

LEBANON THIS WEEK

In This Issue

Economic Indicators.....1
Capital Markets.....1
Lebanon in the News.....2

Global investment banks react to government formation

Government formation reduces near-term risks, provides opportunity for reforms

Lebanon ranks 154th globally, 12th among Arab countries in economic freedom, economy remains "mostly unfree"

Banque du Liban launches \$1.1bn stimulus package for 2019

Value of cleared checks down 2.5%, returned checks up 14% in 2018

Revenues through Port of Beirut at \$221m in first 11 months of 2018

Lebanon ranks 138th globally, 13th among Arab countries on corruption index

Industrial exports up 4% to \$2bn in first 10 months of 2018

Trade deficit up 2% to \$16bn in first 11 months of 2018

Utilized credits by private sector at \$70bn at end-September 2018, advances against real estate account for 38.5% of total

Commercial activity deteriorates year-on-year in third quarter of 2018

Corporate Highlights8

Byblos Bank's net profits at \$165m in 2018, foreign currency liquidity at 16.5% of deposits

Aggregate net profits of listed banks up 4% to \$1.45bn in 2018

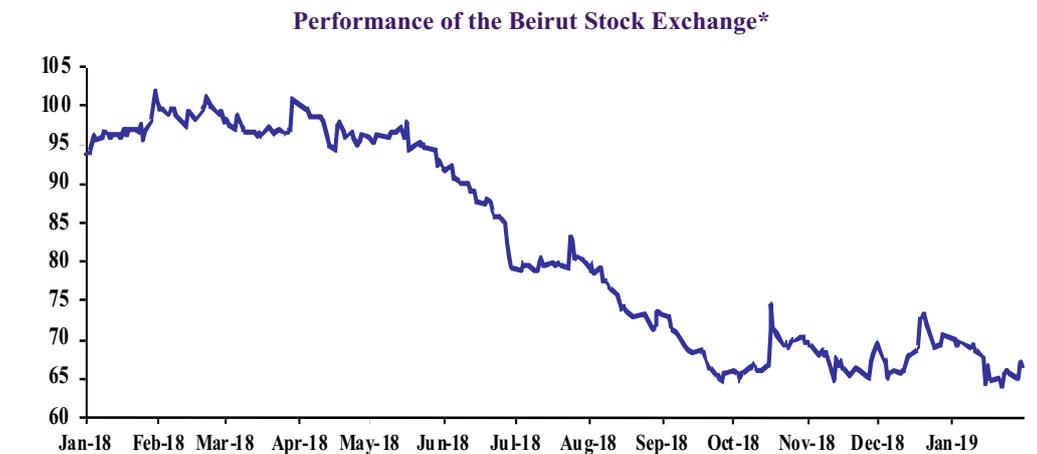
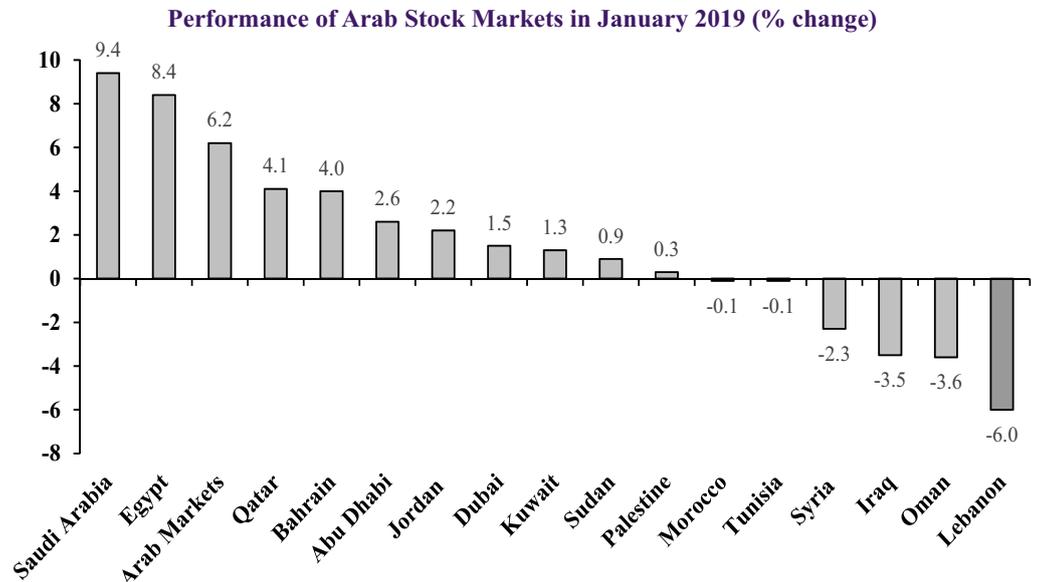
Stock market index down 6% in January 2019

Top five freight forwarders' import activity down 12% in first 11 months of 2018, export activity down 23%

Al-Mustaqbal newspaper suspends print edition

Ratio Highlights.....9
Risk Outlook9
Ratings & Outlook.....9

Charts of the Week



*Capital Markets Authority Value Weighted Index

Source: Local Stock Markets, Capital Markets Authority, S&P Dow Jones Indices, Arab Federation of Exchanges, Byblos Bank

Quote to Note

"Making progress on the fight against corruption and reforming the electricity sector will be essential to restore confidence, revitalize the economy and promote growth, stability and employment in the long term."

Mr. Philippe Lazzarini, Deputy UN Special Coordinator for Lebanon, on some of the responsibilities facing the newly-formed government

Number of the Week

252: Number of days that Prime Minister-designate Saad Hariri needed to form the new national unity government

Lebanon in the News

\$m (unless otherwise mentioned)	2017	Jan-Nov 2017	Jan-Nov 2018	% Change*	Nov-17	Oct-18	Nov-18
Exports	2,844	2,593	2,706	4.36	229	265	242
Imports	19,582	17,949	18,410	2.57	1,726	1,718	1,536
Trade Balance	(16,738)	(15,356)	(15,704)	2.27	(1,497)	(1,454)	(1,294)
Balance of Payments	(156)	(1,010)	(4,076)	303.72	68	(1,810)	(954)
Checks Cleared in LBP	21,677	19,544	20,110	2.90	1,880	2,064	1,875
Checks Cleared in FC	46,578	42,444	40,975	(3.46)	3,687	4,017	3,481
Total Checks Cleared	68,255	61,988	61,085	(1.46)	5,567	6,081	5,356
Fiscal Deficit/Surplus**	(3,755.9)	(2,003.4)	(4,507.7)	125.01	(492.4)	(1,125.4)	-
Primary Balance**	1,427.8	1,628.9	(590.9)	-	(52.6)	(665.1)	-
Airport Passengers***	8,235,845	7,608,979	8,164,597	7.30	592,890	684,617	628,205
Consumer Price Index****	4.4	4.4	6.3	190bps	4.8	6.3	5.8

\$bn (unless otherwise mentioned)	2017	Nov 2017	Aug 2018	Sep 2018	Oct 2018	Nov 2018	% Change*
BdL FX Reserves	35.81	35.69	33.92	34.15	34.62	33.56	(5.95)
In months of Imports	18.57	20.68	18.64	23.75	20.15	21.85	5.68
Public Debt	79.53	79.37	83.69	83.85	84.03	83.64	5.38
Bank Assets	219.86	216.21	238.46	241.12	242.61	246.51	14.01
Bank Deposits (Private Sector)	168.66	166.81	173.22	173.94	173.25	173.19	3.82
Bank Loans to Private Sector	59.69	59.05	59.40	59.42	59.15	59.21	0.26
Money Supply M2	52.51	52.04	53.21	52.71	52.06	51.55	(0.95)
Money Supply M3	138.62	137.29	141.04	141.35	140.24	140.32	2.21
LBP Lending Rate (%)	8.09	7.98	8.81	9.31	9.60	10.15	217bps
LBP Deposit Rate (%)	6.41	5.88	7.03	7.39	7.74	7.97	209bps
USD Lending Rate (%)	7.67	7.32	8.12	8.11	8.30	8.57	125bps
USD Deposit Rate (%)	3.89	3.80	4.20	4.36	4.63	4.90	110bps

*year-on-year **figures are for first nine 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
Solidere "A"	6.71	4.52	78,054	7.13%
Solidere "B"	6.54	2.67	76,734	4.52%
BLOM Listed	9.05	(0.55)	54,704	20.69%
BLOM GDR	8.89	(1.22)	38,500	6.98%
Audi GDR	4.75	0.00	20,437	6.06%
Byblos Common	1.36	0.74	6,100	8.18%
HOLCIM	15.33	(1.10)	2,363	3.18%
Audi Listed	4.64	0.00	-	19.72%
Byblos Pref. 09	70.00	0.00	-	1.49%
Byblos Pref. 08	72.00	0.00	-	1.53%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
May 2019	6.00	99.50	7.64
Mar 2020	6.38	96.00	10.31
Apr 2021	8.25	95.50	10.59
Oct 2022	6.10	88.00	10.09
Jun 2025	6.25	83.50	9.80
Nov 2026	6.60	83.50	9.65
Feb 2030	6.65	81.75	9.33
Apr 2031	7.00	81.00	9.68
Nov 2035	7.05	82.25	9.14
Mar 2037	7.25	81.50	9.39

Source: Byblos Bank Capital Markets

	Jan 28-Feb 1	Jan 21-25	% Change	January 2019	January 2018	% Change
Total shares traded	293,712	706,826	(58.4)	50,963,287	5,509,441	825
Total value traded	\$2,079,073	\$5,190,327	(59.9)	\$152,075,282	\$45,845,113	231.7
Market capitalization	\$9.41bn	\$9.38bn	0.24	\$9.38bn	\$11.77bn	(20.3)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Jan 25, 2019	Feb 1, 2019	% Change**
CDS 1-year*	965.03	863.08	(10.6)
CDS 3-year*	865.1	767.51	(11.3)
CDS 5-year*	792.6	718.72	(9.3)

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

CDX EM 30*	Jan 25, 2019	Feb 1, 2019	% Change***
CDS 5-year**	96.67	96.85	0.19

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

mid-spread in bps *week-on-week

Global investment banks react to government formation

Bank of America Merrill Lynch (BofAML) indicated that the formation of the new government helps authorities restore domestic confidence and provides an opportunity to address macroeconomic imbalances in Lebanon. It considered that the new government will implement some fiscal reforms. But it said that the economy needs deeper reforms and a pick-up in deposit growth to safeguard medium-term financial and economic stability, given the challenging macroeconomic fundamentals of the country.

BofAML considered that the Cabinet's formation is important, as it will end policy paralysis and will help unlock donor funding that requires institutional continuity, amid the urgent need to implement reforms. It pointed out that the government's priorities will be to accelerate the needed economic reforms. It said that authorities are likely to aim to pass the 2019 Budget during the coming few weeks, but it noted that the budget is unlikely to incorporate significant fiscal reforms. It added that a second licensing round for offshore oil & gas exploration and production in Lebanon is due to be launched in early 2019. Further, it considered that the government could aim to formulate and approve a broad economic reform plan over the next several months at the earliest. It noted that some fiscal reforms, such as reintroducing taxes on petroleum products, raising the value-added tax rate and increasing electricity tariffs, are not currently backed by a political consensus. It said that, once the reform plan is finalized, the government could then submit it to donors with the aim to unlock CEDRE funds for the first phase of the Capital Investment Program. It noted that the largest projects in this phase are import-intensive, which could limit net capital inflows.

In parallel, J.P. Morgan pointed out that the yields on Lebanon's 10-year Eurobonds have declined to 9.4%, down by 230 basis points since mid-January 2019, supported by improved sentiment with the end of the nine-month political deadlock. It said that the formation of the Cabinet and the implementation of reforms would continue to support sentiment despite the significant challenges facing the Lebanese economy. It considered that downside risks have receded despite geopolitical tensions and economic challenges, and that the deteriorating conditions have provided momentum for reform.

Further, it indicated that the new government comes with a mandate to address Lebanon's urgent economic challenges. It anticipated that approving an economic plan to narrow the fiscal deficit, estimated at about 10% of GDP in 2018, will be the government's top priority. It expected the government to quickly approve the economic reform plan, given that a draft plan is ready. Also, it said that the passage of these reforms is unlikely to face opposition in Parliament due to the broad representation of political parties in the Cabinet. It noted that the economic plan would include fiscal measures to narrow the fiscal deficit by 1% of GDP annually over the next five years through spending restraint and electricity tariff hikes, among others.

Government formation reduces near-term risks, provides opportunity for reforms

Global investment bank Goldman Sachs indicated that the formation of a government in Lebanon significantly reduces near-term political uncertainties and should support Lebanese Eurobonds in the short term. First, it pointed out that the government's formation provides an opportunity for Lebanon to make progress on its economic agenda, which should include a budget for 2019 and the rapid implementation of reforms, such as to the electricity sector. Second, it said that the existence of a government creates an opportunity for Lebanon to mobilize the \$11bn that the international community pledged at the CEDRE conference in April 2018, as the disbursement of funds depends on the implementation of several economic measures that are only possible when a Cabinet is in place. Third, it said that the formation of a government increases the likelihood of the materialization of the pledged financial support from Qatar and Saudi Arabia. It added that Qatar already announced plans to purchase \$500m in Lebanese Eurobonds from Banque du Liban's (BdL) portfolio, while Saudi Arabia pledged unspecified financial support. It estimated that financial support from Saudi Arabia will be in the form of deposits at BdL and is likely to exceed Qatar's initiative.

However, Goldman Sachs pointed out that the government's immediate challenge is to reduce external vulnerabilities. It estimated Lebanon's external funding gap at \$11bn in 2019, with a relatively benign financing outlook. It said that rolling over maturing Eurobonds could close about \$3.5bn of the funding gap this year. It added that yields on Lebanese Eurobonds have significantly decreased in recent days and the possibility that Lebanon taps international capital markets has increased. Also, it estimated about \$3.5bn in financial support from Qatar and Saudi Arabia, which, along with external debt rollover, would narrow the external funding gap to \$4bn. It said that BdL can comfortably cover the remaining gap through its gross foreign currency reserves that reached \$33.5bn at end-November 2018, as well as through its sustained financial engineering operations with commercial banks. It considered that the government has the opportunity to capitalize on the momentum created by recent positive developments in order to minimize potential downside risks. It indicated that potential downside risks to the outlook in 2019 include lower-than-expected remittance inflows, lower-than-estimated financial support from Qatar and Saudi Arabia, the government's inability to roll over maturing Eurobonds and the possibility of capital outflows.

Further, the investment bank did not expect the disbursement of CEDRE-related funds to significantly change Lebanon's financing outlook, as it considered that such flows would likely be small relative to the country's external financing requirements. Also, it noted that CEDRE-related inflows would mostly finance infrastructure projects, which means that they may lead to a pickup in imports that would reduce the net financial benefits to the balance of payments.

In addition, Goldman Sachs considered that putting public finances on a more sustainable path, which requires a fiscal adjustment of about 8% of GDP, is a key challenge for the new government. It said that narrowing the fiscal deficit would require either a sharp drop in interest rates or a significant increase in growth prospects, which could be possible but are highly dependent on regional economic and political developments.

Lebanon ranks 154th globally, 12th among Arab countries in economic freedom, economy remains "mostly unfree"

The Heritage Foundation's Index of Economic Freedom for 2019, a broad indicator of economic freedom in 180 countries, ranked Lebanon in 154th place worldwide and in 12th place among 15 Arab countries that have a full dataset. Lebanon came in 41st place among 49 upper middle-income countries (UMICs) included in the survey. Lebanon ranked in 140th place globally and in 12th place among Arab countries in 2018, while it ranked in 137th place globally and in 11th place in the Arab world on the 2017 index.

The index evaluates individual economies on the basis of 12 equally-weighted broad factors of economic freedom divided into four pillars that are the rule of law, government size, regulatory efficiency and market openness. A country's score ranges between zero and 100, with 100 reflecting the most free economy.

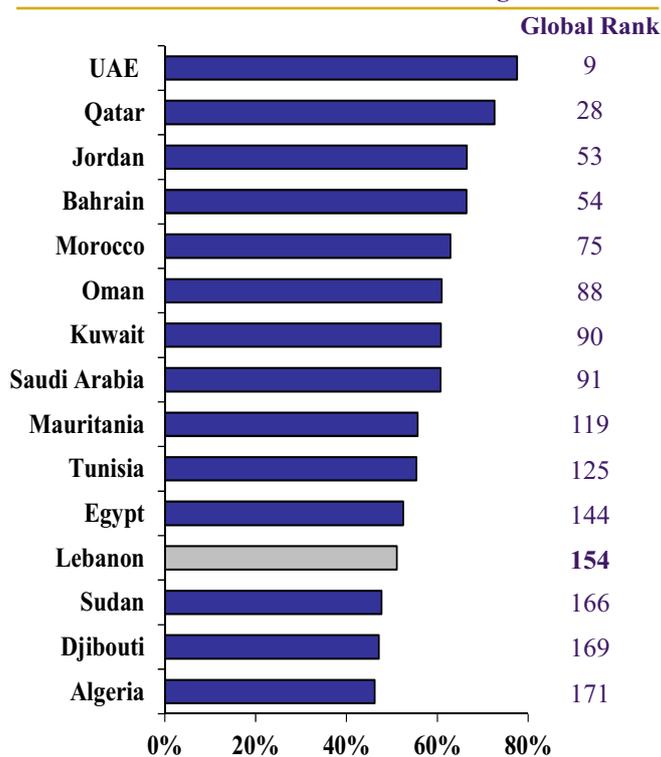
Globally, Lebanon has a higher level of economic freedom than Iran, Angola and the Democratic Republic of the Congo, and a lower level than Brazil, Niger and Afghanistan among economies with a GDP of \$10bn or more. It also has a higher level of economic freedom than Iran, Turkmenistan, Ecuador, Algeria, Equatorial Guinea, Cuba and Venezuela among UMICs.

Lebanon's level of economic freedom reached 51.1% in the 2019 survey relative to 53.2% in 2018 and 53.3% in the 2017 survey. Lebanon's 2019 score was below the global level of economic freedom of 60.8%, the UMICs' level of 59.7% and the Arab level of economic freedom of 58.9%. The survey maintained Lebanon's economic freedom status in the "mostly unfree" category for the seventh consecutive year. Lebanon was downgraded in the 2013 survey from the "moderately free" category.

The survey indicated that the decrease in Lebanon's overall economic freedom score was due to a weaker performance on the judicial effectiveness, trade freedom and investment freedom indicators, despite the modest improvement in the labor freedom indicator.

Lebanon ranked ahead of Madagascar and behind Ethiopia globally, while it came last regionally on the Business Freedom Sub-Index, which reflects the ability to create, operate and close an enterprise without undue interference from the state. This category also measures the extent that the regulatory and infrastructure environments constrain the efficient operation of businesses. Also, Lebanon came ahead of Zambia and behind Ukraine globally, while it came ahead of only Morocco regionally on the Labor Freedom Sub-Index, which assesses the legal and regulatory framework of a country's labor market. Further, Lebanon ranked ahead of Cambodia and behind Bolivia globally, while it came last among Arab countries on the Government Integrity Sub-Index. This category assesses the extent of government intervention in economic activity and the degree of corruption that follows.

**Index of Economic Freedom for 2019
Arab Countries Scores & Rankings**



Source: Heritage Foundation 2019, Byblos Research

Economic Freedom in Lebanon by Category

	Arab Rank	Global Rank	Lebanon Score	Change in Score*	Long-Term Trend**	Arab Avge	Global Avge
Tax Burden	7	19	91.8%	↓	-6.2	88.4%	77.2%
Trade Freedom	6	79	79.0%	↓	+4.0	73.3%	74.4%
Monetary Freedom	7	86	78.1%	↓	+11.7	75.9%	75.4%
Government Spending	2	67	75.6%	↓	-4.3	60.4%	64.5%
Investment Freedom	6	85	60.0%	↓	+10.0	53.7%	57.8%
Financial Freedom	8	72	50.0%	↔	-20.0	51.3%	48.6%
Business Freedom	15	160	47.9%	↓	-22.1	65.4%	64.1%
Labor Freedom	14	152	46.5%	↑	N/A	57.0%	59.6%
Property Rights	10	128	39.5%	↓	-10.5	48.9%	53.0%
Judicial Effectiveness	13	157	26.6%	↓	N/A	45.3%	45.5%
Government Integrity	15	175	18.2%	↓	+8.2	42.4%	42.2%
Fiscal Health	14	175	0.0%	↔	N/A	45.3%	66.9%

*year-on-year; ** Change in score from 1996 in percentage points;

Source: Heritage Foundation 2019, Byblos Research



Banque du Liban launches \$1.1bn stimulus package for 2019

Banque du Liban (BdL) issued Intermediate Circular 515 on January 30, 2019 that amends Basic Circular 23 issued on March 7, 1996 about the facilities that BdL can provide to commercial banks and financial institutions. The circular details BdL's stimulus package for 2019 that subsidizes interest rates on loans to several sectors. The new economic stimulus package represents BdL's eighth consecutive package since 2013.

The circular stipulates that BdL will provide interest rate subsidies on LBP790bn in housing loans, on LBP45bn in loans to higher education, on LBP25bn in micro credits, and on LBP5bn in loans through the Kafalat Corporation. Also, BdL will subsidize 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.

The circular specified several criteria for loans that benefit from BdL's subsidies. It said that loans under the new stimulus have to finance new projects or to fund the development of existing ones, and cannot be used to refinance existing projects, to repay loans, to buy shares or participations, or to finance projects with the government or any public institution. Also, it noted that loans can be used to buy or build a residential unit for one time only, and that the residential unit must be the primary residence of the loan beneficiary.

The circular indicated that LBP300bn in new mortgages will benefit from the subsidies. According to the circular, commercial banks that plan to extend subsidized mortgages have to exchange US dollars for Lebanese pounds from BdL and place them in a special account at BdL in order to utilize them to extend such loans. It stipulated that BdL will exclude housing loans under this mechanism from the calculation of the 25% ceiling that it previously imposed on the banks' loans-to-deposits ratio in Lebanese pounds. The circular added that the remaining LBP490bn in housing loans constitute the amount of 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 from 2019, while banks will bear the cost of the subsidies in 2018.

Under the current stimulus package, lending rates across most loan categories will increase compared to the previous packages. Specifically, the interest rate on the incentive housing loan increased from 4.75% to at least 5.94%, while the rate on housing loans approved by the Public Corporation for Housing rose from 3.78% to at least 5.5%. Also, the subsidized interest rate on housing loans under different protocols signed between banks and public institutions increased from 2.628% to at least 5.5% currently, while the interest rates on mortgages extended by Banque de l'Habitat was unchanged at 3.75%. Further, the circular indicated that an increase in the cost of funds would not lead to a rise in the subsidies provided by BdL, which means that loan beneficiaries will bear the difference. In contrast, a decrease in the cost of fund would lead to a drop in BdL subsidies, which means that the interest rate on the loan would not change.

Value of cleared checks down 2.5%, returned checks up 14% in 2018

The value of cleared checks reached \$66.6bn in 2018, constituting a decline of 2.5% from \$68.2bn in 2017. In comparison, the value of cleared checks increased marginally by 0.3% in 2017 and decreased by 2.2% in 2016. The value of cleared checks in Lebanese pounds rose by 2.1% to the equivalent of \$22.1bn in 2018, while the value of cleared checks in US dollars declined by 4.6% to \$44.4bn last year. The dollarization rate of cleared checks regressed from 68.2% in 2017 to 66.7% in 2018. There were 11.88 million cleared checks in 2018, down by 2.8% from 12.2 million in 2017.

In parallel, the value of returned checks in domestic and foreign currency was \$1.62bn in 2018 compared to \$1.43bn in 2017 and to \$1.46bn in 2016. This constituted an increase of 13.6% in 2018 relative to decreases of 2.2% in 2017 and of 4.4% in 2016. Also, there were 280,603 returned checks in 2018, up by 19.8% from 234,284 returned checks in 2017.

Revenues through Port of Beirut at \$221m in first 11 months of 2018

Figures released by the Port of Beirut show that the port's overall revenues reached \$221.4m in the first 11 months of 2018, down by 0.6% from \$223m in the same period of 2017. The Port of Beirut handled 7.3 million tons of freight in the covered period, down by 7.8% from 7.9 million tons in the first 11 months of 2017. Imported freight amounted to 6.4 million tons in the first 11 months of 2018 and accounted for 88.2% of the total, while the remaining 859,000 tons, or 11.8%, consisted of export cargo. A total of 1,728 ships docked at the port in the year-to-November 2018, down by 0.9% from 1,743 in the first 11 months of 2017.

In parallel, revenues generated through the Port of Tripoli reached \$14.7m in the first 11 months of 2018, constituting a decrease of 3.1% from \$15.1m in the same period of 2017. The Port of Tripoli handled 1,648,642 tons of freight in the covered period, constituting a decline of 8.1% from 1,794,928 tons in the first 11 months of 2017. Imported freight amounted to 1,345,361 tons and accounted for 81.6% of the total, while the remaining 303,281 tons, or 18.4%, were export cargo. A total of 605 vessels docked at the port in the first 11 months of 2018, constituting a drop of 15.1% from 713 ships in the same period of 2017.

Lebanon ranks 138th globally, 13th among Arab countries on corruption index

Transparency International's 2018 Corruption Perceptions Index ranked Lebanon in 138th place among 180 countries around the world and in 13th place among 21 countries in the Arab region. Also, Lebanon came in 38th place among 48 upper middle-income countries (UMICs) included in the 2018 survey. In comparison, Lebanon ranked in 143rd place among 180 countries around the world and in 13th place among 21 countries in the Arab region. Lebanon's global rank improved by five spots from the 2017 survey based on the same set of countries in both surveys, while it improved by one spot from the 2016 survey based on the same criteria.

Transparency International uses data sources from independent institutions specializing in governance and business climate analysis in order to assess the degree of corruption in the public sector of each country. The rankings are based on scores that range between zero and 100, with lower scores reflecting economies with a high level of corruption.

Globally, Lebanon is perceived to have the same level of corruption as Guinea, Iran, Mexico, Papua New Guinea and Russia. It is also considered to be less corrupt than Guatemala, Kenya and Nigeria, and more corrupt than Bolivia, Kyrgyzstan and Paraguay.

Lebanon received a score of 28 points, unchanged from its score in the 2015, 2016 and 2017 surveys. Lebanon's score came below the global average score of 43 points, the UMICs' average score of 38 points and the Arab region's average score of 34 points. Also, Lebanon's score came below the Gulf Cooperation Council (GCC) countries' average score of 52 points, but was above the average score of non-GCC Arab countries of 27 points.

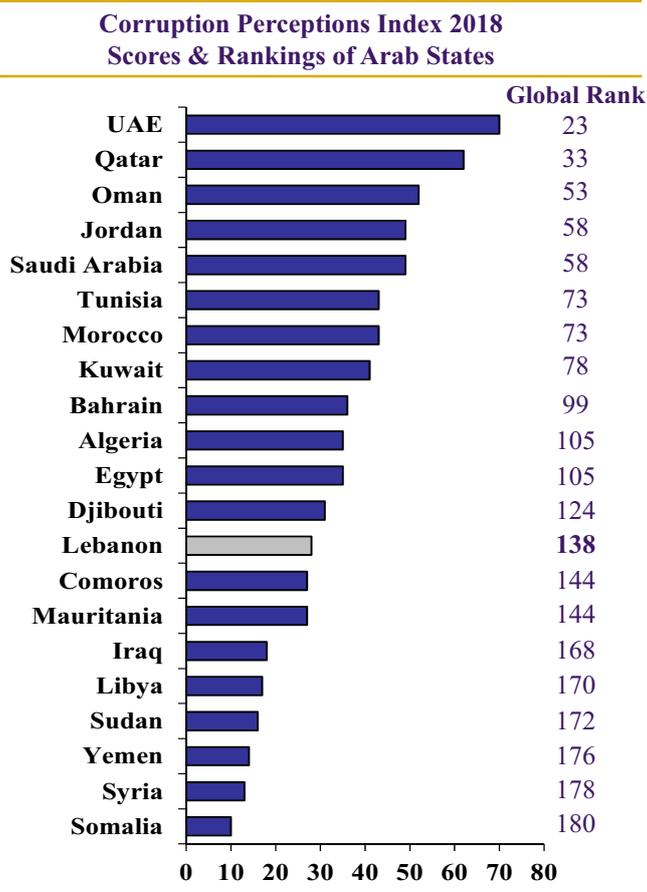
Lebanon was among 33 countries globally that received a score between 20 and 29 points, a category that Transparency International classified as the third worst globally in terms of corruption perception. Denmark was perceived as the least corrupt country worldwide, while the survey found Somalia to be the most corrupt country in the world.

Industrial exports up 4% to \$2bn in first 10 months of 2018

Figures released by the Ministry of Industry show that industrial exports totaled \$2.1bn in the first 10 months of 2018, constituting an increase of 3.6% from \$2.05bn in the same period of 2017. Industrial exports reached \$240m in October 2018, up by 16.4% from \$206.2m in the preceding month, and up by 5.9% from \$226.7m in October 2017.

Exports of chemical products totaled \$397.2m and accounted for 18.7% of aggregate industrial exports in the first 10 months of 2018, followed by machinery & mechanical appliances with \$368.7m (17.4%), base metal exports with \$338m and foodstuffs & tobacco with \$337m (15.9% each), plastics & rubber with \$152.6m (7.2%), and pearls or semi-precious stones with \$121m and paper & paperboard with \$120m (5.7% each). Arab countries were the destination of 50.1% of Lebanese industrial exports in the first 10 months of 2018, followed by European economies with 18.3%, Asian countries with 12.8%, African economies with 11.4%, countries in the Americas with 6%, and markets in Oceania with 0.7%. On a country basis, the UAE was the main destination of Lebanese industrial exports and accounted for 9.6% of the total in the covered period, followed by Saudi Arabia with 7.8%, Syria with 7.5%, Iraq with 6.9%, Turkey with 5.5%, and Qatar with 4.7%. In October 2018, 13 Arab states, 11 economies in Europe, eight countries in Africa, six economies in Asia, two countries in the Americas and one country in Oceania imported \$1m or more each of Lebanese industrial products.

In parallel, imports of industrial equipment and machinery reached \$234.8m in the first 10 months of 2018, up by 8.4% from \$216.6m in the same period of 2017. Italy was the main source of such imports and accounted for 32.5% of the total in the first 10 months of 2018, followed by Germany with 18.8% and China with 13.7%. Further, imports of industrial equipment and machinery amounted to \$24.5m in October 2018, up by 9.4% from \$22.4m in October 2017. Germany was the main source of such imports with \$6.9m and accounted for 28.3% of the total in the covered month, followed by Italy with \$5.9m (24.3%), and China with \$2.5m (10.3%).



Source: Transparency International, Byblos Research

Trade deficit up 2% to \$16bn in first 11 months of 2018

Total imports reached \$18.4bn in the first 11 months of 2018, constituting an increase of 2.6% from \$17.9bn in the same period of 2017; while aggregate exports grew by 4.4% year-on-year to \$2.7bn in the covered period. As such, the trade deficit widened by 2.3% annually to \$15.7bn in the first 11 months of 2018 due to an increase of \$462.1m in imports, which were partly offset by a rise of \$112.8m in exports.

The growth in imports during the covered period was mainly due to an increase of \$679.1m, or 4.9%, in imported non-hydrocarbon products, which was partly offset by a decrease of \$217m, or 5.4%, in imported mineral products. Imported oil & mineral fuels reached \$3.8bn in the first 11 months of 2018 and accounted for 20.7% of total imports in the covered period.

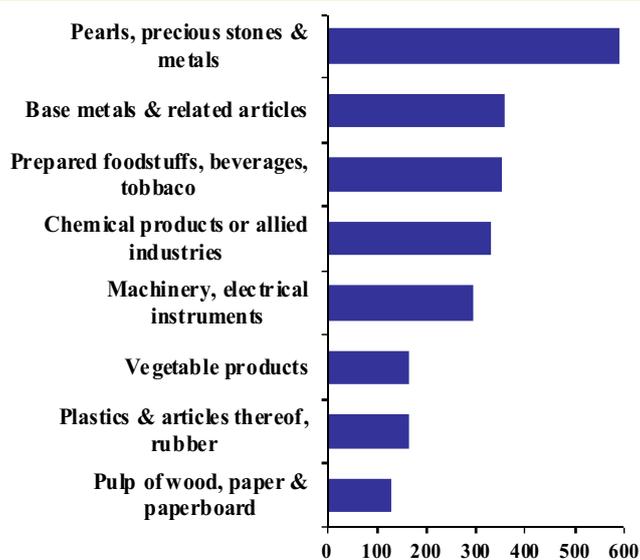
In addition, the increase in exports in the first 11 months of 2018 was mainly due to a surge of \$58.7m, or 11%, in the exports of jewelry; a growth of \$55m, or 18%, in exported base metals; a rise of \$35.9m, or 12.2%, in exported chemical products; and an increase of \$27.5m, or 20.3%, in the exports of plastics & rubber. They were partly offset by a decline of \$66m, or 15.8%, in the exports of prepared foodstuff and a drop of \$18.8m, or 40.7%, in exported mineral products.

Further, exported goods to the UAE expanded by 83.1% year-on-year in the first 11 months of 2018, those to Qatar grew by 40% and exports to Turkey increased by 18%. In contrast, exported goods to South Africa dropped by 43.7%, those to Syria fell by 20%, exported goods to Iraq decreased by 15.8%, those to Saudi Arabia declined by 12.4%, and exports to Switzerland regressed by 4.7% year-on-year in the covered period. Re-exports totaled \$301.4m in the first 11 months of 2018 compared to \$693.5m in the same period of 2017. Also, the Port of Beirut was the exit point for 50.8% of Lebanon's exports in the first 11 months of 2018, followed by the Hariri International Airport (32.7%), the Port of Tripoli (8.5%), the Masnaa crossing point (5%), and the Port of Saida (1.5%).

In parallel, Lebanon's main non-hydrocarbon imports were machinery & mechanical appliances that reached \$2.2bn in the first 11 months of 2018 and increased by 21.7% from the same period of 2017. Imported chemical products followed at \$2bn (+4.3%), then vehicles, aircraft & vessels at \$1.5bn (-10.4%), prepared foodstuff at \$1.23bn (-2.5%), jewelry, mostly gold bars, at \$1.19bn (+35.8%), base metals at \$1.16bn (-1.1%) and animal products at \$951.9m (+17.2%). The Port of Beirut was the entry point for 72% of Lebanon's merchandise imports in the covered period, followed by the Hariri International Airport (20%), the Port of Tripoli (6.5%), and the Port of Saida (1.1%).

China was the main source of imports with \$1.9bn, or 10.3% of the total, in the first 11 months of 2018, followed by Greece with \$1.6bn (8.6%), Italy with \$1.5bn (7.9%), the U.S. with \$1.3bn (7%), Germany with \$1.1bn (5.9%), Turkey with \$883.2m (4.8%), and France with \$639.1m (3.5%). Imported goods from Greece expanded by 26.1% year-on-year in the covered period, those from Turkey grew by 22.5% and imports from China rose by 10.1% year-on-year in the covered period. In contrast, imported goods from Italy dropped by 10%, those from France decreased by 7.3%, imports from the U.S. declined by 4.2%, and those from Germany regressed by 3.7% year-on-year in the first 11 months of 2018.

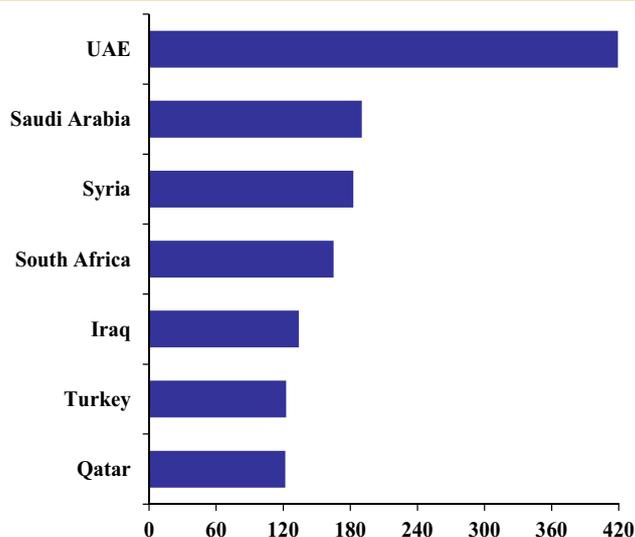
Main Lebanese Exports* (US\$m)



*in the first 11 months of 2018

Source: Lebanese Customs Administration, Byblos Research

Main Destinations of Lebanese Exports* (US\$m)



*in the first 11 months of 2018

Source: Lebanese Customs Administration, Byblos Research

Utilized credits by private sector at \$70bn at end-September 2018, advances against real estate account for 38.5% of total

Figures issued by Banque du Liban show that utilized credits by the private sector from commercial banks and financial institutions totaled \$69.9bn at the end of September 2018, constituting an increase of 1.7% from \$68.65bn at end-2017 and a growth of 4.4% from \$66.9bn at end-September 2017. Trade & services accounted for \$23.2bn or 33.3% of utilized credits at the end of September 2018, followed by personal credit with \$21.6bn (31%), construction with \$11.2bn (16%), industry with \$7.6bn (10.9%), financial intermediaries with \$3.3bn (4.8%), and agriculture with \$835.1m (1.2%), while other sectors represented the remaining \$2.1bn (3%). The distribution of credits by type shows that advances against real estate totaled \$26.9bn and accounted for 38.5% of private sector utilized credits at the end of September 2018. Overdrafts followed with \$19.1bn (27.4%), then advances against personal guarantees with \$12.3bn (17.6%), advances against cash collateral or bank guarantees with \$8.2bn (11.8%), advances against other real guarantees with \$2bn (2.9%), and advances against financial values with \$1.3bn (1.9%).

Also, the distribution of utilized credits in trade & services shows that wholesale trade accounted for 49.5% of overall trade & services credits; followed by retail with 17.1%; real estate, rent and employment services with 14.5%; hotels & restaurants with 7%; transport & storage with 6.7%, and educational services with 5.3%. Personal credit accounted for 85.5% of the number of loan beneficiaries, followed by trade & services with 9.7% of beneficiaries, industry with 2.5%, construction with 1.4%, agriculture with 1.1% and financial intermediaries with 0.5%, while other sectors attracted the remaining 3.5% of loan beneficiaries.

The aggregate number of loan beneficiaries grew by 2.9% from the end of 2017 and by 3.5% from end-September 2017 to 633,505 at end-September 2018; while 68.9% of beneficiaries had loans ranging from LBP5m to LBP100m at the end of September 2018. Beirut and its suburbs accounted for 74.5% of bank credits and for 52.6% of beneficiaries. Mount Lebanon followed with 13.3% of credits and 18.5% of beneficiaries, then South Lebanon with 4.6% of credits and 10.2% of beneficiaries, North Lebanon with 4.5% of credits and 11.2% of beneficiaries, and the Bekaa region with 3.2% of credits and 7.5% of beneficiaries.

In parallel, the off-balance sheet liabilities of banks and financial institutions totaled \$113.2bn at the end of September 2018, increasing by 0.8% from \$112.3bn at end-2017 and by 3% from \$109.9bn at end-September 2017. They include endorsement & guarantees of \$105bn, or 92.8% of the total, followed by letters of undertaking with \$2.9bn (2.6%), and commitments on notes with \$2.5bn (2.2%).

Commercial activity deteriorates year-on-year in third quarter of 2018

Banque du Liban's quarterly business survey of the opinions of business managers shows that the volume of commercial sales deteriorated year-on-year during the third quarter of 2018, with the balance of opinions standing at -31 compared to -1 in the third quarter of 2017. However, the volume of commercial sales slightly improved quarter-on-quarter from -34 in the second quarter of 2018. The business survey reflects the opinions of enterprise managers about their business activity in order to depict the evolution of a number of key economic variables. The balance of opinions was the lowest in the Bekaa at -66, followed by the South region (-54), Beirut & Mount Lebanon (-22) and the North (-15).

The survey shows that the balance of opinions about the sales of food items was -15 in the third quarter of 2018 relative to -24 in the preceding quarter and to +12 in the third quarter of 2017. Also, the balance of opinions about the sales of non-food products was -37 in the covered quarter, compared to -38 in the previous quarter, and relative to -5 in the third quarter of 2017; while it was -40 for inter-industrial goods relative to -38 in the second quarter of 2018 and to -10 in the third quarter of 2017. Further, the balance of opinions for inventory levels in all commercial sub-sectors was zero in the third quarter of 2018, compared to -3 in the previous quarter and to +1 in the third quarter of 2017. Opinions about the level of inventories were the highest in the South as they reached +7, followed by the Bekaa (+3), Beirut & Mount Lebanon (+2) and the North (-11). The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in an indicator and the proportion of those who reported a decline in the same indicator.

Commercial Activity: Year-on-Year Evolution of Opinions				
Aggregate results	Q3-15	Q3-16	Q3-17	Q3-18
Sales volume	-2	-5	-1	-31
Number of employees	-4	-2	-3	-7
Inventories of finished goods	-8	+2	+1	0
Q3-18 Regional results	Beirut / Mount Lebanon	North	South	Bekaa
Sales volume	-22	-15	-54	-66
Inventories of finished goods	+2	-11	+7	+3

Source: Banque du Liban business survey for third quarter of 2018

Byblos Bank's net profits at \$165m in 2018, foreign currency liquidity at 16.5% of deposits

Byblos Bank sal declared unaudited net profits of \$164.5m in 2018 compared to \$170m in 2017. The results are attributed in part to the enactment by the Lebanese Parliament of Tax Law 45 in July 2017 that resulted in the double taxation of the income of commercial banks in Lebanon. The results also reflect the opportunity cost of maintaining a high level of liquidity, as well as a rise in provisions allocated for possible loan losses amid a deteriorating financial and economic environment.

The Bank's net interest income reached \$333.2m in 2018, constituting an increase of 11.4% from \$299.1m in 2017; while net fees & commissions income stood at \$96.2m, up by 7.4% from \$89.6m in 2017. The Bank's net operating income totaled \$445.3m in 2018 relative to \$432.3m in 2017. In parallel, Byblos Bank's operating expenditures totaled \$232.3m in 2018 compared to \$226.8m in 2017, with personnel expenditures accounting for 60.4% of the total. The Bank continued to efficiently manage its costs, as it reduced its ratio of operating expenses to average assets from 1.06% in 2017 to 0.98% in 2018. In addition, the Bank's return on common equity was 8.76% in 2018 compared to 9.35% in 2017.

Also, the Bank's aggregate assets reached \$25bn at the end of 2018, growing by 10.3% from \$22.7bn at end-2017. Net loans & advances to customers totaled \$5.43bn at the end of 2018, nearly unchanged from end-2017, while net loans & advances to related parties reached \$16.3m. Byblos Bank maintained adequate provisioning with a coverage ratio of 86.95% in 2018, while the non-performing loans ratio was 4.31% at end-2018. Further, customer deposits amounted to \$18.2bn at the end of 2018, increasing by 2.5% from \$17.7bn at the end of 2017, while deposits from related parties stood at \$279.3m. In parallel, the Bank's equity was \$2.2bn at the end of 2018 relative to \$2.16bn at end-2017.

Byblos Bank maintained strong financial buffers to mitigate unexpected risks and to counter economic volatility. The Bank's Basel III capital adequacy ratio surpassed 17%, which significantly exceeds Banque du Liban's regulatory requirement of 15% for end-2018, and is one of the highest such ratios in the Lebanese banking sector. The Bank also maintained a high level of immediate foreign-currency liquidity, equivalent to 16.51% of deposits in foreign currency at the end of 2018, in the form of short-term placements with above investment-grade institutions and at levels exceeding the local and international benchmarks.

Aggregate net profits of listed banks up 4% to \$1.45bn in 2018

Financial results issued by the six banks listed on the Beirut Stock Exchange show that their aggregate net profits reached \$1.45bn in 2018, constituting an increase of 4.1% from net earnings of \$1.39bn 2017. Further, the banks' aggregate pre-tax profits increased by 3.6% to \$1.78bn in 2018. The net interest income of the six banks, including net interest on financial instruments, totaled \$2.8bn in 2018, up by 7.5% from \$2.6bn in 2017; while their receipts from net fees & commissions declined by 1.3% to \$575.9m. Also, the total operating income of the listed banks reached \$3.62bn in 2018 and grew by 0.3% from \$3.61bn in 2017. Further, the banks' cost-to-income ratio decreased from 47.2% in 2017 to 44.7% in 2018.

In parallel, the aggregate assets of the publicly-listed banks increased by 8.7% from end-2017 to \$135.8bn at the end 2018; while their total loans, including those to related parties, regressed by 9.1% to \$33.9bn at end-2018. Also, total deposits, including those from related parties, decreased by 0.8% from end-2017 to \$95.9bn at the end of 2018, largely due to a decline in deposits at Bank Audi and Banque BEMO. Further, the banks' aggregate equity, including subordinated notes, rose by 0.3% from end-2017 to \$13.37bn at the end of 2018.

The six banks' aggregate loans-to-deposits ratio stood at 35.4% at the end of 2018 compared to 38.6% at end-2017. BLOM Bank had the lowest loans-to-deposits ratio at 26.6%, down from 28.3% end-2017; followed by Byblos Bank with a ratio of 29.5% at the end of 2018, relative to 30.3% at end-2017; BLC Bank with 41.1% at end-2018 compared to 40.8% at end-2017; Bank of Beirut with 42.8% at the end of 2018 relative to 42.6%; Bank Audi with 41.5% at end-2018, down from 48.7% at end-2017; and Banque BEMO with 57% at the end of 2018 relative to 55.2% at end-2017.

Results of Listed Banks in 2018

	Bank Audi	BLOM Bank	Byblos Bank	Bank of Beirut	BLC Bank	Banque BEMO
Net Profits (\$m)	500.6	510.4	164.5	210.2	41.0	18.9
% Change*	7.9%**	5.2%	-3.3%	2.8%	-11.3%**	2.5%
Total Assets (\$bn)	47.2	36.7	25.0	18.9	5.9	2.0
% Change***	7.9%	12.9%	10.3%	2.9%	0.5%	14.5%
Loans (\$bn)	13.3	7.2	5.4	5.7	1.6	0.7
% Change***	-18.6%	-5.0%	-0.1%	0.9%	0.4%	-4.6%
Deposits (\$bn)	32.0	26.9	18.5	13.4	3.9	1.3
% Change***	-4.5%	1.0%	2.6%	0.6%	-0.3%	-7.5%

* year-on-year;

**the change excludes earnings from discontinued operations in 2017

*** from end-2017

Source: Banks' financial statements, Byblos Research



Stock market index down 6% in January 2019

Figures released by the Beirut Stock Exchange (BSE) indicate that the trading volume reached 50,963,287 shares in January 2019, constituting an increase of 9.3 times from 5,509,441 shares traded in January 2018; while aggregate turnover amounted to \$152.1m, up by 3.3 times from a turnover of \$45.8m in January 2018. Market capitalization regressed by 20.3% from the end of January 2018 to \$9.38bn, with banking stocks accounting for 84.7% of the total, followed by real estate equities (11.5%), industrial shares (3.4%) and trading firms' equities (0.4%). The market liquidity ratio was 1.6% in the covered month compared to 0.4% in January 2018.

Banking stocks accounted for 98.6% of the aggregate trading volume in January 2019, while real estate represented 1.4%. Also, banking stocks accounted for 97% of the aggregate value of shares traded, while real estate equities represented 2.9%. The average daily traded volume for the period was 2.5 million shares for an average daily value of \$7.6m. The figures reflect a year-on-year increase of 10.2 times in average volume, and an annual rise of 3.6 times in the average value in January 2019. In parallel, the Capital Markets Authority's Market Value-Weighted Index for stocks of traded on the BSE dropped by 6% in January 2019, while the CMA's Banks Market Value-Weighted Index regressed by 1.3% in the covered month.

Top five freight forwarders' import activity down 12% in first 11 months of 2018, export activity down 23%

Figures released by the Port of Beirut show that overall import shipping operations by the top five freight forwarders through the port reached 287,502 20-foot equivalent units (TEUs) in the first 11 months of 2018, constituting a decrease of 12.4% from 328,216 TEUs in the same period of 2017. The five freight forwarders accounted for 74.6% of imports to the Lebanese market and for 49.4% of the total import freight forwarding market in the first 11 months of 2018. Mediterranean Shipping Company (MSC) handled 113,385 TEUs in imports in the covered period, equivalent to a 19.5% share of the total freight forwarding import market. Merit Shipping followed with 62,990 TEUs (10.8%), then Metz Group with 42,041 TEUs (7.2%), Sealine Group with 34,839 TEUs (6%), and MAERSK with 34,247 TEUs (5.9%). Further, MAERSK registered a year-on-year increase of 251.3% in import shipping during the covered period, the highest growth rate among the top five freight forwarders, while Sealine Group posted a decline of 41.3%, the steepest drop in the first 11 months of 2018.

In parallel, export shipping operations by the top five freight forwarders through the Port of Beirut reached 60,751 TEUs in the first 11 months of 2018, constituting a decrease of 23.4% from 79,356 TEUs in the same period of 2017. The five freight forwarders accounted for 79% of exported Lebanese cargo and for 10.4% of the total export freight forwarding market in the first 11 months of 2018. Merit Shipping handled 28,047 TEUs of freight in the covered period, equivalent to 36.5% of the Lebanese cargo export market. Metz Group followed with 10,424 TEUs (13.5%), then Sealine Group with 8,244 TEUs (10.7%), MAERSK Shipping with 7,994 TEUs (10.4%) and MSC Shipping with 6,042 (7.9%). Further, MAERSK shipping posted a year-on-year increase of 251.4% in export shipping in the covered period, the highest rise among the top five freight forwarders, while Sealine Group posted a decrease of 44.3%, the steepest decline among the top five freight forwarders.

***Al-Mustaqbal* newspaper suspends print edition**

Daily Lebanese newspaper *Al-Mustaqbal* suspended its printed edition at the start of February 2019, following 20 years of publishing, due to a continued decline in sales and advertising revenues in the domestic market. It added that it will launch its digitized edition on February 14, 2019. Founded by late Prime Minister Rafic Hariri, *Al Mustaqbal* published its first issue on June 14, 1999.

The digitization of *Al-Mustaqbal* newspaper was the latest among a number of newspapers that suspended their print editions, or ceased their operations in Lebanon. In September 2018, *Al-Anwar* newspaper stopped publishing printed copies after around 60 years in the market, while pan-Arab newspaper *Al-Hayat* closed its Beirut offices in June 2018 and suspended its printed edition. Also, *As-Safir* newspaper ended its operations in December 2016, and *Al-Balad* newspaper ceased its operations in June 2018. In addition, *Al-Ittihad* newspaper closed in December 2017 after only two months of operations.

According to figures issued by *ArabAd* magazine and research firm Ipsos on the advertising market in Lebanon, the share of spending on online advertising increased from 2% in 2009 to nearly 11% in 2017, while the share of advertising expenditures on printed media regressed from 29.5% in 2009 to 11.3% in 2017.

Ratio Highlights

(in % unless specified)	2015	2016	2017	Change*
Nominal GDP (\$bn)	50.0	51.2	53.4	
Public Debt in Foreign Currency / GDP	54.2	54.9	56.9	2.06
Public Debt in Local Currency / GDP	86.5	91.3	92.0	0.72
Gross Public Debt / GDP	140.7	146.2	149.0	2.78
Total Gross External Debt / GDP**	168.4	182.6	182.4	(0.20)
Trade Balance / GDP	(31.3)	(31.5)	(31.3)	0.16
Exports / Imports	15.9	15.6	14.5	(1.04)
Fiscal Revenues / GDP	19.2	19.4	21.8	2.41
Fiscal Expenditures / GDP	27.1	29.0	28.8	(0.21)
Fiscal Balance / GDP	(7.9)	(9.6)	(7.0)	2.61
Primary Balance / GDP	1.5	0.04	2.7	2.63
Gross Foreign Currency Reserves / M2	58.7	62.2	68.2	5.95
M3 / GDP	247.4	259.2	259.6	0.44
Commercial Banks Assets / GDP	372.2	398.7	411.8	13.02
Private Sector Deposits / GDP	303.3	317.1	315.9	(1.24)
Private Sector Loans / GDP***	108.5	111.6	111.8	0.19
Private Sector Deposits Dollarization Rate	64.9	65.8	68.7	2.88
Private Sector Lending Dollarization Rate	74.8	72.6	68.6	(3.97)

*change in percentage points 16/17

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	Dec 2016	Nov 2017	Dec 2017	Change**	Risk Level
Political Risk Rating	55	54.5	55	↔	High
Financial Risk Rating	36.5	33.0	33.0	▲	Moderate
Economic Risk Rating	30.5	27.5	28.5	▲	High
Composite Risk Rating	61.0	57.5	58.25	▲	High

MENA Average*	Dec 2016	Nov 2017	Dec 2017	Change**	Risk Level
Political Risk Rating	57.6	58.0	58.2	▼	High
Financial Risk Rating	38.3	38.5	38.5	▼	Low
Economic Risk Rating	29.6	31.0	30.9	▼	Moderate
Composite Risk Rating	62.8	63.8	63.9	▼	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	Stable	B-	B	Stable
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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