

LEBANON THIS WEEK

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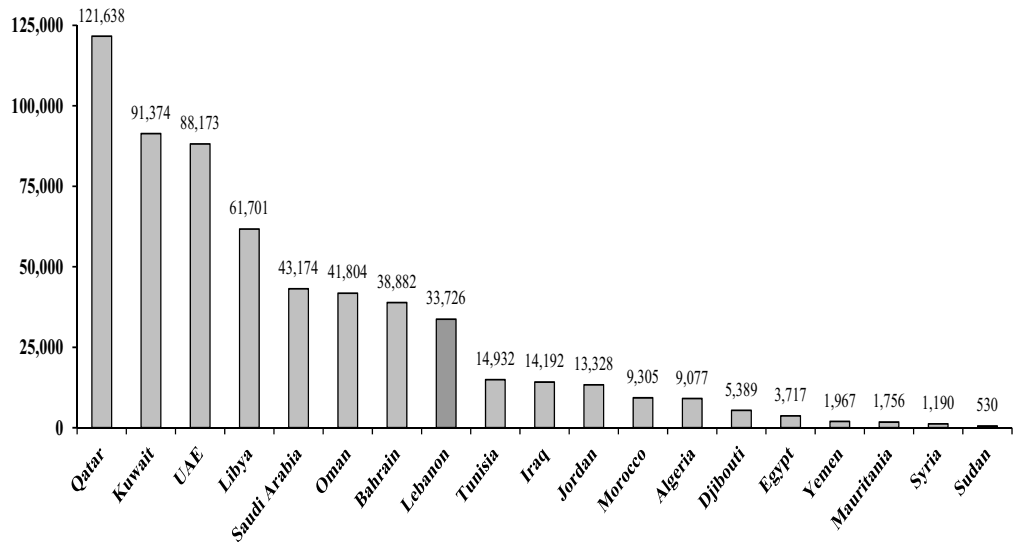
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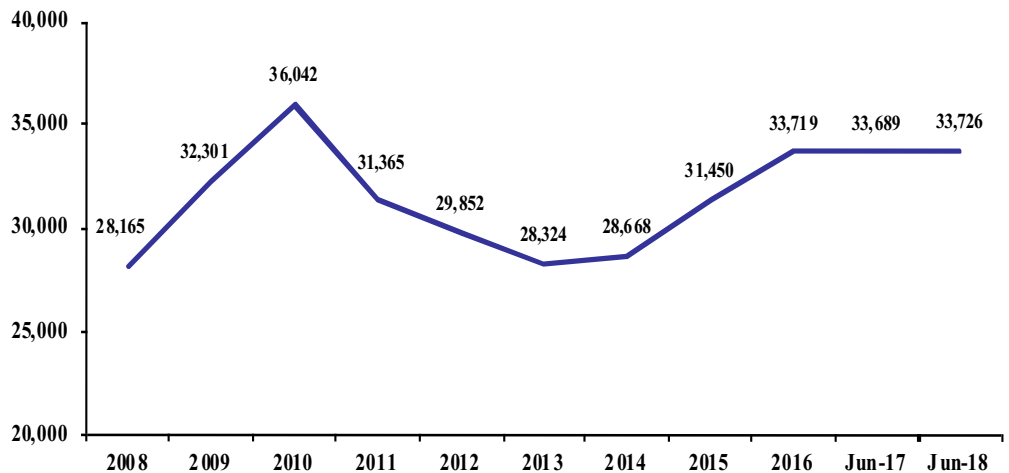
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Charts of the Week

Net Wealth per Adult in Arab Countries at end-June 2018 (US\$)



Net Wealth per Adult in Lebanon (US\$)



Source: Credit Suisse, Byblos Bank

Quote to Note

"Regulations and supervision are adequate, and are vital to protect depositors' confidence and banks' ability to capture steady flows of deposits."

S&P Global Ratings, on the Lebanese banking sector's institutional framework that is in line with international standards

Number of the Week

60%: Share of Lebanon's public debt that is denominated in Lebanese pounds as at November 2018, according to the Ministry of Finance

Lebanon in the News

| \$m (unless otherwise mentioned) | 2017 | Jan-Oct 2017 | Jan-Oct 2018 | % Change* | Oct-17 | Sep-18 | Oct-18 |
|----------------------------------|-----------|--------------|--------------|-----------|---------|---------|---------|
| Exports | 2,844 | 2,364 | 2,464 | 4.23 | 251 | 214 | 265 |
| Imports | 19,582 | 16,223 | 16,874 | 4.02 | 1,769 | 1,438 | 1,718 |
| Trade Balance | (16,738) | (13,859) | (14,411) | 3.98 | (1,517) | (1,224) | (1,454) |
| Balance of Payments | (156) | (1,078) | (3,122) | 189.68 | (888) | (146) | (1,810) |
| Checks Cleared in LBP | 21,674 | 17,663 | 18,235 | 3.24 | 1,993 | 1,885 | 2,064 |
| Checks Cleared in FC | 46,562 | 38,751 | 37,493 | (3.25) | 4,147 | 3,655 | 4,017 |
| Total Checks Cleared | 68,254 | 56,429 | 55,735 | (1.23) | 6,140 | 5,540 | 6,081 |
| Fiscal Deficit/Surplus** | (3,756) | (2,003) | (4,508) | 125 | (492.4) | (1,125) | - |
| Primary Balance** | 1,427.8 | 1,628.9 | (590.9) | - | (52.6) | (665.1) | - |
| Airport Passengers*** | 8,235,845 | 7,016,089 | 7,536,392 | 7.42 | 616,742 | 849,299 | 684,617 |
| Consumer Price Index**** | 4.4 | 4.3 | 6.3 | 200bps | 4.6 | 6.5 | 6.3 |

| \$bn (unless otherwise mentioned) | 2017 | Oct 2017 | Jul 2018 | Aug 2018 | Sep 2018 | Oct 2018 | % Change* |
|-----------------------------------|--------|----------|----------|----------|----------|----------|-----------|
| BdL FX Reserves | 35.81 | 36.77 | 34.21 | 33.92 | 34.15 | 34.62 | (5.85) |
| In months of Imports | 18.57 | 20.79 | 14.76 | 18.64 | 23.75 | 20.15 | (3.07) |
| Public Debt | 79.53 | 78.48 | 82.90 | 83.69 | 83.85 | 84.02 | 7.06 |
| Bank Assets | 219.86 | 215.79 | 236.31 | 238.46 | 241.12 | 242.61 | 12.43 |
| Bank Deposits (Private Sector) | 168.66 | 169.40 | 173.01 | 173.22 | 173.94 | 173.25 | 2.27 |
| Bank Loans to Private Sector | 59.69 | 58.59 | 59.22 | 59.40 | 59.42 | 59.15 | 0.96 |
| Money Supply M2 | 52.51 | 54.98 | 53.58 | 53.21 | 52.71 | 52.06 | (5.32) |
| Money Supply M3 | 138.62 | 138.82 | 140.85 | 141.04 | 141.35 | 140.24 | 1.02 |
| LBP Lending Rate (%) | 8.09 | 8.24 | 8.66 | 8.81 | 9.31 | 9.60 | 136bps |
| LBP Deposit Rate (%) | 6.41 | 5.56 | 6.94 | 7.03 | 7.39 | 7.74 | 218bps |
| USD Lending Rate (%) | 7.67 | 7.39 | 7.96 | 8.12 | 8.11 | 8.30 | 91bps |
| USD Deposit Rate (%) | 3.89 | 3.72 | 4.14 | 4.20 | 4.36 | 4.63 | 91bps |

*year-on-year **figures are for first nine months of each year ***includes arrivals, departures, transit ****year-on-year percentage change

Note: bps i.e. basis points

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

Capital Markets

| Most Traded Stocks on BSE | Last Price (\$) | % Change* | Total Volume | Weight in Market Capitalization |
|---------------------------|-----------------|-----------|--------------|---------------------------------|
| Solidere "A" | 6.14 | (9.31) | 100,459 | 6.47% |
| BLOM Listed | 9.25 | (0.11) | 78,581 | 20.96% |
| BLOM GDR | 9.20 | (2.13) | 29,554 | 7.17% |
| Solidere "B" | 6.28 | (7.65) | 29,396 | 4.30% |
| Byblos Common | 1.35 | (0.74) | 29,173 | 8.05% |
| Audi GDR | 4.68 | (3.90) | 23,300 | 5.92% |
| Byblos Pref. 09 | 70.00 | 0.00 | 955 | 1.48% |
| Audi Listed | 4.90 | 0.00 | - | 20.65% |
| HOLCIM | 15.50 | 0.00 | - | 3.19% |
| Byblos Pref. 08 | 70.00 | 0.00 | - | 1.48% |

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

| Sovereign Eurobonds | Coupon % | Mid Price \$ | Mid Yield % |
|---------------------|----------|--------------|-------------|
| May 2019 | 6.00 | 97.75 | 13.02 |
| Mar 2020 | 6.38 | 90.38 | 15.99 |
| Apr 2021 | 8.25 | 88.50 | 14.47 |
| Oct 2022 | 6.10 | 79.75 | 13.19 |
| Jun 2025 | 6.25 | 75.00 | 11.95 |
| Nov 2026 | 6.60 | 74.13 | 11.73 |
| Feb 2030 | 6.65 | 72.50 | 11.00 |
| Apr 2031 | 7.00 | 72.75 | 11.12 |
| Nov 2035 | 7.05 | 72.38 | 10.61 |
| Mar 2037 | 7.25 | 72.13 | 10.78 |

Source: Byblos Bank Capital Markets

| | Jan 14-17 | Jan 8-11 | % Change | December 2018 | December 2017 | % Change |
|-----------------------|-------------|---------------|----------|---------------|---------------|----------|
| Total shares traded | 291,418 | 49,696,215 | (99.4) | 5,407,192 | 11,929,343 | (54.7) |
| Total value traded | \$2,033,546 | \$142,914,939 | (98.6) | \$27,863,342 | \$116,215,896 | (76.0) |
| Market capitalization | \$9.49bn | \$9.63bn | (1.48) | \$9.68bn | \$11.47bn | (15.7) |

Source: Beirut Stock Exchange (BSE)

| CDS Lebanon | Jan 11, 2019 | Jan 18, 2019 | % Change** |
|-------------|--------------|--------------|------------|
| CDS 1-year* | 1,372.57 | 1,390.33 | 1.3 |
| CDS 3-year* | 978.84 | 990.21 | 1.2 |
| CDS 5-year* | 909.11 | 920.56 | 1.3 |

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

| CDX EM 30* | Jan 11, 2019 | Jan 18, 2019 | % Change*** |
|--------------|--------------|--------------|-------------|
| CDS 5-year** | 95.79 | 96.5 | 0.74 |

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

mid-spread in bps *week-on-week

Cost of sending remittances from the United States, France and the United Kingdom decline in fourth quarter of 2018

Figures issued by the World Bank show that the cost of sending \$500 in remittances from the United States to Lebanon reached 5.54% in the fourth quarter of 2018 relative to 5.62% in the third quarter of 2018 and to 5.93% in the fourth quarter of 2017. The cost includes the transaction fee and exchange rate margin, and represents the average cost of transferring money through commercial banks and money transfer operators. In nominal terms, the cost of sending \$500 from the U.S. to Lebanon was \$27.71 in the fourth quarter of 2018 compared to \$28.1 in the preceding quarter and to \$29.65 in the fourth quarter of 2017. Lebanon is the ninth most expensive destination for sending \$500 from the U.S. among 42 countries with available data.

Further, the cost of sending remittances from Canada to Lebanon was 7.73% in the fourth quarter of 2018 for a transfer of CAD500, up from 7.39% in the third quarter of 2018 and relative to 6.16% in the fourth quarter of 2017. In nominal terms, the cost of sending CAD500 from Canada to Lebanon was CAD38.64 in the fourth quarter of 2018 relative to CAD36.94 in the previous quarter and to CAD30.79 in the fourth quarter of 2017. Lebanon is the third most expensive destination for sending CAD500 from Canada among 15 countries with available data.

Also, the cost of sending remittances from Australia to Lebanon reached 6.92% in the fourth quarter of 2018 for a transfer of AUD500, up from 6.82% in the third quarter of 2018 and relative to 7.32% in the fourth quarter of 2017. The cost of sending AUD500 from Australia to Lebanon was AUD34.58 in the fourth quarter of 2018 relative to AUD34.08 in the preceding quarter and to AUD36.61 in the fourth quarter of 2017. Lebanon is the sixth most expensive destination for sending AUD500 from Australia among 16 countries with available data.

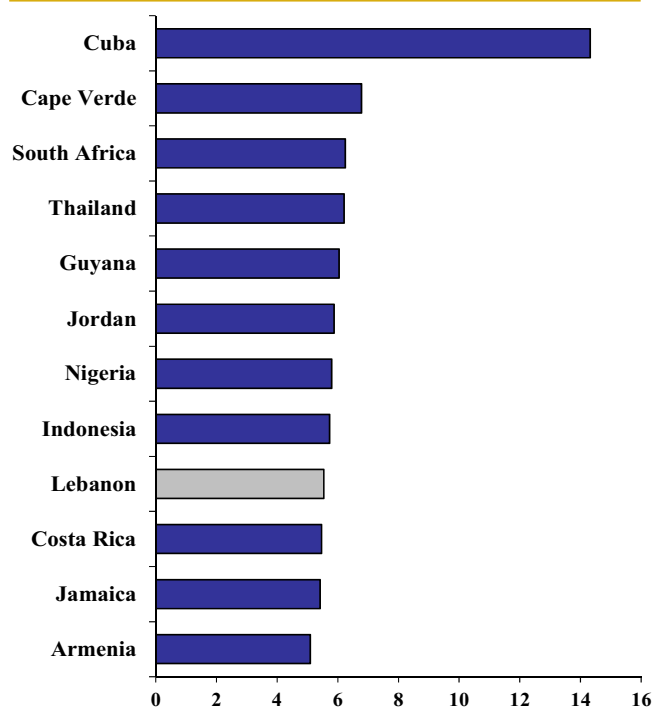
In addition, the cost of sending remittances from France to Lebanon was 6.43% in the fourth quarter of 2018 for a transfer of EUR345, down from 7.4% in the third quarter of 2018 and from 7.15% in the fourth quarter of 2017. In nominal terms, the cost of sending EUR345 from France to Lebanon was EUR22.17 in the fourth quarter of 2018 relative to EUR25.53 in the previous quarter and to EUR24.66 in the fourth quarter of 2017. Lebanon is the fourth most expensive destination for sending EUR345 from France among 16 countries with available data.

Further, the cost of sending remittances from the United Kingdom to Lebanon reached 8.66% in the fourth quarter of 2018 for a transfer of GBP300, down from 8.77% in the third quarter of 2018 and from 8.79% in the fourth quarter of 2017. In nominal terms, the cost of sending GBP300 from the UK to Lebanon was GBP25.99 in the fourth quarter of 2018 relative to GBP26.31 in the preceding quarter and to GBP26.36 in the fourth quarter of 2017. Lebanon is the third most expensive destination for sending GBP300 from the UK among 33 countries with available data.

Also, the cost of sending remittances from Germany to Lebanon was 7.89% in the fourth quarter of 2018 for a transfer of EUR345, up from 7.41% in the third quarter of 2018 and relative to 6.91% in the fourth quarter of 2017. In nominal terms, the cost of sending EUR345 from Germany to Lebanon was EUR27.22 in the fourth quarter of 2018 relative to EUR25.57 in the previous quarter and to EUR23.83 in the fourth quarter of 2017. Lebanon is the fourth most expensive destination for sending EUR345 from Germany among 24 countries with available data.

Finally, the cost of sending remittances from Saudi Arabia to Lebanon reached 2.22% in the fourth quarter of 2018 for a transfer of SAR1,870, equivalent to \$500, up from 1.97% in the third quarter of 2018 and relative to 2.25% in the fourth quarter of 2017. In nominal terms, the cost of sending SAR1,870 from Saudi Arabia to Lebanon was SAR41.51 in the fourth quarter of 2018 relative to SAR36.84 in the preceding quarter and to SAR42.08 in the fourth quarter of 2017. Lebanon is the second least expensive destination for sending SAR1,870 from Saudi Arabia among 17 countries with available data.

Costliest Destinations of Remittances from the United States* (%)



*cost of sending \$500 from the U.S.

Source: World Bank, Byblos Research

Foreign direct investments up 21% to \$1.5bn in first half of 2018

Figures released by Banque du Liban show that foreign direct investments (FDI) in Lebanon totaled \$1.52bn in the first half of 2018, constituting an increase of 21.2% from \$1.25bn in the first half of 2017 and a rise of 20% from \$1.27bn in the second half of 2017. FDI inflows to Lebanon reached \$783.6m in the first quarter of 2018, up by 4.9% from the same quarter of 2017, while they totaled \$736.6m in the second quarter of 2018, up by 45.2% from the same quarter of 2017.

Further, FDI inflows to Lebanon in the first half of 2018 reached their seventh highest semi-annual level between 2002 and 2018. FDI inflows to the country averaged \$1.47bn during the first half of each year between 2008 and 2018, and reached a high of \$1.98bn in the first half of 2009. Overall, FDI inflows to Lebanon posted a compound annual growth rate of 1.17% between the first half of 2008 and the same period of 2018.

In parallel, FDI outflows from Lebanon amounted to \$583m in the first half of 2018, down by 7.1% from \$627.3m in the first half of 2017 and by 15.5% from \$690.1m in the second half of 2017. FDI outflows from Lebanon totaled \$289m in the first quarter and \$294m in the second quarter of 2018. In addition, FDI outflows from Lebanon in the covered period reached their fourth highest level for the first half of a year during the 2002-18 period. They averaged \$519.2m during the first six months of each year between 2008 and 2018, with a high of \$842m in the first half of 2014.

As such, net FDI inflows to Lebanon reached \$937.3m in the first half of 2018, constituting an increase of 49.5% from \$626.8m in the first half of 2017 and a rise of 62.1% from \$578.1m in the second half of 2017. Lebanon's net FDI inflows constituted their seventh highest level for the first half of a year between 2002 and 2018.

Number of real estate transactions down 17% in 2018

Figures released by the Ministry of Finance indicate that there were 60,714 real estate transactions in 2018, constituting a decrease of 17.4% from 73,541 deals in 2017. In comparison, the number of real estate transactions grew by 14.5% year-on-year in 2017 and increased by 1.4% annually in 2016. There were 12,130 real estate transactions in the Baabda area in 2018, representing 20% of the total. The North followed with 9,295 deals (15.3%), then the Zahlé region with 7,458 transactions (12.3%), the South with 7,131 deals (11.7%), the Metn district with 6,937 transactions (11.4%), the Keserwan area with 5,843 deals (9.6%), the Nabatieh region with 5,310 transactions (8.7%), and Beirut with 4,793 deals (7.9%).

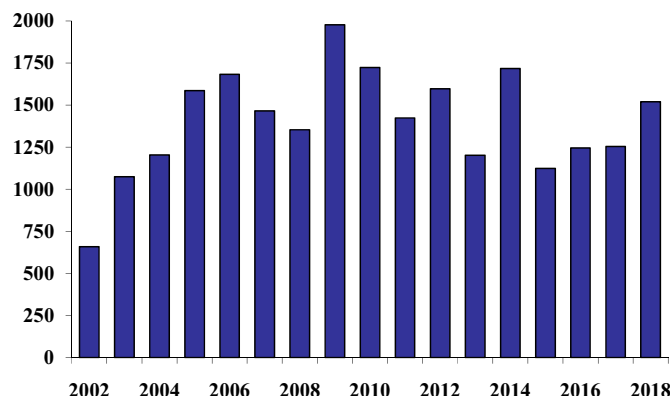
Also, the aggregate value of real estate transactions reached \$8.13bn in 2018 and decreased by 18.3% from \$10bn in 2017. In comparison, the value of real estate deals grew by 17.4% in 2017 and by 5.9% in 2016. Further, the value of real estate transactions in Beirut reached \$2.4bn and accounted for 30% of the total in 2018. The Baabda district followed with \$1.64bn (20.2%), then the Metn region with \$1.4bn (17.3%), the Keserwan area with \$884.6m (10.9%), the South with \$576.6m (7.1%), the North with \$529m (6.5%), the Zahlé area with \$323m (4%), and the Nabatieh region with \$229m (2.8%).

In parallel, the average value per real estate transaction was \$133,977 in 2018, down by 1% from an average of \$135,356 in 2017 and relative to \$132,016 in 2016. Further, there were 1,214 real estate transactions executed by foreigners in 2018, down by 11% from 1,364 deals in 2017 and compared to 1,124 deals in 2016. The number of real estate deals executed by foreigners accounted for 2% of total real estate transactions in 2018 compared to 1.9% of deals in 2017 and to 1.7% of deals in 2016. Further, 24.3% of the real estate transactions executed by foreigners were in the Baabda district, followed by Beirut (22.1%), the South (13%), the Metn region (11.5%), the North (9.7%), the Zahlé area (8.7%), the Keserwan area (8.5%), and the Nabatieh region (2.1%). Also, Syrian nationals accounted for 37.8% of the total value of real estate transactions executed by foreigners in December 2018, followed by Germans (13%), Swiss nationals (6.2%), Jordanians (5.8%), Iraqis (5.2%), British citizens (4.1%), and Kuwaitis (3.4%).

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 8.58% in January 2019 to 8.63% in February 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 slightly raise the BRR in Lebanese pounds from 11.9% in January 2019 to 11.94% in February 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.

FDI Inflows to Lebanon* (\$USm)



*in first half of each year

Source: Banque du Liban, Byblos Research

External bonds post third highest return in emerging markets in December 2018

Figures issued by Intercontinental Exchange, Inc. (ICE) indicate that Lebanon's external debt posted a return of 3.67% in December 2018, constituting the second highest return among 27 countries in the Middle East & Africa region, as well as among 44 markets in the Central & Eastern Europe and the Middle East & Africa (CEEMEA) region after Turkey (+4.82%). It also registered the third highest return among 76 emerging markets included in ICE's External Debt EM Sovereign Index, behind Turkey and Sri Lanka (+3.82%).

Lebanon outperformed the emerging markets' return of 1.28%, and the 'B'- rated sovereigns' return of zero percent in December 2018.

Further, 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.

In parallel, figures issued by Citi Research indicate that Lebanon's external sovereign debt posted a return of 1.8% in December 2018, constituting, along with Morocco, the third highest return among 21 countries in the Middle East & Africa region, behind Kuwait and South Africa (+2% each). It also registered, along with Hungary and Morocco, the 13th highest return among 52 emerging markets included in the Citi EM Sovereign Bond Index. Lebanon outperformed the emerging markets' return of 1.3%, the 'B'-rated sovereigns' return of 0.6% and the speculative grade sovereigns' return of 0.9% during the covered month.

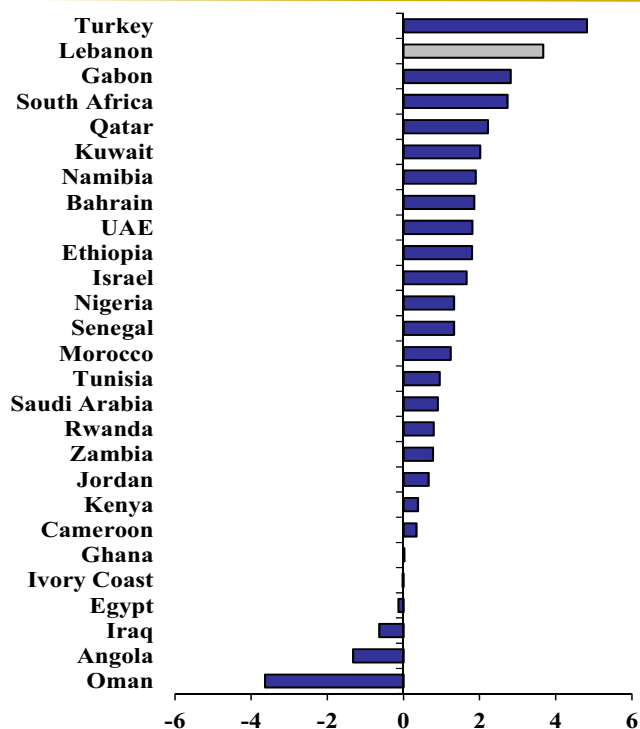
Stable outlook on external debt

Bank of America Merrill Lynch (BofAML) indicated that economic and political policy-makers in Lebanon have sent a unified and coherent message to markets that dismissed doubts about the country's willingness to repay external debt bondholders. It expected the authorities' communication strategy to continue, which would help maintain domestic confidence, as authorities stressed that Lebanon's reforms plans do not include the restructuring of the country's external debt. It noted that policy-makers reiterated Lebanon's commitment to bondholders and bank depositors, and that any proposed fiscal reform plan would comply with the government's pledges at the CEDRE conference. However, the investment bank indicated that authorities could implement measures to reduce the domestic public debt level.

BofAML considered the market's shift from debating Lebanon's ability to honor its debt obligations to debating the country's willingness to repay its debt is misplaced. It said that a Eurobond restructuring would erode the banks' capital, put at risk the currency peg to the US dollar and adversely affect depositor confidence. It pointed out that Eurobonds constitute a small share of Lebanon's external financing needs, and that the country's ability to cover its financing needs depends in part on depositor confidence, on the implementation of reforms, as well as on donors' support. As such, it considered that, in the absence of a shock to non-resident deposits, Lebanon can meet its near-term external obligations, with Banque du Liban's assets in foreign currency standing at about \$40bn, and commercial banks' deposits with non-resident banks reaching \$12bn.

In parallel, BofAML expected the government's fiscal funding needs to reach \$16.1bn or 27% of GDP in 2019, which would include a budget deficit of \$5.5bn, or 9% of GDP, domestic debt amortization of \$7.7bn and external debt amortization of \$2.9bn. It noted that the fiscal funding needs are supported by the issuance of LBP2.4 trillion in 10- and 15-year Treasury bonds, or the equivalent of \$1.6bn, at a coupon rate of 10.5% in December 2018. It said that the lengthening in average maturity on deposits will ease the pressure on the government's funding, but it considered that depositor confidence remains a key factor to meeting the government's financing needs. In addition, it noted that Eurobond coupon payments total \$2.1bn, or 3.5% of GDP, in 2019, lower than the coupon payments on Treasury-bills and Treasury-bonds of \$2.7bn, or 4.6% of GDP, this year.

External Debt Performance in Middle East & Africa in December 2018 (%)



Source: ICE, Byblos Research

Tourist spending up 6.5% in 2018

Figures issued by Global Blue, the VAT refund operator for international shoppers, show that total spending by visitors in Lebanon increased by 6.5% in 2018 compared to a growth of 5.5% in 2017. Spending by tourists in Lebanon regressed by 0.1% in January, by 5.3% in February, by 0.7% in May and by 4.1% in July, while it increased by 10.8% in March, by 1.6% in April, by 36.5% in June, by 19.8% in August, by 2.4% in September, by 27.5% in November and by 3.2% in December 2018.

Visitors from Saudi Arabia accounted for 12% of total tourist expenditures in 2018, followed by visitors from the UAE with 11%, Syria with 10%, Kuwait with 7%, Qatar with 6%, Egypt with 5%, France, Jordan and the United States with 4% each, and Canada with 3%; while visitors from other countries accounted for the remaining 34%. Spending by visitors from Syria grew by 64.7% in 2018, followed by expenditures by tourists from Qatar (+60.5%), Egypt (+25.9%), Kuwait (+13.9%) and the United States (+7.1%). In contrast, spending by visitors from Canada decreased by 20.6% last year, followed by spending by tourists from Saudi Arabia (-15.1%), Jordan (-5.5%), the UAE (-3.8%) and France (-2.2%).

Further, Beirut attracted 81% of aggregate expenditures in 2018, followed by the Metn area with 13%, the Baabda district with 3% and the Keserwan region with 2%. Specifically, the Beirut Central District attracted 53% of tourist expenditures last year, followed by Ashrafieh and Verdun (10% each), Dbayeh (5%), Jal el Dib and Mina El Hosn (4% each), Hazmieh (3%), Hamra (2%), and Jounieh and Sin el Fil (1% each); while other locations accounted for the remaining 7% of total expenditures in 2018.

In parallel, fashion & clothing accounted for 67% of total expenditures in 2018, followed by watches & jewelry with 18%, and spending at department stores and on home & garden products with 4% each, while other categories accounted for the remaining 7%. Expenditures on watches & jewelry grew by 21.4% in 2018, outlays on home & garden products increased by 12.9%, and expenditures on fashion & clothing grew by 2.9%, while spending at department stores regressed by 3.6% from 2017.

Also, the total number of refund transactions by visitors grew by 5.5% in 2018 relative to an increase of 2.8% in 2017. The number of refund transactions increased by 5.1% in January, by 14.3% in March, by 44% in June, by 22.2% in August, by 31.5% in November and by 22.1% in December 2018, while it decreased by 4.2% in February, by 4.9% in April, by 7.8% in May, by 9.8% in July and by 10.1% in September 2018. Visitors from Saudi Arabia accounted for 12% of total refund transactions in 2018, followed by those from Syria (11%), the UAE (10%), Egypt (8%), Kuwait (6%), France, Jordan and Qatar (4% each), and Canada and the United States (3% each), while other countries accounted for the remaining 35%.

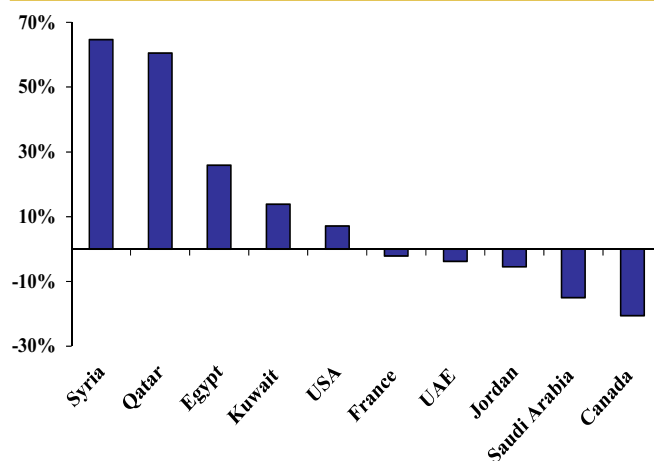
In parallel, total spending by tourists in Lebanon increased by 10.5% in the fourth quarter of 2018 from the same quarter in 2017. Tourist spending increased by 1.6% in the first quarter, by 9.6% in the second quarter and by 6% in the third quarter of the year. Spending by visitors from Qatar surged by 54% year-on-year in the fourth quarter of 2018, followed by spending by tourists from Kuwait (+51.4%), Syria (+43%), Egypt (+18.2%) and Saudi Arabia (+11.2%). In contrast, spending by visitors from Canada dropped by 52% year-on-year in the covered quarter, followed by spending by tourists from Jordan (-28%), the United States (-11.5%), France (-11%) and the UAE (-10.1%).

World Bank to provide assistance for installation of weather stations

The Lebanese Center for Energy Conservation (LCEC) indicated that the World Bank will provide financing and technical assistance for the installation of two weather stations in the Bekaa region. The two stations, which are expected to be installed in the first quarter of 2019, aim to continuously measure the Direct Normal Irradiation (DNI) in the region. The DNI is the amount of solar radiation received by a surface that is held perpendicular to the rays coming from the sun. The LCEC will collect data from the two stations, share it with interested parties, and use the data to prepare a study on the feasibility of solar photovoltaic and concentrated solar power (CSP) plants. In this context, the LCEC considered that the Bekaa region has a strategic location for the installation of the CSP plants.

The installation of PV and CSP plants in Lebanon are part of the Second National Energy Efficiency Action Plan for the Republic of Lebanon (NEEAP 2016-20), which aims to develop the renewable energy sector in the country. The NEEAP 2016-20 also seeks to tackle energy efficiency in the generation, transmission and distribution of electricity, as well as to promote energy saving measures in major industries, such as the construction, agricultural, transportation, industrial and public sectors.

Total Spending by Source in 2018
(% change from 2017)



Source: Global Blue, Byblos Research

CDR completes \$10.3bn in projects between 1992 and 2017

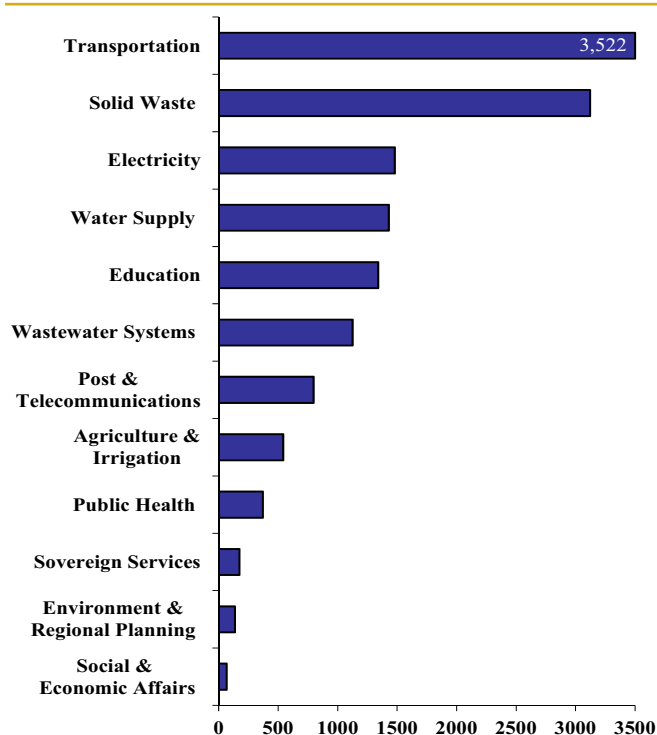
The Council for Development & Reconstruction (CDR) indicated that it signed contracts for an aggregate value of \$14.8bn during the 1992-2017 period. It added that it completed \$10.27bn in projects, or 69.4% of the total, during the covered period, while projects of about \$4.52bn, or 30.6% of the total, are still underway. The transportation sector attracted \$3.52bn of signed contracts, or 23.8% of the total, during the covered period; followed by the solid waste sector with \$3.12bn (21.1%); the electricity sector with \$1.48bn (10%); water supply with \$1.43bn (9.7%); education with \$1.34bn (9.1%); wastewater systems with \$1.13bn (7.6%); post & telecommunications with \$798.8m (5.4%); agriculture & irrigation with \$543.5m (3.7%); public health with \$371.2m (2.5%); sovereign services, such as the construction of new government facilities and the improvement of existing ones, with \$175.3m (1.2%); environment & regional planning with \$137.5m (0.9%); and social & economic affairs with \$67m (0.5%); while other sectors attracted \$681.7m (4.6%) during the covered period.

Further, the CDR said that foreign funding totaled \$5.67bn during the 1992-2017 period and included \$1.29bn for electricity projects, \$1.15bn for transportation, \$957.7m for water supply, \$575.7m for projects in education, \$571.7m for wastewater projects, \$396.8m for agriculture & irrigation, \$243m for public health, \$111.2m for environment & regional planning, \$33.6m for the solid waste sector, \$33.3m for post & telecommunications, \$24.6m for social & economic affairs and \$19.6m for sovereign services; while other sectors attracted \$269.2m in foreign funding during the covered period.

In parallel, the CDR noted that loans and grants, which were ratified, signed and approved between 1992 and 2017, amounted to \$12.55bn, with loans reaching \$8.9bn, or 71% of the total, and grants amounting to \$3.64bn or 29% of the total. The CDR adopts a general policy to secure soft loans for social services sectors and commercial loans for projects in productive sectors. The infrastructure sector attracted 32.4% of loans and grants in the covered period; followed by basic services such as potable water, sanitation and solid waste with 26.1% of the total; social and economic sectors such as education, health, housing, youth & sports and the environment with 25%; and productive sectors and other sectors such as agriculture, irrigation, private sector services, industry and tourism with 16.5%.

The World Bank provided 18.9% of overall financing between 1992 and 2017, followed by the Islamic Development Bank with 11.9%, the Arab Fund for Economic & Social Development (11.8%), the Kuwait Fund For Arab Economic Development (11%), the European Investment Bank (8.8%), the Saudi Fund for Development (7.5%), the European Union (6.8%), the Italian government (5.1%), the French Development Agency (4.2%), the Qatari government (2.6%), commercial banks (2.3%), Germany (1.5%), the U.S. (1.4%), and Japan (1.3%).

Contracts Awarded between 1992 and 2017 (US\$m)



Source: Council for Development & Reconstruction, Byblos Research

New car sales down 11% in 2018

Figures released by the Association of Automobile Importers in Lebanon show that dealers sold 33,012 new passenger cars in 2018, constituting a decline of 11.4% from 37,222 cars sold in the same period of 2017. Individuals and institutional clients purchased 2,489 new cars in January, 2,256 new vehicles in February, 2,900 automobiles in March, 2,539 new cars in April, 2,862 vehicles in May, 4,162 new automobiles in June, 3,665 new cars in July, 2,772 vehicles in August, 2,436 new cars in September, 2,509 vehicles in October, 2,195 new automobiles in November, and 2,227 cars in December 2018.

Japanese cars accounted for 40.7% of total car sales in 2018, followed by Korean vehicles with a 28.3% share, European automobiles (19.5%), American cars (8.6%) and Chinese vehicles (2.9%). The sales of new Chinese vehicles surged by 1.9 times year-on-year last year. In contrast, demand for Korean vehicles dropped by 25.8%, the sales of European automobiles decreased by 13.5%, the number of American cars sold declined by 4.2% and demand for Japanese automobiles regressed by 2.1% year-on-year in 2018.

Kia is the leading brand in the Lebanese market with 5,012 passenger vehicles sold in 2018, followed by Hyundai with 4,319 new cars sold, Toyota (4,155), Nissan (3,995) and Chevrolet (1,676). In parallel, car dealers sold 2,289 new commercial vehicles last year, down by 13.3% from 2,641 commercial vehicles purchased in 2017. Overall, car dealers sold 35,301 new passenger cars and commercial vehicles in 2018, down by 11.4% from 39,863 cars sold a year earlier.

Further, Lebanon's top five distributors sold 21,846 vehicles in 2018 and accounted for 62% of new car sales. Rasamny Younis Motor Co. sal sold 5,478 vehicles, equivalent to 15.5% of the total, followed by NATCO sal with 5,030 automobiles (14.2%), Boustany United Machineries sal with 4,552 cars (13%), Century Motor Co. sal with 4,420 vehicles (12.5%) and Bassoul Heneiné sal with 2,366 cars (6.7%).

Kafalat loan guarantees down 40% to \$40m in 2018

Figures released by the Kafalat Corporation show that loans extended to small- and medium-sized enterprises (SMEs) under the guarantee of Kafalat reached \$40.1m in 2018, constituting a decrease of 39.6% from \$66.4m in 2017. Kafalat provided 310 loan guarantees last year, down by 42.7% from 541 guarantees in 2017. The average loan size was \$129,369 in 2018 compared to \$122,819 in 2017. Mount Lebanon accounted for 43.2% of the total number of guarantees in 2018, followed by the Bekaa with 16.8%, the North with 12.3%, Nabatieh with 9.7%, Beirut and the South with 9% each. Also, the agricultural sector accounted for 37.4% of the total number of guarantees in 2018, followed by the industrial sector with 37.1%, the tourism sector with 20%, the handicraft sector with 2.9% and specialized technologies with 2.6%.

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.

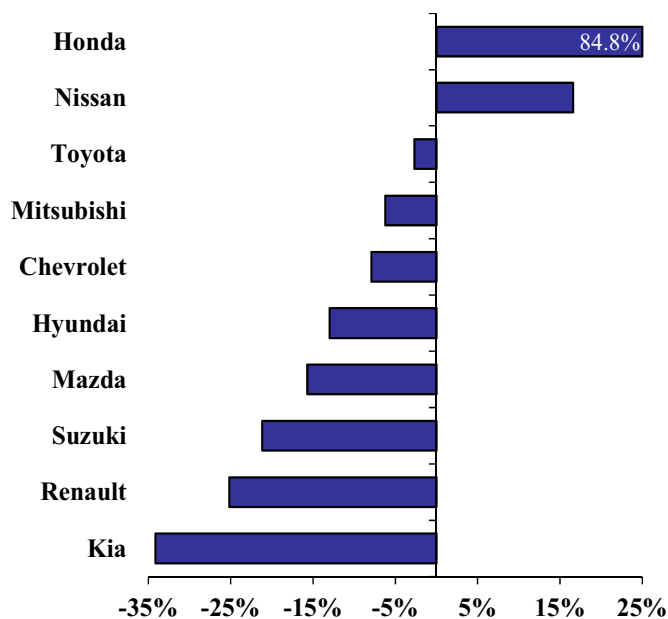
Hilton Hotels opens third property in Lebanon

Hilton Hotels & Resorts announced the opening of the Hilton Beirut Downtown hotel in the Beirut Central District. The Hilton Beirut Downtown joins two other Hilton properties in Lebanon that are Hilton Beirut Metropolitan Palace and Hilton Beirut Habtoor Grand, both in Horsh Tabet. The hotel consists of 158 guest rooms that include deluxe rooms, executive rooms and the Presidential Suite, as well as five meeting rooms, a ballroom, a rooftop pool, a fitness center, a treatment or massage room, a sauna and steam room, a lobby bar, and a Mediterranean fusion restaurant called Gatsy House.

Hilton Hotels & Resorts owns 575 hotels in over 85 countries across six continents. In October 2011, Hilton Hotels & Resorts signed a deal with UAE conglomerate Al Habtoor Group to manage three of its properties, which are Hilton Beirut Habtoor Grand, Hilton Beirut Metropolitan Palace and the Waldorf Hotels & Resorts property in Dubai.

Lebanon hosts a total of 406 hotels that have a capacity of over 22,000 rooms. Beirut has 110 hotels, or 27.1% of the total, followed by Keserwan with 98 hotels (24.1%), the North with 56 hotels (13.8%), the Metn area with 49 hotels (12.1%), Baabda, Aley & Chouf with 38 hotels (9.4%), Jbeil with 27 hotels (6.7%), the Bekaa with 16 hotels (4%) and the South with 12 hotels (3%).

Sales of Top 10 Car Brands in 2018
(% change*)



*year-on-year

Source: AIA, Byblos Research

Foreign investments of financial sector down 2.5% to \$3.9bn at end-March 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 \$3.87bn at the end of March 2018, constituting a decline of 2.5% from \$3.96bn at the end of 2017. Investments in equities reached \$1.93bn at the end of March 2018 and accounted for 49.8% of the total, followed by placements in long-term debt securities at \$1.9bn (49.3%), and investments in short-term debt securities at \$34.6m (0.9%). 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 \$1.32bn and accounted for 69.2% of the financial sector's aggregate investments in such securities at the end of March 2018. Medium- and long-term banks followed with \$329.4m (17.3%), then insurance companies with \$144.4m (7.6%) and financial institutions with \$112.8m (5.9%).

In parallel, commercial banks represented 88.7% of investments in short-term debt securities, followed by insurance firms with 7.7%, medium- and long-term banks with 2.9%, and financial institutions with 1%. Further, commercial banks' investments in equities reached \$818.6m and accounted for 42.5% of the financial sector's investments in such securities at end-March 2018. Medium- and long-term banks followed with \$680.9m (35.3%), financial institutions with \$309.4m (16.1%), insurers with \$114.2m (5.9%) and financial intermediaries with \$3.9m (0.2%).

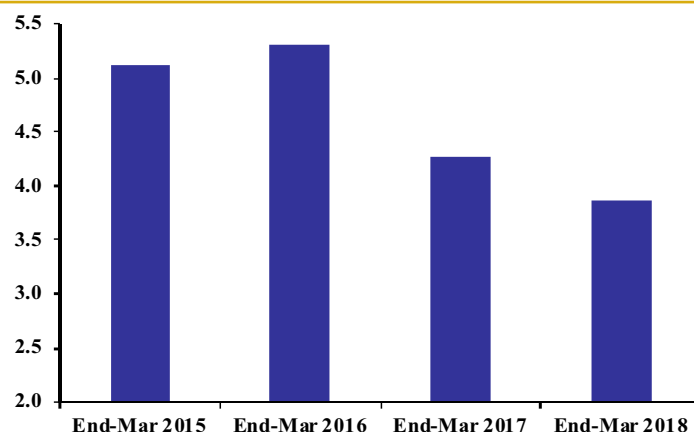
The distribution of investments by destination shows that the United States was the main recipient of equity investments of banks and financial institutions operating in Lebanon with \$616.6m, or 32% of the total, at the end of March 2018. France followed with equity investments worth \$208.6m (10.8%), then Luxembourg with \$185.9m and Bahrain with \$184.5m (9.6% each), and Jordan with \$126.8m (6.6%), while other countries accounted for the remaining 31.4% of equity investments. In parallel, the United States received \$670.4m or 35.2% of investments in long-term debt securities, followed by the United Kingdom with \$295.4m (15.5%), France with \$189.9m (10%), the UAE with \$77.4m (4.1%) and Switzerland with \$68.6m (3.6%), while other countries accounted for the remaining 31.7%. Further, Australia was the recipient of 47.8% of investments by Lebanese banks and financial institutions in short-term debt securities, followed by the United States (21.3%), Argentina (17.7%), Egypt (3.5%) and the European Union (2.7%), while other countries represented the remaining 7.1% of investments in short-term debt securities.

Middle East Airlines signs distribution agreement with Amadeus

National flag carrier Middle East Airlines (MEA) signed an agreement with distribution systems and IT solutions provider Amadeus to improve the airline's distribution strategy and provide MEA with larger economies of scale. As such, MEA becomes the 16th airline in the Middle East & North Africa region to enter into the 10-year framework agreement with Amadeus that was initially negotiated by the Arab Air Carriers Association (AACO) in 2017. In this context, 15 other airlines in the MENA region entered into the 10-year framework agreement with Amadeus in 2017. Based in Beirut, the AACO is a non-profit organization that has 30 constituent airline members from 18 Arab countries, including Lebanon's MEA.

MEA is 99% owned by BdL and is part of the global airline alliance SkyTeam. MEA's network currently consists of 33 routes across Europe, the Middle East and Africa. Established in 1987, Amadeus provides searching, pricing, booking, ticketing and other processing services in real time to travel providers and travel agencies through its Amadeus CRS distribution business area. It also offers travel companies software systems that automate processes, such as inventory management.

Foreign Investments of Financial Sector (US\$bn)



Source: Banque du Liban, Byblos Research

Money transfer operators to settle transfers in Lebanese pounds

Banque du Liban (BdL) issued Intermediate Circular 514 on January 14, 2019 that amends Basic Circular 69 dated March 30, 2000 about Electronic Banking and Financial Transactions. The circular stipulates that non-banking financial institutions that conduct cross-border electronic transfer of funds, such as Western Union, OMT and Moneygram, must settle incoming foreign transfers in Lebanese pounds. The circular does not apply to foreign transfer of funds through the banking system.

In parallel, BdL indicated that the amendment will make the operations of non-banking financial institutions aligned with international standards and would help limit money laundering risks. Non-banking institutions that conduct domestic electronic funds transfers operating in Lebanon must be registered at BdL and must comply with applicable laws and with BDL regulations, especially anti-money laundering and combating the financing of terrorism laws and regulations, including the definition and identification of the beneficial owner.

Fransabank increases stake in BLC Bank to 82%

BLC Bank sal announced that on January 11, 2019, Holding M. Sehnaoui sal transferred 21,365,000 of BLC Bank's ordinary common shares that are listed on the Beirut Stock Exchange, or 10% of the bank's share capital, to BLC Bank at a price of \$2.37 per share. The value of the transferred shares totaled \$50.6m. Also, Mr. Maurice Sehnaoui, Mr. Walid Ziadé, Ms. Youmna Ziadé, Silver Capital Holding sal and Holding M. Sehnaoui sal transferred 18,857,254 listed ordinary common shares, or 8.83% of the bank's share capital, to Fransabank sal at a price of \$2.4 per share. The value of the one block trade totaled \$45.8m. The Central Council of Banque du Liban approved the transfers on November 28, 2018.

In parallel, Mr. Maurice Sehnaoui, Mr. Walid Ziadé, Ms. Youmna Ziadé, Silver Capital Holding sal and Holding M. Sehnaoui sal transferred 9,546,628 unlisted ordinary common shares, or 4.47% of the share capital of BLC Bank, to Fransabank sal. As such, Fransabank's stake in BLC bank reached 81.87% of the share capital of BLC Bank, while Holding M. Sehnaoui sal, Silver Capital Holding sal, Mr. Maurice Sehnaoui, Mr. Walid Ziadé and Ms. Youmna Ziadé are no longer shareholders in BLC Bank sal.

BLC Bank posted unaudited consolidated net profits of \$28.9m in the first nine months of 2018 when excluding earnings from discontinued operations, down by 16.6% from \$34.7m in the same period of 2017. Its assets reached \$5.9bn at the end of September 2018, with loans & advances to customers, excluding loans & advances to related parties, at \$1.6bn at end-September 2018. Also, customer deposits, excluding deposits from related parties, totaled \$3.9bn at the end of September 2018. BLC Bank's share price closed at \$0.93 on January 17, 2019, unchanged from end-2018.



Ratio Highlights

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

*change in percentage points 16/17

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

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

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

Risk Metrics

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

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

*excluding Lebanon

**year-on-year change in risk

Source: The PRS Group, Byblos Research

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

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

Ratings & Outlook

| Sovereign Ratings | Foreign Currency | | | Local Currency | | |
|------------------------------|------------------|----|----------|----------------|----|----------|
| | LT | ST | Outlook | LT | ST | Outlook |
| Moody's Investors Service | B3 | NP | Negative | B3 | | Negative |
| 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