

LEBANON THIS WEEK

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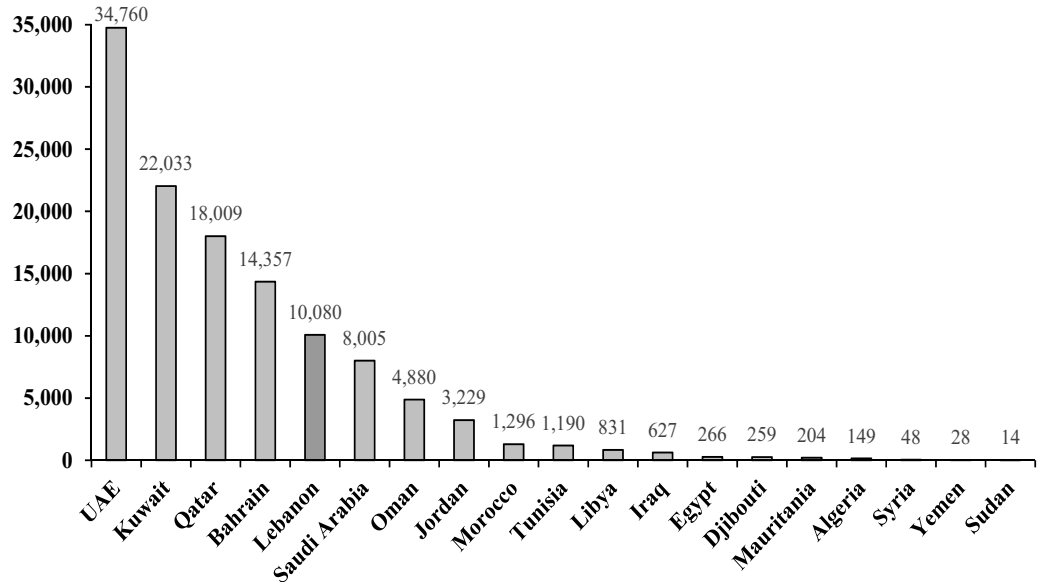
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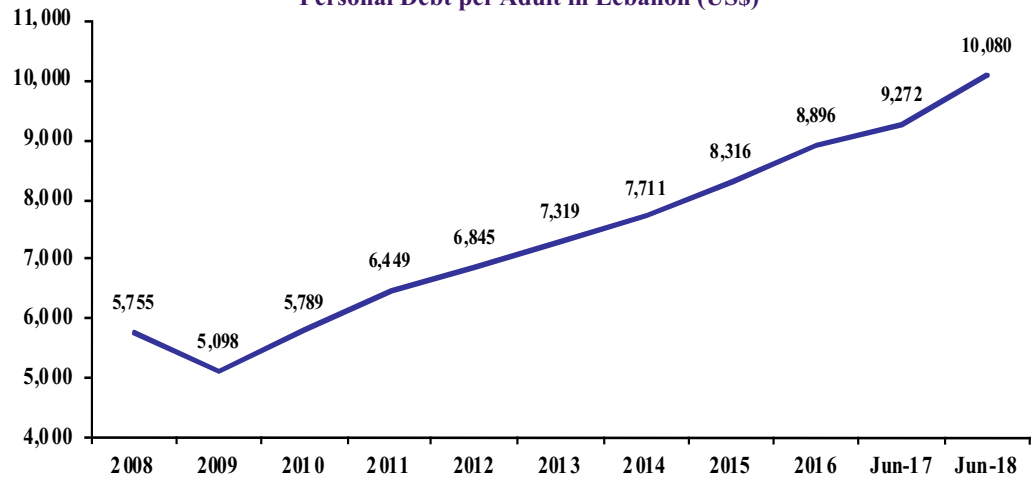
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Charts of the Week

Personal Debt per Adult in Arab Countries at end-June 2018 (US\$)



Personal Debt per Adult in Lebanon (US\$)



Source: Credit Suisse, Byblos Bank

Quote to Note

"There are other countries that could need international financial support for reconstruction or to help them recover from the effects of war."

H.E. Mr. Bruno Fouchet, Ambassador of France to Lebanon, on the risks that pledges made to Lebanon at the CEDRE conference could be diverted to other countries in need, in case of a prolonged absence of a Lebanese government

Number of the Week

\$2.98bn: Lebanon's current account deficit in the first quarter of 2018, compared to a deficit of \$2.92bn in the same quarter of 2017, according to Banque du Liban

Lebanon in the News

\$m (unless otherwise mentioned)	2017	Sep 2017	Jun 2018	Jul 2018	Aug 2018	Sep 2018	% Change*
Exports	2,844	210	215	218	229	214	1.89
Imports	19,582	1,359	1,616	2,318	1,820	1,438	5.83
Trade Balance	(16,738)	(1,149)	(1,401)	(2,100)	(1,591)	(1,224)	6.55
Balance of Payments	(156)	457	(639)	(549)	(408)	(146)	-
Checks Cleared in LBP	21,677	1,475	1,680	1,878	1,777	1,885	27.79
Checks Cleared in FC	46,578	3,009	3,471	3,952	3,659	3,653	21.40
Total Checks Cleared	68,255	4,484	5,151	5,830	5,436	5,538	23.50
Budget Deficit/Surplus	(3,300.82)	(651.25)	(36.10)	-	-	-	-
Budget Primary Balance	1,882.86	(145.72)	277.61	-	-	-	-
Airport Passengers***	8,235,845	861,828	762,041	1,022,467	1,159,811	849,299	(1.45)

\$bn (unless otherwise mentioned)	2017	Sep 2017	Jun 2018	Jul 2018	Aug 2018	Sep 2018	% Change*
BdL FX Reserves	35.80	35.06	33.14	34.21	33.92	34.15	(2.59)
In months of Imports	18.57	25.81	20.51	14.76	18.64	23.75	(7.96)
Public Debt	79.53	78.16	82.95	82.90	83.69	83.84	7.27
Bank Assets	219.86	213.42	234.60	236.31	238.46	241.12	12.98
Bank Deposits (Private Sector)	168.66	169.09	173.32	173.01	173.22	173.94	2.86
Bank Loans to Private Sector	59.69	58.45	59.56	59.22	59.40	59.42	1.66
Money Supply M2	52.51	55.35	53.98	53.58	53.21	52.71	(4.78)
Money Supply M3	138.60	139.00	141.29	140.85	141.04	141.35	1.69
LBP Lending Rate (%)****	8.09	8.31	8.82	8.66	8.81	9.31	100bps
LBP Deposit Rate (%)	6.41	5.53	6.72	6.94	7.03	7.39	186bps
USD Lending Rate (%)	7.67	7.53	7.93	7.96	8.12	8.11	58bps
USD Deposit Rate (%)	3.89	3.65	4.09	4.14	4.20	4.36	71bps
Consumer Price Index**	4.4	4.1	7.6	7.6	6.7	6.5	240bps

* Year-on-Year ** Year-on-Year percentage change ***includes arrivals, departures, transit

**** Starting January 2016, lending rates in Lebanese pounds are reported before any subsidy or facility from reserve requirements according to Intermediate Circular No 389, and as such they are not comparable year-on-year

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
BLOM Listed	9.25	0.00	102,529	20.91%
Solidere "A"	6.30	(8.16)	45,432	6.62%
Byblos Common	1.41	0.00	29,531	8.38%
Solidere "B"	6.39	(6.17)	18,845	4.37%
BLOM GDR	9.26	(1.91)	12,620	7.19%
Audi GDR	4.71	0.00	12,428	5.94%
Audi Listed	4.75	(5.38)	8,250	19.97%
HOLCIM	16.00	(0.25)	1,234	3.28%
Byblos Pref. 08	72.00	0.00	1,000	1.51%
Byblos Pref. 09	72.00	0.00	-	1.51%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
May 2019	6.00	98.00	10.68
Mar 2020	6.38	94.75	10.98
Apr 2021	8.25	92.75	11.88
Oct 2022	6.10	84.50	11.20
Jun 2025	6.25	77.00	11.34
Nov 2026	6.60	75.63	11.33
Feb 2030	6.65	72.13	11.04
Apr 2031	7.00	72.50	11.15
Nov 2035	7.05	71.88	10.68
Mar 2037	7.25	71.88	10.81

Source: Byblos Bank Capital Markets

	Dec 3-7	Nov 26-30	% Change	November 2018	November 2017	% Change
Total shares traded	231,869	4,658,938	(95)	14,323,108	3,450,170	315.1
Total value traded	\$1,705,018	\$30,811,616	(94.5)	\$85,065,154	\$43,641,250	94.9
Market capitalization	\$9.51bn	\$9.72bn	(2.11)	\$9.72bn	\$10.87bn	(10.6)

Source: Beirut Stock Exchange (BSE)



Remittance inflows to Lebanon at \$1.85bn in first quarter of 2018

Figures released by Banque du Liban show that the inflows of expatriates' remittances to Lebanon totaled \$1.85bn in the first quarter of 2018, up by 8.8% from \$1.7bn in the previous quarter, and compared to \$1.847bn in the first quarter of 2017. The figures include workers' remittances and the compensation of employees, according to the World Bank's definition of remittances.

Remittance inflows to Lebanon in the first three months of 2018 reached their third highest level for the first quarter of a year between 2002 and 2018. Remittance inflows to the country averaged \$1.78bn during the first quarter of each year between 2008 and 2018, and reached a high of \$1.86bn in the first three months of 2009. Banque du Liban's figures are the only official data on remittance flows to and from Lebanon.

In parallel, remittance outflows from Lebanon amounted to \$1.2bn in the first quarter of 2018, nearly unchanged from the previous quarter, and up by 10.7% from \$1.1bn in the first quarter of 2017. Remittance outflows in the covered quarter reached their second highest level for the first quarter of a year during the 2002-18 period. They averaged \$1.03bn during the first quarter of each year between 2008 and 2018, and reached a high of \$1.3bn in the first three months of 2013.

As such, net remittance inflows to Lebanon totaled \$677.4m in the first quarter of 2018, constituting a rise of 28.1% from \$528.7m in the previous quarter, but a decrease of 14.1% from \$788.2m in the first quarter of 2017.

In parallel, the World Bank estimated expatriates' remittance inflows to Lebanon at \$7.77bn in 2018. The World Bank's estimates are based on the official figures from BdL, which means that the Bank will likely update its estimate for 2018 to align it with BdL figures.

Lebanon is the 15th largest among developing countries, the fifth largest recipient among 50 upper Middle income countries (UMICs), and the second among 16 Arab countries. Among developing economies, Lebanon receives less remittances than Guatemala (\$9.5bn), Russia (\$9.34bn) and Nepal (\$8.21bn), and more than Sri Lanka (\$7.58bn), Thailand (\$7.46bn) and Morocco (\$7.4bn). Further, it receives less remittances than only China (\$67.4bn), Mexico (\$33.68bn), Guatemala and Russia among UMICs, while it trails only Egypt (\$25.68bn) in the Arab world.

Remittance inflows to Lebanon accounts for 1.1% of the global flow of remittances and for 1.5% of total remittance inflows to developing countries in 2018. Also, remittance inflows to Lebanon represent 3.9% of remittance inflows to UMICs this year, while they account for 13.2% of remittance inflows to Arab countries in 2018.

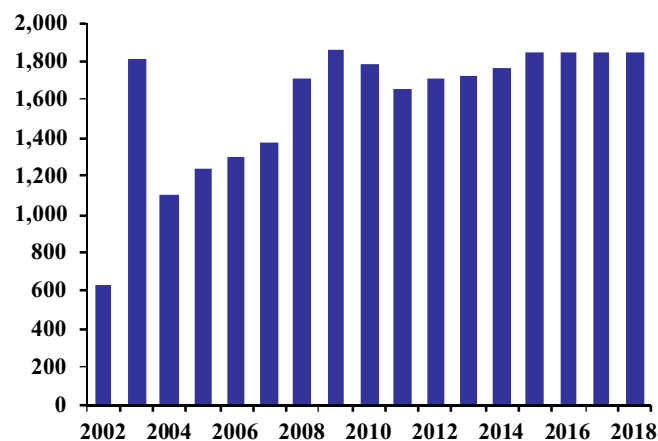
Further, expatriates' remittances to Lebanon are equivalent to 14.5% of GDP in 2018, which constitutes the 19th highest such ratio in the world and among developing countries, the sixth highest ratio among UMICs, as well as the third highest among Arab countries behind only Yemen (24.2% of GDP) and Palestine (21.3% of GDP).

Airport passengers up 7% in first 11 months of 2018

Figures released by the Beirut-Rafic Hariri International Airport (HIA) show that 8,164,597 passengers utilized the airport (arrivals, departures and transit) in the first 11 months of 2018, constituting an increase of 7.3% from 7,608,979 passengers in the same period of 2017. The number of arriving passengers grew by 8.1% year-on-year to 4,074,323 in the first 11 months of 2018, compared to an increase of 8.9% in the same period last year and to a rise of 8.1% in the first 11 months of 2016. Also, the number of departing passengers grew by 6.6% year-on-year to 4,086,246 in the first 11 months of 2018, relative to an increase of 8.3% in the same period last year and to a rise of 4.4% in the first 11 months of 2016.

In parallel, the airport's aircraft activity expanded by 3.4% annually to 67,818 take-offs and landings in the first 11 months of 2018, compared to an increase of 0.6% in the same period of 2017 and to a growth of 3.8% in the first 11 months of 2016. In addition, the HIA processed 88,938 metric tons of freight in the covered period that consisted of 52,124 tons of import freight and 36,814 tons of export freight. Middle East Airlines had 23,740 flights in the first 11 months of 2018 and accounted for 35% of HIA's total aircraft activity.

Remittance Inflows to Lebanon* (\$USm)



* In first quarter of each year

Source: Banque du Liban, Byblos Research

Banking sector has foreign currency liquidity to finance external needs throughout 2019-2023 period

Global investment bank Goldman Sachs considered that the Lebanese banking sector has enough liquidity in foreign currency to finance the country's external financing needs over the short- to medium-terms, even without any pick-up in deposit inflows. The bank considered that the increase in Lebanon's external funding gap in 2017 and 2018 has not undermined depositor confidence, mostly because of Banque du Liban's (BdL) financial engineering operations. It noted that BdL's financial operations have increased foreign currency liquidity, which helped cover domestic and external financing requirements. However, it considered that these operations come at a cost, and depend on BdL's continued ability to attract foreign currency liquidity from the banking sector.

The investment bank projected Lebanon's net external funding gap at between \$5.5bn and \$6bn annually during the 2019-23 period, assuming that deposits inflows average about \$5.5bn annually over the next five years, equivalent to an annual deposit growth rate of 3%. It pointed out that banks can cover the country's external net funding gap by drawing down their external assets, which means that banks would sell sovereign Eurobonds from their portfolios to foreign investors and/or repatriate their own deposits at banks abroad. It said that this would increase capital inflows and help reduce the net external funding gap. Alternatively, it noted that Lebanese banks could call in domestic foreign currency-denominated loans, or incentivize depositors to convert their deposits in foreign currency to Lebanese pounds. It added that the latter would not have an impact on the balance of payments, but it would allow BdL to increase its foreign assets through long-term borrowing from banks or by purchasing foreign currency. It said that BdL's borrowing in foreign currency from the market to fund the external financing gap would reduce its net foreign currencies, but would increase its gross reserves.

Overall, Goldman Sachs considered that BdL can continue to borrow from Lebanese commercial banks to fill the net external funding gap, as long as banks have the capacity to lend to BdL, which depends on foreign currency liquidity in the banking system. It noted that banks have \$10.3bn in highly-liquid assets in the form of cash deposits with banks abroad, while they hold \$17bn in Lebanese Eurobonds and other semi-liquid assets, and nearly \$40bn in foreign currency loans to the private sector. It estimated that the banks' highly-liquid assets can alone cover less than two years of the projected net external funding gap. However, it said that banks will continue to source foreign currency from across their balance sheet, as they have done in the past, while it estimated that BdL is willing to run down about \$1bn of its foreign currency reserves per year. Under such circumstances, it expected banks to cover the net external funding gap through the end of 2021, even if deposit inflows do not pick up.

In parallel, the investment bank indicated that a recovery in external financing, such as foreign direct investment, Eurobond issuance, portfolio inflows or deposit inflows, is crucial to put the country's external finances on a more sustainable path. It estimated that a deposit growth rate of about 6% per year would be sufficient to close the entire financing gap. It said that the formation of a government is crucial to reach this growth rate in deposits. It noted that higher-than-anticipated progress on the reform agenda and the disbursement of CEDRE pledges could increase confidence enough to trigger deposit growth and reduce yields on Eurobonds, which would improve the prospects of new issuances. It added that other factors that would improve the financing outlook include a commitment of financial support from major Arab countries or a reduction in regional geopolitical risks. The bank pointed out that even if Lebanon's financing outlook improves, authorities need to proceed with fiscal consolidation in order to address fiscal imbalances and reduce the public debt level.

Lebanon's Net Funding Gap (US\$m)					
	2019	2020	2021	2022	2023
Gross External Financing Requirements	18,132	18,758	19,391	19,999	20,687
Current Account Deficit	15,006	15,406	15,797	16,143	16,547
Debt Amortization	1,760	1,848	1,940	2,037	2,139
Net Current Transfers	1,367	1,503	1,654	1,819	2,001
Net: Deposit Inflows	5,213	5,370	5,531	5,697	5,868
Gross Funding Gap	12,919	13,388	13,860	14,302	14,819
Sources of Financing					
Debt Rollover	528	554	582	611	642
Net FDI Inflows	1,883	1,974	2,066	2,159	2,260
Net Portfolio Inflows	931	1,301	1,361	1,422	1,489
Other Capital Inflows	2,000	2,000	2,000	2,000	2,000
Private/Bank Sector Borrowing	1,000	1,100	1,210	1,331	1,464
Errors & Omissions	1,000	1,000	1,000	1,000	1,000
Net Funding Gap	5,577	5,459	5,640	5,779	5,964

Source: Goldman Sachs



Banque du Liban and Finance Ministry reach agreement on government financing for 2019

In a meeting between Banque du Liban (BdL) and the Ministry of Finance, Governor Riad Salamé and Finance Minister Ali Hassan Khalil reached an agreement that would ensure the financing needs of the Lebanese government throughout 2019. The Finance Ministry agreed to issue new sovereign debt at market rates, which would encourage commercial banks to subscribe to Treasury bonds, while BdL would subscribe to additional issuances in case of need.

In fact, there was some disagreement between commercial banks and BdL on one side, and the Ministry of Finance on the other side, about the rates on new sovereign debt instruments issued in local currency. The prevailing rates, which do not reflect the recent increase in the interest rates on deposits, discouraged the banking system from subscribing to sovereign debt issuances in local currency. Prior to the agreement, the most recent issuance of 10-year Treasury bonds carried a coupon rate of 7.46%.

In this context, Governor Salamé indicated that the government will start issuing local currency debt at market rates. He considered that the banking sector is capable of covering the government's financing needs in 2019. According to the plan, Governor Salamé indicated that banks will be able to use some of their Lebanese pounds deposits at BdL, which BdL attracted from banks through its financial engineering operations, to subscribe to Treasury bonds that the government will issue at market rates. He added that BdL has been offering interest rates of 10.5% on 10-year deposits. He also noted that upcoming Treasury bonds could have maturities of 10, 15 or 20 years.

Figures released by the Association of Banks in Lebanon (ABL) show that the face value of outstanding Treasury securities denominated in Lebanese pounds reached LBP72,052bn, or the equivalent of \$47.8bn, at the end of October 2018, compared to LBP73,221bn, or \$48.6bn, at the end of October 2017. The weighted interest rate on Lebanese Treasury securities denominated in Lebanese pounds was 6.13% in October 2018 compared to 6.36% in October 2017.

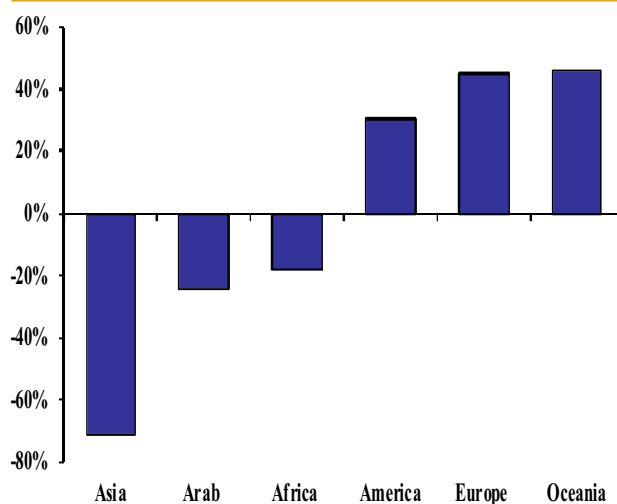
The distribution of outstanding Treasury securities denominated in Lebanese pounds at end-October 2018 shows that 15-year Treasury bonds accounted for 0.3%, or LBP215bn, of total securities in the local currency; 12-year Treasury securities represented 4.3% of the total (LBP3,076bn) and 10-year Treasury bonds had a share of 24.5% (LBP17,662bn). Also, the share of eight-year Treasury securities was 2.5% (LBP1,832bn), seven-year Treasury bonds represented 15.4% (LBP11,128bn), five-year Treasury securities accounted for 24.3% (LBP17,510bn), the share of three-year Treasury bonds was 14.3% (LBP10,287bn), two-year Treasury bills represented 10% (LBP7,186bn), one-year Treasury bills accounted for 3.5% (LBP2,520bn), the share of six-month Treasury bills was 0.7% (LBP527bn) and three-month Treasury bills represented 0.2% (LBP109bn). As such, 47% of outstanding Treasury securities have seven-year maturities or longer and 71.3% have five-year maturities or more.

Tourist arrivals up 5% in first 10 months of 2018

The number of incoming visitors to Lebanon totaled 1,671,891 in the first 10 months of 2018, constituting an increase of 5% from 1,592,301 tourists in the same period of 2017 and a drop of 9.7% from 1,851,922 visitors in the first 10 months of 2010, the record year for tourism activity in Lebanon. Also, the number of incoming visitors reached 166,146 in October 2018, nearly unchanged from 166,526 visitors in September 2018 and up by 16.4% from 142,784 tourists in October 2017. Visitors from Europe accounted for 35.9% of the total in the first 10 months of 2018, followed by those from Arab countries with 28.1%, the Americas with 18.5%, Asia with 7%, Africa with 6% and Oceania with 4.5%. Further, tourists from Iraq accounted for 11.1% of total visitors in the covered period, followed by visitors from the U.S. (9.9%), France (9.3%), Canada (5.9%), Germany (5.5%), Jordan (4.7%), Egypt (4.5%), England (3.8%), Saudi Arabia (2.9%) and Sweden (2.3%).

In parallel, the number of visitors from Europe increased by 9.6% year-on-year in the first 10 months of 2018, followed by those from Africa (+9.4%), the Americas (+8.6%), Oceania (+6.8%) and Asia (+1.5%), while the number of visitors from the Arab region regressed by 2.6% year-on-year. On a country basis, the number of tourists from Brazil grew by 13% annually in the covered period, followed by visitors from Sweden (+12.3%), the U.S. (+10.7%), France (+10.4%), England (+8.9%), Italy (+8.8%), Egypt (+8.2%), Turkey (+7.3%), Germany (+7%), Canada (+5.6%) and Jordan (+0.9%). In contrast, the number of visitors from the UAE dropped by 18.6% year-on-year in the first 10 months of 2018, followed by visitors from Saudi Arabia (-18%), Kuwait (-12.2%), Venezuela (-4.5%) and Iraq (-3.5%).

Change in the Number of Tourist Arrivals from Main Sources in First 10 Months of 2018*



*from same period of 2010

Source: Ministry of Tourism, Byblos Research

Lebanon ranks sixth in Arab world in economic freedom

The Fraser Institute's 2018 Index of Economic Freedom in the Arab World ranked Lebanon in sixth place, along with Oman and Palestine, among 22 countries included in the survey. Lebanon's rank improved by one spot from seventh place in the 2017 survey and by two spots from eighth place in the 2016 survey. Also, Lebanon came in seventh place in each of the 2007 and 2012 surveys, while it came in sixth place in the 2004 index.

The index measures the degree of economic freedom in each country based on 45 variables that are distributed into five broad factors of economic freedom. These factors measure the Size of Government, Legal Structure & Security of Property Rights, Access to Sound Money, Freedom to Trade Internationally, and the Regulation of Credit, Labor & Business. A country's overall score ranges between zero to 10, with a higher score reflecting a higher level of economic freedom.

Lebanon received a score of 7.3 points compared to a score of 7.2 points in the 2017 survey, while its score was unchanged from the 2016 survey. In addition, Lebanon received a score of 7.4 points in each of the 2007 and 2012 surveys, and 7.7 points in the 2004 index. Lebanon's score was higher than the Arab average score of 6.5 points and the average score of non-Gulf Cooperation Council (GCC) Arab countries of 6.1 points, while it was lower than the GCC countries' average score of 7.6 points. The Fraser Institute anticipated that the state of economic freedom in Lebanon would not change significantly in the 2019 survey.

Lebanon ranked second, behind only Sudan, on the Size of Government category, which measures the extent that a country relies on individual choice and markets, rather than on the political process, to allocate resources and goods & services. In parallel, Lebanon came in eighth place, behind Kuwait, Qatar, Bahrain, Jordan, the UAE, Oman and Saudi Arabia in terms of the Regulation of Credit, Labor & Business. This category measures the restrictions that the regulatory burden imposes on the credit, labor and product markets.

Further, Lebanon ranked in 14th place and came ahead of Syria, Libya, Mauritania, Yemen, Djibouti, Sudan, Iraq and Somalia on the Legal Structure & Security of Property Rights category. This category measures the government's effectiveness in protecting property rights.

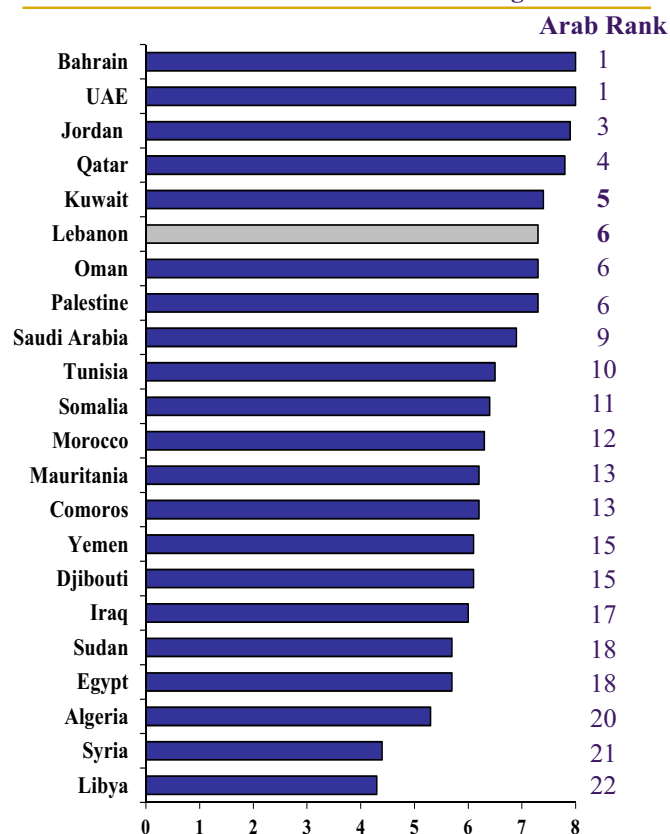
The Fraser Institute is a Canada-based independent research organization whose mission is to study and measure the impact of competitive markets and government intervention on the welfare of individuals.

Opened letters of credit at \$4.9bn for imports and \$2.6bn for exports in first nine months of 2018

Figures released by Banque du Liban indicate that the value of letters of credit (LCs) opened to finance imports to Lebanon totaled \$4.9bn in the first nine months of 2018, constituting an increase of 11.8% from \$4.4bn in the same period of 2017. Further, utilized credits for imports reached \$4.4bn in the first nine months of the year, down by 5.9% from \$4.6bn in the same period of 2017, and accounted for 88.4% of opened LCs for imports in the first nine months of 2018. Also, outstanding import credits stood at \$1.13bn at the end of September 2018 compared to \$1.04bn at end-September 2017. In addition, the aggregate value of inward bills for collection reached \$771.4m in the first nine months of the year, constituting a decline of 26.7% from \$1.05bn in the first nine months of 2017. The outstanding value of inward bills for collection reached \$56.8m at the end of September 2018 relative to \$70.4m at end-September 2017.

In parallel, the value of documentary letters of credit opened to finance exports from Lebanon reached \$2.6bn in the first nine months of 2018, up by 2.8% from \$2.52bn in the same period of 2017. Further, utilized credits for exports reached \$2.05bn in the covered period, up by 1.4% from \$2bn of used credits in the first nine months of 2017, and accounted for 79% of opened LCs for exports in the first nine months of 2018. Also, outstanding export credits stood at \$1.1bn at the end of September 2018 compared to \$890.1m at end-September 2017. In addition, the aggregate value of outward bills for collection amounted to \$1.07bn in the first nine months of the year, constituting an increase of 6.3% from \$1bn in the same period of 2017. The outstanding value of outward bills for collection reached \$405.5m at the end of September 2018 relative to \$402.8m at end-September 2017.

Index of Economic Freedom for 2018
Arab Countries Scores & Rankings



Source: Fraser Institute, Byblos Research

Lebanon's Rankings & Scores by Category

Category	Rank	Score
Size of Government	2	8.9
Access to Sound Money	10	9.4
Regulation of Credit, Labor & Business	8	7.1
Freedom to Trade Internationally	13	5.9
Legal Structure & Security of Property Rights	14	5.1

Source: Fraser Institute, Byblos Research

Gross public debt at \$84bn at end-October 2018

Lebanon's gross public debt reached \$84bn at the end of October 2018, constituting an increase of 5.6% from \$79.5bn at the end of 2017 and a rise of 7.1% from \$78.5bn at end-October 2017. In nominal terms, the gross public debt grew by \$4.5bn in the first 10 months of 2018 relative to an increase of \$3.6bn in the same period of 2017. Debt denominated in Lebanese pounds totaled \$48.6bn at end-October 2018, down by 1% from the end of 2017 and by 1.7% from end-October 2017; while debt denominated in foreign currency stood at \$35.4bn, constituting a growth of 16.4% from end-2017 and an increase of 22% from end-October 2017. In May 2018, the Finance Ministry issued \$5.5bn in Lebanese Eurobonds and exchanged them with LBP8,250bn worth of Lebanese pound-denominated Treasury bills from Banque du Liban's (BdL) portfolio in order to reduce the cost of debt servicing, which explains the growth in foreign-currency debt. Local currency debt accounted for 57.9% of the gross public debt at the end of October 2018 compared to 63.1% a year earlier, while foreign currency-denominated debt represented the balance of 42.1% relative to 36.9% at end-October 2017. The weighted interest rate on outstanding Treasury bills was 6.13% and that on Eurobonds was 6.73% in October 2018. Further, the weighted life on Eurobonds was 7.62 years, while it was 1,508 days on Treasury bills.

Commercial banks held 39.7% of the public debt as at end-October 2018 relative to 42.5% of the total at end-October 2017. BdL held 50% of the Lebanese pound-denominated public debt at the end of October 2018 relative to 46.8% a year earlier, while commercial banks held 34.7% of the local debt compared to 38.3% at end-October 2017. Also, public agencies, financial institutions and the public held 15.3% of the local debt at end-October 2018, relative to 14.8% at end-October 2017. Further, holders of Eurobonds and special T-bills in foreign currencies accounted for 94% of foreign currency-denominated debt holders at the end of October 2018, followed by multilateral institutions with 3.8% and foreign governments with 2.2%. In addition, the net public debt, which excludes public sector deposits at BdL and at commercial banks from overall debt figures, grew by 8.8% annually to \$74.1bn at end-October 2018. Further, the gross market debt accounted for about 62.2% of the total public debt. Gross market debt is the total public debt less the portfolios of the BdL, the National Social Security Fund, bilateral and multilateral loans, as well as Paris II related debt.

Utilized credits by private sector at \$70bn at end-June 2018, advances against real estate account for 38% of total

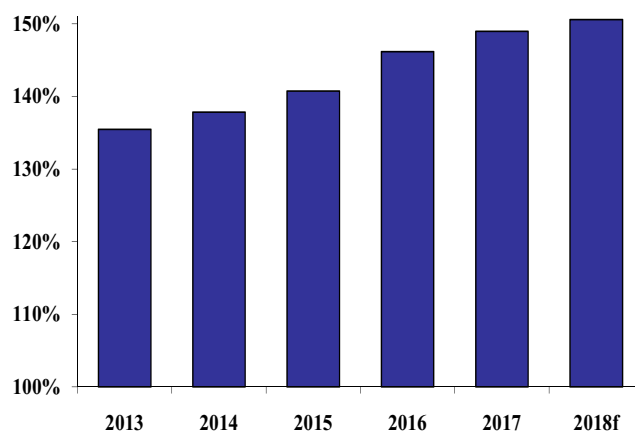
Figures issued by Banque du Liban show that utilized credits by the private sector from commercial banks and financial institutions totaled \$69.7bn at the end of June 2018, constituting an increase of 1.5% from \$68.65bn at end-2017 and a growth of 5% from \$66.4bn at end-June 2017. Trade & services accounted for \$23.1bn or 33.1% of utilized credits at the end of June 2018, followed by personal credit with \$21.9bn (31.4%), construction with \$11.2bn (16.1%), industry with \$7.2bn (10.4%), financial intermediaries with \$3.4bn (4.9%) and agriculture with \$820.7m (1.2%), while other sectors represented the remaining \$2bn (2.9%). The distribution of credits by type shows that advances against real estate totaled \$26.7bn and accounted for 38.3% of private sector utilized credits at the end of June 2018. Overdrafts followed with \$19.3bn (27.7%), then advances against personal guarantees with \$12.4bn (17.7%), advances against cash collateral or bank guarantees with \$7.8bn (11.2%), advances against other real guarantees with \$2.1bn (3%), and advances against financial values with \$1.4bn (2.1%).

Also, the distribution of utilized credits in trade & services shows that wholesale trade accounted for 47.9% of overall trade & services credits; followed by retail with 17.6%; real estate, rent and employment services with 16%; hotels & restaurants with 7%; transport & storage with 6.7% and educational services with 4.8%. Personal credit accounted for 85.6% of the number of loan beneficiaries, followed by trade & services with 9.6% of beneficiaries, industry with 2.4%, 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 1.9% from the end of 2017 and by 3.3% from end-June 2017 to 627,132 at end-June 2018; while 69.1% of beneficiaries had loans ranging from LBP5m to LBP100m at the end of June 2018. Beirut and its suburbs accounted for 74.3% of bank credits and for 52.5% of beneficiaries. Mount Lebanon followed with 13.2% of credits and 18.5% of beneficiaries, then South Lebanon with 4.7% of credits and 10.2% of beneficiaries, North Lebanon with 4.5% of credits and 11.2% of beneficiaries, and the Bekaa region with 3.3% of credits and 7.6% of beneficiaries.

In parallel, the off-balance sheet liabilities of banks and financial institutions totaled \$112.7bn at the end of June 2018, increasing by 0.3% from \$112.3bn at end-2017 and by 4.5% from \$107.9bn at end-June 2017. They include endorsement & guarantees of \$104.5bn, or 92.8% of the total, followed by letters of undertaking with \$2.9bn (2.6%), and commitments on notes with \$2.3bn (2.1%).

Lebanon's Gross Public Debt (% of GDP)



Source: Central Administration of Statistics, Ministry of Finance, Institute of International Finance

UNCTAD issues recommendations to improve investment climate in Lebanon

In its Investment Policy Review of Lebanon (IPR), the United Nations Conference on Trade and Development (UNCTAD), at the request of the Lebanese government, assessed the country's investment regulatory framework to identify key constraints that limit Lebanon's investment potential, and to provide recommendations to address them. It reviewed the existing legal and institutional frameworks for foreign direct investments (FDI), as well as several areas of the policy framework that affect local and foreign investors, including the establishment and liquidation of companies, taxation, labor, competition, governance, and the environment.

In its assessment of the investment legal framework, the UNCTAD indicated that there are no restrictions on the transfer of capital, profits and dividends to and from Lebanon. It added that expropriation is strictly regulated and rare, while investors have access to local courts and to commercial arbitration in case of commercial disputes. It noted that authorities have adopted in recent years a set of laws to comply with the MENA-Financial Action Task Force (FATF) requirements for anti-money laundering and combating the financing of terrorism. However, it said that several restrictions to FDI exist in Lebanon, while these restrictions are not regularly reviewed and are not clearly specified in a single list. It noted that Lebanon's Investment Law 360 is not comprehensive, while some sectors, such as fixed line telephony and energy transmission, are closed to domestic and foreign investors. Also, it said that the Investment Development Authority of Lebanon (IDAL), which is in charge of investment promotion and facilitation, has a concurrent regulatory role that is not in line with good practices. In this regard, the UNCTAD's short-term recommendations consist of publishing an exhaustive list of restrictions to FDI in an official document; and of separating within IDAL the staff responsible for investment promotion and for administering incentives. Its medium-term recommendations consist of reevaluating the need for some of the current investment restrictions as part of the ongoing revision of the Lebanese Commercial Code. It also asked authorities to introduce a reference for non-discrimination or national treatment in domestic legislation in order to grant the core standards of treatment and protection to foreign investors. It said that its longer-term recommendation is for authorities to revise the current investment law in order to formally shift the regulatory functions away from IDAL.

Further, the UNCTAD's assessment of international investment agreements shows that Lebanon has concluded 50 bilateral investment treaties (BITs) with traditional investment protection provisions, of which 42 BITs are in force. It noted that 42% of BITs are signed with European countries, 34% with Asian countries, 18% with countries in Africa, and 6% of BITs are signed with countries in the Americas. However, it said that Lebanon needs to modernize its treaty network, as the latter mainly consists of first generation international investment agreements.

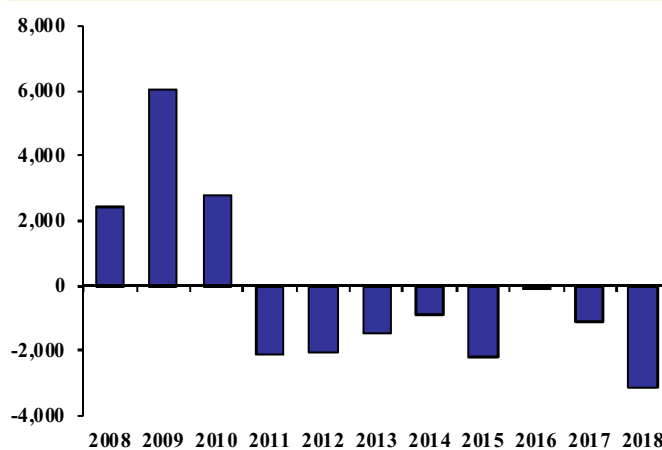
In parallel, the UNCTAD indicated that the establishment of a business in Lebanon is cumbersome and costly due to a series of requirements and the lack of online services, while business liquidation is burdensome and lengthy. As such, it encouraged authorities to introduce an online one-stop-shop service to simplify the processes of establishing and liquidating a business. Also, the UNCTAD's short-term recommendations consist of conducting a complete review of existing procedures to establish or liquidate a business, and to assess if they are legally required or were introduced through practice. It also called on authorities to adopt the draft law on bankruptcy and insolvency practitioners in order to modernize their frameworks. Further, it encouraged the government to ratify the 1961 Hague Convention Abolishing the Requirement of Legalization for Foreign Public Documents, in order to facilitate the registration of foreign branches and representative offices in the country and reduce the related paperworks and red tape. Over the medium term, the UNCTAD recommended the establishment of e-registration procedures by interconnecting governmental services, and called on authorities to publish the list of required steps to establish a business and make it legally binding.

Balance of payments posts deficit of \$3.1bn in first 10 months of 2018

Figures issued by Banque du Liban (BdL) show that Lebanon's balance of payments posted a deficit of \$3.1bn in the first 10 months of 2018 compared to a deficit of \$1.1bn in the same period of 2017. The balance of payments posted a deficit of \$1.8bn in October 2018 compared to a deficit of \$146.1m in September 2018 and of \$887.8m in October 2017. The October 2018 deficit was caused by a decrease of \$1.4bn in the net foreign assets of banks and financial institutions, and by a decline of \$373.9m in those of BdL. The cumulative deficit in the first 10 months of 2018 was caused by a decrease of \$4.3bn in the net foreign assets of banks and financial institutions, which was partly offset by an increase of \$1.2bn in those of BdL.

The balance of payments posted surpluses of \$7.9bn in 2009, \$3.3bn in 2010 and \$1.2bn in 2016, and deficits of \$2bn in 2011, \$1.5bn in 2012, \$1.1bn in 2013, \$1.4bn in 2014, \$3.4bn in 2015 and \$155.7m in 2017. The balance of payments posted a deficit equivalent to 0.3% of GDP in 2017, relative to a surplus equivalent to 2.4% of GDP in 2016 and deficits of 6.7% of GDP in 2015 and 2.9% of GDP in 2014.

Balance of Payments* (US\$m)



*in the first 10 months of each year

Source: Banque du Liban

Capital Markets Authority to establish electronic trading platform

The Capital Markets Authority (CMA) launched a Request for Proposal (RFP) for the licensing and operation of an electronic trading platform (ETP) in Lebanon. The platform will be regulated and supervised based on Capital Markets Law No. 161. The CMA will grant the selected operator a 10-year license and will not provide any additional licenses in the coming 10 years.

The ETP aims to develop capital markets in Lebanon and expand trading internationally. Specifically, it will allow residents and non-residents, including Lebanese expatriates, to invest in private companies in Lebanon, such as in small- and medium-sized enterprises and startups, as well as in government securities. Also, the platform will allow the trading of a broad range of securities, such as equities, investment funds, exchange-traded funds and corporate bonds, as well as government securities, such as Treasury bills and Eurobonds, among others.

Interested entities would then be required to submit their bids in the coming three to four months, after which the selected operators will have six to nine months to set up the system. As such, the ETP is expected to start operations by the end of 2019.

Commercial activity deteriorates year-on-year in second 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 second quarter of 2018, with the balance of opinions standing at -34 compared to -4 in the second quarter of 2017. However, the volume of commercial sales slightly improved quarter-on-quarter from -36 in the first 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 South at -53, followed by the Bekaa region (-48), the North (-29) and Beirut & Mount Lebanon (-27).

The survey shows that the balance of opinions about the sales of food items was -24 in the second quarter of 2018 relative to -15 in the preceding quarter and to +6 in the second quarter of 2017. Also, the balance of opinions about the sales of inter-industrial goods was -38 in the covered quarter, unchanged from the previous quarter, and compared to -8 in the second quarter of 2017; while it was -38 for non-food products relative to -48 in the first quarter of 2018 and to -10 in the second quarter of last year. Further, the balance of opinions for inventory levels in all commercial sub-sectors was -3 in the second quarter of 2018, compared to zero in the previous quarter and to -6 in the second quarter of 2017. Opinions about the level of inventories were the highest in the Bekaa as they reached +9, followed by Beirut & Mount Lebanon (-1), the South (-9) and the North (-12). 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	Q2-15	Q2-16	Q2-17	Q2-18
Sales volume	-12	-18	-4	-34
Number of employees	-5	-4	-3	-8
Inventories of finished goods	-8	-7	-6	-3
Q2-18 Regional results	Beirut / Mount Lebanon	North	South	Bekaa
Sales volume	-27	-29	-53	-48
Inventories of finished goods	-1	-12	-9	+9

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

Banking sector assets at \$243bn at end-October 2018

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets stood at \$242.6bn at the end of October 2018, constituting an increase of 10.4% from the end of 2017 and an expansion of 12.4% from end-October 2017. Loans extended to the private sector reached \$59.2bn at the end of October 2018, regressing by 0.9% from end-2017 and growing by 1% from a year earlier. Loans to the resident private sector totaled \$52.3bn, constituting decreases of 2.4% from the end of 2017 and of 0.8% from a year earlier; while credit to the non-resident private sector reached \$6.8bn at end-October 2018 and grew by 12.7% from end-2017 and by 17% from a year earlier. In nominal terms, credit to the private sector regressed by \$533.3m in the first 10 months of 2018, as lending to the resident private sector contracted by \$1.3bn and credit to the non-resident private sector grew by \$773m in the covered period. The dollarization rate in private sector lending declined from 68.5% at end-October 2017 to 68% at end-October 2018.

In addition, claims on non-resident financial institutions reached \$9.6bn at the end of October 2018 and regressed by \$1.66bn, or 14.7%, from the end of 2017. Also, claims on the public sector stood at \$33.4bn at end-October 2018, up by 4.4% from end-2017, mainly due to Banque du Liban's sale of about \$3bn in Eurobonds from its portfolio to banks in May of this year. The average lending rate in Lebanese pounds was 9.6% in October 2018 compared to 8.24% a year earlier, while the same rate in US dollars was 8.3% relative to 7.39% in October 2017. Further, the deposits of commercial banks at Banque du Liban totaled \$126.3bn at the end of October 2018, constituting an increase of 25.4% from a year earlier.

In parallel, total private sector deposits reached \$173.2bn at the end of October 2018, increasing by 2.7% from the end of 2017 and by 2.3% from a year earlier. Deposits in Lebanese pounds reached the equivalent of \$52.8bn at end-October 2018, nearly unchanged from end-2017 but down by 4.7% from end-October 2017; while deposits in foreign currency totaled \$120.4bn, and grew by 3.9% from end-2017 and by 5.7% from \$114bn a year earlier. Resident deposits totaled \$135.8bn at the end of October 2018, increasing by 1.7% from the end of 2017 and by 1.4% from end-October 2017. Also, non-resident deposits reached \$37.5bn at end-October 2018, up by \$2.3bn, or 6.6% from end-2017 and by \$2bn, or 5.6% from a year earlier. In nominal terms, private sector deposits grew by \$475.4m in January, by \$1.31bn in February, by \$727.3m in March, by \$229.2m in April, by \$975.8m in May, by \$934.5m in June, by \$210m in August and by \$712.6m in September, while they regressed by \$305m in July and by \$690m in October 2018. As such, aggregate private sector deposits expanded by \$4.58bn in the first 10 months of 2018 relative to an increase of \$6.91bn in the same period of 2017, with deposits in Lebanese pounds increasing by \$54.4m and foreign-currency deposits growing by \$4.53bn. The dollarization rate of private sector deposits was 69.5% at the end of October 2018, relative to 68.7% at end-2017, and compared to 67.3% a year earlier.

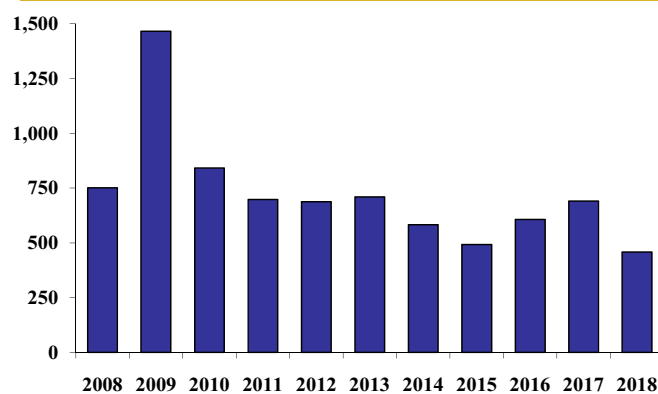
In parallel, deposits of non-resident financial institutions reached \$8.8bn at the end of October 2018 and increased by 17% from end-2017 and by 17.4% from end-October 2017. Further, the average deposit rate in Lebanese pounds was 7.74% in October 2018 compared to 5.56% a year earlier, while the same rate in US dollars was 4.63% relative to 3.72% in October 2017. The ratio of private sector loans-to-deposits in foreign currency stood at 33.4% at the end of October 2018, well below Banque du Liban's limit of 70% and compared to 35.2% a year earlier. The same ratio in Lebanese pounds was 35.8% at end-October 2018 relative to 33.3% at the end of October 2017. As such, the total private sector loans-to-deposits ratio reached 34.1%, slightly below 34.6% at end-October 2017. The banks' aggregate capital base stood at \$20bn at end-October 2018, up by 7.4% from \$18.7bn a year earlier.

Kafalat loan guarantees down 38% to \$39m in first 11 months of 2018

Figures released by the Kafalat Corporation show that loans extended to small- and medium-sized enterprises (SMEs) under the guarantee of Kafalat reached \$38.6m in the first 11 months of 2018, constituting a decrease of 38.1% from \$62.3m in the same period of 2017. Kafalat provided 300 loan guarantees in the covered period, down by 41.1% from 509 guarantees in the first 11 months of 2017. The average loan size was \$128,614 in the first 11 months of 2018 compared to \$122,486 in the same period of 2017. Mount Lebanon accounted for 43.3% of the total number of guarantees, followed by the Bekaa with 17%, the North with 12%, Nabatieh with 9.7%, the South with 9.3% and Beirut with 8.7%. Also, the agricultural sector accounted for 38% of the total number of guarantees in the first 11 months of 2018, followed by the industrial sector with 36.7%, the tourism sector with 20%, the handicraft sector with 3% and specialized technologies with 2.3%.

Kafalat is a state-sponsored organization that provides financial guarantees for loans earmarked for the setup and expansion of SMEs in productive sectors. It offers various financial products for SMEs in industry, agriculture, tourism, high technology, crafts and energy sectors. It guarantees up to 90% of the loan amount and a similar percentage of the accrued interest. The Ministry of Finance subsidizes interest rates and Banque du Liban administers the subsidies. The National Institute for the Guarantee of Deposits holds a 75% stake in Kafalat, while the remaining 25% is held by 50 Lebanese banks.

Average Monthly Growth of Private Sector Deposits* (US\$m)



*in the first 10 months of each year

Source: Banque du Liban, Byblos Research

Ratio Highlights

(in % unless specified)	2015	2016	2017e	Change*
Nominal GDP (\$bn)	49.5	49.7	52.5	
Public Debt in Foreign Currency / GDP	54.7	56.6	57.9	1.30
Public Debt in Local Currency / GDP	87.4	94.1	93.6	(0.54)
Gross Public Debt / GDP	142.1	150.7	151.5	0.76
Total Gross External Debt / GDP	175.8	183.9	185.6	1.70
Trade Balance / GDP	(31.6)	(32.5)	(31.9)	0.60
Exports / Imports	15.9	15.6	14.5	(1.04)
Fiscal Revenues / GDP	19.3	20.0	22.1	2.17
Fiscal Expenditures / GDP	27.3	29.9	29.3	(0.62)
Fiscal Balance / GDP	(8.0)	(9.9)	(7.2)	2.79
Primary Balance / GDP	1.5	0.0	2.7	2.68
Gross Foreign Currency Reserves / M2	58.7	62.2	68.2	5.98
M3 / GDP	249.7	267.2	263.6	(3.61)
Commercial Banks Assets / GDP	375.7	411.1	418.8	7.69
Private Sector Deposits / GDP	306.2	327.0	321.3	(5.69)
Private Sector Loans / GDP	109.5	115.0	114.9	(0.16)
Private Sector Deposits Dollarization Rate	64.9	65.8	68.7	2.88
Private Sector Lending Dollarization Rate	74.8	72.6	71.0	(1.61)

*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

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	B3	NP	Stable	B3		Stable
Fitch Ratings	B-	B	Stable	B-		Stable
Standard & Poor's	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 Investor Services



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