

LEBANON THIS WEEK

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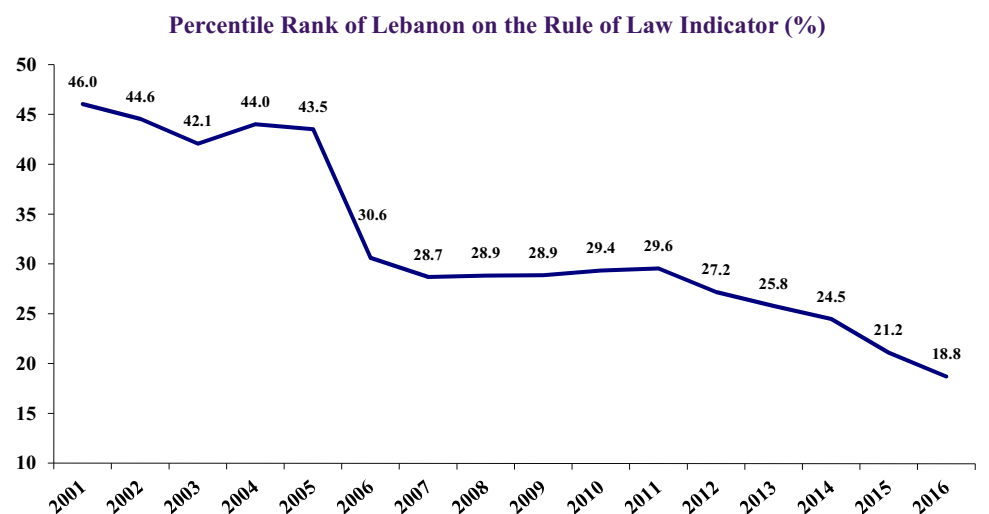
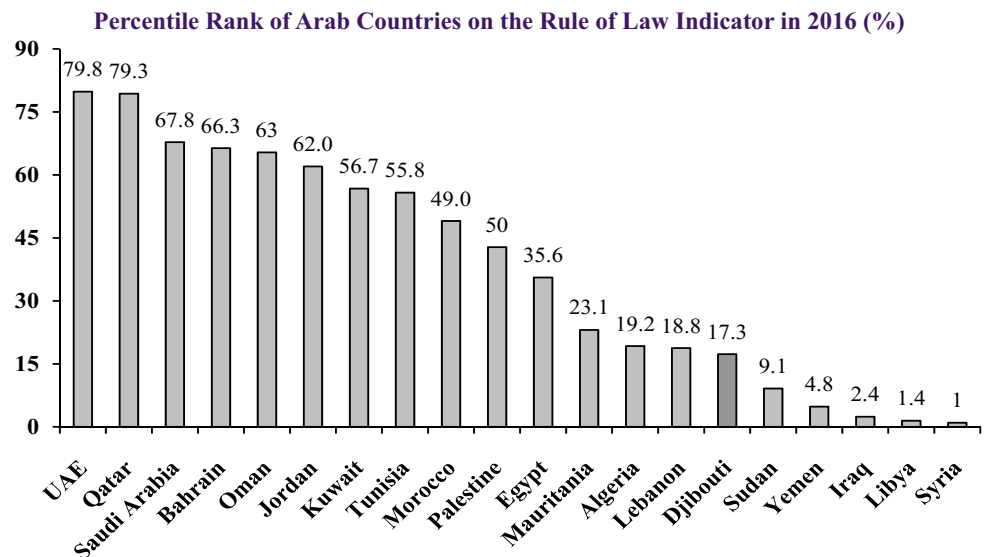
Top five freight forwarders' import activity up 0.5% in first eight months of 2017, export activity down 3%

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Charts of the Week



Source: World Bank Governance Indicators, Byblos Bank

Quote to Note

“One of the key challenges to improving empirically-informed policy is to strengthen the data and analytical base of the government, especially at the Central Administration of Statistics.”

The World Bank, on the need to upgrade and expand Lebanon's statistical system

Number of the Week

71: Number of Members of Parliament, out of a total of 126 MPs, who voted for the tax increases

Lebanon in the News

\$m (unless otherwise mentioned)	2016	Feb 2016	Nov 2016	Dec 2016	Jan 2017	Feb 2017	% Change*
Exports	2,977	228	247	244	229	226	(0.88)
Imports	18,705	1,377	1,450	1,536	1,604	1,648	19.68
Trade Balance	(15,728)	(1,149)	(1,203)	(1,292)	(1,375)	(1,422)	23.76
Balance of Payments	1,238	363	453	910	167	342	(5.74)
Checks Cleared in LBP	19,892	1,538	1,684	1,879	1,733	1,676	8.97
Checks Cleared in FC	48,160	3,988	3,968	3,880	3,973	3,547	(11.06)
Total Checks Cleared	68,052	5,526	5,652	5,759	5,706	5,223	(5.48)
Budget Deficit/Surplus	(3,667.15)	(260.49)	(706.12)	(513.35)	330.43	(453.93)	74.26
Primary Balance	1,297.65	(23.60)	(40.58)	(111.56)	558.07	(189.09)	701.1
Airport Passengers***	7,610,231	442,212	555,931	598,009	539,089	462,605	4.61

\$bn (unless otherwise mentioned)	2016	Feb 2016	Nov 2016	Dec 2016	Jan 2017	Feb 2017	% Change*
BdL Gross FX Reserves	34.03	31.42	34.38	34.03	35.02	35.44	12.77
<i>In months of Imports</i>	21.83	22.82	23.71	22.15	21.83	21.50	(5.77)
Public Debt	74.89	71.22	74.55	74.89	76.17	76.13	6.89
Bank Assets	204.3	186.59	200.95	204.3	204.38	204.93	9.83
Bank Deposits (Private Sector)	162.5	151.42	159.19	162.5	162.73	163.86	8.22
Bank Loans to Private Sector	57.18	54.56	56.49	57.18	56.95	57.01	4.49
Money Supply M2	54.68	52.29	54.12	54.68	54.50	54.96	5.11
Money Supply M3	132.8	123.49	130.04	132.8	132.88	133.83	8.37
LBP Lending Rate (%)****	8.23	8.18	8.26	8.23	8.47	8.37	-
LBP Deposit Rate (%)	5.56	5.57	5.54	5.56	5.55	5.56	(1bps)
USD Lending Rate (%)	7.35	7.31	7.16	7.35	7.26	7.14	(17bps)
USD Deposit Rate (%)	3.52	3.22	3.48	3.52	3.52	3.57	35bps
Consumer Price Index**	(0.80)	(2.94)	1.78	3.14	4.68	4.93	-

* 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
Solidere "A"	8.03	0.63	625,015	7.14%
BLOM GDR	12.65	(0.39)	51,358	8.31%
BLOM Listed	11.60	(0.43)	47,337	22.17%
Solidere "B"	8.00	0.00	36,157	4.62%
Byblos Common	1.61	0.00	15,167	8.09%
HOLCIM	13.75	(1.72)	12,000	2.39%
Audi GDR	6.00	0.84	11,000	6.40%
Audi Listed	5.85	0.00	8,679	20.79%
Byblos Pref. 09	102.10	0.00	-	1.82%
Byblos Pref. 08	102.00	0.00	-	1.81%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Dec 2017	4.00	99.88	4.54
Nov 2018	5.15	100.63	4.54
May 2019	6.00	101.25	5.17
Mar 2020	6.38	102.25	5.36
Oct 2022	6.10	99.88	6.13
Jun 2025	6.25	97.13	6.74
Nov 2026	6.60	98.13	6.88
Feb 2030	6.65	96.50	7.08
Apr 2031	7.00	98.00	7.23
Nov 2035	7.05	96.75	7.38

Source: Byblos Bank Capital Markets

	Oct 9-13	Oct 2-6	% Change	September 2017	September 2016	% Change
Total shares traded	851,528	506,965	68	7,527,126	17,493,508	(57)
Total value traded	\$8,373,126	\$4,097,709	104.3	\$49,770,271	\$132,538,370	(62.4)
Market capitalization	\$11.25bn	\$11.41bn	(1.44)	\$11.36bn	\$11.11bn	2.2

Source: Beirut Stock Exchange (BSE)



Lebanon has 32nd highest loan penetration rate, 60th highest deposit penetration rate in the world at end-2016

Figures issued by the International Monetary Fund show that there were 234.1 borrowers per 1,000 adults at commercial banks in Lebanon at the end of 2016, constituting a decrease of 3.6% from 242.8 borrowers per 1,000 adults in 2015 and compared to 197.7 borrowers per 1,000 adults in 2006. The borrowers' penetration rate ranked Lebanon in 34th place globally among 77 countries with available figures for 2016, in 15th place among 27 upper middle-income countries (UMICs) and in second place among seven Arab countries with available data. Globally, Lebanon had a higher penetration rate than Zimbabwe, Ecuador and Kuwait, and a lower rate than Qatar, Costa Rica and Colombia among economies with a GDP of \$10bn or more. It also had a higher penetration rate than Ecuador, Romania, the Dominican Republic, Botswana, Albania, Peru, Algeria and Equatorial Guinea among UMICs, while it had a lower rate than only Qatar among Arab countries.

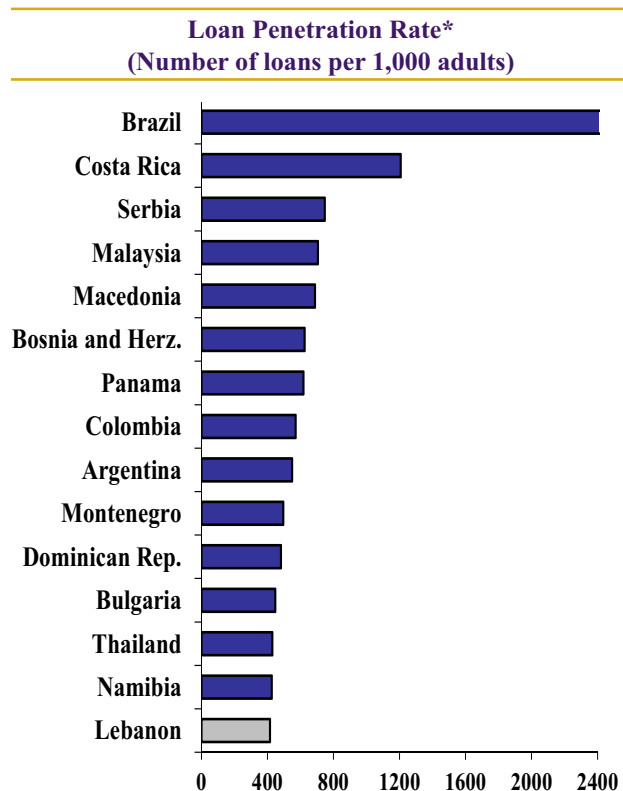
Further, there were 415.4 loan accounts per 1,000 adults at Lebanese commercial banks in 2016, down 2.6% from 426.4 loan accounts per 1,000 adults in 2015 and compared to 315.8 loan accounts per 1,000 adults in 2006. The loan penetration rate ranks Lebanon in 32nd place among 88 countries globally with available figures for 2016, in 15th place among 31 UMICs, and in first place among six Arab economies with available data.

In parallel, there were 622.5 depositors per 1,000 adults at Lebanese commercial banks in 2016, constituting a decline of 4.5% from 652.1 depositors per 1,000 adults in 2015 and compared to 771.1 depositors per 1,000 adults in 2006. As a result, Lebanon had the 41st highest depositors' penetration rate among 74 countries worldwide with available figures for 2016, the 18th highest among 22 UMICs and the fourth largest among six Arab countries. Globally, Lebanon had a higher depositors' penetration rate than Bangladesh, Botswana and Brazil, and a lower rate than the Dominican Republic, Qatar and Italy. It also had a higher rate than Botswana, Brazil, Equatorial Guinea and Mainland China among UMICs; while it had a higher rate than Mauritania and Djibouti among six Arab countries.

Further, there were 1,046 deposit accounts per 1,000 adults at commercial banks in Lebanon in 2016, down 3.1% from 1,080 deposit accounts per 1,000 adults in 2015 and compared to 1,103 deposit accounts per 1,000 adults in 2006. As such, Lebanon had the 60th highest deposit account penetration rate among 103 countries worldwide with available figures for 2016, the 22nd highest among 33 UMICs and the third highest among eight Arab countries.

Further, there were 1.07 million borrowers and 1.91 million loan accounts at commercial banks in Lebanon at the end of 2016. Resident private sector loans were equivalent to 107.4% of GDP at the end of 2016, according to the IMF, the 15th highest such ratio among 150 countries globally, the third largest among 45 UMICs as well as among 11 Arab countries.

Also, there were 2.86 million depositors and 4.80 million deposit accounts at commercial banks in Lebanon at the end of 2016. Resident private sector deposits were equivalent to 270.4% of GDP in 2016, the second highest ratio among 151 economies globally, as well as the largest among 45 UMICs and among 11 Arab countries.



* Upper middle-income countries with highest penetration rates
Source: International Monetary Fund, Byblos Research

Parliament ratifies tax law

The Lebanese Parliament ratified on October 9, 2017 a tax law that imposes a number of taxes and fees that aim to offset the total cost of the increase in salaries and pensions of public-sector workers and retirees. This is the second time that the Parliament votes on the same set of taxes and fees. Last July, the Parliament approved Law 45 about the tax measures. But the Constitutional Council overturned the law in September because the voting process and some of the law's articles were not compliant with the Lebanese Constitution.

Under the new law, the Parliament increased the value-added tax rate, the corporate income tax and the tax rate on income from movable capital. Further, it imposed an annual tax on illegally-built seaside properties, increased the tax rate on lottery prizes and imposed a new tax on capital gains from real estate transactions. It also introduced a new fee on freight entering the ports in the country and increased the tax on imported tobacco and alcohol products. In addition, it imposed a fee on non-Lebanese entering the country by land and increased the tax on air passengers leaving the country. It also increased the fixed stamp duty on official paperwork and documents, raised the public notaries' fees collected on behalf of the Treasury, and imposed a fee on cement production, among many other measures.

Select New Tax Measures & Fees			
Tax	Old Rate	New Rate	Effective Increase
Value-added tax	10%	11%	10%
Corporate income tax	15%	17%	13.3%
Tax on income from movable capital	5%	7%	40%
Tax on lottery prizes above LPB10,000	10%	20%	100%
Tax on alcohol type 1	LBP60/Liter	LBP180/Liter	200%
Tax on alcohol type 2	LBP200/Liter	LBP600/Liter	200%
Tax on alcohol type 3	LBP400/Liter	LBP1,200/Liter	200%
Tax on capital gains from disposal of fixed assets*	n/a	15%	New tax
Advance payment on real estate sales contracts**	n/a	2%	New tax
Proportionate stamp duty	0.3%	0.4%	33.3%
Fee on Internet and phone bills***	n/a	LBP2,500	New fee
Fee on pre-paid Internet and recharge cards	n/a	LBP250	New fee
Tax on cement production	n/a	LBP6,000 per ton	New tax
Tax on imported cigarettes	n/a	LBP250 per pack	New tax
Tax on imported tobacco	n/a	LBP2,500 per Kg	New tax
Tax on imported cigars	n/a	10% per cigar	New tax
Fee on freight entering the ports	n/a	LBP80,000 per 20 foot container	New fee
Fee on freight entering the ports	n/a	LBP120,000 per 40 foot container	New fee
Fee on outgoing business class ticket	LBP70,000	LBP110,000	57.1%
Fee on outgoing first class ticket	LBP100,000	LBP150,000	50%
Fee per private jet passenger	n/a	LBP400,000	New fee

* except on capital gains from the disposal of main residency provided that they do not exceed two residencies.

** the amount would be deducted from the registration fee in case the contract is registered within one year.

*** except on pre-paid Internet and recharge cards.

Source: Media outlets, Byblos Research

Finance Ministry details implementation mechanism of automatic exchange of tax information

The Ministry of Finance issued Decree 1550 that details the implementation of Law 55 about the automatic exchange of tax information. The decree indicated that Lebanon would only accept information requests from countries that have tax agreements with Lebanon or that are members of the Multilateral Convention on Mutual Assistance in Tax Matters.

The decree noted that, if the requested information is covered by Lebanon's banking secrecy law, the Ministry of Finance should send a written request to the Special Investigation Commission (SIC) against money laundering and terrorism financing. It added that the relevant authorities should inform the concerned person about the request. In turn, the concerned person has 15 days from the notice date to appeal to the Shuraa Council the authorities' decision to deliver the requested information. The decree stipulates that the Council has up to three months to rule on the validity and availability of the legal conditions for the exchange of information. In addition, the law stipulates that urgent requests for tax information, or those that could be compromised if the concerned person is informed about the inquiry, could be executed directly without informing the concerned person. Further, the decree pointed out that the SIC is required to provide the required information within one month from the day it receives the request.



IMF projects real GDP growth in Lebanon at 1.5% in 2017, 16th slowest growth rate in emerging economies

The International Monetary Fund projected Lebanon's real GDP growth at 1.5% in 2017, down from its April 2017 forecast of 2%. In comparison, it forecast real GDP growth rates of 2.2% for the MENA region, of 4.3% for the region's oil-importing economies and of 3.8% for the Mashreq economies; as well as growth rates of 4.6% in emerging & developing economies and of 3.6% for the global economy in 2017. Lebanon's projected growth rate in 2017 would make it the third slowest-growing economy among 16 MENA countries with positive economic growth, faster than the UAE (1.3%) and Saudi Arabia (1.3%). Lebanon would also be, along with Japan, Italy, Angola and Algeria, the 19th slowest-growing economy in the world in 2017 and the 16th slowest-growing economy among 140 emerging & developing economies.

In parallel, the Fund projected Lebanon's GDP per capita to increase from \$11,295 at the end of 2016 to \$11,684 at end-2017. It also forecast the average inflation rate in Lebanon at 3.1% in 2017 relative to 7.1% for the MENA region, 12.1% for oil-importing economies and 20.7% for the Mashreq region. Lebanon's projected average inflation rate would be the 10th lowest in the MENA region this year. Lebanon's inflation rate averaged -3.7% in 2015 and -0.8% in 2016.

Further, it projected Lebanon's fiscal deficit to widen from 9.3% of GDP in 2016 to 9.9% of GDP in 2017, with public revenues at 19.9% of GDP this year, nearly unchanged from 19.8% of GDP in 2016, while public spending would increase from 29.1% of GDP last year to 29.8% of GDP in 2017. Also, it forecast the primary budget surplus to slightly improve from 0.2% of GDP in 2016 to 0.7% of GDP in 2017. As such, it expected the public debt level to increase from 148.7% of GDP in 2016 to 152.3% of GDP in 2017.

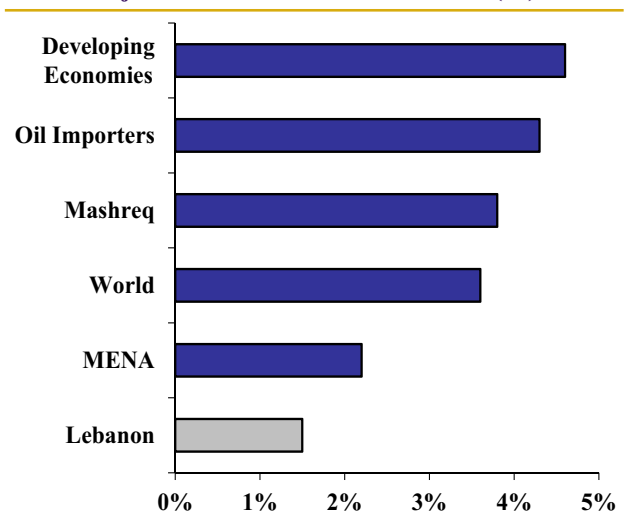
In addition, the Fund projected Lebanon's current account deficit to narrow from 18.6% of GDP in 2016 to 18% of GDP in 2017, compared to deficits of 1.7% of GDP for the MENA region, 5.3% of GDP for oil-importing economies and 8.2% of GDP for the Mashreq countries. Lebanon's current account deficit for 2017 would be the 10th widest globally, while it would be the second widest in the MENA region, narrower than that of Djibouti (-21% of GDP).

In parallel, the IMF projected Lebanon's real GDP growth rate at 2% in 2018, compared to growth rates of 3.2% for the MENA region, 4.4% for the region's oil-importing economies and 4.2% for the Mashreq economies next year. Lebanon's projected growth rate for 2018 would make it the fourth slowest-growing economy among 20 MENA countries with positive economic growth, ahead of only Bahrain (1.7%), Saudi Arabia (1.1%) and Algeria (0.8%). Also, Lebanon would be the 34th slowest-growing economy in the world in 2018 and the 22nd slowest-growing economy among emerging & developing markets when excluding contracting economies. The IMF forecast Lebanon's fiscal deficit to widen to 10.3% of GDP, while it expected its current account deficit to narrow to 16.8% of GDP in 2018.

Balance of payments posts deficit of \$647m in first eight months of 2017

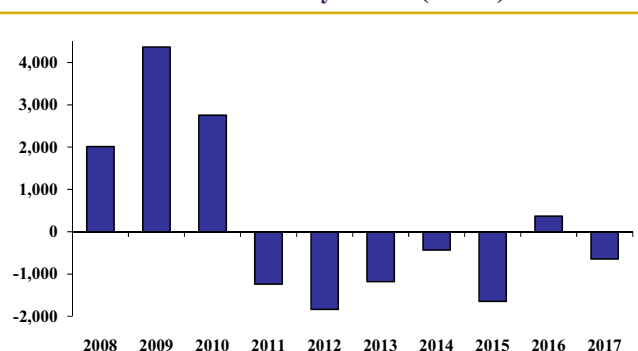
Figures issued by Banque du Liban (BdL) show that Lebanon's balance of payments posted a deficit of \$647.1m in the first eight months of 2017 compared to a surplus of \$366.2m in the same period of 2016. The balance of payments posted a surplus of \$368.3m in August 2017 compared to surpluses of \$100.2m in July 2017 and of \$1.8bn in August 2016. The August 2017 surplus was caused by a rise of \$607.3m in the BdL's net foreign assets, which was partly offset by a decrease of \$239m in those of banks and financial institutions. The cumulative deficit over the first eight months of 2017 was caused by a decline of \$2.48bn in the net foreign assets of banks and financial institutions, which was partly offset by an increase of \$1.83bn in those of the 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 and \$3.4bn in 2015.

Projected Real GDP Growth in 2017 (%)



Source: International Monetary Fund, October 2017

Balance of Payments* (US\$m)



*in the first eight months of each year

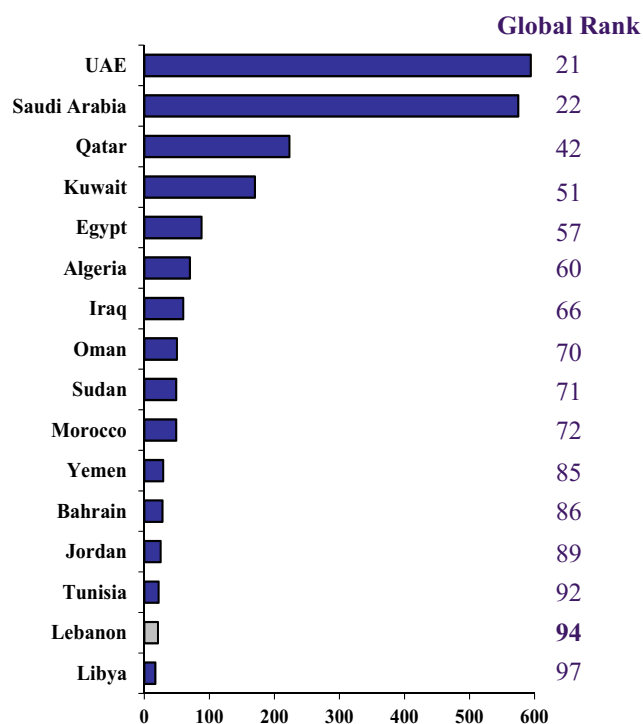
Source: Banque du Liban

Lebanon ranks 94th globally, 15th in Arab world in terms of nation brand value

Consulting firm Brand Finance's Nation Brands Index for 2017 ranked Lebanon in 94th place among 100 countries in terms of its nation brand value, and in second to last place among 16 countries in the Arab region. Lebanon also came in 26th place among 28 upper middle-income countries (UMICs) included in the survey. Globally, Lebanon's rank regressed by two spots year-on-year while its rank was unchanged among Arab economies. The Index measures the strength and value of the nation brand of 100 countries based on the "royalty relief mechanism" methodology that is used to value the world's largest companies. A nation's brand valuation is based on five-year forecasts of the sales revenues of all brands in each country, with the country's gross domestic product used as a proxy for total revenues. In turn, the country's post-tax brand revenues are discounted to a net present value to calculate the current brand value. Brand Finance is a brand valuation and strategy consultancy firm.

The survey estimated Lebanon's brand value at \$21bn for 2017, compared to \$19bn in 2016. Globally, Lebanon tied with Trinidad & Tobago and had a higher nation brand value than Paraguay (\$20bn), Libya (\$17bn) and the Democratic Republic of Congo (\$16bn), and a lower brand value than Bolivia (\$23bn), and Tanzania and Tunisia (\$22bn each). Also, Lebanon's brand value was higher than only Paraguay and Libya among UMICs. The United States has the world's most valuable nation brand with a value of \$21.1 trillion, while Cyprus has the lowest brand value globally at \$15bn.

Nation Brand Value of Arab Countries for 2017 (US\$bn)



Source: Brand Finance, Byblos Research

In parallel, the survey upgraded Lebanon's brand strength rating to 'A+' on the 2017 Brand Strength Index from 'A' on the 2016 Index. The survey rates each country's brand strength by the performance of the Investment, Goods & Services, and Society pillars. The pillars are based on four sub-pillars that are Tourism, Market, Governance, and People & Skills, which are calculated by using several metrics. Lebanon's 'A+' rating is the seventh strongest on a scale of 18 notches that range from 'AAA+' to 'D', with a score of 'AAA+' reflecting the strongest nation brand.

The strength of Lebanon's brand is similar to that of Bulgaria, Colombia, Croatia, Egypt, Ghana, Guatemala, Hungary, Iran, Italy, Kenya, Mexico, Peru, the Philippines, Russia, Slovakia, Trinidad & Tobago, Tunisia, Turkey, Uzbekistan and Vietnam. In comparison, one economy has a rating of 'AAA+', 10 countries have an 'AAA' rating, 11 sovereigns have a rating of 'AAA-', six economies have a rating of 'AA+', 10 countries have a rating of 'AA' and 16 sovereigns have a rating of 'AA-'. Singapore has the strongest nation brand value worldwide, while Qatar and the UAE have the strongest brands in the MENA region.

One consortium submits bids for oil & gas exploration

The Ministry of Energy & Water announced that the deadline for 53 pre-qualified oil & gas companies to submit their bids for Lebanon's first licensing round for offshore oil and gas exploration and production expired on October 12, 2017. It indicated that the Lebanese Petroleum Administration's (LPA) preliminary results show that one consortium of three international companies, which are France's Total, Italy's Eni International BV and Russia's JSC Novatek, submitted one bid for Block 4 and another bid for Block 9, which are outside the disputed zone with Israel.

In fact, qualified companies were eligible to submit their bids on five blocks that were open for bidding, which consist of blocks 8, 9 and 10 in the South of Lebanon, Block Four in the North of Beirut and Block One in the North of the country. The LPA will file its final report on the evaluation of the technical and commercial offers by November 13, 2017. The Council of Ministers would then study the report and has the authority to sign the exploration and production agreements (EPA) with the selected companies. The EPA is an agreement between the government and pre-qualified oil companies that provides the petroleum right holders the exclusive rights to explore, develop and produce oil and gas in Lebanon's offshore Exclusive Economic Zone.

External debt post 24th lowest return in emerging markets, Eurobonds at 'Overweight'

Figures issued by Merrill Lynch indicate that Lebanon's external debt posted a return of 6.68% in the first nine months of 2017, constituting the 16th lowest return among 44 markets in the Central & Eastern Europe and the Middle East & Africa (CEEMEA) region, as well as the 24th lowest return among 76 emerging markets included in Merrill Lynch's External Debt EM Sovereign Index. Lebanon underperformed the overall emerging markets' return of 8.15% during the covered period. Further, Lebanon's external debt posted the ninth lowest return among 27 countries in the Middle East & Africa region in the first nine months of the year, ahead of Saudi Arabia (+6.1%), Bahrain (+5.52%), Oman (+5.11%), Israel (+4.7%), South Africa (+4.54%), the UAE (+4.36%), Qatar (+4.17%) and Kuwait (+2.92%).

In parallel, Merrill Lynch maintained its recommendation for Lebanon's external debt at "Overweight" in its emerging markets bonds portfolio. It attributed its decision to technical factors related to Banque du Liban's liquidity operations that have led to the undervaluation of Lebanon's external debt. It considered that the local bid for Eurobonds will reassert itself and that buying opportunities will materialize once the operations conclude.

Further, Lebanon's external debt posted a return of 0.22% in September 2017, constituting the 17th highest return in the CEEMEA region, and the 34th highest in emerging markets during the covered month. Lebanon outperformed the emerging markets' return of 0.04% in September 2017. It also posted the eighth highest return in the Middle East & Africa region in September 2017, behind Mozambique (+1.95%), Ghana (+0.74%), Cameroon (+0.66%), Bahrain and Senegal (+0.64% each), Angola (+0.45%) and Rwanda (+0.29%).

In parallel, Merrill Lynch indicated that the option-adjusted spread on Lebanese Eurobonds was 434 basis points at the end of September 2017 compared to 514 basis points at end-September 2016. The spread on Lebanese Eurobonds was the eighth widest spread in the CEEMEA region and the 13th widest among emerging markets. It was wider than the emerging markets' overall spread of 250 basis points at the end of September 2017.

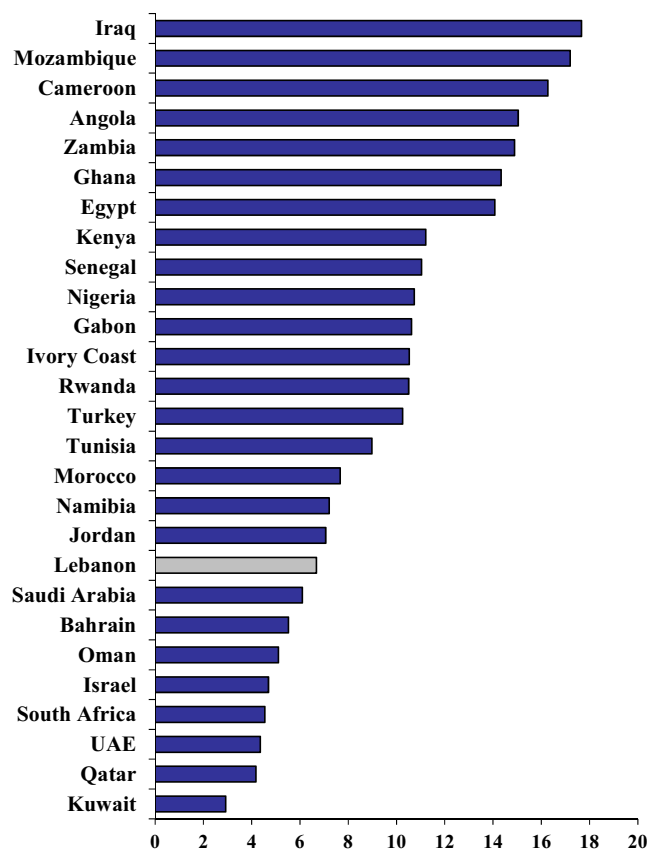
Lebanon has a weight of 2.64% on Merrill Lynch's External Debt EM Sovereign Index, the sixth largest weight in the CEEMEA universe and the 12th largest among emerging economies. Lebanon accounted for 5% of allocations in the CEEMEA region.

Revenues through Port of Beirut down by 1% to \$163m in first eight months of 2017

Figures released by the Port of Beirut show that the port's overall revenues were \$162.7m in the first eight months of 2017, constituting a decrease of 0.9% from \$164.2m in the same period of 2016. The Port of Beirut handled an aggregate freight of 5.7 million tons in the covered period, down by 3.1% from 5.9 million tons in the first eight months of 2016. Imported freight amounted to 5.1 million tons in the first eight months of 2017 and accounted for 88.1% of the total, while the remaining 685,000 tons, or 11.9%, consisted of export cargo. A total of 1,262 ships docked at the port in the covered period compared to 1,390 vessels in the first eight months of 2016.

In parallel, revenues generated through the Port of Tripoli reached \$11.4m in the first eight months of 2017, constituting an increase of 13.4% from \$10.1m in the same period of 2016. The Port of Tripoli handled an aggregate of 1,289,379 tons of freight in the covered period, up by 3.5% from 1,245,524 tons in the first eight months of 2016. Imported freight amounted to 1,011,803 tons and accounted for 78.5% of the total, while the remaining 277,576 tons, or 21.5%, were export cargo. A total of 541 vessels docked at the port in the first eight months of 2017, constituting an increase of 0.9% from 536 ships in the same period of 2016.

External Debt Performance in the Middle East & Africa in First Nine Months of 2017 (%)

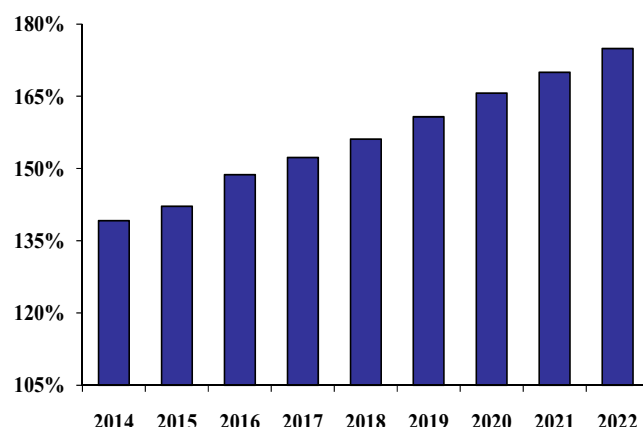


Source: Merrill Lynch, Byblos Research

Gross public debt at \$77bn at end-August 2017

Lebanon's gross public debt reached \$77.3bn at the end of August 2017, constituting an increase of 3.2% from \$74.9bn at the end of 2016 and a rise of 4.3% from \$74.1bn at end-August 2016. In nominal terms, the gross public debt grew by \$2.4bn in the first eight months of 2017 relative to an increase of \$3.7bn in the same period of 2016. Debt denominated in Lebanese pounds totaled \$47.5bn at end-August 2017, up by 1.5% from the end of 2016 and by 5.6% from end-August 2016; while debt denominated in foreign currency stood at \$29.8bn, constituting a growth of 6% from end-2016 and an increase of 2.4% from a year earlier. Local currency debt accounted for 61.4% of the gross public debt at the end of August 2017 compared to 60.7% a year earlier, while foreign currency-denominated debt represented the balance of 38.6% relative to 39.3% at end-August 2016. The weighted interest rate on outstanding Treasury bills was 6.91% and that on Eurobonds was 6.4% in August 2017. Further, the weighted life on Eurobonds was 6.81 years, while that on Treasury bills was 1,360 days.

Lebanon's Gross Public Debt (% of GDP)



Source: International Monetary Fund

Commercial banks held 43.4% of the public debt as at end-August 2017 relative to 46.9% of the total at the end of August 2016. Banque du Liban (BdL) held 48.5% of the Lebanese pound-denominated public debt at the end of August 2017 relative to 44.9% a year earlier, while commercial banks held 36.2% of the local debt compared to 38.6% at end-August 2016. Also, public agencies, financial institutions and the public held 15.3% of the local debt at end-August 2017, down from 16.5% a year earlier. Further, holders of Eurobonds and special T-bills in foreign currencies accounted for 92.6% of foreign currency-denominated debt holders at the end of August 2017, followed by multilateral institutions with 4.3% and foreign governments with 3.1%. In addition, the net public debt, which excludes public sector deposits at the BdL and at commercial banks from overall debt figures, grew by 4.8% annually to \$67.1bn at end-August 2017. Further, the gross market debt accounted for about 62% 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.

In parallel, S&P Global Ratings rates Lebanon's long-term foreign and local currency sovereign credit ratings at 'B-'. But the agency's Credit Default Swap Market Derived Signal Score, an indicator of risk appetite by foreign investors, shows that Lebanon's sovereign debt is considered by the market to have a 'B' risk level as at October 12, 2017, which is one notch higher than the S&P rating.

Commercial activity improves in second quarter of 2017

Banque du Liban's quarterly business survey of the opinions of business managers shows that the volume of commercial sales improved in relative terms during the second quarter of 2017, with the balance of opinions standing at -4 compared to -18 in the second quarter of 2016. Also, commercial activity improved quarter-on-quarter, as the balance of opinion was -12 in the first quarter of 2017. 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 highest in the South at +35, followed by the North (+3), Beirut & Mount Lebanon (-9) and the Bekaa region (-28).

The survey shows that the balance of opinions about the sales of food items was +6 in the second quarter of 2017 relative to +2 in the preceding quarter and to -1 in the same quarter of 2016. Also, the balance of opinions about the sales of non-food products was -10 in the second quarter of the year compared to -12 in the previous quarter and to -23 in the second quarter of 2016; while it was -8 for inter-industrial goods relative to -29 in the preceding quarter and to -26 in the second quarter of 2016. Further, the balance of opinions for inventory levels in all commercial sub-sectors was -6 in the second quarter of 2017, compared to -10 in the previous quarter and to -7 in the second quarter of 2016. Opinions about the level of inventories were the highest in the Bekaa as they reached +2, followed by Beirut & Mount Lebanon (-3), the North (-5) and the South (-32). 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	Q2-14	Q2-15	Q2-16	Q2-17
Sales volume	-8	-12	-18	-4
Number of employees	+1	-5	-4	-3
Inventories of finished goods	+1	-8	-7	-6
Q2-17 Regional results	Beirut / Mount Lebanon	North	South	Bekaa
Sales volume	-9	+3	+35	-28
Inventories of finished goods	-3	-5	-32	+2

Source: Banque du Liban business survey for second quarter of 2017



Level of economic freedom in Lebanon declines

The Fraser Institute's 2017 Index of Economic Freedom ranked Lebanon in 78th place among 159 countries globally and in fifth place among 16 Arab economies. It also ranked Lebanon in 16th place among 40 Upper-Middle Income Countries (UMICs) included in the survey. Lebanon's global rank improved by four spots from 82nd place in the 2016 survey, and its regional rank improved by one spot year-on-year. However, the level of economic freedom in the country regressed year-on-year, as Lebanon received a score of 6.91 points on a scale of zero to 10, down from 6.94 points in the preceding year.

Also, the level of economic freedom in Lebanon regressed over the past five years due to a drop in its performance across four of the five sub-indicators of the index. In fact, Lebanon's score dropped by 2.9% from 7.12 points on the 2013 survey, and its global rank regressed by 12 spots over the five-year period, based on the same set of countries.

The index measures the extent that a country's policies and institutions support economic freedom. It includes 41 variables that are distributed into five broad factors of economic freedom that are the Size of Government, the Legal System & Property Rights, Access to Sound Money, Freedom to Trade Internationally, and the Regulation of Credit, Labor & Business.

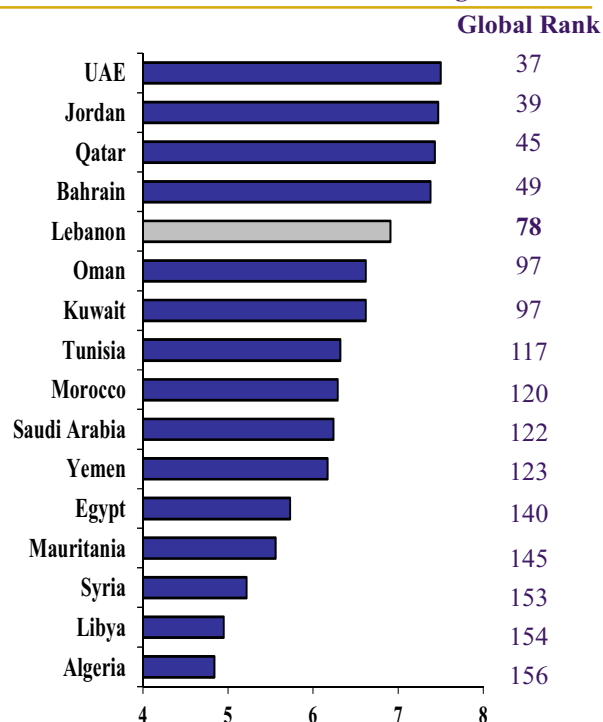
Globally, Lebanon had a similar level of economic freedom as Paraguay, a higher level of freedom than Kyrgyzstan, Turkey and Liberia, and a lower level than Laos, Mexico and Tanzania. It also tied with Paraguay, ranked ahead of Turkey and came behind Mexico among UMICs.

In parallel, Lebanon's score was higher than the global average of 6.8 points and the UMICs' average score of 6.6 points in 2017. It also came above the Arab average score of 6.33 points, the average score of the Gulf Cooperation Council (GCC) economies of 6.97 points and the non-GCC Arab countries' score of 5.95 points. Lebanon's score on the Regulation of Credit, Labor & Business indicator dropped by 6.8% from the 2013 survey, that on the Size of Government indicator fell by 5.9%, its score on the Legal System & Property Rights indicator decreased by 3% and its outcome on the Freedom to Trade Internationally indicator regressed by 2.1%; while the country's score on the Access to Sound Money indicator improved by 1.7% from the 2013 survey.

Further, Lebanon ranked ahead of Peru and behind the Czech Republic on the Access to Sound Money category, which reflects the consistency of monetary policy with long-term price stability, as well as the ease of using other currencies via domestic and foreign bank accounts. Lebanon came in fourth place among UMICs and in second place, behind Jordan, among Arab countries on this category.

In addition, Lebanon ranked ahead of Honduras and behind the Dominican Republic on the Legal System & Property Rights category. This category assesses the judicial independence, the protection of property rights, the degree of military interference in the rule of law and politics, the integrity of the legal system and the legal enforcement of contracts, among other factors. Also, Lebanon ranked ahead of only Egypt, Mauritania, Libya and Yemen in the Arab world on this category. The survey noted that countries with major deficiencies in this category are unlikely to prosper, regardless of their performance in the other four categories. 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.

**Index of Economic Freedom for 2017
Arab Countries Scores & Rankings**



Source: Fraser Institute, Byblos Research

Components of the 2017 Economic Freedom Index for Lebanon

	Global Rank	Arab Rank	UMIC Rank	Lebanon Score	Global Avg Score	Arab Avg Score	UMIC Avg Score
Size of Government	10	1	1	8.31	6.40	5.98	6.33
Access to Sound Money	32	2	4	9.57	8.29	7.93	8.13
Regulation of Credit, Labor & Business	142	12	33	5.72	7.00	6.50	6.79
Freedom to Trade Internationally	93	7	22	6.89	7.04	6.52	6.90
Legal System & Property Rights	122	12	33	4.05	5.26	4.71	4.83

Source: Fraser Institute, Byblos Research

Structural reforms essential to reduce financing burden on banking system

The Institute of International Finance expected Lebanon's real GDP growth to slightly accelerate in 2017 due to a modest recovery in the exports of goods and services, particularly in tourism. It added that the improvement in the domestic political environment and the defeat of the ISIS militant group in Lebanon and in neighboring countries would support economic activity during the remainder of the year and in 2018.

The IIF projected the fiscal deficit to narrow from 9.9% of GDP in 2016 to 7.4% of GDP in 2017, in case Treasury spending declines and when taking into account the one-off \$750m in tax receipts from the revenues that banks generated from the swap operations that Banque du Liban conducted with commercial banks last year. It noted that the fiscal outlook for 2017 is uncertain, given that authorities only published the fiscal results for the first two months of the year so far. It estimated that the deficit could reach about 8.8% of GDP this year when excluding the banks' one-off tax payments of \$750m. It considered that Lebanon's substantial foreign assets and highly liquid banking sector, which continues to attract sizeable deposits, mitigate macroeconomic risks from the high debt level.

Also, the IIF pointed out that the Parliament's recent approval of the disputed tax measures could compensate for the massive increase in the public-sector's salaries and pensions. But it added that the tax measures are not sufficient to narrow the fiscal deficit and put the public debt level on a downward trend, as authorities need implement strong and credible structural and fiscal reforms, as well as to significantly strengthen tax compliance and restrain current spending. It noted that the government must implement fiscal consolidation and reduce the public debt level in order to ease the burden on Banque du Liban and on commercial banks to cover its financing needs.

In parallel, the IIF indicated that confidence in the peg of the Lebanese pound to the US dollar remains intact, while Lebanon's foreign exchange and financial markets continue to be resilient. It added that Banque du Liban's elevated foreign currency reserves, which reached \$44bn at the end of September 2017, would preserve the currency's peg to the US dollar. In addition, it considered that the current spreads between interest rates in Lebanon and the LIBOR are sufficiently wide to continue attracting deposits from Lebanese expatriates. But it noted that authorities may need to raise domestic interest rates, in line with the expected additional increases in U.S. interest rates.

Lebanon's Main Economic Indicators					
	2014	2015	2016(e)	2017(f)	2018(f)
Real GDP growth (%)	2.0	0.8	1.7	2.3	2.9
CPI inflation, average (%)	1.9	(3.8)	(0.8)	3.8	4.6
Fiscal balance, % of GDP	(6.4)	(8.0)	(9.9)	(7.4)	(8.2)
Government debt, % of GDP	139.2	142.2	149.3	146.5	143.5
Current account balance, % of GDP	(24.5)	(16.3)	(19.6)	(18.8)	(16.7)
Official reserves, \$bn	39.5	38.8	43.3	46.0	46.9
Nominal GDP, \$bn	47.8	49.5	50.2	53.2	57.2

Source: Institute of International Finance, October 2017

New car sales down 2% in first nine months of 2017

Figures released by the Association of Automobile Importers in Lebanon show that dealers sold 27,934 new passenger cars in the first nine months of 2017, constituting a decline of 2.3% from 28,579 cars sold in the same period of 2016. Individuals and institutional clients purchased 2,420 new cars in January, 2,562 vehicles in February, 3,136 automobiles in March, 2,536 cars in April, 3,182 vehicles in May, 4,362 automobiles in June, 3,690 cars in July, 3,475 vehicles in August, and 2,571 automobiles in September 2017.

Japanese cars accounted for 37.3% of total sales in the first nine months of 2017, followed by Korean vehicles with a 33.4% share, European automobiles (20%), American cars (8%) and Chinese vehicles (1.3%). The sales of new Chinese cars jumped by 72.4% and the demand for American vehicles grew by 17% year-on-year in the first nine months of 2017; while the number of Korean automobiles sold declined by 6.5%, the sales of European vehicles regressed by 3.3% and the number of Japanese cars sold decreased by 2.7% year-on-year.

Kia is the leading brand in the Lebanese market with 5,774 vehicles sold in the first nine months of 2017, followed by Hyundai with 3,531 new cars sold, Toyota (3,368), Nissan (2,531), Suzuki (1,506), Renault (1,365) and Chevrolet (1,354). In parallel, 2,051 new commercial vehicles were sold in the first nine months of 2017, up by 4% from 1,973 commercial vehicles purchased in the same period of 2016. Overall, car dealers sold 29,985 new passenger automobiles and commercial vehicles in the first nine months of 2017, down by 1.9% from 30,552 vehicles sold in the same period of 2016.

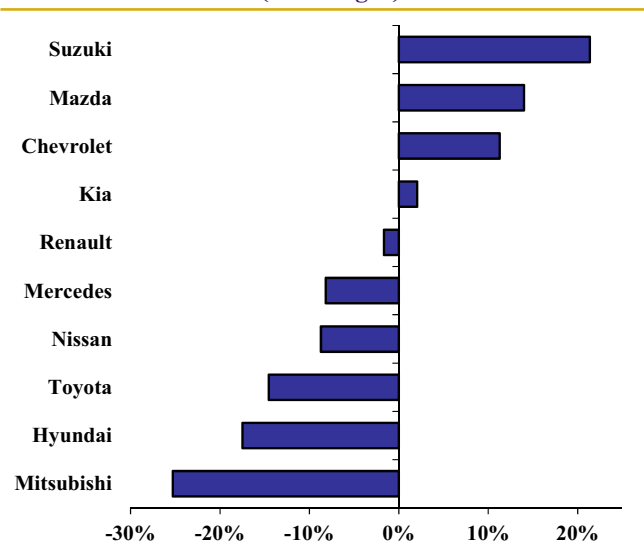
In parallel, the number of new vehicles sold by Lebanon's top five distributors reached 19,796 in the first nine months of 2017 and accounted for 66% of new car sales. NATCO sal sold 5,778 vehicles, equivalent to 19.3% of the total, followed by Rasamny Younis Motor Co. sal with 4,196 cars (14%), Boustany United Machineries sal with 3,744 automobiles (12.5%), Century Motor Co. sal with 3,613 vehicles (12%), and Bassoul Heneiné sal with 2,465 cars (8.2%).

Top five freight forwarders' import activity up 0.5% in first eight months of 2017, export activity down 3%

Figures released by the Port of Beirut show that overall import shipping operations by the top five freight forwarders through the port reached 241,131 20-foot equivalent units (TEUs) in the first eight months of 2017, constituting an increase of 0.5% from 239,912 TEUs in the same period of 2016. The five freight forwarders accounted for 84.7% of imports to the Lebanese market and for 57.9% of the total import freight forwarding market in the covered period. Mediterranean Shipping Company (MSC) handled 76,605 TEUs in imports in the first eight months of 2017, equivalent to an 18.4% share of the total freight forwarding import market. Merit Shipping followed with 47,429 TEUs (11.4%), then Sealine Group with 43,909 TEUs (10.6%), Metz Group with 39,278 TEUs (9.4%) and Gezairy Transport with 33,910 TEUs (8.1%). Further, Gezairy Transport registered a 16.3% year-on-year increase in import shipping, the highest growth rate among the top five freight forwarders, while Metz Group posted the only decline at 18.7% in the first eight months of the year.

In parallel, export shipping operations by the top five freight forwarders through the Port of Beirut reached 55,218 TEUs in the first eight months of 2017, constituting a decrease of 3.3% from 57,113 TEUs in the same period last year. The five freight forwarders accounted for 87% of exported Lebanese cargo and for 13.5% of the total export freight forwarding market in the covered period. Merit Shipping handled 27,616 TEUs of freight in the first eight months of 2017, equivalent to 43.5% of the Lebanese cargo export market. Metz Group followed with 11,168 TEUs (17.6%), then Sealine Group with 9,834 TEUs (15.5%), MSC with 3,484 TEUs (5.5%) and Gezairy Transport with 3,116 TEUs (4.9%). Further, Gezairy Transport posted a 22.3% year-on-year increase in export shipping, the highest growth rate among the top five freight forwarders, while Sealine Group posted a decrease of 18.1%, the steepest decline in the covered period.

Sales of Top 10 Car Brands in First Nine Months of 2017 (% change*)



* year-on-year

Source: ALA, Byblos Research

Kafalat loan guarantees down 25% to \$54m in first nine months of 2017

Figures released by the Kafalat Corporation show that loans extended to small- and medium-sized enterprises (SMEs) under the guarantee of Kafalat reached \$54.2m in the first nine months of 2017, constituting a decrease of 24.8% from \$72m in the same period of 2016. Kafalat provided 447 loan guarantees in the covered period, down by 16.6% from 536 guarantees in the first nine months of 2016. The average loan size reached \$121,249 in the first nine months of 2017 compared to \$134,401 in the same period of 2016. Mount Lebanon accounted for 41.2% of the total number of guarantees, followed by the Bekaa with 19.5%, the South with 14.5%, the North with 9.4%, Nabatieh with 9% and Beirut with 6.5%. Also, the agricultural sector accounted for 40.9% of the total number of guarantees in the first nine months of 2017, followed by the industrial sector with 32.9%, tourism with 20.4%, handicraft with 3.8% and specialized technologies with 2%.

Kafalat is a state-sponsored organization that provides financial guarantees for loans of up to \$430,000 earmarked for the setup and expansion of SMEs in productive sectors. It guarantees up to 75% of the loan amount and a similar percentage of the accrued interest. It also guarantees up to 90% of the loan amount for innovative start-ups and a similar percentage of the accrued interest. Interest rate subsidies are financed by the Ministry of Finance and administered by Banque du Liban. The National Institute for the Guarantee of Deposits holds a 75% stake in Kafalat, while the remaining 25% is held by 50 Lebanese banks.

Banque Libano-Française's net earnings at \$64m in first half of 2017

Banque Libano-Française sal, one of Lebanon's top 10 banks, announced unaudited consolidated net profits of \$64.2m in the first half of 2017, constituting an increase of 23.5% from net earnings of \$52m in the same period last year. Net operating income grew by 7.5% year-on-year to \$130.4m in the first half of the year, with net interest income increasing by 13.8% to \$92.8m and net fees & commissions receipts declining by 1.4% year-on-year to \$19m. Non-interest income accounted for 33.7% of total income in the first half of 2017, up from 24.6% a year earlier; with net fees & commissions representing 38.6% of non-interest earnings relative to 64% in the first half of 2016. Further, the bank's interest margin was 1.59% in the first half of 2017 relative to 1.63% in the same period last year; while its spread reached 1.54% relative to 1.58% in the same period of 2016. Total operating expenditures increased by 3.3% to \$63.5m, with staff expenses rising by 5.2% to \$41.1m and administrative & other operating expenditures decreasing by a marginal 0.3% to \$18.2m. Also, the bank's return on average assets increased to 1.02% in June 2017 on an annualized basis from 0.89% in June 2016, while its return on average equity increased to 10.9% on an annualized basis from 9.38% in June 2016. The cost-to-income ratio decreased to 43.4% in the first half of the year from 50.2% in the same period of 2016.

In parallel, total assets reached \$12.5bn at the end of June 2017, constituting a decrease of 2% from \$12.7bn at end-2016. Loans & advances to customers, excluding those to related parties, grew by 0.6% from end-2016 to \$4.2bn. Also, customer deposits, excluding those from related parties, totaled \$10.2bn at the end of June 2017, unchanged from end-2016. The loans-to-deposits ratio fell to 40.1% at the end of June 2017 from 41% a year earlier. In parallel, the bank's shareholders' equity increased by 2.6% from end-2016 to \$1.2bn at the end of June 2017.

Ratio Highlights

(in % unless specified)	2014	2015	2016e	Change*
Nominal GDP (\$bn)	50.0	51.1	52.0	
Public Debt in Foreign Currency / GDP	51.2	53.0	54.2	1.26
Public Debt in Local Currency / GDP	81.9	84.6	89.6	4.98
Gross Public Debt / GDP	133.1	137.6	144.0	6.42
Total Gross External Debt / GDP**	170.0	174.7	176.6	1.90
Trade Balance / GDP	(34.4)	(29.5)	(30.0)	(0.47)
Exports / Imports	16.2	16.6	16.1	(0.49)
Fiscal Revenues / GDP	21.8	18.7	19.1	0.30
Fiscal Expenditures / GDP	27.9	26.5	28.6	2.1
Fiscal Balance / GDP	(6.1)	(7.7)	(9.5)	(1.8)
Primary Balance / GDP	2.6	1.4	0.04	(1.4)
Gross Foreign Currency Reserves / M2	66.5	58.7	62.7	3.94
M3 / GDP	235.4	241.9	250.0	8.11
Commercial Banks Assets / GDP	351.4	364.0	392.9	28.9
Private Sector Deposits / GDP	288.9	296.6	312.5	15.8
Private Sector Loans / GDP	101.8	106.1	108.7	3.85
Private Sector Deposits Dollarization Rate	65.7	64.9	65.0	0.10
Private Sector Lending Dollarization Rate	75.6	74.8	73.6	(1.23)

*Change in percentage points 15/16

**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 2015	Nov 2016	Dec 2016	Change**	Risk Level
Political Risk Rating	54.5	54.5	55	▼	High
Financial Risk Rating	39.0	36.5	36.5	▲	Low
Economic Risk Rating	30.5	30.5	30.5	➔	Moderate
Composite Risk Rating	60.75	60.75	61.0	▼	Moderate

MENA Average*	Dec 2015	Nov 2016	Dec 2016	Change**	Risk Level
Political Risk Rating	57.7	57.6	57.6	▲	High
Financial Risk Rating	39.6	38.1	38.3	▲	Low
Economic Risk Rating	30.2	29.6	29.6	▲	High
Composite Risk Rating	63.8	62.6	62.8	▲	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	Negative	B3		Stable
Fitch Ratings	B-	B	Stable	B-		Stable
Standard & Poor's	B-	B	Stable	B-	B	Stable
Capital Intelligence	B	B	Stable	B	B	Stable

Source: Rating agencies

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



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