



In memory of the victims of the Beirut Port explosion

## LEBANON THIS WEEK

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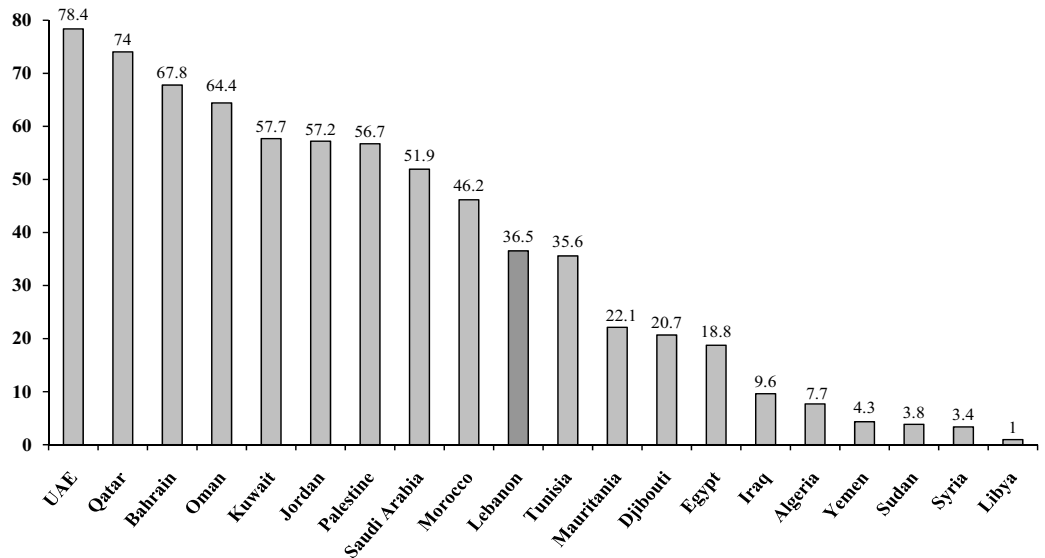
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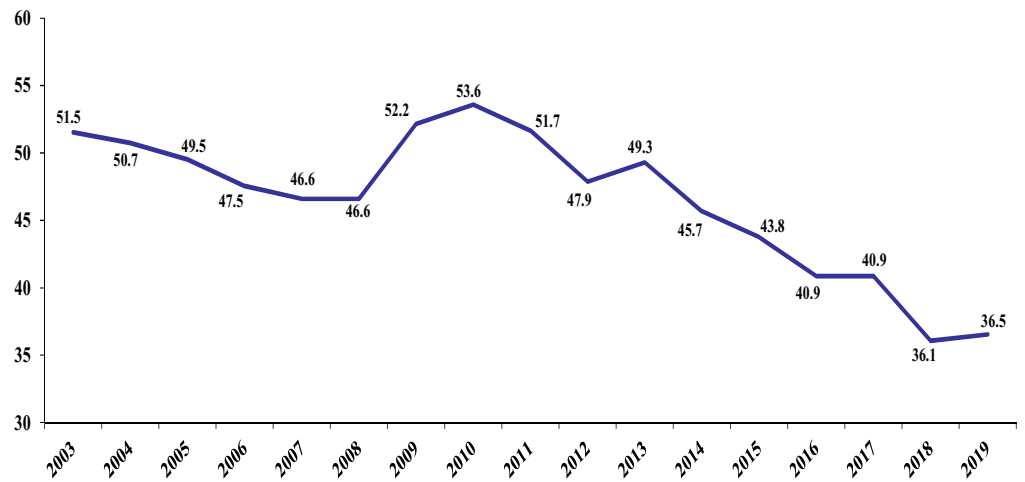
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### Charts of the Week

Percentile Rank of Arab Countries in terms of Regulatory Quality in 2019 (%)



Percentile Rank of Lebanon in terms of Regulatory Quality (%)



Source: World Bank Governance Indicators, Byblos Bank

### Quote to Note

"Everybody knows what it takes in terms of reforms in Lebanon and what it takes for the country, except for Lebanese political leaders."

*H.E. Mr. Jean-Yves Le Drian, French Minister of Foreign Affairs and International Development, on the need for political parties in Lebanon to assume their responsibilities in terms of implementing structural reforms*

### Number of the Week

**88%:** Percentage of countries and territories around the world that have faster broadband Internet speed than Lebanon, according to the M-Lab and Cable.co.uk survey of Internet speed in 221 countries and territories in 2020

## Lebanon in the News

\$m (unless otherwise mentioned)	2019	Jan-Jul 2019	Jan-Jul 2020	% Change*	Jul-19	Jun-20	Jul-20
Exports	3,731	2,089,380	1,986,077	(4.9)	364,823	277	373,785
Imports	19,239	12,334,411	6,124,868	(50.3)	2,195,874	854	922,371
Trade Balance	(15,508)	(10,245,031)	(4,138,791)	(59.6)	(1,831,051)	(577)	(548,586)
Balance of Payments	(5,851)	(5,318)	(5,533)	4.0%	72	(296)	(3,046)
Checks Cleared in LBP	22,146	12,214	11,378	(6.8)	1,900	1,766	1,865
Checks Cleared in FC	34,827	20,346	20,851	2.5	3,168	3,097	3,909
Total Checks Cleared	56,973	32,560	32,229	(1.0)	5,068	4,863	5,774
Fiscal Deficit/Surplus**	(5,837)	(2,420)	(2,223)	(8.1)	10	(225)	-
Primary Balance**	(287)	308	(876)	-	268	(160)	-
Airport Passengers	8,684,937	5,036,237	1,356,905	(73.1)	1,059,267	15,295	150,234
Consumer Price Index	2.9	3.0	49.3	4630	1.4	89.7	112.4

\$bn (unless otherwise mentioned)	Dec-19	Jul-19	Apr-20	May-20	Jun-20	Jul-20	% Change*
BdL FX Reserves	29.55	31.06	27.37	26.44	25.87	23.56	(24.2)
In months of Imports	21.95	14.15	36.77	39.24	30.30	25.54	80.5%
Public Debt	91.64	86.01	92.87	93.14	93.40	93.70	8.9%
Bank Assets	216.78***	259.18	205.75	203.84	201.09	198.08	(23.6)
Bank Deposits (Private Sector)	158.86	172.35	147.52	146.30	144.50	143.30	(16.9)
Bank Loans to Private Sector	49.77	55.30	43.90	42.91	41.42	40.30	(27.1)
Money Supply M2	42.11	48.91	38.64	38.78	39.02	39.25	(19.7)
Money Supply M3	134.55	140.34	129.52	129.67	129.51	129.48	(7.7)
LBP Lending Rate (%)	9.09	11.13	9.29	8.45	6.84	7.15	(398)
LBP Deposit Rate (%)	7.36	8.81	5.06	4.63	4.16	3.76	(505)
USD Lending Rate (%)	10.84	9.90	7.79	7.90	7.49	7.42	(248)
USD Deposit Rate (%)	4.62	6.01	2.32	1.99	1.64	1.49	(452)

\*year-on-year \*\*figures for the period reflect the first half of each year \*\*\*The annual decline in assets in December 2019 is mainly due to the "netting" on the assets and liabilities' sides of the consolidated balance sheet of commercial banks as part of the implementation of international accounting standard IFRS 7  
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 %
Audi Listed	1.05	2.94%	47,904	9.69%	Apr 2021	8.25	16.75	1,005.20
Solidere "A"	15.59	4.14%	39,767	24.45%	Oct 2022	6.10	16.13	117.65
Solidere "B"	15.50	3.40%	19,497	15.80%	Jan 2023	6.00	15.25	101.76
BLOM GDR	2.99	3.10%	17,000	3.46%	Jun 2025	6.25	15.00	45.14
Audi GDR	1.00	0.00%	14,090	1.88%	Nov 2026	6.60	15.00	33.53
Byblos Common	0.40	11.11%	6,239	3.55%	Feb 2030	6.65	14.88	21.41
HOLCIM	12.77	0.55%	1,800	3.91%	Apr 2031	7.00	14.88	18.95
BLOM Listed	2.80	0.00%	-	9.44%	May 2033	8.20	14.88	15.72
Byblos Pref. 09	48.85	0.00%	-	1.53%	Nov 2035	7.05	15.00	13.01
Byblos Pref. 08	39.99	0.00%	-	1.25%	Mar 2037	7.25	15.00	11.88

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

Source: Byblos Bank Capital Markets, Refinitiv

	Oct 5-9	Sep 28-Oct 2	% Change	Sep 2020	Sep 2019	% Change
Total shares traded	151,897	409,0191	(63.0)	5,962,048	1,989,279	199.7
Total value traded	\$1,322,619	\$5,914,473	(77.6)	\$26,011,896	\$20,464,132	27.1
Market capitalization	\$6.38bn	\$6.25bn	2.1	\$6.25bn	\$7.86bn	(20.5)

Source: Beirut Stock Exchange (BSE)



### More than three quarters of Lebanese youth want to emigrate to another country

The ASDA'A BCW 2020 Arab Youth Survey shows that 77% of young Lebanese are "actively trying to emigrate" or "have considered emigrating" to another country, constituting the highest percentage in the Arab world. In comparison, 42% of surveyed Arab youth indicated that they are "actively trying to emigrate" or "have considered emigrating" to another country. The surveyed young people in the Arab region cited economic reasons and corruption in their country as the main reasons that are pushing them to consider emigrating. Further, 77% of surveyed Lebanese youth said that the impact of the coronavirus pandemic made them more likely to leave the country, compared to 32% of Arab youth. The survey covered Algeria, Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Palestine, Saudi Arabia, Sudan, Syria, Tunisia, the UAE, and Yemen.

The ASDA'A BCW 2020 Arab Youth Survey was conducted by international research firm PSB. The firm first conducted the main survey between January 19 and March 3, 2020, before the coronavirus outbreak affected the region, on a sample size of 3,400 respondents in the 18 to 24-year-old bracket in 17 Arab countries. It then conducted the COVID-19 Pulse Survey between August 18 and August 26, 2020 on 600 youngsters in the Arab region to determine the impact of the pandemic on young Arabs and to validate the results of the main survey. ASDA'A BCW is a public relations consultancy firm. The Lebanon survey covered mainly Beirut, Tripoli and Sidon, and to a lesser extent other cities. Also, fieldwork took place after the August 4 Beirut port explosion, which could possibly have had an impact on the perceptions and attitudes of Lebanese youth.

In parallel, the survey indicates that 82% of young Lebanese support the anti-government protests that have been taking place in the country, while 18% of surveyed Lebanese youth oppose them. In comparison, 89% of youngsters in each of Algeria and Iraq supported the demonstrations that took place in their respective countries in 2019 and 88% of young Sudanese expressed similar support to their local protests. Moreover, 54% of young Lebanese believe that the protests will ultimately lead to "real positive change", while 40% think that the demonstrations will have "little long-term impact" and 6% expect the protests to lead to "real negative change". Also, 40% of the youth surveyed in the four countries where protests took place in 2019 pointed out that corruption and bad governance are the main reasons that triggered the social unrest in their respective countries. Further, 73% of young men and women in Lebanon noted that the impact of the coronavirus pandemic increases the likelihood of protests against the political status quo, mainly due to rising prices, the lack of job opportunities, government policies, and difficult access to healthcare.

In addition, the survey shows that 49% of young Lebanese believe that there is widespread government corruption in the country, compared to an average of 41% of young people in the region who shared similar views about graft in their respective countries. The share of Lebanese youth who believe that corruption is widespread in Lebanon is the ninth highest among the 17 Arab countries covered in the survey. Further, 68% of Lebanese youth disapprove of the way the government is dealing with the coronavirus crisis, compared to 28% of youth in the Arab world who shared similar disapproval about their respective governments.

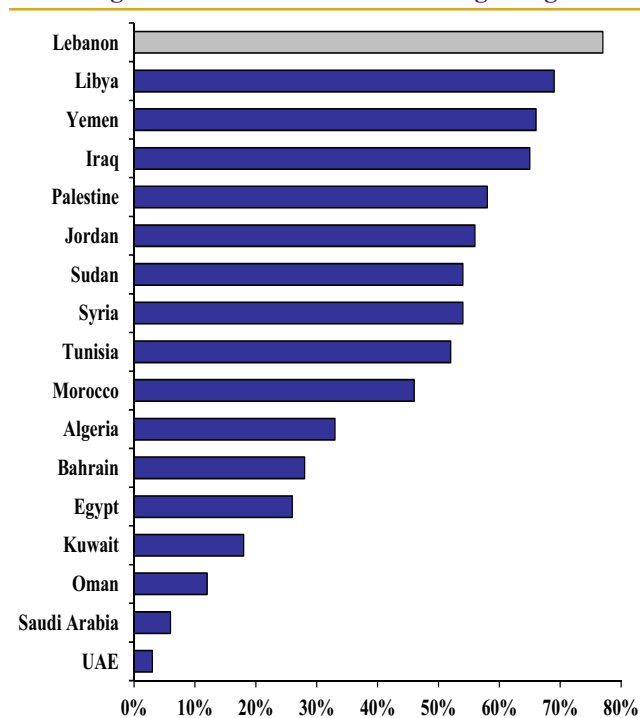
Further, 45% of young Lebanese indicated that they are currently in debt, compared to 35% of Arab youth. The share of young people in Lebanon who have personal debt is the fifth highest in the region after indebted youth in Syria (73%), Jordan (70%), Palestine (65%), and Iraq (59%). Moreover, 91% of young Lebanese considered that it is more difficult for them to find a new job currently compared to pre-coronavirus period.

### Banque du Liban extends timeframe for withdrawals of foreign currency deposits in Lebanese pounds

Banque du Liban (BdL) issued on October 9, 2020 Intermediate Circular 572 about exceptional measures related to cash withdrawals from foreign currency accounts at banks in Lebanon. The circular broadly extends to April 21, 2021 the terms of Basic Circular 151 about the same subject, which was set to expire on October 21, 2020. The circular allows all clients who have accounts in US dollars or in any other foreign currency at banks in Lebanon to withdraw banknotes in Lebanese pounds from these accounts at the prevailing exchange rate of BdL's Sayrafa electronic platform. The withdrawal of dollar depositors in Lebanese pounds is currently at a fixed exchange rate of LBP3,900 per dollar. The circular specified that the withdrawals will continue to be based on each bank's limits and procedures. It also requested banks to sell to BdL the foreign currency that results from these operations.

Private sector deposits totaled \$143bn at the end of August 2020, with deposits in Lebanese pounds reaching the equivalent of \$28.4bn and deposits in foreign currency standing at \$114.7bn. Aggregate private sector deposits dropped by \$15.8bn in the first eight months of 2020, with deposits in Lebanese pounds falling by \$9.7bn and foreign-currency deposits shrinking by \$6.1bn.

### Percentage of respondents who are "actively trying to emigrate" or "have considered emigrating"



Source: ASDA'A BCW, Byblos Research

### Broad money supply down 3% in first eight months of 2020, currency in circulation up 111%

Figures released by Banque du Liban show that money supply M1, which includes currency in circulation and demand deposits in Lebanese pounds, reached LBP30,887bn at the end of August 2020, constituting an increase of 85.8% from LBP16,620bn at the end of 2019 and a rise of 174.4% from LBP11,255bn at end-August 2019. Currency in circulation stood at LBP20,677bn at the end of August 2020, and grew by 110.6% from LBP9,818bn at end-2019 and by 294.1% from LBP5,246bn at end-August 2019. Also, demand deposits in local currency stood at LBP10,210bn at the end of August 2020, and expanded by 50.1% from end-2019 and by 70% from end-August 2019. Money supply M1 rose by 7.7% in August from LBP28,668bn at end-July 2020, with currency in circulation growing by 8.2% and demand deposits in local currency expanding by 6.7% month-on-month. The increase in money supply largely reflects the migration of term deposits to demand deposits, as well as the shift to a cash-based economy.

In addition, money supply M2, which includes M1 and term deposits in Lebanese pounds, reached LBP60,614bn at the end of August 2020, constituting a decrease of 4.5% from LBP63,484bn at the end of 2019 and a decline of 17% from LBP73,143bn a year earlier. Term deposits in Lebanese pounds totaled LBP29,728bn at the end of August 2020, down by 36.6% from LBP46,864bn at end-2019 and by 52% from LBP61,887bn at end-August 2019. Money supply M2 grew by 2.4% in August from LBP59,170bn at end-July 2020, with term deposits in local currency declining by 2.5% month-on-month.

Further, broad money supply M3, which includes M2, deposits in foreign currency and debt securities issued by the banking sector, reached LBP196,773bn at the end of August 2020, constituting a decrease of 3% from LBP202,831bn at the end of 2019 and a decline of 7% from LBP211,648bn at end-August 2019. Deposits in foreign currency totaled LBP135,655bn at the end of August 2020, regressing by 2.3% from end-2019 and by 1.7% from a year earlier. Also, debt securities issued by the banking sector amounted to LBP503bn at the end of August 2020, compared to LBP437bn at the end of 2019 and to LBP447bn at end-August 2019. Money supply M3 grew by 0.8% from LBP195,195 at the end of July 2020, with deposits in foreign currency increasing by a marginal 0.1% and debt securities issued by the banking sector rising by 2.8% month-on-month. In parallel, M3 regressed by LBP6,058bn in the first eight months of 2020, due to a drop of LBP13,791bn in claims on the private sector, a decline of LBP10,936bn in net claims on the public sector and a decrease of LBP4,979bn in the net foreign assets of deposit-taking institutions, which were partly offset by a rise of LBP23,648bn in other net items.

### Banque du Liban modifies import subsidies mechanism

Banque du Liban (BdL) issued Intermediate Circular 575 on October 9, 2020 that adds one requirement to BdL's financing mechanism for the import of hydrocarbons, wheat, pharmaceuticals, medical equipment and milk for babies. BdL's current financing mechanism is regulated by Intermediate Circular 561 dated June 8, 2020, which replaced Intermediate Circular 530 dated September 30, 2019 and Intermediate Circular 535 issued on November 26, 2019 about the financing of key imports.

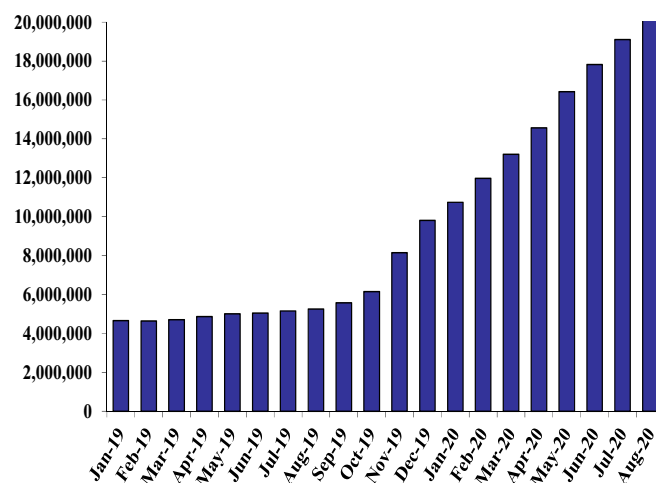
Intermediate Circular 561 has allowed importing companies to buy foreign currency from BdL to cover 90% of a firm's import bill for oil derivatives, 85% of the import bill for wheat, medicine, medical equipment, milk for babies who are less than one year old, as well as for raw materials used in the manufacturing of medicine. It also specified the list of documents that commercial banks should submit to BdL in order for their clients to have access to this mechanism.

The new circular asks importers who want to benefit from this mechanism to place at commercial banks the amount in Lebanese pounds that they want BdL to convert to US dollars at the prevailing official exchange rate of LBP1507.5 per dollar. Then banks will deposit the banknotes at BdL in exchange for the converted dollars.

The new clause could help absorb liquidity in local currency and combat the stocking of the imports that are financed through this mechanism. Currency in circulation outside BdL reached LBP15,750bn at the end of September 2020, constituting an increase of 125% from LBP7,007bn at the end of 2019 and a rise of 267% from LBP4,295bn a year earlier. The surge in currency in circulation is due to the shift to a cash-based economy and the withdrawal in local currency from foreign currency deposits at banks at the BdL's Sayrafa exchange rate, which currently stands at LBP3,900 against the US dollar.

Imports of mineral fuels & oils reached \$1.74bn in the first seven months of 2020, constituting a drop of 58.8% from \$4.22 in the same period of 2019. Further, imports of pharmaceutical products reached \$666m in the first seven months of 2020, down by 13.4% from \$768.7m in the same period of 2019. In addition, imports of wheat and muslin stood at \$82.5m in the first seven months of 2020, up by 4.9% from \$78.7m in the same period of 2019. Imports of mineral fuels & oils accounted for 28.4% of total imports to Lebanon in the first seven months of 2020, while pharmaceutical products represented 11% and imports of wheat 1.3%.

Currency in Circulation (LBP Millions)



Source: Banque du Liban, Byblos Research

### Lebanon to start negotiations on demarcation of southern maritime borders

Lebanese authorities approved a framework agreement with the United States to negotiate the demarcation of the southern maritime borders with Israel. The negotiations, which are expected to start on October 14, 2020, will be held in the city of Naqoura in southern Lebanon, and will be hosted by the Office of the United Nations Special Coordinator for Lebanon (UNSCOL). If the two sides reach an agreement on the border demarcation, the final maritime agreement will be deposited with the United Nations in accordance with international laws and relevant treaties.

The U.S. government considered that the discussions "have the potential to yield greater stability, security, and prosperity" for the two parties. It noted that the two sides asked the U.S. to participate as a mediator and facilitator in the maritime negotiations. Also, the United Nations welcomed the framework agreement, and noted that it will remain fully committed to supporting the process as requested by the involved parties.

Lebanon filed an official objection to the UN in June 2011 to the agreement signed by the Republic of Cyprus and Israel, in which they delimited their respective Exclusive Economic Zones (EEZs). Lebanon indicated that the coordinates deposited by Israel violate the principles and rules of international law and constitute an assault on Lebanese sovereignty.

The disputed area consists of about 860 square kilometers that Lebanon and Israel are claiming to be part of their respective EEZs. The disputed area covers parts of blocks 8, 9 and 10 of Lebanon's EEZs. Lebanese authorities have awarded in January 2018 the exploration for oil and gas in Block 9 to a consortium that consists of the French multinational firm Total SA, Italy's Eni International BV and Russian firm JSC Novatek. Total SA indicated that the disputed area accounts for less than 8% of the surface area of Block 9. In comparison, most of the acreage of Block 8 lies in waters that are disputed by Israel.

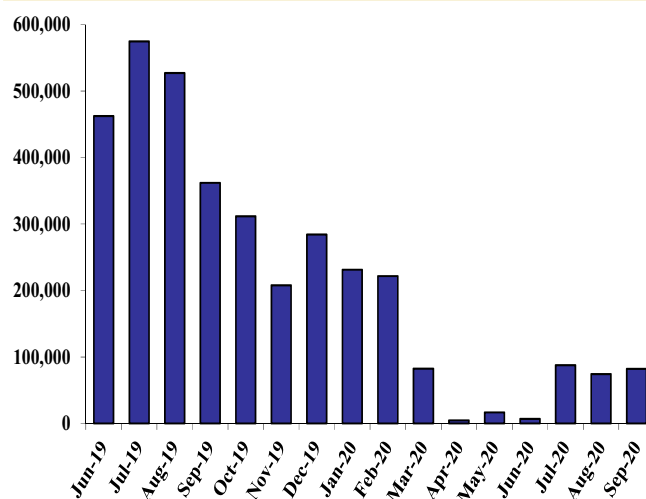
### Number of airport passengers down 75% in first nine months of 2020

Figures released by the Beirut-Rafic Hariri International Airport (HIA) show that 1,756,695 passengers utilized the airport (arrivals, departures and transit) in the first nine months of 2020, constituting a decline of 75% from 7,040,341 passengers in the same period of 2019. The number of arriving passengers decreased by 76.8% to 807,949 in the first nine months of 2020, compared to an increase of 1.2% in the same period last year and to a rise of 7.8% in the first nine months of 2018. Also, the number of departing passengers fell by 74% to 914,630 in the first nine months of 2020, relative to an increase of 3.4% in the same period of 2019 and to a rise of 6.4% in the first nine months of 2018.

In parallel, the airport's aircraft activity regressed by 65.6% to 19,515 take-offs and landings in the covered period, relative to a growth of 0.5% in the same period of 2019 and to an increase of 3.5% in the first nine months of 2018. In addition, the HIA processed 44,934 metric tons of freight in the first nine months of 2020 that consisted of 21,419 tons of import freight and 23,515 tons of export freight. Middle East Airlines had 7,083 flights in the first nine months of 2020 and accounted for 36.3% of HIA's total aircraft activity.

The significant decline in the number of airport passengers and aircraft activity in the covered period is mainly due to the closure of the airport between March 18, 2020 and the end of June, as well as to the lockdown measures and the closure of airports in several countries in response to the outbreak of the coronavirus worldwide. However, the number of passengers that utilized the airport increased by nearly 10 times month-on-month to reach about 150,000 in July and by an additional 33% to around 200,000 passengers in August 2020, as the airport resumed its partial activity at the beginning of July. It then declined marginally to 199,391 passengers in September. Also, the airport's aircraft activity increased from 653 take-offs and landings in June to 1,884 in July and reached 2,770 take-offs and landings in August 2020, but it moderated to 2,157 take-offs and landings in September. Still, the number of passengers that utilized the airport fell by 75.6% from 818,339 passengers in September of last year, while aircraft activity dropped by 66.8% from 6,498 take-offs and landings in September 2019.

Number of Arriving Passengers



Source: Beirut-Rafic Hariri International Airport

### Trade deficit narrows by 60% annually to \$4.1bn in first seven months of 2020

Total imports reached \$6.1bn in the first seven months of 2020, constituting a decrease of 50.3% from \$12.3bn in the same period of 2019; while aggregate exports declined by 5%, annually to \$2bn in the covered period. As such, the trade deficit narrowed by 59.6% year-on-year to \$4.14bn in the first seven months of 2020 due to a decline of \$6.2bn in imports, which was marginally offset by a decrease of \$103.3m in exports.

Non-hydrocarbon imports decreased by \$3.7bn annually to \$4.35bn in the first seven months of 2020, while imports of oil & mineral fuels declined by \$2.5bn to \$1.77bn and accounted for 29% of total imports in the covered period. Lebanon imported 4.53 million tons of mineral fuel & oil in the first seven months of 2020 relative to 8.28 million tons in the same period of 2019.

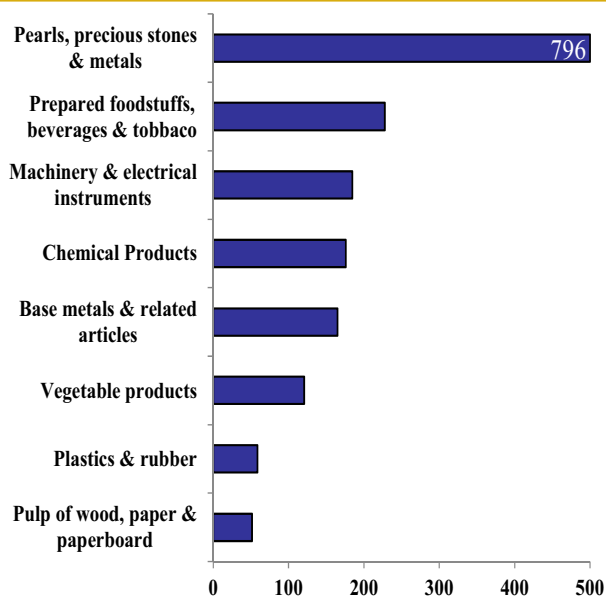
The exports of chemical products decreased by \$42m, or by 19.3%; followed by a drop of \$40.1m (-40.6%) in the exports of plastics & rubber; a contraction of \$37.6m (-42.2%) in the exports of pulp of wood; a retreat of \$35.2m (-73.3%) in exported mineral products; a decrease of \$29.7m (-14%) in the exports of machinery & electrical instruments; a decline of \$25.5m (-13.4%) in exported base metals; and a contraction of \$8.4m (-23.5%) in the exports of animal or vegetable fats & oils. The decline in exports was offset in part by the exports of jewelry, mostly unwrought gold, that increased by \$64.5m (+8.8%) and an expansion of \$33.8m (+39%) in exported vegetable products.

Exports to Switzerland jumped by 41% in the first seven months of 2020, those to the United States grew by 15.2%, exports to Greece rose by 10%, those to Qatar expanded by 5.4% and exports to Egypt increased by 5.3%. The surge in exports to Switzerland is due to higher gold exports, mostly unwrought gold. In contrast, exported goods to Syria dropped by 49.8% in the covered period, those to the UAE fell by 22.6%, exports to Iraq declined by 17.7%, those to Jordan decreased by 12.1%, and exports to Saudi Arabia regressed by 10%. Re-exports totaled \$147m in the first seven months of 2020 compared to \$309.2m in the same period of 2019. The Hariri International Airport was the exit point for 47.6% of Lebanon's exports in the first seven months of 2020, followed by the Port of Beirut (40.5%), the Masnaa crossing point (4.8%), the Port of Tripoli (4.5%), the Port of Saida (1.5%), and the Arida crossing point (1%).

Lebanon's main non-hydrocarbon imports were chemical products that reached \$941m in the first seven months of 2020 and that declined by 24.5% from the same period of 2019. Imports of vegetable products followed with \$475.4m (-23.7%); then imports of prepared foodstuff with \$464.8m (-38.4%); imported jewelry with \$439.8m (-18.3%); machinery & electrical instruments with \$408.5m (-62.6%); animal products with \$337.2m (-35.5%); vehicles, aircraft & vessels with \$248.7m (-68.8%); and base metals with \$183.6m (-66.6%). The Port of Beirut was the entry point for 65% of Lebanon's merchandise imports in the first seven months of 2020, followed by the Hariri International Airport (23.1%), the Port of Tripoli (7.1%), the Port of Saida (3.4%), the Masnaa crossing point (1%), the Abboudieh crossing point (0.2%), and the Arida crossing point (0.1%).

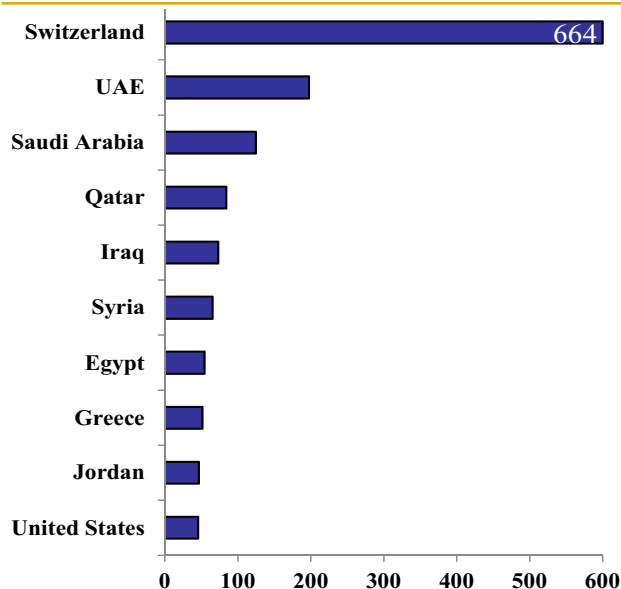
Greece was the main source of imports with \$493.2m, or 8.1% of the total, in the first seven months of 2020, followed by Italy with \$447.2m (7.3%), the U.S. with \$441m (7.2%), China with \$394.8m (6.4%), Turkey with \$377.7m (6.2%), the UAE with \$318.1m (5.2%), Germany with \$314.2m (5.1%), Russia with \$289.5m (4.7%), France with \$210.6m (3.4%) and Egypt with \$169.2m (2.8%). Imported goods from Russia dropped by 69.5%, those from China fell by 62.2%, imports from the U.S. declined by 61.7%, those from France decreased by 60.8%, imported goods from Germany contracted by 49.4%, those from Italy dropped by 43%, imports from Egypt and Greece regressed by 38% each, those from Turkey declined by 22.7% and imported goods from the UAE decreased by 7.2% year-on-year in the first seven months of 2020.

### Main Lebanese Exports in First Seven Months of 2020 (US\$m)



Source: Lebanese Customs Administration, Byblos Research

### Main Destinations of Lebanese Exports in First Seven Months of 2020 (US\$m)



Source: Lebanese Customs Administration, Byblos Research

## Political deadlock obstructing foreign financial support

BNP Paribas projected Lebanon's real GDP to contract by 25% in 2020, reflecting the impact of the ongoing deep economic crisis and the August 4 explosion at the Port of Beirut. It said that the balance of payments crisis and the associated restrictions on access to foreign currencies have significantly reduced imports and resulted in three-digit inflation rates. It also noted that domestic demand dropped, as the government has not been in a position to support the economy. It added that the number of COVID-19 infections has sharply increased in recent months, which continues to put restrictions on economic activity. It considered that hopes of an economic recovery are limited in the short term.

It pointed out that the increased pressure on Banque du Liban's (BdL) foreign currency reserves, as well as the introduction of non-official capital control measures, triggered the development of a parallel currency market, with the spread between the official and parallel market exchange rates exceeding 85%. It considered that the current system of multiple exchange rates is not sustainable and will not prevent the depletion of BdL's foreign currency reserves in the near term. It estimated BdL's foreign currency reserves, excluding the reserve requirements of commercial banks, at less than \$2bn as at September 15, 2020.

In parallel, BNP Paribas indicated that the political deadlock and the lack of consensus among politicians on a reform agenda have obstructed the development of any program associated with international financial support. It considered that restructuring the public debt, reforming public finances and introducing a more flexible exchange rate are necessary steps, but that they are not sufficient by themselves to revive the economy. It said that authorities need to upgrade basic infrastructure, especially the electricity sector, in order to improve productivity and the operating environment.

## Term deposits account for 76% of customer deposits at end-August 2020

Figures issued by Banque du Liban about the distribution of bank deposits at commercial banks in Lebanon show that term deposits in all currencies reached \$118.2bn, while demand deposits in all currencies stood at \$37.4bn at the end of August 2020.

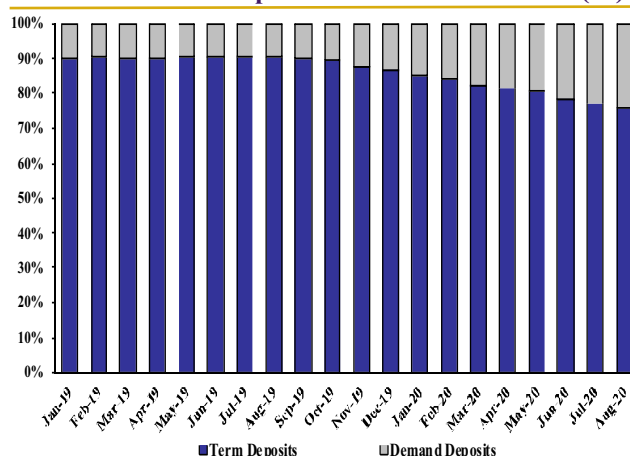
Term deposits in all currencies declined by \$31.54bn, or by 21% from \$149.7bn at end-2019. They accounted for 76% of total deposits in Lebanese pounds and in foreign currency at end-August 2020, relative to a share of 86.7% at end-2019. The decline in term deposits is due to a drop of 36% in term deposits in Lebanese pounds of the resident private sector, a 24.8% contraction in term deposits of non-residents, a 20.5% decrease in term deposits of the non-resident financial sector, a 15.3% decline in foreign currency-denominated term deposits of the resident private sector, and a 4.2% decrease in term deposits in Lebanese pounds of the public sector. This was partly offset by a surge of 90.4% in foreign currency-denominated term deposits of the public sector, mainly due to the fact that the National Social Security Fund has been buying US dollars in an attempt to convert from Lebanese pounds to dollars part of end-of-service indemnities deposited at banks in order to hedge against any devaluation of the pound. The drop in term deposits is due to cash withdrawals and to the migration of funds from term to demand deposits, amid the confidence crisis that started in September 2019. Aggregate term deposits declined by \$48.3bn since the end of September 2019.

Foreign currency-denominated term deposits of the resident private sector totaled \$66.8bn and accounted for 43% of aggregate deposits at the end of August 2020. Term deposits of non-residents followed with \$22bn (14.2%), then term deposits in Lebanese pounds of the resident private sector with \$19.3bn (12.4%), term deposits of the non-resident financial sector with \$5.4bn (3.5%), term deposits in Lebanese pounds of the public sector with \$3.9bn (2.5%), and term deposits in foreign currency of the public sector with \$611m (0.4%).

In parallel, demand deposits in all currencies rose by \$14.52bn, or by 63.4%, from \$22.88bn at end-2019. They accounted for 24% of total deposits at end-August 2020 relative to a share of 13.3% at end-2019. The increase in demand deposits was mainly due to a growth of \$9.77bn in foreign currency-denominated demand deposits of the resident private sector, a rise of \$2.56bn in demand deposits of nonresidents, and an increase of \$2.1bn in demand deposits in Lebanese pounds of the resident private sector.

Demand deposits in foreign currency of the resident private sector totaled \$22.3bn and represented 14.3% of deposits at end-August 2020. Demand deposits in Lebanese pounds of the resident private sector followed with \$6.8bn (4.4%), then demand deposits of non-residents with \$5.73bn (3.7%), demand deposits of the non-resident financial sector with \$2.05bn (1.3%), demand deposits in Lebanese pounds of the public sector with \$291.1m (0.2%), and demand deposits in foreign currency of the public sector with \$209.1m (0.1%).

Breakdown of Deposits at Commercial Banks (%)



Source: Banque du Liban

### Mobility of Lebanon residents down 13% due to coronavirus-related social distancing measures

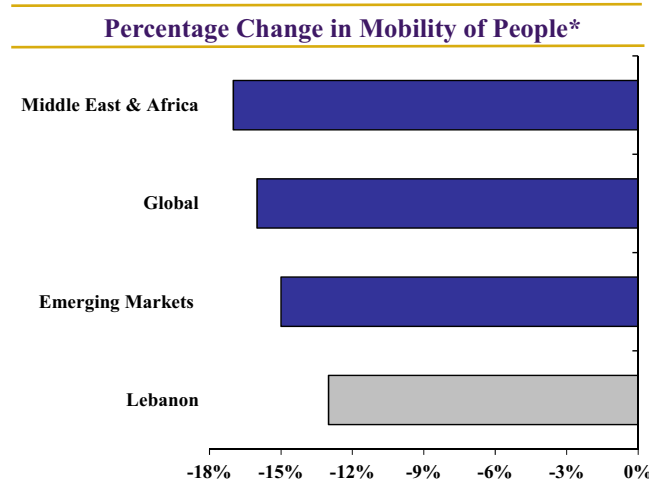
Citi Research's Social Distancing Index shows that, as of September 30, 2020, general mobility in Lebanon contracted by 13% relative to the baseline period extending from January 3 to February 6, 2020, as a result of the social distancing measures from the outbreak of the COVID-19 pandemic. It defines general mobility as the movement of individuals in different locations within a geographic area. In comparison, the mobility of the Lebanese retreated by 9% on September 11 from the January 3-February 6 period, which means that residents were under tighter social distancing measures on September 30 than they were two weeks earlier. The mobility level on September 30 shows that residents of Lebanon have been under looser social distancing measures than countries globally (between -15% and -17%), than countries in emerging markets (-15%), and countries in the Middle East & Africa (ME&A) region (-17%).

The index measures the degree of social distancing implemented across countries and regions worldwide in response to the outbreak of the coronavirus. It is based on the results of the Google COVID-19 Mobility Report, which highlights the percentage change in people's visits to different places, such as retail and recreational areas, groceries and pharmacies, parks, transit stations, workplaces, and residential locations. It then compares these trends to the baseline period, which is the median mobility level between January 3 and February 6, 2020. The index is the simple average of four factors that are Retail & Recreation, Transit Stations, Workplace, and Grocery & Pharmacy. A lower score on the index implies more social distancing, while a higher score reflects less social distancing.

The mobility of the residents of Lebanon on the Retail & Recreation category dropped by 30% on September 30 from the baseline period, compared to an increase of 17% on September 11. This category measures the movement of people to places like restaurants, cafés, shopping centers, theme parks, museums, libraries, and movie theaters. The movement of Beirut residents for this category decreased by 50% on September 30 from the baseline period, followed by the movement of residents of Mount Lebanon (-37%), the North (-19%), the South (-10%), and the Bekaa area (-5%). In contrast, the mobility of Nabatieh residents for the Retail & Recreation category rose by 17%, while the mobility of the residents of Akkar increased by 3% on September 30 from the baseline period.

Further, the movement of residents of Lebanon under the Grocery & Pharmacy category, which includes places like grocery markets, food warehouses, farmers markets, specialty food shops, drug stores, and pharmacies, increased by 3% from the January 3-February 6 period, compared to a rise of 9% on September 11. The mobility of residents of the Baalbek-Hermel area rose by 76% on September 30 from the baseline period, followed by the movement of residents of Nabatieh (+49%), the Bekaa (+32%), the South (+21%), Akkar and the North (+14% each), the North (+10%), and Beirut (+6%). In contrast, the movement of Mount Lebanon residents for this category decreased by 13% on September 30 from the baseline period.

Also, the mobility of residents under the Transit Stations sector, which includes the usage of public transportation, decreased by 36% from the baseline period relative to a contraction of 13% two weeks earlier. In addition, the mobility of Lebanese residents to the Workplace shrank by 19% from the January 3-February 6 period, compared to a retreat of 28% on September 11, 2020. The mobility of Beirut residents for this category regressed by 32% on September 30 from the baseline period, followed by residents of Akkar (-28%), the North (-24%), the Mount Lebanon (-22%), the Bekaa (-21%), the Baalbek-Hermel area and the South (-16% each), and Nabatieh (-6%).



\*% change from the January 3-February 6 period  
Source: Citi Research, Byblos Bank

### Percentage Change in Mobility of Residents in Lebanon\*

	May 16, 2020	June 12, 2020	July 17, 2020	Aug 28, 2020	Sep 30, 2020
<b>Social Distancing Index</b>	<b>-53%</b>	<b>-25%</b>	<b>-19%</b>	<b>-26%</b>	<b>-13%</b>
Retail & Recreation	-63%	-23%	-17%	-23%	-30%
Transit Stations	-71%	-56%	-54%	-53%	-36%
Parks	-29%	15%	43%	26%	12%
Workplace	-42%	-25%	-8%	-18%	-19%
Grocery & Pharmacy	-34%	4%	-9%	-15%	3%
Residential	14%	6%	-4%	-1%	2%

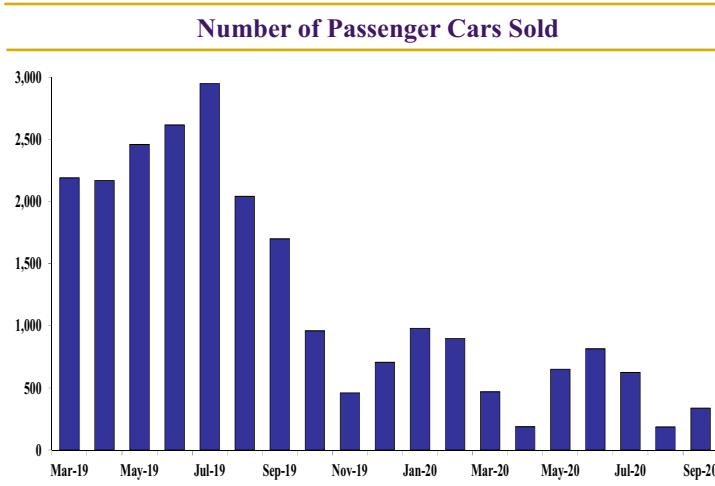
\*% change from the January 3-February 6 period  
Source: Citi Research, Byblos Research



### **New car sales down 74% in first nine months of 2020**

Figures released by the Association of Automobile Importers (AAI) in Lebanon show that dealers sold 5,146 new passenger cars in the first nine months of 2020, constituting a drop of 74.1% from 19,865 cars sold in the same period of 2019. Individuals and institutional clients purchased 979 new cars in January, 897 new vehicles in February, 468 new automobiles in March, 188 new cars in April, 651 new vehicles in May, 815 new automobiles in June, 624 new cars in July, 186 new vehicles in August, and 338 new automobiles in September 2020. In comparison, clients bought 1,838 new vehicles in January, 1,906 new automobiles in February, 2,190 new cars in March, 2,168 new vehicles in April, 2,458 new automobiles in May, 2,616 new cars in June, 2,948 new vehicles in July, 2,041 new automobiles in August, and 1,700 new cars in September 2019.

The market for new passenger cars in Lebanon has been facing increasing challenges in the past few years, including the contraction in economic activity, job insecurity, and more recently the shortage of foreign currency liquidity in the local market, the emergence of a parallel exchange rate market, as well as the reduced purchasing power of consumers and a very low level of household confidence. Further, the AAI indicated that car dealers incurred damages in the tens of millions of dollars as a result of the explosion at the Port of Beirut on August 4, 2020. It considered that a number of companies could close down and lay off a large number of their employees, and that car sales could further deteriorate in coming months. The association stopped releasing its monthly data on car sales by brand, distributor and source country since January 2020.



Source: Association of Automobile Importers

### **Insured losses from Port of Beirut explosion could reach up to \$1.5bn**

The Association of Insurance Companies in Lebanon (ACAL) considered that the insured losses from the explosion at the Port of Beirut on August 4, 2020 could reach up to \$1.5bn, mostly from the complete or partial damage to about 10,000 properties and 5,000 cars. It also noted that the insured losses could be equivalent to about 25% of the total damages from the blast, and that up to 10% of the damaged properties are insured amid the lack of obligatory insurance on properties in the country.

It considered that the full impact of the explosion on the insurance sector and on reinsurers will depend on the results of the investigation about the cause of the blast, which will determine if it is an act of war, a terrorist attack or an accident. It noted that in case of an accident, then most of the fire, property, marine and all risk policies will cover the insured losses. It said that in case the blast is due to an act of war or a terrorist attack, then only "political violence" policies will cover the insured losses. But it noted that "political violence" policies are less common in Lebanon and are usually requested by large corporations because these policies are expensive.

Further, ACAL pointed out that about 90% of the insured losses are reinsured with 'A'-rated reinsurers, and that Lebanese insurers are negotiating with reinsurers about the settlement of claims, even in the absence of a final official report about the cause of the explosion. It noted that some insurers started to settle small claims, such as on car damage, while larger claims need more time to be settled.

### **International Chamber of Commerce and ESCWA launch Beirut-based entrepreneurship center**

The International Chamber of Commerce (ICC) and the United Nations Economic and Social Commission for Western Asia (ESCWA) launched the Beirut-based ICC-ESCWA Centre of Entrepreneurship to enhance innovation at the entrepreneurial level and improve the business environment for small- and medium-sized enterprises (SMEs) in the Arab world.

The center will work with various stakeholders, including businesses, chambers of commerce, academic institutions, intergovernmental and governmental agencies, to connect entrepreneurs in Arab countries to global markets, as well as to improve regulatory conditions for SMEs. It also aims to help develop the skills of young Arabs who face uncertain employment prospects, and mentor local start-ups and entrepreneurs. Further, it will link entrepreneurs with experts from the United Nations and the ICC's global network to provide virtual mentoring and coaching. Moreover, it intends to provide the Lebanese people, in the aftermath of the Beirut Port explosion, with resources to address employment challenges and structural inequalities.

The center will host a series of talks for entrepreneurs, chambers of commerce, businesses, banks, and governments, to address the structural challenges facing emerging and developing markets, including youth unemployment, gender inclusion, and education. It also intends to collaborate and engage in partnerships with local, regional and international actors, including the technological pole Berytech, social media company Facebook, the innovation advisory firm Mind the Bridge, and the learning company Pearson. The center considered that these partnerships will support public-private initiatives to rebuild Beirut, to help digitize SMEs, and to create new economic opportunities for those living in the Arab region.

### **Chedid Capital acquires 80% of Ascoma's African operations**

The Lebanon-based financial holding company Chedid Capital acquired an 80% stake in the operations of the insurance broker Ascoma Assureurs Conseils (Ascoma) in Africa. The completion of the deal, which was signed on September 25, 2020, awaits regulatory approvals, and entails the sale and transfer of Ascoma's activities in Africa to Chedid Capital. In parallel, the Husson family, which launched Ascoma's operations in Africa in the 1950s, will maintain a 20% stake in Ascoma and will remain involved in the development of the new group. The family will also keep the company's insurance brokerage activities in Monaco and France.

Ascoma, a Monaco-based international insurance brokerage group, has a network of 23 subsidiaries in 21 countries in Africa, with an office for international affairs in Paris. Chedid Capital is a Lebanon-based investment group in the insurance and reinsurance fields that operates in 45 countries in Europe, the Middle East, Africa, and Asia. It started operations through Chedid Re in 1998. It now includes in addition to Chedid Re, Chedid Insurance Brokers, Chedid Corporate Solutions, Qatar-based Seib Insurance Company, Momentum Insurance and Reinsurance, and the Corporate Risk Management Institute. The group has also stakes in the Mauritius-based City Brokers, the UAE-based Al Manarah Insurance Services, and the Qatar-based Al Afaq Insurance Brokers.

### **Agency affirms ratings of Crédit Libanais**

Capital Intelligence Ratings (CI) affirmed at 'SD' (Selective Default) the long- and short-term Foreign Currency Ratings (FCRs) of Crédit Libanais, and maintained its Bank Standalone Rating (BSR) at 'c'. It attributed its decision to the ongoing restrictions on the withdrawal of foreign currency deposits, as well as to the bank's significantly weakened financial position, amid the challenging operating environment in the country.

In addition, the agency affirmed the Core Financial Strength (CFS) rating of the bank at 'c'. It noted that the CFS rating reflects the expected impairment on the bank's placements and Certificates of Deposits at Banque du Liban (BdL) and on its holdings of government securities, as well as its credit losses on loans. It considered that the government's decision to suspend payments on maturing Eurobonds has made these securities largely illiquid and materially impaired.

Further, it indicated that the banking sector's operating environment has deteriorated since October 2019 due to the social, fiscal and economic impact of the coronavirus pandemic, the depreciation of the Lebanese pound in the parallel market, the surge in inflation, and the unprecedented contraction in economic activity. It considered that the August 4 explosion at the Port of Beirut exacerbated the already challenging operating environment, with the existing political and policy stalemates showing no signs of improving.

In parallel, it said that the liquidity in the banking sector is contingent on the possibility of receiving financial support from the International Monetary Fund and other external creditors. However, it noted that any package from the IMF will be conditional on the implementation of reforms that will address the solvency of the public debt and the soundness of the financial system. It noted that the IMF requirements will likely include the implementation of official capital controls, a reduction and reprofiling of the sovereign debt, an equitable allocation of banking system losses, and a full audit of key state institutions. It considered that, without an agreement with the IMF and if the political and reform policy stalemates continue, the economic contraction and inflation rate would accelerate as official foreign currency reserves get depleted.

## Ratio Highlights

(in % unless specified)	2017	2018	2019	Change*
Nominal GDP (\$bn)	53.1	55.0	51.3	(3.70)
Public Debt in Foreign Currency / GDP	57.2	60.9	65.8	4.89
Public Debt in Local Currency / GDP	92.5	93.9	112.9	18.96
Gross Public Debt / GDP	149.7	154.8	178.6	23.85
Total Gross External Debt / GDP**	190.3	192.8	196.3	3.50
Trade Balance / GDP	(31.5)	(31.0)	(30.2)	0.73
Exports / Imports	14.5	14.8	19.4	4.62
Fiscal Revenues / GDP	21.9	21.0	19.5	(1.53)
Fiscal Expenditures / GDP	28.9	32.4	29.7	(2.62)
Fiscal Balance / GDP	(7.1)	(11.4)	(10.3)	1.09
Primary Balance / GDP	2.7	(1.2)	(0.5)	0.65
Gross Foreign Currency Reserves / M2	68.2	63.8	70.2	6.38
M3 / GDP	260.8	256.9	262.2	5.29
Commercial Banks Assets / GDP	413.7	453.6	422.6	(31.04)***
Private Sector Deposits / GDP	317.4	316.9	309.7	(7.21)
Private Sector Loans / GDP	112.3	108.0	97.0	(10.96)
Private Sector Deposits Dollarization Rate	68.7	70.6	76.0	5.41
Private Sector Lending Dollarization Rate	68.6	69.2	68.7	(0.50)

\*change in percentage points 19/18; \*\*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; \*\*\*The decline in assets in 2019 incorporates the "netting" on the assets and liabilities' sides of the consolidated balance sheet of commercial banks as part of the implementation of international accounting standard IFRS 7;

Source: Association of Banks in Lebanon, International Monetary Fund, Central Administration of Statistics, Byblos Research Estimates & Calculations

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

## National Accounts, Prices and Exchange Rates

	2018	2019e	2020f
Nominal GDP (LBP trillion)	82.9	80.8	142.0
Nominal GDP (US\$ bn)	55.0	51.3	32.7
Real GDP growth, % change	-1.9	-6.7	-23.5
Private consumption	-1.3	-7.1	-17.1
Public consumption	6.7	1.5	-47.7
Gross fixed capital	-1.8	-10.7	-33.3
Exports of goods and services	0.5	-5.0	-35.1
Imports of goods and services	1.1	-4.5	-36.3
Consumer prices, %, average	6.1	2.9	95.4
Official exchange rate, average, LBP/US\$	1,507.5	1,507.5	1,507.5
Parallel exchange rate, average, LBP/US\$	n/a	1,620	5,587
Weighted average exchange rate LBP/US\$	1,507.5	1,575	4,283

Source: Institute of International Finance- August 9, 2020

## Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's Investors Service	C	NP	-	C		-
Fitch Ratings	RD	C	-	CC	C	-
S&P Global Ratings	SD	SD	-	CC	C	Negative
Capital Intelligence Ratings	SD	SD	-	C-	C	Negative

\*for downgrade

\*\*CreditWatch negative

Source: Rating agencies

### Banking Sector Ratings

	Outlook
Moody's Investors Service	Negative

Source: Moody's Investors Service

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