

## LEBANON THIS WEEK

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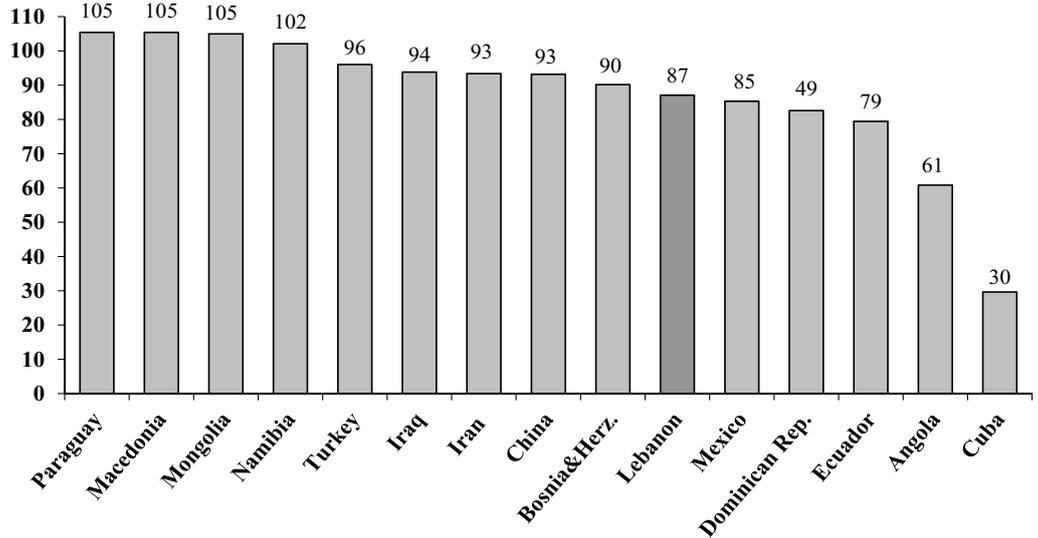
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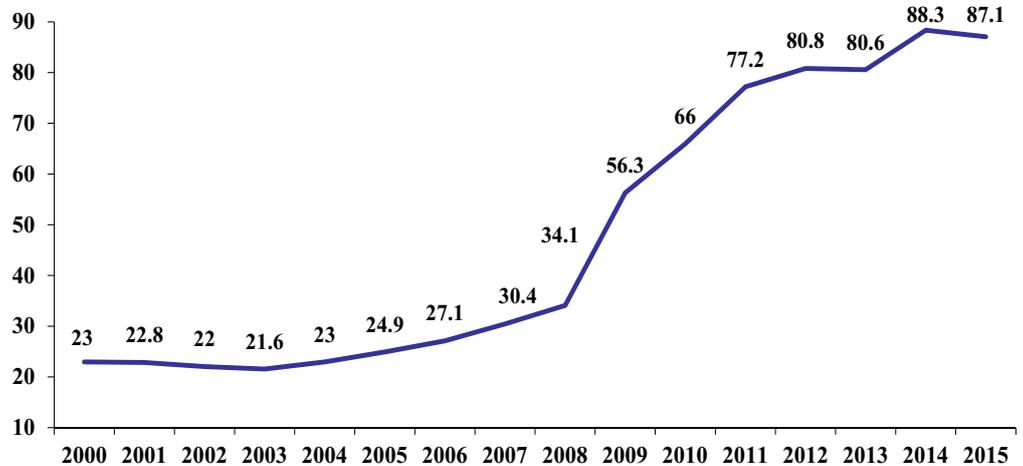
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### Charts of the Week

**Mobile Cellular Penetration Rates among select Upper Middle-Income Countries at end-2015**  
(Subscriptions per 100 inhabitants)



**Mobile Cellular Penetration Rates in Lebanon**  
(Subscriptions per 100 inhabitants)



Source: International Telecommunication Union, Byblos Bank

### Quote to Note

"Lebanon lacks regular labor force surveys and data on enterprises, which limits the analysis of the labor market and jobs."

*The World Bank, on the weak statistical capacity in Lebanon*

### Number of the Week

**\$1.85m:** Total amount spent on outdoor advertising during the 2016 municipal and mayoral elections in Lebanon, according to Ipsos Connect

## Lebanon in the News

\$m (unless otherwise mentioned)	2015	Mar 2015	Dec 2015	Jan 2016	Feb 2016	Mar 2016	% Change*
Exports	2,952	257	236	186	228	220	(14.40)
Imports	18,069	1,509	1,841	1,494	1,377	1,750	15.97
Trade Balance	(15,117)	(1,252)	(1,605)	(1,308)	(1,149)	(1,530)	22.20
Balance of Payments	(3,354)	(417)	(372)	(719)	363	(228)	(45.32)
Checks Cleared in LBP	18,714	1,579	1,709	1,709	1,538	1,609	1.89
Checks Cleared in FC	50,845	4,322	4,265	4,065	3,988	3,983	(7.84)
Total Checks Cleared	69,559	5,901	5,974	5,774	5,526	5,592	(5.24)
Budget Deficit/Surplus	(3,952)	(506.29)	(711.58)	(214.00)	(513.56)	(713.34)	40.90
Primary Balance	724.40	(22.84)	(338.61)	32.08	(276.67)	(156.28)	584.20
Airport Passengers***	7,241,463	478,284	616,249	546,609	442,212	534,954	11.85

\$bn (unless otherwise mentioned)	2015	Mar 2015	Dec 2015	Jan 2016	Feb 2016	Mar 2016	% Change*
BdL Gross FX Reserves	30.64	34.53	30.64	31.64	31.42	30.37	(12.05)
<i>In months of Imports</i>	20.35	22.88	16.64	21.18	22.82	17.35	(24.16)
Public Debt	70.31	69.44	70.31	70.62	71.22	71.04	2.31
Bank Assets	185.99	176.95	185.99	186.20	186.59	187.66	6.05
Bank Deposits (Private Sector)	151.59	145.46	151.59	151.50	151.42	152.44	4.80
Bank Loans to Private Sector	54.22	51.14	54.22	54.39	54.56	55.06	7.65
Money Supply M2	52.15	49.44	52.15	52.24	52.29	52.52	6.23
Money Supply M3	123.62	118.06	123.62	123.26	123.49	124.51	5.47
LBP Lending Rate (%)	7.45	6.94	7.45	8.28	8.18	8.62	168bps
LBP Deposit Rate (%)	5.56	5.57	5.56	5.52	5.57	5.59	2bps
USD Lending Rate (%)	7.06	7.16	7.06	7.34	7.31	7.36	20bps
USD Deposit Rate (%)	3.17	3.12	3.17	3.22	3.22	3.27	15bps
Consumer Price Index**	(3.75)	(3.38)	(3.40)	(3.16)	(2.94)	(3.57)	(19bps)

\* Year-on-Year \*\* Year-on-Year percentage change

\*\*\*includes arrivals, departures, transit

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
Byblos Common	1.62	(2.41)	136,430	5.25%
Solidere "A"	9.56	(1.95)	45,645	8.63%
Solidere "B"	9.59	(0.83)	39,461	5.62%
Audi Listed	6.19	(0.16)	28,762	22.33%
Audi GDR	6.20	0.81	25,966	6.43%
BLOM GDR	10.05	(0.10)	15,000	6.70%
BLOM Listed	9.95	0.40	14,101	19.30%
Byblos Pref. 08	100.10	(0.20)	1,000	1.81%
HOLCIM	14.10	(0.35)	432	2.48%
Byblos Pref. 09	100.10	0.00	157	1.81%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Mar 2017	9.00	103.13	3.94
Nov 2018	5.15	99.88	5.21
May 2019	6.00	101.25	5.51
Mar 2020	6.38	101.50	5.90
Apr 2021	8.25	108.75	6.08
Oct 2022	6.10	99.50	6.20
Jun 2025	6.25	97.00	6.70
Nov 2026	6.60	98.50	6.80
Feb 2030	6.65	97.50	6.94
Nov 2035	7.05	99.25	7.12

Source: Byblos Bank Capital Markets

	July 25-29	July 18-22	% Change	July 2016	July 2015	% Change
<b>Total Shares Traded</b>	418,222	332,531	25.77	2,886,513	3,371,034	(14.37)
<b>Total Value Traded</b>	\$4,386,353	\$3,253,461	34.82	\$18,444,372	\$28,058,062	(34.26)
<b>Market Capitalization</b>	\$11.08bn	\$11.12bn	(0.32)	\$11.08bn	\$11.44bn	(3.11)

Source: Beirut Stock Exchange (BSE)



### Greenfield foreign direct investment down 94% to \$75m in 2015

Figures compiled by fDi Markets and released by the United Nations Conference on Trade and Development (UNCTAD) show that the value of inward Greenfield foreign direct investment (FDI) in Lebanon totaled \$74.9m in 2015, constituting a decrease of 93.7% from \$1.18bn in 2014. Greenfield foreign FDI in Lebanon totaled \$498.5m in 2011, \$222.2m in 2012 and \$105.7m in 2013. Lebanon was the smallest recipient of Greenfield FDI in nominal terms among 15 Arab countries and 18 economies in the Middle East & North Africa region. Also, Lebanon was the fifth smallest recipient of Greenfield FDI globally among 130 economies with a nominal GDP of \$10bn or more, and when excluding tax haven islands.

The FDI figures cover cross-border Greenfield projects that lead to the direct creation of jobs and capital investment. They include joint ventures when these transactions lead to a new physical Greenfield operation. The figures exclude mergers and acquisitions and other equity investments. fDi Markets is a database that tracks cross-border Greenfield investments across the world, and is owned by the Financial Times Group.

Lebanon posted the steepest drop in inward Greenfield FDI among Arab countries last year. It was one of 11 Arab economies that posted a decline in inward Greenfield FDI in 2015. Also, Lebanon posted the second steepest drop in inward Greenfield FDI worldwide last year, behind Chad that registered a decline of 99%. In comparison, the value of inward Greenfield FDI projects to Arab economies regressed by 23.2% year-on-year, while inward Greenfield FDI to emerging economies grew by 4.6% and global Greenfield FDI rose by 8.5%.

In parallel, the value of Greenfield foreign FDI projects in Lebanon accounted for 0.2% of total Greenfield foreign FDI projects in Arab countries last year. It also represented 0.02% of total flows to emerging economies and 0.01% of global FDI in 2015. Further, the value of Greenfield FDI projects in Lebanon was equivalent to 0.15% of GDP in 2015, the second lowest ratio in the Arab world, behind Kuwait (0.13% of GDP). Lebanon attracted 7 Greenfield FDI projects in 2015 compared to 10 projects in 2014, 16 projects in 2013, 19 projects in 2012 and 27 projects in 2011. It attracted, along with Jordan, the second smallest number of FDI projects among Arab countries last year, after Djibouti that attracted 5 projects.

### Labor Ministry proposes 78% increase in minimum wage

The Ministry of Labor announced its intentions to raise the minimum wage in Lebanon from LBP675,000 per month (\$447.8) currently to LBP1,200,000 per month (\$800), which would constitute an increase of 77.8%. It attributed its decision to the rise in the cost of living and to the reduced purchasing power of Lebanese citizens based on the results of a study conducted by the ministry. It noted that it will meet in August 2016 with the Economic Associations and the General Confederation of Labor Unions, among other private sector participants, to discuss the proposal. In parallel, the government lowered in July 2016 the daily minimum wage in Lebanon from LBP30,000 (\$19.9) to LBP26,000 (\$17.2), in order to align the minimum daily threshold to the current minimum monthly salary.

In 2012, the government increased the minimum wage by about 35%, raising it from LBP500,000 (\$331.7) to LBP675,000, following an agreement reached with the Economic Associations and the General Confederation of Labor Unions. The increase was applied in tranches, with a 100% raise for the first monthly salary segment of up to LBP400,000 and a maximum nominal increase of LBP375,000; while an additional 9% raise was applied to the second salary bracket between LBP400,000 and LBP1,500,000. Also, wages that exceeded LBP1,500,000 per month were not subject to the increase.

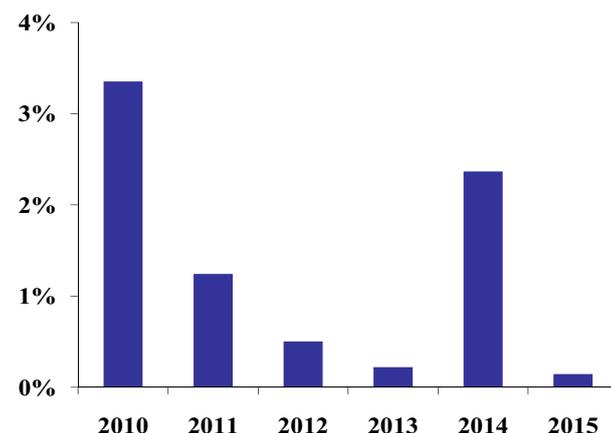
The Central Administration of Statistics' Consumer Price Index declined by 3.7% in 2015 from 2014; while the CPI, excluding telecommunication and transportation costs, regressed by 1.9% in 2015. Further, the Consumer Price Index decreased by 2.6% year-on-year in the first half of 2016.

### Greenfield FDI in Arab Countries (\$m)

	2015	2014	Change (%)
Egypt	14,636	18,175	-19%
Saudi Arabia	9,855	9,988	-1%
UAE	8,959	12,976	-31%
Morocco	4,513	5,182	-13%
Bahrain	2,011	1,018	98%
Sudan	1,556	68	2192%
Qatar	934	1,219	-23%
Oman	881	1,535	-43%
Iraq	816	2,274	-64%
Algeria	749	536	40%
Djibouti	540	284	90%
Jordan	474	1,730	-73%
Tunisia	411	2,178	-81%
Kuwait	158	249	-36%
<b>Lebanon</b>	<b>75</b>	<b>1,182</b>	<b>-94%</b>
Other Arab countries	-	2,024	-
<b>Total</b>	<b>46,570</b>	<b>60,615</b>	<b>-23.2%</b>

Source: fDi Markets, UNCTAD, Byblos Research

### Greenfield FDI in Lebanon (% of GDP)



Source: fDi Markets, UNCTAD, IMF, Byblos Research

### Lebanon ranks 74th globally, sixth among Arab countries in terms of social progress

The 2016 Social Progress Index (SPI) ranked Lebanon in 74th place among 133 countries in the world and in sixth place among 13 Arab countries. Lebanon also came in 27th place among 36 upper middle-income countries (UMICs) included in the survey. Lebanon's global rank improved by six spots year-on-year, while its regional rank was unchanged from the 2015 survey. The index is produced by the U.S.-based non-profit organization Social Progress Imperative.

The SPI measures a country's social progress independently of its economic development. It evaluates a society's capacity to meet the basic human needs of its citizens, to establish the bases that would enhance their quality of life, and to create the conditions for all individuals to reach their full potential. The index is composed of three sub-indices that are Basic Human Needs, Foundations of Well-being, and Opportunity. The SPI score is a simple average of the three sub-indices and ranges from zero to 100, with 100 reflecting the best performance on the index.

Globally, Lebanon's social progress is higher than that of Russia, Kazakhstan and Azerbaijan, and trails the level of social progress in the Dominican Republic, Jordan and Bolivia among economies with a GDP of \$10bn or more. It ranked ahead of Kazakhstan, Azerbaijan, Mongolia, China, Namibia, Algeria, Iran, Iraq and Angola among UMICs. Finland is considered the country with the highest social progress worldwide, while the Central African Republic came last globally. The Social Progress Imperative classified countries into six tiers from "Very High Social Progress" to "Very Low Social Progress". Lebanon came, along with 32 countries, in the fourth tier, which reflects "Lower Middle Social Progress". It received a score of 64.42 points, higher than the global average of 62.9 points and the average score of 63.1 points posted by countries in the "Lower Middle Social Progress" category.

Globally, Lebanon came ahead of Peru and Brazil, and ranked behind Vietnam and Morocco on the Basic Human Needs Sub-Index, which assesses a country's ability to provide basic needs for its people such as nutrition and basic medical care, water & sanitation, shelter, and personal safety. Also, it ranked ahead of Peru and behind Mexico among UMICs; while it came ahead of Iraq, Djibouti, Mauritania and Yemen among Arab countries. Lebanon lagged countries within the same income bracket in terms of shelter and personal safety.

Further, Lebanon came ahead of Thailand and Bahrain, and ranked behind El Salvador and Malaysia on the Foundations of Well-being Sub-Index. This category measures the extent that a population has access to basic education, information & communication technology, healthcare, and a sustainable ecosystem. Also, Lebanon ranked ahead of Thailand and came behind Malaysia among UMICs; while it came behind only the UAE, Qatar, Tunisia and Kuwait in the Arab world.

Finally, Lebanon ranked ahead of Armenia and Senegal, and came behind Guatemala and Russia on the Opportunity Sub-Index, which measures the degree of personal freedom & rights, tolerance, and broad access to higher education. It ranked ahead of Gabon and behind Jordan among UMICs; while it came behind the UAE, Kuwait, Qatar, Bahrain, Tunisia and Jordan in the region.

**Social Progress Index for 2016**

	Score	Arab Rank	Global Rank
UAE	73.69	1	39
Kuwait	71.84	2	45
Tunisia	68.00	3	56
Saudi Arabia	66.30	4	65
Jordan	65.43	5	71
<b>Lebanon</b>	<b>64.42</b>	<b>6</b>	<b>74</b>
Morocco	61.92	7	86
Algeria	61.18	8	88
Egypt	60.74	9	89
Iraq	52.28	10	104
Djibouti	46.30	11	120
Mauritania	46.08	12	122
Yemen	41.76	13	127

Source: Social Progress Imperative, Byblos Research

**Components of the 2016 Social Progress Index for Lebanon**

Sub-Index	Global Rank	Arab Rank	UMIC Rank	Lebanon Score	Global Avg Score	Lower Middle* Avg Score
Basic Human Needs	76	10	25	76.0	73.2	76.0
Foundations of Well-being	58	5	14	73.2	67.2	68.0
Opportunity	91	7	30	44.0	48.2	45.3

\*Lower Middle Social Progress category to which Lebanon belongs

Source: Social Progress Imperative, Byblos Research



### Forty four percent of fresh graduates in Lebanon find job in six months or less

A survey conducted by regional job portal Bayt.com and market research agency YouGov indicated that 82% of fresh graduates in Lebanon consider the availability of jobs in Lebanon to be "low", compared to 73% of fresh graduates in Arab countries who shared similar views about the availability of work opportunities in their countries. The share of respondents in Lebanon who consider the availability of jobs in their country to be "low" is, along with Tunisia, the fourth highest among 13 Arab countries, and is lower than in Jordan (89% of fresh graduates), and in Syria and Egypt (84% of fresh graduates each). In addition, 11% of Lebanese fresh graduates said that the availability of jobs in Lebanon is "moderate" and 1% of them considered the availability of jobs in the country to be "high". The survey covered a sample of 4,247 adults who are 18 years or older in Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia and the UAE. The survey was conducted online between May 8 and May 22, 2016, and covered a sample of 131 respondents in Lebanon.

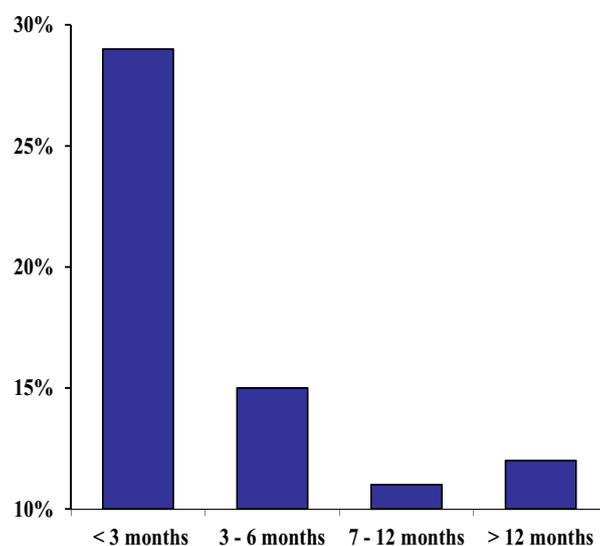
Further, 29% of fresh graduates in Lebanon took them three months or less to find their first job, or said they would need less than three months to land their first employment. Also, 15% of surveyed Lebanese required between three and six months to get their first job, or anticipated that they would require the same period of time to find their first employment; 11% needed or expected to spend between six and 12 months to find their first job; while 12% of respondents needed or expected to take more than a year to find work. In addition, 6% of respondents in Lebanon landed their first employment through their university, or expected to land their first job directly through campus placements. Also, the survey showed that the most common channels to find a job in Lebanon are online job sites, followed by direct applications to target companies, and family & friends' networks. Further, fresh graduates in Lebanon considered that the lack of experience is the main challenge they face when searching for a job, followed by identifying where the employment opportunities exist, approaching the job search effectively, developing good interviewing skills, and learning how to apply to relevant jobs.

In parallel, 25% of fresh graduates in Lebanon received, or expected their first job to pay them, a monthly salary between \$1,001 and \$1,500; while 22% of respondents in Lebanon obtained or expected to obtain a monthly pay of \$751 to \$1,000 in their first employment. Also, 13% of fresh graduates in Lebanon received or expected to receive a monthly income between \$1,501 and \$2,000; 12% of fresh graduates obtained or expected to obtain a monthly salary of \$501 to \$750; and 8% of respondents received or expected to receive a monthly salary of \$2,001 to \$3,000 in their first job. In addition, 24% of fresh graduates in Lebanon were paid or expected to be paid a monthly income of less than \$750; while 2% received or expected to receive a monthly salary exceeding \$3,000 in their first job. The survey's results for Lebanon are mitigated by the fact that the sample size is not representative enough and that the survey was conducted via the Internet, which is not the most reliable methodology for opinion polling.

### Coincident Indicator up 6% year-on-year in first five months of 2016

The Central Bank's Coincident Indicator, an index of economic activity in Lebanon, reached 297.9 points in May 2016 compared to 297.6 in April 2016 and 285 in May 2015. The Coincident Indicator, an average of 8 weighted economic indicators, was nearly unchanged month-on-month and grew by 4.5% year-on-year in May 2016. The indicator averaged 293.1 in the first five months of 2016, up 5.7% from 277.2 in the same period of 2015. Also, the indicator averaged 285.2 in the 12 months ending May 2016, compared to 284.2 in the 12 months ending April 2016 and 272.6 in the 12 months ending May 2015. As a result, the average coincident indicator increased by 0.4% month-on-month and improved by 4.6% year-on-year. In parallel, the indicator regressed 15 times and improved nine times on a monthly basis in the month of May since 1993. It averaged 249.5 in 2010, 255.7 in 2011, 256.6 points in 2012, 264.7 points in 2013, 273.2 points in 2014 and 278.6 in 2015.

**Time needed/expected to find first job  
(% of respondents)**



Source: Bayt.com, Byblos Research

### Occupancy rate at Beirut hotels at 54%, room yields down 22% in first half of 2016

EY's benchmark survey of the hotel sector in the Middle East indicated that the average occupancy rate at hotels in Beirut was 54% in the first half of 2016, down from 57% in the same period of 2015 and compared to an average rate of 62.1% in 14 Arab markets included in the survey. The occupancy rate at Beirut hotels was the fifth lowest in the region in the first half of 2016, unchanged from its rank in the same period of 2015. Also, the occupancy rate at hotels in Beirut dropped by three percentage points year-on-year, constituting, along with Abu Dhabi, Dubai and Muscat, the second smallest decrease among 11 Arab markets that posted a decline in their occupancy rates. In comparison, the average occupancy rate in Arab markets fell by 3.1 percentage points year-on-year in the first half of 2016. Occupancy rates at Beirut hotels were 53% in January, 57% in February, 51% in March, 55% in April, 66% in May and 44% in June 2016, compared to 50% in January, 56% in February, 56% in March, 58% in April, 64% in May and 58% in June 2015.

The average rate per room at Beirut hotels was \$135 in the first half of 2016, ranking the capital's hotels as the third least expensive in the region relative to Abu Dhabi (\$132) and Cairo (\$124). The average rate per room at Beirut hotels regressed by 17.4% year-on-year and posted the steepest drop among all markets in the region. The average rate per room in Beirut came below the regional average of \$201.9 that decreased by 1.6% from the same period of 2015.

Further, revenues per available room (RevPAR) were \$74 in Beirut in the first half of 2016, down from \$95 in the same period of 2015, and were the second lowest in the region, ahead of only Cairo (\$73). Beirut's RevPAR decreased by 21.7% year-on-year and posted the second steepest decline among Arab markets, relative to a contraction of 22.4% in Kuwait City. Beirut posted RevPARs of \$79 in January, \$78 in February, \$68 in March, \$72 in April, \$94 in May and \$55 in June 2016, compared to \$92 in January, \$91 in February \$90 in March, \$97 in April, \$108 in May and \$89 in June 2015. Jeddah posted the highest average rate per room in the region at \$276, while Dubai posted the highest occupancy rate at 81% and the highest room yield at \$218 in the first half of 2016.

### Cost of corruption at customs estimated at \$794m annually

A study conducted by advocacy organization Sakker el Dekkéné estimated at about \$794.2m per year the total amount of petty corruption, fraud and tax evasion at Lebanese customs. It indicated that petty corruption refers to the daily abuse of power from low- and mid-level public sector employees in their interactions with ordinary citizens, including the acceptance of small bribes.

The results show that the cost per container, or bribery payment, for a "trouble-free" ride through customs amounts to between LBP75,000 (\$50) per container selected for a green line passage that does not require inspection and LBP225,000 (\$150) for containers entering the red line channel that requires inspection. A customs rule dictates that 80% of containers are randomly selected to go through inspection (red line), while 20% are asked to proceed to the payment of duties and clearance (green line). However, Sakker el Dekkéné said that the bribery payments can differ depending on the goods imported and if there is a need to hide irregularities. As such, it estimated the total amount of petty corruption at \$14.2m per year, or \$39,000 per day, equivalent to 1.8% of the total annual cost of corruption at Lebanese customs. It added that about \$13.1m per year, or 92.3% of small bribes, are paid to customs agents during the inspection of containers at the red line and \$1.1m or 7.7% are paid on containers in the green line.

Further, Sakker el Dekkéné estimated the amount of large bribes paid to customs agents to allow the passage of undeclared merchandise through customs at about \$390m per year, or 49.1% of the total annual cost of corruption at Lebanese customs. It said that it reached this figure by estimating the amount of undeclared merchandise based on the 2013 trade data with Lebanon's trading partners. It noted that the undeclared imported products include articles of apparel and clothing accessories, furniture, and natural or cultured pearls, and precious or semi-precious stones. Also, it estimated the government's foregone revenues from the uncollected value-added tax (VAT) that should have been levied on the undeclared merchandise at \$390m per year, or 49.1% of the total cost of corruption at the customs.

Sakker el Dekkéné attributed the corruption practices and revenue losses to the Lebanese Customs Law that gives discretionary power to customs officials and that does not impose any transparency or control on their decisions. Further, it pointed out that a more detailed study is needed in order to assess the opportunity cost of customs on government revenues. Sakker el Dekkéné is a Lebanese non-governmental organization whose aim is to fight corruption across public institutions in Lebanon. The study was based on interviews with freight forwarders, on a visit to the Port of Beirut in order to see the way that imported goods are being handled by customs, on estimations of large bribes paid on undeclared merchandise, and on uncollected VAT. It considered that the figures reported in this study are underestimated, as they do not include estimates about corruption activities related to exports, fraud, and smuggling at land border crossings, at the airport, and at the ports of Tripoli and Saida.

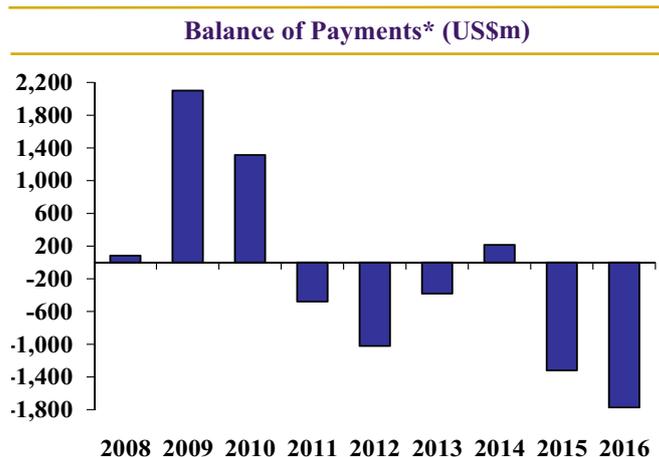
#### Hotel Sector Performance in First Half of 2016

	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Dubai	81	218	(8.7)
Jeddah	74	205	-
Doha	66	146	(21.1)
Madina	65	143	(7.2)
Makkah	52	137	20.8
Muscat	67	133	(14.9)
Riyadh	62	126	(15.8)
Ras Al Khaimah	72	117	12.7
Kuwait City	41	115	(22.4)
Manama	51	104	(4.0)
Abu Dhabi	77	102	(18.9)
Amman	49	78	(11.6)
<b>Beirut</b>	<b>54</b>	<b>74</b>	<b>(21.7)</b>
Cairo City	58	73	43.6

Source: EY, Byblos Research

### Balance of payments posts deficit of \$1.8bn in first half of 2016

Figures issued by the Central Bank show that Lebanon's balance of payments posted a deficit of \$1.77bn in the first half of 2016 compared to a deficit of \$1.32bn in the same period of 2015. The balance of payments posted a deficit of \$13m in June 2016 compared to deficits of \$861.6m in May and \$794.3m in June 2015. The June 2016 deficit was caused by a decrease of \$1bn in the net foreign assets of banks and financial institutions which was partly offset by an increase of \$989.5m in those of the Central Bank. The cumulative deficit over the first half of 2016 was caused by a decrease of \$1.41bn in the net foreign assets of banks and financial institutions and a drop of \$368.1m in those of the Central Bank. The balance of payments posted surpluses of \$7.9bn in 2009 and \$3.3bn in 2010, and deficits of \$2bn in 2011, \$1.5bn in 2012, \$1.1bn in 2013, \$1.4bn in 2014 and \$3.4bn in 2015.



\*in the first half of each year

Source: Central Bank of Lebanon

### Trade deficit widens by 11% to \$8bn in first half of 2016

The total value of imports reached \$9.4bn in the first half of 2016, constituting an increase of 7% from the same period of 2015; while the aggregate value of exports declined by 11.1% to \$1.4bn. As such, the trade deficit widened by 10.8% year-on-year to \$8bn in the first half of 2016 due to an increase of \$612.5m in imports and a drop of \$171.8m in exports. The coverage ratio was 14.7% in the first half of 2016 compared to 17.7% in the same period of 2015, while it reached 17.9% in June 2016 relative to 16.6% in the same month of 2015. The increase in imports reflects a rise of \$630m, or 42.6%, in the value of imported oil & mineral fuels to \$2.1bn in the first half of 2016. In parallel, the value of oil & mineral fuels accounted for 22.4% of total imports in the covered period compared to a share of 16.8% in the first half of 2015.

In volume terms, imports reached 8.9 million tons in the first half of 2016 compared to 7.5 million tons in the same period of 2015, while exports regressed by 21.8% annually to 757,591 tons in the covered period. In parallel, imports of oil & mineral fuels increased by 38% year-on-year to 4.6 million tons, while non-hydrocarbon imports grew by 5.7% annually to 4.4 million tons. Imported oil & mineral fuels accounted for 51.1% of total imports in the covered period relative to 44.5% in the first half of 2015.

China was the main source of imports with \$1bn, or 10.8% of the total, in the first half of 2016, followed by Italy with \$718.6m (7.6%), the United States with \$665.1m (7.1%), Germany with \$560.5m (6%), the Netherlands with \$494.5m (5.3%) and Greece with \$454.6m (4.8%). Imports from the Netherlands increased by 4.5 times, those from the United States grew by 32.3%, imports from Greece rose by 25.5% and those from Italy increased by 14.1%; while imports from Germany declined by 2.8% and those from China decreased by 0.8% year-on-year. In parallel, the Port of Beirut was the entry point for 74.8% of Lebanon's imports in the first half of 2016, followed by the Hariri International Airport (18.3%), the Port of Tripoli (4.7%), the Port of Saida (1.3%), the Masnaa crossing point (0.4%) the Arida crossing point (0.3%), and the Abboudieh and Tyre crossing points (0.1% each).

Further, South Africa was the main export destination of Lebanese merchandise with \$220m, or 15.9% of total exports, followed by Saudi Arabia with \$146.2m (10.6%), the UAE with \$125.2m (9.1%), Syria with \$85.8m and Iraq with \$84.9m (6.2% each) and Jordan with \$51.2m (3.7%). Exports to South Africa grew by 2.1 times year-on-year in the first half of 2016, while those to Saudi Arabia contracted by 26.3%, exports to Iraq dropped by 25.5%, those to the UAE regressed by 21.6%, exports to Syria dropped by 16.4% and those to Jordan decreased by 4.8%.

Lebanon's main exports were jewelry with \$303.6m, which accounted for 22% of the total. They were followed by prepared foodstuff at \$232.6m (16.8%), machinery & mechanical appliances at \$181.5m (13.1%), chemical products at \$147.8m (10.7%), base metals at \$128.1m (9.3%), vegetable products at \$78.3m (5.7%) and plastics & rubber at \$63.9m (4.6%). In parallel, the Port of Beirut accounted for 52.2% of Lebanon's total exports in the first half of the year, followed by the Hariri International Airport (34.4%), the Port of Tripoli (6.9%), the Masnaa crossing point (3.1%), the Arida crossing point (2.1%), the Abboudieh crossing point (0.8%) and the Port of Saida (0.5%). In parallel, re-exports totaled \$245.3m in the first half of 2016 compared to \$210.3m in the same period of 2015.



### World Bank's commitments in Lebanon at \$899m at end-June 2016, only 20% disbursed

The World Bank indicated that its ongoing commitments in Lebanon consist of \$898.7m in loans and grants, of which \$182.2m, or 20.3%, have been disbursed through the end of June 2016. The Bank's loan portfolio is composed of seven projects with commitments of \$822.7m, or 91.5% of its total engagement in Lebanon. The Bank noted that it has only disbursed \$149m, or 18.1% of its total loan commitments to Lebanon as of June 2016. The seven operations consist of projects in water, cultural heritage and urban development, the environment, support to small- and medium-sized enterprises, fiscal management reforms, and education. In addition, the Bank indicated that there are currently eight active grants that total \$76m, accounting for 8.5% of its total engagement in Lebanon, and which are financed by trust funds affiliated to the World Bank. It noted that it has only disbursed \$33.12m, or 43.6% of the grants as of June 2016. It added that the grants were earmarked for education, social protection and labor, primary healthcare, municipal services, volunteerism, and environmental compliance.

The World Bank pointed out that the slow decision-making process in Lebanon has disrupted the implementation of several projects. It added that the lack of continuity in the functioning of the Parliament has had negative effects on the Bank's programs, as the implementation of several projects has been delayed. It noted that it has requested the endorsement of the Lebanese Cabinet prior to submitting a project to the Bank's Board of Executive for approval, in order to minimize delays from the Cabinet's approval process. It added that it will only agree to extend implementation deadlines if the delay is related to parliamentary ratification.

#### World Bank Portfolio in Lebanon (US\$m)\*

Project Name	Approval Date	Effectiveness Date	Amount (US\$m)	Amount disbursed (US\$m)	Share disbursed (% of amount)
<b>Loans</b>					
Second Education Development Project	2010	2012	40	7.6	19.0
Environmental Pollution Abatement Project	2014	2016	15	0.04	0.30
Supporting Innovation in SMEs Project	2012	2015	30	5.1	17.1
Second Fiscal Management Reform	2014	2015	5.2	1.6	30.7
Cultural Heritage and Urban Development	2003	2004	58.5	52.7	90.1
Greater Beirut Water Supply	2010	2012	200	50.3	25.1
Water Supply Augmentation Project	2014	2015	474	31.7	6.70
<b>Grants</b>					
Emergency Primary Healthcare Restoration	2015	2015	15	4.0	26.7
National Volunteer Service Program	2011	2013	2	1.4	67.3
Emergency National Poverty Targeting Project	2014	2014	8.2	5.7	68.9
Municipal Services Emergency Project	2014	2015	10	3.3	33.0
Emergency Education System Stabilization	2015	2015	32	13.2	41.3
ESPISP 2**	2008	2009	6	5.1	85.1
Improve Capacity of Environment Compliance	2013	2013	0.3	0.2	60.0
PCB Management in the Power Sector	2014	2015	2.5	0.3	13.0

\*As of June 2016

\*\*Second Emergency Social Protection Implementation Support Project

Source: World Bank

### **Byblos Bank's net profits up 6% to \$74m in first half of 2016**

Byblos Bank sal, one of the top banking and financial services groups in Lebanon, declared unaudited net profits of \$73.8m in the first half of 2016, constituting an increase of 6% from \$69.6m in the first half of 2015. Further, the Bank's pre-tax profits grew by 10.4% year-on-year to \$96.8m in the first half of the year. Net interest income reached \$121.4m in the first half of 2016 compared to \$127.8m in the same period of 2015; while net fees & commissions income stood at \$40.1m relative to \$40.5m in the first half of last year. Also, net gains from financial instruments at fair value grew by 18.7% year-on-year to \$35.3m in the first half of 2016, while net gains from financial assets at amortized cost rose by 52.6% to \$42.8m. Net operating income totaled \$226.3m in the first half of 2016, up by 2% from \$221.8m in the same period of 2015. Also, total operating expenses reached \$117.1m in the first half of the year, with personnel expenses accounting for 58.3% of the total and other operating expenses for 35.8%.

In parallel, the Bank's aggregate assets reached \$20.43bn at the end of June 2016 and grew by 2.8% from the end of 2015. Net loans & advances to customers totaled \$5bn at the end of June and increased by 1.9% from end-2015, with loans extended to related parties standing at \$24.5m. Further, Byblos Bank's net non-performing loans, or NPLs net of specific provisions and reserved interest, were equivalent to 1.6% of net loans at the end of June 2016. Also, the NPL coverage ratio, including collective provisions, was 106.3% at the end of June. The Bank's total deposits reached \$17.15bn at the end of June 2016 and grew by 3.1% from the end of 2015, with deposits from related parties standing at \$267.5m. In parallel, the Bank's total equity reached \$1.66bn at the end of June 2016.

Byblos Bank maintained strong financial buffers to mitigate unexpected risks and counter economic volatility. The Bank's capital adequacy ratio stood at 17.7% at the end of 2015 according to Basel III criteria, which is significantly above the minimum regulatory requirement of 12% for 2016 and is one of the highest such ratios in the Lebanese banking sector. Also, the Bank's immediate liquidity with commercial banks and central banks, including certificates of deposits, stood at \$10.4bn at the end of June 2016, representing about 51% of the Bank's aggregate assets. The Byblos Bank Group has a direct presence in Iraq, Syria, Sudan, the United Arab Emirates, Nigeria, Armenia and the Democratic Republic of Congo, as well as in Belgium, France, the United Kingdom and Cyprus.

### **Stock market activity up 9% to \$412m in first seven months of 2016**

Figures released by the Beirut Stock Exchange (BSE) indicate that the trading volume reached 47.2 million shares in the first seven months of 2016, constituting a decrease of 2.1% from 48.2 million shares traded in the same period of 2015; while aggregate turnover amounted to \$411.9m, up by 8.9% from a turnover of \$378.4m in the first seven months of 2015. Market capitalization regressed by 3.1% from the end of July 2015 to \$11.08bn, with banking stocks accounting for 82.7% of the total, followed by real estate shares (14.2%), industrial firms (2.7%) and trading stocks (0.3%). The market liquidity ratio was 3.7% in the covered period compared to 3.3% in the first seven months of 2015. Banking stocks accounted for 91.2% of aggregate trading volume in the first seven months of the year, followed by real estate equities with 8.6% and industrial shares with 0.1%. Also, banking stocks represented 90% of the aggregate value of shares traded, followed by real estate equities with 9.8% and industrial stocks with 0.2%. The average daily traded volume for the period was 336,762 shares for an average daily value of \$2.9m. The figures reflect a drop of 0.7% in volume and a rise of 10.4% in value year-on-year.

### **BBAC to raise capital through preferred shares issuance**

The Extraordinary General Assembly of BBAC sal that was held on May 23, 2016 approved the increase of the bank's capital from LBP157bn, equivalent to \$104.2m, to LBP162.18bn or \$107.6m, through the issuance of 5,000,000 Series "C" Preferred Shares. The shares will have an issue price of \$10 per share, of which LBP1,033 is par value and the remaining \$9.3 constitutes the issue premium. The Series "C" Preferred Shares are non-cumulative, redeemable and perpetual, and they will carry an annual dividend rate of 7% of the issue price, with the annual payment being contingent on the availability of sufficient declared net profits. The Series "C" shares will not be listed on the Beirut Stock Exchange, in line with previous issuances. As such, the dividends are subject to a 10% withholding tax, with the bank reimbursing half of the tax to shareholders. BBAC has the option to call the shares after the Ordinary General Assembly meets to approve the bank's financials for fiscal year 2021, and every year thereafter, at a callable price of \$10 per share plus any declared but unpaid dividends. Following the issuance, the bank's share capital would consist of 157,000,000 shares that include 144,000,000 common shares, 8,000,000 Series "B" Preferred Shares and 5,000,000 Series "C" Preferred Shares.

BBAC, one of the top 14 commercial banks in Lebanon, posted unaudited consolidated net profits of \$13.2m in the first quarter of 2016, up by 25.4% from \$10.5m in the same quarter of 2015. Its assets reached \$6.1bn at end-March 2016; while net loans & advances to customers, excluding loans & advances to related parties, increased by 1.3% from end-2015 to \$1.65bn at the end of March 2016. Also, customer deposits, excluding deposits from related parties, totaled \$5.28bn at end-March, up by 1.2% from the end of 2015.



### Aggregate net profits of listed banks up 11% in first half of 2016

Financial results issued by the six banks listed on the Beirut Stock Exchange show that their aggregate net profits reached \$643.8m in the first half of 2016, constituting an increase of 10.6% from net earnings of \$582.1m in the same period last year. The banks' unaudited net profits reached \$309m in the first quarter and \$335m in the second quarter of 2016. Further, the banks' aggregate pre-tax profits grew by 7.3% year-on-year to \$691.7m in the covered period. The aggregate net interest income of the six banks totaled \$1.15bn in the first half of 2016, up by 7.8% from \$1bn in the same period of 2015; while their receipts from net fees & commissions increased by 1.9% year-on-year to \$296m. The total operating income of the listed banks reached \$1.83bn in the first half of 2016 and grew by 14.5% from \$1.6bn in the same period last year. The banks' collective cost-to-income ratio regressed from 55.5% in the first half of 2015 to 53.6% in the first half of 2016.

In parallel, the aggregate assets of the publicly-listed banks grew by 0.4% from end-2015 to \$115.2bn at the end of June 2016; while total loans, including those to related parties, expanded by 2.9% to \$37.9bn. Also, total deposits, including those from related parties, improved by 0.3% from end-2015 to \$95.7bn at end-June 2016. In parallel, the banks' aggregate shareholders' equity increased by 0.5% from end-2015 to \$10.4bn at the end of June 2016.

The six banks' aggregate loans-to-deposits ratio stood at 39.6% at the end of June 2016, up from 38.6% at end-2015. BLOM Bank had the lowest loans-to-deposits ratio at 28.9% compared to 28.7% at end-2015; followed by Byblos Bank with a ratio of 29.3% at end-June 2016 relative to 29.6%, Bank of Beirut with 37%, up from 35% at the end of 2015; BLC Bank with 40.3% at end-June compared to 41.6%; Bank Audi with 52.8% at end-June 2016, up from 50.3% at end-2015; and Banque BEMO with 53.4% compared to 50% at the end of 2015.

Results of Listed Banks in First Half of 2016						
	Audi	BLOM	Byblos	BoB	BEMO	BLC
Net Profits (\$m)	225.7	226.7	73.8	90.88	7.30	19.54
% Change*	11.7%	19.1%	6%	2.2%	-8.4%	-15.6%
Total Assets (\$bn)	41.94	29.5	20.43	16.1	1.66	5.54
% Change**	-0.8%	1.4%	2.8%	-0.1%	2.4%	-3.5%
Loans (\$bn)	18.47	7.35	5.02	4.52	0.72	1.87
% Change**	3%	2.2%	1.9%	6.4%	6%	-2.2%
Deposits (\$bn)	34.99	25.41	17.15	12.21	1.34	4.64
% Change**	-1.7%	1.3%	3.1%	0.2%	-0.9%	1.2%

\*Year-on-year

\*\*Change from end-2015

Source: Banks' financial statements, Byblos Research

### Zurich ME's net income at \$1m in 2015

Zurich Insurance Middle East sal (Zurich ME), a subsidiary of Swiss insurance company Zurich Insurance Company Ltd, announced audited net profits of \$1.1m in 2015, constituting an increase of 28.3% from net earnings of \$0.8m in 2014. Its audited balance sheet shows total assets of \$171.2m at the end of 2015, constituting a rise of 16.1% from end-2014. On the assets side, general company investments totaled \$84.4m and grew by 11.5% from \$75.7m at end-2014. They included \$22m in cash & cash equivalents, \$6.3m in fixed income investments and \$55.5m in blocked bank deposits and deposits with maturity of more than three months, of which \$2.3m were blocked in favor of the Economy Ministry as guarantees. Further, the reinsurance share in technical reserves for the life category amounted to \$51.4m, constituting a rise of 29.2% from \$39.8m at end-2014.

On the liabilities side, the technical reserves for the non-life segment grew by 17% year-on-year to \$88.4m. Non-life technical reserves included unearned premium reserves of \$36.9m that rose by 26.2%, outstanding claims reserves of \$31.4m that increased by 9%, and \$18.2m in reserves incurred but not reported that grew by 24.3% year-on-year. Further, provisions for risks and charges reached \$58,000 and decreased by 19% from the previous year. In parallel, the firm's shareholders' equity totaled \$31.3m at end-2015 and rose by 3.5% from \$30.2m a year earlier.

*Al-Bayan* magazine's annual survey of the life insurance sector in Lebanon ranked Zurich Insurance Middle East sal in 37th place in 2015 in terms of non-life premiums. The firm's non-life premiums reached \$3.7m last year, constituting a rise of 6.9% from \$3.5m in 2014. It had a 0.4% share of the non-life market in 2015.

## Ratio Highlights

(in % unless specified)	2013	2014	2015	Change*
Nominal GDP (\$bn)	47.2	49.4	50.9	
Public Debt in Foreign Currency / GDP	55.3	51.9	53.2	134
Public Debt in Local Currency / GDP	79.1	83.0	85.0	203
Gross Public Debt / GDP	134.4	134.8	138.2	337
Total Gross External Debt / GDP**	163.8	165.1	162.4	(270)
Trade Balance / GDP	(36.6)	(34.8)	(29.7)	512
Exports / Imports	18.5	16.2	16.6	41
Fiscal Revenues / GDP	19.9	22.0	18.8	(322)
Fiscal Expenditures / GDP	28.9	28.3	26.6	(167)
Fiscal Balance / GDP	(8.9)	(6.2)	(7.8)	(154)
Primary Balance / GDP	(0.5)	2.6	1.4	(122)
Gross Foreign Currency Reserves / M2	69.5	66.5	58.7	(780)
M3 / GDP	235.4	238.4	243.0	462
Commercial Banks Assets / GDP	349.0	355.9	365.6	968
Private Sector Deposits / GDP	288.4	292.6	298.0	540
Private Sector Loans / GDP	100.3	103.1	106.6	348
Private Sector Deposits Dollarization Rate	66.1	65.7	64.9	(83)
Private Sector Lending Dollarization Rate	76.5	75.6	74.8	(73)

\* Change in basis points 14/15

\*\*Includes portion of public debt owed to non-residents, liabilities to non-resident banks, non-resident deposits (estimated by the IMF), Bank for International Settlements' claims on Lebanese non-banks

Source: Association of Banks in Lebanon, Institute of International Finance, International Monetary Fund, World Bank, Byblos Research Estimates & Calculations  
Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

## Risk Metrics

Lebanon	Oct 2014	Sep 2015	Oct 2015	Change**	Risk Level
Political Risk Rating	52.0	54.5	54.5	▼	High
Financial Risk Rating	38.0	39.0	39.0	▼	Low
Economic Risk Rating	27.0	33.0	33.0	▼	Moderate
Composite Risk Rating	58.5	63.25	63.25	▼	Moderate

MENA Average*	Oct 2014	Sep 2015	Oct 2015	Change**	Risk Level
Political Risk Rating	57.1	57.6	57.7	▼	High
Financial Risk Rating	40.6	39.2	39.3	▲	Low
Economic Risk Rating	35.6	31.3	31.2	▲	Moderate
Composite Risk Rating	66.6	64.0	64.1	▲	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	B2	NP	Negative	B2		Negative
Fitch Ratings	B-	B	Stable	B-		Stable
Standard & Poor's	B-	B	Negative	B-	B	Negative
Capital Intelligence	B	B	Negative	B	B	Negative

Source: Rating agencies

Banking Ratings	Banks' Financial Strength	Banking Sector Risk	Outlook
Moody's	E+		Negative



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