2019	Mar 15, 2019	% Change**
CDS 1-year*	729.5	698.4	(4.3)
CDS 3-year*	783.1	772.0	(1.4)
CDS 5-year*	765.9	746.3	(2.6)

Source: ICE CMA; \*mid-spread in bps \*\*week-on-week

CDX EM 30*	Mar 8, 2019	Mar 15, 2019	% Change***
CDS 5-year**	96.76	97.07	0.3

Source: ICE CMA; \* CDX Emerging Market CDS Index-Series 30

\*\*mid-spread in bps \*\*\*week-on-week

## Remittance inflows to Lebanon up 2% to \$5.5bn in first nine months of 2018

Figures released by Banque du Liban show that expatriates' remittance inflows to Lebanon totaled \$5.46bn in the first nine months of 2018, constituting an increase of 1.8% from \$5.36bn in the same period of 2017. Remittance inflows to Lebanon were unchanged year-on-year at \$1.85bn in the first quarter of 2018, while they increased by 0.6% annually to \$1.76bn in the second quarter, and rose by 4.7% year-on-year to \$1.85bn in the third quarter of 2018. The figures include workers' remittances and the compensation of employees, according to the World Bank's definition of remittances. Banque du Liban's figures are the only official data on remittance flows to and from Lebanon.

In addition, remittance inflows to Lebanon in the first three quarters of 2018 reached their sixth highest level for the first nine months of a year between 2002 and 2018. Remittance inflows to the country averaged \$5.37bn during the first nine months of each year between 2008 and 2018, and reached a high of \$5.58bn in the corresponding period of 2015.

Further, remittance outflows from Lebanon amounted to \$3.63bn in the first nine months of 2018, up by 10.8% from \$3.28bn in the same period of 2017. Remittance outflows totaled \$1.17bn in the first quarter, \$1.2bn in the second quarter and \$1.27bn in the third quarter of 2018. In addition, remittance outflows in the covered period reached their third highest level for the first nine months of a year during the 2002-18 period. They averaged \$3.36bn during the first nine months of each year between 2008 and 2018, with a high of \$4.1bn in the corresponding period of 2009.

As such, net remittance inflows to Lebanon decreased by 12.5% from \$2.1bn in the first nine months of 2017 to \$1.82bn in the first nine months of 2018, their ninth highest level for the first nine months of a year since 2002.

## Lebanon's external debt outperforms emerging markets in February 2019

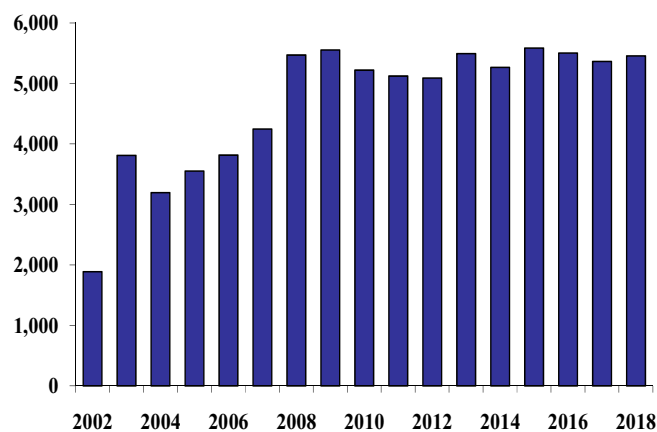
Figures issued by Intercontinental Exchange, Inc. (ICE) indicate that Lebanon's external debt posted a return of 2.93% in February 2019, constituting the sixth highest return among 27 countries in the Middle East & Africa region, as well as among 44 markets in the Central & Eastern Europe and the Middle East & Africa (CEEMEA) region. It also registered the 10<sup>th</sup> highest return among 76 emerging markets included in ICE's External Debt EM Sovereign Index. Lebanon outperformed the emerging markets' return of 0.98% and the 'B'-rated sovereigns' return of 1.85% in February 2019.

Further, Lebanon's external debt posted a return of 7.34% in the first two months of 2019, constituting the 12<sup>th</sup> highest return in the Middle East & Africa region, the 13<sup>th</sup> highest return in the CEEMEA region, as well as the 16<sup>th</sup> highest in emerging markets during the covered period. Lebanon outperformed the overall emerging markets' return of 4.47% during the covered period.

In parallel, ICE indicated that the option-adjusted spread on Lebanese Eurobonds was 690 basis points at the end of February 2019 compared to 793 basis points at end-2018 and 467 basis points at end-February 2018. The spread on Lebanese Eurobonds was the second widest in the CEEMEA region and the fifth widest among emerging markets. It was wider than the emerging markets' overall spread of 265 basis points at the end of February 2019.

Lebanon has a weight of 2.41% on ICE's External Debt EM Sovereign Index, the eighth largest weight in the CEEMEA universe and the 14<sup>th</sup> largest among emerging economies. Lebanon accounted for 4.3% of allocations in the CEEMEA region.

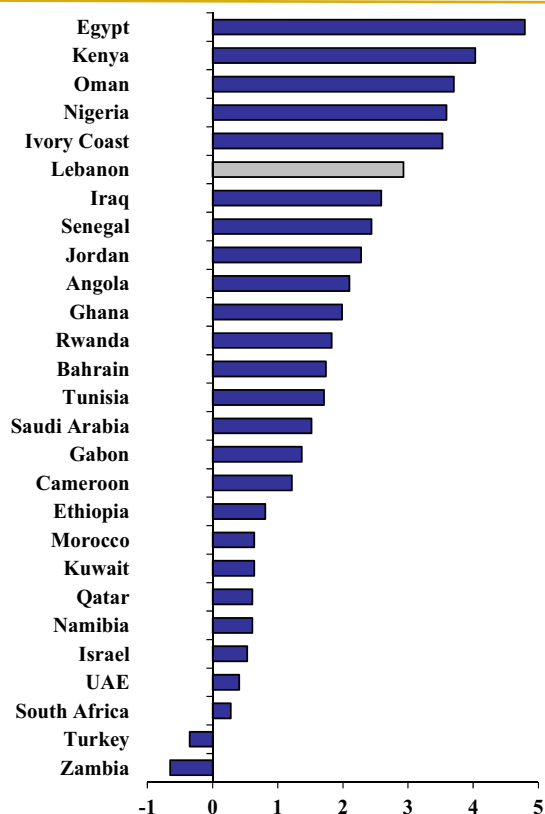
Remittance Inflows to Lebanon\* (US\$m)



\*in the first nine months of each year

Source: Banque du Liban, Byblos Research

External Debt Performance in Middle East & Africa in February 2019 (%)



Source: ICE, Byblos Research

### Lebanese adults are most engaged entrepreneurs in the MENA region

The Global Entrepreneurship Monitor's (GEM) 2018 Adult Population Survey shows that 24.1% of Lebanese adults are actively engaged in starting or running a new business, ranking the country in fourth place among 48 economies globally on the total early-stage entrepreneurial activity (TEA) indicator. Lebanon also came in first place on the indicator among eight Middle East & North African (MENA) economies that are Egypt, Iran, Lebanon, Morocco, Qatar, Saudi Arabia, Turkey and the UAE.

The TEA is GEM's headline indicator that measures entrepreneurial activity, and takes into account nascent entrepreneurs that are actively engaged in starting a business, as well as business owners who are running a new business. The Adult Population Survey provides data and information on entrepreneurship and covers at least 2,000 randomly selected adults between the age of 18 and 64 years.

In addition, the survey indicated that 68.1% Lebanese adults believed that they have the skills, knowledge and experience to run a new business, the second highest percentage in the MENA region behind only Saudi Arabia (83.4%), and the fifth highest percentage globally. In parallel, only 22.4% of adults in Lebanon refrained from starting a business due to the fear of failure, the lowest percentage regionally and the fourth lowest worldwide. Also, the survey showed that 15.3% of Lebanese adults indicated that they are actively engaged in starting or running a business in order to take advantage of a business opportunity, the highest share in the MENA region. Further, 8.8% of adults in Lebanon said they are starting a new business due to their need for an income, which also constitutes the highest share in the region.

In parallel, the survey indicated that 6% of Lebanese adults invested in someone else's start up in the last three years, the fifth highest such ratio in the region. The percentage of Lebanese adults who invested in someone else's start-up was lower than in Saudi Arabia (11.8%), Morocco (10.8%), the UAE (9%) and Iran (7.3%), but higher than in Turkey (5.7%), Qatar (5.3%) and Egypt (2.5%). Also, the average informal investment in start-ups in Lebanon was at around \$19,406 in 2018, which is twice as high as the 2017 level. It was the third highest in the region, behind the UAE (\$75,958) and Qatar (\$66,735). Informal investments exclude funding from banks or other financial institutions, and only consist of investments sourced from relatives, friends and personal connections.

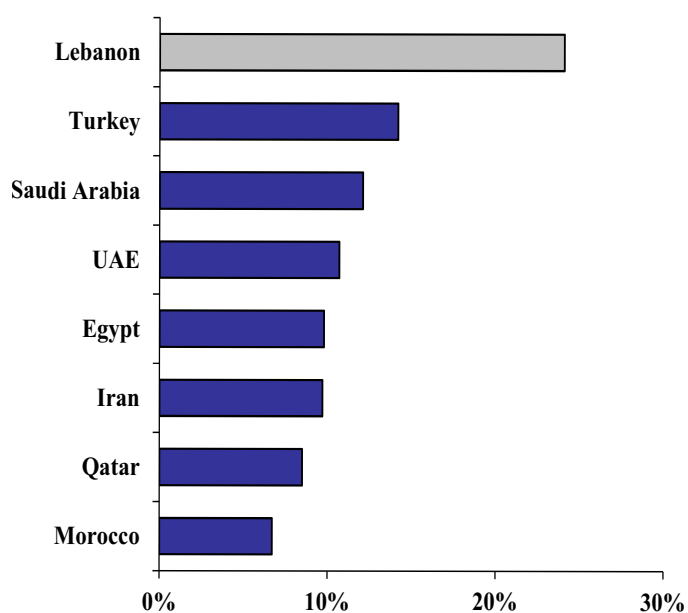
Further, the survey noted that households in higher income brackets in Lebanon are more active in starting or running a new business than those in lower income brackets. In fact, 28.1% of Lebanese households that earn over \$3,600 per month are actively engaged in starting or running a new business, while only 16.9% of households that have a monthly income below \$444 per month are seeking to start or run a business.

In parallel, 58.6% of Lebanese adults are actively engaged in starting or running a business in wholesale or retail services, 20.8% of surveyed participants are seeking a new business in the consumer services industry, 12.7% of respondents are starting or running a new business in the manufacturing and transportation sectors, 4.9% of Lebanese adults are actively seeking a start-up in the business services industry, and 3% of respondents are actively engaged in starting or running a business in the agriculture and mining sectors.

### Association of Banks amends reference rate on US dollar and Lebanese pound lending

The Association of Banks in Lebanon (ABL) recommended to its member banks to increase the Beirut Reference Rate (BRR) in US dollars from 9.29% in March 2019 to 9.52% in April 2019. The rate, considered as the reference rate for lending in foreign currency, replaced the London Interbank Offered Rate (LIBOR) in 2009, as the ABL decided that the LIBOR does not reflect the cost of funding and lending in Lebanon. In addition, the ABL recommended to its member banks to raise the BRR in Lebanese pounds from 12.39% in March 2019 to 13.06% in April 2019. The BRR in US dollars and Lebanese pounds were adopted in March and May 2009, respectively. The ABL considers that the BRR does not replace the Beirut Prime Lending Rate in each currency, but constitutes the basis to calculate the prime rate after adding the cost of liquidity and refinancing, credit risk and the profitability of banks.

Level of Early-Stage Entrepreneurial Activity in MENA Region\* (%)



\*share of adults who are actively engaged in starting or running a new business

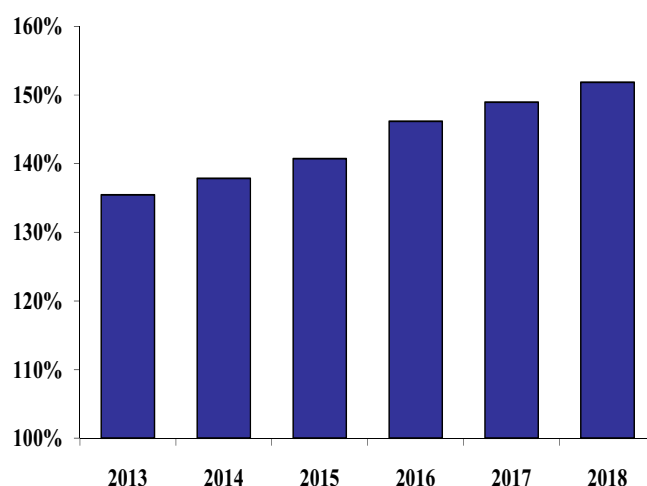
Source: Global Entrepreneurship Monitor



### Gross public debt at \$85.3bn at end-January 2019

Lebanon's gross public debt reached \$85.3bn at the end of January 2019, constituting a marginal increase of 0.2% from \$85.1bn at the end of 2018 and a rise of 6.1% from \$80.4bn at end-January 2018. In nominal terms, the gross public debt grew by \$179m in January 2019 relative to an increase of \$866m in the same month of 2018. Debt denominated in Lebanese pounds totaled \$51.7bn at end-January 2019, nearly unchanged from the end of 2018 and up by 3.7% from end-January 2018; while debt denominated in foreign currency stood at \$33.6bn, constituting a growth of 0.4% from end-2018 and a rise of 10% from end-January 2018. 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 from January 2018. Local currency debt accounted for 60.6% of the gross public debt at the end of January 2019 compared to 62% a year earlier, while foreign currency-denominated debt represented the balance of 39.4% relative to 38% at end-January 2018. The weighted interest rate on outstanding Treasury bills was 6.15% and that on Eurobonds was 6.81% in January 2019. Further, the weighted life on Eurobonds was 7.74 years, while it was 1,623 days on Treasury bills.

Lebanon's Gross Public Debt (% of GDP)



Source: Ministry of Finance, Central Administration of Statistics, Institute of International Finance

Commercial banks held 39.2% of the public debt as at end-January 2019 relative to 38.6% of the total at end-January 2018. BdL held 50.3% of the Lebanese pound-denominated public debt at the end of January 2019 compared to 50.4% a year earlier, while commercial banks held 35% of the local debt compared to 35.2% at end-January 2018. Also, public agencies, financial institutions and the public held 14.7% of the local debt at end-January 2019, relative to 14.5% at end-January 2018. Further, holders of Eurobonds and special T-bills in foreign currencies accounted for 93.7% of foreign currency-denominated debt holders at the end of January 2019, followed by multilateral institutions with 4.1% and foreign governments with 2.2%. In addition, the net public debt, which excludes public sector deposits at BdL and at commercial banks from overall debt figures, grew by 9.2% annually to \$76bn at end-January 2019. Further, the gross market debt accounted for about 59.4% of the 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.

### Finance Ministry launches twinning project to modernize land registry and cadastre

The Ministry of Finance, in partnership with the General Directorate of Public Finance in France, launched a project to support and modernize the activities of the General Directorate of Land Registration and Cadastre (LRC) in Lebanon. The project will be financed by a €1.2m grant from the Fund for Technical Expertise and Experience Transfers (FEXTE) of the French Development Agency (AFD). The General Directorate of Public Finance in France will supervise the project's implementation. The initiative falls within the scope of the LRC's strategic plan to provide best practices and procedures for the real estate sector. Further, the project will include several visits by French experts in real estate registration, cadastre, information technology and legislation. The partnership follows four similar twinning projects that the Ministry of Finance implemented with its French counterpart between 2009 and 2015.

The French-Lebanese real estate twinning project aims to achieve four objectives for the development of the LRC's activities. The first objective is to modernize real estate laws and other regulations that are related to the management of property rights. The second objective is to improve the governance as well as the organizational and institutional development of the LRC. The third objective is to enhance the services that are offered to citizens in terms of real estate registration, specifically those related to real estate registration conducted by public notaries. The fourth objective is to update LRC's data collection methods and to include the data in its information system to enhance the decision-making process.

### Value of cleared checks down 12%, returned checks up 4% in first two months of 2019

The value of cleared checks reached \$9.76bn in the first two months of 2019, constituting a decline of 12% from \$11.1bn in the same period of 2018. In comparison, the value of cleared checks increased by 1.4% annually in the first two months of 2018 and decreased by 3.3% year-on-year in the same period of 2017. The value of cleared checks in Lebanese pounds regressed by 0.4% year-on-year to the equivalent of \$3.6bn in the first two months of 2019, while the value of cleared checks in US dollars declined by 17.7% to \$6.1bn in the covered period. The dollarization rate of cleared checks regressed from 67% in the first two months of 2018 to 62.7% in the same period of 2019. There were 1.7 million cleared checks in the first two months of 2019, down by 11% from 1.9 million in the same period of 2018.

In parallel, the value of returned checks in domestic and foreign currencies was \$245m in the first two months of 2019 compared to \$235m in the same period of 2018 and to \$200m in the first two months of 2017. This constituted a year-on-year increase of 4% in the first two months of 2019 relative to an annual rise of 17.7% in the same period of 2018 and a year-on-year decrease of 14.5% in the first two months of 2017. Also, there were 44,710 returned checks in the first two months of 2019, up by 8.3% from 41,287 returned checks in the same period of 2018.

## Beirut ranks 184<sup>th</sup> worldwide, 14<sup>th</sup> in Arab world in quality of living

The 2019 Mercer survey on the quality of living around the world ranked Beirut as the 184<sup>th</sup> most desirable city for overall living standards among 231 cities worldwide and in 14<sup>th</sup> place among 22 cities in the Arab world. Also, Beirut ranked in 48<sup>th</sup> place among 57 cities in upper middle-income countries (UMICs) included in the survey. In comparison, Beirut ranked in 181<sup>st</sup> place globally and in 14<sup>th</sup> place regionally in the 2018 survey. Based on the 221 cities that were included in both the 2010 and 2019 surveys, Beirut came in 174<sup>th</sup> place globally in 2019 and regressed by two spots from 172<sup>nd</sup> place in the 2010 survey. It was among 76 cities whose rank regressed, while the rankings of 117 cities improved and those of 28 cities were unchanged between 2010 and 2019.

The survey evaluates the cities on the basis of 39 key quality-of-living determinants grouped in 10 categories that consist of political, economic and socio-cultural factors, in addition to healthcare & sanitation, schools & education, public services & transportation, recreation, consumer goods, housing, and the natural environment.

On a global basis, the quality of living in Beirut is better than in Algiers, Nairobi in Kenya and Tbilisi in Georgia, and is less appealing than in Blantyre in Malawi, Cotonou in Benin and Maputo in Mozambique. Also, Beirut's quality of living is better than in Algiers, Minsk in Belarus and Havana in Cuba, and is less appealing than in Russia's Saint Petersburg, Albania's capital Tirana and Almaty in Kazakhstan among UMICs.

Vienna has the highest quality of living in the world and Dubai remains the city with the best living standards in the Arab world, while the survey considered Baghdad to be the world's least appealing city in terms of living conditions. Mercer conducts the survey annually to help multinational companies assess international hardship allowances and incentives for their expatriate workers. It collected the data for the survey between September and November 2018 and regularly updates it to take into account the changing circumstances. Mercer is a global consulting firm in human resources and related financial advice, products and services.

Quality of Living Rankings in 2019			
City	Arab Rank	Global Rank	Change in Rank*
Dubai	1	74	-
Abu Dhabi	2	78	-1
Muscat	3	105	-
Doha	4	110	-
Tunis	5	114	-
Rabat	6	117	-
Amman	7	120	-1
Casablanca	8	124	-
Kuwait City	9	126	-
Manama	10	136	-
Riyadh	11	164	+1
Jeddah	12	168	-
Cairo	13	177	+1
<b>Beirut</b>	<b>14</b>	<b>184</b>	<b>-3</b>
Algiers	15	185	-1
Djibouti	16	189	+1
Tripoli	17	218	-
Nouakchott	18	221	-
Damascus	19	225	-
Khartoum	20	227	-
Sana'a	21	229	-
Baghdad	22	231	-

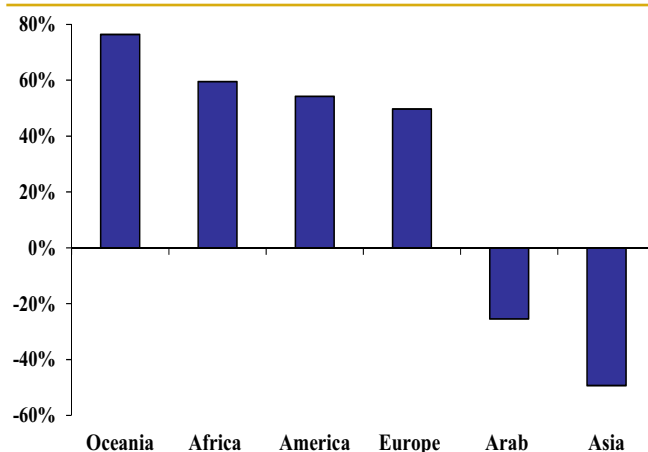
\*year-on-year; (+) denotes improvement in rank  
Source: Mercer 2019, Byblos Research

## Tourist arrivals up 4% in first two months of 2019

The number of incoming visitors to Lebanon totaled 231,055 in the first two months of 2019, constituting an increase of 4.2% from 221,695 tourists in the same period of 2018 and a decline of 1.6% from 234,801 visitors in the first two months of 2010, the record year for tourism activity in Lebanon. Also, the number of incoming visitors reached 118,175 in February 2019, up by 4.7% from 112,880 in January 2019 and by 3% from 114,692 in February 2018. Visitors from Arab countries accounted for 36.6% of the total in the first two months of 2019, followed by those from European economies with 34.7%, the Americas with 13.9%, Asia with 8.3%, Oceania with 3.4% and Africa with 3%. Further, tourists from Iraq accounted for 12.4% of total visitors in the covered period, followed by visitors from France (8.6%), the U.S. (7.1%), Egypt (6.8%), Jordan (5.2%), Canada (4.4%), Saudi Arabia (4.3%), England and Germany (3.9% each).

In parallel, the number of visitors from Oceania increased by 23.1% year-on-year in the first two months of 2019, followed by those from the Arab region (+11.2%), Asia (+7.2%), Europe (+5.7%), and the Americas (+4.7%), while the number of visitors from Africa regressed by 53% year-on-year. On a country basis, the number of tourists from Saudi Arabia grew by 67.1% year-on-year in the covered period, followed by visitors from Kuwait (+53.2%), Turkey and the UAE (+18.8% each), Egypt (+17.6%), Brazil (+15.1%), Sweden (+12.8%), England (+8.7%), the U.S. (+6.2%), Italy (+5.8%), Jordan (+5.5%), Germany (+2.8%), and Canada (+1.4%). In contrast, the number of visitors from Venezuela dropped by 14% year-on-year in the first two months of 2019, followed by visitors from Iraq (-12%), and France (-1.1%). The increase in the number of Arab visitors is due in large part to the Fourth Arab Economic and Social Development Summit that was held in Beirut in January 2019.

## Change in the Number of Tourist Arrivals from Main Sources in First Two Months of 2019\*



\*from the same period of 2010  
Source: Ministry of Tourism, Byblos Research

### Trade deficit down 18% to \$1.2bn in January 2019

Total imports reached \$1.4bn in January 2019, constituting a decline of 17.6% from \$1.7bn in the same month of 2018; while aggregate exports fell by 16.7% year-on-year to \$235.7m in the covered month. As such, the trade deficit narrowed by 17.8% to \$1.17bn in January 2019 due to a drop of \$300.5m in imports and a decline of \$47.3m in exports in the covered month.

The decrease in imports during January 2019 was mainly due to a drop of \$288.1m, or 20.2%, in imported non-hydrocarbon products, and to a decline of \$12.4m, or 4.5%, in the imports of mineral products. Imported oil & mineral fuels reached \$263.9m in January 2019 and accounted for 18.8% of total imports in the covered month.

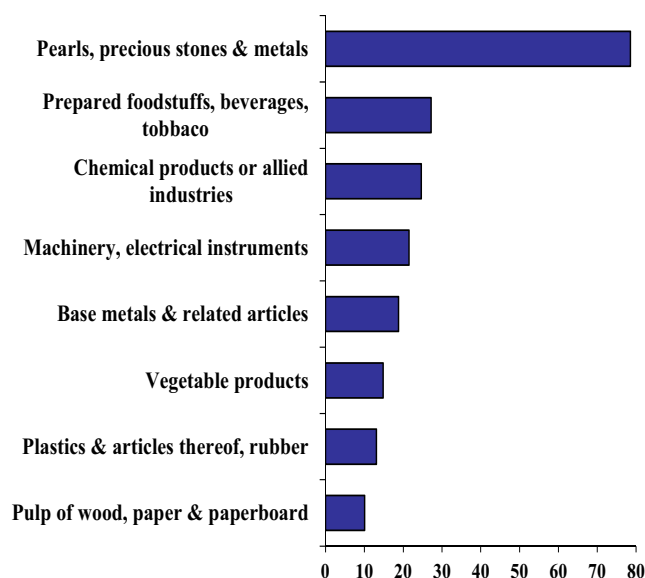
In addition, the decline in exports in January 2019 was mainly due to a drop of \$32.1m, or 29%, in the exports of jewelry; a decrease of \$19.6m, or 51.1%, in exported base metals; a decline of \$2.8m, or 10.3%, in exported chemical products; and a decrease of \$2.7m, or 11%, in the exports of machinery & mechanical appliances. They were partly offset by a rise of \$2.2m, or 101.5%, in exported mineral products; an increase of \$1.71m, or 13.1%, in the exports of vegetable products; a growth of \$1.49m, or 17.4%, in exported wood, paper & paperboard; and an increase of \$1.47m, or 12.7%, in the exports of plastics & rubber.

Further, exported goods to Egypt surged by 71.2% year-on-year in January 2019, those to the UAE jumped by 56%, exports to Syria expanded by 33%, those to Qatar increased by 23.1% and exports to Saudi Arabia grew by 8.1%. In contrast, exported goods to South Africa dropped by 58.2%, those to Switzerland fell by 42%, and exports to Iraq decreased by 31.7% year-on-year in the covered month. Re-exports totaled \$27.6m in January 2019 compared to \$41.2m in January 2018. Also, the Hariri International Airport was the exit point for 43.2% of Lebanon's exports in January 2019, followed by the Port of Beirut (42.5%), the Masnaa crossing point (6.7%), the Port of Tripoli (5.3%), the Abboudieh crossing point (1.3%), the Arida crossing point (0.6%) and the Port of Saida (0.3%).

In parallel, Lebanon's main non-hydrocarbon imports were machinery & mechanical appliances that reached \$183.4m in January 2019 and fell by 24.4% from January 2018. Imported chemical products followed at \$169.2m (-12.7%), then prepared foodstuff at \$110.2m (-1.1%), vehicles, aircraft & vessels at \$109m (-16.8%), vegetable products at \$97.8m (-12.8%), jewelry, mostly gold bars, at \$79.6m (-42%), base metals at \$78.2m (-40%), plastics and rubber at \$58m (-5.3%), as well as animal products at \$53.6m (-23%). The Port of Beirut was the entry point for 69.5% of Lebanon's merchandise imports in January 2019, followed by the Hariri International Airport (22%), the Port of Tripoli (6.1%), the Port of Saida (1.4%), and the Masnaa crossing point (0.8%).

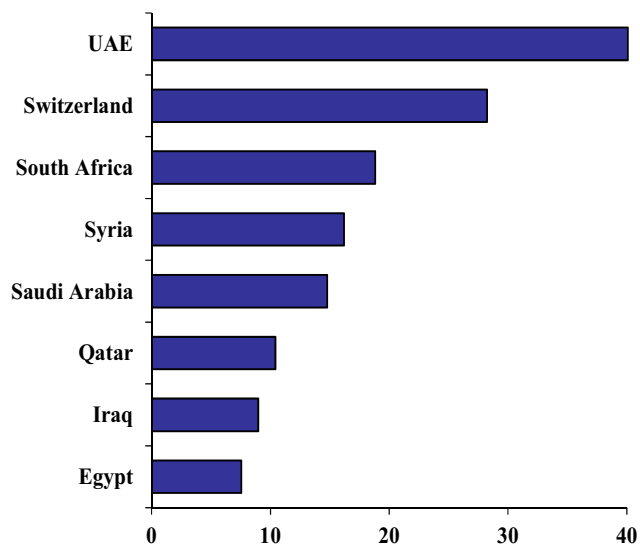
China was the main source of imports with \$153.7m, or 11% of the total, in January 2019, followed by Italy with \$107.5m (7.7%), Greece with \$99.4m (7.1%), Germany with \$87.2m (6.2%), the U.S. with \$76.3m (5.4%), Russia with \$67.8m (4.8%), and Turkey with \$61.4m (4.4%). Imported goods from Russia expanded by 14.7% and those from Turkey increased by 14.4% year-on-year in January 2019. In contrast, imported goods from China dropped by 37.8%, those from Italy fell by 30.8%, imports from Greece decreased by 25.2%, those from Germany declined by 14%, and imported goods from the U.S. decreased by 5.9% year-on-year in January 2019.

### Main Lebanese Exports in January 2019 (US\$m)



Source: Lebanese Customs Administration, Byblos Research

### Main Destinations of Lebanese Exports in January 2019 (US\$m)



Source: Lebanese Customs Administration, Byblos Research

### Healthcare spending at 7.4% of GDP in 2015

The national accounts for the healthcare sector published by the Ministry of Public Health, with the support of the World Health Organization, show that healthcare expenditures in Lebanon stood at LBP5,582bn, or \$3.7bn, in 2015, which is equivalent to 7.4% of GDP. In comparison, healthcare spending totaled LBP4,648bn, or \$3.1bn, in 2012, and was equivalent to 7.2% of GDP. The national accounts for healthcare cover the structure and components of healthcare expenditures and the sources of funding.

On the expenditures side, out-of-pocket household spending on healthcare reached \$1.2bn in 2015, or 32.7% of total healthcare expenditures in the country. The National Social Security Fund followed with \$690m in healthcare spending (18.6% of the total), then private insurance companies with \$568m (15.3%) and the Ministry of Public Health with \$445.5m (12%). Further, the Lebanese Army's spending on healthcare amounted to \$220m, or 5.9% of the total, followed by the Civil Servants Cooperative with \$136.2m (3.7%), international organizations with \$120m and private mutual funds with \$118m (3.2% each), the Internal Security Forces with \$93.4m (2.5%), public mutual funds with \$67.4m (1.8%), the General Directorate of General Security with \$21m (0.6%), and Customs with \$6.3m and the Lebanese State Security with \$6m (0.2% each).

The breakdown of funding sources shows that households financed \$1.8bn, or 48.8% of total healthcare spending in Lebanon, in 2015. Households contributed to the NSSF, the private insurance companies, the Civil Servants Cooperative, and the private and public mutual funds, as well as made direct payments to healthcare providers. Also, the Treasury financed \$1.12bn, or 30.3% of healthcare expenditures, in 2015, followed by employers' contributions to the NSSF and to private insurers with \$654.4m (17.7%), and extra-budgetary donations and loans with \$120m (3.2%). The extra-budgetary donations and loans consisted of public investments in medical buildings and for equipping new hospitals and healthcare centers.

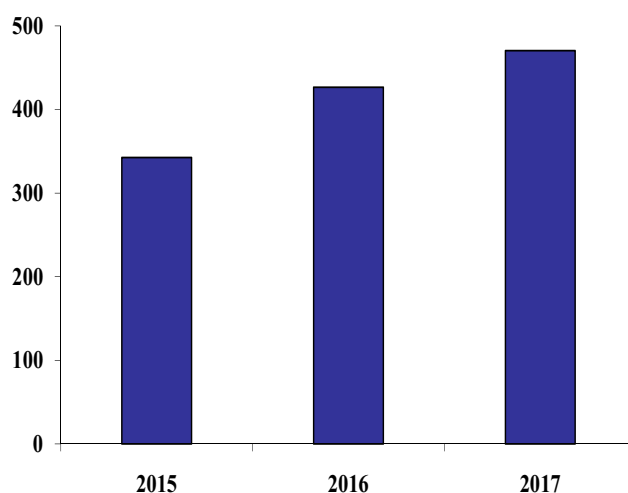
In parallel, figures published by the Ministry of Public Health show that the ministry's 2017 budget stood at \$470m, which represented 3% of the government's annual budget, and was equivalent to \$110 per capita. The ministry signed contracts with 117 private hospitals and 30 public hospitals across Lebanon in 2017. It also subsidized the admission of 143,322 patients to private hospitals, and of 84,985 patients to public hospitals.

### Treasury transfers to Electricité du Liban up 41% to \$1.6bn in first 11 months of 2018

Figures released by the Finance Ministry show that Treasury transfers to Electricité du Liban (EdL) totaled \$1.63bn in the first 11 months of 2018, constituting an increase of 41.4% from \$1.15bn in the same period of 2017. Reimbursements for the purchase of natural gas, fuel and gas oil totaled \$1.61bn, or 98.9% of transfers, in the covered period, and transfers to Electricity Syria reached \$12.7m, or 0.8% of the total, while EdL's debt servicing represented the balance of \$6m, or 0.4% of the transfers. The ministry attributed the rise in transfers mainly to an increase of \$514.4m in reimbursements for the purchase of natural gas, fuel and gas oil, which mostly consist of payments to the Kuwait Petroleum Corporation and to the Algerian energy conglomerate Sonatrach. Reimbursements grew by 47% from \$1.1bn in the first 11 months of 2017, while debt servicing declined by 38.4% from \$9.7m and transfers to Electricity Syria decreased by 72.9% from \$46.8m in the same period of 2017.

The ministry said that the rise in payments to KPC and Sonatrach was due to a 36.5% year-on-year rise in oil prices at the time the oil contracts were executed, and a growth of 12.2% in the quantity of imported gas oil, as well as to an increase of 5.6% in the quantity of imported fuel oil. Also, it pointed out that EdL contributed 0.3% of the repayments to the two oil suppliers in the first 11 months of 2018, down from 2.2% in the same period of 2017. Treasury transfers to EdL accounted for 14.5% of budgetary primary expenditures in the covered period compared to 13% in the first 11 months of 2017. They constituted the third largest expenditures item in overall fiscal spending after public sector salaries & wages and debt servicing. EdL transfers were equivalent to 5.1% of GDP in 2012, 4.3% of GDP in each of 2013 and 2014, 2.3% of GDP in 2015, 1.8% of GDP in 2016 and 2.5% of GDP in 2017.

### Annual Budget of the Ministry of Public Health (US\$m)



Source: Ministry of Public Health, World Health Organization



### New car sales down 21% in first two months of 2019

Figures released by the Association of Automobile Importers in Lebanon show that dealers sold 3,743 new passenger cars in the first two months of 2019, constituting a decline of 21.1% from 4,745 cars sold in the same period of 2018. Individuals and institutional clients purchased 1,837 new cars in January and 1,906 new vehicles in February 2019.

Japanese cars accounted for 42.5% of total car sales in the first two months of 2019, followed by Korean vehicles with a 22.1% share, European automobiles (21.6%), American cars (9.6%) and Chinese vehicles (4.1%). The sales of new American cars grew by 20.1% and the number of Chinese vehicles sold increased by 15% year-on-year in the covered period. In contrast, demand for Korean vehicles dropped by 41.5%, the sales of European automobiles decreased by 22.7% and demand for Japanese automobiles regressed by 14% year-on-year in the first two months of 2019.

Kia is the leading brand in the Lebanese market with 528 passenger vehicles sold in the first two months of 2019, followed by Nissan with 503 new cars sold, Toyota (422), Hyundai (300) and Suzuki (244). In parallel, car dealers sold 223 new commercial vehicles in the first two months of 2019, down by 33.2% from 334 commercial vehicles purchased in the same period of 2018. Overall, car dealers sold 3,966 new passenger cars and commercial vehicles in the covered period, down by 22% from 5,079 cars sold in the first two months of 2018.

Further, Lebanon's top five car distributors sold 2,292 vehicles in the first two months of 2019 and accounted for 57.8% of new auto sales. In comparison, they sold 3,148 cars in the first two months of 2018 that represented 62% of total car sales. Rasamny Younis Motor Co. sal sold 677 vehicles in the first two months of 2019, equivalent to 17.1% of the total, followed by NATCO sal with 528 automobiles (13.3%), Boustany United Machineries sal with 473 cars (11.9%), Bassoul Heneiné sal with 310 vehicles (7.8%) and Century Motor Co. sal with 304 cars (7.7%).

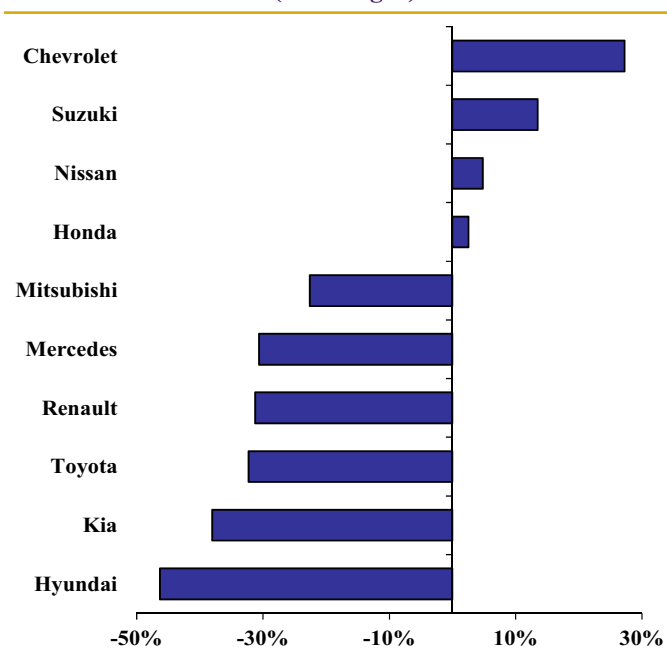
### CMA CGM posts net profits of \$68m in 2018

The Lebanese-owned and France-based container-shipping firm CMA CGM declared consolidated net profits of \$68.3m in 2018 relative to net earnings of \$730.7m in 2017. It attributed the decline in income to the increase in operating expenses that was higher than the growth in revenues. The firm's core earnings before interest and taxes (EBIT), excluding disposals and impairment charges, reached \$610.4m in 2018 relative to \$1.6bn in 2017. Further, the company's revenues grew by 11.2% to a record level of \$23.5bn in 2018, mainly due to a 12.1% increase in the firm's container shipping segment and a continued expansion in transported volumes. CMA CGM indicated that it transported 20.71 million twenty-foot equivalent units (TEUs) last year, up by 9.3% from 18.95 million TEUs in 2017. In parallel, the firm's operating expenditures rose by 17.5% to \$22.3bn in 2018 due to the increase in bunker prices and of some operating costs such as handling, logistics and transportation expenses.

Further, the firm's consolidated assets reached \$20.3bn at the end of 2018, up by 7.5% from \$18.9bn at end-2017. The value of the company's property and equipment increased by 1.2% from end-2017 to \$10.2bn at the end of 2018, with vessels accounting for \$8.8bn or 86.1% of the total, followed by containers at \$485.6m (4.7%) and land & buildings at \$448m (4.4%), while other properties & equipment reached \$485.4m (4.7%). Also, its return on invested capital, which measures how well the company is using its money to generate returns, regressed from 12.1% in the fourth quarter of 2017 to 2.8% in the fourth quarter of 2018.

CMA CGM is one of the largest container shipping companies in the world and operates a fleet of 509 vessels, with a capacity of 2.71 million TEUs that serves over 420 commercial ports. In November 2018, Moody's Investors Service affirmed CMA CGM's corporate family rating at 'B1', its probability of default rating at 'B1-PD' and its senior unsecured bond ratings at 'B3'. Also, the agency revised the outlook on all the ratings from 'positive' to 'negative' following the firm's announcement on October 25, 2018 of its intention to make a tender offer to acquire supply chain management company CEVA logistics AG. In parallel, S&P Global Ratings affirmed in November 2018 CMA CGM's long-term issuer rating at 'B+' with a 'positive' outlook.

Sales of Top 10 Car Brands in first two months of 2019 (% change\*)



\*from the same period of 2018

Source: AIA, Byblos Research

### **Kafalat loan guarantees down 77% to \$2.3m in first two months of 2019**

Figures released by the Kafalat Corporation show that loans extended to small- and medium-sized enterprises (SMEs) under the guarantee of Kafalat reached \$2.34m in the first two months of 2019, constituting a decrease of 76.7% from \$10.1m in the same period of 2018. Kafalat provided 19 loan guarantees in the first two months of the year, down by 74.3% from 74 guarantees in the first two months of 2018. The average loan size was \$123,384 in the first two months of 2019 compared to \$136,064 in the same period of 2018. Mount Lebanon accounted for 52.6% of the total number of guarantees in the first two months of 2019, followed by the Bekaa with 15.8%, Beirut and the South with 10.5% each, and Nabatieh and the North with 5.3% each. Also, the industrial sector accounted for 42.1% of the total number of guarantees in the covered period, followed by the tourism sector with 26.3%, the agricultural sector with 21.1%, and the handicraft sector and specialized technologies with 5.3% each.

Kafalat is a state-sponsored organization that provides financial guarantees for loans earmarked for the setup and expansion of SMEs in productive sectors. It offers various financial products for SMEs in industry, agriculture, tourism, high technology, crafts and energy sectors. It guarantees up to 90% of the loan amount and a similar percentage of the accrued interest. The Ministry of Finance subsidizes interest rates and Banque du Liban administers the subsidies. The National Institute for the Guarantee of Deposits holds a 75% stake in Kafalat, while the remaining 25% is held by 50 Lebanese banks.

### **MetLife's financial strength rating affirmed**

S&P Global Ratings affirmed the financial strength ratings of MetLife Inc.'s (MET) core operating entities at 'AA-' and the long-term issuer credit rating of the holding company at 'A-'. It also upgraded the debt rating of MET's Series C preferred shares from 'BBB-' to 'BBB'. It maintained a 'stable' outlook on the ratings. MetLife is a global provider of insurance, annuities and employee benefits programs, and owns the American Life Insurance Company (ALICO). MetLife Alico is the largest provider of life insurance products in Lebanon.

The agency indicated that the rating affirmation reflects MET's improved operating performance in 2018, with a reported net income of \$5bn last year relative to about \$4bn in 2017, as well as a reported adjusted return on common stockholders' equity of about 11% in 2018 compared to 7% in 2017. It expected the company's operating performance to stabilize as it focuses its operations into less-capital-intensive businesses. It also anticipated the new management's policy direction to shift away from de-risking activities, and considered that the company should balance business growth prospects with its current risk profile.

Further, the agency noted that the 'stable' outlook on the ratings reflects the expectations that MET will maintain its very strong competitive position and consolidated capitalization at the 'AA' level. It added that it could downgrade the ratings in case of a deterioration in the company's capitalization due to an increase in capital-intensive liabilities or riskier investments, among others; the erosion in the company's competitive position; or a deterioration in risk management to a level that does not support the rating. In contrast, it said that it could upgrade the ratings in the long term if the holding company maintains a geographically diversified earnings profile, strong liquidity vis-à-vis its fixed-charge requirements, and in case of an improvement in the company's fixed-charge coverage.

*Al-Bayan* magazine's annual survey of the insurance sector in Lebanon ranked MetLife Alico in first and 11<sup>th</sup> places in 2017 in terms of life and non-life premiums, respectively. The firm's life premiums in Lebanon reached \$88.1m and its non-life premiums amounted to \$34.6m in 2017. It had a 17% share of the life market and a 3.1% share of the local non-life market in 2017. Overall, MetLife Alico had a 7.5% market share of the Lebanese insurance market in 2017, ranking it in second place in terms of life and non-life premiums.



## Ratio Highlights

(in % unless specified)	2016	2017	2018	Change*
Nominal GDP (\$bn)	51.2	53.4	56.1	
Public Debt in Foreign Currency / GDP	54.9	56.9	59.7	2.82
Public Debt in Local Currency / GDP	91.3	92.0	92.1	0.10
Gross Public Debt / GDP	146.2	149.0	151.9	2.92
Total Gross External Debt / GDP**	182.6	182.4	183.3	0.90
Trade Balance / GDP	(31.5)	(31.3)	(30.4)	1.11
Exports / Imports	15.6	14.5	14.8	0.25
Fiscal Revenues / GDP	19.4	21.8	21.2	(0.57)
Fiscal Expenditures / GDP	29.0	28.8	32.1	3.29
Fiscal Balance / GDP	(9.6)	(7.0)	(11.0)	(3.97)
Primary Balance / GDP	0.04	2.7	(0.5)	-
Gross Foreign Currency Reserves / M2	62.2	68.2	63.8	(4.39)
M3 / GDP	259.2	259.6	252.1	(7.55)
Commercial Banks Assets / GDP	398.7	411.8	445.1	33.32
Private Sector Deposits / GDP	317.1	315.9	310.9	(4.97)
Private Sector Loans / GDP***	111.6	111.8	105.9	(5.84)
Private Sector Deposits Dollarization Rate	65.8	68.7	70.6	1.90
Private Sector Lending Dollarization Rate	72.6	68.6	69.2	0.57

\*change in percentage points 18/17

\*\*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 \*\*\* in January 2018, Lebanese banks started reporting their financials based on international accounting standard IFRS 9, and revised the 2017 figures accordingly

Source: Association of Banks in Lebanon, Institute of International Finance, 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	Feb 2017	Jan 2018	Feb 2018	Change**	Risk Level
Political Risk Rating	56.5	55.0	55.0	▲	High
Financial Risk Rating	33.0	33.0	33.0	➔	Moderate
Economic Risk Rating	27.5	28.5	28.5	▼	High
Composite Risk Rating	58.5	58.25	58.25	▲	High

MENA Average*	Feb 2017	Jan 2018	Feb 2018	Change**	Risk Level
Political Risk Rating	57.9	58.2	58.2	▼	High
Financial Risk Rating	38.3	38.4	37.9	▲	Low
Economic Risk Rating	29.6	31.1	31.4	▼	Moderate
Composite Risk Rating	62.9	63.8	63.8	▼	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 Investors Service	Caa1	NP	Stable	Caa1		Stable
Fitch Ratings	B-	B	Negative	B-		Negative
S&P Global Ratings	B-	B	Negative	B-	B	Negative
Capital Intelligence Ratings	B	B	Negative	B	B	Negative

Source: Rating agencies

### Banking Ratings

Banking Ratings	Outlook
Moody's	Stable

Source: Moody's Investors Service



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