

# LEBANON THIS WEEK

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Balance sheet of investment banks up 3% in 2016

Foreign investments of financial sector at \$5bn at end-June 2016, commercial banks account for 65% of long-term debt securities and for 34% of equity investments

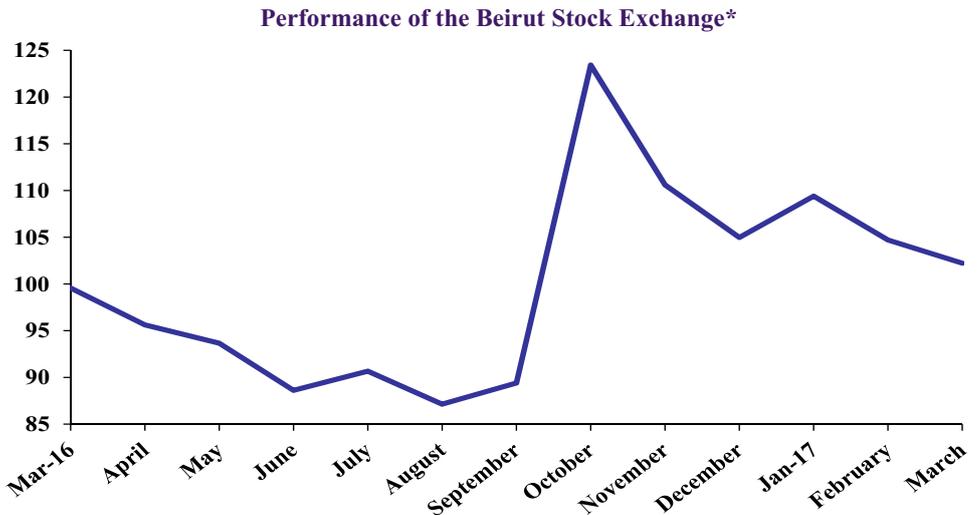
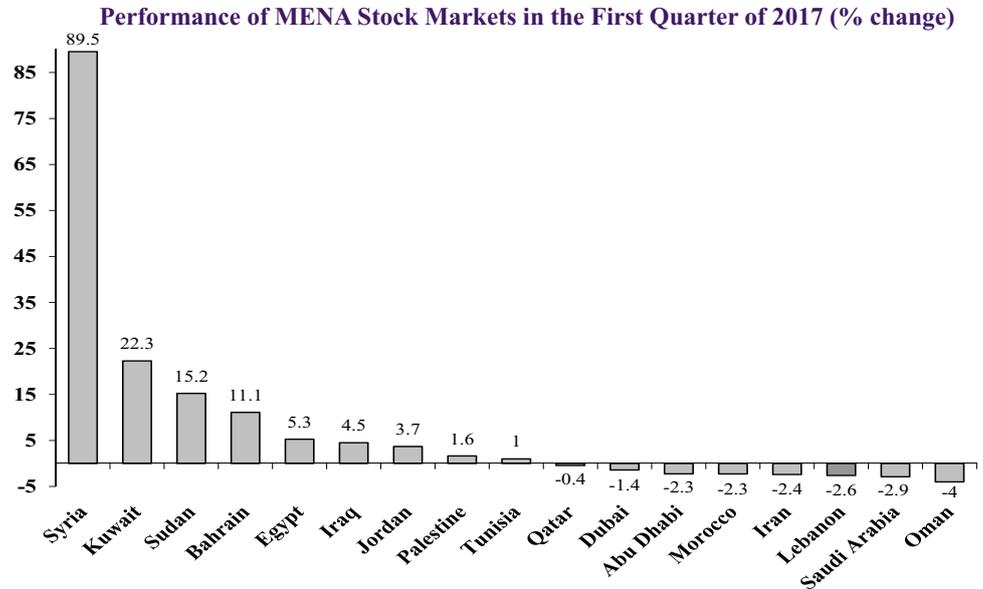
BBAC's net earnings at \$49m in 2016

Central Bank clarifies use of facilities by banks and venture capital firms

Insurers' return on assets at 3.6%, return on investment at 6% and return on equity at 14.8% in 2015

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## Charts of the Week



\*Capital Markets Authority Value Weighted Index end of month values  
 Source: Local Stock Markets, Capital Markets Authority, Byblos Bank

## Quote to Note

"If the results of the oil and gas exploration confirm the first estimates, this would constitute a major change for the economy."

*Crédit Agricole, on the need to wait for the results of exploration, whenever it takes place, to factor in the contribution of hydrocarbons output to the Lebanese economy*

## Number of the Week

**0.1%:** Projected increase in the direct contribution of the travel and tourism sector to employment in Lebanon in 2017, according the World Tourism & Travel Council

## Lebanon in the News

\$m (unless otherwise mentioned)	2015	Dec 2015	Sep 2016	Oct 2016	Nov 2016	Dec 2016	% Change*
Exports	2,952	236	254	257	247	244	3.4
Imports	18,069	1,841	1,448	1,479	1,450	1,536	(16.6)
Trade Balance	(15,117)	(1,605)	(1,194)	(1,222)	(1,203)	(1,292)	(19.5)
Balance of Payments	(3,354)	(372)	189	(680)	453	910	-
Checks Cleared in LBP	18,714	1,709	1,722	1,780	1,684	1,879	10.0
Checks Cleared in FC	50,845	4,265	4,054	4,216	3,968	3,880	(9.0)
Total Checks Cleared	69,559	5,974	5,776	5,996	5,652	5,759	(3.6)
Budget Deficit/Surplus	(3,952)	(711.58)	(548.00)	(163.91)	(706.12)	(513.35)	(27.86)
Primary Balance	724.40	(338.61)	(29.21)	281.60	(40.58)	(111.56)	(67.05)
Airport Passengers***	7,240,397	616,258	819,886	554,122	555,931	598,009	(3.0)

\$bn (unless otherwise mentioned)	2015	Dec 2015	Sep 2016	Oct 2016	Nov 2016	Dec 2016	% Change*
BdL Gross FX Reserves	30.64	30.64	34.17	34.74	34.38	34.03	11.06
<i>In months of Imports</i>	20.35	16.64	23.60	23.49	23.71	22.15	33.1
Public Debt	70.33	70.33	74.73	74.52	74.55	74.89	6.48
Bank Assets	185.99	185.99	198.07	199.67	200.95	204.3	9.85
Bank Deposits (Private Sector)	151.59	151.59	158.15	157.66	159.19	162.5	7.20
Bank Loans to Private Sector	54.22	54.22	56.65	56.69	56.49	57.18	5.45
Money Supply M2	52.15	52.15	54.17	53.83	54.12	54.68	4.84
Money Supply M3	123.62	123.62	129.12	128.74	130.04	132.8	7.42
LBP Lending Rate (%)****	7.45	7.45	8.44	8.35	8.26	8.23	78bps
LBP Deposit Rate (%)	5.56	5.56	5.58	5.53	5.54	5.56	-
USD Lending Rate (%)	7.06	7.06	7.20	7.06	7.16	7.35	29bps
USD Deposit Rate (%)	3.17	3.17	3.43	3.43	3.48	3.52	35bps
Consumer Price Index**	(3.75)	(3.40)	1.03	1.13	1.78	3.14	-

\* Year-on-Year \*\* Year-on-Year percentage change \*\*\*includes arrivals, departures, transit

\*\*\*\* Starting January 2016, lending rates in Lebanese pounds are reported before any subsidy or facility from reserve requirements according to Intermediate Circular No 389, and as such they are not comparable year-on-year

Note: bps i.e. basis points

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

## Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization
Solidere "A"	8.99	(0.33)	107,741	7.21%
Solidere "B"	8.80	(0.68)	85,383	4.59%
BLOM Listed	12.10	1.26	49,042	20.85%
BLOM GDR	12.80	0.00	32,450	7.58%
Byblos Common	1.74	0.58	23,000	7.89%
Audi Listed	6.90	2.99	22,048	22.11%
Audi GDR	6.88	1.33	13,150	6.61%
HOLCIM	11.50	(0.86)	3,512	1.80%
Byblos Pref. 09	103.50	0.00	-	1.66%
Byblos Pref. 08	103.00	0.00	-	1.65%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Dec 2017	4.00	99.75	4.51
Nov 2018	5.15	101.38	4.25
May 2019	6.00	102.25	4.87
Mar 2020	6.38	104.00	4.89
Apr 2021	8.25	110.75	5.25
Oct 2022	6.10	102.13	5.65
Jun 2025	6.25	99.38	6.35
Nov 2026	6.60	100.75	6.49
Feb 2030	6.65	98.88	6.78
Nov 2035	7.05	99.63	7.09

Source: Byblos Bank Capital Markets

	Mar 27-31	Mar 20-24	% Change	February 2017	February 2016	% Change
Total shares traded	1,163,688	904,493	28.7	3,077,394	4,962,188	(38.0)
Total value traded	\$16,260,615	\$7,928,965	105.1	\$30,071,143	\$42,938,845	(30.0)
Market capitalization	\$12.47bn	\$12.35bn	0.98	\$12.38bn	\$11.09bn	11.6

Source: Beirut Stock Exchange (BSE)



### Net private capital inflows to Lebanon to increase by 10% to \$5.9bn in 2017

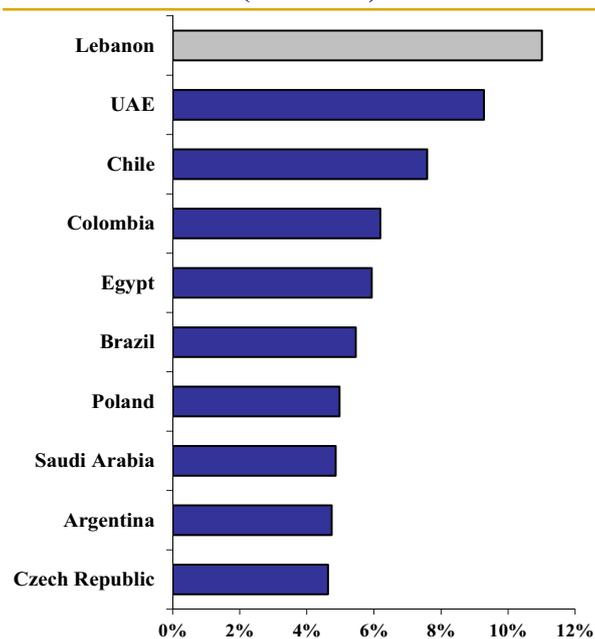
The Institute of International Finance projected non-resident net private capital inflows to Lebanon at \$5.9bn in 2017, which would constitute an increase of 9.7% from \$5.4bn in 2016, compared to a peak of \$14bn in 2009. Lebanon is one of 23 countries out of the 25 emerging markets included in the survey that would post positive net private capital flows in 2017. Also, Lebanon would be the fifth smallest recipient of capital flows among 23 emerging markets with positive non-resident flows, as well as the smallest among six countries in the Middle East & Africa (ME&A) region in 2017.

Lebanon would post the fifth smallest increase in net capital inflows among emerging markets in 2017. The expected rise in non-resident net private capital inflows to Lebanon this year would be due mainly to an increase of 22.3%, or \$613m, in equity investment inflows, which would be partly offset by a decline of 3.5% or \$93m, in the flows from non-resident commercial banks and other private creditors. Net private capital inflows to Lebanon would account for 0.9% of total net private capital inflows to emerging markets and for 5.4% of aggregate flows to ME&A economies in 2017. They would be equivalent to 11% of GDP in 2017, the highest ratio among the 23 emerging markets with positive non-resident flows.

In parallel, the IIF estimated net non-resident private capital inflows to Lebanon at \$5.4bn in 2016, constituting an increase of 2.9% from \$5.2bn in 2015, and compared to flows of \$6.3bn in 2014. Lebanon was among 22 countries out of the 25 emerging markets included in the survey that posted positive net private capital flows last year. Net private capital inflows to Lebanon were the fourth smallest among the 22 emerging markets with positive non-resident flows in 2016, while they were the lowest in the ME&A region last year.

Lebanon posted the smallest increase in net capital inflows last year among emerging markets. The increase in net private capital inflows to Lebanon last year reflects a rise of 61%, or \$989m, in the flows from non-resident commercial banks and other private creditors, which were partly offset by decrease of 23.4% or \$840m, in equity investment inflows. Net private capital inflows to Lebanon accounted for 0.8% of total capital inflows to emerging markets and for 4.8% of aggregate flows to the ME&A region in 2016. They were equivalent to 10.3% of GDP in 2016, the highest ratio among 22 emerging markets with positive non-resident flows last year.

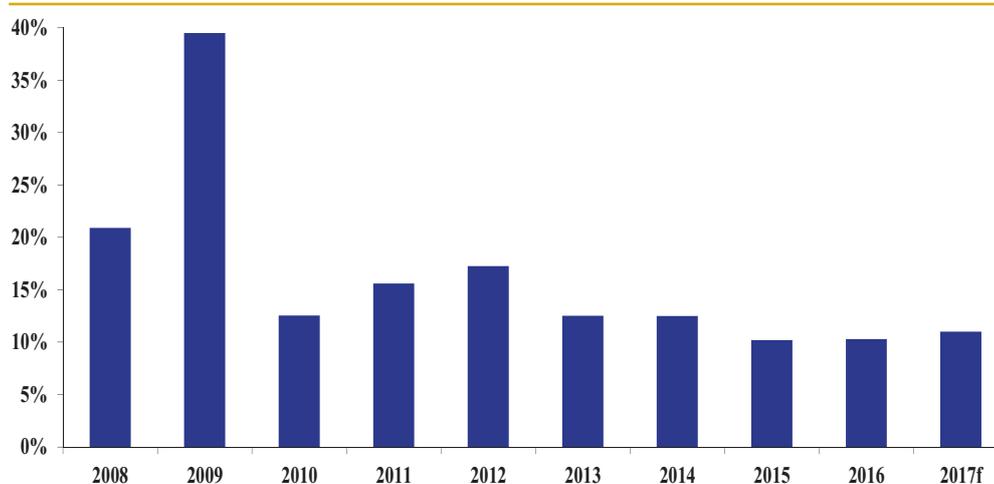
Projected Net Capital Inflows in 2017\*  
(% of GDP)



\*Top 10 countries among 25 Emerging Markets

Source: Institute of International Finance, Byblos Research

Net Private Capital Inflows to Lebanon (% of GDP)

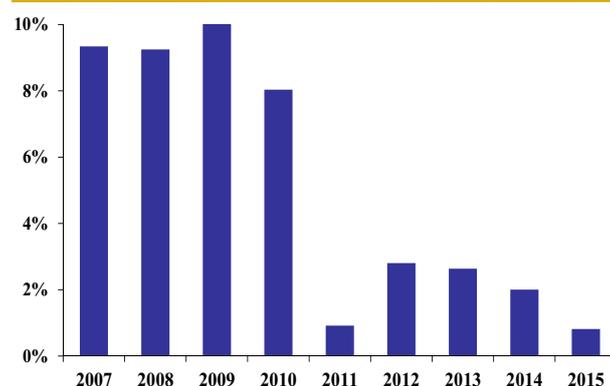


Source: Institute of International Finance, Byblos Research

### Average real GDP growth rate at 1.8% between 2013 and 2015 according to national accounts

The Central Administration for Statistics (CAS) released national economic data that covers official figures for gross domestic product (GDP) and its structure and components for 2014 and 2015. It also revised its previous figures for 2012 and 2013. The CAS estimated the size of the informal sector at around 30% of recorded output and included its estimate to cover the value of such activity, even though the precise level is uncertain. It indicated that it could not produce a full set of sector accounts, especially for the households and non-financial corporate sectors, given the limited amount of data on incomes. Further, the CAS stated that the estimates for 2014 and 2015 are subject to a wide range of uncertainty. It added that the uncertainty derives from the lack of regular surveys and detailed data on the cost of production, consumer spending, employment, visitors' expenditures and other transactions. It cautioned that its estimates are not as accurate as national accounts are supposed to be. The findings show that Lebanon's real GDP growth decelerated from 2% in 2014 to 0.8% in 2015. Also, the CAS maintained the 2012 growth rate at 2.8% and revised the 2013 growth rate to 2.6% from 3% previously.

**Real GDP Growth in Lebanon (%)**



Source: Central Administration of Statistics

Lebanon's nominal GDP stood at \$47.8bn in 2014 and \$49.5bn in 2015. Spending on consumption totaled \$48.8bn in 2014 and \$48.9bn in 2015, equivalent to 99% of GDP per year. It included \$42.7bn in household expenditures and \$6.3bn in government spending in 2015. Also, gross fixed capital formation by the private sector reached \$9.7bn and that of the public sector totaled \$603.3m in 2015. The results show that private consumption expanded by 3.1% in real terms in 2015, while public consumption grew by 6% year-on-year. Further, gross fixed capital formation by the private sector contracted by 6% in real terms in 2015, while that of the public sector rose by 35.6%, leading to an overall 4.3% decrease in gross fixed capital formation during the year.

In parallel, real estate services and commercial trade & motor vehicle repairs accounted to 14.5% each of value added in 2015, followed by the public administration (9.3%), manufacturing (8.3%), financial services (7.8%), education (5.3%), construction (4.5%), professional services (4.3%), agriculture & livestock (3.5%), transport and health & social care (3.5% each), hotels & restaurants (2.9%), personal & community services (2.8%), mining & utilities (2.6%), and information & communication and administrative services (2.4% each). Further, financial services grew by 10.3% in real terms in 2015, followed by transport activity (+9.5%), the information & communication sector (+7.5%), commercial trade & motor vehicles (+4.5%), education (+4.1%), the public administration (+3.2%), the health & social care segment (+2.9%), the hotels & restaurants sector (+2.4%) and personal & community services (+0.2%). In contrast, output in agriculture & livestock regressed by 14.1% in real terms in 2015, activity in the construction sector fell by 9.9%, activity in administrative services contracted by 8.4%, output in the manufacturing sector dropped by 4.7%, activity in professional services declined by 3.3%, and output in the real estate sector decreased by 2.5%.

**Gross Domestic Product** (Expenditure components in billions of LBP)

	2014*	2015*	% change in	
			price	real term
<b>Gross domestic product at market prices</b>	<b>72,109</b>	<b>74,560</b>	<b>2.6%</b>	<b>0.8%</b>
<b>Total final consumption expenditure</b>	<b>73,627</b>	<b>73,754</b>	<b>-3.2%</b>	<b>3%</b>
by households	64,401	64,331	-3%	3%
by the government	9,226	9,424	-4%	6%
<b>Gross capital formation</b>	<b>17,450</b>	<b>15,928</b>	<b>-5%</b>	<b>-4%</b>
Gross fixed capital formation	17,021	15,550	-5%	-4%
private	16,319	14,640	-5%	-6%
public	702	909	-5%	36%
Acquisition less disposal of valuables	428	378	-	-
<b>Net exports</b>	<b>(18,968)</b>	<b>(15,122)</b>	<b>-</b>	<b>-</b>
Export of goods & services	19,900	20,057	-6%	7%
Exports of goods (fob)	6,860	6,005	-12%	-1%
Exports of services	13,040	14,052	-3%	11%
Import of goods & services	38,868	35,180	-15%	7%
Imports of goods (fob)	29,750	26,005	-16%	5%
Imports of services	9,118	9,175	-12%	14%

\*at current prices

Source: Central Administration of Statistics



### Lebanon ranks third to last globally on Energy Architecture Performance Index

The World Economic Forum ranked Lebanon in 125th place among 127 countries worldwide and in 14th place among 16 Arab countries on its 2017 Energy Architecture Performance Index (EAPI). Also, Lebanon came in last place among 38 upper middle-income countries (UMICs) included in the survey. The EAPI's eight-year trend shows that Lebanon's rank regressed by seven spots from the 2009 survey, constituting the 33rd steepest decline globally and the 10th steepest drop among Arab countries. Lebanon was among 63 countries worldwide whose rank regressed, while the rank of 55 economies improved during the eight-year period.

The EAPI benchmarks a country's energy systems on three fundamental energy objectives that are delivering economic growth, achieving economic growth in an environmentally-sustainable way, and providing universal energy access and security. The index is composed of 18 indicators aggregated into three sub-indices that are Economic Growth & Development, Environmental Sustainability, and Energy Access & Security. The scores and ranks of each country are based on how well its current energy architecture contributes to the three objectives. Scores are between zero and one, with a higher score reflecting better performance.

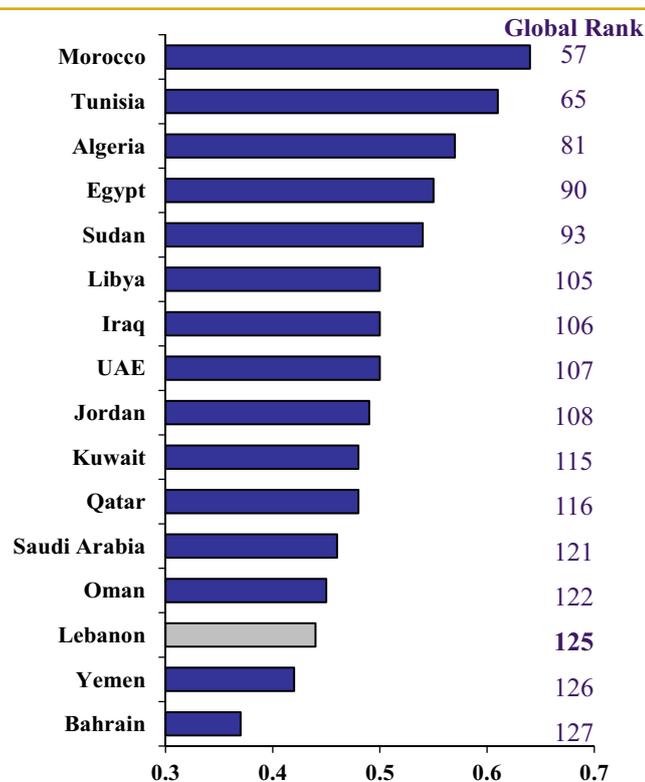
Globally, Lebanon performed better than only Yemen and Bahrain on the EAPI. It received a score of 0.44 points, lower than the global average score of 0.61 points, the UMICs' average of 0.6 points, the Arab average of 0.5 points, as well as the non-GCC Arab countries average score of 0.53 points and the GCC average of 0.46 points.

Globally, Lebanon ranked ahead of Moldova, Qatar and Mozambique, and came behind Jamaica, Jordan and Kuwait on the Economic Growth & Development Sub-Index. This category measures the extent that a country's energy architecture supports its economic growth and development. It is based on six factors that include fuel imports and exports as percentage of GDP, and price distortions for gasoline and diesel from subsidies or taxes, among others. Lebanon ranked ahead of only Algeria, Belarus, Malaysia, Libya, Venezuela, Turkmenistan and Iran among UMICs; while it ranked ahead of Qatar, Egypt, the UAE, Algeria, Saudi Arabia, Libya, Oman and Bahrain among Arab countries.

Further, Lebanon came ahead of Iran, Turkmenistan and Yemen, and ranked behind Brunei Darussalam, Australia and Jordan on the Environmental Sustainability Sub-Index. This category assesses the environmental impact of energy supply and consumption within a country's energy architecture. It is based on six factors that include carbon dioxide, nitrous-oxide and methane emissions from electricity production and that contribute to climate change and environmental degradation. Lebanon came ahead of only Iran, Turkmenistan and Iraq among UMICs; while it ranked ahead of Yemen, Iraq, the UAE, Oman, Qatar, Bahrain, Saudi Arabia and Kuwait in the Arab world.

Finally, Lebanon ranked ahead of Senegal, Botswana and Namibia, and came behind Mongolia, the Republic of Congo and Honduras on the Energy Access & Security Sub-Index. This category measures the extent that a country's energy supply is secure, accessible and diversified. Lebanon ranked ahead of only Botswana and Namibia among UMICs, and came ahead of only Yemen and Sudan in the region.

**Energy Architecture Performance Index Scores & Rankings in Arab countries in 2017**



Source: World Economic Forum, Byblos Research

**Components of the 2017 Energy Architecture Performance Index for Lebanon**

	Global Rank	Arab Rank	UMICs Rank	Lebanon Score	Global Ave Score	Arab Ave Score	UMICs Ave Score
Economic Growth and Development	99	8	31	0.42	0.52	0.41	0.53
Environmental Sustainability	117	8	35	0.37	0.61	0.40	0.57
Energy Access and Security	105	14	36	0.53	0.69	0.70	0.71

Source: World Economic Forum, Byblos Research

### Tourist arrivals up 12% in first two months of 2017

The number of incoming visitors to Lebanon totaled 215,309 in the first two months of 2017, constituting an increase of 12.3% from 191,808 tourists in the same period of 2016, and a drop of 8.3% from 234,801 visitors in the first two months of 2010. Also, the number of incoming visitors reached 110,052 in February 2017, up by 13.1% from 97,298 in February 2016. Visitors from Arab countries accounted for 38% of the total in the first two months of 2017, followed by visitors from European economies with 31.2%, the Americas with 13.3%, Asia with 8.2%, Africa with 6.5% and Oceania with 3%. Also, tourists from Iraq accounted for 16.1% of total visitors in the covered period, followed by visitors from France (8.1%), the U.S. (6.8%), Jordan (5.5%), Egypt (5.4%), Canada (4.4%), Saudi Arabia (4.3%), the United Kingdom (3.6%) and Germany (3.4%).

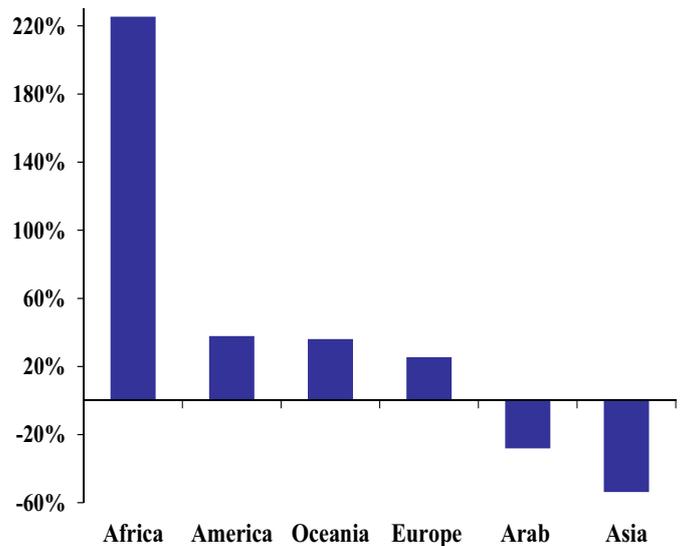
In parallel, the number of visitors from Oceania increased by 21% year-on-year in the first two months of 2017, followed by visitors from the Arab region (+19.6%), Europe (+11.3%), African countries (+7.5%) and the Americas (+5.3%) while the number of tourists from Asia regressed by 1% year-on-year in the covered period. On a country basis, the number of tourists from Saudi Arabia surged by 46.5% year-on-year in the first two months of 2017, followed by visitors from Kuwait (+44.5%), Turkey (+34.7%), Iraq (+27%), Sweden (+23%), Brazil (+18.3%), Venezuela (+16.7%), Jordan (+10.8%), the United Kingdom (+9.7%), France (+9.2%), Germany and Italy (+7.1% each) and the U.S. (+6.5%). In contrast, the number of visitors from the UAE fell by 68.5%, followed by those from Egypt (-3.9%) and Canada (-1.1%).

### Residential buildings represent 82% of construction permits in 2016, Mount Lebanon accounts for 56% of the total

Figures released by the Order of Engineers & Architects of Beirut show that the surface area of construction permits for new buildings totaled 5.88 million square meters (sqm) in 2016, constituting a decrease of 11.2% from 6.62 million sqm in 2015. The surface area of construction permits for new residential buildings was 4.8 million sqm last year, equivalent to 81.7% of the total, constituting a 10.8% decrease from 2015. Commercial buildings followed with 471,144 sqm, or 8% of the total, down by 15% from a year earlier, then industrial- and agricultural-related buildings with 337,709 sqm (5.7%), general service buildings such as hospitals and schools with 105,027 sqm (1.8%), hotel- and tourism-related buildings with 101,834 sqm (1.7%) and general purpose buildings with 63,388 sqm (1.1%). The distribution of the surface area of construction permits for new residential buildings shows that Mount Lebanon accounted for 55.9% of the total, followed by the South with 18.1%, Nabatieh with 10.1%, the Bekaa with 9.2%, Beirut with 5.7% and the North with 1%. The figures for the North region include only those registered in the Order of Engineers & Architects of Beirut.

In parallel, the Order of Engineers & Architects issued 6,983 authorizations to start construction work in 2016, constituting an increase of 10.8% from 6,302 in 2015 and relative to a decline of 7% in 2015. All construction permits for new buildings, as well as for modifications or extensions of buildings and for restorations are subject to the mandatory authorization for the start of the actual construction. Applications for the authorizations should be filed during a period of up to one year after receiving the construction permit, depending on the surface area of the project. Mount Lebanon accounted for 36.2% of total authorizations in 2016, followed by the South (26.9%), Nabatieh (21.5%), the Bekaa (13.1%), Beirut (1.4%) and the North (0.9%). In parallel, the surface area of issued authorizations reached 7.9 million sqm last year, constituting an increase of 2.6% from 7.7 million sqm in 2015 and compared to a decline of 6.1% in 2015. Mount Lebanon accounted for 3.95 million sqm or 50% of the total in 2016. It was followed by the South with 1.47 million sqm (18.6%), the Bekaa with 1.04 million sqm (13.1%), Nabatieh with one million sqm (12.8%), Beirut with 372,390 sqm (4.7%) and the North with 64,344 sqm (0.8%).

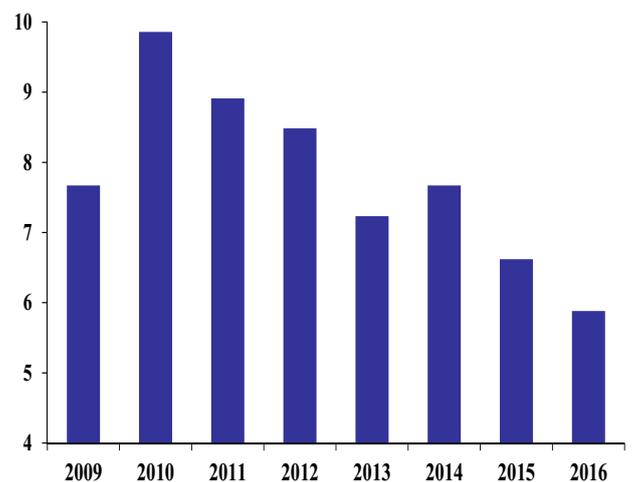
### Change in the Number of Tourist Arrivals from Main Sources in First Two Months of 2017\*



\* from the same period of 2010

Source: Ministry of Tourism, Byblos Research

### Surface Area of Construction Permits for New Buildings (million square meters)



Source: Order of Engineers & Architects of Beirut, Byblos Research

### Number of manufacturing companies down by 4.4% between 2011 and 2015

Figures published by the Association of Lebanese Industrialists (ALI) show that there were 1,977 manufacturing firms operating in Lebanon at the end of 2015 relative to 2,004 companies at end-2014 and 2,365 industrial firms at the end of 2011. As such, the number of manufacturing companies in Lebanon regressed at a compound annual growth rate (CAGR) of -4.4% between 2011 and 2015.

The distribution of manufacturing companies in Lebanon shows that there were 373 firms in the food industry, equivalent to about 19% of companies operating in the industrial sector at the end of 2015. They were followed by 272 firms in the chemical and plastic manufacturing segment (13.8% of the total), 224 companies in the paper & cardboard business and 223 firms in the mining segment (11.3% each), 209 companies in the furniture industry (10.6%), 180 firms in the machinery business (9.1%), 165 companies in the mineral products segment (8.3%), 143 firms in textile manufacturing (7.2%), 58 companies in the wood products business and 57 firms in jewelry production (2.9% each), 43 companies in the leather industry (2.2%), and 15 firms in each of the transport industry and in various other sub-sectors (0.8% each).

The ALI noted that the number of industrial companies with sales of over \$20m dropped by a CAGR of -7.8% during the 2011-15 period, mainly due to a decline in the number of firms operating in the mineral industry; while firms with an annual turnover of \$5m to \$20m regressed by a CAGR of -6.3% over the covered period, mainly due to a decrease in the number of companies operating in the plastic and food industries. It added that the number of industrial firms with an annual turnover between \$1m and \$5m and those with sales up to \$1m regressed by CAGRs of -5.6% and -3.2%, respectively, between 2011 and 2015, mainly due to a decline in the number of firms operating in the food industry.

The figures show that the number of firms in the food industry dropped by 91 between 2011 and 2015, followed by the mining industry with 71 companies, the chemical and plastic manufacturing with 56 firms, the paper and cardboard business with 36 companies and the furniture industry with 33 firms.

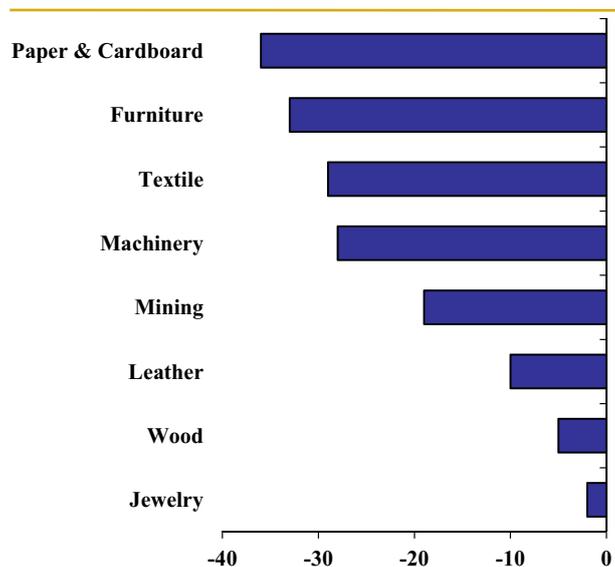
The ALI indicated that the regional distribution of manufacturing firms across Lebanon was nearly unchanged between 2011 and 2015. It noted that 65% of industrial companies were located in Mount Lebanon in 2015; followed by Beirut with 12%, the Bekaa with 8%, the North with 7%, the South with 6%, and Nabatieh and Hermel with 1% each. It added that the number of manufacturing firms contracted in all regions across Lebanon, except for Akkar in the North. Also, Mount Lebanon saw the steepest decline with a drop of 212 industrial companies between 2011 and 2015.

### Launch of plan to increase electricity output

The Ministry of Energy & Water launched a five-pillar electricity plan that aims to narrow the existing power production gap and secure an additional seven hours of electricity per day during the summer of 2017. The first component of the plan stipulates that the government would rent for three years two electricity-generating ships to produce a total of 800 to 1,000 megawatts, subject to a two-year renewal period. Second, the plan seeks the involvement of the private sector via independent power producers to establish power plants in each of Salaata in the North and Zahrani in the South in order to generate 1,000 megawatts of additional electricity. The third part of the plan stipulates the construction of Liquefied Natural Gas (LNG) import terminals in Salaata, Deir Ammar and Zahrani for an estimated total cost of \$199m, in order to set-up a pipeline along the coast to link the terminal to the power grid. Fourth, the plan requires the creation of photovoltaic (PV) farms with a combined production capacity of 1,000 megawatts in an attempt to reduce the country's dependence on imported hydrocarbons using renewable energy sources, including wind and solar power.

Fifth, the plan proposes a hike in electricity tariffs on consumers from LBP132.1 (\$0.09) per kilowatt hour currently to LBP188 (\$0.12) per kilowatt hour. Lebanon's current electricity production stands at around 1,500 megawatts per year, while demand exceeds 3,000 megawatts annually. The failure of the authorities to reform the electricity sector has led to cumulative Treasury transfers to the state-owned and money-losing Electricité du Liban (EdL) of \$16.4bn between 2006 and 2016, or an average of \$1.5bn per year. Also, aggregate Treasury transfers to EdL were equivalent to 3.8% of cumulative GDP during the 2006-16 period, with a high of 5.5% of GDP in 2008 and a low of 1.8% of GDP in 2016.

### Change in the Number of Operating Firms between 2011 and 2015



Source: Association of Lebanese Industrialists

### Lebanon is host to 15 fintech startups at end-2015

A report published by entrepreneurship online platform Wamda and online payment gateway Payfort indicated that there were 15 financial technology (fintech) startups in Lebanon at the end of 2015, the third highest number of firms among 12 Arab countries. Lebanon has the same number of firms as Jordan, and lower than that in the UAE (30 firms) and Egypt (17 fintechs). Lebanon hosted 14% of the 105 fintech startups in the Arab region in 2015, up from 10% in 2011. The number of Lebanese fintech startups increased by a compound annual growth rate (CAGR) of 50% between 2011 and 2015, posting the second highest CAGR after the UAE (+57%), and compared to a CAGR of 40% in Arab countries. The report considered that Lebanon, along with Egypt and Jordan, could become a fintech hub similar to the UAE, in case policy-makers, investors, innovative corporations and entrepreneurs help promote a sustainable fintech ecosystem.

Fintech is a new wave of technology-enabled products and services that improve and facilitate traditional financial services. Fintech startups serve customers who do not hold a bank account and are looking for basic access to financial services.

The report considered that a national action plan for Lebanon, supported by the Banque du Liban, key ministries and interested banks, would help develop fintech as a key sector of Lebanon's economy. It added that the authorities should support fintech startups in expanding from the small Lebanese market to regional and international markets, and help integrate them into e-government initiatives.

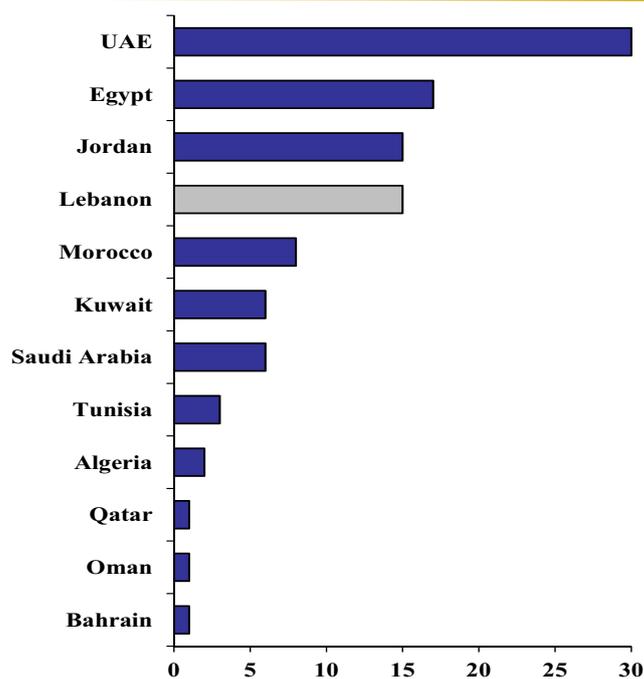
Finally, the report indicated that fintech experts in Lebanon are calling for a pilot program that would allow startups to test their innovation for a limited timeframe before having to abide by all the regulations. This would allow the Lebanese government to learn about new innovations, and the banks to test the new technology in collaboration with the pioneering startup. The pilot program would not only benefit startups, but also banks and policy-makers that are cautious about the impact of fintech on the stability of the financial system.

### Lebanese passport holders can travel to 37 countries and territories worldwide without a visa

The 2017 Henley & Partners Visa Restrictions Index ranked Lebanon in 185th place among 199 countries and territories worldwide and in 14th place among 21 Arab countries. Lebanon ranked in 181st place globally and in 14th place among Arab countries on the 2016 index and in 183rd place globally and in 15th place among Arab countries on the 2015 index. The Index ranks countries according to the number of countries and territories that their citizens can access without a visa. According to Henley & Partners, the global rankings reflect the international freedom of travel for the passport holders of various nations.

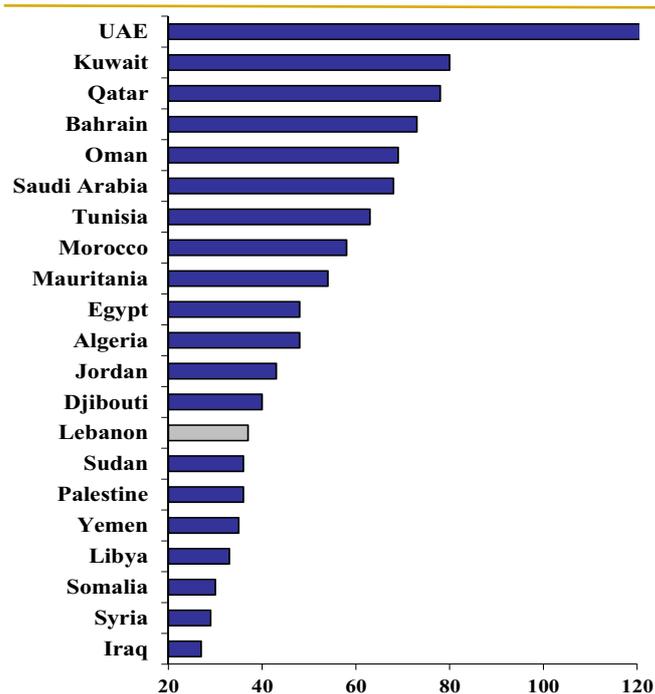
The survey indicated that holders of Lebanese passports can travel to 37 countries and territories worldwide without a visa as of January 1, 2017, down from 39 countries and territories in 2016 and relative to 37 in 2015. The number of countries that Lebanese citizens can access without a visa is similar to that for Ethiopia, Kosovo and South Sudan. Globally, Lebanon ranked ahead of only Nepal, the Palestinian Territories and Sudan (36 destinations each), Eritrea and Yemen (35 destinations), Libya (33 destinations), Somalia (30 destinations), Syria (29 destinations), Pakistan (28 destinations), Iraq (27 destinations) and Afghanistan (24 destinations). Germany ranked in first place globally, as its citizens can access 176 destinations without a visa, while the UAE came in first place regionally with visa-free access to 121 destinations worldwide.

Number of Fintech Startups at end-2015



Source: Wamda Research Lab, 2016

Number of Visa-Free Destinations per Country in 2017



Source: Henley & Partners, Byblos Research

### **Byblos Bank announces dividends for 2016, invites shareholders to General Assembly**

The Board of Directors of Byblos Bank sal announced that it will propose to the Annual Ordinary General Assembly the distribution of LBP200 (\$0.13) in dividends per share to holders of common shares, and of \$8 (LBP12,060) per share to the holders of Preferred Shares Class 2008 and Preferred Shares Class 2009. Also, the Bank plans to pay in US dollars the equivalent of LBP200 per share to GDR holders through the Bank of New York Mellon. Upon the General Assembly's approval, the dividends on common and preferred shares will be paid starting on May 5, 2017 net of a 5% withholding tax, while those on GDRs will be disbursed starting on May 10, 2017 after deducting the withholding tax and other expenses. Byblos Bank's share capital consists of 565,515,040 common shares, 2,000,000 Class 2008 Preferred Shares and 2,000,000 Class 2009 Preferred Shares.

In parallel, the Board of Directors of Byblos Bank sal invited the Bank's shareholders to attend the Annual General Assembly on April 28, 2017. The agenda of the meeting includes examining the Board of Directors' and the auditors' general reports for 2016, approving the financial statements of fiscal year 2016, granting clearance to the Chairman and Board members for their administrative duties during 2016, and determining the remuneration of the auditors and the emoluments of the Board members and members of Board Committees for 2016, among other tasks.

Byblos Bank sal declared unaudited net profits of \$165.3m in 2016, constituting an increase of 2.4% from \$161.5m in 2015. The Bank's aggregate assets reached \$20.83bn at the end of 2016 and grew by 4.8% from \$19.87bn at end-2015. Net loans & advances to customers totaled \$5.16bn at the end of 2016, up by 5.2% from \$4.9bn at end-2015, while loans extended to related parties stood at \$13.6m. The Bank's net non-performing loans, or NPLs net of specific provisions and reserved interest, were equivalent to 1.2% of net loans at the end of 2016. Also, the NPL coverage ratio, including collective provisions, was 95.4% at the end of 2016; while the Bank's immediate liquidity with commercial banks and central banks, including certificates of deposit, stood at \$11.5bn at the end of 2016, representing 55.3% of the Bank's aggregate assets. The Bank's total deposits reached \$16.86bn at the end-2016 and grew by 3.1% from the end of 2015, with deposits from related parties standing at \$242.8m. Byblos Bank maintains strong financial buffers to mitigate unexpected risks and counter economic volatility. The Bank's capital adequacy ratio stood at 18.4% at the end of 2016 according to Basel III criteria, which is significantly above the minimum regulatory requirement of 12% for 2017 and is one of the highest such ratios in the Lebanese banking sector.

### **Stock market index down by 2.6% in the first quarter of 2017**

Figures released by the Beirut Stock Exchange (BSE) indicate that trading volume reached 13,148,154 shares in in the first quarter of 2017, constituting a decrease of 61.2% from 33,857,414 shares traded in the same period of 2016; while aggregate turnover amounted to \$107.7m, down by 64.6% from a turnover of \$303.8m in the first quarter of 2016. Market capitalization grew by 10% from the end of March 2016 to \$12.5bn, with banking stocks accounting for 85.9% of the total, followed by real estate shares (11.8%), industrial firms (2%) and trading stocks (0.3%). The market liquidity ratio was 0.9% in the covered quarter, compared to 2.7% in the first quarter of 2016.

Banking stocks accounted for 48.4% of the aggregate trading volume in the first three months of the year, followed by real estate equities with 27%, trading stocks for 23.9% and industrial shares with 0.7%. Also, banking stocks represented 59.1% of the aggregate value of shares traded, followed by real estate equities with 31.4%, trading stocks with 8.9% and industrial stocks with 0.6%. The average daily traded volume for the quarter was 215,544 shares for an average daily value of \$1.8m. The figures reflect year-on-year decreases of 61.8% and 65.1% in volume and in value respectively. In parallel, the Capital Markets Authority's Market Value-Weighted Index for stocks traded on the BSE regressed by 2.6% in the first quarter of 2017, while the CMA's Banks Market Value-Weighted Index grew by 16.3% in the covered quarter.

### **Balance sheet of investment banks up 3% in 2016**

Figures released by the Central Bank show that the consolidated balance sheet of investment banks in Lebanon reached LBP7,094bn, or \$4.71bn at the end of 2016, up by 3.3% from the end of 2015 and compared to an increase of 10.7% in 2015. The cash balance and deposits of investment banks at commercial banks reached \$2.2bn at end-2016, down by 5.1% from a year earlier and relative to a growth of 21.4% in 2015. Also, claims on the private sector totaled \$1.45bn, constituting an increase of 4.4% year-on-year and compared to a marginal rise of 0.7% in 2015. Investments in government securities reached \$703.5m at the end of 2016, up by 35% from a year earlier and compared to a drop of 4.8% in 2015.

On the liabilities side, private sector deposits totaled \$2bn at the end of 2016, down by 7.5% from \$2.14bn at end-2015 relative to a 6.9% rise in 2015. Resident deposits in foreign currency stood at \$932.3m, followed by resident deposits in Lebanese pounds at \$789.4m, non-resident deposits in foreign currency at \$192.5m and non-resident deposits in Lebanese pounds at \$64.9m. Liabilities to the public sector reached \$211.1m at end-2016, constituting a decrease of 2.9% from the end of 2015 and compared to a growth of 16.7% in 2015. Also, commitments to the financial sector totaled \$882.9m at the end of 2016, reflecting an increase of 22% from end-2015 and relative to a rise of 13.6% in 2015. Further, the aggregate capital account of investment banks reached \$1.36bn at the end of 2016, up by 10.3% from a year earlier. There were 16 investment banks operating in Lebanon with a total of 21 branches as of June 2016.



### Foreign investments of financial sector at \$5bn at end-June 2016, commercial banks account for 65% of long-term debt securities and for 34% of equity investments

Figures issued by the Central Bank show that the net investment portfolio of Lebanese banks and financial institutions in foreign debt and equity securities totaled \$5bn at the end of June 2016, constituting a decrease of 5.3% from \$5.3bn at the end of June 2015. Investments in long-term debt securities reached \$3bn at end-June 2016 and accounted for 59.3% of the total, followed by investments in equities at \$1.96bn (39.1%) and in short-term debt securities at \$83.2m (1.7%). According to the Central Bank, the figures cover the net assets of resident banks and financial institutions in foreign tradable debt and equity instruments. They help provide a clearer picture about the flow of funds from Lebanon and, therefore, about the balance of payments.

Commercial banks' net portfolio of long-term debt securities, including banks' investments for their own account, on behalf of their clients and on a custodial basis, totaled \$1.9bn and accounted for 64.9% of the financial sector's aggregate investments in such securities at the end of June 2016. Medium- and long-term banks followed with \$798.7m (26.9%), then insurance companies with \$162.1m (5.5%) and financial institutions with \$81.5m (2.7%). In parallel, commercial banks represented 96% of investments in short-term debt securities, followed by insurance companies with 2.6% and medium- and long-term banks with 1.4%. Further, medium- and long-term banks' investments in equities reached \$670.2m and accounted for 34.3% of the financial sector's investments in such securities. They were followed by commercial banks with \$664.1m (33.9%), financial institutions with \$494.7m (25.3%), insurance companies with \$125.2m (6.4%) and financial intermediaries with \$2.3m (0.1%).

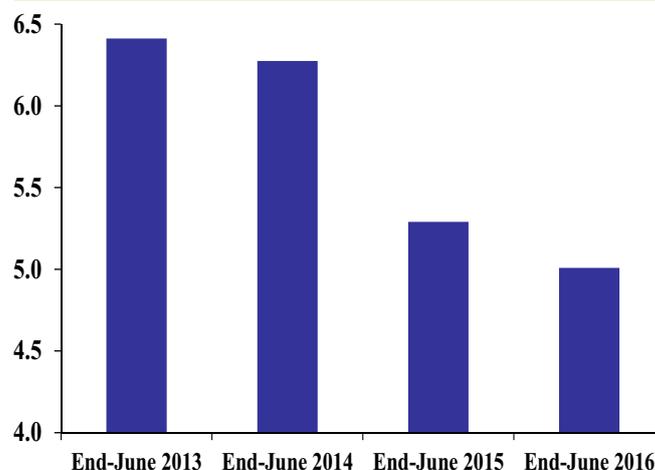
The distribution of investments by destination shows that the United States was the main recipient of equity investments by banks and financial institutions operating in Lebanon with \$704.2m, or 36% of the total, at end-June 2016. Bahrain followed with equity investments worth \$266.1m (13.6%), then Luxembourg with \$134m (6.8%), Jordan with \$112.9m (5.8%) and France with \$95.7m (4.9%), while other countries accounted for the remaining 32.9% of total equity investments. In parallel, the United Kingdom received \$547.8m or 18.4% of investments in long-term debt securities, followed by the United States with \$542.2m (18.3%), France with \$272.2m (9.2%), Germany with \$218.1m (7.3%) and the Cayman Islands with \$144m (4.8%), while other countries accounted for the remaining 41.9%. Further, Switzerland accounted for 48.2% of investments by Lebanese banks and financial institutions in short-term debt securities, followed by Australia (29.6%), Bahrain (16.9%), the European Union (1%) and the United Kingdom (0.8%), while other countries represented the remaining balance of 3.4% of total short-term debt securities.

### BBAC's net earnings at \$49m in 2016

BBAC Bank sal, one of Lebanon's top 10 banks, announced unaudited consolidated net profits of \$49.4m in 2016, constituting an increase of 10.7% from 2015. Net operating income rose by 21.1% to \$152.3m in 2016, with net interest income increasing by 14.2% to \$97.6m and net fees & commissions receipts declining by 3.2% year-on-year to \$24m. Non-interest income accounted for 40.3% of total income, up from 34.7% a year earlier; with net fees & commissions representing 36.6% of non-interest earnings relative to 54.8% in 2015. Further, the bank's interest margin was 1.59% in 2016 relative to 1.53% a year earlier; while its spread reached 1.54% in 2016, up from 1.48% in 2015. Total operating expenditures increased by 23.9% to \$88.7m, with staff expenses increasing by 13.77% to \$45.8m, and administrative & other operating expenses rising by 43% to \$38.1m. Also, the bank's return on average assets was nearly unchanged at 0.78% in 2016; while its return on average equity decreased to 9.46% from 9.65% in 2015. The cost-to-income ratio was 54.3% in 2016, down from 54.7% in 2015.

In parallel, total assets reached \$6.58bn at the end 2016, constituting an increase of 8% from a year earlier. Loans & advances to customers, excluding those to related parties, increased by 7.7% from end-2015 to \$1.76bn. Also, customer deposits, excluding those from related parties, totaled \$5.58bn at the end 2016, and grew by 6.9% from end-2015. The loans-to-deposits ratio increased to 31% at end-2016 from 30.7% a year earlier. In parallel, the bank's shareholders' equity rose by 18.2% from end-2015 to \$565.6m at the end of 2016.

Foreign Investments of Financial Sector (US\$bn)



Source: Central Bank, Byblos Research

### Central Bank clarifies use of facilities by banks and venture capital firms

The Banque du Liban (BdL) issued Intermediate Circular 452 on February 22, 2017 and Intermediate Circular 454 on March 17, 2017 that amend Basic Circular 23 issued on March 7, 1996 about the facilities that the BdL can provide to commercial banks and financial institutions. The amended circular indicated that banks operating in Lebanon can have access to interest-free facilities from the BdL over a maximum period of seven years to invest in the capital of startups, incubators and accelerators, and venture capital (VC) firms.

The circular forbids banks and VC firms from using the interest-free facilities outside of Lebanon, except for funding the expenses needed to cover the services and equipment that are unavailable in the local market. Also, it prohibits banks and VC firms from extending any kind of loans to startup companies in which they have invested. However, the circular allows VC firms and banks to provide bridge financing to startups for a maximum duration of six months under justified circumstances, as well as interest-free convertible loans with a mandatory clause of conversion to common shares in the portfolio companies within one year of the issuance, at the latest. It noted that the BdL may approve an exception to the above rules and to the use of facilities outside of Lebanon in case of a justified request. In parallel, the circular stipulated that banks and VC firms that use the BdL facilities to invest in holding companies should make sure that the funds are exclusively invested in startup companies; that holding companies own more than 75% of the capital of these companies; and that they should receive the BdL's approval before they divest any number of shares from their portfolio firms. Also, the circular stipulated that holding companies should own all of the copyrights of their related portfolio companies.

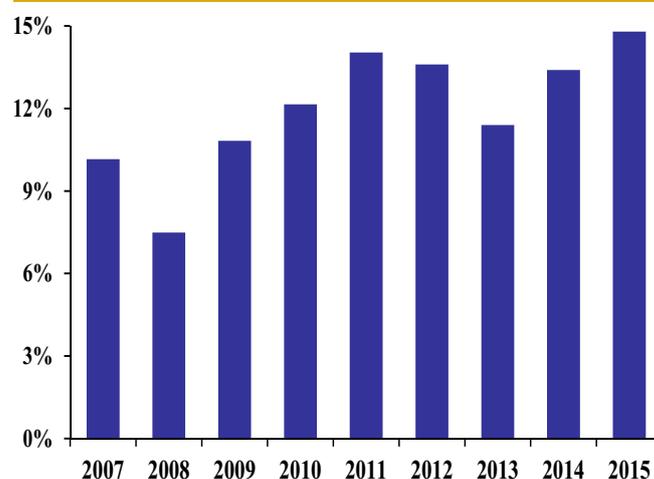
Further, the circular stipulated that banks, in case they allocate any amount of the granted facilities to participate in a portfolio company, should show that the amount will be used by the startup, in line with the conditions set in the circular. In parallel, the circular mandated the banks that benefit from the above-mentioned facilities to report a series of information, on a quarterly and annual basis, to the BdL and to the Banking Control Commission of Lebanon. The annual reporting requirements, due before the end of April of each year, include the financial statements of individual startup companies; each portfolio company's shareholder structure; lists of board members, senior executives and the assigned external auditors for each startup; along with the nature of business and legal classification and the Auditor's report, among others. It added that banks have a one-year period to comply with the rules of the circular pertaining to the use of BdL credit facilities in their portfolio companies.

### Insurers' return on assets at 3.6%, return on investment at 6% and return on equity at 14.8% in 2015

Figures released by the Insurance Control Commission (ICC) show that the aggregate assets of 51 insurance companies operating in Lebanon reached \$4.5bn at the end of 2015, constituting an increase of 4.5% from \$4.3bn at end-2014. The insurance sector's aggregate investments were valued at \$2.7bn in 2015 and accounted for 60.1% of total assets, followed by unit-linked contracts investments worth \$647.3m (14.4%) and receivables under the insurance business valued at \$322.8m (7.2%). Fixed income investments stood at \$820.5m and accounted for 30.5% of total investments, followed by blocked bank deposits & deposits with maturity of more than three months at \$815.7m (30.3%), cash & cash equivalents at \$624.6m (23.2%), investments in land & real estate at \$182.2m (6.8%) and investments in subsidiaries & associates at \$83.4m (3.1%). The collective return on investments of the insurance sector reached 6% in 2015, up from 5.5% in 2014. In parallel, the aggregate net income of insurance companies reached \$162.4m in 2015, constituting an increase of 15.2% from \$141m in 2014. Further, insurance companies posted a combined annualized return on assets of 3.6% in 2015, up from 3.3% in 2014.

Further, the aggregate loss ratio of the 51 insurance companies, or the ratio of claims incurred to earned gross premiums, was 60.6% in 2015; the commission ratio, or the ratio of acquisition cost to earned gross premiums, reached 17.2%; the expense ratio, or the ratio of other general expenses to earned gross premiums, was 12.8%; and the reinsurance ratio, or the ratio of net reinsurance income to earned gross premiums, reached 5.8% in 2015. As such, the average technical combined loss ratio, which is the aggregate of the above four ratios, reached 96.8% in 2015 relative to 99.7% in 2014. In parallel, the total shareholders' equity of the insurance sector reached \$1.1bn in 2015, constituting a rise of 4.7% from \$1.05bn in 2014. As such, the return on equity of the insurance segment posted an annualized rate of 14.8%, up from 13.4% in 2014.

### Return on Equity of Insurance Firms in Lebanon



Source: Insurance Control Commission

## Ratio Highlights

(in % unless specified)	2014	2015	2016e	Change*
Nominal GDP (\$bn)	50.0	51.1	52.0	
Public Debt in Foreign Currency / GDP	51.2	53.0	54.2	1.26
Public Debt in Local Currency / GDP	81.9	84.6	89.6	4.98
Gross Public Debt / GDP	133.1	137.6	144.0	6.42
Total Gross External Debt / GDP**	170.0	174.7	176.6	1.90
Trade Balance / GDP	(34.4)	(29.5)	(30.0)	(0.47)
Exports / Imports	16.2	16.6	16.1	(0.49)
Fiscal Revenues / GDP	21.8	18.7	19.1	0.30
Fiscal Expenditures / GDP	27.9	26.5	28.6	2.1
Fiscal Balance / GDP	(6.1)	(7.7)	(9.5)	(1.8)
Primary Balance / GDP	2.6	1.4	0.04	(1.4)
Gross Foreign Currency Reserves / M2	66.5	58.7	62.7	3.94
M3 / GDP	235.4	241.9	250.0	8.11
Commercial Banks Assets / GDP	351.4	364.0	392.9	28.9
Private Sector Deposits / GDP	288.9	296.6	312.5	15.8
Private Sector Loans / GDP	101.8	106.1	108.7	3.85
Private Sector Deposits Dollarization Rate	65.7	64.9	65.0	0.10
Private Sector Lending Dollarization Rate	75.6	74.8	73.6	(1.23)

\*Change in percentage points 15/16

\*\*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	Mar 2015	Feb 2016	Mar 2016	Change**	Risk Level
Political Risk Rating	54.5	54.5	54.5	↔	High
Financial Risk Rating	39.0	36.5	36.5	▲	Low
Economic Risk Rating	33.0	30.5	30.5	▲	Moderate
Composite Risk Rating	63.25	60.75	60.75	▲	Moderate

MENA Average*	Mar 2015	Feb 2016	Mar 2016	Change**	Risk Level
Political Risk Rating	57.9	57.7	57.7	▲	High
Financial Risk Rating	39.6	40.2	40.0	▼	Very Low
Economic Risk Rating	34.4	31	31.6	▲	Moderate
Composite Risk Rating	65.9	64.4	64.6	▲	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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