

LEBANON THIS WEEK

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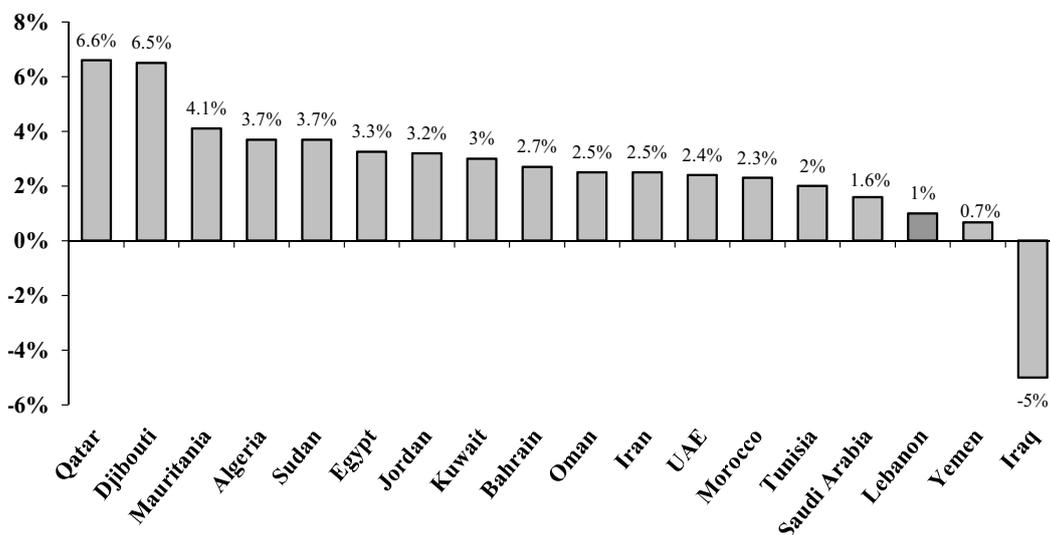
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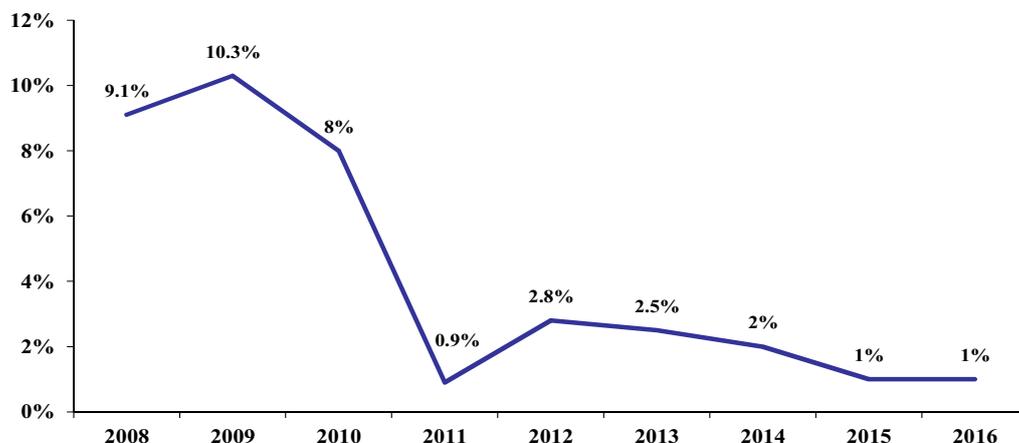
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Charts of the Week

Projected Non-Hydrocarbon Real GDP Growth Rates of MENA Countries in 2016 (%)



Estimated Real GDP Growth Rate in Lebanon (%)



Source: International Monetary Fund, Byblos Bank

Quote to Note

"Solid liquidity buffers and depositor-based funding will continue to support the system's stability."

Moody's Investors Service, on some of the elements of strength of the Lebanese banking sector

Number of the Week

\$1.4bn: Increase in the Central Bank's gross foreign currency reserves in the first five months of 2016

Lebanon in the News

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

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

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

***includes arrivals, departures, transit

Note: bps i.e. basis points

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

Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization	Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Solidere "A"	9.75	0.62	63,521	8.77%	Mar 2017	9.00	103.13	4.07
BLOM GDR	10.06	0.10	54,800	6.69%	Nov 2018	5.15	99.88	5.21
Audi Listed	6.20	0.00	54,688	22.29%	May 2019	6.00	101.25	5.51
Audi GDR	6.15	(0.81)	51,837	6.36%	Mar 2020	6.38	101.50	5.91
Byblos Common	1.66	1.22	41,835	5.37%	Apr 2021	8.25	108.50	6.14
Solidere "B"	9.67	2.11	25,521	5.65%	Oct 2022	6.10	98.75	6.35
BLOM Listed	9.91	(0.40)	10,953	19.16%	Jun 2025	6.25	97.00	6.70
HOLCIM	14.15	(2.41)	4,260	2.48%	Nov 2026	6.60	98.75	6.77
Byblos Pref. 09	100.10	0.00	3,458	1.80%	Feb 2030	6.65	97.75	6.91
Byblos Pref. 08	100.30	0.00	-	1.80%	Nov 2035	7.05	99.85	7.06

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

Source: Byblos Bank Capital Markets

	July 18-22	July 11-15	% Change	June 2016	June 2015	% Change
Total Shares Traded	332,531	1,831,833	(81.85)	2,859,053	5,436,086	(47.41)
Total Value Traded	\$3,253,461	\$7,883,444	(58.73)	\$22,365,431	\$49,874,049	(55.16)
Market Capitalization	\$11.12bn	\$11.11bn	0.09	\$11.03bn	\$11.56bn	(4.55)

Source: Beirut Stock Exchange (BSE)



Cost of living in Beirut is 181st highest globally, fourth highest in Arab world

The June 2016 Cost of Living Index, produced by crowd-sourced global database Numbeo, ranked Beirut as the 181st most expensive city among 372 cities around the world, as well as the second most expensive among 76 cities in upper middle-income countries (UMICs) and the fourth most expensive among 18 Arab cities. Based on the same cities included in the January 2016 and mid-year 2016 surveys, Beirut's rank dropped by 17 spots from 138th place in the January 2016 survey to 155th place in the June 2016 survey, reflecting a year-on-year decrease in the cost of living in the Lebanese capital. Numbeo assesses the cost of living in each city based on a Cost of Living Index that covers groceries, restaurants, transportation and utilities, and on a Rent Index. It benchmarks all indices against New York City. Numbeo relies on residents' inputs and uses data from official sources to compute the indices.

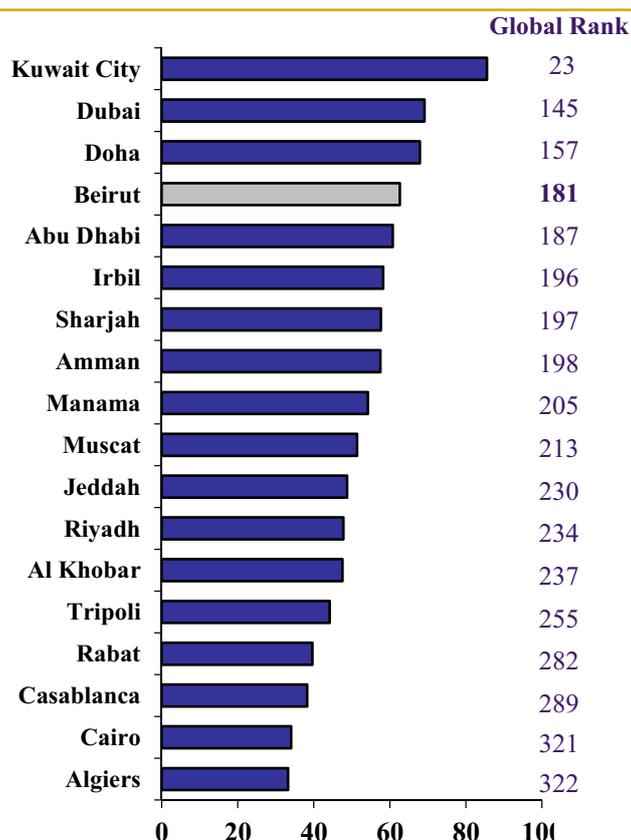
According to the Cost of Living Index, consumer goods in Beirut are more expensive than in Accra in Ghana, Madrid in Spain and Kitchener in Canada; while they are less costly than those in Tucson and Oklahoma City in the U.S., and Belfast in the United Kingdom. Also, consumer goods in Beirut are less expensive than those in Luanda in Angola among cities in UMICs, while they are less costly than those in Kuwait City, Dubai and Doha in the Arab world. Hamilton in Bermuda ranked as the most expensive city and Thiruvananthapuram in India as the least expensive city globally. Beirut received a score of 62.65 points, which means that prices in Beirut are 37.35% less expensive than those in New York City.

In parallel, the Rent Index, which is an estimate of the rent for apartments in a given city compared rents in New York City, ranked Beirut in 66th place globally, in third place among cities in UMICs and in fourth place among Arab cities. Globally, renting an apartment in Beirut is more expensive than in New Orleans in the U.S., Milan in Italy, and Kuwait City; while it is less expensive than in the city of Atlanta in the U.S., Trondheim in Norway and Toronto in Canada. Also, renting an apartment in Beirut is more expensive than in Luanda and Beijing in China among cities in UMICs; while Dubai, Doha and Abu Dhabi are the only Arab cities that have more expensive rents than Beirut. Luanda has the highest apartment rents in the world, while rent in Valenzuela in the Philippines is the lowest globally. Lebanon received a score of 40.56 points on the index, which means that rent in Lebanon is 59.44% less expensive than in New York City.

Further, the Groceries Index, which is an estimate of grocery prices in a city compared to those in New York City, ranked Beirut in 212th place globally, in 17th place among cities in UMICs and in ninth place among Arab cities. Globally, groceries in Beirut are more expensive than in Bonn in Germany and Athens and Chania in Greece; while they are cheaper than in Montevideo in Uruguay, in Muscat, and in Kuala Lumpur in Malaysia. In addition, groceries in Beirut are less expensive than in Kuwait City, Dubai, Doha, Abu Dhabi, Sharjah, Manama, Amman and Muscat among Arab cities. Lebanon received a score of 45.57 points, which means that grocery prices in Beirut are 54.43% lower than they are in New York City.

Finally, the Restaurant Index, which compares the prices of meals and drinks at restaurants and pubs relative to New York City, ranked Beirut in 165th place globally, in second place among cities in UMICs and in third place among Arab cities. Globally, meals and drinks at restaurants and pubs in Beirut are more expensive than in Mobile and Columbus in the U.S., and Tokyo in Japan; while they are cheaper than in Madison Pensacola and Greenville in the U.S. Also, Doha and Dubai are the only two Arab cities with more expensive restaurants than Beirut. The Lebanese capital received a score of 62.86 points on the index, which means that prices at restaurants and pubs in Beirut are 37.14% less expensive than they are in New York City.

Cost of Living Index in Arab Cities



Source: Numbeo - June 2016, Byblos Research

Net private capital inflows to Lebanon to decrease by 12% to \$5bn in 2016

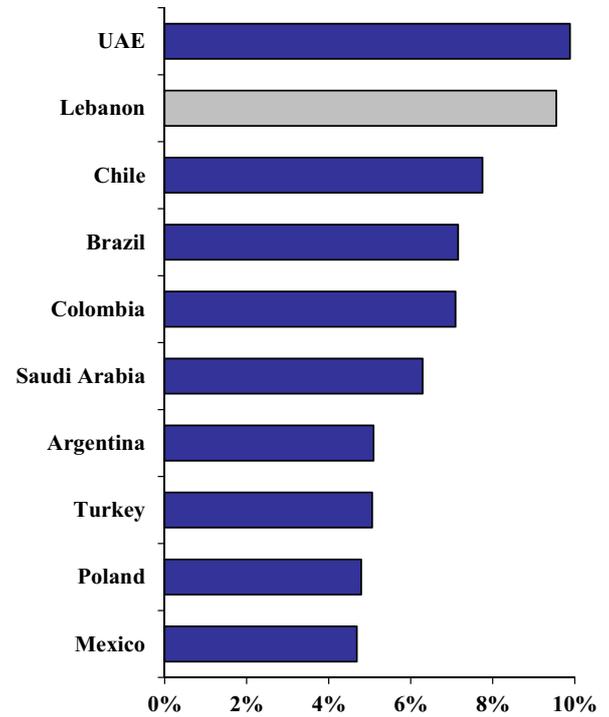
The Institute of International Finance projected non-resident net private capital inflows to Lebanon at \$5bn in 2016, which would constitute a decrease of 11.6% from \$5.7bn in 2015, and compared to a peak of \$14bn in 2009. Lebanon would be among 22 countries out the 25 emerging markets with available figures that would post positive net private capital flows in 2016. Also, Lebanon would be the fifth smallest recipient of capital flows among 22 emerging markets with positive non-resident flows, as well as the smallest in the Middle East & Africa (ME&A) region in 2016.

Lebanon would post the second smallest decrease in net capital inflows among emerging markets in 2016. The expected decline in non-resident net private capital inflows to Lebanon this year would be due to a drop of 25% in net inflows from non-resident commercial banks and other private creditors, and a decrease of 4% in equity investment inflows. Net private capital inflows to Lebanon would account for 0.9% of total net private capital inflows to emerging markets and for 5.2% of aggregate flows to ME&A economies in 2016. They would be equivalent to 9.5% of GDP in 2016, the second highest ratio among the 25 emerging markets.

In parallel, the IIF estimated net non-resident private capital inflows to Lebanon at \$5.7bn in 2015, constituting a decrease of 8.8% from \$6.3bn in 2014, and compared to inflows of \$6bn in 2013. Lebanon was among 18 countries out of the 25 emerging markets with available figures that posted positive net private capital flows last year. Net private capital inflows to Lebanon were the third smallest among the 18 emerging markets in 2015, while they were the second lowest among six countries in the ME&A region last year.

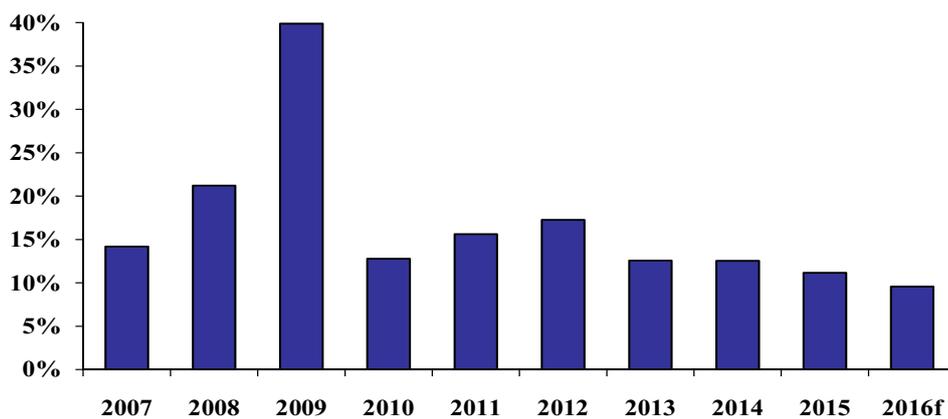
Lebanon posted the smallest decrease in net capital inflows last year among emerging markets as well as in the ME&A region. The decrease in net private capital inflows to Lebanon last year reflects a drop of 40.4% in the flows from non-resident commercial banks and other private creditors, and a decrease of 19.4% in net FDI inflows. Net private capital inflows to Lebanon accounted for 2.1% of total capital inflows to emerging markets and for 6.4% of aggregate flows to the ME&A region last year. They were equivalent to 11.2% of GDP in 2015, the second highest ratio among emerging markets.

Projected Net Capital Inflows in 2016* (% of GDP)



*Top 10 countries among 25 Emerging Markets
Source: Institute of International Finance, Byblos Research

Net Private Capital Inflows to Lebanon (% of GDP)



Source: Institute of International Finance, Byblos Research

Macroeconomic risks contained, reforms necessary to improve public finances

Barclays Capital projected Lebanon's real GDP growth at 1% in 2016, similar to the preceding year, and compared to growth rates of 2% in 2014 and 2.5% in 2013. It said that many of Lebanon's macroeconomic indicators point to continuous weakness in activity. It noted that the growth in private-sector lending has decelerated year-on-year and that exports have contracted. On the political front, it considered that the coming 12 months are critical for Lebanon, as the failure to elect a new President and to agree on a parliamentary electoral law, before the mandate of the current Parliament ends in May 2017, could aggravate the institutional void and increase the prevailing risks.

In parallel, Barclays Capital indicated that Lebanon's immediate macroeconomic risks are contained, but it considered that the medium-term outlook for remittance and capital inflows could become less favorable. It pointed out that the current account deficit narrowed from 26.9% of GDP in 2014 to 25% of GDP in 2015 due to lower commodity prices and a weaker euro, and expected the deficit to remain at the same level in 2016. However, it noted that capital inflows, mainly foreign direct investment, fell from \$2.9bn in 2014 to \$2.3bn in 2015 and projected them to decline to \$2bn in each of 2016 and 2017. It attributed the downward trend in FDI inflows mostly to the weak performance of the tourism and real estate sectors, which have been the main destination for such flows in past years. In addition, it estimated that the negative impact of the low oil price environment on Gulf economies, as well as the expected slowdown in economic activity in the European Union and the United Kingdom, could weigh on remittance inflows to Lebanon. It considered that the outlook on the balance-of-payments continues to be uncertain, especially in the absence of structural reforms and a normalization of the political environment.

In parallel, Barclays Capital pointed out that the deterioration in Lebanon's fiscal position is a structural weakness. It did not expect the fiscal deficit to narrow this year in the absence of reforms, and due to higher Treasury transfers to the state-owned Electricité de Liban as a result of rising oil prices. As such, it projected the deficit to widen from 7.7% of GDP in 2015 to 8% of GDP in 2016 and 8.4% of GDP in 2017. It anticipated the widening deficit to increase the public debt level from 137.4% of GDP in 2015 to 138.6% of GDP in 2016 and 142.5% of GDP in 2017.

Key Macroeconomic Indicators					
	2013	2014	2015	2016F	2017F
Activity					
Real GDP (% yoy)	2.5	2.0	1.0	1.0	1.5
CPI (% average)	4.8	1.9	(3.7)	(1.2)	0.5
External Sector					
Current account balance (\$bn)	(12.7)	(13.4)	(12.8)	(13.5)	(14.2)
Current account balance (% of GDP)	(26.7)	(26.9)	(25.0)	(25.6)	(26.4)
Net FDI (\$bn)	2.8	2.9	2.3	2.0	2.0
Gross external debt (% of GDP)	164.7	161.9	165.2	161.7	163.3
Public Sector					
Fiscal balance (% of GDP)	(8.9)	(6.2)	(7.7)	(8.0)	(8.4)
Primary balance* (% of GDP)	(0.9)	2.2	1.0	(0.3)	(0.7)
Gross public debt (% of GDP)	133.4	133.3	137.4	138.6	142.5

*including grants

Source: Barclays Capital, July 2016

World Bank approves \$55m loan to reduce water pollution in Lake Qaraoun

The World Bank approved a \$55m loan to finance the Lake Qaraoun Pollution Prevention Project, which aims to reduce the pollution flowing into Lake Qaraoun. The loan would fund priority activities that focus on expanding sewage collection and on promoting sustainable agricultural practices in the Bekaa area, as well as on improving pollution management at Lake Qaraoun. First, the project seeks to improve municipal sewage collection in areas that have wastewater plants or in municipalities that intend to build such plants. Specifically, it aims to expand the sewage networks and connect them to the wastewater plants in Zahlé, Anjar and Aitanit. Second, the project aims to promote sustainable agricultural practices, such as reducing the usage of fertilizers, and seeks to improve the quality of agricultural products, increase farmers' savings through lower production costs and reduce pollution in the Litani River. It would target 750 large farms in the West Bekaa and Zahlé areas, and would train and empower farmers on the use of integrated pest management techniques and on the proper handling and disposal of pesticides. Third, the project seeks to improve pollution management around Lake Qaraoun through technical assistance that mainly aims to improve solid waste management and water quality monitoring.

The project is estimated to cost \$60m, of which \$55m would be covered by the loan from the World Bank and \$5m would come from the Lebanese government. The project is part of the government's \$250m Business Plan to Combat Pollution in Lake Qaraoun. The Ministry of Environment initially commissioned the business plan in 2010 in order to identify the major sources of pollution in Lake Qaraoun and to recommend appropriate solutions to mitigate them.



Health Ministry launches hospital coverage program for uninsured senior citizens

The Ministry of Public Health launched a program to provide, starting in September 2016, full hospitalization coverage for uninsured Lebanese citizens who are 64 years or older. It noted that it will increase the coverage for these citizens to 100% of the hospitalization bill from 85% and 95% disbursed currently for treatments completed at private and public hospitals, respectively. It said that the program beneficiaries have to be 64 years or above and should not be covered by the National Social Security Fund or by any private insurance provider. The ministry noted that it provides hospitalization coverage to about 2.12 million uninsured Lebanese citizens every year, including 5.8% who are 64 years or older. It claimed that 30,898 out of 122,000 uninsured citizens who are 64 years or older receive hospital care 54,000 times per year.

The ministry estimated the cost of the program at about LBP17bn (\$11.3m) per year, equivalent to about 2.7% of the ministry's budget. It indicated that it plans to finance the program from several funding sources, including the annual increase in the budget allocations to the ministry, which are estimated at more than LBP18bn (\$11.9m) for 2017. It added that it could secure additional funding for the program from the 7% annual savings that result from its established auditing system for hospital invoices. In addition, the ministry said that it could achieve savings from the primary healthcare centers (PHC), which aim to reduce hospital admission rates and lengths of stay and, in turn, would lower the ministry's payables to hospitals. It said that Lebanon has 222 PHC centers that have provided treatments to 1.49 million patients in 2015. Further, it noted that additional savings could be achieved from the ministry's hospital accreditation system, which evaluates the quality of services that hospitals deliver to patients and, in turn, sets either lower or higher tariffs due to hospitals.

Further, the Health Ministry awarded contracts to three third-party administrators (TPA) through a tender process to set and monitor the program's mechanism and hospital admissions criteria. It expected the TPAs to officially begin work in August 2016 and noted that each firm will monitor patients' access to a group of hospitals. The ministry added that the TPAs could limit fraudulent activities and moral hazard, as well as provide additional savings to the ministry's budget, which could be also allocated to the program.

In parallel, the World Bank indicated that Lebanon's healthcare system is a complex mixture of public and private institutions that provide health services to the population, with the private sector dominating a part of the local healthcare system. The Bank indicated that about 50% of Lebanese citizens have healthcare insurance coverage, with 47.8% of the insured covered by the National Social Security Fund, 30.8% are mainly public-sector employees and members of the armed forces who are insured by public programs, 16.3% are covered by private insurers, and 5.1% of the insured are covered by other insurance plans. It added that the Ministry of Public Health serves as a safety net and as the insurer of last resort for the uninsured who belong mainly to low income groups and for those who work in the informal sector. It pointed out that the Health Ministry allocates about 62% of its budget to reimburse contracted private hospitals for the care they provide to the uninsured population, while it directs less than 3% of its budget to non-governmental organizations that are the main providers of primary healthcare services.

World Bank's projects in Lebanon to require \$1.1bn in loans and grants in coming three years

The World Bank Group anticipated that the projects covered by the Country Partnership Framework (CPF) for Lebanon for the 2017-22 period, will require up to \$1.1bn in financing in the form of grants and loans during the CPF's first three years. The Bank said that, at the government's request, the CPF foresees an indicative lending program of about \$650m to \$840m during the first two to three years of the CPF period, as the exact amount would depend on several factors, including the availability of financing from the MENA Concessional Financing Facility. It expected that \$580m of the loans will originate from the MENA Concessional Financing Facility, as they will finance projects that aim to alleviate the stress from the large influx of Syrian refugees on host communities, and to create jobs for both the local and the refugee populations.

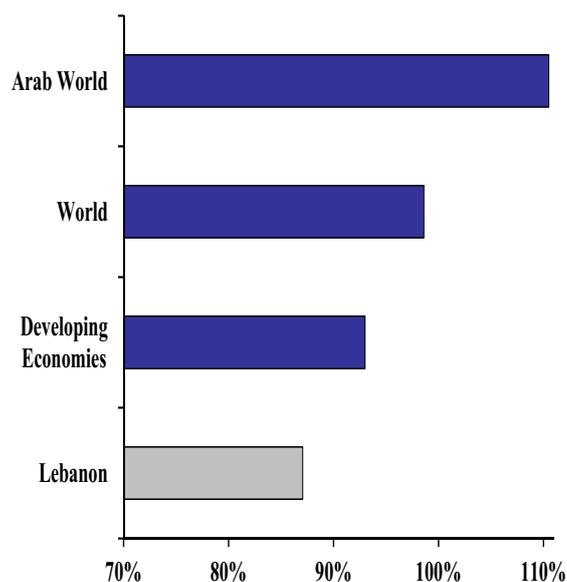
The Bank earmarked \$605m to expand the access to and the quality of service delivery in Lebanon, of which \$200m will be allocated to the Greater Beirut Urban Transport Project; \$200m to the Rural Roads and Employment Program; \$150m to Municipal Service Delivery, Local Economic Development, and Social Cohesion; and \$55m to the Lake Qaraoun Pollution Prevention Project. It added that it will allocate \$548.2m to expand economic opportunities and to develop human capital in the country, of which \$230m will come from the World Bank, \$315m will be from the Bank's International Development Association and donors' grant, and \$3.2m will originate from the Bank's State and Peace-Building Fund. Further, the Bank expected the International Finance Corporation's (IFC) long-term finance commitments to the Lebanese private sector to be limited to between \$25m and \$30m per year during the first two years of the CPF. The IFC is the World Bank's private sector arm. The Bank indicated that the CPF is well defined for the first two years of implementation, but it noted that the CPF does not provide a detailed plan for later years in order to allow for flexibility in responding to the government's emerging priorities and evolving market conditions, and to adapt to any changes in current conditions.

The Bank's ongoing engagement in Lebanon amounts to \$909.2m, as it allocated \$760.8m to projects that aim to expand the access to and the quality of service delivery and the remaining \$148.4m to projects that aim to improve economic opportunities and develop human capital in the country.

Mobile cellular penetration trails global and Arab rates

Figures released by the International Telecommunication Union indicate that Lebanon ranked in 146th place among 208 countries at the end of 2015 in terms of mobile cellular penetration, which is the number of subscriptions to the service per 100 inhabitants. Lebanon's rank dropped by six spots from its rank in 2014 based on the same set of countries year-on-year. Lebanon also came in 15th place among 20 Arab countries and ranked in 43rd place among 52 upper middle-income countries (UMICs) included in the survey. Lebanon's rank was unchanged among Arab countries and among UMICs from the preceding year. Lebanon had 87.07 mobile subscriptions per 100 inhabitants in 2015, constituting a decrease of 1.5% from 88.35 subscriptions per 100 inhabitants in 2014. Lebanon's mobile penetration rate was lower than the global average of 98.6 subscriptions per 100 inhabitants, the developing economies' average of 93 subscriptions per 100 inhabitants and the Arab average of 110.5 subscriptions per 100 inhabitants last year. Also, the mobile cellular penetration rate in Lebanon grew by a compound annual growth rate (CAGR) of 5.7% during the 2010-15 period compared to a CAGR of 6.3% for developing economies and of 4.7% for Arab countries. On a global basis, Lebanon had a higher penetration rate than Mexico, Zimbabwe and Bangladesh, and a lower rate than Bolivia, Bosnia & Herzegovina and Puerto Rico among economies with a GDP of \$10bn or more. Also, Lebanon ranked ahead of Mexico, and came behind Bosnia & Herzegovina among UMICs that have a GDP of \$10bn or more.

Mobile Cellular Penetration Rates at end-2015



Source : ITU, Byblos Research

In parallel, Lebanon ranked in 86th place among 211 countries in terms of fixed telephone lines penetration last year, which represents the number of subscriptions to fixed telephone lines per 100 inhabitants. Lebanon's rank rose by two spots from its rank in 2014 based on the same set of countries. Lebanon also ranked in third place among 20 Arab countries and in 16th position among 52 UMICs in 2015. Lebanon's rank remained the same among Arab countries and dropped by one position among UMICs year-on-year. Lebanon had 19.19 fixed telephone lines subscriptions per 100 inhabitants in 2015, down by 1.3% from 19.45 subscriptions per 100 inhabitants in 2014. Lebanon's penetration rate was higher than the global average of 14.3 subscriptions, the developing countries' average of 9.3 subscriptions per 100 inhabitants and the Arab average of 7.8 subscriptions per 100 inhabitants. Also, the penetration rate of fixed telephone lines in Lebanon grew by a CAGR of -0.1% during the 2010-15 period compared to a CAGR of -4.8% for developing economies and of -4.5% for Arab countries. On a global basis, Lebanon had a higher penetration rate than Lithuania, Azerbaijan and Armenia, and a lower rate than Romania, Latvia and Chile among economies with a GDP of \$10bn or more. Also, Lebanon ranked ahead of Azerbaijan, and came behind Romania among UMICs that have a GDP of \$10bn or more.

Number of new construction permits up 13%, surface area up 8% in first half of 2016

The Orders of Engineers & Architects of Beirut and of Tripoli issued 8,360 new construction permits in the first half of 2016, constituting an increase of 13.1% from 7,393 permits in the first half of 2015, and relative to a drop of 15.8% in the same period of 2015. Mount Lebanon accounted for 38.6% of newly-issued construction permits in the first half of 2016, followed by the South with 19.2%, Nabatieh with 14.3%, the North with 11.9%, the Bekaa with 9.5%, and Beirut with 4.2%. The remaining 2.3% represent permits issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon. The number of new construction permits issued for the North rose by 31.4% year-on-year in the first half of 2016, followed by permits for the South (+31.1%), Nabatieh (+23.2%), the Bekaa (+8.9%) and Mount Lebanon (+3.2%). In contrast, the number of new construction permits issued for Beirut dropped by 21.7% year-on-year in the first half of 2016, while permits issued for regions located outside northern Lebanon grew by 38.8% year-on-year.

Further, the surface area of granted construction permits reached 6,409,383 square meters (sqm) in the first half of 2016, representing a rise of 7.5% from the first half of 2015. In comparison, the surface area of granted construction permits regressed by 19% year-on-year in the first half of 2015. Mount Lebanon accounted for 2,841,312 sqm, or 44.3% of the total in the first half of 2016. The South followed with 926,895 sqm (14.5%), then the North with 827,907 sqm (12.9%), Nabatieh with 648,714 sqm (10.1%), the Bekaa with 614,137 sqm (9.6%) and Beirut with 235,429 sqm (3.7%). The remaining 314,989 sqm, or 4.9% 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 construction permits issued for the South region grew by 33.1% year-on-year in the covered period, followed by Nabatieh (+24.6%), the Bekaa (+22.5%), the North (+5.6%) and Mount Lebanon (+0.9%). In contrast, the surface area of construction permits issued for Beirut decreased by 23.4%. The surface area of granted construction permits for regions located outside northern Lebanon dropped by 5.9% year-on-year. In parallel, cement deliveries totaled 2.06 million tons in the first five months of 2016, constituting an increase of 14.5% from 1.8 million tons in the same period of 2015 and relative to a drop of 20.3% in the first five months of 2015.



Lebanon ranks 82nd globally, 10th in Arab world on Logistics Performance Index

The World Bank's Logistics Performance Index (LPI) for 2016 ranked Lebanon in 82nd place among 160 countries worldwide and in 10th place among 18 Arab countries. In comparison, Lebanon came in 85th place globally and in ninth place regionally in the 2014 survey, and ranked in 96th place globally and in 12th place regionally in the 2012 survey. Also, Lebanon ranked in 19th place among 40 upper middle-income countries (UMICs) in the current survey.

The LPI provides a cross-country assessment of the logistics gap among countries and reflects perceptions of the logistics environment of trading partner countries. It is based on a survey of operators worldwide that provides feedback on the logistics "friendliness" of the countries in which they operate and those with which they trade. The LPI is a composite of six sub-indices of supply chain performance that cover customs procedures, logistics costs, infrastructure quality, ability to track and trace shipments, and timeliness in reaching a destination. The survey assigned scores to the main index and its sub-categories that range from one to five points, with five reflecting the best performance.

Globally, Lebanon has a better logistics environment than El Salvador, Mozambique and Morocco, and a less favorable logistics climate than Namibia, Ukraine and Burkina Faso among economies with a GDP of \$10bn or more. It ranked ahead of Costa Rica and the Dominican Republic and came behind Namibia and Kazakhstan among UMICs. Lebanon received a score of 2.72 points, nearly unchanged from 2.73 points in the 2014 survey. Lebanon's score was lower than the global average of 2.88 points, the UMICs' average of 2.73 points and the Arab average of 2.77 points. Also, Lebanon's score was lower than the Gulf Cooperation Council's (GCC) average score of 3.40 points, but higher than the average score of non-GCC Arab countries of 2.46 points.

Lebanon ranked ahead of Bosnia & Herzegovina and came behind Egypt on the Customs Sub-Index, which reflects the efficiency and effectiveness of customs and other border procedures. It came ahead of Saudi Arabia and ranked behind Egypt on this category among Arab countries. Further, Lebanon came ahead of Peru and trailed Indonesia on the Infrastructure Sub-Index, while it ranked ahead of Algeria and came behind Jordan in the region. This category measures the quality of trade- and transport-related infrastructure. In addition, Lebanon came ahead of Mozambique and trailed Mali on the Logistics Quality & Competence Sub-Index, while it ranked ahead of Sudan and came behind Libya among Arab countries. This category reflects the competence and quality of logistics services, such as transport operators and customs brokers.

In parallel, Lebanon ranked ahead of Mozambique and came behind Costa Rica on the Tracking & Tracing Sub-Index, which measures the ability to track and trace shipments. It also came ahead of Tunisia and trailed behind Algeria on this category among Arab countries. Finally, Lebanon ranked ahead of Myanmar and trailed Bangladesh on the Timeliness Sub-Index, while it ranked ahead of Libya and came behind Tunisia in the Arab world. This category assesses the number of times that shipments reach the consignee within the scheduled or expected delivery time.

Logistics Performance Index for 2016

Country	Arab Rank	Global Rank	Score
UAE	1	13	3.94
Qatar	2	30	3.60
Bahrain	3	44	3.31
Oman	4	48	3.23
Egypt	5	49	3.18
Saudi Arabia	6	52	3.16
Kuwait	7	53	3.15
Jordan	8	67	2.96
Algeria	9	75	2.77
Lebanon	10	82	2.72
Morocco	11	86	2.67
Sudan	12	103	2.53
Tunisia	13	110	2.50
Djibouti	14	134	2.32
Libya	15	137	2.26
Iraq	16	149	2.15
Mauritania	17	157	1.87
Syria	18	160	1.60

Source: World Bank, Byblos Research

Logistics Performance Indicators for Lebanon

Indicator	Arab Rank	Global Rank	Change in Rank*
Customs	7	66	+58
Infrastructure	9	74	+15
International Shipments	10	75	+43
Logistics Quality & Comp.	13	108	- 41
Tracking and Tracing	10	78	-34
Timeliness	13	111	-3

*change in global rank from 2014; (+) reflects an improvement in rank

Source: World Bank, Byblos Research

Logistics Performance Scores by Category

Indicator	Lebanon Score	Arab Average	Global Average
Customs	2.73	2.51	2.71
Infrastructure	2.64	2.64	2.75
International Shipments	2.84	2.87	2.87
Logistics Quality & Comp.	2.45	2.69	2.82
Tracking and Tracing	2.75	2.72	2.86
Timeliness	2.86	3.18	3.27

Source: World Bank, Byblos Research

Consumer Price Index down 3% in first half of 2016

The Central Administration of Statistics' Consumer Price Index regressed by 2.6% year-on-year in the first half of 2016. Also, the CPI decreased by 1% in June 2016 from June 2015. The prices of clothing and footwear rose by 6% year-on-year in June 2016, followed by actual rents (+3.7%), imputed rents and prices at restaurants & hotels (+2.6% each), recreation & entertainment (+2.5%), miscellaneous goods & services and the cost of education (+1.5% each), prices of alcoholic beverages & tobacco (+0.7%) and the cost of furnishings & household equipment (+0.5%). The distribution of actual rent shows that old rents grew by 5.8% annually in June 2016, while new rents increased by 2.2% from the same month of 2015. In contrast, the price of water, electricity, gas & other fuels fell by 8.1% year-on-year in the first half of the year, followed by transportation costs (-6%), healthcare costs (-1.7%), food & non-alcoholic beverages (-1%) and communication costs (-0.1%).

Further, the CPI grew by 0.7% in June 2016 from the preceding month, relative to a month-on-month increase of 0.1% in May 2016. Prices of water, electricity, gas & other fuel rose by 2.7% month-on-month, followed by recreation & entertainment (+2%), transportation costs (+1.2%), actual rents (+0.6%), imputed rents (+0.5%), prices of food & non-alcoholic beverages and those of furnishings & household equipment (+0.3% each), communication costs (+0.2%), healthcare costs and miscellaneous goods and services (+0.1% each). In contrast, the prices of clothing and footwear dropped by 0.2% from the preceding month. Further, the cost of education, prices at restaurants & hotels and those of alcoholic beverages & tobacco were nearly unchanged month-on-month in June 2016. The CPI grew by 1.6% month-on-month in the Bekaa region, by 1.1% in Nabatieh, by 1% in each of the South and the North, by 0.4% in Mount Lebanon and by 0.2% in Beirut. In parallel, the Fuel Price Index grew by 5.2% month-on-month in June 2016, while the Education Price Index was unchanged from the preceding month.

Value of real estate transactions up 14% to \$4.1bn in first half of 2016

Figures released by the Ministry of Finance indicate that there were 29,988 real estate transactions in the first half of 2016, constituting an increase of 4.4% from 28,722 deals in the same period of 2015. In comparison, the number of real estate transactions dropped by 15.8% in the first half of 2015. There were 6,459 real estate transactions in the Baabda area during the first half of 2016 and represented 23.5% of the total. The Zahlé region followed with 3,478 (12.7%), then the Metn district with 3,362 (12.3%), the North with 3,258 transactions (11.9%), the Keserwan area with 3,221 (11.7%), the South with 2,993 (10.9%), Nabatieh with 2,740 (10%) and Beirut with 1,931 (7%).

Also, the aggregate value of real estate transactions reached \$4.1bn in the first half of 2016 and increased by 14% from \$3.6bn in the same period of 2015. In comparison, the value of real estate deals totaled \$4.5bn in the first half of 2014. The value of real estate transactions in Beirut reached \$1.1bn and accounted for 27.9% of the total. The Baabda district followed with \$954m (24.6%), then the Metn region with \$692m (17.9%), the Keserwan area with \$414.6m (10.7%), the South with \$297.2m (7.7%), the North with \$187.6m (4.8%), the Zahlé area with \$140m (3.6%) and Nabatieh with \$108.1m (2.8%).

In parallel, the average value per real estate transaction was \$136,358 in the first half of 2016, up by 9.2% from an average value of \$124,905 in the same period of 2015 and relative to \$131,468 in the first half of 2014. Further, there were 477 real estate transactions executed by foreigners in the first half of 2016, which constitutes a decrease of 28.7% from 669 deals in the same period of 2015, and compared to an annual increase of 31.2% in the first half of 2015 and a drop of 14.1% in the same period of 2014.

The number of real estate transactions by foreigners accounted for 1.6% of total real estate deals in the first half of 2016 compared to 2.3% of deals in the same period of 2015 and to 1.5% of deals in the first half of 2014. In parallel, 30.8% of executed real estate transactions by foreigners were in the Baabda district during the first half of 2016, followed by Beirut (21.3%), the Metn region (16.7%), the Keserwan area (10.5%), the South (10.1%), Zahlé (4%), Nabatieh and the North (3.3% each).

Treasury transfers to Electricité du Liban down 57% to \$90.6m in first two months of 2016

Figures released by the Finance Ministry show that Treasury transfers to Electricité du Liban (EdL) totaled \$90.6m in the first two months of 2016, constituting a drop of 56.6% from \$208.5m in the same period of 2015. The ministry said that reimbursements to the Kuwait Petroleum Corporation (KPC) and to the Algerian energy conglomerate Sonatrach totaled \$85.9m, or 94.8% of transfers in the first two months of the year, while EdL's debt servicing represented the balance of \$4.8m, or 5.2% of the total. It attributed the decline in transfers to a decrease of \$115.9m, or 57.4%, in payments to KPC and Sonatrach in the covered period, as well as to a drop of \$2.1m, or 30.6%, in debt servicing. The ministry said that the decline in payments to KPC and Sonatrach reflects a 40.1% year-on-year decrease in oil prices at the time the oil contracts were executed, a 10.1% drop in the quantity of imported fuel oil and a 2.1% decline in the quantity of imported gas oil. Also, it pointed out that EdL contributed 9.8% of the repayments to the two oil suppliers in the first two months of 2016, up from 2.1% in the same period last year. EdL transfers accounted for 4.5% of primary expenditures in the first two months of 2016, compared to 14.6% in the same period of 2015. They constituted the third largest expenditures item after debt servicing and public sector salaries & wages in overall fiscal spending. EdL transfers were equivalent to 5.1% of GDP in 2012, 4.3% of GDP in 2013, 4.1% of GDP in 2014 and to 2.7% of GDP in 2015.



Fitch Ratings downgrades banks' ratings to 'B-', outlook 'stable'

Fitch Ratings downgrade the long-term Issuer Default Ratings (IDRs) of Bank Audi and Byblos Bank from 'B' to 'B-', and revised the outlook on the IDRs from 'negative' to 'stable'. It also lowered the two banks' Viability Ratings (VR) from 'b' to 'b-'. It said that the downgrades follow its similar action on Lebanon's sovereign ratings. It noted that the ratings are limited by the sovereign ratings due to the banks' substantial holdings of government debt and of Certificates of Deposit issued by the Central Bank, and that the 'stable' outlook mirrors that of the sovereign.

The agency indicated that the two banks' long-term IDRs are driven by their intrinsic strength. It added that the operating environment and the banks' asset quality have a high influence on their VR. It noted that the ratings take into account the banks' strong domestic franchise, experienced management, solid liquidity and resilient deposit base. It considered that the two banks' capitalization is weak, mainly due to their large holdings of sovereign debt and of Certificates of Deposit issued by the Central Bank.

Fitch Ratings indicated that it is unlikely to upgrade the banks' ratings in the short- to medium-term, given their key role in financing the sovereign, which would keep their exposure to the sovereign elevated. It said that it would further downgrade the banks' ratings in the event of a prolonged weakening of the operating environment that would significantly reduce depositor confidence, or if the banks' asset quality significantly deteriorates and reduces their capital base.

In parallel, the agency pointed out that the Lebanese authorities would have a high willingness to support the two banks in case of need, given their systemic importance to the banking sector and to the economy as a whole. But it noted that the authorities' ability to provide such support cannot be relied upon. It added that the authorities could face difficulties in providing system-wide support for the banking sector, including to Byblos Bank and Bank Audi, if needed.

Central Bank asks banks to build provisions to meet future requirements

The Central Bank of Lebanon issued Intermediate Circular 428 on June 25, 2016, which amends Basic Circular 66 dated December 24, 1999 about the financial operations and financial market activity of banks, financial institutions and financial intermediaries in Lebanon. The amendment consisted of adding a new Article to the original circular.

The circular asked banks to use the surplus of funds, which they generated from the operations of selling local-currency Treasury Bonds from their portfolio and buying Eurobonds simultaneously, as provisions in Lebanese pounds to be included in their Tier Two Capital. The circular indicated that the provisions would prepare banks to meet the IFRS9 requirements that will come into force in January 2018. It added that in case the banks' generated funds from such operations exceed the amount required to meet the IFRS9 standards, then they can release the excess from provisions upon the Central Bank's approval.

The IFRS9 is a Standard issued by the International Accounting Standards Board in July 2014. Its Impairment Requirement asks banks to establish an expected credit loss (ECL) measurement for their portfolio of financial instruments. The ECL will be applied to the banks' holdings of all credit assets, including government securities, placement with banks and lending to the private sector.

Sogecap's net income at \$10m in 2015

Sogecap Liban sal, the insurance affiliate of Société Générale de Banque au Liban sal, announced audited net profits of \$9.5m in 2015, constituting an increase of 4.8% from net earnings of \$9.1m in 2014. Its audited balance sheet shows total assets of \$128.6m at the end of 2015, constituting an increase of 8.8% from end-2014. On the assets side, general company investments totaled \$100.4m and increased by 9.9% from \$91.4m at end-2014. They included \$63.1m in cash & cash equivalents, \$35.3m in fixed income investments, \$0.8m in blocked bank deposits in favor of the Economy Ministry as guarantees and \$0.6m in land and real estate.

Also, unit-linked contract investments totaled \$25.6m at end-2015, constituting a rise of 5% from \$24.4m a year earlier. They included \$13.3m in cash & similar investments which rose by 7% year-on-year, and \$12.3m in variable income investments that increased by 2.9% from end-2014. The reinsurance share in technical reserves for the life category amounted to \$0.9m, constituting a decrease of 20.2% from \$1.1m at end-2014.

In parallel, technical reserves for the life segment grew by 9.7% year-on-year to \$68.4m. Provisions for risks and charges reached \$1.4m and increased by 28.6% from the previous year. Also, the firm's shareholders' equity totaled \$31.3m at end-2015 and rose by 10.5% from \$28.3m a year earlier.

Al-Bayan magazine's annual survey of the life insurance sector in Lebanon ranked Sogecap Liban in seventh place in 2015 in terms of life premiums. The firm's life premiums reached \$30.8m last year, constituting a rise of 7.3% from \$28.8m in 2014. It had a 6.5% share of the life market in 2015.

Ratio Highlights

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

* Change in basis points 14/15

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

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

Risk Metrics

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

MENA Average*	Oct 2014	Sep 2015	Oct 2015	Change**	Risk Level
Political Risk Rating	57.1	57.6	57.7	▼	High
Financial Risk Rating	40.6	39.2	39.3	▲	Low
Economic Risk Rating	35.6	31.3	31.2	▲	Moderate
Composite Risk Rating	66.6	64.0	64.1	▲	Moderate

*excluding Lebanon

**year-on-year change in risk

Source: The PRS Group, Byblos Research

Note: Political & Composite Risk Ratings range from 0 to 100 (where 100 indicates the lowest risk)

Financial & Economic Risk ratings range from 0 to 50 (where 50 indicates the lowest risk)

Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's	B2	NP	Negative	B2		Negative
Fitch Ratings	B-	B	Stable	B-		Stable
Standard & Poor's	B-	B	Negative	B-	B	Negative
Capital Intelligence	B	B	Negative	B	B	Negative

Source: Rating agencies

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



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