

## LEBANON THIS WEEK

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Number of airport passengers up 73% in 2021

Net foreign assets of financial sector down \$1.6bn in first 11 months of 2021

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Gross written premiums up 12% to \$1.3bn in first nine months of 2021, claims at \$845.5m

MEA posts net profits of \$703m in 2011-2020 period, distributes \$440m in dividends

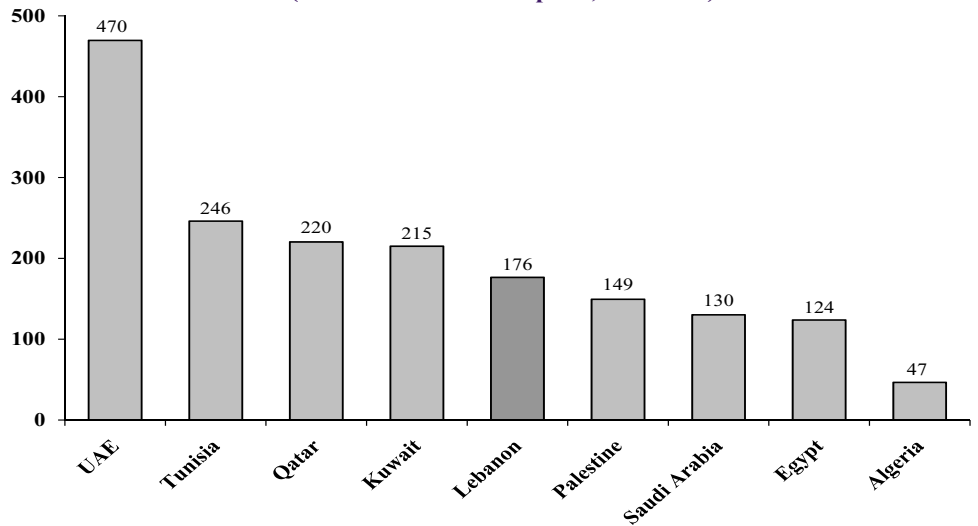
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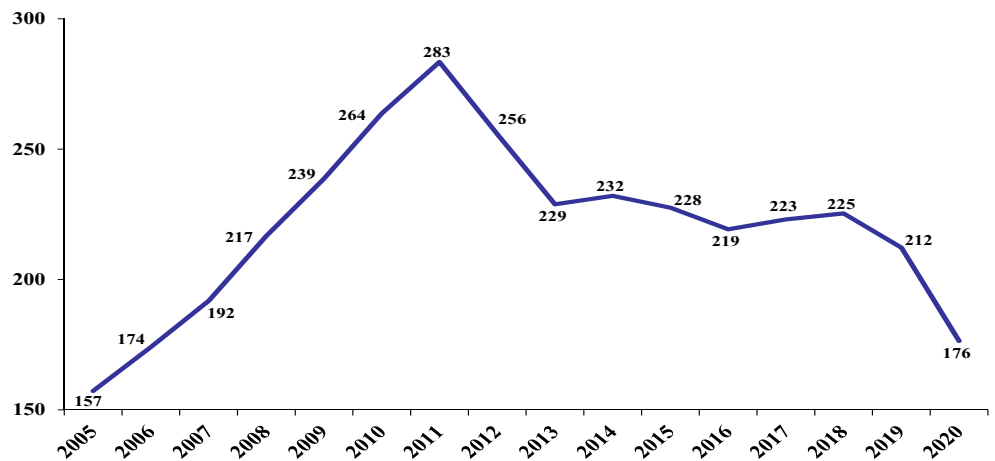
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### Charts of the Week

**Penetration Rate of Borrowers from Commercial Banks in Arab Countries at end-2020**  
(number of borrowers per 1,000 adults)



**Penetration Rate of Borrowers from Commercial Banks in Lebanon**  
(number of borrowers per 1,000 adults)



Source: International Monetary Fund, Byblos Bank

### Quote to Note

"I have underlined the need to allow for the swift start of the formal negotiations to finalize the agreement with the International Monetary Fund without further impediments."

*The Secretary-General of the United Nations, António Guterres, on the need for Lebanese authorities to start negotiations with the IMF on a funded reforms program*

### Number of the Week

**584%:** Percentage increase of the Consumer Price Index between December 2019 and November 2021, according to the Central Administration of Statistics

## Lebanon in the News

\$m (unless otherwise mentioned)	2020	Jan-May 2020	Jan-May 2021	% Change*	May-20	Apr-21	May-21
Exports**	3,544	914	699	-23.6%	251	-	-
Imports**	11,310	2,931	3,329	13.6%	674	-	-
Trade Balance**	(7,765)	(2,017)	(2,631)	30.5%	(423)	-	-
Balance of Payments	(10,551)	(2,191)	(1,574)	-28.2%	(888)	(546)	(181)
Checks Cleared in LBP	19,937	7,748	7,481	-3.5%	1,105	1,719	1,611
Checks Cleared in FC	33,881	13,845	9,456	-31.7%	1,467	2,108	1,501
Total Checks Cleared	53,828	21,597	16,941	-21.6%	2,572	3,828	3,112
Fiscal Deficit/Surplus	(2,535)	(1,998)	-	-	(247)	-	-
Primary Balance	(1,136)	(716)	-	-	(120)	-	-
Airport Passengers	2,501,975	1,191,376	1,052,191	-11.7%	20,253	216,344	286,371
Consumer Price Index	84.9	28.6	138.0	10940	56.5	121.7	119.8

\$bn (unless otherwise mentioned)	Dec-20	Sep-20	Jun-21	Jul-21	Aug-21	Sep-21	% Change*
BdL FX Reserves	18.60	20.00	15.19	14.68	14.20	14.62	(26.9)
In months of Imports	15.10	-	-	-	-	-	-
Public Debt	95.59	94.81	97.75	98.19	98.73	-	-
Bank Assets	188.04	192.57	181.08	180.64	180.28	179.68	(6.7)
Bank Deposits (Private Sector)	139.14	142.18	134.23	134.23	133.04	132.49	(6.8)
Bank Loans to Private Sector	36.17	38.60	31.87	31.41	30.86	30.00	(22.3)
Money Supply M2	44.78	40.94	49.77	49.59	49.85	49.95	22.0
Money Supply M3	132.70	130.92	134.15	133.42	133.21	132.90	1.5
LBP Lending Rate (%)	7.77	7.89	7.32	7.26	7.52	7.65	(24)
LBP Deposit Rate (%)	2.64	3.35	1.84	1.74	1.62	1.53	(182)
USD Lending Rate (%)	6.73	7.54	6.46	5.99	5.87	6.34	(120)
USD Deposit Rate (%)	0.94	1.15	0.39	0.33	0.30	0.26	(89)

\*year-on-year; \*\*figures for the period reflect the first quarter of each year

Source: Association of Banks in Lebanon, Banque du Liban, Ministry of Finance, Central Administration of Statistics, Byblos Research

## Capital Markets

Most Traded Stocks on BSE*	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization	Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Solidere "A"	27.22	(11.8)	134,576	27.9%	Oct 2022	6.10	9.75	783.93
Byblos Common	0.84	(2.3)	90,993	4.9%	Jan 2023	6.00	9.75	409.56
BLOM Listed	3.50	0.0	19,569	7.7%	Apr 2024	6.65	9.75	133.19
Solidere "B"	26.84	(11.1)	17,923	17.9%	Jun 2025	6.25	9.75	81.10
Audi Listed	2.40	3.0	10,000	14.5%	Nov 2026	6.60	9.75	53.90
BLOM GDR	3.90	(0.5)	1,367	3.0%	Feb 2030	6.65	9.75	30.80
Audi GDR	2.25	9.8	1,000	2.8%	Apr 2031	7.00	9.75	26.72
HOLCIM	19.75	(1.3)	45	4.0%	May 2033	8.20	9.75	21.60
Byblos Pref. 09	37.99	0.0	-	0.8%	Nov 2035	7.05	9.75	17.59
Byblos Pref. 08	34.99	0.0	-	0.7%	Mar 2037	7.25	9.75	15.92

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

Source: Refinitiv

	Jan 3-7	Dec 27-29	% Change	December 2021	December 2020	% Change
Total shares traded	74,631	171,230	(56.4)	1,283,538	3,480,130	(63.1)
Total value traded	\$640,486	\$5,359,042	(88.0)	\$22,004,921	\$29,046,630	(24.2)
Market capitalization	\$10.35bn	\$10.61bn	(2.46)	\$10.61bn	\$6.72bn	57.8

Source: Beirut Stock Exchange (BSE)



### Lebanon ranks 170<sup>th</sup> globally, 16<sup>th</sup> in Arab region in terms of country risk in third quarter of 2021

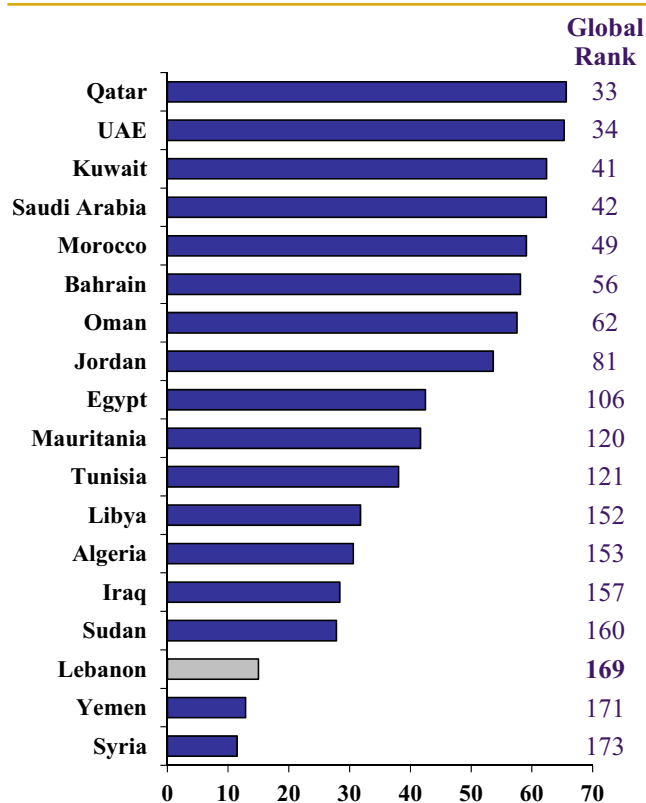
In its quarterly survey of the country risk level in 174 countries, the Euromoney Group ranked Lebanon in 170<sup>th</sup> place worldwide and in 16<sup>th</sup> place among 18 Arab countries in the third quarter of 2021. In comparison, Lebanon ranked in 169<sup>th</sup> place globally and in 16<sup>th</sup> place regionally in the second quarter of 2021, while it came in 165<sup>th</sup> place worldwide and in 16<sup>th</sup> place among Arab countries in the third quarter of 2020. As such, Lebanon's global rank dropped by five spots year-on-year, while its regional rank was unchanged from the third quarter of 2020. The survey evaluates the country risk level of economies by assigning a weight to five categories that cover Political Assessment, Economic Assessment, Structural Assessment, Access to International Capital Markets, and Debt Indicators. A higher score reflects a lower country risk level.

Globally, Lebanon had a lower country risk level than Yemen, Syria, Zimbabwe, and North Korea among economies with a GDP of \$10bn or more. Lebanon's global rank on the Structural Assessment category dropped by 18 spots from the same quarter of 2020. It also declined by 25 notches on the Access to International Capital Markets indicator and decreased by three spots on the Political Assessment category, while it regressed by one notch on the Economic Assessment indicator and on the Debt Indicators category.

Lebanon received a score of 14.98 points in the third quarter of 2021, constituting a decline of 8.3% from 16.34 points in the second quarter of 2021 and a drop of 27.7% from 20.73 points in the third quarter of 2020. Lebanon's score came lower than the global average score of 48.95 points and the Arab countries' average of 42.46 points. Also, its score was lower than the Gulf Cooperation Council (GCC) countries' average score of 61.9 points and the average score of non-GCC Arab countries of 32.74 points. Further, Lebanon's score dropped by 50% on the Access to International Capital Markets indicator, by 29% on the Economic Assessment indicator, by 29% on the Political Assessment category, by 23% on the Debt Indicators category and by 12% on the Structural Assessment category from the third quarter of 2020. The survey attributed the drop in the scores of most categories to the government's decision to default on its Eurobond obligations in March 2020, to the prevailing political deadlock at the time of the survey, and to the lack of structural reform measures to address the prevailing crises.

In parallel, Lebanon ranked ahead of only Yemen, North Korea, Syria and Zimbabwe worldwide on the Economic Assessment indicator. Also, it preceded only Zimbabwe, Syria, Yemen, North Korea and Somalia globally on the Political Assessment category. In addition, Lebanon fared better than Dominica and worse than the Gambia worldwide; while it ranked ahead of only Sudan, Iraq, Syria and Yemen regionally on the Structural Assessment indicator. Further, it preceded Cuba and came behind Nicaragua globally, while it ranked ahead of only Yemen and Syria among Arab countries on the Access to International Capital Markets indicator. Finally, Lebanon preceded only Mozambique, Venezuela, Cuba, Congo and North Korea worldwide on the Debt Indicators category.

### Country Risk in Arab World in Third Quarter of 2021 Arab Countries' Scores & Rankings



Source: Euromoney Group, Byblos Research

### Country Risk Indicators for Lebanon - Third Quarter of 2021

	Weighting (%)	Lebanon Score	Arab Rank	Global Rank	Arab Avg Score	Global Avg Score
Economic Assessment	35	4.22	16	170	14.52	16.43
Political Assessment	35	4.52	16	169	14.63	17.42
Structural Assessment	10	3.39	14	149	4.56	5.06
Access to Int'l Capital Mkts	10	1.23	16	162	4.57	5.19
Debt Indicators	10	1.63	18	169	4.19	4.85

Source: Euromoney Group, Byblos Research

## Occupancy rate at Beirut hotels at 44%, room yields down 35% in first 10 months of 2021

EY's benchmark survey of the hotel sector in the Middle East indicates that the average occupancy rate at four- and five-star hotels in Beirut was 43.7% in the first 10 months of 2021 relative to 23.2% in the same period of 2020, and compared to an average rate of 47.2% in 14 Arab markets included in the survey. The occupancy rate at Beirut hotels was the eighth highest in the region in the covered period, while it was the lowest in the first 10 months of 2020. Beirut's occupancy rates reached 29% in January, 17% in February, 34% in March, 35% in April, 50% in May, 54% in June, 76% in July, 59.1% in August, 45.4% in September, and 35.3% in October 2021. In comparison, they were 34% in January, 42% in February, 14% in March, 2% in April, 5% in May, 4% in June, 12% in July, 38.9% in August, 43.4% in September, and 37.1% in October 2020. The occupancy rate at hotels in Beirut increased by 20.5 percentage points in the first 10 months of 2021. In comparison, the average occupancy rate in Arab markets declined by 9.3 percentage points year-on-year.

Also, the average rate per room at Beirut hotels was \$48 in the first 10 month of 2021, decreasing by 65.5% from \$138 in the same period of 2020 and constituting the lowest rate in the region. EY indicated that it based its average rate per room at Beirut hotels on the exchange rate of the Lebanese pound to the US dollar that the hotels used at the time of the clients' booking. The average rate per room in Beirut was lower than the regional average of \$132.4 that decreased by 2.2 percentage points from the first 10 months of 2020. The average rate per room at Beirut hotels reached \$73 in August, \$70 in September, and \$68 in October 2021. In comparison, it was \$195 in August, \$158 in September, and \$180 in October 2020.

Further, revenues per available room (RevPAR) amounted to \$21 at Beirut hotels in the covered period compared to \$32 in the first 10 months of 2020, and were the lowest in the region. Beirut's RevPAR regressed by 35% year-on-year and posted the steepest decrease regionally. The RevPAR at hotels in Beirut reached \$43 in August, \$32 in September, and \$24 in October 2021. In comparison, they were \$76 in August, \$68 in September, and \$67 in October 2020. Abu Dhabi had the highest hotel occupancy rate in the region at 75.7% in the first 10 months of 2021, while Dubai registered the highest average rate per room at \$231 and the highest RevPAR at \$140 in the covered period.

## Number of airport passengers up 73% in 2021

Figures released by the Beirut-Rafic Hariri International Airport (HIA) show that 4.33 million passengers utilized the airport (arrivals, departures and transit) in 2021, constituting a surge of 73.2% from 2.5 million passengers in 2020, and relative to 8.68 million passengers in 2019. The increase in the number of airport passengers in 2021 is mainly due to the gradual relaxation of lockdown measures and travel restrictions in Lebanon and in many country-sources of travelers to Lebanon, as well as to the resumption of travel activity in most countries since April.

The number of arriving passengers reached 2.07 million in 2021 and increased by 76.7% from 1.17 million passengers in 2020, compared to 4.28 million incoming passengers in 2019. July registered 355,979 arriving passengers, or 17.2% of the total, the highest of the year, followed by December with 242,955 arriving passengers (11.7%), June with 234,519 (11.3%), and August with 208,180 (10.1%). Also, there were 2.2 million departing passengers in 2021, constituting a surge of 73.8% from 1.27 million outbound passengers during 2020, relative to 4.35 million departures in 2019.

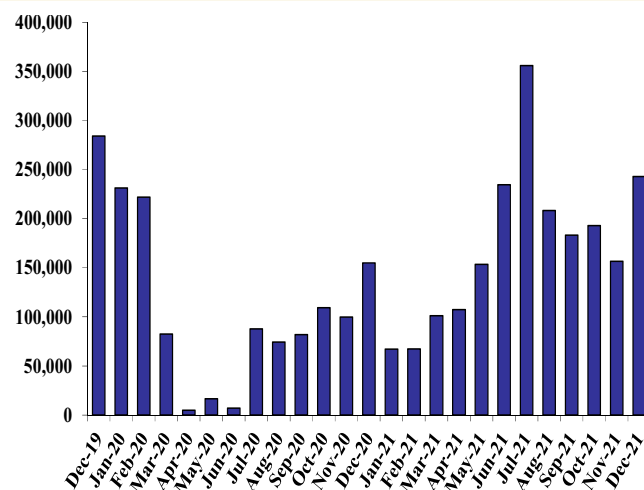
In parallel, the airport's aircraft activity totaled 39,777 take-offs and landings in 2021, representing an increase of 47% from 27,062 take-offs and landings in 2020. In comparison, aircraft activity dropped by 62.6% in 2020 and regressed by 1.8% in 2019. In addition, the HIA processed 67,899 metric tons of freight last year that consisted of 27,105 tons of import freight and 40,794 tons of export freight. Middle East Airlines had 13,678 flights in 2021 and accounted for 34.4% of the HIA's total aircraft activity.

### Hotel Sector Performance in First 10 Months of 2021

	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Abu Dhabi	76	51	(3.9)
Doha	74	70	20.3
Dubai	61	140	75.8
Ras Al Khaimah	56	93	17.5
Riyadh	55	73	3.4
Cairo-City	52	48	68.7
Jeddah	48	98	47.6
<b>Beirut</b>	<b>44</b>	<b>21</b>	<b>(35.1)</b>
Kuwait City	39	88	20.2
Madina	38	39	34.3
Manama	36	45	50.6
Muscat	31	22	(25.9)
Amman	30	41	27.2
Makkah	23	34	(7.1)

Source: EY, Byblos Research

### Number of Arriving Passengers



Source: Beirut-Rafic Hariri International Airport

### Net foreign assets of financial sector down \$1.6bn in first 11 months of 2021

Figures issued by Banque du Liban (BdL) show that the net foreign assets of the financial sector, which are a proxy for Lebanon's balance of payments, declined by \$1.58bn in the first 11 months of 2021, compared to decreases of \$10.2bn in the same period of 2020 and of \$5bn in the first 11 months of 2019.

The cumulative deficit in the first 11 months of 2021 was caused by a drop of \$4.18bn in the net foreign assets of BdL, which was partly offset by a rise of \$2.61bn in those of banks and financial institutions. Further, the net foreign assets of the financial sector increased by \$160m in November 2021, compared to a decrease of \$154.4m in October 2021 and to a decline of \$214.4m in November 2020. The November increase was caused by a dip of \$339m in the net foreign assets of BdL and a growth of \$499m in those of banks and financial institutions.

The cumulative increase in the banks' net foreign assets is mostly due to a decline in their foreign liabilities. The decrease in foreign liabilities was driven mainly by the contraction in liabilities to the non-resident financial sector and in non-resident customer deposits. In parallel, the drop in BdL's net foreign assets was due in part to the financing of the imports of hydrocarbons, wheat, medicine, medical equipment, a large number of food and non-food items, and raw materials for agriculture and industry.

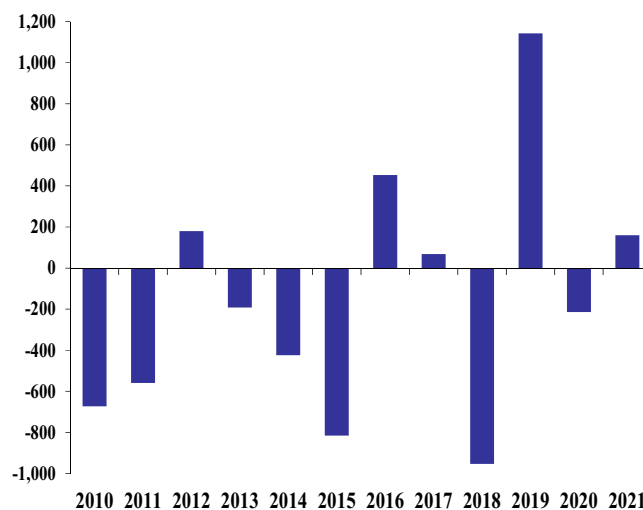
### Nearly 90% of Treasury securities in Lebanese pounds have five-year maturities or longer

Figures released by the Association of Banks in Lebanon show that the face value of outstanding Treasury securities denominated in Lebanese pounds reached LBP91,770bn or the equivalent of \$60.9bn, at the end of November 2021, compared to LBP88,161bn or \$58.5bn at end-November 2020. The dollar figures are converted at the official exchange rate of the Lebanese pound against the US dollar. The weighted interest rate on Lebanese Treasury securities denominated in Lebanese pounds was 6.55% in November 2021 compared to 6.44% in November 2020.

The distribution of outstanding Treasury securities shows that 10-year Treasury bonds accounted for 37.7% or LBP34,622bn, five-year Treasury securities had a share of 25% (LBP22,848bn), and seven-year Treasury bonds represented 22.5% (LBP20,680bn) of aggregate securities denominated in Lebanese pounds at the end of November 2021. Also, the share of three-year Treasury bonds was 5.7% (LBP5,217bn), 12-year Treasury securities accounted for 3.4% of the total (LBP3,076bn), the portion of two-year Treasury bonds was 2.6% (LBP2,397bn), 15-year Treasury securities represented 1.5% of the total (LBP1,417bn), one-year Treasury bills had a share of 1.4% (LBP1,241bn), six-month T-bills accounted for 0.2% (LBP193bn), and the portion of three-month T-bills was 0.1% (LBP79bn) of the total. As such, 65.2% of outstanding Treasury securities have seven-year maturities or longer and 90% have five-year maturities or more.

In parallel, LBP470m in outstanding Treasury securities denominated in Lebanese pounds matured in November 2021, of which 52% were five-year Treasury bonds, 24.3% consisted of three-year Treasury bills, 12.3% were two-year Treasury bonds, 5% consisted of six-month Treasury securities, 4.3% were one-year Treasury bills, and 2% consisted of three-month Treasury bills. According to ABL, LBP1,355bn in outstanding Treasury bonds in Lebanese pounds will mature in the remainder of 2021, and LBP11,506bn will come due in 2022.

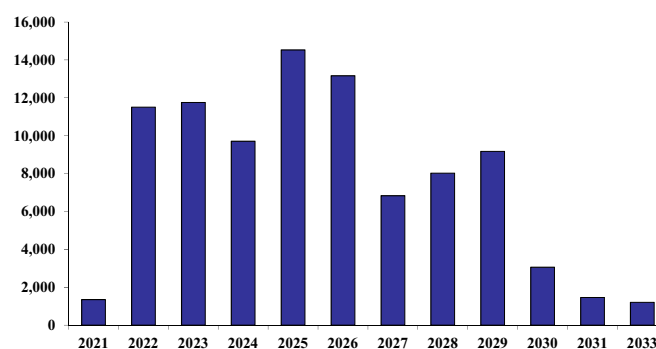
### Change in Net Foreign Assets of Financial Sector\* (US\$m)



\*in November of each year

Source: Banque du Liban, Byblos Research

### Projected Maturities of Treasury Securities in LBP\* (LBP billions)



\*As at end-November 2021

Source: Association of Banks in Lebanon, Byblos Research

### **Compensation of public-sector personnel absorbs 50% of public revenues in first half of 2021**

Figures issued by the Ministry of Finance show that the compensation of public-sector personnel totaled LBP4,486bn, or the equivalent of \$2.9bn, in the first half of 2021, constituting a decrease of 9% from LBP4,926 (\$3.3bn) in the same period of 2020. The dollar figures are based on the official exchange rate of the Lebanese pound to the US dollar. Salaries, wages and related benefits accounted for 64.7% of the total, followed by retirement benefits (27%), transfers to public institutions to cover salaries (4.5%), and end-of-service indemnities (3.7%). Further, end-of-service indemnities declined by 18%, retirement salaries decreased by 14.3%, transfers to public institutions to cover salaries dipped by 11.4%, and wages and related benefits regressed by 5.6% in the covered period. The compensation of public-sector personnel represented the largest component of current primary spending and accounted for 72% of such expenditures in the first half of 2021 compared to 71% in the same period of 2020. It also represented 51% of fiscal spending in the first half of 2021 relative to 47.8% in the same period of the previous year, while it absorbed 49.8% of public revenues in the first half of 2021 compared to 70.8% of government receipts in the same period of 2020.

In parallel, salaries, wages and related benefits paid to public-sector workers amounted to LBP2,904bn (\$1.93bn), in the first half of 2021 compared to LBP3,077bn (\$2bn) in the same period of 2020. 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. The breakdown of salaries, wages and related benefits paid to public-sector employees shows that allowances decreased by \$84.2m, other payments given to non-military bodies declined by \$25.2m, benefits fell by \$9.95m, while basic salaries grew by \$4m year-on-year. Benefits include payments for transportation, overtime and family-related benefits, while other payments to non-military bodies consisted of the State's contribution to mutual funds and to the National Social Security Fund, as well as bonuses, among others. Basic salaries were nearly unchanged at \$1.48bn in the first half of 2021, allowances declined by 24% to \$265.3m, other payments decreased by 20% to \$100.8m and benefits retreated by 14.6% to \$58.4m from the first half of 2020.

In addition, salaries and benefits of military personnel reached \$1.3bn and accounted for 68.3% of salaries, wages and related benefits paid to public sector employees in the first half of 2021. The salaries and benefits of personnel in public education followed with \$315.8m (16.4% of the total), then civil staff with \$190.4m (10%), the government's contributions to the Civil Servants Cooperative with \$83.6m (4.3%), and the salaries and benefits of customs employees with \$22m (1.1%). Also, the Lebanese Army's salaries and benefits totaled \$827.2m and represented 63% of the salaries and benefits of military personnel. The salaries of the Internal Security Forces followed with \$364.8m (27.7%), then those of the General Security Forces with \$93m (7.1%), and the salaries of State Security Forces with \$29.85m (3.6%).

### **Amount of cleared checks down 32%, returned checks down 45% in first 11 months of 2021**

The amount of cleared checks reached \$33.6bn in the first 11 months of 2021, constituting a drop of 31.5% from \$49.1bn in the same period of 2020. In comparison, the amount of cleared checks decreased by 3.2% in the first 11 months of 2020 and declined by 17% in the same period of 2019 from the corresponding periods of the preceding year. The dollar figures are converted at the official exchange rate of the Lebanese pound to the US dollar. The amount of cleared checks in Lebanese pounds reached LBP25,478bn, or the equivalent of \$16.9bn, in the first 11 months of 2021 and regressed by 6.1% from the same period last year, while the amount of cleared checks in foreign currencies was \$16.7bn and declined by 46.3% in the covered period. Also, there were 2.95 million cleared checks in the first 11 months of 2021, down by 45.2% from 5.4 million checks in the same period of the previous year. The dollarization rate of cleared checks regressed from 63.3% in the first 11 months of 2020 to 49.7% in the same period of 2021, while the number of checks denominated in foreign currencies accounted for 52% of total cleared checks in the covered period compared to 51% in the same period of 2020.

In addition, the amount of cleared checks totaled \$2.8bn in November 2021, constituting an increase of 26.7% from \$2.2bn in the preceding month and of 29.4% from \$3.9bn in November 2020. The amount of cleared checks in Lebanese pounds reached LBP2,751bn (\$1.82bn), in November 2021, as it increased by 40.6% from \$1.3bn in October 2021 and grew by 8.4% from \$1.68bn in November 2020. Further, the amount of cleared checks in foreign currencies was \$949m in November 2021, as it rose by 6.5% from the previous month and dropped by 57.7% from November 2020. There were 202,925 cleared checks in November 2021 relative to 190,453 cleared checks in the preceding month and to 427,496 cleared checks in November 2020.

In parallel, the amount of returned checks in local and foreign currencies was \$528m in the first 11 months of 2021 compared to \$898.8m in the same period of 2020 and to \$1.46bn in the first 11 months of 2019. This constituted a drop of 45% in the first 11 months of 2021 relative to decreases of 45% and 10% in the first 11 months of 2020 and 2019, respectively. The amount of returned check in Lebanese pounds reached LBP245bn (\$162.5m), in the covered period and declined by 44.4% from the first 11 months of 2020, while the amount of returned checks in foreign currencies was \$366m and declined by 39.8% in the covered period. Also, there were 23,972 returned checks in the first 11 months of 2021, down by 77.2% from 105,113 returned checks in the same period of 2020. The number of returned checks in foreign currencies reached 14,682 in the first 11 months of 2021 and dropped by 74.3% from the same period of the previous year, while the number of returned checks in Lebanese pounds totaled 9,290 and retreated by 80.7% year-on-year.

Further, the amount of returned checks in domestic and foreign currencies stood at \$63.7m in November 2021 compared to \$57m in the previous month and in November 2020. Also, there were 1,584 returned checks in November 2021, relative to 1,679 returned checks in October 2021 and to 4,121 checks in November 2020.

### Banque du Liban's foreign assets at \$18bn, gold reserves at \$16.6bn at end-2021

Banque du Liban's (BdL) interim balance sheet reached \$163.2bn at the end of 2021, constituting increases of 9.8% from \$148.64bn at end-2020 and of 15.4% from \$141.4bn at end-2019. Assets in foreign currency totaled \$17.8bn at the end of 2021, representing decreases of \$6.3bn, or of 26%, from end-2020, and of \$19.4bn (-52.2%) from end-2019. They stood at \$22.2bn at end-March 2021, \$20.6bn at end-June 2021, and \$18.8bn at end-September 2021. Assets in foreign currency include \$5.03bn in Lebanese Eurobonds, unchanged from a year earlier.

BdL's assets in foreign currency, excluding Lebanese Eurobonds, stood at \$12.8bn at end-2021 and regressed by \$6.3bn, or by 32.8%, from \$19.1bn at the end of 2020. They declined by \$621.3m in January 2021, by \$577.1m in February, by \$735.3m in March, by \$513.3m in April, by \$539.1m in May, by \$546.8m in June, by \$495.4m in July, by \$488.7m in August, by \$777.9m in September, by \$122.5m in October, by \$440.3m in November and by \$402.4m in December. The cumulative decline in BdL's assets in foreign currency, excluding Lebanese Eurobonds, is largely due to the financing of the imports of hydrocarbons, wheat, medicine, medical equipment, a large number of food and non-food items, and raw materials for agriculture and industry. It is also due to the financing of the imports of hydrocarbons, wheat, medicine, medical equipment, a large number of food and non-food items, and raw materials for agriculture and industry. It is also due to the steep drop in capital flows to Lebanon since September 2019, and to the near halt of inflows after the government decided to default on its Eurobonds obligations in March 2020. However, the decline in BdL's assets foreign currency was offset in part by the allocation of about \$1.13bn in Special Drawing Rights that the IMF transferred to BdL's account on September 16, 2021.

In parallel, the value of BdL's gold reserves amounted to \$16.6bn at the end of 2021, constituting a decrease of \$727.7m (-4.2%) from end-2020 and an increase of \$2.7bn (+19%) from the end of 2019. The value of gold reserves reached a peak of \$18.13bn at mid-September 2020. Also, the securities portfolio of BdL totaled \$41.3bn at end-2021, increasing by \$1.29bn (+3.2%) from the end of 2020 and by \$3.3bn (+8.6%) from end-2019. In addition, loans to the local financial sector totaled \$13.71bn at end-2021, regressing by 4% from the end of 2020 and by 8.2% from end-2019. Further, the deposits of the financial sector stood at \$107.9bn at end-2021, nearly unchanged from a year earlier, while they decreased by 3.6% from \$112bn at end-2019. In addition, public sector deposits at BdL reached LBP11,691.6bn (\$7.76bn) at end-2021, and surged by LBP4,853.7bn (\$3.2bn) from the end of 2020.

### Revenues through Port of Beirut down 15% to \$78m in first 10 months of 2021

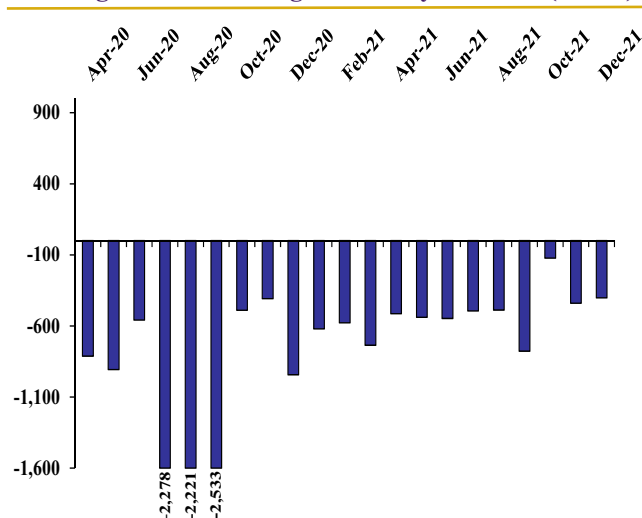
Figures released by the Port of Beirut show that the port's revenues reached \$78.3m in the first 10 months of 2021, constituting a decline of 15.3% from \$92.4m in the same period of 2020. The Beirut Port processed 3.85 million tons of freight in the covered period, up by 4.4% from 3.68 million tons in the first 10 months of 2020. Imported freight amounted to 3.15 million tons, as it increased by 3.5% from 3.04 million tons in the same period of 2020 and accounted for 82% of the total freight volume processed through the port. In addition, the volume of exported cargo reached 698,000 tons in the covered period and grew by 8.4% from 643,000 tons in the first 10 months of 2020. It represented 18% of aggregate freight in the first 10 months of 2021. A total of 981 vessels docked at the port in the first 10 months of the year, representing a decrease of 15% from 1153 ships in the same period of 2020.

The decline in revenues at the Beirut port is mainly due to the prevailing economic and financial conditions in Lebanon, to the impact of the coronavirus pandemic and the August 4 explosion at the port on the economy, as well as to the absence of measures to reverse the deterioration in economic activity and to delays in the reconstruction of the port. Further, revenues generated through the Beirut port reached \$6.4m in October 2021 and decreased by 15.4% from \$7.6m in September 2021. The port handled 331,000 tons of freight in October, constituting a decline of 16.2% from 398,000 tons in September. In addition, 96 vessels docked at the port in October, compared to 95 vessels in September 2021.

In parallel, revenues generated through the Port of Tripoli reached \$24.7m in the first 10 months of 2021, constituting a surge of 127% from \$10.9m in the same period of 2020. The port processed 2 million tons of freight in the covered period, up by 13.5% from 1.76 million tons in the first 10 months of 2020. Imported freight amounted to 1.44 million tons in the first 10 months of 2021 and increased by 11.3% from 1.3 million tons in the same period of 2020. It accounted for 72.2% of the freight processed through the port in the covered period.

In parallel, the volume of cargo that was exported through the port reached 553,442 tons, or 27.8% of total freight, up by 19.4% from 463,434 tons in the first 10 months of 2020. Also, a total of 599 vessels docked at the port in the covered period, representing an increase of 20% from 501 ships in the same period of 2020. Further, revenues generated through the Port of Tripoli amounted to \$3.66m in October 2021, down by 5.2% from \$3.86m in the preceding month. The port handled 162,000 tons of freight in October, regressing by 21.7% from 207,000 tons in September 2021. Also, 59 vessels docked at the port in October, relative to 55 ships in the previous month.

### Change in Gross Foreign Currency Reserves (US\$m)



Source: Banque du Liban, Byblos Research

### **Banque du Liban tightens oversight of electronic cash transfers**

Banque du Liban (BdL) issued Intermediate Circular 606 on December 23, 2021 addressed to banks, financial institutions (FIs) and companies that conduct electronic and banking transactions, which amends Basic Circular 69 dated March 20, 2000 about electronic financial and banking transactions. The circular is based on the recommendations of the Financial Action Task Force (FATF) against money laundering and terrorism financing (ML/TF).

First, the circular stipulated that banks and FIs that execute electronic transfers of cash must conduct due diligence on clients and beneficial owners that request such transfers, regardless of the amount transferred, including verifying the identity of their resident or non-resident and of permanent or transient clients, in addition to identifying the nature of the latter's business. Further, banks and FIs must understand the ownership and control structure of the legal person, identify the purpose and nature of the business relationship, as well as identify the Beneficial Owner and the source of funds, and monitor operations on a continuous basis, especially when conducting multiple inter-linked transfers that exceed in total \$10,000, as well as in case there are doubts or suspicions that a client is trying to launder money or to finance terrorism.

Second, banks and FIs have to ask the customer, in case the latter is a legal person, such as a company or institution or a legal entity, to provide duly authenticated documents about its bylaws, registration certificate, the ownership structure, the direct and indirect distribution of shares, the list of authorized signatories, in addition to a copy of the identity card of its legal representatives, directors, and natural persons holding directly or indirectly an interest that enables them to have effective control over the company. It added that, in case the bank or FI cannot complete the due diligence process on the customer or beneficial owner in a satisfactory way, it should not conduct a transfer on its behalf, and should end the business relationship, as well as look into informing the Special Investigation Commission (SIC) for combating ML/TF. In addition, it should keep records of all cash electronic transfers that exceed the equivalent of \$10,000 per transaction; as well as request the relevant identity verification documents from a proxy, including the original power of attorney or a certified copy of it, in case the transfer is requested by a person with a proxy, in addition to a copy of the identity documents of both the customer and the proxy.

Third, banks and FIs must keep information about the customer and the Beneficial Owner, in particular the client's full name, residency address, the registered address of the place of work of the legal person, the customer's occupation and financial status, in addition to copies of all the documents used to verify the above-mentioned information, and of the client's accounts, for at least five years after closing the account or ending the business relationship. They must also keep all documents related to all electronic transfers, including business correspondence and the results of any analysis conducted, for at least five years after the operation's date, in order for these records to constitute evidence, when needed, in case of prosecution for criminal acts. Fourth, banks and FIs have to inform the BdL Governor, in his capacity as the head of the SIC, in case they have proof or doubts, based on objective or acceptable reasons, that the actual or potential cash transfer is related to ML or related crimes, or to TF or terrorist organizations.

Fifth, the circular stipulated that banks and FIs have to establish an effective internal control system to combat ML and TF that should include procedures for anti-money laundering and countering the financing of terrorism (AML/CFT) that are approved by senior management and that include, at the minimum, due diligence measures on clients with a minimum turnover, as well as appointing a compliance officer with the proper qualifications. Sixth, banks and FIs must take appropriate measures to identify the risks of ML/TF, as well as to evaluate and understand these risks. They also must establish risk-based control measures and procedures to classify customers and operations in the low, medium, and high-risk categories.

Seventh, it noted that the control measures have to be risk-based and adopt, at the minimum, the following risk management measures regarding beneficial owners and politically-exposed persons (PEPs), their families and close associates, and operations classified as "High Risk": prioritizing and implementing stricter oversight and following up on the business relationship; increasing KYC for clients and beneficial owners, such as identifying the source of their wealth; receiving the approval of the bank's senior management to continue the business relationship and to execute related transfers; conducting a periodic review of the relationship with clients; conducting peer comparisons on a continuous basis; and putting in place a system to identify if the client or the beneficial owner is a PEP.

Eighth, the circular asked banks and FIs to verify when dealing with a third party, such as a broker or intermediary, that it meets the standards of the FATF about due diligence measures, and to make sure it receives any Know Your Customer (KYC) information related to the customer or the Beneficial Owner, and understand the nature of its work.

Ninth, it noted that banks and FIs must identify and assess ML/TF risks that might arise from the development of new products and new business practices, including new mechanisms for service delivery, and from the use of new or developing technologies for both new and pre-existing products. It also required them to assess those risks prior to the launch or use of the new products, business practices, or technologies, and to take appropriate measures to manage and mitigate those risks.

Tenth, the circular indicated that banks and FIs have to review regularly any update on the website of the General Directorate of Internal Security Forces with regard to the names listed on the local watch list of natural or legal persons or entities involved in terrorism or TF, and to apply the SIC's related decisions such as freezing their accounts or operations, and other assets affiliated to them. They should also implement the seventh recommendation of the FATF about the immediate freezing of accounts or funds or related assets of suspected persons or entities, and inform the SIC within 48 hours of its action. Eleventh, the circular also included a list of "Red Flags" related to customers, third parties and electronic transfers, in order to help banks and FIs identify ML/TF operations.



### Private sector deposits down \$45bn since start of 2019

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets stood at \$175.6bn at the end of November 2021, constituting declines of 6.6% from \$188bn at the end of 2020 and of 7.7% from \$190.3bn at end-November 2020. The dollar figures are based on the official exchange rate of the Lebanese pound to the US dollar.

Loans extended to the private sector reached \$28bn at the end of November 2021 and decreased by 22.5% in the first 11 months of 2021 and by 24.4% from a year earlier. Loans to the resident private sector totaled \$25.1bn, constituting declines of 21.7% from the end of 2020 and of 23.7% from end-November 2020. Also, credit to the non-resident private sector amounted to \$2.9bn at the end of November 2021, and contracted by 29% from the end of 2020 and by 30.2% from a year earlier.

In nominal terms, credit to the private sector regressed by \$8.1bn in the first 11 months of 2021 relative to a decrease of \$12.7bn in the same period of 2020, as lending to the resident private sector declined by \$6.9bn and credit to the non-resident private sector retreated by \$1.2bn in the covered period. Further, loans extended to the private sector contracted by \$31.3bn since the start of 2019, with loans denominated in Lebanese pounds shrinking by LBP 9,400bn and loans denominated in foreign currency dropping by \$25.1bn. The dollarization rate of private sector loans regressed from 60.3% at end-November 2020 to 57% at the end of November 2021. The average lending rate in Lebanese pounds was 7.2% in November 2021 compared to 7.92% a year earlier, while the same rate in US dollars was 6.75% relative to 6.63% in November 2020.

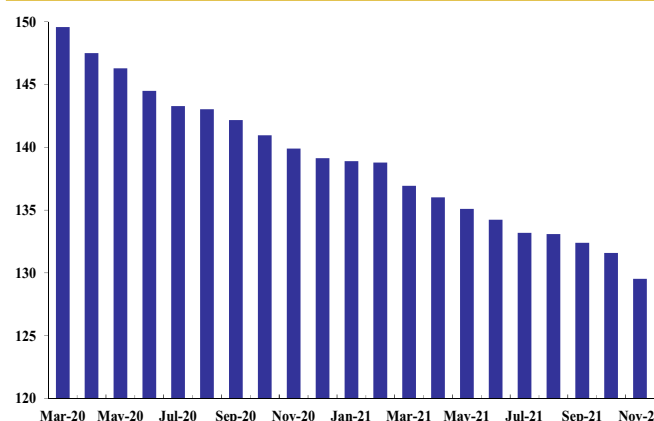
In addition, claims on non-resident financial institutions reached \$4.6bn at the end of November 2021, constituting a decrease of \$121.1m (-2.6%) in the first 11 months of 2021 and a decline of \$9.6m (-0.2%) from a year earlier. Also, claims on non-resident financial institutions decreased by \$4.5bn (-49.7%) from the end of August 2019 and by \$7.4bn (-61.7%) since the start of 2019. Further, deposits at foreign central banks totaled \$1bn, constituting increases of \$456.6m (+79%) in the first 11 months of 2021 and of \$413m (+66.5%) from a year earlier. In addition, the banks' claims on the public sector stood at \$18.4bn at end-November 2021, down by \$2.7bn (-12.8%) in the first 11 months of the year and by \$3.6bn (-16.5%) from the end of November 2020. The banks' holdings of Lebanese Treasury bills stood at \$12.5bn, while their holdings of Lebanese Eurobonds reached \$5.6bn at end-November 2021. Further, the deposits of commercial banks at Banque du Liban (BdL) totaled \$107.2bn at end-November 2021, and declined by \$3.2bn (-3%) from \$110.4bn at end-2020 and by \$3.7bn (-3.3%) from \$110.9bn at end-November 2020.

In parallel, private sector deposits totaled \$129.5bn at the end of November 2021 and regressed by 7% in the first 11 months of 2021 and by 7.4% from end-November 2020. Deposits in Lebanese pounds reached the equivalent of \$26bn at end-November 2021, as they decreased by 5% from the end of 2020 and by 6% from a year earlier; while deposits in foreign currency reached \$103.6bn, and declined by 7.4% from end-2020 and by 7.8% from the end of November 2020. Resident deposits totaled \$104.7bn at the end of November 2021 and retreated by \$7bn (-6.3%) from the end of 2020, while non-resident deposits reached \$24.8bn at end-November 2021, down by \$2.6bn (-9.4%) in the first 11 months of the year.

Private sector deposits declined by \$9.6bn in the first 11 months of 2021, with deposits in Lebanese pounds decreasing by \$1.4bn and foreign currency deposits shrinking by \$8.2bn. Private sector deposits regressed by \$227.1m in January, by \$60.7m in February, by \$1.9bn in March, by \$928.2m in April, by \$914.8m in May, by \$870.5m in June, by \$982m in July, by \$208.6m in August, by \$556m in September, by \$839.7m in October, and by \$2.1bn in November 2021. In addition, private sector deposits dropped by \$15.4bn in 2019 and by \$19.7bn in 2020, including a decrease of \$10.7bn between September and December 2019. As such, aggregate private sector deposits contracted by \$44.7bn since the start of 2019, with deposits in Lebanese pounds shrinking by \$25.2bn and foreign currency deposits declining by \$19.5bn. The decrease is due largely to the repayment of loans by companies and individuals, to the hoarding of cash at households, to banks and companies paying their foreign obligations, and to deposit outflows. The dollarization rate of private sector deposits was 80% at end-November 2021, relative to 80.4% at the end of 2020 and to 80.3% a year earlier.

Further, the liabilities of non-resident financial institutions reached \$4.9bn at the end of November 2021 and fell by 25% from \$7.2bn at the end of November 2020. Also, the average deposit rate in Lebanese pounds was 1.23% in November 2021 compared to 2.91% a year earlier, while the same rate in US dollars was 0.2% relative to 0.97% in November 2020. The ratio of private sector loans to deposits in foreign currency stood at 15.4% at the end of November 2021 compared to 20% a year earlier, well below BdL's limit of 70%. The same ratio in Lebanese pounds reached 46.4% at end-November 2021, down from 53.4% at end-November 2020. As such, the total private sector loans-to-deposits ratio reached 21.6% at end-November 2021 compared to 26.5% a year earlier. The banks' aggregate capital base stood at \$16.1bn at the end of November 2021, down by \$3.8bn (-14%) from \$19.9bn at the end of 2020.

Private Sector Deposits (US\$bn)



Source: Banque du Liban, Byblos Research

### Gross written premiums up 12% to \$1.3bn in first nine months of 2021, claims at \$845.5m

Figures released by the Insurance Control Commission show that the gross written premiums of 46 licensed insurance companies in Lebanon reached \$1.33bn in the first nine months of 2021, constituting an increase of 12.4% from \$1.19bn in the same period of 2020. Gross premiums reached \$475.3m in the first quarter of 2021, \$453.4m in the second quarter, and \$392m in the third quarter of the year. They improved by 11.2% in the first three months of 2021, grew by 13% in the second quarter of the year, and increased by 10% in the third quarter of 2021 from the corresponding quarters of 2020.

Medical insurance premiums totaled \$512.4m in the first nine months of 2021 and accounted for 38.5% of the sector's aggregate premiums. Motor insurance premiums followed with \$332m (25%), then life insurance premiums with \$280.3m (21%), and property & casualty premiums with \$207.7m (15.6%). Further, motor insurance premiums surged by 37.3%, medical insurance premiums grew by 14%, and property & casualty insurance premiums increased by 13.4% in the first nine months of 2021, while life insurance premiums declined by 10% in the covered period.

Further, gross claims settled by insurance companies stood at \$845.5m in the first nine months of 2021 and increased by 8.4% from \$779.6m in the same period of 2020. Gross claims reached \$246.2m in the first quarter of 2021, \$289.2m in the second quarter and \$307.2m in the third quarter of the year. They declined by 5% in the first three months of 2021, expanded by 20.6% in the second quarter of 2021 and grew by 9.4% in the third quarter of 2021 from the corresponding quarters of 2020. Gross claims paid for the life insurance segment amounted to \$262.4m and accounted for 31% of total claims that insurers settled in the covered period. Claims disbursed for the medical insurance category followed at \$235.1m (27.8%), then the motor segment at \$176.5m (20.9%), and the property & casualty segment at \$171.5m (20.3%). Also, property & casualty claims surged by 209% and motor insurance claims rose by 40.5% in the first nine months of 2021, while medical claims declined by 22.3% and life insurance claims decreased by 11.4% annually.

In parallel, the sector's acquisition expenses reached \$217m relative to \$194.2m in the first nine months of 2020, while administrative costs totaled \$175.4m in the first nine months of 2021 compared to \$140.4m in same period of 2020. Also, the insurance sector registered net investment income of \$65.1m in the covered period relative to net investment losses of \$113.4m in the first nine months of 2020. In addition, the ratio of gross claims settled to gross written premiums stood at 63% in the covered period, compared to 66% in the first nine months of 2020. Further, the ratio of expenditures for acquisition and administration to gross written premiums reached 29% relative to 28% in the first nine months of 2020; and the ratio of net investment income to gross written premiums stood at 5% in the covered period compared to -10% in the first nine months of 2020.

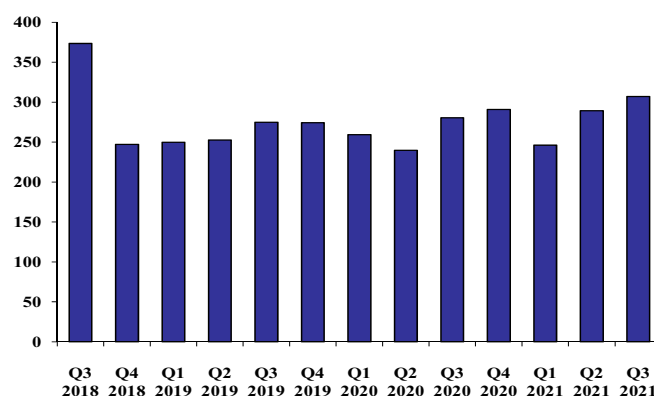
### MEA posts net profits of \$703m in 2011-2020 period, distributes \$440m in dividends

The Ordinary General Assembly of national flag carrier Middle East Airlines (MEA), which was held on January 4, 2021, approved the company's financial statements for the years 2011 to 2020. The figures show that the firm registered aggregate net profits of \$702.7m for the 2011-2020 period. It posted total operating revenues of \$7.46bn and aggregate operating expenses of \$6.82bn, which resulted in operating profits of \$640.57m during the covered period. As such, MEA's operating profit margin was 8.6% and its net profit margin was 9.4% for the 2011-2020 period. The firm declared net losses of \$45m in 2020 compared to net profits of \$87.85m in 2019. It registered net income of \$65.75m in 2011, \$58.17m in 2012, \$70.15m in 2013, \$90.11m in 2014, \$99m in 2015, \$94.18m in 2016, \$96.82m in 2017, and \$85.7m in 2018. The assembly also approved the distribution of \$440m in dividends to holders of common shares for the 2011-2018 period, and decided to withhold the distribution of dividends for 2019 and 2020.

MEA's operating revenues totaled \$382.3m in 2020 constituting a decline of 55.4% from \$858m in 2019, while its operating expenditures reached \$458.55m in 2020, down by 41.3% from \$780.6m in 2019. This resulted in an operating losses margin of 20% and a net losses margin of 11.8% in 2020. Also, the company's aggregate assets reached \$1.75bn at the end of 2020 and grew by 14.4% from \$1.56bn at end-2019. The firm's net shareholders equity amounted to \$857.1m at the end of 2020, down by 5% from \$902.3m at end-2019.

Founded in 1945, MEA is 99% owned by Banque du Liban and is part of the global airline alliance SkyTeam that consists of 20 member airlines. Its current fleet includes 18 Airbus airplanes. It serves around 32 international destinations in Europe, the Middle East and West Africa. MEA had 13,678 flights in 2021 and accounted for 34.4% of the Beirut-Rafic Hariri International Airport's total aircraft activity. In parallel, the General Assembly reelected its Board of Directors for a three-year term that consisted of Messrs. Mohamad El Hout, Marwan Salha, Michel Tueni, Sami Matta, and Fouad Fawaz. In turn, the Board of Directors reelected Mr. El Hout as the Chairman and General Manager of the carrier.

Paid Claims (US\$m)



Source: Insurance Control Commission, Byblos Research

## Ratio Highlights

(in % unless specified)	2019	2020	2021	Change*
Nominal GDP (\$bn)	51.3	22.6	23.2	0.60
Public Debt in Foreign Currency / GDP	63.0	58.1	-	-
Public Debt in Local Currency / GDP	108.1	95.9	-	-
Gross Public Debt / GDP	171.1	154.0	299.4	145.5
Trade Balance / GDP	(29.0)	(12.5)	(22.2)	(9.71)
Exports / Imports	19.4	31.3	47.7	16.40
Fiscal Revenues / GDP	20.7	16.4	10.0	(6.37)
Fiscal Expenditures / GDP	31.6	20.8	14.7	(6.09)
Fiscal Balance / GDP	(10.9)	(4.4)	(4.7)	(0.29)
Primary Balance / GDP	(0.5)	(1.0)	(2.3)	(1.22)
Gross Foreign Currency Reserves / M2	70.2	41.5	-	-
M3 / GDP	251.2	213.7	-	-
Commercial Banks Assets / GDP	404.8	302.9	-	-
Private Sector Deposits / GDP	296.6	224.1	-	-
Private Sector Loans / GDP	92.9	58.3	-	-
Private Sector Deposits Dollarization Rate	80.3	80.4	-	-
Private Sector Lending Dollarization Rate	68.7	59.6	-	-

\*change in percentage points 21/20;

Source: Banque du Liban, Central Administration of Statistics, Institute of International Finance, Byblos Research Estimates & Calculations

Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

## National Accounts, Prices and Exchange Rates

	2019	2020e	2021f
Nominal GDP (LBP trillion)	80.8	93.6	182.3
Nominal GDP (US\$ bn)	51.6	22.6	23.2
Real GDP growth, % change	-6.7	-26.2	-8.3
Private consumption	-7.3	-20.2	-10.0
Public consumption	2.5	-67.0	-60.0
Gross fixed capital	-11.1	-31.3	-21.5
Exports of goods and services	-4.0	-35.8	1.1
Imports of goods and services	-4.9	-38.0	-21.0
Consumer prices, %, average	2.9	84.9	140.2
Official exchange rate, average, LBP/US\$	1,507.5	1,507.5	1,507.5
Parallel exchange rate, average, LBP/US\$	1,625	5,549	13,569
Weighted average exchange rate LBP/US\$	1,566	4,142	7,865

Source: Institute of International Finance- September 2021

## Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's Investors Service	C	NP	-	C		-
Fitch Ratings	RD	C	-	CC	C	-
S&P Global Ratings	SD	SD	-	CC	C	Negative

Source: Rating agencies

Banking Sector Ratings	Outlook
Moody's Investors Service	Negative

Source: Moody's Investors Service



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**Economic Research & Analysis Department**  
**Byblos Bank Group**  
**P.O. Box 11-5605**  
**Beirut – Lebanon**  
**Tel: (961) 1 338 100**  
**Fax: (961) 1 217 774**  
**E-mail: [research@byblosbank.com.lb](mailto:research@byblosbank.com.lb)**  
**[www.byblosbank.com](http://www.byblosbank.com)**

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# BYBLOS BANK GROUP

## LEBANON

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Byblos Bank S.A.L  
Achrafieh - Beirut  
Elias Sarkis Avenue - Byblos Bank Tower  
P.O.Box: 11-5605 Riad El Solh - Beirut 1107 2811- Lebanon  
Phone: (+ 961) 1 335200  
Fax: (+ 961) 1 339436

## IRAQ

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Erbil Branch, Kurdistan, Iraq  
Street 60, Near Sports Stadium  
P.O.Box: 34 - 0383 Erbil - Iraq  
Phone: (+ 964) 66 2233457/8/9 - 2560017/9  
E-mail: [erbilbranch@byblosbank.com.lb](mailto:erbilbranch@byblosbank.com.lb)

Sulaymaniyah Branch, Kurdistan, Iraq  
Salem street, Kurdistan Mall - Sulaymaniyah  
Phone: (+ 964) 773 042 1010 / (+ 964) 773 041 1010

Baghdad Branch, Iraq  
Al Karrada - Salman Faeq Street  
Al Wahda District, No. 904/14, Facing Al Shuruk Building  
P.O.Box: 3085 Badalat Al Olwiya – Iraq  
Phone: (+ 964) 770 6527807 / (+ 964) 780 9133031/2  
E-mail: [baghdadbranch@byblosbank.com.lb](mailto:baghdadbranch@byblosbank.com.lb)

Basra Branch, Iraq  
Intersection of July 14th, Manawi Basha Street, Al Basra – Iraq  
Phone: (+ 964) 770 4931900 / (+ 964) 770 4931919  
E-mail: [basrabranch@byblosbank.com.lb](mailto:basrabranch@byblosbank.com.lb)

## ARMENIA

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Byblos Bank Armenia CJSC  
18/3 Amiryan Street - Area 0002  
Yerevan - Republic of Armenia  
Phone: (+ 374) 10 530362 Fax: (+ 374) 10 535296  
E-mail: [infoarm@byblosbank.com](mailto:infoarm@byblosbank.com)

## NIGERIA

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Byblos Bank Nigeria Representative Office  
161C Rafu Taylor Close - Off Idejo Street  
Victoria Island, Lagos - Nigeria  
Phone: (+ 234) 706 112 5800  
(+ 234) 808 839 9122  
E-mail: [nigeriarepresentativeoffice@byblosbank.com.lb](mailto:nigeriarepresentativeoffice@byblosbank.com.lb)

## BELGIUM

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Byblos Bank Europe S.A.  
Brussels Head Office  
Boulevard Bischoffsheim 1-8  
1000 Brussels  
Phone: (+ 32) 2 551 00 20  
Fax: (+ 32) 2 513 05 26  
E-mail: [byblos.europe@byblosbankeur.com](mailto:byblos.europe@byblosbankeur.com)

## UNITED KINGDOM

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Byblos Bank Europe S.A., London Branch  
Berkeley Square House  
Berkeley Square  
GB - London W1J 6BS - United Kingdom  
Phone: (+ 44) 20 7518 8100  
Fax: (+ 44) 20 7518 8129  
E-mail: [byblos.london@byblosbankeur.com](mailto:byblos.london@byblosbankeur.com)

## FRANCE

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Byblos Bank Europe S.A., Paris Branch  
15 Rue Lord Byron  
F- 75008 Paris - France  
Phone: (+33) 1 45 63 10 01  
Fax: (+33) 1 45 61 15 77  
E-mail: [byblos.europe@byblosbankeur.com](mailto:byblos.europe@byblosbankeur.com)

## ADIR INSURANCE

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Dora Highway - Aya Commercial Center  
P.O.Box: 90-1446  
Jdeidet El Metn - 1202 2119 Lebanon  
Phone: (+ 961) 1 256290  
Fax: (+ 961) 1 256293