

## LEBANON THIS WEEK

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Strong global market position supports ALICO rating

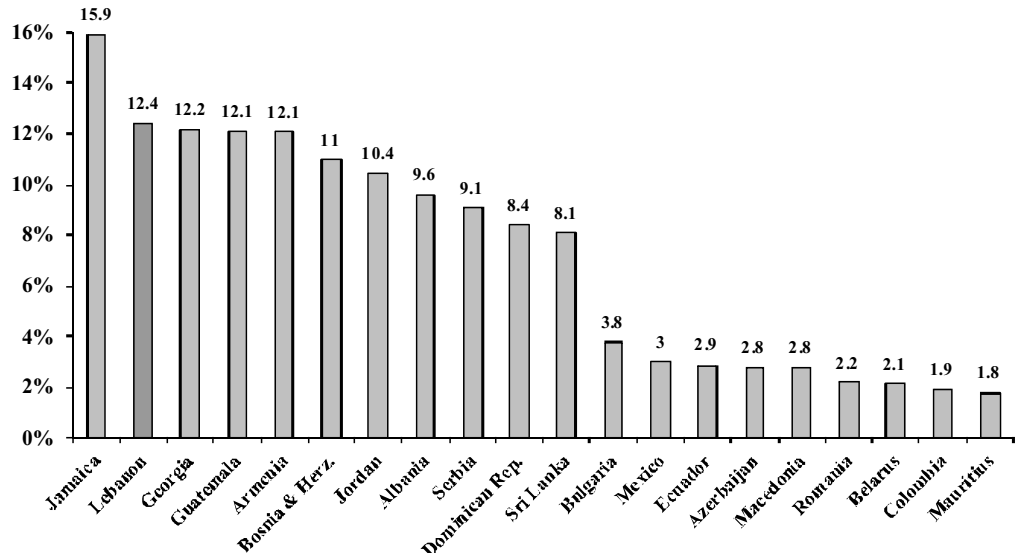
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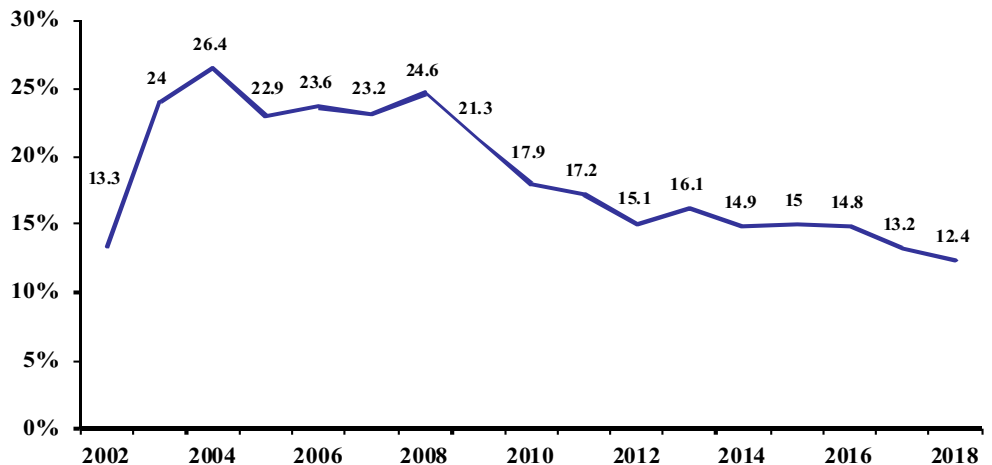
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### Charts of the Week

**Expatriates' Remittance Inflows to Upper Middle-Income Countries in 2018 (% of GDP)\***



**Expatriates' Remittance Inflows to Lebanon (% of GDP)**



\*countries with a GDP of \$10bn or more

Source: World Bank, Banque du Liban, Central Administration of Statistics, Byblos Bank

### Quote to Note

"The ISG urges Lebanon's leaders to promulgate a transparent plan for reform and to act expeditiously to adopt fiscal, structural and sectoral reforms so as to improve the government's fiscal position, enhance the overall business environment, and support the development of productive sectors, infrastructure and basic services."

*The International Support Group for Lebanon, on what the international community expects from Lebanese authorities*

### Number of the Week

**54.8%:** Percentage of Lebanese-pound denominated Treasury bonds that have a maturity of seven years or longer as at end-July 2019, according to the Association of Banks in Lebanon

## Lebanon in the News

| \$m (unless otherwise mentioned) | 2018      | Jan-Jul 2018 | Jan-Jul 2019 | % Change* | Jul-18    | Jun-19  | Jul-19    |
|----------------------------------|-----------|--------------|--------------|-----------|-----------|---------|-----------|
| Exports                          | 2,952     | 1,757        | 2,089        | 18.94     | 218       | 285     | 365       |
| Imports                          | 19,980    | 11,898       | 12,335       | 3.67      | 2,318     | 1,377   | 2,196     |
| Trade Balance                    | (17,028)  | (10,142)     | (10,245)     | 1.02      | (2,100)   | (1,092) | (1,831)   |
| Balance of Payments              | (4,823)   | (757)        | (5,318)      | 602.37    | (549)     | (204)   | 72        |
| Checks Cleared in LBP            | 22,133    | 12,509       | 12,214       | (2.36)    | 1,878     | 1,581   | 1,900     |
| Checks Cleared in FC             | 44,436    | 26,166       | 20,352       | (22.220)  | 3,953     | 2,502   | 3,170     |
| Total Checks Cleared             | 66,569    | 38,675       | 32,566       | (15.80)   | 5,831     | 4,083   | 5,070     |
| Fiscal Deficit/Surplus**         | (6,246)   | (3,036)      | (2,419)      | (20.32)   | (42)      | (33)    | -         |
| Primary Balance**                | (636)     | (155)        | 309          | -         | 223       | 347     | -         |
| Airport Passengers***            | 8,842,442 | 4,842,665    | 5,037,455    | 4.02      | 1,022,467 | 838,498 | 1,059,267 |
| Consumer Price Index****         | 6.1       | 6.2          | 3.0          | (323bps)  | 7.6       | 1.7     | 1.4       |

| \$bn (unless otherwise mentioned) | Dec-17 | Jul-18 | Dec-18 | May-19 | Jun-19 | Jul-19 | % Change* |
|-----------------------------------|--------|--------|--------|--------|--------|--------|-----------|
| BdL FX Reserves                   | 35.81  | 34.21  | 32.51  | 29.72  | 29.75  | 31.06  | (9.23)    |
| In months of Imports              | 18.57  | 14.76  | 20.72  | 12.10  | 21.61  | 14.15  | (4.18)    |
| Public Debt                       | 79.53  | 82.90  | 85.14  | 85.38  | 85.73  | 86.01  | 3.74      |
| Bank Assets                       | 219.86 | 236.31 | 249.48 | 253.63 | 255.98 | 259.18 | 9.68      |
| Bank Deposits (Private Sector)    | 168.66 | 173.01 | 174.28 | 170.85 | 172.13 | 172.35 | (0.38)    |
| Bank Loans to Private Sector      | 59.69  | 59.22  | 59.39  | 56.32  | 56.00  | 55.30  | (6.62)    |
| Money Supply M2                   | 52.51  | 53.58  | 50.96  | 49.23  | 49.11  | 48.91  | (8.72)    |
| Money Supply M3                   | 138.62 | 140.85 | 141.29 | 139.33 | 139.93 | 140.34 | (0.36)    |
| LBP Lending Rate (%)              | 8.09   | 8.66   | 9.97   | 10.75  | 10.94  | 11.13  | 247bps    |
| LBP Deposit Rate (%)              | 6.41   | 6.94   | 8.30   | 8.72   | 8.80   | 8.81   | 187bps    |
| USD Lending Rate (%)              | 7.67   | 7.96   | 8.57   | 9.54   | 9.49   | 9.90   | 194bps    |
| USD Deposit Rate (%)              | 3.89   | 4.14   | 5.15   | 5.79   | 5.84   | 6.01   | 187bps    |

\*year-on-year \*\*year-to-date figures reflect results for first half each 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"              | 5.79            | 5.85      | 42,220       | 7.39%                           |
| BLOM GDR                  | 7.00            | (0.99)    | 38,063       | 6.60%                           |
| Solidere "B"              | 5.79            | 8.43      | 24,375       | 4.80%                           |
| Byblos Common             | 1.11            | 0.91      | 16,283       | 8.01%                           |
| BLOM Listed               | 7.30            | 0.00      | 14,053       | 20.02%                          |
| Byblos Pref. 09           | 64.90           | (0.15)    | 1,000        | 1.66%                           |
| Audi Listed               | 3.70            | 0.00      | -            | 18.87%                          |
| Byblos Pref. 08           | 65.00           | 0.00      | -            | 1.66%                           |
| HOLCIM                    | 9.98            | 0.00      | -            | 2.48%                           |
| Audi GDR                  | 3.70            | 0.00      | -            | 5.65%                           |

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

| Sovereign Eurobonds | Coupon % | Mid Price \$ | Mid Yield % |
|---------------------|----------|--------------|-------------|
| Mar 2020            | 6.38     | 94.87        | 18.88       |
| Apr 2021            | 8.25     | 84.37        | 20.64       |
| Oct 2022            | 6.10     | 70.63        | 19.44       |
| Jun 2025            | 6.25     | 66.38        | 15.29       |
| Nov 2026            | 6.60     | 64.63        | 14.76       |
| Feb 2030            | 6.65     | 64.50        | 12.95       |
| Apr 2031            | 7.00     | 64.50        | 13.02       |
| May 2033            | 8.20     | 71.51        | 12.63       |
| Nov 2035            | 7.05     | 64.75        | 12.06       |
| Mar 2037            | 7.25     | 65.00        | 12.11       |

Source: Byblos Bank Capital Markets

|                       | Sep 23-27   | Sep 16-20    | % Change | August 2019 | August 2018  | % Change |
|-----------------------|-------------|--------------|----------|-------------|--------------|----------|
| Total shares traded   | 162,045     | 1,011,800    | (84)     | 1,085,556   | 1,547,114    | (29.8)   |
| Total value traded    | \$1,164,300 | \$15,655,385 | (92.6)   | \$6,488,622 | \$12,657,664 | (48.7)   |
| Market capitalization | \$7.84bn    | \$7.80bn     | 0.52     | \$7.87bn    | \$9.96bn     | (21.0)   |

Source: Beirut Stock Exchange (BSE)

| CDS Lebanon | Sep 20, 2019 | Sep 27, 2019 | % Change** |
|-------------|--------------|--------------|------------|
| CDS 1-year* | 1,338.72     | 1,268.45     | (5.2)      |
| CDS 3-year* | 1,301.41     | 1,315.51     | 1.1        |
| CDS 5-year* | 1,215.91     | 1,229.47     | 1.1        |

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

| CDX EM 30*   | Sep 20, 2019 | Sep 27, 2019 | % Change*** |
|--------------|--------------|--------------|-------------|
| CDS 5-year** | 96.37        | 96.23        | (0.1)       |

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

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

### Lebanon ranks 155<sup>th</sup> globally, 12<sup>th</sup> in Arab world in government effectiveness

The World Bank's annual World Governance Indicators for 2018 show that Lebanon's score increased on two out of six governance indicators included in the survey and regressed on four indicators, reflecting a relatively worse level of governance in the country. Also, Lebanon's rankings improved on two indicators and regressed on the four other indicators from the previous survey. The indicators cover 214 countries and territories and are rated on a scale of -2.5 to +2.5, with higher values corresponding to better governance outcomes.

Lebanon ranked in 155<sup>th</sup> place worldwide and in 12<sup>th</sup> place among 20 Arab countries in terms of Government Effectiveness. The indicator evaluates the quality of public and civil services and the degree of their independence from political pressure, as well as the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. Lebanon's global rank regressed by 16 spots, while its regional rank deteriorated by one notch year-on-year. Globally, Lebanon had a more effective government than Laos, Papua New Guinea and Guatemala, and a less effective one than Bosnia & Herzegovina, Honduras and Pakistan among countries with a GDP of \$10bn or more. The results show that 74% of countries and territories in the world have a better score than Lebanon on this dimension of governance.

In parallel, Lebanon ranked in 184<sup>th</sup> place globally and in 15<sup>th</sup> place regionally on the Control of Corruption category, which measures the level of corruption in each country. Lebanon's global rank regressed by six spots and its regional rank was unchanged from the previous year. Globally, Lebanon had a lower level of corruption than Nigeria, Nicaragua and Uzbekistan, and a higher corruption level than Angola, Cameroon and Zimbabwe. Regionally, Lebanon had a lower level of corruption than Iraq, Sudan, Libya, Syria and Yemen. The results show that 88% of countries and territories around the world had a better score than Lebanon on this dimension of governance.

Further, Lebanon ranked in 129<sup>th</sup> place globally and in 10<sup>th</sup> place among Arab countries in terms of Regulatory Quality, which assesses market-friendly policies and laws that enable and promote private sector development. Lebanon's global rank deteriorated by five notches and its regional rank was unchanged year-on-year. Globally, Lebanon ranked ahead of Kyrgyzstan, Azerbaijan and Vietnam, and came behind Uganda, Brazil and Benin on this indicator. Regionally, the quality of rules and regulations in Lebanon was better than in Tunisia, Djibouti and Mauritania, while it was worse than in Kuwait, Saudi Arabia and Morocco. The results show that 62% of countries and territories in the world have a better score than Lebanon on this dimension of governance.

Also, Lebanon ranked in 160<sup>th</sup> place globally and in 13<sup>th</sup> place regionally on the Rule of Law category, a measure of the extent that citizens have confidence in the rules of society and abide by them, as well as the likelihood of crime and violence. Lebanon's rank improved by five places globally and was unchanged regionally from the preceding year. Globally, Lebanon ranked ahead of Papua New Guinea, Algeria and Malta, while it came behind Iran, Gabon and Ukraine on this indicator. Regionally, Lebanon came ahead of Algeria, Djibouti, Sudan, Iraq, Libya, Yemen and Syria. The results show that 76% of countries and territories around the world have a better score than Lebanon on this dimension of governance.

### Government Effectiveness Rankings & Scores in 2018

|                | Score         | Arab Rank | Global Rank |
|----------------|---------------|-----------|-------------|
| UAE            | 1.43          | 1         | 21          |
| Qatar          | 0.63          | 2         | 54          |
| Saudi Arabia   | 0.32          | 3         | 74          |
| Oman           | 0.19          | 4         | 84          |
| Bahrain        | 0.18          | 5         | 85          |
| Jordan         | 0.11          | 6         | 90          |
| Kuwait         | (0.09)        | 7         | 106         |
| Tunisia        | (0.11)        | 8         | 108         |
| Morocco        | (0.21)        | 9         | 112         |
| Algeria        | (0.44)        | 10        | 132         |
| Egypt          | (0.58)        | 11        | 145         |
| <b>Lebanon</b> | <b>(0.64)</b> | <b>12</b> | <b>155</b>  |
| Mauritania     | (0.73)        | 13        | 162         |
| Palestine      | (0.76)        | 14        | 166         |
| Djibouti       | (0.90)        | 15        | 173         |
| Iraq           | (1.32)        | 16        | 190         |
| Sudan          | (1.62)        | 17        | 200         |
| Syria          | (1.67)        | 18        | 202         |
| Libya          | (1.85)        | 19        | 205         |
| Yemen          | (2.24)        | 20        | 208         |

Source: World Bank, Byblos Research

### Lebanon's Rankings and Scores on Governance Indicators for 2018

|                          | Global Rank | Change in Rank | Arab Rank | Lebanon Score | Change in Score | Arab Avg Score |
|--------------------------|-------------|----------------|-----------|---------------|-----------------|----------------|
| Voice & Accountability   | 139         | ▲              | 2         | -0.50         | ▲               | -1.10          |
| Political Stability      | 196         | ▼              | 14        | -1.64         | ▼               | -0.98          |
| Government Effectiveness | 155         | ▼              | 12        | -0.64         | ▼               | -0.51          |
| Regulatory Quality       | 129         | ▼              | 10        | -0.34         | ▼               | -0.54          |
| Rule of Law              | 160         | ▲              | 13        | -0.76         | ▲               | -0.48          |
| Control of Corruption    | 184         | ▼              | 15        | -1.11         | ▼               | -0.49          |

Source: World Bank, Byblos Research



### Consumer Price Index up 3% in first eight months of 2019

The Central Administration of Statistics' Consumer Price Index increased by 2.8% in the first eight months of 2019 from the same period of 2018, compared to a growth of 6.3% in the first eight months of 2018. Also, the CPI expanded by 1.2% in August 2019 from the same month of 2018. The prices of clothing & footwear grew by 12.1% in August 2019 from the same month of 2018, followed by recreation & entertainment costs (+6.7%), the prices of furnishings & household equipment (+6.6%), the cost of education (+5.1%), the cost of miscellaneous goods & services (+2.6%), actual rents (+2.1%), imputed rents (+1.4%), prices at restaurants & hotels (+1.2%), the prices of food & non-alcoholic beverages (+0.6%), and the prices of alcoholic beverages & tobacco (+0.3%). In contrast, the prices of water, electricity, gas & other fuels declined by 3.3% year-on-year in August 2019, followed by transportation costs (-1.3%), communication costs (-0.6%), and healthcare costs (-0.2%). Also, the distribution of actual rents shows that old rents grew by 2.9% and new rents increased by 1.6% annually in August 2019.

Further, the CPI was unchanged in August 2019 from the previous month, while it declined by 0.5% month-on-month in July 2019. Healthcare costs increased by 1.7% month-on-month in August 2019, followed by the prices of food & non-alcoholic beverages (+0.6%), the cost of miscellaneous goods & services (+0.4%), actual rents and the prices of furnishings & household equipment (+0.3% each), and imputed rents (+0.2%). In contrast, the prices of clothing & footwear declined by 5.5% month-on-month in August 2019, followed by the prices of water, electricity, gas & other fuels (-0.2%), and the prices of alcoholic beverages & tobacco (-0.1%); while the prices of the remaining components of the CPI basket were nearly unchanged in the covered month. Further, the CPI increased by 1.2% in August 2019 in Beirut, by 0.4% in the Nabatieh region and by 0.3% in the South, while it decreased by 0.9% in the Bekaa region, by 0.2% in the North and by 0.1% in Mount Lebanon. In parallel, the Fuel Price Index declined by 0.3% month-on-month in August 2019, while the Education Price Index was unchanged in the covered month.

### Number of new construction permits down 15% in first eight months of 2019

The Orders of Engineers & Architects of Beirut and of Tripoli issued 7,875 new construction permits in the first eight months of 2019, constituting a decline of 15.1% from 9,274 permits issued in the same period of 2018. In comparison, new construction permits decreased by 14.5% year-on-year in the first eight months of 2018. Mount Lebanon accounted for 34.8% of newly-issued construction permits in the covered period, followed by the South with 21.3%, the North with 13.7%, the Nabatieh area with 12.9%, the Bekaa region with 9.6%, and Beirut with 6.1%. 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 4,588,064 square meters (sqm) in the first eight months of 2019, constituting a decrease of 28% from 6,365,792 sqm in the same period of 2018. In comparison, the surface area of granted construction permits regressed by 24% annually in the first eight months of 2018. Mount Lebanon accounted for 1,606,933 sqm, or 35% of the total, in the covered period. The South followed with 855,652 sqm (18.6%), then the North with 834,377 sqm (18.2%), the Bekaa region with 433,449 sqm (9.4%), the Nabatieh area with 374,294 sqm (8.2%), and Beirut with 337,284 sqm (7.4%). The remaining 146,075 sqm, or 3.2% 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 Mount Lebanon region dropped by 37.5% year-on-year in the first eight months of 2019, followed by surface areas in the Nabatieh region (-33.7%), the Bekaa (-31.8%), the North (-23.5%), and the South (-16.3%); while surface areas in regions located outside northern Lebanon decreased by 42.2%. In contrast, the surface area of granted construction permits in Beirut increased by 45.6% year-on-year in the first eight months of the year. In parallel, cement deliveries totaled 1.93 million tons in the first seven months of 2019, constituting a decline of 30.6% from 2.78 million tons in the same period of 2018, and relative to a decrease of 2.6% in the first seven months of 2018.

### Revenues through Port of Beirut at \$126m in first seven months of 2019

Figures released by the Port of Beirut show that the port's overall revenues reached \$125.6m in the first seven months of 2019, constituting a decline of 13% from \$144.3m in the same period of 2018. The Port of Beirut handled 4.1 million tons of freight in the covered period, down by 11% from 4.6 million tons in the first seven months of 2018. Imported freight amounted to 3.6 million tons in the first seven months of 2019 and accounted for 88.4% of the total, while the remaining 476,000 tons, or 11.6%, consisted of export cargo. A total of 1,016 vessels docked at the port in the first seven months of 2019, down by 6.9% from 1,091 ships in the same period of 2018.

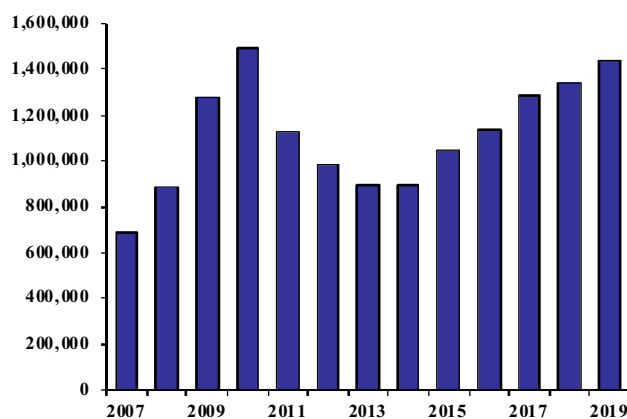
In parallel, revenues generated through the Port of Tripoli reached \$9.6m in the first seven months of 2019, and increased by 4.3% from \$9.2m in the same period of 2018. The Port of Tripoli handled 1,348,836 tons of freight in the covered period, constituting a growth of 35.7% from 993,851 tons in the first seven months of 2018. Imported freight amounted to 958,885 tons and accounted for 71.1% of the total, while the remaining 389,951 tons, or 28.9%, were export cargo. A total of 363 vessels docked at the port in the first seven months of 2019, down by 1.6% from 369 ships in the first seven months of 2018.



### Tourist arrivals up 8% in first eight months of 2019

Figures compiled by the Central Administration of Statistics indicate that the number of incoming visitors to Lebanon totaled 1,441,499 in the first eight months of 2019, constituting an increase of 7.6% from 1,339,219 tourists in the same period of 2018 and a decline of 3.4% from 1,492,133 visitors in the first eight months of 2010, the record year for tourist arrivals in Lebanon. Also, the number of incoming visitors reached 235,447 in August 2019, decreasing by 16.6% from 282,232 in July 2019 and increasing by 5.4% from 223,353 in August 2018. Tourist arrivals in August 2019 were the highest on record during that month. The figures exclude Lebanese, Syrian and Palestinian arrivals. Visitors from European countries accounted for 36.3% of the total in the first eight months of 2019, followed by those from Arab countries with 30.8%, the Americas with 19.2%, Asia with 6.6%, Oceania with 3.9%, and Africa with 3.2%. Further, tourists from Iraq and the United States accounted for 10.3% each of total visitors in the first eight months of 2019, followed by visitors from France (9.4%), Canada (6%), Germany (5.5%), Saudi Arabia (5%), Egypt (4.8%), Jordan (4.6%), the United Kingdom (3.7%), Kuwait (2.6%), Sweden (2.5%), Italy (1.8%), Turkey (1.7%), Brazil (1.4%), Venezuela (0.6%), and the UAE (0.1%).

Number of Tourist Arrivals to Lebanon\*



\*first eight months of each year

Source: Central Administration of Statistics, Byblos Research

In parallel, the number of visitors from Arab countries increased by 19.6% in the first eight months of 2019 from the same period last year, followed by those from Europe (+9.4%), the Americas (+7%), and Asia (+1.9%); while the number of visitors from Africa contracted by 41.1% year-on-year, and those from Oceania regressed by 5.6%.

On a country basis, the number of tourists from Saudi Arabia grew by 81.1% in the covered period, followed by visitors from Kuwait (+38%), the UAE (+31.2%), Egypt (+19.1%), Turkey (+19%), Brazil (+14%), Sweden (+13.5%), Italy (+10.1%), Germany (+7.3%), the United States (+7.1%), France (+6.7%), the United Kingdom (+6%), Jordan (+5.4%), Canada (+4.3%), Iraq (+3.8%), and Venezuela (+1.8%).

### Compensation of public-sector personnel absorbs 40% of fiscal spending in first half of 2019

Figures issued by the Ministry of Finance show that the compensation of public-sector personnel totaled \$3.28bn in the first half of 2019, constituting an increase of 2.9% from \$3.19bn in the first half of 2018. Salaries, wages and related benefits accounted for 57.4% of the total in the covered period, followed by retirement benefits (26.3%), end-of-service indemnities (12%), and transfers to public institutions to cover salaries (4.4%). The rise in the compensation of public-sector personnel is due to a 58% increase in end-of-service indemnities, as well as to a growth of 18.8% in retirement benefits, which were partly offset by a decline of 8.9% in salaries, wages & related benefits and of 2.3% in transfers to public institutions to cover salaries. The Finance Ministry attributed the increase in end of service indemnities partly to the implementation of the new salary scale, which encouraged public employees to retire before reaching legal retirement age. The compensation of public-sector personnel represented the largest component of current primary spending and accounted for 73.4% of such expenditures in the first half of 2019 compared to 67.6% in the same period last year. It absorbed 40.1% of fiscal spending in the covered period relative to 35.5% in the first half of 2018.

In parallel, salaries, wages & related benefits paid to public-sector employees amounted to \$1.88bn in the first half of 2019, relative to \$2.07bn in the same period of 2018. 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.

Salaries and benefits of military personnel reached \$1.2bn and accounted for 64.4% of salaries, wages & related benefits paid to the public sector in the first half of 2019. The salaries and benefits of personnel in public education followed with \$385.4m (20.5% of the total), then civil staff with \$201m (10.7%), the government's contribution to the employees' cooperative with \$63m (3.3%), and the salaries and benefits of customs employees with \$19.9m (1.1%).

Also, the Lebanese Army's salaries totaled \$812m in the first half of 2019 and represented 67% of military personnel's salaries and benefits. The salaries of the Internal Security Forces followed with \$298.5m (24.6%), those of the General Security Forces with \$76.3m (6.3%), and the salaries of State Security Forces with \$25.2m (2.1%).

The overall year-on-year decline in salaries, wages & related benefits paid to public-sector employees in the first half of 2019 reflects a decrease of \$181.8m in allowances, and a decline of \$28.5m in benefits and other payments, such as bonuses, given to non-military bodies. In contrast, basic salaries increased by \$27.2m. Overall, basic salaries increased by 1.8% to \$1.5bn in the first half of 2019, allowances fell by 50.7% year-on-year to \$176.5m, and benefits and other payments declined by 15.6% to \$154.6m in the first half of 2019.



### Lebanon to issue \$2bn in Eurobonds

The Ministry of Finance indicated that it plans to issue about \$2bn worth of Eurobonds by the end of October 2019. It noted that it will use part of the proceeds of the issuance to pay back a bridge financing loan that Banque du Liban (BdL) extended to the government. According to the Finance Ministry, the bridge financing loan from BdL amounted to \$1.15bn at the end of June 2019. It added that the rates offered on the Eurobonds will be based on the prevailing market rates.

Lebanon has a \$1.5bn Eurobond that will mature in November 2019. BdL had previously announced that it set aside the needed funds to repay the upcoming Eurobond maturity. BdL noted that it is ready to buy the November 2019 Eurobonds at market prices, in case Eurobond holders decide to sell their position before the maturity date. BdL paid at least \$3.2bn on behalf of the government so far this year to cover the principal and coupons of maturing Eurobonds, including \$1.25bn for maturing principal and coupons in May 2019 and \$500m for a Eurobond that matured on April 23, 2019.

Lebanon's gross public debt reached \$86bn at the end of July 2019, constituting an increase of 1% from \$85.1bn at the end of 2018 and a rise of 3.7% from \$82.9bn at end-July 2018. In nominal terms, the gross public debt grew by \$865.7m in the first seven months of 2019 relative to an increase of \$3.4bn in the same period of 2018. Debt denominated in Lebanese pounds totaled \$53.6bn at end-July 2019, up by 3.8% from the end of 2018 and by 12.5% from end-July 2018; while debt denominated in foreign currency stood at \$32.4bn, constituting a decrease of 3.3% from end-2018 and a decline of 8.1% from end-July 2018.

Local currency debt accounted for 62.3% of the gross public debt at the end of July 2019 compared to 57.5% a year earlier, while foreign currency-denominated debt represented the balance of 37.7% relative to 42.5% at end-July 2018. The weighted interest rate on outstanding Treasury bills was 6.4% and the rate on Eurobonds was 6.84% in July 2019. Further, the weighted life on Eurobonds was 7.54 years, while it was 1,621 days on Treasury bills and bonds.

### Additional duties on 18 imported products come into effect

Decree No. 5497 that imposes specific duties on 18 imported products for a period of five years came into effect on September 26, 2019. The Ministry of Economy & Trade approved in July 2019 the draft decree and, in coordination with the Ministry of Industry, finalized the list of products that are subject to additional duties. The new measure aims to promote local production and to protect the Lebanese market from dumping.

The decree imposes an additional duty of 7% on imported egg cartons; as well as a levy of 10% on imported wafers & biscuits, cleaning products, bulgur, carbon & test liner papers, sanitary products, refrigerators, freezers, ovens and washing machines. It also imposes a duty of 14% on imported bread flour; an additional tariff of 15% on imported furniture, scented wipes, sanitary papers and truck bodies; a duty of 16% on imported aluminum profiles, as well as an additional duty of 20% on imported iron pipes and on dairy products and white cheese. It also introduces a duty of \$9.5 per 55 kilograms on imported granite and marble. In addition, it applies the current levy of 35% on imports of canned food from all countries to Lebanon. Further, the decree imposes additional duties of 20% on corn flakes imported from the European Union and of 15% on corn flakes imported from Turkey.

The imposition of the additional duties affects some products imported from countries that have trade agreements with Lebanon, such as Arab countries and member states of the European Union. According to the decree, imports from Arab countries that have signed the Agreement on Facilitating and Developing Trade among Arab States will be subject to the additional duty after the Economic and Social Council of the Arab League approves the new duties. Also, the tariffs on imports from EU countries will increase once Lebanese authorities inform the European Commission about the additional levies.

In parallel, the Council of Ministers exempted the 18 products from the 3% duty, which was imposed on most imports that are subject to the value-added tax as part of the tax measures in the 2019 budget.

### Treasury transfers to Electricité du Liban down 3% to \$717m in first half of 2019

Figures released by the Ministry of Finance show that Treasury transfers to Electricité du Liban (EdL) totaled \$717.1m in the first half of 2019, constituting a decline of 2.9% from \$738.3m in the same period of 2018.

Reimbursements for the purchase of natural gas, fuel and gas oil totaled \$715.7m, or 99.8% of transfers, in the covered period, while EdL's debt servicing represented the balance of \$1.3m, or 0.2% of the transfers. The ministry attributed the decline in transfers mainly to a decrease of \$6m 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, as well as to a drop of \$2.7m in debt servicing. Reimbursements fell by 0.8% year-on-year from \$721.7m in the first half of 2018, while debt servicing declined by 65.9% from \$4m. In addition, there were no transfers to Electricity Syria in the first six months of 2019, compared to transfers of \$12.6m in the same period of 2018.

Treasury transfers to EdL accounted for 13.2% of budgetary primary expenditures in the covered period compared to 12.1% in the first half of 2018. They constituted the third largest expenditures item, or 8.8%, of overall fiscal spending after public sector personnel costs 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, 2.5% of GDP in 2017 and 3.1% of GDP in 2018.

### **EBRD announces intention to launch facility to invest in green projects in Lebanon**

The European Bank for Reconstruction and Development (EBRD) announced its intention to launch the Green Economy Financing Facility-Lebanon (GEFF Lebanon) program, which aims to invest \$200m in green projects in Lebanon. The facility is in line with EBRD's Green Economy Transition initiative, which helps countries build low carbon-emitting economies through green investments, including in renewable energy and waste minimization projects. The GEFF Lebanon program aims to build on the related pilot project that the bank launched in November 2018.

The EBRD pointed out that the GEFF Lebanon would provide financing in the form of senior unsecured loans to participating financial institutions, which, in turn, would extend the funds to private sector borrowers that invest in green technologies & services. The GEFF Lebanon program consists of two phases. The first phase, which the EBRD intends to launch in late 2019 or early 2020, would provide private sector borrowers with up to \$100m in funding through two participating financial institutions. The second phase, which the EBRD expects to launch in the second half of 2020, would allocate another \$100m in funds through two or three participating financial institutions to invest in more innovative and high performance green technologies. In parallel, the EBRD said that it intends to contract a consulting firm or firms that would support the GEFF Lebanon program, from the preparation stage to the implementation of the program.

### **Import activity of top five shippers and freight forwarders down 9% in first seven months of 2019**

Figures released by the Port of Beirut show that overall import shipping operations by the top five shipping companies and freight forwarders through the port reached 170,483 20-foot equivalent units (TEUs) in the first seven months of 2019, constituting a decrease of 8.8% from 186,946 TEUs in the same period of 2018. The five shipping and freight-forwarding firms accounted for 77.7% of imports to the Lebanese market and for 47.8% of the total import freight market in the first seven months of 2019. Mediterranean Shipping Company (MSC) handled 66,882 TEUs in imports in the covered period, equivalent to an 18.8% share of the total import freight market. Merit Shipping followed with 36,623 TEUs (10.3%), then MAERSK with 27,354 TEUs (7.7%), Metz Group with 20,590 TEUs (5.8%), and Tourism & Shipping Transport with 19,034 TEUs (5.3%). Further, MAERSK registered an annual increase of 61.5% in import shipping in the first seven months of 2019, the highest growth rate among the top five shipping and freight forwarding companies, while Metz Group posted a decrease of 20.8%, the steepest decline in the covered period.

In parallel, export shipping operations by the top five shipping and freight-forwarding firms through the Port of Beirut reached 37,268 TEUs in the first seven months of 2019, constituting a decrease of 2.1% from 38,080 TEUs in the same period of 2018. The five shipping companies and freight forwarders accounted for 84.8% of exported Lebanese cargo and for 10.5% of the total export freight market in the first seven months of 2019. Merit Shipping handled 17,905 TEUs of freight in the first seven months of 2019, equivalent to 40.7% of the Lebanese cargo export market. MAERSK followed with 7,129 TEUs (16.2%), then Metz group with 4,424 TEUs (10.1%), Tourism & Shipping with 3,942 TEUs (9%), and Sealine Group with 3,868 TEUs (8.8%). Further, MAERSK registered an increase of 85.4% in export shipping in the first seven months of 2019, the highest growth rate among the top five shipping and freight forwarding companies, while Sealine Group posted a decline of 39.8%, the steepest decrease in the covered period.

### **First National Bank's net earnings at \$10m in first half of 2019**

First National Bank, one of Lebanon's top 16 banks in terms of deposits, announced unaudited consolidated net profits of \$10.1m in the first half of 2019, constituting a drop of 28.3% from net earnings of \$14.1m in the first half of 2018. Net operating income declined by 17.7% year-on-year to \$40.1m in the first half of 2019, with net interest income decreasing by 20% to \$30m and net fee income increasing by 5.1% to \$3.6m. Non-interest income accounted for 20.4% of total income in the first half of 2019, up from 15.2% in the same period last year; with net fee income representing 43.1% of non-interest earnings relative to 45.8% in the first half of 2018. Further, the bank's interest margin was 1.3% in the first half of 2019 compared to 1.73% in the same period of 2018; while its spread reached 1.24% in the covered period relative to 1.64% in the first half of 2018. Total operating expenditures regressed by 9.8% to \$28.5m in the first half of 2019, with staff expenses declining by 11.6% to \$17.3m and administrative & other operating expenditures decreasing by 9.3% from the same period last year to \$9.3m. Also, the bank's return on average assets was 0.39% in June 2019 on an annualized basis, relative to 0.56% a year earlier, while its return on average equity reached 4.84% in June 2019 on an annualized basis compared to 6.5% in June 2018. The bank's cost-to-income ratio increased from 64.7% in the first half of 2018 to 70% in the same period of 2019.

In parallel, total assets reached \$5.3bn at end-June 2019, up by 1.2% from end-2018, while loans & advances to customers, excluding those to related parties, dropped by 6.4% from end-2018 to \$833m. Also, customer deposits, excluding those from related parties, totaled \$3.7bn at end-June 2019 and decreased by 1.5% from end-2018. The loans-to-deposits ratio stood at 23.48% at end-June 2019 compared to 24.45% at end-2018. Further, the bank's shareholders' equity reached \$411.3m at end-June 2019, down by 3.8% from end-2018.

### **BSE de-lists 285,000 Bank Audi GDRs**

The Beirut Stock Exchange (BSE) de-listed on September 23, 2019 a total of 250,000 of Bank Audi's Global Depository Receipts (GDRs) following the bank's request from the BSE to de-list the shares. The bank's request came after Bank of New York Mellon, which is the depository bank of the bank's GDRs, converted the 250,000 GDRs into common shares on September 6, 2019.

In parallel, the BSE de-listed on September 6, 2019 a total of 35,000 of Bank Audi's GDRs after Bank of New York Mellon converted the 35,000 GDRs into common shares on August 20, 2019. Following the de-listing of 285,000 of the bank's GDRs, the total number of the bank's GDRs listed on the BSE declined from 119,924,761 to 119,639,761 shares.

## Corporate Highlights

### Net profits of Syrian affiliates of six Lebanese banks at \$14m in first half of 2019 amid stable exchange rate

Financial results issued by the affiliates of six Lebanese banks operating in Syria show that their aggregate net profits reached SYP6.2bn in the first half of 2019, constituting a rise of 66.3% from net earnings of SYP3.7bn in the same period of 2018. The improvement in the banks' net earnings is due to the stability of the official exchange rate at SYP436 against the US dollar since November 27, 2017. In turn, the stability of the exchange rate did not result in any unrealized net foreign exchange losses on the banks' structural positions. In US dollar terms, the six banks generated net profits of \$14.2m in the covered period relative to net earnings of \$8.5m in the first half of 2018.

Banque BEMO Saudi Fransi posted profits of SYP2.4bn in the first half of 2019 relative to earnings of SYP1.6bn in the same period of 2018, while Bank Al-Sharq, the affiliate of Banque Libano-Française, registered profits of SYP1.6bn in the covered period compared to earnings of SYP152m in the first half of 2018. Also, Byblos Bank Syria posted profits of SYP1.1bn the first half of 2019 relative to losses of SYP206.1m in the same period last year, while Bank Audi Syria registered profits of SYP455.4m in the covered period compared to earnings of SYP360m in the first half of 2018. Further, Fransabank Syria posted profits of SYP417.2m in the first half of 2019 relative to earnings of SYP50m in the same period of 2018, while Bank of Syria & Overseas registered profits of SYP251.4m in the covered period compared to earnings of SYP1.8bn in the first half of 2018. Syria Gulf Bank, the affiliate of First National Bank sal, did not disclose its financials in the first half of 2019.

The net interest income of the six banks totaled SYP11.5bn, or \$26.3m in the first half of 2019, up by 67.3% from SYP6.9bn, or \$15.7m in the same period of 2018; while their net fees & commission income doubled year-on-year to SYP4.1bn, or \$9.3m in the first half of 2019. In addition, the six banks' operating income surged by 76.3% annually to SYP17.9bn, or \$41.1m in the first half of 2019, while their total operating expenses reached SYP8.6bn, or \$19.8m in the covered period, up by 25% from SYP6.9bn, or \$15.8m in the first half of 2018.

In parallel, the banks' aggregate assets reached SYP868.5bn, or \$1.99bn at the end of June 2019, nearly unchanged from SYP863.1bn, or \$1.98bn at end-2018. Also, the banks' total loans reached SYP225.5bn, or \$517.2m at end-June 2019, reflecting an increase of 30.1% from SYP173.3bn, or \$397.5m at the end of 2018. Further, the banks' customer deposits totaled SYP590.9bn, or \$1.36bn at the end of June 2019, nearly unchanged from SYP591.4bn, or \$1.36bn at end-2018. The ratio of the banks' loans-to-customer deposits stood at 38.2% at the end of June 2019 relative to 29.3% at the end of 2018. Also, the aggregate shareholders' equity of the banks reached SYP142.7bn, or \$327.2m, at the end of June 2019, relative to SYP137.2bn, or \$314.8m, at end-2018.

#### Results of Affiliates of Lebanese Banks in Syria in First Half of 2019 (US\$m)

|                   | Banque<br>BEMO Saudi<br>Fransi | Bank of<br>Syria &<br>Overseas | Fransabank<br>Syria | Bank<br>Audi<br>Syria | Bank<br>Al-Sharq | Byblos<br>Bank<br>Syria |
|-------------------|--------------------------------|--------------------------------|---------------------|-----------------------|------------------|-------------------------|
| Net Profits       | 5.55                           | 0.58                           | 0.96                | 1.04                  | 3.56             | 2.48                    |
| Total Assets      | 694.65                         | 353.71                         | 279.60              | 274.48                | 196.77           | 192.68                  |
| % Change**        | -0.4%                          | -9.2%                          | 2.7%                | -0.8%                 | 28.3%            | 1.3%                    |
| Loans             | 212.05                         | 29.48                          | 88.68               | 48.38                 | 70.93            | 67.69                   |
| % Change**        | 21.7%                          | 32.3%                          | 42.2%               | 79.0%                 | 32.6%            | 16.7%                   |
| Customer Deposits | 562.31                         | 219.79                         | 157.19              | 149.26                | 146.60           | 120.22                  |
| % Change**        | -1.7%                          | -11.2%                         | 5.4%                | -1.9%                 | 33.3%            | -4.3%                   |

\*Change from end-2018

Source: Banks' financial statements

### Strong global market position supports ALICO rating

In its periodic review of the rating of global insurance firm American Life Insurance Company (ALICO), Moody's Investors Service indicated that the 'A1' Insurance Financial Strength (IFS) rating and the 'stable' outlook reflect the company's strong market position in the Japanese life insurance market, as well as in other parts of Asia, Europe, the Middle East & Africa, and Latin America. It noted that the firm offers low-risk and diversified products in these international markets, including life insurance, retirement and savings, accident and health. Also, it considered that the insurer's earnings, which have been growing steadily, as well as its ownership by insurance group MetLife, constitute key strengths. In contrast, the agency pointed out that ALICO's ratings are constrained by structural weaknesses in the Japanese insurance market, a generally weak global operating environment, and low interest rates in several countries.

MetLife ALICO is the largest provider of life insurance products in Lebanon. The company announced audited net profits of \$39.3m in 2018 for its branch in Lebanon, constituting a decrease of 4.7% from net earnings of \$41.3m in 2017. Its audited balance sheet shows total assets of \$547.1m at the end of 2018, down by 7.8% from \$593.2m at end-2017. *Al-Bayan* magazine's annual survey of the insurance sector in Lebanon ranked MetLife ALICO in first and 12<sup>th</sup> places in 2018 in terms of life and non-life premiums, respectively. The firm's life premiums in Lebanon reached \$87.6m and its non-life premiums amounted to \$37.2m last year, down by 0.6% and up by 7.5%, respectively, from 2017. MetLife ALICO had a 16.2% share of the life market and a 3.2% share of the local non-life market in 2018. Overall, it ranked in second place in terms of life and non-life premiums in 2018, with an 7.3% market share.



## 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   | 20.6   | (1.2)   |
| Fiscal Expenditures / GDP                  | 29.0   | 28.8   | 31.7   | 2.9     |
| Fiscal Balance / GDP                       | (9.6)  | (7.0)  | (11.1) | (4.1)   |
| Primary Balance / GDP                      | 0.04   | 2.7    | (1.1)  | -       |
| 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               | Sep 2017 | Aug 2018 | Sep 2018 | Change** | Risk Level |
|-----------------------|----------|----------|----------|----------|------------|
| Political Risk Rating | 55.5     | 54.0     | 54.0     | ▲        | 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     | 57.75    | 57.75    | ▲        | High       |

| MENA Average*         | Sep 2017 | Aug 2018 | Sep 2018 | Change** | Risk Level |
|-----------------------|----------|----------|----------|----------|------------|
| Political Risk Rating | 57.8     | 57.9     | 57.9     | ▼        | High       |
| Financial Risk Rating | 38.1     | 38.7     | 38.8     | ▼        | Low        |
| Economic Risk Rating  | 30.4     | 33.2     | 33.1     | ▼        | Moderate   |
| Composite Risk Rating | 63.1     | 64.9     | 64.9     | ▼        | Moderate   |

\*excluding Lebanon

\*\*year-on-year change in risk

Source: The PRS Group, Byblos Research

Note: Political & Composite Risk Ratings range from 0 to 100 (where 100 indicates the lowest risk)

Financial & Economic Risk ratings range from 0 to 50 (where 50 indicates the lowest risk)

## Ratings & Outlook

| Sovereign Ratings            | Foreign Currency |    |          | Local Currency |    |          |
|------------------------------|------------------|----|----------|----------------|----|----------|
|                              | LT               | ST | Outlook  | LT             | ST | Outlook  |
| Moody's Investors Service    | Caa1             | NP | Stable   | Caa1           |    | Stable   |
| Fitch Ratings                | CCC              | C  | -        | CCC            | C  | -        |
| S&P Global Ratings           | B-               | B  | Negative | B-             | B  | Negative |
| Capital Intelligence Ratings | B                | B  | Negative | B              | B  | Negative |

Source: Rating agencies

### Banking Sector Ratings

|                           | Outlook |
|---------------------------|---------|
| Moody's Investors Service | Stable  |

Source: Moody's Investors Service



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