

LEBANON THIS WEEK

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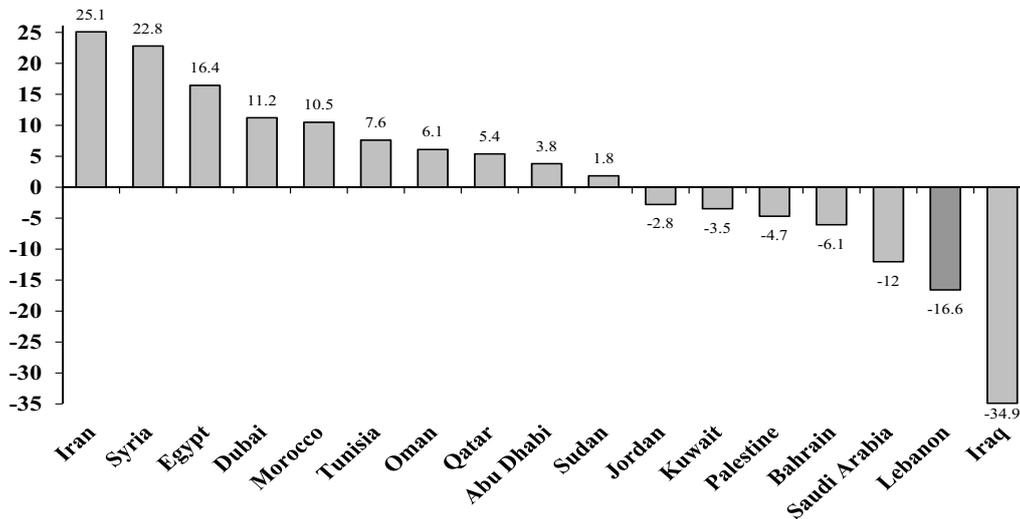
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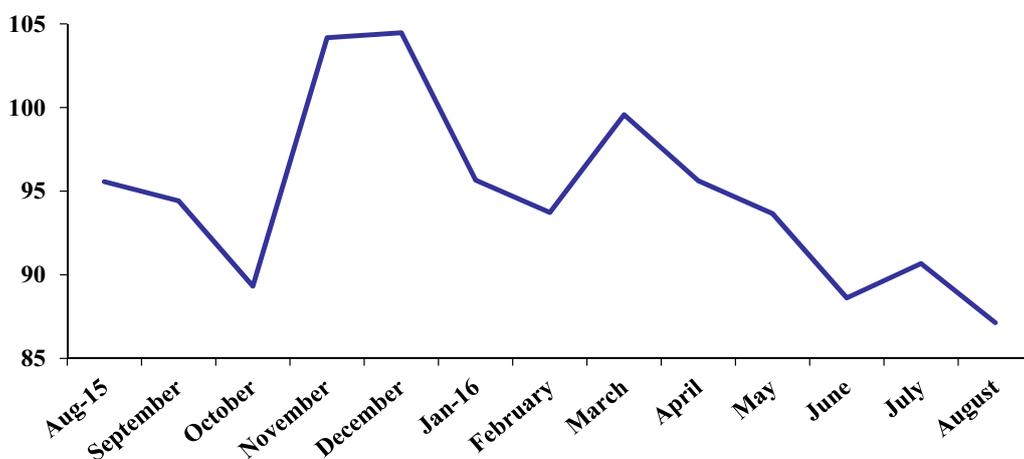
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Charts of the Week

Performance of MENA Stock Markets in the First Eight Months of 2016 (% change)



Performance of the Beirut Stock Exchange*



* Capital Markets Authority Value Weighted Index end of month values

Source: Local Stock Markets, Dow Jones Indices, Capital Markets Authority, Byblos Bank

Quote to Note

"Significant investment opportunities for international companies exist in the energy, water & wastewater, oil & gas, safety & security, franchising, ICT, and healthcare sectors."

The United States Department of Commerce, on investment opportunities in Lebanon

Number of the Week

1.47%: The spread between the weighted average cost of funds and the weighted return on the uses of funds in US dollars at commercial banks in Lebanon as at June 2016, according to the Association of Banks in Lebanon

Lebanon in the News

\$m (unless otherwise mentioned)	2015	Apr 2015	Jan 2016	Feb 2016	Mar 2016	Apr 2016	% Change*
Exports	2,952	235	186	228	220	237	0.85
Imports	18,069	1,442	1,494	1,377	1,750	1,610	11.65
Trade Balance	(15,117)	(1,207)	(1,308)	(1,149)	(1,530)	(1,373)	13.75
Balance of Payments	(3,354)	136	(719)	363	(288)	(225)	-
Checks Cleared in LBP	18,714	1,550	1,709	1,538	1,609	1,698	9.50
Checks Cleared in FC	50,845	4,158	4,065	3,988	3,983	3,959	(4.79)
Total Checks Cleared	69,559	5,708	5,774	5,526	5,592	5,657	(0.91)
Budget Deficit/Surplus	(3,952)	(431.85)	(214.00)	(513.56)	(713.34)	(192.17)	(55.50)
Primary Balance	724.40	42.17	32.08	(276.67)	(156.28)	249.64	492
Airport Passengers***	7,241,463	598,341	546,609	442,212	534,954	557,763	(6.78)

\$bn (unless otherwise mentioned)	2015	Apr 2015	Jan 2016	Feb 2016	Mar 2016	Apr 2016	% Change*
BdL Gross FX Reserves	30.64	33.77	31.64	31.42	30.37	31.16	(7.71)
<i>In months of Imports</i>	20.35	23.42	22.82	17.35	(24.16)	19.36	(17.34)
Public Debt	70.31	69.47	70.62	71.22	71.04	71.65	3.15
Bank Assets	185.99	179.40	186.20	186.59	187.66	187.92	4.75
Bank Deposits (Private Sector)	151.59	147.50	151.50	151.42	152.44	152.93	3.68
Bank Loans to Private Sector	54.22	51.43	54.39	54.56	55.06	55.20	7.34
Money Supply M2	52.15	50.01	52.24	52.29	52.52	52.79	5.55
Money Supply M3	123.62	119.75	123.26	123.49	124.51	125.11	4.48
LBP Lending Rate (%)	7.45	7.10	8.28	8.18	8.62	8.40	130bps
LBP Deposit Rate (%)	5.56	5.61	5.52	5.57	5.59	5.60	(1bp)
USD Lending Rate (%)	7.06	7.08	7.34	7.31	7.36	7.17	9bps
USD Deposit Rate (%)	3.17	3.16	3.22	3.22	3.27	3.29	13bps
Consumer Price Index**	(3.75)	(3.74)	(3.16)	(2.94)	(3.57)	(2.35)	139bps

* 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	Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
BLOM Listed	10.00	0.00	2,587,190	19.55%	Mar 2017	9.00	102.00	5.26
Audi Listed	6.10	0.00	177,034	22.17%	Nov 2018	5.15	100.00	5.15
Byblos Common	1.62	0.62	105,942	5.30%	May 2019	6.00	100.25	5.90
BLOM GDR	10.10	0.00	30,290	6.79%	Mar 2020	6.38	101.30	5.96
Solidere "A"	9.24	(1.39)	17,896	8.40%	Apr 2021	8.25	108.25	6.17
Solidere "B"	9.10	(3.50)	11,584	5.38%	Oct 2022	6.10	99.25	6.25
Audi GDR	6.10	0.00	4,017	6.38%	Jun 2025	6.25	97.13	6.69
HOLCIM	13.89	(2.25)	3,319	2.46%	Nov 2026	6.60	99.50	6.67
Byblos Pref. 08	101.00	0.00	1,500	1.84%	Feb 2030	6.65	98.25	6.85
Byblos Pref. 09	101.00	0.80	1,000	1.84%	Nov 2035	7.05	99.88	7.06

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

Source: Byblos Bank Capital Markets

	Aug 29-Sep 2	August 22-26	% Change	August 2016	August 2015	% Change
Total Shares Traded	2,977,915	127,236	2240.74	8,672,726	2,758,726	214.39
Total Value Traded	\$28,529,590	\$1,350,193	2013	\$86,998,154	\$36,050,573	141.32
Market Capitalization	\$11.00bn	\$11.03bn	(0.29)	\$10.98bn	\$11.17bn	(1.64)

Source: Beirut Stock Exchange (BSE)



Greenfield FDI from Lebanon to Arab countries at \$6.2bn between January 2003 and April 2016, Iraq attracts 60% of FDI

Figures released by fDi Markets show that the cumulative value of outward greenfield foreign direct investment (FDI) from Lebanon to Arab countries totaled \$6.2bn between January 2003 and April 2016. Lebanon was the seventh largest source of greenfield FDI among 21 Arab countries during the covered period, behind the UAE (\$156.6bn), Bahrain (\$38.5bn), Kuwait (\$37.1bn), Qatar (\$30.4bn), Saudi Arabia (\$18.1bn) and Egypt (\$13.6bn). The value of outward greenfield FDI from Lebanon to Arab countries accounted for 2% of total inter-Arab greenfield FDI projects between January 2003 and April 2016.

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, but 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.

On a country level, Iraq was the main destination of greenfield FDI from Lebanon with \$3.7bn or 59.9% of the total, followed by the UAE with \$1.17bn (18.8%), Syria with \$283m (4.5%), Sudan with \$228m (3.7%), Egypt with \$217m (3.5%), Jordan with \$161m (2.6%), Saudi Arabia with \$133m (2.1%), Qatar with \$80m and Oman with \$79m (1.3% each), Algeria with \$63m (1%), Bahrain with \$28m (0.4%), Kuwait with \$18m (0.3%), and Tunisia, Libya and Morocco with \$11m each (0.2% each).

Further, Lebanese investors initiated 126 greenfield projects in Arab countries between January 2003 and April 2016, constituting the sixth highest number of projects among 21 Arab countries, behind the UAE (1,152 projects), Saudi Arabia (268 projects), Kuwait (266 projects), Qatar (140 projects) and Bahrain (127 projects). Also, the number of outward greenfield FDI projects from Lebanon to Arab countries accounted for 5.2% of inter-Arab greenfield FDI projects over the covered period. Overall, the UAE, Iraq and Syria accounted for 46.8% of the number of Lebanese FDI projects in Arab countries and for 83.3% of their value.

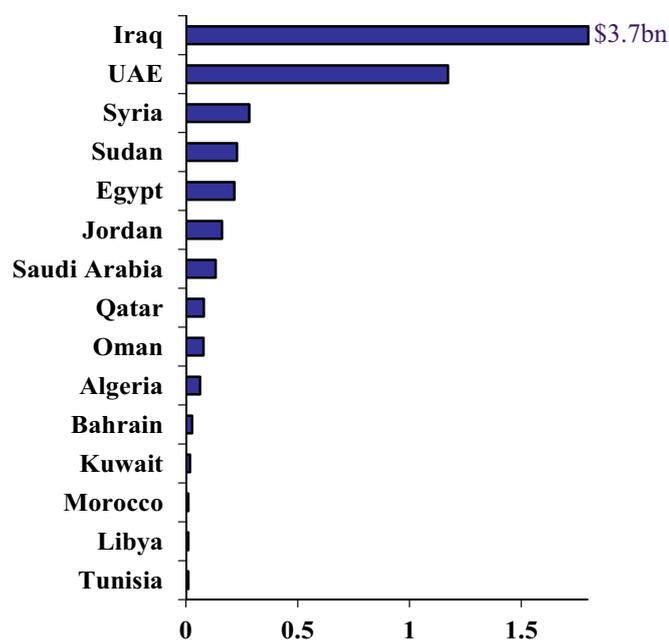
Central Bank measures increase foreign currency reserves and commercial banks' liquidity

The Central Bank indicated that its recent operations with the Ministry of Finance and with commercial banks in Lebanon aim to increase the Bank's assets in foreign currency, as well as to provide the required liquidity to support the banks' balance sheets and to finance the economy and the government. The Central Bank did not disclose figures about its recent operations. But according to Citi, the Ministry of Finance swapped \$2bn worth of Eurobonds with Lebanese pound-denominated Treasury bonds from the Central Bank's portfolio. In turn, the Central Bank sold the acquired Eurobonds to Lebanese banks and issued between \$1bn and \$3bn in Certificates of Deposits (CDs) to domestic banks. Then, the Central Bank bought from banks at face value Lebanese pound-denominated Treasury bonds worth the equivalent of about \$3bn to \$5bn.

The Central Bank stated that it conducted these operations at no cost for the involved parties, as it did not have to increase interest rates. As a result of these operations, the Bank said that its assets in foreign currency reached a record high of \$40.7bn at the end of August 2016. In addition, the Bank indicated that its operations have supported the Lebanese pound, reinforced the banks' balance sheets and increased deposits in the banking sector due to a rise in inflows from the banks' foreign subsidiaries to subscribe to the recent operations. Also, it said that the availability of liquidity in local currency aims to increase private sector lending in the context of subdued real GDP growth of about 1% to 2% annually. Further, the Bank asked commercial banks to use the proceeds generated from their operations with the Central Bank to meet IFRS 9 standards. It added that the Bank is considering asking banks to build general provisions equivalent to 1% to 2% of their loan portfolio in Lebanese pounds, depending on the need of each bank. It said that banks could free the excess provisions in case they are able to match them with new lending in Lebanese pounds to the private sector.

In parallel, the Central Bank indicated that the rise in local currency liquidity has helped reduce interest rates in Lebanese pound, which would allow the government to borrow at lower costs. Also, the Bank said that, following its operations, international investment banks have advised their clients to subscribe to Lebanese Eurobonds, which has reduced the yields on Eurobonds in the secondary market.

Greenfield FDI outflows from Lebanon to Arab countries (US\$bn*)



*between January 2003 and April 2016
Source: fDi Markets, Byblos Research

S&P revises outlook from 'negative' to 'stable' on Lebanon's sovereign ratings

S&P Global Ratings affirmed Lebanon's long- and short-term foreign and local currency sovereign credit ratings at 'B-/B' and revised the outlook on the long-term ratings from 'negative' to 'stable'. It attributed the change in the outlook to its expectations that deposit inflows to the Lebanese banking sector would remain resilient, which would support the government's borrowing requirements and the country's external financing needs.

S&P noted that the government's debt servicing capacity is dependent on the strength of deposit inflows and on the financial sector's willingness and ability to continue subscribing to government securities. It reiterated that the government's dependence on domestic banks and on the Central Bank to finance its needs is a structural weakness, but it considered this dependence to be a crucial support for the ratings. It projected the government's gross borrowing requirements at about 26% of GDP in 2016. Further, it indicated that the financial system has been crucial to meet the country's overall external financing requirement that it forecast at \$47bn, or 89% of GDP, in 2016. Also, it estimated the country's gross external financing needs to be equivalent to 110.2% of current account receipts and usable reserves in 2016, up from 107.8% in 2015. Further, it projected the current account deficit to narrow from an average of 21.5% of GDP during the 2012-15 period to an average of 14.2% of GDP during the 2016-19 period, due to a smaller import bill as a result of lower oil prices, weaker domestic economic activity and a stronger US dollar. It noted that the current account deficit could be overstated due to unrecorded public and private transfers, as well as to unrecorded border trade.

The agency forecast bank deposits to grow by at least 4% in 2016. It added that deposit inflows are sensitive to swings in confidence. It noted that annual deposit growth has decelerated from 11.5% in 2010 to about 5.2% in 2015, due to spillovers from the Syrian conflict and, to a lesser extent, the economic slowdown in GCC countries. It considered that the GCC economies' measures against Lebanon earlier this year had a softer impact on depositor confidence compared to previous periods of elevated tensions and instability, such as the assassination of Prime Minister Rafic Hariri in 2005 and the Israeli war in 2006. Also, it said that the challenging domestic political landscape constitutes a longer term constraint on Lebanon's deposit and economic growth. It noted that the country's political divisions have obstructed policy-making and have turned minor issues, such as garbage collection, into larger social problems.

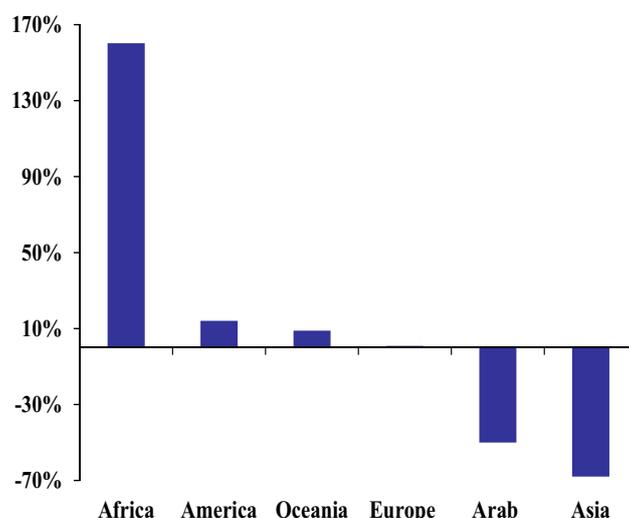
S&P did not expect a rebound in Lebanon's growth drivers, such as tourism, real estate and construction in the current circumstances as long as the domestic political stalemate persists and in the absence of a resolution to the Syrian conflict. It projected Lebanon's real GDP growth rate to average 2.3% annually during the 2016-19 period, while it forecast real GDP per capita growth rate to contract by 2.9% in 2016 and by 1.7% annually over the 2010-19 period. It forecast the fiscal deficit to widen from 7.8% of GDP in 2015 to 8.7% of GDP in 2016, as it considered that public finances and fiscal flexibility will remain constrained by structural expenditures, which include transfers to the state-owned and money-losing Electricité du Liban. It noted that the primary fiscal balance would remain in surplus and will average 0.6% of GDP during the 2016-19 period, while the public debt level would stay above 140% of GDP over the same period. The agency said that it would upgrade the ratings in the coming 12 months if the country's policy-making framework become more predictable, which would support foreign capital inflows and improve the sustainability of public finances.

Tourist arrivals up 9% in first seven months of 2016

The number of incoming tourists to Lebanon totaled 955,813 in the first seven months of 2016, constituting an increase of 8.6% from 880,079 tourists in the same period of 2015, and a drop of 28% from 1,326,001 tourists in the first seven months of 2010. Also, the number of incoming tourists reached 232,708 in July 2016, up by 11.5% from 208,681 in July 2015. Visitors from European countries accounted for 34% of total visitors in the first seven months of 2016, followed by visitors from Arab economies with 29.3%, the Americas with 18.8%, Asia with 7.6%, Africa with 6.2% and Oceania with 4%. Also, tourists from Iraq accounted for 13.3% of total visitors in the covered period, followed by visitors from the U.S. (9.9%), France (8.8%), Canada (6.4%), Germany (5.3%), Jordan (5.1%), Egypt (4.7%) and the United Kingdom (3.8%).

In parallel, the number of visitors from African countries rose by 29.4% year-on-year in the first seven months of 2016, followed by visitors from Oceania (+20.5%), the Americas (+11.7%), Europe (+10%), and the Arab region (+3.3%); while the number of visitors from Asian countries regressed by 1.9% from the same period of 2015. On a country basis, the number of tourists from Iraq surged by 25.7% year-on-year in the first seven months of 2016, followed by visitors from Venezuela (+23.5%), Sweden (+20%), Germany (+15.9%), the U.S. (+13.8%), Brazil (+10.3%), Turkey (+8.7%), Canada (+8%), the United Kingdom (+7.9%), Jordan (+7.1%), France (+7%), Egypt (+6.2%), and Italy (+0.6%). In contrast, the number of visitors from the UAE fell by 72%, followed by those from Kuwait (-38.7%) and Saudi Arabia (-35.4%).

Change in the Number of Tourist Arrivals from Main Sources in First Seven Months of 2016*



*from the same period of 2010

Source: Ministry of Tourism, Byblos Research

Jobs satisfaction in Lebanon is seventh highest in MENA region

A survey conducted by opinion polling and consulting firm Gallup about job satisfaction in 131 countries shows that 30% of respondents in Lebanon said that they have a "good" or a "great" job, compared to 26% of respondents globally and 21% of survey participants in the Middle East & North Africa (MENA) region. The share of Lebanese who consider that they have a "good" or a "great" job is the 58th highest globally, similar to that in Spain, Romania, Costa Rica, Brazil and South Korea. Also, it is higher than that in Macedonia (29%) and Venezuela and China (28% each), and lower than that in Montenegro, Uruguay, Paraguay and Mongolia (31% each). In addition, the share of Lebanese who consider that they have a "good" or a "great" job is the seventh highest among 16 MENA countries.

Further, the survey indicated that 25% of respondents in Lebanon consider that they have a "good" job, higher than the global and regional averages of 23% and 19%, respectively. The share of Lebanese who consider that they have a "good" job is the 55th highest globally, similar to that in Italy. Also, it is higher than that in Turkmenistan, Romania and Macedonia (24% each), and lower than that in Serbia, Malaysia, Paraguay and Spain (26% each). In addition, the share of Lebanese who consider that they have a "good" job is the seventh highest in the MENA countries, lower than only Qatar (55%), the UAE (53%), Bahrain (44%), Kuwait (41%), Israel (40%) and Saudi Arabia (34%).

In parallel, the survey indicated that 5% of respondents in Lebanon consider that they have a "great" job, higher than the global and regional averages of 4% and 3%, respectively. The share of Lebanese who consider that they have a "great" job is the 46th highest globally, similar to that in Switzerland, the Netherlands and Mexico, among others. Also, it is higher than that in Finland, Germany and Australia (4% each), and lower than that in the United Kingdom, New Zealand and Cyprus (6% each). In addition, the share of Lebanese who consider that they have a "great" job is the sixth highest in the MENA countries, similar to Saudi Arabia and lower than only the UAE and Bahrain (9% each), Kuwait (8%), Qatar (7%) and Israel (6%). The survey indicated that the percentage of adults with "great" jobs rarely exceeds 10%. It added that the share respondents who have a "great" job ranges from 13% in Panama to less than 1% in Ethiopia, Bhutan and Syria. The results are based on three surveys that were conducted in 2013, 2014 and 2015 in 131 countries. The survey in Lebanon was conducted through face-to-face interviews with 1,000 Lebanese residents who are 18 years or older.

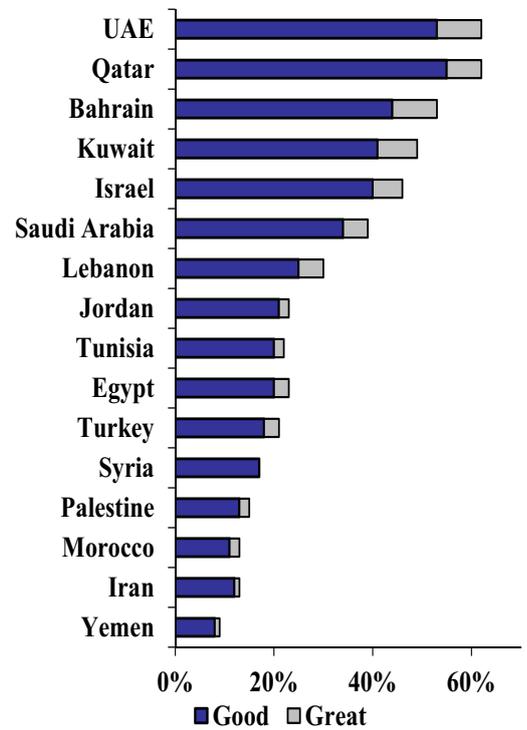
Launch of \$1.5m renewable energy project

The General Directorate of Hydraulic & Electric Resources at the Lebanese Ministry of Energy & Water indicated that it awarded on August 12, 2016 a contract worth LBP2.28bn, or about \$1.5m, through a tender offer to a Lebanese consortium to install a solar photovoltaic farm in Choukine, Nabatieh. The consortium is formed of the Lebanon-based ASACO General Trade & Contracting company, the Farhat Group, the Power and Automation Control (PAC) firm, and the Izzat Marji Group. The project aims to generate one megawatt of electricity at the Choukine facility and to provide additional production to the state-owned Electricité du Liban through net-metering, which links the flow of electricity from the renewable energy source to the grid. The project's construction is expected to start by November 2016 and to be completed within 16 to 18 months on a surface area of about 10,000 square meters. The Choukine farm will be financed by the General Directorate of Hydraulic & Electric Resources.

The Choukine solar farm is the third project after the one megawatt Beirut River Solar Snake project and the one megawatt Zahrani Oil Installations' project. They are part of the Ministry of Energy & Water's national plan to install around 30 megawatts of solar farms for the public sector by 2020.

Launched in September 2014, the Solar Photovoltaic Farm project falls within the Lebanese government's strategic commitment to develop renewable energy production capacity, with the aim of generating 12% of total electricity supply from renewable energy by 2020.

% of Respondents Who Said They Have a "Good" or a "Great" Job



Source: Gallup, Byblos Research

More than 50% of Internet users in Lebanon access Internet through mobile broadband

A survey conducted by Ericsson ConsumerLab indicated that 68% of Lebanese consumers own two or more devices such as smartphones, feature phones, desktops, laptops and tablets. It indicated that 94% of the surveyed Lebanese own a smartphone compared to 82% of consumers worldwide; 52% of residents in the country own a laptop, notebook or a desktop relative to 78% of consumers globally; 32% own a smart TV, similar to the global average; and 31% of consumers in the country have a tablet compared to 48% of consumers worldwide who own such a device.

Further, the survey pointed out that 79% of resident Lebanese are subscribed to mobile broadband, compared to 69% of consumers globally who subscribe to such services. But it noted that 76% of consumers in Lebanon use less than one gigabyte of mobile data per month, while only 20% of them are satisfied with the price plans currently available in the country. In addition, it said that data usage in Lebanon is focused on less data-intensive activities, such as social networking and browsing, than global trends. Moreover, the survey indicated that 54% of Internet users access the Internet through mobile broadband, 12% through fixed broadband and 34% access the Internet through mobile and fixed broadband. In comparison, 25% of users globally access the Internet through mobile broadband, 18% through fixed broadband and 57% through a combination of both services.

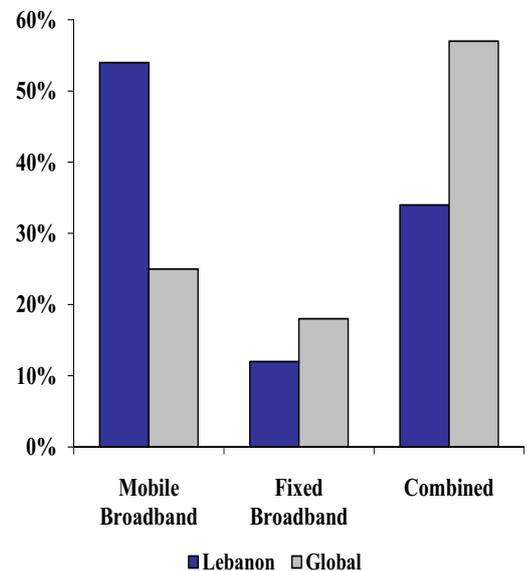
In parallel, the survey indicated that 42% of consumers in Lebanon participate in at least two social networking communities relative to 46% globally, while the share of Lebanese who participate in two or more instant messaging communities exceeds the global average by eight percentage points. But it noted that Lebanese users have low interest in community applications, such as sport or technology forums. Further, the survey indicated that 80% of smartphone and tablet owners who use the Internet reported an increase in their usage of Internet calls applications from the previous year, compared to 51% of consumers globally; while 85% said that their usage of instant messaging applications rose year-on-year relative to 58% of users globally. In addition, it noted that 25% of Internet users make at least 50% of their phone calls through Internet mobile applications; while 22% send at least half of their text messages through mobile applications.

In parallel, the survey pointed out that consumers in Lebanon have yet to develop a strong belief in technology for the betterment of society. It indicated that only 25% of surveyed Lebanese feel that an increase in the number of persons who are connected through technology would lead to positive changes in society, compared to 40% globally. But it noted that young Lebanese in the 15 to 19 year-old age bracket have a stronger belief in the use of technology for societal progress relative to the older population. Further, 28% of survey participants in Lebanon believe that technology democratizes education, 21% of them consider that technology improves healthcare and 20% said that it reduces casualties during crises. The survey is based on face-to-face interviews with 1,510 residents in Lebanon in the 15 to 69 year old age group. The survey also includes insights based on data gathered from another 45,290 face-to-face and online interviews with consumers in the same age group across 24 countries.

Capital Markets Authority decree aims to fight price manipulation

The Capital Markets Authority (CMA) issued decree 22 on August 8, 2016 that aims to prevent price manipulation of financial instruments in Lebanon. It considered all fictitious trades, or trades in a security that do not involve a change in beneficial ownership, to be a manipulative or deceptive act until proven otherwise. In addition, it defined an act to be manipulative or deceptive when it is executed to create a false or misleading impression of trading activity in a security, or to generate an artificial price for a security. Manipulative or deceptive practices include placing an order to buy or sell a security with the prior knowledge that similar selling or buying orders have been placed or will be conducted; and purchasing or selling a security at successively higher or lower prices. They also consist of placing orders for the purchase, or for the sale, of a security in order to establish a pre-determined price, or to maintain prices within a pre-determined range, among other acts. Further, the CMA prohibited any person from conducting or participating in any transaction if the person knows that the transaction will generate a false or misleading impression of trading activity, or that it will generate an artificial price. In parallel, the CMA prohibited any physical or legal entity from short selling a security.

Type of Internet Access
(% of Internet Users)



Source: Ericsson ConsumerLab, Byblos Research

Practical steps identified to improve municipal finances

A survey of 57 municipalities across Lebanon about the collection of Rental Value Fee (RVF), which is a fee paid by tenants to municipalities in return for rendered municipal services, shows that five main factors have an impact on the RVF collection rate. The five factors are the computerization of municipal operations, the municipal perceptions of staff qualifications, the share of illegal construction in a municipality, the payment of performance bonuses to municipal collectors, and the poverty rate in the municipality. The survey indicated that the size of the municipality does not have an impact on the RVF collection rate, which is the actual amount collected from RVF relative to the amount billed for collection. The survey aims to enhance the efficiency of municipal finances and to identify best practices that allow some municipalities to perform better than others in term of RVF collections.

First, the survey said that municipalities that are partially or entirely computerized have a collection rate that is 50% higher than municipalities that rely solely on paper transactions. It noted that computerized municipalities are able to track RVF payments, generate lists of defaulting taxpayers, and develop logs of collector visits to taxpayers, among others. As such, it recommended a minimum level of computerization that allows municipalities to follow up on the RVF collection, such as the usage of spreadsheets. Second, the survey indicated that municipalities with a sufficient number of qualified staff have a 50% higher collection rate than those that do not. It said that municipalities that have a sufficient number of qualified employees are able to separate the tasks related to RVF collection, such as billing, collection and treasury. It considered that municipalities can improve the capacities of their staff through standardized training and the development of manuals about the process of assessing, issuing and collecting the RVF.

Third, the survey pointed out that a lower share of illegal construction implies a higher enforcement capacity, which means that the municipality is able to prevent illegal construction from occurring within its boundaries. It noted that the municipality's higher enforcement capacity translates into a better ability to collect RVF. Fourth, it indicated that municipalities that pay bonuses to their collectors have a collection rate that is 20% higher than those that do not pay bonuses. It noted that bonuses increase the collectors' motivation, especially since most of them perform collection as an additional task that falls outside their initial job descriptions. As such, it encouraged municipalities to introduce incentives to collectors and to increase the control over collectors in order to avoid corruption or preferential treatment. Fifth, it said that municipalities with a higher poverty rate are more likely to have problems collecting the RVF due to their residents' lower payment ability, which translates into lower RVF collection rates.

The survey considered that some legal amendments could help municipalities increase their RVF collection rates and become financially autonomous, such as allowing property owners to collect the RVF as a separate item in the rental contract, conducting a periodical re-assessment of the property value, allowing municipalities to use banking services and money transfers to collect RVF, and increasing non-payment fines, among others. The survey was conducted by the Consultation & Research Institute under the Support to Municipal Finance Reform – Capacity Building Component that is funded by the European Union.

Treasury transfers to Electricité du Liban down 46% to \$210m in first four months of 2016

Figures released by the Finance Ministry show that Treasury transfers to Electricité du Liban (EdL) totaled \$210.2m in the first four months of 2016, constituting a drop of 45.6% from \$386.4m in the same period of 2015. The ministry said that reimbursements to the Kuwait Petroleum Corporation (KPC) and to the Algerian energy conglomerate Sonatrach totaled \$204.7m, or 97.4% of transfers, in the first four months of the year, while EdL's debt servicing represented the balance of \$5.5m, or 2.6% of the total. It attributed the decline in transfers to a decrease of \$174.1m, or 46%, in payments to KPC and Sonatrach in the covered period, as well as to a drop of \$2.1m, or 27.5%, in debt servicing.

The ministry said that the decline in payments to KPC and Sonatrach reflects a 34.1% year-on-year decrease in oil prices at the time the oil contracts were executed and a 0.5% decline in the quantity of imported gas oil, which were partly offset by a 9.8% increase in the quantity of imported fuel oil. Also, it pointed out that EdL contributed 9.5% of the repayments to the two oil suppliers in the first four months of 2016, up from 2.2% in the same period last year. EdL transfers accounted for 6% of primary expenditures in the first four months of 2016, compared to 11.9% in the same period of 2015. They constituted the third largest expenditures item after debt servicing and public sector salaries & wages in overall fiscal spending. EdL transfers were equivalent to 5.1% of GDP in 2012, 4.3% of GDP in 2013, 4.1% of GDP in 2014 and to 2.7% of GDP in 2015.



Byblos Bank invites shareholders to Extraordinary General Assembly

The Board of Directors of Byblos Bank sal, one of the top banking and financial services groups in Lebanon, invited its shareholders to attend its Extraordinary General Assembly on September 30, 2016. The agenda of the meeting includes the approval of the acquisition of the assets, liabilities and obligations of Banque Pharaon & Chiha sal in accordance with Article 10 of Law 192/93.

In May 2016, Byblos Bank announced that it acquired 99.18% of the shares of Banque Pharaon & Chiha sal for \$91m. The Bank indicated that the acquisition was completed following the transfer of Lebanon-based ZR Group's shares and rights to Byblos Bank under share purchasing agreements previously inked with the former shareholders of Banque Pharaon & Chiha. It said that the deal was based on a valuation of 100% of the issued share capital of Banque Pharaon & Chiha. Byblos Bank indicated that the second phase of the deal, or the merger through absorption, has received the Central Bank's preliminary approval in late August 2016. It added that ZR Group has also received the preliminary approval of the Central Bank to acquire directly, or through a holding company registered for this purpose, up to 5.6% of Byblos Bank's common shares for a price equivalent to 125% of Byblos Bank's audited book value per share as at the end of 2015. Founded in 1876, Banque Pharaon & Chiha is the oldest bank in Lebanon. It has five branches, 100 employees, 30,000 accounts and deposits of \$242m as at the end of 2015.

Byblos Bank 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. 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, 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. 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.

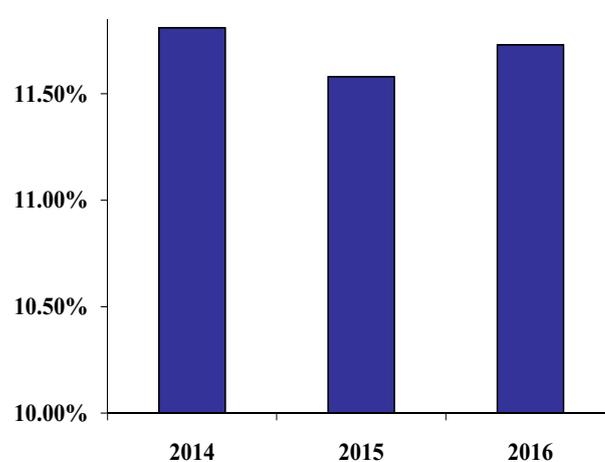
Net profits of top 14 banks up 8% to \$1.1bn in first half of 2016, profitability metrics nearly unchanged

The unaudited consolidated net profits of the Alpha Group of banks reached \$1.1bn in the first half of 2016, constituting an increase of 8% from net earnings of \$995.3m in the same period of 2015. The Alpha Group consists of 14 banks with deposits in excess of \$2bn each. Total net operating income grew by 9.5% to \$2.82bn, with aggregate net interest income rising by 7.7% to \$1.84bn and net fees & commissions expanding by 0.6% to \$433.4m. Also, net gains on financial assets at fair value grew by 18.5% year-on-year to \$403m in the first half of 2016. Non-interest income accounted for 34.11% of total income in the first half of 2016, almost unchanged from the same period last year; with net fees & commissions representing 42% of non-interest income, down from 45.2% in the first half of 2015. Also, the net interest spread rose to 1.94% in the first half from 1.88% in the same period last year. In parallel, total operating expenditures grew by 10% year-on-year in the first half of 2016 to \$1.5bn, with staff expenses rising by 10.6% to \$850.8m and administrative & other operating expenses increasing by 10% to \$549m. Further, the cost-to-income ratio was 49.8% in the first half of this year, up from 48.8% in the same period of 2015. The banks' return on average assets was 1.05% in June 2016 on an annualized basis relative to 1.01% in June 2015; while their return on average equity was 11.73% in June 2016 compared to 11.58% in June 2015.

The Alpha Group of banks' total assets reached \$206.7bn at the end of June 2016, constituting an increase of 1.5% from end-2015 and a rise of 4.2% from end-June 2015. Net loans & advances to customers totaled \$64.8bn, up by 2.9% from end-2015; while credit extended to related parties rose by 6.6% to \$858.2m at end-June 2016. Customer deposits totaled \$166.47bn at the end of June 2016, reflecting a rise of 1.2% from end-2015; while deposits from related parties grew by 1.4% to \$3.77bn at end-June 2016. The banks' shareholders equity reached \$18.5bn at the end of June 2016 and increased by 1.4% from end-2015.

In parallel, the banks' loans-to-deposits ratio increased from 36.7% at the end of June 2015 to 38.6% at end-June 2016. The loans-to-deposits ratio in local currency was 23.5% compared to 22.5% at end-June 2015, while that in foreign currency was 45.2% at the end of June 2016 relative to 42.7% a year earlier. Further, the primary liquidity-to-assets ratio was 30.3% at the end of June 2016, down from 32% at end-June 2015. The banks' gross doubtful loans-to-gross loans ratio regressed from 5.78% at end-June 2015 to 5.61% at the end of June 2016. Also, the loan-loss reserves on doubtful loans covered 73.5% of gross doubtful loans at end-June 2016, down from a coverage of 76.4% a year earlier. Further, the ratio of collective provision-to-net loans increased from 1.16% at the end of June 2015 to 1.23% at the end of June 2016.

Return on Average Equity*



*in the first half of each year

Source: Bankdata Financial Services, Byblos Research

Stock market index down 12% in first eight months of 2016

Figures released by the Beirut Stock Exchange (BSE) indicate that the trading volume reached 55.8 million shares in the first eight months of 2016, constituting an increase of 9.6% from 50.9 million shares traded in the same period of 2015; while aggregate turnover amounted to \$499m, up by 20.4% from a turnover of \$414.4m in the first eight months of 2015. Market capitalization regressed by 1.6% from the end of August 2015 to \$10.98bn, with banking stocks accounting for 83.2% of the total, followed by real estate shares (13.8%), industrial firms (2.8%) and trading stocks (0.3%). The market liquidity ratio was 4.5% in the covered period compared to 3.7% in the first eight months of 2015. Banking stocks accounted for 92% of aggregate trading volume in the first eight months of the year, followed by real estate equities with 7.9% and industrial shares with 0.1%. Also, banking stocks represented 91.1% of the aggregate value of shares traded, followed by real estate equities with 8.7% and industrial stocks with 0.2%. The average daily traded volume for the period was 344,546 shares for an average daily value of \$3.1m. The figures reflect an increase of 10.3% in volume and a rise of 21.1% in value year-on-year. In parallel, the Capital Markets Authority's Market Value-Weighted Index for stocks traded on the BSE decreased by 12% in the first eight months of 2016, while the Capital Markets Authority's Banks Market Value-Weighted Index increased by a marginal 0.5% from end-2015.

Electricité du Liban extends mandate of electricity distribution service providers

The state-owned utility company Electricité du Liban (EdL) announced that it extended by four months the contracts of three electricity distribution service providers (DSPs) from the beginning of September until December 2016. The decision constitutes the second consecutive extension this year after the original term of the contracts ended in April 2016. The extension of the contracts was attributed to the labor strikes of EdL's contractual workers in 2012 and 2014, when workers shut down EdL's facilities and, in turn, contributed to delaying the implementation of the contracts.

EdL, in association with the Ministry of Energy & Water, awarded in April 2012 BUTEC Utility Services sal (BUS), KVA sal and the National Electricity Utility Company sal (NEU Company), four-year contracts to provide various services on behalf of EdL, including the installation of smart meters. The contracts stipulate that, in case of delays in the execution of certain contractual obligations that fall within the DSPs' responsibility, the latter would be penalized. However, the contracts would be extended automatically for a mutually agreed time period with EdL, in case the delays were the result of external factors that are unrelated to the DSPs' performance. Also, EdL has the right to terminate the contracts at will. In parallel, EdL is currently negotiating a possible three-year contract renewal with the DSPs, which could lead them to achieve one of their contractual obligations of installing smart meters across the entire electricity network.

The DSPs are in charge of operating and maintaining the electricity distribution networks on behalf of EdL across Lebanon, along with customer and metering services. Also, they collect subscription fees, install electricity meters, conduct network surveys, as well as manage assets, among other responsibilities. BUS, a subsidiary of BUTEC Group, manages the network in the North and the northern parts of Mount Lebanon; KVA provides its services for Beirut and the Bekaa Valley areas; while NEU Company, which is part of the Debbas Group, covers six regions and 15 divisions in Mount Lebanon and the South.

First National Bank's net earnings nearly unchanged at \$15.6 in first half of 2016

First National Bank sal, one of Lebanon's top 14 banks, announced unaudited consolidated net profits of \$15.6m in the first half of 2016, nearly unchanged from the same period of 2015. Net operating income grew by 2.7% year-on-year to \$48.5m in the first half of 2016, with net interest income decreasing by 0.4% to \$22m and net fees & commissions receipts dropping by 13.4% year-on-year to \$3.9m. Non-interest income accounted for 18% of total income in the first half of 2016, down from 24% in the same period last year; with net fees & commissions representing 44.7% of non-interest earnings, up from 41% in the first half of 2015. Further, the bank's interest margin was 1.97% in the first half of 2016 relative to 1.87% in the same period last year; while its interest spread was at 1.89% in the covered period, up from 1.80% in the first half of 2015. Total operating expenditures increased by 3.6% to \$29.8m, with staff expenses rising by 1.2% to \$18.3m and administrative & other operating expenses growing by 7.2% to \$10m. Also, the bank's return on average assets regressed to 0.74% in June 2016 on an annualized basis from 0.79% in June 2015; while its return on average equity decreased to 7.85% on an annualized basis from 9.94% in June 2015. The cost-to-income ratio declined to 61.33% in the first half of 2016 from 61.50% in the same period last year.

In parallel, total assets reached \$4.3bn at end-June 2016, constituting an increase of 4.2% from end-2015 and a rise of 8.2% from a year earlier. Loans & advances to customers, excluding those to related parties, grew by 7.1% from end-2015 and by 4% from a year earlier to \$955.6m. Also, customer deposits, excluding those from related parties, totaled \$3.3bn at the end of June 2016 and increased by 5.7% from end-2015 and by 7.7% from a year earlier. The loans-to-deposits ratio rose to 29.1% at end-June 2016 from 29% a year earlier. In parallel, the bank's shareholders' equity rose by 0.4% from the end of 2015 to \$399m at end-June 2016.

BLC Bank exercises call option on preferred shares and issues new ones

The Extraordinary General Assembly of BLC Bank sal that was held on July 11, 2016 approved the increase of the bank's capital from LBP214bn (\$142m) to LBP214.75bn (\$142.5m) through the issuance of 750,000 new Series 'D' Preferred Shares. The shares will have an issue price of \$100 per share, of which LBP1,000 is par value and the remaining \$99.3 constitutes the issue premium. The Series 'D' Preferred Shares are non-cumulative, redeemable and perpetual, and they will carry an annual dividend rate of 6.75% of the issue price, adjusted on a pro-rata basis for the fraction of the year during which the issuance of the shares occurs. The annual dividend payments are contingent on the availability of sufficient declared net profits. The Series 'D' Preferred Shares will be listed on the Beirut Stock Exchange (BSE), in line with previous issuances, while the dividends will be subject to a 5% withholding tax. BLC has the option to call the shares within 90 days after the Ordinary General Assembly meets in 2022 to approve the financials for fiscal year 2021, and annually thereafter, at a premium callable price of \$103 per share plus any declared but unpaid dividends. The bank would have to redeem a minimum of 25% of the outstanding Series 'D' Preferred Shares in case it decides to exercise its call option. Holders of current preferred shares have the priority to subscribe to the new shares in a proportion equivalent to the percentage of shares they own. The subscription period for Series 'D' Preferred Shares will extend from August 31 until September 5, 2016.

In parallel, BLC Bank indicated that it redeemed and cancelled 400,000 Series 'A' Preferred Shares at a premium call price of \$103 per share. The Series 'A' Preferred Shares were issued in July 2010, and carried an annual dividend rate of 7% per share of the issue price and were redeemable, non-cumulative and perpetual. Concurrently, the bank noted that it covered the LBP400,000,000 (\$0.27m) deficit in the capital account from the redemption and cancellation of the Series 'A' Preferred Shares through the issuance of 400,000 new common shares at a par value of LBP1,000 (\$0.66) per share. The new shares were distributed gratis to existing shareholders in a proportion equivalent to the percentage of common shares they own, while the bank covered the cost of the newly-issued shares through an internal transfer from its general reserves account to its capital account.

Bankers Assurance's net profits up 43% to \$11.5m in 2015

Bankers Assurance sal announced audited net profits of \$11.5m in 2015, constituting an increase of 43.2% from \$8m in 2014. The firm's audited balance sheet shows total assets of \$183.1m at the end of 2015, down by 0.8% from \$184.5m at the end of 2014. On the assets side, general company investments reached \$84.4m at the end of 2015 and decreased by 4.3% from a year earlier. They included \$61.6m in cash & cash equivalent that grew by 7.1% year-on-year, \$8.9m in fixed income investments that improved by 78% from a year earlier, \$3.7m in mutual funds that increased by 41.1% from end-2014, and \$2.5m in land and real estate investments that declined by 67.5% from a year earlier. They also included \$4.1m in blocked bank deposits and deposits with maturity of more than three months, of which \$1.3m, or 32.2%, were blocked in favor of the Economy Ministry as guarantees. Unit-linked contracts investments totaled \$19.9m at end-2015, constituting a decrease of 4.8% from \$20.9m a year earlier. They included \$10.3m in mutual funds, \$6m in cash & similar investments and \$3.7m in fixed income investments. Unit-linked investment in fixed income investments grew by 37% year-on-year and those in mutual funds increased by 2.1%, while those in cash & similar investments fell by 27% from 2014. Also, the reinsurance's share in technical reserves for the non-life category increased by 9.8% to \$9.3m in 2015, while that for the non-life segment rose by 11.2% to \$4.3m last year.

On the liabilities side, unit-linked technical reserves reached \$19.9m at the end of 2015 and dropped by 6.3% from \$21.3m a year earlier. Technical reserves for the non-life segment declined by 11.2% year-on-year to \$68.8m, while technical reserves for the life category reached \$9.6m at end-2015 and rose by 18.7% from a year earlier. Non-life technical reserves included unearned premium reserves of \$41.2m that declined by 7%, outstanding claims reserves of \$23.9m that decreased by 18.1% and \$1.3m in reserves incurred but not reported that grew by 4.6% year-on-year. Also, provisions for risks and charges reached \$1.8m and rose by 16.3% from the previous year. The firm's shareholders' equity totaled \$65.7m at end-2015 and increased by 10.8% from a year earlier.

Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked Bankers in second and 10th place in 2015 in terms of non-life and life premiums, respectively. The firm's non-life premiums totaled \$97m in 2015 and declined by 9% from the previous year; while life premiums dropped by 26.9% to \$11.9m last year. It had a 9.2% share of the local non-life market and a 2.5% share of the 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	Stable	B-	B	Stable
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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