Issue 582 | May 6-11, 2019

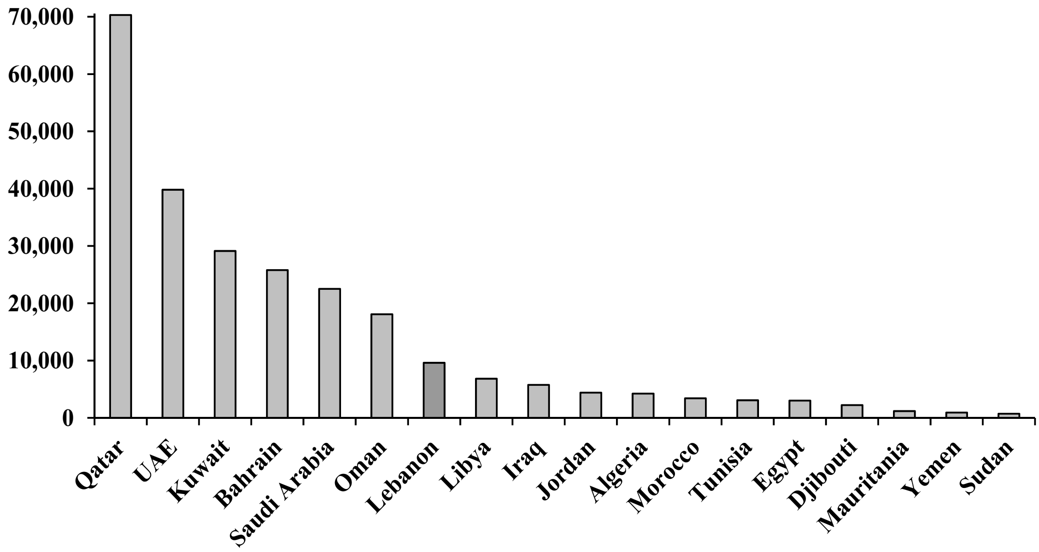
BYBLOS BANK SAL
Economic Research & Analysis Department

LEBANON THIS WEEK

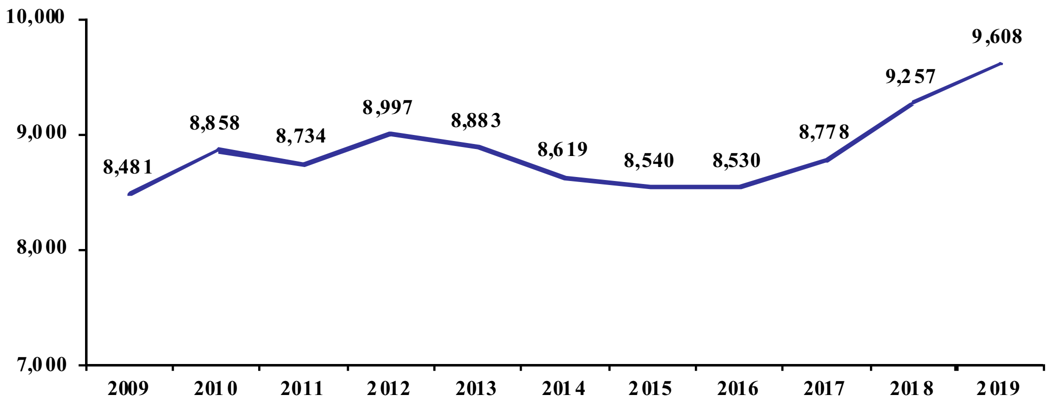
In This Issue

Charts of the Week

Projected GDP per Capita of Arab Countries in 2019*



GDP per Capita in Lebanon*



**in US dollars at current prices*
Source: International Monetary Fund - April 2019, Byblos Research

Quote to Note

"The successful delivery of major reforms by the new government would ultimately lift the Lebanese economy's growth outlook and narrow the government's fiscal deficit."

Moody's Investors Service, on the benefits of implementing in-depth and credible structural reforms

Number of the Week

53%: Percentage of outstanding Lebanese pound-denominated Treasury bonds that have a maturity of seven years or longer as at March 2019, according to the Association of Banks in Lebanon

Lebanon in the News

$m (unless otherwise mentioned)	2018	Jan-Feb 2018	Jan-Feb 2019	% Change*	Feb-18	Jan-19	Feb-19
Exports	2,952	531	536	0.94	248	236	300
Imports	19,980	3,140	2,769	(11.82)	1,435	1,405	1,364
Trade Balance	(17,028)	(2,609)	(2,233)	(14.41)	(1,187)	(1,169)	(1,064)
Balance of Payments	(4,823)	165	(1,930)	(1267.8)	(72)	(1,380)	(550)
Checks Cleared in LBP	22,133	3,653	3,638	(0.42)	1,686	1,856	1,782
Checks Cleared in FC	44,429	7,431	6,117	(17.68)	3,479	3,045	3,072
Total Checks Cleared	66,562	11,084	9,755	(11.98)	5,165	4,901	4,854
Fiscal Deficit/Surplus**	(5,809)	(865)	-	-	(486)	-	-
Primary Balance**	(491)	(330)	-	-	(223)	-	-
Airport Passengers***	8,842,442	1,102,742	1,131,577	2.61	504,974	607,014	524,563
Consumer Price Index****	6.1	5.4	3.2	(221bps)	5.2	3.2	3.1

$bn (unless otherwise mentioned)	Dec-17	Feb-18	Nov-18	Dec-18	Jan-19	Feb-19	% Change*
BdL FX Reserves	35.81	34.39	33.56	32.51	31.93	31.27	(9.06)
In months of Imports	18.57	23.96	21.84	20.72	22.73	22.93	(4.33)
Public Debt	79.53	81.53	83.66	85.14	85.32	85.25	4.55
Bank Assets	219.86	223.07	246.51	249.48	248.88	250.24	12.18
Bank Deposits (Private Sector)	168.66	170.45	173.19	174.28	172.11	171.97	0.89
Bank Loans to Private Sector	59.69	59.03	59.21	59.39	58.14	57.38	(2.78)
Money Supply M2	52.51	53.44	51.55	50.96	49.79	50.23	(6.01)
Money Supply M3	138.62	139.34	140.32	141.29	139.59	139.86	0.37
LBP Lending Rate (%)	8.09	8.67	10.15	9.97	10.41	10.55	188bps
LBP Deposit Rate (%)	6.41	6.51	7.97	8.30	8.93	9.16	265bps
USD Lending Rate (%)	7.67	7.90	8.57	8.57	8.89	8.91	101bps
USD Deposit Rate (%)	3.89	3.96	4.90	5.15	5.58	5.62	166bps

**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
Audi GDR	4.30	(4.02)	114,985	5.97%
Byblos Common	1.26	2.44	114,222	8.25%
Solidere "A"	5.00	(11.50)	77,502	5.79%
BLOM Listed	8.10	(4.71)	60,000	20.17%
Audi Listed	4.44	(5.53)	47,419	20.56%
Solidere "B"	4.96	(9.82)	29,951	3.73%
BLOM GDR	8.00	(3.50)	15,775	6.85%
HOLCIM	14.50	1.75	1,000	3.28%
Byblos Pref. 09	72.00	(8.80)	600	1.67%
Byblos Pref. 08	70.00	0.00	-	1.62%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
May 2019	6.00	99.50	30.98
Mar 2020	6.38	97.38	9.75
Apr 2021	8.25	96.13	10.53
Oct 2022	6.10	87.13	10.73
Jun 2025	6.25	81.50	10.43
Nov 2026	6.60	80.63	10.37
Feb 2030	6.65	77.25	10.17
Apr 2031	7.00	77.38	10.34
Nov 2035	7.05	77.13	9.89
Mar 2037	7.25	77.50	9.97

Source: Byblos Bank Capital Markets

	May 8-10	Apr 30-May 3	% Change	April 2019	April 2018	% Change
Total shares traded	463,454	230,251	101.3	689,768	3,491,466	(80.2)
Total value traded	$2,229,910	$1,399,468	59.3	$4,931,247	$19,769,834	(75.1)
Market capitalization	$8.63bn	$8.96bn	(3.66)	$9.02bn	$11.23bn	(19.7)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	May 3, 2019	May 10, 2019	% Change**
CDS 1-year*	740.23	804.87	8.7
CDS 3-year*	810.40	871.24	7.5
CDS 5-year*	801.07	851.77	6.3

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

CDX EM 30*	May 3, 2019	May 10, 2019	% Change***
CDS 5-year**	96.46	95.92	(0.6)

*Source: ICE CMA; * CDX Emerging Market CDS Index-Series 30*
***mid-spread in bps ***week-on-week*

Housing demand improves in first quarter of 2019 on Banque du Liban new housing subsidies

Demand for residential real estate in Lebanon improved in the first quarter of 2019, as reflected by the results of the Byblos Bank Real Estate Demand Index. The Index posted a monthly average of 56.1 points in the first quarter of 2019, constituting an increase of 9.6% from 51.2 points in the fourth quarter of 2018 and compared to a decline of 6% in full year 2018. The first quarter results constitute their 17th highest level in 47 quarters.

Real estate demand increased in the first quarter of 2019 after Banque du Liban (BdL) launched its $1bn-economic stimulus package for 2019 that included LBP790bn, or $524m, in subsidies for housing loans. A total of LBP490bn will support mortgages in 2019 that commercial banks subsidized from their own funds in 2018, while LBP300bn will subsidize new mortgages this year. As a result, banks have started to utilize the facility, which is meeting part of the demand for housing. Also, the stimulus package includes an additional amount for subsidized mortgages to expatriates.

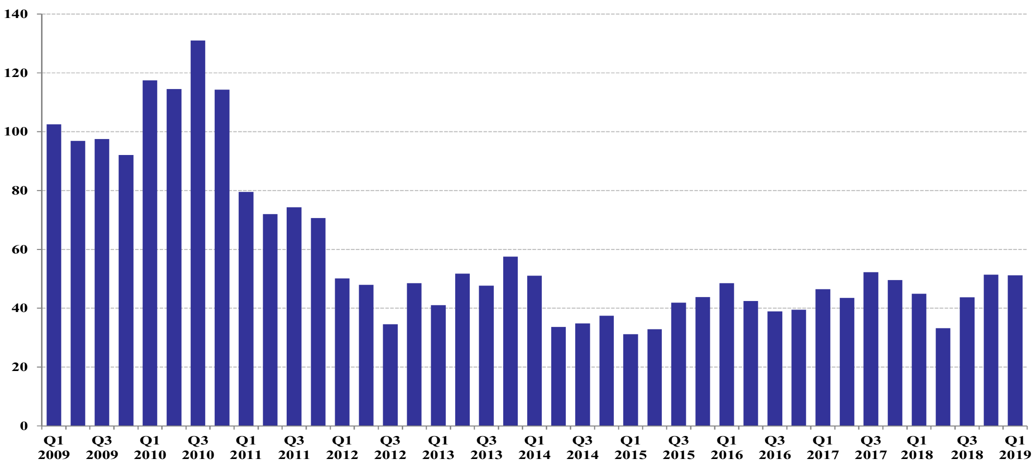
However, the housing market requires additional measures to stimulate demand, as the Index's average monthly score in the first quarter of 2019 came 57.2% lower than the peak of 131 points registered in the second quarter of 2010, and remained 49% below the annual peak of 109.8 points posted in 2010. Also, it was 6% lower than the Index's monthly trend average score of 59.5 points since the Index's inception in July 2007.

BdL, in cooperation with commercial banks, has subsidized interest rates on housing loans since 2009. These measures were supposed to be temporary, in order to give the executive branch time to develop a housing policy. As such, it remains the responsibility of the executive branch to not only cover interest subsidies on housing loans for limited-income citizens, but also to take the lead in developing a comprehensive housing policy that would stimulate demand for all segments of the residential market in Lebanon.

The results of the Index show that demand for housing was the highest in the South in the first quarter of 2019, as 10.9% of its residents had plans to build or buy a house in the coming six months, compared to 9.2% in the fourth quarter of 2018. The Bekaa followed with 8.5% of its residents planning to build or buy a residential unit in the coming six months, down from 9.1% in the preceding quarter; while 5.7% of residents in the North had plans to buy or build a house, relative to 6.3% in the previous quarter. In addition, 4.9% of residents in Mount Lebanon intend to buy or build a house, up from 3.7% in the preceding quarter, while 3.8% of residents in Beirut had plans to build or buy a residential unit, up from 3% in the fourth quarter of 2018. In parallel, real estate demand increased across all income brackets in the first quarter of the year.

The Byblos Bank Real Estate Demand Index is a measure of local demand for residential units and houses in Lebanon. The Index is compiled, implemented and analyzed in line with international best practices and according to criteria from leading indices worldwide. The Index is based on a face-to-face monthly survey of a nationally representative sample of 1,200 males and females living throughout Lebanon, whereby residents are asked about their plans to buy or build a house in the coming six months. The data segregates the Index based on age, gender, income, profession, geographic region and religious affiliation. The Byblos Bank Economic Research & Analysis Department has been calculating the Index on a monthly basis since July 2007, with November 2009 as its base month. The survey has a margin of error of ±2.83%, a confidence level of 95% and a response distribution of 50%. The monthly field survey is conducted by Statistics Lebanon Ltd, a market research and opinion-polling firm.

Byblos Bank Real Estate Demand Index



Source: Byblos Bank Economic Research & Analysis Department, based on surveys conducted by Statistics Lebanon

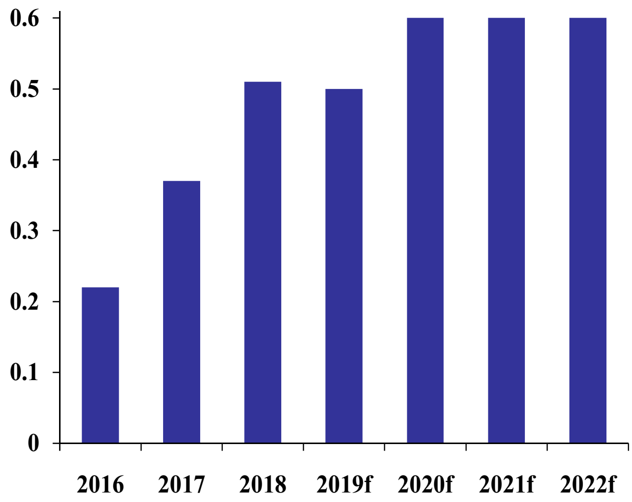
Value of hotel rooms in Beirut up 38% in 2018

Global hotel consulting firm HVS valued a hotel room in Beirut at $190,000 in 2018, constituting the sixth highest valuation among hotel rooms in 14 cities in the Middle East region. In comparison, the average value per available room at hotels in the Middle East was $207,532 last year. The value of a room at hotels in Beirut was higher than the value of rooms in Madinah ($167,000), Manama ($144,000), and Ras Al Khaimah ($139,000), but was lower than the value of hotel rooms in Makkah ($238,000), Kuwait City ($206,000), and Abu Dhabi ($204,000).

HVS used several parameters to provide a valuation of hotels rooms in the region, including the loan-to-value and debt coverage ratios. In addition, it used the Income Capitalization Approach to calculate the value of a hotel in 2018 and in coming years. This approach is a real estate appraisal method that allows investors to estimate the valuation of a property based on the income that the property generates.

The valuation of a hotel room in Beirut increased by 37.7% in 2018 following a growth of 66.3% in 2017, and relative to a decline of 4.9% in the average value of hotel rooms in the region last year. The growth in the value of a hotel room in Beirut in 2018 was the fourth highest regionally, behind Ras Al Khaimah (+82.9%), Manama (+63.6%), and Jeddah (+58%). HVS attributed the rise in the value of a room in Beirut in 2018 to an improvement in the hotels' revenues per available room, as well as in the hotels' aggregate net operating profit margins, which grew by four percentage points last year.

Evolution of Hotel Valuation Index in Lebanon*



**calculated as the value per available room at hotels in Lebanon for a given year divided by the average room value in the Middle East for base year 2015*
Source: HVS

Further, the value per available room at hotels in Beirut grew by a compound annual growth rate of 5% between 2015 and 2018, which, along with Egypt (+5%), were the only two markets in the Middle East to post an increase in their hotel room valuation in the 2015-18 period. In comparison, the average value of hotel rooms in the Middle East posted a CAGR of -18% in the 2015-18 period.

In addition, HVS projected the valuation of a hotel room in Beirut to reach $219,000 in 2022, which would constitute the eighth highest value among the 14 covered markets. Also, it forecast the valuation of a hotel room in the city to grow by CAGR of 3.2% between 2019 and 2022, which would represent the fourth lowest growth among Middle Eastern markets, ahead of only Jeddah (+2.7%), Cairo (+2.3%), and Kuwait City (+1.8%). In comparison, it anticipated the average value per available room at hotels in the Middle East region to post a CAGR of 15.1% between 2019 and 2022.

HVS noted that Lebanon is positioned to have one of the strongest hospitality sectors in the Middle East, but it noted that political and social unrest in neighboring countries has adversely affected the hospitality sector in the country in the past five years. Still, it pointed out that, since 2017, the hospitality sector in Lebanon has been showing signs of recovery, mainly due to strong demand from European visitors. Further, it indicated that the supply of new hotels in Lebanon has been limited compared to other hotel markets in the Middle East. It considered that the outlook on the hotel sector in Beirut remains positive and expected the value of hotel rooms in the city to grow, reflecting the anticipated rise in tourist arrivals and the lifting of travel warnings to Lebanon by GCC governments.

Compensation of public-sector personnel up 22% in first 11 months of 2018, absorbs 55% of revenues

Figures issued by the Ministry of Finance show that the compensation of public-sector personnel totaled $5.9bn in the first 11 months of 2018, constituting an increase of 22.1% from $4.8bn in the same period of 2017. The double-digit rise is due to the across-the-board increase in the wages and salaries of public sector employees and retirees that was enacted by the Lebanese Parliament in July 2017. Salaries, wages and related benefits accounted for 63% of the total in the first 11 months of 2018, followed by retirement benefits (24%), end-of-service indemnities (7.7%), and transfers to public institutions to cover salaries (5.2%). The compensation of public-sector personnel represented the largest component of current primary spending and accounted for 65.8% of such expenditures in the covered period, compared to 67.6% in the first 11 months of 2017. Also, compensation of public-sector personnel was equivalent to 55% of total fiscal receipts in the first 11 months of 2018 relative to 47.1% in the same period of 2017. It absorbed 35.6% of overall fiscal spending in the first 11 months of 2018 compared to 35.4% in the first 11 months of 2017.

Salaries, wages & related benefits paid to public-sector employees reached $3.7bn in the first 11 months of 2018, constituting an increase of 18.1% from $3.1bn in the same period of 2017. This category includes basic salaries, employment benefits, allowances, contributions to civil servants' cooperatives, as well as contributions to other mutual funds providing health insurance for specific categories of civil servants, mainly civil and religious judges, and employees at the Parliament. In addition, retirement benefits grew by 16.8% to $1.4bn in the first 11 months of 2018, while end-of-service indemnities rose by 128.6% to $456.4m, and transfers to public institutions to cover salaries expanded by 12.8% to $305.8m in the covered period.

U.S. maintains Lebanon on Watch List of intellectual property rights violations

In its annual 'Special 301' review of the state of intellectual property rights (IPR) protection and enforcement in U.S. trading partners around the world, the Office of the United States Trade Representative (USTR) kept Lebanon on the Watch List for the ineffective and inadequate protection of intellectual property rights and for severe copyright violations, along with 24 other countries and jurisdictions. The USTR placed Lebanon on the Watch List in 1999 and then downgraded it to the more critical Priority Watch List in 2001, where it remained until 2007. It then upgraded Lebanon to the Watch List in 2008, where it has remained since then. Lebanon, along with Egypt, Turkey and the UAE are the only countries from the Middle East & Africa region that are on the 2019 Watch List. Also, the USTR included 11 countries this year on its Priority Watch List, with Algeria, Kuwait and Saudi Arabia being the only countries from the Middle East & Africa that are included in the list.

The USTR commended Lebanon's continued effort to promote intellectual property protection and enforcement in 2018, as well as the Lebanese Parliament's attempts to pass stalled intellectual property-related legislation. It also welcomed the Ministry of Economy & Trade's decision to start developing a national intellectual property strategy in coordination with the World Intellectual Property Organization (WIPO). However, the USTR noted that there are ongoing concerns regarding the progress on pending intellectual property legislative reforms, which include draft laws concerning trademarks and amendments to existing copyright and patent laws, inadequate protection against unfair commercial use, as well as unauthorized disclosure of data and information.

In this context, it called on Lebanese authorities to ratify and implement several IPR treaties, including Article 1 to 12 of the Paris Convention for the Protection of Industrial Property, the Singapore Treaty on the Law of Trademarks, as well as the latest acts of the Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks. In addition, it encouraged authorities to implement and ratify the Berne Convention for the Protection of Literary and Artistic Works and the WIPO Copyright Treaty, as well as to join the Patent Cooperation Treaty, the Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks, as well as the WIPO Performances and Phonograms Treaty. Further, it indicated that IPR enforcement efforts in Lebanon have been improving slowly. However, it noted that enforcement officials require additional training in order to enhance their investigative skills. Also, it urged authorities to allocate sufficient resources for intellectual property protection and enforcement.

Number of airport passengers up by 4.4% in first four months of 2019

Figures released by the Beirut-Rafic Hariri International Airport (HIA) show that 2,566,676 passengers utilized the airport (arrivals, departures and transit) in the first four months of 2019, constituting an increase of 4.4% from 2,459,555 passengers in the same period of 2018. The number of arriving passengers increased by 1.9% year-on-year to 1,238,256 in the first four months of 2019, compared to a growth of 11.6% in the same period last year, and to a growth of 8.2% in the first four months of 2017. Also, the number of departing passengers increased by 5.3% year-on-year to 1,309,126 in the first four months of 2019, relative to a rise of 8% in the same period last year, and to a growth of 7.6% in the first four months of 2017.

In parallel, the airport's aircraft activity expanded by 1.3% annually to 21,472 take-offs and landings in the first four months of 2019, relative to a rise of 2.2% in the same period of 2018, while it declined by 2.9% in the first four months of 2017. In addition, the HIA processed 28,192 metric tons of freight in the covered period that consisted of 17,939 tons of import freight and 10,253 tons of export freight. Middle East Airlines had 8,242 flights in the first four months of 2019 and accounted for 38.4% of HIA's total aircraft activity.

Number of new construction permits down 23% in first quarter of 2019

The Orders of Engineers & Architects of Beirut and of Tripoli issued 2,826 new construction permits in the first quarter of 2019, constituting a decline of 22.8% from 3,662 permits issued in the same period of 2018. In comparison, new construction permits decreased by 9.4% year-on-year in the first quarter of 2018. Mount Lebanon accounted for 37% of newly-issued construction permits in the covered quarter, followed by the South with 20.2%, the Nabatieh area with 13%, the North with 11.7%, the Bekaa region with 10%, and Beirut with 6.4%. The remaining 1.7% were permits issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon.

Further, the surface area of granted construction permits reached 1,945,737 square meters (sqm) in the first quarter of 2019, constituting a decrease of 27.6% from 2,688,840 sqm in the same period of 2018. In comparison, the surface area of granted construction permits regressed by 14.5% in the first quarter of 2018 from the same period of 2017. Mount Lebanon accounted for 740,724 sqm, or 38.1% of the total, in the covered quarter. The South followed with 356,181 sqm (18.3%), then the North with 314,269 sqm (16.2%), Beirut with 164,736 sqm (8.5%), the Bekaa region with 161,427 sqm (8.3%), and the Nabatieh area with 130,529 sqm (6.7%). The remaining 77,871 sqm, or 4% of the total, represent the surface area of permits that were issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon.

The surface area of new construction permits issued for the Nabatieh area dropped by 42.1% year-on-year in the first quarter of 2019, followed by surface areas in the Bekaa region (-41%), Mount Lebanon (-34%), the North (-26.4%), and the South (-13.5%); while surface areas in regions located outside northern Lebanon dropped by 21%. In contrast, the surface area of granted construction permits in Beirut increased by 26.2% year-on-year in the first quarter of the year. In parallel, cement deliveries totaled 420,370 tons in the first two months of 2019, constituting a decline of 31.3% from 612,290 tons in the same period of 2018, and relative to a decrease of 5.9% in the first two months of 2018.

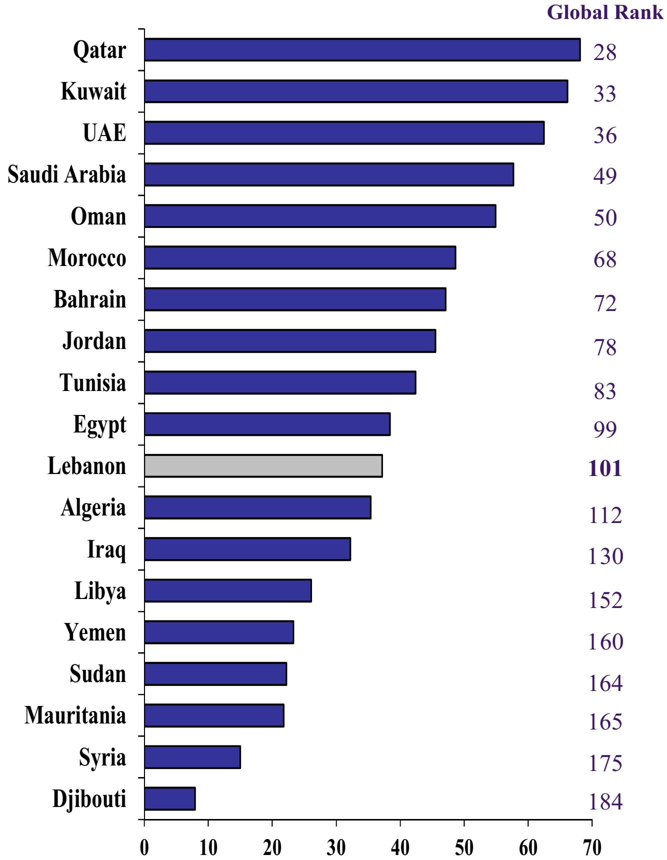
Lebanon ranks 101st globally, 11th in Arab region in country risk in first quarter of 2019

In its quarterly survey of the country risk level in 186 countries, the Euromoney Group ranked Lebanon in 101st place worldwide and in 11th place among 19 Arab countries in the first quarter of 2019. Also, Lebanon came in 29th place among 53 upper middle-income countries (UMICs) included in the survey. Lebanon's global and regional ranks were unchanged from the fourth quarter of 2018, while the rank deteriorated by four spots globally and by one spot regionally from the first quarter of 2018. The survey evaluates individual country risk by assigning a weighting to six categories that cover Political Risks, Economic Performance, Access to Bank Finance & Capital Markets, Debt Indicators, Credit Ratings, and Structural Assessment. A higher score reflects a lower country risk level.

Globally, Lebanon had a lower country risk level than Kenya, Ecuador and Angola, and a higher risk level than Egypt, the Dominican Republic and Albania among economies with a GDP of $10bn or more. It also ranked ahead of Ecuador and Jamaica, and came behind Gabon and the Dominican Republic among UMICs. Lebanon's global rank improved by six spots on the Structural Assessment category and by two spots on the Political Risks category in the first quarter of 2019, and regressed by nine spots on the Credit Ratings category, while it was unchanged on the Economic Performance, Debt Indicators, and Access to Bank Finance & Capital Markets categories.

Lebanon received a score of 37.2 points in the first quarter of 2019, nearly unchanged from the preceding quarter. Lebanon's score came below the global average score of 43.8 points and the average score of 39.3 points for UMICs and of 39.6 for Arab countries. Also, its score was lower than the Gulf Cooperation Council (GCC) countries' average score of 59.4 points, but it came above the average score of non-GCC Arab countries of 30.5 points. Further, Lebanon's score increased by 2% on the Structural Assessment category and by 1.2% on the Political Risks category. It also declined by 33.3% on the Credit Ratings category, while it was nearly unchanged on the Economic Performance, Debt Indicators, and the Access to Bank Finance & Capital Market categories in the first quarter of 2019.

Country Risk in Arab World in First Quarter of 2019
Scores & Rankings of Arab Countries



Source: Euromoney Group, Byblos Research

In parallel, Lebanon ranked ahead of Mongolia and behind Kenya worldwide, and came ahead of Egypt and behind Iraq regionally in terms of Economic Performance. Also, it came ahead of Morocco and behind the Philippines globally, and ranked ahead of Morocco and behind Bahrain in the Arab region on the Structural Assessment category. Further, Lebanon, along with Qatar and the UAE, ranked ahead of Oman and behind Kuwait and Saudi Arabia globally and regionally on the Access to Bank Finance & Capital Markets category. Finally, it ranked ahead of Mozambique and behind Equatorial Guinea globally, and came ahead of Djibouti and behind Oman regionally on the Debt Indicators category.

Country Risk Indicators for Lebanon - First Quarter of 2019

	Weighting (%)	Score	Arab Rank	Global Rank	Arab Avge Score	Global Avge Score
Political Risk	30	10.30	11	130	11.64	13.76
Economic Performance	30	12.38	12	114	12.72	13.43
Structural Assessments	10	5.00	7	67	4.13	4.09
Debt Indicators	10	2.12	17	179	4.27	5.21
Credit Rating	10	0.42	12	129	2.44	3.07
Access to Bank Finance & Capital Market	10	7.00	3	33	4.41	4.25

Source: Euromoney Group, Byblos Research

Lebanon's external debt outperforms emerging markets in April 2019

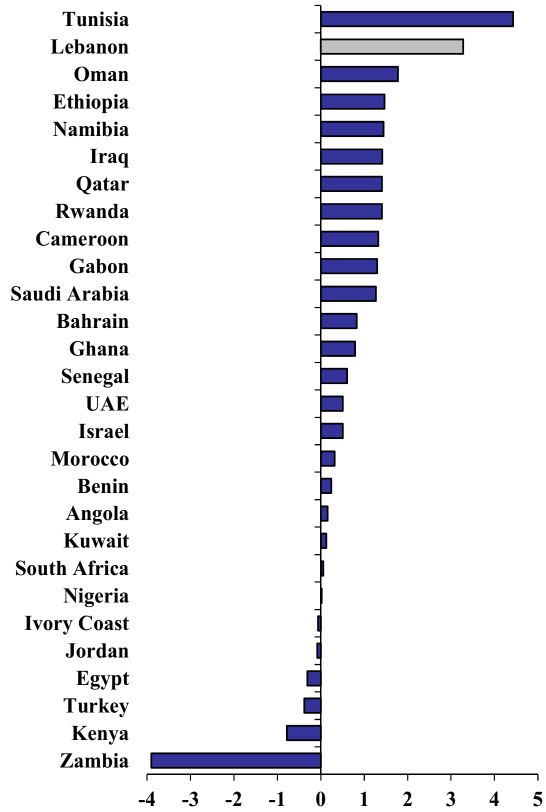
Figures issued by Intercontinental Exchange, Inc. (ICE) indicate that Lebanon's external debt posted a return of 3.28% in April 2019, constituting the second highest return among 77 emerging markets included in ICE's External Debt EM Sovereign Index. Lebanon's external debt also registered the second highest return among 28 countries in the Middle East & Africa region, as well as among 45 markets in the Central & Eastern Europe and the Middle East & Africa (CEEMEA) region. Lebanon outperformed the emerging markets' return of 0.07% and the 'B'-rated sovereigns' return of -1.35% in April 2019.

Further, Lebanon's external debt posted a return of 6.77% in the first four months of 2019, which outperformed the overall emerging markets' return of 5.63% in the covered period. It registered the 19th highest return in the Middle East & Africa region, the 24th highest return in the CEEMEA region, as well as the 41st highest in emerging markets during the first four months of 2019.

In parallel, ICE indicated that the option-adjusted spread on Lebanese Eurobonds was 758 basis points at the end of April 2019 compared to 793 basis points at end-2018. The spread on Lebanese Eurobonds was the second widest in the CEEMEA region and the fourth widest among emerging markets. It was wider than the emerging markets' overall spread of 284 basis points at the end of April 2019.

Lebanon has a weight of 2.15% on ICE's External Debt EM Sovereign Index, the ninth largest weight in the CEEMEA universe and the 15th largest among emerging economies. Lebanon accounted for 3.8% of allocations in the CEEMEA region.

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



Source: ICE, Byblos Research

Acceleration of reforms would improve outlook on public finances

Global investment bank Goldman Sachs indicated that the recent protests and strikes in Lebanon against proposed austerity measures in the 2019 draft budget highlight the challenges facing the government in advancing its economic agenda, as well as the political and economic risks associated with it. It said that it remains cautiously optimistic about the progress in reforms, as it believes that the planned reforms of the electricity sector and the implementation of the proposed measures in the 2019 draft budget would allow the government to unlock CEDRE-related funding starting next year, which would strengthen the country's long-term macroeconomic outlook. But it claimed that it remains unclear whether the progress on reforms would be sufficient to reduce near-term external financing pressures.

In parallel, it considered that the Cabinet's recent approval of the electricity plan is a significant achievement and an important step to address the long-term sustainability of Lebanon's public finances. However, it said that implementation risks are elevated, given that the plan depends on continued efforts by the government over a period of at least six years, and includes elements that will require strong political will to implement them. It considered that reforming the electricity sector alone would not be sufficient to put the public finances on a downward path. It estimated that the implementation of the electricity plan could narrow the fiscal deficit from 11% of GDP in 2018 to about 8.5% of GDP by the end of 2022. But it expected the public debt level to remain elevated at 159.6% of GDP at end-2019 and to reach 163% of GDP by end-2022 in the absence of a significant pickup in economic growth. It considered that a substantial reduction in the public debt level requires real GDP growth rates of about 9% to 10%, similar to those registered during the 2007-09 period. But it did not expect growth to reach such levels in the near future, which means that additional budgetary measures would be needed to reduce the public debt level. It projected real GDP growth at 2.2% in 2019 and 2.9% in 2020 compared to 1.4% in 2018.

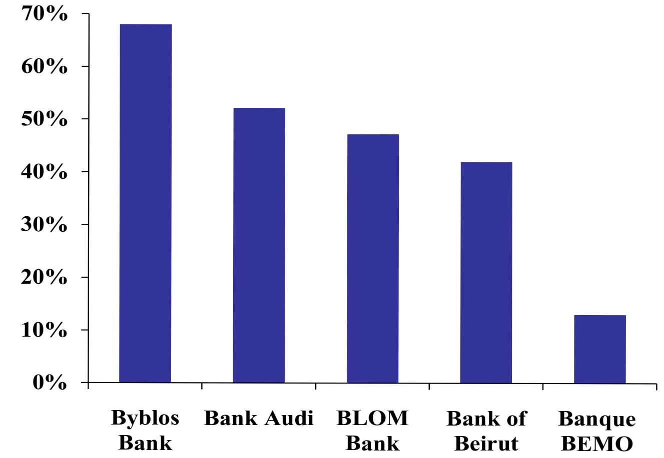
Further, the investment bank pointed out that the 2019 draft budget, which the Council of Ministers is currently discussing, includes significant austerity measures to support the government's target of narrowing the budget deficit by 1% of GDP per year over the next five years. But it considered that it will be difficult for the government to implement deep spending cuts without addressing the public-sector wage bill and debt servicing costs. It said that the proposed revenue measures in the draft budget include raising the tax on interest rates on deposits, among other taxes. But it noted that there is strong resistance from the banking sector, as higher taxes on deposit rates may reduce deposit flows into banks.

Overall, it considered that the acceleration of reforms would ease uncertainties about the future, restore confidence, strengthen deposit inflows, and alleviate near-term risks to the financing outlook. It added that the anticipated $2.5bn in Eurobond issuance in the near term would support confidence and reduce the external funding gap for 2019, in case international participation proves to be higher-than-expected.

Four listed banks announce dividends distribution

BLOM Bank sal announced that its Ordinary General Assembly held on April 16, 2019 approved the distribution of dividends for 2018. The bank distributed $241.6m in gross dividends to the holders of common shares and global depositary receipts (GDRs), which is equivalent to a payout ratio of 47.2%. The bearers of common shares and GDRs received LBP1,700 ($1.13) per share, net of a 10% withholding tax. The bank started paying the dividends on common shares on April 24, while it paid dividends on GDRs starting on May 2, 2019.

Dividend Payout Ratio of Select Listed Banks (%)



Source: Banks' financial statements

Further, Bank Audi sal announced that its Ordinary General Assembly held on April 12, 2019 approved the distribution of dividends for 2018. The bank allocated gross dividends of $261.5m to the holders of common shares and preferred shares, equivalent to a total dividend payout ratio of 52.2%. The bearers of common shares will receive a gross amount of $219.9m, equivalent to LBP829.125 ($0.55) per share. Also, the bank will distribute a gross dividend of $6.5 per share to each of the holders Preferred Shares Series H; and a gross dividend of $7 per share to each of the holders of Preferred Shares Series I and of Preferred Shares Series J. The bank started paying dividends on preferred and common shares starting on April 18, 2019 net of a 10% withholding tax.

Also, Bank of Beirut sal announced that its Ordinary General Assembly held on May 6, 2019 approved the distribution of dividends for 2018. The bank allocated a gross dividend payment of LBP133bn, or $88.2m, to the holders of ordinary common, priority common and preferred shares, equivalent to a 42% payout ratio. It will distribute a gross dividend of $2.3625 per share to the holders of Series "G" Preferred Shares, $1.75 per share to the holders of Series "H" Preferred Shares, $1.6875 per share to the holders of Series "I" Preferred Shares, and $1.625 per share to each of the holders of Series "J" Preferred Shares and Series "K" Preferred Shares. The holders of common shares, including the holders of priority shares Series 2014, will receive a total gross dividend payout of LBP70.1bn, or $46.5m, equivalent to LBP1,150 or $0.76 per share. In addition, the bank will pay $0.84 per share to the holders of priority shares Series 2014. The dividends will be paid on May 15, 2019 net of a 10% withholding tax.

In addition, Banque BEMO sal announced that its Ordinary General Assembly held on May 6, 2019 approved the distribution of $2.45m in gross dividends only for preferred shares for 2018, representing a payout ratio of 13%. The bank will distribute gross dividends of $7 per share to the holders of Preferred Shares Series 2013 starting on June 10, 2019 net of a 10% withholding tax.

Balance sheet of financial institutions down 3% in first quarter of 2019

Figures released by Banque du Liban show that the consolidated balance sheet of financial institutions in Lebanon totaled LBP2,255bn, or $1.5bn at the end of March 2019, constituting a decrease of 2.8% from LBP2,321bn, or $1.54bn at end-2018, and a decline of 2.5% from LBP2,313bn, or $1.53bn at end-March 2018.

On the assets side, claims on resident customers reached $704.4m at the end of March 2019, up by 4.4% from the end of 2018, while claims on non-resident customers stood at $59.1m at end-March 2019 and decreased by 15.6% from end-2018. In addition, claims on the resident financial sector reached $313m at end-March 2019, down by 5.7% from end-2018; while claims on the non-resident financial sector totaled $61.5m at the end of March 2019 and dropped by 34.7% from end-2018. Also, claims on the public sector totaled $4.6m at end-March 2019, constituting a decline of 5.5% from end-2018; while the securities portfolio, which includes Lebanese Treasury bills and Eurobonds, reached $108.5m at end-March 2019, down by 2.5% from end-2018. In parallel, currency and deposits with local and foreign central banks amounted to $39.3m at the end of March 2019 and decreased by 11.9% from $44.6m at end-2018.

On the liabilities side, deposits of resident customers stood at $143.4m at the end of March 2019, constituting a decline of 9% from end-2018; while deposits of non-resident customers reached $18.7m at the end of March 2019 and decreased by 8.1% from end-2018. Liabilities to the resident financial sector amounted to $338.3m at end-March 2019, down by 9.2% from end-2018; while those to the non-resident financial sector declined by 26.5% from end-2018 to $105.4m. Also, public sector deposits decreased by 13.5% in the first three months of 2019 to $3.9m, while debt securities issued totaled $148.2m at end-March 2019 and regressed by 0.6% from end-2018. Further, the aggregate capital account of financial institutions was $498.5m at the end of March 2019, constituting a rise of 6.4% from end-2018, and an increase of 1.4% from end-March 2018.

Kafalat loan guarantees down 80% to $3.5m in first four 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 $3.5m in the first four months of 2019, constituting a decrease of 80.4% from $18m in the same period of 2018. Kafalat provided 30 loan guarantees in the first four months of the year, down by 78.1% from 137 guarantees in the first four months of 2018. The average loan size was $117,843 in the first four months of 2019 compared to $131,326 in the same period of 2018. Mount Lebanon accounted for 50% of the total number of guarantees in the first four months of 2019, followed by the Bekaa region with 20%, Beirut with 13.3%, the North and the South with 6.7% each, and Nabatieh with 3.3%. Also, the industrial sector accounted for 40% of the total number of guarantees in the covered period, followed by the tourism and agricultural sectors with 26.7% each, and the handicraft sector and specialized technologies with 3.3% 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.

Agencies take rating actions on AXA Insurance Group

Moody's Investors Service affirmed at 'A2' the senior unsecured debt rating of the AXA Insurance Group and at 'A3/A3(hyb)' its subordinated debt rating. It kept at 'Aa3/A1' the Insurer Financial Strength (IFS) rating of AXA's main subsidiaries. It also revised from 'negative' to 'stable' the outlook on the ratings of AXA and on most of its subsidiaries. AXA Middle East sal, one of Lebanon's insurance firms, is a subsidiary of the AXA Group.

The agency indicated that the affirmation of AXA's ratings mainly reflects the group's very strong franchise, business and geographic diversification, resilient underlying earnings performance, as well as strong asset and liability management. It expected AXA's financial leverage to decline due to the redemption of its debt, the deconsolidation of its U.S. life business, AXA Equitable Holdings, as well as to the group's higher level of retained earnings.

In parallel, Fitch Ratings affirmed the Insurer Financial Strength (IFS) rating of AXA Group at 'AA-' and its long-term Issuer Default Rating (IDR) at 'A', with a 'stable' outlook. It also kept at 'F1' AXA's short-term IDR. It attributed the ratings' affirmation to the strong progress that the group demonstrated in implementing its business transformation and deleveraging plan, while maintaining strong operating earnings. It added that the ratings reflect AXA's leading business franchise, very strong capitalization, geographical and business diversification, as well as strong profitability. Further, the agency noted that the group's solvency II ratio was at 193% at the end of 2018 relative to 205% at end-2017, which is in line with the ratio of highly-rated peers. Also, it estimated AXA's consolidated financial leverage ratio at 29% at end-2018 compared to 24% at end-2017. In addition, Fitch noted that AXA's operating profitability continued to improve in 2018, with the underlying earnings rising by 6% last year.

Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked AXA Middle East in eighth and third place in 2018 in terms of life and non-life premiums, respectively. The firm's life premiums reached $24.1m in 2018, up by 43.7% from 2017; while its non-life premiums amounted to $85.1m last year, up by 2.1% from 2017. It had a 4.4% share of the local life market and a 7.3% share of the non-life market in 2018. AXA Middle East had a 6.4% market share of the Lebanese insurance market in 2018, ranking it in fifth place in terms of life and non-life premiums.

LIA's net profits down 9% to $9.6m in 2018

LIA Insurance sal announced audited net profits of $9.6m in 2018, constituting a decline of 9.2% from net earnings of $10.5m in 2017. The company's audited balance sheet shows total assets of $378.4m at end-2018, up by 1.3% from $373.4m at end-2017. On the assets side, general company investments reached $300.4m at the end of 2018, up by 4% from end-2017. They included $76.3m in fixed income investments, $43.4m in cash & cash equivalents, and $6.9m in investments in subsidiaries and associates. They also included $161.4m in blocked bank deposits and deposits with maturity of more than three months, of which $2.1m, or 1.3%, were blocked in favor of the Ministry of Economy & Trade as guarantees. Further, the reinsurance share in technical reserves for the life category regressed by 5.3% to $9.8m in 2018, while those for the non-life category increased by 3.8% to $21.8m last year.

On the liabilities side, technical reserves for the life segment improved by 3.8% to $198.8m in 2018, while technical reserves for the non-life category reached $66.9m at end-2018 and regressed by 5.1% from the preceding year. Non-life technical reserves included unearned premium reserves of $41.2m that decreased by 10.4% and outstanding claims reserves of $21.9m that grew by 6.3% year-on-year. Provisions for risks and charges reached $2.4m and increased by 11.3% from a year earlier. Also, the firm's shareholders' equity totaled $87.4m at the end of 2018, down by 3.5% from end-2017.

Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked LIA in fourth and eighth place in 2018 in terms of life and non-life premiums, respectively. The firm's life premiums amounted to $55m in 2018, constituting a rise of 8.3% from a year earlier; while its non-life premiums decreased by 9.3% year-on-year to $60m. It had a 10.2% share of the local life market and a 5.1% share of the non-life market. LIA had a 6.7% share of the overall insurance market and ranked in fourth place in total premiums in 2018.

Net profits of Syrian affiliates of Lebanese banks at $15m in 2018 amid stable exchange rate

Financial results issued by the affiliates of seven Lebanese banks operating in Syria show that their aggregate net profits reached SYP6.7bn in 2018 relative to net losses of SYP14.3bn in 2017. The improvement in the banks' net earnings is due to the stability of the exchange rate at SYP436 against the US dollar since November 27, 2017, which did not result in any unrealized net foreign exchange losses on the banks' structural positions. Further, the exchange rate averaged SYP436 per dollar in 2018 relative to an average of SYP507.9 per dollar in 2017, which means that, in US dollar terms, the seven banks generated net profits of $15.3m in 2018 relative to net losses of $28.1m in 2017.

Banque BEMO Saudi Fransi posted profits of SYP2.8bn in 2018 relative to losses of SYP2.1bn in 2017, while Bank of Syria & Overseas registered profits of SYP1.9bn last year compared to losses of SYP755.8m in the previous year. Also, Bank Audi Syria posted profits of SYP1.15bn in 2018 relative to losses of SYP3.3bn in the preceding year; Bank Al-Sharq, the affiliate of Banque Libano-Française, registered profits of SYP507.2m last year compared to losses of SYP2.1bn in 2017; and Fransabank Syria posted profits of SYP227.8m in 2018 relative to losses of SYP4.7bn in 2017. In parallel, the profits of Byblos Bank Syria rose by 28.1% to SYP1.2bn in 2018, while Syria Gulf Bank, the affiliate of First National Bank, posted net losses of SYP1.2bn last year relative to net losses of SYP2.3bn in 2017.

The net interest income of the seven banks totaled SYP16.4bn in 2018, up 21% from SYP13.6bn in 2017; while their net fees & commission income rose by 27.2% year-on-year to SYP4.1bn. In US dollar terms, the banks' net interest income totaled $37.7m, while their net fees & commission income stood at $9.4m in 2018. The seven banks' operating income shifted from losses of SYP6.7bn in 2017 to profits of SYP23bn in 2018, while their total operating expenses reached SYP13.8bn in 2018, up by 130.3% from SYP6bn in 2017. In US dollar terms, the seven banks' operating profits totaled $52.7m in 2018 relative to operating losses of $13.2m in 2017; while their operating expenses stood at $31.7m, up by 168.2% from $11.8m in 2017.

In parallel, the banks' aggregate assets reached SYP911.4bn, or $2.1bn at the end of 2018 and increased by 12.4% from SYP810.7bn, or $1.86bn at end-2017. Also, the banks' total loans reached SYP177.8bn, or $407.8m at end-2018, reflecting a growth of 62% from SYP109.8bn, or $251.8m at the end of 2017. Further, the banks' customer deposits totaled SYP627.1bn, or $1.4bn at the end of 2018, constituting an increase of 21.1% from SYP517.6bn, or $1.2bn a year earlier. The ratio of the banks' loans-to-customer deposits stood at 28.4% at the end of 2018 relative to 21.2% at end-2017. Also, the aggregate shareholders' equity of the banks reached SYP137.3bn, or $314.9m, at the end of 2018, relative to SYP130.8bn, or $300m, at end-2017.

Results of Affiliates of Lebanese Banks in Syria in 2018 (US$m)

	Banque BEMO Saudi Fransi	Bank of Syria & Overseas	Byblos Bank Syria	Bank Audi Syria	Bank Al-Sharq	Fransabank Syria	Syria Gulf Bank
Net Profits	6.44	4.43	2.83	2.63	1.16	0.52	-2.69
Total Assets	700.56	390.36	188.22	276.41	153.39	272.29	109.04
% Change**	21.7%	-5.2%	21.4%	7.9%	46.0%	13.4%	-5.5%
Loans	175.67	21.37	55.02	25.23	53.38	61.91	15.25
% Change**	78.5%	135.8%	60.9%	11.6%	112.2%	27.7%	9.6%
Customer Deposits	572.22	247.43	125.66	152.12	109.94	149.13	81.79
% Change**	25.4%	3.4%	29.8%	18.9%	72.1%	30.6%	-7.9%

**Change from end-2017*
Source: Banks' financial statements

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**	182.0	183.1	184.7	0.88
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	Jun 2017	May 2018	Jun 2018	Change**	Risk Level
Political Risk Rating	55.5	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	58.0	58.25	58.25	↓	High

MENA Average*	Jun 2017	May 2018	Jun 2018	Change**	Risk Level
Political Risk Rating	57.9	58.0	57.9	↔	High
Financial Risk Rating	38.8	38.1	38.8	↔	Low
Economic Risk Rating	30.6	32.0	32.8	↓	Moderate
Composite Risk Rating	63.6	64.1	64.7	↓	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	Outlook
Moody's	Stable

Source: Moody's Investors Service

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