

LEBANON THIS WEEK

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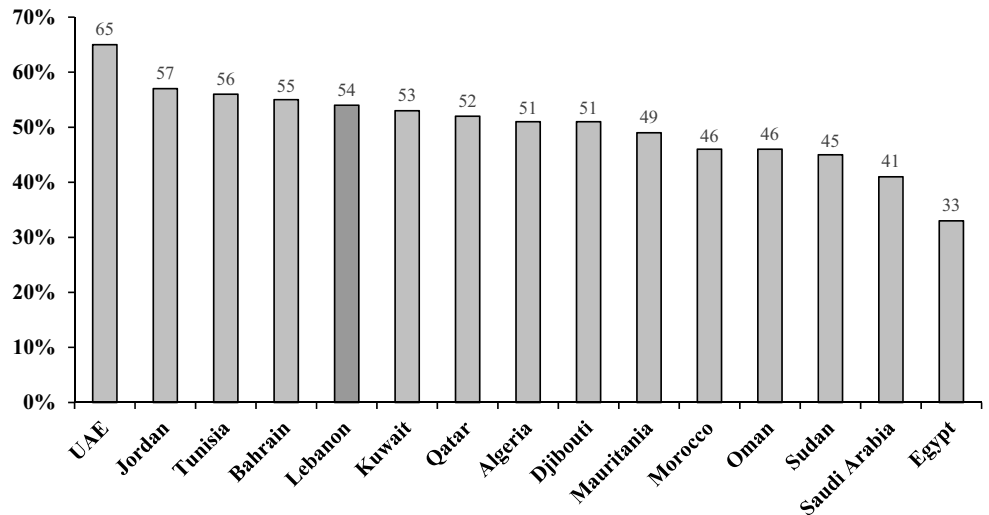
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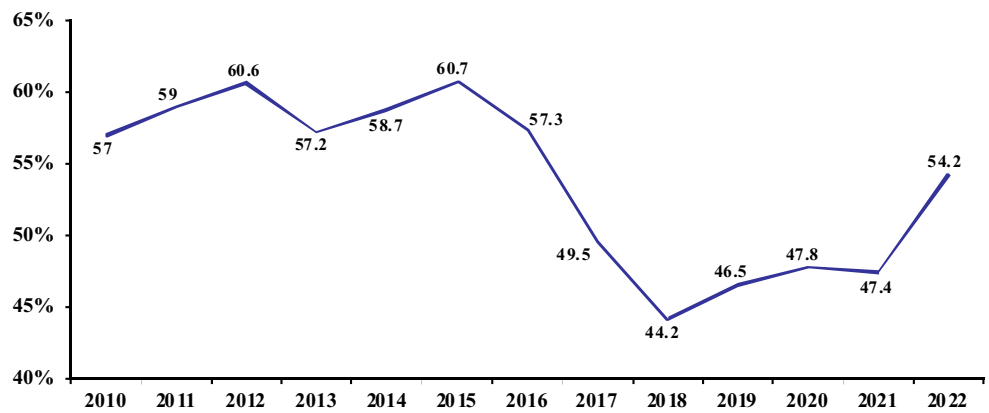
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Charts of the Week

Performance of Arab Countries in terms of Labor Freedom for 2022*



Performance of Lebanon in terms of Labor Freedom



*The Heritage Foundation defines labor freedom as a quantitative measure that considers various aspects of the legal and regulatory framework of a country's labor market

Source: Heritage Foundation, Labor Freedom Sub-Indicator, Index of Economic Freedom for 2022, Byblos Bank

Quote to Note

"Lebanon urgently needs to reform the electricity sector, telecommunications, the water sector, the ports systems, and other state-owned entities, with consideration to privatizing and regulating such utilities."

The Institute of International Finance, on measures that would restore confidence in the Lebanese economy

Number of the Week

75%: Compensation of public sector personnel as a percentage of the government's current primary expenditures in the first nine months of 2021, according to the Ministry of Finance

Lebanon in the News

| \$m (unless otherwise mentioned) | 2019 | 2020 | 2021 | % Change* | Dec-20 | Nov-21 | Dec-21 |
|----------------------------------|-----------|-----------|-----------|-----------|---------|---------|---------|
| Exports | 3,731 | 3,544 | 3,887 | 9.6% | 295 | 391 | 616 |
| Imports | 19,239 | 11,310 | 13,641 | 20.6% | 1,232 | 1,179 | 1,269 |
| Trade Balance | (15,508) | (7,765) | (9,754) | 25.6% | (937) | (788) | (653) |
| Balance of Payments | (5,851) | (10,551) | (1,976) | -81.3% | (348) | 160 | (400) |
| Checks Cleared in LBP | 22,145 | 19,937 | 18,639 | -6.5% | 1,942 | 1,825 | 1,738 |
| Checks Cleared in FC | 34,826 | 33,881 | 17,779 | -47.5% | 2,802 | 949 | 1,079 |
| Total Checks Cleared | 56,982 | 53,828 | 36,425 | -32.3% | 4,744 | 2,773 | 2,818 |
| Fiscal Deficit/Surplus** | (5,837) | (2,709) | 302 | - | (30) | - | - |
| Primary Balance** | (287) | (648) | 1,706 | - | 264 | - | - |
| Airport Passengers | 8,684,937 | 2,501,944 | 4,334,231 | 73.2% | 282,130 | 344,737 | 455,087 |
| Consumer Price Index | 2.9 | 84.9 | 154.8 | 6,989bps | 145.8 | 201.1 | 224.4 |

| \$bn (unless otherwise mentioned) | Dec-20 | Aug-21 | Sep-21 | Oct-21 | Nov-21 | Dec-21 | % Change* |
|-----------------------------------|--------|--------|--------|--------|--------|--------|-----------|
| BdL FX Reserves | 18.60 | 14.20 | 14.62 | 14.49 | 14.05 | 13.65 | (3.9) |
| In months of Imports | 15.10 | - | - | - | - | - | - |
| Public Debt | 95.59 | 98.74 | 99.22 | 99.80 | 100.39 | - | - |
| Bank Assets | 188.04 | 180.28 | 179.68 | 178.90 | 175.60 | 174.94 | (3.0) |
| Bank Deposits (Private Sector) | 139.14 | 133.04 | 132.49 | 131.65 | 129.53 | 129.47 | (2.7) |
| Bank Loans to Private Sector | 36.17 | 30.86 | 30.00 | 29.18 | 28.04 | 27.71 | (10.2) |
| Money Supply M2 | 44.78 | 49.85 | 49.95 | 50.03 | 50.10 | 52.41 | 5.1 |
| Money Supply M3 | 132.70 | 133.21 | 132.90 | 132.42 | 131.62 | 133.39 | 0.1 |
| LBP Lending Rate (%) | 7.77 | 7.52 | 7.65 | 7.46 | 7.20 | 7.14 | (38) |
| LBP Deposit Rate (%) | 2.64 | 1.62 | 1.53 | 1.34 | 1.23 | 1.09 | (53) |
| USD Lending Rate (%) | 6.73 | 5.87 | 6.34 | 6.86 | 6.75 | 6.01 | 14 |
| USD Deposit Rate (%) | 0.94 | 0.30 | 0.26 | 0.23 | 0.20 | 0.19 | (11) |

*year-on-year; **figures for 2021 reflect the first nine months of the year

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

Capital Markets

| Most Traded Stocks on BSE* | Last Price (\$) | % Change* | Total Volume | Weight in Market Capitalization | Sovereign Eurobonds | Coupon % | Mid Price \$ | Mid Yield % |
|----------------------------|-----------------|-----------|--------------|---------------------------------|---------------------|----------|--------------|-------------|
| Solidere "A" | 37.06 | 0.7 | 32,114 | 34.6% | Oct 2022 | 6.10 | 10.88 | 3,002.53 |
| Audi Listed | 1.69 | 0.6 | 20,102 | 9.3% | Jan 2023 | 6.00 | 10.88 | 746.03 |
| BLOM GDR | 3.00 | 2.4 | 11,500 | 2.1% | Apr 2024 | 6.65 | 10.88 | 153.26 |
| Solidere "B" | 37.08 | 2.3 | 4,756 | 22.5% | Jun 2025 | 6.25 | 10.88 | 86.42 |
| Byblos Common | 0.84 | 5.0 | 281 | 4.4% | Nov 2026 | 6.60 | 10.88 | 55.26 |
| Byblos Pref. 09 | 37.98 | 0.0 | 250 | 0.7% | Feb 2030 | 6.65 | 10.88 | 30.59 |
| Audi GDR | 1.70 | 0.0 | - | 1.9% | Apr 2031 | 7.00 | 10.88 | 26.39 |
| BLOM Listed | 2.85 | 0.0 | - | 5.7% | May 2033 | 8.20 | 10.88 | 21.18 |
| HOLCIM | 21.00 | 0.0 | - | 3.8% | Nov 2035 | 7.05 | 10.88 | 17.16 |
| Byblos Pref. 08 | 30.00 | 0.0 | - | 0.6% | Mar 2037 | 7.25 | 10.88 | 15.49 |

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

Source: Refinitiv

| | May 5-6 | Apr 26-29 | % Change | April 2022 | April 2021 | % Change |
|-----------------------|-------------|--------------|----------|--------------|--------------|----------|
| Total shares traded | 69,003 | 979,541 | (93.0) | 2,124,884 | 1,917,215 | 10.8 |
| Total value traded | \$1,446,164 | \$10,290,977 | (85.9) | \$30,360,019 | \$32,181,843 | (5.7) |
| Market capitalization | \$10.71bn | \$10.59bn | 1.07 | \$10.59bn | \$9.41bn | 12.5 |

Source: Beirut Stock Exchange (BSE)



Government details banking sector restructuring plan

The Lebanese government declared in its economic rescue plan that it is committed to restore the health and continuity of the financial sector, and that it is necessary to downsize and recapitalize the sector, given that the latter has been affected by the deterioration in economic activity, by the depreciation of the exchange rate, and by the default on the sovereign Eurobonds, as well as by the large losses that Banque du Liban's (BdL) balance sheet has accumulated as a result of operations to attract capital inflows, to maintain the stability of the exchange rate and to finance the fiscal deficit. It added that current estimates put the needs to recapitalize the banking sector at \$72bn, which exceeds 300% of 2021 GDP. The plan stipulates as a first step to recapitalize BdL and that the net negative equity of BdL exceeds \$60bn, but noted that this figure requires additional calculations. It added that BdL has to incur additional losses from the restructuring of the public debt and from the unification of the exchange rates. It said that international auditing firm KPMG is reviewing BdL's balance sheet based on criteria that the International Monetary Fund has set, and that it has already completed its review of BdL's net foreign currency reserves. The plan indicates that the government will publish the results of the assessment by the end of July 2022. Further, it declared that, based on this review, it will write off about \$60bn of BdL's liabilities in foreign currency to commercial banks in order to close BdL's net open foreign currency positions. It added that the strategy includes the partial recapitalization of BdL with \$2.5bn in sovereign bonds, but said that this figure may increase in case this step does not affect the public debt's sustainability. It noted that BdL's remaining net equity losses will be written off gradually over five years.

The second phase of the plan stipulates the recapitalization of commercial banks that are able to continue operating in the market, in conjunction with the dissolution of non-viable banks. It stressed the need to recapitalize commercial banks in order to address the losses resulting from the restructuring of the public debt and the liabilities of BdL, as well as from losses from the private sector's loans portfolio and the impact of the unification of the exchange rate on the balance sheets of the banks. It added that this will require large contributions from the banks' shareholders and bondholders, but that these measures will not be sufficient to restore the health of the banks due to the amount of the losses. It declared that, given the lack of other alternatives, the banks' recapitalization will require large contributions from depositors based on the following steps.

First, the plan stipulates that the hierarchy of rights when absorbing losses starts with writing off the bank's capital, followed by writing off subordinated bonds, and the deposits of related parties.

Second, the plan intends to protect at least \$100,000 in bank deposits, based on the assessment of the Banking Control Commission of Lebanon (BCCL) of the capacity and ability of each bank's continuity. It added that the threshold for deposit protection will exclude any increase in the depositors' accounts after March 31, 2022.

Third, the plan specifies that completing the internal recapitalization of the banks means implicitly that deposits that exceed the protection threshold will either be converted to shares in the bank or partially written off, as well as converting part of the foreign currency deposits to Lebanese pounds at a non-market exchange rate. It added that, in order to determine the internal recapitalization needs of each bank and the restructuring of their balance sheets, the BCCL, with the assistance of reputable international firms, began to assess the losses and the structure of deposits at each of the largest 14 banks, based on criteria that the government and the IMF agreed on. It said that the government is committed to complete these assessments by the end of September 2022 and that this constitutes one of the prior actions of the agreement with the IMF.

Fourth, the authorities will ask existing or prospective shareholders, or both, to commit to inject fresh capital in the banks that the BCCL considers to be viable, based on the analysis of their individual business plan following the internal recapitalization of each bank. As such, the plan indicates that the authorities intend to rapidly reach an agreement with each bank on a clear recapitalization plan based on a precise timetable in order to restore a minimum level of capital adequacy.

Fifth, the plan noted that, following the recapitalization of banks, and for issues related to liquidity, it would be possible to return the remaining deposits in US dollars or Lebanese pounds, or both, to their owners at a market exchange rate.

Sixth, it stated that authorities aim to dissolve all of the non-viable banks through immediate measures that will be implemented according to the emergency bank resolution legislation for the restructuring of the banking sector. It noted that it intends to complete this measure by the end of November 2022.

Seventh, the plan stipulated that it will limit any recourse to public resources in order to maintain the sustainability of the public debt, except to improve the capital of BdL.



Banque du Liban's foreign assets at \$16.2bn, gold reserves at \$17.7bn at end-April 2022

Banque du Liban's (BdL) interim balance sheet reached \$166.6bn at the end of April 2022, constituting increases of 2.1% from \$163.2bn at end-2021 and of 7.7% from \$154.7bn a year earlier. Assets in foreign currency totaled \$16.25bn at end-April 2022, representing a decrease of \$1.58bn, or of 8.8%, in the first four months of the year and a drop of \$5.38bn (-25%) from \$21.64bn at end-April 2021. Assets in foreign currency include \$5.03bn in Lebanese Eurobonds, unchanged from a year earlier. The dollar figures are based on the official exchange rate of the Lebanese pound to the US dollar.

BdL's assets in foreign currency, excluding Lebanese Eurobonds, stood at \$11.22bn at the end of April 2022 and regressed by \$94.4m (-0.8%) from \$11.32bn at mid-April 2022 and by \$229.4m (-2%) from \$11.45bn at end-March 2022. They dropped by \$1.58bn (-12.3%) in the first four months of the year from \$12.8bn at the end of 2021 and by \$5.39bn (-32.4%) from \$16.61bn at end-April 2021. The cumulative decline in BdL's assets in foreign currency, excluding Lebanese Eurobonds, is largely due to the financing of the imports of hydrocarbons, wheat, medicine, medical equipment, a large number of food and non-food items, and raw materials for agriculture and industry, as well as to the implementation of BdL circulars that allowed depositors to withdraw US dollar banknotes from their accounts or to buy dollar banknotes from BdL through commercial banks. It is also due to the steep drop in capital flows to Lebanon since September 2019, and to the near halt of inflows after the government decided to default on its Eurobonds obligations in March 2020. However, the decline in BdL's assets foreign currency was offset in part by the allocation of about \$1.13bn in Special Drawing Rights that the IMF transferred to BdL's account on September 16, 2021.

In parallel, the value of BdL's gold reserves amounted to \$17.65bn at the end of April 2022, constituting increases of \$1.05bn (+6.4%) in the first four months of the year and of \$1.27bn (+7.8%) from \$16.37bn at end-April 2021. The value of gold reserves reached a peak of \$18.15bn at mid-April 2022. Also, the securities portfolio of BdL reached \$42bn at end-April 2022, increasing by \$738.2m (+1.8%) from the end of 2021 and by \$1.1bn (+2.7%) from \$40.9bn a year earlier. In addition, loans to the local financial sector totaled \$13.3bn, and regressed by 2.8% from the end of 2021 and by 5.4% from end-April 2021. Further, the deposits of the financial sector stood at \$110.4bn at end-April 2022 and grew by \$2.4bn from a year earlier. In addition, public sector deposits at BdL reached LBP15,466.5bn (\$10.26bn) at end-April 2022, as they rose by LBP3,775 (\$2.5bn) in the first four months of the year and surged by LBP7,895.3 (\$5.2bn) from the end of April 2021.

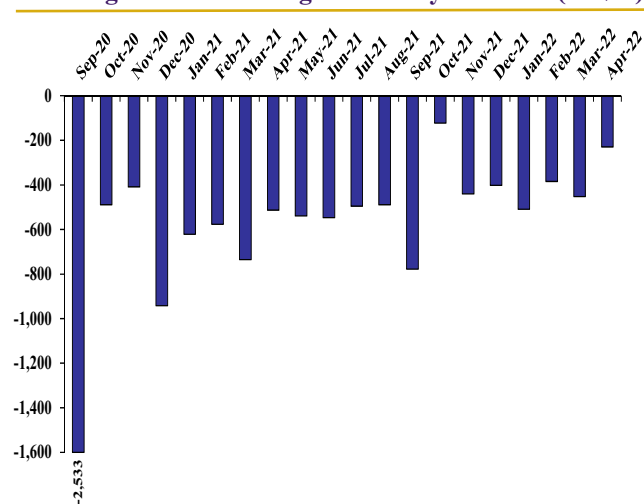
Net foreign assets of financial sector down \$1.47bn in first quarter of 2022

Figures issued by Banque du Liban (BdL) show that the net foreign assets of the financial sector, which are a proxy for Lebanon's balance of payments, declined by \$1.47bn in the first quarter of 2022, compared to decreases of \$847.2m in the same quarter of 2021 and of \$1.1bn in the first quarter of 2020.

The cumulative deficit in the first quarter of 2022 was caused by a drop of \$1.5bn in the net foreign assets of BdL, which was partly offset by an increase of \$43.3m in those of banks and financial institutions. Further, the net foreign assets of the financial sector regressed by \$518.5m in March 2022 compared to declines of \$601.8m in February 2022 and of \$96m in March 2021. The March decrease was caused by a drop of \$488.5m in the net foreign assets of BdL and a dip of \$30m in those of banks and financial institutions.

The cumulative increase in the banks' net foreign assets is mostly due to a decline in their foreign liabilities. The decrease in foreign liabilities was driven mainly by the contraction in liabilities to the non-resident financial sector and in non-resident customer deposits. In parallel, the drop in BdL's net foreign assets was due in part to the financing of the imports of hydrocarbons, wheat, medicine, medical equipment, a large number of food and non-food items, and raw materials for agriculture and industry; as well as to the implementation of BdL circulars that allowed depositors to withdraw US dollar banknotes from their accounts or to buy dollar banknotes from BdL through commercial banks.

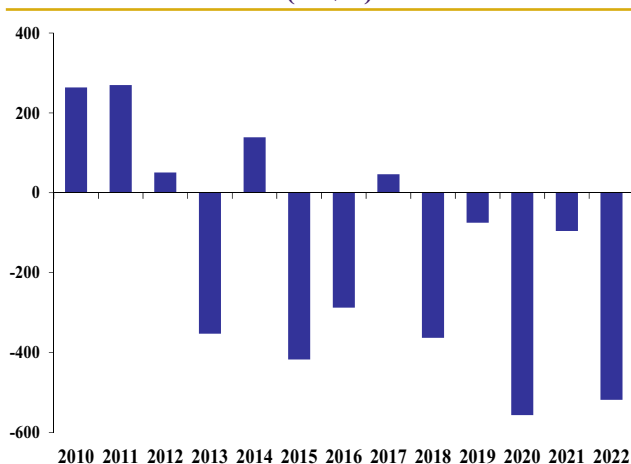
Change in Gross Foreign Currency Reserves (US\$m)



at end-April 2022

Source: Banque du Liban, Byblos Research

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



*in March of each year

Source: Banque du Liban, Byblos Research

Cost of sending remittances from most sources decreases in fourth quarter of 2021

Figures issued by the World Bank show that the cost of sending \$500 in remittances from the United States to Lebanon was 4.54% in the fourth quarter of 2021, constituting a decrease from 4.56% in the third quarter of 2021 and an increase from 4.47% in the fourth quarter of 2020. The cost includes the transaction fee and exchange rate margin, and represents the average cost of transferring money through commercial banks and money transfer operators. In nominal terms, the cost of sending \$500 from the U.S. to Lebanon was \$22.71 in the fourth quarter of 2021, relative to \$22.8 in the preceding quarter and compared to \$22.33 in the fourth quarter of 2020. Lebanon was the 15th most expensive destination for sending \$500 from the U.S. among 42 countries with available data.

Further, the cost of sending remittances from Canada to Lebanon was 7.83% in the fourth quarter of 2021 for a transfer of CAD500, representing increases from 7.25% in the third quarter of 2021 and from 4.04% in the fourth quarter of 2020. In nominal terms, the cost of sending CAD500 from Canada to Lebanon was CAD39.14 in the fourth quarter of 2021 relative to CAD36.24 in the previous quarter and to CAD20.22 in the fourth quarter of 2020. Lebanon was the costliest destination for sending CAD500 from Canada among 15 countries with available data.

In addition, the cost of sending remittances from Australia to Lebanon reached 6.8% in the fourth quarter of 2021 for a transfer of AUD500, constituting declines from 7.38% in the third quarter of 2021 and from 7.11% in the fourth quarter of 2020. The cost of sending AUD500 from Australia to Lebanon was AUD34.02 in the fourth quarter of 2021 relative to AUD36.9 in the preceding quarter and to AUD35.54 in the fourth quarter of 2020. Lebanon was the third most expensive destination for sending AUD500 from Australia among 16 countries with available data.

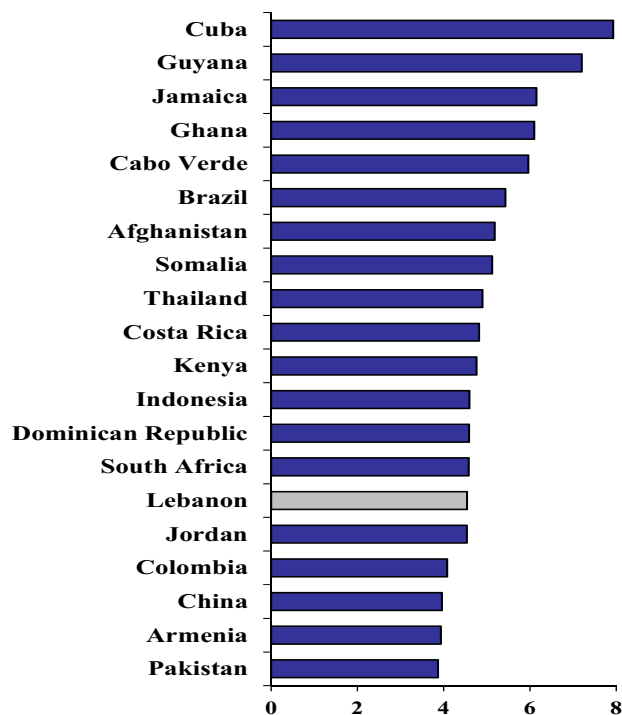
Also, the cost of sending remittances from France to Lebanon was 6.25% in the fourth quarter of 2021 for a transfer of €345, representing decreases from 7.18% in the third quarter of 2021 and from 8.11% in the fourth quarter of 2020. In nominal terms, the cost of sending €345 from France to Lebanon was €21.58 in the fourth quarter of 2021 relative to €24.76 in the previous quarter and to €27.96 in the fourth quarter of 2020. Lebanon was the fifth costliest destination for sending €345 from France among 16 countries with available data.

Further, the cost of sending remittances from the United Kingdom to Lebanon reached 6.77% in the fourth quarter of 2021 for a transfer of £300, constituting declines from 7.8% in the third quarter of 2021 and from 7.11% in the fourth quarter of 2020. In nominal terms, the cost of sending £300 from the UK to Lebanon was £20.31 in the fourth quarter of 2021 relative to £23.4 in the preceding quarter and to £21.34 in the fourth quarter of 2020. Lebanon was the seventh most expensive destination for sending £300 from the UK, among 33 countries with available data.

Also, the cost of sending remittances from Germany to Lebanon was 5.87% in the fourth quarter of 2021 for a transfer of €345, representing an increase from 4.89% in the third quarter of 2021 and a decrease from 7.23% in the fourth quarter of 2020. In nominal terms, the cost of sending €345 from Germany to Lebanon was €20.25 in the fourth quarter of 2021 relative to €16.87 in the previous quarter and to €24.94 in the fourth quarter of 2020. Lebanon was the third most expensive destination for sending €345 from Germany among 24 countries with available data.

Finally, the cost of sending remittances from Saudi Arabia to Lebanon reached 3.23% in the fourth quarter of 2021 for a transfer of SAR1,870, equivalent to \$500, increasing from 3.16% in the third quarter of 2021 and from 2.9% in the fourth quarter of 2020. In nominal terms, the cost of sending SAR1,870 from Saudi Arabia to Lebanon was SAR60.4 in the fourth quarter of 2021, relative to SAR59.03 in the preceding quarter and to SAR54.17 in the fourth quarter of 2020. Lebanon was the seventh most expensive destination for sending SAR1,870 from Saudi Arabia among 17 countries with available data.

Costliest Destinations for Sending Remittances from the United States* (%)



*cost of sending \$500 from the U.S.

Source: World Bank, Byblos Research

IMF deal conditional on reforms to access external support

Emirates NBD Bank indicated that the International Monetary Fund (IMF) reached a staff-level agreement with Lebanon on much-needed economic policies for a \$3bn four-year Extended Fund Facility. However, it noted that the Lebanese authorities have to implement eight "critical reforms" ahead of the approval from the IMF's board. It pointed out that the eight measures include the Cabinet's approval of a bank restructuring strategy, modifying the banking secrecy law and the authorities' approval of a medium-term fiscal and debt restructuring framework.

As such, it considered that the agreement is a sign that authorities have made progress after protracted negotiations with the IMF. Still, it deemed that the political impasse in the country is stalling the wide-ranging reforms that the IMF and other bilateral partners are calling for in order to extend funding to Lebanon. It added that, in case Lebanon secures the expected \$3bn in financing from the IMF, authorities will have to implement additional reforms that include reforming state-owned enterprises, strengthening governance in the public sector, as well as fiscal reforms, which constitute measures that the Parliament has struggled to enact so far.

In parallel, Standard Chartered Bank anticipated that the prevailing economic recession in Lebanon will persist throughout 2022, and projected real GDP to contract by 5% this year, relative to the authorities' forecast of a real GDP growth rate of 3% in the 2022 draft budget. It noted that Banque du Liban's (BdL) coincident indicator, a proxy for economic activity in the country, and electricity production by the state-owned Electricité du Liban have reached their lowest levels since the mid-1990s.

Also, it expected hyperinflation to persist in 2022, and raised its projection for the average inflation rate from 100% previously to 150% this year, as it anticipated the surging commodity prices as a result of Russia's invasion of Ukraine to exacerbate inflationary pressures in the country. It pointed out that more than 80% of Lebanon's wheat imports originated from Ukraine and Russia in 2021, and that Lebanon's wheat reserves are limited to about one month of domestic consumption. Also, it indicated that BdL still subsidizes wheat imports at the official exchange rate of LBP1507.5 per US dollar. As such, it noted that rising global wheat prices could further strain BdL's foreign currency reserves that stood at \$13bn at the end of January 2022.

In addition, it revised its forecast for the fiscal deficit from 7% of GDP to 3.5% of GDP for 2022, as it expected public spending to decline at a faster pace than the decrease in public revenues. It noted that the draft budget for 2022 projects a fiscal deficit of 2.3% of GDP for this year, following a narrowing of the deficit to 1.1% of GDP in 2021. It also forecast the current account deficit at 12% of GDP in 2022.

Further, it considered that the Lebanese authorities have the intention to unify the multiple exchange rates that prevail in the market, as this measure constitutes a key condition for a funded program with the IMF. It also anticipated authorities to address the restructuring of the public debt and of the banking sector as pre-requisites to secure financing from the Fund.

Banque du Liban requests update on banks' corporate governance practices

Banque du Liban (BdL) sent to banks operating in Lebanon Announcement 946 related to BdL Basic Decision 9382 dated July 26, 2006 about corporate governance at banks. BdL asked banks to answer a set of questions in order to identify the changes that took place in their corporate governance practices since the outbreak of the crisis in October 2019. It noted that members of the senior management who are in charge of corporate governance at each bank should answer the questionnaire. The survey covers the composition of the board of directors at banks, the functioning of the board, the role and responsibilities of the board of directors, the role of independent directors, the board's policies, the performance evaluation of the board of directors, and succession planning at the board level. In addition, the questionnaire covers the composition of board committees, and details about the Audit Committee, the Risk Committee, the Remuneration Committee, the Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) Committee, and other committees. Further, it asked a set of questions about senior management and the commitment to corporate governance, as well as about the control environment at banks.

The details of the survey inquires, among others, about the number of board members that left the board since October 2019, the reasons they left, and the number of new members who have joined the board since then. Also, it asks banks if they have reviewed the expected duties of individual board members and of the board collectively since the start of the crisis; if there were changes in the information provided to board members after the onset of the crisis; if the banks' risk management policies have been reviewed; and the expected duties or functions of the current independent members after the crisis. Further, it inquires if there has been any self-assessment or evaluation by major shareholders of the performance of the board before and during the crisis; the number of times the audit, risk, remuneration and AML/CFT committees met since 2017; and if the bank has a succession plan for key persons on the board and in senior management. In terms of senior management, the survey asked if banks implemented changes in their organizational structure since the crisis erupted, if the executive committees at banks are still active and functional, and/or if the function of these committees changed after the crisis. It also inquired if banks reviewed or updated their corporate governance code, and if they made changes to their internal audit, compliance, or risk management functions since the start of the crisis.

Consumer Price Index up 208% year-on-year in March 2022

The Central Administration of Statistics' Consumer Price Index increased by 220.2% in the first quarter of 2022 from the same period of 2021. In comparison, it grew by 153.7% and by 13% in the same quarters of 2021 and 2020, respectively.

The CPI rose by 208% in March 2022 from the same month of 2021, and registered its 21st consecutive triple-digit increase since July 2020. The cumulative surge in inflation is due in part to the inability of authorities to monitor and contain retail prices, as well as to the fluctuation of the Lebanese pound's exchange rate on the parallel market and the gradual lifting of subsidies on hydrocarbons, which have encouraged opportunistic wholesalers and retailers to raise the prices of consumer goods disproportionately. In addition, the smuggling of subsidized imported goods has resulted in shortages of these products locally, which contributed to the rise in prices. Further, the emergence of an active black market for gasoline during the summer has put upward pressure on prices and on inflation.

Transportation costs surged by 5.9 times in March 2022 from the same month of 2021, followed by healthcare costs (+5.4 times), the prices of food & non-alcoholic beverages and the prices of water, electricity, gas & other fuels (+4.9 times each), the rates at restaurants & hotels (+4.5 times), the prices of miscellaneous goods & services (+3.6 times), the cost of alcoholic beverages & tobacco (+3.1 times), the prices of clothing & footwear and of furnishings & household equipment (+2.8 times). In addition, the cost of recreation & entertainment jumped by 141% year-on-year in March 2022, followed by the cost of education (+36.2%), communication costs (+8.8%), imputed rent (+5.3%), and actual rent (+4.6%). Also, the distribution of actual rent shows that new rent grew by 6% and old rent increased by 2.7% in March 2022 from the same month of 2021.

In parallel, the CPI expanded by 6.1% in March 2022 from the previous month, compared to a month-on-month decline of 3.1% in February 2022 and a rise of 7.7% in January 2022. The prices of water, electricity, gas and other fuels increased by 10.6% month-on-month in March 2022, followed by the prices of food & non-alcoholic beverages (+9.7%), transportation costs (+9.6%), rates at restaurants & hotels (+8%), clothing & footwear prices (+7.7%), healthcare costs (+5.8%), the cost of miscellaneous goods & services (+4.4%), prices of furnishings & household equipment (+3.8%), the cost of recreation & entertainment and the prices of alcoholic beverages & tobacco (+2.5% each), imputed rent (+1.3%), communication costs (+0.9%), and actual rent (+0.6%). Also, the cost of education was unchanged in March 2022 from the preceding month.

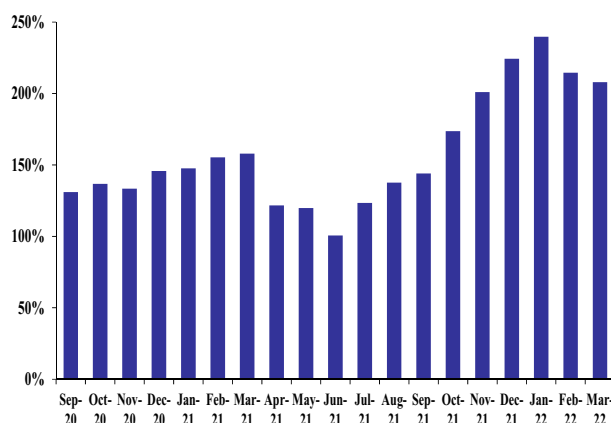
Further, the CPI increased by 10.2% in the South, by 9.8% in the Nabatieh, by 7.6% in the Bekaa, by 5.6% in the North, by 5.1% in Beirut, and by 5% in Mount Lebanon, during March 2022 from the previous month. In parallel, the Education Price Index was unchanged from the previous month, while the Fuel Price Index rose by 25.2% month-on-month in March 2022.

Banque du Liban extends implementation of Circular 161 for one additional month

Banque du Liban (BdL) issued on April 27, 2022 Intermediate Circular 619 addressed to banks that extends until May 31, 2022 the clauses of Circular 161 dated December 16, 2021 about exceptional measures related to cash withdrawals from accounts at commercial banks in Lebanon. Circular 161 stipulated that BdL will provide banks with US dollar banknotes instead of supplying them with Lebanese pound banknotes, at the daily exchange rate of the Lebanese pound to the dollar, based on the operations conducted on BdL's Sayrafa electronic exchange platform on the previous day. It added that the supply of the dollar banknotes will consist of the preset monthly ceiling for each bank.

Also, BdL asked all banks to disburse the dollar banknotes in full to their clients at the Sayrafa exchange rate as specified, instead of settling the depositors' withdrawal amounts or cash operations at counters in Lebanese pounds, based on the authorized ceiling for each client. Further, it noted that clients can submit a written request in case they do not want to withdraw their monthly ceiling in US dollars. But the banks' quotas have been insufficient to meet the dollar amounts for the withdrawals of depositors, which prompted BdL to issue a follow up decision on January 11, 2022 that authorized banks to purchase US dollar banknotes from the latter with the Lebanese pounds that they hold, or from their clients' holdings of Lebanese pounds banknotes, at the exchange rate of the dollar on BdL's Sayrafa electronic exchange platform. This constitutes the fifth extension of Circular 161, as the latter was originally set to expire at the end of 2021, but BdL extended its clauses until the end of December 2021, then until the end of January of this year, the end of February, the end of March and the end of April 2022, with the possibility of further extensions.

Annual Change in CPI (%)

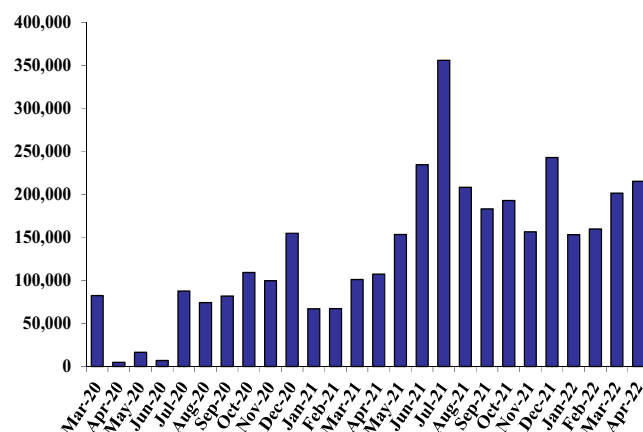


Source: Central Administration of Statistics, Byblos Research

Number of airport passengers up 96% in first four months of 2022

Figures released by the Beirut-Rafic Hariri International Airport (HIA) show that 1.5 million passengers utilized the airport (arrivals, departures and transit) in the first four months of 2022, constituting a surge of 96% from 765,820 passengers in the same period of 2021, and relative to 1.17 million passengers in the first four months of 2020. The increase in the number of airport passengers in the four months of 2022 is due to the resumption of normal activity following the imposition of strict lockdown measures in the country in the first quarter of 2021 to contain the spread of the coronavirus. The number of arriving passengers reached 729,965 in the first four months of 2022 and jumped by 113% from 342,904 passengers in the same period of 2021, compared to 540,380 travelers in the same period of 2020. Also, the number of departing passengers totaled 763,619 in the first four months of 2022 and increased by 87.5% from 407,357 travelers in the same period of last year, relative to 617,700 passengers in the first four months of 2020.

Number of Arriving Passengers



Source: Beirut-Rafic Hariri International Airport

In parallel, the airport's aircraft activity totaled 13,870 take-offs and landings in the first four months of the year, representing a rise of 55.7% from 8,911 takeoffs and landings in the same period of last year. In comparison, aircraft activity decreased by 21.3% in the first four months of 2021 and declined by 47.3% in the same period of 2020.

In addition, the HIA processed 18,066 metric tons of freight in the first four months of 2022 that consisted of 9,006 tons of import freight and 9,060 tons of export freight. Middle East Airlines had 5,046 flights in the covered period and accounted for 36.4% of HIA's total aircraft activity.

Lebanon represented in *Forbes* magazine's list of world billionaires

Forbes magazine's annual survey of the world's billionaires for 2022 included six persons from Lebanon, unchanged from the 2021 survey. The list included three family members of the late Prime Minister Rafiq Hariri, two members of the Mikati family, and one member from the Mouawad family. The survey ranked Prime Minister Najib Mikati and Mr. Taha Mikati in 951st place each, up from 1249th place in the 2021 survey, with an estimated net worth of \$3.2bn for each one of them, compared to \$2.5bn each last year. Mr. Bahaa Hariri followed in 1445th place, up from 1580th place in 2021, with a net wealth of \$2.1bn compared to \$2bn a year earlier. Further, Mr. Robert Mouawad ranked in 1929th place, up from 2141st place in the 2021 survey, with an estimated net worth of \$1.5bn relative to \$1.4bn in last year's survey. Mr. Ayman Hariri came in 2076th place, up from 2663rd place in the 2021 survey, with an estimated net worth of \$1.4bn compared to \$1.3bn in last year's survey, while Mr. Fahd Hariri ranked in 2324th place, up from 2524th place in 2021, with a net worth of \$1.2bn relative to \$1.1bn in the previous year. The survey ranks individuals according to their assets, including stakes in public and private companies, real estate, art and cash.

The survey indicated that the Mikati brothers made their fortune mainly in the telecommunications sector. It said that Mr. Bahaa Hariri made his money mostly from real estate and investments, while Mr. Robert Mouawad generated his fortune mainly in the jewelry sector. Also, it noted that Mr. Ayman Hariri and Mr. Fahd Hariri made their money in the constructions sector and from investments. The 2022 list included 2,668 individuals compared to a record-high of 2,755 billionaires in the 2021 survey. It indicated that their aggregate net worth reached \$12.7 trillion, down from a peak of \$13.1 trillion in 2021. The average net worth per billionaire stood at \$4.76bn in this year's survey relative to \$4.75bn in 2021.

Select Billionaires of Lebanese Descent on *Forbes*' 2022 list of the World's Richest People

| | Rank | Worth (\$bn) | Trend* | Source | Country |
|----------------------------|------|--------------|--------|-----------|---------------|
| Carlos Slim Helu & family | 13 | 81.2 | Up | Telecom | Mexico |
| Rodolphe Saadé & family | 31 | 41.4 | Up | Shipping | France |
| George Joseph | 1645 | 1.8 | Down | Insurance | United States |
| Alfredo Harp Helu & family | 2190 | 1.3 | Up | Banking | Mexico |

*in net worth

Source: *Forbes* magazine, Byblos Research

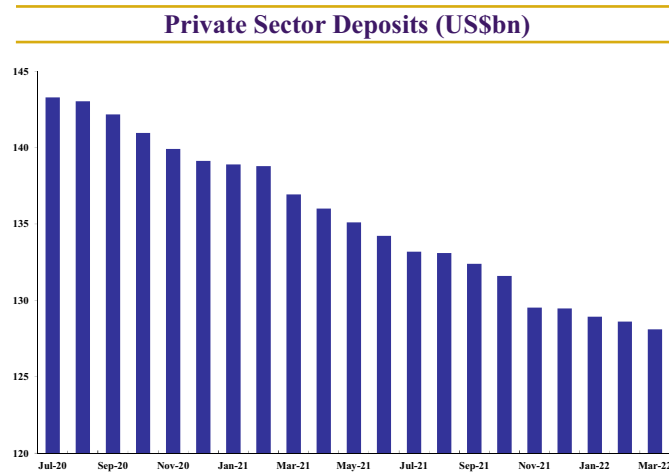


Corporate Highlights

Private sector deposits down \$46.2bn since start of 2019

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets stood at \$172.7bn at the end of March 2022, constituting declines of 1.2% from \$174.8bn at the end of 2021 and of 7.3% from \$186.3bn at end-March 2021. The dollar figures are based on the official exchange rate of the Lebanese pound to the US dollar.

Loans extended to the private sector reached \$26bn at the end of March 2022 and decreased by 6.3% in the first quarter of 2022 and by 24% from a year earlier. Loans to the resident private sector totaled \$23.2bn, constituting decreases of 6.6% from the end of 2021 and of 23.6% from end-March 2021. Also, credit to the non-resident private sector amounted to \$2.7bn at the end of March 2022, and contracted by 3.6% from the end of 2021 and by 28% from the end of March 2021.



Source: Banque du Liban, Byblos Research

In nominal terms, credit to the private sector regressed by \$1.75bn in the first quarter of 2022 relative to a decrease of \$2bn in the same period of 2021, as lending to the resident private sector declined by \$1.65bn and credit to the non-resident private sector retreated by \$102.2m in the covered period. Further, loans extended to the private sector contracted by \$33.4bn since the start of 2019, with loans denominated in Lebanese pounds shrinking by LBP10,105bn and loans denominated in foreign currency dropping by \$26.7bn. The dollarization rate of private sector loans regressed from 59.2% at end-March 2021 to 55.4% at the end of March 2022. The average lending rate in Lebanese pounds was 5.58% in March 2022 compared to 8.02% a year earlier, while the same rate in US dollars was 5.72% relative to 7.14% in March 2021.

In addition, claims on non-resident financial institutions reached \$4.1bn at the end of March 2022, constituting a decrease of \$502.5m (-10%) in the first quarter of 2022 and a decline of \$802m (-16.4%) from a year earlier. Also, claims on non-resident financial institutions decreased by \$5bn (-55.3%) from the end of August 2019 and by \$7.9bn (-66%) since the start of 2019. Further, deposits at foreign central banks totaled \$1.1bn, constituting increases of \$77.4m (+7.5%) in the first quarter of 2022 and of \$467m (+72.2%) from a year earlier. In addition, the banks' claims on the public sector stood at \$15.4bn at end-March 2022, down by \$1.35bn (-8.1%) in the first quarter of the year, by \$4.9bn (-24.2%) from the end of March 2021 and by \$9.7bn (-38.8%) from end-March 2020. The banks' holdings of Lebanese Treasury bills stood at \$10.65bn, while their holdings of Lebanese Eurobonds reached \$4.5bn at end-March 2022. Further, the deposits of commercial banks at Banque du Liban (BdL) totaled \$110bn at end-March 2022, up by \$1bn (+1%) from \$109bn at end-2021 and down by \$10m (-0.01%) from \$110.02bn at the end of March 2021.

In parallel, private sector deposits totaled \$128.1bn at the end of March 2022 and regressed by 1.1% in the first quarter of 2022 and by 6.5% from end-March 2021. Deposits in Lebanese pounds reached the equivalent of \$27.3bn at end-March 2022, as they increased by 2.5% from the end of 2021 and by 1% from a year earlier; while deposits in foreign currency reached \$100.8bn, and regressed by 2% from end-2021 and by 8.3% from the end of March 2021. Resident deposits totaled \$104bn at the end of March 2022 and retreated by \$917.2m (-1%) from the end of 2021, while non-resident deposits reached \$24.1bn at end-March 2022, down by \$450.4m (-1.8%) in the first quarter of the year. Resident deposits in Lebanese pounds stood at LBP38,156.8bn, or the equivalent of \$25.3bn at end-March 2022, constituting an increase of LBP1,057.6bn, or \$701.6m (2.9%) in the first quarter of the year, while those in foreign currency totaled \$78.7bn at end-March 2022 and decreased by \$1.6bn (2%) in the covered period. Non-resident deposits in Lebanese pounds and in foreign currency declined by 2% and 1.8%, respectively, in the first quarter of 2022.

Private sector deposits declined by \$1.4bn in the first quarter of 2022, with deposits in Lebanese pounds increasing by the equivalent of \$660.6m and foreign currency deposits shrinking by \$2bn. Private sector deposits regressed by \$535m in January, by \$319.6m in February, and by \$512.9m in March 2022. In comparison, private sector deposits declined by \$227m in January, by \$60.7m in February, and by \$1.9bn in March 2021. In addition, private sector deposits dropped by \$15.4bn in 2019 and by \$19.7bn in 2020, including a decrease of \$10.7bn between September and December 2019. As such, aggregate private sector deposits contracted by \$46.2bn since the start of 2019, with deposits in Lebanese pounds shrinking by \$23.9bn and foreign currency deposits declining by \$22.3bn. The decrease is due largely to the repayment of loans by companies and individuals, to the hoarding of cash at households, to banks and companies paying their foreign obligations, and to deposit outflows. The dollarization rate of private sector deposits was 78.7% at end-March 2022, relative to 79.4% at the end of 2021 and to 80.2% a year earlier.

Further, the liabilities of non-resident financial institutions reached \$4.4bn at the end of March 2022 and fell by 25.7% from \$6bn at the end of March 2021. Also, the average deposit rate in Lebanese pounds was 0.87% in March 2022 compared to 1.96% a year earlier, while the same rate in US dollars was 0.16% relative to 0.52% in March 2021. The ratio of private sector loans to deposits in foreign currency stood at 14.3% at the end of March 2022 compared to 18.4% a year earlier, well below BdL's limit of 70%. The same ratio in Lebanese pounds reached 42.4% at end-March 2022, down from 51.5% at end-March 2021. As such, the total private sector loans-to-deposits ratio reached 20.3% at end-March 2022 compared to 25% a year earlier. The banks' aggregate capital base stood at \$16.2bn at the end of March 2022, down by \$1.6bn (-8.8%) from \$17.8bn at the end of 2021.

Stock market capitalization up 12.5% to \$10.6bn at end-April 2022

Figures released by the Beirut Stock Exchange (BSE) indicate that the trading volume reached 5.6 million shares in the first four months of 2022, constituting a decrease of 56.7% from 13 million shares traded in the same period of 2021; while aggregate turnover amounted to \$81.2m and declined by 17% from a turnover of \$98m in the first four months of 2021. The market capitalization of the BSE reached \$10.6bn on the last trading day of April 2022, representing an increase of 12.5% from \$9.4bn at the end of April 2021, with real estate equities accounting for 57% of the total, followed by banking stocks (38.3%), industrial shares (4.4%), and trading firms' equities (0.4%). The market liquidity ratio was 0.8% at the end of April 2022 compared to 1% a year earlier.

Banking stocks accounted for 58.2% of the trading volume in the first four months of 2022, followed by real estate equities (40.7%), and industrial shares (1.1%). Also, real estate equities accounted for 90.5% of the aggregate value of shares traded, followed by banking stocks (8.8%), and industrial shares (0.7%). The average daily traded volume for the first four months of 2022 was 72,928 shares for an average daily amount of \$1.1m. The figures represent a drop of 65% in the average daily traded volume and a decline of 33.3% in the average daily value in the covered period.

In parallel, the Capital Markets Authority's (CMA) Market Value-Weighted Index for stocks traded on the BSE increased by 35% in the first four months of 2022, while the CMA's Banks Market Value-Weighted Index regressed by 14% in the covered period. The increase in the Market Value-Weighted Index is mainly due to the rise in the prices of Solidere 'A' and Solidere 'B' shares by 12.7% and 8.8%, respectively, and to the increase in the price of Ciments Blancs shares by 13.8%, from the end of 2021.

Byblos Bank registers losses of LBP66bn in first quarter of 2022

Byblos Bank sal declared unaudited net losses of LBP65.6bn (\$43.5m) in the first quarter of 2022, compared to unaudited net profits of LBP1.3bn (\$0.88m) in the same period last year. The dollar figures are based on the official exchange rate of the Lebanese pound to the US dollar. The Bank's net interest income reached LBP278.6bn in the first quarter of the year compared to LBP268bn in the same period of 2021, while its net earnings from fees & commissions stood at -LBP65.4bn in the first quarter of 2022 compared to LBP24.9bn in the first quarter of 2021, mainly due to fees and commission expenses of LBP99.1bn that outweighed fees and commission income of LBP33.7bn. Also, the Bank's net operating income totaled LBP71.4bn (\$47.4m) in the first quarter of 2022 relative to LBP118.3bn (\$78.4m) in the same period of 2021. Further, the Bank's operating expenditures reached LBP112.6bn (\$74.7m) in the first quarter of 2022, relative to LBP79bn (\$52.4m) in the first quarter of 2021, with personnel cost accounting for 35.8% of the total.

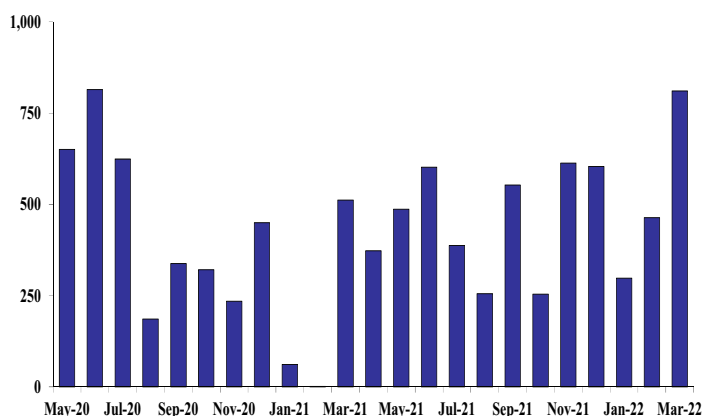
Also, Byblos Bank's aggregate assets reached LBP25,741.2bn (\$17.1bn) at the end of March 2022 and regressed by 0.9% from LBP25,987.8bn (\$17.2bn) at end-2021. Net loans & advances to customers totaled LBP2,690bn (\$1.78bn) at the end of March 2022 compared to LBP2,816bn (\$1.87bn) at end-2021, while net loans & advances to related parties reached LBP12.4bn (\$8.2m) relative to LBP10.8bn (\$7.2m) at end-2021. Further, customer deposits stood at LBP19,638.6bn (\$13bn) at the end of March 2022, down by LBP131.5bn (\$87.2m) or by 0.7% from LBP19,770bn (\$13.1bn) at end-2021. In parallel, the Bank's equity was LBP2,596.7bn (\$1.72bn) at the end of March 2022, and decreased by 2.6% from LBP2,666.1bn (\$1.76bn) at the end of 2021.

New car sales down 80% in first quarter of 2022

Figures released by the Association of Automobile Importers (AIA) in Lebanon show that dealers sold 1,573 new passenger cars in the first quarter of 2022, constituting a drop of 80% from 7,645 automobiles sold in the same period of 2018, the most recent year of normal economic activity in the country. In comparison, dealers sold 5,926 vehicles in the first quarter of 2019, and a total of 2,918 automobiles in the first quarter of 2020 and 2021 combined.

Individuals and institutional clients purchased 298 new cars in January, 464 new vehicles in February, and 811 new cars in March 2022, compared to 2,489 new automobiles sold in January, 2,255 new cars in February and 2,901 new vehicles in March 2018. Further, the association stopped releasing its monthly data on car sales by brand, distributor and source country since January 2020.

Number of New Passenger Cars Sold



Source: Association of Automobile Importers

The market for new passenger cars in Lebanon has been facing increasing challenges in the past few years, including the contraction in economic activity, job insecurity and, more recently, the shortage of foreign currency liquidity in the local market, the emergence of a parallel exchange rate market, the reduced purchasing power of consumers, and a very low level of household confidence. In addition, the government's decision to modify the exchange rate at customs for certain imported goods in the 2022 budget draft, including new vehicles, will lead to a sharp increase in car registration fees, which will add to the challenges facing the sector. The AIA considered that a large number of car dealerships could shut down and lay off their employees.



Ratio Highlights

| (in % unless specified) | 2019 | 2020 | 2021 | Change* |
|--|--------|--------|--------|---------|
| Nominal GDP (\$bn) | 51.0 | 26.5 | 22.3 | (4.1) |
| Public Debt in Foreign Currency / GDP | 63.0 | 52.1 | - | - |
| Public Debt in Local Currency / GDP | 108.1 | 86.0 | - | - |
| Gross Public Debt / GDP | 171.1 | 138.1 | 242.6 | 104.5 |
| Trade Balance / GDP | (29.0) | (11.2) | (23.1) | (11.9) |
| Exports / Imports | 19.4 | 31.3 | 47.7 | 16.4 |
| Fiscal Revenues / GDP | 20.7 | 14.7 | 8.1 | (6.6) |
| Fiscal Expenditures / GDP | 31.6 | 18.6 | 11.9 | (6.7) |
| Fiscal Balance / GDP | (10.9) | (3.9) | (3.8) | 0.1 |
| Primary Balance / GDP | (0.5) | (0.9) | (1.8) | (0.9) |
| Gross Foreign Currency Reserves / M2 | 70.2 | 41.5 | 26.0 | (15.5) |
| M3 / GDP | 251.2 | 191.7 | 89.4 | (102.3) |
| Commercial Banks Assets / GDP | 404.8 | 271.7 | 117.2 | (154.4) |
| Private Sector Deposits / GDP | 296.6 | 201.0 | 86.8 | (114.3) |
| Private Sector Loans / GDP | 92.9 | 52.3 | 18.6 | (33.7) |
| Private Sector Deposits Dollarization Rate | 76.0 | 80.4 | 79.4 | (1.0) |
| Private Sector Lending Dollarization Rate | 68.7 | 59.6 | 56.3 | (3.3) |

*change in percentage points 21/20;

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

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

National Accounts, Prices and Exchange Rates

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

Source: Institute of International Finance- September 2021

Ratings & Outlook

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

Source: Rating agencies

| Banking Sector Ratings | Outlook |
|---------------------------|----------|
| Moody's Investors Service | Negative |

Source: Moody's Investors Service



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