

## LEBANON THIS WEEK

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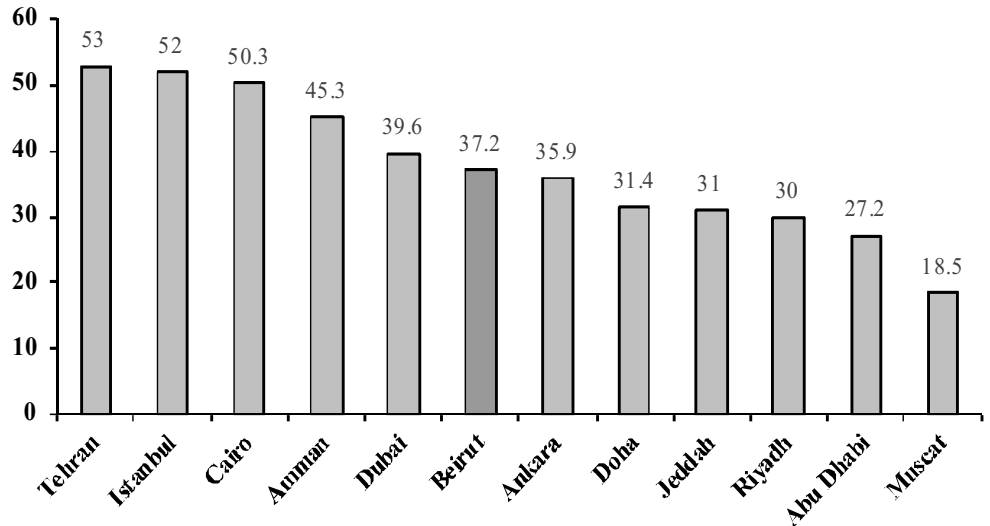
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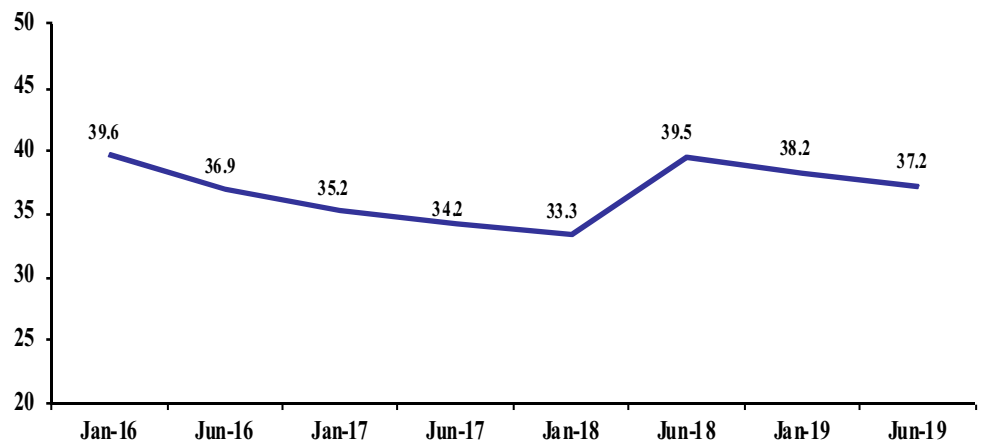
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### Charts of the Week

Traffic Commute Time Index in Select Cities in the Middle East\*



Evolution of Traffic Commute Time Index in Beirut\*



\*Higher score reflects higher traffic commute time

Source: Numbeo's mid-2019 Quality of Life Index, Byblos Bank

### Quote to Note

"The International Support Group welcomes the government's intention to expeditiously begin preparations for adopting its 2020 budget so that the process concludes in a timely and fiscally-responsible manner."

*The International Support Group for Lebanon, on the need to respect the constitutional deadlines for the 2020 budget*

### Number of the Week

**\$12.45bn:** Lebanon's current account deficit in 2018, according to Banque du Liban

## Lebanon in the News

\$m (unless otherwise mentioned)	2018	Jan-May 2018	Jan-May 2019	% Change*	May-18	Apr-19	May-19
Exports	2,952	1,324	1,446	9.20	254	266	324
Imports	19,980	7,964	8,762	10.02	1,591	1,357	2,456
Trade Balance	(17,028)	(6,640)	(7,316)	10.18	(1,337)	(1,091)	(2,132)
Balance of Payments	(4,823)	430	(5,186)	-	1,204	(1,300)	(1,882)
Checks Cleared in LBP	22,133	8,951	8,732	(2.5)	1,725	1,633	1,623
Checks Cleared in FC	44,429	18,742	14,680	(21.7)	3,841	2,802	2,531
Total Checks Cleared	66,562	27,693	23,412	(15.5)	5,566	4,435	4,154
Fiscal Deficit/Surplus**	(6,246)	(1,914)	(1,380)	(27.9)	(1,008)	(411)	-
Primary Balance**	(636)	(365)	23	-	11	(7)	-
Airport Passengers***	8,842,442	3,058,157	3,139,690	2.67	598,602	817,121	572,876
Consumer Price Index****	6.1	5.7	3.6	(210bps)	6.5	4.0	3.5

\$bn (unless otherwise mentioned)	Dec-17	May-18	Dec-18	Mar-19	Apr-19	May-19	% Change*
BdL FX Reserves	35.81	34.65	32.51	31.09	31.53	29.72	(14.23)
In months of Imports	18.57	21.78	20.72	14.26	23.23	12.10	(44.44)
Public Debt	79.53	82.50	85.14	86.22	85.84	85.37	3.48
Bank Assets	219.86	232.29	249.48	252.75	253.51	253.63	9.19
Bank Deposits (Private Sector)	168.66	172.38	174.28	172.52	172.71	170.85	(0.89)
Bank Loans to Private Sector	59.69	59.45	59.39	57.33	56.97	56.32	(5.27)
Money Supply M2	52.51	53.77	50.96	50.40	49.95	49.23	(8.45)
Money Supply M3	138.62	140.49	141.29	140.20	140.18	139.33	(0.86)
LBP Lending Rate (%)	8.09	8.65	9.97	10.58	10.74	10.75	210bps
LBP Deposit Rate (%)	6.41	6.71	8.30	8.75	8.60	8.72	201bps
USD Lending Rate (%)	7.67	7.87	8.57	9.31	9.34	9.54	167bps
USD Deposit Rate (%)	3.89	4.11	5.15	5.69	5.68	5.79	168bps

\*year-on-year \*\*year-to-date figures reflect results for first four months of each year \*\*\*includes arrivals, departures, transit \*\*\*\*year-on-year percentage change

Note: bps i.e. basis points

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

## Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization
Byblos Common	1.20	0.00	225,994	8.15%
Solidere "A"	6.21	(5.19)	169,836	7.45%
Audi GDR	3.95	2.33	75,994	5.69%
Audi Listed	3.85	(0.26)	53,111	18.47%
Solidere "B"	6.15	(5.24)	43,996	4.80%
BLOM GDR	7.40	(2.50)	1,000	6.56%
Byblos Pref. 08	65.00	0.00	-	1.56%
HOLCIM	11.50	0.00	-	2.69%
BLOM Listed	7.99	0.00	-	20.62%
Byblos Pref. 09	68.60	0.00	-	1.65%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Mar 2020	6.38	97.50	10.68
Apr 2021	8.25	94.25	12.07
Oct 2022	6.10	86.00	11.47
Jun 2025	6.25	80.13	10.92
Nov 2026	6.60	79.13	10.79
Feb 2030	6.65	77.00	10.26
Apr 2031	7.00	77.25	10.40
May 2033	8.20	85.62	10.16
Nov 2035	7.05	76.38	10.02
Mar 2037	7.25	77.50	9.98

Source: Byblos Bank Capital Markets

	Jul 22-26	Jul 15-19	% Change	June 2019	June 2018	% Change
Total shares traded	570,391	250,594	127.6	1,693,147	5,778,738	(70.7)
Total value traded	\$2,166,183	\$1,763,690	22.8	\$7,832,924	\$39,079,303	(80.0)
Market capitalization	\$8.33bn	\$8.39bn	(0.74)	\$8.58bn	\$10.43bn	(17.8)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Jul 19, 2019	Jul 26, 2019	% Change**
CDS 1-year*	920.02	901.94	(2.0)
CDS 3-year*	955.28	955.27	0.0
CDS 5-year*	926.51	934.31	0.8

Source: ICE CMA; \*mid-spread in bps \*\*week-on-week

CDX EM 30*	Jul 19, 2019	Jul 26, 2019	% Change***
CDS 5-year**	97.52	97.65	0.1

Source: ICE CMA; \* CDX Emerging Market CDS Index-Series 30

\*\*mid-spread in bps \*\*\*week-on-week

### Consumer confidence declines in second quarter of 2019

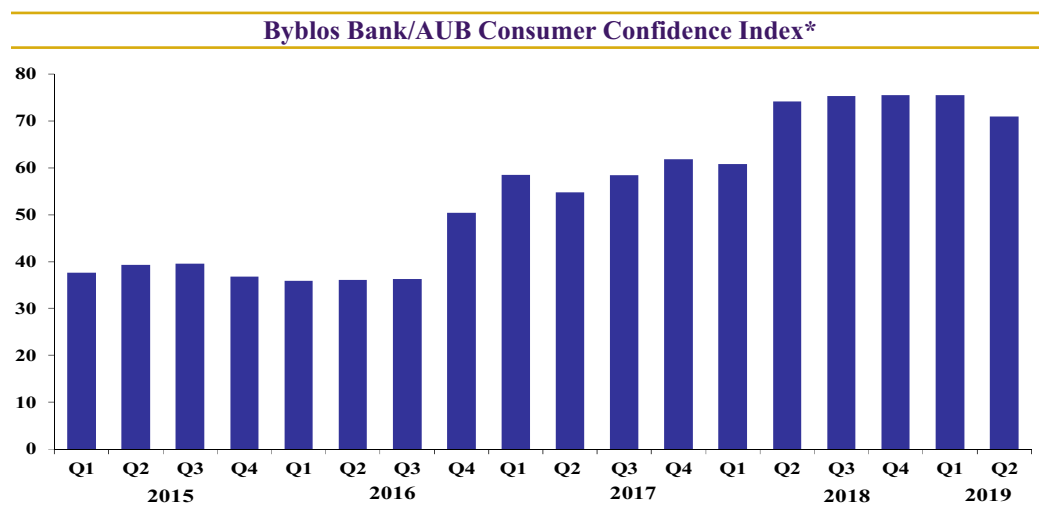
The results of the Byblos Bank/AUB Consumer Confidence Index for the second quarter of 2019 show that the Index regressed by 11% in April 2019 from the preceding month, while it increased by 2.8% in May and by 3.2% in June 2019. Further, the Index averaged 70.9 in the second quarter of 2019 and declined by 6.1% from 75.5 in the first quarter of 2019 and by 4.3% from 74.2 in the same quarter of 2018. Further, the Byblos Bank/AUB Present Situation averaged 61.9 in the second quarter of 2019 and decreased by 7% from the preceding quarter, while the Byblos Bank/AUB Expectations Index averaged 77 and regressed by 5.6% from the first quarter of 2019. In addition, the average monthly score of the Index in the second quarter of 2019 was 33% lower than the quarterly peak score of 105.8 registered in the fourth quarter of 2008, and remained 26.6% below the annual peak of 96.7 reached in full year 2009.

Household sentiment regressed in the second quarter of 2019, as citizens realized that the so-called reform measures in the 2019 budget consist of another wave of tax and fee increases that will end up reducing their disposable income and purchasing power. In fact, Lebanese citizens have come to expect that the authorities' concept of reforms usually translates into repeated and arbitrary increases in taxes and fees, given the massive tax increases that went into effect at the start of 2018 and the upcoming tax hikes, instead of the authorities taking genuine reform measures to improve the standard of living of citizens. As such, households remain skeptical about the seriousness of the government and the political class to deliver the reforms that would improve their quality of living and economic well-being in order to sustain their confidence level.

The results of the Byblos Bank/AUB Consumer Confidence Index for the second quarter of 2019 show that female consumers had a higher level of confidence than their male counterparts, and consumers in the 21 to 29 year-old bracket posted the highest confidence level relative to citizens in other age brackets during the covered quarter. Also, households with an income of USD 2,500 or more per month continued to be more confident than those earning less. Moreover, public sector employees were more optimistic than private sector employees, the self-employed, housewives and the unemployed during the second quarter of the year, while students were the most optimistic segment overall.

In addition, the confidence level of residents in the Bekaa region regressed by 11.5% in the second quarter of 2019 from the preceding quarter, followed by households in the South (-9.4%), the North (-6.3%) and Mount Lebanon (-4.1%); while the sentiment of residents in Beirut increased by 2.6% in the covered quarter. Also, the sentiment of residents in the Bekaa region was the highest among all geographic regions during the second quarter of 2019, followed by households in the North, Mount Lebanon, the South and Beirut. Further, the confidence level of Druze households regressed by 14.7% quarter-on-quarter in the second quarter of 2019, followed by the sentiment of Sunni households (-5.8%), Christian households (-5.2%) and Shiite households (-4.5%). Also, Shiite households registered the highest level of confidence in the second quarter of 2019, followed by Druze, Christian and Sunni households.

The Byblos Bank/AUB Consumer Confidence Index is a measure of the sentiment and expectations of Lebanese consumers toward the economy and their own financial situation. The Index is compiled, implemented and analyzed in line with international best practices and according to criteria from leading consumer confidence indices worldwide. It is composed of two sub-indices, the Byblos Bank/AUB Present Situation Index and the Byblos Bank/AUB Expectations Index. The first sub-index covers the current economic and financial conditions of Lebanese consumers, and the second one addresses their outlook over the coming six months. In addition, the data segregates the Index based on age, gender, income, profession, geographical region, and religious affiliation. The Byblos Bank Economic Research and Analysis Department has been calculating the Index on a monthly basis since July 2007, with January 2009 as its base month. The Index is based on a face-to-face monthly survey of a nationally representative sample of 1,200 males and females living throughout Lebanon. The monthly field survey is conducted by Statistics Lebanon Ltd, a market research and opinion-polling firm.



\* Quarterly Average Score

Source: Byblos Bank Economic Research & Analysis Department, based on surveys conducted by Statistics Lebanon



### Lebanon ranks 88<sup>th</sup> globally, 10<sup>th</sup> among Arab countries in terms of innovation

The 2019 Global Innovation Index ranked Lebanon in 88<sup>th</sup> place among 129 countries around the world and in 10<sup>th</sup> place among 13 Arab countries. Lebanon also came in 30<sup>th</sup> place among 37 upper middle-income countries (UMICs) included in the survey. In comparison, Lebanon ranked in 90<sup>th</sup> place among 126 countries worldwide and in 10<sup>th</sup> place among 13 Arab economies in the 2018 survey.

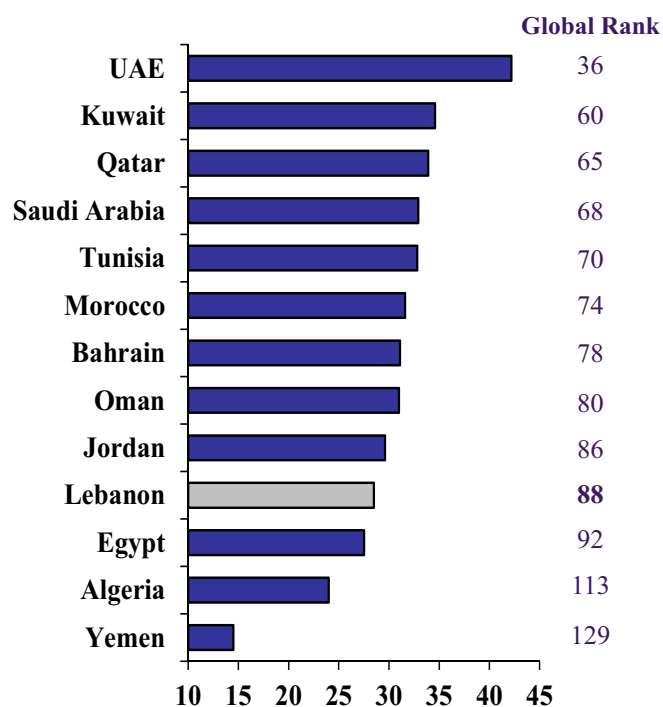
The index measures innovation in a broad sense and covers scientific, social and business innovation. It aims to provide the tools that can assist stakeholders in tailoring policies to promote long-term economic growth, improve innovation and support job creation. The index is a composite of 80 variables that are grouped in two sub-indices, the Innovation Input Sub-Index and the Innovation Output Sub-Index. The score of the Global Innovation Index is the simple average of the Input and Output Sub-Index scores. The survey rates the innovation level of each country on a scale from zero to 100, with a score of 100 reflecting the most innovative economy. The countries included in the index represent 91.8% of the world's population and 96.8% of global GDP. The index is co-published by the INSEAD Business School, Cornell University and the World Intellectual Property Organization.

Globally, Lebanon has a higher innovation level than Sri Lanka, Kyrgyzstan and Trinidad & Tobago, and is less innovative than Indonesia, Jordan and the Dominican Republic. Also, it is more innovative than Sri Lanka, Botswana, Paraguay, Ecuador, Namibia, Guatemala and Algeria among UMICs. Lebanon received a score of 28.5 points, which is below the global average score of 36.3 points, the UMICs' average of 33.2 points and the Arab average of 30.3 points. Also, its score came below the Gulf Cooperation Council (GCC) countries' average score of 34.3 points, but it was above the average of non-GCC Arab countries of 26.9 points. Switzerland has the highest innovation level worldwide, while Yemen is the least innovative country globally.

In parallel, Lebanon ranked ahead of Nepal, Sri Lanka and Paraguay, and came behind Kenya, the Dominican Republic and Jordan globally on the Innovation Input Sub-Index. This category covers the elements of the national economy that enable innovative activities, such as institutions, human capital & research, infrastructure, market sophistication, and business sophistication. Lebanon also ranked ahead of Algeria, Egypt and Yemen among Arab countries.

Further, Lebanon came ahead of Tajikistan, Cambodia and Saudi Arabia, while it ranked behind Bosnia & Herzegovina, Ethiopia and Senegal globally on the Innovation Output Sub-Index. This category reflects the results of innovative activities within the economy such as technology, knowledge and creativity. Also, Lebanon came ahead of Saudi Arabia, Bahrain, Oman, Algeria and Yemen in the Arab region.

**Global Innovation Index for 2019  
Arab Countries Scores & Rankings**



Source: INSEAD, Cornell University, WIPO, Byblos Research

**Components of the 2019 Global Innovation Index for Lebanon**

	Global Rank	Arab Rank	UMIC Rank	Lebanon Score	Global Avg Score	Arab Avg Score	UMIC Avg Score
<b>Innovation Input</b>	<b>92</b>	<b>10</b>	<b>31</b>	<b>37.1</b>	<b>45.4</b>	<b>40.5</b>	<b>42.7</b>
Institutions	102	9	31	51.8	65.1	57.1	61.3
Human Capital & Research	82	10	27	25.3	32.1	31.3	29.4
Infrastructure	93	11	32	37.1	46.0	45.2	44.7
Market Sophistication	95	8	29	41.8	49.0	43.9	47.7
Business Sophistication	75	4	22	29.3	34.6	25.0	30.5
<b>Innovation Output</b>	<b>82</b>	<b>8</b>	<b>24</b>	<b>20</b>	<b>27.3</b>	<b>20.1</b>	<b>23.6</b>
Knowledge & Technology Outputs	109	10	31	13.5	25.5	17.2	21.0
Creative Outputs	68	4	18	26.5	29.0	23.1	26.3

Source: INSEAD, Cornell University, WIPO, Byblos Research



### **Fiscal consolidation and pick-up in deposits are positive for Lebanon**

Global investment bank Morgan Stanley considered that the significant narrowing of Lebanon's fiscal deficit in the first four months of 2019 and the recent pick-up in deposit growth are positive developments for the Lebanese economy. It noted that a significant recovery in deposits would strengthen the banks' ability to rollover sovereign debt, while successful fiscal consolidation would reduce the government's funding needs.

First, it indicated that the fiscal deficit narrowed by 28% year-on-year to LBP2.1 trillion, or \$1.4bn, in the first four months of 2019, which is equivalent to a deficit of nearly 7.5% of GDP on an annualized basis. It also noted that the primary balance shifted from a deficit of \$365m in the first four months of last year to a surplus of \$23m in the same period of 2019. It pointed out that fiscal consolidation, which has been on the expenditures side, increases investor confidence about the execution of the 2019 budget that targets a fiscal deficit of 7.45% of GDP. It added that the confidence of investors and expatriates would further strengthen in case the fiscal results in the first four months of 2019 and the Parliament's recent enactment of the 2019 budget help unlock part of the CEDRE-related funds.

Second, it pointed out that Banque du Liban's (BdL) high frequency indicators show that resident deposits in foreign currency increased by \$1.1bn between the end of May, when the Cabinet approved the 2019 draft budget, and early July 2019. It noted that the increase in foreign currency deposits constitutes a shift from the period of deposit outflows that prevailed until the end of May. In addition, it said that the rise in foreign currency deposits helped BdL increase its assets in foreign currency by nearly \$630m in the first half of July 2019, which alleviates near-term liquidity concerns. It considered that the Parliament's enactment of the 2019 budget should also accelerate deposit growth from the Lebanese Diaspora in the banking sector.

In parallel, Morgan Stanley considered that, despite positive fundamentals, the yields on Lebanese Eurobonds remain elevated. But it added that this is "understandable" and is due in part to the prevailing tensions between the United States and Iran. However, it anticipated that easing geopolitical tensions or expectations of disbursements of CEDRE-related funds would lead to a rally in the prices of Lebanese Eurobonds.

### **Banque du Liban issues circular to improve tax compliance**

Banque du Liban (BdL) issued Intermediate Circular 521 on July 18, 2019 that amends Basic Circular 81 dated February 21, 2001 about the operations of financial institutions that are related to credit, investment, shareholding and participation. The circular prohibited banks and financial institutions from extending or renewing credit facilities to an institution or a company that generates an annual turnover of LBP1.5bn or more, unless the firm fulfills two conditions. First, the company has to submit to the bank its audited balance sheet, income statement and cash flow statement, which the bank will use to assess the firm's credit profile. Second, the circular stipulates that the financial statements that a firm submits to the bank should be identical to the ones submitted to the tax authorities.

The circular indicated that banks and financial institutions have until the end of September 2020 to comply with the new requirements. It added that banks and financial institutions should ask existing clients to immediately pay the amount of their outstanding credit facilities, if these clients fail to regularize their files by the September 2020 deadline. In case a firm does not comply with the bank's request to settle its outstanding credit facilities, the bank will have to place at BdL an amount equivalent to the credit facilities of the firm. This amount has to be denominated in the same currency as the credit facility and will be placed in a blocked non-interest bearing account at BdL until the non-compliant firm regularizes its situation.

### **Compensation of public-sector personnel up 18% in 2018, absorbs 56% of fiscal revenues**

Figures issued by the Ministry of Finance show that the compensation of public-sector personnel totaled \$6.45bn in 2018, constituting an increase of 18.3% from \$5.45bn in 2017. The compensation of public-sector personnel was equivalent to 11.5% of GDP in 2018 compared to 10.2% of GDP in 2017. The double-digit rise is due to the across-the-board increase in the wages and salaries of public sector employees and retirees that was enacted by the Lebanese Parliament in July 2017. Salaries, wages and related benefits accounted for 62% of the total in 2018, followed by retirement benefits (24.2%), end-of-service indemnities (8.8%), and transfers to public institutions to cover salaries (5%). The compensation of public-sector personnel represented the largest component of current primary spending and accounted for 66.1% of such expenditures last year, compared to 66.3% in 2017. Also, the compensation of public-sector personnel was equivalent to 55.8% of total fiscal revenues in 2018 relative to 46.9% in 2017. It absorbed 36.2% of overall fiscal spending in 2018 compared to 35.4% in 2017.

Salaries, wages & related benefits paid to public-sector employees reached \$4bn in 2018, constituting an increase of 11% from \$3.6bn in 2017. This category includes basic salaries, employment benefits, allowances, contributions to civil servants' cooperatives, as well as contributions to other mutual funds providing health insurance for specific categories of civil servants, mainly civil and religious judges, and employees at the Parliament. In addition, retirement benefits grew by 17.1% to \$1.6bn in 2018, while end-of-service indemnities rose by 152.4% to \$568.5m, and transfers to public institutions to cover salaries expanded by 11.3% to \$328.4m in 2018.





### Lebanon's export credit insurance contracts with Dhaman at \$14m in 2018

Figures issued by the Arab Investment & Export Credit Guarantee Corporation (Dhaman) indicated that Lebanese companies signed \$13.6m worth of export credit insurance contracts issued by Dhaman in 2018. The amount of Lebanon's export credit insurance contracts with Dhaman was the second lowest among 10 Arab countries, and was higher than only Egypt (\$4.1m). It accounted for 1% of the region's total export credit and investment insurance contracts and for 0.8% of contracts issued globally by Dhaman in 2018. Dhaman provides insurance coverage to Arab and non-Arab investments to its member countries against non-commercial risks, as well as insurance against commercial and non-commercial risks for inter-Arab and worldwide Arab export credits.

Also, Dhaman issued \$303m worth of insurance contracts for exports to Lebanon in 2018, the highest amount among 16 Arab countries. The amount of insurance contracts for exports to Lebanon represented 22.4% of insurance contracts for exports to Arab countries and 18.5% of global export insurance contracts with Dhaman. In comparison, Dhaman issued \$188.7m worth of insurance contracts for exports to Tunisia, or 14% of insurance contracts regionally, followed by Egypt with \$180.6m (13.4%), Algeria with \$164.6m (12.2%), Iraq with \$110.3m (8.2%), Oman with \$73.4m (5.4%), Saudi Arabia with \$71.2m (5.3%) and the UAE with \$59.3m (4.4%). The amount of insurance contracts for exports to the remaining eight Arab countries totaled \$202.4m and represented 15% of total export contracts to Arab countries.

Further, Lebanon had \$107.3m in total ongoing export credit insurance contracts issued by Dhaman as at the end of 2018, which accounted for 21% of the ongoing contracts regionally and for 18.8% of contracts globally. The amount of Lebanon's ongoing export credit insurance contracts was the second highest among 14 Arab countries, lower than Egypt's ongoing contracts of \$116.3m (22.7% of region's total).

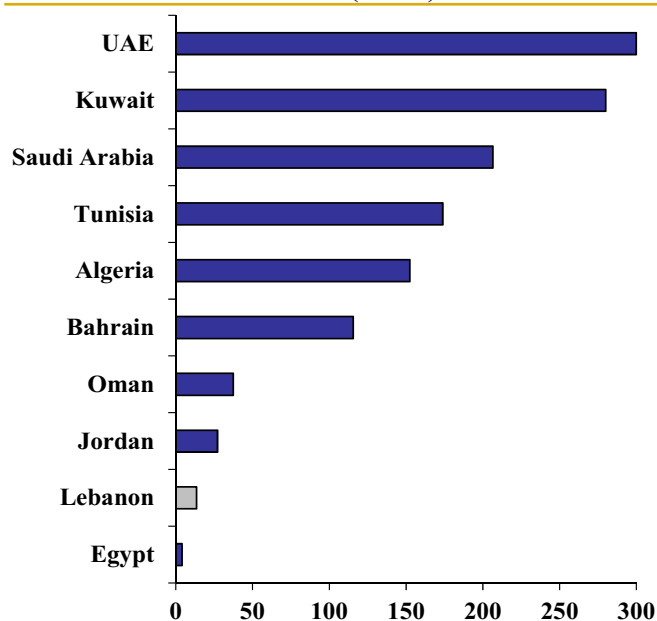
### Ministry of Economy & Trade imposes additional duties on 18 imported products

The Ministry of Economy & Trade approved a draft decree that imposes specific duties on 18 imported products. The ministry, in coordination with the Ministry of Industry, finalized the list of covered products with the aim to promote local production, as well as to protect the Lebanese market from dumping.

The draft decree imposes an additional duty of 7% on imported egg cartons; as well as a levy of 10% on imported wafers & biscuits, cleaning products, bulgur, carbon & test liner papers, sanitary products, refrigerators, freezers, ovens and washing machines. It also imposes a duty of 14% on imported bread flour; an additional tariff of 15% on imported furniture, scented wipes, sanitary papers and truck bodies; a duty of 16% on imported aluminum profiles, as well as an additional duty of 20% on imported iron pipes and on dairy products and white cheese. It also introduces a duty of \$9.5 per 55 kilograms on imported granite and marble. In addition, it will apply the current levy on imports of canned food from all countries to Lebanon. Further, the decree imposes additional duties of 20% on corn flakes imported from the European Union and of 15% on corn flakes imported from Turkey.

The Ministry of Economy & Trade indicated that it is assessing the imposition of additional import duties on clothing and footwear. It noted that the decree still needs the signatures of the Prime Minister and the President of the Republic in order to be enforced. In addition, it said that the imposition of the additional duties affects some products imported from countries that have trade agreements with Lebanon, such as Arab countries and the European Union. In this case, it noted that the Lebanese government needs to discuss these duties with the relevant counterparties before fully enforcing them.

Export Credit Insurance Contracts by Country of Origin in 2018 (US\$m)



Source: Dhaman, Byblos Research

### Consumer Price Index up 3% in first half of 2019

The Central Administration of Statistics' Consumer Price Index increased by 3.3% in the first half of 2019 from the same period of 2018, compared to a growth of 6% in the first half of 2018. Also, the CPI rose by 1.7% in June 2019 from the same month of 2018. The prices of clothing & footwear grew by 14.3% in June 2019 from the same month of 2018, followed by recreation & entertainment costs (+7.1%), the prices of furnishings & household equipment (+5.4%), the cost of education (+5.1%), prices of food & non-alcoholic beverages (+2.4%), imputed rents and actual rents (+2.3% each), miscellaneous goods & services costs (+2.2%), prices at restaurants & hotels (+1.5%), and the prices of alcoholic beverages & tobacco (+0.7%). In contrast, the price of water, electricity, gas & other fuels declined by 3% year-on-year in June 2019, followed by transportation (-1.6%), healthcare (-1.3%), and communication costs (-0.5%). Also, the distribution of actual rents shows that old rents grew by 3.2% and new rents increased by 1.7% annually in June 2019.

Further, the CPI decreased by 0.84% in June 2019 from the preceding month, compared to a month-on-month increase of 0.12% in May 2019. The prices of clothing & footwear regressed by 3.9% month-on-month in June 2019, followed by the prices of water, electricity, gas & other fuels and of food & non-alcoholic beverages (-1.9% each), and transportation costs (-0.6%). In contrast, recreation & entertainment costs increased by 1.2% month-on-month in June 2019, while the prices of the remaining components of the CPI basket were nearly unchanged. Further, the CPI decreased by 1.1% month-on-month in June 2019 in the North, by 0.9% in Beirut, by 0.8% in each of Mount Lebanon and the Nabatieh region, by 0.7% in the South, and by 0.6% in the Bekaa area. In parallel, the Fuel Price Index declined by 4.1% month-on-month in June 2019, while the Education Price Index was unchanged in the covered month.

### Number of new construction permits down 20% in first half of 2019

The Orders of Engineers & Architects of Beirut and of Tripoli issued 5,760 new construction permits in the first half of 2019, constituting a decline of 19.5% from 7,151 permits issued in the same period of 2018. In comparison, new construction permits decreased by 12.5% year-on-year in the first half of 2018. Mount Lebanon accounted for 35.6% of newly-issued construction permits in the covered period, followed by the South with 20.6%, the North with 13.4%, the Nabatieh area with 13%, the Bekaa region with 9.5%, and Beirut with 6.1%. The remaining 1.7% were permits issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon.

Further, the surface area of granted construction permits reached 3,477,762 square meters (sqm) in the first half of 2019, constituting a decrease of 30.8% from 5,024,263 sqm in the same period of 2018. In comparison, the surface area of granted construction permits regressed by 17.7% in the first half of 2018 from the same period of 2017. Mount Lebanon accounted for 1,257,168 sqm, or 36.1% of the total, in the covered period. The South and the North followed with 640,722 sqm and 640,347 sqm, respectively, (18.4% each), then the Bekaa region with 323,382 sqm (9.3%), the Nabatieh area with 273,926 sqm (7.9%), and Beirut with 215,907 sqm (6.2%). The remaining 126,310 sqm, or 3.6% of the total, represent the surface area of permits that were issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon.

The surface area of new construction permits issued for the Nabatieh region dropped by 39.8% year-on-year in the first half of 2019, followed by surface areas in Mount Lebanon (-39.3%), the Bekaa region (-34.2%), the North (-24%), and the South (-16.4%); while surface areas in regions located outside northern Lebanon decreased by 41%. In contrast, the surface area of granted construction permits in Beirut increased by 16.5% year-on-year in the first half of the year. In parallel, cement deliveries totaled 1.28 million tons in the first five months of 2019, constituting a decline of 33.4% from 1.92 million tons in the same period of 2018, and relative to a decrease of 4.1% in the first five months of 2018.

### New industrial licenses up 69% in 2018

The Ministry of Industry issued 712 new industrial licenses in 2018, constituting an increase of 69.1% from 421 licenses in 2017. The ministry issued 333 industrial licenses in the first half of 2018 and 379 licenses in the second half of the year. Construction licenses accounted for 36.7% of new licenses, followed by construction & investment licenses with 33.8%, and investment permits with 29.5%.

In parallel, the ministry issued 129 requests for settlement, while it refused or revoked another 129 licenses to open an industrial facility in 2018. Also, it issued 93 permits to modify the owner or usage of industrial plants, and renewed 23 licenses. Overall, the ministry issued 2,915 new industrial permits between 2013 and 2018, of which 46.1% were construction permits, 28.2% represented both construction and investment permits, and 25.8% were investment permits.

The ministry issued 300 new licenses for Mount Lebanon in 2018, or 42.1% of the total, followed by the Bekaa with 213 permits (29.9%), the North with 83 licenses (11.7%), the South with 62 permits (8.7%), Nabatieh with 44 licenses (6.2%), and Beirut with 10 licenses (1.4%).

Also, the ministry issued 180 licenses for the food processing sector in 2018, or 25.3% of the total; followed by 87 licenses for the extraction and distribution of water (12.2%); 74 licenses for construction materials (10.4%); 65 licenses for the chemicals industry (9.1%); 49 permits for mining & quarrying products (6.9%); 39 licenses for rubber & plastics (5.5%); 33 licenses for metal products & electrical appliances and another 33 permits for mining materials (4.6% each); as well as 32 licenses for the furniture & wood sector (4.5%).



### **Monetary policy continues to maintain market confidence and stability**

In its monetary policy review for 2018, Banque du Liban (BdL) indicated that it continued to maintain the stability of the Lebanese pound's peg to the US dollar as well as the relative stability of interest rates. Further, it protected the stability of the financial and banking sectors, as well as helped develop capital markets and improved liquidity management in the local market, among others.

First, BdL pointed out that its assets in foreign currency, which reached \$39.7bn at the end of 2018, and its gold reserves, which amounted to \$11.8bn at the time, allowed it to preserve monetary stability. It noted that the positive domestic environment in the first two months of the year resulted in a surplus of US dollars in the currency market, which BdL purchased. However, it said that this trend reversed starting in March 2018, due to political tensions in the run-up to the Parliamentary elections that took place in May 2018 and the protracted delay in forming a new post-elections government. As a result, BdL had to intervene in the currency market and to supply US dollars from March 2018 until the end of the year. In addition, BdL pointed out that it settled all the principal and coupons on Lebanese Eurobonds that matured in 2018, as well as the public sector's entire external obligations. It noted that, despite its market interventions and the settlement of the government's foreign obligations, the drop in its assets in foreign currency was limited to \$2.3bn in 2018 due to its financial operations with commercial banks that helped attract foreign deposits and that limited deposit outflows. It added that its policies strengthened confidence in the financial and banking sectors, and among investors, amid the economic and political challenges of 2018.

Second, BdL indicated that it preserved the stability of interest rates within acceptable margins. It added that the yields on Lebanese Eurobonds fluctuated throughout the year due to the prevailing political conditions, and that BdL did not intervene to support prices, which promoted transparency in the Eurobonds market. It said the interest rates on deposits in local and foreign currency increased in 2018 to reflect the political uncertainties that prevailed throughout the year. But it noted that BdL's financial operations to motivate banks to attract long-term deposits in foreign currency, and to deposit them at BdL against long-term deposits in Lebanese pounds, have contained the increase in interest rates in the country. Third, BdL pointed out that it sought to limit the dollarization levels in the banking sector.

In parallel, BdL pointed out that it maintained with its non-conventional measures to stimulate the economy. It noted that 577 bank clients in the agricultural, tourism, industrial and specialized sectors benefited from \$364.2m in subsidized loans in 2018. It said that it suspended at the end of 2018 the mechanism that subsidized loans through freeing the reserve requirements of commercial banks at BdL. It noted that the amount of outstanding loans financed through this scheme, which was launched in 2009, reached about \$4.3bn at the end of 2018.

Further, BdL revealed that about 38,000 companies and individuals benefited from its stimulus packages since 2013. It noted that the aggregate amount of credit facilities that BdL extended to banks at an interest rate of 1% reached \$725m in 2018, while the amount of loans that commercial banks extended to clients under the stimulus package totaled \$864.3m last year. It said that the amount of subsidized loans to renewable energy projects reached \$73m in 2018, while the amount of subsidized loans to environmental projects was \$90.9m. It added that subsidized mortgages amounted to \$500.8m in 2018, while subsidized non-housing loans totaled \$133.3m last year. In parallel, BdL indicated that banks extended \$846.4m in loans to clients under the new subsidies mechanism of the 2018 stimulus package, with mortgages representing 62.6% of the total, followed by non-housing loans (28.5%), loans to renewable energy projects (7.7%) and loans to environmental projects (1.3%).

In parallel, BdL indicated that it generated \$73.5m in income from its real estate and financial assets in 2018. It noted that it collected dividends amounting to \$54.6m from its stake in Middle East Airlines and \$331,675 from clearing home Midclear. It also generated \$10.7m from the disposal of real estate from its portfolio, and \$780,000 in rental income from its properties. In addition, it collected \$4.4m from Bank of Beirut and the Arab Countries, \$1.8m from First National Bank and \$0.3m from Société Générale de Banque au Liban as the loans that BdL extended to each bank to cope with the damages that they directly incurred during the July 2006 war. Further, it received \$563,600 from the fifth and final installment of the capital increase of the Arab Investment Company.



### Ten Lebanese banks among top 1000 banks in the world

In its 2019 survey of the Top 1000 banks in the world, *The Banker* magazine included 10 Lebanese commercial banks on its list, up from nine banks in the 2018 survey. None of the 10 Lebanese banks ranked among the top 25 banks in the Middle East in the 2019 survey, in line with previous surveys. The rankings are based on the banks' Tier One capital in US dollars at year-end 2018. *The Banker* uses the disclosed Tier One capital for banks that began implementing the Basel III framework, as the latter clarified the rules about capital calculations that previously varied across banks and jurisdictions.

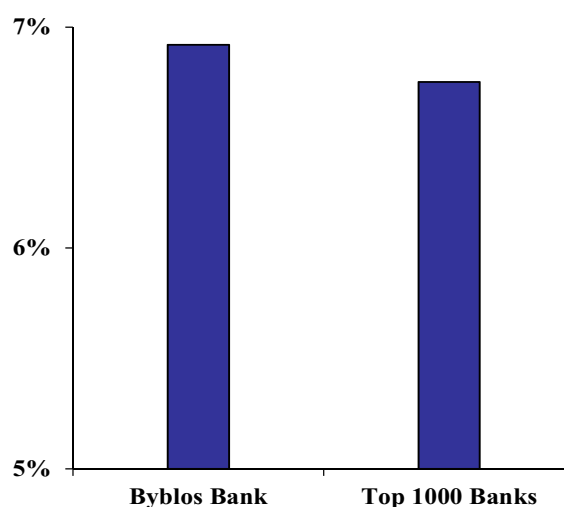
The aggregate Tier One capital of the 10 Lebanese banks reached \$16.95bn at the end of 2018 and grew by 2.3% from \$16.56bn at end-2017. In comparison, the Tier One capital of the Top 1000 banks increased by a marginal 0.7% year-on-year, while the Tier One capital of banks in the Middle East rose by 6.2%. Byblos Bank's Tier One capital-to-assets ratio was 6.92% at the end of 2018, outperforming the Top 1000 banks' aggregate ratio of 6.75%. In addition, Byblos Bank's Capital Adequacy Ratio (CAR), a measure of the Bank's financial strength, reached 18.2% at the end of 2018, compared to the average CAR of 17.2% of nine Lebanese banks with available CAR figures.

In addition, the 10 Lebanese banks accounted for 5.1% of the Tier One capital of banks in the Middle East, for 7.9% of their total assets and for 4.6% of their aggregate per-tax profits. They also represented 0.2% of the Tier One capital of the Top 1000 banks, for 0.19% of their total assets and for about 0.22% of their aggregate pre-tax profits. Further, the cumulative pre-tax profits of the 10 Lebanese banks reached \$2.49bn in 2018. As such, the ratio of pre-tax profits-to-Tier One capital of the Lebanese banks reached 14.7% in 2018 relative to 13.7% for the Top 1000 banks and compared to 16.1% for banks in the Middle East.

Bank Audi's Tier One capital was \$3.24bn at the end of 2018 and accounted for 19.1% of the aggregate Tier One capital of the 10 Lebanese banks included in the 2019 survey. BLOM Bank followed with \$2.97bn or 17.5% of the total, then Société Générale de Banque au Liban with \$1.74bn (10.3%), Byblos Bank with \$1.73bn (10.2%), Fransabank with \$1.69bn (10%), Bank of Beirut with \$1.62bn (9.6%), BankMed with \$1.42bn (8.4%), Banque Libano-Française with \$1.15bn (6.8%), Crédit Libanais with \$799m (4.7%) and BBAC with \$586m (3.5%). Bank Audi ranked in 341<sup>st</sup> place globally, in terms of Tier One capital, followed by BLOM Bank (361<sup>st</sup>), Société Générale de Banque au Liban (534<sup>th</sup>), Byblos Bank (537<sup>th</sup>), Fransabank (545<sup>th</sup>), Bank of Beirut (561<sup>st</sup>), BankMed (612<sup>th</sup>), Banque Libano-Française (698<sup>th</sup>), Crédit Libanais (830<sup>th</sup>) and BBAC (940<sup>th</sup>).

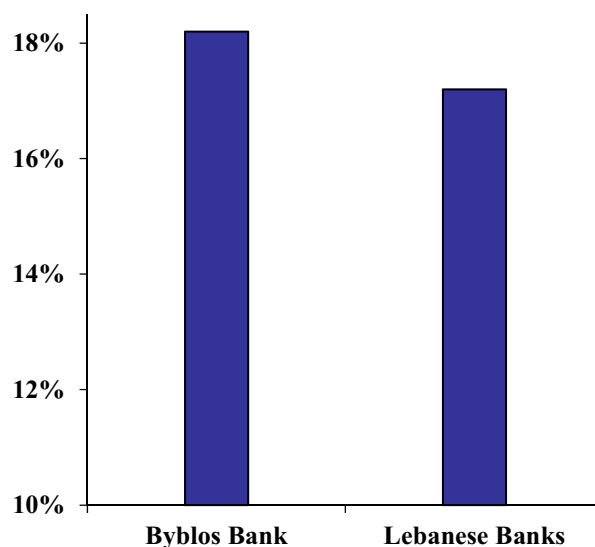
The rankings of three out of the 10 Lebanese banks improved in the 2019 survey, while the rankings of four banks regressed from 2018, with Bank Audi's ranking posting the steepest decline of 27 spots year-on-year. Also, the rankings of two banks were unchanged and one bank was reintroduced in the 2019 survey.

### Tier One Capital-to-Assets Ratio at end-2018 (%)



Source: *The Banker Magazine*, Byblos Research

### Capital Adequacy Ratio at end-2018 (%)



Source: *The Banker Magazine*, Byblos Research

### **Banque du Liban to increase subsidized mortgages to LBP864bn in 2019**

Banque du Liban (BdL) announced that it increased from LBP790bn to LBP864bn the aggregate amount of housing loans that will benefit from BdL's interest rate subsidies in its 2019 stimulus package. It increased from LBP300bn to LBP374bn the amount of new mortgages that will benefit from the subsidies this year, while it will provide subsidies on LBP490bn in housing loans that commercial banks extended and subsidized from their own funds in 2018 as per the agreement between BdL and commercial banks. At the time, BdL indicated that it will cover the interest subsidies starting in 2019, while banks will bear the cost of the subsidies in 2018.

BdL pointed out that, so far this year, banks have expressed interest in extending at least 25% of new subsidized mortgages in 2019 under the protocol signed with the Public Corporation for Housing. It added that banks will extend 34% of new subsidized mortgages this year under different protocols that the banks signed with the Lebanese Army and with other security agencies. Also, it indicated that Banque de l'Habitat will extend LBP60bn in subsidized housing loans, or 16% of new subsidized mortgages, which will target citizens with limited income provided that the value of the loan does not exceed LBP300m. Further, BdL has so far approved LBP380bn in subsidized housing loans under the 2019 stimulus package, while it will finalize the remaining applications before the end of the year. Housing loans totaled LBP19,213bn at the end of March 2019 and covered 128,000 beneficiaries.

In parallel, BdL reiterated that it will provide interest rate subsidies on LBP45bn in loans to higher education under the 2019 stimulus package. It added that about 11,250 students benefited from BdL's subsidized education loans since 2009 through an aggregate amount of LBP303bn in loans to higher education. Further, BdL will subsidize under the 2019 stimulus package a total of \$500m to finance mortgages for Lebanese expatriates, as well as environmentally-friendly projects, research & development projects, and the knowledge economy, among other sectors. It noted that banks extended about \$120m in subsidized loans in US dollars so far this year. It pointed out that subsidized loans to environmentally-friendly energy projects amounted to about \$600m since 2010 and were extended to about 940 projects. BdL indicated that the Banking Control Commission of Lebanon is monitoring the banks' compliance with BdL's circulars on subsidized loans.

### **Import activity of top five shippers and freight forwarders down 13% in first five months of 2019**

Figures released by the Port of Beirut show that overall import shipping operations by the top five shipping companies and freight forwarders through the port reached 119,778 20-foot equivalent units (TEUs) in the first five months of 2019, constituting a decrease of 12.7% from 137,222 TEUs in the same period of 2018. The five shipping and freight-forwarding firms accounted for 78.2% of imports to the Lebanese market and for 48.2% of the total import freight market in the first five months of 2019. Mediterranean Shipping Company (MSC) handled 47,579 TEUs in imports in the covered period, equivalent to a 19.2% share of the total import freight market. Merit Shipping followed with 24,947 TEUs (10%), then MAERSK with 19,175 TEUs (7.7%), Metz Group with 14,861 TEUs (6%), and Tourism & Shipping Transport with 13,216 TEUs (5.3%). Further, MAERSK registered an annual increase of 147% in import shipping in the first five months of 2019, the highest growth rate among the top five shipping and freight forwarding companies, while Metz Group posted a decrease of 19.5%, the steepest decline in the covered period.

In parallel, export shipping operations by the top five shipping and freight-forwarding firms through the Port of Beirut reached 25,809 TEUs in the first five months of 2019, constituting a decrease of 8.5% from 28,221 TEUs in the same period of 2018. The five shipping companies and freight forwarders accounted for 85% of exported Lebanese cargo and for 10.8% of the total export freight market in the first five months of 2019. Merit Shipping handled 12,422 TEUs of freight in the first five months of 2019, equivalent to 41% of the Lebanese cargo export market. MAERSK followed with 5,045 TEUs (16.6%), then Metz group with 3,076 TEUs (10.1%), Tourism & Shipping with 2,665 TEUs (8.8%), and Sealine Group with 2,601 TEUs (8.6%). Further, MAERSK registered an increase of 241.1% in export shipping in the first five months of 2019, the highest growth rate among the top five shipping and freight forwarding companies, while Sealine Group posted a decline of 48.4%, the steepest decrease in the covered period.



## Ratio Highlights

(in % unless specified)	2016	2017	2018	Change*
Nominal GDP (\$bn)	51.2	53.4	56.1	
Public Debt in Foreign Currency / GDP	54.9	56.9	59.7	2.82
Public Debt in Local Currency / GDP	91.3	92.0	92.1	0.10
Gross Public Debt / GDP	146.2	149.0	151.9	2.92
Total Gross External Debt / GDP**	182.0	183.1	184.7	0.88
Trade Balance / GDP	(31.5)	(31.3)	(30.4)	1.11
Exports / Imports	15.6	14.5	14.8	0.25
Fiscal Revenues / GDP	19.4	21.8	20.6	(1.2)
Fiscal Expenditures / GDP	29.0	28.8	31.7	2.9
Fiscal Balance / GDP	(9.6)	(7.0)	(11.1)	(4.1)
Primary Balance / GDP	0.04	2.7	(1.1)	-
Gross Foreign Currency Reserves / M2	62.2	68.2	63.8	(4.39)
M3 / GDP	259.2	259.6	252.1	(7.55)
Commercial Banks Assets / GDP	398.7	411.8	445.1	33.32
Private Sector Deposits / GDP	317.1	315.9	310.9	(4.97)
Private Sector Loans / GDP***	111.6	111.8	105.9	(5.84)
Private Sector Deposits Dollarization Rate	65.8	68.7	70.6	1.90
Private Sector Lending Dollarization Rate	72.6	68.6	69.2	0.57

\*change in percentage points 18/17

\*\*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 \*\*\* in January 2018, Lebanese banks started reporting their financials based on international accounting standard IFRS 9, and revised the 2017 figures accordingly

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	Jul 2017	Jun 2018	Jul 2018	Change**	Risk Level
Political Risk Rating	55.5	55.0	55.0	▲	High
Financial Risk Rating	33.0	33.0	33.0	✂	Moderate
Economic Risk Rating	27.5	28.5	28.5	▼	High
Composite Risk Rating	58.0	58.25	58.25	▼	High

MENA Average*	Jul 2017	Jun 2018	Jul 2018	Change**	Risk Level
Political Risk Rating	57.9	57.9	58.0	▼	High
Financial Risk Rating	37.9	38.8	38.7	▼	Low
Economic Risk Rating	30.7	32.8	33.0	▼	Moderate
Composite Risk Rating	63.2	64.7	64.8	▼	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 Investors Service	Caa1	NP	Stable	Caa1		Stable
Fitch Ratings	B-	B	Negative	B-		Negative
S&P Global Ratings	B-	B	Negative	B-	B	Negative
Capital Intelligence Ratings	B	B	Negative	B	B	Negative

Source: Rating agencies

### Banking Ratings

Banking Ratings	Outlook
Moody's	Stable

Source: Moody's Investors Service



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