

LEBANON THIS WEEK

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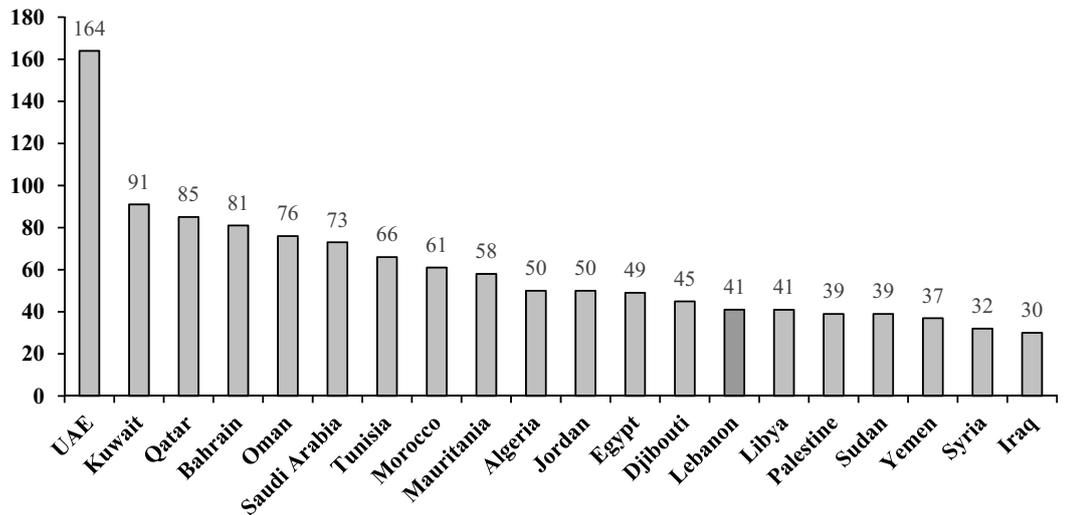
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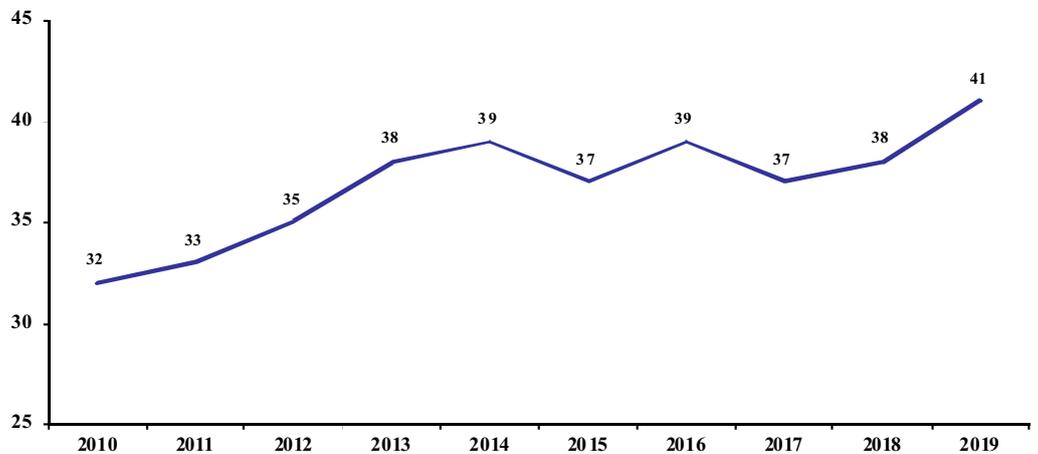
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Charts of the Week

Number of Destinations that Arab Citizens Can Access Without a Visa in 2019



Number of Destinations that Lebanese Citizens Can Access Without a Visa



Source: The Henley & Partners Passport Index, Byblos Bank

Quote to Note

"Improving efficiency, expanding capacity, raising tariffs gradually, and reducing corruption."

The Institute of International Finance, on measures that the new government needs to take to resolve the inefficiencies of the state-owned and money-losing Electricité du Liban

Number of the Week

87%: Percentage of Members of Parliament who gave a vote of confidence to the new government

Lebanon in the News

\$m (unless otherwise mentioned)	2017	2018	% Change*	Dec-17	Oct-18	Nov-18	Dec-18
Exports	2,844	2,952	3.81	251	265	242	246
Imports	19,582	19,980	2.03	1,634	1,718	1,536	1,569
Trade Balance	(16,738)	(17,028)	1.73	(1,383)	(1,454)	(1,294)	(1,323)
Balance of Payments	(156)	(4,823)	-	854	(1,810)	(954)	(748)
Checks Cleared in LBP	21,677	22,133	2.11	2,131	2,064	1,875	2,024
Checks Cleared in FC	46,578	44,436	(4.60)	4,127	4,017	3,481	3,455
Total Checks Cleared	68,255	66,569	(2.47)	6,258	6,081	5,356	5,479
Fiscal Deficit/Surplus**	(3,756)	(4,508)	-	(380.1)	-	-	-
Primary Balance**	1,428	(591)	-	(13.9)	-	-	-
Airport Passengers***	8,235,845	8,842,442	7.37	626,866	684,617	628,205	677,845
Consumer Price Index****	4.4	6.07	163bps	5.0	6.3	5.8	4.0

\$bn (unless otherwise mentioned)	Dec-17	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	% Change*
BdL FX Reserves	35.81	33.92	34.15	34.62	33.56	32.51	(9.19)
In months of Imports	18.57	18.64	23.75	20.15	21.85	20.72	(5.44)
Public Debt	79.53	83.70	83.85	84.04	83.66	85.13	7.04
Bank Assets	219.86	238.46	241.12	242.61	246.51	249.48	13.48
Bank Deposits (Private Sector)	168.66	173.22	173.94	173.25	173.19	174.28	3.33
Bank Loans to Private Sector	59.69	59.40	59.42	59.15	59.21	59.39	(0.50)
Money Supply M2	52.51	53.21	52.71	52.06	51.55	50.96	(2.95)
Money Supply M3	138.62	141.04	141.35	140.24	140.32	141.29	1.93
LBP Lending Rate (%)	8.09	8.81	9.31	9.60	10.15	9.97	188bps
LBP Deposit Rate (%)	6.41	7.03	7.39	7.74	7.97	8.30	189bps
USD Lending Rate (%)	7.67	8.12	8.11	8.30	8.57	8.57	90bps
USD Deposit Rate (%)	3.89	4.20	4.36	4.63	4.90	5.15	126bps

*year-on-year ** 2018 figures are for first nine months of the 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
Audi Listed	4.65	0.22	950,052	19.85%
Solidere "A"	6.46	4.03	127,642	6.90%
Solidere "B"	6.47	7.65	65,065	4.49%
Byblos Common	1.35	0.00	11,616	8.15%
BLOM GDR	9.16	3.15	11,368	7.23%
Audi GDR	4.75	0.00	2,000	6.08%
Byblos Pref. 08	70.00	0.00	400	1.50%
HOLCIM	15.50	1.11	395	3.23%
BLOM Listed	8.94	0.00	-	20.53%
Byblos Pref. 09	70.00	0.00	-	1.50%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
May 2019	6.00	99.38	8.40
Mar 2020	6.38	97.50	8.90
Apr 2021	8.25	97.38	9.62
Oct 2022	6.10	90.38	9.29
Jun 2025	6.25	85.75	9.28
Nov 2026	6.60	86.00	9.15
Feb 2030	6.65	81.63	9.36
Apr 2031	7.00	81.75	9.57
Nov 2035	7.05	81.25	9.28
Mar 2037	7.25	81.00	9.46

Source: Byblos Bank Capital Markets

	Feb 11-15	Feb 4-8	% Change	January 2019	January 2018	% Change
Total shares traded	1,171,763	169,870	589.8	50,963,287	5,509,441	825
Total value traded	\$6,010,100	\$906,513	563.0	\$152,075,282	\$45,845,113	231.7
Market capitalization	\$9.36bn	\$9.29bn	0.82	\$9.38bn	\$11.77bn	(20.3)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Feb 8, 2019	Feb 15, 2019	% Change**
CDS 1-year*	767.83	673.37	(12.3)
CDS 3-year*	707.23	711.51	0.61
CDS 5-year*	691.56	692.56	0.14

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

CDX EM 30*	Feb 8, 2019	Feb 15, 2019	% Change***
CDS 5-year**	96.64	96.75	0.11

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

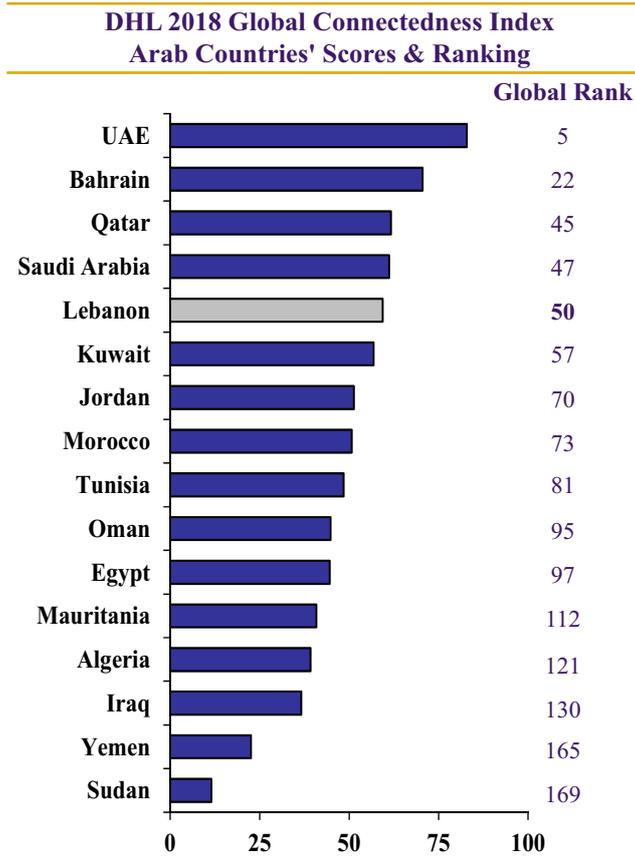
mid-spread in bps *week-on-week

Lebanon ranks 50th worldwide, fifth in Arab region in terms of global connectedness

The DHL's 2018 Global Connectedness Index (GCI) ranked Lebanon in 50th place among 169 countries around the world and in fifth place among 16 Arab countries. Lebanon also came in fifth place among 47 upper middle-income countries (UMICs) included in the survey. Lebanon's global rank improved by two spots from 52nd place in the 2016 survey.

The index measures the level of connectedness of an economy in terms of the size and the geographical distribution of the flows of trade, capital, information and people to and from the country. The index is a composite of two sub-indicators that are the Depth Sub-Indicator and the Breadth Sub-Indicator, measured each on a scale of zero to 50. A country's overall score on the index ranges from zero to 100, with a higher score reflecting a better performance in terms of global connectedness.

Globally, Lebanon is better connected globally than Chile, the Philippines and Panama, and is less connected than Greece, Saudi Arabia and Cambodia among economies with a GDP of \$10bn or more. It is also more connected than Russia and Serbia, and is less connected than Bulgaria and Mauritius among UMICs. Lebanon received a score of 59.4 points, up from 58.5 points in the 2016 survey. Lebanon's score is higher than the global average score of 49.7 points, the UMICs' average score of 47.2 points and the Arab average score of 48.9 points. Also, Lebanon's score is lower than the Gulf Cooperation Council (GCC) countries' average score of 63 points, but is higher than the average score of non-GCC Arab countries of 40.5 points. The Netherlands is the most globally connected country with a score of 92.7 points, while Sudan has the least connected economy in the world with a score of 11.5 points.



Source: DHL, Byblos Research

Lebanon ranks in 73rd place globally, in 20th place among UMICs and in sixth place regionally on the Depth Sub-Indicator. This category measures a country's international flows of products & services, capital, information and people, relative to the size of its domestic economy. Globally, Lebanon ranked ahead of Belarus and Greece, and came behind Jamaica and Kuwait among economies with a GDP of \$10bn or more. It was preceded by the UAE, Bahrain, Oman, Qatar and Kuwait in the Arab region. Lebanon received a score of 29 points on this category, higher than the global average score of 26.3 points, the UMICs average score of 25.7 points and the Arab region's average score of 24.5 points.

Also, Lebanon ranks in 53rd place globally, in 10th place among UMICs and in fifth place regionally on the Breadth Sub-Indicator. This category measures the geographical distribution of a country's international flows of trade, capital, information and people. Globally, Lebanon ranked ahead of Slovenia and Pakistan, and came behind Ghana and Indonesia on this category. It also ranked ahead of Kazakhstan and behind Bulgaria among UMICs. Regionally, Lebanon was preceded by the UAE, Saudi Arabia, Bahrain and Qatar on this category. Lebanon received a score of 30.4 points on this category, higher than the global average score of 23.4 points, the UMICs' average score of 21.5 points and the Arab average score of 24.4 points.

Banque du Liban issues circular about reserve requirements

Banque du Liban (BdL) issued Intermediate Circular 516 on January 30, 2019 that amends Basic Circular 84 issued on June 2, 2001 about the reserve requirements of commercial banks. The circular amended two clauses from the circular.

The circular restated that banks should not deduct from their reserve requirements at BdL any loan that was funded from these reserves in case the loan becomes "doubtful" or "bad". However, it added that banks can benefit again from a deduction on their reserve requirements if the client shows improvement in payments that encourage the banks to re-classify a housing loan in categories other than "doubtful" or "bad". It noted that the same applies to non-housing loans, but that BdL will grant the waiver on a case by case basis.

Further, the circular continued to allow banks to reschedule a loan if the loan is originally granted in Lebanese pounds and the client converted it to US dollars. But it removed the section that allows banks to reschedule loans that are originally granted in US dollars. The circular stipulates that banks can reschedule housing and non-housing loans that they financed from their reserve requirements and that fulfill specific conditions.

Formation of new government is positive for economy and banking sector

Capital Intelligence Ratings (CI) considered that the formation of a new government in Lebanon will help reduce near-term political risks, restore domestic confidence, and provide an opportunity to implement reforms that would improve economic growth prospects and address large macroeconomic imbalances.

It pointed out that the formation of the new government will facilitate enacting the 2019 Budget Law, as well as implementing delayed fiscal measures, which would help narrow the fiscal deficit, improve policy-making, and unlock the \$11bn in CEDRE-related pledges. It said that the disbursement of CEDRE funds is crucial to improve the economy's short- to medium-term growth prospects. It noted that the prices of Lebanese Eurobonds have partly recovered from a ten-year low reached in January 2019 following the recent positive political developments.

In addition, CI indicated that the formation of the new government would help Lebanon attract additional financial support from regional countries, such as from Saudi Arabia, on top of Qatar's pledge to purchase \$500m worth of Lebanese Eurobonds. It anticipated that the proposed reforms, despite their elevated implementation risks, along with the disbursements of CEDRE funds, would help reduce the country's refinancing risks and improve investor confidence. However, it said that any delays in the implementation of fiscal and economic reforms could postpone the disbursement of CEDRE-related funds and raise refinancing risks.

In parallel, Moody's Investors Service considered that the formation of a new government in Lebanon provides respite to the banking sector, following the political uncertainties and the resulting subdued economic activity that adversely affected depositor confidence in 2018. It considered that the successful implementation of the government's pledged fiscal and structural reforms would be credit positive for banks because they would help improve investor and depositor confidence, raise the prospects of new deposit inflows, and reduce the risk premiums that banks pay for new deposits. Also, it noted that the implementation of pledged reforms would help improve long-term fiscal sustainability, contain the banks' large exposure to the sovereign, and unlock CEDRE-related funds that would improve the economy's growth outlook. It cautioned that a partial implementation of reforms would not be sufficient to reverse the current negative trends, which would further weigh on depositors' confidence.

Main political parties agree on set of measures to address fiscal imbalances

Following a series of meetings with representatives of Lebanon's main political parties to reach a common ground to tackle the challenges facing the economy, the Economic and Social Council (ECOSOC) issued a report that includes a set of measures that participants agreed on to improve the country's fiscal imbalances. The participants called on the government to implement the recommended measures and reforms starting in 2019 in order to narrow the fiscal deficit to at least 5% of GDP, mostly by limiting wasteful and unnecessary spending, and by avoiding increasing taxes or imposing new ones.

The report indicated that political parties agreed on several points that aim to cut public expenditures. It stipulated that the participants agreed to reduce gradually the annual deficit in the operations of Electricité du Liban (EdL) and to eliminate it in three years, which would ease the burden of EdL's financing on the Treasury. It added that achieving this target requires building the necessary electricity plants to increase supply over the three-year period, as part of a comprehensive and permanent reform strategy for the electricity sector. Further, the report called on the government to reduce the public debt's servicing cost by at least 10% of its total amount through a mechanism that the government, Banque du Liban (BdL) and commercial banks agree on. In addition, the participants recommended cutting by at least 20% public consumption expenditures in the budget, and reducing by at least 30% the government's total contribution to non-profit organizations. They also called on the government to reduce the rent payments by no less than 25% on buildings that ministries and public-sector agencies rent, or to relocate to buildings with cheaper rents. They considered that this measure is temporary until the government builds on its own land the needed offices for ministries, public administrations and public entities. Finally, the participants agreed to introduce a limit for budget reserves at 2% of public spending.

In parallel, the ECOSOC report pointed out that political parties reached a consensus to reform the public-sector pension systems and the benefits of public sector employees, as well as to streamline the public administration. The participants called on the government to consolidate social security funds and institutions across the public sector within a period of three years, as well as to unify the schooling benefits extended to all public-sector employees. They also asked the government to control recruitment in the public sector, starting by freezing hiring in 2019 and by restricting hiring decisions in the public sector at later stages to the Civil Service Council, among other measures. Further, they recommended reducing the compensation of former Members of Parliament, suspending customs exemptions for all beneficiaries, and revoking all exceptional benefits and additional concessions granted to all public sector employees, including to members of the army and security forces. In addition, they agreed on the need to update a new procurement law, to review the duties of the Higher Relief Council in order to reduce its expenditures, and to develop a comprehensive study for public-sector personnel and positions.

In parallel, the participants called on the government to respect the constitution and the related laws when drafting a budget, and to submit the finalized financial accounts for 2017 to Parliament before enacting the 2019 budget law. They also agreed on the need to have a medium-term budget framework in the 2019 budget, to establish a single Treasury account, and to improve the management of government liquidity at BdL, among others.

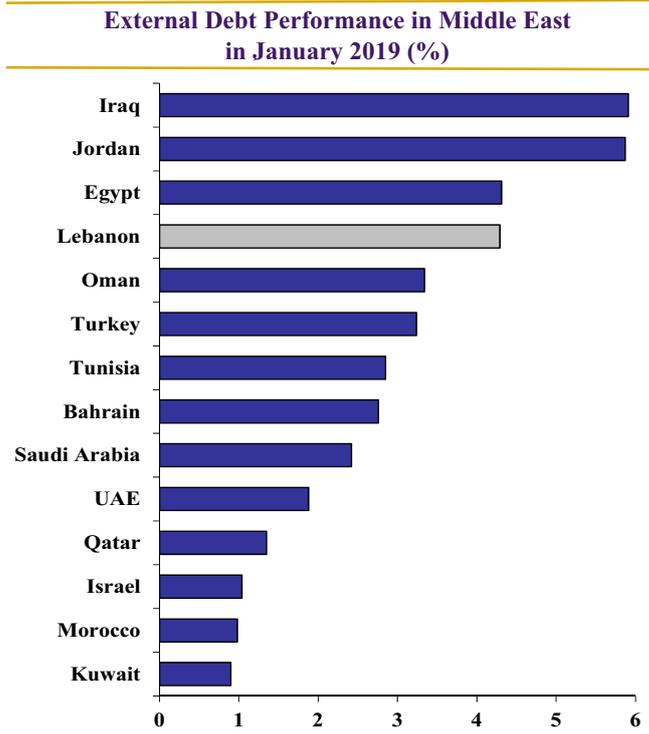


Lebanon's external debt outperforms emerging markets in January 2019

Figures issued by Intercontinental Exchange, Inc. (ICE) indicate that Lebanon's external debt posted a return of 4.29% in January 2019, constituting the 16th highest return among 27 countries in the Middle East & Africa region, and the 17th highest among 44 markets in the Central & Eastern Europe and the Middle East & Africa (CEEMEA) region. It also registered the 23rd highest return among 76 emerging markets included in ICE's External Debt EM Sovereign Index. Lebanon outperformed the emerging markets' return of 3.46%, while it underperformed the 'B'-rated sovereigns' return of 6.49% in January 2019.

In parallel, ICE indicated that the option-adjusted spread on Lebanese Eurobonds was 756 basis points at the end of January 2019 compared to 411 basis points at end-January 2018. The spread on Lebanese Eurobonds was the second widest in the CEEMEA region and the fourth widest among emerging markets. It was wider than the emerging markets' overall spread of 281 basis points at the end of January 2019.

Lebanon has a weight of 2.37% on ICE's External Debt EM Sovereign Index, the seventh largest weight in the CEEMEA universe and the 13th largest among emerging economies. Lebanon accounted for 4.2% of allocations in the CEEMEA region.



Source: ICE, Byblos Research

Saudi Arabia lifts travel warning to Lebanon

Saudi Arabia announced that, following the formation of the new Lebanese government, it lifted the 15-month travel warning for its nationals traveling to Lebanon. The Kingdom said that it based its decision on assurances by Lebanese authorities that security conditions in the country are stable. It added that the two countries are working to form a joint committee to promote bilateral relations. In November 2017, Saudi Arabia, along with Kuwait, Bahrain and the UAE warned their citizens against traveling to Lebanon, citing safety concerns and heightened political uncertainties in the aftermath of Prime Minister Saad Hariri's sudden resignation on November 4, 2017.

Nationals from the GCC, especially from Saudi Arabia, have historically played an important role in Lebanon's economy, specifically in the tourism and real estate sectors. The number of incoming visitors from Saudi Arabia to Lebanon reached 61,547 in 2018 compared to 191,066 visitors in 2010, the record year for tourism activity in Lebanon. Saudi visitors accounted for 3.1% of total tourist arrivals to Lebanon in 2018 relative to 9% in 2010. In addition, Saudi visitors accounted for 12% of tourist arrivals from Arab countries in 2018 compared to a share of 21.4% in 2010. Further, visitors from Saudi Arabia accounted for 12% of total tourist expenditures in 2018 compared to 23% of total tourist spending in 2010.

Value of cleared checks down 17%, returned checks up 8% in January 2019

The value of cleared checks reached \$4.9bn in January 2019, constituting a decline of 17.2% from \$5.9bn in January 2018. In comparison, the value of cleared checks increased by 3.8% in January 2018 from the same month of 2017 and regressed by 1.2% in January 2017 from January 2016. The value of cleared checks in Lebanese pounds declined by 5.6% year-on-year to the equivalent of \$1.9bn in January 2019, while the value of cleared checks in US dollars fell by 23% to \$3.05bn in the covered month. The dollarization rate of cleared checks regressed from 66.8% in January 2018 to 62.1% in the same month of 2019. There were 0.86 million cleared checks in January 2019, down by 15.6% from 1 million in January 2018.

In parallel, the value of returned checks in domestic and foreign currency was \$131m in January 2019 compared to \$121m in the same month of 2018 and to \$109m in January 2017. This constituted a year-on-year increase of 8.3% in January 2019 relative to an annual growth of 11% in the same month of 2018 and to a decline of 14.2% in January 2017. Also, there were 23,998 returned checks in January 2019, up by 8.9% from 22,028 returned checks in January 2018.

Association of Banks amends reference rate on US dollar and Lebanese pound lending

The Association of Banks in Lebanon (ABL) recommended to its member banks to increase the Beirut Reference Rate (BRR) in US dollars from 8.93% in February 2019 to 9.29% in March 2019. The rate, considered as the reference rate for lending in foreign currency, replaced the London Interbank Offered Rate (LIBOR) in 2009, as the ABL decided that the LIBOR does not reflect the cost of funding and lending in Lebanon. In addition, the ABL recommended to its member banks to raise the BRR in Lebanese pounds from 11.94% in February 2019 to 12.39% in March 2019. The BRR in US dollars and Lebanese pounds were adopted in March and May 2009, respectively. The ABL considers that the BRR does not replace the Beirut Prime Lending Rate in each currency, but constitutes the basis to calculate the prime rate after adding the cost of liquidity and refinancing, credit risk and the profitability of banks.

Lebanon ranks 129th globally, second in the Arab world in political freedoms

In its annual survey on political freedoms in 195 countries, non-profit organization Freedom House ranked Lebanon in 129th place worldwide and in second place among 19 Arab countries in the 2019 survey. Lebanon came in 136th place globally and in second place regionally in the 2018 survey. The survey rates each country on political rights and civil liberties on a scale of one to seven points, with one point representing the highest degree of freedom and seven points the lowest level. The combined average of the ratings determines each country's status of "Free", "Partly Free", or "Not Free".

Globally, Lebanon has the same level of political freedoms as The Gambia, Guinea, Guinea-Bissau, Kyrgyzstan, Tanzania and Togo. Also, Lebanon came in the "Partly Free" category, unchanged since 2005 when it was upgraded from the "Not Free" category. Also, Lebanon's freedom rating stood at 4.5 points, below the global average of 3.4 points, but better than the Arab average rating of 5.7 points.

Lebanon tied with 16 countries that include Bangladesh, Turkey and Zimbabwe on the Political Rights Sub-Index, which reflects citizens' ability to participate freely in the political process. It tied with Iraq, Jordan, Kuwait and Morocco in the Arab region. Lebanon received a rating of five points on this indicator, worse than the global average of 3.5 points, but better than the Arab average of 5.9 points.

Also, Lebanon tied with 25 countries that include Armenia, Indonesia, Mali and Singapore on the Civil Liberties Sub-Index. This category reflects the freedoms of expression and belief, associational and organizational rights, the rule of law, and personal autonomy. Lebanon came in second place in the Arab region on this category, behind Tunisia. Further, Lebanon received a rating of four points on this sub-index, worse than the global average of 3.4 points, but better than the Arab level of 5.5 points.

The survey classified 86 countries in the "Free" category, 59 countries in the "Partly Free" category and 50 countries in the "Not Free" category. It also concluded that 39% of the global population live under political systems that are "Free", whereas 24% are in systems that are "Partly Free" and 37% live under political systems that are "Not Free".

Number of real estate transactions down 31% in January 2019

Figures released by the Ministry of Finance indicate that there were 3,667 real estate transactions in January 2019, constituting a decrease of 31.4% from 5,346 deals in January 2018. In comparison, there were 4,350 real estate transactions in January 2017 and 4,295 real estate deals in January 2016. There were 676 real estate transactions in the Baabda area in January 2019, representing 18.4% of the total. The North followed with 632 transactions (17.2%), then the South region with 441 deals (12%), the Metn district with 417 transactions (11.4%), the Zahlé area with 414 deals (11.3%), the Keserwan region with 391 transactions (10.7%), the Nabatieh area with 314 deals (8.6%), and Beirut with 235 deals (6.4%).

Also, the aggregate value of real estate transactions reached \$504.7m in January 2019 and decreased by 26.3% from \$684.4m in January 2018. In comparison, the value of real estate deals grew by 20% in January 2018 and by 8.8% in the first month of 2017. Further, the value of real estate transactions in Beirut reached \$171.2m and accounted for 34% of the total in January 2019. The Metn district followed with \$94.1m (18.6%), then the Baabda region with \$86.6m (17.2%), the Keserwan area with \$54.8m (10.9%), the South with \$34.5m (6.8%), the North with \$31.6m (6.3%), the Zahlé area with \$16.4m (3.2%), and the Nabatieh region with \$12.5m (2.5%).

In parallel, the average value per real estate transaction was \$137,642 in January 2019, up by 7.5% from an average of \$128,018 in January 2018 and relative to \$131,227 in January 2017. Further, there were 69 real estate transactions executed by foreigners in January 2019, down by 24.2% from 91 deals in January 2018 and compared to 85 deals in January 2017. The number of real estate deals executed by foreigners accounted for 1.9% of total real estate transactions in January 2019 compared to 1.7% of deals in January 2018 and to 2% of deals in January 2017. Further, 30.4% of the real estate transactions executed by foreigners were in the Baabda district, followed by Beirut and the South (14.5% each), the Metn region and the Keserwan area (11.6% each), the North (10.1%), and the Zahlé area (7.2%). Also, Kuwaiti nationals accounted for 11.4% of the total value of real estate transactions executed by foreigners in January 2019, followed by Syrian nationals (8.3%), Qataris (3.4%), Canadians (2.6%), and Emirati and British nationals (2.4% each).

Freedom in the World Index 2019 Arab Countries' Scores & Rankings

Country	Freedom Rating	Arab Rank	Global Rank	Category
Tunisia	2.5	1	87	Free
Lebanon	4.5	2	129	Partly Free
Morocco	5.0	3	138	Partly Free
Jordan	5.0	4	141	Partly Free
Kuwait	5.0	5	142	Partly Free
Algeria	5.5	6	145	Not Free
Mauritania	5.5	7	146	Not Free
Iraq	5.5	7	146	Not Free
Djibouti	5.5	9	156	Not Free
Qatar	5.5	10	158	Not Free
Oman	5.5	11	159	Not Free
Egypt	6.0	12	162	Not Free
UAE	6.5	13	172	Not Free
Bahrain	6.5	14	179	Not Free
Yemen	6.5	15	180	Not Free
Libya	6.5	16	183	Not Free
Saudi Arabia	7.0	17	187	Not Free
Sudan	7.0	17	187	Not Free
Syria	7.0	19	195	Not Free

Source: Freedom House, Byblos Research

Broad money supply up 2% in 2018

Figures released by Banque du Liban show that money supply M1, which includes currency in circulation and demand deposits in Lebanese pounds, reached LBP11,661bn at the end of 2018, constituting an increase of 9.8% from LBP10,624bn at the end of 2017. Currency in circulation stood at LBP5,008bn at end-2018, up by 2.5% from LBP4,887bn at end-2017. Also, demand deposits in local currency stood at LBP6,653bn at the end of 2018, up by 16% from LBP5,738bn at end-2017. Money Supply (M1) increased by 3.8% in December 2018 from LBP11,232bn at end-November 2018, with currency in circulation expanding by 7.3% and demand deposits in local currency growing by 1.4% month-on-month.

In addition, money supply M2, which includes M1 and term deposits in Lebanese pounds, reached LBP76,828bn at the end of 2018, constituting a decrease of 3% from LBP79,166bn at the end of 2017. Term deposits in Lebanese pounds totaled LBP65,167bn at end-2018, down by 4.9% from LBP68,542bn a year earlier. Money Supply (M2) regressed by 1.1% in December 2018 from LBP77,706bn at end-November 2018, with term deposits in local currency declining by 2% month-on-month.

Further, broad money supply M3, which includes M2, deposits in foreign currency and debt securities issued by the banking sector, reached LBP212,993bn at the end of 2018, constituting a growth of 1.9% from LBP208,965bn at the end of 2017. Deposits in foreign currency totaled LBP135,892bn at end-2018, up by 5% from LBP129,477bn a year earlier. Also, debt securities issued by the banking sector amounted to LBP272.4bn at the end of 2018 compared to LBP321.8bn at the end of 2017. Money supply (M3) grew by 0.7% in December 2018 from LBP211,525bn at the end of November 2018, with deposits in foreign currency increasing by 1.8% month-on-month, and debt securities issued by the banking sector declining by 4.3% from the preceding month. In parallel, M3 expanded by LBP4,028bn in 2018, due to an increase of LBP6,470bn in net claims on the public sector and a surge of LBP8,217bn in other net items, which were partly offset by a drop of LBP7,735bn in the net foreign assets of deposit-taking institutions and a decline of LBP2,924bn in claims on the private sector.

Industrial activity deteriorates in third quarter of 2018

Banque du Liban's quarterly survey of the opinions of business managers shows that the balance of opinions about industrial production was -34 in the third quarter of 2018, down from -19 in the second quarter of 2018 and from -2 in the third quarter of 2017. The balance of opinions was the highest in Beirut & Mount Lebanon at -15, followed by the North (-38), the Bekaa (-59) and the South (-61). The business survey reflects the opinions of managers of industrial enterprises about their businesses, in order to depict the evolution of a number of key economic variables. The balance of opinions about overall demand for industrial goods stood at -36 in the third quarter of 2018 compared to -22 in the preceding quarter and to -7 in the third quarter of 2017. The balance of opinions about demand for industrial goods was -18 in Beirut & Mount Lebanon, followed by the North (-39), the Bekaa (-60), and the South (-61).

In parallel, the balance of opinions for the volume of investments in the industrial sector stood at -12 in the third quarter of 2018 compared to -11 in the second quarter of 2018 and to +3 in the third quarter of 2017. The balance of opinions about the volume of investments was zero in the North, while it stood at -1 in the Bekaa, at -9 in Beirut & Mount Lebanon, and at -69 in the South. Also, the balance of opinions for foreign demand of industrial goods stood at -15 during the third quarter of 2018 compared to -13 in the previous quarter and to -16 in the third quarter of 2017. The balance of opinions for foreign demand of industrial goods was zero in the North, followed by Beirut & Mount Lebanon (-6), the Bekaa (-29), and the South (-59). The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in a particular indicator and the proportion of those who reported a decline in the same indicator.

Industrial Activity: Evolution of Opinions				
Aggregate results	Q3-15	Q3-16	Q3-17	Q3-18
Production	-5	-4	-2	-34
Total demand	-11	-7	-7	-36
Foreign demand	-23	-15	-16	-15
Volume of investments	-13	-8	+3	-12
Inventories of finished goods	-12	-2	-8	-4
Inventories of raw material	-6	-4	-8	-10
Registered orders	-14	-9	-18	-29

Source: Banque du Liban Business Survey for Third Quarter of 2018

Trade deficit widens by 2% to \$17bn in 2018, equivalent to 30.4% of GDP

Total imports reached \$20bn in 2018, constituting an increase of 2% from \$19.6bn in 2017; while aggregate exports grew by 3.8% to \$3bn last year. As such, the trade deficit widened by 1.7% to \$17bn in 2018 due to an increase of \$397.3m in imports, which were partly offset by a rise of \$108.3m in exports. The trade deficit was equivalent to 30.4% of GDP in 2018 relative to 31.3% of GDP in 2017 and 31.5% of GDP in 2016.

The growth in imports last year was mainly due to an increase of \$530m, or 3.5%, in imported non-hydrocarbon products, which was partly offset by a decrease of \$132.6m, or 3.1%, in imported mineral products. Imported oil & mineral fuels reached \$4.2bn and accounted for 21% of total imports in 2018.

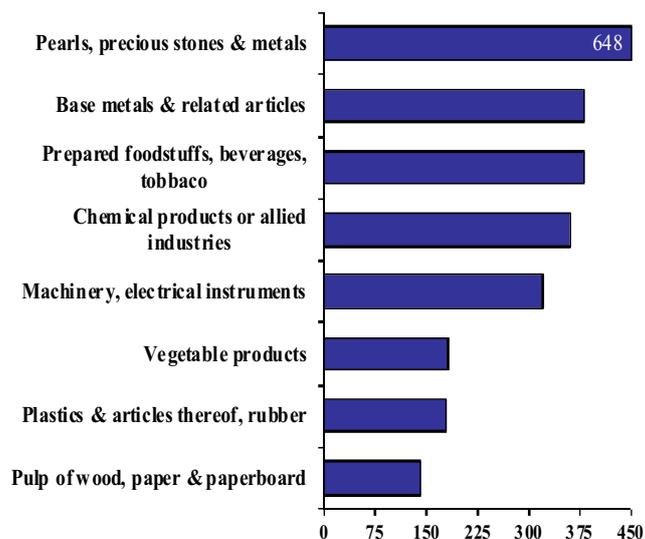
In addition, the increase in exports in 2018 was mainly due to a surge of \$62m, or 10.6%, in the exports of jewelry; a growth of \$42.2m, or 13.2%, in exported chemical products; a rise of \$40m, or 11.8%, in exported base metals; and an increase of \$30.4m, or 20.3%, in the exports of plastics & rubber. They were partly offset by a decline of \$75.6m, or 16.5%, in the exports of prepared foodstuff and a drop of \$17.3m, or 36%, in exported mineral products.

Further, exported goods to the UAE expanded by 72.1% in 2018, those to Qatar grew by 35.2% and exports to Turkey increased by 6.3%. In contrast, exported goods to South Africa dropped by 44.8%, those to Syria fell by 16.6%, exported goods to Iraq decreased by 14.4%, those to Saudi Arabia declined by 12.7%, and exports to Switzerland regressed by 2.1% in 2018. Re-exports totaled \$323.2m in 2018 compared to \$741.5m in 2017. Also, the Port of Beirut was the exit point for 50.6% of Lebanon's exports last year, followed by the Hariri International Airport (32.7%), the Port of Tripoli (8.5%), the Masnaa crossing point (5.2%), and the Port of Saida (1.5%).

In parallel, Lebanon's main non-hydrocarbon imports were machinery & mechanical appliances that reached \$2.32bn in 2018 and increased by 20% from 2017. Imported chemical products followed at \$2.2bn (+3.6%), then vehicles, aircraft & vessels at \$1.66bn (-11.9%), prepared foodstuff at \$1.33bn (-2.9%), base metals at \$1.27bn (-0.7%), jewelry, mostly gold bars, at \$1.25bn (+25.7%), and animal products at \$1.04bn (+17.5%). The Port of Beirut was the entry point for 72% of Lebanon's merchandise imports last year, followed by the Hariri International Airport (20%), the Port of Tripoli (6.5%), and the Port of Saida (1.1%).

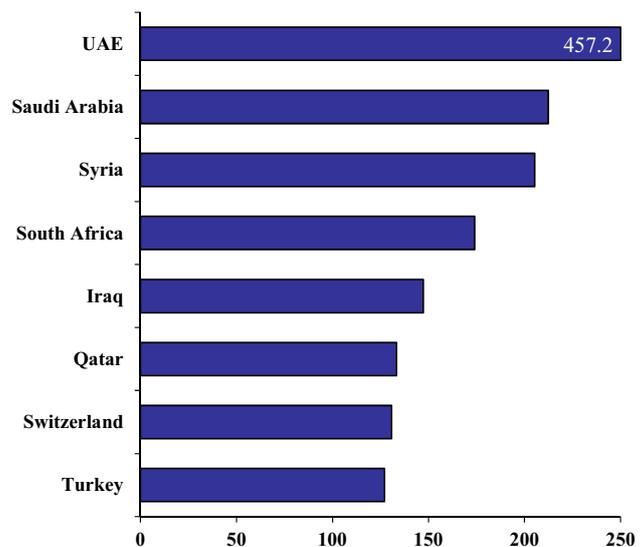
China was the main source of imports with \$2bn, or 10.3% of the total, in 2018, followed by Greece with \$1.7bn (8.5%), Italy with \$1.6bn (8%), the U.S. with \$1.4bn (7.2%), Germany with \$1.2bn (5.8%), Turkey with \$948.6m (4.7%), and France with \$709.2m (3.5%). Imported goods from Greece expanded by 24.4% in 2018, those from Turkey grew by 22.1% and imports from China rose by 9% last year. In contrast, imported goods from Italy dropped by 10.2%, those from France decreased by 7.5%, imports from Germany declined by 4.9%, and those from the U.S. regressed by 0.3% in 2018.

Main Lebanese Exports in 2018 (US\$m)



Source: Lebanese Customs Administration, Byblos Research

Main Destinations of Lebanese Exports in 2018 (US\$m)



Source: Lebanese Customs Administration, Byblos Research

Gross written premiums up 3% to \$1.7bn in 2018, claims down 2% to \$946m

Figures released by the Insurance Control Commission (ICC) show that the gross written premiums of 50 licensed insurance companies in Lebanon reached \$1.68bn in 2018, constituting an increase of 3.2% from \$1.63bn in 2017. Premiums reached \$482m in the first quarter, \$388.7m in the second quarter, \$385m in the third quarter, and \$422m in the fourth quarter of 2018.

Life insurance premiums totaled \$518.5m in 2018 and accounted for 31% of the sector's aggregate premiums. Medical insurance premiums followed with \$511m (30%), then motor insurance premiums with \$379.1m (23%) and property & casualty insurance premiums with \$268.9m (16%). Further, medical insurance premiums grew by 6.9% annually in 2018, while life insurance premiums expanded by 4% and motor insurance premiums increased by 0.4%. In contrast, property & casualty insurance premiums decreased by 1.1% in 2018.

Further, gross claims settled by insurance companies stood at \$946.3m in 2018, constituting a decline of 1.6% from \$961.3m in 2017. Claims reached \$215m in the first quarter, \$229.3m in the second quarter, \$256m in the third quarter, and \$246.1m in the fourth quarter of 2018. Gross claims paid for the medical segment amounted to \$362.2m and accounted for 38% of total claims settled by the insurance sector. Claims disbursed for the life insurance category followed at \$286.5m (30%), then the motor segment at \$207.6m (22%) and the property & casualty segment at \$90m (10%). Also, medical claims rose by 5% annually in 2018, while property & casualty claims dropped by 16%, life claims declined by 4.8% and motor insurance claims regressed by a marginal 0.4% in 2018.

In parallel, the sector's acquisition and administration costs reached \$485m last year, up by 2.8% from \$471.5m in 2017. Also, net investment income totaled \$155m in 2018 and increased by 2% from \$152m in the previous year. In addition, the ratio of gross claims settled to gross written premiums stood at 56% in 2018, down from 59% in 2017, while the ratio of expenditures for acquisition and administration to gross written premiums and the ratio of net investment income to gross written premiums reached 29% and 9%, respectively, in 2018, unchanged from 2017.

New car sales down 26% in January 2019

Figures released by the Association of Automobile Importers in Lebanon show that dealers sold 1,837 new passenger cars in January 2019, constituting a decline of 26.2% from 2,489 cars sold in the same month of 2018.

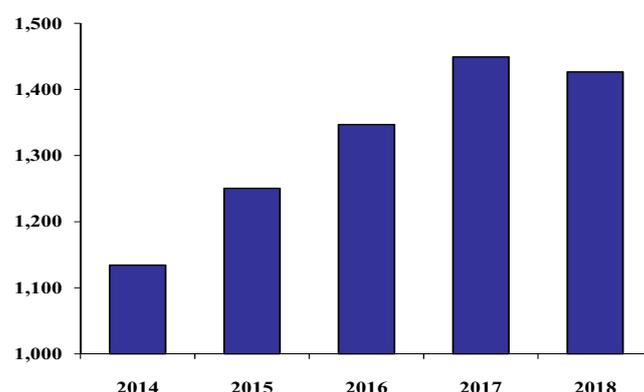
Japanese cars accounted for 42.1% of total car sales in January 2019, followed by European automobiles with a 23.1% share, Korean vehicles (20.7%), American cars (10.1%) and Chinese vehicles (4%). The sales of new Chinese vehicles surged by 27.6% and the number of American cars sold increased by 15.6% year-on-year in the covered month. In contrast, demand for Korean vehicles dropped by 46.9%, the sales of European automobiles decreased by 30.2% and demand for Japanese automobiles regressed by 18.3% year-on-year in January 2019.

Kia is the leading brand in the Lebanese market with 247 passenger vehicles sold in January 2019, followed by Nissan with 232 new cars sold, Toyota (213), Hyundai (133) and Chevrolet (113).

In parallel, car dealers sold 111 new commercial vehicles in January 2019, down by 24.5% from 147 commercial vehicles purchased in the same month of 2018. Overall, car dealers sold 1,948 new passenger cars and commercial vehicles in the covered month, down by 26.1% from 2,636 cars sold in January 2018.

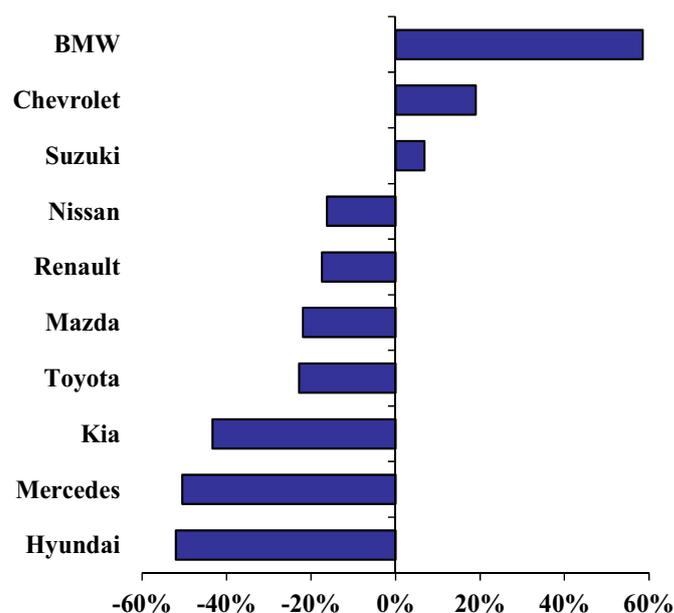
Further, Lebanon's top five car distributors sold 1,138 vehicles in January 2019 and accounted for 58.4% of new auto sales. In comparison, they sold 1,589 cars in January 2018 that represented 60.3% of total car sales. Rasamny Younis Motor Co. sal sold 329 vehicles in January 2019, equivalent to 16.9% of the total, followed by NATCO sal with 247 automobiles (12.7%), Boustany United Machineries sal with 241 cars (12.4%), Bassoul Heneiné sal with 179 vehicles (9.2%) and IMPEX with 142 cars (7.3%).

Total Claims Paid (US\$m)



Source: Insurance Control Commission

Sales of Top 10 Car Brands in January 2019 (% change*)



*from January 2018

Source: AIA, Byblos Research

Foreign investments of financial sector down 5.5% to \$3.7bn at end-June 2018

Figures issued by Banque du Liban show that the net investment portfolio of Lebanese banks and financial institutions in foreign debt and equity securities totaled \$3.75bn at the end of June 2018, constituting a decline of 5.5% from \$3.96bn at the end of 2017. Investments in equities reached \$1.86bn at the end of June 2018 and accounted for 49.7% of the total, followed by placements in long-term debt securities at \$1.84bn (49.2%), and investments in short-term debt securities at \$42.6m (1.1%). According to Banque du Liban, the figures cover the net assets of resident banks and financial institutions in foreign tradable debt and equity instruments. They help provide a clearer picture about the flow of funds from Lebanon and, therefore, about the balance of payments.

Commercial banks' net portfolio of long-term debt securities, including banks' investments for their own account, on behalf of their clients and on a custodial basis, totaled \$1.24bn and accounted for 67.1% of the financial sector's aggregate investments in such securities at the end of June 2018. Medium- and long-term banks followed with \$345.3m (18.7%), then insurance companies with \$143.5m (7.8%), and financial institutions with \$117m (6.3%).

In parallel, commercial banks represented 91.3% of investments in short-term debt securities, followed by insurance firms with 4.7%, medium- and long-term banks with 3.4%, and financial institutions with 0.6%. Further, commercial banks' investments in equities reached \$789.3m and accounted for 42.4% of the financial sector's investments in such securities at end-June 2018. Medium- and long-term banks followed with \$620m (33.3%), financial institutions with \$308.6m (16.6%), insurers with \$141.8m (7.6%) and financial intermediaries with \$0.7m (0.04%).

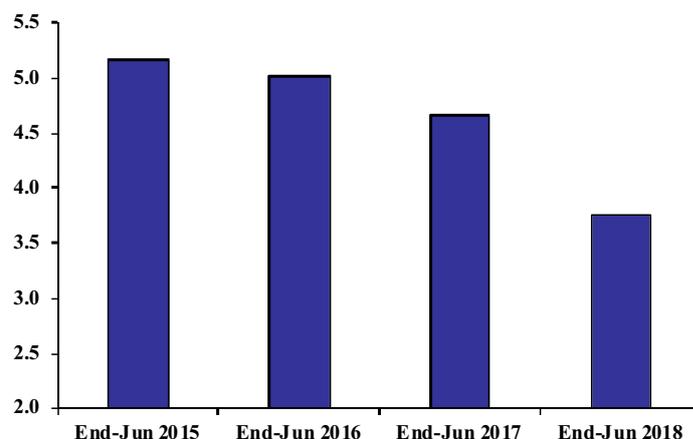
The distribution of investments by destination shows that the United States was the main recipient of equity investments of banks and financial institutions operating in Lebanon with \$601m, or 32.3% of the total, at the end of June 2018. France followed with equity investments worth \$189.1m (10.2%), then Luxembourg with \$176.8m (9.5%), Bahrain with \$142.5m (7.7%), and Jordan with \$127.7m (6.9%), while other countries accounted for the remaining 33.5% of equity investments. In parallel, the United States received \$646m or 35% of investments in long-term debt securities, followed by the United Kingdom with \$295.3m (16%), France with \$192.4m (10.4%), the UAE with \$77.6m (4.2%) and Switzerland with \$71.1m (3.9%), while other countries accounted for the remaining 30.4%. Further, Australia was the recipient of 31.5% of investments by Lebanese banks and financial institutions in short-term debt securities, followed by Qatar (24%), the United States (18.2%), Argentina (13.4%) and Egypt (3.7%), while other countries represented the remaining 9.2% of investments in short-term debt securities.

Balance sheet of investment banks up 3% in 2018

Figures released by Banque du Liban (BdL) show that the consolidated balance sheet of investment banks in Lebanon reached LBP7,996bn, or \$5.3bn at the end of 2018, constituting an increase of 3.4% from LBP7,733bn, or \$5.13bn, at the end of 2017. On the assets side, claims on resident customers reached \$1.58bn at end-2018, up by 0.8% from end-2017, while claims on non-resident customers totaled \$32.7m, down by 33.1% from end-2017. In addition, claims on the resident financial sector reached \$678m at the end of 2018, down by 27.7% from end-2017; while claims on the non-resident financial sector totaled \$82.8m at end-2018 and increased by 11.4% from a year earlier. Also, claims on the public sector totaled \$0.6m at end-2018, constituting a decrease of 5.8% from end-2017; while the securities portfolio, which includes Lebanese Treasury bills and Eurobonds, reached \$1bn at the end of 2018, down by 4% from a year earlier. In parallel, currency and deposits with BdL and foreign central banks totaled \$1.55bn at the end of 2018 and increased by 45.3% from \$1.07bn at end-2017.

On the liabilities side, deposits of resident customers reached \$1.6bn at the end of 2018, constituting a decrease of 5.4% from a year earlier; while deposits of non-resident customers totaled \$302.1m at the end of 2018, representing a decrease of 1.3% from end-2017. Liabilities to the resident financial sector amounted to \$152.1m at end-2018, down by 29.2% from end-2017; while those to the non-resident financial sector declined by 17.9% from end-2017 to \$239.2m. Also, public sector deposits regressed by 42.3% in 2018 to \$108.3m, while debt securities issued totaled \$24m at end-2018 and declined by 22.4% from end-2017. Further, the aggregate capital account of investment banks amounted to \$1.68bn at the end of 2018, constituting an increase of 4.7% from end-2017.

Foreign Investments of Financial Sector (US\$bn)



Source: Banque du Liban, Byblos Research

Ratio Highlights

(in % unless specified)	2016	2017	2018	Change*
Nominal GDP (\$bn)	51.2	53.4	56.1	
Public Debt in Foreign Currency / GDP	54.9	56.9	59.7	2.82
Public Debt in Local Currency / GDP	91.3	92.0	92.1	0.10
Gross Public Debt / GDP	146.2	149.0	151.9	2.92
Total Gross External Debt / GDP**	182.6	182.4	183.3	0.90
Trade Balance / GDP	(31.5)	(31.3)	(30.4)	1.11
Exports / Imports	15.6	14.5	14.8	0.25
Fiscal Revenues / GDP	19.4	21.8	21.2	(0.57)
Fiscal Expenditures / GDP	29.0	28.8	32.1	3.29
Fiscal Balance / GDP	(9.6)	(7.0)	(11.0)	(3.97)
Primary Balance / GDP	0.04	2.7	(0.5)	-
Gross Foreign Currency Reserves / M2	62.2	68.2	63.8	(4.39)
M3 / GDP	259.2	259.6	252.1	(7.55)
Commercial Banks Assets / GDP	398.7	411.8	445.1	33.32
Private Sector Deposits / GDP	317.1	315.9	310.9	(4.97)
Private Sector Loans / GDP***	111.6	111.8	105.9	(5.84)
Private Sector Deposits Dollarization Rate	65.8	68.7	70.6	1.90
Private Sector Lending Dollarization Rate	72.6	68.6	69.2	0.57

*change in percentage points 18/17

includes portion of public debt owed to non-residents, liabilities to non-resident banks, non-resident deposits (estimated by the IMF), Bank for International Settlements' claims on Lebanese non-banks * in January 2018, Lebanese banks started reporting their financials based on international accounting standard IFRS 9, and revised the 2017 figures accordingly

Source: Association of Banks in Lebanon, Institute of International Finance, International Monetary Fund, World Bank, Byblos Research Estimates & Calculations

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

Risk Metrics

Lebanon	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



Economic Research & Analysis Department
Byblos Bank Group
P.O. Box 11-5605
Beirut – Lebanon
Tel: (961) 1 338 100
Fax: (961) 1 217 774
E-mail: research@byblosbank.com.lb
www.byblosbank.com

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BYBLOS BANK GROUP

LEBANON

Byblos Bank S.A.L
Achrafieh - Beirut
Elias Sarkis Avenue - Byblos Bank Tower
P.O.Box: 11-5605 Riad El Solh - Beirut 1107 2811- Lebanon
Phone: (+ 961) 1 335200
Fax: (+ 961) 1 339436

IRAQ

Erbil Branch, Kurdistan, Iraq
Street 60, Near Sports Stadium
P.O.Box: 34 - 0383 Erbil - Iraq
Phone: (+ 964) 66 2233457/8/9 - 2560017/9
E-mail: erbilbranch@byblosbank.com.lb

Sulaymaniyah Branch, Kurdistan, Iraq
Salem street, Kurdistan Mall - Sulaymaniyah
Phone: (+ 964) 773 042 1010 / (+ 964) 773 041 1010

Baghdad Branch, Iraq
Al Karrada - Salman Faeq Street
Al Wahda District, No. 904/14, Facing Al Shuruk Building
P.O.Box: 3085 Badalat Al Olwiya – Iraq
Phone: (+ 964) 770 6527807 / (+ 964) 780 9133031/2
E-mail: baghdadbranch@byblosbank.com.lb

Basra Branch, Iraq
Intersection of July 14th, Manawi Basha Street, Al Basra – Iraq
Phone: (+ 964) 770 4931900 / (+ 964) 770 4931919
E-mail: basrabranch@byblosbank.com.lb

UNITED ARAB EMIRATES

Byblos Bank Abu Dhabi Representative Office
Al Reem Island - Sky Tower - Office 2206
P.O.Box: 73893 Abu Dhabi - UAE
Phone: (+ 971) 2 6336050 - 2 6336400
Fax: (+ 971) 2 6338400
E-mail: abudhabirepoffice@byblosbank.com.lb

ARMENIA

Byblos Bank Armenia CJSC
18/3 Amiryan Street - Area 0002
Yerevan - Republic of Armenia
Phone: (+ 374) 10 530362 Fax: (+ 374) 10 535296
E-mail: infoarm@byblosbank.com

NIGERIA

Byblos Bank Nigeria Representative Office
161C Rafu Taylor Close - Off Idejo Street
Victoria Island, Lagos - Nigeria
Phone: (+ 234) 706 112 5800
(+ 234) 808 839 9122
E-mail: nigeriarepresentativeoffice@byblosbank.com.lb

BELGIUM

Byblos Bank Europe S.A.
Brussels Head Office
Rue Montoyer 10
Bte. 3, 1000 Brussels - Belgium
Phone: (+ 32) 2 551 00 20
Fax: (+ 32) 2 513 05 26
E-mail: byblos.europe@byblosbankeur.com

UNITED KINGDOM

Byblos Bank Europe S.A., London Branch
Berkeley Square House
Berkeley Square
GB - London W1J 6BS - United Kingdom
Phone: (+ 44) 20 7518 8100
Fax: (+ 44) 20 7518 8129
E-mail: byblos.london@byblosbankeur.com

FRANCE

Byblos Bank Europe S.A., Paris Branch
15 Rue Lord Byron
F- 75008 Paris - France
Phone: (+33) 1 45 63 10 01
Fax: (+33) 1 45 61 15 77
E-mail: byblos.europe@byblosbankeur.com

CYPRUS

Limassol Branch
1, Archbishop Kyprianou Street, Loucaides Building
P.O.Box 50218
3602 Limassol - Cyprus
Phone: (+ 357) 25 341433/4/5 Fax: (+ 357) 25 367139
E-mail: byblosbankcyprus@byblosbank.com.lb

ADIR INSURANCE

Dora Highway - Aya Commercial Center
P.O.Box: 90-1446
Jdeidet El Metn - 1202 2119 Lebanon
Phone: (+ 961) 1 256290
Fax: (+ 961) 1 256293