

## LEBANON THIS WEEK

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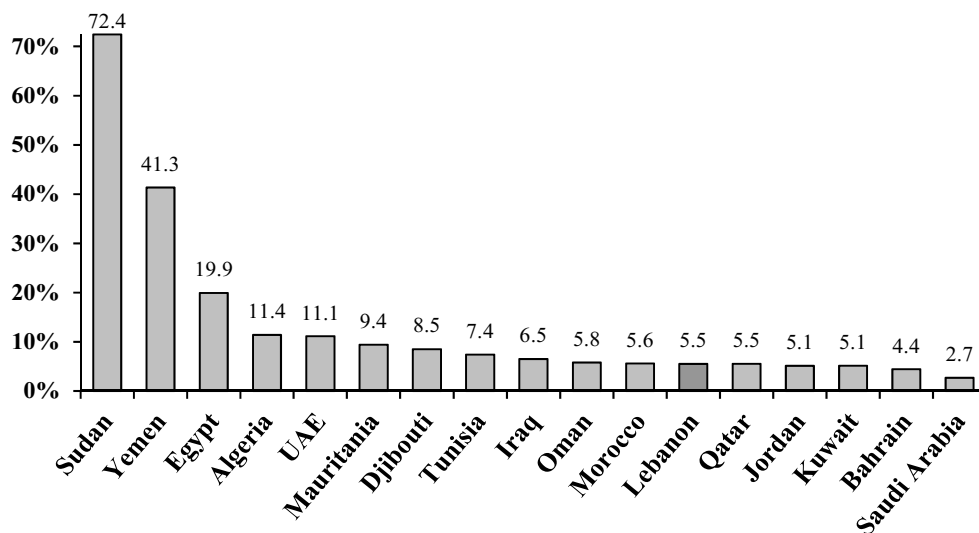
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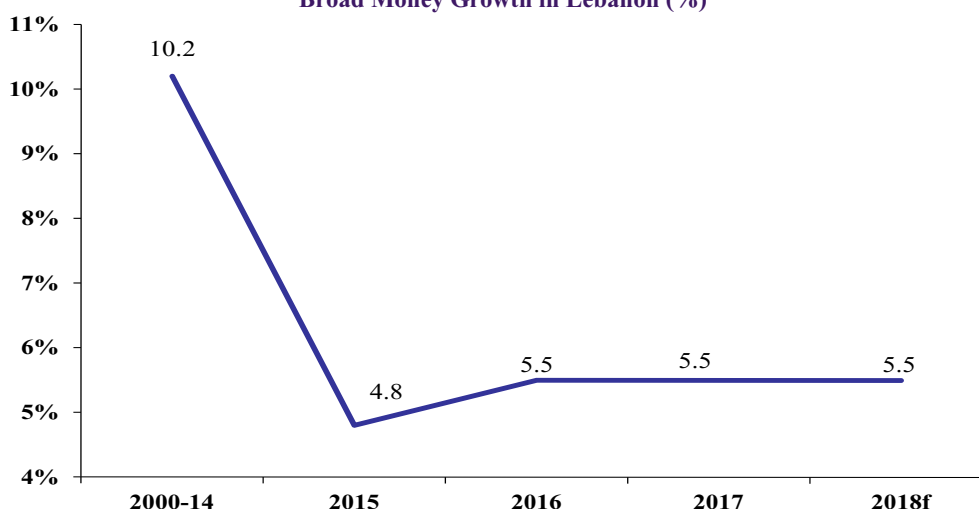
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### Charts of the Week

Projected Broad Money Growth in Arab Countries in 2018 (%)



Broad Money Growth in Lebanon (%)



Source: International Monetary Fund - April 2018, Byblos Bank

### Quote to Note

“Models based on privately-financed, owned and operated power plants that can supply the requisite additional capacity have been tested and used in many countries for decades.”

*The World Bank, on the need to avoid additional public expenditures on electricity generation in Lebanon*

### Number of the Week

**\$1.2bn:** The Lebanese government's average expenditures per year on the education sector during the 2013-2015 period, according to the Ministry of Finance

## Lebanon in the News

| \$m (unless otherwise mentioned) | 2017       | Dec 2016 | Sep 2017 | Oct 2017 | Nov 2017 | Dec 2017 | % Change* |
|----------------------------------|------------|----------|----------|----------|----------|----------|-----------|
| Exports                          | 2,844      | 244      | 210      | 251      | 229      | 251      | 2.70      |
| Imports                          | 19,582     | 1,536    | 1,297    | 1,690    | 1,726    | 2,278    | 48.3      |
| Trade Balance                    | (16,739)   | (1,292)  | (1,087)  | (1,439)  | (1,497)  | (2,027)  | 56.88     |
| Balance of Payments              | (156)      | 910      | 457      | (888)    | 68       | 854      | (6.16)    |
| Checks Cleared in LBP            | 21,677     | 1,879    | 1,475    | 1,993    | 1,880    | 2,131    | 13.41     |
| Checks Cleared in FC             | 46,578     | 3,880    | 3,010    | 4,147    | 3,687    | 4,127    | 6.37      |
| Total Checks Cleared             | 68,255     | 5,759    | 4,485    | 6,140    | 5,567    | 6,258    | 8.67      |
| Budget Deficit/Surplus           | (3,300.82) | (513.35) | (651.25) | (273.18) | (865.19) | (350.41) | (31.74)   |
| Primary Balance                  | 1,882.86   | (111.56) | (145.72) | 166.63   | (119.74) | 15.77    | -         |
| Airport Passengers***            | 8,235,845  | 598,001  | 861,828  | 616,742  | 592,890  | 626,866  | 4.83      |

| \$bn (unless otherwise mentioned) | 2017   | Dec 2016 | Sep 2017 | Oct 2017 | Nov 2017 | Dec 2017 | % Change* |
|-----------------------------------|--------|----------|----------|----------|----------|----------|-----------|
| BdL FX Reserves                   | 35.80  | 34.03    | 35.06    | 36.77    | 35.69    | 35.80    | 5.21      |
| In months of Imports              | 18.57  | 22.15    | 27.03    | 21.76    | 20.68    | 6.15     | (72.25)   |
| Public Debt                       | 79.52  | 74.90    | 78.16    | 78.47    | 79.37    | 79.52    | 6.17      |
| Bank Assets                       | 219.86 | 204.31   | 213.42   | 215.79   | 216.21   | 219.86   | 7.61      |
| Bank Deposits (Private Sector)    | 168.67 | 162.50   | 169.09   | 169.40   | 166.81   | 168.67   | 3.80      |
| Bank Loans to Private Sector      | 60.32  | 57.18    | 58.93    | 59.13    | 59.55    | 60.32    | 5.49      |
| Money Supply M2                   | 52.48  | 54.68    | 55.50    | 55.07    | 51.96    | 52.48    | (4.02)    |
| Money Supply M3                   | 138.38 | 132.80   | 138.87   | 138.68   | 136.99   | 138.38   | 4.20      |
| LBP Lending Rate (%)****          | 8.09   | 8.23     | 8.31     | 8.24     | 7.98     | 8.09     | (14bps)   |
| LBP Deposit Rate (%)              | 6.41   | 5.56     | 5.53     | 5.56     | 5.88     | 6.41     | 85 bps    |
| USD Lending Rate (%)              | 7.67   | 7.35     | 7.53     | 7.39     | 7.32     | 7.67     | 32 bps    |
| USD Deposit Rate (%)              | 3.89   | 3.52     | 3.65     | 3.72     | 3.80     | 3.89     | 37 bps    |
| Consumer Price Index**            | 4.40   | 3.10     | 4.10     | 4.60     | 4.80     | 5.00     | 190 bps   |

\* 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 | Sovereign Eurobonds | Coupon % | Mid Price \$ | Mid Yield % |
|---------------------------|-----------------|-----------|--------------|---------------------------------|---------------------|----------|--------------|-------------|
| Byblos Common             | 1.47            | (2.00)    | 141,725      | 7.45%                           | Nov 2018            | 5.15     | 99.50        | 6.28        |
| Solidere "A"              | 8.53            | 0.95      | 126,715      | 7.64%                           | May 2019            | 6.00     | 99.13        | 6.94        |
| Audi GDR                  | 5.69            | (1.73)    | 114,349      | 6.11%                           | Mar 2020            | 6.38     | 97.88        | 7.67        |
| Solidere "B"              | 8.37            | 0.00      | 56,298       | 4.87%                           | Oct 2022            | 6.10     | 91.88        | 8.37        |
| BLOM GDR                  | 11.25           | (3.02)    | 30,291       | 7.45%                           | Jun 2025            | 6.25     | 86.13        | 8.95        |
| BLOM Listed               | 11.00           | (0.90)    | 17,730       | 21.19%                          | Nov 2026            | 6.60     | 85.75        | 9.04        |
| Byblos Pref. 08           | 96.00           | 0.00      | 5,832        | 1.72%                           | Feb 2030            | 6.65     | 83.00        | 9.03        |
| Byblos Pref. 09           | 96.95           | 0.99      | 1,230        | 1.74%                           | Apr 2031            | 7.00     | 84.88        | 9.01        |
| HOLCIM                    | 15.50           | 1.11      | 1,000        | 2.71%                           | Nov 2035            | 7.05     | 82.88        | 9.02        |
| Audi Listed               | 5.74            | 0.00      | 315          | 20.56%                          | Mar 2037            | 7.25     | 84.25        | 9.00        |

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

Source: Byblos Bank Capital Markets

|                       | May 21-24   | May 14-18   | % Change | April 2018   | April 2017   | % Change |
|-----------------------|-------------|-------------|----------|--------------|--------------|----------|
| Total shares traded   | 507,845     | 511,590     | (0.7)    | 3,491,466    | 5,417,218    | (35.5)   |
| Total value traded    | \$3,841,640 | \$5,473,687 | (29.8)   | \$19,769,834 | \$35,834,027 | (44.8)   |
| Market capitalization | \$11.16bn   | \$11.23bn   | (0.59)   | \$11.23bn    | \$11.77bn    | (4.6)    |

Source: Beirut Stock Exchange (BSE)



### Lebanese technology startups attract 58 investments totaling \$53m in 2017

Figures released by ArabNet, a hub for Arab digital professionals and entrepreneurs, show that investment funds based in the Middle East & North Africa (MENA) region made 58 investments in technology startups in Lebanon for a total amount of \$53m in 2017. In comparison, Lebanon attracted 39 investments for an aggregate of \$58m in 2016, 32 deals totaling \$33m in 2015, 22 investments for a total of \$28m in 2014 and 11 investments for an aggregate of \$7m in 2013.

In addition, Lebanon attracted 21.3% of the number of investments in technology startups in the MENA region in 2017, up from 16.1% in 2016 and 14.5% in 2015. Lebanon attracted the second-highest number of investments in technology startups among 14 MENA countries in 2017, unchanged from 2016. It attracted the third highest number of investments in 2015 and the fifth largest number of deals in each of 2014 and 2013.

Also, the value of investments in technology startups in Lebanon accounted for 8.2% of total deals made by MENA-based funds in the 14 MENA markets in 2017, compared to 6.2% of the total in 2016 and to 12.3% of investments in 2015. Lebanon attracted the second-highest value of investments in the MENA region in 2017, 2016 and 2015, the fourth largest in 2014 and the fifth highest in 2013.

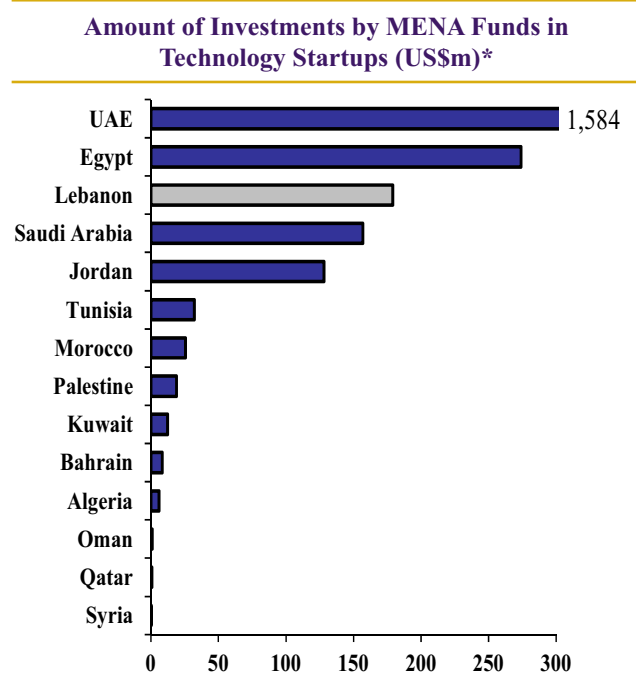
In parallel, MENA-based funds made 162 investments in technology startups in Lebanon for a total of \$179m between 2013 and 2017. The number of investments in Lebanese technology startups was the third highest among the 14 MENA countries, behind the UAE (298 deals) and Jordan (169 transactions) during the covered period. Also, the amount of investments in Lebanese technology startups was the third highest in the MENA region during the 2013-17 period, behind the UAE (\$1.6bn) and Egypt (\$274m).

Further, the number of investments in Lebanon accounted for 14.8% of total deals made by MENA-based funds between 2013 and 2017, while the value of investments in Lebanon represented 7.4% of investments during the covered period. ArabNet said that Banque du Liban's Intermediate Circular 331 has supported the knowledge economy sector in Lebanon. The findings are based on data collected from 52 investment funds and accelerators in Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Palestine, Saudi Arabia, Tunisia and the UAE.

### Consumer Price Index up 5.5% in first four months of 2018

The Central Administration of Statistics' Consumer Price Index increased by 5.5% year on-year in the first four months of 2018 compared to a growth of 4.7% in the same period of 2017. The CPI increased by 5.8% in April 2018 from the same month of 2017. The prices of clothing & footwear grew by 12.7% year-on-year in April 2018, followed by healthcare costs (+8.8%), transportation costs (+8.1%), recreation & entertainment costs (+8%), the prices of water, electricity, gas & other fuels (+7.4%), actual rents (+6.3%), prices of furnishings & household equipment (+5.2%), imputed rents (+4.3%), the cost of education (+4.2%), the cost of food & non-alcoholic beverages (+3.9%), prices at restaurants & hotels (+3.3%), miscellaneous goods & services (+3%), prices of alcoholic beverages & tobacco (+2%), and communication costs (+1%). The distribution of actual rents shows that old rents grew by 10.1% annually in April 2018, while new rents increased by 3.7% year-on-year.

Further, the CPI grew by 0.5% in April 2018 from the preceding month compared to a month-on-month increase of 0.8% in March 2018. The prices of clothing & footwear increased by 3.2% month-on-month in April 2018, followed by transportation costs (+1.6%), the cost of water, electricity, gas & other fuels (+0.9%), prices at restaurants & hotels and the cost of food & non-alcoholic beverages (+0.3% each), the prices of furnishings & household equipment (+0.2%), and imputed rents, miscellaneous goods & services, recreation & entertainment costs, and the prices of alcoholic beverages & tobacco (+0.1% each). In contrast, healthcare costs regressed by 0.3% month-on-month in April 2018, while the cost of education, actual rents and communication costs were unchanged in the covered month. The CPI increased by 1% month-on-month in each of the North and Nabatieh, by 0.6% in Bekaa, by 0.5% in the South, by 0.4% in Mount Lebanon and by 0.3% in Beirut in April 2018. In parallel, the Fuel Price Index increased by 3.2% month-on-month in April 2018, while the Education Price Index was unchanged from the preceding month.



\*Between 2013 and 2017

Source: ArabNet, Byblos Research

### **Banque du Liban to sell \$1bn in Eurobonds from its portfolio**

Banque du Liban (BdL) announced that it intends to sell \$1bn in Lebanese Eurobonds from its portfolio. BdL asked interested parties to submit their bids between May 21 and May 24, 2018 on portions of four Eurobonds. The first instrument is a \$700m Eurobond that matures in 2028 and carries a coupon rate of 7%, the second is a \$1bn bond that matures in 2031 with a coupon rate of 7.15%, the third is a \$1.5bn Eurobond that matures in 2033 and carries a coupon rate of 8.2% and the fourth is a \$1.5bn bond that matures in 2034 and that has a coupon rate of 8.25%.

In parallel, BdL noted that subscribers can pay for the Eurobonds in three different ways. First, it said that subscribers can settle their payments through cash. Second, it noted that the holders of Eurobonds that mature in June and November 2018 can exchange their securities at face value. Third, it pointed out that holders of Certificate of Deposits issued by BdL with maturities of up to 2021 can exchange their CDs at face value.

The BdL acquired the Eurobonds that mature in 2028 and 2031 through a \$1.7bn swap operation that it conducted with the Ministry of Finance in November 2017, while the two other Eurobonds were part of a \$5.5bn swap operation that took place on May 18, 2018. The swap consisted of BdL exchanging LBP8,250bn worth of Lebanese pound-denominated Treasury bills from its portfolio with \$5.5bn in Eurobonds that the Ministry of Finance issued. Governor Riad Salamé announced that BdL will gradually sell about \$2bn worth of Eurobonds from its portfolio over the coming 12 months.

### **Thirteen consortiums pre-qualify for construction of LNG terminals**

The Ministry of Energy & Water announced that 13 consortiums pre-qualified to participate in Lebanon's first tender for the construction of three floating storage and regasification units (FSRU), which are offshore Liquefied Natural Gas (LNG) import terminals. The FSRU will be built in Selaata and Deir Ammar in the north and in Zaharani in the south of the country, and will store and transfer LNG through connected pipelines to nearby power grids.

In addition, it said that the pre-qualified firms and consortiums are Mitsui & Co.; the K Line, Fluor and Kawasaki consortium; Kogas; BP; Engie; the ENI and Qatar Petroleum International consortium; Petronas; the Total and Heogh consortium; Gas Natural Ferosa; the BW, Vitol, Butec and Almagani consortium; the Phoenixia Energy consortium; the Excelerate Energy, Shell and BB Energy consortium; as well as the Golar Power and CCC sal consortium.

Further, the ministry said that it issued Requests for Proposal (RFP) to the 13 pre-qualified firms, and that the companies have 120 days to submit an offer. The ministry will then evaluate the bids while the Council of Ministers will approve the final bids. It also indicated that it will collaborate with the U.K.-based Poten & Partners for the process of short-listing interested companies. Poten & Partners provides brokerage, consulting, and project development services related to the trading and transportation of crude oil, petroleum products, natural gas and LNG, among other commodities.

In 2013, the ministry launched a tender for LNG import terminals and selected 13 out of 30 interested companies. However, the process was interrupted due to the political paralysis and presidential vacuum that started in May 2014.

### **Finance Ministry updated list of countries eligible for exchange of tax information**

The Ministry of Finance issued on May 10, 2018 Decision 789/1 related to the application of Law 55, or the Exchange of Information for Tax Purposes Law. The ministry's decision updates the list of countries and jurisdictions that Lebanon will have to report to and exchange financial information with, as required under the Organization for Economic Co-operation and Development's (OECD) Multilateral Competent Authority Agreement for the Common Reporting Standard. The list consists of 27 countries and jurisdictions that are Australia, Belgium, Bulgaria, Colombia, France, Germany, Greece, Guernsey, India, Ireland, the Isle of Man, Italy, Japan, Jersey, Korea, Luxembourg, Malaysia, Mexico, The Netherlands, Norway, San Marino, the Seychelles, Singapore, Slovenia, Spain, Sweden and the United Kingdom. The Lebanese Parliament ratified Law 55 on October 19, 2016, which replaced Law 43 dated November 24, 2015.

In addition, the Ministry of Finance issued in October 2017 Decree 1550 that details the implementation of Law 55. The decree indicated that Lebanon would only accept information requests from countries it has tax agreements with or that are members of the Multilateral Convention on Mutual Assistance in Tax Matters (MAC). Lebanon signed the MAC in May 2017, which is a main tool for international tax cooperation, and provides administrative assistance about tax issues, including the exchange of information on request, and the automatic exchange and assistance in tax collection, among other services. Further, Lebanon signed in May 2017 the Common Reporting Standard Multilateral Competent Authority Agreement, re-confirming its commitment to implement the automatic exchange of financial account information starting in September 2018.

In July 2017, the Global Forum on Transparency and Exchange of Information for Tax Purposes assigned to Lebanon a provisional rating of "Largely Compliant" about the good progress that Lebanese authorities made in implementing the Exchange of Information on Request (EOIR) standard. As such, Lebanon was excluded from the G20 international blacklist of countries failing to meet international tax transparency standards.



### **Energy Ministry receives expressions of interest from 42 firms for construction of wind farms**

The Ministry of Energy & Water received expressions of interest (EOIs) from 42 consortiums in 21 countries for the construction of four wind energy farms with an aggregate capacity of 200 to 400 megawatts (MW) in various regions of the country. It noted that each wind farm will have a power production capacity of between 50 MW and 100 MW, and that each developer will propose a suitable geographical location and secure the required land area. A total of 17 consortiums showed interest in constructing a wind farm in the Akkar area, 11 of them aim to build a farm in the Bekaa, seven consortiums intend to build a wind farm in Mount Lebanon, five of them preferred the North and one consortium seeks to establish a wind farm in the South. Companies that submitted the EOIs include local firms, as well as international companies from China, Denmark, France, Italy, Spain, the UAE and the United Kingdom. The ministry will issue a Request for Proposals (RFP) document to the 42 consortiums, which specifies the criteria and conditions that the consortiums have to meet about their technical capacity and financial eligibility, as well as details about the overall process and timeframe of building the wind farms.

Based on the results of the RFP documents, the ministry will select the companies that submitted the lowest bids and that provided sound administrative, technical and environmental proposals. The selected companies will then sign a Power Purchase Agreement (PPA), which includes information about the starting date of the project, a timetable for the delivery of electricity, penalties for under-delivery, as well as payment and termination terms. The selected companies would finance, develop, acquire land, design, build, own, operate and maintain the plants. The selected companies are expected to receive licenses that will allow operations to start in 2019. Electricité du Liban, with the approval of the Ministry of Energy & Water, will contractually purchase the electricity produced by the four wind farms for a period of 20 years, subject to terms and conditions defined in the PPA agreement. The project aims to help raise the share of renewable energy in electricity production in Lebanon to 12% in the 2021-25 period.

### **French twinning project to modernize Land Registry and Cadastre**

The General Directorate of Land Registry and Cadastre (LRC) in Lebanon and the General Directorate of Public Finance in France signed and approved on May 18, 2018 the Fund for Technical Expertise and Experience Transfers (FEXTE), as part of a cooperation and project-preparation tool to modernize the activities of the LRC. The project follows four similar twinning projects that the Ministry of Finance implemented with its French counterparts between 2009 and 2015.

The French-Lebanese real estate twinning project aims to achieve four objectives for the development of the LRC. The first objective is to modernize Lebanese laws related to the management of property rights. The second objective is to improve the governance of the LRC, while the third objective is to enhance the services that are offered to citizens in terms of real estate registration. The fourth objective is to update the methods of data collection by the LRC, and to include the data in the information system of the LRC to enhance the decision-making process. The French Agency for Development (AFD) will fund the project through a €1.2m grant.

### **Term savings attract 88.4% of customer deposits at end-2017**

Figures issued by Banque du Liban about the distribution of bank deposits show that term savings were the preferred type of account for resident and non-resident depositors in Lebanese pounds and in foreign currencies at the end of 2017. Term saving deposits in all currencies reached \$149.1bn at the end of 2017, constituting an increase of 3.4% from \$144.2bn at end-2016. They accounted for 88.4% of total deposits in Lebanese pounds and foreign currencies at end- 2017 relative to an 88.8% share a year earlier.

In parallel, resident term saving deposits in foreign currencies totaled \$73.7bn and accounted for 86.7% of resident deposits in foreign currencies at end-2017. Checking and current accounts followed with \$9.8bn (11.6%), then sight saving accounts with \$1.3bn (1.5%) and other creditor accounts with \$176.2m (0.2%). Further, term saving accounts attracted the equivalent of \$44.1bn, or 90.9% of resident deposits in Lebanese pounds, followed by checking and current accounts with \$3.7bn (7.7%), then sight saving accounts with \$607m (1.3%) and other creditor accounts with \$58.8m (0.1%).

Non-residents also favored term saving accounts, as their term deposits in foreign currencies totaled \$27.2bn and represented 88% of their deposits in foreign currencies at the end of 2017. Checking and current accounts followed with \$3.2bn (10.4%), then other creditor accounts with \$253.8m (0.8%) and sight saving accounts with \$233m (0.75%). Further, term saving accounts attracted the equivalent of \$4.1bn, or 96.4% of non-resident deposits in Lebanese pounds. Checking and current accounts followed with \$116.4m (2.7%), then sight saving accounts with the equivalent of \$32m (0.7%) and other creditor accounts with \$4.7m (0.1%).

Beirut and its suburbs attracted 68.4% of private sector deposits and 47.7% of depositors at the end of 2017. Mount Lebanon followed with 14.3% of deposits and 18.7% of beneficiaries, then South Lebanon with 6.7% of deposits and 12.7% of depositors, North Lebanon with 5.9% of deposits and 12.1% of beneficiaries, and the Bekaa with 4.7% of deposits and 8.8% of depositors.



### Lebanon ranks in 91st place globally, 10th place in Arab world on Global Opportunities Index

The Milken Institute's 2017 Global Opportunities Index (GOI) ranked Lebanon in 91st place among 170 countries worldwide and in 10th place among 18 Arab countries. Also, Lebanon came in 25th place among 46 upper middle-income countries (UMICs) included in the survey.

The GOI aims to assess the attractiveness of the investment climate in 170 countries covered in the index. It also assists governments in identifying key business, legal and regulatory policies that they could modify in order to support and attract foreign direct investments and portfolio inflows. The GOI tracks the performance of countries based on 51 variables that are grouped into five indicators, which are Economic Fundamentals, Financial Services, Business Perception, Institutional Framework, and International Standards & Policy. The GOI scores a country on a scale of zero to 10, with 10 representing the most favorable conditions for investment.

Globally, Lebanon is better positioned to attract investments than Bosnia & Herzegovina, the Bahamas and Zambia, but has less favorable conditions for investors than Morocco, Kenya and Paraguay among economies with a GDP of \$10bn or more.

Also, Lebanon ranked ahead of Costa Rica, Bahrain and Côte d'Ivoire, and came behind India, Tanzania and Bangladesh on the Business Perception indicator. This category measures the explicit and implicit costs associated with business operations, such as the tax burden and the level of transparency. Lebanon also ranked ahead of Costa Rica and behind Romania among UMICs; while it trailed Tunisia, Algeria, Morocco, Jordan and Egypt among Arab economies.

In addition, Lebanon came ahead of Costa Rica, Estonia and Mexico, and ranked behind Vietnam, Bulgaria and the Czech Republic on the Financial Services indicator, which measures the size of the financial sector and access to financial services. Lebanon trailed only the UAE and Qatar among Arab countries on this category.

Also, Lebanon ranked ahead of Uzbekistan, Ecuador and Madagascar, and came behind El Salvador, Bangladesh and the Philippines on the Institutional Framework indicator. This category measures the ability of a country's institutions to provide a supportive framework for businesses. Lebanon came ahead of Ecuador and behind Argentina among UMICs; while it came ahead of Syria, Mauritania, Algeria, Yemen, Djibouti, Iraq and Sudan among Arab economies.

Further, Lebanon ranked ahead of Brazil, Nepal and Egypt, and came behind the Bahamas, Belarus and Côte d'Ivoire on the Economic Fundamentals indicator. This category assesses a country's current economic strength relative to the global economic outlook. It focuses on a country's macroeconomic performance, quality and structure of the labor force, and the quality of infrastructure. Lebanon ranked ahead of only Brazil, Gabon and Iraq among UMICs; while it came ahead of Djibouti, Egypt, Iraq, Sudan, Mauritania, Syria and Yemen among Arab economies.

Finally, Lebanon ranked ahead of Greece, Colombia and Indonesia, and came behind Ukraine, Kenya and Croatia on the International Standards & Policy indicator. This category assesses the degree that a country's institutions, policies and legal system facilitate its global integration through international standards. Lebanon came ahead of Colombia and behind Croatia among UMICs; while it trailed Bahrain, Qatar, Oman, the UAE, Kuwait, Saudi Arabia and Jordan among Arab countries on this category.

### Global Opportunities Index for 2017 Arab Countries Rankings

|                | Regional Rank | Global Rank |
|----------------|---------------|-------------|
| UAE            | 1             | 33          |
| Qatar          | 2             | 45          |
| Bahrain        | 3             | 53          |
| Saudi Arabia   | 4             | 54          |
| Kuwait         | 5             | 59          |
| Oman           | 6             | 65          |
| Jordan         | 7             | 73          |
| Tunisia        | 8             | 78          |
| Morocco        | 9             | 84          |
| <b>Lebanon</b> | <b>10</b>     | <b>91</b>   |
| Egypt          | 11            | 115         |
| Algeria        | 12            | 128         |
| Mauritania     | 13            | 150         |
| Djibouti       | 14            | 156         |
| Yemen          | 15            | 158         |
| Syria          | 16            | 163         |
| Iraq           | 17            | 167         |
| Sudan          | 18            | 168         |

Source: Milken Institute, Byblos Research

### Components of the 2017 Global Opportunities Index for Lebanon

|                                    | Global Rank | Arab Rank | UMICs Rank |
|------------------------------------|-------------|-----------|------------|
| Business Perception                | 121         | 6         | 34         |
| Financial Services                 | 49          | 3         | 12         |
| Institutional Framework            | 133         | 11        | 36         |
| Economic Fundamentals              | 118         | 11        | 36         |
| International Standards & Policies | 74          | 8         | 18         |

Source: Milken Institute, Byblos Research

### Surface area of new construction permits down 12% in first four months of 2018

The Orders of Engineers & Architects of Beirut and of Tripoli issued 4,878 new construction permits in the first four months of 2018, down by 7.2% from 5,255 permits in the same period of 2017. In comparison, new construction permits declined by 10.2% year-on-year in the first four months of 2017. Mount Lebanon accounted for 40.7% of newly-issued construction permits in the covered period, followed by the South with 18.1%, the Nabatieh area with 13.3%, the North with 11.9%, the Bekaa region with 9.1% and Beirut with 4.8%. The remaining 2.1% were permits issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon.

Further, the surface area of granted construction permits reached 3,553,813 square meters (sqm) in the first four months of 2018, constituting a decrease of 12.3% from 4,053,992 sqm in the same period of 2017. In comparison, the surface area of granted construction permits declined by 6.5% year-on-year in the first four months of 2017. Mount Lebanon accounted for 1,513,673 sqm, or 42.6% of the total, in the covered period. The North followed with 573,587 sqm (16.1%), then the South with 507,658 sqm (14.3%), the Bekaa region with 335,596 sqm (9.4%), the Nabatieh area with 318,196 sqm (9%) and Beirut with 145,937 sqm (4.1%). The remaining 159,166 sqm, or 4.5% of the total, represent the surface area of permits that were issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon.

The surface area of new construction permits issued for Beirut dropped by 48.1% year-on-year in the first four months of 2018, followed by surface areas in Mount Lebanon (-11.6%), the Bekaa region (-9.5%), the Nabatieh area (-8.9%), the South (-6.7%) and the North (-3.5%). Also, the surface area of granted construction permits for regions located outside northern Lebanon fell by 21.1% year-on-year in the covered period. In parallel, cement deliveries totaled 1.09 million tons in the first quarter of 2018, constituting an increase of 2% from 1.07 million tons in the same quarter of 2017, and relative to a drop of 0.8% in the first quarter of 2017.

### Revenues through Port of Beirut up 11% to \$63.5m in first quarter of 2018

Figures released by the Port of Beirut show that the port's overall revenues were \$63.5m in the first quarter of 2018, up by 10.5% from \$57.5m in the same quarter of 2017. The Port of Beirut handled 2.1 million tons of freight during the covered quarter, down by 5.5% from 2.2 million tons in the same quarter of 2017. Imported freight amounted to 1.8 million tons in the first quarter of 2018 and accounted for 87.7% of the total, while the remaining 253,000 tons, or 12.3%, consisted of export cargo. A total of 471 ships docked at the port in the covered period compared to 461 vessels in the first quarter of 2017.

In parallel, revenues generated through the Port of Tripoli reached \$4.4m in the first quarter of 2018, constituting a decrease of 5.1% from \$4.7m in the same quarter of 2017. The Port of Tripoli handled 434,346 tons of freight in the covered quarter, constituting a decrease of 17.7% from 527,531 tons in the first quarter last year. Imported freight amounted to 350,901 tons and accounted for 80.8% of the total, while the remaining 83,445 tons, or 19.2%, were export cargo. A total of 156 vessels docked at the port in the first quarter of 2018, constituting a drop of 25.7% from 210 ships in the same quarter of 2017.

### Industrial exports up 5% to \$390m in first two months of 2018

Figures released by the Ministry of Industry show that industrial exports totaled \$390.4m in the first two months of 2018, constituting an increase of 4.7% from \$372.7m in the same period of 2017. Industrial exports reached \$203.4m in February 2018, up by 8.8% from \$187m in the preceding month, and by 3.4% from \$196.8m in February 2017.

The exports of chemical products totaled \$81.6m and accounted for 21% of aggregate industrial exports in the first two months of 2018, followed by base metal exports with \$74.8m (19.2%), foodstuffs & tobacco with \$64.8m (16.6%), machinery & mechanical appliances with \$62.2m (16%), plastics & rubber with \$25.2m (6.5%) and paper & paperboard with \$18.2m (4.7%). Arab countries were the destination of 47% of Lebanese industrial exports in the first two months of 2018, followed by European economies with 20.4%, Asian countries with 13.8%, African economies with 9.6%, countries in the Americas with 7.9% and markets in Oceania with 0.6%.

On a country basis, Saudi Arabia was the main destination of Lebanese industrial exports and accounted for 8.3% of the total in the covered period, followed by Turkey with 8.2%, the UAE with 7.5%, Iraq with 7%, Syria with 5.4% and Qatar with 5.2%. In February 2018, 10 Arab states, 10 European economies, seven African countries, five Asian economies, three countries in the Americas and one country in Oceania imported \$1m or more each of Lebanese industrial products.

In parallel, imports of industrial equipment and machinery reached \$42.8m in the first two months of 2018, up by 35% from \$31.7m in the same period of 2017. Italy was the main source of such imports and accounted for 27.7% of the total in the first two months of 2018, followed by Germany with 21.3% and China with 15.1%. Further, imports of industrial equipment and machinery amounted to \$18.8m in February 2018, up by 75.6% from \$10.7m in the same month of 2017. Italy was the main source of such imports with \$4.5m and accounted for 23.8% of the total in the covered month, followed by Germany with \$4.3m (22.7%) and China with \$3.1m (16.8%).

### Telecommunications Ministry to issue tender for new submarine cable

The Ministry of Telecommunications signed on May 17, 2018 a memorandum of understanding (MoU) with the Cyprus Telecommunications Authority (Cyta) to issue an international tender for the construction of a new submarine cable, Europa, which connects Cyprus to Lebanon. The submarine cable would replace the existing Cadmos cable, which will be decommissioned in 2019. It also aims to improve Internet connectivity in Lebanon and support the country's information and communication technology sector. The ministry and Cyta announced back in 2011 their intention to build the Europa Cable System to replace the Cadmos cable.

In September 2017, the Ministry of Telecommunication signed an MoU with Cyta to raise Lebanon's share in the submarine cable Alexandros from 310 gigabytes per second (Gbps) to 1,920 Gbps by 2034. The Alexandros submarine cable links Lebanon to France through Cyprus.

### Industrial activity significantly deteriorated in fourth quarter of 2017

Banque du Liban's quarterly survey of the opinions of business managers shows that industrial production significantly deteriorated during the fourth quarter of 2017, with the balance of opinions at -17 compared to -2 in the third quarter of 2017 and to zero in the fourth quarter of 2016. The balance of opinions was the highest in the North at +1, followed by Beirut & Mount Lebanon (-12), the South (-31) and the Bekaa (-35). The business survey reflects the opinions of managers of industrial enterprises about their businesses, in order to depict the evolution of a number of key economic variables. The balance of opinions for overall demand for industrial goods stood at -19 in the fourth quarter of 2017 compared to -7 in the preceding quarter and to -3 in the fourth quarter of 2016. The balance of opinions about demand for industrial goods reached +1 in the North, followed by Beirut & Mount Lebanon (-16), the South (-34) and the Bekaa (-38).

In parallel, the balance of opinions for the volume of investments in the industrial sector stood at -7 in the fourth quarter of 2017 compared to +3 in the third quarter of 2017 and to -1 in the fourth quarter of 2016. The balance of opinions about the volume of investments was zero in each of the Bekaa and the North, followed by Beirut & Mount Lebanon (-8) and the South (-30). Also, the balance of opinions for foreign demand of industrial goods stood at -11 during the fourth quarter of 2017 compared to -16 in the previous quarter and to -21 in the fourth quarter of 2016. The balance of opinions for foreign demand of industrial goods was zero in the North, followed by Beirut & Mount Lebanon and the Bekaa (-8 each), and the South (-51). The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in a particular indicator and the proportion of those who reported a decline in the same indicator.

| Industrial Activity: Evolution of Opinions |       |       |       |       |
|--|-------|-------|-------|-------|
| Aggregate results                          | Q4-14 | Q4-15 | Q4-16 | Q4-17 |
| Production                                 | -5    | -12   | 0     | -17   |
| Total demand                               | -9    | -13   | -3    | -19   |
| Foreign demand                             | -14   | -14   | -21   | -11   |
| Volume of investments                      | 1     | -7    | -1    | -7    |
| Inventories of finished goods              | -7    | -6    | -10   | -5    |
| Inventories of raw material                | -7    | -5    | -11   | -6    |
| Registered orders                          | -15   | -16   | -6    | -19   |

Source: Banque du Liban Business Survey for Fourth Quarter of 2017



### Balance sheet of financial institutions down 8% in first quarter of 2018

Figures released by Banque du Liban show that the consolidated balance sheet of financial institutions in Lebanon reached LBP2,313bn, or \$1.53bn at the end of March 2018, constituting a decrease of 8% from LBP2,513bn, or \$1.67bn, at end-2017, and a decline of 7.1% from LBP2,491bn or \$1.65bn at the end of March 2017.

On the assets side, claims on resident customers reached \$688.6m at end-March 2018, down by 4.4% from the end of 2017, while claims on non-resident customers totaled \$45.2m at the end of March 2018 and increased by 17% from end-2017. In addition, claims on the resident financial sector reached \$351.4m at end-March 2018, down by 19.7% from end-2017; while claims on the non-resident financial sector totaled \$72.3m at the end of March 2018 and decreased by 12.5% from end-2017. Also, claims on the public sector totaled \$4.6m at end-March 2018, constituting a decline of 21.8% from end-2017; while the securities portfolio, which include Lebanese Treasury Bills and Eurobonds, reached \$140m at end-March 2018, up by 2.7% from end-2017. In parallel, currency and deposits with local and foreign central banks totaled \$20.8m at the end of March 2018 and regressed by 10.1% from \$23.1m at end-2017.

On the liabilities side, deposits of resident customers totaled \$169.7m at the end of March 2018, constituting an increase of 20.5% in the first quarter of 2018; while those of non-resident customers reached \$15.2m at the end of March 2018, representing a decrease of 41% from end-2017. Liabilities to the resident financial sector amounted to \$355.2m at end-March 2018, down by 17.7% from end-2017; while those to the non-resident financial sector increased by 3.5% from end-2017 to \$109.4m. Also, public sector deposits decreased by 74.7% in the first quarter of 2018 to \$3.7m, while debt securities issued totaled \$170.7m at end-March 2018 and regressed by 17.5% from end-2017. Further, the aggregate capital account of financial institutions amounted to \$491.5m at the end of March 2018, constituting an increase of 1.4% from end-2017, but a decline of 2.4% from end-March 2017.

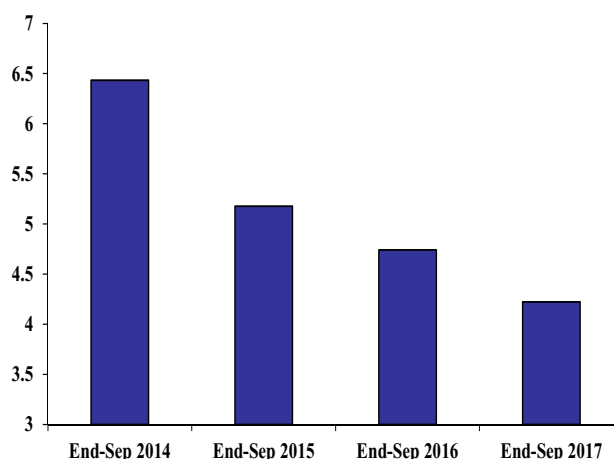
### Foreign investments of financial sector down 11% to \$4.2bn at end-September 2017

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 \$4.22bn at the end of September 2017, constituting a decrease of 10.9% from \$4.74bn at the end of September 2016. Investments in equities reached \$2.12bn at the end of September 2017 and accounted for 50.1% of the total, followed by placements in long-term debt securities at \$2.06bn (48.8%) and investment in short-term debt securities at \$44.7m (1.1%). According to Banque du Liban, the figures cover the net assets of resident banks and financial institutions in foreign tradable debt and equity instruments. They help provide a clearer picture about the flow of funds from Lebanon and, therefore, about the balance of payments.

Commercial banks' net portfolio of long-term debt securities, including banks' investments for their own account, on behalf of their clients and on a custodial basis, totaled \$1.42bn and accounted for 69% of the financial sector's aggregate investments in such securities at the end of September 2017. Medium- and long-term banks followed with \$355m (17.2%), then insurance companies with \$152m (7.3%) and financial institutions with \$133m (6.5%). In parallel, commercial banks represented 93.2% of investments in short-term debt securities, followed by insurance companies with 3.7%, medium- and long-term banks with 2.1% and financial institutions with 1%. Further, commercial banks' investments in equities reached \$864.8m and accounted for 40.9% of the financial sector's investments in such securities at end-September 2017. Medium- and long-term banks followed with \$738.5m (34.9%), financial institutions with \$391.2m (18.5%), insurance companies with \$111.2m (5.3%) and financial intermediaries with \$10.1m (0.5%).

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 \$655.3m, or 31% of the total, at the end of September 2017. Luxembourg followed with equity investments worth \$298.5m (14.1%), then Bahrain with \$228.7m (10.8%), France with \$211m (10%) and Jordan with \$112.4m (5.3%), while other countries accounted for the remaining 28.8% of total equity investments. In parallel, the United States received \$636m or 30.8% of investments in long-term debt securities, followed by the United Kingdom with \$382.2m (18.5%), France with \$192.4m (9.3%), the UAE with \$94.2m (4.6%) and Qatar with \$86.6m (4.2%), while other countries accounted for the remaining 32.5%. Further, Turkey accounted for 33.7% of investments by Lebanese banks and financial institutions in short-term debt securities, followed by Australia (30.6%), Argentina (13.2%), the United States (5.3%) and Ireland (4.6%), while other countries represented the remaining 12.9% of investments in short-term debt securities.

Foreign Investments of Financial Sector (US\$bn)



Source: Banque du Liban, Byblos Research

## Ratio Highlights

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

\*Change in percentage points 16/17

\*\*Includes portion of public debt owed to non-residents, liabilities to non-resident banks, non-resident deposits (estimated by the IMF), Bank for International Settlements' claims on Lebanese non-banks

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

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

## Risk Metrics

| Lebanon               | Nov 2016 | Oct 2017 | Nov 2017 | Change** | Risk Level |
|-----------------------|----------|----------|----------|----------|------------|
| Political Risk Rating | 54.5     | 55.5     | 54.5     | ▼        | High       |
| Financial Risk Rating | 36.5     | 33.0     | 33.0     | ▲        | Moderate   |
| Economic Risk Rating  | 30.5     | 27.5     | 27.5     | ▲        | High       |
| Composite Risk Rating | 60.75    | 58.0     | 57.5     | ▲        | High       |

| MENA Average*         | Nov 2016 | Oct 2017 | Nov 2017 | Change** | Risk Level |
|-----------------------|----------|----------|----------|----------|------------|
| Political Risk Rating | 57.6     | 57.9     | 58.0     | ▼        | High       |
| Financial Risk Rating | 38.1     | 38.6     | 38.5     | ▼        | Low        |
| Economic Risk Rating  | 29.6     | 30.9     | 31.0     | ▼        | Moderate   |
| Composite Risk Rating | 62.6     | 63.7     | 63.8     | ▼        | 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 | Stable  | 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 | Outlook |
|-----------------|---------|
| Moody's         | Stable  |

Source: Moody's Investors Services



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